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# **RESTRUCTURING AND CONSOLIDATION OF BULGARIAN BANKS – SYSTEM ANALYSIS AND ASSESSMENT**

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**Abstract:** In a contemporary market structure, the establishment of a successful and efficient banking system is an issue of high priority. One of the most important factors is maintaining stability in the banking business especially when the country belongs to economic unions comprising certain countries; therefore, destabilization in the national sector might erode the European one. The period of joining the EU has a positive impact on the Bulgarian banking sector, which leads to significant intensity in the restructuring and consolidation of banks in the country during the period 2006–2020. On the basis of this, the banking systems in the country decrease from twenty-nine banks in 2007 to twenty-four in 2020. The undertaken solutions favor the trend in the banking system, which throughout the last years has been sustainable and competitive.

**Key words:** restructuring, consolidation, banking system, banks

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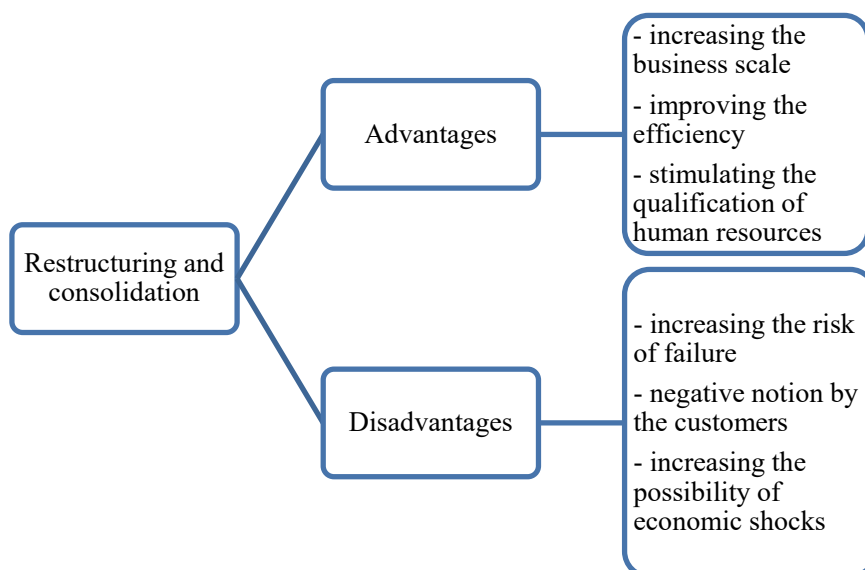
**T**he banking sector is a constructive economic center whose main activity is encouraging the economy through generating capital and its reallocation in the economic system for performing alternative activities. In their essence, banks are some of the most vulnerable to economic challenges structural entities. To maintain stability and efficiency in the banking sector, operative and structural reforms shall often be undertaken.

Such type of activity can be achieved by applying certain measures, among which are restructuring and consolidation. They have balancing actions as their main goal is the adaptation to the global banking requirements and improvement of the sensitivity of the national banking sector. In this respect, the **subject** of research in this article is Bulgaria's banking system. The **object** is the reasons and consequences of the restructuring and consolidation of Bulgarian banks after it joined the EU. The **aim** of this research is to study and analyze the processes of restructuring and consolidation of Bulgarian banks after joining the EU and to assess their effects on the Bulgarian banking environment.

### **1. Characteristics and features of the restructuring in the field of banking**

As a significant economic entity, banks often face circumstances which necessitate seeking solutions for the optimization of the possible losses, expanding their commercial capacity and improving their competitiveness. Despite the whole economic situation – rise or fall, the preferred tool for reacting to certain force majeure circumstances remains the restructuring and consolidation in the form of mergers and acquisitions. Quite often, these two terms are assigned an equal meaning, but the difference between them is significant. **Restructuring** is the process of changing key structural indicators of the bank aiming at efficiency and overcoming financial difficulties. **Consolidation** in the banking process is a form of combining the balance, financial and managerial positions of two or more institutions to improve their characteristics and indicators. Mergers and acquisitions are considered forms of consolidation. A **merger** can exist (Devine, Marion, 2003), when two or more banks obtain equal shares of the partner's business, whereas an **acquisition** is the straightforward process of the purchase of a particular bank. Those actions lead to a number of advantages (Deely, 2018), but also disadvantages for the banking institution – the major ones have been systematized in Figure 1.

Among the most significant **advantages** faced by the consolidation and restructuring in the banking sector is the possibility for expanding the customer capacity and improving the product range which as a whole facilitates the bank's growth and its efficiency. The processes provide the opportunity to compensate the inefficiency of human resources, the models of management and the whole stabilization of the banking team, which shall stimulate the bank's profitability and profit.



*Figure 1. Advantages and disadvantages faced by the restructuring and consolidation of the banking sector*

Among the major **disadvantages** we can point out: increasing the risk of incorrect or unsuccessful restructuring or consolidation, which shall lead to worse economic results. After undertaking the process, it is extremely important to follow consumer trends as those processes can have a negative impact on the perception of the newly-structured banking entity by the customers. The complex restructuring and consolidation processes can increase the possibility of economic shocks and worsened banking profitability (Zarkova, 2020).

The abovementioned characteristics and features confirm the necessity of an analysis of the processes and effects of restructuring and consolidation of the banks in the structures of the banking systems.

## **2. Restructuring and consolidation of the banks in Bulgaria**

Positioning and allocating the banks in Bulgaria is a process of establishing and maintaining a clear image of the banking and financial market so that the current and prospective customers could differentiate among those banks on the basis of their size and financial reputation. In most cases, the positioning in the banks' ranking (Zahariev, et al., 2020) is carried out through the development of their activity and the amount of their assets.

After Bulgaria's joining the EU we have been observing a relatively high degree of intensity in the restructuring and consolidation of the banks in

the country. As early as 2006, Bulgaria's largest bank (Unicredit Bulbank, 2006) begins a procedure of merging its subsidiary Bulgarian banks – Bulbank, Hebros Bank and Biohim Bank. In practice, the merger of these banks forms the largest Bulgarian bank, part of the largest banking network in Central and Eastern Europe – Unicredit Group, which has a well-developed branch network, numerous customers and personnel. This merger forms the number one bank in Bulgaria in terms of the size of its assets; it remains in this position in the period 2007–2020. The next large-scale restructuring of Bulgarian banks happens in November 2007 when (Postbank, 2007) and DZI Bank merge; thus they form a leading financial institution under the commercial name of Postbank. In July 2015, (Balarev, 2015) the subsidiary of Eurobank in Bulgaria – Eurobank Bulgaria Ltd., known as Postbank, acquires the branch of Alfa Bank in Bulgaria. Following a prior agreement in 2015, a branch of the bank acquires nearly half a million euros of assets, thus solidifying the positions of Postbank on the Bulgarian market. Eurobank Group continues to expand on the market and in November 2019 it acquires Piraeus Bank Bulgaria. The deal is completed (iStock, 2019) after a substantial financial aid from the Greek fund of financial stability during the crisis in Greece aiming at its recapitalization. In order to receive this financial stimulus, the Greek bank Piraeus agrees to provide the necessary liquidity in Greece by selling its subsidiaries in other countries. In 2013, First Investment Bank Ltd., (Fibank, 2013) acquires 100% of the shares of the Hungarian MKB Unionbank Ltd., which increases the banking efficiency of First Investment Bank Ltd., and increases its assets. This, respectively, expands the products and services offered by the bank and establishes it as a leader in the banking practice.

The period between 2017 and 2018 is indicative of the restructuring of the Bulgarian banking market. The year 2018 begins with the acquisition of Municipal Bank by Novito Opportunities Fund AGmVK. After the acquisition of 60% of the shares is approved, the shareholders of (Municipal Bank, 2021) are allocated as follows: 95.5% of Novito Opportunities Fund AGmVK; 3.22% of municipal enterprises and commercial companies and 1.28% of the following municipals: Asenovgrad, Varna, Veliko Turnovo, Gabrovo, Devnya, Dobrich, Petrich, Peshtera, Pleven, Plovdiv, Pomorie, Sliven, Smolyan, Stara Zagora, Shumen and Yambol. In the same year United Bulgarian Bank (founded in 1992) acquires Sibank Ltd. The consolidation (UBB, 2018) of the two banks aims at expanding the banking business of the Belgian banking and insurance company KBC Group in Bulgaria. As a result of this act of restructuring, the customer service increases by 30% and the bank ranks third by amount of its assets among the banks in the first group. Following a four-year preparation resulting from a financial disbalance after the bankruptcy of Corporate Commercial Bank, at the end of 2018, one of the

small Bulgarian banks with over twenty years of history Commercial Bank Victoria Ltd. is restructured, too. Commercial Bank Victoria Ltd. (Mihaylova, Gergana, 2018) is established by the European Bank of Reconstruction and Development to develop modern banking. Later, it is acquired by the Commercial Bank of Greece and is renamed to Emporiki Bank. After 2013 it becomes Crédit Agricole Bulgaria, whereas in 2014, after being acquired by Corporate Commercial Bank, it is known on the Bulgarian market as Victoria. As Investbank Ltd. Acquires 100% of Victoria Bank, the reputation of the bank among its customers is preserved.

One of the latest restructuring deals in the Bulgarian banking sector (Stoyanov, Nikolay, 2020) is the result of the withdrawal of Société Générale Expressbank from the market. In 2020, the Hungarian enterprise OTP Bank merges the operating on the territory of Bulgaria banks DSK and Société Générale Expressbank by preserving the name of the well-known bank DSK. As these are key banks in Bulgaria, the procedure of consolidation of the two institutions is one of the longest ones. This strategic merger moves DSK bank to second place by size of assets of the banks in Bulgaria.

The abovementioned processes of restructuring and consolidation of Bulgarian banks lead to the formation of changes in the number of banks in each group. Table 1 shows the total number of banks belonging to the Bulgarian banking system.

*Table 1*

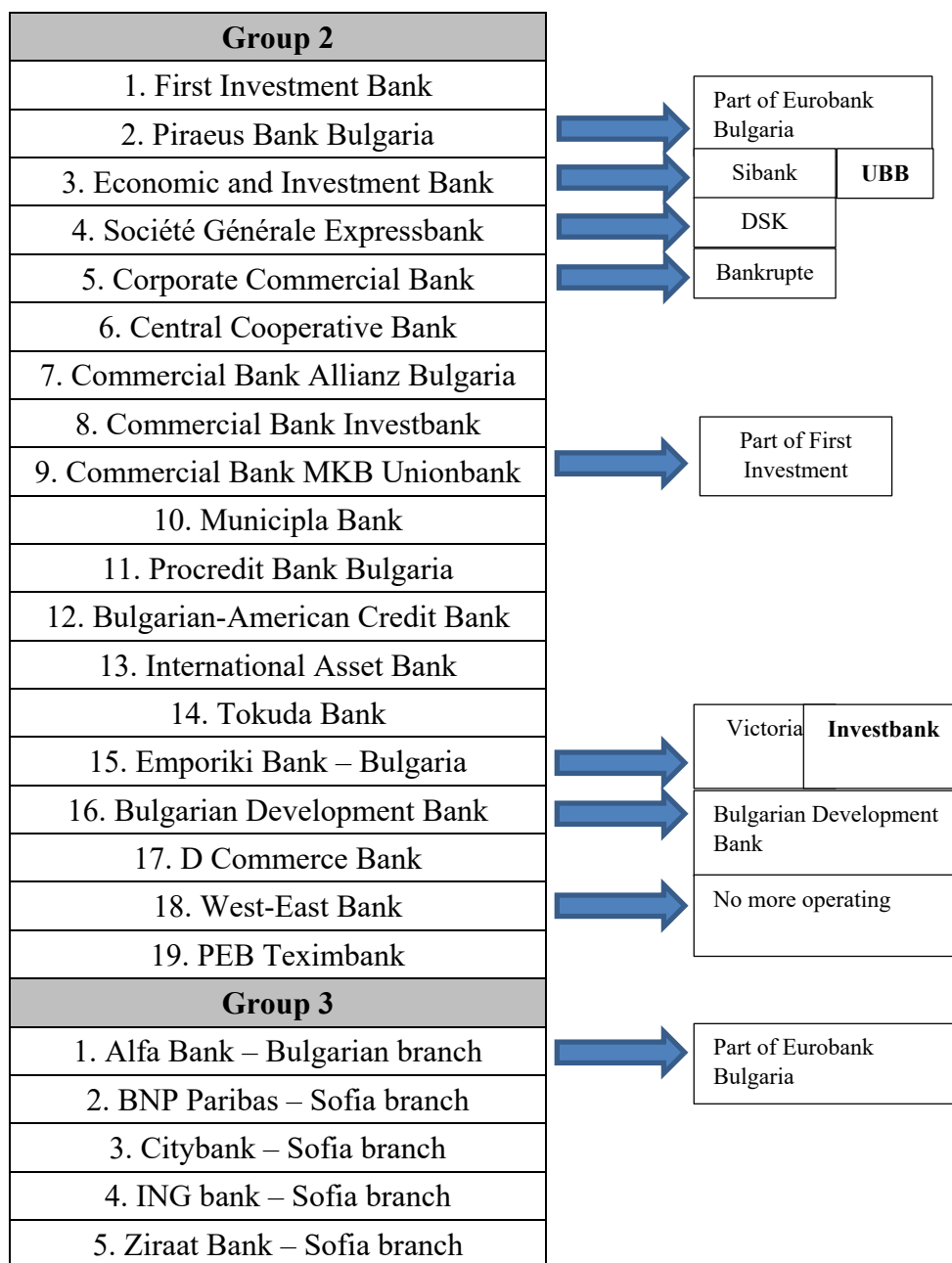
***Total number of banks in the banking system for the period 2007–2020.***

Number of banks	07	08	09	10	11	12	13	14	15	16	17	18	19	20
<b>Total in the banking system</b>	29	30	30	30	31	31	30	28	28	27	27	25	24	24
First group	5	5	5	5	5	5	5	5	5	5	5	5	5	5
Second group	19	19	19	19	19	19	19	17	17	17	17	15	14	13
Third group	5	6	6	6	7	7	6	6	6	5	5	5	5	6

**Source:** Author's adaptation based on the register of Bulgarian National Bank

The table clearly shows the trend of restructuring of the Bulgarian banking market as a result of the consolidation of leading banks in Bulgaria and the withdrawal of some of them. On the basis of this, the total number of banks throughout the last years visibly decreases. In 2007 there are 29 banks (5 banks in group 1, 19 banks in group 2 and 5 banks in group 3), whereas the total number of banks decreases to 24 banks in 2020, allocated as follows: 5 banks in group 1, 13 banks in group 2 and 6 banks in group 3.

The processes of restructuring are visualized in Figure 2.



Source: BNB and author's adaptation

*Figure 2. Restructuring and consolidation of the banks in group 2 and group 3*

On the basis of the abovementioned processes of restructuring and consolidation of Bulgarian banks, we observe a preservation of the trend in the positioning of the largest banks (by assets) from group 1, group 2 and group 3.

*Table 2*

***Banks in the Bulgarian banking system in 2020***

<b>Group 1</b>	<b>Group 2</b>	<b>Group 3</b>
1. UniCredit Bulbank	1. Raiffeisen Bulgaria	1. Citybank Europe – Bulgarian branch
2. DSK Bank	2. Central Cooperative Bank	2. ING Bank – Sofia branch
3. UBB	3. Bulgarian Development Bank	3. BNP Paribas – Sofia Branch
4. Eurobank Bulgaria	4. Allianz Bank Bulgaria	4. BNP Paribas Personal Finance – Bulgarian branch
5. First Investment Bank	5. Procredit Bank Bulgaria	5. Ziraat Bank – Sofia
	6. Investbank	6. Vargold Bank AG, Sofia branch
	7. Municipal Bank	
	8. Bulgarian-American Credit Bank	
	9. International Asset Bank	
	10. D Commerce Bank	
	11. TBI Bank	
	12. Texim Bank	
	13. Tokuda Bank	

**Source:** Author's adaptation based on information by BNB

The table clearly shows the positioning of five of the largest banks which actively participate in the process of mergers and acquisitions as “unifier” banks. As a result of those actions, First Investment Bank has a smaller amount of assets in 2007 and part of group 2 is restructured into group 1 (the banks with the largest assets). The remaining four banks (UniCredit Bulbank, DSK Bank, UBB and Eurobank) solidify their leading position in

the Bulgarian banking system. The number of banks in group 2 significantly decreases, reaching 13, whereas the banks in group 3 increases to 6. This is because the German bank Varengold Bank AG enters the market; it operates in support of private and corporate customers in the commercial relations between Bulgaria and Western Europe.

## Conclusion

The banking sector is the main intermediary among savers who are interested in saving their money against interest, and borrowers who receive loans under certain conditions for funding their activities. In order to preserve the stability of the banking sector in the last years, it has had to undergo restructuring and consolidation. Bearing in mind the specific development in social and economic aspect of the macroeconomic environment in Bulgaria in 2020, the banking system has preserved its stability. The consolidation of some of the banks after 2007 facilitates the development of the market power and increases the chance of survival of the banks on the market. Conforming to the capital requirements and the regulation norms of the country has a positive impact on the liquidity and the capital state of the banks in the country. This facilitates the favorable trend in the banking system which has been in a sustainable and competitive state over the last years.

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---

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---

---

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---

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YEAR LXXIV, BOOK 2 – 2021

---

## ***CONTENTS***

### **Lia Kekelidze**

The Investment Environment and the Problems of Origination  
of Investors' Ownership Over Real Estate in Georgia /3

### **Nikoleta D. Karamileva**

Climate Investments in Bulgaria – Potential and Empirical  
Evidence /19

### **Petya Korolova-Nozharova**

The Impact of Railroad Transport on Bulgaria's Regional  
Development /36

### **Aleksandar F. Filipov**

Non-Financial Factors in Managing the Relationships Principal –  
Teachers /52

### **Orlin Chavdarov Yapryakov**

Restructuring and Consolidation of Bulgarian Banks – System  
Analysis and Assessment /65