

# The new world of bank M&A in the US

## Challenges and opportunities in the wake of the financial crisis

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# Contents

Section		Page
1	Point of view	3
2	Current situation	9
3	Competitive intelligence	15
4	A framework for response	20
5	How PwC can help	34
Appendix	Select qualifications	39

# Section 1 – Point of view

## Section 1 - Point of view

The financial crisis of 2007-2009 has driven consolidation in the banking industry and created unique buying opportunities and risks.

- While a number of consolidations have taken place among the larger banks over the last year, consolidation activities during the next 12-24 months will shift to thousands of smaller banks throughout the country.
- The sheer scale of the consolidation is unprecedented. Solvency and capital adequacy concerns have impacted a much wider group of institutions than in past crises, which has resulted in the crisis not being confined to any particular region or country. As a result, the market valuation of financial services firms has plummeted across the board.
  - Currently, for example, the FDIC has 305 institutions on its watch list, an increase of almost 240% since first quarter 2008, when the list included 90 institutions.<sup>1,2</sup> The current watch list contains the largest number of problem banks that the FDIC has reported since the end of the savings and loan crisis in 1994.<sup>3</sup>
  - Although not all banks on the watch list will ultimately fail, there were 63 failures between January 2008 and June 2009, with assets totaling \$408.1 billion.<sup>4</sup> To put this in context, the assets of institutions that failed during this 18-month period exceed the values seen at the height of the savings and loan crisis of the 1980s and early 1990s, when a total of 725 failures representing assets of \$361.7 billion occurred over the three-year period from 1988 to 1990.<sup>5</sup>

<sup>1</sup>Federal Deposit Insurance Corporation, press release dated 27 May 2009, "FDIC-Insured Institutions Earned \$7.6 Billion in the First Quarter of 2009," [www.fdic.gov](http://www.fdic.gov), accessed 9 June 2009. Data as of first quarter 2009.

<sup>2</sup>Federal Deposit Insurance Corporation, press release dated 26 August 2008, "Insured Bank and Thrift Earnings Fell to \$5.0 Billion in the Second Quarter," [www.fdic.gov](http://www.fdic.gov), accessed 9 June 2009. Data as of first quarter 2008.

<sup>3</sup>Reuters, "Update 4-Problem U.S. banks highest since 1994 - FDIC," [www.factiva.com](http://www.factiva.com), accessed 9 June 2009.

<sup>4</sup>SNL interactive, "Bank and Thrift Failure," [www.snl.com](http://www.snl.com), accessed 9 June 2009. Data presented is as of 8 June 2009.

<sup>5</sup>Timothy Curry and Lynn Shibut, "The Cost of the Savings and Loan Crisis," FDIC Banking Review.

## Section 1 - Point of view

The current crisis differs from previous crises in a number of important ways.

- Changes in accounting rules, particularly purchase and fair value accounting, make it less likely that the large banks will be the primary acquirers of troubled banks and/or assets—unless the federal government offers guarantees and/or loss-sharing agreements.
- Private equity firms may become significant players in upcoming consolidations as there is significant interest in bank assets. We expect that the trend-setting “club deals” completed during the first half of 2009 will become more commonplace. The extent of investment, however, depends on the final rules issued by the FDIC regarding private equity ownership of bank holding companies.
- The federal government has assisted with multiple bank acquisitions since the onset of the current crisis, with 26 government-facilitated transactions in 2008 and 32 to date in 2009.<sup>1</sup> Guarantees and loss-sharing agreements, while likely to continue, will bring additional risk and reporting requirements to the acquiring banks.
- The types of assets and the nature of the businesses involved are much more diverse than in prior crises. During the 1980s, the crisis was driven by the savings and loan institutions, and the vast majority of troubled assets were commercial and residential loans. In the current crisis, a much wider variety of institutions and asset classes have been impacted.

<sup>1</sup>SNL interactive, “Government Facilitated Bank Mergers,” <http://www.snl.com>, accessed 10 June 2009. Data represents banks that were taken over by the FDIC and subsequently sold to other institutions. Figures are as of 9 June 2009.

## Section 1 - Point of view

Investors and acquirers will need a different “playbook” and skill set than in the past if they hope to capitalize on current market conditions.

The industry upheaval presents unique opportunities for both healthier banks and non-traditional investors. Banks have the opportunity to expand their strategic and/or geographic footprint, while nontraditional investors, such as private equity firms, can gain exposure to the expected recovery in the financial services industry. Today, many investors/acquirers are looking to potentially execute multiple acquisitions simultaneously. This places a substantial premium on the ability of these companies to plan for and execute integration activities.

Challenges for successful integration include:

- Most organizations do not have adequate staffing to quickly and successfully execute multiple acquisitions
- Acquirers may not have the expertise in particular asset classes or tools to be able to continue business as usual and complete multiple acquisitions simultaneously

Companies will need to engage additional resources, both internally and externally, in order to successfully integrate multiple acquired entities. Organizations used to making acquisitions one at a time, using internal resources only, will need to consult a significantly altered integration playbook.

We see a high likelihood that hastily planned and executed transactions in the current environment will create considerable short- and long-term risks for acquirers and investors.

It is our view that many issues in the financial services industry today have roots in poorly and/or hastily executed acquisitions of the past. Emphasis was placed primarily on closing the books, minimizing integration cost, and completing the integration activities before the next opportunity came along, rather than on meaningful integration and achievement of deal synergies. In the most successful acquisitions and mergers, integration planning typically occurs during the strategy and diligence phases, not after.

## Section 1 - Point of view

There is a close connection between merger success and completing integration activities during two critical windows of opportunity.

The two critical windows of opportunity are:

- The first 100 days post-close for short-term actions
- Twenty-four months for longer-term integration activities such as merging of key technology platforms and operations

The majority of successful acquiring companies maximize the level of activity and progress in the time when resources and budgets are focused (between days 1 and 100). Long-term winners, however, plan and execute not just in the first 100 days, but also carefully plan and budget for finishing the acquisition/integration within a 24-month period. This is where lasting synergies and long-term customer retention is achieved. Companies that follow this approach have seen improved profitability and cash flow.

Incorporating the future business model into the planning of integration activities is critical.

To get it right from day one, mergers should be constructed with a long-term future business model in mind. Companies cannot realize the full synergies of acquisitions by simply combining the books and operations of two or more entities. Integration planning should take each acquisition into account as part of the longer-term strategy of the firm. If your current acquisition achieves a 1.5x growth in business volume, but your long-term goal is 3x, planning for 3x should occur during the current integration. By doing so, the next integration does not require wasteful backtracking or duplication of effort.

## Section1 - Point of view

### Importance of due diligence and planning

Without proper planning, opportunities to fully leverage the benefits of the acquisition may be missed. Buyers should focus on identifying key synergies during deal conception and throughout the diligence process.

#### Revenue opportunities

In addition to analyzing the sustainability of an acquisition target's revenue stream, a savvy acquirer also analyzes the revenue opportunities presented by the deal. Does the merger provide pricing leverage that did not exist previously? Does the transaction open new markets for products of the acquirer? Does the acquisition provide an opportunity for a competitor to steal customers during the transition? If so, how does the acquirer intend to manage and reduce this attrition risk?

#### Cost savings

Major cost-reduction opportunities and redundancies should be identified during the due diligence efforts. Consider the timing of these reductions and how to minimize the impact on revenue generation and customer service. Identify cost savings needed by business line and for each major support division.

#### HR considerations

Due diligence efforts should identify the major personnel costs (and cost-saving opportunities) associated with the transaction. How many employees are subject to change-in-control agreements? Which benefit plans will be instituted post-transaction? Are existing plans fully funded? Are there duplicative business units or support functions? What level of resources are needed to run the business after integration?

#### Systems

The acquirer should analyze the functionality, scalability, and cost of the target company's key systems, and then determine the systems needed to support the business post-transaction. Can target company systems be retired? What are the short-term costs of conversion and the long-term financial benefits? Does the acquisition provide an opportunity to renegotiate with third-party system vendors? What level of internal IT resources will be needed for the business after the acquisition is completed?

## Section 2 – Current situation

## Section 2 - Current situation

### The banking environment is evolving

While many companies are dealing with market- and self-imposed issues in the current environment, others are looking to take advantage of the current uncertainty.

- The key questions banks are asking include: Am I a target or an acquirer? What is my long-term strategy? Am I ready to do a deal?
- The regulatory landscape is emerging as a clear driver of change. But what changes are in store for banks going forward, and will they help US banks compete in the global marketplace?
- Future success will have its roots in many of the decisions being made today...expand now?...wait until the economy starts to recover?...and if I do expand, how do I create value in the long term?

## Section 2 - Current situation

### Deal types and players in the current market

#### Current types of deals

##### FDIC receivership deal

Involves the sale of a financial institution, where the company is in receivership, and the FDIC holds a bidding process for all or part of an institution, its branch networks, portfolios, assets, or liabilities. Bidders are usually preapproved and can be traditional or nontraditional buyers (such as IndyMac transaction).

##### Regulator “arranged” deal

Typical of several of the deals last year (such as Wachovia), where an institution is so large that a sale of all or part of the institution on an “open bank” basis is prearranged by regulators, avoiding a prominent bank failure. Buyers are usually traditional acquirers (such as well-capitalized domestic or foreign banks).

##### Troubled bank deal

Involves solicited or unsolicited bidding for all or part of a troubled or undercapitalized institution. This can take the form of a capital injection, whole bank sale, carve-out of specific business lines, regional franchises or branch networks, or portfolios of assets. Bidders can be both traditional and nontraditional acquirers.

##### Strategic deal

Involves the acquisition or merger of institutions where the purchase of a franchise, branch network, portfolio of assets, or entire institution is strategic in nature and can be driven by overlapping or complimentary businesses.

#### Players

##### Traditional

Traditional players include banks, securities firms, and insurance companies that are typically already in the banking business and already operate a bank holding company or hold a banking license.

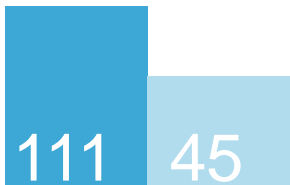
##### Nontraditional

Nontraditional players include corporate entities, alternative investment firms (such as private equity) or individuals who collectively are more active in the current environment. Typically nontraditional players, particularly private equity firms, are looking for a “platform” that they can grow through the purchase of additional banks, franchises, or assets.

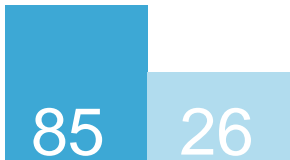
## Section 2 - Current situation

### Recent merger activity

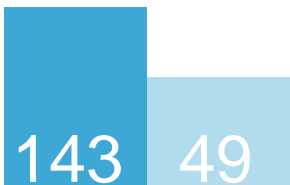
Number of deals:



Asset managers



Broker dealers



Banks



Thrifts

2008   
2009 YTD 

**The pace of financial service deals set in 2009 is behind the pace set for 2008**

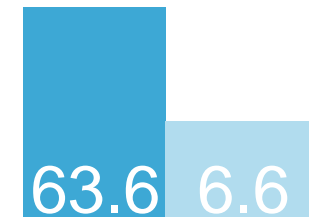
**Through the first half of 2009, the aggregate deal value in the industry, particularly with regard to banks has been relatively low\***

Source: SNL Financial. Data as of 1 June 2009.  
\*Note: Excluding deals involving asset managers

Aggregate Deal Value in \$B:



Asset managers



Broker dealers



Banks



Thrifts

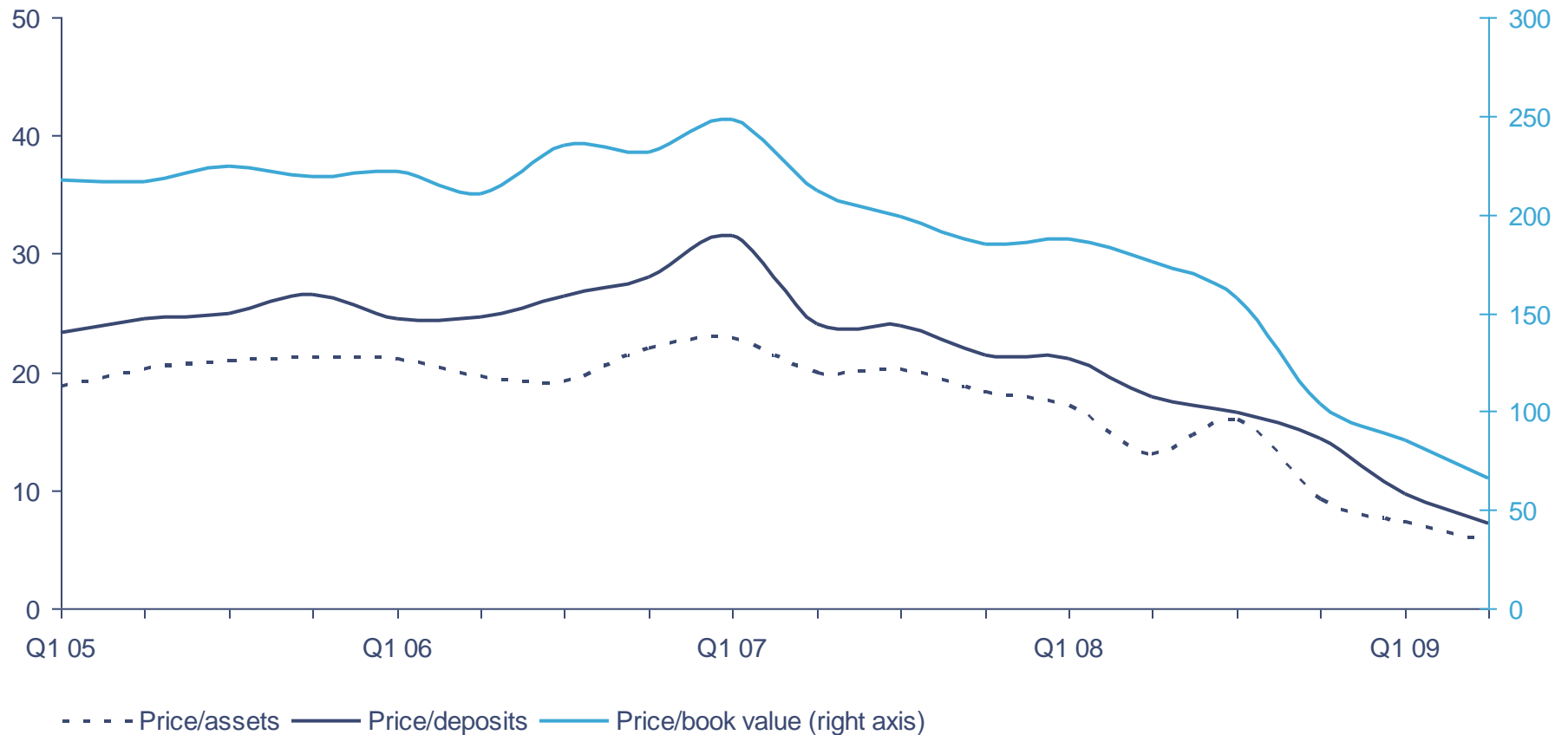
2008   
2009 YTD 

## Section 2 - Current situation

### Opportunities in the current market

Occurring at historically low valuations, the majority of the acquisitions currently taking place in the banking industry are distressed or government-imposed transactions. Under these circumstances, deals must close quickly, minimizing the time available to perform due diligence.

Historic relative valuation ratios for bank and thrift acquisitions



Source: SNL interactive, "Industry Data: M&A Summary Statistics," <http://www.snl.com>, accessed 9 April 2009. Note: Q2 2009 data is as of 7 April 2009

## Section 2 - Current situation

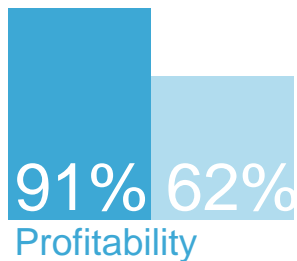
### Importance of due diligence and planning—Results from surveys of recent mergers



**The vast majority of survey respondents do not rate their mergers as a financial or operational success.**

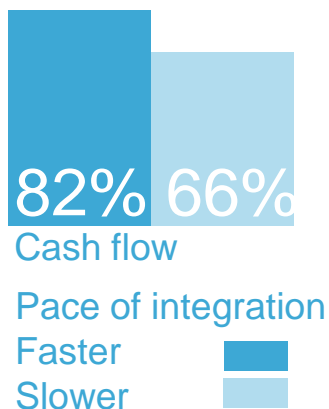
Only 38 percent of respondents from large capital and middle-market US financial firms agreed their most recent deal was a significant success financially.

Even less, only 35 percent, agreed their most recent deal was a significant success operationally.



**Most survey respondents agree that profits and cash flow are positively impacted by integration activities performed at a “faster than normal” pace.**

Ninety-one percent of respondents who reported “faster than normal” pace also reported either “very favorable” or “somewhat favorable” profitability. This compares to only sixty-two percent of respondents who reported “slower than normal” pace reporting either “very favorable” or “somewhat favorable” profitability.



Similar results were reported for cash flow, with eighty-two percent of respondents who reported “faster than normal” pace also reporting either “very favorable” or “somewhat favorable” cash flow. This compares to only sixty-six percent of respondents who reported “slower than normal” pace reporting either “very favorable” or “somewhat favorable” cash flow.

# Section 3 – Competitive intelligence

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### Common pitfalls on merger integrations

Acquiring banks are often unprepared for “when the big one hits” or a series of mid-size transactions overlap. Common pitfalls include:

- Underestimate almost everything, including complexity due to scale
- Do not apply enough resources, or enough qualified resources
- Lack appropriate executive involvement and leadership
- Never really “plan the plan,” or begin planning too late
- Decentralize decision making and process (no centralized IMO)
- Failure to prioritize initiatives for resource focus and timing
- Start integration or banking risk and regulatory issues too late
- Encounter extraordinary number of communication issues
- Failure to understand the capital impact of the deal
- Failure to realize that “doing nothing” could be doing harm
- Lose momentum after Day One
- Unprepared for operationalizing purchase accounting and reporting requirements
- Unprepared for IT capacity issues
- Lack clarity for existing IT roadmaps for each line of business, particularly in front office to assist in rational integration planning
- Complexity of legacy applications environment for each line of business for acquiring and acquired bank
- Lack or maturity in comprehensive CRM approaches for acquiring and acquired bank, impacting customer retention cross-sell value drivers

## Section 3 - Competitive intelligence

### Leading practices for merger integrations

PwC has identified the following leading practices for large-scale integrations:

- Develop integration readiness assessments, including scenario-based resource plans, playbooks, and plans to mobilize for each line of business such
- Manage the integration as a business process
- Structure the integration organization to “fit” the transaction
- Move quickly to secure people in the integration organization
- Establish a governance model requiring substantial executive participation
- Authorize the IMO to centralize required processes
- Plan the degree of integration across all functions and geographies
- Ensure customer impact/retention focus is embedded into each workstream
- Develop business and integration strategy by line of business to provide clarity early in the integration (divest, runoff, grow and expand, harmonize customer segments and products)
- Develop IT roadmaps that harmonize front- and back-office applications and major IT initiatives
- Execute on IT conversions (such as robust testing of shared service data management approach)
- Launch the integration as an “output-driven” event
- Identify and manage dependencies proactively through a centralized process
- Identify, prioritize, and implement value driver and synergy initiatives through a centralized process
- Manage organizational design and people selection in a centralized process

## Section 3 - Competitive intelligence

### Leading practices versus industry-observed practices—pre-deal

The following table illustrates the difference between leading practices across the industry and what we see in practice from a pre-deal perspective across large financial institutions, mid-tier financial institutions, and nontraditional buyers.

Industry-leading practices	Industry observations		
	Large financial institutions	Mid-tier financial institutions	Nontraditional buyers
Significant due diligence is conducted prior to deal closing.	<ul style="list-style-type: none"> <li>Diligence is completed, and the targeted entity is reviewed in detail.</li> <li>In FDIC-aided deals, the diligence process is abbreviated and done at a high level.</li> </ul>	<ul style="list-style-type: none"> <li>Diligence is completed, and the targeted entity is reviewed in detail.</li> <li>In FDIC-aided deals, the diligence process is abbreviated and done at a high level.</li> </ul>	<ul style="list-style-type: none"> <li>Diligence is completed with a focus on platforms and asset quality.</li> </ul>
Diligence in key areas, including finance, IT, operations, tax, and HR, is conducted by personnel who specialize in each of these areas.	<ul style="list-style-type: none"> <li>In-house teams with specialists from functional areas perform the diligence.</li> <li>Where multiple simultaneous deals take place, outside assistance is brought in to assist.</li> </ul>	<ul style="list-style-type: none"> <li>In-house teams with specialists from functional areas lead the diligence and are assisted by outside specialists brought in to assist.</li> </ul>	<ul style="list-style-type: none"> <li>Outside specialists are brought in to lead the diligence.</li> <li>If a portfolio company exists in the same space, leadership from that entity is involved with the planning.</li> </ul>
Initial areas of synergies and other cost savings are identified during diligence and brought forward to the Day One and Day 100 planning.	<ul style="list-style-type: none"> <li>Synergies are identified during diligence and included in the Day One and Day 100 planning.</li> </ul>	<ul style="list-style-type: none"> <li>Synergies and cost savings are identified during diligence and included in the Day One and Day 100 planning.</li> </ul>	<ul style="list-style-type: none"> <li>Synergies and cost savings are identified during diligence, and are then tested and validated prior to being included in the Day One and Day 100 planning.</li> </ul>

## Section 3 - Competitive intelligence

### Leading practices versus industry-observed practices —post-deal

The following table illustrates the difference between leading practices across the industry and what we see in practice from a post-deal perspective across large financial institutions, mid-tier financial institutions, and nontraditional buyers.

Industry-leading practices	Industry observations		
	Large financial institutions	Mid-tier financial institution	Nontraditional buyer
Mergers should be constructed with the future business model in mind.	<ul style="list-style-type: none"> <li>• Synergies are accounted for at a high level, and it is understood that the future business model will likely change.</li> </ul>	<ul style="list-style-type: none"> <li>• Pressure on short-term planning does not allow time to recognize synergies; therefore, the full synergy potential goes unrealized.</li> </ul>	<ul style="list-style-type: none"> <li>• Historically not worried about future business model because model was based on buying and selling.</li> <li>• Now nontraditional players are looking for “platform” deals &amp; thinking about scale.</li> </ul>
Managers should consider whether implementation of a full-scope integration is appropriate.	<ul style="list-style-type: none"> <li>• Only HR and finance are fully integrated; business units remain independent.</li> <li>• Business leadership provides cost-reduction directives.</li> </ul>	<ul style="list-style-type: none"> <li>• All functional support areas are fully integrated.</li> <li>• The business drivers continue to be cost reduction and increased standardization.</li> </ul>	<ul style="list-style-type: none"> <li>• Historically own banks as a portfolio with no integration.</li> <li>• Now operates as a platform where integration and synergies are key.</li> </ul>
Resources should be available pre- and post-deal closing to assess and execute on integration opportunities quickly and simultaneously.	<ul style="list-style-type: none"> <li>• Stakeholders assess opportunities at a high level; however, there is limited internal focus on detailed diligence.</li> <li>• Integration planning is typically left to a small core team &amp; the business units.</li> </ul>	<ul style="list-style-type: none"> <li>• There is support from stakeholders, but external advisors are necessary to perform due diligence and integration activities, particularly when multiple, simultaneous acquisitions occur.</li> </ul>	<ul style="list-style-type: none"> <li>• Usually there is a small deal team focused on identifying targets, with little or no support for internal due diligence or integration planning.</li> <li>• Portfolio company resources may be supplemented by external advisors.</li> </ul>

# Section 4 – A framework for response

## Section 4 - A framework for response

### Capturing value

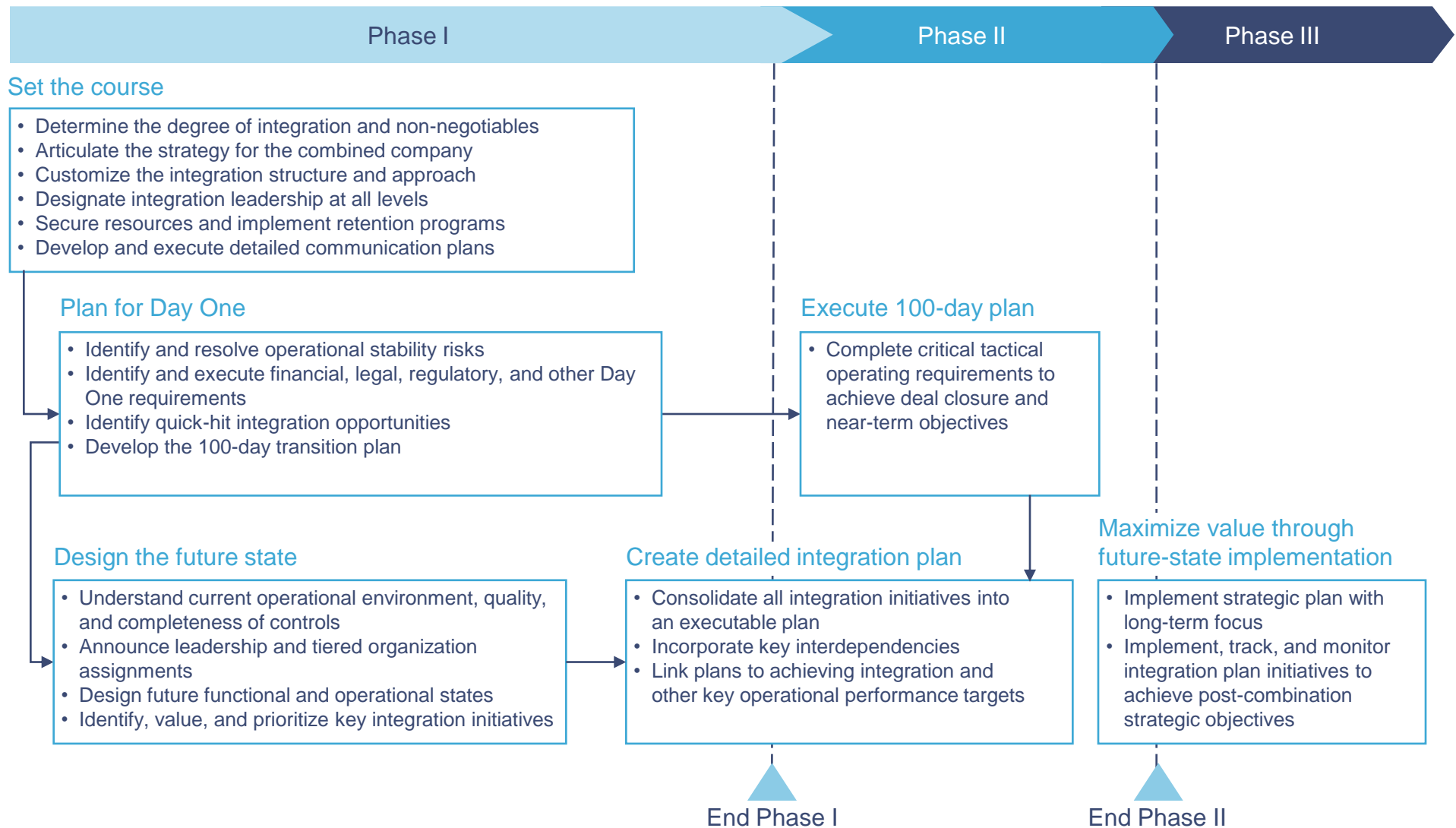
Throughout the integration process, companies should execute the value drivers and synergies identified during due diligence.

Key value drivers companies should consider during the integration period:	
Focus on realizing value	<ul style="list-style-type: none"> <li>• Focus resources on priority initiatives that drive shareholder value</li> <li>• Set measurable synergy targets including growth, efficiency, and capital</li> <li>• Foster a high performance culture with clear ownership and accountability for targets</li> </ul>
Maintain a clear vision and strong leadership	<ul style="list-style-type: none"> <li>• Implement a strategy that is actionable, measurable, and effectively communicated</li> <li>• Encourage commitment and active involvement of leadership</li> <li>• Ensure that sufficient resources are available to execute the integration</li> </ul>
Focus attention on stakeholders	<ul style="list-style-type: none"> <li>• Give top priority to customer-facing processes</li> <li>• Employ early organizational realignment and training with a focus on retaining critical talent</li> <li>• Maintain frequent two-way communication</li> </ul>
Perform detailed planning	<ul style="list-style-type: none"> <li>• Create detailed plans to drive task ownership and execution</li> <li>• Involve resources with the expertise to implement</li> <li>• Balance synergy capture with ongoing operations</li> </ul>
Maintain a disciplined program management	<ul style="list-style-type: none"> <li>• Coordinate dependencies across the organization</li> <li>• Identify and resolve issues and risks early</li> <li>• Perform ongoing tracking and reporting of value captured</li> </ul>

## Section 4 - A framework for response

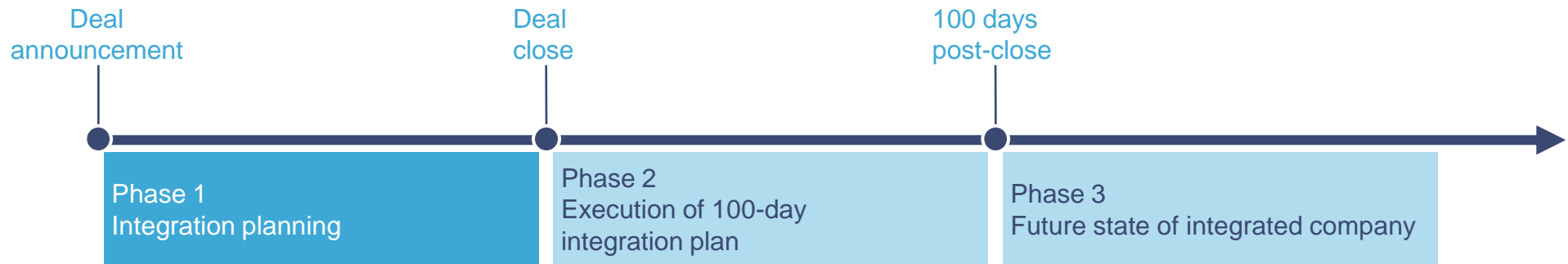
### Three-phased approach to integration

Successful integration programs generally incorporate the following steps:



## Section 4 - A framework for response

### Phase I – Integration planning



#### Primary goals:

- Build an internal operating group with the appropriate skills to manage multiple workstreams across all phases of the integration life cycle.
- Design the future state of the merged organizations and establish the 100-day transition plan.

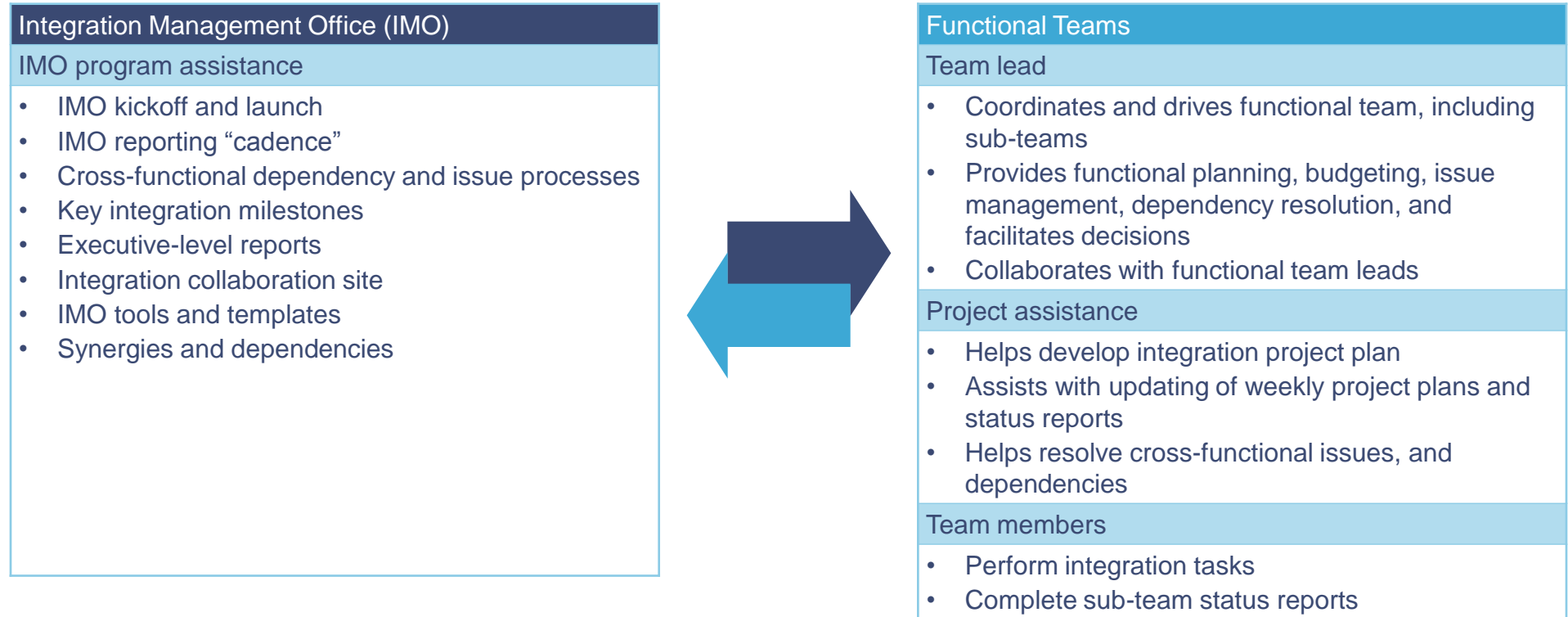
#### Key steps:

- Develop a group organizational structure and staffing model; designate a team room for concentrated work effort.
- Determine required skill set of employees needed to complete integration.
- Define clear and realistic roles and responsibilities to minimize duplication of effort between employees.
- Create the blueprint and detailed plan.
- Identify opportunities for quick integration in specific areas.
- Prioritize key integration initiatives.
- Continually review progress to ensure procedures align with integration objectives:
  - Management reporting
  - Project, program, and management scorecards
  - Integration scorecard
  - Milestones and critical-path reporting

## Section 4 - A framework for response

### Phase I – Integration planning—aligning roles and responsibilities is key

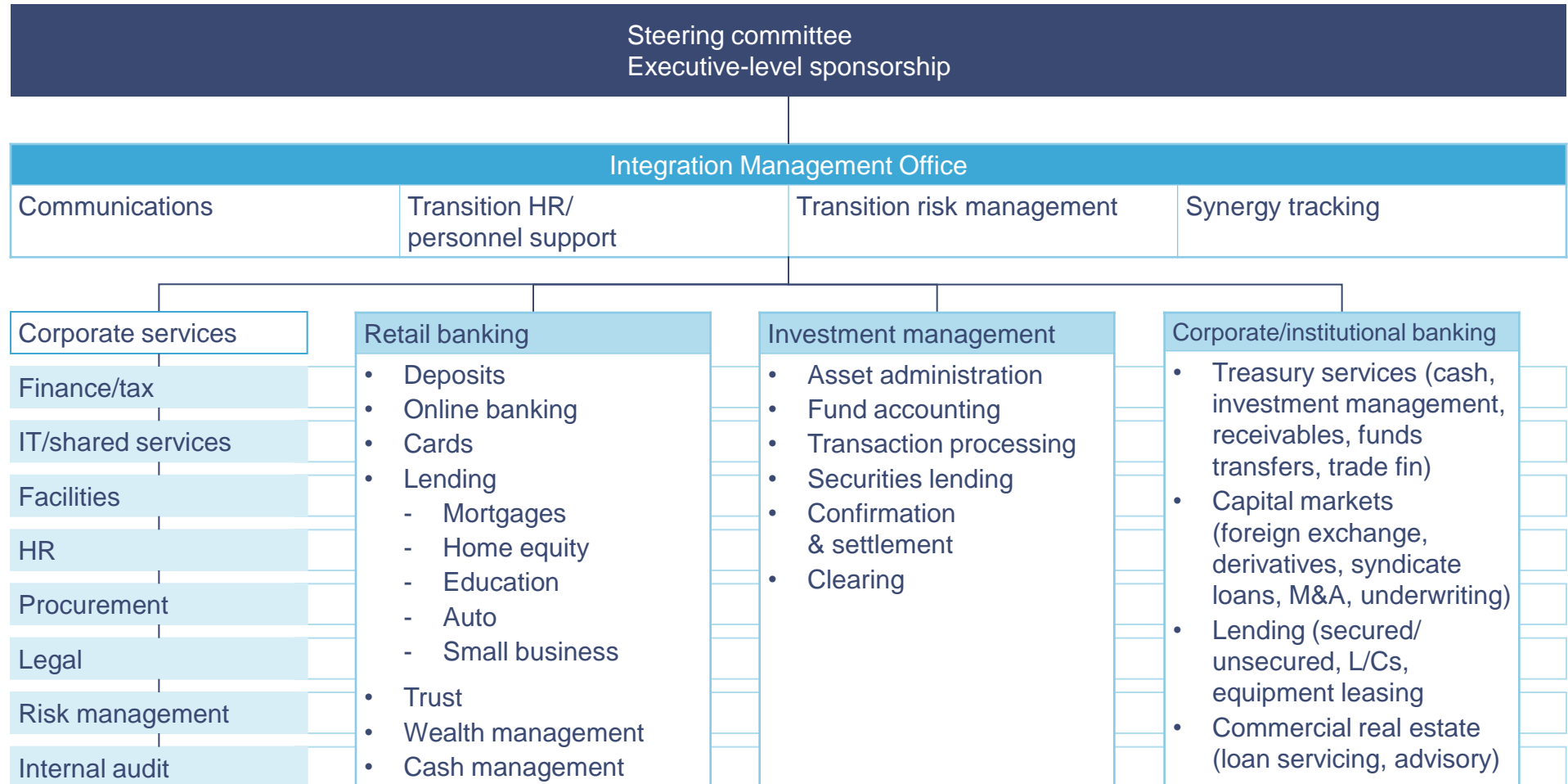
Large-scale integrations require defined roles and responsibilities to enable an “exception-based” management approach and ensure accountability.



## Section 4 - A framework for response

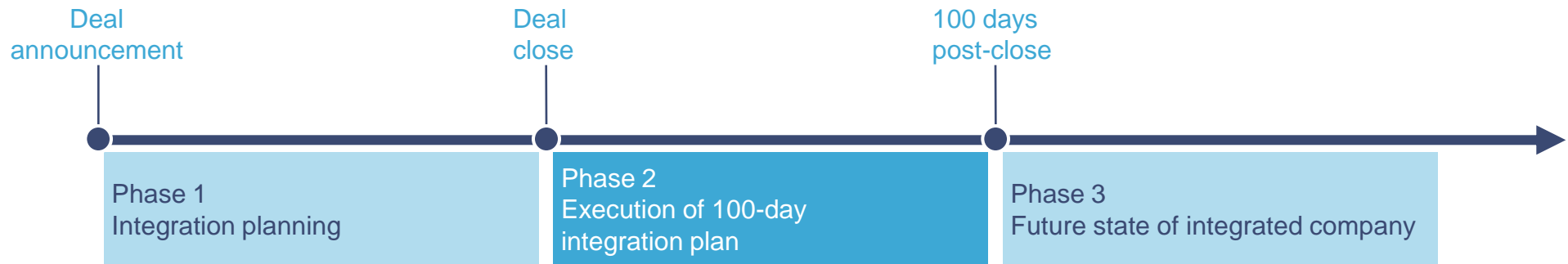
### Phase I – Integration planning—integration governance structure

The structure of the program needs to align to the way the company thinks about its business.



## Section 4 - A framework for response

### Phase II – Execution of 100-day integration plan



#### Primary goals:

- Continue to execute on value drivers and synergies identified during due diligence.
- Complete tactical operating requirement to achieve deal closure.
- Implement the activities identified in the 100-day plan.

#### Key steps:

- Complete any remaining planning activities, including customer management, cutover planning, novation/work plan, dress rehearsal plans, roadmap testing, Day One checklist, final-go checklist, conversion scripts, and conversion testing.
- Consider business continuity during the integration.
- Implement initiatives identified as high priorities in the 100-day plan.
- Rapidly adjust and communicate revised tactical integration plans as transactions are completed and significant milestones are met.
- Cross-train staff on skills outside of their normal disciplines. This can help alleviate potential resource bottlenecks caused by multiple transactions and ensure that integration momentum is maintained.
- Strategically implement the 100-day plan and continually assess progress against established integration initiatives.

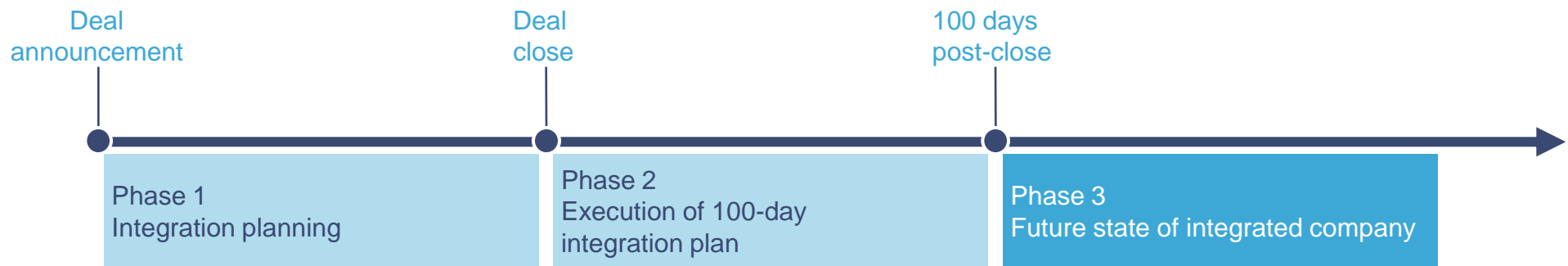
## Section 4 - A framework for response

### Phase II – Execution of 100-day—high-level partial sample IT integration plan

Project X - 100 Day Checklist						
ID	Task Name	Task Owner	Dependency	Duration	Finish Date	Comments/Guidance
<b>IT Information Technology</b>						
<b>IT.1 Project Management</b>						
IT.1.1	Define IT separation guiding principles					
IT.1.2	Create escalation matrix to resolve issues that may arise					
IT.1.3	Identify required IT project management office (PMO) structure					
IT.1.4	Identify key IT resources to staff IT PMO					
IT.1.5	Identify business resources to act as liaisons to business-related IT activities		ALL			
IT.1.6	Identify a common set of project management tools to be used to facilitate the project (e.g., Project Plans, Issue Logs, Status Reports)					
IT.1.7	Develop separation project plan including timelines, resources, dependencies and open issues					
<b>IT.2 IT Budgets</b>						
IT.2.1	Develop a comprehensive budget to complete all separation activities		FINANCE			
IT.2.2	Develop preliminary NewCo IT operating budgets for next twelve months		FINANCE			
<b>IT.3 IT Organization</b>						
IT.3.1	Finalize organizational structure and required skill sets					
IT.3.2	Establish a process to recruit required IT resources for NewCo		HUMAN RESOURCES			
IT.3.3	Develop a training plan to rapidly educate new team members		HUMAN RESOURCES			
<b>IT.4 Outsourced Services</b>						
IT.4.1	Finalize NewCo IT functions that will be outsourced					
IT.4.2	Develop a formal Request for Proposal to be used for the bidding process. This should include: background of environment, timing, services required, pricing format, and required SLA's		LEGAL			
IT.4.3	Identify a short list of potential vendors					
IT.4.4	Qualify and select vendors					
<b>IT.5 Business Systems</b>						
IT.5.1	Develop a systems migration strategy for all shared systems to be used on a go-forward basis (Financials, Billing, Clinical, HR, etc.)		ALL			
IT.5.2	Identify profile of data to be migrated to stand-alone systems, including: type (master or transaction), aggregate or detail, and amount of history		ALL			
IT.5.3	Identify key system dependencies and interfaces					
IT.5.4	Inventory and procure infrastructure to support stand-alone systems that are currently shared		PURCHASING			
IT.5.5	Configure and install infrastructure including any unique modifications/configurations to support the stand-alone systems					
IT.5.6	Install base systems and configure systems as required					
IT.5.7	Migrate system data					
IT.5.8	Re-establish system interfaces and add-on systems					
IT.5.9	Configure and deploy user access systems (i.e., Citrix / Terminal Services)					
IT.5.10	Complete full cycle system's test (unit, integration, performance, and user acceptance)		ALL			
IT.5.11	Develop interim period management and financial reporting process and package		FINANCE			
<b>IT.6 Data Center Operations</b>						
IT.6.1	Develop a data center strategy to host and maintain NewCo systems					
IT.6.2	Inventory and procure required components and equipment to support the development strategy		PURCHASING			
IT.6.3	Develop a detailed, time-phased strategy to implement the environment and migrate systems (both new and existing) to the new location					
IT.6.4	Complete the initial build-out and configuration					
IT.6.5	Implement shared storage requirements					
IT.6.6	Implement system monitoring tools					
IT.6.7	Establish / Migrate / Configure the required systems and infrastructure at the NewCo data center location					

## Section 4 - A framework for response

### Phase III – Future state of integrated company



#### Primary goals

Complete the implementation of the 100-day plan, then track and monitor results against post-combination strategic objectives.

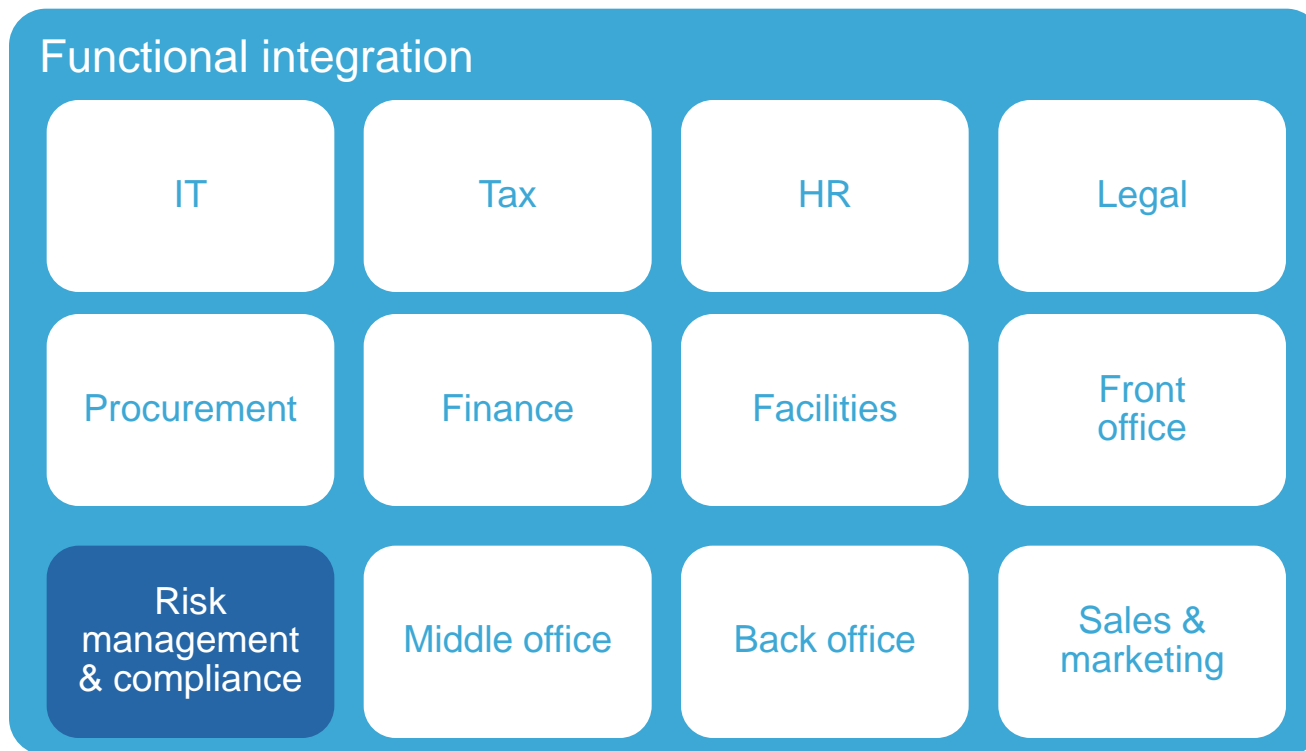
#### Key steps

- Complete the implementation of strategic initiatives in the integration plan.
- Ensure that the synergies and value drivers identified during planning have been realized.
- Consolidate and normalize the policies and procedures of the merged company.
- Review progress of integration activities and analyze areas where additional value can be derived.
- Begin process of system retirement and technology/operations wind-down. Record results and associated saving.
- Continue to track synergies.
- Conduct merger review – lessons learned, assessment, and optimization

## Section 4 - A framework for response

### Example of integrating a business function: risk management and compliance

The integration goals for each business function should align with the future business model. The following example provides details of an integration approach for the risk management and compliance function. As shown below, this is one of many functions which will need to be combined after an acquisition.

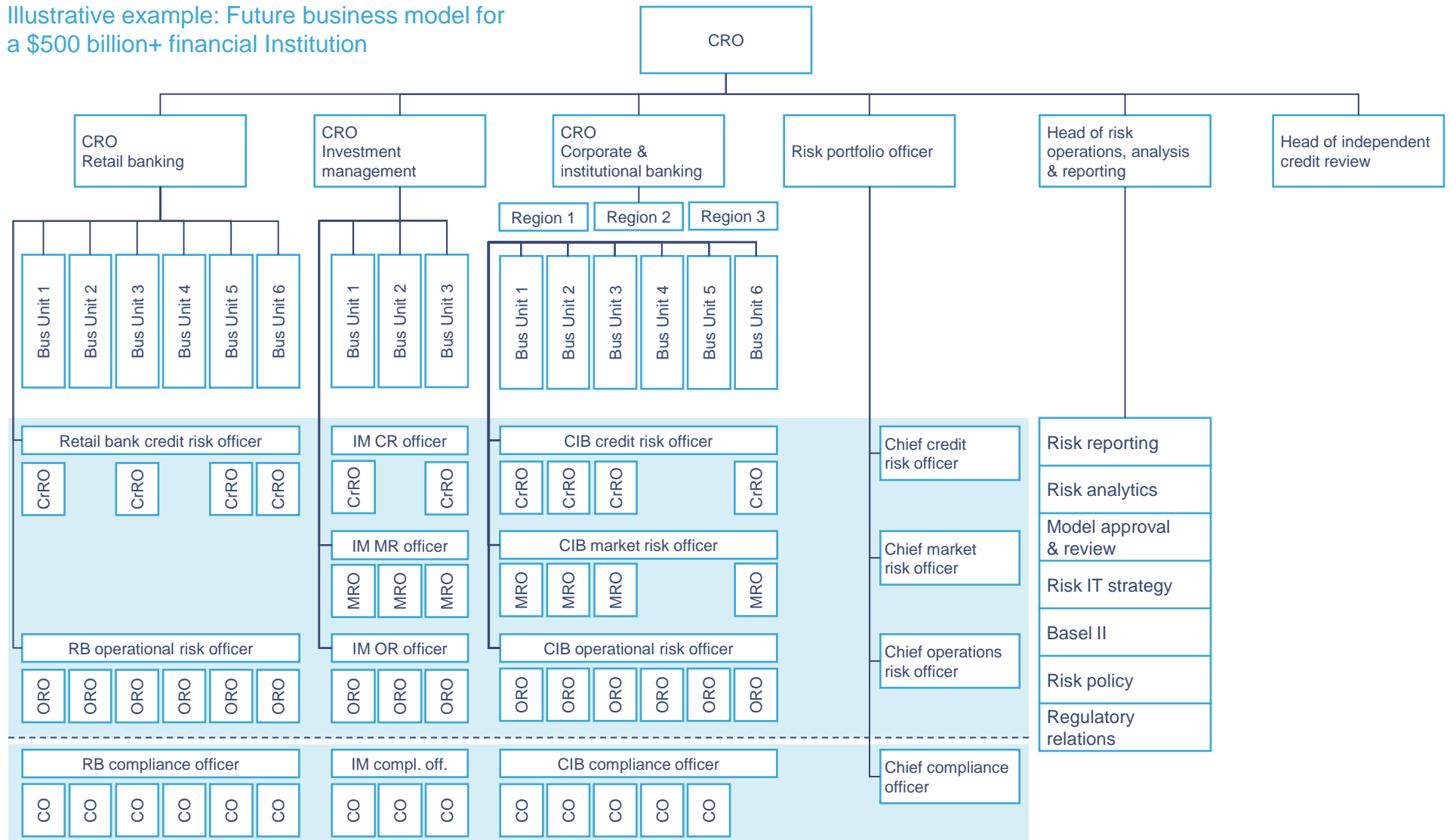


# Section 4 - A framework for response

## Example of integrating a business function: risk management and compliance

Integration should start with an evaluation of the future business model.

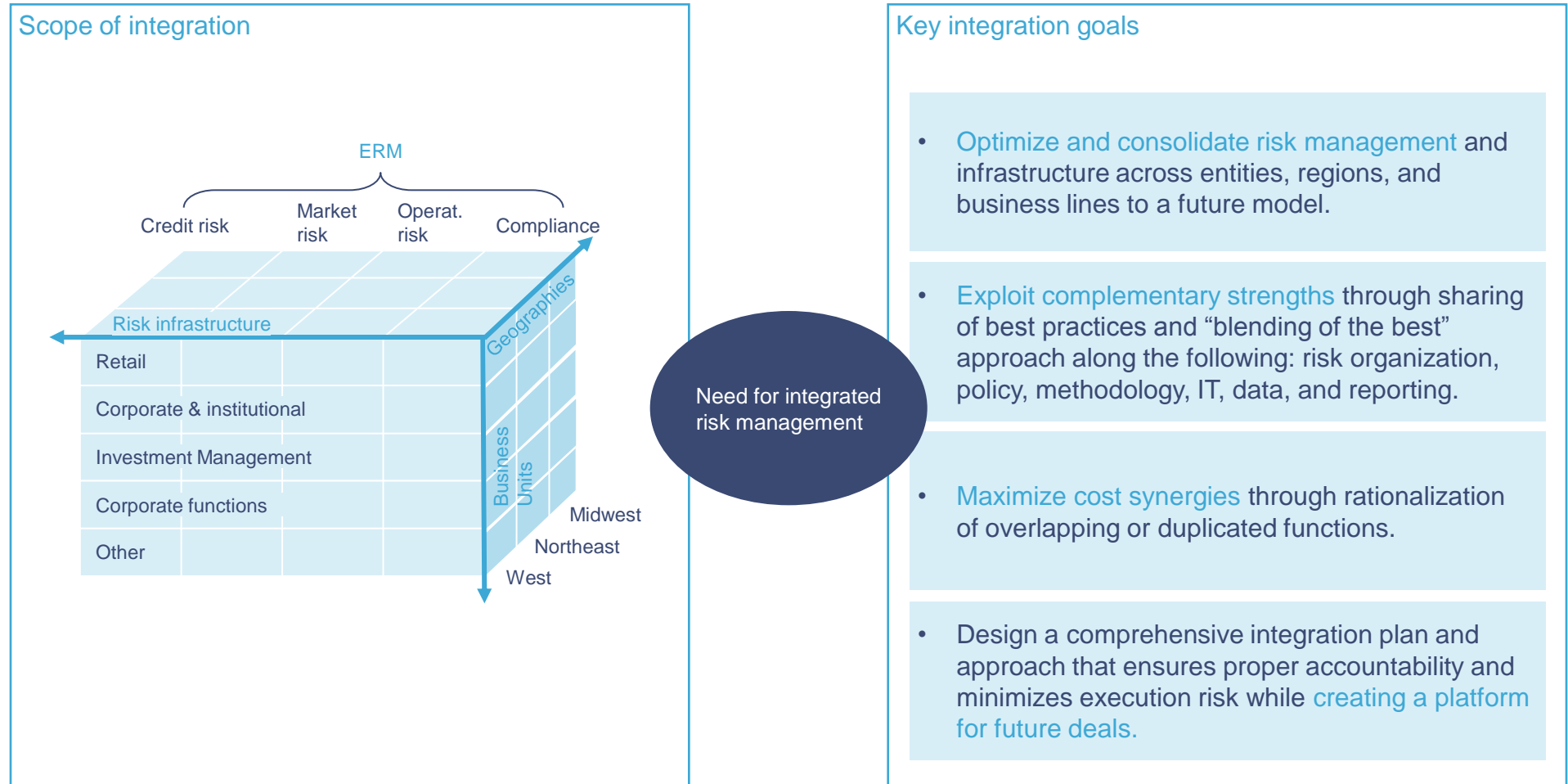
Illustrative example: Future business model for a \$500 billion+ financial Institution



## Section 4 - A framework for response

### Example of integrating a business function: risk management and compliance

It is critical to identify and communicate the scope and objectives of the integration upfront to ensure everyone is on the same page.

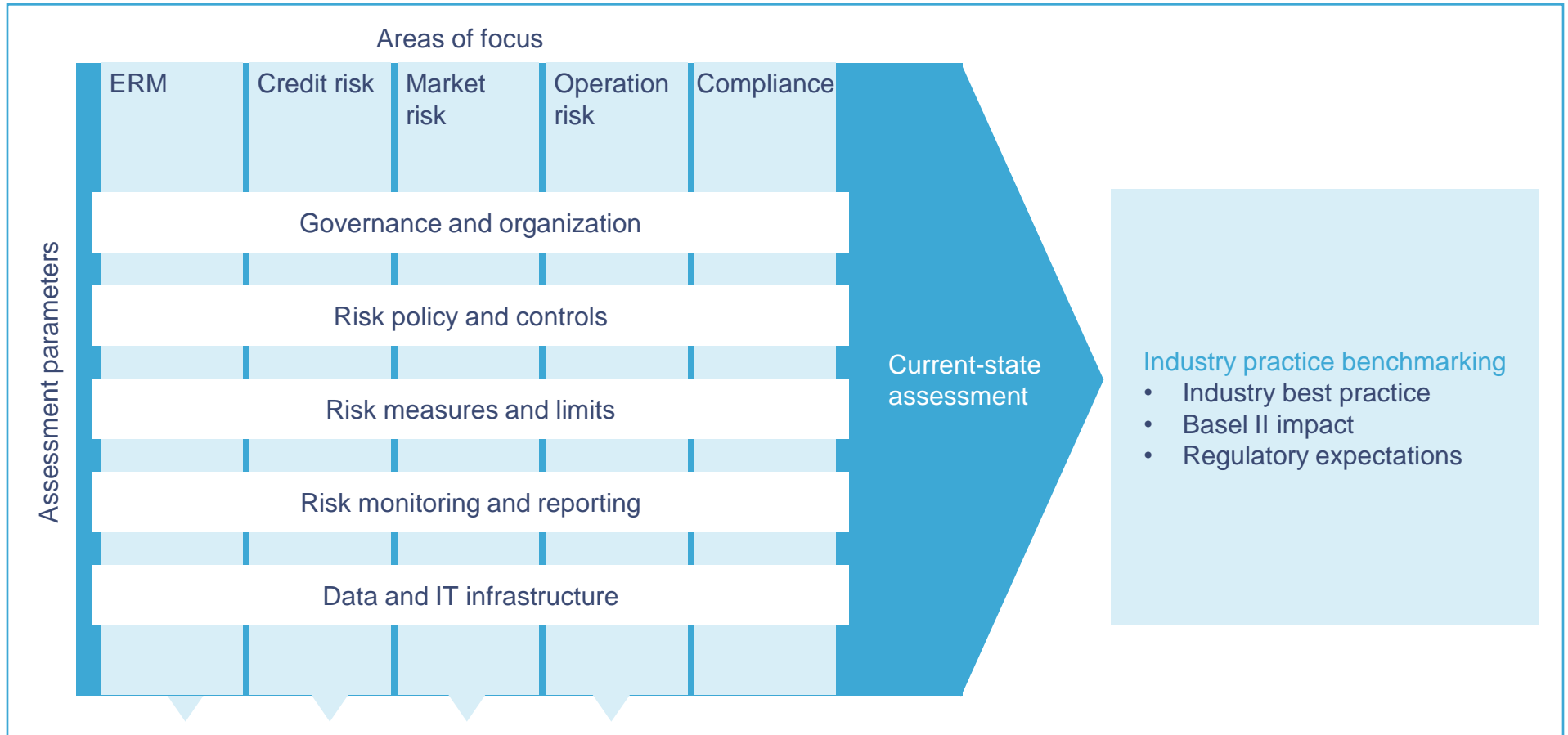


## Section 4 - A framework for response

### Example of integrating a business function: risk management and compliance

It is critical to reassess capabilities early in the process.

#### Conceptual Assessment Framework



## Section 4 - A framework for response

### Example of integrating a business function: risk management and compliance

#### Integrate corporate risk management and business level risk management units

##### Scope

Integrate corporate risk management and business level risk management units and maintain staff capable of providing adequate oversight of the management of risk throughout the group. Ensure appropriate risk committees have been established at both management and board levels so timely, adequate information flows exist to communicate risk across the bank. Place particular focus on risk organization integration and reporting lines.

##### Acquirer current environment

- Chief risk officer oversees credit risk, market risk, operational risk, AML, and portfolio management units.
- Chief risk officer and chief financial officer positions are combined into one position.
- Compliance and technology risk management functions report to the chief administrative officer.
- PMs and COs are responsible for approving the size, terms, and maturity of all credit exposures, as well as for assigning and maintaining the risk ratings for each exposure.

##### Acquiree current environment

- The top risk management and compliance jobs are combined into one position.
- Various types of risk are managed on a decentralized basis by the business units, with little central coordination and/or direction.
- Credit risk is managed by credit officers; market risk is managed by the finance committee. Both report to the chief risk officer.
- Operational risk is loosely defined as “all other risk.”
- It is unclear whether business units or internal audit are responsible for determining compliance with risk policies.

##### Target environment

- Define integrated organizational structure, roles, and responsibilities and reporting lines.
- Define level of centralization/decentralization of risk management organization (corporate vs. business unit level resources vs. regions/states).
- Define integrated structure of risk committees and modify mandates, composition, and frequency accordingly.
- Define number and skill set profile of resources required, and conduct an assessment of existing resources for talent and cultural fit.
- Define required changes to normalize policies, procedures, roles and responsibilities, levels of authority, etc. Implement and monitor compliance with existing/revised policies immediately to avoid surprises.
- Estimate cost savings and develop synergy/cost containment plans.
- Differentiate tactical versus strategic recommendations and action plans.

# Section 5 – How PwC can help

## Section 5 - How PwC can help

### Experience

Industry experience – PwC provides professional services as advisors or auditors to 44 of the world's top 50 banks and has significant experience in due diligence, planning, and integration of banking transactions.

### Expertise

Technical expertise – We bring an array of on-point, technical expertise to every integration project, including tax structuring, financial reporting, GAAP knowledge, 404 controls/compliance, IT structure/control, HR programs, benefits consolidation, legal entity mergers, back-office functions, IT, and operations.

### Thought Leadership

PwC takes great pride in being a thought leader in the financial services industry. We have produced numerous publications and e-briefings on financial services industry events, most of which are sector specific, as well as a wide range of training and special events on issues that affect reporting and corporate governance.

### Methodology/Tools

Proven methodology – Our methodology incorporates the latest in merger-leading industry practices with a focus on value-driving initiatives, people transition, and Day One/Day 100 planning, to ensure an accelerated and controlled integration.

## Section 5 - How PwC can help

We support pre-deal due diligence through post-deal integration to meet the challenges presented by today's market.

### Core competencies

- Pre-deal diligence for finance, tax, IT operations, HR, and risk management
- Structuring and negotiation support for:
  - Asset purchase agreement
  - Transition services agreement
  - Preferred provider agreement
- Integration Management Office (IMO) support
- Day One planning and integration
- Day 100 planning and integration
- Long-term strategic integration support
- Synergy identification, tracking, and reporting
- Issue management
- Dependency management

### Overall program assessment and support

Leverage our global Financial Services team to assess the program and provide end-to-end support in terms of program management, execution, quality assurance, reporting, and metrics.

# Section 5 - How PwC can help

We have the tools and experience to drive value throughout all phases of integration. The following are examples of our comprehensive merger and integration tools.

<h3>Integration plans</h3>	<h3>Value driver templates</h3>	<h3>Synergy tracking module</h3>	<h3>Integration control team workplace</h3>
<h3>Executive and board reporting templates</h3>	<h3>Team status reporting, issue, decision templates</h3>	<h3>Dependency tracking</h3>	<h3>Communications matrix</h3>

## Section 5 - How PwC can help

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# Appendix – Select qualifications

## Appendix

### Select qualifications

Case study	Comprehensive firmwide integration of two recently merged banking and investment firms with similar profiles.
Issues	During the comprehensive firmwide integration of all business divisions, including commercial banking, retail banking, and asset management, PwC was engaged to run the integration management office responsible for establishment, rollout, and enforcement of overall merger planning and methodology.
Approach	<p>PwC:</p> <ul style="list-style-type: none"><li>• Rolled out overall merger planning and methodology, including financial management</li><li>• Provided project management assistance over business synergies in areas such as the global transaction and corporate banking businesses</li><li>• Helped lead IT and operations areas in program execution, through change-of-control and subsequent business optimization</li></ul>
Benefits	This US\$36 billion transaction, characterized as a "horizontal" merger of firms with similar profiles, allowed the client to achieve the desired market scale.

## Appendix

### Select qualifications

Case study	Super-regional retail banking integration.
Issues	PwC was engaged to assist a regional retail banking client in the process of performing four simultaneous retail acquisitions.
Approach	<p>PwC:</p> <ul style="list-style-type: none"><li>• Ran the integration management office that planned and executed the acquisitions</li><li>• Helped integrate technical systems and operations</li><li>• Helped integrate asset management functions</li><li>• Created repeatable methodology</li></ul>
Benefits	Based on the approach implemented on this engagement, the integration of certain basic functions was shortened to a then market-leading 12 weeks. The client also achieved sufficient scale to remain a player in this rapidly consolidating market.

## Appendix

### Select qualifications

Case study	Global private banking merger integration.
Issues	A global private bank was faced with transforming its business to take advantage of the merger.
Approach	PwC: <ul style="list-style-type: none"><li>Helped lead the \$100 million acquisition, integration, and streamlining of a market-leading trust business, including reorganization, key management changes, cost management, product line expansion, and complete platform and functional support area integration.</li></ul>
Benefits	Effectively transformed an international trust business into a holistic wealth management business. Executed this transaction in the context of a global operating platform plan and delivered 10% beyond due diligence synergy targets.

## Appendix

### Select qualifications

Case study	Global bank purchase of a European retail banking network.
Issues	A global bank was evaluating the potential purchase of a retail bank in Europe and wanted to ensure that the deal would deliver the proper cost and revenue synergies.
Approach	<p>PwC:</p> <ul style="list-style-type: none"><li>• Ran the integration management office responsible for all corporate, business, and functional-level integration planning and execution.</li><li>• Assisted in a pre-closing capacity to develop early-stage merger blueprints and workstream requirements.</li><li>• Leveraged information from the due diligence process to create a functional “playbook” for both the acquirer and acquiree.</li><li>• Validated and developed high-level plans for achievement of due diligence synergies (both cost and revenue).</li></ul>
Benefits	Based on the ultimate lack of cost and revenue synergies, this deal did not close. Our involvement helped highlight issues that led to the ultimate decision not to acquire the European bank.

# Appendix

## Select qualifications

Case study	Pre-deal IT and operations due diligence on small and large retail and correspondent banking targets under FDIC conservatorship.
Issues	<p>Engaged by financial and strategic buyers intending to purchase banking entities in FDIC conservatorship, PwC performed due diligence services including finance, tax, human resources, information technology and operations on targets that included:</p> <ul style="list-style-type: none"> <li>• A large regional retail bank with mortgage servicing operations in Southern California under conservatorship of the FDIC for a private equity consortium,</li> <li>• A large correspondent bank located in the southeast</li> <li>• A small regional bank located in the southeast</li> <li>• A small regional bank located in the midwest</li> </ul>
Approach	<p>PwC:</p> <ul style="list-style-type: none"> <li>• Leveraged our due diligence approach, methodology, and tools.</li> <li>• Identified purchase-price issues, potential risk areas, and one-time and recurring cost effects in the IT and operations organizations including operational processes, technology applications, infrastructure, related projects, business continuity and disaster recovery.</li> </ul>
Benefits	The team identified key deal issues in IT which affected the purchase price negotiation with the FDIC as well as post-merger integration and separation issues that would have one-time and recurring financial effects.

## Appendix

### Select qualifications

Case study	Integration of two regional California banks.
Issues	As part of the merger of two large regional California banks, PwC was engaged to run the integration management office for overall merger and integration activities.
Approach	<p>Working with the client project manager, PwC performed the duties of the Integration Management Office. Key activities included:</p> <ul style="list-style-type: none"> <li>• Developed transition framework</li> <li>• Created and communicated transition principles</li> <li>• Operated onsite integration management office</li> <li>• Conducted transitional risk management</li> <li>• Identified and tracked synergies</li> <li>• Conducted user acceptance testing</li> </ul>
Benefits	<p>The client recognized the following benefits:</p> <ul style="list-style-type: none"> <li>• Their internal resources remained focused on core business issues</li> <li>• Gained access to variety of external resources, experience, and subject-matter specialists, as well as a vast library of tools such as methodologies, risk matrices, reporting samples, analytics, synergy tracking tools, and best practice benchmarks</li> <li>• Leveraged external, unbiased perspectives that appropriately challenged approaches and results</li> </ul>

## Appendix

### Select qualifications

Case study	Derivatives and commodity exchange merger negotiation and post-deal integration.
Issues	A Wall Street consortium wanted to merge an existing exchange with an established global market leader to maintain competition in the futures industry.
Approach	<p>PwC:</p> <ul style="list-style-type: none"> <li>• Helped negotiate and execute a merger transaction between US and European derivatives exchanges, including pre- and post-deal integration.</li> <li>• Merged two firms operating in the same markets but with very different reach and scale, both with a desire to achieve rapid US financial market penetration.</li> <li>• Established overall merger planning and supporting methodology, including financial management, personnel transition, legal consideration, and business synergies.</li> <li>• Helped wind down the acquired companies' IT and operations areas through change-of-control and subsequent business optimization.</li> <li>• As regulated entities, led the effort to work with regulators to conduct an orderly unwind of member and client positions to prevent market disruption.</li> <li>• Coordinated/facilitated integration of personnel into the new entity.</li> <li>• Migrated remaining clients onto the new technology platform.</li> </ul>
Benefits	By maintaining competition in the market, the industry was able to reduce transaction costs by approximately 50 percent.

## Appendix

### Select qualifications

Case study	Pre-deal due diligence for the acquisition of a Chicago-based options, equities, and futures clearing corporation
Issues	When an international investment bank and broker dealer was considering the acquisition of a mid-size US regional options, equities, and futures clearing company, it needed to understand how to best integrate the organization into its global equity finance division.
Approach	<p>PwC:</p> <ul style="list-style-type: none"><li>• Coordinated all business-led due diligence efforts, including senior officer/staff assessments, real estate analysis, and operational workflow analysis prior to the acquisition.</li><li>• Developed “vision” plans that detailed all business-led activities such as workforce resizing, office space consolidation, and systems decommissioning and expansion.</li><li>• Formulated new business operational models to merge the newly acquired company with an existing business unit while maximizing efficiencies across the holding company's global equity finance division.</li></ul>
Benefits	These activities provided the critical inputs required for the organization to visualize how the company being considered for purchase would be integrated and function after the proposed acquisition. As a result, the international investing bank and broker dealer decided to acquire the company.

## Appendix

### Select qualifications

Case study	Post-deal integration of a Chicago-based options, equities, and futures clearing corporation
Issues	An international investment bank and broker dealer had previously acquired a US regional options, equities, and futures clearing corporation. One year later, it acquired another US regional options, equities, and futures clearing corporation. The organization needed to integrate the existing client bases of the two organizations to optimize the mix of services provided and to eliminate the number of systems required to maintain the two client bases.
Approach	<p>PwC:</p> <ul style="list-style-type: none"> <li>• Coordinated the front-office-led initiative to migrate 80+ clients consisting of more than 550 regional floor and off-floor equities, options and futures specialists, and market makers from their existing trading, clearing, and accounts processing systems to those supported by their newly acquired company.</li> <li>• Developed detailed client analysis for each entity prior to migration, managed all client requirement intake meetings, and provided tools and matrices to track the progress of each migration.</li> <li>• Served as the liaison between the senior business managers and all associated support areas such as technology, operations, finance, treasury, regulatory reporting, and legal/compliance.</li> </ul>
Benefits	The international investment bank and broker dealer was able to successfully migrate all of the clients from one operating platform to another within the established seven-month timeframe. In addition, the client was able to completely decommission all of the support systems for one of the acquired companies within two months after the client migrations had been completed. This yielded a substantial cost savings to the organization.

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