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MERGERS AND ACQUISITIONS OF BANKS: THE CASE OF GREECE

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ABSTRACT

In this paper we are trying to study the influence of mergers and acquisitions in the returns of the involved companies. Our research use data from Athens Stock Exchange market in order to analyze and to interpret the differences between the actual and expected returns. Our results have shown that the stock risk of Alpha Bank in the case of acquisition by Ionian Bank is aggressive. The same results we have and in the case of acquisition Alpha Bank with the National Bank of Greece. This means that the changes of stock are more intense than the changes of the market. On the contrary, for the cases of National Bank of Greece with the National Ktimatiki Bank of Greece, Piraeus Bank with the Macedonia – Thrace Bank and the Eurobank with the Ergasias Bank, the stock risk is defensive, which means that the changes of stocks of the National Bank of Greece, Piraeus Bank and Eurobank are smaller than the changes of market (defensive stocks).

KEYWORDS: - *Mergers, Acquisitions, Greece, Risk, Banks.*

1. INTRODUCTION

Mergers and acquisitions are vibrant events in the development of a market as they redeploy the map of competitiveness. As the number of firms in a branch diminishes, theirs shares increased, at least theoretically. Further the absorbed firms confront better conditions in the market, as they have more financial resources in their budget constraint. On the other hand, the acquiring firms have significant reasons to improve the spectrum of their activities and as a sequence to increase their profit rates.

However there are some significant differences between mergers and acquisitions. A merger takes place when two firms with relatively same capital stock are combined. The two companies cease to exist, and their assets are transferred to the third enterprise that is either operates before the merger or is created for this particular reason. Respectively an acquisition is a process that accrues after the transmission of the part or the whole of a firm to another one. The former company is called acquired and the later acquiring where the price for the assets of the acquired is the equivalent of acquisition (Peacock A., and Bannock G., 1991). In the case of the complete acquisition the acquired enterprise stops its activation whereas in the case of partial acquisition the acquired firm continues to operate, but its decision making is controlled by the acquiring. It should be notified that in the real business world, mergers that closely follow the theoretical standards occur rarely. The majority of firms' combination refers to acquisitions, even though that employs more characteristics of a merger rather than an acquisition. This strategy is followed in order to avoid negative effects for the operation of the smaller firms. Nevertheless the distinction between mergers and acquisitions often takes place just for legal or institutional reasons (Green M.B., 1990).

2. LITERATURE REVIEW

The basic methods which are used in order to examine acquisitions and mergers create profitability for shareholders, by improving shares performances are: 1) The evaluation of abnormal returns of companies shares that participate in transformation according to some econometric models and 2) The evaluation of new company's profitability or both companies' profitability when it concerns merger by the usage of accounting data.

Most of the researchers relied on the acceptance of effective market, which was developed by Fama (1970) and according to which a market is being regarded as effective when in the price of every share there is incorporated all the information about the share. Most studies conclude that during the date of the first announcement shares of companies that made the offer for merger present almost zero performances. On the other hand, shares of the goal companies present performances which are increased, per average, 20%.

Papadakis (2002) examined 72 cases of mergers in a majority of 242 and for the period of 1997 – 1999. This study proved that in 58% of the companies' sample the total return on assets was reduced the following year of the merger, in relation to returns in a three year period before merger.

According to the same study a percentage bigger than 60% of the companies sample didn't meet their expectations, as far as it concerned the results of these business activities.

A set of empirical studies (Walsh J., 1988, Lebedev et al., 2015) confirm that if the motive for merger – acquisition is development of synergies, then probably the acquisition would be friendly and there would be small changes in executives. In acquiring company it is observed that many managers raise their earnings, despite the fact that there might be negative performances for shareholders. This strange attitude of managers could be characterized as arrogance.

Moreover there are many studies, at international level, that have examined issues connected to companies mergers and their results upon shares value, by using the event study methodology. Focusing on literature that studies successful mergers, it is useful to analyze some interesting facts. As successful mergers are defined mergers in which after the announcement of the agreement, it followed the realization. There are researchers (Weir P., 1997), who have examined temporary stock price performances of companies that even though they announced their intention for merger, they didn't realize it. These temporary performances arose due to the financial fact, which was the potential merger.

In empirical researches there were used data either by mergers which took place in USA or in Europe. Also, in studies of international literature there are not used the same time periods for drawing conclusions. Many researchers use the period before the announcement and others the date of the announcement, in order to calculate the temporary performances that arise from the announcement of the merger. Most of them calculate temporary performances for several periods and for levels of statistical significance among 10%, 5% and 1%.

In reality, the milestone date, which is defined as date of agreement between managements, doesn't coincide always with the date of the announcement. The announcement follows on the agreement and so the anticipated effect of merger starts before the official announcement. For that reason many researchers estimate temporary stock performances before and after the official announcement of the merger.

The announcement of merger has different effect on temporary performances of acquired and acquiring companies. Nevertheless, there are studies which examine the effects of a merger in total. Eckbo (1985), Du and Sim (2016), Andrade, Mitchell and Strafford (2001), Burkart and Panunzi (2006), Martynova and Renneboog (2006), Betton, Eckbo and Thorburn (2008) find that temporary performances are positive and statistical significant not only for the acquired, but also for the acquiring companies as well. The findings of the studies show that markets believe that companies gain in value after the announcement for merger, than before.

The new companies that arise after the merger have on their turn positive temporary performances. Bradley et al., (1988), Lang et al., (1989), Healy et al., (1992) for the period of 1963 – 1984 estimate temporary performances in +7%, for the period of 1968 – 1986 in +11% and for the period of 1979 – 1984 in +9%. Kaplan and Weisbach (1992), Mulherin and Boone (2000) support that during the announcement temporary performances are in +4% for several sub – periods and during the years 1971 – 1999. Andrade (2001) estimates that for the period of 1973 – 1998, temporary performances range in +1,8% for USA area.

Healy, Palepu and Ruback (1992) examined the performances of businesses after the integration of merger. For that reason they collected data from the 50 biggest mergers in USA, which referred to the period of 1979 – 1983 and came to the conclusion that mergers have a positive effect on their productivity, in combination with the fact that businesses which did not decrease their investments in research and development are led to more stable financial flows. According to this research these positive effects lead to positive temporary performances during the announcement.

Flanagan (1996) in his research upon two different samples of mergers reached the conclusion that, shares of the companies that made the offer present higher performances when these companies are involved in horizontal mergers. On the other side, shares of the goal companies don't present significant alterations in their performances. He also supported that, although it is difficult to separate a horizontal than an uncorrelated merger, both types of mergers develop value for shareholders, due to different types of synergies. Horizontal mergers take advantage of functional synergies and uncorrelated mergers take advantage of administrative and financial synergies.

According to Holl and Kyriazis (1997) the bigger the ownership percentage is, the greater the possibility of having a successful offer is. This is due to the fact that merger cost is lower and there are needed less shares in order to achieve merger, while shareholders of the company, which makes the offer, pay lower premium because they have already posses a percentage of the goal company. Mergers are also distinguished according to the size the merged companies. Mantravadi and Reddy (2007) in their study analyze the emerged economy of India in connection with the goals and results of mergers that are related to different sized companies, before and after the merger. In their conclusions, support that the smaller the absorbed company is the smaller the achieved synergies. But these conclusions come to contrast with Kusewitt findings (1985), who deduced that mergers among companies of the same size are those which promote the biggest synergies.

Sequentially sector studies use the same methodology and search for answers upon the same question, but they limit the range of the examined businesses to a specific field. For example, studies that are related to companies' mergers which are related to bank field, insurance industry and other fields come to similar conclusions.

To be more specific, Floreani and Rigamonti (2001), in their research for mergers in insurance industry in Europe, Australia and USA, conclude that absorbing companies present positive temporary performances that range in +3,65%. The same findings are valid for bank field as well. According to Focarelli and Pozzolo (2011) bank mergers are more successful and profitable.

Campell, Giambona and Sirmans (2006) insist that a crucial parameter that affects seriously mergers' results is the type of the acquired company, in other words if the company is in public or not. It has already been presented that the announcement of a merger has positive temporary performances upon absorbed companies and small positive or small negative temporary performances upon absorbing companies.

In Greece the three-year period 1998-2000 are considered as the most active period of the last decades in the Greek financial reality due to the fact that many companies and

mostly banks decided to move in mergers and acquisitions. The first step, took place in the public sector with the merger of National Bank of Greece with the subsidiary of the Ktimatiki Bank. During the same period, the private sector seems to be reluctant, not only because the lack of experience but also because of the absence of the necessary institutional framework. Due to this fact, the banking sector was pioneered in the area of mergers and acquisitions. The development of the banking sector was continuous increasing mostly because the competition between banks, in conjunction with low interest rates.

3. METHODOLOGY

The aim of the present study is the existence of the effect of a particular fact on the stock return. The issue is whether the announcements of bank mergers and acquisitions affect the course of the corresponding stocks of bank organizations in the Greek market and to what extend. In the Greek banking system in particular, the merger and acquisition phenomenon has appeared the past few years. There are not many data available and consequently the studies on bank acquisitions in Greece are limited (Lepetit L., et al., 2002).

The data set constituted by daily closing prices of bank stocks and general index of Athens Stock Exchange. A significant issue of the method to be employed focused on the selection of the day that the event took place.

In general, if the acquisitions effect on the returns of bank stocks is the project's aim, the use of the day of announcement as the event date is considered to be better, as –in this way - the effect of other factors, other than the fact we wish to examine, can be avoided. In the present work, the day of the first official announcement of merger or acquisition of two bank organizations is considered as the event date, which is to be symbolized as t=0. Therefore, the sample constituted by 360 observations (daily closing prices) around the event date. The period (–239, -11) will be considered as the estimation period, while the period (–10, +10) will be considered as the event period.

We shall employ the Single-Index Model (Sharpe's model), according to which the course of stocks is directly connected to the course of the general index, meaning that it is affected by changes or incoming information to the market. In other words, the Single-Index Model considers that the most important cause of market return fluctuation comes from changes in the general index. In the Greek banking market we use the rates of the general index of the Athens Stock Exchange.

The systematic relation between the stock returns and the market returns is presented using the characteristic line, which minimizes the sum of square errors of the returns (Error is the difference between the anticipated and the actual return rate). The characteristic line expressed by the following equation:

$$R_{it} = a_i + \beta R + \varepsilon$$

Where,

R_{it} = price return to security i

R_{mt} = rate of return to the national branch index

a_i = constant term

β = the stock sensitivity in market changes.

ε = random error

The division of the stock return in two parts is a basic element of the above equalization:

- The first part, which is directly related to the market. (βR),
- The second part is independent from the market changes part ($a+\varepsilon$).

The β factor, that indicates -as mentioned- the stock return sensitivity in relation to the market return, is also the parameter that will comprise one of the basic objects of study in the present research. It produces different rates, while the central value equals 1. As β approaches zero the risk diminishes. If β equals 2 indicates that the stock return will differ towards the same direction by double the percentage than the change of the market indicator. In general, as long as β is positive then the stock return follows the course of the indicator, while if β is negative then the stock return takes the opposite course than the indicator.

At this point, we have to mention that there will be a comparison between the β factor before and after the announcement of the fact, so that its course can be examined and we are able to locate any changes in the stock risk, after having announced the merger. This procedure is not related to the event studies method and to what all that these studies are trying to investigate.

4. EMPIRICAL ANALYSIS AND RESULTS

The results of estimation of coefficients (parameters) a and β for the six (6) cases of mergers and acquisitions, that we study for the estimation period, are presented in the table 3a. Using the t-student statistics with critical value t_c =1.96 at a significance level a=0.05 and t_c =1.64 at a significance level a=0.010, we control for their statistical significance.

The zero hypotheses, a=0, becomes acceptable in all the cases of mergers and acquisitions that we examine, provided that the price of t–student is smaller in absolute value than the critical value. Regarding the risk coefficient β, however, its statistical significance for all the cases is proved. The price of t-student statistics in absolute value is bigger than the critical price (at significant level 5%), which results in the rejection of zero hypotheses H_0 : B=0

The stock risk of Alpha Bank in the case of acquisition by Ionian Bank equals to 1.0239. The price of β shows that the stock of Alpha Bank is aggressive. This means that the changes of stock are more intense than the changes of the market. The same conclusions are also applicable in the case of an imminent merger of Alpha Bank with the National Bank of Greece, both concerning the risk coefficient of stock of Alpha and the corresponding risk coefficient of National Bank.

On the contrary, for the cases of National Bank of Greece with the National Ktimatiki Bank of Greece, Piraeus Bank with the Macedonia – Thrace Bank and the Eurobank with the Ergasias Bank, the price of coefficient β is less than 1, which means that the changes of stocks of the National Bank of Greece, Piraeus Bank and Eurobank are smaller than the changes of market (defensive stocks).

In the case of the National Bank of Greece, the price of β approaches 1 and hence the course of stock substantially follows the course of market index without intense differences in the size of changes. On the other hand, the price of β for the stock of Piraeus Bank is close enough to zero, that is to say it has the smaller risk than all of the rest.

At this point, it is of great interest to examine the changes in the risk coefficient of β, which results from the announcement of merger or acquisition to the public. Following the same process but in a different estimation period (+ 11, +50), we found estimations for risk coefficient β for each

bank in every case statistically significant. The results are presented in table 3b.

As result, the risk was increased in every case. In all cases, apart from the Bank Piraeus, the risk price is greater than 1. This means that each stock follows the tendency of the general index of market and more specifically its changes are more intense than the corresponding to the index.

Table 3a: Estimations of a and β, t- student for zero hypothesis: a=0, β=0

	a			β		
Bank	**Price**	**t-student**	**Prob.**	**Price**	**t-student**	**Prob.**
Alpha (Ionian)	-0,000409	-0,433	0,665	1,024	27,758	0,000
Alpha (National)	-0,001089	-1,514	0,131	1,056	28,811	0,000
National (Alpha)	0,000215	0,388	0,743	1,059	31,764	0,000
National (Ktimatiki)	-0,000265	-0,311	0,756	0,911	23,315	0,000
Piraeus (Macedonia-Thrace)	0,000572	1,339	0,182	0,314	14,862	0,000
Eurobank (Ergasias)	0,003113	1,305	0,193	0,764	8,054	0,000

Table 3b: Prices of risk coefficient β for the estimation period (+11,+50)

	B		
Bank	**Price**	**t-student**	**Prob.**
Alpha (Ionian)	1,093001	12,296	0,000*
Alpha (National)	1,169492	8,005	0,000*
National (Alpha)	1,164739	5,898	0,000*
National (Ktimatiki)	1,146948	6,553	0,000*
Piraeus (Macedonia-Thrace)	0,739059	3,799	0,001*
Eurobank (Ergasias)	1,086707	2,302	0,027**

Tables 4 and 5 present the abnormal and average abnormal returns, as well as the cumulative and average cumulative abnormal returns respectively.

Table 4: Abnormal and Average Abnormal Returns.

T	AR1	AR2	AR3	AR4	AR5	AR6	AAR
-10	0,0006	0,0428	-0,0054	0,0350	0,0092	0,0181	0,0167
-9	0,0045	-0,0192	-0,0033	0,0252	0,0018	-0,0048	0,0007
-8	-0,0085	-0,0060	0,0095	-0,0096	-0,0056	-0,0052	-0,0042
-7	-0,0141	0,0113	0,0033	0,0151	-0,0036	-0,0038	0,0014
-6	0,0334	-0,0054	-0,0053	0,0269	-0,0004	-0,0143	0,0058
-5	0,0029	0,0182	-0,0164	0,0010	-0,0050	-0,0088	-0,0013
-4	-0,0108	-0,0135	-0,0063	0,0414	0,0055	0,0106	0,0045
-3	-0,0041	-0,0038	-0,0128	0,0422	-0,0178	0,0177	0,0036
-2	-0,0011	-0,0032	-0,0054	0,0546	0,0066	0,0079	0,0099
-1	0,0125	-0,0195	-0,0098	0,0215	-0,0118	-0,0028	-0,0016
0	0,0665	-0,0107	0,0188	-0,0268	0,0179	0,0060	0,0119
1	0,0045	-0,0044	0,0756	-0,0386	0,0459	0,0124	0,0159
2	0,0157	0,0042	-0,0432	0,0269	-0,0307	-0,0232	-0,0084
3	0,0050	-0,0121	-0,0268	-0,0078	-0,0187	-0,0181	-0,0131
4	0,0146	-0,0060	-0,0175	-0,0215	-0,0223	-0,0325	-0,0142
5	0,0341	0,0080	-0,0211	-0,0085	-0,0122	-0,0130	-0,0021
6	0,0351	0,0111	-0,0061	-0,0015	-0,0006	-0,0001	0,0063
7	0,0020	0,0070	-0,0042	-0,0034	-0,0215	-0,0148	-0,0058
8	-0,0067	-0,0045	0,0125	0,0248	-0,0021	0,0004	0,0041
9	-0,0119	0,0260	-0,0181	0,0214	-0,0165	-0,0013	-0,0001
10	-0,0091	-0,0102	-0,0195	0,0103	-0,0010	-0,0022	-0,0053

AR1 = Abnormal returns for the acquisition of Ionian by Alpha Bank
AR2 = Abnormal returns for the acquisition of National Ktimatiki Bank by National Bank
AR3 = Abnormal returns for the acquisition of Ergasias Bank by Eurobank
AR4 = Abnormal returns for the acquisition of Macedonia-Thrace Bank by the Piraeus Bank
AR5 = Abnormal returns for the imminent merger of Alpha Bank with National Bank
AR6 = Abnormal returns for the imminent merger of National Bank with Alpha Bank.
AAR = Average Abnormal Returns

Table 5: Cumulative abnormal returns and cumulative average abnormal returns

Acquirer Bank	CAR
Alpha Bank *1	0,1650
National Bank *2	0,0101
Eurobank*3	-0,1015
Piraeus Bank*4	0,2287
Alpha Bank*5	-0,0829
National Bank*6	-0,0716
Cumulative average abnormal returns	**0,0246**

*1 CAR for the acquisition of Ionian Bank by Alpha Bank
*2 CAR for the acquisition of National Ktimatiki Bank by National Bank
*3 CAR for the acquisition of Ergasias Bank by Eurobank
*4 CAR for the acquisition of Macedonia-Thrace Bank by the Piraeus Bank
*5 CAR for the imminent merger of Alpha Bank with National Bank
*6 CAR for the imminent merger of National Bank with Alpha Bank.

Their statistical significance is presented in table 6, where statistically significant AARs are observed the days –10, + 1 and + 4 from the day of the announcement, while the CAARs are not statistically significant. Deductively, we do not observe any impact of the announcement on the returns of stocks of banks in the period under examination.

Table 6: Average abnormal and cumulative average abnormal returns.

t	AAR	Statistic-t (AAR)
-10	0,0167	1,9965**
-9	0,0007	0,0837
-8	-0,0042	-0,5075
-7	0,0014	0,1627
-6	0,0058	0,6952
-5	-0,0013	-0,1610
-4	0,0045	0,5364
-3	0,0036	0,4265
-2	0,0099	1,1819
-1	-0,0016	-0,1952
0	0,0119	1,4269
1	0,0159	1,9014*
2	-0,0084	-0,9994
3	-0,0131	-1,5618
4	-0,0142	-1,6961*
5	-0,0021	-0,2518
6	0,0063	0,7572
7	-0,0058	-0,6949
8	0,0041	0,4849
9	-0,0001	-0,0094
10	-0,0053	-0,6330
	CAAR	**Statistic-t (CAAR)**
	0,0247	**0,6423**

T-student test, Critical value t=1.96 at level significance a=0.05 Zero hypothesis: Ho: AR=0, CAR=0
* At significant level a=0.10, 1,66 – 1,95
** At significant level a=0.05, 1,96 – 2,56
*** At significant level a=0.01, 2,57 –

The majority of the experimental studies that took place with the method of event studies in the area of mergers and acquisitions and the impact they had on stock returns validates the outcomes of the present work. The behaviour of the investors is quite often influenced by announcements of important events related to acquisitions and mergers, even quite many months before these are made. For this reason, in a case of an event and for a period of 21 days around that, usually non-statistically significant abnormal and cumulative abnormal returns can be found. In simple words, the appearance of non regular returns is not expected few days before the announcement of acquisition.

The majority of the conducted researches based on monthly or daily data have shown that there are positive ARs and CARs. Malatesta (1983) (using monthly data) and Dodd (1980) (using daily data) were the only ones that came up with negative ARs and CARs using monthly and daily data accordingly.

It is useful to point out that the analysis of the results from the research on acquisitions and mergers should take place carefully and after cautious consideration. A good example is the appearance of negative abnormal returns since these do not always indicate that the reasons of acquisition do not follow the maximisation of the enterprise's value. There is always the likelihood that the enterprise that bids already holds some stocks of the targeted bank and consequently the earners of the company's acquired profits coming from the announcement of acquisition that has already been included in the returns of stock of the targeted bank.

Additionally, in case the targeted bank is smaller compared to the bidding bank, the effect of the announcement on positive returns could be influenced by an unplanned accident during our observation period. Alternatively, the existence of positive abnormal returns before the announcement of a merger can indicate a practical efficiency of the banks administration and set the grounds for the completion of a merger or acquisition.

Finally, if the incentives of acquisition or merger are to improve the monopolistic strength (especially in the case of horizontal acquisitions) then positive cumulative abnormal returns should be expected.

5. CONCLUSION

Any form of bank merger is considered to be one of the most significant and commonly used methods by an economy regarding the banking system reformation and sanity. During the past decades, the trend of mergers and acquisitions has been getting a global form, thus leading to a gradual increase of the competition and generally is considered an important development in the banking operations and the quality of the provided products and services (Altunbas Y., and Ibanez M., 2004).

The Greek banking system has also been affected by this intensive phenomenon of mergers. Due to the small size of the Greek banks and their limited capacity when compared to other bigger foreign banks, the reorganisation of the Greek banking system and the co-operation of Greek banking organizations became a necessity. That was the only way to allow them to face the competition and guarantee their survival.

It should be pointed out the fact that many of the Greek banks managed to control the influence of the Greek and thus eliminating the control public sector was exercising on them. The past 10 years there have been a large number of mergers and acquisitions related to the Greek banking system and this project focuses on all these events that occurred in Greece since 1997. The project specifically concentrates on the effects the announcements about mergers and acquisitions had on the returns of stocks from certain banking institutions by using the event studies. The abnormal and cumulative returns of every investigated case are estimated by monitoring the daily stock prices along with the help of the market model. In most cases, for a period of (-10, +10) days, there were not any normal returns due to the merger announcements. The source of this could be the result of leaked information related to the merger or acquisition to the investors forcing the market to react long before the official announcement.

This topic was extensively researched in an attempt to analyze and identify the consequences of the acquisition phenomenon and the processes before and after the event. A number of the surveys assume that any reaction took place before any official reports for forthcoming mergers and acquisitions. The studies that have been taken into consideration are based on the fact that any leakage of internal information, usually illegal, is often available to the investors. The analysis, in accordance with the method of event studies for mergers and acquisitions, depends on the hypothesis of value maximisation the bidding banks desire.

Usually, the various different surveys do not agree between them when it comes down to their corresponding theories and results. For instance, theories related to the topic of co-operations and monopoly, do not share related beliefs and this is expected since they are based on dissimilar assumptions and criteria. The majority of the surveys assume that the credit and financial markets do not have great expectations in profits and stocks value due to mergers and acquisitions between banking organisations.

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