

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. IBP also includes capital light non-banking income from Investec Wealth & Investment (IW&I), one of the largest private client investment managers in the UK with £33.1bn funds under management as at 31 March 2020.

	Moody's		Fitch	
	Foreign currency		Foreign currency	
	Short-term deposit rating	Long-term deposit rating	Short-term rating	Long-term 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 16 August 2019.

The upgrades were the reflection of:

IPB'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 1 April 2020, Fitch took action on a number of UK banking groups (including IBP), due to the COVID-19 pandemic. This resulted in Fitch placing IBP's ratings on Rating Watch Negative (RWN), as Fitch believes the economic fallout from the pandemic crisis represents a near-term risk to its ratings.

On 7 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. These ratings were affirmed on 20 December 2019.

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 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

Long-term deposit rating	A1
Senior unsecured MTN	(P) A1
Counterparty Risk Rating	A1/Prime-1
Baseline credit assessment (BCA) and Adjusted BCA	baa1
Senior subordinate rating	Baa2
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
Support rating	5
Viability rating	bbb+
Outlook	Rating Watch Negative (RWN)

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	HSBC Bank plc [^]	Lloyds Bank plc [^]	Natwest Bank plc [^]	Santander UK plc [^]	Standard Chartered Bank [^]
Moody's									
Long-term rating	A1	A1	Aa3	Baa1	Aa3	Aa3	A2	Aa3	A1
Outlook	Stable	Stable	Negative	Stable	Negative	Negative	Positive	Negative	Stable
BCA (baseline credit assessment)	baa1	baa3	a2	baa2	baa2	a3	baa1	a3	baa2
Fitch									
Long-term rating	BBB+	A+	A-	A-	AA-	A+	A+	A+	A+
Outlook	RWN	RWN	Negative	RWN	Negative	Negative	Negative	Negative	Negative
Viability rating	bbb+	a	a-	bbb+	a+	a	a	a	a

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.

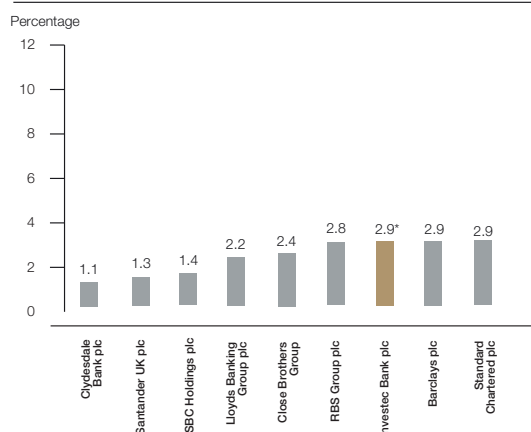
Note: Comparative ratings have been sourced from the Moody's and Fitch websites as at 8 June 2020 and may be subject to changes for which we cannot be held accountable. It is advisable to discuss the ratings of the various companies with the companies themselves as this information merely reflects our interpretation thereof.

* On 1 April 2020, Fitch resolved the subordinated debt ratings of a number of UK banking groups (including IBP) which had been under criteria observation following Fitch's banks' rating methodology change. As a result, IBP's Tier 2 debt rating was downgraded by one notch to BBB- (from BBB), reflecting the change in Fitch's notching for loss-severity to two notches from baseline (from one previously).

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

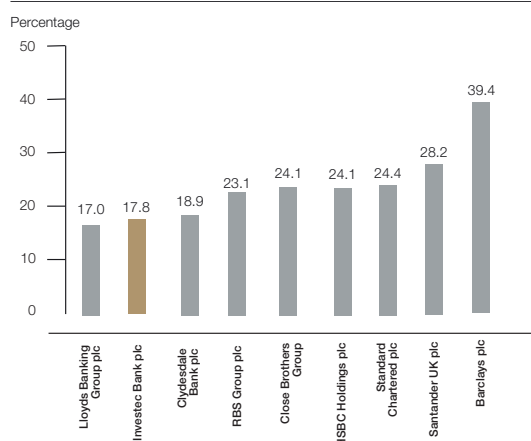
PEER COMPARISON OF MOODY'S SCORECARD KEY RATIOS

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



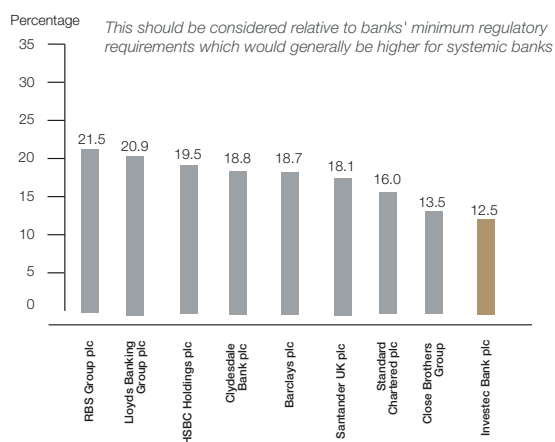
* Of the 2.9%, 1.5% relates to IBP's legacy portfolio which is comprised of pre-2008 assets held on balance sheet, that had low/negative margins and assets relating to business we are no longer undertaking

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

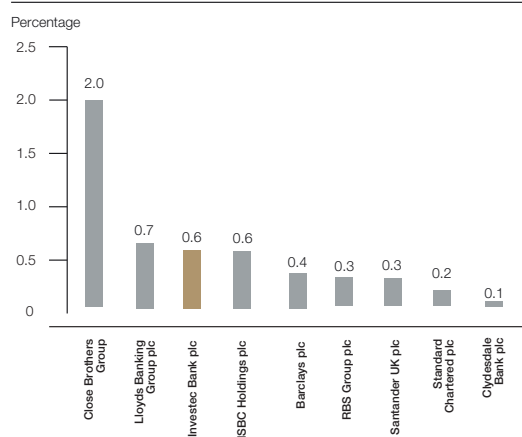


** Where market funds are defined by Moody's as: due to financial institutions + short-term borrowing + trading liabilities + other financial liabilities at FV + senior bonds + due to related parties - 50% of covered bonds

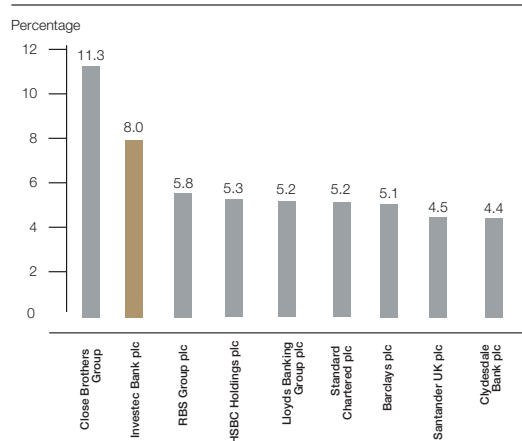
Capital: Tangible common equity/risk-weighted assets (larger number is better)



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

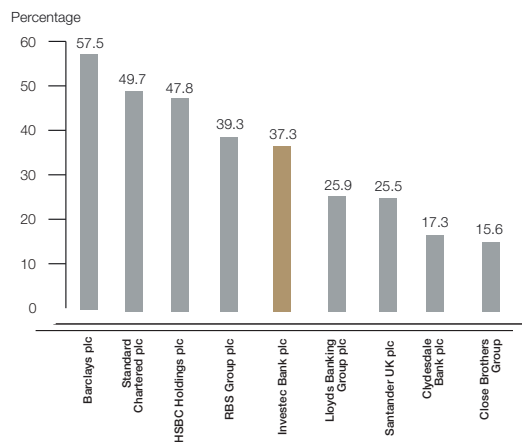


Leverage ratio^: Regulatory equity/regulatory assets (larger number is better)



^ IBP is not subject to the UK Leverage Framework, however for comparative purposes, under the current UK leverage ratio framework IBP had a leverage ratio of 9.1% at 31 March 2020

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



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 64% at 31 March 2020 (66% at 31 March 2019), which is substantially higher than some other UK banks which have an average RWA intensity of c.30%.

Source for all graphs other than the leverage ratio: Moody's published rating reports at 8 June 2020. Leverage ratio graph sourced from company interim/annual financial results as at 20 May 2020 and shown at the entity level at which a leverage ratio has been disclosed.

AN OVERVIEW OF IBP'S OPERATING FUNDAMENTALS

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

	31 Mar 2020	31 Mar 2019 [^]	31 Mar 2018	31 Mar 2017	31 Mar 2016	% change Mar 2020 vs 2016
Operating profit before non-operating items, taxation, expected credit loss impairment charges and after non-controlling interests (£'mn)	249.3	299.8	242.4	236.0	230.6	8%
Operating profit before goodwill and acquired intangibles non-operating items, taxation and after non-controlling interests (£'mn)	173.6	274.8	136.3	161.1	146.3	19%
Earnings attributable to ordinary shareholders (£'mn)	57.8	161.9	97.8	117.8	96.6	(40%)
Cost to income ratio	73.9%	72.6%	76.7%	75.9%	73.2%	1%
Total capital resources (including subordinated liabilities) (£'mn)	3 118	2 967	2 789	2 559	2 440	28%
Total equity (£'mn)	2 331	2 163	2 209	1 980	1 843	26%
Total assets (£'mn)	24 667	22 121	20 097	18 381	18 335	35%
Net core loans and advances (£'mn)	11 832	10 487	9 663	8 599	7 781	52%
Customer accounts (deposits) (£'mn)	15 506	13 499	11 970	11 289	11 038	40%
Cash and near cash balances (£'mn)	6 040	6 792	5 598	4 853	5 046	20%
Funds under management (£'mn)	33 465	39 482	37 276	35 941	30 104	11%
Risk-weighted assets (£'mn)	15 808	14 631	13 744	12 716	11 738	35%
Total capital ratio (current)	16.5%	17.0%	16.5%	16.6%	17.0%	
Tier 1 ratio (current)	13.1%	12.9%	13.2%	12.2%	11.9%	
Common equity tier 1 ratio (current)	11.5%	11.2%	11.8%	12.2%	11.9%	
Leverage ratio (current)	8.0%	7.9%	8.5%	8.0%	7.5%	
Stage 3 exposure net of ECL/default loans (net of impairments) as a % of net core loans and advances subject to ECL	2.4%	2.2%	2.2%	1.6%	2.2%	
Credit loss ratio [#]	0.69%	0.38%	1.14%	0.90%	1.13%	
Total gearing ratio (i.e. total assets to equity)	10.6x	10.2x	9.1x	9.3x	9.9x	
Loans and advances to customers as a % of customer deposits	76.3%	77.7%	80.7%	76.2%	70.5%	

[^] Information for March 2019 has been restated to exclude the financial impact and rundown of the Hong Kong direct investments business and the impact of other group restructures.

[#] Expected credit loss (ECL) impairment charges on gross core loans and advances as a percentage of average gross core loans and advances subject to ECL.

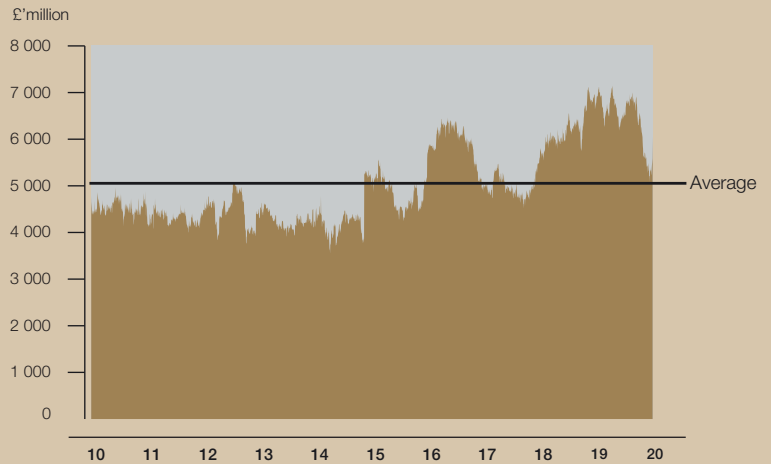
Liquidity and funding

£6.0bn
(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 2020, the bank had £6.0 billion of cash and near cash to support its activities, representing approximately 39% 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 £15.5 billion as at 31 March 2020 (31 March 2019: £13.5 billion).

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.

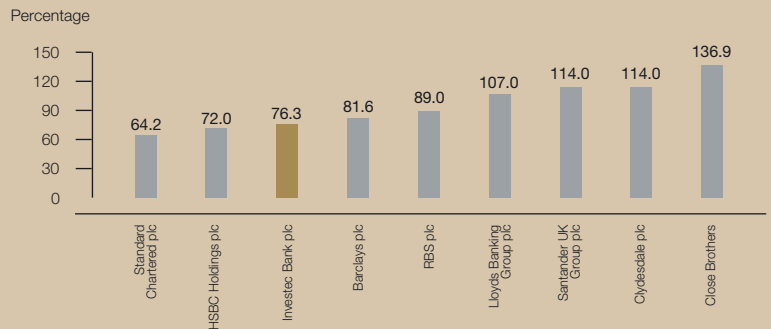
Loan to customer deposit ratio

76.3%
(loan to customer deposit ratio)

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 company interim/annual financial results available as at 20 May 2020 and reflects the balance sheet figures for loans and advances to customers and customer deposits.

Loan-to-deposit ratio

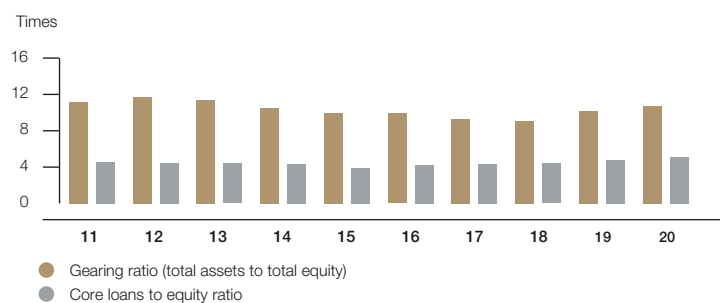


Gearing

10.6x

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 10.6x.

Gearing ratio



Capital adequacy

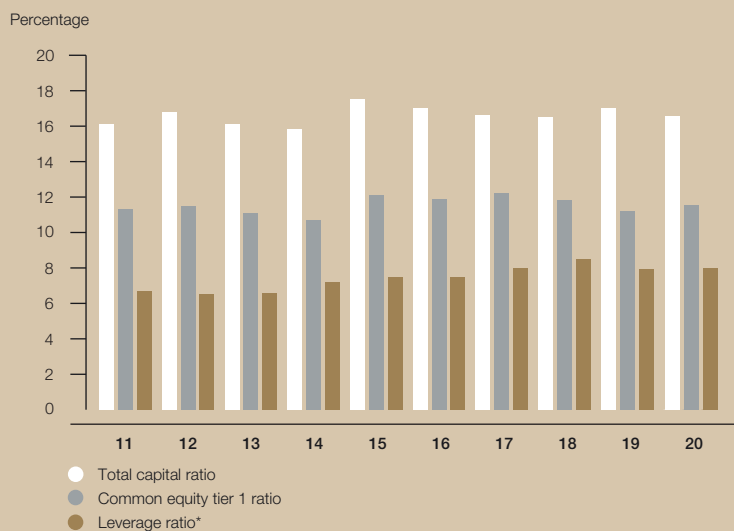
16.5%

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. As at 31 March 2020, the total capital ratio of IBP was 16.5% and the common equity tier 1 ratio was 11.5%.

The bank's anticipated 'fully loaded' Basel III common equity tier 1 ratio and leverage ratio are 11.1% and 7.7%, respectively (where 'fully loaded' is based on Basel III requirements as fully phased in by 2022). These disclosures incorporate the deduction of foreseeable charges and dividends as required by the regulations. Excluding this deduction, the common equity tier 1 ratio would be 0 bps higher (31 March 2019: 13bps).

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.

Asset quality and exposures

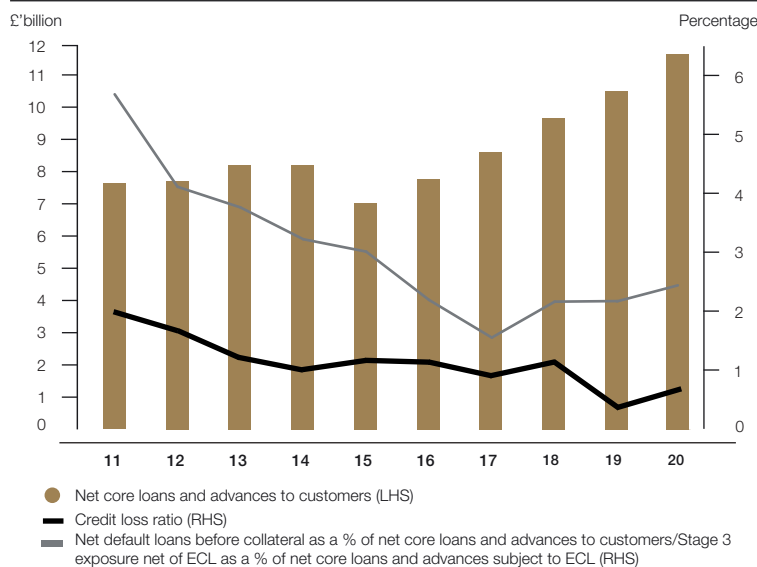
0.69%

(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.

The total income statement ECL impairment charges amounted to £75.7 million for the year ended 31 March 2020 (2019: £25.0 million). The credit loss ratio increased from 0.38% at 31 March 2019 to 0.69% at 31 March 2020. The main contributors to the increase in ECL impairment charges were book growth and the impact of the COVID-19 pandemic; in the form of a provision overlay reflecting a deterioration in the macro-economic scenario forecasts applied and a specific impairment provision.

Core loans and asset quality



Stage 3 exposure net of ECL at 31 March 2020 amounted to £272 million (31 March 2019: £211 million). Stage 3 exposure net of ECL as a percentage of net core loans and advances subject to ECL at 31 March 2020 amounted to 2.4% (31 March 2019: 2.2%).

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