

Out of the Ordinary



Investec Bank Limited
Credit ratings fact sheet

2018



Contextualising Investec Bank Limited's rating – November 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 long-term deposit rating	Baa3	Baa3	Baa3	Baa3	Baa3
Global short-term deposit rating	P-3	P-3	P-3	P-3	P-3
National scale long-term ratings	Aa1.za	Aa1.za	Aaa.za	Aa1.za	Aa1.za
National scale short-term ratings	P-1.za	P-1.za	P-1.za	P-1.za	P-1.za
Long-term senior unsecured 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					
Long-term rating	za.AA+	za.AA+	za.AA+	za.AA+	n/a
Short-term 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 November 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.

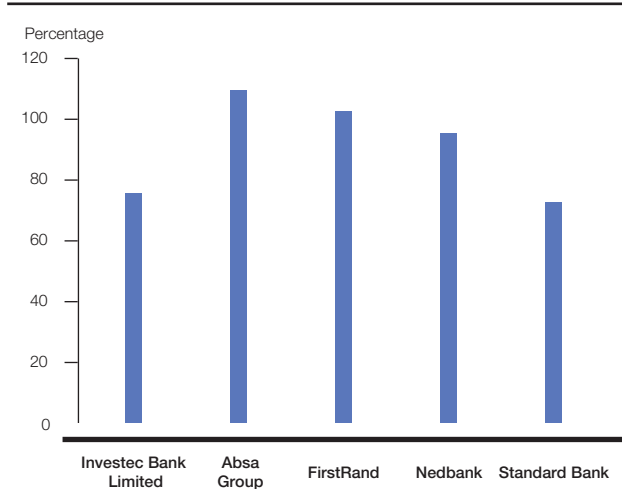
Further peer group information

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.

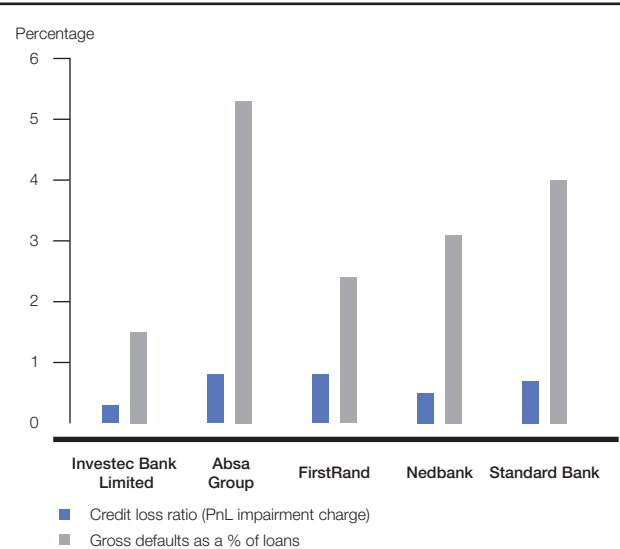
Investec remains the most liquid of the Big 5 banks and is a net provider of funds to the interbank market in South Africa. Investec has a very conservative approach to liquidity, which has been in place for many years. As at 30 September 2018, the bank had R110.8 billion of cash and near cash balances on its balance sheet, which approximates to roughly 34c of every R1 deposit received being held in liquid assets. IBL group has one of the highest liquidity coverage ratios (LCR) at 137.4% at 30 September 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 10.9 times.

Peer comparison

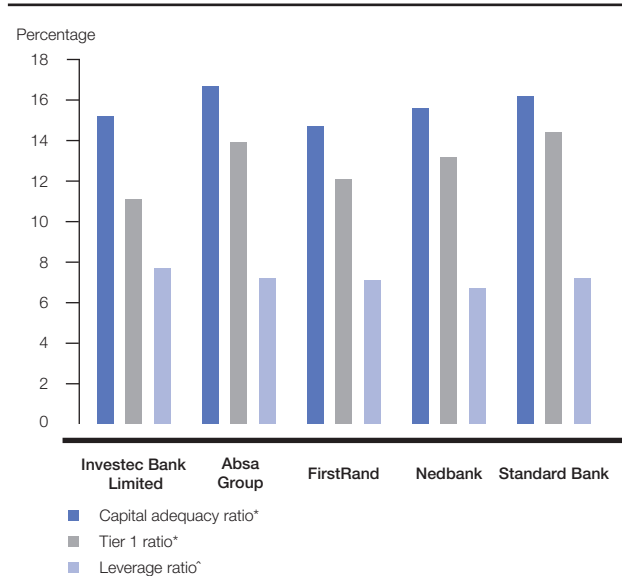
Funding: Advances to: Customer deposits (smaller number is better)



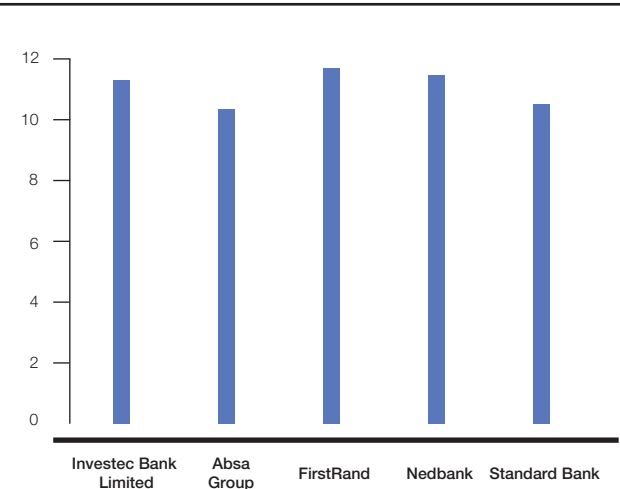
Asset quality ratios: (smaller number is better)



Capital ratios %: (larger number is better)



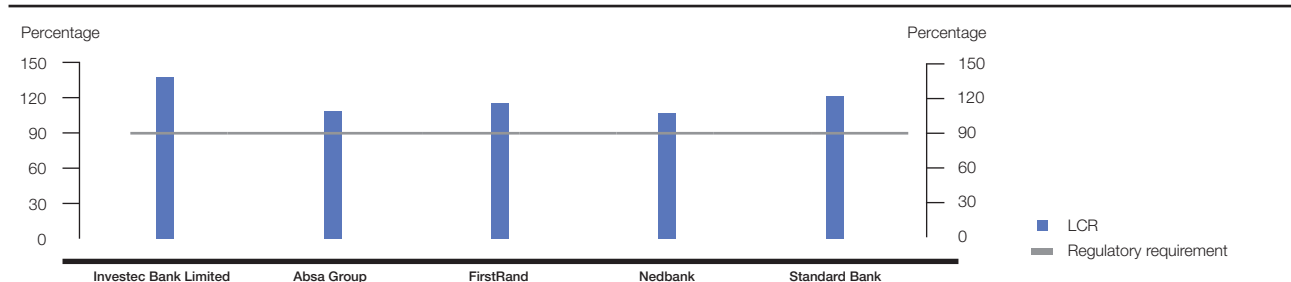
Gearing ratio: Assets: Equity (smaller number is better)



* 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 represent over 73.6% of total assets compared to the average of the other banks of approximately 60%.

^ 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.

	Six months to							% change
	30 Sept 2018	31 March 2018	31 March 2017	31 March 2016	31 March 2015	31 March 2014	31 March 2013	31 March 2018 vs 2013
Operating profit before taxation and headline adjustments (R'mn)	2 530	4 475	4 159	4 295	3 673	2 465	2 123	>100%
Headline earnings (R'mn)	2 038	4 446	3 069	3 449	3 014	2 086	1 741	>100%
Cost to income ratio	52.3%	53.3%	54.7%	53.3%	53.9%	57.0%	54.8%	
Total capital resources (including subordinated liabilities) (R'mn)	52 412	51 789	48 345	42 597	39 348	36 099	36 005	44%
Total equity (R'mn)	39 659	38 415	35 165	31 865	28 899	25 601	23 509	63%
Tangible equity (excluding preference shares, goodwill and intangibles) (R'mn)	37 494	35 948	32 952	29 636	27 175	23 965	21 885	64%
Total assets (R'mn)	448 305	444 072	425 687	411 980	332 706	303 218	279 274	59%
Net core loans and advances (R'mn)	259 147	254 304	233 445	215 239	177 528	151 384	138 105	84%
Customer accounts (deposits) (R'mn)	331 732	321 893	303 397	279 736	221 377	204 903	185 311	74%
Cash and near cash balances (R'mn)	110 827	116 533	117 586	124 907	88 691	84 476	72 974	60%
Risk-weighted assets (R'mn)	330 146	320 607	313 010	295 752	257 931	238 396	217 715	47%
Capital adequacy ratio	15.2%	15.5%	15.4%	14.6%	15.4%	15.3%	16.2%	
Tier 1 ratio	11.2%	11.2%	11.1%	11.0%	11.4%	10.8%	10.9%	
Common equity tier 1 ratio	10.9%	10.9%	10.8%	10.6%	11.0%	10.3%	^	
Leverage ratio (current)	7.7%	7.7%	7.6%	7.2%	8.3%	7.9%	^	
Stage 3 exposure net of ECL/default loans net of impairment as a % of core loans and advances subject to ECL	0.8%	0.56%	1.03%	1.06%	1.46%	1.50%	1.93%	
Credit loss ratio [#]	0.29%	0.28%	0.29%	0.26%	0.29%	0.44%	0.65%	
Total gearing ratio (i.e. total assets excluding intergroup loans to equity)	10.9x	11.2x	11.6x	12.6x	11.4x	11.8x	11.4x	
Loans and advances to customers as a % of customer deposits	75.6%	76.9%	74.4%	74.1%	78.1%	72.5%	73.2%	

[^] Information not previously disclosed.

[#] Expected credit loss (ECL) impairment charges on gross core loans and advances as a % of gross core loans and advances subject to ECL.

For further information:

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