

Mergers and Acquisitions in the Banking Sector: The Case of Western Balkan Countries / BKT Albania

PhD (C.) Lulzim Rashiti

University of Novi Sad, Faculty of Economy, Subotica

PhD (C.) Vedat Zulfu

University of Novi Sad, Faculty of Economy, Subotica

Abstract

This paper aims to explain the financial system which is the engine force for the development of a trade economy. This system ensures payment means in economy and has an impact on its real activity, through the implementation of financial intermediation, acquisitions and mergers in the banking industry that have occurred in recent years in the Western Balkan countries, and monetary policy transmission in these countries. In developing countries, among which are also: Serbia, Macedonia, Albania, Montenegro, etc., banking industry is often almost the most important area in the financial system. Therefore, this paper will focus on the way the acquisitions and mergers occurred in the banking system, by assuming that many of the conclusions are applicable to the entire financial system in the Western Balkans. This paper will elaborate on this aspect a case study that deals with the acquisition of Banka Kombetare Tregtare (National Commercial Bank) in Albania by the Turkish company Calik Holding (Aktif Bank).

Keywords: Financial system, Banks, Banks' acquisitions, Case study.

Introduction

The reforming process that took place in the countries of the Western Balkans has attracted a lot of attention among international banks, European banks and other industries to get into the markets of these countries mainly throughout acquisitions or mergers of different industries, whether public or private. According to Murgasova et al. (2015), acquisitions and merging activities which were caused by foreign banks' acquisitions played an important role in changing the banking sector in Western Balkan countries towards consolidation, market concentration and competition in the banking industry.

As a result of various international and European banks the banking industry in the Western Balkan countries faced a significant change. The expansion of lending in some Western Balkan countries was mainly due to the growth of loans in private households rather than companies, which is the unproductive use of financial resources.

Dominated by various conflicts in 90s these countries began the path of reconstruction and an overall reform of their economies. They opened up to each other and global trade which turned into countries oriented as much as possible towards exports; they

expanded the role of the private sector, dismantled the regulations that hampered the development of enterprises, and began to build the needed institutions in order to support the market economy system. In some cases the banking industry came up entirely from the scratch, aided by foreign capital and experience that had resulted due to mergers or acquisitions of local banks by international and European banks or banks from other places.

These efforts resulted in a strong economic development, significant growth in incomes and living standard, and an improvement of macroeconomic sustainability. However in the Western Balkans countries we have to deal with a flourishing of depository (commercial) banks. The basic attribute of depository banks is that they mobilize short-term resources (short term deposits and savings) for the aim of their short-term placement, and mainly for the move of goods and services, inventory of goods and the acquisition of consumer and permanent goods by the population (Vunjak & Kovacevic, 2012).

During the crisis period in the Western Balkan countries the economic growth was somehow slow. The external environment was unfavourable, but it is the unfinished process of reforms that is slowing the incomes to reach the level of richest economies of the European Union.

Investments in the tradable sectors are needed anywhere in the region, in order to stimulate exports and reduce significant deficits in trade and checking account. Moreover, we should handle the problem of the high level of Non Performance Loans, in order to increase again lending and ease the economic recovery in all countries of the Western Balkans.

The development of non-banking financial markets would help in diversifying funding resources. Resumption of deep structural reform is a key priority of economic policies in the region. Many inefficient enterprises, whether socially or state-owned, should be privatized; competition problems, including bureaucracy and poor governance need to be addressed to open the way for the private sector to flourish, a key engine of growth; and inherited practices that hinder the expansion of employment and misrepresent labour markets results should be ignored or decommissioned.

Economic transformation in Western Balkans countries

Following the conflicts that erupted in the region in '90s, in the last 15 years Western Balkan countries experienced deep transformations and reforms. They have moved towards a closed system based on the market, many inefficient enterprises that were state or social property were privatized. They seized rapidly the modern banking systems and encouraged foreign orientation for their economies. The result of this change was the significant growth in living standards compared to their richer neighbours from the advanced or open economies of the European Union.¹

However, the pace of structural reforms has been disappointing as a consequence of a number of factors such as the reform fatigue, resistance to personal property interests, difficult policies that shrunk reform efforts, and the delay in EU membership. But, let have a look back, the process of economic growth and living standards in the past

¹ www.ebf-fbe.eu.

was driven partially by volatile capital inflows in the years prior to the global financial crisis. The region, therefore, is still facing the impact of the flourishing period and the unfinished transition. Consequently, the Western Balkan countries are still far behind compared to new EU member countries in terms of economic transformation and income levels, which are at the level of 1/3 compared to those of advanced economies in the EU. Powerful revitalization of the reforms' pace will be a crucial factor in improving living standards and the revitalization of convergence in incomes. On their transition path to market-based systems, the region's economies opened up to the rest of the world. The economies of these countries are moving more and more towards exports, and among them stands out: Serbia, Albania and Macedonia, which have set excellent results. And this is followed with the growing diversification of their export markets, where can be noticed the growth of trade volume with countries in the region as well as with New Member States and also with acquisitions or mergers of banks from other countries, i.e. Calik Holding "Aktif Bank" from Turkey bought Albanian National Bank in Albania, then "Çaçanska Bank" in Serbia was bought by Halk Bank -Turkey, etc. And just as the Western Balkan ventures were discovering new markets, Foreign Direct Investment started to flourish in the region. The banking system experienced a significant transformation as a result of foreign investment which has facilitated more efficient allocation of capital.

Starting from the beginning of 1999/2000, foreign investment in the banking system, combined with the growth of the deposit base, increased lending to the private sector. In fact, given that the volume of deposits and credits increased to over 30% of GDP since the beginning of 1999/2000, the financial sector in the Western Balkans strengthened more than those of the new member states compared to their transition period (www.ebf-fbe.eu). Apart from strengthening, the financial inclusion-accessibility of poor people and those living in remote areas increased in financial services as well as the infrastructure in the banking industry improved. However they still remain far behind the New Member States. Since the beginning IMF was closely involved in the economic transformation of the Western Balkans countries. Besides providing advice on economic issues, IMF has signed financial agreements with almost all countries of the region, and often more than one agreement. Usually these agreements have been designed to maintain macroeconomic stability against radical economic transformation, which the Fund also was trying to encourage. In addition, throughout the region, IMF has provided important technical assistance as well as organized trainings, consultancy, advices. Along with the efforts of other donors, it helped the region to build, and gradually improve, main institutions for designing economic policies, either as regards, among other things, the laws on public finances or bank regulatory and supervisory regimes (Central banks). Looking back, we can say that the great values of global liquidity, channelled towards the Western Balkan countries through capital investments in internal banking systems eased to some extent the economic growth by masking herein the unfinished structural transformation.

In the years before the global economic crisis, the increase of the capital volume entry in the Western Balkan countries was just as important as in the countries of Central and South-eastern Europe. These capital movements were mediated by domestic banks,

which led to an increase in the lending volume beyond the predicted values of basic economic principles. Indeed, according to some indicators, only half of the increase in the pre-crisis level of the credit-GDP relation in the Western Balkan countries can be explained by basic economic principles. This was similar to the experiences of other developing European economies, although the expansion of crediting volumes in the Baltic countries and Bulgaria was much higher than in Western Balkan countries (with the exception of Montenegro, and perhaps Kosovo), and much less driven by basic economic principles. But the experience of the Western Balkan countries differed on a key aspect compared to the one of new member countries – investments flow in banking industry in the first group was mainly in the form of foreign direct investments and capital investments (equity), and not in the form of borrowings from parent banks and financial markets.

Acquisition of National Commercial Bank NCB (Bankës Kombëtare Tregtare BKT) in Albania by Calik Holding Group (Aktif Bank) – Turkey

The first branch of National Commercial Bank was established in Durres on 29 November 1925 in the historic building in which the NCB Branch in Durres is now located. The building in which NCB is situated represents the oldest Albanian financial institution in the country. On 1 November 1926 and 15 November 1926 respectively branches in Shkodra and Vlora opened. National Commercial Bank with the current name was founded in January 1993 by the merge of the Albanian Commercial Bank (ACB) and the Albanian National Bank (ANB). Today NCB is the largest and oldest business bank in Albania.²

Albanian Commercial Bank was founded in 1991 as a result of the subdivision of the activities of the Albanian State Bank, whose main activity was the management of foreign trade operations of state entities with former socialist countries.

ANB - Albanian National Bank was founded in 1922 by a second subdivision of the Albanian State Bank with the aim to manage the commercial activity of the state entities internally. Assets and liabilities of the activities of these entities were transferred to NCB's accounts since the time it was founded.³

National Commercial Bank was founded as a corporation in July 1997 with a capital of 2.7 billion Euros. NCB completed the privatization process in 2000. The Albanian Parliament approved on July 6, 2000 the acquisition contract between the Ministry of Finance on one hand and the International Consortium of investors (60% of shares), International Finance Corporation (20%) and the European Bank for Reconstruction and Development (20%) on the other hand. The transfer of ownership entered into force on 17 October 2000. The new shareholders paid \$10 million, by resulting in a strong bank capitalization.⁴

Under the direction of new shareholders and management, consisting almost fully

² www.bkt.com.al.

³ www.bankofalbania.org.

⁴ www.bkt.com.al.

by a foreign staff with broad international experience, NCB undertook radical transformations in 2001 to build the infrastructure and restructuring of every operational aspect of the bank starting by staff, procedures and till the information technology infrastructure and by transforming their human resources into a dynamic new team of professionals committed to achieve perfect levels.

In February 2003, with a decision of the General Meeting of Shareholders, the amounted capital of the bank reached to 14.64 million dollars, by turning NCB into the most capitalized bank in the Albanian banking system.⁵

The year 2006 began with a new page for NCB, as soon as it got the approval from the Bank of Albania and the special court decision, on 9 June 2006 was approved the transfer of shares consisting of over 60% + 2 of NCM shares in favour of Çalik-Seker Konsorsiyum Yatirim A.S. (Aktif Bank).

Following the decision to expand also in Kosovo, the number of branches in Kosovo reaches 25, namely by making NCB the biggest Albanian bank in the region.

On 30 June 2009, Çalik Financial Services bought the shares of International Finance Corporation (IFC) and European Bank for Reconstruction and Development by becoming in this way the only NCB shareholder with 100% of the shares.

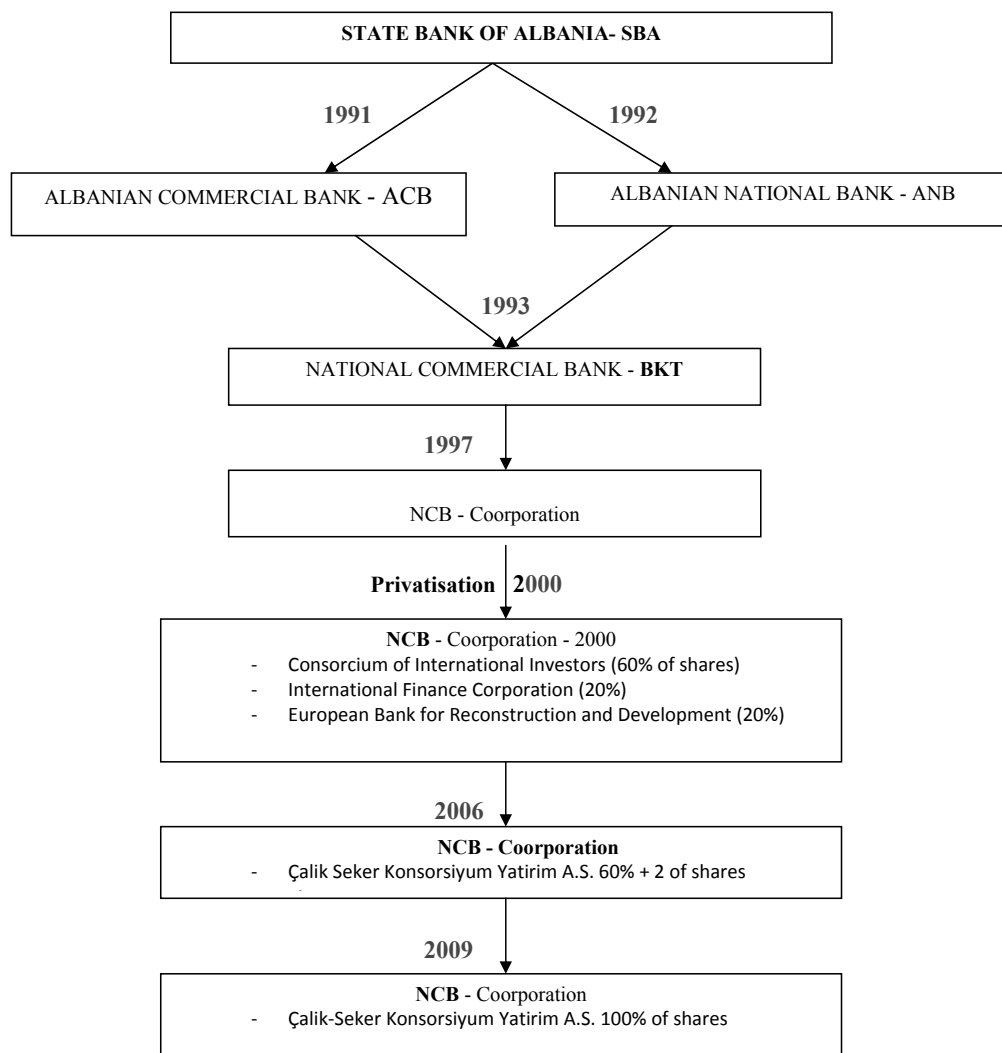
During the years 2006 - 2011 with the achieved performance NCB enjoyed a series of national and international appreciation, among which was for many times in the row "Best Bank of the Year" in Albania, Best Bank, among the middle level banks, and in the South-eastern Europe culminated with the award of the "Best Bank of the year in South-eastern Europe in 2009". Simultaneously for two consecutive years, NCB was awarded with AAA (Alb) from the prestigious institute JCR- ER. At the same time the Bank of Albania for the third time and for the fifth consecutive year scores NCB with Strong 1- according to CAMELS Banking System Assessment which thereby proves increasing trend of trust and sustainability of NCB in the Albanian banking system. At the same time the prestigious magazine of banking sector The Banker, which belongs to Financial Times, places NCB for 2 consecutive years (2010 and 2011) as the bank of the year in Albania.

Since 2011, BKT continued to increase its market share in every segment of banking services and thus becoming the largest bank in the country, while still the oldest one. EMEA Finance and Euromoney declared NCB as the Best Bank in Albania for 2012, while JCR-ER praise with grade AA (Alb) for Corporate Governance. 2013 was the most successful year for NCB as it managed to win all three most prestigious prizes of banking sector by becoming the Best Bank in Albania announced by EMEA Finance, Euromoney and The Banker, while the General Director of NCB was awarded "CEO of the Year in Europe" by EMEA Finance. This is a success that was repeated in 2014 by winning back not only three best prizes but also the award for Corporate Social Responsibility prize by EMEA Finance and AAA (Alb) for Cooperation Governance

⁵ www.bkt.com.al.

by JCR. 2015 is the 90th year of NCB financial activity in Albania.⁶

The scheme of the acquisition process of NCB by Calik Holding (Aktif Bank)



Source: Authors

⁶ www.aab.al.

Conclusions and recommendations

The process of NCB acquisition by Calik Holding (Aktif Bank) group shows that the planned investment (despite the risk present) resulted successful and it is attributed to two key elements:

- Management and successful managing
- Adoption of a new banking concept in the country

By analyzing this process, it is evident that new shareholder, managed to carry on the history of the institution already acquisitions by preserving the values that NCB had developed in years and added these values by introducing a new banking model, completely different from the one that market provided.

As a result, the experience of foreign investment in countries in transition depends largely on investor's approach by which it intends to achieve objectives. NCB case proves that "society trust" especially in the banking sector is key in achieving the goal, which is the profit. Organizational culture and the philosophy of a company in relation to the society and environment are essential for a successful investment in a transitional country.

The success of acquisitions or mergers in the banking system in some of the Western Balkan countries should be followed even in those countries where there is a space for similar processes that ultimately result in economic growth for those countries.

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