

Transactions in a volatile environment*

Financial services M&A in the US—an analysis and outlook



*connectedthinking

Table of contents

The heart of the matter	02
Credit crisis slowing deal momentum; outlook for the industry remains volatile with opportunities for savvy buyers	
<hr/>	
An in-depth discussion	04
Increase in middle market transactions and foreign interest drove significant activity	
<hr/>	
Banking	10
Asset Management	14
Insurance	17
Other	21
Anticipating change: trends to watch	23
<hr/>	
What this means for your business	30
The need to balance opportunities and risk	
<hr/>	
Methodology: the fine print	32

The heart of the matter

Credit crisis slowing deal momentum; outlook for the industry remains volatile with opportunities for savvy buyers

The financial services industry experienced mixed fortunes in 2007 driven by the sub-prime mortgage situation that forced well-established financial institutions to take large write-offs relating to mortgage-backed assets and collateralized debt obligations. That said, US mergers and acquisitions (M&A) continued unabated across financial services sectors. In 2007, we witnessed a total of 1,033 transactions (disclosed and non-disclosed), up 4% from 993 deals in 2006. There was a noticeable decline in activity in the latter half of 2007, and this trend continued in the first half of 2008.

Since Banking institutions were hardest hit in the sub-prime collapse, it was no surprise that Banking deal volume dropped over 32% in 2007. From January 2007 to May 22, 2008, global sub-prime losses by banks totaled \$382.6 billion (Bloomberg). Former Wall Street powerhouse, Bear Stearns, was a casualty and acquired by JP Morgan. Since the end of 2007, there has been a step-up of deal activity in Banking as institutions look to shore up their balance sheets or to expand their offerings. For instance, Bank of America recently acquired Countrywide Financial for approximately \$2.5 billion. With this transaction, Bank of America deepens its strength in real estate mortgage lending and servicing.

Counteracting the decrease in the 2007 Banking deal volume was the increase in volume in Asset Management, Insurance and Other (encompassing disparate deal activity excluding Banking, Insurance & Asset Management deals) sectors. With 287 deals, Insurance was the most active sector.

The year 2008 is turning out to be an unusual one for M&A activity due to the ups and downs of the US market. We believe the following trends will be prevalent in US financial services M&A in the next 12 months:

- » **Strategic acquisitions continue to dominate, with ongoing consolidation in certain sub-sectors.** With mega private equity transactions temporarily on hold, strategic acquirers—in an effort to expand geographically, increase market share and improve economies of scale—are taking this opportunity to purchase assets and undervalued companies hurt by the credit crisis.
- » **Foreign interest increases.** Foreign investors, aided by the weak US dollar, will continue to explore investment opportunities in the US.
- » **Private equity continues to eye financial services targets.** Private equity firms are likely to remain active in the industry, seeking attractive targets for capital deployment.
- » **Developments in Accounting Standards (Financial Accounting Standards (FAS) 157 and 141R) will have an impact on M&A.** Recently enacted accounting standards are likely to affect deal valuation models and present new challenges when negotiating and executing transactions.

An in-depth discussion

Increase in middle market transactions and foreign interest drove significant activity

Despite the upheaval in the credit market during the second half of 2007, US M&A activity in the financial services industry remained relatively strong. While deal value for disclosed deals slipped from the high of \$189.2 billion in 2006 to \$163.9 billion in 2007, total deal volume (disclosed and non-disclosed) increased from 993 to 1,033 transactions during the same period. The decline in deal value was mainly due to the decrease in average deal values of transactions over \$1 billion ('mega-deals'). The total number of deals over a billion rose to 34, totaling \$122.6 billion. However, in 2007, total value from mega-deals was 17% less than in 2006 when there were 26 deals totaling \$147.6 billion, and 11% less than in 2005 when there were 27 deals totaling \$138.4 billion. Average deal size for all disclosed transactions decreased from the high of \$517 million in 2005 to \$454 million in 2007.

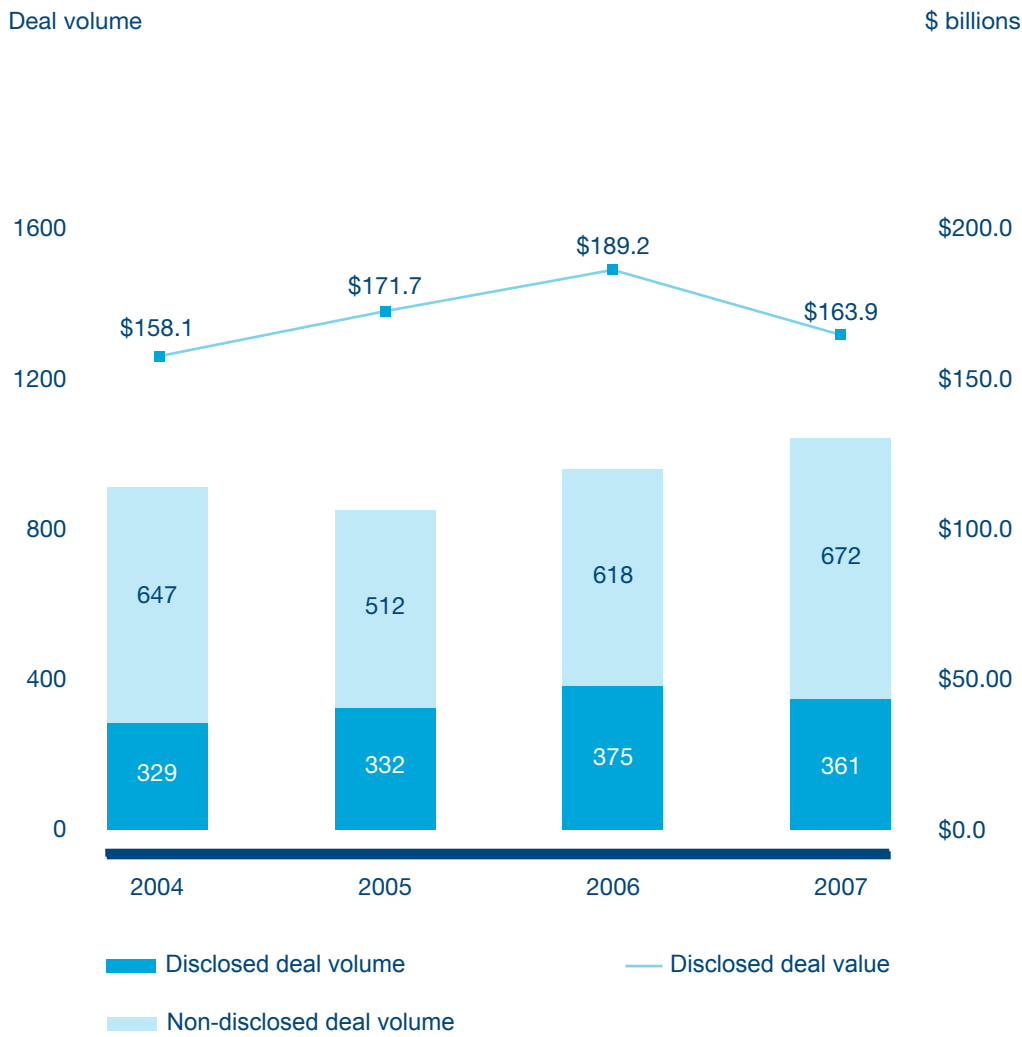
One of the factors driving recent deal activity was the increased interest from foreign acquirers. While domestic transactions continued to dominate financial services deal volume, foreign buyers increased their presence from 4% in 2004 to roughly 39% in 2007. The weakened dollar also played a part in attracting foreign buyers to the US. Historically, the United Kingdom had been the most active foreign investor in the US. In 2007, Canada was the most active with 10 transactions versus seven from the United Kingdom. Overall, foreign investors were most active in the Asset Management sector, followed closely by Insurance.

In 2007, foreign acquirers spent more than \$64.5 billion in the US, an increase of 240% over \$19.0 billion in the prior year. The \$64.5 billion represented more than 39% of the total financial services deal value, a significant jump from 2006's contribution of 10% and 2005's 7% contribution.

Private equity buyers continued to be active in the financial services deal space. During 2007, 53 transactions involved a private equity buyer, an increase of 15% over the previous year. These investors were active in the Asset Management and Insurance sectors, but less so in Banking—mainly due to the sub-prime issue that caused banks to endure large write-offs, challenging deal valuations.

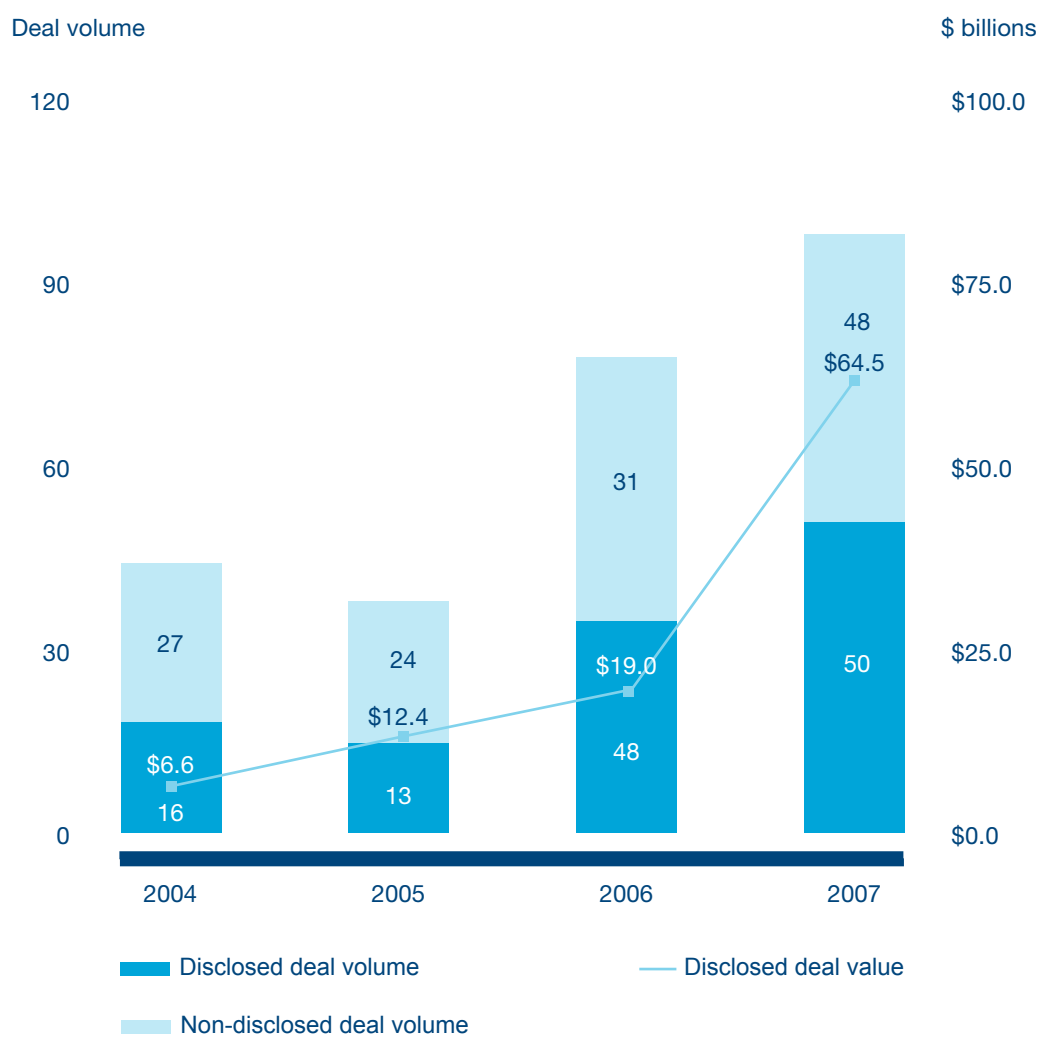
Sovereign funds emerged into the spotlight in 2007 as they infused capital into financial services firms impacted by the credit crunch. These funds are generally passive investors, normally investing in fund-of-funds versus direct investments. For example, minority investments by sovereign funds such as Abu Dhabi Investment Authority's announced acquisition of a 4.9% stake in Citigroup for \$7.5 billion and China's state-owned China Investment Corp.'s \$5.6 billion investment in Morgan Stanley's convertible bonds generated significant media interest. These investors were not only interested in Banking, they were also interested in Asset Management, spending \$5.6 billion in this sector. Transactions

Figure 1. Announced US Financial Services Deal Activity



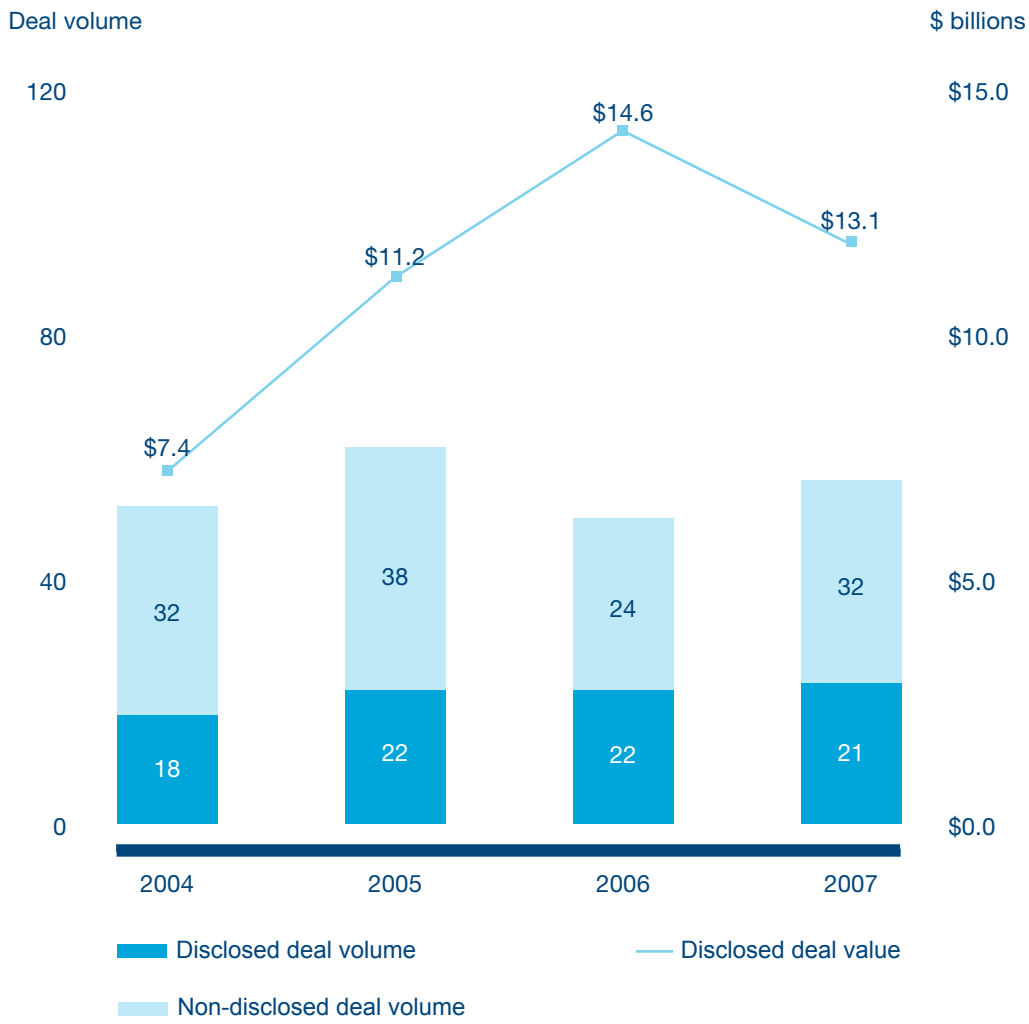
Source: Thomson Reuters

Figure 2. Announced US Financial Services In-bound Foreign Deal Activity



Source: Thomson Reuters

Figure 3. Announced US Financial Services Private Equity Deal Activity



Source: Thomson Reuters

included China Investment Corp.'s investment in the Blackstone Group LP for \$3.0 billion and Mubadala Development Co's, a United Arab Emirates state-owned vehicle, acquisition of 7.5% stake in The Carlyle Group for roughly \$1.4 billion. As a whole, sovereign funds spent \$23.5 billion in the US in 2007, representing 14% of the total financial services deal value.

The uncertainty following the credit crisis and the realization of losses by global and domestic financial services institutions presented strategic distressed acquisition opportunities for savvy buyers. In 2008, strategic buyers continue to dominate the M&A landscape while private equity and foreign investors remain active investing across a wide range of financial services sectors.

Sector views

The following provides a more in-depth look into the financial services sector activity and examines factors currently driving deal momentum in 2008 and beyond.

Banking

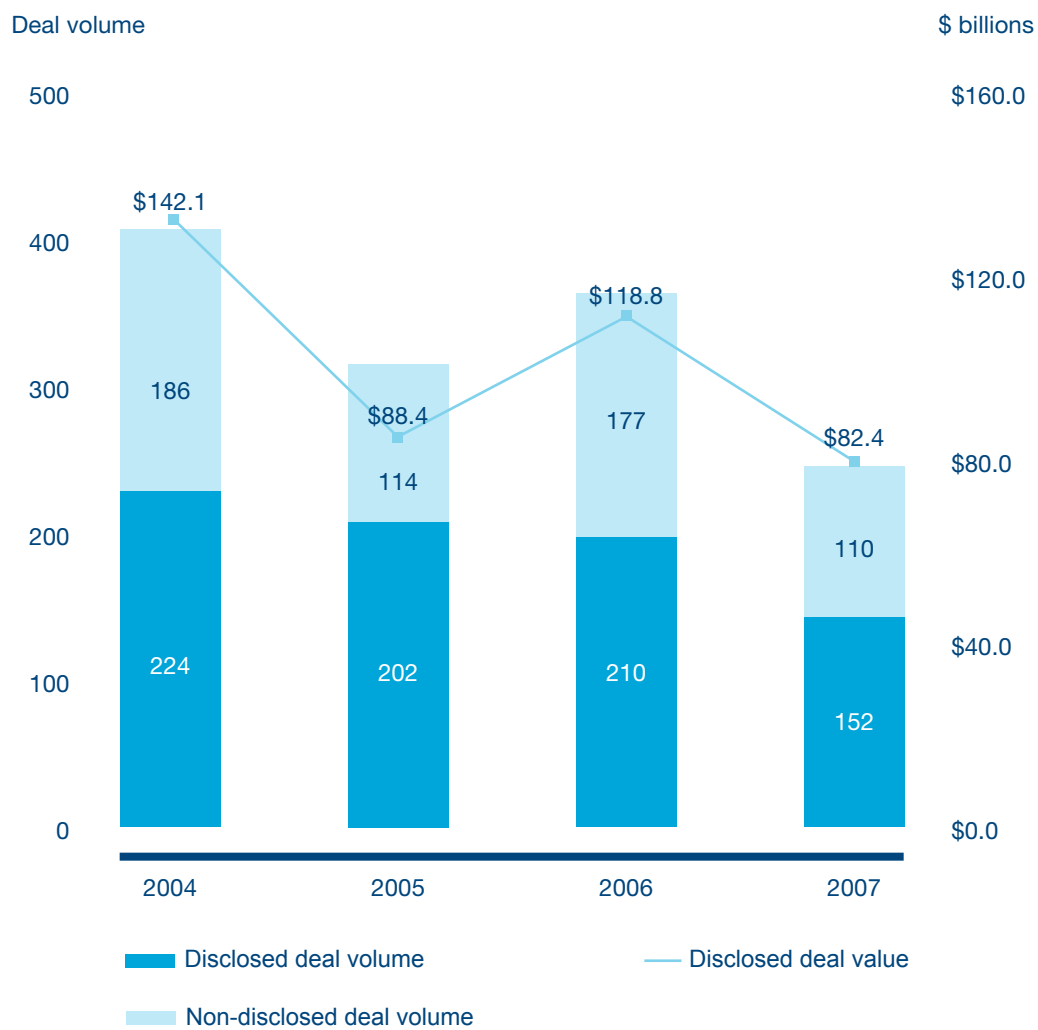
M&A activity on the decline, despite increase in foreign interest

Excluding a small uptick of M&A volume and value in 2006, Banking M&A activity has been on the decline since 2004. Liquidity concerns, market uncertainty and securities valuation issues contributed to the decrease of Banking transactions in 2007. Despite the decline in deal value, Banking continued to make up more than 50% of the total industry deal value while contributing 25% to total volume.

Foreign investors in the sector were busy spending \$39.5 billion or 48% of the total 2007 Banking deal value, an increase from \$8.9 billion or 8% in 2006. The largest foreign takeover was Banco Bilbao Vizcaya Argentaria SA's \$9.6 billion acquisition of Compass Bancshares Inc.'s outstanding common shares in a swap transaction, followed by Toronto-Dominion Bank's announced acquisition of Commerce Bancorp's outstanding common shares in a transaction valued at \$8.5 billion.

Foreign M&A activity also included passive investments made by sovereign funds. Significant write-downs of sub-prime mortgage-backed assets at large global financial institutions led them to seek capital infusions from investors. There were four such significant transactions in the Banking sector in 2007, resulting in \$17.9 billion in new capital. During the first quarter of 2008, approximately \$6.9 billion was injected into the sector by the Singapore Investment Corporation, a state-owned investment vehicle, for its 4% stake in Citigroup.

Figure 4. Announced US Banking Deal Activity



Source: Thomson Reuters

Besides foreign investors driving M&A activity in the Banking sector, strategic domestic consolidation also drove deal volume. For example, Bank of America continued to solidify its position in the consumer banking space through its acquisition of LaSalle Bank, a US consumer banking subsidiary of ABN AMRO Bank, for \$21.0 billion, following its 2005 acquisition of MBNA Corp., a leading issuer of consumer credit cards. Continuing its consolidation efforts, Bank of America recently acquired Countrywide Financial for \$2.5 billion.

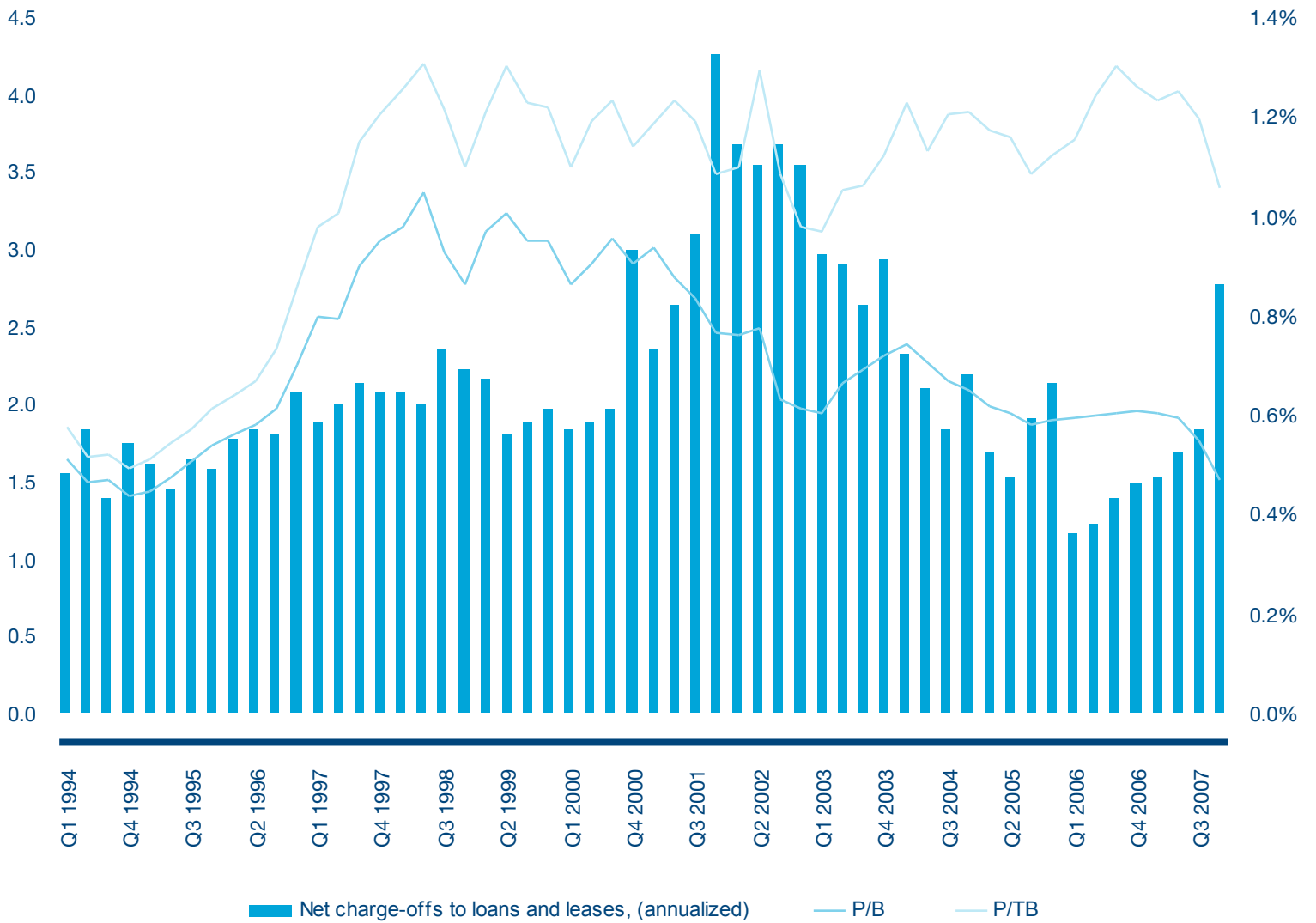
Banking outlook: Consolidation at a turning point. Buyers use caution.

During 2008 large international banks have been seeking capital infusions, while national and regional banks are assessing the impact of the credit crisis on their balance sheets and pursuing capital as well. Consolidation is likely to remain on hold until asset quality settles, and valuation levels are at reasonable levels.

Consolidation generally creates significant intangible assets reflecting deal premiums paid, creating a difference between price-to-book (PB) and price-to-tangible book (PTB) multiples. As shown in Figure 5, at the end of 2007 this difference appeared to be at an all-time high, with average PB multiples at 1.5 times and PTB multiples slightly under 3.5 times, resulting in a difference of 2.3 times. In 2008, it appears that PB multiples have decreased further, with PTB levels holding flat or increasing as a result of falling loan value. However, the ratios vary greatly from deal to deal.

Credit cycles create asset quality challenges for banks that typically depress PB and PTB valuation multiples. While banks may look cheap on a historic basis when looking at PB multiples of 1.5 times, they are expensive on a PTB basis where intangibles are not yet reflected.

Figure 5. P/B and P/TB vs. Net Charge-Off Percentage



Source: Capital IQ and FDIC

Asset Management

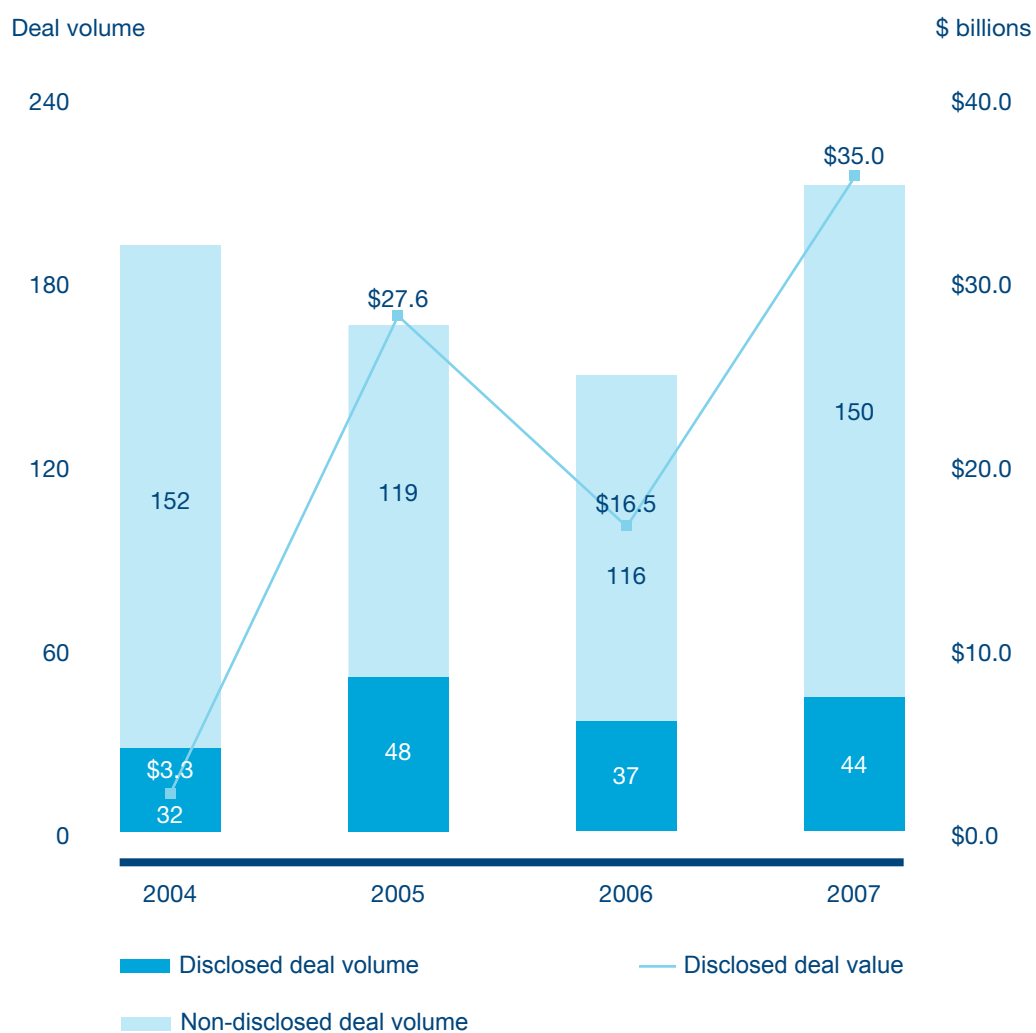
Growth and diversification drive activity

Asset Management comprises those companies that provide corporate and individual investors with services to help manage and grow their assets (hedge funds, mutual fund managers, private equity funds, etc.). Deal value in this sector grew by 112% to \$35.0 billion, up from \$16.5 billion in 2006. Total deal volume—disclosed and non-disclosed—grew approximately 27% from 2006 to 2007 after a two year decline. Positive investment returns and increased investor focus on diversification drove growth in the sector. It's interesting to note that nine deals over a billion dollars took place in Asset Management in 2007 compared to only two in 2006.

Several trends emerged during 2007 that are worth noting:

- » **Increased product offerings through acquisitions:** Strategic investors purchased hedge funds to diversify their product suite so as to reach new customers and expand offerings to existing customers.
- » **M&A used to grow assets under management:** In the competitive world of Asset Management, organic growth can be harder to achieve than growth through acquisition. Businesses looked to acquisitions to drive scale in an increasingly competitive market.
- » **Monetizing of assets by private equity and hedge funds entities:** In the second half of 2007, there was an increase in activity, with private equity/hedge fund managers seeking to monetize their unrealized gains and provide additional liquidity. Sovereign funds showed an appetite for these investment opportunities in 2007, acquiring stakes in The Blackstone Group and The Carlyle Group.

Figure 6. Announced US Assets Management Deal Activity



Source: Thomson Reuters

Asset Management outlook: More activity on the horizon with a focus on hedge funds

The growth drivers in 2007 are likely to carry into 2008 with a focus on the hedge fund sub-sector. Global assets under management are expected to continue to grow assuming fund-of-funds continue to reduce investment minimums, making room for retail investors. The number of small, privately owned boutique hedge fund managers has grown, and demand for hedge fund investments has outstripped supply.

In these times of increased volatility, hedge fund managers are seeking to realize some of the value they have created. While external investors use acquisitions to gain access, strategic investors use acquisitions to expand their service offering. Demand for viable targets in the hedge fund arena may outpace availability over the next 12 months.

Insurance

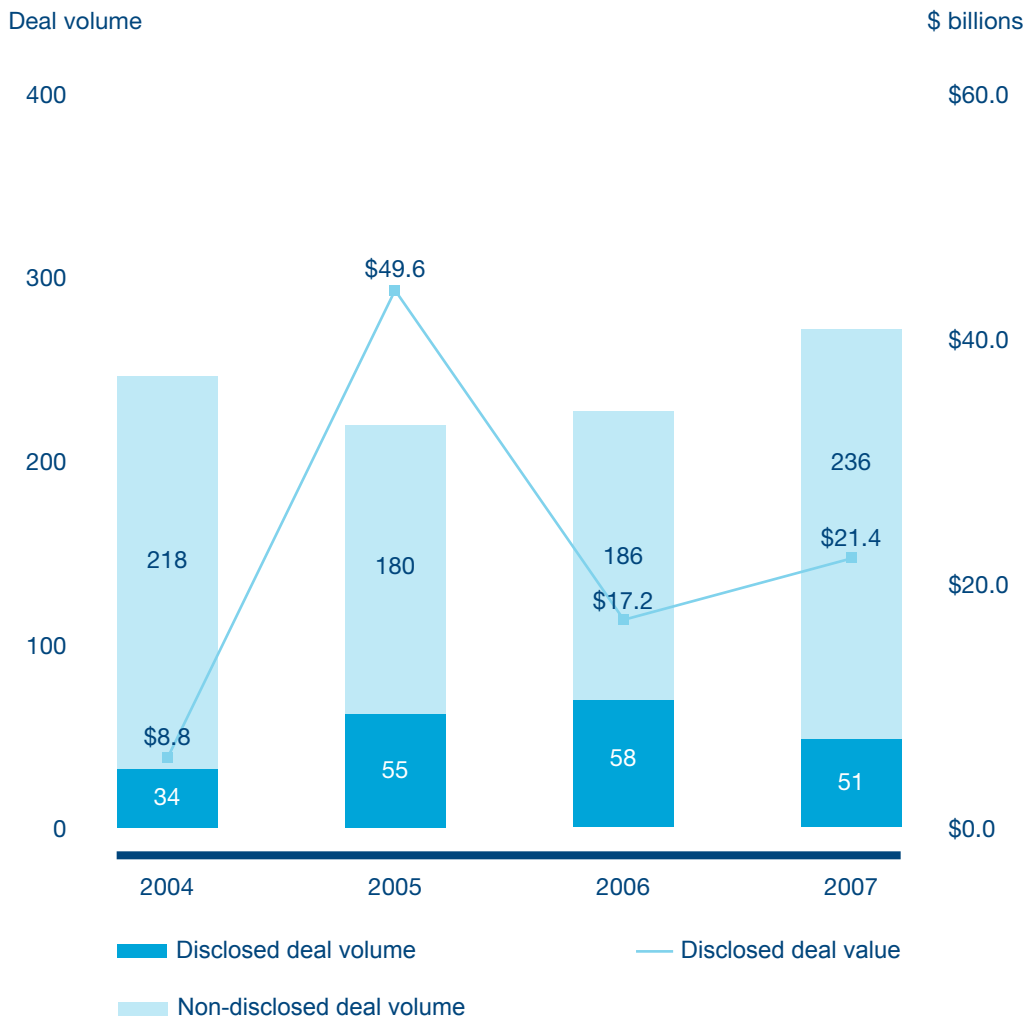
Insurance sector M&A activity continues upward climb, fueled by geographic and product-line expansion

Deal volume remained strong in 2007, driven by a large number of small transactions mainly involving small to mid-size brokers/agencies. Insurance deal activity had been on an upward trend since 2005. In 2007, deal volume reached 287 transactions, an 18% increase over 2006 and, up 4% from 2005. Insurance was more active than the Banking and Asset Management sectors in 2007, making up 28% of the total financial services deal volume.

Factors that drove 2007 Insurance M&A activity were...

- » **Geographic diversification:** Strategic buyers used transactions to increase their geographic footprint as seen with Liberty Mutual Group's acquisition of Ohio Casualty Corp. for \$2.7 billion.
- » **Increased product offerings:** Strategic buyers used acquisitions to increase product offerings and/or revenue streams. Examples of such transactions included Munich RE's acquisition of the Midland Company for \$1.3 billion and ACE's acquisition of accident and health provider Combined Insurance Corp. for \$2.6 billion in cash.
- » **Foreign investors:** Foreign buyers increased their presence in the US Insurance sector with 25 deals in 2007, up from eight deals in 2006.
- » **Increased market share and distribution network:** In 2007, a significant number of insurance brokerage consolidations took place to increase market share. Certain large brokerages were taken private by private equity firms and these entities subsequently became more active in the deal market. Also, insurance companies pursued strategic transactions to broaden their distribution channels and product offerings.

Figure 7. Announced US Insurance Deal Activity



Source: Thomson Reuters

Insurance outlook: Key sub-sectors to experience continued consolidation amid macro-economic shifts

Potential write-downs in insurers' investment portfolios could spur M&A activity

Facing turbulences in the credit markets, the continued fall-out from the credit crisis, a weak US housing market, and the threat of a recession could lead insurance companies to report unrealized market valuation losses and impairment charges within their investment portfolios. Many of the large insurance companies own a variety of investments, including complex derivatives such as credit default swaps that are very volatile in the current environment. As the fall-out of the credit crisis continues to evolve, and the valuation of insurance companies' investment portfolios begin to stabilize, we could see future write-downs in insurers' investment portfolios. If significant write-downs are taken, this may impact the capital adequacy of certain companies, requiring them to seek strategic alternatives to shore up their capital position.

Shifting landscape presents opportunities stemming from major demographic changes

The average age of the US population is increasing, leading to shifting demand for different insurance products. As a result, opportunities present themselves for consolidation in the Insurance sector. Companies may pursue acquisitions in order to achieve the optimal mix of underwriting risks to take advantage of the changing demographics. At the same time, opportunities are being pursued in populated countries with younger and increasingly affluent populations. Insurers may seek to accelerate market expansion into India, China and Latin America as more affluent consumers seek sophisticated protection and saving products and the restrictions of entry continue to be relaxed.

Continued consolidation in the property and casualty sub-sector

With significant capacity, the prospect of margin compression and continued pricing pressure, consolidation in the property/casualty sub-sector is likely to continue over the next 12-18 months. Many corporate buyers with strong balance sheets and an appetite for M&A are now struggling to increase earnings in this time of price softening. Additionally, private equity funds that entered into the insurance business over the past several years are exploring exit strategies.

Continued consolidation among insurance brokers expected throughout 2008

We expect to see continued consolidation of small and mid-size agencies/brokerages and selective take-private acquisitions by large insurance brokerages as they continue their efforts to increase market share and scale while controlling expenses and improving operating efficiency.

Limited number of strategic acquisitions in the life and health sub-sector

As the life and health sub-sector is generally not subject to the swings in pricing that the property and casualty sub-sector experiences, the factors that drive transactions are more focused on strategic and operational opportunities (e.g., improved economies of scale, realization of synergies, increase breadth of distribution network, cross-selling, etc.). Transactions in this sub-sector tend to be more sporadic and unpredictable.

Other

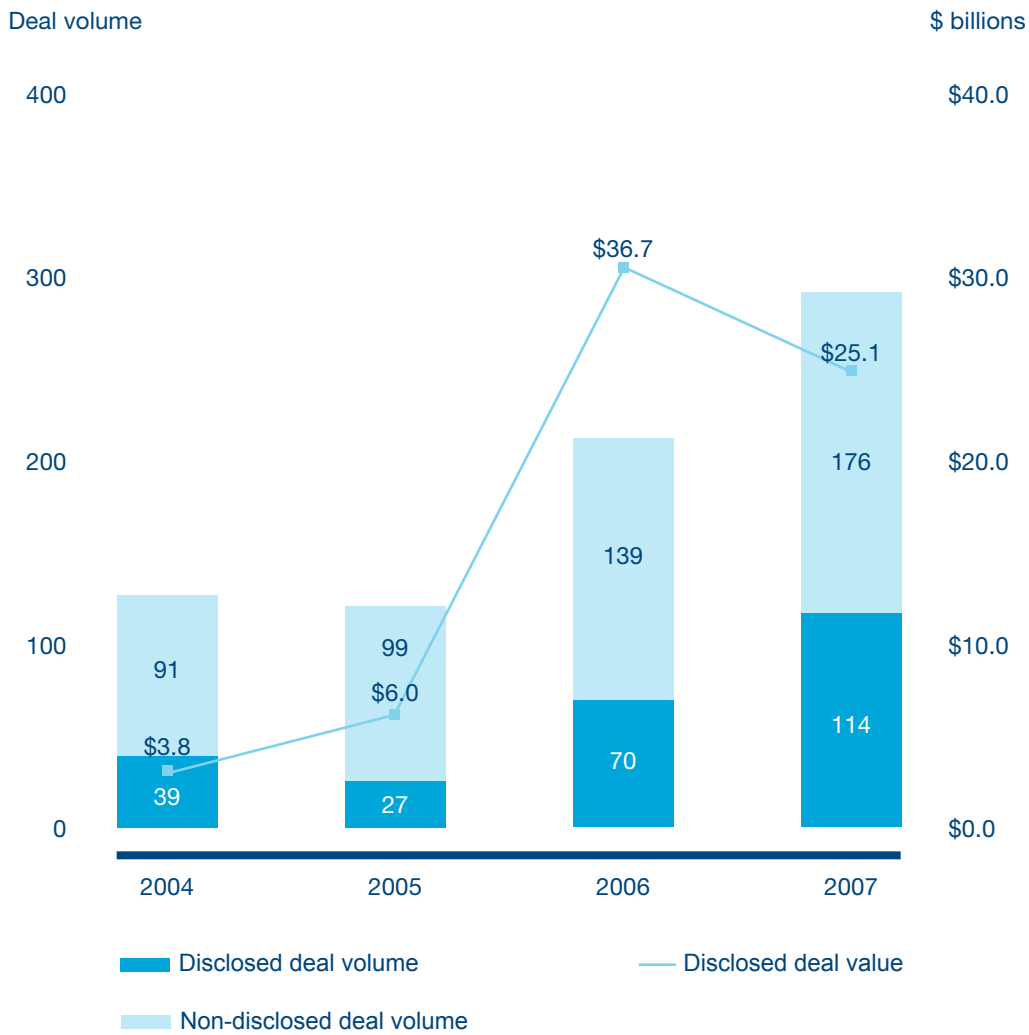
Consolidation among trading platforms defines activity outside of Banking, Asset Management and Insurance

Composed mainly of financial services companies that do not fall directly under the Banking, Asset Management and the Insurance umbrella, this sector has seen a significant rise in deal volume rising from 130 announced deals in 2004 to 290 deals in 2007.

Strategic consolidation among trading platforms was the overarching theme in 2007 which carried into the first quarter of 2008. These transactions included...

- » Deutsche Boerse's acquisition of International Securities Exchange holdings market platforms for \$2.8 billion.
- » eSpeed's acquisition of BGC Partners, a securities brokerage firm, for \$1.6 billion.
- » The Citadel Investment Group's acquisition of E Trade's ABS Portfolio business for \$800 million, in addition to acquiring an approximately 20% stake in E Trade Financial Corp, as part of a \$2.5 billion total cash infusion.
- » Citigroup's acquisition of the Automated Trading Desk LLC, an automated limit order trading service company, for approximately \$680 million.
- » Nasdaq's acquisition of the Philadelphia Stock Exchange for \$652 million.
- » CME Group's acquisition of NYMEX Holdings, Inc., a provider of physical commodities futures and options exchange, among other services, in a transaction valued at \$9.5 billion in the first quarter of 2008.

Figure 8. Announced US Other Financial Services Deal Activity



Source: Thomson Reuters

Anticipating change: Trends to watch

Market volatility leads to a mixed M&A outlook for the financial services industry for the next 12 months. While some institutions retreat to address internal issues, others see opportunities in acquiring distressed assets and continued growth. Companies that may have been active acquirers in financial services in the past may see themselves as potential targets as their share prices dip.

Overall, we believe M&A in financial services will remain relatively active, but not at the level of deal volume seen in 2007. Although acquirers will continue to eye financial services targets, market volatility and uncertainty in off-balance sheet liabilities challenge valuations, which may hamper deal activity. Offsetting this decline is the continuing interest from foreign investors who plan to acquire good acquisition candidates at a discount.

Key President's Working Group recommendations

- » Reform key parts of the US mortgage origination process
- » Enhance disclosure and improve the practices of sponsors, underwriters, and investors with respect to securitized credits, thereby imposing more effective market discipline; reform the credit rating agencies processes and practices regarding rating structured credit products to ensure integrity and transparency
- » Ensure global financial institutions take appropriate steps to address the weaknesses in risk management and reporting practices that the market turmoil has exposed
- » Ensure prudent regulatory policies applicable to banks and securities firms, including capital and disclosure requirements
- » Provide strong incentives for effective risk management practices

The regulatory environment is evolving, which may impact M&A in the financial services industry. In response to the underlying financial market turmoil, US regulators are looking to implement recent recommendations by the President's Working Group. This group was assigned to address the fall-out driven by sub-prime mortgages, ensure the smooth functioning of global capital markets and increase transparency (see box on previous page).

The implementation of these recommendations, the long-term move towards Basel II and other global regulations will increase the regulatory burden on financial services firms. On the other hand, if these recommendations are fully implemented, they may act as a catalyst for further M&A activity as institutions reassess their business and smaller organizations use mergers as a means of mitigating the high cost of compliance.

Despite these factors, we believe the following trends are likely to drive financial services M&A in the coming year and beyond:

» **Financial services M&A will be driven by strategic activity:** Prior to the credit crunch, strategic buyers found themselves struggling to compete with private equity players in a highly competitive auction process. However, with the current limitations on available sources of debt for private equity firms, strategic buyers are in a strong position to acquire assets in distressed sales. Additionally, strategic buyers are absorbing non-core business divestments from sellers who are returning to their core strategy and shoring up capital.

Insurance M&A is likely to increase as the market softens and major insurers look to boost market share to offset falling rates. Furthermore, continued market expansion for corporates remains a major driver of deal activity, as seen in the announced Liberty Mutual Group's \$6.1 billion acquisition of Safeco. In the longer term, as the Banking sector stabilizes, investors may be more active with the possible goal

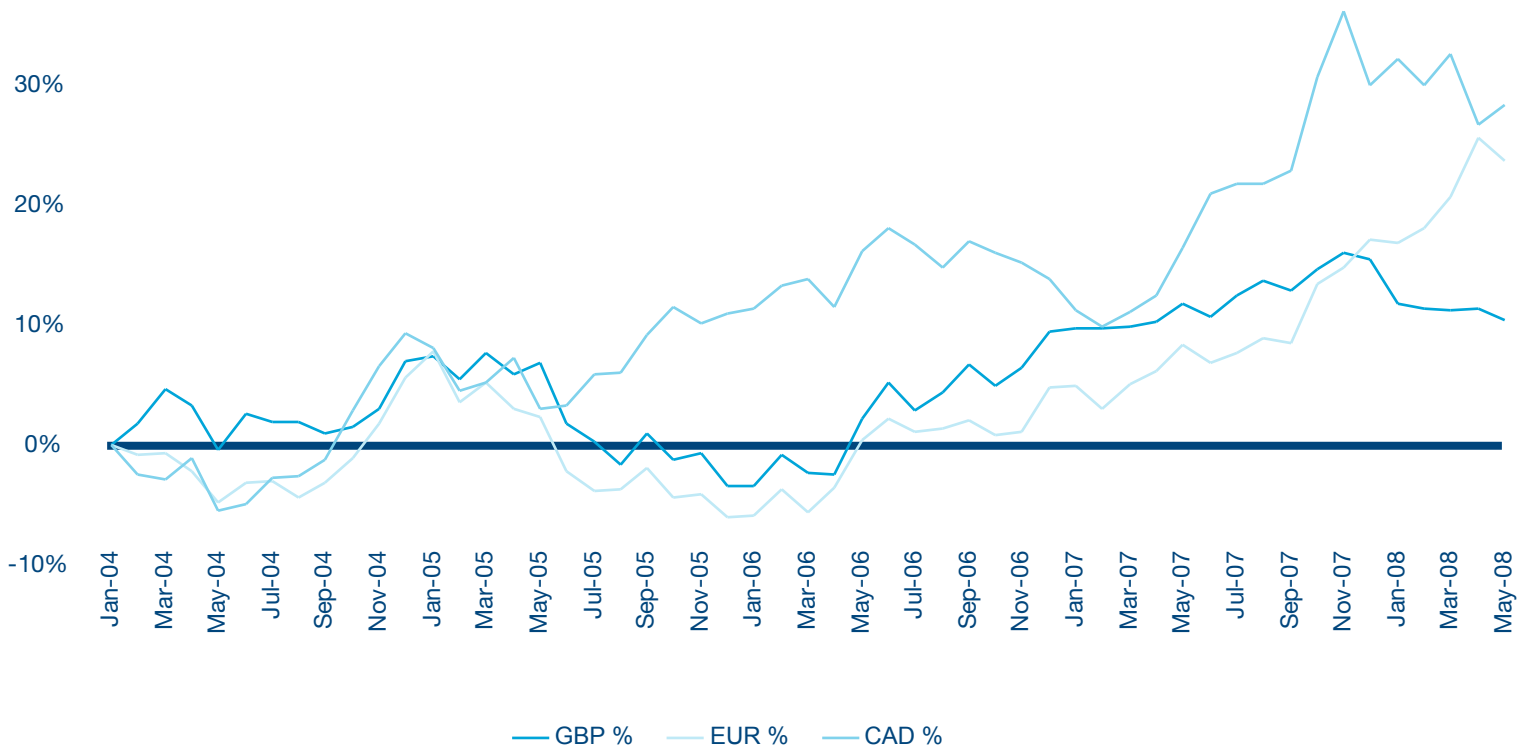
of consolidation at a national level. Overall, 2008 may prove to be a turning point in strategic M&A as companies seize opportunities to acquire targets at competitive prices.

- » **Private equity will continue to maintain its presence:** These investors are likely to remain active in the financial services industry, focusing on traditional deals and investing in distressed assets. The mega-deals seen in 2006 and early 2007 are on hold for the foreseeable future. However, with a considerable level of capital to deploy, these investors are seeking alternative ways to invest. In the current volatile market, private equity firms are actively seeking opportunities to acquire distressed assets at discounted prices or stakes in companies—providing liquidity to those experiencing capital shortfalls. We anticipate these trends will continue, with banks seeking capital infusions to bolster their balance sheet as the credit crisis continues to unfold.

Private equity firms are becoming increasingly industry focused, raising funds to invest in specific industries. Infrastructure and financial services are two examples. In the current market climate, private equity firms look to innovative methods to put their capital to work—such as acquiring companies while retaining the existing debt structure. Until the capital markets return to normal, we will likely see more of these novel deal structures.

- » **Foreign interest will remain unabated:** With the dollar depreciating against major currencies, foreign investors see US companies as comparatively cheap. From 2004 through May 1, 2008, the Canadian dollar appreciated more than 28%, while the British Pound and Euro went up 10% and 24%, respectively. This drove the increase of Canadian interest in the US in 2007. Foreign buyers will continue to take advantage of their strong currency to increase market share and expand into the US financial services industry. For example, Toronto-Dominion Bank increased its US presence through its acquisition

Figure 9. Currency Appreciation Relative to USD



Source: www.oanda.com

of Commerce Bank for \$8.5 billion, while Aviva Plc—the UK’s largest insurance group, and the fifth largest in the world—expanded into the US with its announced \$2.7 billion acquisition of Iowa-based life assessor AmerUS Group.

- » **Financial reporting developments will impact M&A decisions:** Two new accounting standards—Financial Accounting Standards (FAS) 141R, Business Combinations (effective from December 15, 2008), and FAS 157, Fair Value Measurements (currently effective)—will impact transactions. The goal of the new standards is to increase transparency and global comparability of financial reporting. These new standards will increase earnings volatility and uncertainty, which may affect existing deal models. These standards, coupled with the gradual move towards accounting convergence under International Financial Reporting Standards, will lead buyers to assess the impact of these developments on their future deals.

FAS 141R—Business Combinations: This standard includes a number of changes to current reporting that will impact M&A. In this report, we have focused on three significant areas that will impact M&A—the definition of acquisition date, treatment of transaction costs and recognition of contingent assets and liabilities. The new standard defines the acquisition date as the date the deal becomes effective or closes. This will impact financial services deals, as they tend to take longer to close due to regulatory approvals. Although fluctuations in the purchase price may be minimized with floors and caps, the final price and related goodwill involving stock deals may not be known until the deal closes.

Under the new standard, all transaction and restructuring costs will no longer be capitalized but will be expensed when incurred. This will impact earnings and draw greater scrutiny on deal synergies, which may take years to realize. Furthermore, the new guideline impacts the fair value of acquired assets and liabilities, including earn-outs.

While FAS 141R increases earnings volatility and uncertainty, it offers greater transparency and consistency. The new standard creates a need for more dynamic deal modeling as well as increased reliance on detailed financial, legal and valuation diligence.

FAS 157—Fair Value Measurements: FAS 157 provides companies with a consistent definition in fair valuing their assets and liabilities for financial reporting. The new guidance introduces the exit price concept—the price an entity would receive for selling an asset or paying to transfer a liability. Since accurate estimates may not be readily available this creates valuation challenges. Reporting entities are required to determine what market participants are likely to pay for a particular instrument. If no benchmarks are available, significant discretion is used to determine the values of assets and liabilities. This discretion leads to more disclosure in financial reporting and categorization among the three levels relating to the relative certainty of an asset's value. As with the new business combination standards, public companies should take a proactive look at their acquisition strategies to justify the potential dilutive impact on earnings as a result of fair value measurements.

The move to International Financial Reporting Standards (IFRS): Globalization has increased the need for a single common international financial reporting framework and IFRS is increasingly being adopted by most of the world's largest capital markets. More than one hundred countries currently require, permit or are planning to convert to IFRS. While more and more countries are adopting IFRS, the Financial Accounting Standards Board continues its convergence project with the International Accounting Standard Board (IASB) to produce a set of similar, but not necessarily identical, standards with the goal of reducing significant differences between US GAAP and IFRS. The business combination standards, FAS 141R and IFRS 3R are products of these joint efforts.

However, in the US, the Securities and Exchange Commission (SEC) recently eliminated the requirement for foreign private issuers to reconcile to US GAAP as long as they use IFRS as published by the IASB. Many believe a roadmap allowing and perhaps eventually requiring the use of IFRS by US public companies may be published by the SEC as soon as late summer or early autumn of 2008. The SEC's actions have escalated the urgency for US companies to fully understand IFRS, the differences between IFRS and US GAAP, and how IFRS may impact their business, including their M&A models, strategy and execution.

What this means for your business

The need to balance opportunities and risk

Attaining clarity and insight in a challenging and volatile market is difficult when each sector of financial services has its own unique set of opportunities and risks:

- » **In the Banking sector:** Unresolved regulatory hurdles and fluctuating asset and liability valuations continue to challenge dealmakers. Resolution of these regulatory hurdles may encourage new deal activity, while decreasing asset valuations provide for ongoing distressed investing opportunities.
- » **In the Asset Management sector:** Deal-making appears poised to grow over historical periods, as the proliferation of participants and the increasing demand for products are expected to drive the need for scale and product differentiation. However, a cooling US economy may result in lower fund returns than previous years, which may encourage some to acquire or invest in true market leaders.
- » **In the Insurance sector:** In the property and casualty Insurance sub-sector, market cycle trends are likely to trigger deal activity. Facing falling premiums and decreasing investment returns, insurers may look to shed non-core operations and focus on cost control—providing opportunities for acquirers who are looking to make bolt-on acquisitions and private equity-sponsored consolidation. Elsewhere within the sector, businesses are expected to see their coverage bases increase as user acceptance of new insurance products accelerates and demographic shifts increase product demand. This presents an attractive market for businesses looking to grow through acquisitions and those looking to enter the market.
- » Finally, with new accounting guidelines such as Business Combinations (FAS 141R) affecting deals in 2009, active buyers will need to assess the influence of these guidelines on modeling pro-forma results and ultimately M&A decision-making.

Continuing market volatility and a large number of acquirers looking at potential deals in the financial services sectors present both challenges and opportunities. In these dynamic times, the ability of dealmakers to fully understand their market and the regulatory issues affecting their transactions, and the savvy to appropriately price the related risk, will be keys to identifying opportunities and achieving future transaction successes.

Understanding the issues and trends within these sectors will empower informed decision-making. Whether involved on the buy-side or sell-side, by incorporating the benefits of well-planned diligence carried out in a timely and cost-effective manner, dealmakers will be positioned to achieve both a smooth execution of their transactions in the near term, and their strategic business goals in the long term.

We welcome you to reach out to any of our partners listed in this publication for further information or discuss any topics covered. We hope you find the information herein insightful and useful as you contemplate potential acquisitions.

Methodology: the fine print

We define US M&A activity as mergers, acquisitions, shareholder spin-offs, consolidations and restructurings where acquisition targets are US-based companies acquired by either US or foreign acquirers. Transactions are based on announce date excluding repurchases, rumors, withdrawals and deals seeking buyers.

M&A information is provided by Thomson Reuters. Financial services sectors used in this report are as defined by Thomson Reuters: Asset Management, Banking, Insurance and Other Financials. For the purpose of this report, real estate transactions are excluded and minority investments of less than 20%, except in the case of sovereign funds investments over \$1 billion, were eliminated. Mergermarket data was used to cross-reference data for completeness.

About PricewaterhouseCoopers' Transaction Services

Smart dealmakers are perceptive enough to see the value others have missed, flexible enough to adjust for the unexpected, aggressive enough to win favorable terms in a competitive environment, and circumspect enough to envision the challenges they will face from the moment the contract is signed. But in a business environment where information can quickly overwhelm, the smartest dealmakers look to experienced advisors to help them fashion a deal that works.

PricewaterhouseCoopers' Transaction Services group can advise private equity firms and corporations on every M&A decision—from identifying acquisition or divestiture candidates, through developing strategies for capturing post-deal profits, to exiting a deal through a sale, carve-out or an IPO. With over 6,000 transaction specialists in 90 locations worldwide, we can deploy seasoned deal teams that combine deep industry with local market knowledge anywhere and everywhere your firm operates or executes transactions.

While every deal is unique, most will benefit from the broad experience we bring to delivering strategic M&A advice, due diligence, transaction structuring, M&A tax, merger integration and post-deal services. In short, we offer integrated solutions tailored to your particular deal situation and designed to help you complete and extract peak value within your risk profile, whether your focus is deploying capital through an acquisition or joint venture, raising capital through an IPO or private placement, or harvesting an investment through the divestiture process. For more information about M&A and related PricewaterhouseCoopers' services in the financial services industry, please visit our websites at www.pwc.com/ustransactionservices or www.pwc.com/financialservices.

Acknowledgements

We would like to thank Stephen Jones, Geoffrey Tirone, Wade Tripp, Patrick Schulz and Klodiana Zylo for their contribution.

To have a deeper conversation on the industry or on any of the topics mentioned, please contact:

Gary Tillett
TS FS Leader
PricewaterhouseCoopers
Phone: +1 (646) 471-2600
Email: gary.tillett@us.pwc.com

John Marra
TS FS Insurance Partner
PricewaterhouseCoopers
Phone: +1 (646) 471-5970
Email: john.p.marra@us.pwc.com

Todd Williams
TS FS Banking Partner
PricewaterhouseCoopers
Phone: +1 (646) 471-1017
Email: todd.williams@us.pwc.com

Phil Weaver
TS FS Banking Partner
PricewaterhouseCoopers
Phone: +1 (312) 298-5207
Email: phillip.w.weaver@us.pwc.com

James Flanagan
Partner—US Financial Services Practice Leader
PricewaterhouseCoopers
Phone: +1 (646) 471-5220
Email: james.f.flanagan@us.pwc.com

This publication is printed on Mohawk Options PC. It is a Forest Stewardship Council (FSC) certified stock using 100% post-consumer waste (PCW) fiber and manufactured with renewable, non-polluting, wind-generated electricity.



The information contained in this document is for general guidance on matters of interest only. The application and impact of laws can vary widely based on the specific facts involved. Given the changing nature of laws, rules and regulations, there may be omissions or inaccuracies in information contained in this document. This document is provided with the understanding that the authors and publishers are not herein engaged in rendering legal, accounting, tax, or other professional advice and services. It should not be used as a substitute for consultation with professional accounting, tax, legal or other competent advisers. Before making any decision or taking any action, you should consult a PricewaterhouseCoopers professional.

While we have made every attempt to ensure that the information contained in this document has been obtained from reliable sources, PricewaterhouseCoopers is not responsible for any errors or omissions, or for the results obtained from the use of this information. All information in this document is provided "as is", with no guarantee of completeness, accuracy, timeliness or of the results obtained from the use of this information, and without warranty of any kind, express or implied, including, but not limited to warranties of performance, merchantability and fitness for a particular purpose. In no event will PricewaterhouseCoopers, its related partnerships or corporations, or the partners, principals, agents or employees thereof be liable to you or anyone else for any decision made or action taken in reliance on the information in this document or for any consequential, special or similar damages, even if advised of the possibility of such damages.

© 2008 PricewaterhouseCoopers. All rights reserved. "PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity. *connectedthinking is a trademark of PricewaterhouseCoopers LLP.