

DLC BOARD RISK AND CAPITAL COMMITTEE REPORT

David Friedland
Chair of DLC BRCC

“We’ve continued to enhance our processes, systems, and controls leading to improved risk management in our trading jurisdictions.

Through our interactions with management, risk functions and the three lines of defence, the Committee is satisfied that all risks, including emerging risks, are properly managed.”

Members	Member since	Meetings attended	Eligible to attend
David Friedland (Chair)	13 Sep 2013	5	5
Zarina Bassa	14 Nov 2014	5	5
Perry Crosthwaite ¹	9 Nov 2018	2	2
Nishlan Samujh	8 Aug 2019	5	5
Philip Hourquebie	17 Aug 2017	5	5
Khumo Shuenyane	16 Jan 2015	5	5
Henrietta Baldock	9 Aug 2019	5	5
Philisiwe Sibiyi	9 Aug 2019	5	5
Fani Titi	11 Mar 2011	5	5
Stephen Koseff	17 Sep 2020	5	5
Nicky Newton-King	21 May 2021	4	4
Jasandra Nyker	21 May 2021	4	4
Brian Stevenson	22 Jun 2021	4	4

1. Perry Crosthwaite stepped down as a member of the Committee at the annual general meeting held on 05 August 2021.

Introduction

As the Chair of the DLC BRCC (the Committee), I’m pleased to present our report for the financial year ended 31 March 2022.

Having served as a Non-Executive Director on the Board for nine years, I am no longer considered independent pursuant to Directive 4/2018 of the South African PA; therefore, this is my final report as Chair. As a result, I will not run for re-election at the upcoming AGM. In accordance with the South African PA’s consent, I am, however, considered independent until the AGM scheduled for August 2022.

Firstly, I would like to thank and pay tribute to the risk community, and the digital and technology teams, as well as business units for their commitment and dedication.

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

Role and responsibilities of the Committee

Our role is to provide independent oversight of the range of risks (including non-financial risks) facing the business.

We perform this function by considering the risk reports presented and questioning whether actions taken by management are appropriate.

Through Committee meetings as well as interactions with the Chief Risk Officers (CROs) and the various risk disciplines, we satisfy ourselves that effective risk management plans and processes are in place to ensure that risks are adequately assessed and timeously addressed.

As the Group’s most senior risk management committee, our Committee 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.

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 of a Bank holding company to appoint a risk and capital committee.



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

Composition

With its membership including both Executives and Non-Executives, the composition of our Committee is designed to provide the necessary breadth of risk expertise and commercial acumen to fulfil our responsibilities.

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I chair the Committee and am also the Chair of the IBL BRCC and a member of the IBP BRCC and the UK IW&I Risk Committee.

Connectivity

Committee members attend the Investec Bank Limited BRCC and Investec Bank plc BRCC meetings by invitation to facilitate their understanding of the risks facing these two banking subsidiaries. This arrangement ensures connectivity between the Group and its principal subsidiaries.

I was also furthermore appointed as a member of the DLC Audit Committee in August 2021. Given the synergies and nature of the matters considered by the DLC Audit and DLC BRCC Committees, my membership of both Committees drive towards greater connectivity. The DLC Audit Committee Chair and members are also members of the DLC BRCC. The dialogue between the Committee and its equivalent Board subsidiary level committees remains robust.

Succession

Working closely with the DLC Nomdac, the Board continues to drive and monitor succession planning.

Vanessa Olver, a Non-Executive Director of Investec Bank Limited since 2021, has been identified as my successor as the Chair of the Committee.

I know that Vanessa, with her deep knowledge and experience of the banking sector, will build upon the work and success of the Committee.

Risk sub-committees

Based on our interactions with the risk community, attendance at sub-committee meetings supporting the risk functions of the Group, as well as the output of BRCC meetings, the Committee believes that the Group has adequate and robust systems and processes in place to ensure the effectiveness of the risk functions.

DLC Information Technology Risk and Governance (ITRG)

The ITRG Committee comprises both Executives and Non-Executive Directors, two of whom have extensive IT experience.

The ITRG Committee reports into DLC BRCC and the DLC Audit Committee, where reports are discussed and interrogated.

I am a member of the ITRG Committee.



Refer to the DLC Audit Committee report for more information in respect of the functions of DLC ITRG.

Investec Limited and Investec Bank Limited Large Exposure Committee

The Investec Limited and Investec Bank Large Exposure Committee comprises three Non-Executive and four Executive Directors as well as the joint Heads of Credit, Head of Risk and the Global Head of Compliance and Internal Audit.

The main objective of the Committee is to assist the Board in discharging its responsibilities in terms of the management of credit granting and credit risk (which forms an integral part of the overall process of corporate governance) and its concentration across the Group.

The Committee reports to the IBL BRCC and DLC BRCC.

Looking ahead

The Committee will continue to apply an intense focus on people, operational, IT 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.

In line with Investec's focus on digitalisation, our technology strategy has evolved into a cloud-centred transformation. This journey is still in a growth phase, and we are cognisant that risks may be introduced as critical systems are built in or migrated to the cloud. The Committee will seek to understand and address these risks, and the potential for cloud to disrupt, transform, and accelerate business models. It is vital that technology continues to meet client needs and fulfils emerging and ongoing requirements of operational resilience.

A localised operating risk is a finding by the Financial Action Task Force (FATF) that the South African financial sector needs to improve its processes to prevent money laundering and terrorist financing. The country has until August 2022 to present progress. Should the country fail to meet the FATF deadline, South Africa will be "grey-listed" and the ability of its banks to raise funds in global markets will be restricted, to the detriment of our country's financial system. The Committee will monitor the situation and in the event of being placed on the "grey-list", consider the impact on the Group's operations and consequential risks that may arise.

Furthermore, we will continue to assess how external factors impact the Group's risk profile. These matters include financial crime, the implementation of regulatory requirements, Financial Intelligence Centre Act (FICA), the King IVTM Code, UK Corporate Governance Code and the risks associated with the fast pace of regulatory change.

We will also upskill the members of the Committee in terms of climate-related and sustainability (including ESG) matters through focused training sessions.

Cybersecurity remains an area of focus for the Committee. The Group is committed to managing and protecting its digital assets and to detecting and isolating significant breaches in order to to minimise business impact.

David Friedland
Chair, DLC BRCC
22 June 2022

Q&A

What are the key areas of focus with respect to succession planning?

Following the announcement of my intention to step down from the Board and the Committee, the Board, along with DLC Nomdac, initiated a search process to find my successor.

In-depth discussions were held with a diverse list of potential candidates, both internal and external, in order to ensure the appointment of a Chair of the Committee with the necessary experience and qualities.

Vanessa Olver, an existing member of the Investec Bank Limited Board and IBL BRCC, was accordingly appointed as a member of DLC BRCC.

What are the key emerging risks identified by the Committee?

- Following the Russian invasion of Ukraine, the Committee would need to assess potential emerging risks as the situation evolves.
- The Committee considered people risk within the business as an emerging risk due to strain on resources within the industry. This posed a problem to the business, especially in the IT environment.
- ESG and climate change risks are risks that the Committee will increasingly be focusing on.

What key risks are of concern to the Committee?

IT risk and cyber security is ever-evolving. It is an ongoing process to protect the business against any potential cyber attacks.

For this reason, regular Executive Cyber Simulation exercises are conducted to keep management abreast of the most recent developments and the required responses thereto.

Staff furthermore participated in regular in-house training in this regard to ensure that they are aware of potential threats and able to respond in the appropriate manner.

What we did in 2021/2

The standard and regular agenda items of the Committee include comprehensive reports regarding

Liquidity risk	Market risk	Financial crime
Capital adequacy	Operational risk	Fraud
Credit risk	Reputational and legal risk	Climate change
Investment risk	IT and cyber risk	

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

Russian invasion of Ukraine

The Committee was provided with regular updates on the impact of the Russian invasion of Ukraine on all our risk disciplines, with particular emphasis on Information Security and Financial Crime.

We remain confident that we have a well-diversified portfolio across sectors and have no direct exposure to Russia or Ukraine.

KwaZulu-Natal floods

The Committee received reports on the floods that hit the KwaZulu-Natal province in South Africa during April 2022. Although devastating to both the people and economy of KwaZulu-Natal, the impact on our business was limited. We will continue to monitor the longer-term impact of the floods on our clients and the business they do with us.

IT governance and cyber security

IT Controls and cyber risk received a renewed focus due to an increase in cyber crime as a result of the impact of COVID-19.

Management provided confirmation to the Committee 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.

The protection and management of client and proprietary data across all jurisdictions were reviewed in order to mitigate against the increased activity and sophistication of cyber criminals.

The Committee monitored the implementation of disciplines and remediation of the issues that emanated from the Targeted Attack Simulation (TAS-4) tests conducted in 2021.

The implementation of remediation processes to mitigate against the reputational and privacy risk of a data breach was monitored. 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.

A joint Investec Bank Limited and Investec Bank plc BRCC meeting received a detailed update on the Group's information security landscape, including the maintenance and enhancement of cyber resilience, managing the insider threat, turning security into a business differentiator and feedback on the Executive Cyber Simulation held in November 2021. Overall, Investec has a mature approach to cyber security with ongoing actions to further improve Investec's controls and resilience.

The move to the cloud is an ever-increasing topic of discussion and debate on understanding how the cloud accelerates, transforms and disrupts business models.

The pressure on demand for IT resources within the industry was considered. There was an increased focus to retain staff and to resource adequately with the necessary skills and experience.

In regard to the UK IW&I, the Committee considered the scope of a CBEST review, as requested by the regulator, in order to provide a framework to deliver controlled, bespoke, intelligence-led cyber security tests.

Presentation to the South African PA

In my capacity as the Chair of BRCC, I made a presentation to the South African Prudential Authority (PA) on 'The impact of new technologies on regulated financial institutions'.

The presentation inter alia included:

- How the Board is kept abreast of developments relating to the adoption of new technologies
- Our ability to adapt and respond to the emerging competition introduced by fintech companies
- Our approach to managing increased outsourcing and third party risks.

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COVID-19

The Committee continued to review and challenge management actions to address the risks arising from the impact of COVID-19, ensuring that surplus liquidity and capital buffers were in place to manage the possible negative impact and to support the Group's stakeholders throughout the COVID-19 pandemic.

In conjunction with the DLC Audit Committee, the Committee reviewed for reasonableness the benchmarking of macro-economic scenarios (MES), expected credit losses, the credit loss ratio and coverage ratios against relevant South African and UK peers.

Any potential or actual fraud losses throughout the industry as a result of COVID-19 were examined.

There was a significant focus by the Committee 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.

The Group continued adapting to working from home and managing day-to-day business, including employee wellbeing, operational resilience and client relationships. Our Committee continuously reviewed all risks associated with working from home and the transition to returning to the office.

Financial products

Risk management and risk reduction losses associated with the UK financial products book were immaterial at c.£5.9 million, compared to a £93 million loss incurred in the prior year, given significantly lower book-risk mitigation strategies and improved markets.

The Committee:

- Received and challenged the in-depth reporting on risk management and the exposure to capital-at-risk products, including the results stress testing
- Focused on management's continued progress in derisking the book, including the effectiveness of the macro hedge in place to provide downside protection for the FTSE, Eurostoxx and S&P at certain levels. The Committee focused on the unwinding of over-the-counter (OTC) interbank trades and monitored the forecasts of the book's performance and run-off profile.

Significant progress was made in reducing and managing the residual risk for the financial products exposures.

Recovery and Resolution Plan (RRP)

The Committee reviewed:

- The new combined Contingency Funding and Recovery Plan (CFRP) and Resolution pack for Investec plc as well as the Recovery Plans for IBL and Investec Limited. The Committee subsequently approved the said RRP's
- The impact on the servicing of clients within the EU following the implementation of restrictions on the UK Bank's operations within the European Union (EU)
- Potential mitigating actions.

Risk Appetite

The Committee:

- Reviewed and approved the Investec Limited and Investec plc Operational Risk Appetite Policy
- Approved the IBP and Investec plc Risk Appetite Framework
- Reviewed and approved Investec Bank Limited's, Investec Bank plc's, Investec Limited's and Investec plc's risk appetite limits. 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
- Reviewed the Investec Limited, Investec plc, Investec Bank plc and Investec Bank Limited Risk Appetite Dashboards
- Considered the amendments to the Investec Bank plc and Investec plc Risk Appetite, and approved same.

Regular reports highlighting Group activity, liquidity balances and key measures against thresholds and limits were reviewed. The Committee challenged the effective oversight of these matters. Mitigants put in place to manage the risks were examined.

Sustainability and climate-related (including ESG) risk

Sustainability, including climate-related and ESG matters, were expanded in the risk appetite policies. Reporting on climate-related and sustainability (including ESG) risks was enhanced and greater emphasis was placed on sustainability disclosures.

The Group's exposure to fossil fuels following the publication of the Group fossil fuel policy during March 2021 was considered.

The Committee received confirmation from management that credit decisions considered financial risks arising from climate change and that these decisions were documented.

An update on the Group's stress testing approach was provided to the Committee. There was a focus on potential vulnerable portfolios which were potentially exposed to climate risk.

The Committee considered sustainability risk in the wake of COP26, focusing on disclosing a greater level of detail on energy assets.

Capital, risk appetite and liquidity

Investec Limited and Investec Bank Limited made progress in the application to adopt the Advanced Internal Ratings Based (AIRB) approach for the measurement of capital on the Income Producing Real Estate (IPRE) portfolios currently on the Foundation Internal Ratings Based (FIRB) approach. We received approval from the South African PA to commence a six-month parallel run for the IPRE portfolio on AIRB from 1 April 2022. On full adoption of AIRB, the pro-forma CET 1 ratio would increase by approximately 200bps at 31 March 2022. We received sign off from the South African PA in April 2021 to utilise the Corporate and Small Medium Enterprise (SME) Loan Given Default (LGD) and Exposure at Default (EAD) models in our regulatory calculations.

Investec plc is in the early stages of a process to migrate from the Standardised approach to the Internal Ratings Based (IRB) approach.

The Committee reviewed and approved the capital plans for IBL and IBP under various stress scenarios. Capital ratios have remained sound throughout the financial year.

We assessed the capital structure of IBL and supported management's recommendation to make an offer to acquire all the issued non-redeemable, non-cumulative, non-participating, variable rate preference shares through a scheme of arrangement (Scheme) or a standby general offer.

Members of the Committee were appointed as an independent committee of the Board to evaluate and express an opinion to the preference shareholders dealing with value and price compared to the consideration proposed to be paid in relation to the Scheme and standby offer.

The Scheme received the requisite approval.

We deliberated on the proposed stress scenarios for the Internal Capital Adequacy Assessment Process (ICAAP). Subsequently, the Investec Limited and Investec plc ICAAPs were recommended for approval to the DLC Board.

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The Investec Bank plc's ILAAP was recommended for approval to the DLC Board along with the Investec plc ILAAP, both of which were approved by the Board.

We carry a high level of liquidity in all our banking subsidiaries in order to be able to cope with shocks to the system. Our liquidity positions remained strong and were well within both internal and regulatory limits.

Combined Group disclosures

The Committee considered disclosure on a combined basis of gross counterparty exposures, investments and other instruments held in both Investec plc (Investec Bank plc) and Investec Limited (Investec Bank Limited) in order to obtain a better understanding of exposures from a DLC perspective.

Uncertain Tax and Other Legal Matters

The Committee considered uncertain Tax and Other Legal Matters and concluded on the disclosure provided in note 53 on page 131 of the Investec Group's 2022 annual financial statements.



Refer to the DLC Audit Committee report on pages 99 to 109 of this report in this regard.

Political risk

The impact on stakeholders and employees of the violent protests and riots in South Africa during the year were discussed and reviewed. The Committee examined mitigating steps to ensure operational resilience as well as potential risks emerging from the situation.