# *Financial Services Dealmakers Summit*

8th edition | 15th October 2024 | Vienna

## Follow-up notes

| 120+ | 20+ | 7 |
|---|---|---|
| participants | speakers | sessions |



# Introduction

On October 15th this year, PwC Austria re-united some of Europe's leading Financial Services (FS) deals professionals at the 8th edition of the Financial Services Dealmakers Summit, organized in Vienna. Gathering over 20 speakers and more than 120 participants from commercial and investment banks, investors and real estate experts, it was once again one of the largest events dedicated to the FS deals space across Austria & CEE region.


***Host**: Roland Schöbel, Partner & Advisory Leader in PwC Austria*

## *The context*

- Dealmaking in the financial services sector slowed in early 2024 due to uncertainties around interest rates, new Basel IV capital rules, stricter merger regulations, and rising commercial real estate loan risks. Despite this, M&A remains crucial for growth, with consolidation key to managing regulatory costs and capital requirements.
- Expected banking sector restructurings, such as asset divestments and handling non-performing loans (NPLs), have been fewer than anticipated. Banks maintain asset valuations and strong capital positions but still struggle with asset quality. Economic pressures and stricter ESG criteria, along with Basel IV regulations, demand sustainable practices and tougher capital requirements, exacerbated by real estate market volatility.
- Most European jurisdictions, including Austria and CEE, have seen significant risk transfer (SRT) transactions, with regulators becoming more comfortable with synthetic securitisation. Sustainability-linked bond issuance, particularly green bonds, has accelerated, with major players actively involved. Basel IV, especially its Output Floor, makes active capital management central to bank performance, emphasizing diverse balance sheet optimization tools and market transactions.
- The NPL sales market has slowed due to a lack of primary stock from banks, but investor activity has increased in secondary portfolio trades, especially in larger CEE jurisdictions and Europe. Vigorous M&A in the servicing sector and new private credit transactions, such as bespoke debt financing and funding forward flows, are also gaining popularity.

*Audience of 120+ FS professionals*

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## ***Keynote speech by Dr. Philipp Wackerbeck*** *(Partner and Global Head of Financial Services at Strategy&)*

**Dr. Philipp Wackerbeck** highlighted the positive outlook for FS M&A, driven by a growing interest in strategically relevant deals, such as add-on acquisitions, market expansions, and tech-related enhancements, particularly in FinTech. In Western Europe, banks are trading at lower valuations and growth outlooks compared to Central and Eastern Europe (CEE), creating opportunities for financially-driven deals by PE-minded investors, while strategic market access and capability enhancements are vital for CEE markets.

*Dr. Philipp Wackerbeck*

Given the increasing M&A activity, it is crucial to improve capabilities and preparations, including enhancing deal evaluation frameworks and being ready with scenario playbooks, stress testing, and fast response teams for swift action if targeted. Dr. Wackerbeck concluded by calling for an industry “mantra” shift, from "too big to fail" to "too small to deliver" .

## ***Panel A: “M&A in Financial Services - challenges & opportunities in the Austrian & CEE Market"***

The discussion was moderated by **Dr. Matthias Eicher**, Partner & FS Deals Leader, PwC Austria.

The panel guests were:

- **Stefan Dörfler**, CFO / Erste Group Bank
- **Egbert Fleischer**, Supervisory Board Chairman/ BAWAG Group
- **Gregor Pilgram**, CEO / Generali Austria

*Panel A speakers*

The topics mainly revolved around the opportunities in the FS market and challenges of M&A transactions from both buyers’ and sellers’ perspective, given – among others - the recent M&A market slow-down due to economic uncertainties and multiple crises. Furthermore, the speakers touched upon ongoing market opportunities and regulatory challenges.

From a high-level perspective, the panellists agreed that big transactions (compared to the pre-pandemic period) will be unlikely in the near future as there are not enough potential targets. Furthermore, bank valuations in CEE are modest, with P/B ratios often below 1, reflecting profitability and digitalization cost concerns. Smaller, value-creating transactions are expected to dominate in the short to medium-term.

*Long-term strategic thinking as key for successful M&A transactions*



Notwithstanding, long-term optimism exists for the CEE region, driven by the need for strategic consolidation and market expansion. Local and sub-regional CEE FS players will continue to expand, filling-in for larger international groups which are retreating. Poland was highlighted as country yielding big potential for strategic expansion and growth, despite challenges to market entry.

From a **deal execution perspective**, panellists advised that it is crucial to **conclude as fast as possible,** even if it comes at certain costs, to **eliminate uncertainty and allow the business to swiftly return to normal operations**. The speakers further emphasize the **importance of strategic fit** over financial considerations in transactions, including **aligning transactions with long-term goals and efficient IT and operational post-deal integration**.

As final thoughts, the panellists mused that - in order to remain competitive and to be able to withstand the increased competition - **banks (especially smaller-scale ones) must find their true competitive advantage** compared to other market players.

## ***Keynote speech by Martin Neisen*** *(Partner Governance, Risk & Compliance PwC Germany as well PwC’s Global Basel IV Leader and SSM & EBA office lead)*

**Martin Neisen** showcased ECB’s supervisory priorities for 2024-2026, highlighting the difference in perspectives between the Regulator and banks, whereby the first is focused on potential risks while the latter on potential opportunities.

Further, the still **high interest rates continue to affect credit risk**, driving concerns about assets quality and **potential “domino effects” in the real estate market**, should collaterals valuation be suddenly negatively revised.

*Martin Neisen*

On a different note, the **upcoming Basel 3.1** / IV / “endgame” will lead to **material Risk-Weighted Assets (RWAs) calculation changes**, especially through the introduction of the “output floor”. An increase in RWAs is expected for most asset classes, with a **significant impact especially for real estate and corporate exposures**.

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## *Panel B: "Asset Quality - navigating economic and regulatory shifts"*

The discussion was moderated by **Michael Lackner**, Partner and Risk & Regulation Leader, PwC Austria.

The panel constituted of :

- **Lars Frankemölle**, CRO / Raiffeisen Bank dd BIH
- **Thomas Wilfling**, Head of Credit Risk Management / Kommunalkredit Autria
- **Rakesh Balasundaram**, Managing Director / Veld Capital
- **Lars Fankemölle**, Partner Governance, Risk and Compliance & Global Basel IV Leader / PwC Germany

*Panel B speakers*

The main talking points of the panel evolved around banks' handling of challenges brought by the overall uncertain economic environment and its impact to their balance sheet quality.

A slight increase in NPLs has been observed, particularly in the real estate sector. Furthermore, there are certain specific industries pockets – such as tourism and aviation - which may also come under pressure, as consumers may reduce. From an investor's perspective, it is crucial to closely monitor leading economic indicators, as distressed sectors may present potential market entry opportunities.

On the other hand, high interest rates have initially placed banks in a strong position, but – as the interest will temper down – adaptation will become key to maintaining positive results. Notwithstanding, the banking sector in Europe exhibit robust capital buffer, enabling prudent risk decisions. Maintaining a close relationship with regulators and prioritizing their concerns is crucial for banks to navigate economic uncertainties.

One of the key takeaways from the panel was that banks must continue engaging with the regulator, acknowledging the latter's concerns in an effective risk management.

## ***Guest session: "Private Equity in FS"*** *by Daniel Tufte-Kristensen (Director, Altor Equity Partners) & Marc Huber (Partner FS Deals, PwC Switzerland)*

PE's activity in financial services has increased, given this sector's growing attractiveness lead by the recent interest rate hikes. Also, the green transition remains a key investment theme for PE's push into FS via acquiring lenders, with an estimated financing need of $3.5 trillion needed yearly as to achieve net-zero carbon goals.

*Daniel Tufte-Kristensen and Marc Huber*



## *Panel C: “Capital Management - driving growth via market solutions”*

The discussion was moderated by **Mădălina Corpodean**, Senior Manager FS Deals, PwC Austria.

The panel constituted of :

- **Augusta Vrachnou**, Associate Director, EBRD
- **Joanna Kosek**, Managing Director, Christofferson, Robb & Company
- **Philipp Gamauf**, CFO, ING Romania
- **Michal Marciszewski**, Head of Securitization, PKO Bank Polski

*Panel C speakers*

The discussion kicked off with the matter of capital management and how a careful B/S management is crucial in the context of increased regulatory scrutiny and business initiative to expand the loan book. While certain structures to sell-off certain assets are generally available, there are other options, like the synthetic securitisation “SRT”, who helps banks relief capital by keeping the client relationship. As mentioned by the panellists, the SRT tool has been available for a longer time on the European market and post-COVID regulatory developments increased the appetite for such tool. Today certain jurisdiction (e.g. Poland) have a very active SRT-market, with issuers engaging on recurring basis in transactions with established investors, who usually aim the mezzanine and at times the junior tranche. Even if certain CEE have not seen – yet- such a peak in SRT as on the Polish market, majority already had first-time movers, fostering the creation of a local market supported by the local regulator (e.g. Romania).

In terms of operations, both issuers and investors agreed that key success factors are getting the right experts around the table and preparing well structured data in a timely manner, both for the loan book but also on the issuer. A fair and at times in deals neglected point was the lack of focus on execution post deals- Panellists highlighted the crucial importance of setting in the agreements, among others, a clear contract management, definition of events of default and processes. Lastly, preparing immediately for the regulatory reporting is crucial, as this starts at Day-1. As a final note on the SRTs was that the deal structuring options are quite wide and the recommendation from investor side to the issues is to select few investors with whom individually goal testing and portfolio screening is performed. This would allow a higher success rate and a more efficient transaction than defining a fixed asset pool and approaching numerous and non-targeted investors. The panel also addressed the increased green bonds issuance, which are an impactful tool for sustainability. It has been commented that recently lenders almost exclusively choose issuance of green bond and it seems that this indicates the creations of a new market standard across all CEE markets. These insights highlight that capital management is a core, continues activity which lead to the development and sophistication of the financial markets via tools like SRTs and green bonds.

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## *Panel D: "Alternative Investments - trends and potential of the private debt market in CEE & wider Europe*

The discussion was moderated by **Bodgan Popa,** Director and FS M&A Leader, PwC Austria

The panel constituted of:

- **Mariia Kamdina**, Group Distressed Assets Management / UniCredit Group
- **Mircea Somlea**, Deputy Director Workout & Recovery / CEC Bank Romania
- **Petr Kohout**, CEO / APS Investments
- **Karel Smerak**, Group Director Capital Markets and Transactions / EOS

*Panel D speakers*

The CEE distressed debt market is maturing and catching-up in terms of solutions sophistication with larger markets, such as Italy. To this end, buyers are becoming more selective, with seller refining their processes for disposing of NPLs and UTPs.

Although smaller in size, the CEE market is evolving with more transparency and consolidation among serv-investors, contrasting with larger markets that have more participants and bigger deal sizes. Some serv-investors are leaving due to the market's limited scale, leading to consolidation, while buyer return expectations rise due to increased capital costs.

The slowdown in NPLs is partly tied to temporary economic disruptions, but structural shifts may lead to more lasting changes. UTPs and re-performing may not become too relevant given the lack per country scale (size) for the region, but SMEs are expected to see a rise in UTPs notwithstanding.

Looking ahead, partnerships between banks and private credit firms are anticipated, with corporate and SME loans seen as key areas of interest. Private credit lending will likely expand, and the SME segment is expected to contribute more NPLs by 2025, driven by economic cycles and industry-specific challenges.

In summary, while the market hasn't reached its full potential, there are growing opportunities, particularly in private credit and alternative financing.