DISCLOSURE REPORT | 2020

Investec Limited group
Basel Pillar III
Quarterly disclosure report

Investec

Scope and framework

This document encompasses 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 that are commensurate with the Financial Reporting disclosure timelines and is subject to the same governance framework as tabled in the Investec Market Communication and Disclosure Policy. 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.

C O N T E N T S

The following section provides an overview of the key prudential regulatory metrics covering Investec Bank Limited group's 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 2020	30 September 2020	30 June 2020	31 March 2020	31 December 2019
Available capital (amounts)							
1	Common Equity Tier 1 (CET1)		41 698	40 166	40 007	36 867	37 098
1a	Fully loaded ECL accounting model	**N3**	41 698	40 166	40 007	36 867	37 098
2	Tier 1		43 825	42 039	41 877	38 769	39 498
2a	Fully loaded ECL accounting model Tier 1		42 956	41 155	40 997	37 866	38 194
3	Total capital		54 285	53 441	52 702	50 654	51 322
3a	Fully loaded ECL accounting model total capital		53 611	52 635	51 822	49 962	50 144
Risk-weighted assets (amounts)							
4	Total risk-weighted assets (RWA)		347 000	345 723	336 851	337 755	330 550
Risk-based capital ratios as a percentage of RWA							
5	Common Equity Tier 1 (%)		12.0	11.6	11.9	10.9	11.2
5a	Fully loaded ECL accounting model Common Equity Tier 1		12.0	11.6	11.9	10.9	11.2
6	Tier 1 ratio (%)		12.6	12.2	12.4	11.5	11.9
6a	Fully loaded ECL accounting model Tier 1 (%)		12.4	11.9	12.2	11.2	11.6
7	Total capital ratio (%)		15.6	15.5	15.6	15.0	15.5
7a	Fully loaded ECL accounting model total capital ratio (%)		15.4	15.2	15.4	14.8	15.2
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	2.5
9	Countercyclical buffer requirement (%)		-	-	-	-	0.0365
10	Bank G-SIB and/or D_SIB additional requirements (%)	**N1**	0.3	0.3	-	-	-
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)		2.5	2.8	2.5	2.5	2.5
12	CET1 available after meeting the bank's minimum capital requirements (%)	**N1**	4.8	4.4	4.9	3.4	3.7
Basel III leverage ratio							
13	Total Basel III leverage ratio exposure measure		567 335	597 197	590 570	604 762	547 539
14	Basel III leverage ratio (%) (row 2 / row 13)		7.7	7.0	7.1	6.4	7.2
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2a / row 13)		7.6	6.9	6.9	6.3	7.0
Liquidity Coverage Ratio							
15	Total HQLA		87 717	88 808	84 633	85 606	90 712
16	Total net cash outflow		56 030	54 260	59 928	60 149	57 921
17	LCR ratio (%)	**N2**	157.6	164.1	142.6	142.6	157.2
Net Stable Funding Ratio							
18	Total available stable funding		327 291	337 615	346 751	347 926	319 262
19	Total required stable funding		291 593	296 321	292 629	296 512	279 267
20	NSFR ratio		112.2	113.9	118.5	117.3	114.3

Capital information includes unappropriated profits. If unappropriated profits are excluded from capital information, Investec Limited group common equity tier 1 ratio would be 67bps lower and total capital adequacy ratio would be 57bps lower.

Investec have always held capital in excess of regulatory requirements and continue to remain well capitalised. Accordingly, the Investec group targets a minimum CET1 capital ratio of above 10%, a tier 1 capital ratio of above 11% and a total capital ratio target in the range of 14% to 17%.

Investec targets a leverage ratio above 6%.

Notes:

N1: Banks are required to refrain from disclosing to the public their ICR (Pillar 2B) requirement that is based on a combination of various qualitative and quantitative factors that are not directly comparable across banks. Banks are required to publicly disclose their D-SIB capital add-on as part of their composition of regulatory capital disclosure from September 2020.

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

N3: The key difference between the ‘reported’ basis and the ‘fully loaded’ basis primarily relates to capital instruments that previously qualified as regular capital, but do not fully qualify under South African Prudential Authority regulations. These instruments continue to be registered on a reducing basis in the ‘reported’ figures until 2022. 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

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 2020	30 September 2020	31 December 2020
1	**Credit risk (excluding counterparty credit risk) (CCR)**	**N1**	**246 796**	**248 466**	**27 148**
2	Of which standardised approach (SA)		80 861	83 358	8 895
3	Of which foundation internal rating-based (F-IRB) approach		145 803	144 709	16 038
4	Of which supervisory slotting approach		5 337	5 570	588
5	Of which internal rating-based (A-IRB) approach		14 795	14 829	1 627
6	**Counterparty credit risk**	**N2**	**9 030**	**8 457**	**993**
7	Of which standardised approach for counterparty credit risk (CEM-CCR)		9 030	8 457	993
8	Of which internal model method (IMM)		-	-	-
9	Of which: other CCR		-	-	-
10	**Credit valuation adjustment (CVA)**		**6 062**	**3 215**	**667**
11	**Equity positions in banking book under market-based approach**	**N3**	**30 717**	**30 519**	**3 379**
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**		**1 507**	**1 466**	**166**
17	Of which: securitisation internal ratings-based approach (SEC-IRBA)		604	406	67
18	Of which: securitisation external ratings-based approach (SEC-ERBA), including internal assessment approach (IAA)		-	-	-
19	Of which: securitisation standardised approach (SEC-SA)		903	1 060	99
20	**Market risk**	**N7**	**5 928**	**6 886**	**652**
21	Of which standardised approach (SA)		2 236	1 039	246
22	Of which internal model approaches (IMA)		3 692	5 847	406
23	Capital charge for switch between trading book and banking book		-	-	-
24	**Operational risk**	**N4**	**28 795**	**28 795**	**3 167**
25	Amounts below the thresholds for deduction (subject to 250% risk weight)	**N5**	18 165	17 919	1 998
26	Floor adjustment	**N6**	-	-	-
27	**Total (1+6+10+11+12+13+14+15+16+20+23+ 24+25+26)**		**347 000**	**345 723**	**38 170**

The commentary for the movement in risk-weighted assets (RWA) below is based on comparisons between 30 September 2020 and 31 December 2020.

The minimum capital requirements in column (c) are based on the SARB minimum capital requirements for Investec of 11.0%, however excludes Investec's Pillar 2B add-on in line with the Banks Act Directive 4 of 2020.

Risk-weighted assets 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), and as reported in accordance with the subsequent parts of this standard. 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.

Movement in risk-weighted asset

Total risk-weighted assets increased by R1.3 billion over the period, with the reasons identified in the categories below.

Notes:

N1: Credit risk weighted assets decreased by R1.7 billion. 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. Our exposure to counterparty credit risk is marginal at 4.3% of total RWA.

N3 Equity risk remained fairly flat over the reporting period. The risk weight attributable to equity investments is relatively high, with listed equities attracting an effective 318% and unlisted equities 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 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.

N7: Market risk RWAs are calculated using the Value at Risk (VaR) approach

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.

		a	a
R'million		31 December 2020	30 September 2020
1	Total consolidated assets as per published financial statements^	555 066	571 368
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	(949)	(802)
4	Adjustments for derivative financial instruments	(15 775)	(9 491)
5	Adjustments for securities financing transactions (i.e. repos and similar secured lending)	(9 742)	(1 742)
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	44 635	44 400
7	Other adjustments	(5 900)	(6 536)
8	**Leverage ratio exposure measure**	**567 335**	**597 197**

^ - Adjusted for impairments.

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 2020	30 September 2020
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	487 891	507 385
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(5 900)	(6 536)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 and 2)**	**481 991**	**500 849**
Derivative exposures			
4	Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	11 657	10 872
5	Add-on amounts for PFE associated with all derivatives transactions	4 433	4 548
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)	(3 691)	(3 605)
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)**	**12 399**	**11 815**
Securities financing transaction exposures			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	27 786	35 411
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
14	CCR exposure for SFT assets	524	4 722
15	Agent transaction exposures	-	-
16	**Total securities financing transaction exposures (sum of rows 12 to 15)**	**28 310**	**40 133**
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	97 351	100 112
18	(Adjustments for conversion to credit equivalent amounts)	(52 716)	(55 712)
19	**Off-balance sheet items (sum of rows 17 and 18)**	**44 635**	**44 400**
Capital and total exposures			
20	Tier 1 capital	43 825	42 039
21	**Total exposures (sum of rows 3, 11, 16 and 19)**	**567 335**	**597 197**
Leverage ratio			
22	**Basel III leverage ratio**	**7.7**	**7.0**

Investec Limited group's current leverage ratio is 7.7% ahead of the minimum 6% target level. We maintain an Investec group target common equity tier 1 ratio in excess of 10% which is currently considered appropriate for businesses given our sound leverage ratios.

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 2020 **R'million**		**Total unweighted value (average)**	**Total weighted value (average)**
High-quality liquid assets			
1	Total HQLA		87 717
Cash outflows			
2	**Retail deposits and deposits from small business customers, of which:**	**88 063**	**8 806**
3	Stable deposits	-	-
4	Less stable deposits	88 063	8 806
5	**Unsecured wholesale funding, of which:**	**118 762**	**87 740**
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7	Non-operational deposits (all counterparties)	118 264	87 242
8	Unsecured debt	498	498
9	**Secured wholesale funding**		127
10	**Additional requirements, of which:**	**89 858**	**18 813**
11	Outflows related to derivative exposures and other collateral requirements	28 683	12 585
12	Outflows related to loss of funding on debt products	-	-
13	Credit and liquidity facilities	61 175	6 228
14	**Other contractual funding obligations**	**165**	**165**
15	**Other contingent funding obligations**	**97 133**	**5 648**
16	**TOTAL CASH OUTFLOWS**		**121 300**
Cash inflows			
17	Secured lending (eg reverse repos)	25 879	12 258
18	Inflows from fully performing exposures	53 625	48 887
19	Other cash inflows	4 278	4 126
20	**TOTAL CASH INFLOWS**	**83 782**	**65 271**
		Total adjusted value	
21	Total HQLA		87 717
22	Total net cash outflows		56 030
23	Liquidity Coverage Ratio (%)		**157.6**

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.

The values in the table are calculated as the simple average of the 92 calendar daily values over the period 1 October 2020 to 31 December 2020 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 October, November and December 2020 month-end values.

The minimum LCR requirement, while normally 100%, was lowered to 80% as a temporary measure during the COVID-19 pandemic. This applies for both IBL bank solo and IBL consolidated group. The Bank of Mauritius requires banks to comply with a combined-currency LCR minimum of 100% from 1 January 2020.

		a	b
30 September 2020 **R'million**		**Total unweighted value (average)**	**Total weighted value (average)**
High-quality liquid assets			
1	Total HQLA		88 808
Cash outflows			
2	**Retail deposits and deposits from small business customers, of which:**	**88 416**	**8 842**
3	Stable deposits	-	-
4	Less stable deposits	88 416	8 842
5	**Unsecured wholesale funding, of which:**	**116 167**	**85 159**
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7	Non-operational deposits (all counterparties)	115 213	84 205
8	Unsecured debt	954	954
9	**Secured wholesale funding**		193
10	**Additional requirements, of which:**	**89 981**	**20 847**
11	Outflows related to derivative exposures and other collateral requirements	31 939	15 154
12	Outflows related to loss of funding on debt products	-	-
13	Credit and liquidity facilities	58 042	5 693
14	**Other contractual funding obligations**	**369**	**369**
15	**Other contingent funding obligations**	**98 307**	**4 906**
16	**TOTAL CASH OUTFLOWS**		**120 316**
Cash inflows			
17	Secured lending (eg reverse repos)	29 707	13 650
18	Inflows from fully performing exposures	52 825	47 508
19	Other cash inflows	5 070	4 898
20	**TOTAL CASH INFLOWS**	**87 602**	**66 056**
21	Total HQLA		88 808
22	Total net cash outflows		54 260
23	Liquidity Coverage Ratio (%)		**164.1**

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 decreased by 6.5%. We remain fully compliant with regulatory requirements, and above the target 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.

		a	a	a	a	a
RWA amounts **R'million**		31 December 2020	30 September 2020	30 June 2020	31 March 2020	31 December 2019
1	**RWA as at end of previous reporting period**	**165 108**	**156 673**	**155 280**	**156 769**	**150 524**
2	Asset size	(4 054)	(1 186)	591	(3 409)	(1 432)
3	Asset quality	758	6 289	1 568	(3 631)	2 583
4	Model updates	-	-	-	-	-
5	Methodology and policy	-	-	-	-	-
6	Acquisitions and disposals	6 373	4 775	(948)	3 134	4 613
7	Foreign exchange movements	(2 250)	(1 443)	182	2 417	481
8	Other	-	-	-	-	-
9	**RWA as at end of reporting period**	**165 935**	**165 108**	**156 673**	**155 280**	**156 769**

Investec Bank Limited adopted the Foundation Internal Ratings Based Approach (FIRB) to calculate Credit risk from 1 April 2019. Investec Bank Limited’s application for conversion to Advanced Internal Ratings Based Approach (AIRB) remains under review by the South African Prudential Authority. Approval has been granted for Investec Bank Limited to commence with its six month parallel run for certain AIRB models. Full conversion to AIRB is expected to result in a circa 2% uplift to the CET1 ratio.

The table above excludes risk weighted assets related to counterparty credit risk exposures.

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 2020		a
R'million		
VaR (10 day 99%) –		
1	Maximum value	133
2	Average value	60
3	Minimum value	28
4	Period end	49
Stressed VaR (10 day 99%)		
5	Maximum value	83
6	Average value	55
7	Minimum value	33
8	Period end	39
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 2020		a
R'million		
VaR (10 day 99%) –		
1	Maximum value	166
2	Average value	74
3	Minimum value	37
4	Period end	158
Stressed VaR (10 day 99%)		
5	Maximum value	159
6	Average value	68
7	Minimum value	31
8	Period end	96
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 period ended 31 December 2020. The 10-day figures were obtained by multiplying the one-day figures by SQRT(10)