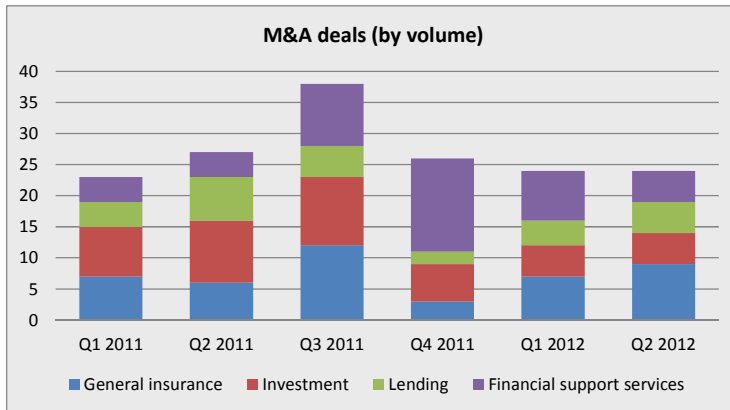


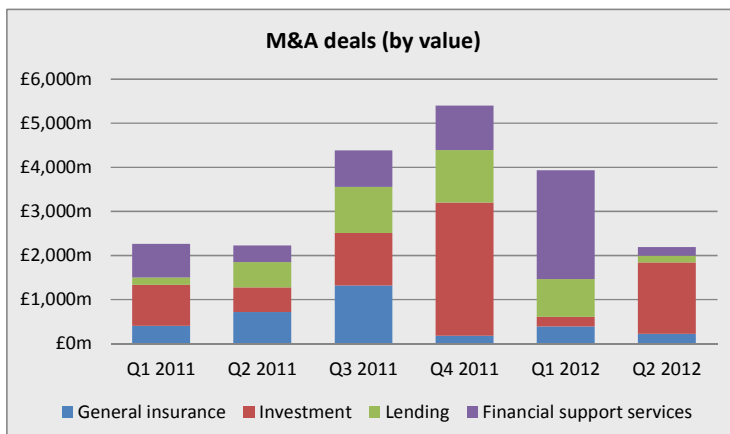
## UK Financial Services Industry Review Q2 2012 Update



### Volumes stable....

The volume of M&A deals was constant in Q2 2012, and has been largely stable at the level of c. 25 deals per quarter since Q4 2011.

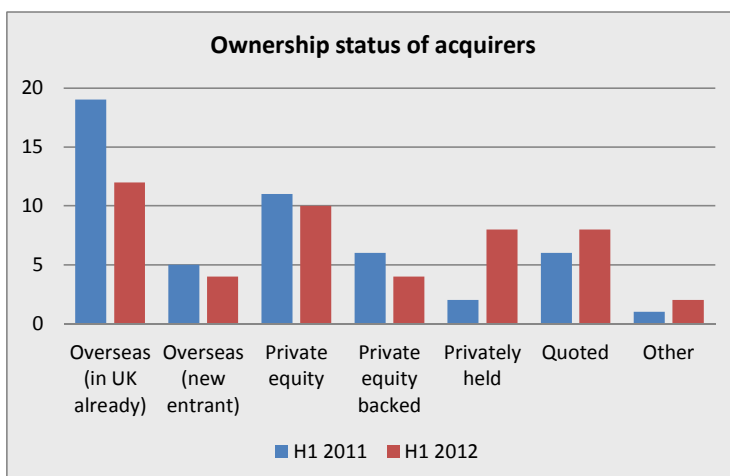
General insurance has been the most active sector within the industry in Q2, whereas investment-related deals have witnessed a near halving of deals compared to the same period in 2011.



### .... but significant reduction in deal values

Transaction values have declined significantly in Q2 2012 and are at their lowest level since Q1 2011, as the global economic outlook and the Eurozone sovereign debt crisis has weighed on confidence.

Aggregate values were c. £2.2bn in Q2 2012, a 44% decline on Q1, as the focus was typically on smaller transactions rather than larger strategic deals.

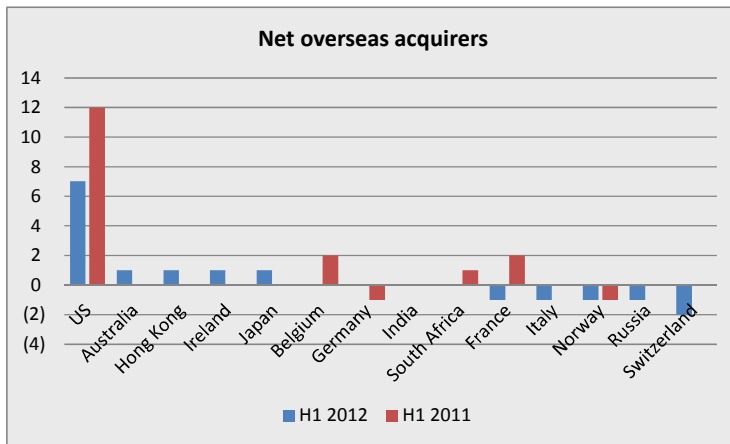


### Overseas-owned firms remain the most active

Overseas-owned businesses continue to be the most active acquirers of UK financial services businesses, representing one third of all deals in H1 2012. This is driven by businesses looking to expand their UK footprint (c.25%) and new entrants into the UK market (c.8%).

Private equity remains active, representing c.29% of all deals in H1 2012, driven by new portfolio investments (c.21%) and bolt-on acquisitions (c.8%) as part of a buy-and-build strategy.

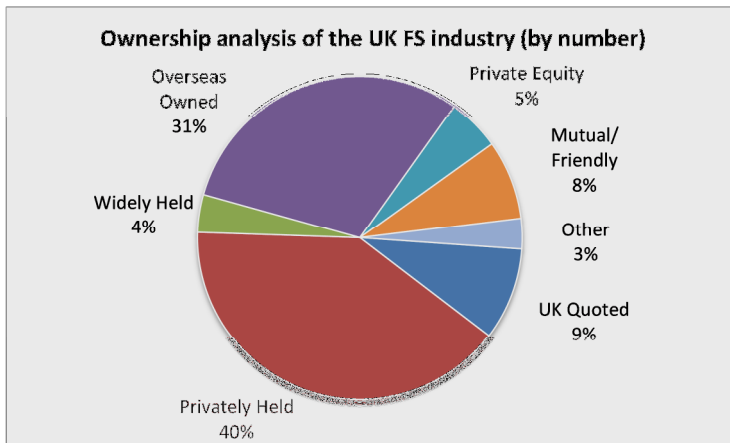
Data used in this survey is sourced from IMAS-insight. Transactions included are only those which represent actual business sales (not books of business) with a value in excess of £5m where the target is a UK-based financial services business. Where values are not disclosed, IMAS has estimated a value based on available data. Please refer to the UK Financial Services Industry Annual Review (Jan 2012) for how data is compiled. All of the data contained herein, including additional analyses at a sub-sector level, is available at [www.imasinsight.com](http://www.imasinsight.com).



**The US is increasing its exposure to UK financial services**

The US accounts for nearly half of all UK financial services businesses that are overseas-owned, and is increasing its investment into the UK. The table opposite charts by country of domicile the number of acquisitions less divestitures of UK financial services businesses.

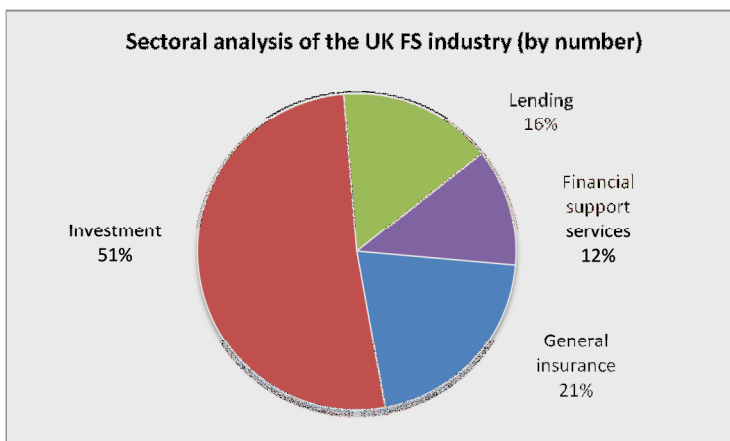
The US's expansion is in stark contrast to some European countries which have chosen to reduce their international exposure.



**Net impact on ownership of UK financial services**

Privately held and overseas-owned businesses remain the largest constituents of the UK financial services industry.

Privately held businesses would be expected to dominate given the universe which comprises groups with a minimum £5m estimated capital value. However, as privately held businesses are also the most commonly divested, it is also a testament to the continuing growth and emergence of new privately held businesses.



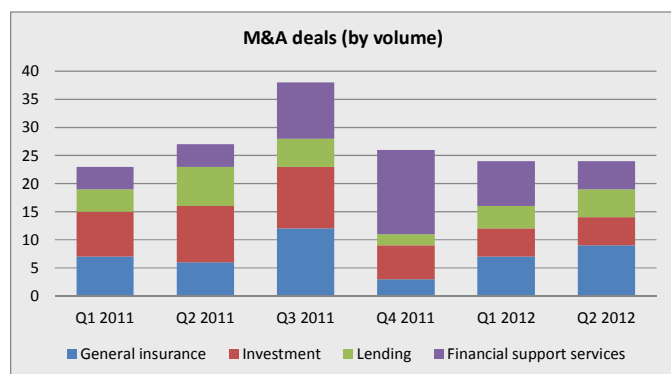
**Net impact on structure of UK financial services**

Investment-related businesses still dominate the UK financial services industry, accounting for over half of the financial services industry by number.

There is relatively little cross-sectoral M&A activity, although a key theme for the current year has seen a number of banks looking to divest non-core operations to boost their capital base ahead of the introduction of Basel III, including investment-related and general insurance businesses.

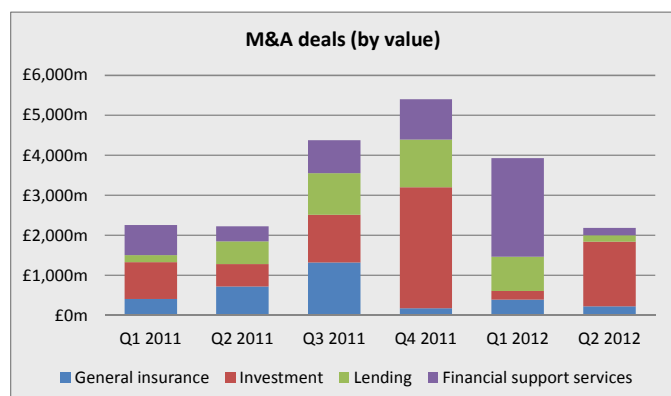
## M&A in UK Financial Services (Q2 2012)

This survey covers the 18 months to June 2012. The two years to December 2012 will be contained within the next edition of the UK Financial Services Industry Annual Review published by IMAS Corporate Finance in conjunction with TheCityUK and UK Trade & Investment in January 2013. If you wish to receive a soft copy of this please register for publications on [www.imas.uk.com](http://www.imas.uk.com).



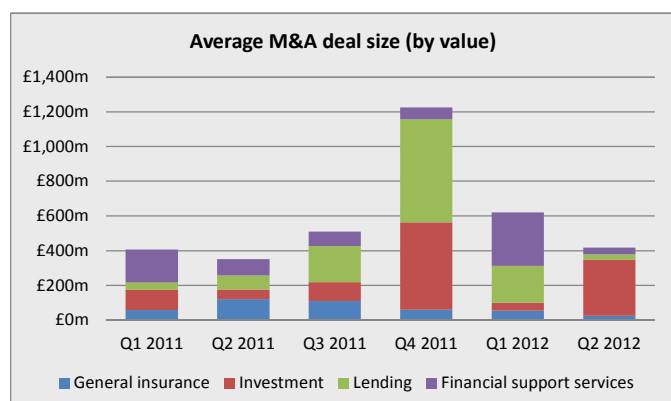
### Volumes have been stable....

Q2 2012 volumes were constant, supported by an increase in the number of general insurance deals. The industry has recorded stable deal volumes, averaging c. 25 deals in each quarter since the start of 2011, with the exception of the stronger activity in Q3 2011.



### .... but have seen a significant reduction in value

Deal values in Q2 2012 fell from c. £3.9bn to c. £2.2bn, a decline of c. 44%, as confidence was impacted by the global economic outlook and the Eurozone sovereign debt crisis.



### .... as smaller deals have been undertaken

The focus in Q2 2012 has been on far smaller deals as corporates have tended to concentrate on their core activities rather than making larger strategic moves.

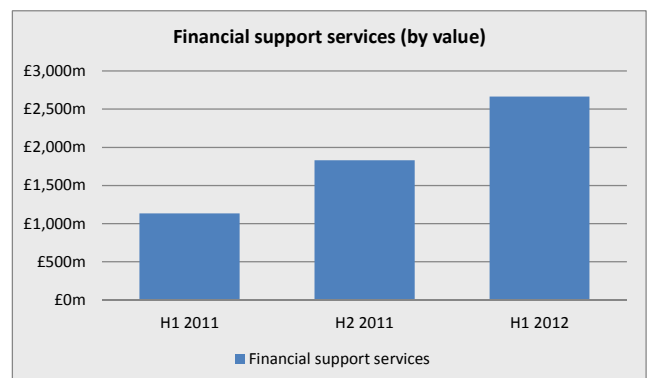
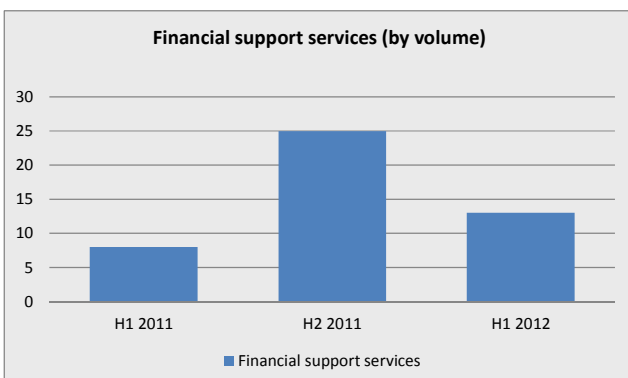
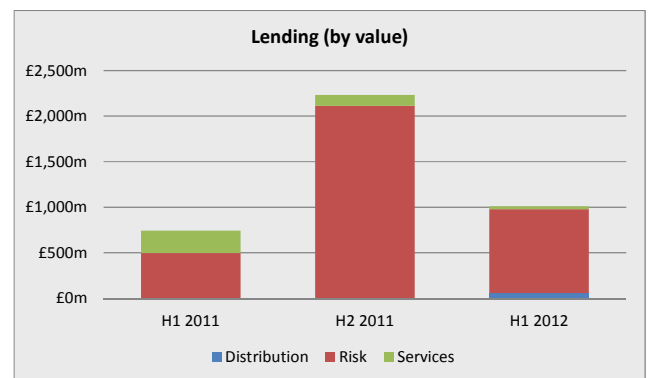
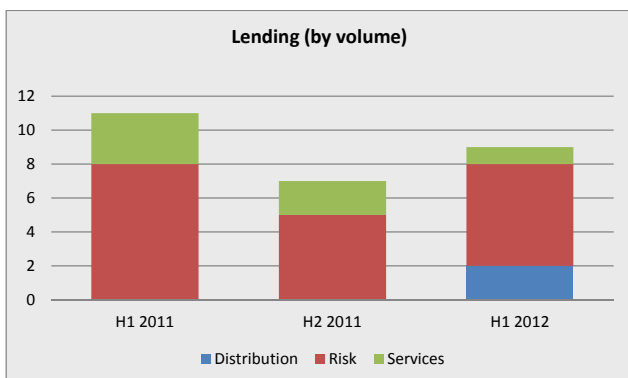
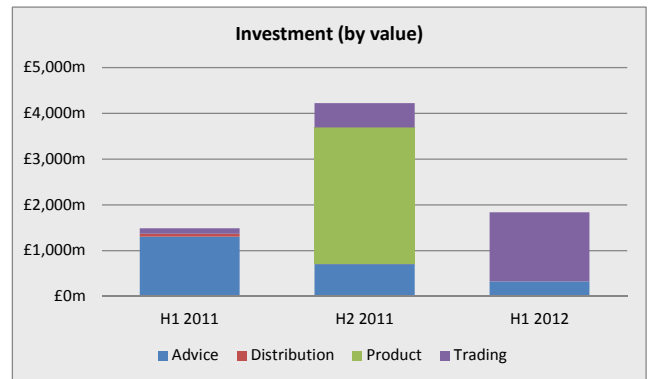
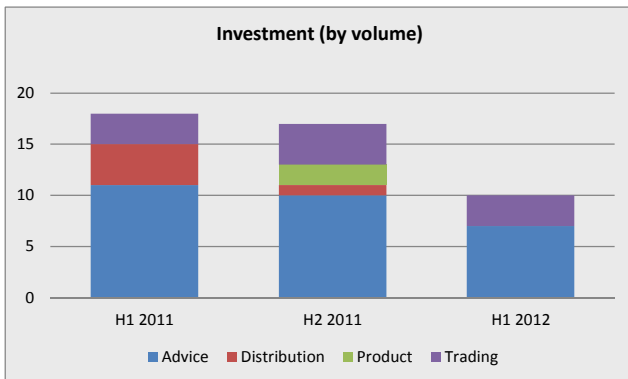
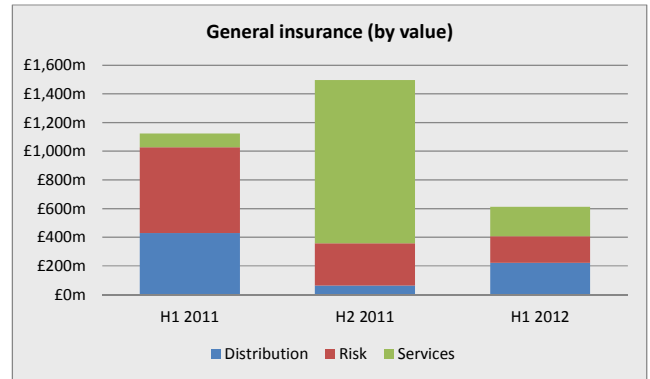
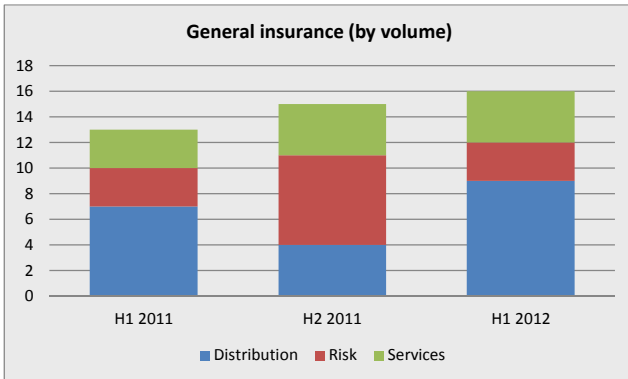
The exception in Q2 2012 was Hong Kong Exchanges & Clearing's recommended offer for the London Metal Exchange (LME) for c. £1.4bn.

## M&A in UK Financial Services (by sector)

Across the whole industry, general insurance is the only sector to have grown transaction volumes in each period with investment and financial support services sectors contracting in H1 2012. Transaction values are generally volatile, but all sectors have contracted sharply in H1 2012 with the exception of financial support services which expanded largely as a result of a single transaction, the public offer for Misys plc.

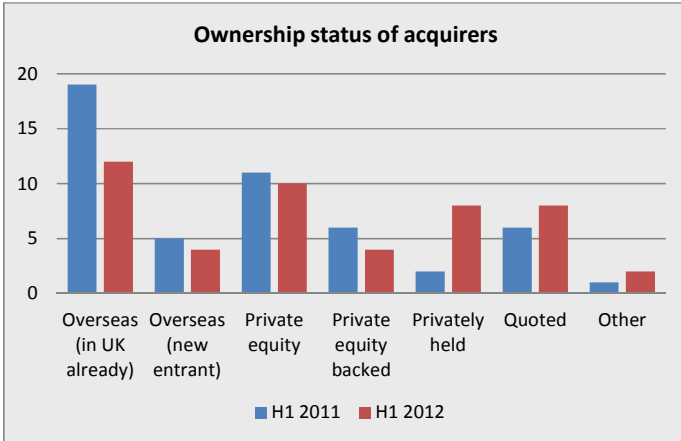
**Transaction volumes (by sector)**

**Transaction values (by sector)**



## M&A Impact on Ownership within UK Financial Services

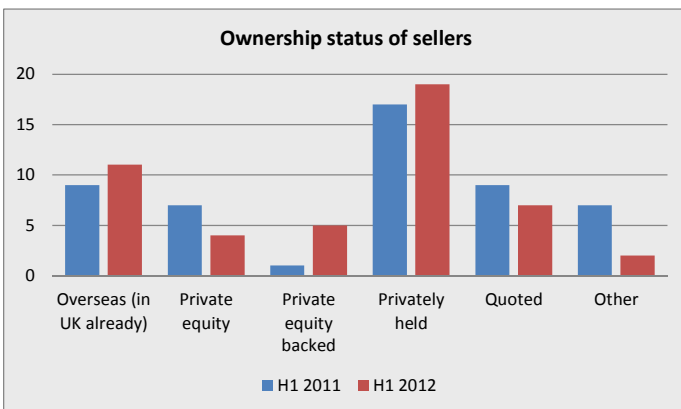
Overseas-owned businesses and private equity are the most active net investors in UK financial services.



### Overseas buyers remain the most active

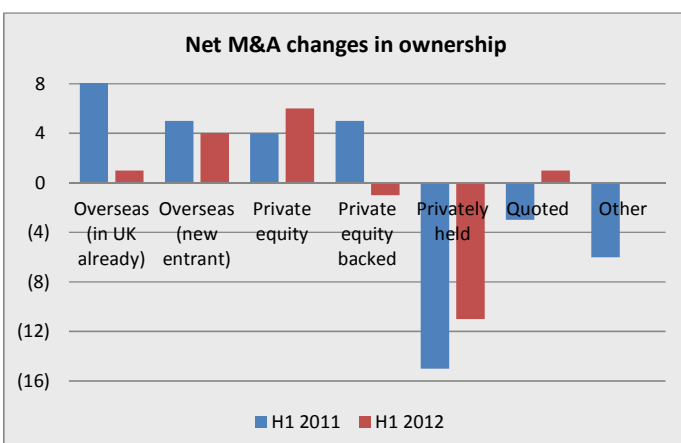
Overseas-owned and private equity firms continue to be the most active acquirers of UK financial services businesses.

Three-quarters of the deals announced by an overseas-owned acquirer are undertaken by those businesses with an existing footprint within UK financial services and hence are looking to expand their operations.



### Privately held business most commonly divested

Privately held businesses continue to be the most commonly divested, as owners seek to monetise the value they have created.



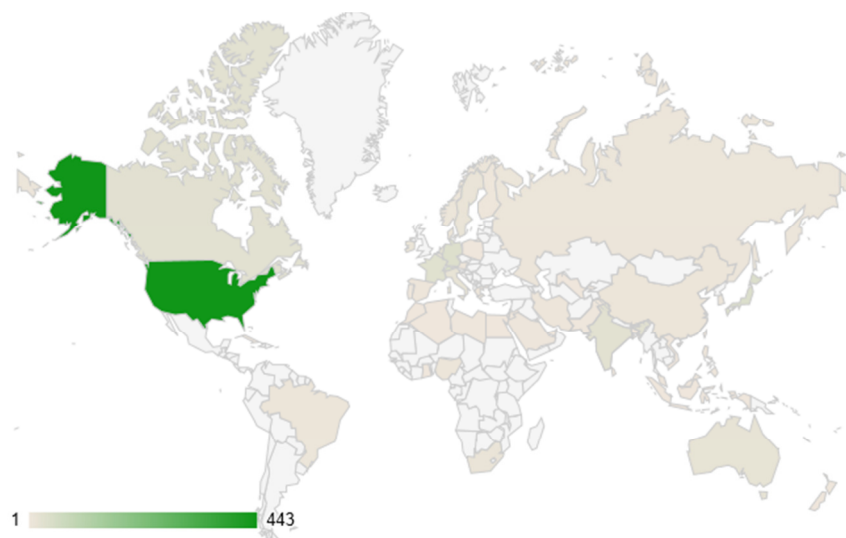
### Overseas-owned businesses and private equity are the biggest net acquirers

In H1 2012, overseas-owned businesses and private equity firms increased their net ownership of the UK financial services industry.

Whilst privately held businesses are most commonly divested, quoted companies have remained relatively muted as acquisitions have been off-set by disposals.

## M&A Impact on Overseas Ownership within UK Financial Services

Given its experience, concentration of expertise, favourable time zone and language combined with the transparency and openness of the economy, the UK remains a key investment priority. The level of existing investments and the continuing inward investment (as seen in the acquirer/seller types on the previous page) demonstrates this.



### Most significant overseas countries (by no. of investments in UK financial services)

1.	US	443	5.	France	30	9.	Netherlands	21
2.	Switzerland	42	6.	Bermuda	27	10.	Australia	17
3.	Japan	38	7.	India	26	11.	Italy	14
4.	Germany	37	8.	Canada	26	12.	Sweden	12

### Net movements in overseas ownership

Whilst the net overseas investment in UK financial services (via M&A) has slowed considerably in the first half of 2012, the US has remained a consistent investor.

Country domicile	Acquirers		Sellers	Net	
	In UK already	New entrant	Disposals	H1 2012	H1 2011
US	8	2	(3)	7	12
Australia	1			1	0
Hong Kong		1		1	0
Ireland	1			1	0
Japan	2		(1)	1	0
Belgium				0	2
Germany				0	(1)
India		1	(1)	0	0
South Africa				0	1
France			(1)	(1)	2
Italy			(1)	(1)	0
Norway			(1)	(1)	(1)
Russia			(1)	(1)	0
Switzerland			(2)	(2)	0
	<b>12</b>	<b>4</b>	<b>(11)</b>	<b>5</b>	<b>15</b>