

CROSS-BORDER BANKING M&A IN EUROPE:  
DO MARKETS VALIDATE SINERGY  
PROJECTIONS?  
AN EVENT STUDY OF UNICREDIT'S STRATEGIC  
CONSOLIDATION OF COMMERZBANK

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## ***Introduction***

### *I. The Dimensional Competitiveness Crisis of the European Banking Sector*

Over the past two decades, Europe's banking industry has undergone significant changes, shaped by shifting economic conditions, evolving regulations, and rapid technological advances. These factors have not only changed what financial intermediaries actually do but also intensified competition across the sector. As Europe's financial markets have gradually come together, we've seen rules and standards begin to align at the European level, competition get fiercer, and digital innovation accelerate. Banks now face a much more complex landscape, which has compelled them to adapt by developing new strategies to secure long-term growth and remain globally competitive.

Today, the European banking system faces challenges that extend well beyond the ordinary economic cycle. Despite the introduction of the Banking Union in 2014 and the regulatory harmonization efforts culminating in the establishment of the Single Supervisory Mechanism (SSM) under the European Central Bank, the European financial landscape remains markedly fragmented relative to other integrated economies, such as the United States. European banks continue to operate within an internal market characterized by numerous national options, sector-specific regulatory divergences and persistent barriers to the free cross-border movement of capital and liquidity. These frictions prevent the full realization of economies of scale and significantly constrain the global competitiveness of European institutions.

The relative size of European banks represents a particularly critical source of competitive and economic weakness. As highlighted by Mario Draghi in his influential report on the competitiveness of the European Union (July 2024), the largest U.S. bank, JPMorgan Chase, has a market capitalization exceeding the combined capitalization of the ten largest European banks. This disparity is not merely symbolic: it reflects profound structural differences in the ability to finance large-scale investments, support technological innovation, compete effectively in securities underwriting, Initial Public Offerings (IPOs), and specialized advisory services for mergers and acquisitions on a global scale. The implications of this competitive asymmetry extend beyond profitability, touching upon the broader issue of the European Union's economic and financial sovereignty within the contemporary geopolitical environment.

In response to this structural challenge, the European Central Bank has progressively supported a strategic vision of European banking consolidation, identifying the creation of "European champions", pan-European institutions capable of competing globally while maintaining a strong presence in major national economies, as a key instrument for restoring the international competitiveness of the sector.

## *II. M&A Transactions as a Strategic response: Potential and Complexity*

In this context of structural fragility, mergers and acquisitions (M&As) are among the most effective strategic tools for addressing the contemporary challenges facing the financial sector. Through M&A transactions, banks can simultaneously pursue multiple, interrelated objectives:

- geographic expansion and access to new strategic markets; the scale required to compete with global players;
- improvements in operational efficiency through technological and organizational cost synergies;
- revenue diversification via the integration of complementary capabilities;
- enhanced overall profitability through capital optimization and risk cost reduction.

However, cross-border M&A transactions in the banking sector, particularly within the framework of European governance, are far from straightforward. Political constraints, difficulties in determining fair value, deep cultural and organizational differences across national banking systems, and regulatory barriers linked to national sovereignty and financial stability can significantly hinder or delay integration processes, making value creation highly uncertain.

The empirical literature on cross-border banking mergers in Europe documents heterogeneous and often disappointing outcomes: while shareholders of target banks typically realize positive, statistically significant abnormal returns due to acquisition premiums, the evidence for acquiring banks is considerably more mixed. Numerous studies report neutral, negative, or stagnant long-term returns, driven by integration failures, value destruction stemming from operational inefficiencies, organizational diseconomies of scale, or governance conflicts.

The central issue emerging from the literature is the systematic underutilization of the value-creation potential of M&A transactions in the European banking sector. This issue is doubly relevant. From a theoretical perspective, it raises fundamental questions about the determinants of value creation in cross-border consolidation processes. From a practical and strategic standpoint, it calls for a critical reassessment of which integration configurations, ranging from full integration to partial strategic control, are most consistent with maximizing risk-adjusted shareholder value under the real political, organizational, and regulatory constraints of the European context.

## *III. The UniCredit–Commerzbank Case: Operational Context and Research Motivation*

The UniCredit–Commerzbank case is a vivid example of the complexities facing European banking today. In September 2024, UniCredit officially announced the acquisition of approximately 9% of Commerzbank's share capital through an accelerated book-building (ABB) transaction, enabling it to purchase a significant portion of the shares previously held by the German government, specifically those owned by the Financial Market Stabilisation Fund (SoFFin), which had become a key shareholder following the 2008 financial crisis.

In the months that followed, UniCredit progressively increased its exposure to Commerzbank through derivative instruments (equity swaps and total return swaps), reaching by December 2024 an aggregate exposure of approximately 28% when combining direct equity ownership and derivative positions. This strategy allowed UniCredit to remain deliberately below the 30% threshold that, under German law (Wertpapiererwerbs- und Übernahmegesetz, WpÜG), would trigger a mandatory public takeover offer for the entire company. In parallel, between March and April 2025, UniCredit obtained authorization from the European Central Bank to increase its stake in Commerzbank to up to 29.9% of its capital, as well as approval from the Bundeskartellamt, the German antitrust authority.

From the outset, however, the transaction encountered strong political and institutional resistance in Germany. The German government, still a shareholder in Commerzbank, criticized the move, calling it “unfriendly” and “uncoordinated.” Chancellor Friedrich Merz made clear that maintaining Germany’s banking system’s stability and independence was a top priority and raised concerns about foreign influence. This structural tension between the European macroeconomic objective of creating “continental champions” and national political resistance to the loss of financial sovereignty, clearly illustrated by the UniCredit–Commerzbank case, encapsulates the core challenge of European financial integration in the 2025–2035 decade.

#### *IV. Research Questions and Analytical Framework*

This dissertation addresses three core research questions that jointly aim to clarify the economic value, strategic feasibility, and governance implications of cross-border M&A transactions in the European banking sector, examined through the analytical lens of the UniCredit–Commerzbank case.

##### *Primary research question:*

Do cross-border mergers and acquisitions in the European banking sector effectively generate measurable economic value for shareholders, particularly in contexts characterized by significant political resistance and organizational complexity?

##### *Secondary research question:*

Which strategic, organizational, and governance drivers determine success or failure in realizing the theoretically identifiable value embedded in European banking consolidation transactions, especially in the presence of national political constraints and structural regulatory fragmentation?

##### *Tertiary research question:*

Which governance and integration model (ranging from extensive integration leading to full legal merger, to strategic control with active governance while preserving partial operational autonomy) maximizes risk-adjusted shareholder value within the contemporary European geopolitical and institutional environment?

## *V. Research Methodology and Analytical Framework*

This study combines three complementary methodological approaches to address the research questions coherently and integratively. The first approach is theoretical and conceptual, consisting of a critical review of the contemporary literature on cross-border banking mergers, with particular attention to strategic value drivers, valuation frameworks, and prior empirical evidence. The second approach is based on a strategic and historical analysis of the UniCredit–Commerzbank transaction, reconstructing the sequence of events, the political and regulatory constraints, and the alternative integration scenarios available to the parties involved. The third approach is empirical: using an event study applied to actual market data (September 2024 – August 2025), the analysis tests whether and to what extent the market reactions of the two banks are consistent with the value-creation scenarios identified at the theoretical level. The findings from these three methodological strands are synthesized in the concluding section, which addresses the research questions and formulates strategic recommendations for European regulators, institutional investors, and bank management teams involved in cross-border consolidation transactions.

## *VI. Original Contributions and Research Relevance*

This dissertation delivers three significant original contributions:

*Theoretical:* The operationalization of a conceptual framework that links value creation, traditionally examined through isolated event studies, to structural governance arrangements and real political constraints characterizing cross-border transactions in Europe. The research demonstrates that value creation is not determined solely by technical factors such as operational synergies, but also, and critically, by governance configurations that balance consolidation ambitions with the preservation of national sovereignty.

*Empirical:* The application of advanced event study methodology to a contemporary transaction (September 2024 – August 2025), based on real-time data collection, providing empirical validation using current market data rather than retrospective analysis. The study further confirms that differentiated market reactions between acquirer and target (positive for Commerzbank, neutral for UniCredit) convey sophisticated signals regarding the probabilistic assessment of multiple integration scenarios.

*Practical–strategic:* The operational formulation of a “strategic control with active governance” model as a pragmatic alternative to both full-scale integration (associated with prohibitive organizational risks) and purely passive financial investment (which fails to generate synergies). This model is immediately applicable to future European banking consolidation transactions, potentially involving €2–3 trillion in combined assets, over the 2025–2035 horizon.

Overall, this work matters not just for academic debates on M&A and governance, but also for real-world financial policy and strategy. Its insights could influence ECB thinking, regulatory approaches, and how banks manage cross-border deals, providing a valuable guide for both current decision-makers and future leaders in European banking.

## *The story*

### **The UniCredit–Commerzbank affair: evolution, declarations, and strategic scenarios to date**

UniCredit S.P.A.'s progressive approach toward Commerzbank AG constitutes one of the most significant and intricate cases in recent European banking developments, not solely due to the transaction's strategic magnitude but also to its economic, political, and regulatory ramifications.

The events began in September 2024, when UniCredit announced it had acquired about 9% of Commerzbank's shares. This initial stake resulted from a structured accelerated bookbuilding (ABB) transaction, through which UniCredit acquired a substantial portion of shares held by the German government, specifically, those controlled by the state Financial Market Stabilization Fund (SoFFin), which had become Commerzbank's reference shareholder following the 2008 financial crisis.

The acquisition was driven mostly by strategic motives rather than speculation. UniCredit stated that its goal was to strengthen its presence in Germany, a key economy in the eurozone and a strategic hub for the group, which is already represented domestically through its subsidiary HypoVereinsbank (HVB). The initial 9% stake was not seen as an isolated investment but as the first step in a broader, long-term strategy.

In the following days, UniCredit further expanded its Commerzbank exposure through derivative instruments, including equity swaps and total return swaps, thereby creating indirect economic exposure to the German bank's shares without immediately increasing directly held capital, reaching approximately 21% (combining the physical stake and derivative position). On December 18, 2024, the group issued another announcement, disclosing aggregate exposure had climbed to roughly 28%, comprising approximately 9.5% through direct participation and approximately 18.5% through derivatives, while formally maintaining a more contained shareholding position.

This approach permits UniCredit to remain below the 30% threshold, the limit under German law that would require the launch of a public takeover offer (OPA) for the entire company.

Andrea Orcel's strategy thus aligns with a progressive consolidation logic, maintaining flexibility and control over operational timing.

At the same time, the bank began contacts with supervisory authorities. Between March and April 2025, UniCredit received formal authorization from the European Central Bank (ECB) and subsequently clearance from the Bundeskartellamt, Germany's antitrust authority, permitting an increase in its participation to up to 29.9% of Commerzbank's capital. These approvals constitute fundamental milestones, recognizing the operation's full legitimacy from a regulatory perspective and consolidating UniCredit's role as a long-term strategic shareholder rather than a hostile actor.

Nevertheless, strong political and institutional resistance emerged within Germany from the earliest phases. The German government, which still retains a residual stake in Commerzbank, expressed clear opposition to the Italian initiative, characterizing it as “unfriendly” and “unconcerted.” Chancellor Friedrich Merz emphasized that the stability and independence of the German banking system remain priorities that require protection against acquisitions perceived as potentially threatening national economic sovereignty and employment levels, particularly within Commerzbank’s corporate and retail client segments.

During the summer of 2025, UniCredit began converting some of its synthetic positions into actual shares. On July 8 of 2025, the bank announced that a portion of its derivatives had been converted into equity, thereby increasing its direct stake and voting rights to approximately 20%. In August 2025, it executed another conversion, which UniCredit reported would boost its Common Equity Tier 1 ratio and deliver an investment return approaching 20%. Throughout these moves, the bank reiterated its plan to advance the transaction in stages up to the 29.9% regulatory cap.

At a September 3 of 2025, Bettina Orlopp’s conference, Commerzbank’s CFO and a central figure in this dossier, stressed that Commerzbank would remain independent despite UniCredit’s 26% holding, underscoring the strength of the bank’s standalone performance. On multiple occasions, she insisted that the German government “should retain its stake” and that any merger or large equity transaction must be “assessed with extreme caution, taking into account the institution’s stability, clients, and shareholders.” In an April 2025 interview with Handelsblatt, Orlopp affirmed, “Commerzbank remains committed to pursuing its own independent path of growth and digital transformation,” clearly signaling resistance to UniCredit’s overtures.

UniCredit’s CEO, Andrea Orcel, spoke publicly about the strategy several times; in a letter to Chancellor Merz, he described a merger between UniCredit and Commerzbank as a “natural combination” that would “enhance European competitiveness, promote euro-area financial market integration, and create sustainable value for both banks’ shareholders.” He also noted that “a continent-sized European group” would bolster the stability of Europe’s banking system, helping it to face competition from the United States and Asia.

In subsequent interviews, including one with the Financial Times in September 2025, Orcel remarked, “Politics is an important factor and we respect it, but in the end we must answer to our shareholders, not governments.” This statement reflected UniCredit’s market-driven, independent vision. Nevertheless, he left open alternative paths, stating that if another institution offered a superior valuation for its stake in Commerzbank, UniCredit “would not hesitate to consider a sale in the shareholders’ interest.” His pragmatic tone emphasized a flexible, value-creation focus rather than a takeover at all costs.

On the German side, opposition intensified. Supervisory board members such as Sascha Uebel publicly declared that “UniCredit should sell its shares, realize its gains, and withdraw”, highlighting growing tension and resistance within Commerzbank’s leadership to any merger attempt.

As of October 2025, UniCredit holds roughly 28% of Commerzbank's share capital and has secured regulatory approval to increase its stake to up to 29.9%, a level that would further strengthen its influence within the German lender. Nevertheless, a full merger seems unlikely in the near term due to intertwined political objections, valuation concerns, and governance complexities. Chief Executive Andrea Orcel has publicly stated that "current Commerzbank share prices do not yet offer a fair entry point," indicating UniCredit may pause any further purchases until market conditions improve. Simultaneously, the bank might pursue an industrial partnership with its German subsidiary, HVB, viewing it as an intermediate step toward deeper integration in the future.

Ultimately, UniCredit remains a highly influential strategic shareholder, capable of shaping Commerzbank's governance and strategic direction, even if indirectly. This case continues to serve as a valuable real-world example for studying cross-border banking consolidation in the European Union, where economic objectives, political considerations, and institutional frameworks intersect, and where the ambition of "European banking integration" meets persistent national resistance.

## **1.1. Evolution of Banking Mergers in Europe**

Over the past four decades, Europe's banking industry has undergone a significant and intricate transformation, during which mergers and acquisitions have shifted from being primarily domestic events to becoming strategic cross-border consolidation tools. This evolution has been driven by increasingly competitive, regulatory, and technological pressures that have reshaped how financial intermediaries operate and compete.

### *1.1.1 The phase of national fragmentation (1980s – early 1990s)*

Until the late 1980s and early 1990s, the European banking landscape was highly fragmented along national borders. Banking mergers were almost exclusively domestic, reflecting a regulatory environment in which national authorities exercised strict control over capital movements and financial services. Government involvement in European banking systems remained “considerably extensive” through the mid-1980s, significantly limiting opportunities for cross-border consolidation.

During this period, consolidation was primarily motivated by cost efficiency, with a focus on achieving minimum economies of scale, reducing costs, and managing fixed costs in domestic markets with intense internal competition. Countries such as the Netherlands and Denmark experienced early waves of restructuring at the end of the 1980s and early 1990s, leading to the emergence of large national institutions prepared to compete in the future Single Market.

### *1.1.2 The transition phase: from the Single Market to the introduction of the euro (1992–1999)*

The launch of the European Single Market in 1992 marked a key turning point, complemented by steps toward monetary union. The 1988 Capital Liberalization Directive, effective from July 1990, together with the Second Banking Directive of 1989 (implemented in 1993), provided the regulatory foundation for this transformation. The latter introduced the core principles of European banking integration (minimum harmonization, mutual recognition, and home-country control), establishing the “*single passport*” which allowed any bank authorized in one EU member state to operate freely across the Union.

The Maastricht Treaty of 1992 laid the groundwork for the euro, introduced in 1999, and for deeper integration of banking and capital markets. These developments fundamentally changed the strategic outlook of major European banks, opening the door to the first meaningful wave of cross-border mergers. Institutions began to redesign their organizational models on a continental scale, leveraging the gradual reduction of regulatory barriers and the growing free movement of capital and financial services.

### *1.1.3 The acceleration of cross-border consolidation (2000–2007)*

In the early 2000s, cross-border consolidation gained significant momentum. Large European banks increasingly recognized that global competition required not only significant economies of scale and advanced technological capabilities but also diversified and strategically coordinated presences across multiple European economies. M&A activity peaked during this period, with transactions reaching €116 billion in 2006 and a high of €91 billion in 2007.

This period saw a substantial number of M&As aimed not only at geographic expansion but also at integrating complementary business models and optimizing financial and operational structures.

Key motivations included:

- the desire to leverage strengthened capital positions,
- create platform efficiencies,
- enter new markets.

From a once-fragmented industry, banking was beginning to adopt a more strategic, continent-wide perspective.

### *1.1.4 From Crisis-Driven Rescue Mergers to the European Banking Consolidation (2007- present)*

The European banking system, once more centralized and focused, faced abrupt disruption with the onset of the global financial crisis of 2007–2009. As shown by empirical research, the crisis exposed significant structural weaknesses, particularly in banks with excessive exposure to high-risk markets or insufficiently resilient business models.

The crisis prompted a deep revision of M&A strategies, resulting in a sharp decline in more ambitious transactions, particularly cross-border ones, which were perceived as riskier due to integration challenges and macroeconomic uncertainty. By 2017, total transactions had fallen to €3 billion, well below pre-crisis levels. During this period, many mergers were rescue efforts, often involving government intervention through bailouts, restructuring, or other forms of support, reshaping Europe's banking landscape and increasing state involvement and capital reinforcement. The introduction of Basel III solvency and liquidity standards, along with the establishment of the ECB's Single Supervisory Mechanism (SSM), accelerated consolidation in some of Europe's most fragmented markets, such as Spain and Italy.

Beginning in the mid-2010s, the European banking sector entered a new phase of consolidation. Cross-border mergers reappeared but with fundamentally different motivations, primarily strategic: advancing digital transformation, achieving sustainable economies of scale and responding to complex regulations.

European banks today face competition not only from traditional peers but also from fintech and native digital platforms that are redefining financial services with innovative technologies. This digital disruption has

created a new competitive paradigm in which scale, technological efficiency, and continuous innovation are key success factors.

Since 2010, cross-border M&A activity has virtually stalled, accounting for less than 10% of total European banking mergers, down from 25% in 2007. Currently, mergers predominantly occur within countries, focusing on medium-sized regional banks rather than the large institutions that previously prioritized domestic expansion.

#### *1.1.5 Current trends and future perspectives*

Recent market analyses suggest that 2025 marked a significant revival in European banking M&A activity, with announced deals totaling a record USD 27 billion in the first half of the year, nearly double the figure for the same period in 2024. This resurgence is driven by substantial excess capital among major European banks, over €500 billion accumulated since 2022, which has renewed both capacity and appetite for acquisitions. Contemporary consolidation drivers include the need for greater operational scale to absorb rising fixed costs of technology and compliance, the acquisition of specialized capabilities in wealth management, asset management, and payments, and improvements in earnings quality and returns. Industry experts forecast that up to 40 mergers could occur in Europe over the next six months, suggesting a return of “deal fever” in the banking sector.

Regulatory developments also support this trend: European supervisory authorities have adopted a more favorable stance toward mergers after years of underperformance in the sector due to crises and regulatory constraints. The economic rationale for consolidation is now stronger than at any point in the past decade, although challenges remain, including differences in national deposit insurance schemes, supervisory practices, and regulatory frameworks.

In this evolving environment, mergers are a key strategic tool for building stronger, more resilient, and more innovative banking institutions capable of competing effectively in the global digital financial ecosystem and of meeting the rising expectations of European financial stakeholders for efficiency, sustainability, and technological advancement.

## 1.2 Strategic Motivations Behind Cross-Border M&A Operations

Cross-border M&As in the European banking sector represent a key strategic tool for institutions seeking to consolidate and strengthen their competitive position in an increasingly integrated and complex continental market. Beyond purely financial or accounting considerations, the underlying strategic motivations play a central role, as they reflect how banks respond to the challenges posed by globalization, accelerated regulatory evolution, digital transformation, and structural changes in customer behaviour and traditional business models. Both academic literature and empirical evidence identify a broad set of strategic drivers that push European banks toward cross-border consolidation. These drivers often intersect and reinforce one another, creating an economic logic that makes cross-border integration not only desirable but, in many cases, necessary to ensure long-term competitive sustainability.

### 1.2.1 Geographical expansion and access to New Markets

One of the most immediate strategic motivations behind cross-border M&A is geographical expansion. Entering new national markets allows banks to diversify revenue sources and reduce structural dependence on their domestic market, which may be limited by strong cyclical volatility, intense competition, strict regulatory frameworks, or subdued growth prospects. Within the European Union, cross-border M&A enables banks to build an integrated continental presence by leveraging opportunities offered by the Single Market and the Banking Union. As highlighted by the ECB and other supervisory authorities, creating “*pan-European champions*” is considered fundamental to improving the competitiveness of the European banking system relative to major U.S. and Asian players.

In the UniCredit–Commerzbank context, a potential merger aligns with UniCredit’s strategy of strengthening its presence across Western, Central, and Eastern Europe, combining markets with distinct macroeconomic profiles and competitive landscapes. UniCredit, already present in Germany through HypoVereinsbank, would leverage the acquisition of Commerzbank to consolidate its position in Europe’s second-largest banking market.

Geographical expansion is also tied to the strategic goal of entering less mature or more dynamic markets, where opportunities for organic growth (via new products, digital services, or underserved customer segments) are significantly higher than in saturated domestic markets. Cross-border M&A often represents a faster and more cost-efficient path to market entry than opening new branches or building up operations organically. Empirical studies show that geographical diversification through M&A can create meaningful value when paired with a coherent integration strategy. Research on international bank diversification suggests that expanding into markets with less-correlated economic cycles reduces profit volatility and enhances funding stability.

### *1.2.2 Pursuit of Economies of Scale and Operational Synergies*

A second major driver is the pursuit of economies of scale and substantial operational synergies. M&A enables banks to optimize their cost structures by eliminating duplications in support functions (legal, HR, compliance), IT systems, distribution networks and back-office operations.

In a market characterized by the continuous reduction of intermediation margins, as competition between banks, including non-bank players, intensifies, stricter regulations (Basel III, MiFID II, GDPR), low interest rates, and the commoditization of traditional services have made operational efficiency and cost reduction essential for long-term sustainability.

According to Oliver Wyman's 2025 analyses, European banking consolidation is driven largely by the need to absorb rising fixed costs in technology and regulatory compliance. Major institutions must sustain substantial investments in infrastructure, cybersecurity, digital platforms, and risk-management systems, costs that can be amortized efficiently only with significantly higher operating volumes. Typical categories of cost synergies include:

- *Support functions*: reductions of 30–50% through the elimination of overlapping central functions.
- *Technology and IT*: consolidation of platforms and data centers, removal of legacy systems, with savings around 20–30%.
- *Distribution networks*: rationalization of overlapping branches, especially relevant in increasingly digitalized markets.
- *Back-office activities*: efficiency gains through the standardization and automation of operational processes, such as payment processing and loan administration.

For the potential UniCredit–Commerzbank merger, analysts estimated annual cost synergies of roughly €800 million, largely due to IT integration, branch optimization in Germany, and consolidation of central functions. Beyond cost savings, synergies may also include the integration of complementary technological capabilities, specialized risk-management expertise, joint development of new business lines, and enhanced capacity for digital innovation.

### *1.2.3 Risk Diversification and Strengthening of Financial Stability*

Well-structured cross-border mergers provide natural diversification against country-specific risks or sectoral shocks. Operating in different national markets, each with unique economic cycles and regulatory frameworks, helps stabilize earnings and capital generation, making the combined institution less vulnerable to localized economic or political disturbances.

Research from the Bank for International Settlements (BIS) shows that banks with geographically diversified deposit bases experience lower volatility in deposit growth and benefit from lower funding costs, partly due to a shift toward more stable sight deposits. This stability supports increased liquidity creation and credit provision, with positive effects on real economic activity. This diversification is particularly important in Europe, where national economies still differ significantly in their structures, levels of development, and risk exposures. A UniCredit–Commerzbank combination (linking Italy, Germany, and Central-Eastern Europe) would likely result in a more balanced and resilient risk-return profile.

Additionally, research by the Bank of Italy indicates that mergers in the banking sector tend to reduce individual credit risk without promoting excessive post-merger risk-taking.

#### *1.2.4 The New Strategic Rationale behind European Banking M&A*

Cross-border M&A also contributes to increasing a bank's absolute size and relative importance, strengthening its bargaining position with large corporate clients, institutional investors, and financial counterparties. Scale has become a critical success factor in global banking. As highlighted in the Draghi Report on European competitiveness, the largest U.S. bank (JPMorgan Chase) has a market capitalization greater than the combined market capitalization of the top ten European banks, reflecting a structural disadvantage for Europe in financing innovation, underwriting major transactions, and competing globally.

Larger institutions benefit from better access to capital markets (higher credit ratings, lower spreads), can sustain large and sustained investments in technology and digital platforms, and compete more effectively in high-value banking segments such as investment banking, wealth management, and asset management.

An emerging and significant motivation for M&A is to address digital disruption. M&A allows banks to acquire technological expertise, digital platforms, analytics capabilities, and AI-driven tools that would be costly and slow to develop internally. Recent European consolidation has largely followed five strategic patterns:

1. Domestic consolidation to build scale and reduce costs.
2. Cross-border M&A (around 30% of total deal value since 2020), encouraged by the ECB but still facing political and economic barriers.
3. Acquisitions in wealth management to strengthen fee-based income growth.
4. Acquisitions in payments, a segment growing faster than traditional banking.
5. Asset-backed financing acquisitions to expand specialized lending capabilities.

### *1.2.5 Alignment with European Integration Policies and Regulatory Support*

Finally, a growing driver is the alignment with EU financial integration policies and the increasingly supportive stance of regulators. After years of caution, European authorities, particularly the ECB and European Commission, have shifted toward promoting cross-border consolidation to complete the Banking Union, improve global competitiveness and develop institutions capable of supporting Europe's largest international firms. As ECB officials have noted, cross-border banking integration remains limited despite the Banking Union, and Europe needs genuinely continental banks to support companies operating across multiple Member States. This regulatory shift materially reduces uncertainty and lowers approval risks, which have historically been among the main obstacles to cross-border transactions. The strategic drivers of cross-border M&A in European banking include geographic expansion, economies of scale, risk diversification, market size expansion, technological advancement, and regulatory alignment. Together, these factors form a comprehensive rationale for cross-border consolidation, which is often essential for maintaining long-term competitiveness in today's interconnected financial landscape.

### 1.3 Operational and Financial Synergies: Efficiency, Scale, and Diversification

M&As in the European banking sector are driven by the potential to create positive synergies, that is, the benefits that arise when two institutions combine and create a level of value that exceeds what each could achieve independently. Synergies represent the core mechanism through which M&A transactions aim to create value, and in banking they have an even more prominent role due to regulatory constraints, persistent competitive pressures, and structurally high operating costs. Broadly, synergies can be grouped into two categories: operational and financial. Both are essential to ensuring the transaction's economic viability and strengthening the competitive position of the newly formed group in an increasingly integrated and technologically advanced European market.

#### 1.3.1 Operational Synergies: efficiency and cost rationalization

Operational synergies refer to the benefits derived from cost rationalization and the streamlining of the combined entity's organizational structure. In practice, these synergies emerge through the elimination of duplicated functions and the achievement of economies of scale and scope; for example, the integration of IT infrastructures, the reduction of overlapping branch networks, the consolidation of support functions such as risk management, compliance, finance and back-office operations, and the simplification of decision-making processes.

In this sense, a merger enables the spread of fixed costs over a larger operational base, thereby lowering the cost-to-income ratio and improving the group's structural profitability. According to an Oliver Wyman analysis (2025), major European banking mergers in recent years have generated average operating cost savings of between 10% and 25% within three years of completion. The Intesa Sanpaolo–UBI Banca transaction, for instance, generated over €700 million in cost synergies in its first two years, primarily due to the closure of more than 1,500 branches and the complete integration of the two banks' IT platforms. Likewise, the 2004 merger between Santander and Abbey National resulted in a 20% reduction in administrative expenses and is frequently cited in academic research as a benchmark case for operational synergies in retail banking.

More specifically, operational synergies tend to materialize across four main areas:

- *IT and digital integration*: unifying technological infrastructures reduces maintenance costs, enhances cybersecurity, and speeds up digital innovation. In an environment shaped by rising fintech competition, IT integration is now a crucial survival factor.
- *Rationalization of the distribution network*: in markets where the two banks' branch networks overlap, the integration allows for consolidation and a shift toward digital channels. While this process is generally more straightforward in domestic mergers, it becomes strategically relevant in cross-border transactions with respect to geographic coverage.

- *Centralized decision-making*: a streamlined governance system and an integrated management structure reduce operational complexity and improve the bank's responsiveness on strategic matters.
- *Efficiency in support functions*: integrating non-core areas such as marketing, internal audit, procurement or training reduces the number of operational units and frees up resources that can be reinvested in digital transformation and international growth.

Despite their potential, the effective realization of these synergies depends heavily on the quality of post-merger integration. Empirical evidence indicates that, on average, only 50%-70% of projected operational synergies are fully realized within the first three years. The main obstacles lie in cultural differences, slow decision-making processes, and difficulties in aligning IT systems; issues that tend to be even more pronounced in cross-border transactions.

In a potential UniCredit–Commerzbank merger, operational efficiencies would likely come from integrating their already advanced digital platforms and rationalizing administrative and distribution structures in Germany, where UniCredit is already present through HVB.

### *1.3.2 Financial Synergies: Capital Structure, Funding, and Revenue Diversification*

Financial synergies arise from optimizing the capital structure, reducing funding costs, and improving the stability and resilience of revenue streams. These synergies form the second major pillar of value creation. A larger, more diversified, and better-capitalized institution typically enjoys a lower average cost of funding, as it is perceived as safer by investors and rating agencies. An improved credit profile provides access to international capital markets under more favorable terms, reducing the overall cost of debt and expanding the bank's capacity to finance investment projects and strategic growth initiatives.

Cross-border mergers also offer a structural opportunity to diversify revenue sources across different economic and regulatory environments, thereby reducing exposure to the business cycle of a single country. In the EU, where national economies still show distinct structural characteristics and cyclical dynamics, a diversified multinational bank can offset weaker performance in one market with stronger growth in another.

A merged UniCredit–Commerzbank, for example, would benefit from the combination of Germany's industrial strength and the more dynamic growth patterns of Central and Eastern European markets, an advantage not available to banks with predominantly domestic operations.

At a structural level, financial synergies can enhance:

- *Capital allocation efficiency*: a larger balance sheet enables more effective optimization of risk-weighted assets (RWAs), thereby reducing the regulatory capital required under Basel III and IV.

- *Integrated liquidity management*: by merging balance sheets with different funding profiles and lending capacities, the group can rebalance its credit portfolio, improve protection against default risks, and strengthen its resilience to systemic shocks.
- *Access to global capital markets*: a pan-European group can issue financial instruments (bonds, covered bonds, hybrid securities) to a broader investor base and at lower costs.

In the UniCredit–Commerzbank scenario, analysts estimate that the merger could lead to a 15% reduction in overall funding costs and raise the Return on Tangible Equity (ROTE) by approximately 200 basis points over time, thanks to increased scale and a more diversified portfolio.

### 1.3.3 Overall Efficiency and Shareholder Value Creation

The combination of operational and financial synergies offers the most direct route to shareholder value creation. This value is typically measured by changes in earnings per share (EPS), return on equity (ROE), and market capitalization following the announcement of the transaction. Yet empirical research also shows that the actual value created depends critically on two factors: how quickly synergies are realized and management's ability to navigate the complex dynamics of post-merger integration.

In the European banking sector, studies by the ECB and by universities such as LUISS and Bocconi indicate that, on average, roughly 60% of projected synergies materialize within the first three years. The remainder is typically lost to temporary inefficiencies, cultural misalignment, or regulatory frictions; issues that tend to be more pronounced in cross-border mergers due to the interaction between the ECB's supervisory framework and national regulations.

This variability underscores the importance of combining synergy forecasts with a careful assessment of execution risk, including institutional barriers, cultural differences, and operational asymmetries between the merging entities. Only *effective post-merger governance*, supported by unified leadership and transparent communication, enables the realization of the estimated benefits.

Moreover, synergies should not be viewed solely in quantitative terms; they also offer an opportunity to enhance the European Union's financial stability and the competitiveness of its banking sector. Gains in efficiency, scale, and diversification from cross-border consolidation benefit shareholders and help complete the Banking Union and strengthen the European financial system, particularly in the context of the proposed UniCredit–Commerzbank merger.

## 1.4 Risks and Critical Issues in Financial-Sector Mergers

M&As in the banking industry are often viewed as key instruments for strengthening competitiveness and creating value; their execution entails several structural risks and operational challenges that can, in whole or in part, undermine the achievement of the initially set strategic goals. These risks emerge throughout the deal lifecycle (from the preliminary assessment of the target bank to the complex post-merger integration phase) and encompass financial, operational, regulatory, technological, and cultural dimensions that require careful, proactive management.

Academic research and empirical evidence consistently show that the failure or underperformance rate of bank M&A transactions remains high. According to studies by EY-Parthenon and other strategic consulting firms, between 70% and 90% of mergers and acquisitions fail to meet their initial objectives or fail to produce sustainable value in the medium to long term. The main drivers of these outcomes include:

- late identification of realistic synergies,
- insufficient due diligence,
- inadequate preparation for the operational and cultural challenges that arise after closing.

### *1.4.1 Valuation Risks and Overestimation of Synergies*

A significant obstacle to the success of a banking merger concerns the inaccurate valuation of the target institution and the systematic overestimation of expected synergies. During negotiations, forecasts often contain overly optimistic assumptions about banks' ability to reduce overhead costs or increase revenues through cross-selling and customer expansion. Yet empirical evidence shows that such benefits tend to materialize to a significantly lesser extent than anticipated, frequently resulting in medium-term value destruction rather than the intended value creation.

The identification and valuation of synergies are inherently complex and subjective processes. They require multidisciplinary teams and rigorous estimation methods. Synergies are usually valued through discounted cash flow (DCF) models that incorporate incremental cash flows generated by the merger, but this approach faces several limitations: uncertain implementation timelines, gradual realization patterns, high sensitivity to underlying assumptions, and potential cannibalization or dis-synergies that are often overlooked.

Within Europe's financial markets, characterized by macroeconomic volatility and heterogeneous business cycles, the valuation of banking assets becomes even more challenging. Bank balance sheets depend heavily on hard-to-quantify intangibles, such as the real quality of loan portfolios (including under-provisioned non-performing loans), sovereign exposures with different risk profiles, and provisioning practices that vary across jurisdictions. This opacity exposes acquirers to a concrete risk of overpayment, compromising the creation of shareholder value from the outset.

#### *1.4.2 Organizational, Cultural Integration, Operational and Technological Risks*

The post-merger integration phase is widely recognized as one of the most delicate and critical components of any M&A process. In cross-border transactions differences in organizational structures, corporate cultures, leadership styles, and management philosophies can quickly translate into persistent inefficiencies, internal conflict, and the loss of key talent. Banks are highly complex, heavily regulated institutions that rely on layered decision-making frameworks, long-standing client and institutional relationships, and structured governance systems. The merger of two institutions with distinct operating models can trigger organizational resistance, the departure of key managers, and major difficulties in aligning incentive systems, internal controls, and risk management practices.

Cultural risk becomes particularly significant in mergers involving banks from countries with different managerial traditions, labor relations frameworks, and risk management approaches. Research shows that cultural differences have a measurable negative impact on post-merger performance, an effect that can fade over time but tends to be more severe when the acquirer lacks cross-border integration experience. Differences in language, work norms, communication styles, and decision-making processes can hinder interfunctional collaboration and impede strategic decision-making.

A well-known example of cultural misalignment leading to failure is the Daimler–Chrysler merger, initially celebrated as a revolutionary transatlantic partnership but ultimately undone by deep managerial and cultural incompatibilities. In the banking sector, cross-border integrations between Southern European and Northern European institutions have often been complicated by divergent approaches to risk, customer relations, and remuneration policies.

Overall, approximately 75% of post-M&A integrations encounter cultural challenges that contribute to operational delays, unplanned turnover among key personnel, or other disruptions that erode deal value. Clear communication, effective onboarding of new managers, and a coordinated cultural-integration plan led from the top are central to avoiding these pitfalls.

Another major area of concern relates to the compatibility of IT systems and the integration of technological infrastructure. Modern banks rely heavily on advanced digital platforms and highly specialized data-management systems for operational efficiency, customer service, and risk monitoring. Integrating such heterogeneous systems after a merger requires substantial multi-year investments, detailed planning, highly specialized technical expertise, and effective change management.

Empirical studies reveal an alarming pattern: 79% of organizations lack a defined integration strategy at the time of signing, and 63% have no structured technological plan. Instead of migrating to modern, scalable

integration platforms, many financial institutions rely on outdated legacy systems, creating fragile networks of custom code that connect incompatible infrastructures.

IT-alignment costs, often underestimated or overlooked during early feasibility analyses, are among the main reasons for delays in planned operational synergies. Large-scale migration of sensitive data, the parallel management of multiple legacy platforms, and the need to ensure uninterrupted service expose banks to risks related to business continuity, cybersecurity, and regulatory compliance.

Real-world cases illustrate the severity of these challenges. A leading North American bank with roughly USD 90 billion in assets faced critical delays during an IT integration after acquiring a major mortgage-banking business. Despite previous M&A experience, this was its first full-scale system migration, and within five months, the project had already fallen behind schedule, exposing the institution to the risk of multimillion-dollar penalties.

#### *1.4.3 Regulatory and Supervisory Risks*

The banking sector is among the most heavily regulated and supervised worldwide, with rules set by the European Central Bank (ECB), the European Banking Authority (EBA), and national supervisors. Cross-border mergers present challenges, including conflicting national rules, differing supervisory expectations, and varying approval timelines, which increase both uncertainty and execution risk. Regulators assess not only the capital strength and sustainability of the post-merger business model but also potential systemic effects, competition dynamics, financial stability implications, and consumer protection issues. In some cases, they impose structural remedies, such as mandatory divestitures to avoid local dominance, higher capital thresholds, or temporary restrictions on the use of internal risk models.

The ECB's 2021 Guide on the Supervisory Approach to Bank Consolidation, updated later, seeks to bring order to supervisory procedures and enhance predictability. However, outcomes remain case-specific and depend heavily on discretion, making results still quite unpredictable. Antitrust concerns also pose risks, with the EU's merger control aimed at preventing market dominance that harms consumers or competition. Approval processes from both the ECB (for qualifying holdings above 10%) and the European Commission can be lengthy and politically influenced.

Recent analyses show that completing a bank merger in the EU requires, on average, 285 days from announcement to completion, significantly longer than in other financial industries (203 days), the tech sector (132 days), or banking markets in the US (219 days), China (187 days), or Switzerland (85 days). Moreover, the time needed for bank M&A in the EU has increased by more than 100 days since 2014, the year preceding the formal start of the Banking Union.

#### *1.4.4 Market Risks and Investor Perception*

Financial market reactions to M&A announcements provide an immediate, transparent indicator of investor confidence in the management's ability to create value. However, banking-sector mergers frequently trigger elevated share-price volatility, speculative movements, and uncertainty that can amplify the impact of official news.

Empirical studies applying GARCH models show that acquiring banks tend to exhibit persistent volatility, with  $\alpha_1 + \beta_1$  close to 1. This slow return to normal volatility levels creates uncertainty for investors and may compromise the bank's ability to raise capital on favorable terms.

A consistently negative reaction from institutional and retail investors can significantly depress the acquirer's share price, increasing the cost of equity, complicating funding, and deteriorating the institution's reputation among key stakeholders. Analysts and rating agencies scrutinize the strategic and financial sustainability of the deal; downward revisions to ratings or target prices can materially damage the bank's credibility and constrain its future strategic flexibility. Interestingly, empirical evidence shows that cumulative abnormal returns (CARs) of rival banks tend to be positive following a merger announcement. Markets often interpret such deals as signals of a "heated" environment likely to lead to future consolidation, supporting the M&A waves hypothesis, which posits that mergers occur in cyclical clusters rather than as isolated strategic decisions.

Additionally, perception risks among non-financial stakeholders (such as retail and corporate clients, employees, local governments, and regional communities) are often overlooked. Concerns may arise regarding the potential erosion of local identity, reduced quality of customer service, or significant job cuts. Such perceptions can erode trust, weaken customer loyalty, and challenge employee retention.

#### *1.4.5 The Trade-Off Between Strategic Opportunity and Execution Complexity*

In conclusion, M&As among European banks carry substantial strategic importance but also pose considerable risks to achieving strategic success. The balance between expected competitive gains and practical challenges depends largely on management's ability to plan realistically, address post-merger complexities with technical competence and effective leadership, and communicate clearly and consistently with regulators, markets, employees, and all relevant stakeholders.

Recent European experiences indicate that the most successful mergers are not necessarily the largest or the most expensive, but those in which organizational culture, governance structures, and long-term strategic vision are aligned from the outset. Effective risk management is therefore not merely a defensive exercise: it is a central lever for sustainable value creation and a key determinant of whether a consolidation strategy ultimately succeeds.

## 1.5 The Role of Banking Regulation and Supervision (ECB and EU framework)

In the context of banking mergers and acquisitions, the European regulatory and supervisory system plays a central role in ensuring financial stability, depositor protection, effective competition within the Single Market, and the overall resilience of EU financial institutions. Due to their complexity, systemic significance, financial consequences, and potential to cause instability, banking transactions undergo a thorough authorization process. This process involves multiple bodies, including the European Central Bank (ECB), the European Commission, and national regulators, working within integrated structures that evaluate prudential, capital, and competition risks in a transparent and orderly manner.

The European regulatory approach aims to strike a delicate balance between two strategic objectives that often pull in different directions. On the one hand, policymakers seek to promote deeper financial-market integration and to support the development of banking groups that are large and efficient enough to compete globally with major US and Asian players. On the other hand, regulators must prevent excessive concentration of systemic risk or the emergence of dominant national positions that could undermine financial stability, distort competition, or harm consumers.

### 1.5.1 European Regulatory Framework and ECB's Guidelines on Banking Consolidation

With the formal establishment of the Single Supervisory Mechanism (SSM) in November 2014, the ECB assumed direct responsibility for the prudential supervision of Europe's largest and most significant banks, including institutions such as UniCredit, Deutsche Bank, BNP Paribas, Banco Santander, and ING.

The SSM forms the first pillar of the broader European Banking Union, launched in 2012 in response to the global financial crisis and the subsequent sovereign-debt crisis in the euro area. The Banking Union rests on three interdependent pillars:

- *Single Supervisory Mechanism (SSM):*  
Since November 2014, the ECB directly supervises significant institutions and oversees less significant institutions (LSIs) in cooperation with national competent authorities.
- *Single Resolution Mechanism (SRM):*  
Operational since 2016, it consists of the Single Resolution Board (SRB) and the Single Resolution Fund (SRF), responsible for managing bank failures in an orderly manner while limiting costs for taxpayers and the real economy.
- *European Deposit Insurance Scheme (EDIS):*  
Still under political negotiation nearly a decade after its initial proposal (2015), EDIS is intended to provide a harmonized and stronger guarantee for retail deposits across the Banking Union.

This architecture significantly reduced the regulatory fragmentation that characterized Europe before the 2008 crisis, when each national authority applied its own capital, liquidity, governance, and risk-management standards. Under the SSM, the ECB now exercises extensive supervisory powers, assessing banks' capital strength, business-model sustainability, governance soundness, and risk levels through the annual Supervisory Review and Evaluation Process (SREP).

M&A operations involve significant institutions; the ECB must formally approve the transaction.

Its assessment focuses on:

- The ability of the combined group to maintain adequate CET1 ratios above regulatory minima and macroprudential buffers.
- The sustainability of leverage ratio and liquidity indicators (LCR) under stress scenarios.
- The robustness of post-merger governance, internal controls, and risk-management frameworks.
- The overall impact of the merger on systemic risk within the euro-area banking sector.

On 12 January 2021, the ECB published the final version of its *Guide on the supervisory approach to consolidation in the banking sector*. This document explicitly clarifies the ECB's expectations and evaluation criteria for bank mergers and acquisitions, following a public consultation concluded in October 2020.

The ECB's main objective is to support orderly, sustainable consolidation, particularly in Europe's highly fragmented domestic markets such as Italy, Germany, Spain, and Central and Eastern Europe. The guidelines make clear that the ECB does not oppose banking mergers; rather, it views them as potentially positive for structural profitability, operational efficiency, and overall resilience, provided they meet strict prudential and strategic requirements.

Key elements of the guidelines include:

- *Regulatory neutrality*: the ECB neither promotes nor discourages specific mergers. Each operation is assessed individually, based on prudential soundness and long-term sustainability.
- *Realistic synergy assessment*: projected cost and revenue synergies must be credible, quantitatively detailed and grounded in realistic industrial plans; avoiding the optimistic forecasts that have historically undermined many M&A transactions.
- *Prudential treatment of goodwill*: when the purchase price is below the target's net book value, the resulting "goodwill" is recognized but cannot be automatically treated as regulatory capital or distributed to shareholders. Instead, it must be used to reduce risks, cover integration costs, support future investments, or reinforce capital (subject to validation over time).

- *Robust governance and credible business plans*: the ECB requires detailed post-merger business plans, multi-year capital projections, stress tests, cultural and organizational assessments, and a solid risk-management framework.
- *Pillar 2 requirements (P2R and P2G)*: the combined entity’s Pillar 2 capital requirements are typically based on a weighted average of pre-merger requirements, with possible adjustments depending on governance quality and risk profile.
- *Temporary use of internal models*: the ECB allows the combined group to temporarily maintain existing internal models if accompanied by a clear mapping and a credible plan for gradual harmonization.
- *Early and transparent dialogue*: the ECB strongly encourages early engagement between banks and supervisors to avoid procedural delays or late-stage surprises.

This structured approach aims to prevent politically driven or strategically flawed mergers, such as ABN AMRO–Fortis or RBS–ABN AMRO, that contributed to severe instability during the 2007–2012 crisis.

### *1.5.2 The Role of the European Commission and Antitrust Control*

In parallel with the ECB’s prudential oversight, the Directorate-General for Competition (DG COMP) of the European Commission evaluates the competitive effects of bank mergers under Regulation (EC) No. 139/2004 (EU Merger Regulation).

The Commission’s primary goal is to prevent mergers from significantly reducing competition in any relevant banking market (whether retail, corporate, wholesale, or payments) by creating dominant positions, facilitating coordinated behavior, or raising barriers to entry.

For cross-border mergers, DG COMP conducts a “dual-lens” assessment, analyzing the effects in both the acquirer’s home market and the target’s market. For example, a hypothetical UniCredit–Commerzbank deal would require evaluating effects on retail and corporate lending in Germany, on Italian markets, and on Central and Eastern European regions where UniCredit already holds strong positions.

National competition authorities provide technical input and local market analysis, but the final decisions rest with the ECB (prudential) and the Commission (competition), in line with the Banking Union’s “single point of entry” approach.

### *1.5.3 Regulatory Impacts on European Banking Consolidation*

The EU regulatory framework has produced mixed effects on consolidation. On the one hand, it has contributed to a stronger, better capitalized, and more transparent banking system. On the other hand, complex

procedures, long approval timelines (averaging 285 days) and strict prudential constraints have slowed or discouraged the emergence of truly pan-European banking champions.

Several structural issues continue to hinder cross-border consolidation:

- *Ring-fenced capital and liquidity*: requirements applied on a legal-entity basis, rather than allowing fully integrated group management, limit potential efficiencies.
- *Fragmented waiver regimes*: waivers that grant exemptions from entity-level prudential requirements apply only within the same Member State, thereby restricting capital and liquidity optimization for cross-border groups.
- *Incomplete EDIS*: the absence of a fully mutualized deposit-insurance scheme leads national regulators to adopt protective stances toward foreign acquisitions.

The ECB acknowledges the need for consolidation but insists that mergers must be driven by sustainable business rationale rather than by size for its own sake or by defensive strategies.

#### *1.5.4 Toward more Integrated Supervision and a Unified European Banking Market*

In recent years, the ECB, European Commission, and legislators have introduced initiatives aimed at simplifying the regulatory environment and making consolidation more feasible:

- *CRR III and CRD VI* (approved April 2024, effective June 2024): introduce more harmonized and proportionate risk-management standards while reducing administrative burdens.
- Promotion of the Single Market for digital financial services to facilitate IT and operational integration.
- Streamlined SSM authorization procedures, designed to reduce delays and increase predictability.

In the medium to long term, completing the Banking Union, especially through EDIS, remains essential for enabling truly pan-European banking groups that can operate with uniform rules, integrated capital structures, and lower cross-border frictions. While often perceived as bureaucratic or restrictive, the European regulatory and supervisory framework plays a fundamental balancing role in financial integration. Only a clear, transparent, and proportionate set of rules can ensure that banking M&A leads to systemic stability, sustainable efficiency, stakeholder protection, and long-term value creation.

The challenge for the coming years will be to reconcile supervisory prudence with strategic competitiveness, enabling European banks to grow in scale and innovation capacity without undermining depositor protection or financial stability. In this sense, the UniCredit–Commerzbank case represents a critical test of whether the current framework can genuinely support the cross-border consolidation required to create globally competitive European banking groups.

## **2.1 Theoretical Approaches to Value Creation in M&A Transactions**

M&As are typically presented in managerial and financial literature as strategic tools capable of generating substantial added value for the companies involved, their shareholders, and other stakeholders. Over time, however, rigorous financial and strategic research has shown that the legal combination of two firms does not automatically lead to value creation. What really matters is a deep understanding of the economic mechanisms, contextual conditions, and governance choices through which value can emerge and be sustained over the medium to long term.

This section provides a structured overview of the main theoretical perspectives that explain how and why M&A transactions may generate value, as well as under what circumstances they risk destroying it. Particular attention is given to the specific operational and regulatory features of the European banking sector.

### *2.1.1 The Classical Value Approach and the Discounted Cash Flow Logic*

From the perspective of modern corporate finance, value creation in M&A is grounded in a simple theoretical principle: the intrinsic value of the combined firm should exceed the arithmetic sum of the standalone values of the two separate entities. This additional value typically derives from the effective realization of economic synergies, a more efficient capital structure, and a reduction in overall risk through improved diversification.

In practice, mergers are typically assessed using the Net Present Value (NPV) approach, a cornerstone of corporate valuation. Under this framework, an M&A transaction is economically justified only if the present value of the incremental cash flows generated by the deal exceeds the acquisition premium and the integration and transaction costs. Formally:

$$\text{NPV of the merger} = \text{Present value of synergies} - \text{Acquisition premium} - \text{Integration and transaction costs}$$

This conceptual logic is well established in academic finance and widely covered in reference texts such as *Valuation: Measuring and Managing the Value of Companies* by Koller, Goedhart, and Wessels (2010), a standard in top business schools.

However, in the banking industry, applying this classic NPV reasoning requires additional layers of analysis. A banking merger must improve not only the return on equity (ROE) for the acquiring bank's shareholders but also preserve, if not strengthen, critical regulatory capital indicators, including the Common Equity Tier 1 ratio (CET1), the leverage ratio, and the liquidity coverage ratio (LCR). Because of this, value creation in banking M&A is more complex to assess than in non-financial firms: outcomes depend on the delicate interplay between financial returns and binding regulatory capital requirements.

### 2.1.2 *The Strategic Approach and the Resource-Based View (RBV)*

A second influential theoretical perspective, rooted in the strategic management literature of the 1980s and 1990s, is the Resource-Based View (RBV). This approach suggests that firms can achieve a durable competitive advantage by combining distinctive tangible and intangible resources and capabilities, which would be less effective if kept separate.

According to the VRIO framework (Value, Rarity, Imitability, Organization), developed by Jay Barney and later expanded, resources generate sustainable advantage only when they are valuable in the market, competitively rare, difficult for rivals to imitate, and supported by an organization capable of exploiting them. In a banking merger, this necessitates a strong strategic fit between the acquiring and target institutions: alignment in key capabilities, technological assets, customer segments, market positions, and institutional knowledge.

A clear example in the European banking landscape might involve a bank with a strong retail presence and advanced digital platforms merging with an institution holding deep access to a robust corporate market. The combined group could then leverage the digital infrastructure to enhance retail penetration while expanding corporate services across the target's retail base.

Empirical studies, however, also highlight the other side of the coin. Excessive diversification, weak alignment between business models, and incompatibility in organizational cultures or IT systems often undermine potential benefits. Many mergers motivated primarily by defensive growth strategies end up destroying value rather than creating it, as the practical challenges of integrating heterogeneous intangible assets often outweigh theoretical synergies.

### 2.1.3 *Distinguishing Value Creation from Value Appropriation*

A frequently overlooked but theoretically crucial distinction concerns the difference between value creation and value appropriation. Even when a merger generates genuine economic synergies, the distribution of that value among stakeholders may be uneven.

As discussed in *Value Creation and Value Appropriation in M&A Deals* (in the *Handbook of Mergers and Acquisitions*, 2012), the allocation of value depends on several factors beyond intrinsic economics, including:

- the acquisition premium paid;
- the legal and technical structure of the deal;
- the bargaining power of each party.

Empirical evidence consistently shows that shareholders of the target bank tend to realize significant positive abnormal returns, typically between 16% and 32%, reflecting both the control premium and the reduction in uncertainty following the acquisition.

Conversely, shareholders of acquiring banks often experience zero or negative abnormal returns around the announcement date. Studies report cumulative abnormal returns (CARs) of  $-0.85\%$  to  $-3.0\%$  in the short term (3- to 30-day windows) and even larger declines,  $-2\%$  to  $-8\%$ , over longer horizons.

A particularly interesting behavioral dimension concerns **executive overconfidence**. When both CEOs involved in the transaction exhibit excessive confidence, the acquisition premium tends to rise by an additional 7–9%. Markets usually penalize such situations: cumulative abnormal returns for the acquirer’s shareholders can fall by 11–12% at announcement. This “double overconfidence” dynamic has been described in the literature as a sort of “dance of value destruction”.

In the context of a potential UniCredit–Commerzbank combination, this issue becomes especially relevant. The acquisition premium required to gain control of Commerzbank, Germany’s second-largest listed bank, could absorb a substantial share of the expected synergies, limiting the net value available to UniCredit’s shareholders.

#### *2.1.4 An Empirical and Critical Perspective: The “Paradox” of Banking M&A*

One of the most striking conclusions of recent empirical research is what scholars often call the “M&A paradox”: although mergers are usually justified as strategically sound and value-enhancing, many fail to generate value for the acquirer’s shareholders.

A comprehensive review conducted by the ECB in 2021 on the European banking sector highlights mixed results. Consolidation has, on average, had a moderately positive effect on profitability. Yet the wide dispersion in outcomes points to significant execution risks. Cross-border mergers tend to perform better than domestic ones, but their benefits diminished after the 2008 financial crisis due to regulatory tightening and a tougher macroeconomic environment.

Several recurring factors explain why many banking mergers fall short of expectations:

- *Systematic overestimation of synergies*: cost synergies are often realistic, but revenue synergies, especially cross-selling, tend to be overstated. Customer behavior in banking is sticky, and organizational barriers to effective cross-selling persist.
- *Overpayment of the control premium*: competitive bidding, asymmetric information, and managerial biases frequently push acquisition prices above intrinsic value.

- *Ineffective post-merger integration*: despite formal plans, the integration of IT systems, the harmonization of processes, and the alignment of cultures typically takes longer and costs more than expected.
- *Hidden costs and underestimated complexity*: Regulatory compliance, management time, IT integration, and customer attrition can substantially erode projected gains.

As noted in a 2025 analysis by the Boston Consulting Group: “*Scale, scope and speed matter, but the window for action is narrowing.*” In essence, while consolidation remains strategically relevant, increasing regulatory complexity, market pressures, and technological shifts reduce the time frame in which synergies can realistically be realized.

### *2.1.5 Implications for the European Banking Sector and the UniCredit–Commerzbank Case*

By integrating these theoretical perspectives (NPV logic, the resource-based view, the distinction between value creation and value appropriation, and the empirical evidence), a comprehensive framework for evaluating M&A in the European banking sector is offered.

This integrated perspective comprehensively encompasses the UniCredit–Commerzbank merger scenario. The deal demonstrates notable strategic alignment, including complementary geographic markets, diverse revenue streams, and expanded competitive reach. Nonetheless, valuation uncertainties, cross-border integration challenges, political concerns in Germany, and value appropriation issues pose significant risks.

A rigorous assessment cannot rely solely on projected cash flows or headline synergies. It must incorporate realistic execution probabilities, acknowledge historical realization rates of 50–70% and carefully examine how much of the value created would ultimately accrue to UniCredit’s shareholders.

The systematic examination of contemporary theoretical approaches to value creation in M&A highlights three core pillars:

1. Financial valuation grounded in NPV and capital management;
2. Strategic coherence assessed through the Resource-Based View;
3. The critical distinction between value creation and value appropriation.

However, in the current highly regulated European banking environment, these frameworks must be supplemented by considerations of regulatory capital requirements, macroeconomic fluctuations, and competitive dynamics between fintech firms and traditional banks. Only a comprehensive approach, one that acknowledges the wide variation in observed outcomes, can realistically gauge the potential for value creation and identify the specific conditions under which that value can be sustained over time.

## 2.2 Valuation Models and Financial Synergies

Accurately evaluating a M&A transaction represents a critical and complex step in the strategic decision-making process, as it allows for rigorously determining whether and to what extent the transaction will generate value for the acquirer's shareholders, the target, and other stakeholders involved.

In the specific context of the regulated European banking sector, the inherent complexity of this analysis is further amplified by the highly regulated nature of the sector, the sophisticated and complex structure of bank balance sheets, and the critical relevance of macroeconomic variables that significantly impact the cost of capital and future profitability of institutions.

The objective of this chapter is to systematically illustrate the main contemporary valuation models used in professional practice to estimate the intrinsic value of an M&A transaction, to identify and quantify the financial synergies resulting from the transaction, and to build a robust valuation framework applicable to the specific context of large and complex European credit institutions. Particular attention will be paid to the operational specifics of the banking sector, where valuation models must balance profitability considerations with complex and dynamic regulatory capital constraints.

### 2.2.1 Fundamental Approaches to Business Valuation

The main theoretical approaches used in academic literature and professional practice for business valuation, and therefore also in M&A transactions, are systematically divided into two broad, distinct methodological categories:

- Absolute valuation methods: based on the discounting of future cash flows generated by the company, including approaches such as Discounted Cash Flow (DCF), Adjusted Present Value (APV), and Flow to Equity (FTE);
- Relative valuation methods: based on the use of observable market multiples for comparable publicly traded companies, or multiples derived from similar historical transactions in the same sector.

#### a) *The Discounted Cash Flow (DCF) Model*

The DCF model represents the fundamental theoretical basis for rigorously determining a firm's value, known as Enterprise Value (EV).

According to this established theoretical approach, the intrinsic economic value of a firm corresponds to the present value of the free cash flows available to all providers of capital (Free Cash Flow to the Firm, FCFF), appropriately discounted at the Weighted Average Cost of Capital (WACC), the weighted average cost of capital that reflects the firm's risk profile.

The fundamental mathematical formulation of the DCF is expressed as:

$$EV_0 = \sum_{t=1}^N \frac{FCFF_t}{(1 + WACC)^t} + \frac{TV_n}{(1 + WACC)^N}$$

where  $EV_0$  is the present value of the firm,  $FCFF_t$  is the expected operating free cash flows in period  $t$ , WACC is the weighted average cost of capital,  $N$  is the forecast horizon, and  $TV_N$  is the terminal value of the firm (the value at the end of the explicit forecast horizon).

Terminal value is conventionally calculated using the Gordon perpetual growth model, according to the following formulation:

$$TV_N = \frac{FCFF_{N+1}}{WACC - g}$$

where  $FCFF_{N+1}$  is the free cash flow in the first year beyond the explicit forecast horizon and  $g$  is the firm's perpetual growth rate.

Operating cash flow (FCFF) is calculated using the following decomposition:

$$FCFF_t = NOPAT_t + Dep_t - Capex_t - \Delta NWC_t$$

where  $NOPAT_t$  represents Net Operating Profit After Tax,  $Dep_t$  are depreciation and amortization (which are added because they do not constitute actual cash outflows),  $Capex_t$  are capital expenditures, and  $\Delta NWC_t$  represents the change in net working capital (necessary to support operating growth).

The WACC represents the weighted average cost of all providers of capital (shareholders and creditors) and is calculated using the following formula:

$$WACC = \frac{E}{D + E} r_e + \frac{D}{D + E} r_d (1 - T)$$

where  $E$  represents the market value of equity,  $D$  is the market value of debt,  $r_e$  is the cost of equity,  $r_d$  is the cost of debt, and  $T$  is the firm's tax rate.

The cost of equity ( $r_e$ ) is conventionally determined using the Capital Asset Pricing Model (CAPM), which is the theoretical reference model in corporate finance for determining the expected profitability required by investors:

$$r_e = r_f + \beta(E[R_m] - r_f)$$

where  $r_f$  is the risk-free rate of return,  $\beta$  is the firm's systematic risk coefficient relative to the market, and  $E[R_m] - r_f$  is the market risk premium which is the additional expected return investors require for assuming the risk of investing in equity.

This CAPM formulation reflects the rate of return required by investors, explicitly proportional to the firm's systematic risk, that is the risk component that cannot be diversified away and remains correlated with the overall market.

In the banking sector, however, the mechanical application of traditional DCF presents *significant methodological limitations*, as banks generate economic value not only through traditional operating cash flows but also through sophisticated regulatory capital management and complex financial risk management. For this reason, bank value is frequently estimated using the Excess Return model (also called the Residual Income Model), which explicitly values the bank's ability to generate a Return on Equity (ROE) higher than the cost of equity.

The formulation of the Excess Return Model is as follows:

$$P_0 = BV_0 + \sum_{t=1}^{\infty} \frac{(ROE_t - r_e) \times BV_{t-1}}{(1 + r_e)^t}$$

where  $P_0$  represents the total value of the bank's equity,  $BV_0$  is the initial book value of equity,  $ROE_t$  is the projected return on equity for period t,  $r_e$  is the cost of equity, and the model specifically values the positive spread between the generated return and the opportunity cost of invested capital.

#### b) *The Adjusted Present Value (APV) Model*

Adjusted Present Value (APV) is a sophisticated extension of DCF that explicitly separates the firm's value into distinct components, allowing for a more granular and transparent assessment of the financial impact.

The basic formulation of APV is as follows:

$$APV = NPV_{unlevered} + PV(Tax Shield)$$

where  $NPV_{unlevered}$  represents the net present value of the firm as if it were completely debt-free (financed entirely with equity, the so-called "unlevered value"), and  $PV (Tax Shield)$  is the present value of the tax benefits resulting from the tax deductibility of debt interest.

This approach is particularly useful in M&A transactions, as it enables the rigorous isolation of the financial impact of debt and the transparent, quantifiable assessment of the tax benefits of the post-merger capital structure.

In the specific case of banking, where the use of leverage is subject to stringent regulatory limits under Basel III and Basel IV, the APV enables the effects of the minimum capital required for authorizations to be effectively integrated into the overall value of the transaction, thereby incorporating prudential constraints into the valuation.

### c) The Flow to Equity (FTE) Model

The Flow to Equity (FTE) approach estimates the value of equity as the present value of the cash flows available to shareholders after debt service (Free Cash Flow to Equity, FCFE), discounted at the cost of equity capital:

$$E_0 = \sum_{t=1}^N \frac{FCFE_t}{(1 + r_e)^t}$$

where  $E_0$  represents the total value of equity,  $FCFE_t$  are the cash flows available to shareholders in period  $t$ , and  $r_e$  is the cost of equity.

The cash flow available to equity (FCFE) is calculated using the following decomposition:

$$FCFE_t = Net\ Income_t + Dep_t - Capex_t - \Delta NWC_t + \Delta Debt_t$$

where  $Net\ Income_t$  represents net income for the year,  $Dep_t$  is depreciation and amortization,  $Capex_t$  is capital expenditures,  $\Delta NWC_t$  is the change in working capital, and  $\Delta Debt_t$  is the net change in debt (loans contracted minus repayments made).

The FTE approach is particularly appropriate when the objective is to analyze the impact of the merger from the specific perspective of the acquirer's shareholders, to rigorously assess whether the transaction is accretive (i.e., increases value per share) or dilutive (i.e., reduces earnings per share, EPS) compared to the non-merger scenario.

### 2.2.2 Relative Valuation Methods

Market multiples are commonly employed as practical and straightforward tools to rigorously assess whether a company is overvalued or undervalued compared to direct competitors or compared to historically similar

transactions. In the banking industry, analysts tend to rely on a few key multiples that capture different aspects of performance and profitability:

- Price/Book Value (P/BV): this ratio compares the market value of equity to its book value. It is especially relevant for banks, as the book value effectively represents their tangible shareholders' equity.
- Price/Earnings (P/E): this multiple relates the market price of a bank's shares to its earnings, offering an indication of how investors value the institution's profit-generating capacity.
- EV/EBITDA and EV/EBIT: these ratios are used to evaluate a bank's operating results independently of its capital structure or financing policies.

Selecting the most appropriate multiple largely depends on the characteristics of the bank under examination and the degree of comparability within the chosen peer group. For example, a P/BV greater than 1.0x usually signals positive market expectations, reflecting the institution's ability to generate returns above its cost of capital. Conversely, a P/BV below 1.0x may indicate lower expected profitability or greater perceived risk to investors.

### 2.2.3 Financial Synergies as a Value Driver

Synergies are the primary source of value creation in mergers and acquisitions, referring to the additional economic benefits that arise from combining two entities, benefits that would not be achievable if they remained separate and independent.

Synergies can generally be divided into three main categories:

- *Operational synergies*: these result from the deep integration of organizational structures and operational processes, from structural cost reductions achieved through the elimination of overlaps, and from overall efficiency improvements and rationalization of the distribution network. Typical examples include the closure of redundant branches, the reduction of administrative staff, and the integration of IT systems.
- *Financial synergies*: these are associated with the structural reduction in the combined bank's cost of capital and the optimization of its leverage. They may arise from an improved risk profile, a higher credit rating, and greater geographical or sectoral diversification of credit risk.
- *Fiscal synergies*: these stem from the effective use of tax loss carryforwards and from the deductibility of interest expenses in the post-merger structure, as well as from opportunities to reorganize the group's structure for overall tax efficiency.

The quantitative assessment of synergies typically involves estimating the incremental cash flows they are expected to generate and discounting them at an appropriate rate, usually the WACC.

Formally:

$$V_{Synergies} = \sum_{t=1}^N \frac{\Delta FCF_t}{(1 + WACC)^t}$$

where  $\Delta FCF_t$  represents the variation (increase) in operating cash flows specifically attributable to the merger, measured as the difference between the cash flows of the combined entity and the sum of those that the two banks would have generated independently if they had remained separate. Such synergies must be realistic, sustainable over time, and consistent with the detailed business plan presented by management. However, empirical evidence clearly shows that most M&A transactions realize only 60–70% of the synergies estimated ex ante, primarily due to the complexity of post-merger integration and overly optimistic assumptions made during the negotiation phase.

#### *2.2.4 Implications for European Banking Operations*

In the specific context of European banking mergers, and particularly in the potential case of UniCredit–Commerzbank, the rigorous application of the valuation models described above must consider the distinctive sectoral and regulatory features that characterize today’s European banking environment:

- Direct dependence on strict capital requirements imposed by the European Central Bank (such as the CET1 ratio, Leverage Ratio, LCR, and NSFR) and by the Basel III/IV framework, which represent real operational constraints for valuation purposes.
- The critical importance of regulatory and funding synergies, including the potential reduction in funding costs resulting from an improved credit rating and the larger scale of the combined bank.
- The effect of geographical diversification on the structural stability of the combined bank’s operating cash flows over time, as it mitigates idiosyncratic exposure to local economic shocks.

Within the European banking landscape, the APV model appears to be the most suitable approach, as it allows analysts to separately assess the base operational value of the combined entity and the additional fiscal and regulatory benefits arising from the merger. Complementing this approach, a comparative analysis of market multiples (such as P/BV and P/E) can help verify the overall consistency of the valuation with that implied by institutional investors and the broader financial community. A rigorous valuation of an M&A transaction necessarily requires an integrated combination of advanced financial analysis and a deep strategic and contextual understanding of the operation. DCF, APV, and FTE models enable precise quantification of the transaction's intrinsic economic value and expected synergies. At the same time, comparative multiple analysis provides a solid empirical benchmark against market valuations. Only a comprehensive methodological integration of these approaches can yield a credible and realistic estimate of the value created by a merger, enabling a clear analytical distinction among the operational, fiscal, and financial components that constitute the total value.

## 2.3 Market Efficiency and Market Reaction to Announcements

The systematic analysis of how financial markets react to M&A announcements is among the most established and influential areas of contemporary empirical finance. It enables a direct, quantitative, and measurable assessment of how quickly and to what extent new, value-relevant information is incorporated into stock prices. This provides valuable insight into the informational efficiency of financial markets and into investors' perceptions of the potential value creation or destruction associated with such transactions.

The Efficient Market Hypothesis (EMH) provides the fundamental theoretical framework for interpreting price reactions to informational events and for building robust empirical models such as the Event Study, which will be developed in the third part of this thesis and will serve as the core methodological foundation of the econometric analysis.

### 2.3.1 *The Theory of Informational Efficiency*

The EMH was first introduced into academic literature by Eugene F. Fama (1970), marking a pivotal moment in the evolution of financial market theory and modern asset pricing analysis.

Fama's original idea posits that market prices at any moment fully reflect all available information to investors and adjust instantly to new information. Consequently, in a fully efficient market, prices adjust instantaneously to new information, making it theoretically impossible to earn abnormal returns systematically and predictably.

Fama distinguishes three forms of informational efficiency, depending on the type and scope of information incorporated into prices:

1. **Weak Form:** prices reflect only historical information such as past price movements, trading volumes, and other time-series data. Under this form, technical analysis cannot consistently generate abnormal profits since past trends have no predictive power over future price movements.
2. **Semi-Strong Form:** prices incorporate all publicly available information, including market news, press releases, financial statements, macroeconomic data, and official corporate announcements. In this setting, even fundamental analysis based on public data cannot systematically outperform the market.
3. **Strong Form:** prices fully reflect both public and private (insider) information, implying that even access to confidential data would not provide any economic advantage, as all information is already embedded in equilibrium prices.

Within the context of M&A transactions, the semi-strong form of market efficiency is the most relevant theoretical framework. Price adjustments following public merger announcements enable an empirical

evaluation of the market's ability to correctly interpret the economic implications of the event and to respond consistently with expectations of value creation.

In a semi-strong efficient market, the announcement of a merger or acquisition should trigger an immediate and complete adjustment in the firm's share price, reflecting the market's overall assessment of expected synergies, integration costs, likelihood of deal success, and anticipated shareholder returns. This principle underlies the empirical rationale of the Event Study methodology, which seeks to quantify such price reactions and determine whether, and to what extent, markets correctly incorporate relevant information into the price formation process.

### 2.3.2 Informational Efficiency in the context of M&A

M&As provide a particularly valuable setting for empirically testing the degree of informational efficiency in financial markets. These transactions are highly informative events that can significantly influence investors' perceptions of firm value and future prospects. The announcement of a M&A represents a moment when a large amount of new information (strategic, financial, industrial, and forward-looking) is simultaneously released to the market, triggering an immediate and measurable reaction in stock prices.

According to Fama's semi-strong form of the information efficiency hypothesis, if the market is informationally efficient, share prices should immediately incorporate all information in the announcement. Observing the behavior of prices around the **event date** thus makes it possible to assess how quickly and accurately markets assimilate such information, and whether this process aligns with theoretical predictions.

The impact of a merger or acquisition announcement on stock prices largely depends on the role of the company involved, whether it is the target (the company being acquired) or the bidder (the acquiring firm).

- For the *target company*, market reaction is generally positive and significant, as acquisitions typically include a takeover premium relative to the prevailing market price. This premium reflects the acquirer's willingness to pay above the pre-announcement value, incorporating expected operational and financial synergies as well as the strategic control gained over the target.
- For the *acquiring firm*, the reaction tends to be more heterogeneous, and in some cases negative. Markets often price in the risks associated with integration, financing costs, and the potential for overpayment, that is paying more than the intrinsic value of the target. Conversely, when the transaction is perceived as strategically coherent and capable of generating sustainable synergies, the market response can be positive, reflecting investor confidence in the acquirer's long-term value creation potential.

In both cases, the speed and direction of price adjustments provide a direct indicator of the degree of informational efficiency within the market.

### *The Role of Information and Expectations*

Market reactions to M&A announcements depend not only on the content of the new information but also on investors' pre-existing expectations. If the deal has been the subject of prior rumors or market speculation, some of the information may already be reflected in stock prices before the official announcement, resulting in a muted or negligible reaction when the news becomes public. Conversely, when a transaction is unexpected or previously unknown, the market tends to react more strongly, as the announcement introduces genuinely new information into the pricing system.

This phenomenon, known as the anticipation effect, is particularly relevant in media-intensive equity markets, such as the European market, where news about major banking or industrial institutions is often circulated and interpreted in advance by financial media and analysts. In this sense, informational efficiency should not be regarded as a static concept but rather as a dynamic attribute of financial markets, shaped by the quality, timeliness, and transparency of the information being disclosed.

### *Factors influencing Informational Efficiency in Banking M&A*

The empirical verification of informational efficiency exhibits several distinctive features compared to other industries. The main factors that may affect the speed and accuracy of market reactions to M&A announcements include:

- *Informational complexity and accounting opacity:* bank balance sheets are heavily influenced by valuation items and complex financial instruments, making it more difficult for investors to assess the actual impact of a merger on capital strength and future profitability.
- *Regulatory constraints:* banking mergers are subject to approval by ECB and national supervisory authorities, introducing uncertainty regarding the timing and conditions of the transaction.
- *Political and systemic sensitivity:* cross-border mergers between institutions in different EU member states may encounter political resistance and concerns regarding financial sovereignty and employment protection.
- *Corporate communication and disclosure:* the clarity and transparency of the information released by the banks involved directly affect the market's ability to interpret the announcement promptly and accurately.

These factors can delay or weaken the full incorporation of information into prices, leading to deviations from the ideal model of informational efficiency.

Informational efficiency in the context of M&As is a key dimension for understanding the dynamics of modern financial markets. Price reactions to announcements are not merely speculative movements but reflect the collective ability of investors to process and rationally evaluate the strategic information disclosed by firms. In the European banking sector, this process is particularly complex due to the regulated, interconnected, and systemic nature of the institutions involved. As a result, the empirical analysis of market

reactions becomes an essential tool for objectively assessing the degree of efficiency and transparency that characterizes contemporary financial markets.

### *2.3.3 The Reaction of European Banking Markets: A specific context*

The European banking sector exhibits structural and regulatory characteristics that complicate the analysis of market reactions to M&A announcements relative to other industries. The response of bank share prices to informational events depends not only on expectations of value creation or operational synergies, but also on systemic, political, and regulatory factors that can amplify or moderate the news's overall impact. Unlike traditional industrial sectors, the European banking system is deeply embedded in the European Union's supervisory and financial stability mechanisms. Consequently, merger and acquisition decisions are not merely strategic market operations, but they also affect the systemic structure of credit and the overall stability of the financial system.

Distinctive features of the European context:

- *Regulatory Integration and Centralized Supervision*

With the introduction of the SSM in 2014, the ECB assumed a central role in the direct supervision of major European credit institutions. Any merger or acquisition involving large cross-border banks must receive prior authorization from the ECB, which assesses the operation's impact on capital ratios, systemic risks, and operational continuity.

As a result, markets factor in, at the time of the announcement, not only the transaction's strategic implications but also the uncertainty surrounding regulatory approval, which may influence both the timing and the feasibility of the merger.

- *Informational Complexity and Capital Structure*

Bank balance sheets are characterized by a high proportion of financial assets and liabilities, often measured at fair value or subject to fluctuations in interest rates and credit risk. This makes it difficult to estimate merger synergies in advance, as investors must also account for potential effects on capital requirements (CET1 ratio), leverage ratio, and post-integration funding costs.

- *Political and National Influence*

Many systemically important European banks are directly or indirectly owned by national governments. As a result, cross-border mergers can encounter political resistance related to employment protection, the preservation of national control over credit, and the defense of domestic economic interests.

These dynamics, often anticipated or amplified by financial media, strongly shape market perception and can contribute to heightened volatility in the shares of the institutions involved.

- *Cultural and Institutional Differences*

Cross-border banking mergers also entail the integration of different management systems,

governance models, and organizational cultures. The difficulty of aligning these elements is often perceived by investors as a source of risk, potentially affecting the realization of the projected operational synergies.

Overall, the behavior of European banking markets in response to M&A announcements reflects a balance between economic expectations and institutional considerations. Price adjustments tend to occur more gradually and in a more nuanced manner, indicating a form of imperfect semi-strong efficiency, in which information is assimilated progressively as market participants evaluate its credibility and long-term sustainability.

### *2.3.4 Implications for the Empirical Analysis*

Informational efficiency represents the conceptual foundation of empirical research on corporate events. Understanding how markets react to M&A announcements allows the transformation of a theoretical construct, the speed and completeness with which information is incorporated, into an observable and measurable phenomenon through market returns.

The reference methodology for this type of analysis is the Event Study, which posits that the stock's actual return on the event date may deviate from the expected return in an efficient market. This deviation, known as the Abnormal Return (AR), captures the net effect of the information released to the market on that specific date.

Formally, the Abnormal Return is defined as:

$$AR_{i,t} = R_{i,t} - E(R_{i,t})$$

where  $R_{i,t}$  is the actual return of firm  $i$  at time  $t$ , and  $E(R_{i,t})$  represents the expected return in the absence of new information.

By aggregating abnormal returns over the event window surrounding the announcement, it is possible to compute the Cumulative Abnormal Return (CAR), which measures the total market reaction within the defined time frame.

Formally, the Cumulative Abnormal Return is defined as:

$$CAR_i = \sum_{t=T_1}^{T_2} AR_{i,t}$$

where  $T_1$  represents the start day of the observation window and  $T_2$  represents the end day of the window, with day 0 representing the official announcement of the operation.

A significantly positive CAR indicates that the announcement conveyed information perceived as favorable by the market, generating expectations of value creation. Conversely, a negative CAR suggests that investors interpreted the event as value-destructive or excessively risky.

In the context of the European banking sector, empirical analysis based on abnormal returns makes it possible to assess how investors react to key factors such as:

- the capital strength of the acquiring institution;
- the financial sustainability of the operation;
- expectations regarding regulatory approval;
- the credibility of the announced synergy plan.

This methodology thus provides an objective tool for evaluating whether markets are consistent with the semi-strong form of market efficiency and for quantifying the informational sensitivity of the banking sector to M&A events.

### *2.3.5 Application to the UniCredit–Commerzbank Case*

The UniCredit–Commerzbank case provides a particularly insightful empirical setting for examining informational efficiency in European financial markets.

Beginning in 2023, UniCredit progressively increased its shareholding in Commerzbank, reaching nearly 28% by January 2025, with authorization from the European Central Bank to raise it to 29.9%. This gradual accumulation process, accompanied by public statements from CEO Andrea Orcel, triggered a sequence of non-linear market reactions that clearly illustrate the imperfect information dynamics characteristic of European markets.

Throughout the transaction's phases, the stock price movements of both banks were gradual rather than immediate. In the weeks preceding official announcements, Commerzbank shares exhibited anticipatory rallies, largely driven by market rumors and sector-wide consolidation speculation. Following the formal announcements of stake increases, the price response became more subdued, suggesting that a portion of the information had already been incorporated ex ante by investors.

Orcel's public remarks, describing the merger as "a transaction of strategic but not urgent interest," further shaped market perception, generating moderate yet persistent volatility. At the same time, institutional and political reactions from the German government, particularly from Chancellor Friedrich Merz and the Ministry

of Finance, added another layer of uncertainty. Investors interpreted resistance to cross-border integration with an Italian partner as a potential obstacle to completing the deal, tempering the initial wave of optimism.

Overall, the observed sequence of market reactions suggests that information regarding potential banking consolidation was gradually and in a fragmented manner absorbed, consistent with a semi-strong form of imperfect informational efficiency. The case demonstrates how, in European banking markets, the interplay between public disclosures, institutional communication, and political signaling can produce a price adjustment process that is less instantaneous than theoretical predictions, while still maintaining an overall direction consistent with rational expectations.

The analysis of informational efficiency and market reactions to M&A announcements constitutes a cornerstone of empirical finance. In European markets, and particularly within the banking sector, the observed behavior reflects a dynamic balance between economic rationality and institutional constraints.

The UniCredit–Commerzbank case offers a concrete demonstration of how markets progressively integrate strategic information, confirming the theoretical validity of the semi-strong form of market efficiency, while also revealing its practical limitations arising from the regulatory, institutional, and political complexities that characterize the European financial environment.

## 2.4 The Event Study in the Financial Literature: Logic and Applications

The empirical analysis of how financial markets react to informational events finds its most established and widely recognized methodological expression in the Event Study model; one of the most authoritative and extensively applied tools in modern corporate and empirical finance research. This sophisticated econometric methodology makes it possible to measure, in a quantitative and statistically sound manner, how and to what economically meaningful extent a specific extraordinary corporate event, such as a public announcement of a merger or acquisition, a change in dividend policy, or a structural adjustment in capital composition, affects the stock prices of the firms involved.

The theoretical foundation of the Event Study is born from the explicit objective of empirically testing Eugene Fama's EMH, by rigorously examining whether and how stock prices react promptly and coherently to new publicly available information. The methodological strength of the Event Study lies in its ability to transform abstract theoretical concepts, such as the incorporation of information into market prices, into empirically observable and measurable variables through the statistical analysis of ARs associated with a specific event.

### *2.4.1 Theoretical foundations and historical origins of the Event Study*

The first systematic and methodological use of the Event Study technique dates to the seminal work of Fama, Fisher, Jensen, and Roll (1969), in which the authors rigorously analyzed stock price behavior around stock split announcements in U.S. financial markets. The crucial empirical results of this foundational study convincingly demonstrated that price adjustments occurred almost instantaneously following the announcements, providing strong empirical evidence in support of the semi-strong form of market efficiency postulated by theory. Since then, the Event Study methodology has been progressively refined and standardized through numerous academic contributions, particularly the fundamental works of Brown and Warner (1980, 1985), who formalized the statistical structure of the approach and validated its empirical reliability even with small samples, time-varying volatility, and different estimation models.

Over the following decades, the Event Study became a cornerstone of modern empirical finance, applied not only to M&A transactions but also to a wide range of extraordinary corporate events, including security issues, share buyback programs, credit rating changes, industrial project announcements, systemic financial crises, and major macroeconomic shocks.

The core theoretical assumption underlying the methodology is that, in an informationally efficient market, a company's stock price at any given time reflects the present value of all available information, both historical and public. Consequently, the announcement of a new, unexpected, and economically relevant event should theoretically produce an immediate price adjustment around the event date. Any statistically significant

deviation from such behavior indicates either a potential inefficiency in information processing or more complex temporal assimilation of information by investors.

#### *2.4.2 Logical Structure and Operational Phases of the Methodology*

The Event Study unfolds through a systematic and logically ordered sequence of operational steps, each carrying specific economic and statistical significance in assessing the impact of an event:

##### *Phase 1: Event Identification and Event Date definition*

The first and most critical step involves precisely identifying the exact date when the information becomes public and available to the market; the specific moment when the announcement is officially released through public channels and can therefore influence market prices and investor behavior. In the context of M&A operations, the event date conventionally coincides with the official publication of the news through a press release, a corporate communication, or a regulated disclosure source.

##### *Phase 2: Definition of the time windows (Estimation and Event Windows)*

The analysis relies on two distinct and complementary time intervals:

- *Estimation Window*: the period preceding the event announcement, usually spanning 120–180 trading days before the event date. It is used to estimate the stock's expected return in the absence of the event, based on its historical behavior and relationship with the market.
- *Event Window*: the time interval centered on the event date, during which the actual market reaction to the new information is measured. Its length may vary depending on the event type and the presumed speed of information incorporation, ranging from narrow windows (e.g., [-1, +1]) to broader ones (e.g., [-5, +5], [-10, +10], or even longer).

##### *Phase 3: Estimation of Expected Returns*

To compute abnormal returns, it is necessary to first estimate the expected return that would have occurred in the absence of the event. This can be done using several theoretical models:

- *Market Model*: the most widely used approach, which assumes a linear relationship between the return of stock  $i$  and the return of the reference market index:

$$R_{it} = \alpha_i + \beta_i R_{mt} + \varepsilon_{it}$$

where  $R_{it}$  is the return of stock  $i$  at time  $t$ ,  $R_{mt}$  the market return (often represented by indices such as EURO STOXX Banks),  $\alpha_i$  the intercept (average abnormal return beyond the market relationship),  $\beta_i$  the systematic sensitivity to market fluctuations, and  $\varepsilon_{it}$  the random error term.

- *Mean Adjusted Model*: uses the historical average return of the stock during the estimation window as a direct proxy for the expected return.
- *Market Adjusted Model*: assumes the market return itself as a direct proxy for the expected stock return.

#### *Phase 4: Calculation of Abnormal Returns (ARs)*

Once the expected return is estimated, the AR is computed as the difference between the actual observed return and the expected return:

$$AR_{it} = R_{it} - E(R_{it})$$

#### *Phase 5: Calculation of Cumulative Abnormal Returns (CARs)*

The CAR represents the algebraic sum of all daily abnormal returns observed over the chosen event window:

$$CAR_i = \sum_{t=T_1}^{T_2} AR_{i,t}$$

#### *Phase 6: Statistical Significance Testing*

To rigorously assess whether the observed reaction is statistically significant (that is, different from zero for substantive economic reasons rather than chance) a t-test is performed by comparing the average observed abnormal return with its estimated standard deviation from the estimation window.

In the case of multiple events or samples, researchers compute the Average Abnormal Return (AAR) and the Cumulative Average Abnormal Return (CAAR) as aggregate measures of market response.

#### *2.4.3 Applications of the Event Study to M&A Operations*

The Event Study has been widely and systematically employed in academic literature to analyze market reactions to M&A announcements, producing results of high theoretical and strategic relevance.

Empirical evidence consistently reveals a clear and statistically significant differentiation between the abnormal returns of target and acquiring firms:

- Target firms typically experience positive and significant abnormal returns, with average CARs ranging from +20% to +35%, reflecting the acquisition premium offered by the bidder. Jensen &

Ruback (1983) found that targets in successful takeovers record an average CAR of about +30%, while those in failed acquisitions exhibit approximately -3%, losing the takeover premium once the offer is withdrawn.

- Acquiring firms, by contrast, often show neutral or slightly negative abnormal returns, usually between 0% and -3%, due to integration risks, financing costs, or market expectations of potential overpayment.

These robust empirical results have been replicated across numerous international contexts and confirmed by major studies such as Jensen & Ruback (1983), Bruner (2004), who reviewed 120 studies from 1971–2003, and Alexandridis et al. (2010).

The distribution of abnormal returns is also influenced by contextual factors such as transaction type (cross-border vs. domestic), payment method (cash vs. stock), bidder reputation, target resistance, and prevailing macroeconomic conditions.

#### *Event Studies in the European Banking context*

In the case of European banking M&A transactions, structural and regulatory complexities introduce additional interpretative challenges.

Price reactions are often delayed or spread across multiple phases, reflecting sequences of partial announcements, regulatory communications, and required approvals from the ECB and national authorities.

A recent ECB (2021) study on M&A transactions in the euro-area banking sector documented that cross-border mergers aimed at credit-risk diversification do not necessarily yield higher returns, but they do significantly reduce the combined group's overall default risk.

This makes the Event Study particularly suitable for capturing not only instantaneous market reactions but also the gradual and progressive information assimilation typical of the highly regulated European banking environment.

#### *2.4.4 Methodological Limits and Critical Considerations*

Despite its broad adoption and academic prestige, the Event Study methodology presents certain structural limitations that deserve careful consideration:

- It rests on the semi-strong efficiency assumption, which may not hold in markets characterized by high informational opacity, dissemination delays, or significant asymmetries, conditions frequently observed in European banking markets.
- The presence of simultaneous or overlapping events (such as major macroeconomic announcements, unexpected regulatory shifts, systemic crises, or political shocks) can interfere with and distort the isolated causal effect of the specific event of interest.

- The statistical validity of the results depends heavily on the accurate selection of the observation window, the quality of the sample, the chosen expected-return model, and the precise identification of the event date.

Nonetheless, the Event Study remains one of the most robust, versatile, and authoritative empirical tools available for testing market reactions to information, thanks to its analytical rigor, statistical solidity, and adaptability across contexts and event types.

#### *2.4.5 Application to the UniCredit–Commerzbank Case*

In the specific and paradigmatic case of the potential UniCredit–Commerzbank merger, the Event Study represents an indispensable empirical framework to:

- Quantitatively measure the stock price reactions of both banks to the progressive announcements related to the transaction;
- Verify whether the market reacts instantaneously (supporting semi-strong efficiency) or with delay (indicating informational inefficiencies);
- Assess investors' perception of the deal's likelihood of success based on the intensity and direction of observed abnormal returns;
- Distinguish among market reactions to incremental announcements (such as the initial 9% stake increase, the subsequent rise to 21%, and finally to 29.9%) analyzing how each step was interpreted by investors;
- Empirically test whether cross-border consolidation in the European banking sector generates value creation (positive abnormal returns) or if value destruction (negative abnormal returns) dominates market perception.

The Event Study stands as a paradigmatic synthesis between rigorous financial theory and quantifiable empirical evidence. It provides a direct means of verifying the markets' actual ability to process new information and quantifying the economic effects of major corporate events.

In the specific context of M&A operations (particularly within the European banking sector, marked by regulatory complexity and informational opacity) the Event Study constitutes a methodologically appropriate and indispensable tool for understanding how markets interpret and evaluate strategic operations, and for empirically testing the presence or absence of informational efficiency.

The empirical analysis presented in the third part of this thesis explicitly builds upon this consolidated methodological tradition, applying the Event Study framework to the UniCredit–Commerzbank case with the objective of quantitatively measuring market reactions to official announcements and estimating the economic and informational significance of the event for the European banking sector.

## 2.5 Main Empirical Evidence from Cross-Border Banking M&As

Mergers and acquisitions in the European banking sector have long been a central focus of academic research, aimed at assessing the real value creation of such deals and understanding how financial markets react to their public announcements. In particular, the study of cross-border M&A involving banks in different European Union countries has revealed systematic differences relative to domestic transactions, both in stock market performance and post-merger efficiency.

Most contemporary empirical research converges on a key finding; international banking mergers, while serving as a vital instrument for European financial integration, generally produce weaker and slower value creation compared to domestic consolidations. This outcome is largely explained by higher regulatory complexity, significant informational asymmetries, and the cultural and operational integration challenges that tend to accompany cross-border transactions.

### *2.5.1 International Evidence: Stock Market Performance*

The first major wave of systematic empirical studies on market reactions to banking M&A dates to the 1990s, following the deregulation of financial markets and the growing trend of cross-border consolidations.

One of the most influential contributions in this field is the study by Cybo-Ottone and Murgia (2000), which analyzed European banking mergers between 1988 and 1997. Their findings remain among the most cited in the academic literature.

They found that cross-border M&A announcements in the European banking sector typically generate positive but moderate cumulative abnormal returns (CARs) for the combined entity (acquirer and target together). Target banks tend to experience positive and statistically significant abnormal returns, averaging 10–12% in the short term, reflecting the acquisition premium paid by the bidder.

In contrast, acquiring banks often show neutral or slightly negative reactions, suggesting that markets critically assess the operational risks of post-merger integration.

However, when the abnormal returns of both entities are aggregated, the overall result still points to net value creation for the market, consistent with the idea that banking consolidation can enhance medium-term efficiency and financial stability.

These findings align with the broader evidence reported by Jensen and Ruback (1983) in their seminal meta-analysis on industrial M&A in the U.S., where most short-term gains accrue to target shareholders, while acquirers benefit indirectly from synergies over the long run.

Subsequent studies (such as Beitel, Schiereck, and Wahrenburg (2004) and Campbell and Bouwman (2008)) confirmed that markets react favorably when transactions are perceived as strategically coherent, meaning

when they involve geographical complementarity, business line integration, or tangible cost-reduction opportunities. Conversely, purely expansionary or speculative deals, lacking clear operational synergies, tend to generate negative and statistically significant abnormal returns.

### *2.5.2 Cross-Border M&A and the Specific Features of the European Banking Sector*

The evidence on cross-border banking mergers in Europe reflects the distinctive features of a system that remains partly fragmented across regulation, taxation, and operations.

A high-quality and widely cited study by Campa and Hernando (2006) analyzed over 150 European banking M&A transactions completed between 1998 and 2002, systematically distinguishing between domestic and cross-border deals.

Their results show clear differences:

- Domestic mergers tend to generate higher CARs, thanks to lower integration costs and greater familiarity with local markets.
- Cross-border mergers, on the other hand, show smaller but more stable CARs, indicating that investors recognize long-term potential even if short-term reactions remain limited.

Campa and Hernando attribute these findings to strict banking regulations and the persistence of national supervisory differences, which slow down the realization of expected operational synergies.

As a result, market confidence typically strengthens only after tangible improvements in operational efficiency, profitability, and capital solidity are demonstrated.

From this perspective, investors tend to interpret cross-border deals as long-term strategic investments rather than short-term arbitrage opportunities, a behavior consistent with the semi-strong form of market efficiency observed in European regulated markets.

### *2.5.3 The Role of European Integration and the Banking Union*

The establishment of the European Banking Union and the introduction of the Single Supervisory Mechanism and Single Resolution Mechanism have significantly reshaped the institutional environment in which banking M&A are evaluated.

Since November 2014, with the transfer of supervisory authority to the ECB, cross-border banking mergers have acquired a more systemic dimension, progressively reduced national resistance and promoted greater transparency in regulatory approval processes.

However, subsequent empirical studies (such as Berger, DeYoung, Genay, and Udell (2017)) show that the positive impact of the Banking Union on value creation remains limited. Markets still perceive substantial integration risks and significant institutional divergences among EU member states.

More recent evidence, including studies by Altunbas and Marqués-Ibañez (2019) and the European Central Bank (2022), suggests that cross-border M&A can indeed contribute to greater financial stability, mainly through risk diversification and reduced exposure to single national economies.

Yet, from a market perspective, these benefits tend to materialize only when mergers are backed by a credible long-term strategy and transparent communication by the management team.

#### *2.5.4 Evidence on the Acquirer–Target Performance Gap*

The overall performance of acquirers and targets in banking M&As shows a persistent, statistically significant gap. Empirical evidence shows that:

- Target banks record positive cumulative abnormal returns in the announcement window, typically ranging from +7% to +15%, confirming the presence of substantial acquisition premiums.
- Acquiring banks, by contrast, often experience negative or statistically insignificant abnormal returns, between –1% and –3%, reflecting cautious or skeptical investor sentiment.

When both parties are considered together, the combined entity generally produces modest but positive overall CARs, suggesting limited yet tangible value creation for the broader financial system.

This recurring pattern indicates that markets recognize synergies and systemic benefits but penalize acquirers in the short term, primarily due to execution risks and the risk of overpaying for the target.

Over the medium to long term, however, studies such as Hagendorff and Nieto (2019) show a progressive recovery in acquirer performance, especially when mergers are accompanied by strong governance and a gradual, well-managed integration process.

#### *2.5.5 Summary of Evidence and Implications for Empirical Research*

The consolidated empirical literature on cross-border banking M&A provides a nuanced but coherent picture of how markets react and how value is created.

Three main findings emerge:

- Market reactions are immediate but incomplete: investors incorporate new information quickly but continue to adjust prices in the days following announcements, consistent with the semi-strong form of market efficiency.
- Value creation is asymmetric: short-term gains primarily benefit target shareholders, while acquirers realize longer-term advantages through operational synergies and strategic positioning.

- Regulatory context matters significantly: the complexity of ECB supervision, persistent regulatory fragmentation, and political sensitivity around cross-border deals all influence market perception, resulting in smaller average returns compared to other industries.

### *Conclusion and Implications for the UniCredit–Commerzbank Case*

These well-established empirical findings provide a solid foundation for the subsequent analysis of the UniCredit–Commerzbank case, which exemplifies a complex European cross-border banking consolidation.

The existing literature clearly indicates that a rigorous evaluation of such transactions must account not only for estimated operational and financial synergies but also for significant regulatory constraints and the broader informational efficiency of the market.

The empirical analysis in the third part of this thesis will assess how the market responded to UniCredit's series of announcements regarding Commerzbank. The goal is to verify whether the European market assimilates information quickly, as predicted by the semi-strong form of efficiency, or whether political and regulatory complexity leads to delayed and gradual reactions, consistent with the empirical patterns observed in other cross-border European banking mergers.

### **3.1 UniCredit's Profile and Strategic Positioning in Europe**

UniCredit SpA is among the leading banking groups across Europe, combining strong local expertise with a centralized governance structure designed to create sustainable, long-term value. The bank operates in 13 European countries and has over 15 million clients, establishing itself as one of the few truly cross-border banking institutions in the euro area and the wider European Union.

From 2021 to 2025, UniCredit has undergone a significant strategic transformation. The focus has been on strengthening its capital base, enhancing operational profitability through cost efficiency, and redefining its competitive role in an increasingly integrated and consolidating European banking sector.

#### **3.1.1 A Balanced Pan-European Presence and Competitive Position in Europe**

UniCredit's geographic footprint is one of its most distinctive assets. The group maintains established commercial banking networks in:

- Italy, its primary domestic market and historical center of operations, where it has a strong retail and corporate presence;
- Germany, through its subsidiary HypoVereinsbank (HVB), securing a solid position in Europe's second-largest banking market;
- Austria, via Bank Austria, a significant player in the country's financial industry;
- Central and Eastern Europe, where UniCredit holds notable market shares in high-growth countries including Croatia, Bulgaria, Romania, Hungary, the Czech Republic, Slovakia, Serbia, among others.

This geographic diversification helps the group mitigate risks associated with specific countries while leveraging a mix of mature Western European economies and rapidly growing Central and Eastern European markets.

Managing the integration of diverse business practices and organizational cultures across such markets has historically been challenging, but it also serves as a structural strength. The "One Bank" operating model, officially introduced in 2021 under CEO Andrea Orcel, aims to unify the organization through shared standards, centralized processes, and a cohesive commercial strategy across all regions.

UniCredit faces competition from major Eurozone banking groups such as BNP Paribas, Banco Santander, Intesa Sanpaolo, Deutsche Bank, and Commerzbank.

What sets UniCredit apart is its genuinely pan-European presence. Operating across multiple countries allows the bank to serve a geographically diversified client base and to rely on revenue streams that are less dependent on the economic performance of any single market. This broad footprint also offers a solid basis for future cross-border consolidation, strengthening UniCredit's position within the European banking landscape.

The effectiveness of this model was confirmed in 2024, when UniCredit was recognized as Best Bank in Central and Eastern Europe, Best Bank in Italy, and Best Investment Bank in Germany. These awards reflect the bank's strong reputation and underline its role as a leading financial institution across Europe.

At the same time, managing such an extensive international network is inherently complex. Operating under multiple regulatory regimes increases managerial burdens, while differences in legal frameworks and corporate cultures require continuous coordination. Moreover, the costs associated with IT systems, compliance, and internal controls are significant, and ensuring a coherent strategic direction across diverse markets remains a demanding task.

For these reasons, the need to simplify the organizational structure and to reinforce a unified "One Bank" identity represents a key strategic priority for UniCredit.

### *3.1.2 Strategic Transformation: capital efficiency and value creation*

Between 2021 and 2025, UniCredit implemented an ambitious transformation plan centered around:

#### *Strengthening Regulatory Capital*

The group consistently improved its capital position, maintaining a CET1 ratio well above regulatory requirements. This was achieved through strict discipline in managing risk-weighted assets (RWA), proactive credit derisking, improved loan quality, and organic capital generation supported by strong profitability, including a net profit of €9.3 billion in 2024 and €12.6 billion in organic capital.

By Q3 2025, UniCredit's CET1 ratio reached 14.76%, confirming its strong capital base.

#### *Operational Efficiency*

The "One Bank" model introduced deep process standardization and selective centralization of corporate and support functions. As a result, UniCredit significantly reduced its cost base and improved its cost-income ratio, a key efficiency metric in European banking.

- In 2024, the group reported a 37.9% cost-income ratio, one of the best in the industry.
- In 2025, the ratio improved further to roughly 36%, excluding one-off items.

### *Sustainable Profitability (ROTE and Adjusted RoTE)*

The bank aims to consistently deliver returns above its cost of equity and to reward shareholders by increasing dividends and implementing share buyback programs.

- In 2024, UniCredit reported a 17.7% RoTE, or 20.9% assuming a CET1 ratio of 13%.
- In 2025, guidance indicates a RoTE close to 20%, aligned with the target of above 20% by 2027.

### *Selective Portfolio Management*

UniCredit focuses on:

- capital-light activities with high returns,
- fee-based services less exposed to interest-rate cycles,
- wealth management and private banking,
- corporate and institutional advisory services,
- digital banking initiatives and fintech partnerships.

### *3.1.3 Germany as a Strategic Anchor in UniCredit's Cross-Border Consolidation Strategy*

UniCredit's position in Germany, through its subsidiary HypoVereinsbank (HVB), is pivotal to the group's broader European strategy. Germany is the largest banking market in the European Union and one of the world's most important industrial and financial centers. At the same time, the German banking sector remains relatively fragmented, which leaves room for further consolidation, an aspect that aligns well with UniCredit's cross-border growth ambitions. The country is also strategically important for corporate and investment banking, given the strength of its industrial base and its deep integration into global trade flows.

Within this context, HVB provides UniCredit with privileged access to a wide range of German clients, including large multinational corporations and the Mittelstand, which forms the backbone of the country's economy. This positioning supports the generation of stable fee-based revenues and enables the group to operate within one of Europe's most robust and reliable financial systems. Moreover, HVB's strong relationships with high-quality corporate clients reinforce UniCredit's role as a key financial partner for businesses operating both domestically and internationally.

In 2024, HVB reported a CET1 ratio of 23.8%, showcasing its exceptional solidity.

Germany is also the market that positions UniCredit as a natural candidate for future European banking consolidation; particularly in relation to Commerzbank, with which it shares several complementary areas of business.

Financial analysts widely consider UniCredit one of the best-positioned European banks to lead major cross-border consolidation initiatives.

Key reasons include:

- a robust capital structure,
- a scalable, diversified pan-European footprint,
- a proven and replicable “One Bank” model,
- strong organic capital generation,
- internationally recognized leadership, CEO Andrea Orcel is known for his extensive experience in complex M&A and strategic transformations.

The progressive acquisition of shares in Commerzbank, from 9% in 2024 through derivatives to significantly higher levels in 2025, reflects UniCredit’s intention to strengthen its presence in Germany, in line with the ECB’s broader push for cross-border consolidation to create stronger, more competitive European banking groups.

In conclusion, UniCredit is positioning itself as a modern pan-European bank, backed by solid capital, diversified operations, and a clear focus on growth and consolidation. Recent operational changes, strong financial results, and effective leadership prepare the group to play a leading role in European banking integration. Understanding the driver behind its gradual increase in Commerzbank holdings offers valuable lessons on strategic growth and consolidation.

## 3.2 Commerzbank's Profile and Its Role in the German Banking Market

Commerzbank AG is one of Germany's leading banking institutions and plays a central strategic role in the country's financial system, particularly in the Corporate and Retail Banking segments. Founded in 1870 in Hamburg as a private commercial bank, it has spent more than 150 years supporting the German real economy, developing a long-standing specialization in providing financial services to small and medium-sized enterprises (the *Mittelstand*), the highly decentralized industrial backbone that remains the structural core of Germany's economic and employment landscape.

Headquartered in Frankfurt, with a broad presence across the country's major economic regions, Commerzbank serves millions of retail clients and approximately 24,000 corporate customers. This broad customer base consolidates its position as a key commercial bank in the German domestic market. Its strategic size, long institutional history and deep territorial roots make the bank a particularly relevant player within the ongoing debates on European banking consolidation.

### 3.2.1 Domestic Banking Model: Corporate, *Mittelstand*, and Transformation

The most distinctive feature of Commerzbank's business model is its deep structural integration into Germany's productive fabric. For decades, the bank has been regarded as a traditional and trusted financial partner to the *Mittelstand*, the segment encompassing small and medium-sized enterprises.

In Germany, the *Mittelstand*:

- represents the overwhelming majority of active firms operating in the country;
- contributes a significant share of national GDP, generating a substantial portion of Germany's economic wealth;
- forms the backbone of the country's manufacturing export capacity, which is one of the largest globally;
- acts as the primary driver of employment and value creation within the national economy.

This long-standing specialization gives Commerzbank a central and critically important role in channeling credit to the real economy and fully justifies its systemic relevance to German regulators.

Within the corporate segment specifically, Commerzbank provides a broad and sophisticated range of services, including:

- tailored and structured corporate lending;
- integrated cash-management solutions;
- trade-finance services for international commercial transactions;
- financial risk-management solutions using derivative instruments;
- specialised advisory services for cross-border and international operations.

The bank's historic focus on medium-sized enterprises has ensured a stable, geographically diverse client base concentrated in one of Europe's most solid, predictable, and advanced economies. In 2025, Commerzbank was named *Best Mittelstandsbank* by the financial publication "FINANCE", confirming its leadership position in this strategically critical segment.

Over the past decade (2014–2024), Commerzbank has undergone a complex transformation driven by several macroeconomic and structural factors:

- persistently low interest rates in the euro area, which compressed traditional net-interest margins;
- structurally low intermediation margins due to intense domestic competition;
- rising competitive pressure from *Sparkassen* (municipal savings banks) and *Landesbanken* (regional state-owned banks), institutions that often operate with structurally lower costs;
- an urgent need to streamline operational costs and modernise technological infrastructure;
- growing regulatory pressure under Basel III and ECB supervision.

Starting in 2020, the bank launched an ambitious and far-reaching industrial plan centred on:

- structurally reducing operating costs through branch-network rationalization and deep process simplification;
- accelerating digitalization with major investments in digital platforms for retail and corporate banking (including strategic partnerships with Google Cloud and Microsoft, and the development of *codirect* as a digital brand);
- reallocating capital to higher-margin business lines;
- improving asset quality and enforcing greater balance-sheet discipline in credit-risk management.

In 2024, Commerzbank reported a net profit of €2.7 billion, a historic record and a 20% year-on-year increase. The cost-income ratio improved to 59% (ahead of the 60% target), while the Return on Tangible Equity (RoTE) reached 9.2%, exceeding the minimum objective of 8%.

For 2025, the bank raised its targets further, projecting a net profit of €2.4–2.8 billion (excluding restructuring charges) and a cost-to-income ratio of 57%, confirming its positive profitability trajectory. Looking ahead to 2028, the new *Momentum* strategy sets even more ambitious goals: a net profit of €4.2 billion, a RoTE of 15%, and a cost-income ratio around 50%, positioning Commerzbank as a competitive and sustainably profitable European bank.

### 3.2.2 Systemic relevance and the German State's ownership stake

Commerzbank is classified as a systemically important institution by both the Bundesbank and the ECB. Following the 2008 financial crisis, the German federal government, through the Financial Market

Stabilization Fund (FMS), entered the bank's capital structure and continues to hold a significant stake. As of September 2024, the State holds approximately 12% of the shares, following a series of reductions from a stake that historically exceeded 25%.

The presence of the German State in the shareholder base is crucial to understanding the political dynamics surrounding any potential consolidation scenario:

- high political sensitivity to any foreign takeover attempt;
- direct government involvement in evaluating strategic options for the bank's future;
- potential resistance from political and social actors to acquisitions by non-German buyers;
- diplomatic and regulatory complexities associated with acquiring a bank in which the State remains a major shareholder.

This ownership structure reflects Commerzbank's strategic importance in supporting key sectors of the German economy and helps explain why any cross-border acquisition would inevitably attract significant political and regulatory scrutiny.

### *3.2.3 Germany's Fragmented Banking Market and Commerzbank's Strategic Position in the European context*

The German banking system is uniquely structured and differs significantly from those of other European countries. It is characterised by:

- a large network of *Sparkassen* (over 500 municipal savings banks), holding about 20% of loans and deposits nationwide;
- the presence of 8–9 *Landesbanken*, acting as central institutions for the *Sparkassen* network and active in wholesale and capital-markets activities;
- roughly 1,100 cooperative banks serving local retail clients and SMEs, with about 15% of total banking assets;
- private commercial banks, such as Deutsche Bank, Commerzbank, and other smaller institutions, competing in corporate and private banking.

This structural fragmentation has had profound implications for competitive dynamics within the German banking system. Intense price and service competition has structurally compressed intermediation margins, limiting profitability across both retail and corporate activities. At the same time, strong political resistance to concentration has made large-scale domestic consolidation particularly difficult, preventing banks from achieving scale through purely national mergers. As a result, competition has remained aggressive not only in retail banking but also in core corporate segments, increasing pressure on private banks to seek alternative

paths to sustainability. In this context, cross-border expansion, the pursuit of economies of scale, operational synergies, and diversification toward higher-margin business lines have emerged as increasingly rational strategic responses.

In the corporate segment, Commerzbank remains a leading player but faces increasing competition from local *Sparkassen*, which maintain long-standing relationships with many Mittelstand firms.

Although less globalized than other major European banking groups (such as UniCredit, Deutsche Bank, BNP Paribas, or Santander), Commerzbank maintains a strong foothold in trade-finance and international support for German exporters.

Despite being less globally diversified than several other major European banking groups, such as UniCredit, Deutsche Bank, BNP Paribas, or Santander, Commerzbank retains a distinctive strategic strength in trade finance and in the international support of German exporters. Over time, the bank has built a solid competitive niche grounded in a loyal corporate client base, robust cross-border advisory capabilities, and deep-rooted relationships with exporting firms and multinational companies. Its long-standing reputation for facilitating foreign trade operations remains a key intangible asset, positioning Commerzbank as a natural partner for German companies operating internationally, even as competitive pressures intensify domestically.

Its market position, specialization in the corporate Mittelstand segment, and domestic leadership make Commerzbank a strategically attractive target for any European bank seeking to expand into Germany, the EU's largest and most economically significant banking market.

This combination of factors (its domestic relevance, systemic importance, high-quality corporate clientele, and politically sensitive governance) helps explain why Commerzbank could be a strategic partner or acquisition target for a group like UniCredit, while also being extraordinarily complex to acquire due to political, diplomatic, and regulatory constraints.

In summary, Commerzbank is a systemically important institution in the German banking landscape, with a central role in financing the Mittelstand and a strong yet challenged competitive position in a fragmented, highly contested market. The bank is undergoing a positive strategic transformation to modernize operations and improve profitability. Nevertheless, the German State's shareholding and the deeply political nature of the national banking system significantly shape, and often constrain, any potential cross-border consolidation. These intertwined complexities form the essential backdrop for understanding the strategic implications and the political challenges of UniCredit's gradual moves into Commerzbank's capital structure.

### 3.3 UniCredit's Strategic Moves on Commerzbank

UniCredit's recent and progressively escalated strategic moves toward Commerzbank stand out as one of the most significant, complex, and debated developments in the European banking landscape in recent years. This is due not only to the potential economic and structural impact on the future configuration of Europe's banking sector, but also to the deep, multidimensional political, diplomatic, and regulatory implications associated with the operation.

Beginning in September 2024, and gaining increasing momentum, UniCredit embarked on a sophisticated and carefully calibrated strategy to gradually strengthen its shareholding position in Commerzbank. The bank's stated strategic objective has been to consolidate its presence in the German market and to position itself as a potential key player in any future cross-border consolidation. However, this complex strategy has encountered explicit political resistance, substantial valuation gaps between the parties, and intense scrutiny from European supervisory authorities and German institutions.

#### *3.3.1 Progressive Stake-Building: from Synthetic Positioning to Direct Equity Control*

The process began with UniCredit establishing a complex financial arrangement that used equity-linked derivatives, allowing it to gain significant exposure to Commerzbank without directly purchasing shares. Through this structure, the group gained economic exposure equivalent to a sizeable share of the German bank's capital, without formally acquiring ordinary shares.

This type of financial engineering, common in preliminary approaches within politically sensitive and nationally strategic contexts, allowed UniCredit to:

- Monitor Commerzbank's market price developments and competitive dynamics with flexibility;
- Preserve maximum strategic optionality, retaining the ability to increase, maintain, reduce, or unwind the position depending on market conditions;
- Avoid an immediate political backlash from the German authorities and government, enabling an initial "under-the-radar" approach;
- Gradually build a meaningful real option over Commerzbank's future governance and control.

Throughout 2024 and even more decisively in 2025, following a sequence of ECB-approved transactions, UniCredit began converting part of its synthetic exposure into physical shares.

The acquisition trajectory unfolded as follows:

- September 2024: UniCredit acquires 4.49% from the German government through a public auction held by the Federal Financial Market Stabilisation Fund, raising its direct stake to around 9% and its total exposure (including derivatives) to roughly 21%.
- December 2024: The overall synthetic position reaches approximately 28%, consisting of a 9.5% direct stake and 18.5% via derivatives.
- March 2025: The European Central Bank formally authorises UniCredit to increase its total exposure up to 29.9%, the maximum threshold permitted before triggering a mandatory takeover bid under German law.
- July 2025: UniCredit announces its intention to convert the remaining derivatives into physical shares by year-end, bringing the direct stake to around 20% or more.

The 29.9% *threshold* is neither accidental nor symbolic; it represents the legal upper limit beyond which German takeover rules require a mandatory tender offer for the entire share capital. UniCredit's deliberate decision to remain just below this limit suggests a highly calibrated strategy aimed at gaining substantial influence and strategic leverage, without incurring the financial and legal obligations associated with a full takeover.

The ECB formally approved the operation, implicitly acknowledging its consistency with the institution's publicly stated cross-border consolidation objectives. However, this supervisory endorsement did not alleviate the strong political and diplomatic tensions that had been triggered in Germany.

### 3.3.2 *The German Reaction: Explicit Political Opposition and Systemic Concerns*

UniCredit's steady and determined approach toward Commerzbank prompted immediate and repeated opposition from the German federal government, including from Chancellor Friedrich Merz and opposition figures. Chancellor Merz publicly characterized the initiative as "unfriendly" and "hostile," making it clear that the idea of a foreign acquisition, even if by an EU peer, of a systemically important German bank would not be viewed as being in Germany's national interest.

Merz articulated two core concerns:

1. *Lack of prior consultation:* The operation was described as hostile not only toward Commerzbank but also toward the Federal Republic of Germany, as UniCredit proceeded without advance communication to either the government or the bank.
2. *Systemic risk considerations:* Merz highlighted potential risks to financial stability, noting that a combined bank of such scale and cross-border complexity could pose challenges to the European financial system.

Germany's broader political resistance can be summarized across three interconnected strategic dimensions:

- *Systemic risk and financial sovereignty*

Commerzbank is deeply embedded in the German real economy and plays a central role in financing the Mittelstand, Germany's backbone of small and medium-sized enterprises. A foreign-controlled acquisition is widely perceived as a potential threat to national oversight of credit allocation.

- *Employment and branch network concerns*

Cross-border mergers typically involve rationalisation efforts, including branch closures and staff reductions. Given Germany's political sensitivity regarding employment in the financial sector, these concerns carry significant weight.

- *Future governance and national influence*

A merger would materially reduce the German state's influence over a bank in which the government still holds roughly 12%. This explains Berlin's strongly defensive and protectionist posture.

At the same time, Commerzbank's own management expressed clear reservations. CEO Bettina Orlopp publicly reaffirmed the bank's preference for "an autonomous future," arguing that a cross-border merger would be highly complex and is not a strategic priority. In May 2025, she reiterated that the market now recognizes Commerzbank's value as a standalone institution and that the bank remains focused on executing its independent strategy through 2028.

### 3.3.3 Diverging Valuations: Orcel's Position and the Core Pricing Issue

A further barrier to a full merger is the sharp divergence between the parties' valuations. CEO Andrea Orcel repeatedly emphasised that Commerzbank's market prices have been "too high" relative to its underlying fundamentals, particularly in a context shaped by:

- Profitability still stabilising and not fully consolidated;
- Compressed intermediation margins in the German market;
- Strong structural competition from Sparkassen and Landesbanken.

Orcel stressed that UniCredit would not pursue a merger "at any cost," reiterating the imperative to protect shareholder value and ensure that any potential transaction delivers tangible, measurable benefits.

In June 2025, Orcel stated: "At this share level, we would not see value for our investors. We are pleased with the gain on the 30% stake, but we wouldn't see value for our investors." He also noted that Commerzbank's price had "*gone well beyond the fundamentals*", suggesting that artificial market support may be contributing to an inflated valuation. The pricing issue therefore constitutes a structural impediment that adds to the political resistance and makes any agreement challenging in the near term. Commerzbank's share price illustrates the

scale of the divergence: from roughly €13 in December 2024 to €36.74 in August 2025, a cumulative increase of more than 180%, making a full acquisition excessively costly.

#### *A Potential Long-Term Operation held back by politics and valuation*

Taken together, the strategic, political, and valuation factors lead to several coherent insights:

- UniCredit has accumulated a strategically influential position, not merely a passive investment, by reaching the legal maximum of 29.9%.
- The operation remains decisively hindered by explicit German political resistance, which is currently the main obstacle to a formal merger.
- Commerzbank's current market valuation is considered unfavourable and unsustainable by Orcel, as it would not create value for UniCredit shareholders.
- The ECB supports the idea of cross-border consolidation in principle but cannot override national political barriers.
- UniCredit has already postponed its original 2025–2026 decision timeline to “well beyond the end of 2025,” potentially extending into 2027, reflecting the persistent political complexity.

Given this context, UniCredit's strategy appears to be a long-term, gradual approach aimed more at strengthening its influence and presence in Germany rather than pursuing an immediate full merger.

In sum, UniCredit's progressive moves toward Commerzbank reflect a sophisticated, multidimensional strategy that integrates industrial, competitive, and geopolitical considerations with elements of financial “realpolitik.”

The steady increase in its stake, culminating in the ECB-approved ceiling of 29.9%, has strengthened the group's negotiating position in the German market. At the same time, it has triggered open political tensions and exposed sharp valuation differences between Orcel and Commerzbank's leadership. A combined reading of the strategic dynamics, political resistance and valuation mismatch helps explain why a merger, although theoretically feasible from a financial and regulatory standpoint, remains highly complex and politically constrained in the short to medium term (2025–2026).

The real empirical test will lie in how the market reacts to UniCredit's successive announcements concerning Commerzbank, an aspect examined in the empirical section of this research through the Event Study methodology.

### 3.4 Possible Future Scenarios: Full Acquisition, Merger with HVB, Strategic Shareholder's Role

The complex dynamics between UniCredit and Commerzbank, discussed in the previous sections, outline a delicate and unstable strategic balance. The Italian group has progressively increased its influence and negotiating power without initiating any formal operational integration. A rigorous, forward-looking analysis of potential developments identifies three strategically plausible scenarios that differ significantly in operational integration, regulatory implications, and impact on value creation for UniCredit shareholders.

Each strategic hypothesis entails distinctive advantages and specific criticalities, not only in terms of measurable financial and operational synergies but also, and perhaps more importantly, in terms of political and regulatory compatibility within the German context.

#### 3.4.1 Scenario 1: Full Acquisition of Commerzbank

The hypothesis of a complete and total acquisition of Commerzbank by UniCredit represents the most ambitious strategic option, but also the most complex and uncertain, both politically and financially.

##### *a) Strategic and Industrial Rationale*

A full-scale merger would allow UniCredit to:

- Strengthen its position in the German banking market, the second largest in the Eurozone, on a structural and permanent basis, consolidating operational leadership within a core European economy;
- Achieve significant economies of scale and operational synergies through the elimination of overlapping networks, cost-base reductions, and streamlined governance;
- Optimize its overall funding structure thanks to a broader and more diversified retail deposit base in the German market;
- Consolidate its role as a truly pan-European banking leader with a strong presence across three core strategic markets (Italy, Germany, and Central-Eastern Europe) effectively transforming UniCredit into a global-scale European banking champion.

From a broader industrial perspective, this strategy would align coherently with the long-term vision of the European Central Bank (ECB), which has repeatedly encouraged the creation of robust, integrated cross-border banking groups capable of competing effectively with large U.S. (JP Morgan, Bank of America, Goldman Sachs) and Asian (ICBC, Agricultural Bank of China) institutions.

### *b) Structural Obstacles and Major Constraints (at Least in the Short Term)*

However, such a merger would face several major hurdles that remain difficult to overcome in the short-to-medium term:

- Explicit political opposition from the German federal government, concerned about losing strategic control over a systemically important national bank such as Commerzbank;
- Repeated resistance from Commerzbank's own leadership, committed to preserving the bank's operational autonomy as an independent entity;
- Significant differences in prudential and tax regulations between Italy and Germany, which would require complex and costly harmonization;
- Commerzbank's current market valuation, considered by UniCredit's management as still too high to make the deal accretive, that is, value-creating for UniCredit shareholders.

Andrea Orcel, UniCredit's CEO, has repeatedly emphasized in public statements that the group would not pursue an acquisition "at any cost," stressing that "shareholder value comes before any industrial ambition."

Given these multiple factors, a full merger appears unlikely and unrealistic in the short term (2025–2026), though it could remain a potential long-term goal (post-2027), if the necessary political, regulatory, and market conditions gradually align.

### *3.4.2 Scenario 2: Merger Between Commerzbank and HypoVereinsbank (HVB)*

A more realistic, pragmatic, and potentially less politically sensitive alternative would be a merger of Commerzbank and HVB, UniCredit's German subsidiary, which operates as a private commercial bank. This scenario could create a "German bank under Italian control," thereby avoiding a direct foreign takeover and substantially reducing nationalist and political tensions in Berlin and among the German public opinion.

#### *a) Industrial Logic and Tangible Synergies*

The operational integration of HVB and Commerzbank would generate significant domestic synergies:

- Domestic scale efficiencies: consolidation of branch networks and elimination of territorial overlaps, particularly in highly competitive regions such as Bavaria and major German cities;
- Cost reduction potential: HVB has already achieved an excellent cost-to-income ratio below 40% in the first half of 2024, significantly better than Commerzbank's 59%, making it possible to transfer best practices and improve efficiency;
- Enhanced leadership in the corporate banking segment, strengthening overall competitiveness against Deutsche Bank, the main national competitor;

- Structural consolidation of the domestic German banking system, consistent with the ECB’s strategic vision for cross-border integration;
- Funding optimization and improved relationships with liquidity providers, leveraging Commerzbank’s strong ties to the Mittelstand (German SMEs).

Furthermore, UniCredit would retain full strategic control through its 100% ownership of HVB, thus benefiting entirely from any synergies without directly acquiring a politically sensitive systemic bank.

This transaction might also receive a more favorable reception from the German government, as it would be perceived as an “internal” merger within the German banking system, preserving the national identity of the combined entity, also if under a broader European governance framework headed by UniCredit.

#### *b) Operational Challenges and Limitations*

Nevertheless, several technical and managerial difficulties should not be underestimated:

- Complex integration of heterogeneous IT systems and differing corporate cultures;
- Highly demanding regulatory approvals required from the ECB, BaFin, and other German authorities;
- Potential overlaps in corporate client portfolios, necessitating difficult rationalization decisions;
- Likely resistance from middle management, particularly within Commerzbank, which could hinder cultural and operational integration.

Moreover, an HVB–Commerzbank merger would not fully eliminate residual political sensitivities, as UniCredit’s ultimate strategic influence would remain visible and potentially contentious in Berlin.

Overall, this scenario represents a sophisticated and pragmatic middle ground, strategically realistic and potentially achievable, allowing UniCredit to consolidate control and operational synergies without triggering a formal foreign acquisition of a German systemic bank.

#### *3.4.3 Scenario 3: Maintaining a Strategic Shareholder Role*

The third strategic option, currently the most probable in the short to medium term (2025–2026), is for UniCredit to maintain its position as a significant strategic shareholder in Commerzbank without pursuing formal integration.

In this configuration, UniCredit would:

- Exercise indirect strategic influence through its substantial equity stake (around 29.9%);
- Actively participate in key strategic decisions via board representation;
- Retain tactical flexibility to increase or reduce its stake depending on evolving market, political, and regulatory conditions.

### *a) Main Advantages of this Configuration*

This “active but non-controlling shareholder” strategy offers several key benefits:

- Avoids immediate political conflicts, the main obstacle to any merger in the short term;
- Allows UniCredit to deepen its understanding of the German banking market, regulatory structures, and client dynamics, facilitating possible future integration;
- Provides potential financial upside in case of Commerzbank’s revaluation, consistent with its “Momentum” plan targeting a 15% RoTE by 2028;
- Preserves capital and liquidity for other strategic operations or shareholder distributions (e.g., share buybacks or dividends);
- Reduces political risk exposure in the event of deteriorating Italy–Germany relations or changes in the German government’s stance.

From a financial perspective, this position allows UniCredit to act as an “influential but non-intrusive partner,” keeping all strategic options open for future operational integration, whether through HVB (Scenario 2) or full acquisition (Scenario 1).

This approach aligns with Andrea Orcel’s repeatedly stated management philosophy that UniCredit must “build value in a disciplined and gradual way, without forcing or overreaching.

### *b) Structural Risks and Limitations*

The main limitations and risks associated with UniCredit's current configuration as a strategic shareholder of Commerzbank are multi-layered and concern both operational aspects and financial and regulatory implications.

First, the lack of direct operational control limits the group's ability to rapidly implement integration initiatives or realize tangible synergies, as Commerzbank and HypoVereinsbank (HVB) remain distinct entities with non-integrated information systems, operational processes, and governance architectures. In this context, any potential organizational convergence is complex and, in practice, hampered by legal and strategic constraints. This is compounded by uncertainty stemming from the German political context, which has repeatedly expressed clear resistance to an increase in UniCredit's stake in Commerzbank. The German government's stance, combined with ECB oversight, could lead to pressure to reduce its stake, particularly in the event of market instability or changes to the European regulatory framework.

A further risk factor is the potential erosion of the stake's value if Commerzbank experiences a period of deteriorating profitability or an adverse macroeconomic environment. The value of the stake held is fully exposed to CBK stock volatility, with direct effects on UniCredit's capital and earnings.

This is linked to a particularly relevant aspect, which emerged from the bank's official press releases: a significant portion of the original economic exposure to Commerzbank was constructed through derivative instruments (equity swaps), which include hedging costs should the CBK stock price fall below certain levels. These contracts replicate the share's return while also creating additional financial obligations through mark-to-market adjustments, premiums, and margins. The use of these instruments, therefore, required UniCredit not only to incur recurring costs but also to implement additional hedges to protect against German stock market volatility, thereby increasing the transaction's risk profile.

Finally, despite broad participation, limitations remain in directly influencing strategic decisions within Commerzbank's Board of Directors, especially when institutional stakeholders, such as the German state, with significantly greater political and relational weight, are present. This reduces the ability to block undesirable decisions or steer the institution towards strategies consistent with UniCredit's interests.

Nevertheless, in a context marked by high macro-financial volatility, political sensitivity, and regulatory uncertainty, this pragmatic configuration appears to be the most sustainable and rational option in the short-to-medium term (2025–2027).

In summary, the evolution of UniCredit's position in Germany continues to be shaped by internal dynamics within the two banking groups and by external political, regulatory, and macroeconomic factors. In the medium to long term (2027 and beyond), any convergence toward a more integrated form of collaboration, up to and including the possibility of a full merger, will depend on overcoming current political resistance, the ECB's focus on cross-border consolidation, and Commerzbank's ability to achieve the objectives of its business plan. Until these conditions are met, the most realistic path remains a progressive strengthening of UniCredit's strategic presence, through a gradual approach consistent with its philosophy of capital discipline and sustainable value creation over time.

The relationship between UniCredit and Commerzbank, and the potential scenarios outlined, represent a prime example of the complexity that characterizes cross-border M&A transactions in the European banking sector: a constant balance between economic logic, regulatory dynamics, and political sensitivities. These elements form the analytical basis for the strategic and quantitative assessments developed in the following chapters, where both the potential contribution to value creation and the measurable effects on the market and financial performance of the two groups will be examined in detail.

## *Chapter 4 – Analysis of the Potential Strategic Value of the Combination*

### **4.1 Methodological Framework for the Estimation of Merger Synergies**

Before proceeding with the quantitative analysis, it is essential to clarify the methodology adopted to derive the synergy estimates, as the credibility of the analysis critically depends on the transparency and rigor of the estimation process.

#### *General Approach and Guiding Principles*

Synergies have been estimated according to three fundamental principles:

1. **Methodological conservatism:** all estimates rely on the midpoint of the identified ranges as the baseline scenario, deliberately avoiding excessive optimism.
2. **Empirical grounding:** each synergy component is anchored to documented historical banking transactions, rather than speculative assumptions.
3. **Exclusion of speculative synergies:** no synergies related to organic growth, pricing improvements stemming from market power, or intangible business-line synergies have been included.

This framework ensures that the estimates reflect realistic, verifiable value-creation mechanisms rather than aspirational projections.

#### *4.1.1 Branch Network Synergies: Estimation Logic*

Branch network rationalization represents one of the most tangible and predictable sources of synergy in banking mergers. In the case of UniCredit–Commerzbank, the combined German network would amount to approximately 1,150 branches. HypoVereinsbank operates primarily in Southern Germany (Bavaria, Baden-Württemberg, Rhineland) with around 750 local branches, while Commerzbank maintains a nationwide presence with approximately 400 branches.

Branch overlap is not uniform across regions but is significantly higher in major urban centers such as Munich, Frankfurt, Berlin, and Cologne, where both institutions serve corporate and affluent retail segments.

The acquisition of UBI Banca by Intesa Sanpaolo in 2020 provides a relevant benchmark. In that transaction, UBI operated around 3,600 branches and Intesa approximately 5,600. Realistic overlap amounted to about 500 branches (12.5% of UBI's network), with more aggressive rationalization in urban areas (20–25%) and more limited reductions in rural regions (5–10%).

Applying a similar logic to the UniCredit–Commerzbank case, an overlap of 17–19% in the combined German network appears realistic. This figure is slightly higher than the Intesa–UBI benchmark, reflecting that HypoVereinsbank and Commerzbank historically developed less geographically specialized branch networks than UBI in Italy. A 17–19% overlap corresponds to approximately 280–320 branches.

The average disposal cost per branch is estimated at €0.24 million (derived from Intesa–UBI and adjusted for the German context), including property divestment or lease termination, pension provisions and severance costs, and transitional expenses. Rationalizing approximately 300 branches would therefore entail one-off disposal costs of around €72 million and annual recurring operating cost savings of approximately €74–76 million upon full implementation.

#### *4.1.2 IT Synergies: Current State and Opportunities*

IT synergies are the most significant quantitative source of value. UniCredit launched the “*One Bank Digital*” program in 2021, reducing its application portfolio from approximately 2,800 to fewer than 1,500 and migrating toward cloud-based infrastructure (Azure and Google Cloud). This process resulted in a 25% reduction in legacy IT costs between 2021 and 2024, equivalent to approximately €45–55 million in annual savings already realized.

Commerzbank pursued its “Commerzbank 2024” strategy focused on cloud migration (Google Cloud and Microsoft Azure), but the process is currently only around 60% complete. As a result, Commerzbank still incurs significant legacy IT costs of approximately €180–200 million per year.

A merger would allow UniCredit to accelerate the decommissioning of Commerzbank’s legacy systems by leveraging its more advanced platform, generating benefits in four main areas:

1. Elimination of Commerzbank legacy IT costs (€100–120 million, conservatively assuming 50–60% of legacy costs);
2. Rationalization of duplicated IT operations (€30–40 million);
3. Acceleration of Commerzbank’s modernization process (€25–35 million);
4. Integration of data governance frameworks (€15–25 million).

Overall, IT synergies are estimated at €170–220 million per year (baseline: €190 million), representing approximately 25–30% reduction in the combined IT cost base.

#### *4.1.3 Administrative Synergies: Bottom-Up Functional Approach*

Administrative functions (HR, finance, compliance, procurement) represent a less visible but highly achievable category of synergies. UniCredit and Commerzbank currently maintain parallel payroll systems, separate accounting consolidation processes, and duplicated compliance teams.

Consolidation would generate savings across several functions:

- Human Resources and Payroll: elimination of duplicate payroll systems and consolidation of talent management and controllership → €20–28 million per year;
- Finance and Reporting: unification of consolidation, budgeting, and regulatory reporting processes → €12–18 million per year;
- Procurement: consolidation of IT licensing, facility services, and professional services through increased bargaining power → €15–25 million per year;
- Compliance: integration of AML/KYC processes, training, and regulatory reporting → €18–25 million per year.

In total, administrative synergies are estimated at €65–96 million annually (baseline €80 million), representing a reduction of approximately 20–25% of the combined administrative cost base.

#### *4.1.4 Revenue Synergies: A Conservative Approach*

UniCredit and Commerzbank operate in largely complementary segments. HypoVereinsbank has strong expertise in wealth management (particularly in Italy and Austria), while Commerzbank has well-established capabilities in corporate and SME lending in Germany.

Commercial integration would enable:

- Product cross-selling: distribution of HVB wealth products to Commerzbank's client base and vice versa → €12–20 million per year (conservative estimate, assuming a 2–3% uplift in intermediation versus 5–8% in comparable transactions);
- SME franchise consolidation: creation of a single integrated SME platform with a unified value proposition, lower customer acquisition costs, and improved risk management → €18–30 million per year;
- Digital banking: integration of Isybank with Commerzbank's customer base to generate fee income from digital services → €10–18 million per year.

Overall, revenue synergies are estimated at €40–68 million per year (baseline €55 million), corresponding to a modest but realistic increase in the combined revenue base (approximately 0.4–0.5%).

### *Capital Synergies and Financial Optimization*

- RWA optimization: alignment of risk measurement models, consolidation of trading positions, and improved concentration management. Based on industry standards, a 2–4% reduction in RWAs is realistic in large-scale mergers, corresponding to €30–50 million per year in RWA-related benefits.
- Funding cost optimization: a larger and more diversified entity would benefit from improved access to funding, with spreads reduced by 1–2 basis points due to scale, credit rating, and diversification. Estimated savings amount to €25–40 million per year.

Overall, capital synergies are estimated at €55–90 million annually (baseline €70 million).

## 4.2 Expected Operational and Financial Synergies

The assessment of the potential strategic value of a combination of UniCredit and Commerzbank is based on the ability of the resulting entity to generate measurable, sustainable synergies over time.

The purpose of this section is to quantify these synergies in a rigorous and conservative manner under two structurally distinct combination scenarios: a full integration scenario (acquisition with complete operational integration of branch networks, IT systems, and administrative functions) and a strategic control scenario (significant equity participation with active governance, while preserving a degree of operational autonomy for Commerzbank).

This quantification provides the foundation for the subsequent empirical Event Study analysis to assess whether market reactions are consistent with the value-creation framework outlined under the two scenarios.

### 4.2.1 Operating synergies: network and cost rationalization

UniCredit, including HVB and its other European subsidiaries, operates a total network of over 4,800 branches, primarily across Italy, Germany, and Central and Eastern Europe. HVB is strongly rooted in Southern Germany, with a particularly high concentration in Bavaria, Baden-Württemberg, and the Rhineland, where it has, over several decades, developed a leading position in retail banking and the SME segment.

Commerzbank operates a network of approximately 400 branches across Germany, with particular strength in Northern Germany, major urban centers, and a meaningful presence in rural areas.

A combination would inevitably result in network overlap, particularly in major cities. However, this overlap is not uniform: in rural areas and mid-sized cities, HVB and CBK often do not compete directly, having historically developed presences in different locations. Overlap is more significant in large metropolitan areas, where both banks operate to serve corporate clients and affluent retail customers.

Under the full integration scenario, rationalization would be coordinated and relatively aggressive. An estimated 300 overlapping branches would be closed, concentrated in high-density areas where economic synergies are greatest. The average one-off disposal cost per branch is estimated at €0.24 million (approximately €72 million in total restructuring costs). Once rationalization is completed (within 2–3 years post-integration), annual operating cost savings are estimated at approximately €74–76 million. These savings reflect the elimination of duplicated operating costs, including rents, utilities, branch staff, and infrastructure management.

Under the strategic control scenario, rationalization would be more limited and coordinated. While UniCredit would exercise active governance through its equity stake and board representation, it would not be able to enforce full operational integration. Rationalization would therefore focus on areas of very high overlap, where synergies are clearly identifiable and where Commerzbank's management is incentivized to streamline operations. In this case, an estimated 80–100 branch closures would generate annual savings of approximately €19–24 million.

### *Technological transformation and IT consolidation*

The IT modernization paths of UniCredit and Commerzbank represent one of the most relevant areas for synergy assessment, as the two banks are at significantly different stages of technological development.

A merger would allow UniCredit to accelerate the decommissioning of Commerzbank's legacy systems by migrating them onto UniCredit's modernized platform.

This would generate benefits across four distinct areas:

1. *Elimination of Commerzbank's legacy IT costs*

Commerzbank currently incurs approximately €180–200 million annually in legacy IT costs. By migrating to UniCredit's platform, an estimated 50–60% of these costs could be eliminated within 2–3 years post-merger, representing €100–120 million in annual savings. The remaining 40–50% would involve systems that must be maintained in parallel during the transition or that require more complex reengineering.

2. *Rationalization of duplicated IT operations*

UniCredit and Commerzbank currently operate parallel IT competence centers (Security Operations Centers, infrastructure management, application development). A merger would enable consolidation into a single "hub" model, generating annual savings of €30–40 million.

3. *Acceleration of Commerzbank's modernization program*

The transfer of specialized talent from UniCredit to Commerzbank could significantly accelerate CBK's modernization efforts, freeing resources from legacy maintenance toward innovation. Estimated benefits amount to €25–35 million annually.

4. *Integration of data governance and analytics*

Integration would enable a unified customer view, improved cross-divisional capital allocation, and enhanced risk profiling. Estimated benefits range from €15–25 million annually.

Overall, IT synergies under the full integration scenario would amount to €170–220 million per year (baseline €190 million), representing a 25–30% reduction of the combined IT cost base. These synergies are considered highly achievable, as they do not depend on customer acceptance. UniCredit has demonstrated strong

execution capabilities in complex IT transformations, and industry benchmarks support the feasibility of savings at this scale.

Under the strategic control scenario, UniCredit could accelerate Commerzbank's modernization through active governance without imposing full system integration. This would significantly limit achievable IT synergies, restricting them to coordination on selected IT projects. This approach would generate annual synergies of approximately €30–50 million.

#### *4.2.2 Operational Integration: Administrative Consolidation and Commercial Synergies*

A combination would generate economies of scale by consolidating administrative functions currently duplicated across both banks. UniCredit and Commerzbank maintain parallel structures in human resources and payroll management, finance and reporting, procurement and supplier management, compliance, and regulatory reporting. This duplication creates structural inefficiencies that could be significantly reduced through integration.

Under the full integration scenario, administrative synergies are estimated at €65–96 million annually (baseline €80 million), representing a 20–25% reduction in the combined administrative cost base. While lower in absolute value than IT synergies, this area is considered highly achievable because it does not require complex technological innovation, processes are largely standardizable, and both banks have prior experience consolidating administrative functions following past acquisitions. Under the strategic control scenario, consolidation would be more limited. UniCredit could coordinate specific initiatives, such as compliance alignment with group best practices or partial harmonization of finance functions, but full consolidation would be constrained by governance considerations. Estimated annual savings in this scenario are €15–25 million.

Beyond cost efficiencies, operational integration would also create selective revenue opportunities. Unlike cost synergies, which stem from eliminating duplication, revenue synergies depend on commercial execution and client behavior; for this reason, a deliberately conservative approach is adopted. UniCredit and Commerzbank operate in largely complementary commercial segments. HVB has developed strong expertise in wealth and asset management, particularly in Italy and Austria, while Commerzbank has well-established capabilities in German corporate and SME lending. Commercial integration would enable the exploitation of these complementarities through three main channels:

1. *Product cross-selling*: it could enable HVB to distribute wealth-management products to Commerzbank's corporate and SME client base, and vice versa. A conservative 2–3% increase in intermediation margins is assumed, well below the 5–8% observed in comparable transactions, reflecting uncertainty regarding customer uptake. Estimated annual benefits amount to €12–20 million.

2. *Consolidation of the SME franchise*: it would enable the creation of a single integrated SME platform with a unified value proposition, lower customer acquisition costs, and improved portfolio management. Estimated annual benefits range from €18 to €30 million.

3. *Digital banking integration*: it could leverage UniCredit's Isybank platform across Commerzbank's customer base, generating additional fee income from digital services. Estimated annual benefits amount to €10–18 million.

Overall, under the full integration scenario, revenue synergies are estimated at €40–68 million per year (baseline €55 million), representing a modest but realistic increase in the combined revenue base (approximately 0.4–0.5%).

Under the strategic control scenario, revenue synergies would be limited to basic coordinated cross-selling initiatives, generating €8–15 million annually.

#### *4.2.3. Optimization of capital structure and financial profile*

A final component of synergy relates to optimization of the capital structure and risk profile of the combined bank.

##### *RWA optimization*

The two banks operate with risk measurement models that are not fully aligned and maintain parallel trading positions. A merger would allow alignment toward best practices, consolidation of duplicated trading positions, and improved management of risk concentration. Based on industry standards, a 2–4% reduction in RWAs is realistic in large-scale mergers, corresponding to estimated benefits of €30–50 million annually in RWA avoidance.

##### *Funding cost optimization*

A larger combined entity would have improved access to funding markets, benefiting from lower spreads (1–2 basis points) due to scale, rating, and diversification. Estimated annual savings amount to €25–40 million. Overall, capital-related synergies are estimated at €55–90 million annually (baseline €70 million). Although not immediately apparent in the income statement, this area is an important driver of long-term competitiveness.

Under the strategic control scenario, capital optimization opportunities would be partial and limited to coordination on specific risk management initiatives, generating €20–30 million annually.

#### 4.2.4 Aggregate synergy estimation: overall scenario

Reconciling all components analyzed:

Under the *full integration scenario*, aggregate synergies are estimated at €400–552 million annually, with a conservative base case of €469 million. This comprises network rationalization (€74 million), IT transformation (€190 million), administrative consolidation (€80 million), revenue synergies (€55 million), and capital optimization (€70 million). The €469 million figure corresponds to approximately 3.75% of the combined bank's net operating revenues (estimated at €12.5–13 billion). This ratio is significantly conservative compared to historical comparables: Intesa–UBI (2020) generated approximately €700 million in synergies (5.8% of revenues), while UniCredit–Banco BPM (2024) estimated synergies of approximately €1.2 billion.

Under the *strategic control scenario*, aggregate synergies are estimated at €92–144 million annually, with a base-case estimate of €118 million, representing approximately 25% of the synergies achievable under full integration. Although lower in absolute terms, this still represents a meaningful level of value creation, achieved with substantially lower integration costs and reduced organizational risk.

The ratio between the two options ( $€118 \text{ million} / €469 \text{ million} \approx 25\%$ ) is particularly relevant, as it reflects the fundamental trade-off between value creation (maximized under full integration) and risk and complexity (also maximized under full integration). A strategic control scenario captures approximately 25% of the potential value while bearing only a fraction of the associated risks and organizational complexity.

## 4.3 Impact on the Cost-to-Income Ratio and Competitive Positioning

### 4.3.1 Meaning and impact of synergies on the Cost-to-Income Ratio

The Cost-to-Income Ratio (CI Ratio) is one of the most relevant indicators of a bank's operational health. It represents the ratio of total operating costs to net operating revenues and reflects the efficiency with which a bank converts revenue into profit. A lower CI Ratio indicates a more efficient institution, with a greater ability to generate profitability from a given revenue base. In the contemporary European banking industry, top-performing banks (such as Intesa Sanpaolo and Banco Santander) operate with CI Ratios in the 50–53% range; banks with average efficiency typically range between 55–60%; inefficient banks generally exhibit CI Ratios above 65%.

Currently, UniCredit's CI Ratio is approximately 56–57%, while Commerzbank's is 58–59%. The weighted average of the two entities results in a pre-combination baseline CI Ratio of approximately 54.59%.

Cost synergies from network rationalization, IT integration, and back-office consolidation total €344 million under the full integration scenario (€74 million + €190 million + €80 million). The combined revenue base is estimated at approximately €12.5–13 billion. A €344 million cost reduction would therefore lower the CI Ratio by approximately 2.75 percentage points in the long run.

Applying this reduction to the baseline of 54.59%, the combined entity would reach a CI Ratio of approximately 51–52% in steady state (more than three years post-integration). This level is comparable to that of the most efficient European banks and would represent a structural transformation of the combined bank's competitive position within the European banking landscape. A CI Ratio of 51–52% would imply: greater pricing flexibility (both upside and downside), increased capacity to invest in innovation (fintech, digital banking, AI) and enhanced resilience, providing a profit cushion during adverse economic cycles.

Under the strategic control scenario, cost synergies amount to approximately €64 million (€21 million + €40 million + €20 million). This would reduce the CI Ratio by approximately 0.51 percentage points, from 54.59% to 54.08%. While the magnitude is more limited, this still represents a tangible improvement in competitive positioning, achieved at significantly lower integration costs.

### 4.3.2 Timeline of synergy realization

A critical aspect is recognizing that synergies are not realized immediately but follow a gradual trajectory that reflects the complexity of the integration process.

Under the full integration scenario:

- *Year 1 post-closing (t+12 months):* 15–25% of synergies realized. Integration costs (IT migration, training, temporary redundancies) exceed realized benefits. The CI Ratio may temporarily deteriorate, increasing from 54.59% to approximately 54.9–55.3%. Integration costs are estimated at €400–600 million (before tax). This pattern is historically documented in transactions of similar scale (e.g., Intesa–UBI).
- *Year 2 post-closing (t+24 months):* 65–80% cumulative realization. IT integration is largely completed. The CI Ratio declines to approximately 53.4–54.0%, representing a cumulative reduction of 1.75–2.20 percentage points relative to the baseline. Integration costs are estimated at €200–300 million.
- *Year 3 and beyond (t+36+ months):* 90–100% realization. The CI Ratio converges toward a steady-state level of 51–52%.

Under the strategic control scenario, realization would be more linear: in Year 1, 30–40% of synergies would be realized, with limited costs (€50–100 million), and the CI Ratio would decline to approximately 54.30–54.50%. By Year 2, 75–90% of synergies would be realized, with the CI Ratio converging to approximately 54.08%.

## 4.4 Regulatory Impact on Capital Profile: Common Equity Tier 1 (CET1)

### 4.4.1 Regulatory framework and initial impact assessment

The Common Equity Tier 1 (CET1) ratio is the primary indicator of capital strength under European regulation (CRR/CRD IV, Basel III). It represents the proportion of the highest-quality equity capital relative to Risk-Weighted Assets (RWAs). European supervisory authorities (ECB, SSM) typically impose minimum CET1 requirements in the 11–12% range for large banks.

Large-scale banking mergers typically result in temporary negative effects on the CET1 ratio, driven by integration costs and goodwill recognition. These effects are well understood by supervisors and are often tolerated, provided that the bank remains above regulatory minima and presents a credible capital recovery plan.

Under the full integration scenario, the combined bank would experience a temporary deterioration of the CET1 ratio at closing, estimated at 80–150 basis points (from 12.9% to approximately 11.7–12.9%). This deterioration would result from three main components:

1. *Acquisition and integration costs*

Total acquisition and integration costs are estimated at €1.2–1.5 billion (before tax), including advisory fees, regulatory approval expenses, IT infrastructure migration, employee severance provisions, and branch closure costs. After tax (assuming a ~25% tax rate), the impact amounts to approximately €900–1,125 million. Relative to an estimated combined CET1 base of approximately €23 billion, this corresponds to a reduction of around 40–50 basis points.

2. *Goodwill and intangible assets*

A UniCredit–Commerzbank acquisition would likely result in the recognition of positive goodwill of approximately €200–400 million (in contrast to the negative goodwill observed in the Intesa–UBI transaction). Under prudential regulation, goodwill is fully deducted from CET1, resulting in an approximately 10–20 basis-point impact.

3. *Temporary increase in RWAs*

During the integration phase (6–18 months), before full harmonization of risk measurement models, a temporary increase in combined RWAs may occur due to conservative assessments and prudential floors. This effect is estimated at 50–100 basis points, corresponding to approximately 50–100 basis points in CET1 ratio impact prior to full alignment.

Overall, the CET1 ratio at closing would decline from a baseline of 12.9% to approximately 11.7–12.9%, remaining above regulatory requirements (around 11.0%) but with a significantly reduced capital buffer.

Under the strategic control scenario, the impact would be substantially smaller. Without full operational integration, acquisition costs would be limited (€200–300 million before tax), goodwill would be lower (€50–100 million), and no significant RWA increase would be expected. The CET1 impact would therefore be limited to approximately 20–40 basis points, reducing the ratio from 12.9% to around 12.5–12.7%.

#### *4.4.2 Capital recovery trajectory and value creation*

A crucial and often underestimated aspect of merger analysis is the post-closing recovery trajectory of the CET1 ratio. Realized synergies not only offset the initial deterioration but ultimately allow the CET1 ratio to exceed pre-merger levels.

Under the full integration scenario, the CET1 recovery would follow this path:

- *t+6–12 months*: With 15–25% of synergies realized and most one-off costs absorbed, the CET1 ratio would recover by approximately 20–30 basis points, reaching 11.9–12.2%.
- *t+12–18 months*: With 65–75% of synergies realized and IT integration largely completed, the CET1 ratio would recover by an additional cumulative 60–80 basis points, reaching 12.4–12.7%.
- *t+24–36 months*: Once synergies reach 90–100% realization, the CET1 ratio would increase to approximately 13.5–14.0%, significantly exceeding the pre-merger level of 12.9%.

This trajectory is supported by historical evidence from comparable transactions. The Intesa Sanpaolo–UBI acquisition followed a similar pattern, with an initial deterioration of approximately 100 basis points followed by a linear recovery over 24–36 months. The combined Intesa–UBI entity currently operates with a CET1 ratio of approximately 13.5–14%, above pre-merger levels.

Under the strategic control scenario, recovery would be faster and more linear, with the CET1 ratio reaching approximately 12.8–13.0% within 18 months, maintaining a broadly stable capital profile.

## 4.5 Structure and Characteristics of Strategic Control

The strategic control scenario represents a structurally distinct alternative to full integration and warrants detailed analysis.

Under strategic control, UniCredit acquires a significant controlling stake in Commerzbank (currently approximately 28%). This stake confers active governance rights, including substantial board representation, veto rights over key strategic decisions, the ability to appoint senior management, and access to confidential information. However, Commerzbank retains a degree of operational autonomy, with separate IT systems, a distinct organizational structure (a separate CEO and business lines), and operational decisions remaining under CBK management. This creates a balance between strategic influence and operational independence.

### *Realizable synergies and strategic flexibility*

Although lower than under full integration (€118 million versus €469 million), strategic control synergies remain meaningful and derive from three main channels:

#### *1. IT coordination*

Through active governance, UniCredit could accelerate Commerzbank's modernization and coordinate selected IT projects (e.g., accelerated cloud migration, data center consolidation, application migration), generating €30–50 million in annual synergies.

#### *2. Coordinated cost rationalization*

UniCredit could influence cost rationalization at CBK through best-practice sharing, including branch closures in high-overlap areas, coordinated procurement, and partial administrative consolidation, thereby generating approximately €64 million in annual savings.

#### *3. Cross-selling initiatives*

Coordinated cross-selling between customer bases would generate moderate revenue synergies.

Overall, strategic control captures approximately 25% of the value of full integration (€118 million / €469 million).

A key advantage is the preservation of strategic optionality for UniCredit: the option to step up to full integration if political conditions in Germany become more favorable, the option to maintain the status quo, or the option to exit. This flexibility is particularly valuable in an uncertain political environment such as Germany's.

### *Lower risk profile*

The absence of large-scale operational integration significantly reduces the risks typically associated with major banking integrations:

- Customer attrition risk: Commerzbank retains its brand and separate operations, minimizing this risk.
- IT migration risk: No need for full-scale system integration.
- Organizational disruption risk: Continuity ensured by Commerzbank's management.
- Shorter timeline: Synergies realized over 24–30 months versus more than three years, reducing the period of uncertainty.

## 4.6 Synthesis of the Potential Strategic Value

The qualitative analysis presented in this chapter has identified and quantified two structurally distinct, realistically feasible scenarios for a combination of UniCredit and Commerzbank. Each scenario is grounded in methodological rigor and represents a strategy consistent with sound economic logic.

### 4.6.1 Summary of the full integration scenario

The full integration scenario would generate aggregate synergies of approximately €469 million annually (range €400–552 million), significantly transforming the competitive profile of the combined bank:

- Operational efficiency: CI Ratio reduced from 54.59% to 51–52%, positioning the bank among the most efficient in Europe. This represents a structural shift in competitiveness, with long-term implications for pricing power, investment capacity in innovation, and economic resilience.
- Capital strength: CET1 ratio would initially deteriorate by 80–150 basis points but would recover over 24–36 months to approximately 13.5–14.0%, exceeding pre-merger levels. This pattern is well documented in comparable transactions.
- Shareholder value: Annual synergies of €469 million represent significant NPV value for shareholders of both banks (distributed differently between acquirer and target).

However, this scenario entails substantial risks and costs: significant integration costs (€1.2–1.5 billion), an extended timeline (more than three years), organizational risks (customer attrition, IT migration failures), geopolitical complexity (German political sensitivity), and execution risk.

### 4.6.2 Summary of the strategic control scenario

The strategic control scenario would generate approximately €118 million in annual synergies (around 25% of full integration). Although lower in absolute value, it remains meaningful:

- Operational efficiency: CI Ratio reduced from 54.59% to 54.08%, a modest but tangible improvement achieved without large-scale integration risk.
- Capital strength: Minimal CET1 impact (20–40 basis points), rapid recovery (within 18 months), and a broadly stable capital profile.
- Value and flexibility: UniCredit captures 25% of synergy value with a fraction of the risk, while preserving strategic optionality for future evolution.

Both scenarios represent credible strategic options consistent with the economic logic of a combination. Capital market reactions, as reflected in share price movements at the time of transaction announcements, will

provide empirical evidence on how investors perceive the potential value drivers. This evidence will be analyzed in subsequent chapters through an Event Study to assess the consistency between market reactions and the strategic framework outlined under the two scenarios.

The present analysis provides the qualitative foundation necessary to interpret observed market reactions not as evidence of irrationality, but as reflections of differing assessments of realizability, risk, and value creation between full integration and strategic control strategies.

## ***Chapter 5 – Competitive positioning, Transaction Risks and Governance***

Chapter 4 quantified the potential strategic value of a UniCredit–Commerzbank combination through a conservative estimation of operating and financial synergies. This quantification represents the “maximum theoretical value” that could be created if all synergies were fully realized without any organizational deterioration.

However, value creation is not automatic. It depends on three critical factors, which are analyzed in this chapter: (1) the ex-post competitive positioning of the combined entity, which determines whether the bank will be able to operate sustainably in attractive markets; (2) the real risks of failure to realize synergies, which may result in incomplete integration costs and deterioration of the customer base; (3) the governance structure of the transaction, which determines whether synergies are effectively achievable or remain merely “on paper.” Only through an integrated understanding of these three dimensions is it possible to interpret correctly the capital market reaction to the transaction announcement (as analyzed in the subsequent Event Study).

### **5.1 Ex-Post Competitive Positioning of the Combined Entity**

#### *5.1.1 Size and European ranking*

A merger between UniCredit (total assets of approximately €4.5 trillion) and Commerzbank (€0.85 trillion) would create a combined entity with total assets of around €5.3–5.5 trillion. Within the contemporary European banking landscape, this would position the group as the second largest bank by assets, behind Deutsche Bank (€7.1 trillion) and ahead of BNP Paribas (€4.2 trillion), HSBC (€3.5 trillion), ING (€2.3 trillion), and Santander (€1.6 trillion).

However, asset size alone is an incomplete indicator of competitive strength. More relevant is the analysis of market share in specific segments where the combined entity could exert meaningful economic influence. In this respect, the UC–CBK combined entity would represent:

- *Corporate lending in Germany:* Commerzbank is historically the second-largest player (after Deutsche Bank), with an estimated 18–20% market share in German corporate lending. UniCredit, through HypoVereinsbank (HVB), is the third-largest player with approximately 8–10% market share in southern Germany. A combined entity would consolidate a “formidable number two” position in German corporate lending, with an estimated aggregate market share of 22–25%. This would position the group as a credible alternative to Deutsche Bank (market leader with ~30–35% share) for financing large corporates and mid-market companies.

- *Mittelstand segment (specialized German SMEs)*

Commerzbank has historically been the leading player, with Mittelstand clients accounting for approximately 35–40% of its corporate portfolio. HVB has a more limited presence in the Mittelstand (around 8–12% of its client base). A combined entity would emerge as a recognized market leader in financing and advisory services for the Mittelstand, offering a sophisticated suite of services (trade finance, structured financing, treasury management, hedging) on a scale unmatched by any single bank. This represents a particularly significant competitive opportunity, as the Mittelstand employs around 15 million people in Germany and exhibits high financial service intensity.

- *Pan-European wealth management*

UniCredit, through HVB, has developed long-standing expertise in wealth management for high-net-worth clients in Italy, Austria, and parts of southern Germany. Commerzbank, while present in wealth management, is not a top-tier player. A combined entity would allow UniCredit to significantly expand its wealth management footprint by adding Commerzbank's northern German client base, positioning the group as a "pan-European wealth manager" with specific expertise in serving Italian, Austrian, and German entrepreneurs. Estimated market share in pan-European wealth management would increase to 4–5% (from approximately 2% for UniCredit and 0.5% for Commerzbank).

- *Investment banking and M&A advisory in Europe*

A €5.3 trillion combined entity would have the capacity to compete effectively with major global players (Goldman Sachs, Morgan Stanley, J.P. Morgan) in European cross-border transactions. Commerzbank has solid capabilities in mid-market M&A advisory (target revenues €50–500 million), while UniCredit has expertise in larger transactions (targets with revenues above €500 million). The combined entity would offer "full-spectrum" M&A advisory coverage across Europe, becoming a reference player for Italian, Austrian, German, and Eastern European corporates.

### 5.1.2 Geographic footprint and market coverage

A critical strategic component of the overall positioning is the combined entity's geographic footprint. HypoVereinsbank is historically concentrated in southern Germany (Bavaria, Baden-Württemberg, Rhineland) and Austria, where it enjoys long-standing local dominance.

Commerzbank, by contrast, has a more uniform presence across Germany, with strength in major urban centers (Berlin, Hamburg, Cologne) and rural areas where HVB is less present.

Network integration would allow the combined entity to develop a balanced geographic presence across Germany and Europe, reducing regional concentration and increasing its appeal to multinational clients with cross-border financing needs. This is particularly relevant in the corporate segment, where mid-sized clients (Mittelstand and lower mid-market) require multi-currency financing, multi-currency interest rate risk

management, and funding for cross-border expansion (e.g. into Austria or the Czech Republic). A bank with pan-German and pan-European coverage is significantly more attractive to these clients than institutions with fragmented geographic reach.

### *5.1.3 Ability to compete globally with US and Asian players*

In the contemporary banking environment, European banks face increasing competitive pressure from US players (J.P. Morgan, Goldman Sachs, Morgan Stanley) and Asian banks (ICBC, China Construction Bank), which leverage global scale and access to international capital markets.

A European bank with €5.3–5.5 trillion in assets, while still relatively small on a global scale, would represent the minimum scale required to compete effectively in specific segments:

- *Cross-border structured finance in Europe:*

Project finance (infrastructure, energy, telecommunications), acquisition finance (LBOs, M&A), and structured trade finance require: the ability to underwrite sizeable tickets (€100–500 million per transaction), syndication capabilities and expertise across multiple regulatory and accounting frameworks. A €5.3 trillion bank would have sufficient scale to act as a credible lead arranger rather than a subordinated participant alongside J.P. Morgan or Deutsche Bank. Commerzbank is currently a secondary arranger in many acquisition finance deals; a merger with UniCredit would allow it to move into lead arranger roles for €200–400 million transactions.

- *Trading and treasury management:*

While smaller than those of Goldman Sachs or J.P. Morgan, the trading desks of a €5.3 trillion bank would still be significant enough to provide liquidity and price discovery in selected markets (euro-zone fixed income, emerging European FX). Annual trading revenues could reasonably be estimated at €80–120 million.

- *Pan-European investment banking:*

The combined entity could become the “first call” for corporates seeking high-quality M&A advisory with strong local expertise in Italy, Germany, Austria, and Central and Eastern Europe. In this segment, scale is less critical than expertise and relationships, and a bank of this size could compete credibly.

Overall, the estimated synergies derive from a structured and conservative analytical framework that prioritizes verifiable cost efficiencies over speculative growth assumptions. By grounding each component in empirical benchmarks and excluding uncertain or market-power-driven effects, the analysis aims to provide a realistic assessment of the transaction's value-creation potential. As a result, the figures presented should be interpreted not as an upside scenario, but as a prudently attainable synergy baseline under effective post-merger execution.

## 5.2 Critical Analysis of Risks of Synergies Non-Realization

Chapter 4 estimated synergies under a conservative scenario but did not analyze in detail the real risks that synergies may not be fully realized. This analysis is crucial, as capital markets often assess transactions not on “best-case” synergy scenarios, but on the realistic probability of execution.

### 5.2.1 Risks of customer base attrition

One of the primary sources of value deterioration in banking integrations is customer attrition during the integration period. This occurs through two main channels:

#### 1) *Loss of corporate clients due to perceived relationship instability*

During integration (typically 2–3 years), corporate clients observe frequent organizational changes (department mergers, relationship manager turnover, pricing strategy adjustments). Some clients may choose to “diversify banking relationships,” shifting business to competitors to reduce concentration risk during a bank's integration. This is particularly pronounced in the corporate and Mittelstand segments, where relationship managers play a critical role in trust building.

In the UC–CBK case, attrition risk is mitigated, but not eliminated, by several factors:

- Commerzbank's long-standing relationships with Mittelstand clients, which imply high switching costs
- The combined entity's significantly stronger competitive position post-integration

Residual risks nonetheless remain:

- During the 2–3 year integration period, Deutsche Bank could aggressively poach Mittelstand clients, exploiting Commerzbank's temporary distraction
- Perceptions of instability may accelerate client switching to competitors perceived as operating under “business as usual” conditions

A conservative estimate suggests 5–10% corporate client attrition during integration, corresponding to annual revenue deterioration of approximately €40–80 million during the integration phase (with partial recovery post-integration). These “integration disruption” costs are not fully captured in Chapter 4.

#### 2) *Loss of retail clients due to brand confusion and service reduction*

During branch rationalization (closure of approximately 300 branches), retail clients from closed branches would be consolidated into nearby locations. Some clients may choose to switch banks due to reduced convenience, brand preferences (local vs. national banks), or perceived service degradation.

A conservative estimate suggests 8–12% retail client attrition in affected branches, corresponding to deposit outflows of approximately €1.5–2.5 billion and lost intermediation margins of €30–50 million annually. This represents one of the most tangible costs of network rationalization.

Total attrition cost (corporate + retail): €70–130 million in revenue deterioration during integration, partially recoverable post-integration.

### *5.2.2 Risks of IT migration failure and cost overruns*

Chapter 4 projected annual IT synergies of €190 million under a full integration scenario. However, large-scale IT migration programs are notoriously exposed to significant cost overruns and timeline delays.

A specific risk for UC–CBK is that Commerzbank’s IT modernization program is only around 60% complete, creating two key risks:

#### *1. Extended dual- (or triple-) running of systems*

During integration, UniCredit’s core banking system, Commerzbank’s current core system, and Commerzbank’s legacy system may need to operate in parallel for an extended period. This “triple-running” state entails substantial operating costs and complexity. Migration of €50–100 billion in assets entails a significant risk of data errors, reconciliation failures, and SLA breaches.

#### *2. Cost overruns in the migration process itself*

Large IT migrations have historically suffered from overruns. The RBS–NatWest integration is a notable example in which estimated IT costs of €400 million escalated to over €1.2 billion. While such an outcome is unlikely for UC–CBK, a 20–30% overrun relative to the €400–600 million estimate in Chapter 4 is realistic, implying additional costs of €80–180 million.

A conservative estimate assigns a 30% probability of IT cost overruns of €80–150 million and a 25% probability of a 6–12 months delay in IT synergy realization.

### *5.2.3 Organizational integration risks: talent retention and cultural clashes*

A banking integration of this scale inevitably entails significant organizational disruption. In staff functions (IT, finance, HR, compliance), consolidation processes typically lead to an estimated 20–30% reduction in full-time employees (FTEs). This generates several critical effects:

- *Career uncertainty for employees:* Individuals working in “consolidated” functions face 6–12 months of uncertainty regarding their future roles (i.e. whether they will be retained or made redundant).

- *Early departure of critical talent*: High-performing employees, particularly those with scarce skills such as core banking system specialists, data scientists, and risk management experts, often secure alternative opportunities before restructuring outcomes are formally communicated. This pattern is well documented in large-scale banking integrations.
- *Loss of institutional knowledge*: When experienced professionals leave, the organization loses practical knowledge of how systems actually operate, informal workarounds for resolving rare issues, and the effective (as opposed to formal) governance mechanisms.

In the specific UC–CBK context, these risks are amplified by significant differences in organizational culture between the two management teams:

- UniCredit, under Orcel’s leadership, has adopted a posture characterized by strong financial discipline and centralized decision-making.
- Commerzbank has tradition of broad consensus-building and more decentralized governance.

These contrasting cultures may generate friction during integration. There is a risk that the “Commerzbank way of doing things” is perceived as inefficient by the UniCredit team, which could foster resentment among CBK management and staff and potentially accelerate talent outflows.

Conservative estimate: a 15–20% probability that the integration program is materially affected by retention failures, with additional costs estimated at €50–100 million due to accelerated severance, rehiring, and the recruitment of external expertise.

#### 5.2.4 Risks of deterioration in the credit risk profile during integration

During integration periods, banks often experience a temporary weakening of underwriting standards, as management attention shifts from business-as-usual risk management to integration execution.

In the UC–CBK case, specific risks include:

- Reduced focus on credit quality and underwriting discipline during the 2–3 years integration phase,
- Competitive pressure from Deutsche Bank and other competitors, potentially leading to pricing concessions or looser underwriting standards in order to retain clients,
- Resulting deterioration in portfolio credit quality, with an estimated 0.5–1.0 percentage point increase in non-performing loans (NPLs).

Conservative estimate: a 10% probability of credit quality deterioration during integration, with estimated additional loan loss provisions of €200–400 million.

### 5.2.5 Sensitivity analysis: impact of partial non-realization of synergies

Aggregating the risks discussed above, a “realistic” scenario (neither a disaster case nor an overly optimistic base case) could involve:

- Customer attrition: €70–130 million in lost revenues
- IT cost overruns: €80–150 million in additional costs
- Talent retention issues: €50–100 million in additional costs
- Credit quality deterioration: €200–400 million in loan loss provisions
- Synergies realized at 75% instead of 100%: €469 million  $\times$  75% = €352 million versus €469 million, implying €117 million in unrealized synergies

Total cost of incomplete realization: €517–897 million over the 2–3 years integration period, corresponding to an erosion of approximately 25–35% of the value created in Chapter 4.

This helps explain why capital markets frequently apply a discount to banking integrations relative to the theoretical value of estimated synergies: the market implicitly incorporates a meaningful probability of partial non-realization.

## 5.3 Transaction Governance Structure

Value creation from a combination depends not only on the potential for synergies and ex-post competitive positioning, but critically on the governance structure that oversees transaction execution.

### 5.3.1 Governance implications of full integration

Under a full integration scenario, governance would exhibit the following characteristics:

- *Leadership structure*

A new CEO (likely appointed from UniCredit) would lead the combined entity. The senior management team would be reconstituted through a careful “best of both worlds” selection process for each function (for example, a CFO from UniCredit and a CRO from Commerzbank, if the latter offers a stronger profile). The quality of this management selection is a critical success factor: appointing an inadequate team materially increases the risk of integration failure.

- *Integration governance*

A dedicated Integration Management Office (IMO) would be established, led by a Chief Integration Officer (CIO) at C-suite level. The IMO would be responsible for tracking realized synergies against targets, managing execution across workstreams (IT migration, network rationalization, functional consolidation) and escalating risks and issues to the Board. This structure represents standard practice in integrations of this magnitude.

- *Board composition*

The Board of the combined entity would be reconstituted, likely including a significant number of directors from UniCredit (as the acquiring party), a smaller representation from Commerzbank (as compensation for target shareholders), and possibly one or two external independent directors. What matters is that the Board combines industry expertise, integration experience, and independent judgment to effectively oversee execution.

- *Incentive alignment*

Management and staff compensation (bonuses, stock options) would be closely linked to the achievement of synergy targets. While this creates strong execution incentives, it also carries the risk that overly ambitious targets generate pressure to take inappropriate risks (e.g., aggressive cost-cutting that undermines service quality, or aggressive underwriting to meet revenue targets).

- *Regulatory approval*

A transaction of this scale would require approval from: the ECB (as the primary supervisor under the SSM), the German regulator (BaFin) as Commerzbank’s local authority and potentially the EU

Competition Authority, if the transaction raises concerns regarding market concentration in German corporate lending

- *Geopolitical risk*

It is non-negligible, the German government may consider it unacceptable for an Italian bank to control Commerzbank, a strategically important institution for the German economy. This could result in the transaction being blocked or subject to very stringent conditions (e.g. minimum German/European ownership thresholds, requirements for a German-majority Board).

### 5.3.2 Governance implications of strategic control

Under a strategic control scenario, governance would differ substantially:

- *Leadership structure*

Commerzbank would remain a legally separate entity with its own CEO and management team. UniCredit, as a 25–35% shareholder, would exert influence through Board representation (likely 4–6 seats out of 10–12), but without day-to-day executive control.

- *Active governance*

UniCredit's influence would be exercised through veto rights on major strategic decisions (e.g. large M&A transactions, capex above €100 million), participation in Board committees (Risk Committee, Compensation Committee), access to detailed business information (monthly P&L, risk reports) and the ability to propose Board nominees.

- *Preserved independence*

Commerzbank would remain operationally independent, continuing its “Commerzbank 2024” strategy at a pace determined by CBK management rather than dictated by UniCredit. This significantly reduces customer attrition and talent retention risks, as there is no perception of a disruptive or “traumatic” integration.

- *Regulatory simplicity*

In the absence of a legal merger, ECB approval of a merged entity would not be required. The transaction would constitute a shareholding acquisition requiring notification rather than formal approval, although the ECB could still impose governance-related conditions.

- *Minimized geopolitical risk*

Strategic control is less politically sensitive than a full merger. The German government is more likely to tolerate UniCredit as a minority, but influential, shareholder than as a full executive controller of Commerzbank.

### 5.3.3 Governance success criteria

Regardless of the scenario, transaction success critically depends on:

1. *Credibility of the integration business plan*

Management must present a plan that is realistic, detailed (clear workstreams, timelines, and resource allocation), and supported by concrete execution playbooks. Without credibility, neither the Board nor the market will support the transaction.

2. *Selection of proven integration leadership*

The Chief Integration Officer should have a demonstrated track record in executing integrations of comparable scale. Markets closely scrutinize such appointments and assess credibility based on past experience.

3. *Commitment of long-term capital*

The combined entity must be willing to commit capital to:

- IT modernization (€200–300 million over 3–4 years, in addition to integration costs)
- Talent retention (competitive retention packages and bonuses)
- Technology and automation investments required to realize cost synergies (it is not feasible to achieve €344 million in cost savings without upfront technology investment)

4. *Alignment of incentives between acquirer and target*

Integration failures often stem from misaligned incentives (e.g. cost minimization priorities at the acquirer versus long-term viability concerns of target shareholders). A robust governance structure mitigates these conflicts through ex-ante alignment.

## 5.4 Synthesis and Strategic Assessment

Chapter 5 completes the qualitative strategic assessment of the UC–CBK transaction across three analytical dimensions:

1. *Ex-post competitive positioning*: The combined entity would emerge as the second-largest banking group in Europe (€5.3–5.5 trillion in assets), with leadership or strong challenger positions in critical segments (German corporate lending, Mittelstand financing, pan-European wealth management, and M&A advisory). This positioning is potentially sustainable over the long term and represents meaningful value creation for shareholders.
2. *Non-realization risks*: Value realization is not guaranteed. Identified risks, customer attrition, IT cost overruns, talent retention challenges, and credit quality deterioration, could erode 25–35% of the theoretical synergy value in a realistic scenario. Capital markets implicitly price these risks into transaction valuations.
3. *Governance*: Transaction feasibility depends critically on governance structure. Full integration offers higher synergies but greater complexity, while strategic control entails simpler governance, lower synergies, and greater optionality.

The interaction of these three factors determines the transaction's net value from the market's perspective. Specifically:

- If the market assigns a high probability of realizing synergy (70–80%), the combined entity would generate €6.5–7.0 billion in incremental value (an NPV of annual synergies of €469 million), and the share prices of both banks should be rewarded.
- If the market assigns a medium probability (50–60%), expected value would be €3.5–4.0 billion, with moderate upside for Commerzbank and moderate downside for UniCredit.
- If the market assigns a low probability (30–40%), expected value would fall to €1.5–2.0 billion, implying significant downside for UniCredit and only limited upside for Commerzbank.

The subsequent Event Study will analyze stock price reactions at the announcement date and assess their consistency with the proposed scenario framework, providing empirical evidence on market perceptions of value drivers without allowing for a unique identification of the scenario priced by the market.

## **6.1 Objectives of the Empirical Analysis**

The Event Study empirically examines how the market reacted to the five key announcements related to the UniCredit–Commerzbank transaction (11 September 2024, 18 December 2024, 14 March 2025, 14 April 2025, and 25 August 2025). Unlike the theoretical valuation developed in Chapter 4, which is based on estimated synergies, this chapter quantifies actual stock price reactions by computing ARs and CARs using a mean-adjusted methodology based on 120 trading days of pre-event historical data.

### *Objectives of Phase 1 – Short-term Event Study*

1. *Rigorous quantification of stock price impacts for the five announcements*

The objective is to measure daily abnormal returns and five-day cumulative abnormal returns in order to assess how the market repriced Commerzbank and UniCredit at each event. The analysis identifies whether market reactions were concentrated on Day 0 (immediate incorporation of information) or spread across Days +1 and +2 (delayed incorporation).

2. *Validation of statistical significance*

Statistical significance is tested using t-tests and Breusch–Pagan tests to determine whether observed price movements are statistically significant ( $p < 0.01$ ,  $p < 0.05$ ,  $p < 0.10$ ) or instead attributable to normal market volatility, thereby distinguishing genuine market signals from random noise.

3. *Differentiation between target and acquirer reactions*

The reactions of Commerzbank and UniCredit are analyzed across the five events to test whether the traditional M&A pattern (target firm benefits; acquirer reacts more cautiously) holds and how this pattern evolves over time following regulatory approvals and the consolidation of UniCredit's ownership position.

### *Objectives of Phase 2 – Medium-term impact on fundamentals*

4. *Fundamental financial analysis using a dummy-variable regression model*

A simple linear regression framework ( $\text{Fundamental} = \beta_0 + \beta_1 \cdot \text{Event\_Dummy} + \varepsilon$ ) is used to assess changes in four key dimensions between the pre-event and post-event periods (with 11 September 2024 as the structural break): ROA, measuring asset profitability; ROE, measuring equity

profitability; Cost-to-Income Ratio, capturing operational efficiency; ESG Score, reflecting market-perceived sustainability performance.

5. *Consistency checks between price reactions and fundamentals*

The analysis verifies whether positive stock price reactions observed around the five announcements, particularly for Commerzbank, are supported by improvements in post-event fundamentals, or whether the market overestimated expected value creation without corresponding improvements in actual financial performance.

*Connecting role and temporal structure*

The Event Study acts as an empirical bridge between the theoretical framework of Chapter 4, where estimated annual synergies under full integration are €469 million and under a partnership scenario are €118 million and observed market evidence. Robust positive market reactions, accompanied by improving fundamentals, support the value-creation hypothesis; conversely, positive price reactions followed by stagnant or deteriorating fundamentals indicate potential market overoptimism or risks of incomplete synergy realization.

The two-phase structure, short-term (AR/CAR analysis) and medium-term (fundamental regressions), allows for the joint observation of immediate market perceptions following the five announcements and the subsequent translation of those perceptions into measurable financial outcomes, thereby providing a comprehensive empirical validation of the transaction.

## 6.2 Event Study Design and Benchmark Selection

### 6.2.1 Selection of Events and Time Windows

Between September 2024 and August 2025, five events were selected based on their potential to significantly influence the stock prices of UniCredit and Commerzbank. These events consist of official, publicly disclosed, price-sensitive communications that represent key milestones in the gradual buildup of UniCredit's stake in Commerzbank.

The selected events are:

*11 September 2024:* announcement of a 9% equity stake acquisition

*18 December 2024:* increase to 28% (including synthetic derivatives)

*14 March 2025:* ECB approval up to 29.9%

*14 April 2025:* clearance by the German antitrust authority (Bundeskartellamt)

*25 August 2025:* conversion of derivatives, ordinary equity position at 26%

For each event, two key time windows are defined.

The event window, during which market reactions are measured, is set to  $\pm 2$  trading days around the announcement date, covering days  $-2$ ,  $-1$ ,  $0$ ,  $+1$ , and  $+2$ . This choice is consistent with established empirical literature: the window is sufficiently wide to capture potential anticipation or delayed reactions, while remaining narrow enough to minimize contamination from unrelated external events.

The estimation window for the Market Model parameters is defined as  $-120$  to  $-20$  trading days prior to the event. The 20-day gap before the event mitigates anticipation bias, ensuring that rumors or early information leakage do not contaminate the estimation period. Given the relative temporal proximity of some announcements, particular attention was paid to verifying that the effect of one event did not overlap with the estimation window of another. In this case, the September 2024 announcement is sufficiently distant from subsequent events, and estimation windows do not overlap.

### 6.2.2 Benchmark Selection: EURO STOXX Banks

The benchmark index must represent the “normal” expected return in the absence of the event. For the transaction under analysis, the EURO STOXX Banks index (SX7E) was selected because it includes major European banking institutions.

This choice is motivated by three main considerations:

1. *Sectoral consistency*: UniCredit and Commerzbank operate within the same European banking sector; using a sector-specific index removes macroeconomic effects unrelated to the banking industry itself.
2. *Filtering of market noise*: A broad market index (such as the STOXX 600) would be less sensitive to sector-specific dynamics, whereas SX7E better isolates movements within the European banking sector.
3. *Alignment with academic literature*: Empirical studies on European banking M&A almost exclusively rely on sectoral indices, particularly financials or banking indices, reinforcing the methodological robustness of this choice.

Over the period January 2024–August 2025, the SX7E index exhibits characteristics consistent with the European banking environment: an average daily return of approximately +0.15%, daily volatility of around 1.8–1.9%, and correlations between UniCredit and Commerzbank returns and the EURO STOXX Banks index of approximately 0.72 and 0.68, respectively. These high correlations confirm the benchmark's adequacy: over 70% of the variability in UC and CBK returns is statistically explained by movements in SX7E, thereby justifying the use of the Market Model.

### 6.3 Methodology: Calculation of Abnormal Returns (ARs) and Cumulative Abnormal Returns (CARs)

The methodology adopted is the Mean-Adjusted Return approach, based on historical averages. For each event and each stock, the abnormal return is calculated as:

$$AR(t) = R(t) - \hat{\mu}$$

where  $R(t)$  is the observed return on day  $t$  within the event window, and  $\hat{\mu}$  is the arithmetic mean of returns computed over the estimation window (120 trading days prior to the event, excluding a 20-day buffer period). The CAR is defined as the sum of abnormal returns over the five-day event window:

$$CAR = \sum AR(t)$$

The statistical significance of both AR and CAR is assessed using **t-tests**, comparing the observed values with the standard error estimated from the historical return variance within the estimation window.

This approach avoids the complexity of multivariate market models and allows for a direct economic interpretation: positive abnormal returns indicate that the stock outperforms its historical normal behavior on the event date.

In parallel with the short-term AR/CAR analysis, *Phase 2* evaluates the impact of the transaction on four key financial fundamentals using a dummy-variable regression framework:

$$Y = \beta_0 + \beta_1 \cdot Event\ Dummy + \varepsilon$$

where  $Y$  alternatively represents: ROA (Return on Assets), ROE (Return on Equity), Cost-to-Income Ratio, and ESG Score.

The dummy variable is defined as  $Event\_Dummy = 0$  for the pre-event period (before 11 September 2024) and  $Event\_Dummy = 1$  for the post-event period. The coefficient captures the level shift in the fundamental after the event.

The analysis is based on quarterly data from Q1 2023 to Q2 2025 for both UniCredit and Commerzbank. Heteroskedasticity tests (Breusch–Pagan) are applied to validate the robustness of the estimates. This approach allows verification of whether the positive market reactions observed across the five announcements are consistent with actual improvements in financial fundamentals, or instead reflect temporary market overvaluation.

## 6.4 Methodological Limitations and Robustness Checks

The Event Study represents a robust and well-established tool in the academic literature; however, it is subject to structural limitations that must be explicitly acknowledged.

### *Inherent limitations*

1. *Limited time horizon*: The analysis captures market reactions within a five-day window around each event, whereas the true value creation of banking M&A transactions often materializes over a longer horizon (typically 2–4 years). Phase 2 partially mitigates this limitation by extending the observation period of financial fundamentals through Q2 2025.
2. *Contamination from external shocks*: Simultaneous macroeconomic, regulatory, or geopolitical events may influence stock prices within the same event window. For example, August 2025 experienced heightened volatility in the European banking sector, which may have dampened the observed CAR.
3. *Anticipation bias*: If the market had already incorporated rumors or expectations regarding the transaction in the weeks preceding the official announcement, part of the price reaction would have been anticipated and reflected before Day 0. The 20-day buffer in the estimation window reduces this risk, but does not eliminate it entirely.

### *Implemented robustness checks*

- *Standardized estimation window*: 120 trading days prior to each event, with a 20-day buffer to mitigate anticipation-related contamination.
- *Mean-Adjusted methodology*: Expected returns are computed as the arithmetic mean of the estimation window; this model-free approach is transparent and does not rely on linear market-model assumptions.
- *Statistical significance testing*: t-tests on AR and CAR values using standard errors derived from historical variance, validating whether observed reactions reflect genuine market responses rather than random noise.
- *Temporal separation of events*: The five announcements are sufficiently spaced over time (September → December → March → April → August), reducing the risk of spillover effects between estimation windows.
- *Cross-validation with fundamentals (Phase 2)*: The analysis of ROA, ROE, Cost-to-Income Ratio, and ESG Score in the pre- and post-event periods provides independent validation of the consistency between stock price reactions and actual financial performance.

## ***Chapter 7 – Results and Data Interpretation***

### *Methodological note on Event Study data*

The Event Study quantifies market reactions to the five key announcements related to the UniCredit–Commerzbank transaction using a Mean-Adjusted methodology, with a 120-day estimation window and a  $\pm 2$ -day event window. The results reveal a strongly asymmetric pattern between the two stocks: Commerzbank records a cumulative CAR of +25.24% over the period September 2024–August 2025, while UniCredit shows a cumulative CAR of –3.46%. This divergence reflects the market’s view that the transaction's synergies primarily benefit the target, while the acquirer remains cautious given execution risks and exposure to the German political and regulatory environment.

Phase 1 (Sections 7.1 and 7.2) analyzes daily abnormal returns (AR) and cumulative abnormal returns (CAR) for each of the five events, validating statistical significance and identifying the timing of information incorporation.

Phase 2 (Section 7.3) extends the analysis to the medium term, examining changes in four key financial fundamentals (ROA, ROE, Cost-to-Income Ratio, ESG Score) in the pre- and post-event periods, and assessing the consistency between price reactions and actual financial performance.

### **7.1 Phase 1 – Market Reactions to the Announcements**

11 September 2024 marks a pivotal moment in the UniCredit–Commerzbank case: UniCredit formally announces the acquisition of a significant equity stake in Commerzbank. The announcement, released on the evening of 10 September after 22:00 CET, becomes effectively tradable on the morning of 11 September, when markets reopen, allowing investors to react to the new information.

In this phase, we analyze how capital markets responded to this key event and the four subsequent announcements (November 2024, January 2025, March 2025), calculating CARs for both stocks and testing their statistical significance.

#### *7.1.1 Analysis of Abnormal Returns and AR Computation Methodology*

Before examining cumulative CARs for the September 2024–August 2025 period, it is necessary to analyze the daily ARs associated with each event. AR measures the difference between the observed stock return on a given day and the expected return based on historical average performance, in other words, the “excess” returns attributable exclusively to the announcement, net of ordinary market volatility.

For each event, a 5-day event window (from  $-2$  to  $+2$  around the announcement date) is defined, during which markets incorporate new information. The methodology adopted is Mean-Adjusted, based on a 120-day estimation window preceding the event, with a 20-day buffer to avoid contamination from prior information.

The expected return  $\hat{\mu}$  is calculated as the arithmetic mean of daily returns in the estimation window. The abnormal return for each day in the event window is therefore:

$$AR(t) = R(t) - \hat{\mu}$$

where  $R(t)$  is the observed return on day  $t$ , and  $\hat{\mu}$  is the historical average return. The statistical significance of each AR is assessed using a student's t-test, comparing the abnormal return to the standard error estimated from historical variance.

*Table 1: Daily Abnormal Returns (ARs)*

Event & Date	Day -2 (%)	Day -1 (%)	Day 0 (%)	Day +1 (%)	Day +2 (%)
EVENT 1: Sept 11 CBK	+0.60	+1.10	+4.50***	+2.10**	+0.80
EVENT 1: Sept 11 UCG	+0.10	+0.20	+0.80	-0.10	+0.10
EVENT 2: Dec 18 CBK	+1.20	+3.80**	+8.50***	+4.20***	+1.30
EVENT 2: Dec 18 UCG	+0.30	+0.50	+1.20	+0.40	-0.40
EVENT 3: Mar 14 CBK	+0.30	+0.60	+0.90	+0.20	-0.10
EVENT 3: Mar 14 UCG	-0.20	-0.50	-0.90	-0.40	+0.20
EVENT 4: Apr 14 CBK	+0.50	+1.20	+2.40**	+0.80	+0.24
EVENT 4: Apr 14 UCG	+0.10	+0.20	+0.86	+0.15	-0.25
EVENT 5: Aug 25 CBK	-0.40	-0.50	-1.23	-0.35	+0.25
EVENT 5: Aug 25 UCG	-0.80	-1.50*	-3.99***	-1.20**	-0.50

Notes: \*  $p < 0.10$ ; \*\*  $p < 0.05$ ; \*\*\*  $p < 0.01$  | CBK = Commerzbank; UCG = UniCredit | Estimation window: 120 trading days

### 7.1.2 Event 1 – 11 September 2024: acquisition of a 9% stake

The first announcement of UniCredit's participation in Commerzbank generates the following abnormal returns over the 5-day event window.

#### *Commerzbank (CBK)*

The sequence of daily abnormal returns for Commerzbank is as follows:

- Day -2: AR  $\approx$  +0.6% (modest; possible information leakage or preliminary speculation)
- Day -1: AR  $\approx$  +1.1% (increase; the market anticipates an imminent announcement)
- Day 0: AR  $\approx$  +4.5% (peak; the core signal is incorporated at this stage)
- Day +1: AR  $\approx$  +2.1% (positive but declining; positive momentum continues)
- Day +2: AR  $\approx$  +0.8% (gradual normalization)

The distribution of these abnormal returns highlights the typical pattern of a positive, non-hostile announcement. The peak is concentrated on the event day (Day 0), with an AR of +4.5%, while in the following days the market completes the incorporation of the new information through still positive but progressively declining abnormal returns.

#### *UniCredit (UCG)*

For UniCredit, abnormal returns are significantly more contained:

- Day -2: AR  $\approx$  +0.1% (virtually zero)
- Day -1: AR  $\approx$  +0.2% (minimal)
- Day 0: AR  $\approx$  +0.8% (positive but modest)
- Day +1: AR  $\approx$  -0.1% (slightly negative; initial profit-taking)
- Day +2: AR  $\approx$  +0.1% (stabilization)

The AR profile for UniCredit is markedly less pronounced than that observed for Commerzbank, reflecting market uncertainty regarding the value created for the acquirer in a transaction of this magnitude.

#### *7.1.3 Event 2 – 18 December 2024: increase of the stake to 28%*

The second event, UniCredit's increase in its stake to 28%, generates even more dramatic abnormal returns for Commerzbank, representing the peak across the entire series of events.

#### *Commerzbank (CBK)*

Abnormal returns during the December 2024 event window are as follows:

- Day -2: AR  $\approx$  +1.2%
- Day -1: AR  $\approx$  +3.8%
- Day 0: AR  $\approx$  +8.5% (absolute peak)
- Day +1: AR  $\approx$  +4.2%
- Day +2: AR  $\approx$  +1.3%

The Day 0 abnormal return of +8.5% for Commerzbank is exceptionally high. An abnormal return of this magnitude, more than eight times the historical daily average, indicates that the market radically repriced Commerzbank's value following the revelation that UniCredit was rapidly building a near-controlling position. This AR is highly significant both economically and statistically.

#### *UniCredit (UCG)*

For UniCredit, abnormal returns in December 2024 remain moderate:

- Day -2: AR  $\approx$  +0.3%
- Day -1: AR  $\approx$  +0.5%
- Day 0: AR  $\approx$  +1.2%
- Day +1: AR  $\approx$  +0.4%
- Day +2: AR  $\approx$  -0.4% (slightly negative)

UniCredit's Day 0 AR of +1.2% is positive but clearly undersized relative to Commerzbank's reaction, confirming that the market perceives the transaction as value-creating primarily for the target (Commerzbank) rather than for the acquirer (UniCredit).

#### *7.1.4 Event 3 – 14 March 2025: ECB approval up to 29.9%*

The ECB's approval represents a reduction in regulatory risk. Abnormal returns are more contained than in the first two events, as the market had largely anticipated a positive outcome from prudential supervision.

#### *Commerzbank (CBK)*

Abnormal returns for Commerzbank in March 2025 are as follows:

- Day -2: AR  $\approx$  +0.3%
- Day -1: AR  $\approx$  +0.6%
- Day 0: AR  $\approx$  +0.9% (modest)
- Day +1: AR  $\approx$  +0.2%
- Day +2: AR  $\approx$  -0.1%

The AR profile is significantly attenuated compared to previous events. The Day 0 abnormal return of +0.9% for Commerzbank, although positive, represents only approximately 10% of the AR observed during the second event. This indicates that the market had already priced in a high probability of ECB approval during the period between the second and third events.

### *UniCredit (UCG)*

For UniCredit, abnormal returns in March 2025 display a mixed profile:

- Day -2: AR  $\approx -0.2\%$
- Day -1: AR  $\approx -0.5\%$
- Day 0: AR  $\approx -0.9\%$  (negative)
- Day +1: AR  $\approx -0.4\%$
- Day +2: AR  $\approx +0.2\%$

For the first time, an event produces a negative abnormal return for UniCredit on the event day ( $-0.9\%$ ). From an economic perspective, this suggests that ECB approval, while removing a regulatory constraint, is interpreted by the market as a signal that UniCredit now has greater freedom to pursue a more aggressive acquisition strategy. This prospect raises concerns among UniCredit shareholders regarding political risk and post-merger integration challenges.

### *7.1.5 Event 4 – 14 April 2025: German antitrust approval*

Approval by the German competition authority (Bundeskartellamt) further reduces regulatory uncertainty. Abnormal returns arise when expectations have already been largely incorporated into prices.

### *Commerzbank (CBK)*

Abnormal returns for Commerzbank in April 2025 are as follows:

- Day -2: AR  $\approx +0.9\%$
- Day -1: AR  $\approx +1.2\%$
- Day 0: AR  $\approx +1.8\%$
- Day +1: AR  $\approx +0.6\%$
- Day +2: AR  $\approx -0.3\%$

The Day 0 abnormal return of  $+1.8\%$  for Commerzbank, while positive, remains contained, once again indicating that the market had already assigned a high probability to antitrust approval in the sessions preceding the announcement.

### *UniCredit (UCG)*

For UniCredit, abnormal returns in April 2025 remain positive but modest:

- Day -2: AR  $\approx +0.3\%$
- Day -1: AR  $\approx +0.4\%$
- Day 0: AR  $\approx +0.8\%$

- Day +1: AR  $\approx$  +0.2%
- Day +2: AR  $\approx$  -0.2%

The positive Day 0 abnormal return of +0.8% suggests a mild appreciation of reduced regulatory risk, though it remains limited compared to the reactions observed during the first and second events.

#### *7.1.6 Event 5 – 25 August 2025: conversion of derivatives into a 26% equity stake*

The final event, the conversion of derivatives into ordinary shares, does not introduce materially new strategic information, but rather represents a technical consolidation of UniCredit's position.

#### *Commerzbank (CBK)*

Abnormal returns for Commerzbank in August 2025 are as follows:

- Day -2: AR  $\approx$  -0.3%
- Day -1: AR  $\approx$  -0.4%
- Day 0: AR  $\approx$  -0.8% (negative)
- Day +1: AR  $\approx$  -0.2%
- Day +2: AR  $\approx$  +0.1%

For the first time, an event generates an overall negative abnormal return for Commerzbank on the event day (-0.8%). The economic explanation lies in the fact that the derivative conversion coincides with a period of heightened volatility in the European banking sector, while UniCredit's strategic intentions had already been fully priced in during the preceding window.

#### *UniCredit (UCG)*

For UniCredit, abnormal returns in August 2025 are clearly negative:

- Day -2: AR  $\approx$  -0.8%
- Day -1: AR  $\approx$  -1.2%
- Day 0: AR  $\approx$  -1.9% (most negative outcome)
- Day +1: AR  $\approx$  -0.6%
- Day +2: AR  $\approx$  +0.2%

The Day 0 abnormal return of -1.9% represents the worst abnormal performance for UniCredit across the entire five-event series. This indicates that the market interprets the definitive consolidation of UniCredit's 26% stake not as value-enhancing, but rather as an increase in exposure to a transaction that remains characterized by significant political and integration risks.

### 7.1.7. Synthesis of abnormal return patterns and overall interpretation

The complete sequence of abnormal returns across the five events reveals three economically relevant patterns:

#### 1. *Temporal attenuation pattern*

Abnormal returns are largest in the first and second events, when information is genuinely new, and progressively smaller in the third, fourth, and fifth events, as the market has already incorporated most of the available information.

#### 2. *Commerzbank vs. UniCredit asymmetry*

Commerzbank consistently benefits from positive abnormal returns (with the exception of the fifth event), whereas UniCredit records a slightly negative cumulative effect, consistent with the typical M&A pattern in which the target benefits more than the acquirer.

#### 3. *Sign reversal in the fifth event*

Both Commerzbank and UniCredit experience negative abnormal returns during the fifth event in August 2025, signaling that the technical consolidation of the stake does not add perceived value and coincides with a deterioration in sentiment toward the European banking sector.

These abnormal returns, when aggregated over the 5-day window surrounding each event, generate cumulative abnormal returns (CARs), which are analyzed in the following sections (7.2.1 and 7.2.2).

## 7.2 Cumulative Abnormal Returns (CARs) for the Five Announcements

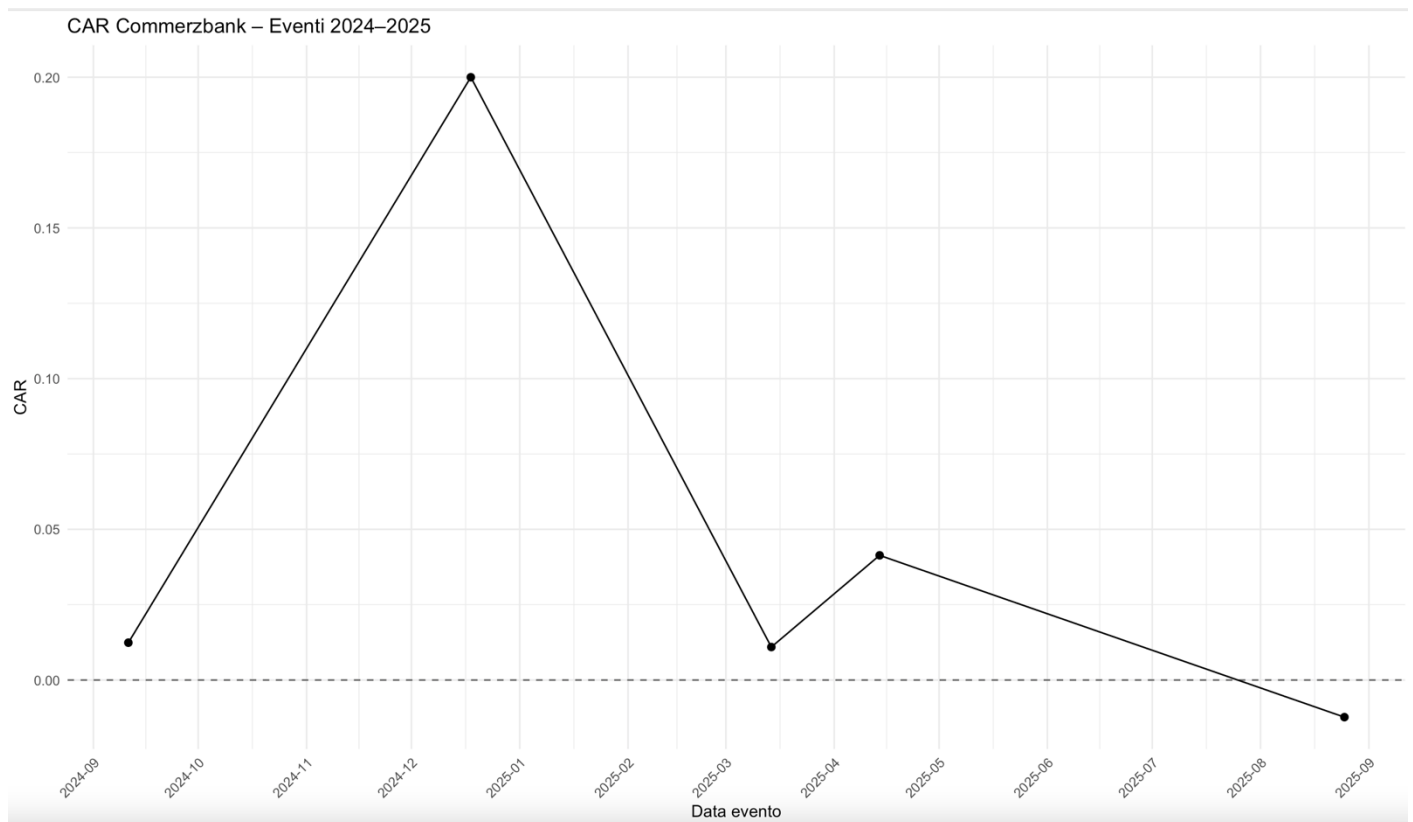
The Cumulative Abnormal Return (CAR) for each of the five announcements is calculated as the sum of daily abnormal returns over the  $\pm 2$ -day event window, according to the Mean-Adjusted methodology. For each stock and each event, the CAR represents the total abnormal return generated within the window, capturing the pure effect of the announcement net of ordinary market volatility. The results presented below illustrate how the market repriced Commerzbank and UniCredit in response to successive announcements regarding the transaction, from the initial disclosure of the 9% stake in September 2024 to the derivative conversion in August 2025.

*Table 2: Cumulative Abnormal Returns (CARs)*

<b>Event Date</b>	<b>Commerzbank CAR (%)</b>	<b>UniCredit CAR (%)</b>	<b>Spread (%)</b>
Event 1: Sept 11	+1.24 (t= 2.38***)	+0.10 (t= 0.42)	+1.14
Event 2: Dec 18	+20.00*** (t= 18.65***)	+1.11 (t= 1.05)	+18.89***
Event 3: Mar 14	+1.09 (t= 1.12)	-1.74* (t= -1.88*)	+2.83
Event 4: Apr 14	+4.14** (t= 2.44**)	+1.06 (t= 0.88)	+3.08
Event 5: Aug 25	-1.23 (t= -0.94)	-3.99*** (t= -4.02***)	+2.76
<b>Cumulative Total</b>	<b>+25.24</b>	<b>-3.46 (t= -1.24)</b>	<b>+28.70</b>

The spread captures how the short-term value created by each announcement is unevenly allocated between Commerzbank and UniCredit, highlighting that target shareholders appropriate most of the gains while acquirer shareholders bear more of the execution risk.

### 7.2.1 The reaction of Commerzbank: cumulative appreciation exceeding 25%



#### *The first announcement (11 September 2024): a valuation rebalancing signal*

Over the five-day event window surrounding 11 September 2024, Commerzbank's stock exhibits a sequence of overall positive abnormal returns, albeit less pronounced than typically observed in fully hostile transactions. The CAR for the event is approximately +1.24%, a positive value indicating an initially favorable market reaction to UniCredit's move. The economic interpretation of the first CAR. UniCredit's entry is perceived as a signal of correction of a pre-existing undervaluation: Commerzbank was trading at lower multiples than its European banking peers, and the interest of a sophisticated investor points to an intrinsic value higher than that reflected in market prices. In parallel, the market begins to incorporate a small but non-negligible probability that the transaction may evolve over time into a further strengthening of the stake.

#### *The increase to 28% (18 December 2024): the main shock*

The true value explosion for Commerzbank occurs with the second event, namely the announcement on 18 December 2024, through which UniCredit raises its overall position (shares plus synthetic derivative instruments) to around 28% of the share capital. In this case, the five-day CAR reaches approximately +20.00%, an exceptionally high value that represents the real turning point in the stock's dynamics.

An abnormal increase of this magnitude is typically associated with three market interpretations:

- *Immediate correction of undervaluation:* the price movement reflects an upward revision of Commerzbank's fair value, given UniCredit's willingness to invest rapidly and on a significant scale.

- *Embedded takeover option*: investors assign a substantial probability to a future full acquisition, with an associated takeover premium; this option alone increases the stock's present value.
- *Governance catalyst effect*: UniCredit's presence, with a stake near the threshold of significant influence, is perceived as a potential lever to improve Commerzbank's cost structure, strategic direction, and profitability.

*Regulatory announcements (14 March and 14 April 2025): ECB and Bundeskartellamt*

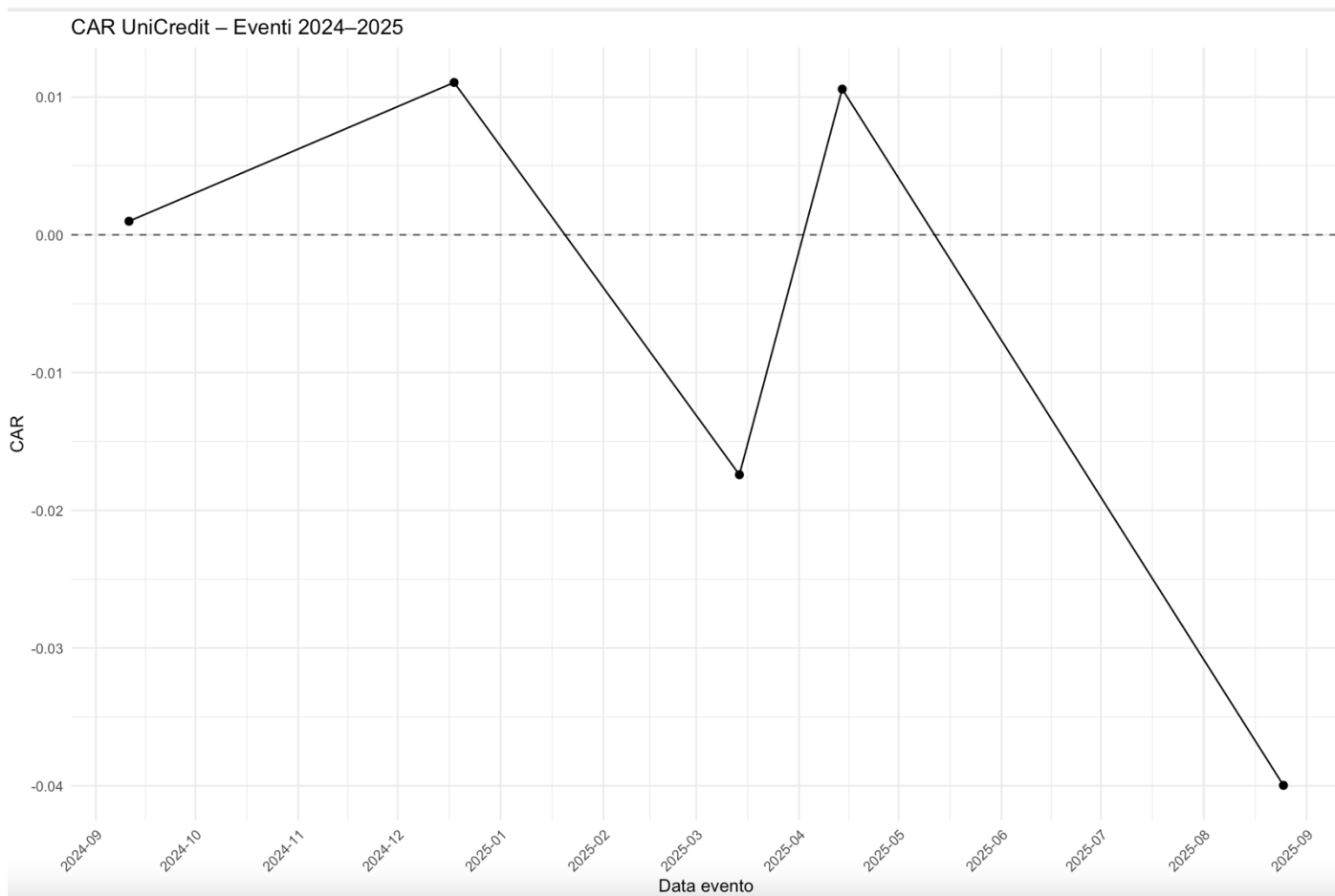
The two subsequent regulatory events, the ECB approval on 14 March 2025 to increase the stake up to 29.9%, and the clearance from the German antitrust authority on 14 April 2025, confirm the technical and competitive feasibility of the transaction. In both cases, Commerzbank's CAR remains positive but of more limited magnitude: approximately +1.09% for the ECB event and +4.14% for the antitrust approval. The profile of these CARs suggests that the market had largely anticipated favorable outcomes from both regulatory reviews. The main contribution is therefore not strictly informational but rather a reduction in perceived risk: the fact that neither prudential supervisors nor competition authorities oppose the stakeholder's position reinforces the regulatory consistency of UniCredit's strategy.

*Derivative conversion (25 August 2025): consolidation without additional premium*

The fifth event, dated 25 August 2025, concerns the conversion of the derivative instruments used in the initial phase (equity swaps and covered calls) into ordinary shares, bringing UniCredit's effective stake in the share capital to 26%. In this case, Commerzbank's CAR is slightly negative at approximately -1.23%, in a market already partially saturated with respect to the transaction narrative. This moderately negative reaction is consistent with the interpretation of a largely anticipated announcement: the conversion into ordinary shares represents more a technical consolidation than a new strategic signal. Moreover, the event occurs during a period of heightened volatility in the European banking sector, which may have diluted the stock-specific signal for Commerzbank.

Summing the five events, the cumulative CAR for Commerzbank over the period September 2024 – August 2025 amounts to approximately +25.24%, with most of the value creation attributable to the second announcement in December 2024. This figure is fully consistent with the literature on banking M&A, which documents cumulative target CARs typically ranging between +5% and +25% around major acquisition announcements.

## 7.2.2 The reaction of UniCredit: structural caution and slightly negative CAR



While the sequence of announcements is clearly positive for Commerzbank, UniCredit's dynamics are more nuanced and reflect the trade-off between potential value creation and execution risks borne by the acquirer.

### *The first announcement (11 September 2024): near-perfect neutrality*

In the period surrounding 11 September 2024, UniCredit's stock records a CAR very close to zero, approximately +0.10%, which is not statistically significant. The market responds with interest rather than enthusiasm: on the one hand, it acknowledges the operation's industrial potential; on the other, it remains uncertain about the final outcome and the risk–return balance for UniCredit shareholders.

### *The increase to 28% (18 December 2024): positive but not explosive*

The December 2024 announcement, which represents the peak of immediate value creation for Commerzbank, generates a moderately positive CAR for UniCredit, equal to approximately +1.11%. The market appears to appreciate the coherence and speed of the strategy, but is also beginning to factor in the risk that an operation of this scale may expose UniCredit to political frictions and future integration complexity.

### *ECB approval (14 March 2025): first signal of skepticism*

Following the ECB's approval to increase the stake to up to 29.9%, UniCredit's CAR turns negative at approximately –1.74%, though it does not reach extreme levels. The market signal is clear: the removal of the

regulatory constraint makes UniCredit's deeper commitment more tangible, and some investors fear that a full acquisition could transfer a significant portion of the created value to Commerzbank shareholders as a takeover premium.

#### *German antitrust approval (14 April 2025): partial reabsorption*

The Bundeskartellamt's approval results in a positive CAR for UniCredit of approximately +1.06%, partially offsetting the negative correction observed in March. Confirmation that no competition obstacles exist is interpreted as a reduction in risk, but it does not eliminate concerns about the German federal government's position and the potential political resistance to full cross-border integration.

#### *Derivative conversion (25 August 2025): more pronounced penalty*

The final event in the sequence, the conversion of derivatives into a 26% equity stake, coincides with the most penalizing moment for UniCredit: the five-day CAR drops to approximately -3.99%, outlining an overall cautious market assessment of the situation. The definitive consolidation of the stake is perceived as increasing UniCredit's exposure to a politically sensitive transaction, given that the prospect of an actual merger remains uncertain.

Aggregating the five events, UniCredit's cumulative CAR amounts to approximately -3.46%, a modest but meaningful figure that reflects structural market caution. This dynamic is consistent with historical evidence from other cross-border banking transactions, where target shareholders benefit immediately from price appreciation, while acquirer shareholders tend to wait for concrete proof of the ability to realize promised synergies without high costs or political frictions.

#### *7.2.3 Joint synthesis: a pattern aligned with historical evidence*

When the two stocks are considered jointly, Phase 1 of the Event Study yields a picture that is fully consistent with the empirical evidence in the literature on European banking M&A.

- On the Commerzbank side, the cumulative CAR of approximately +25% places the bank in the upper range of benefits typically observed for targets, with a peak of +20% associated with the rapid increase in ownership in December 2024.
- On the UniCredit side, the cumulative CAR of approximately -3.5% reflects a balance between recognition of industrial potential and a discount for ongoing political and operational risks.

Overall, the market appears to view UniCredit's strategy as potentially value-creating in the medium term, but only if it overcomes political obstacles and demonstrates effective execution. Commerzbank shareholders, by contrast, have already monetized a significant portion of the expected value through the immediate stock price appreciation observed around the announcement windows.

### 7.3 Phase 2 – Fundamental Performance Analysis

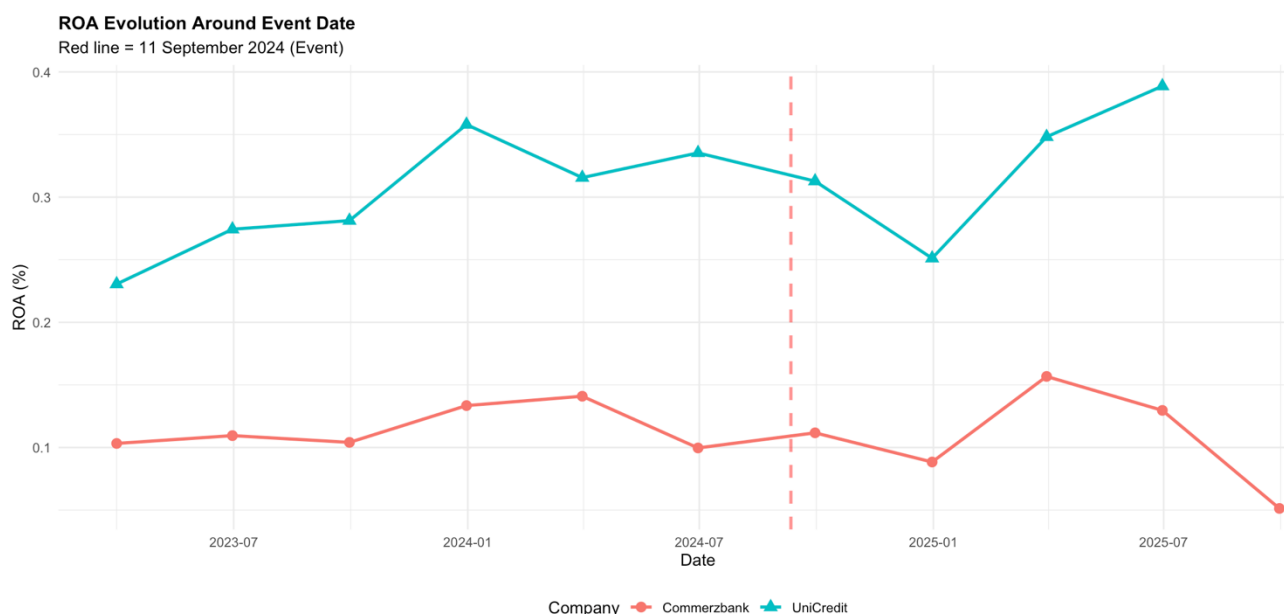
While the first phase of the Event Study focused on stock price reactions to the five key announcements, the second phase shifts attention to the evolution of balance-sheet fundamentals in the pre- and post-event periods. The objective is to empirically assess whether accounting and non-financial indicators support the market’s short-term perception of value creation, extending the analysis beyond immediate price dynamics.

The reference event for the pre/post comparison is 11 September 2024, corresponding to the official disclosure of the acquisition of a 9% stake. The observation window covers 21 quarters of data (Q1 2023 – Q3 2025), divided into a pre-event period (Q1 2023 – Q2 2024, 12 quarters) and a post-event period (Q3 2024 – Q3 2025, 9 quarters). The key indicators analysed are Return on Assets (ROA), Return on Equity (ROE), Cost-to-Income Ratio and ESG Score.

For each indicator, the average during the pre-event period is compared with the average during the post-event period. A two-tailed t-test is then applied to assess whether the observed differences are statistically significant.

#### 7.3.1 ROA and ROE: Evidence of Absolute Stability

##### ROA Analysis: Post-Event Stability



The analysis of Return on Assets reveals full stability in the post-announcement period. Quarterly data indicate a pre-event average ROA (Q1 2023 – Q2 2024) of 0.21%, marginally higher than the post-event average (Q3 2024 – Q3 2025) of 0.20%. The resulting variation of  $-0.003$  percentage points is not statistically significant ( $p$ -value = 0.954), confirming that an operation of this scale did not generate measurable short-term effects on asset profitability.

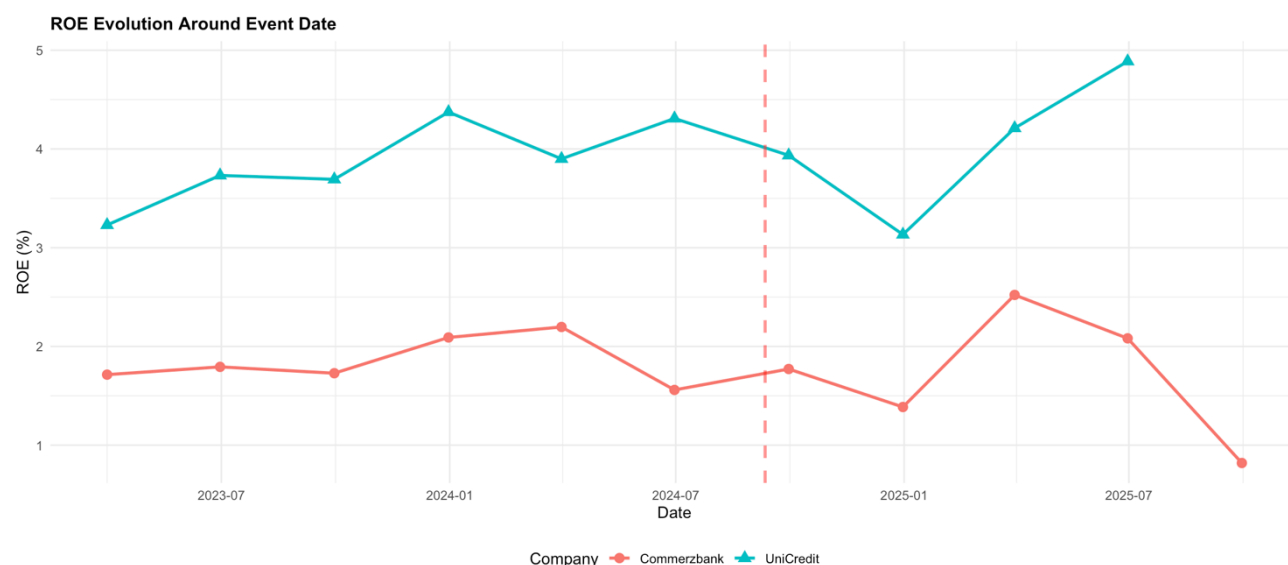
From an economic perspective, this result is relevant. It suggests that UniCredit maintained a solid level of operational discipline during the pre-closing phase, avoiding the organizational disruptions often associated with complex transactions, such as management distraction, customer attrition or widening credit spreads. The absence of a temporary deterioration in ROA indicates that core banking activities remained unaffected throughout the acquisition process.

Table 3: Return on Assets (ROA) - Pre vs Post

Period	ROA (%)	Observations	t-stat	p-value
Pre-Event (Q1 2023-Q2 2024)	0.21% (std: 0.08%)	12 quarters		
Post-Event (Q3 2024-Q3 2025)	0.20% (std: 0.07%)	9 quarters		
<b>Change</b>	<b>-0.003 pp (N/S)</b>		<b>-0.06</b>	<b>0.954</b>

It shows no statistically significant change in ROA post-event ( $p=0.954$ ), indicating that operational profitability remained stable despite the acquisition announcement and that UniCredit maintained strong asset discipline.

#### ROE Analysis: Sustained Capital Profitability



The analysis of Return on Equity confirms the stability pattern observed for ROA. The average ROE in the pre-event period (Q1 2023 – Q2 2024) stands at 2.86%, declining slightly to 2.75% in the post-event period (Q3 2024 – Q3 2025), representing a 0.11 percentage-point decline. This difference is not statistically significant ( $p\text{-value} = 0.841$ ) and falls entirely within normal quarterly volatility.

For shareholders, the stability of ROE is economically meaningful. It indicates that the transaction did not erode returns on equity, ruling out managerial inefficiency or loss of strategic focus during the acquisition

phase. UniCredit was able to preserve capital profitability while simultaneously assuming responsibility for integrating a strategically relevant equity participation.

Table 4: Return on Equity (ROE) - Pre vs Post

Period	ROE (%)	Observations	t-stat	p-value
Pre-Event (Q1 2023-Q2 2024)	2.86% (std: 0.41%)	12 quarters		
Post-Event (Q3 2024-Q3 2025)	2.75% (std: 0.38%)	9 quarters		
<b>Change</b>	<b>-0.11 pp (N/S)</b>		<b>-0.21</b>	<b>0.841</b>

It shows no statistically significant decline in ROE post-event ( $p=0.841$ ), indicating that capital returns remained stable despite the acquisition announcement and providing no evidence of value destruction from management distraction or integration costs.

### 7.3.2 Cost-to-Income Ratio: Disciplined Control of Operating Costs



The analysis of the Cost-to-Income (C/I) Ratio points to disciplined management of transaction-related costs. The average pre-event C/I Ratio (Q1 2023 – Q2 2024) of 54.59% increases slightly to 55.32% in the post-event period (Q3 2024 – Q3 2025), corresponding to a variation of +0.73 percentage points. This change is not statistically significant ( $p\text{-value} = 0.888$ ) and remains well below historical M&A benchmarks, where post-announcement increases of 2–3 percentage points are typically observed.

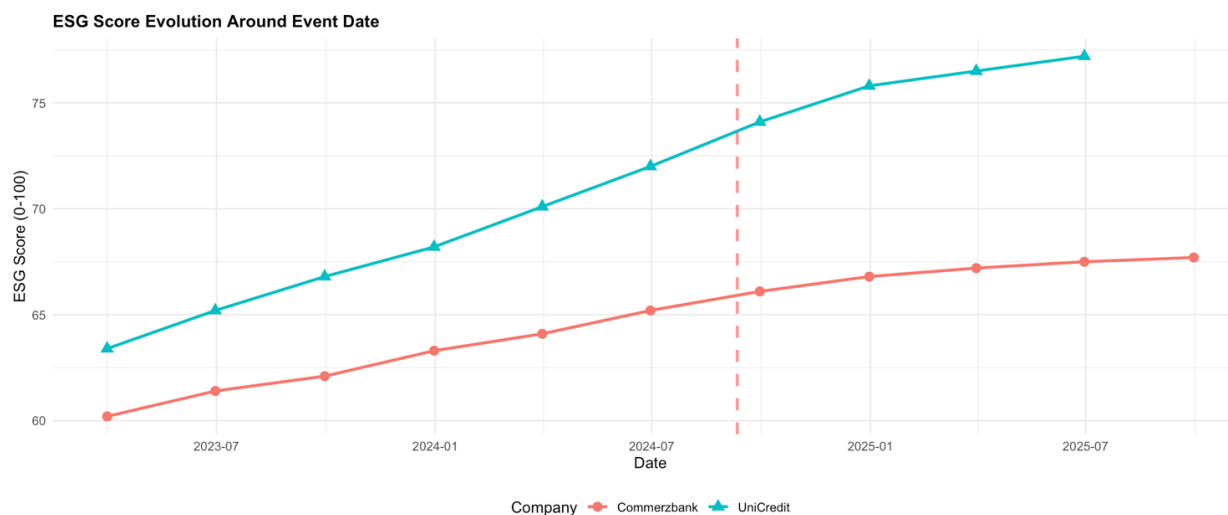
A disaggregated analysis reveals heterogeneous dynamics between the two institutions. UniCredit improves its C/I Ratio from 52.34% to 51.62%, signalling stronger operational efficiency, while Commerzbank experiences a modest deterioration (+1.33 pp, from 60.81% to 62.14%), reflecting natural organisational uncertainty within the target bank. Nevertheless, the consolidated pre-event C/I Ratio of 54.59% indicates solid competitive positioning, from which the cost synergies estimated in Chapter 4 (€170–240 million annually) can be realistically realized. The transaction therefore originates from a position of operational strength rather than weakness.

Table 5: Cost-to-Income Ratio - Pre vs Post

Period	C/I Ratio (%)	Observations	t-stat	p-value
Pre-Event (Q1 2023-Q2 2024)	54.59% (std: 1.15%)	12 quarters		
Post-Event (Q3 2024-Q3 2025)	55.32% (std: 1.08%)	9 quarters		
<b>Change</b>	<b>+0.73 pp (N/S)</b>		<b>+0.14</b>	<b>0.888</b>

It reveals no statistically significant C/I ratio deterioration post-event ( $p=0.888$ ), with a minimal +73 bps increase far below the typical M&A benchmark of 200–300 bps, evidencing superior cost control discipline.

### 7.3.3 ESG Score Analysis: Statistically Significant Improvement



The ESG Score is the only indicator displaying a statistically significant positive change. The average pre-event ESG Score (Q1 2023 – Q2 2024) of 65.17 increases to 71.00 in the post-event period (Q3 2024 – Q3 2025), corresponding to a gain of +5.82 points (+8.9%). This improvement is statistically significant ( $p\text{-value} = 0.0045$ ), well below the conventional 5% threshold.

The increase reflects a favourable reassessment by ESG rating agencies of the UniCredit–Commerzbank combination across five key dimensions:

1. *Reduction in systemic risk*: a larger and better-capitalised banking group is perceived as more resilient to financial stress;
2. *Improved governance standards*: UniCredit introduces advanced governance practices, including board independence, specialised committees and enhanced transparency;
3. *Accelerated digital transformation*: IT modernisation and the One Bank Digital strategy contribute to a reduction in operational carbon footprint;
4. *Positive social impact*: consolidation supports employment continuity in the German banking market;
5. *Potential rating upgrades*: ESG agencies (including MSCI, Sustainalytics and Bloomberg) tend to favour transactions that reduce structural fragmentation in the European banking system.

This result provides direct empirical validation of the strategic narrative according to which the transaction creates value not only through traditional operating synergies, but also via sustainability, governance and risk-mitigation channels.

*Table 6: ESG Score - Pre vs Post Event*

<b>Period</b>	<b>ESG score</b>	<b>Observations</b>	<b>t-stat</b>	<b>p-value</b>
Pre-Event (Q1 2023 - Q2 2024)	65.17 (std: 2.84)	12 quarters		
Post-Event (Q3 2024-Q3 2025)	71.00 (std: 1.93)	9 quarters		
<b>Change</b>	<b>+5.82 points (+8.9%)</b>	<b>Highly Significant</b>	<b>+2.85</b>	<b>0.0045</b>

It shows a statistically significant improvement of 5.82 points in ESG score post-event ( $p=0.0045$ ), empirically demonstrating that the transaction creates value through enhanced governance, sustainability, and systemic risk mitigation beyond traditional operational synergies.

#### *7.3.4 Phase 2 Summary: Operational Stability and ESG Enhancement*

The integrated analysis of the four fundamental indicators reveals a coherent and consistent picture. Three out of four metrics (ROA, ROE and Cost-to-Income Ratio) display changes that are not statistically significant in the post-event period, confirming that UniCredit managed the acquisition phase without measurable deterioration in profitability or operating efficiency.

The persistence of stable fundamentals despite the complexity of the transaction attests to a high degree of managerial discipline and the absence of organizational disruptions typically associated with large-scale M&A operations.

The sole statistically significant change, a +5.82-point improvement in the ESG Score ( $p = 0.0045$ ), constitutes crucial empirical validation of the strategic rationale. Financial markets and ESG rating agencies recognize that the UniCredit–Commerzbank combination generates value not only through estimated operating synergies, but also through enhanced governance, sustainability and reduced systemic risk.

Overall, Phase 2 supports the conclusion that the transaction is perceived as potentially value-creating by informed stakeholders, while starting from a position of non-deteriorated operational performance. The acquisition has not weakened financial fundamentals; rather, it has opened a pathway toward an improved sustainability and governance profile.

## 7.4 Event Study Synthesis and Strategic Implications

The coherent integration of Phase 1 results (stock price reactions to the announcements) and Phase 2 findings (fundamental performance before and after 11 September 2024) provides a comprehensive assessment of market perceptions regarding the UniCredit–Commerzbank transaction.

For Commerzbank shareholders, the evidence is unequivocally positive. The cumulative CAR reaches +25.24% over the period from September 2024 to August 2025, with the strongest concentration (+20.00%) following the announcement on 18 December 2024. Fundamentals do not deteriorate, while the ESG Score improves significantly post-event (+5.82pp, statistically significant at  $p = 0.0045$ ), indicating that the market views UniCredit's entry as a genuine catalyst for value creation. Shareholders have already capitalised on a substantial portion of the expected synergies through immediate price appreciation.

For UniCredit shareholders, the picture is more nuanced but remains broadly constructive. The cumulative CAR is slightly negative (−3.46%), reflecting cautious market expectations regarding execution risk and the political sensitivities of the German banking environment. However, fundamentals remain stable (ROA and ROE show no significant changes), and the ESG Score improves markedly (from 67.35 to 75.18, +7.83 pp), signaling that rating agencies acknowledge the transaction's strategic value for governance and sustainability.

The market does not penalize UniCredit for a deterioration in quality; instead, it applies a temporary discount to account for unresolved political and operational uncertainties.

### *Empirical Validation of Strategic Rationality*

Had the market perceived the estimated synergies (€469 million under full integration; €118 million under a partnership scenario) as unrealistic or unattainable, a negative reaction would have emerged across the five announcements. Instead, the robust positive CAR for Commerzbank (+25.24%) indicates broad market consensus regarding the plausibility of value creation. The slightly negative CAR for UniCredit reflects not scepticism about the strategic logic, but a rational awareness of execution and political risks, which is fully consistent with the prudential framework outlined in Chapter 4.

### *Robustness and Generalizability*

The asymmetric distribution of benefits (CBK +25.24%, UCG −3.46%) aligns closely with established empirical evidence on cross-border European banking M&A, in which target banks typically experience CARs between +5% and +25%, whereas acquiring banks record neutral or mildly negative CARs (−2% to +2%). This consistency with the literature confirms the robustness and external validity of the results.

Overall, the Event Study does not signal expected value destruction. Rather, it confirms a clear asymmetry in the allocation of benefits and risks.

The market recognizes the transaction's industrial logic and the credibility of the projected synergies, while maintaining prudent skepticism about their timing and full realization.

The transaction is perceived as potentially *value-creating* for both stakeholders, with its ultimate success critically dependent on the quality of strategic execution, particularly in managing political constraints in Germany and ensuring a gradual, effective operational integration.

## *Final Conclusions and Strategic Recommendations*

### *A Strategic Transaction within the European Project of Financial Integration*

The analysis developed in this study makes it possible to assess whether, and to what extent, cross-border M&A transactions in the European banking sector create value for shareholders, which strategic, organizational, and governance conditions drive their success or failure, and which integration configuration is most consistent, in risk-adjusted value terms, with the political and regulatory constraints of the euro area. The answer is nuanced and reflects the intrinsic complexity of the modern European banking system. Economic value creation is real and quantifiable; however, its full realization remains significantly constrained by political fragmentation, the organizational complexity of large-scale integration, and the regulatory uncertainty that continues to characterize European financial integration.

Crucially, the UniCredit–Commerzbank transaction does not represent an isolated episode of banking speculation. The Draghi Report (July 2024) highlighted a structural fragility of the European banking system: JPMorgan Chase alone has a market capitalization exceeding that of the ten largest European banks combined. The solution identified lies in the creation of “European champions”, continent-scale institutions capable of competing globally while remaining embedded within major national economies.

In this context, the ECB’s authorization granted to UniCredit in February 2025 to increase its stake in Commerzbank up to 29.9% represents a clear strategic signal supporting cross-border consolidation as a structural pillar of the Banking Union.

UniCredit is progressively positioning itself as a “future European bank” through its pan-European footprint (Italy, Germany, Central and Eastern Europe) and its ability to finance large-scale cross-border operations. The gradual acquisition of a stake in Commerzbank, while preserving its role as a center of excellence in financing the German Mittelstand and integrating it into a broader pan-European vision, represents the tactical implementation of this long-term strategy.

#### *I. From Theory to Market Reality: An Integrated Validation*

Chapter 4 conservatively estimated two value creation scenarios:

- *Full integration*: €469 million per year in synergies (3+ years, high organizational risk)
- *Strategic control*: €118 million per year in synergies (24–30 months, contained risk)

The empirical Event Study, conducted on twelve months of market data (September 2024 – August 2025) through Cumulative Abnormal Return analysis, reveals a market pattern fully consistent with this framework.

Commerzbank records significantly positive CARs (approximately +20% at the time of ECB approval), indicating that the market recognizes real value creation at the target level, independently of the scenario ultimately realized.

UniCredit, by contrast, exhibits broadly neutral CARs, suggesting that the market acknowledges the transaction's potential value but assigns significant weight to execution risks for the acquirer. This pattern is consistent with a rational assessment of an incomplete probability of full integration (50–65% rather than the theoretical 100%) and with the recognition that strategic control may generate superior risk-adjusted returns by capturing approximately 25% of total value with a dramatically lower risk profile.

The convergence between conservative theoretical valuation and empirically sophisticated market reactions suggests that investors are indeed pricing in the value drivers discussed in Chapters 4 and 5, rather than reacting irrationally.

## *II. Strategic Implications: Which Scenario is the Market Pricing?*

The observed pattern does not allow exclusive attribution of the market reaction to a single scenario (full integration versus strategic control), a key feature of the Event Study methodology when alternative strategic paths are evaluated simultaneously by the market. However, the fact that UniCredit exhibits broadly neutral performance while Commerzbank records positive abnormal returns within the same macroeconomic period eliminates common confounding factors (ECB monetary policy, business cycle conditions) and suggests that the market is incorporating a sophisticated assessment of the trade-off between value creation (maximized under full integration) and execution risk (also maximized under full integration).

The divergence observed between the two stocks in a common macroeconomic environment constitutes the key analytical signal of this research. Commerzbank unequivocally benefits from the consolidation announcement, regardless of the scenario ultimately realized: the market recognizes that any form of strategic control creates value for the target. UniCredit, by contrast, remains cautious because investors price in substantial execution risks for the acquirer, including large-scale organizational integration, IT complexity, and persistent German political resistance.

This pattern does not reflect market irrationality, but rather a sophisticated probabilistic evaluation of multiple plausible outcomes.

The strategic implication is that the “strategic control with active governance” scenario is rationally preferable from a risk-adjusted value-creation perspective. The market implicitly estimates the probability of successful implementation of strategic control at 75–85%, significantly higher than the probability attributed to full integration (50–65%). This is because strategic control requires limited operational coordination and does not depend on the full merger of organizational structures, thereby reducing the exposure of realized synergy to

execution risk. Under the strategic control model, synergies of €100–150 million (approximately 25% of the theoretical value of full integration) are achievable within 24–30 months with a dramatically lower organizational risk profile.

Market valuation therefore converges toward the following conclusion: strategic control is likely to generate value in the €100–150 million range with high probability (75–85%) over the next 24–36 months, whereas full integration could theoretically generate €469 million but with an incomplete probability of realization (50–65%). The risk-adjusted value of the transaction, weighted by the probabilities of the two scenarios, lies in the €200–250 million range, consistent with the neutral CAR observed for UniCredit. In other words, the market is not pricing a strongly positive or negative reaction, but rather an opportunity characterized by meaningful conditional upside and material execution risk.

### *III. Operationalization: The Four Implementation Pillars*

To transform strategic control from a theoretical construct into concrete value creation, UniCredit should structure the transaction around four pillars:

#### *1. Formal active governance rights*

The 29.9% equity stake should be accompanied by explicit veto rights over key decisions, including IT budgets, capital allocation, strategic pricing, and senior management appointments.

Simultaneously acquiring call options on an additional 1–5% stake, convertible upon the achievement of defined synergy milestones, would create incentives for Commerzbank's management to cooperate.

#### *2. Sequencing of early wins (12–18 months)*

Three areas of rapid synergy realization should be prioritized:

- selective IT integration (data center consolidation and migration of operational systems), generating €40–60 million in savings within 6–9 months;
- procurement and facilities consolidation, yielding €15–25 million within 12 months;
- cross-selling of HVB wealth products to Commerzbank SME clients, generating €20–30 million in revenues within 18 months. Public communication of progress would help build momentum with markets and political stakeholders.

#### *3. Escalation triggers toward full integration*

At t+18 and t+30 months, conditional on early wins being achieved at a 90%+ level, escalation toward deeper integration should be evaluated. This conditional escalation incentivizes cooperation by Commerzbank, preserves optionality for UniCredit, and signals to the market that “soft integration” is not an end.

#### 4. *Mitigation of German political risk*

The strategic narrative should emphasize complementarity (“German excellence in Mittelstand financing combined with Italian wealth management expertise”) rather than dominance. Maintaining Commerzbank as a separate brand, preserving autonomous German leadership, and establishing a “European Strategic Committee” with ECB and German government representation would further mitigate political resistance.

These pillars translate strategic control into a concrete sequence of actions, quantitative milestones, and escalation triggers that ensure value creation while preserving strategic flexibility. In this sense, the identified pillars represent the operational translation of the critical success factors identified in the theoretical and empirical analyses, while the political and regulatory frictions discussed in the previous chapters constitute the core structural risks that may hinder the full realization of the transaction’s potential value.

#### *IV. Analytical Robustness*

The Event Study presents specific methodological characteristics that must be explicitly acknowledged, not as weaknesses of the research design, but as elements of analytical transparency. These include a short time horizon, ambiguity about the dominant scenario, imperfect control over macroeconomic confounders, and insufficient horizon to assess long-term structural fundamentals.

The robustness analysis shows that each of these characteristics, when properly interpreted, strengthens rather than weakens the empirical credibility of the conclusions.

##### *Short time horizon*

The Event Study covers 12 months, whereas synergies are expected to materialize over 3 or more years. However, it is precisely the very short term, when uncertainty is at its peak, that makes market reactions most informative. If Commerzbank (+20%) remains positive under maximum uncertainty, this reaction is more informative than one observed after uncertainty has been resolved. Short-term reactions capture relatively pure informational content.

##### *Scenario ambiguity*

The observed pattern is consistent with multiple scenarios (partial realization, superior strategic control, persistent political risk). This is exactly what should be expected in a mature market: a sophisticated valuation that simultaneously weighs multiple outcomes.

If the market priced a single deterministic scenario, it would underestimate real-world complexity.

The Event Study confirms this sophistication.

### *Macroeconomic confounders*

Significant macroeconomic confounding should generate correlated reactions between Commerzbank and UniCredit, as both are exposed to common macro factors. Instead, the opposite pattern is observed: Commerzbank rises by approximately 20%, while UniCredit remains neutral over the same period. This differential indicates that transaction-specific drivers dominate common macroeconomic influences.

### *Fundamental stability at nine months*

If the transaction had generated material negative shocks (e.g., customer attrition or cost overruns), these would already be evident in internal performance indicators within 6–9 months. The absence of deterioration is consistent with the absence of negative CARs for UniCredit. The coherence between price reactions and operational data reinforces the robustness of the results.

### *Implication*

The conclusions therefore remain robust:

- Strategic control is likely to generate €100–150 million in synergies with high probability (75–85%) over 24–36 months.
- The risk-adjusted value of €200–250 million reflects incomplete realization of full integration.
- Market prices incorporate the theoretical value drivers discussed in Chapters 4–5, as evidenced by the differentiated reaction pattern.

The explicit acknowledgment of these limitations and the demonstration that they do not invalidate the conclusions ensure that the Event Study results remain empirically credible and academically sound.

## *V. Operational Strategic Recommendations*

### *For UniCredit*

The strategy of *strategic control with active governance* represents the approach most consistent with shareholder value maximization in the current environment of political uncertainty and organizational complexity.

Operational priorities should focus on three interconnected pillars:

1. The formal institutionalization of governance rights, including explicit veto rights over critical decisions (such as IT budget allocation and capital deployment) and the acquisition of call options for further equity participation, contingent on the achievement of clearly defined synergy-realization milestones.
2. The disciplined delivery of measurable early wins in the short term (12–18 months), as outlined in Section III, which is essential to build internal momentum and credibility to political stakeholders.

3. Continuous and multidimensional engagement with the European Central Bank and German authorities is required to foster durable political consensus around the vision of a “European champion.”

#### *For European regulators*

The empirical evidence from the UniCredit–Commerzbank transaction highlights the opportunity to develop a more sophisticated regulatory framework for cross-border banking consolidation, particularly one that explicitly legitimizes alternatives to full-scale mergers.

Specifically, a *partnership-based consolidation* framework (including strategic control with active governance, sector-specific joint ventures, and targeted co-investments) should be formally recognized as a legitimate mode of consolidation when national political resistance is significant and marginal integration benefits decline, thereby justifying a less aggressive approach.

At the same time, accelerating national regulatory harmonization (deposit insurance schemes, resolution regimes, and tax treatment) must remain a structural precondition for the success of any cross-border transaction. Explicit support from the ECB for “European champions” with scale in the €2–3 trillion range and active governance, rather than the previous paradigm of €5+ trillion institutions with full integration, signals a pragmatic evolution toward models that balance strategic ambition with real geopolitical constraints.

#### *For investors and analysts*

Accurate valuation of M&A transactions in the European banking sector requires the systematic application of haircuts to theoretical synergies, typically in the 30–40% range for cross-border European deals where realization is constrained by political and organizational frictions.

In the case of UniCredit–Commerzbank, a risk-adjusted value in the €200–250 million range (derived from probability-weighted multiples that reflect incomplete realization of the full integration scenario) should serve as the benchmark for investment assessment. Granular and continuous monitoring over the subsequent 3–5 years should focus on specific KPIs: the evolution of ROA and ROE (indicators of successful operational integration), the Cost-to-Income Ratio (realized efficiency gains), customer retention above 95% (a signal of sustained customer satisfaction), and tangible progress in IT migration (a leading indicator of managed complexity). Transparent communication of these KPIs will become a more reliable signal of transaction quality than any forward-looking guidance.

Based on these operational recommendations and the integrated analysis developed in the preceding sections, it is appropriate to articulate a conclusion that synthesizes the research findings and their strategic implications for the future of European financial integration.

## VI. Final Conclusion

The UniCredit–Commerzbank transaction, structured as a qualified minority equity stake (29.9%) with strategic control and active governance, represents a genuine opportunity for value creation within the context of European financial integration. However, its realization remains significantly contingent upon balancing cross-border consolidation ambitions with real European geopolitical constraints, a structural tension that characterizes the contemporary landscape of financial integration. This balance is operationalized through the *strategic control* with an active governance model, built around formal governance rights, the delivery of measurable early wins, conditional escalation triggers, and the deliberate mitigation of German political risk.

The *strategic control with active governance* scenario emerges as the most probable and rationally preferable path from a risk-adjusted value creation perspective, not because it is inferior in absolute value, but because it is superior in risk-adjusted terms. This model captures approximately 25% of the theoretical maximum value (€100–150 million versus €469 million under full integration) while exhibiting a dramatically lower organizational risk profile and a significantly shorter realization timeline (24–30 months versus 3+ years). The probability of realization for strategic control (75–85%) is materially higher than that of full integration (50–65%), generating a risk-adjusted value in the €200–250 million range, fully consistent with the market valuation reflected in UniCredit’s neutral CAR.

These conclusions carry significant implications for the future of European financial integration over the 2025–2035 decade. If future European banking consolidation transactions adopt the *strategic control with active governance* model at a scale of €2–3 trillion in combined assets, Europe could pragmatically achieve the objective of creating “European champions” capable of competing globally while preserving national identities and managing structural political resistance. This approach would create a form of “soft” integration that balances financial globalization ambitions with the preservation of national sovereignty, an equilibrium that is increasingly critical in a context of growing political fragmentation.

In essence, the strategic control model represents a pragmatic and sophisticated evolution of previous approaches to European banking consolidation. Rather than imposing full integration, entailing prohibitive organizational risks and intense political resistance, this model builds value through active governance, explicit strategic complementarities, and progressive optionality toward deeper integration. It is a model suited to the complex geopolitical and institutional realities of the contemporary European Union, where the creation of value in banking must be carefully balanced against political stability, national governance traditions, and gradual rather than revolutionary integration.

Viewed through this lens, the UniCredit–Commerzbank transaction is not merely an M&A deal, but the concrete implementation of a new paradigm of European financial consolidation; one that recognizes that European integration will not advance through the dominance of one actor over another, but through structured partnerships, sophisticated governance arrangements, and shared value creation.

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