Bank appetite for dealmaking picks up

Banks, on the back foot following the financial crisis, are finally making a calculated comeback to M&A as they start to focus on core geographies and business lines. With balance sheets strengthened and capital reserves being rebuilt, global banks are now better placed to focus on markets and product offerings they believe will deliver the most growth in 2018.

Our 2018 M&A forecast

Banks

Steady growth in M&A driven by ongoing non-core disposals, re-emergence of strategic M&A, continued interest from PE, and in-bound US and Chinese investment.

> With balance sheet repair largely behind them, global banks are now cautiously re-emerging in competitive auctions

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Disposal of non-core assets—one of the major drivers of deal activity in 2017—is likely to continue in 2018

A number of banks exited divisions they deemed non-core in 2017: Barclays has sold its French retail and wealth management businesses, disposed of a 22 per cent stake in its Africa Group and exited its UK trust business. Société Générale has offloaded a 49 per cent stake in Fortune and a 15.42 per cent stake in Eurazeo and spun-off TBC Bank. UBS, HSBC, BNP Paribas and Deutsche Bank are among the other banks to have made similar strategic disposals.

Investing for growth gains momentum

Institutions are beginning to invest for growth and pursue strategically important deals. Goldman Sachs, J.P. Morgan, UBS and Citi have announced expansion plans in Saudi Arabia while BNP Paribas has acquired stakes in Italian credit insurer Cargeas Assicurazioni and Swedish consumer credit group SevenDay Finans.

International buyer interest strengthens

Cross-border deals involving non-EU investors will continue in 2018. US investors—driven by stronger balance sheets—are likely to be active, taking advantage of the strengthening US$ and the loosening regulations.

Banks (continued)

2018 outlook

A steady growth in M&A activity driven by factors including ongoing non-core disposal programmes, re-emergence of strategic M&A (i.e., larger banks seeking to expand within newly selected core territories), in-bound US and Chinese investment, and continuing PE appetite.

Current market

Upward

We are seeing

- Continuing non-core and financial asset disposals
- Sustained focus on restructurings, aimed at:
  - Streamlining within borders and movement towards leaner and simpler business models
  - Optimising regulatory capital and EU permission, governance, operational and tax efficiencies through centralisation
  - Leveraging existing third-party provider relationships across business lines and legal entities
  - Streamlining intra-group service arrangements (particularly in light of upcoming EU General Data Protection Regulation compliance requirements and rising cybersecurity threats)
  - "Hard" Brexit contingency planning
- Consolidation across Central and Eastern Europe, with support from political and regulatory authorities
- Early signs of re-emergence of strategic M&A
- JVs and other forms of collaboration focused on fintech development

Key drivers

- Banks are still shoring up their balance sheets, given mega-fines and increasing capital buffer requirements
- Stronger capitalised banks are ready to grow again, and regulators are being more supportive
- Competition from 'challenger' banks and fintech offerings
- US and Chinese buyers taking advantage of the strengthening US$

Trends to watch

- M&A strategies are very carefully managed:
  - Banks are acutely aware of internal resource restraints and seek to optimise use of management time
  - Many banks have limited P&L capacity for losses and prefer to attempt to improve businesses before selling
  - Wealth of experience of divestment activity means auction and bilateral processes are better managed
  - Some banks are holding out for improved market conditions and maximising positive impact on valuation multiples of retained businesses
- US in-bound investment, driven by repaired balance sheets (e.g., all US banks participating in the Federal Reserve's 2017 stress tests passed, loosening regulation (e.g., Volcker rule) and optimism for lighter post-Brexit UK regulation)
- Increasing focus by financial sponsors in FIG investment—including in banks
- Differing prerogatives between supranational and local prudential regulators
- Competition between local regulators across Europe attracts banks post-Brexit
- Squeeze-out of smaller banks following MiFID II coming into effect in January 2018

Banks – Key deals and situations

Disposal of non-core assets	□ Barclays' disposal of its French retail and wealth management businesses *(September 2017)*, Barclays Bank of Zimbabwe *(June 2017)*, 22% of Barclays Africa Group *(May 2017)* and its UK trust business *(April 2017)* □ Crédit Agricole's disposal of 16.2% of Banque Saudi Fransi *(September 2017)* □ Société Générale's disposal of 49% of Fortune *(September 2017)*, TBC Bank *(June 2017)* and its 15.42% stake in Eurazeo *(June 2017)* □ UBS's disposal of Dutch wealth management business *(August 2017)* □ Credit Suisse's disposal of Next Investors *(August 2017)* □ Deutsche Bank's disposal of Deutsche Bank Polska *(August 2017)* and Deutsche Bank Argentina *(June 2017)* □ Banco de Sabadell's disposal of Sabadell United Bank *(July 2017)* □ HSBC's disposal of HSBC Bank Middle East *(June 2017)* □ BNP Paribas's disposal of UkrSib Capital Management *(June 2017)* □ UniCredit's disposal of Bank Pekao *(June 2017)*
Disposal of financial assets	□ UniCredit's disposal of €300 million infrastructure PE portfolio *(July 2017)* and €310 million consumer NPLs *(June 2017)* □ Santander's disposal of €300 million consumer/SME NPLs *(June 2017)* □ Barclays' disposal of €190 million consumer NPLs *(May 2017)*
Restructurings	□ Idea Bank's merger of Idea Leasing and GETIN leasing *(November 2017)* □ Bank BGŻ BNP Paribas's disposal of BGŻ BNP Paribas Faktoring to BNP Paribas *(November 2017)* □ Saudi British Bank's acquisition of SABB Takaful *(August 2017)* □ The Co-operative Bank's £700 million liability management exercise *(August 2017)* □ Deutsche Bank's ongoing integration of Postbank *(March 2017)*
Strategic M&A "green shoots"	□ Goldman Sachs, J.P. Morgan, UBS and Citi announced expansion plans in Saudi Arabia *(October 2017)* □ BNP Paribas's acquisition of a majority stake in Gambit *(September 2017)*, Cargeas Assicurazioni *(July 2017)* and Sevenday Finans *(June 2017)* □ Morgan Stanley's acquisition of 5% of Permanent TSB *(August 2017)* □ BAWAG's acquisition of Südwestbank *(July 2017)* □ Santander's acquisition of Banco Popular Español *(July 2017)*
CEE consolidation	□ DNB's and Nordea's JV to consolidate Estonian, Latvian and Lithuanian banking activities *(October 2017)* □ OTP's acquisition of Banca Românească *(July 2017)* and plans to acquire "at least 5 banks" in the next 2 years *(September 2017)* □ KBC's acquisitions of United Bulgarian Bank and Interlease *(June 2017)* □ AIK's acquisitions of Alpha Bank Serbia *(April 2017)* and Gorenjska Banka *(February 2017)*
JVs	□ Fintech collaboration: – Commerzbank's, Bank of Montreal's, CaixaBank's, Erste's and UBS's joint development of blockchain-based trade finance platform *(October 2017)* – Deutsche Bank's, KBC's, HSBC's, Natixis's, Rabobank's, Société Générale's and UniCredit's joint development and launch of blockchain-based trade finance platform *(June 2017)* □ New markets: – HSBC's securities JV, Bank of East Asia, in Southern China *(June 2017)*
Foreign buyers investment	□ Cerberus's acquisition of 3% of Deutsche Bank *(November 2017)* □ Sampo Group's acquisition of 20% of Saxo Bank *(October 2017)* □ CEFC China Energy's increased holding to 50% in J&T Finance Group *(September 2017)* □ Legend Holdings' acquisition of 90% of Banque Internationale a Luxembourg *(September 2017)* □ China Shuangwei Investment's acquisition of 60% of Altyn Bank *(June 2017)*
Competition from 'challenger' banks and fintech businesses	□ OakNorth made its first sizeable loan to UK-listed company, RM Secured Direct Lending *(November 2017)* □ Orange's launch of Orange Bank *(November 2017)* □ Redwood secured its banking licence and commenced trading *(August 2017)* □ Tandem's acquisition of Harrods Bank *(August 2017)* □ Clear Bank's approval to access the Bank of England's clearing platform *(January 2017)*
Diverging regulator prerogatives	□ Differing prerogatives between supranational vs. local regulators: – European Commission's proposal to propose stricter controls for non-EU financial firms, including UK firms post-Brexit *(September 2017)* – ESMA's rejection of 'letterbox' bank relocations following Brexit *(July 2017)* and proposal to increase its oversight of London's euro-clearing business post-Brexit *(July 2017)* – ECB's involvement in enabling the EU to force the trade of clearing euro-denominated derivatives out of London *(June 2017)* □ Competition between local regulators: – UK's proposal to utilise new temporary authorisations to retain overseas financial services post-Brexit *(September 2017)* – France's proposed tax reform set to boost bank relocations to Paris post-Brexit *(June 2017)* – Delegates from Poland's, Denmark's, France's, Amsterdam's, Luxembourg's and Germany's respective regulatory authorities have encouraged relocation of mega banks post-Brexit *(January – November 2017)*