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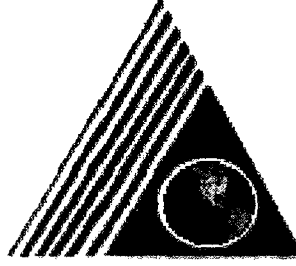

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MERGERS AND ACQUISITIONS IN THE TURKISH BANKING SECTOR PROFITABLE GROWTH ANALYSIS

by

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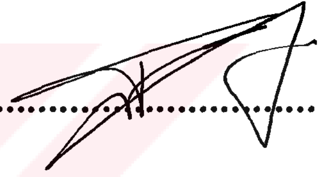

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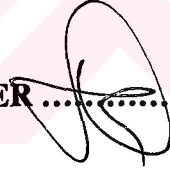

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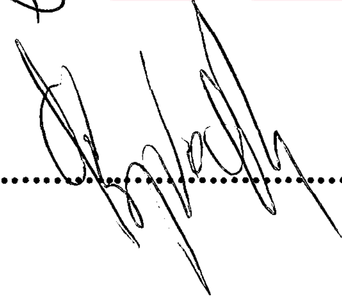

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ABSTRACT

With the globalization of competition, company mergers and takeovers, which accelerated especially in the 90s, have turned into a survival strategy preferred particularly by multinational companies. Company mergers and takeovers, which are mostly apparent in the USA today, have become a rapidly spreading trend in our country, especially in the finance sector.

The main reason for company mergers is the companies' will to benefit from the synergy that will occur with the merging of different parts of the companies. The need for a strong and healthy financial system in developing countries is another catalyst for this trend.

The mergers and takeovers, which have accelerated in parallel to the completion of the structuring of globalization, are mostly apparent in the banking sector.

The main object of bank mergers can be summarized as a more efficient performance of the emerging bank in terms of operation, increase in the market share and increase in value.

The subject of this study is to determine whether the recent bank mergers in Turkey have provided a profitable growth for the banks or not. Beside this, change in the Capital Structure – with the effect of Basel Accord – after the merger period is tried to be measured.

First of all, using the ratio analysis to test this situation, the performances of the merged banks were examined for periods of 3 years before and after merging in terms of their assets size, the size of the credits they have provided, the deposit volumes they have collected and the number of branches and staff. On the other hand, in the analysis of profitability, the return on assets and return on equity ratios they obtained in periods of 3 years before and after merging were examined. In order to examine the development in their capital, capital adequacy ratios were examined.

ÖZET

Özellikle 90'lı yıllarda hız kazanan şirket birleşmeleri ve satın almaları, rekabetin globalleşmesi ile birlikte, özellikle çokuluslu şirketlerin tercih ettiği bir hayatta kalabilme stratejisine dönüştü. Günümüzde en çok ABD'de görülmekte olan şirket birleşmeleri ve satın almaları ülkemizde de, özellikle finans sektörü içinde, hızla yayılan bir trend haline geldi.

Şirket birleşmelerindeki esas neden, işletmelerin farklı parçaların bir araya gelmesi ile ortaya çıkacak sinerjiden yararlanma istekleridir.

Globalleşmenin yapılanma sürecini tamamlamasına paralel bir biçimde ivme kazanan birleşme ve satın almalar, en fazla bankacılık sektöründe kendini hissettirmekte. Gelişmekte olan ülkelerde daha sağlıklı bir finansal sisteme sahip olma ihtiyacı da bu trende hız kazandıran bir diğer unsur.

Banka birleşmelerindeki temel amaç, oluşan yeni bankanın operasyonel olarak daha etkin çalışması, piyasa payının yükseltilmesi ve değerinin artırılması şeklinde özetlenebilir.

Bu çalışmamın konusunu son dönemde Türkiye'de yaşanan banka birleşmelerinin bankalara karlı bir büyüme sağlayıp sağlamadığıdır. Bununla birlikte, Basel Accord sonrasında değişen sermaye yapısının birleşme öncesi ve sonrasındaki dönemde nasıl bir değişim gösterdiği ölçülmeye çalışılmıştır.

Bahsedilen durumu test etmek için rasyo analizinden faydalanılmış olup, öncelikle birleşme yaşayan bankaların aktif büyüklüğü, verdikleri kredi büyüklüğü, topladıkları mevduat hacimleri, şube ve personel sayısı gibi konularda birleşme öncesi ve sonrasındaki 3 yıllık dönemlerde ne gibi bir durumda bulundukları araştırılmıştır. Karlılık analizinde ise birleşme yaşayan bankaların yine birleşme öncesi ve sonrasındaki 3 yıllık periyotlarda aktif başına ve özkaynak başına elde ettikleri kar oranları incelenmiştir. Sermaye yapısındaki değişimi görmek için ise sermaye yeterlilik rasyosu kullanılmıştır.

1 INTRODUCTION

The last fifteen years have witnessed an unprecedented number of mergers and acquisitions (M&As) in most countries, in mature and innovative sectors alike, from retailing to telecommunications. According to Thomson Financial, there were 50,787 M&As between 1996 and 2001, compared with 26,062 between 1990 and 1995 as seen on Table 1.1. The total value of transactions rose from $ 1,570 billion to $ 8,960 billion.

M&A activity was especially pronounced in the financial sector. Over 10,000 financial firms were acquired in the major industrial countries from 1990 to 2001, including 246 deals in which the acquired firm had a market value greater than $ 1 billion. The level of activity increased toward the end of the decade for all types of acquisitions: there were 93 deals worth more than $ 1 billion in the six years from 1990 to 1996 and 153 between 1997 and 2001, both within-industry and cross-industry deals increased in intensity. The rate of consolidation has soared both domestically and internationally, but the great majority of M&A activity still involves firms from the same country. [1]

Starting from the end of 2000, when totally 38.200 alliances took place with a cost of 3,5 billion USD, the tendency towards alliances and purchases in 1990's, began to change in opposite way, as a result of the global economical stagnation. The cost of 28.828 alliances and purchasing operations in 2001 was the biggest decrease ever, with a total cost of 1,7 billion USD, which was 50% lower than the cost in 2000. In year 2002, the effects of September 11 and the fear of expansion was felt in all commercial markets. As a result, 25.000 alliances and purchases took place (which is the lowest amount since 1995) and the total costs of the operations were 1.3 billion USD which was 29% lower than the cost of 2001. [2]

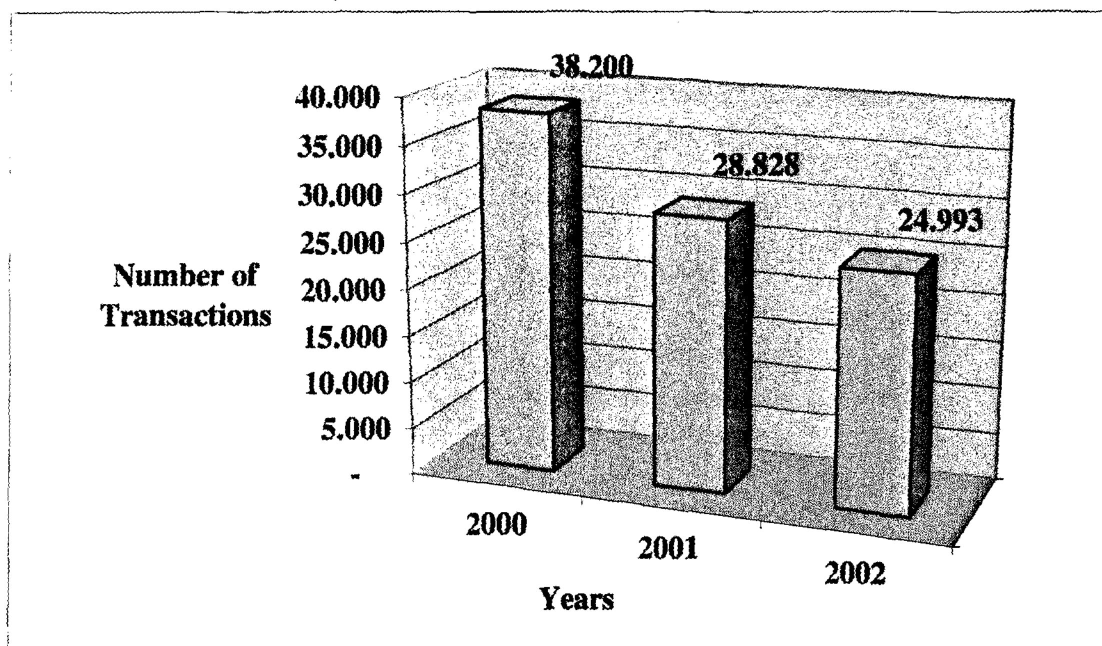
Table 1-1 Total Volume of M&A Activities in 2002 (in million USD)

Region	Sub-region	Country	Country value	Sub-region total	Region total
Worldwide Totals (2002)					**1.315.596**
America					**654.857**
	Middle America			**12.263**	
		Mexico	11.441		
		Others	822		
	South America			**22.422**	
		Argentina	3.031		
		Brazil	11.292		
		Others	8.099		
	North America			**617.359**	
		Canada	57.282		
		USA	560.077		
	Caribbean			**2.813**	
Africa and Middle East					**7.446**
	North Africa			**729**	
	Sahara Region			**5.526**	
	Middle East			**1.191**	
Europe					**475.903**
	Eastern Europe			**22.810**	
	Western Europe			**453.093**	
		France	75.806		
		Germany	77.959		
		U.K.	140.752		
		Others	158.576		
Asia Pacific					**177.390**
	Australia			**28.426**	
	China			**19.462**	
	Japan			**69.904**	
	Others			**59.598**	

Resource: Thomson Financial and SDC Platinum, 2002

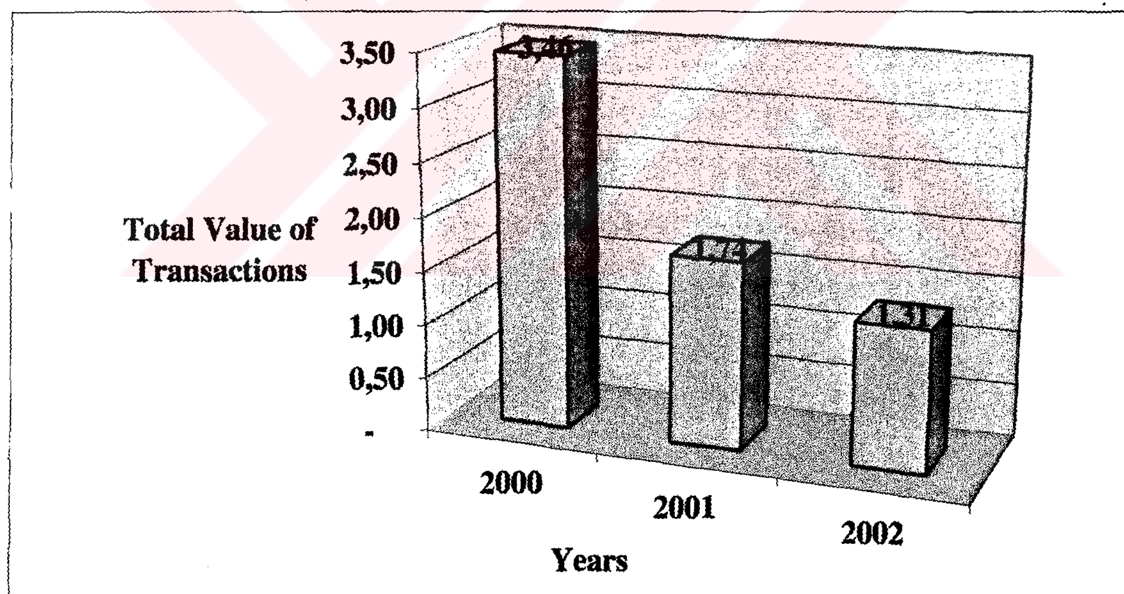
One of the main reasons for the decrease of the alliances and purchasing operation quantities in 2002 is the decreasing of the telecommunication sector operations. Besides, unwillingness of the purchasers towards stock exchanges as a result of the low stock values, causing mega operations that cost billions of USD, not being made. Another reason is, the reaction towards the incredible amount of alliances in 1990's, considering many companies losing value, after alliances in last 5 year's operations.[3]

Table 1-2 Total Number of Transactions, 2000-2002 (in billion USD)



Resource: Thomson Financial, 2003

Table 1-3 Total Value of Transactions, 2000-2002 (in billion USD)



Resource: Thomson Financial, 2003

The main motivations for the unprecedented wave of consolidation in the financial sector are common to most countries. In response to fundamental changes in regulation and technology, financial institutions have attempted to improve their efficiency and attract new customers by increasing their geographical reach and the range of products they offer.

The desire to preserve falling margins by increasing market share and to attract new customers is often fulfilled by way of M&A that allow financial institutions to rapidly increase their size and to improve their knowledge of new products and markets.

There are several ways in which M&A can improve efficiency. First, the larger firms that result from consolidation may gain access to cost-saving technologies or spread their fixed costs over a larger base, thus reducing average costs. Moreover, efficiency gains may also derive from the exploitation of economies of scope: the deal may allow the merging parties to enter new markets and cross-sell their products to a wider customer base. Finally, consolidation may improve managerial efficiency.

M&As on the scale witnessed by the financial sector in the last decade has profound effects on the firms involved, their competitors and their customers. Yet, the effect of consolidation on the performance of the institutions involved is not well understood. In particular, the extent of exploitable scale and scope economies might be smaller than thought, and efficiency gains resulting from better management might be elusive in large, complex institutions.

These considerations apply to most industries that have undergone a wave of consolidation of 90s, but they are particularly relevant from a policy perspective for the financial industry. Social costs arising from M&As can take three forms. First, in the world, for some financial products (in particular deposits and small business lending) markets are mainly local; therefore, M&As among operators with large market shares might cause adverse price changes. Second, M&As might contribute to diverting the focus of some participants from small business lending, which relies on soft information at the local level, to less custom-made products that are more easily manageable within large organizations. Third, consolidation can increase the risk of the operators involved, both at the individual level (by generating large and complex institutions that may suffer from diseconomies of scale) and at the systemic level. Therefore, quantifying efficiency gains from M&As for the financial sector becomes extremely important as a first step towards analyzing the trade-off between these gains and the potential adverse effects.[4]

In this thesis, the main subject is to display whether the mergers and acquisitions in the Turkish banking system provide the banks a profitable growth or not. Beside this, change in the Capital Structure, which has vital importance for the banks, after the merger period is tried to be measured. That is why, the thesis is organized as follows: in section 2, the general framework of the business combinations by determining the motives resulting merger and acquisition activities, merger strategy, types of mergers, the methods of accounting for business combinations, and M&A processes are described. The progress of business combinations both in Turkey and in the world is depicted and current position of the banking sector in the world is described to better understanding of the reasons resulting in progress of bank consolidations and the current position of the banking sector in Turkey is mentioned for the reflection of the Turkish bank consolidations. Section 3 includes the recent mergers and acquisitions in the Turkish banking system and a ratio analysis to evaluate the performances in terms of growth and profitability. Section 4 and 5 of this thesis is reserved for methodology and a general evaluation of the reasons and the consequences of mergers and acquisitions activities in Turkish banking sector, in the enlightenment of the recent regulatory and supervisory developments.

Table 1-4 Mergers and Acquisitions in the Main Industrial Countries

	Mergers and Acquisitions in the Main Industrial Countries (1)													
	All Mergers and Acquisitions						Mergers and Acquisitions in the Financial Sector (2)							
	1990-1995			1996-2001			Total 1990-1995		Of which: Banks (3)		Total 1996-2001		Of which: Banks (3)	
	Number	Total Value $ Billions	% Of GDP	Number	Total Value $ Billions	% Of GDP	Number	Total Value $ Billions	Number	Total Value $ Billions	Number	Total Value $ Billions	Number	Total Value $ Billions
ustralia	628	29,5	1,5	136	91,7	4,0	136	4,5	53	2,4	268	25,2	91	13,2
elgium	251	7,1	0,5	67	57,8	3,9	67	4,5	21	0,8	70	32,9	34	28,1
anada	1.421	41,6	1,2	156	287,4	7,3	156	3,9	52	1,6	321	36,0	112	15,0
rance	1.663	81,9	1,0	314	269,6	3,2	314	25,5	148	11,8	227	73,7	96	44,6
ermany	1.913	37,3	0,3	234	437,0	3,5	234	11,0	123	2,4	379	82,6	229	68,6
aly	852	55,0	0,8	251	198,2	2,9	251	24,8	147	19,2	236	97,6	138	80,4
apan	216	56,1	0,2	46	234,5	0,9	46	45,4	29	44,4	491	138,1	236	119,1
etherlands	565	25,6	1,3	123	127,2	5,5	123	14,5	36	10,9	88	33,9	24	5,9
pain	510	25,6	0,8	120	99,3	2,8	120	8,3	66	5,9	153	34,2	67	31,2
weden	473	33,8	2,4	84	126,0	8,9	84	4,1	44	2,8	81	21,2	38	16,9
witzerland	412	14,6	1,0	111	85,9	5,6	111	4,9	81	3,3	87	35,2	43	24,2
nited Kingdom	2.349	170,9	2,7	386	848,6	10,3	386	41,4	140	33,0	750	226,1	279	114,4
nited States	8.743	811,2	2,1	2.341	5.272,3	9,7	2.341	205,3	1.691	156,6	2.902	1.138,2	1.796	754,9
orld	**26.062**	**1.570,3**		**50.787**	**8.960,2**		**5.725**	**460,9**	**3.363**	**340,3**	**9.777**	**2.232,9**	**4.781**	**1.494,9**

(1) Mergers and Acquisitions involving majority interests

(2) The sectors refer to that of the company being acquired

(3) Includes: Commercial Banks, Bank Holding Companies, Saving and Loans, Mutual Savings Bank, Credit Institutions, Real Estate (mortgage bankers and brokers)

Resource: Thomson Financial and SDC Platinum, 2002

2 GENERAL FRAMEWORK OF MERGERS AND ACQUISITIONS

2.1 Why Do Businesses Consolidate? The Merger Strategy

The main reasons, strategic motives and determinants lying behind the combinations of businesses can be described as below:

- To benefit from economies of scale,
- To increase profitability,
- To increase market share,
- To provide product diversification,
- To provide technological improvement,
- To penetrate into new markets,
- To use excess funds,
- To make new investments,
- To benefit from tax advantages,
- To form strategic cooperation,
- To organize financial structure,
- To avoid the danger of new entrants in the market.

Generally, in business combinations the parties aim more than one of the reasons are listed above. The important criterion in case of a combination is what you are now and what will you be after it. Main strategic motives and determinants of mergers and acquisitions can be described as:

2.1.1 Growth

One of the most fundamental motives for mergers and acquisitions is growth. Companies seeking to expand are faced with a choice between internal growth and growth through mergers and acquisitions. Internal growth may be a slow and uncertain process. Growth through mergers and acquisitions may be a much more rapid process, although it brings its own uncertainties.

If a company seeks to expand within its own industry, there are two alternatives: internal growth versus external growth. Sometimes internal growth is not an acceptable alternative. For example, if a company has a window of opportunity that will remain open for a limited period of time, slow internal growth may not suffice. As the company grows slowly through internal expansion, competitors may respond quickly and take market share. Advantages that a company may have can dissipate over time or be whittled away by the actions of the competitors. The only solution may be to acquire another company that has the resources in place. There are many examples of opportunities that must be acted on immediately lest they appear. It could be that a company has developed a new product or process and has a time advantage over competitors. Even if it is possible to patent the product or process, this does not prevent competitors from possibly developing a competing product or process that does not violate patent. Another example would be if a company developed a new merchandising concept. Being first to develop the concept provides a certain limited time advantage. If not properly taken advantage of, the opportunity may slip by and become an opportunity for larger competitors with greater resources.

Another example of using mergers and acquisitions to facilitate growth is when a company wants to expand to another geographic region. It could be that the company's market is in one part of the country but it would want to move into other markets within the country. It also could be that the company wants to expand to other regional markets, such as a Turkish textile firm wanting to expand to European textile sector. In many instances, it may be quicker and less risky to expand geographically through acquisitions than through internal development. This may be true of international expansion, where many characteristics are needed to be successful in a new geographic market. The company needs to know all of the nuances of the new market and to recruit new personnel and circumvent many other hurdles such as language and custom barriers. Internal expansion may be much slower and difficult. Mergers, acquisitions, joint ventures, and strategic alliances may be the fastest and lower risk alternatives.

2.1.2 Synergy

The term synergy is often associated with the physical sciences rather than with economics and finance. It refers to the type of reactions that occur when two substances or factors combine to produce a greater effect together than that which the sum of the two operating independently could account for. Simply stated, synergy refers to the phenomenon of 2 + 2 = 5. In mergers, this translates into the ability of a corporate combination to be more profitable than the individual parts of the firms that were combined.

The anticipated existence of synergistic benefits allows firms to incur the expenses of the acquisition process and still be able to afford to give target shareholders a premium for their shares. Synergy may allow the combine firm to appear to have a positive *net acquisition value* (NAV). [5]

Equation 2-1Net Acquisition Value

$$NAV = [V_{AB} - (V_A + V_B)] - (P + E)$$

Where,

V_{AB} = the combined value of the two firms,
V_A = A's measure of its own value,
V_B = the market value of the shares of B,
P = premium paid for B,
E = expenses of the acquisition process.

The term in the brackets is the synergistic effect. This effect must be greater than the sum of P+E to justify going forward with the merger. If the bracketed term is not greater than the sum of P+E, the bidding firm will have overpaid for the target.

The two main types of synergy are operating synergy and financial synergy. Operating synergy comes in two forms: revenue enhancements and cost reductions. These revenue enhancements and efficiency gains or operating economies may be

derived in horizontal and vertical mergers. Financial synergy refers to the possibility that the cost of capital may be lowered y combining one or more companies.

2.1.2.1 Operating Synergy

2.1.2.1.1 Revenue Enhancing Operating Synergy

Revenue enhancing operating synergy may be more difficult to achieve than cost reduction synergies. Revenue enhancing operating synergy can be defined as "a newly created or strengthened product or service that is formulated by the fusion of two distinct attributes of the merger partners and which generates immediate and/or long-term revenue growth".[6] There are many potential sources of revenue enhancements, and they may vary greatly from deal to deal. They may come from a sharing of market opportunities by cross-marketing each merger partner's products. With a broader product line, each company could sell more products and services to their product base. Cross marketing has the potential to enhance the revenues of each merger partner, thereby enabling each company to expand its revenues quickly.

The multitude of ways in which revenue-enhancing synergies may be achieved defies brief descriptions. It may come from one company with a major brand name lending its reputation to an upcoming product line of a merger partner. Alternatively, it may arise from a company with s strong distribution network merging with firm that has products of great potential but questionable ability to get them to the market before rivals can react and seize the period of opportunity. Although the sources may be great, revenue-enhancing synergies are sometimes difficult to achieve. Such enhancements are more difficult to quantify and build into valuation models. This is why cost-related synergies are often highlighted in merger planning, whereas the potential revenue enhancements may be discussed but not clearly defined. It is easier to say we have certain specific facilities that are duplicative and can be eliminated than to specifically show how revenues can be increased through a combination of two companies.

2.1.2.1.2 Cost Reducing Operating Synergies

When following a merger activity, planners tend to look for cost-reducing synergies as the main source of operating synergies. These cost reductions may come as a result of economies of scale – decreases in per-unit costs that result from an increase in the size or scale of a company's operations.

Manufacturing firms typically operate at high per-unit costs for levels of output. This is because the fixed costs of operating their manufacturing facilities are spread out over relatively low levels of output. As the output levels rise, the per-unit costs decline. This is sometimes referred to as spreading overhead. Some of the other sources of these gains arise from increased specialization of labor and management and the more efficient use of capital equipment, which might not possible at output levels. This phenomenon continues for a certain range of output, after which per-unit costs may rise as the firm experiences diseconomies of scale. Diseconomies of scale may arise as the firm experiences higher costs and other problems associated with coordinating a larger scale operation. [7]

Figure 2-1Economies and Diseconomies of Scale

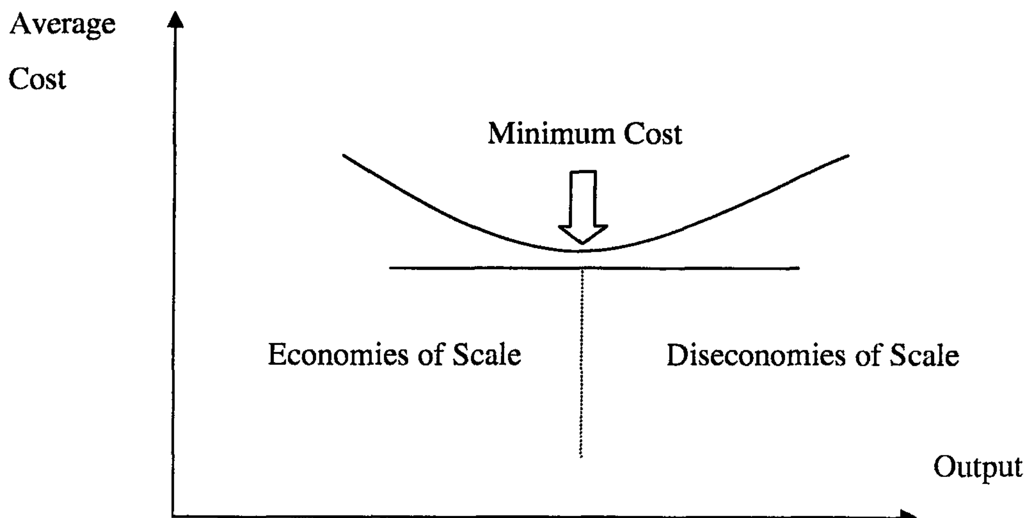


Figure 2.1, which depicts scale economies and diseconomies, shows that an optimal output level occurs when per-unit costs are at minimum. This implies that an

expansion through the horizontal acquisition of a competitor may increase the size of the acquiring firm's operation and lower per-unit costs.

Another concept that is closely related to and sometimes confused with economies of scale is economies of scope, which is the ability of a firm to utilize one set of inputs to provide a broader range of products and services. A good example of scope economies arises in the banking industry. For example, in the banking industry, scope economies may be as important as economies of scale in explaining mergers and acquisitions. The pursuit of these economies is one of the factors behind the consolidation within the banking industry that occurred in the fifth merger wave of the American economy between 1992 and 1998.[8]

When financial institutions merge, they can share inputs to offer a broader range of services, such as trust department, consumer investment products unit, or economic analysis group. Smaller banks might not be able to afford the costs of these departments. Inputs such as a computer system may be shared to process a wide variety of loans and deposit accounts.

2.1.2.2 Financial Synergy

Financial strategy refers to the impact of a corporate merger or acquisition on the costs of capital to the acquiring firm or the merging partners. The extent to which financial synergy exists in corporate combinations, the costs of capital should be lowered. Whether financial synergy actually exists, however, is a matter of dispute within corporate finance.

The combination of two firms may reduce risk if the firms' cash flow streams are not perfectly correlated. If the acquisition or merger lowers the volatility of the cash flows, suppliers of capital may consider the firm less risky. The risk of bankruptcy would presumably be less, given the fact that wide swings up and down in the combined firm's cash flow would be less likely. This implies that it is less likely that cash flows would fall so slow that the firm could become technically insolvent. Technical insolvency occurs when a firm cannot meet its current obligations as they come due. Technical insolvency may occur even when total assets exceed total

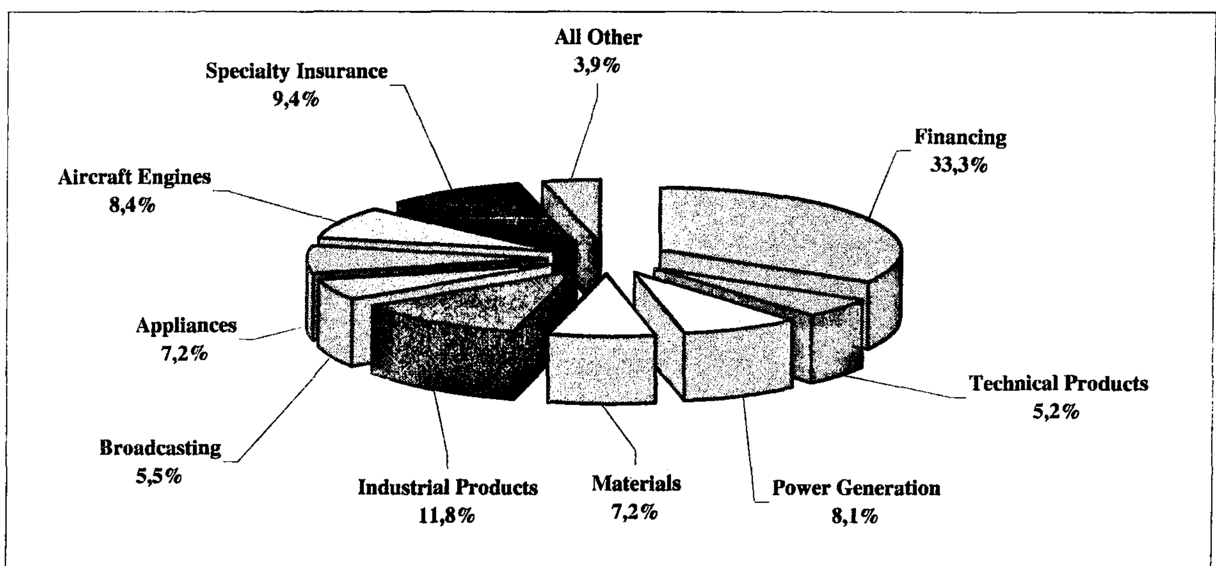
liabilities. Another more serious form of business failure occurs when total liabilities exceed total assets and the net worth of the firm is negative. Even though technical insolvency may be less serious than this form of bankruptcy, it may be sufficient to result in a fall in the firm's credit rating, which may cause the cost of capital to rise.

A company may experience economies of scale through acquisitions. These economies are usually thought to come from production cost decreases, attained by operating at higher capacity levels or through a reduced sales force or a shared distribution system. As a result of acquisitions, financial economies of scale are also possible in the form of lower flotation and transaction costs.[9]

2.1.3 Diversification

Diversification means growing outside a company's current industry category. One of the best examples that can be given for the companies, which chose to expand by buying other companies rather than through internal expansion, is General Electric (GE). Contrary to what its name implies, GE is no longer an electronics company. Through a pattern of acquisitions and divestitures, the firm has become a diversified conglomerate with operations in insurance, television stations, plastics, medical equipment, and so on. Figure 2.2 shows the major components of the firm's business.

Figure 2-2 General Electric's Revenue Percentages by Business Segment, 2002



Resource: General Electric Company Annual Report, 2002

By expanding through the acquisition of other firms, the acquiring corporation may attempt to achieve some of the benefits that investors receive by diversifying their portfolio of assets. The portfolio theory research literature in finance has attempted to quantify some of the risk-reduction benefits that an investor may enjoy through diversification. This research clearly supports the intuitive belief of investors that "putting all one's eggs in one basket" is not a wide decision. However, when this strategy is applied to capital assets and whole corporations, it loses some of its appeal. A company will often pursue diversification outside its own industry when the current volatile level of earnings displeases management. A volatile income stream makes it more difficult to pay regular dividends and creates an unstable environment for long-term planning. Financial markets may interpret a falloff in earnings that results in a reduction or cancellation of a quarterly dividend as a negative sign.[10]

One reason management may opt for diversified expansion is its desire to enter industries that are more profitable than the acquiring firm's current industry. It could be that the parent company's industry has reached the mature stage or that the competitive pressures within that industry preclude the possibility of raising prices to a level where extra-normal profits can be enjoyed.

One possible area of benefits of diversification that has been cited is the coinsurance effect. This occurs when firms with imperfectly correlated earnings combine and derive a combined earnings stream that is less volatile than either of the individual firm's earnings stream. The covariance is a statistical measure of the linear association between two variables. In this case, the variables in question are the earnings of two merger candidates, companies A and B. If, for example, the covariance between E_A and E_B were negative, there would appear to be an opportunity to derive coinsurance benefits from a merger between firms A and B.[11]

Equation 2-2 Coinsurance Effect

$$\mathrm{Cov}(E_A, E_B) = \mu E_A E_B = E[(E_A - \mu_{EA})(E_B - \mu_{EB})] < 0$$

2.1.4 Economic Motives

In addition to economies of scale and diversification benefits, there are two other economic motives for mergers and acquisitions: horizontal integration and vertical integration. Horizontal integration refers to the increase in market share and market power that results from acquisitions and mergers of rivals. Vertical integration refers to the merger or acquisition of companies that have a buyer-seller relationship.

2.1.4.1 Horizontal Integration

Combinations that result in an increase in market share may have a significant impact on the combined firm's market power. Whether market power actually increases depends on the size of the merging firms and the level of competition in the industry. Economic theory categorizes industries within two extreme forms of market structure. On one side of this spectrum is pure competition, which is a market that is characterized by numerous buyers and sellers, perfect information, and homogenous, undifferentiated products. Given these conditions, each seller is a price taker with no ability to influence market price. On the other end of the industry spectrum is monopoly, which is an industry with one seller. The monopolist has the ability to select the price-output combination that maximizes profits. Horizontal integration involves a movement from the competitive end of the spectrum toward the monopoly end. [12]

2.1.4.2 Vertical Integration

Vertical integration involves the acquisition of firms that are closer to the source of supply or to the ultimate consumer. Companies may vertically integrate to be assured of a dependable source of supply. Dependability may be determined not just in terms of supply availability but also through quality maintenance and timely delivery considerations. Having timely access to supplies helps companies to provide their own products on a reliable basis. In addition, as companies pursue just-in-time inventory management, they may take advantage of a vertically integrated corporate structure to lower inventory costs.[13]

2.1.5 Improved Management Hypothesis

Some takeovers are motivated by a belief that the acquiring firm's management can better manage the target's resources. The bidder may believe that its management skills are such that the value of the target would rise under its control. This leads the acquirer to pay a value for the target in excess of the target's current stock price. The improved management argument may have particular validity in cases of large companies making offers for smaller, growing companies. The smaller companies, often led by entrepreneurs, may offer a unique product or service that has sold well and facilitated the rapid growth of the target.[14]

2.2 Types of Business Combinations

Business combinations may be classified under four schemes: based on the nature of the combination, based on the structure of the combination, based on the method used to accomplish the combination, and based on the accounting method used:

2.2.1 Nature of the Combination

A business combination may consist of a friendly combination or an unfriendly one. In a friendly combination, the boards of directors of the potential combining companies negotiate mutually agreeable terms of a proposed combination. The proposal is then submitted to the stockholders of the involved companies for approval. An unfriendly combination results when the board of directors of a company targeted for acquisition resists the combination. Resistance often involves various tactics by the target company, generally with colorful terms, such as the following:[15]

- **Greenmail:** The purchase of any shares held by the would-be acquiring company at a price substantially in excess of their fair value. The purchased shares are then held as treasury stock or retired.

- **White Knight:** Encouraging a third firm more acceptable to the target company management to acquire or merge with the target company.

- **Shark Repellent:** Acquiring large amounts of outstanding common stock, often by incurring substantial amounts of long-term debt in payment.

- **Pac-man Defense:** Attempting an unfriendly takeover of the would-be acquiring company.

- **Scorched Earth:** The sale, or spin-off to stockholders, of profitable business segments.

2.2.2 Structure of the Combination

Combinations are classified by structure into three types – horizontal, vertical, and conglomerate. A horizontal combination is one that involves companies within the same industry that have previously been competitors; a vertical combination involves a company and its suppliers or customers; a conglomerate combination is one involving companies in unrelated industries having little, if any, production or market similarities.[16]

2.2.3 Method of Combination

Business combinations are also classified by method of combination into three types – statutory mergers, statutory consolidations, and stock acquisitions.

A **statutory merger** results when one company acquires all the net assets of one or more other companies through an exchange of stock, payment of cash or other property, or the issue of debt instruments (or a combination of these methods) the acquiring company survives, whereas the acquires company (or companies) ceases to exist as a separate legal entity, although it may be continued as a separate division of the acquiring company. Thus, if A Company acquires B Company in a statutory merger, the combination is often expressed as

A Company + B Company = A Company

The boards of directors of the companies involved normally negotiate the terms of a plan of merger, which must then be approved by the stockholders of each company involved. Corporation bylaws dictate the percentage of positive votes required for approval of the plan.[17]

A **statutory consolidation** results when a new corporation is formed to acquire two or more other corporations through an exchange of voting stock; the acquired corporations then cease to exist as separate legal entities. For example, if C Company is formed to consolidate A Company and B Company, the combination is generally expressed as

A Company + B Company = C Company

Stockholders of the acquired companies (A and B) become stockholders in the new entity (C). The acquired companies may be operated as separate divisions of the new corporation, just as they may under a statutory merger. Statutory consolidations require the same type of stockholder approval, as do statutory mergers. [18]

A **stock acquisition** occurs when one corporation pays cash or issues stock or debt for all part of the voting stock of another company, and the acquired company remains intact as a separate legal entity. When acquiring company acquires more than 50% of the voting stock of B Company, a parent-subsidiary relationship results. [19]

Consolidated financial statements are prepared and the business combination is often expressed as

Financial Statements of A Company + Financial Statements of B Company = Consolidated Financial Statements of A Company and B Company

The stock may be acquired through market purchases or through direct purchase from, or exchange with, individual stockholders of the subsidiary company. Sometimes stock is acquired through a tender offer, which is an open offer to purchase up to a stated number of shares of a given corporation at a stipulated price per share. The offering price is generally set somewhat above the current market price of the shares

in order to provide an additional incentive to prospective sellers. The investor or subsidiary company continues its legal existence, and the investor or parent company records its acquisition in its records as a long-term investment.[20]

2.2.4 Methods of Accounting for Business Combinations

2.2.4.1 Purchase Accounting

As the term implies, the purchase method treats the combination as the purchase of one or more companies by another. The acquiring company records the purchase at its cost. If cash is given, the amount paid constitutes cost. If debt securities are given, the present value of future payments represents cost. Cost also includes the direct expenses incurred in the combination, such as accounting and consulting fees. Indirect, ongoing costs, such as those incurred to maintain a mergers and acquisitions department, however, are charged to expense as incurred.[21]

Assets acquired by issuing shares of stock of the acquiring corporation are recorded at the fair values of the stock given or the assets received, whichever is more clearly evident. If the stock is actively traded, its quoted market price, after making allowance for market fluctuations, additional quantities issued, issue costs, and so on, is normally better evidence of fair value than are appraisal values of the net assets of an acquired company. Thus, an adjusted market price of the shares issued normally is used. Where the issued stock is of a new or closely held company, however, the fair value of the net assets received generally must be used.[22]

Once the total cost is determined, it must be allocated to the identifiable assets acquired (including intangibles) and liabilities assumed, both of which should be recorded at their fair values at the date of acquisition. Any excess of total cost over the sum of amounts assigned to identifiable assets and liabilities is recorded as goodwill and should be amortized over its economic life but not in excess of 40 years. Sometimes the net amount of the fair values of identifiable assets and liabilities may exceed the total cost of the acquired company. If so, the excess of fair value over cost should be allocated to reduce non-current assets (except investment in long term securities) in proportion to their fair values in determining their assigned values. If the

allocation reduces the non-current assets to zero value, the remainder of the excess of fair value over cost should be classified as a deferred credit and should be amortized systematically to income over the period estimated to be benefited, but not in excess of 40 years. [23]

If an acquisition takes place within a fiscal period, purchase accounting requires the inclusion of the acquired company's revenues and expenses in the acquiring company's income statement only from the date of acquisition forward. Income earned by the acquired company prior to the date of acquisition is considered to be included in the net assets acquired. [24]

2.2.4.2 Pooling of Interests Accounting

The pooling of interests method interprets a business combination as a process in which two or more groups of stockholders unite their ownership interests by an exchange of common stock. No acquisition of one company or companies by another is recognized; because the combination is accomplished without disbursing resources of the constituents (a corporation's unissued stock is not considered an asset). No owners of former firms are bought out. Instead, the owners, because they continue to be stockholders, retain propriety rights, however small, in the larger surviving firm. Accordingly, the net assets of the combining companies remain intact, although combined, and the stockholder groups also remain intact, but combined.[25]

Proponents of pooling interests method contend that the combination is essentially a transaction between the combining stockholder groups and, therefore, that it does not involve the corporate entities; consequently, the transaction neither requires nor justifies establishing a new basis of accountability for the assets and equities of the combined operation. Thus, fair values of assets and liabilities are ignored, except in the determination of an equitable exchange ratio of common stock, and the assets acquired and liabilities assumed are carried forward to the new or surviving entity at their recorded (book) values. The stockholders' equity of the acquired company is combined with the stockholders' equity of the acquiring company. The allocation of the acquired company's stockholders' equity among common tock, other contributed capital, and retained earnings may have to be restructured, however, because of

differences in the par value of the common stock issued and the par value of the common stock acquired (retired).[26]

If a combination takes place within one fiscal period, the individual revenue and expense balances of the company, which is bought, will be carried forward to be combined with those of the acquiring company. Any corporation that applies the pooling method of accounting to a combination should report results of operations for the period in which the combination occurs as though the companies had been combined as of the beginning of the period. Results of operations for that period, therefore, are the sum of results of (1) operations of the separate companies as if they had been combined from the beginning of the fiscal period to the date the combination is consummated and (2) the combined operations from that date to the end of the period. Under pooling of interests accounting, all direct and indirect costs incurred to affect a business combination are deducted in determining the net income of the resulting combined company for the period in which the expenses are incurred. Thus, the costs of registering and issuing securities, and accounting and consulting fees, for example, are deducted as expenses in the period incurred.[27]

2.2.4.3 Elimination of Pooling of Interests Accounting Method

After the declaration of Statement No. 141 by Financial Accounting Standards Board, which was issued in June 2001, Pooling of Interests Accounting method has been eliminated from the literature.

Statement No. 141 addressed financial accounting and reporting for business combinations and supersedes Accounting Principles Board Opinion No. 16, *Business Combinations,* and FASB Statement No. 38, *Accounting for Preacquisition Contingencies of Purchased Enterprises.* All business combinations in the scope of this Statement have become to be accounted for using one method, the purchase method.

2.2.4.3.1 Reasons for Issuing Statement No. 141

Under APB Opinion No. 16, business combinations were accounted for using one of two methods, the pooling-of-interests method (pooling method) or the purchase method. Use of the pooling method was required whenever 12 criteria were met; otherwise, the purchase method was to be used. Because those 12 criteria did not distinguish economically dissimilar transactions, similar business combinations were accounted for using different methods that produced dramatically different financial statement results. Consequently: Analysts and other users of financial statements indicated that it was difficult to compare the financial results of entities because different methods of accounting for business combinations were used.[28]

Users of financial statements also indicated a need for better information about intangible assets because those assets are an increasingly important economic resource for many entities and are an increasing proportion of the assets acquired in many business combinations. While the purchase method recognizes all intangible assets acquired in a business combination (either separately or as goodwill), only those intangible assets previously recorded by the acquired entity are recognized when the pooling method is used.[29]

Company managements indicated that the differences between the pooling and purchase methods of accounting for business combinations affected competition in markets for mergers and acquisitions.

2.2.4.3.2 Differences between FASB Statement No. 141 and APB Opinion 16

The provisions of Statement No. 141 reflect a fundamentally different approach to accounting for business combinations than was taken in Opinion 16. The single-method approach used in this Statement reflects the conclusion that virtually all business combinations are acquisitions and, thus, all business combinations should be accounted for in the same way that other asset acquisitions are accounted for-based on the values exchanged.[30]

This Statement changes the accounting for business combinations in Opinion 16 in the following significant respects:

"This Statement requires that all business combinations be accounted for by a single method—the purchase method.

In contrast to Opinion 16, which required separate recognition of intangible assets that can be identified and named, this Statement requires that they be recognized as assets apart from goodwill if they meet one of two criteria—the contractual-legal criterion or the separability criterion. To assist in identifying acquired intangible assets, this Statement also provides an illustrative list of intangible assets that meet either of those criteria.

In addition to the disclosure requirements in Opinion 16, this Statement requires disclosure of the primary reasons for a business combination and the allocation of the purchase price paid to the assets acquired and liabilities assumed by major balance sheet caption. When the amounts of goodwill and intangible assets acquired are significant in relation to the purchase price paid, disclosure of other information about those assets is required, such as the amount of goodwill by reportable segment and the amount of the purchase price assigned to each major intangible asset class.

This Statement does not change many of the provisions of Opinion 16 and Statement 38 related to the application of the purchase method. For example, this Statement does not fundamentally change the guidance for determining the cost of an acquired entity and allocating that cost to the assets acquired and liabilities assumed, the accounting for contingent consideration, and the accounting for pre-acquisition contingencies."[31]

2.2.4.3.3 How the Changes in this Statement Improve Financial Reporting

"The changes to accounting for business combinations required by this Statement improve financial reporting because the financial statements of entities that engage in business combinations will better reflect the underlying economics of those transactions. In particular, application of this Statement will result in financial statements that:

Better reflect the investment made in an acquired entity: The purchase method records a business combination based on the values exchanged, thus users are provided information about the total purchase price paid to acquire another entity, which allows for more meaningful evaluation of the subsequent performance of that investment. Similar information is not provided when the pooling method is used.

Improve the comparability of reported financial information: All business combinations are accounted for using a single method, thus, users are able to compare the financial results of entities that engage in business combinations on an apples-to-apples basis. That is because the assets acquired and liabilities assumed in all business combinations are recognized and measured in the same way regardless of the nature of the consideration exchanged for them.

Provide more complete financial information: The explicit criteria for recognition of intangible assets apart from goodwill and the expanded disclosure requirements of this Statement provide more information about the assets acquired and liabilities assumed in business combinations. That additional information should, among other things, provide users with a better understanding of the resources acquired and improve their ability to assess future profitability and cash flows.

Requiring one method of accounting reduces the costs of accounting for business combinations. For example, it eliminates the costs incurred by entities in positioning themselves to meet the criteria for using the pooling method, such as the monetary and non-monetary costs of taking actions they might not otherwise have taken or refraining from actions they might otherwise have taken." [32]

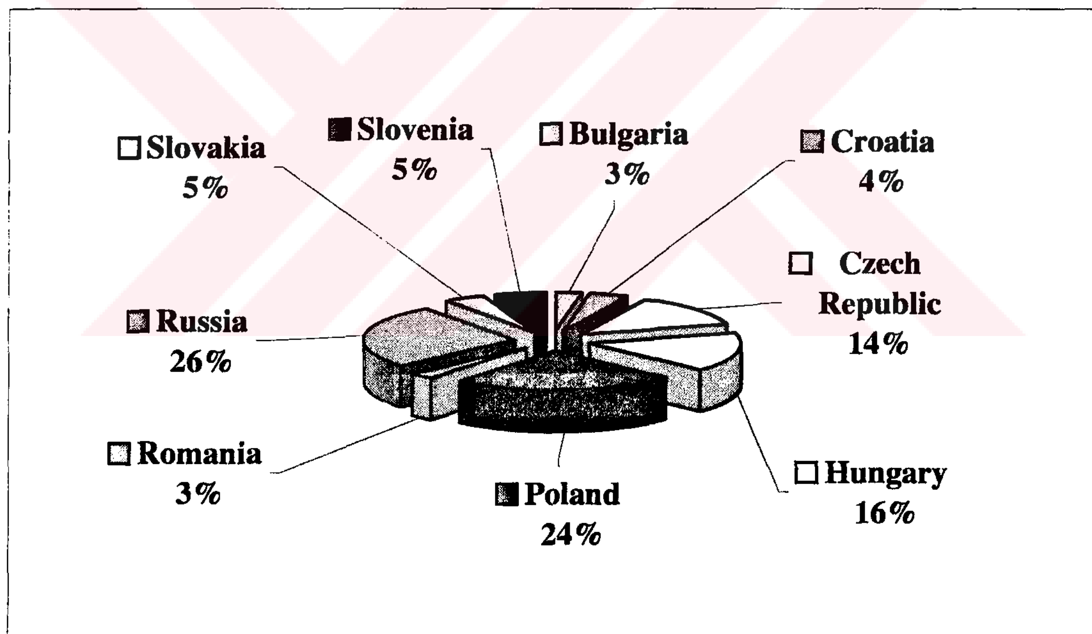
2.3 Business Combinations In Europe

In this section, it is preferred to evaluate mainly the European countries which have similar characteristics to Turkey and which are either recently admitted to the membership or in the way to the membership of European Union like Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Russia, Slovakia, and Slovenia.

2.3.1 Major Findings

The value of all merger and acquisition transactions is almost 17.7 billion USD in the nine countries listed below in 2002.

Figure 2-3 Shares of Listed Countries in terms of M&A Deals



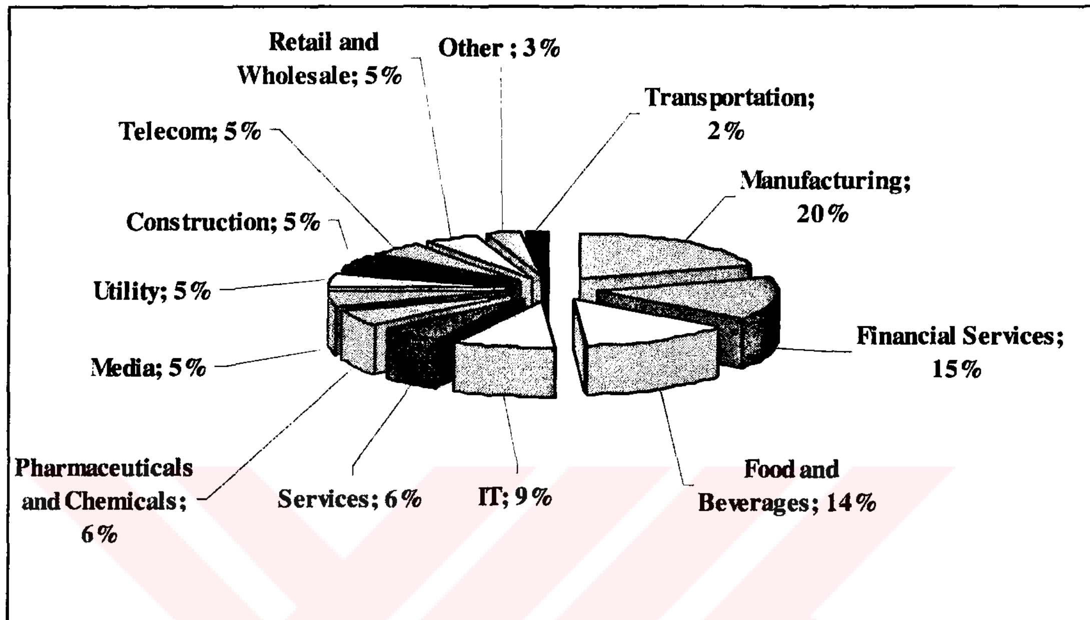
Resource: PWC's Central & Eastern European M&A Survey, 2002.

2.3.2 Industry Sectors

The Manufacturing sector was the most active sector in terms of M&A deals, representing 20% of all deals. The second most significant sector was Financial Services with 15% of all deals. The proportion of transactions completed in the Food and Beverages sector showed a 5% increase, and became the third most active sector, with a 14% share. There were 146 deals altogether in this sector in 2002 compared to

72 in 2001. IT, on the other hand continued to fall back. In 2002 there were a total of 60 deals in the region.

Figure 2-4 Industry Sectors Distribution Based on Number of Deals, 2002



Resource: PWC's Central & Eastern European M&A Survey, 2002.

2.3.3 Factors Affecting Transactions

2.3.3.1 Smaller Global M&A Market and Economic Stagnation

The negative consequences of September 11th, the following fear of terrorism and the negative expectations concerning market performance all contributed to the further weakening of the global M&A market in 2002. Even after a 50% decline in 2001, 2002 was characterized by the decline of equity prices and by the lack of billion plus mega deals consequently resulting in a 28% decrease in total value of M&A transactions worldwide.

The global downturn in M&A activity in 2002 also affected the Central European region, which is constituted by the above nine countries. Amid the significant fall of the global market, the region's activity remained approximately on the same level to the previous year. Economic stagnation, however, in several cases also encourages

M&A activity: a number of large companies dispose of their non-core subsidiaries or activities. [33]

2.3.3.2 Regional Expansion of Leading Corporations

Activity in the region was fuelled in part by market leading corporations extending their existing portfolios in the region. Typically, these companies outgrew their national markets and seek new opportunities for expansion in the region.

2.3.3.3 The Russian Motor

Russia played an important role in regional M&A activity in 2002, producing 26% of all transactions completed. Despite the fact that the Russian market was also influential in 2001, it experienced a further significant year-on-year growth. Deal volume increased by 27%, resulting in a 7.5 billion USD market. Russia is also expected to drive further M&A growth in the region, as currently its ratio of deal volume per GDP is still very low compared to the rest of the region. Market trends are also unique to Russia, for example the number of deals in the telecommunication sector actually grew from 26 in 2001 to 29 in 2002, amid a poor performance of this industry globally.[34]

2.3.3.4 EU Accession

The 10 E.U. applicant countries mostly located in the region stand on the threshold of becoming E.U. members. The completion of the accession process is a factor driving growth of M&A activity in the Central and Eastern European region, as a legal and business environment promoting market liberalization should encourage market consolidation and privatization. [35]

Table 2-1 The 10 Largest Deals Valued at 100 Million USD or Above[36]

Ranking	Transaction	Investor Country	Target Country	Industry	Approximate Value (USD)
1.	Swiss healthcare group Novartis AG acquired Slovenian pharmaceutical company Lek.	Switzerland	Slovenia	Pharmaceuticals and Chemicals	$ 853
2.	Czech bank Ceska Sporitelna's (CS) majority owner, Erste Bank Sparkassen of Austria, bought 38.36% of common stock and 7% of priority stock of CS from its parent company AVS.	Austria	Czech Republic	Financial Services	$ 690
3.	A consortium of investors led by Renaissance Group acquired a 34% stake in Russian steel plant NMK.	International	Russia	Manufacturing	$ 670
4.	Tesko Plc acquired the HIT hypermarkets in Poland from the German retailer Dohle Handelsgruppe.	United Kingdom	Russia	Retail and Wholesale	$ 652
5.	Dutch beer giant Heineken NV completed the acquisition of 100% of shares in St. Petersburg based 3O Bravo International.	Netherlands	Russia	Food and Beverages	$ 400
6.	UK's BP Plc acquired a 15% plus one share stake in Sidanko Oil Co, Russian Oil Producer.	United Kingdom	Russia	Pharmaceuticals and Chemicals	$ 375
7.	A consortium of Italy's Unicredito Italiano and Germany's Allianz acquired the remaining 80% stake in Zagrebacka Banka.	International	Croatia	Financial Services	$ 375
8.	Austrian paper manufacturer Frantschach has acquired a 68.5% stake in Russia's Syktyvkar Pulp Mill.	United Kingdom	Russia	Manufacturing	$ 252
9.	Offshore Tatneft subsidiary Teto Finance and Taffnet ally the Korus trade firm bought a 33.3% stake in the Sibir Energy company.	Russia	Russia	Utility	$ 242
10.	Norilsk Nickel Mining acquired 100% of Russia's largest gold producer ZAO Polyus.	Russia	Russia	Other	$ 226
11.	Russia's Ilim Pulp Enterprise acquired two Russian pulp and paper mills, Bratsk Pulp and Paper Mill and Ust-Ilimsk Pulp and Paper Mill.	Russia	Russia	Manufacturing	$ 200
12.	E.ON acquired the remaining 72.3% stake in the Hungarian electricity distributor Edasz.	Germany	Hungary	Utilities	$ 191
13.	Russia's Gazprom acquired a 32% stake in Purgaz.	Russia	Russia	Utilities	$ 186

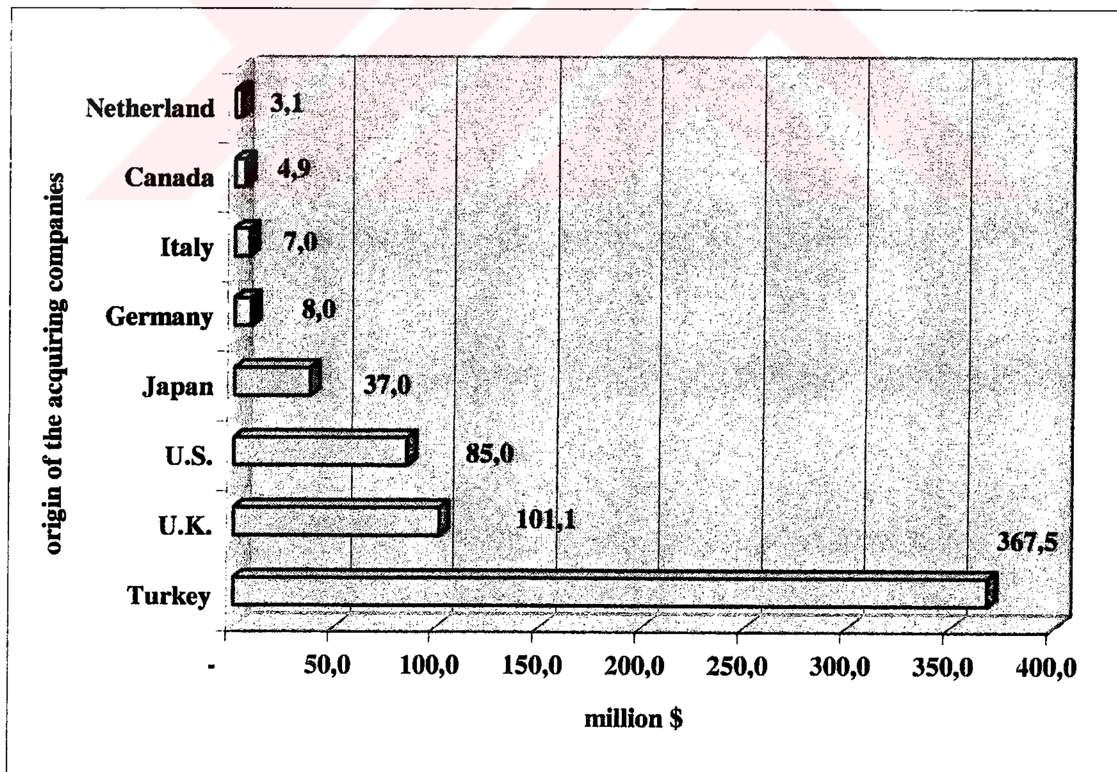
14.	National Grid Plc. boosted its investment in Energie Polska through capital increase.	United Kingdom	Poland	Telecom	$ 138
15.	Italy's San Paolo-IMI SpA acquired the entire share capital of Slovenia's Banka Koper d.d.	Italy	Slovenia	Financial Services	$ 135
16.	Gazprom acquired a 45% stake in ArmRossgazprom from Itera International Group.	Russia	Russia	Utilities	$ 126
17.	Nordea's takeover of LG Petrobank SA was carried out by series of transactions with individual companies, inc. PKN Orlen S.A., and a public call.	Sweden	Poland	Financial Services	$ 122
18.	A consortium of three private equity firms the U.S. Hicks Muse Tate & Furst Inc, Emerging Markets Partnership and Poland's Argus Capital Partners, acquired the cable TV operations including Aster City Cable Sp.	International	Poland	Telecom	$ 119
19.	Poland's Big Bank Gdanski acquired a 45.1% stake in its investment subsidiary BIG BG Inwestycje.	Poland	Poland	Financial Services	$ 116
20.	Krakowska Fabryka Kabli SA (KFK) announced a public call for a 73.6% stake in Elektrim Kable SA.	Poland	Poland	Manufacturing	$ 116

2.4 Business Combinations In Turkey

2.4.1 Alliances and Purchasing Operations in 2002

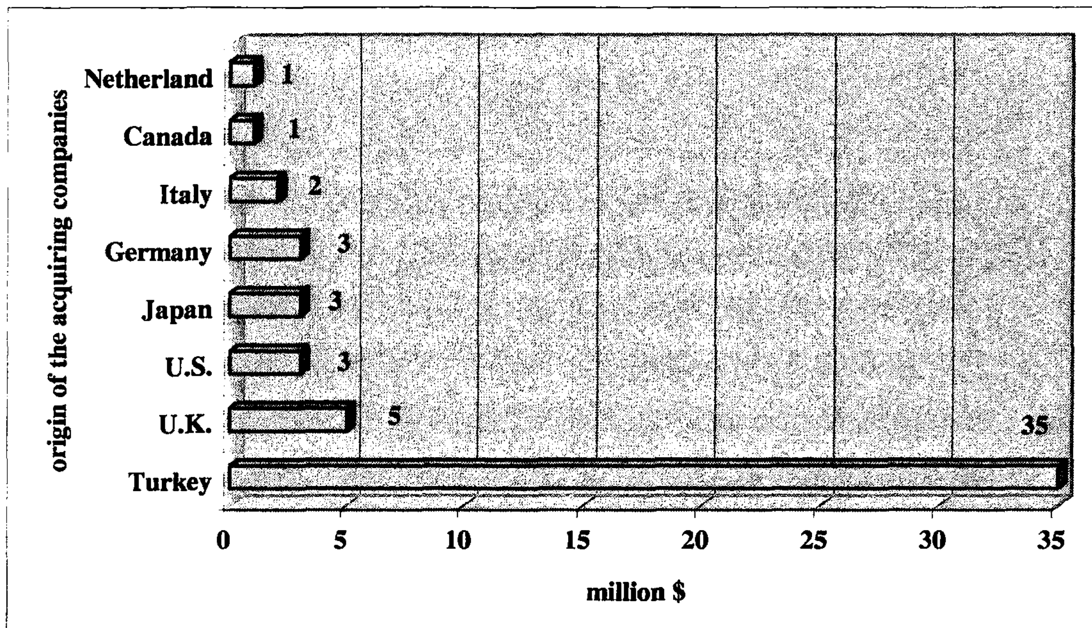
If we take a look at Turkey, 54 alliances took place in 2002 with a total cost of 613,7 million USD. The total cost of operations in which the purchasing company is Turkish is, 367,5 million USD which is the 60% of the total. The high operation ratio between Turkish companies is an indicator of the needed consolidation beginning to take place. 34% of the operations between the Turkish companies are related to financial services sector. Koç Holding, purchasing 50% of fuel distributing company OPET, was the most valuable operation in 2002. The biggest operation in financial service sector was the HSBC-Advantage operation.

Figure 2-5Origin of the Acquiring Companies-Based on Value of Transactions, 2002



Resource: Ernst & Young M&A Survey, 2002.

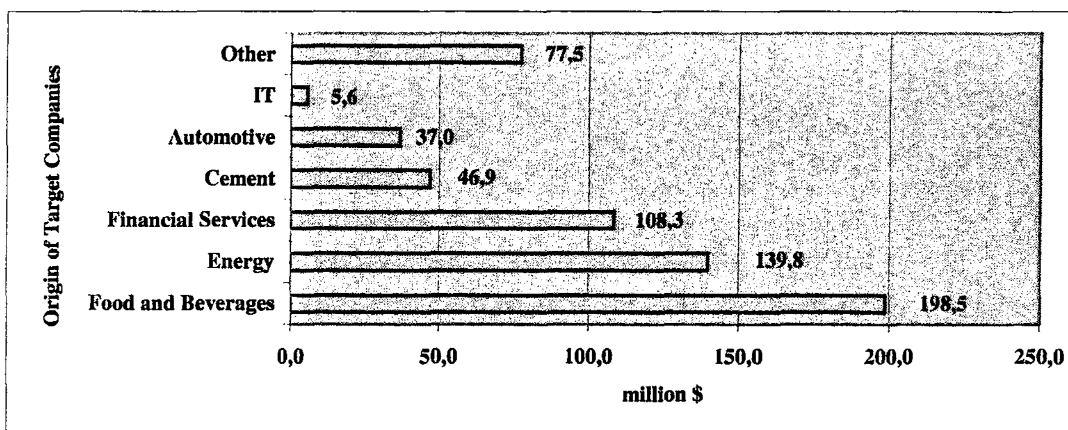
Figure 2-6*Table 4.2 Origin of the Acquiring Companies-According to Number of Transactions, 2002*



Resource: Ernst & Young M&A Survey, 2002.

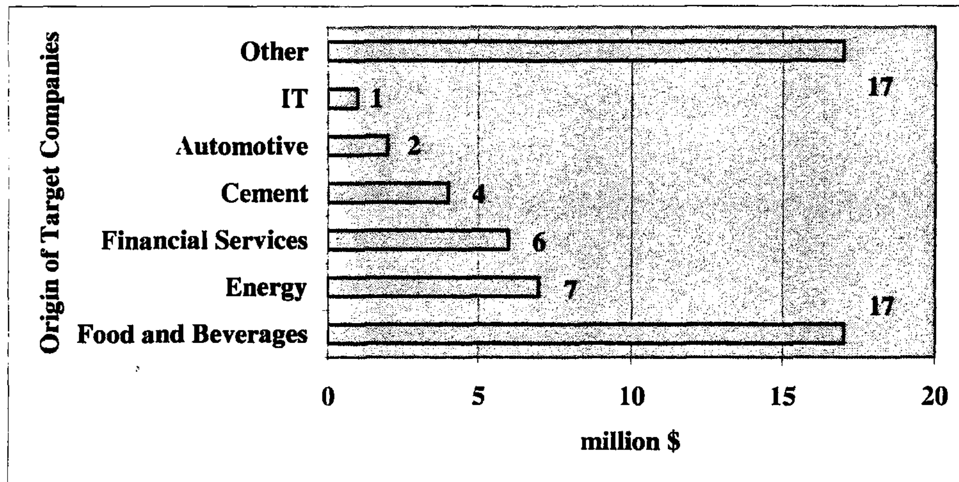
The cost of alliances and purchasing operations performed by foreign companies in 2002 was 250 million USD. However the result can be misleading because of the unannounced costs of some important alliances such as Unicredito-Koç Finansal Hizmetler, Kraft-Kar Gıda, Buderus-Isısan. European companies have the 24% share of the operations in 2002. United Kingdom is leading with 5 alliances. US interest towards Turkish companies was limited with only 2 operations. (Pepsi Bottling Group-Fruko and Kraft-Kar Gıda)

Table 4.3 Sector Distribution of Target Companies-2002 Transaction Value, 2002



Resource: Ernst & Young M&A Survey, 2002.

Figure 2-7 Sector Distribution of Target Companies-Based on Number of Transactions, 2002



Resource: Ernst & Young M&A Survey, 2002.

Looking at the target companies regarding the alliances and purchasing operations of 2002, food, energy and finance sector are the leaders respectively. Regarding food sector, the persuading force was the consolidation caused by the last 2 years' crisis; regarding energy sector, the persuading force was the privatization opportunities and the investment requirement and finally regarding food sector the persuading force was the effort of increasing market share and utilizing their over-capacity.

The 12 financial operations performed by Turkish companies is 34% of the operations that Turkish companies are the purchasers and 28% of the total operations. Regarding the 10 biggest operations, all purchasing companies were strategic investors and none of them were financial investors. One other reason for the operation volume being low in 2002, is the incomplete privatization projects (except Ditaş)

Table 2-2 Ten Biggest M&A Activities in Turkey, 2002

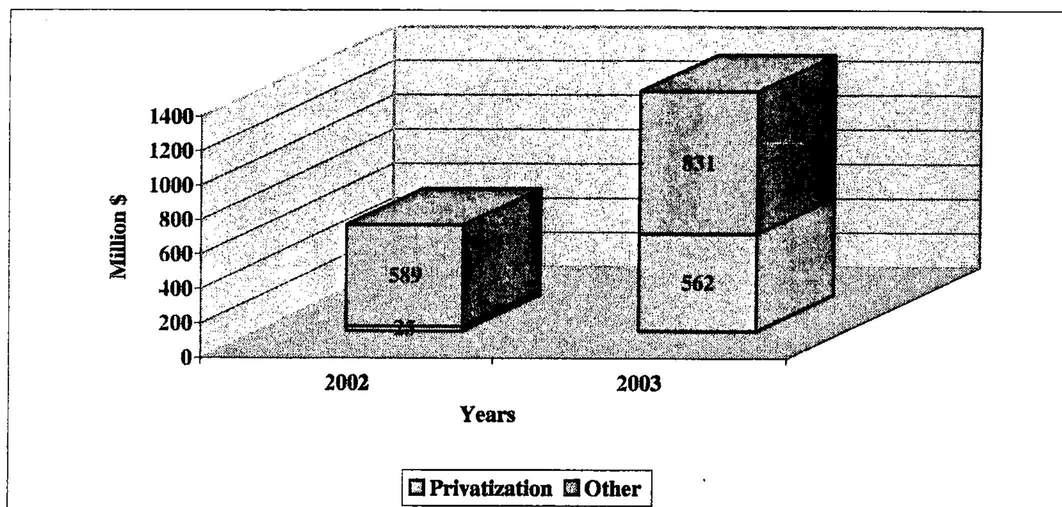
Acquiring Company	Origin	Target Company	Sector	Transaction Value (million $)
Koç Holding	Turkey	Opet	Energy	125,0
Cadburry	U.K.	Kent gıda	Food and Beverages	95,0
PBG	U.S.	Fruko	Food and Beverages	85,0
HSBC	Turkey	Benkar	Financial Services	75,0
Standart Çimento	Turkey	Esçim	Cement	46,6
Honda	Japan	Anadolu Honda	Automotive	37,0
Parsan Makine	Turkey	Asil Çelik	Steel Products	29,0
Tüpraş	Turkey	Ditaş	Transportation	16,5
Sabancı	Turkey	Piyale	Food and Beverages	14,5
Elit Factoring	Turkey	Toprak Y.B.	Financial Services	10,8

Resource: Ernst & Young M&A Survey, 2002.

2.4.2 Alliances and Purchasing Operations in 2003

In 2003, 80 alliance and purchasing operation took place. The total cost of the operations (except Aycell –Aria) is announced as 1,4 billion USD. Aycell –Aria has been the biggest alliance ever made in Turkey. The allied company is considered to have a capital of 6 billion USD. 831 million USD part of the total operations consists of privatizations.

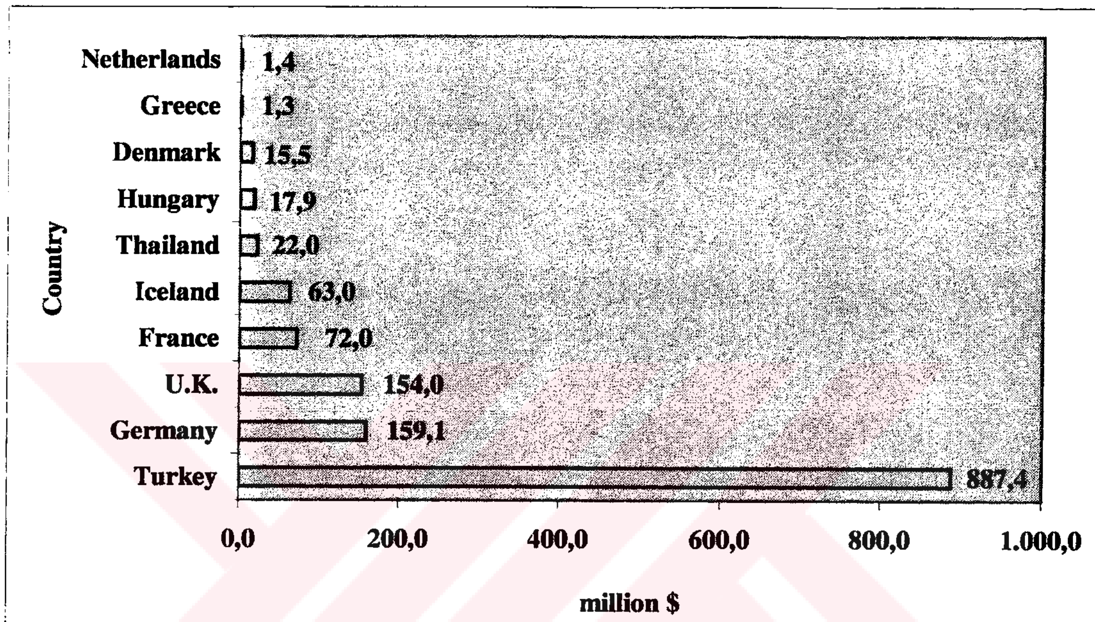
Figure 2-8Comparison of Realized Transaction Values, 2002-2003



Resource: Ernst & Young M&A Survey, 2003.

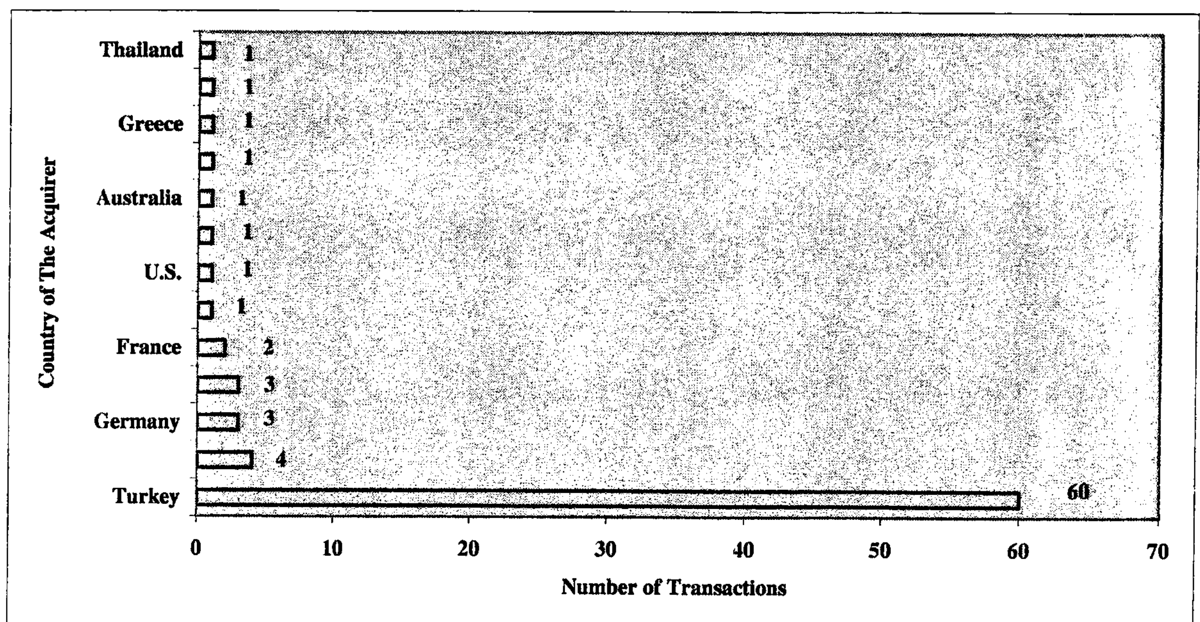
The operational cost except the privatization is 562 million USD. While the number of alliance and purchasing operations arranged by foreign companies was 19 in 2002, this number became 20, in 2003 with a total cost of 506 million USD.

Figure 2-9 Transaction Value of M&A Activities in Turkey, 2003



Resource: Ernst & Young M&A Survey, 2003.

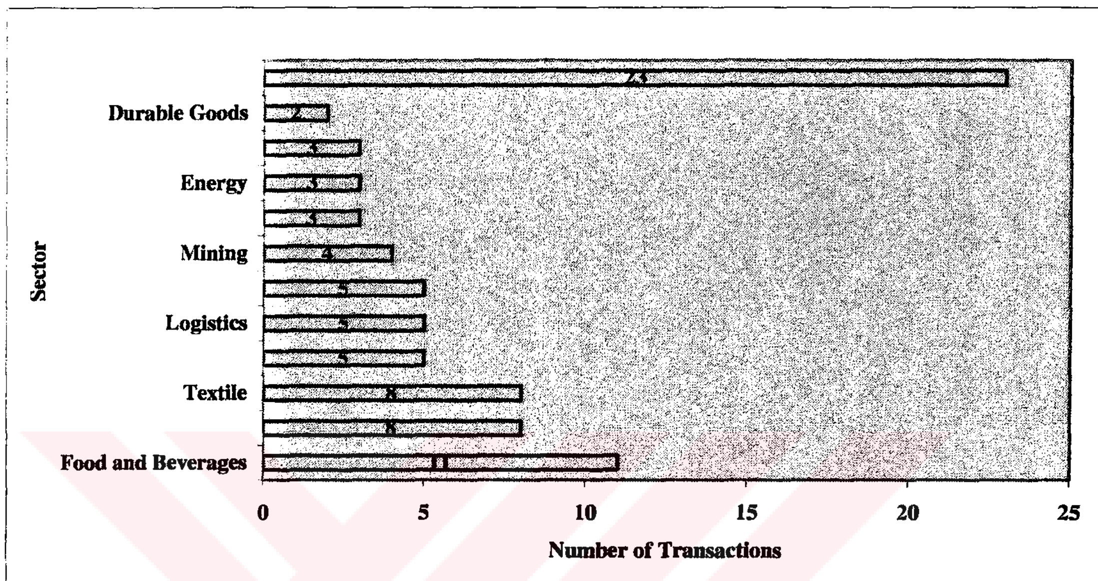
Figure 2-10 Country of the Acquiring Companies-2003, Number of Transactions



Resource: Ernst & Young M&A Survey, 2003.

The interest of US companies towards Turkey was limited with Soros Investment Capital – Unikom Yudum Sırma Yağları operation. Food and financial sectors are again the operational leaders.

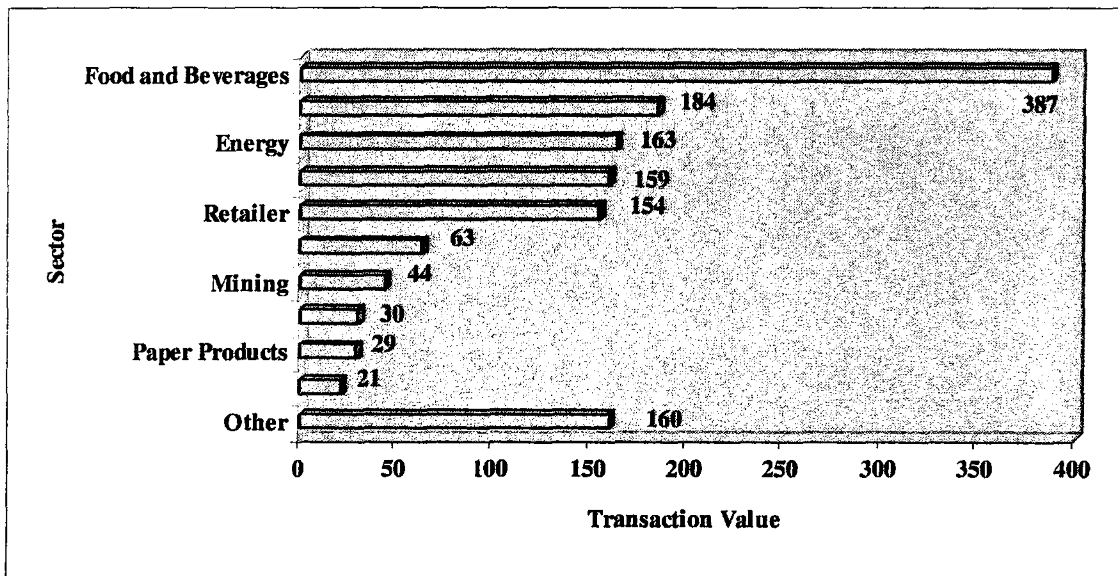
Figure 2-11 Sector Distribution of the Target Companies - According to Number of Transactions, 2003



Resource: Ernst & Young M&A Survey, 2003.

Financial operations which had relatively low operational cost (only 30 million USD), consisted of Turkish investors' purchasing insurance companies and agents.

Figure 2-12 Sector Distribution of the Target Companies-Based on Transaction Value, 2003



Resource: Ernst & Young M&A Survey, 2003.

The operation volume in food, beverage and energy, seems to be leaning usually on only one operation. The 10 big operations of 2003 that were performed in Turkey are as follows:

Table 2-3 Ten Biggest M&A Activities in Turkey, 2003

Acquiring Company	Country	Target Company	Sector	Transaction Value (million $)
Aycell	Turkey	Aria	Telecommunication	not declared
Nurol-Limak-Özaltın-Tütsab	Turkey	Tekel Alkollü İçecekler	Food and Beverages	292,0
Tesco	U.K.	Kipa	Retail	124,0
Çalık Enerji	Turkey	Bursagaz	Energy	120,0
Yıldız Entegre Ağaç Sanayi	Turkey	İgsaş	Chemicals	100,5
Deutsche Bank AG	Germany	BSH Proflio	Durable Goods	88,3
Yılyak Yakıt	Turkey	Gemlik Gübre	Chemicals	83,1
Danone Groupe	France	DanoneSA	Food and Beverages	72,0
BSH Bosch	Germany	BSH Proflio	Durable Goods	70,8
Pharmaco	Iceland	Fako İlaç	Pharmacy	63,0

Resource: Ernst & Young M&A Survey, 2003.

2.5 Progress of Bank Consolidations in the World

2.5.1 Bank Consolidations in the United States

2.5.1.1 Banking Industry in the Fifth Merger Wave

The wave of bank consolidation during the 1900s has significantly changed the characteristics and structure of the banking industry in the United States. The number of the banks has substantially decreased with far fewer local and small banks and more large and regional or national banks. The market shares of large banks have also increased as a result of mega-mergers. This rapid pace of bank M&A is likely to continue into the future and possibly accelerate in the financial services industry as a result of the passage of the Gramm-Leach-Bliley Act of 1999.[37]

Regulators typically consider three fundamental factors of motives, value to society, and optimal response when assessing an M&A deal. Motives refer to the reasons for consideration and the expectations of the acquirer from the M&A deal such as achieving economies of scale, gaining larger market share, spreading best-management and practice techniques, and decreasing competition. Value to society is a trade-off between potential social benefits of increase in effectiveness, efficiency, and diversification and possible social costs of concentration, influence, and monopoly power. Optimal response refers to M&A activities undertaken to minimize undesirable effects of the deal such as employee compensation, branch divestitures, increasing quality and quantity of products. [38]

Recent bank M&A studies have investigated two important issues of M&A deals: (1) what bank(s) are targets for acquisition; and (2) what prices were paid for acquired banks. The issue of which banks chose to acquire or merge is fundamentally motivated and determined by value maximization factors such as profitability, sales, and earnings growth. For example, Palepu (1986) found that non-financial firms that were acquired had lower growth, liquidity, and leverage than did firms that were not acquired. Morek, Schleifer, and Vishny (1988) found that banks were more likely to be acquired when their executives owned larger percentages of the outstanding shares. Studies of the prices (premiums) in bank M&A (e.g., Cheng, Gup, and Wall,1989;

Rhoades, 1987) had found that the price-to-book paid for a bank increased with the profitability of the acquired and decreased with the acquired bank's capital-to-asset ratio and return on assets.

These studies of M&A transactions found evidence in support of the hypothesis that: (1) target shareholders incur positive abnormal returns while acquirer (bidding) shareholders experience negative abnormal returns; (2) banks that make larger acquisitions perform better than banks making small acquisitions; (3) cash tenders are more significant than stock transactions in determining premiums paid to targets (e.g., price to book-value); (4) bank takeover valuations (price-to-book) have increased; (5) number of banks has declined; (6) size of M&A deals has increased; and (7) number of M&A deals has substantially increased.[39]

Typical problems with most M&A deals are overpayment, lack of proper assessment of M&A risks, and improper implementation and integration. Successful M&A deals, on the other hand, are those involving consolidation of closely related entities, small premiums, and participation and retention of acquired management. M&A decisions involve proper analysis and assessment of strategic, financial, and integration factors. The strategic review determines whether growth, especially through M&A, is a desirable choice. Financial institutions should perform financial analysis to determine whether the M&A deal increases shareholder value creation and reduces the risk of overpayment. Finally, the integration review determines the ability of the acquirer to successfully integrate the acquired financial institution into its own organization. Empirical studies show that ultimate success of M&A deals is measured in terms of the creation of shareholder value. To be considered a successful M&A deal, the merger should be effective operationally, and it should also create value for acquiring shareholders.[40]

Banks sought to take advantage of the perceived economies of scale in this industry by expanding into new markets. Mergers and acquisitions is the fastest way this can be accomplished. Table 5.1 shows some of the large banking mergers that took place during the fifth merger wave.

Table 2-4Ten Largest U.S. Commercial Bank Deals

Year	Acquirer	Target	Price ($ billions)
1998	NationsBank Corp.	Bank America	43,2
1998	Travelers Group Inc.	Citicorp	36,0
1998	Norwest Corp.	Wells Fargo & Co.	31,7
1997	First Union Corp.	CoreStates	17,1
1997	NationsBank Corp.	Barnett Banks	14,8
1995	Wells Fargo & Co.	First Interstate Bankcorp.	10,9
1995	Chemical Banking Corp	Chase Manhattan Corp.	10,4
1999	HSBC Holfding PLC	Republic New York Corp.	10,0
1996	NationsBank Corp.	Boatmen's Bancshares	9,6
1997	First Bank System	U.S. Bankcorp	8,9

Resource: Securities Data Company

2.5.2 Banking Consolidations in Europe

Table 5.2 lists the 30 largest European banks in 2000, arranged by country of origin. Looking at the table from the perspective of consolidation that is of a group of dominant core banks, three routes to the top can be identified. A first group of banks reached a dominant position almost from the moment of their foundation in the very early days of joint stock banking. These were, the first movers, the creators of a new form of banking organization. This was the case with the National Westminster Bank in Britain (The National Provincial Bank of England was founded in 1833 and the London and Westminster Bank in 1834); the Crédit Lyonnais, Société Générale and Paribas in France (founded respectively in 1862, 1864 and 1872); the Deutsche Bank and the Dresdner Bank in Germany (1870 and 1872); the Banca Di Roma and the Banca Comerciale Italiana in Italy (1880 and 1894); the Banco Bilbao-Vizcaya and the Banco Central Hispano in Spain (1857,1990); the Crédit Suisse and the Swiss Bank Corporation in Switzerland (1856 and 1872); the ABN Amro in Holland (its oldest constituent, the Nederlandsche Handel-Maatchappij, was founded in 1824); and of course the Générale de Banque in Belgium, was founded as early as 1822. Half of

the leading European banks in the early 1990s – 15 out of 30 – belonged to this first group, a very high proportion indeed. A few giants thus emerged at a very early stage in the history of modern banking development and have been able to retain their position since then. [41]

A second group, making up about just under a quarter of the whole, consists of what we call the "challengers", those banks which were able to rise to the top at a later stage of the development of joint stock banking. They were usually the result of mergers between two or several second-ranking firms among the large banking institutions. Such moves first took place in Britain: Barclay Bank was founded in 1896 through the simultaneous merger of 20 private banks whose partners were all linked by family ties (Matthews, P.W. and Tuke, A.W. (1926), History of Barclays Bank, London); while Lloyds and Midland (now part of the HSBC Group) are unique examples of provincial banks rising to the top through a systematic amalgamation policy. (Holmes, A.R. and Green, E. (1986), Midland: 150 years of banking business, London.). In Switzerland, the Union Bank of Switzerland was created in 1912 by the merger of two middle-sized banks, the Bank in Winterthur and the Toggenburger Bank. In Germany, the Commerzbank , though founded in 1870 in Hamburg, did not reach a leading position before its mergers with the Mitteldeutsche Privat-Bank in 1920, and then with the Mitteldeutsche Creditbank in 1929. Similar steps were taken after the Second World War: in 1971 the Bayerische Vereinsbank (established 1869) merged with the Bayerische Staatsbank (established 1780) to become Germany's fourth largest bank; while, in Spain, Banco de Santander began its expansion in 1946 with the acquisition of several banking institutions and the opening of branch offices abroad. [42]

The third group of banks reached the top through a completely different route: they emerged from the world of savings banks, mortgage banks and cooperative banks, which until recently had lived apart from the world of commercial banking. In Britain, Abbey National, was a building society before becoming a bank and was converted from a mutual society to a public limited company in 1989. (Reid, M. Abbey National, Conversion to PLC, London) other building societies have recently followed a similar path, in the first place the Halifax, which in 1997 became one of the country's largest banks. In France, the Crédit Agricole, at one time the World's

largest bank, started with the 1894 law authorizing farmers to form small local mutual societies, the Caisses Locales de Crédit Agricole Mutuel. (Gueslin, A. (1984), Histoire des crédits agricoles, Paris) In Germany, the Westdeutsche Landesbank (WestLB), the Bayerische Hypothekenund Wechsel-Bank (Hypo-Bank) and the Bayerische Landesbank started as mortgage banks or savings banks. The Banca Nazionale del Lavoro in Italy and the Rabobank in the Netherlands both have their roots in the cooperative movement. Altogether a surprising 27 per cent (8 out of 30) of the Largest European banks in 2000 had such origins. Their expansion, however, has been fairly recent – with the exception of the Hypo-Bank, already the eleventh largest bank in Europe (and the third in Germany) by 1913. (Cottrell, P.L. (1998) Concentration and internationalization: Aspects of banking in northern and central Europe) [43]

Table 2-5 The 30 largest European banks, 2000

Great Britain	**France**	**Germany**	**Italy**
HSBC	Crédit Lyonnais	Deutsche	Inst. Bancario S. Paolo di Torino
Barclays	Créedit Agricole	Dresdner	Banca Nazionale del Lavoro
Natwest	BNP	WestLB	Banca Di Roma
Abbey National	Société Générale	Commerz	Banca Comerciale Italiana
Lloyds	Paribas	Bayer, Vereinsbank	
	Suez	Bayer, Landesbank	
Spain	**Holland**	**Belgium**	**Switzerland**
Hispano Central	ABN Amro	Générale de Banque	Crédit Suisse
Bailbao-Vizcaya	Rabobank	UBS	
Santander		SBS	

Resource: Times 1,000, Banking Almanac

2.5.3 Bank Consolidations in the Other Countries

2.5.3.1 Japan

A serious decrease can be observed in the profitability of the Japanese banks after 1990's. After the second half of 1990's, the increase in the submerged credits, raised the diffuculties for the banks, which tried to balance their risks by international banking . These developments persuaded the government to interfere the financial

sector. The government is considered to be effective on the recent bank alliances. Besides, the priority in the alliances of the great banks, supports this opinion.

Japanese banks, faced many difficulties in the 1990's because of the stagnation in the economy and the corruption in their asset qualities. Besides, they lost their power of competition because of the great allied banks being active in international banking. This situation increased the speed of alliances in Japan in recent years. Especially, in August 1999, the alliance between Bank of Japon, Dailchi Kangyo Bank and Fuji Bank, created the world's greatest bank with a total amount of 1,2 trillion USD assets size. After that, the alliance between Sumitomo Bank and Sakura Bank created a total amount of 840 billion USD asset sizes.

The most recent alliance in the Japanese banking sector has been the joining of Asahi Bank and Tokai Bank (they were allies since the last quarter of 1999) to Sanwa Bank in March 2000. This alliance also created another giant bank with a total amount of 1 trillion USD assets sizes. Also other great Japanese banks, which were the leaders of the world a few years ago, are preparing to unify. This is meant to be the signals of important changes in the Japanese banking sector. [44]

2.5.3.1.1 Japan Anti-monopolist Law

Bank alliances in Japan are subject to the anti-monopolist law. At the same time, various articles in the Japanese banking law, brings special applications to the banks. Due to the anti-monopolist laws, alliances cannot prevent competition in the sector. Also, banks cannot unify without the permission of Ministry of Finance. In Japan, Ministry of Finance is as effective as Committee of Rivalry in this issue, unlike USA and EU countries. Also the sanctions in the Japan laws are heavier and include stricter limitations in order to preserve the liquidity in the banking sector. [45]

2.5.3.1.2 Reconstructions and Alliances By the Government Interference

Regarding the banking sector, in nearly all countries, big and medium sized banks are not allowed to get out of the system, in order to prevent a chaos in the financial markets, which may effect the other fields of economy negatively.

During economical crisis, government interferes the banks, in order to increase the security and efficiency of the system. Despite the different conditions in different countries, some of the primary methods are, capital transfer from government to the bank in poor condition, to form private associations to manage the bank resources, inciting banks for alliances within the country and letting the foreign capital enter the country. If we examine the countries, which started developments in their banking sectors as a part of the after-crisis stability program, we can realize that, the ratio of re-development activity to the GNP, is rather high.

Government usually supports via Central Bank, obtains limited tax privileges and supports the bank debtors instead of the banks. [46]

2.5.3.2 Brazil

Before the inflation decrease (1994), the banking system in Brazil, was developed due to the hyper inflation, working with a large network of branches and was based on collecting deposits. While the checking accounts were melting in the hyper inflation environment, the interest rates of the accounts with a fixed term, was below the inflation rate, which made the deposits a very attractive source for the banks. Due to the "Real Plan" which was started to apply after 1994, the decrease in the inflation, removed the very important resources for the banks. Although many branches were closed, this was not sufficient to save the banks from the bad position, so some developments in the sector started taking place. The most important purpose was the preserve the deposits. A strategy was developed and applied in order to improve the banking sector. Due to this plan, banks in very poor financial conditions were allowed to go bankrupt under Central Bank guarantee. After that, a rehabilitation program was applied in guidance of Brazil Deposits Insurance Fund. This fund, with a foundation in its own structure, targeted to place the poor conditioned banks, back to the system again, by purchasing or unifying them. In the bank unifications, the prior responsibility of the purchaser banks was to secure all the deposits of the purchased bank. So, the investments of the deposit owners were secured, without causing a high amount of cash outlet from the Deposits Insurance Fund. These alliances within the fund persuaded other banks in critical position to unify with each other, in order not to

lose their own resources. In this period, while the number of unifying banks within the fund is 7, the number of unification by other banks was 44. The most important issue in this reform was the foreign banks added to the Brazilian banking sector. Foreign resources obtained a relief in means of liquidity and carry the sector to the international competition, causing a great expansion in its vision.[47]

2.5.3.3 Argentina

Developments in Argentina were more or less the similar to Brazil. The crisis in Mexico affected the Argentina economy negatively and caused several banks to face liquidity problems. The absence of a Deposit Insurance Fund in the country left the sector unprotected. A fund was established within the Central Bank, consisting of 5 great banks at the beginning, and 25 other banks after that. The fund relieved the sector, which had serious payment problems. Banking reform took place with the help of 500 million USD source from World Bank and 2 billion USD source from the government. The banks, which were added to the Deposit Insurance Fund, were placed back to the sector by purchasing, unifying and rehabilitation.[48] After this experience, the total number of banks was decreased to 134 from 168. The main reasons of the decrease were purchasing and alliances which were mostly supported by the central authority.

2.5.3.4 Mexico

After the debt crisis in 1982, all banks in Mexico (the number of banks was about 60 at that time), were nationalized. After that, all these banks were unified among each other. At 1991-1992 period, the total number of banks were decreased to 18. However the devaluation in December 1994, caught the banking sector unprepared and caused to lose its balance completely. As a result of governments' reforms, the number of total banks decreased to 7 from 17 in 1998. After the law that restricts foreigners purchasing more than 20% of the local banks, Mexico banking sector started arousing the interest of foreigners. As a result of that, alliances occurred. For example, the alliance of Banco Bilbao Vizcaya (BBV), one of the greatest banks in Spain, and Grupo Financero Bancomer, the second greatest creditor bank o Mexico, created the strongest bank of Mexico. There is also another important property of this alliance,

because it is the first alliance of a Mexico bank with a foreign bank without government interference since 1994 crisis.[49]

2.5.3.5 Southeast Asia

After the devaluation in the second half of 1997, there were serious financial problems in Thailand, Malaysia and Indonesia. While the interest rates increase rapidly, the credit volumes narrowed, decreases in production and company profitability's. As a natural result of this situation, banking sector found itself in the middle of a deep crisis.

Because of most banks in Indonesia being badly affected by the crisis, bank alliances couldn't bring an effective solution. In 1988, 4 national banks were unified and problematic credits were transferred to Wealth Management Association. This new created bank, reached to one third of the total banking active size. 5 commercial banks are still being tried to be unified.

In Malaysia, the official authority decided all the banks to be unified in 6 main groups in September 1999, so the total number of the banks which was 58 before the Asia crisis, decreased to 6. Banks were offered a period of time to select another bank to unify. By legal arrangements, they became attractive for foreign banks who were persuaded to purchase them.

The decrease in the number of banks will allow inspections be made more effectively, which will make the control of the banks easier, in order to avoid the banking sector to fall into bad position because of credit quality.

Alliances are thought to be useful for both purchaser banks and purchased banks. Purchaser banks will have financial advantages while the purchased banks will be saved from losing all their capitals completely.

Another example of Central Authority, trying to solve the financial problems by unifying the banks, was observed in Korea, recently. The government announced that it would support banks which faced credit problems after Daewoo Group went

bankrupt. The real reason for this behavior was the increasing risk caused by the banks that had serious liquidity problems.

Taiwanese government also supported bank alliances in order to increase competition in the banking sector. The method was unifying 3 national banks, so that the private banks would face the competition within the country and increase their affectivity before entering the international competition. [50]

2.6 The Structure of Turkish Banking Sector

2.6.1 Situational Analysis of the Turkish Banking System, 2002

2.6.1.1 Banks under Control of SDIF

The rapid analysis of the banks within the extent of TMSF by means of alliance, purchasing or transferring, has been an important part of the redevelopment process in banking sector. Following the period of 1997-2001 when 19 banks in fund extent, were closed, unified or being sold to other groups, only one activating bank remained within fund extent at the beginning of 2002. The selling activities of participation and immovable properties went on in 2002. Because of the ratio of capital sufficiency being negative, the number of banks within the fund extent became 2, together with Bayındırbank, after addition of Pamukbank to fund extent in 2002. While Bayındırbank was developed by BDDK as transition bank with a purpose of taking on wealth management activity, selling process was started regarding Pamukbank.[51]

Total obligations of the banks within the fund extent have become 31,4 billion USD and their total loss have become 17,3 billion USD. The resources supplied by the public sector in order to strengthen the financial conditions of these banks, is 17 billion USD. The amount of source that was transferred from TMSF resources to Fund banks was 4,7 billion USD. These sources were used to cover the deposit obligatory of the banks or in transferring them. Important arrangements were made in order to increase the authority and strengthen the organization structure of TMSF by the law number 4743. Besides the public banks, banks within fund extent and TMSF were persuaded to take part of agreements within redevelopment processes. However TMSF was only accepted in condition that it would not provide extra financing. Also, TMSF was decided to be the authority regarding management of the redevelopment activities on the participations of the banks that were transferred to itself. The extent of the possessions was expanded regarding the credits of TMSF. [48]

2.6.1.2 Financial Redevelopment Program

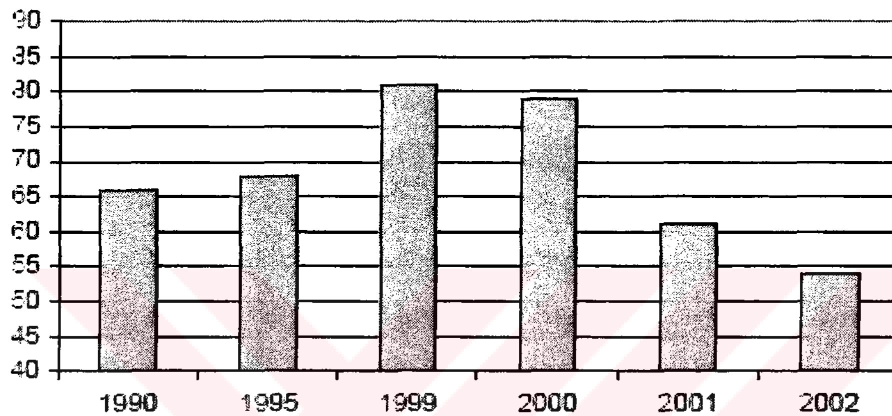
In order to diminish the economical negative effects of crisis and provide the economical enlargement, application of a comprehensive institutional redevelopment program was considered. The studies, being different from the previous ones, have collected the real and financial sector representatives under Financial Production Consultation Council in order to produce a common solution. In the council, including Ministry of Internal Affairs, BDDK, T.C. Central Bank, SPK, TOBB, TUSIAD, TBB representatives, a method which would ensure banks coming together for solving the problems and the problematic bank actives remaining in the bank without transferred to a establishment such as wealth management company. Regarding this issue, studies within TBB extent begun with the coordination with BDDK. The law number 4743, which is the law of financial debt redevelopment and law differentiation, also for approval and application of financial redevelopment agreements in 11/04/02, is the basis of Extent Agreement that is known as "Istanbul Approach". Due to these agreements, bank credits could be developed within 3 years after being approved by BDDK, also extra financing could be provided when necessary and new payment plans could be made. The agreement of financial development were formed within a period by Redevelopment Work Group which were charged by TBB regarding this subject and which was composed of T. Garanti Bankasi A.Ş.- Yapi ve Kredi Bankasi A.Ş.- Pamukbank A.Ş.-T. Iş Bankasi A.Ş.-T. Vakiflar Bankasi T.A.O. The redevelopment agreement, which was confirmed by TBB board of directors, was offered to credited establishments in 24/05/02 for signing. The agreement that was signed by 25 banks and 20 other financial corporations was offered to BDDK for confirmation. The decision number 718 in 04/06/02 by BDDK confirmed the agreement. In June 2003, 208 big sized (32 group) and 91 small sized companies were included within the extent of financial redevelopment program. Financial Redevelopment Commitment was signed with 140 big sized (16 group) and 66 small sized companies. The amount of the debt which was redeveloped was 4,8 billion USD. [48]

2.6.1.3 Turkish Banking System as of 2002

2.6.1.3.1 Quantity of Banks and Branches

The decrease in number of banks, branches and crew, which started in 2000, went on in 2002 too. The number of banks was 54 after 7 of them were reduced. (6 of them were commercial banks; one of them did not accept deposits.)

Figure 2-13 The Graph that Shows the Quantity of Banks from 1990 to 2002



Resource: www.tbb.org.tr/turkce/kitap2002/ekonomi.pdf

The reasons of the decrease were the alliance or elimination of the banks that were transferred to the fund. In June 2002, Pamukbank were transferred to TMSF, which is present in the structure of BDDK. Bayındırbank were unified with EGS Bank A.Ş. in January 2002 and with Toprakbank A.Ş. in September 2002, which were in fund extent. Sümerbank A.Ş. was unified with Oyak Bank A.Ş. by transfer. [48]

*Table 2-6 The Quantity of Banks and Branches in the Turkish Banking System**

	2000		2001		2002	
	Bank	Branch	Bank	Branch	Bank	Branch
Commercial Banks	61	7.807	46	6.889	40	6.087
Public Banks	4	2.834	3	2.725	3	2.019
Private Banks	28	3.783	22	3.523	20	3.659
Banks within fund	11	1.073	6	408	2	203
Foreign banks	18	117	15	233	15	206
Banks that don't Accept Deposit	18	30	15	19	14	19
Public banks	3	11	3	4	3	4
Private banks	12	16	9	12	8	12
Foreign banks	3	3	3	3	3	3
Total	**79**	**7.837**	**61**	**6.908**	**54**	**6.106**

* Branches in KKTC and foreign countries are included

Resource: www.tbb.org.tr/turkce/kitap2002/ekonomi.pdf

Türk Ticaret Bankasi A.Ş. was eliminated in Agustos 2002 and Rabobank Nederland Central Branch was eliminated in April 2002. The banking licence of Okan Investment Bank was cancelled after a legal period in April 2002. Sınai Yatırım Bankası A.Ş. was transferred to Türkiye Sinai Kalkınma Bankası A.Ş. in March 2002. Sitebank A.Ş. was sold to Nova Bank in January 2002 and Milli Aydın Bankası T.A.Ş. was sold to Denizbank A.Ş. in October 2002. The commercial title of Westdeutsche Landesbank Girozentrale was changed as West LBAG in October 2002. Total branch number became 6106 after a decrease of 802. All closed branches belonged to commercial banks. Only the branch numbers of private commercial banks were increased. [48]

- **Personnel Quantity**

Personnel quantity in banking system continued going down in 2002. 3587 people lost their job in 2000, 32.906 people lost their job in 2001 and 14.224 people lost their job in 2002, making a total decrease of 50.439 in 3 years. By December 2002, 96% of the banking sector crew works in commercial banks and 4% work in the banks that do not accept deposits. Employers in the public commercial banks are 33% of the total while the employers in the private commercial banks cover the 54%. Besides, the bank employers in the fund extent covers 5% while foreign bank employers cover 4%. [48]

Table 2-7 Employees in the Banking System

	2000	2001	2002
Commercial Banks	164.845	132.274	118.329
Public Banks	70.191	56.108	40.158
Private Banks	70.954	64.380	66.869
Banks Under Control of Fund	19.895	6.391	5.886
Foreign banks	3.805	5.395	5.416
Banks that don't accept deposit	5.556	5.221	4.942
Public banks	4.456	4.322	4.174
Private banks	1.021	822	691
Foreign banks	79	77	77
Total	**170.401**	**137.495**	**123.271**

Resource: www.tbb.org.tr/turkce/kitap2002/ekonomi.pdf

The quantity of the banks, branches and the personnel decreased to the level of 1980's. Regarding the end of year 2002, the number of banks had been the lowest since 1985, number of branches had been the lowest since 1980 and the quantity of the crew had been the lowest since 1979. The reasons of this decrease are the transfer of the financially weak banks to TMSF, redevelopment process in public banks, shrinkage in bank resources and the tendency of bank sector, to save money. [48]

- **Balance Size**

Due to the financial tables that were prepared according to purchasing ability, assets decreased 2% in 2002 down to 212,7 quadrillion TL. (129,7 billion USD) The ratio of the total actives to the national income decreased from 93% in year 2001 down to 78%. The reasons of the sectoral shrinkage are the balance sizes of the fund banks, getting out of the system, tendency to investment funds and public shares which provides a higher income, because of tax differences and TL's increasing value against foreign currencies. In the group of commercial banks, while public banks shrink by 4%, foreign banks by 2%, banks within the fund extent, 14%, banks which do not accept deposits, 5%, private banks expanded by 1%. [48]

Table 2-8 Total Assets of the Turkish Banking System, as of December 2002

	Trillion TL	Million USD	Percentage Change (compared with 2001)
Commercial Banks	203.237	123.944	-2
Public Banks	67.831	41.367	-4
Private Banks	119.471	72.860	1
Banks within fund	9.310	5.678	-14
Foreign banks	6.624	4.040	-2
Banks that don't accept deposits	9.438	5.758	-5
Total	212.675	129.700	-2

Resource: www.tbb.org.tr/turkce/kitap2002/ekonomi.pdf

- **Sectoral Shares**

The active share of commercial banks increased by 1% up to 96% by year 2001. However the share of public banks decreased from 33% to 32% and the banks within the fund extent, to 4% from 5%. The share of the private banks increased from 56% from 55%. Besides, the share of the foreign banks stayed constant at 3%. [48]

Table 2-9 The Sectoral Shares of the Groups (Percentage)

	Total Assets		Total Deposits		Total Credits	
	2001	2002	2001	2002	2001	2002
Commercial Banks	95	96	100	100	88	89
Public Banks	33	32	34	34	22	17
Private Banks	55	56	57	58	58	65
Banks within fund	5	4	8	5	5	3
Foreign banks	3	3	2	2	3	4
Banks that don't accept deposit	5	4	-	-	12	11

Resource: www.tbb.org.tr/turkce/kitap2002/ekonomi.pdf

Regarding the distribution of the total deposits, the share of the public banks (34%) and the foreign banks (2%), remained constant. The share of the private banks increased by 1% up to 58%, while the share of the banks in fund extent decreased by 3% down to 5%. While the share of the public commercial banks increased by 5% up to 17%, the share of the public commercial banks within the fund decreased 2% down to 3%. As the share of the private commercial banks, increased by 75 up to 65%, the share of the foreign banks increased by 1% up to 4%, the shares of the non-deposit collector decreased by 1% down to 11%. [48]

- **Intensity**

The sectoral asset share of the top 5 banks in the sector became 58%, deposit share became 61% and credit share became 55%. The sectoral asset share of the top 10 banks in the sector became 81%, deposit share became 86% and credit share became 74%. The shares of total assets did not change much. The shares of 5 banks increased regarding total deposits and credits. The shares of top 5 and top 10 banks increased seriously. While the asset shares of the top 5 banks were 44% in 1998, it became 58% in 2002. The asset shares of the top 10 banks increased from 68% to 81% in the same period. Regarding the amount of total assets, there is only one bank whose asset size is over 20 billion USD. There are 8 banks whose asset sizes are between 1 -10 billion USD. The total number of banks with an asset size over 1 billion USD, decreased from 21 in 2001 to 19 in 2002. [48]

*Table 2-10 The Intensity in the Turkish Banking System (percentage)**

	1998	1999	2000	2001	2002
First 5 banks					
Total Asset	44	46	48	56	58
Total Deposit	49	50	51	55	61
Total Credits	40	42	42	49	55
First 10 banks					
Total Asset	68	68	69	80	81
Total Deposit	73	69	72	81	86
Total Credits	73	73	71	80	74

* Due to total assets

Resource: www.tbb.org.tr/turkce/kitap2002/ekonomi.pdf

Table 2-11 Quantity of Banks According to Asset Sizes

Billion USD	-0,5	0,5 - 1	1 - 2	2 - 5	5 - 10	10 - 20	20+
Commercial Banks	18	5	3	7	1	5	1
Public Banks					1	1	1
Private Banks	5	4	2	5		4	
Banks Under Control Of Fund				2			
Foreign Banks	13	1	1				
Banks That Don't Accept Deposits	11	1	1				
Sector Totals	29	6	4	8	1	5	1

Resource: www.tbb.org.tr/turkce/kitap2002/ekonomi.pdf

- **Balance TL –FX Structure and FX Assets – FX Liabilities**

In December 2002, while the TL asset, comparing with 2001, increased by 4%, the foreign money assets decreased by 7% (FX). However, while FX liabilities decreased by 11%, TL liabilities increased by 10%. Regarding this, the share of FX assets in the balance decreased from 49% to 46% and the share of the FX liabilities decreased from 56% to 50%. The obligations and possessions related to foreign currency, do not take place in the description of "FX assets – FX liabilities". In year 2002, the inter-balance difference of FX assets and FX liabilities decreased from 8,7 billion USD to 5,3 billion USD. Due to the calculations made by BDDK, including the obligations and possessions related to foreign currency, the foreign money position of the balance, has a shortage of 551 million USD in 2002. [48]

Table 2-12 "FX Assets – FX Liabilities" and Foreign Money within the Balance*

	FX Assets % Share		FX Liabilities % Share		FX Actives – FX Passives Billion USD	
	2001	2002	2001	2002	2001	2002
Commercial Banks	49	46	56	50	-9	-5,4
Public Banks	35	33	37	34	-1	-0,6
Private Banks	57	54	65	59	-5,6	-3,9
Banks Under Control Of Fund	51	37	83	52	-2,1	-0,8
Foreign Banks	53	53	61	56	-0,3	-0,1
Banks That Don't Accept Deposits	56	52	51	49	0,3	0,2
Sector	49	46	56	50	-8,7	-5,3

Resource: www.tbb.org.tr/turkce/kitap2002/ekonomi.pdf

Table 2-13 Sectoral Foreign Money Position Within the Balance

Million USD	2000	2001	2002
Public Banks	-144	191	194
Private Banks	-8377	-1487	-454
Banks Under Control Of Fund	-3984	-441	-367
Foreign Banks	-1803	108	42
Banks That Don't Accept Deposit	-245	40	34
Sector	-14553	-1588	551

Resource: www.tbb.org.tr/turkce/kitap2002/ekonomi.pdf

- **Structure of the Assets**

Due to the stability being obtained in financial markets and the economical activities being improved, the share of liquid assets decreased by 6% down to 16% of the total assets. However, while the share of stocks and bonds is limited by credit request, the continuous source request of public and the public stocks and bonds providing more income with less risk, it was increased by 7% up to 41%. The shares of credits and constant assets remained more or less the same, about 27% and 9% respectively. Regarding the distribution due to remaining due dates, the 25 percent of the assets are overdue, 35% have a fixed term of less than 3 months, 42% have a fixed term of less than 6 months and the 54% have a fixed term of less than 12 months. The assets, which have a fixed term of more than 12 months, have a share of 43% in the total. However 12% of the resources have a fixed term of more than 12 months. The share of overdue sources is 46%, the share of the ones having a fixed term of less than 3 months, is 76%, the share of the ones having a fixed term of less than 6 months is 82% and the share of the ones having a fixed term of less than 12 months is 87%. [48]

The most important reasons of the credit stock decreases, the credits of the banks which were transferred to the fund, leaving the system, the limited request of credit and the trio inspection program applied by BDDK. Related to this issue, lately collected credits were classified again and suitable recompense was arranged for them. The credits in pursuit decreased from 16,9 quadrillion TL to 10,4 quadrillion TL. After the special recompenses were reduced, the percentage of the credits in pursuit to all credits decreased from 29,5% to 18,5%. 6,7 quadrillion TL was arranged for doubtful credits which means 64% of the credits in pursuit. Fixed assets that were formed by participation, bound partnership, physical and non-physical possessions decreased by 2,4% down to 18,1 quadrillion TL. Participations and bound partnerships decreased, while physical and non-physical possessions increased. When the credits in pursuit after recompense are added, the share of constant assets decreased from 13% to 10,3% of the total assets. [48]

- **Structure of the Liabilities**

Total deposits decreased by 3% while its share in liabilities became 67%. Foreign money deposits decreased by 6% while its share in liabilities decreased by 2% down to 39%. TL deposits increased by 1% while its share in liabilities was 28%. The share of saving deposits, which have the highest share in TL deposits, remained at 24% level. The share of commercial deposits increased by 2% up to 9%, the share of official establishments increased by 1% up to 2%, the shares of banks deposits and deposits of other establishments decreased by 2% and 1% respectively down to 3% and 5% respectively. The non-deposit resources, which have a 13% share of the total resources, decreased by 3% in 2002. 55% of the non-deposit resources are supplied by foreign credits. [48]

Table 2-14 The Development and Structure of Assets

	Trillion TL	Billion USD	Change %	2001 % Share	2002 % Share
Liquid Assets	34.357	21	-29,3	22,4	16,2
Stocks And Bonds	86.112	52,5	15,9	34,3	40,5
Deposits For Buy-Sell	20.828	12,7	19,6	8	9,8
Deposits Ready To Be Sold	17.669	10,8	1503,4	0,5	8,3
Deposits That Are Kept In Term Basis	47.615	29	-14,6	25,8	22,4
Credits	56.370	34,4	-1,7	26,5	26,5
Credits Under Inspection	10.430	6,4	-38,4	7,8	4,9
Special Recompenses	6.691	4,1	-9,8	3,4	3,1
Constant Assets	18.144	11,1	-2,4	8,6	8,5
Participations	3.001	1,8	-16,2	1,7	1,4
Bound Partnerships	5.262	3,2	-2,6	2,5	2,5
Material Possessions	9.551	5,8	2,7	4,3	4,5
Non Material Possessions	330	0,2	10,4	0,1	0,2
Other Assets	2.022	1,2	-23	1,2	1
Total Assets	**212.675**	**129,7**	**-1,8**	**100**	**100**

Resource: www.tbb.org.tr/turkce/kitap2002/ekonomi.pdf

Table 2-15 The Credits Under Pursuit and Special Recompense Rate (%)*

	Credit Under Pursuit / Total Credit 2001	Credit Under Pursuit / Total Credit 2002	Special Recompense / Total Credit 2001	Special Recompense / Total Credit 2002
Commercial Banks	32,5	20,4	42,6	64,2
Public Banks	46,1	48,6	62,7	73,9
Private Banks	26,8	9,1	31,5	53
Banks Under Control Of Fund	53,6	119	28,9	60,5
Foreign Banks	5,7	5	76	77,6
Banks That Don't Accept Deposit	7,5	2,9	83,4	64
Total	**29,5**	**18,5**	**43,8**	**64,2**

Resource: www.tbb.org.tr/turkce/kitap2002/ekonomi.pdf

Table 2-16 The Distribution of the Deposits According to Types

	Trillion TL	Million USD	Change%	Share % 2001	Share % 2002
Saving Deposit	34.851	21.254	-1	24	24
Official Establishments	2.921	1.781	50	1	2
Commercial Deposit	13.503	8.235	25	7	9
Banks deposit	4.415	2.692	-39	5	3
Other Establishments	7.641	4.660	-15	6	5
Foreign currency	78.964	48.157	-5	57	55
Valuable mineral deposit	94	57	-8	0	0
Total	**142.388**	**86.835**	**-3**	**100**	**100**

Resource: www.tbb.org.tr/turkce/kitap2002/ekonomi.pdf

Table 2-17 The Structure and Development of The Liabilities

	Trillion TL	Million USD	% Change	Share % 2001	Share % 2002
Deposit	142.388	86.835	-3	68	67
TL	60.012	36.598	1	27	28
FX	82.376	50.237	-6	41	39
Non deposit	26.932	16.424	-3	13	13
Resources	25.699	15.672	22	10	12
Paid Capital	12.012	7.325	15	5	6
Capital Substitutes	28.046	17.104	-19	16	13
Profit Substitutes	23.630	14.411	139	5	11
Total Profit	-37.988	-23.167	12	-16	-18
Period Profit	2.882	1.758	-123	-6	1
Other Passives	17.657	10.768	-12	9	8
Total	**212.675**	**129.700**	**-2**	**100**	**100**

Resource: www.tbb.org.tr/turkce/kitap2002/ekonomi.pdf

- **Resources**

The total resources of the sector increased by 22% up to 25.695 trillion TL (15,7 billion USD) The ratio of resources to total assets, increased from 9,7% up to 12,1%. The paid in capital of the banking system became 12 quadrillion TL (7,3 billion USD) and the capital reserves became 28 quadrillion TL (17 billion USD). Besides the increase in resources, the free resources of the sector improved due to the positive effect of profit on the resources. [48]

Free resources (resources, fixed assets, lately collected credits after recompense) increased from -6996 trillion TL to 4145 trillion TL. The ratio of free resources to total assets, increased from -3,1% to 1,9%. The ratio of free resources to risky possessions increased from 17,5% to 24,2%, the ratio of resources to total assets increased from 9,7% to 12,1%. In consolidation basis, this ratio is over 36%. The loss of 12,3 quadrillion TL in 2001 was converted to 2,4 quadrillion profits in 2002. The net profits of the public banks, private banks and banks that do not accept deposits, increased faster than average. The sector which left 2001 behind with loss due to crisis, gained profit in 2002, however the profitability were very low. The active profitability of the system was 1,1% and the resource profitability was 9,2%. [48]

Table 2-18 Resources

	Trillion TL	Million USD	% Change
Commercial Banks	22.703	13.846	21
Public Banks	6.747	4.115	8
Private Banks	15.194	9.266	20
Banks Under Control Of Fund	-626	-382	61
Foreign Banks	1.388	846	-8
Banks That Don't Accept Deposits	2.992	1.825	30
Sector	**25.695**	**15.670**	**22**

Resource: www.tbb.org.tr/turkce/kitap2002/ekonomi.pdf

Table 2-19 Free Resources

	Trillion TL 2001	Trillion TL 2002	The % Ratio to Total Assets 2001	The % Ratio to Total Assets 2002
Commercial Banks	-9.030	1.608	-4,1	0,8
Public Banks	1.286	2.693	1,8	4
Private Banks	-6.816	343	-5,6	0,3
Banks Under Control Of Fund	-4.485	-2.523	-41,3	-27,1
Foreign Banks	1.165	1.095	17,4	16,5
Banks That Don't Accept Deposit	1.852	2.537	18,7	26,9
Sector	**-6.996**	**4.145**	**-3,1**	**1,9**

Resource: www.tbb.org.tr/turkce/kitap2002/ekonomi.pdf

Table 2-20 Resources / Risky Possessions and Resources / Total Assets (Percentage)

	Resources / Risky Possessions 2001	Resources / Risky Possessions 2002	Resources / Total Assets 2001	Resources / Total Assets 2002
Commercial Banks	16,2	23,1	9,1	11,2
Public Banks	36,6	50,2	8,8	9,9
Private Banks	16,5	19,7	10,7	12,7
Banks Under Control Of Fund	-28,5	-2	-15	-6,7
Foreign Banks	44,2	32,6	22,2	21
Banks That Don't Accept Deposit	36,3	40,2	23,2	31,7
Sector	17,5	24,2	9,7	12,1

Resource: www.tbb.org.tr/turkce/kitap2002/ekonomi.pdf

Table 2-21 Net Period Profit - Loss, 2002

	Net Period Profit / Loss (Million USD)	Asset Profitability %	Resource Profitability %
Commercial Banks	1.154	0,9	8,3
Public Banks	644	1,6	15,7
Private Banks	1.482	2	16
Banks Under Control Of Fund	-1.022	-18	267,9
Foreign Banks	50	1,2	5,9
Banks That Don't Accept Deposit	283	4,9	15,5
Sector	**1.437**	**1,1**	**9,2**

Resource: www.tbb.org.tr/turkce/kitap2002/ekonomi.pdf

- **Income-Expense Position**

In 2002, interest income decreased by 40% while the interest expenses also decreased by 37% in comparison to 2001. The reasons for that, were the decrease of the interest rate due to the decrease of the inflation, the share increase of the stocks bound to foreign currency and deposit request persuaded to public stocks and bonds owing to tax advantages. Relevantly, net interest income decreased by 47% and the net interest income of the assets decreased from 11,2% to 6%.

An important support to activity income came from commercial profit account. While capital market operation profits were increasing, the loss of foreign exchange decreased significantly (from -12,3 quadrillion TL to -2,4 quadrillion TL) due to decreased currency risk. Activity incomes increased 30% in 2002. The ratio of activity incomes to total assets, increased from 7,1% to 9,4%.

Besides, due to the decrease of recompenses which were arranged for doubtful credits and reduced activity expenses, a significant development took place in activity profit. The activity expenses of the sector were decreased by 12% (from 11.120 trillion TL to 9779 trillion TL) as a result of 5% decrease in staff expenses (down to 3578 trillion TL) and 28% decrease in other activity expenses. (Down to 2627 quadrillion TL) The activity expenses contains 37% staff expenses, 25% other administration expenses and 27% other activity expenses.

The banking system which had a loss of -7,5 quadrillion TL in 2001, had 5,3 quadrillion activity profit in 2002. Additionally, owing to the decrease in net monetary position loss, banking system finished the year 2002 with profit, despite the high volume loss in 2001. The profit of the system was 3,5 quadrillion TL before the tax and 2,4 quadrillion after the tax. [48]

Table 2-22 The Cost – Income Table

	Trillion TL	Million USD	% Change
Interest Income	44.338	27.040	-40
Interest Costs	31.539	19.234	-37
Net Interest Income	**12.799**	**7.805**	**-47**
Net Price and Commission Income	2.200	1.342	-3
Profit Share Income	130	79	-39
Net Commercial Profit – Loss	**892**	**544**	**106**
Capital Market Profit – Loss	3.262	199	326
Exchange Profit – Loss	-2.370	-145	81
Other Activity Incomes	3.863	2.356	62
Total Activity Incomes	19.892	12.131	30
Activity Income	**5.277**	**3.218**	**171**
Profit – Loss Before Tax	3.522	2.148	132
Tax Recompense	1.152	703	2
Net Profit – Loss	**2.357**	**1.437**	**119**

Resource: www.tbb.org.tr/turkce/kitap2002/ekonomi.pdf

2.6.2 SWOT Analysis of the Turkish Banking Sector

In this section, the present condition of the Turkish Banking Sector is explained by SWOT Analysis. The word SWOT is the abbreviation of Strengths, Weaknesses, Opportunities and Threats. This is one of the most useful analyses in order to investigate a sector in all aspects.

2.6.2.1 Strengths

The strong aspects of Turkish banking sector can be listed as below:

*Positive inflation going on in sector,

*Important technological developments has been,

*Improvements in personal banking field,

*Crew amount and quality is high,

*Increasing competition,

*Expanding branch network and alternative distribution channels.

2.6.2.1.1 Continuous Expansion in the Sector

Even tough, not being as much as previous years, Turkish banking sector continues expanding. In the last 20 years, the expansion of banking sector is much higher than

other sectors in the economy.

Despite its share in the balance decreasing continuously, the acceleration of the credits are higher in comparison to other countries. Although in the past, public sector was lending high amounts of money from the market and despite the high interest rates, the credits increased rapidly. This situation is bound to Turkey's quick expanding economy and the dynamism of the private sector.

2.6.2.1.2 Rapid Technological Revolution

The sector carries out continuous large investments in technological field in order to prepare the competitive environment. As an example we can mention the increasing amount of ATM machines. After 1994, while the sector was in a crisis, the increase in the number of these machines has been over the average of OECD countries. The investment towards alternative distribution channels was not limited with ATM machines, also call centers and Internet banking is widespread today.

2.6.2.1.3 Development in Personal Banking

Turkish banks, which lost their contact with foreign funds in 1994 crisis, realized the necessity of variating the fund resources and started applying personal banking intensively. The tendency, which could be realized by product variations, became evident after branch networks became widespread.

2.6.2.1.4 Quantity and Quality of the Trained Personnel

Banking sector is the leading sector for investing human management activities especially during the financial freedom that was lived after second half of 1980's. The rapidly developing banking sector, which quitted its traditional structure and started to give high standard service, became an attractive job field at the same time. This fact, increased the education level of the participants, compared with the previous years.

2.6.2.1.5 Increasing Competition Experience

Although there are factors that keeps the banking sector away from the competition (such as deposit insurance) many developments in the mid 1980's, increased the competition in the sector (free interest, increasing bank numbers, etc...)

2.6.2.1.6 Widespread Branch Network and Alternative Distribution Channels

Increasing number of branches also caused the alternative distribution channels become widespread in recent years. The number of branches, which were 5985 in 1980, was 7772 in September 2000. Today it is possible to reach many Turkish banks via Internet and perform nearly all-banking activities.

2.6.2.2 Weaknesses

The weak parts of Turkish banking sector can be listed as follows:

- Conditions that hinder the sector from competition,
- Public being primary debtor (crowding out),
- Market and credit risks,
- Insufficient differentiation,
- Insufficient infrastructure,
- Insufficient public sharing,
- Insufficient resources,
- Cultural factors,
- Low credit ranking.

2.6.2.2.1 Conditions that hinder the sector from competition

i. Limitations of going in and out of the sector: These limitations in banking sectors harm the structure of competition. While banks, which are in financially bad position, are not allowed to leave the system, Rank of Treasury hinders new banks. This environment keeps the system away from competition and hinders bank alliances.

ii. Savings that are Provided Extreme Guarantee: The government guarantee towards the deposits, was an application that were performed in 1994 crisis conditions and is still valid. At the same time, because of the papers, that are exported by treasury, provides very high income, financially weak banks felt the courage to estimate prices on the deposits, which are too far away from the cost-income relation. Besides, because of this total guarantee, this pricing is attractive for the possessors although they should have felt suspicious under normal conditions.

iii. The Importance of National Banks in the Sector: National banks is another factor that hinders competition. They have become "high interest providers" as being a partner to the function that is possessed by treasury and collected resources, although they should have provided relatively low interest rates with the confidentiality of being National Banks. At the same time, the national establishments being forced to work with national banks in various periods (considering an important part of Turkish economy being formed by national establishments), was another factor that hinders competition. These banks that serve a large range of customers (especially national establishments) are extremely active in deposit basis. They possess the 38% of the total deposits, however their share in the credits is only 26%

However the real problem is, the purpose of national banks' being established should be, carrying out the missions that are mentioned by the government, not giving banking services for profit.

2.6.2.2.2 Public Being Debtor Itself (Crowding out)

When the last 15 years of Turkish economy is investigated, the first thing to be observed is the tendency of increasing public sector debts. Sources to finance the debts are low and costs are high as a natural result of expanding economy, low tendency of saving, instability and country risk factors. High budget deficits and public sector's tendency to debt are directly related to the inflation problem and are the main reasons of the economic instability. The private sector cannot take

advantage of the funds that are created by financial system, because of the government bearing the high interest rate in order to create resources.

2.6.2.2.3 Market and Credit Risk

In Turkish banking sector, while the high amount of open positions, increase the currency risk, the instability in the interest rates and the expectation for interest rate tightening, increase the interest risk. Risk management concept cannot be considered to be settled in Turkish banking sector so far.

2.6.2.2.4 Insufficient Differentiation (Variation)

The most important problem in Turkish banking sector is insufficient variation (differentiation) in banking products and services among the banks. In other words, most of the banks are trying to reach the same client potential with almost the same kind of instruments.

2.6.2.2.5 Insufficient Infrastructure

Despite the technological investments that had been made by the Turkish banking sector in recent years, the technological infrastructure of sector is still insufficient in comparison to global aspect.

2.6.2.2.6 Insufficient Public Sharing

One of the weak parts of the sector is the insufficient developed capital market.

2.6.2.2.7 Insufficient Resources

The insufficient resources are a problem for nearly all sectors in Turkey, however it should be more seriously dealt with, when banking sector is in question. The sector, which is activating upon reliability, works on high rank ratio at the same time.

2.6.2.2.8 Cultural Factors

Additionally, some cultural factors form a negative issue about banking sector. Directing investments via banks or other financial establishments is not an alternative for an important part of Turkish people.

2.6.2.2.9 Low Credit Ranking

While focusing on the weak parts of Turkish banking sector, low credit ranks should also be taken into consideration. Regarding Turkish banks, the low credit rank of Turkey, raises difficulties or increase the costs for being indebted with foreign currency. This is a very important disadvantage regarding fund resources and costs for Turkish banks

2.6.2.3 Opportunities

Although the redevelopment of the banking sector is a threat for small banks, new opportunities are worth paying attention. As the competition conditions are improved in the sector, there should be wider opportunities for the banks, which are financially stronger.

The opportunities for the banking sector can be listed as follows:

- The expansion potential because of being an unsaturated sector,
- The banking potential caused by expectation of personal wealth increase,
- The opportunity to reach the possessions that were never approached before,
- The change in demographic conditions and rapid urbanization,
- Redevelopment and regeneration.

2.6.2.4 Threats

The threats for banking sector can be listed as follows:

- Floating interest rate,
- Competition within local banks,
- Global competition,
- Competition in financial sector,
- Adaptation problems of the real sector to floating interest rate,
- New "Bank for International Settlements" (BIS) applications.

3 BANK ALLIANCES IN TURKEY

3.1 Former Bank Alliances from 1980 till Today

Liberal economy and 24th of January decisions changed the local economy and the banking sector completely. As the "Free interest and currency" period started, the awkward sector was persuaded into great changes. Many banks went bankrupt, were eliminated or were merged during that period.

İstanbul Bankası, Hisarbank (Afyon Terakki ve Servet Bankası), Odibank (Elazığ İktisat Bankası) managements, which had financial structure problems relevant to the law that eliminated the stockbrokers in 1982, were completely transferred to Ziraat Bankası by the government in. However, operations of İşçi Kredi Bankası (Kayseri İşçi ve Kredi Bankası) and Bağbank (Manisa Bağcılar Bankası) were stopped. [52]

Türkiye Öğretmenler Bankası (TÖBANK), which faced structural corruption due to the financial crisis, were nationalized in 1987 and transferred to Halk Bankası in 1992. [49]

After 1980's when new banks were founded and specialized banks were developed, 3 banks went bankrupt after the financial problems in 1994. Marmara Bank, Impex Bank, TYT Bank went bankrupt and were eliminated in 1994. The system which was about to live a serious financial crisis, was put in order by Bank Express being purchased and saved by Tekfen Holding and full guarantee that were granted to deposits. [49]

3.1.1 Role of the Saving Deposits Insurance Fund (SDIF)

One of the preconditions of achieving and preserving an increase in savings and channeling them to investment, which is considered the most important factor in the provision and protection of a continuous and sustainable growth in a country's economy is a reliable banking system.[53]

The continued presence of savings deposits in the banking system is of great importance due to the significance of deposits among the bank sources and especially of savings deposits in the overall sources. The insurance of deposits functions as a measure to prevent savings to stay out of the system by ensuring and enhancing savers' trust. The savings being under the guarantee of deposits has a positive impact on macro-economic balances by increasing savers' fund supply. Besides, the practice of deposit insurance contributes to the prevention of possible systemic crises in the case of savers' massive or sudden withdrawals of funds. [50]

Despite the increasing audit and surveillance of banks, it is not yet possible to prevent in-accountability of banks. Therefore, the practice of "deposit insurance" has come to order to prevent possible damage in the case of the emergence of such a risk. In fact, the owners of savings deposits often display the characteristics of a vulnerable group in both general and financial terms. [50]

The practice of deposit insurance is the most developed tool to protect deposits and it is applied based on the principle of accountability of the banking system to fiscal costs in order to guarantee deposit risks to some extent. However, a compensation of damages created by systemic banking crises by the insurance funds that are formed with the support of the banking system should not be expected. [50]

In this context, Savings Deposit Insurance Fund has been established to ensure the stability of the banking sector in Turkey, which is of crucial importance for the economy. In the banking system of our country, without ever reaching a compensation of the damages created by the problems in 1994, followed by the crises in 1998 and the onwards crises, the funds needed for the rehabilitation, sale or liquidation of banks were provided by the bonds of the Treasury Undersecretary . When taking into account the fact that the assets of the banks taken over in this process by the Savings Deposit Insurance Fund (SDIF) account approximately for 25% of the overall assets in the baking system, it can easily be seen that a system sector problem cannot be met within the limitations of the SDIF. [50]

As a matter of fact, in order to speed up the sale or liquidation of the banks taken over by the SDIF in this period, a significant part of their fixed assets, joint and

subsidiaries and their receivables were taken over by the SDIF. In this way, the SDIF functioned for the sale of fixed assets and assets under legal follow-up rather than its major function of insuring savings deposits. [50]

The SDIF, which has the major function of insuring savings deposits in banks, is rather used for the collection of receivables that are now considered public receivables. However, both the inadequacy of the legislation on legal follow-up of the collection of bank credits and the big problems faced by the SDIF with its limited personnel and resources , the collections made so far could not reach the level required. [50]

Along with this, initiatives have been taken to discard the legal problems by the authorities of the SDIF. In this way, considerable progress has been recorded in minimizing public deficits with the help of the measures taken to activate the process of legal follow-up of receivables. [50]

Within this process, the SDIF balance sheet has been altered in comparison to the balance sheet of an insurance company and has reached to the point where its assets were significantly outweighed by its liabilities. Still, the Treasury Undersecretariat has authorized the Council of Ministers with regard to the liquidation of the SDIF debt, which results from the State Domestic Deficit Bonds and has established the legal infrastructure for SDIF to return to its healthy functioning in terms of the structure of its balance sheet within a reasonable time period. [50]

The proposal on the liquidation of the debt consisting of the expenses on restructuring the banking sector, and in this context the sale of assets and transfer of funds received by liquidation of the receivables taken over to the Treasury Underdecretariat has been conveyed to the government and the Treasury Underdecretariat. For a healthy follow up of the activities of the SDIF, a better measurement of its performance and above all to ensure reliance on the insurance provided by SDIF with regard to the newly adopted application of limited guarantee for savings deposits, work has been going on to liquidate the debt of the SDIF to the Treasury Undersecretariat in a way to minimize public deficit. [50]

In parallel with the restructuring of the banking sector, the SDIF has completed its work to a great extent in order to take the necessary measures for potential problems and has also attached great importance to institutionalization in order to utilize the lessons of the past. [50]

However postponed problems went on relevant to economical stabilization not being formed because of public financial problems, lack of budget discipline and high inflation. Following Türk Ticaret Bankası, Bank Ekspress and Interbank were also transferred to Deposit Saving Insurance Fund in 1998 and 1999 respectively . Turkish bank sector being effected by the Southeast originated global crisis in 1998, caused Egebank, Yurtbank, Sümerbank, Esbank and Yaşarbank to be transferred to Saving Deposits Insurance Fund. [50]

Table 3-1 The Banks Transferred to SDIF

Transfer Year	Number of Banks Transferred to SDIF	Banks	Current Position
1997	1	Türk Ticaret Bankası A.Ş.	In liquidation process
1998	1	Bank Ekspres A.Ş.	Sold to Tekfenbank A.Ş.
1999	6	Interbank A.Ş.	Merged with Etibank A.Ş. in 2001
		Egebank A.Ş.	Merged with Sümerbank A.Ş. in 2001
		Yurtbank A.Ş.	Merged with Sümerbank A.Ş. in 2001
		Sümerbank A.Ş.	Described below
		Eskişehir Bankası T.A.Ş.	Merged with Etibank A.Ş. in 2001
		Yaşarbank A.Ş.	Merged with Sümerbank A.Ş. in 2001
2000	3	Etibank A.Ş.	Merged with Bayındırbank A.Ş. in 2002
		Bank Kapital A.Ş.	Merged with Sümerbank A.Ş. in 2001
		Demirbank T.A.Ş.	Sold to HSBC in 2001
2001	8	Ulusal Bank T.A.Ş	Merged with Sümerbank A.Ş. in 2001
		İktisat Bankası T.A.Ş.	Merged with Bayındırbank A.Ş. in 2002
		Sitebank A.Ş.	Sold to NovaBank in 2002
		Tarişbank A.Ş.	Sold to Denizbank in 2002
		Bayındırbank A.Ş.	Varlık Yönetimi işlevini yürütecek geçiş bankası olarak seçildi
		Kentbank A.Ş.	Merged with Bayındırbank A.Ş. in 2002
		EGS Bank A.Ş.	Merged with Bayındırbank A.Ş. in 2002
		Toprakbank A.Ş.	Merged with Bayındırbank A.Ş. in 2002
2002	1	Pamukbank	Under control of SDIF
2003	1	İmar Bankası	Under control of SDIF

Resource: http://www.tmsf.org.tr/Content.aspx?tabid=88&lang=tr

In 2000, Etibank, Bank Kapital and Demirbank; in 2001, Ulusalbank, İktisat Bankası, Sitebank, Tarişbank, Bayındırbank, Kentbank, EGS Bank and Toprakbank; in 2002, Pamukbank and in 2003 İmar Bankası were transferred to Saving Deposits Insurance Fund. The legal explanations of the transfers are explained in the table below:

Table 3-2 The Legal Ground of the Transfer of Thos Banks to SDIF

Based on the Law of Banks (No: 3182)	**Based on the Law of Banks (No: 3182), Article 14/3**	**According to the Law of Banks (No: 3182), Article 16/1**	**According to the Law of Banks (No: 3182), Article 14/3 and 14/4**
Türkbank	Yaşarbank	Kıbrıs Kredi Bankası	Egebank
Bank Ekspres	Demirbank		Yurtbank
Interbank	Ulusalbank		Sümerbank
	Sitebank		Esbank
	Tarişbank		Etibank
			Bank Kapital
			İktisat Bankası
			Bayındırbank
			EGS Bank
			Kentbank
			Toprakbank
			Pamukbank

Resource: http://www.tmsf.org.tr/Content.aspx?tabid=88&lang=tr

Banks within the Saving Deposits Insurance Fund were held in the fund, eliminated or merged. The development process of the transferred banks is explained below:

Table 3-3 The Progress of the Banks Transferred to SDIF

Transferred	Merged	Sold	In Liquidation Process	Still Under Control of Fund
Türkbank	Sümerbank	Bank Ekspres	Türkbank	Bayındırbank
Bank Ekspres	- Egebank	Sümerbank	Kıbrıs Kredi Bankası	Pamukbank
Interbank	- Yurtbank	Demirbank		İmar Bankası
Egebank	- Yaşarbank	Sitebank		
Yurtbank	- Bank Kapital	Tarişbank		
Sümerbank	- Ulusalbank			
Esbank				
Yaşarbank	Bayındırbank			
Etibank	- Etibank			
Bank Kapital	- Interbank			
Demirbank	- Esbank			
Ulusalbank	- EGS Bank			
İktisat Bankası	- Toprakbank			
Sitebank	- İktisat Bankası			
Tarişbank	- Kentbank			
Bayındırbank				
Kentbank				
EGS Bank				
Toprakbank				
Pamukbank				
İmar Bankası				

Resource: http://www.tmsf.org.tr/Content.aspx?tabid=88&lang=tr

As seen in the figure above, Tekfen Holding purchased Bank Ekspres, HSBS Plc. purchased Demirbank, Novabank purchased Sitebank and Oyak Holding purchased Sümerbank.

On the other hand, two alliances, which were not related to Saving Deposits Insurance Fund, also occurred. The first one is the alliance between Emlak Bankası and Ziraat Bankası, which purposed to bring together the two financially weak banks and increase their efficiency.

The second one is the alliance between Körfezbank - Osmanlı Bankası – Garanti Bankası, which are activating within Doğuş Holding. Initially, Körfezbank and Osmanlı Bankası were merged in August 2001. After that, Osmanlı Bankası and

Garanti Bankası were merged in December 2001. The target in merging the banks in the same group was, providing the scale economy, to reach a strong financial position, own widespread distribution channels and give quality service with low cost in a commercial environment where the inflation and the profitability are low. After alliance, the management expenses of Garanti Bankası decreased by 22% in 2002. Also, the active size increased by 27% and became 11,4 billion USD, which put Garanti Bankası into 4th position, regarding active sizes, in Turkish banking sector. Besides, capital sufficiency increased up to 13,82% and commercial client number increased by 10% which provided the bank a 20% market share.

There are some common properties regarding bank transfers, bankrupts and alliances:

1. Imprudent management.

2. Inability of free inspection and inability of the politic management to interfere the problems that are observed as a result of inspection, on time.

3 The deformation of the active quality as a result of macro economical accumulating problems and the legal arrangements not being made for collecting the problematic credits. (The wealth transfer caused by the public resources given to the companies as credit, however this credits not been paid because of the economical problems or non ethical businessmen. Also the inability of legal system for finding a solution to this problem, causing the banks being transferred, in order to protect the rights of the capital owners and the government trying to cover the financial load.

4 As a reason of high inflation and poorly managed national finance, National Banks losing their capital and deposits in speculative activities and being unable to carry out the real activities relevant to lack of capital.

5. The problems caused by liquidity crisis and capital loss as a natural result of unreliable environment in the markets.

6. The unfair competition environment formed by the financial system players who try to save the day instead of considering efficiency and profitability.

Regarding all these mentioned periods in the report, numerous banks were transferred, went bankrupt or merged as a result of local and global economic and politic problems affecting the banking sector negatively. [54]

3.2 Bank Alliances Today

Today, Turkey is living one of its structural conversion periods. The precautions taken that are impossible to be delayed because of the country conditions, have given rise to impressive changes in the economy. One of the most important reflections of this change can be observed in the banking sector. The sector, which was built on the last 10 years' breakable balances, is having difficulties in adapting new economical reality conditions. Besides, international competition, which is aroused by the EU candidacy period, seems to convert into another indicator.

The factors that are mentioned above, persuades the banking sector to be reconstructed against stricter local and global competition. The most important tool in this reconstruction period is the bank alliances, however it has not been materialized in our country although it is mentioned and observed in global aspect for quite a long time period.

Regarding the present conditions in Turkey, bank alliances seem to be persuaded by market conditions or the interference of the national authority instead of being a fact that occurs by itself. However if we approach the subject in a realistic global perspective, initially, bank alliances aroused as an obligation relevant to economic conditions. Today, if these alliances are materialized frequently and easily, it is the result of the persuading competitive conditions and the infrastructure that has been made suitable throughout many years. Below, the alliance persuading developments that are coming out one by one in our country, are be explained.

3.2.1 The Developments that Make the Bank Alliances Necessary

The economical redevelopment in Turkish Economy coincided to a period when the global bank alliances took place with an extreme acceleration. The redevelopment of

the economy has always persuaded the redevelopment of the finance sector too. The banking sector, which reacted initially at the economical changes, will play an important role in the redevelopment of Turkish economy and banking alliances will take place relevant to those changes. Changing economic conditions prepare a new vision for the Turkish banks that had never been affected by the previous global bank alliances. Banking alliances will be an important parameter in the redevelopment process of the banking sector.

The first uncertain fact is the timing of the bank alliances. The factors, which will make bank alliances necessary, are explained below:

3.2.1.1 Redevelopment Process of the Turkish Economy

Redevelopment process has been unsuccessful so far, as a result of the conditional supporting agreement, which was signed with IMF in December 1999 not being applied properly The present structure and competition balance of Turkish banking sector, is formed due to the economical realities (chronic inflation, high real interest rate, etc..) of recent years. The conditions of the new period will be quite tough for the banks which have applied an enlargement policy leaning on high treasury bond incomes, instead of commercial and personal banking activities and neglect the principles such as efficiency and financial strength. Especially, while some banks, which doesn't have enough financial strength and client mass, will be forced to reduce their costs in order to compensate the rapid loss of income, some other banks will ruin their active quality by heading to risky fields and will face the danger of losing their resources completely.[55]

3.2.1.2 Seeking for Efficiency and Profitability

As mentioned before, globally all banks began seeking for rapid efficiency increase as a result of heavy competition conditions. However Turkish banking sector has not felt the same pressure for such an effort. Changing economical conditions are expected to persuade the sector to seek efficiency and profitability.

The most natural expectation is the efficiency efforts, giving the result of cost

minimalization by creating various interactions and cooperation opportunities. One of the recipes of increasing the efficiency is reaching a wider mass of clients with lower costs by taking advantage of the scale economies. One of the tools to be used for this purpose, is alliances.

It seems that the sector is away from this considerance for now. Even in fields that activating together and sharing the costs are possible, most of the banks prefer to proceed on their own. However, some banks began to give a collaborator view regarding this issue. Especially three banks that belong to Doğuş Holding, (Garanti, Osmanlı ve Körfez) are executing their activities, operations and serving to all banks from one common headquarters as a result of continuous efforts since 1999. Besides they reflect this cooperation to fields of human resources and law. The increase in efficiency and other positive results will certainly be a guide for bank cooperation and alliances in the future.

3.2.1.3 High Investment Costs

The most effective method for reaching the client is service quality, which includes human resources and technological infrastructure. It is inevitable to invest these issues, in order to own the market share and necessary profitability level. However both of the parameters are the most expensive investments for the banks. Considering the income loss in short period caused by economical changes, the banks which can not complete their human resources and technological infrastructure, will not be able to create the sources for compensating their deficiency in a short time period.

This factor will have positive effects on bank alliances in Turkey, parallel to the global applications. While the weaker banks will try to arrange alliances in order to compensate their deficiencies, stronger banks will desire to merge in order to increase their income rapidly and reach the mass of clients. However the initial alliances may be considered to be between strong and weak banks. In order to create a chain of alliances in the sector, a competition, which will make strong banks incapable about the investment amounts and that can only be materialized by carrying the global competition within the country borders.

3.2.1.4 Global Competition

Due to the stated numbers about the sector in 2000, the market share of the foreign banks that were founded in Turkey or have branches in Turkey is 3% There are some reasons for Turkey staying out of the competition, that is continuously increasing in the global banking sector. First of all, the dimensions of the sector request have not been considered as an important market by international banks. Another reason is, despite of the high potential, the high country risk caused by the economical instability, keeping the global banks away.

It is an obvious reality that, if the foreign banks prefer to purchase the small or medium sized banks and intend to apply enlargement policies towards them, in order to enter the Turkish market, they will have an important advantage in the competition and great efficiency in the market by their capital and funding possibilities as well as technological infrastructure that is suitable for global service. In order to resist this activity, the local banks will try to merge between each other or other foreign banks. These kinds of formations will result in tendency towards alliances in medium term assuming the sizes of the foreign banks not being relatively big in the beginning.

Besides alliances of foreign banks with big sized local banks, will cause rapid and complicated changes in the sector. While the small banks, that do not create differentiation in themselves, will not have the chance to exist, other big banks will consider joining the present alliance or arranging new alliances rapidly.

Regarding this issue, the integration studies with EU are very important. While the banking sector make progress for the adaptation to European Banking System, the related authority is making legal changes. Considering the probable membership of Turkey to EU, important changes will occur in both sides. Turkey will certainly take the attention of EU banks and EU banks may purchase some Turkish banks.

3.2.1.5 The Privatization of National Banks

The expectance of government having less authority upon economy is concerning the banking sector. National banks effect the competition negatively because of being

non-efficient and owning too much share in the sector. The best solution relevant to this subject is the privatization of national banks. As a matter of fact, some banks were privatized in the past, however they were small and having limited activity fields. However 4 big national banks could not be privatized and also recently negative effects in their balances are starting to be felt, due to the various responsibilities that were pressed against them.

Their awkward structure, their undeveloped and "behind the competition" status and high total active sizes, make the privatization process harder. Their present structure is insufficient enough to stay alive in current competition. They need investment and rehabilitation in many fields like human resources, technologic infrastructure and branch networks. However the real handicap is the unwillingness of the government due to political reasons. Political mechanisms use these banks as quasi treasury, funding and employment resource when necessary. The banking sector will be one of the hardest abandoned sectors for politic authority.

In fact there is a global pressure towards our country for the banking sector rehabilitation to be started from national banks. The primary concern is autonomity first and privatization after. Also, selling them after dividing or merging them with other banks are the other options. Dividing them is a logical option because of their present sizes and the investments that will be done for redevelopment.

These banks are highly active regarding deposits as serving to an important mass of clients for many years. They have widespread branch network, important institutional customer database and Brand-Name recognition. If they are purchased or privatized, all balances will change and many counter-alliances will occur for defense. At the same time, the banking potential being transferred to profit mental private sector, the efficiency and competition will go extremely up. [56]

3.2.2 The Handicaps For Alliances

Although the consideration of "alliance" since a long time and it is obvious that alliances are an obligation, there are some reasons why they have not become fact. While some of these handicaps should be overcome by the sector itself because of the

persuasion of market conditions, some public missions should be accomplished for dealing with the others. These handicaps can be summarized under 4 main groups.

3.2.2.1 Lack of Real Competition in the Sector

Alliances occur in more saturated markets where there are higher competition and marginal profitability. (They are mostly used as a solution against those limiting factors) In Turkey, considering the banks being far away from this structure, market conditions have not been formed enough to persuade the banks for alliance.

3.2.2.2 Structure of Capital

In Turkish banking sector, very few of the private commercial banks belong to entrepreneurs who activates only (or mostly) on banking. The bank owners are usually multi-activated holdings. The problem is, the banks serving as treasury or capital departments (financial supplier) of these holdings. For the same reason the efficiency principles are not being applied by the holdings. They keep the banks just for taking advantage of the banking license. (Collecting deposits.)

Considering that owning a bank is understood as prestige and strength in Turkey, the holdings possess banks as a strategic part of their structure. Besides, usually the 1st or 2nd generation entrepreneurs has got the majority of the shares of the banks and they are unwilling to give the bank away which they had founded or developed. These cultural effects also cause the bank owners not to share their banks with other capital possessors. "Let it be small, let it be mine" mentality causes the banks to be alone, inefficient, small and having low profitability in the market.

3.2.2.3 Adjustments Related to the Capital Market

Turkey has not enrolled an improvement yet, regarding the alliances, which have many global examples. This is the result of the share market not being completely developed.

Local or foreign investors without any limitations can purchase company shares.

However the conditions are not suitable for company alliances. The reasons may be the public sharing ratio staying low and unreliability towards legal infrastructure.

3.2.2.4 Low Public Sharing of the Companies

In developed markets such as US market, the differentiation in the alliance structure of the companies is arranged by the transfer of stocks and bonds. This can be done owing to all or most of the company stocks, being shared by the public. While the value of the stocks, that have a good financial performance and positive expectations increase, the negative aspects of the poorly managed banks with low performance, reflect to the reports of the inspection companies and finally the prices, so the value of the stocks decrease. As a result, public pressure (investment funds, retirement funds, etc...)Additionally because of placing quota to stocks and bonds requiring maximum transparency, managements do not have the chance to hide the condition or postpone the process.

There are other advantages of bank stocks being shared. First of all, the high amount of banks, make the alliances easier, so the opportunity for finding sector average, benchmark prices and arrange the bargaining upon them, takes place. The exchanging of the stocks makes the process more convenient due to ease of operation and reliability.

3.2.2.5 Unreliability of Legal Infrastructure:

One of the subjects about the capital market operations, which are taken into consideration by foreign investors, is the unreliability of the legal infrastructure. With the desire to protect their high amount investments, they are afraid of politic and relevant legal instability. The additional handicaps are lack of experienced courts and the slow operating legal process.

3.2.2.6 Body of Current Law and Taxes Regarding Alliances:

The body of current law in Turkey regarding bank alliances consists of law of trade, law of competition protection, law of capital market and law of banks.

The primary problem regarding the laws, is lack of adaptation due to lack of intensive alliances and lack of market pressure related to that.

The law of taxes, which is very important in alliances and transfers, is described and arranged in the aspect of corporation taxes. In the past, the topic related with alliances, which belongs to corporation taxes law, caused many problems, some of which were transferred to court.[57]

3.2.3 Things To Do In Order To Prepare The Sector For Alliances

Suggestions for arrangements related to bank alliances can be summarized in 4 groups:

- The arrangements that prepare the sector for competition environment,
- Arrangements regarding capital markets,
- Arrangements regarding laws,
- The position and effects of the regulator organizations.

3.2.3.1 Arrangements that Prepare the Sector for Competition Environment

3.2.3.1.1 Permitting the Entrance to the Sector

As a basic principle, the process regarding the permission for bank alliances should be made eased. First thing to be careful regarding this process is, to make a cleaning operation in the banking sector because of the ruined competition structure. Without taking this precaution, bank alliances will create a more chaotic environment. The second issue is, although bank-founding process (permission period, reducing the bureaucracy) should be eased, the bank founder specifications (capital size, the knowledge and experience of the capital owner, bank activity plan, etc.) should be kept at high level and applied strictly without concession. Various specifications should be sought in banks that are going to be founded and banks should be persuaded towards defective fields. (Investment banking, regional banking)

3.2.3.1.2 Arranging Exits from the Sector

This is also a sensitive subject to be arranged carefully in long term. Due to the particular sector conditions, shortcut solutions may not be applied in even most comfortable markets. Principally, inefficient and weak banks should be eliminated without harming the general structure and balances of the sector.

Regarding this issue, precautions should be taken before reaching the point of no return. Initially financial positions of the banks should be improved, or if possible, they should be transferred. Early warning system should be established for the financially weak banks or if that is not sufficient enough, establishment of a redevelopment system should be considered with various alternatives.

This process should not be a "bank or investor rescue operation", in stead, it should be considered as a redevelopment activity to save the banks whose presences are necessary for sector benefits. Another important principle is avoiding the public or sector funds (such as deposit insurance premium) used unnecessarily.

Redeveloping and selling a problematic bank to another establishment is a complicated process and requires public and sector funds for re-capitalized. Responsible authority should manage the development process and guide the transfer funds correctly. Things to do regarding this issue are:

- All problematic banks should be synchronously dealt with under a common structure.

- The structure should decide the conditions of the public financial support.

- Clear rules should be determined, regarding the evaluation of support precaution's financial costs.

- High transparency should be obtained regarding the structures and the sizes of the problems and the necessary solutions.

- The amount and type of the support should be analyzed as a condition of public support being obtained.

- The support should eliminate the risk of credit crunch.

All kinds of support should be applied due to market conditions. Foreign establishments as well as local ones should play role in the redevelopment.

However, there are some short-term precautions to be taken which are mentioned below:

3.2.3.1.3 Increasing the Activation of SDIF

Considering the harm that may affect the banks, which stay in SDIF for a long time (deficiency, lack of target), the rehabilitation should be completed as soon as possible. If not possible, the banks should be eliminated or merged with other banks, so the efficiency and the competition mechanism of the whole sector will not be affected negatively.

3.2.3.1.4 Redevelopment of SDIF

Premium system leaning on risk should be applied, in order to overcome the public sources being wasted by other elements of the system, in order to keep the problematic banks alive. This system principally is not a system that activates when banks have problems. Its real purpose is to avoid the banks from insufficiency and interfere before using strict inspection methods ruins their financial structure. The tool of the system is the premium, which differentiates due to the risk taken. As a result, banks will prevent taking unnecessary risks.

3.2.3.1.5 Reducing the Competition Preventing Activities of Public Banks:

In order to achieve this process, public banks should be redeveloped as private establishments that activates for the purpose of profitability. In order to get rid of their

load in the sector, they should be privatized. However it is not easy for governments to eliminate these banks because of their ease of supplying and transferring sources. These banks have always stayed away from the real banking activities and competition as a reason of accomplishing the mission that was given to them by government. Under these conditions it is not easy to merge them with other banks. Short-term rehabilitation and modernization projects should be a concern. In order to achieve this, first of all, public banks should have autonomous managements.

When public banks should reach the necessary structure to resist the sectoral competition, after rehabilitation and modernization processes, a suitable environment will occur to merge these banks with other banks. Their huge sizes may also cause problems, so they should be divided before being sold or merged.

3.2.3.1.6 Preventing Monopolies

While the alliances are encouraged and precautions are taken, the competition should not be eliminated completely and cause monopolies. Competition council that was founded in recent period should confirm alliances. The rule is the share of the merged or transferred companies should not exceed 25% of the relevant market. Concerning that no such operations has been performed so far, it is uncertain how this rule will be applied on banking sector. While the competition of the sector is increased in the market by alliances, the competition within the sector should not be eliminated.

3.2.3.2 Arrangements Regarding Capital Market

The capital markets, being used as an effective tool in bank alliances is related to the insufficient developed capital markets. If radical precautions are taken regarding that issue, positive developments will take place in all sectors, including banking sector.

Regarding this issue, public sharing should be strongly encouraged. Present capital market law, offers tax advantages to shared companies without concerning the sharing ratio. If tax advantages are applied parallel to sharing ratio, will encourage public sharing.

3.2.3.3 The Improvement of the Legal Infrastructure

Regarding this issue, strengthening law has been a positive step. If the foreign investors know that their investments are protected by international laws, foreign capital flow towards Turkey will increase. However in order to achieve the trust to the system, Turkish laws should also provide the confidence about solving the problems rapidly and effectively. This will accelerate the process of Turkish bank sector taking place in the global banking.

3.2.3.4 The Effects and Positions of the Regulating Establishments

Turkish banking sector used to be regulated and inspected by many authorities like in the USA. However it is hard to say that the system operates as properly as it does in the USA. Despite the intensive reporting activities of the banks, the inspecting results turning out into precautions and sanctions has mostly lately or never occured. The problem is expected to be solved by Banking Regulating and Inspecting Council (BDDK) activating autonomously. Regulating and decision authorization belongs to that council as well as permissions for bank alliances. Despite this positive decision, the autonomy of BDDK will not be enough for solving the problems. A determined politic authority should support it. Besides, activities should be explained to commercial market and public, in order to have the extra support of the public opinion. [58]

3.2.4 The Success and Failure Conditions of the Alliances

The experiences that are gained from the bank alliances of last 10 years, determines the conditions of success approximately. The activities regarding this fact are summarized below:

1- If the allied banks are operating in the same market, decreasing crew and investment costs are easier.

2- Small banks are taking more advantage of alliances.

3- The active quality of the purchased bank affects the efficiency directly, that will be gained as a result of alliance.

4- Although banks acting in different markets do not provide scale economy, these kinds of alliances provide a higher market share. (Especially in Europe) [59]

Besides, some factors cause failures and deviations from the expectations. The factors that have the potential to cause problems in the alliance of Fleet bank and Bank of Boston in 1999, which are 2 of the 10 stronger banks in USA are mentioned below. [60]

- The cost savings that were forecasted before alliance could not be provided on estimated time.
- Expected profitability could not be reached after the alliance.
- The competition being more than expected.
- Alliance costs being more than expected.
- Interest margins getting narrower.
- Local and foreign economical conditions becoming worse after alliance.
- Unexpected problems occurred about related legal regulations
- Negative developments occurring in capital markets.

4 METHODOLOGY

Mergers and acquisitions are among the most visible and important phenomena of modern economies. They are also notable since, despite a great many studies of post merger performance and stock market events, there is no agreement about either their motives or their effects. [61]

Firms in mature or declining industries are faced with the challenge of redeploying their excess resources to new applications, and M&A strategies can be an important component of this effort. [62]

World banking sector is going through a high consolidation in believing in the decrease of expenditures, increase in the market power, decline in the volatility of income, and gains like economies of scale and scope.

While analyzing the merger and acquisition activities of banks - before and after the merger - the profit and efficiency changes should be examined. This way, the size of the contribution of the merger to the banks, banking sector and economy can be observed. [63]

One of the biggest goals of the merger of banks is the growth that merger brings and the increase in the productivity level by benefiting from the economies of scale and scope. The purpose of many academic researches that aim to display the consequences of the bank mergers is to determine the correlation between mergers and the efficiency. What is aimed by the economies of scale is first to decrease the cost of services rendered that is done through a wide service network.

Therefore, a relation that will be revealed between scale, efficiency and profitability will enlighten whether emerging banks maintain increases efficiency.

According to Tony Comper, CEO of The Bank of Montreal, mergers are always an option to address a competitive environment. Mergers are not strategy, first you have to have a clear business strategy of where you're going. Then you should ask the question: Where does a merger fit into that? This question's answer put limitations on

growth aspirations. One will be the extent to which we can grow through partnering with others. The constraint is the amount of capital that you have. So if you found a like-minded partner who had a similar view of where you think the industry is going, a merger would give you twice the capital resources, so you could pursue your strategy even faster. [64]

From this point of view, if a consolidated firm that will appear after the merger has a bigger value than the sum of the two joined firms, then the merger or acquisition will be titled as profitable for the shareholders. The main reason for this particular value gain is the expectation of progress in the performance that was built after the merger.

The researches about the progress of performance after the merger analyze whether there is development in subjects like the increase in the efficiency, increase in the market power or diversification.

Progress in the efficiency can be observed in many ways after the merger. In this respect, the cost of efficiency is the extensively explained one. The expectation of the decrease in the unessential operational costs is the one of the main reasons of many merging activity. (For example, a decrease of 1 billion dollar in the annual expense is expected from the merger of Wells Fargo in 1996 with First Interstate.)

Reaching the scale and scope economies could provide a decrease in the expenditures that occurred due to the merger. The consolidated firm will be more efficient if unnecessary building and equipment is eliminated after the merger. The expenditures done by a bank to provide a specific service can be lower than the same service carried out by each bank separately. If the acquiring company is more successful than the target company in lowering the expenses, the efficiency in lowering these expenses will be better.

At the same time, the merger can improve the efficiency of the income, the same way it does improve the expenditures. Scale economies enable major banks to carry out provide more product and service. Scope economies on the other hand, help the market share to grow up by providing a wide range of products and services to the target consumer. In addition to that, the management of the acquiring bank can

increase the income by applying higher price policies, more profitable product variety and more appropriate sales and marketing programs. The banks subject to merger also find ways and opportunities to reach other's customers.

Merger benefits may also arise thanks to the increase in the market power. The merger of banks, which carry out their activities in the same region, also decreases the number of competitive banks. Merger of banks in the same market increases their market share. Such changes in the market structure would decrease the competition. This way, the bank after the merger could be more profitable by executing its market power, increasing the interest rates of the loans and by decreasing the interest rate of the resources.

Mergers help banks to gain value by increasing their position of diversification. Merger enables banks to diversify by widening the geography where the activities are executed or by increasing the number of products and services, which are provided to the customers. In addition to that, the increase in the number of customers as a result of the merger will make the diversification easier to apply. High diversification provides gain in value thanks to stabile profits. Low volatility increases the gains of the shareholders in many ways. First of all, the cost of the sunk loans may decrease. Second, with the help of customers' positive attitudes towards the bank, more profit can be made from non-cash loans like credit notes. At last, the percentage of the activities like giving loan, which are more profitable but at the same time more risky, can be increased without needing capital.

Basel Accord and Its Effects in Capital Structure of Banks

Capital Adequacy, as the term literally implies, is about having adequate capital. Capital adequacy is a common measure of the strength of a financial institution, such as a bank. To put it quantitatively, the ratio of the capital of a firm to its assets is its capital adequacy ratio. The higher the capital adequacy, the stronger the firm. The higher the capital adequacy, the less leveraged the firm. Especially in the case of banks, there are very strict norms regarding capital adequacy.

The original Basel Accord was agreed in 1988 by the Basel Committee on Banking Supervision. The 1988 Accord, now referred to as Basel 1, helped to strengthen the soundness and stability of the international banking system as a result of the higher capital ratios that it required.[65]

In June 2004, the Committee published the document "International Convergence of Capital Measurement and Capital Standards, a Revised Framework" (widely known as Basel II). While this revised Framework has been designed to provide options for banks and banking systems world-wide, the Committee acknowledges that moving towards its adoption in the near future may not be the first priority for all supervisors in all non-G10 countries in terms of what is needed to strengthen their supervision. Furthermore, the IMF and World Bank are of the view that future financial sector assessments will not be conducted on the basis of adoption of or compliance with the revised Framework if a country has not chosen to implement it. Rather, assessments will be based on the adequacy of the regulatory/supervisory standards adopted by the respective country and the country's performance relative to the chosen standards, consistent with the requirements of the Basel Committee's Core Principles for Effective Banking Supervision ("BCP, September 1997"). [66]

Basel II aims to build on a solid foundation of prudent capital regulation, supervision, and market discipline, and to enhance further risk management and financial stability. As such, the Committee encourages each national supervisor to consider carefully the benefits of the new Framework in the context of its own domestic banking system and in developing a timetable and approach to implementation. Given resource and other constraints, these plans may extend beyond the Committee's implementation dates. That said, supervisors should consider implementing key elements of the supervisory review and market discipline components of the new Framework even if the Basel II minimum capital requirements are not fully implemented by the implementation date. National supervisors should also ensure that banks that do not implement Basel II are subject to prudent capital regulation and sound accounting and provisioning policies.[67]
Basel 2 is a revision of the existing framework, which aims to make the framework more risk sensitive and representative of modern banks' risk management practices. There are four main components to the new framework: [68]

- It is more sensitive to the risks that firms face: the new framework includes an explicit measure for operational risk and includes more risk sensitive risk weightings against credit risk.[69]
- It reflects improvements in firms' risk management practices, for example by the introduction of the internal ratings based approach (IRB) that allows firms to rely to a certain extent on their own estimates of credit risk.[70]
- It provides incentives for firms to improve their risk management practices, with more risk sensitive risk weights as firms adopt more sophisticated approaches to risk management.[71]
- The new framework aims to leave the overall level of capital held by banks collectively broadly unchanged.[72]

This revised capital adequacy framework will further reduce the probability of consumer loss or market disruption as a result of prudential failure. It will do so by seeking to ensure that the financial resources held by a firm are commensurate with the risks associated with the business profile and the control environment within the firm. The new Basel Accord will be implemented in the Europe Union via the Capital Requirements Directive (CRD). It will directly affect banks and building societies and certain types of investment firms. The new framework consists of three 'pillars'. Pillar 1 of the new standards sets out the minimum capital requirements firms will be required to meet for credit, market and operational risk. Under Pillar 2, firms and supervisors have to take a view on whether a firm should hold additional capital against risks not covered in Pillar 1 and must take action accordingly. The aim of Pillar 3 is to improve market discipline by requiring firms to publish certain details of their risks, capital and risk management.[73]

FSA is working with the Basel Committee, the European Union and the industry to develop its policies for implementing the new capital adequacy framework via the Capital Requirements Directive.[74]

When compared with the existing Capital Accord, the proposals represent a shift across two intersecting dimensions-regulatory versus economic capital, and rules-based versus process-oriented regulation. On minimum capital standards, the case for using external ratings may be stronger than has been recognized, given the

divergences in the purpose and design of internal ratings. On supervisory review, ensuring comparability among supervisors and building supervisory capacity will present serious challenges. On enhancing market discipline, incentives for markets to exercise discipline will be required.[75]

Evaluations about the New Regulations

By the application of the new regulations, although excess costs are incurred for banks, effective risk management and ensuring more secure and effective banking operations are set as targets.[76]

Possible Effects of the new Capital Regulations[77]	**Costs Incurred**
Need for more Capital is decreased.	New costs for providing knowledge to the Public.
Effective Risk Management.	New costs for the necessary systems' application and operation.
Better Relations with the Regulator Authority.	Costs for collecting the necessary data will continue.
Better Relations between the Market and Financial Institutions that provide credits.	Costs for operating systems and personnel will continue.

4.1 Methods in Measuring the Effects of a Merger

A lot of the academic researches use one of the two methods to discover the gains occurred due to the merger. The **first** method is to measure the firms' performances before and after the merger by using the accounting data, to find out whether the merger caused any changes in expenditures, income and profitability.

The strong side of this method is that accounting performance could be easily measured, that the used data could be easily found and understood. Besides, the method is quite clear. The pre-and-post merger data is used in the analysis, and the effect of the merger to the performance is measured. The accounting data assess the

performance conditions rather than the expectations of the investors and therefore is more reliable than the second method, which uses stock-share profits as its base.

The methodology that uses accounting data has lots of disadvantages despite all. Although the accounting data measures the real performance, it can be mistaken in the economical sense. The data shows historical development and neglects the effects of the today's market values.

In addition, the variation before and after merger can depend on other events than the merger. The other events that exactly affect the performance changes could have occurred in the period when the analysis is made. It may cause to reach wrong results to be mistaken by out-of focus subjects.

The **second** method to be used to analyze the effects of the merger is to evaluate the reaction of the marketable securities to the merger. The users of this method give much more importance to the stock market data rather than the accounting data in valuation of mergers of two independent companies. They think the accounting data is unreliable; the real impact will be emerged due to the reaction of the stock exchange. Weighted profit of the buyer and the target firm in the stock market is a good assessment tool in such studies. This method also gives an idea about the possible reactions of the market.

On the other hand, studies about the market prices are not flawless. Even the studies about the market prices do not have the disadvantage of the potential mistakes of the accounting data; they only analyze a short-term period after the decision of the merger. For this reason, the analysis is only based on the expectations of the unmaterialized results.

The results belonging to the post-merger period have some problems. Periods right after the mergers are examined by a lot of studies; however, the results of these studies are not very clear. Values after the realization of mergers might have affected from the expected performance and some other issues, which do not have any relation with the merger event. We can call it like the market bids for expectation, but an

increase in stock prices by the effect of this demand does not show whether this merger is an efficient one or not.

Recently, researches and analyses about merger activities' effects have started to use both of these two methods. These researches and analyses aim to form a correlation between the accounting price and market price. The goals of these researches make the market estimate the performance changes after the merger.

There are some studies regarding the increasing yield proportional to the scale.[78] Studies, which research on the effects of scope economies of the mergers, give contradictional results. Even though there are some statistical studies confirming the mergers provide scope economies[79], opposed to these arguments defending the scope diseconomies.[80]

Beside this, according to Marc J. Epstein, when evaluating an M&A activity, both financial and non-financial measures should be considered. Leading indicators of performance that are predictors of future success must be evaluated in addition to historical results. According to him, achieving merger success requires accomplishment in non-financial factors like strategic vision and fit, deal structure, due diligence, pre-merger planning, post-merger integration and external factors. [81]

The time scale, in which the financial performance of the merging banks is measured, is the most important factor in affecting the direction of the studies. As the time scale increases, changes become more obvious when it is hard to take out the results from the outer factors of the mergers. For this reason, the results of the studies vary. [82]

When we examine the bank mergers, we come across with a lot of different studies. Especially, when the United States is taken as an example, where the mergers are intensive, small-sited banks merge to have branches all across the country having more customers and to have a higher market share. Investment costs are planned to decrease by doing so. When it comes to big-sited banks, workers are laid off, some branches are closed, some operation departments are unified, top executives are decreased, infrastructure investment costs are reduced following the mergers,

increasing the cost reduction possibility. Theoretically, mergers have the above-mentioned benefits; however, practically they are far away from them.

4.2 Path of my Study

At first, I try to form a model which may show whether there is a correlation between the M&A activity and stock prices in the Turkish Banking Sector. But, because of two main reasons, I changed my mind about this methodology. These problems can be described as;

- As mentioned in previous chapter, studies about the market prices analyze a short term period after the decision of merger. Beside this, studies of short term stock prices have been contrasted with studies of long-range financial returns. [83] Also, Said Elfakhani et al 2003, form a model by using 3 of the United States' largest M&A deals in banking (Travelers-Citicorp, Nationsbank-Bank America, and Bank One-First Chicago NBD) to measure whether there is a correlation between M&A activities and market reaction. At his research, he claimed that there is no uniform market reaction to merger announcements; thus, each merger stands on its own merits and should be examined as such. [84]

- The low public offering rate of Turkish banks that realized an M&A activity. When we look at Turkish banks that realized an M&A activity recently, only Garanti Bankası offered some of its shares to public. Also, Denizbank has offered its shares to public but because this event has happened in 2004 and this date is 3 years later of its merger activity, the performance of shares in ISE does not give any clue for us in evaluating the merger results.

Because using market data is flawless for my model, I choose to use the accounting data. Using accounting data has more advantages than using market data because accounting performance can easily be found, measured and understood. However, because using merely the accounting data ignores the market data and non-financial factors are ignored, a deficiency in evaluating the post merger period results can be occurred.

Then I try to study about the growth motive, which is one of the most fundamental motives for mergers and acquisitions. Perhaps the most important decision that managers of financial institutions make is how to grow their organization. [85] Here the banks seeking to expand are faced with a choice between internal growth and growth through mergers and acquisitions. While external growth can be reached by acquiring other banks or financial institutions, internal growth needs expanding product or branches. That is why; internal growth may be a more slow process for the banks that want to grow when compared with external growth.

When I look at the research of Peter J. Buckley et al 1984, I see that he claimed growth and profitability have both importances in evaluating a corporation's performance. That is why; he tried to find out whether there is a correlation between growth and profitability of corporations. After his research, he identified a stable, but not often significant relationship between size of firm and growth, but the influence of size of firm on profitability is much less marked. [86]

Then I decide on to study about the effects of mergers and acquisitions on the bank's growth target and profitability.

When I look at the research of John A. Goddard et al 2004, it is seen that he used dynamic panel and cross-sectional regressions to estimate growth and profit equations for a sample of commercial, savings, and co-operative banks from five major European Union countries during the mid-1990s. After his research, he revealed that profit is an important prerequisite for future growth. Banks that maintain a high capital-assets ratio tend to grow slowly, and growth is linked to macroeconomic conditions. [87]

To measure the profitability of companies, ratio analysis can be practiced. Qualitative information from financial statements can be gathered by examining relationships between items on the statements and identifying trends in these relationships. A useful starting point in developing this information is the application of ratio analysis. Ratio analysis expresses the relationship among selected financial data. [88]

To conclude, the aim of preparing this thesis is to measure the correlation between growth and profitability of mergers and acquisitions in the Turkish banking system. Studies, which have done before, indicate that at least half of bank mergers have shown their impact after the first year of the merger, and all of them have their impact in following three years of the merger.[89] That is why, the mergers of T. Garanti Bankası A.Ş.-Osmanlı Bankası A.Ş., Oyak Bank A.Ş.-Sümerbank A.Ş., and Denizbank A.Ş.-Tarişbank A.Ş. have been chosen to form a model in order to display whether there is a correlation between growth and profitability of mergers and acquisitions in the Turkish banking system. Ratio analysis is used to make interpretations whether these mergers bring "profitable growth" or not.

Beside this, as mentioned above, Basel Accord has a great importance in the capital structure of the banks and banks' risk management approaches. That is why, when evaluating post-merger period results in terms of profitability and growth, it is a must to analyze the capital structure effects of these mergers.

Brief explanation about what the merging banks of our model have been expecting from the post-merger period is as below:

4.2.1 Brief Information about Sample Mergers

4.2.1.1 T. Garanti Bankası A.Ş. - Osmanlı Bankası A.Ş.

Türkiye Garanti Bankası A.Ş. and Osmanlı Bankası A.Ş. merged under the title of Türkiye Garanti Bankası A.Ş. in December 2001. The reason of the merger was stated as reinforcing the share of Türkiye Garanti Bankası A.Ş. in the banking sector, increasing its profitability and strengthening its position among private sector banks. The object of this merger was not only to reinforce its financial structure but also to reach a highly profitable growth by providing opportunities for Garanti Bankası. With the purchase of Osmanlı Bankası in 2001, Garanti Bankası rose to the fourth rank in the Turkish Banking Sector.[90]

4.2.1.2 Oyak Bank A.Ş. - Sümerbank A.Ş.

Oyak Bank A.Ş. took over Sümerbank A.Ş. from the Saving Deposit Insurance Fund in August 2001 and they merged into Oyak Bank A.Ş.. Having high liquidity, Oyak Bank A.Ş. oriented towards a growth strategy through a period in which the banking sector was being restructured and therefore took over Sümerbank A.Ş.. [91]

The vision, mission and objects of the merged Oyak Bank A.Ş. were redefined and all regions of Turkey were determined to be the area of activity. With this merger, Oyak Bank aimed to reach the scale economies, increase its profitability and increase its competitive power. Merging with Sümerbank, Oyak Bank A.Ş. aimed to change its characteristic from a specialty bank with a few branches into a widely spread bank serving all through the national market and to increase both the number of corporations and individual customers.

4.2.1.3 Denizbank A.Ş.-Tarişbank A.Ş.

Denizbank A.Ş. took over Tarişbank A.Ş. from Saving Deposits Insurance Fund in the late 2001 and merger ended under the title of Denizbank. Tarişbank A.Ş. was a cooperative bank active in agribusiness in the Aegean region with its 29 branches.[92] Following the completion of the merger by the late 2001, Denizbank's intention was to continue supporting farmers in this area bringing a competitive edge to Denizbank in the agribusiness markets and continue to grow by increasing its profitability.

The analysis of some specific ratios that are widely used when comparing pre-merger and post-merger period results about the growth and profitability of the merging banks are as below:

4.2.2 Growth Performance

The criteria below are used to evaluate the growth ability of the merging banks before and after the merger period. When evaluating these ratios, the positions of the banks that took over another were taken into account both in terms of the Turkish Banking System and in Privately-Owned Commercial Banks Segment.

1. Assets Size
2. Loans Given Size
3. Deposits Collected Size
4. Change in number of branches
5. Change in number of personnel

4.2.2.1 Assets Size

4.2.2.1.1 Assets Size Compared with Turkish Banking Sector's Total Assets

In the table below, the ratios of the banks in our model are compared to the total assets of all the banks in the Turkish banking sector for a period of 3 years before the merger. The period mentioned above indicates that, in regard to the total assets in the banking sector, Denizbank had 0.46%, Oyakbank had 0.20% and Garanti Bankası had 6.34%.

Table 4-1 Assets Size Compared with Turkish Banking Sector's Total Assets, Pre-Merger Period (1998-2000)

	Average	**2000**	**1999**	**1998**
Denizbank A.Ş.	0.46%	0.56%	0.52%	0.31%
Oyak Bank A.Ş.	0.20%	0.17%	0.19%	0.25%
Garanti Bankası A.Ş.	6.34%	6.34%	6.28%	6.39%

In regard to the period of 3 years after the merger, as the table below shows, there were significant percentage changes in terms of total assets size. During this period, the assets size of Denizbank rose to 1.56%, the assets size of Oyakbank rose to 1.75% and the assets size of Garanti Bankası rose to 9.24%.

Table 4-2 Assets Size Compared with Turkish Banking Sector's Total Assets, Post-Merger Period (2001-2003)

	Average	2003	2002	2001
Denizbank A.Ş.	1.56%	1.91%	1.59%	1.17%
Oyak Bank A.Ş.	1.75%	1.80%	1.65%	1.81%
Garanti Bankası A.Ş.	9.24%	8.97%	9.20%	9.54%

The average of assets size ratios before and after merger indicates that the total assets size of Denizbank increased by 339.1%, Oyakbank by 875.0% and Garanti Bankası by 145.7%.

Table 4-3 Post-Merger and Pre-Merger Periods' Assets Size Comparison

	Increase Rate	Post-Merger Period Average	Pre-Merger Period Average
Denizbank A.Ş.	339.1%	1.56%	0.46%
Oyak Bank A.Ş.	875.0%	1.75%	0.20%
Garanti Bankası A.Ş.	145.7%	9.24%	6.34%

The increase in ratios mentioned above indicate that in terms of total assets ratio in the Turkish banking sector, all of the 3 merged banks reached their object of growth, which is one of the objects of merging banks.

4.2.2.1.2 Assets Size Compared with Privately-owned Commercial Banks Segment's Total Assets

In the table below, the ratios of the banks in our model are compared to the total assets of Privately-owned Commercial Banks Segment for a period of 3 years before the merger. The period mentioned above indicates that, in regard to the total assets in this segment, Denizbank had 0.94%, Oyakbank had 0.41% and Garanti Bankası had 12.68%.

Table 4-4 Assets Size Compared with Privately-owned Commercial Banks Segment's Total Assets, Pre-Merger Period (1998-2000)

	Average	2000	1999	1998
Denizbank A.Ş.	0.94%	1.19%	1.05%	0.58%
Oyak Bank A.Ş.	0.41%	0.36%	0.38%	0.47%
Garanti Bankası A.Ş.	12.68%	13.37%	12.70%	11.98%

In regard to the period of 3 years after the merger, as the table below shows, there were significant percentage changes in terms of total assets size. During this period, the assets size of Denizbank rose to 2.74%, the assets size of Oyakbank rose to 3.10% and the assets size of Garanti Bankası rose to 16.30%.

Table 4-5 Assets Size Compared with Privately-owned Commercial Banks Segment's Total Assets, Post-Merger Period (2001-2003)

	Average	2003	2002	2001
Denizbank A.Ş.	2.74%	3.35%	2.82%	2.05%
Oyak Bank A.Ş.	3.10%	3.16%	2.95%	3.19%
Garanti Bankası A.Ş.	16.30%	15.74%	16.37%	16.79%

The average of assets size ratios before and after merger indicates that the total assets size of Denizbank increased by 291.4%, Oyakbank by 756.1% and Garanti Bankası by 128.5%.

Table 4-6 Post-Merger and Pre-Merger Periods' Assets Size Comparison

	Increase Rate	Post-Merger Period Average	Pre-Merger Period Average
Denizbank A.Ş.	291.4%	2.74%	0.94%
Oyak Bank A.Ş.	756.1%	3.10%	0.41%
Garanti Bankası A.Ş.	128.5%	16.30%	12.68%

The increase in ratios mentioned above indicate that in terms of total assets ratio in the Privately-owned Commercial Banks Segment, all of the 3 merged banks reached their object of growth, which is one of the objects of merging banks.

4.2.2.2 Loans Given Size

4.2.2.2.1 Loans Given Size Compared with Banking Sector

In the table below, the ratios of the banks in our model are compared to the total loans given of all the banks in the Turkish banking sector for a period of 3 years before the merger. The period mentioned above indicates that, in regard to the total loans given in the banking sector, Denizbank had 0.43%, Oyakbank had 0.23% and Garanti Bankası had 6.80%.

Table 4-7 Loans Given Size Compared with Banking Sector, Pre-Merger Period (1998-2000)

	Average	2000	1999	1998
Denizbank A.Ş.	0.43%	0.58%	0.49%	0.23%
Oyak Bank A.Ş.	0.23%	0.23%	0.22%	0.24%
Garanti Bankası A.Ş.	6.80%	7.34%	6.55%	6.50%

In regard to the period of 3 years after the merger, as the table below shows, there were significant percentage changes in terms of total loans given size. During this period, the loans given size of Denizbank rose to 1.52%, the loans given size of Oyakbank rose to 1.87% and the loans given size of Garanti Bankası rose to 10.19%.

Table 4-8 Loans Given Size Compared with Banking Sector, Post-Merger Period (2001-2003)

	Average	2003	2002	2001
Denizbank A.Ş.	1.52%	2.17%	1.49%	0.91%
Oyak Bank A.Ş.	1.87%	3.12%	1.91%	0.57%
Garanti Bankası A.Ş.	10.19%	9.82%	10.04%	10.70%

The average of loans given size ratios before and after merger indicates that the total loans given size of Denizbank increased by 353.4%, Oyakbank by 813.0% and Garanti Bankası by 149.8%.

Table 4-9 Post-Merger and Pre-Merger Periods' Loans Given Size Comparison

	Increase Rate	Post-Merger Period Average	Pre-Merger Period Average
Denizbank A.Ş.	353.4%	1.52%	0.43%
Oyak Bank A.Ş.	813.0%	1.87%	0.23%
Garanti Bankası A.Ş.	149.8%	10.19%	6.80%

The increase in ratios mentioned above indicate that in terms of total loan given ratio in the Turkish banking sector, all of the 3 merged banks reached their object of growth, which is one of the objects of merging banks.

4.2.2.2.2 Loans Given Size Compared with Privately-owned Commercial Banks Segment

In the table below, the ratios of the banks in our model are compared to the total loans given by Privately-owned Commercial Banks Segment for a period of 3 years before the merger. The period mentioned above indicates that, in regard to the total loans given in this segment, Denizbank had 0.79%, Oyakbank had 0.42% and Garanti Bankası had 12.22%.

Table 4-10 Loans Given Size Compared with Privately-owned Commercial Banks Segment, Pre-Merger Period (1998-2000)

	Average	2000	1999	1998
Denizbank A.Ş.	0.79%	1.07%	0.89%	0.40%
Oyak Bank A.Ş.	0.42%	0.41%	0.41%	0.42%
Garanti Bankası A.Ş.	12.22%	13.47%	11.89%	11.29%

In regard to the period of 3 years after the merger, as the table below shows, there were significant percentage changes in terms of total loans given size. During this period, the total loans given size of Denizbank rose to 2.35%, the total loans given size of Oyakbank rose to 2.84% and the total loans given size of Garanti Bankası rose to 16.04%.

Table 4-11 Loans Given Size Compared with Privately-owned Commercial Banks Segment, Post-Merger Period (2001-2003)

	Average	**2003**	**2002**	**2001**
Denizbank A.Ş.	2.35%	3.23%	2.28%	1.53%
Oyak Bank A.Ş.	2.84%	4.64%	2.92%	0.97%
Garanti Bankası A.Ş.	16.04%	14.63%	15.38%	18.10%

The average of loans given size ratios before and after merger indicates that the total loans given size of Denizbank increased by 297.4%, Oyakbank by 676.1% and Garanti Bankası by 131.2%.

Table 4-12 Post-Merger and Pre-Merger Periods' Loans Given Size Comparison

	Increase Rate	**Post-Merger Period Average**	**Pre-Merger Period Average**
Denizbank A.Ş.	297.4%	2.35%	0.79%
Oyak Bank A.Ş.	676.1%	2.84%	0.42%
Garanti Bankası A.Ş.	131.2%	16.04%	12.22%

The increase in ratios mentioned above indicate that in terms of total loans given ratio in the Privately-owned Commercial Banks Segment, all of the 3 merged banks reached their object of growth, which is one of the objects of merging banks.

4.2.2.3 Deposits Collected Size

4.2.2.3.1 Deposits Collected Size Compared with Banking Sector

In the table below, the ratios of the banks in our model are compared to the total deposits collected of all the banks in the Turkish banking sector for a period of 3 years before the merger. The period mentioned above indicates that, in regard to the total deposits collected in the banking sector, Denizbank had 0.37%, Oyakbank had 0.10% and Garanti Bankası had 5.12%.

Table 4-13 Deposits Collected Size Compared with Banking Sector, Pre-Merger Period (1998-2000)

	Average	2000	1999	1998
Denizbank A.Ş.	0.37%	0.40%	0.45%	0.27%
Oyak Bank A.Ş.	0.10%	0.09%	0.07%	0.13%
Garanti Bankası A.Ş.	5.12%	5.02%	4.96%	5.36%

In regard to the period of 3 years after the merger, as the table below shows, there were significant percentage changes in terms of total deposits collected size. During this period, the total deposits collected size of Denizbank rose to 1.67%, the assets size of Oyakbank rose to 2.11% and the assets size of Garanti Bankası rose to 8.95%.

Table 4-14 Deposits Collected Size Compared with Banking Sector, Post-Merger Period (2001-2003)

	Average	2003	2002	2001
Denizbank A.Ş.	1.67%	1.92%	1.83%	1.25%
Oyak Bank A.Ş.	2.11%	2.18%	1.95%	2.19%
Garanti Bankası A.Ş.	8.95%	8.96%	9.24%	8.65%

The average of total deposits collected size ratios before and after merger indicates that the total deposits collected size of Denizbank increased by 451.3%, Oyakbank by 2,110.0% and Garanti Bankası by 174.8%.

Table 4-15 Post-Merger and Pre-Merger Periods' Deposits Collected Size Comparison

	Increase Rate	**Post-Merger Period Average**	**Pre-Merger Period Average**
Denizbank A.Ş.	451.3%	1.67%	0.37%
Oyak Bank A.Ş.	2,111.0%	2.11%	0.10%
Garanti Bankası A.Ş.	174.8%	8.95%	5.12%

The increase in ratios mentioned above indicate that in terms of total deposits collected ratio in the Turkish banking sector, all of the 3 merged banks reached their object of growth, which is one of the objects of merging banks.

4.2.2.3.2 Deposits Collected Size Compared with Privately-owned Commercial Banks Segment

In the table below, the ratios of the banks in our model are compared to the total deposits collected by Privately-owned Commercial Banks Segment for a period of 3 years before the merger. The period mentioned above indicates that, in regard to the total deposits collected in this segment, Denizbank had 0.80%, Oyakbank had 0.20% and Garanti Bankası had 10.83%.

Table 4-16 Deposits Collected Size Compared with Privately-owned Commercial Banks Segment, Pre-Merger Period (1998-2000)

	Average	**2000**	**1999**	**1998**
Denizbank A.Ş.	0.80%	0.92%	0.97%	0.52%
Oyak Bank A.Ş.	0.20%	0.21%	0.15%	0.24%
Garanti Bankası A.Ş.	10.83%	11.54%	10.69%	10.24%

In regard to the period of 3 years after the merger, as the table below shows, there were significant percentage changes in terms of total deposits collected size. During this period, the total deposits collected size of Denizbank rose to 2.84%, the total deposits collected size of Oyakbank rose to 3.57% and the total deposits collected size of Garanti Bankası rose to 15.19%.

Table 4-17 Deposits Collected Size Compared with Privately-owned Commercial Banks Segment, Post-Merger Period (2001-2003)

	Average	**2003**	**2002**	**2001**
Denizbank A.Ş.	2.84%	3.36%	3.13%	2.04%
Oyak Bank A.Ş.	3.57%	3.82%	3.33%	3.57%
Garanti Bankası A.Ş.	15.19%	15.64%	15.81%	14.12%

The average of total deposits collected size ratios before and after merger indicates that the total deposits collected size of Denizbank increased by 355.0%, Oyakbank by 1,785.0% and Garanti Bankası by 140.2%.

Table 4-18 Post-Merger and Pre-Merger Periods' Deposits Collected Size Comparison

	Increase Rate	**Post-Merger Period Average**	**Pre-Merger Period Average**
Denizbank A.Ş.	355.0%	2.84%	0.80%
Oyak Bank A.Ş.	1,785.0%	3.57%	0.20%
Garanti Bankası A.Ş.	140.2%	15.19%	10.83%

The increase in ratios mentioned above indicate that in terms of total deposits collected ratio in the Privately-owned Commercial Banks Segment, all of the 3 merged banks reached their object of growth, which is one of the objects of merging banks.

4.2.2.4 Number of Branches

4.2.2.4.1 Number of Branches Compared with Turkish Banking Sector

In the table below, the ratios of the banks in our model are compared to the total branches of all the banks in the Turkish banking sector for a period of 3 years before the merger. The period mentioned above indicates that, in regard to the total branches in the banking sector, Denizbank had 0.47%, Oyakbank had 0.14% and Garanti Bankası had 3.17%.

Table 4-19 Number of Branches Compared with Turkish Banking Sector, Post-Merger Period (1998-2000)

	Average	2000	1999	1998
Denizbank A.Ş.	0.47%	0.60%	0.43%	0.39%
Oyak Bank A.Ş.	0.14%	0.15%	0.16%	0.12%
Garanti Bankası A.Ş.	3.17%	3.39%	3.04%	3.07%

In regard to the period of 3 years after the merger, as the table below shows, there were significant percentage changes in terms of number of branches. During this period, the number of branches of Denizbank rose to 2.07%, the number of branches of Oyakbank rose to 2.79% and the number of branches of Garanti Bankası rose to 4.83%.

Table 4-20 Number of Branches Compared with Turkish Banking Sector, Post-Merger Period (2001-2003)

	Average	2003	2002	2001
Denizbank A.Ş.	2.07%	2.77%	2.64%	0.80%
Oyak Bank A.Ş.	2.79%	4.56%	3.62%	0.20%
Garanti Bankası A.Ş.	4.83%	5.25%	4.98%	4.27%

The average of number of branches before and after merger indicates that the total number of branches of Denizbank increased by 440.4%, Oyakbank by 1,992.8% and Garanti Bankası by 152.3%.

Table 4-21 Post-Merger and Pre-Merger Periods' Number of Branches Comparison

	Increase Rate	Post-Merger Period Average	Pre-Merger Period Average
Denizbank A.Ş.	440.4%	2.07%	0.47%
Oyak Bank A.Ş.	1,992.8%	2.79%	0.14%
Garanti Bankası A.Ş.	152.3%	4.83%	3.17%

The increase in ratios mentioned above indicate that in terms of number of branches in the Turkish banking sector, all of the 3 merged banks reached their object of growth, which is one of the objects of merging banks.

4.2.2.4.2 Number of Branches Compared with Privately-owned Commercial Banks Segment

In the table below, the ratios of the banks in our model are compared to the total number of branches of Privately-owned Commercial Banks Segment for a period of 3 years before the merger. The period mentioned above indicates that, in regard to the total number of branches in this segment, Denizbank had 1.27%, Oyakbank had 0.39% and Garanti Bankası had 8.50%.

Table 4-22 Number of Branches Compared with Privately-owned Commercial Banks Segment, Pre-Merger Period (1998-2000)

	Average	2000	1999	1998
Denizbank A.Ş.	1.27%	1.58%	1.15%	1.08%
Oyak Bank A.Ş.	0.39%	0.40%	0.42%	0.33%
Garanti Bankası A.Ş.	8.50%	8.94%	8.16%	8.39%

In regard to the period of 3 years after the merger, as the table below shows, there were significant percentage changes in terms of number of branches. During this period, the number of branches of Denizbank rose to 3.68%, the number of branches of Oyakbank rose to 4.79% and the number of branches of Garanti Bankası rose to 9.07%.

Table 4-23 Number of Branches Compared with Privately-owned Commercial Banks Segment, Post-Merger Period (2001-2003)

	Average	2003	2002	2001
Denizbank A.Ş.	3.68%	4.59%	4.62%	1.82%
Oyak Bank A.Ş.	4.79%	7.57%	6.34%	0.46%
Garanti Bankası A.Ş.	9.07%	8.71%	8.72%	9.77%

The average of number of branches ratios before and after merger indicates that the number of branches size of Denizbank increased by 289.7%, Oyakbank by 1,228.2% and Garanti Bankası by 106.7%.

Table 4-24 Post-Merger and Pre-Merger Periods' Number of Branches Comparison

	Increase Rate	Post-Merger Period Average	Pre-Merger Period Average
Denizbank A.Ş.	289.7%	3.68%	1.27%
Oyak Bank A.Ş.	1,228.2%	4.79%	0.39%
Garanti Bankası A.Ş.	106.7%	9.07%	8.50%

The increase in ratios mentioned above indicate that in terms of number of branches in the Privately-owned Commercial Banks Segment, all of the 3 merged banks reached their object of growth, which is one of the objects of merging banks.

4.2.2.5 Number of Personnel

4.2.2.5.1 Number of Personnel Compared with Turkish Banking Sector

In the table below, the ratios of the banks in our model are compared to the total personnel of all the banks in the Turkish banking sector for a period of 3 years before the merger. The period mentioned above indicates that, in regard to the total personnel in the banking sector, Denizbank had 0.58%, Oyakbank had 0.30% and Garanti Bankası had 4.02%.

Table 4-25 Number of Personnel Compared with Turkish Banking Sector, pre-Merger Period (1998-2000)

	Average	**2000**	**1999**	**1998**
Denizbank A.Ş.	0.58%	0.74%	0.55%	0.47%
Oyak Bank A.Ş.	0.30%	0.30%	0.31%	0.29%
Garanti Bankası A.Ş.	4.02%	3.65%	4.10%	4.30%

In regard to the period of 3 years after the merger, as the table below shows, there were significant percentage changes in terms of number of personnel. During this period, the number of personnel of Denizbank rose to 1.91%, the number of personnel of Oyakbank rose to 2.19% and the number of personnel of Garanti Bankası rose to 5.79%.

Table 4-26 Number of Personnel Compared with Turkish Banking Sector, Post-Merger Period (2001-2003)

	Average	**2003**	**2002**	**2001**
Denizbank A.Ş.	1,91%	2,63%	2,35%	0,74%
Oyak Bank A.Ş.	2,19%	3,18%	2,95%	0,44%
Garanti Bankası A.Ş.	5,79%	6,61%	6,09%	4,68%

The average of number of personnel before and after merger indicates that the total number of personnel of Denizbank increased by 329.3%, Oyakbank by 730.0% and Garanti Bankası by 144.0%.

Table 4-27 Post-Merger and Pre-Merger Periods' Number of Personnel Comparison

	Increase Rate	Post-Merger Period Average	Pre-Merger Period Average
Denizbank A.Ş.	329.3%	1.91%	0.58%
Oyak Bank A.Ş.	730.0%	2.19%	0.30%
Garanti Bankası A.Ş.	144.0%	5.79%	4.02%

The increase in ratios mentioned above indicate that in terms of number of personnel in the Turkish banking sector, all of the 3 merged banks reached their object of growth, which is one of the objects of merging banks.

4.2.2.5.2 Number of Personnel Compared with Privately-owned Commercial Banks Segment

In the table below, the ratios of the banks in our model are compared to the total number of personnel of Privately-owned Commercial Banks Segment for a period of 3 years before the merger. The period mentioned above indicates that, in regard to the total number of personnel in this segment, Denizbank had 1.38%, Oyakbank had 0.70% and Garanti Bankası had 9.49%.

Table 4-28 Number of Personnel Compared with Privately-owned Commercial Banks Segment, Pre-Merger Period (1998-2000)

	Average	2000	1999	1998
Denizbank A.Ş.	1.38%	1.72%	1.29%	1.12%
Oyak Bank A.Ş.	0.70%	0.69%	0.72%	0.69%
Garanti Bankası A.Ş.	9.49%	8.48%	9.67%	10.33%

In regard to the period of 3 years after the merger, as the table below shows, there were significant percentage changes in terms of number of personnel. During this period, the number of personnel of Denizbank rose to 3.56%, the number of personnel of Oyakbank rose to 4.03% and the number of personnel of Garanti Bankası rose to 11.23%.

Table 4-29 Number of Personnel Compared with Privately-owned Commercial Banks Segment, Post-Merger Period (2001-2003)

	Average	**2003**	**2002**	**2001**
Denizbank A.Ş.	3.56%	4.59%	4.38%	1.71%
Oyak Bank A.Ş.	4.03%	5.55%	5.50%	1.03%
Garanti Bankası A.Ş.	11.23%	11.53%	11.35%	10.80%

The average of number of personnel ratios before and after merger indicates that the number of personnel size of Denizbank increased by 258.0%, Oyakbank by 575.7% and Garanti Bankası by 118.3%.

Table 4-30 Post-Merger and Pre-Merger Periods' Number of Personnel Comparison

	Increase Rate	**Post-Merger Period Average**	**Pre-Merger Period Average**
Denizbank A.Ş.	258.0%	3.56%	1.38%
Oyak Bank A.Ş.	575.7%	4.03%	0.70%
Garanti Bankası A.Ş.	118.3%	11.23%	9.49%

The increase in ratios mentioned above indicate that in terms of number of personnel in the Privately-owned Commercial Banks Segment, all of the 3 merged banks reached their object of growth, which is one of the objects of merging banks.

4.2.3 Profitability Ratios

Two of the most common ratios used when analyzing the profitability of companies are return on assets and return on equity. Therefore, when examining the effects of the bank mergers mentioned above on profitability, ROA and ROE ratios are used.

4.2.3.1 Return on Assets (Net Profit / Average Total Assets)

Return on invested capital is useful in management evaluation, profitability analysis, earnings forecasting, and planning and control. The use of return on invested capital for these tasks requires a thorough understanding of this return measure. This is because the return measure includes components with the potential to contribute to the understanding of company performance. Return on assets ratio examines this return when invested capital viewed independently of its financing sources, using debt and equity capital (total assets). [93]

A company's return assessed from the perspective of its total financing base-liabilities plus equity. This return on total assets is a relevant measure of operating efficiency. It reflects a company's return form all assets entrusted to it. This measure doesn't distinguish return by financing sources. By removing the effect of financing of assets, analysis can concentrate on evaluating or forecasting operating performance.

The table below shows the return on assets ratios of the banks in our model for a period of 3 years before merging. The return on assets ratio of Denizbank was 3.3%, of Oyakbank was 5.4% and of Garanti Bankası was 5.4%.

Table 4-31 Return on Assets Ratios, Pre-Merger Period (1998-2000)

	Average	**2000**	**1999**	**1998**
Denizbank A.Ş.	**3.3%**	1.0%	4.4%	4.6%
Oyak Bank A.Ş.	**5.4%**	-5.3%	8.9%	12.7%
Garanti Bankası A.Ş.	**5.4%**	3.7%	5.3%	7.3%

If we examine the return on assets ratios for the period of 3 years after merging, a dramatic decrease is obvious in terms of average ROA ratios. The return of assets ratio of Denizbank decreased from 3.3% to –0.3%, the return of assets ratio of Oyakbank decreased from 5.4% to 2.2% and the return of assets ratio of Garanti Bankası decreased from 5.4% to 0.2%.

Table 4-32 Return on Assets Ratios, Post-Merger Period (2001-2003)

	Average	2003	2002	2001
Denizbank A.Ş.	**-0.3%**	2.0%	0.5%	-3.5%
Oyak Bank A.Ş.	**2.2%**	1.4%	1.1%	4.2%
Garanti Bankası A.Ş.	**0.2%**	1.3%	0.6%	-1.4%

When the ROA ratios of the pre-merger and post-merger period are compared, which is mentioned above, all of the 3 merged banks could not reach their object of profitability per asset, which is one of the object of the merging banks.

4.2.3.2 Return on Equity (Net Profit / Average Equity)

The return on assets measures the efficiency with which management has utilized the assets under its control, regardless of whether these assets were financed with debt or equity capital. The return on equity ratio, in contrast, looks only at the return earned by management on the stockholders investment.

The table below shows the return on equity ratios of the banks in our model for a period of 3 years before merging. The return on equity ratio of Denizbank was 35.7%, of Oyakbank was 37.5% and of Garanti Bankası was 73.2%.

Table 4-33 Return on Equity Ratios, Pre-Merger Period (1998-2000)

	Average	2000	1999	1998
Denizbank A.Ş.	**35.7%**	8.6%	55.2%	43.3%
Oyak Bank A.Ş.	**37.5%**	-19.9%	50.6%	81.9%
Garanti Bankası A.Ş.	**73.2%**	40.3%	64.2%	115.0%

If we examine the return on equity ratios for the period of 3 years after merging, a dramatic decrease is obvious in terms of average ROE ratios. The return of equity ratio of Denizbank decreased from 35.7% to –3.8%, the return of equity ratio of Oyakbank decreased from 37.5% to 21.8% and the return of equity ratio of Garanti Bankası decreased from 73.2% to 0.3%.

Table 4-34 Return on Equity Ratios, Post-Merger Period (2001-2003)

	Average	**2003**	**2002**	**2001**
Denizbank A.Ş.	**-3,8%**	18,4%	4,3%	-34,2%
Oyak Bank A.Ş.	**21,8%**	11,9%	9,0%	44,6%
Garanti Bankası A.Ş.	**0,3%**	12,3%	7,3%	-18,6%

When the ROE ratios of the pre-merger and post-merger period are compared, which is mentioned above, all of the 3 merged banks could not reach their object of profitability per equity, which is one of the object of the merging banks.

4.2.4 Capital Adequacy Ratios

Capital Adequacy Ratio, which is set by Basel Accord, is calculated for the Turkish Banking Sector since 1998. This ratio is calculated as follows:

Equation 4.1 Capital Adequacy Ratio

$$\frac{\textbf{Capital}}{\textbf{Credit Risk + [(Market Risk + Operational Risk) x 12,5]}} \geq \textbf{8\%}$$

The table below shows the capital adequacy ratios of the banks in our model for a period of 3 years before merging. The capital adequacy ratio of Denizbank was 20.1%, of Oyakbank was 17.6% and of Garanti Bankası was 15.2%.

Table 4-35 Capital Adequacy Ratios, Pre-Merger Period (1998-2000)

	Average	2000	1999	1998
Denizbank A.Ş.	**20,1%**	21,2%	19,5%	19,5%
Oyak Bank A.Ş.	**17,6%**	25,0%	10,9%	17,0%
Garanti Bankası A.Ş.	**15,2%**	12,7%	14,6%	18,4%

If we examine the capital adequacy ratios for the period of 3 years after merging, there is no uniform change, whether a decrease or an increase, in all 3 mergers. The capital adequacy ratio of Denizbank decreased from 20.1% to 18.8% and capital adequacy ratio of Garanti Bankası decreased from 15.2% to 13.4%. However, capital adequacy ratio of Oyakbank increased from 17.6% to 28.9%.

Table 4-36 Capital Adequacy Ratios, Post-Merger Period (2001-2003)

	Average	2003	2002	2001
Denizbank A.Ş.	**18,8%**	18,2%	19,0%	19,1%
Oyak Bank A.Ş.	**28,9%**	16,3%	22,6%	47,9%
Garanti Bankası A.Ş.	**13,4%**	16,6%	12,7%	10,9%

5 CONCLUSION AND MAJOR FINDINGS

With the globalization of competition, company mergers and takeovers, which accelerated especially in 90s, have turned into a survival strategy preferred particularly by multinational companies. Company mergers and takeovers, which are mostly apparent in the USA today, have become a rapidly spreading trend in our country, especially in the finance sector.

The main reason for the company mergers is the companies' will to benefit from the synergy that will occur with the merging of different parts of the companies. The need for a strong and healthy financial system in developing countries is catalyst for this trend.

With the effect of the synergy, the companies hope to achieve a value greater than their present values. Furthermore, financial difficulties and various desires such as risk reduction, obtaining tax advantages, gaining power in terms of patent are determinant in company mergers.

The enterprises have primary objects in company mergers and takeovers. These objects are as follows: strategic growth, increasing the profitability of the corporation, achieving new market opportunities, the will to spread risk, tax advantages, increasing the competitive power, increasing efficiency, benefiting from financial innovations, decreasing the costs and accelerating the flow of technical information.

In business world, which has been changing rapidly, open and competitive companies have new strategies in order to be permanent in the national and international market. As a result of the merger, companies add new products and services to the existing ones, entering new markets. After the merger, the large structure has increased its market share and power, decreasing the costs. In particular, the object of the investments of foreign companies is to benefit from the existing market by the means of production, channels of distribution and management of the local company. The quickest way of entering a new market is to take over an existing company. Strategic growth, which frequently appears to be a reason for the takeovers, also provides

significant savings in terms of organization and causes an increase in the profitability of the companies.

Companies' orientation towards productions and activities other than their present fields of activity is important in terms of risk distribution. Providing a "variety" for the companies, the merger provides a decrease in the potential risks taken in a single market. In addition to market share, the will to gain tax advantages plays an important role in company mergers. The existence of the tax in terms of the merger depends on whether the merger is fulfilled by cash or by the purchase and sale of shares. It is also possible to benefit from loss discounts in accordance with the tax law.

Despite various advantages, company mergers also have disadvantages. The most common problem that occurs after the merger is the problem of "culture conflict". The first phases of merger are particularly troublesome periods. Furthermore, aiming at preventing the blockage of the merger that is expected to be successful, the chief executives and consultants limit the communication to their own level by preventing the leakage of correct information. Such an attitude among the managers prevents the workers from learning the situation and having access to correct information.

The companies that grow rapidly in the globalizing business world need more and more financial resources. Therefore, company mergers are preferred as the most efficient way of eliminating financial difficulties. The main reason for the merger of big and small companies is to increase the capacity of being indebted. In mergers, if the nets and profits that have occurred as a result of the merger are greater than the total sum of nets and profits before the merger, then the merger is considered to be meaningful. And this is a result of the synergy. In comparison with the past, companies gain a greater value with the synergy effect that means the whole is much more than the mere sum of different parts. By the method of merger, companies aim to operate in large scale. Operating in large scale makes the financing of assets of certain headquarters much easier in comparison with the past. As a result of merger, companies can operate with low costs in every field of activity. Companies can also get into debt by an interest ratio lower than the interest ratios that each would have separately in the market.

The most significant dilemma faced in company mergers is that in companies striving to remove the "less efficient" parts in the organization, the first ones to quit their jobs are members of the most efficient staff. Mergers and takeovers that have accelerated in parallel to the completion of the structuring process of globalization are most apparent in the banking sector. Another reason for the acceleration of this trend is that the developing countries need a healthier financial system.

The main object of bank mergers can be summarized as a more efficient performance of the new emerging bank in terms of operation, increase of market share and increase of value.

While the objects of the merger of banks that operate locally are reduction of the operational costs through scale economy, obtaining a sustainable growth, increasing the profitability, increasing the efficiency of distribution channels, increasing the sector share and expanding the capital base, the main object of international mergers is to achieve a size that is efficient to compete both globally and locally.

The subject of my thesis is to determine whether the recent bank mergers in Turkey provide the banks a profitable growth or not. Beside this, change in the Capital Structure, which has vital importance for the banks, after the merger period is tried to be measured. The mergers of Garanti Bankası - Osmanlı Bankası, Oyakbank - Sümerbank and Denizbank - Tarişbank were used as samples in my study. The growth, profitability and capital adequacy ratios of the banks for periods of 3 years before and after merging were used as the analysis method.

In order to determine whether there was a growth or not, 5 different ratios were used: The change in the total assets of the bank that took over another, the change in the credits provided, the change in the deposits collected, the increase in the number of branches and the increase in the number of staff. When evaluating these ratios, the positions of the banks that took over another were taken into account both in terms of the Turkish Banking System and in Privately Owned Commercial Banks Segment. As a result of the analysis, as mentioned in detail in previous chapters of the thesis, it has become obvious that the growth ratios of the banks that took over another had significant increases in terms of percentage. Therefore, it can be stated that the banks

operating in Turkey are quite successful in reaching their object of growth as a result of mergers and takeovers.

In order to examine the development in their profitability, return of assets and return on equity ratios were examined and this indicated a movement towards the opposite direction. All of the 3 merged banks faced significant declines in the ratios of return on assets and return on equity, as mentioned in detail in previous chapters of the thesis.

In order to examine the development in their capital, capital adequacy ratios were examined. When we compare the pre-merger and post-merger periods' results, there is no uniform movement in the upward or downward direction. Although Capital Adequacy Ratios of Denizbank and Garanti Bankası have moved in a downward direction, Oyakbank's capital adequacy ratio has increased.

Taking into consideration the ratio analysis mentioned above, it has been determined that the growth object was fulfilled in all the bank mergers, but the level aimed in terms of profitability wasn't reached at. It is obvious that the banks that had aimed to reach their growth object by taking over other banks reached that object by decreasing their return on assets and return on equity. It demonstrates us that with a non-profitable growth, the "object of making profit", which is the reason of existence of an economic enterprise, weren't achieved by the merged banks.

Together with this analysis; by the application of Basel Accord Standards, capital structure and financing of risky assets (level of leverage use) of the banks have altered. In the Turkish Banking Sector, capital adequacy ratio has started to be used since 1998. This ratio shows the amount of minimum capital that banks should have according to their credit, market and operational risks.

As mentioned in previous chapters, mergers have great importance in changing and supporting the capital structure of the banks. In the global market, every business - especially the multinational companies - should strengthen their capital amount to compete both locally and globally. In the banking sector, because the major assets of banks are credits, amount of capital that is held against the risky ones of these assets

have vital importance. According to the Basel Accord, banks should have at least 8% capital for their risky assets. That is why, in bank mergers, strengthening of capital adequacy is expected after the merger period.

When we examine the pre-merger and post-merger periods' results of the recent bank mergers in the Turkish Banking Sector, we see that changes in capital adequacy ratio vary. While Oyakbank manages to maintain a higher capital adequacy ratio in the post-merger period, Denizbank and Garanti Bankası were in trouble in raising their capital adequacy level. So, it can be claimed that; effect of mergers in the Turkish Banking Sector in terms of capital adequacy does not move in the same direction for all the banks.

Therefore, the conclusion of my study on determining whether the mergers in Turkey provide the banks a profitable growth or not is as follows: "Even though the merged banks have improved in terms of their assets size, the size of the credits they have provided, the deposit volumes they have collected and the number of branches and staff, they have significantly regressed in terms of return of assets and return on equity. Beside this, capital adequacy of these banks does not move in the same direction when pre-merger and post-merger periods are completed."

In my opinion, the reasons for the decrease of profitability caused by bank mergers although they cause important developments in terms of growth are as follows:

- After the economical crisis in 2001, real interest rates decreased as Turkey's economy became more stabilized and as a result of the significant drop in inflation. Therefore, there were dramatic decreases in profits that the banks used to gain through public t-bills and bonds.

- Furthermore, the interest rates of banks decreased as a result of low real interest rates and inflation.

- As a result of low interest ratios, people changed their priority in investing their savings. For example, real estate, vehicle or other durable goods purchases

became more desired instead of investing in financial instruments.

- As the banks oriented towards their main fields of activity, the competition in the banking sector significantly increased and it caused a decrease in their profit margins.

- As a result of the foreign capital movements in Turkey (for example HSBC, Unicredito) the competition in domestic market significantly increased.

- By the regulations of Savings Deposits Insurance Fund and use of risk management widely, banks start to invest in less profitable instruments with less risk.

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