

# M&A is an imperative for stretched state-aided banks

---

**Financial institutions  
M&A: Sector trends**

Key reasons for high-activity levels:

---

**The state heads for the door:** Governments are ready to offload stakes to recoup public funds

---

**Accounting MOT drives disposals:** IFRS 9 has lifted the bonnet on balance sheets

---

**Financial sponsor appetite:** Attractive returns, and banks need new money

# State-aided banks

State-aided banks are a fertile source of deal flow. Institutions continue to deleverage balance sheets and dispose of non-core businesses, while governments seek privatisation. But make no mistake—deals are hard fought, with risk allocation needing to be carefully managed at every turn.

## Overview

### CURRENT MARKET

Upward, significant

### WE ARE SEEING

- Balance sheet management remaining the top priority:
  - Ongoing NPL management and disposals
  - Rationalisation of business portfolios through continuing non-core disposal programmes
- Retail bank consolidation, especially across Western and Central Europe:
  - Cutting costs through operational efficiencies
  - Exploiting economies of scale and scope
  - Spreading fixed costs across larger expense bases
  - Widening customer catchment and deepening existing business relationships by mirroring customer footprints

### KEY DRIVERS

- Governments are keen to offload state-owned stakes in banks bailed out during and in the aftermath of the global financial crisis
- Increased accounting pressure from IFRS 9 to deleverage NPLs and other non-core financial assets
- State-owned/backed banks continue to face profit-depletion through public and private litigation relating to legacy conduct issues
- High levels of US and Western European financial sponsor engagement in stressed and distressed M&A—sponsors are able to secure high returns in a low interest rate environment

### CHALLENGES

- Non-core sale strategies are under pressure:
  - Prudential regulators maintain high thresholds to be convinced of a potential buyer's ability to ensure stability for the relevant asset and for the wider domestic banking system
  - Inconsistency between antitrust imperatives (i.e. market competition) and prudential regulatory imperatives (i.e. financial market stability)
  - Financial sponsors driving a hard bargain to extract buyer-friendly deal protections
  - Certain assets are simply too large or systemically important to attract multiple suitors
  - Rising litigation risk — 'private' litigation from market participants' reaction to government action, as well as 'public' litigation from inconsistency of application of new Member State regulatory reforms
- Regulatory landscape continues to change and evolve, both at Member State-level (e.g., Greece's proposed 'state-wide bad bank') and EU level (e.g., European Commission's March 2018 proposals for tackling high NPL ratios)

**Richard Pogrel**  
Partner, London  
EMEA Capital Markets Group



**A decade on from the credit crunch, state-aided banks are still vulnerable. Systemic stability is top priority. The gravity of balance sheet management will continue to weigh heavily for the foreseeable future.**

## Our M&A forecast

### TRENDS TO WATCH

- Structural weaknesses in bank operating models (e.g., high NPL levels, cost inefficiency and over-banking), particularly across Greece, Italy, Spain and Portugal, continuing to drive disposal programmes
- Continued development of NPL securitisations
- Damage to buyer sentiment by inconsistent application of national and supranational legislation across the EU



**High levels of M&A activity are anticipated, particularly across Greece, Italy, Spain, Portugal and Ireland, as banks continue NPL and non-core disposal strategies. Stability funds are ready to offload assets rescued during the global financial crisis and stressed banks are consolidating to stabilise operations**

## State-aided banks – Publicly reported deals & situations

### NPL management & disposals

€25bn worth of live NPL deals are expected to close in H1 2018\*

NPLs of Italian banks are forecasted to fall to €42.5bn by end-2019\*\*

#### Ongoing:

##### Permanent TSB

Disposal process for “Glas” portfolio (*June 2018*)

##### Piraeus Bank

New 3-year balance sheet restructuring project (*May 2018*)

##### Ulster Bank

Disposal process for €1.6bn of Irish mortgages (*May 2018*)

##### Alpha Bank

Disposal process for “Venus” portfolio (*February 2018*)

##### NBG

Disposal process for “Earth” portfolio (*January 2018*)

#### Completed:

##### Lloyds

Disposal of £4.3bn of Irish residential mortgages (*May 2018*)

##### Piraeus Bank

Disposal of €1.45bn corporate NPE portfolio (*May 2018*)

##### AIB

Disposal of €1.1bn of NPLs (*April 2018*)

##### UniCredit

Disposal of exposure to €16.2bn “Fino” NPL portfolio (*February 2018*)

##### Piraeus Bank

Disposal of €200m of Romanian-originated NPLs (*January 2018*)

##### Alpha Bank

Disposal of €380m of Romanian wholesale NPLs (*January 2018*)

##### Hellenic Bank

Disposal of €145m of NPLs (*January 2018*)

##### Monte dei Paschi

Disposal of €25bn of NPLs (*January 2018*)

### Regulatory “shifting sands”

#### European Commission

Proposed new measures to address EU NPLs (*March 2018*)

#### Bank of Greece

Proposed creation of a “state-wide bad bank” to oversee NPL management across all Greek banks (*March 2018*)

#### European Parliament

Adoption of a non-binding resolution for a review of EU bank state-aid rules (*March 2018*)

Exit strategies  
—many under  
pressure,  
but some  
silver linings

#### Deal highlight

**The €1 billion sale of HSH Nordbank to a consortium of private equity buyers, led by Cerberus and J.C. Flowers, was undeniably monumental\*\*\***

**The IPO of Arion Bank is the largest ever on Nasdaq Iceland (by market value), resulting in Arion Bank becoming the second-largest company listed on the Icelandic Stock Exchange (by market capitalization). Arion Bank houses the domestic operations of failed international banking group Kaupthing\*\*\***

#### Under pressure:

##### **UK government's RBS sell-down**

UK Government Investments sold down 7.7% of RBS amidst heavy Labour criticism over considerable losses to UK taxpayers  
*(June 2018)*

##### **NBG's Ethniki General Insurance**

EXIN Financial Services' failure to obtain consent from the Bank of Greece and competition approvals for its proposed acquisition  
*(March 2018)*

##### **NBG's Banca Romaneasca**

National Bank of Romania's rejection of OTP Bank's proposed acquisition of a 99.28% stake  
*(March 2018)*

##### **Bankia**

Spanish government's proposed sale of its 60% stake by end-2019 has resulted in a permanent overhang on Bankia's share price, compounding troubles of retaining staff *(given salary and bonus caps)* and customers *(amidst market uncertainties)* *(March 2018)*

#### **Commerzbank**

Potential merger counterparts for Commerzbank have been rumoured to include Deutsche Bank, UBS, Crédit Agricole, UniCredit and BNP Paribas. However, no deal has materialised yet  
*(September 2017 – March 2018)*

#### **HSH Nordbank**

Hamburg and Schleswig-Holstein's disposal took place on the last day of the European Commission's deadline for privatisation *(February 2018)*

#### **Rosevrobank**

EBRD's accelerated disposal of its 11% stake after its loss of 11.75% of Promsvyazbank, following Central Bank of Russia's 2017 bail-out *(January 2018)*

#### Silver linings:

##### **Arion Bank IPO**

Dual-listing on Nasdaq Iceland and Nasdaq Stockholm *(June 2018)*

**Perception of inconsistent EU government/regulator approach**

**Perception of government interventionism:**

**UK government**

Vote against proposal to give RBS investors more control over executive compensation (May 2018)

**Italian government**

Provided a guarantee for Monte dei Paschi's issue of €750m of 10-year Tier 2 bonds (January 2018)

**Perception of regulator interventionism:**

**Bank of England**

Proposals to require UK banks to publicly reveal resolution regimes (June 2018)

**ECB**

Controlled collapse of ABLV Bank (February 2018)

**European Commission**

In-depth investigation into Banka Slovenije's proposed pre-sale restructuring of Nova Ljubljanska Banka (January 2018)

**Comisión Nacional del Mercado de Valores**

Bankia-Banco Mare Nostrum merger (January 2018)

**Perception of leniency:**

**UK FCA**

Refusal to publish report on the RBS's controversial treatment of troubled SMEs (February 2018)

**EBA**

Issue of voluntary standard data templates for use in EU NPL transactions (February 2018)

**European Commission**

Rejection of European Parliament's request to investigate the sale of financial products by Banco Espírito Santo (January 2018)

**PE seeking to extract buyer-friendly deal terms**

**Lone Star**

Secured back-stop guarantees from Fundo de Resolução in connection with its acquisition of 75% of Novo Banco in October 2017. Novo Banco's FY2017 €1.4bn net loss resulted in Fundo de Resolução paying €791.7m under the guarantees (March 2018)

**Cerberus and J. C. Flowers**

Consortium acquisition of HSH Nordbank, which required €6bn of HSH Nordbank's NPLs to be carved out into a separate vehicle (February 2018)

**Pollen Street Capital and BC Partners**

Backed Shawbrook's acquisition of RBS's portfolio of Channel Island business loans for £50m less than the auction price (January 2018)

**Heightened risk of 'public' and 'private' litigation**

**Private:**

**RBS**

UK Court of Appeal's dismissal of Property Alliance Group landmark £30m swaps mis-selling case against RBS (*March 2018*)

**Novo Banco**

Pimco's damages claim seeking compensation from alleged insider trading of Novo Banco bonds (*February 2018*)

**Public:**

**RBS**

US\$4.9bn settlement with the US DoJ concerning US loan mis-selling allegations (*May 2018*)

**Deutsche Bank Securities**

US\$4.5m settlement with the US SEC concerning alleged misleading of clients on CMBS transactions (*February 2018*)

**RBS**

UK BEIS's probe into RBS's possible improper profiteering from UK government's Enterprise Finance Guarantee Scheme (*January 2018*)

**Non-core disposals**

**Deal highlight**

**Piraeus Bank has been active in both NPL and non-core disposals in 2018, having sold a €1.45bn corporate NPE portfolio to Bain Capital and its Romanian banking subsidiary to J.C. Flowers\*\*\***

**Novo Banco**

Disposal of 90% of Banco Internacional de Cabo Verde (*May 2018*)

**UniCredit**

Disposal of 10% of Bank of Valletta (*April 2018*)

**Intesa Sanpaolo**

Disposal of Veneto Banka (*April 2018*)

**Eurobank**

Disposal of Bancpost, ERB Retail Services and ERB Leasing (*April 2018*)

**Piraeus Bank**

Disposal of Piraeus Bank Romania and ongoing open e-auctions of repossessed real estate assets (*January – March 2018*)

**Deutsche Bank**

Disposal of its Cayman Islands and Channel Islands banking and custody business and Private & Commercial Client Portugal (*February – March 2018*)

**NBG**

Disposal of Banka NBG Albania (*February 2018*)

**RBS**

Disposal of offshore operations of its Lombard leasing unit and 280 Bishopsgate London HQ (*January – February 2018*)

\* Source: CBRE (*April 2018*)

\*\* Source: ABI (*January 2018*)

\*\*\* Source: White & Case LLP acted on this transaction

**Patrick Sarch**

Partner, London  
Co-head of Financial Institutions  
Global Industry Group  
**T** +44 20 7532 2286  
**E** patrick.sarch@whitecase.com

**Gavin Weir**

Partner, London  
Co-head of Financial Institutions  
M&A Group  
**T** +44 20 7532 2113  
**E** gweir@whitecase.com

**Prof. Dr. Roger Kiem**

Partner, Frankfurt  
Co-head of Financial Institutions  
M&A Group  
**T** +49 69 29994 1210  
**E** roger.kiem@whitecase.com

**Ashley Ballard**

Partner, London  
EMEA M&A Group  
**T** +44 20 7532 2128  
**E** aballard@whitecase.com

**Franck De Vita**

Partner, Paris  
EMEA M&A Group  
**T** +33 1 55 04 15 75  
**E** fdevita@whitecase.com

**Hugues Mathez**

Partner, Paris  
EMEA M&A Group  
**T** +33 1 55 04 17 20  
**E** hmathez@whitecase.com

**Richard Pogrel**

Partner, London  
EMEA Capital Markets Group  
**T** +44 20 7532 1455  
**E** rpogrel@whitecase.com

**Guy Potel**

Partner, London  
Financial Institutions M&A Group  
**T** +44 20 7532 1969  
**E** guy.potel@whitecase.com

**Stuart Willey**

Partner, London  
EMEA Financial Regulatory Group  
**T** +44 20 7532 1508  
**E** swilley@whitecase.com

**Dr. Carsten Lösing**

Local Partner, Hamburg  
EMEA Financial Regulatory Group  
**T** +49 40 35005 265  
**E** carsten.loesing@whitecase.com

**Hyder Jumabhoy**

Senior Associate, London  
EMEA M&A Group  
**T** +44 20 7532 2268  
**E** hyder.jumabhoy@whitecase.com

**whitecase.com**

In this publication, White & Case means the international legal practice comprising White & Case LLP, a New York State registered limited liability partnership, White & Case LLP, a limited liability partnership incorporated under English law, and all other affiliated partnerships, companies and entities.

This publication is prepared for the general information of our clients and other interested persons. It is not, and does not attempt to be, comprehensive in nature. Due to the general nature of its content, it should not be regarded as legal advice.

Attorney Advertising.  
Prior results do not guarantee a similar outcome.

© 2018 White & Case LLP

We do not accept any liability in relation to this Report or its distribution by any person. This Report has been prepared exclusively using information in the public domain. We have not independently verified the information relied on for the purposes of or contained in this Report. Accordingly, no representation or warranty or undertaking (express or implied) is made, and no responsibility or liability is accepted by us as to the authenticity, origin, validity, accuracy or completeness of, or any errors in or omissions from, any information or statement contained in this Report or in or from any accompanying or subsequent material or presentation.

We are neither giving nor purporting to give any assurance as to the likelihood of any transaction. Furthermore, this Report does not, and is not intended to, constitute an offer or invitation to any person to purchase any securities of any nature whatsoever. This Report is provided on a non-reliance basis and is not intended to be exhaustive or to constitute legal advice or any nature whatsoever. We do not accept any responsibility, express or implied, for updating this Report.