

Out of the Ordinary



Investec Bank Limited
Credit ratings fact sheet

2018



Contextualising Investec Bank Limited's rating – May 2018

An overview of Investec Bank Limited

Investec Bank Limited (IBL) is the main banking subsidiary of Investec Limited (South African holding company listed on the Johannesburg Stock Exchange). Investec Limited owns 100% of the ordinary shares in IBL.

IBL operates as a specialist bank in South Africa and Mauritius, providing a wide array

of banking products and services to a niche client base, largely comprising professional private clients, high-net-worth individuals, mid-to-large size corporates and institutions. IBL is the fifth largest bank in South Africa, as measured in terms of size of on-balance sheet assets. The bank however, does not target the mass-retail market in the country and in the majority of its chosen niches would be a dominant player in terms of brand and market share.

Stability in IBL's ratings

A history of IBL's ratings is shown in the table below. IBL's ratings have remained stable over many years reflecting the financial

soundness of the bank over a long period of time (see key financial metrics of the bank further below). Past rating adjustments have largely been associated with changes in views by the rating agencies of the credit worthiness of the 'South African sovereign'. Adjustments in the sovereign rating of South Africa lead to an automatic adjustment in the ratings of the major banks in the country. It is generally accepted that a bank cannot have a higher rating than the sovereign of the country in which they operate, unless they are largely foreign-owned and the foreign holding company is domiciled in a country with a higher rating than South Africa.

IBL credit ratings history

| | Fitch Long-term | | Moody's Long-term | | Standard & Poors Long-term | |
|---------------|-------------------|----------------|--------------------|----------------------|----------------------------|---------------------|
| | Foreign currency | National scale | Foreign currency | National scale | Foreign currency | National scale |
| July 2018 | BB+ | AA(zaf) | Baa3 | Aa1.za | BB [^] | za.AA+ |
| November 2017 | BB+ | AA(zaf) | Baa3 | Aa1.za | BB [^] | za.AA- [^] |
| August 2017 | BB+ | AA(zaf) | Baa3 | Aa1.za | BB+ | za.AA |
| June 2017 | BB+ | AA(zaf) | Baa3 ^{**} | Aa1.za | BB+ | za.A |
| April 2017 | BB+ [^] | AA(zaf) | Baa2 | Aa1.za | BB+ [^] | za.A |
| May 2016 | BBB- | AA-(zaf) | Baa2 | Aa1.za ^{**} | BBB- | za.AA- |
| December 2015 | BBB- | AA-(zaf) | Baa2 | A1.za | BBB- | za.AA- |
| November 2014 | BBB- | AA-(zaf) | Baa2 [*] | A1.za | BBB- | za.AA |
| August 2014 | BBB- | AA-(zaf) | Baa1 | A1.za | BBB- | za.AA |
| June 2014 | BBB- | AA-(zaf) | Baa1 | Aa3.za | BBB- | za.AA |
| February 2014 | BBB- | AA-(zaf) | Baa1 | Aa3.za | BBB | za.AA |
| January 2013 | BBB- | A+(zaf) | Baa1 | Aa3.za | | |
| October 2012 | BBB- | A+(zaf) | Baa1 ^{**} | Aa3.za | | |
| February 2012 | BBB- [^] | A+(zaf) | A3 | Aa2.za | | |
| December 2009 | BBB | A+(zaf) | A3 | Aa2.za | | |
| December 2007 | BBB+ | AA-(zaf) | Baa1 | Aa2.za | | |

^{**} National long-term deposit rating change due to the repositioning of the national scale ratings by Moody's.

[^] Changes reflect downgrades of the sovereign rating of South Africa.

^{*} Rating action taken by Moody's and reflects their view on the sovereign rating of South Africa.

Current rating and peer group rating comparison

Below is a comparison of ratings across some of the banks in South Africa.

| | Investec Bank Limited (IBL) | Absa Bank Limited | FirstRand Bank Limited | Nedbank Limited | Standard Bank Limited |
|---|-----------------------------|-------------------|------------------------|-----------------|-----------------------|
| Moody's | | | | | |
| BCA | baa3 | baa3 | baa3 | baa3 | baa3 |
| Adjusted BCA | baa3 | baa3 | baa3 | baa3 | baa3 |
| Global ratings | | | | | |
| Long-term deposit rating | Baa3 | Baa3 | Baa3 | Baa3 | Baa3 |
| Short-term deposit rating | P-3 | P-3 | P-3 | P-3 | P-3 |
| National scale ratings | | | | | |
| Long-term rating | Aa1.za | Aa1.za | Aaa.za | Aa1.za | Aa1.za |
| Short-term rating | P-1.za | P-1.za | P-1.za | P-1.za | P-1.za |
| Long-term senior unsecured and issuer rating | Baa3 | Baa3 | (P)Baa3 | (P)Baa3 | (P)Baa3 |
| Senior subordinated rating | (P)Ba1 | N/A | (P)Ba2 | Ba1 | N/A |
| Outlook | Stable | Stable | Stable | Stable | Stable |
| Fitch | | | | | |
| Viability rating | bb+ | bb+ | bb+ | bb+ | bb+ |
| Support rating | 3 | 3 | 3 | 3 | 3 |
| Foreign currency issuer default ratings (IDR) | | | | | |
| Long-term foreign currency IDR | BB+ | BB+ | BB+ | BB+ | BB+ |
| Short-term foreign currency IDR | B | B | B | B | B |
| National scale issuer default ratings (IDR) | | | | | |
| National long-term rating | AA(zaf) | AA(zaf) | AA(zaf) | AA(zaf) | AA(zaf) |
| National short-term rating | F1+(zaf) | F1+(zaf) | F1+(zaf) | F1+(zaf) | F1+(zaf) |
| Outlook | Stable | Stable | Stable | Stable | Stable |
| Standard & Poors | | | | | |
| Foreign currency | | | | | |
| Long-term deposit rating | BB | n/a | BB | BB | n/a |
| Short-term deposit rating | B | n/a | B | B | n/a |
| National currency | | | | | |
| Long-term deposit rating | za.AA+ | za.AA+ | za.AA+ | za.AA+ | n/a |
| Short-term deposit rating | za.A-1+ | za.A-1+ | za.A-1+ | za.A-1+ | n/a |
| Outlook | Stable | n/a | Stable | Stable | n/a |
| Global Credit Ratings | | | | | |
| International, local currency | | | | | |
| Long-term rating | BB+ | BB+ | BB+ | BB+ | BB+ |
| National | | | | | |
| Long-term rating | AA(za) | AA+(za) | AA+(za) | AA(za) | AA+(za) |
| Short-term rating | A1+(za) | A1+(za) | A1+(za) | A1+(za) | A1+(za) |

Rating definitions:

Short-term ratings should be used for investments less than a one-year time horizon and long-term ratings for periods greater than a year. Foreign currency ratings should be used when one is considering foreign-denominated investments. Investments in Rand should be assessed against local currency and national ratings, (zaf) being Fitch's notation and .za for Moody's, Standard & Poor's and Global Credit Ratings notation for South African ratings.

Note: Comparative ratings have been sourced from the respective company websites and recent press releases as at May 2018 and may be subject to changes for which we cannot be held accountable. It is advisable to discuss the ratings of the various companies with the companies themselves, as this information merely reflects our interpretation thereof.

Further peer group information

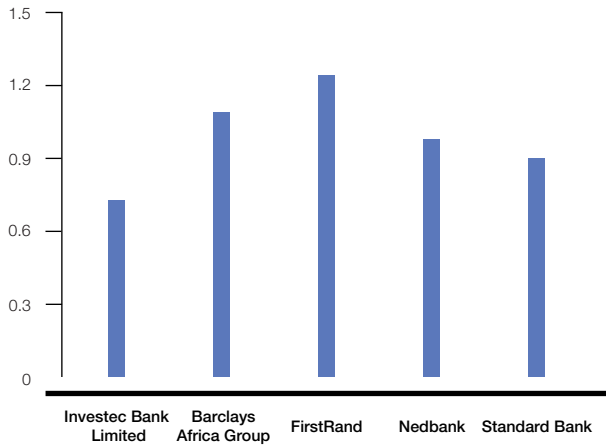
On a stand-alone basis (i.e. looking at the financial strength of the Big 5 banks, excluding assumptions around Sovereign support) there is very little differential between the key risk metrics of the Big 5 banks as depicted in the graphs on the following page.

Investec remains the most liquid of the Big 5 banks and is a net provider of funds to the interbank market in South Africa. Investec has a very conservative approach to liquidity, which has been in place for many years. As at 31 March 2018, the bank had R116.5 billion of cash and near cash balances on its balance sheet, which approximates to roughly 36c of every R1 deposit received being held in liquid assets. IBL group has one of the highest liquidity coverage ratios (LCR) at 133.9% at 31 March 2018. IBL holds capital in excess of regulatory requirements and intends to perpetuate this philosophy and ensure that it remains well capitalised. IBL is not a highly geared bank.

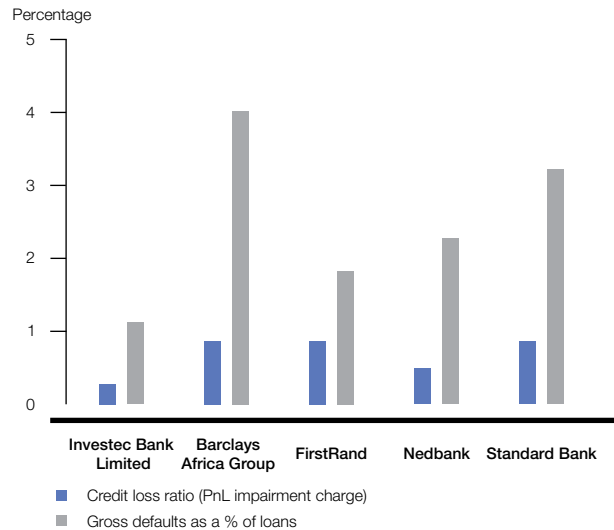
A number of banks that have come into difficulty over the past few years have been in excess of 40 times geared. IBL's comparative ratio would be 11.2 times.

Peer comparison

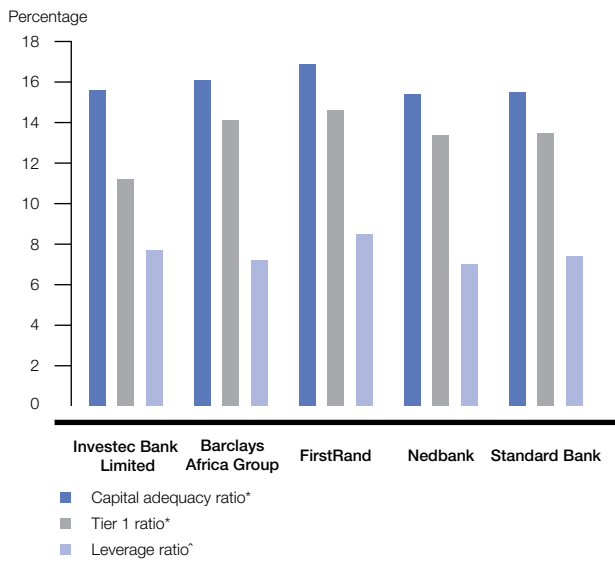
Funding: Advances to: Customer deposits (smaller number is better)



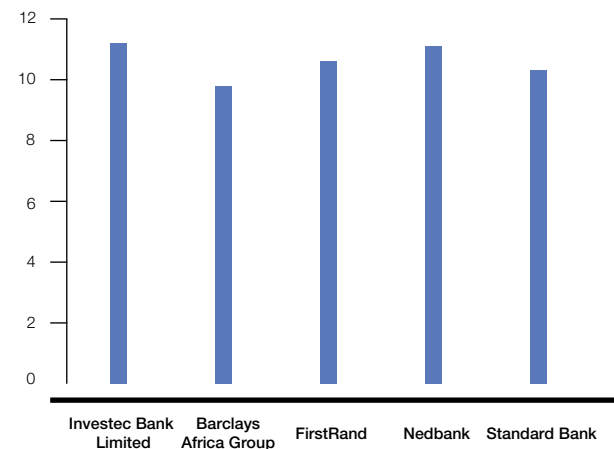
Asset quality ratios: (smaller number is better)



Capital ratios %: (larger number is better)



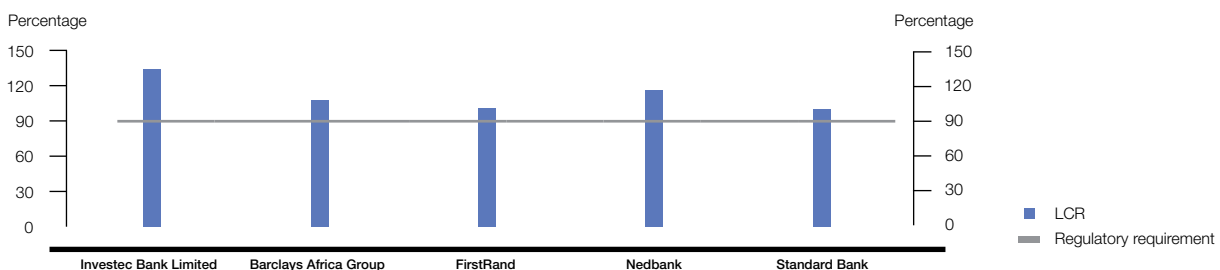
Gearing ratio: Assets: Equity (smaller number is better)



* Note: IBL is on the standardised (more conservative) approach to capital in terms of Basel III compared to the Big 4 banks which are on the advanced approach. IBL's risk-weighted assets represents over 72% of total assets compared to the average of the other banks of approximately 59%.

^ Regulatory equity divided by regulatory assets.

Basel liquidity coverage ratio (LCR)



Source: Latest company interim/annual and quarterly results.

An overview of IBL's operating fundamentals

IBL has maintained consistently sound operating fundamentals through varying economic cycles as evidenced in the table below.

| | 31 March 2018 | 31 March 2017 | 31 March 2016 | 31 March 2015 | 31 March 2014 | 31 March 2013 | 31 March 2012 | 31 March 2011 | % change March 2018 vs March 2011 |
|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|---|
| Operating profit before taxation and headline adjustments (R'mn) | 4 475 | 4 159 | 4 295 | 3 673 | 2 465 | 2 123 | 2 173 | 2 414 | 85% |
| Headline earnings (R'mn) | 4 446 | 3 069 | 3 449 | 3 014 | 2 086 | 1 741 | 1 812 | 2 191 | 103% |
| Cost to income ratio | 53.3% | 54.7% | 53.3% | 53.9% | 57.0% | 54.8% | 52.7% | 49.3% | |
| Total capital resources (including subordinated liabilities) (R'mn) | 51 789 | 48 345 | 42 597 | 39 348 | 36 099 | 36 005 | 29 642 | 25 703 | 102% |
| Total shareholders' equity (R'mn) | 38 415 | 35 165 | 31 865 | 28 899 | 25 601 | 23 509 | 20 933 | 18 837 | 104% |
| Tangible equity (excluding preference shares, goodwill and intangibles) (R'mn) | 36 298 | 32 952 | 29 636 | 27 175 | 23 965 | 21 885 | 19 303 | 17 195 | 111% |
| Total assets (R'mn) | 444 072 | 425 687 | 411 980 | 332 706 | 303 218 | 279 274 | 255 952 | 221 562 | 100% |
| Net core loans and advances (R'mn) | 254 304 | 233 445 | 215 239 | 177 528 | 151 384 | 138 105 | 124 917 | 115 373 | 120% |
| Customer accounts (deposits) (R'mn) | 321 893 | 303 397 | 279 736 | 221 377 | 204 903 | 185 311 | 176 094 | 154 772 | 108% |
| Cash and near cash balances (R'mn) | 116 533 | 117 586 | 124 907 | 88 691 | 84 476 | 72 974 | 69 077 | 52 591 | 122% |
| Risk-weighted assets (R'mn) | 320 607 | 313 010 | 295 752 | 257 931 | 238 396 | 217 715 | 184 253 | 163 537 | 96% |
| Capital adequacy ratio | 15.5% | 15.4% | 14.6% | 15.4% | 15.3% | 16.2% | 16.1% | 15.6% | |
| Tier 1 ratio (current) | 11.2% | 11.1% | 11.0% | 11.4% | 10.8% | 10.9% | 11.4% | 11.5% | |
| Common equity tier 1 ratio (current) | 10.9% | 10.8% | 10.6% | 11.0% | 10.3% | ^ | ^ | ^ | |
| Leverage ratio (current) | 7.7% | 7.6% | 7.2% | 8.3% | 7.9% | ^ | ^ | ^ | |
| Default loans (net of impairments) as a % of core loans and advances | 0.56% | 1.03% | 1.06% | 1.46% | 1.50% | 1.93% | 2.79% | 4.13% | |
| Net defaults (after collateral and impairments) as a % of net core loans and advances | - | - | - | - | - | - | - | - | |
| Credit loss ratio (i.e. income statement impairment charge as a % of average core loans and advances) | 0.28% | 0.29% | 0.26% | 0.29% | 0.44% | 0.65% | 0.69% | 0.74% | |
| Total gearing ratio (i.e. total assets excluding intergroup loans to equity) | 11.2x | 11.6x | 12.6x | 11.4x | 11.8x | 11.4x | 12.0x | 11.4x | |
| Loans as a % of customer deposits | 76.9% | 74.4% | 74.1% | 78.1% | 72.5% | 73.2% | 69.6% | 73.9% | |

^ Information not previously disclosed.

For further information:

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