

The Coming Wave of Banking M&A

Covid-19 will spur further consolidation, and the most active acquirers have a leg up.

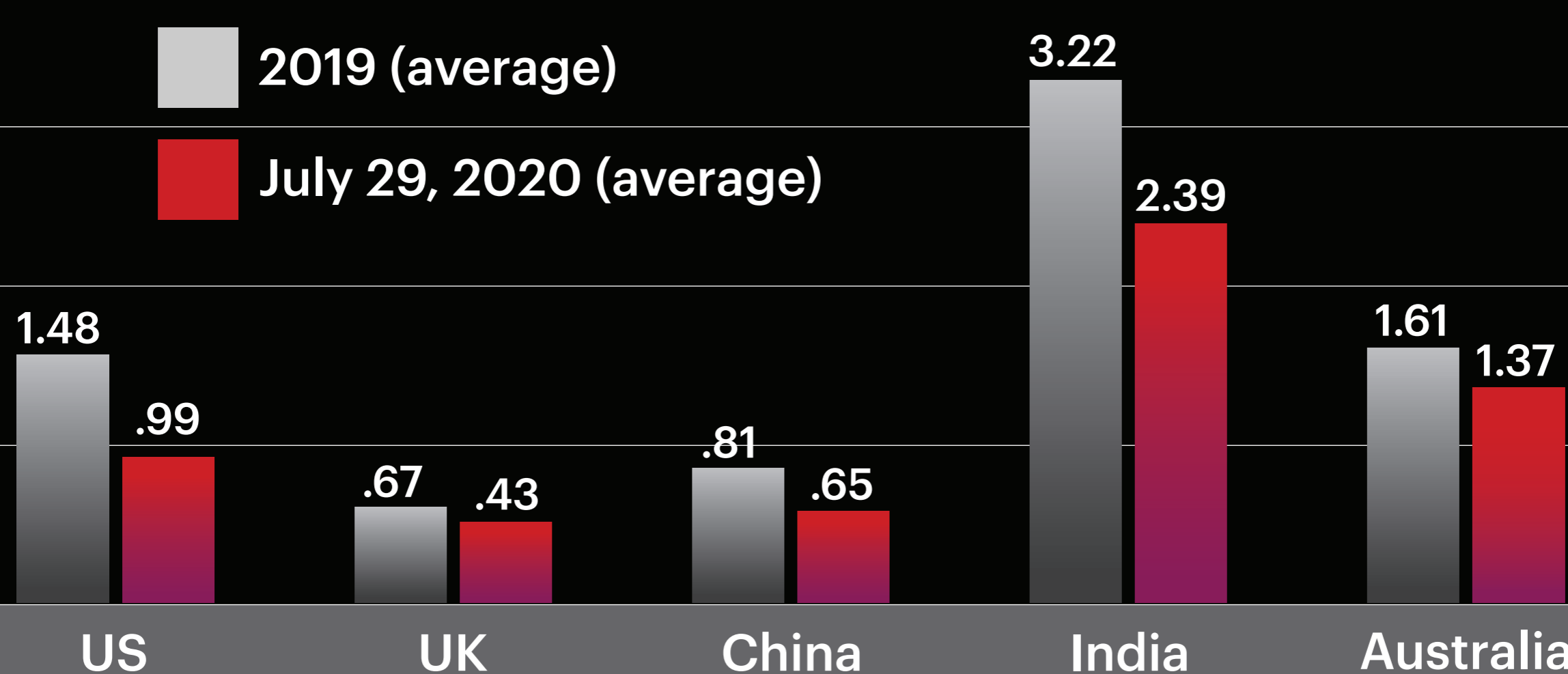
Many banking markets remain fragmented

DESPITE STEADY M&A IN RECENT YEARS, THE **TOP THREE BANKS** IN EACH COUNTRY, ON AVERAGE, HOLD ONLY



THE PANDEMIC WILL SPUR MORE CONSOLIDATION.

MANY BANKS HAVE SEEN THEIR **PRICE-TO-BOOK VALUE** DROP . . .



. . . AND NONPERFORMING LOANS ARE EXPECTED TO INCREASE, CREATING FERTILE M&A CONDITIONS.

Sources: S&P Market Intelligence; S&P Capital IQ; World Bank

Four key trends are changing banking M&A

1
More domestic deals, driven by cost and regulatory pressures

2
More cross-border deals in the future for select tier 1 banks, particularly in Europe, where regulators want to strengthen the banking sector

We expect the **20** leading regional banks in the EU to shrink in number by **1/4**

3
More scope-related deals with fintechs as banks look to acquire new capabilities or technologies at lower valuations

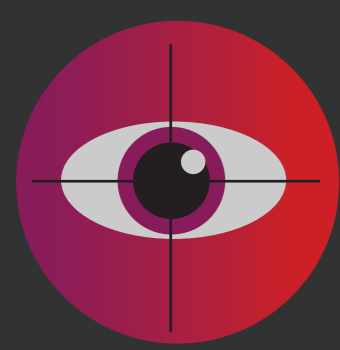
4
Increased divestment of noncore businesses and aggregation of subscale banking operations, such as insurance and payments, to PE funds and other buyers

As a result, we expect the top 5 EU banks' average market share to rise from

51% to 61%

Frequent acquirers have the advantage

COMPANIES THAT TAKE AN ACTIVE APPROACH TO M&A OUTPERFORM THOSE THAT SIT BACK. SUCCESS FACTORS INCLUDE:



Superior deal identification

Have a clear assessment of the current portfolio, balance trade-offs, and actively source and screen



Clear predeal assessment

Know the value, balance growth and risk, heavily invest in IT due diligence, ensure a strong financial position and enjoy having settled terms with regulators



Customized postdeal integration

Focus on creating value, prioritize issues to address on day one and closely monitor performance

DESPITE STEADY M&A IN RECENT YEARS, THE **TOP THREE BANKS** IN EACH COUNTRY, ON AVERAGE, HOLD ONLY

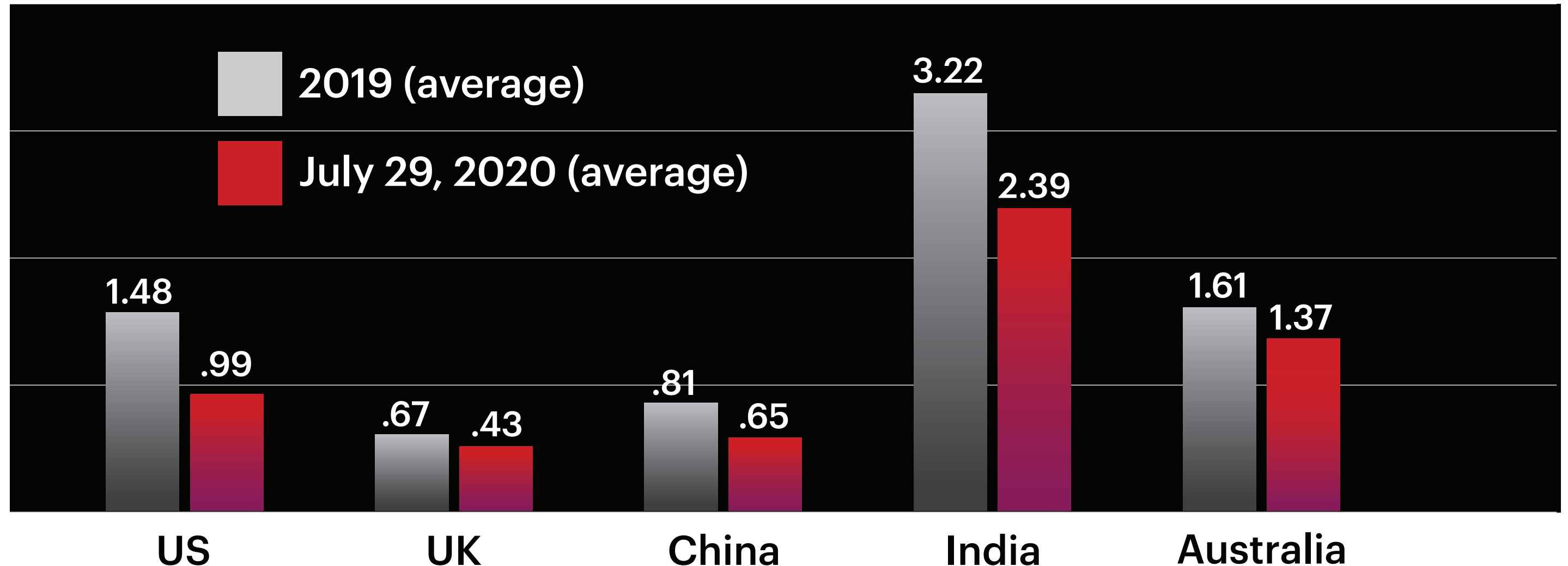


39%
of deposits

2019 global
average

THE PANDEMIC WILL SPUR MORE CONSOLIDATION.

MANY BANKS HAVE SEEN THEIR **PRICE-TO-BOOK** VALUE DROP . . .



**. . . AND NONPERFORMING LOANS ARE EXPECTED TO INCREASE,
CREATING FERTILE M&A CONDITIONS.**

Four key trends are changing banking M&A

1

More domestic deals, driven by cost and regulatory pressures

2

More cross-border deals in the future for select tier 1 banks, particularly in Europe, where regulators want to strengthen the banking sector

We expect the **20** leading regional banks in the EU to shrink in number by **1/4**

More scope-related deals with fintechs as banks

3

Increased divestment of noncore businesses