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ABSTRACT

The aim of this study is to describe mergers & acquisitions; the concept of banking merger is defined and described with its various aspects, such as when to merge, and with whom to merge. I found many reasons behind bank mergers, which might arise from the banks, need to generate greater profit, as well as the basic reasons behind bank mergers, and give an idea about some of the federal regulations. Bank mergers have a significant impact on the banks sector, when a bank merges with another bank, this leads to an increase in the size of the bank, this increase the market share which means greater profitability. In this paper, I have compared between the bank mergers in North Cyprus and South Cyprus, the result was that the capital of Southern Cyprus bank is bigger, and they have stronger regulations imposed on them, which leads to greater efficiency.

1-INTRODUCTION

Euro system contributes smooth conduct of policies pursued by the competent authorities relating to prudential supervision of credit institutions and the stability of the financial system. The questions; what happened, why, and how, did it happen, and what are the implications. The analysis was based on quantitative and qualitative information. M &As within the financial industry is currently widely discussed in the media. This may be because they involve large European institutions, are cross-border or cross-sector, and involve, in particular, insurance or asset management activities, scope and purpose of M &As seem to have changed in recent years. M &As is not confined to the banking industry. They take place also in other industries, like the media and entertainment Sectors, the automobile industry, and the telecommunication sector. Furthermore, the pursuit of development in electronic distribution channels has led to alliances being announced between banking organisations, as well as telecommunication, software and internet companies; some alliances have involved ownership elements. Until the 1980s the financial industries in most EU Member States operated in highly regulated markets and government ownership played a more significant role. The market for corporate control was less developed at that time. A bias existed towards stability of ownership structures and cross-shareholdings in some countries. At the same time, markets for banking services were predominantly local by nature, environment prevailing until the 1980s limited M &As efficient ways to change the strategies of relevant players and the structure of the market. M &As within the financial services sector is not a completely new phenomenon. In a number of EU countries, mergers took place years ago and at that time changed the market structure to a large extent, due to the creation of large national banks. The M &As mostly involved institutions within the same sector of the financial industry, and an evolution towards, universal banks or financial groups. M &As is changing the structure of the European banking sector. However, M &As is responses to the driving forces for change and to changes in market structures.

2- THE CONCEPT OF BANKING MERGERS

2.1 Definition and Description of Banking Mergers

Mergers and acquisitions are a means of corporation expansion and growth, also alternative to growth by internal capital investment, the merger is a combination of two or more organisations, corporations come together to combine and share their resources to achieve common objectives, mergers and acquisitions software which is available to support the decision making process and includes a module for branch valuation, this features supports management in determining the optimal branch network for the combined institution, and also can be customized to incorporate other features that maybe required by the bank. **Large. versus .small. M&As:** Large M&As are defined as M&As involving enterprises with assets of EUR 1 billion and above (note that this includes M&As involving both (very) large as well as medium-sized and relatively small institutions).Small M&As involve enterprises with assets of up to EUR 1 billion. Only one enterprise involved in an M&A is needed to qualify as large for the M&A to be counted as a large M&As. **Merger:** Two or more companies joining together. The new entity can be at holding level or at company level. A merger is recorded on the date of the economic decision (formally agreed) even if the legal issues have not been fully finalised. If subsequent disputes legal issues or a lack of supervisory approval were to interfere with a completion of the merger, it is held not to have been recorded. **Acquisitions:** A company buying shares in another company to achieve a managerial influence, may be a minority or a majority of the shares in the acquired company,or record it on the date of the economic decision (formally agreed) even the legal issues have not been fully finalised if subsequent disputes, legal issues or a lack of supervisory approval were to interfere with a completion of the acquisition, it is held not to have been recorded.The terms "**merger**", "**acquisition**" and "**take-over**" are all part of the mergers and acquisition parlance. An acquisition resembles more of an arm's length deal, with one firm purchasing the assets or shares of another and the firm's shareholders ceasing to be owners of that firm. In merger a new entity may be formed subsuming the merging firms, and the acquired firm becomes the subsidiary of the acquirer. A take-over implies that the acquirer is much larger than the acquired, where the acquired firm is larger than the acquirer, and acquisition is referred to as a "**reverse take-over**". Although the terms "**merger**" and "**acquisition**' are often used interchangeable (Johnson, 1995, p.29; Sudarsanam, 1995, p.1-2; ECB, 2001).

2.1.1 The Right Time to Merge

In order to assess the right time to merger, each institution must identify its strategic direction after thoroughly analysing its strengths, weaknesses, opportunities, and threats **(SWOT)**. Bank profits are not automatically assured, there is keen competition; larger institutions may add investment banking and derivatives. And there are foundations for deciding the right time to merge. **First**; Bank's Mission: which is institution's overall reason for being, its role in the community in which operates, and perhaps its style of management, and there is questions for that mission statement should answer "**Who are we**?" and "**why are we here**?" **Second**; Bank Industry Analysis: which survey the banking industry and the direction of future trends, and should incorporate the competitive forces from within and outside of the commercial banking community, which include many factors like demographics, impact of technology, future efficiencies, impact of nation wide banking, national trends in banking, non-bank alternatives, evaluation of the general economic and direction of regulatory oversight. **Third**; SWOT Analysis: This requires a totally candid view of the bank. All management employees should assess strengths, weaknesses, opportunities, and threats, with input from the staff. **Fourth**; Bank's Strategic Plan: This plan will incorporate the results of overarching goals, Specific strategies to achieve these goals. And the strategic plan should be at least five years with intermediate milestones specified. The following are examples of goals and strategies that might accompany them:

- **Goal**: To become one of the most efficient banking institutions in the region.
- **Strategy**: To increase deposit and loan account fee income by 50% within three years and by 100% within five years.
- **Strategy**: To increase operating expense by no more than 25% for the next three years and by no more than 50% over the next five years.
- **Goal**: To become one of the strongest marketers of mutual funds in the region within five years.
- **Strategy**: Within one year redesign the workflow pattern to facilitate the cross-selling of bank products by all bank representatives with client contact.
- **Strategy**: Within one year restructure the bank's offerings of mutual funds to include a full range of money market, bond, equity, and international fund offering.
- **Strategy**: within four years develop a proprietary line of mutual funds to complement the third-party mutual funds offered.

- **Strategy**: Increase fees from mutual fund business to 200% of current fees within three years and to 500% of current fees within five years.

2.1.2 The Right Merger Partner

The right merger partner will offer the bank one or more of the attributes like Loan portfolio diversification, cost reductions on a per-dollar-of-assets basis, Geographic expansion, Expertise in an area of financial services that has been targeted through the strategic plan. And there are factors to consider in identifying the right merger partner like size, history and status, main products and strategies, geographic location and market share, client/customer base, operational and financial costs, quality of management, nature of ownership, legal status, human resources profile, corporate culture and decision making process, previous mergers with other institutions and the experiences associated with those mergers. These points can be helpful in constructing an objective framework in which to measure the appropriateness of pursuing merger (Johnson, 1995, p.29-36).

The mergers and acquisitions in the global banking industry, and concluded that one of the most frequent causes of merger and acquisition failure was corporate neglect and disregard for key human element issues, during that the transactional run a much higher risk of failure, employees complain that their first knowledge that their employer is involved in a merger or acquisition is often from the morning news before setting off for work. It is important for the staff from an acquired organization to be assured that the rights with their previous employer are to be respected, in the united states; the number of the jobs in the banking and financial sector decreased 5 per cent between 1985 and 1995, the report of international labour organization shows, with two high-profile deals chemical bank's 1995 merger with chase Manhattan and Bank America's 1998 acquisition of Nations Bank accounting for an estimated 30,000 job losses. The wave of mergers and acquisitions in the global banking and financial services sector also has increased job insecurity and workplace stress for employees and provided few tangible benefits for employers, the international labour organization report show that the jobs cuts due to bank consolidations in Western Europe number, at least 130,000 over the past 10 years, also estimate that the number of layoffs could reach 300,000 within the next two years. The ILO report notes that supporters of mergers and acquisitions say the consolidations improve efficiency and increase competition in the financial industry, most research confirms that two-thirds of mergers fail

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2.2 Interstate Bank Mergers

Mergers may involve the acquisition of individual branches of a bank, instead of the entire bank if the state branches are located permits such acquisitions by statute, and applicable in interstate bank mergers are the provisions, that are specified in connection with interstate bank holding company acquisition, which 10% and 30% concentration limitations, higher limits permitted by state law, different limits that do not discriminate against out-of-state banking organizations, CRA compliance, approval of mergers involving a troubled institution.

Bank mergers act was passed to clarify the antitrust policies applying to bank mergers, and provide another means for banking organizations to expand their operations, also must satisfy any relevant state laws. The bank merger act was amended in 1966, which imposed a single competitive standard for banking agencies under these standard agencies could not approve:

- Any proposed merger transaction which would result in a monopoly, or further any of combination or conspiracy to monopolize the business of banking.
- Any other proposed merger transaction whose effect in any section of the country maybe substantially to lessen competition or to tend to create a monopoly or other manner would be in restraint of trade (Johnson, 1995, p.22-23).

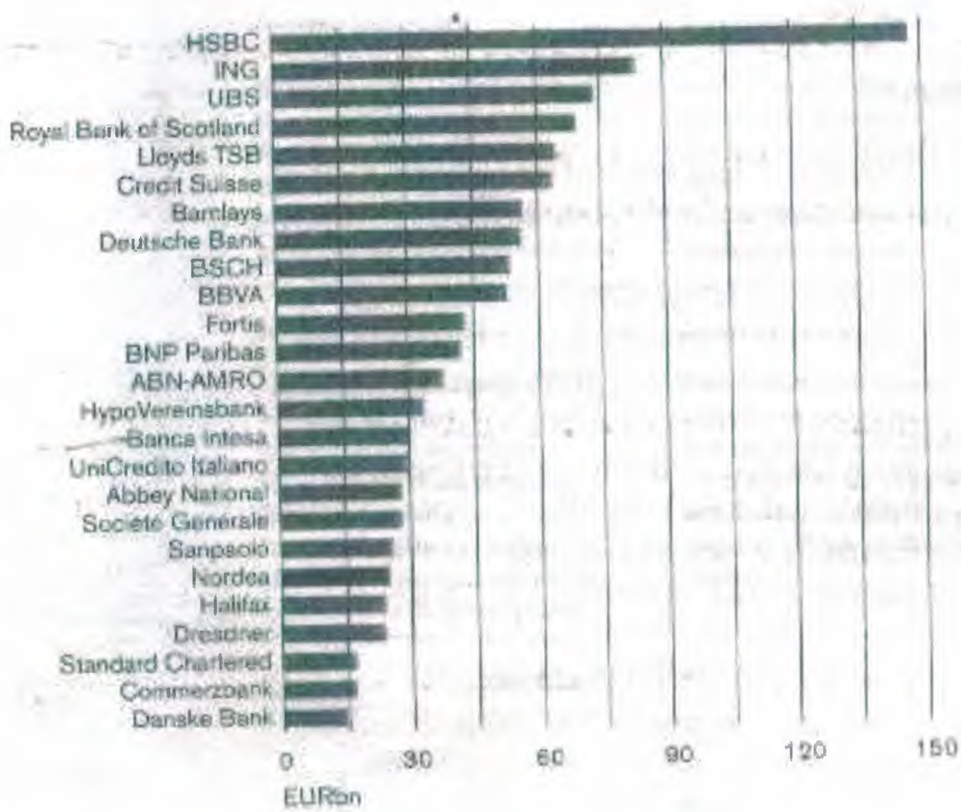
Table 1: Merger Guidelines of the U.S. Department Of Justice

	Unconcentrated market	moderately concentrated market	highly concentrated market
Post-merger HHI	Below 1000	1000 to 1800	Above 1800
Increase in HHI due to The merger	Any increase	Less/More than 100	Less than 50/ 50 to 100/ More than 100
Prob. of Justice dep. Challenging Merger	Unlikely	Unlikely/More Likely than not	Unlikely/Depends on post-merger HHI increase in HHI due to merger/ likely

Source: Justice Department of Comptroller of the currency.

Table (1) shows the general guidelines of justice department applies to all types of mergers, and more likely the justice department is to challenge a proposal and the smaller a merger or acquisition must be to avoid an antitrust suit. Nordic Baltic in 2000 holding group captured the position as undisputed leader in the financial services industry of the Nordic and Baltic Sea region and was renamed Nordea, Vigorous structural change and merger processes, continued business focus and growth in strategic areas, created shareholder value and improvements of customer and employee satisfaction, on the 6th of March, the merger was announced between MeritaNordbanken and Unidanmark, itself formed by a merger between Danish Unibank and Tryg-Baltica in 1999. New line management ensuring speed and promptaction implemented the merger. Nordea registered growth and continued high profitability in its businesses, group operating profit rose by 17% to EUR 2,435m representing a return on equity of 16.1%. There was stable growth in both interest income and commission income while costs increased by a mere 3% adjusted for acquired business, and the result represents earnings per share of EUR 0.58, an increase from the previous year by 5%. At year end the market capitalisation of the group was EUR 24bn and the NBH/Nordea share price increased by 43% during the year. The board proposes a dividend of SEK 2.00, 40% of the net result after full tax and an increase over last year by 14.3%. Nordea today has more than 2 million e-customers performing more than 6 million transactions per month and was granted a global award for "Best Online Business Strategy". Also Nordea operations, with economic growth brisk activity as regards corporate restructuring, further increases in international custody business and volatile foreign exchange markets that stimulated trading activity. The operating profit of corporate and institutional banking, EUR 419million showed a considerable improvement compared to 1999, Net loan losses were EUR 16million, with new provisions for doubtful loans at EUR 112million and recoveries at EUR 68 million, Net loan losses also include reversals of country risks. Synergy's due to the merger of Merita-Nordbanken and Unidanmark were realised according to plan and resulted in substantial contributions to profits. Total synergies in 2000 were a little less than EUR 20million of which cost synergies were approximately EUR 15million (Spong, 1985, p.106, 107; Nordea AB, 2000, p.6-8, 48).

Figure 1: Market capitalisation European banks, 10January2001 (Nordea shares)



Source: European Banks Scorecard

2.3 Perspectives on mergers and restructuring

These industries divested to get back to their core activities. In declining industries, horizontal mergers to reduce capacity have performed better than unrelated diversification. Successful firms have used M& As to extend their capabilities as well as geographic market presence. Even the spectacular winners (GE, Microsoft, and Intel) have used M& As to find new growth areas, to extend capabilities incrementally and to protect their technological and marketing flanks. In the exploding telecommunications areas, vertical integration mergers have sought to gain a presence in the segments that will be critical for future growth (Weston, 1999; Nordea AB, 2000, p.12).

Table 2: Main Motives and possible Rationalisations for the four types of M& As

	Within one country	In different countries
Between credit institutions	**Domestic bank M&As** Economies of scale linked to costs are the main motive. Cutting distribution networks and administrative functions (rationalisation), including information technology and risk management areas.	**International bank M&As** Size, i.e. the need to be big enough in the market, is the main motive. Matching the size of clients and following clients. Possible rationalisation within administrative functions.
Across different sectors	**Domestic conglomeration** Economies of scope through cross-selling are the motive. Risk and revenue diversification. Optimum usage of complementary distribution networks. Possible rationalisations within administrative functions may lead to economies of scale linked to costs.	**International conglomeration** Economies of scope through cross-selling together with size are the two main motives. Risk and revenue diversification. The M&A offers few rationalisations because institutions are in different countries and subject to different regulations and practices.

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Risk associated with four types of M& As

	Within one country	Intgernational bank M&As
Between credit institutions	**Domestic bank M&As** Ex ante: pricing of the operation and strategic risks. Ex post: operational risks, i.e. integrating risk management, customer and account systems, and internal control procedures. In addition, too high inward orientation with los of clients – resource allocation risk.	**International bank M&As** Ex ante: as for domestic bank M&As, but increases because of cultural differences. Foreign exchange risks. Ex. post: as for domestic bank M&As, but increased by different fiscal and accounting treatment and different reporting requirements.
Across different sectors	**Domestic conglomeration** Ex. ante: as above but increases because of different business areas. Possible personnel friction because of different staff rules and remuneration schemes. Ex post: as above but increased by different fiscal and accounting treatment and different reporting requirements. Reputation risks in the medium and long term.	**International conglomeration** Ex ante: maximum risk. All risks relating to domestic conglomeration and international bank M&As. Ex post: maximum risk. All risks relating to domestic conglomeration and international bank M&As. Reputation risks in the medium and long term.

Source: ECB Merger and acquisitions involving the EU banking industry.

Table (2) shows the motives of establishing banks merger with one country or with different countries, between credit institutions across different risk, as well as the risks accompanied with each one.

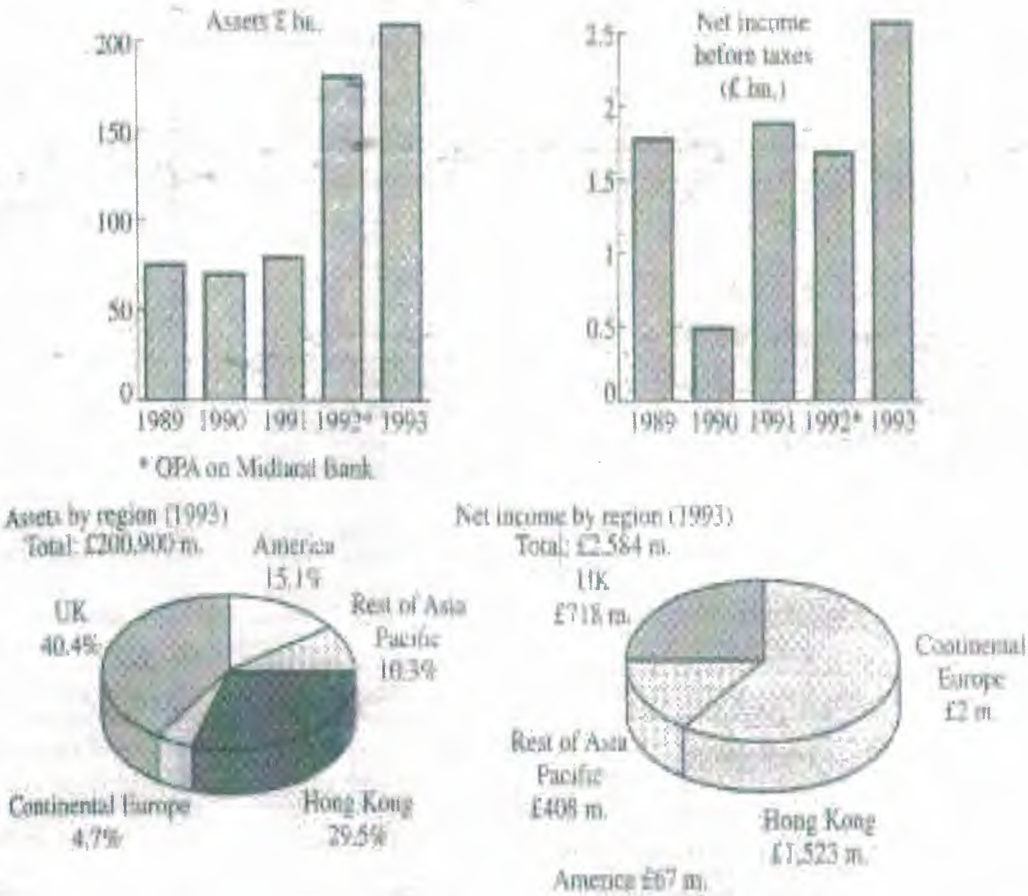
2.4 Mergers and take-overs

The main reason used mergers and take-over is to justify mergers between banks was the supposed economies of scale associated with such action, and the best way to be prepared for the new situation was through a mergers policy and take -over policy, the problems and difficulties raised by this process of concentration in the banking industry are very clear. **First**, it is by no means definite that the resulting organizations are always more competitive. **Second**, mergers have not always urgently considered the need to rationalize the branch network or cut overheads. **Third**, mergers have raised significant strategic, organizational and human problems. This organization form may be justified if the group's growth is the result of mergers and take-over.

2.5 Universal Banks and Scale: Some Reasons Behind Bank Mergers

Increasing competition in the financial services sector has generated a race to consolidate the industry and achieve a greater scale as a necessary prerequisite for improving efficiency, **Table 3** shows the main bank mergers between 1992and 1995. Behind strategies to increase market share is an implicit hypothesis that a greater market share is always equivalent to greater profitability, and the best way of increasing size by a relatively quick route is mergering with another bank, in the banking industry; alliances cannot be used to achieve economies of scale and internal growth is a very slow process. Second interesting case is the purchase of Midland in 1992 by the Hong Kong and Shanghai Banking Corporation (HSBC), and because the banking industry in Great Britain had excess capacity. Therefore, a merger between two banks could ease the path towards reducing costs and capacity, while Lloyds hoped that the advantages of the take-over would come from cost reductions, HSBC hoped that the profits would come from the possibility of offering a full service to customers operating in both Asia and Europe. However; two years after the take-over, the results have been very positive, by the end of the second year from the announcement of the take-over on 10 July 1992, HSBC's share price had almost doubled.**Figure2** show the results between 1989and 1993. The ones who may benefit the most from such mergers are those in the bank's top management, when mergers are providing all of these great efficiencies, but that doesn't seem to be reflected in the stock price three or four years after the merger is announced or completed, what ever benefits there are don't seem to be passed on to shareholders in the acquiring bank, there is evidence to support a connection between CEO compensation and bank merger activity. First Chicago NBD Corporation's 1997 proxy statement attributes the 37% rise in CEO Verne Stock's annual compensation to the successful merger of first Chicago and NBD. Walter V. Shipley, the CEO of Chase Manhattan Corporation, received what was called a special merger bonus of $5,000,000. Why managers might make such acquisitions?. Because merger increases the size of a bank, but can reduce the stock price, a reduction in stock price usually reduces CEO compensation, even if the bank stock price of an acquiring bank falls when a merger is announced, the merger significantly can increase managerial compensation (S.A.E., 1998; Canals, 1997, p.120-124,219-220,293).

Figure 2: HSBC Holdings



Source: Society for the Advancement of Education

Table 3: Major Mergers among the Largest Banks

	1992-1993				1994				1995				
	Ranking	Capital ($m.)	Assets ($m.)	Ratio %	Ranking	Capital ($m.)	Assets ($m.)	Ratio %	Ranking	Capital ($m.)	Assets ($m.)	Ratio %	Capital %
Mitsubishi	5	13,928	424,348	3.77	6	17,651	458,906	3.85					
Nippon Trust	296	801	10,986	7.29	281	909	12,982	7.01	6	19,832	547,737	3.62	5.2
Bank of Tokyo	22	8,977	220,956	4.06	18	10,570	242,445	4.36	14	12,495	271,214	4.61	7.3
Swiss Bank Corp.	23	8,847	137,981	6.41	28	9,139	139,891	6.53	19	11,607	161,807	7.17	7.6
S. G. Warburg	190	1,396	29,114	4.97	179	1,567	33,472	4.68	183	1,679	31,090	5.41	4.0
ING	24	8,598	178,461	4.82	15	11,068	174,888	6.33	62	5,202	125,343	4.15	16.4
Barings	505	384	6,789	5.65	489	432	8,796	4.91	545	432	8,796	4.91	37.9
Bank of America	25	8,580	179,371	4.78	13	12,058	186,933	6.45					
Continental Bank	199	1,299	22,315	5.82	147	1,923	22,601	8.51	12	13,865	215,475	6.43	28.7
CS Holding	32	7,384	171,259	4.31									
Swiss Volksbank	174	1,516	31,649	4.79	26	9,337	234,190	3.99					
Neue Aargauer Bank	567	320	6,565	4.88	607	320	6,565	4.88	17	12,055	298,359	4.04	12.0
Banca di Roma	36	6,847	77,774	7.00	45	6,035	89,586	6.74	63	5,139	93,373	5.50	1.1
Banca Nazionale Dell'Agricoltura	362	599	27,613	2.17	243	1,061	33,452	3.17	342	790	26,407	2.99	–47.3
Dresdner Bank	40	6,254	204,178	3.06	37	7,077	220,562	3.21	35	8,856	253,818	3.49	13.2
Kleinwort Benson	357	609	15,582	3.91	349	684	18,574	3.68	359	750	14,232	5.27	20.6
San Paolo Bank	48	5,082	161,937	3.14	46	5,921	147,072	4.03	47	6,215	153,115	4.06	6.3
Banca Nazionale delle Comunicazione	451	450	3,028	14.87	481	450	3,028	14.87	594	389	3,415	11.40	2.1
National Australia Bank	55	4,670	64,960	7.19	59	4,599	66,603	6.90	49	6,034	81,215	7.43	34.9
Michigan National Bank	305	772	10,690	7.21	303	802	10,252	7.82	340	794	8,727	9.00	15.5
Banco Santander	73	3,719	61,527	6.04	80	3,640	73,430	4.96					
Banesto	80	3,416	60,747	5.62	110	2,517	38,652	6.51	66	4,990	114,174	4.37	27.7
Credito Italiano	89	2,989	74,544	4.01	120	2,370	70,093	3.38	104	3,084	74,823	4.12	3.4
Credito Romagnolo	227	1,068	33,452	3.17	362	599	27,613	2.17	278	1,010	22,382	4.51	11.2
First Union	92	2,925	51,174	5.71	62	4,363	70,787	6.16	74	4,514	77,314	5.84	31.9
First Fidelity	176	1,501	30,066	4.99	121	2,324	33,786	6.88	149	2,240	36,214	6.19	29.3
Fleet Financial	101	2,729	47,115	5.79	82	3,496	47,914	7.30	95	3,615	48,727	7.42	28.8
Shawmut National	213	1,192	25,315	4.71	168	1,698	27,430	6.19	157	2,097	32,652	6.42	19.5
Bank Austria	121	2,200	48,009	4.58	127	2,260	48,209	4.69	128	2,590	38,738	4.41	5.6
GiroCredit	253	936	28,567	3.28	258	992	27,234	3.64	260	1,068	29,368	3.70	1.6
Landesbank Berlin	129	2,036	50,246	4.09	134	2,103	72,959	2.88					
Berliner Bank	187	1,427	38,523	3.71	201	1,389	40,962	3.39	61	5,209	157,197	3.31	9.0
Berliner Hypo	556	328	12,985	2.53	603	326	14,234	2.29					
Unitas Group	156	1,706	28,433	6.00	188	1,451	26,508	5.47	200	1,497	31,987	4.68	–15.4
Kansallis-Osake-Pankki	183	1,442	32,971	4.37	224	1,164	31,790	3.66	197	1,527	33,695	4.53	–26.6
STS Bank	590	305	3,913	7.79									
Society Corp.	161	1,647	24,999	6.59	158	1,856	27,040	6.86					
Keycorp	203	1,280	25,449	5.03	137	2,045	32,648	6.26	80	4,255	66,798	6.37	42.0
Nordbanken	167	1,591	48,175	3.30									
Gota Bank	332	664	12,752	5.21	173	1,617	49,875	3.24	160	2,068	46,342	4.46	24.9

Source: The National Association of Business Economists

2.6 Objectives of Mergers and Acquisitions

In finance theory shareholder wealth maximisation is posited as a rational criterion for investment and financing decisions made by managers, objective of an acquisition is self-evidently growth and expansion of the acquirer's assets, sales and market share, most of the acquirer aim to transfer its "superior" management skills to the target of acquisition and enhance earning power of the target's assets, the aim here may be to risk reduction if the earnings streams of the different businesses in the portfolio are not highly positively correlated, whether acquisitions can create value for the acquirer's shareholders, that acquisitions are at best neutral and at worst value destroying to a small degree, that can add value to the acquirer shareholders, the acquirer's motive able to translate expected gains from the proposed acquisition into wealth gain for its shareholders, not like merger of the French Carnaud with the British Metal Box, to make the largest packaging company in Europe and the third largest in the world, then Mr. Jean Marie Descarpentries became the chairman and managing director of CMB, but this did not succeed, partly due to Mr. Descarpentries which own style of management, which was regarded by many British managers assigned to CMB, there why clash of management styles led to many senior, and the declined British presence on the board of CMB, this the reason of the Mr. Descarpentries failed and he quit the company. August30, when CSFB announced that it would buy DLJ for $11.5 billion. Or when Chase said it would pay a tidy $36 billion to gobble up Morgan. We're David Farber says a veteran CFO of start-ups and established companies. As the new finance chief at Urban Data Solutions, he had contacted all four banks last summer about backing for the one-year-old firm. But as soon as those mergers were announced, progress on any deal stalled. At least the DLJ bankers were up front with him. "They said they would be doing us a disservice by pursuing our business." these merged monsters will look to do bigger and bigger transactions. "We will get our financing done," he says, "but there are fewer top-tier players, and that makes it more difficult." After all, the CSFB/DLJ and chase/Morgan combinations are just two of many notable banking and financial services mergers that have been announced since July. Also part of the mix are UBS AG'S $12.2 billion acquisition of Paine Webber Group Inc., Citigroup Inc.'s $31.1 billion purchase of Associates First Capital Corp., Dresdner Bank AG'S $1.4 billion offer for Wasserstein Perella, and Fleet Boston Financial Corp.'s $7 billion bid for Summit Bancorp. And speculation in recent weeks has it that Lehman Bros. Holdings Inc. and Bear, Stearns & Co. are destined to be the next pairing to be announced. Of course, such deal-making among deal makers is nothing new. The overarching idea is to combine commercial and investment banking activities under one roof to create a financial supermarket that offers customers the promise of one-stop shopping. Like Farber, CFOs and treasurers cannot afford to ignore these moves, but they tend to see them as largely inconsequential blips on their radar screens. "It is a major event when two world-class banks merge, but it's just a continuation of a trend that started quite a few years ago. The impact has been less than I'd expected." Moreover, some anticipate positive benefits from leveraging their relationships with fewer financial institutions. Merger announcements suggest that this may be an appropriate time to take a look at the potential impact of banking consolidation on the product management function. In our judgment, product management becomes increasingly important as the industry roster shrinks and banking entities grow ever larger. These are some reasons why they think so:

- Multistate banks have become incredibly big businesses and, not surprisingly, the individual product lines in these businesses have also become incredibly large. Such large line businesses require continuing management attention, and thus the role of the product manager becomes increasingly important.
- When banks expand across state lines and become superregionals, they almost always attempt as quickly as possible to develop common products for all territories. The product manager plays a leading role in managing the move toward common products. The strength of the product management function can have a major bearing on how quickly and effectively common product status is achieved.
- In very large multistate banks, there can be variations in pricing and promotion by territory, but generally, the thrust is toward some commonality in marketing approach by product lines across all territories. The product manager is, of course, in the best position to manage this effort, working with the corporate marketing staff, as appropriate. The rewards of consolidation are limited if each territory continues to "do its own thing".
- When major banking organizations merge, the product line often becomes longer and more complex. New business areas are added to the mix. A larger and more effective product management function is required to deal with this management challenge.
- Almost from the beginning, product managers have tended to take the lead in coordinating the activities of other functions on their product lines to insure that all

parts of the business are working together appropriately to achieve agreed-on business goals (Sudarsanam, 1995, p.4-6,290; Barr, 2000; Wichman, 1998).

Table 4: Acquisitions and mergers in the UK, 1964-1992

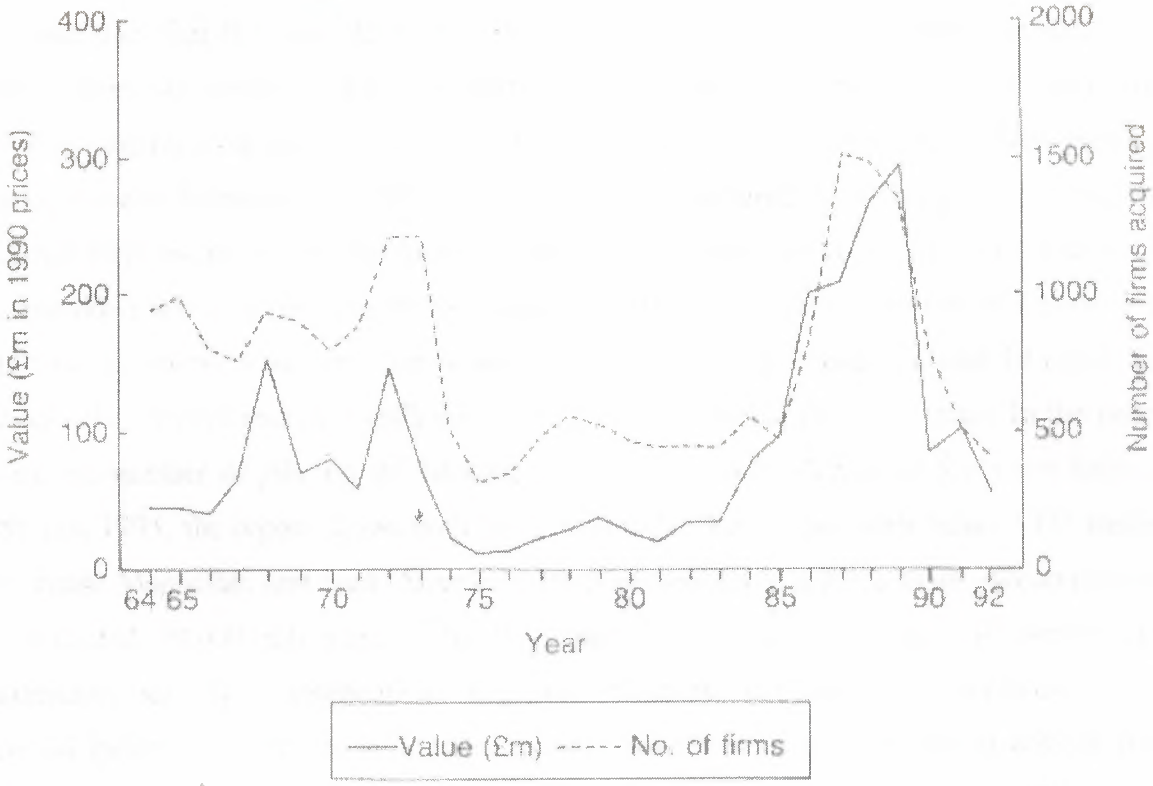
Year	Number acquired	Nominal value (£m)	Average value (£m)	Value (£m in 1990 prices)
1964	940	505	0.54	45.01
1965	1000	517	0.52	44.19
1966	807	500	0.62	41.12
1967	763	822	1.08	65.76
1968	946	1946	2.06	150.97
1969	906	935	1.03	70.04
1970	793	1122	1.41	77.97
1971	884	911	1.03	56.97
1972	1210	2532	2.09	143.78
1973	1205	1304	1.08	68.63
1974	504	508	1.01	22.91
1975	315	291	0.92	10.29
1976	353	448	1.27	13.82
1977	481	824	1.71	22.66
1978	567	1140	2.01	27.90
1979	534	1656	3.10	35.96
1980	469	1475	3.14	27.01
1981	452	1144	2.53	19.03
1982	463	2206	4.76	34.29
1983	447	2343	5.24	34.48
1984	568	5474	9.64	76.47
1985	474	7090	14.96	93.92
1986	842	15 370	18.25	198.63
1987	1528	16 539	10.82	203.56
1988	1499	22 839	15.24	265.05
1989	1337	27 250	20.38	293.77
1990	779	8329	10.69	83.28
1991	506	10 434	20.62	98.66
1992	433	5939	13.72	53.70

Source: Acquisitions and Mergers within the UK, Central Statistical Office Bulletin

Table(4) presents the number and value of takeovers in the UK from 1964-1992, and shows the GDP price deflator has been used to restate the value of bide in 1990 price, with clearly peaks of takeover activity in 1968, 1972 and 1989 in terms of value and in terms of average size of a takeover (Sudarsanam, 1995, p.2- 3).

Figure 3: Historical pattern of UK mergers and acquisitions:

Value and number of firms acquired, 1964-1992.



Source: Acquisitions and Mergers within the UK, Central Statistical Office Bulletin

Figure(3)shows the average size of an acquisition in UK take-over activities increased from 9.64 million to 20.38 million, while the average acquisition was substantial, divestment's are the flip side of acquisitions, with companies selling off divisions or subsidiaries to other corporations, or to managers of the divested parts in a management buyout. This figure shows the 1968, 1972 and 1989 peaks in total value of acquisitions at 1990 prices (Sudarsanam, 1995, p.2-4).

Mergers and acquisitions in the global banking industry and concluded that one of the most frequent causes of merger and acquisition failure was corporate neglect and disregard for "key human element issues". The transactions run a much higher risk of failure, "employees complain that their first knowledge that their employer is involved in a merger or acquisition is often from the morning news before setting off for work". It is important for the staff from acquired organization to be assured that the rights and entitlements with their previous employer are to be respected. The wave of mergers and acquisitions in the global banking and financial services sector also has increased job insecurity and workplace stress for employees and provided few tangible benefits for employers, ILO report show that the jobs cut due to bank consolidations in western Europe number "at least 130,000" over the past 10 years, also estimate that the number of layoffs could reach 300,000 within next two years. In the united states, the number of jobs on the banking and financial sector decreased 5 percent between 1985 and 1995, the report shows with two high-profile deals—chemicals banks 1995 merger with chase Manhattan and bank America's 1998 acquisition of nations bank –accounting for an estimated 30,000 job losses. The ILO report notes that supporters of mergers and acquisitions say the consolidations improve efficiency and increase completion in the financial industry. "Most research confirms that two-thirds of mergers fail to achieve their objectives for various reasons. The benefit of size and economies of scale are usually nullified by increased complexity and losses related to top-heavy organization, while the difficulties of adequately blending cultural and other human factors in the integration of the combined enterprise are often underestimated (Leonard, 2001).

3- BANKING MERGERS IN NORTH CYPRUS WITH COMPARISON TO SOUTH CYPRUS

After 1990 there had been an inflation of banks in North Cyprus, the number of domestic banks increased to 36, inflation of banks due to the expectation that Cyprus could become a member of EU. South Cyprus is harmonizing its banking law with EU; the competent authority to decide on the establishment of a financial institution is the council of ministers, while in South Cyprus this authority is given to the Central Bank, minimum amount of capital required to establish of North Cyprus bank is ($ 2 million). South Cyprus minimum amount of capital required to establish a financial institution is (3 millions Cyprus bounds, nearly $6millions), and minimum amount of capital required in EU to establish a financial institution is (5 million Euros), but now there is 25 bank only after some banks get bankrupt, the only case in north Cyprus is Hamza & Şakar bank get mergered, and some reasons that's why those banks get bankruptcy. **(1)** All banks get bankruptcy was private banks. **(2)** All banks were depending on bank investment or business, when they lost in their own business they got bankruptcy. **(3)** Unable to pay customers their own money or other banks or credits, because there isn't enough cash in the bank. **(4)** Deceptive information's (rumour): force customers to withdraw their money. **(5)** Poor management: by taking wrong decisions (those have no experience). **(6)** Fraud: by stealing money from bank (banker). **(7)** Loans: give loans to directors or his family (near to 50% of bank loans) leads to bankruptcy.

There are a lot of weakness regarding banks of TRNC, such as poor financial position of banks (e.g. low capital adequacy ratio), imported the crisis which occurred in turkey, and negative effect on the country's economic stability since they are using the same currency, huge inflation turkey was imported to TRNC. As well as the poor law system and the absence of special courts dealing with financial problems and trying to solve them, there are insufficient funds held in the banks to pay customers their funds deposited on demand, because all the banks funds are invested on various investments, which leaves no cash on hand. However, there are some strengths of the banking sector in TRNC, the EU and South Cyprus accepted TRNC demand for some time to deregulate its banking laws and improve its economic situation, in order to be at the same level with EU and South Cyprus and show the same standard laws, in TRNC weak banks are encouraged by central bank to merge with strong banks to improve their financial position, which leads to a greater economic situation.

Table 5: Distribution of Gross National Product and Sector Growth Rate

(At Current Factor Cost Million TL.)

SECTORS	1997	1998	1999	Growth Rates (%) 1997-1998	1998-1999	Percentage of Distribution 1997	1998	1999
AGRICULTURE	8,278,463.6	18,075,858.1	32,647,731.2	115.3	80.6	7.1	7.8	8.1
Farming	7,742,114.6	16,818,167.8	30,462,625.1	117.1	81.1	6.6	7.3	7.5
Forestry	42,850.9	74,315.8	294,344.2	73.4	296.1			0.1
Fishing	488,498.1	1,183,134.5	1,890,801.9	142.2	59.8	0.4	0.5	0.5
INDUSTRY	15,701,934.1	28,038,334.1	42,726,134.8	78.6	52.4	13.4	12.1	10.6
Mining & Quarrying	848,624.4	1,292,611.8	2,248,236.5	78.0	50.6	0.7	0.6	0.6
Manufacturing	9,499,365.3	15,710,064.3	25,314,468.5	65.4	61.1	8.1	6.8	6.3
Electricity & Water	5,363,944.4	10,545,637.0	15,163,429.8	102.0	39.9	5.0	4.7	3.8
CONSTRUCTION	5,132,410.1	10,131,978.4	16,465,983.9	97.4	62.5	4.4	4.5	4.1
TRADE - TOURISM	19,413,754.5	38,312,545.4	69,060,010.6	97.3	80.3	16.5	16.6	17.1
Wholesale & Retail Trade	14,061,675.1	27,157,588.3	46,746,132.2	93.1	72.1	12.0	11.7	11.6
Hotels & Restaurants	5,352,079.4	11,154,957.1	22,314,778.1	108.2	100.0	4.6	4.8	5.5
TRANSPORT & COMMUNICATIONS	12,330,887.7	22,712,786.8	44,480,843.8	84.2	95.9	10.5	9.8	11.0
FINANCIAL INSTITUTIONS	11,044,010.0	18,702,5[illegible]	25,815,397.3	69.4	38.6	9.4	8.1	6.4
OWNERSHIP OF DWELLINGS	3,102,953.6	6,375,054.6	10,302,986.9	105.5	61.6	2.6	2.8	2.6
PROFESSIONS & OTHER SER.	9,405,482.9	20,675,570.6	38,261,702.8	119.8	85.1	8.0	8.9	9.5
PUBLIC SERVICES	22,577,205.8	49,485,813.4	91,039,028.9	119.2	84.0	19.2	21.4	22.6
CUSTOMS DUTY	10,362,183.0	18,823,123.7	32,815,649.5	81.7	74.3	8.8	8.1	8.1
GDP (at market prices)	117,347,285.3	231,333,456.6	403,627,927.7	97.1	74.5	100.0	100.0	100.0
NET FACTOR INCOME FROM ABROAD	336,118.5	2,327,348.7	3,441,847.7	592.4	47.9	0.3	1.0	0.9
GNP (at market prices)	117,683,403.8	233,660,805.3	407,069,775.4	98.6	74.2	100.3	101.0	100.9

Source: T.R.N.C. Prime Ministry State Planning Organisation

Table (5) shows the Gross National Product in TRNC and its distribution, for example; financial institutions have increased by 38% between (1998-1999). As we see in table (4) the gross domestic product had increased from 117,347,285 in year (97) to 403,627,972 in year (99).

3.1 Permissions of banking merger law

Banking merger need the permission from central bank, after the permission of merger, 3 months time these banks will under central bank control, for transfer or merger these statements will be studied from some outsiders, and the decision will be given to central bank after studying the 3months operations, there is merger agreement which has the following steps. **a)** Under which condition merger will take place. **b)** The replacement of old entities (banks) to new one with identifying the name. **c)** For the new entity new documents for each operation and purpose must be obtained. **d)** As a result of merger, the total assets of mergered banks will be joined to form the new entities capital but this capital in law 39/2001 states that if this capital does not meet the limit; a signed document should be given stating that during the 3 months the amount will be met. **e)** The responsibility of every merger bank must be specified in the document and carried to the new formed entity. **f)** In the merger banks the amount of outstanding shares must be in documents specified. **g)** If after merger and the above applied conditions were not met, document must state who will be come responsible in such situations. During the agreement, the customers or third parties rights must not be forgotten, for every signed document in the agreement a note must sign and control.

After merger agreement and delegating the authority to the board of directors, during 7 days their shares amount must be specified. During this7 days also the new statements specifying benefits, loses, every thing must be presented. These statements must include the sources of the capital and then presented to the central bank. After these statements the central bank will study them carefully to indicate the amount that can be credited to this bank, the number of branches that can be obtained if these above stated conditions where not met, the central bank may need new set of rules to accept the merger. Then the acceptance of central bank will be presented to the board of directors, in taking a decision in the new entity, 2/3 of the votes must accept/ refused the decision, and also the preferred stockholders may vote in such conditions. In cases where some are not stated in the documents, these things must not be even discussed. All the decisions taken in the board of directors during mergers must be sent to the central bank in 7 days. The central bank according to the law 39/2001 in 6th part the central bank will then agree the merger statements with the condition of publishing it in the official newspapers. After publishing it the central bank will ask for the new entity to be legally registered in the government, the assets and outstanding debts for any merger bank will move automatically to the new formed entity, during a meeting with the banks managers and the board of director the total assets and outstanding debts for each bank must be stated and presented to the board of director. In these meeting the board of director sign the documents of moving the old debts to the new entity (Central Bank, 2000; Central Bank, 2002; Bıçak&Menteşoğlu, 1999).

CONCLUSION

M&As have positive implications for the industry involved. As such they are an indication that the industry is responding and adapting to pressures for change.The possibility of a takeover can exert a healthy incentive for managers to optimise the efficiency and service of the enterprise and hence enhance the shareholder value. Internal structures and corporate governance of financial institutions in the M&A process also require careful consideration on the part of supervisors, who will wish to ensure an effective internal organisation and allow for the ensuing group to be adequately supervised.

As regards the way M&As are being carried out, the more interesting observations relate to cross-sector and cross-country operations. There, a tendency was observed for M&As to result first in a relatively complicated structure that is later simplified and streamlined. The initial complicated structure proposed in connection with M&As is influenced by the need to obtain approval from management and owners, or by other specific reasons (e.g. taxation). For more complex groups a holding structure is often chosen. Supervisors are actively involved in the M&A process including the authorisation stage. There is a well-defined framework of legislation that ensures complete information to the supervisory authority on the parties involved, the envisaged structures and business plans. EU legislation foresees a notification procedure in the case of the acquisition of participations in EU-regulated financial enterprises (credit institutions, investment firms, investment management companies and insurance undertakings) that exceed thresholds. According to EU legislation, the competent authorities have a right to vote the operation if, in view of the need to ensure sound and prudent management of the institution, they are not satisfied as to the suitability of the acquirer or as to the transparency of the new group. For the enterprises involved in M&As a number of risks arise during the transition period, risks related to M&As increase with the complexity of the operation simple, domestic bank merger is at the lower end of the transition risk spectrum compared with a large-scale cross-boarder operation. In TRNC competent authority has decided the establishment, and minimum amount of capital required for the establishment, then the experience of banks staff which is a main issue to pay attention in harmonizing to the council directives of the EU.

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