Back to the ‘domestic’ future*

From strategic expansion to rapid contraction in financial services M&A in EMEA

March 2009
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Welcome</td>
<td>3</td>
</tr>
<tr>
<td>Annus horribilis</td>
<td>6</td>
</tr>
<tr>
<td>2008: year zero for Financial Services M&amp;A</td>
<td>9</td>
</tr>
<tr>
<td>Valuations: fundamental value or hope, fear and greed?</td>
<td>12</td>
</tr>
<tr>
<td>UK large cap: the government steps in</td>
<td>15</td>
</tr>
<tr>
<td>UK mid-market: balance sheet restructuring driving non-core disposals</td>
<td>17</td>
</tr>
<tr>
<td>Western &amp; Northern Europe: crisis leads to increased government involvement</td>
<td>19</td>
</tr>
<tr>
<td>Central, Eastern and South Eastern Europe and the CIS: the tide turns</td>
<td>22</td>
</tr>
<tr>
<td>Middle East and North Africa: shifting sands</td>
<td>25</td>
</tr>
<tr>
<td>Sub-Saharan Africa: feeling the heat?</td>
<td>28</td>
</tr>
<tr>
<td>The buyout market: down but not out</td>
<td>30</td>
</tr>
<tr>
<td>Speciality finance: coming in from the cold?</td>
<td>34</td>
</tr>
<tr>
<td>Infrastructure: the next big thing?</td>
<td>36</td>
</tr>
<tr>
<td>Investment management: at a crossroads</td>
<td>38</td>
</tr>
<tr>
<td>Distressed assets return to prominence</td>
<td>40</td>
</tr>
<tr>
<td>Does the industry need a new mindset?</td>
<td>42</td>
</tr>
<tr>
<td>The day after tomorrow</td>
<td>44</td>
</tr>
<tr>
<td>Greater domestic focus, lower valuations and restructuring</td>
<td>46</td>
</tr>
</tbody>
</table>
Welcome

This 6th annual review of European Financial Services M&A has been written by a broader range of authors than previously. It comprises a series of articles covering specific issues and geographical areas. Notwithstanding this change, we continue to deliver in-depth deal analysis and still provide a consistent and continuous means to compare and contrast activity. We have also chosen to expand the scope of our report to embrace the Middle East and African markets. As a result, we now offer a comprehensive Europe, Middle East and Africa (EMEA) perspective.

2008 will be remembered as the year in which the developed economies entered recession and economists downgraded economic growth expectations (Figure 1). The emerging markets demonstrated some resilience (Figure 2) but also reported a slowdown.

PricewaterhouseCoopers’ 12th annual Global CEO Survey reported that CEOs are increasingly looking to form joint ventures (JVs) and strategic alliances (SAs) to support their growth strategies. While corporate confidence has clearly taken a knock, this focus on collaborative relationships is in part a consequence of the reduced availability of capital to fund M&A.

Nonetheless, 27% of CEOs in Western Europe still see M&A as the more important way to meet their long-term strategic goals. Consequently, even though M&A volumes may fall during 2010, we still expect to see significant deals in the coming year. CEOs may simply have to find more creative ways to fund their activity, such as the asset swaps seen in the USA (see ‘Investment management: at a crossroads’ on page 38).

M&A activity in European financial services fell in 2008. As has been the case for the last few years, banking dominated the headlines.

The beginning of 2008 was characterised by the audacious acquisition of ABN AMRO by Royal Bank of Scotland (RBS). By the end of the year, however, the focus had switched to capital raising, discussion of bank nationalisation and an acceptance that there is distress in the sector. Who, at the start of 2008, would have suggested that RBS would end up being majority owned by the UK government?

![Figure 1: PricewaterhouseCoopers GDP growth forecasts for selected Western European economies](image1)

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP Growth Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italy</td>
<td>-2.7%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>-1.6%</td>
</tr>
<tr>
<td>Spain</td>
<td>-2.2%</td>
</tr>
<tr>
<td>UK</td>
<td>-3.3%</td>
</tr>
<tr>
<td>France</td>
<td>-1.6%</td>
</tr>
<tr>
<td>Germany</td>
<td>-2.6%</td>
</tr>
</tbody>
</table>

Source: PricewaterhouseCoopers Economics

![Figure 2: Trends in the FTSE share prices (rebased)](image2)

1. PricewaterhouseCoopers refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.
Last year, we reported the results of a survey of financial services sector executives. The balance of their opinion, which predicted that the deal market in the sector would slow down, has proved all too true. This year, we have repeated the exercise and, as Figure 3 shows, there is much similarity in the responses. Once again, the survey’s respondents anticipate a reduced appetite for large M&A deals, with 56% expecting M&A in the sector to remain at the same level or decrease over the coming year. This would seem consistent with the increased trend of government ownership of banks, with 61% of respondents indicating that government ownership would constrain M&A.

So where does this take us? And what are the prospects for M&A in the financial services sector?

It seems almost inevitable that 2009 will be characterised by banks in particular seeking to sell non-core businesses or perhaps assets or subsidiaries located in distant geographies. Meanwhile, the insurance sector, which has not been hit as hard as the banking sector, appears to have an opportunity to consolidate.

The private equity community, which is sitting on considerable investment capital, may need to invest with less leverage than in the past. However, low asset prices may in part compensate for the reduced gearing.

2008 was a remarkable year that many of us may wish to forget but will no doubt be talking about for many years to come. For 2009, we anticipate the prospect of continued change in financial services and expect M&A activity to focus on restructuring rather than strategic growth. Either way, we anticipate that 2009 and 2010 will give rise to opportunistic financial services deals for both corporates and private equity investors throughout the EMEA region.

I hope you enjoy this report. Please do not hesitate to contact me or any of the article authors if you have any questions.

Nick Page

Nick Page
Methodology

Set out below is the methodology adopted to derive the population of 2008 EMEA-based financial services deals that are analysed in this study.

The data in respect of financial services deals used in this report has been sourced from mergermarket. For the purposes of this study, we have defined an EMEA-based financial services deal as a deal that was announced in 2008 and involved the acquisition of a majority stake (or a major stake giving control to the acquirer) in a target that was based in EMEA. Where the value of a deal was not disclosed, it has not been included in our analysis.

Consequently, we have excluded the following types of deals from our analyses (collective disclosed deal value, approximately €21 billion):

- Deals that involved the acquisition of a non-EMEA-based target by an EMEA-based financial services company;
- Deals involving the sale or purchase of minority stakes below 30%. However, when a stake below 30% was acquired and it gave the bidder effective control, that stake has been included;
- Deals for which the value of the equity interest sold was not disclosed, e.g. sales and purchases of asset portfolios where the disclosed deal value represents the value of the assets sold; and
- Deals that have collapsed after their initial announcement.

In this paper, we focus on the remaining deals (approximately €182 billion).

The table below summarises the adjusted announced value of the population of EMEA-based financial services deals analysed in this study.

<table>
<thead>
<tr>
<th>Country</th>
<th>Banking</th>
<th>Insurance</th>
<th>Asset Management</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK &amp; RoI</td>
<td>52,669</td>
<td>3,783</td>
<td>2,753</td>
<td>8,636</td>
<td>67,841</td>
</tr>
<tr>
<td>France</td>
<td>2,552</td>
<td>53</td>
<td>-</td>
<td>1,038</td>
<td>3,643</td>
</tr>
<tr>
<td>Italy</td>
<td>3,491</td>
<td>706</td>
<td>306</td>
<td>-</td>
<td>4,503</td>
</tr>
<tr>
<td>Other</td>
<td>42,274</td>
<td>992</td>
<td>912</td>
<td>-</td>
<td>44,178</td>
</tr>
<tr>
<td>Germany</td>
<td>25,058</td>
<td>18</td>
<td>321</td>
<td>-</td>
<td>25,397</td>
</tr>
<tr>
<td>Scandinavia</td>
<td>5,499</td>
<td>68</td>
<td>9</td>
<td>862</td>
<td>6,438</td>
</tr>
<tr>
<td>Spain &amp; Portugal</td>
<td>1,069</td>
<td>1,382</td>
<td>42</td>
<td>8</td>
<td>2,501</td>
</tr>
<tr>
<td>Netherlands</td>
<td>14,250</td>
<td>-</td>
<td>-</td>
<td>60</td>
<td>14,310</td>
</tr>
<tr>
<td>Switzerland</td>
<td>2,331</td>
<td>-</td>
<td>6</td>
<td>70</td>
<td>2,407</td>
</tr>
<tr>
<td>CEE, SEE</td>
<td>715</td>
<td>2,441</td>
<td>198</td>
<td>138</td>
<td>3,492</td>
</tr>
<tr>
<td>CIS &amp; Russia</td>
<td>2,155</td>
<td>516</td>
<td>65</td>
<td>21</td>
<td>2,757</td>
</tr>
<tr>
<td>Total Europe</td>
<td>152,079</td>
<td>10,851</td>
<td>4,722</td>
<td>10,833</td>
<td>178,485</td>
</tr>
<tr>
<td>MENA</td>
<td>659</td>
<td>71</td>
<td>-</td>
<td>284</td>
<td>1,104</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>727</td>
<td>377</td>
<td>1,069</td>
<td>147</td>
<td>2,320</td>
</tr>
<tr>
<td>TOTAL EMEA</td>
<td>153,465</td>
<td>11,299</td>
<td>5,791</td>
<td>11,264</td>
<td>181,819</td>
</tr>
</tbody>
</table>

Source: PricewaterhouseCoopers analysis of mergermarket data
A high-level review of global financial market disruption during 2008 reveals that the crisis has not only affected individual firms but also the financial services industry as a whole.

For the financial services industry, the credit crunch was the dominant theme of 2008. The fallout from and implications of the crisis are reviewed in more detail in the article ‘The Day After Tomorrow’ on page 44. Here, we review how the financial sector’s operating environment changed during the year and introduce key themes that will occur throughout other articles in this report.

How the year evolved: chronology, sentiment and defining moments

The global financial system experienced many moments of drama during 2008. Most of these involved the failure, near-failure, bailout or rescue of companies threatened either by the slow creep of credit losses or the immediate threat of illiquidity. In Figure 4, we review the chronology of some of these events. To put them in a market context, they are set against the close to 60% fall in the value of listed European financial services companies during the year and the near-tripling of the cost of borrowing for European investment-grade companies over the same period.

During the first half of the year, banks suffered from fears over the credit crunch. However, the consensus view was that the impact on the wider economy – especially in emerging markets – would be limited. Bear Stearns fell into JP Morgan’s arms in March, but the market response was relief, not panic. Lenders needing capital were still able to raise funds, albeit at a steep price, via rights issues (Royal Bank of Scotland (RBS)) or direct investments by Sovereign Wealth Funds (Barclays and Merrill Lynch).

The second half of the year saw a total reversal of this position, as commodity prices tumbled, economic prospects cooled and central bank interest rates were cut. In retrospect, the
nationalisation in August of Roskilde Bank, a small and relatively risk-averse Danish bank, was a warning of what was to follow.

Beginning with the nationalisation of Fannie Mae and Freddie Mac, September and October was a period of growing mistrust in financial markets. The crisis reached its most severe phase with the failure of Lehman Brothers, after which investor confidence subsided.

In the days that followed, the US investment banking industry ceased to exist in its established form. Merrill Lynch was acquired by Bank of America, and Goldman Sachs and Morgan Stanley became bank holding companies and received Federal Reserve support. Financial groups from the Benelux region (Fortis NV and Dexia SA), Iceland (Kaupthing, Landsbanki and Glitnir Banki), and the UK (RBS, Lloyds Banking Group, incorporating its new subsidiary HBOS) were partly or wholly nationalised in exchange for government support. Other major institutions, including ING, KBC, UBS and AEGON, received government capital in exchange for non-voting shares, preference shares or convertible bonds.

As the end of the year approached, the financial markets were relatively calm, but the recapitalisation of Citigroup by the US authorities in November showed that the crisis was set to continue. Indeed, the first weeks of 2009 have not seen any let up in the sector’s distress, with Citigroup moving towards a partial break-up, Anglo Irish Bank being nationalised and the UK government announcing a further round of recapitalisation for RBS and Lloyds Banking Group.

Exceptional market ructions underpinned the moments of drama

These moments of crisis for individual companies reflected unparalleled disruption in all areas of the financial markets. We have already highlighted two of the most important changes – a collapse in financial services valuations and rapid tightening in the credit markets. The collapse in financial services companies’ values reflected a range of issues, the most important of which was probably the scale of banks’ actual and potential losses in relation to their levels of capital (Figure 5).
Of greater significance to the global economy was the slowdown in the supply of credit. This reflected not only the banking sector’s own problems but also the shutdown of the shadow banking system, which had boosted wholesale liquidity over several years by securitising and re-packaging financial assets through a plethora of special-purpose vehicles.

Several other financial market developments during the year overturned conventional wisdom. Some of the most important were:

- **The near-cessation of interbank markets** during the latter part of the year, as banks declined to lend to each other;
- **An unwinding of gearing** among banks, hedge funds and investment vehicles, leading to a sell-off across asset classes that many had believed – or hoped – were uncorrelated; and
- **Growing risk aversion** among global investors and a flight from emerging markets, with a consequent effect on exchange rates (Figure 6).

Last, but not least, the second half of 2008 saw a growing recognition that global economies were slowing down (Figure 7). Recession has already taken hold in many European countries, while falling inflation, lower consumer and industrial confidence, slowing output and higher unemployment are visible in many markets.
2008: year zero for financial services M&A

Market disruption has had a profound impact on patterns of European financial services M&A.

During 2008, the financial market conditions examined in the previous article had a tangible impact on financial services companies’ strategic priorities.

Some of the changes included:

- A greater focus on the economic and social priorities of public sector shareholders;
- A shift away from emerging markets and global aspirations towards domestic priorities;
- Renewed interest in the capital and liquidity implications of strategic decisions; and
- Increased focus on stability and profitability at the expense of top-line growth.

Europe’s largest financial services M&A deals reveal the impact of market disruption

The 20 largest European financial services deals of 2008 make the impact of these strategic shifts abundantly clear. Over the previous five years, the top 20 deals reviewed in this report have been consistently dominated by such themes as increasing scale, achieving faster growth, reaching new markets and creating national champions.

Most of 2008’s major financial services transactions, however, were characterised by haste, opportunism or government involvement. Even those deals that did help bidders to achieve long-term strategic goals typically involved a troubled seller (Table 2).

The top 20 transactions represented approximately 80% of European financial services deal activity during the year. They can be categorised as follows:

- **Governments nationalising or taking strategic stakes in financial services companies:** Government action accounted for no fewer than 12 of the top 20 deals during the year. Deal activity came in bursts, such as the UK government’s co-ordinated support packages for RBS and Lloyds Banking Group. The Dutch government was busy too, taking over Fortis’s businesses in the Netherlands, and recapitalising ING and AEGON. The Belgian government acquired Fortis’ operations in that country, which it soon followed with the part-nationalisation of Dexia and the recapitalisation of KBC.

- **Accelerated deals involving distressed targets:** Closely connected with government deal activity were three related acquisitions of distressed targets by industry consolidators. Just days after the Belgian government came to Fortis’ rescue, it sold most of the latter’s Belgian banking activities and 100% of the group’s Belgian insurance business to BNP Paribas. In the UK, Lloyds TSB’s merger with a weakened HBOS was quickly waved through despite competition concerns, just weeks before the UK government recapitalised the newly formed Lloyds Banking Group.

- **Divestments of non-core businesses by banking groups:** In two relatively straightforward divestments, Citigroup sold its German retail banking business to Crédit Mutuel, and RBS sold its Angel Trains leasing business to a consortium of investors. Both transactions arose from the sellers’ need to simplify their corporate structure and raise some capital. HSBC also sold a group of seven regional French banks to Banque Federale de Banques Populaires. The disposal was in line with HSBC’s strategy of focusing on developing markets and international business.

- **Other transactions:** The sale of Dresdner Bank to Commerzbank signalled an end to Allianz’s attempt to create a bancassurance group, while offering Commerzbank – subsequently recapitalised by the German Federal Government – the chance to build scale in domestic banking.

1 In Feb 2009, it was announced that BNP Paribas would take a 10% stake, as opposed to 100%, in Fortis Belgium for €500 million. Source: ‘Amendments to the terms governing the acquisition of Fortis’ activities in Belgium and Luxembourg’ www.bnpparibas.com. 02.02.09.
## Table 2: Top 20 European deals in 2008

<table>
<thead>
<tr>
<th>Deal date</th>
<th>Target name</th>
<th>Target country</th>
<th>Bidder name</th>
<th>Bidder country</th>
<th>Deal value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oct</td>
<td>Royal Bank of Scotland Group plc (RBS) (57.9% stake)</td>
<td>UK</td>
<td>UK Treasury</td>
<td>UK</td>
<td>€25,497m</td>
</tr>
<tr>
<td>Oct</td>
<td>Fortis Bank Nederland (Holding) NV</td>
<td>Netherlands</td>
<td>States-General of the Netherlands</td>
<td>Netherlands</td>
<td>€16,800m</td>
</tr>
<tr>
<td>Oct</td>
<td>HBOS plc (58.1% stake)</td>
<td>UK</td>
<td>UK Treasury</td>
<td>UK</td>
<td>€10,854m</td>
</tr>
<tr>
<td>Aug</td>
<td>ING Groep NV</td>
<td>Netherlands</td>
<td>States-General of the Netherlands</td>
<td>Netherlands</td>
<td>€10,000m</td>
</tr>
<tr>
<td>Sep</td>
<td>Dresdner Bank AG</td>
<td>Germany</td>
<td>Commerzbank AG</td>
<td>Germany</td>
<td>€9,800m</td>
</tr>
<tr>
<td>Oct</td>
<td>Fortis SA/NV (75.0% stake); Fortis Banque Luxembourg SA (16.0% stake)</td>
<td>Netherlands/Belgium</td>
<td>BNP Paribas SA</td>
<td>France</td>
<td>€9,000m</td>
</tr>
<tr>
<td>Sep</td>
<td>HBOS plc</td>
<td>UK</td>
<td>Lloyds TSB Group plc</td>
<td>UK</td>
<td>€7,659m</td>
</tr>
<tr>
<td>Nov</td>
<td>Bayerische Landesbank</td>
<td>Germany</td>
<td>German Federal State of Bavaria</td>
<td>Germany</td>
<td>€7,000m</td>
</tr>
<tr>
<td>Sep</td>
<td>Dexia Group (34.4% stake)</td>
<td>Belgium</td>
<td>Governments of Belgium and France</td>
<td>Belgium, France</td>
<td>€6,000m</td>
</tr>
<tr>
<td>Oct</td>
<td>Lloyds TSB Group plc (32.0% stake)</td>
<td>UK</td>
<td>UK Treasury</td>
<td>UK</td>
<td>€5,746m</td>
</tr>
<tr>
<td>Jul</td>
<td>Citibank Privatkunden AG</td>
<td>Germany</td>
<td>Crédit Mutuel SA</td>
<td>France</td>
<td>€5,200m</td>
</tr>
<tr>
<td>Aug</td>
<td>Roskilde Bank A/S</td>
<td>Denmark</td>
<td>National Bank of Denmark</td>
<td>Denmark</td>
<td>€5,000m</td>
</tr>
<tr>
<td>Sep</td>
<td>Fortis Bank SA/NV (49.9% stake)</td>
<td>Netherlands, Belgium</td>
<td>Belgian Federal Government</td>
<td>Belgium</td>
<td>€4,700m</td>
</tr>
<tr>
<td>Jun</td>
<td>Angel Trains Ltd</td>
<td>UK</td>
<td>Consortium led by Babcock &amp; Brown Ltd</td>
<td>Australia, Canada, Germany</td>
<td>€4,539m</td>
</tr>
<tr>
<td>Oct</td>
<td>KBC Groep NV</td>
<td>Belgium</td>
<td>Belgian Federal Government</td>
<td>Belgium</td>
<td>€3,500m</td>
</tr>
<tr>
<td>Oct</td>
<td>AEGON NV</td>
<td>Netherlands</td>
<td>States-General of the Netherlands</td>
<td>Netherlands</td>
<td>€3,000m</td>
</tr>
<tr>
<td>Dec</td>
<td>Deutsche Postbank AG</td>
<td>Germany</td>
<td>Deutsche Bank AG</td>
<td>Germany</td>
<td>€2,790m</td>
</tr>
<tr>
<td>Jul</td>
<td>HSBC France SA</td>
<td>France</td>
<td>Banque Federale des Banques Populaires</td>
<td>France</td>
<td>€2,100m</td>
</tr>
<tr>
<td>Jul</td>
<td>Alliance and Leicester plc</td>
<td>UK</td>
<td>Banco Santander, SA</td>
<td>Spain</td>
<td>€1,673m</td>
</tr>
<tr>
<td>Dec</td>
<td>Anglo Irish Bank Corporation plc</td>
<td>Ireland</td>
<td>The National Treasury Management Agency</td>
<td>Ireland</td>
<td>€1,500m</td>
</tr>
</tbody>
</table>

**Top 20 deals**  
€142,358m

**Other**  
€36,127m

**Total Europe**  
€178,485m

Source: PricewaterhouseCoopers analysis of mergermarket data

---

2 UK Treasury acquired a 57.9% equity stake for €19.1 billion and additionally subscribed to €6.4 billion in preference shares. Government stake increased after 2008 year end. Source: ‘Government takes 68% in RBS’ www.guardian.co.uk, 19.01.09.

3 Government stake subsequently increased to 77% (including 65% voting shares) in the new Lloyds Banking Group. Source: ‘Treasury takes 65% Lloyds stake’ www.news.bbc.co.uk, 07.03.09.

4 The consortium led by Babcock & Brown European Infrastructure Fund (BBEIF) consisted of Access Capital Advisers, AMP Capital Investors Limited, Deutsche Bank AG and Public Sector Pension Investment Board.

5 HSBC sold a portfolio of seven regional banks: Banque Chaix; Banque du Savoie; Banque Dupuy. de Parseval; Banque Marze; Banque Pelletier; Crédit Commercial du Sud Ouest (CCSO) and Société Marseillaise de Crédit (SMC).

Several M&A trends of recent years have come to an end

These themes had some marked effects on the trends reviewed by this publication.

- First (as highlighted earlier), the total value of financial services deals declined during the year, with deals involving government activity accounting for more than half the value of all transactions (Figure 8). If state-sponsored activity is excluded, total deal value during the year decreased by approximately 65%.

- Second, there was a shift away from the increased cross-border activity of recent years towards domestic deal-making (Figure 9).

- Third, while banking deals retained their traditional dominance – albeit for exceptional reasons – the value of transactions involving insurers and asset managers dropped sharply (Figure 10).
Valuations: fundamental value or hope, fear and greed?

What caused the price falls of 2008? And what can we expect in 2009?

On average, transaction pricing levels came down in 2008. However, in the periods before and after the collapse of Lehman Brothers the story is very different.

The decrease in pricing levels resulted from:

- Fundamental valuation issues, in particular average earnings growth assumptions, which decreased to around 0.5% per annum into perpetuity; and
- Other pricing factors, such as short-term sentiment, supply and demand, and the availability of affordable funding.

In the short term at least, the post-Lehman Brothers environment is set to continue.

2008 – Transaction pricing levels come down

It is common knowledge that many financial services institutions lost a significant proportion of their market value during 2008, not least during a turbulent autumn that saw large and renowned institutions across the globe fail or effectively end up under state ownership or support. In broad terms, profits have been put under significant pressure through decreasing prices, lower transaction volumes and high inflation. In addition, financial institutions have seen or are likely to see their effective future capital requirements increase. Lower expected profits and increased capital have led to lower current and expected return on equity and this has in turn been a significant factor in downward corrections of the market value of financial institutions.

This is illustrated by the 57% decrease in value of the S&P Europe 350 Financials Index during 2008. On the other hand, the price-to-earnings (P/E) values of this index have risen by approximately 14% from 8.4 to 9.6. This increase has been driven mainly by the large one-off balance sheet losses experienced predominantly by the banks.

From an M&A perspective, the number of transactions in 2008 was down by approximately 24% from the figure in 2007. This resulted from a number of factors, including those mentioned above, balance sheet risk and the cost and availability of capital. In terms of value, however, the question is: have prices paid for financial services institutions in Europe decreased to the same extent as those for quoted peers and, if not, why not?

To answer this question, we need to see whether the prices of financial services assets have come down from their recent high levels. A simplified way of doing this is by observing the P/E ratios implicit in transactions in 2006 to 2008 in Europe involving financial services institutions for which data is readily available in the public domain.2 We have also looked at how that data compares with the long-term average P/E value of European financial services institutions in those same years.

Figure 11 shows that the implied P/E values in M&A transactions involving financial services institutions have decreased significantly over the last three years. They are, however, still above the long-term average P/E value of quoted European financial services institutions. This is probably due to a number of factors, including the current depressed earnings levels due to one-off

---

1 Sample selected due to data availability and adjusted for material outliers.
2 Rolling three-year average P/E value for the S&P Europe 350 Financials Index, adjusted for control and liquidity to allow comparison.
credit losses and likely significant levels of expected further credit write-downs required on quoted banks’ balance sheets compared to that of acquired businesses; strategic control premiums paid for acquired businesses; and net selling pressure on quoted financial institutions.

The price decrease has been driven by fundamental value matters and other pricing factors

M&A prices in 2008 were relatively low in comparison to recent historic levels. On the assumption that earnings implications from the credit crunch had not fully surfaced in the financial statements available to acquirers before they completed their transactions, we have to ask the follow-on question: is the decrease in prices due to fundamental value issues, such as acquirers’ views on earnings growth prospects and the level of risk or other pricing factors? Each of these issues and factors will be considered in turn.

To assess the expected earnings growth rates of the acquired financial institutions, we have looked at the implied growth rates of the average P/E multiples of transactions in each individual year from 2006 to 2008. In doing so, we have made a simplifying assumption – that the average cost of capital for all transactions in each given year equals the cost of equity of the S&P Euro 350 Financials Index.

Figure 12 sets out the resulting average implied future earnings growth rates for transactions over the last three years. As the graph shows, the implied average annual earnings growth rates in transactions have decreased over the last three years by 4.3 percentage points (from 4.8% in 2006 to 0.5% in 2008). On a real basis, this growth rate has decreased from a material positive expected real earnings growth rate into perpetuity in 2006 (1.6%) to a significant negative expected growth rate into perpetuity in 2008 (-5.6%).

However, it should be noted that:

1. Among other things, any earnings improvements due to synergies would be included in these growth rates (which may partly explain the large difference between implied average earnings growth rates for transactions and those of the S&P Euro 350 Financials Index); and

2. As GDP forecasts for Europe are expected to fall universally in 2009 and stay relatively flat thereafter, with banking intermediation remaining stable, then aggregate credit in circulation on which to earn a margin is reduced. The effect is that banking valuations fall and this may explain a proportion of the decrease in the implied average future earnings growth rate expectations of financial services transactions in 2008.

During the period from 2006 and 2008, the systematic risk, as estimated by the cost of equity, in the Eurozone increased by 0.3 percentage points (from 8.3% to 8.6%). Indeed, it was even higher (at 8.8%) in 2007. This is a marginal change driven mainly by a small increase in the average yields of risk-free securities (although risk-free is itself a relative concept today!). This seems to suggest that systematic risk is not a material driver of the decrease in transaction pricing levels.

As we know, transaction prices are not solely driven by fundamental value matters (i.e. values based on future earnings expectations, capital levels and the cost of this capital); they are also dependent on other pricing factors, including short-term sentiment; the number of businesses or assets available for sale; the number of potential acquirers; short-term anomalies; and the availability of affordable funding. These factors have changed materially over the last three years and, although they may impact transaction prices in different directions, they will certainly have had a negative impact. Therefore, it is likely that the price decrease depends both on

3 Using the Gordon growth formula and solve for g: Value = Earnings x (1+g) / (CoC-g).
4 Derived by using the CAPM formula: CoE = rf + (Beta * equity market risk premium), where rf is estimated using the 10-year yield of Euro denominated sovereign bonds of Spain, the Netherlands, Germany, France and Italy and, Beta is the five year Beta, of the S&P Euro 350 Financials Index.
5 See Figure 1 on page 3.
expected future earnings growth from a fundamental value perspective and these shorter-term pricing factors.

Not surprisingly, there is a vast difference between transactions completed before 15 September (the date Lehman Brothers entered into US chapter 11 and other administration processes) and those after this date. The transactions completed before 15 September were done at much higher implied P/E levels than the transactions completed in the post-15 September period (17.8 versus 5.4). The date of 15 September can best be described as an inflection point: after this date, earnings growth expectations decreased sharply, there was a material increase in expected balance sheet write-offs (some were unquantifiable, contributing to the increased uncertainty) and a sharp increase in the downward pressure on transaction prices as a result of the investment adjustments discussed above.

Although the P/E ratio is not the ideal value measure for a large number of the institutions in the financial services industry, given the current economic climate, it is somewhat surprising to see that the average P/E ratio of transactions involving banks in 2008 is equal to that of transactions involving insurers (10.9). Both banks and insurers are in many cases a geared play on the wider macro economy. However, at present insurers have arguably fewer balance sheet issues than banks, which perhaps is not reflected in the P/E ratios of the two sectors. There is a materially higher coefficient of variance of the banking P/Es and, although this may explain a part of the difference, it is not the whole story. At 40.3 the P/E ratio of asset management transactions was higher than those for banks and insurers.

**2009 – Is the future brighter?**

Looking forward, we believe the post-15 September environment and increased capital requirements will continue to put pressure on prices and valuation levels of financial services transactions. This environment will, however, drive restructurings of financial institutions and is likely to increase the number of transactions as institutions continue to divest non-core assets to raise capital and maximise capital efficiency. Valuations of transactions will be more important than ever in the coming year, particularly given the earnings volatility that is expected.

But it is not only in terms of upfront M&A considerations that transaction prices are important. Decreased earnings potential may also mean that M&A activity could have a very real impact on financial institutions’ financial statements, because, under IFRS, the consideration paid over and above the value of the net assets will need to be apportioned between goodwill and intangible value. Recent transactions (when valuation levels and earnings assumptions were higher) may have a material impact on financial statements under IFRS as goodwill levels become impaired and have to be partially written off, thereby increasing the pressure on both the P&L and balance sheet.

Benjamin Graham⁶ once said: “Most of the time, common stocks are subject to irrational and excessive price fluctuations in both directions as a consequence of the ingrained tendency of most people to speculate or gamble... to give way to hope, fear and greed.” Together with earnings growth expectations on a fundamental value basis, this can also be said to be true of transaction prices today. From an M&A valuations perspective, this means that we have to brace ourselves for a rocky ride ahead – at least in the short-term.

---

⁶ Benjamin Graham (08.05.1894 to 21.09.1976), influential economist and professional investor.
The UK large cap banking sector has captured the headlines; 2009 is set to be dominated by the interaction between banks and government.

More than a year has passed since UK Treasury announced that it would guarantee deposits held at Northern Rock. Nonetheless, UK banking remains in a state of uncertainty. Back in 2007, few, if any, commentators would have predicted that by early 2009 the UK government would have majority stakes in RBS and an enlarged Lloyds Banking Group (incorporating HBOS). Moreover, prior competition practices would have led few to anticipate the union of Lloyds TSB, a predominantly domestically orientated organisation, with HBOS, the country’s largest domestic mortgage lender. Once-celebrated bank management teams have fallen from grace, and bonuses in the financial sector seem to be as widely discussed as the state of the nation’s railways or sports teams. In an otherwise confusing world, it is abundantly clear that ‘the rules have changed’.

Overall, confidence among executives in UK financial services is depressed – a reflection of the coincidence of falling asset prices, a cooling economy and rapidly decreasing revenues. The quarterly CBI/PricewaterhouseCoopers survey of UK financial services shows the severity of the shift from optimism to pessimism (Figure 13). Although the UK has been hit particularly hard by the financial crisis, it is not difficult to imagine comparable sentiment throughout the European financial services sector.

As shown in Table 3, the largest deals of 2008 were, not surprisingly, in the banking sector:

In addition to state intervention, the other themes at work included:

- **Accelerated transactions**: the Lloyds TSB acquisition of HBOS appears to have been conducted in a short timeframe and media reports indicated the hand of government in bringing this deal together; it was also facilitated through a waiver of the usual competition considerations. Other accelerated transactions include Banco Santander’s acquisition of the branches and deposits of Bradford & Bingley for €773 million. When combined with its acquisition of Alliance & Leicester for approximately €1.7 billion, this transaction considerably expanded the Spanish bank’s presence in the UK, where it already owned Abbey.

- **Non-core investments**: the negative developments at RBS were clearly the drivers behind the bank’s sale of Angel Trains Ltd, a train rolling stock leasing business, to a consortium led by Babcock & Brown Ltd; and the sale of its stake in Tesco Personal Finance to its joint venture partner for €1.2 billion. However the bank was unable to sell its substantial insurance division, which a number of private equity investors were reportedly keen to acquire.

- **Scale**: US-based Aon Corporation acquired Benfield Group Ltd, the listed reinsurer and broker, for €1.2 billion. For Aon, the main rationale was to use Benfield’s overseas activities to boost its presence in the Asian and Latin American markets and complement its existing property and casualty insurance business in the south-eastern United States.

---

1 See ‘Talent and the finance function’, PricewaterhouseCoopers, 2008, for further discussion of this issue.
2 For more detailed analysis, please refer to the CBI/PricewaterhouseCoopers Financial Services Survey, December 2008.
3 Source: ‘Lloyds HBOS merger gets go-ahead’ www.bbc.co.uk, 12.01.09.
Looking ahead, what can we expect?

The financial crisis shows no immediate signs of dissipating, and in many respects markets are looking to government to offer some solutions. The UK governments has announced an Asset Protection Scheme, to support the financial assets of selected banking institutions. The UK markets are also likely to be influenced by sentiment in the US where bank restructuring is also underway. While the rules have changed, it is evident that banking groups will need to improve their capital positions, which must mean that a programme of divestments is planned. As for timing, the major divestments will not in all probability get underway until later in 2009 or into 2010.

By contrast, the UK insurance sector was comparatively quiet, almost low-key, in 2008. Only €2.2 billion of large cap deals was announced. It is perhaps not surprising that the insurance sector displayed an ability to manage risk better than its banking cousin.

Looking forward, the UK insurance sector offers some exciting opportunities

- **Non-life:** Although it is reported that the sale of the RBS insurance business has been shelved, other banking institutions have general insurance businesses worth looking out for. More generally, the aggregators continue to put pressure on market participants, so further change is expected.
- **Life:** The continuing developments at AIG may create opportunities for UK life companies and is likely to be a running theme throughout 2009. Elsewhere, some consolidation is anticipated as the recession erodes capital bases, and/or as the capital raised to focus on niche annuity and pension buyout markets is unable to find investment opportunities that offer an acceptable risk/return profile.

Overall, 2009 and 2010 are likely to see M&A in UK financial services start slowly but build. For M&A, the first half of 2009 may yet prove to be the calm before the storm.

---

4 UK Treasury acquired a 57.9% equity stake for €19.1 billion and additionally subscribed to €6.4 billion in preference shares. Government stake increased after 2008 year end. Source: ‘Government takes 68% in RBS’ www.guardian.co.uk, 19.01.09.

5 Government stake subsequently increased to 77% (including 65% voting shares) in the new Lloyds Banking Group. Source: ‘Treasury takes 65% Lloyds stake’ www.news.bbc.co.uk, 07.03.09.

6 The consortium led by Babcock & Brown European Infrastructure Fund (BBEIF) consists of Access Capital Advisers, Amp Capital Investors, Deutsche Bank AG and Public Sector Pension Investment Board.

7 Source: ‘Asset Protection Scheme and increased lending’, www.hm-treasury.gov.uk, 26.02.09.

8 Source: ‘Four bidders in fray for AIG’s Philippine assets-sources’ uk.reuters.com, 18.02.09.
UK mid-market:  
Balance sheet restructuring driving non-core disposals

Although deal volumes declined in the second half of 2008, the twin imperatives of balance sheet restructuring and cost efficiency are expected to lead to a significant volume of non-core disposals in 2009. Deal pricing and the scarcity of leveraged finance are expected to be the principal hurdles to completing transactions.

2008 – Cross-border activity continued to dominate the larger deals

As shown in Figure 14, transaction volumes declined significantly in the last quarter of 2008. In the prevailing climate of scarce credit and falling confidence, this decline in transaction volumes could be interpreted as the beginning of a trend. However, it should be noted that the mid-market experienced a comparable decline towards the end of 2007 and that the number and value of deals was almost unchanged on an annual basis.

The five largest UK transactions represented approximately 35% of the transaction value of disclosed mid-market deals covering most sectors, with three big international acquirers and none involving private equity.

Some of the key themes to emerge from the year’s deal activity were:

- **Waning influence of private equity bidders:** Private equity firms were behind several mid-market deals early in 2008, but suffered a significant decline in activity in the latter part of the year as banks progressively tightened their leveraged lending criteria. This is underlined by the absence of private equity-backed transactions from the top five mid-market transactions.

Figure 14: UK number of deals < £500 million by quarter

Source: PricewaterhouseCoopers analysis of mergersmarket data
• Growing level of distressed M&A activity: The credit crisis continued to spread across the globe throughout the year, severely affecting many financial services companies and banks in particular. Distressed sales and accelerated M&A became more prevalent, resulting in ‘forced deal’ activity.

• Focus on operational efficiency and divesting non-core activities: Mid-market deals showed a renewed focus on cost rationalisation and core competencies. HSBC’s sale of 51% of its UK Merchant Services unit for €283 million enabled the bank to release capital but retain some control, while bidder Global Payments gained instant access to the UK market.

• Scale-building within relatively fragmented markets: ICAP’s €316 million acquisition of Link Asset and Securities was in line with the group’s strategy of enhancing its UK brokerage market share. Already the owner of a 67.1% stake in Artemis Investment Management, Fortis’s €397 million acquisition of the remaining 32.9% stake gave it the chance to exercise greater control and act as a potential consolidator within the fragmented UK asset management market.

There was also a round of consolidation among UK building societies, although deal values were undisclosed and therefore do not appear in our data set. Most notable were the FSA-brokered mergers between sector giant Nationwide Building Society and the Derbyshire and Cheshire Building Societies. As predicted in last year’s report, there were also some mergers between second-tier players. Scarborough Building Society merged with its counterpart from Skipton, and Barnsley Building Society was combined with its larger rival Yorkshire.

2009 – Focus on balance sheet restructuring and cost efficiencies

• Restructuring balance sheets through non-core disposals: The impact of the credit crunch and the deteriorating global economic climate on major financial institutions has been profound. As we move further into 2009, we are beginning to see that this will be a period in which the balance sheets of major financial institutions undergo significant restructuring. This is expected to include non-core disposals programmes by a number of these institutions.

• Consolidation/merger activity to access strengths of scale: Announced in January 2009, the combination of Britannia Building Society with Co-operative Financial Services Ltd points to the potential for further consolidation between building societies. We also expect to see increasing merger activity among Lloyd’s insurance vehicles, as smaller vehicles get absorbed. The asset management subsector, which has been hit hard by turmoil in the wider financial markets, should offer promising scope for activity. (The drivers of investment management M&A are explored in greater detail on page 38.)

• Scales tipping towards corporate-led activity: Trade players will probably maintain dominance in the deals space, as leveraged funding continues to elude private equity firms. We expect a good level of M&A activity in the sector as cash-rich companies pursue market share by acquiring weaker rivals. Private equity firms will have to find innovative approaches if they want to take advantage of potentially attractive valuations.

• Cost rationalisation: Intermediary businesses, such as insurance brokers, will find life more challenging as product providers rationalise their distribution channels. In an effort to manage costs, specialist brokerage firms and private banks will probably divest non-performing units. Small and medium-sized retail chains of insurance brokers and independent financial advisers are likely to face increasing cost and competitive pressures, encouraging consolidation.

Table 4: Top five UK mid market deals announced in 2008 with disclosed value

<table>
<thead>
<tr>
<th>Date</th>
<th>Target name</th>
<th>Target subsector</th>
<th>Bidder</th>
<th>Bidder country</th>
<th>Deal value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sep</td>
<td>Artemis Asset Management Ltd</td>
<td>Fund management</td>
<td>Fortis Bank NV</td>
<td>Belgium/Netherlands</td>
<td>£397m</td>
</tr>
<tr>
<td>Sep</td>
<td>Creditex UK Ltd</td>
<td>Securities brokers</td>
<td>Intercontinental Exchange Inc (ICE)</td>
<td>USA</td>
<td>£332m</td>
</tr>
<tr>
<td>Apr</td>
<td>Link Asset and Securities Co Ltd</td>
<td>Securities brokers</td>
<td>ICAP plc</td>
<td>UK</td>
<td>£316m</td>
</tr>
<tr>
<td>Jun</td>
<td>HSBC Merchant Services Ltd</td>
<td>Banking</td>
<td>Global Payments Inc</td>
<td>USA</td>
<td>£283m</td>
</tr>
<tr>
<td>Dec</td>
<td>Credit Suisse Group AG</td>
<td>Fund management</td>
<td>Aberdeen Asset Management plc</td>
<td>UK</td>
<td>£257m</td>
</tr>
</tbody>
</table>

Source: PricewaterhouseCoopers analysis of mergermarket data

1 Source: Certain fund management assets and businesses globally including the UK. Specific details of these businesses where not disclosed.
3 Source: Press release, www.scarboroughbs.co.uk, 03.11.08.
4 Source: ‘Barnsley Building Society taken over by Yorkshire rival’, www.guardian.co.uk, 22.10.08.
5 Source: ‘Britain and Co-operative to create £70 billion “super mutual”’ www.guardian.co.uk, 21.01.09.
Western and Northern Europe:
crisis leads to increased government involvement

Co-authored by: Jens Roennberg jens.roennberg@de.pwc.com, Herve Demoy herve.demoy@fr.pwc.com, Matteo D’Alessio matteo.dalessio@it.pwc.com, Maria Steiniger maria.steiniger@it.pwc.com and Begoña Vizcaino begona.vizcaino.martinez@es.pwc.com

While macro events will continue to drive deal activity in 2009, we see scope for consolidation in some of the more fragmented areas of financial services.

During 2008, Western and Northern European financial services M&A activities were dominated by the effects of the financial crisis. Of the top 20 deals within this region, 10 involved the injection of government capital into financial institutions in return for varying degrees of ownership or control.

At the same time, the financial crisis precipitated a wide range of other M&A activity during the year, as companies responded to their changing environment. Rather than provide a complete analysis, this article seeks to give a flavour of some of the year’s more interesting deals from a broad geographical perspective. We also offer some thoughts on potential areas of future financial services M&A activity in the region.

The financial crisis was the dominant theme in 2008 – but not the only one

As Table 5 makes clear, direct government intervention was a recurrent theme during 2008. The Benelux states were the most active in the region, with the States-General of the Netherlands injecting approximately €31 billion into such organisations as Fortis, ING, AEGON and SNS Reaal, and the Belgian state investing approximately €16 billion in Dexia, Fortis, KBC and Ethias Group.

The co-ordinated bailout of cross-border Fortis by three national governments was particularly significant. While some observers saw this as a success for European co-operation, others felt it highlighted the need for cross-border banking supervision within the EU.

Government action was not limited to the Benelux countries. Roskilde Bank of Denmark and Bayerische Landesbank of Germany entered state ownership, Roskilde Bank being nationalised at a cost of €5 billion and the German Federal State of Bavaria paying €7 billion for a majority stake in Bayerische Landesbank. The three largest Icelandic financial institutions (Kaupthing, Landsbanki and Glitnir Banki) were also nationalised during October 2008. (For further comment on Iceland’s experience of the financial crisis, please see the box on page 21.)

Direct government involvement in M&A, while headline grabbing, was not the only driver of M&A activity during the year. Some other themes included:

- **Divestment of non-core activities:** Citigroup sold its German retail banking business to Crédit Mutuel, and HSBC sold seven regional French banks to Banque Federale des Banques Populaires. There were smaller examples too, such as Société Générale’s sale of its UK asset management business to GLG Partners for an undisclosed figure.

- **Opportunistic cross-border acquisitions:** For every seller, there must be a buyer. Some Western European financial groups seized the opportunity to acquire weakened targets in second ‘home markets’. BNP Paribas agreed to acquire the Belgian and Luxembourg businesses of Fortis from the Belgian and Luxembourg governments for €14.5 billion, while Banco Santander acquired Alliance & Leicester for approximately €1.7 billion, boosting its share of the UK retail banking market.

- **Unwinding complex groups:** Allianz’s sale of Dresdner Bank to Commerzbank in August 2008 for €9.8 billion offered Commerzbank the chance to expand within its domestic commercial banking sector; however, it also raised the prospect of the further divestment or closure of Dresdner Bank’s investment banking arm.

- **In-market consolidation:** During the year, there was a range of small and medium-sized scale-building deals in the more fragmented Western European markets. Italian banking continued to generate numerous transactions. Banca Popolare dell’Emilia Romagna agreed to acquire Meliorbanca SPA for €290 million; a consortium led by Banca Sella SPA acquired almost 50% of Banca Monte Parma SPA for €192 million; and several smaller mergers took place between Italian popular banks. Small in-market deals also occurred between Spanish banks and insurers, such as Mapfre SA’s acquisition of Duero Pensiones EGFP SA and Union Del Duero Cia De Seguros De Vida SA for €130 million and Banco Popular’s acquisition of Banco de Credito Balear SA for €98 million².

The outlook points to further consolidation as the sector responds to a tougher environment

Clearly, divestments and disposals were the driving force behind many transactions during the year. Our survey of financial services deal professionals shows a strong expectation that this trend will continue during 2009 (Figure 15).

---

1. Our analysis comprises targets in the following countries: Switzerland, Spain, Portugal, France, Belgium, Netherlands, Luxembourg, Germany, Italy, Austria, Denmark, Norway, Sweden, Finland and Iceland.

2. Terms of deals obtained from mergermarket.
Figure 15: Do you anticipate financial institutions will be more likely to divest assets in 2009 than be buyers of new business?

- More likely to be sellers 87%
- More likely to be buyers 13%

Source: PricewaterhouseCoopers survey of financial services M&A executives in EMEA 2008

Such bias towards divestment begs the obvious questions: who will be the buyers? What kind of M&A activity will we see?

- **Scale-building transactions in fragmented banking markets:**
  We expect to see further consolidation among small to medium-sized mutual or savings banks, particularly in Italy, Spain and Germany. In Italy, where the banking market remains highly fragmented, many small or medium-sized banks are struggling with funding and liquidity. Stronger medium-sized players may take advantage of current conditions to expand their market share and boost economies of scale. In the long term, there is obvious scope for the larger Italian mutual banks to consolidate further.

In Spain, market conditions also favour consolidation between small and medium-sized regional savings banks. Indeed, two Basque savings banks, Bilbao Bizkaia Kutxa and Kutxa, announced a merger in September 2008 but the deal was rejected by the former’s shareholders in November. In Germany, the prospects for consolidation within the traditional ‘pillars’ of public, private and co-operative banks may be stronger than at any other time in recent years. One major deal that could take place in 2009 is the merger, currently under discussion, of the two largest central banks in the co-operative sector, WGZ Bank AG and DZ Bank AG. Deutsche Bank AG’s proposed acquisition of approximately 30% of Deutsche Postbank raises the prospect of additional consolidation within the private sector pillar of German banking.

Table 5: Top 20 Western and Northern Europe deals in 2008 (excluding UK)

<table>
<thead>
<tr>
<th>Deal date</th>
<th>Target name</th>
<th>Target country</th>
<th>Bidder name</th>
<th>Bidder country</th>
<th>Deal value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oct</td>
<td>Fortis Bank Nederland (Holding) Ltd*</td>
<td>Netherlands</td>
<td>States-General of the Nederlands</td>
<td>Netherlands</td>
<td>€16,800m</td>
</tr>
<tr>
<td>Oct</td>
<td>ING Groep NV</td>
<td>Netherlands</td>
<td>States-General of the Nederlands</td>
<td>Netherlands</td>
<td>€10,000m</td>
</tr>
<tr>
<td>Aug</td>
<td>Dresdner Bank AG</td>
<td>Germany</td>
<td>Commerzbank AG</td>
<td>Germany</td>
<td>€9,800m</td>
</tr>
<tr>
<td>Oct</td>
<td>Fortis Bank NV (75.0% stake); Fortis Banque Luxembourg SA (16.0% stake)</td>
<td>Belgium, Netherlands, Luxembourg</td>
<td>BNP Paribas SA</td>
<td>France</td>
<td>€9,000m</td>
</tr>
<tr>
<td>Nov</td>
<td>Bayerische Landesbank</td>
<td>Germany</td>
<td>German Federal State of Bavaria</td>
<td>Germany</td>
<td>€7,000m</td>
</tr>
<tr>
<td>Sep</td>
<td>Dexia SA (34.4% stake)</td>
<td>Belgium</td>
<td>Belgian and French Governments</td>
<td>Belgium/France</td>
<td>€6,000m</td>
</tr>
<tr>
<td>Oct</td>
<td>Fortis Insurance Belgium SA</td>
<td>Belgium</td>
<td>BNP Paribas SA</td>
<td>France</td>
<td>€5,500m</td>
</tr>
<tr>
<td>Jul</td>
<td>Citibank Privatkunden AG</td>
<td>Germany</td>
<td>Crédit Mutuel SA</td>
<td>France</td>
<td>€5,200m</td>
</tr>
<tr>
<td>Aug</td>
<td>Rosklide Bank A/S</td>
<td>Denmark</td>
<td>National Bank of Denmark</td>
<td>Denmark</td>
<td>€5,000m</td>
</tr>
<tr>
<td>Sep</td>
<td>Fortis Bank NV (49.9% stake)</td>
<td>Belgium, Netherlands</td>
<td>Belgian Federal Government</td>
<td>Belgium</td>
<td>€4,700m</td>
</tr>
<tr>
<td>Oct</td>
<td>KBC Groep NV</td>
<td>Belgium</td>
<td>Belgian Federal Government</td>
<td>Belgium</td>
<td>€3,500m</td>
</tr>
<tr>
<td>Oct</td>
<td>AEGON NV</td>
<td>Netherlands</td>
<td>States-General of the Nederlands</td>
<td>Netherlands</td>
<td>€3,000m</td>
</tr>
<tr>
<td>Dec</td>
<td>Deutsche Postbank AG</td>
<td>Germany</td>
<td>Deutsche Bank AG</td>
<td>Germany</td>
<td>€2,790m</td>
</tr>
<tr>
<td>Jul</td>
<td>HSBC France SA*</td>
<td>France</td>
<td>Banques Federale des Banques Populaires</td>
<td>France</td>
<td>€2,100m</td>
</tr>
<tr>
<td>Dec</td>
<td>Anglo Irish Bank Corporation Plc*</td>
<td>Ireland</td>
<td>The National Treasury Management Agency</td>
<td>Ireland</td>
<td>€1,500m</td>
</tr>
<tr>
<td>Oct</td>
<td>Ethias Group (75.0% stake)</td>
<td>Belgium</td>
<td>Belgian Federal Government</td>
<td>Belgium</td>
<td>€1,500m</td>
</tr>
<tr>
<td>Nov</td>
<td>SNS Reaal NV*</td>
<td>Netherlands</td>
<td>States-General of the Nederlands</td>
<td>Netherlands</td>
<td>€1,250m</td>
</tr>
<tr>
<td>Jun</td>
<td>Interbancas SPA</td>
<td>Italy</td>
<td>GE Commercial Finance Ltd</td>
<td>USA</td>
<td>€1,000m</td>
</tr>
<tr>
<td>Apr</td>
<td>Biptalia Ducato SPA</td>
<td>Italy</td>
<td>Agos Italfinco SPA</td>
<td>Italy</td>
<td>€1,000m</td>
</tr>
<tr>
<td>Nov</td>
<td>COFIDIS Participations (51.0% stake)</td>
<td>France</td>
<td>Crédit Mutuel and 3SI Group</td>
<td>France</td>
<td>€969m</td>
</tr>
</tbody>
</table>

Source: PricewaterhouseCoopers analysis of mergermarket data

---

3 Source: ‘Spain Kutxa, BBK abandon merger plans’ www.reuters.com, 29.11.08.
4 Source: ‘WGZ, DZ bank merger gets German cartel office nod’ www.cnbc.com, 30.01.09.
5 Source: Press release; www.db.com, 14.01.09.
6 The Dutch government acquired Fortis Bank Nederland (Holdings), Fortis Verzekringen Nederland NV and Fortis Corporate Insurance NV.
7 The acquired HSBC France businesses consist of Banque Chaix; Banque de Savoie; Banque dupuy, de Parseval; Banque Pelletier; Crédit Commercial du Sud-Ouest (CCSO); Société Marseillaise de Crédit (SMC).
9 The economic interest acquired by the government was not disclosed according to mergermarket.
PricewaterhouseCoopers Back to the ‘domestic’ future

Iceland cools down

Iceland’s ‘economic miracle’ ground to a halt in 2008. In 2009, we see scope for continued government intervention, restructuring and divestment opportunities.

In the 1990s and early 2000s, Iceland’s annual average GDP growth rate was over 3%. Measured by GDP per capita, the country was ranked among the world’s most wealthy nations. Iceland’s annual GDP growth peaked in 2004 and 2005, with rates of 7.7% and 7.4% respectively. The country became a member of the Agreement on the European Economic Area, from January 1993. The banking sector was deregulated and privatised, and the Icelandic Krona was allowed to float freely.

By 2007, however, the economy was heavily extended. Icelandic households’ total debts exceeded 220% of disposable income, while Icelandic entrepreneurs built international business empires through leveraged investment funds collateralised by various shareholdings. The central bank reduced the minimum reserve requirements, freeing more of the banks’ capital, enabling them to expand rapidly by taking stakes in international companies.

The downturn took many by surprise – particularly as the three biggest Icelandic banks, Glitnir Banki, Landsbanki and Kaupthing had all posted profits in their second-half results for 2007 and their first-half results for 2008. Upon further investigation of their balance sheets, the banks realised they were exposed to high risk investments and, with a dearth of interbank lending – not least due to the decline of Lehman Brothers – the banks found themselves in a state of distress. By the second half of 2008, based on emergency legislation, the Icelandic Financial Supervisory Authority (FME) took control of all three banks. The government is planning to inject capital into the ‘new banks’ subject to the conclusion of a valuation exercise. In November, the IMF Executive Board agreed to provide a US$2.1 billion (€1.7 billion) loan to Iceland.

2009 and beyond will witness increased refinancing, divestment and restructuring opportunities

In 2009 and beyond, we anticipate major restructuring of business in Iceland, as in the rest of Europe. With unemployment projected to jump from 1.4% in 2008 to 5.7% in 2009 (the highest in more than 30 years), consumer credit defaults will increase. The country’s banks will be looking to divest non-core businesses and loan portfolios to improve their capital bases. In the short term it seems probable that the entrepreneurial international spirit of Icelandic bankers will be dampened and refocused on domestic activities.

Consolidation in the insurance market: European banks’ need to raise capital and divest non-core businesses is likely to spur consolidation in several European insurance markets, especially those where bancassurance has a short history. As discussed in ‘UK large cap – the government steps in’ on page 15, several UK insurance businesses could be sold as part of the sector restructuring, and there may be scope for similar activity in Spain. The European businesses of AIG are also likely to come to market during 2009.

Further disposals of non-core activities: Aside from their insurance operations, many Western and Northern European banks are likely to contemplate disposals of non-core businesses during 2009. This could include small overseas operations that might appeal to domestic consolidators, captive asset management businesses and sub-scale investment banking operations.

Asset swaps and other innovative transactions.

One of the most interesting European deals of 2008 was the acquisition of Interbanca in Italy by GE Commercial Finance in an asset swap transaction. In exchange, Banco Santander received several of GE’s smaller operations in Germany, Finland and Austria, as well as its card and auto financing business in the UK. We would not be surprised to see other asset swaps or innovatively structured M&A deals in Western Europe during 2009.

In conclusion, there is scope for some interesting and varied M&A in mainland Europe in the coming year, but on balance, the banking sector is likely to dominate the headlines (Figure 16).

In 2009 and beyond, we anticipate major restructuring of business in Iceland, as in the rest of Europe. With unemployment projected to jump from 1.4% in 2008 to 5.7% in 2009 (the highest in more than 30 years), consumer credit defaults will increase. The country’s banks will be looking to divest non-core businesses and loan portfolios to improve their capital bases. In the short term it seems probable that the entrepreneurial international spirit of Icelandic bankers will be dampened and refocused on domestic activities.

1 Source: Statistics Iceland (National accounts).
2 Source: Statistics Iceland (National accounts).
3 Source: IMF Country Report No. 08/368 on Iceland.
4 Source: Press release No. 08/296, IMF, dated 19.11.08. Exchange rate calculated at the average rate for the month the deal was announced, April 2008 – $1:€0.6345. www.oanda.com.
5 Source: Press release No. 08/296, IMF, 19.11.08.
6 Source: Statistics Iceland (Labour market).
Central, Eastern and South Eastern Europe and the CIS: the tide turns

Co-authored by: Paul Cunningham paul.cunningham@cz.pwc.com, Ferenc Geist ferenc.geist@hu.pwc.com, Andrew Cann a.cann@ru.pwc.com and Borislava Nalbantova borislava.nalbantova@bg.pwc.com

Government rescues aside, financial services deal activity continues to slow in the Central and Eastern Europe (CEE), South Eastern Europe (SEE) and the Commonwealth of Independent States (CIS). There is clear scope for a major shake-out in ownership as the Western European acquirers of a few years ago place increasing focus on their own domestic priorities.

A year of change for the region

In recent years, Western European groups expanding into CEE, SEE or CIS were attracted by the fundamentals of local financial services markets. These included the prospect of rapid economic growth as GDP per capita converged towards Western European levels, relative geographic proximity to Western Europe, and increasing rates of financial services penetration.

In the latter part of 2007 and into early 2008, the credit crunch had not had a massive impact on most CEE, SEE and CIS markets as shown in the equity indices in Figure 17. Now, however, the whole region is affected by a shortage of liquidity. Economic growth is slowing, while many banks are being constrained by the scarcity of domestic deposits and by capital shortages among their foreign parents. These and other country-specific factors have triggered state-backed intervention in some countries in the region.

The Russian government has been particularly willing to use its considerable reserves to support the banking sector. The Central Bank of the Russian Federation (Central Bank of Russia) has been sanctioned to grant unsecured loans to commercial banks for terms of up to five months. However, as the Russian Rouble has come under pressure it is increasingly apparent that the authorities will be carefully prioritising use of the nation’s reserves. Budgetary pressures have prevented most countries in the region from taking ownership of private sector banks, but varying support packages and liquidity initiatives have been seen in Greece, Hungary, Romania, Kazakhstan, Latvia and Ukraine. In time we may also see multilateral organisations such as the World Bank and the European Bank for Reconstruction and Development take a role.

Deal activity during the year varied across the region

During the years prior to 2007, the region saw intense M&A activity involving foreign buyers, often at high valuation multiples. Poland, Romania and Ukraine all saw local banks sold to Western European buyers in excess of four times the price-to-book ratio. As discussed in last year’s publication, this activity began to tail off during 2007, as targets became fewer and the early effects of the credit crunch began to be felt.

The reduction in regional M&A activity has continued into 2008, with the financial crisis restricting the ability of many potential acquirers to do deals. The slowdown was particularly marked in the final quarter of 2008. Overall, levels of deal activity fell from €10.7 billion in 2007 to €6.3 billion last year with Russia accounting for the majority of deals (Figure 18).

CEE and SEE

Banking transactions were rare in the CEE and SEE during 2008, but insurance M&A activity was relatively buoyant. It was notable that the largest deals involved the divestment of captive insurance businesses by capital-constrained banks:

- Vienna Insurance Group acquired 95% of Erste Group Bank’s insurance operations in Austria, Czech Republic,
Slovakia, Hungary, Croatia and Romania for €1.4 billion; and

- Groupama of France acquired Hungarian bank OTP’s insurance operations, as well as Asiban, a Romanian insurer owned by a consortium of Société Générale and three Romanian banks.

Another feature of financial services M&A in the CEE/SEE region during the year was the relative decline in geographic diversity. Transactions in our data set involved targets in 18 countries. There were no transactions involving targets in Croatia, Bosnia & Herzegovina or Moldova, and only one in Bulgaria, compared with eight in 2007.

**CIS**

Insurance deals remain rare in the CIS. This is, in part, a reflection of a high concentration in the Russian insurance market and the lack of potential targets for foreign buyers. There was some banking activity, but far less than in 2007, when several foreign banks entered the Russian market and nine Ukrainian banks were acquired by foreign bidders.

- The largest Russian banking deal saw Barclays acquire Expobank for €487 million. (In 2007, this deal would have ranked only fifth by value.)
- The largest Ukrainian banking transaction was Intesa Sanpaolo’s acquisition of Pravex Bank for €493 million. (This compared with Bank Austria’s bid of €1.6 billion for Ukrsotsbank in 2007.)

There were also several state-backed takeovers of distressed banks in Russia. These transactions all involved undisclosed sums, so do not appear in our data set. However, three of the most notable were the acquisitions of Sviaz-Bank and Globex by state-owned Vnesheconombank and the acquisition of Sobinbank by Gazprombank (funded by a US$500 million (€373 million)2 facility from the Central Bank of Russia).

There could now be a potential shake-out of financial services ownership in the region

Several of the trends observed during 2008 are expected to continue to shape Financial Services M&A in CEE, SEE and the CIS during the coming year. These include:

- Sales and divestments of insurers and other captive subsidiaries by capital-constrained banking groups, giving better-funded institutions the chance to acquire market share;
- Changes in ownership of parent banks in Western Europe and North America, acting as a driver of banking M&A in the region;

---

2 Source: www.oanda.com. Average exchange rate for October 2008, when the deal was announced, was $1:€0.74539.

---

Table 6: Top 10 deals in the region

<table>
<thead>
<tr>
<th>Deal date</th>
<th>Target name</th>
<th>Target country</th>
<th>Target description</th>
<th>Bidder</th>
<th>Bidder country</th>
<th>Deal value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mar</td>
<td>Sparkassen Versicherung AG (85.0%) and BCR Insurance (majority stake)</td>
<td>Romania, Austria, Czech Republic, Slovakia, Hungary and Croatia</td>
<td>Life insurance companies</td>
<td>Vienna Insurance Group AG</td>
<td>Austria</td>
<td>€1,445m</td>
</tr>
<tr>
<td>Feb</td>
<td>OTP Garancia Insurance Ltd</td>
<td>Hungary</td>
<td>Insurance company</td>
<td>Groupama SA</td>
<td>France</td>
<td>€612m</td>
</tr>
<tr>
<td>Feb</td>
<td>Pravex-Bank Joint Stock Commercial Bank</td>
<td>Ukraine</td>
<td>Commercial bank</td>
<td>Intesa Sanpaolo SPA</td>
<td>Italy</td>
<td>€493m</td>
</tr>
<tr>
<td>Mar</td>
<td>Expobank Commercial Bank</td>
<td>Russia</td>
<td>Commercial bank</td>
<td>Barclays plc</td>
<td>UK</td>
<td>€487m</td>
</tr>
<tr>
<td>June</td>
<td>Uniastrum Bank (80.0% stake)</td>
<td>Russia</td>
<td>Retail Banking</td>
<td>Bank of Cyprus Public Company Ltd</td>
<td>Cyprus</td>
<td>€366m</td>
</tr>
<tr>
<td>Apr</td>
<td>Asiban SA</td>
<td>Romania</td>
<td>Insurance company</td>
<td>Groupama SA</td>
<td>France</td>
<td>€350m</td>
</tr>
<tr>
<td>Mar</td>
<td>ISTROBANKA as</td>
<td>Slovakia</td>
<td>Banking</td>
<td>KBC Groep NV</td>
<td>Belgium</td>
<td>€350m</td>
</tr>
<tr>
<td>Aug</td>
<td>Kapital Insurance Group</td>
<td>Russia</td>
<td>Insurance company</td>
<td>Syneron Holdings Ltd</td>
<td>Cyprus</td>
<td>€339m</td>
</tr>
<tr>
<td>Sept</td>
<td>Renaissance Capital Inc (50.0% stake)</td>
<td>Russia</td>
<td>Investment banking</td>
<td>Onexim Group</td>
<td>Russia</td>
<td>€338m</td>
</tr>
<tr>
<td>Feb</td>
<td>Bulgarian American Credit Bank AD (BACB) (49.99% stake)</td>
<td>Bulgaria</td>
<td>Commercial bank to SMEs</td>
<td>Allied Irish Banks plc</td>
<td>Ireland</td>
<td>€216m</td>
</tr>
</tbody>
</table>

Source: PricewaterhouseCoopers analysis of mergermarket data
• Scale-building transactions in the speciality finance market, as distressed asset sales grow and leasing and factoring businesses respond to growing demand;

• Consolidation among regional stock exchanges, as seen during 2008, when Vienna Stock Exchange acquired the Prague and Ljubljana stock exchanges; and

• New market entrants, who see long-term market opportunities, seeking to acquire local players at far lower multiples.

Resource-rich European economies, such as Russia, will continue to invest in Europe. In the long term, CIS countries beyond Russia and Ukraine are likely to become more open to foreign direct investment. We expect to see growing deal activity during the coming years in the larger CIS markets of Belarus, Azerbaijan, Turkmenistan and Uzbekistan.

There is also – as in other European markets – a degree of uncertainty over the potential impact of further state intervention in the banking sector. This is particularly true in Russia, but, in the current market conditions, the possibility of direct intervention cannot be ruled out in any of the region’s other markets. Additionally, regional and international financing bodies like the World Bank are putting together crisis response packages to stimulate businesses in affected regions. The European Bank for Reconstruction and Development stated that its investments in 2009 will increase by nearly 20% to approximately €7 billion with half of the extra spending earmarked for Central and Eastern Europe.
M&A activity in the financial services sector of the Middle East and North Africa (MENA) cooled quickly during 2008, as the region suffered its own credit crunch. However, this could offer the prospect of regional consolidation in the coming year.

During the early part of 2008, Middle Eastern banks looked more resilient than many of their European counterparts. They were buoyed by the region's surplus liquidity and the banks' comparatively low exposure to sub-prime and other structured credit products. Local financial institutions also benefited from relatively high levels of solvency.

As the year advanced, however, capital and real estate markets in the region were adversely affected by the global financial crisis. Confidence in the regions' economic boom waned following sharp falls in oil prices during the third and fourth quarter of 2008 (Figure 19). International institutional investors withdrew much of their capital from the region's financial markets during the latter part of 2008 as investors' risk appetite plummeted. The lack of large local institutional investors meant that the resulting falls across regional stock exchanges (Figure 20) were exacerbated by retail investors rushing for the exit.

Like Western European and US markets, the Middle Eastern banking sector faced a liquidity crisis as the inter-bank lending market contracted. Local banks responded by tightening lending criteria and de-leveraging their balance sheets to try to reduce their exposure in sectors perceived to be vulnerable, such as real estate and commodities trading.

In response to these developments, public sector bodies across the region took a variety of steps to maintain confidence in the banking system. Central banks in several states guaranteed retail deposits and set up lending facilities for local banks. The UAE’s Ministry of Finance and Industry injected €26 billion into the system; the Saudi Arabian Monetary Agency pledged a fund of approximately €2.2 billion to shore up banks’ balance sheets, if needed; and Qatar’s Sovereign Wealth Fund has spent approximately €4 billion to buy 10% to 20% stakes in local banks. Notably, the Central Bank of Kuwait intervened in October to support the country’s second largest financial institution, Gulf Bank, which incurred significant losses in derivates trading, triggering a loss of confidence among its clients and counterparties.

---

1 Source: ‘UAE – Finance Ministry began disbursing 2nd tranche of Govt support to banks’ www.menafn.com, 06.11.08; exchange rate calculated on Arab Emirates $120 billion at Arab Emirates $1 : €0.19577, the average rate for the period when the tranches were disbursed, 22 September to 21 October. www.oanda.com.


4 Source: ‘No need to panic: Central Bank’ www.kuwaittimes.net, 27.10.08.
### Table 7: Top five MENA FS deals announced in 2008 with disclosed value

<table>
<thead>
<tr>
<th>Deal date</th>
<th>Target name</th>
<th>Target country</th>
<th>Bidder</th>
<th>Bidder country</th>
<th>Deal value</th>
</tr>
</thead>
<tbody>
<tr>
<td>May</td>
<td>Portfolio of regional banks(^5)</td>
<td>Algeria, Iraq, Jordan and Tunisia</td>
<td>Burgan Bank</td>
<td>Kuwait</td>
<td>€468m</td>
</tr>
<tr>
<td>Aug</td>
<td>International Finance Company (37.0% stake)</td>
<td>Kuwait</td>
<td>Safi Holding Company</td>
<td>Kuwait</td>
<td>€100m</td>
</tr>
<tr>
<td>Jul</td>
<td>CI Capital Holding Co SAE</td>
<td>Egypt</td>
<td>Commercial Intl Bank-Egypt SAE</td>
<td>Egypt</td>
<td>€91m</td>
</tr>
<tr>
<td>Aug</td>
<td>Offset Holding KSC (50.0% stake)</td>
<td>Kuwait</td>
<td>EFG Hermes Holdings Company</td>
<td>Egypt</td>
<td>€84m</td>
</tr>
<tr>
<td>Jul</td>
<td>Societe Tunisiene d’Assurance et de Reassurance (35.0% stake)</td>
<td>Tunisia</td>
<td>Groupama SA</td>
<td>France</td>
<td>€71m</td>
</tr>
</tbody>
</table>

Source: PricewaterhouseCoopers analysis of mergermarket and Thomson Financial data

**Economic cooling has been matched by a slowdown in financial services M&A**

Financial services M&A activity in the region has slowed from the levels of 2007, as a result of investors’ uncertainty about the current environment and local banks’ focus on balance sheet optimisation and cost management. In 2008, 10 deals with disclosed values took place at a total value of €1.04 billion, compared with 21 deals worth approximately €5.8 billion in 2007 (Figure 21).

Even if 2007’s leading deal (the government-sanctioned €2.3 billion acquisition of National Bank of Dubai PJSC by Emirates Bank International) were to be excluded, this would still represent a 60% decrease in deal value.

M&A activity during the year continued to feature intra-regional cross-border deals alongside domestic transactions. A common theme involved banks from some of the more resilient economies in the region taking minority stakes in some of the less developed markets. In a single transaction Burgan Bank acquired a 44% stake in Jordan Kuwait Bank, along with stakes in Bank of Baghdad, Algeria Gulf Bank KSC and Tunis International Bank SA.

Most of 2008’s other disclosed deals were far smaller in scale. A notable outbound cross-border transaction, not involving a MENA-based target, was the opportunistic acquisition by Abu Dhabi-based Aabar Investments PJSC of the entire share capital of AIG Private Bank, a Zurich-based provider of personalised private banking and structured wealth management services, from AIG. The €202 million deal marked the US insurance giant’s first significant disposal after it was rescued by the US government.

**Could the slowdown in regional growth lead to faster consolidation during 2009?**

Given that the region’s capital markets – particularly in the Gulf – have developed so rapidly, it is hard to predict the path of M&A in the coming year. The unfolding global financial crisis and downturn in the global economy may result in M&A participants holding back until conditions improve. In the short term, however, an increase in M&A activity in the MENA region may be driven by four factors:

1. Real estate and stock market values in the region are falling, especially in hotspots such as Dubai. With shareholders in listed banks currently reluctant to inject further capital into the sector, the possibility of government-initiated transactions to stabilise the real estate and equity

---

\(^5\) Burgan Bank acquired a 60% stake in Algeria Gulf Bank, a 45% stake in Bank of Baghdad, a 44% stake in Jordan Kuwait Bank, and a 77% stake in Tunis International Bank from United Gulf Bank based in Bahrain. Source: Thomson Onesource/mergermarket.
markets remains likely. A case in point was the government-initiated merger between the UAE’s two largest mortgage providers, Amlak Finance PJSC and Tamweel PJSC, after they ran into liquidity and funding problems in late September. Initially, the two companies were to be merged into Real Estate Bank, an Abu Dhabi government-owned bank. However, it was subsequently announced that Real Estate Bank would be merged with Emirates Industrial Bank, another Abu Dhabi government-owned bank to form Emirates Development Bank, the UAE’s largest home finance company.

2. Many MENA banks are having their credit ratings revised downwards, driving up their funding costs. This could fuel a desire for regional consolidation to create larger, more robust and more efficient institutions.

3. Regional Sovereign Wealth Funds may play a greater role in financial services M&A in MENA countries. In particular, Sovereign Wealth Funds from the Gulf States may inject capital into local banks in an attempt to shore up banks’ balance sheets. They may also use the current downturn as an opportunity to acquire assets in the region’s developing economies.

4. There may be scope for consolidation within the region’s Islamic Banking industry. A wave of new Islamic banks has been launched in recent years, focusing on both the retail and corporate markets. While it appears that Islamic Banks have weathered the credit crunch better than their conventional counterparts, as the region’s economic boom cools off, institutions in this relatively fragmented industry may consider consolidation as a defensive response to their current lack of scale.

6 Source: ‘UAE Committee to develop strategy for Amlak, Tamweel’ www.zawya.com, 04.02.09.
Sub-Saharan Africa: feeling the heat?

Peter McCrystal peter.mccrystal@za.pwc.com

South Africa dominated the M&A activity within the financial services sector in Sub-Saharan Africa in 2008 (Figure 22).

M&A activity during 2008 was largely driven by the reorganisation of significant players within the banking and insurance industries.

In 2008, South Africa-based Standard Bank Group reorganised its interest in the life assurance and financial services group Liberty Holdings for a combined sum of €1,235 million. Liberty Holdings is now a wholly-owned subsidiary of Standard Bank Group.

2008 also saw the investment by Unitel, the Angolan mobile telecommunications operator, in Banco de Fomento Angola through the acquisition of a 49.9% stake from Banco BPI SA, the listed Portuguese banking group.

Within Nigeria, Bank PHB launched an unsuccessful €353 million offer for the remaining shares of Spring Bank, its Nigerian counterpart. Unity Bank, a Nigeria-based retail and commercial bank, acquired a 51% stake in Kapital Insurance Co, a Nigerian insurance company, for an undisclosed consideration. United Bank for Africa also acquired Liberty Bank, a Lagos-based bank, for an undisclosed sum.

With the €253 million acquisition of a portfolio of banks in West and Central Africa, Attijariwafa Bank hopes to complement its existing network in Tunisia, Senegal and Mali (North and West Africa). The disposal, on the other hand, is in line with Credit Agricole’s strategy to concentrate on its retail banking activities in Europe and the Mediterranean.

The asset management industry M&A activity was primarily driven by Peregrine Financial Services, who acquired for €96 million a 51% interest in wealth management services provider Stenham Ltd, and various transactions within the property asset management sector.

 Whilst on the surface it appears that financial services M&A activity within Sub-Saharan Africa has been somewhat subdued (Figure 23), there has been a rising interest from smaller insurance, banking and other financial services businesses expanding their operations into African countries and larger enterprises also expanding into new territories within Africa through smaller acquisitions and forming alliances with players within the region.

Looking forward

The global financial crisis has not had as strong an effect on Africa for a number of reasons, not least the lack of exposure to so-called ‘toxic assets’ affecting a number of the large financial institutions in the Western world. However, certain key issues are influencing Africa to varying degrees of severity. Provisioning levels are climbing and liquidity within the banks has tightened, impacting on loan books. The current oil and commodity prices will have an effect on the GDP of the oil and mineral rich countries, which will ultimately impact the banking sector. A further factor affecting the banking sector in Sub-Saharan Africa is the reduction in credit lines from their international correspondent banks, which were their principal source of foreign currency.
Figure 22: Deal activity by country (number of deals)

Source: PricewaterhouseCoopers analysis of mergermarketdata

Table 8: Top five SSA deals in 2008

<table>
<thead>
<tr>
<th>Deal date</th>
<th>Target name</th>
<th>Target country</th>
<th>Target description</th>
<th>Bidder</th>
<th>Bidder country</th>
<th>Deal value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sep</td>
<td>Liberty Group Ltd (48.9% stake)</td>
<td>South Africa</td>
<td>Life insurer</td>
<td>Liberty Holdings Ltd</td>
<td>South Africa</td>
<td>€871m</td>
</tr>
<tr>
<td>May</td>
<td>Liberty Holdings Ltd (40.9% stake)</td>
<td>South Africa</td>
<td>Insurance company</td>
<td>Standard Bank Group Limited</td>
<td>South Africa</td>
<td>€364m</td>
</tr>
<tr>
<td>Sep</td>
<td>Banco de Fomento Angola (49.9% stake)</td>
<td>Angola</td>
<td>Banking</td>
<td>UNITEL SA</td>
<td>Angola</td>
<td>€333m</td>
</tr>
<tr>
<td>Nov</td>
<td>Portfolio of regional banks1</td>
<td>West and Central Africa2</td>
<td>Banking</td>
<td>Attijariwafa Bank</td>
<td>Morocco</td>
<td>€253m</td>
</tr>
<tr>
<td>Jul</td>
<td>Safair Lease Finance (Pty) Ltd</td>
<td>South Africa</td>
<td>Principal finance</td>
<td>Aergo Capital Ltd</td>
<td>Ireland</td>
<td>€109m</td>
</tr>
</tbody>
</table>

Source: PricewaterhouseCoopers analysis of mergermarket data

1 Portfolio of regional banks consists of: Credit du Congo (81.0% stake); Credit du Senegal SA (95.0% stake); Societe Camerounaise de Banque (65.0% stake); Société Ivoirienne de Banque (55.0% stake); Union Gabonaise de Banque (59.0% stake).

2 Target countries are Cameroon, Gabon, Senegal, Ivory Coast and Congo.
The buyout market: down but not out

Steve Jones stephen.jones@uk.pwc.com

The European financial services buyout market cooled in 2008, especially in the second half of the year. Nevertheless, deals remain available for firms with the right mix of funding, skills, support and opportunities.

2008 saw a decline in financial services transactions. The reduction in available debt, falling asset prices and collapsing financial services profitability were the main factors underpinning the slowdown in financial services buyouts.

Financial services is not generally a key sector for private equity investors and typically accounts for less than 10% of all transactions (Figure 24). The lack of debt finance will also affect financial services transactions at the top end of the scale. However, the falling values of financial services companies could offer scope for a solid stream of smaller financial services buyouts to take place.

Don’t believe the hype: there was buyout activity in 2008

The European financial services buyout market remained open during 2008, especially at the mid-market level. Several deals took place in the €150 million to €400 million bracket.

Some of the key themes include:

• **Distressed targets:** One of the highest profile mid-market deals of 2008 was Lone Star’s direct bid for distressed German bank IKB Deutsche Industriebank1. The deal underlined the changes sweeping through European M&A. Prior to the credit crunch, it would have been hard to imagine a US-based private equity house announcing and completing the acquisition of a state-owned German bank within two months.

• **Emerging Europe markets take off:** As predicted in last year’s publication, several notable deals took place involving targets and bidders in the CIS region. Russian firm Icon acquired 49% of the Ukrainian Delta Bank in a deal worth €225 million.

---

1 Mergermarket published a deal value of €260 million on 21.08.08; however, a lower deal value of €115 million was published in BusinessWeek on 03.09.08.
Table 9: Top five private equity deals announced in 2008 with disclosed value

<table>
<thead>
<tr>
<th>Deal date</th>
<th>Target name</th>
<th>Target country</th>
<th>Target description</th>
<th>Bidder</th>
<th>Bidder country</th>
<th>Deal value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sep</td>
<td>Antonveneta ABN AMRO; Monte Paschi Asset Management SGR SPA (67.0% stakes)</td>
<td>Italy, Netherlands</td>
<td>Asset management</td>
<td>Clessidra SGR</td>
<td>Italy</td>
<td>€382m</td>
</tr>
<tr>
<td>Feb</td>
<td>HCI Capital AG (85.0% stake)</td>
<td>Germany</td>
<td>Asset management</td>
<td>MPC Muenchmeyer Petersen Capital AG</td>
<td>Germany</td>
<td>€290m</td>
</tr>
<tr>
<td>Mar</td>
<td>Giles Insurance Brokers Ltd</td>
<td>UK</td>
<td>Insurance broker</td>
<td>Charterhouse Capital Partners LLP</td>
<td>UK</td>
<td>€235m</td>
</tr>
<tr>
<td>Jun</td>
<td>Delta Bank (49.0% stake)</td>
<td>Ukraine</td>
<td>Commercial bank</td>
<td>Icon Private Equity</td>
<td>Russia</td>
<td>€225m</td>
</tr>
<tr>
<td>Jun</td>
<td>Partnership Life Assurance Company Limited</td>
<td>UK</td>
<td>Insurance company</td>
<td>Cinven Ltd</td>
<td>UK</td>
<td>€200m</td>
</tr>
</tbody>
</table>

Source: PricewaterhouseCoopers analysis of mergermarket data

- **Banking carve-outs:** The acquisition of Antonveneta ABN AMRO SPA and Monte Paschi Asset Management SGR SPA by Clessidra SGR from Banca Monte dei Paschi di Siena SPA for €382 million was among the year’s largest announced private equity deals.

- **UK mid-market continues to be strong:** The well-established UK buyout market continued to function, especially during the early part of the year. One notable deal was the secondary MBO of Giles Insurance Brokers from Gresham, backed by Charterhouse Capital Partners and valued at €235 million. Other UK mid-market transactions included Phoenix’s sale of Partnership Life Assurance Company, the specialised annuity provider for those in poor health, to Cinven for €200 million and the approximately €190 million management buy-out of Lowell Holdings, backed by Exponent Private Equity. (For further discussion of patterns of M&A in the UK mid-market, see the article ‘Balance sheet restructuring driving non-core disposals’ on page 17.)

---

2 Terms of the transaction were not disclosed. According to mergermarket on 07.04.08, the transaction was in the £150 million to £200 million (€190 million to €253 million) range.
The course of buyouts in 2009 will be heavily influenced by fundraising ability

During 2009, the availability of funding will have a crucial effect on the buyout market and private equity houses’ ability to make and complete deals.

Access to leveraged lending – and target companies’ ability to service debt – will continue to have an effect on deal activity. The issuance of leveraged loans has fallen steeply during 2008 (Figure 25). Conducted for this publication, PricewaterhouseCoopers’ latest survey of financial services deal professionals predicts leveraged lending will not resume materially before 2010 (Figure 26). Even then, it will be restricted: it is not likely that banks will be falling over themselves to help private equity firms buy up banking assets.

The positions of individual private equity funds vary widely according to their point in the investment cycle. Funds that were fully invested in early 2007 may be struggling to exit existing investments, but others are sitting on strong cash reserves.

Sovereign Wealth Funds (SWFs) are becoming more influential, with private equity houses from Europe and elsewhere seeking SWF firepower. One such example is the US$4 billion reported to have been invested by China Investment Corporation (CIC) in a JC Flowers’ fund. Our survey shows a clear expectation that SWFs will be a driver of buyout activity during the coming year (Figure 27), although several respondents to our survey indicated SWFs may wait for a period of relative stability before making significant investments.

Where will targets come from – and what will be the hurdles?

Aside from the question of funding, what will be the availability of attractive buyout targets during 2009? As already discussed, banks seeking to raise capital will be a potential source of deals. Depending on how the crisis develops and how government support for the sector unfolds, it may be that banks sell what they can rather than what they might like to divest. Businesses such as investment management or transaction processing, offering relatively stable cash flows, are likely to be particularly attractive to private equity and SWF bidders.
Distressed banks could become targets, providing they are not too large. In December 2008 it was reported that Apax Partners, Carlyle Group, JC Flowers and KKR were all considering investment in Bank of Ireland, possibly in conjunction with Middle Eastern backers. At the time, Bank of Ireland’s market value had fallen from around €9 billion at the start of the year to less than €1 billion.

Nonetheless, we believe that even those private equity firms seeking to invest in financial services will not have things all their own way in 2009. Some inhibiting factors could include:

- **The inherent risks of investing in weakened financial companies.** There have been examples of private equity investors taking stakes only to find that the company is in a far weaker position than anticipated. Consequently the investment has lost value and required additional capital or even government support;
- **The losses some SWFs have already suffered through directly investing in financial companies.** Deutsche Bank estimated that investments made in UBS, Morgan Stanley and Merrill Lynch by SWFs during 2008 had lost over 60% of their value by mid-October. Some SWFs may also now be relatively over-exposed to financial services;
- **The ability of private equity firms to develop European financial services expertise.** One example of a firm that has focused on its financial services capabilities is Cerberus Capital Management LP, which has previously invested in BAWAG PSK, GMAC Bank, Bank Leumi and Handel und Credit Bankhaus; and

![Figure 27: Do you believe lower share prices will lead to greater investment in financial services by Sovereign Wealth Funds and Private Equity?](chart)

- **Greater involvement 66%**
- **No impact or less involvement 34%**

**Source:** PricewaterhouseCoopers survey of financial services M&A executives in EMEA 2008

- **The need for regulatory and political acceptance of greater private equity or SWF ownership in the financial services sector,** although European banks’ need for capital may yet have a transforming effect on political attitudes.

In addition, differentiation will be an increasingly important attribute in the private equity market during the coming economic downturn. We expect buyouts and minority investments to continue to shape the European M&A market, but conditions will clearly become more challenging. In our view, the most successful firms will be those that can combine funding, expertise and political support and then apply them to the most attractive targets.

---

4 Source: ‘Buyout groups eye Irish banks’, Financial Times, 03.12.08.
5 Source: ‘Sovereign Wealth Funds and foreign investment policies – an update’, Deutsche Bank, 22.10.08.
Speciality finance: coming in from the cold?

Shaun McNamee
shaun.c.mcnamee@uk.pwc.com

Speciality finance comprises various forms of lending against business assets, either capital assets, in the form of asset-based lending, or working capital assets in the forms of invoice discounting and factoring. In the past, speciality finance has been seen as expensive, but, as the availability of other forms of lending becomes scarcer and more expensive due to the ongoing credit crisis, is it time for speciality finance to come in from the cold?

With finance providers turning back to secured lending, speciality finance is seen by some as a sector that should benefit from the contraction in bank lending experienced during 2007 and 2008. Speciality finance has the advantage of being linked to an asset (in the form of a capital asset or an expected cash flow), providing the lender with greater certainty over the recoverability of the finance should the borrower encounter difficulties.

Speciality finance has traditionally been attractive to SMEs, but has been seen as an expensive form of finance. However, as the supply of unsecured credit has reduced, SMEs have had to seek alternative forms of finance, such as speciality finance.

Research published in December 2008 by the UK’s Asset Based Finance Association (ABFA) demonstrated year-on-year growth in speciality finance of 15% to £17.6 billion (£22.2 billion) of advances for Q3 2008.

Speciality finance is classified primarily within the ‘banking’ and ‘other’ financial services sectors of the data we have reviewed. In the year to 31 December, 2008, there were only 11 transactions recorded.

Given that traditional routes for raising funds are more difficult at present, it is perhaps surprising that speciality finance did not feature more strongly among the transactions completed in the ‘other’ sector during 2008. However, a lack of availability of credit facilities may well have stifled the ability of non-bank purchasers to bid for speciality finance organisations.

From the deals in speciality finance with disclosed deal values, we noted some key themes:

- Six of the deals were cross-border in nature;
- There appeared to be diminished private equity activity, as there were only four private equity-related transactions: the acquisition of Lindorff by Investor AB (backed by Altor); the acquisition of European Capital Limited by American Capital Strategies; the acquisition of Gothia by Herkules; and the acquisition of Lowell Holdings in an MBO-backed deal by Exponent Private Equity. The balance of deal activity appears to be tipping towards corporate trade players, perhaps reflecting the difficulty of getting acquisition finance and ongoing funding by private equity houses;
- There were a number of businesses looking to consolidate and benefit from synergies, acquiring remaining stakes in joint venture investments; and

---

1 Source: www.oanda.com. Exchange rate calculated at the average rate for Q3 (July to September) 2008, £1:€1.29813.
2 Terms of the transaction were not disclosed. According to mergermarket, the transaction was in the £150 million to £200 million (£190 million to €253 million) range.
There was only one large cap deal (valued at €580 million) and one mid-market deal (with a value of €216 million).

As the credit crisis worsens, banks and speciality lending companies are continuing to integrate vertically in order to benefit from economies of scale and offer a wider range of services to clients. SEB’s €22 million acquisition of GMAC Commercial Finance aims to offer its clients a wider choice of financing, vendor solutions and factoring in Poland. Meanwhile, the acquisition by US-based GE Commercial Finance of Five Arrows Commercial (excluded from our data set owing to undisclosed consideration) seeks to expand GE’s business in the UK by enhancing its service offerings.

Certain businesses have sought to strengthen their presence in their existing markets and gain direct access to new markets. AIB’s acquisition of a 50% stake in BACB was in line with AIB’s then strategy to expand its presence in high growth markets of Central and Eastern Europe in SME lending and other areas that it sees as a core expertise.

Another example is Close Brothers’ €39 million acquisition of Commercial Acceptances, which was in line with Close Brothers’ strategy to strengthen its footprint in the UK speciality finance market. The acquired loan book is expected to generate returns on gross assets in line with returns generated by Close Brothers’ banking division.

The aim of Japan-based Hitachi Capital’s €11 million acquisition of London Scottish Invoice Finance is to enable Hitachi to strengthen its existing operations.

In some deals, the transaction rationale is to acquire full control of an existing subsidiary. For example, American Capital Strategies acquired the remaining 32.3% of European Capital for €124 million in order to obtain total control of European Capital and improve financial flexibility and liquidity.

Finance for delinquent debt purchasing is a relatively new form of asset-based lending, but one that has seen significant private equity investment across Europe in recent years. Herkules’ €114 million acquisition of Gothia, a European debt collection and purchasing business with headquarters in Sweden, was the latest in a series of investments by private equity houses in the European debt collection and purchasing sector. The Lowell Holdings deal was an MBO transaction backed by private equity house Exponent Private Equity. However, during 2008, the ready availability of bank credit for debt purchasers to buy debt sharply reduced, slowing the rate of investment by private equity in this segment of the speciality finance industry.

As speciality finance companies do not take deposits, they typically require debt or equity to fund their businesses. Financial flexibility and liquidity is a relatively new form of asset-based lending. Corporate purchasers, traditionally banks and other finance providers, are currently struggling with significant challenges that could mean that growth-led acquisitions in the speciality finance area will be deferred or held back. In particular, ongoing capital constraints at major banks will ration the availability of capital for deals in all sectors, including speciality finance. There may, however, be opportunities for those corporate purchasers less affected by the market turmoil to acquire speciality finance businesses from corporates in distress.

The current lack of acquisition or growth debt finance for private equity houses, if continued, could effectively exclude private equity purchasers from the speciality finance market during 2009. As speciality finance companies do not take deposits, they typically require debt as well as equity to fund their businesses.

While there may be speciality finance deals available during 2009, it is likely that there will be only a small pool of purchasers that are sufficiently capitalised and liquid enough to transact in the market.

### Table 10: SF deals announced in 2008 by value as disclosed

<table>
<thead>
<tr>
<th>Deal date</th>
<th>Target name</th>
<th>Target country</th>
<th>Target description</th>
<th>Bidder</th>
<th>Bidder country</th>
<th>Deal value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jun</td>
<td>Lindorff Group AB</td>
<td>Norway</td>
<td>Debt collections and customer relations</td>
<td>Investor AB</td>
<td>Sweden</td>
<td>€580m</td>
</tr>
<tr>
<td>Feb</td>
<td>Bulgarian-American Credit Bank AB (BACB)</td>
<td>Bulgaria</td>
<td>Commercial bank providing secured finance to SMEs</td>
<td>Allied Irish Banks plc</td>
<td>Ireland</td>
<td>€216m</td>
</tr>
<tr>
<td>Nov</td>
<td>European Capital Ltd</td>
<td>UK</td>
<td>Specialty finance provider</td>
<td>American Capital Strategies</td>
<td>USA</td>
<td>€124m</td>
</tr>
<tr>
<td>Sep</td>
<td>Gothia Financial Group AB</td>
<td>Sweden</td>
<td>Debt collection and financial services provider</td>
<td>Herkules Private Equity Fund</td>
<td>Norway</td>
<td>€114m</td>
</tr>
<tr>
<td>Aug</td>
<td>Lider Faktoring Hizmetleri Anonim Sirketi (49.0% stake)</td>
<td>Turkey</td>
<td>Private factoring company</td>
<td>Credit Suisse Group AG (Switzerland)</td>
<td>Switzerland</td>
<td>€48m</td>
</tr>
<tr>
<td>Mar</td>
<td>Commercial Acceptances Ltd</td>
<td>UK</td>
<td>Short-term and bridging loan lender</td>
<td>Close Brothers Group plc</td>
<td>UK</td>
<td>€39m</td>
</tr>
<tr>
<td>May</td>
<td>IRFIS - Mediocredito Della Sicilia SPA (76.3% stake)</td>
<td>Italy</td>
<td>Leasing and factoring company</td>
<td>Gruppo Banca Popolare di Vicenza SPA</td>
<td>Italy</td>
<td>€35m</td>
</tr>
<tr>
<td>Jul</td>
<td>GMAG Commercial Finance Sp z o</td>
<td>Poland</td>
<td>Provider of factoring services</td>
<td>Skandinaviska Enskilda Banken AB (SEB)</td>
<td>Sweden</td>
<td>€22m</td>
</tr>
<tr>
<td>Jun</td>
<td>London Scottish Invoice Finance Ltd</td>
<td>UK</td>
<td>Factoring company</td>
<td>Hitachi Capital (UK) plc</td>
<td>UK</td>
<td>€11m</td>
</tr>
</tbody>
</table>

Source: PricewaterhouseCoopers analysis of mergermarket data

- There was only one large cap deal (valued at €580 million) and one mid-market deal (with a value of €216 million).
Infrastructure: the next big thing?

Peter Simon peter.m.simon@uk.pwc.com and James Worsnip james.worsnip@uk.pwc.com

Infrastructure – the plumbing of financial services – is undergoing rapid reassessment as economic and financial market conditions change. Could it be a counter-cyclical driver of M&A activity?

Table 11: Top five infrastructure deals in 2008

<table>
<thead>
<tr>
<th>Deal date</th>
<th>Target name</th>
<th>Target country</th>
<th>Target description</th>
<th>Bidder</th>
<th>Bidder country</th>
<th>Deal value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nov</td>
<td>Nordic Central Securities Depository (NCSD)</td>
<td>Sweden</td>
<td>Clearing and settlements of trade</td>
<td>Euroclear SA</td>
<td>Belgium</td>
<td>€470m</td>
</tr>
<tr>
<td>Jun</td>
<td>Creditex Group</td>
<td>UK</td>
<td>Derivatives broker/dealer</td>
<td>Intercontinental Exchange Inc (ICE)</td>
<td>USA</td>
<td>€330m</td>
</tr>
<tr>
<td>Feb</td>
<td>Nord Pool Clearing ASA</td>
<td>Norway</td>
<td>Commodity clearing house</td>
<td>OMX AB</td>
<td>Sweden</td>
<td>€273m</td>
</tr>
<tr>
<td>Oct</td>
<td>Prague Stock Exchange</td>
<td>Czech Republic</td>
<td>Stock exchange</td>
<td>Vienna Stock Exchange</td>
<td>Austria</td>
<td>€100m¹</td>
</tr>
<tr>
<td>Jun</td>
<td>Ljubljana Stock Exchange Inc (81.0% stake)</td>
<td>Slovenia</td>
<td>Stock exchange</td>
<td>Vienna Stock Exchange</td>
<td>Austria</td>
<td>€38m</td>
</tr>
</tbody>
</table>

Source: PricewaterhouseCoopers analysis of mergermarket data

Infrastructure is rapidly becoming a sought-after area of financial services. In turbulent market conditions, exchanges, clearing houses and transaction-processing businesses offer relatively resilient income streams and low regulatory capital requirements. In M&A terms, these attractions complement the well-established rationales for greater scale in financial services infrastructure, namely the value of large liquidity pools and the potential economies of scale offered by high-volume processing.

There were no bids for major European stock exchanges during 2008, but infrastructure transactions continued to demonstrate the attractions of scale:

- Euroclear’s acquisition of the Nordic Central Securities Depository for €470 million was in line with Euroclear’s strategy of exploiting new revenue synergies and saving costs by migrating clients onto its central operating platform. (The purchase will further enhance Euroclear’s presence in Finnish and Swedish capital markets);
- ICE’s acquisition of e-trading platform Creditex for €330 million was specifically aimed at increasing the size of the over the counter trading pool ICE can offer to its clients; and
- OMX’s acquisition of Nord Pool Clearing and its associated businesses for €273 million was intended to increase OMX’s scale in energy and emissions derivatives trading and clearing.

Of potentially greater significance was the announcement of a consortium’s approximately €850 million bid for LCH.Clearnet to compete with the approximately €739 million bid from Depository Trust and Clearing Company. LCH.Clearnet and DTCC are typical of many market infrastructure providers, being owned and operated on a quasi-mutual basis by institutions who are the main users of their services. This governance structure has sometimes been seen as a barrier to consolidation and is sure to revive the ongoing debate about the optimal ownership structure for financial services infrastructure businesses.

Cooling prime brokerage may hasten consolidation among exchanges

Whatever the ownership structure, the rationale for consolidation among exchanges and clearing houses will remain strong during 2009. The potential to achieve operational synergies remains attractive, especially in the light of growing competition. Alternative exchanges such as Chi-X and Turquoise – so called ‘dark pools of liquidity’ – have not only taken volumes from traditional exchanges but also encouraged them to reduce their fees.

1 The terms of the deal were not disclosed in the Vienna Stock Exchange 07.11.08 press release, however, mergermarket estimated the deal to be worth Czech Korona 2,500 million (€100 million).
2 The consortium consists of BNP Paribas, Citigroup, Deutsche Bank, HSBC, ICAP, JP Morgan, RBS, Société Générale and UBS.
In the short term, financial market volatility will continue to support levels of trading and exchanges’ revenue streams. However, a significant portion of exchange volumes in recent years has been attributed to the activity of hedge funds, especially algorithmic traders, as they are responsible for a significant portion of the trade volumes. As hedge funds face further redemptions, exchange volumes are likely to fall. If so, arguments for consolidation are only likely to strengthen.

Transaction processing will attract consolidators and private equity-backed bidders

We expect the attractiveness of banks’ own payment operations to private equity and industry consolidators to drive carve-outs through 2009 and 2010. High valuation multiples may tempt banks in need of capital to divest sub-scale or non-core businesses. The eventual advent of Single Euro Payments Area (SEPA) is also likely to strengthen the rationale for greater scale in European retail transaction processing.

In addition to the current regulatory approval barriers, a potential obstacle to divestments is the way that many banks lump all their transaction banking activities together, even though the competitive drivers of these businesses vary widely. For instance, cash management markets are relatively fragmented, reflecting SME business banking market shares, and customers typically value local branches and good personal relationships. At the other end of the spectrum, custody is a scale-driven business dominated by a handful of global players competing on price and efficiency. In the short term, the role of government as a major shareholder or influencer may well limit divestment activity.

Not all banks need to own transaction processing activities, but any bank putting such a unit up for sale will only realise full value if it can enable buyers to identify – and safely carve out – a discrete business unit.
Investment management: at a crossroads

Stuart Last stuart.last@uk.pwc.com

The change in landscape for participants in the European IM sector is forcing businesses to adapt; in the short to medium term, this may result in a drive for scale in the sector.

In 2007, total European investment management M&A deals (by value) was €12.2 billion. Including five deals valued at over €1 billion, this was the highest total recorded in the six years that we have been compiling data.

In 2008, deal activity was much more subdued, with the bulk of deals occurring in the first half of the year. The total announced deal size was approximately €3 billion, while the largest announced deal included in our analysis was an overhang from a 2007 deal – the €397 million purchase by Fortis of the remaining equity (32.9%) that it did not hold in Artemis Investment Management.

The short-term outlook for the investment management sector remains uncertain. Managers are confronted with pressure from market volatility, withdrawals from retail investment funds and institutional business becoming less profitable as clients reallocate funds from equities and alternatives into lower margin cash and fixed income. Furthermore, the sector in general and the hedge fund industry in particular are suffering from reputational damage, capital scarcity and the threat of increased regulatory intervention. These pressures have been reflected in the share prices of listed fund managers. As an example, the weighted average share price decrease of the largest 10 UK investment managers (by market capitalisation at 1 January, 2008) was 50%, compared to a 30% fall in the FTSE All Share Index between 1 January, 2008 and 31 December, 2008 (Figure 28).

The response of many investment managers has been and is likely to continue to be, to reduce costs. Several have announced headcount reductions and mergers at the fund level. Research from Morningstar highlights that there was a sharp increase in share class closures/mergers from 1,482 in 2006 to 4,538 in 2008.

A further option for businesses will be to search for scale at the firm level that may benefit organisations from both a cost reduction and a capital perspective. Larger investment management companies may therefore view this as a good time to acquire smaller counterparts or talented individuals. An illustration is UK-based Jupiter Asset Management’s recent appointment of four private client fund managers from Kaupthing’s investment management firm.

With prices for investment management companies at low levels, opportunistic financial buyers with capital to invest may view this as the right time to buy, and there has been some evidence of this trend developing. For example, GLG Partners acquired Société Générale’s UK asset management business in December 2008. A number of questions remain for private equity houses interested in the sector, including the critical question of talent management that has deterred some buyers in the past.

Figure 28: Weighted average movement of the largest 10 listed UK investment and asset managers (by market cap as at 1 January, 2008)

![Graph showing weighted average movement of the largest 10 listed UK investment and asset managers](image)

Source: PricewaterhouseCoopers/Factiva

---

1 Fortis had acquired 67.1% of Artemis Investment Management as part of the ABN AMRO transaction in 2007. Source: Press release, www.holding.fortis.com, 30.09.08.
2 Source: Morningstar research 12.01.09.
3 Source: ‘Kaupthing Singer & Friedlander limps on after UK Treasury wades in’ www.wealthbulletin.com, 09.10.08.
Table 12: Top five asset management deals in 2008

<table>
<thead>
<tr>
<th>Deal date</th>
<th>Target name</th>
<th>Target country</th>
<th>Target description</th>
<th>Bidder</th>
<th>Bidder country</th>
<th>Deal value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sept</td>
<td>Artemis Investment Management Ltd</td>
<td>UK</td>
<td>Fund management</td>
<td>Fortis NV</td>
<td>Belgium</td>
<td>€397m</td>
</tr>
<tr>
<td>Feb</td>
<td>HCI Capital AG</td>
<td>Germany</td>
<td>Asset management</td>
<td>MPC Muenchmeyer Petersen Capital AG</td>
<td>Germany</td>
<td>€290m</td>
</tr>
<tr>
<td>Dec</td>
<td>Credit Suisse Group AG (certain fund management assets and businesses)</td>
<td>UK</td>
<td>UK based fund management assets</td>
<td>Aberdeen Asset Management plc</td>
<td>UK</td>
<td>€250m</td>
</tr>
<tr>
<td>May</td>
<td>Goodman Property Investors</td>
<td>UK</td>
<td>Investment management</td>
<td>Aberdeen Property Investors</td>
<td>Sweden</td>
<td>€154m</td>
</tr>
<tr>
<td>Jul</td>
<td>AEGON PTE SA (49.7% stake)</td>
<td>Poland</td>
<td>Pension Fund management</td>
<td>AEGON Woningen Nova BV</td>
<td>Netherlands</td>
<td>€150m</td>
</tr>
</tbody>
</table>

Source: PricewaterhouseCoopers analysis of mergermarket data

2008 was punctuated by two events that may be indicative of further emerging trends in the sector:

**Distressed sales:** New Star Asset Management, the UK-listed fund manager, announced a capital restructuring on 3 December, 2008 “that will result in £240 million (£282 million) of its £260 million (£306 million) of gross debt being converted into equity”. The restructuring resulted in the banking consortium of Lloyds Banking Group, HSBC, RBS and National Australia Bank effectively owning a 75% stake of New Star Asset Management’s enlarged fully diluted ordinary share capital. The banking consortium subsequently selected Henderson, the UK-listed fund manager, as the preferred bidder to buy New Star Asset Management. It is possible that other investment managers, particularly those with a high degree of leverage, may also be required to renegotiate or restructure the terms of their debt and in certain cases this could give rise to a distressed sale.

**Sale of captive investment management businesses representing an attractive capital-raising option for large financial services groups:**

Aberdeen Asset Management announced on 31 December, 2008 that it had acquired parts of Credit Suisse’s global fund management business in Europe, US and Asia Pacific for consideration of €250 million (subject to shareholder and regulatory approvals). Credit Suisse is retaining its Swiss-based investment management arm and a small operation in Brazil. This exit by Credit Suisse continued a trend already seen in the US, whereby large financial services groups sell their investment management units as they look to raise capital. Examples from the US include Citigroup swapping its investment management unit for Legg Mason’s brokerage operations (2005); Northwestern Mutual Financial Network selling its Mason Street Advisors to American Century and Federated Investors (2006); and Regions Financial Corp selling its investment unit to Pioneer Investments Inc (2005). Other large financial services groups are likely to be considering selling their investment management units as they look to focus on their core business.

In the medium to long term, the outlook for the sector remains strong as the demographic of an ageing Western Europe population and a large under-developed market in Eastern Europe will eventually create growth in the sector. Thus, with asset prices at historical lows, many will view this as an exciting time to acquire an investment management business. However, it is likely that investors will need to be prepared for a continued period of short-term volatility and be prepared to hold assets for the long term.

---

Distressed assets return to prominence

Graham Martin graham.h.martin@uk.pwc.com and Panos Mizios panagiotis.mizios@uk.pwc.com

The European distressed debt market looks certain to generate considerable deal activity during 2009 – but both buyers and sellers will find there are new challenges to overcome.

The European market for non-performing loans (NPLs) is set to expand rapidly over the next two to three years. In our opinion this is a rapidly developing market that merits a closer look.

Conditions are ideal for NPLs to grow

Rising unemployment, falling consumer confidence and a lack of refinancing options for many borrowers means that European banks’ NPL ratios will continue to climb, putting further strain on capital bases. European banks are expected to refinance up to €450 billion of lending in 2009 and another €325 billion1 in 2010. Despite the support of national governments, they are likely to sell NPLs to improve liquidity and reduce the workload of their internal loan workout teams.

The UK and Spain have strong growth potential

In recent years, Germany, Italy and Portugal have been the most active European NPL markets. However, we anticipate other countries will take the lead in 2009.

The impact of the deteriorating economic environment on the quality of European banks’ loan books will probably not become clear until mid-2009 at the earliest. Even so, the initial indications are that the need to sell NPL portfolios will be strongest in such countries as the UK and Spain, where leverage expanded rapidly during the credit boom and property prices have, until recently, experienced significant periods of high growth.

The UK has few recent examples of NPL deals, reflecting a long period of benign credit conditions and considerable liquidity. With UK unemployment expected to exceed two million by the end of 20092, however, distressed debt investors now expect a significant number of portfolios to come to market during the next 12 to 24 months. Based on overall market size, we believe that UK NPLs could reach £50 billion to £100 billion (£54 billion to €108 billion)3, making the UK one of the most significant global markets.

To date, few UK banks have yet attempted to sell their NPL portfolios. This is due to:

- other more pressing internal issues taking priority – such as group-level restructuring;
- sellers’ apparent uncertainty about the optimal sale approach – size, type of loans, sale process or likely investors; and
- sellers assessing the level of write-offs to apply for year-end financial reporting, which will affect the pricing of NPL portfolios.

In Spain, the bursting of the real estate and personal lending bubbles has made the country’s distressed debt market one of the most promising in Europe. Portfolios being offered for sale are believed to exceed €10 billion in terms of unpaid principal balance, predominantly comprising residential mortgage and commercial property portfolios.

Uncertainty over the prices of underlying assets has meant that fewer public transactions were completed during 2008 than in 2007, when BBVA sold €0.7 billion of NPLs to CarVal Investors UK Ltd and UBS acquired €0.5 billion of distressed assets from Banesto. However, we expect the volume of transactions to increase during 2009 as the price gap between sellers and buyers narrows, partially as a result of sellers increasing their provisions. To reduce reputational risks related to a failed public auction sale, sellers are also increasingly opting for closed or bilateral sale processes.

1 Source: ‘European Banks’, Bloomberg/JP Morgan European Banks Equity Research, 23.09.08.
Market conditions are creating some new hurdles as well as opportunities

Despite the potential of the European NPL market, we should also sound a note of caution. Rapidly changing market conditions are throwing up challenges for buyers and sellers alike. In particular, we would highlight the following issues:

- **Scarcity of debt financing**: Lack of debt financing increases the amount of equity required in order to complete a purchase. As a result, investors' IRRs increase significantly, bid prices fall and large-scale NPL purchases are harder to achieve.

- **Historical collection data**: There is a lack of comprehensive data for modelling European markets' collection rates in a deep recessionary scenario. Historical data reflects the benign credit conditions of the last decade, not those of current markets.

- **Opportunity costs**: Investors' limited resources are making them more selective about which portfolios they bid for. The availability of suitable local accounting and legal due diligence teams can also affect investors' willingness to participate in a sale process.

- **Failing property values**: Despite some publicly available data, investors are unsure about the speed of property price falls in many markets. They are applying larger discounts to secured portfolios and treating sellers’ appraisals with more scepticism.

- **Legislation**: Politicians are under pressure to limit foreclosures. The UK government, for instance, has extended certain borrowers’ mortgage repayment periods. Such intervention creates uncertainty over the enforceability of loan agreements.

- **The courts**: Judicial attitudes have not recently been tested under recessionary conditions, giving rise to doubts about the legal value of sellers’ representations and warranties. Fear of legal delays means investors are seeking longer put-back periods.

- **Quality of information**: Investors are requiring more detailed information and larger-sampled data as part of their due diligence process. This reflects general market uncertainty and increasing risk aversion by investment committees.

- **Servicing**: The extent of loan servicing skills and capacity will determine whether investors partner with local servicers or develop their own platforms in each market. UK servicers are facing growing demand, but are finding collections more expensive and less successful than in recent years. Spanish servicers are also ramping up their collection capacity in anticipation of increasing demand.

Servicers are likely to seek greater scale in order to improve efficiency and raise capital for expansion. There may, therefore, be scope for consolidation in this niche area of financial services.

The challenges highlighted above can lead to price expectation gaps; this is currently a buyer’s market in terms of price and contractual terms. Nevertheless, we are certain that European NPL buyout markets will grow rapidly over the next 12 to 24 months. As well as the UK and Spain, we expect to see increasing activity in Ireland, Greece, Poland and the Czech Republic, where consumer lending grew rapidly between 2003 and 2007.
Does the industry need a new mindset?

Nigel Vooght, PricewaterhouseCoopers’s EMEA Financial Services Leader, talks to Nick Page about the future direction of M&A in the European financial services industry.

As Financial Services Leader for EMEA, Nigel Vooght is used to fielding questions about the impact of macro events on the financial sector.

So, when asked about the effect of the financial crisis on M&A in the industry, he responds immediately: “The key point is that it is still creating uncertainty, which is unhelpful for deal-making.” Government support for banks – while vital to systemic stability – has contributed to this febrile atmosphere. Since no one can be sure if further bailouts may be required, or what their impact may be on banks’ structures and strategies, he expects uncertainty to linger.

When questioned how financial services CEOs are responding to this environment, Nigel declares: “From a CEO’s point of view, there are tiers of priorities. The first and most pressing is fire fighting – ensuring the stability and continuity of the organisation”. In some cases, this has led to hastily arranged mergers and takeovers. The second tier involves ‘battening down the hatches against the coming storm’. In practice, that means cutting costs and operating as efficiently as possible. “The third consideration is making sure the organisation is using its capital efficiently. CEOs are asking which businesses they should expand and which they should scale back.”

This seems to be a reference to the divestment of non-core businesses – a key theme of 2008’s deal activity. Nigel agrees, but sounds a note of caution: “Divestment is a logical response to a shortage of capital, but it throws up real challenges for banking groups.”

First, he explains, some banks will find that the only businesses they can sell are those generating high quality cash flows. However, “these may not be the businesses they actually want to divest. That’s not strategy, it’s necessity.”

Second, large financial services groups are not always good at packaging up and selling businesses in a way that clearly identifies and manages value. Last, he stresses that, once a decision to divest has been taken, action needs to be taken quickly: “Better to offload something now than in six months’ time when your peers are all trying to do the same thing.”

What then is the outlook for M&A in financial services for the rest of 2009? Nigel believes that senior management teams need to formulate a long-term strategy in the current environment: “Boards and CEOs should start to think about where they want to be in the future and decide which businesses and markets they want to focus on.”

In Nigel’s view, the companies that emerge from the crisis as winners will be those that have assessed the altered market place and adapted their business models early: “M&A won’t be the only way to achieve this, but it will be a vital tool and I expect we may see deal activity begin to pick up in the second half of the year. I would also argue that boards should be putting together a list of potential targets, both to sell and to buy”.

Nigel Vooght
nigel.j.vooght@uk.pwc.com
Asked about the long term, Nigel is happy to give his predictions for how financial services M&A is likely to develop in the light of the past year’s events. In his view, the macro drivers of strategy and M&A have not changed. He points to two factors in particular: “Technological developments will continue to create new communities of customers and new ways for financial institutions to interact with them. And demographic changes will continue to shape the groups of people that financial services businesses wish to serve”. Nigel goes on to stress that companies will still aspire to operate at an efficient scale in their chosen markets, and that, if organisations can’t respond to those imperatives organically, then they will inevitably turn to M&A to supplement their development.

“Having said that,” he cautions, “things will not continue exactly as they were before. As business models change, patterns of M&A will change too.” He reiterates his view that the firms that use M&A most successfully will be those that create a strategic route map to guide them.

Returning to the subject of government intervention in the industry, what impact will the increasing role of the public sector have on the strategic themes we have discussed? “Having to justify sales or acquisitions to taxpayers and ministers will be a new challenge for many organisations,” answers Nigel. “In theory, it will be similar to getting the backing of institutional shareholders, but, in practice, it will feel very different.” Most importantly perhaps, there will be a shift of emphasis. “Government influence will encourage boards to aim for safety, stability and capital generation instead of top-line growth.” He also feels that governments could strengthen their support for national champions, with the goal of using them as tools of policy.

In conclusion, should we expect plenty of change? “Disruption always leads to change,” says Nigel. “Financial services groups need to have considered visions of the future, not just strategy by default. M&A will remain a vital means of turning those visions into reality.”

Boards and CEOs should start to think about where they want to be in the future and decide on which businesses and markets they want to focus.
The origins of the financial crisis provide clues about its probable medium-term impact on financial services M&A. Deleveraging, government intervention, more regulation and the growing power of Eastern investors will shape the future direction of European deal activity.

Much has been said about the scale of value destruction caused by the global financial crisis – the myriad catastrophic high-profile banking failures and financial losses amounting to trillions of euros. Nonetheless, it is the impact of the loss of trust and confidence in the financial system that will probably be the most lasting legacy of the crisis.

As a consequence of these massive failures, and in an effort to restore trust and confidence to prevent an economic depression, governments have intervened in the financial services sector on an unprecedented scale. For the first time, banking systems in the US, UK and some parts of Europe are effectively part-nationalised.

Imbalances, innovation and interconnectivity were the chief causes of the crisis

A fundamental cause of the crisis was the global economic imbalance brought about by chronic trade and budget deficits and low household saving rates among Western countries. In contrast, emerging countries with savings surpluses, such as China and the Gulf states, had been recycling their cash into bonds, shares and other tangible assets, as well as deposits with Western banks.

This created an abundance of liquidity that helped to fuel asset price bubbles, especially in property, and encouraged excessive personal consumption in the West. The abundance of cheap money also encouraged banks in the developed world to pursue financial innovations in the search for yield. The resultant creation of sometimes-opaque financial instruments ended up destroying value, owing to the poor understanding of risks on the part of many investors.

Furthermore, the interconnectivity of the global financial system and national economies meant that what started out as a sub-prime credit crisis in the US quickly turned into a full-blown global financial crisis that took many governments, regulators and market participants by surprise.

Looking forward – implications for M&A

Despite the recapitalisation of many major European banks by national governments, the reality is that confidence has not been restored to the financial system. Uncertainties persist and European governments have not ruled out a second wave of interventions. Indeed, in mid-January 2009 the UK government was forced to announce further capital injections into RBS and Lloyds Banking Group, in exchange for a further restructuring of the banks’ ownership.

In this environment, M&A prospects are difficult to assess, since the market as we know it is severely distorted. Financial services M&A players, such as financial institutions, private equity houses and even Sovereign Wealth Funds, have been understandably preoccupied by the day-to-day requirements of the crisis.

Of the forces that will shape the financial services environment in Europe in the coming years, the following four will have the greatest impact on M&A trends:

- deleveraging;
- government intervention;
- regulation; and
- the rise of the East.

Deleveraging will lead to the divestment of non-core assets as financial institutions refocus their business on areas of distinctive capabilities. This process may also result in financial institutions withdrawing from some geographical markets, such as Eastern Europe. In the short term, however, as we have seen, deleveraging has led to fewer funds being available for acquisitions.
Governments, particularly in the UK and some countries in Europe, now own large portions of the banking sector. At some point in the future, they will need to divest their interests to recover taxpayers' money. In the short run, however, governments may well find themselves forced to embark on further waves of bank recapitalisations – as has already proved to be the case in the UK.

**Regulation** will become more intense, intrusive and widespread. Regulators and governments will also be more likely to intervene in M&A transactions, with systemic safety their prime concern. The restoration of confidence and trust is likely to be a higher priority than the commercial or even competitive rationales of M&A transactions.

The East has so far been comparatively unaffected by the crisis, although Asian economies will suffer in the coming years from softer consumer demand in the developed world and weakening commodity prices. Nevertheless, Eastern economies have accumulated large amounts of foreign currency reserves, thanks to huge trade surpluses and – in some cases – recent high oil prices. This is likely to continue, even though hydrocarbon prices have fallen sharply since the middle of 2008.

Despite their recent losses on European financial assets and property, investors from China, the Middle East, and perhaps resource-rich European economies such as Russia, will continue to invest in Europe. They could emerge as buyers of non-core assets that European financial institutions are shedding (including those domiciled in their own territories) or even of government stakes in European banking sectors.

‘Prediction is always difficult, particularly about the future’

Attributed to Yogi Berra

---

2 Yogi Berra, one of the greatest players in the history of US baseball, is known for his pithy malapropisms.
Greater domestic focus, lower valuations and restructuring – financial services M&A themes

The twin drivers of domestic focus and lower activity prevailed in 2008 and will continue to do so in 2009

In 2008 the total value of deals was inflated by government investment. Without this, the total value of financial services M&A deals would have fallen by 65% (Figure 29).

This government activity meant that M&A in the sector was heavily biased towards banking, which reported €152 billion of deals against €11 billion in insurance. The consequence of government involvement was a significant shift to domestic deals, from the pattern of cross-border deals seen in recent years. When combined with the feedback that banking CEOs are reportedly less likely to enter new geographic markets this year than their counterparts in other industries1, it seems probable that 2009 and 2010 will continue the pattern of domestic deal activity.

The ongoing financial crisis and continuing economic uncertainty have dented deal confidence. Our survey showed that some 56% of respondents expect M&A in the sector to remain at the same level or to decrease in 2009.

Restructuring inspired M&A is expected, but who will be the buyers?

Whereas the last five years or more have had a heavy bias towards growth and expansion, the mantra for the next few years is likely to be restructuring. This is borne out by our survey of European Financial Services M&A practitioners; they expect government involvement in the European banking sector to be a constraint on M&A activity in the sector (Figure 30).

Nevertheless, the extent of government involvement through direct ownership, financing and guarantees in European banking is anticipated to be a catalyst for some strategic reprioritisation at many banks. 57% of our survey respondents expect M&A to be more active in the banking sector than in the insurance sector.

Another wave of emerging Europe banking M&A

The impact of the financial crisis on emerging Europe’s financial services landscape could be significant, due to the widespread ownership of regional banks and, to a lesser extent, insurance companies by Western European financial institutions, many of which have their own challenges. Although emerging Europe retains some growth characteristics and will no doubt recover more quickly than Western Europe, the reduced growth rates will have put pressure on the business plans that supported past acquisitions or investments in the region.

In our view, some of those institutions that recently expanded into the region and/or now have significant government ownership are likely to seek to adjust their emerging European interests. Consequently, as 2009 progresses, we may begin to see another wave of M&A in the region’s financial services sector that could last for a couple of years.

1 According to the Banking and Capital Markets summary of PricewaterhouseCoopers 12th annual Global CEO Survey (Jan 2009), only 12% of Banking CEOs plan to enter new geographic markets this year, as compared with 17% across all industries.
About PricewaterhouseCoopers M&A Advisory Services in the financial services sector

PricewaterhouseCoopers is a leading consulting and accounting adviser for M&A in the financial services sector. Through our Corporate Finance, Strategy, Structuring, Transaction Services, Valuation, Performance Improvement, Human Resource and Tax practices, we offer a full suite of M&A services.

The main areas of our services are:

- lead advisory corporate finance;
- deal structuring drawing on accounting, regulation and tax requirements;
- due diligence: business, financial, HR, operational, IT;
- post-merger integration: synergy assessments, planning and project management;
- valuations and fairness opinions; and
- human resources and pension scheme advice.

For details on any of the above services or if you have any other enquiries, please contact Nick Page: nick.r.page@uk.pwc.com

About this report

In addition to the named authors of articles, the main authors of, and editorial team for this report were Nick Page, a partner in PricewaterhouseCoopers (UK) Transaction Services-Financial Services team in London, and Iyobor Erbuomwan and Louise Christensen from the Transaction Services-Financial Services team in London. Other contributions were made by Andrew Mills of Insight Financial Research, Shikha Jain of PricewaterhouseCoopers (India) and Camilla Winlo of PricewaterhouseCoopers (UK).

Note on the survey of European Financial Services companies conducted for this study

Between November 2008 and January 2009, PricewaterhouseCoopers (UK) conducted an online survey of a sample of its European Financial Services clients, gathering their responses to key questions about the development of M&A activity over the coming year.

292 individuals located throughout Europe completed the survey. There was a spread of respondents from banking, insurance, fund management, private equity and other subsectors of financial services.