

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

This report aims to provide perspectives on the recent trends and future developments in the European Financial Services M&A market, including analysis of the latest transactions and insights into emerging investment opportunities.

May 2011



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€9.8bn

of private sector deals in the first quarter of 2011, up 75% on the previous quarter.

€8.5bn

of total deal value (87%) was generated through domestic transactions.

Welcome

to the second edition of Sharing Deal Insight for 2011.

The report aims to provide perspectives on the recent trends and future developments in the European financial services (FS) M&A market, including analysis of the latest transactions and insights into emerging investment opportunities.



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The opening quarter of the year saw a 15% rise in deal values from the first quarter of 2010. The transactions include a number of significant deals in Russia and Spain, along with the announcement of major further consolidation within the exchange sector. Deal activity looks set to gather pace in 2011 as restructuring continues and institutions across all sectors seek out opportunities for growth (see **'Data analysis'**).

With growth in most European economies continuing to be relatively subdued, being able to identify and concentrate capital and resources on areas of the business that can generate the best returns will be even more critical. The sharper focus on the core franchise is likely to spur greater divestment of non-core assets. The buyers are likely to include both financial investors and companies looking to strengthen their presence in a particular territory or market segment (see **'Sustaining profitable growth'**).

Banks are facing the prospect of higher capital requirements under Basel III and the withdrawal of special liquidity measures. The impact is likely to intensify the focus on what is core and what is non-core, and the resulting pressure for consolidation and divestment. A number of innovative structures are also set to emerge as institutions seek to reduce the

risks on their balance sheets and make the most efficient use of capital (see **'Government intervention spurs decade of change for banks'**).

Many private equity funds have greatly increased their dedicated FS deal teams as they look to capitalise on growing divestment and restructuring opportunities in the sector. Many of the smaller European savings' institutions, which have been badly affected by the economic downturn, may be particular targets for private equity and may in turn welcome private equity investment. Other opportunities include non-core loan portfolios, which have now reached €1.3 trillion across Europe according to newly published PwC research¹ (see **'Private equity sets sights on financial services'**).

We hope that you find this edition of Sharing Deal Insight interesting. Seeking out opportunities for growth, the impact of government intervention and the increasing interest of private equity funds are among the themes that will be explored further during PwC's M&A conference in London in May. Please do not hesitate to contact either of us or any of the article authors if you have any comments or questions.

¹ PwC media release, 13.04.11.

Data analysis

In terms of European financial services M&A, the first quarter of 2011 has taken up where 2010 left off. Deal activity remains slow but steady, with restructuring and consolidation in the banking sector continuing to be the major drivers of deal flow. Russian and Spanish markets have been particularly busy.

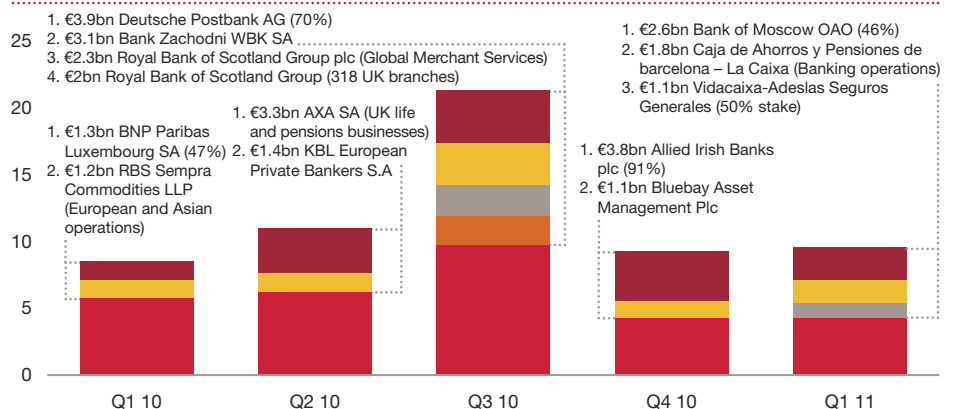


The value of European FS M&A activity during the first quarter of 2011 reached €9.8bn, 15% higher than the €8.6bn recorded in the first quarter of 2010 but only marginally more than the €9.5bn seen in the fourth quarter of 2010.² However, the virtual absence of government-led deals means that private sector M&A increased in value by 75% from the previous quarter's figure of €5.6bn, when the €3.8bn nationalisation of Allied Irish Banks was the quarter's largest transaction.

The quarter saw three deals valued at more than €1bn (see Figure 1). These were the acquisition of a controlling stake in Bank of Moscow by VTB Bank for €2.6bn, and two transactions related to the restructuring of Spanish savings bank La Caixa valued at €1.8bn and €1.1bn, respectively. We examine all three of these deals in more detail below.

Small and mid-market deal activity remains relatively subdued. The total value of announced deals worth less than €1bn fell slightly to €4.4bn from €4.5bn,

Figure 1: European FS M&A by value (€bn), Q1 2010 – Q1 2011

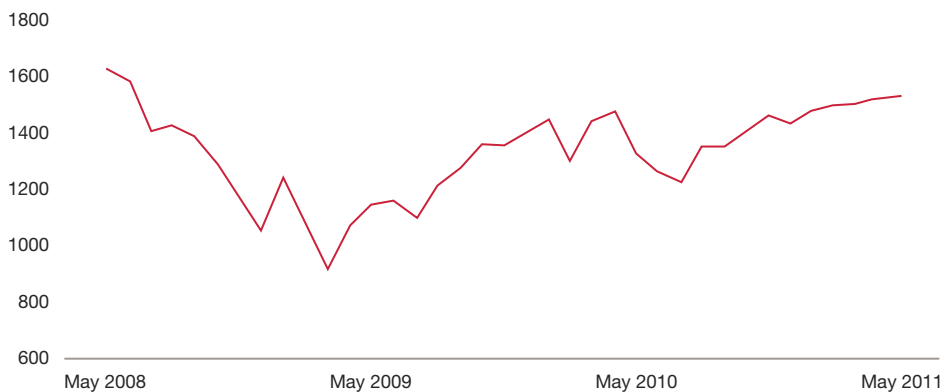


² Deal data is sourced from mergermarket, Reuters and Dealogic, unless otherwise specified. For details of our analysis methodology, please refer to the summary on page 17.

Source: PricewaterhouseCoopers analysis of mergermarket, Reuters and Dealogic data



Figure 2: FTSE Eurofirst 300 Index, May 2008 – May 2011



Source: PricewaterhouseCoopers analysis of mergermarket, Reuters and Dealogic data

and the total number of deals in our data set fell to 221, down from 253 and 391 during the two preceding quarters.

This is the fifth time in seven quarters that the total value of European FS M&A in our data set has not managed to exceed €10bn, despite European financial stocks having now enjoyed a two-year market recovery (see Figure 2). Equity markets are often seen as a good predictor of M&A, but so far in 2011, European activity has been relatively subdued compared to levels in North America,³ particularly in FS.

An analysis of European FS M&A shows that while asset management deal values declined quarter-on-quarter, activity involving banking, insurance and other FS targets increased slightly from the last quarter's levels (see Figure 3 overleaf). If the nationalisation of AIB were excluded from deal data for the last quarter of 2010, banking activity would appear to have grown much more strongly.

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³ 'US rediscovers appetite for M&A', Financial Times, 30.03.11.

Domestic deals continue to dominate European FS M&A, accounting for eight of the quarter's top ten deals and 87% of total deal value.

Domestic deals continue to dominate European FS M&A, accounting for eight of the quarter's top ten deals and 87% of total deal value, a further increase on the previous quarter's figure of 75% and the highest level for two years (see Figure 4). Deals involving Russian and Spanish targets reached €3.3bn – equivalent to 33% of the quarterly total – in each country.

The ten largest deals announced during the first quarter of 2011 (see Figure 5) point to the following strategic themes, especially when considered alongside other small and mid-market deals:

- **Domestic banking acquisitions.** This was particularly notable in Russia, where two state-controlled banks made significant acquisitions. VTB Bank acquired the City of Moscow's stake in Bank of Moscow for €2.6bn, a follow-up to its acquisition of TransCreditBank in December 2010. In a separate deal, Sberbank acquired Troika Dialog – Moscow's oldest brokerage firm – for €722m, with the aim of capturing a larger share of the Russian investment banking market.

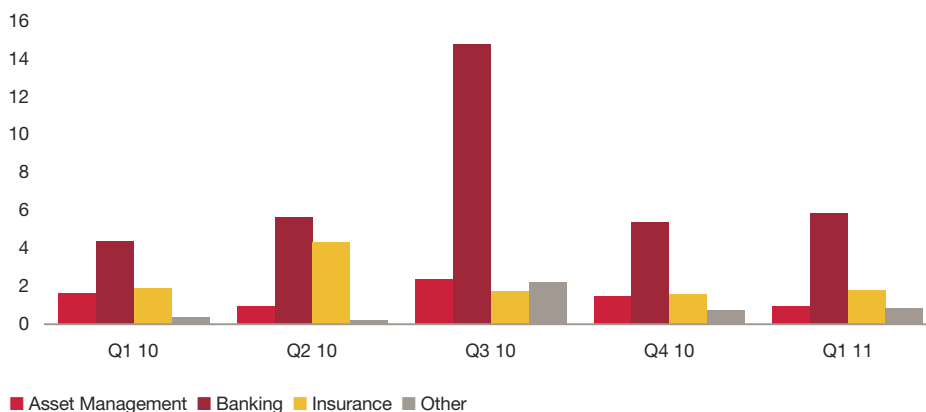
Beyond Russia, several other transactions were aimed at building domestic banking scale. Two notable deals in Belgium were Credit Agricole Belgium's purchase of commercial bank Centea from KBC (for €527m), and Bank J Van Breda's acquisition of Belgian rival Antwerps Beroepskrediet (€115m). The quarter also saw Sparekassen Faaborg of Denmark acquire local rival Svendborg for €56m.

- **Banking restructuring.** This was evident in several countries, including the above-mentioned sale of Centea, which released around €400m of capital for KBC. In Poland, Raiffeisen International of Austria acquired 70% of Greek bank EFG Eurobank's local operations for €490m, increasing its exposure to Polish retail banking growth. Although not reflected in our data set (which excludes rejected bids), National Bank of Greece's €2.9bn approach to local rival Alpha Bank was another sign of the potential for restructuring in the Greek banking market.

Despite these deals however, banking restructuring during the first quarter of 2011 was dominated by transactions in Spain. In particular, the complex internal restructuring of La Caixa generated significant activity. This process involves the transfer of La Caixa's banking operations into listed subsidiary Criteria in exchange for selected industrial holdings and the issuance of new capital, along with the renaming of Criteria as Caixabank and the creation of a new entity for non-core businesses and investments. In our data set, the internal transfer is valued at €1.8bn, based on the expected value of newly issued equity.⁴ La Caixa's internal restructuring was accompanied by the sale of 50% of insurance subsidiary VidaCaixa Adeslas Seguros Generales to Spanish motor insurer Mutua Madrilenia, for €1.1bn.

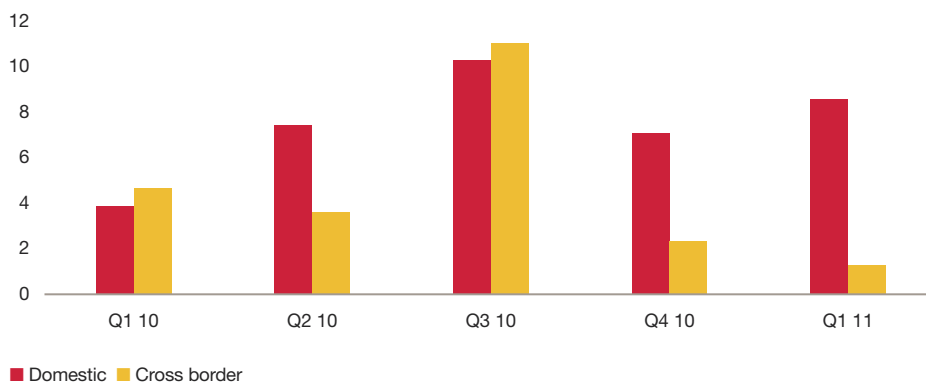
⁴ Data sourced from Dealogic. Some press reports have put a value of €9bn–€10bn on La Caixa's internal restructuring, based on the book value of an intra-group asset swap.

Figure 3: European FS M&A by value (€bn) by subsector, Q1 2010 – Q1 2011



Source: PricewaterhouseCoopers analysis of mergermarket, Reuters and Dealogic data

Figure 4: European FS M&A by value (€bn), domestic v. cross-border, Q1 2010 – Q1 2011



Source: PricewaterhouseCoopers analysis of mergermarket, Reuters and Dealogic data

Figure 5: Top 10 European FS M&A deals, Q1 2011

Month	Target company	Target country	Bidder company	Bidder country	Deal Value (€m)
Feb	Bank of Moscow (46%)	Russia	VTB Bank	Russia	2,557
Jan	La Caixa (Banking operations)	Spain	Criteria CaixaCorp	Spain	1,776
Jan	VidaCaixa Adeslas (50%)	Spain	Mutua Madrilená Automovilista	Spain	1,075
Mar	Troika Dialog	Russia	Sberbank	Russia	722
Mar	Centea	Belgium	Credit Agricole Belgium	Belgium	527
Feb	Polbank EFG (70%)	Poland	Raiffeisen International	Austria	490
Mar	Eurovida; Europensiones; Popular Gestion	Spain	Allianz Popular Holding	Spain	423
Jan	Gartmore Investment Management	UK	Henderson Group	UK	403
Mar	Saeki	Sweden	Investmentaktiebolaget Latour	Sweden	398
Jan	Towergate Partnership	UK	Advent International	USA	234
			Sub-total		8,605
			Other		1,217
			Grand total		9,822

Source: PricewaterhouseCoopers analysis of mergermarket, Reuters and Dealogic data

Beyond La Caixa, Spanish banking restructuring saw the launch of a life insurance and asset management joint venture between Banco Popular and Allianz, in a deal valued at €423m. The new entity combines two existing joint ventures between the two organisations, and adds Popular's Spanish asset management unit Popular Gestion. Lastly, several mergers between Spanish mutual savings banks were also announced during the quarter, although deal values were not disclosed.

- **Scale-building in asset management, asset servicing and insurance.** Asset managers generated several domestic transactions, most notably Henderson's acquisition of UK peer Gartmore for €403m and the purchase of Swedish firm Saeki by local rival Investmentaktiebolaget Latour for €398m. Several UK asset management deals with undisclosed deal values were also announced during the quarter, with Border Asset Management, Sterling McCall Wealth Management and Holistic Wealth Management all acquired by in-market rivals. The ongoing drive for scale in asset

servicing continued too, with Northern Trust's acquisition of Bank of Ireland's securities servicing business for €60m.

In addition to Mutua Madrilená's investment in VidaCaixa Adeslas, the quarter saw several mid-market transactions targeting insurers and insurance brokers. UK broker Towergate was the subject of a secondary private equity buyout by Advent International from Och-Ziff (for €234m), while Ageas also acquired a British broker (Castle Cover, for €61m) and a 31% stake in a Turkish insurer (Aksigorta, for €162m).

One major FS M&A trend that generated headlines during the first quarter of 2011 was consolidation among financial exchanges. Deutsche Borse's €9.1bn bid for NYSE Euronext, the counterbid from Nasdaq OMX and ICE, and London Stock Exchange's agreement to merge with TMX of Canada in a deal worth €2.3bn, do not feature in our data set as the targets are outside European markets. If completed however, both deals could have significant implications for European financial infrastructure.

In another interesting development, Chi-X, a UK-based equity multilateral trading facility (MTF), announced its acquisition by US competitor, BATS Global Markets. This transaction suggests that Chi-X and other MTFs are no more immune from market forces than the traditional stock exchanges that they challenge.

In summary, the first quarter of 2011 saw no significant improvement in total European FS deal values, but still generated a range of significant transactions. There is no question that banking restructuring remains the driving force behind M&A activity, but it is equally clear that willing buyers continue to emerge. We also take encouragement from the pick-up in private sector transactions and the continuing flow of deals in every sector of European FS. It remains to be seen whether European deal activity will match US levels in the coming quarters, but barring a fresh outbreak of equity market volatility we still believe that 2011 should be a year of M&A recovery.

Sustaining profitable growth

As growth in the developed markets slows and trade flows between emerging markets accelerate, how can Western European banks sustain growth?



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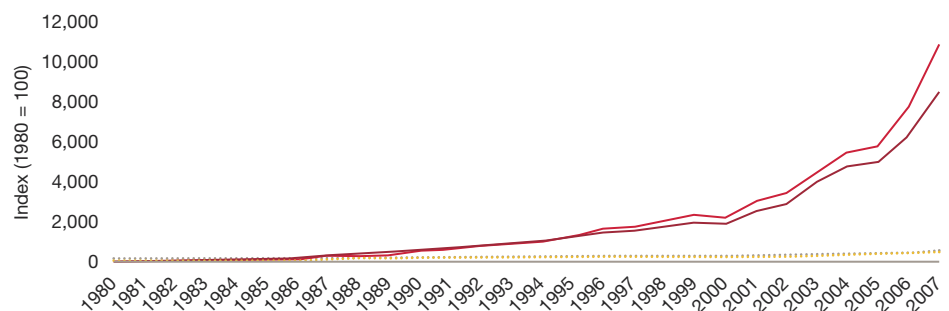


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The environment in which bankers have spent most, if not all, of their careers has changed. Most tellingly, having significantly outstripped expansion in GDP for nearly 30 years (see Figure 1), growth in the banking markets of Western Europe has stalled.

Any return to the consistently high levels of banking market growth seen during the pre-financial crisis era would appear unlikely and would certainly be difficult to sustain. Most Western European countries are currently struggling to sustain the momentum of economic recovery as they grapple with mounting fiscal pressures and fragile business and consumer confidence. The longer term picture is equally challenging as the slow growth in GDP looks set to continue and a combination of deleveraging, tighter regulation and higher capital charges constrain expansion in the developed banking market.

Figure 1: Bank assets versus nominal GDP, 1980–2007:

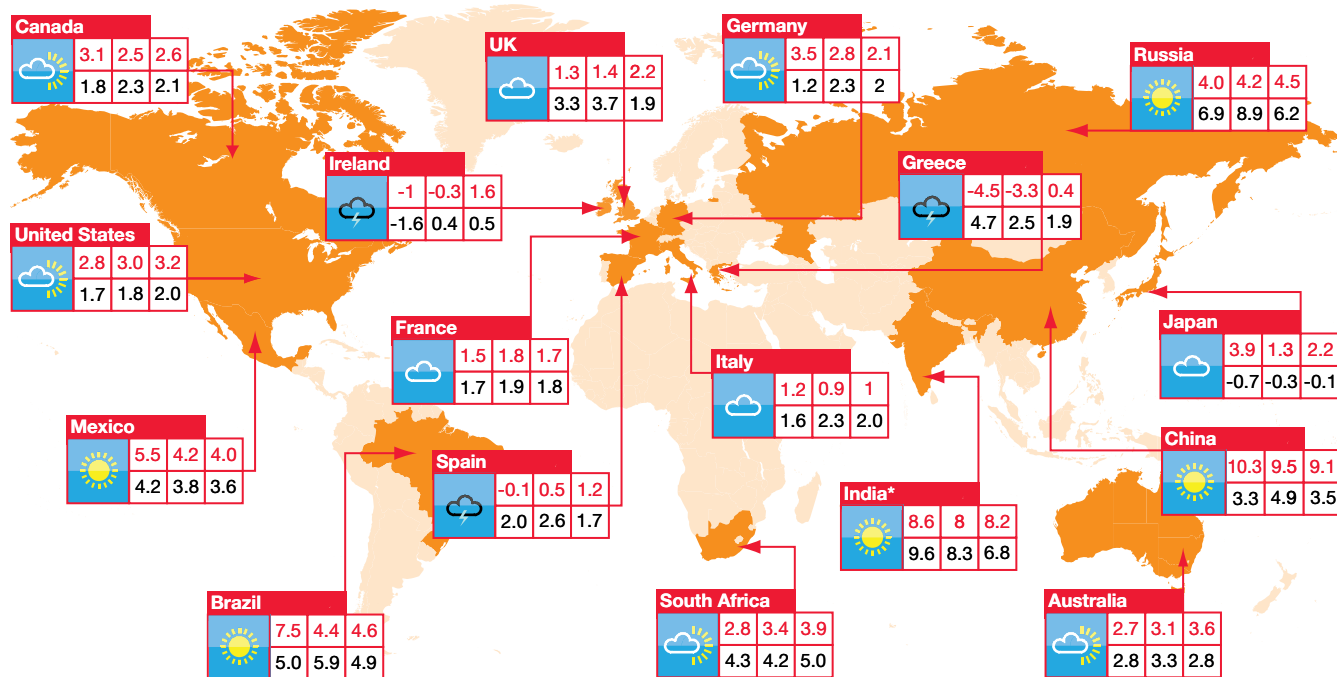


CAGR 1980–2007 — Bank assets – Europe (19%) — Bank assets – World (17.9%)
..... Nominal GDP – World (6.3%) Nominal GDP – Europe (5.9%)

Source: Datastream, IMF

Note: Bank asset indices are calculated based on total assets for listed banks only

Figure 2: Eurozone faces a tough two years, while emerging markets are expected to expand rapidly



Key	2010	2011'	2012'
Outlook	GDP growth		
	Consumer price inflation		

Source: PwC forecasts (f)

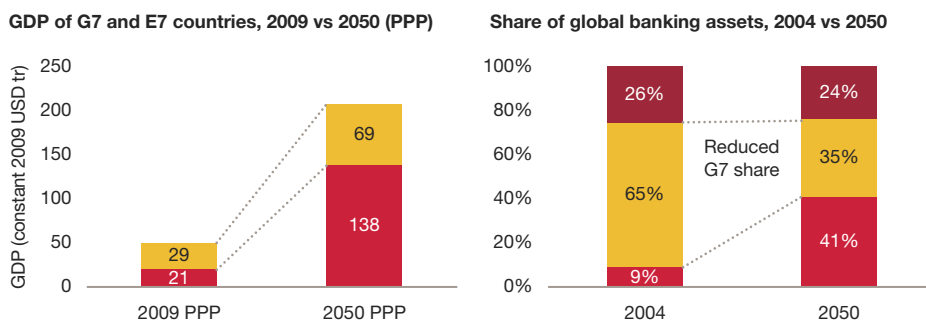
* Wholesale price index

The developments in and fortunes of the banking sector are likely to be much more closely tied to the wider economy in this new environment. Governments want banks to play a more active role in supporting domestic businesses and national interests as the price for their funding during the crisis (see 'Government intervention spurs decade of change for banks' on pages 12–13). Financial institutions will also have to contend with demographic change. In Germany, for example, the size of the most economically active 25–55 age group is expected to fall by nearly 30% over the next 40 years, which will have a considerable impact on investment patterns and the product mix of financial institutions.⁵

Multi-polar economy

While many Western European economies are not growing as fast as in the pre-crisis period, GDP growth in the world as a whole is now back to its average pre-crisis level of just over 3%.⁶ What has of course changed is that this growth is primarily focused on the emerging markets of South America, Africa, Asia and the Middle East (SAAAME) – see Figure 2.

Figure 3: E7 outstrips G7



CAGR 2009–2050 ■ G7 (2.1%) ■ E7 (4.7%)
 Source: PwC – The World in 2050 (Published Jan 2011) Source: PwC – Banking in 2050 (Published 2007)
 Note: E7 = Brazil, Russia, India, China, Indonesia, Mexico and Turkey. G7 = Canada, France, Germany, Italy, Japan, UK and USA

Looking ahead, our latest analysis anticipates that the GDP of the largest emerging economies ('E7') will overtake the current G7 economies by 2020 (see Figure 3), and China may also have surpassed the US at the end of the last decade. This shift in the focus of economic growth will be reflected in the relative share of the global banking assets.

5 US Census Bureau, May 2010.

6 WTO and PwC analysis, April 2011.

Looking ahead, our latest analysis anticipates that the GDP of the largest emerging economies ('E7') will overtake the current G7 economies by 2020, and China may also have surpassed the US at the end of the decade.

The crucial feature of the development of the SAAAME economies is not so much how fast they're expanding, but the connectivity between them as the new industrial powers, China in particular, look to secure direct access to key raw materials. As Figure 4 highlights, emerging-to-emerging market trade flows are expanding much faster than developed-to-emerging market business. As a growing amount of global commerce and investment bypasses the West altogether, G7 banks could be increasingly left out of the loop. Notable recent examples include Foxconn, the Taiwanese maker of components for iPhones and iPads, which is considering a €8.5 billion investment in Brazil.⁷

Faced with subdued growth at home, many Western European banks are looking to strengthen their presence in the SAAAME markets. Yet regulation and

local competition could make it more difficult for foreign banks to penetrate some of these markets. Western European banks could also find themselves on the defensive in their home markets as E7 banks look to expand overseas – the world's two largest banks are Chinese.⁸ An important underlying development is the changing balance of capital as sovereign wealth funds, many of them based within the SAAAME, become an increasingly important investor in the banking sector.

From ubiquity to precision

As growth in domestic markets slows and competition for the remaining business increases, banks are likely to find it increasingly difficult to be all things to all people ('ubiquity'). Successful groups are therefore likely to be much more ruthless in focusing on and optimising their core relationships and sources of value ('precision'). We are already seeing sharper customer segmentation, greater discipline in deploying resources and withdrawal from markets that offer little prospect of delivering an economic return. This is underpinned by a better understanding of component costs and real returns.

Consolidation within the Western European banking markets is set to increase as banks seek to build scale and

Figure 4: Evolving trade flows

	Value of trade (2005)	Share of trade (2005)	Value of trade (2009)	Share of trade (2009)	CAGR (2005–2009)
Developed to developed	\$5,180bn	51%	\$5,500bn	46%	1.5%
Emerging to developed	\$1,982bn	20%	\$2,302bn	19%	3.8%
Developed to emerging	\$1,360bn	13%	\$1,789bn	15%	7.1%
Emerging to emerging	\$1,577bn	16%	\$2,387bn	20%	10.9%

Source: WTO, PwC analysis

Note: Developed countries include North America, Europe (includes 27 EU and Eastern European countries), Japan, Australia and New Zealand. Emerging countries include South and Central America, the CIS, Africa, the Middle East and Asia (excluding Japan, Australia and New Zealand)

⁷ Reuters, 13.04.11.

⁸ Datastream, 29.09.10.



strengthen their core franchise. The sellers are likely to include institutions that have chosen to concentrate on other territories or competencies.

Finding ways to develop business within the SAAAME – tapping into emerging-to-emerging market trade flows in particular – will also be crucial in sustaining profitability. In the face of increasing takeover prices and regulatory barriers to acquisition within a number of emerging markets, joint ventures with local partners on the ground will continue to predominate.

Innovation will be important in cutting costs and improving service. Rather than making huge investments up front, many banks are likely to work in partnership with technology providers as part of what have come to be known as ‘co-opetition’ models (combining competition and co-operation). Co-opetition with systems’ companies or even other banks will also be important for G7 banks in providing services that may be unprofitable or outside the core franchise, but would still be required because of the need to maintain a commercial relationship or meet government expectations.

Editorial eye

The banking sector in Western Europe is undergoing fundamental change. Sustaining profitable growth is going to be more challenging for some institutions. However, for agile and forward-thinking institutions this will remain one of the most profitable sectors of the economy, though the key sources of profitability may be very different. Acquisition and divestment will be crucial in enabling banks to focus their capital and talent on areas of their business that offer the best potential for differentiation and maximising returns. As Western European banks look to develop their business internationally, it will also be important to follow the changing global trading patterns, much of which are beyond the Western orbit and therefore largely untapped by developed market banks.

Andrew Dawson and Andrew S. Nevin PhD lead PwC’s Project Blue, which assesses the economic, environmental and demographic trends shaping the banking sector and the prospects for future profitability and growth.

Government intervention spurs decade of change for banks

The UK Government is seeking to strengthen the long-term stability of the banking sector through a series of far-reaching regulatory changes, which are designed to limit the risk of a bank failure and remove the implicit taxpayer support for institutions. These interventions could provide a much stronger catalyst for structural change in the UK banking industry than the financial crisis itself.



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Stability has largely returned to the UK banking sector. Loan losses are falling and profits returning, although banks' return on equity (RoE) is still significantly lower than before the financial crisis. There has also been a reduction of risk concentrations in trading areas, as well as broader steps to strengthen balance sheet management. However, there has actually been far less of a structural shake-up and the deal activity that would be associated with this than some might have expected, given the scale of the difficulties faced by many banks.

There are a number of reasons why deal activity has remained subdued. Emergency arrangements including the special liquidity scheme (SLS) have provided banks with a source of funding that would not otherwise have been available over the last two years. The Government aid for the banks worst affected by the crisis also confirmed the implicit guarantee of support to other systemically important banks. In relation to non-performing loans, defaults have been contained by the low interest rate environment, which has not only improved affordability, but also boosted asset values.

From macro- to micro-intervention

This equilibrium is about to shift. The Bank of England is committed to the withdrawal of SLS.⁹ This will eventually be followed by the sale of state-owned holdings.¹⁰ So the macro-interventions to support the banking sector through the crisis are set to give way to more micro-interventions to bolster the industry's long-term stability. If enacted, the proposals set out in the interim report of the Independent Commission on Banking (ICB) will ring-fence the retail activities of systemically important institutions. While falling short of recommending full separation of retail and investment banks, this may spur some 'universal banks' to reappraise their core focus. Greater portability of accounts, which is designed to promote competition, may also effect the stability of deposits as a source of funding and require different matching of assets and loan portfolios.

⁹ Bank of England Financial Stability Report, December 2010.

¹⁰ Bank of England Financial Stability Report, December 2010.



Reshaping the sector

The combined effect of these structural measures will be a quickening in the pace of change within the industry. As funding and capital becomes more costly and constrained, banks will face pressing choices about what risks to retain and where their limited financial resources should be deployed. As discussed in the Sustaining profitable growth article, this could be characterised as a move from ubiquity to precision. Restricted financial resources will sharpen the focus on what is core and where the business can exert the greatest competitive advantages. In making these choices, some banks will choose to exit non-strategic markets, leading to a significant increase in divestment on the one hand and acquisitions to strengthen the core franchises on the other. The impetus to offload non-performing and non-core loans will also increase – the UK accounts for a significant proportion of the some €1.3 trillion in non-core and €800 billion in non-performing loans across Europe.¹¹

There will also be opportunities. As lower performing assets are relinquished and banks focus more closely on their core strengths, these institutions will be seeking growth once again. Indeed, those banks that can restore balance sheet

strength the quickest will be in a position to seek acquisitions from those institutions still undergoing restructuring. As we explore in 'Private equity sets sights on FS' (see page 14), financial investors will also be looking to capitalise on this divestment and restructuring. In turn, we could see life insurers seeking to acquire exposure to the longer term risk of mortgage books to match long duration liabilities. Specialist consolidators might also look to step in to buy mortgage books in the same way as they have sought to acquire discontinued life insurance business. Innovation may also play an important role in enabling banks to reduce their risk-weighted assets through forms of insurance sheltering. Other

opportunities include mechanisms that allow institutions to demonstrate a limit on the downside exposure of a book of business, without crystallising an accounting loss.

As regulatory reforms are implemented banks should be more able to fail without triggering a broader financial crisis (through their recovery and resolution plans – 'living wills'). This means that, in future, governments will press for more restructuring of vulnerable banks, rather than providing direct support.

Editorial eye

As government intervention moves from emergency support to strategic intervention, banks will face pressure to restructure balance sheets and tighten the focus of their business. Acquisition and divestment will be crucial tools in enabling banks to reduce capital charges, enhance liquidity and concentrate on their most profitable business.

¹¹ PwC media release, 13.04.11.

Private equity sets sights on financial services

Many private equity funds have greatly increased their dedicated financial services (FS) deal teams as they look to capitalise on growing divestment and restructuring opportunities in the sector. What areas of FS are likely to be particularly attractive to private equity? How can FS organisations make the most of this investment potential?



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In the years leading up to the global financial crisis, private equity investment within the European FS sector was relatively limited compared to highly targeted sectors such as retail. Many private equity funds were wary of the complex compliance demands within the FS industry or reluctant to tie up funds over the long-term to meet regulatory capital requirements. These requirements also made it difficult to acquire a capital-regulated company through a leveraged buyout.

However, a number of private equity funds had always maintained a close focus on FS and interest among the private equity community as a whole had been steadily increasing before the financial crisis. As the FS sector undergoes fundamental restructuring in the wake of the crisis, it is rapidly moving to the centre of the private equity radar.

It is well known that investors made good returns on their investments (over 100% in just a few years in some cases) from buying, restructuring and selling on banks that had been stricken by the 1997 Asian financial crisis.¹² With many European banks currently weighed down by bad debts and struggling to raise enough capital to meet higher regulatory

requirements, there are some parallels with certain Asian institutions following the 1997 crisis. The openings for private equity investment in the European FS industry have been bolstered by the growing range of takeover targets on offer and general fall in acquisition prices since the global financial crisis.

Targeting mutuals

Many of the smaller European savings institutions that have been badly affected by the economic downturn may be particular targets for private equity and may in turn welcome private equity investment. These include the cajas in Spain, German landesbanks and building societies in the UK. Pressure for consolidation has been building in these relatively fragmented market segments. Being mutual institutions, the cajas and building societies may also find it more difficult to raise more capital from their members and may therefore be more open to private equity investment.

In 2010, JC Flowers, one of the private equity funds that had been an active investor in Asia following the 1997 crisis, acquired a 40% stake in the UK building society, Kent Reliance, subsequently renamed OneSavings Bank.¹³ Market reports suggest this may be the platform

¹² Entering the South Korea Financial Services Market, published by PwC, 09.05.08.

¹³ Kent Reliance media release, 31.01.11.



for the creation of a 'supermutual' through the acquisition of other building societies, with shares jointly owned by members and JC Flowers.¹⁴ In Spain, market reports suggest that up to a dozen private equity funds are interested in investing in cajas.¹⁵

Other relatively fragmented sectors that could attract further private equity interest include private banking. The 2010 merger between the wealth management business of the Quilvest, a listed investment company active in private equity, and Luxembourg-based private bank Compagnie de Banque Privée (CBP) is an especially interesting development.¹⁶ Bringing the businesses together has created significant cross-selling opportunities. For CBP clients, this includes access to an increased range of alternative investments via Quilvest. For the Quilvest Group, the deal provides an introduction to CBP's key client base of entrepreneurs, who may be seeking further investment or looking to sell their business.

Divested assets

The divestment of non-core assets is opening up further avenues for private equity investment. One of the largest deals in the European FS sector in 2010

was Advent International and Bain Capital's €2.3 billion acquisition of WorldPay, the card payment services provider, from RBS.¹⁷ As a highly cash generative business, WorldPay was especially suited to a leveraged buyout. With no direct insurance or banking liabilities, a service business such as WorldPay would also be especially attractive to a private equity fund as the regulatory capital requirements are relatively limited.

RBS' insurance division,¹⁸ which brings together some of the UK's leading brands including Churchill and Direct Line, would be expected to attract private equity interest if it were offered for sale rather than IPO. Private equity's appetite for insurance investment was highlighted by the takeover of Brit Insurance by Achilles, a private equity consortium formed by Apollo Global Management and CVC Capital Partners.¹⁹

The other key area of private equity focus is loan sales, with a number of firms known to have set up dedicated funds to explore the opportunities. A survey carried out by PwC highlighted the increasing interest, with Ireland joining Spain, Germany and UK as a key target market.²⁰

Other relatively fragmented sectors that could attract further private equity interest include private banking.

14 Observer, 24.10.10.

15 RTE News, 26.01.11.

16 CBP media release, 09.12.10.

17 Advent International media release, 06.08.10.

18 RBS General Meeting Statement, 15.12.09.

19 Offer Document and Position Statement, published by Brit Insurance on 23.11.10.

20 PwC European Investor Survey, 14.04.11.

The heightened level of interest from a range of private equity funds is likely to increase competition for key targets and may affect prices.

Deal considerations

The heightened level of interest from a range of private equity funds is likely to increase competition for key targets and may affect prices.

In turn, institutions seeking to attract private equity investment will need to take account of the fact that private equity funds will have differing requirements to a typical strategic investor. The private equity fund is therefore likely to scrutinise the risks, returns, accounting and regulatory factors associated with the deal in a different way. Being able to provide the information and support to accommodate this level of rigour will be crucial in successfully negotiating and completing the deal.

Careful evaluation of the true cost base of the operation being prepared for sale and the practical challenges of separation will also be critical in attracting private equity interest and maximising competitive tension in any bidding process. As many of the support functions may be provided by shared services units, sellers may not know the true standalone costs. They may over or underestimate the operational expenses as the corporate services allocated to the operation may not be what are actually required following the divestment. This could potentially result in lower proceeds for a seller than could have been the case if proper separation planning had occurred. For buyers, identifying the differential may provide them with an opportunity to come in with a more competitive bid while still ensuring a good return from the deal.

Editorial eye

Private equity funds are targeting European FS more than ever before, providing fresh momentum for deal activity within the sector and opening up valuable new opportunities for companies seeking investment. Greater interaction between private equity and FS will create challenges for both parties. In turn, FS businesses will need to take account of the particular risk, reward and deal execution perspectives and approaches within private equity.

Methodology



The 'Data analysis' section in this issue includes FS deals:

- Reported by mergermarket, Reuters and Dealogic;
- Announced during the first quarter of 2011, and expected to complete;
- Involving the acquisition of a >30% stake (or significant stake giving effective control to the acquirer);
- Acquisitions of Europe-based FS targets where a deal value has been publicly disclosed.

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

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