

# Possibilities and opportunities

Investec Bank Limited

Credit ratings fact sheet



## CONTEXTUALISING INVESTEC BANK LIMITED'S RATINGS - November 2022

## 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 it operates, unless it is 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		Moody's		Standard & Poor's	
	Foreign currency*	National scale	Foreign currency*	National scale	Foreign currency*	National scale
	<b>Long-term</b>					
<b>Dec 2020</b>	<b>BB-</b>	<b>AA+(zaf)</b>	<b>Ba2</b>	<b>Aa1.za</b>	<b>BB-</b>	<b>za.AA</b>
Nov 2020	BB- <sup>^</sup>	AA(zaf)	Ba2 <sup>^</sup>	Aa1.za	BB-	za.AA
May 2020	BB	AA(zaf)	Ba1	Aa1.za	BB- <sup>^</sup>	za.AA
Apr 2020	BB	AA(zaf)	Ba1	Aa1.za	BB	za.AA
Mar 2020	BB <sup>^</sup>	AA-(zaf)	Ba1 <sup>^</sup>	Aa1.za	BB	za.AA
Nov 2019	BB+	AA(zaf)	Baa3	Aa1.za	BB	za.AA <sup>^</sup>
Jul 2018	BB+	AA(zaf)	Baa3	Aa1.za	BB	za.AA+
Nov 2017	BB+	AA(zaf)	Baa3	Aa1.za	BB <sup>^</sup>	za.AA- <sup>^</sup>
Aug 2017	BB+	AA(zaf)	Baa3	Aa1.za	BB+	za.AA
Jun 2017	BB+	AA(zaf)	Baa3 <sup>^</sup>	Aa1.za	BB+	za.A
Apr 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-
Dec 2015	BBB-	AA-(zaf)	Baa2	A1.za	BBB-	za.AA-
Nov 2014	BBB-	AA-(zaf)	Baa2	A1.za	BBB-	za.AA
Aug 2014	BBB-	AA-(zaf)	Baa1	A1.za	BBB-	za.AA
Jun 2014	BBB-	AA-(zaf)	Baa1	Aa3.za	BBB-	za.AA
Feb 2014	BBB-	AA-(zaf)	Baa1	Aa3.za	BBB	za.AA
Jan 2013	BBB-	AA-(zaf)	Baa1	Aa3.za		
Oct 2012	BBB-	A+(zaf)	Baa1 <sup>^</sup>	Aa3.za		
Feb 2012	BBB- <sup>^</sup>	A+(zaf)	A3	Aa2.za		
Dec 2009	BBB	A+(zaf)	A3	Aa2.za		
Dec 2007	BBB+	AA-(zaf)	Baa1	Aa2.za		

\* Investec Bank Limited's latest foreign and local/domestic currency credit ratings are identical.

\*\* 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 RATINGS AND PEER GROUP RATINGS COMPARISON

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

Bank name	Investec Bank Limited	Absa Bank Limited	FirstRand Bank Limited	Nedbank Limited	Standard Bank of South Africa Limited
<b>Moody's</b>					
National					
Long-term deposit rating	Aa1.za	Aa1.za	Aa1.za	Aa1.za	Aa1.za
Short-term deposit rating	P-1.za	P-1.za	P-1.za	P-1.za	P-1.za
Foreign currency					
Long-term deposit rating	Ba2	Ba2	Ba2	Ba2	Ba2
Short-term deposit rating	NP	NP	NP	NP	NP
Long-term senior unsecured issuer rating	Ba2	Ba2	Ba2	(P)Ba2	(P)Ba2
Senior subordinated rating	N/A	N/A	B1	N/A	(P)Ba3
Baseline Credit Assessment (BCA)	ba2	ba2	ba2	ba2	ba2
Outlook	Stable	Stable	Stable	Stable	Stable
<b>Fitch</b>					
National					
Long-term deposit rating	AA+(zaf)	n/a	AA+(zaf)	AA+(zaf)	AA+(zaf)
Short-term deposit rating	F1+(zaf)	n/a	F1+(zaf)	F1+(zaf)	F1+(zaf)
Foreign currency					
Long-term Issuer Default Rating (IDR)	BB-	n/a	BB-	BB-	BB-
Short-term Issuer Default Rating (IDR)	B	n/a	B	B	B
Viability rating	bb-	n/a	bb-	bb-	bb-
Outlook	Stable	n/a	Stable	Stable	Stable
<b>Standard &amp; Poor's</b>					
National					
Long-term issuer credit rating	za.AA	za.AA	za.AA	za.AA	n/a
Short-term issuer credit rating	za.A-1+	za.A-1+	za.A-1+	za.A-1+	n/a
Foreign currency					
Long-term issuer credit rating	BB-	n/a	BB-	BB-	n/a
Short-term issuer credit rating	B	n/a	B	B	n/a
Outlook	Positive	n/a	Positive	Positive	n/a
<b>GCR</b>					
National					
Long-term rating	AA(za)	AA(za)	AA+(za)	AA(za)	AA+(za)
Outlook	Positive	Stable	Positive	Stable	Stable
Short-term rating	A1+(za)	A1+(za)	A1+(za)	A1+(za)	A1+(za)
International					
Long-term rating	BB	BB	BB	BB	BB
Short-term rating	B	B	B	B	B
Outlook	Stable	Stable	Positive	Stable	Stable

## CURRENT RATINGS AND PEER GROUP RATINGS COMPARISON

Rating definitions: Short-term ratings should be used for investments with a one-year or less 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 GCR notation for South African ratings.

Note: Comparative ratings have been sourced from the respective company websites and recent press releases as at 17 November 2022 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

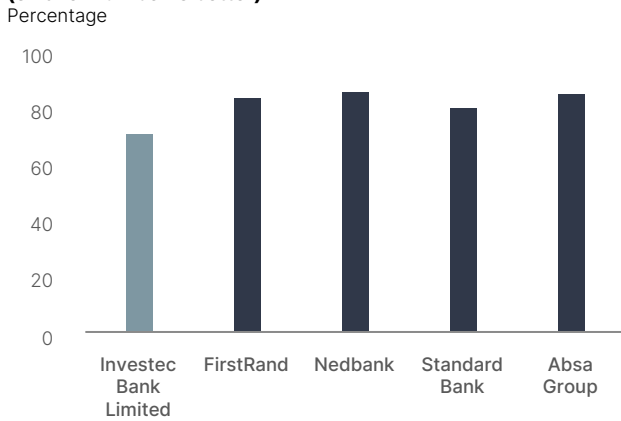
On a stand-alone basis (i.e. looking at the financial strength of the Big 5 banks, excluding assumptions around Sovereign support) there is very little differential between the key risk metrics of the Big 5 banks as depicted in the graphs on the following page.

IBL remains highly liquid and is a net provider of funds to the interbank market in South Africa. Investec has a conservative approach to liquidity, which has been in place for many years. As at 30 September 2022, the bank had R149.2 billion of cash and near cash balances on its balance sheet. IBL (consolidated) had a liquidity coverage ratio (LCR) of 157.7% as of 30 September 2022.

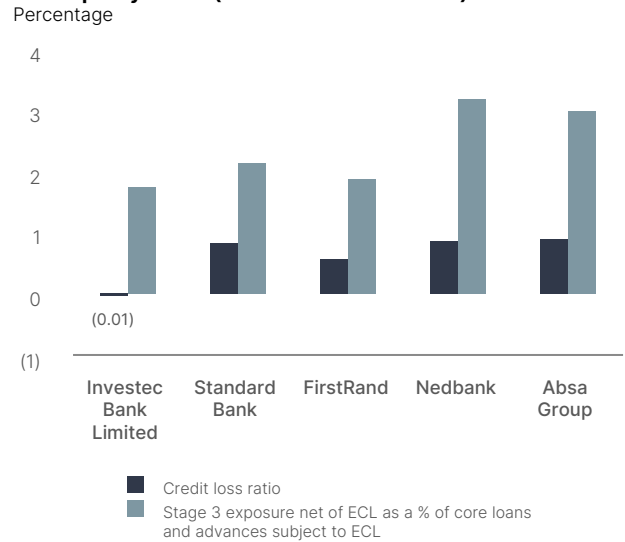
IBL holds capital in excess of regulatory requirements and Board approved minimums, and intends to perpetuate this philosophy to ensure that it remains well capitalised. IBL is not a highly geared bank. A number of banks that have experienced difficulty in the past were in excess of 40 times geared. IBL's gearing ratio at 30 September 2022 was 11.1x times.

PEER COMPARISON

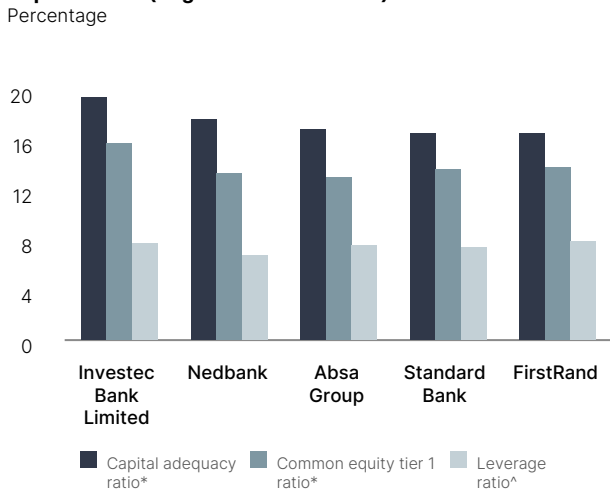
**Funding: Loan to customer deposit ratio (smaller number is better)**



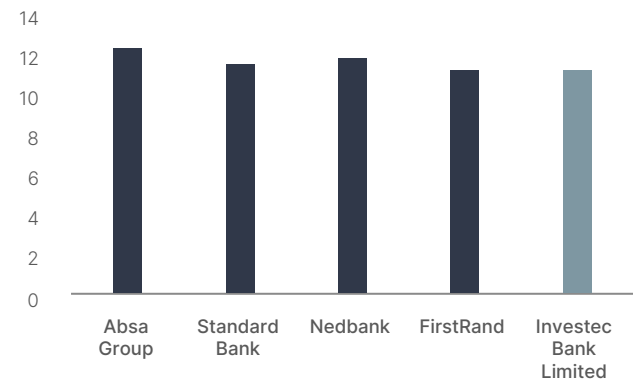
**Asset quality ratios: (smaller number is better)**



**Capital ratios: (larger number is better)**



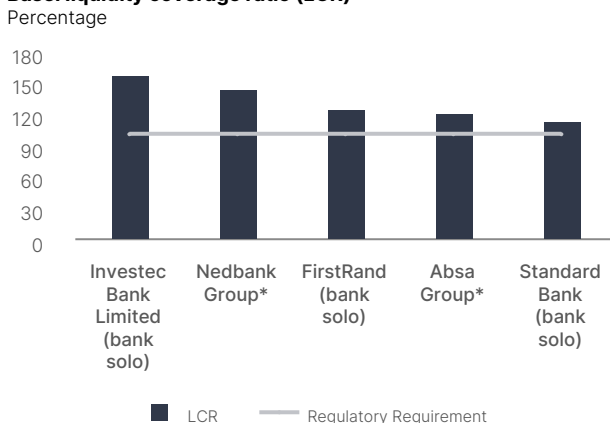
**Gearing: Assets to Equity ratio (smaller number is better)**



\* Investec Bank Limited ( IBL) received approval to adopt the Advanced Internal Ratings Based (AIRB) approach for its SME and Corporate models effective 1 April 2021. We have made progress in our application to adopt AIRB on remaining portfolios where capital is still measured under Foundation Internal Ratings Based (FIRB) approach.

^ Regulatory equity divided by regulatory assets.

**Basel liquidity coverage ratio (LCR)**



\* LCR not disclosed on a bank solo level.

Source: Latest company interim and annual results available at 17 November 2022.

**Note:** All information presented in the graphs are as at 30 September 2022 unless otherwise stated.

## AN OVERVIEW OF IBL'S OPERATING FUNDAMENTALS

IBL has maintained consistently sound operating fundamentals as evidenced below:

	30 Sept 2022	31 March 2022	31 March 2021	31 March 2020	31 March 2019	31 March 2018	% change March 2022 vs March 2018
Operating profit before goodwill and acquired intangibles (R'mn)	<b>4 145</b>	7 247	5 013	4 883	5 381	4 626	56.7%
Headline earnings (R'mn)	<b>3 149</b>	5 260	4 133	3 844	4 784	4 446	18.3%
Cost to income ratio	<b>47.8%</b>	49.3%	53.7%	52.6%	51.7%	53.3%	
Total capital resources (including subordinated liabilities) (R'mn)	<b>56 252</b>	55 973	59 481	53 785	55 678	51 789	8.1%
Total equity (R'mn)	<b>48 590</b>	46 840	46 545	41 748	41 760	38 415	21.9%
Tangible equity (excluding preference shares, goodwill and intangibles) (R'mn)	<b>45 769</b>	43 998	43 901	39 258	39 177	35 948	22.4%
Total assets (R'mn)	<b>569 775</b>	555 237 <sup>^</sup>	510 960 <sup>^</sup>	535 970	475 603	444 072	25.0%
Net core loans (R'mn)	<b>310 355</b>	294 757	283 240	283 946	269 404	254 304	15.9%
Customer accounts (deposits) (R'mn)	<b>434 688</b>	420 072	374 369	375 948	341 710	321 893	30.5%
Cash and near cash balances (R'mn)	<b>149 216</b>	159 454	129 759	147 169	118 365	116 533	36.8%
Risk-weighted assets (R'mn)	<b>296 678</b>	286 903	329 366	319 090	340 315	320 607	(10.5%)
Total capital adequacy ratio	<b>19.5%</b>	20.0%	17.8%	16.4%	17.7%	15.5%	
Tier 1 ratio	<b>16.7%</b>	16.6%	13.7%	12.3%	12.8%	11.2%	
Common equity tier 1 ratio	<b>15.9%</b>	15.8%	13.3%	12.1%	12.5%	10.9%	
Leverage ratio	<b>7.8%</b>	7.9%	8.1%	6.9%	7.6%	7.7%	
Stage 3 exposure net of ECL/default loans net of impairment as a % of core loans subject to ECL	<b>1.7%</b>	1.4%	2.1%	0.9%	0.7%	0.6%	
Credit loss ratio <sup>#</sup>	<b>(0.01)%</b>	0.04%	0.18%	0.37%	0.27%	0.28%	
Total gearing ratio (i.e. total assets excluding intergroup loans to equity)	<b>11.1x</b>	11.4x	10.6x	12.4x	11.0x	11.2x	
Loans and advances to customers as a % of customer deposits	<b>70.1%</b>	68.4%	73.5%	73.6%	76.6%	76.9%	

Note: Investec Limited obtained approval to adopt the AIRB approach for the SME and Corporate models effective 1 April 2021. We have made progress in our application to adopt AIRB on remaining models where capital is still measured on the FIRB approach. On full adoption of the advanced internal ratings based (AIRB) approach, Investec Limited's CET1 ratio at 30 September 2022 would on pro-forma basis increase by 200bps.

<sup>^</sup> Restated

<sup>#</sup> Expected credit loss (ECL) impairment charges on gross core loans as a percentage of average gross core loans subject to ECL

\* Annualised

## FOR FURTHER INFORMATION:

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