Recovery in the midst of uncertainty

Global Banking M&A Trends 2022

September 2022

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Contents

Foreword

With the number of deals up by 32 percent and deal value rising by 42 percent, the global banking M&A market recovered strongly in 2021, reflecting the upturn in many economies as the worst effects of the pandemic receded. Consolidation was a recurring theme across multiple countries/territories and regions, often driven by regulators eager to make banks stronger and reduce risk.

Although year-on-year deal volume in the first half of 2022 declined due to the war in Ukraine, economic disruption, and surging inflation, deal value still rose, on the back of some high value deals, primarily in ASPAC.

The sector is still proceeding cautiously as the geopolitical and economic fallout prevails, but overall, 2022 should be another active year, characterized by further domestic consolidation, and continued interest in digital capabilities and assets with recurring revenues.

Conditions for banks in Europe remain challenging, with low interest rates and raging inflation in a region where most countries/territories lack energy-independence and have suffered from the dramatic increases in oil and gas prices. This has impacted margins and loan loss provisions and been another driver for consolidation — primarily domestic — as banks strive to achieve scale efficiencies to cut costs. Some European banks have also divested US assets, to raise capital to reinvest into their core markets.

In North America, after the record surge in deal value in 2021, the prospects for mega deals have diminished due to regulatory developments.

Both European and international investors are attracted by commission-driven businesses like insurance, wealth management and consumer finance, which are less capital-absorbing and provide healthy, recurring revenues. Private equity (PE) firms, who have so far shunned Europe's banking market, are also eyeing up their options in this space; in a consolidated market, they see potential for higher profitability from fee-based services in the coming years. Indeed, competition is heating up in many parts of the world, with PE houses, technology companies, conglomerates and others seeking bank targets.

Asian activity tends to be dominated by domestic buyers, partly due to restrictions on foreign ownership in certain key nations, although the Indian government has announced its intention to divest 6 of 12 public sector banks, which could present new opportunities. China is seeing plenty of deals due to consolidation of regional small- and medium-sized banks (SMBs), financial institutions seeking new capital, divestment of non-core businesses, and joint ventures (JVs) featuring foreign financial institutions and Chinese banks in areas like wealth management.

The war in Ukraine is casting a massive shadow over Europe in particular, with EU GDP growth set to face headwinds and some banks carrying significant exposure to Russia and Ukraine. Other regions have been less impacted, most notably the US, where the sector has minimal business interests in Russia.

Another key factor that has started to influence banking M&A is ESG (environmental, social and governance). This is very much becoming a new normal, with banks' credentials, and those of their corporate clients, under increasing scrutiny. In the same way that the sector adapted to higher capital requirements, it's hoped that ESG will become absorbed into banks' operating models, although there may be some implementation costs regarding reporting and associated data gathering.

Fintech and payments are heavily influencing the M&A landscape, with challenger banks entering markets and gaining share, and consolidation in the payments space, especially in mature markets. In addition to acquiring these new competitors, traditional banks are also rapidly developing their own digital capabilities to update their business models. PE buyers are taking a growing interest in digital payment providers, creating a highly dynamic environment ripe for further deals.

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Global banking M&A 2021

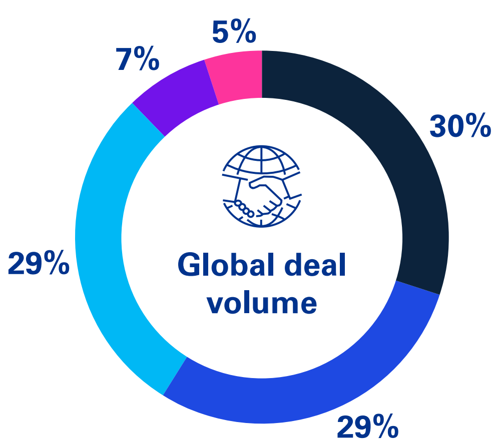
The global banking M&A market enjoyed a surge in 2021, both in volume and reported size, with non-domestic transactions also rising significantly. While the three major regions (ASPAC, North America and Europe) experienced a similar level of activity by volume, North America captured a relatively higher share of value, on the back of some mega deals announced in the US. However, it's uncertain whether this dominance will continue, given the increased regulatory scrutiny around large US transactions.

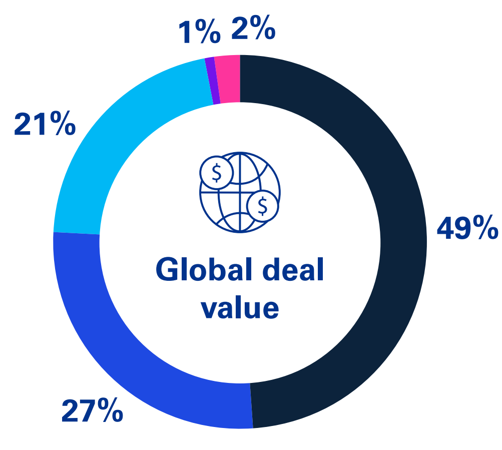
Banking deals landscape in 2021

1,835 Deals ↑ **32%** (2020–21) worth **USD289 billion** ↑ **42%** (2020–21)

	Global banking deals[1,4] (volume announced)	Global value of banking deals announced[1,2,4] (USD billion)	Non-domestic banking deals[1,3,4] (percent of total banking deals)
2009	2,321	285	15%
2013	1,653	150	18%
2015	1,961	259	20%
2019	1,892	343	22%
2020	1,391	203	29%
2021	1,835	289	35%

Regional shares in banking deal volume and value | 2021[1,2,4]





North America ASPAC Europe MEA Latin America

Notes:

1. Deals announced include pending and completed deals.
2. Deal value represents total value of announced transactions where value is disclosed publicly.
3. Non-domestic banking deals include regional and inter-continental (excludes domestic) deals.
4. Banking deals include digital payment deals.

Source: Thomson One

Top 10 banking deals in 2021[1,2]

1 **Bank of the West Inc.**
Acquirer: BMO Harris Bank N.A.
USD16.3 billion

2 **Ulster Bank Ltd-Retail SME**
Acquirer: Permanent TSB Plc
USD8.6 billion

3 **MUFG Union Bank N.A.**
Acquirer: US Bancorp
USD8.0 billion

4 **People's United Financial, Inc.**
Acquirer: M&T Bank Corporation
USD7.5 billion

5 **Umpqua Holdings Corporation**
Acquirer: Columbia Banking System, Inc.
USD5.2 billion

6 **Sterling Bancorp**
Acquirer: Webster Financial Corporation
USD5.1 billion

7 **Investors Bancorp, Inc.**
Acquirer: Citizens Financial Group, Inc.
USD3.6 billion

8 **Cadence Bancorp**
Acquirer: BancorpSouth Bank
USD2.8 billion

9 **Flagstar Bancorp, Inc.**
Acquirer: New York Community Bancorp., Inc.
USD2.7 billion

10 **First Midwest Bancorp, Inc.**
Acquirer: Old National Bancorp
USD2.5 billion

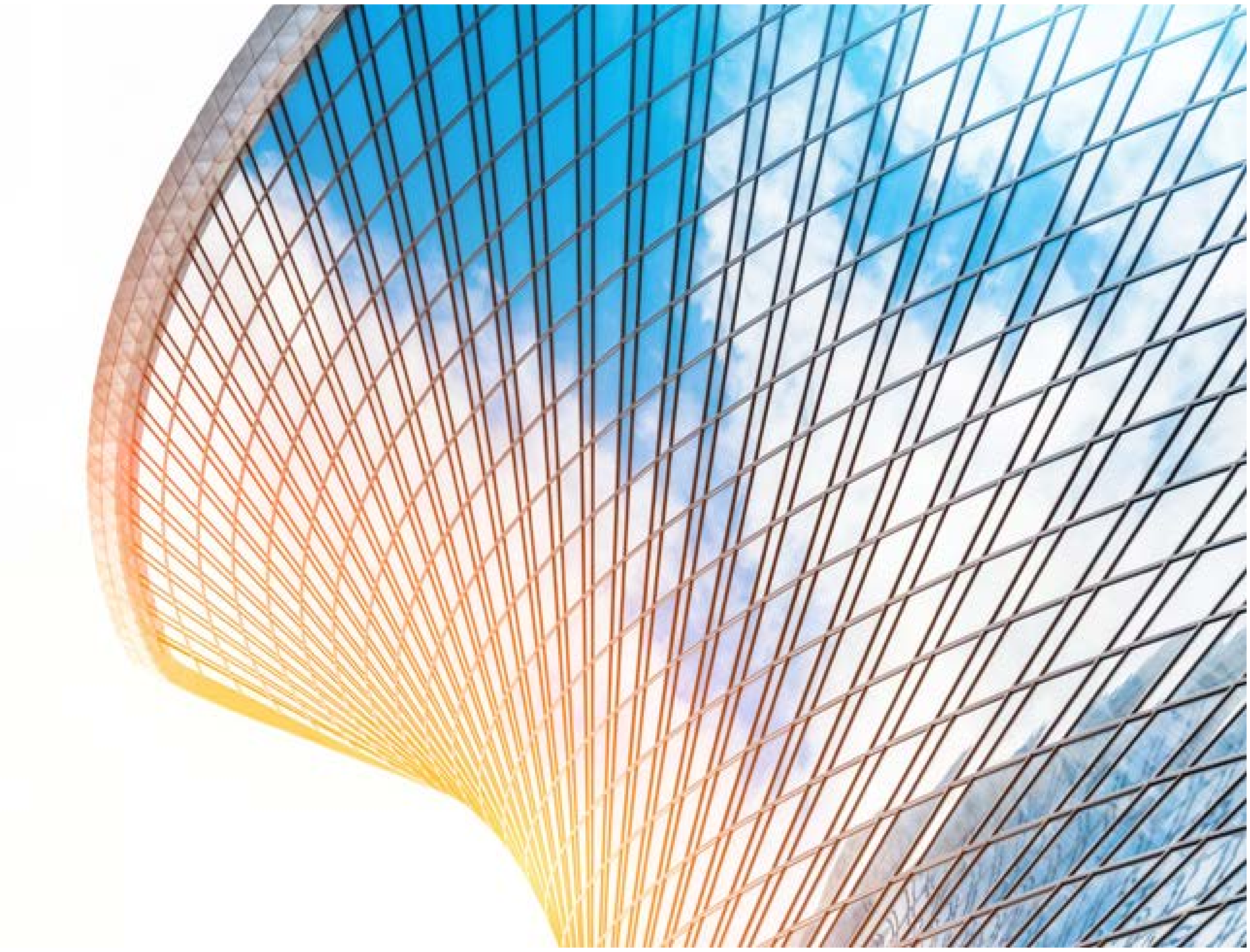
Notes:
1. Deals announced include pending and completed deals.
2. Top 10 core banking deals, basis deal value. Includes deals with core banks as targets and excludes payments, fintech and non-core banking transactions.

Source: Thomson One

Global banking M&A 1H22

The global banking M&A market witnessed an year-on-year decline in deal volume in 1H22, due to geo-political disturbances (Russia-Ukraine conflict), economic disruption, and surging inflation. Total deal value, however, registered a spike, on the back of some high value deals, primarily in ASPAC.

While Europe noted the highest deal activity by volume, ASPAC dominated the market by value, because of multiple high-value deals in the region, including Citigroup's retail banking transactions. In the largest of these, UOB acquired Citigroup's consumer banking businesses in Indonesia, Malaysia, Thailand, and Vietnam for USD3.7 billion, while Citigroup also sold its consumer banking business in Taiwan to DBS. Citigroup underwent a multimarket sale process of 13 countries/territories in 2021, attracting considerable interest from regional and domestic banks. The UOB deal is transformative, at a stroke doubling its international customer and revenue base.

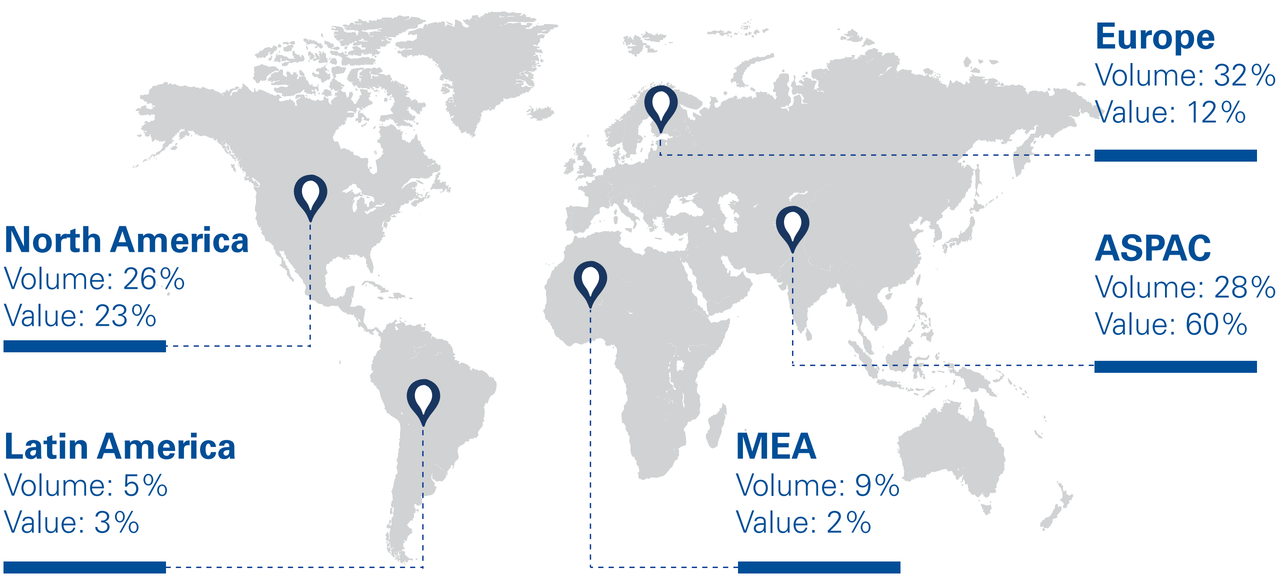


Banking deals landscape in 1H22

766 deals ↓ (18%) (1H21-22) worth **USD137 billion** ↑11% (1H21-22)

	Global banking deals[1,4] (volume announced)	Global value of banking deals announced[1,2,4] (USD billion)	Non-domestic banking deals[1,3,4] (percent of total banking deals)
1H21	931	123	36%
1H22	766	137	33%

Regional shares in banking deal volume and value | 1H22[1,2,4]



Notes:

1. Deals announced include pending and completed deals.
2. Deal value represents total value of announced transactions where value is disclosed publicly.
3. Non-domestic banking deals include regional and inter-continental (excludes domestic) deals.
4. Banking deals include digital payment deals.

Source: Refinitiv

Top six banking deals in 1H22[1,2]

1 **Housing Development Finance Corporation Ltd**

Acquirer: HDFC Bank Ltd

USD4 billion

2 **First Horizon Corporation**

Acquirer: Toronto-Dominion Bank

USD13.5 billion

3 **Citigroup Inc. — Consumer Banking Business** (Indonesia, Malaysia, Thailand and Vietnam)

Acquirer: United Overseas Bank Ltd

USD3.7 billion

4 **Huarong Xiangjiang Bank Corporation Ltd**

Acquirer: Investor Group, multiple acquirers

USD1.8 billion

5 **Citigroup Inc. — Consumer Banking Business** (India)

Acquirer: Axis Bank Ltd.

USD1.6 billion

6 **Citibank Taiwan Ltd — Consumer Banking Business** (Taiwan)

Acquirer: DBS Bank Ltd.

USD1.6 billion

Notes:

1. Deals announced include pending and completed deals.
2. Top 6 banking deals, basis deal value. Apart from the HDFC deal, the other 5 deals include core banks as targets and excludes payments, fintech and non-core banking transactions.

Source: Refinitiv

Global banking M&A perspectives

Below is a summary of key dynamics, themes, and M&A expectations for the remaining part of 2022 and beyond

1. Further outbreaks of COVID-19, along with the Ukraine-Russia conflict, have increased macro-economic uncertainty, impacting bank valuations globally.

At a regional level, as of mid-June 2022 North American banks were trading at P/TBV equal to an average of 1.5x, ASPAC banks at 1.3x, and European banks at a significantly discounted average of P/TBV at 0.8x.

Low valuations and profitability should continue to drive consolidation in the European market, as banks look to make deals to gain cost efficiencies and improve market standing.

Link to Banking M&A regional performance 2021–22

The war in Ukraine is wreaking havoc on an already fragile global economy, increasing inflationary pressures, disruptions to supply chain and logistics and heightening cybersecurity risk. Compared to their peers in the US and ASPAC, European banks have a larger exposure to Russia, increasing their risk from the impact of sanctions.

The uncertainties have started to impact the M&A landscape, resulting in an year-on-year decline in the deal volume observed in 1H22.

Link to Impact of war

2. Six major themes are likely to shape the banking M&A landscape

1. **Acceleration to digitalization:** Key drivers being displacement in traditional revenues due to tech enabled payment methods, growing competition from internet giants and neo banks, and a COVID-19 influenced accelerated shift to online banking.
2. **ESG becoming central:** Deals will be viewed not just by book value, but by the target's wider impact on people and the planet.
3. **Scaling operations:** Banks will continue to seek deals that enhance franchise strength, expand products and services, business lines and technologies, and bring cost efficiencies.
4. **Wide universe of potential buyers:** Encompassing PE, fintech, and conglomerates, all competing for targets.
5. **Asset quality:** NPL sales are likely to continue in Europe and certain ASPAC countries/territories.
6. **Regulatory tailwinds/ headwinds:** In the US, large transactions are under the spotlight; ECB is becoming more vocal in supporting European banking consolidation; evolving regulations in ASPAC are also affecting deal-making.
7. **Hikes in interest rate:** With inflation at record highs in several countries, major central banks have initiated measures on policy tightening in the recent months.

Link to Global M&A themes

3. As one would expect, the dynamics and expectations vary regionally.

- **North America:** While larger deals may struggle to gain regulatory approval in the US, activity in mid-tier and community banks should stay buoyant.
- **Europe:** Further consolidation is expected, especially domestically, given the complexities associated with cross-border transactions.
- **ASPAC:** Larger local and regional banks are the driving force behind M&A, through FDI and consolidation, to seek higher market returns or meet regulatory requirements.

Link to Banking M&A insights: Regional outlook

Banking M&A regional performance | 2021–22

Low valuations create a buyers' market for cash-rich private capital players

Although regulators eased restrictions on liquidity and capital during the pandemic, banks must still cope with revisions to loan loss provisions, maintenance of capital adequacy ratios and movements in net interest margins. The Ukraine war brought further macro-economic volatility, impacting valuations globally.

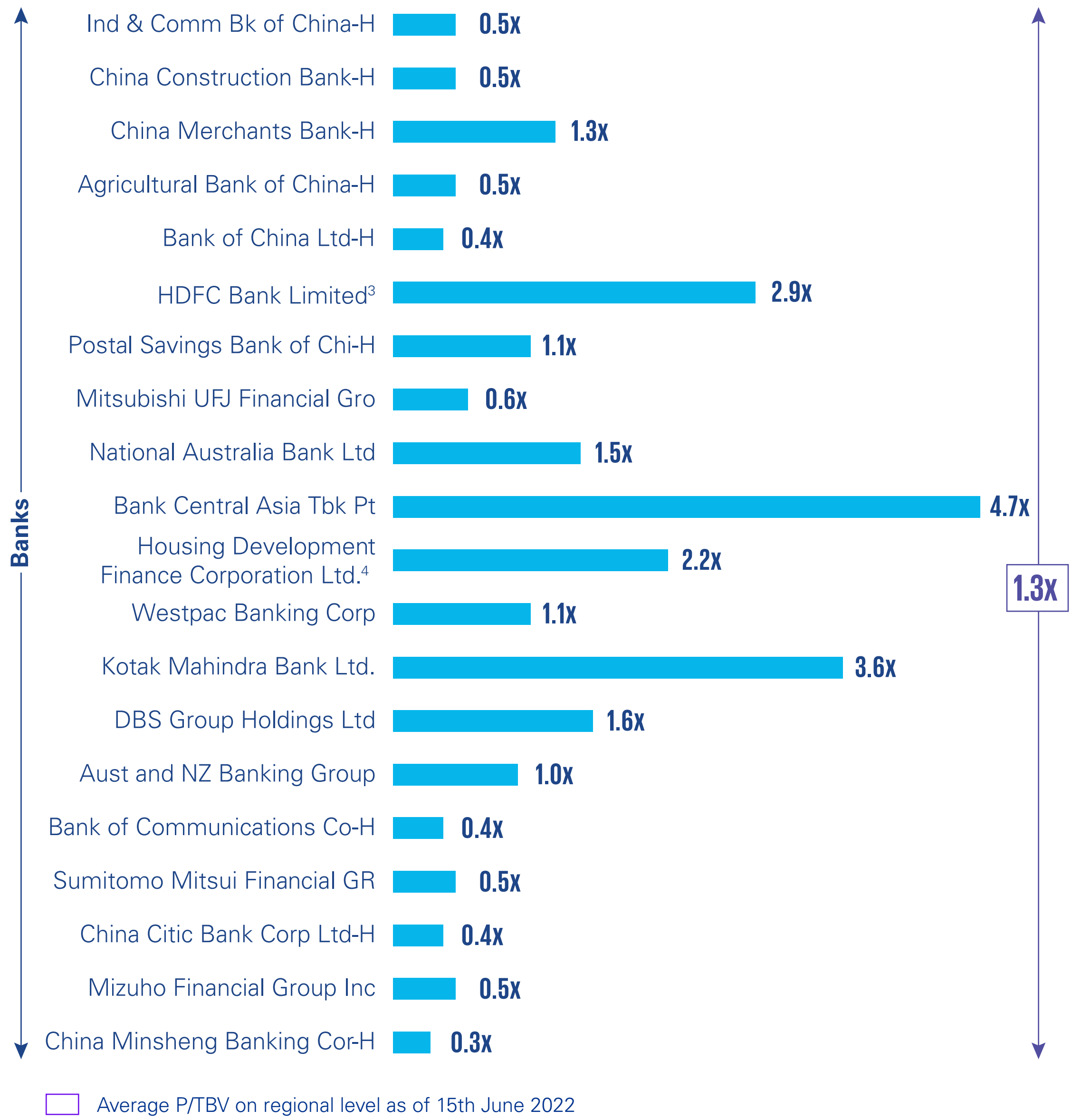
Amidst such uncertainty, both buyers and sellers are weighing up the impact on strategy and pricing. Some buyers are shoring up internal operations while others are building scale to acquire distressed portfolios. With increasing amounts of dry powder, private equity can be expected to play a key role in deal-making.

P/TBV multiple of the top banks, by region

ASPAC banks

The region's banks are generally well-capitalized, with Indian banks holding especially sound valuation levels, trading at an average of 2.9x, followed by Australian (1.2x) and Chinese banks (0.6x), as of mid-June 2022. The low valuation of Chinese listed banks can be very attractive and note an increasing interest especially from institutional investors.

P/TBV[1] of ASPAC banks[2]



Notes:

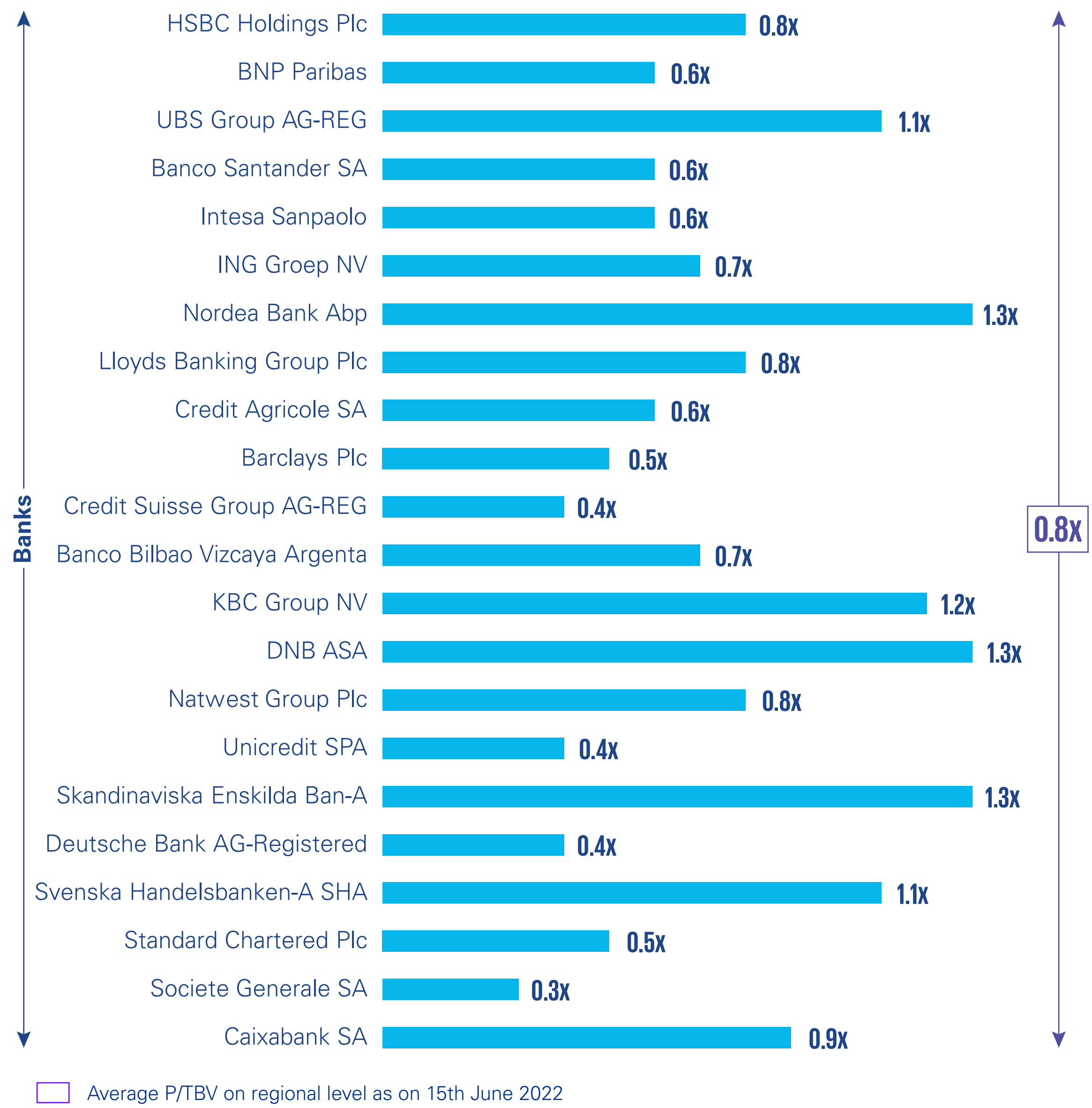
1. The price to tangible book value (PTBV) is a valuation ratio expressing the price of a security compared to its hard, or tangible, book value as reported in the company's balance sheet. The tangible book value number is equal to the company's total book value less than the value of any intangible assets.
2. Top banks based on market capitalization
3. HDFC Bank Limited, founded in 1994 is an Indian banking and financial services company headquartered in Mumbai, Maharashtra. ISIN: INE040A01034
4. Housing Development Finance Corporation Limited (HDFC) founded in 1977, is a financial services company specialized in mortgage and based in Mumbai, India. ISIN: INE001A01036

Source: KPMG analysis, Factset (extracted as of 15th June 2022)

European banks

Valuations remain dampened. Thanks to stronger capital and risk positions, the top Nordic banks (particularly from Sweden and Norway) lead the way with average 1.2x implied P/TBV, compared to peers in the UK, Spain, France, Italy and Germany.

P/TBV[1] of European banks[2]



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2. Top banks based on market capitalization.

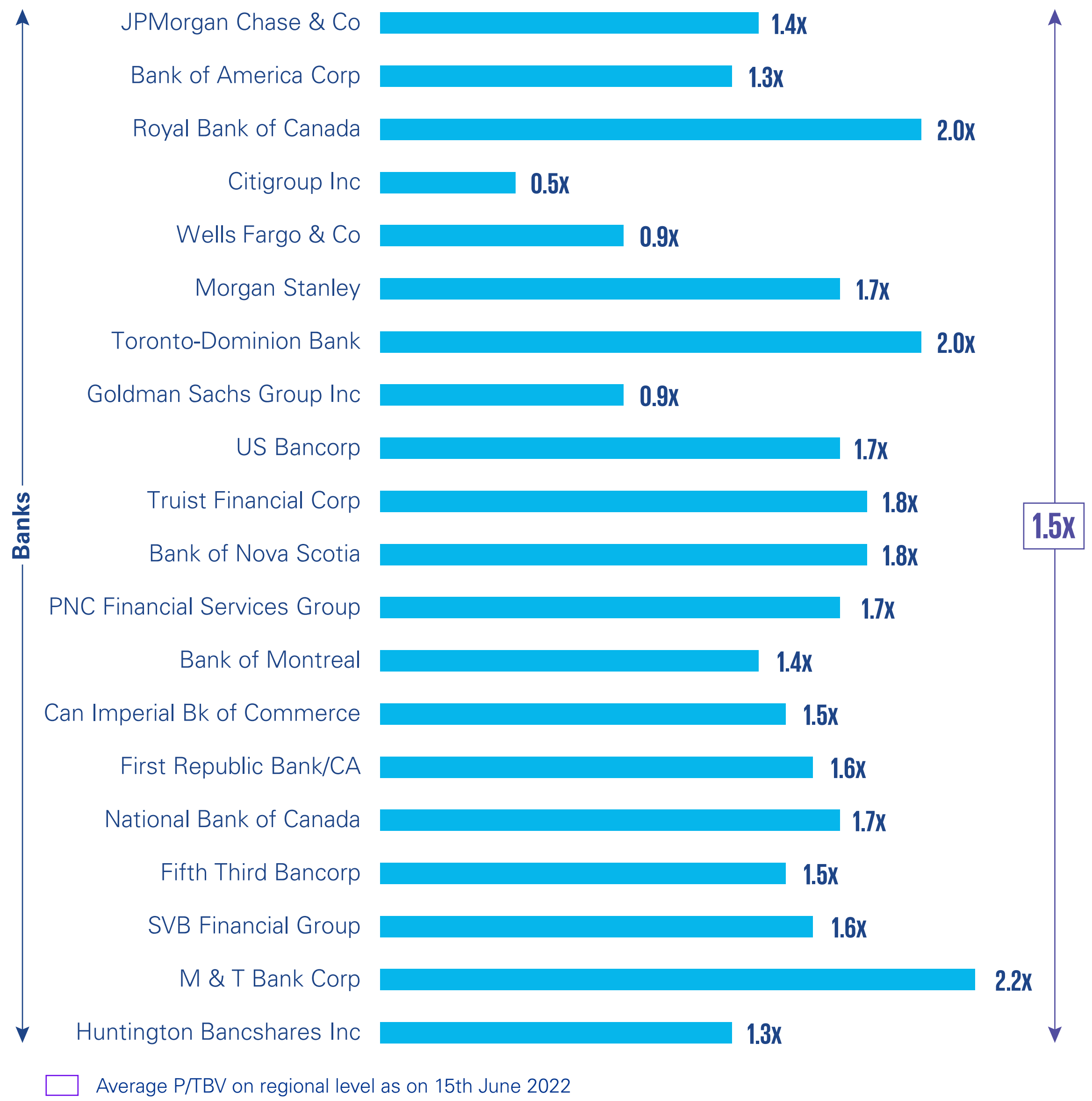
Source: KPMG analysis, Factset (extracted as of 15th June 2022)

North American banks

With an average of 1.7x, the big Canadian banks are trading at higher P/TBV, than top US banks' average of 1.4x. Canadian government's relief efforts, along with loan deferrals by banks, curbed an anticipated rise in delinquencies and impairments, and also checked consumer-credit deterioration.

Canadian banks are well capitalized, with a capital position well above regulatory requirements. In November 2021, the Canadian regulator let banks and insurers to lift dividends, ending pandemic-era curbs. In the absence of strong top-line growth (beyond the potential increase in net interest income from rising interest rates), cost control and efficiency will play a key role in determining performance.

P/TBV[1] of North American banks[2]



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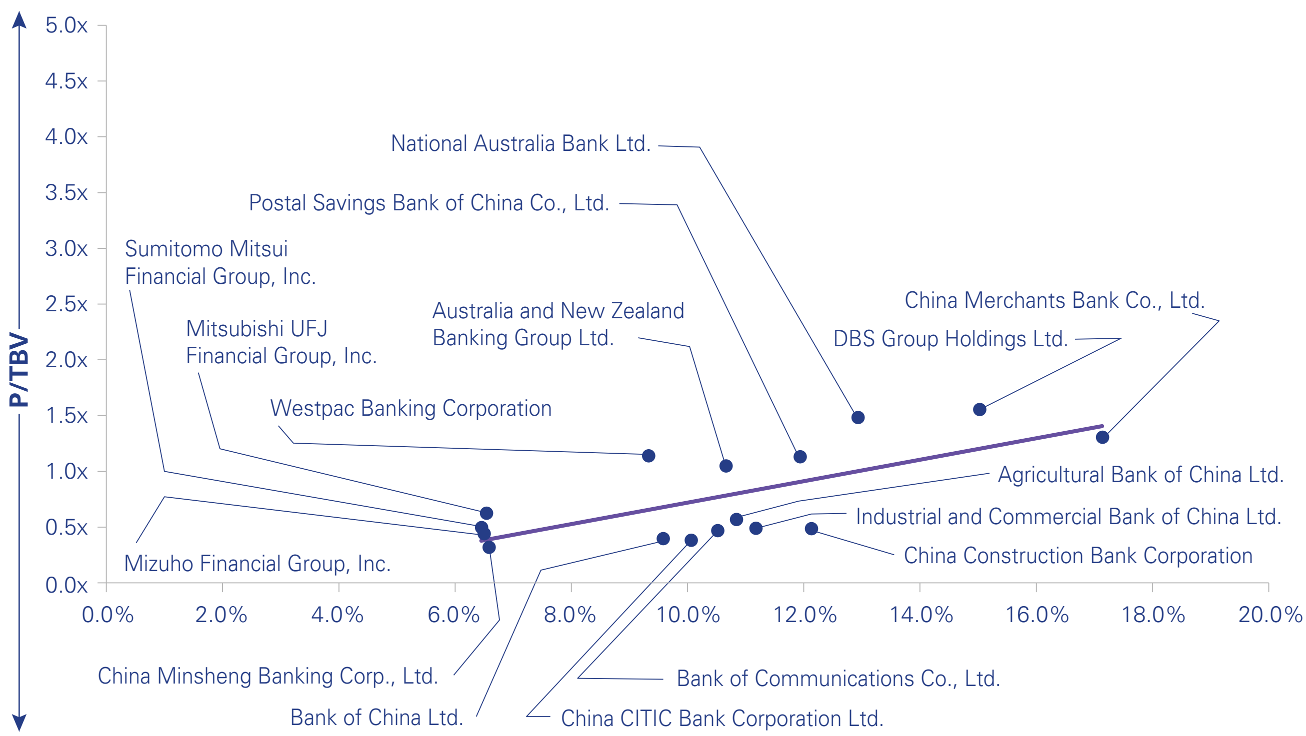
Source: KPMG analysis, Factset (extracted as of 15th June 2022)

Regression ROTE '22 — P/TBV

The regression analysis shows a strong correlation between valuation and profitability, which explains the higher valuations for North American banks whose ROTE (return on tangible equity) averages 15.4 percent, against 11.1 percent and 9.4 percent respectively for Asian and European banks. EU banks' predominantly commercial banking models have left them more exposed to interest rate fluctuations and other crises. In the US, on the other hand, banks rely more on investment banking and fixed income, which makes them less vulnerable to interest rate fluctuations, with the added reliability of predictable incomes from commission-based businesses. The Russian/Ukrainian conflict has also had a greater impact on the European economy.

Despite a higher projected 2022 ROTE of 9.4 percent (against 7.0 percent in 2021), the average profitability of European banks is still well below the cost of equity, which according to Bloomberg has skyrocketed to 14.2 percent. However, rising inflation may alleviate this poor performance by pushing up interest rates, improving interest margins.

ASPAC banks[1]

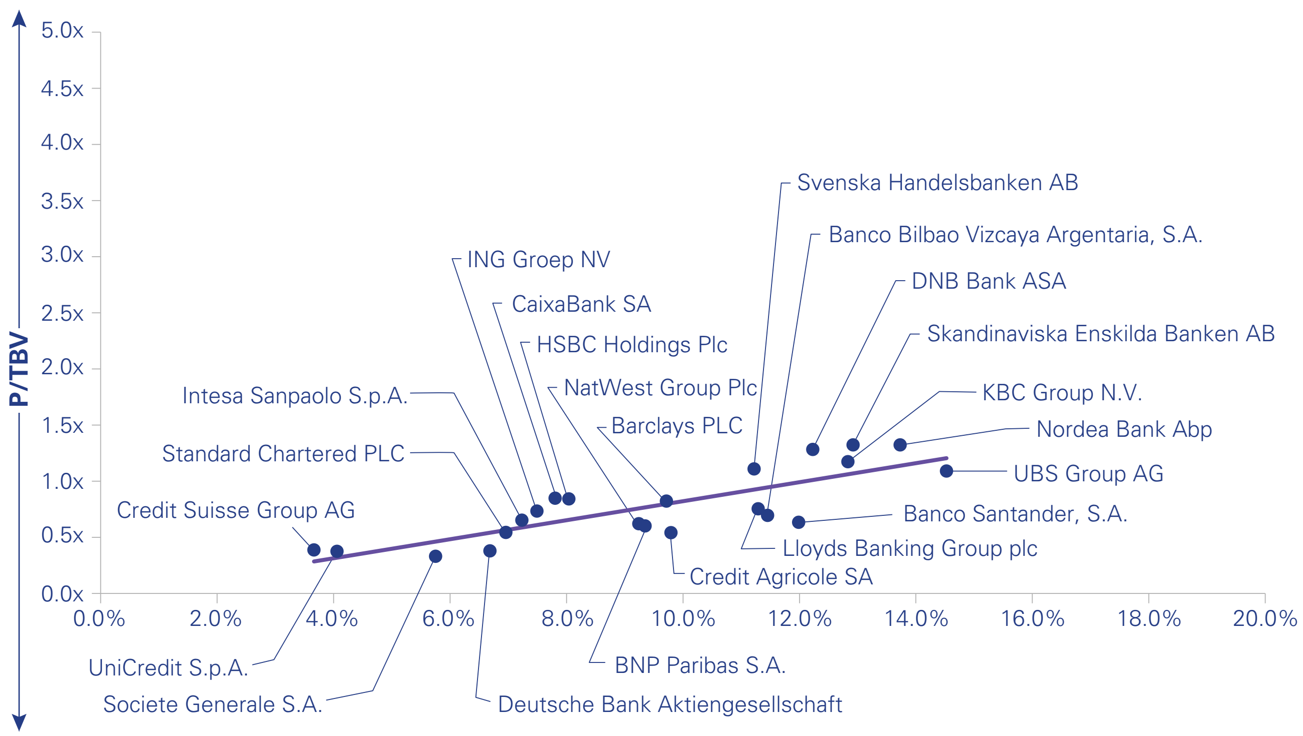


Note:

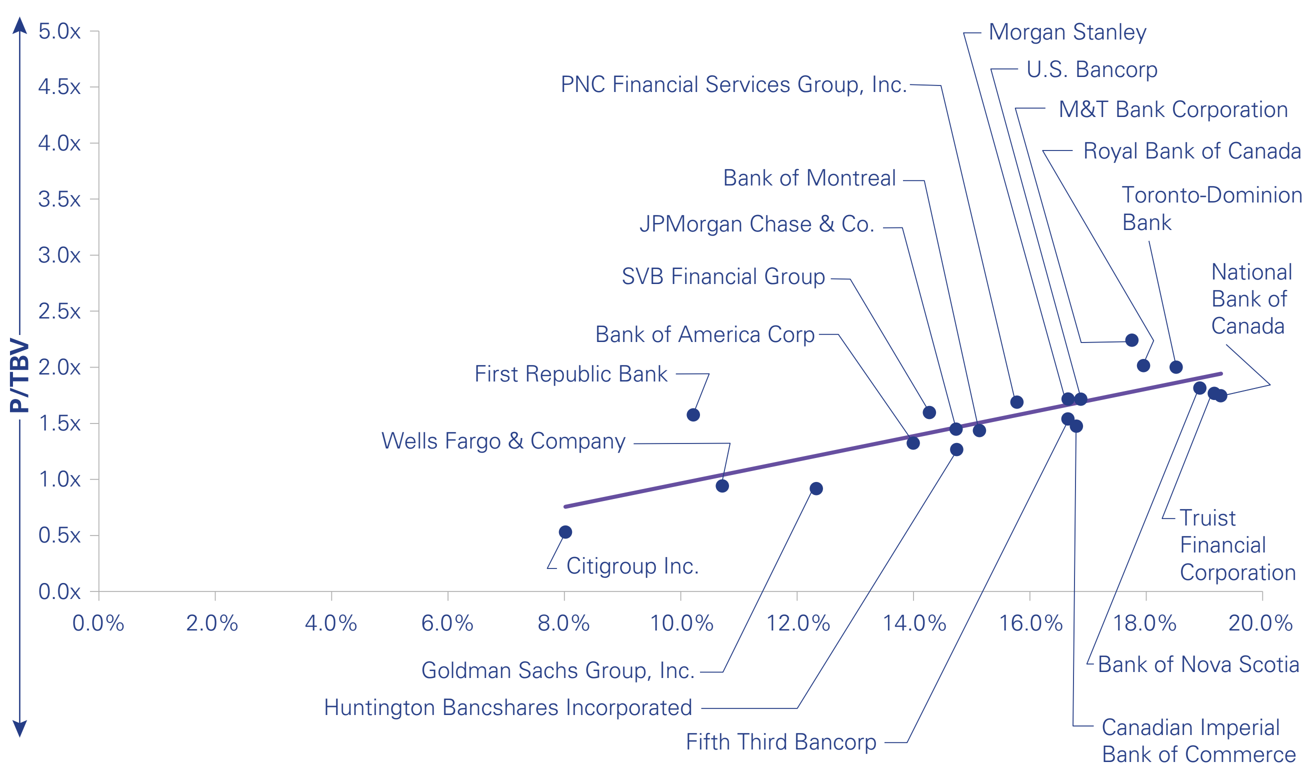
1. ROTE: Return on tangible equity (a version of ROE) is defined as net profit as a percentage of tangible equity (usually average tangible equity). Tangible equity is the equity value (or net assets) less intangible assets such as goodwill.

Source: Bloomberg, KPMG analysis Data extracted as on 15th June 2022

European banks[1]



North American banks[1]



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Source: Bloomberg, KPMG analysis Data extracted as on 15th June 2022

Impact of the Russia-Ukraine war

The war in Ukraine has shaken the foundations of international peace and security system, creating a large humanitarian and economic crisis. It is another blow to a global economy already suffering from COVID-19 and climate change, increasing inflation, disrupting supply chains, and heightening cybersecurity risks.

Global economic slowdown

In March 2022, the UN's trade and development body (UNCTAD — UN Conference on Trade and Development) downgraded the 2022 global economic growth projection from 3.6 percent to 2.6 percent, due to the Ukraine war and recent changes in countries' macroeconomic policies.

Inflationary pressures on food and energy

Higher energy and commodity prices due to the war and related sanctions have intensified inflation in many economies. Russia and Ukraine account for one-fifth of all global wheat production and 70 percent of sunflower oil exports — both critical inputs for agri-food businesses across the world, and wheat prices have already increased in recent months.

In response to the surging inflation, policy makers and central banks around the world have tightened monetary policy.

Transport and trade

The Ukrainian conflict is exacerbating disruptions to global logistics and supply chains, with a particular impact on global maritime transportation. Conflict induced contractor uncertainty, security concerns and trade restrictions have added to uncertainties related to trade routes through Russia and Ukraine.

Russia is also a key supplier of various metals including copper, nickel, palladium and aluminum. Shortages of these materials could impact supply chains and industrial production.

Heightened cyber risk

Ukraine is under intense cyber threat, including denial-of-service and malware attacks to disrupt its digital infrastructure. Similar risks face those countries/territories applying sanctions or offering public support for Ukraine.

ESG rising up the agenda

Under pressure from investors and the public to take a stance on the crisis, many multinationals announced a halt of activities in Russia, reflecting a broader shift towards putting purpose ahead of profit — however difficult the choice.

Risks/impact on the EU banking sector

Compared to their peers in the US and ASPAC, European banks have a larger exposure to Russia, increasing their risk from the impact of sanctions.

As per European Banking Authority, total exposure of EU countries/territories to Russian and Ukrainian counterparts stood at EUR75.3 billion and EUR10.0 billion respectively at the end of 1Q22.

Much of this was in loans and advances, with smaller amounts of debt and cash balance at central banks and other demand deposits. France (EUR23.7 billion) and Italy (EUR22.9 billion) record the largest exposure to Russia.

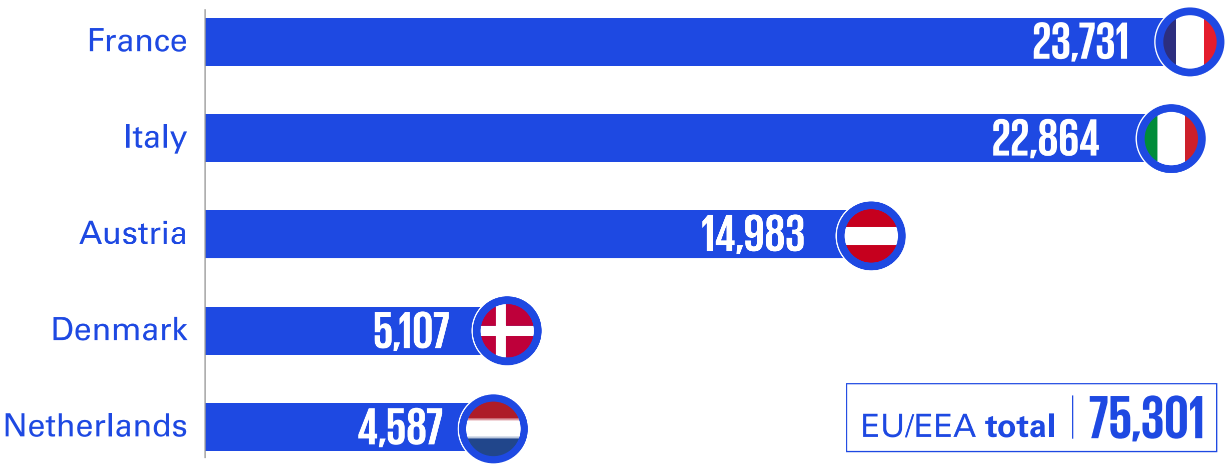
Credit risk

Credit risks are likely to increase due to direct exposures in Russia, Belarus or Ukraine. Additionally, there is the possibility of defaults by Russian/Ukrainian counterparties as well as by counterparties that have a relevant share of their business in Russia and/or Ukraine, or in countries/territories not adhering to sanctions imposed on Russia.

Market risk and counter party credit risk

Market volatility is generally higher, particularly for commodities. Settlement risks are also expected to rise, both direct (Russia and Ukraine counterparties) and indirect (other counterparties). And, with Russia being Europe's fifth-largest trading partner in 2021, disruptions of economic relations with Russia are likely to affect European banks.

Top five EU countries, basis exposure (EUR million) to Russian counterparts as of 1Q22.[1]



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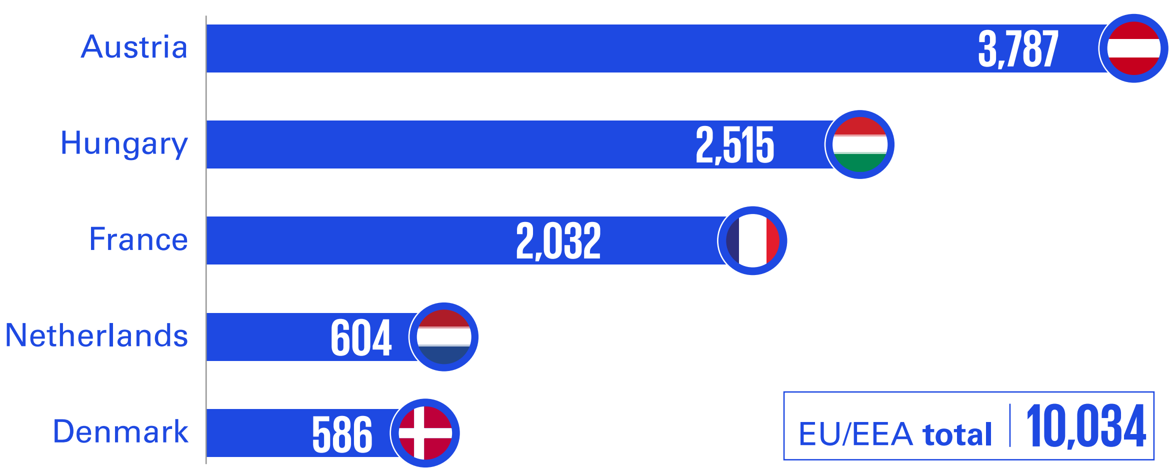

Note:
1. Data is sourced as-is from European Banking Authority (EBA). Individual country data includes subsidiaries, which are excluded from EU aggregate

Source: European Banking Authority (EBA)

Sanctions, legal and reputational risk

Rapid implementation of sanctions — evolving in nature and varying across jurisdictions — cause operational complexities, while failure to comply could bring legal risks. Indirect impacts could arise from an increase in suspicious transactions rooted through the EU, and sanctions impacting supplier payments and trade flow.

Risks to asset quality

Consumer loans may be heavily impacted as households suffer from inflationary pressures (higher oil, gas, and food prices). Additionally, NFC (non-financial corporations) — like manufacturing, transport and storage, mining, agriculture and hospitality face disruptions due to links to Russian and Ukrainian households or corporates and rising prices.

Cyber risk and operational resilience

The risk of cyberattacks has increased, with businesses and governments reporting a range of 'denial of service' attacks as well as sophisticated and destructive malware. Further cyber risk comes from outsourced activities (including IT) to corporate centers in Russia, Belarus or Ukraine. Rumors and disinformation online can negatively influence public opinion and confidence in banks, causing a run on deposits.

Profitability risk

Increased uncertainty may drive customers to place savings in safer and less fee-generating products like deposits, resulting in lower income from asset management. At the same time, investor concerns about increased risks and profitability, could push up funding costs.

A worsening economic scenario might result in disruptions to new lending and sanctions may bring greater compliance costs, hitting the bottom line.

Banks' exit from Russia

Given the sanctions and reputational risks involved, some banks have already announced their exit from Russia. Such exits could ensue challenges including seizure of physical assets, sudden unemployment for the bank employees and potential lawsuits from clients.

In March 2022, Goldman Sachs and JP Morgan announced the winding down of their Russian businesses. Similarly, in March 2022, Citigroup stated that it would broaden its planned withdrawal from the country, amidst the on-going conflict.

Similarly, Austria's Raiffeisen Bank International is evaluating different scenarios and options for its operation in Russia. Many other banks have also been reducing exposure to Russia via measures such as early repayments, cancellation of letters of credit or gradual write-down of exposure.

Impact on M&A landscape

Overall M&A activity has suffered a blow in first half of 2022, as market uncertainty, led by Russia's invasion of Ukraine, disrupted the deal making pace observed last year.

Both corporate and private equity buyers have had their plans disrupted by rising costs of energy, disruptions to supply chains and higher inflation. The conflict has impacted deals in earlier stages, with acquirers pausing/reducing the pace of their pursuit, assessing the impact of inflation, and conducting additional checks on the target's operations. Deal involving Russian entities have also suffered due the financial, reputational and legal risks involved.

As companies halt strategic mergers, fundraisings, and public offerings, global investment banking revenues are set to note disruptions in 2022.

Banking

Banking M&A landscape also noted a decline in deal volumes in 1H22, relative to 1H21, attributable to the disruptions caused by the conflict.

The uncertain nature of the conflict makes it harder to predict its future impact on the M&A landscape, even if in the last weeks different speculations have been made on cross border mergers in Europe.

Global banking M&A themes

In addition to consolidation, the main themes for global banking M&A in the remaining part of 2022 and beyond are likely to be digitalization, sustainable finance, a quest for scale, desire to improve asset quality, competition among acquirers, and regulatory demands.

Though all themes may not be prevalent for all geographies, however, they may be potential topics of discussion in board rooms of many banks.

1. Accelerating digitalization

The shift from branch-based to online banking was well under way, before COVID-19 accelerated the transition, as financial institutions strive to keep up with customer expectations and counter competition from start-ups, internet giants, fintech, neo banks, and new entrants from other sectors.

Fintech is becoming mainstream, providing instant digital lending to retail and SME customers, leapfrogging legacy banks' slow and cumbersome loan processing with faster and easier services. With a digital-only presence, allied with innovative marketing techniques, these new players reduce the cost of operations and customer acquisition.

Additionally, technological advances such as mobile payments, merchant mobile apps, and cryptocurrencies, are disrupting traditional payment volumes and interchange revenue, hitting conventional banks' revenue streams and forcing investment in digital transformation.

Further, deployment of technology can deliver cost savings, with automation taking over inefficient, manual middle and back office processes. AI chatbots, AI-ML-enabled tools, and data analytics are already growing in use, offering personalized customer interaction, accelerated KYC and lending decisions and better fraud prevention and loan pricing.

The rise in online banking also gives banks the opportunity to further cut costs by reducing branch footprint.

Potential impact

Banking leaders recognize that digitalization is essential to improve the performance, with players launching their own digital banks (as a separate legal entity or brand), as well as accessing talent and digital capabilities through acquisitions and partnerships.

Fintech partnerships and acquisitions also provide more diversified revenue sources by expanding the range of products and services.

Italian bank (Intesa Sanpaolo) has recently announced plans to start a digital bank, ISY Bank, as it seeks to counter new fintech competitors, reduce costs, and grow its international retail market. Standard Chartered has invested in its digital banking solution in Hong Kong and has similar plans to roll this approach out regionally which is consistent to other digitally led banks in Singapore like DBS.

We can also expect some banks to set up their own corporate venture funds to invest in technology capabilities. Additionally, PE and VC have been active in the neo bank sector. Our recent Pulse of Fintech report observes increasing investor attention on large challenger banks — with large VC funding rounds raised by such entities.

2. ESG assuming a central role

With investors, customers and regulators demanding greater evidence of sustainable, purposeful business practices, banks are taking ESG seriously.

More than 270[1] banks representing over 45 percent[1] of banking assets worldwide have joined the Principles for Responsible Banking framework, to ensure strategies and practices align with the UN Sustainable Development Goals and the Paris Climate Agreement. Many banks have also been involved in regulatory discussions around taxonomy and green finance.

Sustainability is increasingly embedded in market offerings, with commercial and retail customers able to choose from a growing variety of ESG-linked funds, bonds and assets. Retail banks are creating new sustainable banking and investing products and services, such as green home-improvement loans, carbon neutral banking and sustainable exchange-traded funds. Wealth management arms are moving towards ESG-informed investing, while capital markets are adopting 'green underwriting'.

However, many banks still possess significant profit-generating 'brown' assets and must balance their ESG ambitions against shareholders' desire for strong returns.

[1] Source: United Nations Environment Programme — Finance Initiative.

Potential impact

In addition to financial viability, future deals will increasingly be viewed through an ESG and social policy lens, as stakeholder scrutiny rises. ESG is no longer a box-ticking exercise, and businesses that demonstrate environmentally and socially sound operations, and good governance and sustainable products, will be more attractive deal targets.

Additionally, banks' asset management units are likely to pivot finance towards greener and more sustainable companies.

3. Scaling operations

Faced with revenue disruptions, profitability concerns, competition from non-traditional, digital players, rising compliance costs, and tighter cybersecurity, banks are seeking scale efficiencies.

Potential impact

Acquiring another bank can create pathways into new geographies or increase presence in existing markets, expand products, services and business lines, acquire technology and talent, and bring cost efficiencies. Deals can also leave positive impact on funding, by reducing costs and improving profiles. For smaller banks with limited resources, being acquired offers the opportunity to fund technology spending, overhaul legacy systems and mitigate the growing cyber risk.

4. A widening universe of potential buyers

With the likes of PE houses, technology companies, conglomerates and others on the lookout for bank targets, the M&A market is getting more competitive.

PEs are either investing in or buying bank assets directly (including underperforming ones), bringing in fresh equity, reoriented strategy, and a financial base for technology and digital investments. North American PEs are especially interested in European banks, attracted by low valuations and high growth potential associated with continued consolidation in the sector and increasing focus on commission revenues.

In the US, fintechs are buying small bank charters, over-bidding other banks to enable them to offer a range of services.

Acquirers such as conglomerates, and players from other sectors are also active.

Potential impact

Widening universe of buyers make it difficult for traditional banks to acquire targets and grow inorganically and may force them to consider other routes such as partnerships.

5. Asset quality dynamics post-COVID-19

Europe

Thanks to government policies, the scare of pandemic led NPL surge has not materialized so far. The continued decline in EU NPL levels in the recent quarters is a result of fiscal (stimulus packages, loan moratoriums, etc.) and regulatory measures and the wider economic recovery from COVID-19 induced disruptions.

The decline in NPL volumes was further driven by secondary market disposals and government led/backed securitization schemes. March 2021 amendments to securitization regulation have also helped, by recognizing securitization as a funding tool to facilitate NPL sales.

However, a range of factors suggest a slight deterioration in NPLs lies ahead. The combination of declining NPLs and rising Stage 2 loans may foreshadow an NPL increase, with the ratio of Stage 2 loans (for EU) at 9.1 percent for 1Q22 up from 8.9 percent for 4Q21 and 8.7 percent[1] in 3Q21. Additionally, the uncertainties arising out of the Ukraine conflict, may drive an increase in NPL volume and bad debt provisions.

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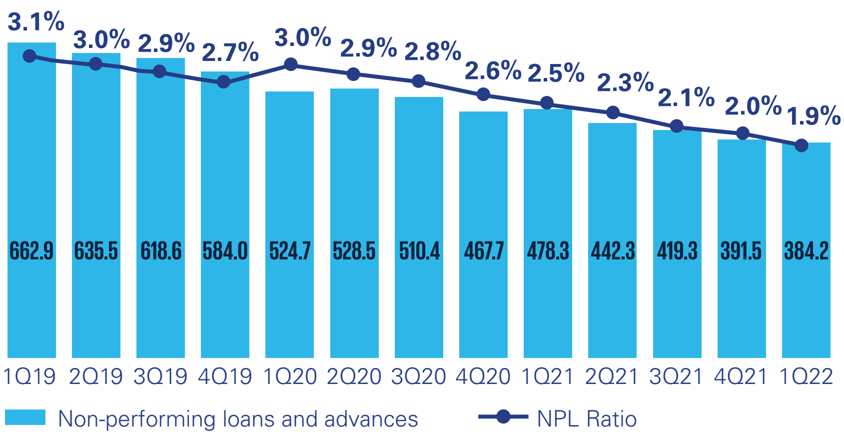
1 Source: European Banking Authority

EU NPL Stock and Ratio 2019–1Q22, EUR billion



Source: European Banking Authority

ASPAC

In order to mitigate COVID's impact on businesses and keep NPL volumes in check, central banks in ASPAC countries/territories have been generous with their forbearance measures. As the payment moratoriums gradually phase out, the real impact on loan portfolios will become much clearer.

Certain economies in the region have established NPL markets that facilitate and allow trade in distressed assets. Others, however, lack such platforms due to legal and institutional shortcomings.

Potential impact

European banks are likely to continue to dispose NPLs, given the focus on reducing their exposure, and NPL investors' appetite for such assets.

As global investors shift their focus to Asian opportunities, there has been a growing ASEAN market for strategic and financial investors in distressed banking assets. Over the next 5 years, banks in ASPAC will work towards developing a seamless NPL sales process, while, concurrently, regional AMCs will emerge, with specialized knowledge in managing and working out NPLs. The market is expected to remain highly competitive for sellers, and banks will likely need to build strong asset management competencies to generate higher bid prices and improve recovery rates.

6. Regulatory headwinds and tailwinds

US

Changes in the regulatory environment increased scrutiny of M&As, in a bid to increase competition and reduce corporate consolidation. Consequently, in March 2022, the Federal Deposit Insurance Corporation initiated a review of bank merger rules, and in April 2022, Senate Banking Committee Chairman Sherrod Brown asked other regulators to join the FDIC. These developments have fueled uncertainty among large banks around approval for transformational mergers.

Europe

In Jan 2021, the European Central Bank published the final guide to supervisory approach for consolidation. The guidelines aim to provide certainty around deals by stating that (i) profits arising out of badwill are permitted to be used as combined capital of the new bank and (ii) credible integration plans will not be penalized with higher Pillar 2 capital requirements.

ASPAC

Regulatory developments have been impacting the banking deal activity across the region. In Japan, regulatory developments have been a catalyst for banking deals, such as the various schemes to incentivize regional lenders to consolidate, deregulation of what banks and subsidiaries are allowed to conduct as businesses, and deregulation of types of business the banks are allowed to acquire/invest in, etc.

In China, the regulators will continue to supervise and support the domestic financial institutions, to ensure a safe and stable financial service market in the wake of macro-economic uncertainties and pandemic led disruptions. In India, recent developments are hinting at divestment of government stake in public sector banks.

Potential impact

In the US, the backlog for Federal approvals, along with uncertainty from recent regulatory and political developments, has reduced the pace of large bank M&A activities. Larger banks are holding back from major deals amidst fears that they may fail to secure approval.

It's a different story in the EU and ASPAC, where regulatory actions are causing more, rather than fewer deals.

7. Hikes in interest rate

The Ukraine crisis has had a marked impact on the world economy, ensuing disruptions to trade and higher prices for essentials commodities. With inflation at fresh highs in several countries, major central banks around the world have resorted to policy tightening in the recent months.

In June 2022, the central bank in the US raised the benchmark interest rate by 75 basis points (reported to be the most aggressive hike since 1994). An equal increase followed in July 2022. Further increase can be expected in the months to come, depending on how the inflation responds to the monetary policy actions implemented so far.

In July 2022, the Governing Council of European Central Bank announced an increase in interest rates for the first time in 11 years. Effective 27 July 2022, the interest rate on the main refinancing operations (MRO, which provide the bulk of liquidity to the banking system), the interest rates on the marginal lending facility (which offers overnight credit to banks from the Eurosystem) and the deposit facility (which banks may use to make overnight deposits with the Eurosystem) were all increased by 50 basis points. On 14 September 2022, the European Central Bank raised interest rates by additional 75 basis points to tackle record inflation, despite fears of recession. More increases can be expected in the times to come, given ECB's strong eye towards bringing inflation down to its 2 percent target over the medium term.

Potential impact

While on one hand, the hike in interest rates may boost banks' net interest margins, it may also dampen the loan demand or negatively affect investment portfolios.

In terms of M&A, the interest rate may hurt deal activity, with banks pausing to assess impact on tangible book values.

Banking M&A insights: Regional outlook

Europe —

Regional overview

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Global banking M&A 2021
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Summary

The European banking sector is set to witness plenty of M&A activity in the remaining part of 2022 and beyond, as banks equip themselves for the tech enabled world, realign strategies for higher profitability and improve capital ratios.

Southern Europe should experience continued consolidation, given the current low profitability, strong regulatory ambition for bigger banks, post-deal cost synergy/ scaling opportunities, and a desire to gain digital capabilities.

Domestic deals are likely to continue to predominate in the short term. Over time, large wholesale banks, in concentrated markets, may venture into cross-border M&A deals, to ensure a stronger European foothold.

European banks are also expected to take advantage of higher valuations across the Atlantic, selling their flourishing North American businesses to secure capital for investment closer to home. Looking in the opposite direction, North American PEs are eyeing the European banking sector, attracted by its lower valuations and the growth potential associated with commission businesses and rising consolidation. Indeed, commission is a growing focus for European banks struggling with low profitability, as they look to consumer finance, insurance and wealth management — which tend to be less capital intensive and more profitable.

Lastly, the banking sector is vulnerable to the ongoing Russia-Ukraine conflict, as current low profitability forecasts could further deteriorate in the face of economic downturn.

Europe — Selected country/territory overviews

France

Deal volume expectation in 2022 (relative to 2021)

Decrease | **Stable** | Increase

France has a mature, heavily concentrated banking sector dominated by several large groups, leaving limited room for large deals. However, there are exciting opportunities in other financial services sub sectors such as insurance brokerage, private banking, wealth and asset management — with the latter two consolidating in a highly fragmented market, and a host of transactions in the pipeline.

When it comes to cross-border activity, fintechs and NPLs, the French M&A environment remains relatively quiet, the former due to regulatory restriction.

Currently, banks and insurance companies are wary of the hype around the many fintech opportunities hitting their desks, with a lack of unique prospects.

Domestic banks have so far preferred to keep NPLs on their books and have been reluctant to divest. Investors are getting ever more sensitive to ESG, and asset management funds are expected to focus on sustainable investments as driver of future value.

The Ukraine conflict has not impacted deals in the mid cap space. Also, given the very quiet French Banking M&A activity due to the reasons above-mentioned, this should not affect the overall volume of deals.

PE activity: PE houses prefer to focus on non- or lightly-regulated targets like brokerage, IFAs and payments.

> “I expect 2022 to stay as quiet as 2021 in terms of both large banking transactions and cross-border acquisitions.”

Nicolas-David Kersen
Partner M&A, Head of FIG
KPMG France

Germany

Deal volume expectation in 2022 (relative to 2021)

Decrease | Stable | **Increase**

M&A volume is likely to increase in 2022 with multiple mega deals — involving commercial banking, direct banking, and universal banks — prepared in the last year and set to be marketed in this year.

Both cross-border and domestic deals should be relevant, dependent primarily on demand in particular sub-segments. In the debt collection and leasing market, regulatory changes are likely to drive consolidation at a national level.

PE activity: PE is expected to remain active, as players invested in traditional credit institutions prepare for the sale of their portfolio holdings after successfully restructuring their businesses in recent years.

PE investors are also showing high interest in tech based scalable business models, especially in traditional classic banking products with a high manual component, such as debt collection and international business (trade finance).

Italy

Deal volume expectation in 2022 (relative to 2021)

Decease | Stable | **Increase**

The Italian banking sector has experienced two strong years for M&A activity, beginning in 2020 with Intesa Sanpaolo's acquisition of UBI Banca, and Crédit Agricole Italia's purchase of Credito Valtellinese. This continued into 2021, with further consolidation, in order to secure cost efficiencies — by closing branches and streamlining IT and personnel — improve profitability and achieve digitalization. Italian cooperative banks also witnessed a healthy transactions market.

Another deal driver was banks' focus on diversification of revenue streams such as bancassurance agreements and capital-light business lines, such as wealth management and private banking.

2022 should see further growth in deal volume, with domestic consolidation again the key catalyst, given the current geopolitical uncertainties and regulatory complexities associated with cross-border deals. Both Banco BPM (the 3rd largest bank by total assets in 2021) and Banca Popolare di Sondrio (12th largest in 2021) are expected to be involved in consolidation deals.

In April 2022, Credit Agricole acquired a minority stake (9.2 percent) in Italy's Banco BPM, which may be a prelude to an attempt to consolidate its relationships with Banco BPM, and become a strong partner for its insurance business in Italy. In June 2022, BPER Banca finalized the acquisition of Banca Carige. In August 2022, the European Commission approved Italy's request for an extension of the deadline for the sale of the stake held in Banca Monte dei Paschi di Siena (MPS), Italy's 6th largest bank in terms of total assets in 2021. The approval follows the Ministry of the Economy's application for the deadline extension in which further restructuring pledges including staff cuts to lower operating costs and further disposals have been granted. The five years plan approved by the BOD of the Bank on 23 June 2022 partially included those commitments. And finally, the largest Italian banks are considering buying insurance businesses, to take advantage of the capital incentive provided by the 'Danish Compromise' rule, similar to Intesa Sanpaolo's in-house model.

PE activity: PE deal activity is expected to focus on two sub-sectors likely to provide the most attractive investment opportunities. Firstly, NPLs are in their sights, as Italian banks seek to lower their risks and hedge against a potential downturn resulting from the Russia-Ukraine conflict. Digital payments are another target for PE houses, following the steep increase in electronic payments and e-commerce since the pandemic.

Room for further consolidation

"Italy has been the most active market in the Eurozone, with several major transactions over the past year or so, both domestically, as well as cross-border acquisitions of Italian banks. Consolidation continues apace — in the past few years, four of the top ten banks have either merged or been acquired, in a bid to create greater efficiencies in the wake of below-par profitability. Acquirers aim for at-scale cost reductions through system synergies and branch closures.

Several Italian banks are forming internal 'factories' — notably in bancassurance, in order to generate recurring commission revenue. In the next 1-2 years, we can expect further domestic consolidation, indicating a healthy deal market."

Giuseppe R Latorre
Global Financial Services Deal Advisory Lead,
KPMG International and Partner,
KPMG in Italy

Luxembourg

Deal volume expectation in 2022 (relative to 2021)

Encouraged by local regulators, in 2021 banks pursued M&A primarily to consolidate, mostly through asset deals. Private banking groups set their sights on targets in the country, with an intent to serve a pan European client base. Deal volume is likely to be stable in 2022, with domestic consolidation continuing, along with some expected cross-border acquisitions.

PE activity: PE firms are not expected to be particularly active in Luxembourg, as they are largely absent from the private banking sector.

> “Banking consolidation in Luxembourg is an unstoppable trend that has been in motion since the last credit cycle and is openly encouraged by banking regulators.”

Yves Courtois
Lead Partner, Financial Services, Deal Advisory
KPMG Luxembourg

Spain

Deal volume expectation in 2022 (relative to 2021)

In 2021, Spanish banks experienced consolidation as well as disposals of business lines that didn’t bring competitive advantage, such as depository and custody, and e-payments. The sector was also characterized by partnerships set up by the largest banks to offer services on a global basis; reconfiguration of last bancassurance agreements, as in the post mergers of banks — Bankia/Caixa; and a relaunch of the NPL market.

Deal volume in 2022 is expected to remain stable, with further consolidation (including bank mergers to gain cost savings) and rising NPL sales. New payment services and partnerships are set to grow, opening up the market to innovative fintechs.

PE activity: PE players are expected to be active in NPLs, financing (personal and consumer digital channels) and leasing and factoring space.

Switzerland

Deal volume expectation in 2022 (relative to 2021)

While the country experienced a very busy 2021 for financial services M&A, banking contributed less than 20 percent of the deals. The main action consisted of consolidation in Swiss private banking, international acquisitions of large Swiss private banks, and some exits by Swiss private banks from markets with sub scale activities.

In 2022, banking deals volume is likely to be stable with further private banking consolidation and transactions from large private banks to optimize their international operations. New licensing requirements for independent asset managers should be a spur for activity. Crypto banks and other crypto businesses also enjoy growing interest.

PE activity: PE activity is expected to be limited in the sector.

UK

Deal volume expectation in 2022 (relative to 2021)

Decrease | Stable | Increase

Banking deal volume increased substantially in 2021 compared to 2020, as the financial services sector started to rebound, on the back of a strong economic recovery in 1H21, and positive sentiment out of the large-scale vaccine roll-out. Digital transformation also played a key role in deals involving acquisition of digital capabilities and cross-sell opportunities (e.g., in the wealth sector).

In 2022, the deal activity was expected to remain buoyant, especially in domestic consolidation. However, the market is processing the fallout from geopolitical events, rising interest rates, and impact of a higher cost of living on net interest margins, cost of risk, and the path to profitability for fintech firms. This has slowed the pace of assets coming to market and lengthened the time it takes to do a deal, compared to 2H21 and 1Q22.

Large domestic banks, which had been quiet on the deal front since the deleveraging post-financial crisis, are increasingly looking to acquire new capabilities. Some are also undertaking small-scale portfolio divestments to focus on priority areas. On the mid-tier side, competitive and regulatory headwinds are driving consolidation. The closer regulation of the Buy Now Pay Later (BNPL) sector in 2022 may affect some of the smaller players in the fintech space.

Although digital transformation should continue to drive M&A, the impact on fintech of the 1Q repricing of tech stocks is still uncertain. With many fintech broadly well capitalized and serving global markets, the opportunity for acquisition from large banks at highly discounted values (fire sales) seems distant. Nevertheless, we see potential for some deals.

PE activity: PE will remain active across most segments, primarily in specialty finance and payments. Broad PE interest in unsecured credit may reduce to more specialist funds during any period of economic uncertainty, with the potential for higher credit losses.

ASPAC —

Regional overview

Summary

Banking M&A experienced an active year in 2021, with larger local and regional banks driving deals through FDI and consolidation, chasing higher market returns or meeting increased regulatory capital requirements. Further, global banks with under-performing country businesses in ASPAC are looking to exit or simply operations into their core banking activities — mostly exiting consumer businesses, amidst the expansion of digital banks, e-wallets and competing payments and digital lenders.

In terms of asset quality, few local markets are showing early signs of a developing NPL secondary market.

Also, the new digital banks emerging across ASPAC should increase efficiency and competition and provide further acquisition targets. On the other hand, some banks are internally funding digital ventures in order to stimulate innovation. By adopting early-stage investments, they aim to capture growth opportunities in the fintech space for banking-as-a-service (BaaS), lending, insurance and wealth.

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Regional expansion driving deals

"The year 2021 saw a number of significant deals in ASPAC, with some global banks exiting their underperforming businesses and regional and national banks expanding into other markets within the region.

New digital licenses have been issued in a number of geographies, including Singapore, Malaysia and Hong Kong, (SAR) China often involving partnerships with digital payments platforms and large consumer businesses, rather than fully fledged banks. Market players are making their move to acquire these licenses or digital banks in order to leverage their customer base across multiple markets, and offer multiple products through the established ecosystems and partnerships. This will accelerate their path to profitability as the number of customers and products grow.

As you'd expect in a large region, local dynamics vary widely. Australia has been addressing various Royal Commission questions, with larger banks divesting insurance, wealth management and leasing businesses. China remains domestic focused, while India has seen a thriving payments market, with transactions for buy now pay later providers and other fintech opportunities.

Consolidation is ongoing in countries like Indonesia, where the banking and other financial services sectors are highly fragmented, and the government has been imposing regulatory requirements and other pressures, to strengthen the industry through M&A and increases in minimum capital requirements.

Also, large regional banks from South Korea, Japan, Thailand and Singapore are continuing to expand into adjacent regional countries with recent acquisitions in countries like Indonesia, Vietnam, Thailand and the Philippines (e.g., the United Overseas Bank's acquisition of the Citibank consumer businesses in Vietnam, Indonesia, Malaysia and Thailand). Further, PE buyers are continuing to invest in lightly regulated assets across the region, including payments, e-commerce and, consumer finance and, insurance, rather than directly into banks.

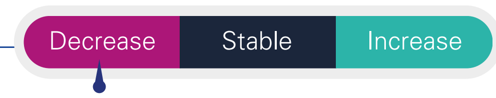
Looking ahead through 2022 and beyond, last year's supercharged market may drop a little but should stay strong. And, if recession does come, this could signal restructuring opportunities. Overall, the combination of an emerging middle class, underserviced banking sector, and dry powder from sovereign wealth funds and banks, means that, even in a downturn, the prospects for M&A in ASPAC look bright. The two biggest drivers are the quest to create pan-regional powerhouses, and the acquisition of technology capability to drive business efficiency."

Stephen Bates
Partner Financial Services, Deal Advisory,
KPMG in the Singapore and ASPAC region Lead

ASPAC — selected country/territory overviews

Australia

Deal volume expectation in 2022 (relative to 2021)



Major banks shifted their focus to growth in 2021, resulting in strategic acquisitions that lay ground for further consolidation in the banking sector. While banks are expected to continue to pursue growth, they are likely to be cautious in their pursuits in 2H22, as they wait to assess the impact of inflation and rising interest rates on asset prices, security and ultimately bad debts. Most likely volumes will come off a little from the 2021 levels as availability of assets and the economic background create a lower number of opportunities to pursue.

Additionally, changes to the regulatory environment, including the Australian Royal Commission and Future of Financial Advice, have increased scrutiny, added costs of compliance and customer remediation, pushed up risk levels and challenged vertically integrated businesses. When combined with rising competition from industry and technology players, banks have been under pressure to divest non-core businesses such as insurance and wealth management.

PE activity: In the recent past, large global PE houses acquired SME lending businesses, asset and wealth managers, payments businesses and leasing businesses, as part of divestments from banks.

PEs are likely to now focus on secondary asset sales from current owners, however, there remains genuine pent up demand for financial services acquisitions by PE in Australia.

China

Deal volume expectation in 2022 (relative to 2021)

A very active banking M&A market in 2021 was driven by regional consolidation of small and medium sized banks (SMB), seeking new capital to support continuous growth and divestment of non-core FS assets in state-owned NPL Asset Management Companies.

Despite uncertainties over the macro-economic environment and further pressure on the economy from COVID-19 driven lockdowns, we believe banking M&A will stay active in 2022, although unlikely to eclipse 2021.

Some large Chinese banks are seeking new capital to support further growth, where certain rural and city commercial banks may opt for consolidation to be market competitive and attain more sound capital structure.

Chinese banks have been required to segregate their wealth management businesses from core banking operations to reduce conflicts of interest, prompting several foreign asset managers to form JVs with Chinese banks — a trend set to continue.

Foreign financial institutions are assessing their business and strategic plans in ASPAC and Greater China, which will drive more M&A activity around acquisitions, divestments, or new JVs. Looking beyond the domestic market, Chinese financial institutions are also reviewing their global strategy/footprint given the current uncertain economic environment, and geopolitical challenges.

PE activity: PE firms are not expected to be active in the banking sector in 2022, given the current regulatory environment in China.

> “Along with the government’s official release of the 14th Five-Year Plan (2021-2025), regulators will continue to require proper governance structure of Chinese financial institutions and supervise closely the development of non-traditional financial service providers. China has also further promoted the opening of financial services sectors to foreign investors. Accordingly, we expect 2022 to stay active for FS M&A transactions, consolidation of regional SMBs and rural banks, divestment of non-core FS business and JV deals between foreign and domestic financial institutions.”

Louis Ng
Lead Partner, Financial Services, Deal Advisory
KPMG China

Hong Kong (SAR), China

Deal volume expectation in 2022 (relative to 2021)

Decrease | Stable | Increase

Business models in the Hong Kong banking industry are expected to continue to change on the back of investment in technology. While digital transformation has already been ongoing for many years, it remains a key focus for banks. This is evident in investment across areas such as customer experience, operations, regulatory compliance and risk management.

The Hong Kong Monetary Authority approved full digital banking licenses for eight virtual banks in 2020. Most virtual bank applicants partnered with traditional banks and/or large conglomerates.

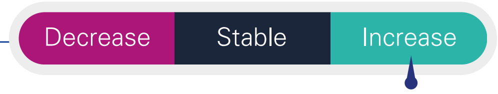
Virtual banks in Hong Kong have completed their first full year of operation. While a few have performed well, most are struggling to find a clear path to growth and have been investing heavily in customer acquisition. These banks are now also facing stiffer competition from traditional banks that have strengthened their own digital offerings in response to the arrival of the virtual banks. We do not believe there is enough room for eight virtual banks in the market and we expect that some may shut down or quietly cease operations, while others look to build scale through international expansion into ASEAN markets.

The impact of digital disruption, macro-economic events and geopolitical change is giving investors pause for thought. We expect domestic Hong Kong banking sector deal volumes to be relatively muted in 2022 as investors take a wait and see approach, with much of the activity in the form of cross border investments by Hong Kong based institutions into ASEAN markets.

PE activity: PE focus tends to be in ‘money lender’ space. Relaxed regulations allow money lenders to charge up to 60 percent effective APRs, and the money lender license carries no capital requirements and relatively low regulatory hurdles.

India

Deal volume expectation in 2022 (relative to 2021)



Like many other markets, consolidation is a major factor driving M&A in India's banking sector, with government and regulators keen to reduce the number of public sector banks. Many of the acquisitions are influenced by the desire to enhance technology capabilities. The private banking sector has also been active, with large banks aspiring to grow, and smaller and/or distressed banks being bought.

In the next couple of years this consolidation is predicted to continue, with the government planning to divest its stake in six public sector banks, having already announced the privatization of two banks in its 2021–22 budget. Deal volumes are set to increase in 2022, primarily due to domestic activity. Foreign owned banks will need to have presence in form of wholly owned subsidiary to enable to acquire and merge domestic banks.

Fintech payments players are a growing acquisition target, reflecting rising penetration of e-commerce and use of cards and digital wallets, along with government support for cashless transactions and payment infrastructure improvements.

The launch of new services and platforms, such as digital payment platform 'e-RUPI' and Account Aggregator, should act as a further spur to new deals. Another emerging trend to watch out for is co-lending, with a number of partnerships formed, and considerable potential for acquisitions by banks eager to access new capabilities.

PE activity: Given the regulatory restrictions on PE ownership of banks, it's little surprise that these investors have very limited presence in the Indian banking market. However, with the government planning to divest stakes in public sector banks, it remains to be seen whether the doors will open. With their dry powder, PE players are active in acquiring non-banking financial companies (NBFCs), emerging fintech businesses and asset backed lenders.

Japan

Deal volume expectation in 2022 (relative to 2021)

The continued government's focus on consolidation among smaller regional banks, in response to a challenging economic environment, with limited growth potential, ageing population and negative interest rates, resulted in several announced consolidation deals in 2021 and will result in more deals in 2022. Several government measures to facilitate consolidation have been introduced in 2020 and 2021, such as the introduction of an exception in applying antitrust legislation, subsidies for integration costs by Deposit Insurance Corporation of Japan, and the application of additional interest rates on central bank deposits.

We also expect to continue seeing deals involving domestic leasing companies/ businesses, such as consolidations, alliances, acquisitions, in order to strengthen financial bases for taking more risks for growth area, to combine business strengths of non-financial companies and those of leasing companies, and/or for non-leasing companies to expand service line-ups by obtaining leasing capabilities.

Moreover, major banks and leasing companies are seeking opportunities to acquire banking and non-bank financial services businesses overseas, particularly in Southeast Asia and South Asia.

PE activity: PE is not active in the banking sector.

South Korea

Deal volume expectation in 2022 (relative to 2021)

Decrease | Stable | **Increase**

In an active year (2021) for banking M&A, the biggest deal was the partial acquisition of Woori Financial Group Inc. by multiple investors. K-Bank and Viva Republica (Toss Bank), received additional investments of USD 648 million and USD 410 million respectively from multiple investors, including PE.

Following a trend across ASPAC, leading South Korean banks are viewing offshore expansion as their home markets become saturated.

In 2021, domestic banks and PEs invested in a number of companies in the fintech, IT and virtual assets sectors.

Given the continued needs to expand overseas, business diversification and digital transformation, a slight increase in Korean Banks' M&A activities is expected.

PE activity: Korean banks might be considering strategic M&A to strengthen securities, insurance and payments, so PEs would consider the opportunity to sell their financial companies. PEs also may in particular seek co-investment opportunities with Korean financial groups as a way to increase deal flow and to diversify risk.

Furthermore, not only the Korean government is promoting investments in fintech and non-financial companies to strengthen digital finance, but also Korean banks are expanding investments in microfinance and fintech/big tech companies in Southeast Asia. PEs again will seek investment opportunities along those sectors.

Americas —

Regional overview

Summary

A stellar 2021 for banking transactions saw the US enjoy a record high in terms of value, with deals largely based around domestic scaling of services and capabilities. Canada's banks, on the other hand, opted for M&A beyond borders, primarily in the US, given the lack of significant growth opportunities in the domestic market. The key drivers for banking M&A in North America are geographic and offering complementarity, acquiring and enhancing digital capabilities, and improving competitiveness.

Americas — selected country/territory overviews

Brazil

The banking and payment M&A activity was very hot during 2021 and the first semester of 2022. The activity can be attributed to the quest for new products and services, consolidation and new entrants looking into playing a more relevant role in the market.

Many players were successful in fund raising, triggering consolidation in the market. Also, a great deal of new business and solutions are disrupting the market. Large incumbents banks and fintech are also looking for acquisition/merger opportunities.

The second semester of 2022 is expected to be a moment of evaluation from the market, due to the global crisis and uncertainties in Brazil. We expect the M&A activity to recover from the end of 2022/start of 2023. A lot of opportunity still remains hot, given the competition for clients still strong in a growing banking and payment solutions market.

Canada

Deal volume expectation in 2022 (relative to 2021)

Decrease | Stable | Increase

Canadian Big Banks continue favoring international market for significant M&A activity - primarily the US. Even so, they would not be dismissing M&A opportunities within Canada as long as there is a strategic fit, and when regulatory and competition approvals could be expected to be reasonably granted.

Canadian Big Banks carry healthy capital positions. They are redeploying some through share buybacks and increasing dividends, maintaining a prudent outlook on the economy and the potential stress on balance sheets and profitability.

The domestic market continues to see some balance sheet activity, with Equitable Bank announcing the acquisition of Concentra Bank in February 2022. Fintech continues to see interest by investors with business models being scrutinized for success.

Transaction activity in the banking sector is expected to be smart in 2022. Both strategic buyers and investors are expected to be active, with dealmakers looking to capitalize on opportunities to deploy dry powder to pursue business growth strategies.

PE activity: PE remains active in the Canadian payments, fintech and non-bank lending sectors. Activity is not expected to expand significantly beyond these sub sectors.

Deal volume expectation in 2022 (relative to 2021)

Decrease	Stable	Increase

US

The US experienced an active banking M&A sector in 2021, characterized by multiple high-value deals in a quest for growth, higher scale, sophisticated digital capabilities, franchise strength, and cost synergies amidst elevated cost levels.

Digital transformation remains a key driver for bank M&A. In particular, community banks face high competition from fintech startups and national banks with significantly higher technology budgets, and consequently see mergers of equals (MOEs) as a way to gain scale and fintech capabilities — continuing a trend from 2021.

While surging inflation and increased regulatory scrutiny around high value deals led to a deal market slowdown in 1H22, several trends are likely to encourage activity for the rest of the year and beyond.

In a prolonged increasing interest rate and inflation scenario, larger banks may benefit at the expense of smaller banks, as the latter typically raise borrowing rates at a slower pace to avoid losing customers.

Such smaller banks may hence struggle to remain competitive, eventually becoming vulnerable targets for bigger banks looking for opportunistic acquisitions.

Fintech too are likely to face the brunt of economic disruptions, finding it harder to borrow (as rates rise) or raise capital (as economic growth slows). This may shift the focus towards profit generation as opposed to raising revenue, which can be tough for young companies that are yet to establish a strong footing. This is likely to leave many fintech more exposed to acquisition or compel them to sell stakes for capital.

Further, consolidation among smaller regional and community banks is expected to continue, driven by the need to expand geographic reach and beef up depositor bases.

PE activity: PE will remain active in fintech and challenger banks but bank holding company regulations will continue to keep them largely outside of bank investing.

An abrupt halt to mega deals

“With increased regulatory scrutiny slowing down activity, banking M&A in the US has suffered quite a shock to the system. We will continue to see other types of deals, namely purchases of fintech to improve customer experience, leapfrog legacy technology, and enhance customer acquisition. A further driver is consolidation of mid and lower tier and community banks, which could increase transaction volumes significantly, in order to achieve scale and cost synergies.

Cross-border inbound divestments are buoyant, as overseas banks shed US assets to retrench. Looking outwards, a number of big US players have acquired European fintechs, taking advantage of non-regulated opportunities. Aside from these, expect US banks to focus on the ample stock of available domestic targets — especially in light of the heightened risk from European banks' exposure to Russia and Ukraine.

Distressed asset opportunities are relatively rare, although the rising interest rates may cause mortgage defaults that impact originators, offering some acquisition opportunities. Fintechs are also seeking to gain banking charters, which would make them direct competitors, further stimulating M&A. Banks are still figuring out the ramifications of ESG, in terms of reporting and investments, but this is undoubtedly influencing the deal market in terms of the kinds of portfolios investors would like to hold.”

Timothy Johnson
Partner Financial Services, Deal Advisory,
KPMG in the US and Americas region Lead.

Rest of the World — selected country/territory overviews

Nigeria

Deal volume expectation in 2022 (relative to 2021)

Decrease | Stable | Increase

The increased banking M&A activity in 2021 was due in large part to a rise in cross-border deals, along with significant PE interest and investments in payment services, digital banking and credit institutions. 2022 also promises to be a strong year, with banks looking beyond their own domestic markets to take advantage of increased intra-Africa trade in the wake of the 'African Continental Free Trade Agreement'. Improvements in cross-border payment systems are a further stimulant. Amongst the other drivers of M&A are the desire for fintech capabilities, as well as acquisition of complementary businesses, such as pension, insurance, fintech, to create financial services groups with wider customer touch points.

Domestic consolidation activity is expected to stay limited, although the potential sale of a bridge bank, plus capital and liquidity constraints for smaller banks, may present some interesting opportunities.

PE activity: PE participation is likely to remain very active with strong interest in payment services, digital banking and credit institutions. PE houses continue to provide funding for the scaling up of fintech businesses, to take advantage of the relatively low retail credit penetration and growing e-payment adoption. This strong interest in fintech has been heating up valuations — even higher than traditional banks in some cases — consequently some financial services groups are beginning to carve out their payment businesses to optimize valuation.

> "The outlook for banking M&A in 2022 is very good, expected to be driven by cross-border transactions to increase pan-African presence, in order to serve growing intra and inter-Africa trade, coupled with sustained strong investor interest in payment services, digital banks, and credit institutions, to take advantage of the significant opportunities in under-penetrated retail credit and e-payment services."

Dolapo Adeosun
Nigeria's Lead Partner,
Financial Services, Deal Advisory
KPMG Nigeria

UAE

Deal volume expectation in 2022 (relative to 2021)

Decrease | Stable | Increase

Consolidation and digitalization were the key drivers of deals in 2021, with banks acquiring strategically valuable assets and establishing digital banks in partnership with others.

In 2022, M&A activity is expected to remain stable, with a similar focus on technology and ongoing domestic consolidation in a saturated banking market, further strengthening the main players' capital positions.

Banks are focusing more on their core business and as a result monetizing by divesting non-core activities such as payment processing. Also, increased and enhanced local regulatory is likely to put additional pressure on small banks and add to the consolidation trend.

PE activity: PE firms are not expected to be particularly active in the UAE banking sector in 2022.

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Global banking M&A 1H22
Global banking M&A perspectives
Banking M&A regional performance | 2021–22
Impact of the Russia-Ukraine war
Global banking M&A themes
Banking M&A insights: Regional outlook

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Methodology

Deals data

The information presented in the report is an analysis of announced deals in the banking sector in 2021 and 1H22. The deal data for 2021 has been sourced from Thomson One, accessed on 24 February 2022 and the deal data for 1H22 has been sourced from Refinitiv, accessed on 6 July 2022. The target company belongs to any of the following sectors: all forms of banking — commercial, private, investment, retail, corporate; payment services; credit institutions; brokerage firms/houses; diversified financials/conglomerates; business support services. There are some adjustments made to the data to select only relevant data from the mentioned sub-sectors and exclude transactions of debt restructuring, buyback, repurchases and exchange offers. Certain sub-sectors such as accounting, auditing, bookkeeping services, and miscellaneous intermediation have been excluded. The analysis is conducted on M&A transactions including deal status of completed, pending and pending regulatory. Some intra group transactions may be included. Additionally, data is continuously updated and is therefore subject to change. It may not exactly replicate the previous year numbers as there are continuous additions that have been made in the back end from the database.

Sector performance

Factset database has been extensively used to build valuation and regression analysis for top regional banks. Top banks have been considered based on market capitalization. All data has been extracted as on 15 June 2022.

Survey

An internal KPMG survey was conducted with Deal Advisory Banking/ FS leads of approximately 15 countries/territories. The survey covered three aspects: historical trends of 2021 and expected trends of 2022 in banking deal environment; PE impact on deal activity; and whether deal volume is expected to remain stable, increase or decrease over 2020. For each country/territory, the information has been provided by the respective KPMG leads. Country/territory level analysis is based on the survey inputs and information on the open domain.

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