Investec Bank plc

2017

Credit ratings fact sheet

Out of the Ordinary®

Investec

Contextualising Investec Bank plc's rating

An overview of Investec Bank plc

Investec Bank plc (IBP) is the main banking subsidiary of Investec plc (United Kingdom holding company listed on the London Stock Exchange). Investec plc owns 100% of the ordinary shares in IBP. IBP operates as a Specialist Bank and Wealth Manager principally in the United Kingdom providing a wide array of banking and wealth management products and services to a select client base, largely comprising high net worth and high income individuals, mid-to-large sized corporates and institutions.

	Moody's		Fitch	
	Foreign currency		Foreign currency	
	Short-term deposit rating	Long-term deposit rating	Short-term	Long-term
Sep 2017	**Prime-1**	**A2**	**F2**	**BBB+**
Feb 2016	Prime-1	A2	F2	BBB
Oct 2015	Prime-2	A3	F2	BBB
May 2015	Prime-2	A3	F3	BBB–
Nov 2011	Prime-3	Baa3	F3	BBB–
Mar 2009	Prime-3	Baa3	F3	BBB
Nov 2008	Prime-2	Baa1	F3	BBB
Dec 2007	Prime-2	Baa1	F2	BBB+
Mar 2007	Prime-2	A3	F2	BBB+

A summary of IBP's ratings

Moody's
On 15 September 2017, Moody's upgraded the outlook to positive (from stable) on IBP's (A2) long-term ratings, following Moody's upgrade of IBP's Long-term and Short-term deposit ratings to A2/Prime-1 from A3/Prime-2 and its baseline credit assessment (BCA) to baa2 from baa3 in February 2016.

The upgrades were the reflection of:

Moody's expectation for further improvement in IBP's credit fundamentals; notably its asset risk, a substantial reduction of the bank's legacy portfolio, in particular commercial property lending risk; less complexity as a result of strategic group sales during the 2015 financial year; a more diversified revenue base with greater focus on capital light businesses; reduction in impairments; strong levels of liquidity and strong capitalisation.

Fitch
On 6 September 2017, Fitch upgraded IBP's Long-Term Issuer Default Rating (IDR) to BBB+ from BBB and its Viability Rating (VR) to bbb+ from bbb.

The upgrades were a reflection of:
The greater stability of IBP's business model, the progress IBP has made in running down its legacy assets and reducing the concentration of its loan book towards property lending, an increase in capital-light business and hence more stable earnings, while simultaneously maintaining sound capitalisation, strong liquidity and an adequate funding structure.

IBP rating history
A detailed history of IBP's ratings is shown alongside. During the financial crisis IBP was downgraded two notches by Fitch first from BBB+ to BBB in November 2008 and then to BBB- at the end of November 2011. Similarly, IBP was downgraded by Moody's from A3 to Baa1 in December 2007 and then to Baa3 in March 2009.

We believe that our operating fundamentals remained sound over that time and that these downgrades were largely reflective of a very negative view taken by the rating agencies on the operating environment and economic conditions during that time.

IBP current credit ratings

Investec Bank plc (IBP)	
Moody's	
Baseline credit assessment (BCA) and Adjusted BCA	baa2
Long-term deposit rating	A2
Long-term senior unsecured and issuer rating	(P) A2
Senior subordinate rating	Baa3
Short-term deposit rating	Prime-1
Short-term notes and issuer rating	Prime-1
Counterparty risk (CR) assessment (long term/short term)	A2(cr)/Prime-1
Outlook	Positive
Fitch	
Viability rating	bbb+
Support rating	5
Long-term rating	BBB+
Short-term rating	F2
Senior unsecured certificates of deposits (long term/short term)	BBB+/F2
Senior unsecured EMTN Programme (long term/short term)	BBB+/F2
Subordinated debt	BBB
Outlook	Stable
Investec plc (holding company)	
Moody's	
Long-term issuer and senior unsecured rating	Baa1
Short-term rating	Prime-2
Outlook	Positive

Peer group rating comparisons

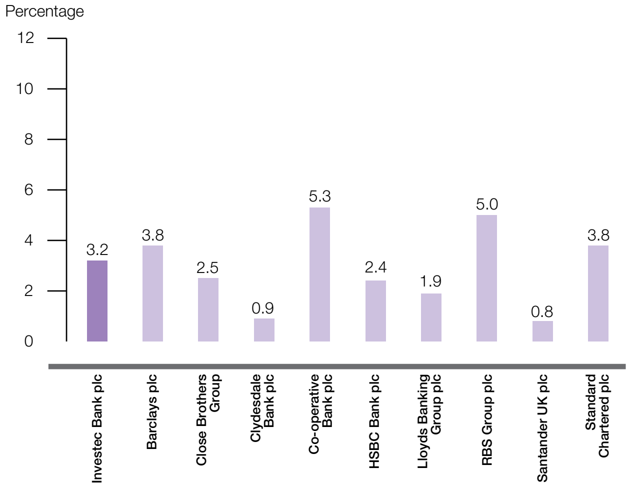
Below is a comparison of long-term ratings across some of the banks in the United Kingdom.

Bank name	**Investec Bank plc**	Barclays Bank plc	Close Brothers Limited	Clydesdale Bank plc	Co-operative Bank Plc	HSBC Bank plc	Lloyds Bank Plc	RBS plc	Santander UK plc	Standard Chartered Bank
Moody's										
BCA (baseline credit assessment)	**baa2**	baa2	a2	baa3	caa2	baa1	a3	baa3	a3	baa1
Adjusted BCA	**baa2**	baa2	a2	baa3	caa2	a2	a3	baa3	a3	baa1
Long-term rating	**A2**	A1	Aa3	Baa2	Caa2	Aa3	Aa3	A2	Aa3	A1
Outlook	**Positive**	Negative	Stable	Ratings under review	Positive	Negative	Stable	Negative	Stable	Stable
Fitch										
Viability rating	**bbb+**	a	a	bbb+	f	a+	a	bbb+	a	a
Long-term rating	**BBB+**	A	A	BBB+	B-	AA-	A+	BBB+	A	A+
Outlook	**Stable**	Rating watch positive	Stable	Stable	Stable	Stable	Stable	Stable	Rating watch positive	Negative

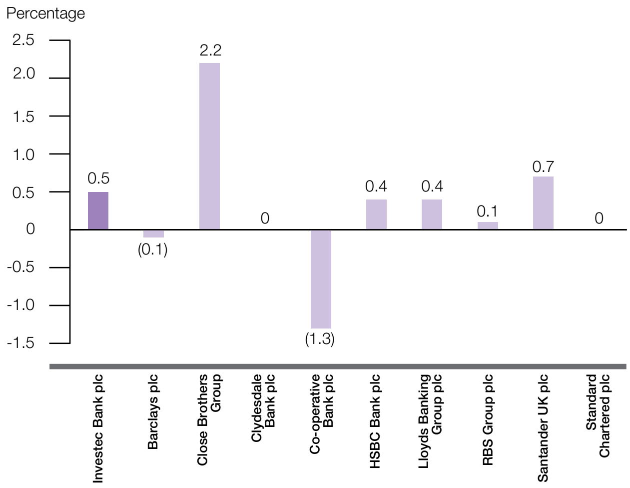
Rating definitions: Short-term ratings should be used for investments less than a one year time horizon and long-term ratings for periods greater than a year. Note: Comparative ratings have been sourced from the Moody's and Fitch websites as at 16 November 2017 and may be subject to changes for which 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.

Peer comparison of Moody's scorecard key ratios

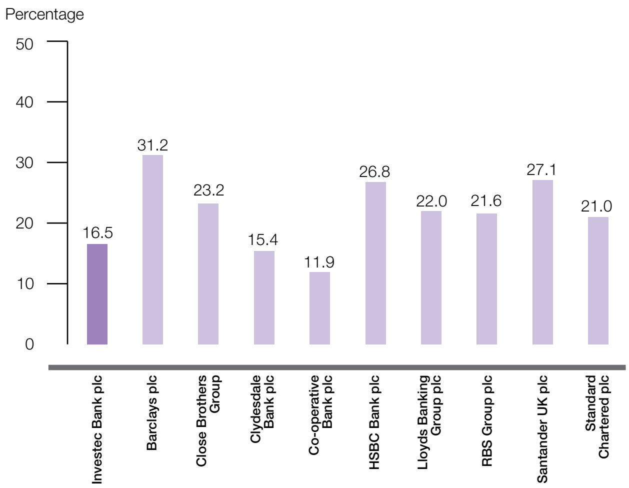
Asset risk: Problem loans/gross loans (smaller number is better)



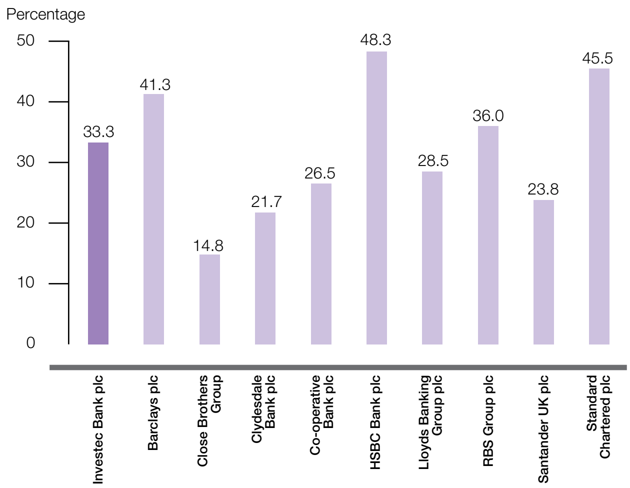
Profitability: Net income/tangible assets (larger number is better)



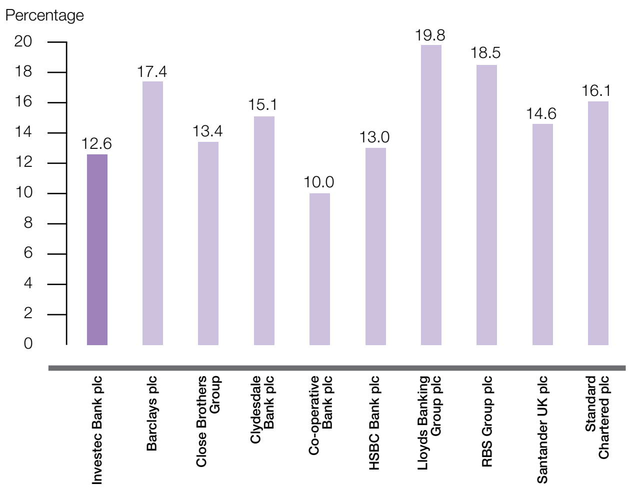
Funding structure: Market funds*/tangible banking assets (smaller number is better)



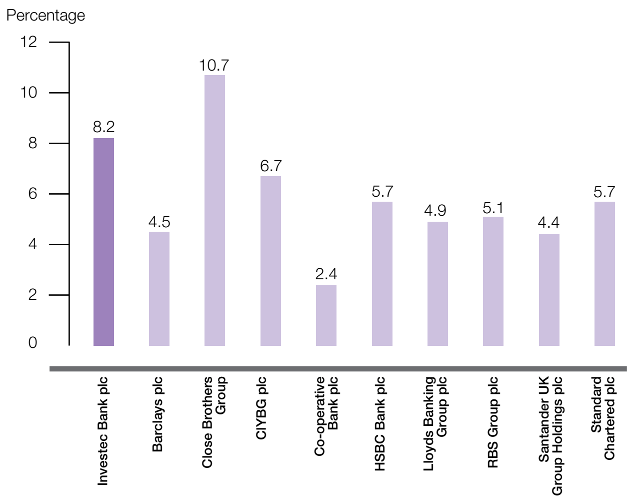
Liquid resources: Liquid banking assets/tangible banking assets (larger number is better)



Capital: Tangible common equity/risk-weighted assets (larger number is better)



Leverage ratio: Regulatory equity/ regulatory assets (larger number is better)



Note: IBP applies the standardised approach in the calculation of risk-weighted assets. This approach is more conservative than the Advanced/Internal Ratings Modelled approach.
Source for all graphs other than the leverage ratio: Moody's published rating reports at 16 November 2017.
Leverage ratio graph sourced from company interim/annual financial results as at 16 November 2017 and shown at the entity level at which a leverage ratio has been disclosed.
* *Where market funds is defined by Moody's as: due to financial institutions + short-term borrowings + trading liabilities + other financial liabilities at FV + senior bonds + due to related parties – 50% * covered bonds.*

An overview of IBP's operating fundamentals

IBP's operating fundamentals have remained sound over the last few years as well as throughout the crisis as depicted in the table below.

	Six months to 30 Sept 2017	31 Mar 2017	31 Mar 2016	31 Mar 2015	31 Mar 2014	31 Mar 2013	31 Mar 2012	31 Mar 2011	31 Mar 2010	31 Mar 2009	31 Mar 2008	% change Mar 2017 vs 2008
Operating profit before non-operating items, taxation, impairments and after non-controlling interests (£'mn)	116.9	236.0	230.6	203.3	205.9	197.3	208.3	240.7	182.9	141.7	138.3	71%
Operating profit before non-operating items, taxation and after non-controlling interests (£'mn)	79.3	161.1	146.3	101.2	108.4	86.9	51.3	70.1	49.7	31.5	110.4	46%
Earnings attributable to ordinary shareholders (£'mn)	58.7	117.8	96.6	105.8	50.7	31.8	18.7	46.8	52.7	11.5	93.1	27%
Cost to income ratio	77.0%	75.9%	73.3%	75.7%	76.2%	76.3%	73.1%	67.4%	69.7%	75.7%	71.1%	7%
Total capital resources (including subordinated liabilities) (£'mn)	2 601	2 559	2 440	2 398	2 582	2 558	2 369	2 251	1 720	1 674	1 563	8%
Total shareholders' equity (£'mn)	1 994	1 980	1 843	1 801	1 912	1 879	1 726	1 648	1 182	986	917	64%
Total assets (£'mn)	18 478	18 381	18 335	17 943^	20 035	21 331	20 246	18 489	16 981	13 828	12 197	>100%
Net core loans and advances (£'mn)	8 873	8 599	7 781	7 036^	8 201	8 237	7 712	7 629	7 225	7 335	6 544	51%
Customer accounts (deposits) (£'mn)	11 221	11 289	11 038	10 580^	11 096	11 355	11 103	10 329	9 264	5 486	5 264	31%
Cash and near cash balances (£'mn)	4 869	4 853	5 046	5 011	4 253	4 543	4 484	4 270	4 605	2 325	2 260	>100%
Third party assets under management (£'mn)	37 500	35 941	30 104	29 838	26 830	25 054	14 219	15 354	2 774	2 064	2 405	>100%
Risk-weighted assets (£'mn)	13 153	12 716	11 738	10 967	12 668	12 606	11 421	10 911	8 997	8 855	8 688	>100%
Capital adequacy ratio (current)	16.1%	16.6%	17.0%	17.5%	15.8%	16.1%	16.8%	16.1%	16.9%	15.9%	14.6%	46.4%
Tier 1 ratio (current)	12.3%	12.2%	11.9%	12.1%	10.7%	11.1%	11.5%	11.3%	12.3%	10.3%	9.1%	
Common equity tier 1 (current)	12.3%	12.2%	11.9%	12.1%	10.7%	11.1%	n/a	n/a	n/a	n/a		
Leverage ratio (current)	8.3%	8.0%	7.5%	7.5%	7.2%	n/a	n/a	n/a	n/a	n/a		
Default loans (net of impairments) as a % of net core loans and advances	1.45%	1.55%	2.19%	3.01%	3.22%	3.76%	4.11%	5.68%	4.96%	4.70%	1.98%	
Net defaults (after collateral and impairments) as a % of net core loans and advances	–	–	–	–	–	–	–	–	–	–	–	
Credit loss ratio (i.e. income statement charge as a % of average gross loans and advances)	0.84%	0.90%	1.13%	1.16%	1.00%	1.20%	1.66%	1.98%	1.71%	1.52%	0.50%	
Total gearing ratio (i.e. total assets to equity)	9.3x	9.3x	9.9x	10.0x	10.5x	11.4x	11.7x	11.2x	14.4x	14.0x	13.3x	
Loans as a % of customer deposits	79.1%	76.2%	70.5%	66.5%	69.9%	68.2%	64.6%	69.2%	72.4%	125.7%	117.7%	

^ *The decrease in total assets, core loans and deposits between March 2015 and March 2014 is as a result of the sale of Investec Bank (Australia) Limited and certain other group assets during the financial year ended 31 March 2015.*

Asset quality and exposures

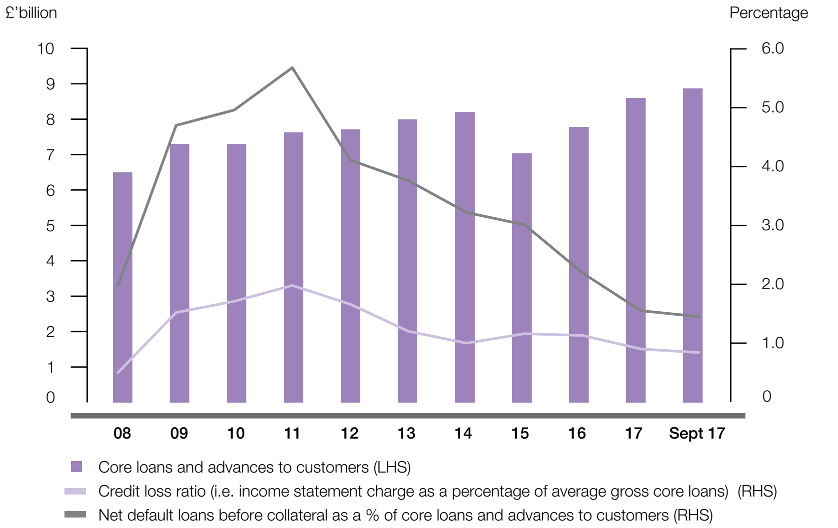
0.84%

(credit loss ratio)

The bulk of IBP's credit and counterparty risk arises through its private client and corporate client activities. The bank lends to high net worth and high income individuals, mid to large sized corporates, public sector bodies and institutions. The majority of IBP's credit and counterparty exposures reside within its principal operating geography, namely the UK.

Impairments on loans and advances amounted to £37.6 million for the six months to 30 September 2017 (2016: £30.1 million). The annualised credit loss charge as a percentage of average gross core loans and advances amounted to 0.84% at 30 September 2017 (31 March 2017: 0.90%).

Core loans and asset quality



Total defaults as at 30 September 2017 amounted to £262.6 million (31 March 2017: £260.3 million). The percentage of default loans (net of impairments but before taking collateral into account) to core loans and advances amounted to 1.45% (31 March 2017: 1.55%). The ratio of collateral to default loans (net of impairments) remains satisfactory at 1.50 times (31 March 2017: 1.44 times).

Liquidity and funding

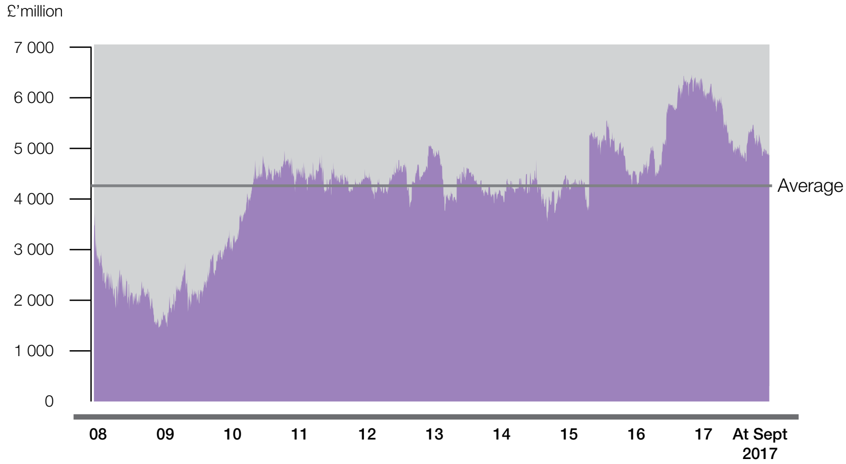
£4.9bn

(cash and near cash)

IBP has a liquidity management philosophy that has been in place for many years. The bank continues to focus on maintaining a high level of readily available high-quality liquid assets targeting a minimum cash to customer deposit ratio of 25%. At 30 September 2017, the bank had £4.9 billion of cash and near cash to support its activities, representing approximately 43% of customer deposits.

Furthermore, the bank maintains an appropriate mix of term funding, placing a low reliance on interbank wholesale funding to fund core lending asset growth. IBP targets a diversified funding base, avoiding undue concentrations by investor types, maturity and market source, instrument and currency. Customer deposits amounted to £11.2 billion as at 30 September 2017 (31 March 2017: £11.3 billion). The bank's loan to deposit ratio was 79.1% as at 30 September 2017 (31 March 2017: 76.2%).

Cash and near cash trend



Deposit guarantees

In terms of the Financial Services Compensation Scheme, the UK government guarantees a maximum deposit of £85 000 per individual per institution.

Investec Bank (Channel Islands) Limited is a participant in both the Guernsey and Jersey Banking Deposit Compensation Schemes. These schemes offer protection for 'qualifying deposits/eligible deposits' up to £50 000, subject to certain limitations. The maximum total amount of compensation is capped at £100 million in any five-year period.

Capital adequacy

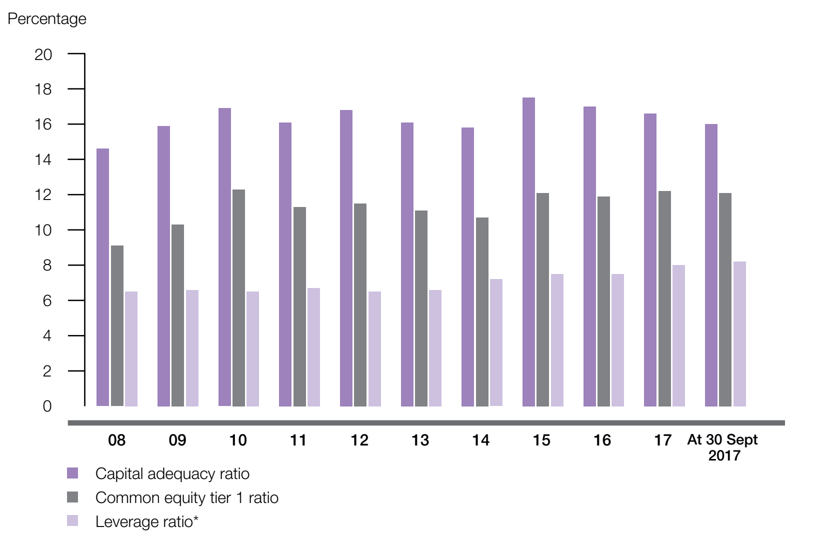
16.0%

IBP holds capital in excess of regulatory requirements and intends to perpetuate this philosophy and ensure that it remains well capitalised. The bank has never required shareholder or government support. At 30 September 2017, the capital adequacy ratio of IBP was 16.0% and the tier 1 ratio was 12.1%.

The bank's anticipated 'fully loaded' Basel III common equity tier 1 ratio and leverage ratio are 12.1% and 8.2% respectively (where 'fully loaded' is based on Basel III requirements as fully phased in by 2022). These disclosures incorporate the deduction of forseeable dividends as required by the regulations. Excluding this deduction, the common equity tier 1 ratio would be 14bps higher.

We are on the Standardised Approach in terms of Basel, thus our risk-weighted assets represent a large portion of our total assets.

Basel capital ratios – standardised approach



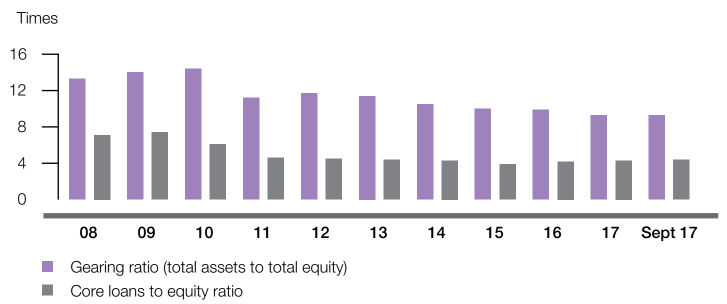
* *The leverage ratio has only been disclosed since 2014. Historic information has been estimated.*

Gearing

9.3x

IBP 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. IBP's comparative ratio would be 9.3 times.

Gearing ratio



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