Fortune Favors the Bold: Evidence from an Asian Bank Merger

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Abstract

This study surveys prior literature on mergers and acquisitions (M&A) with a special focus on factors affecting M&A outcomes and valuation. In addition, this study analyses one of the largest and most controversial mergers from the Philippine Banking sector: The merger of the fifth largest bank (BDO) with the third largest bank (Equitable PCI) in Philippines. This merger provides an ideal setting for a case study, subsequent links to M&A theories and generalizable lessons for future bank mergers. Furthermore, this study identifies key factors and steps taken by BDO management and the combined entity BDO Uni bank to obtain success. The acquisition spanned from 2004 to 2006 and was fully completed on December 27th, 2006 with BDO as the surviving entity renamed as Banco de Oro Uni bank (BDO Uni bank). BDO Uni bank had an increase in net income of 3.4 million. In addition, a doubling of its assets from PHP (Philippine peso) to 600 Peso Billion (Pbn) in the subsequent years relative to pre-merger BDO levels. Presently, BDO Uni Bank continues to generate stable revenue and be ranked number one in the Philippine Banking sector. **Keywords:** Shariah compliant hotels, purchase intention.

Key words: mergers, acquisitions, synergies, cultural integration

JEL Classification: G34, M00

1. Introduction

M&A's[1] are a key method for an organization to achieve growth, diversity, and profitability[2].

Empirical research over the past couple of decades has revealed a great deal about M&A motives and factors affecting their outcomes. A profusion of prior literature identifies several motives behind M&A's and factors affecting M&A outcomes. In addition, majority of prior studies demonstrate that M&A's result in value creation for the target firm shareholders. Given this setting, this paper will provide further evidence on these areas by surveying prior literature and developing a case study on an interesting yet controversial bank merger from Philippines. The study poses the following research

questions: 1. what are the motivations and synergies associated with this particular merger? 2. What is the pre and post-merger performance of the banks involved?

3. What are the success factors for this particular merger? 4. What are the generalizable lessons and managerial implications from this case study? To the author's knowledge this is the first

thorough case study on this particular bank merger. This deal was selected due to its' implications on the Philippine (10th fastest growing economy) banking sector and generalizable lessons to other bank mergers especially in emerging economies. Moreover, majority of M&A deals involve the acquirer being considerably larger than the target or equal in size. However, in this particular setting, the deal was controversial since a smaller bank was attempting to acquire a considerably larger bank[3]. The merger of the third largest bank, Equitable PCI with the fifth largest bank BDO in Philippines was initially perceived as hubris on the part of BDO management.

Several factors come into play especially with bank mergers. Firstly, the acquisition of a larger target by a smaller acquirer is rarely successful primarily due to the burden of financing. Secondly, economic growth also becomes a key factor enabling the merged entity to grow and increase profits. Thirdly, bank mergers are notoriously difficult and expensive due to incompatibility of systems and integration of different corporate cultures[4]. Fourthly, regulatory approval is required for bank mergers in many countries. Moreover, one of the key questions that arise in bank mergers involve whether branch networks are complementary or overlapping?

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[1]Mergers and acquisitions are often used interchangeably. However, on one hand in an acquisition, one firm acquire a part or whole of another firm.

On the other hand, in a merger, two or more firms unite to form a new entity.

[2] However, wrong motivations and mis-integration of M&A's leads to a large number of failures (Krug, Wright, and Kroll, 2014). In addition, Schweiger, Csiszar, and Napier (1993) show that acceptance and proper integration post merger is important in order to obtain strategic benefits.

[3]Mergers and acquisitions are a popular way of expansion in the Philippine banking sector primarily among smaller lenders, even in rural areas.

[4]They usually only succeed if the two parts of the bank continue to operate largely separately and are only integrated after some time. For example, consider the acquisition of the National Bank by ANZ Bank. Post merger integration took several years.

If they are complementary, similar to the case of the Wells Fargo's takeover of Wachovia or the merger of the Nordic banks to create Nordea, then the merger is likely to be easier. If they are overlapping, there is either going to be an unpleasant loss of jobs which will lower employee morale resulting in the combined entity being inefficient. Moreover, aggressive upward acquisitions can turn sour, for example, consider the HBO or RBS case.

The traditional recipe for success is that a strong acquirer buys the weak, when the targets' price is low such as Santander with Abbey, Alliance and Leicester. Shleifer & Vishny (2003), Rhodes-Kropf & Viswanathan (2004) support this view stating that overvalued firm managers acquire comparatively firms undervalued in scenarios where firm value diverge from the intrinsic value. Given this setting, the BDO and Equitable PCI bank merger is an interesting case with valuable lessons that can be generalized to other bank mergers especially in emerging bank-based economies.

Researchers and practitioners generally select a case study approach for M&A's especially when they intend to identify factors that impact an M&A deals[5] success or failure. Haspeslagh & Jemison (1991), Shanley & Correa (1992) and Marks & Mirvis (1998) state that case studies are able to explore numerous aspects of M&A deals occurring in different environments subject to various influences. These influences are often found too difficult to be captured by alternative analysis techniques. In addition, the case study approach enables a proper value creation analysis as compared to identifying events that create value. Haleblian et al, (2009) state that case studies are a powerful method considerably underutilized in M&A research where survey papers are more the common norm. Moreover, a case study may provide a rich idiographic understanding of integration processes in M&A's, wherein the longitudinal, multi-faceted strengths of case studies excel.

Moving onto the case study, at the time of BDO's initial offer to merge, Equitable PCI had capital three times as much as BDO. Analysts and regulators alike were concerned regarding the repercussions of this transaction on the Philippine banking sector and the economy. Moreover, the deal resulted in widespread negative media attention nationwide. Subsequently, the BDO merger with Equitable PCI was completed on December 27th, 2006 with the formation of BDO Uni bank.

[5]For example, Appelbaum et al (2000) discuss the role played by cultural compatibility in terms of leadership and M&A success.

The analysis is conducted both from a qualitative and quantitative perspective and provides evidence of value creation in M&A's. The analysis shows that even a deal with overvaluation issues in the short run would still result in value creation in the long run (refer Shliefer and Vishny 2003). The new entity BDO Uni Bank increased their net income from 3.1 million to 6.5 million relative to BDO on average. Moreover, BDO Uni bank doubled its total assets from 300 Pbn to 600 Pbn and became the number one bank in Philippines. In addition, this study provides interesting policy implications to the emerging market banking sectors and the M&A literature in general.

Section 2 conducts the literature review and deals with theories involved in M&A outcomes. Section 3 provides a detailed qualitative and quantitative analysis. Section 4 discusses generalizable lessons and managerial implications of the study. Section 5 concludes the study.

2. Literature Review

For over three decades, academics and practitioners alike sought to identify factors behind successful mergers. Prior academic literature documents the failure of M&A's to generate excess returns for the acquirer[6]. Researches have also focused on understanding the main motivations for M&A's, value creation, and determinants of M&A returns. However, this study explores the prior literature with an aim towards differentiating between various views that affect M&A outcomes. This literature review section is segmented into three related areas: theories on M&A activity, motivations behind M&A deals and factors affecting M&A outcomes. In addition, refer to Berger, Demsetz, & Strahan (1999) and DeYoung, Evanoff & Molyneux (2009) for more detailed reviews of bank mergers.

2.1 Merger and Acquisition Theories

Widespread research on M&A activity has been conducted in the US and European markets. However, comparatively, there is a dearth in research conducted on fast growing emerging markets, especially in Asia such as the Philippines. M&A's are an important tool for businesses and this section considers the history of M&A's. This study identifies the following benefits of M&A's from prior literature:

Economies of scale, entry to new markets, expansion of market share, new technology acquisition and surplus fund utilization. M&A activity generally occur in waves called merger waves and can be explained by neoclassical and market valuation theories.

According to neoclassical theory, merger waves occur as a result of firms from different industries reacting to economic shocks, deregulation and new technologies. This explains the industry clustering of M&A activities. Gort (1969), Mitchell & Mulherin (1996) and Harford (2005) provide empirical support for this theory. Another theory suggests an association between merger waves and market valuations. According to Shleifer & Vishny (2003)'s market valuation theory of merger waves: Deviations from fundamental values result in managers using overvalued firm stock to acquire undervalued firm assets. Rhodes-Kropf, Robinson & Viswanathan (2005) also support the market overvaluation theory suggesting that more acquisitions occur during bubbles periods. The next section discusses motivations behind M&A's.

2.2. Merger Motivations

Why do companies opt for M&A's? Pfeffer (1972) states that M&A's are caused by a need to make a firm less dependent on its environment. Haunschild (1993) explains motivations for M&A's being associated with financial, resource dependence, managerial and agency theories. Capron & Hulland (1999) identify market power, efficiency and effectiveness as value creating factors in M&A's. Ahuja & Katila (2001) identify technological and non-technological factors as M&A motivations. They state that non-technological M&A motivations focus on getting access to a wider range of distribution channels while technological motivations focus on entry into new markets/ market power. Chang & Rosenzweig (2001) and Hayward (2002) associates M&A's with market related motivations such as entering, strengthening, expanding to new markets. In addition, synergy motivations for M&A's are identified by Golubov & Travlos (2012), Jensen & Ruback (1983); Bradley, Desai & Kim (1988); Seth (1990); Doukas & Travlos (1988); Wang & Xie (2009); Bris & Cabolis (2008); Scholes & Wolfson (1990); Hayn (1989); Manzon, Sharp & Travlos (1994); Houston, James & Ryngaert (2001); Hoberg & Phillips (2010).

Moreover, the following studies identify agency motivations behind M&A's: Amihud and Lev (1981); Lewellen, Loderer & Rosenfeld (1985); Jensen (1986); Harford (1999); Datta, Iskandar-Datta & Raman (2001); Masulis, Wang & Xie (2007); Lin, Officer & Zou (2011);

Finally, the following studies identify managerial overconfidence or CEO hubris behind M&A motivations: Roll (1986); Hayward & Hambrick (1997); Doukas & Petmezas (2007); Billett & Qian (2008); Malmendier & Tate (2008); Kolasinski & Li (2013). In addition, prior literature conclude that M&A's improve combined entity performance creating a competitive advantage (Lubatkin, 1983; Schweiger and Weber, 1989; Krug, Wright, and Kroll, 2014; Galpin and Herndon, 2014; Cunha, 2015; Sinclair and Keller, 2017). The next section discusses factors affecting M&A outcomes and theories involved.

2.3 Factors Influencing M&A Outcomes & Theories Involved

What factors affect M&A outcomes? Majority of prior literature show that M&A's are value destroying leading to productivity issues and inefficiencies. This section identifies five key factors that affect M&A outcomes: 1. Overvaluation; 2. Agency Problems; 3. Management Factor; 4. Employee Factor; 5. Cultural Merger;

1. *Overvaluation:* It is an implicit assumption thatM&A'soccur in highly competitive marketsresulting in prices being bid up to their intrinsic value. Sirower (1997) urges top management to identify synergy gain extraction methods and the relevant strategies pre-merger. Prior literature warns management not to purse overvalued M&A deals, especially if the price exceeds their own valuations (Haspeslagh & Jemison, 1991; Kusewitt, 1985). Haspeslagh and Jemison (1991) report that management view inadequate due diligence processes result in sub optimal M&A outcomes. Martin (2017) finds that purchase prices exceeding that of market value maybe a cause for M&A failures[7].

2. *Agency Problems:* Agency issues in M&A's arise fromagents involved in negotiating thetransaction price of the deal. Kesner, et al, (1994) identify an agency problem between shareholder interests and that of the CEO during M&A's. In addition, Lubatkin (1983), Schmidt & Fowler (1990) state that CEO compensation increase relative to firm size. Kroll, et al (1997) find that management owned firms generate significant negative returns following a merger. Another stream of research considers CEO hubris as a key factor behind M&A failures (Roll, 1986).

[7] For example, Colvin (2003) state that although the AOL and Time Warner merger was considered to be an extremely important merger, its announcement resulted in their stock price plummeting considerably.

Hayward & Hambrick (1997) find that the premiums paid in M&A’s signal the amount of value to be created post-merger by the acquirer. They find a significant relationship between CEO hubris and the premium size.

3. *Management Factor:* The ability of the two management teams to work together,complimentary management and prior experience in M&A’s are also important factors that may

affect deal success. Shanley and Correa (1992) find that management teams of both firms agreeing on strategic objectives improve post deal performance. Datta (1991) find that managerial style differences in both firms can have a negative effect on post deal profitability. Walsh (1988) observe a significantly high turnover rate following an M&A within a five-year time window. Krishnan, et al (1997) observe that post deal performance is positively associated with complementary management teams and negatively associated with top management turnover at the target firm.

Singh and Zollo (1998) provide evidence of a negative impact on deal performance from high turnover of target firms’ top management in the US banking industry. Schweiger et al. (1993) show that intra firm differences are also associated with the deal outcome. Schweiger et al. (1997) state that successful M&A’s depend on the ability of both management teams to work together and resolve any differences.

Experience of management on M&A’s is also a key factor that affect M&A outcomes. Integrating two different entities into one is a key challenge faced by acquiring managers in M&A deals. Herein lies the importance of prior management experience in M&A’s. Jemison & Sitkin (1986) state that success in M&A’s is determined by extensive planning and proper post-merger integration. Singh and Zollo (1998) find that knowledge acquired in previous M&A deals positively impact performance in the banking industry. Larsson and Finkelstein (1999) identify a U-shape of the experience associated with M&A’s.

4. *Employee Factor:* Job losses post-merger creating employee distress is also considered aSignificant factor affecting M&A outcomes. Subsequently, prior academics analyze the integration process post-merger and its impact on employees. Haspeslagh and Jemison (1991) find that M&A success also depends significantly on an encouraging and co-operative environment between the two merging firms.

Galpin and Herndon (2000) state the significance of effective communication during M&A's[8]. Waddock & Graves (2006) state that post-merger, the acquirer often impose their policies on the combined entity jeopardizing cultural integration and employee satisfaction.

5. *Distinct Cultural Merger:* This particular view focus on the cultural differences between theAcquirer and target that needs to be reconciled and integrated post-merger. Post-merger integration of cultures also focus on the manner in which employees are assimilated into the combined firm[9].

Similar to Buono et al. (1985)'s firm cultural conceptualizations, Hofstede, Neuijen, Ohayv & Sanders (1990) also find difficulties in changing firm culture. Given this setting, difficulty in cultural adaptability becomes reasonably prominent during the M&A process. In addition, Ivancevich et al (1987) and Schweiger & DeNisi (1988) emphasize the significance of sound communication[10] during the M&A process. According to them, sound communication reduces confusion and uncertainty during the M&A process resulting in higher productivity, job satisfaction, turnover and lower absenteeism. Nahavandi & Malekzadeh (1988) find that agreement to the M&A deal by both acquirer and target management is a key factor of a successful merger. Chatterjee et al (1992) identify a significant negative correlation among cultural differences of the target and acquirer management teams and excess stock returns. However, Cartwright & Cooper (1992) state that the key factor is the ability of the two firm employees to work together rather than the cultural differences of the two firms. Forstmann (1998) state that the post -merger integration process is a key factor in the M&A success. Schweiger & Goulet (2005) identify distinct cultures result in defensiveness and the maintenance of separate acquirer and target firm identities post-merger. Therefore, they state that elimination of cultural differences is key to successful integration and M&A success. Lodorfos & Boateng (2006), Mitleton (2006), Lin et. al. (2006) identify cultural diversity, employee treatment and communication as key factors in post-merger integration and success.

[8]According to Goldman (2015) Hewlett-Packard let go 30,000 employees following the Compaq merger in 2002 and identified failures in the human resource integration process.

[9]Buono and Bowditch (1989) suggest two methods to introducing cultural changes into a firm post merger. Firstly, by studying employee attitudes and through that getting them to adopt a new set of values and beliefs, thereby changing their associated behavior. Sound communication should be utilized to modify the underlying beliefs via memos and announcements. Secondly, by letting go of employees who are not a good fit to the new culture and recruiting new employees who are a better fit.

[10]For example, Korean automobile manufacturer, Daewoo Motors encountered several integration issues following their acquisition of companies in Romania and Poland. In another example, Gutknecht and Keys (1993) find that Esmark's CEO, Donald Kelly communicated with over a 00 Norton Simon headquarters employees on redundancy issues and the compensation plans being offered. Kelly's open communication of the issues faced by the company on staff redundancies and a generous severance pay plan reduced resentment from resigned employees and better management of retained employees.

Saunders et. al. (2009) state that sound communication and pre-merger audits of cultural differences are important steps to achieve proper successful cultural integration post-merger. Mohibullah (2009) state that the acquirer should implement a top down communication network among employees to decrease confusion during the M&A integration process. Melkonian, Monin,

& Noorderhaven (2011) and Xing & Liu (2016) find that post-merger situations and integration issues influence employee identity on both sides of the M&A deal. Weber & Tarba (2012) state that a lack of transparent and congruent activities during various stages of the M&A process might lead to failures. Doseck (2012) discuss various aspects of firm culture, human resources and change management during the integration phase of M&As. Zaheer et. al. (2013) identify that management complementarity between the acquirer and target instead of similarity would lead to successful autonomy and integration post-merger. Rottig et. al. (2014) state that poor connections among the acquirer and target limit contributions in the M&A integration process. Syazliana et. al. (2015) identify early planning and cultural integration as being critical to M&A success in Malaysia. Martin (2017) identify purchase price, post-merger strategic motives and implementation as key factors associated with the success of any M&A deal. Spoor & Mei-Tai (2017) find that employee morale during an M&A deal is largely affected by social identities and communities of both firms involved.

3. BDO Acquisition of Equitable PCI Bank (EPCIB): Case Study

Throughout history, Philippine banks' primary method of expansion has been through investments in M&A's and by establishing new branches[11]. However, a key requirement for an M&A deal is shareholder value creation. In addition, according to prior literature the cultural fit and integration post-merger is an important factor as well, even when the M&A deal makes sense financially. The following questions are posed in general prior to an M&A deal: What is the motivation behind the acquisition? Is the purchase price being considered fair (conduct a cost benefit analysis and financial valuation)?

[11]Philippine banking sector consists of the following key players: 1) SM Investment Corporation: Henry Sys' Groups' premier bank, Banco de Oro or commonly known as BDO was interested in acquiring Equitable PCI (EPCI) since 2003. BDO subsequently announced intentions of acquiring 10% of EPCI's treasury stock. 2) John Gokongwei Group: The Gokongwei group sold their stake of Far East bank and PCI bank in 1999. The group has expressed interest in acquiring Equitable PCI Bank shares with the support of the Go Family, Equitable PCI's controlling shareholder. 3) Ayala Group: The Ayala Group owns Bank of Philippine Islands (BPI) which is ranked second with respect to asset size. Far East Bank and Citytrust Banking Corp. were both acquired by BPI in 1999 and 1996 respectively. BPI has also expressed desires to expand through acquisitions in the future. 4) George Ty Group: The Ty family owns the Metrobank which held the number 1 rank in the banking sector. 5) Lucio Tan Group: Lucio Tan possessed a 33.5% stake in Philippine National Bank (PNB) and also controlled Allied Bank.

Financial valuation generally includes industry, firm and economic analysis. What are the potential benefits and synergies to be considered from the merger? In addition, cultural, economic feasibility of the M&A deal and risks involved need to be addressed.

This section provides a case study analyzing one of the most important and interesting M&A deals from the Philippine banking sector. In 2005, BDO considered expanding its market share by acquiring Equitable PCI bank with a large number of established branches. Subsequently, BDO[12] initiated talks with Equitable PCI Bank management to discuss the possibility of a friendly takeover. Following the successful merger, newly created entity BDO Uni bank at present holds the number one position in the Philippine banking industry.

3.1 Stakeholders in BDO & Equitable PCI Merger & Competition

BDO or commonly known as Banco De Oro was SM Groups (one of the largest conglomerates in Philippines) flagship bank. Historically, BDO has been known to expand aggressively through M&A's to build up branch networks and assets. In 2001, BDO acquired 57 branches nationwide by merging with Dao Heng Philippines. The following year BDO acquired 66 branches with 11 Pbn portfolio of deposits by merging with Banco Santader and Santader Investment Securities Philippines. Subsequently, in 2003 BDO observed a prime opportunity to acquire Equitable PCI Bank. Therefore, in 2004, BDO initiated proceedings to acquire the 26% stake of Equitable PCI bank from Social Security Systems (SSS). The Philippine government was in possession of the remaining 12% stake via Government Service Insurance System (GSIS). Equitable PCI was a household brand name with its' stable balance sheet were all good motivations for a potential acquirer.

Equitable PCI an attractive target!

"Equitable Banking Corporation" (EBC) was the former name of Equitable PCI bank (EPCI) when they opened on September 26th, 1950. Equitable PCI was the first commercial bank licensed by the Philippine Central Bank which was newly created. In 1999, Equitable bank acquired PCI bank becoming the second largest bank in terms of assets overtaking BPI[13].

[12] BDO was publicly listed on the Philippine Stock Exchange in 2002. In addition, BDO acquired Dao Heng Bank's Philippine subsidiary on June 15th, 2001. BDO ranked 5th, 6th and 8th with respect to resources and loans, deposits and capital respectively among the 41 commercial banks in Philippines as of December 2005

[13] Equitable Card Network dominated the credit card industry in Philippines as a merchant acquirer and a third-party processor providing them ample motivation to increase their retail lending. PCI Capital Corporation was a popular name in investment banking and PCI leasing and Finance possessed a high capital base and a large clientele network. This acquisition of PCI bank by Equitable bank resulted in a merger wave in the Philippine banking sector. Not one to be left behind, BPI acquired Far East Bank targeting the number one position in banking and claiming it for a short time. Then,

Prior to being acquired by BDO, Equitable PCI was the third largest domestic private bank with respect to loans, deposits and capital. Equitable PCI offered innovative and also traditional deposit products, cash management, international, commercial, corporate banking, money market, trust and treasury services. They catered to a wider base of retail and corporate clientele with an extensive distribution network.

Refer Figure 1A

Prior to BDO's merger, Equitable PCI's key shareholders were as follows: Social Security System (SSS): 29%, Go Family: 24.76%, Government Service Insurance System (GSIS): 12.7%, EBC Investments: 10.48%. Given this setting, on January 6, 2006, BDO made an initial offer of 41.3 Pnb through a 1.6 BDO share per Equitable PCI swap to buy Equitable PCI. Equitable PCI was given till January 31st to consider the deal. However, GSIS initially opposed the deal and considered a counter proposal of a merger with BDO where Equitable PCI would be the surviving firm. At the time of the merger announcement, Standard & Poor's stated that a successful merger would result in an improvement in Equitable PCI's debt rating with no change in BDO's debt rating. Prior to the merger, Equitable PCI had a grade "B" debt rating while BDO had a "B+" rating. In addition, UBS claimed that Equitable PCI shareholders would realize the BDO offer attractive as it would increase Equitable PCI's capital adequacy ratio (CAR) making it a timely offer especially under new International Accounting Standards. Furthermore, UBS forecasted an increase in Equitable PCI share price to 73.60 PHP, more than the intrinsic target price of 67 PHP given the BDO offer. Hence, subsequently BDO ended up paying a hefty premium to acquire an already overpriced Equitable PCI stock.

However, the interesting fact is that even given the hefty premium, BDO was able to recover their investment in several years due to proper motivations and various strategies identified in this study later on.

Refer to Figures 2A and 3A

continued on a merging spree with Asian Bank, Solid Bank, Philippine Banking Corp and Global Bank to finally become the largest bank in Philippines. Hence, Equitable bank merging with PCI in 1999 resulted in a consolidation of the largely fragmented Philippine Banking Sector to some extent.

Competition

Foreign investors[14] were also interested in Equitable PCI and submitted a bid of 90 PHP each for SSS shares; These Investor's identity was not made public. GSIS stated that offers must be submitted by March 6th to the bidding process for their shares at a minimum value of 92 PHP per share or higher.

At the time of the BDO merger announcement, there was widespread speculation brewing in the market that BDO and Gokongwei (existing shareholder of Equitable PCI) camps may be drawn into a bidding war for the Equitable PCI treasury shares. Note that previously, BDO only bid for 43.50 PHP per share for SSS's 26% stake in Equitable PCI. Subsequently, they were offering 43.50 PHP per share or a 10% premium over the weighted average share price over a mutually agreed time period. In addition, when Gokongwei sold his stake in PCI Bank in 1999, he obtained 290 PHP per share while other shareholders were offered a share swap of three Equitable Bank shares for every one PCI Bank shares[15].

In 2006, many analysts downgraded their rating of Equitable PCI Bank to a "Sell" recommendation from "hold" following a 21% run-up pushed up its 2006 price to earnings ratio to 19.4 and its price to book value to 2.4, making it the most expensive banking stock in the Philippines. Hence, while Equitable PCI remained an attractive target in many aspects, its stock price was considerably overvalued. Therefore, we can safely assume that this particular deal contradicts the overvaluation view to some extent. BDO management did overpay for Equitable PCI bank stock with a high premium (closer to a 10% premium initially).

Given the above setting, several key players were interested in Equitable PCI. However, finally, on August 5th, 2005, BDO acquired a 24.76% stake of Equitable PCI. BDO and Equitable PCI board members agreed to a modified stock swap deal of 1.8 BDO shares instead of 1.6 shares for every Equitable PCI share on November 6th.

[14]However, the law firm representing the two foreign investors: Siguion Reyna Montecillo & Ongsiako informed on May 8th, 2006 to Government Service Insurance System (GSIS), that their client was no longer interested in acquiring the shares.

[15]This amounts to a 96.67 PHP price for Equitable Bank at the time of the swap. Therefore, Gokongwei was prudent in not being lured into a bidding war over Equitable PCI and BDO deal. Especially since Equitable PCI stock was trading at 49.50 PHP which is half his selling price in 1999. However, Equitable PCI's asset size from 1998 has tripled from approx. 100 Pbn to approx. 300 Pbn at the time of the BDO offer. Initially, the TradeUnion Congress of Philippines also proposed to buy the SSS shares with 50% in cash and BDO shares respectively. This would give SSS an investment in BDO and a partial return of capital. However, Equitable PCI board voted to retire these shares even with stiff opposition from GSIS. These shares, if auctioned, would have joined the 12-percent GSIS block. This auction would probably have thwarted a merger with BDO as the 92 PHP share price would become more reasonable. GSIS even offered a cash buyout of SM groups' 34% stake for 79.50 PHP per share on March 23rd. This cash offer would have given SM group approx. 8 Pbn. However, this deal was followed by allegations of hyping the market, resulting in an increase of the share price of Equitable PCI bank valued at approx. 80 PHP as of March 24th.

BDO and Equitable PCI shareholders approved the transaction on December 27th, 2006. In addition, the Philippine central bank and the Securities Exchange Commissions' approval for the deal was obtained in early 2007. Post-merger key shareholders were: SM Investments Corporation: 85.6%, Trans Middle East Philippines Equities: 7.13%. The key shareholders following the merger are as follows: SM Investments Corporation: 40.87%.

Refer Table 1A

Benefits to Equitable PCI Stakeholders from BDO merger

Although initially there was resistance from the Equitable PCI main shareholder GSIS, the rest of the Equitable PCI shareholders were swayed by the attractive acquisition price and future benefits from BDOs' dividend policy. Moreover, the merger would provide a stronger platform to execute Equitable PCI's growth plans. From Equitable PCI customers' point of view, the merger provided better access to a wider range of products and a better customer experience. From Equitable PCI employees' point of view, the strong re-branding of the merged entity provided a strong cultural fit. Finally, BDO completed the merger with Equitable PCI in 2007 and renamed itself as BDO Uni bank.

3.2 Motivations of BDO & Synergies Created

Motivations behind M&A proposals are a key factor and often affects M&A outcomes. This study identifies several reasons behind the BDO deal: 1. Belief of success by BDO top management (reassurance the merged entity can lead the banking sector; be bolder). 2. Competitors (Defeat of a key competitor), vulnerability of other competitors such as Metro bank, future obstacles from other competitors). 3. Expansion (increasing BDO franchise value). 4. Overvalued stock (Excess cash for acquisitions). 5. Future vision. 6. Wealth creation (Financial). 7. Legislative support (Deal was eventually supported by the Philippine central bank and the Securities and Exchange Commission).

Furthermore, this study identify that the merger provided BDO with the following benefits: 1. Substantial revenue and cost synergies. 2. Dominant pro-forma market position. 3. Enhanced distribution network. 4. Improved balance sheet management. 5. Broader customer base and relationships (establishes scale, exposure to regional economic diversity and additional platform for growth). 6. Market leading position in core business lines.

7. Accretive to EPS (Accretive merger for BDO with Equitable PCI's strong predicted cash flows).

8. Increased product diversification. 9. Long term growth projects (Equitable PCI's profitable credit card business). 10. Proven management teams (both management teams possessed valuable experience from past successful mergers, solid shareholder returns and cash flow generation). Hence, given the above rationale, BDO justified this deal as a key strategic merger. Cost savings from the merger would arrive from overlaps and duplications from 120 branches. Revenue benefits would arise with size and scale, as the combined entity would rank No. 1 in all major sectors. The BDO offer implied a 2.3 times swap ratio. At the time of the initial offer from BDO, Equitable PCI management viewed the deal would be dilutive in the first two years and finally breaking even in the third year. In addition, the financing strategy for the deal was structured to maintain BDO'ssolid investment-grade credit rating. Moreover, market analysts reiterated that BDO is a top performer with a target price of 47 PHP. Hence, while the deal would be initially dilutive to BDO, this would outweigh the strategic transformation the deal would bring to the bank.

3.3 Empirical Analysis of the Merger

The merger between Equitable PCI bank (ranked 3rd) and BDO (ranked 5th) resulted in BDO Unibank (largest bank in Philippines). The tables and graphs provide empirical evidence pre and post-merger for both banks from financial statements, share prices, public and private information gathered from various parties involved in the merger.

A correlation analysis was conducted on the total liabilities, total assets, and the revenue of BDO and Equitable PCI from 2003 to 2006. Total assets and liabilities have a significant positive correlation of 0.76 and 0.8 respectively. This result can be explained as both banks mirroring each other's behavior by expanding their assets and liabilities to obtain more market share as competitors. In addition, there is a negative significant correlation between revenues of the two banks identifying them as competitors. Moreover, this gives further support to BDO's motives of taking out a strong competitor and at the same time obtaining more market share by acquiring Equitable PCI.

Refer Table 2A

Table 2A, shows that BDO had 304Pbn while Equitable PCI had 345 Pbn of total assets on December 2006. Post-merger total assets of BDO Unibank increased to 617 Pbn. Prior to the

merger, Equitable PCI and BDOs' net loans were close to approx. 100 Pbn and expanded to 315 Pbn post-merger. Moreover, total liabilities and total deposits of Equitable PCI and BDOs' increased from 297 Pbn and 280 Pbn in 2006 to 556 Pbn in 2007 and from 229 Pbn and 241 Pbn to 445 Pbn in 2007 respectively.

Refer Table 3A

Table 3A, shows that Equitable PCI bank and BDO had net interest incomes of 13 Pbn and 8 Pbn, in 2006 which increased to 21 Pbn in 2007 post-merger. Moreover, Equitable PCI and BDO had a net income of 3.27 Pbn and 3.13 Pbn in 2006 December which post-merger increased to 6.52 Pbn. Therefore, Both Tables 2 and 3 show evidence of significant expansions in the income and balance sheet of BDO Unibank, resulting in value creation post-merger.

Refer Tables 4A and 5A

Table 4A show several key ratios of BDO, Equitable PCI and BDO Uni bank post-merger. In December 2006, Equitable PCI had a net interest margin of 4.3%, while BDO's was 3.3% which settled at 4% post-merger. Implied interest payments are a key component in the Net Interest Margin (NIM) calculation. In the case of BDO and Equitable PCI bank, implicit interest payment effects on NIM showed signs of concentration following the consolidation period due to changes in combined entity operations and revenue structure. Equitable PCI bank and BDOs' return on assets of 0.18% and 1.16% in 2006 increased to 1.41% in 2007 for the combined entity BDO Uni bank. Return on assets (ROA) measure effectiveness of the firm's assets utilization in generating profits net of expenses. Hence, these results show improved ROA numbers possibly due to new combined entity better managing its assets to generate profits.

Moreover, BDO Uni bank enjoyed a larger client base and an increase in number of offices and branches widely dispersed across the Philippines post-merger. Interestingly, Equitable PCI and BDO had earnings per share(EPS) of 4.89 and 2.89 respectively in 2006 which decreased to a 2.57 post-merger. This can be due to an acquisition being an immediate cost to shareholders bringing in value creation and revenues only in subsequent years resulting in a lower EPS for the combined entity immediately. As of 2015, BDO Uni banks EPS remain at a healthy 6.84. Following the merger in August 2007 BDO Uni bank was given an improved debt rating especially with better conditions in the Philippine banking sector. At the time of the re-rating BDO Uni bank shares traded with a 2.8 price to book ratio and a prospective P/E ratio of 18.

In addition, Equitable PCI and BDO had a book value per share of 63.7 and 22.91 in 2006 which settled at 23.45 post-merger. Eight years post-merger, book value per share settled at 53.17 in 2015 due to increases in growth, productivity and financial stability. Figure 4A shows Equitable PCI banks' revenue figures from 2003 to 2006. A small decline in revenue is observed in 2005 due to some depositors and borrowers fleeing the bank due to uncertainties arising from a possible merger with BDO.

Refer Tables 7A, 8A

Refer Figures 4A, 5A, 6A, 7A

Figure 5A shows that Equitable PCI had a stable reserve of assets and liabilities during the 2003-2006 sample period. Figure 6A depict revenues of BDO till 2006 and BDO Uni bank for the 2006-2014 sample period. Figure 6A shows a significant upward trend and increases in revenue leading up to 2013[16]. In addition, figure 7A shows total assets and liabilities of BDO up till 2006 and BDO Uni bank thereon for the 2006-2014 window. Figure 7A shows a prominent increase in assets and liabilities with the continuation of the upward trend observed before post-merger as well. Moreover, the merger resulted in BDO Uni banks' minimum capital required increasing to 700 million USD and subsequently settled with a market capitalization of 2 billion USD. Table 8 shows the present status of BDO Uni bank as the number one bank in Philippines, a decade from the merger. Table 9A shows the gradual increases in dividends per share (DPS) and diluted earnings per share (EPS).

3.4 Success Factors

In 2007, BDO merged with Equitable PCI Bank. This study identifies the following factors as key to the success of this particular merger and lessons that can be generalized to other bank mergers. ~~1. Successfully integrated two~~ distinct banking cultures. 2. Both management teams agreed upon the merger. 2. Both management teams had prior experience in mergers. 3. Revenue synergies were readily identified and utilized. 4. Cost efficiencies were identified and efficiently utilized. 5. Improved balance sheet management. 6. Affiliation of a large block-holder (SM group) provided better monitoring and a positive signal to the markets.

16 The revenue decrease observed in 2014 is because of fourth quarter value exclusions.

A key risk factor in this particular merger as in any M&A deal is the integration of distinct cultures. BDO Uni bank required a combined vision and strategic re-branding following the merger. To this end, BDO engaged Inter-brand their long time branding partner to firstly establish a strong brand foundation. Then to subsequently aid the bank employees deliver the new brand experience to its large clientele. Inter-brand along with BDO management and employees developed the strategic brand proposition named “We find ways”. Moreover, they worked with BDO on creating and implementing a number of initiatives focused on building a strong brand through employee engagement. The prime objective of these initiatives was to embody the “We find Ways” throughout the company culture, among its management and employees. Another objective was also to scout out existing and new talent to fit into the re-branded company message. This study identifies the following practices as key to engaging the employees to successfully integrate the two cultures: 1. BDO’s President and senior leadership endorsed and led the employee engagement initiative[17]. 2. Human resources was segmented similar to customer segmentation by collaborating with key business and department heads to understand various needs and concerns of a diverse employee group[18]. 3. Emphasizing on brand implementation through actionable behavior and linking the same actions to desired customer experiences[19]. 4. Piloting and promoting programs that demonstrated positive business impact of engagement. 5. Creating and quickly implementing scalable solutions readily delivered through digital channels. For example, BDO, implemented an internal socialization tool allowing staff at all levels and locations to search and share exemplary ‘We find ways’ success stories. Subsequently, the management of BDO could successfully integrate and blend the two cultures and operations seamlessly to create a winning, stronger more competitive entity.

BDO and Equitable PCI had complementary branch networks. BDO had a strong position in key urban areas and commercial centers/malls. They also had the highest deposits per branch in the system. Equitable PCI had a strong presence in provincial areas with a good penetration of traditional Filipino-Chinese markets.

[17]Successful organizational impact always requires top leadership support even though employee engagement efforts often maybe initiated within one department or from the bottom up.

[18]For example a bank teller in the Philippine rural provinces would have different career aspirations and motivations than that of a senior banker working in head office at BDO Unibank.

[19]Aid internal back office employees better understand their role in providing front office services. Many employees engaged in back office functions rarely understand or realize their vital role in delivering a satisfied customer experience.

Hence, the combined entity resulted in a strong nationwide platform for selling traditional and nontraditional products. With regard to cost efficiencies, BDO identified 50-60 branches with overlap and combined these branches to free up the licenses and redeployed them. Hence, BDO was able to free up capital by releasing valuable bank real estate lease-backs. This eradicated lease costs from redundant real estates and releasing freehold properties for outright sale with a considerable surplus (E.g.: five properties in Makati, Manilas' very expensive business area).

Furthermore, substantial cost efficiencies were obtained through information technology (Using a common system), branches and ATM's (successful consolidation and integration of the distribution network), head office and back office support (optimization of head office and other support functions), marketing and advertising (shared expenditure), product development and rollout (greater efficiency and improved distribution).

In terms of improved balance sheet management, BDO further benefited from reversals of loan provisions, particularly in the real estate sector which has been a problem area for most Philippine banks. In addition, due to very conservative loan loss provisioning by BDO management prior to and during the merger, several write-backs to the balance sheet was observed long term, post-merger. Therefore, in the subsequent years post-merger book value increased due to real estate sales and surplus provision write-backs apart from continued operational profits. Improved balance sheet management was further achieved through greater diversification of risk, enhanced risk management system/ procedures, better expertise in maximizing recoveries. Improved funding costs were obtained from increased scale resulting in a reduced risk profile. Moreover, increased low cost deposit gathering capabilities were implemented through a larger distribution network.

In addition, BDO has been a favorite of international institutional investors due to long standing stable revenues, shareholder returns, sound management and governance. However, prior to the merger, BDO reached the permitted 40% foreign ownership threshold. Interestingly, the merger resulted in a dilution of foreign interests in BDO Uni bank to 23%. Therefore, post-merger BDO Uni bank shares became far more accessible to foreign investors.

The merger made strategic sense, due to synergies of complementary markets and clientele, diverse products and services, complementary technologies & assets, diverse employee skill sets.

The two top management teams agreed on the strategic objectives of the merger resulting in a post-deal performance improvement through healthy cooperation.

Moreover, BDO considerably benefited from Equitable PCI bank's franchise or charter value among corporates, depositors and borrowers.

Significant revenue synergies were obtained from the integration of the two banks. BDO gained a soundly established operation in prime fee generating departments such as trust banking, credit cards and remittances. Substantial profit enhancement was achieved through improved product and enhanced distribution network, greater investment in new products. The combined entity took opportunities to increase revenues by cross selling the expanded product offerings and customer base as well as its affiliation with the SM Group network. The M&A deal was fully completed in mid-2008. Finally, the newly formed entity BDO Uni bank, possessed 680 branches and 1200 automated teller machines (ATM's). In addition, BDO further increased their capital adequacy ratio from 2% to 3% by raising 10 Pbn of tier 2 capital; Following the merger, BDO Unibank[20] emerged as the top most bank with regard to assets, toppling Metropolitan Bank as of the end of 2008. Subsequently, the assets of BDO Unibank amounted to 808.04 Pbn, edging out Metrobank, with 758.48 Pbn of total assets.

4. Present Case and Stable outlook

On September 17, 2008, Philippine central bank announced that due to Lehman Brothers associated investments, BDO Unibank is setting aside 3.8 Pbn (80.9 million dollars) loss provisions to cover exposure. However, the exact amount of BDO Uni banks' exposure was not disclosed. Fitch Ratings announced a stable outlook for BDO Unibank on February 1st, 2008. At present, BDO Unibank maintains the top position in terms of market share in almost every major banking product category. Moreover, they have become the image leader in terms of brand attributes and critical awareness overtaking its rivals and competitors within three years of the merger. BDO Uni bank customer experience in branch networks has been identified as a major driver of BDO's image, along with advertising from annual usage and image studies since 2010. BDO Uni bank customer tracking scores from the past 5 years further reflect this commitment where the bank's main index score exceeds both regional and global standards. Additionally, BDO Uni banks' significant advantage over its competitors, among local corporate and retail customers is also reflected in the index scores.

[20] In 2012, BDO Uni bank acquired Rural Bank of San Juan Inc. In 2014, BDO Uni bank acquired Citibank Savings and the Real Bank (A Thrift Bank).

5. Generalizable Lessons & Managerial Implications

This section discusses the generalizable lessons for the banking industry from this particular merger and managerial implications. What can the banking industry especially in emerging markets learn from this particular banking merger? What are the key factors and strategies managers should focus on ex-ante and ex-post merger for value creation? Bank mergers are extremely difficult. The proper motivations for a merger is important. Generally, the market can distinguish between agency motivated managers and discipline them by decreasing the firms' share price. However, even in well-motivated mergers, acquirers often overpay for their targets resulting in most of the synergy gains created been given away to the target firm shareholders. Moeller, Schlingemann & Stulz (2005) find that large losses in M&A deals are one's conducted by overvalued targets and the subsequent post-merger wealth destruction may be due to revaluation of acquirers' intrinsic value.

From the above analysis, it is evident that the prime motivation for the BDO acquisition of Equitable PCI bank was to gain more market share and eliminate a strong competitor. Evidence of value creation from the deal is observed through the increments in net interest income, net income and the balance sheet for the new entity BDO Uni bank. The fact that ROA and ROE considerably increased following the acquisition provides evidence of a good management team and positive business synergies. Both banks are experienced in M&A activity and the management had complimentary styles and agreed to a friendly takeover.

The BDO and Equitable PCI merger is exemplary for the banking sector as a whole, but teaches us a series of universal lessons. The first year of an integration following a merger especially in the financial sector creates uncertainties. Even if forced unemployment can be restricted or avoided via social dialogue and adequate social plans: 1. Career perspectives are shifting. 2. Rewards may stagnate. 3. Recognition of employees and their individual competencies and qualities can get lost.

Culture in the company can be less safe than before. 5. Stress is growing as business has to proceed, not seldom in a leaner work organization. 6. Retained employees are often perceived to be the lucky ones[21]. 7. Differences in salary levels between the elder (higher, often as a result of earlier restructurings) and the younger generation (lower) are experienced as a lack of rewards.

[21] 'They should not complain'; however, their workload, job content, individual perspectives, are rapidly changing - how can they find support for this transition?

Therefore, a strong merging of the two different cultures with a common branding message is key, as was done in the case of BDO and Equitable PCI. Prior track record of successful mergers by both sides' management was also an added advantage in this merger.

This analysis implies that M&A activities can provide a stable outlook for even a largely fragmented banking sector through consolidation and expansion[22]. Moreover, Fitch ratings identified Philippines as the only Asian Pacific country possessing a positive ratings outlook for 2016. Finally, Table 9A shows selected key set of mergers in the Philippine banking industry from 2004 to early 2014.

Refer Table 9

6. Conclusion

BDO Uni bank moved to the number one position in the Philippine Banking Industry following

the merger of Equitable PCI bank (third largest bank) with BDO (the fifth largest bank). The acquisition was hailed as a bold precarious move driven by Hubris from the BDO management. This study provides a survey of literature on motives behind M&A's and key factors that affect M&A outcomes. In addition, this study identifies the following factors as key to the success of this particular merger and lessons that can be generalized to other bank mergers. 1. Successfully integrated two distinct banking cultures. 2. Both management teams agreed upon the merger. 2. Both management teams had prior experience in mergers. 3. Revenue synergies were readily identified and utilized. 4. Cost efficiencies were identified and efficiently utilized. 5. Improved balance sheet management. 6. Affiliation of a large block-holder (SM group) provided better monitoring and a positive signal to the markets. Hence, due to efficient integration strategies and governance practices pursued by BDO management pre and post-merger the deal was a success. This particular merger provides evidence supporting value creation in M&A's. Both banks were experienced in M&A activity and the management agreed on the acquisition.

[22]Gaining access to new market segments, new clients, efficient renegotiation of high impact contracts (high net worth clients and suppliers). Following actions should be implemented to secure the profitability of the newly formed entity post-merger: Retaining and utilizing the best of both firms' culture, governance and strategies, creating a sound firm identity, removing unfunded and over funded pensions, securing and renewing large contracts, securing existing important clientele, removal of bad assets, and bad contracts.

Despite initial skepticism, frictions and adverse reactions by various market participants, it has proven to greatly transform the Philippine's banking landscape. Finally, going forward a decade into the future, this particular merger still remains the most ambitious and controversial yet clearly a successful merger in the Philippine banking history.

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Appendix

Figure 1A: Shareholders of Equitable PCI Bank (In 2003)

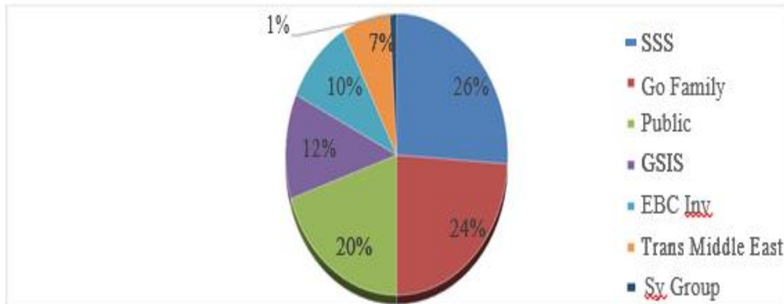


Figure 2A: Historical BDO and Equitable PCI stock price. The blue line depicts BDO close priceand the red line depicts Equitable PCI stock price.

160
140
120
100
80
60
40
20
0

21/05/2002 21/05/2003 21 05/2004 21/05/2005 21/05/2006 21/05/2007 21/05/2008 21 05/2009 21/05/2010 21/05/2011 21/05/2012 21 05/2013 21/05/2014 21/05/2015 21/05/2016 21/05/2017

Figure 3A: Pre and post merger announcement effect on BDO and Equitable PCI stock price.

The blue line depicts BDO close price and the red line depicts Equitable PCI stock price.

Table 1A

Philippine bank rankings with regard to asset size given in peso billion excluding Foreign and development banks, pre-merger in 2004.

	Rank	Assets	Rank	Loans	Rank	Deposits	Rank	Capital
Metro bank	1	470.6	1	243.7	1	345.7	2	53.4
BPI	2	394.8	2	162.2	2	314.7	1	55.0
Equitable PCI	3	293.5	3	134.2	3	189.6	3	44.4
PNB	4	220.2	5	78.4	4	163.5	4	24.0
BDO	5	169.8	6	69.9	5	121.4	6	19.6
RCBC	6	152.2	4	83.2	6	108.2	8	16.2
Allied Bank	7	118.5	8	47.2	7	92.7	9	15.4
China Bank	8	116.4	7	50.8	8	85.5	5	20.2
UCPB	9	104.9	9	46.5	9	79.4	17	4.1
Union Bank	10	100.3	10	39.1	10	56.6	7	16.6
Security	11	82.7	11	38.2	11	51.7	10	10.8

Source: Philippine Central Bank as of December 2004.

Table 2A

Year on year growth of the target (Equitable PCI), acquirer (BDO) and new entity (BDO Uni bank) balance sheet analysis, pre and post-merger in peso billion end of the year.

	2007	2006	2006
Balance Sheet	BDO Uni bank	BDO	Equitable PCI
Assets			
Net Loans	315.1	127.93	111.83
Total Assets	617.42	304.47	345.14
Liabilities & Shareholder's Equity			
Total Deposits	445.4	229.37	241.8
Total Liabilities	556.88	280.04	297.66

Source: BDO, Equitable PCI and BDO Uni bank financial statements.

Table 3A

Year on year growth of the target (Equitable PCI), acquirer (BDO) and new entity (BDO Uni bank) income statement analysis, pre and post-merger in peso billion end of the year.

	2007	2006	2006
Income Statement	BDO Uni bank	BDO	Equitable PCI
Net Interest Income	21.49	8.33	13.12
Net Income	6.52	3.13	3.27

Source: BDO, Equitable PCI and BDO Uni bank financial statements.

Table 4A

Key ratios of the target (Equitable PCI), acquirer (BDO) and new entity (BDO Uni bank) pre and post-merger end of the year.

	2007	2006	2006
Profitability %	BDO Uni bank	BDO	Equitable PCI
NIM	4.0	3.3	4.3
ROA	1.41	1.16	0.17
Diluted EPS	2.56	2.89	4.88
BV per share	23.45	22.91	63.7

Source: BDO, Equitable PCI and BDO Uni bank financial statements.

Table 5A

Bank Name	Year	Net Goodwill	Total Interest income	Provisions Credit Losses	Total Revenue	Total Share Capital
BDO	2004	0	6767	187	3420	9145
BDO	2005	600	8901	292	4583	9481
BDO	2006	662	11502	245	6086	9620
BDO Uni bank	2007	.	12826	1429	9696	16163
BDO Uni bank	2008	.	14256	774	9506	23020
BDO Uni bank	2009	.	18344	1288	12373	28020
BDO Uni bank	2010	.	18495	1629	12994	29736
BDO Uni bank	2011	.	24849	1642	13755	31074
BDO Uni bank	2012	.	30020	1475	16956	34679
BDO Uni bank	2013	1482	34569	1600	18228	40958
BDO Uni bank	2014	.	30773	1293	17008	40958
Equitable PCI	2004	15240	9781	1035	5954	7270
Equitable PCI	2005	15680	11891	715	6985	7270
Equitable PCI	2006	.	9742	407	7285	7270

Table 6A

Bank Name	Year	Customer Acceptance	Long Term Debt	Total Deposits By Banks	Total Deposits by Customers
BDO	2004	0	27334	0	112445
BDO	2005	10047	19939	5412	147146
BDO Uni bank	2006	0	45291	0	199858
BDO Uni bank	2007	.	44325	.	339769
BDO Uni bank	2008	.	74656	.	481318
BDO Uni bank	2009	.	67366	.	631749
BDO Uni bank	2010	.	60062	.	686561
BDO Uni bank	2011	.	88745	.	774384
BDO Uni bank	2012	.	105849	.	858556
BDO Uni bank	2013	37259	73926	8067	1118930
BDO Uni bank	2014	.	84167	.	1375057
Equitable PCI	2004	25849	17224	108	187259
Equitable PCI	2005	18521	32448	76	206130
Equitable PCI	2006	.	31543	122	223119

Figure 4A Revenues of Equitable PCI bank from 2003 to 2006

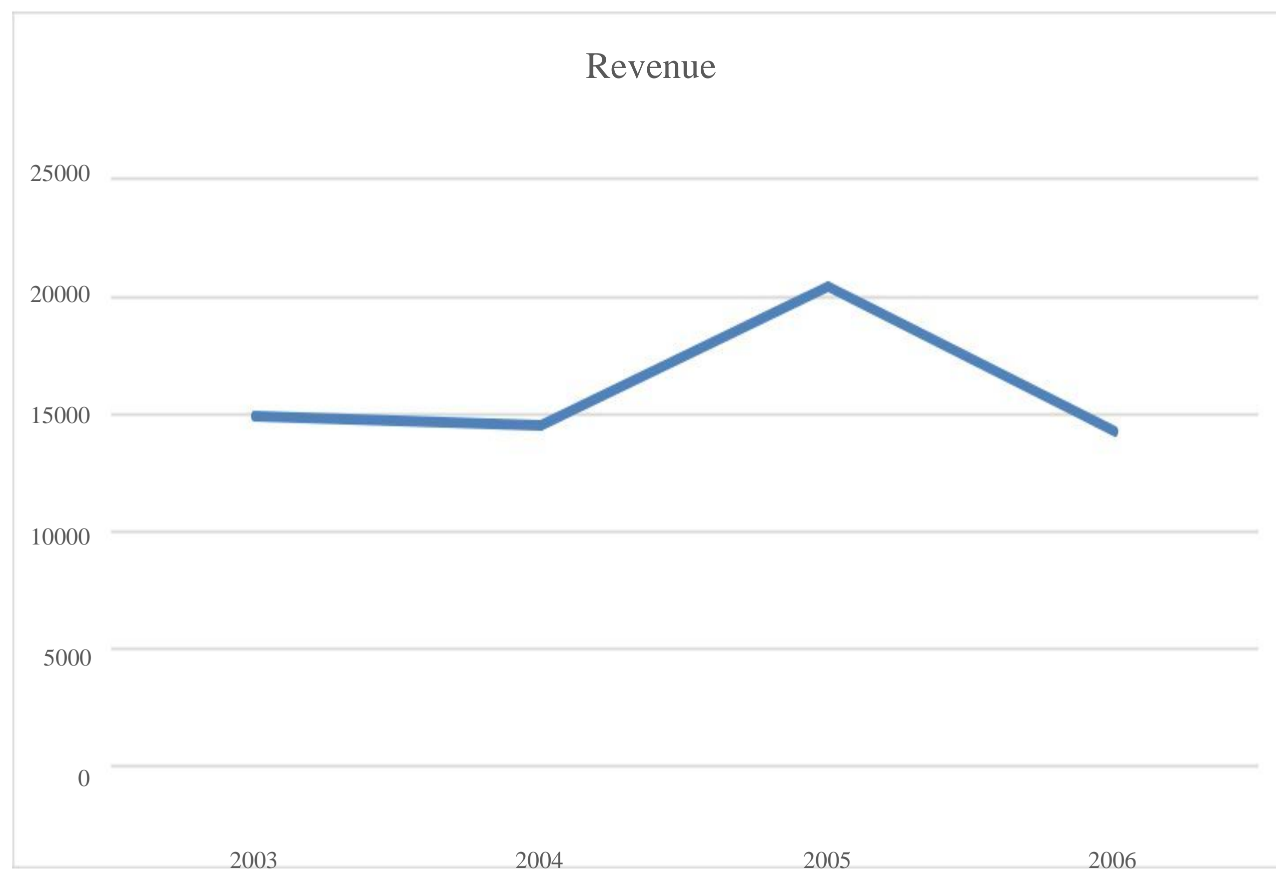


Figure 5A

Equitable PCI banks' assets and liabilities from 2003 to 2006. The blue for total assets and red for total liabilities

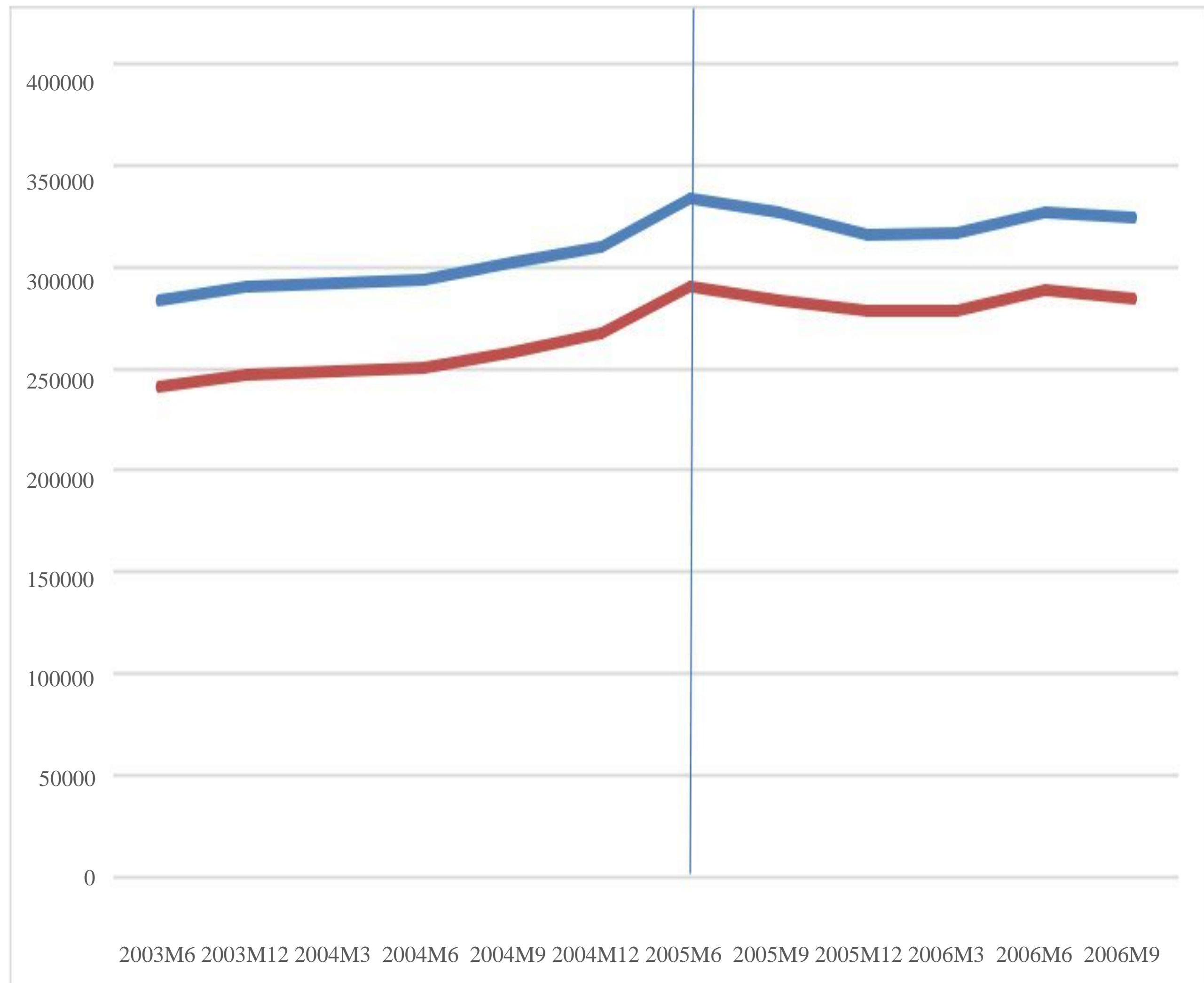


Figure 6A Revenues of BDO bank from till 2006 and BDO Uni bank 2006 onwards.

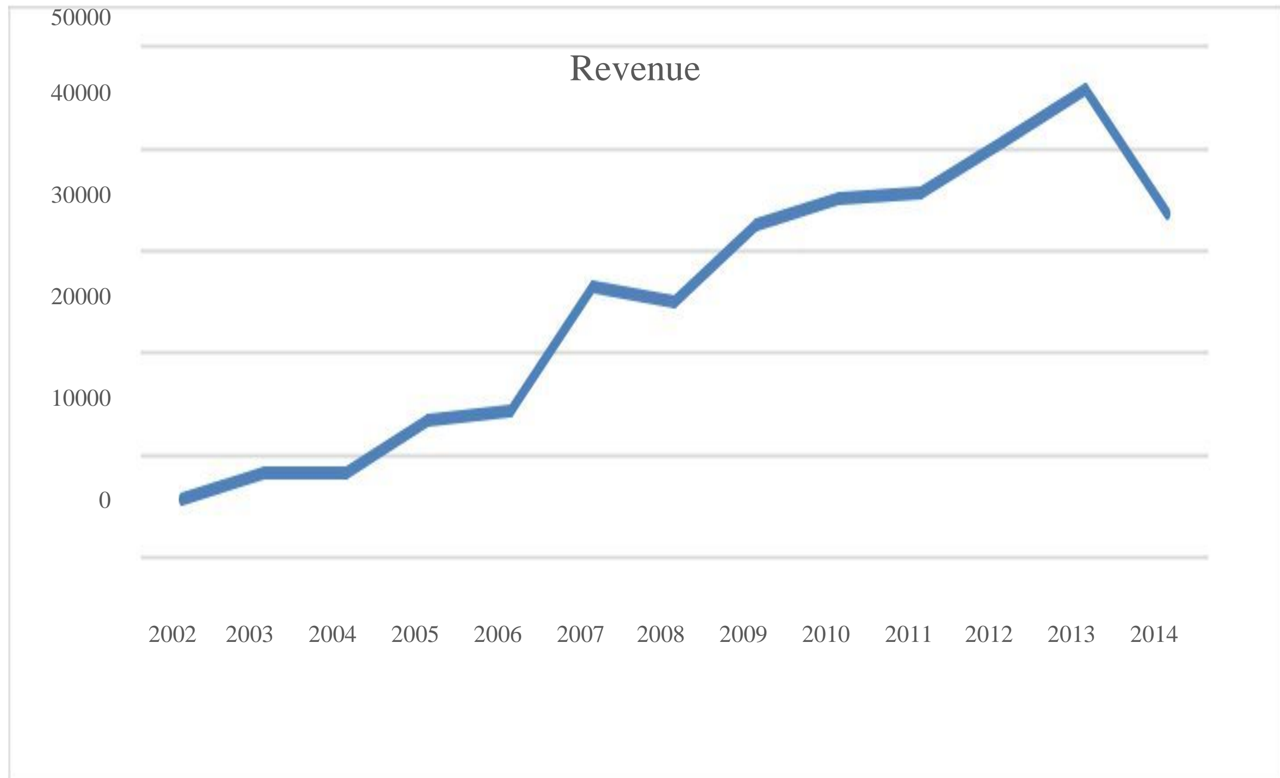
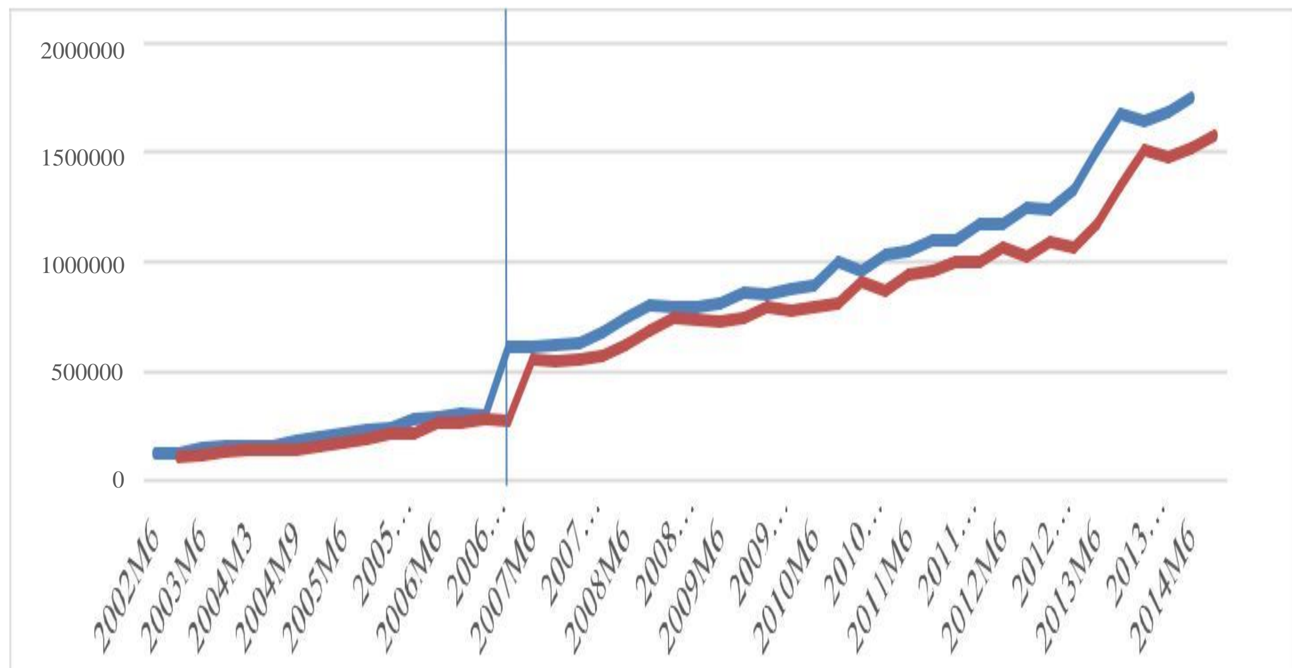


Figure 7A Balance sheet data for BDO bank till 2006 and BDO Uni thereon. Blue for total assetsand red for total liabilities.



Source: BDO, Equitable PCI and BDO Uni bank financial statements.

Table 7A Philippine Bank Asset details in millions of PHP as of March 2017.

Ranking	Commercial Banks	Assets in millions of PHP
1	BDO Uni bank	2,262,034.65
2	Metrobank	1,589,447.27
3	BPI	1,451,377.01
4	Land Bank	1,375,686.17
5	PNB	740,419.12
6	Security Bank	729,174.82
7	China Bank	539,268.82
8	DBP	512,662.51
9	Union Bank	449,289.26
10	RCBC	425,287.94

Source: Philippine Central Bank as of 2017.

Table 8A Key accounting variables for BDO Uni bank from 2012 to 2016.

	2012	2013	2014	2015	2016
Revenue	1,842.53M	2,058.03M	2,082.02M	2,267.12M	2,593.86M
Operating income	370.50M	568.50M	605.49M	698.90M	707.53M
Income before tax	370.50M	568.50M	595.10M	657.08M	682.66M
Net income	343.03M	532.33M	513.75M	549.40M	549.40M
Diluted EPS	0.1	0.13	0.13	0.14	0.14
Dividends per share	0	0.04	0.02	0.02	0.02
Total assets	30,256.09M	37,715.99M	41,698.54M	43,202.72M	46,796.85M
Total liabilities	26,496.68M	34,012.86M	37,682.02M	38,960.59M	42,420.99M
Total equity	3,743.41M	3,688.63M	4,002.36M	4,228.88M	4,360.91M
Operating cash flow	683.45M	869.91M	774.68M	180.22M	891.45M

Table 9A: Selected Mergers, Acquisitions and Consolidation of Philippine Banks from 2004 to Q1 2014.

Date	Activity
2005	BDO Bank acquired 66 of the 67 Philippine branches of Singapore's United Overseas Bank for 600 PHP million.
2005	BDO Bank purchased the Go family's 24.76% stake in Equitable PCI Bank for 10.2 Pbn.
2007	BDO Uni bank merged with Equitable PCI Bank, resulting in combined assets of 613 Pbn and combined deposits of 435 Pbn.
2009	BDO Uni bank. Inc. acquired GE Money Bank for 1.3 Pbn.
2012	BDO Unibank, Inc. acquired Rural Bank of San Juan, Inc., adding 30 branches to the former
2013	BDO Uni bank, Inc. signed an agreement to acquire 99.99% of Citibank Savings, Inc., Citi's thrift banking arm in the Philippines
2014	BDO Uni bank, Inc. expressed interest in acquiring the trust business of Deutsche Bank AG, Manila Branch, which adds 70 Pbn.