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The Top Trends Shaping Major European Banks In 2018

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The Top Trends Shaping Major European Banks In 2018

S&P Global Ratings' top 50 rated European banks turned a corner last year, a decade after the start of the financial crisis, and they are likely to continue down this brighter path in 2018. Idiosyncratic developments aside, there was clear forward momentum, culminating in a raft of positive rating actions (outlook changes and upgrades) across a number of European banking systems in the third and fourth quarters. These actions reflected principally our view of improving economic risks, helped by massive monetary stimulus from central banks, and supportive industry risks, notwithstanding the emergence of fundamental long-term business model challenges. Bank profitability and asset quality has improved, and we expect more of the same in 2018. Elsewhere, for example in Sweden and Germany, our concern about looming asset bubbles receded somewhat. What's more, for a few banks, we recognized a strengthening in their balance sheets, typically improving capitalization or a growing bail-in buffer.

We start 2018 with no fewer than 15 of the top 50 European banks carrying a positive outlook and only three with negative outlooks on the issuer credit ratings (ICRs), suggesting that this should be another year of generally positive ratings developments. That's not to say that European banks don't face various challenges:

- Optimizing business models to ensure sufficient and sustainable profitability,
- Leveraging the benefits of the digital era while fending off nimble emerging challengers,
- Delivering effective measures to avoid disruption and franchise damage from cyber attacks and customer data mismanagement.

Trends We Expect To Play Out In 2018

- Slightly improving profitability, aided by improving economic activity, sustained low NPA formation, and efficiency measures to offset weak revenue growth.
- Improved dividend-paying capacity.
- Generally stable balance sheets owing to solid economic conditions, modest net lending, NPA stock reduction, and given substantial enhancements in capitalization and funding.
- Copious issuance of subordinated instruments to ramp-up bail-in buffers.
- Further divestment of government stakes in banks such as ABN, AIB, Bankia, and Belfius, rescued in the financial crisis.
- Possibly, the improvement in fortunes of some currently underperforming major banks: Barclays, Commerzbank, Credit Suisse, Deutsche Bank, Standard Chartered, and Royal Bank of Scotland.

Whether these positive outlooks turn into upgrades is likely to depend on a number of supportive elements falling into place—most importantly, the upgrade drivers specific to each bank. More broadly, however, improved bank creditworthiness hinges largely on this trend of generally improving economic fundamentals. This should pave the way for further balance sheet strengthening, notably through the ramp-up of banks' bail-in buffers and the further reduction of nonperforming assets (NPAs) in countries like Italy. It would also find support from:

- An environment where latent regional or global political risks, whether from Brexit, parliamentary elections, or

otherwise, do not derail effective government and business and consumer confidence.
- A gradual, orderly normalization in interest rates.
- A continued ebullient market appetite for bank debt.
- The authorities' rapid completion of the resolution strategy and required bail-in buffer for each bank, and their delivery of legislative change to facilitate the issuance of senior nonpreferred debt in all EU countries.

These supports, if they continue or materialize, could benefit some ratings more than others. Notably, our ratings on senior nonpreferred and other hybrid instruments will improve only where we see an improvement in a bank's intrinsic creditworthiness, typically reflected in our assessment of the stand-alone credit profile (SACP). SACP improvement is more likely in systems where our banking industry country risk assessment (BICRA) already acknowledges positive economic or industry risk trends--currently biased toward recovering peripheral banking systems. Even so, SACPs will only improve if we perceive a fundamental improvement in a bank's creditworthiness—for example, a BICRA improvement may be insufficient if the bank's performance is not improving. By contrast, some of the current positive outlooks reflect only our expectation of strengthening bail-in buffers. If this should happen, we could add notches for additional loss-absorbing capacity (ALAC), but these buffers benefit only senior (preferred) operating company creditors.

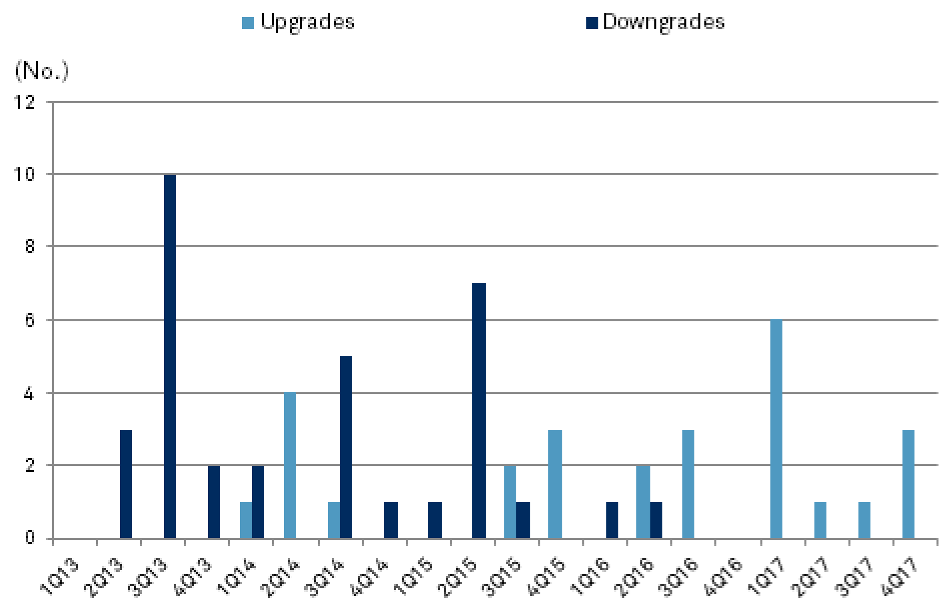
A Decisive Swing Of The Pendulum

Many of the positive rating actions in 2017 stemmed from our improving view of the operating environment, reflected in our BICRA assessment. In addition to these BICRA movements, we revised economic risk trends to stable from negative for Germany, the U.K., and Sweden, and moved industry risk trends to positive from stable for Austria, Ireland, and Portugal (see charts 1 and 2). European BICRAs finished 2017 in a resolutely positive vein, and bank outlooks were more positively biased than other regions globally (see charts 3 and 4). It is unsurprising therefore that our analysts covering Western European banks are more optimistic about credit quality than in other regions (see chart 5).

This anecdotal view tallies with our ratings on financial institutions globally: at end-2017 of the 52 entities carrying positive outlooks, Europe was overweight with 30, against 14 from the U.S., three each from Asia-Pacific and CEEMEA (Central and Eastern Europe, the Middle East and Africa), and one each from Latin America and Canada.

Chart 1

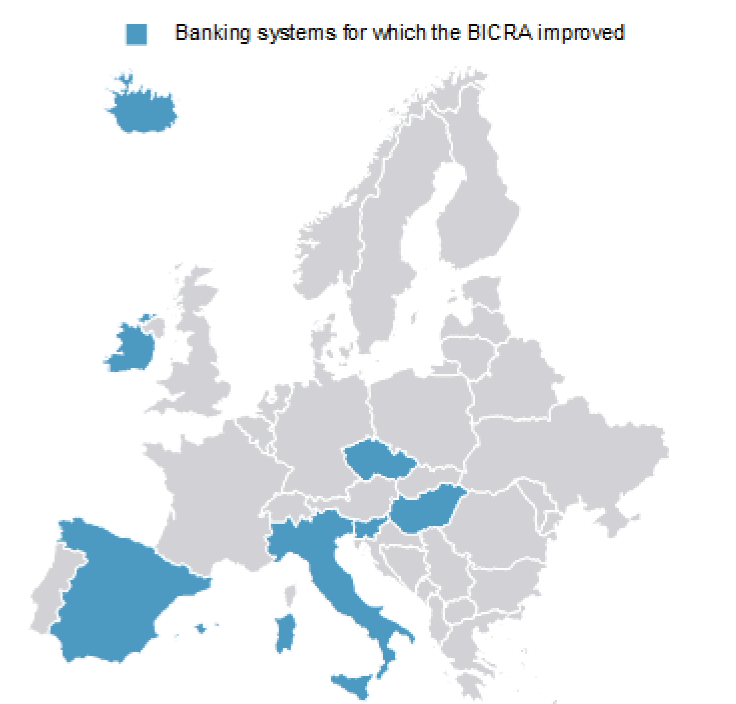
Top 50 European Banks: Upgrades And Downgrades



Data as of Jan. 24, 2018.

Chart 2

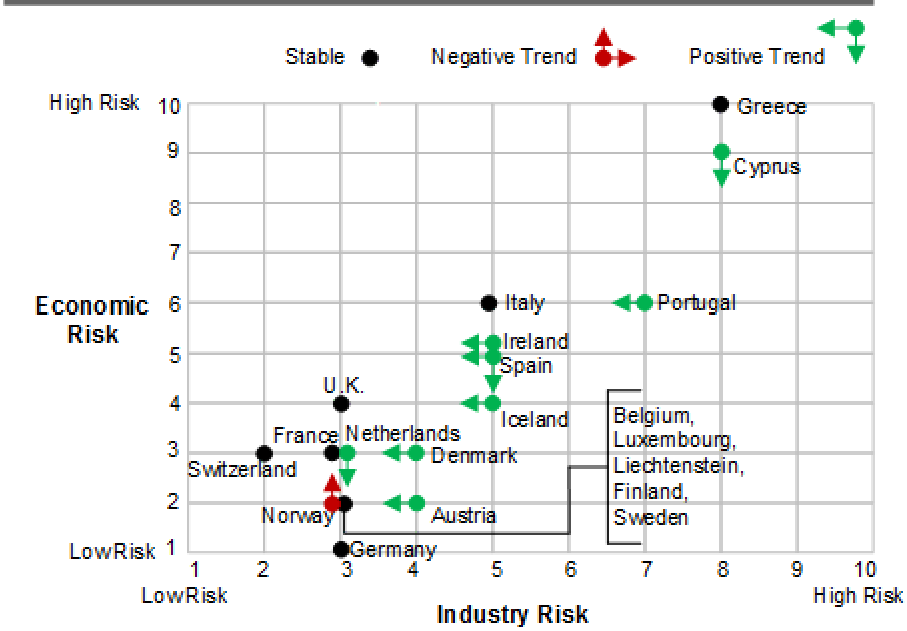
BICRA Changes Were All Positive In 2017



Source: S&P Global Ratings.

Chart 3

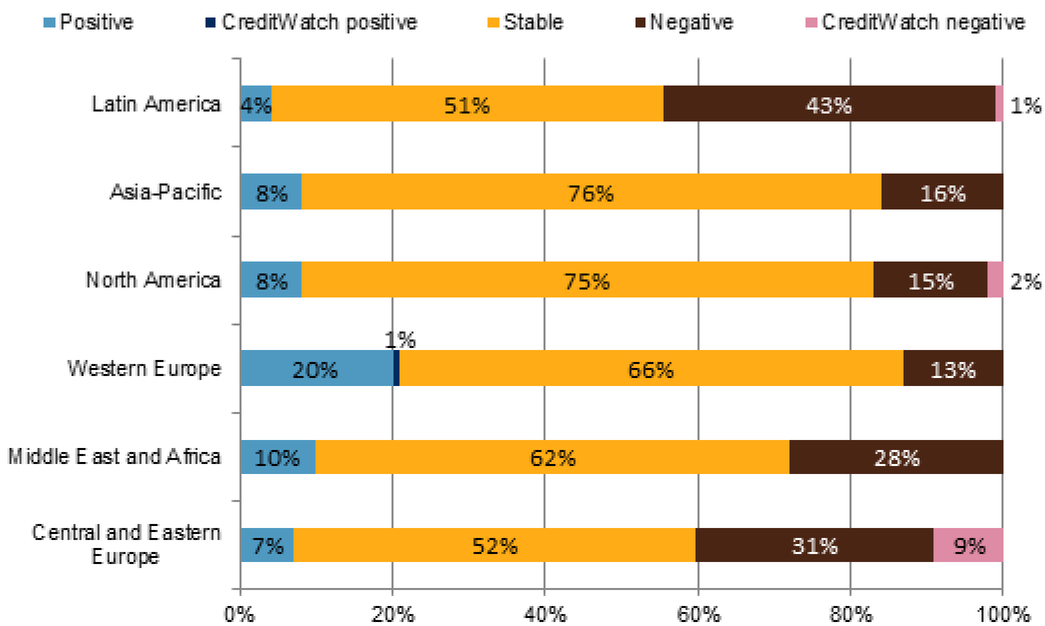
BICRA Distribution



Data as of Jan. 24, 2018.

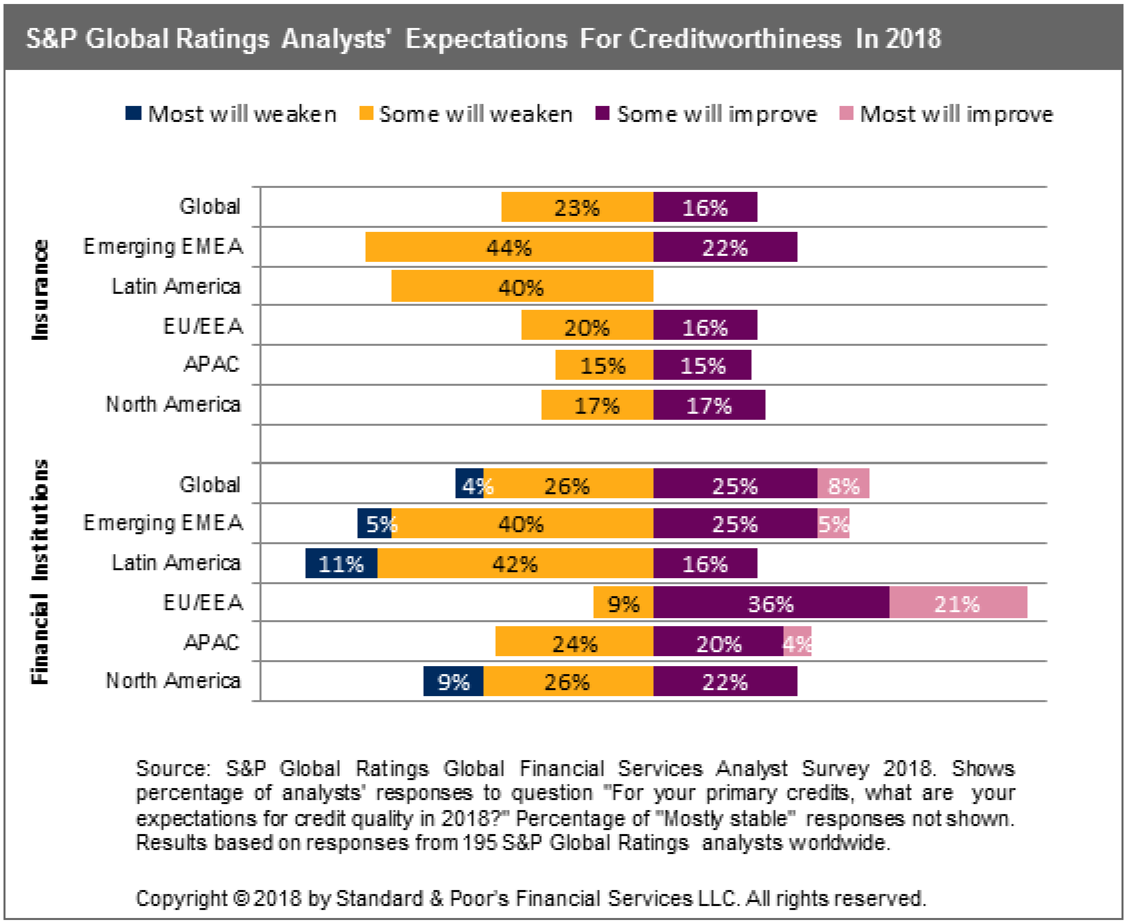
Chart 4

Bank Outlooks



Data as of Dec. 12, 2017. Source: S&P Global Ratings.

Chart 5



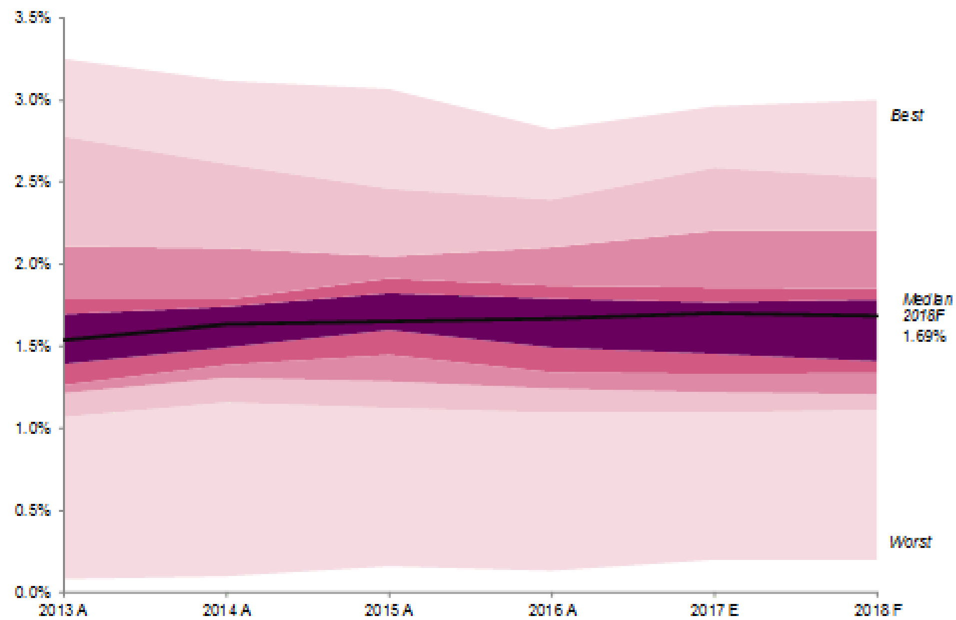
Profitability Is Rising But Remains Lackluster For Many

Many improvements to BICRAs and our positive revision of industry risk trends represented a catch-up in some banking systems that suffered banking crises after 2007: Ireland, Italy, Iceland, Spain, and Slovenia. However, the Austrian industry risk story is different, reflecting our view of a likely improving record of performance in a system that we regarded as generally solid but as being a clear negative outlier as regards bank profitability.

We expect pretax profits for the Top 50 banks to have been slightly stronger in 2017 than in 2016, and to be a little better again in 2018. More broadly, gradually improving macroeconomic fundamentals should support positive net lending, and more customer activity could support otherwise lackluster noninterest income trends. European bank net interest margins (NIM) have been rather resilient in recent years, as declining funding costs have helped to offset falling interest income (see chart 6). However, while interest rates have started to edge upward in the U.K., and the reduction and eventual end of monetary stimulus in the eurozone could aid bank interest margins, any benefit is unlikely to be clearly discernible until at least 2019. IFRS 9 transitional effects aside, we expect asset quality to remain relatively benign and therefore provisioning, the main reason for improving bank profitability in recent years, to remain supportive. Banks will doubtless continue to report exceptional costs for litigation and restructuring, but likely at lower levels than in years past.

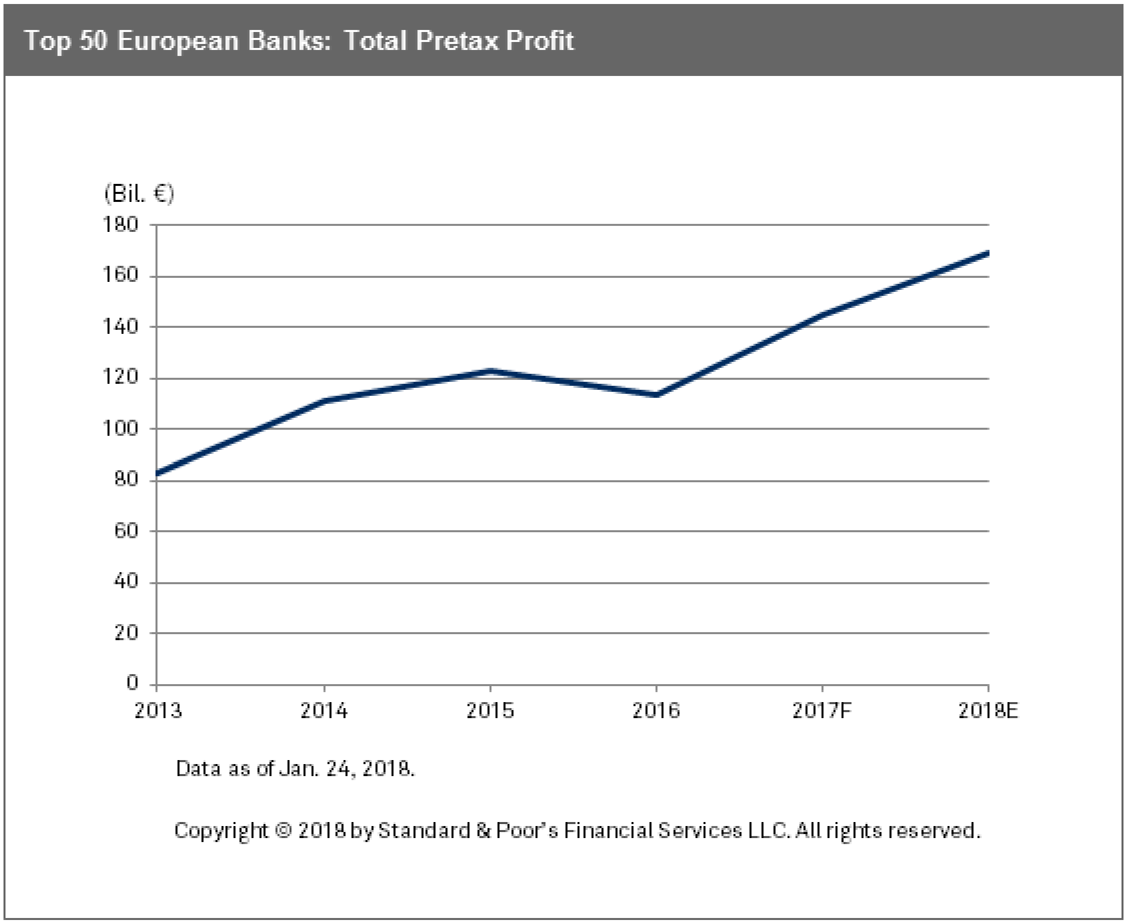
Chart 6

Top 50 European Banks: NIM



Each band depicts the distribution of 10 banks, with the darkest shade being the 10 closest to the median and then each lighter shade being the next 10 further away. Source: S&P Global Ratings. Data as of Jan. 24, 2018.

Chart 7



Since most banks have now largely completed their build of core capital and with lending growth set to be rather moderate, this seems likely to support improved dividend paying capacity. Distributions will therefore likely rise, but most likely to a normalized level, rather than be excessive.

However, much of our projected improvement in profitability is coming from a few larger banks that had reported weak profits in 2016 (Commerzbank, Credit Suisse, Deutsche Bank, RBS, and Unicredit). In other words, their improvement is coming from a very low base. In addition, performance will likely remain subdued for many banks, except for the handful that are already churning out solid, double-digit returns on equity (ROE)--such as KBC, ABN, and the Nordic banks.

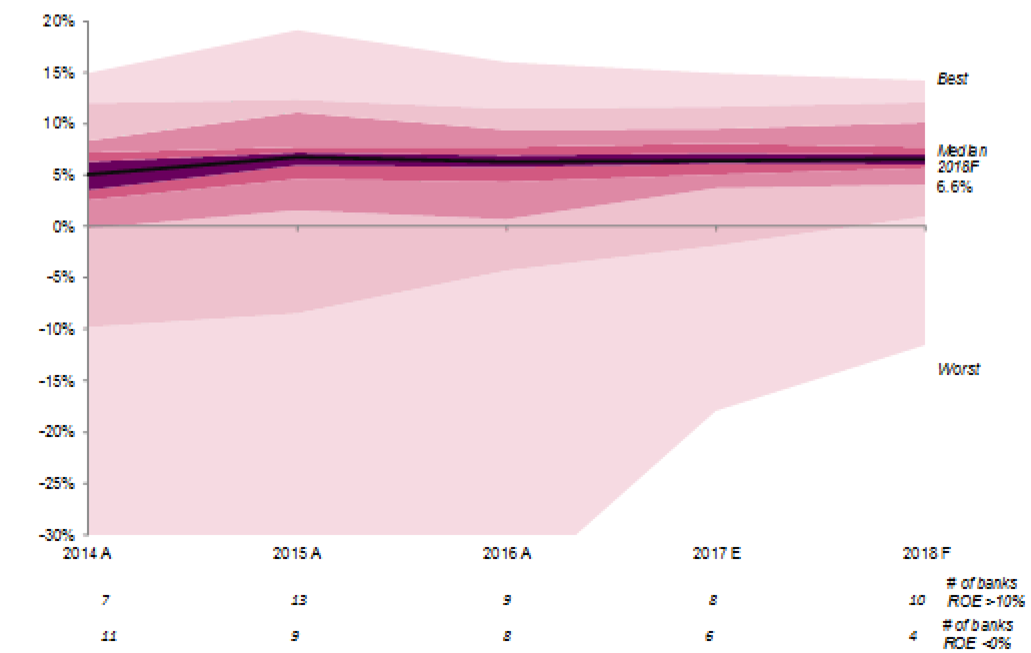
Median ROE Won't Increase Much--And Could Slightly Weaken For Some

In 2018, we expect that the median ROE will creep up to slightly over 6%, against a perceived cost of capital for most banks of 8%-10%. Among the top 50 we expect only 14 banks to generate ROE of more than 8% in 2018, and 10 to generate ROE of more than 10%. The majority will likely be stuck still in the 3%-7% range. A handful of banks could even see a slight weakening--for example traditional, loan-focused banks with margin pressure still filtering through into their interest income. This trend would likely be visible also for many of the smaller, narrower banks outside the top 50.

Putting this together, our main takeaway here offers few grounds for optimism, at least through 2018--not that profitability will rise significantly, but rather that ever fewer banks will be lossmaking.

Chart 8

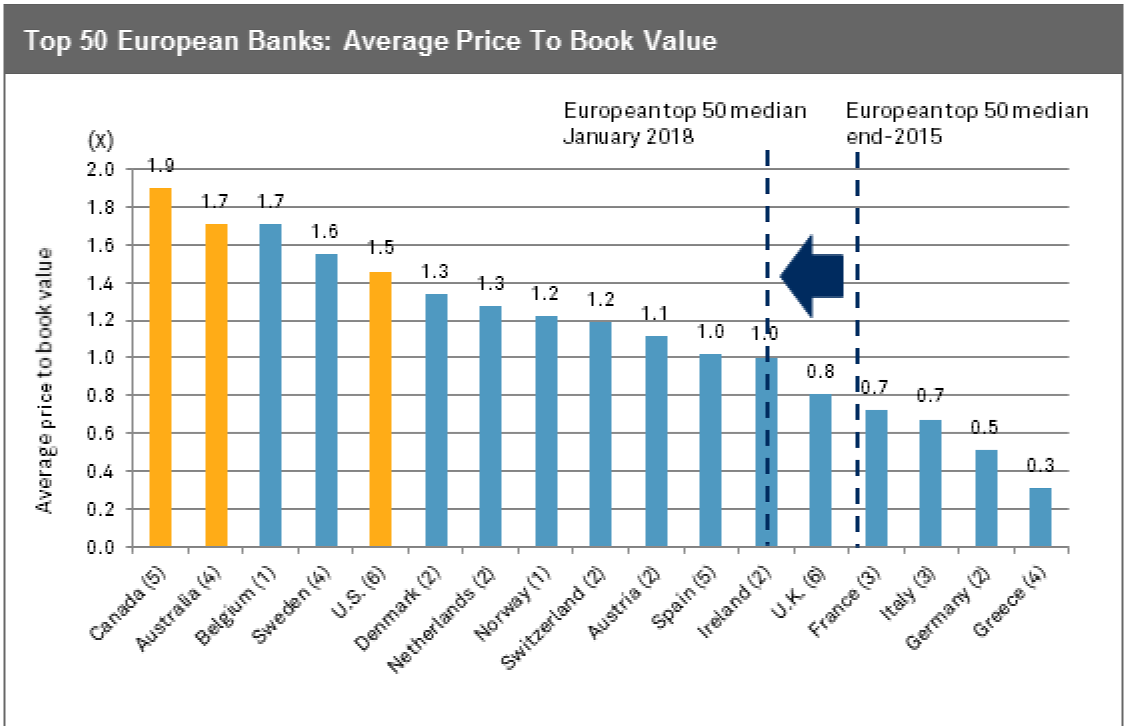
Top 50 European Banks: ROE



Each band depicts the distribution of 10 banks, with the darkest shade being the 10 closest to the median and then each lighter shade being the next 10 further away. For 2014A-2016A, the weakest banks had ROE of less than -30%, and are therefore omitted from the chart.
Source: S&P Global Ratings. Data as of Jan. 24, 2018.

Bank stock valuations reflect this story of qualified improvement. Although stock prices have risen across many corporate sectors in the past year, we see improving price-to-book ratios as an indication of improving equity market sentiment about European bank prospects and the state of bank balance sheets. However, many major European banks continue to lag their more profitable peers in Australia, Canada, and the U.S. on this measure. What's more, our rather benign macroeconomic and political base case might well not play out in practice. While Europe navigated a series of important parliamentary elections in 2017 without too many problems, the current improving sentiment could unravel if political risks re-emerge.

Chart 9



Data covers European top 50 banks (where available), plus U.S., Canadian, and Australian majors for comparison purposes. Count of banks in parentheses. Data as of Jan. 24, 2018. Source: S&P Capital IQ.

Top Risks To Credit Conditions In EMEA

Disruptive Brexit: Negative impact on U.K. and EU economies; possible confidence shock.

Asset price volatility: Negative market reaction to monetary tightening after a long period of low interest rates.

Geopolitical risks: Threaten global security, lead to increased risk aversion, and undermine global growth.

Global trade: Protracted weakening of long-term growth in international trade due to a risk of increased protectionism and trade wars.

Populism: Despite recent poor election results for Eurosceptic parties, underlying causes of populism, and political fragmentation, remain a concern.

Source: "Credit Conditions: Hope Overcomes Fears As The Fundamentals Propel Europe Forward," published on Dec. 5, 2017.

For Now, A Digital Evolution

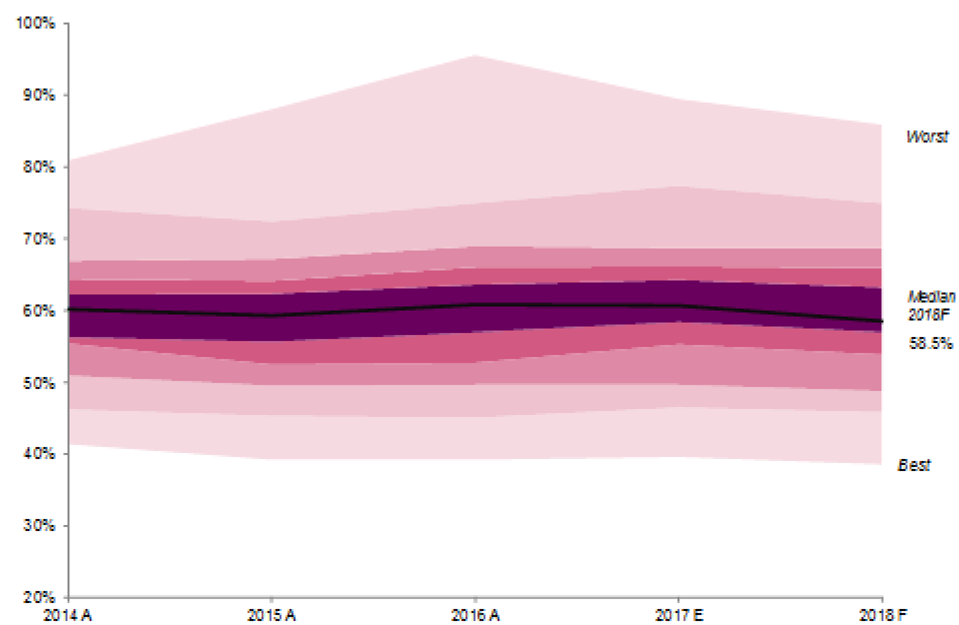
We are not alone in assuming that any rise in revenues will offer limited support to bank profitability—banks themselves are admitting as much. Amid this rather depressed revenue environment, banks across Europe are striving to reduce their cost bases. Branch closures have become a fact of life, catalyzed by customers' quite rapid adoption of digital interfaces with their banks.

We think that banks are still much nearer the start of their digital journeys than the end. Over time, we expect that banks that think strategically, rather than tactically, about cost reduction will leverage technology to, where necessary, fundamentally reengineer their operations, and be fit for the digital era. While the end-point could look radically different from the starting point, this would be more evolution than revolution.

For now though, the picture is one of many banks running to stand still. Restructuring and investment cost money, and we foresee overall only a modest improvement in efficiency in the coming year, after a few years of slight slippage.

Chart 10

Top 50 European Banks: Efficiency



Each band depicts the distribution of 10 banks, with the darkest shade being the 10 closest to the median and then each lighter shade being the next 10 further away. Source: S&P Global Ratings. Data as of Jan. 24, 2018.

Divestments Of Rescued Banks Will Proceed Slowly

The financial crisis was characterized by the widespread provision of government solvency support for failing, systemically important European banks. This largely ceased by 2015, because the financial crisis had mostly run its course by then and because the public policy and resolution frameworks, notably the EU's Bank Recovery and Resolution Directive, started to move the dynamic away from government bailout to creditor bail-in. However, just as the effort to make banks truly resolvable is proving to be a long-term project, many European governments' ability to exit their stakes in these rescued banks will take many years.

This delay reflects the challenges to truly rehabilitate the rescued banks given the scale of the asset quality problems many faced, but also the tough and changed earnings environment that in many cases has led to sweeping changes in business models. In a few cases, governments are simply waiting for the best moment to recoup as much of their investment as possible, though some are bound by deadlines under EC state aid agreements. Full divestment could drag on for some years therefore. We note, for example, that following the bailout of Nordbanken in 1992, the Swedish government chose to finally exit its residual 20% stake in Nordea only in 2013.

We expect to see continued divestments this year provided that market pricing remains supportive and predictable, specifically substantial stakes in ABN AMRO, AIB Group, Bankia, Belfius, and possibly also De Volksbank (see table 3 in the appendix).

Underperformers Need To Deliver

Among the major European banks, six continue to undergo significant strategic and operational adjustment in order to meet shareholder expectations. As a result, they are currently underperforming relative to their potential and to key peers: Barclays, Commerzbank, Credit Suisse, Deutsche Bank, Royal Bank of Scotland (RBS), and Standard Chartered. This underperformance constrains the ICRs on the operating companies for Credit Suisse, RBS and Standard Chartered. It also figures into the negative outlooks on Commerzbank and Deutsche Bank. It is no coincidence that historically these banks earned a material proportion of their income from capital markets activity, currently one of the most difficult business lines for any bank in which to achieve solid risk-adjusted returns.

We expect the banks to make some progress during 2018, but not to improve significantly. Only RBS currently has operating companies with a positive outlook, and even then only the ones we expect to be inside the ringfence. We have a generally favorable view of the direction of travel for Barclays, Credit Suisse, and Standard Chartered. They are now some way along in delivering against their long-term financial objectives, albeit undermined somewhat by the difficult revenue environment.

By contrast, we see Deutsche Bank as having more deep-seated problems. Our ratings acknowledge the inherent risks in the multiyear project to restructure operations, rebuild reputation and franchise, and deliver the revised financial targets. Although we could lower the ICR if the ALAC buffer falls short of our expectations, the main downgrade risk stem from our view that the bank is likely to remain a sustained relative underperformer in its core businesses.

Our negative outlook on Commerzbank primarily reflects the risk that the bank won't build and then sustain capitalization, as measured by our projected risk-adjusted capital (RAC) ratio, above the 10% threshold. We also foresee some challenges for management to deliver sufficient shareholder returns absent a strong cyclical recovery. For example, we anticipate that the bank will generate only a 3%-6% ROE over our forecast horizon. In our view, it is this profitability and associated strategic challenge that has led press reports to cite Commerzbank as a potential takeover target in recent months.

Upgrades May Favor Senior Rather Than Subordinated Bondholders

Our ratings on senior nonpreferred and other hybrid instruments will improve only where we revise upward our assessment of the bank's SACP or, where appropriate, the unsupported group credit profile (UGCP). These assessments reflect our view of intrinsic creditworthiness--that is, the risk of the bank becoming nonviable. By contrast, operating company creditors stand to also benefit if the bank builds its bail-in buffer (which we assess through our ALAC measure) as this offers greater protection if the bank fails and is subject to a bail-in led resolution.

SACP improvement is more likely in systems where our BICRA already acknowledges positive economic or industry risk trends--currently biased toward recovering peripheral banking systems. By contrast, many of the current positive outlooks reflect only our expectation of strengthening bail-in buffers that we would reflect in adding notches for ALAC.

Chart 11

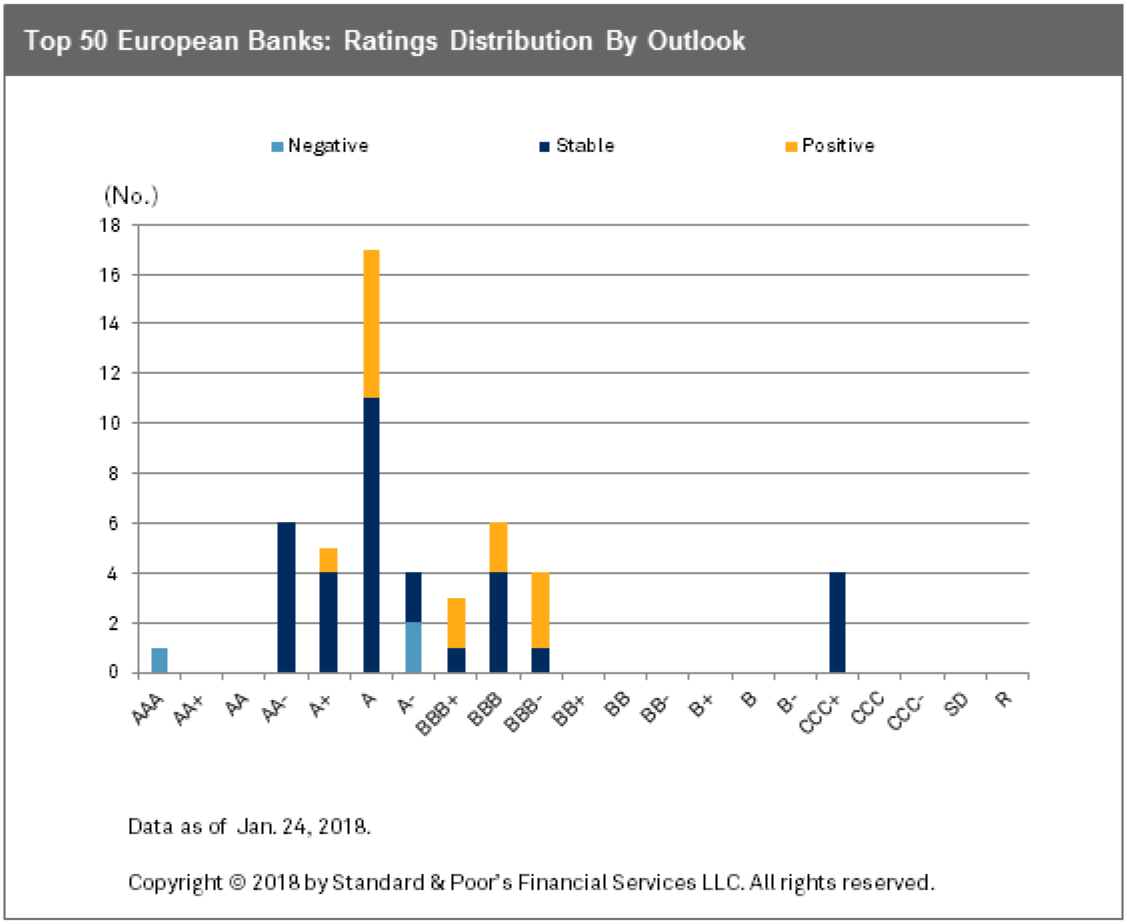

Top 50 European Banks: Ratings Distribution By Outlook
Negative
Stable
Positive
(No.)
18
16
14
12
10
8
6
4
2
0
AAA
AA+
AA
AA-
A+
A
A-
BBB+
BBB
BBB-
BB+
BB
BB-
B+
B
B-
CCC+
CCC
CCC-
SD
R
Data as of Jan. 24, 2018.
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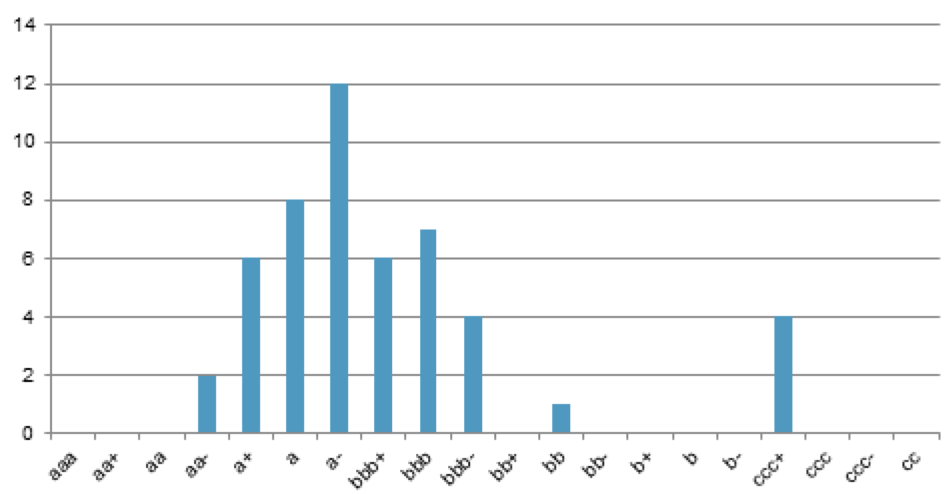
Chart 12

Top 50 European Banks: SACP Distribution



Data as of Jan. 24, 2018.

Through 2016 and 2017, we recognized the progress that major banks in Switzerland, the U.K., France, Benelux, and Scandinavia made in communicating a credible strategy to build their bail-in buffers. In 2018, we anticipate further issuance not only from these banks, but also substantial issuance by other major banks as they gain greater clarity about the EU's resolution strategy and the associated regulatory bail-in buffer requirement. The impending legislative change to enable banks across the EU to issue senior nonpreferred instruments in our view will have a catalytic effect from mid-2018 onward. Although banks could possibly crowd each other out if they accelerate their issuances, we think the market currently remains highly receptive.

Appendix

Table 1

Top 50 European Banks On Positive Outlooks

Country	Bank	UGCP or SACP	Opco LT ICR/Outlook§	Holdco LT ICR/Outlook	Principal rating driver(s)	Summary
Austria	Erste Bank Group AG	a	A/Pos		ALAC, C&E/SACP	If Erste were to continue strengthening its RAC ratio or if there was greater insight into the pace and size of the build-up of bail-in buffer.

Table 1

Top 50 European Banks On Positive Outlooks (cont.)

Country	Bank	UGCP or SACP	Opco LT ICR/Outlook§	Holdco LT ICR/Outlook	Principal rating driver(s)	Summary
Austria	Raiffeisen Bank International AG	bbb+	BBB+/Pos		C&E/SACP	If the Raiffeisen Bank Group RAC ratio moves comfortably and sustainably above 10% and other improvements also support an upgrade.
Belgium	KBC Group NV	a-	A/Pos	BBB+/Sta	ALAC	We would incorporate a second notch of ALAC uplift if the bank builds its buffer in excess of 8% of S&P Global Ratings' RWAs
France	BPCE	a-	A/Pos		C&E/SACP	If capital strengthens to a point where we would consider the group's capital position as strong.
France	Credit Agricole S.A.	a-	A/Pos		C&E/SACP	If we see further strengthening of the group's capitalization, combined with a continued low risk profile, and strong diversification and granularity of risk exposures.
Ireland	Allied Irish Banks PLC	bbb-	BBB-/Pos		BICRA/SACP, ALAC	We could revise upward the UGCP if we improve our view of Irish banking industry risk and if the group demonstrates a clear prospect of solid business and earnings growth. We could apply a notch for ALAC if the bank's bail-in buffer requirement and issuance plans lead us to project an ALAC ratio above 5%.
Ireland	Bank of Ireland Group PLC	bbb	BBB/Pos	BBB-/Pos	BICRA/SACP, ALAC	We could revise upward the UGCP if we improve our view of Irish banking industry risk and if the group demonstrates a clear prospect of solid business and earnings growth. We could apply a notch for ALAC if the bank's MREL and issuance plans lead us to project an ALAC ratio above 5%--this would not benefit the holdco.
Netherlands	ABN AMRO Bank N.V.	a-	A/Pos		BICRA/SACP	If positive Dutch economic developments continue, we could revise upward the anchor and so the SACP and ICR.
Netherlands	Cooperatieve Rabobank U.A.	a-	A+/Pos		BICRA/SACP	If positive Dutch economic developments continue, we could revise upward the anchor and so the SACP and ICR.
Spain	Banco Bilbao Vizcaya Argentaria S.A.	bbb+	BBB+/Pos		BICRA/SACP	If Spain's economic and operating environment become more supportive, we could revise upward the anchor and so the SACP and ICR. But this also depends on a positive revision to our BBB+/Pos sovereign rating on Spain.
Spain	Banco de Sabadell S.A.	bbb-	BBB-/Pos		BICRA/SACP	If Spain's economic and operating environment become more supportive, we could revise upward the anchor and so the SACP and ICR.

Table 1

Top 50 European Banks On Positive Outlooks (cont.)

Country	Bank	UGCP or SACP	Opco LT ICR/Outlook§	Holdco LT ICR/Outlook	Principal rating driver(s)	Summary
Spain	Bankia S.A.	bbb-	BBB-/Pos		BICRA/SACP	If Spain's economic and operating environment become more supportive, we could revise upward the anchor and so the SACP and ICR. This also depends on an effective integration of recently-acquired subsidiary BMN.
Spain	CaixaBank S.A.	bbb	BBB/Pos		BICRA/SACP	If Spain's economic and operating environment become more supportive, we could revise upward the anchor and so the SACP and ICR.
U.K.	Lloyds Banking Group PLC	a-	A/Pos	BBB+/Sta	ALAC	If the bank builds its ALAC buffer in excess of 8% of S&P Global Ratings' RWAs and its operating performance continues to improve.
U.K.	The Royal Bank of Scotland Group PLC	bbb	BBB+/Pos	BBB-/Sta	Removal of negative ICR adjustment*	If, after the group's settlement of its U.S. RMBS litigation, the continued improvement in operating and financial performance may lead us to no longer regard it as underperforming similarly rated peers in terms of statutory profits.

Data as of Jan. 24, 2018. ALAC--additional loss absorbing capacity. BICRA--banking industry country risk assessment. C&E--capital and earnings assessment. Holdco--holding company. ICR--issuer credit rating. Opco--operating company. RAC--risk-adjusted capital. RWA--risk-weighted assets. SACP--standalone credit profile. UGCP--unsuported group credit profile. §LT ICR is for the group's principal opco(s). *Would affect opco ratings only. For more information see: "Austria-Based Erste Group Bank Upgraded To 'A/A-1' On Improved Operating Environment; Outlook Remains Positive", Oct. 30, 2017; "Raiffeisen Bank International AG", June 23, 2017; "KBC Bank And CSOB Outlook To Positive On Expected Further Build-Up Of Loss Absorption Capacity; 'A/A-1' Ratings Affirmed", Oct. 27, 2017; "French Bank BPCE Outlook Revised To Positive On The Balance Sheet's Strengthening Trend; 'A/A-1' Ratings Affirmed", Oct. 20, 2017; "Credit Agricole Outlook Revised To Positive On Gradually Strengthening Capital And Risk Profile", Oct. 25, 2017; "Various Positive Rating Actions Taken On Irish Banks On Improving Industry Credit Profile", Dec. 12, 2017; "Various Dutch Bank Outlooks To Positive On Receding Economic Imbalances In The Netherlands", Sept. 15, 2017; "Banco Bilbao Vizcaya Argentaria S.A.", Jan. 18, 2018; "Banco de Sabadell Ratings Raised To 'BBB-/A-3' On Improving Capitalization; Outlook Remains Positive", June 23, 2017; "Bankia S.A.", July 23, 2017; "CaixaBank S.A.", Dec. 18, 2017; "Outlooks On Lloyds Banking Group Entities Revised On Reducing Economic Risks And Improving Bail-In Buffer", Nov. 15, 2017; "RBS Ring-Fenced Subsidiaries Outlooks Revised To Positive; Non-Ring-Fenced Entities To Stable; Ratings Affirmed", Nov. 17, 2017.

Table 2

Top 50 European Banks On Negative Outlooks

Country	Bank	SACP/UGCP	LT ICR (opco level)	Principal rating driver(s)	Summary
Germany	Commerzbank AG	bbb+	A-/Neg	SACP	If the bank's capitalization and earnings fail to improve to strong levels, as shown by our forecast of an RAC ratio above 10%.
Germany	Deutsche Bank AG	bbb	A-/Neg	Negative ICR adjustment	If the bank remains a relative underperformer in its core businesses. Whether ALAC remains sustainably above our 8.5% threshold is a secondary source of concern.
Switzerland	Zuercher Kantonalbank	aa-	AAA/Neg	SACP	If ZKB's business was unexpectedly negatively affected from a prosecution by the U.S. tax authorities.

Data as of Jan. 24, 2018. ALAC--additional loss-absorbing capacity. RAC--risk-adjusted capital. SACP--stand-alone credit profile. UGCP--unsuported group credit profile. For more information see: "Commerzbank And Pfandbriefbank Outlooks Stay Negative, Despite Stable Economic Risk Trend In Germany; 'A-/A-2' Affirmed", Oct. 11, 2017; "Deutsche Bank AG", Nov. 15, 2017; "Zuercher Kantonalbank", Dec. 13, 2017.

Table 3

Few European Governments Have Fully Divested Their Stakes In Rescued Banks

Country	Bank	(First) Date of rescue	Current % ownership	Stage of divestment	Notes
Latvia	**AS Citadele banka**	**2008**	**0%**	**Completed**	**The good bank that emerged from rescued Parex Banka. The government divested in 2010.**
Switzerland	**UBS AG**	**2008**	**0%**	**Completed**	**Swiss government bought mandatory convertibles in 2008 but had sold out by 2009.**
UK	**Lloyds Banking Group PLC**	**2008**	**0%**	**Completed**	**Government sold down the stake from 43% in recent years. Full exit completed May 2017.**
UK	**Northern Rock PLC**	**2008**	**0%**	**Completed**	**Trade sale to Virgin in 2011. Now operates as Virgin Money PLC.**
Germany	Commerzbank AG	2008	15%	Partial	Commerzbank acquired Dresdner Bank in 2008, but needed €18 billion of capital. Repaid much of initial injection but took until 2015 to run down Eurohypo. Divestment plan for remaining stake is unclear.
Germany	Deutsche Pfandbriefbank AG	2008	20%	Partial	Spun out of Hypo Real Estate in 2015 after state intervention in 2008. Divestment plan for remaining stake is unclear.
Netherlands	ABN AMRO NV	2008	56%	Partial	Dutch government ownership stems from its rescue of Fortis in 2008. Relisted as public company in 2015. Gradually being sold down.
UK	Royal Bank of Scotland Group PLC (The)	2008	73%	None	Government started to sell out of its original 78% stake in 2015. Government will continue to divest but timing remains unclear.
Iceland	Islandsbanki	2008	100%	None	The good bank that emerged from Glitnir. Divestment timing remains unclear.
Iceland	Arion Bank	2008	13%	None	The good bank that emerged from Kaupthing. 57% owned by Kaupskil creditor group, with private investors holding the balance. We anticipate some progress in the IPO of the government stake during 2018.
Iceland	Landsbankinn	2008	98%	None	The good bank that emerged after Landsbanki defaulted on its overseas liabilities. The government plans to reduce its stake in the bank to 34%-40% over time, but we expect no material divestment in the next 2 years.
Germany	HSH Nordbank	2009	89%	None	Received €3 billion capital from then states of Schleswig-Holstein and Hamburg in 2009. Owners now in exclusive talks with potential buyers J.C. Flowers and Cerberus. Under the European Commission state-aid agreement, the privatisation needs to be finalised by the end of February.
Ireland	AIB Group PLC	2009	71%	Partial	Stake acquired in two phases in 2009 and 2010. Undertaken as part of restructuring that saw CRE loans sold to NAMA. Bank redeemed some government-held preferred stock in 2015 and converted the rest to equity. Government sold an initial 28% equity stake in June 2017. Could be a substantial further sell-down during 2018.
Ireland	Bank of Ireland Group PLC	2009	14%	Partial	Stake acquired as part of restructuring that saw CRE loans sold to NAMA and government invest in equity and preferred stock. Bank redeemed the preferred stock in 2016. Timing remains unclear for the divestment of equity stake.

Table 3

Few European Governments Have Fully Divested Their Stakes In Rescued Banks (cont.)

Ireland	Permanent TSB Group Holdings PLC	2009	75%	Partial	Stake acquired as part of restructuring; Irish Life was subsequently split off from the bank and fully divested. Sold 25% in 2015. Divestment timing of the rest remains unclear.
Belgium	Belfius Banque SA	2011	100%	None	Former Dexia Belgium. Planned partial IPO (25%-35%) in the second quarter of 2018.
Slovenia	Nova Ljubljanska Banka D.D.	2011	100%	None	NLB was recapitalized by the government in 2011, 2012 and 2013, the final one aided by a transfer of underperforming assets to state-owned bad bank BAMC. Despite expectations of a possible IPO in late 2017 to sell down 50%, the government has asked the European Commission for an extension to 2019 of the current deadline under the state aid agreement.
Slovenia	**Nova KBM d.d**	**2012**	**0%**	**Completed**	**Nova Kreditna Banka Maribor was recapitalized in 2012 and 2013, becoming 100% government-owned. Divested in 2016 via a sale to funds owned by Apollo Global Management LLC and the European Bank for Reconstruction and Development.**
Greece	Eurobank	2012	2%	Partial	In 2012 the HFSF injected the funds to the banks through bonds, then subscribed to their capital increases in 2013. In 2015, Piraeus and NBG also received additional fund to complete further capital increases, while Alpha and Eurobank managed to do it through private sources. Eurobank and NBG bought back the government-held preference shares in 2017. Plans for the divestment of the equity stakes remain unclear.
Greece	Piraeus Bank	2012	26%	None	
Greece	Alpha Bank	2012	11%	None	
Greece	National Bank of Greece	2012	40%	Partial	
Spain	Bankia	2012	61%	Partial	Stake acquired by under the state-backed recapitalization in 2012/2013. Government sold 7% in December 2017 and will likely sell another 15-20% in the first quarter of 2018.
Spain	Banco Mare Nostrum	2012	61%	Partial	Stake acquired by under the state-backed recapitalization in 2012/2013. Bank was merged into Bankia in January 2018. 61% figure reflects the state ownership of Bankia.
Slovenia	Abanka / Banka Celje	2013	100%	None	Banka Celje was merged into Abanka in 2015 to form the country's second largest bank. The deadline for divestment under the state aid agreement is 2019.
Netherlands	De Volksbank NV	2013	100%	None	Former SNS Bank. Following the March 2017 elections, the new government appears likely to push forward with a divestment, though exact timing remains unclear.
Portugal	Novo Banco	2014	25%	Partial	The good bank that emerged from Banco Espirito Santo. After a first attempt to sell the bank in 2015, Lone Star signed a definitive agreement to acquire 75% of the bank in October 2017. The remaining 25% (owned by the Resolution Fund) was stripped of voting / governance rights. Divestment plans are unclear.
Italy	Banca Monte dei Paschi di Siena	2017	70%	None	Following the approval by DG-COMP, in June 2017, shareholders and junior bondholders were bailed-in and the Italian government proceeded with precautionary recapitalization. Government ownership will reach 70% once the €1.5 billion payout to retail investors completes. It is too early to assess when and how the Government will be able to divest its stake.

Table 3

Few European Governments Have Fully Divested Their Stakes In Rescued Banks (cont.)

Data as of Jan. 24, 2018.

Related Criteria

- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011

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- The ECB's Proposed Guidance For Nonperforming Exposures Could Beef Up Banks' Balance Sheets, Oct. 16, 2017
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