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

This report provides perspectives on the recent trends and future developments in the European Financial Services M&A market and insights into emerging investment opportunities.

October 2012

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€22.4bn

of European financial services deals in the first half of 2012, up 36% on the same period in 2011

€2.8bn

acquisition of Turkey's Denizbank by Sberbank is the Russian group's largest acquisition outside its home market

Welcome to the third edition of Sharing deal insight for 2012.

Sharing Deal Insight provides perspectives on the latest trends and future developments in the financial services M&A market including analysis of recent transactions and insights into emerging investment opportunities.

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As we anticipated in our last edition, deal values in the European financial services market recovered strongly in the second quarter of 2012 and were almost double the equivalent period in 2011. The number of transactions in our quarterly dataset also rose for the first time in two years and includes a number of cross-border strategic acquisitions.

Looking ahead, the need for restructuring and ambitions for growth within the market will continue to vie with the difficulties of finding buyers, agreeing prices and winning over investors. The growing stream of domestic consolidation and bolt-on deals within the mid and lower end of the banking market, which has helped to spur the increase in volumes, looks set to continue. Further drivers for a continued pickup in activity include the gathering pressure for consolidation within many of Europe's insurance and asset management sectors (see Data analysis section).

The main focus of this edition is Eastern and Central Europe. The first article looks at the prospects for investment in Russia's financial services sector. The sector has embarked on a period of renewed expansion. But, the gap in growth potential between the front runners and the following pack is widening and the return on investment is therefore going to vary quite markedly as a result. While we're unlikely to see the major takeovers that propelled a number of international groups into leading market positions prior to the financial crisis, many institutions within Russia's leading pack will be seeking international investment to help them sustain their current rate of growth. Private equity investors are likely to be among those that will be looking to capitalise (see 'Financial services in Russia: Capitalising on resurgent growth').

Russia's leading financial institutions have also set ambitious plans for regional growth. As we examine in our second article, strong margins and buoyant consumer demand in the financial services sectors of a number of Central, Eastern and South Eastern European markets are attracting growing interest from investors. As some international groups withdraw from the region, ever more opportunities are opening up for new entrants and financial investors to move in. Many of the businesses being sold are profitable and well established. But economic prospects and market development will continue to vary markedly in the short-term (see 'Looking East: Market potential spurs renewed investor interest').

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

Data analysis

As predicted in our last publication, a recovery in banking M&A saw the overall value and volume of European financial services deals improve during the second quarter of 2012. Although one major banking rescue played a significant role, the quarter also saw some more encouraging signs of a recovery in deal activity.

The total disclosed value of European financial services M&A captured in our dataset grew to €12.7bn in the second quarter of 2012, 31% higher than the prior quarter's total of €9.7bn and almost double the comparable figure of €6.7bn from the second quarter of 2011.[1]

Halfway through this publication's tenth year, that improvement gives some grounds to hope that 2012 may see a modest recovery from the low point of 2011, when European financial services M&A was severely curtailed by the eurozone crisis. The total value of deals for the first half of 2012 was €22.4bn, a 36% improvement on the equivalent figure of €16.5bn from 2011.

Less positively, the deal data provides a reminder of the challenges facing European financial services, particularly the banking sector. The second quarter's total disclosed deal value of €12.7bn includes one major banking rescue, a €4.5bn transaction which saw the Spanish government acquire a 45% stake in Bankia through the conversion of preference shares issued by Bankia's parent group BFA (see Figure 1). Banking bail outs may now be less frequent than they were, but they remain an occasional feature of European M&A.

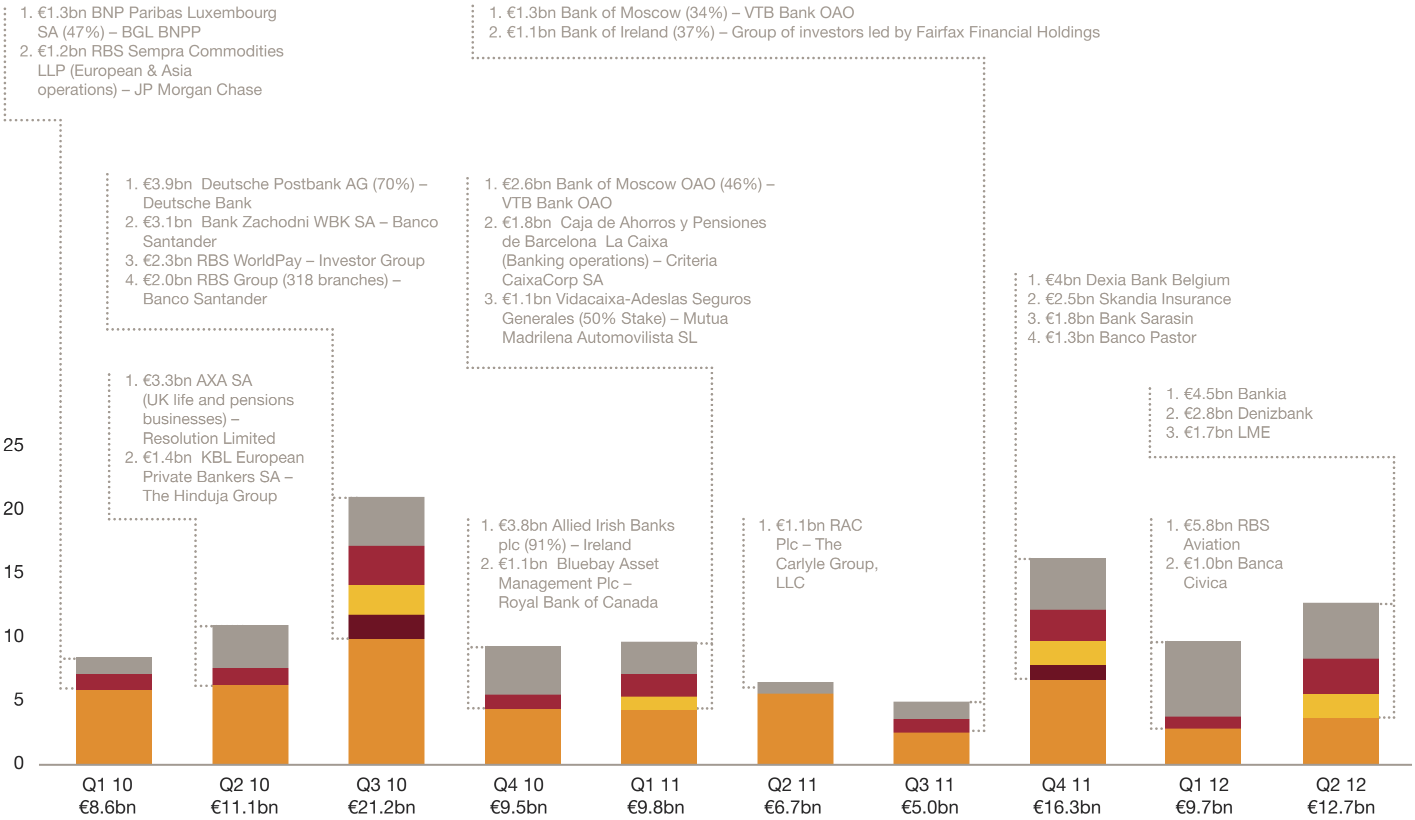
Set against that, the quarter also saw the announcement of two large strategic deals valued at more than €1bn. Both involve cross-border bids with a focus on expansion.

- **Denizbank:** The €2.8bn acquisition of Turkish bank Denizbank by Sberbank of Russia was announced in June. The deal is Sberbank's latest and largest move outside its home market, following its €585m acquisition of Volksbank International, an Austrian bank focused on Central and Eastern Europe. In previous editions of this paper we have discussed the appeal of Turkey's fast growing banking market. The sale of Denizbank by Dexia, currently being restructured by the French and Belgian governments, offers a rare chance for an outright purchase of a large Turkish commercial bank.
- **The London Metal Exchange:** June also saw the announcement that the member-owned London Metal Exchange is to be sold to Hong Kong Exchanges & Clearing for €1.7bn. Until now, the LME has remained one of the few globally significant exchanges still owned by its members. For HKEx, the deal offers a chance to join a handful of international groups competing globally for exchange business.

These two large transactions were not the only encouraging features of the second quarter's data. The total number of European financial services deals captured by our dataset increased for the first time in two years (see Figure 2). As suggested in our previous paper, we believe this could be a more significant indicator of a recovery in financial services M&A than total deal value.

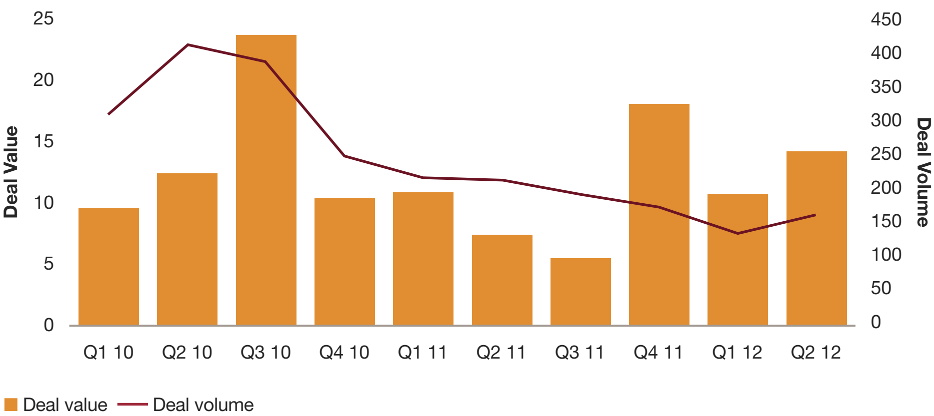
1 Deal data is sourced from mergermarket, Reuters and Dealogic, unless otherwise specified. For details of our analysis methodology, please refer to the information on page 16

Figure 1: European FS M&A by value (€bn), Q1 2010 – Q2 2012



Source: PwC analysis of mergermarket, Reuters and Dealogic data

Figure 2: European FS M&A by disclosed value (€bn) and number of deals, Q1 2010–Q2 2012



Source: PwC analysis of mergermarket, Reuters and Dealogic data

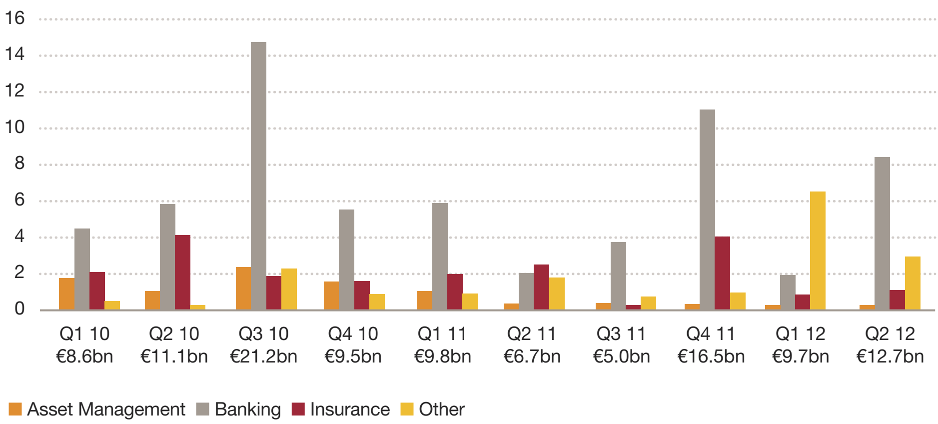
The UK was the most active market, generating 48 deals compared with 33 in the first quarter of 2012. These ranged from two of the quarter's four largest deals to a number without disclosed values, many involving targets in brokerage and investment management. The UK was followed by Russia with 21 transactions (compared with 16 in the first quarter) of which 12 were banking related, Spain with 13 transactions (12 in the first quarter) and Italy with 12 (3 in the first quarter). There was also a pickup in the number of mid-market transactions. Nine deals valued at between €200m and €1bn were announced, compared with five during the first quarter of 2012.

Analysis of the deal data by sector shows that the driver of the overall growth in deal values was a recovery in banking transactions from the exceptionally low level of the last quarter (see Figure 3 overleaf). The Bankia rescue was a factor, but so too were several other significant transactions. Sberbank's acquisition of Denizbank was the largest, but another notable deal was Rabobank's €301m bid for the remaining 40% of its Polish subsidiary Bank Gospodarki Zywnosciowej. And a second Turkish bank, Eurobank Tekfen, was acquired by Burgan Bank of Kuwait for €271m from Greek bank EFG Eurobank Ergasias. All three deals are intended to give the bidders greater exposure to faster growing banking markets than their own.

The insurance sector also generated some significant transactions during the quarter. In Spain, Grupo Catalana Occidente and its partner INOC acquired Spanish insurer Groupama Seguros y Reaseguros from French group Groupama for €405m. The deal is intended to consolidate Catalana's position in the Spanish market. In Germany, health insurer Continentale acquired general insurer Mannheimer for €225m, while in Portugal, Banco Espirito Santo paid €225m to acquire the 50% of insurer BES Vida it did not already own.

An exception to these domestic deals was the acquisition of Brit's UK general insurance business by a US subsidiary of Canadian insurer Fairfax for €239m.

Figure 3: European FS M&A by value (€bn), analysed by subsector, Q1 2010–Q2 2012



Source: PwC analysis of mergermarket, Reuters and Dealogic data

Brit, undergoing restructuring after its 2010 buyout by two private equity firms, also sold its UK regional underwriting business to Australian insurer QBE (€ undisclosed).

Banking and insurance transactions make up all but two of the quarter's Top 10 announced deals (see Figure 4). The remaining Top 10 deals were HKEx's bid for the LME and Royal Bank of Canada's buyout of its securities servicing joint venture RBC Dexia Investor Services from Dexia for €838m.

In contrast, asset management had another very quiet quarter for M&A, with no deals making it into the Top 10. The largest announced asset management deal was Man Group's acquisition of fund of hedge funds manager FRM for €111m, although this could rise to €169m, depending on performance. The next largest asset management deal saw Sumitomo Mitsui acquire Daiwa's fund management activities in the UK and Ireland for €30m.

As well as identifying the quarter's high level developments and largest deals, our analysis reveals some other themes shaping European financial services M&A. We highlight five in particular:

- In-market consolidation among Western European banks: The Italian banking market saw the announcement of several domestic deals during the quarter. The largest was Banca Monte dei Paschi di Siena's sale of its 60% stake in Biverbanca CR Biella e Vercelli to Banca CR Asti for €203m. Other deals included several consumer finance and depositary banking targets. In the Netherlands, regional lender Friesland Bank agreed to merge with the co-operative giant Rabobank. And in Spain, Liberbank, Ibercaja and Caja3 announced plans to merge, creating Spain's seventh largest bank by assets. The desire to strengthen capital and liquidity ratios was one of the most consistent motivations for domestic banking transactions.

- Payment industry transactions: Several deals involving transaction processing targets were announced during the quarter. These included the €140m acquisition of PaysafeCard.com of Austria by UK payment platform Skrill; the purchase of UK firm CorporatePay by Wright Express of the US for €28m; and First Data Corp's 30% investment in OmniPay of Ireland for an undisclosed sum.

- Scale building among UK intermediaries: Financial intermediaries in the UK continue to consolidate in response to difficult trading conditions. Several UK insurance brokers were acquired during the quarter, with Towergate alone acquiring four smaller rivals. A number of securities' brokers were also acquired. Two examples were US broker FXCM's purchase of a 50% stake in UK forex broker Lucid Markets (€140m) and Markit's acquisition of Data Explorers (€ undisclosed).

- Loan disposals by banks: Although not included in our dataset,[2] we note the announcement of several loan portfolio sales during the second quarter. European banks continue to use asset disposals to slim down their balance sheets and boost regulatory capital ratios. Banks announcing loan disposals during the quarter included Bank of Ireland, Barclays, ING, PKO of Poland, Royal Bank of Scotland and Santander. Buyers ranged from private equity funds and insurers to debt collection specialists.[3]

- A continuing flow of small private equity deals: The second quarter was comparatively quiet in terms of private equity-led M&A, but firms continued to support management buyouts in markets including the UK and Greece. The quarter also saw two private equity mergers between ACG Private Equity and Bex Capital of France, and between Stiftelsen Industriefonden and Malmohus Invest of Sweden.

Looking ahead

Financial services M&A in Europe is being shaped by competing forces. The need for restructuring and the desire for growth are being tempered by the difficulty of finding buyers, agreeing prices and winning over investors. Even so, as the data makes clear, several areas continue to generate M&A transactions.

Banking restructuring will remain the primary driver of European financial services M&A. At the larger end of the spectrum, Western European banks may find it increasingly difficult to identify bidders for large non-core banking disposals – as illustrated by Lloyds Banking Group's protracted sale of 630 UK branches.[4] Most Western European markets and segments are not attractive to buyers from outside Europe, and many domestic players lack the capital or investor goodwill to make major acquisitions.

Even so, small and medium-sized domestic consolidation is likely to continue in Western Europe's more fragmented markets, especially in Spain, Italy and Greece. In the case of Greece, Societe Generale and Credit Agricole are both reported to be readying their Greek banking units for sale.[5] Businesses coming up for sale in the better performing

Figure 4: Top 10 European FS deals by value, Q2 2012

Month	Target company	Target country	Bidder company	Bidder country	Deal value (€m)
Apr	Bankia (45%)	Spain	FROB	Spain	4,456
Jun	Denizbank	Turkey	Sberbank	Russia	2,816
Jun	London Metal Exchange	UK	Hong Kong Exchanges & Clearing	Hong Kong	1,719
Apr	RBC Dexia Investor Services (50%)	UK	Royal Bank of Canada	Canada	838
Jun	Groupama Seguros y Reasuguros	Spain	Grupo Catalana Occidente, INOC	Spain	405
Apr	Bank Gospodarki Zywnosciowej (40%)	Poland	Rabobank	Netherlands	301
May	Rossiyskiy Kredit Bank	Russia	Group of Russian private investors	Russia	272
Apr	Eurobank Tekfen	Turkey	Burgan Bank	Kuwait	271
Jun	Brit Insurance	UK	RiverStone Group	US	239
Apr	BES Vida Companhia de Seguros (50%)	Portugal	Banco Espirito Santo	Portugal	225
Apr	Mannheimer Holding (92%)	Germany	Continentale Krankenversicherung	Germany	225
				Subtotal	**11,767**
				Other	945
				Grand total	**12,712**

Source: PwC analysis of mergermarket, Reuters and Dealogic data

markets of Central & Eastern and South Eastern Europe will also continue to attract bidders from inside and outside Europe. At the smaller end of the scale, private equity firms will remain interested in picking up distressed targets, businesses with low capital requirements and asset portfolios.

Restructuring is also likely to generate some significant asset management and insurance deals. One notable transaction announced after the end of the second quarter was Julius Baer's acquisition of Merrill Lynch's non-US wealth management business from Bank of America, for a reported figure of $1.6bn.[6] The long-planned sale of Dexia Asset Management is ongoing,[7] and Rabobank is to be considering the sale of fund management arm Robeco, although we note the difficulties that some European banks have had in disposing asset management units.

In the Italian insurance market, the mooted four-way merger between Unipol, Fiondiaria, Premafin and Milano Assicurazione – if achieved – would create a stronger rival for market leader Generali.

Barring any significant financial market shocks, we expect the number and value of deals to improve during the second half of 2012, building on the second quarter's growth. However, if the last two years have taught us anything, it is that deal confidence is easily damaged by economic, political and regulatory surprises. These are the factors that will determine how M&A develops during the second half of 2012 and beyond.

2 Refer to methodology on page 16

3 For more on-loan portfolio sales, refer to 'European Investor Insights 2012', PwC's European Portfolio Advisory Group, May 2012

4 'Lloyds in £750m deal for Lloyds branches', Financial Times, 19.07.12

5 'SocGen in talks to sell Greek Subsidiary', Financial Times, 29.08.12

6 'Baer seeks scale through Merrill Lynch', Financial Times, 13.08.12

7 'Dexia asset management sale nears', Financial Times, 27.06.12

Banking in Russia: Capitalising on resurgent growth in retail

The Russian banking sector has embarked on a period of renewed expansion. But this is also a market where the gap in growth potential between the high growth banks and the following pack is widening and the return on investment is therefore going to vary quite markedly as a result. The most attractive opportunities are businesses with a clear strategic vision and the execution capabilities to deliver, many of whom will welcome private equity and other financial investors. So what are the future prospects for the banking market and how can investors make the most of the openings?

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Russia's economy has bounced back strongly from the financial crisis, thanks to favourable oil prices and low government debt. The 4% GDP growth seen in 2011 is expected to continue over the next five years.[1]

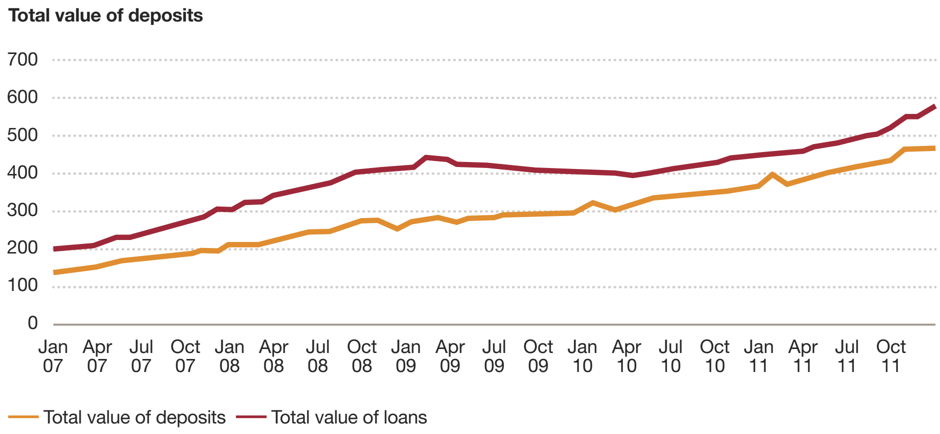
The economic rebound is fuelling further increases in disposable wealth, with private consumption per capita set to grow by 4–5% in the medium-term.[2] With disposable incomes increasing and unemployment declining, consumer confidence is almost at pre-crisis levels. A strong increase in consumption and the expansion of the middle class are driving growth in the consumer market.

In the banking sector, the wider macroeconomic upturn is reflected in the sharp climb in demand, following the dip in 2009 and 2010 (see Figure 5). The fastest growing segment is retail (see Figure 6), with cash, card and auto lending seeing significant growth (non-mortgage retail lending increased by CAGR 16% from 2006 to 2011).[3] The value of credit card transactions is also increasing strongly (by around 60% in 2011 to reach €9bn[4]). The retail deposits base has also been significantly expanding, increasing by 90% from January 2009 to April 2012. While retail spreads have narrowed over the past two years as interest rates have fallen, the average retail net interest spread is still more than 10% for non-auto loans.

Yet, this is still an underpenetrated banking market with only 70% of the adult population being banked[5] and cash still used in the overwhelming majority of transactions.[6] In addition, the loan to GDP ratio is around 40%, compared to more than 130% in the eurozone[7] and the number of credit cards per person in Russia is 0.1, compared to 0.3 in Poland, 0.6 in Italy and 1.1 in the UK.

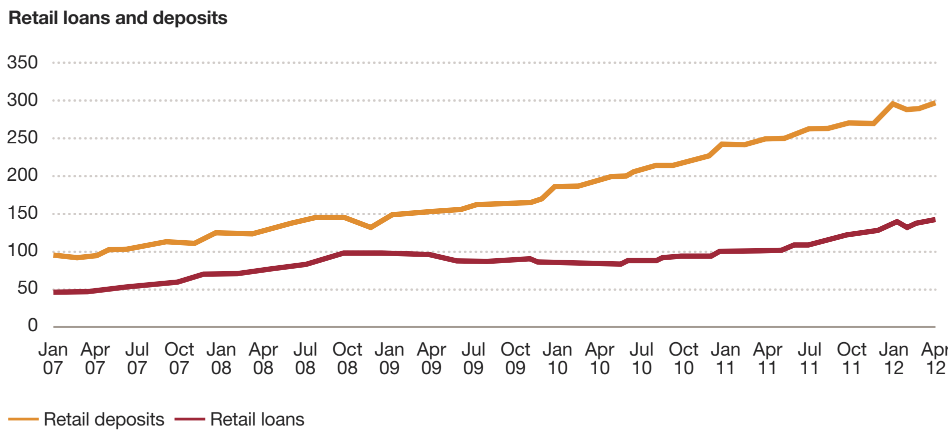
1 IMF World Economic Outlook April 2012
2 EIU, IMF, Euromonitor 2012
3 Euromonitor 2012
4 Bank of Russia statistics, 31.12.11
5 Euromonitor statistical data 2011
6 PwC analysis of Bank of Russia money supply statistics, 01.08.12
7 CEE Banking Sector Report, Raiffeisen Bank, October 2011

Figure 5: Deposit and credit growth



Source: Bank of Russia

Figure 6: Retail deposit and credit growth



Source: Bank of Russia

Looking ahead, retail banking in Russia is set to grow and develop further. This will be driven by increasing penetration of retail banking, disposable income growth, along with growth in the proportion of non-cash transactions

Looking ahead, retail banking in Russia is set to grow and develop further. This will be driven by increasing penetration of retail banking, disposable income growth, along with growth in the proportion of non-cash transactions (partially due to accelerating demand for online sales – Russia has Europe's largest internet enabled population[8]).

In addition, although take-up of banking and other financial services is much higher in the largest urban centres than other parts of the country, Russia's smaller cities are now the main focus of growth and are set to be the key competitive battle grounds over the coming years.

8 Economist, 19.03.12

Figure 7: Most valuable recent deals in Russian banking

Date Announced	Target name	Target nation	Acquiror	Acquiror nation	Deal value (€m)
Feb 11	Bank of Moscow OAO (46.48%)	Russia	VTB Bank OAO	Russia	2,557
Sep 11	Bank of Moscow OAO (34.09%)	Russia	VTB Bank OAO	Russia	1,275
Mar 11	Troika Dialog ZAO	Russia	Savings Bank of the Russian Federation OAO - Sberbank	Russia	722
Apr 11	TransCreditBank OJSC (56.8% Stake)	Russia	VTB Bank OAO	Russia	676
Jun 11	Russian Trading System OAO (53.7% Stake)	Russia	Moscow Interbank Currency Exchange ZAO	Russia	453
May 12	Rossiyskiy Kredit Bank OAO	Russia	Group of private investors	Russia	272
Jan 11	OOO Rossiysky Promyishlenny Bank (49.96% Stake)	Russia	Marfin Popular Bank Public Company Ltd	Cyprus	52
Mar 11	Stolichnoye Kreditnoye Tovarishchestvo Bank (99.1% Stake)	Russia	Alor Group; NPF Promagrofond	Russia	33
Feb 12	TKB Capital ZAO	Russia	NNK Tradition OOO	Russia	25

Source: PwC analysis of mergermarket, Reuters and Dealogic data

High-growth players pull away

Despite the strong growth overall, performance and potential varies quite markedly across the market. There are over 1,000 banks in Russia and there are vast differences in the quality of strategies and execution skills. High-growth players are gaining market share on the back of sharp strategic focus, good distribution and investment in technology/ innovation. But many will need further capital to sustain the pace of growth over the next few years, opening up opportunities for international investors. The size and value of the stakes could prove especially attractive to private equity. Recent examples include the €40m investment in Tinkoff Credit Systems (TCS) by Baring Vostok, a Russia-focused private equity firm.[9]

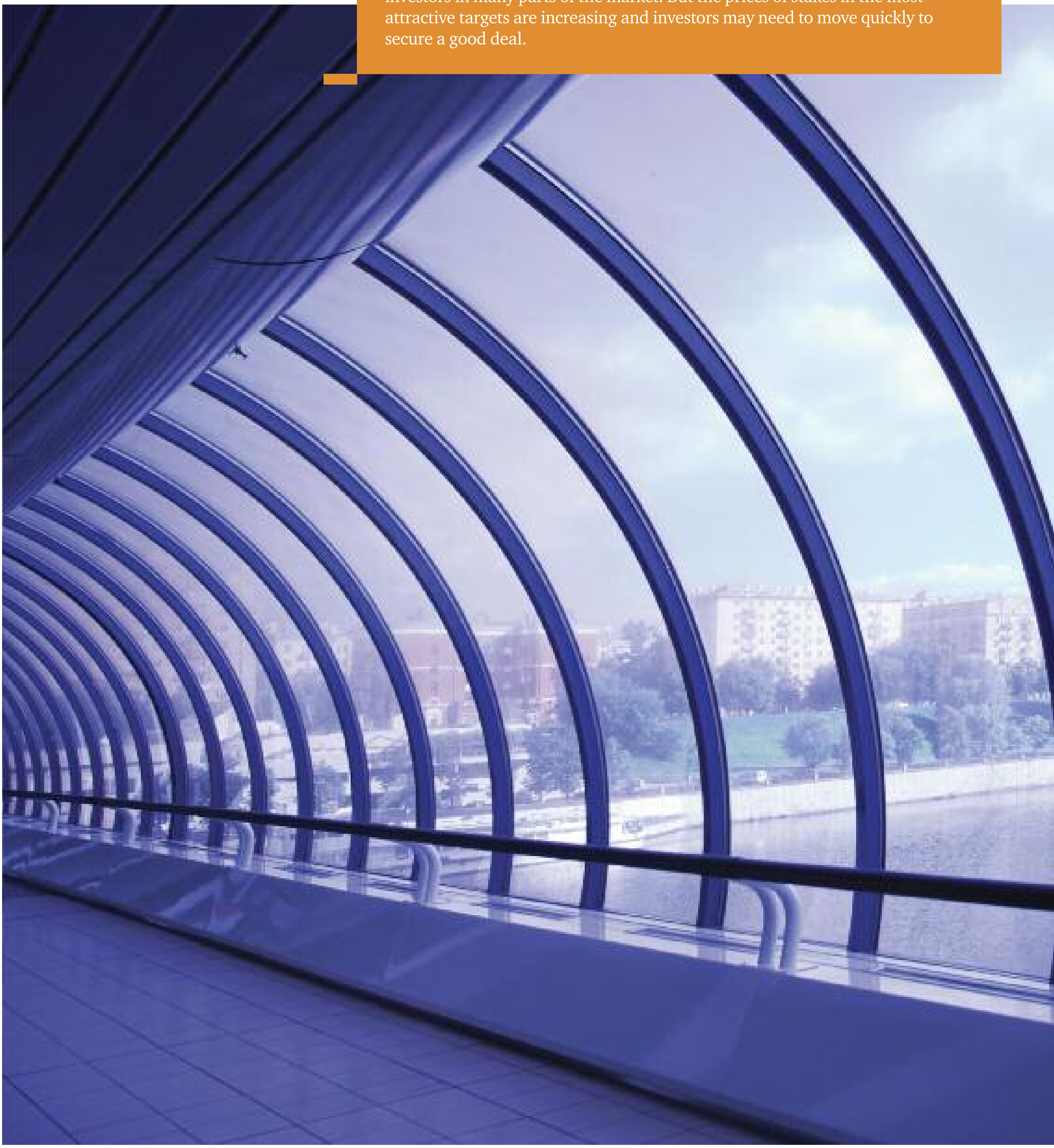
In a market that has traditionally been dominated by large established players with extensive branch networks, TCS has pioneered a fully direct and online distribution model. TCS is now ranked fifth in the credit-card market by volume, having doubled its market share over the past two years.[10]

For now, it is unlikely that we will see more of the takeovers that allowed international banks including Italy's UniCredit (International Moscow Bank in 2007[11]) and Austria's Raiffeisenbank (Impexbank in 2006[12]) to establish themselves in Russia's Top 10 prior to the financial crisis. The upper end of the market is becoming increasingly concentrated as a result of consolidation and few if any international groups currently appear to have the appetite to take over one of the bigger players outright. Indeed, takeover ambitions are moving the other way, with major Russian banks acquiring a number of leading institutions in Central and South East Europe over the past year (see 'Looking East: Market potential spurs renewed investor interest'). Therefore, the most attractive opportunities within the market exist with smaller, high-growth, innovative players.

9 Reuters, 14.05.12
10 Bank of Russia statistics, 31.12.11
11 UniCredit media release, 28.12.06
12 Raiffeisen Bank International media release

Editorial eye

The strong growth in the Russian retail banking market is attracting considerable investor interest. Prices are quite favourable overall and certainly nowhere near the peaks seen prior to the crisis, especially with more prospective sellers than investors in many parts of the market. But the prices of stakes in the most attractive targets are increasing and investors may need to move quickly to secure a good deal.



Looking East:
Market potential spurs renewed investor interest

A year marked by continuing growth, strong margins and buoyant consumer demand in the financial services sectors of some of the Central, Eastern and South Eastern European markets are attracting gathering interest from investors. As some international groups withdraw from the region to help them meet capital demands and concentrate on core markets, ever more opportunities are opening up for new entrants and financial investors to move in.

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While Western Europe remains challenged economically, some countries in Eastern Europe are growing at a relatively strong pace. The front runners include Poland, one of the countries that forms the main focus of this article (we also look at Hungary, the Czech Republic and some of the markets in South Eastern Europe). Poland is expected to grow by 2.9% in 2012 and 3.2% in 2013.[1] The downturn in their export markets in Western Europe has been largely offset by growing domestic demand.

However, the picture within this highly diverse region remains mixed. Hungary's economy is expected to contract and growth in the Czech Republic to remain flat in 2012, though GDP is set to expand once again in 2013.[2]

Poland

Poland is the region's largest financial services market.

The strong performance of the economy helped to stimulate record banking sector profits in 2011. The value of household loans grew by 12% in 2011 and corporate loans increased by 20% on the back of significant infrastructure construction.[3]

The sale of non-core assets by Western European groups is creating opportunities for acquisition. A lot of these non-core assets lie in relatively fragmented segments such as asset management, which is creating a further spur for divestment and consolidation. The openings were highlighted by the acquisition of Kredyt Bank by Banco Santander from Belgium's KBC Group in February 2012. "With this transaction, Banco Santander will significantly strengthen its presence in Poland, one of the most dynamic economies in Europe, obtaining the critical mass we seek in our core markets," said Emilio Botin, Chairman of Banco Santander.[4] Following the acquisition of a controlling stake in Bank Zachodni WBK in 2011,[5] the takeover of Kredyt Bank has enabled Banco Santander to consolidate its position as the third largest bank in what it describes as one of its 'ten core markets', with a market share of around 10%. In turn, KBC will benefit from a capital release of some €700m. More recently, a number of bids have reportedly been submitted by international groups for Alior Bank.[6]

As part of its planned exit strategy in Poland, KBC Group reached an agreement with Talanx International to sell its subsidiary, Warta, the second largest insurer in Poland, in January 2012.[7] In June, Talanx International AG and Japanese insurer Meiji Yasuda Life Insurance Company acquired the Europa

1 World Bank E11 Economic Report, 27.06.12
2 World Bank E11 Economic Report, 27.06.12
3 Ministry of Treasury Economic News, 19.03.12
4 Banco Santander and Kreydt Bank media release, 28.02.12
5 Banco Santander media release, 29.03.11
6 Mergermarket update, 07.09.12
7 Warta media release, 02.07.12

Figure 8: Recent deals in CEE and SEE financial services

Date Announced	Target name	Target nation	Acquiror	Acquiror nation	Deal value (€m)	Subsector
Feb 12	Kredyt Bank SA	Poland	Banco Santander SA	Poland	790	Banking
Jan 12	Towarzystwo Ubezpieczen i Reasekuracji WARTA SA	Poland	Talanx International AG; Meiji Yasuda Life Insurance Company	Germany	770	Insurance
Dec 11	TU Europa SA (84%)	Poland	Talanx AG; Meiji Yasuda Life Insurance Co Japan	Germany	336	Insurance
Apr 12	Bank Gospodarki Zywnosciowej (40%)	Poland	Rabobank	Netherlands	301	Banking
Dec 11	ING ABL Polska SA	Poland	ING Bank Slaski SA (ING BSK)	Poland	48	Banking
Nov 11	Dom Maklerski TMS Brokers S.A. (95% Stake)	Poland	Nabbe Investments	Luxembourg	43	Principal finance
Nov 11	Polish Power Exchange SA (80.33%)	Poland	Warsaw Stock Exchange SA	Poland	40	Broking
Apr 12	MKB Romexterra (92.4% Stake)	Romania	PineBridge Investments LLC	USA	20	Investment banking
Nov 11	Polisa Zycie S.A. (75% Stake)	Poland	The Vienna Insurance Group AG	Austria	15	Insurance
Jun 12	PM&A Investicijsko Podjetje doo	Slovenia	Zavarovalnica Triglav dd	Slovenia	15	Insurance
Aug 12	Powszechne Towarzystwo Emerytalne Polsat SA (OFE Polsat)	Poland	PKO Bank Polski SA	Poland	15	Pension, health and welfare funds
May 12	Magyar Takarekszovetkezeti Bank Rt - Takarekbank (38%)	Hungary	Hungarian Development Bank Rt - MFB	Hungary	14	Banking

Source: PwC analysis of mergermarket, Reuters and Dealogic data

Group.[8] More recently, Generali PPF, a joint entity of Generali, the Italian insurance group and PPF Group, a Prague-based investment and finance group signed an agreement to acquire France's Groupama's Polish branch.[9]

Banking market valuations in Poland (in our analysis, typically 1.0–1.5 times book value) are higher than many other parts of Europe, but remain attractive, given the potential for growth. But valuation issues are making it difficult to close deals, with potential buyers typically bidding 20–30% below market price. The need for extensive due diligence in an uncertain market is lengthening the deal process. As a result of the difficulties in agreeing on prices and finalising transactions, we may see a shift from auctions to one-to-one deals. Other factors to consider include the determination of Poland's banking regulator to take a very proactive position in the sales process.

We see limited appetite for outbound investment within the Polish FS sector. There have been primarily three strategic players considering expansion in new markets and geographies. The leading banking group, PKO BP, is one of the names believed to be focusing on growth via acquisitions as it seeks to establish itself as a significant regional player. However, the Group has not announced any specific targets. The largest Polish insurance group, PZU SA, has indicated potential interest in outbound acquisitions. The Group has recently formed a special purpose vehicle (PZU International) to act as the insurer's acquisitive arm, focusing on small and medium targets in insurance and other sectors. Getin Holding SA, an investment group focusing on companies operating in the FS sector, completes the list of Polish companies that have declared an interest in international expansion.

8 Talanx media release, 04.6.12

9 Groupama media release, 24.07.12

Czech Republic

The Czech economy continues to be affected by the downturn in its main export markets in Western Europe and it may be some time before consumer sentiment and demand begin to improve.

Nonetheless, financial services in the Czech Republic have been relatively resilient, with balance sheets and profitability continuing to be strong. Despite some debt write-offs based on insolvencies, business banking has fared quite well and certainly better than retail banking. The mortgage market has recovered from a significant dip in recent years on the back of record low rates and demand is now climbing back to pre-crisis levels.

Many of the largest banks are owned by foreign groups (foreign ownership of banking assets is 95% compared to the more regionally typical 60–65% in Poland and Hungary[10]) and these holdings make up a significant portion of the group's profits. One of the key factors that have made the Czech banking sector different from others in the region is the high amount of profit coming from service fees. Until relatively recently, banks had done little to adjust their fee structures, though this is now changing as new entrants come into the market and introduce flat rate and free usage models. This move is encouraging many customers to switch accounts and putting further pressure on the already competitive market. However, the new entrants still have low market shares and most are still loss-making.

The top end of the Czech banking market is relatively stable and major acquisition and divestment is unlikely. However, the mid and lower end of the market is seeing considerable interest and activity, with some Western European groups exiting and others moving in to acquire their holdings – recent examples include Russia's Sberbank's acquisition of the Czech assets of Austria's Volksbank (part of a wider deal involving a number of Volksbank's foreign assets).[11] In 2012, the UK's Aviva Insurance sold its Czech, Hungarian and Romanian businesses to MetLife.[12] The openings for private equity buyers were highlighted by AnaCap Financial Partners' acquisition of a stake in Banco Popolare Ceska Republika.[13]

The top end of the insurance market is highly consolidated. The main competitive battleground is motor insurance. The resulting price war, some of which has been fuelled by new foreign entrants seeking to quickly win market share, is putting unsustainable pressure on margins and the sector is now looking for a way to stabilise premiums. Some of these entrants may seek to divest if they cannot secure the anticipated share.

Hungary

Hungary was one of the first markets in the region to liberalise and open up to foreign investment and there does now appear to be a reaction against this. Large sections of the private pensions market have been nationalised. The FS sector not only has to contend with a weak economy, but is also being expected to co-finance sovereign debt. High levels of government debt have led to the introduction of tough new banking and insurance taxes since 2010. Heavy foreign denominated household debt has spurred the government to introduce a series of savings programmes at the expense of lenders. Budget deficits are also putting pressure on banking sector stability and further support by parent groups may be needed.

In line with some Western European banks' efforts to sell non-core assets, further divestment is likely, opening the way for newcomers. Sberbank's deal with Volksbank included the acquisition of its Hungarian assets, for example.[14] Established players are also looking to take advantage of upcoming opportunities. Examples include Erste Bank Hungary's acquisition of the private banking business of BNP Paribas Hungary.[15]

The openings for private equity buyers were highlighted by Pinebridge Capital's acquisition of MKB Romexterra,[16] a division of the Hungarian MKB Bank, which is in turn majority owned by German bank BayernLB. The Hungarian government's plans to take a stronger stake in the FS sector are reflected in the

10 Ministry of Treasury Economic News, 19.03.12
11 Volksbank media release 15.02.12
12 Aviva Group media release, 30.01.12
13 Wall Street Journal, 20.06.11
14 Volksbank media release 15.02.12
15 Erste Bank media release, 09.08.12
16 Reuters, 05.04.12

recent announcement of government owned MFB Hungarian Development Bank's acquisition of a controlling interest in Takarékbank, including the 40% owned by Germany's DZ Bank.[17] In parallel, OTP Bank, the leading player in Hungary continues to seek ways to expand in the region, with Romania and Serbia being a particular focus.[18]

Similarly to banking, the Hungarian insurance sector is still facing significant challenges. In the life segment, the number of unit-linked life insurance contracts has dramatically decreased in 2012 because of households' increased calls on their savings and investments. In the non-life insurance sector, the biggest battleground is motor cover including the compulsory third-party liability, where competition is strong and gross written premiums dropped by more than 20% last year.[19] The biggest deal was the sale of Aviva's Czech, Hungarian and Romanian life insurance businesses to MetLife as mentioned earlier. We do not expect significant transactions in the near future in this highly concentrated market.

South-East Europe (SEE)

The SEE region brings together countries with significant economic and political differences.[20]

Foreign-owned banks remain dominant in SEE with a market share of more than 80%.[21] But there has been some decline recently. There are a number of reasons for this. They include the expansion of more opportunistic locally owned banks in Bulgaria and Romania and the exit of Allied Irish Bank from Bulgaria in 2011.

Some European banks' efforts to scale back their SEE holdings are expected to be the primary force shaping the M&A landscape over the next few years. Examples include Hypo Alpe Adria (HAA), the nationalised Austrian bank, which is looking to speed up the sale of its subsidiaries in Bulgaria, Bosnia, Croatia, Hungary, Macedonia, Montenegro and Serbia.[22] Further opportunities are likely to come from a planned new wave of privatisation in Croatia and Slovenia. However, concerns over falling bank profits and an increase in non-performing loans may be holding back acquisition activity in Romania and Bulgaria at present. Notably, Volksbank Romania was not part of the CEE-asset package acquired by Sberbank.

While Greek banks own significant holdings in the region, any firm plans for divestment are unlikely until there is a clear decision about the Greek government's plans for 'bridge' capital and/or 'permanent recapitalisation'.

Looking ahead, the average market share of the top five banks in SEE countries is lower than most Western European countries. While activity may be tempered by short-term factors, further consolidation is therefore likely in the medium to longer term.

Editorial eye

Divestment by international groups is creating openings for others looking to develop their presence in a CEE and SEE region offering significant potential for growth overall. Many of the businesses being sold are profitable and well established, creating significant openings for private equity investment. But economic prospects and market development will continue to vary markedly in the short term. Exposure to debt issues also varies and will be a key factor in acquisition evaluation and due diligence.

17 Bloomberg, 18.06.12

18 Origo, 07.07.12

19 Hungarian Financial Supervisory Authority's reports on the insurance sector, 23.08.12 and 31.07.12

20 For the purposes of this article, the SEE region includes the EU member states of Slovenia, Romania and Bulgaria, the upcoming EU member state of Croatia (EU entry scheduled on 1 January 2013), as well as five further countries from the Western Balkans, namely Serbia, Bosnia and Herzegovina, FRY Macedonia, Albania and Kosovo. Greece has been excluded as the situation is exceptional. Turkey has been excluded as it was the focus of an article in a recent edition of Sharing Deal Insight.

21 Raiffeisen Research 2011 (proportion does not include Slovenia, Macedonia and Kossovo)

22 HAA media release, 30.12.11

Methodology

The Data analysis section in this issue includes financial services deals:

- reported by mergermarket, Reuters and Dealogic (see Figure 9);
- announced in Q1 2012, and expected to complete;
- involving the acquisition of a >30% stake (or significant stake giving effective control to the acquirer); and
- acquisitions of Europe-based FS targets where a deal value has been publicly disclosed.

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

Figure 9: European FS deals – quarterly summary

Deal value € in billions	**Q110**	**Q210**	**Q310**	**Q410**	**FY10**	**Q111**	**Q211**	**Q311**	**Q411**	**FY11**	**Q112**	**Q212**
Asset management	1.7	1.0	2.4	1.5	6.6	1.0	0.4	0.4	0.4	2.1	0.3	0.2
Banking	4.4	5.8	14.8	5.5	30.4	5.9	2.0	3.7	11.0	22.7	1.9	8.5
Insurance	2.0	4.1	1.8	1.6	9.5	2.0	2.5	0.2	4.0	8.6	0.9	1.1
Other	0.5	0.3	2.3	0.9	3.8	0.9	1.8	0.7	1.0	4.3	6.6	2.9
Total deal value	**8.6**	**11.1**	**21.2**	**9.5**	**50.3**	**9.8**	**6.7**	**5.0**	**16.3**	**37.7**	**9.7**	**12.7**
Corporate	7.5	10.8	17.0	4.5	39.8	9.5	4.8	3.3	10.2	27.8	9.3	7.9
PE	0.8	0.0	4.2	1.1	6.1	0.3	1.9	0.5	0.7	3.4	0.2	-
Government	0.3	0.2	0.0	3.9	4.3	0.0	-	-	4.4	4.4	-	4.5
Other	-	-	-	-	-	0.0	0.0	1.2	1.0	2.2	0.2	0.3
Total deal value	**8.6**	**11.1**	**21.2**	**9.5**	**50.3**	**9.8**	**6.7**	**5.0**	**16.3**	**37.7**	**9.7**	**12.7**
Domestic	3.9	7.5	10.2	7.1	28.7	8.5	3.0	2.6	11.1	25.2	2.8	6.1
Cross-border	4.6	3.6	11.0	2.4	21.6	1.3	3.6	2.4	5.2	12.5	6.8	6.7
Total deal value	**8.6**	**11.1**	**21.2**	**9.5**	**50.3**	**9.8**	**6.7**	**5.0**	**16.3**	**37.7**	**9.7**	**12.7**

Source: mergermarket, Thomson Reuters, Dealogic, PwC analysis

Note: May contain rounding differences

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About this report

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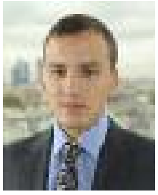

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