

**Scottish Financial Enterprise**

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

**Sponsored by Capgemini**

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**Quarter 2, 2005**

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

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## *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 key 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

# The consensus is that business has improved in the last quarter and will continue to strengthen in Q3 2005

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## *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 more optimistic than in last quarter's survey

### Business Volumes

- Business volume is up on last quarter and on the same period last year
- The general view is that business activity will continue to increase into the next quarter

### Profitability

- Profitability was also up on last quarter for a large proportion of businesses, which exceeded expectations from the last survey
- The expectation is that margins will remain steady into the next quarter

### Geographical Source of Business

- Increases in turnover were broadly driven by growth in all regions over the last quarter
- Scotland and the US are expected to offer the lowest prospects for growth in Q3 2005

### Business Investment

- Business investment last quarter remained level, which is in line with expectations from the last survey
- The general view is that investment will remain level into Q3 2005

### Employee Levels

- Headcount over the last quarter remained level with the previous quarter. In the last survey, the consensus was that it would rise
- Overall, respondents expect to see an increase in headcount during the next quarter

### Other Factors

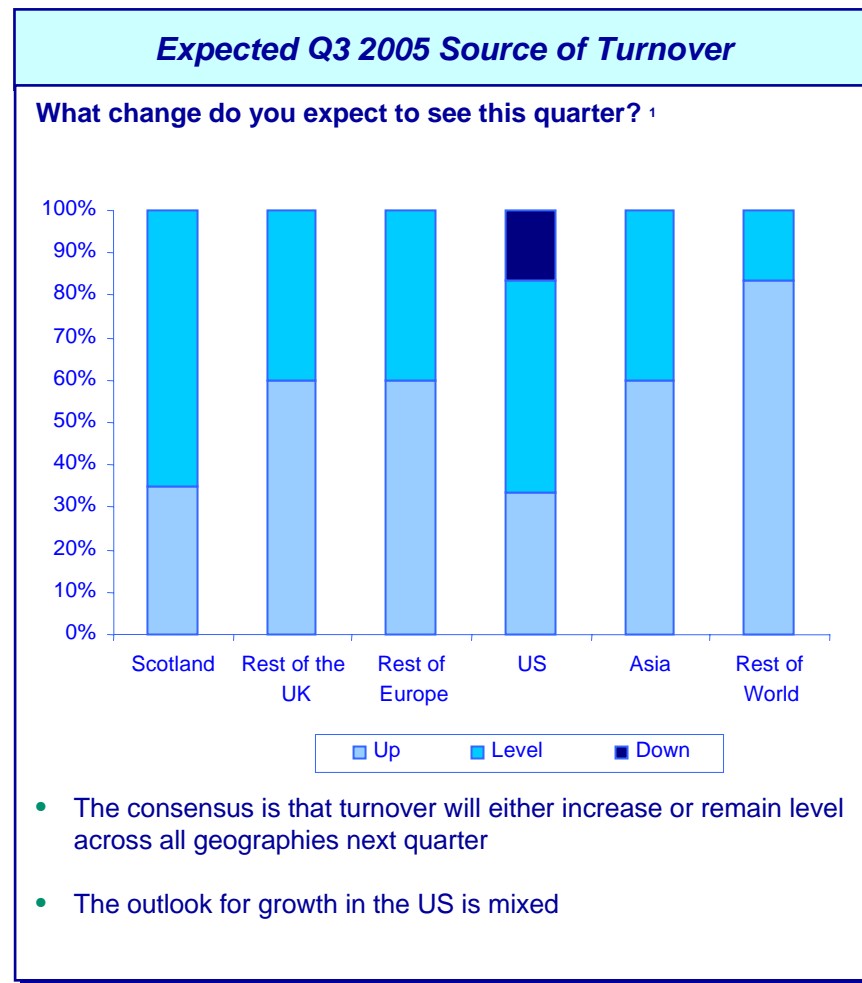
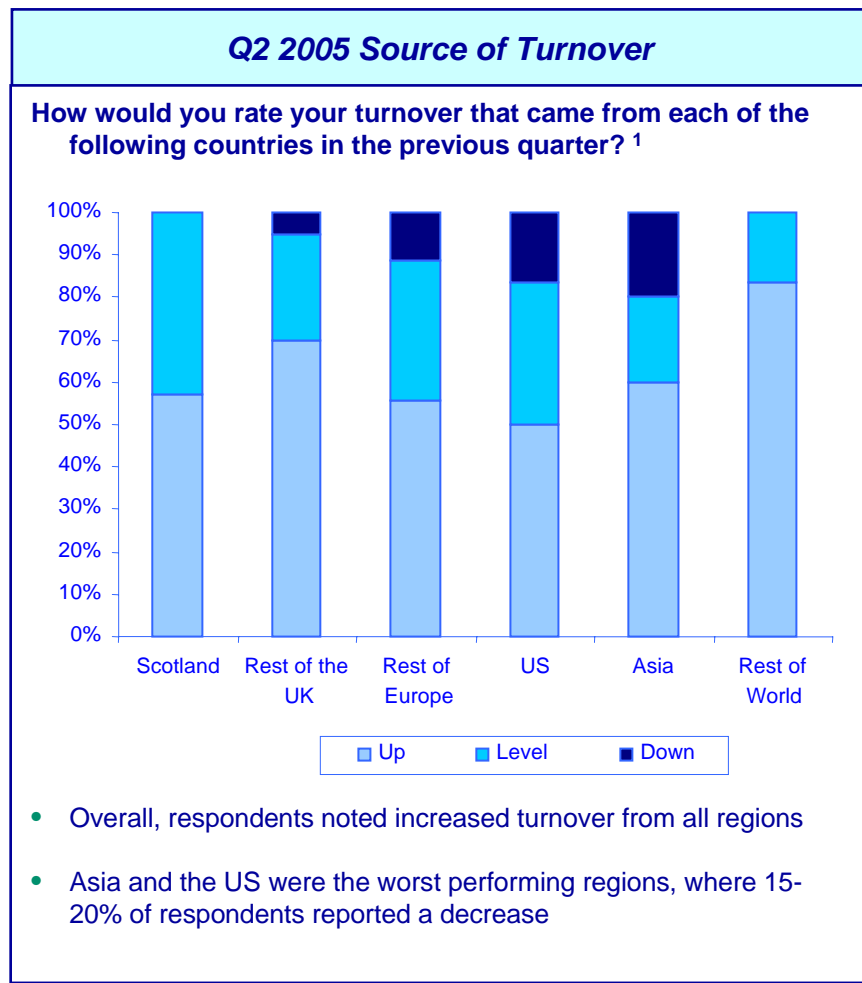
- Level of demand and customer confidence are seen as the main factors limiting business growth in the next 12 months. The same two factors were viewed as the most significant in the last survey
- The ability to raise funds, competition and statutory legislation and regulation have all increased in significance since the last survey

# Most businesses are optimistic about overall prospects for the next year and expect volumes to increase over the next quarter

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> <table border="1"> <caption>General Business Confidence Data</caption> <thead> <tr> <th>Period</th> <th>Up (%)</th> <th>Level (%)</th> <th>Down (%)</th> </tr> </thead> <tbody> <tr> <td>Q3 2005</td> <td>75%</td> <td>21%</td> <td>4%</td> </tr> <tr> <td>12 Month Forecast (to Q3 2006)</td> <td>71%</td> <td>29%</td> <td>0%</td> </tr> </tbody> </table> <p><b>Volume:</b> Excluding seasonal variations, how would you rate the level of business?</p> <table border="1"> <caption>Volume Data</caption> <thead> <tr> <th>Comparison</th> <th>Up (%)</th> <th>Level (%)</th> <th>Down (%)</th> </tr> </thead> <tbody> <tr> <td>Q2 2005 vs. Q1 2005</td> <td>75%</td> <td>21%</td> <td>4%</td> </tr> <tr> <td>Q2 2005 vs. Q2 2004</td> <td>75%</td> <td>17%</td> <td>8%</td> </tr> <tr> <td>Q3 2005 Forecast</td> <td>67%</td> <td>29%</td> <td>4%</td> </tr> </tbody> </table> <p><b>Profitability:</b> How would you rate your margin?</p> <table border="1"> <caption>Profitability Data</caption> <thead> <tr> <th>Comparison</th> <th>Up (%)</th> <th>Level (%)</th> <th>Down (%)</th> </tr> </thead> <tbody> <tr> <td>Q2 2005 vs. Q1 2005</td> <td>42%</td> <td>38%</td> <td>20%</td> </tr> <tr> <td>Q2 2005 vs. Q2 2004</td> <td>45%</td> <td>38%</td> <td>17%</td> </tr> <tr> <td>Q3 2005 Forecast</td> <td>29%</td> <td>67%</td> <td>4%</td> </tr> </tbody> </table>	Period	Up (%)	Level (%)	Down (%)	Q3 2005	75%	21%	4%	12 Month Forecast (to Q3 2006)	71%	29%	0%	Comparison	Up (%)	Level (%)	Down (%)	Q2 2005 vs. Q1 2005	75%	21%	4%	Q2 2005 vs. Q2 2004	75%	17%	8%	Q3 2005 Forecast	67%	29%	4%	Comparison	Up (%)	Level (%)	Down (%)	Q2 2005 vs. Q1 2005	42%	38%	20%	Q2 2005 vs. Q2 2004	45%	38%	17%	Q3 2005 Forecast	29%	67%	4%	<p><b>General Business Confidence:</b></p> <ul style="list-style-type: none"> <li>• Three quarters of respondents report increased levels of confidence about prospects for this quarter</li> <li>• Almost three quarters believe that the next 12 months will see further improvements in prospects</li> <li>• This represents a more optimistic view than the last quarterly survey</li> </ul> <p><b>Volume:</b></p> <ul style="list-style-type: none"> <li>• Three quarters of respondents felt that last quarter's business was up on the previous quarter. This is in line with expectations from the last survey</li> <li>• The same proportion agreed that business was up on last year</li> <li>• Two thirds believe that this quarter will see a greater level of business than last quarter</li> </ul> <p><b>Profitability</b></p> <ul style="list-style-type: none"> <li>• Margins last quarter were broadly up on the previous quarter, with over 40% of respondents citing an improvement. The same was true when compared with last year</li> <li>• Two thirds believe that margins this quarter will remain the same; just under one third expect to see an improvement</li> </ul>
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***There is less certainty that increased volumes will be translated into improved margins.***

# Last quarter saw turnover increasing in all geographies and this trend is expected to continue



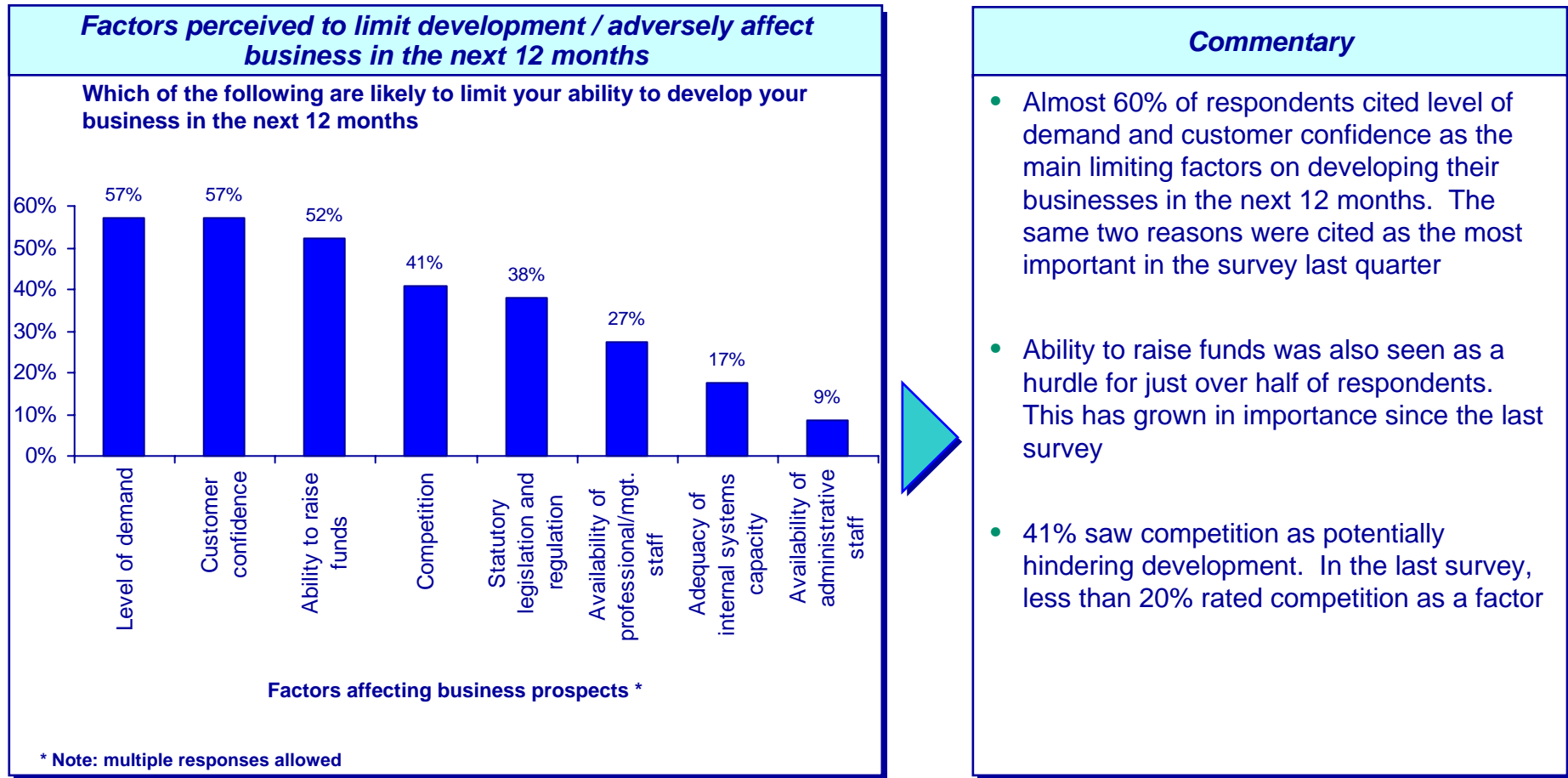
**The US and Scotland appear to offer the smallest prospects for growth in Q3 2005.**

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

# Investment has increased slightly over the last quarter and is expected to remain steady into Q3 2005

Data on Business Investment, R&D and Employment Levels	Comment																																				
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<p><b><i>Half the respondents believe headcount will rise in Q3 2005.</i></b></p>																																					

# Level of demand and customer confidence are still seen as the main factors likely to impact business in the next 12 months

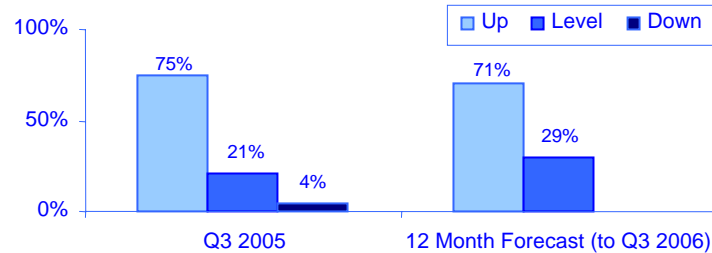


**Ability to raise funds, competition and statutory legislation/regulation have emerged as more significant factors since the last survey.**

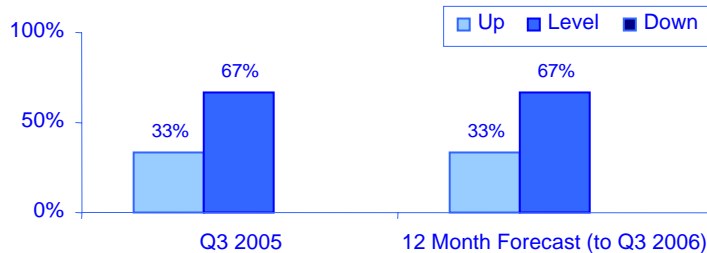
# The Asset Servicing sector is particularly confident about growth in business prospects for Q3 2005 and the following year

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

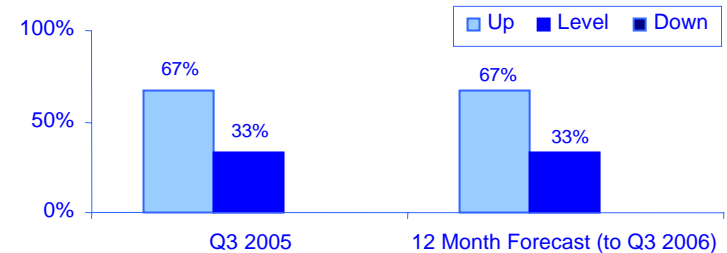
Overall market view



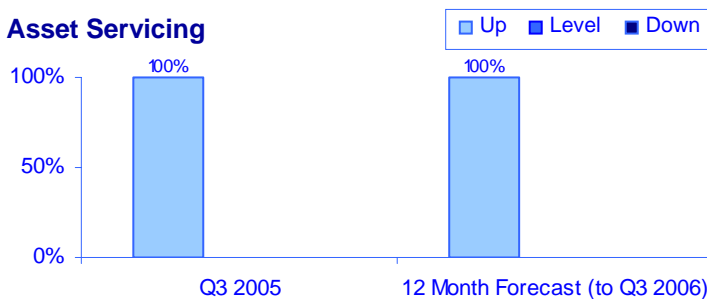
Banks and Building Societies



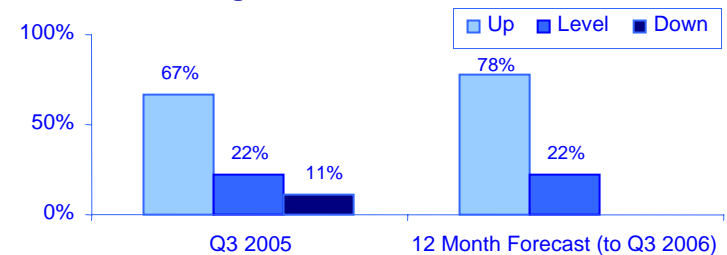
General Insurance, Life Assurance and Pensions



Asset Servicing



Investment Managers

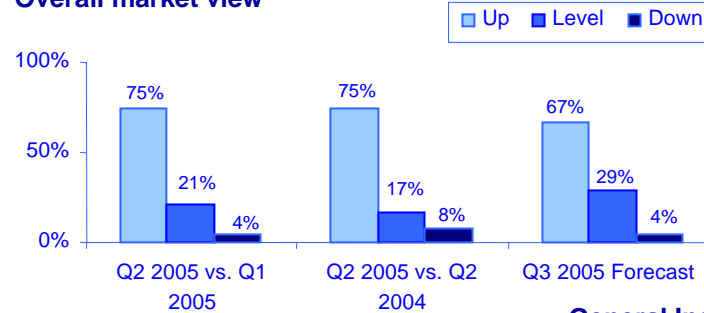


*Confidence is also high across the other sectors.*

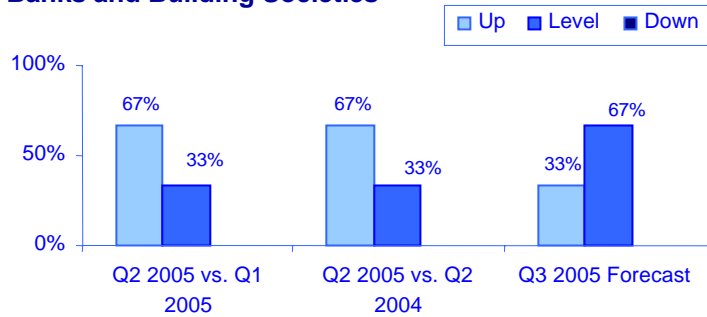
# Most key sectors saw increased business last quarter versus Q1 2005 and Q2 2004

## How do you rate the level of business?

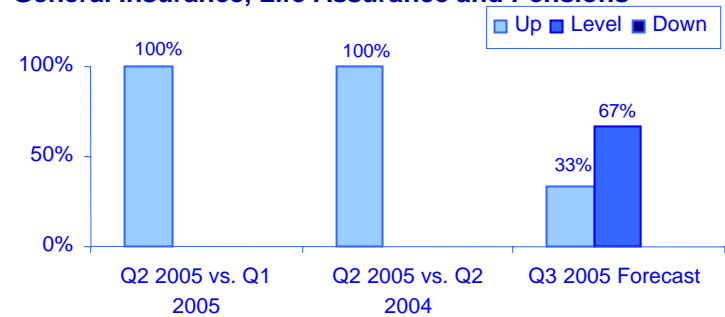
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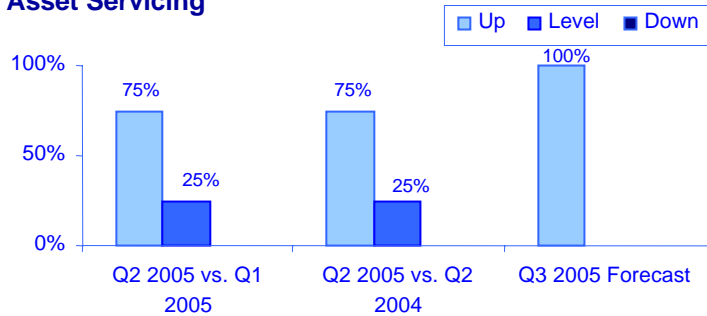
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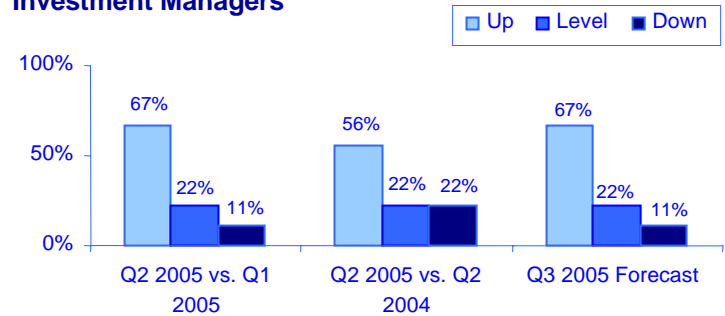
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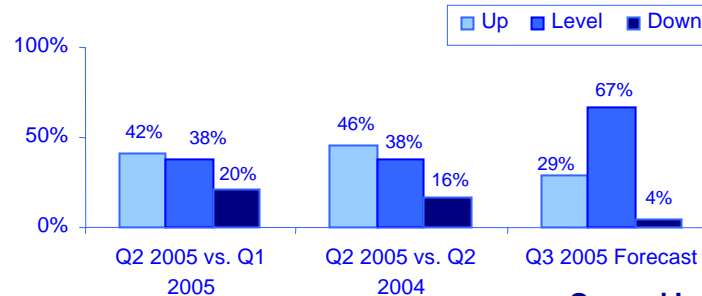


**Virtually all sectors and respondents expect level or improved business levels in Q3 2005.**

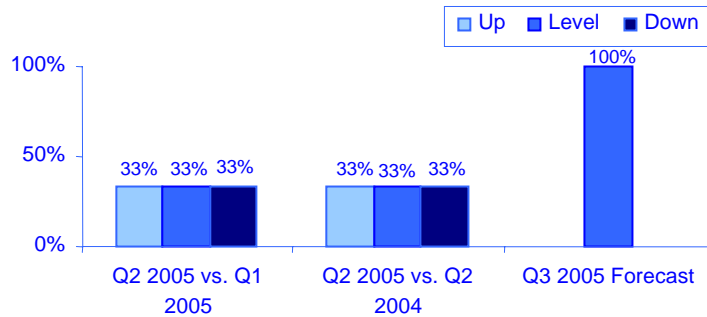
# Profitability has been mixed over the last year across and within industry sectors

## How do you rate your profit margin?

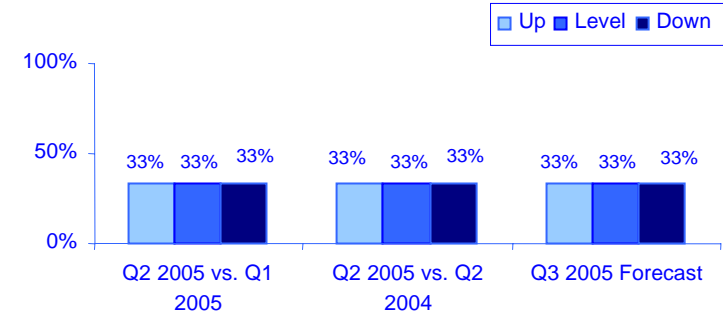
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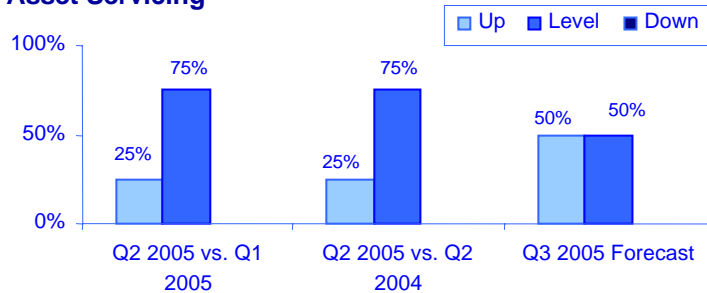
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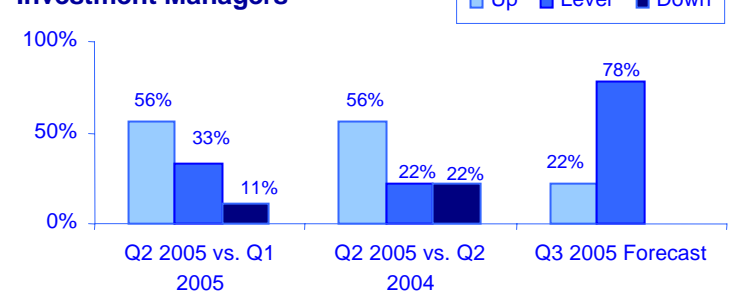
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Asset Servicing



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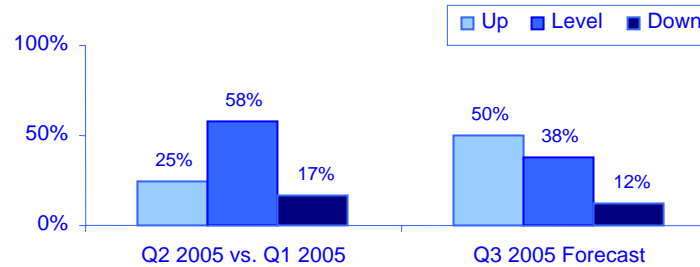


**The majority forecast for Q3 2005 is for profits to remain level or increase slightly.**

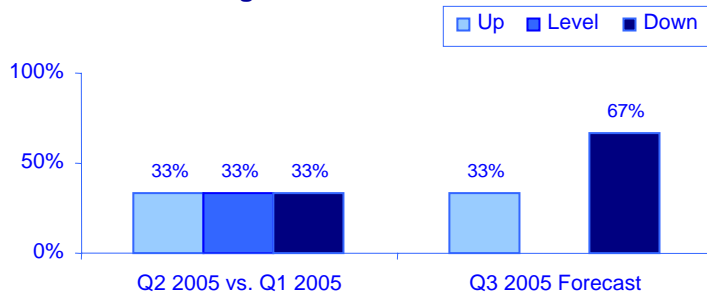
# Investment Managers are the most confident that headcount levels will rise next quarter

## How would you rate employment levels?

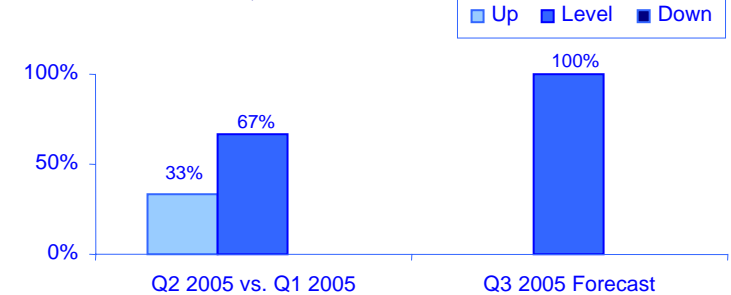
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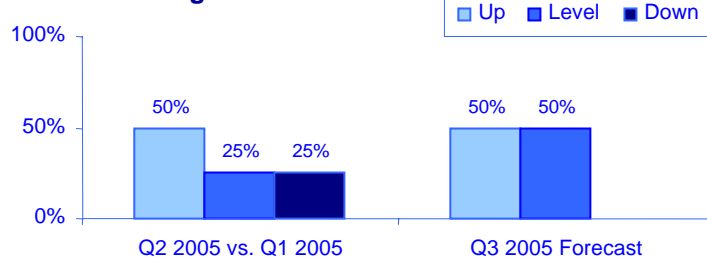
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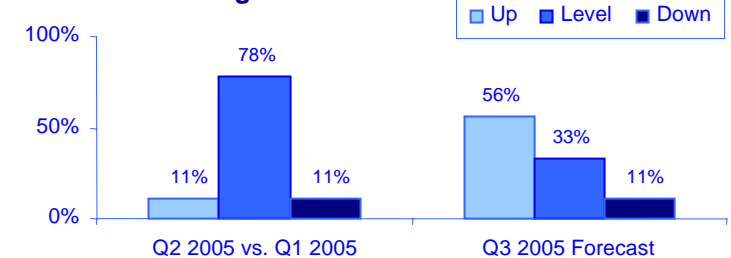
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Asset Servicing



Investment Managers



**The majority of Banks & Building Societies are expecting a decrease in headcount next quarter.**