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Banks

Current market
Upward

We are seeing

- Run-offs/sales of financial assets and disposals of non-core businesses
- More disposals triggered by mega-regulatory fines
- Continued focus on intra-group re-organisations, aimed at:
  - Optimising regulatory capital, governance, operational and tax efficiencies through centralisation of regulatory permissions and maximum utilisation of EU passporting efficiencies
  - Leveraging existing relationships across legal entities, business units and functions
  - Streamlining intra-group service arrangements
  - 'Hard' Brexit contingency planning

Key drivers

- Stronger capitalised banks are ready to grow again (and regulators are more open to this than before)
- International buyers taking advantage of the strengthening US dollar
- Response to potential 'deregulation' of the US banking sector (promised by the Trump administration) and optimism towards lighter UK regulation post-Brexit
- The need to compete with 'challenger' banks

Challenges

- But some banks:
  - Are holding out for improved market conditions with a view to generate a higher sale price and achieve a positive impact on the valuation multiple of the retained business
  - Have limited P&L capacity for losses and prefer to attempt to improve businesses before selling them
  - Are seeking to optimise use of management time and resources

Trends to watch

- Differing prerogatives of local and supranational prudential regulators
- Heavy reliance on central bank liquidity/funding around Europe, but government rescue funds may not be large enough to cover existing financial needs
- Re-emergence of stronger, larger banks as acquirors
- Many banks, including mega-banks, are streamlining within borders, moving towards leaner and simpler business models. Will banks weaken within home markets?
- Where divestment activity is happening, it is better managed internally than ever before
- Slow progress on developing new capital structures, but transactions are being implemented
- Not clear whether insurance businesses will continue to justify capital strain for all larger banking groups. But who will buy them?

"Systemically important banks are streamlining within geographic borders, continuing to generate deals through non-core disposals and strategic acquisitions

Our M&A forecast

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A steady growth in M&A activity driven by factors such as uncertainty around the UK's regulatory equivalence post-Brexit, bullish Trump-era optimism, FX rates, and larger banks seeking to expand within newly selected core territories, while others continue with non-core disposal programmes.

Publicly reported examples

Disposals of non-core assets	□ Crédit Agricole's sale of its 15.42 per cent stake in Eurazeo (June 2017) □ UBS's sale of its Dutch wealth management business (June 2017) □ BNP Paribas's and Société Générale's sale of 4.4 million shares in Euronext (June 2017) □ UniCredit's sale of Bank Pekao (June 2017) and its Italian, German and Austrian integrated business solutions business (December 2016) □ Deutsche Bank's proposed sale of Deutsche Bank Polska (June 2017) □ Barclays' sale of its UK trust business (April 2017), French retail banking operations (December 2016), Singapore/Hong Kong wealth management businesses (November 2016) and Egyptian corporate banking business (October 2016) □ Société Générale's sale of its Croatian banking business (December 2016) □ Crédit Agricole's planned sale of stakes in >3 dozen regional banks for c. US$19 billion to shore up its balance sheet (December 2016) □ Deutsche Bank's sale of its 19.99 per cent stake in China's Hua Xia Bank (November 2016) □ Credit Suisse's sale of a portion of its Swiss credit book (November 2016)
Intra-group reorganisations	□ Barclays' ongoing separation from Barclays Africa, most recently selling a further 33.7 per cent stake (June 2017) □ Deutsche Bank's ongoing integration of Postbank (March 2017)
Foreign buyers taking advantage of strengthening of US$	□ HNA Group's acquisition of a 9.92 per cent stake in Deutsche Bank (May 2017) □ China Minsheng's announcement of its intention to acquire EU banks (November 2016)
Need to compete with 'challenger' banks	□ Zopa applied for a banking licence to expand its savings and credit offerings (December 2016) and has sunsequently successfully raised £32 million (June 2017) □ Clear Bank is the first in decades to be granted approval to access the Bank of England's clearing platform (January 2017)
Government rescue funds may not be large enough to cover existing financial needs	□ Italy's Atlante is not big enough to cover Monte dei Paschi and Banca Popolare di Vicenza (May 2017) □ Greece's Hellenic Financial Stability Fund is not large enough to cover Greek bank exposure of €116 billion to NPLs and €95 billion in overdue obligations (January 2017)
Streamlining within borders and movement towards leaner and simpler business models	□ Goldman Sachs', Royal Bank of Scotland's and Banco Bilbao Vizcaya Argentaria's proposed closure of banking branches in South Korea (June 2017) □ Deutsche Bank's sale of its Argentinian operations (June 2017) □ Barclays' ongoing sell-down of Barclays Africa Group (June 2017) □ Barclays' disposal of its Singapore and Hong Kong wealth management businesses (November 2016)