

Banking rubric · JSE-listed banks and banking groups

# Banks: four areas, scored out of 10.

The same four areas as the general rubric, with measures that suit companies that lend and take deposits. For a bank, liquidity and solvency are regulated ratios, so the rubric uses the ratios banks already publish.

Draft v0.95: revised after a first trial on three companies in this sector. Thresholds remain open to change until more companies are scored

Operations, Liquidity and Solvency

Points by band

| SUB-SCORE                          | WHAT IT MEASURES                                                                                                                                                                                                                                                                                                                                                        | 5            | 4            | 3            | 2            | 1            | 0          |
|------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------|--------------|--------------|--------------|------------|
| Operations (10)                    |                                                                                                                                                                                                                                                                                                                                                                         |              |              |              |              |              |            |
| O1 Return on equity                | The group return on equity the bank leads with in its results announcement, latest year (headline or normalised). If it publishes both, use the one it leads with. If it publishes none, divide headline earnings by average ordinary shareholders' equity. The reason text states which basis was used<br><br>Where to find it: Financial highlights; income statement | 24% or more  | 20% to 24%   | 16% to 20%   | 12% to 16%   | 8% to 12%    | Below 8%   |
| O2 Cost-to-income ratio            | Operating expenses (before credit impairment charges) divided by total income (net interest income plus non-interest income), group, latest year. Use the ratio the bank publishes and say which basis it states<br><br>Where to find it: Financial highlights; income statement                                                                                        | 50% or less  | 50% to 55%   | 55% to 60%   | 60% to 65%   | 65% to 70%   | Above 70%  |
| Liquidity (10)                     |                                                                                                                                                                                                                                                                                                                                                                         |              |              |              |              |              |            |
| L1 Liquidity coverage ratio (LCR)  | High-quality liquid assets divided by expected net cash outflows over 30 days, as published (use the year-end or average figure the bank discloses, and say which)<br><br>Where to find it: Pillar 3 or risk and capital report                                                                                                                                         | 140% or more | 125% to 140% | 115% to 125% | 105% to 115% | 100% to 105% | Below 100% |
| L2 Net stable funding ratio (NSFR) | Available stable funding divided by required stable funding, as published, latest year<br><br>Where to find it: Pillar 3 or risk and capital report                                                                                                                                                                                                                     | 125% or more | 115% to 125% | 110% to 115% | 105% to 110% | 100% to 105% | Below 100% |

| SUB-SCORE                                   | WHAT IT MEASURES                                                                                                                                                                                                                                                                                               | 5           | 4            | 3              | 2              | 1             | 0          |
|---------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|--------------|----------------|----------------|---------------|------------|
| <b>Solvency (10)</b>                        |                                                                                                                                                                                                                                                                                                                |             |              |                |                |               |            |
| <b>S1 Common equity tier 1 (CET1) ratio</b> | CET1 capital divided by risk-weighted assets, group level, latest year<br><br>Where to find it: Pillar 3 or risk and capital report                                                                                                                                                                            | 14% or more | 12.5% to 14% | 11.5% to 12.5% | 10.5% to 11.5% | 9.5% to 10.5% | Below 9.5% |
| <b>S2 Bad loans not yet provided for</b>    | Stage 3 (credit-impaired) loans less the impairment provisions held against them, divided by CET1 capital in rand, group, latest year. It shows how much of the bank's core capital would be needed if the remaining bad loans were lost<br><br>Where to find it: Credit risk note; Pillar 3 or capital report | 10% or less | 10% to 20%   | 20% to 30%     | 30% to 40%     | 40% to 50%    | Above 50%  |
| <b>S3 Trend deductions</b>                  | Deduct 1 point if the CET1 ratio fell by more than 1.5 percentage points across the window. Deduct 1 point if bad loans not yet provided for, as a share of CET1 capital, rose by more than 10 percentage points across the window. Solvency cannot go below 0.                                                |             |              |                |                |               |            |

## Qualitative

Five yes/no rules, 2 points each

| RULE                            | WHAT IT CHECKS                                                                                                                                                                                                                             | PASS     | FAIL     |
|---------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|----------|
| <b>Q1 Dividend reliability</b>  | A dividend was paid in every year of the window and the ordinary dividend per share was not cut<br><br>Where to find it: Dividend note; results announcements                                                                              | 2 points | 0 points |
| <b>Q2 Dividend cover</b>        | Headline earnings covered total ordinary dividends in at least 4 of the 5 years<br><br>Where to find it: Income statement; dividend note                                                                                                   | 2 points | 0 points |
| <b>Q3 Segment concentration</b> | No single operating segment produced more than 60% of group headline earnings in the latest year<br><br>Where to find it: Segment report                                                                                                   | 2 points | 0 points |
| <b>Q4 Audit opinion</b>         | The independent auditor's opinion on the latest audited statements is unmodified, with no material uncertainty on going concern<br><br>Where to find it: Independent auditor's report in the annual financial statements                   | 2 points | 0 points |
| <b>Q5 No restatement</b>        | The latest audited statements do not restate prior-year figures to correct errors. A change in accounting standard applied across the market is noted but not counted<br><br>Where to find it: Basis of preparation and prior-period notes | 2 points | 0 points |

## Notes

1. The liquidity and capital ratios are regulatory measures and the thresholds sit well above the regulatory minimums. A bank at the bottom of a band is still within its regulatory requirements, so read these scores as a comparison between banks, not as a pass or fail against the regulator.
2. Banks that lend mainly through unsecured credit carry more bad loans, but they also provide for them heavily. S2 looks at the bad loans left after provisions, relative to core capital, so it does not penalise a bank only for the type of lending it does. The S2 bands are a first calibration and have not yet been tested on the three banks in the trial. The return on equity bands were raised in this version because the first trial showed the earlier bands could not separate the banks at the top.
3. Where a bank publishes more than one version of a ratio (average or year-end, group or bank level), the rubric uses the group figure and the reason text states which version was used.

4. **What the total is.** The sum of the four area scores (maximum 40). It describes the business across four areas. It is not an investment rating, a valuation or a recommendation, and it carries no buy, hold or sell bands.
  5. **Compare within a rubric.** Scores are comparable between companies scored on the same rubric. A bank's 30 and a retailer's 30 are not equivalent, because the measures differ.
  6. **How to read a score.** A higher or lower score is a point of comparison between companies, not a statement that one is better than another. Use the area scores and the stated reasons, not the total alone.
  7. **Window.** The five most recent financial years. Level measures use the latest year; change measures compare the first and last years of the window.
  8. **Missing data.** If one year is unavailable it is kept and flagged. If two or more years are unavailable the affected line is excluded and noted. Items that cannot yet be confirmed are shown as PENDING and score 0 until confirmed.
  9. **Fixed thresholds.** Thresholds are published in advance and applied identically to every company in the sector. They will be reviewed at most once a year, and any change will be dated and noted.
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This rubric describes how a descriptive score is calculated for jse-listed banks and banking groups. It does not constitute financial, investment or tax advice, or a recommendation to buy, hold or sell any security. Clearview Financial (Pty) Ltd is not a licensed financial services provider.

Source: company annual financial statements, risk and capital reports, and results announcements.