

IMAS Corporate Advisors

FSA Review First Quarter, 2010

Trends in the regulated UK financial services industry

30th April, 2010

40% more firms have become authorised by the FSA in Q1 2010 versus the last quarter

The Gordon Browns amongst us might also focus on the fact that both quarterly net employment data and quarterly net company authorisation data continue to improve and that this provides evidence of a continued recovery.

However, the David Camerons amongst us might also point out that both new joiners to the industry and corporate authorisations are running at, or near, several year lows with certain quarter on quarter growth driven by weak Q4 09 data.

IFAs were the most active sector, accounting for 40% of all new FSA firm authorisations in the quarter

Rather surprisingly, this indicates that the implementation of regulatory changes affecting IFAs in the Retail Distribution Review are not diluting the attractiveness of the sector as new start-ups continue to flourish. The sheer number of newly authorised FSA firms clearly demonstrates that the IFA sector, far from consolidating, continues to fragment.

North America continues to dominate overseas involvement in the UK financial services industry as its ownership of newly authorised firms increased in this quarter, but Asia is increasing its influence

Based on existing IMAS-*insight* analysis, North America overshadows other continents with 46% of all overseas owned UK financial services companies. Its increased concentration of UK ownership may be a function of increased globalisation of the financial services industry in which North American groups are playing a key role.

Asian interests in the UK financial services sector remain modest but, interestingly, Asia ranked as the number two continent in terms of newly FSA authorised entities in this quarter, ahead of Europe.

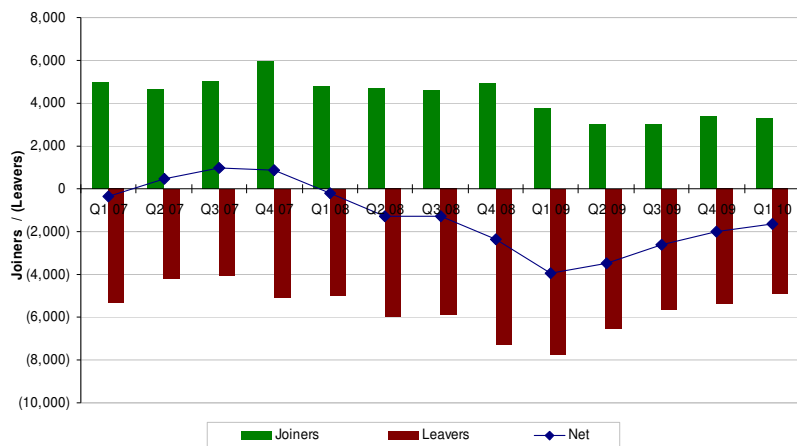
About IMAS Corporate Advisors

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.

Overall employment⁽¹⁾ in UK financial services continues to improve on a seasonally adjusted quarterly basis

Employment of FSA Approved Persons from 2006 to Q1 2010⁽¹⁾



Highlights

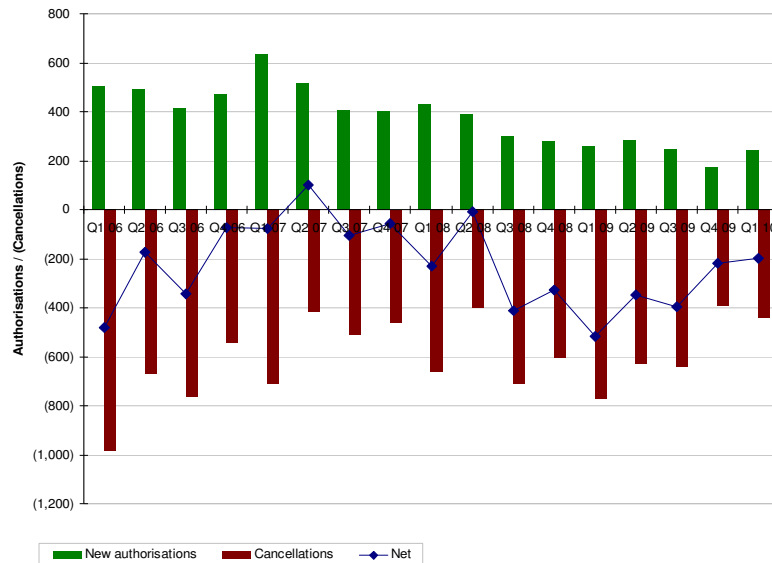
- Seasonally-adjusted, Q1 2010 represented the best Q1 new joiner data relative to the prior quarter since the credit crunch in 2007
 - In Q1 2008 and Q1 2009, Approved Person (“AP”) joiners fell over 20% compared to the previous quarter
 - In Q1 2010, AP joiners fell just 2% compared to the previous quarter
- However, absolute Q1 AP joiner numbers were c. 30% lower in 2010 compared to both 2008 and 2009
- Further positive news for leavers as the quarterly numbers continues to fall, the fourth successive quarterly decline since Q1 2009
- Overall, the net effect of the latest quarterly data has been a continued reduction in the net decline in employment⁽¹⁾ in UK financial services
 - Lowest quarterly net decline in authorisations after cancellations since Q3 2008

Source: FSA Register

⁽¹⁾ Employment in this report refers to FSA Approved Persons employed in control functions

Recovery in FSA firm authorisations - up by 40% on Q4 2009

FSA authorisations of entities from 2006 to Q1 2010⁽¹⁾



Highlights

- Quarterly FSA authorisations of new firms in Q1 2010 is 40% up on the previous quarter, the largest quarterly increase since 2006
- However, quarterly authorisations since Q3 2008 remain well below 50% of peak levels in the most recent economic cycle (Q1 2007)
- Indeed, Q4 2009 and Q1 2010 recorded the lowest and second lowest quarters of new FSA firm authorisations, respectively, since 2006
- Although quarterly cancellations of FSA firm authorisations were up 13% on the previous quarter, cancellations in Q1 2010 were one of the lowest in the recent economic cycle
 - Q1 2010 cancellations were over 25% lower than the quarterly average between Q1 2006 and Q4 2009
- Overall, the latest quarterly data demonstrates a continued but tentative recovery
 - Lowest quarterly net decline in authorisations after cancellations since Q2 2008

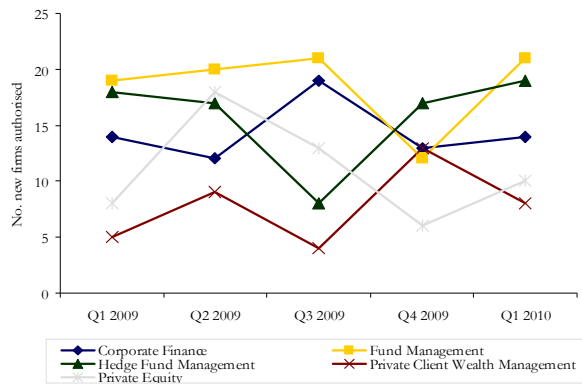
Source: FSA Register

⁽¹⁾ Represents businesses being authorised or cancelling their authorisation with the FSA in the quarter

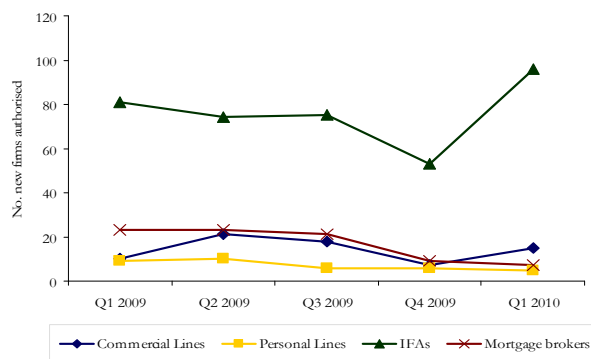
By sector, FSA authorisations of new firms have been dominated by the increasingly fragmented IFA sector

2009/10 Quarterly FSA firm authorisations by sector

Financial Investment (incl. Financial Advisory & Trading)



Insurance and Mortgage Broking



Source: IMAS-*insight*, FSA Register

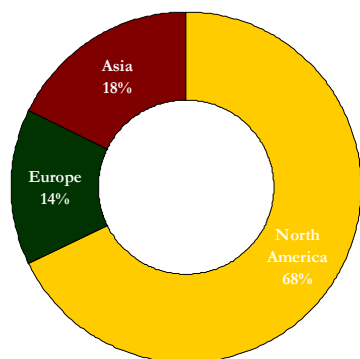
Highlights

- FSA authorisations of new firms in the financial investment (including financial advisory and trading) sectors remained active at levels consistent with quarterly authorisations in 2009
 - FSA authorisations of fund management firms almost doubled from the last quarter to 21 new firms
 - New authorisations in fund management and hedge fund management appear to be influenced by overseas investment (see overleaf for further details)
- Authorisations of new firms in the IFA sector also saw a material 80% increase from the last quarter, well above average quarterly new authorisation levels during 2009
 - At 40% of all new authorisations in this quarter, the fragmentation of the IFA sector continues
 - This does not provide any evidence to the widely held thesis that the regulatory changes in the Retail Distribution Review are making the IFA sector less attractive to new entrants
- Prior quarter weakness in the authorisations of new mortgage brokers continued in Q1 2010
 - Redundancy driven mortgage broker start ups in early 2009 no longer appear to be supporting growth in new authorisations
- Authorisations in personal lines insurance firms also remained subdued
 - Reflects increasing importance of scale in this sector where the large insurance aggregators' search for market share is making it increasingly difficult for smaller players to compete

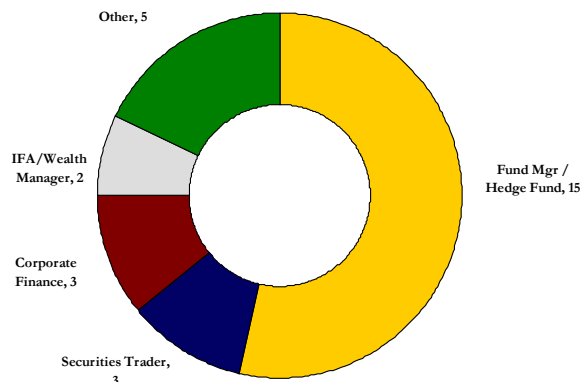
North America eclipses overseas ownership of newly authorised entities in Q1 2010

Breakdown of Q1 2010 firm authorisations with overseas owners

By continent



By sector



Source: IMAS-*insight*, FSA Register

Highlights

- Overseas investors have been an important component of new FSA authorisations in Q1 2010, having backed 28 newly authorised firms
 - Represented c. 20% of all newly authorised firms excluding the IFA sector (which is predominantly a domestic industry)
 - Also represented over 33% of all Q1 2010 newly authorised firms within the asset management (fund management and hedge fund) sector
 - Overseas ownership was by far most prevalent in City-based activities including asset management, corporate finance and securities trading
- North America accounted for 68% of overseas owned firms which were authorised in this quarter
 - Based on existing IMAS-*insight* analysis, IMAS estimates that North America controls 46% of all overseas owned UK financial services entities
 - Implies that North America is continuing to increase its penetration of the UK financial services industry
 - We believe that North America's interest in UK financial services is part of an increasing globalisation of its interests in the financial services industry worldwide and is thus not limited to the UK
- Asia's increasing influence is also supported by its presence in ownership of newly authorised FSA entities in Q1 2010
 - Ranks ahead of Europe in this quarter as measured by the number of newly authorised FSA entities owned
 - Three out of Asia's five newly authorised entities were in asset management

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.uk.com.

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 legal structure

Legal Structure	2010 Authorisations				2009 Authorisations							
	Q1 10		FY 09		Q4 09		Q3 09		Q2 09		Q1 09	
	No.	Mix	No.	Mix	No.	Mix	No.	Mix	No.	Mix	No.	Mix
Limited	158	65%	648	68%	110	63%	151	61%	199	71%	188	73%
Limited Liability Partnership	56	23%	223	23%	45	26%	65	26%	68	24%	45	18%
Public Limited Company	3	1%	4	0%	1	1%	1	0%	1	0%	1	0%
Building Society	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%
Unincorporated	27	11%	85	9%	18	10%	30	12%	14	5%	23	9%
TOTAL ANALYSED SAMPLE	244	100%	960	100%	174	100%	247	100%	282	100%	257	100%

Legal Structure	2010 Cancellations				2009 Cancellations							
	Q1 10		FY 09		Q4 09		Q3 09		Q2 09		Q1 09	
	No.	Mix	No.	Mix	No.	Mix	No.	Mix	No.	Mix	No.	Mix
Limited	387	88%	1,573	65%	278	74%	404	63%	407	65%	484	63%
Limited Liability Partnership	29	7%	101	4%	19	5%	28	4%	20	3%	34	4%
Public Limited Company	9	2%	16	1%	2	1%	5	1%	4	1%	5	1%
Building Society	0	0%	6	0%	0	0%	2	0%	3	0%	1	0%
Unincorporated	17	4%	729	30%	79	21%	204	32%	197	31%	249	32%
TOTAL ANALYSED SAMPLE	442	100%	2,425	100%	378	100%	643	100%	631	100%	773	100%

Source: FSA Register

Composition of FSA regulated firms

FSA Status	Q1 10		Q4 09		Q3 09		Q2 09		Q1 09	
	No.	Mix	No.	Mix	No.	Mix	No.	Mix	No.	Mix
FSA registered	75,745	74%	74,223	74%	72,626	73%	71,088	72%	69,935	72%
FSA authorised	19,657	19%	20,016	20%	20,257	20%	20,681	21%	20,866	21%
EEA authorised	6,599	6%	6,516	6%	6,416	6%	6,382	7%	6,329	7%
TOTAL	102,001	100%	100,755	100%	99,299	100%	98,151	100%	97,130	100%

Source: FSA Register

Nationalities of parents and activities of newly authorised businesses

Country:	Total	Fund and/or Hedge Fund	Securities Trader	Corporate Finance	IFA/Private Wealth Manager	Private Equity	Investment Bank	Commercial/ Retail Bank	Insurance	Other
USA	16	9	3	2		1		1		
Canada	3				1				1	1
North America	19	9	3	2	1	1	0	1	1	1
Switzerland	3	3								
Italy	1			1						
Europe	4	3	0	1	0	0	0	0	0	0
New Zealand	1				1					
Singapore	1	1								
Hong Kong	1	1								
China	1						1			
South Korea	1	1								
Asia	5	3	0	0	1	0	1	0	0	0
TOTAL	28	15	3	3	2	1	1	1	1	1

Source: FSA Register