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Carl Heinz Daube<sup>1</sup>

## **The possible takeover of Commerzbank by UniCredit**

### **Potentials and challenges in the context of the European banking and capital markets union**

#### **Abstract**

This article analyses the potential impact of a takeover of Commerzbank by the Italian bank UniCredit on the European banking landscape and the development of the Capital Markets Union. It discusses the potential for increased profitability, structural efficiency and stability of the European banking sector as well as the challenges associated with the consolidation of banks. Finally, it examines how this takeover could contribute to achieving the objectives of the Capital Markets Union by improving the framework conditions for financing, particularly for SMEs.

#### **Zusammenfassung**

Dieser Artikel analysiert die möglichen Auswirkungen einer Übernahme der Commerzbank durch die italienische Bank UniCredit auf die europäische Bankenlandschaft und die Entwicklung der Kapitalmarktunion. Er erörtert das Potenzial für eine höhere Rentabilität, strukturelle Effizienz und Stabilität des europäischen Bankensektors sowie die mit der Konsolidierung von Banken verbundenen Herausforderungen. Schließlich wird untersucht, wie diese Übernahme zur Erreichung der Ziele der Kapitalmarktunion beitragen könnte, indem sie die Rahmenbedingungen für die Finanzierung, insbesondere von KMU, verbessert.

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## 1. Introduction

Europe is an economic area with over 450 million<sup>2</sup> people and is characterized by cultural diversity, different historical developments and political conditions. Within this area, there is a highly fragmented banking market, which is characterized by a large number of small and medium-sized banks, particularly in the European Union (EU). The EU member states traditionally take different approaches to financial market regulation, which makes it difficult to create a uniform capital market union.<sup>3</sup>

In Germany, there are around 1,330 banks,<sup>4</sup> which are often characterized by regional or national interests. Consolidation, such as the takeover of Commerzbank by UniCredit, is therefore the subject of controversial debate: it could offer both opportunities for increased efficiency and competitiveness of European banks, as well as risks resulting from the reduction in banking diversity and the concentration process.

The central research question of this analysis is: "What impact would a takeover of Commerzbank by UniCredit have on the European banking and capital markets union and to what extent could it contribute to achieving the objectives of the capital markets union?"

To start answering this questions its worthwhile having a look at some key figures of Commerzbank and UniCredit. Key Performance Indicators (KPI) give a comprehensive glance about business and performance of any company; that's why they issue financial statements regularly to communicate financial information to the investment community.<sup>5</sup>

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<sup>2</sup> Cf. European Union (2024).

<sup>3</sup> Cf. Cahen (2021).

<sup>4</sup> Cf. Statista (2024a).

<sup>5</sup> Cf. Berk/deMarzo (2024), pp. 59.

<b>Income statement</b>	<b>1.1.-31.12.2023</b>	<b>1.1.-31.12.2022</b>
Operating profit (€m)	3,421	2,099
Operating profit per share (€)	2.75	1.68
Consolidated profit or loss attributable to Commerzbank shareholders and investors in additional equity components (€m)	2,224	1,435
Consolidated profit or loss attributable to Commerzbank shareholders (€m)	2,030	1,245
Earnings per share (€)	1.63	0.99
Operating return on equity based on CET1 (%)	13.7	8.7
Return on equity of consolidated profit or loss <sup>2</sup> (%)	7.7	4.9
Cost/income ratio in operating business (excl. compulsory contributions) (%)	57.4	61.8
Cost/income ratio in operating business (incl. compulsory contributions) (%)	61.4	68.6
<b>Balance sheet</b>	<b>31.12.2023</b>	<b>31.12.2022<sup>1</sup></b>
Total assets (€bn)	517.2	477.4
Risk-weighted assets (€bn)	175.1	168.7
Equity as shown in balance sheet (€bn)	33.0	30.9
Total capital as shown in balance sheet (€bn)	39.7	37.8

**Fig. 1 Key figures of Commerzbank<sup>6</sup>**

Commerzbank's 2023 annual results highlight some key performance indicators:

1. **Revenue and Profit Growth:** Commerzbank increased its net profit by 55% to €2.2 billion, fuelled by an 11% rise in total revenues, reaching €10.5 billion. This was largely supported by higher net interest income due to increased interest rates.
2. **Cost Management and Efficiency:** Operating expenses rose slightly due to inflationary pressures, but the bank's active cost management kept total costs within its target of €6.4 billion. This helped reduce the cost-income ratio from 69% in 2022 to 61% in 2023, indicating improved operational efficiency.
3. **Solid Risk Management:** The risk result improved to a lower net loss of €618 million, down from €876 million in 2022. This was supported by effective risk provisions and a low non-performing loan ratio of 0.8%, indicating a strong loan portfolio quality.
4. **Capital Position:** The bank's Common Equity Tier 1 (CET1) ratio reached 14.7%, well above regulatory requirements, positioning it for stability and future growth.

<sup>6</sup> Cf. Commerzbank (2024a).

5. Shareholder Returns: With its strong financial performance, Commerzbank announced plans to return €1 billion to shareholders through dividends and share buybacks, representing about 50% of its net profit.

These indicators reflect Commerzbank's progress in revenue growth, cost control, capital strength, and shareholder value in 2023, setting a strong foundation for its Strategy 2024 and Strategy 2027 targets.<sup>7</sup>

#### Income statement figures

(€ million)

	YEAR		% CHANGE
	2023	2022	
Revenue	23,843	20,329	+ 17.3%
of which:			
- Net interest	14,005	10,669	+ 31.3%
- Dividends	459	306	+ 49.9%
- Fees	7,463	7,625	- 2.1%
Operating costs	(9,471)	(9,547)	- 0.8%
Gross operating profit (loss)	14,372	10,782	+ 33.3%
Loan Loss Provisions (LLPs)	(548)	(1,894)	- 71.0%
Net operating profit (loss)	13,823	8,888	+ 55.5%
Profit (Loss) before tax	11,451	7,289	+ 57.1%
Group stated net profit (loss)	9,507	6,458	+ 47.2%

#### Balance sheet figures

(€ million)

	AMOUNTS AS AT		% CHANGE
	31.12.2023	31.12.2022	
Total assets	784,974	857,773	- 8.5%
Financial assets held for trading	57,274	64,443	- 11.1%
Loans to customers	429,452	455,781	- 5.8%
Financial liabilities held for trading	38,022	51,234	- 25.8%
Deposits from customers and debt securities issued	585,561	594,300	- 1.5%
of which:			
- deposits from customers	495,716	510,093	- 2.8%
- debt securities issued	89,845	84,207	+ 6.7%
Group shareholders' equity	64,079	63,339	+ 1.2%

**Fig. 2 Key figures of UniCredit<sup>8</sup>**

Although Fig. 2 does not show the same KPIs as Fig. 1 it's obvious that UniCredit is playing in a different league.

<sup>7</sup> Ibid.

<sup>8</sup> Cf. UniCredit (2024a).

1. **Record Profit:** UniCredit reported a net profit of EUR 8.6 billion, marking its best financial year ever. This included significant growth in net interest income due to favorable rates.
2. **Revenue Growth:** The bank's total revenue rose by 26%, driven largely by a 31% increase in net interest income and strong fee income from diversified sources across Europe.
3. **Capital Strength:** UniCredit's Common Equity Tier 1 (CET1) ratio was robust at 16.6%, underscoring its strong capital position and resilience.
4. **Operational Efficiency:** UniCredit achieved a low cost-to-income ratio of 39.7%, reflecting effective cost management and operational efficiency despite inflation pressures.
5. **High Returns:** The return on tangible equity (RoTE) was 16.6%, well above industry averages, reflecting profitable growth and efficient capital allocation.

These results highlight UniCredit's successful transformation strategy, focusing on growth, quality lending, and operational excellence. The bank also remains committed to capital distribution, with a payout target of EUR 10 billion by 2024.<sup>9</sup>

## **2. Background**

### **2.1 Banking landscape in Europe**

The EU currently has around 4,850 banks, which employ around 1.8 million people. In Germany, which has one of the highest banking densities in Europe,<sup>10</sup> the role of banks has a historical dimension. Commerzbank can look back on a long history: it was founded in 1870 and has since been part of a dynamic market that has been shaped by crises, transformations and regulatory reforms.<sup>11</sup> Commerzbank has experienced a capricious development for all these years; in particular, Commerzbank itself has repeatedly been a takeover candidate since the beginning of the millennium

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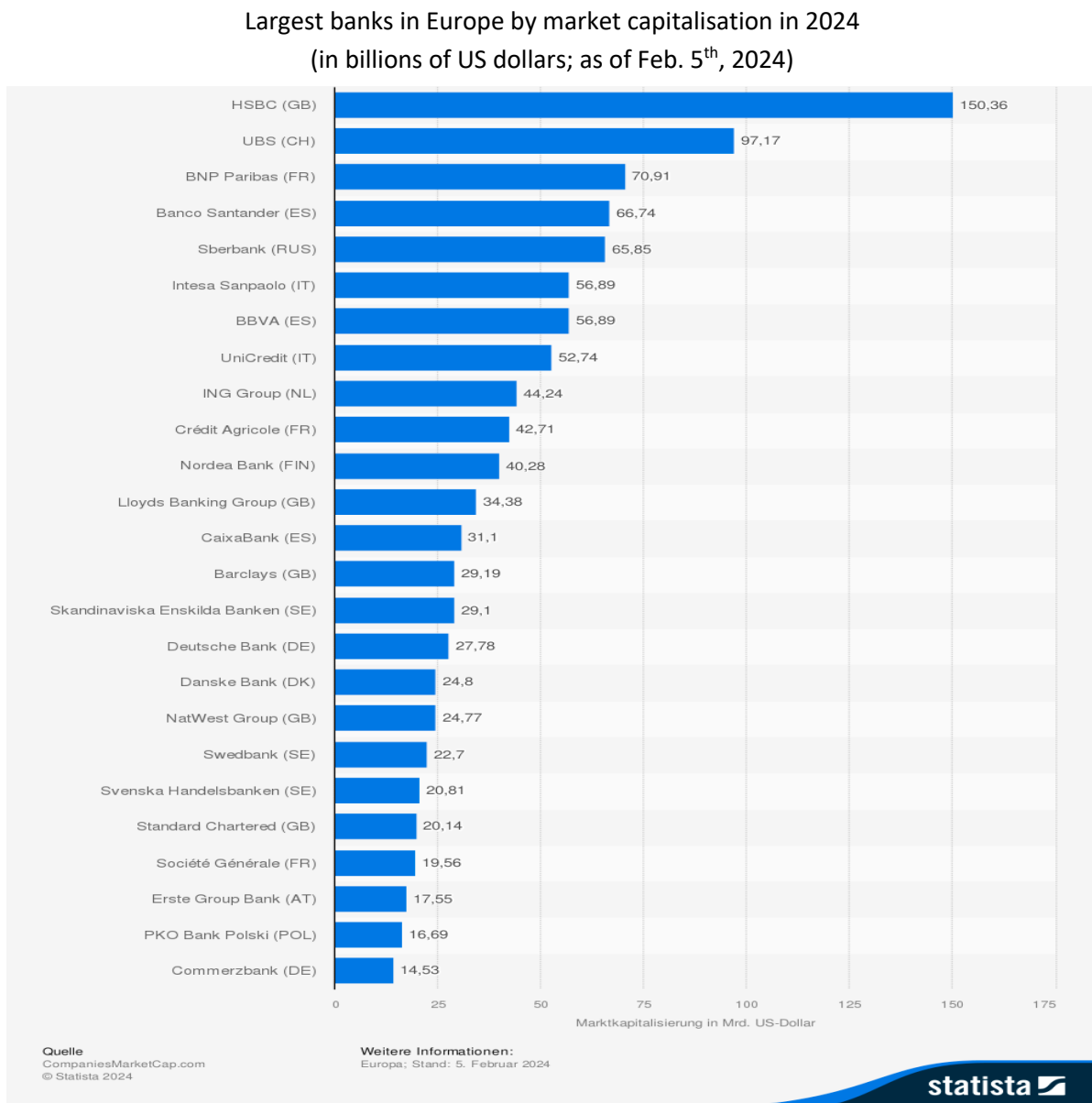
<sup>9</sup> Ibid.

<sup>10</sup> Cf. Eurostat (2024).

<sup>11</sup> Cf. Commerzbank (2024b).

The roots of UniCredit go back to the 15<sup>th</sup> century, including several mergers and acquisitions for all these centuries.<sup>12</sup>

However, looking at the market capitalization of European banks shows that there are only very few large banks. Within the top 10 there is no German bank, but two Italian banks.



**Fig. 3 Biggest EU-banks by market capitalization**

<sup>12</sup> Cf. UniCredit (2024b).

## **2.2 Financial market crisis and the role of the government**

After the collapse of Lehman Brothers, in autumn 2008 the German government set up the Federal Agency for Financial Market Stabilisation (FMS) to stabilize the German financial system.<sup>13</sup> Its major responsibilities include:

1. **Managing Financial Stabilization Funds:** FMS administered the Financial Market Stabilization Fund (SoFFin), which provided capital and guarantees to struggling banks to prevent insolvencies that could affect financial stability.
2. **Overseeing Bank Restructuring:** It facilitated the restructuring and, if necessary, the winding down of financial institutions facing distress, ensuring an orderly process to avoid broader economic impacts.
3. **Supervising Bad Banks:** FMS managed "bad banks" created to hold non-performing or toxic assets, reducing risks for core banks and facilitating economic recovery.
4. **Crisis Management and Intervention:** The agency coordinated financial rescue operations, providing support and stabilization measures to avert banking sector collapses.

In 2008, FMS's functions were transferred to the German Financial Supervisory Authority (BaFin) and the Federal Agency for Financial Market Stabilisation, refocusing on market stability and crisis prevention.

During the 2008/2009 financial market crisis, Commerzbank was one of the banks that received state support. In 2007, it was politically desirable to create another 'large and strong' German bank alongside Deutsche Bank that could support large companies internationally. For this reason, the takeover of Dresdner Bank by Commerzbank received favourable political support.<sup>14</sup>

The due diligence as a prerequisite for a takeover took place during the first peak of the financial market crisis (Lehman Brothers bankruptcy). To carry out this takeover nevertheless, Commerzbank was 'stabilised' by the Federal Agency for Financial Market Stability FMS in the winter of 2008/2009 with € 18.2 billion, including € 16.4

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<sup>13</sup> Cf. FMSA (2024).

<sup>14</sup> Cf. Spiegel (2024).

billion in silent participations. For the German state, the stabilisation of Commerzbank was protracted and loss-making. The state 'only' had to spend €1.8 billion on shares, which represent 25.1% of the share capital. However, Commerzbank had to increase its equity several times by issuing new shares to cushion further losses. Sometimes the federal government participated in the capital increases by converting its silent partnership contribution, sometimes it had its share diluted.<sup>15</sup>

The declared aim was to withdraw from this commitment as soon as possible. Commerzbank was supposed to pay 9.25% interest per year on the silent participation, but it was never able to do so. In 2013, after Commerzbank had repaid €13.15 billion, the silent participation was considered repaid. The share package, which cost €5.05 billion, is worth €2.5 billion today. It was therefore hardly surprising that there has been a lack of political will over the years to dispose of this holding.<sup>16</sup>

A first step has now been taken on September 11<sup>th</sup>, 2024: the federal government successfully sold an initial block of shares in Commerzbank. Of the 16.49% stake most recently held via the FMS, 4.49% (around 53.1 million shares) were sold via a standard accelerated bookbuilding process. As a result of significantly outbidding all other offers within the bookbuilding process, the entire package was allocated to UniCredit Group. At €13.20 per share, the allocation price was higher than the daily closing price of €12.60 per share. The sale generated total proceeds of € 702 million.<sup>17</sup>

At the same time, UniCredit bought a 4.5% stake in Commerzbank via the stock exchange. This means that UniCredit currently holds just under 10 % of Commerzbank. In addition, UniCredit has access to a further 11.5 % of Commerzbank via derivatives, which would give it 21.5 %.<sup>18</sup> However, UniCredit would like to acquire further shares; it has applied to the banking supervisory authority to increase its stake to up to 29.9 per cent.

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<sup>15</sup> Cf. H. Mußler, et al. (2024).

<sup>16</sup> Ibid.

<sup>17</sup> Cf. Deutsche Finanzagentur (2024).

<sup>18</sup> Cf. Statista (2024b).

## 2.3 Structural reforms and capital markets union

One of the EU's key objectives is to integrate the national capital markets into a single market. The creation of a capital markets union is intended to remove barriers to investment and facilitate access to capital, particularly for SMEs and innovative companies.<sup>19</sup> The takeover of Commerzbank by UniCredit could support this process by establishing a more uniform structure and stronger capital resources on the market.

## 3. Discussion

### 3.1 Profitability and raison d'être of European banks

The issue of profitability is of crucial importance for banks, as it forms the basis for stability and attractiveness on the capital market. Studies show that only profitable banks are viable in the long term and attractive to investors. Commerzbank's profitability is currently around 8%, while UniCredit has a return on equity of almost 20%. This indicates that there is considerable potential for optimization at Commerzbank. A takeover could accelerate the achievement of a stronger return on equity and thus increase the attractiveness of Commerzbank as part of UniCredit.<sup>20</sup>

### 3.2 Overcapacity in the banking market

A high number of banks in a region, as is the case in Europe, can lead to an overlap of services and fragmentation of the market. This impairs efficiency and means that resources are not used optimally. The acquisition of Commerzbank could lead to a better use of these resources, as the two banks could combine their business areas and possibly realize potential savings. In addition, a stronger bank would be better able to compete internationally and gain market share outside Europe.<sup>21</sup>

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<sup>19</sup> Cf. Report (2019).

<sup>20</sup> Cf. Nouy (2017).

<sup>21</sup> Ibid.

### **3.3 Capital markets union and financing for SMEs**

A key aspect of the Capital Markets Union is facilitating access to finance for small and medium-sized enterprises (SMEs), which often struggle to access capital. A strong pan-European bank could provide financing for SMEs more efficiently not only in its home market but across Europe.<sup>22</sup> UniCredit, through its existing presence in various EU countries, could contribute to the creation of an EU-wide financial centre where SMEs and other companies can raise capital in a safe and harmonized environment.

### **3.4 Risk aspects of a bank takeover**

Although the consolidation of the banking market can bring numerous benefits, there are also potential risks to consider. A reduction in the number of banks could lead to increased concentration, making the system more vulnerable to crises. A merger such as the one between Commerzbank and UniCredit must therefore be carefully assessed to ensure that it does not lead to excessive market dominance or a loss of diversity in the banking industry.

## **4. Implementation of the capital markets union: measures and challenges**

### **4.1 EU action plan to promote the capital markets union**

“The capital markets union (CMU) is a plan to create a single market for capital. The aim is to get money – investments and savings – flowing across the EU so that it can benefit consumers, investors and companies, regardless of where they are located.”<sup>23</sup> The main targets can be summarized as:<sup>24</sup>

1. Ensure a green, digital, inclusive and resilient economic recovery in the EU by facilitating access to finance for European companies, in particular SMEs
2. Shaping an EU financial centre where individuals can save and invest for the long term in a safe environment

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<sup>22</sup> Cf. Report (2019)

<sup>23</sup> Cf. European Commission (2020a).

<sup>24</sup> Cf. European Commission (2020b)

3. Integrating national capital markets into a genuine EU-wide single capital market

The European Commission announced an action plan with about 16 initiatives to get the European Capital Market up and running. However, the key initiatives are<sup>25</sup>

1. Create a single access point to company data for investors
2. Support insurers and banks to invest more in EU businesses
3. Strengthen investment protection to support more cross-border investment in the EU.
4. Facilitate monitoring of pension adequacy across Europe
5. Make insolvency rules more harmonised or convergent
6. Push for progress in supervisory convergence and consistent application of the single rulebook for financial markets in the EU

Key measures include the creation of uniform access to company data for investors, the promotion of cross-border investments and the harmonization of insolvency regulation. This harmonization could be promoted by the acquisition of a bank such as Commerzbank by UniCredit, as a strong bank operating across borders can help to promote the enforcement of these regulations in different national markets.<sup>26</sup>

#### **4.2 Participation of private investors**

The Capital Markets Union also relies on the active participation of private investors. Private equity and venture capital companies play an important role in financing companies in particular stages of development. A strong bank such as the merged entity of Commerzbank and UniCredit could act as a link between institutional investors and small, high-growth companies, thereby strengthening equity financing in Europe.<sup>27</sup>

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<sup>25</sup> Cf. European Commission (2020c).

<sup>26</sup> Ibid.

<sup>27</sup> Cf. Schubert (2024).

## 5. Conclusions and outlook

The possible takeover of Commerzbank by UniCredit is an issue of considerable importance for the European banking landscape and the future development of the Capital Markets Union. Such a takeover could not only increase the profitability and competitiveness of banks in Europe, but also contribute to achieving the objectives of the EU Capital Markets Union. The creation of a stronger and more profitable bank could help to close financing gaps and facilitate access to capital for companies in Europe.

However, challenges remain. The potential risks of market dominance and the associated systemic risks must be carefully weighed up. A successful integration of Commerzbank into UniCredit could send an important signal for the future of the European banking and capital markets union and strengthen Europe's role as a globally competitive financial centre.

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