MERGERS AND ACQUISITIONS IN THE PORTUGUESE BANKING INDUSTRY: IS IT THERE A PROCESS OF VALUE CREATION?

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ABSTRACT
This paper examines the valuation effects of mergers & acquisitions in the Portuguese banking industry from 1995 to 2003 over a 41-day (-20, +20) event window. Evidence shows some targets gains, but no gains for the bidders. The combined entity (target+bidder) shows no significant gains contradicting some other European studies but confirming the great majority of American research.

Keywords: mergers and acquisitions (M&A), bidder, target, event window, shareholder value, abnormal returns.

1. INTRODUCTION

This paper examines the mergers and acquisitions business related to the Portuguese banking industry occurred during the period from 1995 to 2005. This study was motivated by the increment of the number of operations occurred during the last years, boosted by the deregulation of the banking industry in Portugal, by the high amounts involved in the transactions and by the unknown of the effects of the operations in terms of value creation or value destruction.

The acquisitions in the Portuguese banking industry began as soon as the first revision of the Constitution allowed the entrance of the private sector in the banking industry and with the supervening process of privatization of part of the banking and the insurance sectors. This last sector has also an important role in the process of acquisitions in the banking industry and in the reconstruction or creation of new *national banking groups*.

Some insurance companies, after being privatized assumed an important dynamic role in the banking market, taking part in the auctions of privatization of several banks. The two most important cases are those of the company Mundial-Confiança that led the Champalimaud group and the insurance company Império that has led during some significant period of time the financial group Mello.

The process of creation and reinforce of financial groups occurred also between State owned institutions, some of which have been later privatized. The more important State owned group is the Caixa Geral de Depósitos one, which has been formed by decision of the common owner, the State, throughout the merger of the banks Caixa Geral de Depósitos and Banco Nacional Ultramarino with the insurance company Companhia de Seguros Fidelidade. This group that, in the meantime, has grown by the acquisitions of other financial institutions, today, still remains owned by the State.

The allowance of the entrance of private capitals into the banking industry also made possible the born of new banks and its supervening development. These new private banks were able to take part in the process of privatization of the state owned insurance companies and banks, to boost the capital market and to become the new larger private financial groups. The most important case is that of the Banco Comercial Português that, supported by a dynamic internal growing and an ambitious politic of mergers and acquisitions, was able to become, in a short time period, the largest Portuguese private banking group and one of the largest of the Country.

The proceeding of mergers and acquisitions was used as an instrument of fast growing by some of the banking companies. This growing improvement had as guide lines the new concept of the *universal bank* that, also in Portugal, replaced the traditional concepts of commercial and investment banks and incorporate the insurance activity, in the past, spared apart from the banking activity. This mechanism has largely been powered by the new European rules of the financial activity. The free circulation of capitals applied to the Portuguese economic area, enforced by the adhesion to the European Community and the harmonization of the national law with the communitarian one, in particularly that concerned to the new rules of accessing the European banking market, removed the protector shield of the banking boarder barriers. The potential (or real) threat of the banking institutions coming from other countries let the Portuguese banks under de dilemma of growing or being

absorbed by the foreign competitors. At the same time, the deregulation and the liberalization, introduced by the new European rules, made easier the mergers and acquisitions process (M&A).

In the span of 1995 - 2003, occurred several mergers and acquisitions businesses which deeply changed the Portuguese banking industry, some of them throughout particular arrangements without direct reflex over the values of the stock market, because none of them were listed in the market. However, 30 businesses of mergers and acquisitions, which had directly or indirectly expression in the stock market, were identified in the Portuguese banking industry, and are listed in the annexed table. These businesses boosted the growing of the book value of the main Portuguese banks expressed by high levels of growing. As an example we may refer, that between 1995 and 2002 (table I) the *Caixa Central de Crédito Agrícola Mútuo (CCAM) recorded the lowest margin of growing while the bank Montepio Geral (MPG) recorded the highest (355%)*

Table 1 – Growing of the Banks

	Assets Growing Ratio	Capital Growing Ratio
CGD	93,51%	63,73%
BCP	141,44%	325,27%
BES	232,67%	293,79%
TOTTA	287,87%	87,93%
BPI	270,62%	169,92%
MPG	355,39%	520,14%
CCAM	77,19%	186,66%
BANIF	257,18%	129,12%
BNC	461,60%	192,37%
BBVA	178,47%	79,00%
FINIBANCO	331,34%	60,38%
FINANCIA	116,40%	50,36%

Source: Consolidated banking accounts from 1995 to 2002.

Besides the score market preserving, Rose (2002) pointed out, as factors for justifying the occurring of mergers and acquisitions business in the banking industry, the quality of the management, the profitability and the operational efficiency. For Siems (1996) the reasons for justifying these business are the gains of synergies, diversification, enhancement of the market power and maximization of the benefits of the managers and the hubris, which leads the owners to believe that the target companies are undervalued in the market and that by its acquisition they would be able to enhance their wealth throughout the gain of the value accrued.

This study follows this last perspective, which means, to analyse the value creation for the shareholders affected by the business transactions resulting from mergers and acquisitions, in Portugal. The problem to be faced is the measuring of the gains obtained by the shareholders of the banks involved in the transactions in order to evaluate whose were, the buyers or the sellers, the beneficiaries of the business and, in other terms, verifying if there was net value creation or simply occurred a transfer of value.

With the aim of obtaining the proposed goals, the study, a part this one, was organized in four sections. In section 2 we consider a short review over empirical research about value creation by mergers and acquisitions in the banking industry. Section 3, provides an overview of the methodology of events study and presents the data set used in the study. Section 4 contains our empirical results. Finally, in the section 5 we analyze the main conclusions of the study.

2. MERGERS AND ACQUISITIONS: A REVIEW OF THE THEORICAL AND EMPIRICAL STUDIES RELATED TO THE BANKING INDUSTRY

According with Pilloff and Santomero (1998) the methodology of "events study" is, among those considered in the literature, the one that better allowed analysing the problem of value creation or destruction. This methodology is the only that allowed to measure, in a direct way, the impact of mergers and acquisitions in value creation or destruction for the stock holders. Essentially, the researches of events studies measure the stocks returns (based on price changes) of the acquiring banks (bidders) or of the acquired banks (targets) or both, by comparing with the portfolio of stocks representing the market (Rhoades, 1994).

Notwithstanding, the results of the more recent studies about the banking industry in the United States continue to be contradictories, however, they point out the conclusion that the mergers and acquisitions are not, by themselves, value creators for the stock holders as a whole. Pilloff and Santomero (1998) concluded that in average mergers and acquisitions do not created or destroyed value.

Only nearly a quarter of the events studies conducted in the last 20 years, concluded over the existence of positive results for the M&As, what points that the stockholders of the studied banks owned significant cumulated abnormal returns (Beitel and Schiereck, 2001). Studies like those conducted by Houston, James et al (2001), Becher (1999), Delong (2001) and Kwan and Eisenbeis (1994) concluded that the mergers and acquisitions created value for the stockholders. To test the effects of valuation of the Hubris hypothesis or “empire building” Becher (1999) examined a large sample of 558 mergers of banks. The results showed that mergers and acquisitions of banks created wealth in the period of 1980-1997. In the great majority of the cases of other studies the results are mixed or presented negative results.

Several authors report the identification of significant cumulative abnormal returns, in particularly in the acquiring banks, or observe different returns between the different sub-samples analysed, as for instance, the research made by Kane (2000), Toyne (1998), Pilloff (1996), Siems (1996) and Hudgins and Seifert (1996) only for referring the most recent.

If, in a general manner, the number of studies of mergers and acquisitions in the European banking industry has been small when compared with those available in the United States, so the literature produced concerning to the value creation for the stockholders, throughout the methodology of the "events study" has also been more insufficient.

Despite the European studies have concentrated it’s analyze over the business of mergers and acquisitions occurred into a same country, there are others that are already based on a trans-national perspective. Such is the case of the researches of Hudgins and Seifert (1996), Tourani-Rad and Van Beek (1999), Cybo-Ottone and Murgia (2000) and more recently those of Beitel and Schiereck (2001) and Beitel et al (2002). The results of these studies are as it happened in the United States quite different from one to another, and some times, contradictories. Cybo-Ottone and Murgia (2000) and Tourani-Rad and Van Beek (1999) concluded that exist positives results, meaning cumulated abnormal returns for the stockholders of the banks involved in mergers and acquisitions. In both studies the authors observe significant value creation for the stockholders of the acquired banks and do not confirm the existence of significant value destruction for the stockholders of the acquiring

banks. Cybo – Ottone and Murgia (2000) also have studied the combined entity (acquiring +acquired) and found that in an aggregated point of view, the M&As of the European banks have created a significant value.

Beitel and Schiereck (2001) analysed the mergers and acquisitions in Europe applying the methodology of *events study* to a sample of 98 business occurred among European banks in the time period from 1985 to 2000 and found similar results. According with them, the stockholders of the targets banks obtained significant cumulated abnormal returns, and the stockholders of the acquiring banks, on average, neither lost neither wan significantly. Besides, they refer that from the point of view of the resulting combined entity the M&As in Europe have created value in net terms. So they considered that mergers and acquisitions from the European banks, in average, have been successful.

Karserski et al (2000), analysed the mergers in Norway, and does not found such an optimist result. On their turn, Resti and Siciliano (2002) that studded the mergers and acquisitions in Italy, also concluded that there are some signals that indicate that the mergers has created value for the minority stockholders of the target banks. These authors found a premium of nearly 30% over the market price of the stocks before the acquisition. However, they were not able to conclude concerning to the acquiring banks.

The optimist results concerning the European mergers and acquisitions, obtained mainly by Cybo-Ottone and Murgia (2000), Tourani-Rad and Van Beek (1999) and Beitel and Schiereck (2001), contradict largely the empirical studies made in the United States. Schenk (2000) that has studded the mergers and acquisitions of the largest banks in a world scale, using the methodology of the events study *ex-ante and ex-post event, conclude however, that it is unlikely t*hat mergers between large banks and acquisitions of small banks by large banks could create economic wealth. On the contrary, he found that such business do not create positive returns for the stockholders.

3. INVESTIGATION METHODOLOGY AND SAMPLE

This study uses the standard methodology of the events study. For this approach it is used the market model according the approach of Dodd and Warner (1983) and Brown and Warner (1985). It is generally accepted that the market model expresses confident results and performed unless as good as the others (Mackinlay, 1997). The formula of the model is this:

$$R_{it} = \alpha_i + \beta_i R_{mt} + \varepsilon_{it} \qquad (3.1)$$

where, R_{it} represents the return by stock of the bank i, in day t; R_{mt} is the return of the ally stocks of the market in period t, represented by the market index, and ε_{it} is the error term of the stock i, on day t**,** with average $E(\varepsilon_{it}) = 0$ and $var(\varepsilon_{it}) = \sigma^2\varepsilon_{it}$. As "*proxy*" of the market return, R_{mt}**,** was used the Portuguese stock market index *PSI-20.*

The terms α_i and β_i, which are estimated by a regression using the ordinary least squares (OLS) during a window of L days before the analysis period of each business of merger or acquisition*, i.e., an estimation period of 245 stocks negotiation days,* are identified as $\hat{\alpha}_i$ e $\hat{\beta}_i$. These coefficient are later used to determinate the expected abnormal returns $\hat{R}_{it}$ as follows:

$$\hat{R}_{it} = \hat{\alpha}_{it} + \hat{\beta}_{it} R_{mt} \tag{3.2}$$

After, using the estimated parameters for each entity, $\hat{\alpha}_i$ and $\hat{\beta}_i$, are determined for the observation period t (event window) the abnormal returns (AR_{it}) of the stocks of each institution **i.** These values are obtained by subtraction of the expected return $\hat{R}_{it}$ to the stock return actually perceived.

$$AR_{it} = R_{it} - E(R_{it}) = R_{it} - \hat{R}_{it} \tag{3.3}$$

The time period of analysis is represented by a particular time interval T, that means, T = [-t1, + t2], where t=0 indicates the transaction announcing day, and -t1 is the number of days of negotiation of each stock before the announcing day and t2 the number of day after this day. So, each set of observations reflected during the period T, is the set of data related with the observation of each event″ *identified by the announcing day of the business .Errors of estimation*, PE_{it}, of the market model are the residual values of the ordinary least square (OLS), ε_{it}, which may be used as estimators of the abnormal returns, AR_{it},

$$PE_{it} = \varepsilon_{it} = R_{it} - \left(\hat{\alpha}_i + \hat{\beta}_i R_{mt}\right) \tag{3.4}$$

In other words, the abnormal returns are simply the residual terms of the market model estimated over a specific sample. Under the assumption that the returns of the assets are in all, normal, multivariate, independents and identically distributed (iid), the ordinary least squares (OLS) are efficient and are a consistent method for the market model parameters (Meschke, 2002).

As referred by Goergen and Renneboog (2002), for the option for the length of the time interval T = [-t1, +t2], it doesn't exists consensus in the literature and its dimension vary from study to study. For instance, Resti and Siciliano (2002) established an event window of [-120+250] days. Becher (1999) established two windows: one of [-30, +5] and another of [-5, +5]. Beitel and Schiereck (2001), despite having analysed other sub windows, they centred their research on a window of [-20, +20] days.

In this study, was also established a window of [-20; +20] days because was considered that it was the adequate for expressing the mergers and acquisitions in the Portuguese banking industry, in the period of analyse (1995-2003). Effectively, with a short time period of observation it would be possible to avoid or to reduce the potential cases of overlap of the event windows of the different mergers and acquisitions business, once, in many cases, principally in the year 2000, the gaps between the different events announcement were many times very short. So, the analysis time period of [-20, +20], of 41 days is centred on the announcing day of the business, i.e., the day t=0.

Obtained the abnormal returns of each event, are estimated the average abnormal returns according the next expression:

$$AAR_t = \overline{AR_t} = \frac{1}{n}\sum_{i=1}^{n} AR_{it} \tag{3.5}$$

where n = number of stocks analysed; t = time moment of analyse t∈T and AAR_t = average abnormal return for day t.

The analysis of the combined entity (resulting from the addition of the acquired and the acquiring banks) allowed analysing the business as a whole and measuring the net wealth creation (Becher, 1999). This procedure helps to verify if the wealth is only transferred from the stockholders of the acquiring banks to the stockholders of the acquired banks or, in fact, it is originated net wealth. The abnormal returns of the combined entity (target+bidder) are estimated by the following methodology established by Houston and Ryngaert (1994):

$$AR_t transation = \frac{ARtk * MVtk + ARtg * MVtg}{MVtk + MVtg} \tag{3.6}$$

where MVtk is the market value (of the stock) of the buyer (bidder) k on day t=-21 days before the announcing day and ARtg is the abnormal return of the acquired entity in the 41 days of the same period. The study of the significance of the business was established based on the "standardized abnormal return test" due to Patell (1976) and on the "standardized cross-sectional test" of Boehmer et al (1991).

The application of the tests of Patell and of Boehmer obliged to the estimation of the standardized abnormal returns (SARs) for both "targets" and "bidders" and the combined entities. The estimation of the SARs was obtained in accord with the following expression:

$$SAR_{it} = \frac{\hat{\varepsilon}^*_{it}}{s_{\hat{\varepsilon}^*_{it}}} \tag{3.7}$$

This estimation implied the computing of the abnormal returns over the estimation period (245 observations days) for each event. $\hat{\varepsilon}^*_{it}$, and the computing of the mean and the standard deviation of the abnormal returns of the estimation period $s_{\hat{\varepsilon}^*_{it}}$.

$$s^2_{\hat{\varepsilon}^*_{it}} = s^2_i \left(1 + \frac{1}{L} + \frac{\left(R_{mt} - \overline{R_m}\right)^2}{\sum_{\tau=1}^{L} \left(R_{m\tau} - \overline{R_m}\right)^2} \right) \tag{3.8}$$

Where * represents the variables of the "event window", and L is the number of observations of the estimation period

$$s_i^2 = \sum_{t=1}^{L} \frac{\hat{\varepsilon}^2_{it}}{L-2} \tag{3.9}$$

with

$$\overline{R}_m = \frac{1}{L} \sum_{t=1}^{L} R_{mt} \tag{3.10}$$

$$SAR_t transation = \frac{SARtk * MVtk + SARtg * MVtg}{MVtk + MVtg} \tag{3.11}$$

The standardized abnormal returns (SARs) of the combined entities were obtained through an expression similar to that one used for the ARs.

Obtained the standardized abnormal returns were also computed the cumulated standardized abnormal returns (SCARs) for the different event windows.

$$SCAR_{iL} = \sum_{t=1}^{L} \frac{\hat{\varepsilon}_{it}^{*}}{\sqrt{Ls_{\hat{\varepsilon}_t^{*}}^{2}}} \tag{3.12}$$

The average standardized cumulated abnormal returns (ASCARs ou SCAARs) are computed after the average standardized abnormal returns (ASARs) had been obtained. The formula used for computing the ASCARt was the following:

$$ASCAR_{T} = \sum_{t=k}^{t} ASAR_{i} \tag{3.13}$$

Where, k = number of days before the day of the "***event" t*** and the ASARs were computed according this expression:

$$ASAR_{t} = \overline{SAR_{t}} = \frac{1}{n}\sum_{i=1}^{n} SAR_{it} \tag{3.14}$$

3.1. <u>Configuration of the sample</u>

The business of mergers and acquisitions in the Portuguese banking industry considered in the sample of this event study are presented in the table 2, annexed. The fact of many financial institutions that have been part of the mergers and acquisitions business, weren't listed in the stock market do not allowed its analysis throughout this methodology (events study). Besides, in some business only was possible to verify the market performance of the acquiring (bidder) or the acquired entity (target).

This fact, restricted significantly the possibility of obtaining for the combined entities (acquiring + acquired) emerging from different business, a convenient analysis throughout this methodology. Only few times acquiring and acquired were simultaneously listed in the Portuguese stock market

The sample (see table 2, annexed) considers the next kind of business or events:

- Mergers and acquisitions between banks;
- Acquisitions of blocks of control throughout Takeovers Bids (OPAs) or private negotiations;
- Acquisitions of lots of stocks that reinforced the control of any financial institution by an other;
- Enforced Takeovers Bids (OPAs potestativas) that allowed the buyer to have the total control of a particular target.

As reference date of the event, was considered the day of preliminary announcement of the business published in the journal of the stock market. The acquisitions occurred through the process of privatisation (after 1st of

January of 1995) in the cases that the targets or the bidders were already listed in the stock market, are also included in the sample

They have been excluded from the analysis, events concerning to abroad joint ventures assumed by Portuguese banks and situations of reinforcement of these business, because they do not configure a typical acquisition. Also have been excluded some formal Takeovers Bids (and acquisitions of blocks of control occurred inside the same group, namely the BSCH/TOTTA and BCP/BPA ones, that take place after the business settled between the Champalimaud group and the Banco Santander Central Hispânico.

Finally, were excluded at start, acquiring businesses which, the exactly business announcement day, was not possible of identifying. The prices of the stocks of the institutions considered in this analysis were obtained from the DATIS base of Euronext Lisbon.

3.2. Hypotheses Tests

To test the significance of the abnormal returns and the cumulated abnormal returns, were used the "*standardized abnormal return test"* due to Patell (1976) and the "*standardized cross-sectional test*" due to Boehmer, Musumeci and Poulsen (1991). It was computed the mean of the abnormal returns and was tested if this mean was significantly different from zero. Hence, the Patell and the Bohemer tests were applied to the cumulated standardised abnormal returns which results are presented in tables 4 and 5 of the annex. They have been formulated the following hypotheses to be tested against the null hypothesis, for a sample with a total of 42 financial institutions, and yet for a more restrict set of combined entities (22).

A) "Targets":
- The standardized abnormal returns from the acquired institutions ("targets") are positives.
- The cumulated standardized abnormal returns from the acquired institutions ("targets") are positives.

B) "Bidders":
- The standardized abnormal returns from the acquiring institutions ("bidders") are positives.
- The cumulated standardized abnormal returns from the acquiring institutions ("bidders") are positives.

C) Set of all "targets" and "bidders" of the sample:
- The average standardized abnormal returns from the set of institutions of the sample are positives.
- The average cumulated standardized abnormal returns from the set of institutions of the sample are positives.

4. TEST OF THE EMPIRICAL RESULTS

Having considered the average of the standardized abnormal returns and of the cumulated abnormal returns for the total set of the sample and for the sub-sample of the combined entities, were obtained the results described in this section.

For the group of the acquired companies (targets) the abnormal standardized returns are significantly positive as the null hypotheses is rejected by the two tests, meaning, that the stockholders of the acquired companies, in average, got benefits from the business of M&As. This result is also confirmed by the results of the test of Boehmer for the cumulated standardized abnormal returns. But in this case, the Patell's test only reject the null hypothesis for a significance level of 10% (does not reject it for a 5% and 1% level of significance) These results

do not made invalid the possibility of conclude that, in fact, the stockholders of the acquired banks or those absorbed by the mergers obtained positive benefits (see tables 4 and 5 in the annex).

Concerning to the acquiring banks, it was also found that the tests confirm that these banks have got negative abnormal returns once both tests reject the null hypotheses. However, concerning de cumulated standardized abnormal returns, the Patell's test do not reject the null hypotheses, being, notwithstanding rejected by the Bohemer's test. Anyway, even here, it would be possible concluding that the acquiring banks stockholders faced significant lost, due to the business of mergers and acquisitions made (see table 4 and 5 annexed).

The graphic representation of the values of the two tests applied to the standardized abnormal returns, allows analysing the behaviour of the SARs in the observation time period and the confirmation of the results described in the predecessor paragraphs.

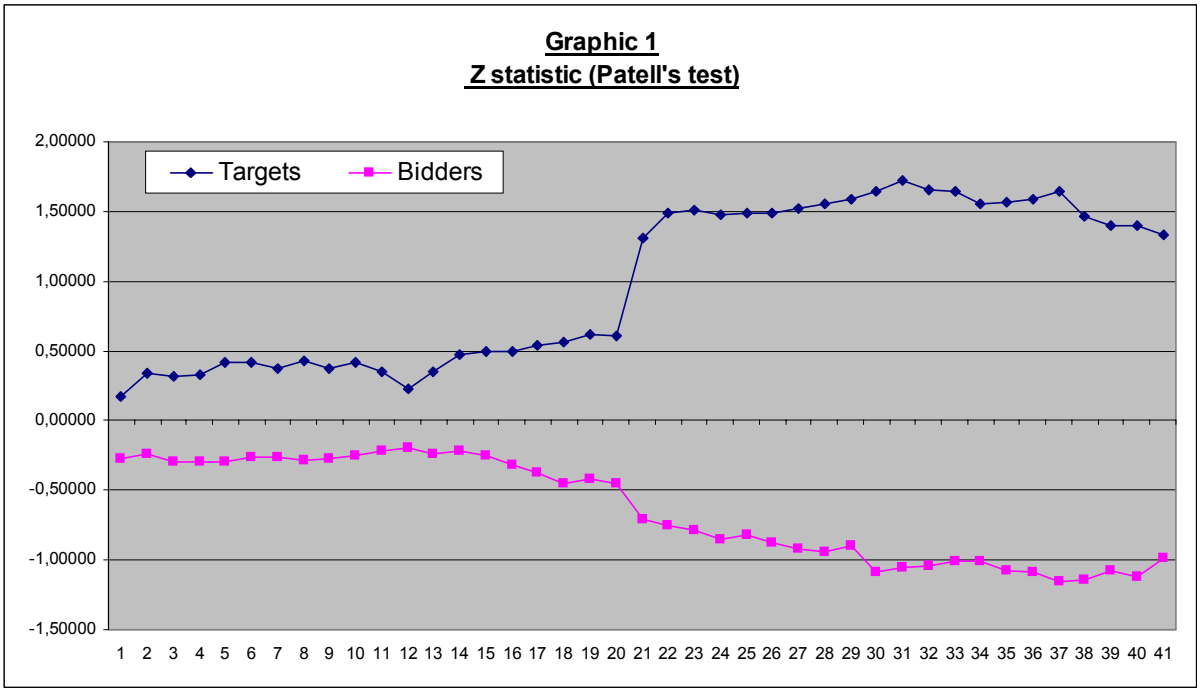
However, when analysed the results of the whole of the transactions, that means, all the set of banks of the sample, (22 bidders +20 targets) the conclusion is less evident. None of the tests rejects the null hypotheses, meaning that no one can conclude that the results of the whole of mergers and acquisitions transactions be significantly positive. The analysis of the tests of the combined entities confirms in general the obtained results for the total sample. In the case of the standardized abnormal returns the two tests do not reject the null hypotheses for the combined entity. Only in the case of the cumulated abnormal returns the Patell's test rejects the null hypothesis for a significance level of 10% (does not reject it for a level of significance of 1% and 5%) while the test of Boehmer do not reject the null hypotheses for the set of the combined entities.

So, it was possible concluding that, for the total sample and the set of combined entities, the standardized abnormal returns and the cumulated standardized abnormal returns point out that there are not being perceived significant benefits for the whole of the stockholders of the acquiring entities (bidders) and of the acquired (targets) considered as a whole. The gains of the stockholders of the acquired banks came from losses of the stockholders of the acquiring Financial Institutions.

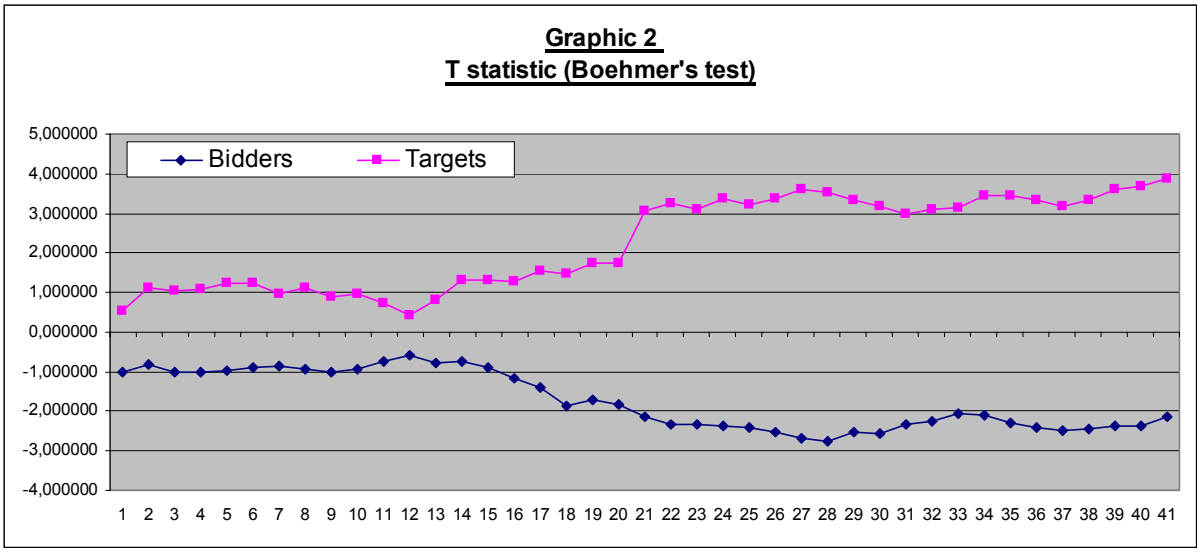
5. CONCLUSIONS

The Portuguese banking industry experimented in the last decade significant transformations. On one hand, occurred in the national sector a specific phenomenon, i.e. the privatization of the banking sector, the entrance of privates into the sector’s capital and the accruing of the listed financial institutions into the stock market. Statistic

Graphic 1
Z statistic (Patell's test)



Graphic 2
T statistic (Boehmer's test)



On the other hand, the Portuguese banking industry suffered the effects of financial transformation introduced in the European Community, due to the law harmonisation and deregulation and, in particular, the implementation of the economic and monetary union. Facing this environment it was important to understand if the controversial mechanism of mergers and acquisitions originate positive or negative results.

Using an approach of the events study it was possible to analyse the market performance of 20 acquired or absorbed financial institutions (targets) and of 22 acquiring institutions (bidders) that participated in mergers and acquisitions business in the Portuguese banking sector, between January of 1985 and September of 2003. However, only was possible to study the combined entity (acquiring and acquired) in a limited number of

business (10). This happened because one of the intervenient in the business was not listed in the Portuguese stock market or was excluded immediately after the business.

It was found that the stockholders of the acquiring institutions, as a whole, obtained significant average gains. So, the results of this research concerning the obtained gains for the stockholders of the acquiring banks are in accord with others researches made in Europe, namely, those of Tourani-Rad and Van Beek (1999), of Cybo-Ottone and Murgia (2000) and Beitel and Schiereck (2001) that found that the stockholders of the targets in average obtained significant gains.

However, under the point of view of acquiring financial institutions, the result founded seems to point that the buyers have null or negative results, contradicting the conclusions of the referred studies that reported some buyers' gains. Also, in the case of the combined entities, the results of this study are in contradiction with those of Cybo-Ottone and Murgia (2000) and Beitel and Schiereck (2001), because these authors concluded that from the point of view of the combined entity, in Europe, was found not a simple transfer of wealth from the acquiring bank to the acquired bank, but the creation of aggregated net value.

Thus, this means that mergers and acquisitions business, in average, in this study, do not added or diminished the wealth of the stockholders of the financial resulting institutions. The results of the data analysed in the present research are, however, in accordance with the conclusions of the American studies that majority found, that in average, mergers and acquisitions in the banking industry are not creating net wealth. This idea is clearly expressed by **Gayle L. DeLong (2001)** when she said that the process of mergers and acquisitions is a paradox because in generally they are not creators of value and even so they continued to occur.

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ANNEX

Table 2 - Event Study Sample

Year	Business Announcing day	Bank/Institution Acquiring	Bank/Institution Acquired	Type of Business	Acquired Capital
1995	10.01.1995	BCP(a) + Império (a)	Banco Português Atlântico(a)	Privatization/Takeover Bid	100 %
1995	28.03.1995	M. Confiança(a)	Banco Pinto & Sotto Mayor(b)	Privatization 2ªF /Auction	20 %
1995	26.04.1995	BPSM/MC (a)	Banco Totta & Açores(a)	Privatization /Auction	50 %
1996	2.07.1996	BANIF(a)	B. Comercial dos Açores (b)	Privatization 1ªF /Auction	56 %
1996	28.08.1996	BPI(a)	Banco Fomento Exterior (b)	Privatization/Takeover Bid	65 %
1997	31.07.1997	BCP(a)	Banco Português Atlântico(a)	Private business with Império	25 %
1997	7.02.1998	BPI(a)	Banco Universo (b)	Private business	50 %
1998	22.05.1998	Merger: Banco BPI(a)	BFE+BBI*BFB (b)	Mergero	100 %
1998	8.06.1998	BCP(a)	Banco Português Atlântico(a)	Private business with Império	20,69 %
1999	19.07.1999	BCP(a)	Banco Pinto & Sotto Mayor(a)	Takeover bid	46,95 %
1999	21.07.1999	BANIF(a)	Banco PRIMUS (b)	Private business	51%
1999	11.11.1999	BSCH (b)	Banco Totta & Açores(a)	Private business	94,68 %
2000	11.01.2000	BCP(a)	Banco Mello(a)	Merger Announcement Incorpor.	51%
2000	9.2.2000	BCP(a)	Banco Mello(a)	Takeover bid	49%
2000	9.2.2000	BCP(a)	Império(a)	Takeover bid	Total stocks not owned yet
2000	3.04.2000	BCP(a)	Banco Pinto & Sotto Mayor (a)	Private business	53,05%
2000	6.04.2000	CGD/Parbanca (b)	M. Confiança (a)	Private business	51,80%
2000	7.04.2000	BSCH (b)	Banco Totta & Açores(a)	Announcement of Private business accord Champalimaud Gr./C.G.D.	97%
2000	19.04.2000	CGD (b)	M. Confiança(a)	Takeover bid	Total stocks not owned yet
2000	19.04.2000	BSCH (b)	Banco Totta & Açores(a)	Takeover bid	Total stocks not owned yet
2000	19.05.2000	BES(a)	Tranquilidade(a)	Takeover bid	48,63%
2000	19.06.2000	BCP(a)	BPA (b)/B MELLO(b)	Merger: incorporation announcement	100%
2000	31.10.2000	BBVA (b)	Crédit Lyonnais (a)	Private business	100%
2000	15.12.2000	BCP(a)	Banco Pinto & Sotto Mayor (b)	Merger: incorporation announcement	100%
2001	11.01.2001	Banco BPI(a)	Douro SGPS (b)	Takeover bid	20,17 %
2003	20.03.2003	BANIF(a)	B. Comercial dos Açores (b)	Privatization /Auction	15%
2003	5.06.2003	Rentipar/Finpro (b)	BANIF(a)	Takeover bid	49,78%
2003	27.06.2003	BANIF(a)	B. Comercial dos Açores (b)	Takeover bid	24,42%
2003	10.07.2003	Banco BPI(a)	Banco Universo (b)	Private business	50%
2003	7.08.2003	CCAM (b)	Central, Banco Investimento (a)	Takeover bid	38,41%

a) Listed in stock market during the time period of observation (event window)
b) Not listed during the time period of observation.

Table 3 - Abbreviations

BANIF – Banco internacional do Funchal	Central – Central, Banco de Investimento
BBI- Banco Borges e Irmão	CGD – Caixa Geral de Depósitos
BBVA - Banco Bilbau Viscaya Argentaria	CL - Crédit Lyonnais
BCA – Banco Comercial dos Açores	Douro - Douro SGPS
BCP – Banco Comercial Português	Financia – Banco Financia
BES – Banco Espírito Santo	Finibanco – Finibanco
BFB – Banco Fonsecas & Burney	Império - Companhia de Seguros Império
BFE- Banco de Fomento Exterior	MC-Companhia de Seguros Mundial Confiança
BM – Banco Mello	MPG – Montepio Geral
BNC – Banco Nacional de Crédito Imobiliário	Primus – Banco Primus
BPA – Banco Português do Atlântico	Rentipar – Rentipar, Sociedade Gestora de Participações Sociais
BPI – Banco Português de Investimento	
BPSM – Banco Pinto & Sotto Mayor	Totta – Banco Totta & Açores
BSCH – Banco Santander Central Hispânico	Tranquilidade - Companhia de Seguros Tranquilidade
CCAM – Caixa Central de Crédito Agrícola Mútuo	Universo – Banco Universo

Table 4 – The Patell and Boehmer tests' results
Total Sample

a) Targets (total sample)	**Test score**	**T statistic / significance level**	**Decision**
SARs			
Patell's test	5,70	2, 45 (significance level 1%)	Rejects the null hypothesis
Boehmer's test	3,17	2, 45 (significance level 1%)	Rejects the null hypothesis
SCARS			
Patell's test	1,34	1, 28 (significance level 10%)	Rejects the null hypothesis:10%
Boehmer's test	4,04	2, 45 (significance level 1%)	Rejects the null hypothesis
b) Bidders (total sample)	**Test score**	**T statistic / significance level**	**Decision**
SARs			
Patell's test	-4,18	-2, 45 (significance level 1%)	Rejects the null hypothesis
Boehmer's test	-1,75	-1, 65 (significance level 5%)	Rejects the null hypothesis
SCARS			
Patell's test	-1,04	-1, 28 (significance level 10%)	Do not rejects the null hypothesis
Boehmer's test	-2,06	-1, 65 (significance level 5%)	Rejects the null hypotesis:5%
c) Targets+bidders	**Test score**	**T statistic / significance level**	**Decison**
SARs			
Patell's test	0,91	1, 28 (significance level 10%)	Do not rejects the null hypothesis
Boehmer's test	0,46	1, 28 (significance level 10%)	Do not rejects the null hypothesis
SCARS			
Patell's test	0,18	1, 28 (significance level 10%)	Do not rejects the null hypothesis
Boehmer's test	0,28	1, 28 (significance level 10%)	Do not rejects the null hypothesis

Table 5 – The Patell and Boehmer tests' results
Combined Entity

a) Targets (combined entity)	**Test score**	**T statistic / significance level**	**Decision**
SARs			
Patell's test	5,97	2, 45 (significance level 1%)	Rejects the null hypothesis
Boehmer's test	2,94	2, 45 (significance level 1%)	Rejects the null hypothesis
SCARS			
Patell's test	1,47	1, 28 (significance level 10%)	Rejects the null hypothesis:10%
Boehmer's test	3,78	2, 45 (significance level 1%)	Rejects the null hypothesis
b) Bidders (combined entity)	**Test score**	**T statistic / significance level**	**Decision**
SARs			
Patell's test	-0,33	-2, 45 (significance level 1%)	Rejects the null hypothesis
Boehmer's test	-1,69	-1, 65 (significance level 5%)	Rejects the null hypothesis
SCARS			
Patell's test	-1,01	-1, 28 (significance level 10%)	Do not rejects the null hypothesis
Boehmer's test	-1,58	-1, 28 (significance level 10%)	Rejects the null hypotesis:10%
c) Targets+bidders	**Test score**	**T statistic / significance level**	**Decision**
SARs			
Patell's test	1,61	1, 28 (significance level 10%)	Rejects the null hypothesis: 10%
Boehmer's test	1,03	1, 28 (significance level 10%)	Do not rejects the null hypothesis
SCARS			
Patell's test	0,26	1, 28 (significance level 10%)	Do not rejects the null hypothesis
Boehmer's test	0,81	1, 28 (significance level 10%)	Do not rejects the null hypothesis