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Legal Effects and Administration of Bank Acquisitions in Jordan: A Review of the Literature

Abstract

Bank mergers and acquisitions (M&A) have become increasingly common in the financial services industry as banks seek to expand, diversify, and increase efficiency. These transactions have significant legal implications that must be navigated by both the acquiring and target banks. The legal effects of bank acquisitions span the entire transaction lifecycle. This paper provides a comprehensive overview of the key legal considerations involved. It begins by examining the regulatory approval processes and antitrust frameworks that govern bank M&A. The paper then looks at the legal steps of executing a bank acquisition, such as shareholder approvals, asset/liability transfers, and employee benefits. The discussion then shifts to the post-merger integration phase, highlighting the legal challenges that arise as the two organizations harmonize operations, compliance, and business models. The paper also explores potential litigation risks, including shareholder lawsuits or disputes with customers and vendors. Finally, the paper considers the longer-term legal impacts of bank acquisitions, including their effects on market competition, regulatory oversight, and the broader financial services landscape. Understanding these multifaceted legal dynamics is crucial for bank executives, legal counsel, and regulators to assess the viability and strategic implications of potential bank M&A activity.

KEYWORDS: bank mergers and acquisitions (M&A); financial services industry; antitrust; banking regulations merger; shares, assets

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1 | Introduction

The financial services industry has witnessed a significant increase in merger and acquisition (M&A) activity involving commercial banks over the past several decades.[1] Driven by strategic objectives such as expanding market share, diversifying product offerings, and achieving operational efficiencies, bank acquisitions have become a key growth lever for many institutions.[2]

A bank acquisition is defined as the process whereby another bank acquires the target bank or other financial institution by purchasing its shares or assets. Depending on the agreements, bank acquisition performed voluntarily or involuntarily and resorted to for various reasons, such as expanding commercial activities or enhancing financial performance.[3]

A bank acquisition is a merger between a large bank and one or more small banks with a mutual agreement between the two parties to achieve specific goals under certain circumstances.[4]

A bank merger is an agreement that leads to the unification of two banks into one banking entity so that the new entity has a higher ability and

1 Mohammed Faez Hasan, "Bank mergers and acquisitions trends under recent crises" *Iconic Research and Engineering Journals*, No. 2 (2022): 81-96; Musa Darayseh, Nizar Mohammad Alsharari, "Determinants of merger and acquisition in the banking sector: an empirical study" *Meditari Accountancy Research*, No. 4 (2023): 1093-1108.

2 Nazim Ullah, Junaidah Abu Seman, *Merger and Acquisition in Banking Sector: A Review of the Literature* (2018).

3 Sonia Singh, Das Subhankar, "Impact of post-merger and acquisition activities on the financial performance of banks: A study of Indian private sector and public sector banks" *Revista Espacios Magazine*, No. 26 (2018): 25.

4 Mahmoud Mohammed Al-Masry, *Evaluating mergers and acquisitions by foreign banks in the Egyptian banking sector* (Master thesis submitted to the Faculty of Economics and Political Science, Cairo University, 2013); Abdullah Hamdan Al-Mutairi, Al-Badarin Abdullah, *The Acquisition of Traditional Banks Over the Islamic Banks: Financial and Legitimated Evaluation: Case of Acquisition of Kuwait International Bank on Boubyan Bank* (Master thesis, Yarmouk University, College of Sharia and Islamic Studies, 2021); Fawzia Ahmed Abdel Hamid Saad, *The Feasibility of Banking Merger with Application to Egyptian Islamic Banks* (Master thesis in Economics, Cairo University, 2006); Houda Ben Said, Rim Zouari-Hadiji Abdelfettah Bouri, "French Bank Mergers and Acquisitions Performance" *Risk Governance and Control: Financial Markets and Institutions*, No. 7 (2017): 113-25.; Saleh Al-Suhaibani, Musa Abdul-Azim, *Mergers and Acquisitions: Global Financial Turbulence and New Opportunities* (2008).

greater effectiveness in achieving goals that could not have been achieved before the completion of the process of forming the new banking entity.[5]

These transactions have substantial legal implications that must be carefully navigated by both the acquiring bank and the target institution[6]. The legal effects of bank acquisitions span the entire transaction lifecycle – from the initial regulatory approval process to the execution of the deal, and through the combined entity's, to the post-merger integration and ongoing operations.[7]

Understanding these legal dynamics is serious for bank executives, legal counsel, and regulatory authorities, who must assess the viability, feasibility, and long-term strategic impacts of potential bank M&A activity.[8] The research problem arises from the legal challenge of distinguishing between acquisition and merger, the lack of a clear and explicit reference to acquisition in the Jordanian Banking Law, and the lack of regulation of its provisions.

The existing legal and regulatory framework governing bank mergers and acquisitions (M&A) in Jordan is characterized by a lack of clear and explicit provisions addressing the specific dynamics of bank acquisitions.[9] The Jordanian Banking Law, which serves as the primary legislative foundation for the banking sector, primarily utilizes the general term "merger" without providing a distinct legal definition or treatment

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5 Al-Mutairi, Abdullah, *The Acquisition of Traditional Banks Over the Islamic Banks*; Said, Abdelfettah Bouri, "French Bank Mergers and Acquisitions Performance" *Risk Governance and Control: Financial Markets and Institutions*, No. 7 (2017): 113-25.

6 Aspy P. Palia, "Countertrade practices in Japan" *Industrial Marketing Management*, No. 2 (1993): 125-132; Robyn M. McLaughlin, Hamid Mehran, "Regulation and the market for corporate control: Hostile tender offers for electric and gas utilities" *Journal of Regulatory Economics*, No. 2 (1995): 181-204.

7 J. Jayaratne, P.E. Strahan, "Entry restrictions, industry evolution, and dynamic efficiency: Evidence from commercial banking" *The Journal of Law and Economics*, No. 1 (1998): 239-274; Stephen A. Rhoades, "Bank mergers and banking structure in the United States, 1980-98" *Board of Governors of the Federal Reserve System (US)*, No. 174 (2000).

8 Joel F. Houston, Michael D. Ryngaert, "The overall gains from large bank mergers" *Journal of Banking & Finance*, No. 6 (1994): 1155-1176; Steven J. Piloff, Anthony M. Santomero, "The value effects of bank mergers and acquisitions", [in:] *Bank mergers & acquisitions* (Boston, MA: Springer US, 1998), 59-78.

9 Yusuf Al-Hroot, Laith Al-Qudah, Faris Irsheid Alkharabsha, "The impact of horizontal mergers on the performance of the Jordanian banking sector" *The Journal of Asian Finance, Economics and Business*, No. 7 (2020): 49-58.

of bank acquisitions as a separate transactional form.[10] This ambiguity in the legal terminology and regulatory approach has created challenges for banks, regulators, and other stakeholders in accurately differentiating between mergers and acquisitions, and in navigating the specific legal requirements and implications of each type of transaction. As a result, the existing literature on bank M&A activities in Jordan has tended to focus more on the broader financial and operational impacts, rather than delving into the nuanced legal dynamics and considerations surrounding bank acquisitions as a distinct phenomenon.[11] This lack of clear legal and regulatory framework for bank acquisitions in Jordan represents a critical gap in understanding legal landscape and its impact on the strategic and operational decisions of banking institutions in the country.

The existing literature on bank mergers and acquisitions has primarily focused on the strategic, financial, and operational implications of these transactions, with relatively less attention paid to the nuanced legal dynamics involved.[12] This is particularly true in developing economies like Jordan, where the legal and regulatory frameworks governing bank M&A activity differ significantly from those observed in more mature financial markets.

A key research gap arises from the challenge of clearly differentiating between bank acquisitions and bank mergers within the Jordanian legal and regulatory context.[13] The Jordanian Banking Law, which serves as the primary legislative framework for the banking sector, does not provide a clear and explicit definition or treatment of bank acquisitions as a distinct legal concept.[14] Instead, the law utilizes the more general term "merger" to encompass a range of corporate restructuring activities without clearly delineating the specific legal implications and requirements for acquisitions.

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10 Central Bank of Jordan, 2020.

11 Tahir Kaddumi, Mohammad Ali Al-Rimawi, "The Impact of Banking Merger on Jordanian Commercial Banks Efficiency and Profitability" *Journal of Positive School Psychology*, No 6 (2022): 8916-892; Al-Hroot, Al-Qudah, Alkharabsha, "The impact of horizontal mergers" 49-58; Zahraa Salih Hamdi, "The Impact of Mergers & Acquisitions on Bancassurance & on the Market Share of Jordanian Banks" *International Journal of Professional Business Review*, No. 2 (2023): e01540-e01540.

12 Ali Al-Rimawi Kaddumi, "The Impact of Banking Merger"; Al-Hroot, Al-Qudah, Alkharabsha, "The impact of horizontal mergers".

13 Wouter Bossu, Masaru Itatani, Catalina Margulis, Arthur D.P. Rossi, Hans Weenink, Akihiro Yoshinaga Bossu, *Legal aspects of central bank digital currency: Central bank and monetary law considerations* (2020).

14 Central Bank of Jordan, 2020.

This lack of a clear legal distinction between acquisitions and mergers has created ambiguity and potential challenges for banks, regulatory authorities, and other stakeholders seeking to navigate the legal landscape of such transactions.[15] For example, the absence of explicit acquisition-related provisions in the Jordanian Banking Law may complicate the approval processes, integration strategies, and long-term legal impacts of bank acquisitions compared to more traditional merger scenarios.

The extant literature on the legal effects of bank M&A activity in Jordan is limited, with most studies focusing on the broader economic and financial implications of these transactions.[16] More in-depth research is needed to delve into the specific legal challenges, considerations, and best practices associated with bank acquisitions in the Jordanian context, drawing on theoretical frameworks and empirical evidence.[17]

2 | Forms of Merger

Mergers are classified based on the standpoint from which they are viewed, the nature of the operations of the participating companies, and the involvement of management in the merger process. Traditional classifications include absorption and consolidation, which differ depending on the perspective and rules. Merger through absorption is the integration of one or more companies, known as the merged company(s), with another, known as the merging company, resulting in the former becoming part of the latter. The original firm loses its corporate personality, but its assets and obligations are transferred to the second company, maintaining its identity. The latter's capital increases proportionally to the merged company's assets. This type of merger is popular due to its simple procedures and low costs.

Merger by consolidation is the process of combining two or more companies to create a new entity, resulting in the loss of the merged companies'

15 Hamdi, "The Impact of Mergers & Acquisitions"; Al-Hroot, Al-Qudah, Alkharabsha, "The impact of horizontal mergers".

16 Maha Ayoush, Hesham Rabayah, Thaer Jibreel, "The impact of mergers on the financial performance of Jordanian public shareholding companies" *The Journal of Asian Finance, Economics and Business*, No. 7 (2020): 751-759.

17 Brian P. Kampanje, "Control Controversies in Malawian Banking Industry Acquisitions. Mergers" *Acquisitions & Disposals Journal*, No. 2 (2021).

corporate identities. The assets and liabilities of the merged companies are transferred to the merging entity, which then receives the merged companies' assets, properties, debts, and liabilities. This administrative process, despite its associated costs and time, highlights the content of the merger process and results in the formation of a new corporate entity.

Merger through division and absorption is a type of merger authorized by Kuwaiti Company Law No. 1 of 2016. It involves splitting a company's responsibility into sections and transferring each element to an existing company. These mergers can result in operations that are comparable, complementary, or dissimilar.

Horizontal mergers involve companies with similar objectives or business activities, such as producing and marketing commodities in the same markets. They aim to concentrate financial liquidity to provide a single, high-quality service. For example, in 1998, Exxon and Mobil merged for $78900000, establishing Exxon Mobil. The merging company continues to operate in the same field but on a larger scale.

Vertical mergers involve companies merging to complement each other's aims, such as manufacturing a product or providing a service. This can occur between food processing firms, food marketing companies, or car manufacturers. Vertical mergers aim to combine financial liabilities and provide integrated services, requiring a strong economic foundation. Examples include food processing firms merging with food can producers and marketing companies merging with car manufacturers. Management intervention can lead to amiable (voluntary) or compulsory (involuntary) mergers. Amicable mergers involve agreements without coercion or pressure, while compulsory mergers involve management groups merging enterprises involuntarily to rectify default or bankruptcy situations. Compulsory mergers are more akin to absorption than mergers, as they are more akin to absorption in the context of management intervention.[18]

18 Abd Al-Raof Sinnawi, "Merger of Companies and its Impact on Partners and Shareholders" *European Journal of Social Sciences*, No. 1 (2018): 97-115.

3 The Legal Effects of Banking Acquisition

The financial literature has addressed nations' concerns that the law might impact their economic development, particularly in mergers and acquisitions within each nation's economy. Acquisitions and mergers are significant, and commercial and other unique rules typically govern this sector. Governments have created merger and acquisition regulations to preserve appropriate competitive settings and boost corporate performance. These laws aim to expand state economies and promote business performance.[19]

The legal effects of a bank acquisition vary in terms of applicable regulations and legislation of each state[20]. Some of the legal effects that could result from a bank acquisition include the following:

1. Financial regulatory bodies overseeing national financial services industries may need to approve bank acquisitions. In certain situations, referrals to the competition authorities can also be necessary.
2. Depending on the laws in some nations, acquiring a bank may require the acquiring party to adhere to particular protocols to safeguard the interests of clients, employees, and shareholders.
3. The newly formed bank company that emerged from the banking acquisition could have to change or adopt new articles of incorporation for the two combined banks. To do so, the relevant regulatory bodies' consent is typically needed.
4. Potential legal issues pertaining to day-to-day operations, labor law regulation, and other legal procedures for the two merging enterprises could arise from a bank acquisition.
5. It causes the Board of Directors to be replaced, resulting in the establishment of a subservient relationship and a change in the Board of Directors.

In general, to ensure the deal's success and to avoid future legal issues, a bank acquisition needs to be approved by the appropriate regulatory bodies, comply with several laws and regulations, and be accurate and

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19 Don DePamphilis, *Mergers, Acquisitions, and Other Restructuring Activities* (Amsterdam: Elsevier, 2010).

20 Brent W. Ambrose, William L. Megginson, "The Role of Asset Structure, Ownership Structure, and Takeover Defenses in Determining Acquisition Likelihood" *Journal of Financial and Quantitative Analysis*, No. 27 (1992): 575-589.

focused in its legal planning. In banks that have not made acquisitions, the targets and buyers are more prominent, less capitalized, less efficient, and less profitable with lower growth expectations; buyers were more profitable with higher growth prospects because external factors affected them differently, and their effects were not consistent or robust to changes in sample size.

4 | Efficiency And Productivity on Bank M&A

One stream of research has analyzed the impact of efficiency and productivity on bank M&A. For example, Houda Ben Said, Rim Zouari-Hadiji Abdelfettah Bouri[21] investigated mergers and acquisitions' effects on French banks' performance. Their findings indicate that M&A improved overall efficiency, with an average increase of 17.82%. Similarly, a study by Zakia Rizvi, Farhina Sardar Khan[22] on the merger of India's Bank of Baroda with its partners found favorable results for the combined entity's financial and operational performance. These researchers also noted that successful bank consolidation requires management and governance practices reforms; this suggests that while M&A enhances operational efficiency, shareholders may only sometimes fully capture the financial benefits.

Beyond performance outcomes, researchers have investigated the complex legal and regulatory dimensions of bank M&A, particularly in cross-border transactions involving conventional and Islamic banking institutions. Abdullah Hamdan Al-Mutairi, Al-Badarin Abdullah[23] conducted a case study of acquisition of an Islamic bank (Boubyan Islamic Bank) by a conventional bank (National Bank of Kuwait) in Kuwait. Their analysis revealed that the jurisprudential basis for this type of transaction is a contract where a partner sells its ownership shares to the acquiring party. Interestingly, they found that the involvement of those engaged in

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21 Said, Rim Abdelfettah Bouri, "French Bank Mergers and Acquisitions Performance".

22 Zakia Rizvi, Farhina Sardar Khan, "Effect of Mergers and Acquisitions in the Indian Banking Sector: A Case Study on Bank of Baroda" *Revista de Gestão Social e Ambiental*, No. 2 (2024): e06836-e06836.

23 Al-Mutairi, Abdullah, *The Acquisition of Traditional Banks Over the Islamic Banks*.

usury is permissible, though disliked, in this process. Despite the ownership change, the researchers noted that the acquired Islamic bank maintained its independent administrative and operational structure, adhering to Sharia law.

More recently, Ahmad Majid Ahmad Nasser Lootah and Hussein A. Hassan Al Tamimi [24] conducted a systematic review and analysis of the M&A decision-making process in the UAE banking sector between 2005 and 2021. Through expert interviews, they identified the most prominent factors influencing these decisions, including regulation, globalization, technology, and economic conditions. Internal elements such as agency, hubris motives, and synergy played a role in shaping bank M&A strategies and outcomes.

In addition to the performance and financial implications of bank mergers and acquisitions, researchers have also investigated the effects on the institutions' employees. A study by Sue Cartwright and Cary L Cooper (1990)[25] analyzed the employee-related outcomes M&A activities in the United Kingdom.

Cartwright and Cooper's[26] findings suggest mergers and acquisitions significantly impact employee attitudes, behaviors, and well-being. Their research revealed that M&A events often lead to heightened employee stress and anxiety due to job insecurity, changes in working conditions, and uncertainty about the future. Employees in acquiring and acquired organizations reported increased work-related strain and diminished job satisfaction following the merger or acquisition.

The researchers also found that employee commitment and organizational loyalty decreased post-M&A. This was attributed to a perceived psychological contract breach, as employees felt the new, combined entity did not meet their expectations and obligations. In some cases, the most talented and experienced employees were found to be more to leave the organization, leading to a loss of critical human capital.

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24 Ahmad Majid Ahmad Nasser Lootah, Hussein A. Hassan Al Tamimi, Panagiotis D. Zervopoulos, „Assessing the Impact of M&As' Motives Influencing the M&A Decision-Making Process in the UAE Banking Sector" *International Journal of Economics and Financial Issues*, No. 3 (2024): 192-205.

25 Sue Cartwright, Cary L. Cooper, "The impact of mergers and acquisitions on people at work: Existing research and issues" *British Journal of Management*, No. 1 (1990): 65-76.

26 Ibidem.

Cartwright and Cooper [27] further noted that the integration process following a bank merger or acquisition was a key determinant of employee-related outcomes. Mergers characterized by a lack of communication, poor change management, and cultural clashes between the two organizations tended to result in more negative employee reactions and higher turnover intentions. Conversely, the researchers identified organizational practices that helped mitigate the adverse employee impacts of bank M&A. These included proactive communication about the rationale and process of the transaction, opportunities for employee involvement and participation in the integration, and investment in training and development to facilitate the transition. The findings from Cartwright and Cooper's[28] study underscore the importance of considering the human element in the strategic planning and execution of bank mergers and acquisitions. Attending to employee concerns, managing change effectively, and fostering a harmonious organizational culture help banking institutions navigate these transformative events more successfully and retain valuable human capital.

The lack of efficiency and productivity in bank mergers and acquisitions can create legal problems such as cases that employees file in court due to their unwillingness to continue working or due to problems resulting from the failure to implement the Labor Law and the Social Security Law or human rights violations. These cases are the result of weak communication between the management of the merged banks and because mergers and acquisitions are non-routine and complex operations, these matters also occur as a result of the negligence of the management of the merged bank, as it sees that its role has ended.

5 | Regulatory Approval

Navigating the regulatory approval process is the first major legal hurdle in a bank acquisition. Bank mergers and acquisitions are subject to extensive regulatory scrutiny, as they have the potential to impact the

27 Ibidem.
28 Ibidem.

stability, competitiveness, and consumer protection aspects of the financial system.[29]

Legally speaking, Article 82 of the Banking Law No. 28 of 2000 and its amendments confirmed that a) a bank may, subject to the prior consent of the Central Bank, acquire all or part of the assets and rights or the liabilities and obligations of another bank, including: 1. Any banking facilities granted by the bank to its clients, or pledges issued to beneficiaries together with all personal and real securities thereof, without the need to obtain the consent of any client, surety, mortgagor, beneficiary, or any other person, and without the need to comply with any valuation or other formalities which may be provided for in any other legislation. 2. Any other rights or obligations, regardless of their type, including lease rights. If the rental is less than the prevailing rental of a comparable property, such rental shall be adjusted to become equal in addition to that. b) Any acquisition effected pursuant to the provisions of paragraph (a) of this Article shall be tantamount to merger for the purposes of benefiting from the exemptions and privileges of merger under this law and the Law of Companies in 40 effects. For this purpose, the provisions applicable to the merging bank shall apply to the selling bank, and those applicable to the merging bank or the bank resulting from a merger shall apply to the acquiring bank.

In Jordan, the regulatory approval process for bank mergers and acquisitions (M&A) is primarily overseen by the Central Bank of Jordan (CBJ). The CBJ is responsible for ensuring that any proposed bank acquisition aligns with the country's banking and financial regulations and the broader objectives of financial stability and consumer protection. The key steps in the regulatory approval process for a bank acquisition in Jordan include submission of a comprehensive application to the Central Bank of Jordan (CBJ), thorough review by the CBJ evaluating factors like financial soundness and impact on the banking system, public notification and consideration of feedback, and final approval, conditional approval, or rejection by the CBJ.[30]

Notably, Article 204/1 of the Companies Law No. 22 of 1997 And its amendments stipulate that: "a) A Holding Company is a Public Shareholding Company which has financial and administrative control over one or more Companies called subsidiary companies in one of the following

29 Darayseh, Alsharari, "Determinants of merger and acquisition in the banking sector".

30 Central Bank of Jordan; 2020.

methods: 1. To acquire more than one half of the Company's share capital and 2. To have control over the formation of its Board of Directors." It made the company own more than half of the capital of another company or constitute its board of directors as a subsidiary.

Article 221 of The Companies Law states, "The transformation of any company into another company shall not necessitate the emergence of a new corporate body. The company shall preserve its previous corporate identity and shall preserve all its rights and shall be liable for all its obligations prior to the transformation."

6 Navigating Bank Acquisition Challenges and Maximizing Benefits

The banking industry has witnessed a surge in mergers and acquisitions (M&A) activities in recent years, driven by the need for strategic growth, operational efficiencies, and the pursuit of competitive advantages.[31] Bank acquisitions have become prevalent strategy for financial institutions seeking to expand their market share, diversify their product offerings, and enhance their technological capabilities. Successful execution of bank acquisition is complex and multifaceted endeavor, requiring systematic approach to address a myriad of legal, regulatory, operational, and cultural challenges.[32]

From a scientific perspective, the execution of bank acquisition viewed as a complex socio-technical system, where various interdependent components, including financial, technological, and organizational elements, must be integrated and optimized to achieve the desired outcomes. This holistic approach to bank acquisition execution is first step, as the failure to address any one of these critical components jeopardize the overall success of the transaction.

31 Darayseh, Alsharari, "Determinants of merger and acquisition in the banking sector".

32 Bossu, Itatani, Margulis, Rossi, Weenink, Bossu, *Legal aspects of central bank digital currency*.

The scientific literature on M&A in the banking sector has highlighted the importance of rigorous due diligence, comprehensive integration planning, effective change management, and the alignment of organizational cultures as key factors contributing to the successful integration of acquired banks.[33] The application of systems thinking, project management principles, and organizational behavior theories provide impression into the complex dynamics and interdependencies inherent in the bank acquisition process.[34]

The successful execution of bank acquisition requires a systematic and evidence-based approach that addresses the complex interplay of financial, technological, and organizational elements.[35] By drawing upon the latest research and empirical findings from the fields of finance, organizational management, and information systems, financial institutions navigate the challenges of bank acquisitions and maximize the potential benefits for their shareholders, customers, and employees.[36]

Rigorous due diligence, involving a comprehensive evaluation of the target bank's financial health, asset quality, and operational efficiency, is fundamental. Studies have shown that thorough due diligence, including the assessment of potential synergies and risks, significantly improve the acquisition's success rate.[37] Developing a detailed integration plan that aligns the acquired bank's operations, systems, and culture with the acquirer's is also essential. Research suggests that a phased and well-coordinated integration process minimize disruptions and facilitate a smooth transition.[38]

Effective change management and employee engagement are vital for managing the organizational and cultural changes associated with the acquisition. Empirical evidence indicates that proactive change management and employee involvement enhance the acquisition's success[39].

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33 Al-Hroot, Al-Qudah, Alkharabsha, "The impact of horizontal mergers"; Kampanje, "Control Controversies in Malawian".

34 Hasan, "Bank mergers and acquisitions trends under recent crises".

35 Al-Hroot, Al-Qudah, Alkharabsha, "The impact of horizontal mergers".

36 Farhan Ahmed, Aneeta Manwani, Shafique Ahmed, "Merger & acquisition strategy for growth, improved performance and survival in the financial sector" *Journal Perspektif Pembiayaan Dan Pembangunan Daerah*, No. 4 (2018): 196-214.

37 Farhan, Manwani, Ahmed, "Merger & acquisition strategy for growth, improved performance and survival in the financial sector", 196-214.

38 Hasan, "Bank mergers and acquisitions trends under recent crises".

39 Loura Chiaramonte, Alberto Dreassi, Stefano Piserà, Asharf Khan, "Mergers and acquisitions in the financial industry: A bibliometric review and future

Seamlessly integrating the acquired bank's information systems and leveraging technological advancements drive operational efficiencies and enhance the combined entity's competitiveness. Studies have shown that strategic investments in technology lead to improved post-acquisition performance.[40]

Finally, adherence to relevant banking laws, regulations, and industry standards is crucial throughout the acquisition process. Empirical research has highlighted the importance of proactive risk management and compliance measures in mitigating legal and reputational risks associated with bank acquisitions.[41]

7 | Post-Merger Integration Challenges in Bank Acquisitions

The successful integration of an acquired bank is a critical aspect of executing a bank acquisition. Post-merger integration (PMI) presents a multitude of challenges that financial institutions must address to ensure the success of the transaction.[42] The key challenges in post-merger integration include cultural differences, where the merging of two distinct organizational cultures significant hurdle, as the acquirer and the target bank have different values, communication styles, and decision-making processes.[43] Failure to address these cultural differences lead to employee resistance, communication breakdowns, and lack of alignment between the

research directions" *Research in International Business and Finance*, No. 64 (2023): 101837.

40 Darayseh, Alsharari, "Determinants of merger and acquisition in the banking sector".

41 Singh, Das, "Impact of post-merger and acquisition activities on the financial performance of banks: A study of Indian private sector and public sector banks", 25.

42 Mwaanga Haakantu, Jackson Phiri, "Effects of Mergers and Acquisitions on the Financial Performance of Commercial Banks in Developing Countries – A Case of Zambia" *Open Journal of Business and Management*, No. 6 (2022): 3114-3131.

43 Al-Hroot, Al-Qudah, Alkharabsha, "The impact of horizontal mergers".

merged entities.[44] Operational integration, which involves combining the operational systems, processes, and IT infrastructure of the two banks, is a complex and time-consuming task. Incompatible systems, data migration issues, and the need for process harmonization disrupt day-to-day operations and impede the achievement of anticipated synergies.[45] Talent retention and engagement is another crucial challenge, as retaining key talent from the acquired bank is crucial to maintain business continuity and institutional knowledge, but the uncertainty and stress associated with the acquisition lead to employee attrition, which undermine the integration efforts.[46] Regulatory compliance is also significant challenge, as bank acquisitions are subject to extensive regulatory scrutiny and requirements, such as obtaining necessary approvals, ensuring compliance with banking laws and regulations, and addressing any compliance gaps in the acquired entity. Failure to navigate the regulatory landscape effectively result in legal and financial consequences. Finally, customer retention is essential, as maintaining customer trust and loyalty during the integration process is crucial to prevent customer attrition and preserve the acquired bank's revenue streams.

After the merger process is completed, it is very important for the bank to retain its customers and prevent problems arising from the merged bank's contracts with its customers, as some customers may refuse to sign a new contract or reject the new interest rate, or the merger may cause problems related to the banking sector. These problems result in filing court cases against the banks and increase the risk of litigation in Jordan. The Banking Law left the matter open, as it did not regulate these operations, as the judge has the authority to assess based on the provisions of civil law or judicial precedents.

44 Darayseh, Alsharari, "Determinants of merger and acquisition in the banking sector".

45 Ayoush, Jibreel, "The impact of mergers on the financial", 751-759.

46 Bossu, Itatani, Margulis, Rossi, Weenink, Bossu, *Legal aspects of central bank digital currency*.

8 | Litigation Risks in Bank Acquisitions

Bank acquisitions are inherently complex transactions that expose the involved parties to various litigation risks. These risks must be carefully identified, assessed, and mitigated to ensure the successful completion and integration of the acquired entity.[47] Some of the key litigation risks associated with bank acquisitions include shareholder lawsuits, where shareholders of the target bank file lawsuits alleging that the acquisition terms are unfair or that the board of directors has breached its fiduciary duties. These lawsuits seek to block the transaction or demand higher acquisition prices, potentially delaying or disrupting the acquisition process. Regulatory enforcement actions are another risk, as regulatory bodies, such as the Federal Reserve, the Federal Deposit Insurance Corporation (FDIC), or the Consumer Financial Protection Bureau (CFPB), initiate enforcement actions against the acquiring bank or the target bank for alleged violations of banking laws, regulations, or consumer protection statutes.[48] These actions result in fines, consent orders, or other penalties that undermine the acquisition's success. Contractual disputes also arise, as the acquired bank have various contractual agreements, such as leases, vendor contracts, or customer agreements, that need to renegotiate or terminated as part of the integration process, leading to disputes that slow down the integration timeline[49]. Employment-related lawsuits are another concern, as the integration process involve employee layoffs, changes in job responsibilities, or modifications to compensation and benefits, which lead to disgruntled employees filing lawsuits alleging wrongful termination, discrimination, or breach of employment contracts. Finally, customer litigation is a risk, as customers of the acquired bank file lawsuits alleging that the acquisition has resulted in the deterioration in service quality, the breach of account agreements, or the mishandling of their financial information, which undermine the acquired bank's customer relationships and reputation.

47 Al-Hroot, Al-Qudah, Alkharabsha, "The impact of horizontal mergers".

48 Bossu, Itatani, Margulis, Rossi, Weenink, Bossu, *Legal aspects of central bank digital currency*.

49 Haakantu, Phiri, "Effects of Mergers and Acquisitions on the Financial Performance of Commercial Banks in Developing Countries – A Case of Zambia", 3114-3131.

9 | Long-Term Legal Impacts

In Jordan's banking sector, the long-term legal impacts of bank acquisitions particularly significant. As the Jordanian banking industry continues to consolidate, with larger institutions acquiring smaller or regional banks, the legal and regulatory landscape for the combined entities becomes increasingly complex. One of the primary long-term legal concerns for bank acquisitions in Jordan is the heightened oversight and compliance requirements from the Central Bank of Jordan (CBJ). As the acquiring bank's market share and systemic importance increase, the CBJ is to impose stricter capital and liquidity standards, more frequent on-site examinations, and more extensive reporting obligations. Failure to maintain compliance with these enhanced regulatory requirements result in enforcement actions, fines, and potential restrictions on the bank's operations, which undermine the long-term success of the acquisition.

Jordanian banks navigate the country's competition and antitrust laws, which are overseen by integrity and anti-corruption commission. Bank acquisitions that significantly increase market concentration or reduce competition face heightened scrutiny and potential challenges from the competition authority. Navigating these antitrust considerations is important, as adverse rulings or enforcement action lead to costly litigation and disrupt the institution's ability to fully integrate the acquired entity.[50]

Jordanian banks must ensure compliance with consumer protection and fair lending laws, such as the Banking Law and the Consumer Protection Law. As larger, more prominent institutions, the combined entities may face greater expectations and scrutiny from regulatory bodies and consumer advocacy groups regarding their lending practices, customer service, and adherence to these legal frameworks.[51] Failure to address these compliance issues result in regulatory penalties, civil lawsuits, and reputational damage that undermine the long-term viability of the acquisition.

To mitigate these long-term legal impacts in the Jordanian context, acquiring banks must work closely with the CBJ and other relevant regulatory authorities to ensure a smooth transition and integration process. They also invest in robust compliance and risk management systems, as

50 Haakantu, Phiri, "Effects of Mergers and Acquisitions on the Financial Performance of Commercial Banks in Developing Countries – A Case of Zambia", 3114-3131.

51 Ibidem.

well as dedicated legal and compliance teams, to navigate the evolving legal and regulatory landscape.[52] Proactive engagement with stakeholders, including customers and the broader community, also help the combined entity maintain a strong reputation and foster long-term success.

The Jordanian Banking Law referred to the formation of a merger committee, and this committee usually supervises the internal audit committee. The role of the external auditor in this case is very important, as the external auditor maintains the bank's ability to comply with and adhere to the laws. The same applies to the internal audit and governance committee, as the work of these committees continues during the merger process.

10 Methodology

The methodology of this study is a literature review to portray an understanding of mergers and acquisitions. Academic research is based on building on existing knowledge and ensuring accuracy. However, this task has become more complex due to the rapid expansion of Legal research knowledge. This makes it challenging to stay updated with cutting-edge research and evaluate collective data in specific research areas, making it essential for academics to prioritize accuracy. Literature reviews are increasingly crucial as a systematic method for collecting and analyzing prior research.[53] The most important points in the literature on the topics of mergers and acquisitions in banks were presented. Some laws related to mergers and acquisitions in banks were also reviewed, and some cases of mergers in Jordanian banks were presented.

52 Chiaramonte, Dreassi, Piserà, Khan, "Mergers and acquisitions in the financial industry: A bibliometric review and future research directions", 101837; Central Bank of Jordan, 2020.

53 Hannah Snyder, "Literature review as a research methodology: An overview and guidelines" *Journal of Business Research*, 104 (2019): 333-339.

11 View Mergers and Acquisitions Cases

In the case study, we review some cases of mergers and acquisitions in Jordan. The banking industry experienced acquisitions For instance, the Jordanian Banks Association states that Capital Bank of Jordan purchased the banking divisions and branches of Société Générale and the Lebanese Bank Audi. The National Bank of Kuwait and the British bank HSBC were purchased by the Arab Jordanian Investment Bank. Additionally, a deal to buy Societe Generale Bank of Jordan was reached by the Capital Bank of Jordan. In the past, there have also been mergers and acquisitions involving several banks, all with the guarantee that no bank employees would lose their jobs. Instead, they were dedicated to maintaining their economic and job privileges.[54] Etihad Bank also purchased a stake in Safwa Islamic Bank, and Arab Investment Bank acquired Standard Chartered's business in Jordan.

The most famous acquisition and merger was between the Arab Jordan Investment Bank and HSBC Bank. The process lasted from early 2014 to mid-2015. This period was sufficient to complete the legal and administrative work of the acquisition process. It was noted that there were no legal problems facing the merger process, as the process was carried out smoothly.

During our review of the databases, we noticed that there were not many cases registered in Jordanian courts against banks that completed acquisitions and mergers during and after the merger period, as these operations were completed without any significant legal obstacles. This is due to the good organization of acquisitions and mergers in Jordanian legislation, such as the Companies Law, the Banking Law, the regulations and instructions of the Central Bank, and its supervision of mergers and acquisitions in a way that reduces the risks of litigation before the courts.

54 Zaid Al-Dubaisiyya, *The increasing banking takeover in Jordan raises questions* (2023). https://www.alaraby.co.uk/economy.

12 Conclusion

The long-term legal impacts of bank acquisitions in Jordan significantly transform the financial services landscape, with regulatory oversight and policy changes playing a pivotal role in shaping the future of the combined entity.

As the acquiring bank's size, market share, and systemic importance grow, it will face heightened scrutiny and more stringent compliance requirements from regulatory bodies such as the Central Bank of Jordan (CBJ) and the Jordanian Competition Directorate. The CBJ's imposition of stricter capital and liquidity standards, more frequent on-site examinations, and more extensive reporting obligations strain the organization's resources and divert management's attention away from strategic initiatives.

Furthermore, the combination of the two banks may raise competition and antitrust concerns, prompting the Jordanian Competition Directorate to closely scrutinize the transaction and potentially require divestitures, structural changes, or other remedies to address any perceived threats to market competition. This add uncertainty and complexity to the integration efforts, reshaping the competitive landscape of the financial services industry in Jordan.

In addition to these regulatory challenges, the combined entity must also adapt to evolving consumer protection and fair lending laws in Jordan. As a larger, more prominent institution, the bank face heightened expectations and scrutiny from regulatory bodies, consumer advocacy groups, and the public regarding its lending practices, customer service, and adherence to these legal frameworks. Failure to address these compliance issues result in regulatory penalties, civil lawsuits, and reputational damage that undermine the long-term success of the acquisition.

To navigate these regulatory and policy changes effectively, the acquiring bank must adopt a proactive and adaptable approach. This may involve close collaboration with regulatory authorities, investment in compliance and risk management capabilities, and the development of innovative strategies to meet the evolving needs of customers and the broader financial ecosystem in Jordan.

Solving these long-term legal impacts and embracing the transformational changes in the regulatory environment, the combined entity position itself for sustainable growth and success within the evolving financial services landscape of Jordan.

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