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State-aided banks

Current market

Upward, significant

We are seeing

- Strategic M&A deals
- Financial sponsor interest
- NPL management and disposals
- Non-core disposals
- Bank consolidations
- M&A activity involving government stability funds

Challenges

- Government stability funds' exit strategies are under pressure. Temporary financing measures are necessary to allow breathing space as auction processes are becoming increasingly challenging. Stability funds' pockets are not deep enough to finance temporary measures while auctions are run
- Rising borrowing costs for struggling banks
- Few committed buyers and tough deal financing market conditions
- Hard to sell to the market while governments attempt to redefine regulatory landscapes

- Stringent auction process rules
- Private equity buyers seeking to extract buyer-friendly deal protection from sellers
- Buyer sentiment adversely impacted by inconsistent attitude towards implementation of EU legislation
- Heightened litigation risk: 'private' litigation from market participants' reaction to government action, 'public' litigation from regulatory inconsistency and 'public' litigation from application of new Member State regulatory reforms

Trends to watch

- There is a perception that local prudential regulators are being lenient on sellers. But it is not clear whether direct supervision of Significant Institutions by the European Central Bank will result in strict compliance with resolution ability
- Conflict between antitrust and prudential regulatory imperatives continues to complicate processes



Increasing pressure from the ECB and local regulators—alongside challenges faced by government stability funds—is continuing to drive M&A

Our M&A forecast



A constant flow of M&A activity as EU governments seek to offload 'good' banks, and the European Central Bank exerts pressure on market participants, especially across Italy, Greece, Spain and Portugal.

Publicly reported examples

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| NPL management and disposals | <ul style="list-style-type: none"> □ Bank of Greece has instructed audit firms to help project manage Greek banks' NPLs (January 2017) □ Portugal has announced new laws aimed at tackling NPLs (October 2016) □ EU banks still have €1.2 trillion of NPLs and funds raised US\$7 billion in 2016 to acquire EU NPLs (December 2016) |
| Non-core disposals | <ul style="list-style-type: none"> □ Piraeus Bank's proposed sale of its banking subsidiaries in Bulgaria, Romania, Serbia, Albania and Ukraine (June 2017) □ National Bank of Greece's sale of United Bulgarian Bank and Interlease to KBC Group (June 2017) □ BES Vénétie's sale of Lisbon-based soccer club Benfica (June 2017) □ Piraeus Bank's proposed sale of its 31.2 per cent stake in Marfin Investment Group Holdings (May 2017) □ Alpha Bank's sale of its banking subsidiary in Serbia (April 2017) □ National Bank of Greece's sale of its stake in South African Bank of Athens (March 2017) |
| Bank consolidations | <ul style="list-style-type: none"> □ Bankia–Banco Mare Nostrum merger (March 2017) □ Banca Popolare di Milano–Banco Popolare Societa Cooperativa merger (October 2016) |
| Exit strategies under pressure | <ul style="list-style-type: none"> □ Italy's Atlante is not big enough to cover the financial needs of Monte dei Paschi di Siena, Banca Popolare di Vicenza and Veneto Banca (May 2017) |
| Rising borrowing costs for struggling banks | <ul style="list-style-type: none"> □ DBRS cut Italy's sovereign credit rating to BBB (high) from A (low) (January 2017) |
| Few committed buyers and hard to sell while governments attempt to redefine regulatory landscapes | <ul style="list-style-type: none"> □ National Bank of Greece struggled to find buyers for Ethniki Hellenic General Insurance. After many months, National Bank of Greece finally sold to Exin Partners (June 2017) □ No expressions of interest were received following Italy's re-launch of auction sales of the 'good banks' of Banca Popolare, CariChieti, CARIFE and Banca della Marche (January 2017) □ Turkey's Savings Insurance Deposit Fund failed to sell Adabank 10 times (October 2016) |
| Stringent auction process rules | <ul style="list-style-type: none"> □ Royal Bank of Scotland's proposed sale of its stake in Alawwal Bank (previously Saudi Hollandi) was abandoned. Alawwal Bank was rumoured to be in merger talks with Saudi British Bank (April 2017) |
| PE seeking to extract buyer-friendly deal terms | <ul style="list-style-type: none"> □ Apollo/Centerbridge were reported to have sought state guarantees to cover riskier assets in connection with the consortium's bid for Novo Banco (January 2017) |
| Buyer sentiment adversely impacted by inconsistent implementation of EU legislation | <ul style="list-style-type: none"> □ BlackRock, Pimco and 12 other institutional investors have sued Bank of Portugal for losses resulting from the bail-in of Novo Banco in December 2015 (April 2016) |
| Heightened risk of 'private' and 'public' litigation | <ul style="list-style-type: none"> □ Royal Bank of Scotland faced a legal battle with retail investors who were allegedly misled in connection with its 2008 capital raising. Royal Bank of Scotland finally reached a settlement with the remaining claimants (June 2017) □ A group of Novo Banco bondholders wrote to the Bank of Portugal to manifest their opposition to a senior bond exchange operation that could result in €500 million of losses (May 2017) □ Cypriot bank depositors sued the European Commission for damages resulting from an EU bail-in scheme for Cyprus (October 2016) |