The competitive impact of the UBS-SBC mergers

by

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Summary

This short paper reviews the recent anti-trust analysis of banking mergers as well as recent decisions by the Department of Justice and the Bundeskartellamt (in the last few months). We analyse the proposed merger between UBS and SBC in light of this evidence and focus on the domestic retail banking. Three conclusions stand out :

- there is overwhelming evidence that the relevant market for some products is local. In particular, the market for loans to small and medium size enterprises should be considered as a local market and this has consistently been the practice of both the US and German authorities.
- barriers to entry in retail banking are significant so that high concentration should be a source of concern. This concern is reflected in recent decisions on bank mergers by the Department of Justice. By the standards of the US practice, the concentration resulting from the UBS/SBC merger would be simply unacceptable and by a wide margin.
- divestiture is the most common remedy in banking and it seems to be effective. Given the concentration entailed by the proposed merger, nothing less than a the full divestiture of one retail network seems adequate.

Introduction

The impact that the proposed merger between UBS and SBS might have on competition has been openly questioned in recent months. In particular, it has been argued that the UBS/SBC merger, like many mergers in banking, might raise important concerns with respect to competition in the market for loans to small and medium size enterprises. The Swiss Competition Commission has effectively recognised that the proposed merger might pose a problem in terms of competition and has accordingly decided in early February to undertake a deep investigation. Its concerns were so serious that it also decided to suspend the merger, at least with respect to its domestic dimension. Significantly, the Commission did not have to take that step. It could have proceeded with its deep investigation without taking such a provisional measure.

The objective of this short paper is to review the arguments and the available empirical evidence regarding the analysis of banking mergers from the perspective of competition and competition policy. There is a rich evidence on the effect of banking mergers on competition and ample experience on the anti-trust treatment of banking mergers from other countries. The US, in particular, has experienced an important wave of mergers in banking in the last few years, following the extensive deregulation of interstate banking. The approach followed by the department of justice as well as other jurisdictions with respect to these mergers provides interesting insights and offers some important references against which the Swiss situation can be assessed.

A typical anti-trust analysis of mergers proceeds by first defining relevant markets both in terms of products and in geographical scope. The level of concentration in the relevant market is then computed and its potential effect on the exercise of market power is evaluated, with particular reference to entry barriers. To the extent that the legal framework allows for it, potential efficiency benefits associated with the merger can then be assessed and traded-off against the negative consequences of the concentration on market power. This last step in the analysis is typically not undertaken in the European Community, where the merger regulation does not allow

for efficiency considerations to be weighted against market power. In the case of Switzerland, the law is also quite clear: the prohibition is formulated solely in terms of competition. What matters is whether the effective competition will be suppressed. The only redeeming feature would be associated with an increase of competition in a different market from that in which the concentration has negative consequences in terms of market power. The final step in the analysis, if it is found that the concentration would have unacceptable negative effects on competition, is to consider remedies. In the case of banking, divestitures of branches is a very common and effective remedy.

Our discussion will follow this approach. Section 1 discusses the relevant market. Section 2 considers the evaluation of dominance. Section 3 considers possible remedies. Section 4 concludes.

1. The relevant anti-trust markets

Before reviewing the evidence on the definition of relevant markets, it is worth recalling some simple principles of market definition. Indeed, some of the recent discussion of relevant markets, in particular by Dr Volkart and Dr Watter (both working for the UBS, 1998) is deeply confused on the issue.

1.1. Principles

The objective of this first step in the analysis is to identify markets in which the merging firms operate **and** in which market power could potentially be exercised. The procedure to identify these relevant markets proceeds as follows[2] ; pick a very narrow product which is sold by the merging firms and wonder whether a firm which would have a monopoly over this product would be able to exercise market power. For instance, consider the sale of an investment product by banks, say unit trusts. Would a bank be able to exercise market power in the sale of this product if it had a monopoly ? The answer is probably not - because customers will be able to buy shares directly as

an alternative to the purchase of unit trusts. If the answer is negative, the market is enlarged to include further products, for instance all investment products. With such a market, the answer to the question of whether a monopolist would be able to exercise market power might be positive because customers might have little alternative for placing their savings. A monopoly banks might be able to increase its margins at the expense of its customers. Investment products will then be considered as a relevant anti-trust market.

In general, the evaluation of the relevant anti-trust market will thus hinge on whether customers are able to switch their consumption easily and avoid purchasing a product from the firm raising its price (this is often termed demand substitution) but also on the extent to which competitors (outside the candidate market) will react by competing more fiercely when the monopoly firm in the candidate market is trying to raise price (this is often termed supply substitution). In the example above, supply substitution would occur if banks selling investment products, which are substitute for unit trust, would react to an increase in the price of unit trust by lowering their price on these alternative instruments or would react by selling unit trusts themselves. Typically, relevant markets will also be defined both in terms of product range and in terms of geographical scope.

It is worth emphasising that the concept of the relevant anti-trust market is very different from the traditional concept of the (economic) market. An economic market will include all the products that are substitutes for one another. A relevant anti-trust market will include the narrowest subset of the products such that a given degree of market power could be exercised[3]. In geographical terms, the relevant anti-trust market is thus not the market area in which the firms are present. It is the narrowest market in which serious consequences in terms of market power could occur if a firm was completely dominant. That is also to say however that the geographical market coverage of UBS/SBC for any particular product does not determine the relevant geographic market. The internal organisation of these firms in the provision of these

[2] There is a vast literature on the issue. See for instance, the US Department of Justice (1992), Fischwick and Denison (1992) or Froeb and Werden (1991).

products is also entirely irrelevant to the matter. Whether UBS or SBC authorise mortgage loans for the canton of Vaud from Lausanne, Bâle of Zurich is entirely irrelevant to the question of whether market power could be exercised in the market for mortgage loans in the canton of Vaud.

1.2. The issue

Both the UBS and the SBC provide many different banking services in the broad categories of retail, private and investment banking and there is potentially a large number of relevant anti-trust market to identify. However, it appears that the analysis is straightforward for a large number of them; in particular, it seems that the relevant geographic market for private and investment banking services is much larger than Switzerland. Since the combined market share of UBS and SBC in those relevant market is presumably small, the potential risk of market power is probably negligible. There may be exceptions however. For instance, the three large private banks undertake most of the dealing in securities on behalf of the Swiss National Bank for its open market operations. This market is closed to foreign competitors because of the prevailing statutory regime. As a result, the market for the operations on behalf of the Swiss National Bank is probably a national market and the merger would lead to substantial increase in concentration. The adequate remedy in this case is, however, straightforward. What is required is a change in the statutory regime such that foreign banks are allowed to compete.

Retail banking is another matter. A number of questions arise ; for instance, should the market for households be desegregated into different components like payment services, savings account, checks and personal loans or should these services considered as a bundle ? Should the market for loans to enterprises be split into several segments ? What is the geographical scope of the market for loans to enterprises ? of the market for investment services to households ? A precise answer to these questions in principle requires a great deal of analysis. The importance of demand and supply substitution has to be assessed in each case. Fortunately, however,

[3] In the US, the amount of market power which could be exercised is further specified. It is the ability

there is a rich body of anti-trust analysis undertaken in other jurisdictions which has direct relevance for the Swiss case.

1.3. The Evidence

Two hard facts emerge from this evidence: First, with respect to enterprises, the relevant market is usually taken as a bundle of services including loans and depository services, the market for small and medium size firms is taken as different from that to large firms and the market to small and medium size firms is considered as local. The approach of the department of justice in the US is systematic in this instance (see box 1). It is based on very detailed evidence arising from the Survey of small business finance (the type of evidence which is considered as most appropriate to assess market definition). For instance, it is found that an overwhelming majority of small and medium enterprise (93 %) do obtain these services from banks which are located within a distance of less than 30 miles from their own location (see Kwast et al., 1997). When small businesses are asked about the factors influencing the choice of a bank, location also appears as the primary factor (see Kwast and all, 1997). Accordingly, the unit of analysis which is adopted by the Department of Justice for the analysis of mergers is the Metropolitan Area. These areas are typically smaller than a medium-sized Swiss canton.

The approach of the Department of Justice is also similar to that adopted by the Bundeskartelamt in the recent merger between the Bayrische Vereinsbank and Hypobank in Bavaria (see Box 2). Specifically, the Commission has investigated concentration in the following towns in Bavaria: **Kempten, Augsburg, Rosenheim, München, Regensburg, Nürnberg, Bayreuth, Schweinsfurt and Hof.** Some of these towns are very small indeed and certainly smaller than most Swiss cantons.

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to profitably raise price by 5 % above the competitive level (US Dpt of Justice, 1992).

Box 1. US antitrust authorities on relevant markets

According to A. Bingaman (Deputy Attorney General of the Department of Justice), on loans to small and medium size enterprise (Bingaman, 1996):

« In a number of cases and policy statements, the Department has indicated that these banking services are most likely to raise competitive concerns in mergers of major banking organisations located in the same metropolitan area or town, because the providers of these services tend to be only other commercial banks or depository institutions...

The Department also examines the geographic market for these loans; only depository institutions located in the same general area as the merging banks are generally found to be competitors of the merging banks by the Department. This implies that the Department has found the relevant geographic markets for these specific products are generally local in nature »...(p. 306...308)

According to Rhoades (from the Federal Reserve, also in charge of vetting bank mergers) : "Evidence indicates that local market areas are generally the appropriate focus for analysis of the competitive effects of bank mergers. In particular, surveys of both households and small businesses point strongly toward the relevance of local geographic areas. (p. 344)

That the relevant market for loans to small and medium size businesses should be local also accords very much with intuition. The very essence of retail banking activities towards small businesses is the build up and maintenance of a relationship with the entrepreneurs from which the bank can obtain privileged information about their creditworthiness. Such relationship banking requires close and repeated contacts which only take place if the banker and its client are located close to each other. In addition to its relationship with the entrepreneur, local bankers will also obtain useful information about their client by directly observing its behaviour as well as market

conditions and by local networking. All of this certainly explains why relationship banking with small and medium size enterprises is local in nature.

Box 2. The Bunderkartellamt on relevant markets

« One obtains a differentiated picture of the market position of the companies, when one looks at the individual relevant markets. One has to distinguish between those activities which are tied to branch offices, and where the relevant market is typically a regional market and those markets which are not dependent on branch offices, and for which the geographic market is primarily the national market.

On the relevant markets of those activities which are tied to branch offices (typically current account- and short and medium term credit on the one hand, and sight-, savings and short and medium term deposits on the other hand) the banks will not achieve joint market shares which are critical from the point of view of competition policy, if considered at the national level. However, they have a much larger market share in the private customer and firm market in Bavaria. But even on the regional markets in Bavaria they achieve market shares of only 10-20%, in every case much less than 30%. » (WuW 1997/11 P. 882-3, own translation)

Second, with respect to household services, the US practice also tends to define the relevant market as the market for a bundle of services and to consider local markets. The Department of Justice uses deposits as a good proxy for the value of the bundle of household services (mostly for lack of data on the bundle). The empirical evidence in support of this approach is, however, less overwhelming than in the case of loans to small and medium size enterprises. In particular, the survey of household finance suggest that credit services could be less local than asset related services like checking accounts and payment facilities. For instance, credit card services are typically not purchased from local institutions. A significant proportion of customers also obtain credit for car purchases and mortgages from banks located more than 50 miles away.

Such a pattern is also observed for some asset related services like brokerage and the purchase of unit trusts.

Despite the fact that some services may not be tied to local branches, the Department of Justice still considers household services as local, because checking and savings accounts are overwhelmingly local. This policy has been questioned on the grounds that services associated with checking accounts are also increasingly dissociated from the local networks because of so called « electronic banking ». This broad term is meant to include the provision of cash services through automated teller machines, the operation of transfers from digital telephones and televisions or the completion of simple operations like transfers or purchase/sales of equities from a personal computer. In terms of principles, it seems that electronic banking would indeed tend to enlarge the geographic scope of the relevant market (even though electronic banking also raises switching costs - because the cost of changing transfer specification for creditors might increase - see Rhoades (1997, p 1007)). The question is, however, whether it is sufficiently widespread to affect market definition in practice (or whether the threat of widespread use is credible). The evidence in this regard is sobering. Indeed, in the US which is arguably the market where PC penetration is highest, less than 1 % of financial transaction take place via home banking according to a recent study by Ernst and Young (as quoted by Mitchell, 1996). According to Rhoades (1996) from the Federal Reserve Board, « despite the current availability of the great potential for electronic banking, it has a long way to go before it has a significant influence on the competitive effects of bank mergers ».

Interestingly, Dr Volkart, working for the UBS, claims (Volkart, 1998) that electronic banking is so important that it will transform not only the provision of banking services to households but also to small and medium enterprises to such an extent that these markets are no longer regional but at least national. These claims are thus completely at odds with existing anti-trust analysis and practice of both US and German authorities. In particular, the claim relating to the provision of loans to enterprises through computer networks has never been seriously discussed in the US.

1.4. Conclusion

To conclude, there is overwhelming evidence that the relevant market for loans to small and medium size enterprise should be considered as a local market and this is the practice of both the US and German authorities. There is thus a strong presumption that the relevant market for these services should the canton and not the whole country. The UBS is claiming that the market is national. The practice of experienced competition authorities is however compelling and accordingly, the burden of proof is firmly set on the Competition Commission. If it were to decide to ignore the existing evidence and follow the suggestion of UBS by considering that the relevant market is national, it should provide strong empirical evidence in support of this approach.

2. The analysis of dominance

Having defined the relevant market properly, the competition authorities can be confident that they have identified those markets where something serious could happen in terms of market power (i.e. such that a monopolist could exercise an unacceptable degree of market power). The question then becomes whether after the proposed merger the market would become so concentrated that market power would indeed be exercised. To assess this matter, antitrust authorities first compute what is the concentration in the market and what it would be if the merger took place. Various measures can be used for this purpose. If the merger leads to a high level of concentration and/or a high increase in concentration, there is a first presumption that the merger might be unacceptable. Still, because high concentration does not necessarily lead to market power when entry is easy, the authorities usually evaluate the importance of entry barriers. If high concentration is combined with significant barriers to entry, the merger is deemed unacceptable. If barriers to entry are very small, it may be acceptable despite high concentration. We review both steps of the analysis in turn.

2.1 Concentration

In the US, competition authorities tend to use the Herfindahl index of concentration, whereas the EU tends to give more weight to market shares. The difference between the two approaches stems from a different legal standards towards dominance. In the US, it is widely accepted that firms can collectively dominate the market. That is, in order to assess the potential for exercise of market power, the market shares of all firms present in the market do matter. The underlying presumption is that a merger which occurs in industry which is already concentrated is inherently more dangerous than a merger arising in an industry where there are many small and medium size firms. This presumption derives from the observation that collusion is much easier in concentrated markets. Accordingly, there is a high risk that a merger in a concentrated industry will lead to co-ordinated behaviour between the firms so that all firms (collectively) exercise market power. The EU legal standard is less clear about collective dominance (even though the concept of collective dominance has been used explicitly in cases like Nestlé-Perrier and Kali und Salz). Accordingly, the EU gives more weight to market shares.

The Swiss standard is quite clear on the matter. Art 4 of the law explicitly refers to the possibility that several firms might jointly dominate the market. Accordingly, the market share of non-merging firms is important for the analysis of dominance and the Herfindahl index is a priori a sensible measure for that purpose.

The US merger guidelines provide three benchmarks to assess concentration as measured by the Herfindahl (HHI) index. First, where the post merger HHI index is below 1'000, the merger will « ordinarily » be approved. Secondly, a post merger HHI between 1'000 and 1'800 means that the market is moderately concentrated. Within this region, an increase in the HHI of less than 100 points is a sufficient condition for the merger to be approved, whilst one of more then 100 points raises « significant competitive concerns ». Thirdly a post merger HHI greater than 1'800 means that the market is « highly concentrated ». Within this region, an increase in HHI of less than 50 points is a sufficient condition for the merger to be approved. One

of more than 50 points raises significant competitive concerns and one more than 100 points is « likely to create or enhance market power ».

In the case of banking mergers, the department of justice has slightly modified the benchmarks by allowing mergers within the intermediate category as long as they do not increase the HHI by more than 200 points (rather than 100 in the merger guidelines, see Bingaman, (1996), on this issue).

Table 1 Combined market shares (%) of UBS/SBC - loan market (above 100 000 SF)

Argovie	36	Nidwald	44
Appenzell - Ext	90	Obwald	20
Appenzell - Int	25	Schaffouse	36
Bâle Campagne	38	Schwyz	22
Bâle Ville	54	Solothurm	59
Berne	42	St Gallen	50
Fribourg	22	Tessin	36
Genève	38	Thurgovie	42
Glaris	28	Uri	39
Grisons	35	Vaud	22
Jura	22	Valais	49
Lucerne	30	Zug	25
Neuchatel	22	Zurich	38

There are no official guidelines in Switzerland. It is nonetheless useful to asses the concentration that would result from the UBS merger relative to the US benchmarks. Precise calculation is difficult because the market shares of all banks are considered as confidential by the banking commission and hence are not made available to the public. The market shares of UBS/SBC in the market for small and medium size enterprise loans have however been made public and some rough estimates of concentration can be computed. Table 1reports the combined market shares of UBS/SBC for loans (above 100'000 SF). It is striking that these markets are already very high and in eight cantons would by themselves bring the HHI above the 1'800 benchmark ! It is also found however that in those cantons where the merged entity would have a lower market share, there is another large player (typically a cantonal bank). It appears that in

almost all cantons, three firms (the merged entity, Crédit Suisse and a cantonal bank) would after the merger have a combined market share of 90 %. Assuming that the distribution is typically such that one firm would have 40 % and the remaining two about 25 %, the resulting HHI should be at least 3 000 ! and in all cases the increase in the HHI resulting from the merger would be much above 200. This estimate clearly illustrates that the proposed merger would be considered as highly suspect in the US. It would involve concentration levels substantially above the benchmark which a market is considered a « highly concentrated ».

2.2. Barriers to entry

There are several ways in which barriers to entry can be assessed. First, one can wonder about potential obstacles in terms of principles. Second, one can infer the stance of other anti-trust authorities towards barriers to entry by checking whether these authorities have allowed mergers despite high levels of concentration. The US evidence will be particularly useful in this regard. Finally, one can verify ex post whether barriers to entry are large to the extent that in the absence of barriers there should be no observed relationship between concentration and market power.

In terms of principle, one would expect entry to be difficult in particular in the market for loans to small and medium size enterprises. The relationship between the entrepreneur and the bank which underlies the credit market is not one that can be created overnight. The establishment of mutual trust requires experimentation, which naturally takes time. Accordingly, one cannot expect that entry into the market for loans through the establishment of a branch network will be fast. It will take a long time before entrants can credibly establish themselves. The investment that the entrepreneur and the banker undertake in building their relations is also largely sunk. For the entrepreneur, this implies that the will face important switching cost ex post and accordingly the entry of new banks will be made more difficult. The existence of these costs also allows the incumbent firms to establish strategic barriers to entry. For instance, established banks can sign exclusive contracts with firms and retailers. they can pre-empt entry by over-extending their branch networks or by capturing the most favourable locations.

These switching costs and associated strategic entry barriers have been investigated in a number of studies and summarised in Rhoades (1997). He finds strong evidence that entry barriers are significant and the incumbent firms benefit from important first mover advantage[4].

In terms of the implicit attitude of antitrust authorities towards barriers to entry, the evidence is also compelling. Table 2 presents the seven most recent bank mergers that have been approved by the Federal Reserve Board and the department of Justice in which divestitures were made. Several observations can be made. First, it is clear that the relevant markets were local. Indeed the areas (counties or cities) concerned by divestitures have almost always less than 100'000 habitants and hence are considerably smaller than a typical Swiss canton. Second, divestitures have be imposed to such an extent that whenever possible the ex post HHI has been kept below 2'300 (there are only 5 cities where HHI above 2'300 have been allowed and where further divestiture would have been possible out of a total of 22 cases where less than maximum divestitures have been imposed). Third, maximum divestiture (which implies the sale of the branches of one of the merging partner and hence no increase in the HHI) has been imposed even in case where the concentration was only moderately above 1'800. Finally, in all (but three) cases where a concentration above 2'600 remains after the remedies, maximum divestitures have been imposed.

Overall, this evidence indicates that whenever possible the US authorities have tried to keep concentration to a low level. Such an approach can only be associated with the view that barriers to entry are significant so that that concentration is indeed a matter of serious concern.

The final piece of evidence regarding barriers to entry concerns the relation between concentration, market power and profit. A positive relation is clearly observed across EC countries between concentration and returns (see figure 1, borrowed from a study

[4] For instance, it is found that interest rate conditions are less favourable in markets where switching costs hare high (Sharpe, 1997). It is also found that deposit rates adjust less quickly to market conditions when concentration is high (Jackson, 1997).

by Morgan Stanley). Such a relationship has also been found in a number of studies of local market (summarised in Rhoades, 1996). For instance, Hannan (1991) found that «small borrowers would pay annually an additional 50 basis points for floating rate unsecured loans, 159 more basis points for floating rate secured loans and an additional 144 basis points for fixed rate secured loans if the market structure were to change from that of the least concentrated to that of the most concentrated market in the sample ». Cases studies of mergers in banking also confirm that concentration yields higher margins and profits: for instance, Prager and Hannan (1998) found that in markets where mergers had taken place, deposit rates that banks offer to their customers had fallen significantly faster over the period 91-94 than deposit rates in markets where no merger had occurred.

Overall, there is a strong evidence that barriers to entry in retail banking are very significant. The claim of Dr Watter, who works for UBS, that they are negligible is hard to square with the facts.

2.3 Conclusion

There is no doubt that the merger between UBS and SBC would lead to a substantial level of concentration in cantonal markets, which are the relevant anti-trust markets for products like loans to small and medium size enterprises. By the benchmark of recent anti-trust decisions in the US, such levels of concentration would be simply unacceptable. Concentration is seen as a serious concern in these markets because entry barriers are significant. There is little doubt given recent cases that such concentration would also be considered unlawful in Germany. The attitude of the UK authorities towards the proposed merger between Lloyds and Midlands in the early nineties is also suggestive: The merger was referred to the MMC and eventually fell through before a ruling made. Yet, Sir Gordon Borrie, in charge of the OFT, made it very clear that mergers between such large banks would be closely scrutinised[5]. The

[5] Sir Gordon said while referring to the proposed merger, «We have been keeping a wary eye on banks, especially when one of the majors seeks to take over another one of the majors ». He added that the « was concerned that banks were overcharging small businesses, which unlike individual consumers, could not go to building societies instead » - Reuters, 3.6.92.

financial press at the time also speculated that the merger did not occur partly because the parties anticipated difficulties with the MMC.

Concentration should also be taken particularly seriously in Switzerland because of the history of explicit cartels between banks. Whether such explicit co-ordination was partly lawful (under the old regime) or not is irrelevant. What matters is that co-ordination is unlawful under the current law and that a history of close interactions certainly facilitates the co-ordination of behaviour[6].

3. Remedies

Several types of remedies can be contemplated if a merger is found unacceptable. Antitrust authorities usually have a strong preference for so called structural remedies, which directly affect the level of concentration, by comparison with behavioural remedies (whereby firms commit to a particular behaviour). In turn, the most common form of structural remedy is a divestiture, whereby the merging parties sell part of their business to an independent third party. In terms of competition, this is by far the best solution: the acquirer should preferably be a completely new entrant who is unlikely to be accustomed to long habits of co-ordination and accordingly most likely to provide renewed competitive pressure. Divestitures have also found to be quite effective in ex post studies of remedies; according to an internal study of the Federal Reserve Board, branches or networks that been divested in US mergers seem to flourish and to act as a strong pro-competitive force.

As indicated above, divestitures are very common in the US. Even complete divestitures, such that one local network is sold to a third party have been routinely imposed (see table 2 in the appendix). In the case of Switzerland, the level of concentration entailed by the merger is so large that nothing less than a divestiture of a full network seems adequate.

4. Conclusion

In our view the case for imposing drastic remedies on UBS/SBC merger with respect to retail banking is overwhelming, at least on the basis of recent anti-trust analysis and the practice of experienced anti-trust authorities.

By contrast, the UBS through Dr Volkart and/or Dr Watter (1998) takes very adventurous and speculative positions. Against the current practice of experienced anti-trust authorities, they claim that the relevant market for all products is at least national. Against recent experience and conventional wisdom, they speculate that electronic banking will make branches unnecessary even for products like loans to small and medium size enterprises. Against all evidence, they also claim that entry barriers in retail banking are low.

The Competition authority might decide to follow the line of arguments suggested by merging parties. Given the strong presumption against these arguments which arises from current anti-trust practice abroad, solid evidence in support of its position will be required to convince the general public and the anti-trust community.

[6] The argument that history matters for evaluating the prospect of coordination is routinely accepted in the US case law (see Baker, 1993) and also appears in recent Community decisions like Soda Ash.

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APPENDIX

European Banking Industry: Profitability and Degree of Concentration, 1996

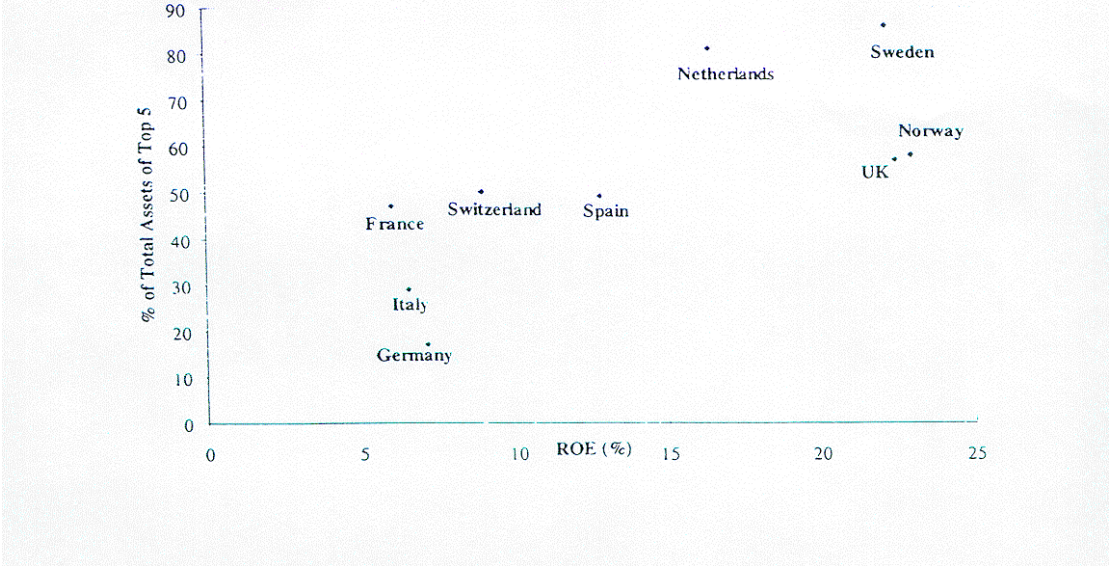

Table 2: Some Recent Bank Merger Approvals by the Federal Reserve Board in which Divestitures were made.

Draft

		The Way the Merger Would Look:					
		Before Divestiture			After Divestiture		
Merger Case	Local Market	ΔHHI	Post HHI	MSH%	ΔHHI	Post HHI	MSH%
Nations Bank-Barnett Bank (1998)	1) Ocala, Fl	618	2182	36.4	503	2067	34.6
	2) Daytona Beach, Fl	487	2240	33.3	368	2121	31.4
	3) Brevard, Fl	621	2240	38.2	342	1962	33.7
	4) Ft. Myers, Fl	770	2428	39.3	377	2035	33.4
	5) Sarasota, Fl	1046	2475	46	380	1808	37
	6) Tampa Bay, Fl	926	2377	43.7	467	1918	37.6
	7) Brunswick, Fl	613	2217	37.7	421	2025	34.9
	8) Columbia County, Fl	853	3719	52.3	0	2866	42.2
	9) Key Largo, Fl	572	3,799	45.1	0	3228	37.5
	10) Key West, Fl	1082	3529	49.2	(-50)	2397	30.9
	11) Marathon, Fl	610	3235	36.6	0	2624	23.7
	12) Sunwunee County	871	3,157	46.5	0	2286	33.5
First Union Corp-Signet Banking Corp (1997)	1) Roanoke, VA	279	2027	40.2	175	1968	38.9
	2) Russell County, VA	869	3610	41.8	175	2916	30.3
	3) Galax, VA	320	1894	25.5	186	1759	22.5
Wachovia Corp-Central Fidelity (1997)	1) Charlottesville, VA	1144	3104	48.5	277	2237	36.8
	2) Culpeper, VA	410	4047	47.7	135	3772	44.6
	3) Farmville	362	2216	33.1	0	1855	26.2

		Before Divest			After Divest		
Merger Case	Market	ΔHHI	Post HHI	MSH%	ΔHHI	Post HHI	MSH%
Southern National Corp-United Carolina Bancshares	1) Columbus, NC	2320	6536	79.8	277	4493	63.8
	2) Goldsboro, NC	597	2644	41.2	248	2295	35.6
	3) Sanford, NC	472	2372	37.3	296	2195	34.8
	4) Monroe	732	2764	47.9	156	2188	40.8
	5) Robeson County	1403	3425	63.6	183	2205	37.2
	6) Richmond County	1509	3601	56	179	2272	38.3
	7) Duplin County	2265	4990	68	36	2761	46.1
Union Planters Corp-Magna Bancorp (1997)	1) Cougton, Mis	533.10	3500.4	43.64	0	2967.3	33.2
	2) Grenada County, Mis	541.12	4363.82	59.115	0	3822.7	53.6
Mercantile Bancorporation-Roosevelt Financial Group (1997)	1) Barton County	734	2980	38.4	0	2246	18.1
	2) Grundy County	1016	3943	47.4	0	2927	31.1
	3) Vernon County	1688	3490	63.87	0	1802	45.2
	4) Warrenton	621	3155	53.04	0	2534	6.7
	5) Washington	301	2442	NA	91	2232	25.9
	6) Pettis	345	2644	31.92	233	2522	29.9
First State Bancshares of Blakely-First FSB of Southwest Georgia (1997)	1) Blakely	1208	5549	63.4	0	4341	54