

M&A Predictor: Global Financial services sector

2018 Annual Report/Sector Report

Includes 2018 Q1 Update
May 2018



KPMG International
Deal Advisory

kpmg.com/predictor-fs



Stuart Robertson
*Global Financial Services Deal
Advisory Lead
Partner, KPMG in Switzerland*

Stuart has more than 20 years of experience in the global corporate and financial services sector in both advisory and audit.



Silvano Lenoci
*Deal Advisory Partner,
KPMG in Italy*

Silvano specializes in M&As for domestic and cross-border transactions, valuation of insurers and banks, and financial planning models.



Ram Menon
*Global Insurance Deal Advisory Lead
Partner, KPMG in the US*

Ram has led numerous domestic and cross-border mergers, acquisition and divestiture projects in the US and global financial services industry.

Financial services

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~ Stuart Robertson, Global Financial Services Deal Advisory Lead

Challenges remain but we expect a year of robust M&A activity in the Financial Services sector as non-sector players – from private equity houses and pension funds to Chinese and Japanese conglomerates – continue to actively pursue deals. At the same time, look for interest in fintech-related deals to remain hot as banks and insurers strategically seek transformational technologies to remain competitive and growing.

We expect the value and volume of M&A deal activity in the Financial Services sector to increase by more than 10 percent for 2018 amid numerous positive factors that include: Strengthening G-SIFIs; proposed removal of barriers to EU bank mergers; increased focus on M&A to drive transformation in insurance; strength of the Asian and

US economies; the increasing role of both private equity and new entrants to the market; and rising interest rates.

The year was off to a promising start during the first quarter of 2018, with the value of deals rising to US\$77.9 billion compared to US\$54 billion in Q1 2017. Volume of deals in Q1 2018 was lower at 642 compared to 800 in Q1 2017. Average deal value was higher at US\$121 million compared to US\$68 million a year earlier. For additional insights into global 2018 M&A banking trends, please see KPMG's [Continuing to Climb](#) report. "The ongoing flurry of US-based activity reflects the consolidation of the regional banking sector combined with private equity investors eagerly pursuing financial services assets," says Stuart Robertson, Global

Financial Services Deal Advisory Lead, KPMG in Switzerland. "At the same time, the trend in overseas acquisitions by Japanese finance institutions will continue, while China's easing of limitations and shareholdings by foreign investors should spark a significant increase in inbound investments there during 2018 and over the medium term." Stuart notes that private equity houses, private investors and pension funds, as well as Asian conglomerates, accounted for about 35 percent of 2017 deals. "The challenge going forward as we monitor this trend will be to determine who the big buyers are going to be in 2018. This unpredictability is adding a new and exciting dimension to the market." (Source: our non-FS report)

The level of private equity dry powder represents a huge opportunity across all regions in 2018, with a focus on deploying funds into all sectors of financial services, Stuart adds.

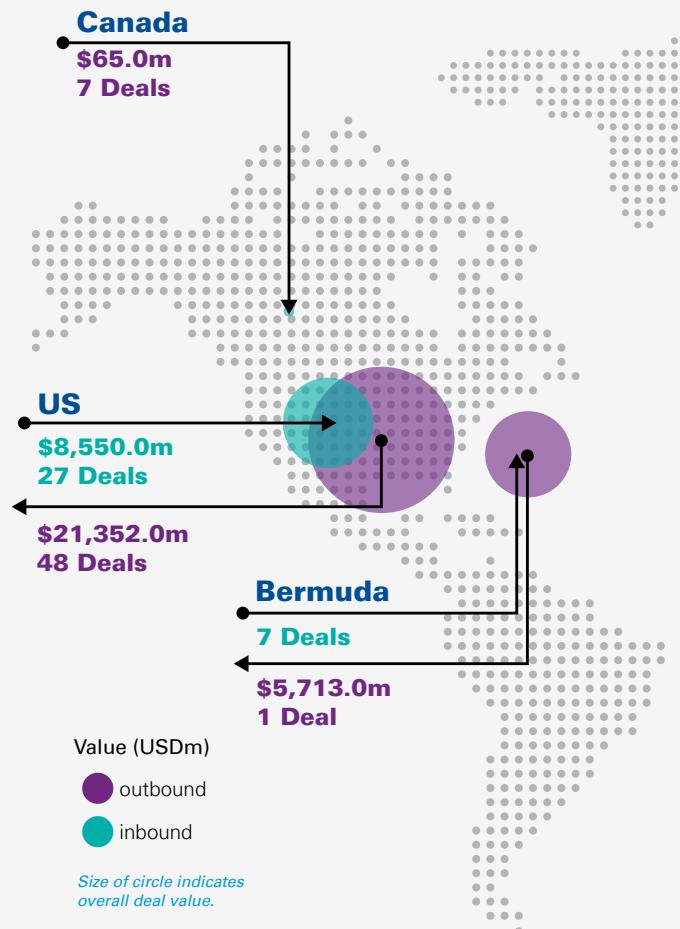
Regionally, beyond the action in the US, China and the UK, we anticipate increased consolidation activity in Germany, Italy, Indonesia and India. We expect major regulatory concerns to decrease as clarity, primarily over Basel IV, now emerges. Over the past years, banks have been very cautious about global expansion and focused more on their operating models, with limited M&A focused more intently on domestic and regional markets. Their strategies are focusing much more on M&A for 2018 and beyond.

"It's noteworthy that in 2017, about three-quarters of bank deals were in their domestic markets and this trend could continue, along with deals involving NPLs, predominantly involving international buyers. At the same time, the intense focus on fintech and robo-advisory innovation will continue globally. There is a massive amount of liquidity sitting on the sidelines and waiting to be invested," says Silvano Lenoci, Corporate Finance Partner, KPMG in Italy.

On the insurance front, says Ram Menon, Global Insurance Deal Advisory Lead, KPMG in the US, there is also an abundance of capital to invest and insurers will continue to

Top Countries for Deals

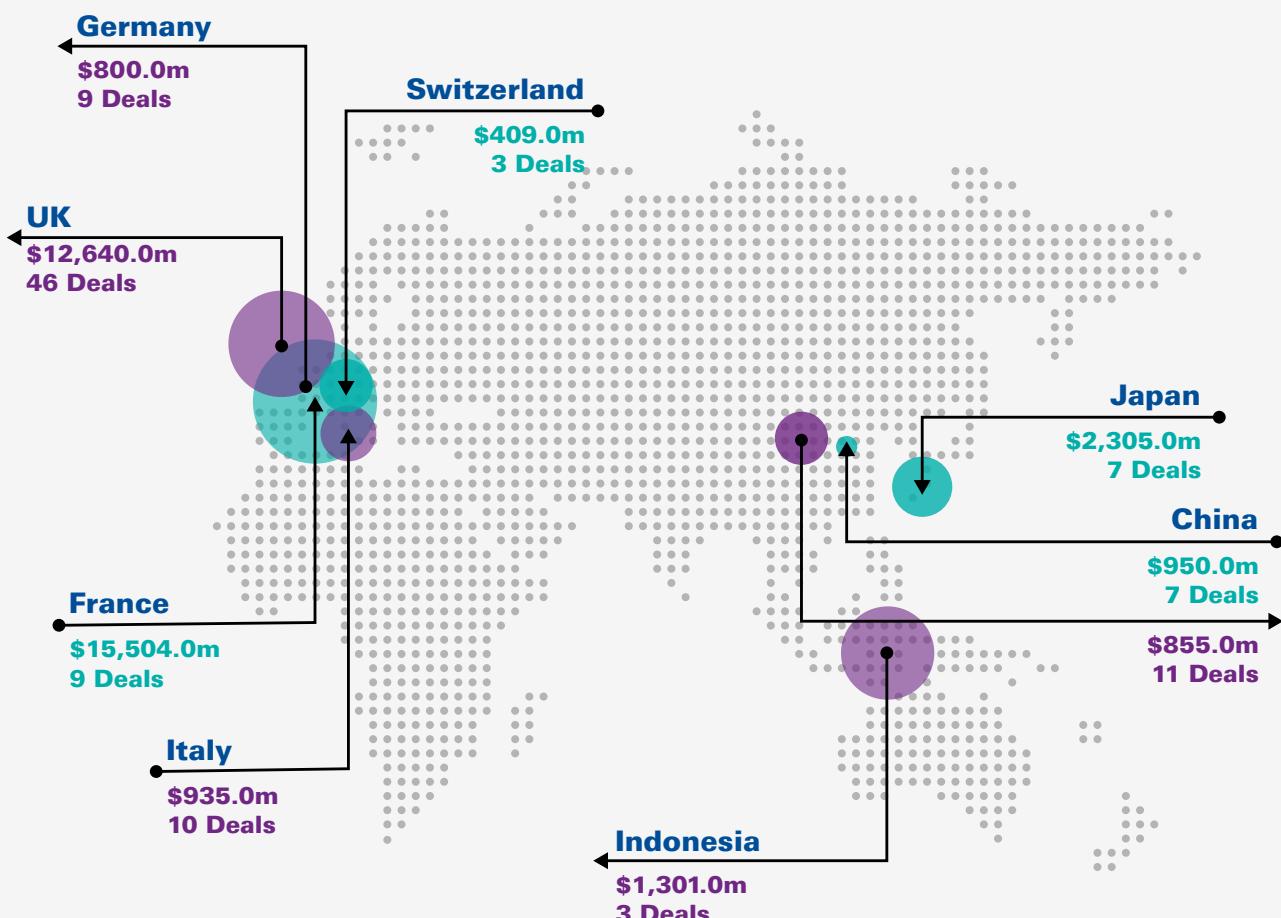
LARGEST COUNTRIES OF ORIGIN		LARGEST DESTINATION COUNTRIES	
BY \$		BY \$	
United States	\$21,352.0m	France	\$15,504.0m
United Kingdom	\$12,640.0m	United States	\$8,550.0m
Bermuda	\$5,713.0m	Japan	\$2,305.0m
Indonesia	\$1,301.0m	China	\$950.0m
Italy	\$935.0m	Switzerland	\$409.0m
BY #		BY #	
United States	48	United States	27
United Kingdom	46	France	9
China	11	China	7
Italy	10	Bermuda	7
Germany	9	Canada	7



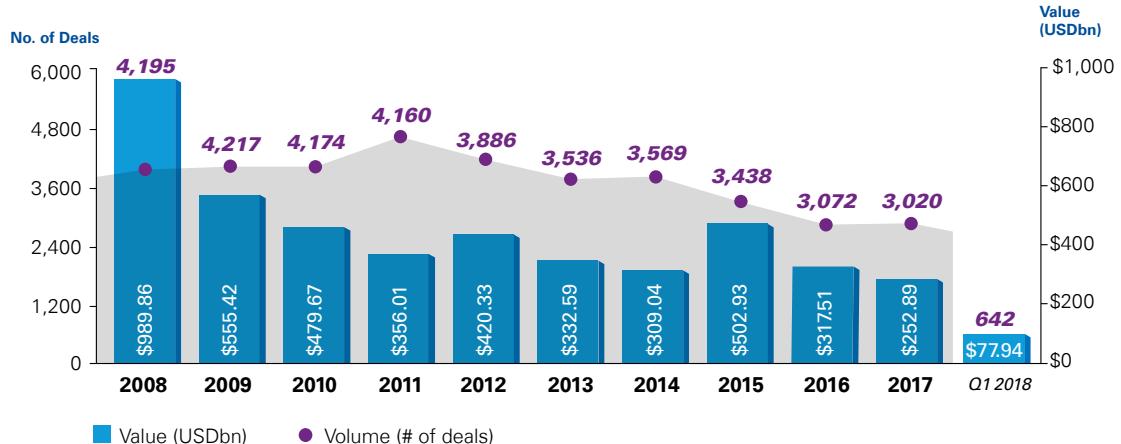
chase inorganic growth opportunities. "We expect 2018 deal activity to be very strategic, as the insurance industry – like the entire financial services sector – faces huge demand for transformation and innovation that will drive greater customer engagement and top line growth. The focus globally will be on deals that provide opportunities to transform business models, access emerging innovative technologies and modernize operating models."

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~ Ram Menon, Global Insurance Deal Advisory Lead



Ten Year Trend for Financial Services



Reviewing 2017

The number of deals for the sector overall in 2017 was relatively flat at 3,020 compared to 3,072 in 2016, while the value of 2017 deals was US\$253 billion, down 20 percent from US\$318 billion in 2016. Results are in line with our 2017 Predictor outlook that noted continued pressure on the banking sector amid issues that included Basel IV, a general lack of capital and a large legacy on the non-performing loan side for the next few years.

The volume of 2017 deals in insurance was relatively flat (down 0.7 percent) while the value of deals increased by 128 percent. The 128 percent increase in insurance is largely the result of one megadeal that also proved to be the biggest deal of 2017 in the Financial Services sector. (Source: MergerMarket, KPMG analysis)

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~ Silvano Lenoci, Partner, KPMG in Italy

Top deals

	Target Name (Stake %) Target Country	Bidder Name Bidder Country	Value (US\$ million)
1	XL Group Ltd (100%) United States	AXA SA France	\$15,256.0
2	Validus Holdings Ltd (100%) Bermuda	American International Group Inc - AIG United States	\$5,713.0
3	"Standard Life Assurance Ltd (Maj%) Vebnet Ltd" (100%) United Kingdom	Phoenix Group Holdings Ltd United Kingdom	\$4,528.0
4	Liberty Life Assurance Co of Boston (100%) United States	Lincoln National Corp United States	\$3,300.0
5	Barclays plc (5.16%) United Kingdom	Sherborne Investors Management LP United States	\$2,672.0
6	Promsvyazbank OAO (99.9%) Russian Federation	Deposit Insurance Agency - DIA Russian Federation	\$1,978.0
7	Housing Development Finance Corp Ltd - HDFC (3.87%) India	"GIC Pte Ltd OMERS Administration Corp KKR & Co LP Carmignac Gestion SA Premji Invest" India	\$1,748.0
8	China Continent Property & Casualty Insurance Co Ltd (31%) China	"China Eastern Air Holding Co Ltd (10% / 10% / 2.9% / 2.6% / 2% / 1.7% / 1.5% / 0.3%) Jiangsu Communications Holding Co Ltd New China Life Insurance Co Ltd Shanghai SAIC Qixiang Investment Partnership (LLP) Ningbo Development & Investment Group Co Ltd China International Capital Corp Ltd China General Technology (Group) Holding Ltd NavInfo Co Ltd" China	\$1,697.0
9	Sumitomo Mitsui Finance & Leasing Co Ltd (10%) Japan	Sumitomo Mitsui Finance & Leasing Co Ltd Japan	\$1,609.0
10	Nationstar Mortgage Holdings Inc (100%) United States	WMIH Corp United States	\$1,514.0

How can KPMG help

At KPMG firms, we think like investors, looking at how opportunities to buy, sell, partner or fund a company can add and preserve value. Our teams of specialists combine a global mindset and local experience with deep sector knowledge and superior analytic tools to help you navigate a complex, fragmented process. KPMG professionals can help with business strategy, acquisition strategy, plans for divestments or for raising funds.

Further reading

Please visit the Global Deal Institute to find the latest thought leadership around the complexity of today's deal environment, including:



M&A Predictor/2018 Annual Report with Q1 2018 update

The full report contains a global overview and sector reviews for 4 other key global sectors. The online version also provides interactive charts for cross-regional and cross-sector deal tracking.



2018 Banking M&A Trends/Climbing higher

Top 10 trends for the global banking sector that will impact the deal environment in 2018, divided into five geographic and five thematic areas where KPMG's sector specialists expect to see the most impact.

kpmg.com/dealsinstitute

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