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FINANCIAL SERVICES

Take Note

STERLING
BY ORDER OF THE BOARD OF DIRECTORS



Alison

CHIEF EXECUTIVE
1st DECEMBER 199



Owen Kelly

Take Note

Owen Kelly, Chief Executive, Scottish Financial Enterprise

Despite the economic climate of late, Owen Kelly, Chief Executive, Scottish Financial Enterprise takes note that there can be optimism in the financial services sector in Scotland.

There are a number of issues facing Scotland's financial services industry, which, we need to keep in mind, remains in the international big league of financial centres. Dominant among them is the international financial crisis and its continued impact on the economy. Scotland was one of many global financial centres to feel a direct loss, to its business and to its reputation, as the crisis unfolded. Support from the government, and strengthened leadership in the affected institutions, were vital as two of our banks began to restructure. That restructuring continues, within a changing political and regulatory environment globally, at EU and at UK levels. Our banks will adapt as necessary, and are committed to learning lessons from the past.

But we still enjoy considerable strengths in our industry, which remains a major part of the Scottish economy. One of those strengths is our diversity. For example, we have an impressive range of internationally-operating fund managers such as Aberdeen Asset Management, SWIP, Standard Life Investments and Baillie Gifford, along with many smaller companies who, between them, manage in the region of £500 billion worth of funds.

Our pensions and insurance sectors too, have strong and longstanding reputations. Scottish Widows is a globally-recognised brand, with its origins, and those of the insurance industry altogether, dating back to 1744 when two local clergymen from Edinburgh's Greyfriars Kirk, and a smart

mathematician, devised an insurance scheme to protect widows and orphans. It was so successful it was adopted worldwide as the industry model.

In addition to that great history, I am also heartened by current innovation. Our industry continues to seek ways of improving services for customers and offering new options. Tesco Bank is determined to bring new ideas to the market, and they chose Scotland as their headquarters, because they know we have a skilled and competitive workforce. Virgin Money has also recently established a base here, and HSBC has very recently announced a significant increase in its Scottish operation.

Another notable success is the growth in asset servicing, through overseas banks tapping into that same skilled workforce and expertise. We now have a sector which remains on course for growth.

Our location and infrastructure are also important. Our close ties with the City of London bring mutual benefits – having the world number one financial centre within a few hours reach is hugely attractive to industry players.

Overall, I would strongly argue that, as we work through the downturn, the strengths of Scotland's financial services industry have been retained. We have good, committed, innovative people. Our challenges for the future will be in continuing to provide a first class service to customers, and competing on the global stage in new and emerging markets.

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Scottish Financial Enterprise
24 Melville Street
Edinburgh
EH3 7NS
Tel: 0131 247 7700
www.sfe.org.uk

Expansion Despite Recession

The Co-operative Bank has gone from strength to strength in Scotland recently, proving that there can be growth in an unsure economic climate.



[Renowned for its ethical and environmental policies, The Co-operative Bank has a long track record of funding a wide range of renewable energy projects, with onshore wind being a particular specialism.]

The Co-operative Bank has seen its reputation rise in recent years, thanks to its fair, ethical and responsible attitude to developing long-term relationship banking.

The Corporate Banking Division has remained open for business throughout the economic downturn, continuing to provide a comprehensive portfolio of corporate banking services.

The Bank's success, despite the current difficult market, is particularly apparent in Scotland, where its corporate banking centre in Glasgow relocated to larger premises, and the opening of a new corporate banking centre in Edinburgh as part of its extensive expansion programme.

Corporate business is brisk at both centres, through both ongoing liaison with existing customers and dealing with enquiries from new clients.

David Bell, Senior Corporate Manager at the Edinburgh Corporate Banking Centre, said: "Our arrival demonstrated that The Co-operative Bank is committed to, and values, the corporate sector because we are continuing with our expansion programme and investing in experienced staff at a time when many of the other banks are contracting their operations."

Craig Allison, Business Development Manager at Glasgow's corporate banking centre, said: "We've been inundated with enquiries from both prospective customers and the professional market. What's interesting is that businesses are less concerned about pricing – they want a bank that will listen, take each case on its merits and is still prepared to lend."

Renowned for its ethical and environmental policies, The Co-operative Bank has a long track record of funding a wide range of renewable energy projects, with onshore wind being a particular specialism.

Scotland has one of the fastest growing renewable energy sectors, with about 20 per cent of electricity generated being renewable energy. The Bank has provided a large proportion of its renewable energy funding to projects in Scotland, including the funding of a wind turbine at Balnagoon, Aberdeenshire, the financing of an innovative turbine at Braidenhill Farm near Glasgow (the first turbine of its kind in the UK) and the funding of a windfarm at Turriff, Aberdeenshire.

While the reputation of The Co-operative Bank and The Co-operative Insurance

Company might owe much to their ethical heritage, the Bank's growing range of specialist services, including its public sector specialism, has contributed to its growing popularity.

In recent years, the Bank has become inextricably linked to local authorities and the wider public sector in Scotland. It has a large local authority customer base and housing associations are now moving their payment collection arrangements to the Bank following the negotiation of a framework agreement with the highly respected Procurement for Housing group.

Currently, The Co-operative Bank's Payment Collection is used by 11 of the 33 Scottish local authorities, which helps councils deliver lower costs without compromising the quality of their provision.

With high levels of new business activity in the Bank's Scottish corporate banking centres, a growing market share of local authority customers, the opportunity to work with housing associations, and a track record of funding renewable energy projects in the country, The Co-operative Bank has laid the groundwork for long-term success in Scotland.



Glasgow Corporate Banking Centre: The Glasgow team (left to right) - Ruth McAllister, Craig Allison, Danny Dickson and Gillian Ashwood.



Edinburgh Corporate Banking Centre: The Edinburgh team (left to right) - David Bell, Craig Ramsay



Edinburgh Corporate Banking Centre
Craig Ramsay, Business Development Manager
Tel: 07595 567279
Glasgow Corporate Banking Centre
Craig Allison, Business Development Manager
Tel: 07885 844042
www.co-operativebank.co.uk/corporate

Positive Initiatives

Tesco Bank is the UK's largest supermarket bank. It aims to bring competition to the wider banking market by becoming a full-service retail bank offering new products and services, providing customers with more choice and great value.

The future growth will be careful and considered; as a result of listening to what its customers want. Whilst this is an incredibly exciting opportunity, it's important to remember it is not a novice. It has been in this business for 12 years and has built a team with vast experience of banking and financial services in Scotland and indeed across the world. Tesco Bank has nearly six million customer accounts across 28 financial products and services and already has the third largest ATM network in the UK, with over 3,000 cash points, 2.4 million insurance policies, and more than 2 million credit cards. And half a million people have savings accounts with it.

Tesco Bank is now owned outright by Tesco after the RBS share was bought out during 2008 for £950 million. Its approach is going to be evolutionary rather than revolutionary. It does not underestimate the task of building a new bank. In fact, it will be mid-to-late 2011 before it has set up the systems to allow it to trade on an independent basis. It owes it to its customers and shareholders to approach the development of its business in a prudent, cautious manner where risk is carefully managed.

Tesco Bank's products bring convenience, simplicity and good value to complex markets. Like everything at Tesco, its services are about lifetime loyalty.



It offers excellent value, which is not just price-based. It will reward loyalty rather than penalise it.

And it provides great customer service – in markets often associated with poor service. It will reward staff for the quality of their service and allow them time to investigate and resolve customer queries.

It will use excellent Tesco customer insight to really understand what customers want from a bank. It is listening carefully to what customers want and will develop these products and channels with them in mind.

Tesco Bank is passionate about the future of Scotland and supporting the local community. It is creating employment opportunities and investing over £1 million in a new sports programme for primary school children.

It got off to a great start. At the start of the first year it had 250 employees based at its Edinburgh headquarters. In March of that year it announced another 200 jobs in the city and in August it announced a customer service centre in Glasgow, which will create another 1000 jobs.

Tesco always aims to make a positive contribution to the communities it operates in, both in the way it does business and by supporting community initiatives.

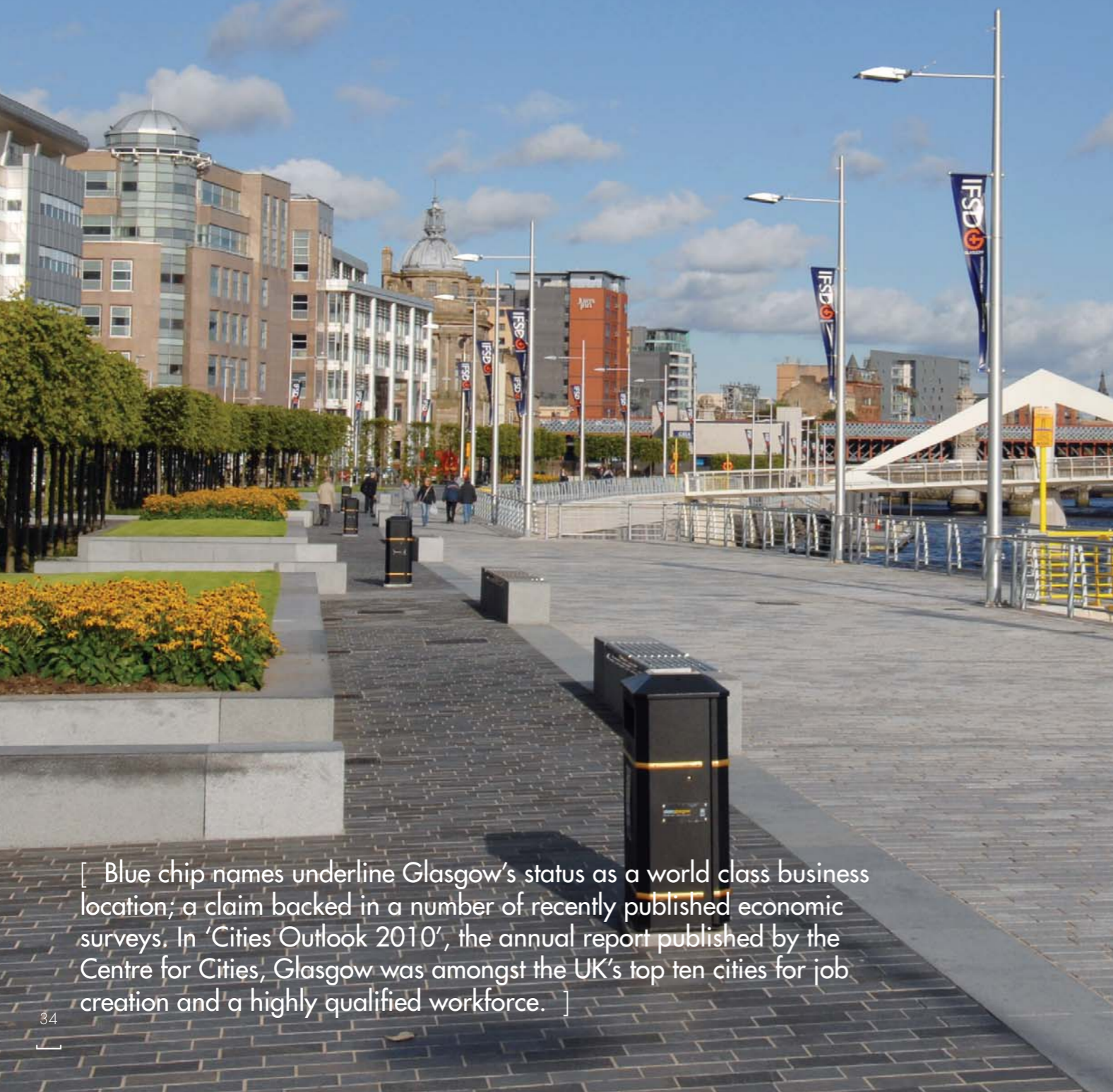
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Tesco Bank
Interpoint Building
22 Haymarket Yards
Edinburgh
EH12 5BH
www.tescofinance.com

Glasgow's IFSD – A Leading European Location for Financial Services

The International Financial Services District (IFSD) in Glasgow is a 10-year project to create a highly attractive inward investment location for leading international financial services companies. Here we look at the progress made to date and herald the partnership between public and private sectors that has transformed this corner of Glasgow city centre.



[Blue chip names underline Glasgow's status as a world class business location; a claim backed in a number of recently published economic surveys. In 'Cities Outlook 2010', the annual report published by the Centre for Cities, Glasgow was amongst the UK's top ten cities for job creation and a highly qualified workforce.]

In 2001, Glasgow City Council and Scottish Enterprise launched a plan to create the IFSD, and so far this partnership has harnessed over £1 billion of investment, more than 90 per cent from the private sector which, in turn, has brought more than 15,000 jobs into the area.

Despite recent global economic difficulties, the IFSD in Glasgow has continued to make progress on a number of important fronts.

Blue chip inward investors

During 2009, at least 1,400 new jobs were announced in Glasgow's financial services sector.

This includes Tesco Bank's announcement of over 800 new jobs at a brand new customer centre in Glasgow and an earlier announcement of 500 new jobs from esure.

They are among an impressive who's who of major financial institutions in the IFSD, including JP Morgan, Morgan Stanley, Barclays Wealth, First Data International, Direct Line, Churchill Insurance, Aon, ACE Insurance, Clydesdale Bank, AXA and many, many more.

A great place to do business

These blue chip names underline Glasgow's status as a world class business location; a claim backed in a number of recently published economic surveys.

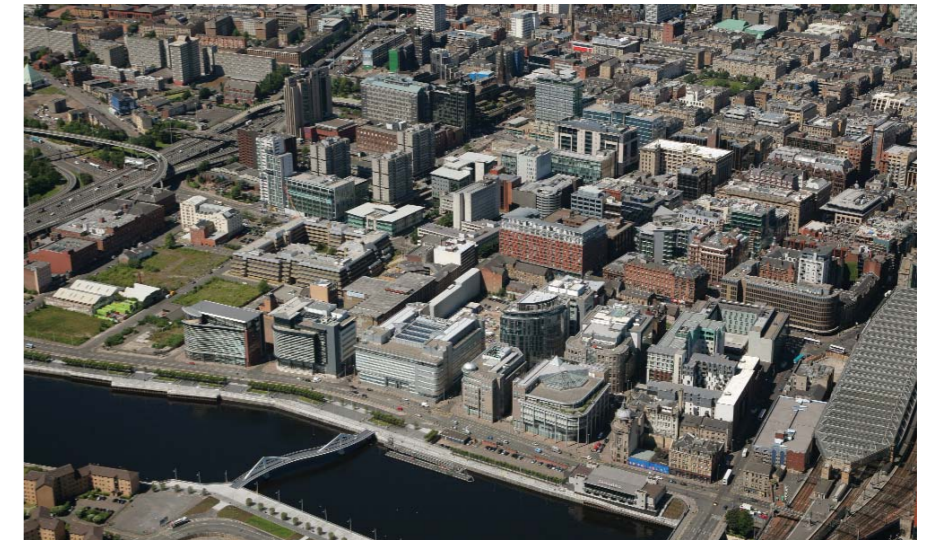
In 'Cities Outlook 2010', the annual report published by the Centre for Cities, Glasgow was amongst the UK's top ten cities for job creation and a highly qualified workforce.

In another study published by totaljobs.com, Glasgow emerged as one of the UK's most attractive destinations for international job seekers.

Developing skills

One of Glasgow's biggest attractions for employers is its pipeline of skilled labour. A great example, opened in 2009, at the city's Mitchell Library is the dedicated study and reference centre, which supports insurance and personal finance employees to study for professional qualifications.

Strathclyde Business School retained its status as Scotland's premier business school in the latest ranking by the Financial Times, and Glasgow Caledonian University has been named a Securities and Investment Institute Centre of Excellence, recognised for its demonstration of leadership in academic education.



Glasgow's IFSD from the air

Property pipeline

The completion last year of well over one million sq ft of Grade A office space in the IFSD underlines the transformation and regeneration of what was previously a run down city centre area.

And the level of Grade A office development in the district continues to impress. This year, a further 800,000 sq ft of brand new, speculative Grade A development in the IFSD will be completed.

This offers inward investors and expanding local companies a range and choice of ready to move in offices not available in most other UK cities.

More links

There has been substantial public sector investment in creating the right environment in the District. A great example is Glasgow's newest bridge, the Tradeston Bridge, linking the south bank of the Clyde with the IFSD and the city centre, providing an improved cycle and pedestrian route.

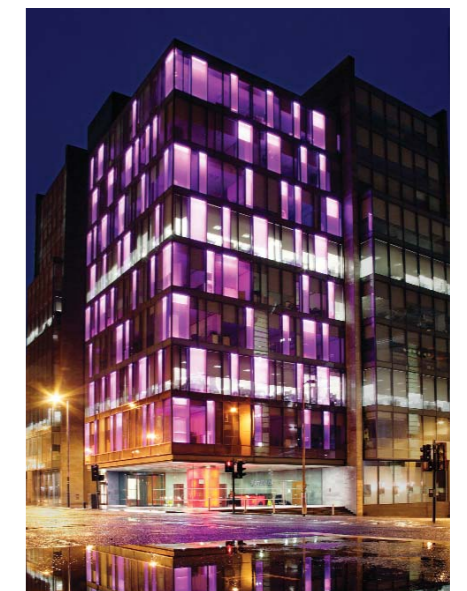
With three international airports within 45 minutes drive, excellent motorway links and the UK's largest suburban rail network outside London, Glasgow's IFSD offers impressive transport and commuter networks.

The ten storey Sentinel development has 83,000 sq ft of Grade A space occupied by prominent financial companies such as Aon and Morgan Stanley.

Future prospects

Commenting on the prospects for Glasgow's IFSD, Jim Watson, Director, Financial Services, Scottish Enterprise, said: "Glasgow will not remain immune to the worldwide difficulties in the financial services sector but its skilled labour pool and competitively priced operating costs mean the city is comparatively well placed to withstand the rigours of the current economic circumstances and compete effectively with other locations."

For more information, visit www.ifsdglasgow.co.uk



IFSD
Tel: 0141 842 3565
Email: ifsd.enquiries@scotent.co.uk
www.ifsdglasgow.com

Scotland's Reform

Ben Thomson, Chairman of Reform Scotland, talks about setting up the think tank and the important work it has carried out since its inception.



Ben Thomson

It is the habit of senior people in the Scottish business community every so often to have a lunch to talk about politics and the economy. A couple of hours is usually enough to solve the problems of Scotland, then back to work and, within a few minutes, you are too busy to carry out any of your great intentions.

It is the reason why when I stopped in 2007 being chief executive of the Edinburgh based investment bank, Noble Group, I decided to set up a think tank, Reform Scotland.

Every mature political democracy needs sources of good, well researched ideas to help form opinion and drive policy changes. Reform Scotland is a non-party aligned organisation with a political board

represented by senior members of all the four main parties in Scotland. This is particularly important in a country like Scotland where proportional representation voting tends to lead to coalition or minority governments where policy changes need at least two parties to reach a consensus. Our aim is to educate, promote and provide confidence to politicians and other influencers such as civil servants, the press and the unions to accept changes that could help provide an environment for economic growth and improve the efficiency of the public sector.

Our basic philosophy is for smaller, less centralised government, greater diversity and competition, and more choice and personal responsibility. Luckily, this covers a broad spectrum acceptable to all the major political parties.

In the last two years Reform Scotland has started to take an influential role in helping to drive policy change. For instance, our three papers on fiscal devolution have helped find a middle course between those that wish for no change in our constitutional structure and those that want full independence. Our approach has been more pragmatic; we believe that from an efficiency and accountability standpoint those that spend our money should be responsible for raising it; so that if the UK Government spends £20 billion on Scotland and the Scottish Government spends £30 billion, then each should be accountable for raising what they spend.

Our detailed proposals on how this might work both formed part of the discussion of the Calman Review supported by the Labour, Conservative and Liberal Democrat parties, as well as the National Conversation supported by the SNP government.

We have now covered the policy areas of taxation, government expenditure, quangos, charities, local government, infrastructure, transport, health education and criminal justice with papers to come out soon on energy, planning and digital communication. We produce papers, host seminars and events, and meet with politicians, journalists and civil servants to promote the work we produce.

If you are interested further in Reform Scotland, then please visit our website at www.reformscotland.com. Not only does it have all our papers, bulletins and media coverage, you can also subscribe for our daily news round-up of Scottish headlines that is emailed to you each morning. The good news is it is totally free.

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Reform Scotland
The Executive Centre
7-9 North St David Street
Edinburgh
EH2 1AW
Tel: 0131 524 9500
www.reformscotland.com