

DLC BOARD RISK AND CAPITAL COMMITTEE REPORT

David Friedland
Chair of DLC BRCC

“This was indeed a challenging year. By working closely with management, the risk functions and the three lines of defence, the committee was comfortable that the risks presented by COVID-19 and Brexit were properly managed.”

Members	Member since	Meetings attended	Eligible to attend
David Friedland (Chair)	13 Sep 2013	6	6
Zarina Bassa	14 Nov 2014	6	6
Perry Crosthwaite	9 Nov 2018	6	6
Nishlan Samujh	8 Aug 2019	6	6
Philip Hourquebie	17 Aug 2017	6	6
Khumo Shuenyane	16 Jan 2015	6	6
Henrietta Baldock	9 Aug 2019	6	6
Philisiwe Sibiya	9 Aug 2019	6	6
Fani Titi	11 Mar 2011	6	6
Stephen Koseff ¹	17 Sep 2020	4	4

1. Stephen Koseff was appointed as a member of the Committee on 17 September 2020.

Introduction

As the Chair of the DLC BRCC (the Committee), I am pleased to present our report for the financial year ended 31 March 2021.

At the outset, I would like to thank and pay tribute to the risk community, digital and technology as well as business units for their commitment and dedication, often during very trying times.

As a Committee, we take comfort that the risk function and oversight are in capable hands.

Role of the Committee

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.

As the most senior risk management committee of the group, our team is an essential part of the governance framework to which the board has delegated the monitoring of the group's activities in relation to risk and capital management.

We 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 the existence of a robust culture supported by oversight and management of information.

We also consider whether the resources allocated to the risk management functions are adequate for effectively managing the group's risk exposures.

The Committee is the appointed board committee to meet the requirements of the South African Banks Act and the Capital Requirements Directive and Regulation (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.



The Committee's terms of reference can be found at www.investec.com.

Composition

The Committee comprises executive and non-executive members, with our composition designed to provide the breadth of risk expertise and commercial acumen to fulfil our responsibilities.

I chair the Committee and am also the Chair of the IBL BRCC and a member of the IBP BRCC. This arrangement ensures the interconnection between the group and its principal subsidiaries.

COVID-19

The pandemic has brought significant human, social, economic and business uncertainty. From the earliest days, the group took steps to understand and mitigate the risks posed by and the impacts arising from the ongoing situation.

Comprehensive reviews of the impact of COVID-19 on all business areas were conducted, with particular focus on the risks emerging within structured products, aviation, gaming, property, leisure and hotels.

The structured products book in the UK was a key focus for our Committee. The speed of downward movement in the market due to the pandemic, together with the consequent unprecedented and sudden effect of dividend cancellations impacted hedging for all involved in these markets. Regular meetings were held to review and refine the risk management processes related to this book.

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Working from home

The group adapted well to working from home and managing day-to-day business, including employee well-being, operational resilience and client relationships. Our Committee continuously reviewed all risks associated with working from home.

Capital, risk appetite and liquidity

The Committee was actively involved in reviewing the various models for the Foundation Internal Rating Based (FIRB) approach. Investec Bank Limited transitioned onto the FIRB approach for wholesale and Advanced Internal Rating Based (AIRB) for retail effective from 1 April 2019. In July 2020, Investec Bank Limited obtained approval from the South African PA to commence the six month parallel run for the Corporate and Small and Medium-sized Enterprises (SMEs), exposure at default (EAD), and corporate and SME loss given default (LGD) models on AIRB. The six-month parallel run ended on 31 December 2020. We received sign off from the South African PA in April 2021 to utilise the Corporate and SME LGD and EAD models in our regulatory calculations. Investec Bank Limited will continue to apply the FIRB approach in respect of the Income Producing Real Estate (IRPE) portfolio.

The Committee reviewed and approved the capital plans for Investec Bank Limited and Investec Bank plc under various stress scenarios. Capital ratios have remained sound throughout the financial year.

We also reviewed and approved Investec Bank Limited's, Investec Bank plc's, Investec Limited's and Investec plc's risk appetites. This followed a robust annual review process that included evaluating the risk appetite frameworks in the context of the group's business strategy, and the regulatory and economic environment in which the group operates. The review culminated in a downward adjustment for certain sectors which were regarded as significantly higher risk due to the impact of COVID-19.

We deliberated extensively on the proposed stress scenarios for the Internal Capital Adequacy Assessment Process (ICAAP) and agreed that a more severe stress test should be established combining the impact of a second wave of COVID-19 and Brexit. Subsequently, the Investec Limited and Investec plc ICAAPs were recommended for approval to the DLC board.

A deep dive session was convened by the IBP BRCC to discuss Investec Bank plc's Internal Liquidity Adequacy Assessment Process (ILAAP), which was escalated to the committee for review. The Committee recommended Investec Bank plc's ILAAP for approval to the DLC board along with the Investec plc ILAAP, and both were approved by the board.

Looking ahead

The uncertainty regarding the pandemic makes it difficult to forecast its human, social and economic effects with any degree of accuracy. The Committee will therefore continue to review management's ongoing responses in order to ensure that the challenges posed by COVID-19 are addressed adequately.

We will continue to apply an intense focus on people, operational and liquidity risks, while at the same time considering resilience and strategy.

We will closely monitor the well-being of our people, including the implications of flexible working arrangements and consequent impact on talent management and morale.

Managing the risk around the UK Structured Products book will be a key focus area.

We will ensure continued focus on strengthening the risk and control environment. We will pay particular attention to change in activity, cyber-security and ensuring IT service continues to meet client demands and support the emerging and ongoing requirements of operational resilience.

In addition, the Committee will remain focused on matters related to the impact of economic conditions on Investec and on assessing the effects of external factors on the group's risk profile. These matters include effective risk data aggregation, business resilience, financial crime, the implementation of regulatory requirements, Financial Intelligence Centre Act (FICA), the King IV Code, UK Corporate Governance Code, information security, cyber crime and the risks associated with the fast pace of regulatory change.

ESG considerations were expanded in the risk appetite policies and will therefore be a key focus during the year as the reporting on ESG risk is enhanced.

The dialogue between the committee and its equivalent board subsidiary level committees remains robust.



David Friedland
Chair, DLC BRCC
22 June 2021

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What we did in 2020/21

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

The following section outlines the significant matters addressed and the progress made during the year, in respect of these risks.

2020

May

- Reviewed strategies to manage and contain losses resulting from Structured Products
- Received and reviewed a detailed presentation on the business areas and risk impacted by COVID-19, in particular, the group's approach to liquidity management
- Analysed the COVID-19 crisis management plan
- Considered the appropriateness of debt and equity exposure
- Interrogated an update provided on market risk appetite and market risk stress scenarios
- Reviewed the appropriateness of the committee report within the 2020 DLC Integrated Annual Report
- Reviewed and approved the group's viability statement in a joint session with the DLC Audit Committee

July

- Received an update on the outcomes of the strategies for Structured Products
- Challenged the proposed stress scenarios to be used in the 2020 Investec plc and Investec Ltd ICAAP
- Reviewed the impact on the UK bank should the Bank of England (BOE) decide to utilise a negative interest rate and the operational readiness of the bank's systems
- Considered the appropriateness of the group's operational risk mitigation strategies as a result of COVID-19
- Reviewed and approved the Investec Bank Limited and Investec Limited Regulation 39 & 40
- Reviewed and interrogated Investec Bank Limited's property loan exposures

September

- Received an update on Structured Products
- Reviewed and recommended the Contingency Funding Plan (CFP) for approval by the boards of Investec plc and Investec Bank plc
- Reviewed the additional stress ICAAP stress scenario as requested by the committee in July
- Reviewed and recommended the approval of the traded market risk appetite by the DLC board
- Reviewed and approved the Risk Data Aggregation and Risk Reporting (RDARR) Annual Attestation and policy
- Interrogated an Investec Bank plc credit risk update

November

- Considered an update on Structured Products
- Reviewed and recommended the approval of the Investec plc ILAAP and Investec plc and Investec Ltd ICAAP to the DLC board
- Reviewed the appropriateness of the Investec plc Risk Recovery Plan (RRP) and deferred same for consideration at a separate meeting to be held later in the month
- Received an update in respect of the impact of negative rates on Investec plc

2021

February

- Received a report on the current exposures for Structured Products and confirmed the strategies to manage the risk
- Reviewed the Investec Bank Limited, Investec Bank plc, Investec Ltd and Investec plc Risk Appetite Frameworks and recommended them for approval to the DLC board

March

- Reviewed the Investec Bank plc and Investec plc Liquidity Risk Appetite Frameworks, Investec Bank plc Liquidity Stress Testing and the Investec Bank plc and Investec plc Non-Traded Market Risk Appetite Frameworks and recommended them to the DLC board for approval
- Reviewed and approved the Investec plc market risk policies
- Reviewed and approved the Investec plc Trading Book and Model Control Policy
- Reviewed and approved the Group Market Communication and Disclosure Policy
- Reviewed and approved the Investec Bank plc Money Laundering Reporting Officer (MLRO) report

April

- Held a combined DLC BRCC and DLC Audit Committee meeting to challenge the macro-economic scenarios (including weightings) to be applied to the calculation of IFRS impairment provisions

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Area of focus	Conclusions and actions
<p>COVID-19</p> <p>Oversaw the risk in order to support the group's stakeholders throughout the COVID-19 pandemic</p>	<ul style="list-style-type: none"> Reviewed and challenged management actions to address the risks ensuring that surplus liquidity and capital buffers were in place to manage the possible negative impact In conjunction with the DLC Audit Committee, reviewed for reasonableness the benchmarking of macro-economic scenarios, ECLs, Credit Loss Ratio (CLR) and coverage ratios against relevant South African and UK peers Examined any potential or actual fraud losses fraud risk remained heightened throughout the industry as a result of COVID-19 Received assurance following management's in-depth review of the credit portfolio that the quality of the book had not materially deteriorated. The committee focused on vulnerable sectors impacted by COVID-19 including aviation, hospitality, gaming & leisure, entertainment, tourism and retail properties Focus on operational resilience as the group's operations were largely executed with employees working from home, increasing the reliance on IT and related processes. Assurance was provided that the required controls and oversight were in place and effective Enhanced oversight of conduct and compliance risk to ensure there were no current or emerging risks that could negatively impact customers
<p>Structured Products</p> <p>Closely monitored the Structured Products book in the UK following the significant impact of the unprecedented market dislocation and the associated risks</p>	<ul style="list-style-type: none"> Reviewed and interrogated the implied volatility, dividend and correlation risks pertaining to the book Reviewed regular reports highlighting group activity, liquidity balances and key measures against thresholds and limits and challenged the effective oversight of these matters Reviewed the mitigants put in place to manage the risk
<p>Recovery and Resolution Plan (RRP) – Investec Bank plc</p> <p>Reviewed the Recovery and Resolution Plan for Investec Bank plc following the implementation of restrictions on the UK bank's operations within the European Union (EU)</p>	<ul style="list-style-type: none"> Reviewed the impact to the group including restrictions on the UK bank's operations and the servicing of clients within the EU and mitigating actions Reviewed and approved the RRP

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Area of focus	Conclusions and actions
<p>Environmental, Social and Corporate Governance (ESG)</p> <p>Increased focus on ESG and climate change in an effort to advance the United Nations Global Compact's (UN GC) 10 principles with respect to business and human rights, labour, environment and anti-corruption</p>	<ul style="list-style-type: none"> • Noted the publication of a number of policies and statements with respect to ESG and climate change including: <ul style="list-style-type: none"> – The group Environmental Policy – Investec Sustainability Report – Investec Climate-Related Financial Disclosures • Monitored and reviewed the implementation of the ESG standards as a signatory to the UN GC, instituted General Data Protection Regulation (GDPR), health and safety, diversity, environmental, anti-corruption and corporate governance policies through the IBP and IBL BRCC Committees • Discussed the group's exposure to fossil fuels following the publication of the group fossil fuel policy during March 2020 • Received confirmation from management that credit decisions considered financial risks from climate change and that these decisions were being documented
<p>IT Controls & Cyber Risks</p> <p>Renewed focus on IT Controls and cyber risk due to an increase in cyber crime as a result of the impact of COVID-19</p>	<ul style="list-style-type: none"> • Received confirmation from management that cyber risks were being effectively managed through our cyber security capability with the penetration testing scheduling process being reviewed to ensure that existing critical applications would be prioritised • Reviewed the protection and management of client and proprietary data across all jurisdictions in order to mitigate against the increased activity and sophistication of cyber criminals • Monitored the implementation of disciplines and remediation of the issues that emanated from the Targeted Attack Simulation (TAS-4) tests conducted in 2019 • Monitored the implementation of remediation processes to mitigate against the reputational and privacy risk of a data breach. This risk will remain high until measures are in place across likely channels of data compromise including email, cloud services, instant messaging, and collaboration tools
<p>Brexit</p> <p>Considered the potential impact and risks arising as a result of the UK leaving the EU</p>	<ul style="list-style-type: none"> • Reviewed the impact on the group including restrictions on the UK bank's operations and the servicing of clients within the EU and the mitigating actions • Gained assurance regarding the operational risk and compliance risk considerations from the establishment and roll out of a framework to manage these risks • Challenged the assumed impact of Brexit, and in particular a no-foreign trade agreement (FTA) Brexit which had been input into the economic scenarios • Post Brexit, the committee kept abreast of the regulatory changes resulting from Brexit including the embedding of the Capital Requirements Directive IV and Capital Requirements Regulation in the UK

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Area of focus	Conclusions and Actions
<p>Foundation Internal Rating Based (FIRB)/Advanced Internal Rating Based (AIRB) Considered of the impact of the conversion from FIRB to AIRB on the wholesale and retail book in South Africa</p>	<ul style="list-style-type: none"> Reviewed the impact of the conversion from FIRB to AIRB of certain models approved by the South African PA during 2020: <ul style="list-style-type: none"> Obtained approval to commence six-month parallel run for the Corporate and SME and Corporate and SME LGD model on AIRB (July 2020 till December 2020) Received sign-off to utilise these models in our AIRB regulatory calculations in April 2021 Investec Bank Limited will continue to apply the FIRB approach in respect of the IPRE portfolio until AIRB approval is obtained Obtained approval for the Non-Banking Financial Institution (NBFI) model for FIRB, which was included in capital calculations from August 2020
<p>New Top Material Risks Identified and discussed material risks.</p>	<ul style="list-style-type: none"> Identified new material risks including: <ul style="list-style-type: none"> Operational resilience: key operational resilience regulatory requirements that would need to be structured and met in 2021 which the Investec Bank plc board will be accountable for Change risk: due to the people and organisational changes in the UK, there was an increased risk given the significance of the change and the impact on people and, the working environment as well as on Investec's ability to service clients in line with set standards Consistent reporting and management of the risk will be required to mitigate its impact on people, the future operating model, loss of institutional knowledge and operational risk losses COVID-19 relief measures: consistent monitoring of exposure where relief measures were granted