

**Scottish Financial Enterprise**

**Quarterly Survey of Scotland's Financial Services Industry**

**Sponsored by Capgemini**

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**Quarter 3, 2005**

# **This survey assesses the views of leaders of financial services businesses based in Scotland on a regular basis**

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## **Scottish Financial Enterprise – Q3 2005 Survey**

### ***Objectives***

- To provide a snapshot of the views of financial services businesses based in Scotland about their performance over the last quarter and how this may change in the next quarter.
- To show how views differ between sectors

### ***Quarterly Approach***

- Survey is undertaken across the Scottish Financial Enterprise membership base
- Questionnaire is issued to all participants at the end of each quarter
- Results are collated and aggregated by Capgemini for Scottish Financial Enterprise
- Findings refer to this and previous quarters' surveys so perceived vs. actual performance can be measured
- No weighting is applied to differentiate between responses received from companies of different size.

## SUMMARY RESULTS

# The consensus is that business has improved and the outlook is optimistic, but slightly less so than in the Q2 survey

### *Summary results from across the financial services industry*

#### General Business Confidence

- Business prospects are expected to continue to improve over the next quarter and the following 12 months
- The overall sentiment is slightly less optimistic than in the last survey

#### Business Volumes

- Business volumes are up on the last quarter, and on this time last year
- Asset Servicing reported the strongest performance with all companies increasing turnover

#### Profitability

- Profitability was also up on Q2 2005, exceeding expectations for the second survey running
- Profitability varied significantly across sectors, with Asset Servicing and Investment Management reporting particularly good outcomes

#### Geographical Source of Business

- Scotland and the UK proved the best markets in the last quarter, despite predictions in the last survey that the Scottish market would be weak
- The US and Asia are expected to offer the best prospects for growth in Q4 2005. In the last survey the expectations for the US were pessimistic

#### Business Investment

- Business investment rose faster than expected in the last quarter, but is expected to remain mostly level in Q4 2005

#### Employee Levels

- A third of companies increased headcount in the last quarter, but this was lower than the 50% who expected to grow employment from Q2 survey
- There was significant variation across sectors, with Asset Servicing showing the most positive trend

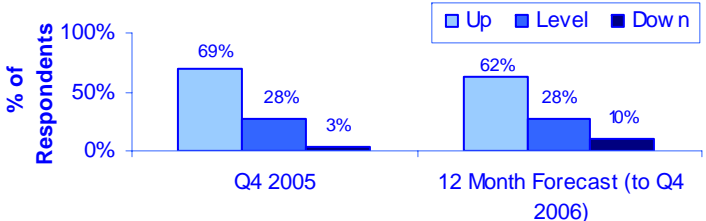
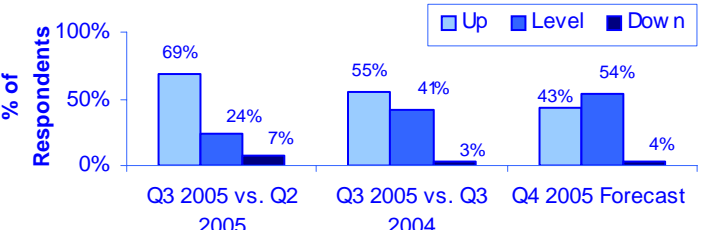
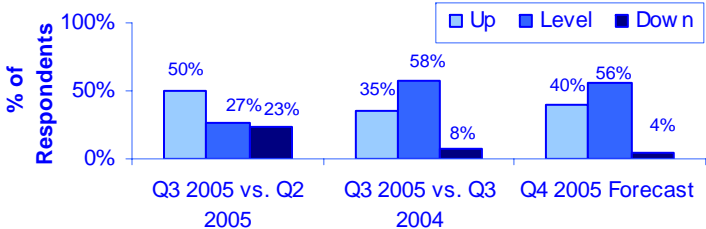
#### Other Factors affecting business

- Level of competition and regulation have become more significant factors since the last survey
- Customer confidence and level of demand remain key issues for Scottish financial services businesses

***There is significant variation across sectors. Asset servicing has reported the strongest performance in the last quarter.***

SUMMARY RESULTS

# Business is optimistic about overall prospects, and 40% believe volume of business and profits will increase in Q4 2005

Data on Business Confidence, Volume and Profitability	Comment
<p><b>General Business Confidence:</b> What is your overall confidence in your company's business prospects?</p>  <p><b>Volume:</b> Excluding seasonal variations, how would you rate the level of business?</p>  <p><b>Profitability:</b> How would you rate your margin?</p> 	<p><b>General Business Confidence:</b></p> <ul style="list-style-type: none"> <li>Two thirds of respondents believe their business performance will improve in Q4 2005</li> <li>Almost 60% believe that the next 12 months will see further improvements in prospects</li> <li>This represents a slightly less optimistic view than the last quarterly survey, although 86% still believe the next 12 months will show better or level performance</li> </ul> <p><b>Volume:</b></p> <ul style="list-style-type: none"> <li>Two thirds of businesses reported that last quarter's volumes were up on the previous quarter. This is in line with expectations from the last survey</li> <li>Just over half believed business was up on the same period last year</li> <li>95% believe their level of business will stay level or rise in Q4 2005</li> </ul> <p><b>Profitability</b></p> <ul style="list-style-type: none"> <li>Profitability was better than forecast in Q3 with one half of businesses reporting profits up in Q3</li> <li>Margins varied significantly across sectors with the investment management and asset servicing sectors showing particularly good performance (<i>see later slide</i>)</li> <li>The profitability forecast is more optimistic than in the last survey</li> </ul>

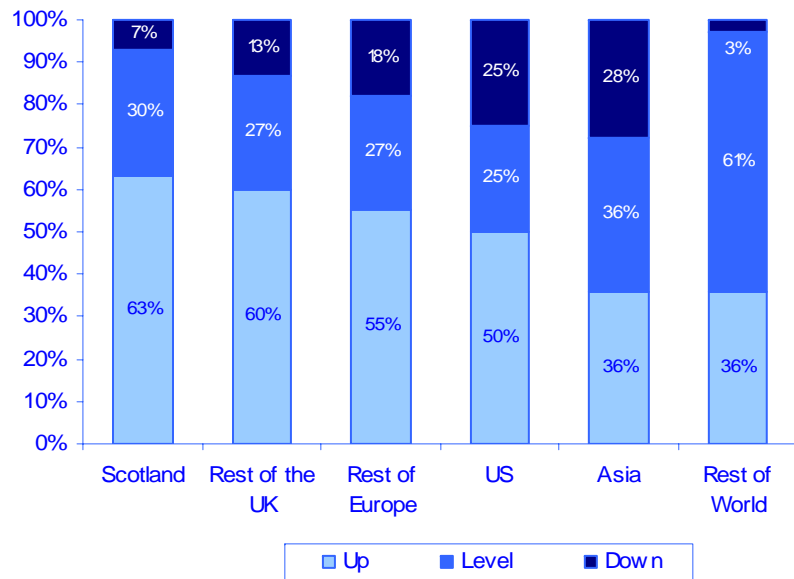
**Profitability varied considerably between different sectors in Q3.**

SUMMARY RESULTS

# Scotland and the rest of the UK proved the best markets in the last quarter

## Q3 2005 Source of Turnover

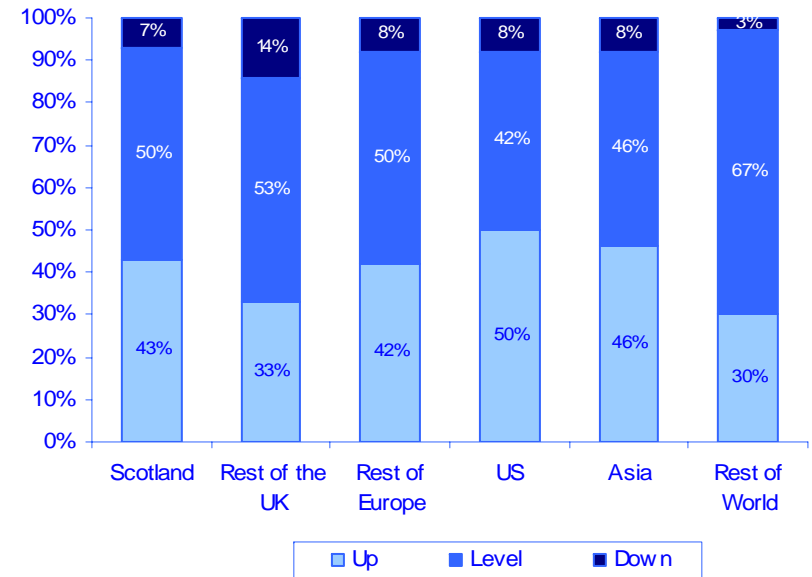
How would you rate your turnover that came from each of the following countries in the previous quarter? <sup>1</sup>



- Companies reported the best results from the Scottish and UK markets in Q3, in contrast to predictions in the last survey that Scotland would be a slow growing market
- Asia and the US rated as the worst performing regions for the second survey running with one quarter reporting a drop in turnover

## Expected Q4 2005 Source of Turnover

What change do you expect to see this quarter? <sup>1</sup>



- The outlook for the Scottish and UK markets is less positive in Q4, with less than half of businesses expecting turnover to grow
- Business expects better performance from the Asian and US markets in Q4, with almost half of respondents expecting turnover from these regions to rise

**The worst performing markets in Q3 (Asia and US) are expected to show the fastest growth in Q4.**

<sup>1</sup> The results include only organisations which generate revenues in the respective region

SUMMARY RESULTS

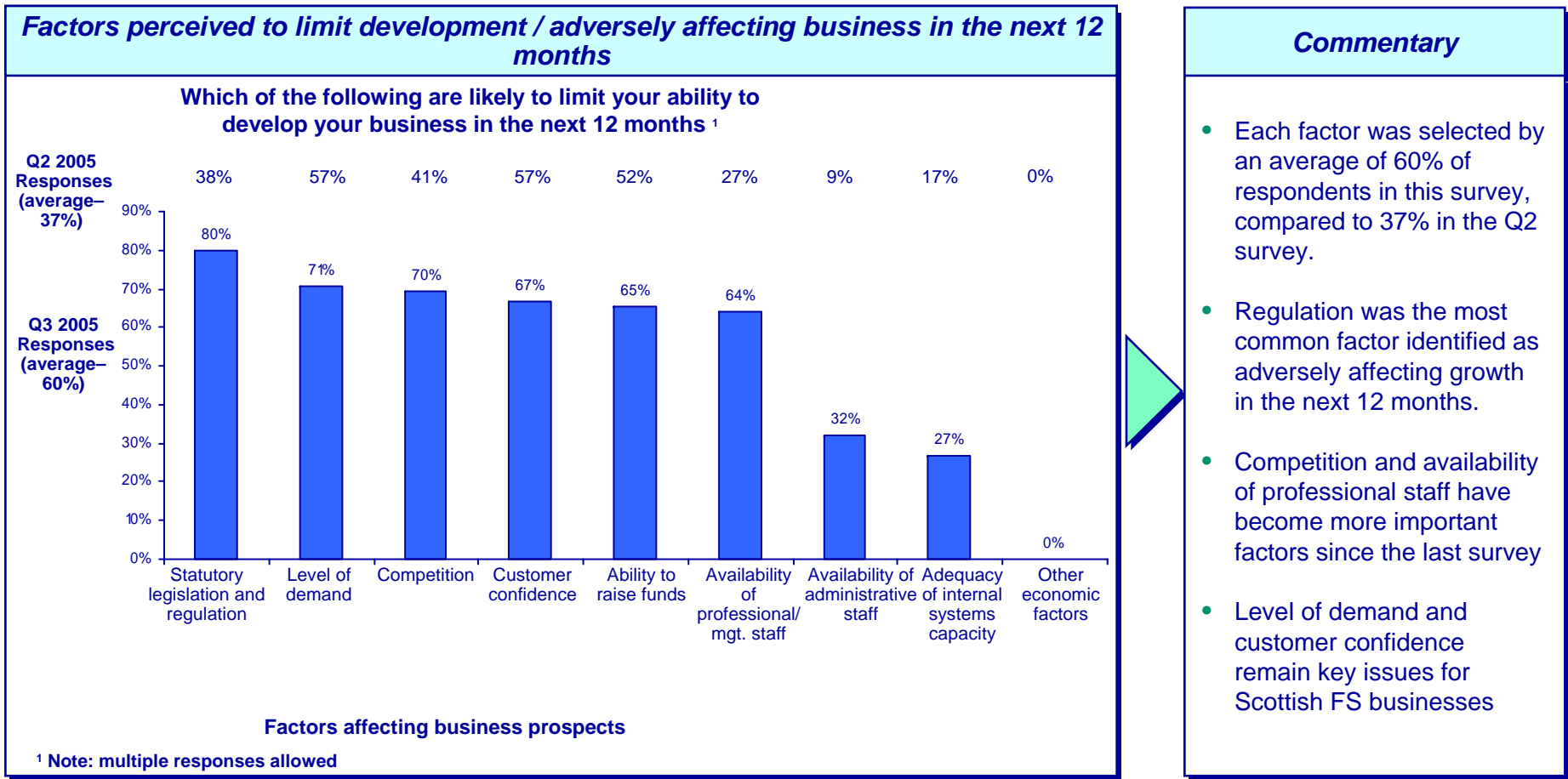
# Business Investment rose more than expected in Q3 with one third of companies increasing capital expenditure

Data on Business Investment, R&D and Employment Levels	Comment												
<p><b>Business Investment:</b> How would you rate your levels of capital expenditure?</p> <table border="1"> <caption>Business Investment Data</caption> <thead> <tr> <th>Period</th> <th>Up</th> <th>Level</th> <th>Down</th> </tr> </thead> <tbody> <tr> <td>Q3 2005 vs. Q2 2005</td> <td>33%</td> <td>63%</td> <td>4%</td> </tr> <tr> <td>Q4 2005 Forecast</td> <td>15%</td> <td>80%</td> <td>5%</td> </tr> </tbody> </table>	Period	Up	Level	Down	Q3 2005 vs. Q2 2005	33%	63%	4%	Q4 2005 Forecast	15%	80%	5%	<p><b>Business Investment</b></p> <ul style="list-style-type: none"> <li>Business investment increased more than predicted in the last survey, with one third of respondents reporting increased levels of capital expenditure</li> </ul>
Period	Up	Level	Down										
Q3 2005 vs. Q2 2005	33%	63%	4%										
Q4 2005 Forecast	15%	80%	5%										
<p><b>R&amp;D:</b> How would you rate your R&amp;D spend?</p> <table border="1"> <caption>R&amp;D Spend Data</caption> <thead> <tr> <th>Period</th> <th>Up</th> <th>Level</th> <th>Down</th> </tr> </thead> <tbody> <tr> <td>Q3 2005 vs. Q2 2005</td> <td>10%</td> <td>85%</td> <td>5%</td> </tr> <tr> <td>Q4 2005 Forecast</td> <td>12%</td> <td>82%</td> <td>6%</td> </tr> </tbody> </table>	Period	Up	Level	Down	Q3 2005 vs. Q2 2005	10%	85%	5%	Q4 2005 Forecast	12%	82%	6%	<p><b>Research and Development</b></p> <ul style="list-style-type: none"> <li>Almost 90% reported that R&amp;D spend had remained level over the 3<sup>rd</sup> quarter with only one in ten companies reporting an increase</li> <li>This shows a slower rate of R&amp;D growth than in Q2 and is below the predicted level from the last survey</li> <li>R&amp;D spend is predicted to stay level in Q4 2005</li> </ul>
Period	Up	Level	Down										
Q3 2005 vs. Q2 2005	10%	85%	5%										
Q4 2005 Forecast	12%	82%	6%										
<p><b>Employment Levels:</b> Excluding seasonal variations, how does your headcount compare with the previous quarter?</p> <table border="1"> <caption>Employment Levels Data</caption> <thead> <tr> <th>Period</th> <th>Up</th> <th>Level</th> <th>Down</th> </tr> </thead> <tbody> <tr> <td>Q3 2005 vs. Q2 2005</td> <td>38%</td> <td>45%</td> <td>17%</td> </tr> <tr> <td>Q4 2005 Forecast</td> <td>38%</td> <td>52%</td> <td>10%</td> </tr> </tbody> </table>	Period	Up	Level	Down	Q3 2005 vs. Q2 2005	38%	45%	17%	Q4 2005 Forecast	38%	52%	10%	<p><b>Employment Levels</b></p> <ul style="list-style-type: none"> <li>Over one third of companies increased headcount in Q3, but this was lower than the 50% who expected employment to rise in the last survey</li> <li>The picture varies considerably across sectors with asset servicing companies increasing headcount, while 40% of banks and insurance companies reduced it in Q3</li> </ul>
Period	Up	Level	Down										
Q3 2005 vs. Q2 2005	38%	45%	17%										
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**Over one third of companies are expecting to increase headcount in Q4.**

SUMMARY RESULTS

# Business identified a greater number of factors as likely to limit development over the next 12 months than in the Q2 survey

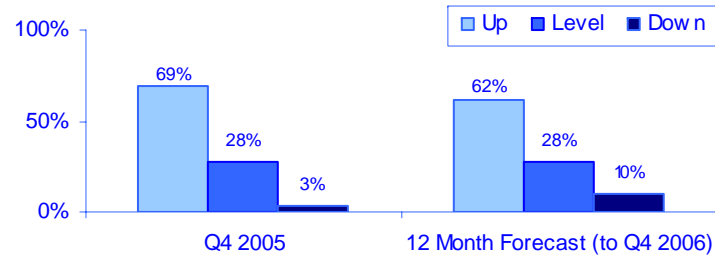


**Competition and regulation have become more important factors since the last survey.**

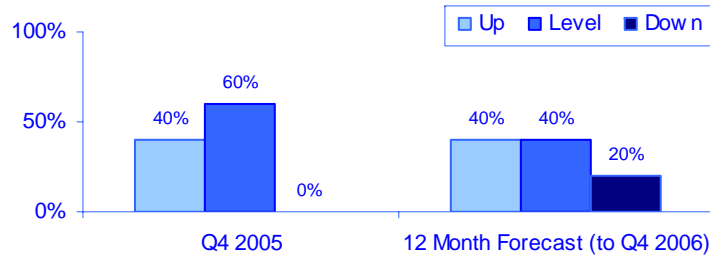
# The Asset Servicing sector remains the most confident about business prospects for Q4 2005 and the coming year

*What is your overall confidence in your company's business prospects?*

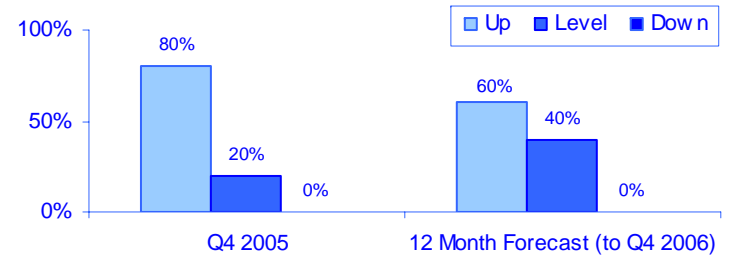
Overall market view



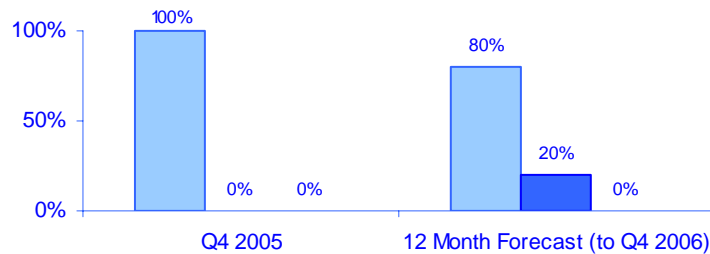
Banks and Building Societies



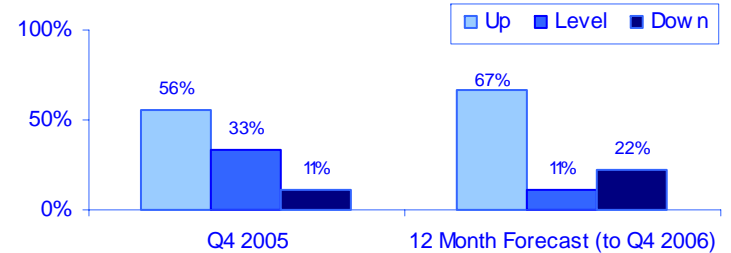
General Insurance, Life Assurance and Pensions



Asset Servicing



Investment Managers

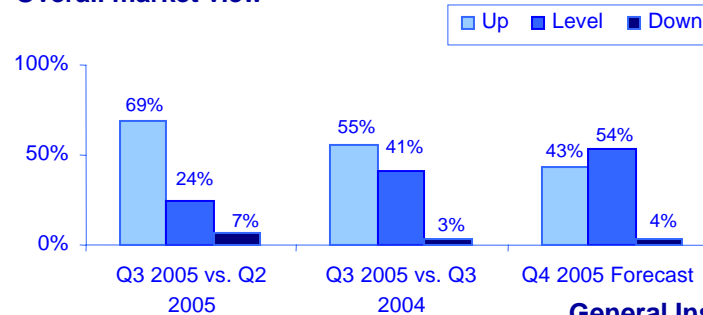


***The General Insurance, Life Assurance and Pensions sector is also reporting high levels of confidence***

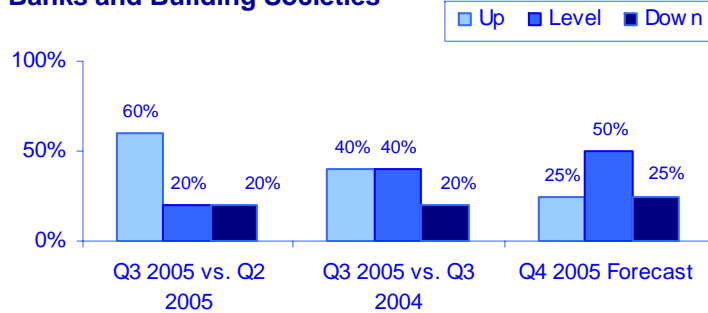
# All Asset Servicing companies reported the volume of business rising in Q3 compared to approximately 60% in other sectors

## How do you rate the level of business?

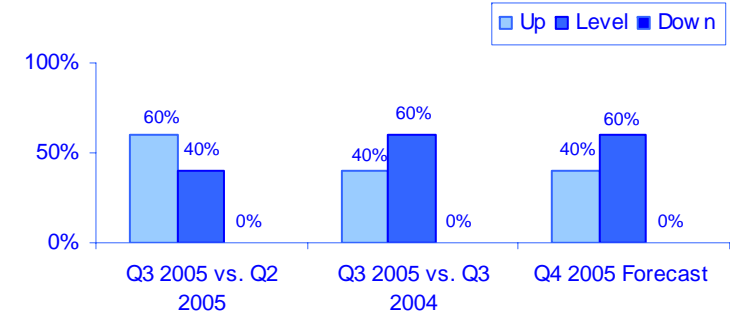
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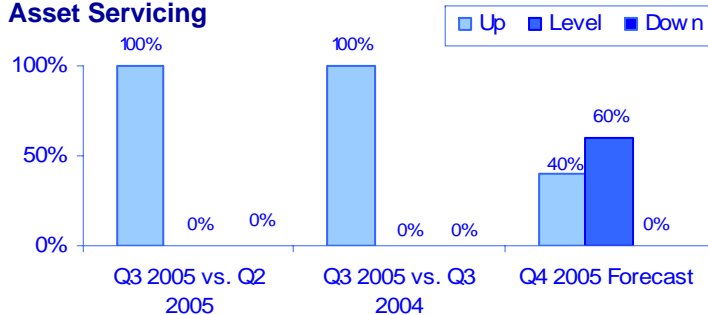
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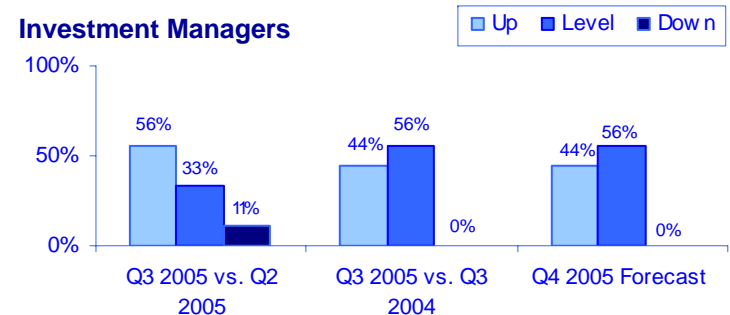
General Insurance, Life Assurance and Pensions



Asset Servicing



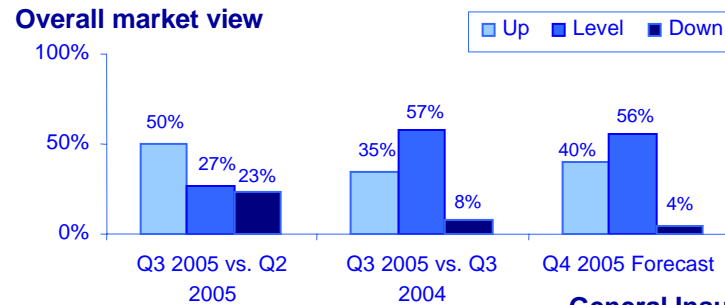
Investment Managers



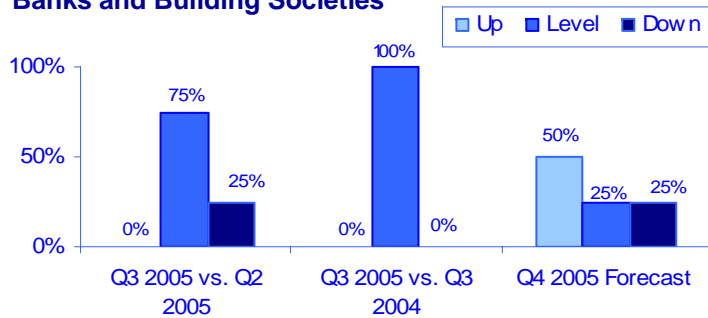
**General Insurance, Life Assurance and Pensions companies have performed better than expected in Q3 2005.**

# Investment Management and Asset Servicing business reported increased profits. Other sectors saw margins stay level or decline in Q3

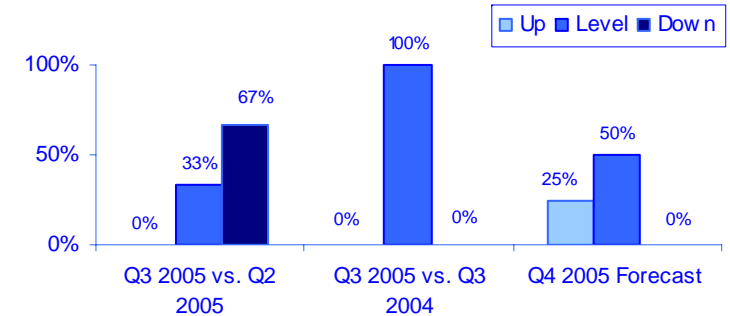
## How do you rate your profit margin?



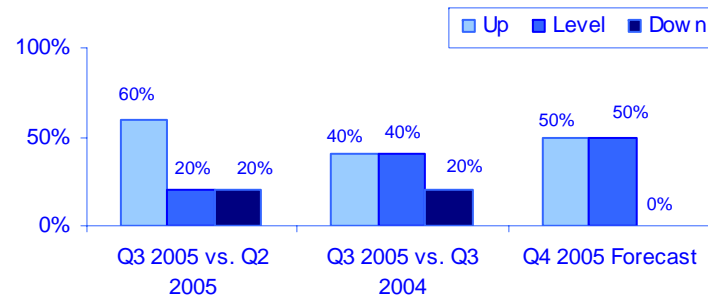
### Banks and Building Societies



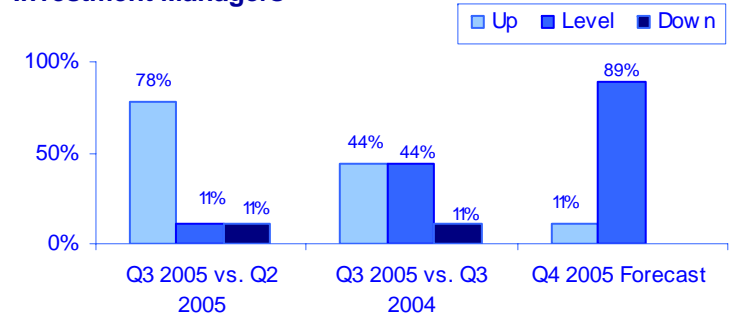
### General Insurance, Life Assurance and Pensions



### Asset Servicing



### Investment Managers

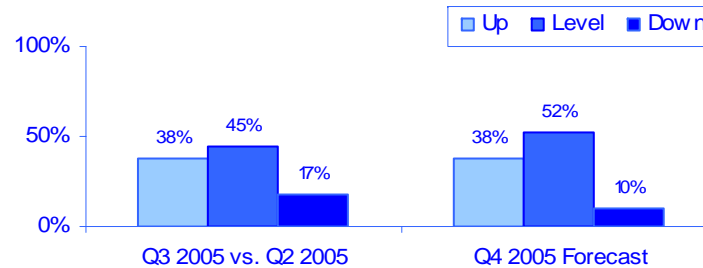


***The forecast picture was more mixed, with some companies across all sectors expecting margins to increase in Q4 2005.***

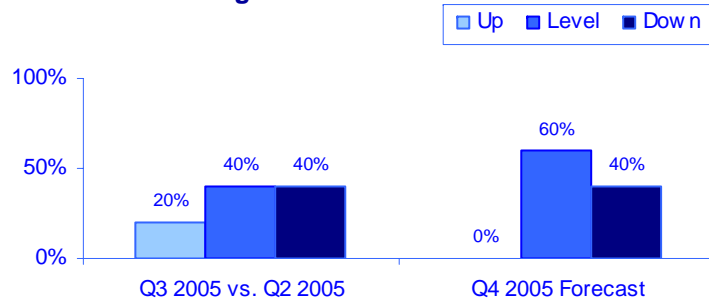
# The Asset Servicing sector increased headcount in Q3 and expects to do so again in Q4, while other sectors predict more stable headcount

## How would you rate employment levels?

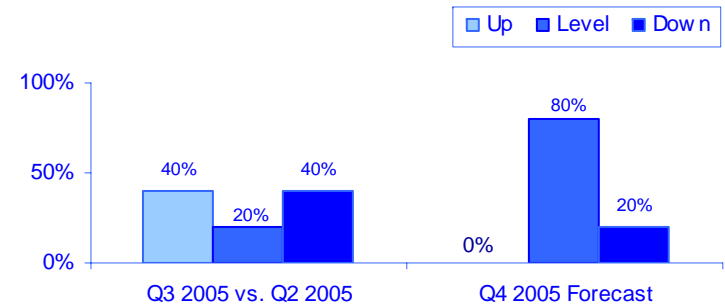
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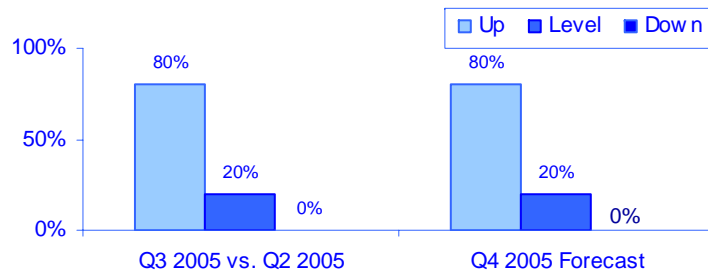
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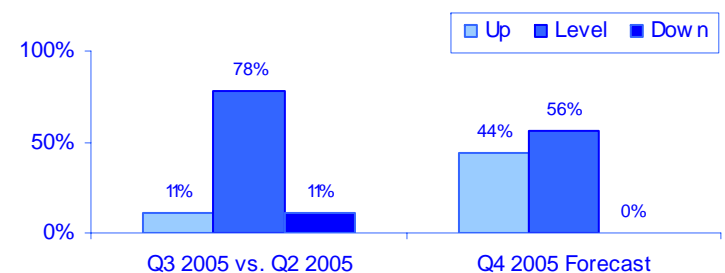
General Insurance, Life Assurance and Pensions



Asset Servicing



Investment Managers



**Banks and General Insurance, Life Assurance and Pensions companies showed a more mixed trend with an equal percentage of respondents reducing headcount as increasing it in Q3.**