UK Financial Services M&A:
A Perspective for Canadian Investors

13th November 2013
<table>
<thead>
<tr>
<th>Topic</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>2</td>
</tr>
<tr>
<td>Overall Market</td>
<td>7</td>
</tr>
<tr>
<td>M&amp;A activity</td>
<td>13</td>
</tr>
<tr>
<td>Fund Management analysis</td>
<td>20</td>
</tr>
<tr>
<td>Canadian Companies</td>
<td>26</td>
</tr>
<tr>
<td>Conclusions</td>
<td>31</td>
</tr>
</tbody>
</table>
Presentation objectives

• Provide you with an overview of the UK Financial Services sector
  • Composition
  • M&A activity

• Look at the Canadian influence on the market

• Introduce you to a powerful analytical and networking tool (IMAS-insight)
Leading players in the UK financial services M&A industry

Independent advice, backed by strong focus and culture, brings results for our clients

**Our focus**

- We provide vendors of businesses with independent advice, exclusively focused in the UK financial services sector, typically in the £5m-100m enterprise value range

**Key proposition**

- We have an unmatched capability to identify potential buyers and sellers of UK financial services businesses

**Our culture**

- Focus on providing bespoke process
  - Optimising client objectives (Value, confidentiality and certainty)
- Dedicated senior level attention
  - Partners typically from ‘bulge bracket’ investment banks
  - Partners involved in day-to-day execution / client management
- Knowledge leadership
  - Complete up-to-date mapping of the industry and market dynamics (sources: FCA, Companies House)
  - Experience and insight into key industry / sector issues
- Shared goals
  - Provision of independent conflict-free advice
  - All partners participate in profits and equity

**Our results**
IMASinsight – proprietary ‘mapping’ 100% of the UK FS industry
Unique tool able to assist buyers and sellers alike

<table>
<thead>
<tr>
<th>Hard data</th>
<th>Soft intelligence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies House data</td>
<td>FCA Register</td>
</tr>
<tr>
<td>• Over 78,000 companies</td>
<td>• Over 130,000 entities</td>
</tr>
<tr>
<td>• Over 10,000 groups</td>
<td>• Over 350,000 people</td>
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</tbody>
</table>

Better Informed

• Years of development 15
• Groups mapped 10,000
• CH & FCA matching 45,000
• Sector / activity classifications 35,000

Better Advice

**Sellers**
- Unparalleled identification of potential buyers
- Includes all overseas investors in UK FS
- Increasingly attracting other overseas investors interested in UK FS

**Buyers**
- Perfect buy-side tool
- Whole of market proposition
- Ability to identify all targets that match buyer’s criteria
Complete mapping enables targeting by subsector, size and ownership.

We have applied our overlay – adopted by other organisations.

- **Lending / Distribution**
  - Mortgage/Secured personal lending
  - Other Lending Distributor
  - Unsecured personal lending
  - Commercial Finance Broker

- **Lending / Risk**
  - Banks: Corp. and Retail
  - Banks: Representative
  - Building Society
  - Commercial Property Lending
  - Consumer Finance
  - Invoice and Receivable
  - Factoring
  - Leasing and Asset Finance
  - Other Risk Bearing Lending
  - Private Bank Lender
  - Residential Mortgage Lending
  - Securitisation Vehicles/SPVs
  - Specialist Corporate Lending
  - Premium Finance
  - Credit Union
  - Bridging Finance

- **Lending / Services**
  - Debt Collectors/Debt Purchase
  - Debt Management
  - Administration

- **Support Services / Financial Technology**
  - Data Analytics
  - Payment Providers
  - Technology: Insurance Related
  - Technology: Investment Related
  - Technology: Lending related
  - Technology: Trading

- **Support Services / Outsourced Services**
  - Business Process Outsourcing
  - Compliance Providers
  - Corporate Services
  - Credit Assessment
  - Financial Research
  - Fund Administration
  - General Industry Association
  - Other Financial Services
  - Pension Administration
  - Risk Management

- **General Insurance / Distribution**
  - Commercial Lines Broker
  - General Insurance Network
  - In-House Broker
  - Lloyd’s Broker
  - Other Personal Lines Broker
  - Reinsurance Broker
  - Specialist Broker
  - Underwriting Agent
  - Wholesale Broker

- **General Insurance / Risk**
  - Captive Insurer
  - Mutual/Friendly
  - General Insurer
  - Healthcare Insurer
  - Insurer in run-off
  - Lloyd’s Insurer
  - Lloyd’s Corporate Member
  - Service Company
  - Non life Mutual
  - Other
  - Personal Lines
  - Reinsurance
  - Specialist Insurer

- **General Insurance / Services**
  - Assistance
  - Insurance Claims handling
  - Health Care Related
  - Loss adjuster/Assessor
  - Related Business
  - P&I Club Manager
  - Risk Management
  - Run-off Management

- **Investment / Advice**
  - Corporate Finance
  - Fund Manager
  - Hedge Fund Manager
  - Other Financials Advisory
  - Private Client Wealth Manager
  - Private Equity
  - Actuary

- **Investment / Distribution**
  - Employee Benefits
  - Health Insurance
  - IFA Business
  - IFA Network
  - Tied Adviser

- **Investment / Product**
  - Life Company
  - Life Mutual
  - Investment and Unit Trust

- **Investment / Trading**
  - Commodity or Futures Broker/Trader
  - Endowment Dealers
  - Interdealer Broker
  - Niche Traders
  - Other Trading Operations
  - Stockbroker
  - Foreign Exchange Dealers
  - Investment Bank

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**IMAS Corporate Finance**
Unrivalled expertise in selling financial services businesses
<table>
<thead>
<tr>
<th>Topic</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>2</td>
</tr>
<tr>
<td>Overall Market</td>
<td>7</td>
</tr>
<tr>
<td>M&amp;A activity</td>
<td>13</td>
</tr>
<tr>
<td>Fund Management analysis</td>
<td>20</td>
</tr>
<tr>
<td>Canadian Companies</td>
<td>26</td>
</tr>
<tr>
<td>Conclusions</td>
<td>31</td>
</tr>
</tbody>
</table>
Comparative importance of sectors

The UK Financial Services sector

- Investment: 50%
- General Insurance: 21%
- Lending: 16%
- Financial support services: 13%

(Number of authorised entities with approximate value of over £5 million)
Number of approved entities

A steady decline

Drivers:
• Consolidation
• Closures
• Inappropriate authorisation
Number of Approved Persons

A decline arrested?

Peaked in February 2008 at 169,700, now 148,876

- 12% fall

- Are we seeing a recovery?
Ownership of the sector

UK FS sector is international

### Ownership of the UK financial services sector

<table>
<thead>
<tr>
<th>Ownership Type</th>
<th>UK quoted</th>
<th>Privately held</th>
<th>Widely held</th>
<th>Overseas owned</th>
<th>Private equity</th>
<th>Mutual/friendly</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>£100+ million</strong></td>
<td>89</td>
<td>88</td>
<td>19</td>
<td>276</td>
<td>59</td>
<td>39</td>
<td>29</td>
<td>600</td>
</tr>
<tr>
<td><strong>£25 - 100 million</strong></td>
<td>40</td>
<td>237</td>
<td>31</td>
<td>271</td>
<td>64</td>
<td>51</td>
<td>11</td>
<td>707</td>
</tr>
<tr>
<td><strong>£5 - 25 million</strong></td>
<td>29</td>
<td>1,000</td>
<td>56</td>
<td>440</td>
<td>59</td>
<td>152</td>
<td>31</td>
<td>1,764</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>158</td>
<td>1,325</td>
<td>106</td>
<td>987</td>
<td>182</td>
<td>242</td>
<td>71</td>
<td>3,071</td>
</tr>
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Source: IMAS-insight

- Overseas ownership stands at 46% for the larger entities
- Smaller companies are 57% privately owned
- Only 5% of all FS groups are quoted
Analysis of Overseas Companies

Overseas Ownership by Country in October 2013

- The dominance of the US is extraordinary
- The US accounts for 47% of all overseas investment
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>2</td>
</tr>
<tr>
<td>Overall Market</td>
<td>7</td>
</tr>
<tr>
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<td>13</td>
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<tr>
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<td>20</td>
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<tr>
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<td>26</td>
</tr>
<tr>
<td>Conclusions</td>
<td>31</td>
</tr>
</tbody>
</table>
M&A activity by volume

M&A is a lagged indicator of confidence

Suggests a slow rise in confidence

Current opportunities significantly increased
M&A activity by value

Value far more volatile

- 2011 contained a significant number of major transactions of banks and building societies shrinking their books.

- Total value of M&A in Q1-Q3 2013 exceeds that of the whole of last year by 25%
Number of deals by type of buyer

Overseas buyers biggest buyer group

Q1 2011 to Q3 2013

Overseas buyers predominating
• Great majority already in the UK

On a “net” basis:
• Overseas buyers dominates
• Privately held is the biggest seller
• Quoted net zero
• PE is currently a net investor
**Overseas buyers**

It’s the US

Q1 2011 to Q3 2013

In the last three years the US has been responsible for 74% of the acquisitions by overseas companies.

Canaccord made two significant acquisitions.
M&A activity by Sector

Number of deals (£5m+)
Q1 2011 to Q3 2013

- Number of transactions by sector are similar
Relative activity by sector varies substantially

Number of deals (Q1 2011 – Q3 2013) divided by number of Groups (Q3 2013)

- Financial Support Services typically scalable
- Insurance is an international business
  - Driven by the need to spread risk
- Lending is driven by deleveraging
- Low level of M&A in Investment reflects a people based business
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>2</td>
</tr>
<tr>
<td>Overall Market</td>
<td>7</td>
</tr>
<tr>
<td>M&amp;A activity</td>
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</tr>
<tr>
<td>Canadian Companies</td>
<td>26</td>
</tr>
<tr>
<td>Conclusions</td>
<td>31</td>
</tr>
</tbody>
</table>
UK Fund Management largest Sector/Activity

Fund Management businesses represent some 10% of UK financial services

Investment sector

- Fund Manager: 21%
- Hedge Fund: 16%
- Private Equity: 15%
- Stockbroker: 9%
- Corporate Finance: 8%
- IFA Business: 6%
- Private Client Wealth Manager: 5%
- Other: 20%

(Number of authorised entities with approximate value of over £5 million)

All financial services

- Investment: 50%
- Financial support services: 13%
- General Insurance: 21%
- Lending: 16%
- Corporate Finance: 8%
- Private Client Wealth Manager: 5%
- Other: 20%

IMAS Corporate Finance
Unrivalled expertise in selling financial services businesses
Overseas Ownership

Fund Management overseas ownership does not increase with size

Whole of UK Financial Ownership

UK Fund Management

Overseas owned

Private held

Overseas owned

Private held
Oversea ownership not driven exclusively by M&A

- Of the 3000+ FS businesses, **32%** are overseas owned

- Of the 321 Fund Management businesses, **36%** are overseas owned

- This is despite M&A activity in Investment to be markedly lower than other sectors

- Overseas companies enter the UK financial services both by **acquisition** and by building **greenfield** operations
The UK Fund Management Industry

London provides a deep talent pool for greenfield operations

Why?
- Distinct culture – build not buy
- Ability to attract new customers
- Talent pool available

Source: IMAS
Analysis on newly authorised entities

New Authorisations
(Q1 2011 to Q3 2013)

- All entities: 2853 (majority IFA)
- Overseas owned: 117
- Of which:
  - US owned: 58 (50%)
  - Switzerland: 10
  - Australia: 7
  - Bermuda: 4
  - Canada: 4
  - Netherlands: 4
  - Brazil: 3
  - India: 3

Newly authorised overseas owned entities by activity
Canada is the 9th largest investor with 26 investments
• 15 investments behind No2 Switzerland

Also Canadian companies behind a number of start-ups (see above)
Canadian Firms larger than US firms

Significant difference in the number of larger firms as % of total

<table>
<thead>
<tr>
<th>Value of Business</th>
<th>Canada</th>
<th>United States</th>
</tr>
</thead>
<tbody>
<tr>
<td>£5m to £100m</td>
<td>59%</td>
<td>71%</td>
</tr>
<tr>
<td>£100m +</td>
<td>41%</td>
<td>29%</td>
</tr>
</tbody>
</table>

In absolute terms Canada’s number of UK groups owned is some 6% of the US total

Canadian investments on average are significantly larger
What Sectors are Canadian Companies invested in?

Clearly focused on one sector

- Heavy emphasis in Investment Sector
- 57% for Canadian companies
  - 50% for financial services sector
Contrasting Canadian and US Investment Profile
Significantly different in lending and support services
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>2</td>
</tr>
<tr>
<td>Overall Market</td>
<td>7</td>
</tr>
<tr>
<td>M&amp;A activity</td>
<td>13</td>
</tr>
<tr>
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<td>20</td>
</tr>
<tr>
<td>Canadian Companies</td>
<td>26</td>
</tr>
<tr>
<td>Conclusions</td>
<td>31</td>
</tr>
</tbody>
</table>
Conclusions

The market and Canadian Companies

- UK financial services is highly international

- Overseas involvement continues to increase
  - US dominant position continues

- Start-up by overseas companies is significant
  - Especially in certain sectors

- Canadian Companies have a major foothold in the UK
  - Especially in investment sector

- Canadian Companies are also entering the market with Greenfield operations