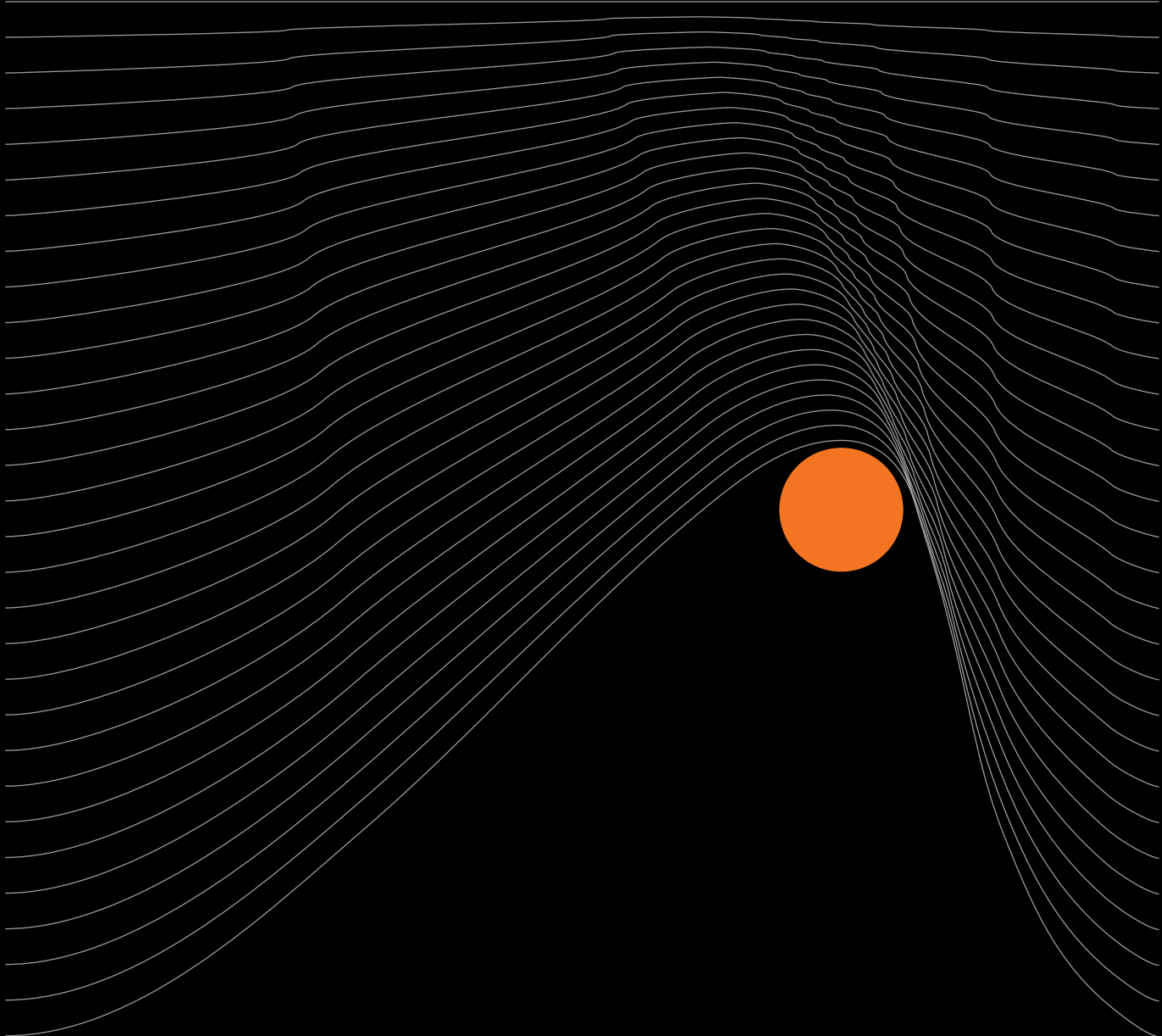


CAPITAL CURRENTS

European Banking
M&A is Back



TRENDS IN FOCUS

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Capital Currents is a cross-industry series focused on distilling the key trends in M&A and identifying how management teams can capture value.

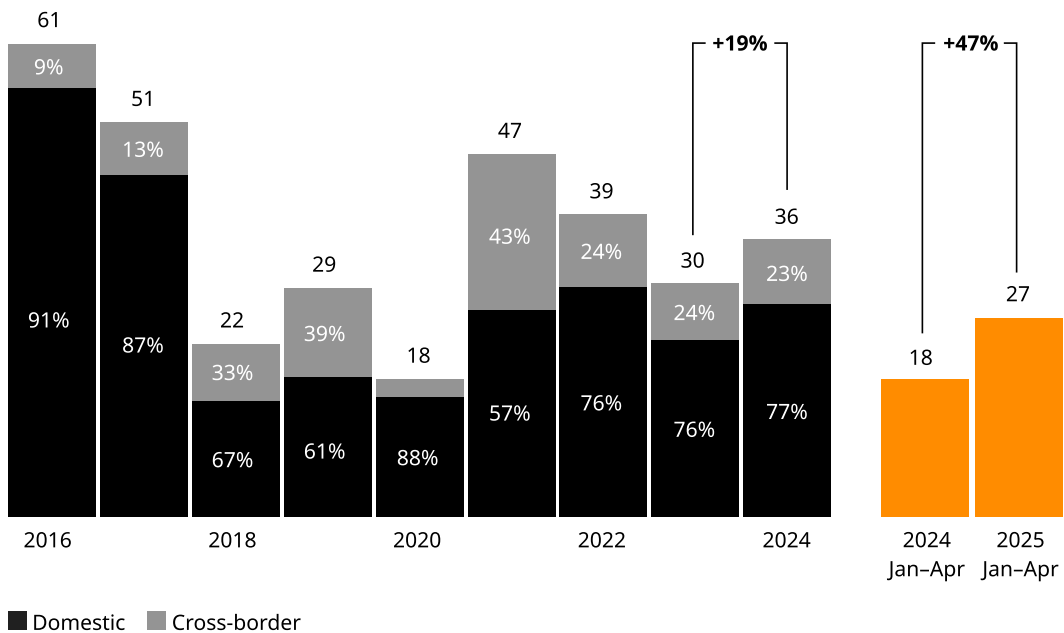
European banking M&A is back.

Deal volumes have rebounded from historical lows, doubling since 2020 to \$36 billion in 2024, driven by the sector's restored profitability, improved capital positions, and strategic urgency for scale and diversification. While market volatility triggered by US tariff action has threatened global M&A recovery — with deals delayed, and in some cases, cancelled — it does not seem to have dulled dealmaking in banking.

A record \$27 billion of European banking deals have been announced since the start of 2025, almost double the volume for the same period in 2024, putting European banking M&A on track for a record year.

Exhibit 1: European Banking M&A in Europe

Deal value in \$ billion, 2016-2025 YTD



Source: Mergermarket – Announced and completed, FIG deals greater than \$1M in deal value included, Oliver Wyman Analysis

The underlying industrial logic for consolidation in European banking is more compelling than it has been for a decade.

In this piece, we explore the primary drivers behind this resurgence in M&A activity and outline best practices for management teams to capture value in banking M&A.

CATALYSTS FOR ACTION

European bank management teams have the motivation and now the means, to engage in strategic M&A.

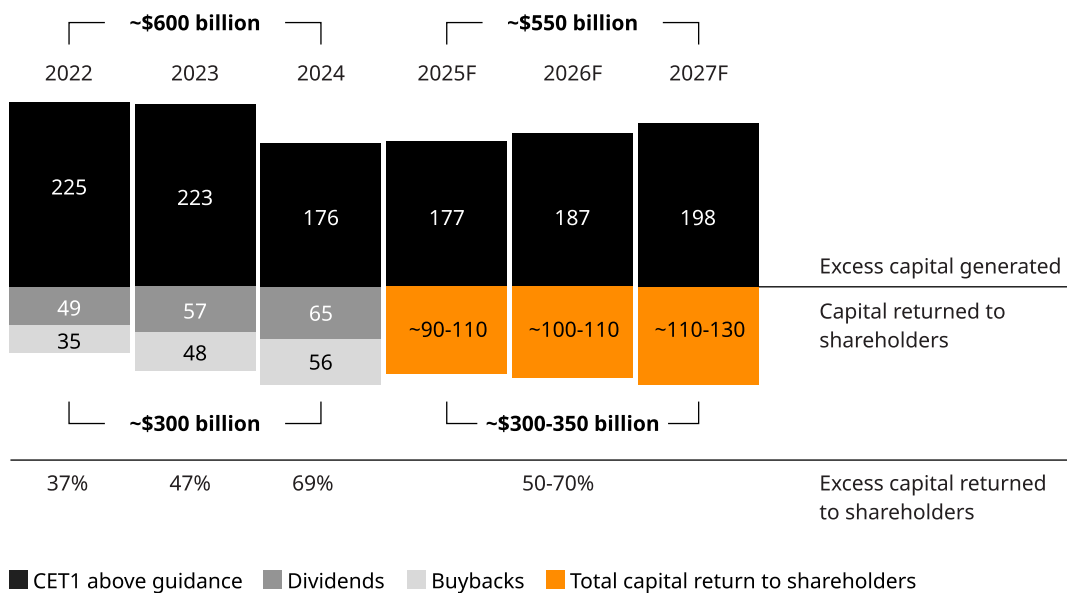
Building scale and capability remain key catalysts for action. Thirteen years after the introduction of the European Banking Union, the region, including the UK, remains significantly more fragmented than the US. The top 5 EU and UK banks hold just 24% of banking assets, compared to 57% for the US. Given material fixed costs of technology and regulatory compliance, scale matters. Indeed, there is a strong relationship between size and efficiency across European banks. Our analysis of a sample of the largest banking M&A transactions over the past decade shows that on average for each \$100 billion in assets acquired, buyers can expect over \$2 billion in cost reduction.

Banks are also increasingly looking to use M&A to acquire capability, such as wealth and asset management, and payments, as well as to improve the quality of earnings and returns. European banks remain overly exposed to interest income, which was an existential challenge to earnings during the eight years of negative rates across the Eurozone. With economists forecasting 80 basis points of rate cuts by the European Central Bank (ECB) by the end of the year, earnings are once again at risk. As a result, banks are looking to shift their earnings mix in favor of stable, recurring fee income, and M&A is an accelerated route to achieve this goal.

Capacity and an appetite to engage in M&A from top European banks are also fueling activity, after a decade in the doldrums. Europe’s top banks are generating substantial excess capital, returning over \$300 billion to shareholders via dividends and buybacks since 2022. Over the next two years, top quartile banks are expected to generate over \$500 billion in excess capital over regulatory minima.

Exhibit 2: Top European banks are generating substantial excess capital, opening options for strategic M&A

Top 20 European bank CET1 above ECB required minimum and capital returned to shareholders, in \$ billion



Source: Bloomberg, ECB, Visible Alpha, Oliver Wyman Analysis

With European bank valuations close to record highs – the Euro Stoxx Banks index is up 380% since 2020, with over 50% of European banks now trading over 1x book value – management teams have an increasing set of choices on where to deploy that excess capital. While buying back stock has been a good strategy to date to reduce share counts and boost valuations, management teams will see diminishing returns from further buybacks. The relative returns of M&A look increasingly more attractive.






An increasingly supportive policy environment is lifting barriers to consolidation. Governments are gradually exiting their stakes in banks that were acquired during the 2008 global financial crisis. European governments have sold over \$80 billion of bank stocks since the start of bank re-privatization in 2013, with substantial sell-downs in Lloyds Banking Group, Natwest, AIB, Monte dei Paschi and Commerzbank, and we expect governments to further reduce stakes in the coming years. The sale of government stakes has allowed acquisitive banks to build stakes and has removed previous shareholder constraints on consolidation.

Regulators, too, have become more supportive of banking M&A as a stepping stone to deliver the Banking Union, and M&A can be an advantageous use of capital from a regulatory perspective. Banks are increasingly finding it easier to obtain regulatory approval to deploy capital on M&A rather than on buybacks. A number have sought to benefit from the ‘Danish Compromise’ exception that allows banks to receive more favorable capital treatment when acquiring insurance or asset management assets. Yet, barriers still remain. The ECB has challenged the widespread use of the ‘Danish Compromise’. National and regional governments are also frustrating deal processes and may impose additional costs or withhold approvals for full mergers. On balance, the policy outlook is more favorable, but is not without challenges.

FIVE KEY THEMES DRIVING THE MARKET

Five deal themes represented about 60% of total deal value in 2024 and, we think, will continue to drive M&A activity over the next two years.

Exhibit 3: European Banking M&A deal themes

Deal theme	2024 deal value	Share of 2024 deal volumes	Degree of change 2025-2026
 Domestic banking consolidation	\$8.2 billion	21%	↑
 Cross-border banking consolidation	\$6.5 billion	17%	↑
 Asset financing capability acquisition	\$2.5 billion	7%	→
 Wealth management capability acquisition	\$2.2 billion	6%	↑
 Strategic payment provider acquisition	\$2.2 billion	6%	→

Source: Oliver Wyman analysis

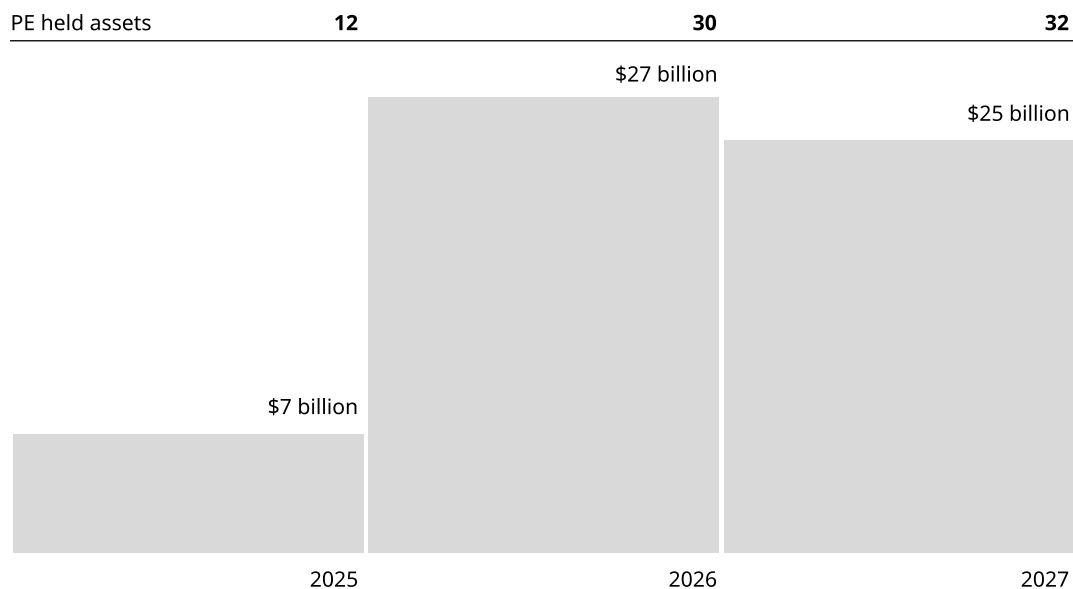
Domestic banking consolidation is well underway in several markets across Europe. In particular, Italy, the UK, Nordic countries and Central and Eastern Europe countries, which have long tails of smaller sub-scale or mid-tier players, are most likely to see further consolidation. Italy has recently become a hotspot for European banking M&A with at least six major deals pending worth over \$40 billion, including Unicredit's takeover bid on Banco BPM, Monte dei Paschi's approach for Mediobanca, and BPER's offer for Banca Popolare di Sondrio. Other markets are less suited to domestic consolidation for a range of reasons, from existing market concentration driving competition concerns (France), to market structure and the role of state-backed or cooperative banks (Germany). In suitable markets, the case for consolidation is clear: building scale and diversification, while delivering material cost synergies from head office, branch networks and IT systems.

Cross-border banking M&A has represented 30% of deal value since 2020. Much of the recent cross-border activity has been catalyzed by the divestment of non-core assets by banks in markets or businesses that are not strategic to them. The ECB has come out in favor of further cross-border consolidation, with ECB President Christine Lagarde flagging cross-border mergers as "desirable." Meanwhile, her predecessor Mario Draghi has been urging Europe to complete the Banking Union and create European banks that can compete globally, in a recent report on European competitiveness. Yet, cross-border M&A faces many barriers. The economic case is less obvious than for domestic M&A, with lower synergies, often due to more limited overlap and the need to maintain dual headquarters. Our analysis of the 31 large cross-border deals over the past five years, shows that in cross-border transactions, over half of acquirors underperformed the market in the three years following the transaction. Valuations are very different across markets, making some markets such as the Nordics challenging for foreign banks. Political barriers are real too, with national governments and politicians often opposed to cross-border consolidation. Slow delivery of the European Banking union remains a barrier to deeper consolidation, but a single licensing regime would be a major catalyst for scale cross-border M&A. Though the bar is high, there will be select transactions that do clear it. These will be where the value creation story is compelling, political will is present, and often in adjacent countries or sub-regions with cultural connections or connected economies.

Asset financing has represented another important trend in banking M&A over the past five years, with banks as the main buyers, often as non-banks and captive financing firms of industrial companies seek to rationalize their footprint. The case for change is to add scale and network in asset financing. In a low GDP growth market, European banks are looking to increase loan balances through inorganic means, and asset-backed financing businesses represent an attractive avenue, with mid-teen returns, and low cost of risk. Nordea, Credit Agricole and Groupe BPCE have all been acquirors in this space in recent years. We anticipate this trend will continue.

Wealth management is a key growth focus for European banks as they seek to grow stable and high-quality fee income. European banks derive only below 45% of earnings from fee income today, compared to over 50% for US banks. The most highly valued global banks consistently deliver over 60% of earnings from fee income. The demand is there, and so is the supply of assets. We expect around \$25 billion in enterprise value of private equity-held wealth assets to come to the market over the next three years.

Exhibit 4: EV of PE-owned assets with 4-7 years tenure, 2025-2027¹



1. EV calculated from point of last available valuation event (e.g stake investment, LBO etc.)
 Source: Pitchbook, Dealogic, Oliver Wyman analysis

We see a number of deal archetypes that represent the majority of wealth management deals, ranging from acquisitions of scale wealth managers to targeted purchases of direct-to-consumer investment platforms or product capabilities.

Exhibit 5: Strong demand for wealth assets is expected, driven by scale regional banks and PE players

Buy-side archetypes	Deal rationale	Deal volume 2020-2024	Expected future activity
Scale, regional banks	To expand WM scale or offering to serve broader range of customer needs	\$7.5 billion	↗ Increased investment forecast in fee income heavy business lines as IR reduce
Challenger Wealth managers	To capitalise on large industry returns to scale	\$1.9 billion	→ Consolidation of fragmented WM market expected to continue
Mid-market insurance firms	To diversify to reduce capital intensity and maximise synergies and cross-sell	\$1.7 billion	↗ Regulatory pressures driving demand for capital-light, revenue streams
Scale, Diversified Asset managers	To access stable direct distribution of products	\$1.0 billion	→ Continued integration of AM / WM players expected to continue
Private equity	To acquire assets accretive to portfolio growth strategies	\$11.6 billion	↗ Increased activity expected as fund dry powder increased

Source: Pitchbook, Dealogic, Oliver Wyman analysis

Payments is also a key battleground in banking M&A, with banks seeking to capture high quality fee income and higher growth of payments companies. But it is a more challenging space for banks to compete. Elevated valuations, requirements for high investment in technology, and diverging growth rates between ecommerce and physical acquiring, all benefit non-banks. As such, banks have been net sellers of payments assets over the past five years.

Instead of acquisitions, we see a broader range of deal structures ranging from partnerships and joint ventures (Deutsche Bank-Fiserv) to divestments and co-investments (Barclays-Brookfield). European banks are also looking to build scale and mutualize costs in card issuing, processing and acquiring by developing bank-led joint ventures. For example, BNP Paribas and Groupe BPCE have announced the Estreem joint venture to bring together payments processing across both banks' operations, representing around 30% of card volumes in France. Where acquisitions are happening, it tends to be focused on buying capabilities, such as payments technology or gateway solutions, or adjacent business that can drive customer acquisition.

Together, these themes will shape deal flow over the next two to three years, as the strong underlying industrial logic, combined with accelerated urgency due to interest rate cuts, spurs transactions.

MANAGEMENT ACTIONS

Management teams are facing an environment of healthy deal flow, yet a volatile economic backdrop. Our analysis shows that a successful M&A, defined as delivering enduring outperformance versus peers, hinges on making the right deal at the right time, and executing with discipline. We highlight four imperatives for management teams considering M&A:

1. Adopt a robust and strategic approach to capital allocation to determine when to pursue an M&A versus alternative uses of capital to maximize return on investment. Any transaction should be anchored in a clear industrial plan and the acquirer should be able to articulate the business strategy and role of M&A in accelerating the delivery of that strategy. It is critical to bring investors along the journey, messaging why and when M&A will and will not be pursued.

2. Take a strategic but patient approach to M&A. The best deals are often years in the making, and require diligent preparation, patience and opportunism to move at pace when the time is right. This requires management teams to be clear on the strategic logic for M&A to accelerate delivery of the equity story. It requires diligent research on targets, and often relationship-building with target management. In the event that scale cross-border M&A is triggered, there could be a race to consolidate, and management teams must be ready to act.

3. Create a clear value-creation case to be transparent to investors, and your organization, on how value will be protected. The most successful M&A transactions are religious about value creation. Be clear on the cost, revenue and capital synergies required to deliver the target return on investment. Be explicit on the “crown jewels” of the business that must be protected. Ensure that these strategic goals are reflected in the execution actions that you take during integration, and that value is not inadvertently destroyed through a blunt approach to integration.

4. Invest in well-rounded stakeholder engagement. Banking M&A transactions, particularly when for larger or cross-border transactions, can be politically sensitive. It is critical to build a coalition of the willing that includes investors, government, unions, and employees, to understand their concerns and build a narrative for why the deal can deliver value. A strategic approach to stakeholder engagement can smooth the path to a successful transaction.

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