

INVESTEC | 2019  
BANK LIMITED

*Credit ratings fact sheet*



# CONTEXTUALISING INVESTEC BANK LIMITED'S RATING – MAY 2019

## *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	
	<i>Foreign currency</i>	<i>National scale</i>	<i>Foreign currency</i>	<i>National scale</i>	<i>Foreign currency</i>	<i>National scale</i>
July 2018	BB+	AA(zaf)	Baa3	Aa1.za	BB <sup>^</sup>	za.AA+
November 2017	BB+	AA(zaf)	Baa3	Aa1.za	BB <sup>^</sup>	za.AA- <sup>^</sup>
August 2017	BB+	AA(zaf)	Baa3	Aa1.za	BB+	za.AA
June 2017	BB+	AA(zaf)	Baa3 <sup>^</sup>	Aa1.za	BB+	za.A
April 2017	BB+ <sup>^</sup>	AA(zaf)	Baa2	Aa1.za	BB+ <sup>^</sup>	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 <sup>^</sup>	Aa3.za		
February 2012	BBB- <sup>^</sup>	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.

<sup>^</sup> Changes reflect downgrades of 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.

	<b>Investec Bank Limited (IBL)</b>	Absa Bank Limited	FirstRand Bank Limited	Nedbank Limited	Standard Bank of South Africa Limited
<b>Moody's</b>					
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
<b>Fitch</b>					
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	Negative	Negative	Negative	Negative	Negative
<b>Standard &amp; Poors</b>					
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
<b>Global Credit Ratings</b>					
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 14 August 2019 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.

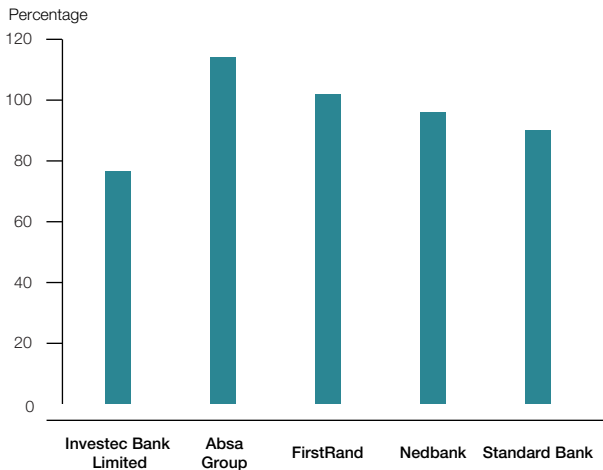
### Further peer group information

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.

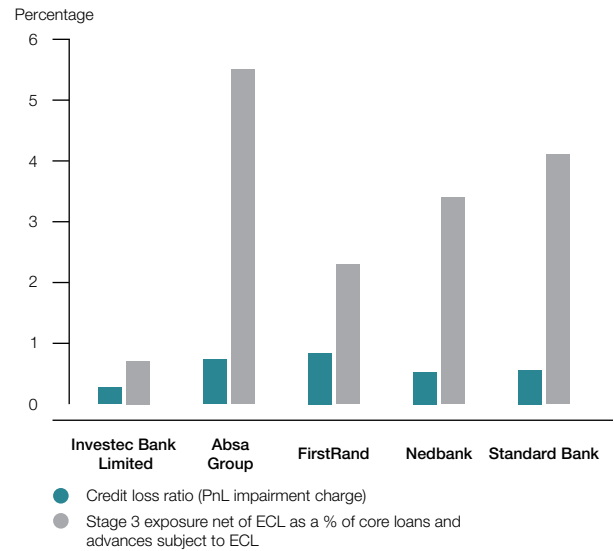
Investec remains the most liquid of the Big 5 banks and is a net provider of funds to the interbank market in South Africa. Investec has a very conservative approach to liquidity, which has been in place for many years. As at 31 March 2019, the bank had R118.4 billion of cash and near cash balances on its balance sheet, which approximates to roughly 35c of every R1 deposit received being held in liquid assets. IBL group has one of the highest liquidity coverage ratios (LCR) at 144.6% at 31 March 2019. 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 11.0 times.

# PEER COMPARISON

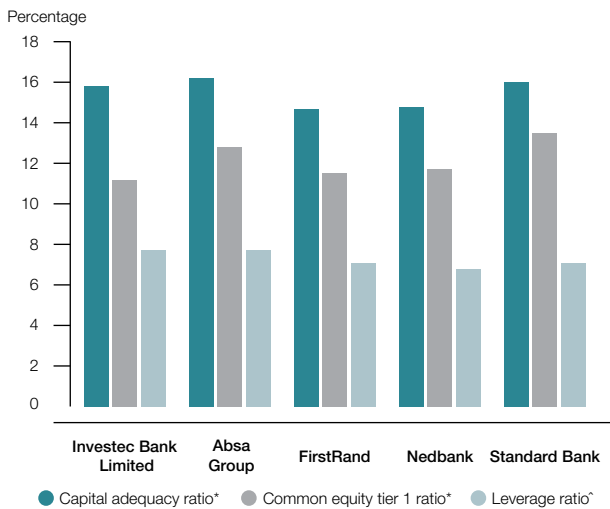
## Funding: Loan to customer deposit ratio (smaller number is better)



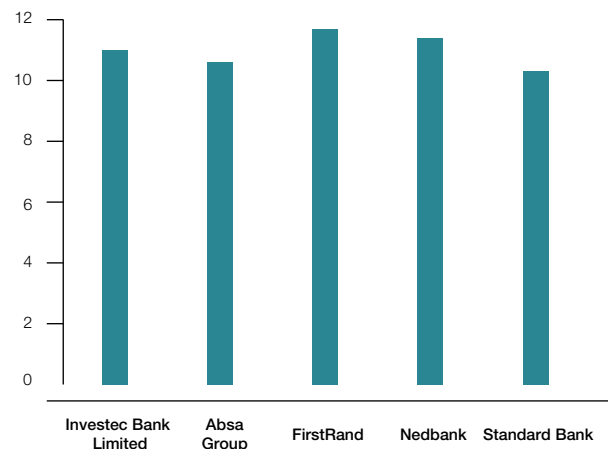
## Asset quality ratios: (smaller number is better)



## Capital ratios: (larger number is better)



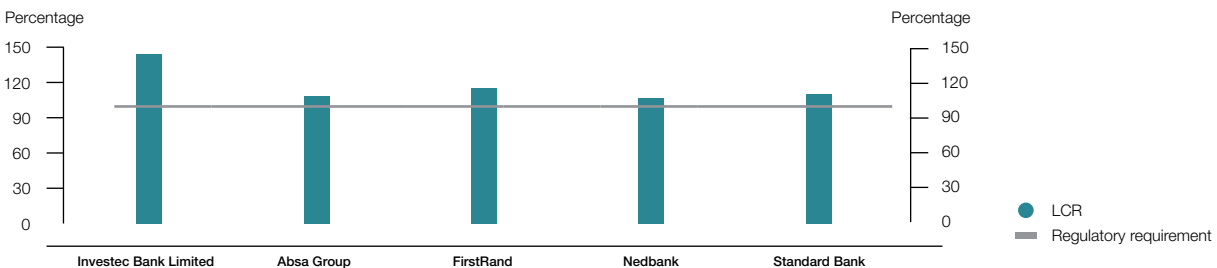
## Gearing: Assets to Equity ratio (smaller number is better)



\* 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 71.6% of total assets compared to the average of the other banks of approximately 63%. We have approval to adopt the Foundation Internal Ratings-Based (FIRB) approach, effective 1 April 2019. On a pro forma FIRB basis for 31 March 2019, the capital adequacy ratio was 17.7% and the common equity tier 1 ratio was 12.5%.

^ Regulatory equity divided by regulatory assets.

## Basel liquidity coverage ratio (LCR)



Source: Latest company interim/annual and quarterly results available at 16 May 2019.

# 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 2019	31 March 2018	31 March 2017	31 March 2016	31 March 2015	% change 31 March 2019 vs 31 March 2015
Operating profit before taxation and headline adjustments (R'mn)	5 337	4 475	4 159	4 295	3 673	45%
Headline earnings (R'mn)	4 784	4 446	3 069	3 449	3 014	59%
Cost to income ratio*	51.7%	53.3%	54.7%	53.3%	53.9%	
Total capital resources (including subordinated liabilities) (R'mn)	55 678	51 789	48 345	42 597	39 348	42%
Total equity (R'mn)	41 760	38 415	35 165	31 865	28 899	45%
Tangible equity (excluding preference shares, goodwill and intangibles) (R'mn)	39 177	35 948	32 952	29 636	27 175	44%
Total assets (R'mn)	475 603	444 072	425 687	411 980	332 706	43%
Net core loans and advances (R'mn)	269 404	254 304	233 445	215 239	177 528	52%
Customer accounts (deposits) (R'mn)	341 710	321 893	303 397	279 736	221 377	54%
Cash and near cash balances (R'mn)	118 365	116 533	117 586	124 907	88 691	33%
Risk-weighted assets (R'mn)	340 315	320 607	313 010	295 752	257 931	32%
Capital adequacy ratio	15.8% <sup>^</sup>	15.5%	15.4%	14.6%	15.4%	
Tier 1 ratio	11.5% <sup>^</sup>	11.2%	11.1%	11.0%	11.4%	
Common equity tier 1 (CET1) ratio	11.2% <sup>^</sup>	10.9%	10.8%	10.6%	11.0%	
Leverage ratio (current)	7.7%	7.7%	7.6%	7.2%	8.3%	
Stage 3 exposure net of ECL/default loans net of impairment as a % of core loans and advances subject to ECL	0.7%	0.56%	1.03%	1.06%	1.46%	
Credit loss ratio <sup>#</sup>	0.27%	0.28%	0.29%	0.26%	0.29%	
Total gearing ratio (i.e. total assets excluding intergroup loans to equity)	11.0x	11.2x	11.6x	12.6x	11.4x	
Loans and advances to customers as a % of customer deposits	76.6%	76.9%	74.4%	74.1%	78.1%	

<sup>#</sup> Expected credit loss (ECL) impairment charges on gross core loans and advances as a % of gross core loans and advances subject to ECL.

\* The group's cost to income ratio is calculated as: operating costs divided by operating income (net of operating profits or losses attributable to other non-controlling interests).

<sup>^</sup> We have approval to adopt the Foundation Internal Rating's-Based (FIRB) approach, effective 1 April 2019. On a pro-forma FIRB basis for 31 March 2019, the capital adequacy ratio was 17.7%, CET 1 ratio was 12.5% and the Tier 1 ratio 12.8%.

## For further information:

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