

Built on strong foundations

Investec Limited group and Investec Bank Limited group

Basel Pillar III quarterly disclosure report 2021



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OVERVIEW OF RISK MANAGEMENT, KEY PRUDENTIAL METRICS AND RWA

SCOPE OF PILLAR III DISCLOSURES

This document and tables encompass the Investec Limited group (the Group), including both regulated and unregulated entities, which is equivalent to the scope of the group controlling company as defined by the South African Prudential Authority for consolidated regulatory reporting purposes. Comparative tables related to the Investec Bank Limited group (the Bank) are also presented in this report, where these disclosures are considered to be meaningful to the user and are materially different from the Group. References to Investec in this report encompass both the Bank and Group.

OV1: OVERVIEW OF RWA

	R'million	a	c	b	a	c	b
		Investec Limited group			Investec Bank Limited group		
		RWA ⁽²⁾	MC ⁽¹⁾	RWA	RWA	MC	RWA
		31 December 2021	31 December 2021	30 September 2021	31 December 2021	31 December 2021	30 September 2021
1	Credit risk (excluding counterparty credit risk) (CCR)	225 048	24 756	232 558	224 906	24 740	228 346
2	Of which standardised approach (SA)	78 008	8 581	84 185	77 866	8 565	79 973
3	Of which foundation internal ratings-based (F-IRB) approach	99 515	10 947	101 633	99 515	10 947	101 633
4	Of which supervisory slotting approach	4 769	525	4 336	4 769	525	4 336
5	Of which internal ratings-based (A-IRB) approach	42 756	4 703	42 404	42 756	4 703	42 404
6	Counterparty credit risk	8 537	939	7 832	8 643	951	7 832
7	Of which standardised approach for counterparty credit risk (SA-CCR)	8 537	939	7 832	8 643	951	7 832
10	Credit valuation adjustment (CVA)	3 837	422	4 156	3 900	429	4 156
11	Equity positions in banking book under market-based approach	24 822	2 730	25 157	10 516	1 157	11 061
16	Securitisation exposures in banking book	1 404	154	1 233	1 404	154	1 233
17	Of which securitisation internal ratings-based approach (SEC-IRBA)	709	78	699	709	78	699
19	Of which securitisation standardised approach (SEC-SA)	695	76	534	695	76	534
20	Market risk⁽⁶⁾	3 819	420	4 781	3 128	344	3 897
21	Of which standardised approach (SA)	1 115	123	1 382	424	47	498
22	Of which internal model approach (IMA)	2 704	297	3 399	2 704	297	3 399
24	Operational risk⁽³⁾	27 172	2 989	27 172	22 855	2 514	22 855
25	Amounts below the thresholds for deduction (subject to 250% risk weight)⁽⁴⁾	17 420	1 916	17 693	3 660	403	4 170
26	Floor adjustment⁽⁵⁾	—	—	—	11 682	1 285	8 809
27	Total	312 059	34 326	320 582	290 694	31 977	292 359

(1) MC – The minimum capital requirements in column (c) are based on the SARB minimum total capital requirements for Investec of 11.0%; however, excludes Investec's Pillar 2B add-on in line with the Banks Act Directive 5 of 2021.

(2) RWA – Risk-weighted assets are calculated according to the Basel framework, including the 1.06 scaling factor for credit and equity exposures subject to the 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.

(3) Operational risk is calculated using the SA 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.

(4) The RWA in this line item relates to investments in significant financial entities and deferred tax assets below the 10% of the specified CET1 threshold.

(5) The floor adjustment is calculated in line with the Banks Act Directive 3 of 2013.

(6) Market risk RWAs for IMA are calculated using the historical Value at Risk (VaR) approach.

OVERVIEW OF RISK MANAGEMENT, KEY PRUDENTIAL METRICS AND RWA CONTINUED

OV1: OVERVIEW OF RWA CONTINUED

Period under review- Investec Limited group

Movements in RWAs below are between the periods 30 September 2021 and 31 December 2021.

Total RWAs decreased by 8.5% or R8.5 billion from R320.6 billion (September 2021) to R312.1 billion (December 2021) predominantly within credit risk and counterparty credit risk RWAs. Credit risk RWAs decreased by 3.3% or R7.5 billion. The decrease is largely due to additional collateral received, redemptions and the overall improvement in the credit quality of the book. RWAs determined under an IRB approach is provided in table CR8 on page 10.

Market risk RWAs decreased by R1 billion.

Operational risk RWA's for Investec Limited were static at R27.2billion. This calculation is updated bi-annually and is based on a three-year rolling gross income before impairments average balance.

The bank had a R11.7 billion capital floor add-on in December 2021, mainly due to a further improvement in IRB credit risk-weighted assets. It is anticipated that, going forward, the floor requirement will reduce with the reinstatement of the Pillar 2A capital add-on in January 2022 and the recalibration of the Investec IRB capital floor percentage from 90% to 80% with effect 1 April 2022.

OVERVIEW OF RISK MANAGEMENT, KEY PRUDENTIAL METRICS AND RWA CONTINUED

KM1: KEY METRICS

The following section provides an overview of the key prudential regulatory metrics covering Investec 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 2021	30 September 2021	30 June 2021	31 March 2021	31 December 2020
Available capital (amounts)					
1 Common Equity Tier 1 (CET1)	45 576	44 426	44 317	42 935	41 698
1a Fully loaded ECL accounting model ⁽³⁾	45 576	44 426	44 317	42 935	41 698
2 Tier 1	48 957	47 318	47 044	45 077	43 825
2a Fully loaded ECL accounting model Tier 1	48 486	46 899	46 573	44 641	42 956
3 Total capital	57 218	56 643	57 449	56 033	54 285
3a Fully loaded ECL accounting model total capital	56 746	56 191	56 977	55 631	53 611
Risk-weighted assets (amounts)					
4 Total risk-weighted assets (RWA)	312 059	320 582	335 370	351 125	347 000
Risk-based capital ratios as a percentage of RWA					
5 Common Equity Tier 1 (%) ⁽¹⁾	14.6	13.9	13.2	12.2	12.0
5a Fully loaded ECL accounting model Common Equity Tier 1	14.6	13.9	13.2	12.2	12.0
6 Tier 1 ratio (%)	15.7	14.8	14.0	12.8	12.6
6a Fully loaded ECL accounting model Tier 1 (%)	15.5	14.6	13.9	12.7	12.4
7 Total capital ratio (%) ⁽¹⁾	18.3	17.7	17.1	16.0	15.6
7a Fully loaded ECL accounting model total capital ratio (%)	18.2	17.5	17.0	15.8	15.4
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 (%)	0.0	0.0	0.0	0.0	0.0
10 Bank G-SIB and/or D-SIB additional requirements (%)	0.3	0.3	0.3	0.3	0.3
11 Total of bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)	2.8	2.8	2.8	2.8	2.8
12 CET1 available after meeting the bank's minimum capital requirements (%)	7.4	6.6	6.0	5.0	4.8
Basel III leverage ratio					
13 Total Basel III leverage ratio exposure measure	623 591	626 172	618 715	593 944	567 335
14 Basel III leverage ratio (%) (row 2/row 13)	7.9	7.6	7.6	7.6	7.7
14a Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2a/row 13)	7.8	7.5	7.6	7.5	7.6
Liquidity Coverage Ratio					
15 Total HQLA	96 607	93 901	99 249	85 691	87 717
16 Total net cash outflow	63 573	60 449	62 895	52 690	56 030
17 LCR ratio (%) ⁽²⁾	153.8	158.0	158.5	164.0	157.6
Net Stable Funding Ratio					
18 Total available stable funding	355 892	338 326	347 157	338 356	327 291
19 Total required stable funding	307 319	305 846	299 343	298 300	291 593
20 NSFR ratio	115.8	110.6	116.0	113.4	112.2

(1) Capital information includes unappropriated profits. If unappropriated profits are excluded from capital information, Investec Limited group CET 1 ratio would be 115bps lower and total capital adequacy ratio would be 111bps lower.

(2) Refer to the LIQ1: Liquidity Coverage Ratio template and commentary on page 8 of this report.

(3) 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 PA 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 the KM1 template assumes full adoption of IFRS 9 and is based on Basel III capital requirements as fully phased in by 2022.

OVERVIEW OF RISK MANAGEMENT, KEY PRUDENTIAL METRICS AND RWA CONTINUED

Year under review – Investec Limited group

Movements in available capital on page 4 are between the periods 30 September 2021 and 31 December 2021. At 31 December 2021, the CET1 ratio increased to 14.6% from 13.9% at 30 September 2021. CET1 capital increased by R1.5 billion to R45.6 billion, largely affected by:

- Positive attributable earnings post-taxation and minorities of R2.1 billion

The increases were partially offset by:

- Total ordinary dividends paid to Ltd shareholders of R1.4 billion
- R435 million increase in portion of Ninety One plc investment deducted from CET1 capital (the balance is included in equity risk, risk-weighted at 318%).

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 bank's performance and trends over time:

	a	b	c	d	e
R'million	31 December 2021	30 September 2021	30 June 2021	31 March 2021	31 December 2020
Available capital (amounts)					
1 Common Equity Tier 1 (CET1)	45 560	43 429	43 792	43 817	42 109
1a Fully loaded ECL accounting model	45 560	43 429	43 792	43 817	42 109
2 Tier 1	48 173	45 542	45 728	45 153	43 149
2a Fully loaded ECL accounting model Tier 1	48 020	45 389	45 575	44 999	42 842
3 Total capital	59 337	58 097	59 054	58 523	55 520
3a Fully loaded ECL accounting model total capital	59 183	57 943	58 901	58 370	55 213
Risk-weighted assets (amounts)					
4 Total risk-weighted assets (RWA)	290 694	292 359	309 515	329 366	320 123
Risk-based capital ratios as a percentage of RWA					
5 Common Equity Tier 1 (%) ⁽¹⁾	15.7	14.9	14.1	12.2	13.2
5a Fully loaded ECL accounting model Common Equity Tier 1	15.7	14.9	14.1	12.2	13.2
6 Tier 1 ratio (%)	16.6	15.6	14.8	12.8	13.5
6a Fully loaded ECL accounting model Tier 1 (%)	16.5	15.5	14.7	12.7	13.4
7 Total capital ratio (%) ⁽¹⁾	20.4	19.9	19.1	16.0	17.3
7a Fully loaded ECL accounting model total capital ratio (%)	20.4	19.8	19.0	15.8	17.2
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 (%)	0.0	0.0	0.0	0.0	0.0
10 Bank G-SIB and/or D-SIB additional requirements (%)	0.3	0.3	0.3	0.3	0.3
11 Total of bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)	2.8	2.8	2.8	2.8	2.8
12 CET1 available after meeting the bank's minimum capital requirements (%)	8.4	7.6	6.9	6.1	5.9
Basel III leverage ratio					
13 Total Basel III leverage ratio exposure measure	589 748	587 016	584 373	555 592	544 253
14 Basel III leverage ratio (%) (row 2/row 13)	8.2	7.8	7.6	7.6	7.7
14a Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2a/row 13)	8.1	7.7	7.6	7.5	7.6
Liquidity Coverage Ratio					
15 Total HQLA	96 607	93 901	99 249	85 691	87 717
16 Total net cash outflow	63 573	60 449	62 895	52 690	56 030
17 LCR ratio (%)	153.8	158.0	158.5	164.0	157.6
Net Stable Funding Ratio					
18 Total available stable funding	355 892	338 326	347 157	338 356	327 291
19 Total required stable funding	307 319	305 846	299 343	298 300	291 593
20 NSFR ratio	115.8	110.6	116.0	113.4	112.2

(1) Capital information includes unappropriated profits. If unappropriated profits are excluded from capital information, Investec Bank Limited group CET 1 ratio would be 59bps lower and total capital adequacy ratio would be 59bps lower.

LEVERAGE RATIO

LR1 – SUMMARY COMPARISON OF ACCOUNTING ASSETS VS LEVERAGE RATIO EXPOSURE MEASURE

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

R'million	Investec Limited group		Investec Bank Limited group	
	a	a	a	a
	31 December 2021	30 September 2021	31 December 2021	30 September 2021
1 Total consolidated assets as per published financial statements ⁽¹⁾	573 037	574 363	535 562	531 828
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	(1 171)	(1 150)	—	—
4 Adjustments for derivative financial instruments	6 849	8 658	6 750	8 679
5 Adjustments for securities financing transactions (i.e. repos and similar secured lending)	1 247	751	1 247	751
6 Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	47 896	47 863	47 886	47 853
7 Other adjustments	(4 267)	(4 313)	(1 697)	(2 095)
8 Leverage ratio exposure measure	623 591	626 172	589 748	587 016

(1) Adjusted for impairments.

LEVERAGE RATIO CONTINUED

LR2: LEVERAGE RATIO COMMON DISCLOSURE TEMPLATE

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

R'million	Investec Limited group		Investec Bank Limited group	
	a	a	a	a
	31 December 2021	30 September 2021	31 December 2021	30 September 2021
On-balance sheet exposures				
1 On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	516 357	514 137	481 310	473 413
2 (Asset amounts deducted in determining Basel III Tier 1 capital)	(4 267)	(4 313)	(1 697)	(2 095)
3 Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 and 2)	512 090	509 824	479 613	471 318
Derivative exposures				
4 Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	6 783	6 732	6 783	6 732
5 Add-on amounts for Potential Future Exposure (PFE) associated with all derivatives transactions	14 661	12 710	14 661	12 710
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)	(3 188)	(2 604)	(3 188)	(2 604)
9 Adjusted effective notional amount of written credit derivatives	4 410	3 543	4 410	3 543
10 (Adjusted effective notional offsets and add-on deductions for written credit derivatives)	—	—	—	—
11 Total derivative exposures (sum of rows 4 to 10)	22 666	20 381	22 666	20 381
Securities financing transaction exposures				
12 Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	39 692	47 354	38 336	46 713
13 (Netted amounts of cash payables and cash receivables of gross SFT assets)	—	—	—	—
14 CCR exposure for SFT assets	1 247	751	1 247	751
15 Agent transaction exposures	—	—	—	—
16 Total securities financing transaction exposures (sum of rows 12 to 15)	40 939	48 105	39 583	47 464
Other off-balance sheet exposures				
17 Off-balance sheet exposure at gross notional amount	110 994	110 922	110 897	110 824
18 (Adjustments for conversion to credit equivalent amounts)	(63 098)	(63 060)	(63 011)	(62 971)
19 Off-balance sheet items (sum of rows 17 and 18)	47 896	47 862	47 886	47 853
Capital and total exposures				
20 Tier 1 capital	48 957	47 318	48 173	45 542
21 Total exposures (sum of rows 3, 11, 16 and 19)	623 591	626 172	589 748	587 016
Leverage ratio				
22 Basel III leverage ratio	7.9	7.6	8.2	7.8

LIQUIDITY RISK

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.

LIQ1: LIQUIDITY COVERAGE RATIO (LCR)

R'million	31 December 2021		30 September 2021	
	a	b	a	b
	Total unweighted value (average)	Total weighted value (average)	Total unweighted value (average)	Total weighted value (average)
High-quality liquid assets (HQLAs)				
1 Total HQLAs		96 607		93 901
Cash outflows				
2 Retail deposits and deposits from small business customers, of which:	94 383	9 438	89 547	8 955
3 Stable deposits	—	—	—	—
4 Less stable deposits	94 383	9 438	89 547	8 955
5 Unsecured wholesale funding, of which:	121 388	90 455	121 305	88 745
6 Operational deposits (all counterparties) and deposits in networks of cooperative banks	—	—	—	—
7 Non-operational deposits (all counterparties)	120 662	89 729	119 997	87 437
8 Unsecured debt	726	726	1 308	1 308
9 Secured wholesale funding	—	180	—	129
10 Additional requirements, of which:	87 405	20 516	89 005	21 027
11 Outflows related to derivative exposures and other collateral requirements	22 920	13 452	24 881	14 080
12 Outflows related to loss of funding on debt products	—	—	—	—
13 Credit and liquidity facilities	64 485	7 064	64 124	6 947
14 Other contractual funding obligations	343	343	357	357
15 Other contingent funding obligations	109 655	5 898	112 925	6 667
16 TOTAL CASH OUTFLOWS	—	126 830	—	125 880
Cash inflows				
17 Secured lending	36 457	20 886	36 368	21 027
18 Inflows from fully performing exposures	43 036	38 482	43 700	39 017
19 Other cash inflows	3 765	3 888	5 418	5 387
20 TOTAL CASH INFLOWS	83 258	63 256	85 486	65 431
	Total adjusted value	Total adjusted value		
21 Total HQLAs		96 607		93 901
22 Total net cash outflows		63 573		60 449
23 Liquidity Coverage Ratio (%)⁽¹⁾		153.8		158.0

(1) The LCR ratio in row 23 is reported as the simple average of the daily LCR ratios over the quarter and is not derived as row 21 divided by row 22.

The objective of the LCR is to promote the short-term resilience of the liquidity risk profile of banks by ensuring that they have sufficient HQLAs 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 2021 to 31 December 2021.

The South African PA is of the opinion that financial markets have largely normalised, and banks currently have healthy liquidity as a result of increased deposits. The PA views that the temporary LCR relief measure implemented with effect from 1 April 2020 is no longer necessary and has announced that it intends withdrawing that temporary relief measure. Banks are directed to comply with the minimum LCR requirement of 90% with effect from 1 January 2022, and 100% with effect from 1 April 2022.

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

- 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 HQLAs 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.

LIQUIDITY RISK
CONTINUED

LIQ1: LIQUIDITY COVERAGE RATIO (LCR) continued

The composition of HQLAs:

- The HQLA comprise primarily South African sovereign and central bank Rand-denominated securities and debt instruments, which are eligible for South African Reserve Bank (SARB) repo.
- On average, Level 2 assets contributed 4% of total HQLAs.
- Some foreign-denominated government securities are included in the HQLA, subject to regulatory limitations.

CREDIT RISK

Credit risk under internal risk-based (IRB) approaches

The purpose of this table is to present a flow statement explaining variations in the credit RWAs determined under the IRB approach.

CR8: RWA FLOW STATEMENTS OF CREDIT RISK EXPOSURES UNDER IRB

	a	a	a	a	a
R'million	31 December 2021	30 September 2021	30 June 2021	31 March 2021	31 December 2020
1 RWA as at end of previous reporting period⁽¹⁾	148 373	157 443	178 053	165 935	165 108
2 Asset size	(1 929)	(846)	98	2 231	(4 054)
3 Asset quality	(448)	(5 487)	(3 643)	6 305	758
4 Model updates	—	(3 002)	—	—	—
5 Methodology and policy	—	—	(15 516)	—	—
6 Acquisitions and disposals	799	1 834	(200)	2 512	6 373
7 Foreign exchange movements	754	760	(1 349)	1 070	(2 250)
8 Other ⁽²⁾	(509)	(2 329)	—	—	—
9 RWA as at end of reporting period	147 040	148 373	157 443	178 053	165 935

(1) The table above excludes risk weighted asset movements related to CCR exposures.

(2) Other represents movements not related to any of the specified rows above, such as changes in RWAs due to changes in LGD percentages or maturity factor changes.

MARKET RISK

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. Summary statistics were calculated on the 10-day VaR and sVaR figures for the quarter ended 31 December 2021. The 10-day figures were obtained by multiplying the one-day figures by $\text{SQRT}(10)$.

MR3: IMA VALUES FOR TRADING PORTFOLIOS⁽¹⁾

R'million		a	a
		31 December 2021	30 September 2021
VaR (10-day 99%)			
1	Maximum value	52	90
2	Average value	33	46
3	Minimum value	20	28
4	Period end	34	55
Stressed VaR (10-day 99%)			
5	Maximum value	52	61
6	Average value	33	36
7	Minimum value	20	26
8	Period end	30	38

(1) There were no incremental and comprehensive risk capital charges under IMA and rows are therefore excluded from the table above.

