

IMAS Corporate Advisors

2009 FSA Annual Review

Trends in the regulated UK financial services industry

31st January, 2010

FSA authorisation of new hedge funds and fund managers undeterred by the planned increase in tax rates

Hedge fund and fund managers were two of the most resilient UK financial services sub-sectors for FSA authorisation of new firms during 2009. In particular, new registration data for hedge funds in Q4 2009 shows no fall in appetite for authorising new start ups in the UK. In the private equity sub-sector, however, declines in new authorisation of start ups in Q3 and Q4 2009 appear to reflect the difficult fund raising environment.

Authorisation of new firms across the wider UK financial services industry is currently at recent record lows

2009 represented the fourth successive decline in annual net authorisations after deducting cancellations across the UK financial services industry. Total new firm authorisations are currently running at just over 25% of the peak of the most recent economic cycle in early 2007.

Employment in the industry is now recovering from recent record lows in early 2009

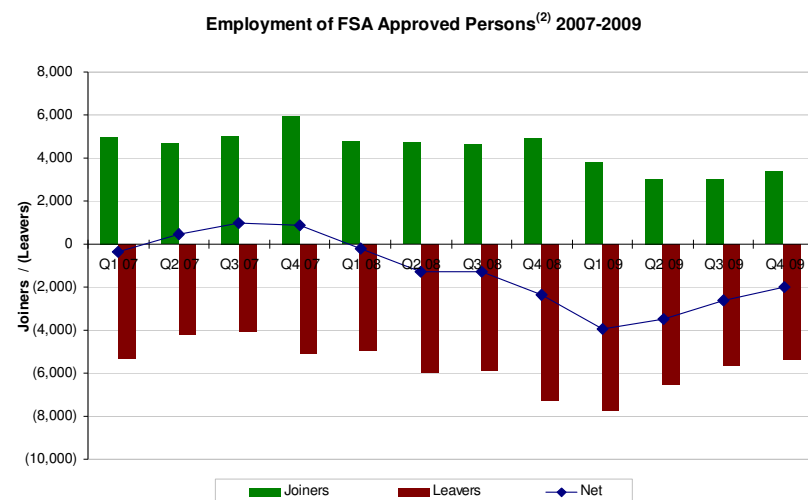
New joiners to the industry in 2009 fell significantly to 13,000 from around 20,000 new joiners in both 2007 and 2008. However, the net decline in employment has now improved for three successive quarters, indicating that confidence appears to be recovering from the lows of early 2009.

About IMAS Corporate Advisors

IMAS is a corporate finance adviser specialising in managing sales of financial services businesses in the UK. We advise owners on all stages of the disposal process, from the initial preparation for the transaction through to its completion. Having completed over 100 transactions, we use our unique and proprietary knowledge management system (“IMAS-*insight*”) that ‘maps’ the entire financial services industry in the UK, to identify the fullest possible range of buyers, both domestic and overseas.

For further details please contact Olly Laughton-Scott (ols@imas.uk.com tel: 0207 444 4392) or Bruce McIntyre (bwm@imas.uk.com tel: 0207 444 4395), or visit our website: www.imas.uk.com.

Employment shows tentative signs of recovery in Q4 2009



Source: FSA Register

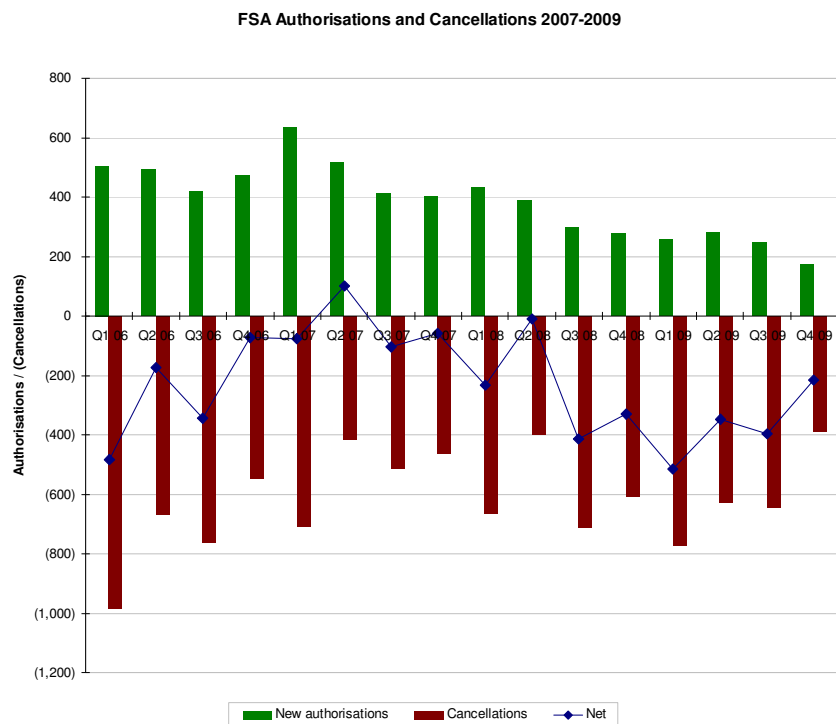
Highlights

- Quarterly new joiners in Q4 2009 increased for the first quarter since the end of 2008 following the collapse of Lehman Brothers and new joiners almost halving from 5,000 per quarter to 3,000
- Following six successive quarters of decline from Q3 2007 to Q1 2009, the net decline in employment has now improved for three successive quarters
- Despite this moderate recovery, industry new joiner levels remain well below that of 2007
- Quarterly hiring numbers halved from peak to trough in this economic cycle from 6,000 (Q4 2007) to 3,000 (Q3 2009)
- Although the industry continues to see a net decline in overall leavers versus joiners, this has now halved from 4,000 net leavers per quarter in Q1 2009 to 2,000
- Assuming continued steady growth in business confidence, we expect to see net additions to UK financial services employment in the foreseeable future

⁽¹⁾ Employment in this report refers to the employment of FSA 'Approved Persons' in control functions

⁽²⁾ Individuals approved by the FSA to perform one or more control functions on behalf of an FSA authorised firm for the first time. Leavers are Approved Persons who cease to be FSA approved as a result of leaving control function employment of an FSA authorised firm in that quarter.

FSA authorisation of new firms in UK financial services is at record lows for the current economic cycle



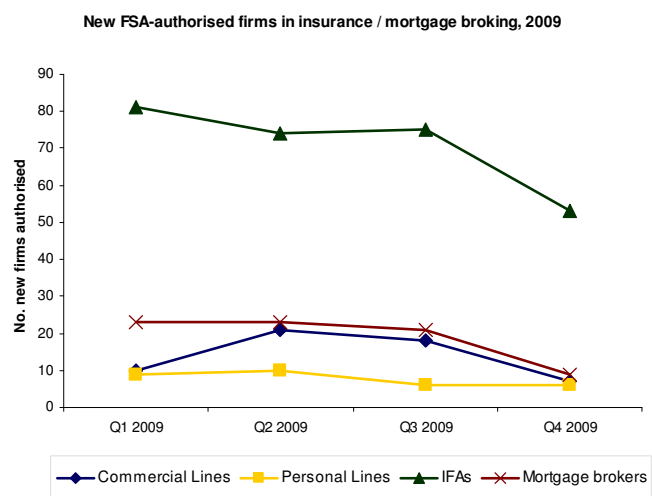
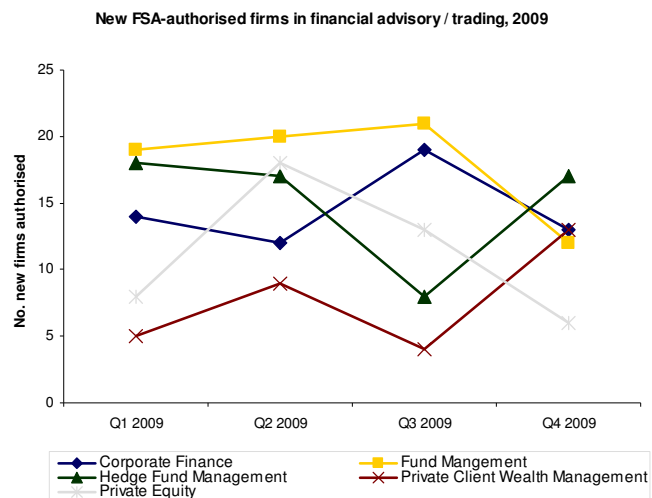
Source: FSA Register

⁽²⁾ Represents businesses being authorised or cancelling their authorisation with the FSA in the quarter

Highlights

- Quarterly FSA authorisation of new firms in Q4 2009 is currently at its lowest level for a number of years
- Quarterly authorisations are now running at just over 25% of the rate of new authorisations at the peak of the most recent economic cycle (Q1 2007)
- With the exception of marginal increases in Q1 2008 and Q2 2009, quarterly authorisations have now demonstrated three years of consecutive quarterly declines
- 2009 represents the third successive annual decline in net new authorisations after cancellations:
 - Net cancellations have accelerated from c. 150 in 2007 to c. 1,500 in 2009
- However, a fall in cancellations has contributed to the lowest quarterly net decline in new authorisations after cancellations in Q4 2009
- We believe that a recovery in 2010 could be impacted by a number of factors:
 - Continuing caution in the industry
 - Nearing completion of major downsizing exercises that resulted in new firms being formed by leavers
 - Changes in the tax regime resulting in a decline in attractiveness for tax-driven LLPs

New fund management firms, including hedge funds, remained active throughout the year



Source: IMAS-*insight*, FSA Register

Highlights

- Despite difficult market conditions, the financial advisory and trading sectors remained active throughout 2009 in successfully applying for FSA authorisations
- Capitalising on stockmarket gains, fund managers and hedge fund managers were the most active sub-sectors with 72 and 60 new firms being authorised by the FSA during 2009 respectively, closely followed by corporate finance (58)
- These figures do not suggest that a higher tax regime is damaging new business development in the City. It appears that the benefits of starting in the UK still outweigh any taxation disadvantages
- Authorisation of new private equity firms suffered some volatility with consecutive quarterly declines of new authorisations in Q3 2009 and Q4 2009 reflecting the difficult fund raising environment
- In insurance / mortgage broking, IFAs continued to dominate new authorisations by numbers although volumes were down 30% in Q4 2009 on average authorisations for previous quarters

About this report

All base data for this report has been sourced from the FSA Register with further analysis undertaken by IMAS Corporate Advisors to provide a breakdown by business activity, geographical spread and legal structure using its proprietary knowledge management system, IMAS-*insight* (see below).

If you would like to receive further FSA quarterly review reports produced by IMAS, please go to downloads at www.imas-corporate.co.uk.

About IMAS

Founded in 1992, IMAS is a corporate finance adviser with unparalleled expertise in selling companies across the UK financial services sector. We have completed over 100 transactions since inception.

IMAS's principals all have extensive experience in working for major UK financial institutions. IMAS combines in-depth knowledge and understanding of the specific issues affecting the financial services sector with our corporate finance experience to provide our clients with discreet, experienced and independent advice.

In addition, IMAS-*insight* allows us to present a range of options to our clients that would otherwise be unavailable. For further details, please contact us or visit our website: www.imas.uk.com.

About IMAS-*insight*

IMAS-*insight* is IMAS's proprietary knowledge management system that 'maps' the UK financial services industry, analysing over 40,000 UK financial services businesses and over 300,000 FSA registered individuals.

IMAS-*insight* provides us with detailed knowledge and insight into individual sectors within the UK financial services industry, including the participants within them as well as financial and other trends. We use this proprietary knowledge to help our clients achieve their strategic objectives.

Summary data derived from the underlying analysis on IMAS-*insight* can be viewed at www.imas.uk.com.

Contacts for further information

If you are interested in buying or selling in the UK financial services sector and would like to increase the range of options available to you, please contact:

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Appendix

FSA authorisations and cancellations by geography

Geography	Total Authorisations 31/12/09		FY 09 Authorisations / Cancellations			
	No	Mix	Authorisations	Cancellations	Net Change	Net Growth
London	5,372	27%	362	459	(97)	(1.8)%
South England (excl. London)	6,108	31%	256	811	(555)	(9.1)%
Midlands and East Anglia	2,600	13%	94	316	(222)	(8.5)%
North England	3,701	19%	157	543	(386)	(10.4)%
Scotland	1,227	6%	49	162	(113)	(9.2)%
Wales	596	3%	33	103	(70)	(11.7)%
Northern Ireland	384	2%	10	67	(57)	(14.8)%
TOTAL	19,988	100%	961	2461	(1,500)	(7.5)%

Source: IMAS-*insight*; FSA Register

FSA authorisations and cancellations by legal structure

Legal Structure	Authorisations		Cancellations	
	No.	Mix	No.	Mix
Limited	648	68%	1,573	65%
Limited Liability Partnership	223	23%	101	4%
Public Limited Company	4	0%	16	1%
Building Society	0	0%	6	0%
Unincorporated	85	9%	729	30%
TOTAL ANALYSED SAMPLE	960	100%	2,425	100%

Source: IMAS-*insight*; FSA Register

Composition of FSA regulated firms

FSA Status	Q4 09		Q3 09		Q2 09		Q1 09	
	No.	Mix	No.	Mix	No.	Mix	No.	Mix
FSA registered	74,223	74%	72,626	73%	71,088	72%	69,935	72%
FSA authorised	20,016	20%	20,257	20%	20,681	21%	20,866	21%
EEA authorised	6,516	6%	6,416	6%	6,382	7%	6,329	7%
TOTAL	100,755	100%	99,299	100%	98,151	100%	97,130	100%

Source: FSA Register