QUARTERLY REPORT | 2019

Investec Limited group
Basel Pillar III quarterly disclosure report
for the quarter ended 31 December 2019

Investec

ABOUT THIS REPORT

The 2019 Investec Limited group Pillar III report relates to the period 30 September 2019 to 31 December 2019.

Scope and framework

This document encompasses the Investec Limited group, including both regulated and unregulated entities, which is equivalent to the scope of the group controlling company as defined by the South African Reserve Bank for consolidated regulatory reporting purposes. In terms of Regulation 43(1) of the Regulations, Investec is required to disclose in its annual financial statements and other disclosures to the public, reliable, relevant and timely qualitative and quantitative information that enable users of that information, among other things, to make an accurate assessment of the group's financial condition, including, but not limited to, its capital adequacy position, and its liquidity position, financial performance, leverage ratio, ownership, governance, business activities, risk profile and risk-management practices.

In this regard the Basel Committee on Banking Supervision (BCBS) issued a revised Pillar III framework in January 2015 and the consolidated and enhanced framework in March 2017 as well as the updated framework on Pillar III disclosure requirements in December 2018. The Prudential Authority (PA) removed all disclosure requirements from the Regulations and previous Banks Act directives related to disclosure requirements through Directive1/2019 (the directive) in order to create a single point of reference for the disclosure requirements to ensure the internationally agreed Pillar III framework is fully implemented in South Africa. The provisions of this directive are not related to any disclosure requirements that may be specified by the Johannesburg Stock Exchange Limited (JSE) in respect of the Stock Exchange News Service (SENS) from time to time.

In line with the directive, retrospective disclosures and templates that require the disclosure of data points for current and previous reporting periods, are not required when metrics for new standards are reported for the first time. The Pillar III reports are published on Investec's Investor Relations website in line with the required frequency of disclosures per the directive and is done for both the Investec Bank and Investec Limited group.

Assurance and policy

In accordance with the Regulations, the Board of Directors and senior management are responsible for establishing and maintaining an effective internal control structure in respect of Pillar III disclosures. In this regard, the Board and senior management have ensured that appropriate review and sign-off of the relevant Pillar III disclosures have taken place, as outlined in the Pillar 3 disclosure policy, prior to its release on the Investor Relations website.

Quantitative and qualitative disclosures

The Pillar III disclosures are published in line with disclosure dates as required in the directive and is subject to the same governance framework as the Financial Reporting disclosures. The following regulatory risk measurement approaches are applied by Investec for purposes of capital adequacy:

- Credit risk (including securitisation risk): Combination of the Internal ratings-based approach (IRB) and the Standardised approach (TSA)
- Market risk: A combination of the standardised (TSA) and internal model method (IMM) approaches
- Operational risk: The standardised approach (TSA)
- Equity risk in the banking book: The Market-based approach – Simple Risk Weight Method (MSRM)
- Counterparty credit risk: The Current Exposure Method (CEM).

In this regard, all tables and disclosures may not be relevant to Investec and are excluded from this Pillar III report.

CONTENTS

KM1: KEY METRICS

The following section provides an overview of the key prudential regulatory metrics covering Investec Limited available capital and ratios, risk-weighted assets, leverage ratio, liquidity coverage ratio and Net Stable Funding Ratio of the group's performance and trends over time.

			a	b	c	d	e
R'million			31 December 2019	30 September 2019	30 June 2019	31 March 2019	31 December 2018
Available capital (amounts)							
1	Common Equity Tier 1 (CET1)		37 098	37 883	38 366	38 150	35 874
1a	Fully loaded ECL accounting model		37 098	37 883	38 366	37 793	35 502
2	Tier 1		39 498	40 266	40 740	40 582	38 668
2a	Fully loaded ECL accounting model Tier 1		38 194	38 979	39 461	38 889	36 485
3	Total capital		51 322	51 835	52 582	53 747	51 691
3a	Fully loaded ECL accounting model total capital		50 144	50 670	50 152	51 534	49 137
Risk-weighted assets (amounts)							
4	Total risk-weighted assets (RWA)		330 550	325 433	314 375	361 750	354 678
Risk-based capital ratios as a percentage of RWA							
5	Common Equity Tier 1 (%)		11.2	11.6	12.2	10.5	10.1
5a	Fully loaded ECL accounting model Common Equity Tier 1		11.2	11.6	12.2	10.4	10.0
6	Tier 1 ratio (%)		11.9	12.4	13.0	11.2	10.9
6a	Fully loaded ECL accounting model Tier 1 (%)		11.6	12.0	12.6	10.8	10.3
7	Total capital ratio (%)		15.5	15.9	16.7	14.9	14.6
7a	Fully loaded ECL accounting model total capital ratio (%)		15.2	15.6	16.0	14.2	13.9
Additional CET1 buffer requirements as a percentage of RWA							
8	Capital conservation buffer requirement (2.5% from 2019) (%)		2.5	2.5	2.5	2.5	1.9
9	Countercyclical buffer requirement (%)		0.0365	0.0100	0.0272	0.0282	0.0160
10	Bank G-SIB and/or D_SIB additional requirements (%)	**N1**	-	-	-	-	-
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)		2.5	2.5	2.5	2.5	1.9
12	CET1 available after meeting the bank's minimum capital requirements (%)	**N1**	3.7	4.1	4.7	3.0	2.7
Basel III leverage ratio							
13	Total Basel III leverage ratio exposure measure		547 539	549 599	533 877	534 230	528 427
14	Basel III leverage ratio (%) (row 2 / row 13)		7.2	7.3	7.6	7.6	7.3
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2a / row 13)		7.0	7.1	7.4	7.3	6.9
Liquidity Coverage Ratio							
15	Total HQLA		90 712	92 284	96 749	82 331	81 386
16	Total net cash outflow		57 921	65 143	65 788	57 018	54 969
17	LCR ratio (%)	**N2**	157.2	142.1	147.4	144.6	148.6
Net Stable Funding Ratio							
18	Total available stable funding		319 262	319 557	311 413	315 194	303 238
19	Total required stable funding		279 267	275 343	273 273	269 824	269 925
20	NSFR ratio		114.3	116.1	114.0	116.8	112.3

Investec Limited capital information includes unappropriated profits. If unappropriated profits are excluded from capital information, Investec Limited group common equity tier 1 ratio, tier 1 ratio would be 10bps lower and total capital adequacy ratio would be 6bps lower. The fully loaded ratio and capital amounts throughout out the KM1 template assumes full adoption of IFRS 9 and is based on Basel III capital requirements as fully phased in by 2022.

Notes:

N1: Minimum requirements are disclosed excluding any D-SIB or Pillar 2B requirements as specified in the Banks Act Circular 6 of 2016.

N2: Refer to the LIQ1: Liquidity Coverage ratio template and commentary on pages 9 to 10 of this report.

OV1: OVERVIEW OF RWA

The following section provide an overview of total RWA forming the denominator of the risk-based under Pillar 1 capital requirements. Further breakdowns of RWA are presented in subsequent parts.

			a	b	c
			Risk-weighted assets (IRB)		**Minimum capital requirements**
R'million			31 December 2019	30 September 2019	31 December 2019
1	**Credit risk (excluding counterparty credit risk) (CCR)**	**N1**	**242 200**	**237 681**	**27 941**
2	Of which standardised approach (SA)		85 431	87 157	9 856
3	Of which foundation internal rating-based (F-IRB) approach		136 527	130 408	15 750
4	Of which supervisory slotting approach		5 006	5 189	578
5	Of which internal rating-based (A-IRB) approach		15 236	14 927	1 758
6	**Counterparty credit risk**	**N2**	**6 328**	**5 790**	**730**
7	Of which standardised approach for counterparty credit risk (CEM-CCR)		6 328	5 790	730
8	Of which internal model method (IMM)		-	-	-
9	Of which: other CCR		-	-	-
10	**Credit valuation adjustment (CVA)**		**3 755**	**2 245**	**433**
11	**Equity positions in banking book under market-based approach**	**N3**	**22 614**	**21 914**	**2 609**
12	Equity investments in funds – look-through approach		-	-	-
13	Equity investments in funds – mandate-based approach		-	-	-
14	Equity investments in funds – fall-back approach		-	-	-
15	Settlement risk		-	-	-
16	**Securitisation exposures in banking book**		**2 269**	**2 024**	**261**
17	Of which: securitisation internal ratings-based approach (SEC-IRBA)		342	338	39
18	Of which: securitisation external ratings-based approach (SEC-ERBA), including internal assessment approach (IAA)		-	-	-
19	Of which: securitisation standardised approach (SEC-SA)		1 927	1 686	222
20	**Market risk**		**4 817**	**6 835**	**556**
21	Of which standardised approach (SA)		2 026	2 964	234
22	Of which internal model approaches (IMA)		2 791	3 872	322
23	Capital charge for switch between trading book and banking book		-	-	-
24	**Operational risk**	**N4**	**31 951**	**31 951**	**3 686**
25	Amounts below the thresholds for deduction (subject to 250% risk weight)	**N5**	16 616	16 992	1 917
26	Floor adjustment	N6	-	-	-
27	**Total (1+6+10+11+12+13+14+15+16+20+23+ 24+25+26)**		**330 550**	**325 433**	**38 134**

The commentary for the movement in risk-weighted assets (RWA) below is based on comparisons between 30 September 2019 and 31 December 2019.

The minimum capital requirements in column (c) are based on the SARB minimum capital requirements of 11.54% and excludes Investec's domestic significant important bank (DSIB) and Pillar 2B add-on in line with the Banks Act circular 6 of 2016.

Risk-weighted assets (**RWA**) are calculated according to the Basel framework, including the 1.06 scaling factor for credit and equity exposures subject to the internal ratings-based approach (IRB).

Where the regulatory framework does not refer to RWA but directly to capital charges (e.g. for market risk and operational risk), RWA is derived by multiplying the capital charge by 12.5.

OV1: OVERVIEW OF RWA

(continued)

Movement in risk-weighted asset

The Investec Limited group's RWA increased from R325.4 billion to R330.5 billion.

Notes:

N1: A flow statement, explaining the variations in the credit risk-weighted assets determined under an IRB approach, is provided in table CR8.

N2: The group applied the current exposure method (CEM) to calculate required capital for over the counter (OTC) exposures and the standardised approach (TSA) for security financing transactions (SFT). Counterparty credit risk RWA is the sum of OTC, SFT, regulatory Credit Valuation Adjustment (CVA), exposures to central counterparties (CCP's) and any default fund contributions.

N3: The risk weight attributable to equity investments is relatively high, with listed equities attracting an effective 318% and unlisted equity 424%. The impact of this is proportionately much larger movement in RWA than the associated balance sheet equity value.

N4: Operational risk is calculated using the standardised approach and is driven by the levels of the average income over a three-year average period, applying specific factors applicable to the nature of the business generating the income.

N5: The risk-weighted assets in this line item relate to investments in significant financial entities and deferred tax assets below the 10% of CET1 threshold.

N6: The Bank did not have any additional add-on to risk weighted assets as a result of the capital floor calculation specified in Directive 3 of 2013.

LR1: SUMMARY COMPARISON OF ACCOUNTING ASSETS VS LEVERAGE RATIO EXPOSURE MEASURE (JANUARY 2014 STANDARD)

The purpose of the LR1 table below is to reconcile the total assets in the published financial statements to the leverage ratio exposure measure.

	31 December 2019 **R'million**	a
1	Total consolidated assets as per published financial statements	677 205
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	(161 823)
4	Adjustments for derivative financial instruments	164
5	Adjustments for securities financing transactions (i.e. repos and similar secured lending)	(2 746)
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	40 543
7	Other adjustments	(5 804)
8	**Leverage ratio exposure measure**	**547 539**

	30 September 2019 **R'million**	a
1	Total consolidated assets as per published financial statements	679 803
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	(161 794)
4	Adjustments for derivative financial instruments	(974)
5	Adjustments for securities financing transactions (i.e. repos and similar secured lending)	(2 241)
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	40 732
7	Other adjustments	(5 927)
8	**Leverage ratio exposure measure**	**549 599**

LR2: SUMMARY COMPARISON OF ACCOUNTING ASSETS VS LEVERAGE RATIO EXPOSURE MEASURE (JANUARY 2014 STANDARD))

The purpose of the LR2 table below is to provide a detailed breakdown of the components of the leverage ratio denominator.

		a	b
R'million		31 December 2019	30 September 2019
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	495 670	494 861
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(5 804)	(5 927)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 and 2)**	**489 866**	**488 934**
Derivative exposures			
4	Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	7 434	6 604
5	Add-on amounts for PFE associated with all derivatives transactions	3 692	3 836
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-	-
8	(Exempted CCP leg of client-cleared trade exposures)	(1 461)	(1 494)
9	Adjusted effective notional amount of written credit derivatives	-	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-
11	**Total derivative exposures (sum of rows 4 to 10)**	**9 665**	**8 947**
Securities financing transaction exposures			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	6 007	9 361
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
14	CCR exposure for SFT assets	1 458	1 626
15	Agent transaction exposures	-	-
16	**Total securities financing transaction exposures (sum of rows 12 to 15)**	**7 465**	**10 987**
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	93 777	94 031
18	(Adjustments for conversion to credit equivalent amounts)	(53 234)	(53 299)
19	**Off-balance sheet items (sum of rows 17 and 18)**	**40 543**	**40 732**
Capital and total exposures			
20	Tier 1 capital	39 498	40 266
21	**Total exposures (sum of rows 3, 11, 16 and 19)**	**547 539**	**549 599**
Leverage ratio			
22	**Basel III leverage ratio**	**7.2**	**7.3**

LIQ1: LIQUIDITY COVERAGE RATIO (LCR)

The purpose of the LIQ1 table below is to present the breakdown of a bank's cash outflows and cash inflows, as well as its available high-quality liquid assets (HQLA), as measured and defined according to the LCR standard.

The objective of the Liquidity Coverage ratio (LCR) is to promote the short-term resilience of the liquidity risk profile of banks by ensuring that they have sufficient high-quality liquid assets to survive a significant stress scenario lasting 30 calendar days.

		a	b
31 December 2019 **R'million**		**Total unweighted value (average)**	**Total weighted value (average)**
High-quality liquid assets			
1	Total HQLA		90 712
Cash outflows			
2	**Retail deposits and deposits from small business customers, of which:**	**81 231**	**8 123**
3	Stable deposits	-	-
4	Less stable deposits	81 231	8 123
5	**Unsecured wholesale funding, of which:**	**104 589**	**74 036**
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7	Non-operational deposits (all counterparties)	104 132	73 579
8	Unsecured debt	457	457
9	**Secured wholesale funding**		185
10	**Additional requirements, of which:**	**69 328**	**9 996**
11	Outflows related to derivative exposures and other collateral requirements	12 113	3 574
12	Outflows related to loss of funding on debt products	1	1
13	Credit and liquidity facilities	57 214	6 421
14	**Other contractual funding obligations**	**255**	**255**
15	**Other contingent funding obligations**	**87 084**	**4 754**
16	**TOTAL CASH OUTFLOWS**		**97 347**
Cash inflows			
17	Secured lending (eg reverse repos)	10 180	1 791
18	Inflows from fully performing exposures	37 979	33 176
19	Other cash inflows	4 646	4 458
20	**TOTAL CASH INFLOWS**	**52 805**	**39 425**
		Total adjusted value	
21	Total HQLA		90 712
22	Total net cash outflows		57 921
23	Liquidity Coverage Ratio (%)		**157.2**

The objective of the Liquidity Coverage ratio (LCR) is to promote the short-term resilience of the liquidity risk profile of banks by ensuring that they have sufficient high-quality liquid assets to survive a significant stress scenario lasting 30 calendar days.

This disclosure Template LIQ1 is in accordance with Pillar 3 of the Basel III liquidity accord, as specified by BCBS d400 (2017) and Directive D1/2018.

The values in the table are calculated as the simple average of the 92 calendar daily values over the period 1 July 2019 to 30 September 2019 for Investec Bank Limited (IBL) bank solo. Investec Bank Limited consolidated group values use daily values for IBL bank solo, while those for other group entities use the average of July, August and September 2019 month-end values.

The minimum LCR requirement was 100%, for both IBL bank solo and IBL consolidated group. The Bank of Mauritius requires banks to comply with a combined-currency LCR minimum of 80% from 1 January 2019.

LIQ1: LIQUIDITY COVERAGE RATIO (LCR)

(continued)

		a	b
30 September 2019 R'million		**Total unweighted value (average)**	**Total weighted value (average)**
High-quality liquid assets			
1	Total HQLA		92 284
Cash outflows			
2	**Retail deposits and deposits from small business customers, of which:**	**78 906**	**7 891**
3	Stable deposits	-	-
4	Less stable deposits	78 906	7 891
5	**Unsecured wholesale funding, of which:**	**104 670**	**75 930**
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7	Non-operational deposits (all counterparties)	103 897	75 157
8	Unsecured debt	773	773
9	**Secured wholesale funding**		679
10	**Additional requirements, of which:**	**67 933**	**10 514**
11	Outflows related to derivative exposures and other collateral requirements	11 557	4 262
12	Outflows related to loss of funding on debt products	11	11
13	Credit and liquidity facilities	56 365	6 241
14	**Other contractual funding obligations**	**251**	**251**
15	**Other contingent funding obligations**	**87 417**	**4 814**
16	**TOTAL CASH OUTFLOWS**		**100 078**
Cash inflows			
17	Secured lending (eg reverse repos)	17 476	3 989
18	Inflows from fully performing exposures	35 130	29 147
19	Other cash inflows	1 992	1 799
20	**TOTAL CASH INFLOWS**	**54 598**	**34 935**
		Total adjusted value	
21	Total HQLA		92 284
22	Total net cash outflows		65 143
23	Liquidity Coverage Ratio (%)		**142.1**

The main drivers of the LCR results and the evolution of the contribution of inputs to the LCR's calculation over time:

- The average LCR increased by 15.1%, remaining fully compliant with regulatory requirements, and within the target range set by the Board.
- The structure and nature of deposits inside the 30 day window is the key driver of both the level and the volatility of the LCR. This weighted outflow is determined by the customer type of liabilities falling into the 30 day contractual bucket. In turn these deposit characteristics determine the targeted level of high quality liquid assets (HQLA) required to be held as a counterbalance to the modelled stressed outflows
- Only banking and / or deposit-taking entities are included and the group data represents an aggregation of the relevant individual net cash outflows and the individual HQLA portfolios. Our two banks, Investec Bank Limited (IBL) and Investec Bank (Mauritius) Limited (IBM), contributed over 99% of the group's combined HQLA and stressed cash inflows and outflows. With the ability to transfer cash surpluses between group entities, the consolidated group LCR is higher than IBL solo's.

The composition of HQLA:

- The HQLA comprises primarily South African sovereign and central bank Rand-denominated securities and debt instruments, all of which are eligible for SARB repo.
- On average, Level 2 assets contributed 4% of total HQLA. As of 1 December 2017, we no longer make use of the SARB's committed liquidity facility (CLF).
- Some foreign denominated government securities are included in the HQLA, subject to regulatory limitations.

CR8: RWA FLOW STATEMENTS OF CREDIT RISK EXPOSURES UNDER IRB

The purpose of this table is to present a flow statement explaining variations in the credit risk-weighted assets (RWA) determined under an IRB approach.

31 December 2019 **R'million**		**a** **RWA amounts**
1	**RWA as at end of previous reporting period**	**150 524**
2	Asset size	(1 432)
3	Asset quality	2 583
4	Model updates	-
5	Methodology and policy	-
6	Acquisitions and disposals	4 613
7	Foreign exchange movements	481
8	Other	-
9	**RWA as at end of reporting period**	**156 769**

30 September 2019 **R'million**		**a** **RWA amounts**
1	**RWA as at end of previous reporting period**	**142 290**
2	Asset size	1 207
3	Asset quality	429
4	Model updates	-
5	Methodology and policy	-
6	Acquisitions and disposals	5 820
7	Foreign exchange movements	778
8	Other	-
9	**RWA as at end of reporting period**	**150 524**

Investec Bank Limited was granted approval by the Prudential Authority in March 2019 to calculate its minimum capital requirements in respect of credit risk for the retail portfolios using the Advanced Internal Ratings Based Approach (AIRB); and for wholesale portfolios using the Foundation Internal Ratings Based Approach (FIRB) effective 1 April 2019.

The RWA increase in new business was mainly driven by an increase in private client lending as well book growth in the Institutional Corporate bank.

MR3: IMA VALUES FOR TRADING PORTFOLIOS

The table below displays the values (maximum, minimum, average and period ending for the reporting period) resulting from the different types of models used for computing the regulatory capital charge at the group level, before any additional capital charge is applied by the jurisdiction.

31 December 2019 R'million		a
VaR (10 day 99%)		
1	Maximum value	35
2	Average value	26
3	Minimum value	20
4	Period end	29
Stressed VaR (10 day 99%)		
5	Maximum value	58
6	Average value	42
7	Minimum value	21
8	Period end	55
Incremental Risk Charge (99.9%)		
9	Maximum value	-
10	Average value	-
11	Minimum value	-
12	Period end	-
Comprehensive Risk capital charge (99.9%)		
13	Maximum value	-
14	Average value	-
15	Minimum value	-
16	Period end	-
17	Floor (standardised measurement method)	-

30 September 2019 R'million		a
VaR (10 day 99%)		
1	Maximum value	49
2	Average value	28
3	Minimum value	19
4	Period end	25
Stressed VaR (10 day 99%)		
5	Maximum value	108
6	Average value	54
7	Minimum value	21
8	Period end	44
Incremental Risk Charge (99.9%)		
9	Maximum value	-
10	Average value	-
11	Minimum value	-
12	Period end	-
Comprehensive Risk capital charge (99.9%)		
13	Maximum value	-
14	Average value	-
15	Minimum value	-
16	Period end	-
17	Floor (standardised measurement method)	-

Summary statistics were calculated on the 10-day VaR and sVaR figures for the quarter ended 31 December 2019. The 10-day figures were obtained by multiplying the one-day figures by SQRT(10)