

News Release

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Government involvement drastically reshapes the landscape of European financial services M&A, according to PwC

The financial crisis has had a profound impact on patterns of M&A in financial services (FS) across Europe during 2008, reversing many well-established trends in deal activity. Some of the most notable changes include a steep fall in the value of M&A involving private sector bidders: a shift away from the emerging markets to domestic priorities and a renewed focus on stability and solvency at the expense of top-line growth.

The new report from PricewaterhouseCoopers, 'Back to the domestic future: where next for FS M&A in EMEA' also finds that 61% of respondents to the PwC survey, indicated that, with regards to banks, government involvement would constrain M&A activity during 2009.

Eduard Vacula, Manager, Transactions, PricewaterhouseCoopers Slovakia, said:

"Deal dynamics have changed tremendously and are now dominated by haste, opportunism and government involvement, the latter of which has dramatically changed the dynamic of European M&A activity, most markedly in terms of the types of transactions that have taken place. Deals are no longer dominated by the desire for increased scale, faster growth, reaching new markets and creating national champions."

2008 was 'year zero' for FS M&A, with levels of activity dropping across Europe. The total value of deals in the European FS sector declined from €208bn 2007 to €179bn 2008. The growing trend of governments nationalising or taking strategic stakes in European FS companies accounted for over 50% (12) of the top 20 deals and if state sponsored activity is excluded, total deal values during 2008 decreased by a staggering 65%; this is below the level of European FS deals seen in 2005.

During 2008, government involvement reversed the trend of increasing cross border activity toward domestic deal making. Domestic deals accounted for €137bn of total deal activity in 2008, up 81% from €76bn in 2007. In 2008 cross border deals accounted for €41bn down 69% from €132bn in 2007. The impact of this has been particularly felt in Eastern Europe and levels of activity have cooled from €11bn in 2007 to €6bn in 2008.

M&A deal activity was heavily biased toward banking in 2008 with deal values rising from €140bn in 2007 to €152bn in 2008. Government involvement accounted for a huge €104bn of this total, the significant factor allowing the banking sector to retain its dominance. The value of transactions involving insurers and asset

managers dropped sharply. Insurance saw a decline from €45bn in 2007 to €11bn in 2008 while asset management saw a fall from €13bn in 2007 to €5bn in 2008.

Outlook

Eduard Vacula, Manager, Transactions, PricewaterhouseCoopers Slovakia, said:

“The financial crisis will continue to dominate the prospects for M&A in European financial services through 2009. The potential effects of regulatory activity and government intervention are contributing to uncertainty in the deal making environment which will have a lasting effect on deal activity well into 2010.”

56% of respondents to the PwC survey, anticipate M&A appetite to remain at the same level or decrease as we move through 2009, in part, a reflection of the increased trend of government ownership of banks.

The extent of government involvement is anticipated to be a catalyst for some significant strategic reprioritisation in the industry with the mantra for 2009 likely to be restructuring. Divestments and disposals were the driving forces behind many transactions during 2008 and this is set to continue through the year with 87% of respondents believing that financial institutions will be more likely to divest assets, portfolios, businesses and subsidiaries in 2009, than be buyers of new business.

Eduard Vacula, Manager, Transactions, PricewaterhouseCoopers Slovakia, said:

“Safety and stability will be the watch words for 2009. Government influence will encourage boards to aim for stability and capital generation instead of top line growth. Having to justify sales or acquisitions to taxpayers and ministers will be a new challenge for many organisations”.

66% of respondents expect the dramatic fall of share prices of banks and financial services companies will lead to greater involvement of Sovereign Wealth Funds and Private Equity as investors in the financial services sector during 2009. Financial Services infrastructure such as transaction processing and payment operations will attract consolidators and private equity backed bidders.

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Note(s) to Editor:

1. For a copy of the report 'Back to the domestic future: where next for FS M&A in EMEA' please click through the following link: www.pwc.com/fs_ma
2. The findings are based on analysis by and a survey, from PricewaterhouseCoopers.

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