

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

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## Financial institutions M&A: Sector trends

Key reasons for high-activity levels:

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

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

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**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	WE ARE SEEING	KEY DRIVERS	CHALLENGES
Upward, significant	<ul style="list-style-type: none"><li>□ Balance sheet management remaining the top priority:<ul style="list-style-type: none"><li>- Ongoing NPL management and disposals</li><li>- Rationalisation of business portfolios through continuing non-core disposal programmes</li></ul></li><li>□ Retail bank consolidation, especially across Western and Central Europe:<ul style="list-style-type: none"><li>- Cutting costs through operational efficiencies</li><li>- Exploiting economies of scale and scope</li><li>- Spreading fixed costs across larger expense bases</li><li>- Widening customer catchment and deepening existing business relationships by mirroring customer footprints</li></ul></li></ul>	<ul style="list-style-type: none"><li>□ Governments are keen to offload state-owned stakes in banks bailed out during and in the aftermath of the global financial crisis</li><li>□ Increased accounting pressure from IFRS 9 to deleverage NPLs and other non-core financial assets</li><li>□ State-owned/backed banks continue to face profit-depletion through public and private litigation relating to legacy conduct issues</li><li>□ High levels of US and Western European financial sponsor engagement in stressed and distressed M&amp;A—sponsors are able to secure high returns in a low interest rate environment</li></ul>	<ul style="list-style-type: none"><li>□ Non-core sale strategies are under pressure:<ul style="list-style-type: none"><li>- 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</li></ul></li><li>- Inconsistency between antitrust imperatives (i.e. market competition) and prudential regulatory imperatives (i.e. financial market stability)</li><li>- Financial sponsors driving a hard bargain to extract buyer-friendly deal protections</li><li>- Certain assets are simply too large or systemically important to attract multiple suitors</li><li>- 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</li><li>□ 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)</li></ul>

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**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.**

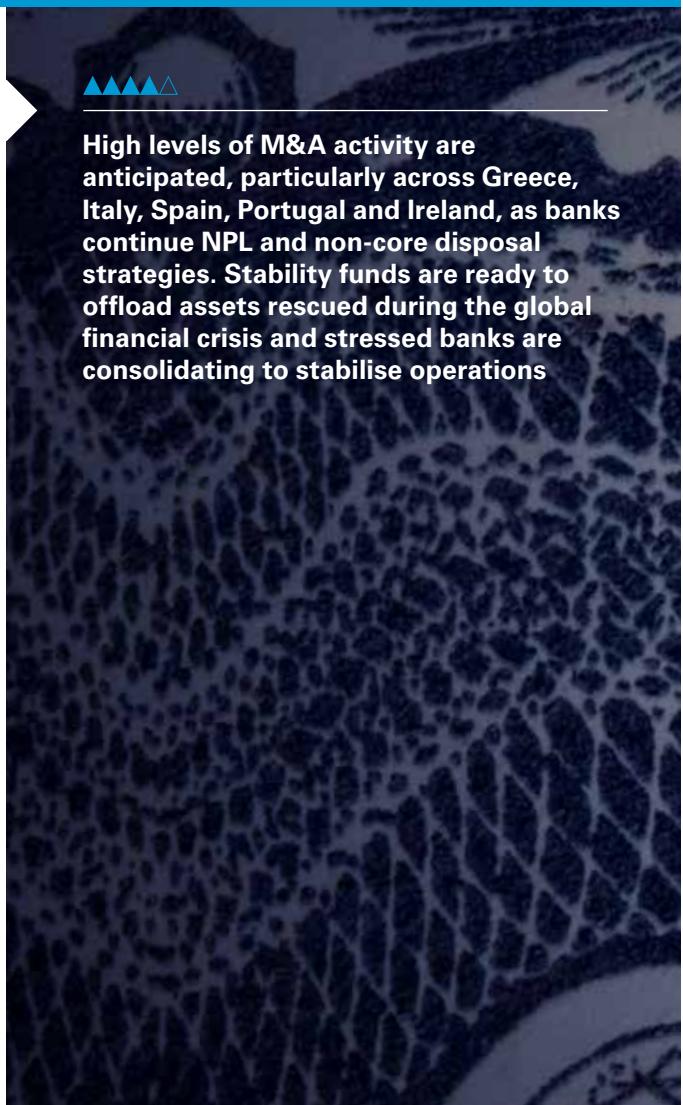
**TRENDS  
TO WATCH**

- 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

## Our M&A forecast



**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)

#### **Rosevrobok**

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)

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