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MERGERS AND ACQUISITIONS IN THE INTERNATIONAL BANKING SECTOR

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Abstract: *The economic crisis emphasized the risks that banks assume and run. Reducing them is a strong reason for the acceleration of mergers and acquisitions in the international banking field. The merger of banking entities has established itself as a modern method of global credit risk management within every country and internationally. The main objective of this article is to highlight the latest developments on the bank mergers and acquisitions market in the U.S. and EU and on emerging market trends.*

Key words: *bank mergers, acquisitions, international banking sector*.

1. Introduction

The economic crisis emphasized the risks that banks assume and run. Reducing them is a strong reason for the acceleration of mergers and acquisitions in the international banking field.

Following the merger of two banks, the market share of the banking entity is increased, competition in the field is diminished, creating the premises for an increase in profits and having a strengthened capital able to effectively cover losses due to credit risk.

Other advantages that result from the bank merger refer to the increase of economies through the consolidation of joint activities, restricting personnel costs, increase revenue by joining two databases of customers and making them available to the two merging entities, portfolio diversification of products offered, portfolio of owned assets.

Banking entities merger has established itself as a modern method of global credit risk management within every country and internationally.

According to Bloomberg Markets, the bank mergers and acquisitions market has fluctuated differently in recent years, especially in America. JPMorgan Chase was rewarded in 2012 with the title of the biggest investment bank due to the value of charged commissions. Commissions obtained by the bank were of $ 3.97 billion, as agent in transactions with shares of companies and from bonds issue, up by 24.8%.

The amount of commissions collected in 2012, by investment banks for mergers, acquisitions, share issues and bond issues increased by 3.7% to $ 50.9 billion due to the intense activity from the refinancing debt zone.

The value of mergers and acquisitions made in 2012 was of $ 200 billion, down with 8.7%, but analysts believe that 2013 could mean a comeback, although bankers are still cautious.

The value of mergers and acquisitions has fallen strongly in the last five years after the historic peak of $ 4.100 billion reached in 2007.

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2. The growth of mergers and acquisitions in the banking sector

The term "mergers and acquisitions", or simply M&A, denotes a broad range of formally distinct transactions.

An "acquisition" is defined as a transaction, when a company (acquirer), gains ownership control over another company (target), but both remain legally independent entities.

On the contrary, after a „merger", one or both merging entities legally cease to exist; the shareholders of the merged companies obtain agreed stakes in a single successor entity.

It is a distinction without a real difference because mergers and acquisitions both result in combined entities. M&A usually require shareholder and regulatory approvals. The factors influencing M&A, include strategic fit, cost and revenue synergies and access to talented employees, occupying a dominant place in the international financial exchange market.[6]

The banking activity is dominated by monopolies, consortia, trade unions and other banking alliances, resulting from the unification of banks, thus forming new power centres.[7]

Regions by total tier 1/total assets/total pre-tax profits 2011 Table 1

Country	**Tier 1 ($bn)**	**Assets ($bn)**	**Pre-tax profits ($bn)**
US	1059.9	13,341.0	131.5
Eurozone	1721.6	40,895.0	2.1
China	781.5	13,533.2	206.3
Japan	600.9	13,075.5	60.0
UK	440.8	9999.5	32.9
Brazil	123.8	1729.2	33.1

Source: www.thebankerdatabase.com

According to the Lisbon Group, the international banking sector is following the trend of the economy, which means that integration processes, technological, economic, capital concentration are more intense in most developed three regions, North America, Western Europe, Japan and newly industrialized countries of South and Southeast Asia.

Industrialised Europe has been the primary destination for the cross-border lending activity for the past three decades. The US is the second destination, followed in the past decade by entire regions like Asia and Pacific Countries, emerging Europe and Latin America.

The major factors contributing to the European banking sector consolidation, through a large number of mergers and acquisitions, were technological advances, the globalization of financial markets, enhanced supervision of credit system, the creation of a single financial market in the European Union and the introduction of the euro, market liberalization, economic reforms, even banks' desire to increase in size.

The result was a constant growth of mergers and acquisitions in the EU banking sector. At the same time, the number of credit institutions in the euro area and in the EU decreased further, from approximately 12.000 at the end of 1990, to 7.000 at the end of 2004, to 5.998 in February 2013 in EU banking.[3]

The table shows the number of credit institutions by country.

The number of credit institutions by country in 2013 Table 2

Country	**Credit institutions**
BE Belgium	104
DE Germany	1.866
EE Estonia	34
IE Ireland	469
GR Greece	52
Es Spain	302
FR France	633
IT Italy	710
CY Cyprus	135
LU Luxemburg	140
MT Malta	27
NL Netherlands	262
AT Austria	749
PT Portugal	150
SI Slovenia	23
SK Slovakia	28
FI Finland	323
Euro area	5998

Source: ECB-Number of monetary financial institutions (MFIs): February 2013
www.statistics@ecb.europa.eu

The first merger in EU took place in June 2005 when UniCredit merged with the German Group HVB, which was itself formed by the combination of Bavarian banks Bayerische Hypotheken-und Wechsel-Bank and Bayerische Vereinsbank in 1998. The integration with the HVB Group was reinforced by the merger with Bank Austria Creditanstalt in the year 2000 and enabled further growth for the UniCredit Group. The company has its registered office in Rome, with approximately 40 million customers and operations in 22 countries. UniCredit's core markets are Italy, Austria, Russia and Southern Germany, being the largest financial group in Eastern Europe. The company has investment banking divisions in London, Milan, Munich, Vienna, Moscow, Budapest and Warsaw.[8]

Deutsche Bank (DB) is currently the largest bank in the world with assets of EUR2.186 trillion (US$2.810 trillion). In 2012 it was awarded the title of Best Foreign Global Investment Bank by Euromoney magazine and won six awards from Global Finance including Best Corporate Bank, Best Foreign Exchange Bank and Best Credit Derivates Provider. Mitsubishi UFJ Financial Group (MUFG) is the second largest financial institution in the world with assets of US$2.803 trillion. The Bank of Tokyo-Mitsubishi UFJ is the main banking arm of MUFG.[4]

The American banking transformation has become possible after the changes in the banking and financial law. Introducing the following legislations in the 1990s, Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, played the big role in the acceleration of the mergers and acquisitions process in the USA, allowed buying interstate companies possessing a bank, banking mergers in different states, opening new branches in the other states and running bank activity in a form of the agent of the other bank.

The American banking industry has experienced an unprecedented number of mergers and acquisitions on a belief that gains can accrue through expense reduction (Wells Fargo estimated an annual cost savings of $1billion from its acquisition of First Interstate), increased market power, reduced earnings volatility, during the banking consolidation process of the 90s.

More than 1500 mergers took place in the

US banking sector between 1993 and 1996.

But the banking consolidation process was proceeding with different intensity, as part of the restructuring and reform of commercial banking and the increase of the banks size and the value of mergers and acquisitions. At the end of the ‘90s, each of nationwide banks had less than hundred branches, while the leaders in the group had a chain of several thousand branches.

Despite this tendency, the number of bank mergers and acquisitions in the USA grew very slowly in the next few years. The number of bank M&A transactions between 2000-2004, increased only from 213 in 2000, to 215 in 2004.[9]

The financial crisis spawned bankruptcies, the restructuring of companies and financial institutions, mergers and takeovers, direct financial support, significant funding from the US government, and approved $700 billion to be used only in order to save American financial institutions from the crisis effects. In 2012, Citigroup received, along with the Bank of America, the largest state support of $7,5 billion, down 32,5% from 2011.[1]

Many of these institutions are or were publicly traded, their exit from the market not only affects the credibility of the US capital market, but also the stock trading volume, the price volatility.

The major banking company merged in the last five years Table 3

Year merger closed	Acquirer	Acquired bank	Name of merged entity	Transaction value	Ultimate successor
2008	TD Banknorth	Commerce Bancorp	TD Bank	$8,5 billion	TD Bank
2008	JPMorgan Chase	Bear Steams	JPMorgan Chase	$1,1 billion	JPMorgan Chase&Co
2008	Bank of America	Merrill Lynch	Bank of America	$50 billion	Bank of America
2008	Wells Fargo	Wachovia	Wells Fargo	$15,1 billion	Wells Fargo
2008	JPMorgan Chase	Washington Mutual	Jpmorgan Chase	$1,9 billion	JPMorgan Chase&Co
2008	Fifth Third Bank	First Charter Bank	Fifth Third Bank	$1,1 billion	Fifth Third Bank
2008	PNC Financial Services	National City Corp.	PNC Financial Services	$5,08 billion	PNC Financial Services
2008	U.S.Bancorp	Downey Savings and Loan	U.S.Bancorp		U.S.Bancorp
2009	M&T Bank	Bradford Bank	M&T Bank		M&T Bank

2009	M&T Bank	Provident Bank of Maryland	M&T Bank		M&T Bank
2011	M&T Bank	Wilmington Trust	M&T Bank		M&T Bank
2011	Capital One	ING Direct USA	Capital One	$9 billion	Capital One
2012	PNC Financial Services	RBC Bank	PNC Financial Services	$3,45 billion	PNC Financial Services

Source: Institute of Mergers, Acquisitions and Alliance (IMAA) www.imaa-institute.org

In Central and Eastern Europe, foreign subsidiaries do not always bring profits, and even the banking markets remained stable in 2011.

CEE banking markets continue to be dominated by foreign investors with: UniCredit, Erste, Reiffeisen, KBC and SG controlling a combined 35% of the total banking assets in the region. Although the number of banks incurring losses (34 out of Top 200 banks in CEE) increased slightly against the year before, the profitability ratios remained stable with combined return on equity (ROE) close to 7,6%, and return on assets (ROA) exceeding 0,8%.[10]

Poland remained the single largest banking market in the region, with assets worth EUR 293 billion and holding the 30% share.[10]

The half of Top 200 CEE banks comes from 4 major markets: Poland, the Czech Republic, Romania and Hungary.

Top 200 banks in CEE-number of banks by country (2011) Table 4

Country	**Number of banks**
Poland	31
Czech Republic	25
Romania	21
Hungary	20
Bulgaria	17
Slovenia	17
Serbia	13
Slovak Republic	13
Latvia	11
Croatia	9
Lithuania	7
Bosnia	5
Albania	4
Estonia	4
Macedonia	3

Source: Top 200 banks in CEE-2011 www.iteliace.com/

At present, the foreign acquisitions are not an option for the international banking groups hit by the financial crisis, the trend is to sell subsidiaries as part of restructuring plans.

The prime beneficiary of the restructuring plans in Europe, was Russia's Sberbank, the largest bank in Russia, buying the Central and Eastern European network of Austria's Volksbank in 2011.[11]

For example, the Romanian branch of Citigroup, the banking group with the largest network, has identified 21 global markets, including Romania, during the restructuring program, where there will be restructuring, cuts or even closing of activity, in the perspective of profit targets for 2015.

In Romania, the Citigroup, following a repositioning plan, involving business efficiency and cost reduction, restructured the consumer banking sector, positioning itself in the segment of companies.

Raiffeisen Bank Romania will acquire the retail portfolio of Citigroup Romania. The transaction will be completed in the third quarter of 2013. The agreement signed between the two banks provides to Raiffeisen Bank includes the stipulation that contributes a portfolio of over 100.000 clients, with assets of RON460 million (over EUR90 million) , and all employees of CitiBank retail banking division.[12]

4. Conclusions

The international banking activity is an important component of a broader process of financial globalization and integration.

More radical steps are needed in reforming the structure, ownership and incentives for banks to make them more attractive for long-term investment.

Globalization of banking and other forms of financial services may influence regulatory and macroeconomic challenges for the countries involved.

Mergers and acquisitions in the banking sector become familiar in most of the countries in the world. A large number of international and domestic banks all over the world are engaged in mergers and acquisitions activities.[13]

At present, foreign acquisitions are not an option for the banks, the trend is heading the other way, as selling subsidiaries as part of restructuring plans.

World economy in recent decades has been characterized by a decrease in the exchange of goods between rich economies with high growth rates in rest of the world, especially Africa.

According to estimates, this trend will increase in the future. Thus, participation of regions like Africa, the Middle East, Latin America and Eastern Europe, will decrease from 39,2% in 1970 to 6,4% in 1990 and reach 5% in 2020.[1]

The financial crisis has led to a number of institutional responses that have resulted in a series of measures to enhance control over the remaining areas outside the jurisdiction of central banks and supervisory committees capital markets. At the same time, the requirements for financing and risk, and for rating methodologies used in the financial decision rules have been revised.

The ten largest banks in the world hold over $25,6 trillion in combined assets (the exchange rate on December 7, 2012) .[14].

Top 10 banks in the world ranked by total assets 2012 Table 5

Rank	Bank	Total assets(US$b)
1	Deutsche Bank	2,809.89
2	Mitsubishi UFJ Financial Group	2,803.42
3	Industrial&Commercial Bank of China	2,763.59
4	HSBC Holding	2,721.06
5	Barclays PLC	2,584.30

6	BNP Paribas	2,562.99
7	Japan Post Bank	2,513.21
8	JPMorgan Chase & Co	2,321.28
9	Credit Agricole SA	2,317.12
10	Royal Bank of Scotland Group	2,225.14

Source: Top Banks in the World 2012

The banks with large derivatives businesses such as Deutche Bank, the three largest French banks, have all seen sharp rises in market risk-weighted assets.

Restructured banks, such as the Royal Bank of Scotland, have reduced market risk exposure substantially, but the internalization of banking influences cross-border risk-sharing.[1]

The recent crisis has revealed the major deficiencies in the manner in which international banks have conducted their bussiness and have managed financial risks.

For the world economy and the international banking industry, globalization is both a beneficial and a challenging process, inevitable and irreversible at the same time, with benefits only for the countries that best manage their economies.

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