

DLC Board Risk and Capital Committee report

As the chairman of the DLC BRCC, during the financial year ended 31 March 2020, I am pleased to present our report.

The role of the committee is to review, on behalf of the board, the range of risks facing the business. We perform this function by considering the risk reports presented and question whether existing actions taken by management are appropriate.

The DLC Audit Committee has the primary role in providing assurance to the board that adequate controls are in place to mitigate the enterprise wide risks identified and that the controls may be relied upon. Therefore, the audit committee relies on the output of the committee to give assurance on the completeness of enterprise wide risks. As it is essential that there are some synergies in membership of the DLC Audit Committee and DLC BRCC, common membership is retained by Zarina Bassa, as the chair of the DLC Audit Committee, and Philip Hourquebie and Philisiwe Sibiya, as members of the DLC Audit Committee.

Capital ratios have remained sound throughout COVID-19. With respect to Market Risk, we remained within risk limits through the period, except for the UK equity structured products business which was significantly impacted by a sharp fall in equity markets pursuant to the COVID-19 pandemic, and resultant changes in assumed dividend yields. The committee reviewed and approved the capital plans for IBL and IBP under various stress scenarios. The committee was also actively involved in reviewing the various models for the Foundation Internal Ratings Based (FIRB) approach. The South African Prudential Authority approved the IBL application to calculate its minimum capital requirements in respect of credit risk for the wholesale portfolios using the FIRB approach and retail portfolios using the Advanced Internal Ratings Based (AIRB) approach, effective April 2019.

Reports to the committee focus on the key risk disciplines of credit, operational, legal, conduct, reputational, capital, liquidity, climate change risk, financial crime, business resilience, market, investment risk, information technology and cyber security. Due to the dynamic nature of the business environment in which Investec operates, the committee is flexible in considering other matters of relevance as they arise. For example, the committee requested several *ad hoc* reports in order to adequately assess risks that are due to one off events, including deep dives on certain significant risk exposures such as business resilience and cyber crime.

At each board meeting, a report is presented on the key matters discussed at the committee with particular focus on any new risks identified.

In the latter part of the financial year, the committee focused on the rapidly evolving impact of COVID-19 and the potential introduction of a broad range of risks across the business: people risk, operational resilience and financial risks including market risk, credit risk and liquidity risk. We focused on deposit origination through our funding channels in anticipation of increased levels of notice given by corporates to shore up their liquidity needs. We actively monitored our liquidity position and risk metrics and various market scenarios. The committee was provided with assurance that due attention and appropriate action was being taken and the committee was regularly kept abreast of the risks given the fluidity of the situation.

We believe that robust risk management systems and processes are in place to support the group strategy

DLC Board Risk and Capital Committee report

David Friedland

Chairman of the DLC BRCC

Key achievements in FY 2020

- Reviewed the targeted attack simulation (TAS) exercise conducted by external consultants in order to mitigate cybercrime risk. Ensured remedial action was being taken in respect of identified weaknesses
- Brexit: Consideration of risks that could be faced and management actions to mitigate the impact thereof
- Monitored progress of converting the IBL wholesale book from the Foundation Internal Ratings Based (FIRB) to the Advanced Internal Ratings Based (AIRB) approach
- Monitored the effectiveness of Risk Data Aggregation and Risk Reporting (RDARR)
- Monitored the implementation of the General Data Protection Regulation (GDPR)
- Continued focus on the further embedding of International Financial Reporting Standards (IFRS 9)
- Reviewed strengthening our Economic, Social and Governance (ESG) assessments and monitoring processes
- Discussed climate-related risks and opportunities for enhanced Task Force on Climate related Financial Disclosures (TCFD) disclosures
- Ensured that any risks associated with the demerger of the Asset Management (Ninety One) business were adequately addressed
- Reviewed the results of IBP's liquidity stress test simulation exercise, including consideration of actions resulting therefrom
- Monitored the group's Internal Capital Adequacy Assessment Process (ICAAPs), the group's Internal Liquidity Adequacy Assessment Process (ILAAP)
- Monitored the impact and measures taken to manage COVID-19

Areas of focus in FY 2021

- Monitor the impact and measures taken to manage COVID-19 including the impact on staff, the workplace, financial, client services, risk and compliance
- Monitor the continued mitigation of risks related to cybercrime and information security
- Monitor the effectiveness of RDARR
- Continued focus on the further embedding of IFRS 9
- Monitor regulatory developments
- Continuing to strengthen our ESG processes
- Strengthening disclosure according to TCFD recommendations
- Review business resilience
- Monitor the conversion of the IBL wholesale book from FIRB to AIRB
- Approve the group's ICAAPs and IBP's ILAAP
- Brexit: continued consideration of the risks that could be faced and the monitoring of management actions to mitigate the impact thereof

CORPORATE GOVERNANCE

(continued)

Committee performance

The performance of the committee was evaluated over the year and it was concluded that it was to be operating effectively.

Role of the chair

During the year, meetings were held regularly with the heads of business, as well as heads of the risk disciplines outside of formal committee meetings in order to maintain and develop an understanding of the group's operations and risks facing the business. These interactions are an essential part of the role of the chairman, as it provides an additional layer of assurance to help gain comfort that risks that are reported to the committee accurately reflect the risks facing the business.

Looking forward

There is currently unprecedented uncertainty resulting from the COVID-19 pandemic, including the depth of the potential downturn in activity, the duration of restrictive measures and the lockdown exit plans within the geographies in which we operate.

It is presently difficult to predict the full impact that the pandemic will have on the group.

We will regularly review and, where necessary, question management's ongoing responses so as to ensure that the challenges posed by COVID-19 are given its full attention.

In the year ahead, the committee will continue to focus on matters related to the impact of economic conditions on Investec, effective risk data aggregation, business resilience, financial crime, the implementation of regulatory requirements, Financial Intelligence Centre Act (FICA) and the King IV Code, information security, cybercrime and risks associated with the fast pace of regulatory change faced by the business and assessing the impact of external factors on the group's risk profile.

The committee will continue to dedicate time either within scheduled meetings or with ad-hoc meetings to receive in-depth reporting on specific risks or business lines from subject matter experts to facilitate better understanding of the risks and to allow for debate and challenge.



David Friedland
Chairman, DLC BRCC

16 June 2020

Role

The committee is an essential part of the group's governance framework to which the board has delegated the monitoring of the group's activities in relation to a number of risks and capital management. The committee is the most senior risk management committee of the group and comprises executive and non-executive membership. It covers each material banking and wealth management subsidiary company within the wider group.

The committee has to ensure that all risks are identified and properly mitigated and managed. Good client and market conduct are paramount in all the group does and the committee ensures a robust culture supported by oversight and management of information to evidence good practice.

The committee also considers whether the resources allocated to the risk management functions are adequate for effectively managing the group's risk exposures.

The committee is also the appointed board committee to meet the requirements of the South African Banks Act and the Capital Requirements Regulation and Directive (CRR/CRD IV), adopted

by the European Commission and implemented in the UK. This requires the board of directors of a bank and a holding company to appoint a risk and capital committee.

Composition and meetings

The DLC Nomdac and the board have formed the opinion that the committee has the appropriate balance of knowledge and skills in order to discharge its duties. All members have the relevant knowledge and experience for them to be able to consider the issues that are presented to the committee.

The committee meets at least six times every year. During the year ended 31 March 2020, the committee met six times.

A Combined DLC Audit Committee and DLC BRCC meeting was held in February 2020 to review Macro Economic Scenarios, Weightings and the impact on Expected Credit Losses (ECL) and IFRS 9, to jointly sign off on these matters.

**DLC BRCC
(6 meetings in the year)**

Members	Committee member since	Eligible to attend	Attended
D Friedland (Chairman)	13-Sep-13	6	6
ZBM Bassa	14-Nov-14	6	6
PKO Crosthwaite	9-Nov-18	6	3
B Kantor*	11-Mar-11	2	1
S Koseff**	11-Mar-11	2	1
NA Samujh***	8-Aug-19	4	4
PA Hourquebie	17-Aug-17	6	6
KL Shuenyane	16-Jan-15	6	6
HC Baldock****	9-Aug-19	4	4
PG Sibiya*****	9-Aug-19	4	4
F Titi	11-Mar-11	6	6

* B Kantor stepped down from the committee with effect from 8 August 2019.

** S Koseff stepped down from the committee with effect from 8 August 2019.

*** NA Samujh was appointed to the committee with effect from 9 August 2019

**** HC Baldock was appointed to the committee with effect from 9 August 2019.

***** PG Sibiya was appointed to the committee with effect from 9 August 2019.

^ Where a director is unable to attend a meeting they review their meeting papers in advance and have the opportunity to provide comments to the chairman of the committee.

Other regular attendees

- Operational risk
- Internal Audit
- Head of IT security
- Investec Wealth & Investment (SA) representative
- Investec Wealth & Investment (UK) representative
- Chief risk officer – Investec Limited
- Chief risk officer – Investec plc
- Investec Asset Management Head of legal risk and compliance#
- Global head of governance and compliance
- AIRB / FIRB project representative for AIRB / FIRB
- Head of Legal

Attended until the January 2020 meeting

How the DLC BRCC works

The significant matters addressed by the committee during the financial year ended 31 March 2020 are described on the following pages.

The standard and regular agenda items of the committee include comprehensive reports pertaining to liquidity risk, capital adequacy, credit risk, investment risk, market risk, operational risk, reputational and legal risk, conduct risk, financial crime, fraud and IT and cyber risk.

COMMITTEE ACTIVITIES

<i>Areas of focus</i>	<i>What we did</i>
Capital management <ul style="list-style-type: none"> We may have insufficient capital to meet regulatory requirements and may deploy capital inefficiently across the group. The progress/plan to achieving required regulatory and internal targets and capital and leverage ratios 	<ul style="list-style-type: none"> measured key capital ratios against the internal and regulatory limits and what actions management planned to meet these ratios/limits reviewed regulations on the management of capital – IFRS 9 and AIRB considered and assessed the implications of capital relaxation requirements in respect of COVID-19 satisfied itself that Investec plc and Investec Limited and their subsidiaries were adequately capitalised and that progress was being made towards achieving impending regulatory amendments to capital ratios
Liquidity risk <ul style="list-style-type: none"> Liquidity risk refers to the possibility that, despite being solvent, we have insufficient capacity to fund increases in assets or are unable to meet our payment obligations as they fall due, in normal and stressed conditions. This includes repaying depositors or maturing debt. This risk arises from mismatches in the timing of cash flows and is inherent in all banking operations and can be impacted by a range of institution-specific and market wide events 	<ul style="list-style-type: none"> reviewed regular reports highlighting group activity, liquidity balances and key measures against thresholds and limits and challenged the effective management thereof considered the impact and measures taken to manage COVID-19 challenged the effectiveness of the management of liquidity risk within the business reviewed an investment measure to ensure sufficient liquidity to absorb repayment of the Irish deposits pursuant to Brexit reviewed management's plans to address liquidity challenges caused by COVID-19, including focused deposit origination and revised funding plans
Balance sheet risk <ul style="list-style-type: none"> Balance sheet risk encompasses the financial risks relating to our asset and liability portfolios, comprising liquidity, funding, concentration, encumbrance and non-trading interest rate risk 	<ul style="list-style-type: none"> regularly reviewed reports highlighting group activity, liquidity balances and key measures against thresholds and limits and challenged the effective management thereof
Recovery and resolution plan <ul style="list-style-type: none"> Documents how the group will recover from extreme financial stress to avoid liquidity and capital difficulties in Investec plc and Investec Limited 	<ul style="list-style-type: none"> reviewed the recovery and resolution plans for the group in line with the mandated annual review challenged the recovery and resolution plans addressing how the group will recover from extreme financial stress and avoid liquidity and capital difficulties in the group gained comfort that adequate plans had been put in place for scenarios where the group was required to recover from extreme financial stress considered the impact and measures taken to manage COVID-19
Market risk <ul style="list-style-type: none"> Market risk arising in our trading book could affect our operational performance Traded market risk is the risk of potential changes in the value of the trading book as a result of changes in market risk factors such as interest rates, equity prices, commodity prices, exchange rates, credit spreads and the underlying volatilities in the derivatives market 	<ul style="list-style-type: none"> monitored risk appetite breaches and challenged management action which addressed these breaches considered the initial impact of COVID-19 received and interrogated a report on the losses suffered in equity UK Structured Products reviewed the impact of new market risk capital regulations including the Fundamental Review of the Trading Book, and gained comfort that the project in place was progressing with appropriate management focus reviewed the initial impact of COVID-19 and mitigating actions
Credit and counterparty risk <ul style="list-style-type: none"> Credit and counterparty risk exposes us to losses caused by an obligor's failure to meet the terms of any agreement 	<ul style="list-style-type: none"> monitored the risk appetite limits and questioned management action taken in respect of breaches challenged the effectiveness of the management of such risks within the business
Investment risk <ul style="list-style-type: none"> We may be exposed to investment risk in our unlisted and listed investment portfolios and property investment activities. The probability or likelihood of occurrence of losses relative to the expected return of any particular investment 	<ul style="list-style-type: none"> reviewed and challenged the governance processes in place to manage the risk reviewed and questioned the investment risk reports submitted to the committee

<i>Areas of focus</i>	<i>What we did</i>
<p>Operational risk</p> <ul style="list-style-type: none"> Operational risk from failures relating to internal processes, people, systems or from external events may disrupt our business or result in regulatory action. The potential or actual impact as a result of failures relating to internal processes, people, systems, or from external events. The impacts can be financial as well as non-financial such as customer detriment, reputational or regulatory consequences 	<ul style="list-style-type: none"> monitored operational losses and received detailed explanations for significant losses reviewed the overall risk rating for the group considered and reviewed the risk appetite limits for the group monitored and reviewed regulatory compliance risk, information security risk, access risk and regulatory developments considered the impact of risk and regulatory developments on the business
<p>Reputational risk</p> <ul style="list-style-type: none"> Reputational, strategic and business risks could impact our operational performance. Reputational risk is damage to our reputation, name or brand. Reputational risk is often associated with strategic decisions made and also arises as a result of other risks manifesting and not being appropriately mitigated 	<ul style="list-style-type: none"> monitored events which could potentially create reputational risk gained comfort that reputational risk was mitigated as much as possible through detailed processes and governance escalation procedures from business units to the board, and from regular, clear communication with all stakeholders
<p>Conduct risk</p> <ul style="list-style-type: none"> Conduct risk is the risk that detriment is caused to the group, its customers, its counterparties or the market, as a result of inappropriate execution of business activities 	<ul style="list-style-type: none"> reviewed and questioned the conduct risk report which is discussed at each meeting gained comfort that conduct related matters were appropriately managed and where required, reporting was made to the Regulators in a timely manner challenged the effectiveness of the management of such risks within the business
<p>Business Resilience</p> <ul style="list-style-type: none"> Risk associated with disruptive incidents which can impact premises, staff, equipment, systems and key business areas 	<ul style="list-style-type: none"> reviewed, challenged and debated reports which highlight processes in place to manage business resilience reviewed results of business resilience tests challenged the effectiveness of the management of such risk within the business considered the impact of COVID-19 on the continuation of the business in the current environment
<p>Cyber crime risk</p> <ul style="list-style-type: none"> Cyber risk can result in data compromise, interruption to business processes or client services, material financial losses, or reputational harm 	<ul style="list-style-type: none"> received and assessed regular reports regarding the cyber crime landscape, including lessons learnt from external cyber attacks received the targeted attack simulation (TAS) results and ensured that any remediation required was completed gained comfort that the management of cyber crime was given the necessary priority
<p>Climate Change</p> <ul style="list-style-type: none"> Unintended environmental (including climate risk), social and economic risks could arise in our lending and investment activities 	<ul style="list-style-type: none"> received and considered reports regarding environment and climate change considered management's actions to strengthen financial risks from climate change
<p>IT Security & Technology</p> <ul style="list-style-type: none"> We may be vulnerable to the failure of our systems and breaches of our security systems (including cyber and information security) 	<ul style="list-style-type: none"> received and reviewed reports from the chair of the INL IT Risk & Governance Committee interrogated reports on the remedial actions taken in respect of TAS
<p>Financial Crime</p> <ul style="list-style-type: none"> We may be exposed to financial crime, including money laundering, terrorist financing, bribery, fraud, tax evasion, embezzlement, forgery, counterfeiting, and identity theft 	<ul style="list-style-type: none"> regular reports were presented and interrogated with regard to financial crime events reviewed and considered the annual money laundering report officer's report