

Scottish Financial Enterprise

Quarterly Survey of Scotland's Financial Services Industry

Sponsored by Capgemini

Quarter 4, 2006

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

Scottish Financial Enterprise – Q4 2006 Survey

Objectives

- To provide a snapshot of the views of financial services companies based in Scotland
- To gain insight into their performance over the last quarter and how this may change in the next
- To show how views differ between sectors
- To understand medium and long-term trends in the industry in Scotland

Quarterly Approach

- The survey is undertaken across the Scottish Financial Enterprise membership base
- The 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 quarter's survey and the Q3 2006 survey to measure perceived vs. actual performance
- No weighting is applied to differentiate between responses received from companies of different sizes

Scotland's financial services industry set for another good year in 2007 as companies report high levels of business confidence

Summary results from across the financial services industry

General Business Confidence

- General business confidence is high, with the majority of companies (63%) expecting business prospects to improve in 2007
- Almost two thirds (63%) of respondents expect business prospects to improve in the current quarter while 31% expect no change

Business Volumes

- 59% of respondents reported improved business volumes in Q4 2006 which is slightly above the forecast made in the previous quarter
- 59% of respondents forecast that volume levels will rise in Q1 2007, and 31% expect them to remain constant
- Investment Managers are most optimistic about business levels for Q1 2007 with 63% of companies expecting an increase

Profitability

- 41% of respondents improved their profit margins in Q4 2006 compared with the previous quarter
- 38% of respondents expect to increase profit margins in Q1 2007; Investment Managers are most bullish with 50% of respondents from this sector expecting increased profits in the period

Geographical Source of Business

- The percentage of companies reporting an increase in turnover was higher across all regions than forecast
- Rest of Europe and Asia performed particularly strongly ahead of expectations in Q4 2006
- Europe is expected to be the main growth market in the first quarter of 2007

R&D Spend and Business Investment

- Business investment and R&D spend remained level for the majority of companies in Q4 2006
- The outlook for Q1 2007 is similar, although more companies (19%) expect to increase R&D spend

Employee Levels

- Employment levels were in line with expectations for Q4 2006: just over a third of companies (34%) increased employment levels, over half (53%) kept headcount level and 13% reduced it
- The outlook for Q1 2007 is positive, with more companies (41%) expecting that employee levels will increase
- Asset Servicing and Investment Managers are expected to be the main sectors of employment growth in the period

Other Factors affecting business

- The level of competition is now the greatest concern for companies with 87% of respondents perceiving it as a factor likely to limit business development in the next 12 months
- The availability of professional/management staff is a concern for nearly two thirds (60%) of respondents

Competition and level of demand seen as main factors likely to limit business development in the year

SUMMARY RESULTS

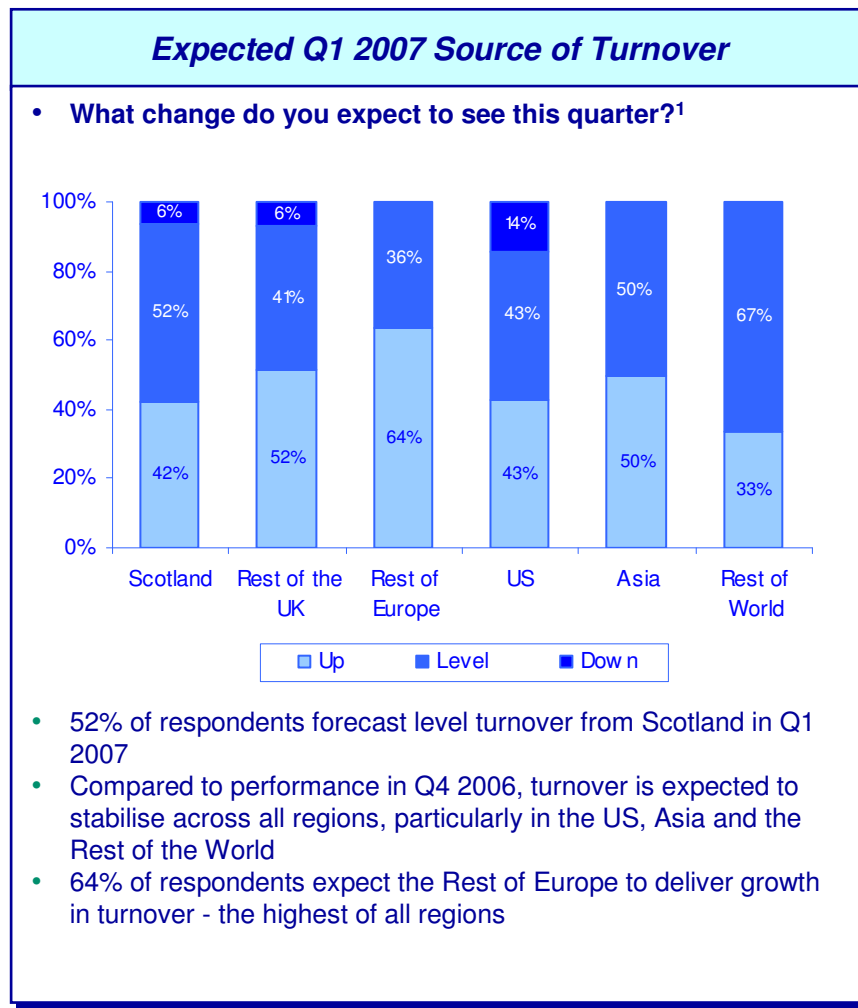
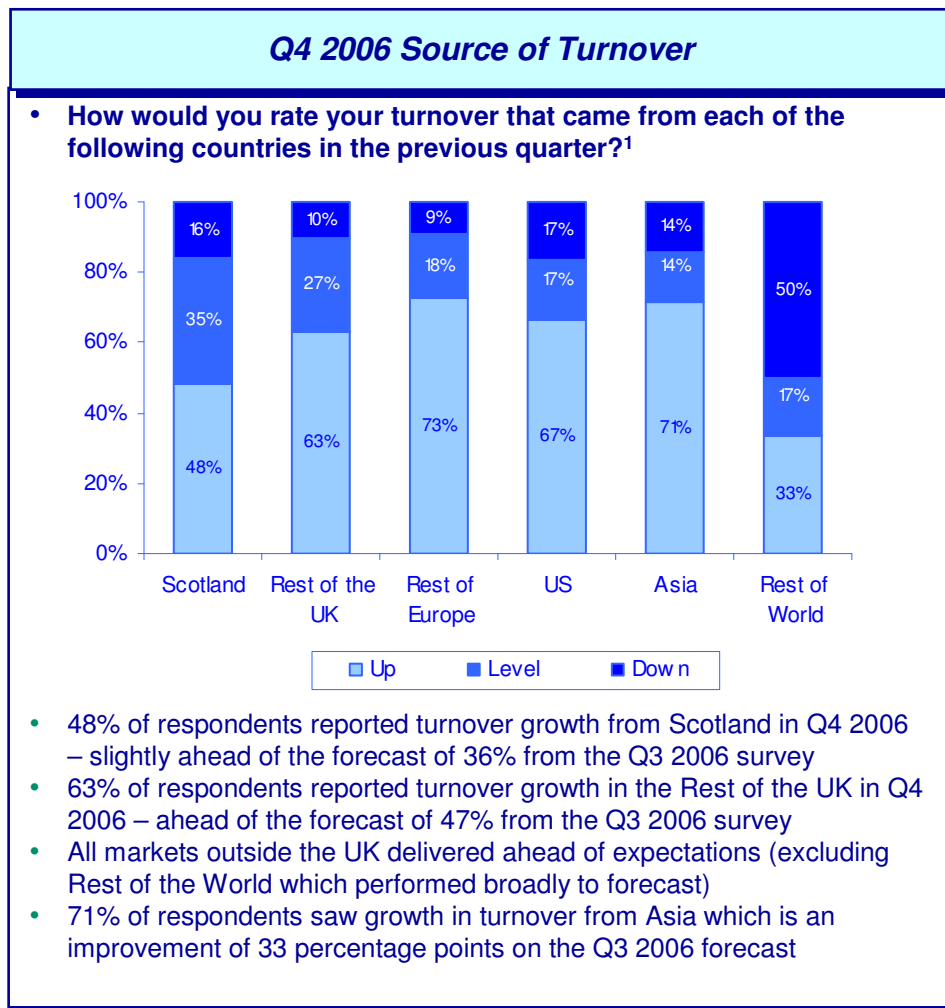
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Data on Business Confidence, Volume and Profitability	Comment																																												
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<p>Nearly two thirds of survey respondents forecast a rise in business prospects this quarter (Q1 2007), driven by an increase in business volume, while fewer (38%) expect profits to increase within the same period</p>																																													

Note: Percentages may not add up to 100% due to rounding

SUMMARY RESULTS

The percentage of respondents reporting an increase in turnover was higher across all regions than forecast



Rest of Europe and Asia performed particularly strongly ahead of expectations in Q4 2006; Europe is expected to be main growth market in the first quarter of 2007

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SUMMARY RESULTS

Business investment, R&D spend and employment remained level for the majority of companies in Q4 2006

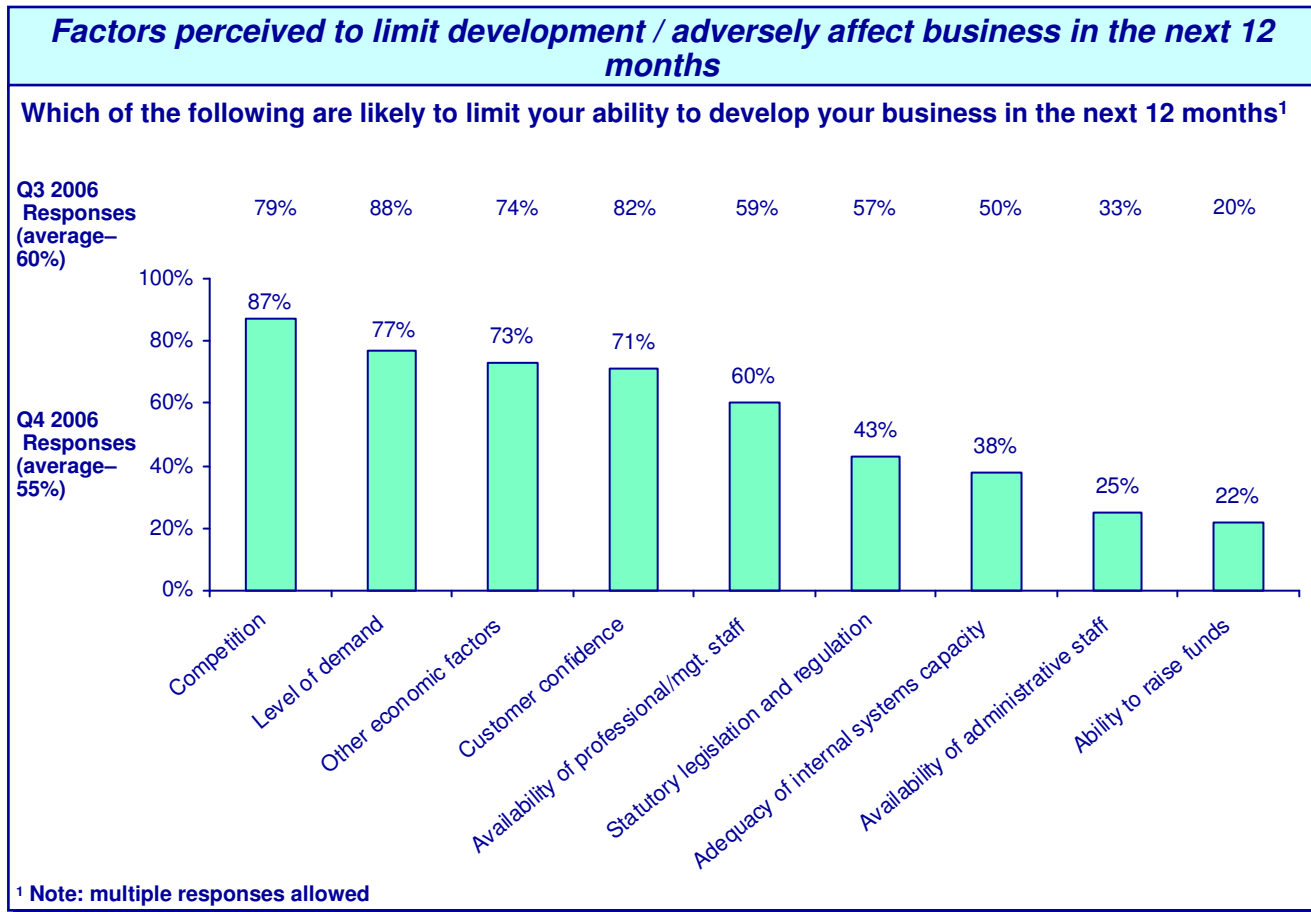
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The outlook for Q1 2007 is similar, although more companies expect to increase R&D spend and employment levels

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SUMMARY RESULTS

In Q4 2006 the level of competition replaced the level of demand as the greatest concern for businesses



Commentary

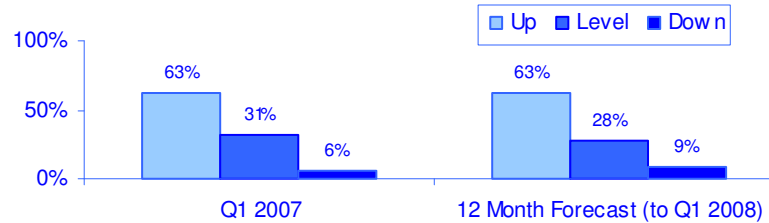
- The top four key concerns remain unchanged from the previous quarter, however the relative positions of these have altered. The level of competition is now the greatest concern for companies with 87% of respondents perceiving it as a factor likely to limit business development in the next 12 months
- The availability of professional/management staff is a concern for nearly two thirds (60%) of respondents
- Compared with the previous survey (Q3 2006), fewer companies cited statutory legislation and adequacy of internal systems as likely to adversely affect business in 2007

Note: 'Other economic factors' include interest rates, global market performance and other global events that might have an economic impact

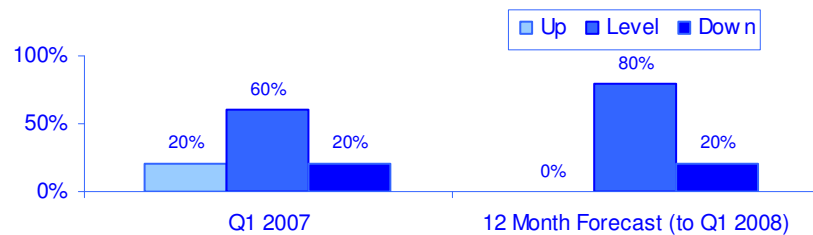
Compared with Q3 2006, statutory legislation and adequacy of internal systems are considered less likely to limit business development although availability of professional and management staff remains a key concern

Investment Managers are most optimistic about prospects for Q1 2007 with 63% of respondents expecting improvements in the period

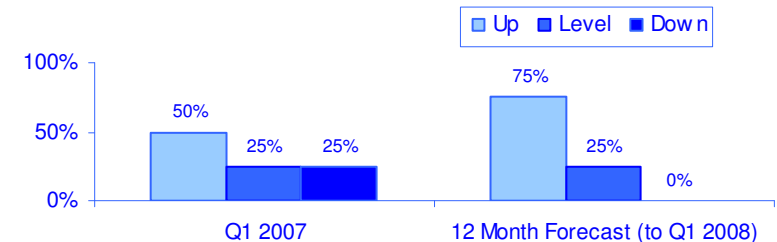
What is your overall confidence in your company's business prospects?
Overall market view



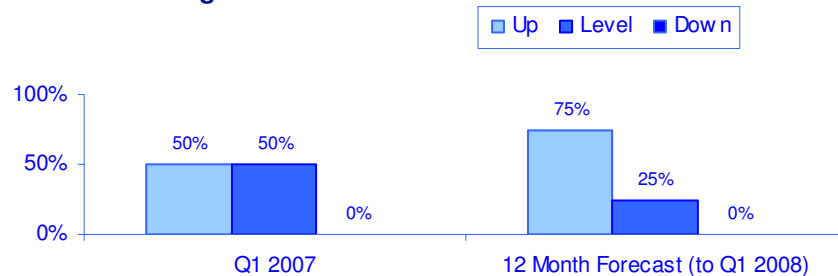
Banks and Building Societies



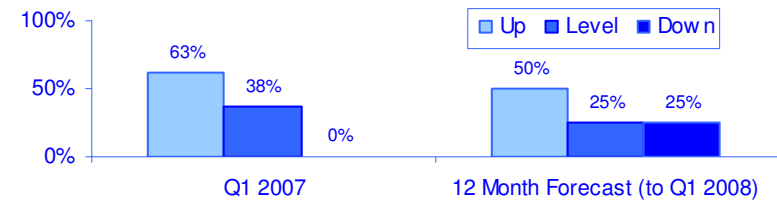
General Insurance, Life Assurance and Pensions



Asset Servicing



Investment Managers



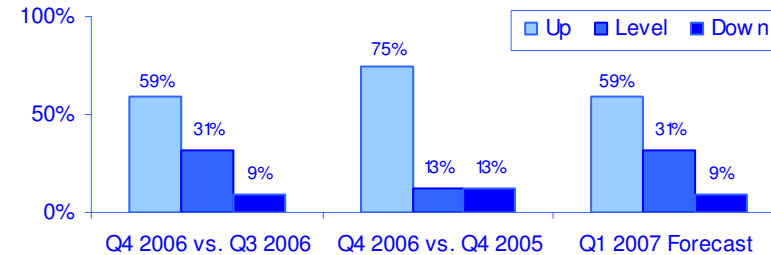
Asset Servicing and General Insurance, Life Assurance and Pensions companies are most optimistic about prospects for the year while the majority of banks expect them to stay level

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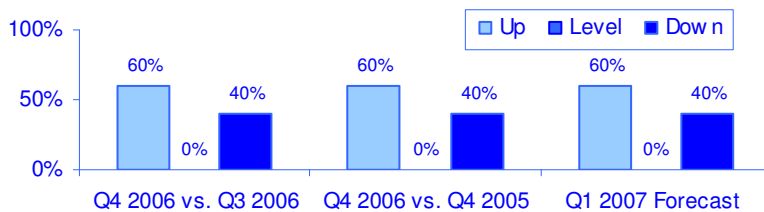
Business levels in Q4 2006 were up on the same period the previous year for the majority of companies across all of the main sectors, although 40% of Banks and Building Societies reported decreased levels

How do you rate the level of business?

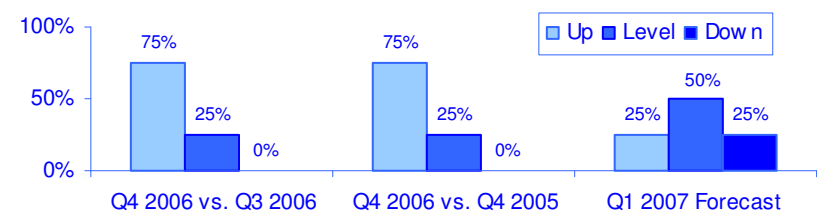
Overall market view



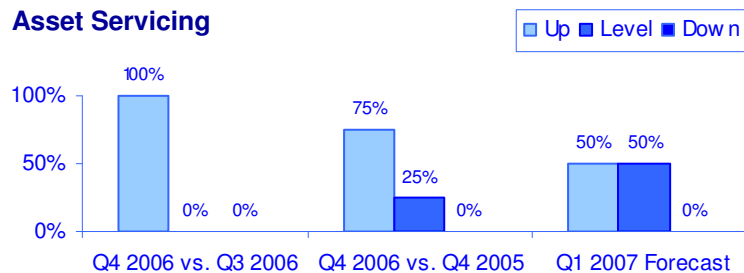
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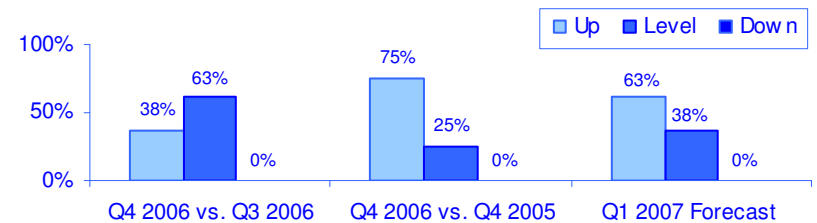
General Insurance, Life Assurance and Pensions



Asset Servicing



Investment Managers



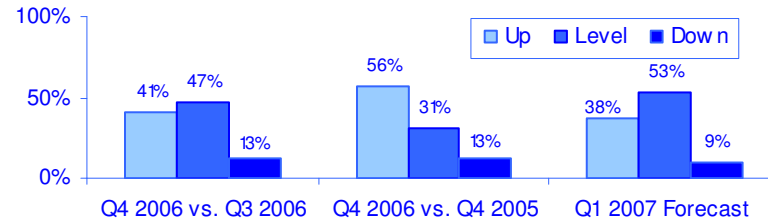
Investment Managers are most bullish about business levels for Q1 2007 with 63% of companies expecting an increase

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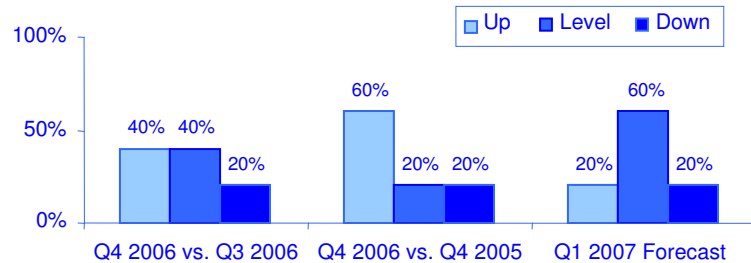
Profitability was ahead of expectations in Q4 2006 across all of the main sectors, with Banks and Building Societies and Asset Servicing companies exceeding expectations the most

How do you rate your profit margin?

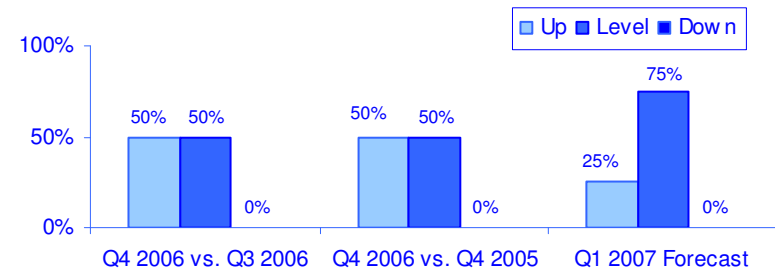
Overall market view



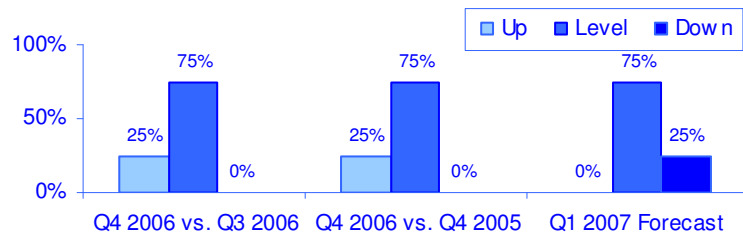
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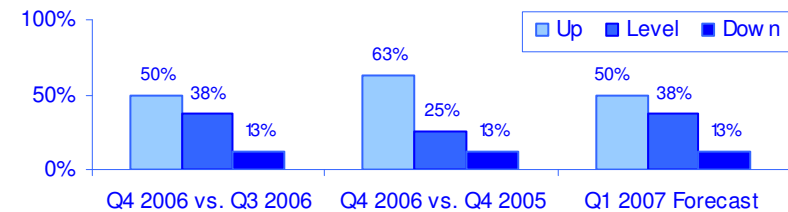
General Insurance, Life Assurance and Pensions



Asset Servicing



Investment Managers

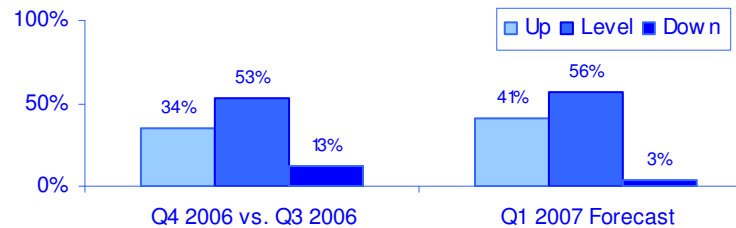


The majority of companies across the sectors anticipate level profit margins in Q1 2007 with the exception of Investment Managers of which 50% expect them to increase

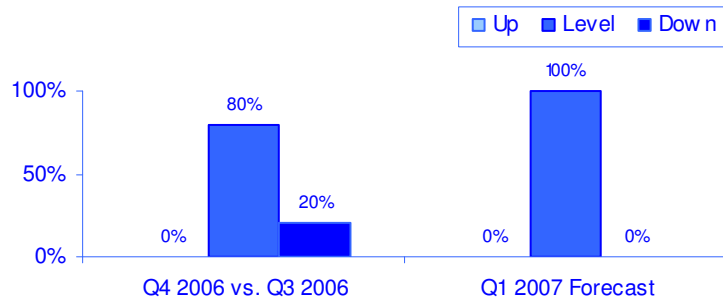
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The large majority of Asset Servicing and Investment Management companies increased employment levels in Q4 2006

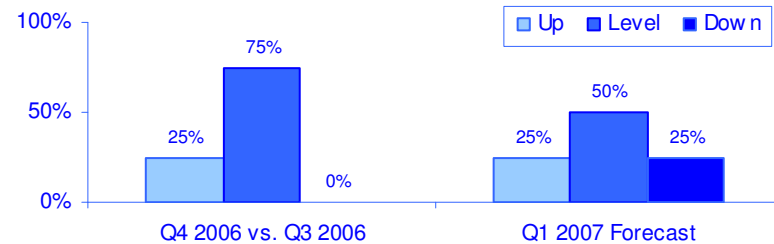
How would you rate employment levels?



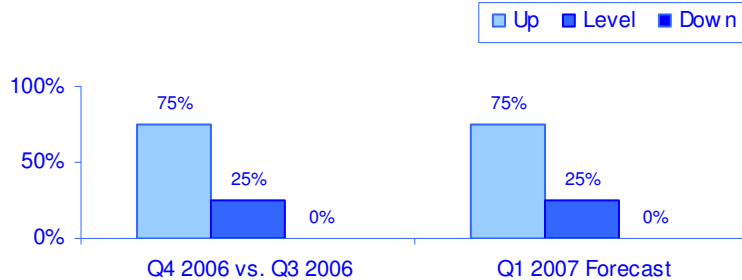
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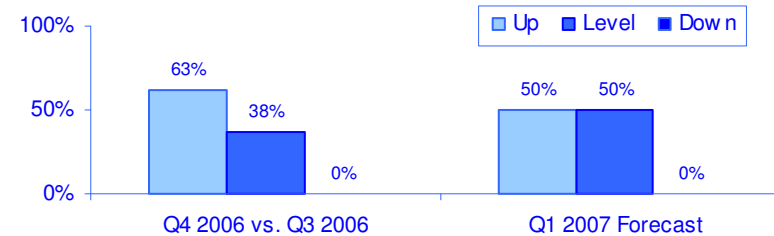
General Insurance, Life Assurance and Pensions



Asset Servicing



Investment Managers



The employment outlook for General Insurance, Life Assurance and Pensions is mixed for Q1 2007; Asset Servicing and Investment Managers are expected to be the main sectors of employment growth in the period

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