

The Financial Services Index 4th quarter 2014

The EY FSI rises, in line with
rising business confidence



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Executive Summary

The EY Financial Services Confidence Index rises in Q414

- ▶ The EY FSI increased from 58 index points in the third quarter to 66 in the fourth quarter of 2014.
- ▶ The increase can be attributed to noticeably higher retail banking confidence (rising from 50 to 60 index points), sharply higher investment banking confidence (64 to 89) and somewhat more confident life insurers (67 to 81). Only asset manager confidence declined in the fourth quarter, from 52 to 33 index points.

Rising retail bank confidence tracks stronger revenue and profits

- ▶ The rise in retail banking confidence (from 50 to 60 index points) can mainly be attributed to surging income growth and continued strong profits growth.
- ▶ Stronger income growth benefitted from both higher interest and non-interest income.
- ▶ Total expenses soared, although this was in line with previous expectations.
- ▶ Credit losses edged slightly upwards, but remain nevertheless well contained by historical standards.

Investment banking confidence benefits from rebounding profits

- ▶ With the exception of corporate finance, all other business lines reflected slower activity levels.
- ▶ Notwithstanding the slowdown in business volumes, income soared, with both interest and non-interest income rising sharply.
- ▶ Cost growth remained steady in the fourth quarter.
- ▶ After two quarters of modest increases, net profits growth rebounded strongly in the fourth quarter.

Asset manager confidence tracks weaker stock markets

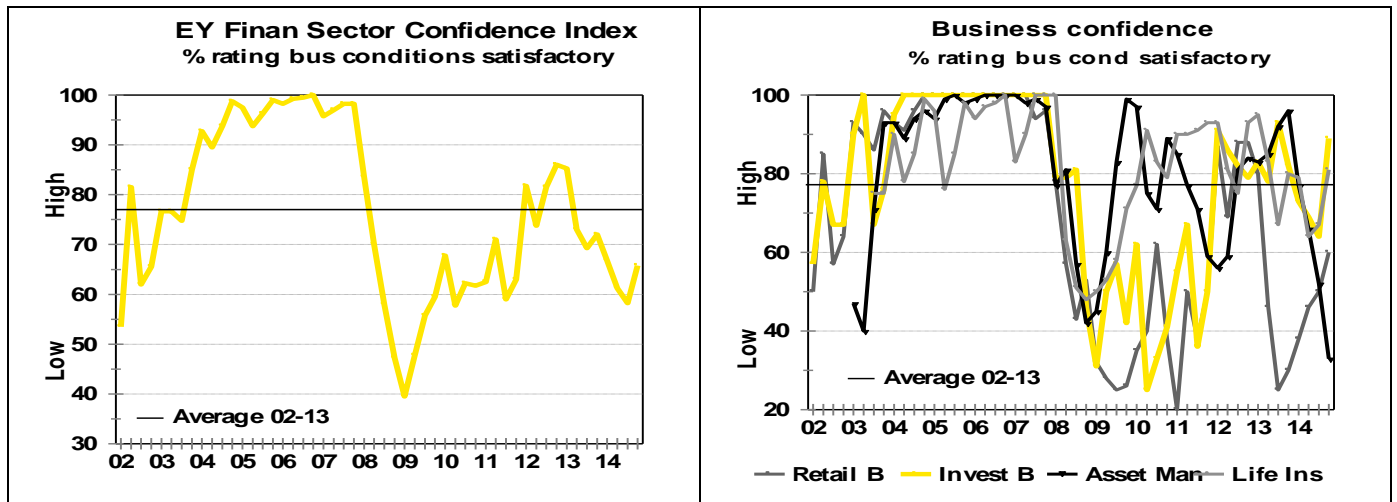
- ▶ Asset manager confidence dropped from 52 index points in the third quarter to 33 in the fourth quarter of 2014.
- ▶ The decline in confidence could primarily be attributed to weakening net inflows and resultant softening of profit growth.
- ▶ These adverse developments hurt large managers much more than their smaller counterparts.
- ▶ Income growth in the second half of 2014 was noticeably weaker than it was in the first half of the year.

Life insurer confidence rises in line with stronger premiums

- ▶ Premium income accelerated further in 4Q14, stimulated by new business premium income.
- ▶ Benefit pay-outs increased at the same pace as the first nine months of 2014.
- ▶ Administration and marketing expense growth remains high.
- ▶ After two quarters of exceptionally strong growth, net profits growth eased in the fourth quarter.

The EY Financial Sector Confidence Index rises in 4Q14

The EY Financial Sector Confidence Index (EY FSI) increased from 58 index points in the third quarter to 66 in the fourth quarter of 2014^{1,2}. Despite this increase, the EY FSI remains below the long-term average of 77. This stronger confidence is not necessarily in sync with economic fundamentals, but does match stronger business confidence, which rose to 51 index points, up from 46 in the third quarter of the year.



The percentage of respondents answering “satisfied” to the question “Are prevailing business conditions satisfactory or unsatisfactory?” is taken as the indicator of financial sector confidence.

The EY FSI reflects the unweighted average confidence of four segments of financial services, namely:

- ▶ retail banking,
- ▶ investment banking,
- ▶ asset management, and
- ▶ life insurance.

The fourth quarter increase in the EY FSI can be attributed to rises in retail banking (from 50 to 60), investment banking (64 to 89) and life insurance (67 to 81) confidence, which together more than made up for the decline in asset management (52 to 33) confidence. This is the first time since the first half of 2012 that the confidence of asset managers is the lowest of the four segments covered.

¹ During the fourth quarter of 2014, respondents were asked to provide their views on the estimated developments for the period October to December 2014 and their expectations for the period January to March 2015. To improve the readability of the report, we refer to the first period as “estimation of the fourth quarter of 2014” (4Q2014) and the second period as “expectations for the first quarter of 2015” (1Q2015).

² The Bureau for Economic Research (BER) at Stellenbosch University conducted the survey and processed the results on behalf of EY. The survey was conducted between 6 November and 4 December 2014. The results were processed on 4 December 2014. The number of responses processed was: retail banks (7), investment banks (6), asset managers (20) and life insurers (12).

Rising retail bank confidence tracks stronger revenue and profits

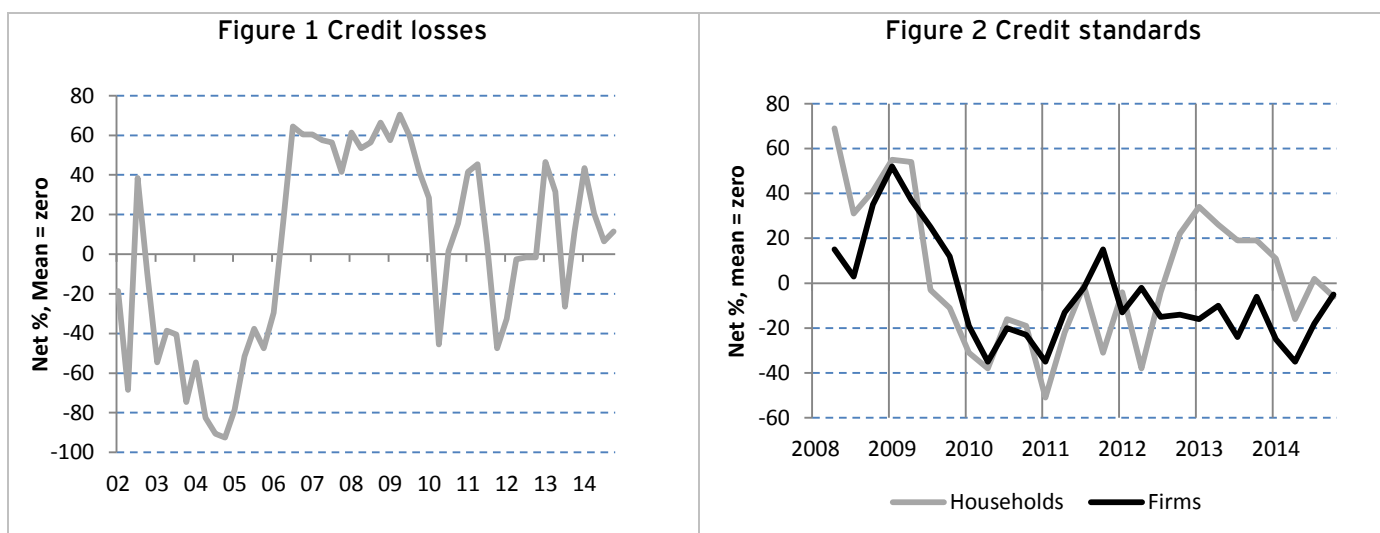
The fourth quarter of 2014 remains difficult for companies strongly focused on the general consumer market, with retailers and telecoms operators struggling to maintain positive sales growth in 2014. Retail banks similarly felt pressure, as income levels remain pressured by high unemployment and weak consumer sentiment. Growth in many cases has come at the expense of other banks, with stronger competitive forces more evident. As a result, retail bank confidence remained pressured through most of 2014.

In the fourth quarter however, retail bank confidence rose to 60 (of a maximum 100 index points), from 50 in the third quarter. Although this is the highest reading since 1Q2013, confidence nevertheless remains noticeably below the 80 level recorded at that time.

The rise in confidence can mainly be attributed to surging income growth and continued strong profit growth. The stronger growth in income stemmed from both higher interest and non-interest income. Non-interest income growth was driven in turn by much stronger fee income growth, while investment income also accelerated from an already strong base in the third quarter.

Retail banks do not expect further improvements in the first quarter of 2015.

Expenses soared, in line with previous expectations. Credit losses edged slightly upwards, but remain well contained for the second consecutive quarter (see Figure 1). Higher costs came about despite retail banks keeping the headcount constant.



Source: BER. Note that the long-term average was added to the actual series to shift the mean to zero.

Retail banks tightened overall credit standards relative to the third quarter. As a result, credit standards moved from relatively easy to neutral in the fourth quarter (i.e. overall banks are neither tightening nor loosening credit standards). The uptick in overall credit standards stemmed from a shift in credit standards to firms from relatively easy to neutral (see Figure 2). In contrast, credit standards to households were eased, moving from neutral to relatively easy. Although not covered in the survey, anecdotal evidence suggests that credit standards on secured loans (specifically mortgage advances) eased relatively, while credit standards on unsecured loans remain relatively tight.

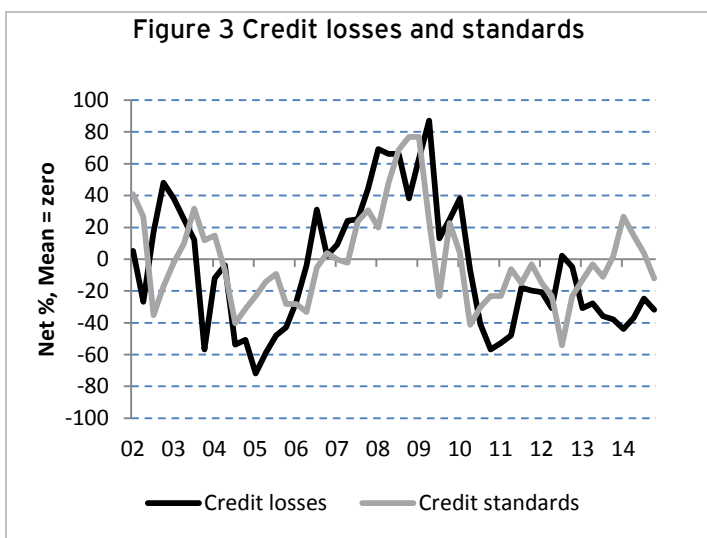
Net profits after tax continued to grow strongly, albeit at a slightly slower pace than in the third quarter.

Investment banking confidence benefits from rebounding profits

Weak economic growth has meant that profits growth for the corporate sector was more subdued in 2014 than it was in 2013. However, many South African companies have ventured into the rest of Africa, seeking growth opportunities there, and this has resulted in a significant number of companies reporting sustained profits growth. Commodities and energy companies earnings were more subdued, whilst many retail focused companies have maintained earnings growth on the back of growing geographic profit streams, thereby offsetting to some extent, the weaker local market conditions.

Investment banking confidence surged from 64 index points in the third quarter to a robust 89 in the fourth quarter of 2014. This jump in confidence can primarily be attributed to a surge in income growth and net profits.

However, this is not in line with generally slower business volume growth. With the exception of corporate finance, growth in all other business lines weakened. Notwithstanding this slowdown in business volumes, total income soared. Both net interest and non-interest income rose impressively. However, investment banks do not expect these conditions to remain as favourable in the first quarter of 2015, with the expectation that total income will likely contract.



Growth in costs remained in line with those of the third quarter. Cost growth was supported by a favourable credit loss environment.

Investment banks loosened credit standards (shifting from a neutral to a relatively easy stand), in line with contracting credit losses (see Figure 3).

After two quarters of moderate profits growth, net profits after tax rebounded in the fourth quarter. The growth is in line that of the first quarter, but below the very strong levels recorded in 2013.

Source: BER, Note that the long-term average was added to the actual series to shift the mean to zero.

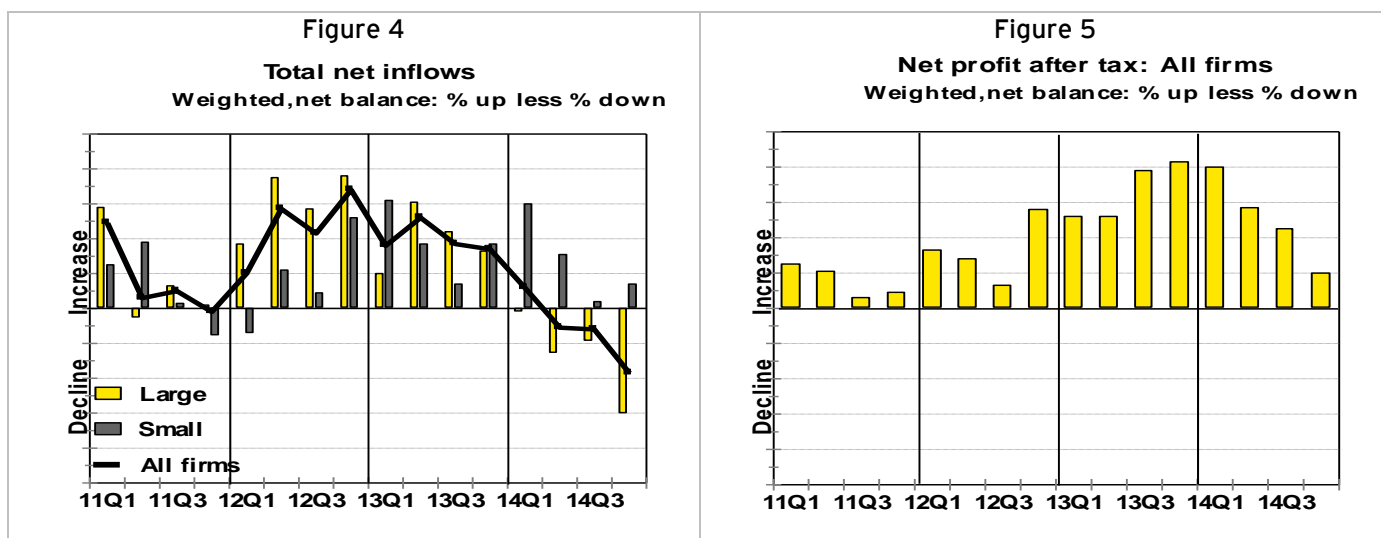
Asset manager confidence tracks weaker stock markets

The fourth quarter of 2014 finally saw a local market correction. The first half of 2014 saw equity prices largely strengthening, despite weak local economic prospects. Whilst some of the higher equity prices were explained to be driven by strong offshore earnings streams (especially rest-of-Africa earnings), the strong growth in equity gains was not based on earnings fundamentals. As a result, the local stock market recorded losses through the second half of the year, with the JSE ALSI losing 2.7% in the last quarter, extending losses of 5.1% in the third quarter.

Asset manager confidence dropped from 52 index points in the third quarter, to a very weak 33 in the fourth quarter of 2014. This indicates that where half of respondents were satisfied with prevailing business conditions in the third quarter, only a third reported similarly in the fourth quarter. Taking a longer-term view, confidence plunged from 96 index points a year back, to 33 presently. Asset management confidence is currently lower than levels immediately following the global financial crises, (when it fell to 42 in the fourth quarter of 2008). In addition, asset management confidence is by far the weakest across financial services.

The decline in confidence can primarily be attributed to a weakening of net inflows and resulting softer profits growth.

These adverse developments have hit large³ managers harder than it has their smaller counterparts. Whereas the confidence of large managers dropped from 48 to 21, that of small firms remained almost unchanged at moderate levels (moving from 63 to 59). Likewise, large managers experienced a sharper contraction in net inflows, while small managers saw net inflows recovering from very low growth (see Figure 4).



Source: BER

The drop in net inflows stemmed primarily from a fall in institutional net inflows to large firms. In addition, unit trust net inflows remained weak, although private client net inflows saw an uptick. However, the rebound in private client fund net inflows could not compensate for the other two, as it makes up a small percentage of the total funds under management of most firms.

Total income growth in the second half of 2014 was noticeably weaker than the first half, and remained steady in the fourth quarter relative to the third quarter.

Asset managers kept costs more or less contained in the fourth quarter, with expenses increasing at a similar pace to the third quarter. Asset managers kept the headcount static, slashed back office and marketing expenses, and kept a tight lid on IT costs and other distribution costs.

Growth in net profits after tax moderated further in the fourth quarter, to a two year low (see Figure 5).

³ Taken as the firms that had more than R40 billion worth of funds under management in 2013.

Life insurer confidence rises in line with stronger premiums

Life insurers typically perform well through strong equity market upswings, and until fairly recently, South African life insurers benefitted from the uplift provided through strong investment income growth. However, weak economic growth was likely to slow profits growth at some point, and as a result life insurance confidence retreated in the 2nd and 3rd quarters of 2014. But the 4th quarter saw stronger life insurance confidence, in line with stronger business confidence.

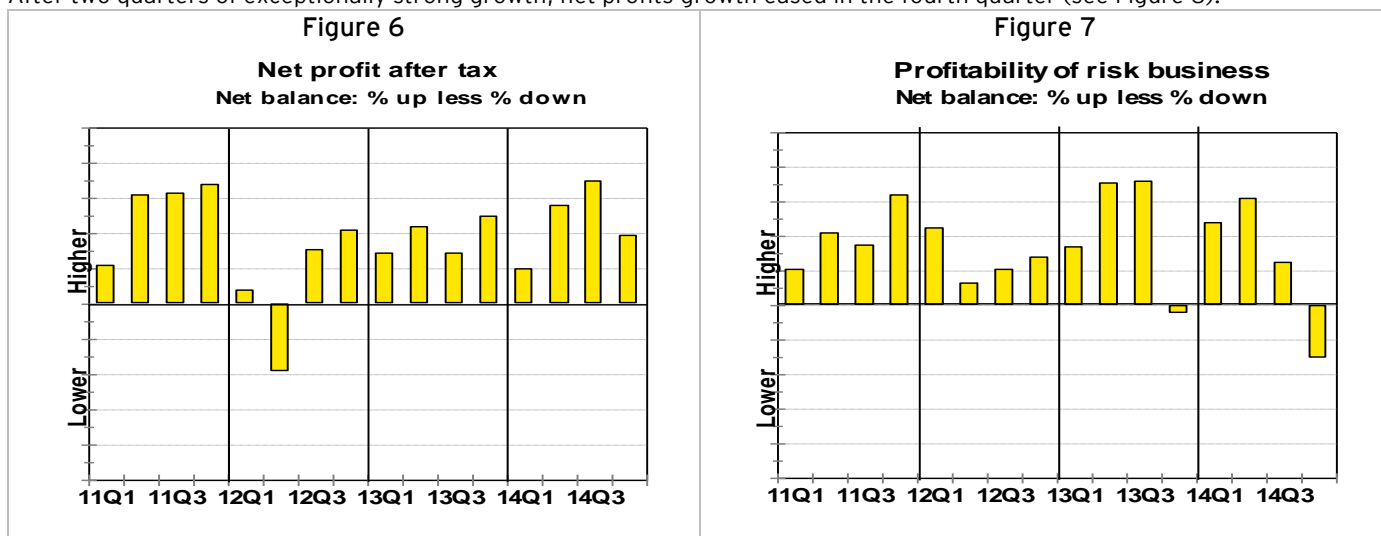
Life insurance confidence jumped sharply to 81 index points in the fourth quarter of 2014 after hovering around the mid-60's level in the previous two quarters.

However, the underlying metrics do not necessarily support the surge in confidence. Higher premium income growth supported confidence somewhat, but weaker net profits growth, as well as stubbornly high cost increases should have kept confidence more subdued. Expectations that the situation will improve further in the first quarter of 2015 probably played a role in lifting confidence levels to the strong levels last recorded in the fourth quarter of 2013.

Premium income growth accelerated further, mostly due to growth in new business premium income. Another positive development was falling lapses. Also supportive of higher confidence was investment income, which continued to increase, albeit not as rapidly as third quarter levels.

Benefit pay-outs increased at the same pace as the first nine months of 2014. Growth in administration and marketing expenses remain strong, partly because the number of employees increased at a faster pace than the third quarter's. However, slower sales remuneration growth and fewer in-house agents kept administration cost increases in check. The ratio of admin expenses to premium income declined, thanks to the sharp increase in premium income.

After two quarters of exceptionally strong growth, net profits growth eased in the fourth quarter (see Figure 6).



Source: BER

Survey data

Survey data: Business confidence *	Retail banking	Investment banking and specialised finance	Asset management	Life insurance	EY Financial Sector Confidence Index **
05Q2	100	100	99	76	94
05Q3	100	100	100	85	96
05Q4	100	100	98	98	99
06Q1	100	100	99	94	98
06Q2	100	100	100	97	99
06Q3	100	100	100	98	100
06Q4	100	100	100	100	100
07Q1	100	100	100	83	96
07Q2	100	100	98	90	97
07Q3	94	100	99	100	98
07Q4	96	100	97	100	98
08Q1	78	79	77	100	84
08Q2	57	79	81	63	70
08Q3	43	81	57	51	58
08Q4	53	46	42	48	47
09Q1	32	31	45	50	40
09Q2	28	50	60	53	48
09Q3	25	57	83	58	56
09Q4	26	42	99	71	60
10Q1	35	62	97	77	68
10Q2	40	25	75	91	58
10Q3	62	33	71	83	62
10Q4	38	41	89	79	62
11Q1	20	55	85	90	63
11Q2	50	67	77	90	71
11Q3	38	36	71	91	59
11Q4	50	50	59	93	63
12Q1	87	91	56	93	82
12Q2	69	86	59	81	74
12Q3	88	82	81	75	84
12Q4	88	79	84	93	86
13Q1	80	83 ^{###}	83	95	85
13Q2	46	78	85	83	73
13Q3	25	93	92	67	69
13Q4	30 ^{##}	82 ^{##}	96	80	72
14Q1	38	73	77	79	67
14Q2	46	69	66	64	61
14Q3	50	64	52	67	58
14Q4	60 ^{##}	89 ^{##}	33	81	66

* Percentage of respondents rating prevailing business conditions as satisfactory. 0 = extreme lack of confidence, 100 = extreme confidence

** The EY Financial Sector Confidence Index is calculated as the un-weighted arithmetic mean of the business confidence indices of retail banks, investment banks, asset managers and life insurers. The average for the period 2002 - 2013 is 77; a reading above 77 therefore indicates a relatively "high" confidence level and below 77 a relatively "low" confidence level.

Lower than normal number of responses

The historical survey data could be downloaded in MS Excel format on www.ber.ac.za

Click the button named "Surveys" on the top banner and then select "Financial Services" on the banner along the left hand side.

Survey data: Retail Banking ¹	2013			2014				2015
	Q2	Q3	Q4 ^{##}	Q1	Q2	Q3	Q4 ^{##}	Q1 [*]
1 Business confidence ²	46	25	30	38	46	50	60	
2. Income								
a) total income ^{3, 4}	57	50	40	23	39	50	80	50
b) net interest income ^{3, 5}	29	25	30	39	61	75	90	
c) fee income ^{3, 6}	64	58	20	15	23	25	50	
d) investment income ^{3, 7}	-14	8	10	0	30	50	60	
3. Expenditure								
a) total operating expenses (excluding cost of funding) ^{3, 4}	86	92	80	73	42	42	80	90
b) credit losses ^{3, 8}	50	-8	30	62	39	25	30	
c) total number of people employed ³	29	33	10	-15	15	8	0	
4. Efficiency and profitability								
a) cost-to-income ratio ³	50	9	-10	15	-8	-25	10	
b) net profit after tax ³	64	50	40	54	84	83	70	
5. Credit standards for approving applications for loans ^{3, 9}								
a) total ^{3, 4}	50	33	30	23	8	17	30	45
b) households ³	57	50	50	42	15	33	25	
c) firms ³	25	11	29	10	0	17	30	

* Expected

Lower than normal number of responses.

¹ Retail banking consists of regular retail banking, private banking, micro lending, commercial banking and corporate banking.

² % satisfactory

³ Net balance (see Technical Note at the end of the report)

⁴ The total reflects the responses of participants. It is therefore not calculated as the average of the responses to the components. Each data series has to be considered on its own. Deviations between the total and components occur when participants reply "the same" given that the net balance statistic does not take "the same" responses into account. The fact that respondents only answer questions applicable to them and that missing items are not imputed also have an effect.

⁵ Interest income less interest expenses

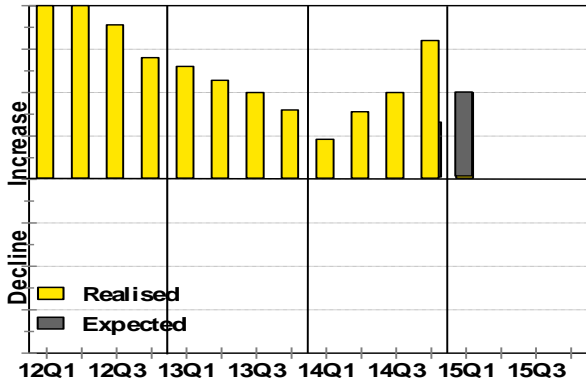
⁶ Fees and commission

⁷ "Investment income" refers to all income from investments and not the investment return. It excludes deferred income and capital depreciation, but includes realised and unrealised capital gains and losses on investments.

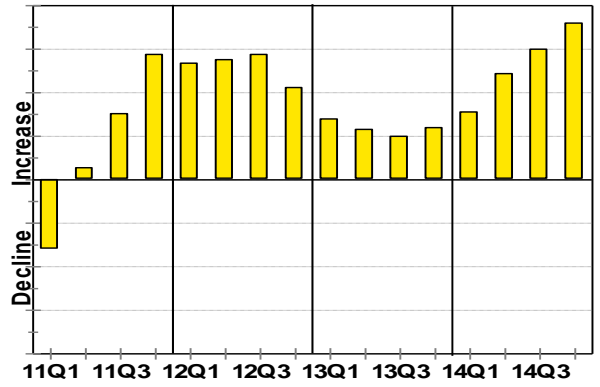
⁸ Value of non-performing loans until 09Q2

⁹ Credit standards refer to the terms of the loans and credit lines, such as maximum size, spread of loan rates over bank's cost of funds, premiums charged on riskier loans, collateral requirements etc.

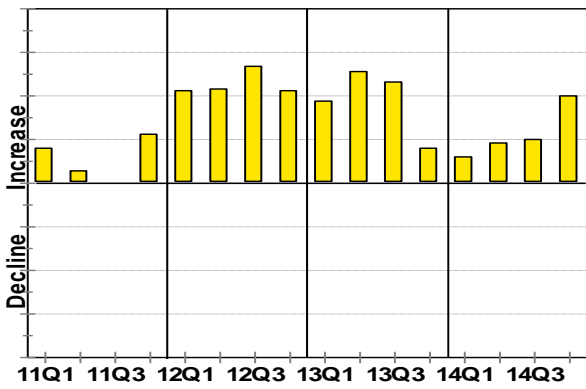
Total income
Net balance: % up less % down



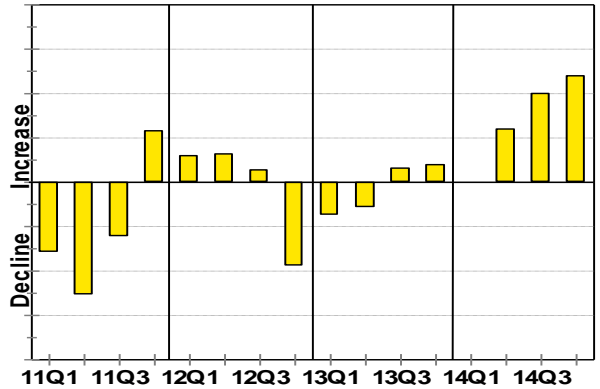
Net interest income
Net balance: % up less % down



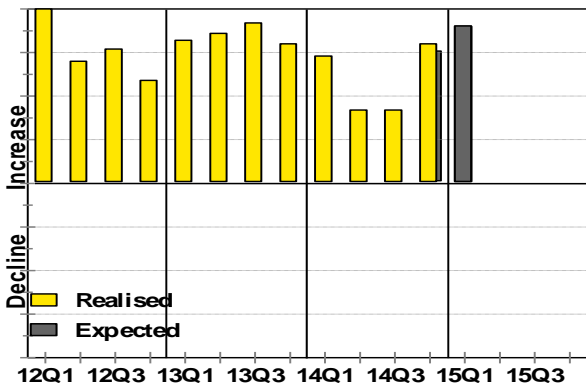
Fee income
Net balance: % up less % down



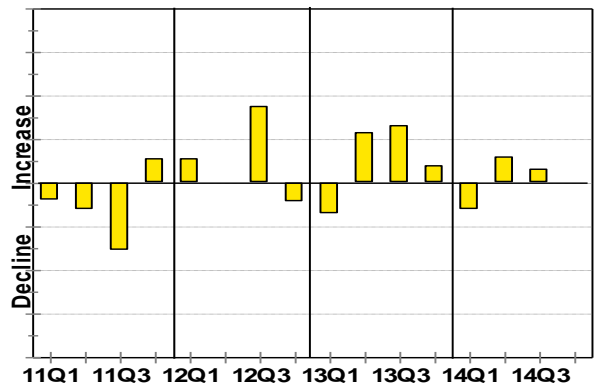
Investment income
Net balance: % up less % down



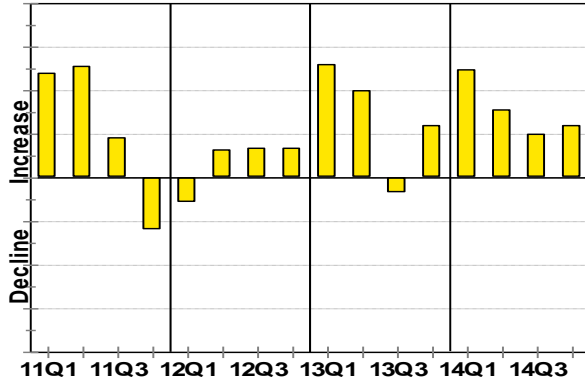
Total operating expenses (excl cost of funds), net balance: % up less % down



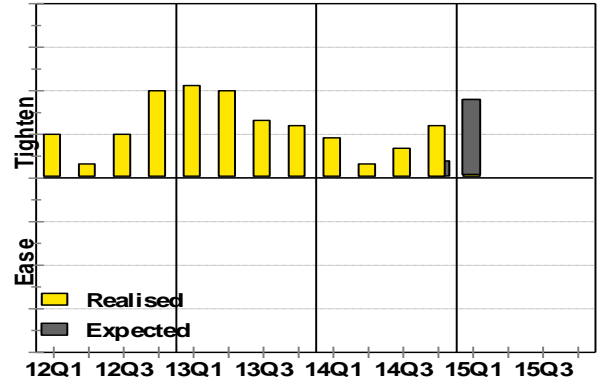
Number of people employed
Net balance: % up less % down



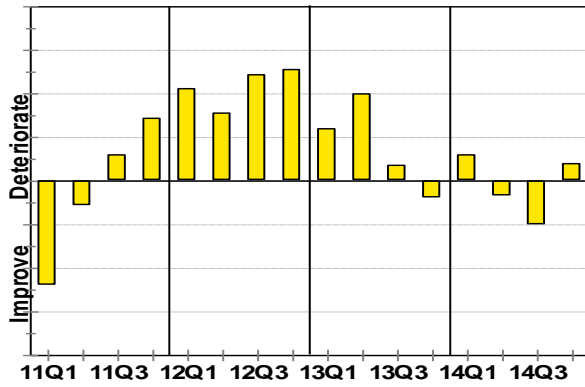
Credit losses
Net balance: % up less % down



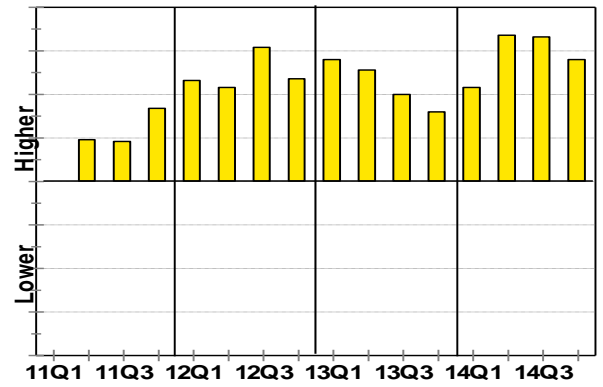
Credit standards for approving loans
Net balance: % up less % down



Cost to income ratio
Net balance: % up less % down



Net profit after tax
Net balance: % up less % down



Survey data: Investment banking ¹	2013			2014				2015
	Q2	Q3	Q4 ^{##}	Q1	Q2	Q3	Q4 ^{##}	Q1 [*]
1 Business confidence ²	78	93	82	73	69	64	89	
2. Volume of business								
a) treasury and specialised finance ^{3, 4}	33	55	67	67	36	22	13	
b) private equity ^{3, 5}	21	31	36	27	0	-18	-44	
c) corporate finance ^{3, 6}	67	55	43	13	-37	-22	12	
d) project finance ³	75	73	57	62	40	26	-13	
e) stock broking ³	9	37	0	16	44	0	-38	
f) overall ^{3, 7}	41	50	41	37	17	2	-14	
3. Income								
a) total income ^{3, 8}	36	63	37	18	-7	28	56	-22
b) net interest income ^{3, 9}	9	19	-14	30	30	18	33	
c) fee income ^{3, 10}	16	46	28	20	0	-18	22	
d) investment income ^{3, 11}	50	40	36	27	15	18	33	
4. Expenditure								
a) total operating expenses (excluding cost of funding) ^{3, 8}	14	50	50	27	39	64	67	44
b) credit losses ^{3, 12}	-9	-31	-40	-46	-39	-27	-34	
d) total number of people employed ³	7	26	36	9	7	27	11	
5. Efficiency and profitability								
a) cost-to-income ratio ³	83	67	27	37	15	-18	0	
b) net profit after tax ³	86	81	73	55	15	37	56	
6. Credit standards for approving applications for loans ^{3,13}	17	8	25	50	38	27	11	11

^{*} Expected

^{##} Lower than normal number of responses

¹ Investment banking and specialised finance consists of corporate finance, private equity, project finance, treasury and specialised finance.

² % satisfactory

³ Net balance (see Technical Note at the end of the report)

⁴ Treasury and specialised finance comprise structured finance, asset finance, acquisition finance, financial products, corporate treasury, debt restructuring, cash flow management, tax structuring and balance sheet management, as well as trading of commodities, foreign exchange and various financial instruments.

⁵ Private equity and direct investments comprise the active seek and selection of expansion and buy-out investments as principal in unlisted companies.

⁶ Corporate finance includes the provision of financial advisory services to listed companies related to mergers and acquisitions, divestitures, restructurings, spin-offs, joint ventures, capital raising and management buy-outs, as well as valuations, feasibility studies and due diligence reviews.

⁷ The unweighted average of treasury and specialised finance, private equity, corporate finance, project finance and stock broking.

⁸ The total reflects the responses of participants. It is therefore not calculated as the average of the responses to the components. Each data series has to be considered on its own. Deviations between the total and components occur when participants reply "the same" given that the net balance statistic does not take "the same" responses into account. The fact that respondents only answer questions applicable to them and that missing items are not imputed also have an effect.

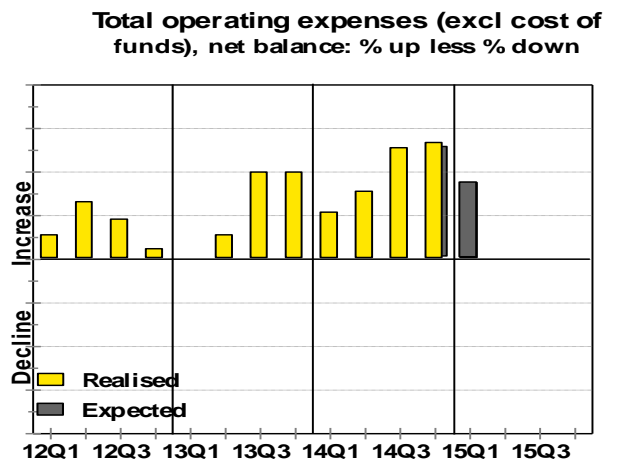
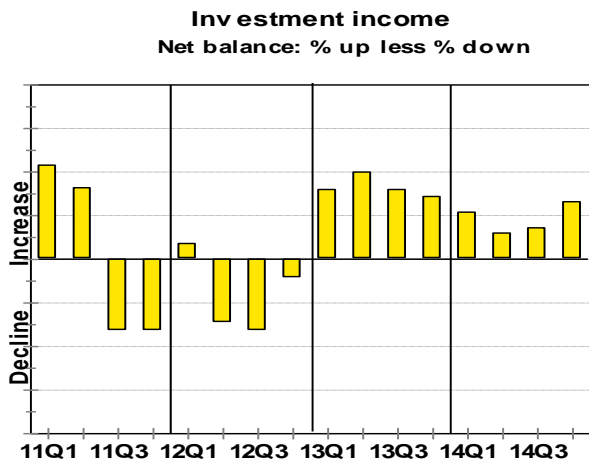
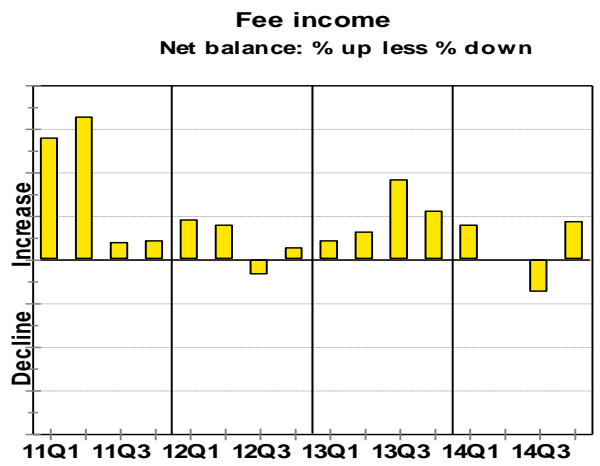
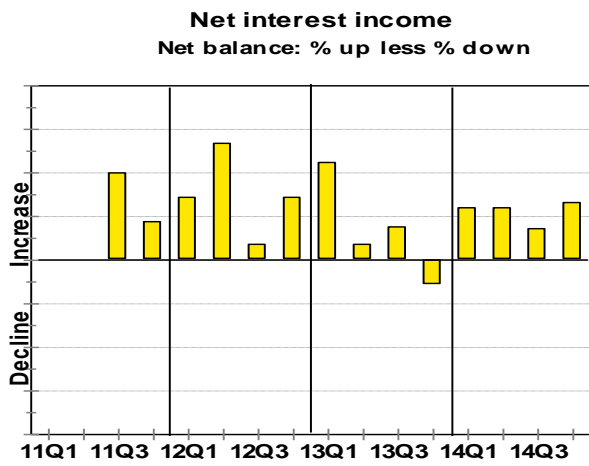
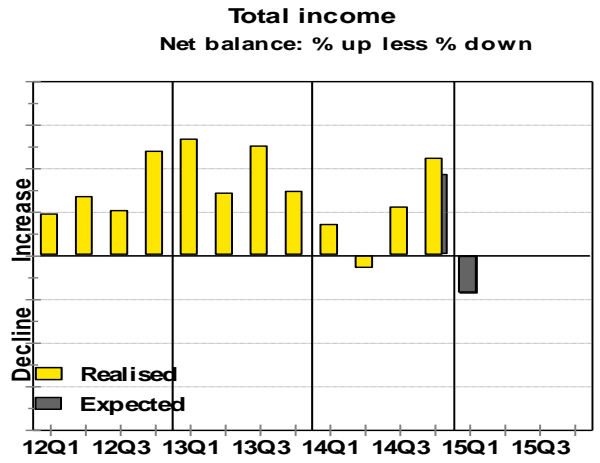
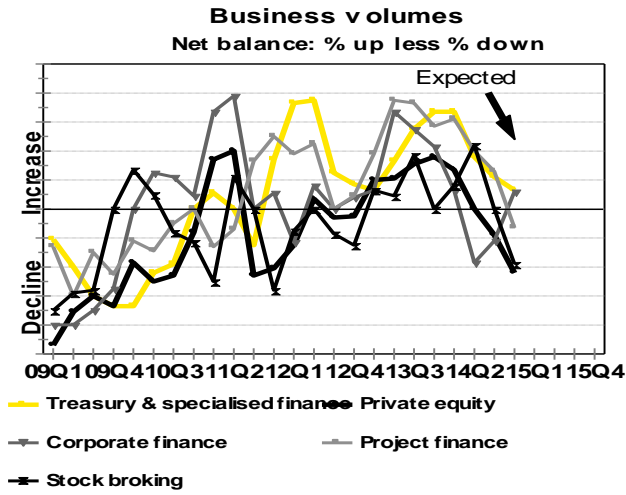
⁹ Interest income less interest expenses

¹⁰ Fees and commission

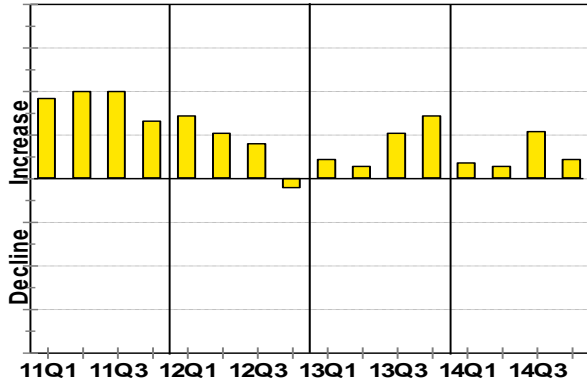
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¹² Value of non-performing loans until 09Q2

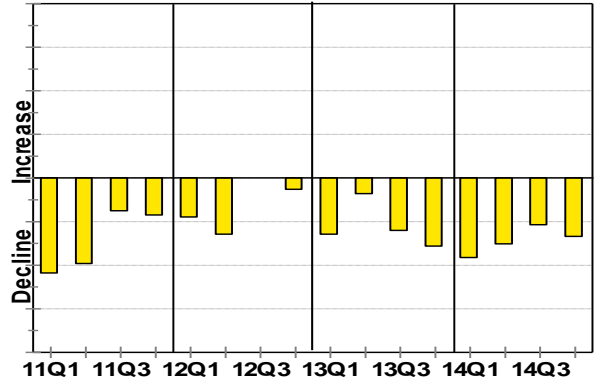
¹³ Credit standards refer to the terms of the loans and credit lines, such as maximum size, spread of loan rates over bank's cost of funds, premiums charged on riskier loans, collateral requirements etc.



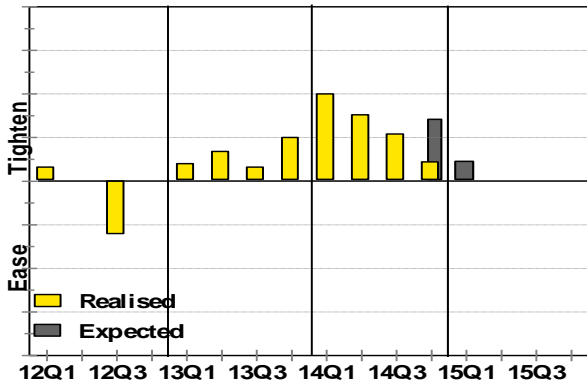
Number of people employed
Net balance: % up less % down



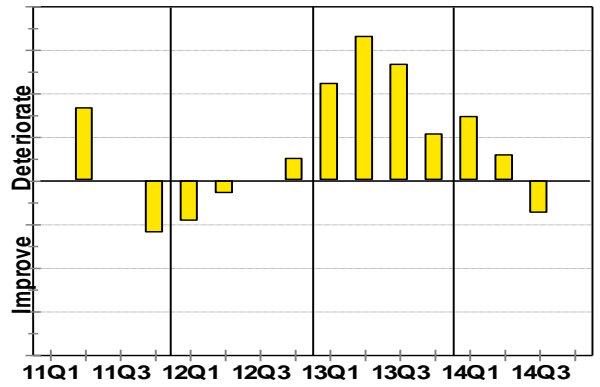
Credit losses
Net balance: % up less % down



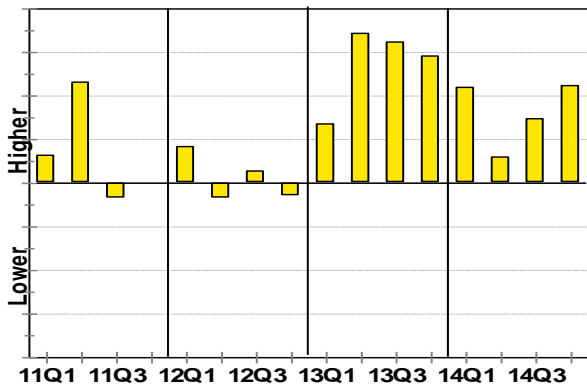
Credit standards for approving loans
Net balance: % up less % down



Cost to income ratio
Net balance: % up less % down



Net profit after tax
Net balance: % up less % down



Survey data: Asset management - All	2013			2014				2015
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1*
1. Business confidence ¹	85	92	96	77	66	52	33	
2. Net inflows								
a) Total net inflows ^{2,3}	52	37	34	12	-11	-12	-37	23
b) Institutional net inflows ^{2,4}	48	36	41	29	-6	9	-27	
c) Unit trust net inflows: total ^{2,3}	53	49	46	19	-9	8	-4	
i) Institutional ^{2,4}	25	50	58	24	10	17	-26	
ii) Retail ^{2,5}	51	49	39	27	-8	-5	45	
d) Private client net inflows ²	21	14	15	22	-23	-20	0	
3. Income								
a) Total income ^{2,3}	56	79	89	81	74	42	42	42
b) Average management fees charged ²	24	57	41	30	22	4	8	
4. Expenses								
a) Total expenses ^{2,3}	53	70	66	77	94	68	61	39
b) number of people employed: total ^{2,3}	48	50	64	53	33	15	-3	
c) back office costs ²	47	57	67	71	66	53	38	
d) IT and systems costs ²	63	60	75	73	65	69	67	
e) marketing costs ²	34	21	36	41	61	50	23	
f) other distribution costs ²	27	30	37	50	58	57	57	
g) bonuses paid ²	25	35	28	43	45	46	26	
5. Profitability								
Net profit after tax ^{2,3}	52	78	83	80	57	45	20	

* Expected

¹ % satisfactory, weighted according to firm size

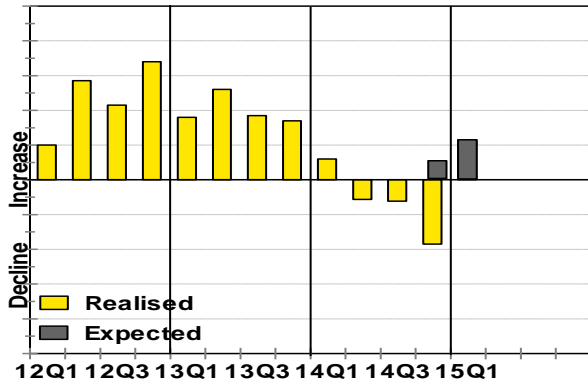
² Net balance (see Technical Note at the end of the report), weighted according to firm size

³ The total reflects the responses of participants. It is therefore not calculated as the average of the responses to the components. Each data series has to be considered on its own. Deviations between the total and components occur when participants reply "the same" given that the net balance statistic does not take "the same" responses into account. The fact that respondents only answer questions applicable to them and that missing items are not imputed also have an effect.

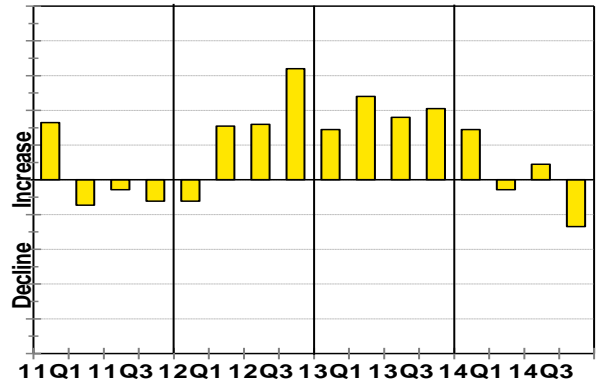
⁴ According to the Association of Collective Investments (ACI), an institutional fund is a fund in which an individual investor cannot invest. The units are held in the name of structures such as pension funds, provident funds, companies, endowment policies and structured funds.

⁵ According to the ACI, a retail fund is a fund in which individual investors can invest directly and indirectly and the investments are held in their names. Direct investments take place when individual investors deal directly with the management companies. Indirect investments take place when a reseller (LISP) or third party (e.g. a broker) acts as a go-between the individual investors and the management companies.

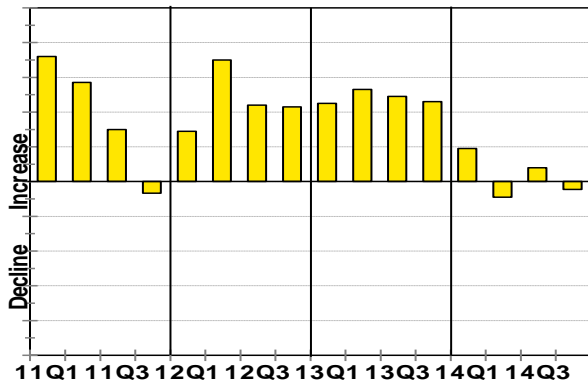
Total net inflows: All firms
Weighted,net balance: % up less % down



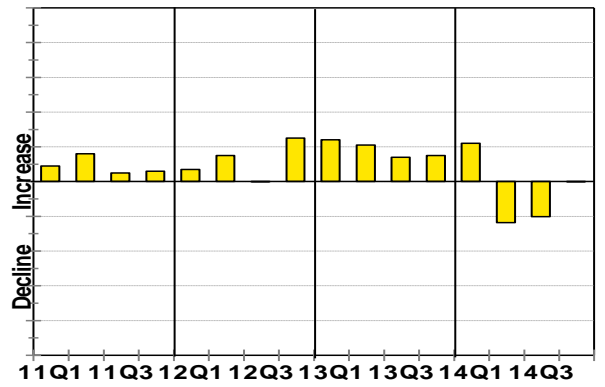
Institutional net inflows: All firms
Weighted,net balance: % up less % down



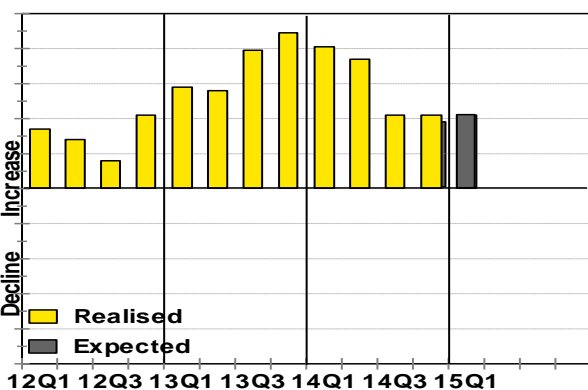
Unit trust net inflows: All firms
Weighted,net balance: % up less % down



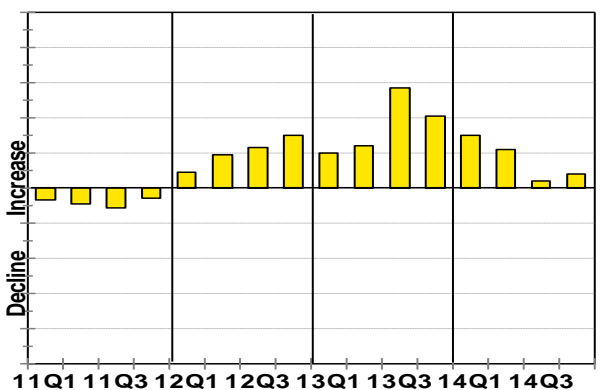
Private client net inflows: All firms
Weighted,net balance: % up less % down



Total income: All firms
Weighted,net balance: % up less % down



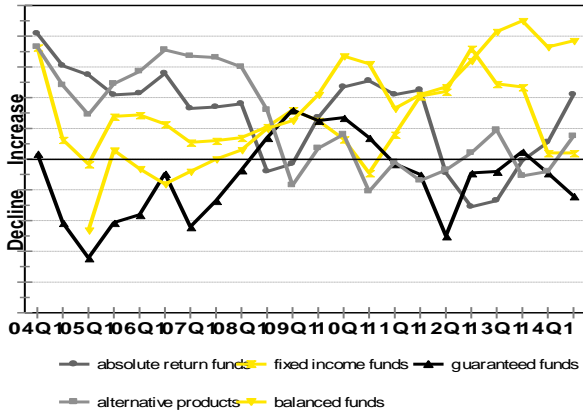
Avg management fees charged: All firm
Weighted,net balance: % up less % down



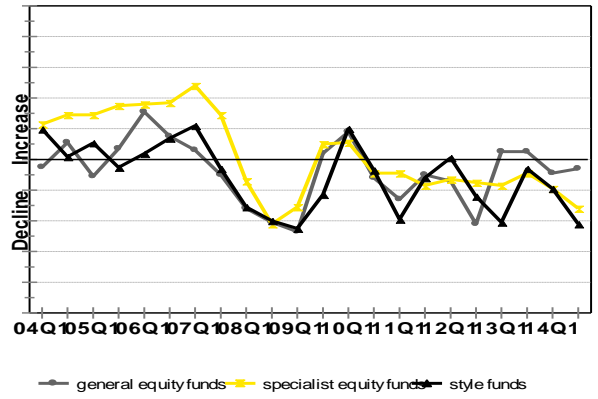
Survey data: All firms (continued)	2011		2012		2013		2014	
	Q1	Q3	Q1	Q3	Q1	Q3	Q1	Q3
Current situation								
6. Capital expenditure on ...								
a) domestic infrastructure development ¹	19	30	45	51	41	28	52	30
b) foreign infrastructure development ¹	15	-1	3	1	19	26	9	13
7. Products								
a) Demand for								
i) general equity index / tracker funds ¹	-26	-10	-14	-42	5	5	-9	-6
ii) absolute return funds ¹	42	45	-9	-31	-27	-1	11	42
iii) fixed income funds ¹	16	41	44	72	49	47	4	4
iv) specialist equity funds ¹	-9	-17	-13	-15	-17	-9	-19	-32
v) style funds ¹	-39	-12	1	-24	-41	-6	-19	-42
vi) guaranteed funds ¹	-3	-10	-50	-9	-8	5	-9	-24
vii) alternative products (e.g. hedge funds) ¹	-2	-14	-7	4	19	-11	-8	15
viii) balanced funds ¹	33	42	47	64	83	90	73	77
b) Demand for foreign exposure ¹	56	59	52	27	45	55	77	87
c) Opportunities to introduce new funds ¹	16	11	10	28	64	6	5	14
8. Regulations								
Restrictions caused by the regulatory environment ¹	69	68	78	78	67	45	42	57

¹ Net balance (see Technical Note at the end of the report), weighted according to firm size

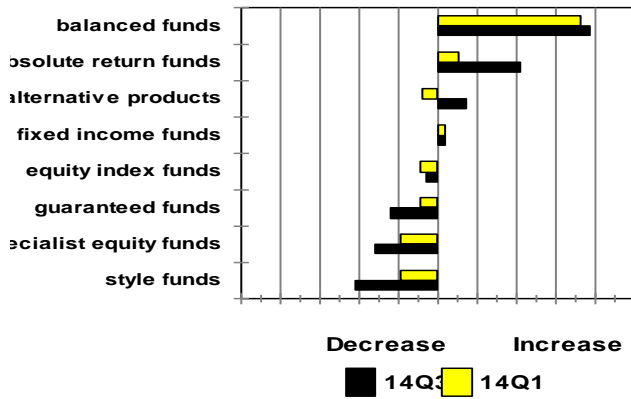
Low risk products



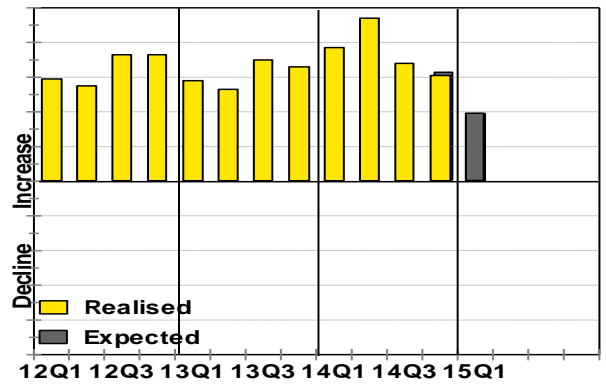
High risk products



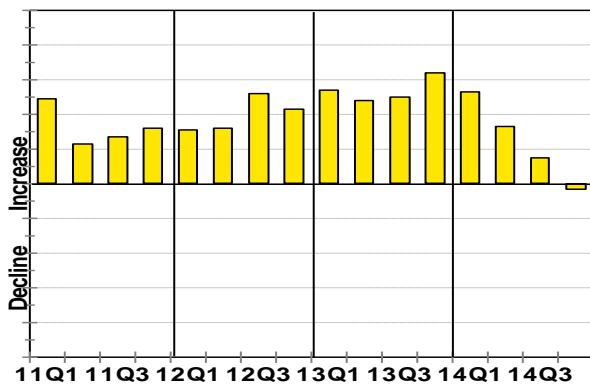
Demand for products
 Net balance, % up less % down



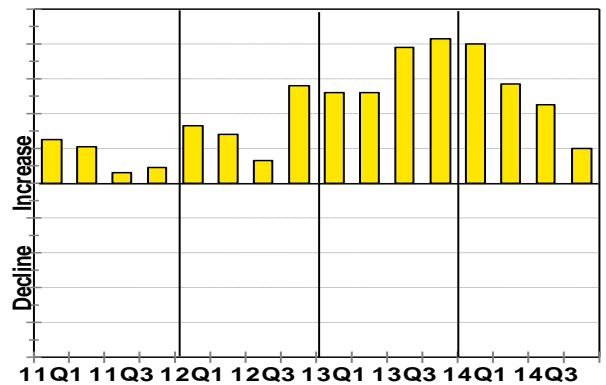
Total expenses: All firms
 Weighted, net balance: % up less % down



No of people employed: All firms
 Weighted, net balance: % up less % down



Net profit after tax: All firms
 Weighted, net balance: % up less % down



Survey data: Asset management - Small Firms ¹	2013			2014				2015
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1*
1 Business confidence ²	73	62	78	85	84	63	59	
2. Net inflows								
a) Total net inflows ^{3, 4}	37	14	37	60	31	4	14	27
b) Institutional net inflows ^{3, 5}	34	-8	19	43	36	7	0	
c) Unit trust net inflows: total ^{3, 4}	23	21	23	64	68	79	38	
i) Institutional ³	-3	-12	12	52	52	75	9	
ii) Retail ³	36	46	35	64	44	58	62	
d) Private client net inflows ³	42	50	53	50	34	46	60	
3. Income								
a) Total income ^{3, 4}	19	36	50	70	70	59	46	41
b) Average management fees charged ³	22	28	-17	-7	35	11	0	
4. Expenses								
a) Total expenses ^{3, 4}	53	68	83	87	96	75	76	48
b) number of people employed: total ^{3, 4}	59	71	95	69	88	45	50	
c) back office costs ³	47	46	75	57	38	18	4	
d) IT and systems costs ³	35	43	50	40	35	52	18	
e) marketing costs ³	40	53	54	30	54	37	9	
f) other distribution costs ³	30	28	46	44	14	23	23	
g) bonuses paid ³	0	11	42	70	69	59	18	
5. Profitability								
Net profit after tax: ^{3, 4}	21	29	46	55	59	58	46	

* Expected

¹ Firms with funds under management of less than R40 billion in 2013.

² % satisfactory

³ Net balance (see Technical Note at the end of the report), weighted according to firm size

⁴ The total reflects the responses of participants. It is therefore not calculated as the average of the responses to the components. Each data series has to be considered on its own. Deviations between the total and components occur when participants reply "the same" given that the net balance statistic does not take "the same" responses into account. The fact that respondents only answer questions applicable to them and that missing items are not imputed also have an effect.

⁵ Private pension funds, public pension funds managed on behalf of the Public Investment Commissioners (PIC), life funds, medical aid funds, etc.

Survey data: Asset management - Large firms ¹	2013			2014				2015
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1*
1 Business confidence ²	92	100	100	74	60	48	21	
2. Net inflows								
a) Total net inflows ^{3, 4}	61	44	33	-2	-26	-19	-60	21
b) Institutional net inflows ^{3, 5}	57	49	46	24	-22	9	-40	
c) Unit trust net inflows: total ^{3, 4}	69	56	50	8	-37	-27	-32	
i) Institutional ³	40	67	65	17	-4	-5	-42	
ii) Retail ³	58	50	40	19	-27	-30	37	
d) Private client net inflows ³	9	3	7	15	-40	-47	-21	
3. Income								
a) Total income ^{3, 4}	77	92	98	84	79	35	39	43
b) Average management fees charged ³	25	66	55	41	17	0	12	
4. Expenses								
a) Total expenses ^{3, 4}	54	70	62	75	92	66	54	35
b) number of people employed: total ^{3, 4}	42	45	58	49	13	3	-27	
c) back office costs ³	46	61	65	75	76	67	52	
d) IT and systems costs ³	77	66	82	82	76	76	90	
e) marketing costs ³	31	11	32	45	64	56	30	
f) other distribution costs ³	25	31	35	52	71	71	73	
g) bonuses paid ³	41	42	24	35	36	40	30	
5. Profitability								
Net profit after tax ^{3, 4}	70	92	92	86	57	40	8	

* Expected

¹ Firms with funds under management in excess of R40 billion in 2013.

² % satisfactory

³ Net balance (see Technical Note at the end of the report), weighted according to firm size

⁴ The total reflects the responses of participants. It is therefore not calculated as the average of the responses to the components. Each data series has to be considered on its own. Deviations between the total and components occur when participants reply "the same" given that the net balance statistic does not take "the same" responses into account. The fact that respondents only answer questions applicable to them and that missing items are not imputed also have an effect.

⁵ Private pension funds, public pension funds managed on behalf of the Public Investment Commissioners (PIC), life funds, medical aid funds, etc.

Survey data: Life Insurance ¹	2013			2014				2015
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1*
1 Business confidence ²	83	67	80	79	64	67	81	
2. Inflow								
a) total inflow ^{3,4}	41	13	22	46	47	50	64	
b) total premium income ^{3,5}	44	13	30	46	1	52	73	66
i) risk business / no of new contracts ³	68	70	83	64	35	52	12	
ii) investment business (only individual business) ³	22	5	5	28	36	36	5	
c) new business premium income ³	80	20	-3	15	-2	49	78	
d) lapses / no of contracts terminated ³	14	4	27	2	20	14	-20	
e) investment income ^{3,6}	31	23	-12	-37	12	41	27	
3. Outflow								
a) total outflow ^{3,7}	86	61	46	49	57	55	59	
b) benefits ³	87	62	50	52	56	53	59	39
c) value of surrenders ³	36	23	75	54	20	11	31	
d) sales remuneration ^{3,8}	83	55	60	88	93	89	53	
e) administration and marketing expenses ³	77	55	12	19	63	75	61	
f) number of full-time admin employees ^{3,9}	-19	-36	-15	0	-5	41	53	
g) number of in-house agents ³	-27	-20	5	42	61	33	-27	
4. Profitability								
a) net profit after tax ³	44	29	50	20	56	70	39	
b) profitability of risk business ³	71	72	-4	48	62	25	-30	
c) administration expenses as % of premium income ³	14	35	34	48	57	24	-10	
d) value of new business ³	82	38	24	60	48	33	32	

* Expected

¹ Individual life and retirement annuities business plus group life and employee benefit business.

² % satisfactory, weighted according to firm size

³ Net balance (see Technical Note at the end of the report), weighted according to firm size

⁴ Weighted net balance (80% total premium income + 20% investment income)

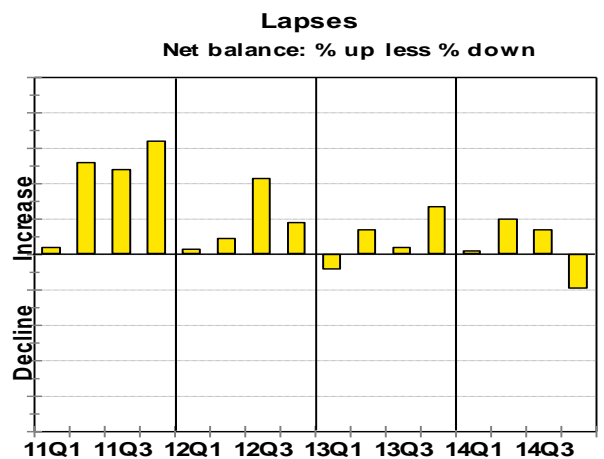
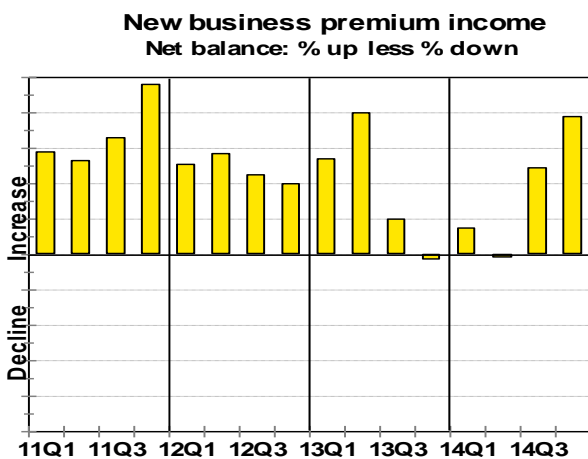
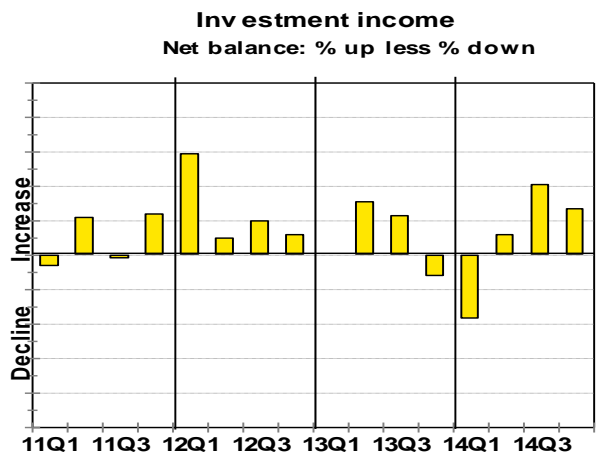
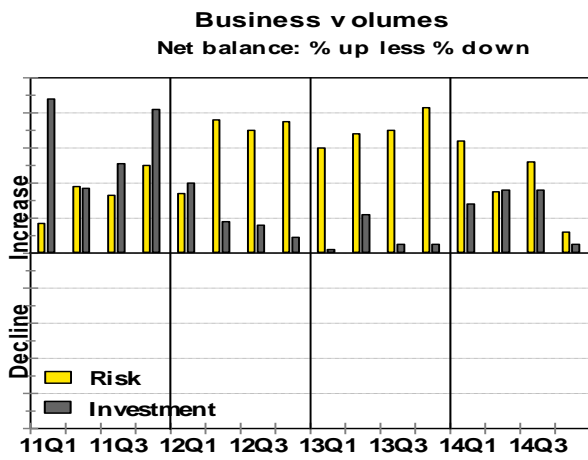
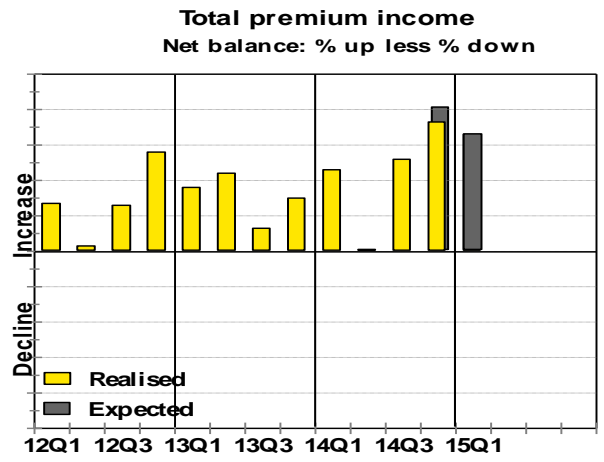
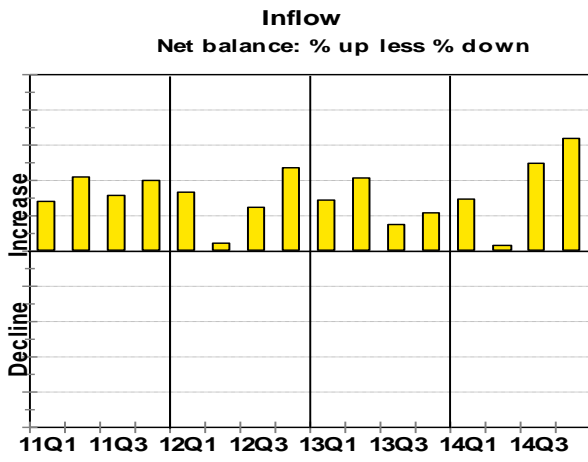
⁵ The total reflects the responses of participants. It is therefore not calculated as the average of the responses to the components. Each data series has to be considered on its own. Deviations between the total and components occur when participants reply "the same" given that the net balance statistic does not take "the same" responses into account. The fact that respondents only answer questions applicable to them and that missing items are not imputed also have an effect.

⁶ "Investment income" refers to all income from investments and not the investment return. It includes dividend, interest, rental and other non-capital investment income, as well as realised and unrealised capital gains and losses on investments.

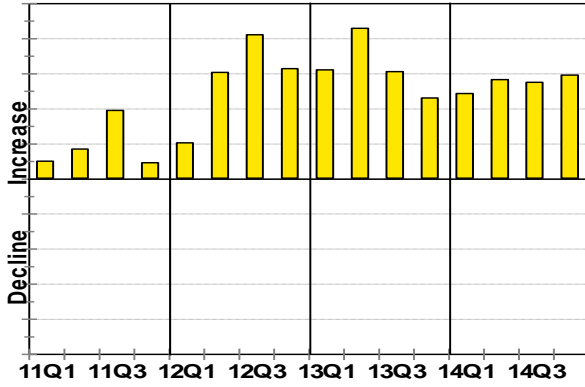
⁷ Weighted net balance (90% benefits + 10% administration and marketing expenses)

⁸ Distribution costs and commissions.

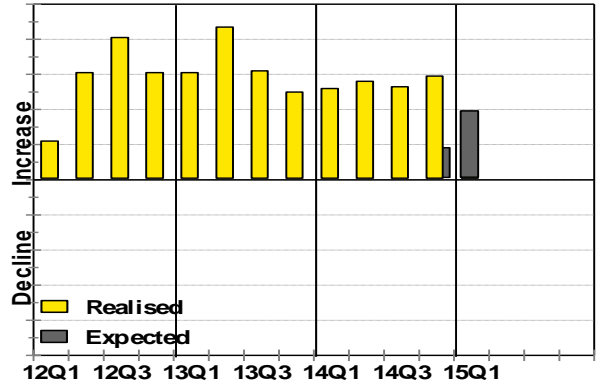
⁹ Excluding field staff



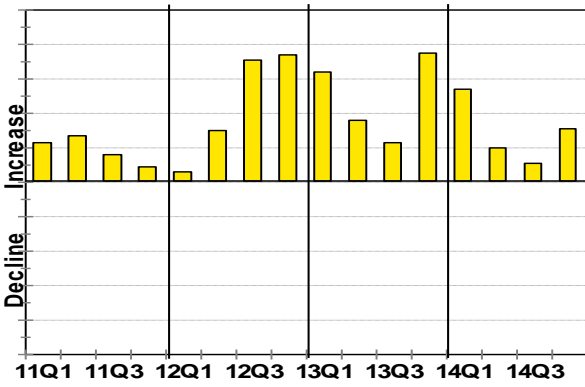
Outflow
Net balance: % up less % down



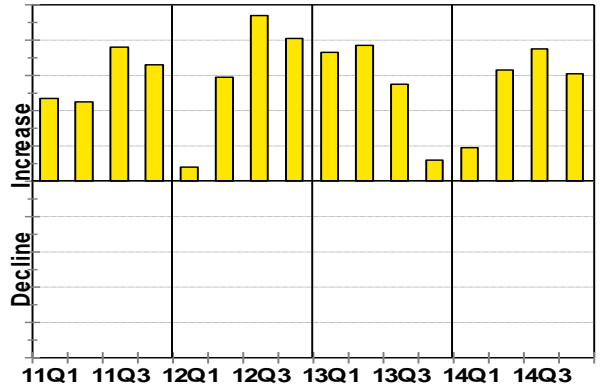
Benefits
Net balance: % up less % down



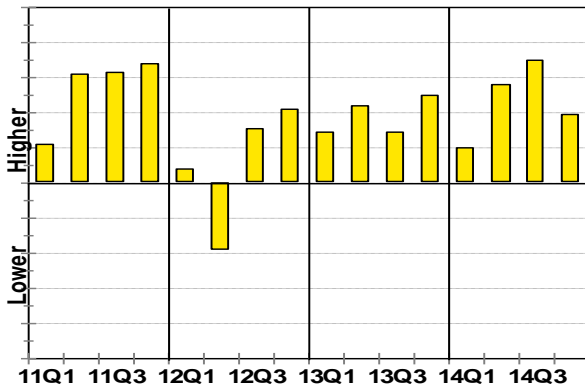
Value of surrenders
Net balance: % up less % down



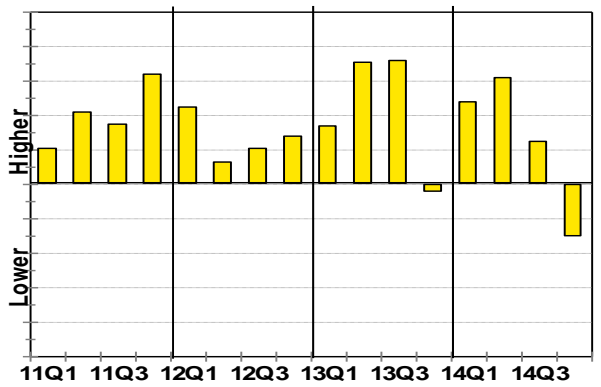
Administration and marketing expenses
Net balance: % up less % down



Net profit after tax
Net balance: % up less % down



Profitability of risk business
Net balance: % up less % down



Technical note

A document with more information on the survey method is available on www.ber.ac.za. Click the button named "Services" and then select "Surveys" and finally "Financial Services". Alternatively, click on "EY Financial Survey" on the home page and then on "Financial Services" under Quick Links.

Survey method

The BER started conducting surveys amongst retail and investment banks in 2002. The scope of the survey was expanded to asset managers and life insurers in 2003.

EY, the international accounting and business advisory firm, not only supports the financial sector survey financially, but also made valuable inputs to the design and makes the overall results public. However, the BER conducts the survey and interprets the results. The BER treats the identities of participants and individual responses as confidential and does not reveal this information to any third party, including the sponsoring firm.

The division heads of all the major retail banks, investment banks, asset managers and life insurers operating in South Africa participate in the survey.

The survey results reveal current and expected changes in income, expenses and profitability for these firms' South Africa operations only. Industry specific issues, such as banks' credit standards and the demand for various products of asset managers, are covered during the first and third quarter surveys.

The surveys are conducted during March, June, September and December. The results reflect developments per calendar quarter, i.e. the first quarter reflect developments during January, February and March; the second quarter reflects April, May and June etc.

On occasion questionnaires reach us after the date on which the results of the current quarter are processed. Small revisions of the survey results of the previous quarter could occur when we process such questionnaires at a later stage.

The need for the financial sector survey

South Africa has one of the most advanced financial sectors of all emerging market economies and its development is in many respects on par with those of industrialised countries – and yet its performance is not measured regularly and consistently. There is a general consensus on the need for a regular, consistent and impartial financial services survey, from managers in the financial sector to financial analysts.

The contribution of the financial sector to GDP has increased over the past decade and stood at 9.7% during 2011. The contribution of – for example – real estate (6.0%), transport (6.6%) and retail trade (7.2%) are all lower compared to that of the financial sector. However, the general government (16.5%), manufacturing (12.8%) and mining (10.2%) are bigger.

Despite its importance, current information on the performance of the financial sector lags behind:

- ▶ Statistics SA publishes GDP and employment figures for the sector covering financial intermediation, insurance, real estate and business services with a lag of one quarter and no details about the sector's financial performance.
- ▶ The compulsory monthly BA 120 (DI 200 until 2007) returns of banks to and the Annual Report of the Bank Supervision Department of the Reserve Bank, the Quarterly Financial Stability Review of the Financial Stability Department of the Reserve Bank and the Annual Report of the Financial Services Board (FSB) provide detailed information about the performance of banks and other financial institutions, but the information is made public with a lag in time except for the BA 120 returns.
- ▶ The interim and annual reports of listed financial companies provide information about their performance, but these reports appear at irregular intervals (their release dates depend on the financial year-ends of the different companies) and the results are not always comparable.
- ▶ The periodic Price Waterhouse Coopers (PWC) Survey, although entirely relevant in relation to its intended target market and ultimate aim, differs fundamentally from the EY financial services survey. The EY survey measures the same performance criteria of financial institutions over time, appears quarterly and the results are obtained by means of short questionnaires.

- ▶ The quarterly unit trust and bi-annual life insurance reviews of the Association for Savings and Investment SA (ASISA) are useful. However, the unit trust review does not provide information on the financial performance of management companies and the life insurance review is only published twice a year.
- ▶ The investment performance and strategy of asset managers are measured regularly (e.g. Alexander Forbes and Plexus), but no regular, consistent measure of income and expenditure of asset managers exist.

The international standing of the financial sector survey

The UK, Poland and Switzerland have the longest experience in conducting financial services surveys. In the UK, the Confederation of British Industries (CBI) in London has been conducting comprehensive quarterly financial services surveys in partnership with Price Waterhouse Coopers (PWC) since December 1989. In Poland, the Research Institute for Economic Development (RIED) at the Warsaw School of Economics has been conducting a banking survey since 1999. The Swiss Business Cycle Institute (KOF) in Zurich has been conducting a quarterly banking and insurance survey since the beginning of 2000.

In the USA, the Federal Reserve Bank has been conducting a "Senior Loan Officer Opinion Survey on Bank Lending Practices" for many years, but unlike the UK, Polish and Swiss banking surveys, it focuses on bank lending practices and not the financial performance of the bank sector.

The South African financial services survey is modelled on those of the UK and Switzerland. However, the questionnaire has been adapted for South African conditions and needs. Furthermore, it also includes the questions on credit standards for approving applications for loans and credit lines out of the US "Senior Loan Officer Opinion Survey".

Ensuring the reliability and accuracy of the financial sector survey

The questionnaire has been designed for maximum efficiency and minimum input time. Only multiple-answer type ticks are required. No figures are requested. For example, participants only have to tick if a particular activity (such as total income or number of people employed) is "up", "the same" or "down" compared to the same period a year ago and with respect to their South African operations only.

Respondents are carefully selected and approached on the basis of their position in the financial world. The head of retail banking or the head of group life insurance is quizzed and not the chairperson of the board of directors of the group or holding company. Divisional heads tend to be best informed about their business units. The confidentiality of the responses adds to the honesty and candour of participants. Furthermore, respondent quality is monitored.

The same group of participants is surveyed from one quarter to the next. Changes in the results from one quarter to the next can therefore be attributed to an actual change in the performance yardstick in question and not because of the participation - or not - of particular banks, asset managers or life insurers.

South Africa has relatively few banks, asset managers and life insurers. For example, four banks dominate the retail and six the merchant and investment banking sector. Likewise, two companies dominate the life insurance industry. The number of potential participants in a financial sector survey is therefore relatively low in South Africa.

The degree of presentation of the panel of participants has an important impact on the reliability of a quantitative survey, i.e. when respondents have to indicate actual amounts for each activity and the raw value of the level and change are calculated. In contrast, the financial sector survey is a qualitative survey, i.e. the majority view of respondents on a particular activity is taken as an indication of the direction and strength of the trend in that activity. The degree of presentation of the panel of participants is less of a concern in the case of qualitative surveys. Furthermore, the participation - or not - of a particular respondent has less of an impact on the overall results in the case of qualitative surveys compared to quantitative ones, as the view of the majority is established and not the actual size.

The participating retail and investment banks accounted for 95% of total assets of registered banks in December 2007. The value of the total funds under management of the participating asset managers accounted for 63% of the total during the second quarter of 2007.

For reasons of focus, the following financial institutions are not covered, namely short-term insurers, public financial institutions (e.g. the Reserve Bank, Land Bank, Post Bank and official pension and provident funds), medical insurance savings schemes, the informal micro-lending and savings industry, retailers providing credit and individual insurance brokers/agents. The survey also only focuses on the supply of financial services and not on the demand for such services, which stems from government, businesses, households and the rest of the world.

The survey results reveal trends and not actual figures. The net balance statistic is used to interpret the survey results. (See next section for more details on the interpretation of the net balance statistic.) The net balance statistic is the percentage of respondents replying "up" less the percentage replying "down". The percentage of respondents replying "the same" is ignored. Over the years, the net balance statistic has proved to be the most reliable indicator of the direction and size of change in the trend of the respective activities surveyed. The net balance statistic is a qualitative yardstick of the direction and size of the year-on-year growth rate of a particular activity. A positive net balance implies positive year-on-year growth and vice versa. The higher the value of the net balance (positive / negative), the larger the rate of increase / decrease of the activity in question.

To aggregate the sector performance, individual responses are weighted according to their relative size. It makes sense that the response of a small participant has to count less compared to that of a large participant.

Results are published according to type of activity (e.g. retail banking, investment banking, life insurance and asset management) and not per institution (e.g. ABSA, Investec, Sanlam or Coronation).

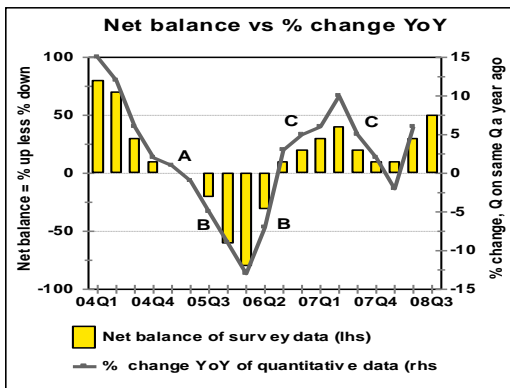
How to interpret the net balance statistic

We base our interpretation of the survey results on the net balance statistic. Over the years, the net balance statistic has proved to be the most reliable indicator of the direction and size of change in the trend of the respective activities surveyed. The net balance statistic is the percentage of respondents replying “up” less the percentage replying “down”. The percentage of respondents replying “the same” is ignored. For example, if the percentage of respondents rating the volume of business higher / the same / lower compared to the same period a year ago is as follows:

Higher	Same	Lower	Net balance
70%	10%	20%	50%

Then we can conclude that the majority of participants experienced higher business volumes. A net majority (i.e. the percentage of respondents rating the volume of business higher less the percentage rating the volume lower) of 50% is registered in the above example.

The net balance statistic is an advanced qualitative yardstick / indicator of the direction (up, same or down) and size (small or large) of the year-on-year percentage change of the corresponding quantitative data (if available) of a particular activity. A net balance of zero tends to indicate no growth (marked “A” on the accompanying chart), between 0 and -100 a contraction (marked “B”) and between 0 and 100 an expansion (marked “C”) compared to the same quarter a year ago. A positive net balance, therefore, implies positive year-on-year growth and vice versa. The higher the value of the net balance (positive / negative), the larger the rate of increase / decrease of the activity in question tend to be.



Note that a net balance of -50%, for instance, is therefore not equivalent to a -50% decline (calculated year-on-year) in the quantitative data series. A net balance of -50% may correspond to -10% in the case of one set of quantitative data and -3% in another case. The net balance and corresponding percentage change in the quantitative data vary from one data set to the next and this relationship could only be established if many data points are available.

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