

Scottish Financial Enterprise

Quarterly Survey of Scotland's Financial Services Industry

Sponsored by Capgemini

Quarter 3, 2007

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

Scottish Financial Enterprise – Q3 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

Given the current market conditions, business confidence is remarkably resilient in the Scottish financial services industry

Summary results from across Scotland's financial services industry

General Business Confidence

- Overall business confidence remains stable for most respondents in Q3 2007
- Around one third of responding companies expect increased business confidence for Q4
- Over the next 12 months, more than half of respondents believe their prospects will improve whereas only 7% believe that their prospects will decline
- Business confidence has been resilient in light of the current economic and market conditions

Business Volumes

- Over half (57%) of the respondents reported that their business volumes have improved compared to Q2, which is 20 percentage points higher than predicted in Q2
- Almost two thirds of respondents reported that their business volumes have improved compared to the same quarter last year
- While most respondents expect increased or stable volumes in Q4, almost one in five expect a fall

Profitability

- Just over half of respondents reported that their profit margins were level in comparison to the previous quarter while around one third reported an improvement - significantly more than the expectation set in Q2
- 46% of respondents saw their profit margins increase when compared to twelve months ago
- 65% of the respondents believe that their profit margins will remain level in Q4

Geographical Source of Business

- More companies than expected reported turnover growth increases for Scotland, Rest of the UK and the US, while the number of respondents reporting growth in turnover from Rest of Europe, Asia and Rest of World was lower than anticipated
- Compared to turnover in Q3 2007, the majority of respondents, across all regions, are less optimistic for an increase in turnover in Q4
- Although turnover from Asia has not experienced a decline during Q3, 17% of respondents expect a fall in turnover from Asia in the next quarter

Business Investment

- 12% of respondents expect a fall in capital expenditure in the next quarter, although no respondents reported reduced capital expenditure during Q3
- Almost three quarters (73%) of respondents expect that business investment will remain stable during Q4
- R&D spend for Q3 was exactly as forecast in the previous survey, with 88% of respondents keeping investment level and 12% increasing their spend

Employee Levels

- The majority of sectors reported increased employment levels in Q3 2007, particularly Asset Servicing & Investment Managers
- Only 7% of respondents reported a reduction in headcount during Q3, down from 13% in the previous quarter
- More than half of the respondents (54%) expect employment levels to remain stable in Q4 2007

Other Factors Affecting Business

- 'Other economic factors' is the main concern for most respondents, with sub-prime issues and dollar weakness specifically stated by some respondents
- Customer confidence and level of demand are particular concerns for the Life and Pensions, Asset Servicing and Investment Management sectors
- 'Ability to raise funds' has decreased as a concern since last quarter, however for the Banks and Building societies sector this is an increasing concern
- Competition continues to be a significant factor for respondents in Life and Pensions, Asset Servicing and Investment Management sectors

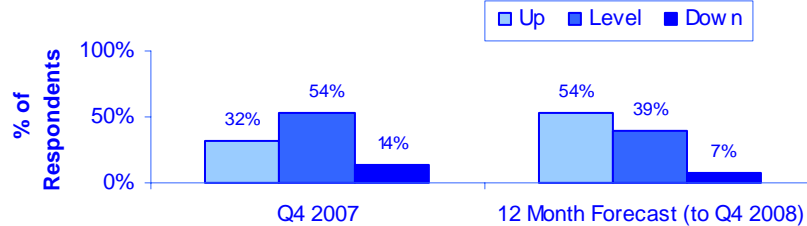
The majority of respondents are optimistic about their business prospects over the next twelve months

Note: The full extent of sub-prime losses was not evident when this data was collected

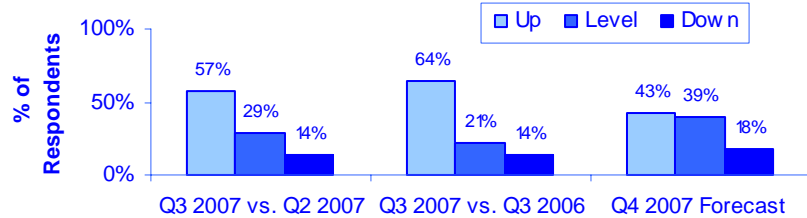
Business confidence is stable for Q4, while most companies expect prospects to improve in the year ahead

Data on Business Confidence, Volume and Profitability

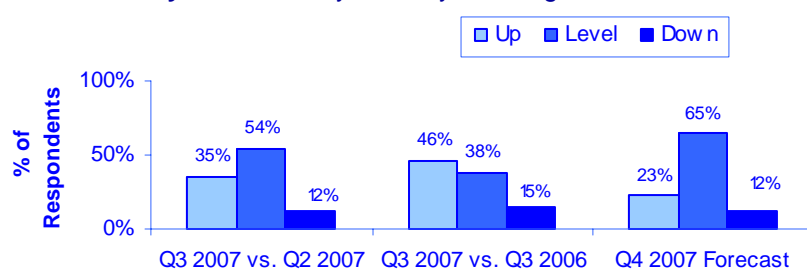
- General Business Confidence:** What is your overall confidence in your company's business prospects?



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



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



Commentary

General Business Confidence:

- When comparing business confidence with the previous quarter, overall confidence remains stable
- Around one third (32%) of responding companies expect increased business confidence for Q4
- Over the next 12 months, more than half of respondents (54%) believe their prospects will improve whereas only 7% believe that confidence will decline

Volume:

- 57% of respondents reported that their business volumes have improved in Q3, which is 20 percentage points higher than predicted in the Q2 survey
- 64% of the respondents reported that their business volumes have increased compared to the same quarter last year
- While most respondents expect increased or stable volumes in Q4, almost one in five anticipate a fall

Profitability:

- Around one third of respondents saw an improvements to their profit margins, which was 24 percentage points more than the expectation set in Q2
- Almost half of the respondents (46%) have reported that their profit margins have increased in Q3 2007
- 65% of the respondents believe that their profit margins will remain steady in the next quarter

Q4 volume and profit forecasts are improving or stable for most respondents, however over the next quarter more respondents than in the previous quarter expect a decline for both of these measures

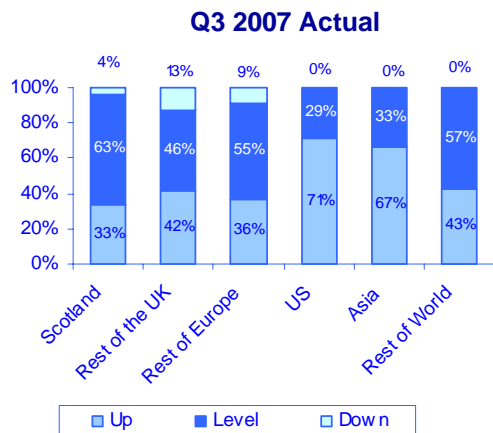
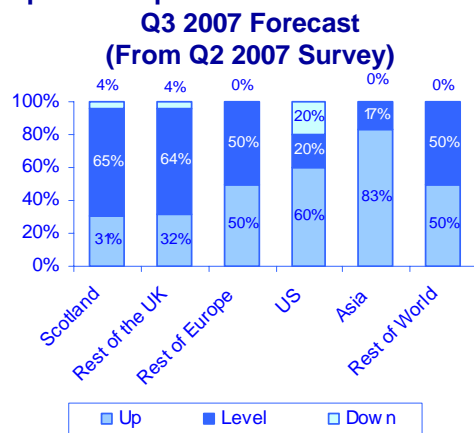
Note: Survey date was collected in October 2007, before the full extent of sub-prime losses were evident

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

The number of respondents reporting an increase in turnover was higher than forecast in three of the six regions

Q3 2007 Source of Turnover

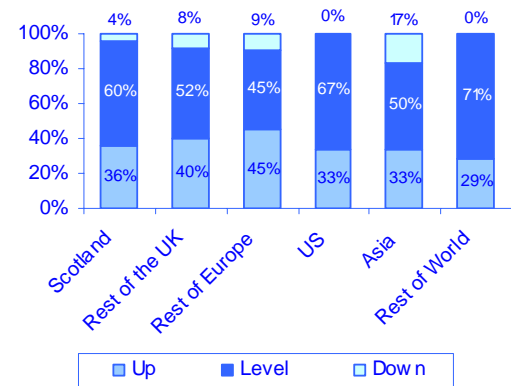
How would you rate your turnover from each of the following countries in the previous quarter?



- Compared to Q2, more companies than expected reported turnover growth increases from Scotland, Rest of the UK and the US
- The number of respondents reporting growth in turnover from Rest of Europe, Asia and Rest of World was lower than anticipated
- While one fifth of respondents predicted a decline in turnover from the US in Q2, no companies reported a fall, with 71% reporting an increase in turnover from the US for Q3
- In line with expectations from Q2, no respondents saw a fall in turnover growth from Asia or Rest of World for Q3 2007

Expected Q4 2007 Source of Turnover

What change do you expect to see this quarter?



- Compared to the number of respondents reporting increased turnover levels in Q3 2007, the majority of respondents are less optimistic across all regions for increased turnover in Q4
- Although there was no reported reduction in turnover from Asia in Q3, the Q4 outlook is quite mixed
- None of the respondents forecast a decrease in turnover in the US, which is in line with Q3

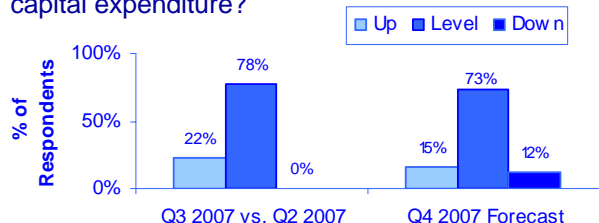
Although the number of respondents reporting reduced turnover from Asia has not increased in Q3, only 33% are now expecting an increase in turnover from Asia in Q4, versus a forecast of 83% in the Q2 survey

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

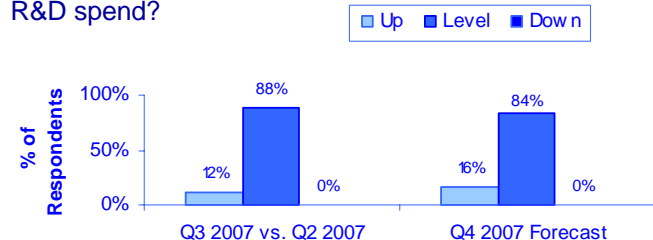
The majority of respondents continue to report stable business investment and R&D spend for Q3 2007

Data on Business Investment, R&D and Employment Levels

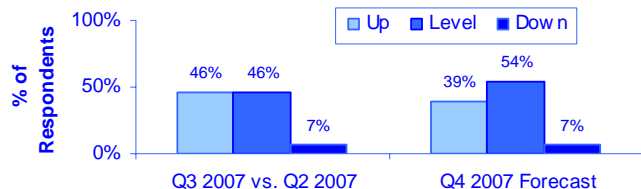
- Business Investment:** How would you rate your levels of capital expenditure?



- 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:

- 12% of respondents are expecting a fall in capital expenditure in the next quarter, although no respondents reported reduced capital expenditure during Q3
- 73% of the respondents expect that business investment will remain stable during Q4
- In Q3, 22% of the respondents reported an increase in business investment, which was similar to the previous survey

Research and Development:

- R&D spend for Q3 was exactly as forecast in the previous survey, with 88% of respondents keeping investment level and 12% increasing their spend
- Going forward, none of the respondents anticipate a decrease in their R&D spend in Q4, while 16% of respondents expect increased spend, up four percentage points on Q3

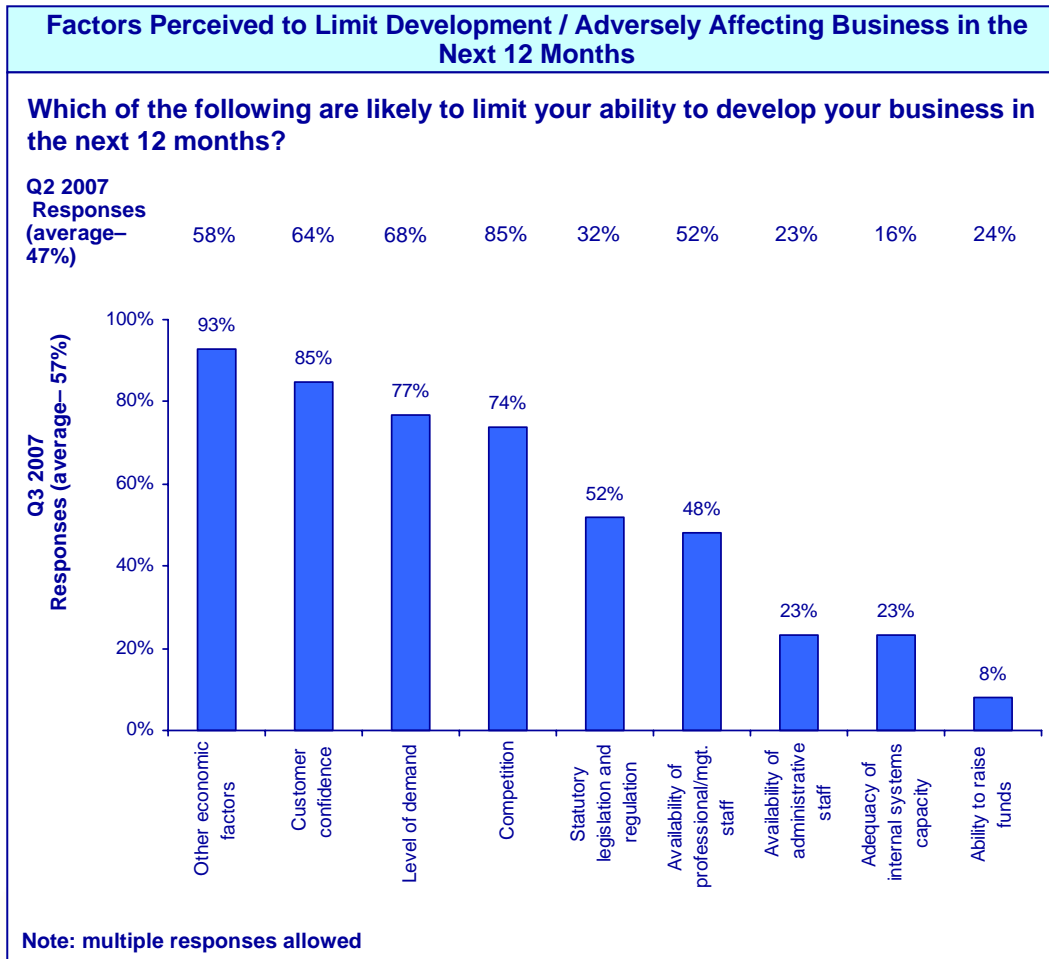
Employment Levels:

- The majority of the respondents reported increased or level employment levels for Q3
- Only 7% of respondents reported a reduction in headcount during the third quarter, down from 13% in the previous survey
- More than half of the respondents (54%) forecast employment levels to remain level in Q4 2007

Most respondents anticipate steady or increasing employment levels during Q4 2007

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

'Other economic factors' is now cited as the main concern by almost all respondents for limiting business development



Commentary

- 'Other economic factors' is now the main concern for most companies, with respondent comments including:
 - "The effect of the sub-prime issues in the marketplace are likely to continue to effect us for the next quarter"
 - "US Dollar weakness is hitting profit margins"
- Customer confidence, level of demand, and statutory legislation and regulation are all increasing concerns for respondents this quarter when compared to Q2
 - Customer confidence and level of demand is of particular concern to the Life and Pensions, Asset Servicing and Investment Management sectors
- The ability to raise funds, which was an increasing concern for companies in the previous two surveys, has decreased significantly during Q3, however it continues to be a concern for the majority of Banks and Building society respondents
- The top concern from the previous survey, competition, continues to be a significant factor for respondents in the Life and Pensions, Asset Servicing and Investment Management sectors

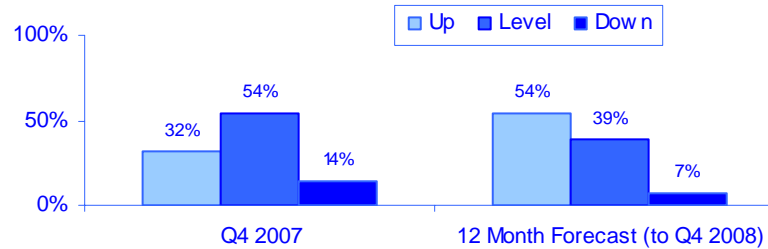
The wider economic conditions are likely to be the main concern for most respondents going forward in 2008

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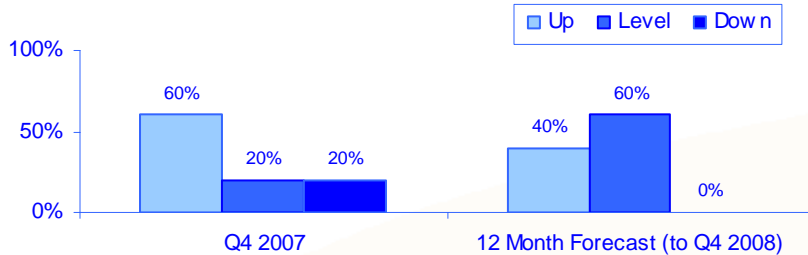
While most respondents report steady confidence in business prospects for Q4 the findings within each sector are quite mixed

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

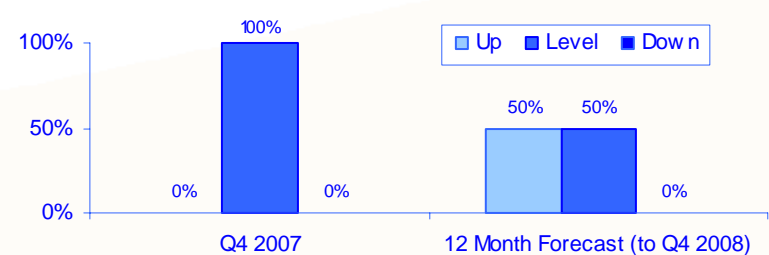
Overall Market View



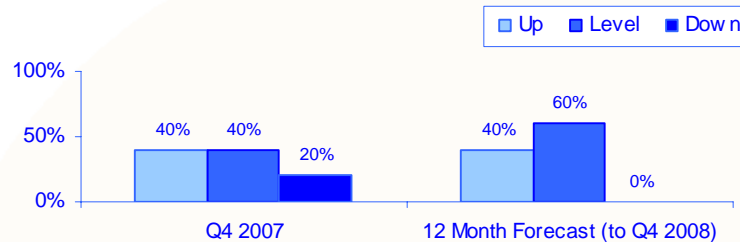
Banks and Building Societies



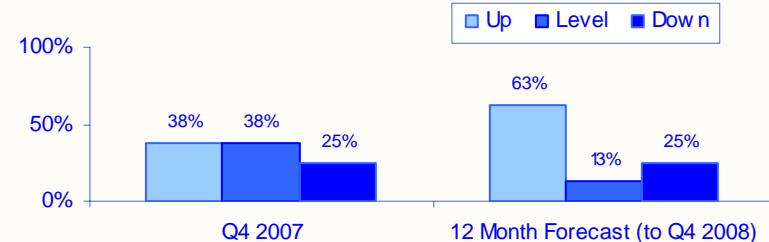
General Insurance, Life Assurance and Pensions



Asset Servicing



Investment Managers



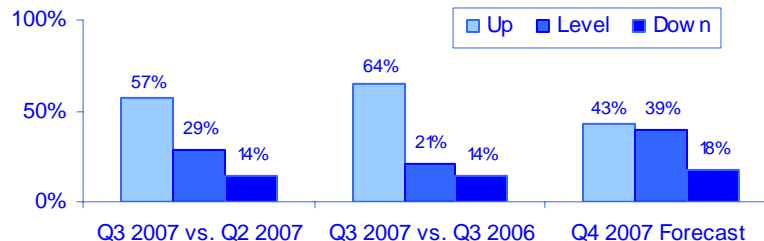
The year ahead outlook is generally positive for most sectors, however views are more polarised among Investment Management respondents

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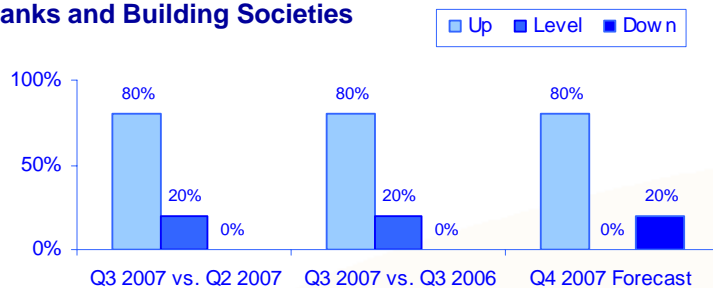
The majority of respondents report increased business levels since the last quarter

How do you rate the level of business?

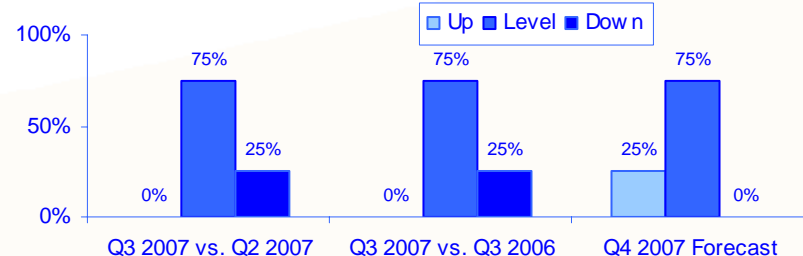
Overall Market View



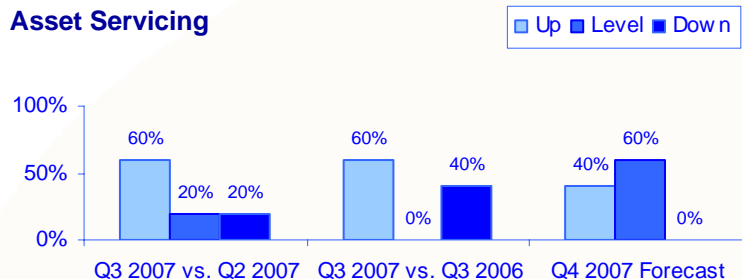
Banks and Building Societies



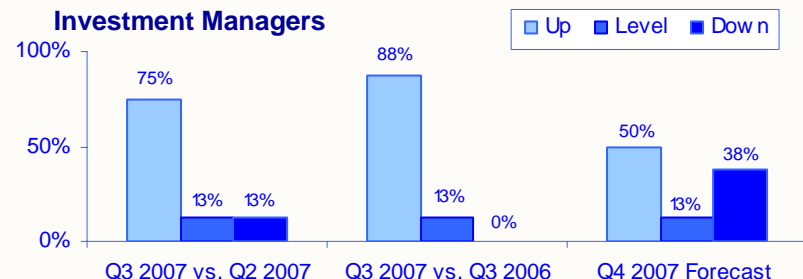
General Insurance, Life Assurance and Pensions



Asset Servicing



Investment Managers



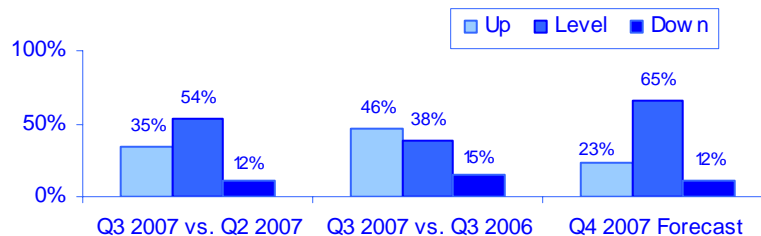
With the exception of a minority of respondents within the Investment Management and Banks and Building Society sectors, respondents expect increasing or level business volumes in Q4 2007

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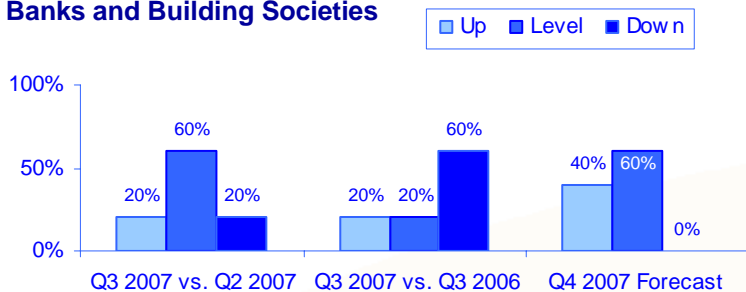
Most respondents have experienced steady or increased profit margins since the last quarter

How do you rate your profit margins?

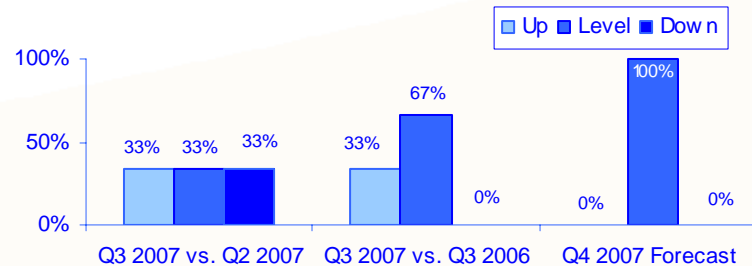
Overall Market View



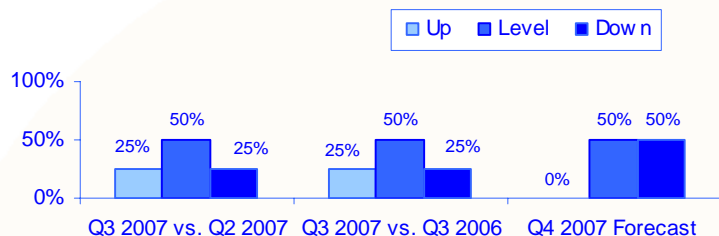
Banks and Building Societies



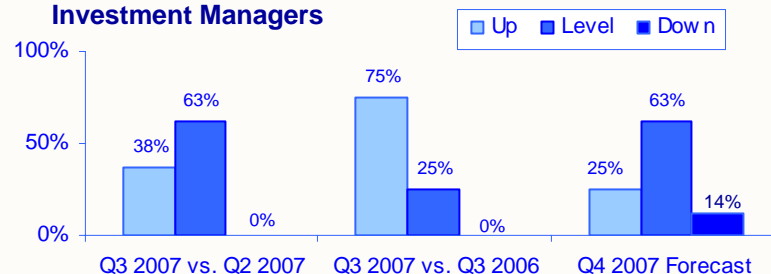
General Insurance, Life Assurance and Pensions



Asset Servicing



Investment Managers



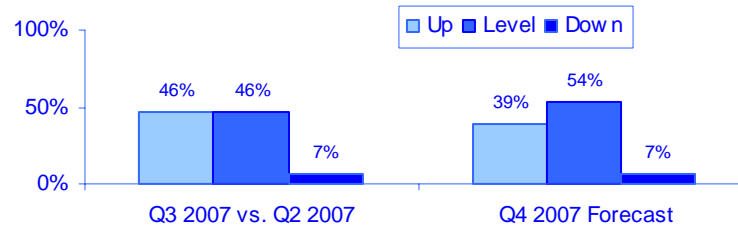
Profitability is expected to be broadly stable for most respondents in Q4, while Banks and Building Societies are the most optimistic about improved margins

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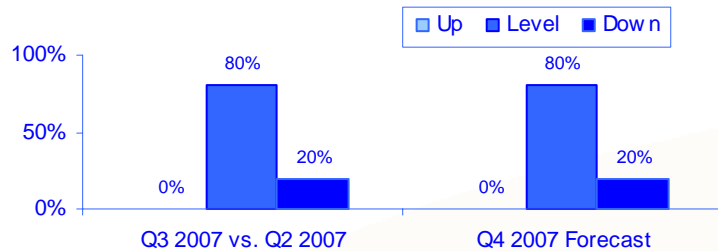
Most respondents reported increased employment levels in Q3 2007, particularly for Asset Servicing & Investment Management

How would you rate employment levels?

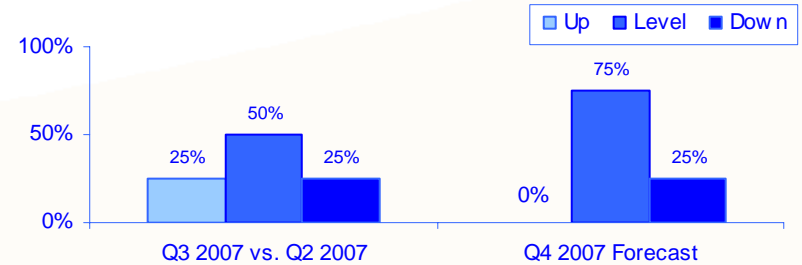
Overall Market View



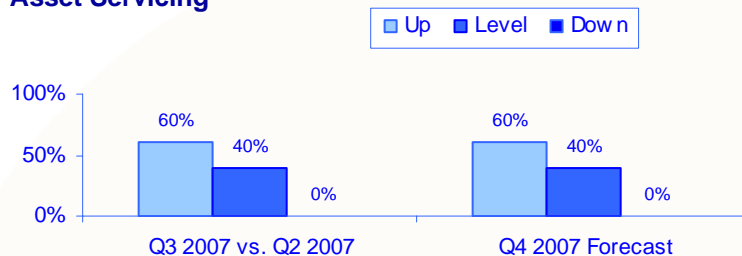
Banks and Building Societies



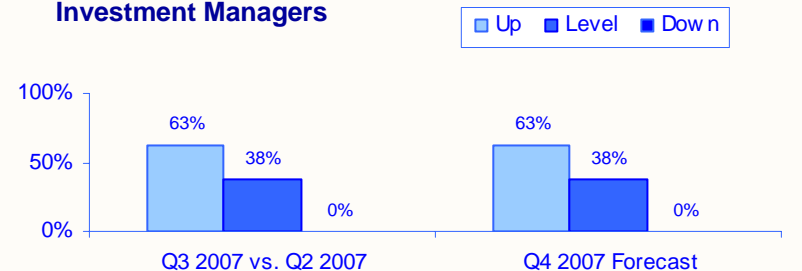
General Insurance, Life Assurance and Pensions



Asset Servicing



Investment Managers



Banks and Building Societies and Life and Pensions respondents forecast largely stable employment for Q4 while more Investment Managers and Asset Servicing respondents expect an increase

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