Out of the Ordinary

# Investec Bank plc

*Credit ratings fact sheet*

2018

# 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 rating | Long-term rating |
| **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. This followed 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

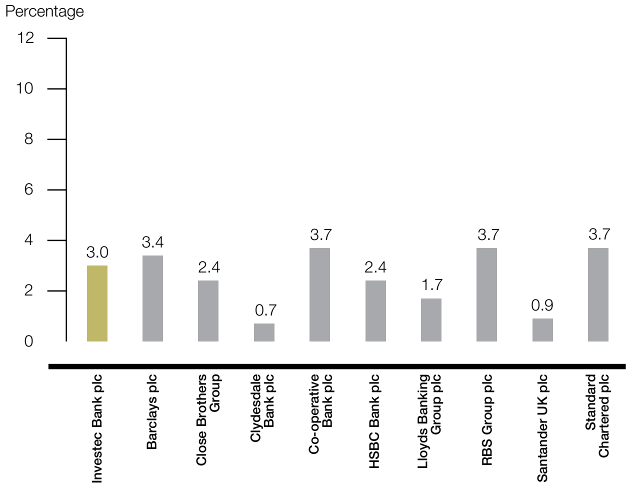
Below is a comparison of long-term ratings across some of the banks in the United Kingdom.

| 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** | baa3 | a2 | baa2 | caa2 | baa1 | a3 | ba2 | a3 | baa1 |
| Adjusted BCA | **baa2** | baa3 | a2 | baa2 | caa2 | a2 | a3 | ba1 | a3 | baa1 |
| Long-term rating | **A2** | A2 | Aa3 | Baa1 | Caa2 | Aa3 | Aa3 | Baa2 | Aa3 | A1 |
| Outlook | **Positive** | Stable | Stable | Positive | Positive | Under review | Stable | Stable | Stable | Stable |
| **Fitch** | | | | | | | | | | |
| Viability rating | **bbb+** | a | a | bbb+ | b- | a+ | a | bbb+ | a | a |
| Long-term rating | **BBB+** | A | A | BBB+ | B- | AA- | A+ | BBB+ | A | A+ |
| Outlook | **Stable** | Stable | Stable | Stable | Stable | Stable | Stable | Stable | Stable | Stable |

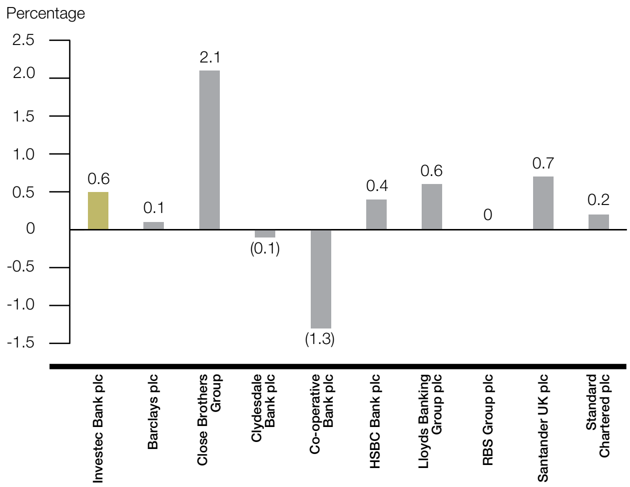
*Rating definitions: Short-term ratings should be used for investments less than a one year time horizon and long-term ratings for periods greater than a year. Note: Comparative ratings have been sourced from the Moody's and Fitch websites as at 16 May 2018 and may be subject to changes for which we 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.*

## Peer comparison of Moody's scorecard key ratios

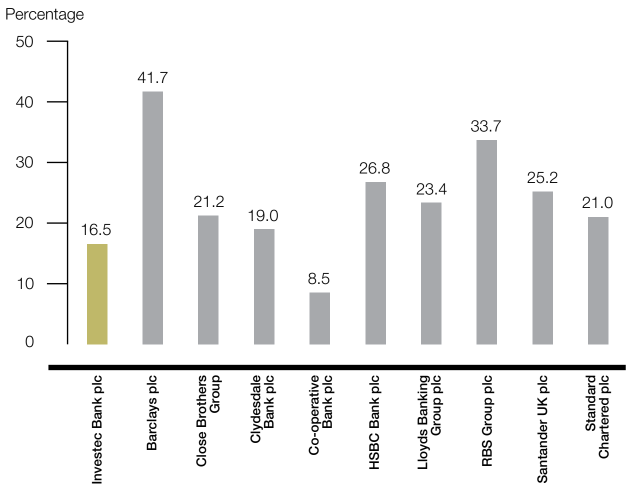
### Asset risk: Problem loans/gross loans (smaller number is better)



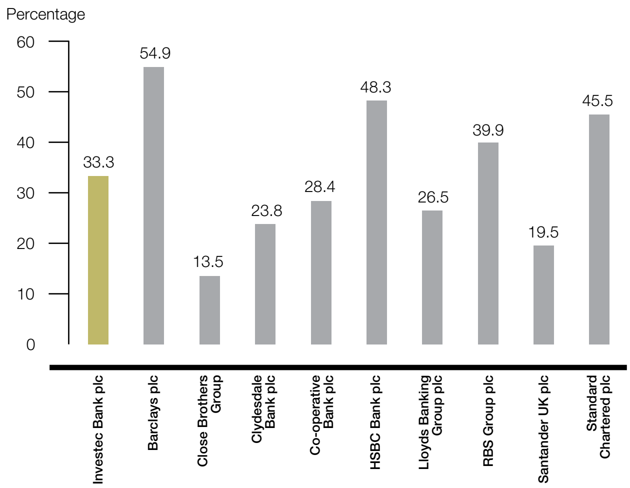

### Profitability: Net income/tangible assets (larger number is better)



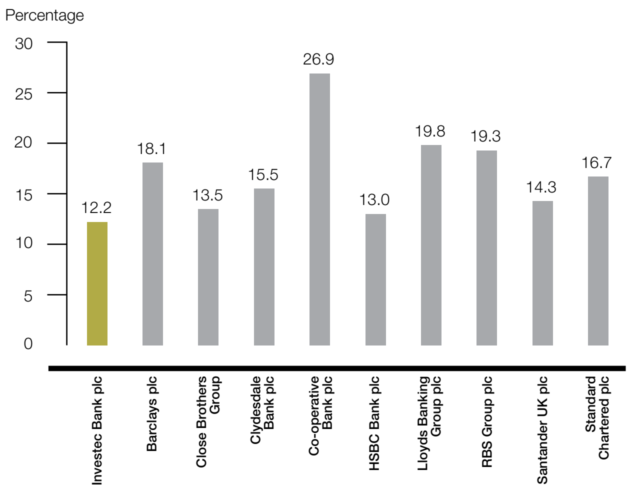

### Funding structure: Market funds*/tangible banking assets (smaller number is better)



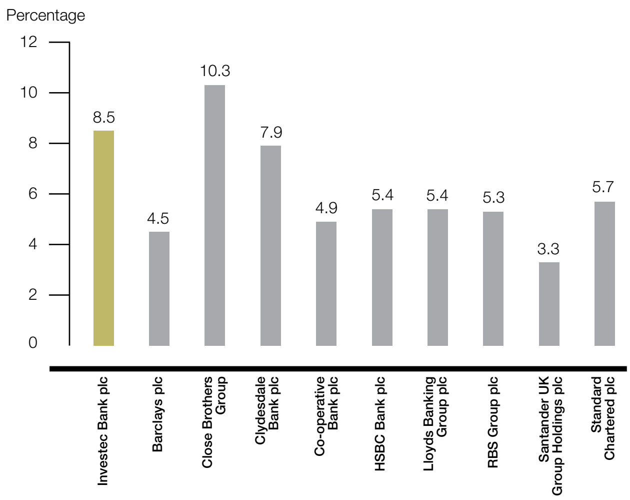

### Liquid resources: Liquid banking assets/tangible banking assets (larger number is better)




### 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 May 2018.*
*Leverage ratio graph sourced from company interim/annual financial results as at 16 May 2018 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 – 10 year history

IBP has maintained consistently sound operating fundamentals through varying economic cycles as evidenced below:

| | 31 Mar 2018 | 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 | % change Mar 2018 vs 2009 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Operating profit before non-operating items, taxation, impairments and after non-controlling interests (£'mn) | 242.4 | 236.0 | 230.6 | 203.3 | 205.9 | 197.3 | 208.3 | 240.7 | 182.9 | 141.7 | 69% |
| Operating profit before non-operating items, taxation and after non-controlling interests (£'mn) | 136.3 | 161.1 | 146.3 | 101.2 | 108.4 | 86.9 | 51.3 | 70.1 | 49.7 | 31.5 | >100% |
| Earnings attributable to ordinary shareholders (£'mn) | 97.8 | 117.8 | 96.6 | 105.8 | 50.7 | 31.8 | 18.7 | 46.8 | 52.7 | 11.5 | >100% |
| Cost to income ratio | 76.8% | 75.9% | 73.3% | 75.7% | 76.2% | 76.3% | 73.1% | 67.4% | 69.7% | 75.7% | |
| Total capital resources (including subordinated liabilities) (£'mn) | 2 789 | 2 559 | 2 440 | 2 398 | 2 582 | 2 558 | 2 369 | 2 251 | 1 720 | 1 674 | 67% |
| Total shareholders' equity (£'mn) | 2 209 | 1 980 | 1 843 | 1 801 | 1 912 | 1 879 | 1 726 | 1 648 | 1 182 | 986 | >100% |
| Total assets (£'mn) | 20 097 | 18 381 | 18 335 | 17 943^ | 20 035 | 21 331 | 20 246 | 18 489 | 16 981 | 13 828 | 45% |
| Net core loans and advances (£'mn) | 9 663 | 8 599 | 7 781 | 7 036^ | 8 201 | 8 237 | 7 712 | 7 629 | 7 225 | 7 335 | 32% |
| Customer accounts (deposits) (£'mn) | 11 970 | 11 289 | 11 038 | 10 580^ | 11 096 | 11 355 | 11 103 | 10 329 | 9 264 | 5 486 | >100% |
| Cash and near cash balances (£'mn) | 5 598 | 4 853 | 5 046 | 5 011 | 4 253 | 4 543 | 4 484 | 4 270 | 4 605 | 2 325 | >100% |
| Third party assets under management (£'mn) | 37 276 | 35 941 | 30 104 | 29 838 | 26 830 | 25 054 | 14 219 | 15 354 | 2 774 | 2 064 | >100% |
| Risk-weighted assets (£'mn) | 13 744 | 12 716 | 11 738 | 10 967 | 12 668 | 12 606 | 11 421 | 10 911 | 8 997 | 8 855 | 55% |
| Capital adequacy ratio (current) | 16.5% | 16.6% | 17.0% | 17.5% | 15.8% | 16.1% | 16.8% | 16.1% | 16.9% | 15.9% | |
| Tier 1 ratio (current) | 13.2% | 12.2% | 11.9% | 12.1% | 10.7% | 11.1% | 11.5% | 11.3% | 12.3% | 10.3% | |
| Common equity tier 1 (current) | 11.8% | 12.2% | 11.9% | 12.1% | 10.7% | 11.1% | n/a | n/a | n/a | n/a | |
| Leverage ratio (current) | 8.5% | 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 | 2.16% | 1.55% | 2.19% | 3.01% | 3.22% | 3.76% | 4.11% | 5.68% | 4.96% | 4.70% | |
| 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) | 1.14% | 0.90% | 1.13% | 1.16% | 1.00% | 1.20% | 1.66% | 1.98% | 1.71% | 1.52% | |
| Total gearing ratio (i.e. total assets to equity) | 9.1x | 9.3x | 9.9x | 10.0x | 10.5x | 11.4x | 11.7x | 11.2x | 14.4x | 14.0x | |
| Loans as a % of customer deposits | 80.7% | 76.2% | 70.5% | 66.5% | 69.9% | 68.2% | 64.6% | 69.2% | 72.4% | 125.7% | |

^ *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

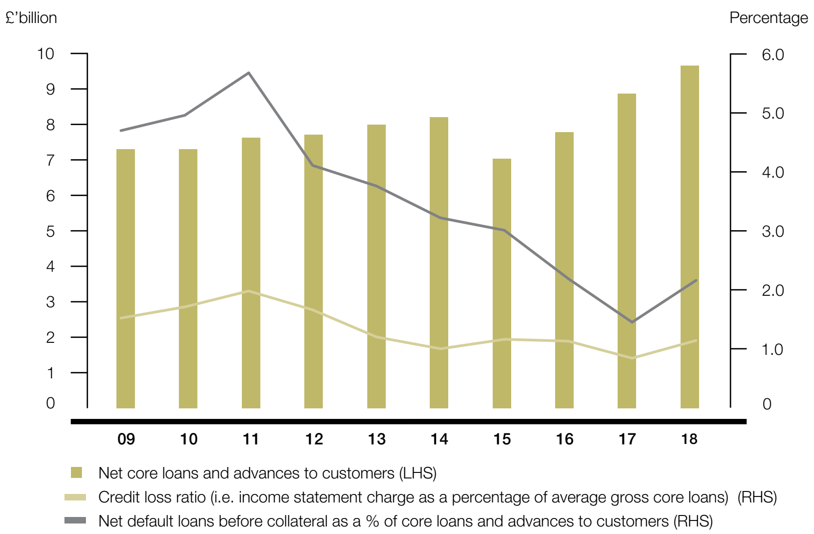
**1.14%**

**(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 £106.1 million for the year ended 31 March 2018 (2017: £75.0 million). The credit loss charge as a percentage of average gross core loans and advances amounted to 1.14% at 31 March 2018 (31 March 2017: 0.90%).

### Core loans and asset quality




Total defaults as at 31 March 2018 amounted to £360.6 million (31 March 2017: £260.3 million), the increase is largely due to a few specific defaults. The percentage of default loans (net of impairments but before taking collateral into account) to core loans and advances amounted to 2.16% (31 March 2017: 1.55%). The ratio of collateral to default loans (net of impairments) remains satisfactory at 1.40 times (31 March 2017: 1.44 times).

## Liquidity and funding

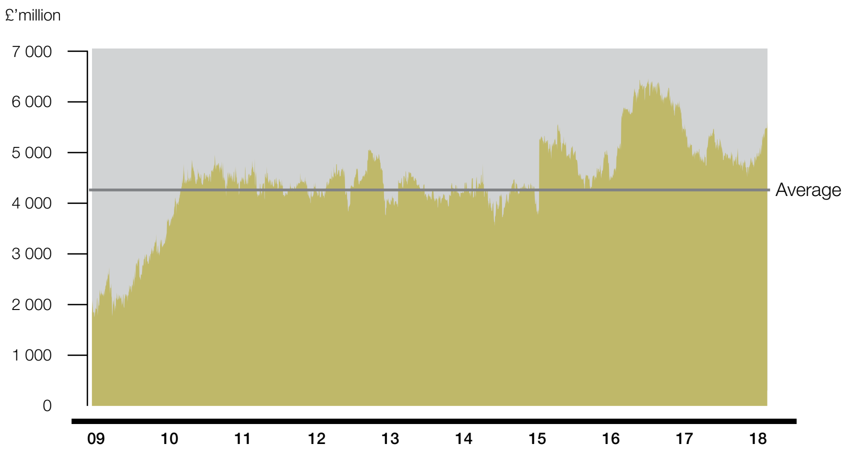
**£5.6bn**

**(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 31 March 2018, the bank had £5.6 billion of cash and near cash to support its activities, representing approximately 47% 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 £12.0 billion as at 31 March 2018 (31 March 2017: £11.3 billion). The bank's loan to deposit ratio was 80.7% as at 31 March 2018 (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.

Further details are available on request on alternatively on the Guernsey Scheme's website: www.dcs.gg <http://www.dcs.gg/> or on the Jersey States website which will also highlight the banking groups covered.

## Capital adequacy

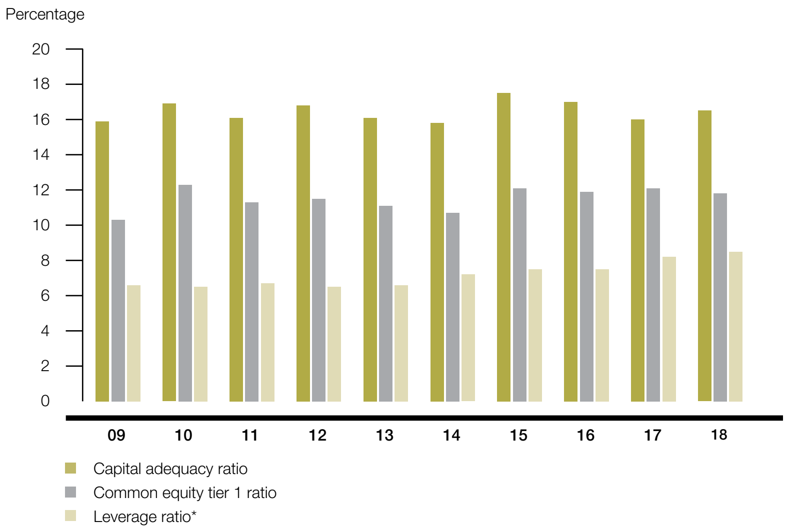
# 16.5%

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 31 March 2018, the capital adequacy ratio of IBP was 16.5% and the tier 1 ratio was 13.2%.

The bank's anticipated 'fully loaded' Basel III common equity tier 1 ratio and leverage ratio are 11.8% and 8.5% respectively (where 'fully loaded' is based on Basel III requirements as fully phased in by 2022). These disclosures incorporate the deduction of forseeable charges and dividends as required by the regulations. Excluding this deduction, the common equity tier 1 ratio would be 13bps 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



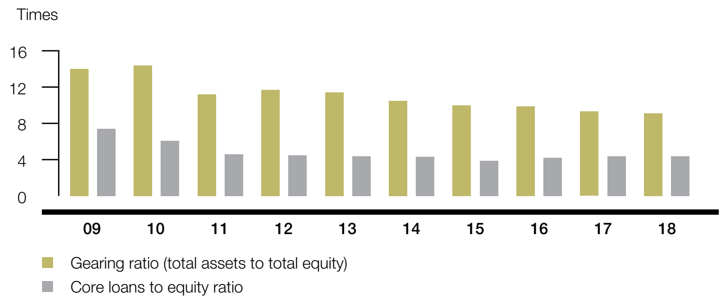

* *The leverage ratio has only been disclosed since 2014. Historic information has been estimated.*

## Gearing

# 9.1x

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 9.1 times.

### Gearing ratio

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