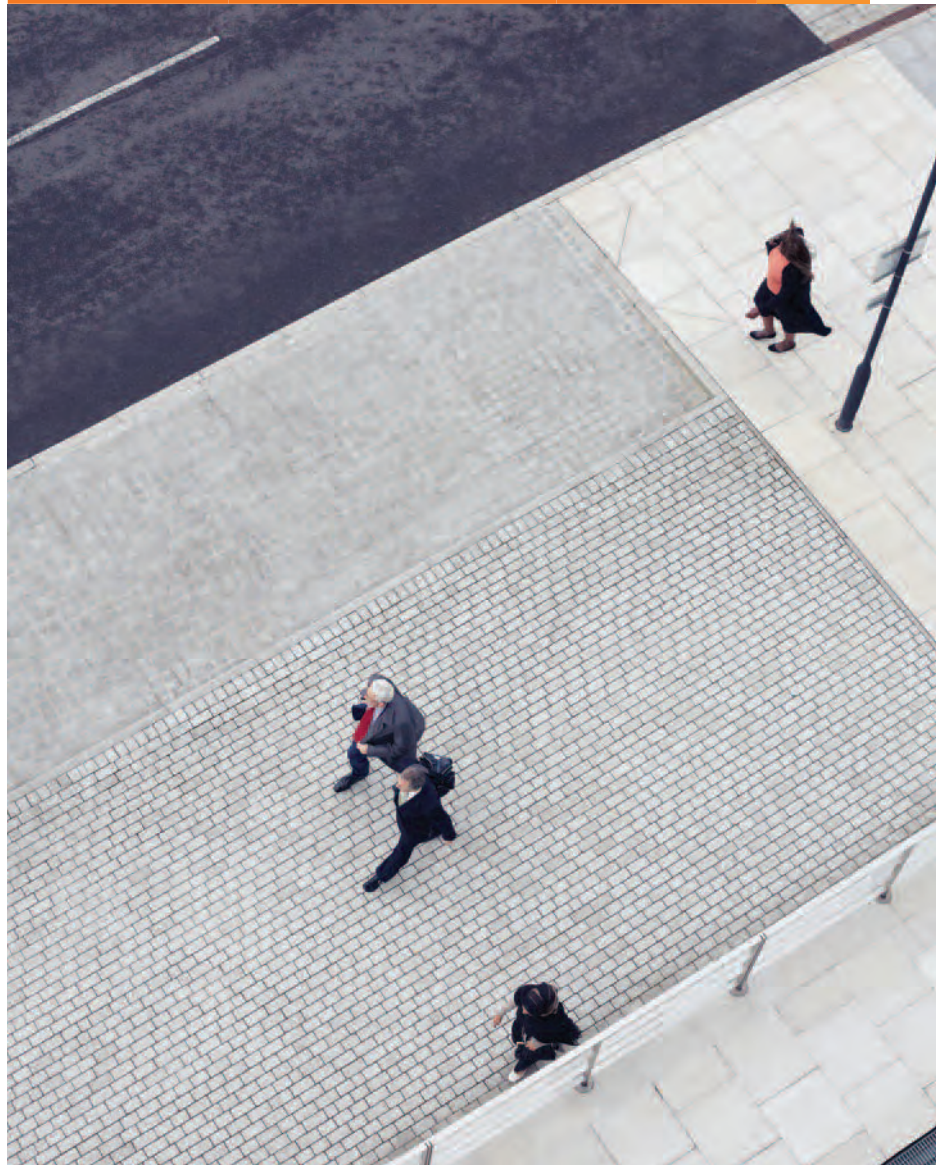


Sharing deal insight European Financial Services M&A news and views

This report aims to provide perspectives on the recent trends and future developments in the European financial services M&A market and insights into emerging investment opportunities.

December 2011



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€5bn

of European financial services deals in the third quarter of 2011

€106bn

capital shortfall to be made up by European banks by June 2012 is likely to spur further divestment

Welcome

to the fourth and final edition of Sharing Deal Insight for 2011.

Sharing Deal Insight provides perspectives on the latest trends and future developments in the financial services M&A market. In this edition we reflect on the impact of the turbulent recent months and look ahead to the challenges and opportunities that are set to shape deal activity in 2012.



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Deal values were subdued in the third quarter of 2011, reflecting market uncertainty and volatility. Yet, if anything the sovereign debt, and a further round of bank recapitalisation this has engendered, underline the rationale for continued bank restructuring. Banks will be expected to reach a 9% Tier 1 capital ratio by June 2012, with the European Banking Authority (EBA) estimating that banks will need to make up a shortfall of €106bn to reach this target.¹

Many banks will be actively looking to divest non-core and capital intensive assets as they seek to further stabilise their businesses and concentrate resources on fewer, stronger sources of value. As we examine in this issue, the divestments are likely to include non-banking operations such as securities and asset management. They are also likely to include smaller foreign operations,

creating acquisition opportunities for both domestic and international competitors. A further focus is likely to be the estimated €1.3tn in loan portfolios, earmarked as non-core across Europe.²

Specific current M&A opportunities centre on some of the still fast-growing markets in Southeastern Europe, most notably, Turkey. Potential sellers could include some of the Greek banks that have expanded into Turkey and the Balkans in recent years and may now need to sell some of these operations to bolster their capital position. There is also scope for increased divestment and consolidation among Italian banks. In turn, Russia is a good example of a market where strategic rationalisation by some groups is creating openings for others.

A further driver for deal activity is EU state aid requirements, which will force a number of banks to divest significant assets by the end of 2012. The prices for sellers may be disappointing if the current low valuations in the banking sector persist, though this of course represents an important opportunity for buyers. Our latest Valuation Index found that the banking sector in Continental Europe was trading at a discount of around 50% to book value at the end of September 2011.³ Once confidence returns, we expect the market to trend back towards fundamentals – the question is how long will that take?

Beyond banking, the new regulation and pressure on fees facing asset management businesses are likely to spur further

consolidation as organisations seek to build scale and diversify into new markets. Insurers are generally facing less pressing capital challenges than banks and can look to M&A to support longer term strategic objectives, including moves into new growth markets.

If the opportunities and impetus for M&A are evident, buyers and sellers will of course have to overcome the barriers created by current market conditions. Market volatility is making valuation more challenging. Buyers' and sellers' pricing expectations may be out of step as acquirers seek to take advantage of low price-to-book values on the one side and sellers seek to secure the price they believe reflects the underlying longer term value on the other. Management may also be reluctant to embark on M&A as it seeks to tackle immediate issues within the business. Yet, with effective due diligence, realistic pricing and a sharp assessment of the full upsides, deals will go through and values may begin to climb back up again in 2012.

We hope that you find this edition of Sharing Deal Insight interesting. Please do not hesitate to contact either of us, or any of the article authors if you have any comments or questions, or would like to discuss the issues in more detail.

¹ EBA media release, 26.10.11

² PwC media release, 13.04.11

³ 'PwC Valuation Index: Tracking the market to understand value', Issue Three, 31.10.11

Data analysis

The Data analysis section of the May 2011 edition of *Sharing Deal Insight* concluded that “barring a fresh outbreak of equity market volatility we still believe that 2011 should be a year of M&A recovery” Since then, financial markets have been increasingly disrupted, and European financial services M&A has declined steeply.



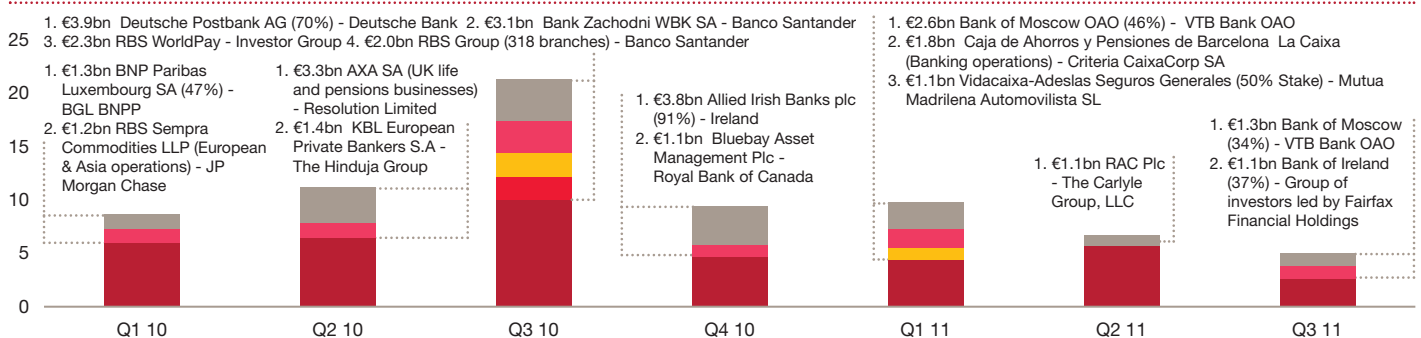
The value of European financial services M&A activity during the third quarter of 2011 was €5.0bn, 25% lower than the prior quarter’s figure of €6.7bn and 76% lower than the comparable figure of €21.2bn recorded in the third quarter of 2010.⁴

Even allowing for the upswing in deal-making recorded during the summer of 2010 (see Figure 1), this represents a remarkable slowdown in activity. Total deal values for the second and third quarters of 2011 are the lowest recorded

in the history of our nine-year dataset. Deal activity is being overshadowed by concerns about European sovereign debt markets and their impact on the financial sector and wider economy. In the following article, ‘How is the Eurozone crisis effecting financial services M&A?’, we examine the connection between the crisis in the Eurozone and financial services M&A in greater detail.

The third quarter’s announced deal activity included two transactions valued at more than €1bn. The first was VTB

Figure 1: European FS M&A by value (€bn), Q1 2010–Q3 2011



Source: PwC analysis of mergermarket, Reuters and Dealogic data

⁴ Deal data is sourced from mergermarket, Reuters and Dealogic, unless otherwise specified. For details of our analysis methodology, please refer to the information on page 16



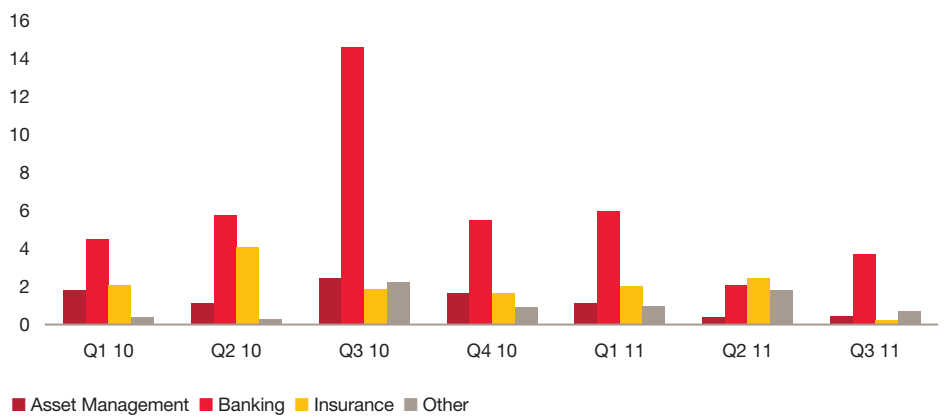
Bank's €1.3bn bid for a further 34% stake in rival Bank of Moscow. This follows VTB's initial investment announced in the first quarter of 2011, and takes its ownership of Bank of Moscow above 75%. The quarter's other large deal was the acquisition of a 37% stake in Bank of Ireland for up to €1.1bn by a consortium of investors including American billionaire Wilbur Ross, Fidelity Investments and US property developer Kennedy Wilson.

Small and mid-market deal activity declined steeply during the quarter. Transactions valued at less than €1bn totalled just €2.6bn, compared with €5.5bn in the previous quarter and a simple average of €6.1bn for the previous six quarters.

A review of European financial services M&A by subsector shows that banking transactions retain their habitual dominance (see Figure 2). Even with deal activity at an exceptionally low level, banking restructuring remains the single most important driver of M&A in the industry.

The insurance and asset management sectors had a very quiet quarter for M&A. Only two asset management deals featured among the quarter's ten largest, and no insurance transaction in our dataset exceeded the €100m mark.

Figure 2: European FS M&A by value (€bn) by subsector, Q1 2010–Q3 2011



Source: PwC analysis of mergermarket, Reuters and Dealogic data

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€1.3bn

was paid by VTB for a further 34% stake in the Bank of Moscow

Western Union's scale-building acquisition of Travelex UK's Global Business Payments division for €670m was the quarter's third largest announced deal, and accounted for the lion's share of 'Other' transactions during the quarter.

As in the second quarter of 2011, domestic transactions remained evenly balanced with cross-border deals (see Figure 3). The exceptionally low volume and value of transactions mean that we are wary of reading too much into these figures. Even so, it is notable that a number of the quarter's largest transactions involved bidders from outside Western Europe – an indication of the relative weakness of European financial institutions in the present political and economic climate (see Figure 4).

Apart from the three transactions already mentioned, only two more of the quarter's ten largest deals were valued at more than €500m. The slowdown in mid-market activity is evident from the number of smaller deals making it into the top ten, and the fact that the ten largest transactions accounted for 94% of the quarter's total announced deal value.

One of the deals worth more than €0.5bn was the acquisition of Austria's Volksbank International for €585m or more by Sberbank. This is the first major

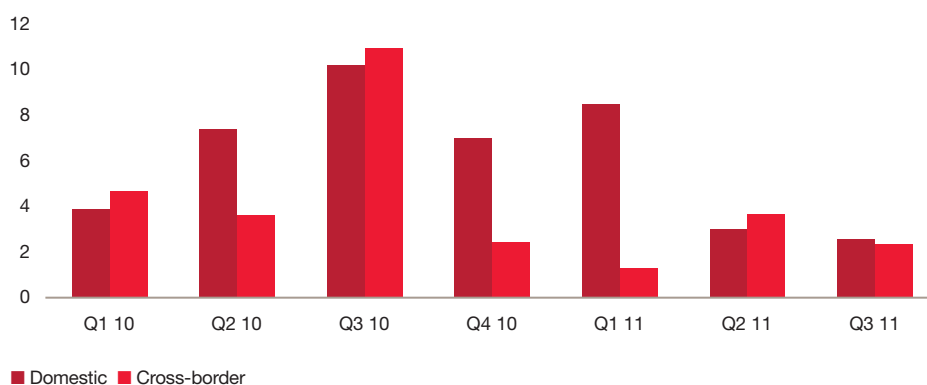
acquisition outside the Commonwealth of Independent States (CIS) by the state-owned Russian banking giant, and gives it immediate exposure to a number of banking markets in Central and Eastern Europe.

Five of the next six transactions involved UK targets. The first was the €543m acquisition of UK credit card company SAV Credit by Varde Partners, a US-based alternative investment firm. The next was J O Hambro Asset Management's acquisition from its management team by BT Investment Management, a deal intended to increase the Australian firm's diversification and growth potential (€238m).

Two smaller UK deals involved insurance targets. Insurer FirstAssist was acquired by US health insurance group Cigna for €82m. HSBC also sold its UK motor insurance run-off business to Syndicate Holding, an insurer domiciled in Puerto Rico, but active in the Lloyd's market (€69m).

The quarter's ten largest deals were completed with the purchase of Turkish Adabank by Bahraini Islamic investment bank Gulf Finance House and Turkish businessman Remzi Gur for €56m, and Principal Global Investors' acquisition of a 74% stake in UK asset manager Origin (€46m).

Figure 3: European FS M&A by value (€bn), domestic v. cross-border, Q1 2010–Q3 2011



Source: PwC analysis of mergemarket, Reuters and Dealogic data

Figure 4: Top 10 European FS M&A deals, Q3 201

Month	Target company	Target country	Bidder company	Bidder country	Deal value (€m)
Sep	Bank of Moscow (34%)	Russia	VTB Bank	Russia	1,275
Jul	Bank of Ireland (37%)	Ireland	Investors led by Fairfax Financial Holdings	Ireland	1,120
Jul	Travelex UK (Global Business Payments)	UK	Western Union	USA	670
Sep	Volksbank International	Austria	Sberbank	Russia	585
Sep	SAV Credit	UK	Varde Partners	USA	543
Jul	JO Hambro Capital Management	UK	BT Investment Management	Australia	238
Sep					

How is the Eurozone crisis affecting financial services M&A?

Since a mini-recovery in deal activity during the summer of 2010, European financial services M&A has become increasingly subdued. Although deals continue to take place, transaction data for the first three-quarters of 2011 show a further decline in total deal values (see 'Data analysis'). Anecdotal evidence of longer due diligence processes and deals failing to complete, underline the downbeat mood among European financial services leaders and deal professionals.



It is beyond doubt that the European sovereign debt crisis has played a significant role in keeping transaction volumes low during 2010 and 2011. Beginning in January 2010 with the revelation of inaccurate Greek fiscal data, the crisis appeared to reach its critical phase in the third quarter of 2011. The result has been exceptional levels of volatility in European financial markets (see Figure 1), and at the time of writing there is still no comprehensive solution in sight.

In this edition of Sharing Deal Insight we consider how market volatility is effecting the drivers of financial services deals, and the ways in which the crisis acts as a barrier to M&A. We also identify areas of European financial services where we see particular potential for deal activity within the next few months, despite – or in response to – problems in the Eurozone.

The crisis is strengthening banks' need to restructure

In our view, the need for banking sector restructuring remains the central driver of European financial services M&A. If anything, the Eurozone crisis is only strengthening this rationale. The Euro Summit decision of 26 October 2011 to

launch another estimated €200bn of bank recapitalisations is a reminder of how far many European banks still need to go to reach stability and sustainability.

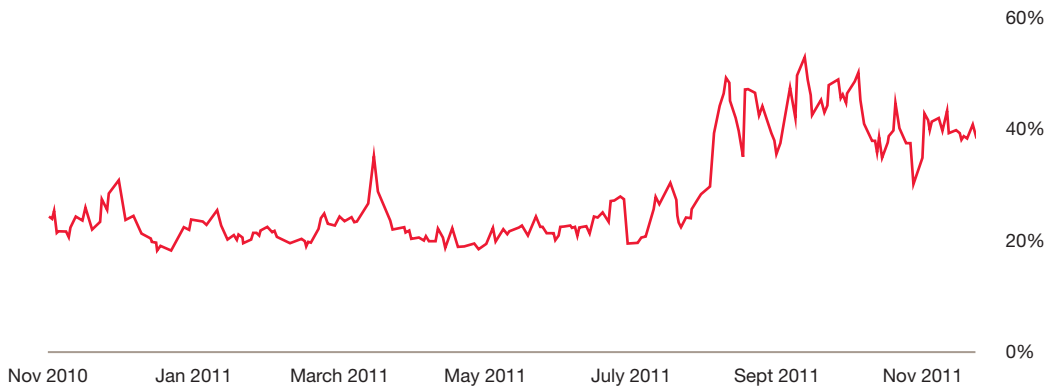
Most European banks are sharpening their strategic focus to concentrate on fewer, stronger activities. Improving efficiency is an important goal, but the most pressing factor is the need for capital. The requirements of Basel III are bringing greater urgency to the non-core disposals that many banks have been pursuing since early 2009.

Banks are most likely to divest non-banking businesses, particularly in asset management, non-life insurance and securities brokerage. EU State aid requirements are also forcing some banks to divest parts of their core franchise. In some cases these deadlines are still two to three years away, but other banks may become forced sellers during 2012. If bank valuations remain at their current low levels,⁵ this raises the possibility of poor value realisations and further pressure on capital. Even banks that do not need to make urgent disposals are identifying non-core business units and preparing them for sale.

⁵ PwC Valuation Index: Tracking the market to understand value', Issue Three, 31.10.11



Figure 1: Dow Jones Euro Stoxx 50 Volatility Index, Nov. 2010–Nov. 2011



The index reflects the anticipated annual volatility of 50 leading European shares. It is based on equity option prices and is expressed in percentage terms. For example, a value of 40% implies that leading European shares will experience volatility of 40% over the coming year.

Source: PwC analysis, Thomson Reuters 3000 Xtra

Banks are increasingly keen to divest foreign subsidiaries – and loan portfolios

One impact of the crisis has been to accelerate some European banks’ retreat from the geographic expansion of the previous decade. A number of institutions are reversing prior acquisitions and withdrawing from cross-border investments, particularly in South-Eastern and Central and Eastern Europe. Smaller

foreign operations that had been targeted for organic growth are also being sold.

Another result of current market disruption is the growing trend for European banks to identify elements of their lending activities as non-core. This has been true for some time among banks exposed to property lending in Ireland and Spain, but banks across Europe are becoming increasingly keen to improve their regulatory capital ratios by selling off entire books of non-performing or non-core assets.



M&A is becoming a more urgent goal for many asset managers. Most insurers have a longer term focus

Beyond banking, the rationale for M&A is arguably strongest in asset management, where the Eurozone crisis is rapidly putting profitability under severe pressure. On the cost side, firms continue to suffer from the effects of local and international initiatives including MiFID II, the AIFM Directive, FATCA and Dodd-Frank. Revenue streams already feeling the effects of investors' demands for lower fees are now facing a further threat from volatile markets and punishing levels of net outflows.⁶ Many European firms see M&A as their best hope to boost profits, achieve economies of scale and improve their diversification.

In contrast, most European insurers see the sovereign debt crisis as a less immediate threat than their banking or asset management peers. Investment volatility – coupled with the requirements of Solvency II – is encouraging many to focus on their levels of capital, but large firms are typically under far less pressure than their banking counterparts. This has helped insurers to keep their M&A focus on longer term goals, including the drive

to increase scale and the desire to reduce exposure to slow growth in Europe, while expanding in faster-growing markets.

The greatest negative impact of the Eurozone crisis stems from intangible factors

The crisis in the Eurozone, and the wider economic uncertainty it generates, present a number of barriers to European financial services M&A. In the short term, the crisis is having several negative effects on senior decision-makers. We identify three in particular:

- **Uncertainty.** The most obvious problems are uncertainty over the immediate outlook, and a lack of confidence in the financial markets as a whole and financial services as an industry. “M&A is always affected by levels of confidence among managers and investors”, says Stephen Cater of PwC UK.
- **Distraction.** The senior management of many financial institutions across Europe are too preoccupied with problem-solving and other urgent priorities to give much attention to strategically focused M&A.

⁶ EFAMA Investment Fund Industry Factsheet (14.10.11) shows accumulated net UCITS outflows of €63bn for Jun, Jul and Aug combined



- Risk aversion. Even when M&A remains on the agenda, heightened perceptions of a target's potential exposure to credit or liquidity risks are cooling bidders' enthusiasm. "Executives also fear that board members and investors are less likely to forgive a failed deal in the current market environment", explains Christopher Sur of PwC Germany.

Market disruption is also contributing to a number of practical M&A hurdles

Current disruption in the financial markets is not only affecting sentiment. It is also contributing considerably to practical deal-making hurdles. In our view, the four leading problems are:

- Volatility: Market volatility makes valuations more unstable, making it harder for parties to a transaction to agree a price. This is a particular challenge for larger, share-based transactions.
- Price gaps: The sense of crisis is making sellers more reluctant to transact at current prices, while also strengthening the sense of a buyers' market. As a result, price expectation gaps are again widening.
- Funding: Deal funding – whether via internal resources, or the issuance of debt or equity – is becoming scarcer and more costly.
- Risk assessments: A desire for more accurate confirmation of sovereign debt, interbank and property lending exposures is making due diligence processes slower, more searching and more expensive.

Looking further forward, the current crisis could also have a longer term impact on Europe as an investment destination. The prospect of greater economic damage and heightened perceptions of political risk could both do permanent damage, particularly in some of Europe's southern and eastern markets. This stands in particular contrast to the relative economic resilience of other regions, both mature and developing.

What now? We make some short-term predictions for financial services M&A in Europe

We have reviewed the current impact of the Eurozone crisis on the drivers of financial services M&A in Europe and the offsetting negative effects of ongoing market disruption. Despite the undoubted

difficulties of deal-making in the current environment, we believe a number of specific financial services markets and sectors will remain relatively active areas of M&A during late 2011 and the early part of 2012.

- **Loan portfolio sales:** As already discussed, the Eurozone crisis is encouraging European banks to dispose of non-performing and non-core loans. "We estimate that non-core assets in the European banking sector are worth more than €1.3 trillion," says Richard Thompson of PwC UK. "Even if these disposals are spread over a decade, portfolio transactions represent a significant source of deal flow." Corporate loans, leasing assets, retail mortgages and consumer finance books are all potentially for sale. "Banks in Spain and the UK have the greatest potential to generate sales during the coming year, followed by Germany and Ireland", says Richard. Royal Bank of Scotland, Lloyds Banking Group and Irish Life & Permanent are among those looking to sell assets or entire lending business. Recent reports suggest that BNP Paribas and Societe Generale could follow them in seeking to reduce risk-weighted assets.

Despite the urgency, loan portfolio sales have proceeded comparatively slowly so far. “We see genuine interest from potential investors,” says Richard “but there is no question that the crisis is creating some barriers.” For now, explains Christopher Sur of PwC Germany, “the greatest single obstacle is the fact that selling a held-to-maturity loan requires a fair value adjustment. The resulting impairments hurt sellers’ equity capital ratios, and that is not an appealing prospect.” As a result, pricing gaps remain considerable. It also takes time for sellers to identify loans for sale and gather the necessary information. Retail assets can often be valued statistically, but corporate loans require more careful due diligence.

So when will European loan portfolio sales take off? “Sellers will eventually have to accept lower prices than they are currently willing to offer,” says Steve Pearson of PwC UK. “The latest wave of bank re-capitalisation announced at the Euro Summit could be the catalyst that gets this process moving.”

- **Turkish banking:** As discussed in the November 2010 edition of *Sharing Deal Insight*, the Turkish banking sector is benefiting from restructuring and reform at the start of the last decade. Competition is strong and reserve requirements are high, but Turkish banks are stable, profitable and exposed to a fast-growing market with low levels of household debt.

“Ironically, these attractions are forcing some foreign owners to sell their prized Turkish banking assets,” says Serkan Tarmur of PwC Turkey. Dexia is selling its wholly owned subsidiary Denizbank, one of the ten largest banks in Turkey, and National Bank of Greece is widely expected to sell off at least part of Finansbank within the next few months. “The smaller local operations of a number of foreign banks could also come onto the market in the near future.”



There will be no lack of interest in these targets. “Turkey’s private sector banks are certain to identify significant potential synergies,” says Serkan “and the award of new banking licences – for example to consumer credit companies – could create domestic bidders for some of the smaller targets too.” Although regulators might prefer domestic deals, they have also shown themselves to be open to foreign investment that brings expertise to the local industry.

- **Russia:** Russia has generated a relatively high proportion of European financial services deal values during 2010 and 2011. “We expect domestic banking and insurance transactions to continue to flow into 2012,” says Andrew Cann of PwC Russia. “In our view the process of domestic consolidation has further to run.” In addition to VTB Bank’s pursuit of Bank

of Moscow, Russia’s largest banks have made a number of acquisitions during the year. Targets have included smaller distressed institutions, as well as specialised businesses – as seen in Sberbank’s acquisition of Moscow brokerage Troika Dialog for €0.7bn.

Foreign investors continue to monitor the Russian market, but levels of interest remain lower than they were before the financial crisis of 2008. “It is possible that 2012 will see some international banks divest or downsize their Russian activities as they focus on core markets”, says Andrew.

- **Central and Eastern Europe:** In Central and Eastern Europe (CEE), the picture of retrenchment by foreign banks is much clearer. Poland illustrates the tendency for distressed Western European banks to release valuable capital by selling CEE subsidiaries. Allied Irish Banks, KBC and Millennium BCP have all announced the sale of their Polish units over the past 12 months and market rumours suggest that others may follow suit.⁷

At the same time, some well-capitalised Western European banks such as Santander are emerging as new acquirers in CEE markets. “Russian banks would like to expand in the region too,” explains Andrew Cann “but apart from Sberbank, most have fairly limited scope for foreign acquisitions.” State-owned Sberbank has emerged as a highly acquisitive player, and recently agreed to buy Volksbank International of Austria for €0.6bn. Targets in Central and Eastern Europe could also attract bidders from less mature markets. Garanti Bank of Turkey – 25% owned by BBVA of Spain – is said to be weighing investment in CEE banks experiencing depressed valuations.⁸

- **Spanish savings banks:** Levels of exposure to impaired real estate and property development remain the key driver of consolidation among Spanish savings banks, just as they have for the past two years. The number of Cajas has fallen from over 40 in 2009 to just 15 today. Several Cajas will need to raise capital soon if they are to meet Bank of Spain requirements. “The fact that many of the Cajas have created banking subsidiaries means they can now sell equity stakes,” explains Patrick Atkinson of PwC Spain. “This provides clear potential for further mergers within the sector. Two of the strongest, La Caixa and Bankia, listed during 2011 and could act as consolidators.”

Acquisitions are also likely to flow from the sale of Cajas currently under public control. The Banco de España is known to be keen to divest its holdings, although some like NovaCaixaGalicia and Catalunya Caixa – recapitalised and nationalised by FROB⁹ in September 2011 – may prove hard to sell. “Others like Unnim, which was previously a takeover target, are likely to be more popular,” says Patrick. The auction of CAM is reported to have attracted bids from Santander, BBVA, CaixaBank and Banco Sabadell. “We firmly expect to see further M&A in the sector after the general election in November 2011.”

- **Greek and Italian banking:**

The current phase of the Eurozone sovereign debt crisis is putting particular downward pressure on the price of Greek and Italian government bonds. As a result, concern about the exposure of Greek and Italian banks to their own governments’ debt is pushing up their own cost of borrowing. Greek banks are under particular funding pressure. At the time of writing, liquidity is a dominant issue, with many Greek depositors withdrawing their funds to supplement falling levels of income.

“The Greek banks are currently drawing on emergency guarantees from the central bank, but there will come a

point when several may have to engage in M&A to strengthen their capital positions,” says Emil Yiannopoulos of PwC Greece. “Many of the banks expanded into Turkey, the Balkans and other areas of South Eastern Europe during the last decade, and these are likely to provide the most attractive opportunities for disposal.” As well as National Bank of Greece’s anticipated sale of part of Finansbank, Piraeus Bank has recently agreed to sell its Egyptian operations to Standard Chartered. “The drive for greater balance sheet strength could also lead to further consolidation among the Greek banks, as seen in Alpha’s recently announced merger with Eurobank EFG,” adds Emil.

Italian banks have traditionally been among the biggest buyers of domestic government debt, although they are not yet under such acute pressure as their Greek counterparts. Even so, as Matteo D’Alessio of PwC Italy points out, many still need to significantly strengthen their equity capital. “There is clear scope for increased levels of M&A in Italian banking during the coming quarters, whether from domestic consolidation or Italian banks disposing of non-core activities.”

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⁷ ‘Record earnings may lead to shake-up’, Financial Times, 01.11.11

⁸ ‘Garanti eyes E. Europe expansion with BBVA’, Reuters, 07.11.11

⁹ Fondo de Reestructuración Ordenada Bancaria (Fund for Orderly Bank Restructuring), set up by the Spanish Government in June 2009

“Banks are in such need of capital that small or medium sized institutions might well be open to private equity investment” says Matteo d’Alessio. “Banks that create specialised subsidiaries for lending activities they would like to exit could be particularly attractive to private equity funds”.

- **Asset management in Western Europe:** “We see clear opportunities for strong independent asset managers in Europe, North America and Asia to take advantage of European banks’ disposal programmes,” says Fredrik Johansson of PwC UK. “Independent firms feeling the effects of the crisis could also be attractive targets for buyers looking for product or geographic diversification,” he adds, citing the example of Royal Bank of Canada’s €1.1bn acquisition of Bluebay, announced in October 2010. Asian financial services groups are looking intently at the European asset management market. “We have already seen a number of Asian and European firms set up distribution agreements,” says Fredrik “and some Asian firms are looking to develop locally domiciled UCITS’ funds for distribution into Europe. Acquiring a European firm could give these managers valuable access to product and distribution expertise.”

The Italian asset management market also offers particularly strong potential for M&A, according to Matteo D’Alessio. “Asset management distribution in Italy has traditionally been dominated by closed architectures – most Italian banks own an asset manager,” he explains. However, many are lacking scale and struggling to compete in a market that regulators have opened up to foreign competition. Several are experiencing

heavy net outflows. “Non-core disposals by Italian banks offer clear potential for large Italian players to build scale, or for a successful entrant to boost its local expertise”.

- **Private equity investment in banking:** The uncertainty in financial markets continues to make it very hard for private equity firms to raise debt finance. However, private equity funds that have already raised capital have the potential to become active minority investors in European banks. A number of US-based private equity groups such as KKR, TPG Capital and Corsair have recently been rumoured to be considering taking advantage of low price-to-book valuations.

“Banks are in such need of capital that small or medium sized institutions might well be open to private equity investment,” says Matteo d’Alessio. “Banks that create specialised subsidiaries for lending activities they would like to exit could be particularly attractive to private equity funds”.

Spanish savings’ banks in search of capital have a similar profile, adds Patrick Atkinson. “There could be scope for private equity funds to invest in Cajas looking to boost their capital ratios,” he explains. “The fact that Cajas which attract outside investors will qualify for lower capital ratios than those remaining entirely mutualised could act as a further incentive for the banks to welcome private equity capital.”

- **Specific insurance markets:** Even if market volatility is keeping a lid on insurance transactions, we still see scope for short-term activity in a few specific areas. According to James Tye of PwC UK, the most obvious is the Lloyd’s market, which has recently seen notable deals including Brit’s €0.9bn acquisition by a private equity consortium in October 2010, Chaucer’s €0.3bn acquisition by US insurer The Hanover in April 2011 and Canopus’ continuing pursuit of rival Omega.



“No new admissions to Lloyd’s are anticipated for 2012, so the competition for potential targets is only likely to increase in the near term,” says James. “We expect private equity firms to join Lloyd’s companies considering potential bids.”

Another specific area of potential M&A activity could be inbound acquisitions by Asian insurers. July 2011 saw Nippon Life announce a planned investment of €500m in contingent convertible bonds issued by a subsidiary of Allianz. “Other European insurers might welcome the chance to raise capital in this way,” says James “while Japanese firms could take advantage of the strong yen to acquire expertise in some of Europe’s more sophisticated markets like France, Germany or the UK.”

Lastly, the huge growth potential of the Turkish insurance market – and the life segment in particular – will continue to attract large insurers from Western Europe’s more mature markets. “These groups are most likely to have the necessary firepower to launch a bid, should the opportunity occur,” says James. In recent months the attractions of the Turkish market have been

demonstrated by MetLife’s acquisition of Deniz Emeklilik from Dexia-owned Denizbank. Other developing markets in Central and Eastern Europe could also attract bidders seeking exposure to faster rates of growth.

Even if the European crisis can be resolved, its long-term effects remain unclear

We have made some predictions for the coming months, identifying several areas where we expect the desire for M&A to overcome the obstacles created by the ongoing European sovereign debt crisis.

While no-one would predict a return to the boom years of the middle of the last decade, we feel market volatility will surely not continue at current levels, indefinitely. At the same time, there is a growing view that the deal environment for European financial services firms has probably undergone some permanent change. “Funding conditions have probably changed permanently,” says Stephen Cater. “The difficulty of raising debt will pose particular problems for medium-sized unlisted firms looking to expand via M&A.”

Looking further forward, it becomes far harder to make intelligent statements. Should sellers wait for markets to stabilise, or is this the new reality for financial services M&A? “The greatest concern right now is that there is no way of knowing when current market conditions will come to an end,” says Shamshad Ali of PwC UK.

Only time will reveal the full extent of the impact of the Eurozone crisis on the long-term prospects for financial services M&A. Watch this space.

Methodology

The 'Data analysis' section in this issue includes FS deals:

- Reported by mergermarket, Reuters and Dealogic.
- Announced during the third quarter of 2011, and expected to complete.
- Involving the acquisition of a >30% stake (or significant stake giving effective control to the acquirer).

- Acquisitions of Europe-based FS targets where a deal value has been publicly disclosed.

Our analysis also excludes deals that, in our view, are not 'pure' FS deals involving corporate entities, or entire operations, e.g. real estate deals and sales/purchases of asset portfolios where the disclosed deal value represents the value of assets sold.

Each deal was classified depending on the type of acquirer (Private Equity, Corporate, Government, Other), the target's subsector (Asset Management, Banking, Insurance, Other) and whether the deal was domestic or cross-border; this is therefore PwC's analysis and interpretation of the publicly available information.

Figure 1: European FS deals – quarterly summary

Deal value € in billions	Q110	Q210	Q310	Q410	FY10	Q111	Q211	Q311	YTD11
Asset Management	1.7	1.0	2.4	1.5	6.6	1.0	0.4	0.4	1.8
Banking	4.4	5.8	14.8	5.5	30.4	5.9	2.0	3.7	11.7
Insurance	2.0	4.1	1.8	1.6	9.5	2.0	2.5	0.2	4.6
Other	0.5	0.3	2.3	0.9	3.8	0.9	1.8	0.7	3.4
Total deal value	8.6	11.1	21.2	9.5	50.3	9.8	6.7	5.0	21.4
Corporate	7.5	10.8	17.0	4.5	39.8	9.5	4.8	3.3	17.5
PE	0.8	0.0	4.2	1.1	6.1	0.3	1.9	0.5	2.7
Government	0.3	0.2	0.0	3.9	4.3	0.0	-	-	0.0
Other	-	-	-	-	-	0.0	0.0	1.2	1.2
Total deal value	8.6	11.1	21.2	9.5	50.3	9.8	6.7	5.0	21.4
Domestic	3.9	7.5	10.2	7.1	28.7	8.5	3.0	2.6	14.1
Cross border	4.6	3.6	11.0	2.4	21.6	1.3	3.6	2.4	7.3
Total deal value	8.6	11.1	21.2	9.5	50.3	9.8	6.7	5.0	21.4

Source: Mergermarket, Thomson Reuters, Dealogic, PwC analysis

Note: May contain rounding errors

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About this report

In addition to the named authors of the articles, the main authors of, and editorial team for, this report were Nick Page, a partner and Fredrik Johansson, a director in the Transaction Services – Financial Services team at PwC UK in London. Other contributions were made by Andrew Mills of Insight Financial Research and Maya Bhatti, Valerie Martin, Tina Mayo, Natasha Pitchacaren, Kate Davies and Fred Lewis of PwC UK.

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