# 2016

Out of the Ordinary®

Investec

## INVESTEC PLC SILO FINANCIAL INFORMATION

**(excluding the results of Investec Limited)**

Unaudited consolidated financial information for the six months ended 30 September 2016

**IFRS – Pounds Sterling**

## *Overview of results*

| | 30 Sept 2016 | 30 Sept 2015 | % change | 31 March 2016 |
|---|---|---|---|---|
| Total operating income before impairment losses on loans and advances (£'000) | 624 391 | 574 904 | 8.6% | 1 128 374 |
| Operating costs (£'000) | 475 477 | 432 332 | 10.0% | 863 648 |
| Operating profit before goodwill, acquired intangibles, non-operating items, taxation and after other non-controlling interests (£'000) | 110 961 | 106 893 | 3.8% | 182 863 |
| Earnings attributable to ordinary shareholders (£'000) | 83 770 | 73 234 | 14.4% | 122 684 |
| Cost to income ratio | 76.2% | 75.2% | 1.3% | 76.7% |
| Total capital resources (including subordinated liabilities) (£'000) | 2 659 484 | 2 533 841 | 5.0% | 2 478 117 |
| Total shareholders' equity (£'000) | 2 034 309 | 1 909 049 | 6.6% | 1 880 808 |
| Total assets (£'000) | 20 365 915 | 17 295 448 | 17.8% | 18 756 588 |
| Net core loans and advances (£'000) | 8 299 100 | 7 210 297 | 15.1% | 7 803 602 |
| Customer accounts (deposits) (£'000) | 12 042 361 | 9 727 635 | 23.8% | 10 808 980 |
| Cash and near cash balances (£'000) | 6 186 729 | 4 389 672 | 40.9% | 5 082 338 |
| Funds under management (£'million) | 92 753 | 76 035 | 22.0% | 81 180 |
| Capital adequacy ratio | 14.6% | 15.9% | | 14.7% |
| Tier 1 ratio | 10.7% | 11.2% | | 10.3% |
| Common equity tier 1 ratio | 10.5% | 10.0% | | 9.3% |
| Leverage ratio | 6.8% | 7.1% | | 6.7% |
| Leverage ratio – "fully loaded" | 6.7% | 6.4% | | 6.1% |
| Defaults (net of impairments) as a % of net core loans and advances | 1.86% | 2.93% | | 2.19% |
| Net defaults (after collateral and impairments) as a % of net core loans and advances | – | – | | – |
| Annualised credit loss ratio (i.e. income statement impairment charge as a % of average core loans and advances) | 0.73% | 0.89% | | 1.13% |
| Total gearing (i.e. total assets to total equity) | 10.0x | 9.1x | | 10.0x |
| Loans and advances to customers: customer accounts (deposits) | 68.9% | 74.1% | | 72.2% |

# *Consolidated income statement*

*Unaudited*

| £'000 | Six months to 30 Sept 2016 | Six months to 30 Sept 2015 | Year to 31 March 2016 |
|---|---|---|---|
| Interest income | 277 779 | 276 506 | 549 092 |
| Interest expense | (145 133) | (146 289) | (288 147) |
| **Net interest income** | **132 646** | **130 217** | **260 945** |
| Fee and commission income | 447 833 | 402 400 | 813 744 |
| Fee and commission expense | (58 367) | (47 943) | (103 986) |
| Investment income | 18 751 | 44 239 | 62 120 |
| Share of post tax operating profit of associate | 1 016 | 994 | 2 321 |
| Trading income arising from | | | |
| – customer flow | 64 913 | 45 477 | 92 681 |
| – balance sheet management and other trading activities | 12 269 | (3 195) | (7 983) |
| Other operating income | 5 330 | 2 714 | 8 532 |
| **Total operating income before impairment losses on loans and advances** | **624 391** | **574 904** | **1 128 374** |
| Impairment losses on loans and advances | (30 078) | (31 313) | (84 217) |
| **Operating income** | **594 313** | **543 591** | **1 044 157** |
| Operating costs | (475 477) | (432 332) | (863 648) |
| Depreciation on operating leased assets | – | (216) | (2 149) |
| **Operating profit before goodwill and acquired intangibles** | **118 836** | **111 043** | **178 360** |
| Amortisation of acquired intangibles | (7 187) | (7 233) | (14 477) |
| **Operating profit** | **111 649** | **103 810** | **163 883** |
| Net loss on disposal of subsidiaries | – | (4 746) | (4 805) |
| **Profit before taxation** | **111 649** | **99 064** | **159 078** |
| Taxation on operating profit before goodwill | (21 789) | (23 118) | (35 335) |
| Taxation on acquired intangibles and acquisition/disposal/integration of subsidiaries | 1 785 | 1 438 | 4 701 |
| **Profit after taxation** | **91 645** | **77 384** | **128 444** |
| Profit attributable to Asset Management non-controlling interests | (5 756) | (5 357) | (10 263) |
| (Profit)/loss attributable to other non-controlling interests | (2 119) | 1 207 | 4 503 |
| **Earnings attributable to shareholders** | **83 770** | **73 234** | **122 684** |

# *Consolidated statement of total comprehensive income*

*Unaudited*

| £'000 | Six months to 30 Sept 2016 | Six months to 30 Sept 2015 | Year to 31 March 2016 |
|---|---|---|---|
| **Profit after taxation** | **91 645** | **77 384** | **128 444** |
| **Other comprehensive income/(loss):** | | | |
| **Items that may be reclassified to the income statement:** | | | |
| (Gains) on available-for-sale assets recycled through the income statement* | (5 420) | (482) | (1 298) |
| Fair value movements on available-for-sale assets taken directly to other comprehensive income* | 28 058 | (3 062) | (20 268) |
| Foreign currency adjustments on translating foreign operations | 23 089 | (16 133) | 5 304 |
| **Items that will never be reclassified to the income statement:** | | | |
| Remeasurement of net defined benefit pension asset | – | – | 4 738 |
| **Total comprehensive income** | **137 372** | **57 707** | **116 920** |
| | | | |
| Total comprehensive income attributable to non-controlling interests | 7 530 | 4 146 | 5 652 |
| Total comprehensive income attributable to ordinary shareholders | 128 214 | 41 857 | 98 009 |
| Total comprehensive income attributable to perpetual preferred securities | 1 628 | 11 704 | 13 259 |
| **Total comprehensive income** | **137 372** | **57 707** | **116 920** |

* *Net of taxation.*

*Unaudited*

| £'000 | At 30 Sept 2016 | At 31 March 2016 | At 30 Sept 2015 |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances at central banks | 3 780 240 | 2 638 069 | 1 683 278 |
| Loans and advances to banks | 1 262 188 | 1 112 441 | 953 609 |
| Reverse repurchase agreements and cash collateral on securities borrowed | 521 751 | 557 025 | 1 367 202 |
| Sovereign debt securities | 966 144 | 1 252 991 | 1 075 933 |
| Bank debt securities | 185 546 | 188 397 | 189 287 |
| Other debt securities | 436 613 | 393 652 | 297 028 |
| Derivative financial instruments | 979 968 | 837 558 | 641 323 |
| Securities arising from trading activities | 470 418 | 524 344 | 658 157 |
| Investment portfolio | 526 437 | 451 000 | 409 258 |
| Loans and advances to customers | 8 299 100 | 7 803 602 | 7 210 297 |
| Other loans and advances | 420 290 | 417 205 | 447 227 |
| Other securitised assets | 143 411 | 150 565 | 156 491 |
| Interests in associated undertakings | 30 310 | 23 587 | 21 275 |
| Deferred taxation assets | 71 795 | 85 050 | 71 364 |
| Other assets | 1 737 835 | 1 705 203 | 1 511 463 |
| Property and equipment | 58 026 | 56 374 | 58 702 |
| Investment property | – | 79 051 | 58 309 |
| Goodwill | 358 141 | 356 994 | 356 225 |
| Intangible assets | 117 702 | 123 480 | 129 020 |
| | **20 365 915** | **18 756 588** | **17 295 448** |
| **Liabilities** | | | |
| Deposits by banks | 594 024 | 544 210 | 262 743 |
| Derivative financial instruments | 1 116 873 | 964 362 | 787 421 |
| Other trading liabilities | 132 578 | 226 598 | 269 125 |
| Repurchase agreements and cash collateral on securities lent | 175 005 | 281 260 | 420 145 |
| Customer accounts (deposits) | 12 042 361 | 10 808 980 | 9 727 635 |
| Debt securities in issue | 1 926 300 | 1 828 819 | 1 697 632 |
| Liabilities arising on securitisation of other assets | 112 754 | 120 617 | 123 237 |
| Current taxation liabilities | 135 819 | 140 959 | 131 251 |
| Deferred taxation liabilities | 38 744 | 33 834 | 42 298 |
| Other liabilities | 1 431 973 | 1 328 832 | 1 300 120 |
| | **17 706 431** | **16 278 471** | **14 761 607** |
| Subordinated liabilities | 625 175 | 597 309 | 624 792 |
| | **18 331 606** | **16 875 780** | **15 386 399** |
| **Equity** | | | |
| Ordinary share capital | 191 | 182 | 182 |
| Perpetual preference share capital | 29 | 151 | 151 |
| Share premium | 1 245 347 | 1 194 257 | 1 194 257 |
| Treasury shares | (91 170) | (81 309) | (61 662) |
| Other reserves | (49 216) | (66 757) | (51 044) |
| Retained income | 912 952 | 820 967 | 809 883 |
| **Shareholders' equity excluding non-controlling interests** | **2 018 133** | **1 867 491** | **1 891 767** |
| Non-controlling interests | 16 176 | 13 317 | 17 282 |
| **Total equity** | **2 034 309** | **1 880 808** | **1 909 049** |
| **Total liabilities and equity** | **20 365 915** | **18 756 588** | **17 295 448** |

# Statement of changes in equity

*Unaudited*

| £'000 | Six months to 30 Sept 2016 | Six months to 30 Sept 2015 | Year to 31 March 2016 |
|---|---|---|---|
| **Balance at the beginning of the period** | **1 880 808** | **2 074 073** | **2 074 073** |
| Profit after taxation | 91 645 | 77 384 | 128 444 |
| Gains on available-for-sale assets recycled through the income statement* | (5 420) | (482) | (1 298) |
| Fair value movements on available-for-sale assets taken directly to other comprehensive income* | 28 058 | (3 062) | (20 268) |
| Foreign currency adjustments on translating foreign operations | 23 089 | (16 133) | 5 304 |
| Remeasurement of net defined benefit pension liability | – | – | 4 738 |
| **Total comprehensive income for the period** | **137 372** | **57 707** | **116 920** |
| Share-based payments adjustments | 10 827 | 11 829 | 27 706 |
| Dividends paid to ordinary shareholders | (41 459) | (46 367) | (103 791) |
| Dividends declared to perpetual preference shareholders | – | – | (13 259) |
| Dividends paid to to perpetual preference shareholders | (1 628) | (11 704) | (10 680) |
| Dividends paid to non-controlling interests | (4 650) | (5 235) | – |
| Issue of ordinary shares | 173 147 | 22 818 | 22 818 |
| Redemption of preferences shares | (81 621) | – | – |
| Gain on transfer of non-controlling interests | 27 | – | – |
| Redemption of non-controlling interests | – | (142 106) | (142 111) |
| Movement of treasury shares | (38 514) | (51 966) | (90 868) |
| **Balance at the end of the period** | **2 034 309** | **1 909 049** | **1 880 808** |

* *Net of taxation.*

*Unaudited*

| For the six months to 30 September 2016<br>£'000 | Asset Management | Wealth & Investment | Specialist Banking | Group costs | Total group |
|---|---|---|---|---|---|
| Net interest income | 90 | 2 124 | 130 432 | – | 132 646 |
| Fee and commission income | 200 316 | 129 106 | 118 411 | – | 447 833 |
| Fee and commission expense | (53 938) | (315) | (4 114) | – | (58 367) |
| Investment income | – | 1 366 | 17 385 | – | 18 751 |
| Share of post tax operating profit of associates | – | 702 | 314 | – | 1 016 |
| Trading income arising from | | | | | |
| – customer flow | – | 246 | 64 667 | – | 64 913 |
| – balance sheet management and other trading activities | 1 337 | 185 | 10 747 | – | 12 269 |
| Other operating income | 1 472 | – | 3 858 | – | 5 330 |
| **Total operating income before impairment losses on loans and advances** | **149 277** | **133 414** | **341 700** | **–** | **624 391** |
| Impairment losses on loans and advances | – | – | (30 078) | – | (30 078) |
| **Operating income** | **149 277** | **133 414** | **311 622** | **–** | **594 313** |
| Operating costs | (106 162) | (104 223) | (247 334) | (17 758) | (475 477) |
| **Operating profit/(loss) before goodwill and acquired intangibles** | **43 115** | **29 191** | **64 288** | **(17 758)** | **118 836** |
| Operating loss attributable to other non-controlling interests | – | – | (2 119) | – | (2 119) |
| **Operating profit/(loss) before goodwill, acquired intangibles and after other non-controlling interests** | **43 115** | **29 191** | **62 169** | **(17 758)** | **116 717** |
| Operating profit attributable to Asset Management non-controlling interests | (5 756) | – | – | – | (5 756) |
| **Operating profit/(loss) before goodwill, acquired intangibles and after non-controlling interests** | **37 359** | **29 191** | **62 169** | **(17 758)** | **110 961** |
| **Cost to income ratio** | **71.1%** | **78.1%** | **72.4%** | **n/a** | **76.2%** |
| **Total assets (£'million)** | **458** | **1 028** | **18 880** | **n/a** | **20 366** |

| For the six months to 30 September 2015<br>£'000 | Asset Management | Wealth & Investment | Specialist Banking | Group costs | Total group |
|---|---|---|---|---|---|
| Net interest income | 123 | 2 022 | 128 072 | – | 130 217 |
| Fee and commission income | 185 568 | 122 353 | 94 479 | – | 402 400 |
| Fee and commission expense | (45 726) | (284) | (1 933) | – | (47 943) |
| Investment income | – | (230) | 44 469 | – | 44 239 |
| Share of post tax operating profit of associates | – | 695 | 249 | – | 994 |
| Trading income arising from | | | | | |
| – customer flow | – | 532 | 44 945 | – | 45 477 |
| – balance sheet management and other trading activities | (1 164) | 82 | (2 113) | – | (3 195) |
| Other operating income | 165 | – | 2 600 | – | 2 714 |
| **Total operating income before impairment losses on loans and advances** | **138 966** | **125 170** | **310 768** | **–** | **574 904** |
| Impairment losses on loans and advances | – | – | (31 313) | – | (31 313) |
| **Operating income** | **138 966** | **125 170** | **279 455** | **–** | **543 591** |
| Operating costs | (98 838) | (99 274) | (217 184) | (17 036) | (432 332) |
| Depreciation on operating leased assets | – | – | (216) | – | (216) |
| **Operating profit/(loss) before goodwill and acquired intangibles** | **40 128** | **25 896** | **62 055** | **(17 036)** | **111 043** |
| Operating loss attributable to other non-controlling interests | – | – | 1 207 | – | 1 207 |
| **Operating profit/(loss) before goodwill, acquired intangibles and after other non-controlling interests** | **40 128** | **25 896** | **63 262** | **(17 036)** | **112 250** |
| Operating profit attributable to Asset Management non-controlling interests | (5 357) | – | – | – | (5 357) |
| **Operating profit/(loss) before goodwill, acquired intangibles and after non-controlling interests** | **34 771** | **25 896** | **63 262** | **(17 036)** | **106 893** |
| **Cost to income ratio** | **71.1%** | **79.3%** | **69.9%** | **n/a** | **75.2%** |
| **Total assets (£'million)** | **378** | **920** | **15 997** | **n/a** | **17 295** |

# Additional income statement note disclosures

*Unaudited*

## Net interest income

| For the six months to 30 September £'000 | Notes | 2016 Balance sheet value | 2016 Interest income | 2015 Balance sheet value | 2015 Interest income |
|---|---|---|---|---|---|
| Cash, near cash and bank debt and sovereign debt securities | 1 | 6 715 869 | 20 791 | 5 269 309 | 24 070 |
| Core loans and advances | 2 | 8 299 100 | 225 485 | 7 210 297 | 210 499 |
| Private client | | 3 470 466 | 71 932 | 3 498 779 | 75 009 |
| Corporate, institutional and other clients | | 4 828 634 | 153 553 | 3 711 518 | 135 490 |
| Other debt securities and other loans and advances | | 856 903 | 31 503 | 744 255 | 41 937 |
| Other interest-earning assets | 3 | – | – | 156 491 | – |
| **Total interest-earning assets** | | **15 871 872** | **277 779** | **13 380 352** | **276 506** |

| For the six months to 30 September £'000 | Notes | 2016 Balance sheet value | 2016 Interest expense | 2015 Balance sheet value | 2015 Interest expense |
|---|---|---|---|---|---|
| Deposits by banks and other debt-related securities | 4 | 2 695 330 | 48 164 | 2 380 521 | 26 136 |
| Customer accounts (deposits) | | 12 042 361 | 68 523 | 9 727 635 | 65 469 |
| Other interest-bearing liabilities | 5 | – | – | 123 237 | 22 298 |
| Subordinated liabilities | | 625 175 | 28 446 | 624 792 | 32 386 |
| **Total interest-bearing liabilities** | | **15 362 866** | **145 133** | **12 856 185** | **146 289** |
| **Net interest income** | | | **132 646** | | **130 217** |

Notes:

1. *Comprises (as per the balance sheet) cash and balances at central banks; loans and advances to banks; reverse repurchase agreements and cash collateral on securities borrowed; sovereign debt securities; and bank debt securities.*
2. *Comprises (as per the balance sheet) loans and advances to customers.*
3. *Comprised in the prior year (as per the balance sheet) other securitised assets. In the current year no securitised assets are held at amortised cost.*
4. *Comprises (as per the balance sheet) deposits by banks; debt securities in issue; and repurchase agreements and cash collateral on securities lent.*
5. *Comprised in the prior year (as per the balance sheet) liabilities arising on securitisation of other assets. In the current year no liabilities arising on securitisation are held at amortised cost.*

## Net fee and commission income

| For the six months to 30 September<br>£'000 | 2016 | 2015 |
|---|---|---|
| **Asset management and wealth management businesses net fee and commission income** | **275 169** | **261 911** |
| Fund management fees/fees for assets under management | 302 219 | 278 845 |
| Private client transactional fees | 27 203 | 29 076 |
| Fee and commission expense | (54 253) | (46 010) |
| **Specialist Banking net fee and commission income** | **114 297** | **92 546** |
| Corporate and institutional transactional and advisory services | 100 245 | 83 173 |
| Private client transactional fees | 18 166 | 11 306 |
| Fee and commission expense | (4 114) | (1 933) |
| **Net fee and commission income** | **389 466** | **354 457** |
| Annuity fees (net of fees payable) | 280 927 | 285 167 |
| Deal fees | 108 539 | 69 290 |

## Investment income

| For the six months to 30 September<br>£'000 | Investment portfolio (listed and unlisted equities)* | Debt securites (soverign, bank and other)** | Investment properties | Other asset categories | Total |
|---|---|---|---|---|---|
| **2016** | | | | | |
| Realised | 10 470 | (4 858) | 18 600 | 1 650 | 25 862 |
| Unrealised^ | (6 799) | (5 257) | (10 008) | 3 136 | (18 928) |
| Dividend income | 8 553 | – | – | – | 8 553 |
| Funding and other net related income | – | – | – | 3 264 | 3 264 |
| | **12 224** | **(10 115)** | **8 592** | **8 050** | **18 751** |
| **2015** | | | | | |
| Realised | 6 835 | 31 084 | – | 114 | 38 033 |
| Unrealised^ | 6 861 | (8 076) | – | (7 144) | (8 359) |
| Dividend income | 12 486 | – | – | – | 12 486 |
| Funding and other net related income | – | – | – | 2 079 | 2 079 |
| | **26 182** | **23 008** | **–** | **(4 951)** | **44 239** |

* *Including embedded derivatives (warrants and profit shares).*
** *Includes write downs of debt securities of £4m in the current period (2015: £nil).*
^ *In a year of realisation, any prior period mark-to-market gains/(losses) recognised are reversed in the unrealised line item.*

## Analysis of financial assets and liabilities by category of financial instrument

| At 30 September 2016<br>£'000 | Total instruments at fair value^ | Total instruments at amortised cost | Non-financial instruments | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and balances at central banks | 1 672 | 3 778 568 | – | 3 780 240 |
| Loans and advances to banks | 78 986 | 1 183 202 | – | 1 262 188 |
| Reverse repurchase agreements and cash collateral on securities borrowed | 53 503 | 468 248 | – | 521 751 |
| Sovereign debt securities | 966 144 | – | – | 966 144 |
| Bank debt securities | 7 834 | 177 712 | – | 185 546 |
| Other debt securities | 217 342 | 219 271 | – | 436 613 |
| Derivative financial instruments* | 979 968 | – | – | 979 968 |
| Securities arising from trading activities | 470 418 | – | – | 470 418 |
| Investment portfolio | 526 437 | – | – | 526 437 |
| Loans and advances to customers | 80 638 | 8 218 462 | – | 8 299 100 |
| Other loans and advances | – | 420 290 | – | 420 290 |
| Other securitised assets | 140 436 | 2 975 | – | 143 411 |
| Interests in associated undertakings | – | – | 30 310 | 30 310 |
| Deferred taxation assets | – | – | 71 795 | 71 795 |
| Other assets | 305 260 | 1 165 259 | 267 316 | 1 737 835 |
| Property and equipment | – | – | 58 026 | 58 026 |
| Investment properties | – | – | – | – |
| Goodwill | – | – | 358 141 | 358 141 |
| Intangible assets | – | – | 117 702 | 117 702 |
| | **3 828 638** | **15 633 987** | **903 290** | **20 365 915** |
| **Liabilities** | | | | |
| Deposits by banks | – | 594 024 | – | 594 024 |
| Derivative financial instruments* | 1 116 873 | – | – | 1 116 873 |
| Other trading liabilities | 132 578 | – | – | 132 578 |
| Repurchase agreements and cash collateral on securities lent | 52 638 | 122 367 | – | 175 005 |
| Customer accounts (deposits) | – | 12 042 361 | – | 12 042 361 |
| Debt securities in issue | 420 218 | 1 506 082 | – | 1 926 300 |
| Liabilities arising on securitisation of other assets | 112 754 | – | – | 112 754 |
| Current taxation liabilities | – | – | 135 819 | 135 819 |
| Deferred taxation liabilities | – | – | 38 744 | 38 744 |
| Other liabilities | – | 1 187 716 | 244 257 | 1 431 973 |
| | **1 835 061** | **15 452 550** | **418 820** | **17 706 431** |
| Subordinated liabilities | – | 625 175 | – | 625 175 |
| | **1 835 061** | **16 077 725** | **418 820** | **18 331 606** |

* *Derivative financial instruments have been classified as held-for-trading and include derivatives held as hedges.*

^ *Included in total instruments at fair value are available-for-sale instrument of £1 096 million.*

## Financial instruments carried at fair value

The table below analyses recurring fair value measurements for financial assets and financial liabilities. These fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to the valuation technique used. The different levels are identified as follows:

Level 1 – quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| | | Valuation technique applied | | |
|---|---|---|---|---|
| **At 30 September 2016<br>£'000** | **Total instruments at fair value** | **Level 1** | **Level 2** | **Level 3** |
| **Assets** | | | | |
| Cash and balances at central banks | 1 672 | 1 672 | – | – |
| Loans and advances to banks | 78 986 | 78 986 | – | – |
| Reverse repurchase agreements and cash collateral on securities borrowed | 53 503 | – | 53 503 | – |
| Sovereign debt securities | 966 144 | 966 144 | – | – |
| Bank debt securities | 7 834 | 7 834 | – | – |
| Other debt securities | 217 342 | 2 151 | 206 198 | 8 993 |
| Derivative financial instruments | 979 968 | 404 | 926 045 | 53 519 |
| Securities arising from trading activities | 470 418 | 440 776 | 22 077 | 7 565 |
| Investment portfolio | 526 437 | 55 441 | 30 761 | 440 235 |
| Loans and advances to customers | 80 638 | – | – | 80 638 |
| Other securitised assets | 140 436 | – | – | 140 436 |
| Other assets | 305 260 | 305 260 | – | – |
| | **3 828 638** | **1 858 668** | **1 238 584** | **731 386** |
| **Liabilities** | | | | |
| Derivative financial instruments | 1 116 873 | 778 | 1 113 988 | 2 107 |
| Other trading liabilities | 132 578 | 132 578 | – | – |
| Repurchase agreements and cash collateral on securities lent | 52 638 | – | 52 638 | – |
| Debt securities in issue | 420 218 | – | 407 844 | 12 374 |
| Liabilities arising on securitisation of other assets | 112 754 | – | – | 112 754 |
| | **1 835 061** | **133 356** | **1 574 470** | **127 235** |
| **Net assets** | **1 993 577** | **1 725 312** | **(335 886)** | **604 151** |

The group transfers between levels within the fair value hierarchy when the observability of inputs change or if the valuation methods change.

### TRANSFERS BETWEEN LEVEL 1 AND LEVEL 2

During the period there were no significant transfers between Level 1 and Level 2. In the prior period derivative financial assets and liabilities to the value of £116.9 million and £210.3 million respectively were transferred from level 1 to level 2 to reflect the level of modelling which is now being used to arrive at the fair value.

## LEVEL 3 INSTRUMENTS

| £'000 | Total level 3 financial instruments | Fair value through income statement | Available-for-sale instruments |
|---|---|---|---|
| **Balance as at 1 April 2016** | **558 539** | **503 020** | **55 519** |
| Total gains/(losses) | 7 215 | (5 431) | 12 646 |
| In the income statement | 8 020 | (5 431) | 13 451 |
| In the statement of comprehensive income | (805) | – | (805) |
| Purchases | 61 335 | 61 107 | 229 |
| Sales | (24 123) | (12 493) | (11 630) |
| Issues | (843) | (843) | – |
| Settlements | (21 732) | (10 266) | (11 466) |
| Transfers into level 3 | (9 965) | (9 965) | – |
| Transfers out of level 3 | – | – | – |
| Foreign exchange adjustments | 33 724 | 35 663 | (1 939) |
| **Balance as at 30 September 2016** | **604 151** | **560 792** | **43 359** |

The group transfers between levels within the fair value hierachy when the observability of inputs change or if the valuation methods change.

The following table quantifies the gains or (losses) included in the income statement and other comprehensive income recognised on level 3 financial instruments:

**For the year to 30 September 2016**

| £'000 | Total | Realised | Unrealised |
|---|---|---|---|
| **Total gains or (losses) included in the income statement for the year** | | | |
| Net interest income | 1 366 | 1 366 | – |
| Fee and commission income | 4 522 | – | 4 522 |
| Investment income/(expense) | (663) | 9 753 | (10 416) |
| Trading income arising from customer flow | 2 795 | – | 2 795 |
| | **8 020** | **11 119** | **(3 099)** |
| **Total gains or (losses) included in other comprehensive income for the year** | | | |
| Gains on realisation of available-for-sale assets recycled through the income statement | 13 451 | 13 451 | – |
| Fair value movements on available-for-sale assets taken directly to other comprehensive income | (805) | – | (805) |
| | **12 646** | **13 451** | **(805)** |

For the period ended 30 September 2016, there were no significant transfers from level 3 into level 2 (31 March 2016: assets of £4.6 million). In the current and prior year the valuation methodologies were reviewed and observable inputs are used to determine the fair value.

There were transfers from level 2 to the level 3 category to the value of £9.9 million (31 March 2016: £26.3 million) because the significance of the unobservable inputs used to determine the fair value increased significantly to warrant a transfer.

## LEVEL 2 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The following table sets out the group's principal valuation techniques as at 30 September 2016 used in determining the fair value of its financial assets and financial liabilities that are classified within level 2 of the fair value hierarchy.

| | Valuation basis/techniques | Main assumptions |
|---|---|---|
| **ASSETS** | | |
| Reverse repurchase agreements and cash collateral on securities borrowed | Discounted cash flow model, Hermite interpolation, Black-Scholes | Discount rates |
| Other debt securities | Discounted cash flow model | Discount rates, swap curves and NCD curves, external prices, broker quotes |
| Derivative financial instruments | Discounted cash flow model, Hermite interpolation, industry standard derivative pricing models including Black-Scholes | Discount rate, risk free rate, volatilities, forexforward points and spot rates, interest rate swap curves and credit curves |
| Securities arising from trading activities | Standard industry derivative pricing model | Interest rate curves, implied bond spreads, equity volatilities |
| Investment portfolio | Discounted cash flow model, net asset value model<br>Comparable quoted inputs | Discount rate and fund unit price<br>Net assets |
| **LIABILITIES** | | |
| Derivative financial instruments | Discounted cash flow model, Hermite interpolation, industry standard derivative pricing models including Black-Scholes | Discount rate, risk free rate, volatilities, forex forward points and spot rates, interest rate swap curves and credit curves |
| Repurchase agreements and cash collateral on securities lent | Discounted cash flow model, Hermite interpolation | Discount rates |
| Debt securities in issue | Discounted cash flow model | Discount rates |

## SENSITIVITY OF FAIR VALUES TO REASONABLY POSSIBLE ALTERNATIVE ASSUMPTIONS BY LEVEL 3 INSTRUMENT TYPE

The fair value of financial instruments in level 3 are measured using valuation techniques that incorporate assumptions that are not evidenced by prices from observable market data. The following table shows the sensitivity of these fair values to reasonably possible alternative assumptions, determined at a transactional level:

| At 30 September 2016 | Balance sheet value £'000 | Significant unobservable input changed | Range of unobservable inputs used | Favourable changes | Un-favourable changes |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Other debt securities | 8 993 | Reflected in income statement | | **316** | **(436)** |
| | | Cash flow adjustments | CPR 5 – 9% | 289 | (433) |
| | | Other | CDS Spreads | 27 | (3) |
| Derivative financial instruments | 53 519 | Reflected in income statement | | **8 578** | **(6 435)** |
| | | Volatilities | 3.8% – 9% | 3 632 | (1 876) |
| | | Cash flow adjustments | CPR 8% – 12% | 753 | (1 544) |
| | | Other^ | ^ | 4 193 | (3 015) |
| Securities arising from trading activities | 7 565 | Reflected in income statement<br>Cash flow adjustments | CPR 9.1% – 10% | **717** | **(1 059)** |
| Investment portfolio | 411 430 | Reflected in income statement | | **39 045** | **(34 934)** |
| | | Cash flow adjustments | CPR 9% | 3 050 | (3 050) |
| | | Price Earnings multiple | 1x – 9.1x | 3 116 | (2 888) |
| | | Other^ | ^ | 32 879 | (28 996) |
| | | Reflected in other comprehensive income | | **3 633** | **(908)** |
| | | EBITDA | | 115 | (21) |
| | | Other^ | | 3 518 | (887) |
| Loans and advances to customers | 80 638 | Reflected in income statement | | **6 719** | **(15 203)** |
| | | Discount rates | 16% | 1 633 | (988) |
| | | EBITDA | 10% | 5 086 | (5 086) |
| | | Other^ | ^ | – | (9 129) |
| Other securitised assets* | 140 436 | Reflected in income statement<br>Cash flow adjustments | CPR 6.25% | **2 416** | **(2 434)** |
| **Liabilities** | | | | | |
| Derivative financial instruments | 2 107 | Reflected in income statement | | **734** | **(1 580)** |
| | | Cash flow adjustments | CPR 8% | 716 | (1 510) |
| | | Volatilities | 7% – 8.5% | 18 | (70) |
| Liabilities arising on securitisation of other assets* | 112 754 | Reflected in income statement<br>Cash flow adjustments | CPR 6.25% | **1 011** | **(1 104)** |
| Deposits by banks and other debt related securities | 12 374 | Reflected in income statement<br>Volatilities | 7% | **175** | **(828)** |
| **Net level 3 assets** | **604 151** | | | **63 344** | **(64 921)** |

In determining the value of level 3 financial instruments, the following are the principal inputs that can require judgement:

### Credit spreads

Credit spreads reflect the additional yield that a market participant would demand for taking exposure to the credit risk of an instrument. The credit spread for an instrument forms part of the yield used in a discounted cash flow calculation. In general a significant increase in a credit spread in isolation will result in a movement in fair value that is unfavourable for the holder of a financial instrument.

### Discount rates

Discount rates are the interest rates used to discount future cash flows in a discounted cash flow valuation method. The discount rate takes into account time value of money and uncertainty of cash flows.

### Volatilities

Volatility is a key input in the valuation of derivative products containing optionality. Volatility is a measure of the variability or uncertainty in returns for a given derivative underlying. It represents an estimate of how much a particular underlying instrument, parameter or index will change in value over time.

### Cash flows

Cash flows relate to the future cash flows which can be expected from the instrument and requires judgement.

### Price earnings multiple

The price-to-earnings ratio is an equity valuation multiple used in the adjustment of underlying market prices. It is a key driver in the valuation of unlisted investments.

### EBITDA

A company's earnings before interest, taxes, depreciation and amortisation. This is the main input into a price earnings multiple valuation method.

## Fair value of financial instruments at amortised cost

| At 30 September 2016<br>£'000 | Carrying amount | Fair value |
|---|---|---|
| **2016** | | |
| **Assets** | | |
| Cash and balances at central banks | 3 778 568 | 3 778 568 |
| Loans and advances to banks | 1 183 202 | 1 183 196 |
| Reverse repurchase agreements and cash collateral on securities borrowed | 468 248 | 468 248 |
| Bank debt securities | 177 712 | 182 393 |
| Other debt securities | 219 271 | 208 755 |
| Loans and advances to customers | 8 218 462 | 8 239 512 |
| Other loans and advances | 420 290 | 405 413 |
| Other securitised assets | 2 975 | 2 975 |
| Other assets | 1 165 259 | 1 165 252 |
| | **15 633 987** | **15 634 312** |
| **Liabilities** | | |
| Deposits by banks | 594 024 | 600 561 |
| Repurchase agreements and cash collateral on securities lent | 122 367 | 122 367 |
| Customer accounts (deposits) | 12 042 361 | 12 061 330 |
| Debt securities in issue | 1 506 082 | 1 502 647 |
| Other liabilities | 1 187 716 | 1 187 716 |
| Subordinated liabilities | 625 175 | 718 556 |
| | **16 077 725** | **16 193 177** |

| Operating costs<br>For the six months to 30 September<br>£'000 | 2016 | 2015 |
|---|---|---|
| Staff costs | 346 734 | 306 046 |
| Premises expenses (excluding depreciation) | 21 745 | 19 202 |
| Equipment expenses (excluding depreciation) | 19 546 | 14 650 |
| Business expenses | 61 125 | 69 253 |
| Marketing expenses | 19 971 | 17 324 |
| Depreciation, amortisation and impairment of property, equipment and intangibles | 6 356 | 6 073 |
| | **475 477** | **432 548** |

**Reverse repurchase agreements and cash collateral on securities borrowed and repurchase agreements and cash collateral on securities lent**

| £'000 | 30 Sept 2016 | 31 March 2016 |
|---|---|---|
| **Assets** | | |
| Reverse repurchase agreements | 433 077 | 476 308 |
| Cash collateral on securities borrowed | 88 674 | 80 717 |
| | **521 751** | **557 025** |
| **Liabilities** | | |
| Repurchase agreements | 52 638 | 154 142 |
| Cash collateral on securities lent | 122 367 | 127 118 |
| | **175 005** | **281 260** |

| Extract of other debt securities<br>£'000 | 30 Sept 2016 | 31 March 2016 |
|---|---|---|
| Bonds | 320 419 | 303 687 |
| Commercial paper | 24 449 | 22 100 |
| Treasury bills | 89 153 | 65 743 |
| Other investments | 2 592 | 2 122 |
| | **436 613** | **393 652** |

| Extract of securities arising from trading activities<br>£'000 | 30 Sept 2016 | 31 March 2016 |
|---|---|---|
| Bonds | 225 702 | 194 485 |
| Government securities | 100 388 | 198 181 |
| Listed equities | 142 681 | 130 013 |
| Unlisted equities | 317 | 329 |
| Other investments | 1 330 | 1 336 |
| | **470 418** | **524 344** |

| Extract of loans and advances to customers and other loans and advances<br>£'000 | 30 Sept 2016 | 31 March 2016 |
|---|---|---|
| Gross loans and advances to customers | 8 456 665 | 7 946 793 |
| Impairments of loans and advances to customers | (157 565) | (143 191) |
| Specific impairments | (125 654) | (121 791) |
| Portfolio impairments | (31 911) | (21 400) |
| Net loans and advances to customers | **8 299 100** | **7 803 602** |
| Gross other loans and advances | | |
| Impairments of other loans and advances | 427 714 | 424 090 |
| Specific impairments | (7 424) | (6 885) |
| Portfolio impairments | (6 674) | (6 112) |
| Net other loans and advances | (750) | (773) |
| | **420 290** | **417 205** |

| **Extract of securitised assets and liabilities arising on securitisation £'000** | **30 Sept 2016** | **31 Mar 2016** |
|---|---|---|
| Total other securitised assets | **143 411** | **150 565** |

| **Other assets £'000** | **30 Sept 2016** | **31 Mar 2016** |
|---|---|---|
| Settlement debtors | 1 022 092 | 911 395 |
| Trading properties | 124 769 | 104 021 |
| Prepayments and accruals | 118 784 | 109 153 |
| Pension assets | 48 629 | 46 472 |
| Trading initial margins | 257 004 | 301 426 |
| Other | 166 557 | 232 736 |
| | **1 737 835** | **1 705 203** |

| **Debt securities in issue £'000** | **30 Sept 2016** | **31 Mar 2016** |
|---|---|---|
| Repayable in: | | |
| Less than three months | 41 697 | 35 001 |
| Three months to one year | 111 976 | 116 680 |
| One to five years | 1 068 484 | 873 712 |
| Greater than five years | 704 143 | 803 426 |
| | **1 926 300** | **1 828 819** |

| **Other liabilities £'000** | **30 Sept 2016** | **31 Mar 2016** |
|---|---|---|
| Settlement liabilities | 971 485 | 849 025 |
| Other creditors and accruals | 319 858 | 372 924 |
| Other non-interest-bearing liabilities | 140 630 | 106 883 |
| | **1 431 973** | **1 328 832** |

| **Extract of perpetual preference share capital £'000** | **30 Sept 2016** | **31 Mar 2016** |
|---|---|---|
| Perpetual preference share capital | 29 | 151 |
| Perpetual preference share premium | 27 399 | 149 449 |
| | **27 428** | **149 600** |

| **Extract of deferred taxation £'000** | **30 Sept 2016** | **31 Mar 2016** |
|---|---|---|
| Losses carried forward | **4 281** | **9 754** |

| **Extract of subordinated liabilities £'000** | **30 Sept 2016** | **31 Mar 2016** |
|---|---|---|
| Issued by Investec Finance plc | 18 155 | 18 272 |
| Issued by Investec Bank plc | 607 020 | 579 037 |
| Remaining maturities: | | |
| In one year or less, or on demand | 18 155 | 18 272 |
| In more than one year, but not more than two years | – | – |
| In more than two years, but not more than five years | – | – |
| In more than five years | 607 020 | 579 037 |
| | **625 175** | **597 309** |

## Offsetting

| At 30 September 2016 £'000 | Amounts subject to enforceable netting arrangements | | | | | |
|---|---|---|---|---|---|---|
| | Effects of offsetting on balance sheet | | | Related amounts not offset | | |
| | Gross amounts | Amounts offset | Net amounts reported on the balance sheet | Financial instruments (including non-cash collateral) | Cash collateral | Net amount |
| **Assets** | | | | | | |
| Cash and balances at central banks | 3 780 240 | – | 3 780 240 | – | – | 3 780 240 |
| Loans and advances to banks | 1 262 188 | – | 1 262 188 | – | (207 352) | 1 054 836 |
| Reverse repurchase agreements and cash collateral on securities borrowed | 524 368 | (2 617) | 521 751 | (127 938) | – | 393 813 |
| Sovereign debt securities | 966 144 | – | 966 144 | (1 326) | – | 964 818 |
| Bank debt securities | 185 546 | – | 185 546 | (28 450) | – | 157 096 |
| Other debt securities | 436 613 | – | 436 613 | – | – | 436 613 |
| Derivative financial instruments | 979 968 | – | 979 968 | (230 295) | (361 740) | 387 933 |
| Securities arising from trading activities | 470 418 | – | 470 418 | (347 838) | – | 122 580 |
| Investment portfolio | 526 437 | – | 526 437 | – | – | 526 437 |
| Loans and advances to customers | 8 299 100 | – | 8 299 100 | – | – | 8 299 100 |
| Other loans and advances | 420 290 | – | 420 290 | – | – | 420 290 |
| Other securitised assets | 143 411 | – | 143 411 | – | – | 143 411 |
| Other assets | 1 735 218 | 2 617 | 1 737 835 | – | (137 416) | 1 600 419 |
| | **19 729 941** | **–** | **19 729 941** | **(735 847)** | **(706 508)** | **18 287 586** |
| Liabilities | | | | | | |
| Deposits by banks | 594 024 | – | 594 024 | – | (73 712) | 520 312 |
| Derivative financial instruments | 1 116 873 | – | 1 116 873 | (230 295) | (525 694) | 360 884 |
| Other trading liabilities | 132 578 | – | 132 578 | (127 938) | – | 4 640 |
| Repurchase agreements and cash collateral on securities lent | 175 005 | – | 175 005 | (153 682) | – | 21 323 |
| Customer accounts (deposits) | 12 042 361 | – | 12 042 361 | – | (57 775) | 11 984 586 |
| Debt securities in issue | 1 926 300 | – | 1 926 300 | (223 932) | (36 132) | 1 666 236 |
| Liabilities arising on securitisation of other assets | 112 754 | – | 112 754 | – | – | 112 754 |
| Other liabilities | 1 431 973 | – | 1 431 973 | – | – | 1 431 973 |
| Subordinated liabilities | 625 175 | – | 625 175 | – | – | 625 175 |
| | **18 157 043** | **–** | **18 157 043** | **(735 847)** | **(693 313)** | **16 727 883** |

| At 31 March 2016<br>£'000 | Amounts subject to enforceable netting arrangements<br>Effects of offsetting on balance sheet<br>Gross amounts | Amounts offset | Net amounts reported on the balance sheet | Related amounts not offset<br>Financial instruments (including non-cash collateral) | Cash collateral | Net amount |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and balances at central banks | 2 638 069 | – | 2 638 069 | – | – | 2 638 069 |
| Loans and advances to banks | 1 112 441 | – | 1 112 441 | – | (159 775) | 952 666 |
| Reverse repurchase agreements and cash collateral on securities borrowed | 557 110 | (85) | 557 025 | (221 151) | (849) | 335 025 |
| Sovereign debt securities | 1 252 991 | – | 1 252 991 | (183 881) | – | 1 069 110 |
| Bank debt securities | 188 397 | – | 188 397 | (33 564) | – | 154 833 |
| Other debt securities | 393 652 | – | 393 652 | – | – | 393 652 |
| Derivative financial instruments | 837 558 | – | 837 558 | (247 749) | (267 660) | 322 149 |
| Securities arising from trading activities | 524 344 | – | 524 344 | (449 383) | – | 74 961 |
| Investment portfolio | 451 000 | – | 451 000 | – | – | 451 000 |
| Loans and advances to customers | 7 844 602 | (41 000) | 7 803 602 | – | – | 7 803 602 |
| Other loans and advances | 417 205 | – | 417 205 | – | (7 933) | 409 272 |
| Other securitised assets | 150 565 | – | 150 565 | – | – | 150 565 |
| Other assets | 1 705 319 | (116) | 1 705 203 | – | (183 115) | 1 522 088 |
| | **18 073 253** | **(41 201)** | **18 032 052** | **(1 135 728)** | **(619 332)** | **16 276 992** |
| **Liabilities** | | | | | | |
| Deposits by banks | 544 210 | – | 544 210 | – | (69 276) | 474 934 |
| Derivative financial instruments | 964 362 | – | 964 362 | (247 749) | (518 932) | 197 681 |
| Other trading liabilities | 226 598 | – | 226 598 | (221 151) | – | 5 447 |
| Repurchase agreements and cash collateral on securities lent | 281 260 | – | 281 260 | (280 806) | (454) | – |
| Customer accounts (deposits) | 10 849 980 | (41 000) | 10 808 980 | – | (16 118) | 10 792 862 |
| Debt securities in issue | 1 828 819 | – | 1 828 819 | (386 022) | (1 057) | 1 441 740 |
| Liabilities arising on securitisation of other assets | 120 617 | – | 120 617 | – | – | 120 617 |
| Other liabilities | 1 329 033 | (201) | 1 328 832 | – | – | 1 328 832 |
| Subordinated liabilities | 597 309 | – | 597 309 | – | – | 597 309 |
| | **16 742 188** | **(41 201)** | **16 700 987** | **(1 135 728)** | **(605 837)** | **14 959 422** |

# *Consolidated summarised ongoing income statement*

| £'000 | For the six months to 30 Sept 2016 | For the six months to 30 Sept 2015 | Variance | % change |
|---|---|---|---|---|
| Net interest income | 133 332 | 128 858 | 4 474 | 3.5% |
| Net fee and commission income | 389 542 | 351 141 | 38 401 | 10.9% |
| Investment income | 18 527 | 44 225 | (25 698) | (58.1%) |
| Share of post tax operating profit of associates | 1 016 | 944 | 72 | 7.6% |
| Trading income arising from | | | | |
| – customer flow | 64 954 | 45 900 | 19 054 | 41.5% |
| – balance sheet management and other trading activities | 12 269 | (2 895) | 15 164 | (523.8%) |
| Other operating (loss)/income | 5 330 | 2 765 | 2 565 | 92.8% |
| **Total operating income before impairment losses on loans and advances** | **624 970** | **570 938** | **54 032** | **9.5%** |
| Impairment losses on loans and advances | (1 491) | (2 914) | 1 423 | (48.8%) |
| **Operating income** | **623 479** | **568 024** | **55 455** | **9.8%** |
| Operating costs | (471 598) | (421 243) | (50 355) | 12.0% |
| Depreciation on operating leased assets | – | (216) | 216 | (100.0%) |
| **Operating profit before goodwill, acquired intangibles and non-operating items** | **151 881** | **146 565** | **5 316** | **3.6%** |
| Profit attributable to other non-controlling interests | (2 119) | 1 207 | (1 207) | (275%) |
| Profit attributable to Asset Management non-controlling interests | (5 756) | (5 357) | (399) | 7.4% |
| **Operating profit before taxation** | **144 006** | **142 415** | **1 591** | **1.1%** |
| Taxation | (28 278) | (30 800) | 2 522 | (8.2%) |
| **Adjusted earnings before goodwill, acquired intangibles and non-operating items** | **115 728** | **111 615** | **4 113** | **3.7%** |

# *Reconciliation from statutory summarised income statement to ongoing summarised income statement*

| For the six months to 30 September 2016<br>£'000 | Statutory as disclosed | Removal of:** UK legacy business excluding sale assets | Ongoing business |
|---|---|---|---|
| Net interest income | 132 646 | (686) | 133 332 |
| Net fee and commission income | 389 466 | (76) | 389 542 |
| Investment income | 18 751 | 224 | 18 527 |
| Share of post tax operating profit of associates | 1 016 | – | 1 016 |
| Trading income arising from | | | |
| – customer flow | 64 913 | (41) | 64 954 |
| – balance sheet management and other trading activities | 12 269 | – | 12 269 |
| Other operating income | 5 330 | – | 5 330 |
| **Total operating income before impairment losses on loans and advances** | **624 391** | **(579)** | **624 970** |
| Impairment losses on loans and advances | (30 078) | (28 587) | (1 491) |
| **Operating income** | **594 313** | **(29 166)** | **623 479** |
| Operating costs | (475 477) | (3 879) | (471 598) |
| Depreciation on operating leased assets | – | – | – |
| **Operating profit/(loss) before goodwill, acquired intangibles and non-operating items** | **118 836** | **(33 045)** | **151 881** |
| Profit attributable to other non-controlling interests | (2 119) | – | (2 119) |
| Profit attributable to Asset Management non-controlling interests | (5 756) | – | (5 756) |
| **Operating profit/(loss) before taxation** | **110 961** | **(33 045)** | **144 006** |
| Taxation* | (21 789) | 6 489 | (28 278) |
| **Adjusted earnings before goodwill, acquired intangibles and non-operating items** | **89 172** | **(26 556)** | **115 728** |
| Cost to income ratio | 76.2% | | 75.5% |

* *Applying the group's effective statutory taxation rate of 19.6%.*

** *Where:*

- *The UK legacy business is as described further on.*

# *Reconciliation from statutory summarised income statement to ongoing summarised income statement*

*(continued)*

| For the six months to 30 September 2015<br>£'000 | Statutory as disclosed | Removal of:**<br>UK legacy business excluding sale assets | Ongoing business |
|---|---|---|---|
| Net interest income | 130 217 | 1 359 | 128 858 |
| Net fee and commission income | 354 457 | 3 316 | 351 141 |
| Investment income | 44 239 | 14 | 44 225 |
| Share of post tax operating profit of associates | 944 | – | 944 |
| Trading income arising from | | | |
| – customer flow | 45 477 | (423) | 45 900 |
| – balance sheet management and other trading activities | (3 195) | (300) | (2 895) |
| Other operating income | 2 765 | – | 2 765 |
| **Total operating income before impairment losses on loans and advances** | **574 904** | **3 966** | **570 938** |
| Impairment losses on loans and advances | (31 313) | (28 399) | (2 914) |
| **Operating income** | **543 591** | **(24 433)** | **568 024** |
| Operating costs | (432 332) | (11 089) | (421 243) |
| Depreciation on operating leased assets | (216) | – | (216) |
| **Operating profit/(loss) before goodwill, acquired intangibles and non-operating items** | **111 043** | **(35 522)** | **146 565** |
| Loss attributable to other non-controlling interests | 1 207 | – | 1 207 |
| Profit attributable to Asset Management non-controlling interests | (5 357) | – | (5 357) |
| **Operating profit/(loss) before taxation** | **106 893** | **(35 522)** | **142 415** |
| Taxation* | (23 118) | 7 682 | (30 800) |
| **Adjusted earnings before goodwill, acquired intangibles and non-operating items** | **83 775** | **(27 840)** | **111 615** |
| Cost to income ratio | 75.2% | (27 840) | 73.8% |

* *Applying the group's effective statutory taxation rate of 21.6%.*

** *Where:*

- *The UK legacy business is as described further on.*

# *Reconciliation from statutory summarised income statement to ongoing summarised income statement for the UK and Other Specialised Banking business*

| For the six months to 30 September 2016<br>£'000 | UK and Other Specialist Banking statutory as disclosed | Removal of:**<br>UK legacy business excluding sale assets | UK and Other Specialist Banking ongoing business |
|---|---|---|---|
| Net interest income | 130 432 | (686) | 131 118 |
| Net fee and commission income | 114 297 | (76) | 114 373 |
| Investment income | 17 385 | 224 | 17 161 |
| Share of post tax operating profit of associates | 314 | – | 314 |
| Trading income arising from | | | |
| – customer flow | 64 667 | (41) | 64 708 |
| – balance sheet management and other trading activities | 10 747 | – | 10 747 |
| Other operating income | 3 858 | – | 3 858 |
| **Total operating income before impairment losses on loans and advances** | **341 700** | **(579)** | **342 279** |
| Impairment losses on loans and advances | (30 078) | (28 587) | (1 491) |
| **Operating income** | **311 622** | **(29 166)** | **340 788** |
| Operating costs | (247 334) | (3 879) | (243 455) |
| **Operating profit/(loss) before goodwill, acquired intangibles and non-operating items** | **64 288** | **(33 045)** | **97 333** |
| Profit attributable to other non-controlling interests | (2 119) | – | (2 119) |
| **Operating profit/(loss) before taxation** | **62 169** | **(33 045)** | **95 214** |

| For the six months to 30 September 2015<br>£'000 | UK and Other Specialist Banking statutory as disclosed | Removal of:**<br>UK legacy business excluding sale assets | UK and Other Specialist Banking ongoing business |
|---|---|---|---|
| Net interest income | 128 072 | 1 359 | 126 713 |
| Net fee and commission income | 92 546 | 3 316 | 89 230 |
| Investment income | 44 469 | 14 | 44 455 |
| Share of post tax operating profit of associates | 249 | – | 249 |
| Trading income arising from | | | |
| – customer flow | 44 945 | (423) | 45 368 |
| – balance sheet management and other trading activities | (2 113) | (300) | (1 813) |
| Other operating income | 2 600 | – | 2 600 |
| **Total operating income before impairment losses on loans and advances** | **310 768** | **3 966** | **306 802** |
| Impairment losses on loans and advances | (31 313) | (28 399) | (2 914) |
| **Operating income** | **279 455** | **(24 433)** | **303 888** |
| Operating costs | (217 184) | (11 089) | (206 095) |
| Depreciation on operating leased assets | (216) | – | (216) |
| **Operating profit/(loss) before goodwill, acquired intangibles and non-operating items** | **62 055** | **(35 522)** | **97 577** |
| Loss attributable to other non-controlling interests | 1 207 | – | 1 207 |
| **Operating profit/(loss) before taxation** | **63 262** | **(35 522)** | **98 784** |

** *Where:*

- *The UK legacy business is as described further on.*

## SEGMENTAL GEOGRAPHICAL AND BUSINESS ANALYSIS OF OPERATING PROFIT BEFORE GOODWILL. ACQUIRED INTANGIBLES, NON-OPERATING ITEMS, TAXATION AND AFTER OTHER NON-CONTROLLING INTERESTS – ONGOING BUSINESS

| **For the six months to 30 September 2016**<br>**£'000** | **30 Sept 2016** | **30 Sept 2015** | **% Change** |
|---|---|---|---|
| Asset Management | 43 115 | 40 128 | 7.4% |
| Wealth & Investment | 29 191 | 25 896 | 12.7% |
| Specialist Banking | 95 214 | 98 784 | (3.6%) |
| | **167 520** | **164 808** | **1.6%** |
| Group costs | (17 758) | (17 036) | 4.2% |
| **Total group** | **149 762** | **147 772** | **1.3%** |

## A RECONCILIATION OF THE UK AND OTHER SPECIALIST BANKING'S OPERATING PROFIT: ONGOING VS STATUTORY BASIS

| **For the six months to 30 September 2016**<br>**£'000** | **30 Sept 2016** | **30 Sept 2015** | **% Change** |
|---|---|---|---|
| Total ongoing UK and Other Specialist Banking per above | 95 214 | 98 784 | (3.6%) |
| UK legacy remaining | (33 045) | (35 522) | (7.0%) |
| Total UK and Other Specialist Banking per statutory accounts | **62 169** | **63 262** | **(1.7%)** |

| For the six months to 30 September 2016 £'000 | Asset Management | Wealth & Investment | Specialist Banking | Group Costs | Total group |
|---|---|---|---|---|---|
| Net interest income | 90 | 2 124 | 131 118 | – | 133 332 |
| Net fee and commission income | 146 378 | 128 791 | 114 373 | – | 389 542 |
| Investment income | – | 1 366 | 17 161 | – | 18 527 |
| Share of post tax operating profit of associates | – | 702 | 314 | – | 1 016 |
| Trading income arising from | | | | | |
| – customer flow | – | 246 | 64 708 | – | 64 954 |
| – balance sheet management and other trading activities | 1 337 | 185 | 10 747 | – | 12 269 |
| Other operating income | 1 472 | – | 3 858 | – | 5 330 |
| **Total operating income before impairment losses on loans and advances** | **149 277** | **133 414** | **342 279** | **–** | **624 970** |
| Impairment losses on loans and advances | – | – | (1 491) | – | (1 491) |
| **Operating income** | **149 277** | **133 414** | **340 788** | **–** | **623 479** |
| Operating costs | (106 162) | (104 223) | (243 455) | (17 758) | (471 598) |
| **Operating profit/(loss) before goodwill, acquired intangibles and non-operating items** | **43 115** | **29 191** | **97 333** | **(17 758)** | **151 881** |
| Profit attributable to other non-controlling interests | – | – | (2 119) | – | (2 119) |
| **Operating profit/(loss) before goodwill, acquired intangibles and non-operating items and after non-controlling interests and after non-controlling interests** | **43 115** | **29 191** | **95 214** | **(17 758)** | **149 762** |
| Profit attributable to other non-controlling interests | (5 756) | – | – | – | (5 756) |
| **Operating profit/(loss) before goodwill, acquired intangibles and non-operating items and after non-controlling interests** | **37 359** | **29 191** | **95 214** | **(17 758)** | **144 006** |
| Selected returns and key statistics | | | | | |
| Cost to income ratio | 71.1% | 78.1% | 71.1% | n/a | 75.5% |

# *Ongoing segmental business analysis – summarised income statement*

*(continued)*

| For the six months to 30 September 2015 £'000 | Asset Management | Wealth & Investment | Specialist Banking | Group Costs | Total group |
|---|---|---|---|---|---|
| Net interest income | 123 | 2 022 | 126 713 | – | 128 858 |
| Net fee and commission income | 139 842 | 122 069 | 89 230 | – | 351 141 |
| Investment income | – | (230) | 44 455 | – | 44 225 |
| Share of post tax operating profit of associates | – | 695 | 249 | – | 944 |
| Trading income arising from | | | | | |
| – customer flow | – | 532 | 45 368 | – | 45 900 |
| – balance sheet management and other trading activities | (1 164) | 82 | (1 813) | – | (2 895) |
| Other operating income | 165 | – | 2 600 | – | 2 765 |
| **Total operating income before impairment losses on loans and advances** | **138 966** | **125 170** | **306 802** | **–** | **570 938** |
| Impairment losses on loans and advances | – | – | (2 914) | | (2 914) |
| **Operating income** | **138 966** | **125 170** | **303 888** | **–** | **568 024** |
| Operating costs | (98 838) | (99 274) | (206 095) | (17 036) | (421 243) |
| Depreciation on operating leased assets | – | – | (216) | – | (216) |
| **Operating profit/(loss) before goodwill, acquired intangibles and non-operating items** | **40 128** | **25 896** | **97 577** | **(17 036)** | **146 565** |
| Loss attributable to other non-controlling interests | – | – | 1 207 | – | 1 207 |
| **Operating profit/(loss) before goodwill, acquired intangibles and non-operating items and after non-controlling interests** | **40 128** | **25 896** | **98 784** | **(17 036)** | **147 772** |
| Profit attributable to other non-controlling interests | (5 357) | – | – | – | (5 357) |
| **Operating profit/(loss) before goodwill, acquired intangibles and non-operating items and after non-controlling interests** | **34 771** | **25 896** | **98 784** | **(17 036)** | **142 415** |
| Selected returns and key statistics | | | | | |
| Cost to income ratio | 71.1% | 79.3% | 67.2% | n/a | 73.8% |

# Legacy business in the UK Specialist Bank

**The legacy business in the UK Specialist Bank comprises:**

- Assets put on the bank's books pre-2008 where market conditions post the financial crisis materially impacted the business model
- Assets written prior to 2008 with very low/negative margins
- Assets relating to business we are no longer undertaking.

**Legacy business – overview of results**

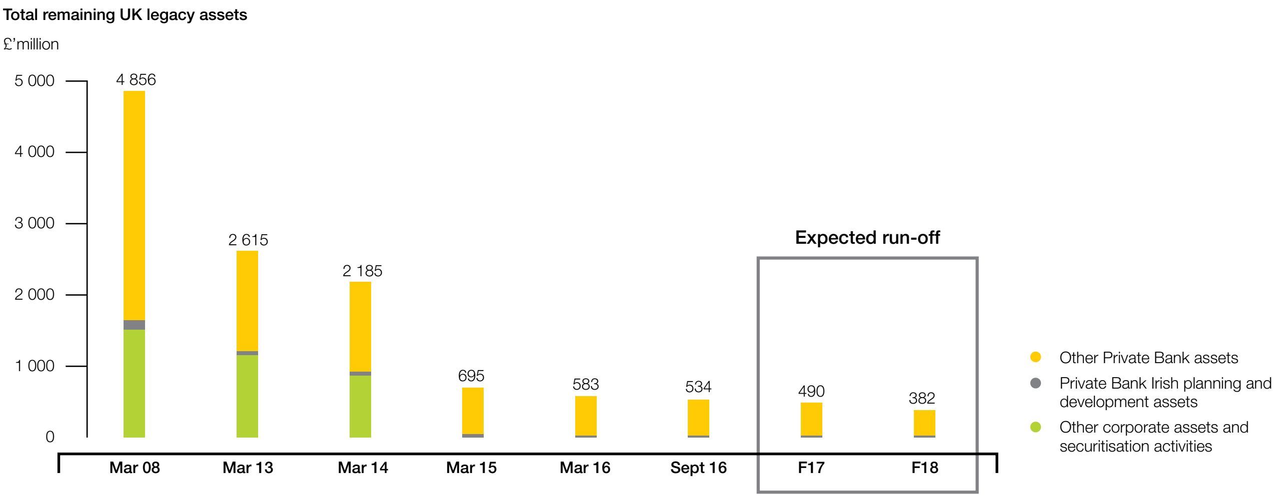
Since 31 March 2016 the group's legacy portfolio in the UK has continued to be actively managed down from £583 million to £535 million largely through asset sales, redemptions and write-offs. The total legacy business over the period reported a loss before taxation of £33.0 million (2015: £35.5 million). The remaining legacy portfolio will continue to be managed down. Given the uncertainty in the UK following the EU referendum, the legacy book could take longer to wind down than management's original expectation of two to four years. Total net defaults in the legacy book amount to £126 million (31 March 2016: £143 million).

## AN ANALYSIS OF ASSETS OF WITHIN THE LEGACY BUSINESS

| £'million | 30 Sept 2016 Total net assets (after impairments) | 30 Sept 2016 Total balance sheet impairment | 31 March 2016 Total net assets (after impairments) | 31 March 2016 Total balance sheet impairment |
|---|---|---|---|---|
| Private Bank Irish planning and development assets | 24 | 14 | 23 | 14 |
| Other Private Bank assets | 510 | 120 | 560 | 107 |
| **Total other legacy assets** | **534** | **134** | **583** | **121** |
| Performing | 408 | – | 440 | – |
| Non-performing | 126 | 134* | 143 | 121* |

* *Included in balance sheet impairments is a group portfolio impairment of £30.9 million (31 March 2016: £20.4 million).*

## EXPECTED RUN-OFF OF LEGACY ASSETS



An analysis of our core loans and advances, asset quality and impairments

| £'000 | 30 Sept 2016 | 31 March 2016 |
|---|---|---|
| **Gross core loans and advances to customers** | **7 787 871** | **7 242 345** |
| **Total impairments** | **(23 461)** | **(21 838)** |
| Specific impairments | (22 461) | (20 838) |
| Portfolio impairments | (1 000) | (1 000) |
| **Net core loans and advances to customers** | **7 764 410** | **7 220 507** |
| **Average gross core loans and advances to customers** | **7 515 108** | **6 810 208** |
| **Total income statement charge for impairments on core loans and advances** | **(1 553)** | **(17 806)** |
| Gross default loans and advances to customers | 51 817 | 49 795 |
| Specific impairments | (22 461) | (20 838) |
| Portfolio impairments | (1 000) | (1 000) |
| **Defaults net of impairments before collateral held** | **28 356** | **27 957** |
| Collateral and other credit enhancements | 43 299 | 34 777 |
| **Net default loans and advances to customers (limited to zero)** | **–** | **–** |
| **Ratios:** | | |
| Total impairments as a % of gross core loans and advances to customers | 0.30% | 0.30% |
| Total impairments as a % of gross default loans | 45.28% | 43.86% |
| Gross defaults as a % of gross core loans and advances to customers | 0.67% | 0.69% |
| Defaults (net of impairments) as a % of net core loans and advances to customers | 0.37% | 0.39% |
| Net defaults as a % of net core loans and advances to customers | – | – |
| Annualised credit loss ratio (i.e. income statement impairment charge on core loans as a % of average gross core loans and advances) | 0.04% | 0.26% |

A reconciliation of core loans and advances: statutory basis and ongoing basis

| | Statutory as disclosed | Removal of: UK legacy business excluding sale assets | Ongoing business |
|---|---|---|---|
| 30 September 2016 (£'000) | | | |
| **Gross core loans and advances to customers** | **8 456 665** | **668 794** | **7 787 871** |
| **Total impairments** | **(157 565)** | **(134 104)** | **(23 461)** |
| Specific impairments | (125 654) | (103 193) | (22 461) |
| Portfolio impairments | (31 911) | (30 911) | (1 000) |
| **Net core loans and advances to customers** | **8 299 100** | **534 690** | **7 764 410** |
| 31 March 2016 (£'000) | | | |
| **Gross core loans and advances to customers** | **7 946 793** | **704 448** | **7 242 345** |
| **Total impairments** | **(143 191)** | **(121 353)** | **(21 838)** |
| Specific impairments | (121 791) | (100 953) | (20 838) |
| Portfolio impairments | (21 400) | (20 400) | (1 000) |
| **Net core loans and advances to customers** | **7 803 602** | **583 095** | **7 220 507** |

## CAPITAL STRUCTURE AND CAPITAL ADEQUACY

| £'million | 30 Sept 2016 | 31 March 2016 |
|---|---|---|
| **Tier 1 capital** | | |
| Shareholders' equity | 1 909 | 1 652 |
| Shareholders' equity per balance sheet | 2 018 | 1 867 |
| Foreseeable dividends | (64) | (46) |
| Perpetual preference share capital and share premium | (27) | (150) |
| Deconsolidation of special purpose entities | (18) | (19) |
| **Non-controlling interests** | **12** | **10** |
| Non-controlling interests per balance sheet | 16 | 13 |
| Non-controlling interests transferred to tier 1 | – | – |
| Surplus non-controlling interest disallowed in common equity tier 1 | (4) | (3) |
| **Regulatory adjustments to the accounting basis** | **(44)** | **(43)** |
| Defined benefit pension fund adjustment | (39) | (37) |
| Additional value adjustments | (5) | (6) |
| **Deductions** | **(474)** | **(478)** |
| Goodwill and intangible assets net of deferred taxation | (463) | (466) |
| Deferred taxation assets that rely on future profitability excluding those arising from temporary differences | (4) | (8) |
| Securitisation positions | (4) | (4) |
| Debt Valuation adjustment | (3) | – |
| **Common equity tier 1 capital** | **1 403** | **1 141** |
| **Additional tier 1 capital** | **25** | **130** |
| Additional tier 1 instruments | 25 | 130 |
| Phase out of non-qualifying additional tier 1 instruments | – | – |
| **Total tier 1 capital** | **1 428** | **1 271** |
| **Tier 2 capital** | **525** | **535** |
| Tier 2 instruments | 593 | 610 |
| Non-qualifying surplus capital attributable to non-controlling interests | (68) | (75) |
| **Total regulatory capital** | **1 953** | **1 806** |
| **Risk-weighted assets** | **13 408** | **12 297** |
| **Capital ratios** | | |
| Common equity tier 1 ratio | 10.5% | 9.3% |
| Tier 1 ratio | 10.7% | 10.3% |
| Total capital ratio | 14.6% | 14.7% |

## CAPITAL REQUIREMENTS

| £'million | 30 Sept 2016 | 31 March 2016 |
|---|---|---|
| **Capital requirements** | **1 073** | **984** |
| Credit risk – prescribed standardised exposure classes | 785 | 711 |
| Corporates | 417 | 341 |
| Secured on real estate property | 154 | 150 |
| Retail | 41 | 44 |
| Institutions | 33 | 32 |
| Other exposure classes | 129 | 135 |
| Securitisation exposures | 11 | 9 |
| Equity risk – standardised approach | 8 | 8 |
| Listed equities | 1 | 3 |
| Unlisted equities | 7 | 5 |
| Counterparty credit risk | 49 | 41 |
| Credit valuation adjustment risk | 6 | 5 |
| Market risk | 73 | 76 |
| Interest rate | 29 | 27 |
| Foreign exchange | 20 | 23 |
| Equities | 17 | 16 |
| Options | 7 | 10 |
| Operational risk – standardised approach | 152 | 143 |
| | | |
| **Risk-weighted assets (banking and trading)** | **13 408** | **12 297** |
| Credit risk – prescribed standardised exposure classes | 9 799 | 8 883 |
| Corporates | 5 215 | 4 260 |
| Secured on real estate property | 1 924 | 1 876 |
| Retail | 508 | 550 |
| Institutions | 407 | 397 |
| Other exposure classes | 1 602 | 1 693 |
| Securitisation exposures | 143 | 107 |
| Equity risk – standardised approach | 100 | 103 |
| Listed equities | 11 | 43 |
| Unlisted equities | 89 | 60 |
| Counterparty credit risk | 616 | 515 |
| Credit valuation adjustment risk | 77 | 57 |
| Market risk | 911 | 955 |
| Interest rate | 358 | 332 |
| Foreign Exchange | 253 | 292 |
| Equities | 209 | 201 |
| Options | 85 | 130 |
| Underwriting | 6 | – |
| Operational risk – standardised approach | 1 905 | 1 784 |

## LEVERAGE

| | 30 Sept 2016 | 31 March 2016 |
|---|---|---|
| Tier 1 Capital | 1 428 | 1 271 |
| Total exposure | 20 942 | 18 831 |
| Leverage ratio | 6.8% | 6.7% |

## A SUMMARY OF CAPITAL ADEQUACY AND LEVERAGE RATIOS

| | 30 Sept 2016* | 31 March 2016* |
|---|---|---|
| Common equity tier 1 (as reported) | 10.5% | 9.3% |
| Common equity tier 1 (“fully loaded”)^^ | 10.5% | 9.3% |
| Tier 1 (as reported) | 10.7% | 10.3% |
| Total capital adequacy ratio (as reported) | 14.6% | 14.7% |
| Leverage ratio** – permanent capital | 6.8% | 6.7% |
| Leverage ratio** – current | 6.8% | 6.7% |
| Leverage ratio** – (“fully loaded”)^^ | 6.7% | 6.1% |
| Leverage ratio** – current UK leverage ratio framework^^^ | 8.3% | n/a |

* *The capital adequacy disclosures for Investec plc include the deduction of foreseeable dividends when calculating common equity tier 1 (CET1) capital as now required under the Capital Requirements Regulation (CRR) and EBA technical standards. These disclosures are different to the capital disclosures included in the Interim Report, which follows our normal basis of presentation and do not include the deduction for foreseeable dividends when calculating CET1 capital. Investec plc’s CET1 ratio would be 48bps (31 March 2016: 40bps) higher on this basis.*

^^ *Based on the group’s understanding of current regulations, “fully loaded” is based on CRR requirements as fully phased in by 2022.*

** *The leverage ratios are calculated on an end-quarter basis.*

^^^ *Investec plc is not subject to the UK leverage ratio framework however due to recent changes to the UK leverage ratio framework to exclude from the calculation of the total exposure measure those assets constituting claims on central banks where they are matched by deposits accepted by the firm that are denominated in the same currency and of identical or longer maturity, this has been included for comparative purposes.*

## Risk management

### Credit and counterparty risk management

Credit and counterparty risk is defined as the risk arising from an obligor's (typically a client or counterparty) failure to meet the terms of any agreement. Credit and counterparty risk arises when funds are extended, committed, invested, or otherwise exposed through contractual agreements, whether reflected on- or off-balance sheet.

Credit and counterparty risk arises primarily from three types of transactions:

- Lending transactions through loans and advances to clients and counterparties creates the risk that an obligor will be unable or unwilling to repay capital and/or interest on loans and advances granted to them. This category includes bank placements where we have placed funds with other financial institutions
- Issuer risk on financial instruments where payments due from the issuer of a financial instrument will not be received
- Trading transactions, giving rise to settlement and replacement risk (collectively counterparty risk):
    - Settlement risk is the risk that the settlement of a transaction does not take place as expected. Our definition of a settlement debtor is a short-term receivable (i.e. less than two days) which is excluded from credit and counterparty risk due to market guaranteed settlement mechanisms
    - Replacement risk is the financial cost of having to enter into a replacement contract with an alternative market counterparty, following default by the original counterparty.

Country risk refers to the risk of lending to a counterparty operating in a particular country or the risk inherent in sovereign exposure i.e. the risk of exposure to loss caused by events in other countries. Country risk covers all forms of lending or investment activity whether to/with individuals, corporates, banks or governments. This can include geopolitical risks, transfer and convertibility risks, and the impact on the borrower's credit profile due to local economic and political conditions.

To mitigate country risk, there is a preference for primary exposure in the group's main operating geographies. The group will accept exposures where we have a branch or local banking subsidiary, and tolerate exposures to other countries where we are facilitating a transaction for a client who requires facilities in a foreign geography and where we have developed a local understanding and capability.

Investec's credit risk appetite with regard to country risk is characterised by the following principles:
- Preference is to have exposure only to politically stable jurisdictions that we understand and have preferably operated in before
- There is no specific appetite for exposures outside of the group's pre-existing core geographies or product markets
- The legal environment should be tested, have legal precedent in line with OECD standards and have good corporate governance
- In certain cases, country risk can be mitigated by taking out political risk insurance with suitable counterparties, where deemed necessary and where considered economic.

While we do not have a separate country risk committee, the local and global credit committees as well as investment committees and ERRF will consider, analyse and assess the appropriate limits to be recorded when required, to assume exposure to foreign jurisdictions. The local group credit committee has the authority to approve country limits within mandate. The global credit committee, global investment committee or ERRF is responsible for approving country limits that are not within the mandate of local group credit committees.

Credit and counterparty risk may also arise in other ways and it is the role of the Global Risk Management functions and the various independent credit committees to identify risks falling outside these definitions.

The tables that follow provide an analysis of the credit and counterparty exposures.

### An analysis of gross credit and counterparty exposures

Credit and counterparty exposures increased by 11.0% to £18.9 billion since 31 March 2016. Cash and near cash balances increased by 21.7% to £6.2 billion and are largely reflected in the following line items in the table below: cash and balances at central banks, loans and advances to banks and sovereign debt securities.

| £'000 | 30 Sept 2016 | 31 March 2016 | % change | Average* |
|---|---|---|---|---|
| Cash and balances at central banks | 3 778 499 | 2 636 837 | 43.3% | 3 207 668 |
| Loans and advances to banks | 1 262 188 | 1 112 441 | 13.5% | 1 187 315 |
| Reverse repurchase agreements and cash collateral on securities borrowed | 521 751 | 557 025 | (6.3%) | 539 388 |
| Sovereign debt securities | 966 144 | 1 252 991 | (22.9%) | 1 109 568 |
| Bank debt securities | 185 546 | 188 397 | (1.5%) | 186 972 |
| Other debt securities (gross) | 440 685 | 393 652 | 11.9% | 417 169 |
| Derivative financial instruments | 735 286 | 572 324 | 28.5% | 653 805 |
| Securities arising from trading activities | 327 526 | 393 964 | (16.9%) | 360 745 |
| Loans and advances to customers (gross) | 8 456 665 | 7 946 793 | 6.4% | 8 201 729 |
| Other loans and advances (gross) | 378 976 | 331 617 | 14.3% | 355 297 |
| Other securitised assets (gross) | 13 721 | 11 341 | 21.0% | 12 531 |
| Other assets | 317 878 | 397 409 | (20.0%) | 357 644 |
| **Total on-balance sheet exposures** | **17 384 865** | **15 794 791** | **10.1%** | **16 589 828** |
| Guarantees ^ | 21 642 | 68 938 | (68.6%) | 45 290 |
| Contingent liabilities, committed facilities and other | 1 540 087 | 1 209 486 | 27.3% | 1 374 787 |
| **Total off-balance sheet exposures** | **1 561 729** | **1 278 424** | **22.2%** | **1 420 077** |
| **Total gross credit and counterparty exposures pre-collateral or other credit enhancements** | **18 946 594** | **17 073 215** | **11.0%** | **18 009 905** |

** Where the average is based on a straight-line average.*

*^ Excludes guarantees provided to clients which are backed/secured by cash on deposit with the bank.*

## Risk management

### A further analysis of our on-balance sheet credit and counterparty exposures

The table below indicates in which class of asset (on the face of the consolidated balance sheet) our on-balance sheet credit and counterparty exposures are reflected. Not all assets included in the balance sheet bear credit and counterparty risk.

| £'000 | Total credit and counterparty exposure | Assets that we deem to have no legal credit exposure | Note reference | Total balance sheet |
|---|---|---|---|---|
| **At 30 September 2016** | | | | |
| Cash and balances at central banks | 3 778 499 | 1 741 | | 3 780 240 |
| Loans and advances to banks | 1 262 188 | - | | 1 262 188 |
| Reverse repurchase agreements and cash collateral on securities borrowed | 521 751 | - | | 521 751 |
| Sovereign debt securities | 966 144 | - | | 966 144 |
| Bank debt securities | 185 546 | - | | 185 546 |
| Other debt securities | 440 685 | (4 072) | 2 | 436 613 |
| Derivative financial instruments | 735 286 | 244 682 | | 979 968 |
| Securities arising from trading activities | 327 526 | 142 892 | | 470 418 |
| Investment portfolio | - | 526 437 | 1 | 526 437 |
| Loans and advances to customers | 8 456 665 | (157 565) | 2 | 8 299 100 |
| Other loans and advances | 378 976 | 41 314 | | 420 290 |
| Other securitised assets | 13 721 | 129 690 | 3 | 143 411 |
| Interest in associated undertakings | - | 30 310 | | 30 310 |
| Deferred taxation assets | - | 71 795 | | 71 795 |
| Other assets | 317 878 | 1 419 957 | 4 | 1 737 835 |
| Property and equipment | - | 58 026 | | 58 026 |
| Investment properties | - | - | | - |
| Goodwill | - | 358 141 | | 358 141 |
| Intangible assets | - | 117 702 | | 117 702 |
| **Total on-balance sheet exposures** | **17 384 865** | **2 981 050** | | **20 365 915** |
| | | | | |
| **At 31 March 2016** | | | | |
| Cash and balances at central banks | 2 636 837 | 1 232 | | 2 638 069 |
| Loans and advances to banks | 1 112 441 | - | | 1 112 441 |
| Reverse repurchase agreements and cash collateral on securities borrowed | 557 025 | - | | 557 025 |
| Sovereign debt securities | 1 252 991 | - | | 1 252 991 |
| Bank debt securities | 188 397 | - | | 188 397 |
| Other debt securities | 393 652 | - | | 393 652 |
| Derivative financial instruments | 572 324 | 265 234 | | 837 558 |
| Securities arising from trading activities | 393 964 | 130 380 | | 524 344 |
| Investment portfolio | - | 451 000 | 1 | 451 000 |
| Loans and advances to customers | 7 946 793 | (143 191) | 2 | 7 803 602 |
| Other loans and advances | 331 617 | 85 588 | | 417 205 |
| Other securitised assets | 11 341 | 139 224 | 3 | 150 565 |
| Interest in associated undertakings | - | 23 587 | | 23 587 |
| Deferred taxation assets | - | 85 050 | | 85 050 |
| Other assets | 397 409 | 1 307 794 | 4 | 1 705 203 |
| Property and equipment | - | 56 374 | | 56 374 |
| Investment properties | - | 79 051 | | 79 051 |
| Goodwill | - | 356 994 | | 356 994 |
| Intangible assets | - | 123 480 | | 123 480 |
| **Total on-balance sheet exposures** | **15 794 791** | **2 961 797** | | **18 756 588** |

*1. Relates to exposures that are classified as investment risk in the banking book.*
*2. Largely relates to impairments.*
*3. While the group manages all risks (including credit risk) from a day-to-day operational perspective, certain of these assets are within special purpose vehicles that ring-fence the assets to specific credit providers and limit security to the assets in the vehicle. The table above reflects the net credit exposure in the vehicles that the group has reflected in the 'total credit and counterparty exposure' with the maximum credit exposure referenced to credit providers external to the group in the column headed 'assets that we deem to have no legal credit exposure'.*
*4. Other assets include settlement debtors less than 2 days which we deem to have no credit risk exposure as they are settled on a delivery against payment basis.*

## Risk management

### Gross credit counterparty exposures by residual contractual maturity at 30 September 2016

| £'000 | Up to three months | Three to six months | Six months to one year | One to five years | Five to 10 years | >10 years | Total |
|---|---|---|---|---|---|---|---|
| Cash and balances at central banks | 3 778 499 | - | - | - | - | - | 3 778 499 |
| Loans and advances to banks | 1 258 815 | 3 130 | 227 | 16 | - | - | 1 262 188 |
| Reverse repurchase agreements and cash collateral on securities borrowed | 521 751 | - | - | - | - | - | 521 751 |
| Sovereign debt securities | 660 147 | 150 316 | 8 836 | - | - | 146 845 | 966 144 |
| Bank debt securities | 45 | 9 389 | 20 000 | 156 112 | - | - | 185 546 |
| Other debt securities (gross) | 3 099 | 448 | 11 929 | 108 771 | 57 709 | 258 729 | 440 685 |
| Derivative financial instruments | 137 453 | 70 071 | 110 592 | 158 345 | 161 054 | 97 771 | 735 286 |
| Securities arising from trading activities | 17 831 | - | 9 555 | 106 370 | 84 275 | 109 495 | 327 526 |
| Loans and advances to customers (gross) | 1 350 059 | 852 753 | 999 733 | 3 921 278 | 933 694 | 399 148 | 8 456 665 |
| Other loans and advances (gross) | 1 777 | 263 | 3 110 | 40 145 | 48 852 | 284 829 | 378 976 |
| Other securitised assets (gross) | - | - | - | - | - | 13 721 | 13 721 |
| Other assets | 317 878 | - | - | - | - | - | 317 878 |
| **Total on-balance sheet exposures** | **8 047 354** | **1 086 370** | **1 163 982** | **4 491 037** | **1 285 584** | **1 310 538** | **17 384 865** |
| Guarantees^ | 16 751 | 2 468 | 214 | 2 209 | - | - | 21 642 |
| Contingent liabilities, committed facilities and other | 377 743 | 202 620 | 215 108 | 680 597 | 56 645 | 7 374 | 1 540 087 |
| **Total off-balance sheet exposures** | **394 494** | **205 088** | **215 322** | **682 806** | **56 645** | **7 374** | **1 561 729** |
| **Total gross credit and counterparty exposures pre-collateral or other credit enhancements** | **8 441 848** | **1 291 458** | **1 379 304** | **5 173 843** | **1 342 229** | **1 317 912** | **18 946 594** |

*^ Excludes guarantees provided to clients which are backed/secured by cash on deposit with the bank.*

## Risk management

### An analysis of gross credit and counterparty exposure by industry

Corporate client loans account for 57.3% of total core loans and advances and are well diversified across various industries. A more detailed analysis of the corporate client loan portfolio is provided further on. The remainder of core loans and advances largely relate to private client lending, as represented by the industry classification 'HNW and professional individuals' as well as 'lending collateralised by property'. A more detailed analysis of the private client loan portfolio is provided further on.

| | Gross core loans and advances | | Other credit and counterparty exposures | | Total | |
|---|---|---|---|---|---|---|
| **£'000** | **30 Sept 2016** | **31 March 2016** | **30 Sept 2016** | **31 March 2016** | **30 Sept 2016** | **31 March 2016** |
| High net worth and professional individuals | 1 557 067 | 1 458 552 | 185 309 | 146 028 | 1 742 376 | 1 604 580 |
| Lending collateralised by property - largely to private clients | 2 053 019 | 2 179 999 | 270 142 | 245 020 | 2 323 161 | 2 425 019 |
| Agriculture | 3 636 | 3 234 | 499 | 53 | 4 135 | 3 287 |
| Electricity, gas and water (utility services) | 606 339 | 440 728 | 397 958 | 340 167 | 1 004 297 | 780 895 |
| Public and non-business services | 175 014 | 134 917 | 4 928 656 | 4 120 421 | 5 103 670 | 4 255 338 |
| Business services | 489 547 | 415 673 | 111 033 | 102 227 | 600 580 | 517 900 |
| Finance and insurance | 1 123 732 | 971 773 | 3 476 621 | 3 232 185 | 4 600 353 | 4 203 958 |
| Retailers and wholesalers | 390 607 | 398 288 | 118 228 | 130 328 | 508 835 | 528 616 |
| Manufacturing and commerce | 540 221 | 497 214 | 170 999 | 121 571 | 711 220 | 618 785 |
| Construction | 46 048 | 41,049 | 1 890 | 1 803 | 47 938 | 42 852 |
| Corporate commercial real estate | 118 893 | 115 241 | 45 836 | 36 469 | 164 729 | 151 710 |
| Other residential mortgages | - | - | 365 170 | 318 167 | 365 170 | 318 167 |
| Mining and resources | 115 314 | 139 621 | 168 946 | 160 615 | 284 260 | 300 236 |
| Leisure, entertainment and tourism | 267 494 | 227 573 | 32 979 | 35 738 | 300 473 | 263 311 |
| Transport | 793 061 | 762 899 | 174 059 | 104 676 | 967 120 | 867 575 |
| Communication | 176 673 | 160 032 | 41 604 | 30 954 | 218 277 | 190 986 |
| **Total** | **8 456 665** | **7 946 793** | **10 489 929** | **9 126 422** | **18 946 594** | **17 073 215** |

Risk management

Detailed analysis of gross credit and counterparty exposure by industry

| £'000 | HNW and professional individuals | Lending collateralised by property - largely to private clients | Agriculture | Electricity, gas and water (utility services) | Public and non-business services | Business services | Finance and insurance | Retailers and wholesalers |
|---|---|---|---|---|---|---|---|---|
| **At 30 September 2016** | | | | | | | | |
| Cash and balances at central banks | - | - | - | - | 3 778 499 | - | - | - |
| Loans and advances to banks | - | - | - | - | - | - | 1 262 188 | - |
| Reverse repurchase agreements and cash collateral on securities borrowed | - | - | - | - | - | - | 521 751 | - |
| Sovereign debt securities | - | - | - | - | 966 144 | - | - | - |
| Bank debt securities | - | - | - | - | - | - | 185 546 | - |
| Other debt securities (gross) | - | - | - | 38 313 | 6 980 | 3 597 | 116 243 | - |
| Derivative financial instruments | 12 529 | - | 499 | 65 542 | 239 | 38 688 | 468 180 | 23 876 |
| Securities arising from trading activities | - | - | - | 33 747 | 100 388 | - | 173 974 | 39 |
| Loans and advances to customers (gross) | 1 557 067 | 2 053 019 | 3 636 | 606 339 | 175 014 | 489 547 | 1 123 732 | 390 607 |
| Other loans and advances (gross) | - | - | - | - | - | - | 152 488 | - |
| Other securitised assets (gross) | - | - | - | - | - | - | - | - |
| Other assets | - | - | - | - | - | - | 317 878 | - |
| **Total on-balance sheet exposures** | **1 569 596** | **2 053 019** | **4 135** | **743 941** | **5 027 264** | **531 832** | **4 321 980** | **414 522** |
| Guarantees^ | 18 960 | - | - | - | - | - | - | 605 |
| Contingent liabilities, committed facilities and other | 153 820 | 270 142 | - | 260 356 | 76 406 | 68 748 | 278 373 | 93 708 |
| **Total off-balance sheet exposures** | **172 780** | **270 142** | **-** | **260 356** | **76 406** | **68 748** | **278 373** | **94 313** |
| **Total gross credit and counterparty exposures pre-collateral or other credit enhancements** | **1 742 376** | **2 323 161** | **4 135** | **1 004 297** | **5 103 670** | **600 580** | **4 600 353** | **508 835** |

*^ Excludes guarantees provided to clients which are backed/secured by cash on deposit with the bank.*

| £'000 | Manufacturing and commerce | Construction | Corporate commercial real estate | Other residential mortgages | Mining and resources | Leisure, entertainment and tourism | Transport | Communication | Total |
|---|---|---|---|---|---|---|---|---|---|
| **At 30 September 2016** | | | | | | | | | |
| Cash and balances at central banks | - | - | - | - | - | - | - | - | 3 778 499 |
| Loans and advances to banks | - | - | - | - | - | - | - | - | 1 262 188 |
| Reverse repurchase agreements and cash collateral on securities borrowed | - | - | - | - | - | - | - | - | 521 751 |
| Sovereign debt securities | - | - | - | - | - | - | - | - | 966 144 |
| Bank debt securities | - | - | - | - | - | - | - | - | 185 546 |
| Other debt securities (gross) | 42 702 | - | - | 125 048 | 54 942 | 4 372 | 39 206 | 9 282 | 440 685 |
| Derivative financial instruments | 66 206 | 1 890 | 1 899 | - | 24 270 | 12 927 | 14 369 | 4 172 | 735 286 |
| Securities arising from trading activities | 1 793 | - | 882 | - | 761 | 172 | 2 | 15 768 | 327 526 |
| Loans and advances to customers (gross) | 540 221 | 46 048 | 118 893 | - | 115 314 | 267 494 | 793 061 | 176 673 | 8 456 665 |
| Other loans and advances (gross) | - | - | 87 | 226 401 | - | - | - | - | 378 976 |
| Other securitised assets (gross) | - | - | - | 13 721 | - | - | - | - | 13 721 |
| Other assets | - | - | - | - | - | - | - | - | 317 878 |
| **Total on-balance sheet exposures** | **650 922** | **47 938** | **121 761** | **365 170** | **195 287** | **284 965** | **846 638** | **205 895** | **17 384 865** |
| Guarantees^ | - | - | - | - | 1 863 | - | - | 214 | 21 642 |
| Contingent liabilities, committed facilities and other | 60 298 | - | 42 968 | - | 87 110 | 15 508 | 120 482 | 12 168 | 1 540 087 |
| **Total off-balance sheet exposures** | **60 298** | **-** | **42 968** | **-** | **88 973** | **15 508** | **120 482** | **12 382** | **1 561 729** |
| **Total gross credit and counterparty exposures pre-collateral or other credit enhancements** | **711 220** | **47 938** | **164 729** | **365 170** | **284 260** | **300 473** | **967 120** | **218 277** | **18 946 594** |

*^ Excludes guarantees provided to clients which are backed/secured by cash on deposit with the bank.*

## Risk management

### Detailed analysis of gross credit and counterparty exposure by industry

| £'000 | HNW and professional individuals | Lending collateralised by property - largely to private clients | Agriculture | Electricity, gas and water (utility services) | Public and non-business services | Business services | Finance and insurance | Retailers and wholesalers |
|---|---|---|---|---|---|---|---|---|
| **At 31 March 2016** | | | | | | | | |
| Cash and balances at central banks | - | - | - | - | 2 636 837 | - | - | - |
| Loans and advances to banks | - | - | - | - | - | - | 1 112 441 | - |
| Reverse repurchase agreements and cash collateral on securities borrowed | - | - | - | - | - | - | 557 025 | - |
| Sovereign debt securities | - | - | - | - | 1 252 991 | - | - | - |
| Bank debt securities | - | - | - | - | - | - | 188 397 | - |
| Other debt securities (gross) | - | - | - | 36 787 | 6 429 | 3 382 | 101 474 | - |
| Derivative financial instruments | 53 | - | 53 | 45 174 | 19 947 | 63 632 | 317 338 | 26 033 |
| Securities arising from trading activities | - | - | - | 24 606 | 198 181 | - | 156 639 | 35 |
| Loans and advances to customers (gross) | 1 458 552 | 2 179 999 | 3 234 | 440 728 | 134 917 | 415 673 | 971 773 | 398 288 |
| Other loans and advances (gross) | - | - | - | - | - | - | 130 952 | - |
| Other securitised assets (gross) | - | - | - | - | - | - | - | - |
| Other assets | - | - | - | - | - | - | 397 409 | - |
| **Total on-balance sheet exposures** | **1 458 605** | **2 179 999** | **3 287** | **547 295** | **4 249 302** | **482 687** | **3 933 448** | **424 356** |
| Guarantees^ | 36 494 | - | - | - | - | - | 30 155 | 605 |
| Contingent liabilities, committed facilities and other | 109 481 | 245 020 | - | 233 600 | 6 036 | 35 213 | 240 355 | 103 655 |
| **Total off-balance sheet exposures** | **145 975** | **245 020** | **-** | **233 600** | **6 036** | **35 213** | **270 510** | **104 260** |
| **Total gross credit and counterparty exposures pre-collateral or other credit enhancements** | **1 604 580** | **2 425 019** | **3 287** | **780 895** | **4 255 338** | **517 900** | **4 203 958** | **528 616** |

*^ Excludes guarantees provided to clients which are backed/secured by cash on deposit with the bank.*

| £'000 | Manufacturing and commerce | Construction | Corporate commercial real estate | Other residential mortgages | Mining and resources | Leisure, entertainment and tourism | Transport | Communication | Total |
|---|---|---|---|---|---|---|---|---|---|
| **At 31 March 2016** | | | | | | | | | |
| Cash and balances at central banks | - | - | - | - | - | - | - | - | 2 636 837 |
| Loans and advances to banks | - | - | - | - | - | - | - | - | 1 112 441 |
| Reverse repurchase agreements and cash collateral on securities borrowed | - | - | - | - | - | - | - | - | 557 025 |
| Sovereign debt securities | - | - | - | - | - | - | - | - | 1 252 991 |
| Bank debt securities | - | - | - | - | - | - | - | - | 188 397 |
| Other debt securities (gross) | 29 581 | - | - | 106 246 | 65 939 | 4 017 | 26 914 | 12 883 | 393 652 |
| Derivative financial instruments | 49 147 | 1 803 | 1 489 | - | 9 474 | 16 424 | 18 682 | 3 075 | 572 324 |
| Securities arising from trading activities | 1 738 | - | 781 | - | - | 1 093 | 2 | 10 889 | 393 964 |
| Loans and advances to customers (gross) | 497 214 | 41 049 | 115 241 | - | 139 621 | 227 573 | 762 899 | 160 032 | 7 946 793 |
| Other loans and advances (gross) | - | - | 85 | 200 580 | - | - | - | - | 331 617 |
| Other securitised assets (gross) | - | - | - | 11 341 | - | - | - | - | 11 341 |
| Other assets | - | - | - | - | - | - | - | - | 397 409 |
| **Total on-balance sheet exposures** | **577 680** | **42 852** | **117 596** | **318 167** | **215 034** | **249 107** | **808 497** | **186 879** | **15 794 791** |
| Guarantees^ | - | - | - | - | 1 684 | - | - | - | 68 938 |
| Contingent liabilities, committed facilities and other | 41 105 | - | 34 114 | - | 83 518 | 14 204 | 59 078 | 4 107 | 1 209 486 |
| **Total off-balance sheet exposures** | **41 105** | **-** | **34 114** | **-** | **85 202** | **14 204** | **59 078** | **4 107** | **1 278 424** |
| **Total gross credit and counterparty exposures pre-collateral or other credit enhancements** | **618 785** | **42 852** | **151 710** | **318 167** | **300 236** | **263 311** | **867 575** | **190 986** | **17 073 215** |

*^ Excludes guarantees provided to clients which are backed/secured by cash on deposit with the bank.*

## Risk management

### An analysis of our core loans and advances, asset quality and impairments

The tables that follow provide information with respect to the asset quality of our core loans and advances to customers.

| £'000 | 30 Sept 2016 | 31 March 2016 |
|---|---|---|
| **Gross core loans and advances to customers** | **8 456 665** | **7 946 793** |
| | | |
| **Total impairments** | **(157 565)** | **(143 191)** |
| Specific impairments | (125 654) | (121 791) |
| Portfolio impairments | (31 911) | (21 400) |
| **Net core loans and advances to customers** | **8 299 100** | **7 803 602** |
| | | |
| **Average gross core loans and advances to customers** | **8 201 729** | **7 598 177** |
| | | |
| Current loans and advances to customers | 8 089 845 | 7 561 596 |
| Past due loans and advances to customers (1 - 60 days) | 39 615 | 65 909 |
| Special mention loans and advances to customers | 14 985 | 5 354 |
| Default loans and advances to customers | 312 220 | 313 934 |
| **Gross core loans and advances to customers** | **8 456 665** | **7 946 793** |
| | | |
| Current loans and advances to customers | 8 089 845 | 7 561 596 |
| Default loans that are current and not impaired | 15 070 | 29 639 |
| Gross core loans and advances to customers that are past due but not impaired | 83 571 | 99 383 |
| Gross core loans and advances to customers that are impaired | 268 179 | 256 175 |
| **Gross core loans and advances to customers** | **8 456 665** | **7 946 793** |
| | | |
| **Total income statement charge for impairments on core loans and advances** | **(30 140)** | **(85 954)** |
| | | |
| Gross default loans and advances to customers | 312 220 | 313 934 |
| Specific impairments | (125 654) | (121 791) |
| Portfolio impairments | (31 911) | (21 400) |
| **Defaults net of impairments** | **154 655** | **170 743** |
| Aggregate collateral and other credit enhancements on defaults | 203 052 | 202 524 |
| **Net default loans and advances to customers (limited to zero)** | **-** | **-** |
| | | |
| **Ratios** | | |
| Total impairments as a % of gross core loans and advances to customers | 1.86% | 1.80% |
| Total impairments as a % of gross default loans | 50.47% | 45.61% |
| Gross defaults as a % of gross core loans and advances to customers | 3.69% | 3.95% |
| Defaults (net of impairments) as a % of net core loans and advances to customers | 1.86% | 2.19% |
| Net defaults as a % of net core loans and advances to customers | - | - |
| Annualised credit loss ratio (i.e. income statement impairment charge on core loans as a % of average gross core loans and advances) | 0.73% | 1.13% |

## Risk management

### An age analysis of past due and default core loans and advances to customers

| £'000 | 30 Sept 2016 | 31 March 2016 |
|---|---|---|
| Default loans that are current | 117 758 | 138 988 |
| 1 - 60 days | 61 774 | 80 758 |
| 61 - 90 days | 14 329 | 16 118 |
| 91 - 180 days | 49 944 | 43 284 |
| 181 - 365 days | 42 251 | 22 539 |
| > 365 days | 80 764 | 83 510 |
| **Past due and default core loans and advances to customers (actual capital exposure)** | **366 820** | **385 197** |
| | | |
| 1 - 60 days | 1 792 | 3 062 |
| 61 - 90 days | 904 | 210 |
| 91 - 180 days | 2 217 | 3 277 |
| 181 - 365 days | 8 095 | 7 859 |
| > 365 days | 75 805 | 74 064 |
| **Past due and default core loans and advances to customers (actual amount in arrears)** | **88 813** | **88 472** |

### A further age analysis of past due and default core loans and advances to customers

| £'000 | Current watchlist loans | 1 - 60 days | 61 - 90 days | 91 - 180 days | 181 - 365 days | > 365 days | Total |
|---|---|---|---|---|---|---|---|
| **At 30 September 2016** | | | | | | | |
| **Default loans that are current and not impaired** | | | | | | | |
| Total capital exposure | 15 070 | - | - | - | - | - | 15 070 |
| **Gross core loans and advances to customers that are past due but not impaired** | | | | | | | |
| Total capital exposure | - | 61 719 | 3 613 | 7 543 | 1 063 | 9 633 | 83 571 |
| Amount in arrears | - | 1 737 | 639 | 475 | 316 | 9 511 | 12 678 |
| **Gross core loans and advances to customers that are impaired** | | | | | | | |
| Total capital exposure | 102 688 | 55 | 10 716 | 42 401 | 41 188 | 71 131 | 268 179 |
| Amount in arrears | - | 55 | 265 | 1 742 | 7 779 | 66 294 | 76 135 |
| **At 31 March 2016** | | | | | | | |
| **Default loans that are current and not impaired** | | | | | | | |
| Total capital exposure | 29 639 | - | - | - | - | - | 29 639 |
| **Gross core loans and advances to customers that are past due but not impaired** | | | | | | | |
| Total capital exposure | - | 71 106 | 526 | 16 210 | 1 139 | 10 402 | 99 383 |
| Amount in arrears | - | 2 994 | 49 | 1 333 | 171 | 7 847 | 12 394 |
| **Gross core loans and advances to customers that are impaired** | | | | | | | |
| Total capital exposure | 109 349 | 9 652 | 15 592 | 27 074 | 21 400 | 73 108 | 256 175 |
| Amount in arrears | - | 68 | 161 | 1 944 | 7 688 | 66 217 | 76 078 |

## Risk management

### An age analysis of past due and default core loans and advances to customers at 30 September 2016 (based on total capital exposure)

| £'000 | Current watchlist loans | 1 - 60 days | 61 - 90 days | 91 - 180 days | 181 - 365 days | > 365 days | Total |
|---|---|---|---|---|---|---|---|
| **Past due (1 - 60 days)** | **-** | **39 615** | **-** | **-** | **-** | **-** | **39 615** |
| **Special mention** | **-** | **11 372** | **3 613** | **-** | **-** | **-** | **14 985** |
| Special mention (1 - 90 days) | - | 11 372 | 2 481 | - | - | - | 13 853 |
| Special mention (61 - 90 days and item well secured) | - | - | 1 132 | - | - | - | 1 132 |
| **Default** | **117 758** | **10 787** | **10 716** | **49 944** | **42 251** | **80 764** | **312 220** |
| Sub-standard | 59 164 | 10 787 | 10 495 | 27 100 | 12 490 | 55 788 | 175 824 |
| Doubtful | 53 006 | - | 33 | 21 768 | 28 408 | 5 986 | 109 201 |
| Loss | 5 588 | - | 188 | 1 076 | 1 353 | 18 990 | 27 195 |
| **Total** | **117 758** | **61 774** | **14 329** | **49 944** | **42 251** | **80 764** | **366 820** |

### An age analysis of past due and default core loans and advances to customers at 30 September 2016 (based on actual amount in arrears)

| £'000 | Current watchlist loans | 1 - 60 days | 61 - 90 days | 91 - 180 days | 181 - 365 days | > 365 days | Total |
|---|---|---|---|---|---|---|---|
| **Past due (1 - 60 days)** | **-** | **832** | **-** | **-** | **-** | **-** | **832** |
| **Special mention** | **-** | **840** | **640** | **-** | **-** | **-** | **1 480** |
| Special mention (1 - 90 days) | - | 840 | 570 | - | - | - | 1 410 |
| Special mention (61 - 90 days and item well secured) | - | - | 70 | - | - | - | 70 |
| **Default** | **-** | **120** | **264** | **2 217** | **8 095** | **75 805** | **86 501** |
| Sub-standard | - | 120 | 43 | 602 | 3 969 | 50 841 | 55 575 |
| Doubtful | - | - | 33 | 540 | 2 773 | 5 986 | 9 332 |
| Loss | - | - | 188 | 1 075 | 1 353 | 18 978 | 21 594 |
| **Total** | **-** | **1 792** | **904** | **2 217** | **8 095** | **75 805** | **88 813** |

### An age analysis past due and default core loans and advances to customers at 31 March 2016 (based on total capital exposure)

| £'000 | Current watchlist loans | 1 - 60 days | 61 - 90 days | 91 - 180 days | 181 - 365 days | > 365 days | Total |
|---|---|---|---|---|---|---|---|
| **Past due (1 - 60 days)** | **-** | **65 909** | **-** | **-** | **-** | **-** | **65 909** |
| **Special mention** | **-** | **4 828** | **526** | **-** | **-** | **-** | **5 354** |
| Special mention (1 - 90 days) | - | 4 828 | - | - | - | - | 4 828 |
| Special mention (61 - 90 days and item well secured) | - | - | 526 | - | - | - | 526 |
| **Default** | **138 988** | **10 021** | **15 592** | **43 284** | **22 539** | **83 510** | **313 934** |
| Sub-standard | 72 254 | 369 | 3 828 | 23 327 | 6 361 | 58 079 | 164 218 |
| Doubtful | 65 328 | 9 652 | 11 755 | 18 950 | 15 413 | 4 352 | 125 450 |
| Loss | 1 406 | - | 9 | 1 007 | 765 | 21 079 | 24 266 |
| **Total** | **138 988** | **80 758** | **16 118** | **43 284** | **22 539** | **83 510** | **385 197** |

### An age analysis of past due and default core loans and advances to customers at 31 March 2016 (based on actual amount in arrears)

| £'000 | Current watchlist loans | 1 - 60 days | 61 - 90 days | 91 - 180 days | 181 - 365 days | > 365 days | Total |
|---|---|---|---|---|---|---|---|
| **Past due (1 - 60 days)** | **-** | **2 988** | **-** | **-** | **-** | **-** | **2 988** |
| **Special mention** | **-** | **6** | **49** | **-** | **-** | **-** | **55** |
| Special mention (1 - 90 days) | - | 6 | - | - | - | - | 6 |
| Special mention (61 - 90 days and item well secured) | - | - | 49 | - | - | - | 49 |
| **Default** | **-** | **68** | **161** | **3 277** | **7 859** | **74 064** | **85 429** |
| Sub-standard | - | 1 | 39 | 1 383 | 3 343 | 48 662 | 53 428 |
| Doubtful | - | 67 | 114 | 887 | 3 751 | 4 352 | 9 171 |
| Loss | - | - | 8 | 1 007 | 765 | 21 050 | 22 830 |
| **Total** | **-** | **3 062** | **210** | **3 277** | **7 859** | **74 064** | **88 472** |

## Risk management

### An analysis of core loans and advances to customers

| £'000 | Gross core loans and advances neither past due nor impaired | Gross core loans and advances that are past due but not impaired | Gross core loans and advances that are impaired | Total gross core loans and advances (actual capital exposure) | Specific impairments | Portfolio impairments | Total net core loans and advances (actual capital exposure) | Actual amount in arrears |
|---|---|---|---|---|---|---|---|---|
| **At 30 September 2016** | | | | | | | | |
| **Current core loans and advances** | **8 089 845** | **-** | **-** | **8 089 845** | **-** | **(31 911)** | **8 057 934** | **-** |
| **Past due (1 - 60 days)** | **-** | **39 615** | **-** | **39 615** | **-** | **-** | **39 615** | **832** |
| **Special mention** | **-** | **14 985** | **-** | **14 985** | **-** | **-** | **14 985** | **1 480** |
| Special mention (1 - 90 days) | - | 13 853 | - | 13 853 | - | - | 13 853 | 1 410 |
| Special mention (61 - 90 days and item well secured) | - | 1 132 | - | 1 132 | - | - | 1 132 | 70 |
| **Default** | **15 070** | **28 971** | **268 179** | **312 220** | **(125 654)** | **-** | **186 566** | **86 501** |
| Sub-standard | 15 070 | 28 971 | 131 783 | 175 824 | (42 406) | - | 133 418 | 55 575 |
| Doubtful | - | - | 109 201 | 109 201 | (60 432) | - | 48 769 | 9 332 |
| Loss | - | - | 27 195 | 27 195 | (22 816) | - | 4 379 | 21 594 |
| **Total** | **8 104 915** | **83 571** | **268 179** | **8 456 665** | **(125 654)** | **(31 911)** | **8 299 100** | **88 813** |
| | | | | | | | | |
| **At 31 March 2016** | | | | | | | | |
| **Current core loans and advances** | **7 561 596** | **-** | **-** | **7 561 596** | **-** | **(21 400)** | **7 540 196** | **-** |
| **Past due (1 - 60 days)** | **-** | **65 909** | **-** | **65 909** | **-** | **-** | **65 909** | **2 988** |
| **Special mention** | **-** | **5 354** | **-** | **5 354** | **-** | **-** | **5 354** | **55** |
| Special mention (1 - 90 days) | - | 4 828 | - | 4 828 | - | - | 4 828 | 6 |
| Special mention (61 - 90 days and item well secured) | - | 526 | - | 526 | - | - | 526 | 49 |
| **Default** | **29 639** | **28 120** | **256 175** | **313 934** | **(121 791)** | **-** | **192 143** | **85 429** |
| Sub-standard | 29 639 | 28 120 | 106 459 | 164 218 | (32 379) | - | 131 839 | 53 428 |
| Doubtful | - | - | 125 450 | 125 450 | (69 827) | - | 55 623 | 9 171 |
| Loss | - | - | 24 266 | 24 266 | (19 585) | - | 4 681 | 22 830 |
| **Total** | **7 591 235** | **99 383** | **256 175** | **7 946 793** | **(121 791)** | **(21 400)** | **7 803 602** | **88 472** |

## Risk management

### An analysis of core loans and advances to customers and impairments by counterparty type

| £'000 | Private client, professional and high net worth individuals | Corporate sector | Insurance, financial services (excluding sovereign) | Public and government sector (including central banks) | Trade finance and other | Total core loans and advances to customers |
|---|---|---|---|---|---|---|
| **At 30 September 2016** | | | | | | |
| **Current core loans and advances** | **3 280 759** | **3 483 996** | **1 123 167** | **172 795** | **29 128** | **8 089 845** |
| **Past due (1 - 60 days)** | **34 683** | **3 456** | **367** | **1 109** | **-** | **39 615** |
| **Special mention** | **14 375** | **460** | **-** | **150** | **-** | **14 985** |
| Special mention (1 - 90 days) | 13 853 | - | - | - | - | 13 853 |
| Special mention (61 - 90 days and item well secured) | 522 | 460 | - | 150 | - | 1 132 |
| **Default** | **280 269** | **30 793** | **198** | **960** | **-** | **312 220** |
| Sub-standard | 154 801 | 20 757 | - | 266 | - | 175 824 |
| Doubtful | 102 151 | 6 772 | 123 | 155 | - | 109 201 |
| Loss | 23 317 | 3 264 | 75 | 539 | - | 27 195 |
| **Total gross core loans and advances to customers** | **3 610 086** | **3 518 705** | **1 123 732** | **175 014** | **29 128** | **8 456 665** |
| | | | | | | |
| **Total impairments** | **(139 620)** | **(17 153)** | **(136)** | **(656)** | **-** | **(157 565)** |
| Specific impairments | (107 709) | (17 153) | (136) | (656) | - | (125 654) |
| Portfolio impairments | (31 911) | - | - | - | | (31 911) |
| **Net core loans and advances to customers** | **3 470 466** | **3 501 552** | **1 123 596** | **174 358** | **29 128** | **8 299 100** |
| | | | | | | |
| **At 31 March 2016** | | | | | | |
| **Current core loans and advances** | **3 296 034** | **3 140 362** | **971 565** | **131 448** | **22 187** | **7 561 596** |
| **Past due (1 - 60 days)** | **53 707** | **10 833** | **41** | **1 299** | **29** | **65 909** |
| **Special mention** | **4 995** | **211** | **2** | **146** | **-** | **5 354** |
| Special mention (1 - 90 days) | 4 828 | - | - | - | - | 4 828 |
| Special mention (61 - 90 days and item well secured) | 167 | 211 | 2 | 146 | - | 526 |
| **Default** | **283 815** | **27 930** | **165** | **2 024** | **-** | **313 934** |
| Sub-standard | 144 030 | 18 786 | 2 | 1 400 | - | 164 218 |
| Doubtful | 118 168 | 6 910 | 122 | 250 | - | 125 450 |
| Loss | 21 617 | 2 234 | 41 | 374 | - | 24 266 |
| **Total gross core loans and advances to customers** | **3 638 551** | **3 179 336** | **971 773** | **134 917** | **22 216** | **7 946 793** |
| | | | | | | |
| **Total impairments** | **(128 224)** | **(14 357)** | **( 102)** | **(508)** | **-** | **(143 191)** |
| Specific impairments | (106 824) | (14 357) | (102) | (508) | - | (121 791) |
| Portfolio impairments | (21 400) | - | - | - | - | (21 400) |
| **Net core loans and advances to customers** | **3 510 327** | **3 164 979** | **971 671** | **134 409** | **22 216** | **7 803 602** |

## Risk management

### An analysis of core loans and advances by risk category at 30 September 2016

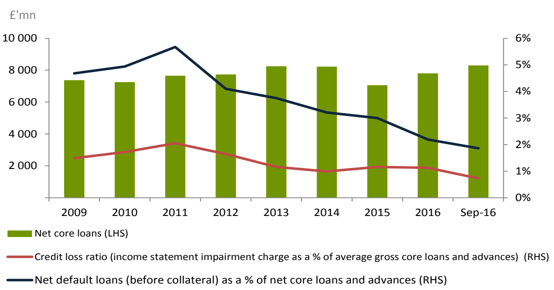
| £'000 | Gross core loans | Gross defaults | Aggregate collateral and other credit enhancements on defaults | Balance sheet impairments | Income statement impairments^ |
|---|---|---|---|---|---|
| **Lending collateralised by property** | **2 053 019** | **254 709** | **154 689** | **(101 353)** | **(17 902)** |
| **Commercial real estate** | **1 210 805** | **101 938** | **58 845** | **(43 308)** | **(8 406)** |
| Commercial real estate - investment | 977 476 | 53 763 | 36 449 | (17 344) | (8 556) |
| Commercial real estate - development | 127 547 | 11 252 | 3 762 | (7 491) | (5) |
| Commercial vacant land and planning | 105 782 | 36 923 | 18 634 | (18 473) | 155 |
| **Residential real estate** | **842 214** | **152 771** | **95 844** | **(58 045)** | **(9 496)** |
| Residential real estate - investment | 295 929 | 69 139 | 45 767 | (23 401) | (7 987) |
| Residential real estate - development | 496 845 | 55 115 | 29 162 | (25 953) | (1 203) |
| Residential vacant land and planning | 49 440 | 28 517 | 20 915 | (8 691) | ( 306) |
| **High net worth and other private client lending** | **1 557 067** | **25 560** | **34 357** | **(6 356)** | **21** |
| Mortgages | 1 161 400 | 10 440 | 23 598 | ( 658) | ( 59) |
| High net worth and specialised lending | 395 667 | 15 120 | 10 759 | (5 698) | 80 |
| **Corporate and other lending** | **4 846 579** | **31 951** | **14 006** | **(17 945)** | **(1 834)** |
| Acquisition finance | 1 068 688 | - | - | - | 943 |
| Asset-based lending | 320 598 | - | - | - | - |
| Fund finance | 752 077 | - | - | - | - |
| Other corporate and financial institutions and governments | 696 278 | - | - | - | - |
| Asset finance | 1 358 657 | 12 351 | 4 492 | (7 859) | (2 683) |
| Small ticket asset finance | 1 012 057 | 12 351 | 4 492 | (7 859) | (2 683) |
| Large ticket asset finance | 346 600 | - | - | - | - |
| Project finance | 629 907 | 3 801 | 3 707 | ( 94) | ( 94) |
| Resource finance | 20 374 | 15 799 | 5 807 | (9 992) | - |
| **Portfolio impairments** | | | | **(31 911)** | **(10 425)** |
| **Total** | **8 456 665** | **312 220** | **203 052** | **(157 565)** | **(30 140)** |

### An analysis of core loans and advances by risk category at 31 March 2016

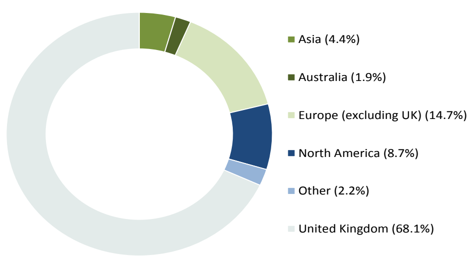
| £'000 | Gross core loans | Gross defaults | Aggregate collateral and other credit enhancements on defaults | Balance sheet impairments | Income statement impairments^ |
|---|---|---|---|---|---|
| **Lending collateralised by property** | **2 179 999** | **264 283** | **168 722** | **(101 064)** | **(75 732)** |
| **Commercial real estate** | **1 314 745** | **108 746** | **64 068** | **(45 030)** | **(32 441)** |
| Commercial real estate - investment | 1 096 376 | 61 090 | 43 958 | (17 151) | (21 155) |
| Commercial real estate - development | 109 086 | 11 138 | 3 647 | (7 491) | ( 634) |
| Commercial vacant land and planning | 109 283 | 36 518 | 16 463 | (20 388) | (10 652) |
| **Residential real estate** | **865 254** | **155 537** | **104 654** | **(56 034)** | **(43 291)** |
| Residential real estate - investment | 298 740 | 72 449 | 55 151 | (20 907) | (13 353) |
| Residential real estate - development | 516 352 | 56 651 | 30 390 | (26 854) | (24 747) |
| Residential vacant land and planning | 50 162 | 26 437 | 19 113 | (8 273) | (5 191) |
| **High net worth and other private client lending** | **1 458 552** | **19 532** | **18 650** | **(5 760)** | **(8 194)** |
| Mortgages | 1 146 241 | 4 307 | 7 489 | (600) | (49) |
| High net worth and specialised lending | 312 311 | 15 225 | 11 161 | (5 160) | (8 145) |
| **Corporate and other lending** | **4 308 242** | **30 119** | **15 152** | **(14 967)** | **(14 810)** |
| Acquisition finance | 899 190 | - | - | - | (1 284) |
| Asset-based lending | 296 389 | - | - | - | - |
| Fund finance | 673 379 | - | - | - | - |
| Other corporate and financial institutions and governments | 766 815 | - | - | - | - |
| Asset finance | 1 205 400 | 11 891 | 5 961 | (5 930) | (4 223) |
| Small ticket asset finance | 932 865 | 11 891 | 5 961 | (5 930) | (4 223) |
| Large ticket asset finance | 272 535 | - | - | - | - |
| Project finance | 449 266 | 3 708 | 3 708 | - | (2699) |
| Resource finance | 17 803 | 14 520 | 5 483 | (9 037) | (6 604) |
| **Portfolio impairments** | | | | **(21 400)** | **12 782** |
| **Total** | **7 946 793** | **313 934** | **202 524** | **(143 191)** | **(85 954)** |

*^ Where a positive number represents a recovery.*

### Asset quality trends




### An analysis of gross core loans and advances to customers by country of exposure



## Risk management

### Collateral

**A summary of total collateral is provided in the table below**

| £'000 | Collateral held against: Core loans and advances | Collateral held against: Other credit and counterparty exposures* | Total |
|---|---|---|---|
| **At 30 September 2016** | | | |
| **Eligible financial collateral** | **455 581** | **618 919** | **1 074 500** |
| Listed shares | 393 768 | 83 968 | 477 736 |
| Cash | 61 813 | 144 682 | 206 495 |
| Debt securities issued by sovereigns | - | 390 269 | 390 269 |
| **Property charge** | **5 040 583** | **200 509** | **5 241 092** |
| Residential property | 2 504 133 | 200 509 | 2 704 642 |
| Residential development | 880 985 | - | 880 985 |
| Commercial property developments | 275 643 | - | 275 643 |
| Commercial property investments | 1 379 822 | - | 1 379 822 |
| **Other collateral** | **4 740 638** | **153 846** | **4 894 484** |
| Unlisted shares | 674 610 | - | 674 610 |
| Charges other than property | 41 044 | 153 846 | 194 890 |
| Debtors, stock and other corporate assets | 3 128 150 | - | 3 128 150 |
| Guarantees | 675 075 | - | 675 075 |
| Other | 221 759 | - | 221 759 |
| **Total collateral** | **10 236 802** | **973 274** | **11 210 076** |
| | | | |
| **At 31 March 2016** | | | |
| **Eligible financial collateral** | **313 156** | **399 786** | **712 942** |
| Listed shares | 242 551 | 76 126 | 318 677 |
| Cash | 70 605 | 109 180 | 179 785 |
| Debt securities issued by sovereigns | - | 214 480 | 214 480 |
| **Property charge** | **4 940 344** | **209 478** | **5 149 822** |
| Residential property | 2 457 252 | 209 478 | 2 666 730 |
| Residential development | 780 534 | - | 780 534 |
| Commercial property developments | 187 484 | - | 187 484 |
| Commercial property investments | 1 515 074 | - | 1 515 074 |
| **Other collateral** | **4 269 427** | **135 508** | **4 404 935** |
| Unlisted shares | 682 021 | - | 682 021 |
| Charges other than property | 34 404 | 135 508 | 169 912 |
| Debtors, stock and other corporate assets | 2 727 354 | - | 2 727 354 |
| Guarantees | 650 988 | - | 650 988 |
| Other | 174 660 | - | 174 660 |
| **Total collateral** | **9 522 927** | **744 772** | **10 267 699** |

** A large percentage of these exposures (e.g. bank placements) are to highly rated financial institutions where limited collateral would be required due to the nature of the exposure.*

## Risk management

### Investment risk in the banking book

Investment risk in the banking book arises primarily from the following activities conducted within the group:

• **Principal Investments:** investments are selected based on the track record of management, the attractiveness of the industry and the ability to build value for the existing business by implementing an agreed strategy. Investments in listed shares may arise on the IPO of one of our investments. Additionally, listed investments may be considered where we believe that the market is mispricing the underlying security or where there is an opportunity to stimulate corporate activity.

• **Lending transactions:** the manner in which we structure certain transactions results in equity, warrant and profit shares being held, predominantly within unlisted companies.

• **Property activities:** we source development, investment and trading opportunities to create value and trade for profit within agreed risk parameters.

#### Valuation and accounting methodologies

The table below provides an analysis of income and revaluations recorded with respect to these investments.

| | Income/(loss) (pre funding costs) | | | | |
|---|---|---|---|---|---|
| **Category £'000** | **Unrealised*** | **Realised*** | **Dividends** | **Total** | **Fair value through equity** |
| **For the six months to 30 September 2016** | | | | | |
| Unlisted investments | 11 121 | 10 470 | 7 281 | 28 872 | 408 |
| Listed equities | (13 926) | - | 1 272 | (12 654) | (1 198) |
| Investment and trading properties | (12 578) | 18 616 | - | 6 038 | - |
| Warrants, profit shares and other embedded derivatives | (3 994) | - | - | (3 994) | - |
| **Total** | **(19 377)** | **29 086** | **8 553** | **18 262** | **(790)** |
| **For the year ended 31 March 2016** | | | | | |
| Unlisted investments | 15 674 | 14 099 | 15 419 | 45 192 | 12 |
| Listed equities | 2 340 | (7 249) | - | (4 909) | 1 499 |
| Investment and trading properties | (3 145) | 2 364 | - | (781) | - |
| Warrants, profit shares and other embedded derivatives | (2 452) | 3 469 | - | 1 017 | - |
| **Total** | **12 417** | **12 683** | **15 419** | **40 519** | **1 511** |

** In a year of realisation, any prior period mark-to-market gains/(losses) recognised are reversed in the unrealised line item.*

Unrealised revaluation gains, recognised in the profit and loss account, are included in common equity tier 1 capital. In line with the Capital Requirements Regulation, for the period ended 30 September 2016, Investec plc did not recognise equity revaluation gains directly to equity, in regulatory capital.

## Risk management

### Summary of investments held and stress-testing analyses

The balance sheet value of investments is indicated in the table below.

| Category<br>£'000 | On-balance sheet value of investments<br>30 Sept 2016 | Valuation change stress test<br>30 Sept 2016* | On-balance sheet value of investments<br>31 March 2016 | Valuation change stress test<br>31 March 2016* |
|---|---|---|---|---|
| Unlisted investments | 445 319 | 66 798 | 363 060 | 54 459 |
| Listed equities | 81 118 | 20 280 | 87 940 | 21 985 |
| **Total investment portfolio** | **526 437** | **87 078** | **451 000** | **76 444** |
| Investment and trading properties | 124 769 | 24 954 | 183 073 | 28 709 |
| Warrants, profit shares and other embedded derivatives | 24 900 | 8 715 | 32 902 | 11 516 |
| **Total** | **676 106** | **120 747** | **666 975** | **116 669** |

* In order to assess our earnings sensitivity to a movement in the valuation of these investments the following stress testing parameters are applied:

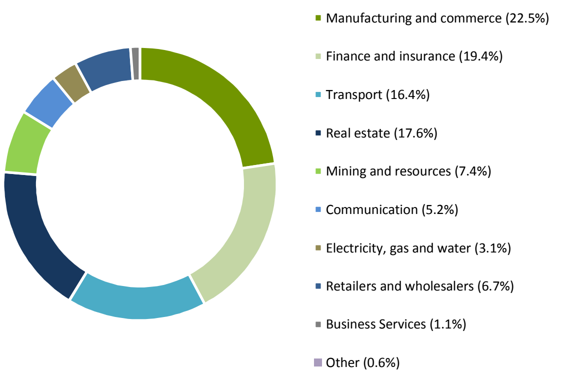
| Stress test values applied | |
|---|---|
| Unlisted investments | 15% |
| Listed equities | 25% |
| Trading properties | 20% |
| Investment properties | 10% |
| Warrants, profit shares and other embedded derivatives | 35% |

### Stress testing summary

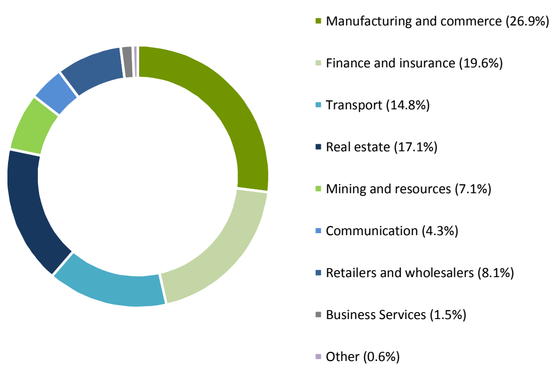
Based on the information at 30 September 2016, as reflected above, we could have a £121 million reversal in revenue (which assumes a year in which there is a 'severe stress scenario' simultaneously across all asset classes). This would not cause the group to report a loss but could have a significantly negative impact on earnings for that period. The probability of all these asset classes in all geographies in which we operate being negatively impacted at the same time is very low, although the probability of listed equities being negatively impacted at the same time is very high.

### An analysis of the investment portfolio, warrants, profit shares and other embedded derivatives by industry of exposure

**30 September 2016 (£551 million)**




**31 March 2016 (£484 million)**



## Risk management

### Securitisation/structured credit activities exposures

During the six months to September 2016 we did not undertake any new securitisation transactions. The primary focus for new securitisation transactions remains to provide a cost effective, alternative source of financing to the bank. For regulatory purposes, structured entities are not consolidated where significant risk in the structured entities has been transferred to third parties. The positions we continue to hold in these securitisations will either be risk-weighted and/or deducted from capital. We hold rated structured credit instruments (including resecuritisation exposures) of £439 million at 30 September 2016 (31 March 2016: £343 million). These exposures are largely AAA and AA rated exposures in the UK and US.

**Credit analysis**

In terms of our analysis of our credit and counterparty risk, exposures arising from securitisation/structured credit activities reflect only those exposures to which we consider ourselves to be at risk.

| Nature of exposure/activity | Exposure at 30 Sept 2016 £'million | Exposure at 31 March 2016 £'million | Balance sheet and credit risk classification |
|---|---|---|---|
| Structured credit (gross exposure)* | 450 | 355 | Other debt securities and other loans and advances |
| Rated | 439 | 343 | |
| Unrated | 11 | 12 | |
| Loans and advances to customers and third party intermediary originating platforms (mortgage loans) (net exposure) | 148 | 154 | Other loans and advances |

* Analysed further below.

| £'million | 30 September 2016 Rated** | Unrated | Total | 31 March 2016 Rated** | Unrated | Total |
|---|---|---|---|---|---|---|
| US corporate loans | 175 | - | 175 | 152 | - | 152 |
| UK and European RMBS | 206 | 11 | 217 | 151 | 12 | 163 |
| UK and European ABS | 4 | - | 4 | - | - | - |
| UK and European corporate loans | 54 | - | 54 | 40 | - | 40 |
| **Total** | **439** | **11** | **450** | **343** | **12** | **355** |

**A further analysis of rated structured credit at 30 September 2016

| £'million | AAA | AA | A | BBB | BB | B | CCC and below | Total |
|---|---|---|---|---|---|---|---|---|
| US corporate loans | 101 | 40 | 34 | - | - | - | - | **175** |
| UK and European RMBS | 59 | 115 | 30 | - | - | 2 | - | **206** |
| UK and European ABS | - | - | - | 4 | - | - | - | **4** |
| UK and European corporate loans | 17 | 21 | 15 | 1 | - | - | - | **54** |
| **Total at 30 September 2016** | **177** | **176** | **79** | **5** | **-** | **2** | **-** | **439** |
| **Total at 31 March 2016** | **148** | **122** | **65** | **6** | **-** | **2** | **-** | **343** |

## Risk management

### Market risk in the trading book

**Traded Market Risk description**

Traded Market Risk is the risk that the value of a portfolio of instruments changes as a result of changes in underlying market risk factors such as interest rates, equity prices, commodity prices, exchange rates and volatilities. The market risk management team identifies, quantifies and manages this risk in accordance with Basel standards and policies determined by the board.

The focus of our trading activities is primarily on supporting client activity. Our strategic intent is that proprietary trading should be limited and that trading should be conducted largely to facilitate clients in deal execution. Within our trading activities, we act as principal with clients or the market. Market risk, therefore, exists where we have taken on principal positions resulting from market making, underwriting, investments and limited proprietary trading in the foreign exchange, capital and money markets. The focus of these businesses is primarily on supporting client activity.

**Management and measurement of traded market risk**

The Market risk management team review the market risks in the trading book. Detailed risk reports are produced daily for each trading desk and for the aggregate risk of the trading book.

Measurement techniques used to quantify market risk arising from our trading activities include sensitivity analysis, value at risk (VaR), stressed VaR (sVaR), expected tail loss (ETL) and extreme value theory (EVT). Stress testing and scenario analysis are used to simulate extreme conditions to supplement these core measures.

VaR numbers are monitored daily at the 95% and 99% confidence intervals, with limits set at the 95% confidence interval. ETLs are also monitored daily at the 95% and 99% levels as is the worst case loss in the VaR distribution. Scenario analysis considers the impact of a significant market event on our current trading portfolios. We consider the impact of extreme yet plausible future economic events on the trading portfolio as well as possible worst case scenarios that are not necessarily as plausible.

The accuracy of the VaR model as a predictor of potential loss is continuously monitored through backtesting. This involves comparing the hypothetical (clean) trading revenues arising from the previous day's closing positions with the one-day VaR calculated for the previous day on these same positions. If the revenue is negative and exceeds the one-day VaR, the backtesting exception is considered to have occurred. Over time we expect the average rate of observed back testing exceptions to be conistent with the percentile of the VaR statistic being tested.

The market risk capital requirement is calculated using the standardised approach. For certain options, the group has obtained permission from the PRA to use an internal model to calculate the delta for these positions.

The table below contains the 95% one-day VaR figures for the trading businesses and the graphs that follow show the result of backtesting the total daily 99% one-day VaR against profit and loss figures for our trading activities over the reporting period. Based on the graphs, we can gauge the accuracy of the VaR figures, i.e. 99% of the time, the total trading activities are not expected to lose more than the 99% one-day VaR.

#### VaR

| | 30 September 2016 | | | | 31 March 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| **£'000** | **Period end** | **Average** | **High** | **Low** | **Year end** | **Average** | **High** | **Low** |
| **(using 95% VaR)** | | | | | | | | |
| Equities | 503 | 561 | 1,317 | 340 | 515 | 557 | 699 | 412 |
| Foreign exchange | 16 | 47 | 158 | 6 | 37 | 32 | 101 | 12 |
| Interest rates | 217 | 218 | 287 | 136 | 202 | 195 | 505 | 128 |
| **Consolidated*** | **508** | **606** | **1,364** | **415** | **529** | **589** | **723** | **488** |

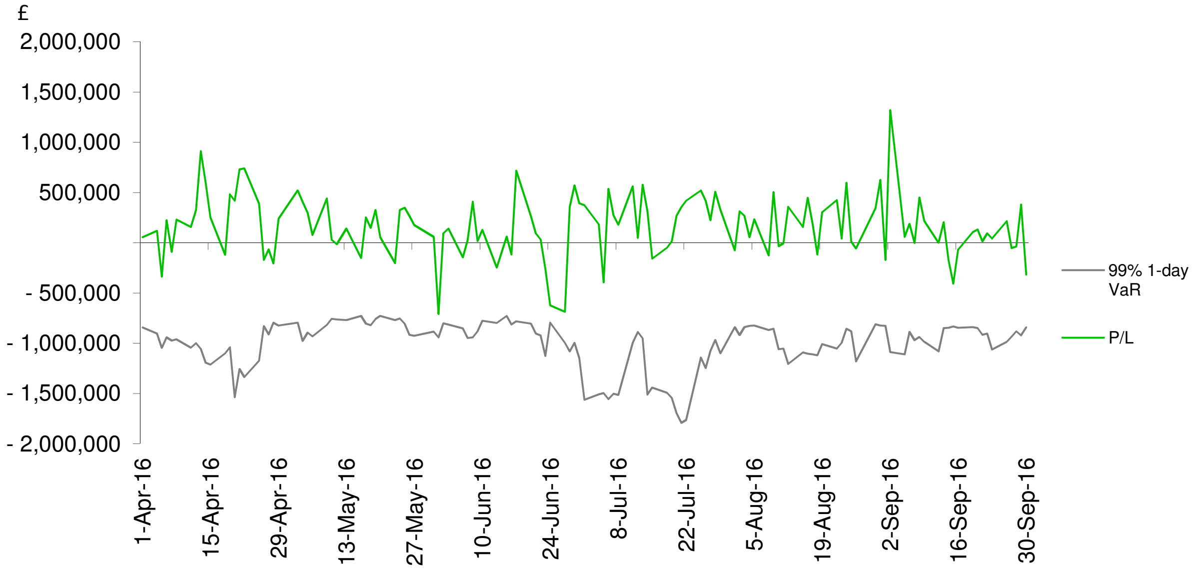
** The consolidated VaR is lower than the sum of the individual VaRs. This arises from the consolidation offset between various asset classes (diversification).*

## Risk management

### Traded market risk management

**99% one-day VaR backtesting**

The average VaR utilisation for the six months to 30 September 2016 was slightly higher than the average over the same period to 31 March 2016, largely as a result of increased exposures to equity risk held within the trading businesses. Using hypothetical (clean) profit and loss data for backtesting resulted in zero exceptions over the period at the 99% confidence level, i.e. where the loss was greater than the 99% one-day VaR. This is not a significant deviation from the expected number of exceptions at the 99% level.



## Risk management

### ETL

| 95% (one-day) £'000 | 30 Sept 2016 | 31 March 2016 |
|---|---|---|
| Equities | 750 | 662 |
| Foreign exchange | 31 | 53 |
| Interest rates | 274 | 257 |
| **Consolidated*** | **848** | **783** |

** The consolidated ETL is lower than the sum of the individual ETLs. This arises from the correlation offset between various asset classes.(diversification)*

### Stress testing

The table below indicates the potential losses that could arise if the portfolio is stress tested under extreme market conditions. The method used is known as extreme value theory (EVT), the reported stress scenario below calculates the 99% EVT which is a 1-in-8 year possible loss event. These numbers do not assume normality but rather rely on fitting a distribution to the tails of the distribution.

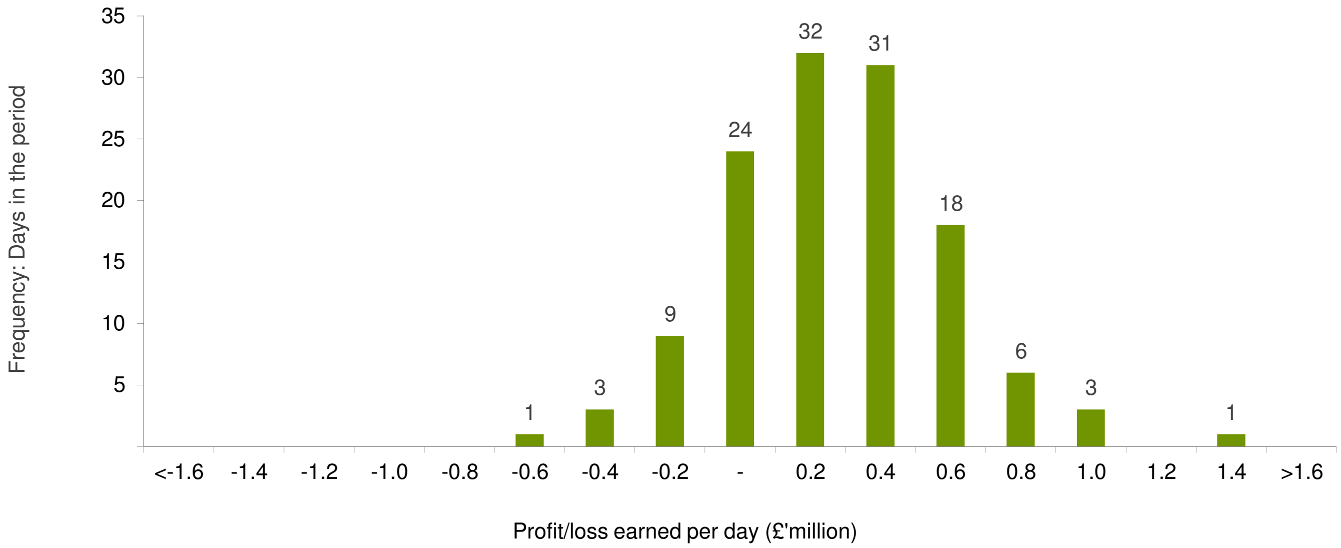
| | 30 September 2016 | | | | 31 March 2016 |
|---|---|---|---|---|---|
| £'000 | Period end | Average | High | Low | Year end |
| **(using 99% EVT)** | | | | | |
| Equities | 1 692 | 1 822 | 3 825 | 767 | 1 549 |
| Foreign exchange | 84 | 216 | 619 | 49 | 122 |
| Interest rates | 486 | 577 | 868 | 386 | 470 |
| **Consolidated**** | **2 082** | **2 319** | **3 735** | **1 404** | **1 772** |

*** The consolidated stress test numbers are lower than the sum of the individual stress test numbers. This arises from the correlation offset between various asset classes (diversification).*

## Risk management

### Profit and loss histogram

The histogram below illustrates the distribution of revenue during the period for our trading businesses. The distribution is skewed to the profit side and the graph shows that a positive trading revenue was realised on 91 days out of a total of 128 days in the trading business for the six months to 30 September 2016. The average daily trading revenue generated for the six months to 30 September 2016 was £182 714 (year to 31 March 2016: £124 250).



## Risk management

### Balance sheet risk management

Balance sheet risk encompasses the financial risks relating to our asset and liability portfolios, comprising market liquidity, funding, concentration, non-trading interest rate and foreign exchange, encumbrance and leverage risks on the balance sheet.

### Non-trading interest rate risk description

Non-trading interest rate risk, otherwise known as interest rate risk in the banking book, is the impact on net interest earnings and sensitivity to economic value, as a result of unexpected adverse movements in interest rates arising from the execution of our core business strategies and the delivery of products and services to our customers.

Sources of interest rate risk include:

- **Repricing risk:** arises from the timing differences in the fixed-rate maturity and floating rate repricing of bank assets, liabilities and off-balance sheet derivative positions. This affects the interest rate margin realised between lending income and borrowing costs, when applied to our rate sensitive portfolios
- **Yield curve risk:** repricing mismatches also expose the bank to changes in the slope and shape of the yield curve
- **Basis risk:** arises from imperfect correlation in the adjustments of the rates earned and paid on different instruments with otherwise similar repricing characteristics
- **Embedded option risk:** we are not materially exposed to embedded option risk as contract breakage penalties on fixed-rate advances specifically cover this risk, while prepayment optionality is restricted to variable rate contracts and has no impact on interest rate risk
- **Endowment risk:** refers to the interest rate risk exposure arising from the net differential between interest rate insensitive assets, interest rate insensitive liabilities and capital.

The above sources of interest rate risk affect the interest rate margin realised between lending income and borrowing costs, when applied to our rate sensitive asset and liability portfolios, which has a direct effect on future net interest income and the economic value of equity.

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## Risk management

### Interest rate sensitivity gap

The table below shows our non-trading interest rate mismatch at 30 September 2016. These exposures affect the interest rate margin realised between lending income and borrowing costs assuming no management intervention.

| £'million | Not > three months | > Three months but < six months | > Six months but < one year | > One year but < five years | > Five years | Non-rate | Total non-trading |
|---|---|---|---|---|---|---|---|
| Cash and short-term funds - banks | 5 042 | - | - | - | - | - | 5 042 |
| Investment/trading assets and statutory liquids | 1 294 | 52 | 80 | 367 | 443 | - | 2 236 |
| Securitised assets | 143 | - | - | - | - | - | 143 |
| Advances | 5 990 | 1 318 | 314 | 867 | 230 | - | 8 719 |
| Non-rate assets | - | - | - | - | - | 2 345 | 2 345 |
| **Assets** | **12 469** | **1 370** | **394** | **1 234** | **673** | **2 345** | **18 485** |
| Deposits - banks | (593) | - | - | - | - | - | (593) |
| Deposits - non-banks | (9 456) | (679) | (687) | (992) | (228) | - | (12 042) |
| Negotiable paper | (1 171) | - | (67) | (269) | (323) | - | (1 830) |
| Securitised liabilities | (113) | - | - | - | - | - | (113) |
| Subordinated liabilities | - | (18) | - | - | (575) | (32) | (625) |
| Other liabilities | - | - | - | - | - | (1 248) | (1 248) |
| **Liabilities** | **(11 333)** | **(697)** | **(754)** | **(1 261)** | **(1 126)** | **(1 280)** | **(16 451)** |
| **Shareholders' funds** | **-** | **-** | **-** | **-** | **-** | **(2 034)** | **(2 034)** |
| **Balance sheet** | **1 136** | **673** | **(360)** | **(27)** | **(453)** | **(969)** | **-** |
| **Off-balance sheet** | **445** | **(356)** | **(43)** | **(88)** | **42** | **-** | **-** |
| **Repricing gap** | **1 581** | **317** | **(403)** | **(115)** | **(411)** | **(969)** | **-** |
| **Cumulative repricing gap** | **1 581** | **1 898** | **1 495** | **1 380** | **969** | **-** | |

### Economic value sensitivity at 30 September 2016

Our preference for monitoring and measuring non-trading interest rate is economic value sensitivity. The table below reflects our economic value sensitivity to a 2% parallel shift in interest rates assuming no management intervention. The numbers represent the change to the value of the interest rate sensitive portfolios should such a hypothetical scenario arise. This sensitivity effect does not has a significant direct impact on our equity.

| | Sensitivity to the following interest rates (expressed in original currencies) | | | | | | |
|---|---|---|---|---|---|---|---|
| **'million** | **GBP** | **USD** | **EUR** | **AUD** | **ZAR** | **Other (GBP)** | **All (GBP)** |
| 200bps down | (34.2) | (2.9) | (7.4) | 0.4 | - | 0.1 | (46.4) |
| 200bps up | 46.4 | 3.4 | 7.3 | (0.4) | - | (0.1) | 59.1 |

## Risk management

### Balance sheet risk management

#### Liquidity risk

Liquidity risk is the risk that, despite being solvent, we have insufficient capacity to fund increases in assets, or are unable to meet our payment obligations as they fall due, without incurring unacceptable losses. This includes repaying depositors or maturing wholesale debt. This risk is inherent in all banking operations and can be impacted by a range of institution-specific and market-wide events.

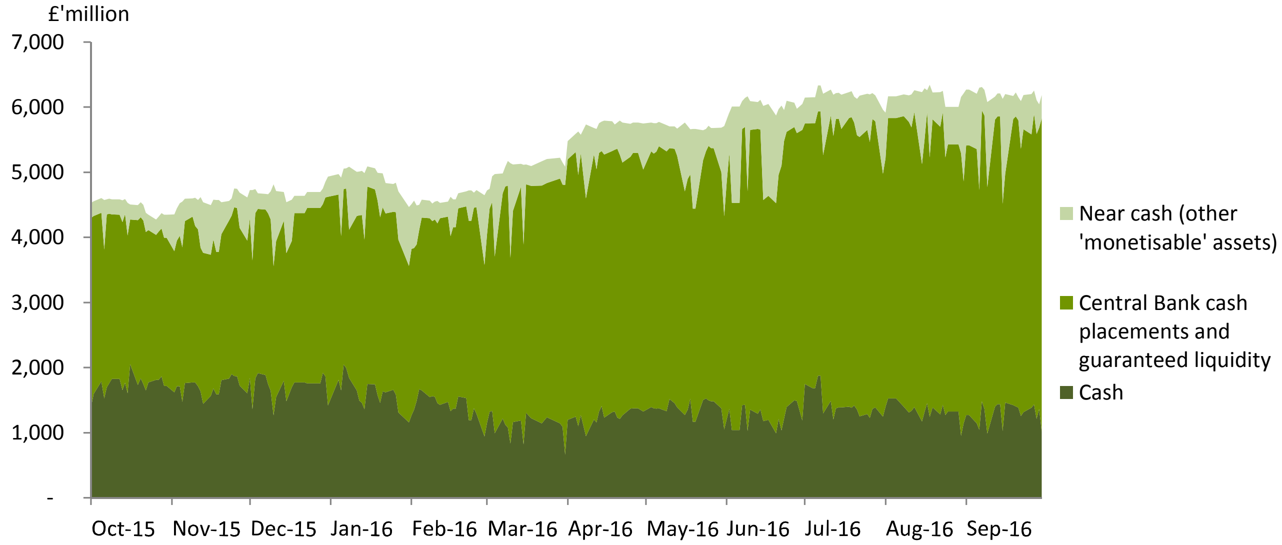
Liquidity risk is further broken down into:

• **Funding liquidity**: which relates to the risk that the bank will be unable to meet current and/or future cash flow or collateral requirements in the normal course of business, without adversely affecting its financial position or its reputation.

• **Market liquidity:** which relates to the risk that the bank may be unable to trade in specific markets or that it may only be able to do so with difficulty due to market disruptions or a lack of market liquidity.

Sources of liquidity risk include:
• Unforeseen withdrawals of deposits
• Restricted access to new funding with appropriate maturity and interest rate characteristics
• Inability to liquidate a marketable asset in a timely manner with minimal risk of capital loss
• Unpredicted customer non-payment of loan obligations
• A sudden increased demand for loans in the absence of corresponding funding inflows of appropriate maturity.

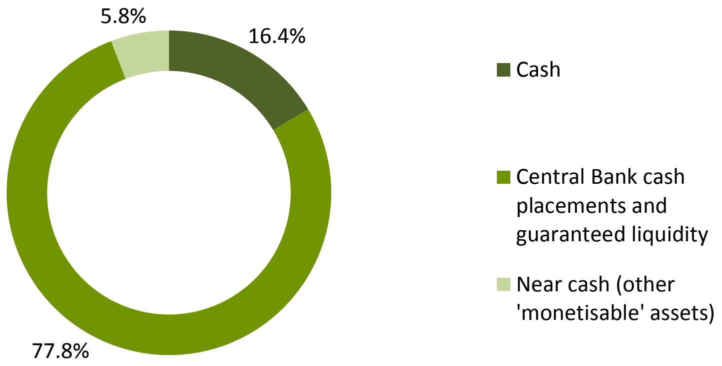
#### Cash and near cash trend



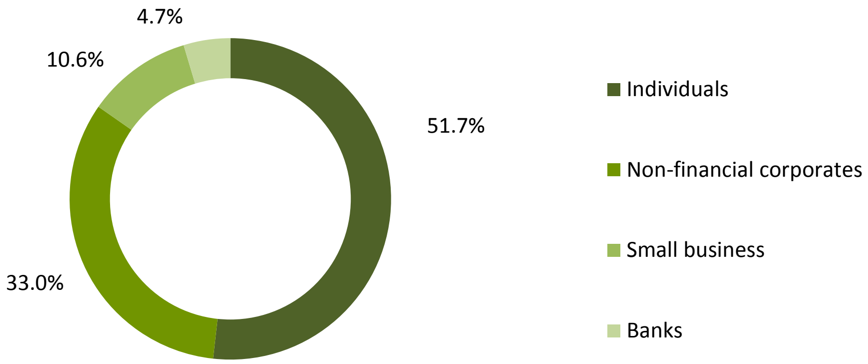
## Risk management

### Balance sheet risk management (continued)

**An analysis of cash and near cash at 30 September 2016 (£6 187 million)**




**Bank and non-bank depositor concentration by type at 30 September 2016 (£12 636 million)**




### Liquidity coverage ratio

On 1 October 2015 under European Commission Delegated Regulation 2015/61, the LCR became the PRA's primary regulatory reporting standard for liquidity. The LCR is a Pillar 1 metric to which the PRA apply Pillar 2 add-ons. The LCR is being introduced on a phased basis, and the PRA has opted to impose higher liquidity coverage requirements during the phased-in period than the minimum required by CRD IV. UK banks are currently required to maintain a minimum of 80%, rising to 90% on 1 January 2017 and 100% on 1 January 2018. The published LCR excludes Pillar 2 add-ons.

For Investec plc, the LCR is calculated using our own interpretations of the EU Delegated Act. The reported LCR may change over time with regulatory developments.

The LCR reported to the PRA at 30 September 2016 was 819% for Investec plc.

## Risk management

### Liquidity mismatch

The table that follows shows our contractual liquidity mismatch.
The table will not agree directly to the balances disclosed in the balance sheet since the table incorporates cash flows on a contractual, undiscounted basis based on the earliest date on which the group can be required to pay.

The table reflects that loans and advances to customers are largely financed by stable funding sources.

With respect to the contractual liquidity mismatch:

• No assumptions are made except as mentioned below, and we record all asset and liabilities with the underlying contractual maturity as determined by the cash flow profile for each deal

• As an integral part of the broader liquidity generation strategy, we maintain a liquidity buffer in the form of unencumbered cash, government or rated securities and near cash against both expected and unexpected cash flows

• The actual contractual profile of this asset class is of little consequence, as practically Investec would meet any unexpected net cash outflows by repo'ing or selling these securities. We have:

-set the time horizon to 'on demand' to monetise our statutory liquid assets for which liquidity is guaranteed by the central bank;
-set the time horizon to one month to monetise our cash and near cash portfolio of 'available for sale' discretionary treasury assets, where there are deep secondary markets for this elective asset class; and
- reported the 'contractual' profile by way of a note to the tables.

With respect to the behavioural liquidity mismatch:

• Behavioural liquidity mismatch tends to display a fairly high probability, low severity liquidity position. Many retail deposits, which are included within customer accounts, are repayable on demand or at short notice on a contractual basis. In practice, these instruments form a stable base for the group's operations and liquidity needs because of the broad base of customers. To this end, behavioural profiling is applied to liabilities with an indeterminable maturity, as the contractual repayments of many customer accounts are on demand or at short notice, but expected cash flows vary significantly from contractual maturity. An internal analysis model is used, based on statistical research of the historical series of products. This is used to identify significant additional sources of structural liquidity in the form of core deposits that exhibit stable behaviour. In addition, reinvestment behaviour, with profile and attrition based on history, is applied to term deposits in the normal course of business.

### Contractual liquidity at 30 September 2016

| £'million | Demand | Up to one month | One to three months | Three to six months | Six months to one year | One to five years | > Five years | Total |
|---|---|---|---|---|---|---|---|---|
| Cash and short term funds - banks | 4 195 | 531 | 297 | - | 13 | 3 | 3 | 5 042 |
| Investment/trading assets | 259 | 865 | 364 | 220 | 194 | 998 | 1 217 | 4 117 |
| Securitised assets | - | 5 | 2 | 1 | 1 | 6 | 128 | 143 |
| Advances | 189 | 414 | 672 | 780 | 1 005 | 4 007 | 1 652 | 8 719 |
| Other assets | 70 | 1 397 | 111 | 11 | 13 | 251 | 492 | 2 345 |
| **Assets** | **4 713** | **3 212** | **1 446** | **1 012** | **1 226** | **5 265** | **3 492** | **20 366** |
| Deposits - banks | (45) | (139) | - | - | - | (319) | (91) | (594) |
| Deposits - non-banks | (2 051) | (2 360) | (2 059) | (1 859) | (1 046) | (2 525) | (142) | (12 042) |
| Negotiable paper | (11) | (196) | (22) | (41) | (74) | (1 343) | (414) | (2 101) |
| Securitised liabilities | - | - | (4) | (3) | (4) | (44) | (58) | (113) |
| Investment/trading liabilities | (2) | (38) | (73) | (94) | (261) | (305) | (476) | (1 249) |
| Subordinated liabilities | - | - | - | - | (23) | - | (602) | (625) |
| Other liabilities | (114) | (988) | (59) | (63) | (215) | (138) | (31) | (1 608) |
| **Liabilities** | **(2 223)** | **(3 721)** | **(2 217)** | **(2 060)** | **(1 623)** | **(4 674)** | **(1 814)** | **(18 332)** |
| **Shareholders' funds** | **-** | **-** | **-** | **-** | **-** | **-** | **(2 034)** | **(2 034)** |
| **Contractual liquidity gap** | **2 490** | **(509)** | **(771)** | **(1 048)** | **(397)** | **591** | **(356)** | **-** |
| Cumulative liquidity gap | 2 490 | 1 981 | 1 210 | 162 | (235) | 356 | - | |

### Behavioural liquidity

| £'million | Demand | Up to one month | One to three months | Three to six months | Six months to one year | One to five years | > Five years | Total |
|---|---|---|---|---|---|---|---|---|
| Behavioural liquidity gap | 4 134 | ( 257) | 1 137 | (1048) | ( 397) | (3 066) | (503) | - |
| Cumulative | 4 134 | 3 877 | 5 014 | 3 966 | 3 569 | 503 | - | |