

Scottish Financial Enterprise

Quarterly Survey of Scotland's Financial Services Industry

Sponsored by Capgemini

Quarter 2, 2007

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

Scottish Financial Enterprise – Q2 2007 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

- 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 to measure perceived vs. actual performance
- No weighting is applied to differentiate between responses received from companies of different sizes

55% of respondents believe business prospects will improve over the next twelve months

Summary Results from across the financial services industry

General Business Confidence

- Almost all respondents (97%) expect their business prospects to remain the same or improve in Q3 2007, while 55% anticipate confidence to increase over the next 12 months
- A majority of respondents now have level expectations for business confidence, compared with the last survey in which most (55%) expected prospects to improve
- 25% of respondents from Banks and Building Societies forecast reduced confidence in Q3 2007, while all other sectors expect improved or stable prospects

Business Volumes

- 61% of respondents reported increased business volumes compared to Q1 2007, which was in line with the expectations set in the last survey
- Around three quarters of respondents (71%) reported an increase in business volumes compared to the same quarter last year
- Most respondents within General Insurance, Life assurance and Pensions and Investment Management sectors expect that business levels will remain the same in Q3 2007

Profitability

- A majority of respondents reported a level or improved profit margin in Q2 2007 when compared to the previous quarter
- Although 14% of respondents reported a declining profit margin compared to the same quarter last year, this is 6 percentage points less than in the previous survey
- All Banks and Building Societies, General Insurance, Life Assurance and Pensions, and Asset Servicing respondents forecast that profit margins will remain the same in Q3 2007

Geographical Source of Business

- The number of respondents reporting turnover growth for the UK was lower than expected, but for all other regions more respondents than was predicted in Q1 2007 saw improved margins
- 83% of respondents reported an increase in turnover from Asia, 28 percentage points higher than in Q1 2007
- 60% of respondents forecast an increase in turnover from the US however one in five expect reductions

Business Investment and R&D spend

- The number of respondents anticipating level business investment for the quarter ahead has increased to 81%, up from 73% in Q2 2007
- 92% of respondents have reported level R&D investment for Q2 2007 which was more than the 85% forecast in the last survey

Employee Levels

- The majority of respondents report level or increased employment numbers for Q2 2007 compared to the previous quarter
- While the employment outlook remains positive overall for Q3 2007, 16% expect headcount numbers to fall
- No Banks and Building Societies respondents expect employment levels to increase in the next quarter

Other Factors Affecting Business

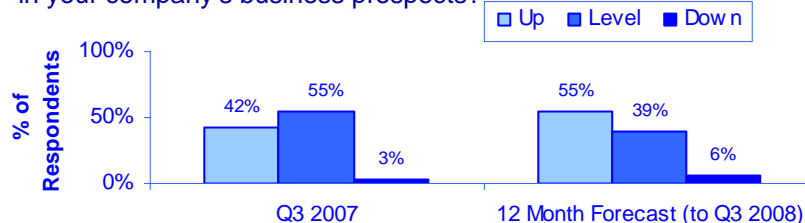
- The top three concerns for respondents remain the same as those reported in the last survey - competition, level of demand and customer confidence
- Statutory legislation and regulation experienced the most substantial decline in responses, falling (from) from 59% in the previous survey to 32% in the Q2 2007

Businesses continue to see level of demand, competition and customer confidence as the main factors that may limit their growth

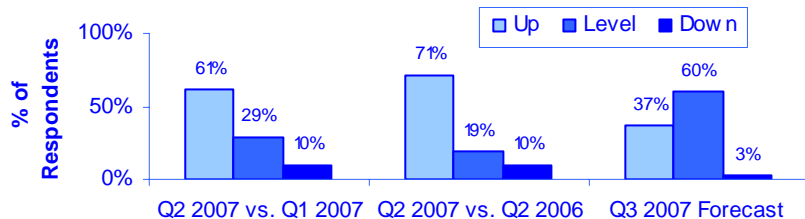
Business confidence is stable for the next quarter with the majority of respondents forecasting level or improved prospects

Data on Business Confidence, Volume and Profitability

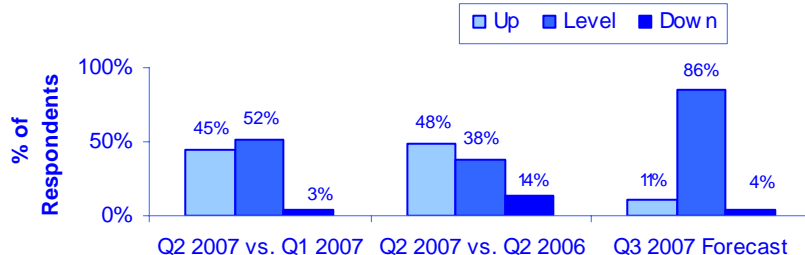
- General Business Confidence:** What is your overall confidence in your company's business prospects?



- Volume:** Excluding seasonal variations, how would you rate the level of business?



- Profitability:** How would you rate your margin?



Commentary

General Business Confidence:

- Almost all respondents (97%) expect their business prospects to remain the same or improve in Q3 2007
- A majority of respondents now have level expectations for business confidence, compared with the last survey in which most (55%) expected prospects to improve
- More than half of respondents expect business prospects to improve over the coming 12 months
- Relatively few respondents expect their business confidence to fall either in the next quarter or in the year ahead

Volume:

- 61% of respondents reported increased business volumes compared to Q1 2007, which was in line with the expectations set in the last survey
- Around three quarters of respondents (71%) reported an increase in business volumes compared to the same quarter last year
- One in ten respondents reported a fall in business in Q2 2007 while few companies (3%) anticipate reduced levels in the next quarter

Profitability:

- Most respondents reported a level or improved profit margin in Q2 2007 compared to the previous quarter
- Although 14% of respondents reported a declining profit margin compared to the same quarter last year, this is 6 percentage points less than the previous survey
- For the quarter ahead there is a strong shift from increasing margins to level profitability

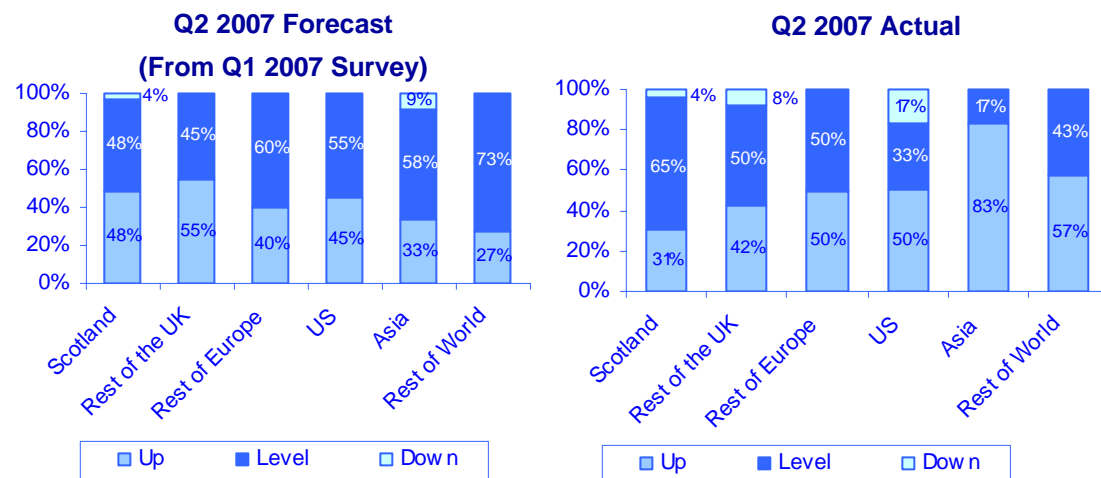
Respondents expect a more level outlook for confidence, business volumes and profitability for Q3 2007 than the expectations set in the previous survey

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

Growth in turnover was higher than forecasted across four of the six regions, particularly for Asia and Rest of World

Q2 2007 Source of Turnover

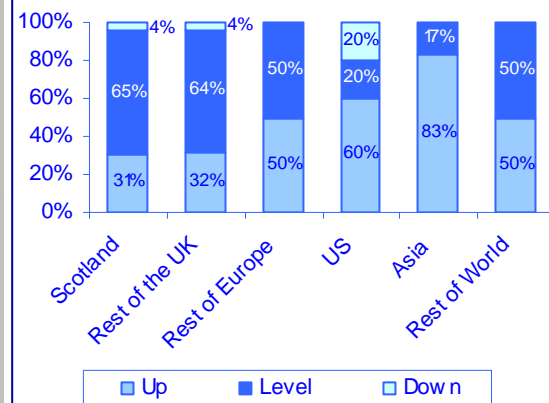
How would you rate your turnover that came from each of the following countries in the previous quarter?



- The number of respondents reporting turnover growth for the UK was lower than expected, but for all other regions more respondents than was predicted in Q1 2007 saw improved margins
- While Rest of the UK and the US had not forecast a decrease in turnover, however, both of these regions experienced a fall in Q2 2007
- 83% of respondents reported an increase in turnover from Asia, 28 percentage points higher than in Q1 2007
- While no respondents anticipated a decrease in turnover from the US for Q2 2007, 17% of respondents have reported a reduction

Expected Q3 2007 Source of Turnover

What change do you expect to see this quarter?



- Compared to regional turnover in Q2 2007, respondents are forecasting fairly similar trends for Q3 2007
- Respondents forecast the strong performance in Asia to continue
- 60% of respondents forecast an increase in turnover in the US however one in five expect reductions

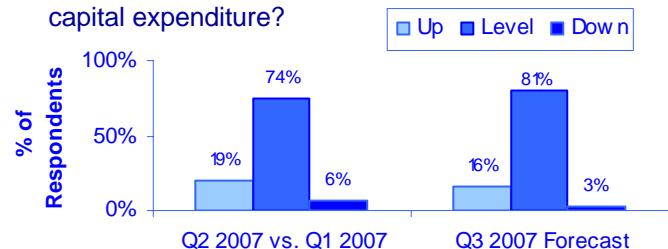
While the outlook for most regions is one of increasing or stable turnover, the US market is predicted to be quite mixed, with 60% expecting revenue growth and one in five respondents anticipating a fall

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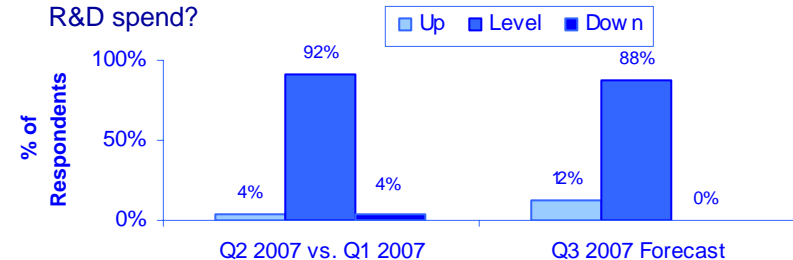
The majority of respondents expect business investment to remain stable, while four in ten saw headcount increase in Q2 2007

Data on Business Investment, R&D and Employment Levels

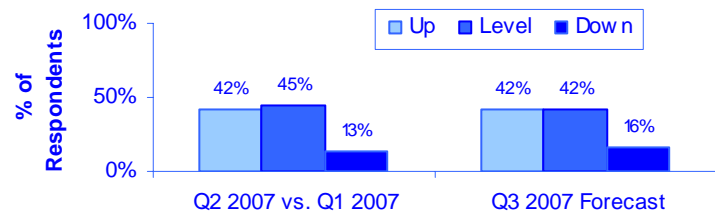
- Business Investment:** How would you rate your levels of capital expenditure?



- Research & Development (R&D):** How would you rate your R&D spend?



- Employment Levels:** Excluding seasonal variations, how does your headcount compare with the previous quarter?



Commentary

Business Investment:

- The proportion of respondents reporting an increase in the levels of capital spending in Q2 2007 (19%) was slightly less than forecast in the previous survey (24%)
- The number of respondents anticipating level business investment for the quarter ahead has increased to 81% compared with Q2 2007

Research and Development:

- 92% of respondents have reported level R&D investment for Q2 2007 which was more than the 85% forecast in the last survey
- Few companies (4%) reported an increase in R&D spend for Q2 2007, down from 12% in Q1
- Going forward, none of the respondents anticipate a decrease in their R&D spend while most expect it to continue to be level

Employment Levels:

- The majority of respondents report level or increased employment numbers for Q2 2007 compared to the previous quarter
- While the employment outlook for the Q3 2007 remains positive overall, 16% expect headcount numbers to fall

The outlook for capital expenditure and R&D spend for Q3 2007 is level for the majority of respondents

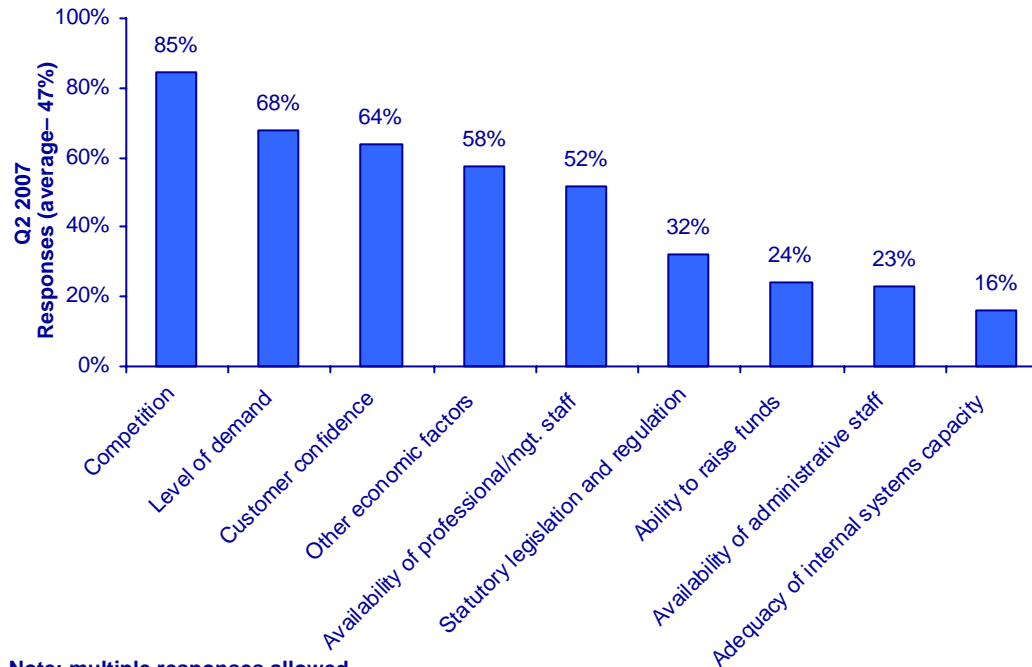
Note: Percentages may not add up to 100% due to rounding

Competition and level of demand are the top two concerns for respondents over the next 12 months

Factors Perceived to Limit Development / Adversely Affecting Business in the Next 12 Months

Which of the following are likely to limit your ability to develop your business in the next 12 months?

Q1 2007 Responses (average—51%)



Note: multiple responses allowed

Commentary

- Competition is now the main concern that is likely to limit business, cited by 85% of respondents
- The top three concerns for respondents, competition, level of demand and customer confidence, remain the same as those reported in the previous survey
- The number of respondents listing ability to raise funds as a concern has doubled from 12% in the last survey to 24% of respondents for Q2 2007
- Statutory legislation and regulation experienced the most substantial decline in responses, falling from 59% in Q1 2007 to 32% in the Q2 2007

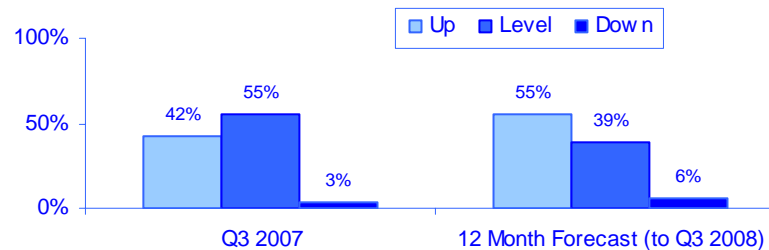
The number of responding companies perceiving statutory legislation and regulation to be a limiting factor has almost halved since the previous survey

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

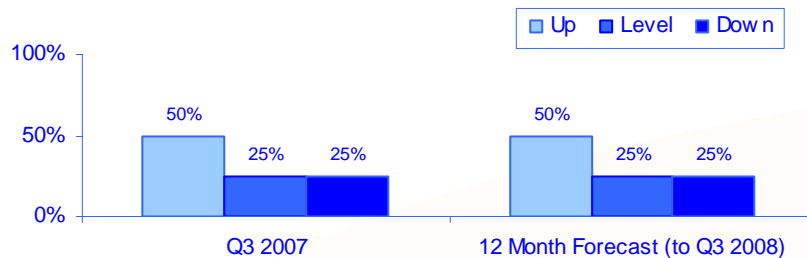
Most respondents within the main sectors have a level outlook for Q3 2007, while are more confident over the next 12 months

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

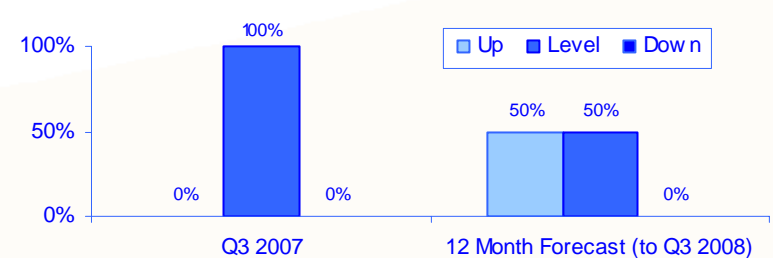
Overall Market View



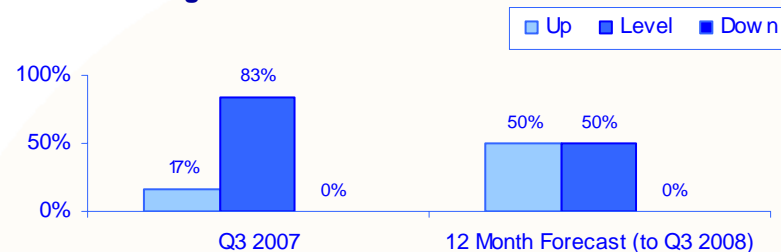
Banks and Building Societies



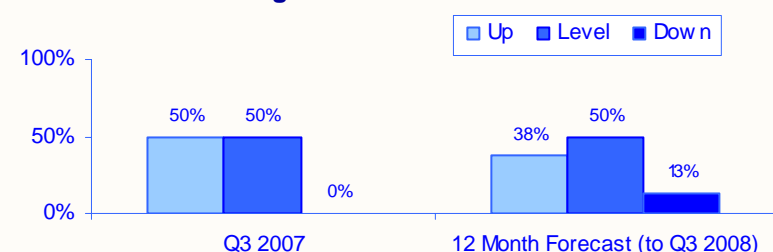
General Insurance, Life Assurance and Pensions



Asset Servicing



Investment Managers



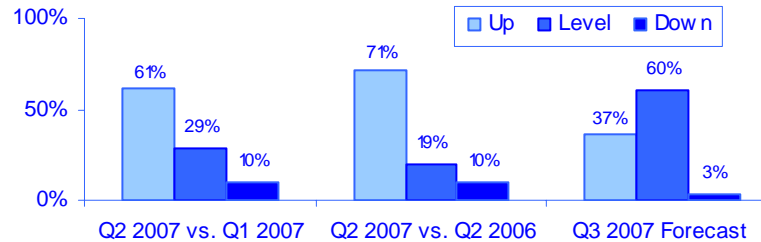
No respondents within General Insurance, Life Assurance and Pensions or Asset Servicing expect business prospects to decrease over the next 12 months

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

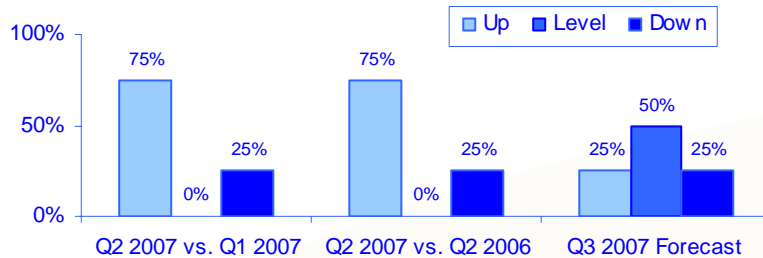
Three quarters of Banks and Building Societies respondents report that business levels have improved in Q2 2007

How do you rate the level of business?

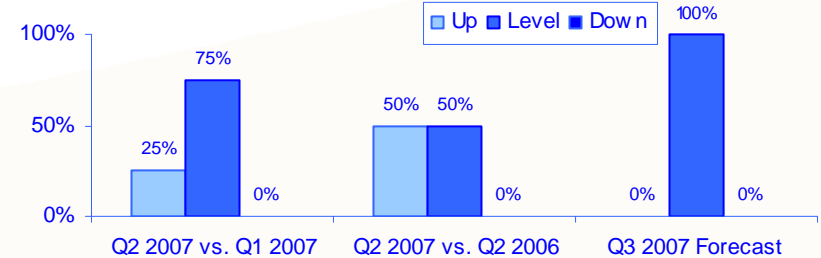
Overall Market View



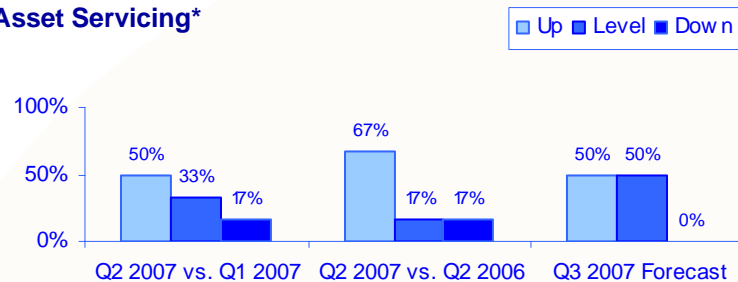
Banks and Building Societies



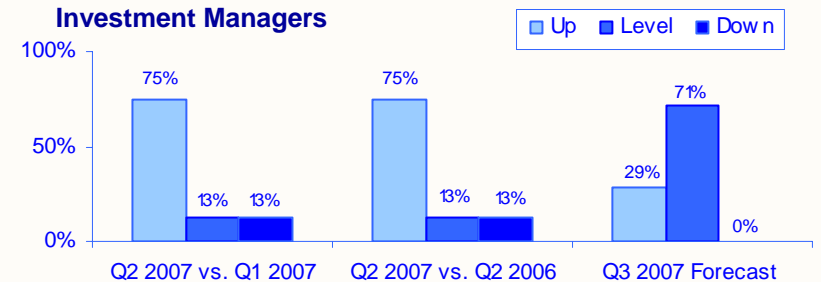
General Insurance, Life Assurance and Pensions



Asset Servicing*



Investment Managers



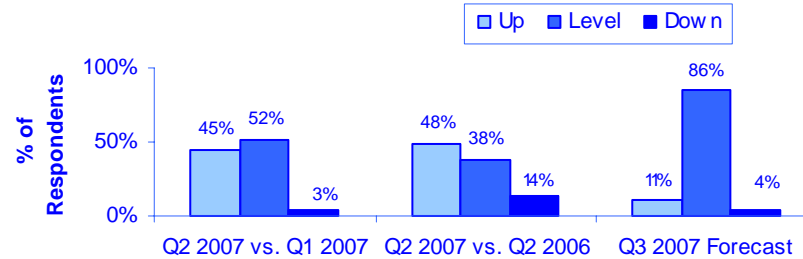
Respondents across all of the main sectors are more cautious about business levels for the next quarter than in the previous survey, with the majority expecting stable volumes

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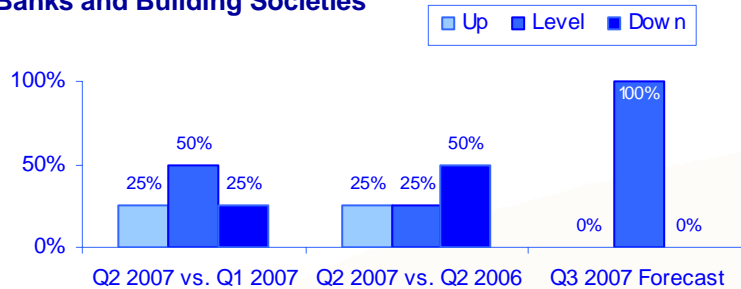
Most Investment Managers and General Insurance, Life Assurance and Pensions respondents report improved margins compared to Q1 2007

How do you rate your profit margin?

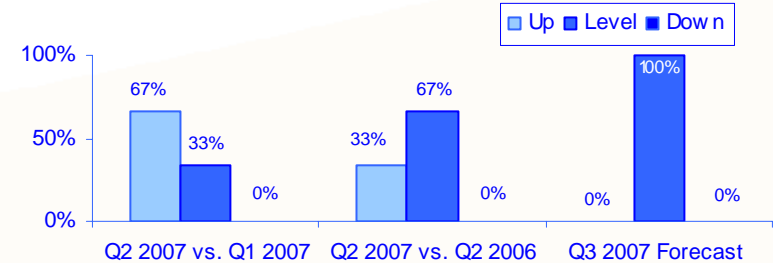
Overall Market View



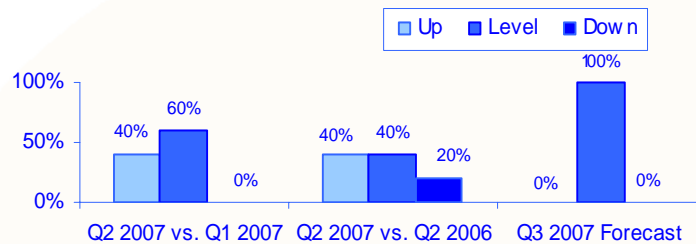
Banks and Building Societies



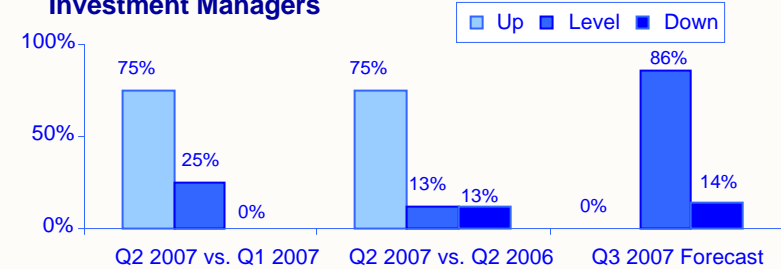
General Insurance, Life Assurance and Pensions



Asset Servicing



Investment Managers



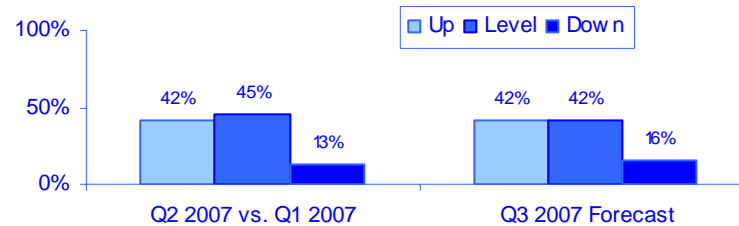
The majority of respondents across the main industry sectors have a level outlook for their profit margins in Q3 2007

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

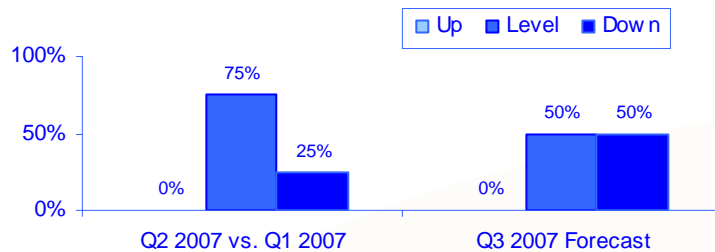
The majority of Asset Servicing and Investment Management respondents report increased employment levels for Q2 2007

How would you rate employment levels?

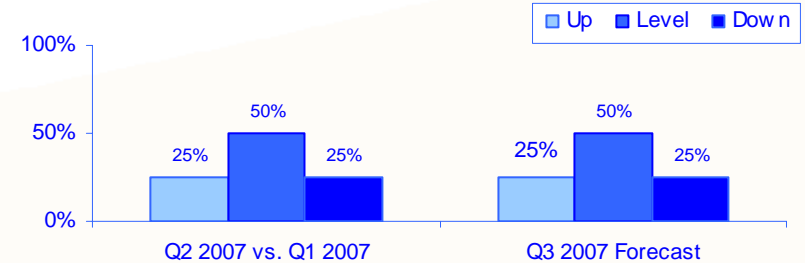
Overall Market View



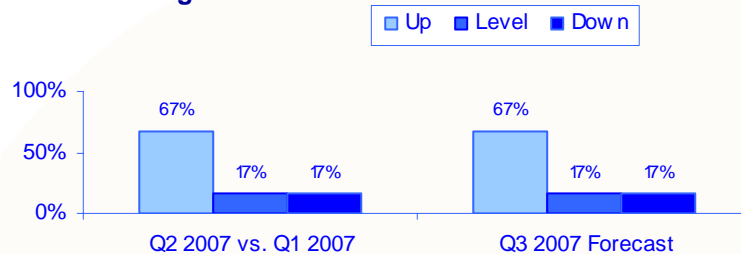
Banks and Building Societies



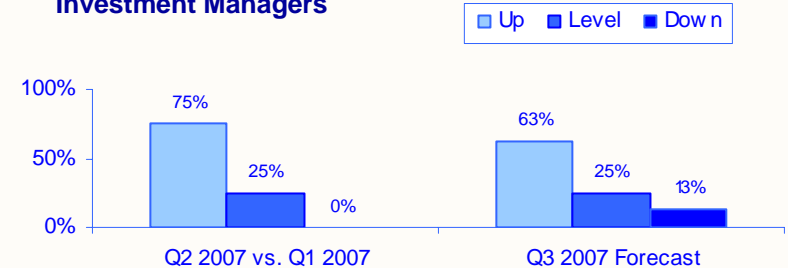
General Insurance, Life Assurance and Pensions



Asset Servicing



Investment Managers



No Banks and Building Societies respondents expect to increase their headcount in Q3 2007, in marked contrast to the other main industry sectors

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