

# Financial Services in Central & Eastern Europe

A CMS Cameron McKenna report in association with mergermarket





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# Foreword

In mergermarket's latest Heat Chart<sup>1</sup> the Financial Services sector in the CEE and CIS regions is the pre-eminent area of anticipated M&A activity. We at CMS Cameron McKenna would certainly agree that this dynamic sector is extremely 'hot', and has been for a few years now. Indeed, since 2004 there have been close to 250 deals worth around €21bn. Furthermore, as this report shows, the influence of foreign banking groups in the CEE region is significant and continuing to grow. In many CEE countries foreign banks now hold at least 70% of the market, and while this number is lower in the CIS, they are quickly catching up.

The regions are also highly profitable for financial services providers. Western banks are increasingly deriving large proportions of their profit from these countries; for example Austria's Erste Bank claims 60% of its profits in 2005 come from CEE, while according to Standard & Poor's Raiffeisen International another Austrian bank relied on CEE for more than 50% of its profits during the year.

In this report we bring you the latest trends in M&A activity, as well as features exploring some of the issues affecting financial services in the region. The report also features a straw poll of CEOs and banking advisers in the sector in which we garner their views on future M&A prospects in CEE.

Our CEE financial institutions group has been providing strategic advice to many of the international players in the region for the last five years and we have advised on many of the largest transactions to have taken place in that time. If after reading this report you would like to discuss financial services in CEE and CIS then we would love to hear from you.

**Helen Rodwell**  
CEE Head of M&A  
CMS Cameron McKenna

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<sup>1</sup> The latest Heat Chart is published in the Q3 edition of mergermarket's Deal Drivers Europe publication. The Heat Chart is based on 'Companies for Sale' tracked by mergermarket in Europe between 01/01/2006 and 18/10/2006.

# Banking in the CEE and CIS Region

## **The CEE reaches maturity**

The influence of foreign banking groups in the CEE region is now pervasive. In almost all core CEE markets foreign banks now hold at least 70% market share, and in many markets this is far closer to 100%. At the same time, the volume of total assets held by these banks in the region and net profits of the market continues to trend upwards.

Starting with privatisation in individual markets, the past decade has seen a coterie of foreign banks, largely from Austria but also France, Belgium and Italy, establish significant presence in multiple markets in the CEE. Otherwise select intra-regional players such as Hungary's OTP have been able to spread their wings across the region.

## **EU Accession has boosted M&A; improved CEE transparency**

The past few years in particular saw significant M&A activity just prior to and after the Accession of member nations in 2004. As Gabor Kiraly, CMS Cameron McKenna partner in Budapest says, "Since Hungary joined the EU, as a practice we've been handling a lot more cross-border business between Slovakia, Romania, Czech Republic, and Poland." Kiraly also feels that "Compared to before, banks in the CEE region have now reached a level of transparency on a par with Western European banks. Of course there might be certain issues that are hidden, but this can occur even in western banks."

At present, apart from a few cases, privatisation has run its course in the CEE region. There are also fewer and fewer significant banking private targets for overseas acquirers. In coming years, therefore, the scene in the CEE region looks set for an endgame of gradual consolidation between major players and the remaining smaller domestic banks.

For many, the final piece in the CEE financial services puzzle will be the entry of large global banking groups into the region at some stage in the next one to three years. Indeed, UK and American banks have been notably absent from the region to date but one feels this cannot and will not last.

## **The lure of the CIS region**

Whilst the CEE banking sector reaches maturity in terms of foreign participation, many are looking further eastwards to targets in Russia and the Ukraine. In comparison to consolidated CEE markets, foreign market share in Russian banking is a lowly 10% at present. Meanwhile there are around 1,200 Russian banks compared to around 50 in Poland – the CEE region's largest market.

This movement towards banking assets in the CIS region should not be too surprising. According to market sources, since the collapse of communism, foreign banks have bought up roughly 80% of all the banking business in the new central European member countries of the European Union. It is therefore inevitable that many of the same banking groups which have brokered deals in these territories now have the experience and confidence to look further afield into the CIS region. Indeed, the year 2006 to date has witnessed eight financial services deals over €200m in either the Ukraine or Russia. This compares to just two over €200m in the CEE region in the same period over €100m.

As always in Russian corporate M&A, concerns over governance and deal risk remain, but as Robert Hayhurst, CMS Cameron McKenna partner in Budapest says: "Yes, the CIS region is more risky, but there has always been risk in emerging territories and it did not stop deals being made by the more aggressive banks in the CEE region in recent years, and they're reaping the rewards now. For this reason, many of the bolder banking groups are making serious plays in Russia and the Ukraine."

Aside from Russia, the Ukraine is arguably as big a draw. After the so-called Orange Revolution in 2004, the country's banking sector has received substantial overseas investment. Already some of the Ukraine's largest banks are now owned by international banks, and M&A activity continues to be strong in 2006. Indeed, aside from the €3.75bn buy of Banca Comerciala Romana by Austria's Erste Bank and the €1bn buy of HVB Splitska Banka in Croatia by Societe Generale, most significant deal flow has been centred around banking

# Banking in the CEE and CIS Region

targets in the Ukraine and Russia. Whilst these recent leading CIS deals are slightly smaller in value than those in the CEE, they have been more numerous in the past nine months.

## The strength of Austrian banks in the CEE & CIS regions

In the early nineties the pressures of unification, meant that German banks were largely absent from early acquisition activity in CEE. Instead, much of the early activity fell to Austrian banks such as Raiffeisen, Creditanstalt and Bank Austria. The latter two banks merged in 1997 only to be bought in 2000 by HVB of Germany, which last year was bought by UniCredito of Italy. Meanwhile, a third Austrian bank, Erste, joined the fray with its purchase in 2000 of Ceska Sporitelna, a Czech bank. As Gabor Kiraly says: "In the early 1990s, the German banks were not active. Austrian banks knew the market and already had good banking relationships with Hungarian banks. Typically, German banks only really established presence in the region to satisfy the overseas requirement of existing domestic clients."

## Other overseas buyers

As mentioned, in recent years these Austrian banks have been joined by a host of other foreign acquirers from territories such as France, Belgium, Italy, Netherlands and Sweden.

The range of market entry approaches adopted by cross-border banks varies. Many banks enter through controlling stake buys. Others have gradually dipped their toes into the water through progressive stake buys over the years.

Meanwhile, other banking groups appear to buy strategic stakes in the region, only then to sell them off at significant gains to other entrants.

## Leading intra-CEE banking acquirers

As well as an influx of foreign banks, past years have also seen the development of a few significant intra-regional buyers such as Polish banking group BPH, (although it is now part of Unicredito), and OTP bank of Hungary. Furthermore, many of these buyers, such as OTP are also making acquisitions in the CIS region.

Robert Hayhurst in particular cites OTP as a success story within the region. "OTP is in my view better at understanding risk. They have a fairly aggressive approach that might pay off. They're now a significant player based on the weight of regional M&A they have completed in the region in recent years. They have a very dedicated team."

However, it remains to be seen how long OTP can exist as an independent entity. At time of writing, it remains active in the region, despite being frequently linked as a potential target for foreign acquirers.

## Big Spenders: Deals over €100m made in the CEE & CIS region 1998-2006

Buyer	Deal Value €(m)	Deal Volume	Nationality	Range
Erste Bank	5,977	5	Austria	1999-2005
UniCredito Italiano	3,033	5	Italy	1999-2005
Bank Przemyslowo Handlowy	2,959	2	Poland	1999-2001
Societe Generale	2,830	5	France	2001-2006
KBC Bank	2,119	4	Belgium	1999-2006
Banca Intesa SpA	1,858	3	Italy	2001-2006
OTP	1,794	6	Hungary	2003-2006
Eureko	1,716	3	The Netherlands	1999-2004
Raiffeisen International Beteiligung	1,432	3	Austria	2005-2006
Credit Agricole	880	3	France	2001-2006
Citigroup/Citibank	805	2	US	2000
Allianz	650	2	Germany	2001
Skandinaviska Enskilda Banken	368	2	Sweden	2000-2005
Bank of Austria	246	2	Austria	2002-2004

Source: based on mergermarket intelligence

# Banking in the CEE and CIS Region

## **Erste Bank**

In terms of deal activity, according to mergermarket data, one bank stands out for recent tracked M&A in the region: Erste Bank. Over the past eight years this is the Austrian bank that has made the most major buys in the CEE region. Aside from the large €3.75bn BCR deal in Romania announced in 2005, it has also made significant acquisitions in the Czech Republic, Slovakia and Hungary during the period 1998-2006. In entering newer markets in the CIS region, however, Erste Bank's M&A activity has been more limited and cautious compared to its main rivals like Raiffeisen and OTP.

In July 2006, Erste Bank announced it was entering the Ukrainian market with the acquisition of 50.5% in private Bank Prestige for €27.7m. Since its creation in December 2005, Bank Prestige has been 100% owned by its founders, a group of Ukrainian entrepreneurs with a well-established track record in the sector, formerly with Aval Bank in the Ukraine. (Aval Bank is now part of Raiffeisen as part of a €846m deal announced in August 2006.)

## **Unicredito**

Despite the recent M&A moves of Erste Bank, Unicredito, the Italian bank has arguably the largest footprint in the CEE and CIS region. This is largely thanks to its €16bn acquisition of German banking giant HVB, which itself had significant holdings in the region. These holdings now sit with acquisitions Unicredito has made in recent years in Poland, Croatia and Bulgaria.

The ongoing integration of Unicredito and HVB is, however, likely to block the group from making significant M&A moves until completed. That said, even barring certain disposals of overlapping assets, the combined group will remain a leading force in both the CEE and CIS regions.

## **The future**

As the HVB/ Unicredito merger illustrates, the extent of foreign ownership in the CEE region (and increasingly the CIS region) means that many large banking mergers outside of the region typically involve further consolidation within the CEE region. Indeed, another recent example is the July announced merger of Italian banks Sao Paolo and Intesa, which will have implications for their Hungarian affiliates: CI Bank and InterEuropa.

The other headline point is – as alluded to earlier – the absence at this stage of a truly large global player such as Citigroup or HSBC in the region. Given the level of sector maturity in the CEE region in particular, it is surely only a matter of time before a large global player makes a bold move for a leading regional player in the CEE & CIS. For many, OTP with its 'box-ready' holdings across the CEE and CIS remains the likeliest point of entry. As Robert Hayhurst says, "The expectation remains that a large player or players will enter the market anytime in the next one to three years and buy one of these major players as the tail-end in the process of ongoing consolidation." Whether the buyer is HSBC or another, the target is OTP or another, the fact remains that consolidation in financial services in the CEE & CIS region is entering another exciting stage.

# Case Study: Banca Commerciala Romana

Helen Rodwell (Partner) at CMS Cameron McKenna.

## Background

I first met Erste Bank in 1999 in Prague. At that stage they had a small bank holding in Hungary and a healthy appetite for growth abroad. Unlike many of their domestic rivals such as Raiffeisen and Bawag, they had not really ventured beyond Austria at that time.

They appointed CMS Cameron McKenna to help them with the privatisation of Česká Spořitelna, the Czech savings bank, for which we got exclusivity. This was the first bank privatisation in the country since that of Investiční a Poštovní banka (IPB) in the mid nineties. Česká Spořitelna was also a troubled bank, with a significant portfolio of bad loans which resulted in us negotiating a significant restructuring agreement with the Czech authorities.

Post deal, Erste installed an American CEO, Jack Stack, who has been instrumental in turning Česká Spořitelna into a highly profitable operation. We also then worked for Erste Bank on the privatisation of Slovenska Spofitelna in Slovakia.

Over the past seven years CMS Cameron McKenna has worked for Erste Bank on 11 deals. And I have to say the partnership has been immensely successful with us only losing out in one instance.

## Banca Commerciala Romana (BCR)

We were first engaged by Erste for the privatisation of Banca Commerciala Romana in March 2005. To an outsider, the Romanian bank CEC, which is currently the subject of privatisation, would appear more of a natural fit for Erste. This is because CEC is a retail savings operation more typical of previous Erste Bank acquisitions. BCR by contrast is more of a 'corporate monster'. By bidding for BCR, Erste was showing the true level of its ambitions in the CEE region.

There was lots of interest in BCR in the early stages. Daiwa Securities were the financial advisers appointed by the Romanian government to handle the sale process, and after initial applications Daiwa drew up a short list of ten bidders who would be selected for due diligence. This was a very large number and meant there was a fairly elongated due diligence process of around three months. After the due diligence process, bids were submitted and a final shortlist of two was announced: Erste Bank and Portuguese Bank BCP Millenium. (Millenium already owned a small bank in Poland, which is a very competitive market and one in which Erste does not have a presence.)

The next stage was six weeks of contract negotiation. The rules of the privatisation process stipulated that a common draft had to be reached between the two bidders. This was eventually achieved. It then came down to price.

The final stage of the bid process was for us all to convene on 20 December 2005 at the Ministry of Finance in Bucharest. After a coin-toss to see who went first, a member from each bidder party entered their confidential offer price per share into a computer which determined the highest price.

The Minister of Finance then read the winning bid from the computer, which was Erste Bank. The price offered by the Portuguese bidder was never known. Their envelope was destroyed and when the deal was signed the next day, the Romanian Minister of Finance destroyed the hard drive from the computer with a hammer. As much as anything this was stage-managed PR stunt to emphasise the transparency of the privatisation process, which was clearly very important for a pre-accession state like Romania to underline.

# Case Study: Banca Comerciala Romana

## **The valuation**

In balance sheet terms BCR was about the same size as the Česká Spořitelna. However, the valuation was significantly higher – something in the order of five and a half times as opposed to two times earnings. There may be good reason for this - first, BCR is a bank in good health with minimal non-performing loans or liabilities. The second is the massive growth and economic development of the banking sector in the CEE region in recent years. The level of perceived risk in investing in assets in the region is no longer as high as previously, and prices have inevitably crept upwards.

## **Completion**

Owing to regulatory issues raised by the Romanian parliament, the process was protracted until 12 October 2006, when the Competition Council finally approved the transaction.

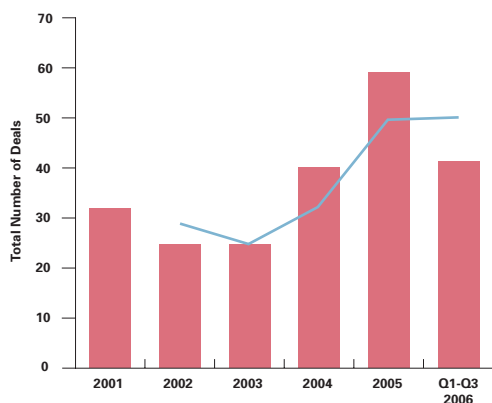
Erste is expected to spend €100m on improvement of BCR's branch network and infrastructure. The bank also anticipates €90m in extra costs next year, €100m of additional risk provisions and €100m in tax-related charges.

The government believes that the sale helps Romanian banks to compete in the European market. The acquisition is a perfect strategic fit for Erste's existing network in Central and Eastern Europe.

# M&A Activity Overview: CEE Region:

**2005: a breakthrough year for M&A in the region**

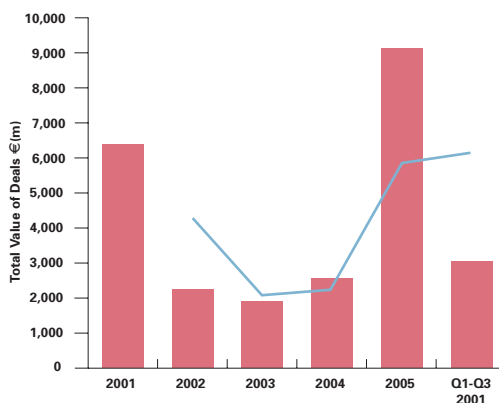
**CEE M&A Volume Trends**



The full year 2005 was something of a watershed for Financial Services M&A in Central & Eastern Europe with the volume of deals reaching 59 transactions. This was some way ahead of the previous highest annual volume, which occurred in 2004 when some 40 deals were brokered. By contrast, sector M&A in the region in 2006 has been somewhat muted in both volume and value terms.

In value terms, CEE financial services M&A in 2005 was an even bigger draw with the total value of deals reaching €9.1bn. This was significantly up from €2.6bn in 2004, and higher than the previous all time high of €6.4bn in 2001. This previous value peak was largely due to the €1.2bn acquisition of a 60% stake in Komercni Banka from the Czech government by French bank, Societe Generale. Meanwhile, the strong value performance in 2005 was to a large extent due to the €3.75bn acquisition of Banca Comerciala by Austria's Erste Bank, which just crept in at year-end, but received final clearance in October 2006.

**CEE M&A Value Trends**



As already mentioned, by contrast to last year, the performance of M&A in 2006 so far is slightly more subdued. As of end of Q3, the year had witnessed 41 transactions. Meanwhile, in value terms the picture was even more subdued with just €3.0bn in deal value.

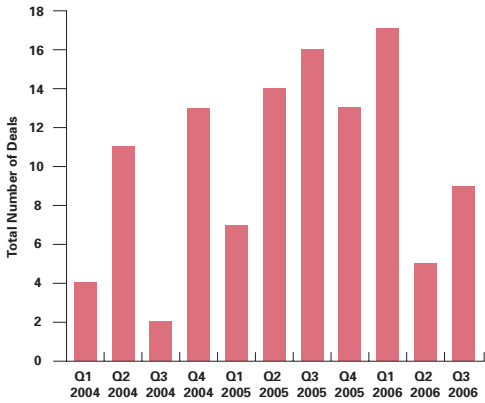
## **The geographic spread of M&A**

In the first three quarters of 2006, it is Poland that accounts for the largest share of financial services M&A – with 11 transactions corresponding to a quarter of the total deals made in the region during this period.

Somewhat surprisingly, in second place is Serbia, with 10 deals, Hungary and Romania and the Czech Republic are joint third, each with four deals respectively.

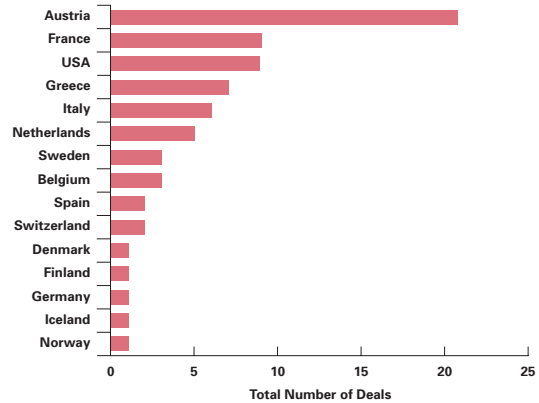
# M&A Activity Overview: CEE Region

CEE Cross-border Deals (volume)



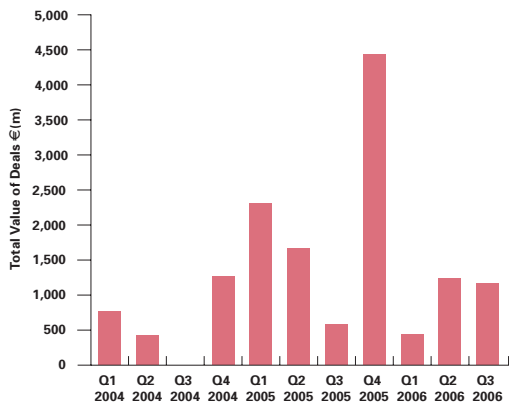
The one striking aspect of Financial Services M&A in the CEE region in the past couple of years is the explosion of cross-border deals. In 2006 so far there have been 31 deals of this nature.

Overseas Investors in CEE M&A (volume - 2004-2006)



In terms of individual nations that complete M&A in the CEE region, it is geographically close Austria that has completed by far the most deals in the past few years – 21 transactions in all. This is more than twice the level of transactions concluded by next placed France and USA.

CEE Cross-border deals (value)



In value terms the picture from quarter to quarter is a bit more varied, with figures highly influenced by the December 2005 announced €3.75bn buy of BCR by Erste Bank.

## Top Deals

### Banca Comerciala Romana

As mentioned, the largest deal of the past 12 months remains the €3.75bn acquisition of Banca Comerciala Romana by Erste Bank of Austria announced in December 2005. This deal saw Erste Bank der oesterreichischen Sparkassen AG, the listed Austrian bank, agree to acquire a 61.88% stake in Banca Comerciala Romana SA (BCR), the Romanian bank, from the Government of Romania, European Bank for Reconstruction and Development, the UK based investment institution and International Finance Corporation (IFC), US based financial institution, for €3.75bn.

As part of the deal Erste Bank has acquired a 36.8825% stake from the Romanian government, 12.5% plus one share from the EBRD and 12.5% plus one share from the IFC. Erste Bank won the auction, which was contested by nine banks. In the final round it was up against Portuguese bank BCP Millennium.

# M&A Activity Overview: CEE Region

## **HVB Splitska**

The second largest deal of the past 12 months took place in April 2006 and saw Unicredito Italiano sell its Croatian unit HVB Splitska banka to French banking group Societe Generale for around €1bn. The disposal by Unicredito was just one of a range of enforced disposals for Unicredito as part of its €15.4bn acquisition of AG (Bayerische Hypotheken und Vereinsbank Aktiengesellschaft), its German counterpart.

## **Kereskedelmi és Hitelbank [K&H Bank]**

Meanwhile, December 2005 saw Belgian bank KBC Bank agree to buy ABN Amro's 40.2% stake in Hungarian Kereskedelmi és Hitelbank [K&H Bank] for €510m. The transaction raised KBC's current shareholding from 59.4% to 99.6%. According to KBC, the deal is part of a strategy of further developing its activities in Central and Eastern Europe, where it already has a presence. KBC for instance has held a stake in K&H in Hungary since 1997 when it participated in the capitalization of K&H bank.

However, not all western companies are trying to bolster presence in the region. ABN AMRO for instance sold its stake in K&H as part of its strategy to divest non-core assets. According to KBC's management they hope their holding in K&H will allow them to take advantage of the growth potential afforded by the development of the Hungarian economy and take advantage of the opportunities created by Hungary's accession to the European Union. K&H Bank is the second largest financial institution in Hungary, with a market share of 11.1%.

## **Vojvodjanska Banka**

September 2006, meanwhile, saw the National Bank of Greece SA (NBG), agree to acquire Vojvodjanska Banka AD, the Serbia based bank, from the Government of the Republic of Serbia, for a cash consideration of around EUR387m. The transaction is a part of the divestment process initiated by the Serbian government. NBG has won the tender process for the transaction and it will expand NBG's operations in the Serbian market. The transaction is subject to regulatory approvals from Greek and Serbian authorities.

## **Other deals**

Behind these significant transactions, however, there is something of a drop-off in transaction scale, with deals worth only under €160m respectively. Among these deals, one in Poland saw Swedish bank SEB (Skandinaviska Enskilda Banken) agree to sell its entire 47.5% stake in Bank Ochrony Srodowiska S.A. (BOS) to Poland's National Fund for Environmental Protection and Water Management (NFOS). The transaction marks a retreat for SEB, which has not been able to reach a satisfactory ownership structure following its bid for all remaining shares in the bank in September 2005. Nevertheless, post disposal, the management of SEB reiterated it is still "very committed" to the Polish market.

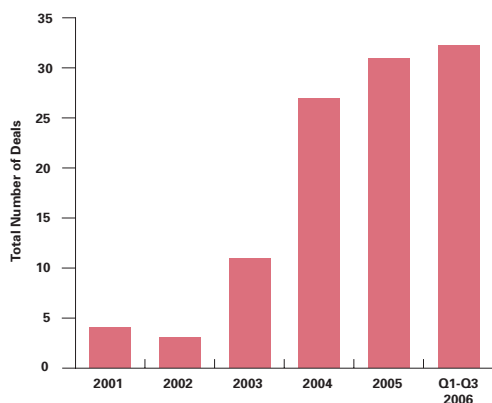
## **Domenia Credit**

Another recent noteworthy deal involved Domenia Credit in Romania. The deal was a case of three for the price of one, with Motoractive, Domenia Credit and Estima Finance, the Romanian financial services firms all acquired by the UK-based investment division of General Electric, the US giant for around €140m. For a buyer of the scale of General Electric, the deal remains small, and it remains to be seen whether it will step up its acquisition activity in the CEE region in coming months and years. Furthermore, interestingly, just a month before the deal closed another major global banking giant HSBC was tipped as a likely buyer. Other major parties interested included AIG, and Société Générale.

# M&A Activity Overview: CIS Region

## Cross border activity outstrips CEE in 2006

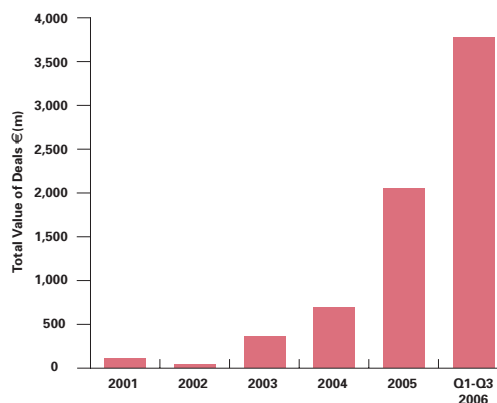
### CIS M&A Trends - Volume



If Financial Services M&A growth in the CEE region has been strong for a while now, in recent years the performance in the CIS region (chiefly Russia and the Ukraine) has been even more impressive. In 2006 particularly, the CIS region is outstripping the CEE region in terms of M&A deal value. Furthermore, this deal flow is centred around several significant banking deals rather than a single very large deal like the €3.75bn BCR deal in the CEE region.

From a base of only three transactions in 2002, the year 2005 saw 31 deals in the CIS region. Moreover, ongoing deal flow remains very strong in 2006 with 32 transactions as of end September 2006.

### CIS M&A Trends - Value



In M&A value terms too, the CIS financial services sector is trending upwards even more dramatically. In the year to date there have been €3.7bn in deals, compared to €2.1bn in the full year 2005 – itself a major increase on €659m in FY 2004.

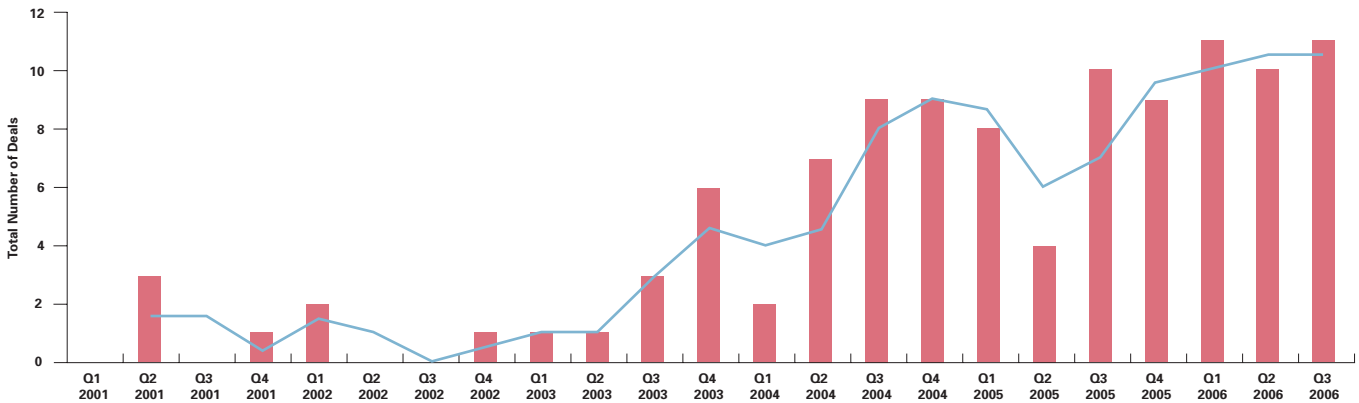
### The geographic spread of M&A in the CIS region

As mentioned, the lion's share of financial services M&A emanates from Russia – 60% of deal volume in the period the first three quarters of 2006. Meanwhile, the Ukraine accounts for 25% of deal volume in the same period, with Kazakhstan and Georgia sharing the remaining 6%.

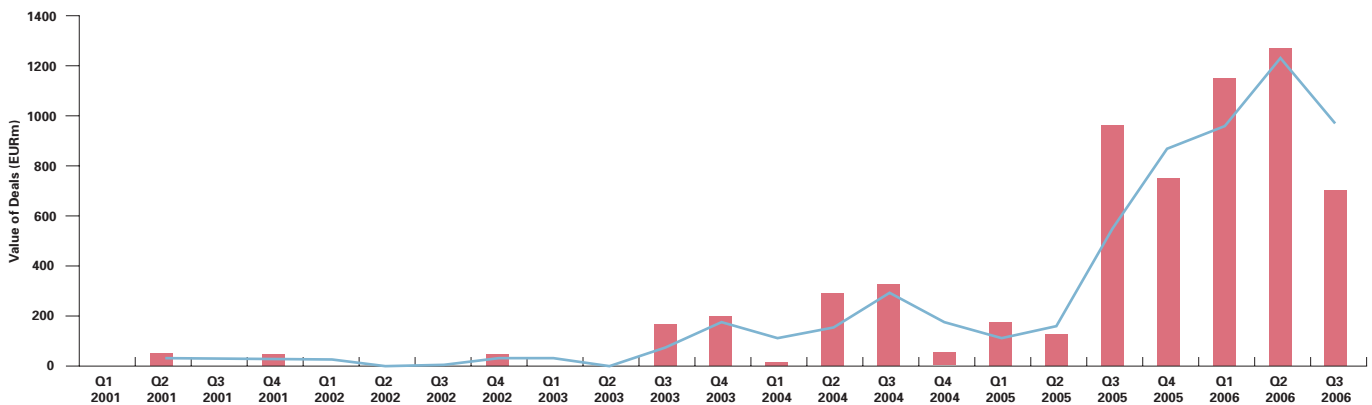
In value terms the picture is slightly reversed, with the Ukraine accounting for 54% of deal value thanks to a handful of large top ranking deals made in the past 12 months by cross-border buyers. Russia, meanwhile, accounts for a sizeable 46% of M&A value thanks also to a handful of (albeit slightly smaller) cross-border deals.

# Cross-border deals

CIS Cross Border M&A Deals - Volume



CIS Cross Border M&A Deals - Value



As mentioned, cross-border deals have gone through the roof in the Ukraine and Russia in 2006.

## Top Deals

### JSC Ukrsotsbank

The largest CIS deal of the past 12 months saw Banca Intesa, the listed Italian banking company agree to acquire an 88.1% stake in JSC Ukrsotsbank, the Ukraine bank, for €975m (US\$1.2bn). In 2005, Ukrsotsbank had approximately US\$2.1bn of total assets, US\$1.6bn of customer deposits, US\$1.4bn of customer loans and US\$30.4m of net income. The deal is in line with Banca Intesa’s strategy of strengthening in Central and Southern-Eastern Europe.

### OTP buys up Raiffeisen’s Ukraine operations...

In June 2006, Austrian bank Raiffeisen sold out of its Raiffeisenbank Ukraine Joint Stock Commercial Bank (RBUA) to OTP, the listed Hungary based commercial bank, for a cash consideration of €650m. The acquisition is a part of OTP’s expansion strategy. Post acquisition OTP will focus on the integration and transformation of the bank.

### Raiffeisen buys into Joint Stock Post Pension Bank Aval

Raiffeisen’s sale of RBUA did not represent a retreat from the Ukrainian market, but rather a redistribution. Soon afterwards, in August 2006 it bought a 93.5% stake in Joint Stock Post Pension Bank Aval (Bank Aval), the Ukraine based banking company, for €846m. From 2008 onwards, Raiffeisen International plans to merge the operations of Bank Aval with JSBC Raiffeisen, its Ukrainian subsidiary, from 2008.

### Joint Stock Company Import-Export Bank Impexbank

Not content to just bolster its activities in the Ukraine, February 2006 saw Raiffeisen International Bank-Holding AG (RIB) agree to acquire JSC Impexbank, the Russian retail bank, for a total consideration of US\$550m (€456). Impexbank reported total assets and earnings of €1.2bn and €9m respectively in the first half of 2005.

# Cross-border deals

## **CJSC AKB Investsberbank (96.40% stake)**

Meanwhile, OTP itself pursued a similar two pronged strategy. Following on from its June buy of RBUA from Raiffeisen in the Ukraine, July 2006 saw OTP Bank agree to acquire a 96.4% stake in Investsberbank, the Russian private bank, for a total consideration of €373m. The Investsberbank Group consists of three banks, Investsberbank, Promfinservicebank and Omskpromstroibank. Investsberbank had deposits worth €727.4m in 2005.

## **Other cross-border deals**

Aside from these moves by OTP and Raiffeisen, the past 12 months have seen other large overseas banks acquire significant and strategic stakes or increase existing holdings in a range of Russian and Ukrainian banks.

December 2005, saw Deutsche Bank, the listed Germany based investment bank and financial services group, acquire the remaining 60% stake it does not already own in United Financial Group (UFG), the Russian based financial services company, for a value estimated to be approximately €341m. Deutsche Bank purchased the original 40% stake in UFG in 2004. The acquisition will strengthen Deutsche Bank's position in the Russian market by improving its presence in advisory, equities, fixed income and derivatives.

December 2005 also saw BNP Paribas, the listed French bank, agree to buy a 51% stake in JSIB UkrSibbank, the Ukrainian bank, for approximately €300m. Hungary's OTP, France's Societe Generale, Germany's Commerzbank AG, Austria's Erste Bank and Italy's Banca Intesa were also the interested parties in buying the bank.

June 2006, saw Bayerische Hypotheken und Vereinsbank Aktiengesellschaft HVB (HVB), the listed German banking group, agree to acquire a further 23.42% stake in ZAO International Moscow Bank (IMB), the Russian commercial bank, from Nordea Bank Finland Plc, the Finnish financial services provider, for a cash consideration of €314m. As a result of the acquisition, the voting interest of HVB in IMB would increase from earlier 52.9% to 79.3%, which will strengthen its controlling position on the bank.

March 2006 saw Credit Agricole, the French financial services company has agreed to acquire a 98% stake in JSC Index Bank, the Ukrainian bank for (€209m. JSC Index Bank reported total assets of €374m as at 28 February 2006. The acquisition will enable Credit Agricole enhance its position in the Ukrainian market. The transaction is subject to conditions, including obtaining approvals from the Central Bank of Ukraine and the Ukrainian Anti Monopoly Committee.

June 2006, also saw Societe Generale de France SA, agree to acquire a 10% stake in Joint Stock Commercial Bank Rosbank, the Russian bank, from KM Technologies (Overseas) Limited, the Cyprus based investments holding affiliate of Interros Company, the Russian diversified investments company, for a consideration of €247m. As per the agreed terms, Interros and Societe Generale will work together to further develop Rosbank's business and Rosbank will adopt Societe Generale's business processes, managerial experience and financial products. The cooperation agreement between Interros and Societe Generale for further development of Rosbank is accompanied by a possible increase of Societe Generale's stake in Rosbank from 10% to 20%, which will be valued at the same multiple of Rosbank's book value. Also as part of the transaction, Interros has decided to withhold its plans for Rosbank's IPO on the London Stock Exchange, but it will pursue it in the near future. The transaction will allow Rosbank's management team to focus on further development of the retail business and branch network and strengthen its position in the financial services market.

The deal follows Societe Generale's August 2005 €84m buy of DeltaCredit Bank, the Russian banking company specialised in mortgage lending, from Delta Private Equity Partners, the Russian private equity group and International Finance Corporation, the US based financial institution promoting sustainable private sector investment. Societe Generale already has consumer credit and general banking activities in Russia.

# Deal Prospects in CEE and CIS Financial Services

## **Potential Buyers: when will the large global players enter M&A?**

Thus far, giant US and UK banking groups such as HSBC and Citigroup have been conspicuous in their absence from M&A in either the CEE or CIS regions. Helen Rodwell of CMS Cameron McKenna, feels, however this could well change. HSBC has announced intent to make deals in the CEE region. Meanwhile, Rodwell believes that CitiBank might look to acquire a large regional consolidator such as OTP or Erste Bank.

Ahead of any major moves, however, here are some selected ongoing deals, potential targets and investment opportunities within the CEE and CIS regions.

## **Romania: CEC**

Following on from the privatisation of BCR, the Romanian state government is selling a 69.9% stake in Casa de Economii si Consemnatiuni (CEC), the Romanian savings bank.

At time of writing two banks had been selected final bidders: National Bank of Greece (NBG) and OTP, the highly acquisitive Hungarian bank. Other banks that had been in the running at earlier stages included: Austria's Raiffeisen Bank, Dexia of France, and EFG Eurobank, the listed Greek bank. Italy's Banca Monte dei Paschi di Siena and Austria's Erste Bank were also linked at an early stage. CEC is the fourth largest Romanian bank in terms of its assets estimated at around €1.8bn. Offers are expected to be in the range of €700m.

## **Russia: Vneshtorgbank (VTB)**

In August plans were announced to float a 25% stake in Russian state-owned bank Vneshtorgbank (VTB). The IPO could raise up to US\$5bn. However, in November 2006 plans were announced to delay the IPO until at least before May 2007.

## **Russia: Sherbank**

There are also believed to be plans to float further shares in fellow state bank Sherbank. Currently, 63.76% of Sberbank belongs to the Bank of Russia. The government holds 99.9% stake in VTB.

## **Russia: Moscow Industrial Bank (MinB)**

According to reports in August 2006, Moscow Industrial Bank (MinB), is planning an IPO. According to the Bank's president it had also, unsurprisingly, attracted the attention of foreign bidders. MinB is reported to have assets of around €700m. At present the bank is 60% owned by employees.

## **Hungary: BPVN looking at OTP?**

According to reports, in August, Banco Popolare di Verona e Novara (BPVN), the listed Italian cooperative bank, is close to acquiring a bank in Hungary. The source said that the bank operates both in Hungary and the Czech Republic, but declined to identify the bank other than to say it is controlled by a financial holding. A BPVN spokesperson said the bank had "no comment" when asked to confirm whether it was in the process of acquiring a bank in Hungary. One senior banker in Hungary poured cold water on speculation from financial analysts in Hungary and the Czech Republic that BPVN could be targeting Hungary's OTP, as such a target with a market capitalisation of €10bn would be too large for BPVN.

## **Hungary: OTP**

On a regular basis OTP, Hungary's largest bank, is linked as an acquirer in various CEE and CIS deal situations. As revealed above, it is also, perhaps inevitably, viewed as a potential target for larger banks from outside the region. However, in May 2006, its chief executive Sandor Csanyi told the press that despite approaches from several large groups OTP was not for sale. More revealingly, however, Csanyi did not rule out the possibility of a merger. OTP is listed on the Budapest Stock exchange and has market cap of around €10bn.

# Deal Prospects in CEE and CIS Financial Services

## **Poland: HSBC rumoured to be on the acquisition trail**

According to mergermarket intelligence, HSBC wants to expand its operations in Poland. One of the main tasks of Janusz Dedo, the recently appointed new president of HSBC's Polish arm, HSBC Polska, will be a takeover of a bank. HSBC is one of the main contenders for 200 branches of the listed Polish Bank, BPH, which will be sold by BPH's Italian owner, Unicredit. Bank BPH has a market capitalisation of €5.8bn. Meanwhile, another rumoured possible target for HSBC is the listed Polish Getin Bank. HSBC has already 10 branches in Poland.

## **Russia: Nordea looking to buy assets**

Following its June 2006 sell out of ZAO International Moscow Bank (IMB) to Unicredit's HVB for €314m, Nordea Bank Finland Plc, a part of Nordea Bank AB, the listed Swedish financial services group is reported to be looking buy Russian targets. According to reports, Nordea intends to expand its presence in the Russian banking market by obtaining its own banking licence or by acquiring a small to medium-sized Russian bank by the end of 2006. Nordea, reportedly, has €600m at its disposal for acquisitions.

# Insurance Issues in CEE

An interview with **Iain Batty**, Partner at CMS Cameron McKenna

Based in Warsaw, Iain holds 15 years of expertise and experience of handling the M&A processes of insurance & reinsurance businesses in the CEE region.

**mergermarket: Are there still any significant state held insurance assets available for overseas acquirers in Central & Eastern Europe?**

**Iain Batty:** The CEE has come a long way in the past decade. In the CEE there are not too many opportunities to buy from the state. Most insurers have been privatised apart from some minor assets in Serbia and Croatia. The perception is that there is not a huge amount to buy in more EU developed CEE nations: Poland, Hungary, Czech Republic. Mainly it is only the stragglers that are left for sale. In the past 18 months the most significant deals have been centred in Poland, the largest market, with a couple of buys in Romania. The largest deals are around the €50 - €100m mark.

**MM: So what investment strategies are left for cross-border players?**

**IB:** Well in more developed CEE markets, insurance companies are opening brands and partnering with local distributors. Previously some companies had tried organic entry. However, many existing domestic players such as PZU, in Poland have significant market share and local presence that was hard to compete against.

Those overseas firms that entered in the early nineties such as Commercial Union (now Aviva) and ING have fared okay. However, late runners have had rather mixed fortunes. Some such as Met Life have even withdrawn.

**MM: what are your views on overall consolidation in CEE insurance?**

**IB:** I am sceptical about any immediate future M&A, but if you look at the market shares of insurers in most CEE markets you realise they are too small and there will inevitably be consolidation in the future, but I would be reluctant to predict much imminent activity in insurance.

In some markets a restricting factor is regulation. For instance in Poland there is a large pension fund sector with around 11m private investors, and many funds. However, the regulator is opposed to widespread consolidation to protect the interests of investors...

**MM: if CEE is no longer 'virgin territory' what about prospects in the CIS Region?**

**IB:** Yes, a number insurers are definitely looking in the Ukraine and Russia. As with banking assets, you need to be particularly careful when you are buying state or locally owned assets in these territories. A thorough due diligence is of course essential. For example, we once handled a deal involving one locally owned company that did not have a valid licence to operate.

The further East you go, the more you can't afford to take things at face value. For instance many life insurance services are not truly insurance based but take advantage of a loophole, which allows them to be described as such. In actuality they are "tax optimisation" schemes used by employers.'

It is therefore imperative to work with really good actuaries to look at whether there are any 'holes' in the products. You also need to look at the products: are they up-to-date? Are they sophisticated?

Finally you need to look at the incumbent management and whether you want to stick with them or whether you want to replace them with overseas staff, or recruit someone locally.

**MM: What about Eureko and PZU in Poland? What do you think of that situation?**

**IB:** Well, from 1999 onwards, Dutch firm Eureko bought stakes in Polish state-controlled insurer PZU, the largest insurance firm in the region. However, this deal has been far from smooth running. In short they ran into problems with the Polish state, which they claim reneged on allowing Eureko to buy a majority share. At present Eureko, holds a 33% stake but its efforts to buy a further 21% stake remain in stasis. According to press reports Eureko's rights to buy PZU's shares have been confirmed by the Belgium Arbitration Tribunal. The case has gone to arbitration in Stockholm. By all accounts Eureko is winning, however, it remains something of a cautionary tale.

# Insurance Issues in CEE

## Leading Insurance Deals in the CEE Region (Q1 2005 to date)

Announcement Date	Target Company	Bidder Company	Seller Company	Deal Description	Deal Value €(m)
03/05/05	Omniasig SA (71% stake) Allgemeine Versicherung AG	Wiener Staetdtische	TBIH Financial Services Group N.V. (TBIH)	Wiener Stadtische Allgemeine Versicherung Aktiengesellschaft (WS), the listed Austrian insurance group, has agreed to acquire a 70.7% stake in Omniasig S.A, the Romanian insurance company, from TBIH Financial Services Group N.V, for approximately €64m. Under the terms of the agreement, WS will gradually increase its holding to 80%, after acquiring shares from certain minority shareholders. TBIH has also signed an agreement to purchase a 50% stake in Omniasig's subsidiary, Omniasig Life S.A.TBIH is a 49% subsidiary of Kardan N.V. the Netherlands based diversified investment company. Banca Comerciala Romana, the Romanian bank, holds a minority stake in Omniasig S.A. The deal, Wiener's third acquisition in Romania, enables WS to participate in the growing Romanian insurance industry, where it currently has a 6.3% market share, by increasing its share to about 19%. The sale is expected to generate an equity gain of approximately \$22m to 27m for Kardan N.V. The acquisition is subject to confirmatory due diligence by WS and the approval from the Romanian insurance supervisory authorities, the anti-monopoly and cartel authorities and other regulatory approvals. UPDATE 05 September 2005: The transaction has been completed.	64
22/6/05	Sampo Powszechna Towarzystwo Emerytalne S.A. (Sampo PTE SA); Towarzystwo Ubezpieczen na Zycie Sampo (Sampo T.U. Zycie S.A.)	Nordea Life Holding A/S	Sampo plc	Nordea Life Holding A/S, the Danish subsidiary of Nordea AB, the listed Finnish financial services group, has agreed to acquire Sampo Powszechna Towarzystwo Emerytalne S.A. (Sampo PTE SA), the Poland based pension company and, Towarzystwo Ubezpieczen na Zycie Sampo (Sampo T.U. ZycieS.A.), the Polish life insurance company, from Sampo plc, the listed Finland based provider of banking and insurance services, for €95m. Sampo PTE SA and Sampo T.U. Zycie S.A. had assets under management of approximately €600m. Sampo is expected to book a €25m profit on disposal of the companies. The acquisition will enable Nordea to expand its customer base and offer its products to the expanded customer base and strengthen its position in Poland. Nordea expects the acquisition to have a negligible effect on its EPS and return on equity and create embedded value of around €20m annually from 2005. The transaction is subject to approval of relevant authorities and is expected to close in the fourth quarter of 2005.UPDATE 13 December 2005: The transaction has been completed.	95
09/09/05	Powszechna Towarzystwo Emerytalne DOM S.A. (PTE DOM)	Winterthur Insurance	Towarzystwo Ubezpieczen i Reasekuracji WARTA S.A. (TuiR Warta S.A.)	Winterthur Insurance, the Swiss insurance company and a subsidiary of Credit Suisse Group, the listed Switzerland based banking company, has agreed to acquire Powszechna Towarzystwo Emerytalne DOM S.A. (PTE DOM), the Polish pension fund, from Towarzystwo Ubezpieczen i Reasekuracji WARTA S.A. (TuiR Warta), the Polish insurance company, for a consideration of CHF 53m (€34.3m). The acquisition will be made through a Polish subsidiary of Winterthur Insurance. The deal is in line with Winterthur's strategy of strengthening its position in the life and pensions markets in Central and Eastern Europe. The transaction is subject to regulatory approval.	28

C = Completed; P = Pending; L = Lapsed

Source: mergermarket

# Insurance Issues in CEE

## Leading Insurance Deals in the CEE Region (Q1 2005 to date)

Announcement Date	Target Company	Bidder Company	Seller Company	Deal Description	Deal Value €(m)
29/11/05	Powszechne Towarzystwo Emerytalne Skarbiec-Emerytura (PTE Skarbiec Emerytura)	Powszechne Towarzystwo Emerytalne PZU S.A.	BRE Bank SA	PTE PZU SA, the Polish pension fund and a wholly owned subsidiary of PTE Zycie S.A, the Polish life insurance company, has agreed to acquire PTE Skarbiec-Emerytura, the Polish pension fund, from BRE Bank, the listed Polish provider of corporate banking services, for a minimum consideration of PLN 315m (€79.9m). Under the terms of the agreement, the consideration will be in the range of PLN 315 (€79.9m) and PLN 365 (€92.6m). The exact consideration payable would depend upon the adjustment of percentage change in the net assets of Skarbiec in the period from 30 June 2005 till the date of acquisition. The minimum price is binding till 31 August 2006 and BRE Bank has the right to terminate the contract if the transaction does not take place till that date. PTE Skarbiec has assets valued at approximately PLN 2.4bn (€608.9m). Upon completion, PZU Zycie will hold 86.9% stake in the enlarged entity while the remaining 13.1% will be held by BRE Bank. The agreement also contains options whereby parties are obliged to buy or sell the shares of the enlarged entity, held by BRE Bank SA. As a result, BRE Bank is expected to eventually fully exit the fund. The transaction is subject to the approval of the Insurance and Pension Funds Supervisory Commission and the Office of Competition and Consumer Protection. It is expected to close in the first half of 2006.	64
07/03/06	Towarzystwo Ubezpieczen i Reasekuracji WARTA S.A. (TuiR Warta S.A.) (24.61% stake)	KBC Bancassurance Holding SA	Kulczyk Holding SA	KBC Bancassurance Holding SA, the Belgian insurance arm of KBC Bank & Verzekering NV, the listed Belgium based banking group, has agreed to acquire 24.61% stake in Towarzystwo Ubezpieczen i Reasekuracji WARTA S.A. (TuiR Warta S.A.), the Poland based insurance company, from Kulczyk Holding SA, the Polish investment company, for PLN 400m (€104.82m). Upon completion of this deal, KBC will hold 99.7% stake in the company. KBC also plans to buy the remaining 0.26% stake in the company. The consideration gives Kulczyk Holding an offer price of PLN 199.97 (€52.4) per share which represents a discount of approximately 5.98% over PLN 212.5 (€55.73) closing price of Warta as on 23 February 2006, the last trading day prior to the suspension of the share, and a discount of approximately 3.12% over Warta's closing price of PLN 208 (€54.08) on 7 February 2006, a month prior to the date of the announcement. The deal is in line with KBC's strategy to consolidate its presence in the market. The transaction is expected to close by the end of March. UPDATE 28 March 2006: The acquisition has completed. Along with 24.61% stake, KBC has also acquired the remaining minority stake of 0.26% in Warta via a public offer and now holds 100% of Warta.	105

C = Completed; P = Pending; L = Lapsed

Source: mergermarket

# State Aid in the CEE

Hidden in many a murky corner when dealing with financial services institutions in CEE countries are elements of state aid. As most forms of state aid are prohibited, their existence can complicate the sale and purchase process enormously. So whether acting for seller or buyer or in relation to financing in any transaction or major project involving state owned parties, it is essential to ascertain whether there is now or has in the past been aid to a target, and what the government proposes to do about it.

## The rules

The EU Treaty declares incompatible with the Common Market any aid granted by a Member State or through state resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods insofar as it affects trade between Member States.

The concept of aid is very broad so that subsidies of any kind – for example grants, loans below commercial rates or on favourable non-commercial terms, guarantees, capital increases, some state shareholdings, rescues and restructurings outside strict norms, writing-off of debt, favourable (discriminatory) tax treatment – delivered through any form of state intervention or body, are covered. As in all competition law, it is the effect which counts. What advantage has a particular company received through state resources which is denied to its peers? It is that advantage which creates the problems and the challenges.

## Privatisations

A specific regime for privatisations has evolved from the European Commission's practice at the time of German unification.

In the field of privatisation by trade sale the following conditions need to be observed if it is to be assumed, without further examination, that no aid is involved in a privatisation by an EU member state (and by extension by accession countries):

- a competitive tender must be held that is open to all comers, transparent and not conditional on the performance of other acts such as the acquisition of assets other than those bid for or the continued operation of certain businesses;
- the company must be sold to the highest bidder; and
- bidders must be given enough time and information to carry out a proper valuation of the assets as the basis for their bid.

If the privatisation fulfils these criteria and the bargain is a market bargain and the company has received no state support, no notification is required (although one may be made to gain the legal certainty of a clearance).

In other cases the Commission wants to see a notification. This includes where negotiation has been with invited bidders rather than by open tender, where prior to privatisation the state has written off of debt, taken over "bad business", made a capital increase or converted debt into equity, and sales "on conditions that are not customary in comparable transactions between private parties". This is at least in part to prevent governments "cleaning up" the target and then relying on the tender process to argue that no state aid has been granted, where in fact the clean up and the sale are linked activities.

# State Aid in the CEE

## Specific CEE issues

In the Acts of Accession for the 2004 accession countries a specific interim procedure was included to deal with aid which had been granted before accession. The European Commission identified aid which would be “applicable after accession” and which would therefore after 1 May 2004 fall under the Commission’s jurisdiction, to distinguish it from that which was already complete.

The Commission’s review under this process envisaged three potential outcomes:

- where measures were found not applicable after accession, no action by the European Commission was possible
- measures which were found applicable after accession could be decreed compatible with the *acquis communautaire* and regarded as existing aid, against which no action would in principle be taken
- measures which were found applicable after accession and where the European Commission had serious doubts as to their compatibility with the *acquis*. This is the worst case scenario where formal proceedings under the EU rules could be started after 1 May 2004 with no indication of when they might be resolved.

## Transparency in the CE financial markets

These provisions were brought into sharp focus when the European Commission began investigations into the accession states’ banking industries. Especially in the Czech Republic and Slovakia, the Commission became more and more frustrated by the lack of transparency of those governments about the status of their financial institutions. Between 2002 and 2004 no fewer than 13 formal cases were considered by the Commission under the specific interim procedure. The result in the majority of those cases was that aid was found not to be applicable after accession. But in two cases – Agrobanka of the Czech Republic and Postabank of Hungary – serious doubts were raised and remain to this day unresolved.

## Postabank

1988-1997	Growth, then troubles, ill-guided management. Run on bank
1998 onwards	State took majority ownership. Series of ad hoc restructuring measures
2002	Failed attempt at privatisation
2003	Sale to highest bidder via fair, transparent, competitive (aggressive) and objective privatisation process according to EU guidelines  SPA risk sharing arrangements included limited litigation risk indemnities
2003-4	Hungarian government notified under Interim Procedure
2004	Submissions – questions – answers – meetings  Most measures granted 1997 onwards = not applicable after accession. Privatisation indemnities against identified litigations actual and threatened = not applicable after accession. But indemnities against potential litigations categorised but unknown considered applicable after accession and serious doubts on compatibility.
2006	Still under consideration

## Romania and Bulgaria

In Romania and Bulgaria, poised for accession in 2007, similar interim rules apply.

Our recent experience in obtaining state aid clearance from the Romanian Competition Council for Erste Bank’s €3.75 billion acquisition of Banca Comerciala Romana, and the issues faced by the potential purchasers of Romanian Savings Bank CEC, provide ample illustration that these issues are still out there. But all cases are different. Their facts have to be analysed carefully.

# State Aid in the CEE

In the press: 7 August 2006

Romanian Competition Council approves the privatisation of Banca Comerciala Romana whereby Erste Bank der oesterreichischen Sparkassen AG acquired 61.8825% of BCR.

1999 In 1999 the financial system and the economy as a whole faced severe difficulties. A solution for Bancorex was required which would remedy the systemic crisis. At that time the state therefore took over bad loans from Bancorex and BCR was required to absorb the small remaining part of Bancorex business. The state also provided unlimited guarantees against off-balance sheet liabilities and litigation claims arising from Bancorex' activities before it was removed from the Trade Register.

The Competition Council acknowledges that BCR did not benefit from the measures, which were necessary to remedy the systemic crisis.

The Competition Council's approval takes into account limitations now placed by the state on its exposure to liabilities arising from the Bancorex crisis of 1999 in both time and amount through government Ordinance of July 2006.

2005 Privatisation process - open, transparent and highly competitive. The majority shareholding in BCR was sold to the highest bidder. In the sale of BCR to a strategic investor the state acted as a private investor by conducting an open, transparent and competitive sale process, fulfilling the requirements of the European Commission's guidelines for a trade sale to a strategic investor.

2006 The Competition Council concludes that the 2005 sale of BCR did not involve the provision of any state aid.

## Not just a problem for recent EU joiners

State aid issues are not confined to Central European jurisdictions just joining the EU. High profile has been the European Commission's long tussle with the German government on the treatment of its Landesbanken where state support has been found to give those banks considerable advantage over the purely commercial players. Similar issues have arisen in Austria.

These German and Austrian examples are sector-wide issues. Specific companies also find themselves threatened by state support to their competitors, as in the example of one of our banking clients challenging the potentially unfair advantage of preferential treatment of a French competitor.

## Not just an issue in the financial sector

Investment bankers whose remit includes privatisations and restructurings in other industries will be familiar with the same problems. Bidders for electricity generation assets in CE countries need to know what guarantees the state may have provided and the basis on which PPAs have been awarded. Where nuclear assets are concerned, what arrangements are in place to fund decommissioning? In the coal industry, how do the subsidies work? If a big infrastructure project is proposed, how will any state funding operate?

## Process: time and bureaucracy

Never underestimate the appetite of any state aid authorities for information, questions, meetings and general bureaucracy. Do not expect a "quick and dirty" solution. Be well prepared on the legal position, the case law and the European Commission's best practice. All EU Member States and accession countries must follow the EU model. An understanding of the needs of the authorities' staff and the restrictions under which they work – and patience - are key.

## What questions should investors ask?

In considering transactions in Central Europe, investors need to investigate with a creative mind any potential state involvement in the deal itself and with any of the parties before and after the deal. They should pay particular attention to whether any aid granted before accession may still be applicable and subject to potential EU review.

## A moving target: EU state aid reforms

Neelie Kroes' appointment as EU Commissioner for Competition in 2005 heralded a major overhaul of EU state aid policy. With major features due to be implemented by 2010, investors and advisers will have to keep up to date.

**By Susan Hankey**

**Partner**

**CMS Cameron McKenna**

# Straw Poll: Banking in CEE & CIS

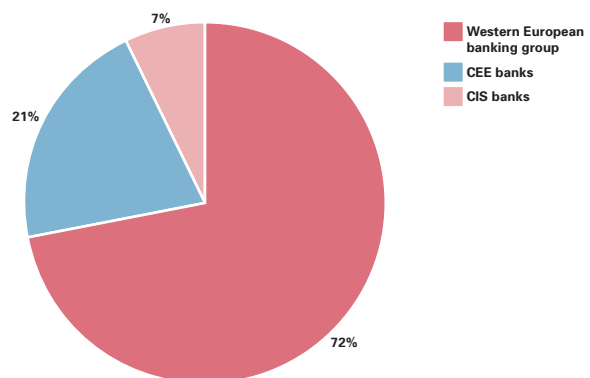
In October 2006, mergermarket undertook a mini-survey of 15 banking professionals handling Financial Services M&A within the CEE and CIS region. Here are their views on M&A prospects in the CEE & CIS region.

What level of M&A activity do you expect in the following sectors in the next 12 months in the CEE and CIS regions respectively?



In terms of M&A in the next 12 months, Retail Banking in the CIS stands out with 27% of respondents believing it will witness the most activity. A further 46% feel it will be very active. In relative terms, the area of least M&A activity is expected to be Insurance in the CEE, where 38% feel will be less than active. It is worth underlining, however, that not one respondent felt that any sector would be not at all active.

Which type of buyers do you expect to be most successful in M&A activity in the CEE and/or CIS financial services sector?



Unsurprisingly, considering the dominance of Western European banks in sector M&A in the years to date, 72% of respondents believe they will remain the dominant force in the CEE and CIS financial services sectors. As one respondent says, Western European Banks "are much bigger than other banks, not only in terms of capital but management and organisational skills." Or as another respondent says, "Until now (Western European banks) have been aggressively active, and it is hard to compete with them." The increasing influence of CEE banks as buyers, however, should not be discounted. As one respondent says "they have knowledge of the market."

# Straw Poll: Banking in CEE & CIS

## **How do you rate the prospects of cross border acquirers in the Russian banking market? Is the market too risky or is it a risk worth taking?**

Despite concerns over the role of government, cross-border acquisitions in the Russian banking market are on the whole perceived to be “a risk worth taking” due to the massive potential market and rapid anticipated growth. The majority of respondents pointed out that the banking market in Russia is growing very fast and there are opportunities to be the first movers in this market. A few respondents, however, feel the sector remains “Too risky, the Russian banks will not be privatised, the state banks wouldn't be sold to foreigners.”

## **At what stage do you believe a large globalised/UK/US banking group will make a landmark acquisition in the CIS region?**

Half of respondents predict that a landmark acquisition is likely to happen within the next two years, claiming that this timeframe was widely expected by many potential investors. However, a further 40% respondents expect the landmark acquisition within next 3-5 years due to size of market and compatibility of UK/US products: ‘their products are not popular yet in this market’.

Many respondents claimed that a lack of transparency, instability in the economy and politics was one of the reasons that acquisitions have not happened to date in the Russian banking market. Half of the respondents felt that the globalised banks did not value the market before as it is historically perceived a risky market. Geographical proximity and fit between large western organisations and the banks in this region were also seen as an issue. However, the majority of respondents believed that there is good potential in the banking market, not least since now there are less opportunities in the CEE region for Western banks.

# The Markets in Financial Instruments Directive: an Overview

## Investment and securities markets across Central Europe are facing a major challenge – the threats and opportunities of MiFID

Just two years ago, Hungary, Poland, the Czech and Slovak republics and Slovenia all implemented the European Union's financial services regime, as it was then, as part of their accession. But in the same year, 2004, the EU set in train MiFID (the Markets in Financial Instruments Directive), a wide-ranging reform of the financial services sector, which all member states are required to implement by 1st November 2007.

The resulting new legislation will change the environment in which banks and investment firms operate across Europe. In the UK these changes are seen as the most significant for 20 years and have been compared with the Big Bang, which saw the deregulation of the City of London, but the impact is potentially much greater in the CEE states which have only recently adjusted to the current regime.

These latest reforms are designed to create a single European market across the EEA by stimulating competition and making it easier to carry out cross-border trade using a common European rulebook for regulated firms. These include banks, investment firms, brokers and dealers, investment managers, and stock exchanges, markets and trading platforms.

The new rules have been heavily influenced by how the Financial Services Authority regulates the UK and from a CEE perspective this could be seen as an unwelcome move towards an Anglo-Saxon style financial services regime. Some have even asked whether it is really necessary or desirable for CEE markets because the benefits to local customers are unlikely to outweigh substantial costs that MiFID will entail. This is a moot point, because the European legislation was never subjected to formal cost benefit analysis, even for western European markets.

Although MiFID is designed to harmonise financial services activities across Europe, there are already obvious problems. For example, in the UK the FSA already has hundreds of staff monitoring and enforcing its rulebook and it regularly imposes large fines on firms and individuals, and has forced compensation payments running to billions of Euros on companies found to have transgressed. In contrast, there is no equivalent tradition of enforcement nor indeed enforcer in other countries including some of those that make up the CEE. So to make MiFID work, the EU needs to beef up the regulators, not just the regulation.

Some parts of the new regulations are directed at shaking up markets and stimulating competition, and MiFID will also result in the removal of protections enjoyed by some of the national stock exchanges in Europe. At the moment, some countries require transactions to be executed or reported via a national stock exchange (so called "concentration" rules), but under MiFID these protections will be abolished to allow free competition from exchanges in other countries and from other types of execution venues. In some sectors, the main competition comes from investment banks, which offer their clients over the counter trading - MiFID calls these firms "systemic internalisers" - and from electronic trading platforms which enable counter parties to trade on "alternative" markets and systems.

# The Markets in Financial Instruments Directive: an Overview

MiFID deliberately enhances the competitive position of alternative trading systems (to be known as multilateral trading facilities) in the hope that electronic trading will increase competition and reduce transaction charges. MiFID also introduces a pan-European regime, initially in the equity markets, to achieve much greater price transparency. For any one stock there should be a “feed” of real time information about the prices of trading across Europe from different venues (i.e. regulated markets – such as the national stock exchange - multilateral trading facilities and systematic internalisers). This feed will report the prices available and details of limit orders (pre-trade transparency) and the prices of transactions as they are concluded (post-trade transparency).

Trade execution will also change thanks to new processes that reflect best execution requirements and the wider choice of execution venues from across Europe. Market participants are still assessing how they will operate in this new environment. Some new services, such as electronic trading platforms, are already being launched specifically to take advantage of the changes and firms in the CEE will need to think about this sooner rather than later to avoid being left behind.

There is also already a lot of discussion about regional or European hubs. Post-MiFID, the European legislation encourages banks to abandon separate national banks in favour of local branches of their European parent; many institutions are also establishing regional or European hubs to co-ordinate trade execution. In the CEE, this poses threats but also offers opportunities.

But the very style of Anglo-Saxon style regulation will bring significant changes for institutions in the CEE – both locally incorporated banks and local branches of Western European institutions. For example, in retail sectors, there will be a much greater distinction between “advised” distribution channels and services, which will be subject to a regulatory driven “suitability” assessment process, and “non-advised” channels, where different processes will operate reflecting the MiFID “appropriateness” requirement.

MiFID also regulates the internal organisation of banks and investment firms, which means that CEE institutions will need to adopt Anglo-Saxon style controls, particularly Chinese walls, and other systems to protect clients from possible conflicts of interest not just within the corporate entity concerned but viewed from a group perspective.

All banks and other firms in securities and investment markets will need to assess the impact of MiFID implementation. As well as the costs involved in achieving compliance in what is a very short time frame, for many firms MiFID will present significant threats and opportunities. The sooner firms address the implications of MiFID the more likely they will have first mover advantage and minimise threats and maximise opportunities.

**By Nick Paul**  
**Partner**  
**CMS Cameron McKenna**

# CEE M&A Data

## Top Deals

Announcement Date	Status	Target Company	Target Country	Bidder Company	Bidder Country	Seller Company	Seller Country	Deal Type	Deal Value €(m)
19/12/05	P	Banca Comerciala Romana SA (BCR) (Romanian Commercial Bank) (62% stake)	Romania	Erste Bank der Oesterreichischen Sparkassen AG	Austria	European Bank for Reconstruction and Development (EBRD); Government of Romania; International Finance Corporation	United Kingdom; Romania; USA	Acquisition, Auction, Cross border, Private	3,750
20/04/06	C	HVB Splitska Banka d.d. (HVB Croatia)	Croatia	Societe Generale de France SA	France	Bank Austria Creditanstalt AG	Austria	Acquisition, Auction, Cross border, Private	1,000
12/12/05	P	Kereskedelmi Hitelbank (K&H Bank) (40% stake)	Hungary	KBC Bank	Belgium	ABN Amro	Netherlands	Acquisition, Cross border, Private	510
03/01/06	P	Bank Ochrony Srodowiska (BOS) (48% stake)	Poland	National Fund for Environmental Protection and Water Management (NFOS)	Poland	Skandinaviska Enskilda Banken AB (SEB)	Sweden	Acquisition, Cross border, Private	149
29/05/06	P	Domenia Credit; Estima Finance; Motoractive s.a.	Romania	GE Capital Bank Ltd	United Kingdom	Deutsche Investitions und Entwicklungsgesellschaft GmbH (DEG); Domo Retail SA; European Bank for Reconstruction and Development (EBRD); International Finance Corporation; Romanian American Enterprise Fund	Germany; Romania; United Kingdom; USA; Romania, USA	Acquisition, Auction, Cross border, Exit, Private, Transatlantic	140
24/07/06	P	eBanka a.s.	Czech Republic	Raiffeisen International Beteiligung (RIB) (Raiffeisen International Bank-Holding AG)	Austria	Ceska Pojistovna AS	Czech Republic AS	Acquisition, Auction,	130
08/09/05	P	Bank Ochrony Srodowiska (BOS) (53% stake)	Poland	Skandinaviska Enskilda Banken AB (SEB)	Sweden	National Fund for Environmental Protection and Water Management (NFOS)	Poland	Acquisition, Cross border, Public, Transatlantic	129
07/07/06	P	Kulska Banka (67% stake)	Serbia & Montenegro	OTP Bank Rt.	Hungary			Acquisition, Cross border, Private	119
07/03/06	C	Towarzystwo Ubezpieczeni i Reasekuracji WARTA S.A. (TuiR Warta S.A.) (24.61% stake)	Poland	KBC Bancassurance Holding SA	Belgium	Kulczyk Holding SA	Poland	Acquisition, Cross border, Public	105
29/11/05	P	Powszechne Towarzystwo Emerytalne Skarbiec-Emerytura (PTE Skarbiec Emerytura)	Poland	Powszechne Towarzystwo Emerytalne PZU S.A.	Poland	BRE Bank SA	Poland	Acquisition, Domestic, Private	80

C = Completed; P = Pending; L = Lapsed

Source: mergermarket

# CEE M&A Data

## Top Deals

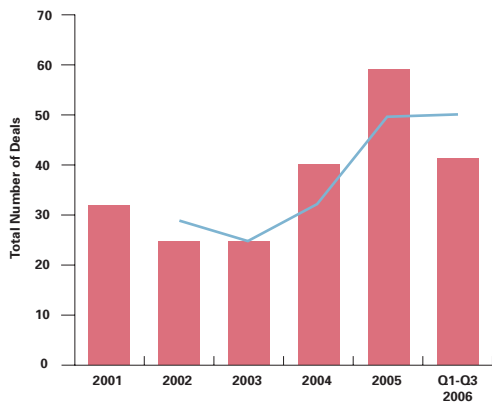
Announcement Date	Status	Target Company	Target Country	Bidder Company	Bidder Country	Seller Company	Seller Country	Deal Type	Deal Value €(m)
15/07/05	P	Novosadska Banka a.d. (83% stake)	Serbia & Montenegro	Erste Bank der Oesterreichischen Sparkassen AG	Austria	Government of the Republic of Serbia	Serbia & Montenegro	Acquisition, Auction, Cross border, Private	73
21/07/05	C	Rocca AI Mare Kaubanduskuskuse AS	Estonia	Citycon Oyj	Finland			Acquisition, Cross border, Private	62
09/09/05	P	Wschodni Bank Cukrownictwa SA (WBC) (100% stake)	Poland	Getin Holding S.A. (formerly Getin Service Provider SA)	Poland	PKO BP SA (Powszechna Kasa Oszczednosci Bank Polski SA)	Poland	Acquisition, Domestic, Private	53
23/12/05	P	Romanian Real Estate Partners BV	Romania	GED Eastern Fund II; Warburg Pincus LLC	Spain; USA			Acquisition, Cross border, Joint venture, Private, Transatlantic	50
22/12/05	C	CB Unionbank Bulgaria AD (60% stake)		Magyar Kulkereskedelmi Bank Rt	Hungary	European Bank for Reconstruction and Development (EBRD)	United Kingdom	Acquisition, Cross border, Private	50
07/08/05	P	Hercegovacka Bank	Bosnia-Herzegovina	Fima i Validus	Croatia			Acquisition, Cross border, Insolvency, Private	50
06/07/05	P	Continental banka (Kontinental banka)	Serbia & Montenegro	Nova Ljubljanska banka d.d. (NLB)	Slovenia	Government of the Republic of Serbia	Serbia & Montenegro	Acquisition, Auction, Cross border, Private	50
26/09/05	C	UPI Banka	Bosnia-Herzegovina	Banca Intesa SpA (formerly IntesaBci SpA)	Italy			Acquisition, Cross border, Private	46
24/05/06	C	Electus SA	Poland	Dom Maklerski IDM SA	Poland			Acquisition, Domestic, Private	44
18/01/06	C	JSC Lateko Banka (51% stake)	Latvia	Straumborg ehf	Iceland	LATEKO Invest	Latvia	Acquisition, Cross border, Private	43

C = Completed; P = Pending; L = Lapsed

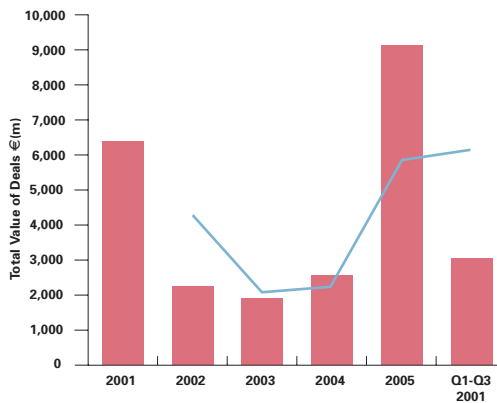
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# CEE M&A Data

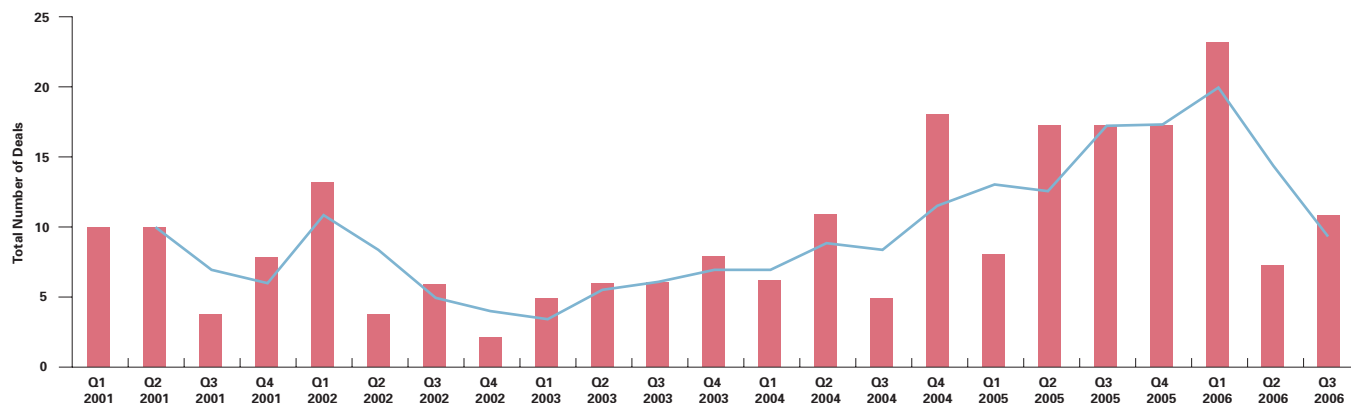
## CEE M&A Volume Trends



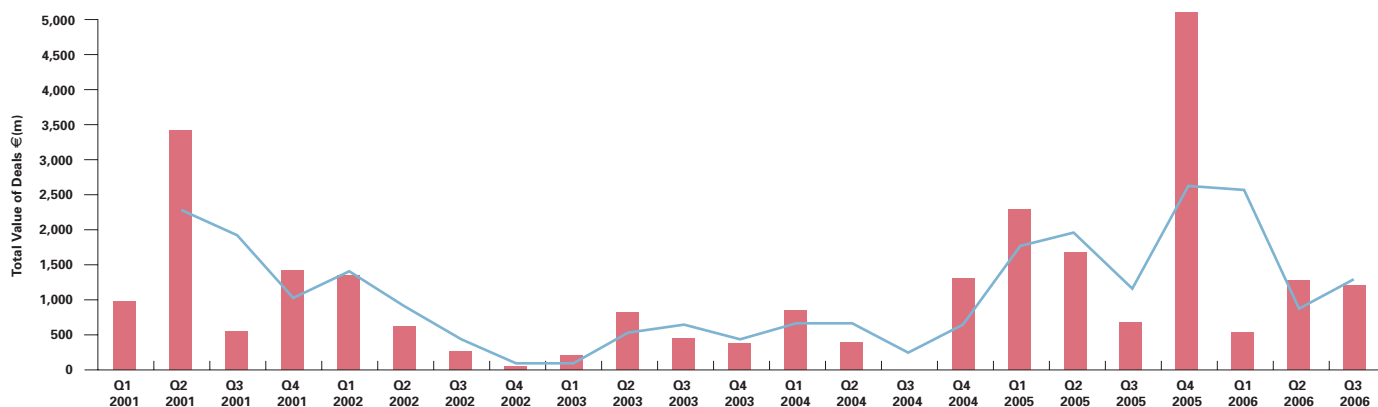
## CEE M&A Value Trends



## CEE Quarterly M&A Volume Trends

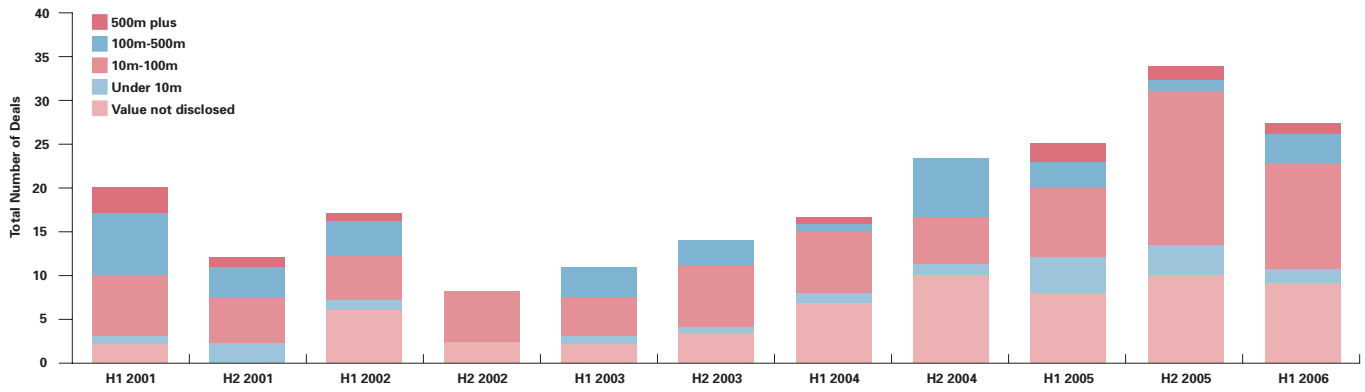


## CEE Quarterly M&A Value Trends

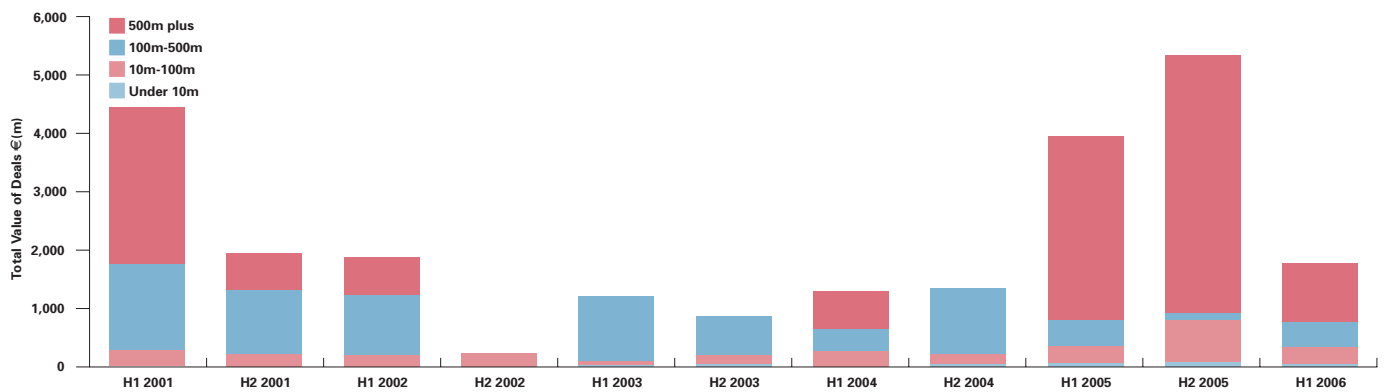


# CEE M&A Data

## CEE M&A Split by Deal Size

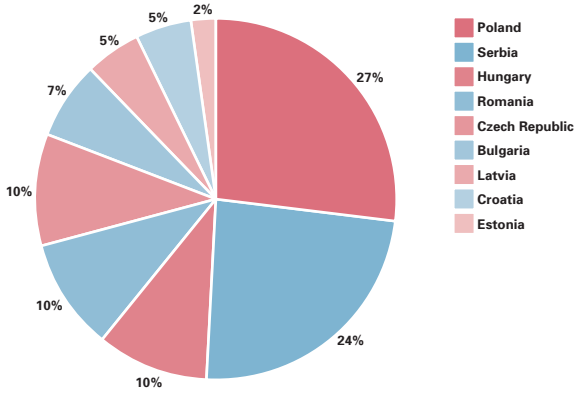


## CEE M&A Split by Deal Size

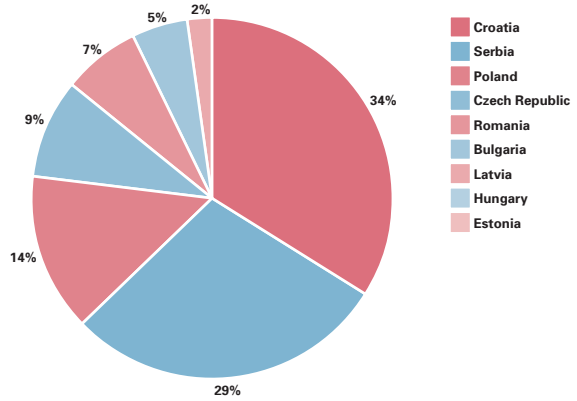


# CEE M&A Data

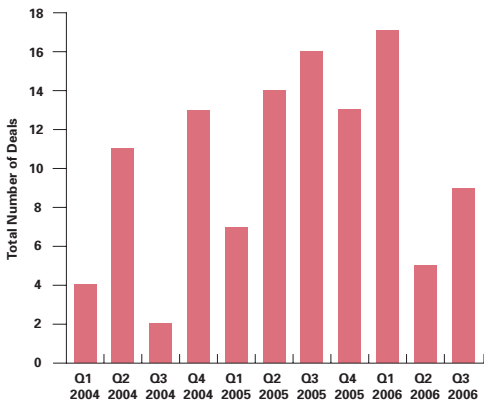
### CEE Mix of Deals by Geography - Volume



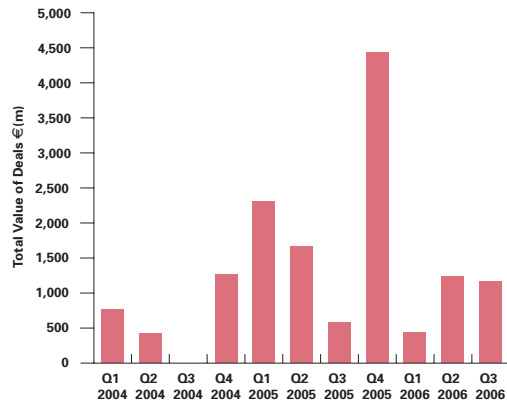
### CEE Mix of Deals by Geography - Volume



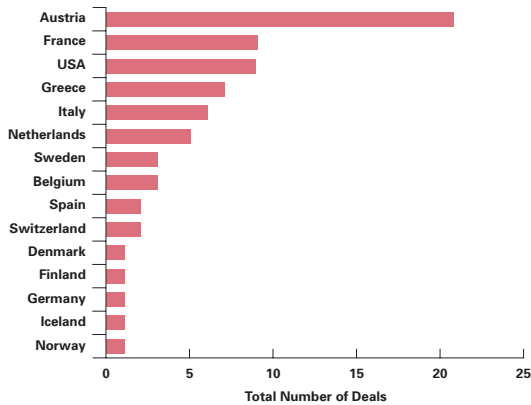
### Cross-Border Deals into CEE - Volume



### Cross Border Deals into CEE - Value



### Overseas Investors in CEE M&A (volume -2004-2006)



# CEE M&A Data - Financial Adviser Activity Tables

## Value

Rank	Company Name	Value €(m)	Number of Deals
1	JPMorgan	5,307	4
2	Deloitte (formerly Deloitte & Touche Corporate Finance)	4,982	5
3	Rothschild	4,914	10
4	Daiwa Securities Group Inc	3,750	1
5	Citigroup Inc	2,846	2
6	Merrill Lynch	2,104	4
7	Morgan Stanley	1,884	2
8	Swedbank Markets	1,726	1
9	CA IB Corporate Finance (formerly Creditanstalt Investmentbank)	1,248	3
10	Credit Suisse (formerly Credit Suisse First Boston [CSFB])	1,199	3

## Volume

Rank	Company Name	Value €(m)	Number of Deals
1	Rothschild	4,914	10
2	Deloitte (formerly Deloitte & Touche Corporate Finance)	4,982	5
3	JPMorgan	5,307	4
4	Merrill Lynch	2,104	4
5	BNP Paribas SA	317	4
6	KPMG Corp Fin	284	4
7	CA IB Corporate Finance (formerly Creditanstalt Investmentbank)	1,248	3
8	Credit Suisse (formerly Credit Suisse First Boston [CSFB])	1199	3
9	Nomura	720	3
10	Citadel (Corporate Finance)	514	3

Note: The tables are based on law firms advising the bidder on buyouts and buyins announced between 01/01/2005 and 30/09/2006, where the target is European, excluding lapsed and withdrawn deals.

# CEE M&A Data - Legal Adviser Activity Tables

## Value

Rank	Company Name	Value €(m)	Number of Deals
1	CMS Cameron McKenna	4,151	6
2	Nestor Nestor & Kingston Peterse	3,750	1
3	Mannheimer Swartling	1,726	1
4	Raidla & Partners	1,726	1
5	Tark & Co	1,726	1
6	Freshfields Bruckhaus Deringer	1,542	3
7	Wolf Theiss	1,248	3
8	Cleary Gottlieb Steen & Hamilton LLP	1,120	1
9	Grimaldi e Associati	1,120	1
10	Sullivan & Cromwell LLP	1,120	1

## Volume

Rank	Company Name	Value €(m)	Number of Deals
1	CMS Cameron McKenna	4,151	6
2	Lovells	255	6
3	Allen & Overy LLP	161	5
4	White & Case LLP	119	4
5	Freshfields Bruckhaus Deringer	1,542	3
6	Wolf Theiss	1,248	3
7	Gide Loyrette Nouel	1,034	3
8	Linklaters	383	3
9	Clifford Chance	560	2
10	Baker & McKenzie	538	2

Note: The tables are based on law firms advising the seller/target on exits announced between 01/01/2005 and 30/09/2006, where the target is European, including lapsed and withdrawn deals.

# CIS M&A Data

## Top Deals

Announcement Date	Target Company	Target Country	Bidder Company	Bidder Country	Seller Company	Seller Country	Deal Value €(m)
14/02/06	JSC UkrSotsbank (88.55% stake)	Ukraine	Banca IntesaSpA (formerly IntesaBci SpA)	Italy			1,041
21/08/05	Joint Stock Post Pension Bank Aval (Bank Aval) (94% stake)	Ukraine	Raiffeisen International Beteiligung (RIB) (Raiffeisen International Bank-Holding AG)	Austria			846
01/06/06	Raiffeisenbank Ukraine Joint Stock Commercial Bank	Ukraine	OTP Bank Rt.	Hungary	Raiffeisen International Beteiligung (RIB) (Raiffeisen International Bank-Holding AG)	Austria	650
01/02/06	Joint Stock Company Import-Export Bank IMPEXBANK	Russia	Raiffeisen International Beteiligung (RIB) (Raiffeisen International Bank-Holding AG)	Austria			456
03/07/06	CJSC AKB Investsberbank (96.40% stake)	Russia	OTP Bank Rt.	Hungary			373
05/12/05	United Financial Group (60% stake)	Russia	Deutsche Bank AG	Germany			341
20/6/06	ZAO International Moscow Bank (23.42% stake)	Russia	Bayerische Hypotheken und Vereinsbank Aktiengesellschaft	Germany	Nordea Bank Finland Plc	Finland	314
20/12/05	JSIB UkrSibbank (51% stake)	Ukraine	BNP Paribas SA	France			300
28/09/06	Joint Stock Commercial Bank Rosbank (10% stake)	Russia	Societe Generale de France SA	France	KM Technologies (Overseas) Limited	Cyprus	250
06/06/06	Joint Stock Commercial Bank Rosbank (10% stake)	Russia	Societe Generale de France SA	France	KM Technologies (Overseas) Limited	Cyprus	247
24/03/06	JSC Index Bank (98% stake)	Ukraine	Credit Agricole SA	France			209
21/02/05	Konversbank (CJSC Conversbank) (64% stake)	Russia	Vladimir Antonov (private investor)	Russia	Akademkhimbank; Elit Development; StroiMega Resource; ZAO Financial-Industrial Leasing Company	Russia	127
12/08/05	DeltaCredit Bank	Russia	Societe Generale de France SA	France	Delta Private Equity Partners (formerly Delta Capital Management Inc); International Finance Corporation	Russia;USA	84
21/04/05	KMB Bank Small Business Credit Bank (75% stake)	Russia	Banca Intesa SpA (formerly IntesaBci SpA)	Italy	Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG); European Bank for Reconstruction and Development (EBRD); Soros Economic Development Fund; Triodos Bank NV	Germany;United Kingdom;Russia; Netherlands	69

C = Completed; P = Pending; L = Lapsed

Source: mergermarket

# CIS M&A Data

## Top Deals

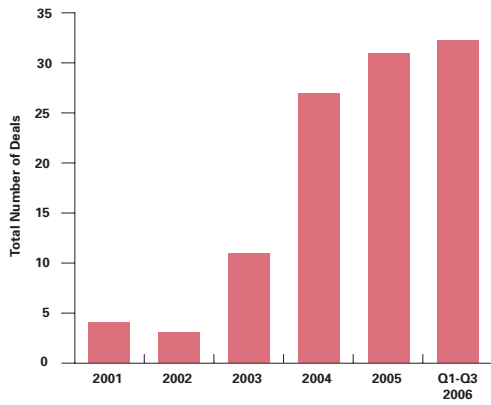
Announcement Date	Target Company	Target Country	Bidder Company	Bidder Country	Seller Company	Seller Country	Deal Value €(m)
07/12/05	Texakabank - JSC	Kazakhstan	Sberbank	Russia			60
31/01/06	Mriya Commercial Bank	Ukraine	Vneshtorgbank (VTB)	Russia			58
30/05/06	MDM Bank St Petersburg plc (85.93% stake)	Russia	East European Finance Corporation (VEFK)	Russia	MDM Bank	Russia	47
13/04/05	OAD City (32% stake)	Russia	JSC MMC Norilsk Nickel	Russia	SPI Group	Russia	46
31/07/06	Prestige Bank (50.50% stake)	Ukraine	Erste Bank der Oesterreichischen Sparkassen AG	Austria			28
28/07/06	Joint Stock Commercial Bank AGROBANK	Ukraine	Home Credit Finance a.s.		Czech Republic		27

C = Completed; P = Pending; L = Lapsed

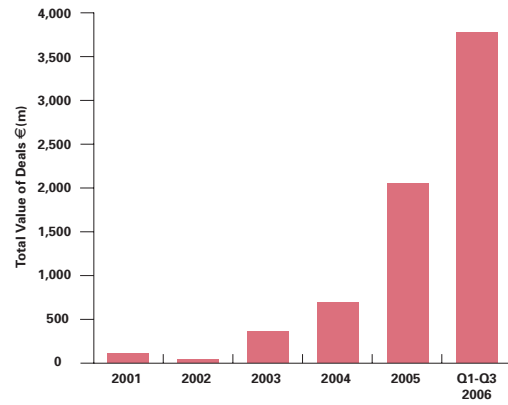
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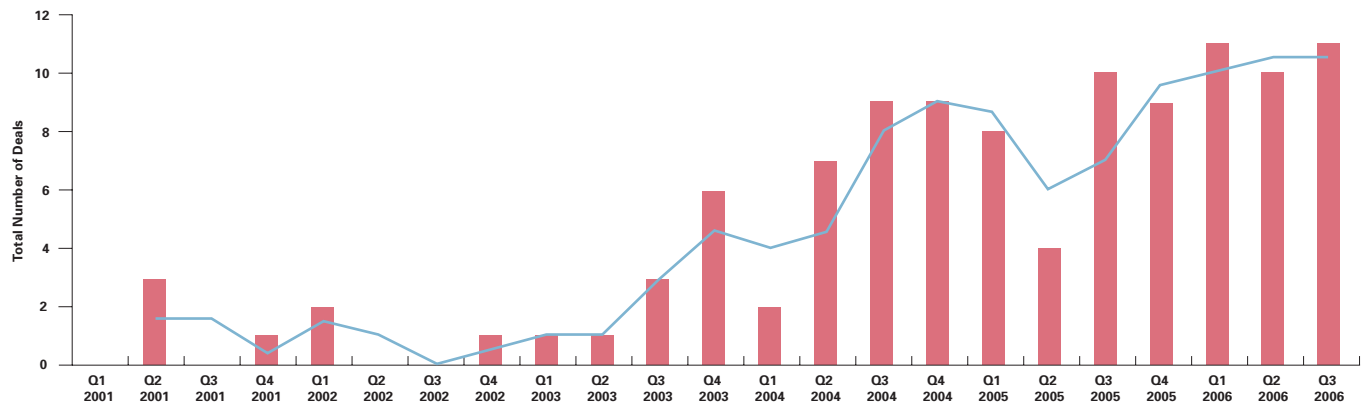
## CIS M&A Trends - Volume



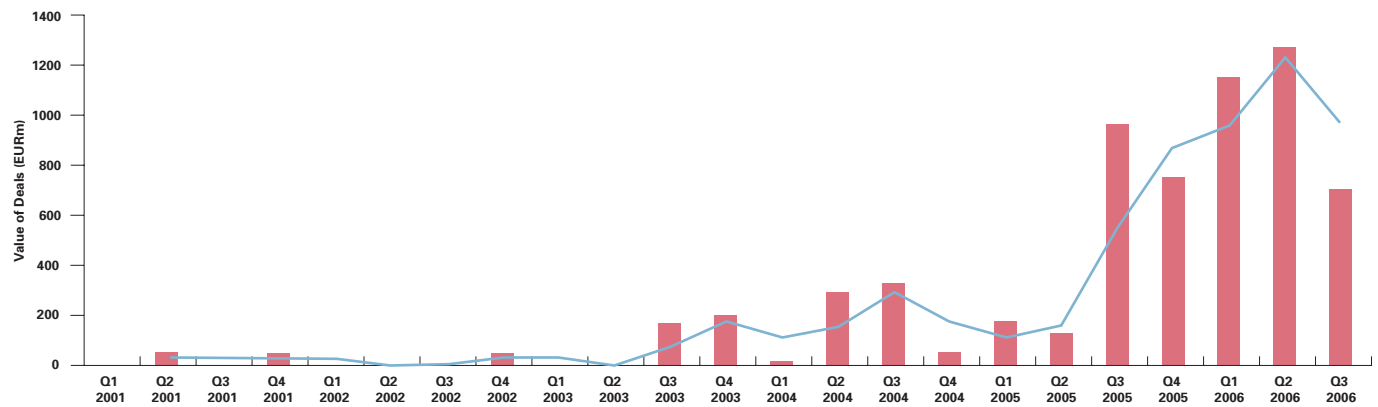
## CIS M&A Trends - Value



## CIS M&A Trends - Volume

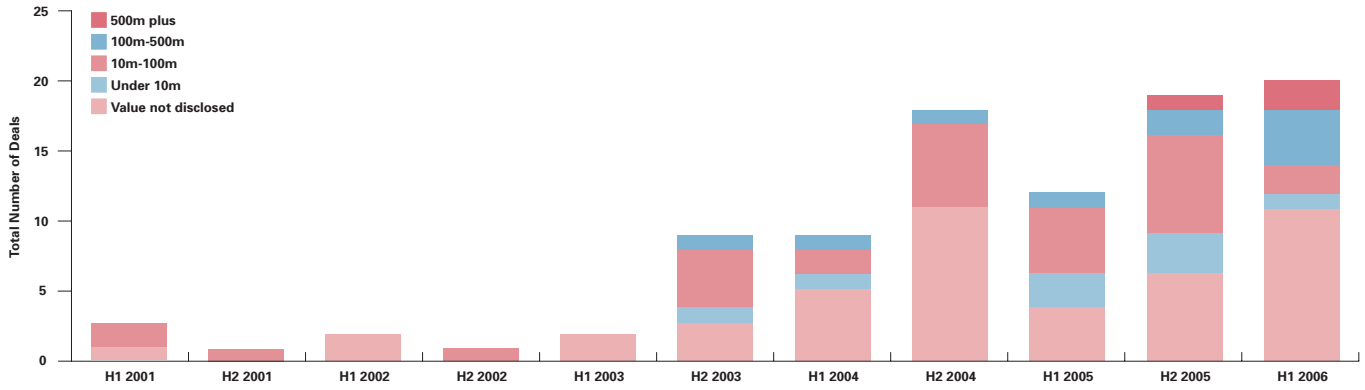


## CIS M&A Trends - Value

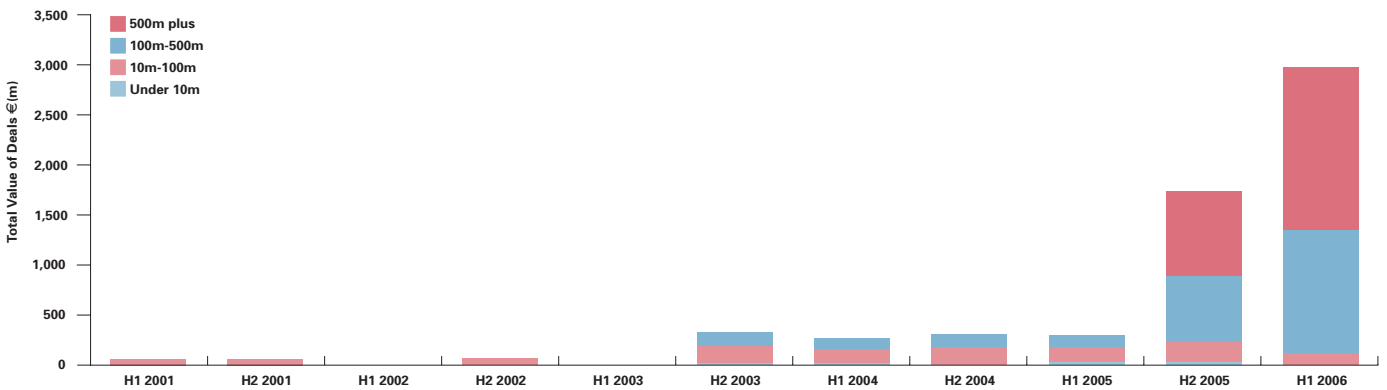


# CIS M&A Data

## CIS Geography - Volume

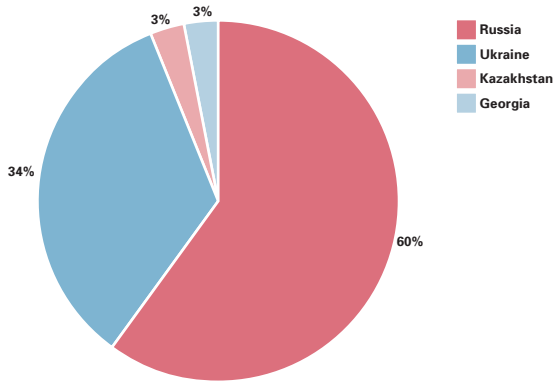


## CIS Geography - Value

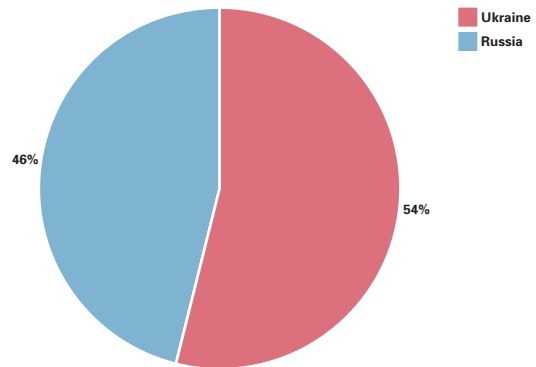


# CIS M&A Data

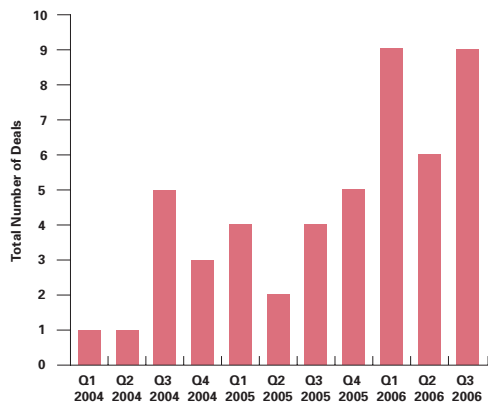
CIS Deal Size - Volume



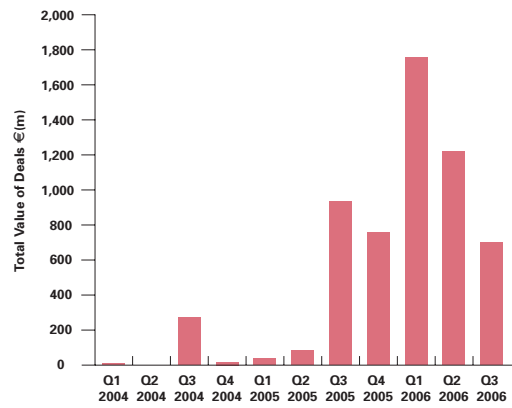
CIS Deal Size - Value



CIS Cross Border M&A Deals - Volume



CIS Cross Border M&A Deals - Value



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