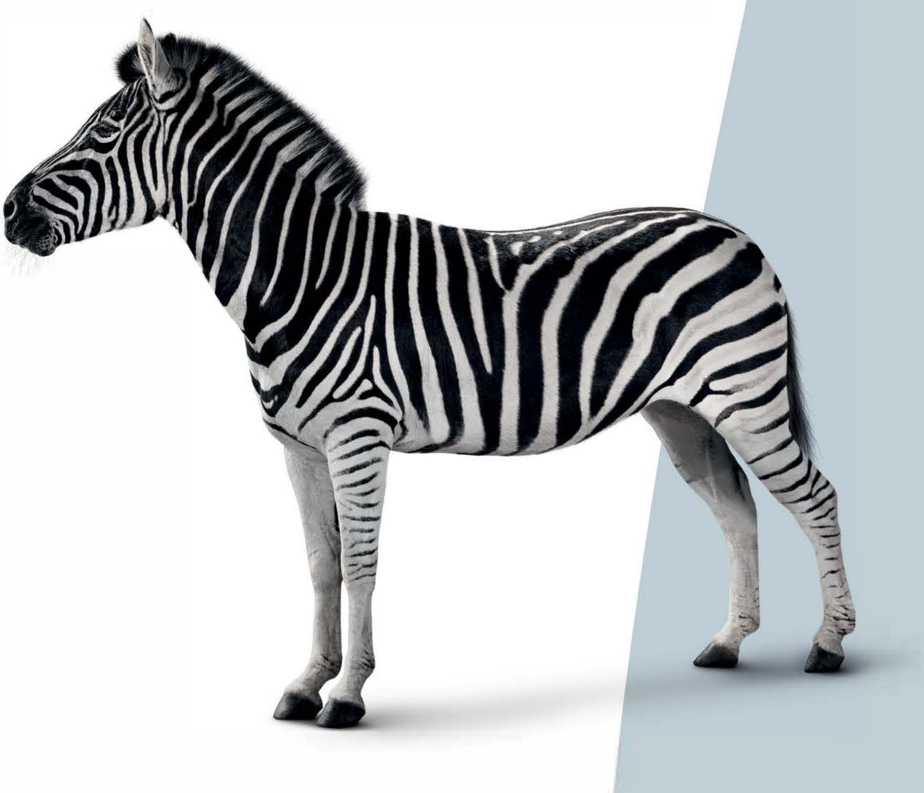
Investec

OUT OF THE ORDINARY

Possibilities and opportunities

Investec Bank plc

Credit ratings fact sheet
May 2022



CONTEXTUALISING INVESTEC BANK PLC'S RATINGS

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 individuals, mid-to-large sized corporates and institutions. IBP also generates capital light non-banking income from Investec Wealth & Investment (IW&I), one of the largest private client investment managers in the UK with £44.4 billion funds under management as at 31 March 2022.

	Moody's		Fitch	
	Foreign currency		Foreign currency	
	Short-term deposit rating	Long-term deposit rating	Short-term deposit rating	Long-term deposit rating
Feb 2019	**Prime-1**	**A1**	**F2**	**BBB+**
Sept 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 1 February 2019, Moody's upgraded IBP's long-term deposit ratings to A1 (stable outlook) from A2 (positive outlook) and its baseline credit assessment (BCA) to baa1 from baa2. These ratings were affirmed on 13 April 2022.

The upgrades were the reflection of: IBP's successful de-risking of the balance sheet as its legacy assets continue to run-off, the shift in composition of its revenues towards lower lending risks and more stable revenue streams, primarily in the lower risk wealth management segment and IBP's sound capitalisation and strong liquidity buffers.

Fitch

On 14 July 2021, Fitch affirmed IBP's Long Term Issuer Default Rating (IDR) at BBB+ and revised the outlook to Stable from Negative. The revision of the outlook followed the recent revision of the UK sovereign's outlook to Stable, and Fitch's improved expectations for the UK's economic recovery. Fitch believes that downside risks to IBP's earnings and asset quality have subsided, which, combined with healthy capitalisation and a strong liquidity position, will continue to support the bank's rating, despite remaining uncertainties over the next few quarters. This rating was affirmed on 25 March 2022.

On 7 September 2017, Fitch upgraded IBP's Long-Term IDR to BBB+ from BBB and its Viability Rating (VR) to bbb+ from bbb. These ratings were affirmed on 14 July 2021. 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

IBP has been upgraded a number of times over the last few years. Through the previous financial crisis, IBP retained an investment grade rating. A detailed history of IBP's ratings is shown above. 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.

CONTEXTUALISING INVESTEC BANK PLC'S RATINGS
CONTINUED

Moody's	
Long-term deposit rating	A1
Senior unsecured MTN	A1
Counterparty Risk Rating	A1/Prime-1
Baseline credit assessment (BCA) and Adjusted BCA	baa1
Senior subordinate rating	Baa1
Short-term deposit rating	Prime-1
Short-term notes and issuer rating	Prime-1
Outlook	Stable
Fitch	
Long term Issuer Default rating (IDR)	BBB+
Senior unsecured certificates of deposits (long term/short term)	BBB+/F2
Senior unsecured EMTN Programme (long term/short term)	BBB+/F2
Subordinated debt	BBB-
Short term Issuer Default rating (IDR)	F2
Viability rating	bbb+
Outlook	Stable

Peer group ratings comparison

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	HSBC Bank plc^	Lloyds Bank plc^	Natwest Bank plc^	Santander UK plc^	Standard Chartered Bank^
Moody's									
Long-term rating	A1	A1	Aa3	Baa1	A1	A1	A1	A1	A1
Outlook	Stable	Stable	Negative	Stable	Stable	Stable	Stable	Stable	Stable
BCA (baseline credit assessment)	baa1	baa3	a2	baa2	ba1	a3	a3	baa1	baa2
Fitch									
Long-term rating	BBB+	A+	A-	A-	AA-	A+	A+	A+	A+
Outlook	Stable	Stable	Stable	Stable	Negative	Stable	Stable	Stable	Negative
Viability rating	bbb+	a	a-	bbb+	a	a	a	a	a

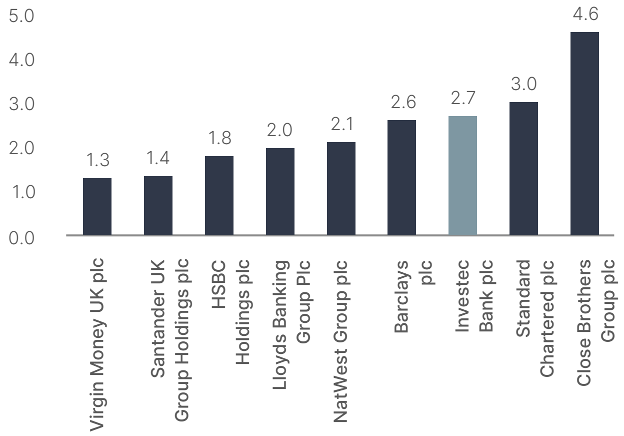
^ These peer comparative ratings represent the ring-fenced banking entity of their group structure.

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.

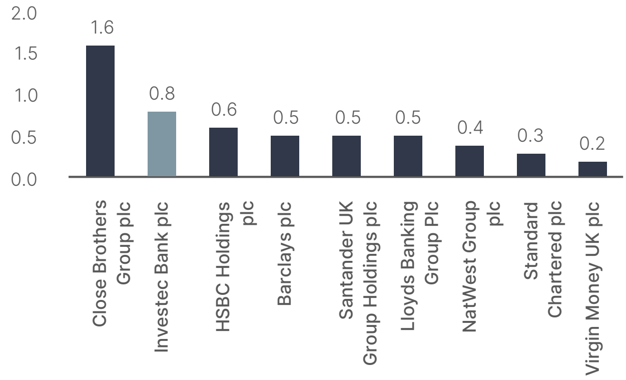
Note: Comparative ratings have been sourced from the Moody's and Fitch websites as at 18 May 2022 and may be subject to changes for which we cannot be held accountable. It is advisable to discuss the ratings of the various companies with the companies themselves as this information merely reflects our interpretation thereof.

PEER COMPARISON OF MOODY'S SCORECARD KEY RATIOS

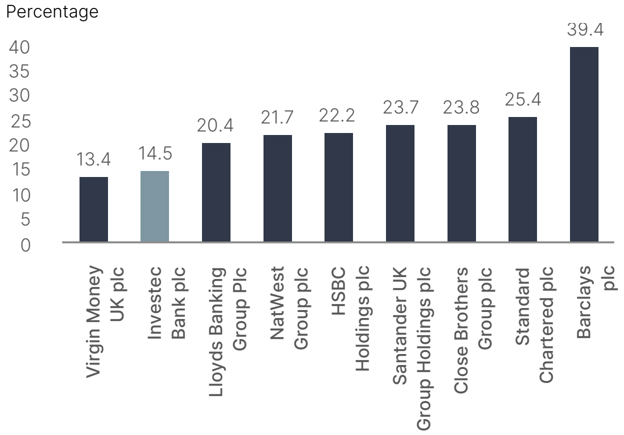
Asset risk: Problem loans/gross loans (smaller number is better)
Percentage



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

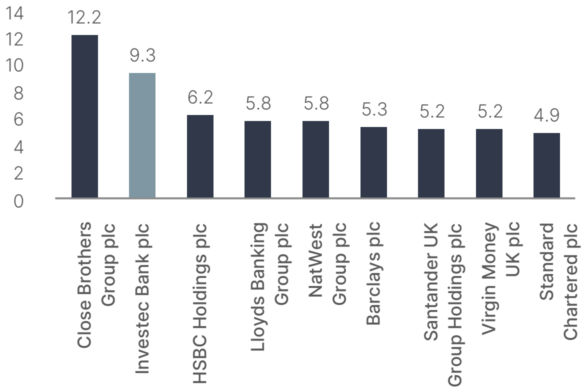


Funding structure: Market funds/tangible banking assets (smaller number is better)**
Percentage

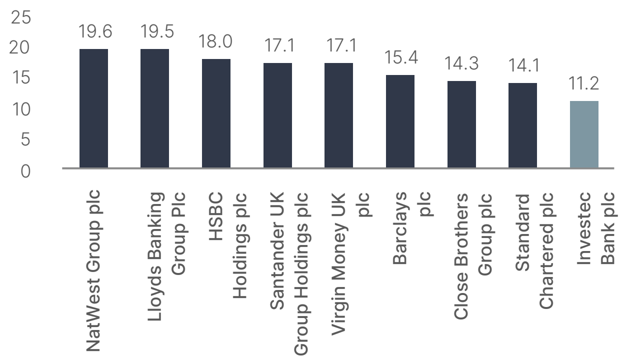


** Where market funds are defined by Moody's as: due to financial institutions + short-term borrowing + trading liabilities + other financial liabilities at FV + senior bonds + due to related parties – 50% of covered bonds.

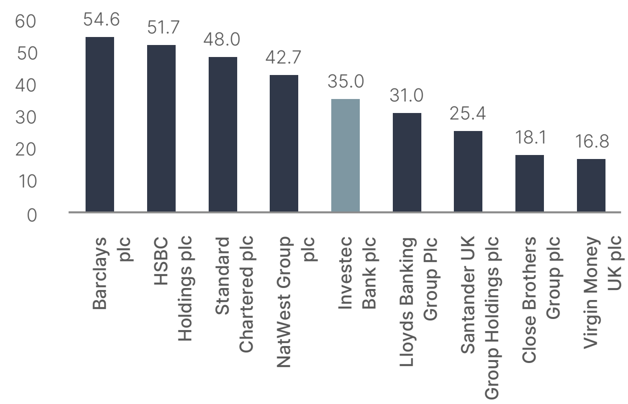
Leverage ratio: Regulatory equity/regulatory assets (larger number is better)
Percentage



Capital: Tangible common equity/risk-weighted assets (larger number is better)
This should be considered relative to banks' minimum regulatory requirements which would generally be higher for systemic banks.
Percentage



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



Note: IBP applies the standardised approach in the calculation of risk-weighted assets and as a result we inherently hold more capital than our peers who are on the Advanced/Internal Ratings Modelled approach. IBP's Total RWAs/Total assets was 60% at 31 March 2022 (65% at 31 March 2021), which is substantially higher than some other UK banks which have an average RWA density of c.30%. Source for all graphs other than the leverage ratio: Moody's published rating reports at 18 May 2022. Leverage ratio graph sourced from company interim/annual financial results as at 18 May 2022 and shown at the entity level at which a leverage ratio has been disclosed.

FINANCIAL INFORMATION

IBP has maintained consistently sound operating fundamentals as evidenced below:

	31 Mar 2022	31 Mar 2021	31 Mar 2020	31 Mar 2019	31 Mar 2018	% change Mar 2022 vs 2018
Operating profit before non-operating items, taxation, expected credit loss impairment charges and after non-controlling interests (£'mn)	**313.0**	178.6	249.3	299.8	242.4	29%
Adjusted operating profit (£'mn)	**287.7**	108.3	173.6	274.8	136.3	111%
Earnings attributable to ordinary shareholder (£'mn)	**232.9**	63.8	57.8	161.9	97.8	138%
Cost to income ratio	**70.8%**	80.9%	80.1%	72.6%	76.7%	
Total capital resources (including subordinated liabilities) (£'mn)	**3 306**	3 136	3 151	2 967	2 789	19%
Total equity (£'mn)	**2 547**	2 365	2 361	2 163	2 209	15%
Total assets (£'mn)	**27 589**	24 396	24 158	22 121	20 097	37%
Net core loans (£'mn)	**14 423**	12 311	11 832	10 487	9 663	49%
Customer accounts (deposits) (£'mn)	**18 616**	16 241	15 835	13 499	11 970	56%
Cash and near cash balances (£'mn)	**8 871**	6 857	6 040	6 792	5 598	58%
Funds under management (£'mn)	**44 419**	41 708	38 018	39 482	37 276	19%
Risk-weighted assets (£'mn)	**16 462**	15 789	15 808	14 631	13 744	20%
Total capital ratio (current)	**18.2%**	16.4%	16.5%	17.0%	16.5%	
Tier 1 ratio (current)	**13.6%**	13.4%	13.1%	12.9%	13.2%	
Common equity tier 1 ratio	**12.0%**	11.8%	11.5%	11.2%	11.8%	
Leverage ratio	**9.3%**	8.0%	8.0%	7.9%	8.5%	
Stage 3 exposure net of ECL/default loans (net of impairments) as a % of net core loans subject to ECL	**1.6%**	2.0%	2.4%	2.2%	2.2%	
Credit loss ratio	**0.17%**	0.56%	0.69%	0.38%	1.14%	
Total gearing ratio (i.e. total assets to equity)	**10.8x**	10.3x	10.6x	10.2x	9.1x	
Loans and advances to customers as a % of customer deposits	**77.5%**	75.8%	75.5%	77.7%	80.7%	

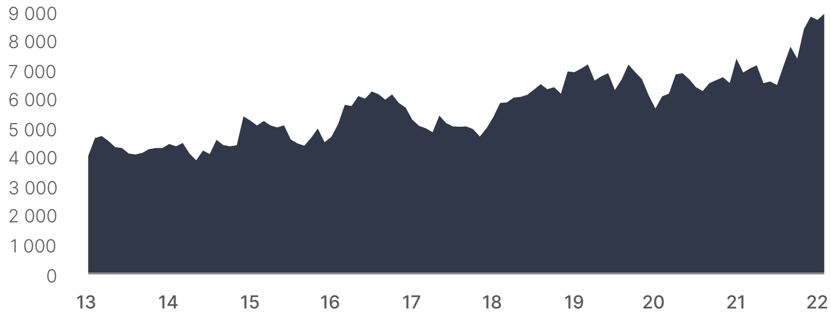
FINANCIAL INFORMATION
CONTINUED

Liquidity and funding

£8.9 billion

cash and near cash

Cash and near cash trend
£'million



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 2022, the bank had £8.9 billion of cash and near cash to support its activities, representing approximately 47.7% 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 £18.6 billion as at 31 March 2022 (31 March 2021: £16.2 billion).

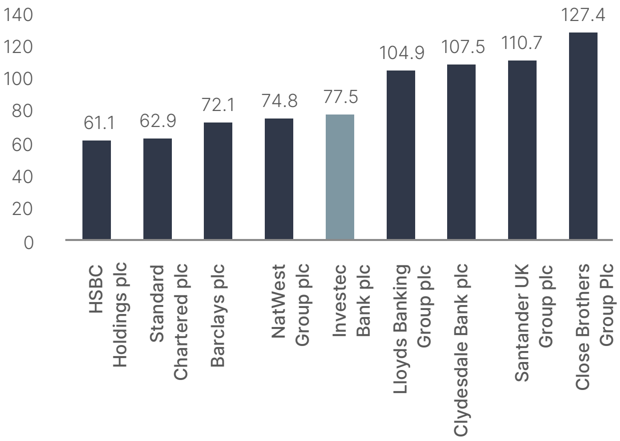
Deposit guarantees

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

Loan to customer deposit ratio

77.5%

Loan to customer deposit ratio
Percentage



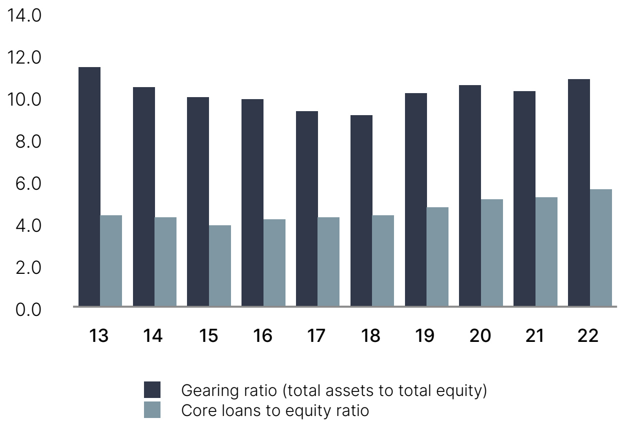
IBP's loan to customer deposit ratio is conservative in comparison to peers and further illustrates IBP's strong liquidity position.

The loan to customer deposit ratio graph is sourced from the latest company interim/annual financial results available as at 18 May 2022 and reflects the balance sheet figures for loans and advances to customers and customer deposits.

Gearing

10.8x

Gearing ratio
Times



IBP is not a highly geared bank. A number of banks that have come into difficulty in the past have been in excess of 40x geared. IBP's comparative ratio would be 10.8x.

FINANCIAL INFORMATION
CONTINUED

Capital adequacy

18.2%

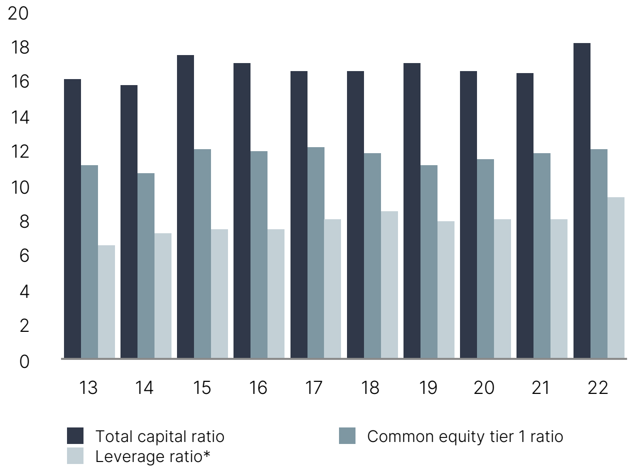
total capital ratio

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. As at 31 March 2022 , the total capital ratio of IBP was 18.2% and the common equity tier 1 ratio was 12.0%.

The bank's anticipated 'fully loaded' Common Equity Tier 1 (CET1) ratio and leverage ratio are 11.6% and 9.1%, respectively (where 'fully loaded' assumes full adoption of IFRS 9 and full adoption of all CRD IV rules). These disclosures incorporate the deduction of foreseeable charges and dividends. Excluding this deduction, the CET1 ratio would be 37bps (31 March 2021: 16bps) higher.

We are on the Standardised Approach in terms of Basel, thus our risk-weighted assets represent a large portion of our total assets. IBP is in the early stages of a process to migrate from the Standardised Approach to the Internal Ratings Based (IRB) approach.

Basel capital ratios – standardised approach
Percentage



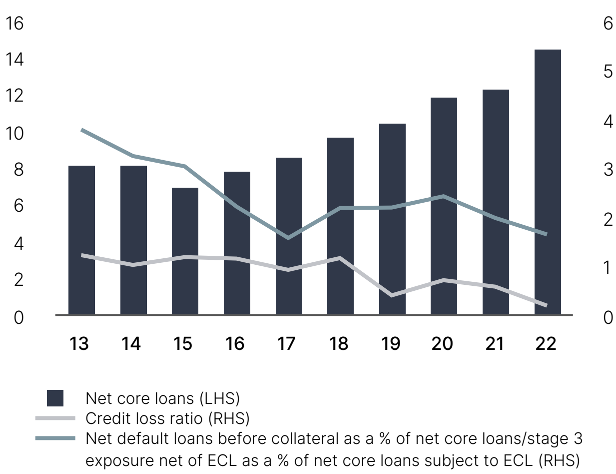
* The leverage ratio has only been disclosed since 2014. Historic information has been estimated.

Asset quality and exposures

0.17%

credit loss ratio

Core loans and asset quality
£'billion



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 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, the UK.

The total ECL impairment charges amounted to £25.4 million for the the financial year ended 31 March 2022 (2021: £71.1 million). The credit loss ratio decreased from 0.56% at 31 March 2021 to 0.17% at 31 March 2022.

Stage 3 exposure net of ECL at 31 March 2022 amounted to £224 million (31 March 2021: £231 million). Stage 3 exposure net of ECL as a percentage of net core loans subject to ECL at31 March 2022 amounted to 1.6% (31 March 2021: 2.0%).

FOR FURTHER INFORMATION:

Investor Relations
Tel: (27) 11 286 7070/(44) 20 7597 5546
e-mail: investorrelations@investec.com
Website: www.investec.com

Date of print: 19 May 2022