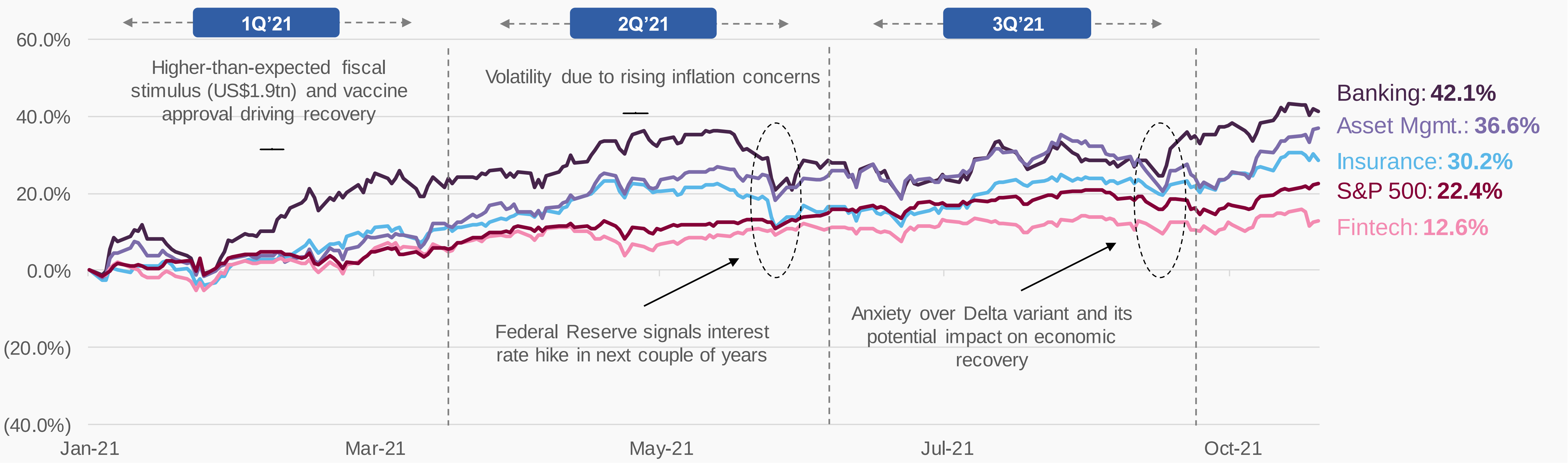
M&A and Capital Markets Activity in Financial Services Industry

3Q’21 Update

Banking continued its strong momentum and outperformed other sub-sectors on expectations of economic rebound and rising long-term bond yields



- In 2021, banking stocks have outperformed other stocks based on the hopes of an economic rebound and due to rising long-term bond yields, which help to boost lending profits.
- The upsurge in asset management stocks is driven by earnings growth and increased inflow from investors in response to improving macroeconomic conditions.
- Insurers outperformed the S&P 500 as technology-driven efficiencies enabled them to undertake longer-term business model upgrades.
- The S&P 500 continues to recover, supported by vaccination rollout and a better economic outlook.
- Fintech stocks underperformed S&P 500 majorly due to mixed quarterly reports and investors rotating out of technology and high-growth names into cyclical stocks

 Source: Industry Reports and General Web Searches. Share price represents the US market data, which is as of Oct 28, 2021. Figures in US$.

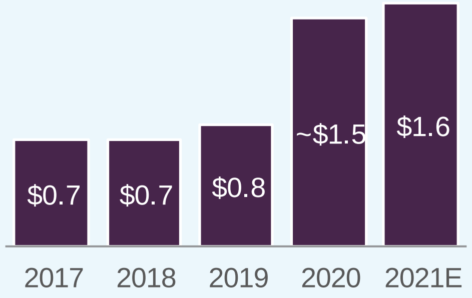
Banking has been ‘distressed’ due to weak loan portfolios and margin pressure however...

Banking

Regulators easing restrictions on banks but loan quality remains a concern

- To cushion the initial impact of the COVID-19-induced economic slowdown, banking firms, in agreement with regulators, capped dividends, suspended share buybacks, and altered their capital allocation plans to increase provisions for credit losses.
  - US banks continue to release billions from ‘excess’ reserves formed during 1H’20. However, banks are expected to continue to experience limited loan growth, new bad debts, and low rates over the next few quarters.
  - Gradual economic resumption is encouraging regulators to ease restrictions. For example, in Dec’20, the European Central Bank allowed banks to pay dividends and repurchase shares worth up to 15% of 2019 and 2020 profit, or 0.2% of the key capital ratio, whichever is lower. Also, in 1H’21, the Feds lifted the temporary limits on banks’ ability to pay dividends and undertake buybacks amid COVID-19, supported by optimistic stress tests.
  - ➢ In 3Q’21, the net income of US banks increased, reflecting the economic recovery and rising corporate and consumer confidence in the ‘new normal’ business environment.

Global Provisions for Loan Losses (US$ trillion)



Unique revenue streams during COVID-19

- To strengthen revenue options, many banks have turned their attention towards fee income as the primary driver of growth, while others are focusing on economies of scale and inorganic growth through M&A.
- Banks are investing heavily in mobile engagement as well as digital platforms. Digital account opening activity is increasing faster than ever.
- A rise in loan demand in 3Q’21 compared with that in 2020 has improved banks’ turnover while falling interest rates have allowed them to gain heavily on their bond portfolios, making way for higher revenue growth.

 Source: Industry Reports and General Web Searches. Figures in US$.

…it remains on track to reach pre-COVID-19 profitability aided by the prospects of strong economic recovery and an earlier-than-expected interest rate

Banking

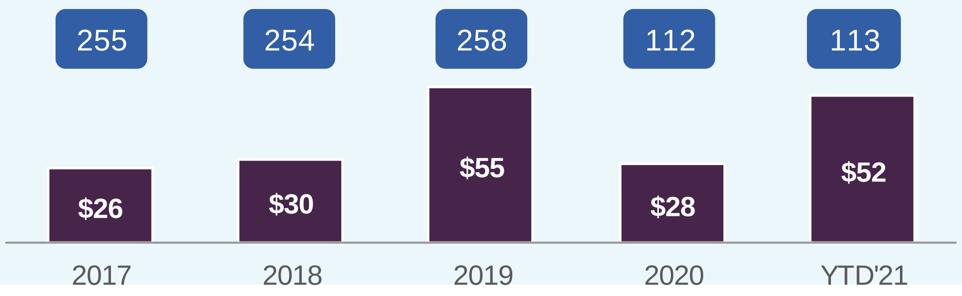
Business Outlook

- Business growth in the banking space is improving in accordance with declining infection rates, advancing vaccinations, and gradual reopening of economies.
  – With big-tech businesses such as Google, Amazon, and Apple gradually including financial services solutions into their portfolios, the revenue and market share are gradually shifting from the banking industry to other industries.
  – Digital platforms are expected to become the preferred and dominant business channels for the banking industry, according to KPMG.
  – The Federal Reserve has announced that it will begin tapering the pace of its asset purchases from US$120bn to US$105bn per month, starting with the withdrawal of last year's emergency pandemic support.
  – On the funding side, as government aids decline and lockdowns are lifted, household deposit inflows are anticipated to decrease further.

M&A Outlook

- In 2021, the banking sector experienced a surge in M&A activity, indicating the sector's eagerness to grab potential strategic and growth opportunities.
- M&A activities are expected to continue in the near term, primarily due to a growing focus on increasing scale and efficiency to support profitability and streamline business models.
- According to S&P Intelligence, US banks will likely undertake M&A worth ~$60bn in 2022.

Count and Value of US Banks' M&A Deals (in US$ bn)



Source: Industry Reports and General Web Searches. Figures in US$. 3Q'21 data is as of September 30, 2021.

Asset management, insurance and fintech on path to strong recovery

Asset Management

- During the start of the pandemic, low returns on investments weighed on performance fees and AUMs. However, sustained market recovery since 2H'20 has increased the returns on investment and eased the fee pressure.
- The rollout of COVID-19 vaccines has acted as a 'booster shot' for the global economy. This continues to generate investment opportunities for the sector as evidenced by a large uptick in deals in 2021.
- A total of 32 money management deals took place in 3Q'21, compared with 15 in the prior-year period.
- The outlook for deal-making remains strong for the remainder of the year, driven by consolidation and focus on gaining credit, exposure to other asset classes and robo advisory.

Insurance

- Lloyds had initially expected the pandemic to result in global claim loss worth ~$203bn.
- Insurtech continues to be an attractive idea to generate savings and efficiency using technology.
- The ongoing demand for digitalisation (insurtech) and the divestment of non-core assets continue to drive M&A.
- Given the potential for improvement and the prospect of attractive returns in insurance, private equity and principal investors are actively competing for investments.
  - A total of 317 insurance deals were announced during the third quarter, compared with 255 in the prior-year period.
  - According to S&P, insurance carriers' M&A activity seems poised to at least double in 2021, marking one of the strongest years in the last quarter-century.

Fintech

- A strong demand for digitalisation has benefited fintech firms as they have partnered with traditional financial institutions to expand into new markets.
- Following a record-breaking 2Q'21, global fintech private market deal activity remained elevated in 3Q'21, with YTD'21 fintech funding already surpassing the 2020 level.
- In 2H'21, fintech firms increased their participation in M&A and IPO activities, primarily driven by growth and consolidation in the sector.
  - In 1H'21, many fintech firms(Bakkt, eToro, etc.), personal finance start-up companies (SoFi, etc.), and neobanks (MoneyLion, etc.) went public via the SPAC route.

Source: Industry Reports and General Web Searches.

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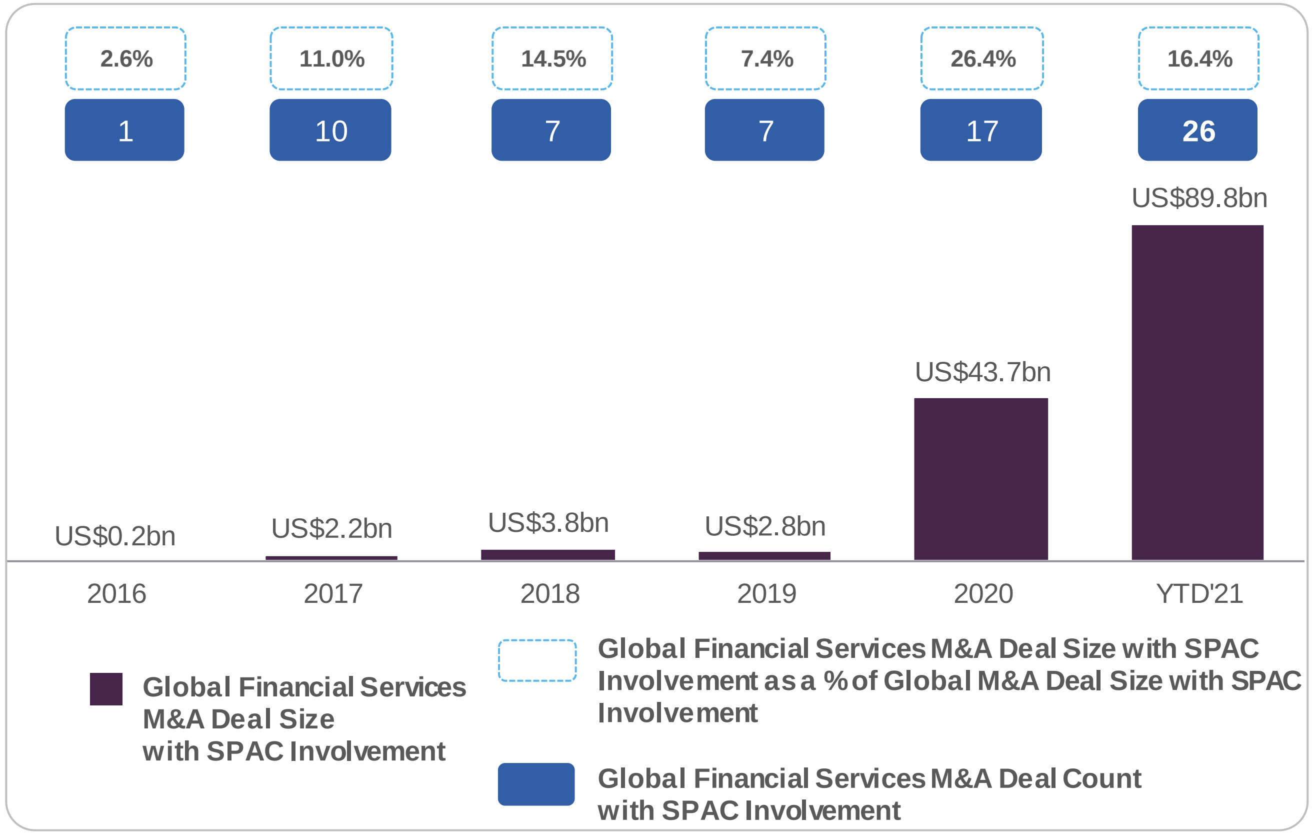
SPACs are here to stay despite recent additional regulatory restrictions

- Market uncertainties are driving companies to avoid the traditional time-taking approach to IPOs. Instead, they are opting for SPAC IPOs.
- The rising number of SPAC IPOs are increasing SPAC-involved M&A deals in the market.
- The financial services industry witnessed a boom in SPAC M&A amid the pandemic.
- In April 2021, the SEC tweaked accounting rules to slow down the excessive speed of SPAC deals. The amount raised by SPACs plummeted from $35bn in March to $3bn in April, US$3.9bn in May and ~US$3.5bn in June.
- Examples of a few large SPAC deals are as follows:
  - Lionheart Acquisition acquired MSP Recovery for US$32.5bn.
  - Far Peak Acquisition acquired Bullish for US$8.12bn.
  - Social Finance was acquired by Social Capital Hedosophia V for US$6.56bn.



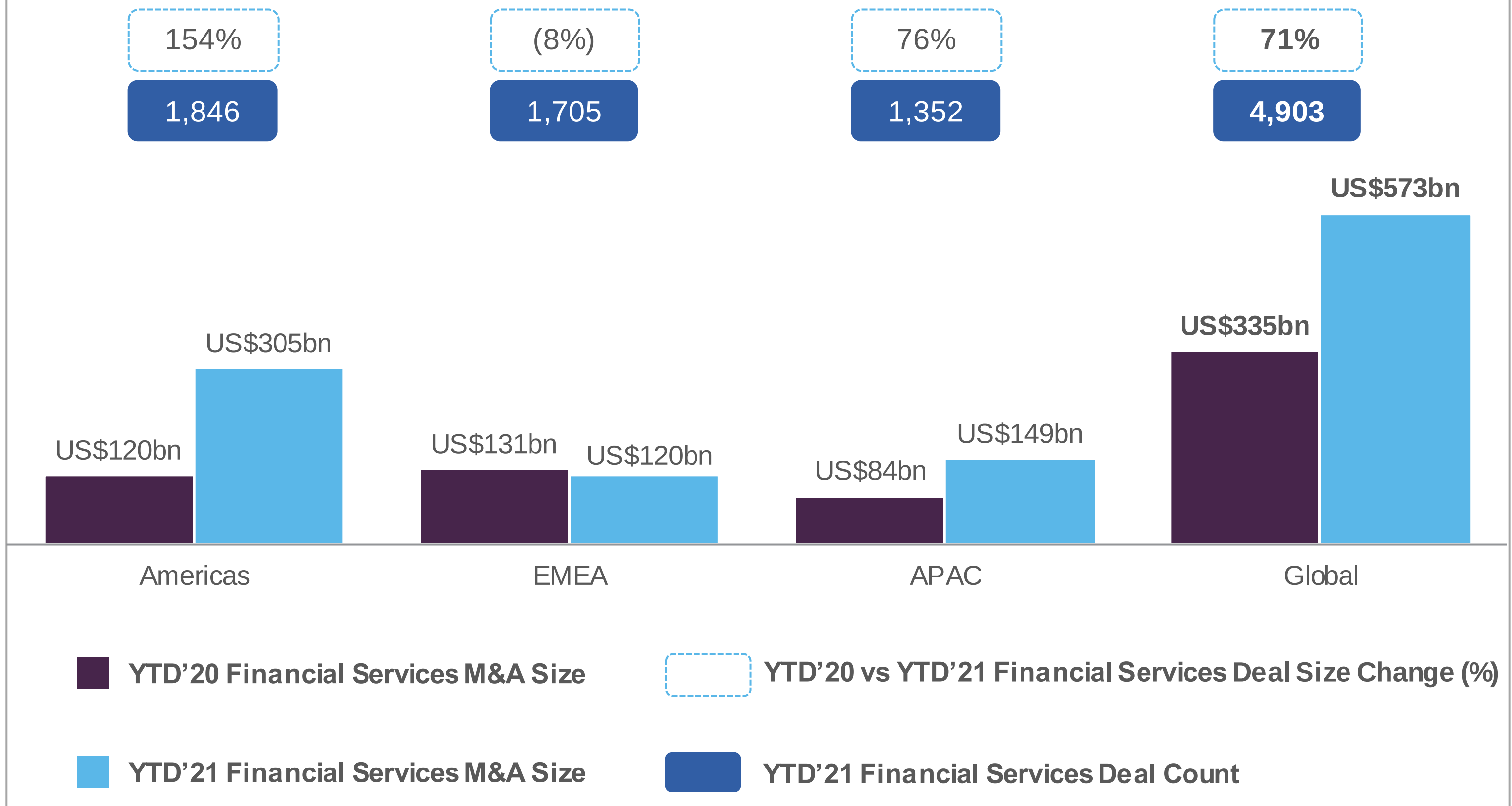
Outlook

- ✓ With more than 400 active SPACs looking for targets after a fundraising frenzy in 2020 and 1Q'21, SPAC-led deals are likely to continue but at a slower pace in the near term. Fintech continues to be in the most attractive sub*sector.
- ✗ The recent regulatory interventions and expected economic stability have diminished the attractiveness of SPACs, compared with traditional IPOs.
- ✗ As sponsors can lose their initial investment in SPACs if an acquisition is not completed and the time available to complete acquisitions is limited, sponsors are less rigorous while selecting targets. This can lead to poor performance in the overall SPAC market in the medium term.

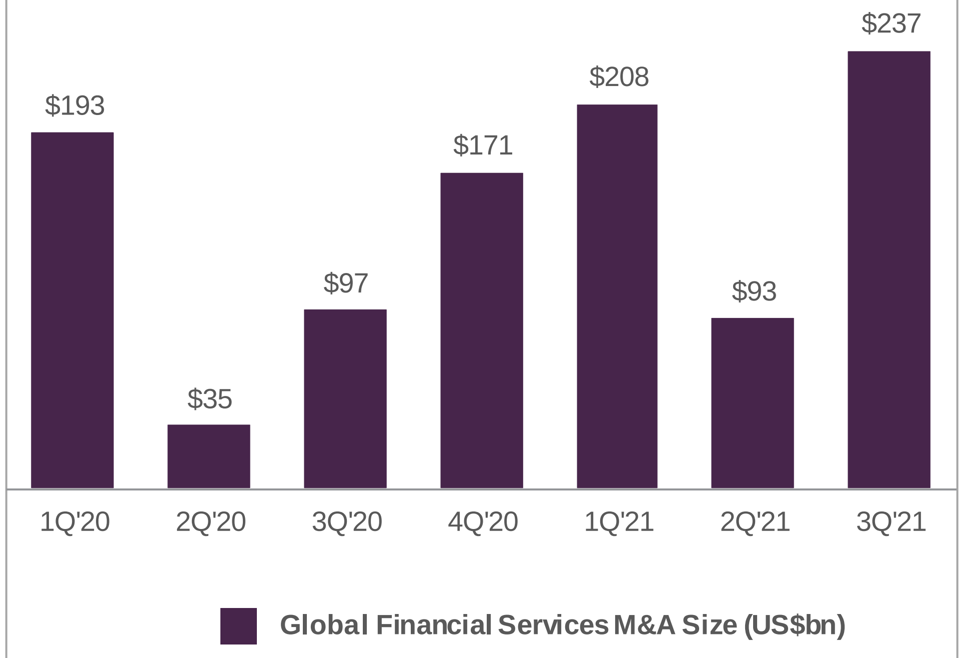
 Source: Eikon. Figures in US$bn. Data as of 3Q'21 ending September 30, 2021.

Global M&A activity rebounded strongly in 3Q'21, outpacing the previous quarters

- The Americas registered significant YoY growth in deal size due to a few large deals and a 1.5x surge in volume compared with 2020.
- For instance, the merger of GE Capital Aviation Services and AerCap Holdings was valued at ~US$30bn.



- Market recovery and business resumption continue to drive M&A activity.
- Deal count continued to increase in 3Q'21 with the deal amount being significantly higher than the previous quarter.



 Source: Refinitiv. Figures in US$bn. Data as of Oct 28, 2021.

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High-profile deals continued to increase in YTD’21, indicating broad-based M&A recovery before heading into 4Q’21 and 2022

Key Themes Driving M&A Recovery

- Diversified revenue streams
- Innovative solutions
- Shareholder value generation
- Digital one-stop-shop
- Efficient ownership structure
- Strong regional partnerships
- Fintech Wave
- Resilient cash flow

Top ‘Big Ticket’ M&A Announced in 2021

Ann. Date	Acquirer	Target	Target's Sector	Deal Value (US$bn)	Advisors
10-Mar-21	AerCap	GE Capital Aviation Services	Specialized Finance	$31.1	Goldman Sachs, Evercore, PJT Partners, Morgan Stanley, Citigroup
2-Aug-21	Square	Afterpay	IT Services	$27.1	Goldman Sachs, Qatalyst Partners, Lonergan Edwards & Associates, Highbury Partnership, Morgan Stanley
28-Oct-21	Covea SGAM	PartnerRe	Speciality Insurance	$9.0	Goldman Sachs, Barclays, Rothschild & Co, J.P. Morgan
15-Sep-21	EJF Acquisition.	Pagaya Technologies	Fintech	$8.3	UBS, Barclays, Duff & Phelps, J.P. Morgan
29-Jun-21	First Allmerica Financial Life Insurance	Ameriprise Financial	Insurance	$8.0	Goldman Sachs and Credit Suisse
21-Sep-21	U.S. Bancorp	MUFG Union Bank	Banking	$8.0	Goldman Sachs, Morgan Stanley, BofA Securities
7-Jan-21	Social Capital Hedosophia	Social Finance	Specialised Finance	$8.0	Citigroup, Allen & Co., Goldman Sachs, Credit Suisse
22-Feb-21	M&T Bank	People's United Financial	Banking	$7.6	Keefe, Bruyette & Woods, J.P. Morgan, Lazard Frères & Co.
8-Mar-21	Apollo Global Management	Athene Holding	Insurance	$7.4	Lazard Frères & Co. , Goldman Sachs, Houlihan Lokey, Barclays
26-Feb-21	Davidson Kempner Capital	UK Asset Resolution	Banking	$7.1	Credit Suisse, PWC, Houlihan Lokey
31-Aug-21	Siam Makro Public	CP Retail Holding	Financial Conglomerates	$6.4	J.P. Morgan, UBS, Kiatnakin Phatra Securities

Source: Company Press Releases. Data as of Oct 28, 2021. Figures in US$bn, unless otherwise noted.

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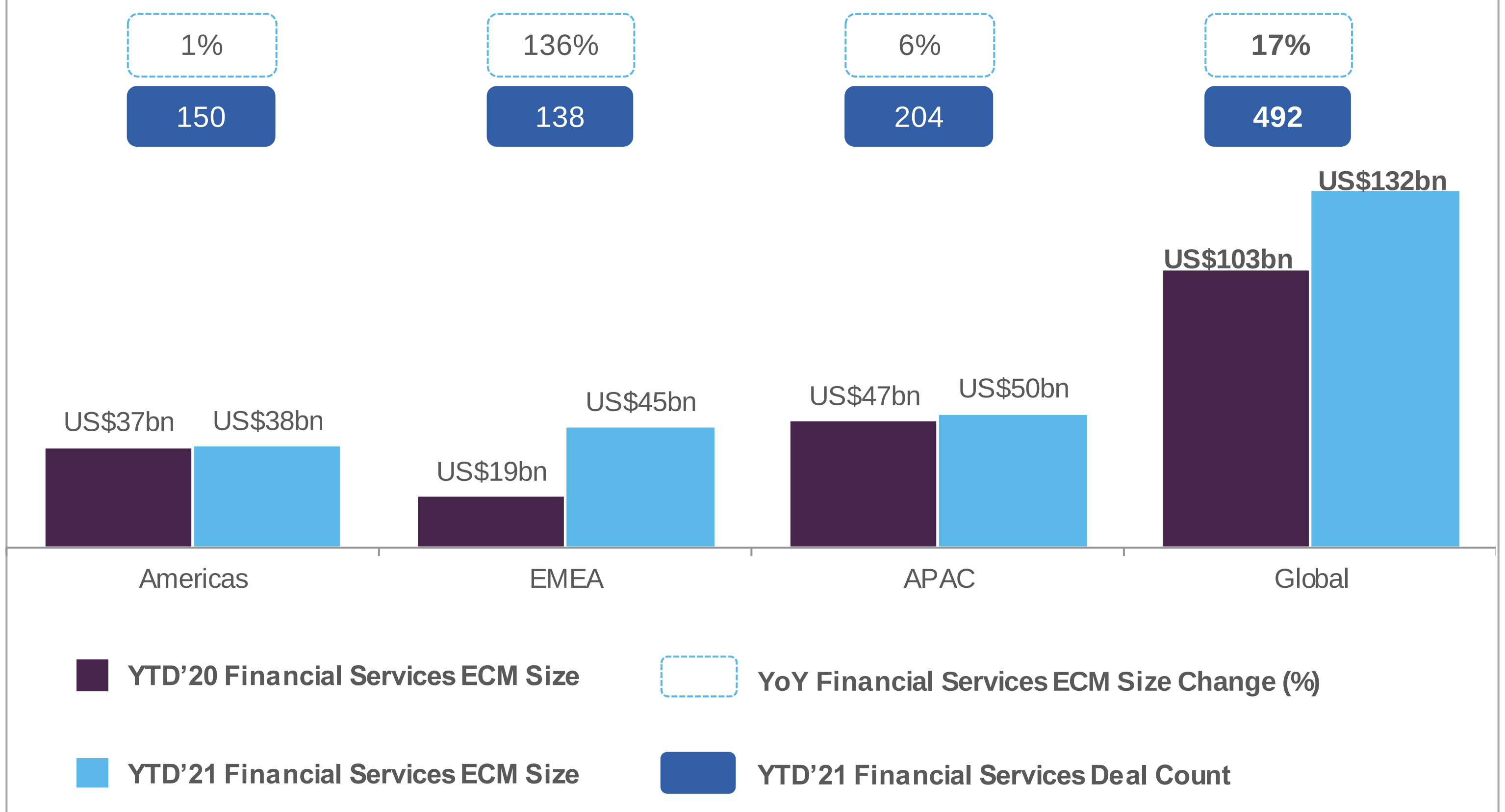
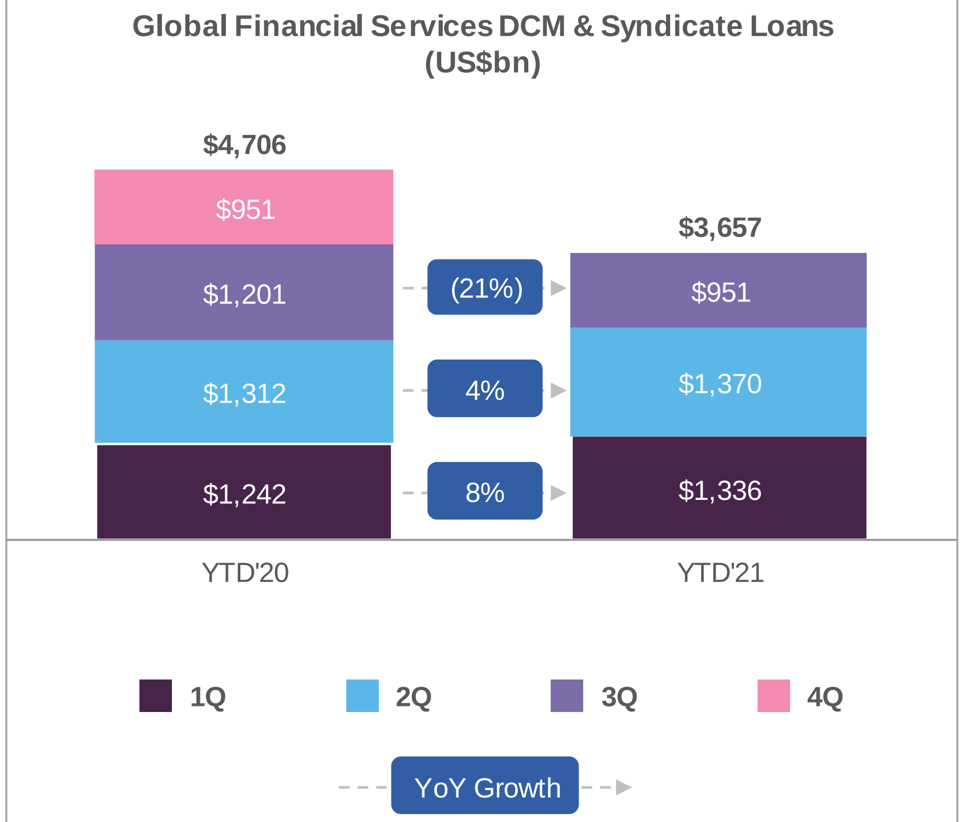
Equity capital markets gained traction while debt capital markets declined compared to record activity last year

- On a YoY basis, equity capital markets (ECM) in Europe and APAC continued their rally, while ECM in the Americas trailed slightly.
- In YTD'21, overall ECM activity increased primarily due to SPAC IPOs and follow-on offerings. The traditional IPO space witnessed a mixed performance.



- The syndicate loan market grew by 35%, while the DCM was down by 6% on a YoY basis.
- Investment grade and sovereign, supranational, agency deals were down on a YoY basis.



 Source: Refinitiv. YTD as of Oct 28, 2021. Figures in US$bn.

With the pandemic-driven hiatus coming to an end, the record M&A activity is expected to remain broad-based across sub-sectors heading into 2022

Key Factors Influencing M&A Activity

Economic Upheaval

- ✓ Pressure on organic growth and capital appreciation, as well as lower valuations to act as catalysts for M&A.
- ✓ The importance of environmental, social, and governance (ESG) factors in M&A decision-making is increasing, especially in the backdrop of the COVID-19 pandemic.
- ✓ Vaccination drives are expected to boost economic recovery. However, the growth is expected to be uneven due to limited vaccination and pandemic control-related challenges in most developing and underdeveloped economies.
- ✓ Cross-border M&A deals surged in 3Q'21, with the US accounting for 38% of the deals so far in 2021.

Regulatory Environment

- ✓ The global regulatory and tax conditions have been favourable.
- ✗ Increased due diligence will likely slow down the execution process, e.g., work-from-home compliance, cybersecurity, privacy, data protection and accounting regulations.

Technological Changes

- ✓ Digital transformation is necessary for fraud management, cybersecurity and digital client servicing. M&A remains the quickest way to build these capabilities.

Sector Dynamics

- ✓ Partnerships can promote better efficiency ratios, technological transformation, treasury operations and cross-selling.
- ✓ Rise of domestic champions, challenger bank M&A, focus on deleveraging balance sheets and reconfiguration of operating models.
- ✓ Increased regulatory and digital transformation costs and thin margins are driving consolidation in the market.
- ✗ It is difficult to ascertain the right M&A targets amid uncertainties around the economy and consumer behaviour.

Financial Market Support

- ✓ The credit market is active, unlike during the 2007–09 financial crisis.
- ✓ Private equity firms with ~$2 trillion of dry powder continue to target surviving firms.
- ✓ Many governments have invested money in the market to fuel economic recovery

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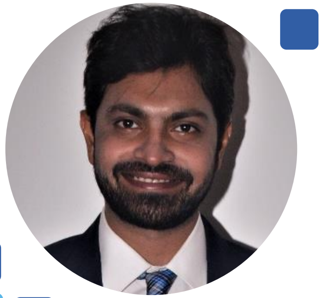

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