

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

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

February 2012



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**€38bn**

*of European financial services deals in 2011*

**€16bn**

*of European financial services deals in the  
final quarter of 2011*

# Welcome to the first edition of Sharing deal insight for 2012.

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



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In this edition, we look at what the mixed picture we have seen in the M&A market in recent months tells us about what to expect in the year ahead. The year 2012 will continue to see strong strategic impetus for deal activity and significant opportunities coming up for sale on the one side, and the potential constraints of market uncertainty on the other. The big question is which of these conflicting forces will win out.

It is notable that 2011 ended with a flurry of financial services transactions, bucking the downward trend seen in other industries. As we anticipated in the previous edition of Sharing deal insight, the sovereign debt crisis is proving to be a strong catalyst for deal activity, both defensive and opportunistic. The nationalisation of Dexia Bank Belgium was quickly followed by the sale of its Luxembourg-based private banking arm

to Precision Capital, a Qatari-backed investment group.<sup>1</sup> The list of major deals in the final quarter of 2011 also included further consolidation in Spain (Banco Popular's acquisition of Banco Pastor) and the return of a nationalised bank to the private sector in the UK (Virgin Money's acquisition of Northern Rock).

Banks will be looking to divest more of their non-core operations in 2012. Notable areas of speculation include the possible sale of Dexia Bank's Turkish subsidiary, DenizBank,<sup>2</sup> a significant opportunity in the fast growing Turkish market. The pressure to restructure and divest will be heightened by new capital demands coming into force in 2012.<sup>3</sup> A number of groups that have received state support also face fast approaching deadlines for selling operations earmarked by the European Commission.

While banking deals have made up the lion's share of recent activity, the move to divest non-core holdings can also be seen in Old Mutual's sale of Skandia's operations in Sweden, Norway and Denmark. Subdued demand and pressure on costs are likely to spur further divestment and consolidation in this still largely fragmented sector.

How quickly and how strongly this impetus for deal activity comes to bear in 2012, clearly depends on the level of uncertainty in the market. Our annual CEO survey highlighted the extent to which a volatile and uncertain economic environment is holding back investment

within the financial services sector'.<sup>4</sup> Yet, the survey findings also highlight the risks of standing still in a financial services market whose transformation is likely to have been accelerated by the sovereign debt and wider financial crisis. European financial services businesses face the challenges of how to adapt to closer government control, shifts in demand and demographics, and the impact of technology on customer expectations and the way products and services are sold. While immediate economic and regulatory concerns will continue to dominate the agenda in 2012, forward-looking businesses are also going to be using acquisition to position themselves for the changing industry landscape ahead. As a result, the M&A market in 2012 may prove to be a lot more interesting than many might expect.

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

1 Dexia SA media release, 20.12.11

2 Wall Street Journal, 02.11.11

3 EBA media release, 26.10.11

4 PwC's 15th Annual Global CEO Survey, published on 25.01.12

# Data analysis

*This edition of Sharing deal insight reveals an imbalanced picture. Data for the full year shows that 2011 was the quietest year for European financial services M&A since this publication first appeared in 2003. In contrast, the fourth quarter of 2011 saw a burst of deal activity, making it one of the busiest quarters since the end of 2008. Several high-profile deals announced during the fourth quarter also suggest the potential for stronger financial services M&A during the first half of 2012. Even so, given the current unpredictability of financial markets, it is too early to say whether this is the start of a new wave of restructuring in the industry.*



## **2011 was the quietest year for European financial services M&A since 2003**

After a year of relative calm in 2010, many commentators expected 2011 to be a busy year of restructuring in the European financial services industry. In fact, a modest start in the first quarter of the year (€9.8bn of deals) was followed by the deepening of the eurozone crisis and growing macroeconomic uncertainty. This confounded most companies' attempts at planning, and deal values declined rapidly during the second (€6.7bn) and third quarters (€5.0bn) of the year.

Despite a marked recovery in deal values during the final quarter of 2011 – which we discuss in the next section – 2011 was therefore the quietest year for European financial services M&A since this publication first appeared in 2003. The year's total figure for announced deals with disclosed values declined by 25% from €50.3bn in 2010 to just €37.9bn (see Figure 1). Government-led transactions played a comparatively small role, accounting for 12% of total values

and highlighting the fact that the decline in M&A reflected weak deal appetite in the private sector.

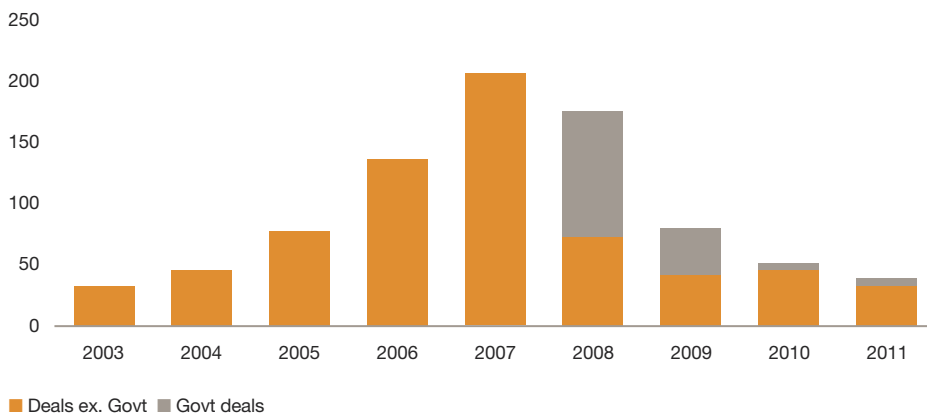
A breakdown of the year's deals by subsector shows that, despite declining, banking transactions retained their habitual dominance (see Figure 2). The comparative stability of the insurance industry was reflected in a fourth consecutive year of steady but subdued deal activity. Despite widespread expectations of disposals by European banks, the total value of asset management M&A fell to its lowest level since 2006.

# 25%

**The year's total figure for announced deals with disclosed values declined by 25%**

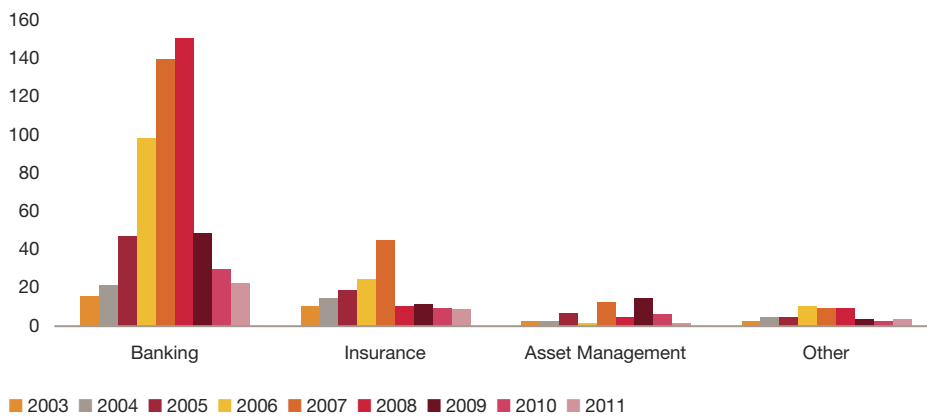


**Figure 1: European FS M&A by value (€bn), 2003–2011**



Source: PwC analysis of mergermarket, Reuters and Dealogic data

**Figure 2: European FS M&A by value (€bn), analysed by subsector, 2003–2011**



Source: PwC analysis of mergermarket, Reuters and Dealogic data

The Top 20 deals of 2011 further illustrate the importance of banking M&A during the year (see Figure 3 overleaf). Restructuring by banking groups – often under financial pressure – and the acquisition of weakened banks, accounted for no fewer than 14 of the year’s 20 largest deals. The largest banking deals were concentrated in Russia, Spain, Ireland, Benelux and the UK. Most of these were domestic transactions, but Safra, Wells Fargo, Western Union and Sberbank also announced cross-border acquisitions during the year.

Insurance is represented by three deals aimed at building scale and diversification, two of which involved Swedish targets. The list is completed by one large private equity deal (Carlyle’s acquisition of the RAC), one payments-focused transaction (Western Union’s purchase of part of Travelex) and Deutsche Borse’s buyout of Eurex, its joint venture with Swiss rival SIX. As discussed, asset management deals are notably absent.

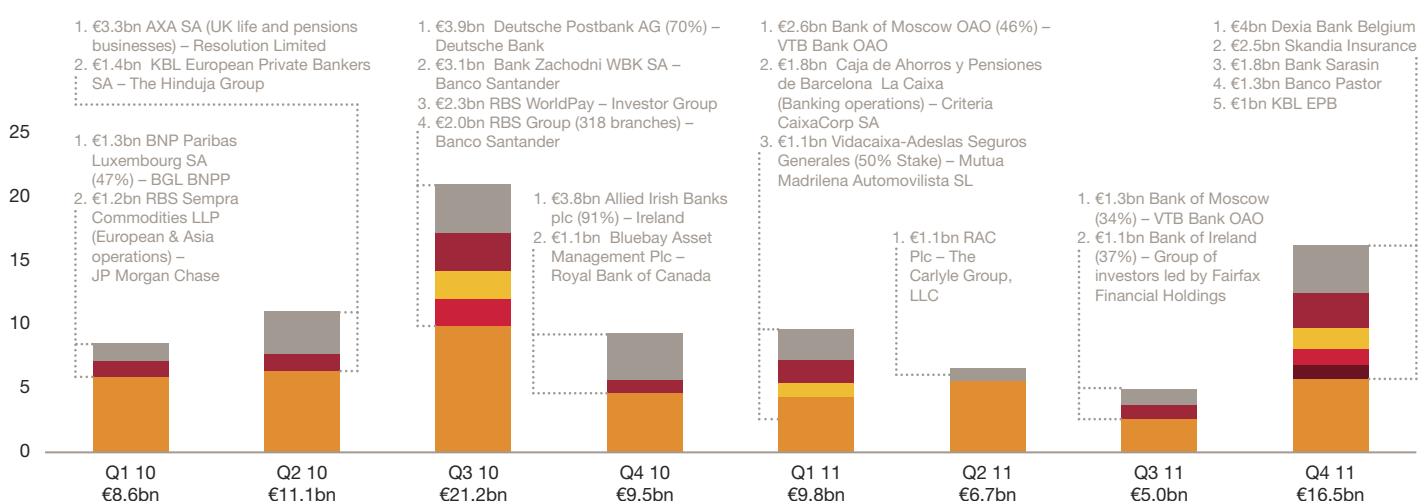


**Figure 3: Top 20 European FS deals by value, 2011**

Month	Target company	Target country	Bidder company	Bidder country	Deal value (€m)
Oct	Dexia Bank Belgium	Belgium	SFPI (Belgian govt. vehicle)	Belgium	4,000
Feb	Bank of Moscow (46%)	Russia	VTB Bank	Russia	2,557
Dec	Skandia Insurance Co	Sweden	Skandia Liv	Sweden	2,473
Nov	Bank Sarasin & Co	Switzerland	Grupo Safra	Brazil	1,787
Jan	La Caixa (Banking operations)	Spain	Criteria CaixaCorp	Spain	1,776
Oct	Banco Pastor	Spain	Banco Popular Espanol	Spain	1,349
Sep	Bank of Moscow (34%)	Russia	VTB Bank	Russia	1,275
Jun	RAC	UK	The Carlyle Group	USA	1,123
Jul	Bank of Ireland (37%)	Ireland	Investors led by Fairfax Financial Holdings	Ireland	1,120
Jan	VidaCaixa Adeslas (50%)	Spain	Mutua Madrilenia Automovilista	Spain	1,075
Oct	KBL European Private Bankers	Luxembourg	Precision Capital	Luxembourg	1,000
Nov	Northern Rock	UK	Virgin Money Holdings	UK	931
Dec	Dexia Banque Internationale	Luxembourg	Precision Capital	Luxembourg	730
Mar	Troika Dialog	Russia	Sberbank	Russia	722
Dec	Burdale Financial Holdings	UK	Wells Fargo Bank	USA	690
Apr	TransCredit Bank	Russia	VTB Bank	Russia	676
Jul	Travelex UK (Global Business Payments)	UK	Western Union	USA	670
Jun	Findomestic Banca	Italy	BNP Paribas	France	629
Oct	Lansforsakringar Fondliv	Sweden	Lansforsakringar AB	Sweden	595
Jun	Eurex Zurich	Switzerland	Deutsche Borse	Germany	590
Sep	Volksbank International	Austria	Sberbank	Russia	585
			<b>Sub-total</b>		<b>26,353</b>
			Other		11,563
			<b>Grand total</b>		<b>37,916</b>

Source: PwC analysis of mergermarket, Reuters and Dealogic data

**Figure 4: European FS M&A by value (€bn), Q1 2010–Q4 2011**



Source: PwC analysis of mergermarket, Reuters and Dealogic data

### The final quarter of 2011 saw a marked recovery in financial services M&A

A quick scan of 2011's Top 20 table shows that nine of the year's largest European financial services transactions took place during the fourth quarter of the year. The last three months of 2011 saw a sudden jump in the total value of deal activity to €16.5bn, the strongest figure since the third quarter of 2010 (see Figure 4). This represents a quarter-on-quarter increase of 330% (from €5.0bn) and an improvement of 74% compared with the final quarter of 2010, when total deal values were €9.5bn. The quarterly growth in financial services deal values was all the more remarkable, given an overall decline of 41% in Europe-wide M&A across all industries during the last three months of 2011.<sup>5</sup>

Financial services deal values in the fourth quarter received a boost from the nationalisation of Dexia's Belgian banking operations at a cost of €4bn, the first large government-led deal since the nationalisation of Allied Irish Banks in December 2010. However, the quarter also saw a marked acceleration in the value of small and mid-market deals. The total value of announced M&A transactions priced below €1bn more than doubled, from €2.6bn in the third quarter to €5.9bn.

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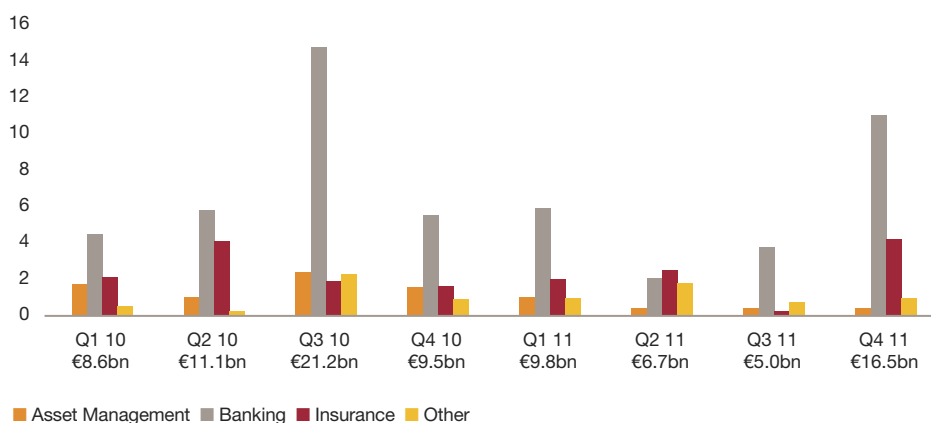
In addition to the nationalisation of Dexia Bank Belgium, the fourth quarter saw the announcement of four other deals valued at €1bn or more. These were:

- Old Mutual's sale of Skandia's operations in Sweden, Norway and Denmark to Skandia Life for €2.5bn. This is a reverse takeover by Skandia Life, which had retained its mutual ownership structure despite having come under the control of Old Mutual in 2005. The deal is in line with Old Mutual's strategy of non-core divestment. It was 2011's largest European insurance transaction, and accounted for a notable quarter-on-quarter jump in insurance deal values (see Figure 5 overleaf). Separately, Old Mutual announced the sale of Skandia's Finnish arm to local insurer Op-Pohjola for an undisclosed sum.
- Grupo Safra's acquisition of Rabobank's majority stake in private Swiss bank Sarasin for €1.8bn. Rabobank had been looking to sell Sarasin for some time, but was under no pressure to do so quickly. Brazilian–Swiss private bank Safra's offer was reported to have been chosen over that of Swiss rival Julius Baer.<sup>6</sup>
- Banco Popular Espanol's €1.3bn acquisition of Banco Pastor. This was a deal notable not only for its size, but also because it represents a step towards further consolidation among Spain's private sector banks. Much of the focus of Spanish banking M&A during the past two years has been on the mutually owned Cajas, which have merged rapidly in response to capital and liquidity problems.
- Precision Capital's €1bn acquisition of KBC's Luxembourg-based private banking arm, KBL European Private Bankers. Precision is a Luxembourg vehicle backed by the ruling family of Qatar. In another Top 10 deal, Precision also acquired Dexia's Luxembourg private banking business for €730m during the quarter, but it is not clear whether it plans to operate these two businesses jointly.

<sup>5</sup> 'Collapse in M&A amid debt turbulence', Financial Times, 21.12.11

<sup>6</sup> 'Safra buys Sarasin stake', Thomson Reuters, 25.11.11

**Figure 5: European FS M&A by value (€bn), analysed by subsector, Q1 2010–Q4 2011**



Source: PwC analysis of mergermarket, Reuters and Dealogic data

**€244m**

*The highest profile private equity transaction saw financial services specialist J C Flowers acquire Belgian insurer Fidea from the KBC Group for €244m.*

The fourth quarter's Top 10 financial services deals (see Figure 6) were completed by some interesting mid-market transactions. Once again, banking restructuring was at work, with the UK Government selling Northern Rock to Virgin Money for €931m. Bank of Ireland also sold its UK asset finance business Burdale to Wells Fargo for €690m, in a comparatively rare overseas deal intended to strengthen Wells' international commercial finance capabilities.

The theme of Nordic insurance consolidation was also reinforced, with Swedish general insurer Lansforsakringar acquiring its unit-linked counterpart Lansforsakringar Fondliv for €595m. Finally, the London Stock Exchange purchased the remaining 50% in index compiler FTSE International for €533m, its largest deal since buying Borsa Italiana in 2007. Many of the LSE's larger international rivals also own index businesses.

Looking beyond the ten largest deals, there were a number of themes at work in the quarter's financial services transactions. We note four in particular:

- **Steady flow of non-core disposals:** Large banking and insurance groups continue to dispose of subscale and other non-core units that lie outside

their main markets, or business lines. Some of these disposals were made by distressed institutions, but many continue to reflect a drive for greater strategic focus. Aviva's recent decision to sell its life insurance operations in Hungary, Romania and the Czech Republic to MetLife is an example of just such a deal.<sup>7</sup> International groups announcing non-core disposals during the last quarter of 2011 included Ageas (formerly Fortis), Allied Irish Banks, AXA, Banco Popular, Barclays, Citigroup, Daiwa, ING, Mapfre, Marfin, SEB and Western Union.

- **Private equity investment in insurance:** Several private equity firms made investments in insurance targets during the last quarter of 2011. The highest profile transaction saw financial services specialist J C Flowers acquire Belgian insurer Fidea from the KBC Group for €244m. Augur Capital of Germany also acquired Ageas' German life insurance business for an undisclosed sum, and UK litigation insurer Firstassist was acquired by commercial litigation fund Burford Capital for €12m.
- **Management buyouts:** Several management buyouts were announced during the quarter, an indicator of low valuations. The largest was the MBO of loss adjuster Davies Group from Lloyds Banking Group for €70m in a deal backed by Electra Partners. Another notable MBO involving Polish securities' firm Dom Maklerski was valued at €43m and backed by Nabbe Investments of Luxembourg. Other MBO targets included Barclays Private Equity, UK insurance broker Cobra, Allianz's business in Kazakhstan, and a fund of funds manager owned by private bank Edmond de Rothschild.
- **Private equity mergers:** The quarter saw several private equity firms merge with rival partnerships. Most notably, Collier Capital acquired Credit Agricole Private Equity for €300m. Two other French deals were the merger of mid-cap firm Atria with counterpart Naxicap, and ACG's takeover of Viveris Management.

<sup>7</sup> 'Aviva in £48m sale of European life units to MetLife', FT Adviser, 30.01.12



**Figure 6: Top 10 European FS deals by value, Q4 2011**

Month	Target company	Target country	Bidder company	Bidder country	Deal value (€m)
Oct	Dexia Bank Belgium	Belgium	SFPI (Belgian govt. vehicle)	Belgium	4,000
Dec	Skandia Insurance Co	Sweden	Skandia Liv	Sweden	2,473
Nov	Bank Sarasin & Co	Switzerland	Grupo Safra	Brazil	1,787
Oct	Banco Pastor	Spain	Banco Popular Espanol	Spain	1,349
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Nov	Northern Rock	UK	Virgin Money Holdings	UK	931
Dec	Dexia Banque Internationale	Luxembourg	Precision Capital	Luxembourg	730
Dec	Burdale Financial Holdings	UK	Wells Fargo Bank	USA	690
Oct	Lansforsakringar Fondliv	Sweden	Lansforsakringar AB	Sweden	595
Dec	FTSE International	UK	London Stock Exchange Group	UK	532
				<b>Sub-total</b>	<b>14,087</b>
				Other	2,386
				<b>Grand total</b>	<b>16,473</b>

Source: PwC analysis of mergermarket, Reuters and Dealogic data

***Looking ahead: Making intelligent predictions remains difficult***

Some of the M&A themes we have discussed in this paper were anticipated in the last edition of Sharing deal insight, which analysed the impact of the eurozone crisis on financial services M&A in Europe. It also predicted that the crisis could act as a catalyst for deal activity in specific areas of European financial services during the first half of 2012. Some of the areas we highlighted included: foreign investment in Turkish financial services; restructuring in Greece and Italy; additional consolidation among Spanish banks; further banking and insurance M&A in Russia and Central & Eastern Europe; loan portfolio sales; asset management disposals in Western Europe; and private equity investment in distressed targets.

After such a quiet year in 2011, it is tempting to view the fourth quarter's surge in deal activity as an indication that our predictions for 2012 will be fulfilled or even surpassed. Having swung so low during the past two years, can the pendulum of financial services M&A swing back strongly in 2012? Despite some stabilisation in financial markets since the start of the year, it is too early to say for sure. We still believe 2012 looks promising from an M&A perspective, but with so many factors pulling in different directions, unpredictability remains the most predictable feature of the European financial services M&A market.

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# Methodology

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

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

**Figure 1: European FS deals – quarterly summary**

Deal value € in billions	Q110	Q210	Q310	Q410	FY10	Q111	Q211	Q311	Q411	FY11
Asset Management	1.7	1.0	2.4	1.5	6.6	1.0	0.4	0.4	0.4	2.1
Banking	4.4	5.8	14.8	5.5	30.4	5.9	2.0	3.7	11.0	22.7
Insurance	2.0	4.1	1.8	1.6	9.5	2.0	2.5	0.2	4.2	8.8
Other	0.5	0.3	2.3	0.9	3.8	0.9	1.8	0.7	0.9	4.3
<b>Total deal value</b>	<b>8.6</b>	<b>11.1</b>	<b>21.2</b>	<b>9.5</b>	<b>50.3</b>	<b>9.8</b>	<b>6.7</b>	<b>5.0</b>	<b>16.5</b>	<b>37.9</b>
Corporate	7.5	10.8	17.0	4.5	39.8	9.5	4.8	3.3	10.5	28.1
PE	0.8	0.0	4.2	1.1	6.1	0.3	1.9	0.5	0.5	3.2
Government	0.3	0.2	0.0	3.9	4.3	0.0	-	-	4.4	4.4
Other	-	-	-	-	-	0.0	0.0	1.2	1.0	2.2
Undisclosed	-	0.0	-	-	0.0	-	-	-	-	-
<b>Total deal value</b>	<b>8.6</b>	<b>11.1</b>	<b>21.2</b>	<b>9.5</b>	<b>50.3</b>	<b>9.8</b>	<b>6.7</b>	<b>5.0</b>	<b>16.5</b>	<b>37.9</b>
Domestic	3.9	7.5	10.2	7.1	28.7	8.5	3.0	2.6	11.3	25.4
Cross border	4.6	3.6	11.0	2.4	21.6	1.3	3.6	2.4	5.2	12.5
<b>Total deal value</b>	<b>8.6</b>	<b>11.1</b>	<b>21.2</b>	<b>9.5</b>	<b>50.3</b>	<b>9.8</b>	<b>6.7</b>	<b>5.0</b>	<b>16.5</b>	<b>37.9</b>

Source: PwC analysis of mergermarket, Reuters and Dealogic data

Note: May contain rounding errors

# About PwC

## M&A advisory services in the financial services sector

*PwC is a leading consulting and accounting adviser for M&A in the FS sector. Through our Corporate Finance, Strategy, Structuring, Transaction Services, Valuation, Consulting, Human Resource and Tax practices, we offer a full suite of M&A advisory 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 and operational.
- business and asset valuations and fairness opinions.
- loan portfolio advisory services including performance analysis, due diligence and valuation.
- post-merger integration: synergy assessments, planning and project management.
- human resource and pension scheme advice.
- valuations for financial reporting purposes.

### **About this report**

The main authors of, and editorial team for, this report were Nick Page, a partner and Fredrik Johansson, a director in the Transaction Services – Financial Services team at PwC UK in London. Other contributions were made by Andrew Mills of Insight Financial Research and Maya Bhatti, Valerie Martin, Tina Mayo, Natasha Pitchacaren and Simin Varghese of PwC UK.

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# Contacts

*If you would like to discuss any of the issues raised in this report in more detail please contact one of us below or your usual PwC contact.*



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