

Creating Value Through M&A: A Call to Action for European Banks

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BCG

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Content

Introduction	4
1 What's Driving M&A for European Banks?	5
2 To Unlock Value, Banks Should Consider Three Strategic Plays	8
3 A Reality Check: How are Dealmakers Actually Creating Value?	9
4 The Keys to Effective Dealmaking: Three Prerequisites for Value Creation	11
5 Sell-Side M&A: Reshaping the Portfolio for Future Success	14
6 Conclusion: Five Priorities for Proactive M&A Leaders	15
The Authors	16

Introduction

M&A activity in European banking is poised to accelerate following the slowdown of recent years.

Banks have benefited from a period of elevated interest income, which has strengthened capital buffers and provided the financial flexibility to pursue strategic transactions—whether to scale operations, diversify revenue streams, or acquire new capabilities. At the same time, intensifying competition, inflationary pressure, and the growing need to distribute technology and regulatory investments across a broader cost and client base are fueling further consolidation. Many institutions are also shedding non-strategic assets to optimize their portfolios.

Persistent undervaluation in Europe adds urgency, pushing banks to enhance profitability and sharpen strategic positioning through transformative M&A.

Against this backdrop, BCG's analysis shows that scale-driven M&A dominates the European banking sector, accounting for approximately two-thirds of recent deals. These transactions are primarily aimed at improving efficiency and cost competitiveness. The remaining one-third are scope-driven, focused on entering new markets or expanding capabilities.

Banks that engage in M&A have delivered higher total shareholder return (TSR), on average, than their peers (25% versus 15% from 2022 to 2024). The same applies for announcement returns for majority of the buyers. Our analysis finds that both scale and scope deals have the potential to generate attractive shareholder returns, with no significant difference in average TSR between these two types of deals.

Similarly, while domestic deals are more common, both domestic and cross-border transactions have shown comparable success in creating shareholder value (despite cross-border deals being more complex to execute). Deal size, too, has little bearing on TSR. Instead, one of the strongest predictors of value creation is the presence of significant efficiency gaps between the acquirer and target—measured by differences in cost-to-income ratio (CIR)—which often translate into more actionable cost synergies.

To maximize M&A's potential, banks need a precise view on their overall target portfolio and how value can be created via transactions—whether through scale and synergies, revenue growth and capability acquisition, or strategic repositioning through divestitures. This understanding must be paired with a clear plan for integration and disciplined execution. Strong M&A capabilities, rigorous due diligence, and continuous market screening are also essential to identify suitable targets at the right price when opportunities arise.

1 What's Driving M&A for European Banks?

Although M&A activity in European banking has remained subdued since 2023, momentum is building for a resurgence. (See Exhibit 1 | Number of European banking M&A deals.)

Several structural forces are expected to drive dealmaking going forward:

Scale is becoming more critical. Banks face continued pressure to invest in innovation and technological advancements, meet evolving regulatory demands, and need to keep pace with rising customer expectations. With interest rates expected to decline, cost pressure is likely to intensify again. These developments make scale a decisive advantage, allowing banks to spread fixed costs and investments across a broader client and asset base.

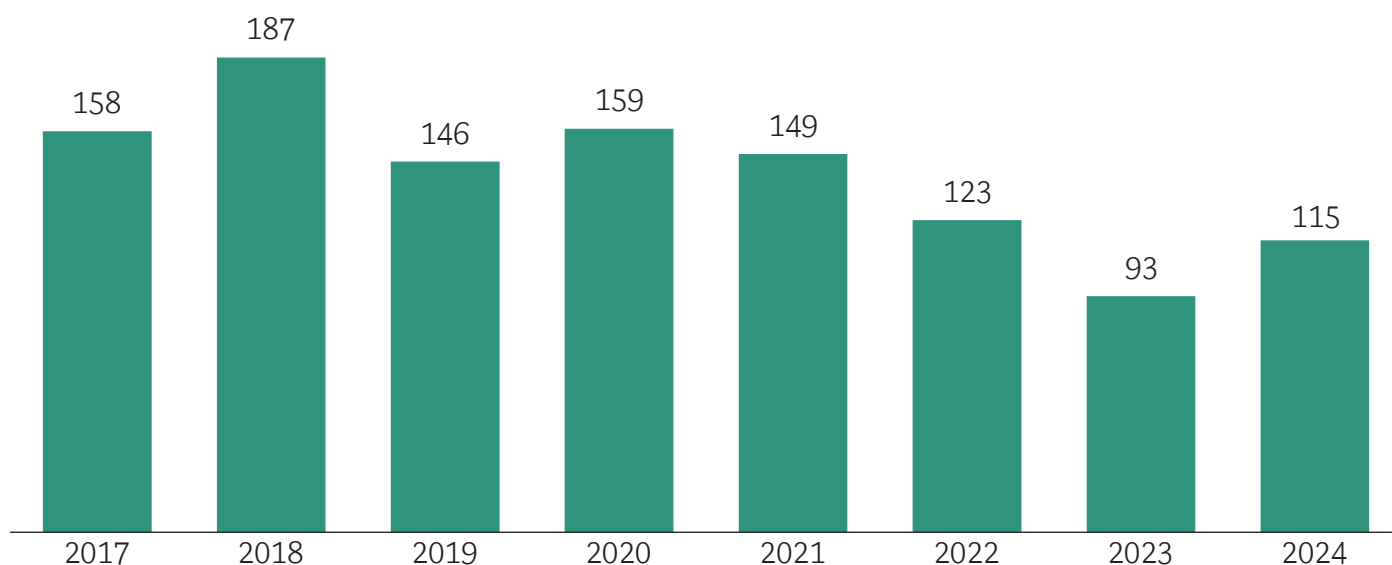
Organic growth remains elusive. Discounting the recent uplift from higher net interest income, underlying revenue growth remains challenging—particularly in fee income. In this context, M&A presents a key lever for banks to expand into higher-growth segments such as payments or private banking/wealth management, where opportunities for fee-based income and long-term client relationships are more resilient.

Banks have the financial strength to invest. In recent years, European banks have rebuilt capital buffers and benefited from higher profits amid rising interest rates. Much of this capital has been returned to shareholders through dividends and buybacks. However, banks now have the balance sheet strength to redirect a portion of these profits toward strategic acquisitions that support long-term growth and value creation.

Exhibit 1 | European banking M&A deals by acquirer's industry¹

Number of European banking M&A deals¹

Deal count (# of deals)



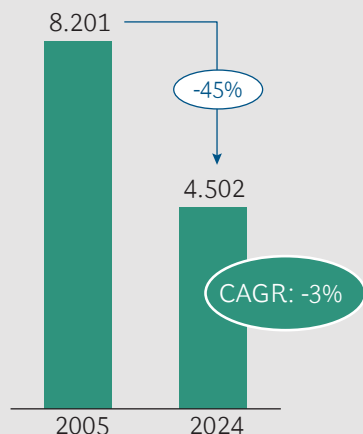
¹ # deals counting all deals with European FI as acquirer, incl. completed & pending deals; as per announcement date
Sources: Refinitiv as of February 2025; BCG analysis.

Ongoing Consolidation and the Rise of Market Champions

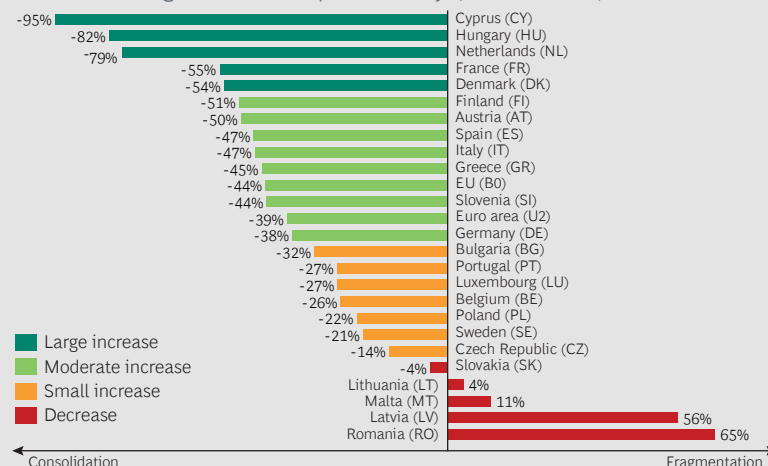
The number of banks in Europe has declined sharply over the past two decades—from more than 8,000 in 2005 to approximately 4,500 in 2024, a drop of around 45%, or roughly 3% per year. (See Exhibit 2 | Consolidation of European banks.)

Exhibit 2 | Consolidation of European banks

banks in the European Union¹
(2005 – 2024)



Relative change of # banks per country (2005 – 2024)



¹Excluding, Croatia, Estonia, UK & Ireland due to incomplete data set Source: BCG analysis, ECB

However, the pace of consolidation has varied widely across countries. In markets like the Netherlands, Hungary, Finland, and France, the number of institutions has declined by more than 50%. Spain, Italy, and Greece have also seen significant consolidation, with reductions exceeding 40%.

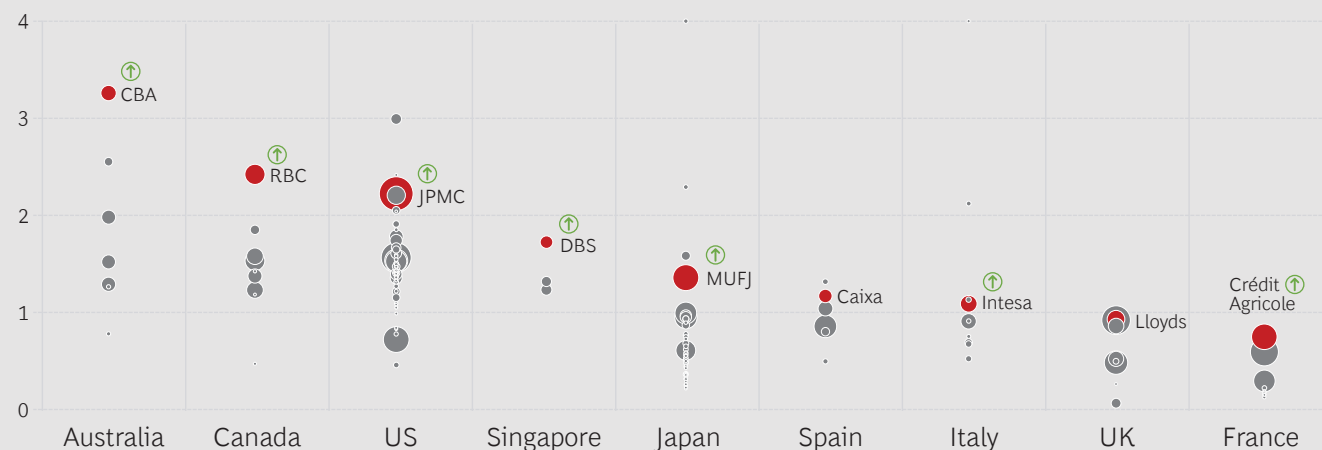
In contrast, countries such as Germany, Portugal, and Sweden have seen a more modest decline—less than 40%—leaving room for further consolidation. The disparity reflects structural differences in national banking systems, such as the strong presence of savings and cooperative banks in Germany, and the varying impact on the banking landscape of the 2008 global financial crisis across European markets.

Comparing several markets it is evident that domestic scale matters—valuations of the market leaders in terms of deposit market share exceed most of their respective peers. (See Exhibit 3 | Price to Tangible Common Equity). In several markets (e.g., Spain, Italy) these banks are also using their scale and profitability to drive further consolidation.

The trend is clear: while the pool of potential targets is shrinking, there is still meaningful headroom for consolidation in Europe. Banks striving to lead should move decisively to strengthen their local or pan-European positions. In a consolidating market, those that hesitate are risking becoming the target.

Exhibit 3 | Domestic market leaders achieve higher P/TCE

P/TCE



Notes: 1122 publicly listed banks considered for analysis
Source: CapIQ, BCG Value Science Centre, BCG analysis

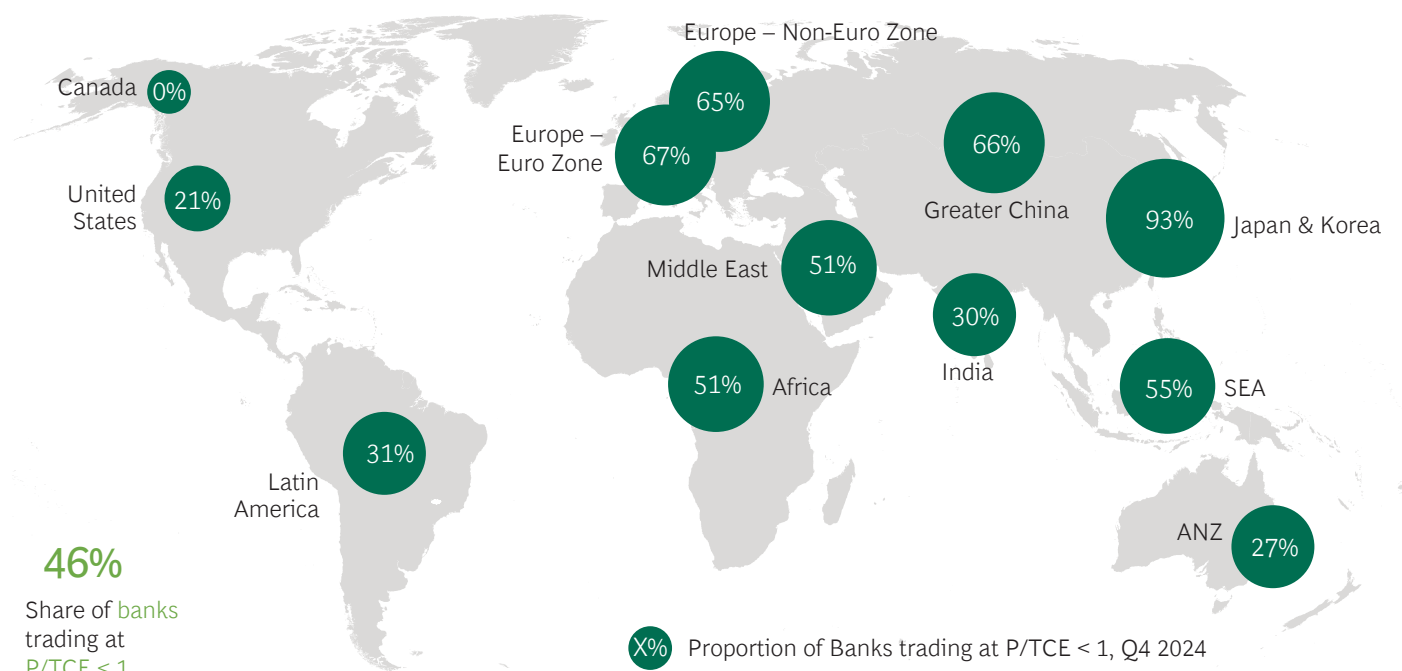
Persistent undervaluation motivates banks to improve competitive strength. Many European banks continue to trade below book value, trailing their global peers. Our analysis finds that nearly 75% of European banks trade at a tangible common equity (TCE) multiple below 1, compared to roughly 50% of US banks. (See Exhibit 4 | Banks trading below book.) While several factors contribute to this persistent undervaluation, a key driver is the lack of scale among many European institutions. Markets such as Canada, and Australia are significantly more consolidated, allowing banks to operate at a greater scale and achieve superior cost efficiency. To close the valuation gap, sharpen their competitive edge, and avoid becoming acquisition targets, European banks are increasingly turning to M&A and portfolio optimization.

Regulatory and legal reforms needed to support cross-border consolidation. Several structural challenges continue to hinder M&A in European banking.

Today's regulatory fragmentation, the absence of a true capital markets union, the presence of state-owned banks, and political resistance—especially around cross-border mergers—remain significant barriers. However, these are often not deal breakers. Rather, they are complexities that must be anticipated and managed as part of a well-designed M&A strategy.

Further momentum for M&A could come from ongoing efforts to advance the Capital Markets Union (CMU), which aims to build a more integrated and efficient European financial system. A harmonized capital market would enhance capital flows and financial stability, providing a supportive environment for M&A. Key enablers include a common deposit insurance scheme (such as the proposed European Deposit Insurance Scheme, or EDIS) to promote true risk-sharing and balance sheet integration, as well as more consistent legal frameworks across member states, particularly in areas such as insolvency law.

Exhibit 4 | Especially in Europe majority of banks trade below book—Europe needs to catch up

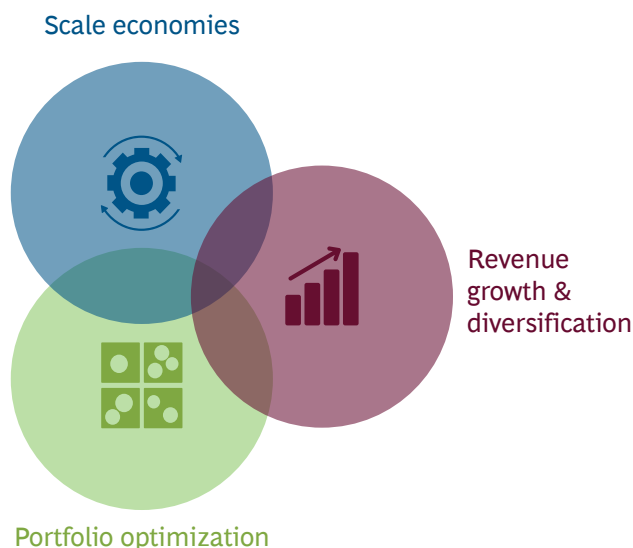


Note: All publicly listed banks considered for analysis Dec'24 P/TCE considered for analysis
Source: S&P Capital IQ; BCG analysis

2 To Unlock Value, Banks Should Consider Three Strategic Plays

To unlock the full value potential of M&A, European banks should consider three primary strategic plays—two on the buy side and one on the sell side. Each supports a distinct value creation goal: scale economies, revenue growth & diversification, or portfolio optimization.

- 1 Increase scale in the core.** In an industry defined by thin margins and rising investment needs, scale-driven deals offer a clear path to cost efficiency. By consolidating operations, eliminating overlaps, and spreading fixed cost and investments (such as technology or regulatory) across a larger client and asset base, banks can significantly improve their competitiveness. Scale improves efficiency, which in turn drives profitability—a key factor for valuation uplift, particularly for price-to-book ratios. The key is disciplined execution to capture synergies quickly and effectively.
- 2 Expand into attractive value pockets.** Scope-driven M&A allows banks to expand capabilities, enter new markets, or diversify product offerings beyond their core business. This strategy supports long-term growth and diversification of revenue streams, typically much faster than building these capabilities organically in-house. One example is expansion into wealth management, where higher fee income and more stable client relationships enhance valuation.
- 3 Optimize the portfolio.** Banks should actively identify and divest assets that are underperforming and where they have no right to win in the long term. Portfolio optimization frees up capital and management bandwidth to invest in growth opportunities aligned with the bank's strategic strengths. Ultimately, scarce resources—capital, talent, management attention—must be directed toward businesses that generate adequate returns. It also enables investment in core acquisitions that reinforce long-term competitiveness.



3 A Reality Check: How are Dealmakers Actually Creating Value?

BCG's analyses of recent M&A activity in European banking reveal clear patterns in how dealmakers are pursuing value—and where they are placing their bets.

Scale-Driven Deals Dominate European Banking.

From 2020 to 2024, approximately two-thirds of buy-side deals in European banking were scale-driven, focused on cost reduction and operational efficiency. Only one-third were scope-driven, aimed at market expansion and diversification. (See Exhibit 5 | Deals by strategic motivation.)

The disparity is even more pronounced when looking at deal value. Scale deals accounted for roughly 80% of total M&A value over the past five years. Among the ten largest transactions in this period, nine were scale-driven, with an average deal size of approximately €6.2 billion.

These patterns reflect the industry's broader focus on cost leadership, as banks seek to enhance efficiency, improve margins, and build resilience in an increasingly competitive and capital-intensive environment.

M&A-Active Banks Have Outperformed the Market.

Our analysis shows that roughly 25% to 30% of European banks engaged in M&A activity over the past five years. On average, these banks outperformed their peers in terms of TSR, delivering 25% TSR from 2022 to 2024, compared to 15% for the broader market. In fact, almost 70% of M&A-active banks outperformed the sector. (See Exhibit 6 | TSR comparison.)

Exhibit 6 | TSR comparison

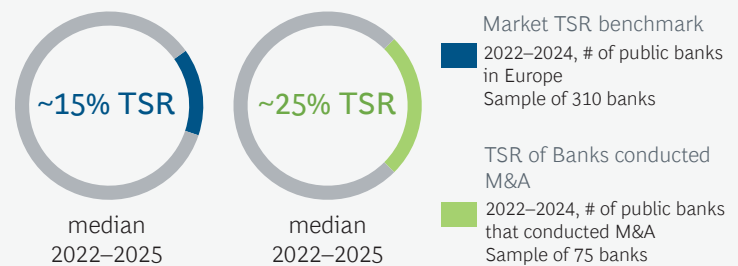
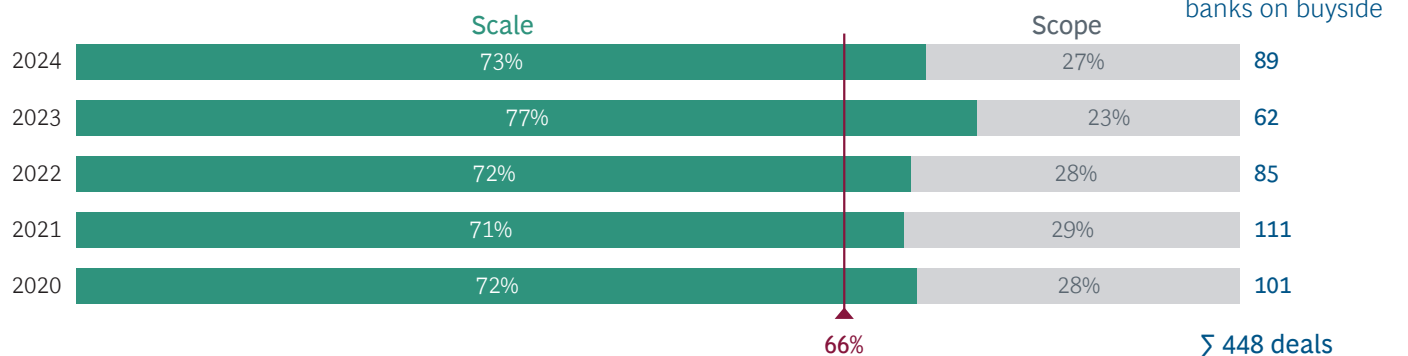


Exhibit 5 | Historically, ~2/3 banking M&A deals have been driven by scale efforts

Deal count¹ | Strategic deal motivation of buyside

2020–2024, in # of deals



¹ Number of deals counting all deals with European FI as acquirer, target withing FI and high-technology industry, incl. completed and pending deals

Sources: Refinitiv as of February 2025; BCG analysis

While these positive results should be interpreted with caution—many factors influence TSR—they suggest that M&A may have been a key driver of value creation for a meaningful portion of the banks studied. At the same time, not all deals have delivered value. Approximately, 30% of banks that pursued M&A underperformed, posting an average three-year TSR of just 3%, well below the 15% market benchmark.

Looking specifically at banking deals over the past five years, capital markets have generally responded positively to M&A activity. In our sample of 150 public transactions, roughly 2/3 were met with positive announcement returns. While share price reactions are influenced by a range of factors, this pattern suggests that investors often view such deals as a potential source of value creation. This positive response was consistent across both scale-driven and scope-driven deals, with no meaningful difference in how the market reacted to either type.

The fundamental question remains: does M&A in banking actually create value? A closer look at historical deals reveals three recurring patterns:

1. Wider efficiency gaps between the acquirer and target (measured by CIR) tend to unlock more shareholder value by demonstrating higher TSR.
2. Execution matters more than scale—larger deals do not automatically result in greater synergies. The ability to realize value depends on strategic fit and integration effectiveness, not transaction size.
3. Domestic deals are favored over cross-border transactions. Domestic mergers are more common owing to fewer regulatory hurdles, and lower integration complexity.

These insights reinforce a core principle: M&A can be a powerful tool for growth and competitiveness—but only when executed with the right strategy, integration approach, and value creation discipline.

4 The Keys to Effective Dealmaking: Three Prerequisites for Value Creation

M&A success depends on more than just the type of deal.

Our detailed review of successful banking M&A buy-side transactions reveals three critical prerequisites for value creation: strategic fit and synergy potential, pricing and financial preparedness, and integration approach and excellence.

- 1 Strategic Fit and Synergy Potential.** Every successful deal starts with a clear strategic rationale. Whether the goal is to build scale (for example, creating national champions), expand into adjacent capabilities or markets (such as asset management or other regions), or optimize the portfolio (for example, divesting low-RoE segments), a strategy must guide the deal. But strategy alone is not sufficient—value is only realized when synergies are realistic, bank-specific, and executable.

Our analysis and experience point to essential enablers that distinguish high-performing transactions:

Alignment with Acquisition Intent. In scale-driven banking deals, synergies typically arise from (a) the operating model, e.g., consolidating IT platforms, streamlining head office functions & operations, and rationalizing branch networks and (b) the balance sheet, e.g., leveraging a deposit franchise to fund a strong origination franchise. Scope-driven transactions, on the other hand, focus on expanding into verticals like payments.

Clear-cut Bank Target Model and Integration Design. High-performing acquirers begin integration planning already during the due diligence phase. For instance, one of the most critical levers in scale mergers is the decommissioning of legacy core banking platforms. This requires early clarity on business and operating model, the underlying IT architecture, and regulatory structures—especially in cross-border or multi-brand settings. Tough trade-off decisions regarding the target model are the norm.

Detailed and realistic Synergy Modeling based on Suite of proven Banking Synergy Levers. Accurate synergy forecasts require deep market know-how and business and function-level benchmarks. Leading banks assess synergy potential across front office setup, head office functions, operations and IT. They also track them rigorously after the deal closes.

In short, strategic fit must be matched with readiness to execute and precision in synergy planning—not just on paper, but through structured due diligence, clean team collaboration, regulatory foresight, and early integration planning.

- 2 Pricing and Financial Preparedness.** A well-structured pricing and valuation approach is essential for long-term value creation. A deal's success depends not only on the headline valuation, but also on regulatory alignment, implications on the capital base and balance sheet structure, and realistic synergy assumptions. The price paid must also reflect the full complexity of execution and the associated integration costs—especially in a highly regulated, capital-intensive environment.

Three key principles guide effective pricing:

- 1. Synergy-based Valuation Anchored in Strategic Intent.** Banks must model synergies bottom-up—not rely on generic earnings per share accretion models or peer benchmarks—especially where national or regulatory restrictions limit full integration.
- 2. Pricing-in Integration Costs, Capital Needs, and Transaction Structure.** A sound valuation must fully reflect the costs of execution—from carve-out complexities, system disentanglement, severance payments, and transition duplications. Moreover, the structure of the transaction has significant implications: share deals may

be easier to execute but can transfer hidden liabilities, while asset deals provide more control (but also often require new licensing and contract renegotiations). Post-deal accounting—especially goodwill or badwill treatment but also alignment of risk models—affects the acquirer's balance sheet and investor perceptions and must be reflected in both the purchase price and accounting strategy.

3. Scenario-driven Financial Planning and Readiness

for Volatility. Banking deals require stress-testing across macro, regulatory, and operational scenarios. Interest rate shifts, non-performing-loan dynamics, and regulatory capital changes can materially impact deal value. Leading banks maintain updated financial models and market scans, enabling them to move decisively when the right opportunity arises—armed with a clear valuation corridor and risk buffers.

Successful pricing in banking M&A goes beyond financial modeling—it requires a deep understanding of integration realities, regulatory capital needs, and operational complexity. Banks that embed these elements into their valuation

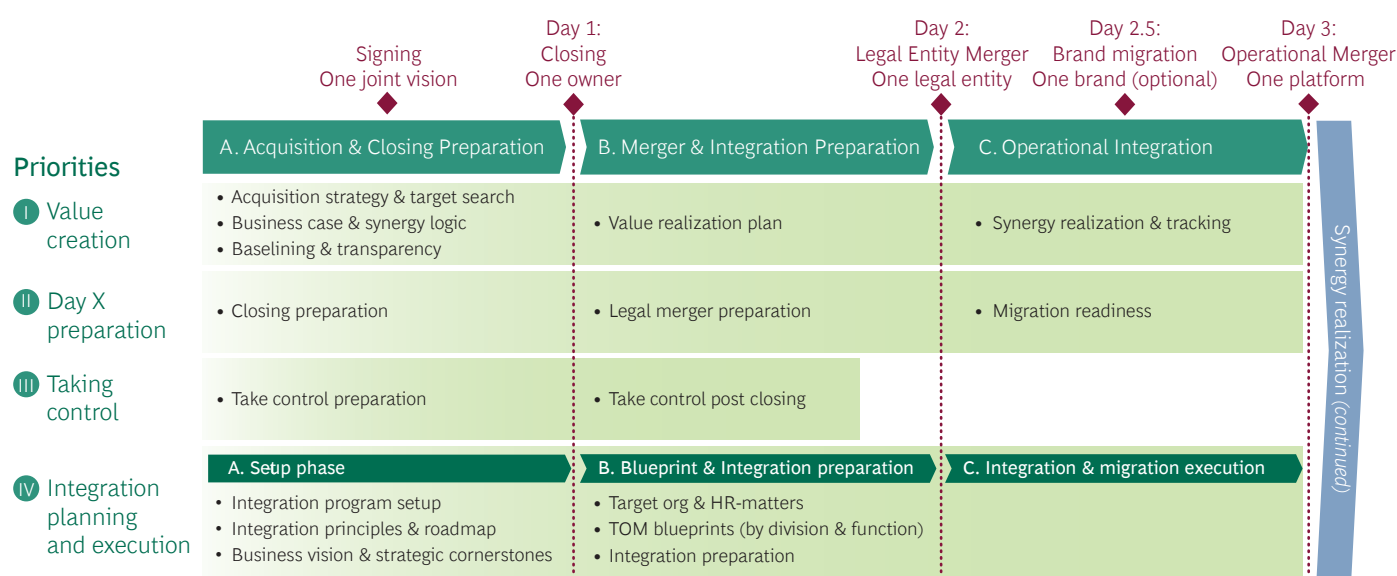
logic are far better positioned to avoid value erosion and deliver sustainable deal success.

Integration Approach and Excellence. A systematic integration approach—translated into a clear, actionable plan and executed with discipline and rigor—is essential for capturing synergies and ensuring that acquisitions are truly value accretive.

There is a clear learning from BCG's experience: each post-merger integration (PMI) is unique. PMIs are complex, take place under time pressure, and must be managed in parallel to running the core business. Therefore, ensuring the merger's success requires a strong governance with fast and clear trade-off decisions, deep functional and business know-how, and, especially, an effective integration management approach.

BCG's systematic and stringent PMI approach for banks, applied extensively, ensures top management focus on four key integration priorities right from the start (See Exhibit 7 | BCG integration approach).

Exhibit 7 | BCG with stringent integration approach with four immediate priorities



Priority 1: Aggressively pursued value creation. With the acquisition strategy in mind, the value creation plan will be developed and subsequently detailed. This involves an extensive baselining and transparency exercise for all business units and functions to map cost and revenues correctly and create the financial basis for the application of synergy levers. Target setting as well as lever design and detailing follows an iterative top-down-bottom-up approach using a stage gate logic on maturity of lever substantiation. Value realization is to be rigorously tracked—starting after closing

while majority of synergies is unlocked by the operational merger.

Priority 2: Thoroughly prepare the key integration events of day 1, 2 and 3. BCG integration approach puts particular focus on required detailed level of preparation of the main crucial integration events: closing (day 1), legal merger (day 2), and operational merger (day 3). Each event requires a particular management focus and own readiness framework guiding the preparation from various func-

tions and business units within both entities. For smooth day X every preparatory item—often hundreds of items—must be executed in time and quality by the responsible unit. Cut-over runbooks support this process.

Priority 3: Thoughtful take control of the target. With being accountable for the target from closing onwards, acquirer are well advised to design and execute a clear taking control path. For this, a whole set of measure for an integrated governance is available: These range from supervisory or management board representation, business governance integration (e.g., dual bands, secondments, alignment & oversight boards), adjustments to risk control framework with clearly defined red lines, to transparency via consolidated financial and risk reporting. In addition, stabilization measures for clients, key staff and business partners must be implemented.

Priority 4: Systematic plan integration and execute swiftly. At the beginning of the integration, the strategic cornerstones (e.g., target brand, Target Operating Model), and integration principles (e.g., perimeter, main integration direction) must be decided upon. These serve as a basis for the integration roadmap, and are important guardrails for the blueprint design. The blueprints involve all business model (markets, clients, products, channels) and operation model (people, processes & operations, infrastructure, IT) elements. Blueprints are required for all business units and functions. The thereby defined target picture informs the integration preparation and incorporates synergy planning and transition elements on the path to the operational merger.

Based on BCG experience of more than 500 PMI conducted, there are 12 clear imperatives for a successful PMI. (See Table 1 | Imperatives for PMI success.)

Table 1 | Based on BCG experience, there are 12 imperatives for a successful PMI:

Set the direction	Capture the value	Build the organization
1. Start by defining the basic objectives of the integration	5. Emphasize speed : Use the period before closing to start designing the future company and prepare to capture the value	9. Design the future operating model early in the process; it may differ from the day-one structure
2. Rigorously manage the integration as a discrete program , independent of its size	6. Aggressively pursue synergies according to the integration's objectives	10. Manage talent by selecting, retaining, and developing the best people
3. Organize integration teams around drivers of value and around the target operating model, and appoint leaders from both companies	7. Keep the current business strong by involving current customers in the integration process.	11. Rigorously manage cultural integration and change
4. Insist on senior leadership that is committed, credible, and highly visible	8. Decide early and explicitly on IT for the integrated company	12. Communicate, communicate, communicate! It is better to have too much communication than too little

Mini Case Study: Integration of Two Leading European Banks

Start by defining the basic objectives of the integration. The acquirer clearly defined its key objectives upfront: aggressively pursue scale economies and realize major cost synergies, ensure a rapid integration to not lose too much time in the market, and safeguard the client franchise during integration. These guiding principles shaped early design decisions and helped align leadership and integration teams across both entities.

Emphasize speed and use pre-closing period for integration preparation. The joint integration governance was launched within days of announcement. Senior appointments, program structure, and communications were rolled out swiftly to maintain internal momentum and external confidence. Integration workstreams were mobilized early and well ahead of closing, and the integration approach was designed for rapid integration. Key decisions impacting the integration were taken in record speed by the CEO.

Design the future operating model early in the process. The acquirer prioritized clarity on the Target Operating Model from the outset—defining future organization, brand, business and product areas, client coverage and channel, as well as operations and IT setup was a priority. The integration principle of "one blueprint prevails" (instead of "best-of-both-worlds") helped to guide decision making and was applied stringently across the whole integration. This fast strategic design work and clear-cut principles enabled accelerated integration and de-risked execution significantly.

5 Sell-Side M&A: Reshaping the Portfolio for Future Success

For European banks, portfolio optimization is set to become a key driver of sell-side M&A.

Divesting non-core or underperforming assets allows institutions to sharpen strategic focus, unlock capital, and reduce complexity. In banking, this often means exiting low-margin units, legacy technology platforms, or non-strategic regions. These moves free up resources for reinvestment in scalable, future-ready businesses such as digital retail/affluent, asset management, or payments.

To preserve and create value, banks must address several critical dimensions:

Strategic Clarity on Divestiture Scope and Rationale.

Effective sell-side moves start with a clear portfolio logic. Banks must define what to grow, hold, fix, or exit—based on market attractiveness, RoE, and regulatory capital consumption. This means identifying units that are capital inefficient, non-synergistic, or below-scale, such as sub-scale subsidiaries or legacy segments with structurally low returns.

Carve-out Readiness and Disciplined Execution. Bank carve-outs require deep preparation, as they involve complex regulatory, IT, and people interdependencies. Early planning must address local licensing, data separation, shared infrastructure, and service-level continuity—especially when dealing with retail clients or regulated functions. Following a three-phased execution model—diagnostic, planning, and implementation—ensures readiness and minimizes disruption. A well-prepared carve-out enables credible transactions, enhances valuation, accelerates integration, and unlocks value for both sides.

Managing Stranded Costs and Capturing Broader

Efficiencies. One of the biggest risks in banking divestitures is that fixed costs—particularly in IT, operations, and control functions—persist even after revenue streams are gone/sold. Without proactive planning, this can lead to significant margin erosion after the deal. To mitigate this, banks should conduct a front-to-back analysis across all impacted functions—including technology, risk, compliance, operations, and finance—to redesign the cost structure and avoid stranded overhead. Crucially, the objective of divestitures should not just be selling a business but rather unlocking broader efficiency potential across the remaining organization. Simplifying the operating model can enable leaner governance, less redundancy, and more scalable control functions.

Ultimately, sell-side M&A is not merely about downsizing—it is about strategically shaping the portfolio for future success. Banks that combine a clear rationale with disciplined execution can turn divestitures into a catalyst for value creation, capital efficiency, and long-term competitiveness.



6 Conclusion: Five Priorities for Proactive M&A Leaders

The European banking industry is undergoing a fundamental transformation.

The European banking industry is undergoing a fundamental transformation, driven by shifting competitive dynamics, accelerating technology disruption, and regulatory reforms. In this environment, M&A is no longer optional, it is a strategic imperative to shape the market, unlock synergies, and ensure longer-term competitiveness. The race to build national and pan-European champions has begun.

Across the market, we see that successful banks do not treat M&A as a reactive tool. Instead, they embed it into their long-term strategic agenda—using it to sharpen focus, build capabilities, and create value at scale. But success is not determined by size or starting point. Instead, it is driven by a bank's ability to act across five critical priorities:

- 1 Shape the portfolio with purpose.** Continuously assess the business portfolio to identify which activities to grow, optimize, or divest—ensuring capital and management attention are focused where value can be maximized.
- 2 Align M&A with strategic ambition.** Define the role M&A plays in delivering on long-term goals—whether scaling core businesses, accessing new capabilities, or reshaping the model for future competitiveness.
- 3 Systematically identify and evaluate targets.** Build and maintain a robust M&A pipeline, screen the market proactively, and apply consistent evaluation criteria grounded in strategic fit, value potential, and integration feasibility.

- 4 Leverage integration and execution capabilities.** Strengthen the M&A and PMI muscle through dedicated teams & collaboration, a battle proven integration approach with clear playbooks, deep market expertise, and leadership accountability—ensuring readiness for swift, disciplined execution.

- 5 Act decisively and with speed.** Move boldly when the right opportunity emerges, with a clear deal rationale, a realistic value creation plan, and the operational readiness to deliver quickly on PMI or carve-out divestiture.

Although every institution's context is different, the overall strategic imperative is the same: clarity, capability, and decisiveness drive success. Delaying action risks trapping banks in a cycle of low growth and weak valuation—leaving them increasingly vulnerable to disruption or takeover. Those that invest in readiness and act with intent will be best positioned to define the next chapter of European banking.

M&A is not just a lever—it is a leadership opportunity. The time to act is now.

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6/25