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REGARD
EUROPEAN BANKING
UNION AND EMPLOYMENT

STATE OF PLAY
EUROPE AND RESTRUCTURINGS

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EUROPEAN FEDERATION
OF MANAGERS AND EXECUTIVES IN THE BANKING SECTOR

EUROPEAN BANKING UNION AND EMPLOYMENT

Eva COZAR
General Secretary
of FECEC

DEAR READERS,

The European Council defines the European Banking Union (EBU) as one of the key elements for economic and monetary union. It emerged from the social demand not to allow a new fall of the European financial system such as that originated after the 2008 crisis.

The EBU is a process with a clear objective, to guarantee the stability, security and reliability of the sector, taxpayers and the markets, which applies to all EU countries.

Although many steps have been taken and bank mergers have occurred in different countries during all these years, the process to reach this union is far from having been achieved and from having accomplished the objectives set. If we focus on the two pillars of the banking union, we can speak of a well-defined Single Supervisory Mechanism (SSM) but it is not so clear regarding the Single Resolution Mechanism (SRM).

The process continues to advance steadily. The Eurogroup, with the European Stability Mechanism (ESM) Treaty signed last November, seems to have set to work to make happen and guarantee the protection of the single resolution fund. Another sign of the priority of reaching the banking union is the European Deposit Guarantee System - EDGS in which the Council and Parliament work. And finally it seems that the ECB has made the decision to facilitate sustainable consolidation projects, by not penalizing reconciliation operations, with higher capital requirements.

However, we still find a lack of regulatory harmonization that prolong the fragmentation of the markets. The banking union and the technology transformation should be seen as opportunities rather than a threat for the European banking staff. In that sense the cross-border mergers, so evoked by the European authorities, could be a good vehicle to materialize this consolidation of the sector and take advantage of the synergies that the European market offers, but for these mergers between different countries to take place, legal and regulatory changes are still basic.

The fall of interest rates that started at 2008 has placed Europe at zero or negative interest since 2016. This is a phenomenon never before experienced which, represents a series of unknown uncertainties and risks for the sector. And certainly Covid -19 pandemic makes this situation even more serious.

So this is the scenario where we have to play and the need to consolidate the European financial sector is more and more evident. A consolidation that results in banks that can provide the important service that society needs.

Financial service is a social need
Covid-19 has also made it clear that banks are an essential service especially within a weakened society. Let us be aware of the strong danger of territorial and social financial exclusion that currently exists in Europe. Banks must be able to provide a guarantee of financial inclusion, access to credit, and the distribution of recovery plans.

But this social need is mutual; the financial sector needs a commitment from European society.

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The financial sector is and has historically been a major job creator. It currently employs 2,600,000 people in Europe.

The two main assets of financial institutions are their customers and their work force. People who serve people. And there is something that those both assets have in common, their human character, their relational and emotional factor. That is the crux of the problem.

Hence the importance of how restructuring processes are carried out. They cannot consist in the destruction of hundreds of thousands of jobs. According to data from the BCE (Structural Indicators for the EU Banking Sector), from 2008 to 2019, 432,546 jobs had been lost in EU banking sector. This figure could easily reach an unprecedented high level in 2021.

Could this tendency of downward employment change? In fact, it would require joining forces from authorities, public and private agents. The European Commission's priorities for 2019-2024, together with the recovery plan support this change. Those are some of the essential tools we may extract from them for this purpose:

- Creation of replacement employment
- An intergenerational pact
- Fair digital transition. Technology at the service of people
- Invest in digital skills
- Commitment to a green and sustainable economy
- Equality and empowerment policies – Encourage board seats for female executives
- Invest in digital skills
- Restructuring based on Collectives Agreements

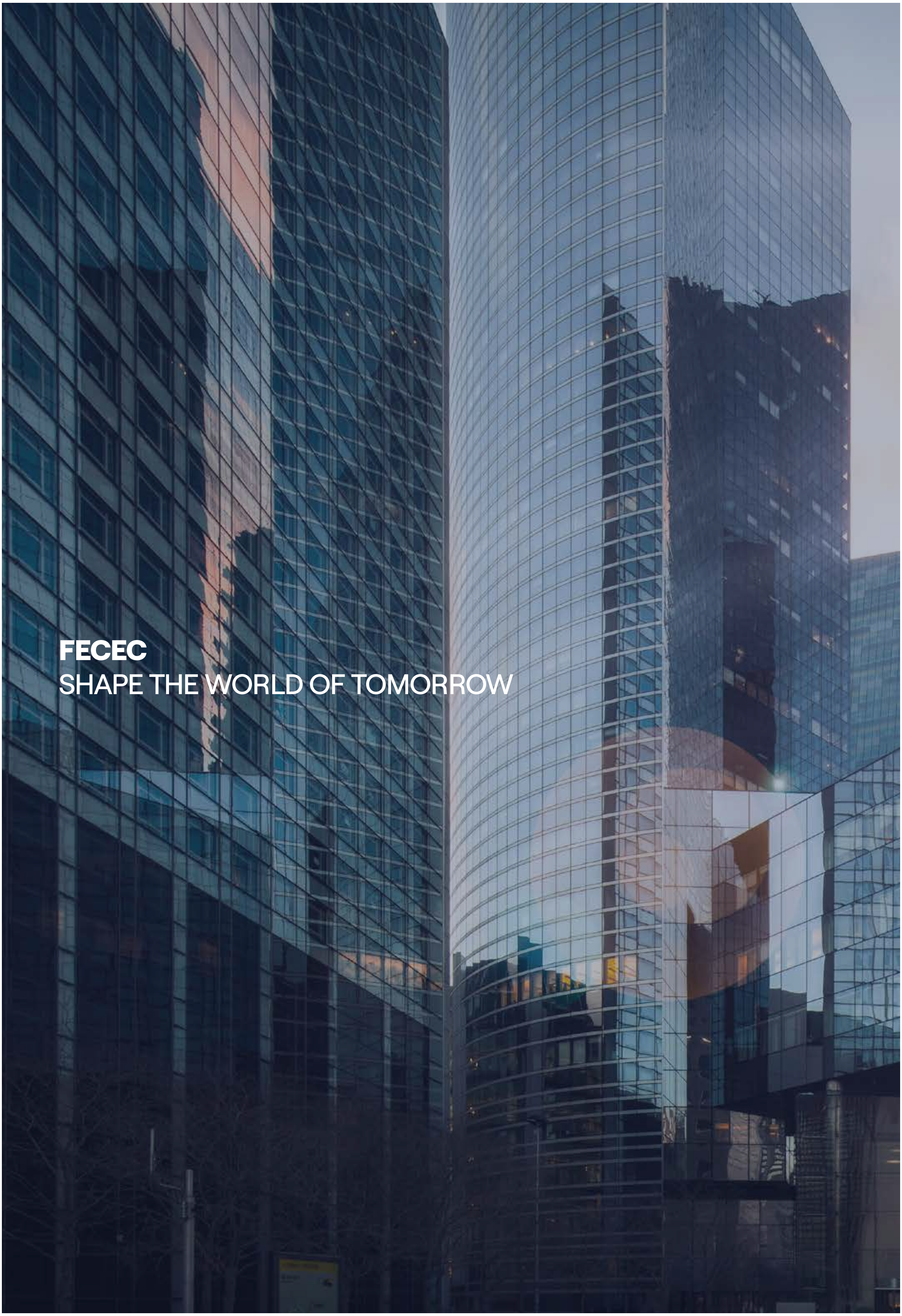
Covid-19 has also taught us the importance of measures that streamline crisis and change management, within innovative frameworks for dialogue. Undoubtedly, social dialogue, one of the markers of the European model, is the means that facilitates the consolidation of the financial sector within fair margins of employment evolution.

2.6MILLION

Employes in Europe

432,546

Jobs lost in E.U. since 2008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SHAPE THE WORLD OF TOMORROW

EUROPE
AND RESTRUCTURINGS

The European Parliament presents the objectives of the European banking union as follows :
" The Banking Union (BU) is an essential complement to the Economic and Monetary Union (EMU) and the internal market, which aligns responsibility for supervision, resolution and funding at EU level and forces banks across the euro area to abide by the same rules. In particular, these rules ensure that banks take measured risks and that a bank that errs pays for its losses and faces the possibility of closure while minimising the cost to the taxpayer."
The article below gives an overview at the European level but also in some countries where FECEC is represented of the banking union and its impact on restructurings.

EUROPE

2012 saw the creation of the European Banking Union, which aims to establish common rules for European banks in terms of supervision. With this approximation of standards, one might have expected, a certain wave of merger or consolidation of the sector.

This has not happened. After significant waves of consolidation at the end of the 90s or in the midst of the sub-prime crisis (Unicredit-Capitalia, Intesa-Sanpaolo, BNPParibas-Fortis and BNL), it has been «dead calm» for almost 10 years. It must be said that European banking institutions have been largely mobilized to manage the increase in banking regulations, the costs of the low interest rate policy and to face an environment that has become much more competitive. It must also be said that the European Union has been largely proactive in disintermediating the banking sector.

Above all, this banking union is not yet complete. Capital markets are still fragmented and generally organized along national lines. Among other difficulties, banks must also build up capital and liquidity reserves on a country-by-country basis, and therefore cannot centralize them in a lead structure, which de facto prevents economies of scale.

Hence the idea that European regulations necessarily hinder marriages in the sector, since they make them too costly.

However, the European Central Bank has communicated quite clearly in 2020, encouraging bank consolidations in the European Union.

The ECB has communicated in particular through the chairman of the supervisory board Andrea Enria and it has recently specified the angles from which the institution of Frankfurt would be led to examine future mergers between banks, with the release of a guide entitled :
Guide on the supervisory approach to consolidation in the banking sector

Through this guide, we understand the philosophy behind the ECB's approach

Transactions leading to consolidation are usually initiated and executed by market participants in order to maximize their opportunities by forging new combinations of existing business activities... Restructuring of banking activities can bring benefits, but these must be weighed against the potential risks. Indeed, when properly designed and executed, business combinations can contribute to the overall financial soundness of the banking system and help preserve the diversity of different business models. They can be a way to address long-standing problems in the European banking sector, such as low profitability and overcapacity.

To summarize, it's a bit of a chicken and egg story.
In the absence of profitability, the ECB is asking to consolidate, even though it is partly responsible for this low profitability.

In short, the ECB is now trying to reassure us of its intentions, after having loosened the capital and liquidity constraints due to the pandemic, to create conditions favorable to future consolidations. The economic crisis that seems to be looming will perhaps be even more decisive in this regard.

SPAIN

The restructuring of the Spanish financial sector has meant a huge change in the country's banking map.
From 2008 to 2019 the number of bank companies went from 88 to 12 and the number of employments reduced from 238,000 to 144,000, what means a decrease of 39.5% of the bank workforce, nearly a loss of 100.000 jobs.

But nevertheless the consolidating process remains unfinished. After the pause taken in 2020 because of the pandemic, the five bigger Spanish banks have planned more cutback in the workforce starting in 2021: In those new restructuring processes, high number of redundancies are estimated:
Caixabank-Bankia : 8,000 people
B. Santander: 3,600 people
BBVA (not yet been issued)
B. Sabadell :1,800 people
This all amounts a new reduction in employment of, at least 10% more and we still do not see the light at end of the tunnel.

FRANCE

BNP Paribas does not expect a «big consolidation» in Europe, this is the statement made by Philippe Bordenave, Chief Operating Officer of BNPParibas, on February 5, 2021, during an online press conference. At the same time he does not exclude targeted acquisitions.

This statement was made on the day of the publication of the 2020 results, which were very good despite the COVID-19 crisis. It is true that good results can whet the appetite.

The question was put to him at a time when the media in France is bringing up the antiphon of the marriage between Société Générale and BNPParibas. If this question resurfaces, it is because a certain number of elements seen as prerequisites seem to be there.

First of all, there is the ECB, the difficulties of certain players (Société Générale Group which is merging two of its branch networks: SG and Crédit du Nord) and then, above all, bank valuations which have never been so attractive. While the French banking sector is on average valued at 50% of its net asset value, for some players it is only 25.

However, the world seems to have changed. And the French banking sector is already «rather consolidated» if we consider the size of its players, but also their specificities. Each one seems to be able to get along with its colleagues.

Thus the 6 groups (BNP Paribas, the BPCE group, the Crédit Agricole group, the Crédit Mutuel-CIC group, Société Générale, and the Banque Postale) manage, in a context of strong competition, more than 80% of the 73 million or so current accounts. And the latest operations seem to have frozen the game by allowing each one to find its specificity (La Poste-CNP for example).

It must also be said that the advantages of mergers seem quite limited in France. Over the last ten years, there have been far fewer branch closures in France compared to our European neighbors, which could reduce the advantages of a merger. To say the least, the HSBC branch network seems to create little excitement.

Finally, the 6 French groups already have a European or even international profile. If something were to happen, it would either be to compete with the world's largest, or because one of them would have to face serious economic difficulties. The most likely outcome, however, is the acquisition of targeted players in new payment solutions, in the new DATA markets, and in partnerships around the ecological transition.

POLAND

Banking mergers in Poland have been going on continuously since the 1990s, and since 2000 their number and pace have increased significantly.

In 2000, mBank was established - the first fully online bank in Poland, which was acquired by Bank Rozwoju Eksportu in 2013, and Multibank, the main shareholder of mBank is Commerzbank, which holds over 70% of shares.

At the beginning of the 21st century, Bank Przemysłowo-Handlowy SA and Powszechny Bank Kredytowy merged as a result of capital integration of their investors - the German HypoVereinsbank AG and the Austrian Creditanstalt AG (BA-CA). Then, in 2005, the Group was taken over by UniCredit, Pekao S.A.'s strategic investor at that time. Despite the government's opposition, the merger took place a year later. Most of the branches were transferred to Pekao, the rest were merged with the GE Capital group in 2009, and in 2016 it was merged with Alior Bank, keeping only mortgage loans and Towarzystwo Funduszy Inwestycyjnych.

Bank Zachodni was the hero of several high-profile mergers. The Allied Irish Banks group acquired a majority stake in 1999 and soon transformed it into Bank Zachodni WBK. Almost ten years later, 95.67% of the shares were taken over by the Spanish group Santander, which in 2012 also included Kredyt Bank, owned by the Belgian KBC.
Bank Zachodni in 2018 changed its name to Santander Bank Polska. A separate part of Deutsche Bank also became its part, including individual clients.

The entity that has undergone the most mergers and ownership changes is the current BNP Paribas Bank Polska S.A. The history of the banking structures, currently owned by BNP Paribas Bank Polska, dates back to 1990. Then, on the initiative of the Krakowskie Towarzystwo Przemysłowe and Agencja Rozwoju Przemysłu S.A. the Krakowskie Towarzystwo Bankowe was established. A year later, the Polish-American Enterprise Fund became a strategic shareholder of the bank, which took the name of the First Polish-American Bank in Kraków S.A. After four consecutive years, a cooperation agreement was signed with Fortis Bank (then still as Generale Bank). In 1999, a number of stock exchange transactions took place, as a result of which PPABank became the owner of 100% of the shares of Pioneer Polski Dom Maklerski S.A., and in turn was taken over by Fortis Bank. It began operating under this name on 3 July 2000. In 2008, the owners of Fortis Bank signed an agreement to merge with Dominet Bank. In the meantime, Fortis Bank was acquired by the BNP Paribas Group. In 2009, Fortis Bank, having previously merged with Dominet Bank, changed its name to BNP Paribas Fortis. On December 5, 2013, the BNP Paribas Group concluded an agreement with the Rabobank Group regarding the purchase of shares in Bank BG. On April 30, 2015, the legal merger of Bank BG and BNP Paribas Bank Polska took place. The bank assumed the name BG BNP Paribas, then on October 31, 2018 Bank BG BNP Paribas took over a separate part of Raiffeisen Bank Polska, in 2019 unified the logo and changed its name to the current BNP Paribas Bank Polska S.A.

Each merger of banks is associated with restructuring, organizational changes, technological changes and, unfortunately, redundancies. The role of trade unions and workers' representatives in this process is very important. Consultation of planned group layoffs is a statutory obligation in Poland and should be aimed at limiting the number of people designated for dismissal through the use of voluntary redundancy programs or internal recruitment programs. For those dismissed, it is extremely important to receive the best possible package of social protection to alleviate the effects of the dismissal.

During the pandemic, the process of bank acquisitions and mergers came to a halt. Banks focus on improving financial results and organizing customer service in a manner adapted to the realities of Covid-19. Remote sales and current service channels were launched, opening hours were shortened in the branches and rotation work has been applied. Many people work remotely. All this reduces the use of the traditional sales channel, which is a bank branch, and thus reduces the demand for employees in the sales network and for branches. In Poland, already four banks have announced collective redundancies and and it is probably only the beginning

ITALY

The banking sector embraces the strategy of consolidation through mergers and acquisitions. This is the message that emerges from the analysis of some important transactions in progress between major financial institutions, in Italy and beyond. In the name of the need to consolidate the sector, also weakened by the pandemic effects, banking groups move with takeover bids, mergers or incorporations.

Intesa Sanpaolo and Ubi Banca

In five months, at a time when the whole world found itself battling a pandemic, marriage was achieved. The combination leads to the creation of a large European group with 5 billion euros in profits, 21 in revenues and which will manage over one trillion in Italian savings. In this period, it would also seem that there will be the mergers of MPS into UniCredit, Creval into Crédit Agricole Italia, as well as the merger of BancoBpm and Bper.

A favorable framework

The framework has become increasingly favorable to mergers and acquisitions, with the call for consolidation between institutions by the ECB itself and the regulations implemented by the Government to reward this kind of operations. In fact, there is the possibility of transforming up to 2% of the assets of the acquiring bank into tax credits. The value could also reach 5 billion euros of pure assets, able to finance the restructuring burdened on the buyer beyond the necessity. It is important for banks on which there is a decrease in profit margins and significant investments to be made in terms of technology and human capital. ECB Supervision is also pushing this strategy by making merger operations more affordable.

Crédit Agricole Italia launches the takeover bid for Creval

Crédit Agricole Italia's public tender offer on Creval is currently underway in Italy. The timing for the takeover bid will be divided as follows: regulatory authorizations are expected in the first quarter of 2021; Consob approval is expected by March / April 2021 and the offer period should be completed in May 2021. If the conditions set by Crédit Agricole Italia are met, following the offer, the bank will incorporate Creval, With the acquisition of the Valtellinese group, Crédit Agricole wants to become the sixth commercial bank in the Italian market by assets and the seventh for the amount of customers and total assets, reaching a market share of 5% nationwide.

Unicredit-Mps

Probably that of Unicredit on Mps is the closest merger operation. The Ministry of Economy and Finance is working to improve the conditions of the deal by recapitalizing the MPS. In addition, there is the problem of redundancies and the risks related to the judicial cases pending on Monte dei Paschi di Siena, worth 10 billion euros. There would be around 5 billion euros on the table for tax incentives and other measures.

BancoBpm and Bper

There are rumors about the possible merger between the BancoBpm and Bper groups, however the merger would have a strategic result: the third national banking group would be created. It is true that Bper has just acquired 600 former Ubi branches, worth 40% of the assets.

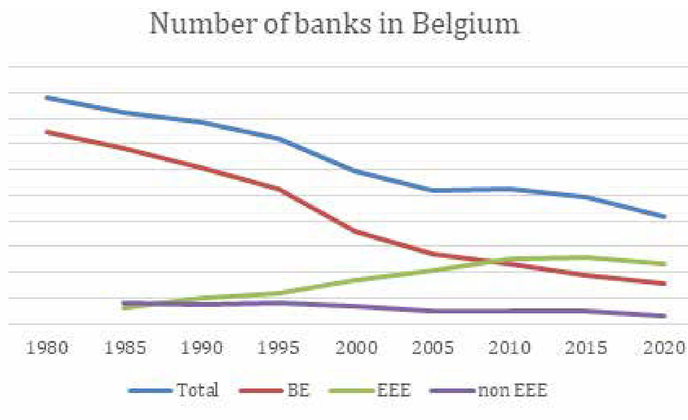
BELGIUM

The contribution of the Belgian banking sector to the European banking consolidation is quite important and does not date from yesterday. A continuous movement of mergers has strongly reduced the number of institutions, especially at the expense of Belgian-based institutions, which are now only a minority. In line with the global figures, 2 of the 4 largest in Belgium have a parent company abroad (BNP Paribas and ING), which raises questions about the decision-making process, which has an impact on activities, employment and support for the Belgian economy. We can note that these two foreign groups are part of the European Top 10 while the two largest banks Belgium based are in about the 100th place worldwide.

One can also wonder about the share of banking activities that are no longer registered since almost 100,000 Belgian customers have opened an online account with N26. Anecdotally, these Belgian citizens should not forget to indicate that they have a foreign account in their tax return.

The next expected change to a major Belgian bank will be the fate of the Belfius bank, which, following the Dexia debacle, is still in the hands of the Belgian government. the national Bank has regularly made it known in the media that it considers that there is one bank too many in Belgium (following european recommendations), but there is no consensus on this opinion, especially since the possibility of a takeover by another Belgian bank is limited, which would further reduce national control over the sector. There has been regular pressure for the government to get rid of it, at least through a partial IPO, but no scenario has yet been confirmed.

The sources of figures of belgian based institutions comes from febelfin.be



PORTUGAL

In the last 10 years, the process in Portugal was marked by the intervention of the Troika (European Commission, ECB and IMF) between 2011 and 2014, following a request for financial assistance by the Portuguese Government. Between 2010 and 2020, the number of banks operating in Portugal decreased by 27%, the number of employees decreased by 18% and the number of branches decreased by 36%. The effect of the reduction in bank accounts was no longer significant, since 2015 foreign banks, mainly French, have started to set up in Portugal, which through operational support units provide services to these financial groups worldwide. At the moment, about 12.5% of the banking population in Portugal already works for these Financial Groups.

If we consider the question of bank mergers in our country, we can say that in Portugal there are no significant bank merger processes, contrary to what we have seen in Spain and France. What happened, following the subprime crisis and the Troika process, was the Resolution of Banco Espírito Santo, SA (2014), BANIF Banco de Investimento (2015) and Banco Popular, SA (2017). In the first case, it gave rise to Novo Banco, SA, in the other two cases, they were integrated into Banco Santander, SA. In our opinion, the excessive external indebtedness of the Banks operating in Portugal and the high NPL ratio, did not allow this process to be carried out. It was necessary for each bank to complete its balance sheet cleaning process, a situation that was well underway until the beginning of this pandemic crisis.

Regarding the social consequences of such operations, the Labor Code in Portugal foresees the obligation of the Banks to inform the Unions and Commissions of workers when bank restructuring processes occur. In fact, it happens in the cases of BANIF, SA (2015), Novo Banco, SA (2016), Banco Popular, SA (2017) and more recently in the case of Montepio Geral, SA (2020). This intervention by the Unions has been very important in protecting labor rights and providing legal support to bank employees. The SNQTB has played a determining and leading role in these processes, being the largest Union representing active workers in Portugal.

The strong economic and predictability instability generates a lot of discomfort in the Banks. The fact that around 50% of the largest banking groups in Portugal are controlled by foreign capital, that we are a peripheral country with a small market, that we are still in the process of getting out of the previous financial crisis, puts a greater pressure than naturally the SNQTB is to follow. Even so, we believe that carrying out restructuring in the current context reveals little social sensitivity, taking into account that a strong economic recovery is expected in the coming months (even with anticipation of inflationary tensions) and that the Banks have presented good results in 2020, as a result of the credit that allowed to maintain credit portfolios and net interest income. We also point out that banks are well capitalized to support the economy. The sectors most affected, namely Leisure and Tourism, which also helped the country most to get out of the previous crisis, are those in which a strong recovery is also expected in the coming months. Finally, we feel that there must be a strong commitment from all the Institutions in Europe to prevent a very significant fringe of Europeans from being removed from the Banks, due to the closure of the Branches and the accelerated process of digitalization. All rural and older areas are running out of banking services as a result of this movement.

OVERALL CONCLUSION

The ranking of the world's largest banks in terms of market capitalization does not contain any bank from the European Union (post-Brexit) in its top 10 (figures at the end of 2019), the first ranked being Banco Santander in 17th position. As Banking has a part of its activities highly exposed to global markets, this state of weakness poses an obvious problem to the objectives of the European banking union, which wanted to limit the risk to citizens. In this field, as in others, it is time to put an end to the kind of demagogy that institutes rules under the pretext of protecting the citizen but which, in reality, could well lead to only impoverish and expose him further. An ambitious Europe deserves better than that.