



# Missive

JULY 2, 2026

## The Tsunami of European Bank Mergers

Dear Fellow Investors,

Financial Crisis, Europe was slow to address the underlying capital issues. Rather than guillotining the problems, they allowed a slow bleed to take place. They amortized problems out over a decade. The idea was to smooth the problems in their capital structure from soured loans. However, like our own personal lives, problems that are not directly addressed only get worse.

In comparison, the US form of atonement in banking was swift and broad. The Troubled Asset Relief Program (TARP) recapitalized banks (whether they wanted it or not). Bad banks failed. This included many regionals like City Bank of Lynnwood, near where I grew up in Seattle. This scale led banks to focus on costs and on technology spend to improve the efficiency of their capital profitability. No matter what, in capital-intensive industries like banking, scale kills a lot of problems.

Europe has been lethargic in doing much of this. Mario Draghi, the former head of the ECB, became known as Super Mario for his famous “do whatever it takes” line to keep investors at ease about the integrity of the European Central Bank (ECB) and, at some level, the EU project. More recently, Mario has cast a vision for Europe. He seems to have the pulse yet again. In his widely publicized report “The future of European competitiveness”, he wrote:

*Banks in Europe also suffer from lower profitability than their US counterparts – in large part because US banks gain higher net fee and commission income from operating in their deeper capital markets – and lack scale relative to their US counterparts owing to the incomplete Banking Union.*

The most important part of the statement is the last part. It's that word scale again.

The second important thing to understand from the structural environment of Europe is that there is very little integration of banking in Europe. There isn't a Bank of America-like behemoth in Europe. There are what have been dubbed “National Champions” in place, think Deutsche Bank and Commerzbank as an example. There is no large market share across the EU by any bank. Mario again addressed this issue in his report:

*A minimal step towards completing the Banking Union would be to create a separate jurisdiction for European banks with substantial cross-border operations that would be 'country blind' from the regulatory, supervisory and crisis management viewpoints.*

The lack of a cross-border framework among the EU members has retarded deal-making over the past fifteen years. It won't stop them.

The investors of Smead Capital Management have a wholly different view of how Mario Draghi will yet again be right, and Europe will do “whatever it takes.” We think two current deals aptly fit the view. Our largest bank holding in Europe, which I like to call our sleepy little Austrian bank in jest, Bawag Group (BG AV), recently announced a deal to acquire Permanent TSB in Ireland in an all-cash deal. What does Ireland have to do with Austria? Not much. Why would someone be acquiring another bank for all cash? They think it's cheap, and they believe they can drive higher profitability. Was a German-speaking bank like Bawag buying a poorly run Irish bank on everyone's bingo card? No. Now you can begin to understand that this is all breaking old views of this space.

What Europe is going to see is that the free market, not the policy makers, will guide Mario's vision of scale and integration for Europe. Second case, UniCredit's (UCG IM) takeover of Commerzbank. You will read constant headlines about the German government not wanting this deal, as you have over the last two years. They sound like a German tale of the boy who cried wolf. UniCredit has effective control of the bank already. In Germany, you only need a majority of the shareholders that show up to vote to win a merger like this. If only 80% of shareholders show, UniCredit has this in the bag already.

What's next for UniCredit? Buying the other 70% of Alpha Bank in Greece that they don't own. Buying an Italian competitor to grow their 11% market share toward 20% of their home country. Bolt-on acquisitions in Eastern European countries or Spain could become new targets as well.

Who's next?

## The Tsunami of European Bank Mergers

The tsunami still sits behind these deals. The biggest banks in Europe are watching the UniCredit-Commerzbank saga foaming at the mouth to pull their own coups. On that list are Santander, ABN AMRO, Credit Agricole, Societe Generale, and Deutsche Bank. The tide has sucked out, but the tsunami is still coming. These mergers will drive efficiencies in European banking. This scale should lead to higher profits and cross-border structures that add security and access to capital. Something that we didn't even touch on was the securitizations of bank balance sheets via systematic risk transfers, AKA regulatory arbitrage. This will continue to lead the returns on capital of European banks over the next ten years. Many investors missed what has taken place thus far in the space, and that has propelled the stocks higher. We don't want to miss what is just on the horizon. The investors of Smead Capital Management have our surfboard in the water and are ready to ride this wave!

Play The Long Game,



**Cole Smead, CFA**  
CEO & Portfolio Manager

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