



**FSA Review
Second Quarter, 2010**

Double Dip?

Trends in the regulated UK financial services industry

Weak numbers in Q2 2010: are we heading for a double dip?

Both Approved Persons and net new business authorisations down

Following four successive quarters of improving data since Q1 2009, Q2 2010 has seen a clear reversal in this trend with a sharp decline in overall Approved Person numbers coupled with a decline in new business authorisations after cancellations.

Although FSA authorisation of new entities is up on Q1 2010, the overall decline in Q2 2010 has been driven by a larger increase in cancellations.

Notwithstanding recent headline M&A deal announcements, the UK financial services industry's recovery appears to be faltering: is this a pause for breath before the recovery continues or are we heading for a double dip?

Continued authorisations activity in the financial investment sector

One sector where there is continued confidence is the financial investment sector, particularly corporate finance, fund management and hedge fund

management, where new authorisations have increased just below 10% on Q1 2010 and 25% on Q4 2009.

Emerging markets are playing an increasingly important role in ownership of newly authorised entities

Whilst North America continues to dominate overall overseas ownership of newly authorised entities in Q2 2010, the emerging markets, namely Asia and Africa, are also playing an increasing role.

South Africa, India, Japan, Sri Lanka, Mauritius and Hong Kong all feature as owners of newly authorised entities in Q2 2010. Interestingly, Asia and Africa's combined ownership of new authorisations far exceed those of Europe for the quarter.

We expect the emerging markets to play an increasingly active role in the ownership of FSA authorised entities in the future.

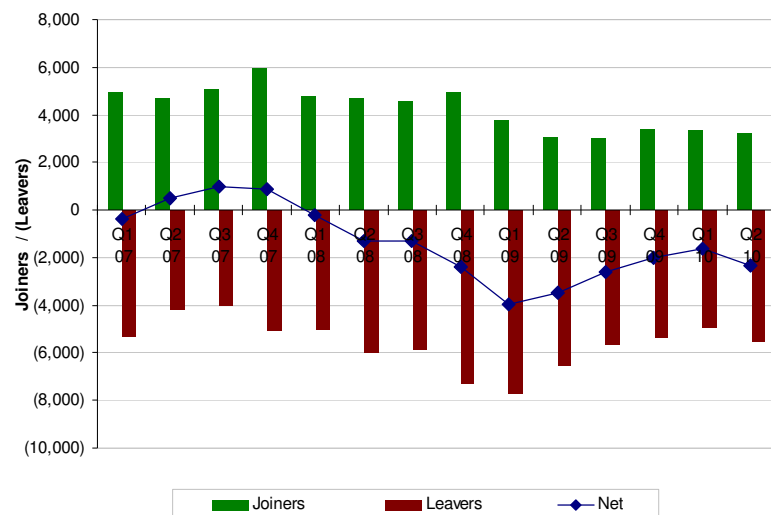
About IMAS Corporate Advisors

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.

FSA Approved Persons down following four successive quarters of growth

Employment of FSA Approved Persons from 2007 to Q2 2010⁽¹⁾



Source: FSA Register

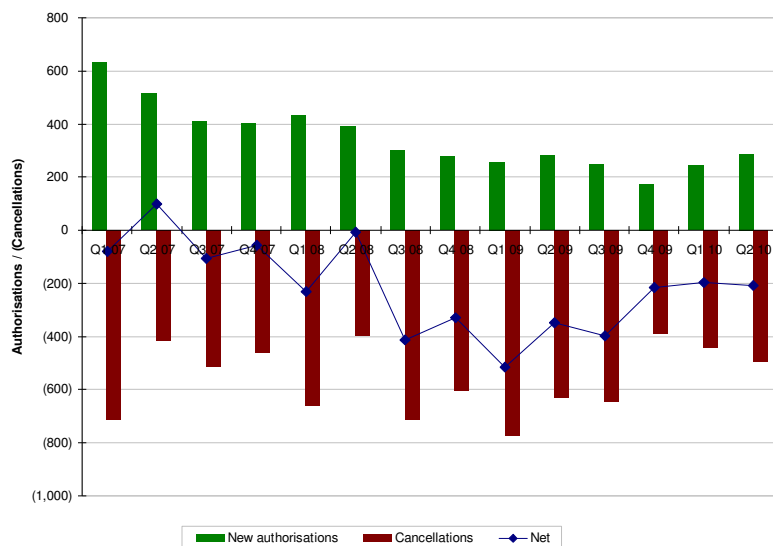
⁽¹⁾ Employment in this report refers to FSA Approved Persons employed in control functions

Highlights

- Consistent weakness in Q2 2010's Approved Persons ("AP") numbers, both on new joiner numbers as well as leaver numbers
 - Net AP numbers down 42% compared to Q1 2010 with over 2,300 people net leavers of the industry in Q2 2010
 - AP joiners down 3% compared to the previous quarter
 - AP leavers down 12% compared to the previous quarter
- The weakness of Q2 2010 directly contrasts the recovery trend seen in the previous four quarters
 - Improving net AP over the four successive quarters prior to Q2 2010
 - 36% decline in leaver numbers from Q1 2009 to Q1 2010 now reversing in Q2 2010
- This casts doubt on the shape and timing of the recovery in the UK financial services industry
 - Is this a temporary blip in the road to recovery or are we heading for a double dip?
 - Q3 data will be important in determining when the industry will finally recover
- It remains clear that the UK financial services industry continues to contract in net AP terms, with the prospect of becoming an overall net employer of APs still some way off

Weakness in overall FSA firm authorisations despite an increase in new authorisations

FSA authorisations of entities from 2006 to Q2 2010⁽¹⁾



Source: FSA Register

⁽¹⁾ Represents businesses being authorised with the FSA in the quarter

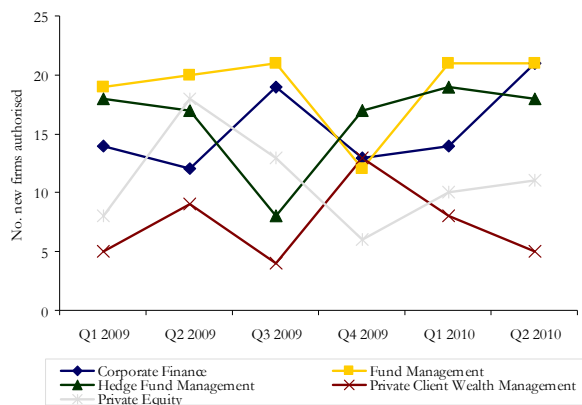
Highlights

- Deterioration in net quarterly FSA authorisations (new authorisations less cancellations) in Q2 2010 relative to the previous quarter
 - 5% increase in overall decline in net authorisations
 - Net cancellations of 208 in Q2 2010 versus 198 in Q1 2010
- We have now seen three successive quarters of negative net authorisations, i.e. net cancellations, at around 200 net cancellations per quarter
 - Is this the inflection point to a double dip or a plateau before further improvements?
- Overall position in Q2 2010 driven by an increase in FSA authorisations offset by a larger increase in cancellations
 - 287 new authorisations in Q2 2010 up from 244 in Q1 2010
 - Q2 2010 cancellations of 495 (Q1 2010: 442)
- Although overall quarterly authorisations remain well below the peak levels of 2007, they are 65% up on Q4 2009 which represented the low point of the current downturn
 - Highest quarterly new authorisations since Q3 2008, the quarter that Lehman Brothers filed for bankruptcy

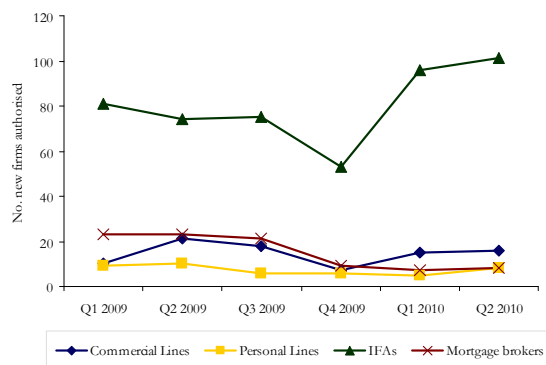
Continued activity in the Financial Investment sector including corporate finance and fund management

2009/10 Quarterly FSA firm authorisations by sector

Financial Investment (incl. Financial Advisory & Trading)



Insurance and Mortgage Broking



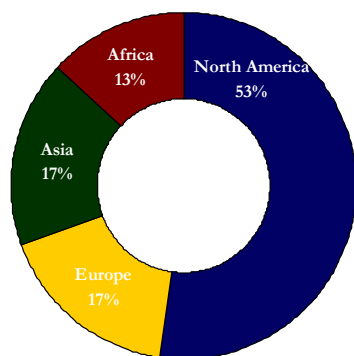
Source: IMAS-*insight*, FSA Register

Highlights

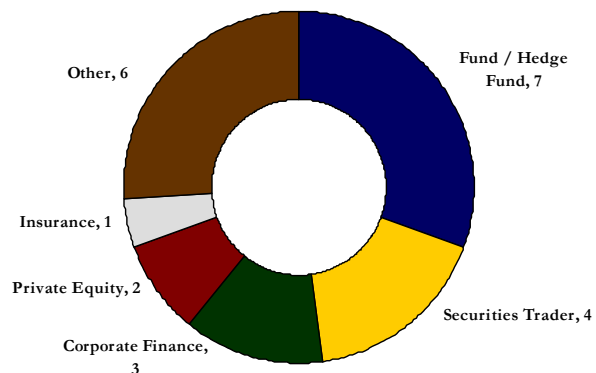
- Growing confidence in the overall Financial Investment sector with total new authorisations for Q2 2010 at the highest level since 2009
 - Total new authorisations of 76; matching the new authorisations' total for Q2 2009
 - Second consecutive quarter of growth; 25% up on Q4 2009
- Within Financial Investment, authorisations of new firms in the financial advisory sectors has been strong
 - 21 Corporate Finance businesses have been authorised in Q2 2010, up 50% on Q1 2010
 - Authorisations in the Fund Management and Hedge Fund Management sectors remain consistent with recent quarters at 21 and 18 new authorisations respectively
- IFAs continue to form a material proportion of the new authorisation numbers for Q2 2010
 - At 101 authorisations, IFAs represent 35% of total new authorisations for the quarter
 - Indicative of significant corporate activity in the sector ahead of implementation of the proposed RDR regulation in 2012
- Mortgage brokers continue to see very subdued levels of activity
 - Authorisations in the past few quarters have been in single digits, compared to consistent authorisations above 20 up to Q3 2009
 - Continue to suffer from challenging market conditions, with customers often going direct to lenders

Emerging markets are playing an important role in the ownership of newly authorised entities in Q2 2010

Breakdown of Q2 2010 firm authorisations with overseas owners By continent



By sector



Source: IMAS-*insight*, FSA Register

Highlights

- Overseas investors continue to be an important component of new FSA authorisations in Q2 2010, having backed 23 newly authorised firms
 - Represented over 12% of all newly authorised firms excluding the IFA sector (Q1 2010: 19%)
 - Also represented over 30% of all Q2 2010 newly authorised firms within the securities trading sector
 - Material interests also in City-based activities including fund / hedge fund management, corporate finance and private equity
- North America accounted for 53% of overseas owned firms authorised in Q2 2010
 - Continues to dominate the overseas ownership of UK financial services entities
 - By sector, North America's interests are focused around the fund and hedge fund sectors (five of the total 12), as well as securities trading (two of the 12)
- Emerging markets i.e. Asia and Africa are playing an important role in the ownership of FSA-authorised entities for Q2 2010
 - Includes ownership interests from India, Sri Lanka, Japan, Hong Kong, Mauritius and South Africa
 - At 30%, Asia and Africa's interests together exceed the interests of Europe (17%) in newly authorised entities
 - See Appendix for further details on overseas ownership

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:

Olly Laughton-Scott Tel: 0207 444 4392
E-mail: ols@imas.uk.com

Bruce McIntyre Tel: 0207 444 4395
E-mail: bwm@imas.uk.com

Fred Hansson Tel: 0207 444 4393
E-mail: fh@imas.uk.com

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Appendix

FSA authorisations and cancellations by legal structure

Business Sector	2010 Authorisations				2009 Authorisations													
	Q2 10		Q1 10		FY 09		Q4 09		Q3 09		Q3 09		Q2 09		Q1 09		Q1 09	
	No.	Mix	No.	Mix	No.	Mix	No.	Mix	No.	Mix	No.	Mix	No.	Mix	No.	Mix	No.	Mix
Financial Advisory	79	28%	75	31%	274	29%	66	38%	67	27%	76	27%	65	25%				
Financial Trading	13	5%	17	7%	65	7%	10	6%	16	6%	22	8%	17	7%				
General Insurance	43	15%	30	12%	147	15%	23	13%	40	16%	48	17%	36	14%				
Life Insurance	105	37%	100	41%	295	31%	54	31%	80	32%	76	27%	85	33%				
Lending	14	5%	12	5%	83	9%	11	6%	23	9%	23	8%	26	10%				
Other financial services	6	2%	3	1%	16	2%	6	3%	2	1%	6	2%	2	1%				
Other non financial services	18	6%	4	2%	57	6%	2	1%	10	4%	25	9%	20	8%				
Other	9	3%	3	1%	23	2%	2	1%	9	4%	6	2%	6	2%				
TOTAL ANALYSED SAMPLE	287	100%	244	100%	960	100%	174	100%	247	100%	282	100%	257	100%				
TOTAL ALL ENTITIES	287		244		960		174		247		282		257					

Source: FSA Register

Composition of FSA regulated firms

Legal Structure	2010 Authorisations				2009 Authorisations									
	Q2 10		Q1 10		FY 09		Q4 09		Q3 09		Q2 09		Q1 09	
	No.	Mix	No.	Mix	No.	Mix	No.	Mix	No.	Mix	No.	Mix	No.	Mix
Limited	187	65%	158	65%	648	68%	110	63%	151	61%	199	71%	188	73%
Limited Liability Partnership	69	24%	56	23%	223	23%	45	26%	65	26%	68	24%	45	18%
Public Limited Company	4	1%	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%	0	0%
Unincorporated	27	9%	27	11%	85	9%	18	10%	30	12%	14	5%	23	9%
TOTAL ANALYSED SAMPLE	287	100%	244	100%	960	100%	174	100%	247	100%	282	100%	257	100%

Source: FSA Register

Appendix (cont.)

Nationalities of overseas owners and activities of newly authorised businesses: January – June 2010

Country:	Total	Fund and/or Hedge Fund	Securities Trader	Corporate Finance	IFA/Private Wealth Manager	Private Equity	Investment Bank	Commercial/ Retail Bank	Insurance	Other
Q1	19	9	3	2	1	1	-	1	1	1
Q2	12	5	2	-	-	1	-	-	1	3
North America	31	14	5	2	1	2	-	1	2	4
Q1	4	3	-	1	-	-	-	-	-	-
Q2	4	1	-	1	-	1	-	-	-	1
Europe	8	4	-	2	-	1	-	-	-	1
Q1	5	3	-	-	1	-	1	-	-	-
Q2	4	1	2	-	-	-	-	-	-	1
Asia	9	4	2	-	1	-	1	-	-	1
Q1	-	-	-	-	-	-	-	-	-	-
Q2	3	-	-	2	-	-	-	-	-	1
Africa	3	-	-	2	-	-	-	-	-	1
TOTAL	51	22	7	6	2	3	1	1	2	7

Source: IMAS-*insight*, FSA Register

Appendix (cont.)

Nationalities of overseas owners and activities of newly authorised businesses: Q2 2010

Country:	Total	Fund and/or Hedge Fund	Securities Trader	Corporate Finance	Private Equity	Insurance	Other
USA	11	5	2	-	-	1	3
Canada	1	-	-	-	1	-	-
North America	12	5	2	0	1	1	3
France	1	1	-	-	-	-	-
Ireland	1	-	-	1	-	-	-
Channel Islands	2	-	-	-	1	-	1
Europe	4	1	0	1	1	0	1
India	1	1	-	-	-	-	-
Sri Lanka	1	-	-	-	-	-	1
Japan	1	-	1	-	-	-	-
Hong Kong	1	-	1	-	-	-	-
Asia	4	1	2	0	0	0	1
Mauritius	1	-	-	1	-	-	-
South Africa	2	-	-	1	-	-	1
Africa	3	0	0	2	0	0	1
TOTAL	23	7	4	3	2	1	6

Source: IMAS-*insight*, FSA Register