Out of the Ordinary

Investec

Investec Bank plc

Financial information (a subsidiary of Investec plc)

Unaudited condensed consolidated financial information for the six months ended 30 September 2018

IFRS – Pounds Sterling

2018

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Introduction

On 1 April 2018 the bank adopted IFRS 9 'Financial Instruments' which replaced IAS 39 'Financial Instruments: Recognition and Measurement' IFRS 9 requires a move from incurred loss methodology under IAS 39 to an expected credit loss (ECL) methodology. Disclosure related to the initial application and the impact of the transition from IAS 39 to IFRS 9 were included in the transition disclosures published on 15 June 2018. The Investec Bank plc transition disclosures can be accessed via the Investec website at https://www.investec.com/en_int/welcome-to-investec/about-us/investor-relations/financial-information/subsidiary-results.html

The disclosure of the impact and accounting policies is included on pages 24 to 29. Throughout the rest of the financial disclosures comparative information is provided as at 31 March 2018 and has been presented on an IAS 39 basis and not restated as permitted under IFRS 9. Credit disclosures shown on pages 32 to 50 are reported under IFRS 9 with 1 April 2018 comparatives.

Additionally on 1 April 2018, the bank adopted IFRS 15, 'Revenue from Contracts with Customers' which replaced IAS 18 'Revenue'. It applies to all contracts with customers except leases, financial instruments and insurance contracts. The standard establishes a more systematic approach for revenue measurement and recognition by introducing a five-step model governing revenue recognition. There is no impact on measurement and recognition principles previously applied under IAS 18. There is also no impact from the disclosure requirements of IFRS 15.

Overview of results

Key financial statistics	30 Sept 2018	30 Sept 2017	% change	31 March 2018
Total operating income before expected credit losses/impairment losses (£'000)	537 232	492 157	9.2%	1 040 147
Operating costs (£'000)	411 632	378 315	8.8%	797 049
Operating profit before goodwill and acquired intangibles, non-operating items, taxation, and after non-controlling interests (£'000)	118 275	79 285	49.2%	136 347
Earnings attributable to ordinary shareholders (£'000)	96 441	58 711	64.3%	97 841
Cost to income ratio (%)	76.8%	77.0%		76.8%
Total capital resources (including subordinated liabilities) (£'000)	2 886 130	2 601 422	10.9%	2 788 840
Total equity (£'000)	2 082 242	1 994 082	4.4%	2 209 167
Total assets (£'000)	21 162 620	18 477 936	14.5%	20 097 225
Net core loans and advances (£'000)	10 026 162	8 872 736	13.0%	9 663 172
Customer accounts (deposits) (£'000)	12 743 472	11 221 444	13.6%	11 969 625
Loans and advances to customers as a % of customer deposits	78.7%	79.1%		80.7%
Cash and near cash balances (£'000)	6 294 407	4 869 067	29.3%	5 598 418
Funds under management (£'mn)	39 710	37 500	5.9%	37 276
Total gearing ratio (i.e. total assets to equity)	10.2x	9.3x		9.1x

Key asset quality and capital ratios	30 Sept 2018	1 April 2018
Capital adequacy ratio	16.8%	16.0%
Tier 1 ratio	12.4%	12.8%
CET 1 ratio	11.1%	11.3%
Leverage ratio – current	7.6%	8.2%
Leverage ratio – 'fully loaded'	7.3%	8.1%
Stage 3 exposure as a % of gross core loans and advances to customers subject to ECL	4.2%	6.3%
Stage 3 exposure net of ECL as a % of net core loans and advances to customers subject to ECL	3.0%	4.3%
Credit loss ratio#	0.42%*	1.14%**

* *Annualised.*

** *As at 31 March 2018.*

\# *Expected credit loss (ECL) impairment charges on gross core loans and advances as a % of average gross core loans and advances subject to ECL.*

Consolidated income statement

£'000	Six months to 30 Sept 2018	Six months to 30 Sept 2017	Year to 31 March 2018
Interest income	349 659	285 559	598 494
Interest expense	(154 873)	(121 736)	(248 876)
Net interest income	**194 786**	**163 823**	**349 618**
Fee and commission income	277 661	254 578	504 606
Fee and commission expense	(4 720)	(4 553)	(10 094)
Investment income	5 409	15 474	68 943
Share of post taxation profit of associates	94	1 375	1 444
Trading income arising from			
– customer flow	48 420	55 500	114 502
– balance sheet management and other trading activities	12 600	3 191	2 838
Other operating income	2 982	2 769	8 290
Total operating income before expected credit losses/impairment losses	**537 232**	**492 157**	**1 040 147**
Expected credit loss impairment charges*	(10 363)	–	–
Impairment losses on loans and advances*	–	(37 631)	(106 085)
Operating income	**526 869**	**454 526**	**934 062**
Operating costs	(411 632)	(378 315)	(797 049)
Depreciation on operating leased assets	(1 167)	(1 149)	(2 350)
Operating profit before goodwill and acquired intangibles	**114 070**	**75 062**	**134 663**
Amortisation of acquired intangibles	(6 408)	(6 636)	(13 273)
Operating profit	**107 662**	**68 426**	**121 390**
Profit before taxation	**107 662**	**68 426**	**121 390**
Taxation on operating profit before goodwill and acquired intangibles	(16 596)	(15 147)	(27 651)
Taxation on goodwill and acquired intangibles	1 170	1 209	2 418
Profit after taxation	**92 236**	**54 488**	**96 157**
Loss attributable to non-controlling interests	4 205	4 223	1 684
Earnings attributable to shareholder	**96 441**	**58 711**	**97 841**

* *On adoption of IFRS 9, there is a move from an incurred loss model to an expected credit loss methodology.*

Consolidated statement of total comprehensive income

£'000	Six months to 30 Sept 2018	Six months to 30 Sept 2017	Year to 31 March 2018
Profit after taxation	**92 236**	**54 488**	**96 157**
Other comprehensive income/(loss):			
Items that may be reclassified to the income statement:			
Gains on realisation of debt instruments at FVOCI recycled through the income statement*^	–	–	–
Fair value movements on debt instruments at FVOCI taken directly to other comprehensive income*^	244	–	–
Gains on realisation of available-for-sale assets recycled through income statement*^	–	(2 036)	(1 278)
Fair value movements on available-for-sale assets taken directly to other comprehensive income*^	–	4 530	4 525
Foreign currency adjustments on translating foreign operations	6 052	(8 387)	(14 187)
Items that will never be reclassified to the income statement:			
Gains attributable to own credit risk	10 670	–	–
Total comprehensive income	**109 202**	**48 595**	**85 217**
Total comprehensive income attributable to non-controlling interests	(4 617)	(3 936)	(1 186)
Total comprehensive income attributable to ordinary shareholders	108 351	52 531	82 167
Total comprehensive income attributable to Additional Tier 1 securities	5 468	–	4 236
Total comprehensive income	**109 202**	**48 595**	**85 217**

* *Net of taxation.*

^ *Following the adoption of IFRS 9, Financial Instruments on 1 April 2018, the fair value reserve was introduced replacing the available for sale reserve.*

Consolidated balance sheet

£'000	At 30 Sept 2018	At 1 April 2018*	At 31 March 2018*	At 30 Sept 2017*
Assets				
Cash and balances at central banks	3 882 703	3 487 716	3 487 768	2 847 982
Loans and advances to banks	882 183	772 231	772 984	868 582
Reverse repurchase agreements and cash collateral on securities borrowed	681 276	750 102	750 428	479 243
Sovereign debt securities	1 287 930	1 155 472	1 155 472	806 063
Bank debt securities	54 619	113 274	107 938	157 953
Other debt securities	366 261	281 939	288 349	301 192
Derivative financial instruments	610 332	604 848	610 201	597 843
Securities arising from trading activities	783 308	701 728	701 728	714 393
Investment portfolio	464 994	472 083	472 083	474 579
Loans and advances to customers	10 027 694	9 539 858	9 663 172	8 872 736
Other loans and advances	263 437	415 666	417 747	525 763
Other securitised assets	126 595	132 172	132 172	135 580
Interests in associated undertakings	6 958	6 414	6 414	5 874
Deferred taxation assets	144 689	148 636	84 599	76 675
Other assets	1 107 258	1 013 440	1 013 440	1 170 949
Property and equipment	97 902	53 183	53 183	57 049
Investment properties	14 500	14 500	14 500	14 500
Goodwill	261 255	261 075	261 075	260 292
Intangible assets	98 726	103 972	103 972	110 688
	21 162 620	**20 028 309**	**20 097 225**	**18 477 936**
Liabilities				
Deposits by banks	1 414 371	1 295 847	1 295 847	723 758
Derivative financial instruments	651 702	533 319	533 319	448 950
Other trading liabilities	85 079	103 496	103 496	108 813
Repurchase agreements and cash collateral on securities lent	155 159	168 640	168 640	182 920
Customer accounts (deposits)	12 743 472	11 969 625	11 969 625	11 221 444
Debt securities in issue	1 963 398	1 942 869	1 942 869	1 900 779
Liabilities arising on securitisation of other assets	121 161	127 853	127 853	131 740
Current taxation liabilities	156 289	135 517	135 517	132 050
Deferred taxation liabilities	20 501	22 120	22 120	24 153
Other liabilities	965 358	1 014 956	1 009 099	1 001 907
	18 276 490	**17 314 242**	**17 308 385**	**15 876 514**
Subordinated liabilities	803 888	716 564	579 673	607 340
	19 080 378	**18 030 806**	**17 888 058**	**16 483 854**
Equity				
Ordinary share capital	1 186 800	1 186 800	1 186 800	1 186 800
Share premium	143 288	143 288	143 288	143 288
Capital reserve	162 789	162 789	162 789	162 789
Other reserves	(4 687)	(56 014)	7 344	12 602
Retained income	401 729	363 700	512 006	494 537
Shareholder's equity excluding non-controlling interests	**1 889 919**	**1 800 563**	**2 012 227**	**2 000 016**
Additional Tier 1 securities in issue	200 000	200 000	200 000	–
Non-controlling interests in partially held subsidiaries	(7 677)	(3 060)	(3 060)	(5 934)
Total equity	**2 082 242**	**1 997 503**	**2 209 167**	**1 994 082**
Total liabilities and equity	**21 162 620**	**20 028 309**	**20 097 225**	**18 477 936**

* *The 1 April 2018 balance sheet has been presented on an IFRS 9 basis and the comparative as at 31 March 2018 and 30 September 2017 on an IAS 39 basis.*

Consolidated cash flow statements

£'000	Six months to 30 Sept 2018	Year to 31 March 2018	Six months to 30 Sept 2017
Cash inflows from operations	69 713	215 068	91 798
(Increase) in operating assets	(768 128)	(1 262 949)	(239 678)
Increase in operating liabilities	976 834	1 487 703	90 146
Net cash inflow/(outflow) from operating activities	**278 419**	**439 822**	**(57 734)**
Net cash (outflow)/inflow from investing activities	(54 604)	3 904	12 071
Net cash inflow/(outflow) from financing activities	57 678	142 764	(35 000)
Effects of exchange rate changes on cash and cash equivalents	(1 887)	(2 571)	(510)
Net increase/(decrease) in cash and cash equivalents	**279 606**	**583 919**	**(81 173)**
Cash and cash equivalents at the beginning of the period	4 122 721	3 538 802	3 538 802
Cash and cash equivalents at the end of the period	**4 402 327**	**4 122 721**	**3 457 629**

Cash and cash equivalents are defined as including cash and balances at central banks and on demand loans and advances to banks (all of which have a maturity profile of less than three months).

Consolidated statement of changes in equity

£'000	Ordinary share capital	Share premium	Capital reserve account
At 31 March 2017	**1 186 800**	**143 288**	**162 789**
Movement in reserves 1 April 2017 – 31 March 2018			
Profit after taxation	–	–	–
Losses on realisation of available-for-sale assets recycled through the income statement	–	–	–
Fair value movements on available-for-sale assets	–	–	–
Foreign currency adjustments on translating foreign operations	–	–	–
Total comprehensive income for the year	–	–	–
Share-based payments adjustments	–	–	–
Issue of Additional Tier 1 security instruments	–	–	–
Dividends paid to ordinary shareholder	–	–	–
Dividends declared to Additional Tier 1 security holders	–	–	–
Dividends paid to Additional Tier 1 security holders	–	–	–
Net equity impact of non-controlling interest movements	–	–	–
At 31 March 2018	**1 186 800**	**143 288**	**162 789**
Adjustment for IFRS 9	–	–	–
At 1 April 2018	**1 186 800**	**143 288**	**162 789**
Movement in reserves 1 April 2018 – 30 September 2018			
Profit after taxation	–	–	–
Gains on realisation of debt instruments at FVOCI recycled through the income statement	–	–	–
Fair value movements on debt instruments at FVOCI taken directly to other comprehensive income	–	–	–
Foreign currency adjustments on translating foreign operations	–	–	–
Gains attributable to own credit risk	–	–	–
Total comprehensive loss for the year	**–**	**–**	**–**
Share-based payments adjustments	–	–	–
Dividends paid to ordinary shareholders	–	–	–
Dividends declared to Additional Tier 1 security holders	–	–	–
Dividends paid to Additional Tier 1 security holders	–	–	–
Transfer own credit reserve on sale of subordinated liabilities	–	–	–
At 30 September 2018	**1 186 800**	**143 288**	**162 789**

^ *Following the adoption of IFRS 9, Financial Instruments on 1 April 2018, the fair value reserve was introduced replacing the available for sale reserve.*

Available-for-sale reserve/ Fair value reserve^	Foreign currency reserve	Own credit reserve	Retained income	Shareholder's equity excluding non-controlling interests	Additional Tier 1 securities in issue	Non-controlling interests	Total equity
7 243	**11 539**	**–**	**470 272**	**1 981 931**	**–**	**(2 000)**	**1 979 931**
–	–	–	97 841	97 841	–	(1 684)	96 157
(1 278)	–	–	–	(1 278)	–	–	(1 278)
4 525	–	–	–	4 525	–	–	4 525
–	(14 685)	–	–	(14 685)	–	498	(14 187)
3 247	(14 685)	–	97 841	86 403	–	(1 186)	85 217
–	–	–	1 129	1 129	–	–	1 129
–	–	–	–	–	200 000	–	200 000
–	–	–	(53 000)	(53 000)	–	–	(53 000)
–	–	–	(4 236)	(4 236)	4 236	–	–
–	–	–	–	–	(4 236)	–	(4 236)
–	–	–	–	–	–	126	126
10 490	**(3 146)**	**–**	**512 006**	**2 012 227**	**200 000**	**(3 060)**	**2 209 167**
(7 970)	–	(55 388)	(148 306)	(211 664)	–	–	(211 664)
2 520	**(3 146)**	**(55 388)**	**363 700**	**1 800 563**	**200 000**	**(3 060)**	**1 997 503**
–	–	–	96 441	96 441	–	(4 205)	92 236
–	–	–	–	–	–	–	–
244	–	–	–	244	–	–	244
1	6 463	–	–	6 464	–	(412)	6 052
–	–	10 670	–	10 670	–	–	10 670
245	**6 463**	**10 670**	**96 441**	**113 819**	**–**	**(4 617)**	**109 202**
–	–	–	(1 995)	(1 995)	–	–	(1 995)
–	–	–	(17 000)	(17 000)	–	–	(17 000)
–	–	–	(5 468)	(5 468)	5 468	–	–
–	–	–	–	–	(5 468)	–	(5 468)
–	–	33 949	(33 949)	–	–	–	–
2 765	**3 317**	**(10 769)**	**401 729**	**1 889 919**	**200 000**	**(7 677)**	**2 082 242**

Segmental business analysis – income statement

Segmental business analysis – income statement For the six months to 30 September 2018 £'000	Wealth & Investment	Specialist Banking	Total group
Net interest income	4 046	190 740	194 786
Fee and commission income	155 939	121 722	277 661
Fee and commission expense	(373)	(4 347)	(4 720)
Investment income	47	5 362	5 409
Share of post taxation profit of associates	–	94	94
Trading income arising from			
– customer flow	393	48 027	48 420
– balance sheet management and other trading activities	3	12 597	12 600
Other operating income	–	2 982	2 982
Total operating income before expected credit losses	**160 055**	**377 177**	**537 232**
Expected credit loss impairment charges*	(27)	(10 336)	(10 363)
Operating income	**160 028**	**366 841**	**526 869**
Operating costs	(127 164)	(284 468)	(411 632)
Depreciation on operating leased assets	–	(1 167)	(1 167)
Operating profit before goodwill and acquired intangibles	**32 864**	**81 206**	**114 070**
Loss attributable to other non-controlling interests	–	4 205	4 205
Operating profit before goodwill and acquired intangibles and after other non-controlling interests	**32 864**	**85 411**	**118 275**
Selected returns and key statistics			
Cost to income ratio	79.5%	75.7%	76.8%
Total assets (£'million)	876	20 287	21 163

* *On adoption of IFRS 9, there is a move from an incurred loss model to an expected credit loss methodology.*

Segmental business analysis – income statement For the six months to 30 September 2017 £'000	Wealth & Investment	Specialist Banking	Total group
Net interest income	2 025	161 798	163 823
Fee and commission income	147 539	107 039	254 578
Fee and commission expense	(395)	(4 158)	(4 553)
Investment income	411	15 063	15 474
Share of post taxation profit of associates	415	960	1 375
Trading income arising from			
– customer flow	380	55 120	55 500
– balance sheet management and other trading activities	2	3 189	3 191
Other operating income	–	2 769	2 769
Total operating income before impairment on loans and advances	**150 377**	**341 780**	**492 157**
Impairment losses on loans and advances*	–	(37 631)	(37 631)
Operating income	**150 377**	**304 149**	**454 526**
Operating costs	(114 936)	(263 379)	(378 315)
Depreciation on operating leased assets	–	(1 149)	(1 149)
Operating profit before goodwill and acquired intangibles	**35 441**	**39 621**	**75 062**
Loss attributable to other non-controlling interests	–	4 223	4 223
Operating profit before goodwill and acquired intangibles and after other non-controlling interests	**35 441**	**43 844**	**79 285**
Selected returns and key statistics			
Cost to income ratio	76.4%	77.3%	77.0%
Total assets (£'million)	919	17 559	18 478

* *On adoption of IFRS 9, there is a move from an incurred loss model to an expected credit loss methodology.*

Additional income statement note disclosures

Net interest income

For the six months to 30 September £'000	Notes	2018 Balance sheet value	2018 Interest income	2017 Balance sheet value	2017 Interest income
Cash, near cash and bank debt and sovereign debt securities	1	6 788 711	26 549	5 159 823	11 252
Loans and advances	2	10 027 694	284 710	8 872 736	248 339
Private client		3 692 360	83 112	3 544 194	85 764
Corporate, institutional and other clients		6 335 334	201 598	5 328 542	162 575
Other debt securities and other loans and advances		629 698	38 400	826 954	25 968
Total interest-earning assets		**17 446 103**	**349 659**	**14 859 513**	**285 559**

For the six months to 30 September £'000	Notes	2018 Balance sheet value	2018 Interest expense	2017 Balance sheet value	2017 Interest expense
Deposits by banks and other debt-related securities	3	3 532 928	58 968	2 807 457	35 924
Customer accounts (deposits)		12 743 472	69 598	11 221 444	58 065
Subordinated liabilities		803 888	26 307	607 340	27 747
Total interest-bearing liabilities		**17 080 288**	**154 873**	**14 636 241**	**121 736**
Net interest income			**194 786**		**163 823**
Annualised net interest margin			**2.29%**		**2.19%**

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. *Comprises (as per the balance sheet) deposits by banks; debt securities in issue; and repurchase agreements and cash collateral on securities lent.*

Net fee and commission income

For the six months to 30 September £'000	2018	2017
Wealth management businesses net fee and commission income	**155 566**	**147 144**
Fund management fees/fees for assets under management	131 638	120 014
Private client transactional fees	24 301	27 525
Fee and commission expense	(373)	(395)
Specialist Banking net fee and commission income	**117 375**	**102 881**
Corporate and institutional transactional and advisory services	116 714	94 321
Private client transactional fees	5 008	12 718
Fee and commission expense	(4 347)	(4 158)
Net fee and commission income	**272 941**	**250 025**
Annuity fees (net of fees payable)	160 520	163 280
Deal fees	112 421	86 745

Investment income

For the six months to 30 September £'000	Investment portfolio (listed and unlisted equities)*	Debt securities (sovereign, bank and other)	Investment properties	Other asset categories	Total
2018					
Realised	36 589	2 667	–	(9 788)	29 468
Unrealised^	(36 895)	1 160	–	5 002	(30 733)
Dividend income	2 380	–	–	–	2 380
Funding and other net related income	–	–	–	4 294	4 294
	2 074	**3 827**	**–**	**(492)**	**5 409**
2017					
Realised	8 133	4 339	(86)	790	13 176
Unrealised^	(6 416)	2 088	–	(2 887)	(7 215)
Dividend income	5 977	–	–	–	5 977
Funding and other net related income	–	–	–	3 536	3 536
	7 694	**6 427**	**(86)**	**1 439**	**15 474**

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

Additional IAS 34 disclosures

Analysis of financial assets and liabilities by category of financial instruments

At 30 September 2018 £'000	At fair value through profit or loss IFRS 9 mandatory Trading	Non-trading	Designated at initial recognition
Financial assets			
Cash and balances at central banks	–	695	–
Loans and advances to banks	–	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	24 229	–	–
Sovereign debt securities	–	201 320	–
Bank debt securities	–	54 619	–
Other debt securities	–	189 203	–
Derivative financial instruments	610 332	–	–
Securities arising from trading activities	316 560	7 215	459 533
Investment portfolio	–	464 994	–
Loans and advances to customers	–	840 147	73 508
Other loans and advances	–	–	–
Other securitised assets	–	–	126 595
Interests in associated undertakings	–	–	–
Deferred taxation assets	–	–	–
Other assets	–	13 822	–
Property and equipment	–	–	–
Investment properties	–	–	–
Goodwill	–	–	–
Intangible assets	–	–	–
	951 121	**1 772 015**	**659 636**
Financial liabilities			
Deposits by banks	–	–	–
Derivative financial instruments	651 702	–	–
Other trading liabilities	85 079	–	–
Repurchase agreements and cash collateral on securities lent	–	–	–
Customer accounts (deposits)	–	–	–
Debt securities in issue	–	–	390 098
Liabilities arising on securitisation of other assets	–	–	121 161
Current taxation liabilities	–	–	–
Deferred taxation liabilities	–	–	–
Other liabilities	–	–	–
	736 781	**–**	**511 259**
Subordinated liabilities	–	–	385 060
	736 781	**–**	**896 319**

At fair value through other comprehensive income					
Debt instrument with dual business model	Total instruments at fair value	Amortised cost	Non-financial instruments or scoped out of IFRS 9	Total BS
–	695	3 882 008	–	3 882 703
–	–	882 183	–	882 183
–	24 229	657 047	–	681 276
1 086 610	1 287 930	–	–	1 287 930
–	54 619	–	–	54 619
–	189 203	177 058	–	366 261
–	610 332	–	–	610 332
–	783 308	–	–	783 308
–	464 994	–	–	464 994
527 284	1 440 939	8 586 755	–	10 027 694
–	–	263 437	–	263 437
–	126 595	–	–	126 595
–	–	–	6 958	6 958
–	–	–	144 689	144 689
–	13 822	722 061	371 375	1 107 258
–	–	–	97 902	97 902
–	–	–	14 500	14 500
–	–	–	261 255	261 255
–	–	–	98 726	98 726
1 613 894	**4 996 666**	**15 170 549**	**995 405**	**21 162 620**
–	–	1 414 371	–	1 414 371
–	651 702	–	–	651 702
–	85 079	–	–	85 079
–	–	155 159	–	155 159
–	–	12 743 472	–	12 743 472
–	390 098	1 573 300	–	1 963 398
–	121 161	–	–	121 161
–	–	–	156 289	156 289
–	–	–	20 501	20 501
–	–	799 746	165 612	965 358
–	**1 248 040**	**16 686 048**	**342 402**	**18 276 490**
–	385 060	418 828	–	803 888
–	**1 633 100**	**17 104 876**	**342 402**	**19 080 378**

Additional IAS 34 disclosures

(continued)

Fair value hierarchy

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		
£'000	**Total instruments at fair value**	**Level 1**	**Level 2**	**Level 3**
30 September 2018				
Assets				
Cash and balances at central banks	695	695	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	24 229	–	24 229	–
Sovereign debt securities	1 287 930	1 287 930	–	–
Bank debt securities	54 619	54 619	–	–
Other debt securities	189 203	–	103 923	85 280
Derivative financial instruments	610 332	–	572 980	37 352
Securities arising from trading activities	783 308	776 034	59	7 215
Investment portfolio	464 994	31 413	8 207	425 374
Loans and advances to customers	1 440 939	–	–	1 440 939
Other securitised assets	126 595	–	–	126 595
Other assets	13 822	13 822	–	–
	4 996 666	**2 164 513**	**709 398**	**2 122 755**
Liabilities				
Derivative financial instruments	651 702	285	631 372	20 045
Other trading liabilities	85 079	85 079	–	–
Debt securities in issue	390 098	–	390 098	–
Liabilities arising on securitisation of other assets	121 161	–	–	121 161
Subordinated liabilities	385 060	385 060	–	–
	1 633 100	**470 424**	**1 021 470**	**141 206**
Net assets/(liabilities) at fair value	**3 363 566**	**1 694 089**	**(312 072)**	**1 981 549**

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 current period there were no significant transfers between level 1 and level 2.

Fair value hierarchy *(continued)*

The following table is a reconciliation of the opening balances to the closing balances for fair value instruments in level 3 of the fair value hierarchy:

£'000	Total level 3 financial instruments	Fair value through profit and loss instruments	Fair value through other comprehensive income
Balance as at 31 March 2018	**600 387**	**563 422**	**36 965**
Adoption of IFRS 9	1 240 100	862 821	377 279
Balance as at 1 April 2018	**1 840 487**	**1 426 243**	**414 244**
Total gains or losses	68 618	48 603	20 015
In the income statement	68 360	48 603	19 757
In the statement of comprehensive income	258	–	258
Purchases	723 728	495 482	228 246
Sales	(336 471)	(290 509)	(45 962)
Issues	2 670	2 670	–
Settlements	(386 999)	(300 204)	(86 795)
Transfers into level 3	–	–	–
Transfers out of level 3	–	–	–
Foreign exchange adjustments	69 516	60 076	9 440
Balance as at 30 September 2018	**1 981 549**	**1 442 361**	**539 188**

The group transfers between levels within the fair value hierarchy 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 six months to 30 September 2018 £'000	Total	Realised	Unrealised
Total gains or (losses) included in the income statement for the period			
Net interest income	49 756	38 687	11 069
Investment income	11 533	23 496	(11 963)
Trading income arising from customer flow	7 071	1 334	5 737
	68 360	**63 517**	**4 843**
Total gains or (losses) included in other comprehensive income for the period			
Gains on realisation on debt instruments at FVOCI recycled through the income statement	19 757	19 757	–
Fair value movements on debt instruments at FVOCI taken directly to other comprehensive income	258	–	258
	20 015	**19 757**	**258**

For the period ended 30 September 2018, there were no significant transfers from level 3 into level 2. There were no transfers from level 2 to the level 3 category.

Additional IAS 34 disclosures

(continued)

The following table sets out the group's principal valuation techniques as at 30 September 2018 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	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, forex forward 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 Comparable quoted inputs	Discount rate and fund unit price 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:

30 September 2018	Balance sheet value £'000	Significant unobservable input	Range of unobservable input used	Favourable changes £'000	Unfavourable changes £'000
Assets					
Other debt securities	85 280	Potential impact on income statement		7 627	(7 539)
		Cash flow adjustments	CPR 8.6%	–	(68)
		Credit spreads	5.1%	140	(136)
		Other^	^	7 487	(7 335)
Derivative financial instruments	37 352	Potential impact on income statement		6 836	(9 173)
		Volatilities	4% – 9%	212	(212)
		Cash flow adjustments	CPR 7.6% – 11.2%	110	(101)
		Underlying asset value^^	^^	5 684	(8 029)
		Other^	^	830	(831)
Securities arising from trading activities	7 215	Potential impact on income statement			
		Cash flow adjustments	CPR 9.2%	1 125	(991)
Investment portfolio	425 374	Potential impact on income statement		78 987	(74 472)
		Price earnings multiple	4.0x – 10.3x	6 117	(5 828)
		WACC	20.0%	29 594	(35 004)
		Underlying asset value^^	^^	9 472	(3 029)
		Other^	^	33 804	(30 611)
Loans and advances to customers	1 440 939	Potential impact on income statement		40 113	(50 083)
		Credit spreads	0.2% – 29.0%	4 202	(6 048)
		Underlying asset value^^	^^	2 130	(1 715)
		Other^	^	33 781	(42 320)
		Potential impact on other comprehensive income			
		Credit spreads	0.1% – 5.1%	1 135	(1 615)
Other securitised assets*	126 595	Potential impact on income statement			
		Cash flow adjustments	CPR 7.7%	723	(728)
Total level 3 assets	**2 122 755**			**136 546**	**(144 601)**
Liabilities					
Derivative financial instruments	20 045	Potential impact on income statement		(9 085)	7 268
		Cash flow adjustments	CPR 7.6% – 11.2%	(81)	89
		Volatilities	8.5%	(2)	2
		Underlying asset value^^	^^	(9 002)	7 177
Liabilities arising on securitisation of other assets*	121 161	Potential impact on income statement			
		Cash flow adjustments	CPR 8.0%	(244)	205
Total level 3 liabilities	**141 206**			**(9 329)**	**7 473**
Net level 3 assets	**1 981 549**				

* *The sensitivity of the fair value of liabilities arising on securitisation of other assets has been considered together with other securitised assets.*

^ *Other – The valuation sensitivity has been assessed by adjusting various inputs such as expected cash flows, discount rates, earnings multiples rather than a single input. It is deemed appropriate to reflect the outcome on a portfolio basis for the purposes of this analysis as the sensitivity of the assets cannot be determined through the adjustment of a single input.*

^^ *Underlying asset values are calculated by reference to a tangible asset, for example property, aircraft or shares.*

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. It is an unobservable input into a discounted cash flow valuation.

Discount rates

Discount rates (including WACC) are used to adjust for the time value of money when using a discounted cash flow calculation method where relevant, the discount rate also accounts for illiquidity, market conditions and uncertainty of future 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. Cash flows are input into a discounted cash flow valuation.

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.

Underlying asset value

In instances where cash flows have links to referenced assets, the underlying asset value is used to determine the fair value. The underlying asset valuation is derived using observable market prices sourced from broker quotes, specialist valuers or other reliable pricing sources.

Fair value of financial instruments at amortised cost

The table below sets out the fair value of financial instruments held at amortised cost where carrying value is not a reasonable approximation of fair value.

At 30 September 2018 £'000	Carrying amount	Fair value
Assets		
Cash and balances at central banks^	3 882 008	3 882 008
Loans and advances to banks^	882 183	882 183
Reverse repurchase agreements and cash collateral on securities borrowed	657 047	657 041
Other debt securities	177 058	177 634
Loans and advances to customers	8 586 755	8 562 351
Other loans and advances	263 437	270 431
Other assets	722 061	723 185
	15 170 549	**15 154 833**
Liabilities		
Deposits by banks	1 414 371	1 421 841
Repurchase agreements and cash collateral on securities lent^	155 159	155 159
Customer accounts (deposits)	12 743 472	12 714 190
Debt securities in issue	1 573 300	1 569 707
Other liabilities	799 746	799 300
Subordinated liabilities	418 828	416 203
	17 104 876	**17 076 400**

^ *Financial instruments for which fair value approximates carrying value.*

Expected credit losses impairment charges/(releases)/impairment losses on loans and advances* For the six months to 30 September £'000	2018	2017
Expected credit losses impairment charges/(releases) have arisen on the following line items:		
Loans and advances to customers	19 219	–
Other balance sheet assets	(8 384)	–
Off-balance sheet commitments	(472)	–
Impairment losses on loans and advances	–	37 631
	10 363	**37 631**

Operating costs For the six months to 30 September £'000	2018	2017
Staff costs	300 701	277 026
Premises expenses (excluding depreciation)	25 783	21 166
Equipment expenses (excluding depreciation)	20 140	20 055
Business expenses	51 680	41 381
Marketing expenses	6 321	12 829
Depreciation, amortisation and impairment of property, equipment and intangibles	7 007	5 858
Depreciation on operating leased assets	1 167	1 149
	412 799	**379 464**

Reverse repurchase agreements and cash collateral on securities borrowed and repurchase agreements and cash collateral on securities lent £'000	30 Sept 2018	31 March 2018
Assets		
Gross reverse repurchase agreements and cash collateral on securities borrowed	681 458	750 428
Expected credit loss*	(182)	–
Net reverse repurchase agreements and cash collateral on securities borrowed	**681 276**	**750 428**
Reverse repurchase agreements	534 395	665 374
Cash collateral on securities borrowed	146 881	85 054
	681 276	**750 428**
Liabilities		
Repurchase agreements	19 396	52 769
Cash collateral on securities lent	135 763	115 871
	155 159	**168 640**

Extract of other debt securities £'000	30 Sept 2018	31 March 2018
Gross other debt securities	366 683	288 349
Expected credit loss*	(422)	–
Net other debt securities	**366 261**	**288 349**
Bonds	198 046	214 214
Commercial paper	9 663	9 875
Asset-backed securities	158 552	64 260
	366 261	**288 349**

Extract of securities arising from trading activities £'000	30 Sept 2018	31 March 2018
Asset-backed securities	7 215	6 754
Bonds	123 535	150 160
Government securities	372 530	346 206
Listed equities	280 028	198 608
	783 308	**701 728**

* *On adoption of IFRS 9, there is a move from an incurred loss model to an expected credit loss methodology.*

Additional IAS 34 disclosures

(continued)

Extract of loans and advances to customers and other loans and advances £'000	30 Sept 2018	31 March 2018
Gross loans and advances to customers at amortised cost	8 747 662	9 681 272
Gross loans and advances to customers at FVOCI^	527 284	–
Gross loans and advances to customers subject to expected credit loss/impairment charges	**9 274 946**	**9 681 272**
Expected credit loss on loans and advances to customers at amortised cost and FVOCI*^	(160 907)	–
Impairments of loans and advances to customers*	–	(151 840)
Net loans and advances to customers at amortised cost and FVOCI^	**9 114 039**	**9 529 432**
Loans and advances to customers at fair value through profit and loss	913 655	133 740
	10 027 694	**9 663 172**
Gross other loans and advances	263 437	418 569
Expected credit loss on other loans and advances	–	–
Impairments of other loans and advances	–	(822)
	263 437	**417 747**

* *On adoption of IFRS 9, there is a move from an incurred loss model to an expected credit loss methodology on all amortised cost and FVOCI assets.*

^ *Expected credit losses above do not include £1.9 million ECL held against financial assets held at FVOCI. This is reported on the balance sheet within the fair value reserve.*

Other securitised assets £'000	30 Sept 2018	31 March 2018
Loans and advances to customers	120 090	125 172
Other debt securities	6 505	7 000
	126 595	**132 172**

Other assets £'000	30 Sept 2018	31 March 2018
Settlement debtors	647 877	665 066
Trading properties	149 683	98 961
Prepayments and accruals	134 232	99 305
Trading initial margins	13 822	57 218
Other	161 644	92 890
	1 107 258	**1 013 440**

Debt securities in issue £'000	30 Sept 2018	31 March 2018
Repayable in:		
Less than three months	15 918	7 712
Three months to one year	92 004	55 583
One to five years	1 168 963	1 053 582
Greater than five years	686 513	825 992
	1 963 398	**1 942 869**
Analysis by customers type:		
Retail	971 231	968 873
Wholesale	992 167	955 996
	1 963 398	**1 942 869**

Other liabilities £'000	30 Sept 2018	31 March 2018
Settlement liabilities	606 863	625 997
Other creditors and accruals	259 048	300 539
Other non-interest-bearing liabilities	96 631	82 563
Expected credit loss on off-balance sheet	2 816	–
	965 358	**1 009 099**

Extract of deferred taxation £'000	30 Sept 2018	31 March 2018
Losses carried forward	**8 630**	**8 850**

Extract of subordinated liabilities £'000	30 Sept 2018	31 March 2018
Issued by Investec Bank plc		
Remaining maturities:		
In one year or less, or on demand	–	–
In more than one year, but not more than two years	–	–
In more than two years, but not more than five years	385 060	579 673
In more than five years	418 828	–
	803 888	**579 673**

Medium-term notes

Subordinated fixed rate medium-term notes (denominated in Pounds Sterling)

On 17 February 2011 Investec Bank plc issued £500 000 000 of 9.625% subordinated notes due 2022 at a discount (2022 notes). Interest is paid annually. The notes are listed on the London Stock Exchange. The notes are redeemable at par on 17 February 2022.

On 29 June 2011 Investec Bank plc issued £75 000 000 of 9.625% subordinated notes due 2022 at a premium (2022 notes) (to be consolidated and form a single series, and to be fungible, with the £500 000 000 2022 notes issued on 17 February 2011).

On 17 July 2018 Investec Bank plc completed a tender offer to redeem a portion of the 2022 notes at a premium, £267 038 000 of notes were redeemed.

On 24 July 2018 Investec Bank plc issued £420 000 000 of 4.250% subordinated notes due 2028 at a discount (2028 notes). Interest is paid annually. The notes are listed on the London Stock Exchange. The notes are redeemable at par on 24 July 2028.

Additional IAS 34 disclosures

(continued)

Offsetting

At 30 September 2018 £'000	Gross amounts	Amounts offset	Net amounts reported on the balance sheet	Financial instruments (including non-cash collateral)	Cash collateral	Net amount
	Amounts subject to enforceable netting arrangements					
	Effects of offsetting on balance sheet			Related amounts not offset		
Assets						
Cash and balances at central banks	3 882 703	–	3 882 703	–	–	3 882 703
Loans and advances to banks	882 183	–	882 183	–	(124 071)	758 112
Reverse repurchase agreements and cash collateral on securities borrowed	681 276	–	681 276	(83 279)	(1 639)	596 358
Sovereign debt securities	1 287 930	–	1 287 930	(13 677)	–	1 274 253
Bank debt securities	54 619	–	54 619	–	–	54 619
Other debt securities	366 261	–	366 261	–	–	366 261
Derivative financial instruments	610 332	–	610 332	(198 038)	(179 819)	232 475
Securities arising from trading activities	783 308	–	783 308	(510 484)	–	272 824
Investment portfolio	464 994	–	464 994	–	–	464 994
Loans and advances to customers	10 027 694	–	10 027 694	–	–	10 027 694
Other loans and advances	263 437	–	263 437	–	(1 192)	262 245
Other securitised assets	126 595	–	126 595	–	–	126 595
Other assets	1 123 751	(16 493)	1 107 258	–	–	1 107 258
	20 555 083	**(16 493)**	**20 538 590**	**(805 478)**	**(306 721)**	**19 426 391**
Liabilities						
Deposits by banks	1 414 371	–	1 414 371	–	(223 637)	1 190 734
Derivative financial instruments	651 702	–	651 702	(248 555)	(32 757)	370 390
Other trading liabilities	85 079	–	85 079	(83 279)	–	1 800
Repurchase agreements and cash collateral on securities lent	171 652	(16 493)	155 159	(92 939)	(271)	61 949
Customer accounts (deposits)	12 743 472	–	12 743 472	–	(14 310)	12 729 162
Debt securities in issue	1 963 398	–	1 963 398	(380 705)	(9 393)	1 573 300
Liabilities arising on securitisation of other assets	121 161	–	121 161	–	–	121 161
Other liabilities	965 358	–	965 358	–	–	965 358
Subordinated liabilities	803 888	–	803 888	–	–	803 888
	18 920 081	**(16 493)**	**18 903 588**	**(805 478)**	**(280 368)**	**17 817 742**

Offsetting *(continued)*

		Amounts subject to enforceable netting arrangements				
	Effects of offsetting on balance sheet			Related amounts not offset		
At 31 March 2018 £'000	**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	3 487 768	–	3 487 768	–	–	3 487 768
Loans and advances to banks	772 984	–	772 984	–	(156 445)	616 539
Reverse repurchase agreements and cash collateral on securities borrowed	750 428	–	750 428	(84 465)	–	665 963
Sovereign debt securities	1 155 472	–	1 155 472	(105 428)	–	1 050 044
Bank debt securities	107 938	–	107 938	(8 506)	–	99 432
Other debt securities	288 349	–	288 349	–	–	288 349
Derivative financial instruments	610 201	–	610 201	(204 142)	(112 767)	293 292
Securities arising from trading activities	701 728	–	701 728	(522 357)	–	179 371
Investment portfolio	472 083	–	472 083	–	–	472 083
Loans and advances to customers	9 663 172	–	9 663 172	–	–	9 663 172
Other loans and advances	417 747	–	417 747	–	–	417 747
Other securitised assets	132 172	–	132 172	–	–	132 172
Other assets	1 032 705	(19 265)	1 013 440	–	–	1 013 440
	19 592 747	**(19 265)**	**19 573 482**	**(924 898)**	**(269 212)**	**18 379 372**
Liabilities						
Deposits by banks	1 295 847	–	1 295 847	–	(141 152)	1 154 695
Derivative financial instruments	533 319	–	533 319	(260 409)	(67 545)	205 365
Other trading liabilities	103 496	–	103 496	(84 465)	–	19 031
Repurchase agreements and cash collateral on securities lent	187 905	(19 265)	168 640	(119 460)	(14 463)	34 717
Customer accounts (deposits)	11 969 625	–	11 969 625	–	(8 390)	11 961 235
Debt securities in issue	1 942 869	–	1 942 869	(460 564)	(10 175)	1 472 130
Liabilities arising on securitisation of other assets	127 853	–	127 853	–	–	127 853
Other liabilities	1 009 099	–	1 009 099	–	–	1 009 099
Subordinated liabilities	579 673	–	579 673	–	–	579 673
	17 749 686	**(19 265)**	**17 730 421**	**(924 898)**	**(241 725)**	**16 563 798**

Additional IAS 34 disclosures

(continued)

Transition disclosures

Reconciliation of movements and revaluation

The table below reflects the impact of IFRS 9 implementation on the balance sheet lines and shows movements between amortised cost and fair value:

Only assets and liabilities which have changes are shown.

£'000	IAS 39 carrying amount 31 March 2018	Reclassifications (in)	Reclassifications (out)	Remeasurements and ECLs	IFRS 9 carrying amount 1 April 2018
Financial assets at amortised cost (previously loans and receivables)					
Cash and balances at central banks	3 479 984	–	–	(52)	3 479 932
Loans and advances to banks	772 984	–	–	(753)	772 231
Reverse repurchase agreements and cash collateral on securities borrowed	712 550	–	–	(326)	712 224
Bank debt securities	107 938	–	(49 301)	(48)	58 589
Other debt securities	209 250	29 098	(87 887)	(5 174)	145 287
Loans and advances to customers	9 529 432	–	(1 191 063)	(109 875)	8 228 494
Other loans and advances	417 747	–	(2 454)	(2 078)	413 215
Other assets	730 754	–	–	*	730 754
Financial assets at fair value through profit or loss (mandatory and designated)^					
Cash and balances at central banks	7 784	–	–	–	7 784
Bank debt securities	–	52 044	–	2 641	54 685
Other debt securities	79 099	87 887	(29 098)	(1 236)	136 652
Derivative financial instruments	610 201	–	(5 353)	–	604 848
Securities arising from trading activities	701 728	–	–	–	701 728
Investment portfolio	472 083	–	–	–	472 083
Loans and advances to customers	133 740	1 193 673	–	(16 049)	1 311 364
Other loans and advances	–	2 454	–	(3)	2 451
Other securitised assets	132 172	–	–	–	132 172
Other assets	57 218	–	–	–	57 218
Financial liabilities at amortised cost					
Other liabilities	(790 689)	–	–	(5 857)	(796 546)
Subordinated liabilities	(579 673)	–	579 673	–	–
Financial liabilities at fair value					
Subordinated liabilities	–	(579 673)	–	(136 891)	(716 564)
Off balance sheet exposures[1]					
Guarantees	–	–	–	(139)	(139)
Committed facilities related to loans and advances to customers	–	–	–	(5 715)	(5 715)

1 *ECL on off balance sheet exposures is booked as a provision in other liabilities.*
* *Less than £1 000.*
^ *Includes £402 million of sell down exposures held at fair value through other comprehensive income.*

Transition disclosures *(continued)*

Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles prior year's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 April 2018:

£'000	Loan loss allowance under IAS 39/Provision under IAS 37	Reclassification	Remeasurement	ECL under IFRS 9
Loans and receivables (IAS 39)/Financial assets at amortised cost (IFRS 9)				
Cash and balances at central banks	–	–	(52)	(52)
Loans and advances to banks	–	–	(753)	(753)
Reverse repurchase agreements and cash collateral on securities borrowed	–	–	(326)	(326)
Bank debt securities	–	–	(48)	(48)
Sovereign debt securities	–	–	–	–
Other debt securities	(5 087)	4 803	(5 174)	(5 458)
Loans and advances to customers	(151 840)	15 980	(109 875)	(245 735)
Other loans and advances	(822)	–	(2 078)	(2 900)
Other assets	–	–	–	–
	(157 749)	**20 783**	**(118 306)**	**(255 272)**
Available for sale/Financial assets FVOCI (IFRS 9)				
Sovereign debt securities	–	–	(461)	(461)
Loans and advances to customers	–	–	(1 687)	(1 687)
	–	**–**	**(2 148)**	**(2 148)**
Loan commitments and financial guarantee contracts				
Guarantees	–	–	(139)	(139)
Committed facilities (core loans)	–	–	(5 715)	(5 715)
	–	**–**	**(5 854)**	**(5 854)**
Total	**(157 749)**	**20 783**	**(126 308)**	**(263 274)**

Accounting policies

The group accounting policies related to financial instruments, which have been significantly changed as the result of the implementation of IFRS 9, are applicable with effect from 1 April 2018, and are set out below. The full set of accounting policies is set out in the 2018 annual report.

Standards adopted during the year ending 31 March 2019

The requirements of IFRS 9 'Financial Instruments' were adopted from 1 April 2018. IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting, which the group has exercised.

The adoption of IFRS 9 includes the adoption of 'Prepayment Features with Negative Compensation (Amendments to IFRS 9)' which is effective for annual periods beginning on or after 1 January 2019 with early adoption permitted. This amendment was endorsed by the EU in March 2018 and the group has decided to apply the amendment from 1 April 2018 in order to reflect all of the effects of IFRS 9 at the same time.

The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirement to restate comparative periods. The group is not restating comparatives on initial application as permitted by IFRS 9.

Financial instruments

Financial instruments are initially recognised at their fair value. For financial assets or financial liabilities not held at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial assets or financial liabilities are included in the initial measurement. All other transaction costs are recorded in the income statement immediately. Regular way purchase and sales transactions in respect of financial assets that require delivery of a financial instrument within the timeframe established by market convention are recorded at trade date.

Business model assessment

For financial assets, IFRS 9 requires that a business model assessment is carried out which reflects how the group manages the assets in order to generate cash flows. The assessment is at a portfolio level, being the level at which the portfolio is managed. Factors considered by the group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the assets' performance is evaluated and reported and how risks are assessed and managed.

The standard sets out different types of business model:

- **Hold to collect:** it is intended to hold the asset to maturity to earn interest, collecting repayments of principal and interest from the customer. These assets are accounted for at amortised cost.
- **Hold to collect and sell:** this model is similar to the hold to collect model, except that the entity may elect to sell some or all of the assets before maturity to achieve the objectives of the business model. These assets are accounted for at FVOCI.
- **Hold to sell/managed on a fair value basis:** the entity originates or purchases an asset with the intention of disposing of it in the short or medium term to benefit from capital appreciation or the portfolio is managed on a fair share basis. These assets are accounted for at FVPL.

However, the group may make the following irrevocable election/designation at initial recognition of a financial asset on an asset-by-asset basis:

- elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, in OCI; and
- a debt instrument that meets the amortised cost or FVOCI criteria as measured at FVPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

The classification into one of these categories is based on the entity's business model for managing the assets and the contractual cash flow characteristics of the assets.

Solely payment of principal and interest (SPPI)

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the group assesses whether the assets' cash flows represent solely payments of principal and interest (the SPPI test). In making this assessment, the group considers whether the contractual cash flows are consistent with a basic lending arrangement (i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement). Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related asset is classified and measured at FVPL.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

Financial assets and liabilities measured at amortised cost

Financial assets that are held to collect the contractual cash flows and that contain contractual terms that give rise to cash flows that are solely payments of principal and interest, such as most loans and advances to banks and customers and some debt securities, are measured at amortised cost. In addition, most financial liabilities are measured at amortised cost.

The group may commit to provide a loan which has not yet been drawn. When the loan that arises from the lending commitment is expected to meet the criteria to be measured at amortised cost the undrawn commitment is also considered to be and is included in the impairment calculation below.

The carrying value of these financial assets at initial recognition includes any directly attributable transactions costs. If the initial fair value is lower than the cash amount advanced, such as in the case of some leveraged finance and syndicated lending activities, the difference is deferred and recognised over the life of the loan through the recognition of interest income, unless the loan is credit impaired.

Financial assets and liabilities measured at fair value through other comprehensive income (FVOCI)

Financial assets held for a business model that is achieved by both collecting contractual cash flows and selling and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at FVOCI. They are recognised on the trade date when the group enters into contractual arrangements to purchase and are normally derecognised when they are either sold or redeemed.

They are subsequently remeasured at fair value and changes therein (except for those relating to impairment, interest income and foreign currency exchange gains and losses) are recognised in other comprehensive income until the assets are sold. Upon disposal, the cumulative gains or losses in other comprehensive income are recognised in the income statement as 'Gains less losses arising from derecognition of debt instruments measured at fair value through other comprehensive income'.

Financial assets measured at FVOCI are included in the impairment calculations set out below and impairment is recognised in profit or loss.

Impairment of financial assets held at amortised cost or FVOCI

At each balance sheet date each financial asset or portfolio of advances categorised at amortised cost or at fair value through other comprehensive income, issued financial guarantee and loan commitment is measured for ECL impairment. Loss allowances are forward-looking, based on 12 month expected credit losses where there has not been a significant increase in credit risk rating, otherwise allowances are based on lifetime expected losses.

Expected credit losses are a probability-weighted estimate of credit losses. The probability is determined by the risk of default which is applied to the cash flow estimates. On a significant increase in credit risk, credit losses are rebased from 12 month to lifetime expectations. A change in credit risk is typically but not necessarily associated with a change in the expected cash flows.

The costs of loss allowances on assets held at amortised cost are presented as impairments in the income statement. Allowances in respect of financial guarantees and loan commitments are presented as other liabilities and charges recorded within income statement impairments. Financial assets held at amortised cost are presented net of allowances except where the asset has been wholly or partially written off.

Financial assets where 12-month ECL is recognised are considered to be 'Stage 1, financial assets which are considered to have experienced a significant increase in credit risk are in 'Stage 2', and financial assets for which there is objective evidence of impairment so are considered to be in default or otherwise credit-impaired are in 'Stage 3'.

Financial assets and liabilities held at fair value through profit or loss

Financial instruments held at fair value through profit or loss include all instruments classified as held-for-trading those instruments designated as held at fair value through profit or loss and those financial assets which do not meet the criteria for amortised cost or FVOCI.

Financial instruments classified as FVPL are initially recorded at fair value on the balance sheet with changes in fair value subsequently recognised in the income statement. Financial instruments are classified as trading when they are held with the intention of short-term disposal, held with the intention of generating short-term profit, or are derivatives which are not designated as part of effective hedges. Financial instruments designated as held at fair value through profit or loss are designated as such on initial recognition of the instrument and remain in this classification until derecognition.

Own credit risk on financial liabilities designated at fair value is recognised in other comprehensive income.

Financial assets and liabilities are designated as held at fair value through profit or loss only if:

- they eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- a group of financial liabilities or both financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy and information about the group is provided internally on that basis to the group's key management personnel; or
- a financial liability contract contains one or more embedded derivatives (which significantly modifies the cash flows that would be required by the contract and is not clearly prohibited from separation from the host contract) and the group has designated the entire hybrid contract as a financial instrument at fair value through profit or loss.

Securitisation/credit investment and trading activities exposures

The group makes use of securitisation vehicles as a source of finance, as a means of risk transfer and to leverage returns through the retention of equity tranches in low default rate portfolios. The group predominantly focuses on the securitisation of lease receivables. The group also trades in structured credit investments.

The structured entities are consolidated under IFRS 10 Consolidated Financial Statements when the group has exposure to or rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Loans and advances that are originated are transferred to structured entities, and the structured entities issue debt securities to external investors to fund the purchase of the securitised assets. When the group consolidates the structured entity, the group recognises the assets and liabilities on a gross basis. When the group does not consolidate the structured entity, the securitised assets are derecognised and only any position still held by the group in the structured entity is reflected.

Day-one profit or loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on the valuation technique whose variables include only data from observable markets, the difference between the transaction price and fair value is recognised immediately in the income statement.

In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the income statement when the inputs become observable, or when the instrument is derecognised or over the life of the transaction.

Derecognition of financial assets and liabilities

A financial asset, or a portion thereof, is derecognised when the group's rights to cash flows have expired or when the group has transferred its rights to cash flows relating to the financial assets and either (a) the group has transferred substantially all the risks and rewards associated with the financial assets or (b) the group has neither transferred nor retained substantially all the risks and rewards associated with the financial assets but has transferred control of the assets.

The treatment of a renegotiation or modification of the contractual cash flows of a financial asset depends upon whether the modification is done for commercial reasons, in which case if they are significant the old asset is derecognised and a new asset recognised, or because of financial difficulties of the borrower.

A financial liability is derecognised when it is extinguished, that is when the obligation is discharged, cancelled or expired. When an existing financial liability is replaced or modified with substantially different terms, such a replacement or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

Reclassification of financial instruments

Financial assets are only reclassified where there has been a change in business model. Financial liabilities cannot be reclassified.

Derivative financial instruments

All derivative instruments of the group are recorded on the balance sheet at fair value. Positive and negative fair values are reported as assets and liabilities respectively.

Derivative positions are entered into either for trading purposes or as part of the group's asset and liability management activities to manage exposures to interest rate and foreign currency risks. Both realised and unrealised profit or losses arising on derivatives are recognised in the income statement as part of trading income (other than circumstances in which cash flow hedging is applied as detailed in the hedge accounting section below).

Derivative instruments entered into as economic hedges which do not qualify for hedge accounting and derivatives that are entered into for trading purposes are treated in the same way as instruments that are held-for-trading.

Credit derivatives are entered into for trading purposes. Credit derivatives are initially recognised at their fair values, being the transaction price of the derivative. Subsequently the derivatives are carried at fair value, with movements in fair value through profit or loss, based on the current market price or remeasured price. The counterparty risk from derivative transactions is taken into account when reporting the fair value of derivative positions. The adjustment to the fair value is known as the credit value adjustment (CVA).

Hedge accounting

The group applies either fair value or hedge of net investments in foreign operations accounting when the transactions meet the specified hedge accounting criteria. To qualify for hedge accounting treatment, the group ensures that all of the following conditions are met:

- At inception of the hedge, the group formally documents the relationship between the hedging instrument(s) and hedged item(s) including the risk management objectives and the strategy in undertaking the hedge transaction. Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. A hedge is expected to be highly effective if the changes in fair value attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%.
- The effectiveness of the hedge can be reliably measured, i.e. the fair value of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured.
- The hedge effectiveness is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

For qualifying fair value hedges, the change in fair value of the hedging instrument is recognised in the income statement. Changes in fair value of the hedged item that is attributable to the hedged risk are also recognised in the income statement.

Embedded derivatives

To the extent that a derivative may be embedded in a hybrid contract for a financial liability and the hybrid contract is not carried at fair value with changes in fair value recorded in the income statement, the embedded derivative is separated from the host contract and accounted for as a standalone derivative if and only if:

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; and
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset when there is both an intention to settle on a net basis (or simultaneously) and a currently enforceable legal right to offset exists.

Issued debt and equity financial instruments

Financial instruments issued by the group are classified as liabilities if they contain a contractual obligation to deliver cash or another financial asset.

Financial instruments issued by the group are classified as equity where they confer on the holder a residual interest in the group, and the group has no obligation to deliver either cash or another financial asset to the holder. The components of compound issued financial instruments are accounted for separately with the liability component separated first and any residual amount being allocated to the equity component.

Equity instruments issued by subsidiaries of Investec Bank plc are recorded as non-controlling interests on the balance sheet. Equity instruments are initially measured net of directly attributable issue costs.

Treasury shares represent Investec plc shares repurchased by the group which has not been cancelled. Treasury shares are deducted from shareholders' equity and represent the purchase consideration, including directly attributable costs. Where treasury shares are subsequently sold or reissued, net proceeds received are included in shareholders' equity.

Dividends on ordinary shares are recognised as a deduction from equity at the earlier of payment date or the date that it is approved by Investec plc shareholders.

Sale and repurchase agreements (including securities borrowing and lending)

Securities sold subject to a commitment to repurchase, at a fixed price or a selling price plus a lender's return, remain on balance sheet. Proceeds received are recorded as a liability on balance sheet under 'repurchase agreements and cash collateral on securities lent'. Securities that are purchased under a commitment to resell the securities at a future date are not recognised on the balance sheet. The consideration paid is recognised as an asset under 'reverse repurchase agreements and cash collateral on securities borrowed'.

The difference between the sale and repurchase prices is treated as interest income/expense and is accrued over the life of the agreement using the effective interest method.

Securities borrowing transactions that are not cash collateralised are not included on the balance sheet. Securities lending and borrowing transactions which are cash collateralised are accounted for in the same manner as securities sold or purchased subject to repurchase commitments.

Financial guarantees

Financial guarantee contracts issued by the group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due, in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at fair value, adjusted for the transaction costs that are directly attributable to the issuance of the guarantee.

Subsequent to initial recognition, the liability under each guarantee is measured at the higher of the amount recognised less cumulative amortisation and any impairment calculated as set out above. Subsequent to initial measurement, all changes in the balance sheet carrying value are recognised in the income statement.

The following risk management and capital section will provide detail on the quantitative disclosure for the six months to 30 September 2018. For additional qualitative disclosures, definitions and descriptions, please refer to our annual financial statements for the year ended 31 March 2018 and our IFRS 9 Financial Instruments combined transition report as at 1 April 2018.

Credit and counterparty risk management

Credit and counterparty risk is assumed through a range of client-driven lending activities with private and corporate clients as well as through other counterparties, such as financial institutions and sovereigns. These activities are diversified across a number of business activities.

Credit and counterparty risk governance structure

To manage, measure, monitor and mitigate credit and counterparty risk, independent credit committees exist in each geography where we assume credit risk. These committees operate under board-approved delegated limits, policies and procedures. There is a high level of executive involvement and non-executive review and oversight in the credit decision-making forums depending on the size and complexity of the deal. It is our policy that all centralised credit committees are comprised of voting members who are independent of the originating business unit. All decisions to enter into a transaction are based on unanimous consent.

In addition to the credit committees, the following processes assist in managing, measuring and monitoring credit and counterparty risk. The scope of these forums and committees have been adjusted where necessary to incorporate changes to governance processes arising from IFRS 9 implementation:

- Day-to-day arrears management and regular arrears reporting ensure that individual positions and any potential trends are dealt with in a timely manner.
- Watchlist committees review the management of distressed loans, potential problem loans and exposures in arrears that require additional attention and supervision. These committees review ECL impairments and staging at an asset level as well as potential fair value adjustments to loans and advances to customers and provide recommendations for the appropriate staging and level of ECL impairment if needed.
- Credit watchlist forum reviews and manages exposures that may potentially become distressed as a result of changes in the economic environment or adverse share price movements, or that are vulnerable to volatile exchange rate or interest rate movements or idiosyncratic financial distress.
- Arrears, default and recoveries forums specifically review and manage distressed loans and potentially distressed loans for private clients and corporates. These forums also review and monitor counterparties who have been granted forbearance measures.

Credit risk classification and provisioning policy

The bank has incorporated IFRS 9 requirements into the credit risk classification and provisioning policy. A framework has been established that incorporates both quantitative and qualitative measures. Any decisions in relation to significant increase in credit risk will be management decisions subject to approval by the appropriate committees. The policies for financial assets at amortised cost and at fair value through other comprehensive income (FVOCI), in accordance with IFRS 9, have been developed as described below:

Definition of default

The bank has aligned the IFRS 9 and regulatory definitions of default, credit impaired and non-performing exposure. Assets that are more than 90 days past due, or considered by management as unlikely to pay their obligations in full without realisation of collateral are considered as exposures in default.

Stage 1

All assets that are considered performing and have not had a significant increase in credit risk are reported as Stage 1 assets. Under IFRS 9 these Stage 1 financial assets have loss allowances measured at an amount equal to 12-month ECL.

Stage 2

Financial assets are considered to be in Stage 2 when their credit risk has increased significantly since initial recognition. The bank was not required to hold specific impairments against these assets under IAS 39, however, a loss allowance equivalent to a lifetime ECL is now required to be held under IFRS 9.

The bank's primary indicator for Stage 2 assets are distressed loans, potential problem loans and exposures in arrears that require additional attention and supervision from Watchlist committees and are under management review. This comprises exposures that may potentially become distressed as a result of changes in the economic environment or adverse share price movements, or that are vulnerable to volatile exchange rate or interest rate movements, or idiosyncratic financial distress, or private clients who have undergone a significant deterioration in financial circumstances.

Assets that have been subject to forbearance are considered to be, at a minimum, Stage 2. Forbearance measures refer to concessions such as modification of the terms and conditions or refinancing that has been granted to a debtor in financial difficulties. These exposures are assessed on a case by case basis to determine whether the proposed modifications will be considered as forbearance. Where the credit committee considers it likely that the client will be able to return to perform against the original contractual obligations within a reasonable timeframe these assets will be considered performing and in Stage 2. Forbearance is distinguished from commercial renegotiations which take place as part of normal business activity and standard banking practice.

In addition to loans under management review, an asset may also move from Stage 1 to Stage 2 if the model calculated probability of default (PD) has significantly increased since origination. This is tested as both a relative and absolute measure to further inform whether a significant deterioration in lifetime risk of default has occurred.

As a backstop, the bank does not rebut the presumption in IFRS 9 that all financial assets that are more than 30 days past due have experienced a significant increase in credit risk.

Exposures move back to Stage 1 once they no longer meet the criteria above for a significant increase in credit risk and as cure periods (specifically relating to forborne exposures) are met.

Stage 3

Financial assets are included in Stage 3 when there is objective evidence of credit impairment. Under IFRS 9, the bank assesses a loan as Stage 3 when contractual payments of either principal or interest are past due for more than 90 days, the debtor is assessed as unlikely to pay and credit impaired, or the loan is otherwise considered to be in default, for example due to the appointment of an administrator or in receivership. Forborne loans that are considered non-performing, for example if a loan is not expected to return to fulfil the original contractual obligations in a reasonable timeframe, will be classified as Stage 3.

The bank's policy is not to rebut the presumption in IFRS 9 that loans which are more than 90 days past due are in default.

Expected credit loss (ECL)

The assessment of credit risk and the estimation of ECL are required to be unbiased, probability-weighted and should incorporate all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment is intended to be more forward-looking than under IAS 39, and the resulting impairment charge may be more volatile.

A management overlay of £17 million (£25 million at 1 April 2018) has been considered appropriate in addition to the bank's calculated model-driven ECL. This is due to IBP's limited experience of utilising model output for reporting purposes and uncertainty over the models' predictive capability. The overlays have been designed to capture specific areas of model uncertainty during the initial adoption of IFRS 9. The model methodologies have been enhanced during the period and therefore the management overlay has been commensurately reduced at 30 Septmber 2018 to reflect the lower level of model uncertainty. The bank will continue to assess the appropriateness of this management overlay and expect that it will continue to be unwound as the uncertainty of the models predictive capability reduces.

Write-offs

The bank's policy on when financial assets are written off has not significantly changed on adoption of IFRS 9. A loan or advance is normally written off, in full, against the related allowance when the proceeds from realising any available security have been received or there is a reasonable amount of certainty that the exposure will not be recovered. Similarly the treatment and recognition of recoveries is unaffected by the implementation of IFRS 9. Any recoveries of amounts previously written off decrease the amount of impairment losses.

An analysis of gross credit and counterparty exposures

Gross credit and counterparty exposure totalled £20.3 billion at 30 September 2018. Cash and near cash balances amounted to £6.3 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. These exposures are all Stage 1. There are immaterial Stage 2 and Stage 3 exposures outside of loans and advances to customers which are small relative to the balance sheet, where loans and advances to customers (including committed facilities) account for greater than 98.9% of overall ECLs.

An analysis of gross credit and counterparty exposures

£'million	30 Sept 2018	1 April 2018
Cash and balances at central banks	3 882	3 480
Loans and advances to banks	882	773
Reverse repurchase agreements and cash collateral on securities borrowed	681	750
Sovereign debt securities	1 288	1 155
Bank debt securities	55	113
Other debt securities	366	288
Derivative financial instruments	561	525
Securities arising from trading activities	496	496
Loans and advances to customers	10 189	9 786
Other loans and advances	234	389
Other securitised assets	8	9
Other assets	53	45
Total on-balance sheet exposures	**18 695**	**17 809**
Guarantees	65	22
Committed facilities related to loans and advances to customers	1 368	1 092
Contingent liabilities, letters of credit and other	207	118
Total off-balance sheet exposures	**1 640**	**1 232**
Total gross credit and counterparty exposures	**20 335**	**19 041**

A further analysis of gross credit and counterparty exposures

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

At 30 September 2018 £'million	Total gross credit and counterparty exposure	*of which FVPL*	*of which amortised cost and FVOCI*	Expected credit losses^	Assets that we deem to have no legal credit exposure	Total assets
Cash and balances at central banks	3 882	–	3 882	–	1	3 883
Loans and advances to banks	882	–	882	–	–	882
Reverse repurchase agreements and cash collateral on securities borrowed	681	24	657	–	–	681
Sovereign debt securities	1 288	201	1 087	–	–	1 288
Bank debt securities	55	55	–	–	–	55
Other debt securities	366	189	177	–	–	366
Derivative financial instruments	561	561	–	–	49	610
Securities arising from trading activities	496	496	–	–	287	783
Investment portfolio	–	–	–	–	465*	465
Loans and advances to customers	10 189	914	9 275	(163)	–	10 026
Other loans and advances	234	–	234	–	29	263
Other securitised assets	8	8	–	–	119^^	127
Interest in associated undertakings	–	–	–	–	7	7
Deferred taxation assets	–	–	–	–	145	145
Other assets	53	–	53	–	1 054**	1 107
Property and equipment	–	–	–	–	98	98
Investment properties	–	–	–	–	15	15
Goodwill	–	–	–	–	261	261
Intangible assets	–	–	–	–	99	99
Total on-balance sheet exposures	**18 695**	**2 448**	**16 247**	**(163)**	**2 629**	**21 161**
Guarantees	65	–	65	–	–	65
Committed facilities related to loans and advances to customers	1 368	23	1 345	(3)	–	1 365
Contingent liabilities, letters of credit and other	207	–	207	–	23	230
Total off-balance sheet exposures	**1 640**	**23**	**1 617**	**(3)**	**23**	**1 660**
Total exposures	**20 335**	**2 471**	**17 864**	**(166)**	**2 652**	**22 821**

^ *Expected credit losses include £1.9 million ECL held against financial assets held at FVOCI, which is reported on the balance sheet within reserves. This will result in minor differences between certain balance sheet lines reported above (largely loans and advances to customers and sovereign debt securities) and the statutory balance sheet.*

* *Largely relates to exposures that are classified as investment risk in the banking book.*

^^ *While the group manages all risks (including credit risk) from a day-to-day operational perspective, certain assets are within special purpose vehicles that ring-fence the assets to specific credit providers and limit security to the assets in the vehicle. This balance reflects the credit exposure to credit providers external to the group. The net credit exposure that the group has in the vehicles is reflected in 'total credit and counterparty exposure'.*

** *Other assets include settlement debtors which we deem to have no credit risk exposure as they are settled on a delivery against payment basis.*

A further analysis of our gross credit and counterparty exposure *(continued)*

At 1 April 2018 £'million	Total gross credit and counterparty exposure	*of which FVPL*	*of which amortised cost and FVOCI*	Expected credit losses^	Assets that we deem to have no legal credit exposure	Total assets
Cash and balances at central banks	3 480	–	3 480	–	8	3 488
Loans and advances to banks	773	–	773	(1)	–	772
Reverse repurchase agreements and cash collateral on securities borrowed	750	38	712	–	–	750
Sovereign debt securities	1 155	165	990	–	–	1 155
Bank debt securities	113	55	58	–	–	113
Other debt securities	288	137	151	(6)	–	282
Derivative financial instruments	525	525	–	–	80	605
Securities arising from trading activities	496	496	–	–	206	702
Investment portfolio	–	–	–	–	472*	472
Loans and advances to customers	9 786	909	8 877	(247)	–	9 539
Other loans and advances	389	2	387	(3)	30	416
Other securitised assets	9	9	–	–	123^^	132
Interest in associated undertakings	–	–	–	–	6	6
Deferred taxation assets	–	–	–	–	149	149
Other assets	45	–	45	–	968**	1 013
Property and equipment	–	–	–	–	53	53
Investment properties	–	–	–	–	15	15
Goodwill	–	–	–	–	261	261
Intangible assets	–	–	–	–	104	104
Total on-balance sheet exposures	**17 809**	**2 336**	**15 473**	**(257)**	**2 475**	**20 027**
Guarantees	22	–	22	–	–	22
Committed facilities related to loans and advances to customers	1 092	3	1 089	(6)	–	1 086
Contingent liabilities, letters of credit and other	118	–	118	–	28	146
Total off-balance sheet exposures	**1 232**	**3**	**1 229**	**(6)**	**28**	**1 254**
Total exposures	**19 041**	**2 339**	**16 702**	**(263)**	**2 503**	**21 281**

^ *Expected credit losses include £2.1 million ECL held against financial assets held at FVOCI, which is reported on the balance sheet within reserves. This will result in minor differences between certain balance sheet lines reported above (largely loans and advances to customers and sovereign debt securities) and the statutory balance sheet.*

* *Largely relates to exposures that are classified as investment risk in the banking book.*

^^ *While the group manages all risks (including credit risk) from a day-to-day operational perspective, certain assets are within special purpose vehicles that ring-fence the assets to specific credit providers and limit security to the assets in the vehicle. This balance reflects the credit exposure to credit providers external to the group. The net credit exposure that the group has in the vehicles is reflected in 'total credit and counterparty exposure'.*

** *Other assets include settlement debtors which we deem to have no credit risk exposure as they are settled on a delivery against payment basis.*

Gross credit and counterparty exposures by residual contractual maturity

At 30 September 2018 £'million	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	3 882	–	–	–	–	–	3 882
Loans and advances to banks	876	–	–	6	–	–	882
Reverse repurchase agreements and cash collateral on securities borrowed	574	100	7	–	–	–	681
Sovereign debt securities	501	385	90	77	11	224	1 288
Bank debt securities	–	–	–	55	–	–	55
Other debt securities	44	13	–	67	12	230	366
Derivative financial instruments	132	66	81	190	29	63	561
Securities arising from trading activities	–	5	–	72	39	380	496
Loans and advances to customers	1 184	667	1 508	5 198	1 167	465	10 189
Other loans and advances	48	–	–	–	38	148	234
Other securitised assets	–	–	–	–	–	8	8
Other assets	53	–	–	–	–	–	53
Total on-balance sheet exposures	**7 294**	**1 236**	**1 686**	**5 665**	**1 296**	**1 518**	**18 695**
Guarantees	6	5	–	36	18	–	65
Committed facilities related to loans and advances to customers	228	35	135	859	79	32	1 368
Contingent liabilities, letters of credit and other	1	7	36	144	19	–	207
Total off-balance sheet exposures	**235**	**47**	**171**	**1 039**	**116**	**32**	**1 640**
Total gross credit and counterparty exposures	**7 529**	**1 283**	**1 857**	**6 704**	**1 412**	**1 550**	**20 335**

Detailed analysis of gross credit and counterparty exposures by industry

At 30 September 2018 £'million	High net worth and other professional individuals	Lending collateralised by property	Agriculture	Electricity, gas and water (utility services)	Public and non-business services	Business services	Finance and insurance
Cash and balances at central banks	–	–	–	–	3 882	–	–
Loans and advances to banks	–	–	–	–	–	–	882
Reverse repurchase agreements and cash collateral on securities borrowed	–	–	–	–	–	–	681
Sovereign debt securities	–	–	–	–	1 288	–	–
Bank debt securities	–	–	–	–	–	–	55
Other debt securities	–	–	–	28	7	–	136
Derivative financial instruments	18	–	–	47	–	3	414
Securities arising from trading activities	–	–	–	–	373	–	121
Loans and advances to customers	2 138	1 655	42	470	203	709	1 850
Other loans and advances	–	–	–	–	–	–	157
Other securitised assets	–	–	–	–	–	–	–
Other assets	–	–	–	–	–	–	53
Total on-balance sheet exposures	**2 156**	**1 655**	**42**	**545**	**5 753**	**712**	**4 349**
Guarantees	18	3	–	–	–	–	36
Committed facilities related to loans and advances to customers	128	382	–	106	31	80	322
Contingent liabilities, letters of credit and other	–	–	–	134	–	–	34
Total off-balance sheet exposures	**146**	**385**	**–**	**240**	**31**	**80**	**392**
Total gross credit and counterparty exposures	**2 302**	**2 040**	**42**	**785**	**5 784**	**792**	**4 741**

	Retailers and wholesalers	Manufacturing and commerce	Construction	Corporate commercial real estate	Other residential mortgages	Mining and resources	Leisure, entertainment and tourism	Transport	Communication	**Total**
	–	–	–	–	–	–	–	–	–	3 882
	–	–	–	–	–	–	–	–	–	882
	–	–	–	–	–	–	–	–	–	681
	–	–	–	–	–	–	–	–	–	1 288
	–	–	–	–	–	–	–	–	–	55
	4	–	19	–	82	5	–	78	7	366
	16	18	1	2	–	17	1	23	1	561
	2	–	–	–	–	–	–	–	–	496
	362	734	99	124	–	199	228	1 232	144	10 189
	–	–	–	–	77	–	–	–	–	234
	–	–	–	–	8	–	–	–	–	8
	–	–	–	–	–	–	–	–	–	53
	384	**752**	**119**	**126**	**167**	**221**	**229**	**1 333**	**152**	**18 695**
	–	–	–	–	–	2	–	6	–	65
	47	70	5	66	–	103	13	12	3	1 368
	3	–	–	–	–	24	12	–	–	207
	50	**70**	**5**	**66**	**–**	**129**	**25**	**18**	**3**	**1 640**
	434	**822**	**124**	**192**	**167**	**350**	**254**	**1 351**	**155**	**20 335**

Detailed analysis of gross credit and counterparty exposures by industry *(continued)*

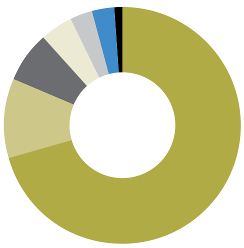
At 1 April 2018 £'million	High net worth and other professional individuals	Lending collateralised by property	Agriculture	Electricity, gas and water (utility services)	Public and non-business services	Business services	Finance and insurance
Cash and balances at central banks	–	–	–	–	3 480	–	–
Loans and advances to banks	–	–	–	–	–	–	773
Reverse repurchase agreements and cash collateral on securities borrowed	–	–	–	–	–	–	750
Sovereign debt securities	–	–	–	–	1 155	–	–
Bank debt securities	–	–	–	–	–	–	113
Other debt securities	–	–	–	60	6	–	50
Derivative financial instruments	22	–	2	51	–	13	331
Securities arising from trading activities	–	–	–	5	346	3	113
Loans and advances to customers	1 916	1 968	6	447	153	669	1 635
Other loans and advances	–	–	–	–	–	–	176
Other securitised assets	–	–	–	–	–	–	–
Other assets	–	–	–	–	–	–	45
Total on-balance sheet exposures	**1 938**	**1 968**	**8**	**563**	**5 140**	**685**	**3 986**
Guarantees	15	3	–	–	–	–	2
Committed facilities related to loans and advances to customers	128	315	–	105	23	74	215
Contingent liabilities, letters of credit and other	–	–	–	72	–	–	36
Total off-balance sheet exposures	**143**	**318**	**–**	**177**	**23**	**74**	**253**
Total gross credit and counterparty exposures	**2 081**	**2 286**	**8**	**740**	**5 163**	**759**	**4 239**

	Retailers and wholesalers	Manufac-turing and commerce	Construc-tion	Corporate commercial real estate	Other residential mortgages	Mining and resources	Leisure, entertain-ment and tourism	Transport	Com-munication	Total
	–	–	–	–	–	–	–	–	–	3 480
	–	–	–	–	–	–	–	–	–	773
	–	–	–	–	–	–	–	–	–	750
	–	–	–	–	–	–	–	–	–	1 155
	–	–	–	–	–	–	–	–	–	113
	–	–	19	–	40	32	–	74	7	288
	32	20	3	3	–	17	1	28	2	525
	3	–	–	–	–	2	–	–	24	496
	266	770	64	132	–	128	230	1 267	135	9 786
	–	–	–	–	213	–	–	–	–	389
	–	–	–	–	9	–	–	–	–	9
	–	–	–	–	–	–	–	–	–	45
	301	**790**	**86**	**135**	**262**	**179**	**231**	**1 369**	**168**	**17 809**
	–	–	–	–	–	2	–	–	–	22
	43	56	6	3	–	95	17	4	8	1 092
	5	–	–	–	–	1	4	–	–	118
	48	**56**	**6**	**3**	**–**	**98**	**21**	**4**	**8**	**1 232**
	349	**846**	**92**	**138**	**262**	**277**	**252**	**1 373**	**176**	**19 041**

Composition of core loans and advances to customers

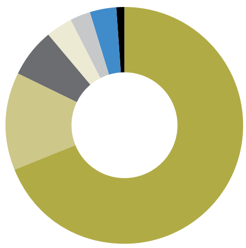
£'million	30 Sept 2018	1 April 2018
Loans and advances to customers per the balance sheet	10 028	9 540
ECLs held against FVOCI loans reported on the balance sheet within reserves	(2)	(1)
Net core loans and advances to customers	**10 026**	**9 539**
of which amortised cost and FVOCI ('subject to ECL')	9 112	8 630
of which FVPL	914	909
Add: ECLs	163	247
Gross core loans and advances to customers	**10 189**	**9 786**
of which amortised cost and FVOCI ('subject to ECL')	9 275	8 877
of which FVPL	914	909

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



30 September 2018
£10 189 million

United Kingdom	70.6%
EU (excluding UK)	10.8%
North America	7.2%
Australia	4.4%
Other	3.1%
Asia	2.8%
Europe (Non-EU)	1.1%



1 April 2018
£9 786 million

United Kingdom	69.0%
EU (excluding UK)	13.4%
North America	6.7%
Australia	3.4%
Other	3.0%
Asia	3.6%
Europe (Non-EU)	0.9%

An analysis of gross core loans and advances to customers, asset quality and ECL

The tables that follow provide information with respect to the asset quality of our gross core loans and advances on a statutory basis. Our exposure (net of ECL) to the Legacy portfolio* has further reduced from £256 million at 1 April 2018 to £189 million at 30 September 2018. These assets are substantially impaired and are largely reported under Stage 3 and indicated below.

An analysis of gross core loans and advances to customers subject to ECL by stage

£'million	30 Sept 2018	1 April 2018
Gross core loans and advances to customers subject to ECL	**9 275**	**8 877**
Stage 1	8 345	7 721
Stage 2	542	592
of which past due greater than 30 days	19	18
Stage 3	388	564
*of which Ongoing (excluding Legacy) Stage 3**	*193*	*221*
Gross core loans and advances to customers subject to ECL (%)		
Stage 1	90.0%	87.0%
Stage 2	5.8%	6.7%
Stage 3	4.2%	6.3%
*of which Ongoing (excluding Legacy) Stage 3**	*2.1%*	*2.6%*

An analysis of ECL impairments on gross core loans and advances to customers subject to ECL

£'million	30 Sept 2018	31 March 2018^
ECL impairment charges on core loans and advances	(19)	–
Average gross core loans and advances to customers subject to ECL	9 076	–
Income statement charge for impairments on core loans and advances	–	(106)
Average gross core loans and advances to customers	–	9 270
Annualised credit loss ratio	**0.42%**	**1.14%**

£'million	30 Sept 2018	1 April 2018
ECL	**(163)**	**(247)**
Stage 1	(14)	(15)
Stage 2	(38)	(40)
Stage 3	(111)	(192)
*of which Ongoing (excluding Legacy) Stage 3**	*(39)*	*(45)*
ECL coverage ratio (%)		
Stage 1	0.2%	0.2%
Stage 2	7.0%	6.8%
Stage 3	28.6%	34.0%
*of which Ongoing (excluding Legacy) Stage 3**	*20.2%*	*20.4%*

* *Ongoing information, as separately disclosed from 2014 to 2018, excludes Legacy, which comprises of pre-2008 assets held on the balance sheet, that had low/negative margins and assets relating to business we are no longer undertaking.*

^ *Comparative information has been presented on an IAS 39 basis. On adoption of IFRS 9 there is a move from incurred loss model to an expected credit loss methodology.*

A further analysis of Stage 3 gross core loans and advances to customers subject to ECL

£'million	30 Sept 2018	1 April 2018
Stage 3 net of ECL	277	372
*of which Ongoing (excluding Legacy) Stage 3**	*154*	*176*
Aggregate collateral and other credit enhancements on Stage 3	297	414
Stage 3 net of ECL and collateral	–	–
Stage 3 as a % of gross core loans and advances to customers subject to ECL	4.2%	6.3%
*of which Ongoing (excluding Legacy) Stage 3**	*2.1%*	*2.6%*
Total ECL impairments as a % of Stage 3 exposure	42.0%	43.8%
Stage 3 net of ECL as a % of net core loans and advances to customers subject to ECL	3.0%	4.3%
*of which Ongoing (excluding Legacy) Stage 3**	*1.7%*	*2.0%*

* *Ongoing information, as separately disclosed from 2014 to 2018, excludes Legacy, which comprises of pre-2008 assets held on the balance sheet, that had low/negative margins and assets relating to business we are no longer undertaking.*

Stage 1: 90.0% of gross exposure subject to ECL is in Stage 1 and has not experienced a significant increase in credit risk since origination. ECL is calculated based on a 12-month expected loss. Coverage for these performing, non-deteriorated assets is 0.2%.

Stage 2: 5.8% of gross exposure is in Stage 2 and has seen a significant increase in credit risk since origination. These assets require a lifetime expected loss to be held. Only £18.6 million or 0.2% of gross core loans shown in Stage 2 are greater than 30 days past due. An asset reported in Stage 2 does not imply we expect a loss on these assets. Stage 2 assets are assessed relative to their expected performance at the point of origination. While assets may underperform original expectations, the level of ECL indicates that our expected losses from these positions remain low.

Stage 3: 4.2% of gross exposure is in Stage 3 which is made up of assets that are credit impaired. This has reduced from 6.3% at 1 April 2018 as we continue to make progress in reducing legacy loans. Coverage ratio totals 28.6% and the remaining net exposure is considered well covered by collateral. The legacy portfolio is predominantly reported in Stage 3 and makes up 50.4% of Stage 3 gross loans. These assets have been significantly provided for and coverage for these assets remains high at 36.9%. Excluding Legacy, Ongoing Stage 3 exposure total £193 million or 2.1% of gross core loans and advances subject to ECL. This has reduced from 2.6% at 1 April 2018.

An analysis of staging and ECL movements for core loans and advances to customers subject to ECL

The table below indicates underlying movements in gross core loans and advances to customers subject to ECL from 1 April 2018 to 30 September 2018. The transfers between stages of gross core loans indicates the impact of stage transfers upon the gross exposure and associated opening ECL. The net remeasurement of ECL arising from stage transfers represents the (increase)/decrease in ECL due to these transfers. New lending net of repayments comprises new originations, further drawdowns, repayments and sell-downs as well as ECLs in Stage 3 that have been written off, typically when an asset has been sold. The ECL impact of changes to risk parameters and models during the period largely relates to the reduction in the bank's model overlay from £25 million to £17 million. Foreign exchange and other category largely comprises impact on the closing balance as a result of movements in foreign exchange rates since the opening date, 1 April 2018. Further analysis as at 30 September 2018 of gross core loans and advances to customers subject to ECL and their ECL balances is shown in 'An analysis of core loans and advances by risk category' on the following page.

	Stage 1		Stage 2		Stage 3		Total	
£'million	Gross exposure	ECL	Gross exposure	ECL	Gross exposure	ECL	Gross exposure	ECL
At 1 April 2018	**7 721**	**(15)**	**592**	**(40)**	**564**	**(192)**	**8 877**	**(247)**
Transfer from Stage 1	(174)	1	149	(1)	25	–	–	–
Transfer from Stage 2	106	(2)	(136)	3	30	(1)	–	–
Transfer from Stage 3	10	(1)	13	(2)	(23)	3	–	–
ECL remeasurement arising from transfer of stage	–	2	–	(3)	–	(10)	–	(11)
New lending net of repayments (includes assets written off)	604	(2)	(80)	–	(212)	85	312	83
Changes to risk parameters and models	–	3	–	5	–	4	–	12
Foreign exchange and other	78	–	4	–	4	–	86	–
At 30 September 2018	**8 345**	**(14)**	**542**	**(38)**	**388**	**(111)**	**9 275**	**(163)**

An analysis of core loans and advances by risk category

Legacy exposures are included in gross core loans and advances at amortised cost and FVOCI in the table below and relate to lending collateralised by property. These exposures account for a significant portion of Stage 3 assets. If these exposures were to be excluded from the table £82.5 million or 0.9% of total Ongoing gross loans subject to ECL would be reported as Stage 3 lending collateralised by property (1 April 2018: £89.2 million or 1.0%).

	Gross core loans and advances at amortised cost and FVOCI								Gross core loans and advances at FVPL	Gross core loans and advances
	Stage 1		Stage 2		Stage 3		Total			
At 30 September 2018 £'million	Gross exposure	ECL	Gross exposure	ECL	Gross exposure	ECL	Gross exposure	ECL		
Lending collateralised by property	**1 117**	**(1)**	**171**	**(19)**	**272**	**(71)**	**1 560**	**(91)**	**95**	**1 655**
Commercial real estate	**681**	**(1)**	**146**	**(18)**	**130**	**(25)**	**957**	**(44)**	**41**	**998**
Commercial real estate – investment	593	(1)	140	(16)	119	(20)	852	(37)	36	888
Commercial real estate – development	88	–	–	–	1	(1)	89	(1)	3	92
Commercial vacant land and planning	–	–	6	(2)	10	(4)	16	(6)	2	18
Residential real estate	**436**	**–**	**25**	**(1)**	**142**	**(46)**	**603**	**(47)**	**54**	**657**
Residential real estate – investment	194	–	9	–	37	(9)	240	(9)	41	281
Residential real estate – development	240	–	12	(1)	66	(22)	318	(23)	8	326
Residential vacant land and planning	2	–	4	–	39	(15)	45	(15)	5	50
High net worth and other private client lending	**2 033**	**(1)**	**45**	**(2)**	**29**	**(8)**	**2 107**	**(11)**	**31**	**2 138**
Mortgages	1 640	(1)	28	(1)	21	(3)	1 689	(5)	–	1 689
High net worth and specialised lending	393	–	17	(1)	8	(5)	418	(6)	31	449
Corporate and other lending	**5 195**	**(12)**	**326**	**(17)**	**87**	**(32)**	**5 608**	**(61)**	**788**	**6 396**
Corporate and acquisition finance	1 228	(4)	115	(5)	11	(4)	1 354	(13)	277	1 631
Asset-based lending	268	(1)	36	(1)	–	–	304	(2)	–	304
Fund finance	1 236	(1)	–	–	–	–	1 236	(1)	7	1 243
Other corporate and financial institutions and governments	443	(1)	18	(1)	–	–	461	(2)	262	723
Asset finance	1 581	(4)	105	(7)	68	(27)	1 754	(38)	200	1 954
Small ticket asset finance	1 431	(4)	84	(5)	23	(13)	1 538	(22)	3	1 541
Large ticket asset finance	150	–	21	(2)	45	(14)	216	(16)	197	413
Project finance	433	(1)	52	(3)	8	(1)	493	(5)	34	527
Resource finance	6	–	–	–	–	–	6	–	8	14
Gross core loans and advances	**8 345**	**(14)**	**542**	**(38)**	**388**	**(111)**	**9 275**	**(163)**	**914**	**10 189**

An analysis of core loans and advances by risk category

At 1 April 2018 £'million	Gross core loans and advances at amortised cost and FVOCI								Gross core loans and advances at FVPL	Gross core loans and advances
	Stage 1		Stage 2		Stage 3		Total			
	Gross exposure	ECL	Gross exposure	ECL	Gross exposure	ECL	Gross exposure	ECL		
Lending collateralised by property	**1 082**	**(1)**	**296**	**(23)**	**426**	**(145)**	**1 804**	**(169)**	**164**	**1 968**
Commercial real estate	**586**	**(1)**	**255**	**(21)**	**225**	**(65)**	**1 066**	**(87)**	**72**	**1 138**
Commercial real estate – investment	476	(1)	239	(19)	176	(40)	891	(60)	59	950
Commercial real estate – development	110	–	10	–	17	(7)	137	(7)	3	140
Commercial vacant land and planning	–	–	6	(2)	32	(18)	38	(20)	10	48
Residential real estate	**496**	**–**	**41**	**(2)**	**201**	**(80)**	**738**	**(82)**	**92**	**830**
Residential real estate – investment	135	–	17	(1)	39	(15)	191	(16)	46	237
Residential real estate – development	356	–	24	(1)	112	(43)	492	(44)	33	525
Residential vacant land and planning	5	–	–	–	50	(22)	55	(22)	13	68
High net worth and other private client lending	**1 841**	**(2)**	**36**	**(2)**	**26**	**(9)**	**1 903**	**(13)**	**13**	**1 916**
Mortgages	1 430	(1)	33	(2)	18	(3)	1 481	(6)	–	1 481
High net worth and specialised lending	411	(1)	3	–	8	(6)	422	(7)	13	435
Corporate and other lending	**4 798**	**(12)**	**260**	**(15)**	**112**	**(38)**	**5 170**	**(65)**	**732**	**5 902**
Corporate and acquisition finance	1 262	(5)	39	(1)	19	(6)	1 320	(12)	213	1 533
Asset-based lending	279	(1)	41	(1)	11	(1)	331	(3)	–	331
Fund finance	1 017	(1)	13	(1)	–	–	1 030	(2)	–	1 030
Other corporate and financial institutions and governments	418	–	13	(1)	–	–	431	(1)	216	647
Asset finance	1 422	(4)	100	(8)	78	(31)	1 600	(43)	272	1 872
Small ticket asset finance	1 294	(3)	79	(7)	14	(9)	1 387	(19)	–	1 387
Large ticket asset finance	128	(1)	21	(1)	64	(22)	213	(24)	272	485
Project finance	400	(1)	54	(3)	4	–	458	(4)	26	484
Resource finance	–	–	–	–	–	–	–	–	5	5
Gross core loans and advances	**7 721**	**(15)**	**592**	**(40)**	**564**	**(192)**	**8 877**	**(247)**	**909**	**9 786**

Key drivers of measurement uncertainty – subjective elements and inputs

The measurement of ECL under IFRS 9 has increased complexity and reliance on expert credit judgements. Key judgemental areas under the implementation of IFRS 9 are highlighted in this document and are subject to robust governance processes. Key drivers of measurement uncertainty include:

- the assessment of what constitutes a significant increase in credit risk;
- the introduction of a range of forward-looking probability weighted macro-economic scenarios; and
- estimation of probabilities of default, loss given default and exposures at default using models.

In addition to these drivers, some initial judgements and assumptions were required in the design and build of the group's ECL methodology, which are not considered to have a material impact. This includes the use of income recognition effective interest rates (EIRs) that are calculated under IAS 39 and used as the discount factor in the IFRS 9 ECL calculation as well as the use of contractual maturity to assess behavioural lives. In addition where we have experienced limitations on the availability of probability of default origination data for the historic book a portfolio average has been used in some instances.

We will continue to assess and monitor the group's measurement uncertainty and sensitivity to changes in economic credit conditions and expect to provide additional disclosures relating to sensitivities in the 2019 Annual Report.

Forward-looking macro-economic scenarios

The measurement of ECL also requires the use of multiple economic scenarios to calculate an unbiased and a probability weighted forward-looking estimate. These scenarios are updated at least twice a year, or more frequently if there is a macro-economic shock or significant shift in expectations. The weighting of these scenarios for IFRS 9 as well as the scenarios themselves are discussed and approved in DLC Capital Committee, which forms part of the principal governance framework for macro-economic scenarios.

A number of forecast economic scenarios are considered for capital planning, stress testing (including Investec specific stress scenarios) and IFRS 9, including multiple scenarios.

IFRS 9 is likely to result in an increase in the volatility of provisions going forward, particularly for Stage 1 and Stage 2 assets as a result of macro-economic scenario changes. Sensitivities to macro-economic scenarios and factors form part of our overall risk monitoring.

Management and measurement of credit and counterparty risk

Fundamental principles employed in the management of credit and counterparty risk include:

- A clear definition of our target market
- A quantitative and qualitative assessment of the creditworthiness of our counterparties
- Analysis of risks, including concentration risk (concentration risk considerations include asset class, industry, counterparty and geographical concentration)
- Decisions are made with reference to risk appetite limits
- Prudential limits
- Regular monitoring and review of existing and potential exposures once facilities have been approved
- A high level of executive involvement in decision-making with non-executive review and oversight
- Portfolio reviews and stress testing.

Within the credit approval process, internal and external ratings are included in the assessment of client quality.

A large proportion of the group's portfolio is not rated by external rating agencies. We place reliance upon internal consideration of counterparties and borrowers, and use ratings prepared externally where available as support in our decision-making process.

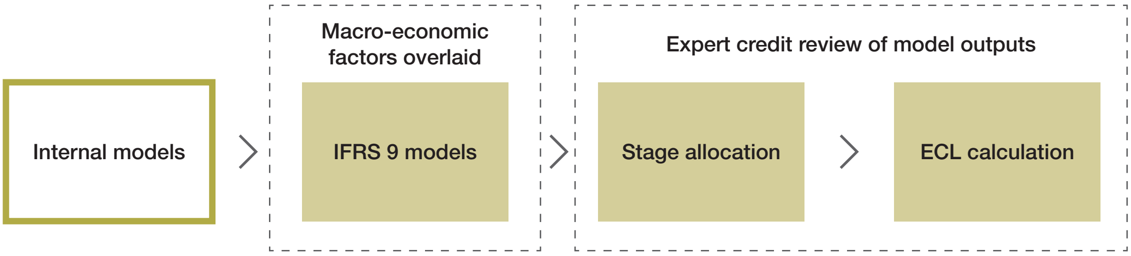
Regular reporting of credit and counterparty risk exposures within our operating units are made to management, the executives and the board at the group risk and capital committee (GRCC) and board risk and capital committee (BRCC). The board regularly reviews and approves the appetite for credit and counterparty risk, which is documented in risk appetite statements and policy documents. This is implemented and reviewed by the credit risk management teams in each jurisdiction. Credit policies have been updated and amended to include changes to reflect the implementation of IFRS 9.

Portfolio reviews and stress testing are undertaken on all material businesses, where the exposures are analysed to assess any migration in portfolio quality, highlight any vulnerabilities, identify portfolio concentrations and make appropriate recommendations, such as a reduction in risk appetite limits or specific exposures.

Internal credit rating models and ECL methodology

Internal credit rating models have been developed to cover all material asset classes. These internal credit rating models are then used for IFRS 9 modelling but adjusted for key differences. Internal credit models calculate through the economic cycle losses whereas IFRS 9 requires 12-month or lifetime point-in-time losses based on conditions at the reporting date and multiple economic scenario forecasts of the future conditions over the expected lives.

Process to determine expected credit loss



ECLs are calculated using three main components:

- a probability of default (PD);
- a loss given default (LGD); and
- the exposure at default (EAD).

Under IFRS 9, the 12-month and lifetime PDs represent the probability of a default occurring over the next 12 months or the lifetime of the financial exposures, respectively, based on conditions existing at the balance sheet date and future forecasted macro-economic conditions that affect credit risk.

The LGD represents losses expected on default, taking into account the mitigating effect of collateral, its expected value when realised and the time value of money. The forecast value for the collateral is also affected by the range of forward-looking probability weighted macro-economic scenarios.

The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdown of a committed facility.

The calculation of the 12-month ECL is based on the 12-month PD and LGD along with the EAD and effective interest rate (EIR) for the asset. Lifetime ECL is calculated using the lifetime PD curve, and the appropriate LGDs and EADs and discount rates derived from the EIR based on the remaining life of the financial asset.

Expert judgement models have also been utilised for certain portfolios where the ECL is judged to be minimal, either due to the portfolio's relative size or the highly-rated nature of these portfolios, such as cash and balances held at central banks.

Management adjustments are made to modelled output to account for situations where additional information and known or expected risk factors have not been captured in the modelling process.

A management overlay of £17 million (£25 million at 1 April 2018) has been considered appropriate in addition to the bank's calculated model-driven ECL. This is due to IBP's limited experience of utilising model output for reporting purposes and uncertainty over the models' predictive capability. The overlays have been designed to capture specific areas of model uncertainty during the initial adoption of IFRS 9. The model methodologies have been enhanced during the period and therefore the management overlay has been commensurately reduced at 30 September 2018 to reflect the lower level of model uncertainty. The bank will continue to assess the appropriateness of this management overlay and expect that it will continue to be unwound as the uncertainty of the models predictive capability reduces.

Investment risk in the banking book

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

- **Principal investments:** Principal investments are normally undertaken in support of a client requiring equity to grow and develop an existing business, or the acquisition of a business from third parties. 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, or sale of one of our investments. Additionally, listed investments may be considered where we believe that the market is mispricing the value of the underlying security
- **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.

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

£'000 Category	Income/(loss) (pre-funding costs) Unrealised*	Realised*	Dividends	Total	Fair value through equity/OCI
For the six months to 30 September 2018					
Unlisted investments	(812)	17 307	2 285	18 780	–
Listed equities	(24 101)	1 068	95	(22 938)	–
Investment and trading properties	(3 505)	–	–	(3 505)	–
Warrants and profit shares	(11 982)	18 214	–	6 232	–
Total	**(40 400)**	**36 589**	**2 380**	**(1 431)**	**–**
For the six months to 30 September 2017					
Unlisted investments	8 918	10 129	5 975	25 022	556
Listed equities	(13 373)	(1 996)	2	(15 367)	1 564
Investment and trading properties	(2 663)	1 601	–	(1 062)	–
Warrants, profit shares and other embedded derivatives	(1 961)	–	–	(1 961)	–
Total	**(9 079)**	**9 734**	**5 977**	**6 632**	**2 120**

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

Summary of investments held and stress testing analyses

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

£'million Category	On-balance sheet value of investments 30 September 2018	Valuation change stress test 30 September 2018*	On-balance sheet value of investments 1 April 2018	Valuation change stress test 1 April 2018*
Unlisted investments	426	64	411	62
Listed equities	39	10	61	15
Total investment portfolio	**465**	**74**	**472**	**77**
Investment and trading properties	164	31	113	21
Warrants and profit shares	11	4	22	8
Total	**640**	**109**	**607**	**106**

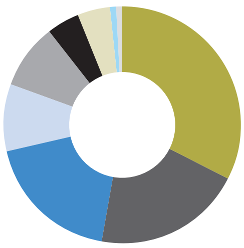
* *In order to assess our earnings sensitivity to a movement in the valuation of these investments the following stress testing parameters are applied:*

Stress test values applied	
Unlisted investments	15%
Listed equities	25%
Trading properties	20%
Investment properties	10%
Warrants and profit shares	35%

Stress testing summary

Based on the information at 30 September 2018, as reflected above, we could have a £109 million reversal in revenue (which assumes a year in which there is a 'severe stress scenario' simultaneously across all asset classes). This would not necessarily cause the bank 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 and profit shares



30 September 2018
£476 million

Real estate	32.6%
Manufacturing and commerce	20.3%
Finance and insurance	18.5%
Communication	9.3%
Retailers and wholesalers	8.9%
Mining and resources	4.5%
Transport	4.5%
Business services	0.8%
Other	0.6%

Securitisation/structured credit activities exposures

The bank's definition of securitisation/structured credit activities (as explained below) is wider than the definition as applied for regulatory capital purposes, which largely focuses on those securitisations in which the bank has achieved significant risk transfer. We, however, believe that the information provided below is meaningful in that it groups all these related activities in order for a reviewer to obtain a fuller picture of the activities that we have conducted in this space. Some of the information provided below overlaps with the bank's credit and counterparty exposure information.

The primary focus for new securitisation transactions remains to provide a cost effective alternative source of financing to the bank.

During the six months to September 2018 we did not undertake any new securitisation transactions. We hold rated structured credit instruments. These exposures are largely in the UK and US and amount to £343 million at 30 September 2018 (1 April 2018: £266 million).

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 30 Sept 2018 £'million	Exposure 1 April 2018 £'million	Balance sheet and credit risk classification
Structured credit (gross exposure)*	353	276	Other debt securities and other loans and advances
Rated	343	266	
Unrated	10	10	
Loans and advances to customers and third party intermediary originating platforms (mortgage loans) – (net exposure)	–	130	Other loans and advances

***Analysis of rated and unrated structured credit**

£'million At 30 September	30 September 2018 Rated**	Unrated	Total	1 April 2018 Rated**	Unrated	Total
US corporate loans	181	–	181	135	–	135
UK and European RMBS	157	10	167	121	10	131
UK and European corporate loans	5	–	5	10	–	10
Total	**343**	**10**	**353**	**266**	**10**	**276**

****A further analysis of rated structured credit at 30 September 2018**

£'million	AAA	AA	A	BBB	BB	B	CCC and below	Total
US corporate loans	51	119	11	–	–	–	–	181
UK and European RMBS	23	93	39	–	2	–	–	157
UK and European corporate loans	–	5	–	–	–	–	–	5
Total at 30 September 2018	**74**	**217**	**50**	**–**	**2**	**–**	**–**	**343**
Total at 1 April 2018	**72**	**125**	**67**	**–**	**2**	**–**	**–**	**266**

Market risk in the trading book

Traded market risk is the risk of potential changes in the value of the trading book as a result of changes in market risk factors such as interest rates, equity prices, exchange rates, commodity prices, credit spreads and their underlying volatilities where derivatives are traded. The trading book is defined as positions in financial instruments and commodities, including derivative products and other off-balance-sheet instruments that are held within the trading businesses.

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 client flow. Within our trading activities, we act as principal with clients or the market. Market risk exists where we have taken on principal positions resulting from market making, underwriting and facilitation of client business in the foreign exchange, interest rate, equity, credit and commodity markets.

Measurement of traded market risk

A number of quantitative measures are used to monitor and limit exposure to traded market risk. These measures include:

- Value at Risk (VaR) and Expected Shortfall (ES) as portfolio measures of market risk exposure
- scenario analysis, stress tests and tools based on extreme value theory (EVT) that measure the potential impact on portfolio values of extreme moves in markets
- sensitivity analysis that measures the impact of individual market risk factor movements on specific instruments or portfolios, including interest rates, foreign exchange rates, equity prices, credit spreads and commodity prices, such as the effect of a one basis point change in interest rates. We use sensitivity measures to monitor and limit exposure across portfolios, products and risk types.

Stress and scenario analyses are used to add insight into the possible outcomes under severe market disruptions. The stress-testing methodology assumes that all market factors move adversely at the same time and that no actions are taken during the stress events to mitigate risk. Stress scenarios based on historical experience as well as hypothetical scenarios are considered and are reviewed regularly for relevance in ever-changing market environments. Stress scenarios are run daily with analysis presented weekly to Review ERRF or more often depending on market conditions.

Value at Risk

VaR is a technique that estimates the potential losses as a result of movements in market rates and prices over a specified time horizon at a given level of confidence. The VaR model derives future scenarios from past time series of market rates and prices, taking into account inter-relationships between the different markets such as interest rates and foreign exchange rates.

VaR numbers using a one-day holding period are monitored daily at the 95% and 99% confidence intervals, with limits set at the 95% confidence interval. Expected Shortfalls are also monitored daily at the 95% and 99% levels as is the worst case loss in the VaR distribution.

The table below contains the 95% one-day VaR figures for the trading businesses.

	30 September 2018				31 March 2018			
£'000	Period end	Average	High	Low	Year end	Average	High	Low
(Using 95% one-day VaR)								
Equities	423	435	567	327	495	519	746	345
Foreign exchange	1	8	31	1	18	17	80	1
Interest rates	82	77	92	70	81	84	147	67
Credit	59	42	89	23	23	90	184	16
Consolidated*	**407**	**433**	**557**	**350**	**502**	**509**	**740**	**311**

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

Expected shortfall

The ES measure overcomes some of VaR's shortcomings. ES seeks to quantify losses encountered in the tail beyond the VaR level. The 95% one-day ES is the average loss given that the 95% one-day VaR level has been exceeded. The table below contains the 95% one-day ES figures.

95% (one-day) £'000	30 Sept 2018	31 March 2018
Equities	662	655
Foreign exchange	7	26
Interest rates	124	113
Credit	83	35
Consolidated*	**663**	**661**

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

Stressed VaR

Stressed VaR (sVaR) is calculated using the VaR model but based on a one year period through which the relevant market factors experienced stress. The information in the table below contains the 99% one-day sVaR.

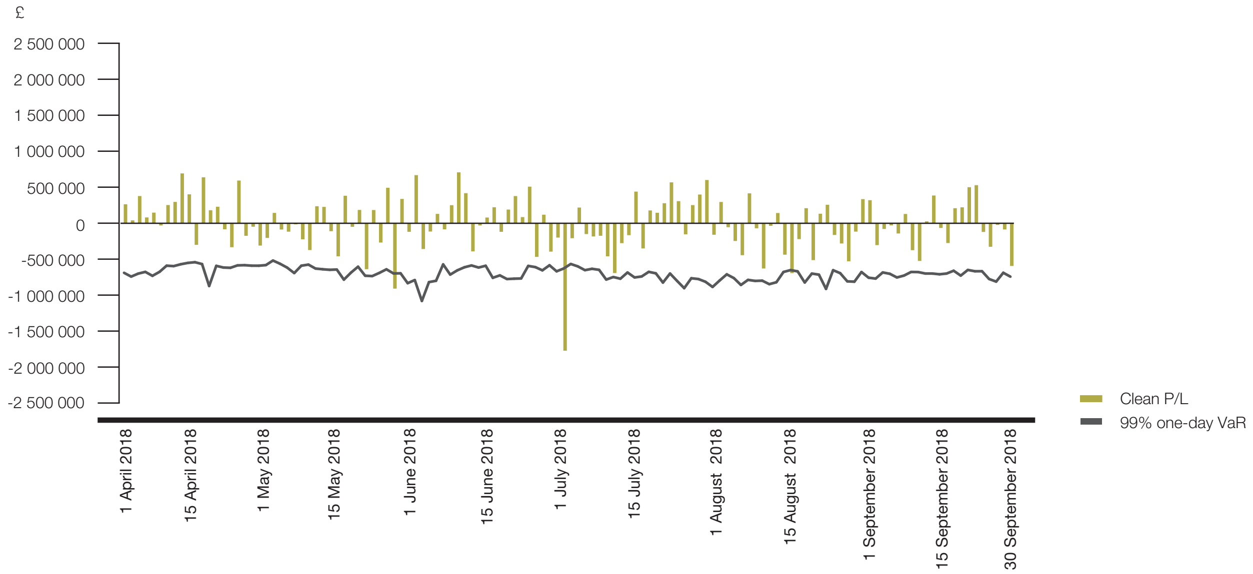
£'000	30 Sept 2018 Period end	31 March 2018 Year end
99% one-day sVaR	**2 015**	**1 541**

Backtesting

The graph that follows shows the result of backtesting the total daily 99% one-day VaR against the clean profit and loss figures for our trading activities over the reporting period. The primary focus of trading activity is the hedging of client flow and the clean profit and loss excludes items such as fees and hedge costs included in new trades revenue. Based on this graph, 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.

The average VaR for the period ended 30 September 2018 was slightly lower than the previous year. Using clean profit and loss data for backtesting resulted in three exceptions over the period at the 99% confidence level, i.e. where the loss was greater than the 99% one-day VaR. This is more than expected at the 99% level and is due to increased volatility experienced in the equity markets.

99% one-day VaR backtesting



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 VaR distribution.

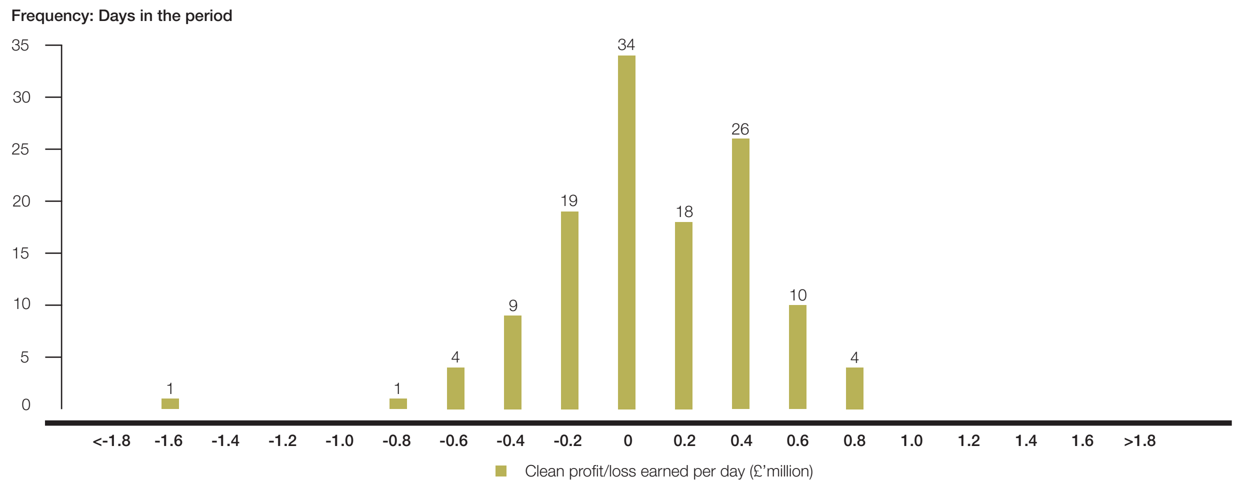
£'000	30 Sept 2018 Period end	31 March 2018 Year end
(Using 99% EVT)		
Equities	1 964	1 475
Foreign exchange	36	66
Interest rates	276	226
Credit	205	83
Consolidated*	**1 757**	**1 441**

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

Clean profit and loss histogram

Given that the primary focus of trading activity is the hedging of client flow, the below histogram excludes the fees and hedge costs included in new trades revenue. The histogram illustrates the distribution of clean profit and loss during the period for our trading businesses. The clean profit and loss was positive on 58 days out of a total of 126 days with the daily average for the six months to 30 September 2018 at £5 349 (six months to 30 September 2017: £60 579). Trading activity was adversely impacted by difficult market conditions during the second half of the six month period.

Clean profit and loss (excluding fees and hedge costs inlcuded in new trades revenue)



Balance sheet risk management

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

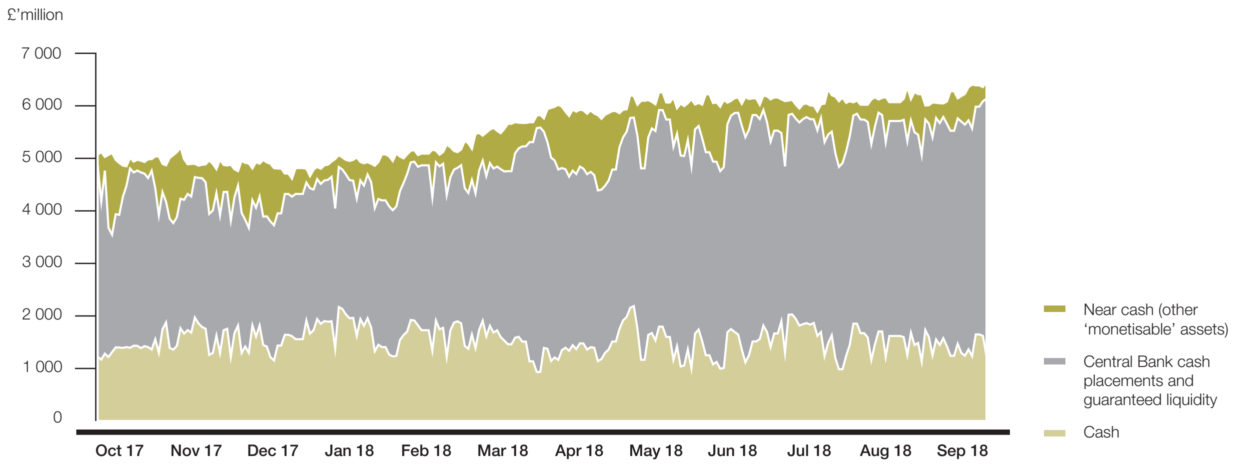
Liquidity risk

Liquidity risk refers to the possibility 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 in normal and stressed conditions. This includes repaying depositors or maturing wholesale debt. This risk arises from mismatches in the timing of cash-flows, and is inherent in all banking operations and can be impacted by a range of institution-specific and market-wide events.

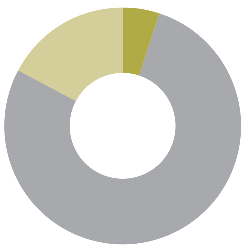
Liquidity risk is further broken down into:

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

Cash and near cash trend



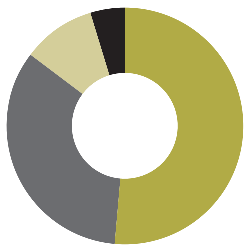
An analysis of cash and near cash at 30 September 2018



£6 294 million

Near cash (other 'monetisable' assets)	5.1%
Central Bank cash placements and guaranteed liquidity	77.9%
Cash	17.0%

Bank and non-bank depositor concentration by type at 30 September 2018



£14 157 million

Individuals	51.5%
Non-financial corporates	34.0%
Banks	10.0%
Small business	4.5%

Contractual liquidity

With respect to the contractual liquidity table below, we record all assets and liabilities with the underlying contractual maturity as determined by the cash flow profile for each deal.

With respect to the behavioural liquidity gap, we adjust the contractual profile of certain assets and liabilities:

- *Liquidity buffer:* the actual contractual profile of the assets in the liquidity buffer is of little consequence, as practically Investec would meet any unexpected net cash outflows by repo'ing or selling these highly liquid securities. Consequently, for the liquidity buffer:
  - The time horizon to monetise our regulatory liquid assets which are guaranteed by the central bank has been adjusted to 'on demand'; and
  - The time horizon for the cash and near cash portfolio of 'available-for-sale' discretionary treasury assets has been set to one month where there are deep secondary markets for this elective asset class.
- *Customer deposits:* the contractual repayments of many deposits are on demand, or at notice, but in reality withdrawals vary significantly from this. Historical observations of the products are used to model the behavioural lives, and this analysis has identified significant additional sources of structural liquidity in the form of core deposits that exhibit stable behaviour.

Contractual liquidity at 30 September 2018

£'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	4 447	176	22	13	–	107	–	4 765
Investment/trading assets	543	525	334	582	158	774	1 340	4 256
Securitised assets	–	4	–	–	–	11	112	127
Advances	124	211	642	719	1 459	5 298	1 838	10 291
Other assets	119	542	69	87	198	147	561	1 723
Assets	**5 233**	**1 458**	**1 067**	**1 401**	**1 815**	**6 337**	**3 851**	**21 162**
Deposits – banks	(43)	(134)	–	(2)	(69)	(1 156)	(10)	(1 414)
Deposits – non-banks	(3 714)	(977)	(2 649)	(2 169)	(1 218)	(1 877)	(139)	(12 743)
Negotiable paper	–	(5)	(11)	(17)	(74)	(1 199)	(657)	(1 963)
Securitised liabilities	–	–	(3)	(3)	(5)	(42)	(68)	(121)
Investment/trading liabilities	(220)	(80)	(30)	(21)	(48)	(266)	(227)	(892)
Subordinated liabilities	–	–	–	–	–	(385)	(419)	(804)
Other liabilities	(85)	(526)	(139)	(22)	(172)	(69)	(130)	(1 143)
Liabilities	**(4 062)**	**(1 722)**	**(2 832)**	**(2 234)**	**(1 586)**	**(4 994)**	**(1 650)**	**(19 080)**
Total equity	–	–	–	–	–	–	(2 082)	(2 082)
Contractual liquidity gap	**1 171**	**(264)**	**(1 765)**	**(833)**	**229**	**1 343**	**119**	**–**
Cumulative liquidity gap	1 171	907	(858)	(1 691)	(1 462)	(119)	–	

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	**3 965**	**(265)**	**93**	**(1 094)**	**229**	**(3 030)**	**102**	**–**
Cumulative	3 965	3 700	3 793	2 699	2 928	(102)	–	

Regulatory requirements

Since 1 January 2018, banks within the EU have been required to maintain a minimum LCR ratio of 100%. For Investec Bank plc (solo basis), the LCR is calculated following the European Commission Delegated Regulation 2015/61 and our own interpretations where the regulation calls for it. The reported LCR may change over time with updates to our methodologies and interpretations.

The BCBS published their final paper on NSFR in October 2014. In November 2016, the European Commission released a number of proposals amending the CRR referred to as the 'CRR2/CRDV' package. This includes a number of EU specificities with respect to the NSFR. The implementation date of the ratio will be two years after the date entry into force of the proposed regulation, at which point banks will be required to maintain a minimum NSFR of 100%. The NSFR therefore remains subject to an observation period in advance of such implementation and we will continue to monitor these rules until final implementation. The internally calculated NSFR for Investec Bank plc (solo basis) is based upon the BCBS paper and our own internal interpretations, as such, it is subject to change in response to regulatory updates and our methodologies.

For Investec Bank plc (solo basis), the LCR is calculated using our own interpretations of the EU Delegated Act. The LCR reported to the PRA at 30 September 2018 was 339% for Investec Bank plc (solo basis) which is well ahead of the regulatory minimum of 100%. Ahead of the implementation of the final NSFR rules, the bank has applied its own interpretations of regulatory guidance and definitions from the BCBS final guidelines, to calculate the NSFR which was 134% for Investec Bank plc (solo basis) well ahead of the future regulatory minimum of 100%. The reported LCR and NSFR may change over time with regulatory developments and guidance.

Non-trading interest rate risk description

Non-trading interest rate risk, otherwise known as interest rate risk in the banking book, arises from the impact of adverse movements in interest rates on both net interest earnings and economic value of equity.

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:** arises from optional elements embedded in items where the bank or its customers can alter the level and timing of their cash flows
- **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 earnings and the economic value of equity.

Interest rate sensitivity gap

The table below shows our non-trading interest rate mismatch at 30 September 2018. 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	4 742	–	–	–	–	–	4 742
Investment/trading assets	1 668	417	104	153	66	2	2 410
Securitised assets	127	–	–	–	–	–	127
Advances	7 174	692	325	1 915	185	–	10 291
Other assets	–	–	–	–	–	1 722	1 722
Assets	**13 711**	**1 109**	**429**	**2 068**	**251**	**1 724**	**19 292**
Deposits – banks	(1 390)	(10)	–	–	–	–	(1 400)
Deposits – non-banks	(9 430)	(1 190)	(1 061)	(1 057)	(5)	–	(12 743)
Negotiable paper	(1 963)	–	–	–	–	–	(1 963)
Securitised liabilities	(121)	–	–	–	–	–	(121)
Investment/trading liabilities	–	–	–	–	–	–	–
Subordinated liabilities	(51)	(25)	–	(728)	–	–	(804)
Other liabilities	–	–	–	–	–	(179)	(179)
Liabilities	**(12 955)**	**(1 225)**	**(1 061)**	**(1 785)**	**(5)**	**(179)**	**(17 210)**
Total equity	–	–	–	–	–	(2 082)	(2 082)
Balance sheet	**756**	**(116)**	**(632)**	**283**	**246**	**(537)**	**–**
Off-balance sheet	1 126	(357)	(107)	(437)	(225)	–	–
Repricing gap	**1 882**	**(473)**	**(739)**	**(154)**	**21**	**(537)**	**–**
Cumulative repricing gap	1 882	1 409	670	516	537	–	

Economic value sensitivity at 30 September 2018

As outlined above, non-trading interest rate risk is measured and monitored using an economic value sensitivity approach. 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 have 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	8.8	(1.1)	3.3	(2.2)	(2.5)	(0.5)	9.0
200bps up	(5.9)	1.2	(2.6)	2.1	2.3	0.5	(5.6)

Capital adequacy

Capital structure and capital adequacy

£'million	30 Sept 2018*	1 April 2018	31 March 2018*
Tier 1 capital			
Shareholders' equity	1 859	1 777	1 989
Shareholders' equity excluding non-controlling interests	1 890	1 800	2 012
Foreseeable charges and dividends	(19)	(18)	(18)
Deconsolidation of special purpose entities	(12)	(5)	(5)
Non-controlling interests	(8)	(3)	(3)
Non-controlling interests per balance sheet	(8)	(3)	(3)
Regulatory adjustments to the accounting basis	101	145	(4)
Additional value adjustments	(5)	(4)	(4)
Gains or losses on liabilities at fair value resulting from changes in our credit standing	11	55	–
Adjustment under IFRS 9 transitional arrangements	95	94	–
Deductions	(358)	(361)	(361)
Goodwill and intangible assets net of deferred taxation	(344)	(348)	(348)
Deferred taxation assets that rely on future profitability excluding those arising from temporary differences	(9)	(9)	(9)
Securitisation positions	(4)	(3)	(3)
Debt valuation adjustment	(1)	(1)	(1)
Common equity tier 1 capital	**1 594**	**1 558**	**1 621**
Additional Tier 1 capital	**200**	**200**	**200**
Additional tier 1 instruments	200	200	200
Tier 1 capital	**1 794**	**1 758**	**1 821**
Tier 2 capital	**626**	**445**	**445**
Tier 2 instruments	626	445	445
Total regulatory capital	**2 420**	**2 203**	**2 266**
Risk-weighted assets^^	**14 416**	**13 777**	**13 744**
Capital ratios^^			
Common equity tier 1 ratio	11.1%	11.3%	11.8%
Tier 1 ratio	12.4%	12.8%	13.2%
Total capital ratio	16.8%	16.0%	16.5%

* *The capital adequacy disclosures for Investec Bank plc include the deduction of foreseeable charges and dividends when calculating common equity tier (CET) 1 capital as required under the Capital Requirements Regulation and European Banking Authority technical standards. These disclosures are different to the capital adequacy disclosures included in the Interim Report, which follow our normal basis of presentation and do not include the deduction for foreseeable charges and dividends when calculating CET 1 capital. Investec Bank plc's CET 1 ratio would be 13bps (31 March 2018: 13bps) higher on this basis.*

^^ *CET 1, Tier 1 (T1), total capital adequacy ratios and risk-weighted assets are calculated applying the IFRS 9 transitional arrangements.*

Capital Requirements

	30 Sept 2018	1 April 2018	31 March 2018
Capital requirements	**1 153**	**1 101**	**1 099**
Credit risk	862	824	822
Equity risk	9	6	6
Counterparty credit risk	50	52	52
Credit valuation adjustment risk	9	10	10
Market risk	77	77	77
Operational risk	146	132	132
Risk-weighted assets	**14 416**	**13 777**	**13 744**
Credit risk	10 777	10 304	10 271
Equity risk	113	79	79
Counterparty credit risk	628	652	652
Credit valuation adjustment risk	114	121	121
Market risk	962	965	965
Operational risk	1 822	1 656	1 656

Leverage

	30 Sept 2018	1 April 2018	31 March 2018
Exposure measure	**23 508**	**21 335**	**21 335**
Tier 1 capital∞	1 794	1 758	1 821
Leverage ratio – current**	**7.6%**	**8.2%**	**8.5%**
Tier 1 capital fully loaded	1 718	1 713	1 821
Leverage ratio – 'fully loaded'^^**	**7.3%**	**8.1%**	**8.5%**

A summary of capital adequacy and leverage ratios

	30 Sept 2018*	1 April 2018	31 March 2018*
Common equity tier 1 (as reported)∞	11.1%	11.3%	11.8%
Common equity tier 1 ('fully loaded')^^	10.6%	11.0%	11.8%
Tier 1 (as reported)∞	12.4%	12.8%	13.2%
Total capital adequacy ratio (as reported)∞	16.8%	16.0%	16.5%
Leverage ratio** – current	7.6%	8.2%	8.5%
Leverage ratio** – ('fully loaded')^^	7.3%	8.1%	8.5%
Leverage ratio – current UK leverage ratio framework^^^	9.1%	9.8%	10.2%

* *The capital adequacy disclosures for Investec Bank plc include the deduction of foreseeable charges and dividends when calculating CET 1 capital as now required under the Capital Requirements Regulation and European Banking Authority 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 of foreseeable charges and dividends when calculating CET 1 capital. Investec Bank plc's CET 1 ratio would be 13bps (31 March 2018: 13bps) higher on this basis.*

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

^^ *Based on the group's understanding of current regulations, 'fully loaded' is based on CRR requirements as fully phased in by 2022, including full adoption of IFRS 9. As a result of the adoption of IFRS 9 Investec Bank plc elected to designate its subordinated fixed rate medium-term notes due in 2022 at fair value. By the time of full adoption of IFRS 9 in 2023, these subordinated liabilities will have reached final maturity and will be redeemed at par value. The remaining interest rate portion of the fair value adjustment at 30 September 2018 of £18 million (post-taxation), has therefore been excluded from the fully loaded ratios as it will be released into profit and loss over the remaining life of the instrument.*

^^^ *Investec Bank 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.*

∞ *The reported CET 1, T1 and total capital adequacy amounts and ratios are calculated applying the IFRS 9 transitional arrangements.*

Notes