

# Global Financial Services Review



## Q3-2006 Update

For the Quarter Ending:  
September 30, 2006

### Sectors & Classification

- Diversified Financial Services
- Financial Institutions
- Financial Technology Providers
- Insurance

### For More Information

Contact Our Global Financial Services Group

**Charlene A. Davidson**  
Senior Managing Director  
714.327.8859  
[charlenedavidson@rsmequico.com](mailto:charlenedavidson@rsmequico.com)

**Gregory M. Miller**  
Vice President  
714.327.8664  
[gmiller@rsmequico.com](mailto:gmillier@rsmequico.com)

**Michael S. Del Pero**  
Associate  
714.850.8316  
[mdelpero@rsmequico.com](mailto:mdelpero@rsmequico.com)

## Key Trends

### ▪ Banks and Thrifts Ride the Wave of Record Earnings

Commercial banks and savings institutions insured by the Federal Deposit Insurance Corporation (FDIC) reported net income of \$38.1 billion for the second quarter of 2006, surpassing the previous quarterly earnings record of \$36.9 billion set in the first quarter. This is the fifth time in the last six quarters that industry earnings have set a new record. Officials attributed the new quarterly record to strong commercial and consumer loan demand that sparked an increase in net interest income, which outweighed the effects of rising interest rates and narrower spreads between short- and long-term interest rates. The industry's second-quarter profits represent a 3.2% increase over the first-quarter performance and a 10.9% improvement over the same period in 2005. Third quarter 2006 also continues a period of more than two years without the failure of an FDIC-insured institution. Analysts expect that the third quarter will continue this positive trend.

### ▪ Loan Growth Continues to Support Rising Revenues

Strength in both commercial and consumer demand remains high, with total loans growing moderately on a year-over-year basis. The industry's loan portfolio has been growing at a double-digit annual rate for the past three years, as rising demand for commercial loans has compensated for slowing consumer loan demand. The high volume of lending helped offset the negative effect of narrower net interest margins and enabled institutions to continue to increase their net interest income.

### ▪ Traditional Institutions Making Non-Traditional Shift into New Markets

- As further evidence of the continued quest of financial services companies to master the processing and payment of work flows, Bank of America Corp., the number two U.S. bank, announced that it had acquired health care technology company HealthLogic Systems Corp., moving to increase its ability to provide financial services to the health care industry.
- Conversely, there has been a movement by non-banking institutions to emulate their banking brethren, as was indicated by A.G. Edwards, Inc.'s recent announcement that it would be introducing a bank deposit program backed by Federal insurance. This marks the latest move among financial service providers to offer banking products in attempts to retain customers.
- As banks and financial institutions alike continue to look for new and innovative ways to expand revenue streams, we can expect to see more such strategic vertical additions to traditional business models.

## Earnings & Pricing Indications

- We have witnessed a continued upward movement in valuation trends for banking and diversified financial service companies with transaction multiples (measured by EV/EBITDA) ranging from 8-10x for deals involving banking and finance and financial technology transactions generating 13-15x on a trailing twelve-month basis.
- The recent prevalence of industry-leading names announcing mergers and/or acquisitions is reason to believe that the remainder of 2006 will prove to be strong for the financial services markets. Most earnings-driven financial services companies have been unveiling various capital utilization strategies, including rapidly accretive acquisitions, adjacent market expansions, non-core asset dispositions and stock buybacks.

## Events

- ABA Banking Leaders Forum and Annual Convention: Phoenix, AZ, October 15-18, 2006
- RSM EquiCo International Symposium: Paris, France, October 24, 2006  
"Cross Border Investing & Divesting"
- The Milken Institute's 2006 California State of the State Conference. October 30, 2006.  
Beverly Hills, CA  
"Maintaining California's Innovation Leadership"
- 2006 BAI Conference & Expo: Las Vegas, NV  
November 14-16, 2006