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Mergers and Acquisitions in the European and Italian Banking Sector:

An Analysis of Trends and Impacts

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Abstract

The purpose of this thesis is to examine the trend and impact of mergers and acquisitions (M&A) in the European and Italian banking sector. The study will provide a comprehensive overview of the M&A activity in the European banking industry and then focus on the Italian banking sector to provide a more in-depth analysis. The research will be based on both primary and secondary sources and will include a review of academic literature, regulatory data and case studies. The findings of the study will highlight the key drivers and challenges of M&A in the banking sector and the impact of these transactions on stakeholders such as shareholders, employees and customers. Additionally, the study will also assess the role of regulators and the impact of M&A on the stability and competition of the banking industry.

The first chapter will provide a background to the study, including the context of M&A in the European and Italian banking sector and the research objectives and questions.

The second chapter will review the academic literature on M&A in the banking sector, including the key drivers, challenges and impacts of these transactions. The review will also highlight the theoretical frameworks and models used to analyze M&A in the banking industry.

The third chapter will provide an overview of the M&A activity in the European banking sector, including the trends and key drivers of M&A. The chapter will also include a review of the regulatory framework and its impact on M&A in the European banking sector.

The fourth chapter will provide an in-depth analysis of the M&A activity in the Italian banking sector, including a review of the key players and recent transactions. The chapter will also examine the challenges and opportunities of M&A in the Italian banking sector and the impact of these transactions on the stability and competition of the industry.

The fifth chapter will include a review of selected case studies of M&A in the European and Italian banking sector. The case studies will provide a practical illustration of the key drivers, challenges and impacts of M&A in the banking industry.

The sixth chapter will summarize the key findings of the study and provide a conclusion on the trend and impact of M&A in the European and Italian banking sector. The chapter will also provide recommendations for future research in this area.

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List of Abbreviations

BCBS: Basel Committee on Banking Supervision

CAGR: Compound Annual Growth Rate

CET1: Common Equity Tier 1 Ratio

CIR: Cost Income Ratio

COGS: Cost of Goods Sold

CoNSoB: Commissione Nazionale per le Societa e la Borsa

CRD: Capital Requirements Directive

CRR: Capital Requirements Regulation

DER: Debt to Equity Ratio

DR: Debt Ratio

EBA: European Banking Authority

EBITDA: Earnings Before Interest, Taxes, Depreciation and Amortization

EC: European Commission

ECB: European Central Bank

EPS: Earnings Per Share

EU: European Union

EUMR: European Union's Merger Regulation

FRESH: Floating Rate Equity-Linked Subordinated Hybrid Preferred Securities

GPM: Gross Profit Margin

ICA: Italian Competition Authority

IO: Industrial Organization Theory

IPO: Initial Public Offering

KPI: Key Performance Indicator

LCR: Liquidity Coverage Ratio

M&A: Mergers & Acquisitions

MPS: Monte dei Paschi di Siena

NIM: Net Interest Margin Ratio

NPE: Non-Performing Exposure Ratio

NPL: Non-Performing Loans

NSFR: Net Stable Funding Ratio

RBV: Resource-Based View Theory

RGP: Revenue Growth Percentage Ratio

ROA: Return on Assets

ROE: Return on Equity

RWA: Risk Weighted Assets Ratio

SRB: Single Resolution Board

SRM: Single Resolution Mechanism

SSM: Single Supervisory Mechanism

T1: Tier 1 Ratio

US: United States

VAR: Value at Risk Ratio

1. Introduction

The banking sector plays a critical role in the economic growth and stability of a country. In recent years, there has been a significant increase in the number of mergers and acquisitions (M&A) in the European and Italian banking sector. The trend of consolidation in the banking industry is driven by a number of factors such as increased competition, regulatory pressures and the need to achieve economies of scale.

- Context of M&A in the European and Italian Banking Sector:

In the European banking sector, M&A activity has been driven by the need to achieve compliance with the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM) established by the European Banking Union. The SSM and SRM aim to ensure the stability and safety of the European banking sector and provide a common framework for the supervision and resolution of banks in the European Union.

In the Italian banking sector, M&A activity has been driven by the need to address the high level of Non-Performing Loans (NPLs) and improve the capital position of banks. The Italian banking sector has been facing significant challenges in recent years, including a sluggish economic growth, high level of public debt and the accumulation of NPLs. The M&A activity in the Italian banking sector is aimed at improving the financial position of banks and enhancing their competitiveness.

- Research Objectives and Questions:

The main objective of this study is to examine the trend and impact of M&A in the European and Italian banking sector. The study aims to answer the following research questions:

1. What are the key drivers of M&A in the European and Italian banking sector?
2. What are the challenges and opportunities of M&A in the banking sector?
3. What is the impact of M&A on the stability and competition of the banking industry?
4. How have regulators impacted the M&A activity in the European and Italian banking sector?
5. What is the impact of M&A on stakeholders such as shareholders, employees and customers?

By answering these research questions, this study aims to provide a comprehensive overview of the trend and impact of M&A in the European and Italian banking sector.

2. Literature Review

Mergers and Acquisitions (M&A) refer to the consolidation of companies or assets through various forms of business combinations[1]. The terms "mergers" and "acquisitions" are often used interchangeably, but in a merger, two companies combine to form a new company, while in an acquisition, one company buys another and absorbs it into its existing operations. M&A transactions can be structured in various ways, including asset purchases, stock purchases and mergers of equals and they can be accomplished through friendly negotiations or hostile takeover attempts. The goal of M&A is often to increase market share, enter new markets, gain access to new technologies or talent, or achieve cost synergies[1-2].

Academic literature on M&A in the banking sector has analyzed the types, key drivers, challenges and impacts of these transactions.

2.1. Different types of M&A, benefits and risks

Each type of M&A[2] has its own unique set of benefits and risks and the choice of which type to pursue will depend on the specific circumstances and goals of the companies involved. There are several different types of M&A, including:

- Merger[3]

A merger in the banking sector refers to the combination of two or more financial institutions into a single entity. The new entity is created by the absorption of one bank into another or by the merging of two or more banks into a new company. This is a strategic move aimed at achieving several benefits, including cost savings, increased market share, enhanced customer base and improved profitability.

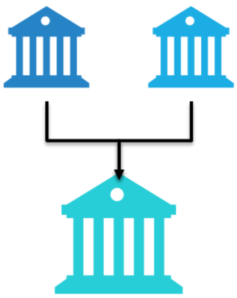

Figure 1. Merger Type

Benefits of a banking merger include:

1. Increased Efficiency: by combining resources, systems and operations, a merged entity can achieve cost savings, reduce duplication of efforts and improve efficiency.
2. Enhanced Market Presence: mergers can increase the scale of the combined entity and improve its market presence, thereby increasing its bargaining power and competitiveness.
3. Improved Risk Management: mergers can allow banks to diversify their risk portfolios and reduce their exposure to particular sectors or regions.
4. Access to New Markets: mergers can provide access to new markets, customers and distribution channels, allowing the combined entity to expand its business and increase its revenue.
5. Improved Profitability: mergers can result in increased revenue and cost savings, leading to improved profitability and higher returns for shareholders.

[1]Mergers & Acquisitions (M&A). Corporate Finance Institute. (2022, November 30)
[2]Hayes, A. Mergers and acquisitions (M&A): Types, structures, valuations. (2022, November 22)
[3]Merger. Corporate Finance Institute. (2022, November 28)

However, there are also some risks associated with bank mergers, including:

1. Integration Risks: merging two banks can be a complex and time-consuming process, requiring a significant amount of resources and careful management. If the integration process is not managed effectively, it can result in disruptions to the banks' operations and customer service.
2. Cultural Differences: mergers can result in cultural differences between the merging entities, which can affect employee morale, motivation and retention.
3. IT Integration Risks: integrating the IT systems and technology platforms of the merging entities can be a major challenge and if not handled properly, can result in system failures and data breaches.
4. Loss of Key Personnel: mergers can result in the loss of key personnel, as well as disruptions to the banks' operations, which can negatively impact the merged entity's performance.
5. Regulatory Risks: mergers can attract regulatory scrutiny, which can lead to increased regulatory requirements and costs.

In conclusion, a banking merger can offer significant benefits, but also comes with risks that must be carefully managed to ensure a successful outcome.

- Acquisition[4]

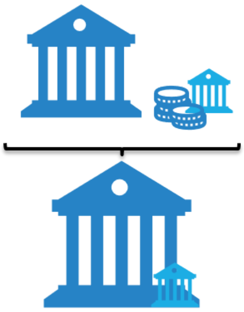

Figure 2. Acquisition Type

An acquisition in the banking sector refers to a transaction in which one bank buys another bank or a financial institution. In this transaction, the acquiring bank takes ownership of the assets, liabilities and operations of the target bank.

Benefits of an acquisition in the banking sector include[5]:

1. Increased Market Share: the acquiring bank can increase its market share and customer base through the acquisition, thus expanding its reach and presence in the market.
2. Diversification of Products and Services: the acquiring bank can diversify its product offerings and services by acquiring a bank that specializes in a different area, such as wealth management or commercial lending.
3. Improved Operational Efficiency: the acquiring bank can improve its operational efficiency by leveraging the technology, processes and expertise of the target bank.
4. Cost Savings: the acquiring bank can achieve cost savings by eliminating duplicated functions and streamlining operations.

However, there are also several risks associated with bank acquisitions, including:

1. Integration Risks: integrating the operations, systems and cultures of the two banks can be complex and time-consuming and there is a risk that the integration will not go as planned.
2. Credit Risks: the acquiring bank may assume credit risks associated with the target bank's loan portfolio, which could negatively impact its financial performance.
3. Risks: the acquiring bank may face reputational risks if the target bank has a negative public image or a history of regulatory or legal problems.
4. Financial Risks: the acquiring bank may face financial risks associated with financing the acquisition, such as increased debt or decreased earnings.

[4] Dash, A. P. Mergers and acquisitions. I.K. Internat. Publ. House (2010)
[5] Acquisition. Corporate Finance Institute. (2022, December 2)

In conclusion, bank acquisitions can bring many benefits, but also involve significant risks that should be carefully considered and managed.

- Consolidation[6]

Consolidation in the banking sector refers to the merger or acquisition of two or more banks into a single entity. This can happen as a result of various reasons, including the need to increase market share, reduce costs, increase efficiency and improve risk management.

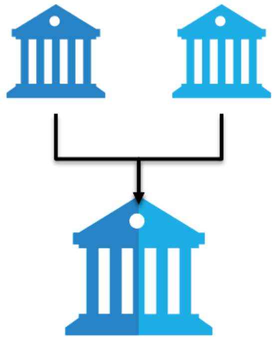

Figure 3. Consolidation Type

Benefits of consolidation in the banking sector include:

1. Increased Market Share: the merged bank can have a larger market share and can therefore have greater bargaining power with suppliers and customers.
2. Cost savings: consolidation can result in reduced costs through economies of scale, as well as the elimination of duplicated services and functions.
3. Improved Efficiency: the combined bank can achieve operational efficiency by streamlining processes and reducing inefficiencies.
4. Better Risk Management: the merged bank can diversify its portfolio, reduce its dependence on any single market and better manage its risk exposure.

However, consolidation in the banking sector also has its risks:

1. Culture clash: the merged banks may have different corporate cultures, which can result in integration difficulties and reduced morale.
2. Job Losses: consolidation can result in job losses as duplicated functions and services are eliminated.
3. Reduced Competition: consolidation can reduce competition in the banking sector, which can result in higher fees and reduced innovation.
4. Integration difficulties: the process of integrating two or more banks can be complex and time-consuming and can result in operational disruptions and increased risk.

In conclusion, consolidation in the banking sector can have both benefits and risks. While it can result in increased market share, cost savings, improved efficiency and better risk management, it can also result in culture clashes, job losses, reduced competition and integration difficulties.

- Reverse merger[7]

A reverse merger in the banking sector refers to a process where a privately held bank acquires a publicly traded company, resulting in the privately held bank becoming a publicly traded company.

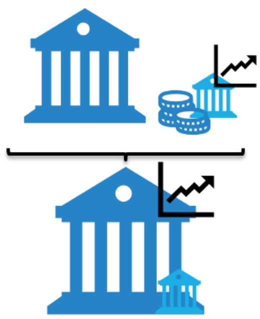

Figure 4. Reverse merger Type

Benefits:

1. Access to Capital: going public through a reverse merger allows the privately held bank to access public capital markets and raise funds, which can be used to finance growth and expansion.

[6] Berger, A. N., De Young, R., & Udell, G. F. (2001). Efficiency barriers to the consolidation of the European Financial Services Industry. European Financial Management, 7(1), 117–130.
[7] Dumont, M. (2022, July 13). Reverse mergers: Advantages and disadvantages.

2. Increased Visibility: going public increases the visibility of the bank, which can result in increased brand recognition and a higher profile in the industry.
3. Liquidity for Shareholders: going public provides liquidity for shareholders of the privately held bank, allowing them to sell their shares on public stock exchanges.
4. Cost-effective: a reverse merger is often a more cost-effective alternative to a traditional Initial Public Offering (IPO), as it eliminates the need for a lengthy and expensive underwriting process.

Risks:

1. Regulatory Risks: the banking industry is heavily regulated and reverse mergers can result in increased regulatory scrutiny, which can be costly and time-consuming.
2. Integration Risks: integrating the operations of the publicly traded company and the privately held bank can be challenging and result in operational and financial risks.
3. Market Risks: going public can result in increased market volatility, as the shares of the newly public bank may be subject to fluctuations in the stock market.
4. Financial Risks: the reverse merger may result in a dilution of existing shareholders' equity and the newly public bank may face financial risks such as increased debt levels and decreased earnings.

In conclusion, a reverse merger can provide a privately held bank with access to capital and increased visibility, but it also carries regulatory, integration, market and financial risks. As with any corporate transaction, it's essential to carefully consider the benefits and risks before proceeding with a reverse merger in the banking sector.

- Horizontal merger[8]

A horizontal merger occurs when two companies operating in the same market and offering similar products or services combine to form a single entity. In the banking sector, a horizontal merger can take place between two or more banks with similar business operations, such as commercial banks, investment banks, or retail banks.

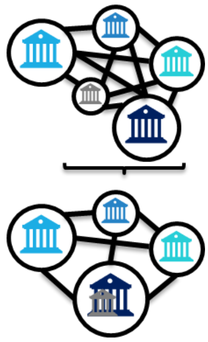

Figure 5. Horizontal merger Type

Benefits of horizontal mergers in the banking sector include:

1. Increased market share: by combining, the merged entity can gain a larger market share, resulting in increased bargaining power and profitability.
2. Cost savings: horizontal mergers can result in cost savings through the elimination of duplicate functions and economies of scale. This can help banks reduce their costs and improve their profitability.
3. Improved competitiveness: the merged entity can have a stronger market position and can better compete with other banks in the market.
4. Diversification of services: by merging, banks can expand their product and service offerings and can better serve customers' needs.

However, there are also risks associated with horizontal mergers in the banking sector, including:

1. Reduced competition: horizontal mergers can lead to reduced competition in the market, which can result in higher prices and reduced consumer choice.

[8] Parikh, V. (2015, September 20). Advantages and disadvantages of horizontal merger

2. Integration challenges: merging two banks can be a complex and time-consuming process, with potential challenges in integrating systems, cultures and personnel.
3. Reduced efficiency: the merged entity may not realize the expected cost savings and may suffer from reduced efficiency because of the integration process.
4. Regulatory challenges: horizontal mergers in the banking sector are subject to regulatory review and approval, which can be a lengthy and uncertain process. There is also the risk of regulatory challenges after the merger has taken place.

In conclusion, horizontal mergers in the banking sector can offer benefits such as increased market share, cost savings, improved competitiveness and diversification of services. However, there are also risks, including reduced competition, integration challenges, reduced efficiency and regulatory challenges.

- Vertical merger[9]

A vertical merger occurs when a company merges with a supplier or customer in its supply chain. In the banking sector, a vertical merger can take place between a bank and a company that provides services or products related to banking, such as payment processing or wealth management services.

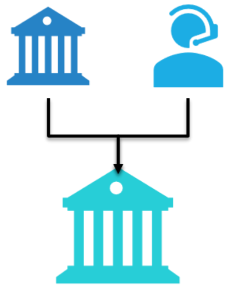

Figure 6. Vertical merger Type

Benefits of vertical mergers in the banking sector include:

1. Improved efficiency: by integrating with a supplier or customer, the bank can streamline its operations and reduce costs, resulting in improved efficiency and profitability.
2. Better control over the supply chain: the bank can have more control over its suppliers and customers, ensuring the timely delivery of services and products and reducing the risk of disruptions.
3. Increased revenue: by integrating with a supplier or customer, the bank can expand its revenue streams and improve its overall financial performance.
4. Improved customer experience: by integrating with a supplier or customer, the bank can offer a more comprehensive and seamless customer experience, leading to increased customer satisfaction and loyalty.

However, there are also risks associated with vertical mergers in the banking sector, including:

1. Reduced competition: vertical mergers can lead to reduced competition in the market, which can result in higher prices and reduced consumer choice.
2. Integration challenges: merging with a supplier or customer can be a complex and time-consuming process, with potential challenges in integrating systems, cultures and personnel.
3. Regulatory challenges: vertical mergers in the banking sector are subject to regulatory review and approval, which can be a lengthy and uncertain process. There is also the risk of regulatory challenges after the merger has taken place.
4. Dependence on a single supplier or customer: by merging with a supplier or customer, the bank may become dependent on a single provider, increasing the risk of disruptions and reducing its overall flexibility.

[9] Hoop, H. van der, & Amadeo, K. (2022, July 8). What is vertical integration? The Balance

In conclusion, vertical mergers in the banking sector can offer benefits such as improved efficiency, better control over the supply chain, increased revenue and improved customer experience. However, there are also risks, including reduced competition, integration challenges, regulatory challenges and dependence on a single supplier or customer.

- Conglomerate merger[10-11]

A conglomerate merger in the banking sector occurs when two or more companies with diverse business operations merge to form a single entity. This type of merger is often motivated by a desire to increase market power, diversify risk and achieve economies of scale.

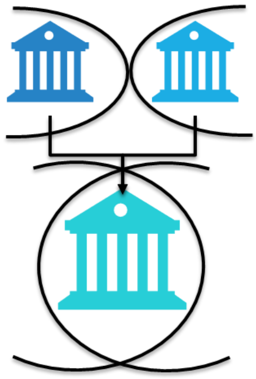

Figure 7. Conglomerate merger type

Benefits of a conglomerate merger in the banking sector may include:

1. Diversification of risk: by merging with companies in different business sectors, banks can reduce their exposure to the risks associated with a particular industry or market.
2. Increased market power: the combined resources of the merged entities can help the bank expand its reach and increase its market power, enabling it to compete more effectively against other large banks.
3. Synergies and economies of scale: the merger can lead to cost savings and improved operational efficiency as the banks can share resources, technologies and best practices.

However, there are also risks associated with conglomerate mergers in the banking sector:

1. Integration challenges: integrating the different business operations of the merged companies can be complex and time-consuming, leading to increased costs and decreased productivity.
2. Culture clash: differences in corporate culture and management styles can lead to tension and conflict between the employees and management of the merged entities.
3. Regulatory challenges: banks are subject to extensive regulation and navigating the regulatory requirements associated with a conglomerate merger can be challenging and time-consuming.
4. Decreased focus: the diversification of the bank's operations may lead to decreased focus on core banking activities, potentially leading to a decrease in the quality of the bank's products and services.

In conclusion, conglomerate mergers in the banking sector can offer significant benefits, such as diversification of risk, increased market power and economies of scale. However, these benefits must be balanced against the risks, including integration challenges, culture clashes, regulatory challenges and decreased focus.

2.2. Main drivers of M&A in the banking sector

In economics, key drivers[12-13] refer to the factors that significantly impact the performance and growth of an industry, company, or market. In the case of the banking industry, some of the key drivers in M&A are:

[10] Peditor, & Clashroyalehacker. (2022, August 2). *Conglomerate merger*
[11] Kenton, W. (2022, November 7). *Conglomerate mergers: Definition, purposes and examples*
[12] Warter, L. W., & Warter, I. . Can mergers and acquisitions improve banking industry?
[13] Filip, A., Lobo, G. J., Paugam, L., & Stolowy, H. (2021). Disclosures about key value drivers in M&A announcement press releases: An exploratory study

- Financial performance improvement

Financial improvement of a bank refers to the increase in its financial performance, as measured by various financial metrics such as profitability, revenue growth, asset quality, capital adequacy and liquidity. The goal of financial improvement is to increase shareholder value and create a stronger, more sustainable business model.

Mergers and Acquisitions (M&A) in the banking sector can lead to improvement in financial performance in several ways:

1. Cost savings (which will be discussed in detail afterward): M&As can result in cost savings through economies of scale and the elimination of duplicated functions such as back-office operations, marketing and technology.
2. Increased revenue: by combining customer bases and product offerings, M&As can lead to cross-selling opportunities and an increase in revenue.
3. Improved efficiency: M&As can also lead to increased operational efficiency through the consolidation of processes and systems.
4. Enhanced risk management: through M&As, banks can diversify their loan portfolios and reduce overall risk.
5. Access to new markets: M&As can provide banks with access to new markets and customer segments, leading to an increase in revenue.
6. Better technology and resources: M&As can result in access to better technology and resources, which can improve a bank's competitiveness and financial performance.

The successful implementation of these drivers can result in higher returns on equity, stronger earnings per share and an improved overall financial position for the bank. Overall, M&As in the banking sector can lead to improved financial performance, but careful planning and execution are essential for success.

- Compliance with regulatory requirements[14]

Compliance with regulatory requirements refers to the ability of a financial institution to adhere to the laws and regulations set by government and regulatory bodies, such as the central bank, securities and exchange commission, or other relevant agencies. This includes adhering to policies related to anti-money laundering, data privacy, financial reporting, capital adequacy and other financial and operational standards. Banks are expected to comply with these regulations to ensure the stability of the financial system and protect the interests of customers, shareholders and stakeholders. A bank's ability to comply with regulatory requirements is closely monitored by regulatory authorities and failure to comply can result in significant fines, penalties and reputational damage.

Mergers and Acquisitions (M&A) in the banking sector can have an impact on regulatory compliance in several ways[15]:

1. Changes in regulatory oversight: M&As can result in changes in regulatory oversight, as the acquiring bank may fall under the jurisdiction of a different regulator. This can lead to new compliance requirements and a need for the bank to understand and adhere to new regulations.

[14] McBeath, I., & Bacha, J. (2001). Mergers and acquisitions: A consideration of the drivers and Hurdles
[15] M&A transactions: 8 essential compliance requirements

2. Increased regulatory scrutiny: M&As often attract increased regulatory scrutiny, particularly when the merged entity becomes a dominant player in the market. This can result in more frequent and in-depth audits, as well as increased pressure to comply with regulations.
3. Integration of compliance systems: during the M&A process, banks must integrate their compliance systems and processes to ensure that the merged entity is in compliance with all relevant regulations. This can be a complex and time-consuming process, requiring significant resources and expertise.
4. Alignment of policies and procedures: banks must also align their policies and procedures to ensure that the merged entity is in compliance with all relevant regulations. This can involve updating policies and procedures, as well as training employees on the new compliance requirements.
5. Potential fines and penalties: non-compliance with regulatory requirements can result in fines and penalties, which can have a significant impact on a bank's financial performance and reputation.

It's important to note that regulatory compliance is a critical aspect of M&As in the banking sector and banks must ensure that they understand and comply with all relevant regulations to avoid potential penalties and fines.

Overall, M&As in the banking sector can impact regulatory compliance and banks must be prepared to navigate these challenges and ensure that the merged entity is in compliance with all relevant regulations.

- Increased competitiveness[16]

Competition in the banking sector refers to the rivalry between banks to attract and retain customers through the provision of financial products and services. Banks compete for customers by offering attractive interest rates, lower fees, better customer service and more innovative products and services. Competition can take the form of price competition, product competition, or service competition and it drives innovation, improves the quality of services offered and helps to keep prices in check. In the banking sector, competition is regulated by government and central banking authorities to ensure fair play, prevent monopoly and maintain the stability of the financial system.

The banking industry has become increasingly competitive, with new entrants entering the market and established banks looking to expand their market share. M&As offer a way for banks to quickly expand their reach and acquire new customers and market share.

Mergers and Acquisitions (M&A) in the banking sector can lead to increased competitiveness[17] in several ways:

1. Enhanced scale and reach: M&As can result in enhanced scale and reach, as the merged entity can benefit from a larger customer base and a broader range of products and services. This can lead to increased competitiveness in the market, as the merged entity can better serve the needs of customers and attract new business.
2. Improved efficiency: M&As can also lead to improved operational efficiency through the consolidation of processes and systems. This can result in lower costs and increased

[16] Datta, D. K., Pinches, G. E., & Narayanan, V. K. (1992). Factors influencing wealth creation from mergers and acquisitions: A meta-analysis
[17] Ferrer, C., Uhlaner, R., & West, A. (2018, February 9). M&A as competitive advantage. McKinsey & Company

competitiveness, as the merged entity can offer better products and services at more competitive prices.

3. Access to new markets: M&As can provide banks with access to new markets and customer segments, leading to increased competitiveness. This can result in new revenue streams and the ability to better serve the needs of customers.
4. Better technology and resources: M&As can result in access to better technology and resources, which can improve a bank's competitiveness. For example, the merged entity may have access to better risk management systems, more advanced technology and greater investment in research and development.
5. Improved reputation: M&As can also lead to improved reputation, as the merged entity can benefit from the strengths of both banks. This can result in increased customer loyalty and the ability to attract new business.

Overall, M&As in the banking sector can lead to increased competitiveness, but careful planning and execution are essential for success. Banks must carefully consider the strengths and weaknesses of both entities, as well as the regulatory environment, to ensure that the merger results in increased competitiveness and a positive outcome for all stakeholders.

- Diversification[18]

In the financial sector, diversification refers to the strategy of spreading investments across different types of financial assets, industries and geographic regions. The goal of diversification is to reduce the risk of an investment portfolio by limiting exposure to any one specific asset or market. This is achieved by allocating investments among a range of different assets, such as stocks, bonds, real estate, commodities and other financial instruments. The idea is that if one asset or market performs poorly, the other assets in the portfolio will offset the losses, providing stability and reducing overall risk. In the banking sector, diversification can be applied to the range of products and services offered, as well as the geographic regions served, to reduce the reliance on any one specific revenue stream and help mitigate the risk of economic downturns in specific regions.

Mergers and Acquisitions (M&A) in the banking sector can lead to diversification in several ways:

1. Product diversification: M&As can result in product diversification, as the merged entity can offer a wider range of products and services. This can result in increased revenue streams and the ability to better serve the needs of customers.
2. Geographic diversification: M&As can also provide geographic diversification, as the merged entity can have a broader reach and access to new markets. This can result in new revenue streams and the ability to better serve the needs of customers.
3. Diversification of loan portfolio: M&As can also lead to diversification of the loan portfolio, as the merged entity can benefit from a more diverse range of loan products and customer segments. This can result in reduced overall risk and improved financial performance.
4. Diversification of funding sources: M&As can also provide diversification of funding sources, as the merged entity can have access to a wider range of funding options and capital sources. This can result in improved financial stability and increased competitiveness.

It's important to note that diversification is a key factor in reducing risk and improving financial performance, but it must be approached with caution. Banks must carefully consider the strengths and

[18] Chen, J. (2022, February 8). *Diversification acquisition*

weaknesses of both entities, as well as the regulatory environment, to ensure that the merger results in diversification that is aligned with their strategic goals and objectives.[19]

Overall, M&As in the banking sector can lead to diversification, but careful planning and execution are essential for success. Banks must carefully consider the potential benefits and risks associated with diversification to ensure that the merger results in a positive outcome for all stakeholders.

- Cost savings[20]

Cost savings in the banking sector refers to the reduction of expenses and costs incurred by a bank, resulting in increased profitability and efficiency. This can be achieved through various means, such as streamlining processes, reducing personnel, merging operations and reducing other non-essential expenses. Cost savings can have a significant impact on a bank's financial performance and can be an important factor in mergers and acquisitions.

Mergers and Acquisitions (M&A) in the banking sector can lead to cost savings in several ways[21]:

1. Consolidation of operations: M&As can result in the consolidation of operations, which can lead to reduced costs through the elimination of duplicative processes and systems. This can result in increased efficiency and cost savings.
2. Economies of scale: M&As can also result in economies of scale, as the merged entity can benefit from lower costs associated with larger scale operations. This can result in reduced costs for things like procurement, marketing and technology.
3. Improved technology: M&As can also result in access to better technology, which can improve operational efficiency and reduce costs. The merged entity may have access to more advanced systems and tools, which can help to streamline processes and reduce costs.
4. Synergies from shared services: M&As can also result in synergies from shared services, as the merged entity can benefit from the consolidation of support functions such as finance, HR and IT. This can result in reduced costs and improved efficiency.

It's important to note that cost savings are a key driver of M&As, but the actual cost savings achieved can vary widely depending on the specifics of the merger. Banks must carefully consider the costs associated with integration and the potential challenges of consolidating operations to ensure that the merger results in the desired cost savings.

Overall, M&As in the banking sector can lead to cost savings, but careful planning and execution are essential for success. Banks must carefully consider the potential benefits and risks associated with cost savings to ensure that the merger results in a positive outcome for all stakeholders.

- Access to new technology and expertise[22]

In the banking field, access to new technology and expertise refers to the ability of a bank to acquire or develop cutting-edge technology and expertise that can improve its operations and overall competitiveness. This can be achieved through internal research and development, partnerships, acquisitions or mergers with other companies that have specialized technology or expertise. Having

[19] Di Guardo, M. C., Harrigan, K. R., & Marku, E. (2018). M&A and diversification strategies: What effect on quality of inventive activity?
[20] Kenton, W. (2022, December 7). What is cost Synergy? Definition, How it works and Types
[21] Reddy, C. (2019, November 26). *M&A cost savings: Tips for the entire deal lifecycle*
[22] Stellner, F. (2015). The impact of technological distance on M&A target choice and transaction value

access to new technology and expertise can help a bank improve its product offerings, increase efficiency, reduce costs, enhance customer experiences and stay ahead of competition.

M&A can provide access to new technology and expertise, allowing banks to stay competitive in a rapidly changing financial landscape. For example, fintech companies have emerged that are disrupting traditional banking models and acquiring established banks can be a way for traditional banks to adopt new technology and stay competitive[23].

Mergers and Acquisitions (M&A) in the banking sector can provide access to new technology in several ways:

1. Access to advanced systems and tools: M&As can result in access to more advanced systems and tools, as the merged entity can benefit from the technology and infrastructure of both entities. This can result in improved operational efficiency and increased competitiveness.
2. Integration of technology platforms: M&As can also result in the integration of technology platforms, which can improve efficiency and reduce costs. The merged entity can leverage the best of both platforms to create a more advanced and integrated solution.
3. Improved customer experience: M&As can also result in improved customer experience, as the merged entity can benefit from the latest technology and digital capabilities. This can result in increased customer satisfaction and a competitive advantage in the marketplace.
4. Increased innovation: M&As can also result in increased innovation, as the merged entity can benefit from the expertise and resources of both entities. This can result in the development of new products and services and a competitive advantage in the marketplace.

It's important to note that access to new technology is a key driver of M&As, but the actual technology benefits achieved can vary widely depending on the specifics of the merger. Banks must carefully consider the costs associated with integration and the potential challenges of consolidating technology platforms to ensure that the merger results in the desired technology benefits.

Overall, M&As in the banking sector can provide access to new technology, but careful planning and execution are essential for success. Banks must carefully consider the potential benefits and risks associated with technology to ensure that the merger results in a positive outcome for all stakeholders.

In conclusion, the key drivers in M&A in the banking sector are typically aimed at improving financial performance, complying with regulatory requirements, increasing competitiveness, diversifying business operations and reducing costs. The increased M&A activity in the banking sector in recent decades can be seen as a response to changing market dynamics and a drive to stay competitive and meet increased regulatory requirements. The specific drivers for a particular M&A transaction will depend on the circumstances and goals of the individual banks involved.

2.3. Challenges of M&A in the banking sector

The challenges[4-24-25] of M&A in the banking sector include the difficulty of integrating different cultures and systems, the potential for increased risk and decreased stability and the potential for negative

[23] Accenture. (2023, January 25). *Why technology is so important to the M&A genome*.
[24] Miller, G. P. (2013). Bank Mergers & Acquisitions. Springer.
[25] Sudarsanam, S. (2011). *Creating value from mergers and acquisitions. The challenges: an integrated and international perspective*

impacts on employees and customers. These challenges need to be carefully considered and addressed to ensure a successful and seamless integration of the merged entities.

- Integration of systems and processes[12-26]

Merging two different banks can be a complex process, especially when it comes to integrating systems and processes, such as technology, operations and risk management. This can be a time-consuming and complex process, requiring significant investments and resources. To overcome this challenge, it's important to have a clear plan for integrating systems and processes, including assigning responsibility and timeline. The risk of losing this challenge is a longer-than-expected integration period and higher costs, leading to decreased efficiency and profitability.

- Cultural differences[27]

Cultural differences between the acquiring and target banks can pose a challenge to a successful merger. These differences can range from work habits and communication styles to values and business practices. To overcome this challenge, it's important to identify and address cultural differences early in the process and create a plan for promoting a positive, inclusive culture. The risk of losing this challenge is employee disengagement and increased turnover, leading to lower productivity and morale.

- Regulation[28]

The banking sector is heavily regulated and M&A transactions must comply with complex regulatory requirements and approvals, including those related to anti-money laundering, data privacy and financial stability. This can make the process lengthy and add to the cost of the transaction. To overcome this challenge, it's important to have a thorough understanding of the regulatory requirements and work closely with regulators to ensure compliance. The risk of losing this challenge is increased regulatory scrutiny and fines, leading to reputational damage and lower profitability.

- Due diligence[29]

Thorough due diligence is critical in M&A transactions, as it helps identify potential risks and liabilities. Due diligence is the process of thoroughly reviewing the financial and operational aspects of the target bank to assess its value and potential risks. This process can be time-consuming and complex due to the large amount of data involved, requiring significant resources. To overcome this challenge, it's important to have a thorough due diligence plan and engage experts to help with the process. The risk of losing this challenge is poor decision-making due to a lack of information or misjudgment of risks, leading to decreased profitability or even financial losses.

- Customer and employee retention and satisfaction[30]

M&A transactions can lead to customer and employee churn, as they may be concerned about the changes that will take place in the target bank, potentially leading to dissatisfaction and reduced loyalty. Maintaining customer and employee satisfaction is critical to the success of the M&A transaction. To overcome this challenge, it's important to communicate clearly and transparently with both customers

[26] *Process and Systems Integration: A new source of competitive advantage*.
[27] Carretta, A., Farina, V., & Schwizer, P. (2007). M&A and post merger integration in banking industry: The missing link of corporate culture
[28] Gardella, A., rimarchi, massimiliano, & Stroppa, D. (2020). Potential regulatory obstacles to crossborder mergers and acquisitions in the EU Banking Sector.
[29] Team, T. H. (2022, October 6). *The role of due diligence for Bank M&A transactions*. Hartman Executive Advisors
[30] Baniya, R., & Adhikari, S., *Mergers and acquisitions of the financial institutions: Factors Affecting the Employee Turnover Intention*

and employees about the changes and ensure that their concerns are addressed. The risk of losing this challenge is lower customer and employee satisfaction, leading to decreased profitability and a negative impact on the brand.

- Cost savings[20]

As anticipated before, one of the main drivers of M&A in the banking sector is the desire to achieve cost savings, through consolidation of operations, elimination of redundancies and optimization of resources. However, achieving these savings can be challenging and requires careful planning and execution. To overcome this challenge, it's important to have a clear plan for realizing cost savings and to monitor progress closely. The risk of losing this challenge is failure to achieve cost savings, leading to higher costs and lower profitability.

Note that overcoming these challenges requires a well-planned and executed integration process, involving a range of stakeholders including management, employees, customers and regulators.

2.4. Successful M&A process steps and analysis

Integrating two companies in a merger or acquisition (M&A) can be a complex and challenging process[31], especially in the banking sector where regulations, technology and customer relationships play a significant role. A successful and well-organized integration process can lead to several benefits for the newly merged entity.

In the banking sector, where regulations and customer trust are especially important, a well-organized integration process is critical to maintaining compliance and avoiding potential regulatory fines or reputational damage.

Overall, a successful and well-organized integration process can lead to increased efficiency, improved customer experience, enhanced risk management, improved competitiveness and increased market share, making it an essential component of a successful M&A in the banking sector.

In order to achieve, plan and execute a successful integration process in a M&A in the banking sector, the main steps to follow are:

1. Establish a clear goal and timeline
   The first step is to establish a clear goal for the merger and a timeline for achieving it. This should include a plan for integrating systems and processes, as well as a schedule for realizing cost savings and synergies.
2. Involve key stakeholders
   Involving key stakeholders, such as employees, customers and regulators, in the integration process can help ensure their buy-in and minimize resistance to change. This can be achieved through regular communication, town hall meetings and other engagement activities.
3. Assign clear roles and responsibilities
   To ensure a smooth integration process, it's important to assign clear roles and responsibilities for each aspect of the integration, including systems and process integration, cultural integration and cost savings initiatives.

[31] Poniachek, H. A. (2019). *Mergers and acquisitions: A Practitioner's Guide to successful deals*

4. Conduct a thorough due diligence
   Conducting a thorough due diligence is key to ensuring that all potential risks are identified and addressed before the merger is completed. This should include a review of the target bank's financials, operations and technology systems, as well as a thorough analysis of any regulatory requirements.
5. Develop a clear communication plan
   A clear communication plan is critical for ensuring that all stakeholders are informed about the progress of the integration process and any changes that may impact them. This should include regular updates and open channels for feedback and questions.
6. Monitor progress and adjust as needed
   It's important to monitor progress throughout the integration process and adjust the plan as needed. This may involve making changes to the integration timeline, adjusting the cost savings plan, or addressing any unforeseen challenges that arise.
7. Celebrate successes
   Celebrating successes along the way can help keep employees motivated and engaged during the integration process. This could include recognizing milestones, holding events to celebrate achievements, or providing rewards for meeting goals.

By following these steps, you can plan and execute a successful integration process in an M&A in the banking sector, while minimizing risk and ensuring that all stakeholders are involved and engaged throughout the process.

From a strategic point of view to analyze an M&A in the banking sector, the steps are the following[32]:

1. Research the market
   Study the current state of the banking sector, including regulatory environment, market trends and competition.
2. Analyze the companies involved
   Evaluate the financial performance, operational efficiency and growth potential of both the acquiring and the target company.
3. Assess synergies
   Identify and evaluate the potential cost savings, revenue enhancements and other synergies that can result from the merger.
4. Evaluate the financial impact
   Analyze the financial impact of the deal on both companies, including projected earnings, cash flow and return on investment.
5. Consider cultural compatibility
   Consider the cultural compatibility of both companies and assess the potential impact on employees and customers.
6. Assess risks and uncertainties
   Evaluate the potential risks and uncertainties associated with the deal, such as integration risks, regulatory approval risks and market risks.
7. Make a recommendation
   Based on your analysis, make a recommendation as to whether or not the M&A is a good fit for both companies and the market.

[32] Day, A. (n.d.). *9 step strategic M&A process*

2.5. Analysis Framework – Industrial Organization Theory

One of the most commonly cited theoretical frameworks for analyzing M&A in the banking industry is the industrial organization (IO) theory[33]. This theory suggests that M&A in the banking sector can lead to increased market power and decreased competition, which can result in negative impacts on consumers and the broader economy.

Industrial Organization (IO) theory provides a framework to analyze the motives, outcomes and impacts of mergers and acquisitions (M&A) in the banking industry. According to IO theory, M&A in the banking industry can be seen as a means of achieving economies of scale, increasing market power and improving operational efficiency.

Economies of scale refer to the cost savings that result from increased size and output. M&A can help banks achieve these economies by combining their operations, reducing duplicated functions and increasing the volume of business. As a result, the combined entity can offer a wider range of services at lower costs, making it more competitive.

Market power, another important factor in IO theory, refers to the ability of a firm to influence the price and quantity of its products in the market. In the banking industry, M&A can increase market power by expanding the reach of the combined entity and reducing competition. This, in turn, can lead to improved pricing and profitability for the merged bank.

Finally, IO theory highlights the importance of operational efficiency in M&A. Banks can achieve this efficiency by combining their systems, processes and technology, resulting in streamlined operations and improved customer service.

In conclusion, IO theory suggests that M&A in the banking industry can bring benefits such as economies of scale, increased market power and improved operational efficiency. However, it is important to carefully consider the challenges and potential risks of M&A to ensure a successful outcome.

2.6. Analysis Framework – Resource-Based View

Another commonly used theoretical framework is the Resource-Based View (RBV) theory[34], which provides an analytical framework to understand the role of resources and capabilities in mergers and acquisitions (M&A) in the banking industry. According to the RBV theory, the success of an M&A in the banking industry depends on the combination and integration of resources and capabilities of the merged entities.

RBV theory suggests that a bank's resources and capabilities, such as its brand reputation, technology, human capital and customer base, can provide a competitive advantage in the market. In the context of M&A, the combined resources and capabilities of the merged entities can create synergies that enhance the competitiveness and performance of the bank. For example, a bank with strong technology

[33] Porter, M. E. (1981). The contributions of industrial organization to Strategic Management. *The Academy of Management Review*, *6*(4), 609.

[34] Jurevicius, O., & Nagawalliya, G. (2021, November 11). All you need to know about resource-based view.

capabilities can merge with another bank with a large customer base to create a more competitive and efficient entity.

However, the RBV theory also highlights the importance of proper integration and alignment of resources and capabilities. This requires careful planning and execution to ensure that the merged entities are able to effectively combine and leverage their resources and capabilities to create value.

In conclusion, the RBV theory suggests that the success of M&A in the banking industry depends on the combination and integration of resources and capabilities of the merged entities. Proper alignment of these resources and capabilities can create synergies that enhance competitiveness and performance, while poor integration can lead to the loss of value and competitive advantage.

2.7. Analysis Framework – Other Frameworks

Other useful frameworks that can be used to analyze M&A in the banking industry[35]:

- Strategic fit framework

This framework evaluates the strategic fit of the M&A in terms of the target company's business model, market position and competitiveness. It also considers the compatibility of the two companies' cultures, objectives and strategic visions.

- Financial impact framework

This framework analyzes the financial impact of the M&A on both the acquiring and target companies. It includes evaluating the potential cost savings, revenue enhancements and other financial benefits of the deal.

- Integration framework

This framework assesses the risks and uncertainties associated with integrating the two companies, including potential operational and cultural challenges.

- Synergy framework

This framework evaluates the potential synergies of the M&A, including cost savings, revenue enhancements and other benefits that can result from the merger.

- Regulatory framework

This framework considers the regulatory environment in which the M&A is taking place, including potential approval risks, legal and regulatory constraints and the impact of regulations on the deal.

- Market framework

This framework analyzes the market environment in which the M&A is taking place, including market trends, competition and the impact of the deal on the market.

- Transaction cost economics

[35] Massachusetts Institute of Technology. (2019). *Analysis of Merger & Acquisition Frameworks from a deal rationale perspective in technology sector*.

This theory evaluates the potential costs and benefits of an M&A from the perspective of transaction costs, such as search and information costs, negotiation and bargaining costs and monitoring and enforcement costs.

- Real options theory

This theory considers the potential value of flexible, real options that a firm may have in the future as a result of an M&A, such as the ability to expand into new markets or product lines.

- Value creation framework

This framework evaluates the potential for value creation through an M&A, including both tangible and intangible benefits such as cost savings, revenue enhancements and the development of new products and services.

- Game theory

This theory can be used to analyze the bargaining power and negotiation strategies of the parties involved in an M&A, including the acquiring and target companies, their shareholders and other stakeholders.

- Cultural fit framework

This framework evaluates the cultural compatibility of the two companies and assesses the potential impact on employees, customers and other stakeholders.

These are just a few of the additional theories and frameworks that can be used to analyze M&A in the banking industry. The most important ones to consider will depend on the specific circumstances of the deal and the goals of the analysis. These frameworks can be used in combination to provide a comprehensive analysis of an M&A in the banking industry and to support a well-informed decision-making process.

2.8. Financial effects and impacts of M&A

Empirical studies on M&A in the banking sector have analyzed the financial impacts of these transactions, including the effects on profitability, market share and stock price[36]. These studies have generally found that M&A in the banking sector can result in improved financial performance, although the results are mixed and depend on the specific circumstances of each transaction.

Here are a few general observations concerning the short and long-term impacts:

- Profitability

Profitability is a measure of the financial performance of a company and is usually expressed as a ratio of the company's net income to its revenue. In general, profitability is a key indicator of a company's financial health and its ability to generate positive returns for its shareholders.

In the context of mergers and acquisitions (M&A) in the banking industry, profitability is still an important measure of the financial performance of the newly merged entity. However, it is also

[36] Al-Sharkas, A., *Short-term, long-term and efficiency impacts of recent mergers and acquisitions in the U.S. Banking Industry*

important to consider other factors, such as the impact of the integration process on the customer experience, regulatory compliance and technology capabilities.

In some cases, M&A can lead to cost savings through consolidation and economies of scale, which can improve profitability. However, integrating two different organizations can also be expensive and time-consuming, which can negatively impact profitability in the short-term.

Short-term impacts:

1. Integration costs: in the short term, a M&A can result in significant costs due to the integration of systems, processes and people from two different organizations. These costs can negatively impact profitability in the short term.
2. Disruptions to business operations: M&As can also lead to disruptions to the normal operations of a bank, which can result in a temporary reduction in productivity and profitability.

Long-term impacts:

1. Cost synergies: M&As often result in cost synergies, as the combined organization can benefit from economies of scale and improved operational efficiency. This can lead to an increase in profitability in the long term.
2. Increased market share: a M&A can also result in an increase in market share, which can lead to an increase in profitability in the long term.
3. Diversification of revenue streams: M&As can also result in diversification of revenue streams, which can help reduce the impact of market fluctuations and increase stability and profitability in the long term.

In conclusion, the impact of a M&A in the banking sector on profitability can be complex and depend on many factors, including the size and complexity of the deal, the ability to realize cost synergies and the overall market conditions.

- Market Share

Market share refers to the percentage of total sales within a given market that is accounted for by a specific company. It is a measure of a company's relative position within its market and is used to assess the company's competitiveness and potential for growth.

In the context of mergers and acquisitions (M&A) in the banking industry, market share is an important factor to consider as it can impact the combined entity's competitiveness and growth potential. By merging with another company, the newly formed entity can potentially increase its market share by combining the customer bases and geographic reach of both companies. This can lead to increased market penetration and the ability to reach new customers, helping the combined entity to become a more competitive player in the market.

The market share is a key factor to consider in a M&A in the banking industry as it can impact the combined entity's competitiveness, growth potential and financial performance.

Short-term impacts:

1. Market uncertainty: in the short term, a M&A can result in market uncertainty, as customers, employees and shareholders are unsure of what the combined organization will look like and how it will operate. This can lead to a temporary decline in market share.

2. Disruptions to business operations: M&As can also lead to disruptions to the normal operations of a bank, which can result in a temporary reduction in market share.

Long-term impacts:

1. Increased market share: M&As often result in increased market share, as the combined organization can benefit from increased scale and reach and a broader range of products and services. This can lead to a sustained increase in market share in the long term.
2. Diversification of revenue streams: M&As can also result in diversification of revenue streams, which can help reduce the impact of market fluctuations and increase stability in the long term.
3. Market consolidation: M&As can also contribute to market consolidation, as larger banks become more dominant and smaller banks struggle to compete. This can lead to a decline in market share for some banks and an increase for others.

In conclusion, the impact of a M&A in the banking sector on market share can be complex and depend on many factors, including the size and complexity of the deal, the ability to realize cost synergies and the overall market conditions.

- Stock Price

Stock price refers to the current market value of a single share of a company's stock. It is the price at which a shareholder can buy or sell a stock on a stock exchange. The stock price is determined by the supply and demand for the stock, as well as factors such as the company's financial performance, market conditions and investor sentiment.

In the context of mergers and acquisitions (M&A) in the banking industry, stock price can be an important factor to consider for both the acquiring and the target companies. A successful M&A can lead to increased efficiency, improved risk management and increased profitability for the newly merged entity, all of which can positively impact the stock price. In addition, the stock price can also be positively impacted by investor sentiment, as the market often views M&A as a sign of growth and competitiveness.

The effect of M&A on stock price is often uncertain and can vary widely. In some cases, M&A announcements have been met with positive reactions from investors, leading to a boost in stock price. However, M&A can also result in a decline in stock price if investors are uncertain about the future of the combined company or if the deal is seen as overpriced.

The stock price is a key factor to consider in a M&A in the banking industry as it can impact the financial performance and growth potential of the newly merged entity.

Short-term impacts:

1. Market uncertainty: in the short term, a M&A can result in market uncertainty, as investors are unsure of what the combined organization will look like and how it will operate. This can lead to a temporary decline in stock price.
2. Integration costs: M&As can also result in significant costs due to the integration of systems, processes and people from two different organizations. These costs can negatively impact profitability and stock price in the short term.

Long-term impacts:

1. Improved earnings: M&As often result in improved earnings, as the combined organization can benefit from cost synergies, increased market share and diversification of revenue streams. This can lead to an increase in stock price in the long term.
2. Market recognition: M&As can also result in market recognition, as the combined organization becomes a more significant player in the industry. This can lead to an increase in investor confidence and a sustained increase in stock price in the long term.

In conclusion, the impact of a M&A in the banking sector on stock price can be complex and depend on many factors, including the size and complexity of the deal, the ability to realize cost synergies and the overall market conditions. In general, investors tend to react positively to M&As that are well-planned, well-executed and result in improved earnings and increased market recognition.

2.9. Stakeholders effects and impacts of M&A

Mergers and Acquisitions (M&A) in the banking sector can have both short-term and long-term impacts on stakeholders, including shareholders, employees, customers and regulators and the effects can be complex and difficult to predict[37-38].

Short-term impacts:

1. Employee uncertainty: in the short term, a M&A can result in employee uncertainty, as workers are unsure of their future role in the combined organization and how their benefits and job security will be impacted. This can lead to a decline in employee morale and productivity in the short term.
2. Customer uncertainty: M&As can also result in customer uncertainty, as they are unsure of how the combined organization will operate and how it will impact their relationship with the bank. This can lead to a temporary decline in customer loyalty and a reduction in customer deposits in the short term.

Long-term impacts:

1. Improved employee benefits: M&As often result in improved employee benefits, as the combined organization can benefit from economies of scale and improved operational efficiency. This can lead to an increase in job security and improved employee benefits in the long term.
2. Improved customer experience: M&As can also result in an improved customer experience, as the combined organization can offer a wider range of products and services and improved technology and systems. This can lead to an increase in customer loyalty and a sustained increase in customer deposits in the long term.
3. Increased regulatory scrutiny: M&As can also result in increased regulatory scrutiny, as regulators are concerned about the concentration of power in the banking industry and the potential impact on consumers and the financial system. This can lead to increased regulatory requirements and compliance costs in the long term.

[37] Reflection on the critical role of stakeholders in mergers and acquisitions. (2012). *Mergers and Acquisitions*, 273–284
[38] Wasilewski, M., Zabolotnyy, S., & Osiichuk, D. (2021). Characteristics and shareholder wealth effects of mergers and acquisitions involving European Renewable Energy Companies

In conclusion, the impact of a M&A in the banking sector on stakeholders can be complex and depend on many factors, including the size and complexity of the deal, the ability to realize cost synergies and the overall market conditions. It's important for banks to consider the potential impact on all stakeholders when considering a M&A and to have a plan in place to address any potential challenges and uncertainties.

2.10. Notable KPIs and ratios of M&A

To evaluate the financial performance of a company before and after a merger & acquisition (M&A), several key performance indicators (KPIs) and financial ratios can be considered[39-40]. Some of the most important ones are:

- Revenue Growth

Revenue growth is an important key performance indicator (KPI) to evaluate the performance of a company after a merger and acquisition (M&A), it measures the increase in revenue from one period to another and indicates the company's ability to grow. The revenue growth ratio can provide insight into the success of the integration and the ability of the combined entity to generate increased revenue. It's important to consider factors such as market conditions, the structure of the new entity, cost savings and synergies and the ability to capture new business opportunities when evaluating the Revenue Growth Ratio.

$$Revenue\ Growth\ Percentage = \left(\frac{Ending\ Value}{Beginning\ Value} - 1\right) \times 100$$

- Earnings Per Share (EPS)

Earnings per share (EPS) is a key performance indicator (KPI) that measures the profitability of a company, it measures the portion of a company's profit that is allocated to each outstanding share of common stock. EPS is calculated by dividing the net earnings of a company by the number of its outstanding shares of stock. To get a complete picture of the impact of a merger on EPS it would be necessary to compare the EPS before and after the merger and to analyze other factors that could have influenced the EPS such as changes in the market, competition, or overall economic conditions. Additionally, changes in EPS before and after a merger can also indicate the success or impact of the merger on the company's financial performance.

$$EPS = \frac{Net\ Income\ of\ the\ Company}{Average\ Outstanding\ Shares\ of\ the\ Company}$$

$$EPS = \frac{Net\ Income\ of\ the\ Company - Dividend\ to\ Preferred\ Shareholders}{Average\ Outstanding\ Shares\ of\ the\ Company}$$

- Return of Equity

ROE (Return on Equity) is a key performance indicator used to measure a company's profitability and the efficiency with which it generates returns from its shareholder equity, it measures the return on a company's equity and indicates the profitability of a company in relation to the capital invested by shareholders. The ROE would gives an indication of the efficiency with which the combined entity has

[39] *10 Key Financial Metrics & Kpis for Banks & Credit Unions*. Syntellis Performance Solutions. (2022, April 27)
[40] *Bank Kpis: Financial Investment Guide*. Visible Alpha. (2023, January 17)

been generating returns for its shareholders, both before and after the merger. However, without specific data and analysis of the ROE of the actors involved in the M&A before and after the merger, it is not possible to provide a comprehensive overview of the impact of the M&A on this KPI. It is important to consider the ROE in conjunction with other financial metrics and factors, such as the company's revenue and earnings growth, debt levels and the performance of its key business segments, in order to fully evaluate the success or impact of the M&A.

$$ROE = \frac{Net\ Income}{Shareholder\ Equity}$$

$$ROE = Net\ Profit\ Margin\ \times Asset\ Turnover \times Equity\ Multiplier$$

$$ROE = \left(\frac{Earnings\ before\ tax}{Sales}\right) \times \left(\frac{Sales}{Assets}\right) \times \left(\frac{Assets}{Equity}\right) \times (1 - Tax\ Rate)$$

- Return on Assets

ROA (Return on Assets) is a financial ratio that measures a company's profitability by calculating the return earned on its total assets, it measures the return on a company's total assets and indicates the efficiency of asset utilization. in general, a company's ROA can be affected by a number of factors, such as the efficiency of its operations, its level of debt and the overall economic environment. Following a merger or acquisition, changes in these factors can impact the company's ROA, leading to increases or decreases in profitability.

$$ROA = \frac{Net\ Income}{Total\ Assets}$$

- Gross Profit Margin

The Gross Profit Margin is a financial metric that measures the percentage of revenue that a company retains after deducting the Cost of Goods Sold (COGS). It indicates the efficiency with which a company produces and sells its products and is calculated by dividing gross profit by revenue. It measures the gross profit as a percentage of sales and indicates the efficiency of cost management.

$$Gross\ Profit\ Margin = \frac{Revenue - COGS}{Revenue} = Net\ Sales - COGS$$

- Debt Ratio

The Debt Ratio is a financial ratio that measures the proportion of a company's total assets that are financed by debt. It is calculated by dividing the company's total debt by its total assets. The debt ratio gives an idea of how much debt the company is using to finance its assets, which can indicate the level of financial risk.

A high debt ratio indicates that the company is using a significant amount of debt to finance its operations, which can make it more vulnerable to financial distress if it has difficulty making its debt payments. On the other hand, a low debt ratio may indicate that the company has a strong financial position, as it is not relying heavily on debt to finance its operations.

The debt ratio is often used by investors and analysts to evaluate a company's financial health and risk. However, it is important to keep in mind that the appropriate level of debt for a company can vary depending on its industry, business model and other factors.

$$Debt\ Ratio = \frac{Total\ Debts}{Total\ Assets}$$

- Debt to Equity Ratio or Financial Leverage Ratio

The Debt to Equity Ratio is a financial ratio that measures a company's leverage, or the extent to which its operations are funded by debt relative to equity, it measures the proportion of debt and equity used to finance a company's assets and indicates the level of financial leverage. A higher debt to equity ratio indicates that a company is using more debt to finance its operations, while a lower debt to equity ratio indicates that the company is using less debt and more equity. To assess the impact of the merger on the debt to equity ratio, it would be necessary to compare the ratio before and after the merger and analyze any changes.

$$Debt\ to\ Equity\ Ratio = \frac{Total\ Debt}{Total\ Equity}$$

$$Debt\ to\ Equity\ Ratio = \frac{Short\ Term\ Debt + Long\ Term\ Debt \times Other\ Fixed\ Payments}{Shareholder's\ Equity}$$

- Capitalization Ratio

The Capitalization Ratio is a financial metric that measures the proportion of a company's capitalization - a company's total capital structure in terms of debt and equity - that is represented by equity. In other words, it indicates the degree to which a company is relying on equity financing as opposed to debt financing.

The capitalization ratio is calculated by dividing the company's equity by its total capitalization (i.e., equity plus debt). This ratio provides insight into the risk level of the company and the extent to which it is exposed to interest rate fluctuations. A higher capitalization ratio implies that a company has a lower level of debt, which in turn indicates lower risk, whereas a lower ratio indicates higher risk.

Investors and analysts use the capitalization ratio to assess a company's financial structure and determine its solvency and long-term stability. A company with a high capitalization ratio is generally considered to be more financially stable and less risky than a company with a low ratio. However, it is worth noting that a high capitalization ratio may also indicate that a company is not taking advantage of the tax benefits of debt financing. Therefore, it is important to analyze the capitalization ratio in conjunction with other financial ratios and indicators when evaluating a company's financial health.

$$Capitalization\ Ratio = \frac{Total\ Debt}{Total\ Equity + Total\ Debt}$$

- EBITDA Margin

The EBITDA margin is a financial metric that measures a company's operating performance by dividing its Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) by its total revenue. The EBITDA margin is an indicator of a company's ability to generate profits from its operations, regardless of its financing decisions or tax policies.

It's important to note that the EBITDA margin of a company before and after a merger and acquisition (M&A) may change as a result of the integration of the two companies and the effects of synergies, economies of scale and other factors.

- Tier 1 Ratio and Common Equity Tier 1 (CET1) Ratio

The Tier 1 Ratio and the Common Equity Tier 1 (CET1) Ratio are two important measures of a bank's financial strength and ability to absorb losses.

The Tier 1 Ratio is a measure of a bank's core capital to its total risk-weighted assets. It includes the bank's highest quality capital, such as common stock and retained earnings and is used to assess a bank's ability to absorb losses. A higher Tier 1 Ratio indicates a stronger financial position, as the bank has more capital to cover its risk-weighted assets.

The CET1 Ratio is a more conservative measure of a bank's capital adequacy, as it only includes common equity and retained earnings as the highest quality capital. It measures the bank's CET1 capital as a percentage of its risk-weighted assets. CET1 capital is the most loss-absorbing and permanent form of bank capital.

Regulators often set minimum capital requirements for banks, including minimum Tier 1 and CET1 ratios. Banks that do not meet these requirements may be subject to restrictions or penalties, as they are deemed to be at greater risk of insolvency or default.

$$Tier\ 1\ Capital\ Ratio = \frac{Tier\ 1\ Capital}{Risk - weighted\ Assets}$$

- Risk-Weighted Assets (RWA) Ratio

The Risk Weighted Asset (RWA) ratio is a measure of a bank's financial strength, calculated by dividing the bank's risk-weighted assets by its total assets. It is a regulatory measure that helps ensure that banks hold adequate capital to cover the risks they take on in their operations.

Risk-weighted assets are calculated by multiplying the value of each asset on a bank's balance sheet by a risk weight factor. The risk weight factor is based on the asset's credit risk, or the likelihood that the asset will default or lose value. For example, loans to highly rated borrowers may have a lower risk weight factor than loans to riskier borrowers.

The RWA ratio is used by regulators to determine whether a bank has enough capital to absorb potential losses. The higher the RWA ratio, the lower the bank's risk and the stronger its financial position. Regulators typically require banks to maintain a minimum RWA ratio to ensure their stability and ability to withstand financial shocks.

$$RWA = \frac{Tier\ 1\ Capital + Tier\ 2\ Capital}{Capital\ Adequacy\ Ratio}$$

- Non-performing Exposure (NPE) Ratio

The NPE ratio, or Non-Performing Exposure ratio, is a measure of the quality of a bank's loan portfolio. It represents the amount of Non-Performing Loans (NPLs) and other Non-Performing Assets as a percentage of the bank's total assets.

Non-performing loans are loans that are in default or close to default, meaning that the borrower is not making payments on the loan as agreed. Non-performing assets include other types of assets, such as foreclosed properties or other collateral that the bank has taken over as a result of a loan default.

The NPE ratio is an important metric for assessing the health of a bank, as a high NPE ratio can indicate that the bank may be at risk of significant loan losses and potential financial instability. A lower NPE ratio, on the other hand, can indicate that the bank has a healthier loan portfolio and may be better positioned to weather economic downturns.

$$NPE\ Ratio = ECB's\ Asset\ Quality\ Review - adjusted\ NPE\ level\ as\ \%\ of\ tot\ credit\ exposure$$

- Cost Income Ratio (CIR)

The Cost-Income Ratio (CIR) is a financial ratio that measures the efficiency of a company by comparing its costs to its revenue. It is calculated by dividing the total operating expenses of a company by its net operating income.

The CIR provides an indication of how much it costs a company to generate each unit of revenue. A lower CIR generally indicates that a company is more efficient, since it is able to generate more revenue for each dollar spent on operating expenses. A higher CIR, on the other hand, may indicate that a company is less efficient and may need to take steps to reduce its operating costs or increase its revenue.

In the banking industry, the CIR is a commonly used metric to evaluate the financial performance of banks. A lower CIR is generally seen as favorable, as it indicates that the bank is generating more revenue relative to its operating expenses. Banks with a high CIR may struggle to remain competitive, as they may have difficulty generating sufficient profits to invest in new products and services or to maintain adequate levels of capital.

$$CIR = \frac{Operating\ Costs}{Operating\ Income}$$

- Texas Ratio

The Texas Ratio is a financial metric used to assess the credit risk of banks and other financial institutions. It compares a bank's non-performing assets (NPAs) to its tangible common equity and reserves. The ratio is calculated by dividing a bank's NPAs (including non-performing loans and real estate-owned assets) by the sum of its tangible common equity and loan loss reserves.

The higher the Texas Ratio, the greater the risk of a bank's failure due to its inability to cover its bad debts. A ratio of more than 100% is generally considered a red flag, indicating that the bank may be at risk of insolvency.

The Texas Ratio was originally developed in the 1980s by a banking analyst in Texas who used it to predict bank failures during the oil crisis of that decade. Today, it is still widely used by analysts and investors to assess the health and credit risk of banks and other financial institutions.

$$Texas\ Ratio = \frac{Non-Performing\ Loans + Real\ Estate\ Owned}{Tangible\ Equity\ Capital + Loan\ Loss\ Reserve}$$

- Value at Risk (VAR) Ratio

Value at Risk (VaR) is a statistical measure used to quantify the potential financial loss that may occur from market movements and price fluctuations over a given period of time. It is used by financial institutions to determine the amount of risk they are taking on with their investments and to set risk management policies.

The VaR ratio is expressed as a percentage or a dollar amount and represents the maximum potential loss the institution is willing to bear over a specific period of time, with a certain level of confidence. For example, a bank might set a VaR limit of $10 million for a given portfolio over a one-month period, with a 99% confidence level. This means that there is a 1% chance that the portfolio will experience losses greater than $10 million over the next month.

VaR can be calculated using various methods, such as historical simulation, Monte Carlo simulation and variance-covariance. The choice of method will depend on the nature of the assets being analyzed, as well as the available data and computational resources. VaR is widely used in financial institutions to help manage risk and is an important tool in regulatory and compliance requirements.

- Net Interest Margin (NIM) Ratio

The net interest margin (NIM) ratio is a financial metric used to measure the profitability of a financial institution, such as a bank. It reflects the difference between the interest earned on the loans and other interest-bearing assets and the interest paid on deposits and other interest-bearing liabilities.

NIM is calculated as the net interest income divided by the average interest-earning assets over a given period. The ratio is expressed as a percentage. A higher NIM indicates that the bank is earning more interest income from its assets than it is paying out on its liabilities, which means the bank is generating more profits.

Banks and other financial institutions can use the NIM ratio to compare their profitability to that of their peers and to evaluate the impact of changes in interest rates on their financial performance. However, it is important to note that the NIM ratio does not take into account other sources of revenue or expenses, such as fees, commissions, or operating costs.

These are just a few of the many financial ratios and KPIs that can be used to evaluate the financial performance of a company before and after a M&A. It's important to note that the specific KPIs and ratios used may vary depending on the industry, size of the company and other factors.

- Compound Annual Growth Rate (CAGR)

CAGR stands for Compound Annual Growth Rate, which is a measure of the average annual growth rate of an investment over a specified period of time. It takes into account the effect of compounding, or reinvesting earnings, on the growth of the investment.

CAGR is a useful metric for comparing the performance of investments that have different starting and ending values or time periods. It is often used in financial analysis to evaluate the growth of companies or the returns of investment portfolios. However, it should be noted that CAGR does not take into account the volatility or risk of the investment and should be used in conjunction with other metrics to make investment decisions.

$$CAGR = \left(\frac{Final\ Value}{Beginning\ Value}\right)^{\frac{1}{time\ in\ years}} - 1 = \left(\frac{V_{final}}{V_{begin}}\right)^{\frac{1}{t}} - 1$$

In conclusion, academic literature on M&A in the banking sector provides a comprehensive overview of the key drivers, challenges and impacts of these transactions. The literature highlights the importance of considering both the financial and non-financial impacts of M&A in the banking sector and the role of regulators in ensuring stability and competition in the industry.

3. European Banking Sector

The European banking sector[41] has witnessed a significant increase in M&A activity in recent years. The trend of consolidation in the European banking industry is driven by several factors, including the need to achieve economies of scale, comply with regulatory requirements and improve financial performance.

3.1. European M&A activity waves

Mergers and Acquisitions (M&A) activity in the banking sector has historically gone through several "waves"[42] of increased activity. These waves are characterized by periods of increased M&A activity, followed by periods of reduced activity.

Here are some of the most significant waves of M&A activity in the banking sector:

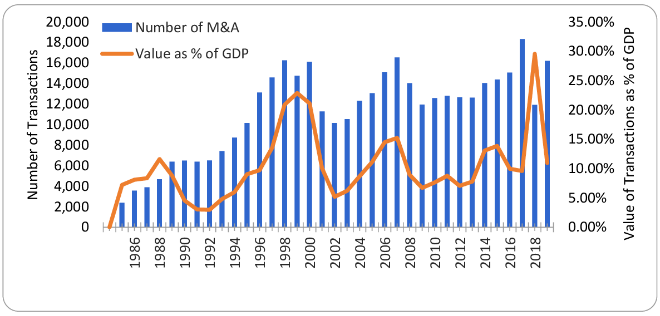

Figure 8. M&A Waves (Source: What Drives Merger Waves? A Study of the Seven Historical Merger Waves in the U.S.)

- First Wave (1980s and 1990s)

The first wave of M&A activity in the banking sector took place in the 1980s and 1990s and was characterized by the consolidation of regional and national banks into larger, more diversified financial institutions. This wave of M&A was driven by changes in regulatory environment, increased competition and the desire to achieve economies of scale.

Examples of significant M&A transactions that took place during the first wave[43]:

- Chemical Bank and Manufacturers Hanover Trust (1991): this was one of the largest banking mergers of the time, creating a new entity with over $100 billion in assets.
- NationsBank and Bank of America (1998): this merger created the largest bank in the United States at the time, with assets of over $600 billion.
- Bank of New York and Mellon Bank (2007): this merger created a leading financial services company with a strong presence in the investment management and banking sectors.

This wave of M&A was driven by several factors, including:

1. Changes in the regulatory environment: the deregulation of the banking industry in the 1980s and 1990s allowed banks to expand their operations and merge with other banks.
2. Increased competition: the rise of non-bank financial institutions and new technologies put pressure on traditional banks to become more competitive.
3. Economies of scale: banks sought to achieve economies of scale by merging with other banks and expanding their operations.

The first wave of M&A in the banking sector had a significant impact on the industry, as larger, more diversified financial institutions emerged and traditional regional and national banks were consolidated

[41] Wikimedia Foundation. (2023, February 19). *History of banking*
[42] Bruner, R. F. (2004). *Applied Mergers and acquisitions*. Wiley.
[43] Wulbern, D., Mergers and acquisitions in the European Banking Sector

into larger entities. This wave of M&A set the stage for further consolidation and change in the banking industry in the decades to come.

- Second Wave (2000s)

The second wave of M&A activity in the banking sector took place in the early 2000s and was driven by the globalization of financial markets and the increasing importance of technology in the banking industry. Banks sought to expand their geographic reach and strengthen their technological capabilities through M&A.

Examples of significant M&A transactions that took place during the second wave[43]:

- JPMorgan Chase & Co. and Bank One Corp. (2004): this merger created one of the largest banks in the United States, with a strong presence in retail and corporate banking.
- HSBC and Household International (2003): this merger created one of the largest consumer finance companies in the world, with a strong presence in the United States and Europe.
- Deutsche Bank and Bankers Trust (1999): this merger created one of the largest investment banks in the world, with a strong presence in Europe and the United States.

This wave of M&A activity was influenced by several factors, including:

1. Globalization: the increasing globalization of financial markets made it necessary for banks to expand their operations globally in order to remain competitive.
2. Technology: the increasing importance of technology in the banking industry made it necessary for banks to acquire or develop strong technological capabilities.
3. Competition: the increasing competition in the banking industry made it necessary for banks to expand their operations and improve their competitiveness through M&A.

The second wave of M&A in the banking sector had a significant impact on the industry, as banks expanded their geographic reach and strengthened their technological capabilities through M&A. This wave of M&A set the stage for further consolidation and change in the banking industry in the decades to come.

- Third Wave (post-financial crisis)

The third wave of M&A activity in the banking sector was driven by the aftermath of the financial crisis of 2008. This wave of M&A was characterized by a wave of consolidation in the European banking sector, by regulatory changes, low interest rates and economic uncertainty as well as the acquisition of struggling or failed banks by larger, healthier institutions.

The 2008 financial crisis had a significant impact on the banking sector and the M&A activity in the industry both globally and in Europe.

Globally, the financial crisis resulted in a contraction of the credit markets, which made it difficult for banks to raise capital and put a strain on their balance sheets. In response, many banks chose to engage in M&A activity in order to strengthen their balance sheets, access new markets and achieve economies of scale. This led to a wave of M&A activity, particularly among larger banks that sought to acquire smaller, distressed banks.

In Europe, the impact of the financial crisis was particularly pronounced, as many European banks were heavily exposed to the subprime mortgage market and suffered significant losses as a result. In response, the European Union (EU) introduced several measures aimed at strengthening the stability and resilience of the European banking sector, including the creation of the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM).

The SSM and SRM helped to improve the stability and resilience of the European banking sector by creating a more centralized and harmonized regulatory framework and by providing a mechanism for resolving failing banks. However, these measures also put pressure on banks to improve their capital ratios and reduce their exposure to riskier assets, which led some banks to engage in M&A in order to achieve these goals.

Overall, the financial crisis had a profound impact on the banking sector and the M&A activity in the industry, both globally and in Europe. The crisis led to a wave of M&A activity as banks sought to strengthen their balance sheets and improve their efficiency and it also resulted in significant regulatory changes aimed at improving the stability and resilience of the banking sector.

Examples of significant M&A transactions that took place during the third wave in Europe and worldwide[43]:

- BBVA and Compass Bancshares (2007): BBVA acquired Compass Bancshares, a regional bank based in the United States, as part of its strategy to expand its presence in the North American market.
- Royal Bank of Scotland (RBS) and ABN AMRO (2008): RBS, along with a consortium of banks, acquired ABN AMRO, a Dutch bank, in a move to increase its global presence and competitiveness.
- Santander and Alliance & Leicester (2008): Santander acquired Alliance & Leicester, a UK-based retail bank, as part of its strategy to expand its presence in the UK market.
- BBVA and Bankinter (2008): BBVA acquired Bankinter, a Spanish retail and commercial bank, as part of its strategy to increase its presence in the Spanish market.
- UniCredit and HVB Group (2008): Unicredit acquired HVB Group, a German bank, as part of its strategy to increase its presence in the German market and expand its investment banking business.
- JPMorgan Chase and Bear Stearns (2008): JPMorgan Chase acquired Bear Stearns, a US investment bank, in a move to strengthen its investment banking capabilities.
- Bank of America and Merrill Lynch (2008): Bank of America acquired Merrill Lynch, a US investment bank, as part of its strategy to strengthen its investment banking capabilities and expand its wealth management business.
- Wells Fargo and Wachovia (2008): Wells Fargo acquired Wachovia, a US retail and commercial bank, as part of its strategy to expand its presence in the US market.
- Citigroup and Wachovia (2008): Citigroup attempted to acquire Wachovia, but the acquisition was ultimately completed by Wells Fargo.
- Santander and Sovereign Bank (2010): Santander acquired Sovereign Bank, a US retail and commercial bank, as part of its strategy to expand its presence in the US market, in the East Coast and Puerto Rico.
- Commerzbank and Dresdner Bank (2009): Commerzbank acquired Dresdner Bank, a German bank, as part of its strategy to increase its presence in the German market and expand its investment banking business.

These M&A deals were aimed at consolidating the banking sector and strengthening the financial position of the acquiring banks in the face of the crisis. The global financial crisis put significant pressure on many financial institutions and M&A activity was one way for banks to strengthen their balance sheets and secure their position in the market.

This wave of M&A activity was influenced by several factors, including:

1. Regulatory changes: new regulations, such as the Basel III framework, put pressure on banks to improve their capital ratios, which led some banks to engage in M&A in order to achieve economies of scale.
2. Low interest rates: the low interest rate environment made it difficult for banks to generate profit through traditional lending activities, which encouraged them to look for other sources of revenue, such as M&A.
3. Economic uncertainty: the economic uncertainty following the financial crisis made it necessary for banks to improve their efficiency and reduce costs in order to remain competitive, which led some banks to engage in M&A.

The third wave of M&A in the banking sector had a significant impact on the industry, as banks improved their efficiency, reduced costs and strengthened their balance sheets through M&A. This wave of M&A set the stage for further consolidation and change in the banking industry in the coming years.

It is important to note that M&A activity in the banking sector can also be influenced by a variety of other factors, including macroeconomic conditions, technological advancements and changes in the regulatory environment. These waves of M&A activity are not always predictable and can vary in length and intensity.

3.2. The COVID-19 Pandemic influence

The COVID-19 pandemic has had a significant impact on the banking sector and M&A activity both globally and in Europe[44].

Globally[45], the pandemic has resulted in a contraction of the economy, which has led to an increase in loan defaults and a decline in the value of assets held by banks. As a result, many banks have been under pressure to strengthen their balance sheets and reduce their exposure to riskier assets. This has led to a decline in M&A activity, as banks focus on reducing their costs and maintaining their liquidity positions.

In general, the M&A market in the global banking sector has been impacted by the COVID-19 pandemic, but some banks have continued to pursue deals that are aligned with their long-term strategic goals and that can help them navigate the challenges posed by the pandemic.

For example, in the Asia-Pacific region, there have been several notable M&A deals, such as the merger of two of India's largest private sector banks, HDFC Bank and Kotak Mahindra Bank. In the United States, there have been several smaller-scale M&A deals, such as the acquisition of digital bank, Radius Bank, by Bancorp.

The COVID-19 pandemic has created a great deal of uncertainty in the global banking sector and its full impact on M&A activity is yet to be determined. However, some experts predict that the pandemic will lead to increased consolidation in the banking sector, as banks look for ways to strengthen their balance sheets and adapt to the changing economic environment.

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[44] *Covid-19: Eight main impacts on global banking M&A*. KPMG

[45] Vaibhav Chakraborty, Z. G. (2023, January 19). *Global Bank M&A in 2022 slid below pandemic-hit 2020 levels, lowest in 5 years*

Globally, the banking sector is likely to continue to face a challenging economic environment, with low interest rates, uncertainty about the economic outlook and increased competition from non-traditional players. In this context, M&A activity is likely to remain subdued in the short-term, as banks focus on preserving capital and managing their operations in the face of the pandemic's impact.

However, as the world adapts to the new normal and the global economy begins to recover, M&A activity in the banking sector is expected to pick up. Banks that have strong balance sheets and are well-positioned to navigate the challenges posed by the pandemic are likely to be more active in the M&A market, seeking to acquire complementary assets and technologies and expand their reach both domestically and globally.

In Europe, the impact of the COVID-19 pandemic has been significant, with many countries imposing lockdowns and restrictions on economic activity in order to control the spread of the virus. This has resulted in a sharp contraction in economic activity and an increase in loan defaults, which has put pressure on European banks to maintain their stability and resilience. In response, the European Central Bank (ECB) has introduced several measures aimed at supporting the European banking sector, including cheap funding and asset purchases.

However, despite these measures, the COVID-19 pandemic has had a negative impact on the European banking sector and M&A activity in the industry, resulting in a slowdown in M&A activity, as banks focus on preserving capital and strengthening their balance sheets. While some banks have been able to raise capital through equity offerings or by issuing debt, many banks have been focused on maintaining their stability and reducing their exposure to riskier assets, which has led to a decline in M&A activity.

While the COVID-19 pandemic has created challenges for the M&A market in the European banking sector, some banks have continued to pursue deals as a way to adapt to the changing economic environment and position themselves for long-term success

For example, in Spain, BBVA and CaixaBank announced a merger in December 2020 to create Spain's second-largest lender with a strong presence in both retail and corporate banking. The deal was seen as a response to the challenges posed by the pandemic and a way for the two banks to better compete in the changing banking landscape.

Another example is the acquisition of Commerzbank by a consortium of investors led by Cerberus Capital Management. The deal, which was announced in July 2020, created a leading player in the German corporate banking market and marked a significant step in the consolidation of the European banking sector.

Also ING, a Dutch multinational banking and financial services corporation, has also been involved in M&A activity in Europe during the COVID-19 pandemic. In 2020, ING announced the sale of its insurance subsidiary, ING Belgium, to Ageas, a Belgian insurer. This deal was part of ING's ongoing strategy to divest non-core assets and focus on its core banking operations. Additionally, ING also announced several smaller-scale M&A transactions, such as the acquisition of Dutch mortgage lender, Capital48 and the purchase of a portfolio of shipping loans from Commerzbank.

Overall, ING has been actively managing its business and operations in response to the challenges posed by the COVID-19 pandemic, including pursuing M&A deals that are aligned with its long-term strategic goals.

In Europe, the banking sector is expected to continue to face challenges, such as low interest rates, heightened regulatory scrutiny and competition from non-traditional players. As a result, some experts predict that we will see further consolidation in the European banking sector through M&A activity, as banks look to achieve scale and efficiency and enhance their competitive positions.

Overall, the COVID-19 pandemic has had a profound impact on the banking sector and M&A activity in the industry, both globally and in Europe. Despite supportive measures from central banks, the pandemic has had a negative impact on the banking sector and M&A activity in the industry.

In conclusion, while the COVID-19 pandemic has created challenges for the M&A market in the banking sector, both in Europe and globally, some experts predict that we will see increased consolidation in the sector in the coming years, as banks look to adapt to the changing economic environment and position themselves for long-term success.

3.3. European M&A factors

The European banking sector has experienced a significant increase in M&A activity in recent years due to several factors[43], including:

- Regulatory pressure[43-46]

Regulatory pressure in the banking sector refers to the set of rules and restrictions imposed by government agencies and other supervisory bodies on financial institutions to ensure their stability, transparency and accountability. This pressure helps to minimize risks and maintain the stability of the financial system.

Regulatory pressure can take various forms, such as capital adequacy requirements, liquidity requirements, reporting and disclosure requirements, restrictions on certain types of lending or investment activities and requirements for risk management and internal controls. The goal of regulatory pressure is to protect consumers, prevent financial crises and maintain public confidence in the financial system.

Banking regulation is an ongoing process and regulations can change over time based on the needs of the economy and financial markets, as well as global events that may impact the financial system. Banks must comply with these regulations, which can be costly and time-consuming, but they also provide benefits such as stability, fairness and transparency to the financial system.

The European banking sector has faced increased regulatory pressure in recent years, with new rules and regulations aimed at strengthening the stability and resilience of the sector. This has led some banks to consider M&A as a means of achieving the necessary scale and resources to comply with these regulations.

The increased regulatory scrutiny of the banking sector has made it more difficult and expensive for banks to pursue M&A deals, as they must comply with a growing number of regulations designed to ensure the stability and safety of the financial system.

For example, the implementation of Basel III capital requirements, which aimed to strengthen the resilience of banks, has made it more challenging for banks to pursue M&A deals, as they must hold higher levels of capital to support their operations.

[46] *Joint guidelines for the assessment of mergers and acquisitions*. European Banking Authority

Basel III[47] is a global regulatory framework for the banking sector that was developed by the Basel Committee on Banking Supervision (BCBS) in response to the financial crisis of 2007-2009. The objective of Basel III is to strengthen the resilience of the banking sector by improving the quality, quantity and international consistency of banks' capital, as well as by enhancing their supervisory and regulatory framework. The Basel III capital requirements set out specific minimum levels of capital that banks must hold, based on the risk of their assets and activities. The capital requirements are intended to ensure that banks have sufficient resources to absorb losses and to continue to operate in the event of financial stress. The Basel III capital requirements include two key components:

1. Tier 1 capital, which is the highest quality capital, such as common equity and retained earnings.
2. Tier 2 capital, which is supplementary capital, such as undisclosed reserves, hybrid capital instruments and general loss-absorbing capacity.

Banks are required to hold a minimum of 4.5% of Tier 1 capital and an additional 2% of capital conservation buffer, which can be made up of Tier 1 or Tier 2 capital. Additionally, banks must meet minimum levels of leverage ratios and liquidity ratios, such as the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). The implementation of Basel III capital requirements has been phased in gradually since 2013, with the full requirements expected to be in place by 2027. The goal of these requirements is to promote a more stable and resilient banking sector, which can better support economic growth and development.

Additionally, the European Banking Authority (EBA) has introduced several new rules and guidelines for M&A activity in the banking sector, including the requirement for banks to demonstrate that any proposed M&A deals will not compromise the stability of the financial system.

The regulatory pressure has also led to increased scrutiny of M&A deals by competition authorities, such as the European Commission, which can block or delay deals if they are deemed to be harmful to competition in the market.

Overall, the regulatory pressure has made M&A activity in the European banking sector more challenging and has reduced the pace of consolidation in the sector. However, some banks have continued to pursue M&A deals as a way to achieve scale, enhance their competitive positions and strengthen their balance sheets, despite the regulatory challenges.

The regulatory pressure has also affected M&A activity in the rest of the world, beyond Europe. Similar to Europe, the increased regulatory scrutiny of the banking sector has made it more difficult and expensive for banks to pursue M&A deals, as they must comply with a growing number of regulations designed to ensure the stability and safety of the financial system.

For example, in the United States, the implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which aimed to strengthen the regulation of the financial sector, has introduced new requirements for M&A activity in the banking sector. This has made it more challenging for banks to pursue M&A deals, as they must comply with a growing number of regulations, including higher capital requirements, enhanced risk management practices and increased transparency.

In Asia, the regulatory environment for M&A activity in the banking sector varies widely by country, but overall, the regulatory pressure has increased in recent years, as regulators aim to strengthen the

[47] *What is basel III? (requirements & regulations)*. Delphix.

stability and safety of the financial system. For example, in China, the government has implemented new rules to control the pace of consolidation in the banking sector, as it seeks to prevent the emergence of too-big-to-fail banks.

Overall, the regulatory pressure has made M&A activity in the banking sector more challenging globally, beyond Europe and has reduced the pace of consolidation in the sector. However, some banks have continued to pursue M&A deals as a way to achieve scale, enhance their competitive positions and strengthen their balance sheets, despite the regulatory challenges.

- Low interest rates[43]:

Low interest rates in the banking sector refer to the situation where the central bank sets the benchmark interest rate at a low level, typically below the inflation rate. This can be done as a monetary policy tool to stimulate economic growth, encourage borrowing and spending and boost inflation.

Low interest rates reduce the cost of borrowing for households and businesses, making it easier for them to access credit and invest in new projects. Low interest rates also make savings less attractive, encouraging consumers to spend their money instead of saving it. This increased spending can help to boost demand and drive economic growth.

The central bank sets interest rates based on its assessment of the current and expected economic conditions. If the economy is weak and growth is slow, the central bank may lower interest rates to provide a boost. On the other hand, if the economy is overheating and inflation is rising, the central bank may raise interest rates to slow down economic activity and curb inflation.

Low interest rates in the banking sector can have both benefits and drawbacks. On one hand, low interest rates can help to stimulate economic growth and improve financial conditions for borrowers. On the other hand, low interest rates can also reduce the profitability of banks and create risks for the stability of the financial system, as it can encourage excessive borrowing and risk-taking. As such, central banks must carefully balance the benefits and drawbacks of low interest rates in making monetary policy decisions.

The low-interest-rate environment in Europe has impacted the profitability of banks, making it more challenging for them to grow their business organically as they are unable to generate sufficient income from their traditional lending activities. As a result, some banks have turned to M&A activity as a way to achieve scale and efficiency, enhance their competitive positions and improve their financial performance.

For example, some banks have pursued M&A deals to acquire complementary assets and technologies, such as digital capabilities and data analytics, in order to better compete with non-traditional players and meet the changing needs of their customers. Additionally, some banks have pursued M&A deals as a way to expand their reach both domestically and internationally, as low interest rates have made it more challenging to generate growth from their traditional lending activities.

However, the low interest rate environment has also made it more challenging for some banks to pursue M&A deals, as they must compete for capital in a market where yields are low and investors are seeking higher returns. Additionally, the low interest rate environment has made it more difficult for some banks to generate the internal capital needed to finance M&A deals, as they must compete for limited capital resources with other investments and initiatives.

Overall, while low interest rates have driven some banks to pursue M&A deals as a way to enhance their competitive positions and improve their financial performance, they have also made it more challenging for some banks to pursue these deals, as they must compete for capital and internal resources in a challenging environment.

Low interest rates have also affected M&A activity in the rest of the world, beyond Europe. In many countries, the prolonged period of low interest rates has reduced the profitability of banks, as they are unable to generate sufficient income from their traditional lending activities. As a result, some banks have turned to M&A activity as a way to achieve scale and efficiency, enhance their competitive positions and improve their financial performance.

For example, in the United States, the prolonged period of low interest rates has driven some banks to pursue M&A deals as a way to enhance their competitive positions, acquire complementary assets and technologies and improve their financial performance. Similarly, in Asia, low interest rates have led some banks to pursue M&A deals as a way to achieve scale, enhance their competitive positions and improve their financial performance in a challenging operating environment.

However, the low interest rate environment has also made it more challenging for some banks to pursue M&A deals, as they must compete for capital in a market where yields are low and investors are seeking higher returns. Additionally, the low interest rate environment has made it more difficult for some banks to generate the internal capital needed to finance M&A deals, as they must compete for limited capital resources with other investments and initiatives.

Overall, while low interest rates have driven some banks to pursue M&A deals as a way to enhance their competitive positions and improve their financial performance, they have also made it more challenging for some banks to pursue these deals, as they must compete for capital and internal resources in a challenging environment.

- Digitization[43]:

Digitization in the banking sector refers to the process of transforming traditional banking services into digital form, using technology such as mobile banking, online banking and other digital platforms. This shift towards digital banking is driven by a number of factors, including changes in consumer behavior and expectations, advances in technology and increasing competition from non-traditional financial services providers.

Digitization has a number of benefits for the banking sector, including increased efficiency, lower costs and improved customer experiences. For example, digital banking allows customers to perform banking transactions, such as making payments and transferring money, quickly and easily from their mobile devices, reducing the need for physical branches and manual processes. This can lead to lower costs and improved efficiency for banks, as well as a more convenient experience for customers.

Digitization also enables banks to access a wealth of data and insights about their customers, allowing them to better understand their needs and preferences and to offer more personalized and relevant products and services. This can help to improve customer loyalty and increase profitability for banks.

However, digitization also brings new challenges and risks, such as increased cybersecurity threats, the need for significant investment in technology and infrastructure and the potential for customer disintermediation by new entrants to the financial services market. As such, banks must carefully manage the process of digitization, balancing the benefits and risks to ensure long-term success in the digital age.

Digitalization has had a significant impact on M&A activity in the European banking sector. The rapid pace of technological innovation and the increasing digitalization of the banking sector have made it more challenging for some traditional banks to compete with new and emerging players. As a result, many traditional banks have pursued M&A deals as a way to acquire digital capabilities and technologies, such as advanced data analytics and mobile banking, in order to better compete in the market and meet the changing needs of their customers.

For example, some traditional banks have pursued M&A deals to acquire fintech companies that specialize in digital technologies and services, in order to enhance their digital capabilities and reach a new generation of customers who demand digital banking services. Additionally, some banks have pursued M&A deals to acquire complementary assets and technologies, such as digital wallets and payment services, in order to expand their offerings and reach a wider customer base.

However, the digitalization of the banking sector has also made it more challenging for some banks to pursue M&A deals, as they must compete for digital assets and technologies in a highly competitive and rapidly evolving market. Additionally, the digitalization of the banking sector has made it more challenging for some banks to integrate and effectively utilize the digital capabilities and technologies they acquire through M&A deals, as they must navigate the complexities of digital transformation and effectively manage the cultural and operational changes that accompany these initiatives.

Overall, while digitalization has driven some banks to pursue M&A deals as a way to enhance their digital capabilities and compete in the market, it has also made it more challenging for some banks to pursue these deals, as they must compete for digital assets and effectively integrate these assets into their operations in a rapidly evolving market.

Digitalization has had a similar impact on M&A activity in the rest of the world, beyond Europe. The rapid pace of technological innovation and the increasing digitalization of the banking sector have made it more challenging for some traditional banks to compete with new and emerging players, regardless of geography. As a result, many traditional banks have pursued M&A deals as a way to acquire digital capabilities and technologies, such as advanced data analytics and mobile banking, in order to better compete in the market and meet the changing needs of their customers.

For example, in the United States, some traditional banks have pursued M&A deals to acquire fintech companies that specialize in digital technologies and services, in order to enhance their digital capabilities and reach a new generation of customers who demand digital banking services. Similarly, in Asia, some banks have pursued M&A deals to acquire complementary assets and technologies, such as digital wallets and payment services, in order to expand their offerings and reach a wider customer base.

However, the digitalization of the banking sector has also made it more challenging for some banks to pursue M&A deals, regardless of geography, as they must compete for digital assets and technologies in a highly competitive and rapidly evolving market. Additionally, the digitalization of the banking sector has made it more challenging for some banks to integrate and effectively utilize the digital capabilities and technologies they acquire through M&A deals, as they must navigate the complexities of digital transformation and effectively manage the cultural and operational changes that accompany these initiatives.

Overall, while digitalization has driven some banks to pursue M&A deals as a way to enhance their digital capabilities and compete in the market, it has also made it more challenging for some banks to pursue these deals, as they must compete for digital assets and effectively integrate these assets into their operations in a rapidly evolving market, regardless of geography.

- Cross-border M&A[43-48]:

Cross-border M&A (Mergers and Acquisitions) in the banking sector refers to transactions in which a bank based in one country acquires or merges with a bank based in another country. This type of M&A activity is driven by a number of factors, including the desire for increased market reach and scale, the need for diversification and the pursuit of new growth opportunities.

Cross-border M&A in the banking sector allows banks to expand their operations into new markets, access new customers and revenue streams and benefit from economies of scale and scope. By combining the resources and expertise of two or more banks, cross-border M&A can create synergies and improve operational efficiency, leading to increased competitiveness and profitability.

However, cross-border M&A also brings challenges and risks, such as cultural differences, regulatory complexities and integration difficulties. Banks must carefully consider the potential benefits and risks of cross-border M&A and carefully manage the integration process to ensure that the transaction delivers the desired outcomes and value for all stakeholders.

Cross-border M&A has played a role in the significant increase in M&A activity in the European banking sector. As the banking industry becomes increasingly globalized, many European banks have pursued cross-border M&A deals as a way to expand their reach and access new markets, customers and sources of revenue. By acquiring banks or other financial institutions in other countries, European banks can tap into new growth opportunities and gain a foothold in new markets, while also diversifying their revenue streams and reducing their exposure to risk.

Additionally, cross-border M&A can allow European banks to acquire new capabilities and expertise, such as digital technologies or specific market knowledge, that can help them compete more effectively in the global market. By acquiring banks or other financial institutions in other countries, European banks can access new talent, resources and technologies that can help them better serve their customers and expand their operations.

However, cross-border M&A can also present challenges and risks, such as regulatory hurdles, cultural differences and complex integration issues. For example, acquiring a bank in another country may require navigating different regulatory frameworks and cultural norms, which can be time-consuming and expensive. Additionally, integrating the operations of two banks from different countries can be challenging, as the banks must work to align their systems, processes and cultures.

Overall, cross-border M&A has played a role in the significant increase in M&A activity in the European banking sector, as European banks look to expand their reach and access new growth opportunities. However, this type of M&A can also present challenges and risks that must be carefully considered and managed in order to be successful.

Cross-border M&A has also played a role in the increase in M&A activity in the rest of the world, beyond Europe. As the banking industry becomes increasingly globalized, many banks around the world have

[48] Weigl, J. (2012, August 16). *Empirical evidence on cross-border M&A in the European banking sector: Are bank mergers of culturally similar countries more successful?*

pursued cross-border M&A deals as a way to expand their reach and access new markets, customers and sources of revenue. By acquiring banks or other financial institutions in other countries, banks can tap into new growth opportunities and gain a foothold in new markets, while also diversifying their revenue streams and reducing their exposure to risk.

Additionally, cross-border M&A can allow banks to acquire new capabilities and expertise, such as digital technologies or specific market knowledge, that can help them compete more effectively in the global market. By acquiring banks or other financial institutions in other countries, banks can access new talent, resources and technologies that can help them better serve their customers and expand their operations.

However, cross-border M&A can also present challenges and risks, such as regulatory hurdles, cultural differences and complex integration issues. For example, acquiring a bank in another country may require navigating different regulatory frameworks and cultural norms, which can be time-consuming and expensive. Additionally, integrating the operations of two banks from different countries can be challenging, as the banks must work to align their systems, processes and cultures.

In recent years, cross-border M&A in the banking sector has been affected by a number of global trends, including increased competition, regulatory changes and economic and political uncertainty. Despite these challenges, cross-border M&A is likely to remain an important strategic tool for banks seeking to grow and succeed in the global marketplace.

Overall, cross-border M&A has played a role in the increase in M&A activity in the rest of the world, as banks look to expand their reach and access new growth opportunities. However, this type of M&A can also present challenges and risks that must be carefully considered and managed in order to be successful.

- Pressure to improve efficiency[43]:

The pressure to improve efficiency in the banking sector refers to the drive for financial institutions to become more streamlined and cost-effective in their operations. This pressure is driven by a number of factors, including increased competition, regulatory requirements and the need to meet changing customer expectations.

In the banking sector, improving efficiency involves reducing operational costs, streamlining processes and increasing the use of technology to automate manual tasks. This can help banks to reduce their expenses and increase their profitability, while also improving their ability to meet the needs of customers and compete in a rapidly changing marketplace.

One major factor driving the pressure to improve efficiency in the banking sector is increased competition from non-traditional financial services providers, such as fintech companies, which often offer lower-cost and more convenient services to customers. In response, traditional banks are investing in technology and operational improvements to enhance their competitiveness and meet the expectations of tech-savvy customers.

In addition, regulatory requirements, such as those related to risk management and compliance, can also add to the pressure to improve efficiency in the banking sector. Banks must comply with these requirements, which can be complex and time-consuming, while also maintaining their competitiveness and profitability.

Overall, the pressure to improve efficiency in the banking sector is driven by a need to respond to changing market conditions and meet the evolving needs and expectations of customers. Banks that are able to effectively address this pressure will be well-positioned for success in the years to come.

Pressure to improve efficiency has also played a role in the significant increase in M&A activity in the European banking sector. In recent years, many European banks have faced pressure to improve their efficiency and reduce costs in order to remain competitive in the rapidly changing financial landscape. This pressure has driven many banks to pursue M&A deals as a way to achieve economies of scale and reduce duplicated costs, such as administrative and operational expenses.

For example, by acquiring another bank or financial institution, a European bank can potentially consolidate duplicate functions, such as IT systems, back-office operations and customer service, in order to reduce costs and improve efficiency. By doing so, the bank can achieve savings and improve its profitability, which can help it better compete in the market and achieve its strategic objectives.

However, it's worth noting that not all M&A deals aimed at improving efficiency are successful. M&A deals can be complex and challenging and integrating two organizations can be difficult and time-consuming. Additionally, the benefits of cost savings from M&A may be offset by the costs of integration, such as investment in new systems, personnel and processes.

Overall, pressure to improve efficiency has played a role in the significant increase in M&A activity in the European banking sector, as European banks look for ways to reduce costs and remain competitive in the market. However, this type of M&A must be carefully planned and executed in order to achieve its intended benefits and avoid potential drawbacks.

Pressure to improve efficiency has also played a role in the significant increase in M&A activity in the rest of the world, beyond Europe. As the banking industry becomes increasingly competitive and cost-conscious, many banks around the world are facing pressure to find ways to improve their efficiency and reduce costs.

This pressure has driven many banks to pursue M&A deals as a way to achieve economies of scale and reduce duplicated costs. By acquiring another bank or financial institution, a bank can potentially consolidate duplicate functions, such as IT systems, back-office operations and customer service, in order to reduce costs and improve efficiency. By doing so, the bank can achieve savings and improve its profitability, which can help it better compete in the market and achieve its strategic objectives.

However, as mentioned, not all M&A deals aimed at improving efficiency are successful. M&A deals can be complex and challenging and integrating two organizations can be difficult and time-consuming. Additionally, the benefits of cost savings from M&A may be offset by the costs of integration, such as investment in new systems, personnel and processes.

Overall, pressure to improve efficiency has played a role in the significant increase in M&A activity in the rest of the world, as banks look for ways to reduce costs and remain competitive in the market. However, this type of M&A must be carefully planned and executed in order to achieve its intended benefits and avoid potential drawbacks.

These factors have combined to drive a significant increase in M&A activity in the European banking sector in recent years and this trend is likely to continue as banks look to respond to the challenges and opportunities of the changing market.

3.4. The Single Supervisory Mechanism (SSM) and Single Resolution Mechanism (SRM)

One of the key drivers of M&A in the European banking sector is the need to comply with the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM) established by the European Banking Union. The SSM and SRM aim to ensure the stability and safety of the European banking sector and provide a common framework for the supervision and resolution of banks in the European Union.

- Single Supervisory Mechanism (SSM)[49]

The Single Supervisory Mechanism (SSM) is a regulatory framework established by the European Central Bank (ECB) to oversee the banking sector in the European Union (EU). The SSM was created in the aftermath of the global financial crisis as a means of improving the stability and resilience of the banking sector and promoting financial stability in the EU.

The specific provisions of the SSM are set out in several pieces of EU legislation, including the Regulation (EU) No 1024/2013 establishing the Single Supervisory Mechanism and the Regulation (EU) No 468/2014 establishing the Single Resolution Mechanism. These regulations establish the legal framework for the SSM and set out the powers, responsibilities and objectives of the European Central Bank (ECB) as the supervisor of banks in the euro area.

Here is an excerpt from the Regulation (EU) No 1024/2013 establishing the Single Supervisory Mechanism:

"This Regulation establishes a single supervisory mechanism under the responsibility of the European Central Bank (ECB) for the prudential supervision of credit institutions in the participating Member States and lays down the rules and procedures for the functioning of the single supervisory mechanism. The single supervisory mechanism shall contribute to the safeguarding of the stability of the monetary union and to the implementation of a single rulebook for credit institutions. The single supervisory mechanism shall have the power to adopt decisions, directly enforceable in all participating Member States, in relation to the supervisory activities it carries out."

Benefits of the SSM[50]:

- Improved supervision: the SSM has helped to improve the quality of supervision in the EU by establishing a single, centralized authority responsible for the supervision of significant banks. This has increased the effectiveness and consistency of supervision and reduced the risk of regulatory arbitrage.
- Increased transparency: the SSM has increased transparency in the EU banking sector by providing a common set of supervisory practices and rules. This has reduced the risk of inconsistencies in the application of rules and has helped to build a level playing field for banks across the EU.
- Strengthened financial stability: the SSM has helped to strengthen financial stability in the EU by improving the quality of supervision and increasing the resilience of banks. This has reduced the risk of future financial crises and helped to restore confidence in the banking sector.

Risks and problems associated with the SSM[50]:

[49] Bank, E. C. (2022, November 11). *Single supervisory mechanism*. European Central Bank - Banking supervision
[50] Bank, E. C. (2014, June 23). *Single supervisory mechanism – opportunities and challenges*. European Central Bank - Banking supervision

- Implementation challenges: the implementation of the SSM has been challenging, with some countries and banks resistant to the new supervisory framework. This has led to delays in the implementation of new rules and regulations and has created uncertainty in the market.
- Lack of standardization: the SSM has been criticized for a lack of standardization in the supervisory practices across different countries and banks. This has reduced the effectiveness of the supervisory framework and has created inconsistencies in the application of rules.
- Political interference: there have been concerns about political interference in the supervisory framework, with some EU countries seeking to influence the supervisory practices of the ECB. This has raised questions about the independence of the supervisory framework and has reduced its credibility.

In conclusion, the Single Supervisory Mechanism has helped to improve the stability and resilience of the European banking sector but has also faced significant challenges in its implementation. It will be important for the ECB to continue to address these challenges and to maintain the independence and credibility of the supervisory framework.

- Single Resolution Mechanism (SRM)[51-52]

The Single Resolution Mechanism (SRM) is a regulatory framework established by the European Union (EU) to manage the resolution of failing banks in the EU. The SRM is designed to ensure that failing banks can be resolved in an orderly and efficient manner, reducing the risk of contagion and protecting taxpayers from having to bear the cost of bank failures.

The specific provisions of the SRM are set out in several pieces of EU legislation, including the Regulation (EU) No 1024/2013 establishing the Single Supervisory Mechanism and the Regulation (EU) No 806/2014 establishing the Single Resolution Mechanism. These regulations establish the legal framework for the SRM and set out the powers, responsibilities and objectives of the Single Resolution Board (SRB) as the resolution authority for banks in the euro area.

Here is an excerpt from the Regulation (EU) No 806/2014 establishing the Single Resolution Mechanism:

"This Regulation establishes the Single Resolution Mechanism for the resolution of credit institutions and certain investment firms in the Union and lays down the rules and procedures for the functioning of the Single Resolution Mechanism. The Single Resolution Mechanism shall contribute to the functioning of the internal market, the stability of the financial system and the protection of depositors, while ensuring the sound management of failing institutions in a manner that minimises costs for taxpayers and minimises disruption to the financial system."

Benefits of the SRM:

- Improved resolution: the SRM has helped to improve the resolution of failing banks in the EU by establishing a single, centralized authority responsible for the resolution of significant banks. This has increased the effectiveness and consistency of resolution and reduced the risk of national regulators taking conflicting actions.
- Reduced taxpayer burden: the SRM has reduced the burden on taxpayers by ensuring that the cost of resolving failing banks is borne by the financial sector rather than the public. This has helped to restore public trust in the banking sector and reduced the risk of future financial crises.

[51] *Single resolution mechanism*. Single Resolution Board. (2023, January 30).
[52] *Single resolution mechanism*. Finance.

- Improved financial stability: the SRM has improved financial stability in the EU by reducing the risk of contagion and ensuring that failing banks can be resolved in an orderly and efficient manner. This has helped to restore confidence in the banking sector and reduced the risk of future financial crises.

Risks and problems associated with the SRM:

- Implementation challenges: the implementation of the SRM has been challenging, with some countries and banks resistant to the new resolution framework. This has led to delays in the implementation of new rules and regulations and has created uncertainty in the market.
- Lack of standardization: the SRM has been criticized for a lack of standardization in the resolution practices across different countries and banks. This has reduced the effectiveness of the resolution framework and has created inconsistencies in the application of rules.
- Political interference: there have been concerns about political interference in the resolution framework, with some EU countries seeking to influence the resolution practices of the SRM. This has raised questions about the independence of the resolution framework and has reduced its credibility.

In conclusion, the Single Resolution Mechanism has helped to improve the resolution of failing banks in the EU, but has also faced significant challenges in its implementation. It will be important for the SRM to continue to address these challenges and to maintain the independence and credibility of the resolution framework to ensure that it can effectively manage the resolution of failing banks in the future.

The Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM)[53] have been considered necessary in the context of the European Union (EU) to improve the stability and resilience of the banking sector and to ensure that failing banks can be resolved in an orderly and efficient manner. These frameworks were established in the aftermath of the global financial crisis, which highlighted the need for better supervision and resolution of banks to prevent financial contagion and protect taxpayers from the cost of bank failures.

The SSM and SRM have helped to improve the quality of supervision and resolution of banks in the EU and have contributed to the stability and resilience of the banking sector. The establishment of a single, centralized authority for supervision and resolution has increased the consistency and effectiveness of these processes and has reduced the risk of regulatory arbitrage.

In recent years, the European banking sector has grown, but has faced challenges from increased competition and regulatory changes. Despite these challenges, the EU banking sector has continued to be a significant player in the global financial system, with many of the largest banks in Europe having a strong presence both in Europe and globally.

In comparison to other countries outside of Europe, the EU banking sector has benefited from the regulatory frameworks established by the SSM and SRM, which have helped to ensure the stability and resilience of the sector. However, the EU banking sector also faces challenges, such as increased competition and regulatory changes, which are also faced by other countries. It will be important for

[53] *SSM and SRB accountability at European level: Room for improvements?*

the EU to continue to adapt to these challenges and to maintain the stability and resilience of the banking sector to ensure its continued growth in the future.

3.5. European and global trends

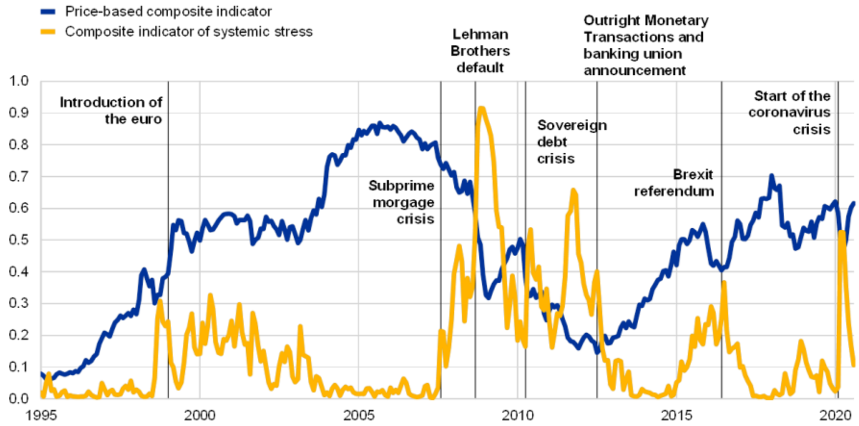

Figure 9. European Trend (Source: European financial integration during the COVID-19 crisis)

In comparison to other countries outside of Europe, the EU banking sector has benefited from the regulatory frameworks established by the SSM and SRM, which have helped to ensure the stability and resilience of the sector[43-54]. However, the EU banking sector also faces challenges, such as increased competition and regulatory changes, which are also faced by other countries. It will be important for the EU to continue to adapt to these challenges and to maintain the stability and resilience of the banking sector to ensure its continued growth in the future.

Comparing the European banking sector to the rest of the world, there are several notable differences and trends[55]:

1. Regulation: the EU has a highly regulated banking sector, with a number of frameworks, such as the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM), in place to ensure stability and resilience. Other regions, such as the United States, have also implemented regulatory changes in response to the global financial crisis, but regulation tends to be less centralized and uniform in these regions compared to the EU.
2. Consolidation: the EU banking sector has experienced significant consolidation in recent years, with many mergers and acquisitions (M&A) taking place among banks. This trend has been driven in part by regulatory changes and increased competition, but has also been influenced by broader economic conditions and market dynamics. Other regions, such as Asia, have also experienced consolidation in the banking sector, but the pace and extent of consolidation has varied across different regions.
3. Financial performance: in general, the European banking sector has shown improved financial performance in recent years, with higher levels of profitability and stability compared to the period before the financial crisis. However, some banks in the EU still face significant challenges, such as low interest rates and increased competition, which have affected their financial performance. Other regions, such as North America, have also seen improved financial performance in the banking sector, but again, the specifics vary by region.

[54] *Merger & Acquisitions NOTE*

[55] Claeys, G. (2023, March 3). *European banks: Under global competitive pressure?* Bruegel

4. Digital transformation: the EU banking sector has seen significant progress in terms of digital transformation, with many banks investing in technology and innovation to improve their services and customer experience. This trend has been driven by increasing customer demand for digital services and the need for banks to remain competitive in an increasingly digitized market. Other regions, such as Asia, have also made significant investments in digital transformation, but the pace and extent of these investments has varied across different regions.

In conclusion, there are notable differences and trends between the European banking sector and the rest of the world[56]. While the EU has implemented a highly regulated and centralized framework to ensure stability and resilience, other regions have taken a different approach and have seen different outcomes in terms of financial performance, consolidation and digital transformation. It will be important for the EU banking sector to continue to adapt to these changes and to remain competitive in an increasingly globalized financial market.

3.6. The European Banking Authority

The European Banking Authority (EBA)[57] was established in January 2011 as part of the broader reforms to the regulation and supervision of the financial sector in the European Union (EU) following the 2008 financial crisis.

The EBA was created with the aim of ensuring a consistent and effective application of EU law in the banking sector across the EU and to contribute to the creation of a single market for financial services. Before the establishment of the EBA, banking supervision in the EU was conducted on a national level by individual country regulators, leading to inconsistencies and disparities in the application of EU law.

The EBA is headquartered in Paris and has a staff of around 200 employees from different EU countries. It is responsible for developing and implementing EU-wide regulatory and supervisory standards for the banking sector, conducting peer reviews of national regulators and acting as a center of expertise for the EU on banking and financial issues.

The establishment of the EBA has helped to improve the consistency and effectiveness of banking supervision across the EU, which has been crucial in strengthening the stability and integrity of the EU financial sector. The EBA continues to play an important role in shaping and implementing EU banking regulations and standards and in promoting the integration of the EU financial market.

The EBA also carries out peer reviews of national regulators, provides advice and support to the European Commission and acts as a center of expertise for the EU on banking and financial issues.

In addition, the EBA plays a key role in the implementation of EU legislation and regulations related to the banking sector, such as the Capital Requirements Directive (CRD) and the Capital Requirements Regulation (CRR), which set out the minimum capital requirements for banks and other financial institutions operating in the EU.

- The Capital Requirements Directive (CRD)[58]

[56] Botos, K. (2020). EU competitiveness in a changing world economy. *Proceedings of the European Union's Contention in the Reshaping Global Economy*

[57] Wikimedia Foundation. (2022, October 31). *European Banking Authority*

[58] *Capital requirements directive (CRD)*. European Banking Authority. (2022, August 2)

The Capital Requirements Directive (CRD) is a set of EU regulations that set the minimum capital requirements for banks and other financial institutions operating in the European Union (EU). The CRD was first introduced in 2006 and has been amended several times since then, most recently in 2013.

The purpose of the CRD is to ensure that banks and financial institutions have sufficient capital to cover the risks they take on and to protect depositors and investors. The CRD requires banks to maintain a minimum level of capital, which is calculated based on the risks associated with their activities. This is known as the Basel III framework, which was developed by the Basel Committee on Banking Supervision.

The CRD also includes provisions on corporate governance and risk management, which require banks to have robust systems in place to identify, measure, manage and control the risks they take on. This includes provisions on the role of the board of directors, the appointment of senior management and the responsibility of the risk management function.

The CRD is enforced by the European Banking Authority (EBA), which is responsible for ensuring that EU countries comply with the CRD and that national regulators apply the requirements in a consistent and effective manner. The EBA also provides guidance to national regulators on the implementation of the CRD and carries out regular supervisory reporting and risk assessments to monitor the implementation of the CRD in the EU.

The CRD has been an important tool in ensuring the stability and integrity of the EU financial sector and in promoting the integration of the EU financial market. The CRD continues to be an essential component of the EU regulatory framework for the banking sector and is being updated and revised as necessary to ensure that it remains effective in promoting stability and protecting depositors and investors.

- The Capital Requirements Regulation (CRR)[59]

The Capital Requirements Regulation (CRR) is a European Union (EU) regulation that sets out the minimum capital requirements for banks and other financial institutions operating in the EU. The CRR was introduced in 2013 and is part of the EU's broader reforms to the regulation and supervision of the financial sector following the 2008 financial crisis.

The CRR requires banks to hold sufficient capital to cover the risks they take on and to protect depositors and investors. The minimum capital requirements are based on the Basel III framework, which was developed by the Basel Committee on Banking Supervision. The CRR sets out the definitions and methods for calculating the different components of capital, including Tier 1 capital, Tier 2 capital and Tier 3 capital.

The CRR also includes provisions on liquidity, which require banks to hold sufficient liquid assets to meet their obligations even in times of stress. This includes the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR).

$$LCR = \frac{Liquid\ Assets}{Total\ Cash\ Outflows} \times 100$$

$$Net\ Stable\ Funding\ Ratio = \frac{Available\ Amount\ of\ Stable\ Funding}{Required\ Amount\ of\ Stable\ Funding}$$

[59] *Capital Requirements Regulation (CRR)*. European Banking Authority. (2022, January 25)

The CRR is enforced by the European Banking Authority (EBA), which is responsible for ensuring that EU countries comply with the CRR and that national regulators apply the requirements in a consistent and effective manner. The EBA also provides guidance to national regulators on the implementation of the CRR and carries out regular supervisory reporting and risk assessments to monitor the implementation of the CRR in the EU.

The CRR has been an important tool in ensuring the stability and integrity of the EU financial sector and in promoting the integration of the EU financial market. The CRR continues to be an essential component of the EU regulatory framework for the banking sector and is being updated and revised as necessary to ensure that it remains effective in promoting stability and protecting depositors and investors.

Before the European Banking Authority (EBA), the regulation and supervision of the banking sector in the European Union (EU) was largely the responsibility of individual national authorities. This fragmented approach to regulation and supervision created some challenges, particularly with regards to consistency and cooperation between different countries.

The 2008 financial crisis highlighted the need for stronger and more consistent regulation and supervision in the EU banking sector. In response, the EU established the EBA in 2011 as part of a broader effort to strengthen the regulation and supervision of the financial sector. The EBA was created to enhance cooperation and coordination between national regulators and to promote consistent application of EU rules and standards in the banking sector across the EU.

Before the EBA, national regulators were primarily responsible for implementing EU banking rules and for supervising their national banking sectors. While some cooperation and coordination existed between national authorities, it was limited and inconsistent. The EBA was created to address these issues and to provide a single point of reference for EU-level banking regulation and supervision.

Overall, the establishment of the EBA has helped to create a more consistent and harmonized regulatory and supervisory framework for the EU banking sector and has contributed to the stability and integrity of the EU financial system.

The impact of the foundation of the European Banking Authority (EBA) on the banking sector has been mixed.

On one hand, the EBA has helped to promote a more consistent and harmonized regulatory and supervisory framework for the EU banking sector, which has contributed to the stability and integrity of the EU financial system. The EBA has also helped to reduce the risk of regulatory arbitrage, where banks seek out countries with lighter regulation and lower costs and has improved the level of cooperation and coordination between national regulators.

On the other hand, the EBA has imposed new requirements and increased scrutiny on the banking sector, which has increased compliance costs for banks and reduced their profitability. The EBA has also imposed stricter capital requirements and liquidity standards, which have made it more challenging for some banks to raise capital and maintain their business operations.

Overall, while the foundation of the EBA has had some negative effects on the banking sector, it has also helped to enhance the stability and integrity of the EU financial system and has contributed to the long-term health and viability of the EU banking sector.

In conclusion, M&A activity in the European banking sector has increased in recent years, driven by the need to achieve economies of scale, comply with regulatory requirements and improve financial performance. The regulatory framework established by the European Banking Authority has a significant impact on M&A in the European banking sector, requiring that transactions be approved and demonstrating financial stability and compliance with regulatory requirements.

4. Italian Banking Sector

The Italian banking sector has undergone significant consolidation in recent years, driven by several factors, including the need to improve financial performance, comply with regulatory requirements, technological developments and increase competitiveness.

The global financial crisis of 2008 had a significant impact on the Italian banking sector, leading to a sharp reduction in the availability of credit and increased concerns about the stability of the sector. In response, the Italian government and the European Union introduced a series of measures to support the sector, including recapitalization programs, asset sales and mergers and acquisitions.

In addition, the implementation of new regulations, such as the Capital Requirements Directive (CRD) and the Capital Requirements Regulation (CRR), increased the regulatory pressure on banks to meet higher capital and liquidity standards. This increased pressure, combined with low interest rates, led many banks to seek out cost-saving measures, such as consolidation through mergers and acquisitions, in order to improve their financial performance and maintain competitiveness.

Another factor contributing to the consolidation of the Italian banking sector has been the increasing competition from new entrants in the market, such as fintech companies and digital banks, which have challenged traditional banks to adapt and improve their offerings. To stay competitive, many traditional banks have sought to enhance their digital capabilities through partnerships, investments and acquisitions.

Overall, the consolidation of the Italian banking sector has resulted in the creation of larger, more resilient and more competitive banking institutions, which have been better equipped to navigate the challenges of the current economic and regulatory environment. However, it has also led to the reduction of the number of smaller and regional banks, which has had an impact on local communities and the availability of credit in some areas.

4.1. History of Italian banking sector

The history of the Italian banking sector[60] can be broadly summarized as follows:

- Early years (19th century to mid-20th century)

In the early years of the Italian banking sector, from the late 19th century to the mid-20th century, the sector was characterized by a fragmented structure, with a large number of small and regional banks operating alongside a small number of larger banks. These banks were primarily focused on providing credit to small and medium-sized enterprises, as well as to individuals and were structured as mutual banks, savings banks or cooperative banks.

During this period, the sector was relatively underdeveloped compared to other European countries, with limited access to funding, limited technology and a lack of innovation. Despite these challenges, the sector continued to grow and evolve, reflecting the broader economic, political and social developments of the time.

[60] Giordano, F. (2007). *Storia del Sistema Bancario Italiano*. Donzelli

In the decades following World War II, the Italian economy underwent a period of rapid growth and expansion, leading to increased demand for financial services. Banks responded by expanding their operations, opening new branches and introducing new products and services. Despite this growth, however, the sector remained relatively fragmented, with limited cross-border operations and limited integration with the rest of Europe.

Compared to other European countries and the rest of the world, the Italian banking sector was relatively underdeveloped in the early years, with limited access to funding, limited technology and a lack of innovation. This was largely due to a number of factors, including a lack of investment in the sector, political instability and limited integration with the rest of Europe.

There were a number of factors that contributed to the lack of funding, technology and innovation in the early Italian banking sector. Some of these include:

- Political instability: Italy experienced a great deal of political instability in the early 20th century, with a number of changes in government, frequent periods of martial law and the rise of fascism. This instability created an uncertain and challenging environment for the development of the banking sector.
- Limited investment: there was limited investment in the banking sector in Italy in the early years, as many investors preferred to put their money into more established and stable industries.
- Lack of integration with Europe: Italy was relatively isolated from the rest of Europe in the early 20th century and this limited integration with the rest of Europe also limited the development of the banking sector.
- Regulation: the regulatory environment in Italy was less favorable to the development of the banking sector in the early years, with strict rules and restrictions on banking activities that limited innovation and growth.
- Lack of technology: technology was limited in Italy in the early years and this limited the ability of banks to develop new and innovative products and services.

Overall, these factors contributed to the lack of funding, technology and innovation in the Italian banking sector in the early years, but the sector continued to grow and evolve, reflecting the broader economic, political and social developments of the time.

Despite these challenges, the Italian banking sector continued to grow and evolve, reflecting the broader economic, political and social developments of the time. However, it remained relatively fragmented compared to other European countries, with limited cross-border operations and limited integration with the rest of Europe.

In contrast, many other European countries, such as Germany, France and the UK, had established large and well-developed banking sectors, with a strong tradition of innovation and a focus on serving both corporate and retail customers. Additionally, these countries had established well-developed financial markets, which allowed for greater cross-border integration and the development of more sophisticated financial products and services.

Overall, the Italian banking sector was relatively underdeveloped compared to other European countries and the rest of the world in the early years, but it continued to grow and evolve, reflecting the broader economic, political and social developments of the time.

In the early years of the Italian banking sector, there was limited M&A activity, as the banking industry was largely composed of small, regional banks with limited resources and scope for growth. Despite this, the sector was characterized by stability and low levels of risk, which contributed to its strength. However, this stability also limited the potential for growth and innovation, as there was little incentive for banks to pursue expansion or take risks in search of new opportunities. As a result, the sector lagged behind other regions in terms of technology advancements, funding and competition and was slow to adapt to changing market conditions.

- Expansion and growth (post-World War II to the 1990s)

The Italian banking sector underwent significant expansion and growth during this period, driven by economic prosperity, increasing consumer demand for financial services and favorable government policies. Banks expanded their operations, opened new branches and introduced new products and services.

The expansion and growth years in the Italian banking sector can be characterized by the following:

- Economic growth

Italy experienced significant economic growth in the post-World War II period and this growth was reflected in the expansion of the banking sector. Banks grew in size, number and reach and the sector became an increasingly important part of the Italian economy.

The economic growth in Italy during the expansion and growth years of the Italian banking sector was influenced by a number of factors, including:

1. Reconstruction efforts: the rebuilding of the Italian economy after World War II was a key factor in the country's economic growth during this period. The government invested heavily in infrastructure and other initiatives to rebuild the country and lay the foundation for future growth.
2. Economic policies: the government's economic policies were supportive of growth and helped to create a favorable environment for business and investment. The focus was on encouraging private enterprise and promoting competition, both of which contributed to the growth of the banking sector.
3. Trade liberalization: Italy opened up its economy to international trade and investment, which helped to spur growth and create new opportunities for businesses, including the banking sector. The country's favorable location at the crossroads of Europe and its strong trading relationships with other countries helped to drive growth in the sector.
4. Demographic changes: the growing number of young people in Italy's workforce helped to fuel economic growth during this period, as the country's labor force grew and became more productive.
5. Technological advancements: technological advancements played a key role in the growth of the Italian economy during this period, including in the banking sector. Automation and other technological innovations helped banks to become more efficient and to offer new products and services to customers.

Overall, these factors helped to create a favorable environment for economic growth in Italy, including in the banking sector and laid the foundation for continued expansion and growth in the years to come.

- Technological advancements

Technological advancements in the mid-20th century allowed for increased automation and efficiency in the banking sector, enabling banks to offer new products and services and reach new customers.

Several factors influenced the technology advancements of the expansion and growth years of the Italian banking sector:

1. Government investment: the Italian government invested in research and development, including in the field of technology, which helped to spur technological advancements in the country.
2. Competition: competition between banks and other financial institutions helped to drive innovation and the adoption of new technologies. Banks and other financial institutions sought to differentiate themselves from their competitors by offering new and improved products and services to customers, which often required the adoption of new technologies.
3. Customer demand: customers' growing demand for convenience and for new and improved financial products and services helped to drive the adoption of technology in the banking sector. Banks and other financial institutions sought to meet this demand by investing in new technologies and improving their offerings.
4. Global advancements: technological advancements in other parts of the world, especially in the United States and other developed countries, influenced the technology advancements in the Italian banking sector. The sector sought to adopt and implement the best practices and innovations from other countries in order to stay competitive.

Overall, these factors helped to create a supportive environment for technology advancements in the Italian banking sector, which helped to improve the efficiency, competitiveness and offerings of the sector.

- Increased competition

The Italian banking sector became more competitive during this period, as a growing number of domestic and foreign banks entered the market and competed for customers and market share.

Several factors influenced the increased competition in the Italian banking sector during the expansion and growth years:

1. Deregulation: the deregulation of the banking sector helped to increase competition, as new entrants were able to enter the market and established players were able to expand their operations.
2. Globalization: the globalization of the economy helped to increase competition in the Italian banking sector as foreign banks and financial institutions entered the market.
3. Technological advancements: technological advancements made it easier for new entrants to enter the market and for established players to expand their operations. This increased competition in the sector.
4. Customer demand: customer demand for new and improved financial products and services helped to increase competition in the sector. Banks and other financial institutions

sought to meet this demand by offering new and innovative products and services, which in turn increased competition in the sector.

Overall, these factors helped to create a more competitive environment in the Italian banking sector, which helped to drive innovation, improve efficiency and increase the offerings of the sector.

- Deregulation

The regulatory environment for the banking sector became more favorable in the expansion and growth years, with fewer restrictions on banking activities and greater opportunities for innovation and growth.

The deregulation of the Italian banking sector during the expansion and growth years was influenced by several factors, including:

1. Government policies: the Italian government promoted deregulation as a way to modernize the economy and attract foreign investment. This helped to create a more favorable environment for the banking sector.
2. Economic liberalization: the trend towards economic liberalization, both in Italy and globally, helped to drive the deregulation of the banking sector.
3. Competition: increased competition from foreign banks and other financial institutions helped to spur the deregulation of the Italian banking sector.
4. Technological advancements: technological advancements made it easier for new entrants to enter the market and for established players to expand their operations, which increased the pressure for the sector to be deregulated.

Overall, these factors helped to create a more open and competitive environment in the Italian banking sector, which paved the way for further expansion, growth and innovation in the sector.

- Focus on customer needs

Banks in Italy became more focused on understanding and serving the needs of their customers, developing new products and services that met their changing needs and expectations.

During the expansion and growth years of the Italian banking sector, several factors influenced the focus on customer needs, including:

1. Competition: increased competition between banks and other financial institutions made it necessary for banks to focus on customer needs in order to remain competitive.
2. Technological advancements: technological advancements made it easier for banks to gather information about their customers and to better understand their needs, which helped banks to focus more on customer service.
3. Customer expectations: as the general standard of living improved, customers had higher expectations for the quality of service they received from banks, which led banks to focus more on meeting these expectations.
4. Government policies: government policies that encouraged banks to focus on customer service, such as consumer protection laws, also played a role in shaping the focus of banks on customer needs.

Overall, these factors helped to create an environment in which banks were incentivized to focus on meeting the needs of their customers, which led to improved customer service and better customer experiences.

Overall, the expansion and growth years in the Italian banking sector reflected the broader trends of increased economic prosperity, technological advancements and greater competition in the global financial industry. The sector continued to evolve and expand, reflecting the changing needs and expectations of customers, the broader economic environment and technological and regulatory developments.

During the expansion and growth period of the Italian banking sector, Italy's situation was relatively similar to the rest of Europe and the world in terms of increased competition and the focus on customer needs. However, there were some differences in the pace of growth and the specific challenges faced by the banking sector in Italy compared to other regions.

The pace of growth and specific challenges faced by the Italian banking sector differed from the rest of Europe and the world due to a number of factors.

- Pace of growth: the pace of growth in the Italian banking sector was slower compared to other European countries due to the influence of regional and local banks. The process of consolidation was slower in Italy, with many regional and local banks still playing a significant role in the market. This slowed the pace of growth compared to other countries where the consolidation process was more advanced.
- Specific challenges: the specific challenges faced by the Italian banking sector included a high level of non-performing loans, limited investment in technology and innovation and a fragmented regulatory environment. These factors created headwinds for the sector, slowing its growth and making it more difficult for banks to compete effectively.

Compared to the rest of Europe, the Italian banking sector faced a unique set of challenges that required different strategies and solutions. Compared to the rest of the world, the challenges faced by the Italian banking sector were similar to those faced by other countries, but the specific circumstances and the impact of these challenges varied.

In Europe, the banking sector was undergoing significant consolidation and restructuring, which created a more competitive market. In Italy, this process was somewhat slower, with many regional and local banks still playing a significant role in the market. However, the Italian banking sector was still facing increased competition from larger, international banks, which led to a focus on customer needs.

Globally, the banking industry was experiencing similar trends, with increased competition, technological advancements and changing customer expectations driving the focus on customer needs. However, the specific challenges faced by the banking sector varied depending on the country and region, with Italy's banking sector facing some unique challenges related to its relatively slow pace of consolidation and the influence of regional and local banks.

During the "expansion and growth" years of the Italian banking sector, there was an increase in M&A activity as banks looked to expand their market share and increase their efficiency. This period saw the entry of new players, such as foreign banks and financial institutions, into the Italian market, which increased competition and led to consolidation through M&A.

Some of the strengths of the Italian banking sector during this period included a focus on customer needs, increased competition and growth in new technology. These factors contributed to the expansion of the sector and the growth of the wider Italian economy.

However, there were also downsides to this period, including a lack of regulation, which led to increased risk-taking and a lack of uniformity in business practices across the sector. This, in turn, created a situation in which some banks were more vulnerable to financial shocks, such as the 2008 financial crisis, which had a significant impact on the Italian banking sector.

During the expansion and growth years of the Italian banking sector, which generally refers to the period between the 1950s and 1970s, there were limited instances of M&A activity. At that time, the focus of the sector was more on expanding operations, increasing market share and building brand recognition, rather than on mergers and acquisitions. However, as the sector matured and competition increased, M&A activity became more prevalent, with larger banks acquiring smaller ones in order to improve efficiency, diversify their product offerings and expand their customer base. This trend continued into the 1980s and 1990s, as the Italian banking sector continued to grow and consolidate.

- Financial crisis and consolidation (late 1990s to present)

The global financial crisis of 2008 had a significant impact on the Italian banking sector, leading to a sharp reduction in the availability of credit and increased concerns about the stability of the sector. In response, the Italian government and the European Union introduced a series of measures to support the sector, including recapitalization programs, asset sales and mergers and acquisitions. In recent years, the sector has undergone significant consolidation as a result of regulatory pressure, low interest rates and increased competition, resulting in the creation of larger, more resilient and more competitive banking institutions.

This period saw the following developments:

- Financial crisis

  The global financial crisis of 2008 had a significant impact on the Italian banking sector, with many banks facing liquidity and solvency issues. The crisis led to increased regulatory pressure and a slowdown in the pace of growth.

  During the financial crisis and consolidation years, one of the key factors affecting the Italian banking sector was the global financial crisis. The crisis had a significant impact on the banking industry globally and in Italy as well, leading to a decrease in credit availability, rising non-performing loans and a decline in the value of real estate assets. This resulted in significant losses for many banks, particularly those with high exposure to the real estate market. The crisis also highlighted the need for increased capital buffers and stricter regulatory oversight, which led to increased regulatory pressure on the banking sector.

- Consolidation

  The financial crisis and increased regulatory pressure led to consolidation in the Italian banking sector. This was a result of banks seeking to improve their balance sheets and reduce their exposure to risk. Many smaller banks were acquired by larger banks, leading to a reduction in the number of banks operating in the market.

In the financial crisis and consolidation years, the Italian banking sector also underwent significant consolidation. The crisis created an environment of uncertainty and increased competition, leading to a wave of mergers and acquisitions among banks. This consolidation was driven by several factors, including the need for increased efficiency and cost-cutting, the desire to achieve economies of scale and scope and the need for increased capitalization in the face of stricter regulatory requirements. The consolidation of the Italian banking sector helped to strengthen the financial position of many banks, allowing them to weather the impacts of the crisis and position themselves for growth in the future.

- Focus on efficiency

The financial crisis and increased regulatory pressure also led to a focus on efficiency in the Italian banking sector. Banks sought to reduce costs and improve their operational efficiency, in order to remain competitive and meet the regulatory requirements.

In the financial crisis and consolidation years, the Italian banking sector also saw an increased focus on risk management and regulatory compliance. This was driven in part by the financial crisis and the regulatory response to it, which included new regulations such as the Capital Requirements Directive and Capital Requirements Regulation. Banks were required to increase their capitalization, improve their risk management practices and meet new regulatory requirements, all of which had an impact on their operations and profitability. As a result, many banks in the Italian banking sector chose to consolidate in order to achieve economies of scale and scope, reduce their regulatory burden and improve their overall risk profile. These consolidation efforts helped to stabilize the sector and position it for future growth, but also came with some challenges, such as reduced competition, decreased market diversity and potential disruptions to customer service.

The financial crisis and consolidation years had a significant impact on the Italian banking sector, leading to changes in the structure of the industry and the way that banks operated. The impact of these changes was felt not just in Italy, but across the rest of Europe and the world as well.

The financial crisis that started in 2008 had a significant impact on the banking sector globally, including Italy. During this period, many banks in Italy faced challenges such as high levels of bad loans, weak profitability and a lack of capital. These challenges resulted in consolidation within the sector as some weaker banks merged with stronger ones, were acquired, or were rescued by the government.

Compared to the rest of Europe and the rest of the world, Italy's situation was similar to many other countries where the banking sector faced similar challenges. However, the magnitude of the impact and the specific challenges varied from country to country based on factors such as the level of government intervention, the state of the economy and the health of the banking sector prior to the crisis.

Overall, the Italian banking sector has undergone significant changes over its history, reflecting the broader economic, political and regulatory developments of the time. Today, the sector remains a crucial component of the Italian economy, providing credit and financial services to individuals and businesses throughout the country.

In the aftermath of the global financial crisis of 2008, the Italian banking sector underwent a period of consolidation, characterized by a significant increase in M&A activity. This period was marked by several factors that contributed to the consolidation of the sector, including:

1. The high level of non-performing loans (NPLs) in the banking sector

Many Italian banks held large portfolios of NPLs, which impacted their balance sheets and reduced their profitability.

The high level of non-performing loans (NPLs) was a major challenge faced by the Italian banking sector during the financial crisis and consolidation years. NPLs refer to loans where the borrower has failed to make interest or principal payments for an extended period of time. The financial crisis of 2008 and the subsequent economic slowdown resulted in a significant increase in NPLs across the country. This was due to a combination of factors including the slowdown in the economy, high unemployment and the collapse of several real estate markets. The high level of NPLs put a significant strain on the financial stability of Italian banks, as these loans represent a substantial loss of revenue and potential default. In order to address this issue, the Italian government and the European Union (EU) implemented several measures aimed at reducing the level of NPLs and improving the overall health of the banking sector.

2. The regulatory pressure from the European Union (EU) to improve the capital adequacy ratios of banks.

The EU required banks to increase their Tier 1 capital ratios, which put pressure on banks to reduce their exposure to NPLs and improve their overall financial position.

During the financial crisis and consolidation years, the European Union (EU) placed significant regulatory pressure on banks in Italy and across Europe to improve their capital adequacy ratios. The EU wanted to ensure that banks were financially stable and able to weather potential future financial crises, so it established a set of rules and regulations that required banks to hold a certain amount of capital relative to their risk-weighted assets.

As a result, many banks in Italy and across Europe had to raise new capital and reduce their risk-weighted assets in order to comply with the new rules. This often involved divesting non-core assets, reducing their loan portfolios and selling off subsidiaries, among other things. Additionally, many banks in Italy and across Europe had to implement cost-saving measures to increase their efficiency and improve their financial performance.

The increased regulatory pressure from the EU to improve the capital adequacy ratios of banks was an important factor in the significant consolidation that took place in the Italian banking sector during the financial crisis and consolidation years.

3. The need to increase efficiency and reduce costs in the face of increased competition

Italian banks faced intense competition from domestic and international players, which led many of them to seek mergers and acquisitions as a way to achieve scale and improve their cost structures.

During the financial crisis and consolidation years, the need to increase efficiency and reduce costs became a key driver of M&A activity in the Italian banking sector. Banks faced declining revenues and growing expenses and many saw M&A as a way to achieve economies of scale and streamline operations. By combining resources, banks could potentially achieve cost savings in areas such as technology, operations and marketing and reduce redundancies in their workforces. This, in turn, could help them improve their financial performance and remain competitive in a rapidly changing market. Additionally, M&A could also help banks expand their customer base, product offerings and geographic reach, which could also improve their overall financial performance.

4. The desire to expand into new markets and diversify their business lines

Some Italian banks sought M&A opportunities as a way to expand their geographic reach and tap into new business segments.

The desire to expand into new markets and diversify business lines was a key factor that influenced M&A activity in the Italian banking sector during the financial crisis and consolidation years. In a challenging economic environment, many banks saw M&A as a way to mitigate risks and improve their overall financial performance. Through acquiring other banks or companies in different geographic markets or different business lines, banks aimed to diversify their revenue streams and reduce their dependence on a single market or business segment. Additionally, expanding into new markets allowed banks to take advantage of growth opportunities and increase their scale, thereby improving their competitiveness. As a result, M&A activity in the Italian banking sector was driven by the desire to diversify and grow, as well as to mitigate risks and improve financial performance.

Overall, the consolidation of the Italian banking sector in recent years has resulted in a smaller number of larger, stronger banks that are better positioned to compete in the changing financial landscape. Some of the most significant M&A transactions in the sector during this period include the merger of Banco Popolare and Banca Popolare di Milano in 2016 and the acquisition of UBI Banca by Intesa Sanpaolo in 2019.

During the financial crisis and consolidation years, similar trends were present in the banking sectors of other European countries and the rest of the world. The pressure to improve capital adequacy ratios, increase efficiency and reduce costs, as well as the desire to expand into new markets and diversify business lines, were common challenges faced by many banks globally. However, the severity and specific challenges faced by the Italian banking sector may have been different from those faced by other countries.

4.2. Key players in the Italian banking sector and involved in M&A

There are several key players[61-62-63] in the Italian banking sector, including:

- UniCredit is one of the largest and oldest banks in Italy, with a strong presence across Europe. It is known for its wide range of banking and financial services, including corporate and investment banking, retail banking and asset management.
- Intesa Sanpaolo is another major player in the Italian banking sector, offering a variety of financial services to both individuals and corporations. It is known for its strong presence in the retail banking sector and its focus on innovation and sustainability.
- Banco BPM is a relatively new player in the Italian banking sector, having been formed through the merger of three regional banks in 2017. It is known for its focus on serving the needs of small and medium-sized enterprises (SMEs) and for its strong presence in the northern region of Italy.

[61] FONTANA, F., & MARCO, M. D. E. (2000). *M&A Nel settore Bancario: Gli adeguamenti organizzativi, Gestionali E informatici*. ANGELI.
[62] Trappolini, A., Meoni, C., & Scudieri, E. (n.d.). *Banche, Tra I Principali player Cresce La spinta verso L'M&A*
[63] . *Banca d'Italia - Identificazione dei Gruppi Bancari Unicredit, Intesa Sanpaolo e Banco BPM*. Banca d'Italia

These banks are considered key players in the Italian banking sector due to their size, market share and range of services offered. Additionally, they are known for their strong financial performance and their ability to adapt to changing market conditions, which has helped them maintain their competitiveness in a highly regulated and competitive industry.

In recent years, several key players in the Italian banking sector have been involved in merger and acquisition (M&A) activity. Some examples include Intesa Sanpaolo, UniCredit and Banco BPM. These banks have pursued M&A as a strategy for growth, efficiency improvement and cost reduction. Additionally, many banks in Italy have also looked to expand their operations into new markets and diversify their business lines through M&A activity. The specific M&A deals in the Italian banking sector will depend on the current state of the market, regulatory landscape and each individual bank's business strategy.

Some of the notable M&A transactions include the merger between Banco Popolare and Banca Popolare di Milano to form Banco BPM, the merger between UBI Banca and Banca Popolare di Bergamo and the acquisition of Banca Antonveneta by Santander. The objective behind these M&A transactions has been to increase market share, improve operational efficiency and expand the range of products and services offered to customers.

There have been unsuccessful M&A cases in the Italian banking sector. Some reasons for these unsuccessful deals could include cultural differences between the merging organizations, lack of integration planning and execution, conflicting strategies and inability to achieve expected cost savings and revenue synergies. Additionally, financial performance of the target company could be weaker than expected or there could be regulatory hurdles and opposition from stakeholders such as employees and customers. One example of a failed M&A in the Italian banking sector is the merger of Banca Popolare di Vicenza and Veneto Banca in 2016. The two banks announced the merger in 2015 with the aim of creating a stronger player in the sector and reducing costs. However, the deal faced various challenges, including regulatory issues, an increase in non-performing loans and financial difficulties. Ultimately, the European Central Bank (ECB) declared the two banks as failing or likely to fail, leading to their resolution and sale to Intesa Sanpaolo.

One of the challenges of M&A in the Italian banking sector is the weak economic environment, which has resulted in a sluggish lending market and decreased demand for banking services. Another challenge is the high level of non-performing loans (NPLs) in the Italian banking sector, which has increased the risk associated with M&A transactions.

However, M&A in the Italian banking sector also presents several opportunities, including the potential for increased efficiency, improved financial performance and increased competitiveness. The consolidation of the Italian banking sector is expected to result in a stronger and more stable industry, with improved capacity to support the economic growth of the country.

In conclusion, the Italian banking sector has undergone significant consolidation in recent years, driven by the need to improve financial performance, comply with regulatory requirements and increase competitiveness. The challenges and opportunities of M&A in the Italian banking sector and the impact of these transactions on the stability and competition of the industry are important considerations for both the industry and regulators.

5. Case Studies

Case studies can provide a practical illustration of the key drivers, challenges and impacts of M&A in the banking industry and are therefore an important part of this thesis. When it comes to mergers and acquisitions in the Italian banking sector, there have been a number of high-profile cases in recent years that could be suitable for our case study analysis.

5.1. Unsuccessful Case: Monte dei Paschi and Antonveneta

Figure 10. MPS and Antonveneta Logos

The acquisition of Antonveneta by Monte dei Paschi di Siena (MPS) is a significant event[64] in the recent history of Italian banking. The acquisition was a complex and controversial process that involved a takeover battle between MPS and Banco Santander, which ultimately acquired Antonveneta for €6.6 billion in 2007. The acquisition was followed by a series of legal disputes between MPS and Banco Santander, which were ultimately settled in 2016. The Antonveneta acquisition also proved to be a significant financial burden for MPS, as the bank struggled with a large number of non-performing loans and other financial problems. To address these difficulties, MPS had to write down the value of its Antonveneta assets and sell off a significant portion of its assets, including branches and subsidiaries. Overall, the MPS-Antonveneta phenomenon is a complex and multifaceted story that sheds light on the challenges and risks associated with large-scale M&A transactions in the banking sector.

- Monte dei Paschi di Siena[65]

Monte dei Paschi di Siena (MPS) is the oldest operating bank in the world, founded in Siena, Italy, in 1472. Over the centuries, MPS has gone through various changes and transformations and its history is deeply intertwined with that of Siena and the wider Italian banking sector.

The origins of MPS can be traced back to the "Mount of Piety" (Monte di Pietà in Italian) established in 1462, which was a charitable organization that provided interest-free loans to the poor. In 1472, the organization transformed into a full-fledged bank, under the name of "Monte dei Paschi di Siena" (literally, "mount of the pastors of Siena"), with the aim of providing credit to merchants and farmers in the region. The bank's founding was a response to the economic needs of the time, as Siena was a major commercial and financial hub in medieval Italy and the demand for credit was high.

MPS continued to grow over the following centuries, consolidating its position as a major player in the Italian banking sector. In the 19th century, the bank became a key player in financing the construction of railways in Italy and in the early 20th century, it expanded into retail banking and began to establish a network of branches across the country.

During the Second World War, MPS suffered significant damage to its infrastructure and assets, but it managed to survive and rebuild in the post-war period. After the end of the Second World War, MPS

[64] Sabella, M. (2021, August 1). *La Storia del Monte dei Paschi di Siena: Ambizioni, fallimenti e tentativi di rilancio non riusciti*. Corriere della Sera

[65] *Storia del Gruppo MPS*. Banca MPS

faced significant challenges as a result of the widespread destruction of its infrastructure and assets. The bank was also affected by the economic downturn that followed the war, as well as the political and social upheavals that were taking place in Italy at the time. In the post-war period, MPS focused on rebuilding its business and expanding its operations. The bank played a key role in financing the reconstruction of Italy's infrastructure, including roads, bridges and other public works. It also continued to expand its retail banking services, opening new branches across the country and offering a wider range of financial products and services to its customers.

In the 1970s and 1980s, MPS experienced a period of rapid growth and expansion, becoming one of the largest financial institutions in Italy, with a network of more than 3,000 branches and a wide range of business lines, including corporate banking, investment banking and wealth management.

The 1990s brought new challenges for MPS, as the Italian banking sector underwent a period of restructuring and consolidation. The bank faced increased competition from new entrants in the market and it struggled to adapt to the changing regulatory and economic environment.

In the late 1990s and early 2000s Monte dei Paschi di Siena (MPS) acquired two financial institutions:

- Mediocredito Toscano

  Mediocredito Toscano was a public-sector financial institution that was established in Tuscany in 1951. It was originally created to provide medium and long-term loans to small and medium-sized businesses in the region. Over time, Mediocredito Toscano expanded its operations to include a range of other financial products and services, including leasing and factoring.

  In 1999, MPS acquired a controlling stake in Mediocredito Toscano, as part of its strategy to expand its presence in Tuscany and strengthen its position in the Italian banking sector. The acquisition gave MPS access to a large network of branches in the region, as well as a range of new business lines and customer segments.

- INCA

  INCA, on the other hand, was a private-sector financial institution that was established in 1991. It was created as a specialist lender, providing financing to small and medium-sized businesses in Italy. Over time, INCA expanded its operations to include a range of other financial products and services, including factoring, leasing and asset management.

  In 2002, MPS acquired INCA, as part of its ongoing efforts to expand its business and diversify its product offerings. The acquisition gave MPS access to a new customer segment, as well as a range of new financial products and services.

The acquisitions of Mediocredito Toscano and INCA were part of a wider strategy by MPS to expand its operations and strengthen its position in the Italian banking sector.

Monte dei Paschi di Siena (MPS) was listed on the Milan Stock Exchange in 1999, after an initial public offering (IPO) that saw the bank sell a 33% stake to the public. The IPO was one of the largest in Italian history at the time and it raised approximately €4.5 billion in capital for the bank. The decision to go public and list on the stock exchange was driven in part by the need to raise additional capital to support MPS's growth and expansion plans. At the time, the Italian banking sector was undergoing a period of significant change, as banks were deregulated and privatized and competition increased. Listing on the stock exchange was seen as a way for MPS to access new sources of funding and to increase its visibility and credibility in the market. Following the IPO, MPS continued to issue new shares to the public and to institutional investors, further increasing its capital base. The bank also embarked on an aggressive expansion strategy, acquiring a number of smaller banks and financial institutions, as well as expanding its operations outside of Italy.

In the early 2000s, MPS faced a series of major financial problems, including a large number of non-performing loans and a significant exposure to risky investments.

In 2007, MPS made a bid to acquire Antonveneta, a mid-sized Italian bank, for €9 billion. However, Banco Santander, a Spanish bank, also made a competing bid for Antonveneta and the two banks engaged in a bidding war for control of the Italian bank. The acquisition of Antonveneta and the subsequent legal disputes with Banco Santander were a significant episode in the recent history of MPS. The bank's management was criticized for overpaying for Antonveneta and for pursuing a risky expansion strategy that ultimately led to significant financial problems. The legal disputes with Banco Santander also took a toll on the bank's reputation and added to its already significant financial difficulties.

The competitive landscape of Monte dei Paschi di Siena (MPS) has evolved over its long history, but it has consistently been one of the largest banks in Italy and a major player in the country's financial sector. Here are some of the key drivers of its success over the years:

- Local focus

One of the key drivers of MPS's success in its early years was its focus on the local market in Siena and surrounding areas. By building strong relationships with local customers and businesses, MPS was able to establish a loyal customer base that provided a stable source of funding and helped drive growth.

- Diversification

MPS has historically been a diversified bank, offering a range of financial products and services to its customers. This diversification helped the bank weather economic downturns and financial crises, as it was not overly reliant on any single business line or market.

- Innovation

Throughout its history, MPS has been an innovator in the Italian banking sector, introducing new products and services to meet the evolving needs of its customers. For example, it was the first bank in Italy to introduce a cash machine and the first to issue credit cards.

- M&A activity

MPS has also grown through a series of mergers and acquisitions over the years, which has helped it to expand its market reach and diversify its business. Some of its notable acquisitions include Banca Toscana, Banca Agricola Mantovana and Antonveneta.

- Strategic partnerships

In addition to M&A activity, MPS has also pursued strategic partnerships with other banks and financial institutions, both in Italy and abroad. These partnerships have helped the bank to expand its reach and access new markets.

In 2008, the global financial crisis further exacerbated the bank's difficulties and it was forced to seek a bailout from the Italian government in 2012.

The bailout involved a major restructuring of MPS, including the closure of numerous branches and the sale of several assets. The bank also underwent a significant change in leadership, with a new management team brought in to oversee the restructuring process.

Since the bailout, MPS has continued to face various challenges, including ongoing concerns about its financial stability and the impact of the COVID-19 pandemic on its business. In 2021, the bank was acquired by UniCredit, as part of a wider consolidation of the Italian banking sector. The acquisition marked the end of MPS's status as an independent entity and its history as a standalone bank came to a close after more than five centuries of operation.

- Antonveneta[66-67]

Antonveneta was a mid-sized Italian bank that was founded in 1924 and was based in the northern Italian city of Padua. At its peak, it was one of the largest banks in Italy, with a network of branches across the country and a significant presence in the retail banking sector focused on serving the needs of local businesses and individuals.

Over the years, it expanded its operations and grew to become one of the largest banks in Italy, with a network of branches across the country.

In the 1990s, Antonveneta embarked on an expansion strategy aimed at broadening its operations and increasing its market share. It acquired several smaller banks and finance companies, including Banca Popolare di Cremona and Banca Popolare di Bergamo and it also expanded its operations into other countries, including Spain and the United States.

However, the expansion strategy ultimately proved to be a significant burden for the bank and it struggled with a large number of non-performing loans and other financial problems. In the early 2000s, it embarked on a restructuring program aimed at addressing these issues and improving its financial position.

In 2006, Banco Santander, a Spanish bank, acquired a 9% stake in Antonveneta, making it one of the bank's largest shareholders. The move was widely seen as a precursor to a potential bid for the bank and in 2007, both Banco Santander and Monte dei Paschi di Siena (MPS) made competing bids for control of Antonveneta.

The ensuing bidding war between Banco Santander and MPS was a significant episode in the recent history of Antonveneta and ultimately led to the Spanish bank's acquisition of the Italian lender. However, as I mentioned earlier, the acquisition proved to be controversial and was followed by a series of legal disputes between Banco Santander and MPS.

Antonveneta was one of the major Italian banks before it was acquired by Banco Santander in 2007. Its competitive landscape and key drivers of success were different from those of MPS, as it had a shorter history and was concentrated mainly in the Northern regions of Italy. Here are some of the key drivers of Antonveneta's success:

  - Regional focus

[66] *BANCA ANTONVENETA*. Bankpedia
[67] Wikimedia Foundation. *Banca Antonveneta*. Wikipedia

Like MPS, Antonveneta had a strong focus on the local market, particularly in the Northern regions of Italy where it had a significant presence. This allowed the bank to develop strong relationships with local businesses and customers and to tailor its products and services to meet their needs.

- Acquisition strategy

Antonveneta grew rapidly in the 1990s and early 2000s through a series of acquisitions. This strategy helped the bank to expand its market reach and diversify its business and was driven in part by the consolidation of the Italian banking sector during this period.

- Retail banking

Antonveneta's retail banking business was a key driver of its success, as the bank had a strong network of branches and a reputation for providing high-quality customer service. This helped it to establish a large and loyal customer base, which provided a stable source of funding.

- Asset quality

Antonveneta had a relatively low level of non-performing loans compared to other Italian banks, which helped to improve its profitability and strengthen its balance sheet. The bank's conservative lending practices and focus on high-quality assets were key factors in maintaining its asset quality.

- Strategic partnerships

Like MPS, Antonveneta pursued strategic partnerships with other banks and financial institutions, including a joint venture with Banca Popolare di Vicenza in the early 2000s. These partnerships helped the bank to expand its reach and access new markets.

In summary, Antonveneta's success was driven by a regional focus, an acquisition strategy, a strong retail banking business, a focus on high-quality assets and strategic partnerships. These factors helped the bank to establish a strong market position in the Northern regions of Italy and to grow rapidly in the 1990s and early 2000s.

▪ Reasons behind the merger and significance of the deal[68]

The merger between Antonveneta and MPS was driven by a combination of strategic and financial factors. Some of the reasons behind the merger include:

- Market Consolidation

The Italian banking sector was going through a period of consolidation and the merger between Antonveneta and MPS was seen as a way to create a larger, more competitive entity.

- Synergy

The merger was expected to create significant cost and revenue synergies, particularly in the areas of operational efficiency, technology and risk management. The combined entity would have a larger branch network and customer base, which would help to reduce costs and increase revenue.

- Diversification

[68] Luciano, S. (2020, January 17). *Scandalo mps-antonveneta, Storia di una crisi annunciata*. Panorama

The merger would enable the combined entity to diversify its business lines and geographic reach, reducing its reliance on any one market or product.

- Competitive Advantage

The merger was expected to create a stronger, more competitive entity that would be better positioned to compete with other large banks in Italy and internationally.

- Shareholder Value

The merger was also seen as a way to create value for shareholders, particularly given the potential synergies and cost savings that could be achieved.

- Regulatory Environment

The merger was also influenced by the regulatory environment in Italy, particularly the need for banks to strengthen their capital base and meet stricter regulatory requirements. The merger was expected to create a stronger capital base for the combined entity, which would help to improve its financial stability and compliance with regulatory requirements.

Considering the significance of the merger between Antonveneta and MPS, this M&A was a significant deal[69] in the Italian banking sector for several reasons:

- The merger created one of the largest banks in Italy, with a market capitalization of around €14 billion and total assets of over €300 billion.
- The merger was part of a broader trend of consolidation in the Italian banking sector, which was characterized by a large number of smaller banks and a fragmented market. The merger between Antonveneta and MPS was seen as a significant step towards consolidating the sector and creating a more stable and competitive banking industry.
- The merger also enabled the combined entity to expand its international reach, particularly in emerging markets. MPS had a strong presence in Eastern Europe, while Antonveneta had a significant presence in Spain and Portugal. The merger allowed the combined entity to leverage these strengths and expand its business globally.
- The merger was expected to create significant cost synergies, particularly in the areas of operational efficiency, technology and risk management. The combined entity would have a larger branch network and customer base, which would help to reduce costs and increase revenue.
- The merger was also significant in terms of cultural integration, as the two banks had different organizational cultures and business models. The successful integration of these cultures was seen as a critical factor in the success of the merger.
- The merger was also significant in terms of regulatory requirements, as both banks needed to strengthen their capital base and meet stricter regulatory requirements. The merger enabled the combined entity to meet these requirements and improve its financial stability.

Overall, the merger between Antonveneta and MPS was a significant deal that created a stronger and more competitive banking entity with a larger international reach and improved financial stability.

- Strategic fit

[69] Manfellotto, B. (2021, November 25). *L'occasione perduta di mps per l'ottusità dei Poteri Locali*. L'Espresso

The strategic fit between Antonveneta and MPS was seen as a key driver of the merger. Although the two banks had different business models and strengths, there were several areas of strategic fit that made the merger attractive. Some of the key areas of strategic fit between Antonveneta and MPS were:

- Complementary Geographic Footprint

  Antonveneta and MPS had complementary geographic footprints, with Antonveneta having a strong presence in Spain and Portugal and MPS having a significant presence in Eastern Europe. The merger enabled the combined entity to leverage these strengths and expand its business globally.

- Diversification of Product Offerings

  The two banks also had complementary product offerings, with Antonveneta having a strong focus on consumer banking and MPS having a strong focus on corporate banking. The merger enabled the combined entity to diversify its business lines and reduce its reliance on any one product or market.

- Increased Market Share

  The merger also enabled the combined entity to increase its market share in Italy and other markets. The combined entity would have a larger branch network and customer base, which would help to increase its market share and improve its competitive position.

- Operational Synergies

  The two banks had complementary strengths in terms of operations and technology. The merger was expected to create significant cost and operational synergies, particularly in the areas of operational efficiency, technology and risk management.

- Shared Corporate Culture

  The two banks shared a strong corporate culture, particularly in terms of their focus on customer service and strong relationships with clients. This shared culture was seen as a key factor in the successful integration of the two firms.

Overall, the strategic fit between Antonveneta and MPS was based on complementary strengths in terms of geographic reach, product offerings, operational efficiency and corporate culture. These factors were seen as key drivers of the merger and were expected to create significant value for the combined entity.

▪ Potential synergies

The merger between Antonveneta and MPS was expected to create significant cost and revenue synergies, particularly in the areas of operational efficiency, technology and risk management. Some of the potential synergies that could be achieved between the two firms include:

- Cost Savings

  The combined entity would be able to reduce costs by consolidating operations, closing overlapping branches and reducing headcount. This would enable the new bank to achieve economies of scale and reduce operating costs.

- Revenue Enhancement

The merger would also enable the combined entity to increase its revenue by expanding its customer base and offering a broader range of products and services to its clients.

- Cross-selling

The two banks had complementary product offerings, with Antonveneta having a strong focus on consumer banking and MPS having a strong focus on corporate banking. The merger would enable the combined entity to cross-sell products and services to each other's customers, creating new revenue streams.

- Geographic Reach

The two banks had complementary geographic footprints, with Antonveneta having a strong presence in Spain and Portugal and MPS having a significant presence in Eastern Europe. The merger would enable the combined entity to expand its business globally and leverage these strengths to generate additional revenue.

- Operational Efficiency

The two banks had complementary strengths in terms of operations and technology. The merger would enable the combined entity to leverage these strengths and achieve greater operational efficiency, particularly in areas such as IT, risk management and compliance.

- Enhanced Capital Base

The merger would also enable the combined entity to strengthen its capital base, improve its financial stability and comply with stricter regulatory requirements.

Overall, the potential synergies between Antonveneta and MPS were significant and were expected to create significant value for the combined entity. The merger would enable the new bank to achieve economies of scale, reduce operating costs and increase revenue, while also expanding its customer base and geographic reach.

- The regulatory framework

The regulatory framework that governed the merger between Antonveneta and MPS was primarily the European Union's Merger Regulation (EUMR), which is designed to ensure that such mergers and acquisitions do not harm competition and therefore consumers, in the EU.

The EUMR applies to all mergers and acquisitions that meet certain thresholds. These thresholds are based on the combined global turnover of the companies involved and the turnover of each of the companies within the EU. In general, the EUMR applies to mergers where the combined turnover of the companies involved exceeds €5 billion and the turnover of each of the companies within the EU exceeds €250 million.

Under the EUMR, mergers and acquisitions must be notified to the European Commission, which is responsible for assessing whether the proposed transaction will harm competition within the EU. The European Commission has the power to block mergers and acquisitions that it determines will have an adverse impact on competition within the EU.

The assessment of mergers and acquisitions under the EUMR is based on a number of factors, including the market share of the companies involved, the level of competition in the relevant markets, the impact of the merger on innovation and the ability of the merged entity to increase prices or reduce the quality of goods and services. The European Commission may require the companies involved in a merger or acquisition to make divestments or other changes to their business to address any concerns about competition.

The European Commission conducted an in-depth investigation into the merger, which included a review of the companies' market shares, the level of competition in the relevant markets and the potential impact of the merger on consumers.

As part of its review, the European Commission raised concerns about the potential impact of the merger on competition in the Italian banking sector. In particular, the European Commission was concerned that the merger would give the merged entity a dominant market position in certain geographic areas of Italy and that this could lead to a reduction in competition and a negative impact on consumers.

To address these concerns, the European Commission required the merged entity to make a number of divestments. Specifically, the merged entity was required to sell 626 branches and certain other assets in Italy to a third party. This was intended to address the European Commission's concerns about the merged entity's market share and ensure that there was sufficient competition in the Italian banking sector.

The EUMR also provides for a number of procedural rules, including the timeline for notification, the information that must be provided in the notification and the process for third parties to comment on the proposed merger or acquisition. The goal of these procedural rules is to ensure that the assessment of mergers and acquisitions under the EUMR is transparent, predictable and fair.

In summary, the EUMR is a regulatory framework that is designed to ensure that mergers and acquisitions within the EU do not harm competition or consumers. The EUMR applies to mergers and acquisitions that meet certain thresholds and the European Commission is responsible for assessing whether proposed transactions will harm competition within the EU.

In addition to the EUMR, there were other regulations and guidelines that governed the merger. For example, the Bank of Italy, as the national central bank and banking regulator in Italy, was involved in the regulatory framework that governed the M&A between Antonveneta and MPS. While the EUMR is a European Union regulatory framework, the Bank of Italy played an important role in overseeing the merger from a national perspective.

Under Italian law, the Bank of Italy has responsibility for supervising and regulating the banking sector in Italy. This includes oversight of mergers and acquisitions involving Italian banks, such as the M&A between Antonveneta and MPS.

In the case of the Antonveneta-MPS merger, the Bank of Italy was involved in the process of approving the transaction. In particular, the Bank of Italy reviewed the merger plan submitted by MPS and Antonveneta and assessed the financial and prudential aspects of the transaction. This was done in parallel with the European Commission's review of the merger under the EUMR.

The Bank of Italy also worked closely with the European Central Bank (ECB), which is responsible for supervising significant banks in the euro area. Following the merger between Antonveneta and MPS, the ECB assumed supervisory responsibility for the merged entity, as it met the criteria for being a significant bank.

In summary, the Bank of Italy played a key role in overseeing the M&A between Antonveneta and MPS from a national perspective and worked closely with the European Commission and ECB throughout the regulatory process.

The merger also had to be approved by other regulatory bodies, such as the Italian Competition Authority (ICA), which was also involved in the regulatory framework that governed the M&A between Antonveneta and MPS. The ICA is the national antitrust regulator in Italy and is responsible for ensuring that mergers and acquisitions do not harm competition within the Italian market.

The ICA was involved in the review of the merger alongside the European Commission. The ICA conducted a separate analysis of the merger under Italian antitrust laws to assess its potential impact on competition within the Italian banking sector. The ICA reviewed the same issues as the European Commission, including market shares, competition and consumer protection.

The ICA raised similar concerns to the European Commission about the potential impact of the merger on competition in the Italian banking sector. In particular, the ICA was concerned that the merger could lead to a significant reduction in the number of players in certain geographic areas of Italy, which could lead to higher prices and less choice for consumers.

To address these concerns, the ICA required the merged entity to make a number of commitments. These included the divestment of a number of branches and certain assets, as well as measures to ensure that customers could switch banks easily and without incurring significant costs.

Finally, the merger had to comply with other relevant regulations, such as those related to data privacy, anti-money laundering and consumer protection. These regulations were important in ensuring that the merger was conducted in a transparent and ethical manner and did not have a negative impact on customers or other stakeholders.

- Legal challenges or hurdles

The M&A between Antonveneta and MPS faced a number of legal challenges and hurdles. These included challenges related to the bidding process for Antonveneta, as well as regulatory hurdles related to antitrust concerns and the divestment of assets.

One of the main legal challenges arose from the bidding process for Antonveneta. In 2005, ABN Amro had made a bid for Antonveneta, which had been accepted by Antonveneta's board. However, MPS then made a higher counter-bid for Antonveneta, which was also accepted by Antonveneta's board. ABN Amro subsequently challenged the legality of MPS's bid, arguing that it had been based on insider information and that MPS had acted in collusion with other parties.

The legal challenge from ABN Amro led to a prolonged legal battle, which delayed the completion of the merger between Antonveneta and MPS. In 2006, an Italian court ruled in favor of ABN Amro and ordered MPS to divest Antonveneta. However, MPS appealed the ruling and continued to pursue the acquisition of Antonveneta.

In 2007, MPS's acquisition of Antonveneta was completed, but the regulatory hurdles were not yet resolved.

Santander and MPS were involved in a legal dispute related to the bidding process for Antonveneta, which had been acquired by MPS in 2007. Santander had also been interested in acquiring Antonveneta and had made a higher bid than MPS. However, Santander's bid was rejected by the Italian regulator, Consob, which argued that Santander had violated Italian banking laws in its attempt to acquire Antonveneta.

Santander disputed this decision and filed a lawsuit against Consob in an Italian court, seeking damages of up to €2 billion. Santander argued that its bid had been rejected unfairly and that Consob had failed to apply Italian law correctly. Santander claimed that Consob had used a technicality to reject its bid, because it did not meet certain requirements related to the disclosure of shareholdings.

In 2008 MPS issued a type of financial instrument called Floating Rate Equity-Linked Subordinated Hybrid Preferred Securities (FRESH) as part of its capital raising efforts. The FRESH securities were a hybrid instrument, which combined features of both equity and debt securities. They were designed to increase the bank's Tier 1 capital ratio, which is a measure of a bank's financial strength.

The FRESH securities were considered to be innovative at the time of their issuance, as they were structured to allow for greater flexibility in the calculation of interest payments. The securities had a floating interest rate, which was linked to a benchmark rate such as LIBOR and the interest payments were made in the form of new shares of MPS stock. This allowed MPS to conserve cash and maintain its capital levels.

The FRESH securities were also subordinated, which means that they ranked below other forms of debt in the event of the bank's insolvency. This made the securities riskier than other forms of debt, but they also offered higher potential returns.

The FRESH securities were issued to institutional investors and were not available to retail investors. The securities were also classified as preferred shares, which meant that they were not included in the calculation of the bank's risk-weighted assets.

The issuance of FRESH securities was controversial, as some investors and analysts were concerned about the complexity and risks associated with these securities. The FRESH securities were also affected by the global financial crisis that began in 2008, as the value of MPS shares declined sharply. This led to concerns about the solvency of MPS and the potential losses that could be incurred by investors in the FRESH securities.

In summary, the Floating Rate Equity-Linked Subordinated Hybrid Preferred Securities (FRESH) was a type of financial instrument issued by MPS in 2008 as part of its capital raising efforts. The FRESH securities were a hybrid instrument that combined features of both equity and debt securities and were designed to increase the bank's Tier 1 capital ratio.

The legal dispute between Santander and MPS lasted for several years, with multiple court hearings and appeals. In 2009, a Milan court ruled in favor of Santander, stating that Consob's rejection of Santander's bid had been unlawful. However, the ruling did not result in the cancellation of MPS's acquisition of Antonveneta.

The European Commission and the Italian Competition Authority both raised concerns about the potential impact of the merger on competition within the Italian banking sector. To address these concerns, the merged entity was required to make a number of divestments, including the sale of 626 branches and certain other assets in Italy to a third party.

The divestment process also faced legal challenges. In 2009, a group of bondholders in MPS challenged the legality of the sale of branches to Banco Popolare. The bondholders argued that the sale had been conducted in a way that favored certain investors over others. The legal challenge delayed the completion of the sale, but it was eventually approved by the Italian court in 2011.

Santander continued to pursue the case and in 2015, an Italian appeals court ruled that Santander was entitled to compensation for the damages it had suffered as a result of Consob's decision. The court awarded Santander €600 million in damages, which was later reduced to €100 million on appeal. However, MPS refused to pay the damages and continued to challenge the ruling.

In 2019, the dispute between Santander and MPS was finally settled, with MPS agreeing to pay €100 million to Santander to resolve the legal dispute. The settlement put an end to the long-standing legal battle between the two banks.

In summary, Santander and MPS were involved in a legal dispute related to the bidding process for Antonveneta, with Santander arguing that its bid had been unfairly rejected by the Italian regulator, Consob. The legal dispute lasted for several years, with multiple court hearings and appeals and was finally settled in 2019 with MPS agreeing to pay €100 million to Santander.

- Financial analysis (2007-2011)

The financial analysis of MPS and Antonveneta before and after the merger can provide insight into the financial performance and health of the two firms and can help identify the potential benefits and challenges of the merger.

In order to distinguish the before and after merging phenomenon the following analysis has been divided in two sub-analysis, from 2007 to 2009 and from 2010 to 2011.

1. Financial analysis (2007-2009)[70-71-72]

Table 1. Financial Data (2007-2009): Net Worth, Net Profit, ROE, Total Assets, ROA, Tier 1 Ratio

Year	Net Worth	Net Profit	ROE	Total Assets	ROA	Tier 1 Ratio
2007	8.649	1.438	16,60%	161.984	0,89%	6,10%
2008	14.824	923	6,20%	213.796	0,49%	5,10%
2009	17.175	220	1,30%	224.815	0,10%	7,50%

Table 2. Financial Data (2007-2009): Operating Costs, NIM, Cost Income Ratio, Total Capital Ratio, Financial Leverage, Net impaired loans/total ratio

Year	Operating Costs	NIM	Cost Income Ratio	Total Capital Ratio	Financial Leverage	Net impaired loans/total ratio
2007	3.055	4.830	63,30%	8,90%	18,60	3,68%
2008	3.896	5.141	75,80%	9,30%	14,00	5,05%
2009	4.011	5.413	74,10%	11,90%	12,70	6,71%

Table 3. Financial Data (2007-2009): Texas Ratio, NPL, Tangible Net Worth, Risk Cost, VAR, Interest Margin

Year	Texas Ratio	NPL	Tangible Net Worth	Risk Cost	VAR	Interest Margin
2007	50,70%	3.910	7.712	0,58%	22,78	2.914
2008	90,50%	7.342	8.113	0,69%	50,08	3.751

[70] *Bilancio 2007*. MPS
[71] *Bilancio 2008*. MPS
[72] *Bilancio 2009*. MPS

2009	96,80%	10.221	10.559	0,95%	10,08	3.675

Table 4. Financial Data (2007-2009): RWA, Regulatory Capital, Bank Debts, Debt Ratio

Year	RWA	Regulatory Capital	Bank Debts	Debt Ratio
2007	113.384	9.578	13.742	1,59
2008	132.408	11.996	27.208	1,84
2009	120.899	14.380	22.758	1,33

In analysing the balance sheet, we start by assessing the ROE value given by the ratio of net profit to shareholders' equity. In 2007, the ratio was 16.6% with an amount of shareholders' equity and net profit of EUR 8649 million and EUR 1438 million, respectively. The value of return on equity is not yet affected by the acquisition of Banca Antonveneta which took place shortly before the end of the accounting year, which is why the value is so high and will never be achieved again over the five-year period analysed. According to studies, to be considered good, this value would have to be 3-5 percentage points higher than the value of inflation, which can be assumed to be 2% in each year. Thus, the ROE is considered good if it is between 5% and 7% and can be defined as excellent if it exceeds 8 percentage points. In this case, the result is astounding, since the quotient is twice as high as a value that can be considered optimal. Not giving the same results and confirming the health of the bank is the ROA, which given by the ratio of profit to total average assets, does not exceed one percentage point. This means that the net profit the company manages to generate is 0.89% of all assets held. The situation is still positive, the profitability indices in fact both have a plus sign. Stabilising the results is the Cost Income Ratio. A good value of this indicator should be below 60%, between 60 and 70% is considered average, while if it exceeds 70% the bank has a poor operating efficiency. In 2007, this indicator in MPS's balance sheet stood at 63.3 percentage points, giving Monte dei Paschi a good operational efficiency. Even the solvency ratio, as already mentioned in the previous chapter, fully complies with the constraints imposed by the II Pillar issued by the Basel Committee: that 8% that incentivises banks to hold few excessively risky assets in order to avoid a watering down of capital. The solvency ratio over the five-year period studied will always respect the parameters imposed by the Basel Committee. Another very important and very valid index is the one that shows us the leverage of a bank, given by the ratio of total funding to capital. This value can basically fall into three ranges:

- Equal to 1: means that there is no debt because the company provides resources from its own capital. All the operations that the bank undertakes do not require external financing. is clearly the best bracket in which every enterprise hopes to find itself;
- The index is between 1 and 2: it occurs when equity capital is greater than total resources. This range is also quite positive because it indicates a good balance between total resources and recourse to debt capital. This value, however, represents a middle stage and the criticality or virtuosity of a company depends on how close the index value is to the first or third band;
- The last debt position includes companies that achieve a result greater than two. Debts are therefore greater than resources and the structure of the enterprise is inadequate, since in order to produce and finance itself, it must do so by requesting help from external entities.

MPS in 2007 has a debt value of 1.59, a value that therefore confirms the positive trend recorded during the year.

Finally, the last indicative index is the Texas Ratio given by the ratio of non-performing loans to tangible equity. If it is greater than one, it means that impaired loans, arising for example from substandard loans or past due and restructured loans, are greater than the tangible net worth and thus indicate a stressed situation. Thus, the smaller this ratio is, the more stable a bank is. In our five-year period, the only acceptable value was achieved in 2007, when the Texas Ratio was 50.7 per cent. From the following year, the acquisition of Antonveneta, linked to the outbreak of the crisis, will bring this index to values very close to or greater than 100%, indicating a too significant presence of loans that are no longer performing for Monte dei Paschi.

From 2007 to 2008, the picture changes completely for Banca Senese. The transition from one year to the next marks a real split and the beginning of a completely opposite trend. From 2000 to 2007, MPS's economic situation was not particularly critical, although the stock had lost confidence and the accounting results had declined in the last period, the bank was nevertheless in an apparent state of control. 2008 was the beginning of a year that would be fatal and lead to the crisis of 2010, which would shortly afterwards lead the bank to bankruptcy, had it not been for the intervention of the Italian state. It was in 2008 that the subprime mortgage crisis broke out, which also involved Europe, which had bought those toxic securities, even in a significant percentage (40%), which would bring the banks into a very difficult situation. To worsen the situation for MPS, there will be the bank acquired in November 2007 (Antonveneta) and the discovery in those months of past investments that did not give the desired results. The mismanagement on the part of MPS thus led the institution to face too many stressful situations. This is confirmed by the accounting results. First and foremost, the ROE, which measures a company's profitability, highlights the collapse that has taken place in just 52 weeks, the ratio plummeting, losing over 10 percentage points and settling at 6.2%, a value that if taken individually would also be good. This ratio, as can be easily guessed, is not positive. In fact, it is enough to think that only the year before the result was 'particularly positive', while this year it is only 'good'. Faced with an increase in total assets and a decrease in net income, ROA can only fall sharply, dropping just below the 0.49% mark. This last value really indicates a low profitability of the bank, it is as if a company with 10000 euros of assets generated 49 euros of profit each year. If the entrepreneur of this company could know the value of the ROA in advance of the creation of the company, he would hardly still be convinced to carry out this operation. The debt quotient also increases, thus decreasing the ability of the resources to remunerate the investments made. the quotient stands at 1.84, coming very close to that highly critical range (value of 2) in just one year. The indicator that creates the most problems for MPS management is the Texas Ratio. The value of non-performing loans doubles, bringing the ratio to 90.50%, a number very close to the threshold of acceptability. Inevitably, the ratio of impaired loans to total loans also increased, rising from 3.6% to 5.1% from 2007 to 2008. The Value at Risk (VAR) also confirms that the Sienese bank has exponentially increased its credit risk from one year to the next. The numerical value of the VAR, calculated with a 99% confidence level, within a time span of one day, increases from 22 to 50 billion. In 365 days, the maximum loss that the bank risks from one day to the next at the 99% confidence level thus increases by almost 30 billion, doubling the level of risk. As if that were not enough, bank debts also increased more than twofold, from 13 to 27 billion euro, most of which can be attributed to the ill-fated acquisition of Banca Antonveneta.

The 2009 figures for profitability ratios confirm the previous year's negative trend. The Return of Equity continued its steep descent marking a slightly positive value of 1.3%. Shareholders' equity contributes to the drop in this profitability ratio, as it increases in value. The figure that contributes most to its fall, however, is net profit. The latter drops from EUR 923 million to EUR 220 million, losing more than 400% in a single year. This is also reflected in the book value of the ROA, which is close to 0, to be precise the value does not exceed 0.1%. With this value, the company therefore completely loses its profitability in relation to the total assets held in the balance sheet. For the second year in a row, the Sienese bank, besides having profitability ratios that are not exactly positive, exceeds 70% in the calculation of the Cost Income Ratio. In this accounting year too, the figure confirms 75% in the ratio, thus making the bank's operating efficiency very poor. The increase in the ratio of impaired loans to total loans inevitably causes the value of the Texas Ratio to skyrocket, which is now close to the threshold of unity with a value of 96.8%, confirming the strong presence of impaired loans held by the bank.

2. Financial analysis (2010-2011)[73-74]

Table 5. Financial Data (2010-2011): Net Worth, Net Profit, ROE, Total Assets, ROA, Tier 1 Ratio

Year	Net Worth	Net Profit	ROE	Total Assets	ROA	Tier 1 Ratio
2010	17.156	985	5,70%	244.279	0,42%	8,40%
2011	17.765	-4.685	(43,52%)	240.702	1,93%	11,10%

Table 6. Financial Data (2010-2011): Operating Costs, NIM, Cost Income Ratio, Total Capital Ratio, Financial Leverage, Net impaired loans/total ratio

Year	Operating Costs	NIM	Cost Income Ratio	Total Capital Ratio	Financial Leverage	Net impaired loans/total ratio
2010	3.742	5.418	69,10%	12,90%	13,90	7,28%
2011	4.403	5.337	82,50%	15,70%	22,20	9,19%

Table 7. Financial Data (2010-2011): Texas Ratio, NPL, Tangible Net Worth, Risk Cost, VAR, Interest Margin

Year	Texas Ratio	NPL	Tangible Net Worth	Risk Cost	VAR	Interest Margin
2010	106,50%	11.381	10.686	0,72%	9,41	3.541
2011	157,70%	13.480	8.548	0,89%	25,47	3.416

Table 8. Financial Data (2010-2011): RWA, Regulatory Capital, Bank Debts, Debt Ratio

Year	RWA	Regulatory Capital	Bank Debts	Debt Ratio
2010	109.238	14.144	28.334	1,65
2011	105.115	16.503	46.793	4,35

This is the last year in which MPS achieves 'acceptable' results, in the five-year period analysed in fact it is the last year in which Monte dei Paschi makes a profit and automatically the last year in which the profitability ratios are not negative. The ROE, at 5.7%, cannot in fact be defined as positive, nor can the ROA, which rose slightly to 0.42%, thanks to the increase in profits, also because total assets remained unchanged. 2010 is the year in which the Texas Ratio exceeded 100%, so that for the first time in the balance sheet analysis carried out, past-due and restructured loans and substandard items are higher than tangible equity, further underlining the difficult moment the Bank is going through. In addition, the debts to the banks do not bode well either; the value is continually growing and in this accounting year is close to the enormous amount of 30 billion. After this financial year, the bank will begin a phase

[73] *Bilancio 2010*. MPS
[74] *Bilancio 2011*. MPS

of severe collapse, causing it to lose all the good results achieved in previous years. It therefore becomes interesting to understand where the bank stands just before the collapse compared to other banks, through the method of multiples. This is based on a valuation of MPS, compared to the values of other banks and will allow us to arrive at well-founded conclusions, enabling us to understand how Monte dei Paschi stands in relation to other institutions in the sector. There are two most common methods that are generally used in the development of this method:

- The 'Price/Earnings' (P/E): which indicates the ratio between the market price of a company's shares and earnings per share. It indicates how often the share price incorporates expected earnings. A very high value indicates that shareholders are willing to pay a very high price to buy a company's stock for the profits it produces. P/E is the most widely used multiple for several reasons: it is very easy to calculate, it is often available and it also incorporates other quantities such as risk and growth. At the same time, it also has weaknesses, first of all the fact that it relates two different quantities, in fact, the numerator and denominator are an accounting figure and a market figure respectively. Furthermore, the company can through depreciation and provisioning policies manipulate the distribution of profits and thus vary the value of the ratio;
- The 'Price/Book Value' (P/BV): this is given by the ratio between the market price of a share and the equity value of the company resulting from the balance sheet. Among the main advantages of this multiple is that the value coming out of the ratio provides a fairly stable and intuitive measure to compare with the market price. A comparison with other companies will also provide a quick understanding of how much a company is actually over- or under-valued. The weaknesses are similar to those stated above: ratio between two different quantities (the numerator is a figure derived from the market while the denominator has a book value), finally through profit distribution policies this value will change. Two other banks besides MPS are taken into account in the multiples method: Intesa Sanpaolo and Unicredit. MPS in terms of price/earnings is the most expensive with a value of 28.55 (Intesa Sanpaolo 10.6 and Unicredit 19.49). So, among the three banks that are the largest in Italy, the shareholders who are willing to pay a higher amount to get a share of that bank are precisely those of Monte dei Paschi. The situation is completely the opposite if one considers the P/BV, the values of the two banks being 0.56 versus 0.37 for MPS.

From 2011 onwards, it will no longer be possible to make comparisons or evaluations of the bank, which will plunge into a deep crisis, as confirmed by its accounting results and which can only be saved thanks to the 2012-2015 industrial plan that we will see later. Before analysing the accounting results, it is only fair to anticipate that the 'fortunes' of Monte dei Paschi di Siena became apparent after the collapse of Lehman Brothers. When this bank failed, or rather was allowed to fail, the system suffered very heavy repercussions and there are many economists who still maintain that an aid to the American bank would certainly have reduced the damage. So in the years following one of the most catastrophic failures in the banking system in recent decades, the 'too big to fail' policy took shape. A policy aimed at bailing out those banks and institutions, which, being so large and relevant to the nation and the financial sector, could not fail and therefore had to enjoy state aid in order to stay alive. This manoeuvre initially concerned companies that were of strategic interest to the state, such as Alitalia and also developed within the Eurosystem. It was also thanks to this idea of 'too big to fail' that nations in the Eurosystem were rescued from the crisis, so as not to jeopardise the whole system. The list of 30 banks defined as too big to fail therefore includes not only JP Morgan and Goldman Sachs but also MPS, which will be incorporated into a state plan to save it.

2011, as anticipated, has disastrous effects for Monte dei Paschi. In just one year, it found itself having to deal with the negative effects of the Antonveneta acquisition and, in addition, derivative transactions that caused the institution heavy losses came to light. After more than 10 years of profit-making after the closing of the balance sheet, 2011 brought heavy losses that led the profitability ratios to clearly negative values. The losses are close to EUR 5 billion, causing the ROE to plummet to -43.5%. The result is dramatic and the reason for this is that the losses are not only significant when taken individually, but even more so when compared to equity. The ROA also approaches -2%. The profitability ratios in this accounting year thus turn into 'unprofitable' values. Bank debts and the amount of impaired loans also reach dramatic levels. The former grow dramatically, reaching 47 billion; to understand how worrying the value is, one only has to think that the amount of debts in 2011 is equal to the sum of debts, also to banks, in 2009 and 2010. Moreover, the debt ratio exceeds 4 percentage points. With regard to loans, impaired loans increased significantly, the Texas Ratio marked a record 157.7 % with an increase in the ratio of non-performing loans to total loans of almost 10 %. Making the bank even less stable is the use of leverage. The latter reached the highest figure within the five-year period, exceeding 22%. A value that is in general very high and dangerous, but which vertiginously increases its risk rate in the presence of assets and credits that have a real value significantly lower than their historical cost, as in the case of MPS.

It is clear from the analysis that the mistakes were many and that had more care been taken, Monte dei Paschi would have faced the crisis and the far from favourable economic environment with many more weapons at its disposal. The wrong choices had a disastrous effect that changed the lives of thousands of people. In fact, many have lost their jobs or their life savings invested in a security that appeared anything but risky. The blame lies mainly (but not only) with the greed and superficiality of the MPS management, which for personal convenience went so far as to conclude operations that made no sense. Suffice it to think of the acquisition of Antonveneta, which was paid about 50 per cent more than its real market value. Moreover, it must be added that it was too risky to rely on the goodness of a few, in the hope that they would behave as 'good managers', without anyone adequately supervising them.

The top management of Monte dei Paschi was also accused of 'false accounting' in addition to all the untrue declarations that allowed the value of the stock to rise again even though the bank's economic-financial outlook and therefore the stock's outlook, was not positive. And it was at this juncture that the Supervisory Authorities should have intervened, but they did not prevent the transactions from taking place and did not sanction those false declarations instantly. Checks were only carried out, even thoroughly, when all that could be done was to sanction the offenders. There are still many criticisms levelled at the monitoring bodies that did not prevent the collapse and 'forced' the Italian state to become the majority shareholder and guarantor of MPS, making it shell out billions and billions of euro. The final chapter thus seeks to give a sense of objectivity to all these events, going on to study the bank's 'objective' values. In 2015, the Italian state acquired the first shares of Monte di Paschi. Only two years later, the imbalance and stressful situation that gripped the bank led the Ministry of Economy and Finance to intervene with more relevance in the shareholding structure, to the point of becoming a majority shareholder.

5.2. Case of success: Intesa Sanpaolo and UBI Banca

Figure 11. Intesa Sanpaolo and UBI Banca Logos

The Intesa Sanpaolo and UBI Banca M&A activity was a high-profile banking deal that took place in 2020[75]. Intesa Sanpaolo, one of Italy's largest banks, made a successful bid to acquire UBI Banca, another Italian bank with a strong regional presence. The deal was valued at approximately 4.9 billion euros and was considered one of the largest M&A deals in the Italian banking sector in recent years.

The merger was aimed at creating a stronger, more competitive banking group with a leading market position in Italy[76]. The combined entity would have a network of over 4,000 branches and approximately 150,000 employees, making it one of the largest banking groups in Europe. The deal was expected to generate significant cost savings and other synergies and would also provide greater financial stability to the Italian banking sector.

The merger faced several challenges, including opposition from some UBI Banca shareholders who argued that the offer undervalued the bank. However, after a prolonged battle, Intesa Sanpaolo was able to secure the necessary support from UBI Banca shareholders to complete the merger.

The Intesa Sanpaolo and UBI Banca M&A activity is expected to have significant implications for the Italian banking sector and will likely be the subject of academic research and analysis in the coming years.

- Intesa Sanpaolo[77]

The history of Intesa Sanpaolo can be broadly divided into several periods, based on the key events and milestones that have shaped the bank's development over time. Here are some of the major periods in the history of Intesa Sanpaolo:

  - Pre-merger period

The pre-merger period of Intesa Sanpaolo is characterized by the separate histories of Banca Intesa and Sanpaolo IMI, which were two of Italy's largest and most respected banks.

Banca Intesa was founded in 1998 as a result of a merger between two other banks, Cassa di Risparmio delle Provincie Lombarde (Cariplo) and Banca Commerciale Italiana (BCI). The new bank, which was named Banca Intesa, became one of the largest banks in Italy, with a strong presence in the northern regions of the country. Banca Intesa was known for its innovative product offerings, including the introduction of online banking services in the early 2000s.

Sanpaolo IMI, on the other hand, had a longer history, dating back to the 19th century. The bank was formed in 1998 as a result of the merger between Istituto Bancario San Paolo di Torino and IMI (Istituto Mobiliare Italiano), two of Italy's oldest and most prestigious banks. Sanpaolo IMI was known for its expertise in investment banking and capital markets, as well as its strong international presence, with operations in Europe, Asia and the Americas.

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[75] *Storia delle Fusioni Che Hanno portato alla Creazione del Gruppo Intesa Sanpaolo*. Intesa Sanpaolo Group
[76] TG24. *Intesa-Ubi, l'acquisizione è fatta: Nasce la settima Banca Europea*
[77] *Intesa Sanpaolo: Storia del Gruppo*. Intesa Sanpaolo Group

In the years leading up to the merger, both Banca Intesa and Sanpaolo IMI had been actively pursuing growth and expansion strategies, both domestically and internationally. Banca Intesa had acquired a number of smaller banks in Italy, while Sanpaolo IMI had been expanding its operations in Europe and Asia through a series of strategic acquisitions.

Despite their different histories and areas of expertise, Banca Intesa and Sanpaolo IMI shared a number of strategic priorities and objectives. Both banks were focused on expanding their customer base, developing new products and services and leveraging technology to improve the customer experience. Additionally, both banks recognized the potential benefits of a merger, including greater scale, increased diversification and improved cost efficiencies.

- Post-merger integration period

The post-merger integration period of Intesa Sanpaolo began in January 2007, when the merger between Banca Intesa and Sanpaolo IMI was completed. The new bank was formed with the aim of creating a leading European banking institution with a strong domestic presence in Italy.

The integration process was complex and challenging, as it involved the combination of two large and diverse organizations with different cultures, structures and operational systems. The management team of Intesa Sanpaolo, led by CEO Corrado Passera, recognized the importance of a careful and structured approach to integration, in order to minimize disruption and ensure a successful outcome.

The integration process was organized into several phases, each with its own specific goals and objectives. The first phase focused on the integration of the two banks' retail networks, with the aim of harmonizing product offerings, improving customer service and reducing costs. This involved the consolidation of more than 6,000 branches and the integration of over 100,000 employees.

The second phase of the integration process focused on the creation of a common operational platform, which involved the integration of the two banks' IT systems, processes and procedures. This was a complex and time-consuming task, as the two banks had different systems and technologies in place. However, the successful completion of this phase was critical to achieving the cost synergies that had been identified as a key driver of the merger.

The third phase of the integration process focused on the rationalization of the two banks' product offerings and business lines. This involved the identification of areas of overlap and duplication, as well as opportunities for cross-selling and revenue growth. The aim was to create a streamlined and efficient organization that could compete effectively in a rapidly changing market environment.

The final phase of the integration process focused on the cultural integration of the two organizations. This involved the development of a common corporate culture and the alignment of employee values, behaviors and incentives. The aim was to create a unified and cohesive organization that could work together to achieve the bank's strategic objectives.

Overall, the post-merger integration process of Intesa Sanpaolo was successful, with the bank achieving the cost and revenue synergies that had been identified as key drivers of the merger. The bank emerged as a leading player in the Italian banking sector, with a strong domestic franchise and a growing international presence.

- Expansion and diversification period

The expansion and diversification period of Intesa Sanpaolo followed the successful completion of the post-merger integration process and was characterized by a focus on strategic growth initiatives and the pursuit of new business opportunities. The bank's management team, led by CEO Corrado Passera, recognized the importance of expanding the bank's product offerings, customer base and geographic reach in order to ensure sustainable long-term growth.

One of the key strategic initiatives of this period was the bank's expansion into new geographic markets. The bank entered several new markets through a combination of organic growth and acquisitions. For example, in 2008, Intesa Sanpaolo acquired a majority stake in Ukraine's Pravex Bank and in 2009, it acquired a 50% stake in Russia's KMB Bank. The bank also expanded its operations in Central and Eastern Europe, with the acquisition of a controlling stake in Slovenia's Banka Koper in 2008.

In addition to its geographic expansion, Intesa Sanpaolo also focused on diversifying its business lines and product offerings. This involved the introduction of new products and services, such as wealth management and insurance, as well as the expansion of its existing business lines, such as investment banking and asset management. The bank also sought to expand its customer base by targeting new segments, such as high-net-worth individuals and small and medium-sized enterprises.

During this period, Intesa Sanpaolo also pursued a number of strategic partnerships and joint ventures. For example, in 2011, the bank formed a joint venture with Allianz to provide insurance products to its customers and in 2012, it formed a strategic partnership with China Construction Bank to develop business opportunities in the Chinese market.

Overall, the expansion and diversification period of Intesa Sanpaolo was successful in positioning the bank as a leading player in the European banking sector, with a diversified business model and a strong domestic and international presence. The bank's focus on growth and diversification enabled it to weather the challenges of the global financial crisis and positioned it for continued success in the years to come.

- Financial crisis and restructuring period

The financial crisis and restructuring period of Intesa Sanpaolo began in 2008 with the onset of the global financial crisis, which had a significant impact on the Italian banking sector. Like many other banks, Intesa Sanpaolo faced a range of challenges during this period, including declining asset quality, increased regulatory scrutiny and a challenging economic environment.

To address these challenges, Intesa Sanpaolo embarked on a comprehensive restructuring plan, which involved a number of strategic initiatives. One of the key elements of this plan was a focus on risk management and asset quality, with the bank increasing its provisions for bad loans and restructuring its loan portfolio to reduce risk. The bank also implemented a number of cost-saving measures, including a reduction in headcount and the closure of non-strategic branches.

In addition to its internal restructuring efforts, Intesa Sanpaolo also benefited from a number of government-led initiatives, such as the introduction of the "GACS" scheme in 2016, which allowed the bank to offload a significant portion of its non-performing loans.

Despite the challenges of the financial crisis and the subsequent restructuring period, Intesa Sanpaolo was able to maintain its position as one of the leading banks in the Italian market. The bank's focus on risk management and asset quality enabled it to weather the challenges of the crisis, while its cost-saving measures and government-led initiatives helped to ensure its long-term sustainability.

Today, Intesa Sanpaolo is a strong and resilient bank, with a diversified business model and a solid balance sheet. The bank's focus on innovation and digital transformation has positioned it for continued success in the years to come and it remains a leading player in the European banking sector.

- Recent period

The recent period for Intesa Sanpaolo has been marked by a number of key strategic initiatives aimed at maintaining the bank's leading position in the Italian market and strengthening its position in Europe.

One of the most significant developments in this period was the merger with UBI Banca, which was announced in February 2020 and completed in April 2021. The merger, which was the largest in the Italian banking sector in over a decade, created a new banking group with over 12 million customers and more than 3,800 branches across Italy. The merger is expected to generate significant cost savings and operational efficiencies for the combined entity and to position it for further growth and expansion.

In addition to the UBI Banca merger, Intesa Sanpaolo has also been focused on digital transformation and innovation, with a number of key investments in this area. In 2019, the bank launched its "Innovation Center" to drive the development of new digital solutions and has continued to invest in technologies such as artificial intelligence, big data and blockchain.

Intesa Sanpaolo has also been active in the area of sustainable finance, with a focus on supporting the transition to a low-carbon economy. In 2020, the bank launched its "Green Bond Framework" to support the issuance of green bonds and has committed to providing €50 billion in funding for sustainable projects by 2025.

Overall, the recent period for Intesa Sanpaolo has been marked by a focus on strategic initiatives aimed at driving growth, improving efficiency and enhancing the bank's competitiveness in the Italian and European markets. The bank's strong financial position, combined with its focus on digital transformation and sustainable finance, has positioned it for continued success in the years to come.

The competitive landscape for Intesa Sanpaolo has evolved significantly over the years, with a number of key drivers of success contributing to the bank's position as one of the leading players in the Italian and European banking sectors.

In the early years of its history, Intesa Sanpaolo's success was driven by a focus on building a strong network of branches and expanding its range of products and services. The bank grew rapidly through a series of mergers and acquisitions and by the mid-2000s had become the largest banking group in Italy.

In the post-merger integration period, Intesa Sanpaolo's success was driven by a focus on improving efficiency and profitability. The bank undertook a number of cost-cutting initiatives and also diversified its business lines to include asset management and insurance. This helped the bank weather the financial crisis of 2008-2009, which hit the Italian banking sector hard.

In the expansion and diversification period, Intesa Sanpaolo's success was driven by a focus on expanding its international footprint and diversifying its revenue streams. The bank made a number of acquisitions in Eastern Europe and also expanded its wealth management and corporate banking businesses.

In the recent period, Intesa Sanpaolo's success has been driven by a focus on digital transformation and sustainable finance. The bank has invested heavily in technology and innovation and has also made a commitment to supporting the transition to a low-carbon economy.

Throughout its history, Intesa Sanpaolo's success has also been driven by a strong focus on risk management and regulatory compliance. The bank has a strong capital position and has consistently outperformed its peers in terms of asset quality and credit risk.

Overall, the key drivers of success for Intesa Sanpaolo have evolved over time, but have consistently included a focus on building a strong network, improving efficiency and profitability, diversifying revenue streams and managing risk effectively. The bank's ongoing commitment to innovation and sustainability is expected to further strengthen its position in the Italian and European banking sectors in the years to come.

- UBI Banca[78]

The history of Ubi Banca can be broadly divided into several key periods, each characterized by significant events and developments:

  - Foundation and early days (2007-2010)

Ubi Banca was formed in 2007 through the merger of two regional banks, Banche Popolari Unite and Banca Lombarda. The newly-formed bank had its headquarters in Bergamo, in the Lombardy region of northern Italy and focused on building a strong presence in this region and the neighboring Piedmont region.

The merger was driven by a desire to create a stronger and more competitive regional bank, with a wider range of products and services and a larger customer base. At the time of the merger, Banche Popolari Unite had a network of 444 branches and over 3,500 employees, while Banca Lombarda had 195 branches and 1,700 employees.

The newly-formed Ubi Banca was initially focused on developing its regional presence and expanding its range of products and services. The bank aimed to become a leading provider of financial services in northern Italy, with a particular emphasis on serving the needs of small and medium-sized enterprises (SMEs) and individual customers.

To achieve this goal, Ubi Banca invested heavily in its technology and infrastructure, developing a sophisticated IT system that allowed it to offer a wide range of financial products and services to its customers. The bank also embarked on an aggressive expansion strategy, acquiring a number of smaller banks and building a national network of branches.

Overall, the foundation and early years of Ubi Banca were characterized by a strong focus on regional growth and expansion, as the bank sought to establish itself as a leading provider of financial services in northern Italy.

  - Growth and expansion (2010-2014)

During the growth and expansion period of Ubi Banca, which took place in the years following its formation in 2007, the bank continued to focus on developing its regional presence in northern Italy while also expanding its range of products and services.

[78] Wikimedia Foundation. (2022, May 31). *Ubi Banca*. Wikipedia

One key element of Ubi Banca's growth strategy was a series of acquisitions that allowed the bank to expand its reach and capabilities. In 2008, the bank acquired Banca Marche, which had a strong presence in the Marche region of central Italy and Banca Popolare di Ancona, which had a network of branches in the Marche and Umbria regions.

Over the next few years, Ubi Banca continued to acquire smaller banks and financial institutions, building a national network of branches and expanding its range of products and services. In 2011, the bank acquired Banca Carime, which had a strong presence in the southern Italian region of Puglia. In 2013, it acquired Banca Popolare Commercio e Industria, which had a network of branches in central and northern Italy.

Alongside its expansion through acquisitions, Ubi Banca also invested in its technology and infrastructure, developing a range of innovative products and services to meet the evolving needs of its customers. The bank was an early adopter of mobile banking and other digital technologies, which helped it to build a strong reputation as a modern and customer-focused financial institution.

By the end of this period, Ubi Banca had become one of the largest and most successful banks in Italy, with a national network of over 1,500 branches and more than 19,000 employees.

- Challenges and restructuring (2014-2019)

The challenges and restructuring period of Ubi Banca started in the aftermath of the 2008 financial crisis. As a mid-sized bank, Ubi Banca struggled to cope with the impact of the crisis, which led to a significant rise in non-performing loans and a deterioration in the bank's asset quality.

In 2014, Ubi Banca embarked on a strategic plan aimed at improving its financial position and profitability. The plan, called "UBI Pronti per la Ripresa" ("Ubi Ready for Recovery"), focused on several key areas, including cost reduction, risk management and the disposal of non-performing loans.

To address its asset quality issues, Ubi Banca launched a program to sell off its non-performing loan portfolio. The bank also implemented measures to improve risk management and enhance its capital position, including a capital increase of €400 million in 2015.

In 2016, Ubi Banca announced a new strategic plan, called "UBI in Progress," which aimed to further strengthen the bank's financial position and profitability. The plan focused on cost efficiency, revenue growth and a digital transformation of the bank's operations.

Despite these efforts, Ubi Banca continued to face challenges, including a persistently low interest rate environment, intense competition from larger banks and the ongoing impact of the non-performing loan crisis.

In early 2020, Ubi Banca agreed to be acquired by Intesa Sanpaolo in a deal that was driven in part by the challenges facing the mid-sized bank. The merger was seen as a way to create a stronger and more resilient bank that could better compete in the increasingly challenging banking landscape in Italy and Europe.

- Merger with Intesa Sanpaolo (2020-2021)

In July 2020, Intesa Sanpaolo announced its plan to acquire Ubi Banca, a mid-sized Italian bank with a strong presence in the northern regions of Italy, for €4.9 billion. The proposed merger was aimed at strengthening Intesa Sanpaolo's position as the largest bank in Italy and one of the largest in Europe.

The proposed merger was met with some resistance from Ubi Banca's management and board of directors, who argued that the price offered by Intesa Sanpaolo undervalued the bank. However, after several rounds of negotiations, the two sides eventually reached a deal in September 2020, with Intesa Sanpaolo agreeing to pay €4.25 billion for Ubi Banca.

The merger was completed on May 3, 2021 and Ubi Banca was fully integrated into Intesa Sanpaolo. As part of the integration, Ubi Banca's branches and employees were merged into Intesa Sanpaolo's operations and Ubi Banca's IT systems and infrastructure were integrated into Intesa Sanpaolo's.

The merger was expected to create significant synergies for Intesa Sanpaolo, including cost savings from the integration of Ubi Banca's operations and improved cross-selling opportunities. The merger was also expected to strengthen Intesa Sanpaolo's position in the Italian banking sector and increase its ability to compete with other large European banks.

Overall, Ubi Banca's history has been marked by both periods of growth and expansion, as well as challenges and restructuring efforts. The bank's merger with Intesa Sanpaolo represents a significant new chapter in its history and is expected to help position the bank for continued success in the years to come.

Ubi Banca was one of the largest banking groups in Italy and a key player in the northern regions of the country. The bank's success was based on its customer-centric approach and its focus on serving small and medium-sized enterprises (SMEs) and retail clients.

During its growth period, Ubi Banca built a strong local presence through a series of mergers and acquisitions of smaller regional banks, consolidating its position in key markets. This allowed the bank to expand its customer base and offer a wide range of financial products and services to support the growth of local businesses and households.

Ubi Banca's success was also based on its efficient and cost-effective operating model, which enabled it to achieve high levels of profitability and return on equity (ROE). The bank's conservative risk management policies, combined with a diversified loan portfolio and a strong capital position, helped it weather the challenges of the financial crisis.

However, Ubi Banca faced significant challenges in the aftermath of the crisis, as the Italian banking sector struggled with high levels of non-performing loans and increased regulatory scrutiny. The bank was forced to undertake a major restructuring program to improve its efficiency and profitability, which included divestments of non-core businesses and a focus on strengthening its balance sheet.

Ultimately, Ubi Banca's decision to merge with Intesa Sanpaolo was driven by the need to achieve greater scale and competitiveness in the face of ongoing market pressures and regulatory changes. The merger was expected to create a stronger, more diversified banking group with a leading position in the Italian market and the ability to invest in new technologies and innovation to better serve its customers.

- Reasons behind the merger and significance of the deal[79]

The reasons behind the Intesa Sanpaolo and Ubi Banca merger can be attributed to several factors. One of the main reasons was the need for consolidation in the Italian banking sector, which has been facing

[79] Massaro, B. (2020, February 19). *Fusione Intesa Sanpaolo – Ubi Banca: I Numeri e Le Ragioni dell'ops*. Panorama

challenges due to economic and regulatory pressures. The merger was seen as a way to create a stronger and more competitive player in the market that could better withstand these challenges.

Additionally, the merger was driven by a desire for greater scale and efficiency, as well as the potential for cost savings and synergies. Intesa Sanpaolo saw the acquisition of Ubi Banca as a way to expand its presence in key regions of Italy and to add new customers and business lines to its portfolio.

For Ubi Banca, the merger was seen as a way to address its own financial challenges and to better position itself for long-term success. The bank had been struggling with profitability and faced significant regulatory pressures and the merger was seen as a way to address these issues and to create a more sustainable business model.

The merger between Intesa Sanpaolo and Ubi Banca is significant for several reasons. First, it is one of the largest M&A deals in the European banking sector in recent years, with a total value of over 4 billion euros. The deal has the potential to reshape the Italian banking landscape, creating a stronger and more competitive player in the market.

The merger is also significant in terms of the potential for cost savings and synergies. Intesa Sanpaolo has indicated that it expects to achieve significant cost savings from the deal and that the merger will lead to improved efficiencies and economies of scale. These benefits could help to improve the financial performance of the combined entity and make it a more attractive investment opportunity for shareholders.

The deal is also significant in terms of the potential impact on the broader Italian economy. A stronger and more stable banking sector could help to support economic growth and development, by providing businesses and consumers with greater access to credit and financial services.

Finally, the merger is significant in terms of the challenges it faces. Integrating two large banks is a complex and challenging process and the success of the deal will depend on the ability of the two organizations to work together effectively and to overcome the many obstacles that are likely to arise.

- Strategic fit

The merger of Intesa Sanpaolo and Ubi Banca was primarily driven by the strategic fit between the two firms. Intesa Sanpaolo is the largest retail bank in Italy, with a strong presence in the northern regions of the country, while Ubi Banca was a medium-sized bank with a dominant position in the central and northeastern regions of Italy.

The merger was expected to create a more geographically diversified and well-balanced bank with a strong presence in all the key regions of Italy, making it better equipped to compete with other large European banks. The combined entity would have a market share of around 17% in Italy, making it the second-largest bank in the country, after UniCredit.

The merger was also expected to deliver significant cost savings through the consolidation of back-office operations and the reduction of duplicated branches and administrative functions. The companies projected that the merger would lead to cost savings of around €1.2 billion per year by 2023.

In addition, the merger was expected to strengthen the banks' balance sheets and provide a platform for future growth, particularly in the areas of digital banking, asset management and insurance. The two banks had complementary strengths in these areas, with Intesa Sanpaolo having a strong digital banking platform and Ubi Banca having a strong asset management business.

Overall, the strategic fit between Intesa Sanpaolo and Ubi Banca was based on the complementary nature of their operations, which was expected to result in a more efficient, diversified and profitable bank with a strong position in the Italian banking market.

- Potential synergies[75]

The potential synergies of the Intesa Sanpaolo and UBI Banca merger are significant and varied. Here are some of the key areas of potential synergy:

  - Cost Savings

The merger is expected to result in significant cost savings through the consolidation of back-office functions, branch networks and IT systems. Intesa Sanpaolo expects to achieve around 700 million euros in cost savings per year by 2024, largely from reducing duplicated costs.

  - Revenue Growth

The combined entity will have a stronger and broader customer base, providing opportunities for cross-selling and new product development. Intesa Sanpaolo has already stated its plans to expand its presence in the affluent northern regions of Italy, where UBI Banca is well established.

  - Diversification

The merger will help to diversify Intesa Sanpaolo's revenue streams, reducing its reliance on traditional banking activities. With the addition of UBI Banca's asset management and insurance units, Intesa Sanpaolo will be able to offer a more comprehensive suite of financial products to its customers.

  - Risk Reduction

The combined entity will have a stronger capital base and lower risk profile, as well as a more diversified loan portfolio. This will help to reduce the overall risk of the combined business and increase its resilience to economic downturns.

  - Improved Market Position

The merger will give Intesa Sanpaolo a stronger competitive position in the Italian banking sector, with a significantly larger market share. The combined entity will become the largest bank in Italy by both assets and customers, with a market share of around 18%.

Overall, the strategic fit between the two firms is seen as highly complementary, with Intesa Sanpaolo's strengths in retail banking and corporate lending complementing UBI Banca's expertise in asset management and insurance. The combination of these two businesses is expected to create a stronger, more diversified financial institution that is better positioned to succeed in the highly competitive Italian banking market.

- The regulatory framework

The regulatory framework that governed the Intesa Sanpaolo-Ubi Banca merger was the European Union Merger Regulation (EUMR) and the Italian regulatory framework for banking mergers and acquisitions. As the merger involved two major Italian banks, the Bank of Italy and the Italian Competition Authority were also involved in the regulatory process. The merger had to comply with the antitrust and competition rules of the EU and Italy, which aimed to ensure that the merger did not result in any anti-competitive outcomes in the banking sector. The Bank of Italy and the Italian

Competition Authority evaluated the merger to ensure that the transaction did not create any negative impact on market competition, financial stability, or consumers. They also evaluated the capital position, asset quality and overall financial strength of the two banks to ensure that the merged entity would be a viable and stable institution.

- Legal challenges or hurdles

The Intesa Sanpaolo and Ubi Banca merger faced several legal challenges and hurdles during the course of the deal.

One of the main challenges was posed by some of the shareholders of Ubi Banca, who were opposed to the merger and felt that the offer made by Intesa Sanpaolo undervalued their shares. Some shareholders even took legal action against the proposed deal, arguing that the terms of the offer were unfair and that Intesa Sanpaolo had not disclosed all the relevant information about the deal.

Another legal challenge was raised by the Italian antitrust authority, which expressed concerns that the merger would result in a concentration of market power in certain segments of the banking industry. To address these concerns, Intesa Sanpaolo agreed to sell some of its branches in the regions where the overlap was the most significant.

Additionally, there were concerns about potential job losses resulting from the merger, which led to opposition from trade unions and some politicians. Intesa Sanpaolo assured that the deal would not lead to any forced layoffs and that the bank would offer support to affected employees through training and other initiatives.

Despite these challenges, the merger was ultimately completed and the two banks officially merged on April 1, 2021.

- Financial analysis (2018-2021)[80-81-82-83-84-85]

The financial analysis of the Intesa Sanpaolo and UBI Banca merger aims to evaluate the financial position of the two banks before and after the merger, as well as the financial impact of the merger on the newly formed entity. This analysis involves a detailed study of various financial ratios and performance indicators, such as profitability ratios, liquidity ratios, solvency ratios and efficiency ratios, among others. The analysis also considers the business and financial risks associated with the merger and the potential synergies that could be achieved through the integration of the two banks. Additionally, the financial analysis also evaluates the impact of the merger on the shareholders of the two banks and the potential value creation for the newly formed entity.

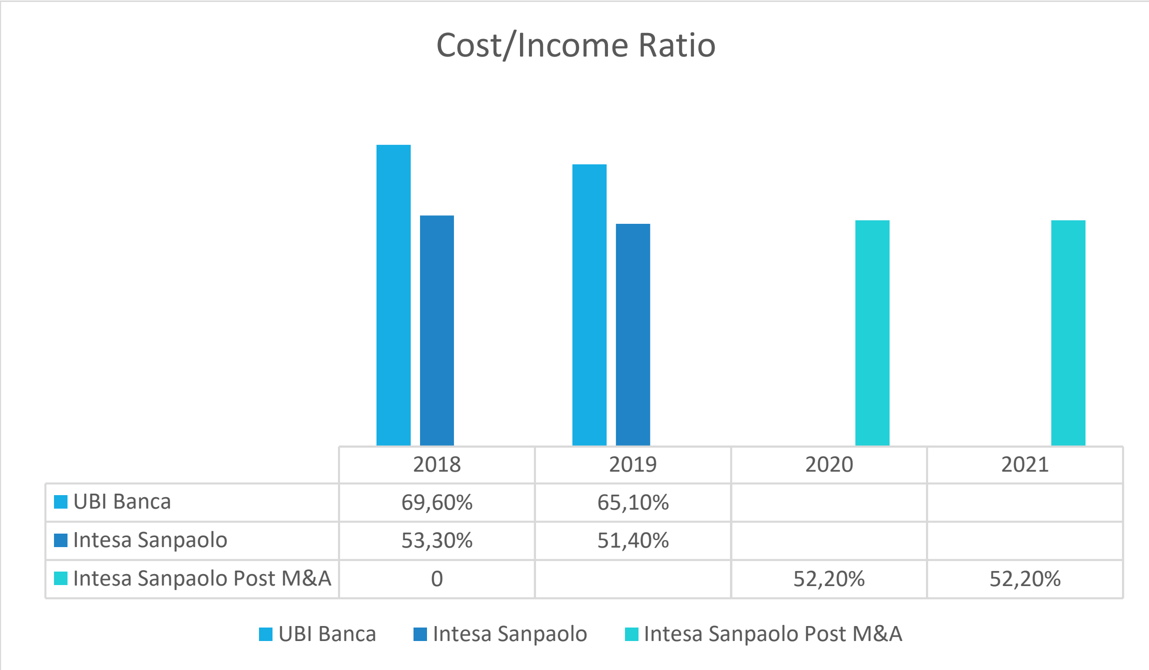
  - Cost/Income Ratio

One of the most frequently used indicators to assess the efficiency of banks is the Cost/Income Ratio. The cost/income ratio is a financial metric that shows the proportion of costs compared to revenues in a business. The cost/income ratio is used as an efficiency indicator, showing how much a company has to spend to generate its income. A lower cost/income ratio is generally considered better, as it indicates that a company is more efficient in generating income and controlling its expenses. The lower its value,

[80] *Analisi Intesa Sanpaolo - Evaluation.it*
[81] Intesa Sanpaolo: Indicatori 2021. *Intesa Sanpaolo*
[82] Intesa Sanpaolo. *Intesa Sanpaolo: Bilancio 2018*
[83] Intesa Sanpaolo. *Intesa Sanpaolo: Bilancio 2019*
[84] Intesa Sanpaolo. *Intesa Sanpaolo: Bilancio 2020*
[85] Intesa Sanpaolo. *Intesa Sanpaolo: Bilancio 2021*

the greater the credit intermediary's ability to cover costs through the generation of turnover. It is evident that this ratio will be lower for larger institutions, since they are able to reduce the average total cost by increasing the volume of production.

This is very clear from Chart 1, which, comparing the data of UBI and Intesa Sanpaolo in the years 2018-2019, highlights the clear difference in the indicator between the two institutions.



	2018	2019	2020	2021
UBI Banca	69,60%	65,10%		
Intesa Sanpaolo	53,30%	51,40%		
Intesa Sanpaolo Post M&A	0		52,20%	52,20%

Chart 1. Cost/Income Ratio 2018-2021 (Source:Balance Sheet 2018-2019-2020-2021)

Intesa Sanpaolo, thanks to its larger size, shows a clear difference in efficiency compared to UBI, displaying a lower Cost/Income ratio of about 16 and 14 percentage points in 2018 and 2019, respectively. It is clear that, after the merger that resulted in the incorporation of a much less efficient entity and the concomitant crisis in the banking sector caused by the COVID-19 pandemic, Intesa's ratio increased slightly. Despite this, compared to the average benchmark of 64% for larger institutions, resulting from a KPMG analysis[86] conducted in 2020 on a sample of 14 Italian banking groups, representing around 70% of total consolidated assets, Intesa Sanpaolo's ratio is still far better. This result was achieved thanks to the constant structural reduction of operating costs (-1.1% compared to 2020) by the bank.

This reduction was made possible by the massive investment in technological innovations and the downward trend in the number of employees and bank branches. The figures in Chart 2 show a 13.3% decrease in the number of employees and a 32.2% decrease in the number of branches over the course of just three years. Moreover, as explained in Intesa Sanpaolo's 2022-2025 Business Plan, in which investments in technological development amounting to EUR 5 billion are planned, the bank aims to *"strengthen the bank's omnichannel propositions and become a leader in Europe in terms of operational efficiency. In order to do this, a new digital bank (called isybank) will be created and it will continue to*

[86] Cicioni, G., *Analisi dei Bilanci dei Gruppi Bancari*. KPMG

invest heavily in technology, including through partnerships with top fintech and artificial intelligence players"[87].

Technological investments are becoming more and more feasible, thanks above all to the merger with UBI, which has led to a sharp drop in the average cost of innovation thanks to the introduction of a wide range of products and services that can be managed remotely, in response to the pandemic emergency. The most important of these are: the digitization of contracts and the adoption of digital identity for contract signing, the release of several digital payment instruments, including *Samsung Pay* or the *Wearable* service, the possibility for retail companies to apply for short-term financing in a fully digital way and the introduction of the *Investo* application for managing mutual funds. These innovations have resulted in a substantial improvement of the offer, generating numerous benefits for customers.

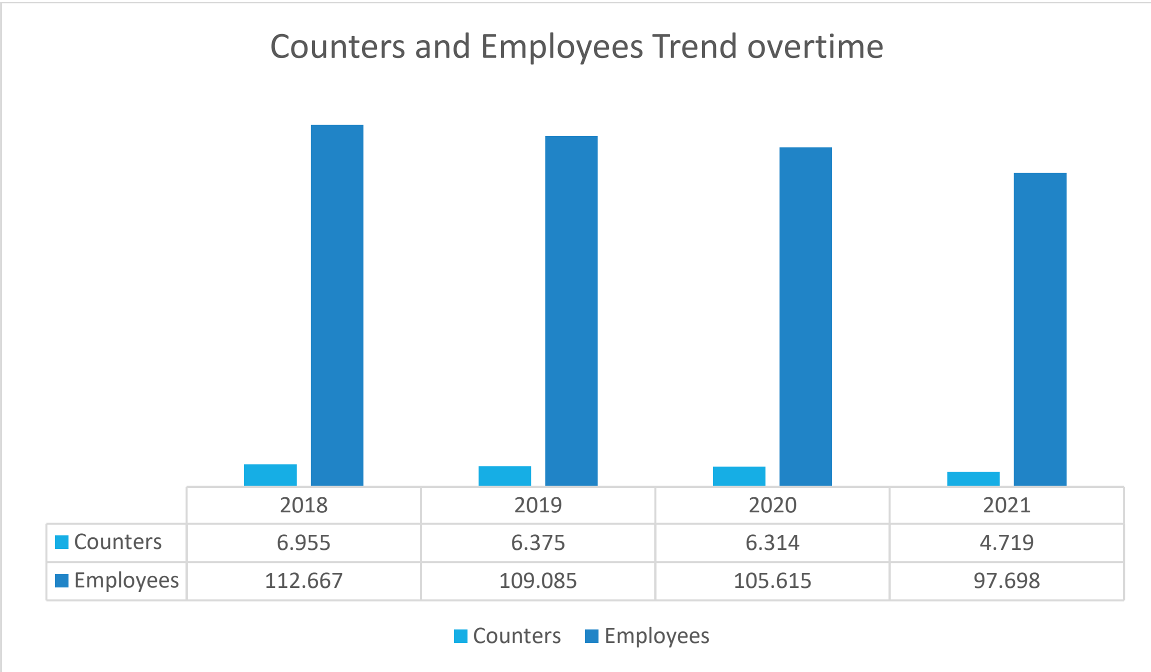


Chart 2. Counters and Employess Trend overtime 2018-2021 (Source:Balance Sheet 2018-2019-2020-2021)

- ROE

According to the Financial Stability Report published by the Bank of Italy in November 2021, *"over the past six months, analysts' expectations on the profits of Italian and euro area banks have continued to improve: in November, expected three-year profits as a ratio of capital and reserves (return on equity, ROE) stood at 7.2 per cent and 8.4 per cent, respectively, in line with what was observed before the pandemic emergency."*[88]

As already mentioned in previous chapters, ROE is the most important indicator used to assess a bank's performance, since what matters most to shareholders is the net profit that the bank manages to generate for equity capital.

It is clear from Chart 3 that larger institutions usually manage to generate better results than smaller banks. Comparing the 2018 and 2019 figures of Intesa Sanpaolo and UBI, it is possible to confirm this, as Intesa's ROE is significantly higher than that of UBI Banca. Subsequently, in 2020 Intesa Sanpaolo's

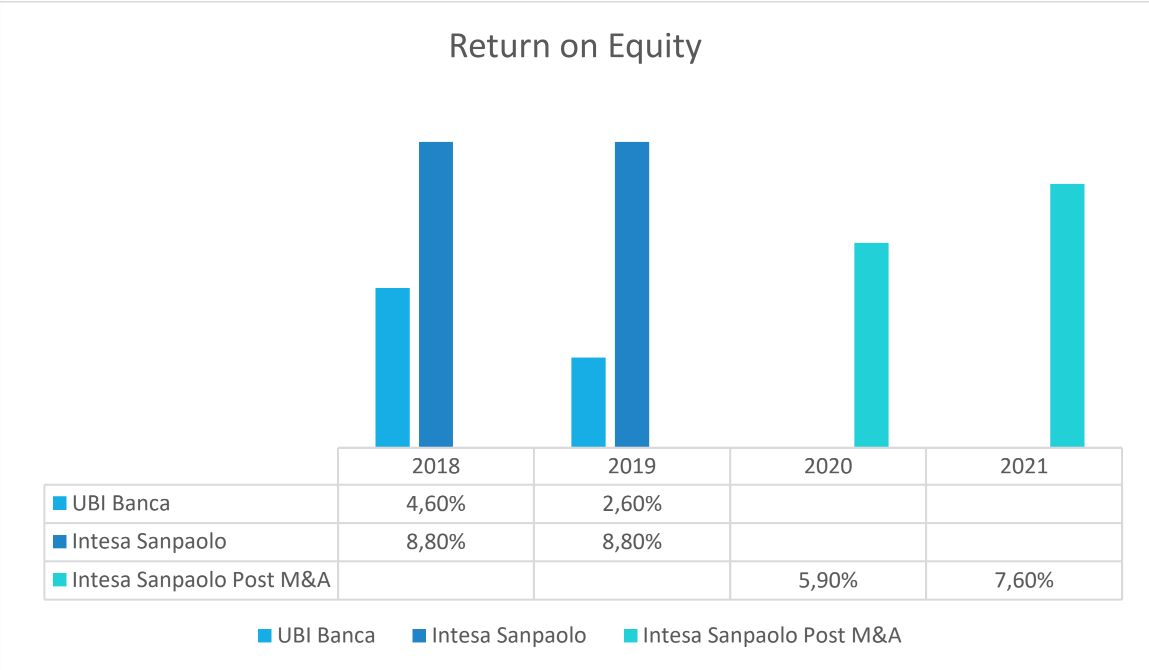
[87] *Piano di Impresa 2022-2025: Costruire La Banca del Futuro: Intesa Sanpaolo*. Intesa Sanpaolo Group
[88] Banca d'Italia. *Rapporto Sulla stabilità finanziaria n. 2 - 2021*

ROE decreased greatly compared to the values of previous years. The bank's weak performance is attributable to the COVID-19 pandemic, which led to a general decline in the ROE of all banks. However, this index stood at a higher value than the 3.9% of the sample studied by KPMG, in the analysis mentioned in the previous paragraph.

In 2021, thanks to the integration of the two banks' models and the realisation of synergies, Intesa's net profit amounted to approximately EUR 4.2 billion, marking a growth of 19.4% compared to 2020 and resulting in a ROE of 7.6%, slightly higher than the Italian average value described at the beginning of this section. Furthermore, a closer look at the trend of interest rates on loans granted by banks shows that these remained in line with the values of previous years in 2021. This means that the bank was the main player in the improvement of its performance.

It is important to point out, however, that the bank's equity multiplier also increased compared to the previous year, from 18 to 19.5.

It is clear from these results that the merger between the two banks was a great success, as it led to the creation of a true leader in the banking scene not only in Italy, but also in Europe.



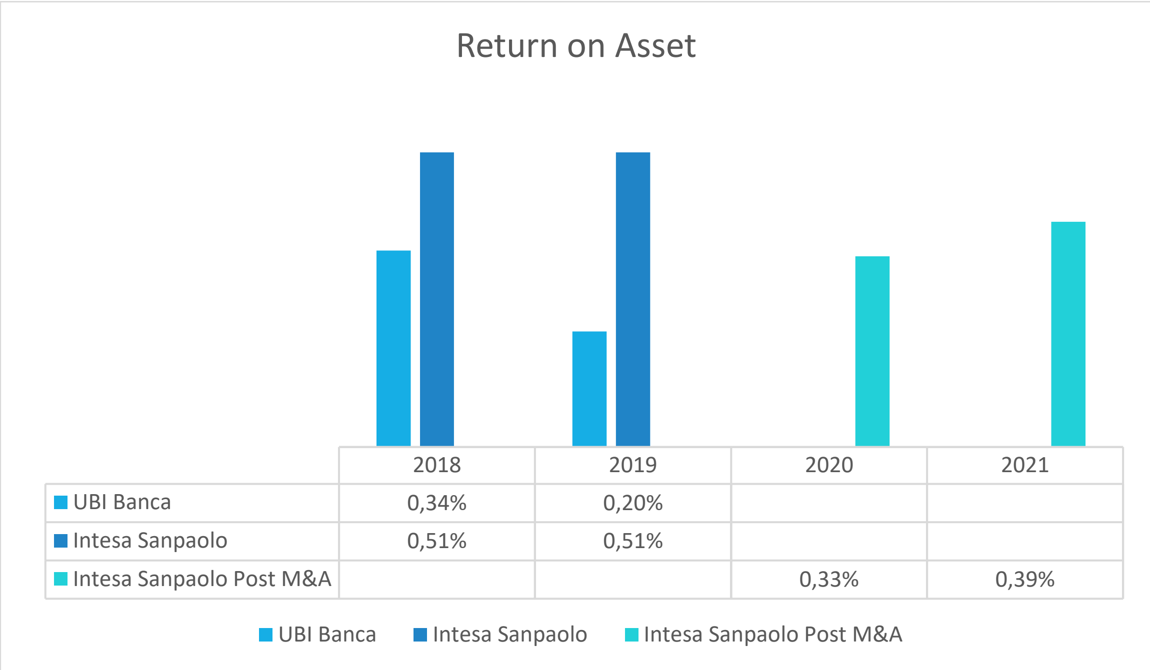
	2018	2019	2020	2021
UBI Banca	4,60%	2,60%		
Intesa Sanpaolo	8,80%	8,80%		
Intesa Sanpaolo Post M&A			5,90%	7,60%

Chart 3. Return on Equity 2018-2021 (Source:Balance Sheet 2018-2019-2020-2021)

- ROA

A good performance analysis must necessarily also take into account the size of the bank and therefore the combined use of ROE with ROA is essential. This index makes it possible to assess whether the management of the bank's assets has been efficient by relating the value of the net result to the value of the assets held.

Chart 4 shows how the current value of the index, at 0.39%, is still lower than the 0.51% of the pre-pandemic period. Therefore, the economic results achieved by Intesa Sanpaolo in 2021, although formidable, are still susceptible to a great deal of room for improvement, which can be achieved by making better use of the company's resources. Compared to 2020, in fact, ROA increased only slightly, from 0.33% to 0.39%. Analysing the index in more detail, by breaking it down into *AU* and *NPM*, it can be seen that its increase was almost entirely determined by the strong growth in net profit. The *Net Profit Margin* compared to 2020 was, in fact, characterised by a growth of about 3%, rising from 17.23% to 20.13%, while *Asset Utilisation* was characterised by only a marginal increase in value, less than 0.1%. This highlights, once again, the fundamental importance of the integration of post-merger resources for the realisation of the desired synergies. Generating more operating revenues for every euro of assets on the balance sheet would result in a significant increase in AU and consequently an increase in ROE.

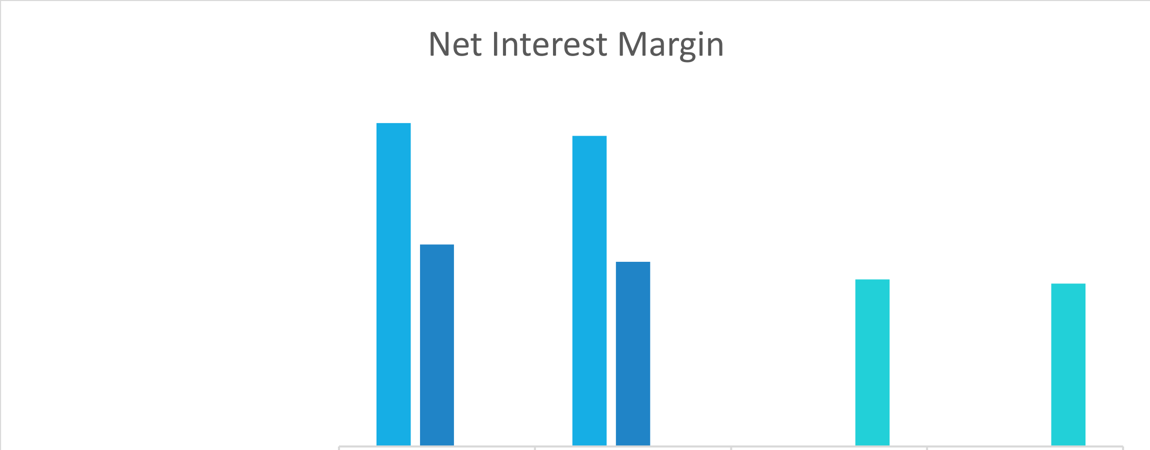


	2018	2019	2020	2021
UBI Banca	0,34%	0,20%		
Intesa Sanpaolo	0,51%	0,51%		
Intesa Sanpaolo Post M&A			0,33%	0,39%

Chart 4. Return on Asset 2018-2021 (Source:Balance Sheet 2018-2019-2020-2021)

It is important to point out, however, that the increase in ROE in 2021 was not driven by the growth in net interest income. In fact, an analysis of Intesa Sanpaolo's consolidated balance sheet data for 2021 shows a growth of only EUR 261 million in net interest income compared to the value recorded in 2020, due to the low interest rates paid on banking assets. Therefore, as shown in the Chart 5, the Net Interest Margin remained in line with the 2020 value.

What actually led to the large growth in net profit was the confirmation of the upward trend in net commissions and financial assets and liabilities attributable to insurance companies in accordance with IAS 39, which advanced by EUR 1.4 billion and EUR 1.2 billion, respectively, increasingly marking the bank's shift towards a business model focused on commissions and insurance business.



	2018	2019	2020	2021
UBI Banca	1,49%	1,43%		
Intesa Sanpaolo	0,93%	0,85%		
Intesa Sanpaolo Post M&A			0,77%	0,75%

Chart 5. Net Interest Margin 2018-2021 (Source:Balance Sheet 2018-2019-2020-2021)

- Non-Performing Exposure (NPE)

According to the 2022-2025 Business Plan, Intesa Sanpaolo will "*pursue a structural de-risking strategy with the ambition of becoming a Zero-NPL Bank.*"[87] This strategy has already been initiated in previous years and is proving increasingly successful. Compared to the average values of its competitors, Intesa Sanpaolo's index is the lowest of all. As shown in Chart 6, in 2018 the NPE ratios of Intesa and UBI were 4.22% and 6.72%, respectively. The value of the ratio underwent a constant decrease, which led it, at the end of the 2021 financial year, to stand at 1.52%, marking from 2017 an overall reduction of gross impaired loans by approximately EUR 37 billion since 2017.

Importantly, the ratio did not increase even following the pandemic crisis COVID-19. This was possible, in part, thanks to the extraordinary public support that was granted to the credit intermediaries, including the moratorium and public guarantees on loans granted.

In addition, Intesa Sanpaolo's large size, allowing it to leverage economies of scale combined with the external management of NPEs, ensure that the bank can effectively manage internally impaired loans. internally the impaired loans. In this way, a sell-off of such loans does not occur.

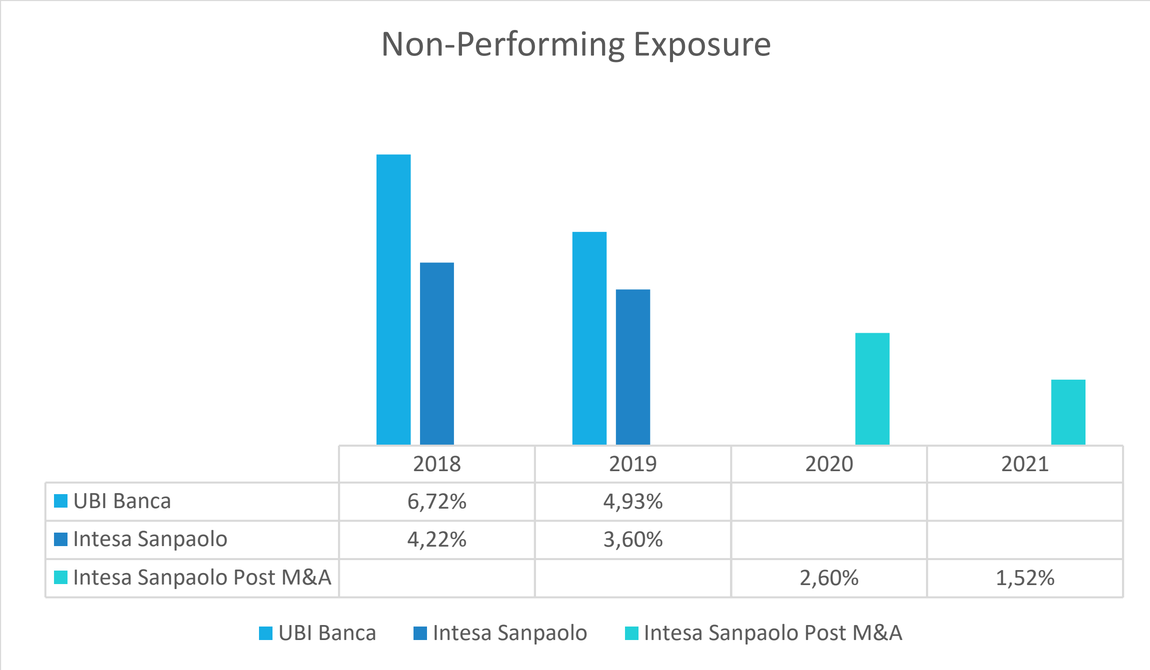


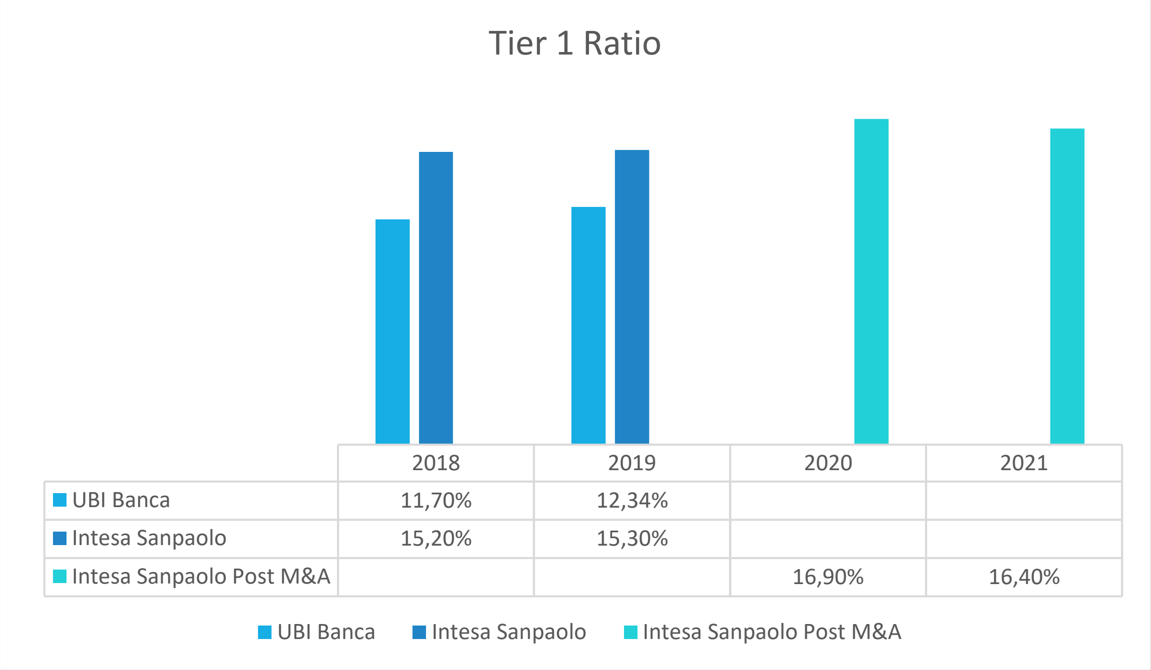
Chart 6. Non-Performing Exposure 2018-2021 (Source:Balance Sheet 2018-2019-2020-2021)

- Tier 1 Ratio and Common Equity Tier 1 Ratio

As can be seen in Chart 6 and Chart 7, the merger between the two intermediaries also led to an increase in capital strength.

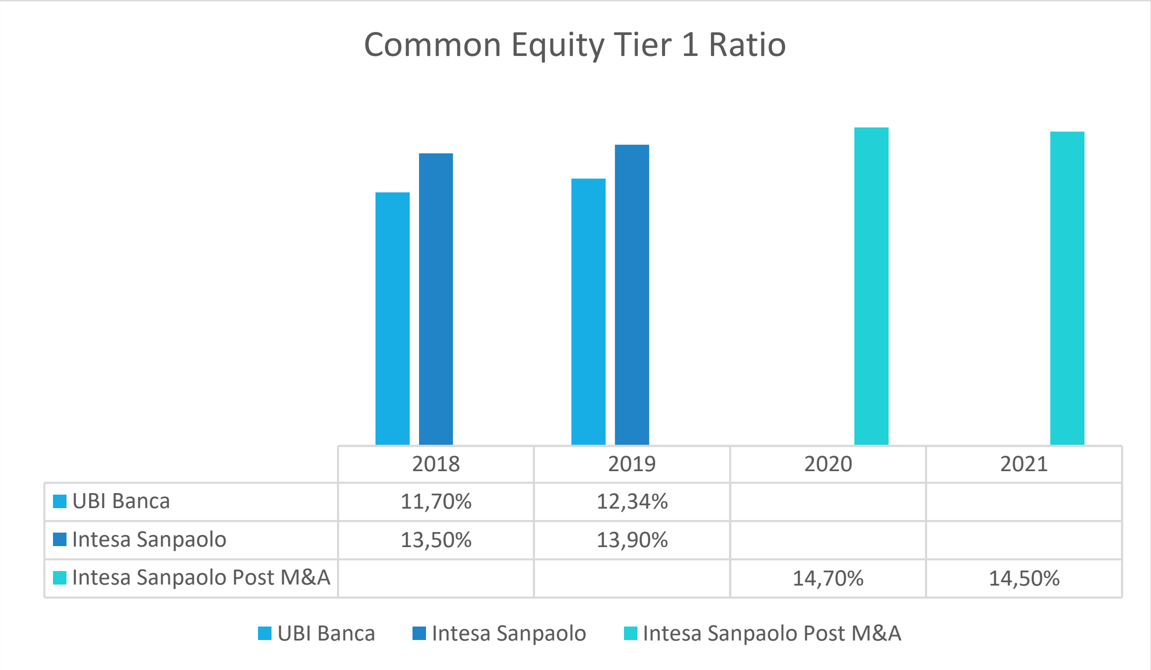
In 2021, the Tier 1 ratio and Common Equity Tier 1 ratio stood at 16.4% and 14.5%, respectively, well above the ECB's 2021 thresholds of 14.9% and 10.5%.

From the analysis, it emerges that there is a general trend for banks to increase these capital ratios, which shows an increasing robustness of credit intermediaries and a much better asset quality than in past years.



	2018	2019	2020	2021
UBI Banca	11,70%	12,34%		
Intesa Sanpaolo	15,20%	15,30%		
Intesa Sanpaolo Post M&A			16,90%	16,40%

Chart 7. Tier 1 Ratio 2018-2021 (Source:Balance Sheet 2018-2019-2020-2021)



	2018	2019	2020	2021
UBI Banca	11,70%	12,34%		
Intesa Sanpaolo	13,50%	13,90%		
Intesa Sanpaolo Post M&A			14,70%	14,50%

Chart 8. Common Equity Tier 1 Ratio 2018-2021 (Source:Balance Sheet 2018-2019-2020-2021)

The values of these ratios thus allowed Intesa Sanpaolo to return to distribute a generous dividend for the financial year 2020 after the general forced freeze imposed by the ECB for the year 2019, aimed at safeguarding the banks' ability to absorb losses.

Furthermore, following the strong results achieved in the financial year 2021, EUR 1.5 billion in the form of dividends, equivalent to EUR 0.0789 per share, will be distributed to shareholders in May 2022 and a EUR 3.4 billion buyback has been proposed, subject to approval by the European Central Bank. This will certainly benefit shareholders, as it will push the share price up.

- Forecast for 2025

The success of a merger or acquisition is difficult to assess in the short term, as synergies often require a lengthy post-transaction integration process to be realised.

To this end, it is useful to comment on the forecasts for the year 2025 contained in Intesa Sanpaolo's 2022-2025 business plan and shown in Table 9.

According to the estimates, compared to the year 2021, net operating income will grow to EUR 22.8 billion with a CAGR of 2.3%, marking a growth of more than EUR 2 billion over 4 years, while operating costs will decrease by EUR 300 million. This will lead to further efficiency gains for the bank, bringing the cost/income ratio to 46.4%.

The resulting net profit will amount to EUR 6.5bn and will increase in value by more than EUR 2.3bn compared to the year 2021, with a CAGR of 11.8%. This will result in a significant increase in ROE of 4.2 per cent to a value of 11.8 per cent.

Most of these results will be achieved thanks to the Banca dei Territori Division, since almost all synergies will be developed in this Division. Analysing the figures for Banca dei Territori in detail, the cost/income ratio will fall from 72.3% to 59.8% and this will be the result of a strong reduction in operating costs and a 1.1 billion euro increase in net operating income. Therefore, about half of the growth in net income (EUR 1.1 billion) will be generated by this division.

Furthermore, due to the strong global inflationary pressure of the last period, the ECB will most likely follow the path already taken by the Fed by raising interest rates by the end of the year. This, according to Intesa Sanpaolo's 2022-2025 business plan, will lead to a further increase in net interest income of about EUR 1 billion for every 50 basis point increase in rates, but for the purposes of this paper, whose purpose is to analyse the merger between the two banks, this figure will not be taken into account, as it would be misleading to consider the results of central banks' monetary policies.

Table 9. Intesa Sanpaolo, Piano d'impresa 2022-2025

	2025E (€ billions)	CAGR 2021E-2025R (%)
Net Operating Income	22,8	+2,3
Operating Costs	10,6	(0,8)
Cost/Income Ratio	46,4%	Δ (6,1) pp
Net Income	6,5	+11,8
ROE	11,8%	Δ 4,2 pp

"The combination of the Plan's objectives will lead Intesa Sanpaolo to be considered one of the best investments for Shareholders, both in the short and medium-long term, thanks to the creation and distribution of sustainable value: >€22bn distributed to Shareholders for the period 2021-2025 (annual payout ratio of 70%, combined with an additional buyback), of which >€6.6bn already in 2022 and with cash dividends growing year on year. "[87]

Should these results be confirmed, also as a result of the analysis conducted in the previous paragraphs, the merger between Intesa Sanpaolo and UBI Banca could be considered among the most extraordinary M&A successes in the banking world.

This forecast, however, does not take into account the issues that will arise as a result of the conflict between Russia and Ukraine. Intesa Sanpaolo, in fact, is among the European banks with the greatest exposure to the Russian territory and if the war continues for much longer there will be very serious economic and financial consequences.

As shown by the data analysed in the previous chapter, the merger with UBI Banca has led to a strong improvement in performance and capital strength for Intesa Sanpaolo, enabling the bank to better face the pitfalls of the current global economic situation. As already noted, the bank has managed to consolidate its Tier 1 ratio and Common Equity Tier 1 ratio and, according to its own estimates, over the next few years it will continue to further decrease its operating costs, thanks to the exploitation of the large economies of scale and synergies achieved and further increase its net profit, taking it to over EUR 6.5 billion by 2025. The achievement of these objectives is contingent on effective organisational integration and fruitful communication between the human resources of the newly formed entity and is all the easier the more similar the companies involved in the merger are. It is precisely for this reason that the choice of Intesa Sanpaolo fell on a bank characterised by the same corporate culture and values and, above all, by a very similar business model.

The merger between the two banks therefore consolidated Intesa Sanpaolo's leading position on the Italian banking scene and encouraged the formulation of several proposals for acquisitions and mergers between Italian banking intermediaries.

6. Conclusions

The study of M&A in the European and Italian banking sector has revealed several key findings:

- Consolidation has been a trend in the European and Italian banking sector, driven by the need to improve financial performance, comply with regulatory requirements and increase competitiveness.
- M&A activity in the European and Italian banking sector has faced several challenges, including integration difficulties, cultural differences, a weak economic environment and the high level of non-performing loans.
- M&A in the European and Italian banking sector also presents several opportunities, including increased efficiency, improved financial performance and increased competitiveness.
- The regulatory framework has a significant impact on M&A in the European and Italian banking sector and has been designed to ensure the stability and competitiveness of the industry.

Concerning the two case studies, the key takeaways are manifold.

Some key takeaways from the MPS and Antonveneta situation include:

1. The importance of conducting proper due diligence: the MPS-Antonveneta case highlights the critical importance of conducting thorough due diligence before proceeding with a merger or acquisition. Inadequate due diligence can lead to unexpected risks and liabilities that can have serious consequences for all parties involved.
2. The role of regulators in M&A activity: the MPS-Antonveneta case also highlights the important role that regulators can play in M&A activity. In this case, the Bank of Italy and the Italian Competition Authority were both heavily involved in the merger and their actions had a significant impact on the outcome.
3. The potential for legal challenges and disputes: M&A activity can be complex and fraught with potential legal challenges and disputes. The MPS-Antonveneta case demonstrates how such challenges can arise and the potential impact they can have on the deal.
4. The impact on shareholders and stakeholders: the MPS-Antonveneta deal had significant financial and reputational impacts on both MPS and Antonveneta shareholders and stakeholders. This highlights the importance of considering the potential impact of a deal on all parties involved before proceeding with M&A activity.
5. The importance of considering cultural fit: in any M&A transaction, it is important to consider cultural fit between the two companies. The MPS-Antonveneta case illustrates how a lack of cultural fit can lead to challenges and difficulties in integrating the two organizations
6. The potential for significant financial consequences: finally, the MPS-Antonveneta case demonstrates the potential for significant financial consequences of M&A activity, both in terms of the costs of the deal itself and in terms of the potential impact on the financial performance of the merged company.

The MPS and Antonveneta merger is considered a cautionary tale of the potential risks and challenges associated with M&A activity in the banking sector. One of the key criticisms of the deal was the lack of due diligence on the part of MPS, which ultimately led to significant losses for the bank and its shareholders.

Another key issue was the involvement of political interests in the deal, which created a conflict of interest and raised questions about the transparency and fairness of the acquisition process. The involvement of Bank of Italy in the regulatory framework of the merger was also criticized as being insufficient to prevent conflicts of interest and promote market competition.

Moreover, the aggressive bidding and high premium paid by MPS for Antonveneta raised concerns about the valuation of the target and the potential for overpayment. The subsequent legal challenges and litigation related to the merger also highlighted the complexity and risks involved in M&A activity in the banking sector.

Overall, the MPS and Antonveneta merger serves as a cautionary tale of the importance of thorough due diligence, transparent and fair regulatory frameworks and avoiding conflicts of interest in M&A activity in the banking sector.

The Intesa Sanpaolo and UBI Banca merger brought several takeaways, including:

1. Strategic Fit: the merger between Intesa Sanpaolo and UBI Banca fits strategically and geographically, as both banks have complementary strengths and weakness. It will help Intesa Sanpaolo to strengthen its position in the Northern region of Italy and expand its customer base.
2. Cost Synergies: the merger is expected to generate cost synergies of €1.2 billion per year, which will help the new entity to improve its operating efficiency and profitability.
3. Digital Transformation: the merger will provide an opportunity to Intesa Sanpaolo to continue its digital transformation journey, as UBI Banca has already invested in digitalization and innovation.
4. Regulatory Approval: the merger received regulatory approval from the European Central Bank and the Italian government, indicating that it met the necessary regulatory requirements and guidelines.
5. Shareholder Value: the merger is expected to create value for Intesa Sanpaolo's shareholders, as the new entity will have a stronger market position and improved profitability.
6. Integration Challenges: the merger will face several integration challenges, including cultural differences, IT system integration and employee resistance. Overcoming these challenges will be critical to the success of the merger.
7. Potential Risks: the merger also brings potential risks, such as economic uncertainties, changing customer behavior and market competition. The new entity must be prepared to address these risks and adapt to the changing market dynamics.

Overall, the Intesa Sanpaolo and UBI Banca merger is expected to bring significant benefits for both banks, including cost synergies, improved profitability and a stronger market position. However, the success of the merger will depend on how well the integration challenges are addressed and how the new entity adapts to the changing market dynamics.

The merger between Intesa Sanpaolo and UBI Banca is a complex transaction that involves significant strategic and financial considerations. While there are potential benefits in terms of synergies and cost savings, there are also challenges and risks that must be carefully managed.

One of the main benefits of the merger is the potential to achieve significant cost savings through synergies. This can come from a variety of sources, including streamlining operations and reducing duplication of back-office functions, as well as optimizing the branch network and consolidating IT systems. By combining the resources and expertise of the two banks, it is possible to create a more efficient and profitable organization.

Another potential benefit of the merger is the increased market share and diversification of the combined entity. The new bank will have a larger presence in key markets, which could provide a competitive advantage and the ability to cross-sell a wider range of products and services. This could also result in greater bargaining power with suppliers and customers.

However, there are also significant challenges associated with the merger. Integration of the two organizations will require significant time and resources and there is a risk that cultural differences could lead to operational inefficiencies and difficulties in communication. In addition, there may be regulatory hurdles to overcome, as well as potential resistance from stakeholders such as employees and shareholders.

Overall, the success of the merger will depend on a number of factors, including effective management of the integration process, strategic alignment of the two organizations and careful attention to the risks and challenges involved. While there are potential benefits to the merger, it is important to carefully weigh these against the potential risks and challenges to ensure that the transaction is a success.

In conclusion, M&A in the European and Italian banking sector has been a trend in recent years, driven by the need to improve financial performance, comply with regulatory requirements and increase competitiveness. The challenges and opportunities of M&A in the banking sector and the impact of these transactions on the stability and competition of the industry, are important considerations for both the industry and regulators.

Future research in this area could focus on the continued monitoring of the trend and impact of M&A in the European and Italian banking sector and the development of theoretical frameworks and models to better understand and analyze these transactions. Additionally, research could also focus on the impact of technological developments, such as the adoption of fintech, on M&A in the banking sector.

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