STRATEGIC FINANCIAL ANALYSIS OF THE MERGER OF NEW TT HELLENIC POSTBANK S.A. WITH EUROBANK - ERGASIAS BANK S.A.

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Abstract
Since last year was the year of mergers and acquisitions in Greek Banking Sector in order to establish banks that will be able to deal with the continuing crisis, we will examine one merger which was of great importance, the merger of New TT Hellenic Postbank S.A. with Eurobank - Ergasias Bank S.A.. Scope of this article is to examine, by strategic financial analysis perspective, the merger of these two major banks of Greece and to provide an opinion on the true value of this merger and on the effect that will have both on the results of the new bank and on its viability. The technique we will use is ratio analysis with strategic interpretation of the results that reveal that despite the fact that the merger was really profitable for the acquiring bank, it had no significant variation to its results letting it be in a really difficult situation.

Key words: *strategic financial analysis, mergers, acquisitions, strategy, financial analysis, Greek banking sector*

1. INTRODUCTION

Last year was the year of mergers and acquisitions, two terms often confused or used interchangeably according to Sherman (1998), in Greek Banking Sector in order to establish banks that will be able to deal with the continuing crisis. This crisis led to radical changes in Banking Sector and to the establishment of four systemic banks; National Bank S.A., Alpha Bank S.A., Piraeus Bank S.A. and Eurobank – Ergasias Bank S.A.. After the establishment of these systemic banks, there was a wave of mergers and acquisitions, which provided benefits and opportunities to them. The most significant were the acquisition of Emporiki Bank S.A. by Alpha Bank S.A., the merger of New TT Hellenic Postbank S.A. and New Proton Bank S.A. with Eurobank - Ergasias Bank S.A. and, finally, the acquisition of ATE Bank S.A., Millennium Bank S.A., Geniki Bank S.A., CPB Bank S.A. and Bank of Cyprus S.A. by Piraeus Bank S.A.

This wave of mergers and acquisitions helped Piraeus Bank S.A. to over-double its loan portfolio while the corresponding of Alpha Bank S.A. increased it by 27%. The merger of New TT Hellenic Postbank S.A. and New Proton Bank S.A. with Eurobank - Ergasias Bank S.A., led the loan portfolio of the former to an increase of 15%. The remarkable point here is the increase by 5% of the loan portfolio of National Bank S.A. that took no action in the field of mergers and acquisitions last year. These four systemic banks, after mergers and acquisitions, control over 91% of the whole loan portfolio of Greece which is far more than the corresponding percentage of the four greater banks in Germany, Portugal, Italy, Spain, Turkey and Poland.

Through these mergers and acquisitions, Piraeus Bank S.A. became the first bank in the ranking system in terms of loans and deposits since it has a total loan portfolio of 68,5 billion euro that corresponds to a market share of 29,6% and deposits portfolio of 50,2 billion euro, which corresponds to a market share of 28,6%. In the ranking system mentioned above, Alpha Bank S.A. holds the second place in loans portfolio with a market share of 23,1% while is ranked third in deposits portfolio with a market share of 20,7%. The third place in loans portfolio is occupied by Eurobank – Ergasias Bank S.A. with a market share of 19,9% while the smallest loan portfolio among the four systemic banks belongs to National Bank S.A., which maintains a great advantage holding the second largest deposit portfolio totalled to 40,6 billion euro that is depicted in a market share of 23,1%.

In this paper, we will examine one merger that was of great importance to our opinion, the merger of New TT Hellenic Postbank S.A. with Eurobank - Ergasias Bank S.A.. New TT Hellenic Postbank

S.A. is the one of the oldest banks in Greece having the greater network of branches with presence in the most cities of the country.

Scope of this article is to examine, by strategic financial analysis perspective, the merger of these two major banks of Greece and to provide an opinion on the true value of this merger and on the effect that will have both on the results of the group and on its viability.

2. ABOUT NEW TT HELLENIC POSTBANK S.A.

New TT Hellenic Postbank S.A. is a new bank that was established in January 2013. It replaced the dissolved TT Hellenic Postbank which had been founded in 1900, only a few years after the founding of the Bank of Crete. It was the decision made by the Cretan State to establish one more institution on the island. On December 10, 1900 signed by the High Commissioner of the Cretan State Prince George the Law 265 on Postal Savings Bank that promulgated on December 16, 1900 while its official start of work done in 1902 to about 20 post offices that were scattered on the island.

The publication of the first booklet of Postal Savings Bank which was to the name of Prince George was in April 1903. In 1909, the activities were extended to the rest of Greece. Shortly after the union of the Cretan State and the rest of Greece, in 1914 – 1915, the headquarters moved to Athens.

In 2002, its corporate form was converted, by Law 3082/2002, into a limited company and in 2006 it was granted a license as a credit institution which had never had since it worked for several years as a public service, directly under the Ministry of Transport and Communications. The same year introduced into the Athens Stock Exchange.

On January 19, 2013, in the context of fiscal purification, the TT Hellenic Postbank was cleaved from the Hellenic Financial Stability Fund into "good" and "bad" bank. The "good" part was operating under the name "New TT Hellenic Postbank" with a view to future sale of one of the 4 "systemic" banks, while the "bad" part went into liquidation. The newly founded Bank had been adequately funded by the Hellenic Financial Stability Fund so as to safeguard customer deposits and the smooth servicing of its existing customer base.

The Postal Savings Bank played an important role in financing public projects particularly the interwar period. Try to consolidate the concept of saving in Greek society from its inception through various actions. So, on the occasion of the World Savings Day on October 31 each year it instituted annual awards for the best student report on savings.

On July 17, 2013, it was decided the sell and the integration of the New TT Hellenic Postbank S.A. ("good" bank) to Eurobank – Ergasias Bank. Intention of Eurobank – Ergasias Bank S.A., which the same day agreed and for the acquisition of New Proton Bank S.A., is to make the functional consolidation of New TT Hellenic Postbank S.A. with Eurobank – Ergasias Bank S.A. using common computer applications, but maintaining the autonomy of the New TT Hellenic Postbank S.A. network and service points in the local post offices, but the branding and corporate identity.

The transfer of 100% of the shares and voting rights of New TT Hellenic Postbank S.A. to Eurobank Ergasias S.A. was concluded on Friday 30th of August 2013, following an agreement between Hellenic Financial Stability Fund and Eurobank – Ergasias Bank S.A.. The merger process of the banks initiated at September 30, 2013. The legal merger by absorption of New TT Hellenic Postbank S.A. by Eurobank Ergasias S.A. was completed on December 27, 2013.

Transformation Balance sheet of New TT Hellenic Postbank S.A.as at 30-06-2013
(According to International Financial Reporting Standards - Adjusted)

in Euros

ASSETS	
Cash and balances with Central Bank	265.980.908,95
Loans and advances to banks	154.279.436,11
Commercial portfolio and financial instruments	72.456.105,98
at fair value through profit and loss	
Derivative financial instruments	14.043.318,97
Loans and advances to customers	7.577.952.529,70
Less: Provisions for bad debts	(788.775.686,62)
Investments for trading	964.803.281,72
Investments owned till mature	295.542.857,14
Debt securities	4.460.160.510,14
Investments in subsidiaries and associates	5.036.783,66
Tangible assets	110.871.384,06
Intangible assets	9.283.150,34
Deferred tax asset	23.885.545,27
Advanced income tax	7.097.957,39
Other assets	434.211.630,31
Total Assets	**13.606.829.713,12**
LIABILITIES	
Due to other banks	2.417.692.241,32
Deposits and other accounts	10.533.155.846,03
Derivative financial instruments	8.565,85
Deferred tax liability	2.868.760,55
Other liabilities	180.035.166,07
Current tax liabilities	-
Other borrowed funds	32.061.382,74
Total Liabilities	**13.165.821.962,56**
EQUITY	
Ordinary share capital	500.000.000,00
Share premium	-
Securities reserve at fair value	1.396.735,73
Other reserves	2.112.944,94
Retained earnings/Accumulated Losses	(62.501.930,11)
Total Equity	**441.007.750,56**

Total Equity and Liabilities	**13.606.829.713,12**

Source: New TT Hellenic Postbank S.A.

3. ABOUT EUROBANK – ERGASIAS BANK S.A.

Eurobank – Ergasias Bank S.A. is a bank that has been established at March 19, 1924, under the name Bank of Athens S.A., and its headquarters are located in Athens from its establishment. Its duration, according to the article 4 of its Articles of Association, is till December 31, 2100.

In 1999, after the decision of the Ministry of Development, the bank absorbed according to articles 69 – 77 of the Constitutional Law 2190/1920 and the article 16 of the Law 2515/1997 by the bank EFG Eurobank S.A. and changed its name from Bank of Athens S.A. to EFG Eurobank S.A.. Furthermore, in 1999, according to a new decision of the Ministry of Development, the bank absorbed Bank of Crete S.A. under the same legal frame using additionally the article 78 of the Constitutional Law 2190/1920.

The bank continued its operation until December 31, 1999 having the same form and name, when it absorbed Ergasias Bank S.A. under the article 16 of the Law 2515/1997 and articles 68 – 77 of the Constitutional Law 2190/1920 and changed its name to EFG Eurobank – Ergasias Bank S.A..

Furthermore, under the legal frame mentioned above, the bank absorbed Telesis Investment Bank S.A. at March 11, 2002, Work Investments S.A. at April 10, 2003, Consultants of Work Investments S.A. at October 7, 2003, Growth Investments S.A. at November 11, 2003, Unitbank S.A. at December 15, 2003, Q – Systems and Services of Total Quality Management S.A., Telesis Direct Consulting S.A. at June 27, 2004, Progress Hellenic Investments S.A. at November 25, 2005, Inter-trust M.F.C. at April 11, 2006, Eurobank EFG Web Services S.A. and Dias S.A. at May 30, 2011.

Eurobank Group is one of the four systemic pillars in the Greek banking system, while at the same time it holds a strategic position in Bulgaria, Romania and Serbia, offers discerning Wealth Management services in Cyprus and Luxembourg, and is also present in London and the Ukraine.

Transformation Balance sheet of Eurobank – Ergasias Bank S.A.as at 30-06-2013
(According to International Financial Reporting Standards - Adjusted)
(All the amounts are rounded to millions)

	in Euros
ASSETS	
Cash and balances with Central Banks	819.000.000,00
Loans and advances to banks	9.227.000.000,00
Financial instruments at fair value through profit and loss	71.000.000,00
Derivative financial instruments	1.389.000.000,00
Loans and advances to customers	32.027.000.000,00
Investment securities	9.249.000.000,00
Investments in subsidiaries	3.049.000.000,00
Investments in associates and joint ventures	6.000.000,00
Tangible assets	275.000.000,00
Intangible assets	65.000.000,00

Deferred tax asset	2.869.000.000,00
Other assets	1.288.000.000,00
Total Assets	**60.334.000.000,00**
LIABILITIES	
Due to Central Banks	21.733.000.000,00
Due to other banks	7.617.000.000,00
Derivative financial instruments	1.938.000.000,00
Due to customers	22.471.000.000,00
Debt issued and other borrowed funds	1.557.000.000,00
Other liabilities	538.000.000,00
Total Liabilities	**55.854.000.000,00**
EQUITY	
Ordinary share capital	1.153.000.000,00
Preference share capital	950.000.000,00
Ordinary shares in issue	316.000.000,00
Share premium	5.985.000.000,00
Other reserves	(4.322.000.000,00)
Hybrid capital	398.000.000,00
Total Equity	**4.480.000.000,00**
Total Equity and Liabilities	**60.334.000.000,00**

Source: Eurobank – Ergasias Bank S.A.

4. THE MERGER

Within the framework of the Greek banking sector restructuring, in July 2013 Eurobank Ergasias S.A. signed a binding agreement with the Hellenic Financial Stability Fund to acquire 100% of the shares and voting rights of New TT Hellenic Postbank S.A. The transfer of the shares was concluded on August 30, 2013.

The merger of the two banks done with the absorption of the New TT Hellenic Postbank S.A. by Eurobank – Ergasias Bank S.A. according to Article 16 of the Law 2515/1997 and Article 69 of the Constitutional Law 2190/1920 since Eurobank – Ergasias Bank S.A. held the sum of the scare capital of the New TT Hellenic Postbank S.A..

According to paragraph 5 of the Article 16 of the Law 2515/1997, the merger took place through the consolidation of both the Assets and Liabilities of the merged banks as they appear in their Transformation Balance sheets as at June 30, 2013, which were approved by their Board of Directors. The above-mentioned Assets and Liabilities have been transferred to the Balance sheet of Eurobank – Ergasias Bank S.A. after the finalization of the merger.

The valuation of the Assets, regarding their book value, for both banks, has been conducted by independent Certified Auditors. According to Kyriazis (2007), the valuation of financial institutions is

conducted, usually, using Dividend Discount or Gordon Model, Cash Flow to Equity Model, Excess Returns Model, Asset Based Valuation and Valuation based on Comparable Companies Multipliers, where in our case the valuation conducted using the Weighted Average of Discounted Dividends Method, Valuation based on Comparable Companies Multipliers, Method of Adjusted Equity and Method of Capital Market Indices Analysis.

In the day where the Merger Agreement and its accompanying documents according to the Law had been registered in the Registrar's, the New TT Hellenic Postbank S.A. dissolved without going into liquidation and Eurobank – Ergasias Bank S.A. substituted as of its rights and obligations. Additionally, Eurobank – Ergasias Bank S.A. took every license granted to as its one and only successor.

The share capital of New TT Hellenic Postbank S.A. was 500.000.000,00 euro divided to 500.000.000 ordinary shares of one euro each which had corresponding voting rights. It is worth mentioning that there were no shareholders having special rights.

The share capital of Eurobank – Ergasias Bank S.A. at June 30, 2013 was 2.103.508.660,30 euro, divided to 3.844.612.201 ordinary registered shares, intangible, with voting rights having nominal value of 0,30 euro each and 345.500.000 premium registered shares, tangible, with no voting rights, redeemable having nominal value of 2,75 euro each. Then, at July 3, 2013, share capital of the bank was increased by 61.741.399,20 euro in cash according to the decision of the Ordinary General Meeting of its shareholders and the Special Meeting of its premium shareholder, divided to 205.804.664 new ordinary registered shares of nominal value of 0,30 euro each. Finally, its share capital was increased on August 30, 2013, based on the decision of the Ordinary General Meeting of its shareholders and the Special Meeting of its premium shareholder, by 425.624.000 euro with the issue of 1.418.750.000 new registered shares of nominal value of 0,30 euro each. This increase covered by the Hellenic Financial Stability Fund by contributing the whole of New TT Hellenic Postbank S.A. shares that owned. After these increases, the share capital of Eurobank – Ergasias Bank S.A. was 2.590.875.059,50 euro divided to 5.469.166.865 ordinary registered shares, intangible, with voting rights having nominal value of 0,30 euro each and 345.500.000 premium registered shares, tangible, with no voting rights, redeemable having nominal value of 2,75 euro each.

Since Eurobank – Ergasias Bank S.A. owned hundred percent of shares of New TT Hellenic Postbank S.A., that were acquired at August 30, 2013, having total nominal value 500.000.000,00 euro and acquisition value 859.762.500,00 euro, based on International Financial Reporting Standards, share capital of Eurobank – Ergasias Bank S.A. would not be increased due to the merger and no new shares would be issued as article 75 of Constitutional Law 2190/1920 provides. Share options of Eurobank – Ergasias Bank S.A. in New TT Hellenic Postbank S.A. would be amortised by discomposure since the acquiring bank already held hundred percent of the share capital of the absorbed bank. So, new share capital of Eurobank – Ergasias Bank S.A. would still amount to 2.590.875.059,50 euro divided to share scheme mentioned above.

On October 15, 2013, Eurobank – Ergasias Bank S.A. and New TT Hellenic Postbank S.A., signed a Draft Merger Agreement. This draft was subject to the publicity formalities of article 7b of Constitutional Law 2190/1920, as in force, with its registration in the General Commercial Registry and the publication of the relevant announcements in the Government Gazette.

The main terms of the Draft Merger Agreement which was made in accordance with the article 70 of the Constitutional Law 2190/1920, were the following:

1. The merger of the two banks will be effected with the absorption of New TT Hellenic Postbank S.A. by Eurobank – Ergasias Bank S.A., in accordance with the provisions of article 16 of Law 2515/1997 and articles 69 and following of Constitutional Law 2190/1920 and, in particular, of article 78 of Constitutional Law 2190/1920, since Eurobank – Ergasias Bank S.A. owned all of the shares of New TT Hellenic Postbank S.A..
2. The merger would be effected by consolidating the assets and liabilities of the two merging banks, on the basis of the merger balance sheets of each bank as at June 30, 2013. The above

assets and liabilities would be transferred to the balance sheet of Eurobank – Ergasias Bank S.A. at the completion of the merger.

3. The merger should be completed with the registration of the approving decision of the Ministry of Development and Competitiveness in the relevant Registry, at which time New TT Hellenic Postbank S.A. will be dissolved without liquidation, while Eurobank – Ergasias Bank S.A. will substitute New TT Hellenic Postbank S.A., in all of its rights and obligations, including any administrative permits issued on behalf of New TT Hellenic Postbank S.A., thus acting as a universal successor of the latter. The activities of New TT Hellenic Postbank S.A. carried out from July 1st 2013 to the completion of the merger should be regarded, from an accounting point of view, as effected on behalf of Eurobank – Ergasias Bank S.A. and the corresponding amounts should be transferred to the accounting records of the latter with a single journal entry, at the completion of the merger. The financial results of New TT Hellenic Postbank S.A., which will arise from July 1st 2013 until the completion of the merger, would be considered as financial results of Eurobank – Ergasias Bank S.A..
4. Since all the shares of New TT Hellenic Postbank S.A. are owned by Eurobank – Ergasias Bank S.A., the share capital of Eurobank – Ergasias Bank S.A. should not increase as a result of the merger (since the shareholding rights of the latter in New TT Hellenic Postbank S.A. would be extinguished due to confusion) and no new shares would be issued. Consequently, in this merger there was not any issue of exchanging of shares. Following the merger, Eurobank – Ergasias Bank S.A. share capital would still amount to €2.590.875.059,50, divided into 5.814.666.865 shares, of which a) 5.469.166.865 common shares with voting rights, of a nominal value of 0,30€ each and b) 345.500.000 paper-based and redeemable preferred shares, without voting rights, of nominal value of 2,75€ each.
5. There were no special rights under the merger, or under the Articles of Association, or otherwise, for members of the Board of Directors and the statutory auditors of the merging banks, with the following exception: Members of the Board and part of Eurobank – Ergasias Bank S.A. and its affiliates' staff had options to purchase ordinary shares of Eurobank – Ergasias Bank S.A. (Stock Options), under a related program approved by a decision of the General Meeting of Eurobank – Ergasias Bank S.A. (of 17.4.2006 and 21.11.2007), which they were entitled to exercise (in whole or in part) within the years 2013 up to 2014 with an exercise price between 9,80€ and 13,62€ per share, as appropriate.

On October 21, 2013, all publicity formalities of the Draft Merger Agreement were completed, according to which absorbed New TT Hellenic Postbank, whose shares were 100% owned by the acquiring Eurobank – Ergasias Bank S.A..

On December 27, 2013, the legal merger by absorption of the New TT Hellenic Postbank S.A. by Eurobank – Ergasias Bank S.A. completed, following the registration of the relevant approving decision by the Ministry of Development and Competitiveness into the General Commercial Registry. Eurobank – Ergasias Bank S.A. maintains the New TT Hellenic Postbank S.A. branch network as a distinct network under the brand name New TT Hellenic Postbank S.A., respecting its clientele and the Institution's long established history, which is strongly interrelated to the idea of "Savings" in Greece. Or, to put it in a more emphatic frame, trying to embrace the principle of "One Bank-Two Brands", Eurobank – Ergasias Bank S.A. developed a detailed integration plan for New TT Hellenic Postbank S.A., aiming to exploit its competitive advantages while fully respecting its long and strong tradition. This resulted in having branch network of New TT Hellenic Postbank S.A. remain autonomous and continue to serve its clients under the same brand name that is synonymous with savings in the public mind in Greece.

The operational integration has been completed in April 2014.

Balance sheet of Eurobank – Ergasias Bank S.A.as at 31-12-2013
(According to International Financial Reporting Standards)
(All the amounts are rounded to millions)

in Euros

	31-Dec-2013	31-Dec-2012
ASSETS		
Cash and balances with Central Banks	651.000.000,00	844.000.000,00
Loans and advances to banks	8.098.000.000,00	13.307.000.000,00
Financial instruments at fair value through profit and loss	62.000.000,00	92.000.000,00
Derivative financial instruments	1.260.000.000,00	1.913.000.000,00
Loans and advances to customers	37.468.000.000,00	33.434.000.000,00
Investment securities	15.008.000.000,00	4.445.000.000,00
Investments in subsidiaries	2.907.000.000,00	3.025.000.000,00
Investments in associates and joint ventures	6.000.000,00	6.000.000,00
Property, plant and equipment	314.000.000,00	217.000.000,00
Investment property	57.000.000,00	68.000.000,00
Intangible assets	71.000.000,00	69.000.000,00
Deferred tax asset	3.024.000.000,00	2.037.000.000,00
Other assets	1.743.000.000,00	1.351.000.000,00
Total Assets	**70.669.000.000,00**	**60.808.000.000,00**
LIABILITIES		
Due to Central Banks	16.887.000.000,00	29.016.000.000,00
Due to other banks	12.196.000.000,00	4.703.000.000,00
Derivative financial instruments	1.554.000.000,00	2.688.000.000,00
Due to customers	33.952.000.000,00	23.366.000.000,00
Debt issued and other borrowed funds	1.461.000.000,00	1.763.000.000,00
Other liabilities	617.000.000,00	569.000.000,00
Total Liabilities	**66.667.000.000,00**	**62.105.000.000,00**
EQUITY		
Ordinary share capital	1.641.000.000,00	1.228.000.000,00
Preference shares	950.000.000,00	950.000.000,00
Share premium	6.669.000.000,00	1.448.000.000,00
Other reserves	(5.656.000.000,00)	(5.611.000.000,00)
Total Equity attributable to shareholders of Bank	**3.604.000.000,00**	**(1.985.000.000,00)**

Hybrid capital	398.000.000,00	398.000.000,00
Total Equity	**4.002.000.000,00**	**(1.297.000.000,00)**
Total Equity and Liabilities	**70.669.000.000,00**	**60.808.000.000,00**

Source: Eurobank – Ergasias Bank S.A.

Income Statement of Eurobank – Ergasias Bank S.A.as at 31-12-2013
(According to International Financial Reporting Standards)
(All the amounts are rounded to millions)

in Euros

	31-Dec-2013	31-Dec-2012
Interest income	2.119.000.000,00	3.308.000.000,00
Interest expense	(1.396.000.000,00)	(2.465.000.000,00)
Net interest income	723.000.000,00	843.000.000,00
Banking fee and commission income	215.000.000,00	252.000.000,00
Banking fee and commission expense	(130.000.000,00)	(152.000.000,00)
Net banking fee and commission income	85.000.000,00	100.000.000,00
Income from non banking services	7.000.000,00	4.000.000,00
Dividend income	3.000.000,00	19.000.000,00
Net trading income	(1.000.000,00)	62.000.000,00
Gains less losses from investment securities	18.000.000,00	71.000.000,00
Net other operating income	(39.000.000,00)	(3.000.000,00)
Operating income	**796.000.000,00**	**1.096.000.000,00**
Operating expenses	(674.000,00)	(636.000,00)
Profit from operations before impairments and non recurring losses	**122.000.000,00**	**460.000.000,00**
Impairment losses on loans and advances	(1.587.000.000,00)	(1.355.000.000,00)
Impairment and other losses on Greek sovereign exposure	65.000.000,00	(363.000.000,00)
Impairment losses on shares in subsidiary undertakings and joint ventures	(196.000.000,00)	(42.000.000,00)
Other impairment losses	(74.000.000,00)	(308.000.000,00)
Restructuring costs and other non recurring losses	(246.000.000,00)	(12.000.000,00)
Profit/(loss) before tax	**(1.916.000.000,00)**	**(1.620.000.000,00)**
Income tax	463.000.000,00	314.000.000,00

Non recurring tax adjustments	445.000.000,00	-
Profit/(loss) for the year from continuing operations	**(1.008.000.000,00)**	**(1.306.000.000,00)**
Profit/(loss) for the year from discontinued operations	1.000.000,00	(62.000.000,00)
Net profit/(loss) for the year attributable to shareholders	**(1.007.000.000,00)**	**(1.368.000.000,00)**

5. STRATEGIC FINANCIAL ANALYSIS

The value of this merger might be misleading at first glance, since we see that Hellenic Financial Stability Fund contributed to share capital increase of Eurobank – Ergasias Bank S.A. the whole share capital of New TT Hellenic Postbank S.A. that owned. The value of the share capital of New TT Hellenic Postbank S.A. was valued at 500.000.000,00 euro in the transformation balance sheet but the share capital increase of Eurobank – Ergasias Bank S.A. was only 425.625.000,00 euro. This might lead us to believe that Eurobank – Ergasias Bank S.A. was benefited with 74.375.000,00 euro, but if we look further we will discover that Total Equity of New TT Hellenic Postbank S.A. is not equal to its share capital of 500.000.000,00 euro but 441.007.750,56 euro since there are both reserves and losses that need to be included in the computation.

The major part of our analysis is the analysis of the key ratios in the Ratio Compass used by Mc Namee (2010) which is mentioned as PALL from the four categories of ratios that analysed. P stands for Profitability, A for Activity, L for Liquidity and L for Leverage. From profitability ratios we will examine, the most well-known one, Return on Capital Employed, Return on Equity, Return on Assets and P/E ratio. Then, from the category of activity ratios we will deal with Asset Turnover and Working Capital Turnover ratios which are the most representative ones. From the liquidity ratios we will use Current ratio and Liquidity or Acid Test ratio and, finally, from leverage ratios we will analyse Debt to Assets, Debt to Equity and Financial Leverage ratios. All of the ratios used are, to our opinion, the most representative ratios for a strategic financial analysis.

- Profitability Ratios

  Return on Capital Employed = $\frac{Net\ Income}{Capital\ Employed}$

  Return on Equity = $\frac{Net\ Income}{Shareholders' Equity}$

  Return on Assets = $\frac{Net\ Income}{Total\ Assets}$

  P/E = $\frac{Market\ Price\ per\ share}{Earnings\ per\ share}$

- Activity Ratios

  Asset Turnover[1] = $\frac{Net\ Sales}{Total\ Assets}$

  Working Capital Turnover[2] = $\frac{Net\ Sales}{Average\ Current\ Assets - Average\ Current\ Liabilities}$

[1] Instead of the term Net Sales in banking sector we use the term Operating Income.
[2] For the computation of Average Current Asset/Liabilities we take [(Current Assets/Liabilities of current year + Current Assets/Liabilities of previous year) ÷ 2]

- Liquidity Ratios

  Current ratio[3] = $\frac{Current\ Assets}{Current\ Liabilities}$

  Liquidity or Acid Test ratio[4] = $\frac{Current\ Assets - Inventory}{Current\ Liabilities}$

- Leverage Ratios

  Debt to Assets = $\frac{Total\ Debt}{Total\ Assets}$

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

  Financial Leverage = $\frac{Total\ Assets}{Equity}$

Table 1 – Computation of PALL ratios

Ratio	TT Hellenic Postbank S.A. 31-12-2012	Eurobank – Ergasias Bank S.A. 31-12-2012	New TT Hellenic Postbank S.A. 30-06-2013[5]	Eurobank – Ergasias Bank S.A. 30-06-2013	Eurobank – Ergasias Bank S.A. 31-12-2013
Return on Capital Employed	0,133	1,055	N/A	0,011	-0,252
Return on Equity	0,133	0,689	N/A	0,012	-0,279
Return on Assets	-0,037	-0,022	N/A	0,001	-0,014
P/E	-0,001	-0,214	N/A	47,561	-1,536
Asset Turnover	0,009	0,018	N/A	0,005	0,011
Working Capital Turnover	-0,024	-1,063	N/A	0,239	0,834
Current Ratio	0,745	0,973	1,002	1,074	1,053
Liquidity Ratio	0,745	0,973	1,002	1,074	1,053
Debt to Assets	1,277	1,021	0,968	0,926	0,943
Debt to Equity	-4,612	-47,884	29,854	12,467	16,658
Financial Leverage	-3,612	-46,884	30,854	13,467	17,658

The results for the year 2013 are after the merger of Eurobank – Ergasias Bank S.A. with New TT Hellenic Postbank S.A. and New Proton Bank S.A.

[3] In the computation of Current Assets we include Cash and balances with central banks, Loans and advances to banks, Commercial portfolio and Financial instruments at fair value through profit and loss, Derivative financial instruments, Loans and advances to customers, Investments securities, Investments for trading, Debt securities, Advanced income tax, Deferred tax assets and Other assets.
[4] This ratio equates Current Ratio since there is no Inventory in companies operating in banking sector.
[5] TT Hellenic Postbank S.A. publicize only its Transformation Balance Sheet for the period ended 30-06-2013 so that we have no data regarding its Income Statement in order to compute the ratios required.

As we have seen above New TT Hellenic Postbank S.A. was established at January 2013 from the separation of the dissolved TT Hellenic Postbank into "good" and "bad" bank. This has as a result to get the data from the TT Hellenic Postbank which had been dissolved for the year ended 31-12-2012, and for the New TT Hellenic Postbank S.A. since 2013 was its first fiscal year.

To start with R.O.C.E., we should emphasize to what it depicts starting form the ability of a company to create profits and the successful way in which its management uses its Equity and Borrowing. From the data of the table above, we can see that the figure of R.O.C.E. for both TT Hellenic Postbank S.A. and Eurobank – Ergasias Bank S.A. for the year 2012 might be misleading since we have a positive figure of 0,133 and 1,055 respectively which turn to a negative -0,252 at the end of the year 2013. This positive sign in 2012 is an after-effect of the division of two negative numbers, of Net Income and of Capital Employed. In year 2012, Eurobank – Ergasias Bank S.A. had Net Income of -1.368 million euros and Capital Employed of -1.297 million euro while the corresponding figures for TT Hellenic Postbank S.A. were -432 million euros and -3.255 million euro respectively. The negative Capital Employed means that Current Liabilities of both banks exceed their Total Assets and that Equity is also on negative grounds while negative Net Income means that both banks runs on losses. In the middle of 2013, on merger time, Eurobank – Ergasias Bank S.A. turns its figures having positive Net Income of 51 million euro and positive Capital Employed of 4.480 million euro which might be due to the contribution of the Hellenic Financial Stability Fund that helped the four systemic banks during 2013 in order to overcome crisis or some window dressing since at the end of 2013 the bank maintain its positive Capital Employed at 4.002 million euro but its Net Income turns again negative at -1.007 million euro despite the fact that it acquired New TT Hellenic Postbank S.A. in a beneficial merger.

The R.O.E. ratio represents the return that the management has earned for the shareholders funds being invested, giving us how efficiently the Equity is used. Additionally, this return should be relative to the business risk undertaken. The higher the ratio is the better for the shareholders. Here, R.O.E. has the same behaviour with R.O.C.E. above since at the end of 2012 both banks had negative Shareholder's Equity of -3.255 and -1.985 million euro respectively which helped the ratio to be on positive sign since they also had negative Net Income as shown above. For the year 2012, we can see that R.O.E. equals R.O.C.E. for TT Hellenic Postbank S.A. due to negative Equity that equals the difference of Assets minus Liabilities while for Eurobank – Ergasias Bank S.A. there is a significant difference between these two ratios which is an outcome of the Hybrid Capital of 398 million euro that is included in Total Equity but not in Equity attributable to the Shareholders. During 2013 the Shareholder's Equity turned in positive sign where remained until the end of the year which might be due to the contribution of Hellenic Financial Stability Fund as mentioned above. The merger with New TT Hellenic Postbank S.A. and New Proton Bank S.A. helped much in that as shown in the variations depicted in Financial Statements during 2013.

The R.O.A. ratio depicts the returns of the company's Assets used to generate these profits and usually used to assess management's performance. In our case, this ratio has fluctuation from negative for both banks, at the end of 2012, to positive in the middle of 2013 for Eurobank – Ergasias Bank S.A. and to negative again at the end of the year that can be explained by the fact that the results publicized in the middle of 2013 were the only ones having positive Net Income, something that has been discussed above. The Assets had an increasing trend due to the mergers occurred. The ratio has been reduced from -0,022 in 2012 to -0,014 in 2013 since negative Net Income had been reduced from -1.368 million euro to -1.007 million euro with the coeval increase of Total Assets from 60.808 million euro to 70.669 million euro because of the mergers occurred, something that helped the ratio to be alleviated by almost one percent but still being far from the required.

In the P/E ratio analysis we can decode the expectation that the investors have from a company. Usually, the higher the P/E the higher the expectations for the company's growth, that will lead in higher profits. High P/E is not only outcome of high share price but also outcome of low earnings, something that might lead us in wrong expectations. Here, there is a significant variation from -0,214 in 2012, to 47,561 in mid 2013 and to -1,536 at the end of the year for Eurobank – Ergasias Bank S.A. while for TT Hellenic Postbank S.A. this ratio is at a very low point of -0,001 for 2012 that reveals not

any material prospect for its future. This can be explained by the fact that in mid 2013 was the period of the merger between the two banks where there were positive prospects that resulted both in positive Earnings per Share figure and in a quite attractive share price which was declining from the end of 2012 till to May 2013 where it had an increasing trend for a few weeks before starting to decline again.

The Asset Turnover ratio is used to examine the degree of the efficient use of the company's Assets in order to generate sales. The higher its figure is the more intensive use of the Assets. When it is low, it indicates that the company's Assets are not used efficiently to generate sales something that has an impact on its management which might be seen as inadequate using great amount of Assets to produce so little sales. Additionally, when the ratio is at a low point, it also means that the company should use its Assets in a more intensive way or to sell some of them since not needed. The optimum range for this ratio depends on the market in which the company operates and is usually greater than 1. Here this ratio is far from this point for both banks and especially for Eurobank – Ergasias Bank S.A. had a significant fall from the end of 2012 to the mid 2013, from 0,018 to 0,005, caused be the material decrease of Operating Income from 1.096 million euro to 297 million euro. This had been alleviated at the end of the year but the ratio was still at a lower level than it was in 2012 since there was a simultaneous increase in Total Assets from 60.808 million euro to 70.669 million euro due to the mergers.

Working Capital Turnover ratio depicts the relation between Sales and Working Capital, a really strong relation since when Sales are increased the company needs more Working Capital in order to be able to provide better credit terms to its customers. The higher the ratio, the more effective the company is because it is able to generate more profits out of its increased sales. A very high Working Capital Turnover ratio might be a sign of a likely shortage of Working Capital or of poor Receivables Turnover ratio while, from the other side, a low ratio might indicate excessive Working Capital used or a poor Debtor's Days ratio. If the ratio equals to 1, the company spends what it earns in sales to recoup its production costs, neither losing money nor being profitable. If the ratio is less than 1, the company is spending more money on producing than on recouping by selling them or, to put it in other words, the company is suffering losses. Unless the company's ratio increases, losses will be accumulated, leading the company into a progressively negative financial situation. Persisting declining ratio is signalling for deeper problems. In our case, Working Capital Turnover for Eurobank – Ergasias Bank S.A. had, in contrast, an increasing trend since it started from -1,063 in 2012, increased to 0,239 in the mid 2013 and reached 0,834 at the end of the year. The negative figure depicted in 2012 for both bank was a result of the fact that Average Current Liabilities exceeded Average Current Assets.

Current and Liquidity ratios have the same figures since there in no inventory in banks as there is in other commercial companies. This ratio depicts the relationship between the Assets and the Liabilities of the company and how many times the Assets can cover the Liabilities in case of liquidation. The ratio, here, has a slight increase from 2012 to 2013 and seems to have no significant influence from this merger since both banks have minor difference in this ratio, the improvement of the ratio started before this merger and it might be the outcome of the previous merger with New Proton Bank S.A.. In this case it seems that the Assets of both banks cannot cover their Liabilities in 2012, as they are 0,745 for TT Hellenic Postbank S.A. and 0,973 for Eurobank – Ergasias Bank S.A., something that occurs later, during 2013, after the mergers. The acceptable values of this ratio vary depending on the business sector that each business operates, but the generally accepted values for healthy firms to inter-operational level is between 1,5 and 3, while banks, according to Cartney (2011), feel satisfied when this indicator takes values greater than 2, that means that when a company's ratio is within the acceptable context then this business is financial healthy in the short term.

Examining the final set of ratios, leverage ratios, we will start from Debt to Assets ratio where we can see that this ratio indicates the percentage of the Assets acquired through Debt. This means that the higher the ratio is the greater risk associated with the operation of the company. Furthermore, high ratio may imply low borrowing capacity that might lead in lower financial flexibility. Here, the ratio starts with a figure that slightly exceeds 1 for Eurobank – Ergasias Bank S.A. and a much higher

figure for TT Hellenic Postbank S.A. in year 2012 that means that Total Debt is greater than Total Assets which in turn leads us to find out that the Equity is on negative grounds for the year, or, in other words, that the Liabilities equal 102,1% and 127,7% respectively of the banks' Assets. This ratio had a decreasing trend for Eurobank – Ergasias Bank S.A. that was influenced by the merger presenting a minor increase from mid to end of 2013 due to the figure of New TT Hellenic Postbank S.A. that was really high despite the fact that it was a newly founded bank.

The second ratio of this set is Debt to Equity ratio where it is depicted the relative proportion of shareholders' equity and debt used to finance each company's assets or, in other words, the percentage of the Equity that Liabilities represent. A high ratio generally means that the company had an aggressive stance, financing its growth with debt and that the company could potentially generate more earnings through that. Capital-intensive industries tend to have a ratio above 2. In this case, we can descry that both banks start from negative percentages in 2012 since they both have negative Equity figures in the year. Then, both banks turn their figures to a positive sign where New TT Hellenic Postbank S.A. had more than the double of the figure Eurobank – Ergasias Bank S.A. had in the mid 2013. This might have affected the figure that Eurobank – Ergasias Bank S.A. had at the end of 2013, where we can see that its Total Liabilities equal 1.665,80% of its Equity from 1.246,70% in mid 2013.

Finally, the third ratio, Financial Leverage, depicts the percentage of the Debt that finances the Assets of the company. As it is generally accepted, every Asset should be financed either by Equity or by Debt. The higher the value of the ratio is the higher the percentage of the Assets financed by Debt. A relatively high ratio may indicate the company has undertaken substantial debt to remain its business. Furthermore, a high ratio can also point to a company that is trading on the equity, or, in other words, there is a high ratio because the return on borrowed capital exceeds the cost of own capital. It is worth mentioning that there is no ideal value for this ratio and that every value below 1 is regarded as negative. In the case examined, we can conclude that both banks operate in high level of leverage since for every euro of Equity spent for the acquisition of Assets there is a multiple amount of Debt spent. In year 2012, both banks had negative figures because of negative Equity that means for every -1 euro of Equity spent on the acquisition of Assets for Eurobank – Ergasias Bank S.A. there were 46,88 euro of Debt spent while for TT Hellenic Postbank S.A. the amount was only 3,61 euro. In mid 2013, figures for both banks were positive with New TT Hellenic Postbank S.A. having a Financial Leverage ratio that was more than the double of that of Eurobank – Ergasias Bank S.A. where for every 1 euro of Equity spent on Assets there were 30,85 euro of Debt spent respectively. This is something that might have influenced the figure of Eurobank – Ergasias Bank S.A. at the end of 2013, after merger took place, where its figure increased from 13,467 to 17,658 or, in other words, the percentage of the bank's Assets financed with Equity decreased from 7,43% to 5,66%.

6. CONCLUSIONS AND SUGGESTIONS

According to results above, we conclude that the merger between New TT Hellenic Postbank S.A. and Eurobank – Ergasias Bank S.A. was of benefit to for the acquirer since it acquired a bank at almost half price according to the independent Certified Auditor's Report since the total value of the shares of New TT Hellenic Postbank S.A. amounted between 687 and 717 million euro while the capital increase occurred due to the merger was of 425 million euro. In that price Eurobank – Ergasias Bank S.A. acquired a bank that might have the best branch network of Greece, with presence in most of the cities, and great history records regarding Savings. Its history was the main reason that management of Eurobank – Ergasias Bank S.A. decided to embrace the principle of "One Bank-Two Brands", maintaining the New TT Hellenic Postbank S.A. branch network as a distinct network under the brand name New TT Hellenic Postbank S.A., since a possible change in its name might have led customers to massive withdrawals due to loss of trustworthiness with which this name is strongly related.

Despite the fact that Eurobank – Ergasias Bank S.A. was benefited from this merger, the results of our analysis gave a picture that has no significant effect on its indices except in the case of Debt to Equity and Financial Leverage ratios where the ratios of Eurobank – Ergasias Bank S.A. had an increase by

almost 4 units from mid to end of 2013 which can be regarded as an improvement according to DeAngelo & Stulz (2013), who demonstrate that high leverage is an essential, uniquely optimal feature of bank capital structures when liquidity is priced at a premium due to demand for assured access to capital, which nonetheless is regarded as very risky to our point of view for a bank operating in the Greek banking sector which is plagued by the crisis where non-served loans look as an iceberg in the ocean, increasing its exposure to risk. This can also be corroborated by Debt to Equity ratio that depicts a company having 94,34% of its Assets acquired with Debt, a figure slightly better from 2012 to 2013 which was slightly affected by the merger but it is still really high.

From what we have seen above, we can assume that the capital injections from Hellenic Financial Stability Fund to Eurobank – Ergasias Bank S.A. did not alleviate the bad situation in which it is since its basic liquidity ratio, Current Ratio, indicates that in a likely liquidation its Assets almost equal its Liabilities while it should equal 2 or more according to Cartney (2011) in order to be financial healthy in the short term. The R.O.A. ratio, from the other side, classifies Eurobank – Ergasias Bank S.A. in "weak" banks, according to Golin (2001), since for every price below 0,5% the bank is regarded as "weak" while for the year 2013 this ratio had negative value of approximately -1,43%.

Continuing with R.O.C.E. ratio we can find that the return the bank has regarding the employed capital is about -25,16% that makes it difficult to an investor to place his/her investment on while the positive figures appeared of mid 2013 and of end 2012 are not of significance since in mid 2013 the return was of approximately 1,14% and at the end of 2012 about 105,47% which can be regarded as misleading since the bank operated both in losses and on negative capital employed.

The ratio having significant change was Working Capital Turnover that had an increase by 349,44%, from 0,239 to 0,834, but it still remains in unacceptable range since, as we have already seen above, if the ratio is less than 1, the company is spending more on producing than on earning through selling, that lead it suffering losses. If it is seen from the view of an investor who has invested money in the company, it can be regarded as a critical point leading him/her to change investment strategy.

Finally, the extreme figure depicted in mid 2013 P/E ratio depicted the high prospects the market had from this merger that, as it is concluded from the negative price at the end of 2013, were fallen apart since share price reduced by almost one third and profits turned back to losses.

As it seen, the small size of New TT Hellenic Postbank S.A. was not able to help Eurobank – Ergasias Bank S.A. to ameliorate its indices despite the fact it was acquired at almost half price. This leads us start thinking that it might be better if there were mergers of big banks that will help them to revert to profitability helping simultaneously their indices to become meliorated.

Generally, the whole banking sector had dispiriting results because of the crisis of the last 3 years and, despite the fact that most of the banks were helped by Hellenic Financial Stability Fund through capital injections, most banks face serious issues regarding their viability. Creating four systemic banks was the initial movement, to our opinion this should be continued so that to have less and stronger banks needing not governmental intervention. This, put us in front of a dilemma regarding the persistence of the Greek Government to continue providing funds helping banks that seem to have an uncertain future and the likelihood of letting the market to decide which ones could overcome the crisis and revert to profitability and which ones to go into liquidation.

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