

Out of the Ordinary



Interim Report
for the six months ended
30 September 2018

2018





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We strive to be a distinctive specialist bank and asset manager, driven by commitment to our core philosophies and values.

Investec (comprising Investec plc and Investec Limited) is an international specialist bank and asset manager that provides a diverse range of financial products and services to a select client base.

Who we are

Founded as a leasing company in Johannesburg in 1974.

We acquired a banking licence in 1980 and were listed on the JSE Limited South Africa in 1986.

In July 2002, we implemented a dual listed companies (DLC) structure with linked companies listed in London and Johannesburg.

A year later, we concluded a significant empowerment transaction in which our empowerment partners collectively acquired a 25.1% stake in the issued share capital of Investec Limited.

Since inception, we have expanded through a combination of substantial organic growth and a series of strategic acquisitions.

Today, we have an efficient integrated international business platform, offering all our core activities in the UK and South Africa.

Our philosophies

- Single organisation
- Meritocracy
- Focused businesses
- Differentiated, yet integrated
- Material employee ownership
- Creating an environment that stimulates extraordinary performance.

We value

Distinctive performance

- Outstanding talent – empowered, enabled and inspired
- Meritocracy
- Passion, energy, stamina, tenacity
- Entrepreneurial spirit

Client focus

- Distinctive offering
- Leverage resources
- Break china for the client

Cast-iron integrity

- Moral strength
- Risk consciousness
- Highest ethical standards

Dedicated partnership

- Respect for others
- Embrace diversity
- Open and honest dialogue
- Unselfish contribution to colleagues, clients and society

What we do

We are an international specialist bank and asset manager that provides a diverse range of financial products and services to a select client base in three principal markets, the UK and Europe, South Africa and Asia/Australia as well as certain other countries.

Investec focuses on delivering distinctive profitable solutions for its clients in three core areas of activity namely, Asset Management, Wealth & Investment and Specialist Banking.

Our strategic goals and objectives are based on the aspiration to be recognised as a distinctive specialist bank and asset manager. This distinction is embodied in our entrepreneurial culture, which is balanced by a strong risk management discipline, client-centric approach and an ability to be nimble, flexible and innovative. We do not seek to be all things to all people and aim to build well-defined, value-added businesses focused on serving the needs of select market niches where we can compete effectively.

The Investec distinction

Our strategic goals and objectives are based on our aspiration to be recognised as a distinctive specialist bank and asset manager.



Client focused approach

- Clients are at the core of our business
- We strive to build business depth by deepening existing and creating new client relationships
- High-tech, high-touch approach
- High level of service by being nimble, flexible and innovative.



Specialised strategy

- Serving select market niches as a focused provider of tailored structured solutions
- Enhancing our existing position in principal businesses and geographies through organic growth and select bolt-on acquisitions.



Sustainable business

- Contributing to society, macro-economic stability and the environment
- Well-established brand
- Managing and positioning the group for the long term
- Balancing capital light versus capital intensive activities while creating value for shareholders
- Cost and risk conscious.



Strong culture

- Strong entrepreneurial culture that stimulates extraordinary performance
- Passionate and talented people who are empowered and committed
- Depth of leadership
- Strong risk awareness
- Material employee ownership.

Our strategy

Our long-term strategy is to build a diversified portfolio of businesses and geographies to support clients through varying markets and economic cycles. Since inception we have expanded through a combination of organic growth and strategic acquisitions.

In order to create a meaningful and balanced portfolio we need proper foundations in place which gain traction over time.

Our long-term internationalisation strategy

- Follow our customer base
- Gain domestic competence and critical mass in our chosen geographies
- Facilitate cross-border transactions and flow.

We have a very deliberate and focused client strategy:

- to leverage our unique client profile
- to provide the best integrated solution supported by our comprehensive digital offering.

Our strategy (continued)

Asset Management

- Concentrate on our existing offering
- Scale through our global distribution model and capture the next wave of flows, including North America and Asia
- Continue to deepen and strengthen investment and client capabilities for long-term

Investec (Bank and Wealth)

- Target market client acquisition and deepening client relationships
- Establishing a high-tech and high-touch domestically relevant UK private Bank
- Investing in our technology platforms
- Improving the jaws ratio
- Increasing capital light activities
- Managing our capital base

Our diversified and balanced business model supporting long-term strategy

Broadly defined, we operate across three areas of specialisation focused on well defined target clients:

Asset Management

Specialist Banking

Wealth & Investment

Operating completely independently

Corporate/institutional/government

- Investment management services to external clients

- Lending
- Transactional banking
- Deposit raising activities
- Treasury and trading
- Advisory
- Investment activities

Private client (high net worth/high income)/charities/trusts

- Investment management services
- Independent financial planning advice

We aim to maintain an **appropriate balance** between revenue earned from capital light activities and revenue earned from capital intensive activities.

This ensures that we are **not over reliant** on any one part of our businesses to sustain our activities and that we have a large recurring revenue base that enables us to navigate through varying cycles and supports our long-term strategy.

Capital light activities

55%

- Asset management
- Wealth management
- Advisory services
- Transactional banking services
- Property and other funds

Contributed to group income

Capital intensive activities

45%

- Lending portfolios
- Investment portfolios
- Trading income
 - client flows
 - balance sheet management

Contributed to group income

Fee and commission income

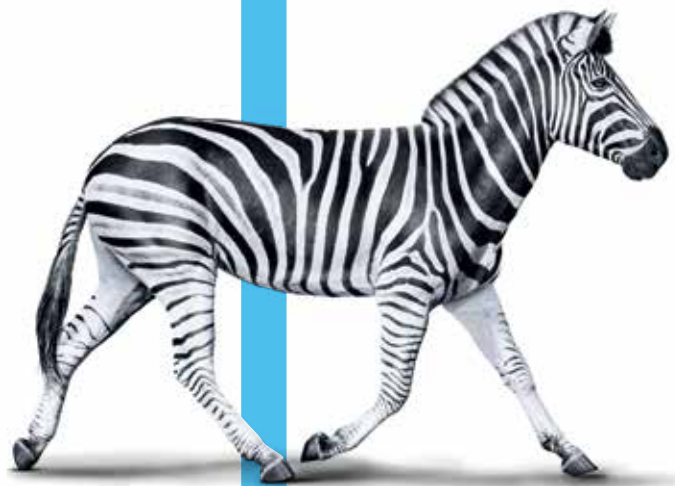


Types of income



Net interest, investment, associate and trading income

Overview of results



Presentation of financial information

Introduction

Investec operates under a DLC structure with primary listings of Investec plc on the London Stock Exchange and Investec Limited on the JSE Limited.

In terms of the contracts constituting the DLC structure, Investec plc and Investec Limited effectively form a single economic enterprise in which the economic and voting rights of ordinary shareholders of the companies are maintained in equilibrium relative to each other. The directors of the two companies consider that for financial reporting purposes, the fairest presentation is achieved by combining the results and financial position of both companies.

Accordingly, the interim results for Investec plc and Investec Limited present the results and financial position of the combined DLC group under International Financial Reporting Standards (IFRS), denominated in Pounds Sterling.

All references in this document to Investec or the group relate to the combined DLC group comprising Investec plc and Investec Limited.

Exchange rates

Our reporting currency is Pounds Sterling. Certain of our operations are conducted by entities outside the UK. The results of operations and the financial position of our individual companies are reported in the local currencies of the countries in which they are domiciled, including South African Rands, Australian Dollars, Euros and US Dollars. These results are then translated into Pounds Sterling at the applicable foreign currency exchange rates for inclusion in our combined consolidated financial results. In the case of the income statement, the weighted average rate for the relevant period is applied and, in the case of the balance sheet, the relevant closing rate is used.

The following table sets out the movements in certain relevant exchange rates against Pounds Sterling over the period.

	30 Sept 2018		31 March 2018		30 Sept 2017	
Currency per £1.00	Period end	Average	Period end	Average	Period end	Average
South African Rand	18.44	17.76	16.62	17.21	18.10	17.06
Australian Dollar	1.80	1.79	1.83	1.72	1.71	1.69
Euro	1.12	1.13	1.14	1.14	1.13	1.14
US Dollar	1.30	1.33	1.40	1.33	1.34	1.30

Exchange rates between local currencies and Pounds Sterling have fluctuated over the period. The most significant impact arises from the volatility of the Rand. The average Rand:Pounds Sterling exchange rate over the year has depreciated by 4.1% and the closing rate has depreciated by 11.0% since 31 March 2018.

Presentation of financial information

(continued)

An overview of the operating environment impacting our business



South Africa

Our views

South Africa recorded a recession in the first half of this calendar year in what has become, over this decade, a very low domestic growth environment.

The period was characterised by a steep rise in risk aversion in global financial markets on higher real US interest rates, with many emerging market currencies proving sensitive on substantial sell-off of portfolio assets, and the US Dollar in the main strengthening. The global economic cycle has become advanced and US led trade tensions have escalated, delivering some sporadic bouts of Dollar weakness on fears of slower future US growth, adding to volatility along with geopolitical risks. Emerging market economies with weak economic fundamentals saw substantial portfolio disinvestment and consequent currency weakness, with the Rand depreciating as global yield seeking became more demanding, weighing risk premium against safe haven assets' increased returns. The S&P 500 gained materially over the period, while the MSCI emerging market index fell with the JSE in particular afflicted in the grouping.

Some emerging market interest rates were forced up, but not enough to entice the previous levels of risk appetite to resume, around US\$2.5 trillion in portfolio inflows were recorded for emerging markets since the global financial crisis to April 2018, precipitated by a zero bound US interest rate environment. South Africa saw no change in its repo rate over the period, but the pressure has increased for higher rates, with the yield on the ten year benchmark bond rising by 100bps over the period.

South Africa recorded a recession in the first half of this calendar year in what has become, over this decade, a very low domestic growth environment on a loss in competitiveness, with the World Economic Forum's (WEF) Global Competitiveness Survey showing South Africa's ranking has dropped to sixty seventh, from thirty ninth in 2007/08. Economic growth in South Africa is only expected at 0.7% year-on-

year for calendar year 2018, from forecasts of closer to 1.5% year-on-year earlier in the year. Growth in credit extended to households has lifted year-on-year, with many households under financial pressure, and the second quarter of 2018 delivered an outright contraction in household consumption expenditure as real disposable incomes contracted on the quarter.

Looking forward, consumer recovery is expected as employee compensation increases, and the employment rate lifts with a pick-up in GDP growth. South Africa's economic growth outlook relies partly on the global economic outlook, but is also limited by domestic structural rigidities. The newly launched Economic Stimulus and Recovery Plan (ESRP) seeks to unlock barriers to large scale domestic fixed investment with the private sector working in partnership with government to ensure delivery. The third iteration of the mining charter is seen as a workable compromise to bring in the reforms necessary to attract new investment and contribute to the rise in economic growth signalled above. The expected future lift in corporate earnings will likely support South Africa's equity market, from a perceived relatively depressed earnings base currently.

The key to unlocking robust domestic growth in South Africa remains the strengthening of South Africa's institutions and state structures to high levels of soundness, substantially growing the private corporate sector (and substantially raising private sector fixed investment), including reindustrialisation on a long-term basis, in order to lift private sector employment to reduce unemployment from close to 30% to close to 10%. The ongoing eradication of corruption and state capture also remains key, as does a marked consolidation in government finances to boost investor confidence levels.



United Kingdom

Our views

UK economic expansion stepped up in quarter two and three, lifted by an increase in consumer spending following the heatwave over the summer period.

GDP figures show that the UK economy grew by a robust 0.6% in quarter three, with the heatwave encouraging households to spend during the summer. This marked a step up in expansion recorded in both quarter one and quarter two of 0.1% and 0.4% respectively. Alongside this the unemployment rate fell to a 43-year low of 4.0% in the three months to August, while earnings (excluding bonuses) picked up 3.1% year-on-year for the first time since early 2009.

On the monetary policy front, the Bank of England (BoE) pushed ahead with raising the policy rate a further 25 basis points to 0.75%. Looking ahead, rate setters have signalled that further hikes are likely to be necessary to bring inflation back sustainably to BoE's 2% target. It was also announced that Governor Mark Carney will extend his term by a further seven months to the end of January 2020.

Negotiations continued to be held on the UK's departure from the EU. In July, Prime Minister Theresa May detailed the UK's vision of its future partnership with the EU at her official Chequers country residence. While this has subsequently formed the basis for talks with the EU, an agreement remains outstanding on both the terms of withdrawal and the future trading relationship.

Chancellor of the Exchequer Philip Hammond delivered his Autumn budget in October which announced an expansionary programme, containing as much as £31 billion of fiscal stimulus by 2023/24.

Presentation of financial information

(continued)

An overview of the operating environment impacting our business (continued)



United States

Our views

US economic growth heightened with the economy on track to reach almost 3% growth in 2018.

US economic momentum picked up with a 4.2% annualised growth pace recorded for the second quarter, the strongest since quarter three of 2014. Growth remained robust in quarter three, with expansion of 3.5%, meaning the economy remains on track for almost 3% growth in 2018.

The labour market has tightened further with the unemployment rate having reached 3.7% in September 2018, a level not seen since 1969. Some measures of pay growth and compensation have risen alongside this, with the Federal Reserve's closely watched Employment Cost Index reaching rates of growth not seen since 2009. However, despite the low levels of unemployment, overall measures of pay growth remain relatively contained.

The absence of a material acceleration in pay growth or a shift higher in inflation expectations have allowed the Federal Reserve to adjust its policy stance relatively slowly. The Federal Open Market Committee (FOMC) has so far enacted three quarter point increases in 2018, with another likely in December. The Federal funds target rate range now stands at 2.00 – 2.25%.

Importantly the FOMC has also embarked on a process of reducing its Quantitative Easing asset holdings on its balance sheet. It commenced this in October 2017 and has allowed holdings to roll-off up to a prescribed cap, which has been rising each quarter. The cap started at \$10 billion per month in October 2017 and reached a maximum of \$50 billion per month in October 2018. So far, markets have taken the Federal Reserve's gradual process of policy normalisation in their stride, although investors are increasingly eyeing the possibility of a step up in the pace of rate rises, amidst the tight labour market. The Federal Reserve's estimate of 'neutral' interest rates currently rests at 3.00%, with questions being asked about whether rates might need to move above this level for a time.

Trade tensions with China increased during the period under review, with the Trump administration increasing tariffs on a total of \$254 billion of Chinese imports.



Eurozone

Our views

The Eurozone recorded subdued economic growth in comparison to the strong pace of economic growth seen in 2017.

Euro areas momentum has moderated across the course of this year having achieved average quarterly growth of 0.7% in 2017. GDP growth eased to just 0.2% in quarter three, half of the 0.4% pace seen in each of the first two quarters of the year. 2018's slowdown has reflected, in part, a return to more normal growth levels from the robust pace witnessed in 2017, as well as the impact of several special factors. Despite the slowdown, growth in the Euro area remains solid and broad-based. The Euro area's largest member Germany is on course to record an expansion of 1.8% in 2018, while the eastern European states of the Eurozone have been the over performers in the year to date, with annual GDP growth in the 3-4% range.

Household spending continues to represent the main driver of economic growth, a situation which is supported by the continued improvement in labour market conditions. The unemployment rate in September stood at 8.1%, its lowest rate since November 2008. Strengthening labour market conditions have been followed by a firming in wage growth, which stood at its firmest for nearly ten years in quarter two of 2018. Meanwhile headline Harmonised Index of Consumer Prices (HICP) inflation has strengthened with this measure standing at 2.1% in September, although core inflation has yet to witness a notable uptrend during the period.

The European Central Bank (ECB) maintained its stance on interest rate policy throughout the period with the main refinancing rate held at 0.00% and the deposit rate at -0.40%. The monthly pace of asset purchases also remained steady at €30 billion a month. However, the improvement in economic conditions had provided the ECB with sufficient confidence to announce a reduction of monthly purchases to €15 billion from the start of October 2018 and finishing asset purchases by the end of 2018. ECB guidance suggests that interest rates are expected to remain at their current levels until after the summer of 2019.

Italian politics has been a cause of uncertainty over the period, with elections in March proving inconclusive. The subsequent formation of a populist coalition government has been a source of market nervousness given the government's fairly combative attitude to the European Union and concerns over the fiscal outlook. As a result, Italian asset prices have been under pressure. The main equity index, the FTSE MIB, fell 8% over the period, while 10 year yields climbed to 3.4%. Elsewhere there was more positive news for Greece, with the country leaving its third financial assistance programme in August as planned.

Presentation of financial information

(continued)

An overview of the operating environment impacting our business (continued)



Global stock markets

Our views

Developed market equity indices have remained positive despite a rise in macroeconomic risks, while European indices gains have been more modest and emerging market indices have underperformed.

Macroeconomic risks have risen through the course of the year as escalating trade tensions between the US and China have represented a growing threat to the global economic outlook. Volatility in emerging markets prompted by US Dollar strength, weak local currencies and various country specific issues have also increased the downside risks to the outlook. However despite the rising global risk backdrop, developed market equity indices have gained through the period. The MSCI world index rose 5.7%, driven to a large degree by gains in US equities, where the S&P 500 rose 10.3% and reached a new all-time high in September.

By comparison, gains in European indices have been more modest: the FTSE 100 has risen 6%, with movements in the value of Sterling continuing to have an influence on the UK's main equity index. Meanwhile the Euro Stoxx 50 witnessed only a very marginal gain of 1%, with financial stocks weighing on the overall index, given the 15% decline over the period which was driven in part by concerns over Italian banks.

Emerging market indices underperformed across the same period with the MSCI emerging market index falling 10%. This was driven by rising concerns over trade disputes, the impact of emerging market currency weakness on US Dollar liabilities as well as more idiosyncratic issues such as politics. The Shanghai Composite index underperformed the wider emerging market space with a fall of 10.7% and reached a four-year low as trade tensions with the US increased and concerns grew over the potential economic impacts.

2018 has seen a marked increase in the divergence of stock returns on the JSE. Several large counters have fallen due to either disappointing results or unfavourable macro developments. Two-thirds of ALSI constituents have seen a daily move of 5% or more in the past three months. Broader emerging market concerns have affected the ALSI too; 80% of constituents are down in the year-to-date, the highest portion since the global financial crisis. In contrast the resources sector has benefited from both a weaker Rand and increased regulatory certainty post the publication of the revised mining charter.

Presentation of financial information

(continued)

Operating environment

The table below provides an overview of some key statistics that should be considered when reviewing our operational performance

	Period ended 30 Sept 2018	Year ended 31 March 2018	Average for the six months: 1 April 2018 to 30 Sept 2018	Period ended 30 Sept 2017	Year ended 31 March 2017	Average for the six months: 1 April 2017 to 30 Sept 2017
Market indicators						
FTSE All share	4 128	3 894	4 155	4 050	3 990	4 045
JSE All share	55 709	55 475	57 183	55 580	52 056	54 025
S&P	2 914	2 641	2 776	2 519	2 363	2 432
Nikkei	24 120	21 454	22 502	20 356	18 909	19 696
Dow Jones	26 458	24 103	25 069	22 405	20 663	21 436
Rates						
UK overnight	0.70%	0.44%	0.53%	0.20%	0.17%	0.21%
UK 10 year	1.57%	1.35%	1.42%	1.36%	1.20%	1.18%
UK Clearing Banks Base Rate	0.75%	0.50%	0.58%	0.25%	0.25%	0.25%
LIBOR – three month	0.80%	0.71%	0.73%	0.34%	0.34%	0.30%
SA R186	8.99%	7.99%	8.69%	8.55%	8.84%	8.62%
Rand overnight	6.55%	6.76%	6.49%	6.77%	6.97%	6.89%
SA prime overdraft rate	10.00%	10.00%	10.00%	10.25%	10.50%	10.40%
JIBAR – three month	7.00%	6.87%	6.95%	6.99%	7.36%	7.22%
US 10 year	3.05%	2.74%	2.92%	2.33%	2.40%	2.25%
Commodities						
Gold	US\$1 187/oz	US\$1 324/oz	US\$1 260/oz	US\$1 284/oz	US\$1 245/oz	US\$1 269/oz
Brent Crude Oil	US\$83/bbl	US\$70/bbl	US\$75/bbl	US\$58/bbl	US\$53/bbl	US\$52/bbl
Platinum	US\$815/oz	US\$936/oz	US\$859/oz	US\$920/oz	US\$940/oz	US\$947/oz

Source: IRESS, Johannesburg Stock Exchange, SARB Quarterly Bulletin, Macrobond.

Basis of presentation

This overview covers the statutory results of the Investec group for the six months ended 30 September 2018.

Overview of results

- The group has delivered a sound operational performance.
- This is notwithstanding a challenging operating environment. Rising US interest rates, the threat of trade wars, concerns over global growth prospects, weak economic growth in South Africa and Brexit-related uncertainty in the UK have contributed to this.
- The Asset Management and Wealth & Investment businesses have grown funds under management supported by strong net flows of £4.8 billion.
- The Specialist Banking business saw a substantial reduction in impairments as well as revenue growth supported by reasonable levels of client activity.
- The cost to income ratio improved marginally. Revenue growth and cost containment remain priorities.
- A solid base of annuity revenue has continued to support earnings through varying market conditions.

Overall group performance

Operating profit before goodwill, acquired intangibles, non-operating items and taxation and after other non-controlling interests (operating profit) increased 14.2% to £359.3 million (2017: £314.6 million) – an increase of 17.6% on a currency neutral basis. Overall group results have been negatively impacted by the depreciation of the average Rand: Pounds Sterling exchange rate of approximately 4.1% over the period. The combined South African businesses reported operating profit 5.0% ahead of the prior period (in Rands), whilst the combined UK and Other businesses posted a 40.2% increase in operating profit in Pounds Sterling.

Salient features of the period under review:

- Adjusted earnings attributable to shareholders before goodwill, acquired intangibles and non-operating items increased 8.2% to £265.3 million (2017: £245.3 million) – an increase of 11.1% on a currency neutral basis.
- Adjusted earnings per share (EPS) before goodwill, acquired intangibles and non-operating items increased 6.4% from 26.6 pence to 28.3 pence – an increase of 9.4% on a currency neutral basis.
- Annuity income as a percentage of total operating income amounted to 75.5% (2017: 76.4%).
- The total income statement impairment charge reduced materially to £31.0 million (2017: £59.6 million). The annualised credit loss charge as a percentage of average gross core loans and advances subject to expected credit losses has improved to 0.34% (2017: 0.52%).
- The annualised return on adjusted average shareholders' equity increased to 13.4% from 12.1% at 31 March 2018.
- Third party assets under management increased 3.7% to £166.5 billion (31 March 2018: £160.6 billion) – an increase of 7.2% on a currency neutral basis.
- Customer accounts (deposits) decreased 2.1% to £30.3 billion (31 March 2018: £31.0 billion) – an increase of 4.3% on a currency neutral basis.
- Core loans and advances decreased 3.7% to £24.2 billion (31 March 2018: £25.1 billion) – an increase of 2.4% on a currency neutral basis.
- The group maintained a sound capital position with common equity tier one (CET 1) ratios of 10.4% for Investec plc and 10.3% for Investec Limited, ahead of the group's CET 1 ratio target. The group is comfortable with its CET 1 ratio target at a 10% level, as its leverage ratios for both Investec Limited and Investec plc are above 7%.

- Liquidity remains strong with cash and near cash balances amounting to £12.5 billion.
- The board declared a dividend of 11.0 pence per ordinary share (2017: 10.5 pence) resulting in a dividend cover-based on the group's adjusted EPS before goodwill and non-operating items of 2.6 times (2017: 2.5 times), consistent with the group's dividend policy.
- The proposed demerger and separate listing of Investec Asset Management (still subject to regulatory and shareholder approvals) is progressing well.

Business unit review

Asset Management

Asset Management operating profit increased by 10.0% to £91.5 million (2017: £83.2 million). Strong net inflows of £4.1 billion supported the growth in total funds under management to £109.2 billion (31 March 2018: £103.9 billion). Flows were well spread across client regions.

Wealth & Investment

Wealth & Investment operating profit decreased by 6.3% to £46.4 million (2017: £49.5 million). Earnings have been impacted by growth in headcount for IT initiatives, compliance requirements, and continued recruitment of experienced portfolio managers and financial planners to support future revenue growth. The business generated net inflows of £650 million. Total funds under management amounted to £56.7 billion (31 March 2018: £56.0 billion).

Specialist Banking

Specialist Banking operating profit increased by 18.8% to £245.4 million (2017: £206.5 million).

The South African business reported an increase in operating profit in Rands of 4.2%. A combination of a weak domestic economy and political policy uncertainty has resulted in subdued activity; reflecting in softer loan book growth, client flow trading levels and a weaker performance

from the equity and investment property portfolios. We did however, report growth in net interest income supported by higher net margins and continued activity from our private client base. The annualised credit loss ratio on average core loans and advances subject to expected credit losses amounted to 0.30% (2017: 0.30% under the IAS 39 incurred impairment loss model), remaining at the lower end of its long-term average trend.

The UK and Other businesses reported a 96.0% increase in operating profit, reflecting a material decrease in impairment charges due to no longer incurring substantial losses on the legacy portfolio. In addition, earnings were supported by strong growth in net interest income and fee income largely driven by the corporate business. With the investment phase in the private bank largely complete, the business has strengthened its focus on client acquisition and has seen sound growth in mortgage lending activity. The bank's overall cost to income ratio improved, notwithstanding an increase in costs driven largely by headcount growth in relation to increased business activity and regulatory requirements. The annualised credit loss ratio on average core loans and advances subject to expected credit losses amounted to 0.41% (2017: 0.84% under the IAS 39 incurred impairment loss model).

Further information on key developments within each of the business units is provided on pages 18 to 46.

Group costs

These largely relate to group brand and marketing costs and a portion of executive and support functions which are associated with group level activities. These costs are not incurred by the operating divisions and are necessary to support the operational functioning of the group. These costs amounted to £24.0 million (2017: £24.7 million).

Financial statement analysis

Total operating income

Total operating income before expected credit loss impairment charges increased by 7.6% to £1,281.3 million (2017: £1,191.1 million).

Net interest income increased by 11.2% to £405.0 million (2017: £364.3 million) driven by lending activity and endowment impact from rate rises in the UK.

Net fee and commission income increased by 5.7% to £703.7 million (2017: £666.0 million) as a result of higher average funds under management and net inflows in the Asset Management and Wealth Management businesses as well as a good performance from the corporate advisory business in the UK.

Investment income amounted to £41.5 million (2017: £62.1 million) reflecting a weaker performance from the group's listed and unlisted investment portfolio, as well as from the investment property portfolio in South Africa.

Share of post taxation profit of associates of £20.8 million (2017: £23.7 million) reflects earnings in relation to the group's investment in the IEP Group.

Trading income arising from customer flow increased by 1.4% to £65.1 million (2017: £64.2 million) reflecting subdued client flow trading levels given the uncertainty in both geographies.

Trading income from balance sheet management and other trading activities increased significantly to £39.0 million (2017: £5.1 million). The increase is largely reflective of translation gains on foreign currency equity investments in South Africa (partially offsetting the related weaker investment income performance) as well as the unwind of the UK subordinated debt fair value adjustment (recognised on the adoption of IFRS 9) as the instrument pulls to par over its remaining term.

Expected credit loss (ECL) impairment charges

The total ECL impairment charges amounted to £31.0 million, a substantial reduction from £59.6 million (under the IAS 39 incurred loss model) in the prior period, primarily reflecting a reduction in legacy impairments. The group's annualised credit loss ratio is now within its long-term average range at 0.34% (2017: 0.52%). Since 1 April 2018 gross core loan Stage 3 assets have reduced by £141 million to £595.0 million largely driven by a reduction of legacy exposures. Stage 3 assets (net of ECL impairment charges) as a percentage of net core loans subject to ECL was 1.7% (1 April 2018: 2.0%).

Operating costs

The cost to income ratio improved marginally, amounting to 66.6% (2017: 66.9%). Total operating costs grew by 7.2% to £854.2 million (2017: £797.1 million) largely driven by growth in headcount to support both activity levels and increased regulatory requirements.

Taxation

The effective tax rate amounted to 16.1% (2017: 14.5%), which remains below the group's historical effective tax rate mainly impacted by the utilisation of tax losses.

Profit attributable to non-controlling interests

Profit attributable to non-controlling interests mainly comprises:

- £12.8 million profit attributable to non-controlling interests in the Asset Management business.
- £36.4 million profit attributable to non-controlling interests in the Investec Property Fund.

Balance sheet analysis

Since 31 March 2018:

- Shareholders equity decreased by 5.9% to £4.2 billion primarily as a result of the adoption of IFRS 9 on 1 April 2018 as well as from the depreciation of the closing Rand: Pounds Sterling exchange rate.
- Net asset value per share decreased 6.7% to 422.0 pence and net tangible asset value per share (which excludes goodwill and intangible assets) decreased 7.2% to 372.7 pence, primarily as a result of the adoption of IFRS 9 as well as from the depreciation of the closing Rand: Pounds Sterling exchange rate.
- The annualised return on adjusted average shareholders' equity increased from 12.1% to 13.4%.

Liquidity and funding

As at 30 September 2018 the group held £12.5 billion in cash and near cash balances (£6.5 billion in Investec plc and R110.8 billion in Investec Limited) which amounted to 41.1% of customer deposits. The group continues to focus on maintaining an optimal overall liquidity and funding profile. Loans and advances to customers as a percentage of customer deposits amounted to 78.2% (31 March 2018: 79.6%). The group comfortably exceeds Basel liquidity requirements for the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). Investec Bank Limited (solo basis) ended the period to 30 September 2018 with the three-month average of its LCR at 137.4% and an NSFR of 111.3%. Further detail with respect to the bank's LCR and NSFR in South Africa is provided on the website. For Investec plc and 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 332% for Investec plc and 339% for Investec Bank plc (solo basis). Ahead of the implementation of the final NSFR rules, the group has applied its own interpretations of regulatory guidance and definitions from the BCBS final guidelines to calculate the NSFR which was 140% for Investec plc and 134% for Investec Bank plc (solo basis). The reported NSFR and LCR may change over time with regulatory developments and guidance.

Capital adequacy and leverage ratios

The group is targeting a minimum common equity tier 1 capital ratio above 10% and a total capital adequacy ratio range of 14% to 17% on a consolidated basis for each of Investec plc and Investec Limited. The group's anticipated fully loaded Basel III common equity tier 1 (CET 1) ratios in both Investec plc and Investec Limited are reflected on page 163. The group expects to implement the Foundation Internal Ratings-Based (FIRB) approach in South Africa by the end of the 2019 financial year, subject to final regulatory approval.

Additional information – proposed demerger and listing of Investec Asset Management business

On 14 September 2018, the board of directors of Investec plc and Investec Limited announced that the Investec Asset Management business would become a separately listed entity. The demerger and the listing of Investec Asset Management is subject to regulatory, shareholder and other approvals, and is expected to be completed during the second half of 2019.

Accounting policies and disclosures

These unaudited summarised combined consolidated financial results have been prepared in terms of the recognition and measurement criteria of International Financial Reporting Standards, and the presentation and disclosure requirements of IAS 34, (Interim Financial Reporting).

The accounting policies applied in the preparation of the results for the period to 30 September 2018 are consistent with those adopted in the financial statements for the year ended 31 March 2018 except as noted below.

On 1 April 2018 the group adopted IFRS 9 'Financial Instruments' which replaced IAS 39 and sets out the new requirements for the recognition and measurement of financial instruments. These requirements focus primarily on the classification and measurement of financial instruments and measurement of impairment losses based

on an expected credit loss (ECL) model as opposed to an incurred loss methodology under IAS 39. Disclosure related to the initial application and the impact of the transition from IAS 39 to IFRS 9 were included in the group's transition disclosures published on 15 June 2018 which can be accessed via the Investec website at www.investec.com.

Additionally, on 1 April 2018 the group adopted IFRS 15 'Revenue from contracts with customers' which replaced IAS 18 'Revenue'. IFRS 15 provides a principles-based approach for revenue recognition and introduces the concept of recognising revenue for obligations as they are satisfied. It applies to all contracts with customers except leases, financial instruments and insurance contracts. The group's measurement and recognition principles were aligned to the new standard and hence there has been no material impact on measurement and recognition principles or on disclosure requirements from the adoption of IFRS 15.

The financial results have been prepared under the supervision of Glynn Burger, the Group Risk and Finance Director. The financial statements for the six months to 30 September 2018 will be posted to stakeholders on 30 November 2018. These accounts will be available on the group's website on the same date.

Proviso

- Please note that matters discussed in this report may contain forward looking statements which are subject to various risks and uncertainties and other factors, including, but not limited to:
 - the further development of standards and interpretations under IFRS applicable to past, current and future periods, evolving practices with regard to the interpretation and application of standards under IFRS.
 - domestic and global economic and business conditions.
 - market related risks.
- A number of these factors are beyond the group's control.
- These factors may cause the group's actual future results, performance or achievements in the markets in which it operates to differ from those expressed or implied.

- Any forward looking statements made are based on the knowledge of the group at 14 November 2018.
- The information in the announcement for the six months ended 30 September 2018, which was approved by the board of directors on 14 November 2018, does not constitute statutory accounts as defined in Section 435 of the UK Companies Act 2006. The 31 March 2018 financial statements were filed with the registrar and were unqualified with the audit report containing no statements in respect of Sections 498(2) or 498(3) of the UK Companies Act.
- This announcement is available on the group's website: www.investec.com.

Financial assistance

Shareholders are referred to Special Resolution number 3, which was approved at the annual general meeting held on 8 August 2018, relating to the provision of direct or indirect financial assistance in terms of Section 45 of the South African Companies Act, No 71 of 2008 to related or inter-related companies. Shareholders are hereby notified that in terms of S45(5)(a) of the South African Companies Act, the boards of directors of Investec Limited and Investec Bank Limited provided such financial assistance during the period 1 April 2018 to 30 September 2018 to various groups subsidiaries.

Outlook

Notwithstanding macro challenges, we believe that our current business momentum and our drive to simplify and focus the business, together with our commitment to cost discipline, will support our long-term growth aspirations.

On behalf of the boards of Investec plc and Investec Limited



Perry Crosthwaite
Chairman



Fani Titi
Joint Chief Executive Officer



Hendrik du Toit
Joint Chief Executive Officer

14 November 2018



Divisional and
segmental
review

Group divisional structure



Investec is a focused specialist bank and asset manager striving to be distinctive in all that it does.

Our strategic goals and objectives are motivated by the desire to develop an efficient and integrated business on an international scale through the active pursuit of clearly established core competencies in our principal business areas. Our core philosophy has been to build well-defined, value-added businesses focused on serving the needs of select market niches where we can compete effectively.

We seek to maintain an appropriate balance between revenue earned from capital light activities and revenue earned from capital intensive activities. This ensures that we are not over reliant on any one part of our business to sustain our activities and that we have a large recurring revenue base that enables us to navigate through varying cycles and to support our long-term growth objectives.

Asset Management

What we do

Equities
Fixed Income
Multi-asset
Alternatives

Where we operate

Africa
Americas
Asia Pacific
UK
Europe

Wealth & Investment

What we do

Portfolio management
Stockbroking
Alternative investments
Investment advisory services
Electronic trading services
Retirement portfolios

Where we operate

South Africa
UK
Europe
Hong Kong
Mauritius

Specialist Banking

What we do

Private Banking activities
Corporate and Institutional Banking activities
Investment activities
Property activities

Where we operate

Southern Africa
UK
Europe
Australia
Mauritius
Hong Kong
India
USA

Integrated global management structure

Global roles as at 1 October 2018

Joint chief executive officers	Fani Titi Hendrik du Toit	Group risk and finance director	Glynn Burger
		Executive directors	Kim McFarland Stephen Koseff* Bernard Kantor*

GEOGRAPHICAL BUSINESS LEADERS	Specialist Banking	Asset Management	SUPPORT STRUCTURES
	Richard Wainwright David van der Walt	John Green [^] Mimi Ferrini [^]	
		Wealth & Investment Steve Elliott	
South Africa Glynn Burger Richard Wainwright United Kingdom David van der Walt Steve Elliott			Human resources and organisational development Marc Kahn Corporate governance and compliance Bradley Tapnack Group finance Nishlan Samujh Share schemes and secretarial Les Penfold Group marketing Malcolm Fried Group investor relations Ursula Nobrega

* Stephen Koseff and Bernard Kantor have stepped down from their roles as chief executive officer and managing director respectively, as of 1 October 2018. They will continue to serve on the board as executive directors with primary responsibility for assisting the joint chief executive officers until completion of the demerger of Investec Asset Management Transaction. Following the completion of the Transaction, they will step down from the board for an appropriate cooling off period after which they will re-join the board as non-executive directors.

[^] Hendrik du Toit stepped down as chief executive officer of Investec Asset Management on 1 October 2018, and John Green and Mimi Ferrini assumed their roles as joint chief executive officers on that date.



Asset Management

At Investec Asset Management, we believe in investing in a better tomorrow. We want to assist people around the globe to retire with dignity or meet their financial objectives by offering specialist, active investment expertise. We take a patient, long-term approach to organically developing and delivering capabilities, solutions and outcomes through active segregated mandates and mutual funds. Our overarching aim is to deliver an out of the ordinary investment and service experience to our clients. Our clients include some of the world's largest private and public sector pension funds, financial institutions, corporates, foundations, central banks and intermediaries serving individual investors.

Global executive committee* at 30 September 2018

Chief executive officer
Hendrik du Toit

Chief operating officer
Kim McFarland

Global head of client group
John Green

Co-chief investment officer
Domenico (Mimi) Ferrini

Co-chief investment officer
John McNab

Founded in 1991 and with roots in emerging markets, we have grown to be a well-established and trusted global investment manager. Driven by our founder culture, we are building an enduring inter-generational business, which offers stability and a long-term investment outlook for our clients. To achieve this, we believe diversity of thought, perspective, background and life experience is essential.

Our investment team of over 200 investment professionals applies clear investment philosophies and processes across multiple asset classes. Our client group is organised across five geographically defined units. These teams are supported by our global operations platform.

Our value proposition

- An organically built independent global platform from an emerging market base
- Independently managed entity within the Investec group
- Competitive investment performance in chosen specialities
- Global approach to:
 - Investing
 - Client base
 - Operations platform
- Institutional and advisor focus
- Unique and clearly understood culture
- Stable and experienced leadership
- A commitment to investing for a sustainable future.

Interim highlights

Net flows of
£4.1 billion
(2017: £2.1 billion)

Assets under management
£109.2 billion
(2017: £98.2 billion)

Operating margin
31.4%
(2017: 31.8%)

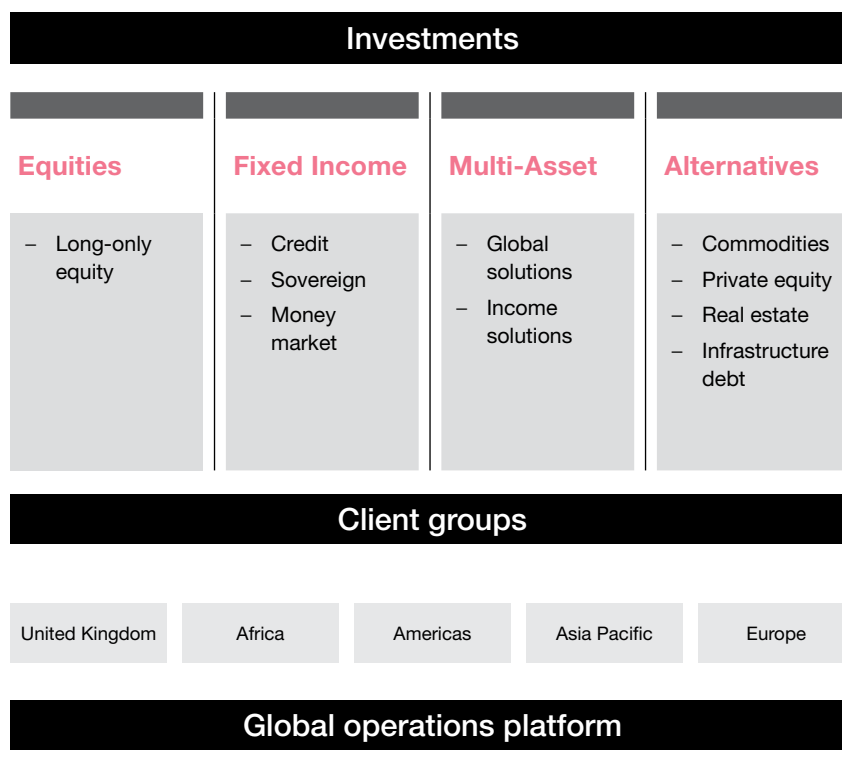
Operating profit before
non-controlling interests increased
by 10.0% to
£91.5 million
contributing 25.5% to group profit

* Hendrik du Toit stepped down as chief executive officer of Investec Asset Management on 1 October 2018 and John Green and Domenico (Mimi) Ferrini assumed their role as joint chief executive officers.



What we do

Organisational structure



Where we operate



Net flows by geography

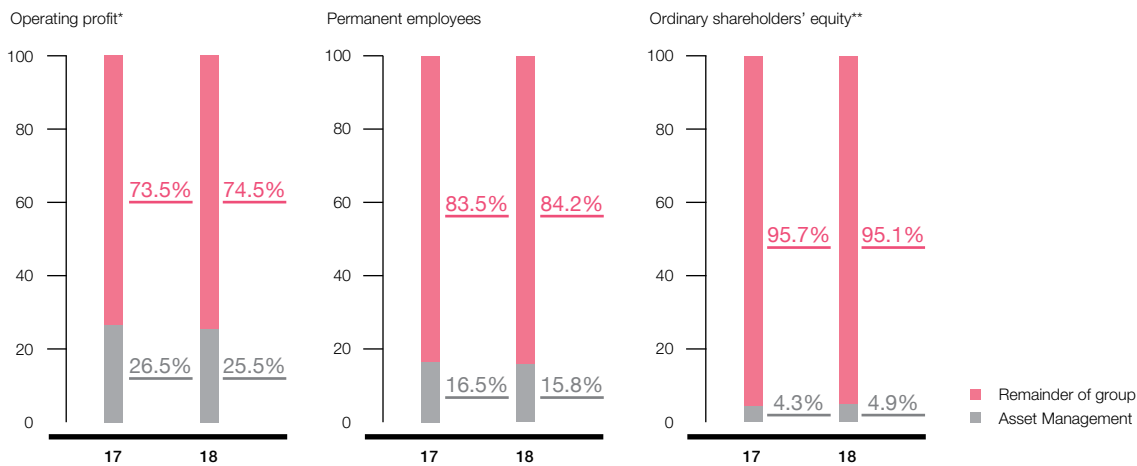
For the six months to 30 September 2018 and 30 September 2017.

Note: The net flows exclude a historic low value cash plus account which is subject to volatile net flows.

Asset Management

(continued)

Financial analysis

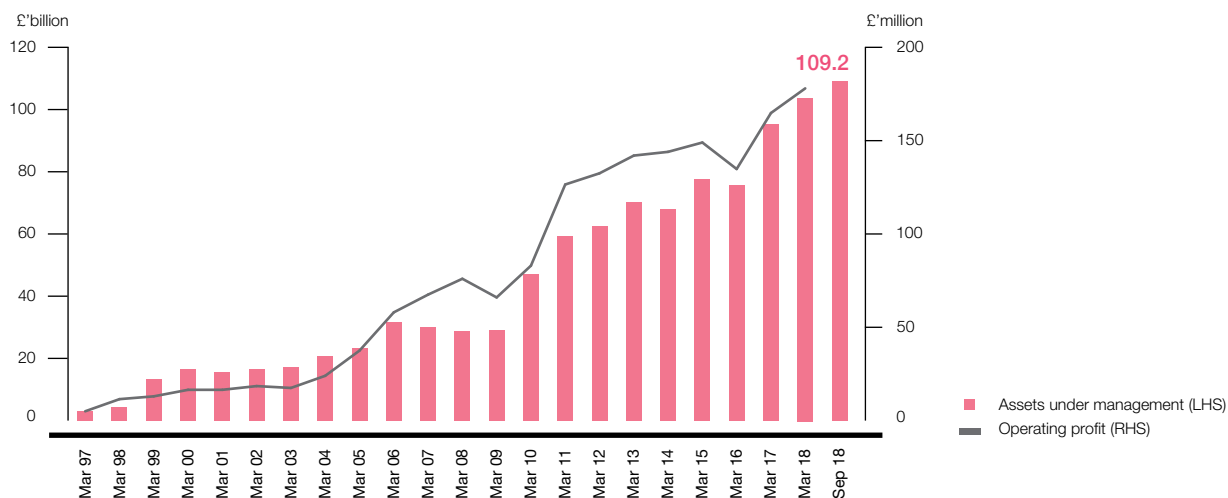


September

* Before goodwill, acquired intangibles, non-operating items, taxation and after other non-controlling interests.

** As calculated on page 82, based on regulatory capital requirements.

Historical financial performance





Income statement analysis

For the six months to £'000	30 Sept 2018	30 Sept 2017	Variance	% change
Net interest income	2 790	2 437	353	14.5%
Net fee and commission income	279 936	258 004	21 932	8.5%
Investment income	17	25	(8)	(32.0%)
Trading income/(loss) arising from balance sheet management and other trading activities	4 537	(1 420)	5 957	>100.0%
Other operating income	3 999	2 825	1 174	41.6%
Total operating income before expected credit loss impairment charges	291 279	261 871	29 408	11.2%
Expected credit loss impairment charges	(2)	–	(2)	(100.0%)
Operating income	291 277	261 871	29 406	11.2%
Operating costs	(199 751)	(178 638)	(21 113)	11.8%
Operating profit before goodwill, acquired intangibles, non-operating items, taxation and before non-controlling interests	91 526	83 233	8 293	10.0%
Profit attributable to Asset Management non-controlling interests*	(12 828)	(10 663)	(2 165)	(20.3%)
Operating profit before goodwill, acquired intangibles, non-operating items, taxation and after non-controlling interests	78 698	72 570	6 128	8.4%
UK and Other	48 530	43 076	5 454	12.7%
Southern Africa	30 168	29 494	674	2.3%
Operating profit before goodwill, acquired intangibles, non-operating items, taxation and after non-controlling interests	78 698	72 570	6 128	8.4%
Selected returns and key statistics				
Ordinary shareholders' equity**	193 462	168 158	25 304	15.0%
ROE (pre-tax)**	92.4%	90.8%		
Return on tangible equity (pre-tax)**	167.5%	180.3%		
Operating margin	31.4%	31.8%		
Operating profit per employee (£'000)^	84.6	81.3		

* Earnings after tax attributable to non-controlling interests includes the portion of earnings attributable to the 17% shareholding in the business by employees (30 September 2017:16%).

** As calculated on page 82, based on regulatory capital requirements.

^ Operating profit per employee excludes Silica, our third party administration business.

The variance in operating profit over the period can be explained as follows:

- Improved markets and net inflows supported our net fee and commission income growth.
- Performance fees increased over the year to £5.2 million compared with the prior year of £4.4 million.
- Against this backdrop, our operating profit before non-controlling interests increased by 10.0%.
- In spite of the market and currency volatility and the geographical uncertainties, we continue to invest for the long-term and do not focus on short-term earnings.



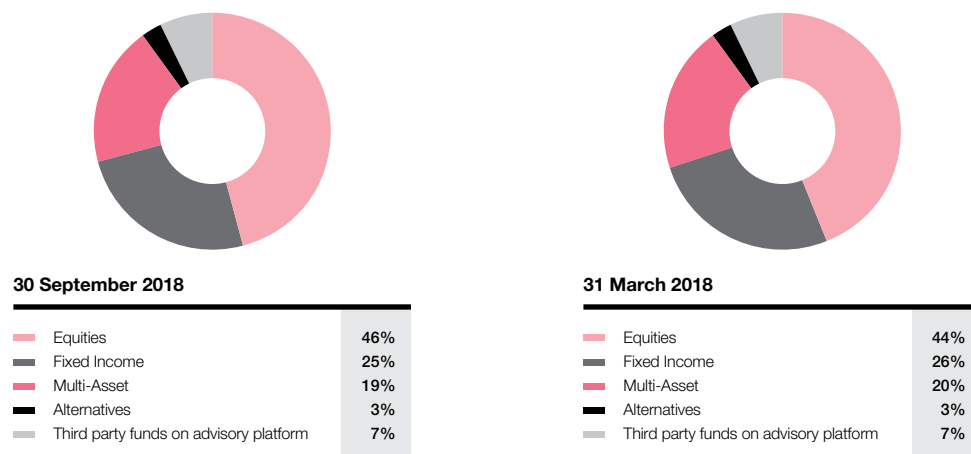
Asset Management

(continued)

Assets under management and net flows

£'million	AUM 30 Sept 2018	Net flows	Markets/ foreign exchange movements	AUM 31 March 2018
Equities	50 799	2 243	3 060	45 496
Fixed Income	27 891	1 660	(1 076)	27 307
Multi-Asset	20 236	73	(647)	20 810
Alternatives	2 987	36	75	2 876
Third party funds on advisory platform	7 291	118	(200)	7 373
Total	109 204	4 130	1 212	103 862

Assets under management by asset class

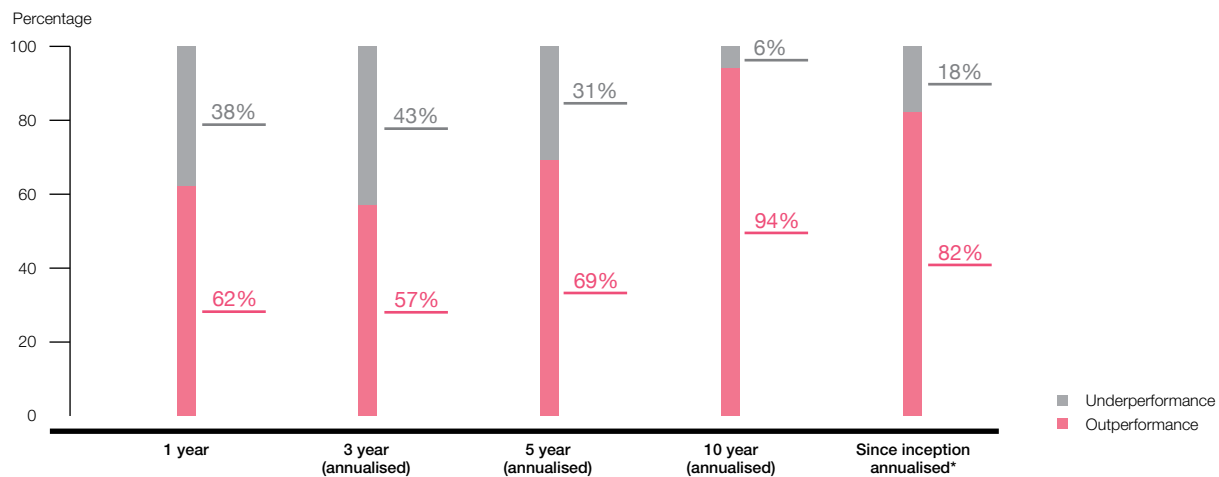


Note: The assets under management and net flows exclude a historic low value cash plus account which is subject to volatile net flows.

Investment performance

All of our investment capabilities are managed with the simple aim of delivering performance which meets or exceeds our clients' expectations around agreed risk parameters. Our long-term track record remains competitive.

Overall firm investment performance

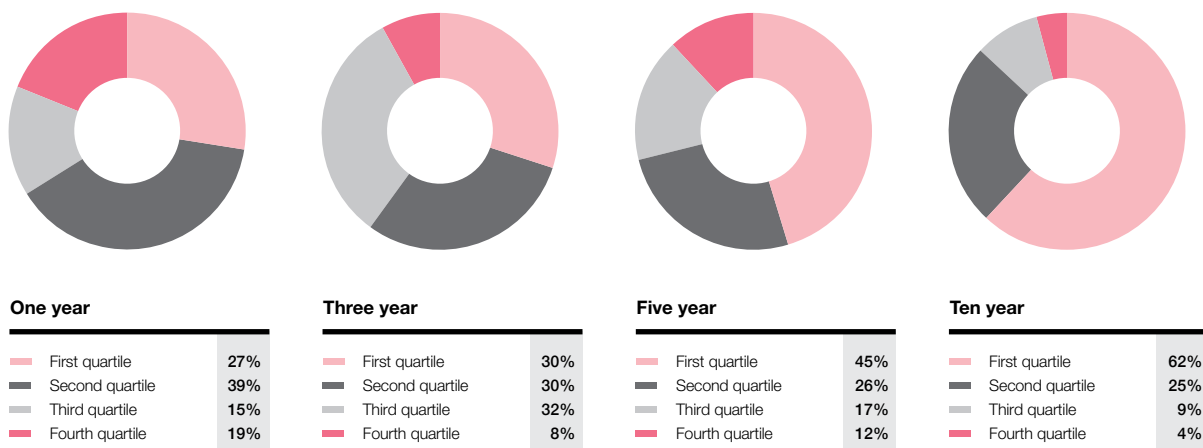


Source: Calculated by Investec Asset Management, returns from StatPro. Performance to 30 September 2018.

* Since inception date of each portfolio, only annualised if inception date is older than 12 months.

Note: Outperformance (underperformance) is calculated as the sum of the total market values for individual portfolios that have positive active returns (negative active returns) expressed as a percentage of total assets under management. Total assets under management exclude double-counting of pooled products and third party assets administered on our South African platform. Benchmarks used for the above analysis include cash, peer group averages, inflation and market indices as specified in client mandates or fund prospectuses. For all periods shown, market values are as at the period end date.

Mutual funds investment performance



Note: Assets under management weighted performance to 30 September 2018. Fund performance and ranking as per Morningstar data using primary share classes net of fees excluding cash and cash plus funds. Peer group universes are the Investment Association, the Global Investment Fund Sector or the Association of Savings and Investments South Africa sectors as classified by Morningstar.

Independent recognition (calendar year)

- Winner of Africa Private Equity's Credit House of the Year and Philanthropy Award
- Winner of Insurance Asset Risk Awards Emerging Markets Managers of the Year Award
- Raging Bull Awards for Best South African General Equity Fund (Investec Value Fund) and Top Outright Performance over 21 years by a South African General Equity Fund (Investec Equity Fund)



Asset Management

(continued)

Questions and answers

Hendrik du Toit

Chief executive officer

Q. How has the operating environment impacted your business over the past six months?

The global geopolitical and economic environment continues to be uncertain. Asset markets have faltered over the period and the risk of an ongoing market correction remains high.

Notwithstanding markets, the long-term growth prospects for the asset management industry remain compelling and the fundamentals are strong. However, the industry faces headwinds including the shift to passive products, downward fee pressure, and an evolving technology landscape resulting in a more competitive environment where only excellence is rewarded.

Q. What have been the key developments in your business over the past six months?

Over the first six months, we have had strong total net flows of £4.1 billion. This has been driven by significant net flows from the UK, Africa and Europe. Our Advisor net flows continued to be significant over the six months to 30 September 2018.

Following the announcement in February 2018, the business has been preparing for a leadership transition whereby John Green and Miri Ferrini will become Co-CEOs of Investec Asset Management from 1 October 2018. They will be responsible for leading the day-to-day operations of the business.

Following the announcement in September 2018, the business has started to prepare for the demerger and listing of Investec Asset Management, which is being managed by a dedicated team.

As a firm, we have continued to invest in our people, nurture the culture that binds us together and focus on excellence. As a result, we have a motivated and energetic team with a long-term mindset.

Q. What are your strategic objectives for the next six months?

Our strategic objectives remain unchanged from financial year end: we want to assist people around the globe to retire with dignity and meet their financial objectives. We do this through both the Institutional and Advisor space through five geographically defined client groups. Our ultimate aim is to manage our clients' money to the highest possible standards and in line with their expectations and product and strategy specifications.

We will continue to focus on delivering competitive investment performance, scaling our Multi-Asset and Quality capabilities and growing our presence in large markets with a particular focus on North America. We will also aim to grow in the Advisor space and continue to ensure that we are evolving all of our investment capabilities for the future including building the foundation for a more substantial Alternatives component.

Q. What is your outlook for the next six months?

At Investec Asset management, we always think about the long term. Our outlook continues to be focused on building a long-term intergenerational business. We concentrate less on short-term outcomes and more on the longer term horizons. Notwithstanding the industry challenges and the risk of further market corrections, we believe that the opportunity for growth in our industry over the next five-to-ten years is substantial. Our momentum is positive and we are excited about the future as an independent pure-play asset manager.



Investec Wealth & Investment offers its clients comfort in its scale, international reach and depth of investment processes. Investec Wealth & Investment is one of the UK's leading private client investment managers and the largest in South Africa.

Global head

Steve Elliott

UK head

Jonathan Wragg

South Africa head

Henry Blumenthal

Switzerland head

Peter Gyger

Ireland head

Eddie Clarke

The business specialises in wealth management, portfolio management, private office and stockbroking services for individuals, families, trusts and charities.

Investec Wealth & Investment is one of the UK's leading private client investment managers, the largest in South Africa, has a significant European presence and is developing its operations internationally.

Our value proposition

- Investec Wealth & Investment has been built via the acquisition and integration of businesses and organic growth over a long period of time
- Well-established platforms in the UK, South Africa, Switzerland, Republic of Ireland and Guernsey
- The business has five distinct channels: direct, intermediaries, charities, international and digital
- Strategy to internationalise within jurisdictions where the Investec group already has an established business
- Focus is on organic growth in our key markets and enhancing our range of services for the benefit of our clients.



Further detail on the Wealth & Investment management structure is available on our website: www.investec.com

Interim highlights

Net flows of

£0.7 billion

(2017: £1.5 billion)

Assets under management

£56.7 billion

(2017: £55.5 billion)

Operating margin

22.9%

(2017: 25.5%)

Operating profit before
non-controlling interest decreased
by 6.3% to

46.4 million

contributing 12.9% to group profit



Wealth & Investment

(continued)

What we do

UK and Other

Investment and savings

- Discretionary and advisory portfolio management services for private clients
- Specialist investment management services for charities, pension schemes and trusts
- Independent financial planning advice for private clients
- Specialist portfolio management services for international clients.

Pensions and retirement

- Discretionary investment management for company pension and Self Invested Personal Pensions (SIPPs)
- Advice and guidance on pension schemes.

Financial planning

- Retirement planning
- Succession planning
- Bespoke advice and independent financial reviews.

The UK operations are conducted through Investec Wealth & Investment Limited and Investec Click & Invest Limited. The other Wealth & Investment operations are conducted through Investec Bank Switzerland, Investec Wealth & Investment Ireland, Investec Wealth & Investment Channel Islands and in Hong Kong, through Investec Capital Asia Limited.

Over 1 350 staff operate from offices located throughout the above jurisdictions, with combined funds under management of £39.4 billion. Investec Wealth & Investment is one of the UK's leading providers of private client investment management services.

Southern Africa

Investec Wealth & Investment South Africa provides portfolio management, wealth management and stockbroking services for private clients, charities, pension funds and trusts. Operating from eight offices across South Africa with R128.9 billion of discretionary and annuity managed assets and a further R190.7 billion of funds under various other forms of administration.

Where we operate



UK and Other

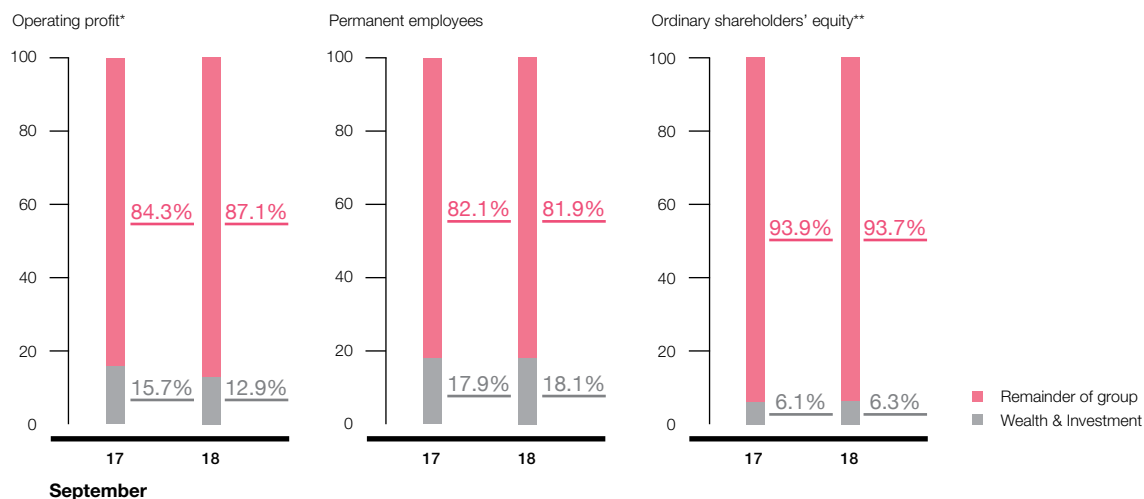
Brand well recognised
Established platforms and distribution in the UK, Switzerland, Republic of Ireland, Guernsey and Hong Kong
One of the UK's leading private client investment managers
Proven ability to attract and recruit investment managers
Digital investment offering, Investec Click & Invest

South Africa and Mauritius

Strong brand and positioning
Largest player in the South African market
Developing Wealth & Investment capability in Mauritius



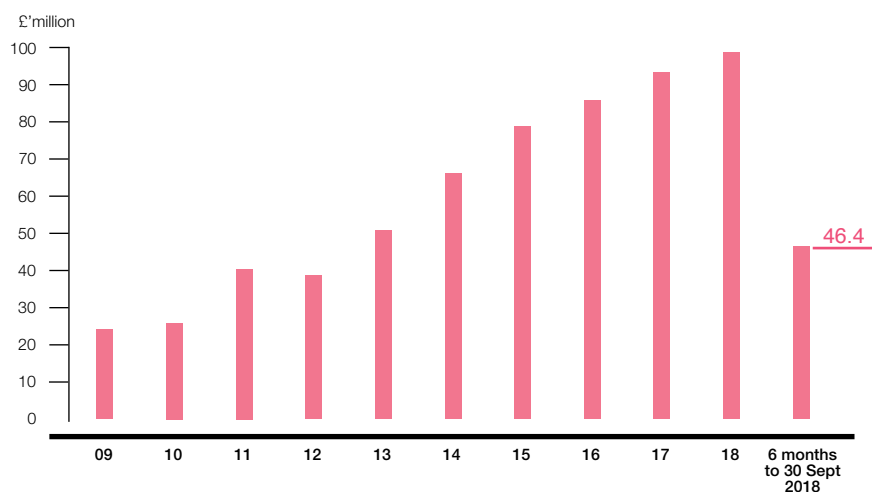
Financial analysis



* Before goodwill, acquired intangibles, non-operating items, taxation and after other non-controlling interests.

** As calculated on page 82, based on regulatory capital requirements.

Operating profit^ — track record



^ Trend reflects numbers as at the year ended 31 March, unless otherwise stated. Amounts are shown before goodwill, acquired intangibles, non-operating items, taxation and after other non-controlling interests.



Wealth & Investment

(continued)

Income statement analysis

For the six months to £'000	30 Sept 2018	30 Sept 2017	Variance	% change
Net interest income	6 171	4 564	1 607	35.2%
Net fee and commission income	195 713	187 893	7 820	4.2%
Investment income	333	631	(298)	(47.2%)
Share of post taxation profit of associates	–	415	(415)	(100.0%)
Trading income arising from				
– customer flow	430	565	(135)	(23.9%)
– balance sheet management and other trading activities	28	70	(42)	(60.0%)
Total operating income before expected credit loss impairment charges	202 675	194 138	8 537	4.4%
Expected credit loss impairment charges	(27)	–	(27)	(100.0%)
Operating income	202 648	194 138	8 510	4.4%
Operating costs	(156 240)	(144 610)	(11 630)	8.0%
Operating profit before goodwill, acquired intangibles, non-operating items, taxation and after other non-controlling interests	46 408	49 528	(3 120)	(6.3%)
UK and Europe	32 864	35 441	(2 577)	(7.3%)
Southern Africa	13 544	14 087	(543)	(3.9%)
Operating profit before goodwill, acquired intangibles, non-operating items, taxation after other non-controlling interests	46 408	49 528	(3 120)	(6.3%)
Selected returns and key statistics				
Ordinary shareholders' equity*	250 259	240 911	9 348	3.9%
ROE (pre-tax)*	36.4%	38.4%		
Return on tangible equity (pre-tax)*	132.7%	164.1%		
Operating margin	22.9%	25.5%		
Operating profit per employee (£'000)*	25.0	28.6	(3.6)	(12.6%)

* As calculated on pages 82 and 84, based on regulatory capital requirements.

The variance in operating profit over the period can be explained as follows:

- Operating profit was impacted by an increase in costs as the business globally continued to invest in its digital platforms, IT and compliance areas and in recruiting experienced investment managers and financial planners to support future revenue growth.
- In the UK business, revenue growth was driven by higher average funds under management supported by favourable equity markets and net inflows of £0.5 billion. Sound discretionary net inflows were partially offset by outflows relating to discontinued non-core non-managed UK services.
- The South African business posted an operating profit of R242 million, an increase of 0.8% (in Rand terms) over the prior period. An increase in annuity fees earned was offset largely by lower brokerage volumes. Progress continued to be made in attracting discretionary net inflows which amounted to R2.5 billion in the current period.

Analysis of key earnings drivers (funds under management)

£'million	30 Sept 2018	31 March 2018	% change	30 Sept 2017	31 March 2017	% change
UK and Other	39 355	36 923	6.6%	37 111	35 555	4.4%
Discretionary	31 108	28 638	8.6%	28 071	26 336	6.6%
Non-discretionary	8 247	8 285	(0.5%)	9 040	9 219	(1.9%)
South Africa	17 332	19 125	(9.4%)	18 344	19 218	(4.5%)
Discretionary and annuity assets	6 989	6 936	0.8%	6 469	6 552	(1.3%)
Non-discretionary	10 343	12 189	(15.1%)	11 875	12 666	(6.2%)
Total	56 687	56 048	1.1%	55 455	54 773	1.2%

UK and Other: analysis of key drivers (funds under management and flows)

Funds under management

£'million	30 Sept 2018	31 March 2018	% change	30 Sept 2017	31 March 2017	% change
Investec Wealth & Investment Limited (UK)	35 492	33 206	6.9%	33 548	31 866	5.3%
Discretionary	29 747	27 346	8.8%	26 993	25 393	6.3%
Non-discretionary	5 745	5 860	(2.0%)	6 555	6 473	1.3%
Other	3 863	3 717	3.9%	3 563	3 689	(3.4%)
Discretionary	1 361	1 292	5.3%	1 078	943	14.3%
Non-discretionary	2 502	2 425	3.2%	2 485	2 746	(9.5%)
Total	39 355	36 923	6.6%	37 111	35 555	4.4%

Further analysis of the Investec Wealth & Investment Limited UK business

Funds under management and flows

£'billion	30 Sept 2018	31 March 2018	% change	30 Sept 2017	31 March 2017	% change
At the beginning of the period	33.21	31.87	4.2%	31.87	27.11	17.6%
Inflows	1.92	4.28	(55.1%)	2.42	3.53	(31.4%)
Outflows	(1.46)	(2.50)	(41.6%)	(1.15)	(2.19)	(47.5%)
Market adjustment [^]	1.82	(0.25)	>100.0%	0.53	3.71	(85.7%)
Transfers ^{^^}	–	–	–	–	(0.05)	100.0%
Disposals [*]	–	(0.19)	(100.0%)	(0.12)	(0.24)	(50.0%)
At the end of the period	35.49	33.21	6.9%	33.55	31.87	5.3%
MSCI WMA Private Investors Balanced Index (at period end)	1 613	1 527	5.6%	1 546	1 536	0.65%
Annualised underlying rate of net organic growth in total funds under management ^{**}	2.8%	5.6%		8.0%	4.9%	
% of total funds managed on a discretionary basis	83.8%	82.4%		80.5%	79.7%	

[^] Impact of market movement and relative performance.^{^^} Reflects the transfer of assets between jurisdictions.^{*} Reflects the disposal of funds relating to certain non-core operations.^{**} Net organic inflows less outflows (excluding acquired inflows and exceptional outflows) as a percentage of opening funds under management.

South Africa: analysis of key earnings drivers (funds under management and flows)

Funds under management

R'million	30 Sept 2018	31 March 2018	% change	30 Sept 2017	31 March 2017	% change
Discretionary and annuity assets	128 875	115 287	11.8%	117 086	109 869	6.6%
Non-discretionary	190 739	202 589	(5.8%)	214 942	212 412	1.2%
Total	319 614	317 876	0.5%	332 028	322 281	3.0%

Net inflows/(outflows) at cost over the period

R'million	30 Sept 2018	31 March 2018	30 Sept 2017	31 March 2017
Discretionary and annuity assets	2 496	5 020	2 502	8 335
Non-discretionary	855	(1 640)	1 185	(8 597) [#]
Total	3 351	3 380	3 687	(262)

[#] Includes an outflow of R4.9 billion of assets transferred to our specialised securities division not included in Wealth & Investment assets.



Wealth & Investment

(continued)

Questions and answers

Steve Elliott

Global head

Q. How has the operating environment impacted your business over the past six months?

In the UK, equity indices had a strong start to the financial year. Meaningful gains were achieved during the first quarter with the FTSE 100 index climbing to recover much of the ground lost during the final quarter of the previous financial year.

Regulation has remained a headline feature of the environment throughout the period. Although the second Markets in Financial Instruments Directive (MiFID II) took effect in the final quarter of the previous financial year, the process of the business and the wider industry adapting to the new regulatory regime continues. In addition, the new General Data Protection Requirements (GDPR) came into effect in May 2018. While we were well prepared for this change, substantial resource was required to deliver a successful implementation. Despite these challenges, the business has continued to achieve positive net organic growth in funds under management. However, consistent with others in the industry, we have experienced lower rates of growth than in the prior year, driven by the heightened level of uncertainty and caution amongst investors.

In South Africa, the equity market has been negatively impacted by a combination of a weak domestic economy, political uncertainty (which has affected business and investor confidence) and a general rise in risk aversion by global investors. Rising US interest rates, trade tensions between the US and China, and specific issues faced by countries like Turkey and Argentina, have seen funds flow out of emerging markets. In light of this sentiment we have seen an increase in appetite for many of our offshore products.

Q. What have been the key developments in your business over the past six months?

In June 2017, the UK business launched Investec Click & Invest, its new digital discretionary investment management service. We have since continued to develop the Click & Invest offering, to enable us to offer a wider range of services digitally. We are integrating aspects of the digital capability we have now developed into the core business in order to enhance our traditional investment management offering to meet the current and future needs and preferences of our clients as these change over time. In addition, in line with the decision to reduce the extent of our offering of non-managed services, we have taken steps to increase our focus on our core discretionary and managed services.

Our Irish business continues to grow assets under management and move forward with its strategy of converting execution only to managed accounts.

In South Africa we continued to expand our digital offering across the proposition chain, from enhanced reporting and access, to domestic and global portfolio information and data. Our international offering remains a key focus and we believe is a core differentiator in the South African market.

Collaboration between the Private Bank and Wealth & Investment has remained a key focus. Investec continues to gain global recognition as a leader in wealth management and private banking having been awarded for the sixth year in a row by Euromoney and Financial Times of London, the accolade as Best Private Banker and Wealth Manager in South Africa. The awards once again endorse our strategy of delivering banking and investments, locally and internationally, to our clients, in One Place.

Q. What are your strategic objectives over the next six months?

In the UK, while we continue to invest in the business to enhance our clients' experience and the efficiency of our processes, our strategic focus remains appropriately directed towards the evolving external landscape and the opportunities and challenges it presents. Expanding our digital capability remains central to this. In addition, there are a number of factors which we believe will drive a faster pace of change in the investment management industry over the coming years than we have seen in the recent past.

We expect the demand for wider financial advice to continue to grow and to become a more general need across our client base. We continue to expand our Financial Planning capability and develop ways to deliver this advice as a central component of our core offering.

Technological developments, such as robotics and artificial intelligence, will inevitably bring change across the economy. As we continue to invest in our digital and technological capabilities, we remain ready to embrace these wider advances where we can utilise them to support the personal service we provide to our clients and the strong, long-term, relationships we seek to build with them.

In South Africa, our goal is to consolidate and grow our market position. Given the current uncertainty around markets, particularly emerging markets, Investec's global offering and platforms means that we are uniquely positioned to enable clients to navigate across international markets. While markets have been difficult, this is an ideal opportunity to cement and consolidate our competitive positioning.



As part of our global strategy we continue with the development of a global operating platform in Switzerland to service our South African and international client base.

We continue to enhance all levels of access for our clients, augmenting our digital access and reporting, while retaining the increasingly important human touch. As the world becomes overloaded with information, we have observed the increasing need for direct client interaction, especially in relation to intergenerational wealth planning. Our wealth managers, working with our fiduciary and tax teams, are playing key roles in assisting clients with retirement and estate planning. This will drive much of our offering going forward.

We also believe alternative and structured investments will play an increasingly important role in the current market, providing non-correlated return profiles that diversify portfolios and manage risk. Investments that provide exposure to leading equity markets but with built-in capital protection should have particular appeal for our clients. We will continue to develop innovative investments that suit client needs in this environment.

Q. What is your outlook over the next six months?

We expect the next six months to be more challenging than the first six months of the financial year. The economic and political factors that have unsettled investors and the markets as we entered the second half of the financial year are likely to remain areas of concern for the remainder of the financial year, and we may see further volatility as the coming months unfold. We remain well prepared to guide our clients through these challenges, drawing on the full strength and depth of our investment process and research capability.



Specialist Banking

Specialist expertise delivered with dedication and energy

Global heads

UK head

David van der Walt

South Africa head

Richard Wainwright

The specialist teams are well positioned to provide services for both personal and business needs across Corporate and Institutional Banking, Investment and Private Banking activities.

Our value proposition

- High-quality specialist banking solution to corporate and private clients with leading positions in selected areas
- Provide high touch personalised service – ability to execute quickly
- Ability to leverage international, cross-border platforms
- Well positioned to capture opportunities between the developed and the emerging world – internationally mobile
- Strong ability to originate, manufacture and distribute
- Balanced business model with good business depth and breadth.



Further detail on the Specialist Banking management structure is available on our website: www.investec.com

Interim highlights

ROE (post-tax)

11.3%

(2017: 9.2%)

(2017 ongoing: 11.7%)

Operating profit before non-controlling interest increased by 18.8% to

£245.4 million

contributing 68.3% to group profit

Loans and advances

£24.2 billion

Customer deposits

£30.3 billion



What we do

High income and high net worth private clients	Corporates/government/institutional clients	
Private Banking activities <hr/> Transactional banking and foreign exchange Lending Deposits Investments <hr/> <ul style="list-style-type: none"> – Southern Africa – UK and Europe 	Investment activities <hr/> Principal investments Property investment fund management <hr/> <ul style="list-style-type: none"> – Australia – Hong Kong – Southern Africa – UK and Europe 	Corporate and Institutional banking <hr/> Treasury and trading services Specialised lending, funds and debt capital markets Institutional research sales and trading Advisory <hr/> <ul style="list-style-type: none"> – Australia – Hong Kong – India – Southern Africa – UK and Europe – USA

Where we operate



North America

Distribution platform

UK and Europe

Brand well established
Sustainable business on the back of client activity

Hong Kong

Investment activities
Distribution platform

India

Established a presence in 2010
Facilitates the link between India, UK and South Africa

Australia

Experienced local teams in place with industry expertise
Focus is on entrenching position as a boutique operation

South Africa

Strong brand and positioning
Leading in corporate institutional and private client banking activities

Mauritius

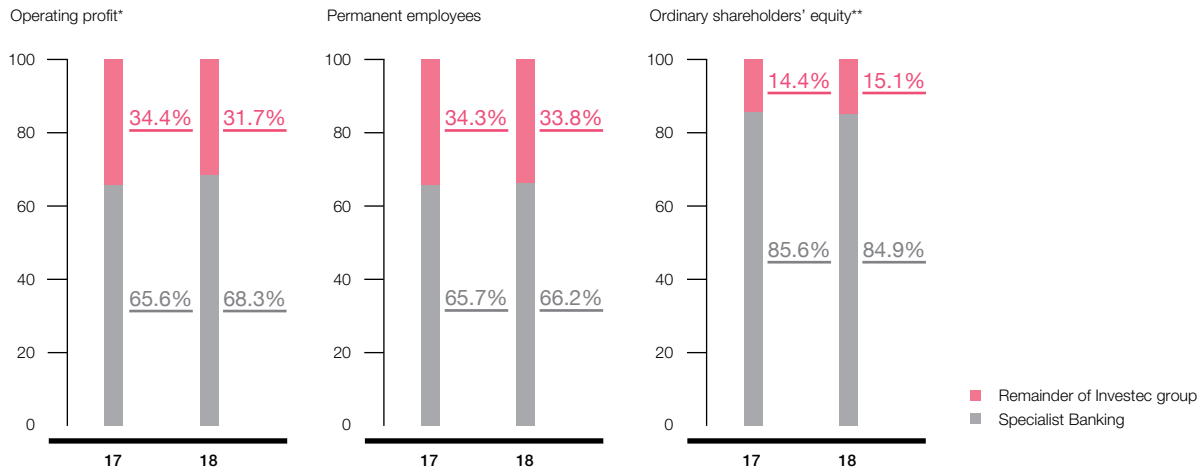
Established in 1997
Focus on corporate institutional and private client banking activities



Specialist Banking

(continued)

Financial analysis

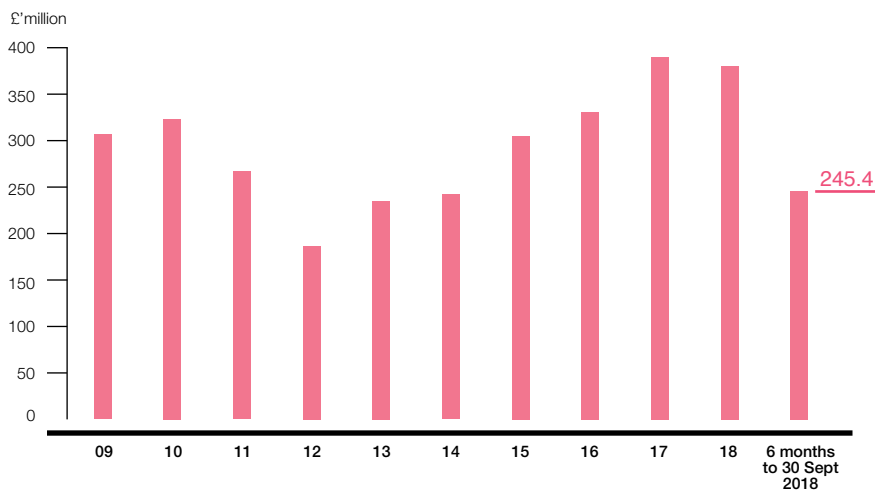


September

* Before goodwill, acquired intangibles, non-operating items, taxation and after other non-controlling interests.

** As calculated on page 82, based on regulatory capital requirements.

Operating profit[^] — track record (statutory)



[^] Trend reflects numbers as at the year ended 31 March, unless otherwise stated. Amounts are shown before goodwill, acquired intangibles, non-operating items, taxation and after other non-controlling interests.



Income statement analysis

For the six months to £'000	30 Sept 2018	30 Sept 2017	Variance	% change
Net interest income	396 053	357 320	38 733	10.8%
Net fee and commission income	228 060	220 113	7 947	3.6%
Investment income	41 122	61 418	(20 296)	(33.0%)
Share of post taxation profit of associates	20 782	23 262	(2 480)	(10.7%)
Trading income arising from				
– customer flow	64 648	63 595	1 053	1.7%
– balance sheet management and other trading activities	34 466	6 496	27 970	>100.0%
Other operating income	2 239	2 844	(605)	(21.3%)
Total operating income before expected credit losses/ impairment losses	787 370	735 048	52 322	7.1%
Impairment losses on loans and advances/expected credit loss impairment charges	(30 993)	(59 593)	28 600	(48.0%)
Operating income	756 377	675 455	80 922	12.0%
Operating costs	(472 943)	(447 979)	(24 964)	5.6%
Depreciation on operating leased assets	(1 207)	(1 177)	(30)	2.5%
Operating profit before goodwill, acquired intangibles non-operating items and taxation	282 227	226 299	55 928	24.7%
Profit attributable to other non-controlling interests	(36 846)	(19 800)	(17 046)	86.1%
Operating profit before goodwill, acquired intangibles, non-operating items, taxation and after other non-controlling interests	245 381	206 499	38 882	18.8%
UK and Other	80 756	41 208	39 548	96.0%
Southern Africa	164 625	165 291	(666)	(0.4%)
Operating profit before goodwill, acquired intangibles, non-operating items, taxation and after other non-controlling interests	245 381	206 499	38 882	18.8%
Selected returns and key statistics				
Ordinary shareholders' equity**	3 379 467	3 364 240	15 227	0.5%
Southern Africa	1 965 948	1 855 413	110 535	6.0%
UK and Other	1 413 519	1 508 827	(95 308)	(6.3%)
ROE (pre-tax)**	13.5%	11.8%		
Southern Africa	14.9%	16.8%		
UK and Other	11.3%	5.9%		
Cost to income ratio	60.2%	61.0%		
Operating profit per employee (£'000)**	36.1	32.0		

** As calculated on pages 82 and 84, based on regulatory capital requirements.

The variance in the operating profit in the UK business over the period can be explained as follows:

- Net interest income increased by 18.7% driven by lending activity and endowment impact from UK rate rises.
- Net fee and commission income increased by 14.0% supported by a good performance from the corporate advisory business.
- Investment income decreased to £5.4 million (2017: £15.1 million) largely as a result of a weaker performance from the listed and unlisted investment portfolio.
- Trading income from customer flow decreased 12.7% to £48.0 million (2017: £55.0 million) reflecting subdued client flow trading levels.
- Trading income from balance sheet management and other trading activities increased to £12.7 million (2017: £3.5 million) as a result of the unwind of the subordinated debt fair value adjustment (recognised on the adoption of IFRS 9) as the instrument pulls to par over its remaining term.
- As a result of the foregoing factors, total operating income increased by 10.5%.
- Impairments decreased significantly, due to no longer incurring substantial losses on the legacy portfolio. The credit loss ratio improved to 0.41% (2017: 0.84% under the IAS 39 incurred impairment loss model). Further information is provided on page 125.
- Operating costs increased 9.0% driven largely by headcount growth in relation to increased business activity and regulatory requirements.

The variance in the operating profit in Southern Africa over the period can be explained as follows:

Note: The analysis and variances described below for the South African Specialist Banking division are based on the Rand numbers reported

- The Specialist Banking division reported operating profit before taxation of R2 954 million (2017: R2 836 million).
- Net interest income increased by 9.1% supported by higher net margins and continued lending activity from our private client base.
- Net fee and commission income decreased by 1.9% as a result of lower investment banking and corporate client activity levels.
- Investment income decreased by 14.9% impacted by a weaker performance from the equity and investment property portfolios.
- Share of post taxation profit of associates reflects earnings in relation to the group's investment in the IEP Group.
- Total trading income increased significantly, largely reflecting translation gains on foreign currency equity investments (partially offsetting the related weaker investment income performance).
- As a result of the foregoing factors, total operating income increased by 8.9%.
- Impairments increased 1.5%, however, the credit loss ratio remained at the lower end of its long-term average trend at 0.30%. Further information is provided on page 125.
- Cost containment with costs up 4.9%.

Analysis of key earnings drivers

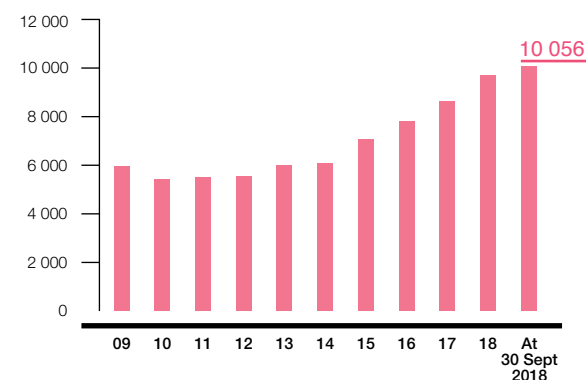
Net core loans and advances

	£'million			Home currency (million)		
	30 Sept 2018	31 March 2018	% change	30 Sept 2018	31 March 2018	% change
UK	10 056	9 687	3.8%	10 056	9 687	3.8%
Southern Africa	14 134	15 445	(8.5%)	260 636	256 702	1.5%
Total	24 190	25 132	(3.7%)			

Net core loans and advances

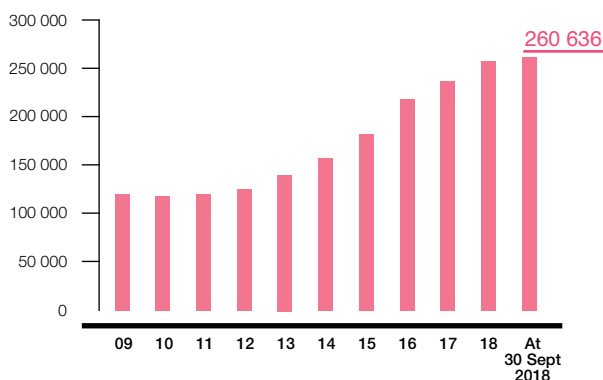
United Kingdom

£'million



Southern Africa

R'million



Trend reflects numbers as at the year ended 31 March, unless otherwise stated.



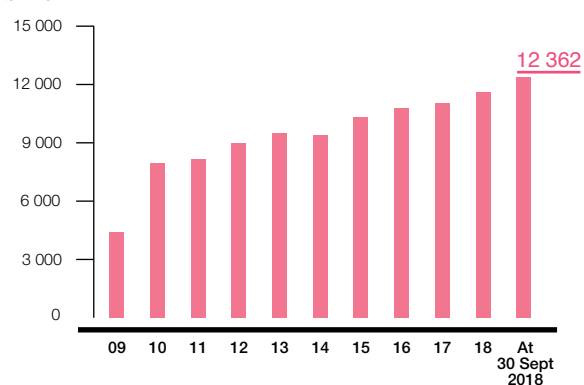
Customer deposits

	£'million			Home currency (million)		
	30 Sept 2018	31 March 2018	% change	30 Sept 2018	31 March 2018	% change
UK	12 362	11 624	6.3%	12 362	11 624	6.3%
Southern Africa	17 987	19 363	(7.1%)	331 672	321 823	3.1%
Total	30 349	30 987	(2.1%)			

Customer deposits

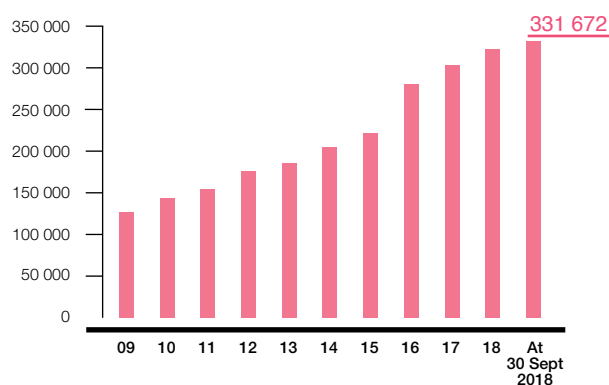
United Kingdom

£'million



Southern Africa

R'million



Trend reflects numbers as at the year ended 31 March, unless otherwise stated.

An analysis of net core loans over the period

Refer to further information on pages 128 to 133.

Net core loans – Southern Africa

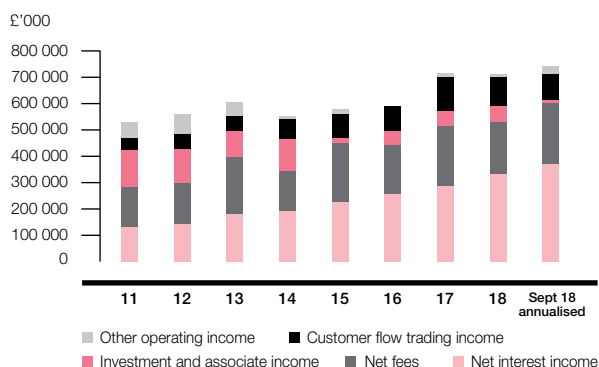
R'million	30 Sept 2018	31 March 2018	% change	1 April 2018
Lending collateralised by property	43 867	40 297	8.9%	40 140
Commercial real estate	40 509	36 512	10.9%	36 437
Commercial real estate – investment	34 773	32 694	6.4%	32 633
Commercial real estate – development	4 655	3 043	53.0%	3 034
Commercial vacant land and planning	1 081	775	39.5%	770
Residential real estate	3 358	3 785	(11.3%)	3 703
Residential real estate – development	2 923	2 995	(2.4%)	2 941
Residential real estate – vacant land and planning	435	790	(44.9%)	762
High net worth and other private client lending	135 364	133 238	1.6%	132 719
Mortgages	70 082	67 966	3.1%	67 818
High net worth and specialised lending	65 282	65 272	0.0%	64 901
Corporate and other lending	81 405	83 806	(2.9%)	81 526
Corporate and acquisition finance	14 038	13 982	0.4%	13 887
Asset-based lending	5 919	7 057	(16.1%)	5 210
Fund finance	5 015	4 909	2.2%	4 904
Other corporates and financial institutions and governments	46 234	47 884	(3.4%)	47 590
Asset finance	2 520	2 678	(5.9%)	2 662
Small ticket asset finance	1 905	2 225	(14.4%)	2 213
Large ticket asset finance	615	453	35.8%	449
Project finance	7 102	6 641	6.9%	6 619
Resource finance	577	655	(11.9%)	654
Portfolio impairments	–	(639)	n/a	–
Total net core loans	260 636	256 702	1.5%	254 385

Net core loans – UK and Other

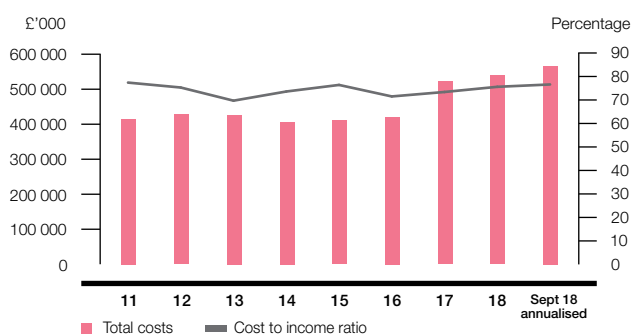
£'million	30 Sept 2018	31 March 2018	% change	1 April 2018
Lending collateralised by property	1 564	1 934	(19.1%)	1 799
Commercial real estate	954	1 118	(14.7%)	1 051
Commercial real estate – investment	851	940	(9.5%)	890
Commercial real estate – development	91	140	(35.1%)	133
Commercial vacant land and planning	12	38	(68.4%)	28
Residential real estate	610	816	(25.3%)	748
Residential real estate – investment	272	238	14.4%	221
Residential real estate – development	303	514	(41.1%)	481
Residential real estate – vacant land and planning	35	64	(45.3%)	46
High net worth and other private client lending	2 127	1 913	11.2%	1 903
Mortgages	1 684	1 479	13.8%	1 475
High net worth and specialised lending	443	434	2.1%	428
Corporate and other lending	6 365	5 901	7.9%	5 860
Corporate and acquisition finance	1 618	1 531	5.7%	1 521
Asset-based lending	332	355	(6.4%)	351
Fund finance	1 242	1 030	20.5%	1 028
Other corporates and financial institutions and governments	721	650	10.9%	646
Asset finance	1 916	1 846	3.8%	1 829
Small ticket asset finance	1 519	1 378	10.3%	1 368
Large ticket asset finance	397	468	(15.2%)	461
Project finance	522	483	8.0%	480
Resource finance	14	5	>100.0%	5
Portfolio impairments	–	(62)	n/a	–
Total net core loans	10 056	9 687	3.8%	9 562

UK Specialist Bank ongoing

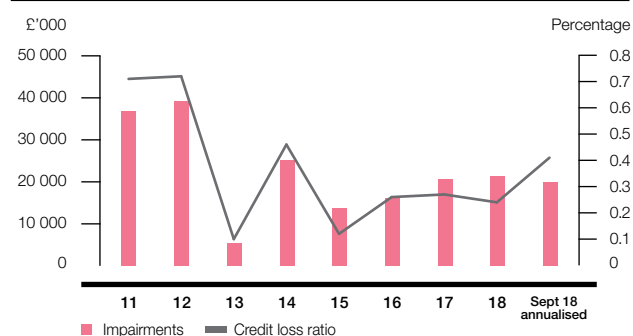
Total operating income



Total costs



Impairments

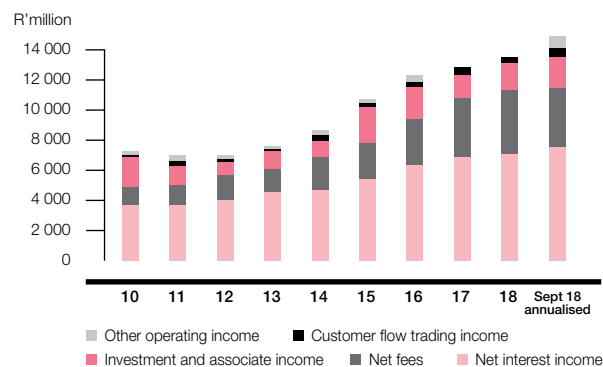


Net profit before tax and ROE



Southern Africa Specialist Bank

Total operating income



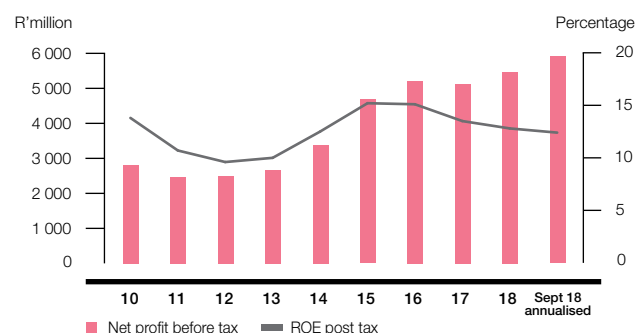
Total costs



Impairments



Net profit before tax and ROE



Trends in the above graphs are for the year ended 31 March, and reflect the Ongoing specialist banking business. September 2018 reflects specialist banking statutory results.



Specialist Banking

(continued)

Divisional and segmental review

Additional information on the group's South African investment portfolio

30 September 2018	Asset analysis £'million	Income analysis £'million	Asset analysis R'million	Income analysis R'million
IEP Group (IEP)	348	21	6 424	367
Equity investments [^]	89	(16)	1 633	(288)
Property investments*	240	23	4 426	415
Total equity exposures	677	28	12 483	494
Associated loans and other assets	19	1	356	11
Total exposures on balance sheet	696	29	12 839	505
Debt funded	345	(14)	6 362	(242)
Equity	351	–	6 477	–
Total capital resources and funding	696		12 839	
Operating profit before taxation**		15		263
Taxation		(2)		(32)
Operating profit after taxation		13		231
Risk-weighted assets	2 695		49 703	
Ordinary shareholders' equity held on investment portfolio – 30 September 2018	351		6 477	
Ordinary shareholders' equity held on investment portfolio – 1 April 2018	416		6 909	
Ordinary shareholders' equity held on investment portfolio – 31 March 2018	416		6 909	
Average ordinary shareholders' equity held on investment portfolio – 30 September 2018	384		6 693	
Post-tax return on adjusted average ordinary shareholders' equity – 30 September 2018		6.8%		

* The group's investment holding of 26.57% (31 March 2018: 26.75%) in the Investec Property Fund and 15.07% in the Investec Australia Property Fund.

[^] Does not include equity investments residing in our corporate and private client businesses.

** Further analysis of operating profit before taxation:

£'million	Total
Net interest expense	(30)
Net fee and commission income	40
Investment income	14
Share of post taxation profit of associates	21
Trading and other operating gains	6
Operating profit before goodwill, acquired intangibles and non-operating items	51
Profit attributable to other non-controlling interests	(36)
Operating profit before taxation	15

Additional information on the group's South African investment portfolio

30 September 2017	Asset analysis £'million	Income analysis £'million	Asset analysis R'million	Income analysis R'million
IEP Group (IEP)	320	22	5 787	374
Equity investments [^]	113	(8)	2 043	(135)
Property investments*	238	10	4 300	182
Total equity exposures	671	24	12 130	421
Associated loans and other assets	33	1	602	10
Total exposures on balance sheet	704	25	12 732	431
Debt funded	330	(14)	5 972	(243)
Equity	374	–	6 760	–
Total capital resources and funding	704		12 732	
Operating profit before taxation**		11		188
Taxation		(2)		(38)
Operating profit after taxation		9		150
Risk-weighted assets	2 533		45 853	
Ordinary shareholders' equity held on investment portfolio – 30 September 2017	374		6 760	
Ordinary shareholders' equity held on investment portfolio – 31 March 2017	398		6 670	
Average ordinary shareholders' equity held on investment portfolio – 30 September 2017	386		6 715	
Post-tax return on adjusted average ordinary shareholders' equity – 30 September 2017		4.5%		

* The group's investment holding of 27.24% (31 March 2017: 27.86%) in the Investec Property Fund and 16.57% in the Investec Australia Property Fund.

[^] Does not include equity investments residing in our corporate and private client businesses.

** Further analysis of operating profit before taxation:

£'million	Total
Net interest expense	(32)
Net fee and commission income	43
Investment income	4
Share of post taxation profit of associates	22
Trading and other operating losses	(6)
Operating profit before goodwill, acquired intangibles and non-operating items	31
Profit attributable to other non-controlling interests	(20)
Operating profit before taxation	11



Specialist Banking

(continued)

Questions and answers

David van der Walt

Geographical business leader

United Kingdom

Q. How has the operating environment impacted your business over the past six months?

The Specialist Bank has performed well over the past six months, despite heightened uncertainty around Brexit and a consequential impact on confidence levels seen in the latter half of the period. We have seen reduced levels of mid-market M&A and equity capital markets activity in recent months and a reluctance from clients to commit to longer term hedging arrangements. Low rates and high levels of liquidity continued to reduce credit spreads as people search for yield, and there has been increased competition for deposits. The high demand for yield meant that we also saw high levels of refinancing.

Notwithstanding these factors, we have continued to focus on maintaining appropriate credit spreads and credit quality, maintaining net margins and growing our loan book. In the Private Banking space, we have seen strong levels of lending to our high net worth client base despite a subdued UK housing market. The Corporate and Investment Bank also saw strong activity levels across its lending franchises. Our credit portfolios remain robust with limited direct exposure to high street retail or discretionary consumer spending. We have reduced our exposure to commercial property in line with risk appetite objectives.

Regulation has continued to impact the finance industry. The successful implementation of various new regulations in the past six months have required significant time and resources.

Q. What have been the key developments in your business over the past six months?

The Corporate and Investment Bank has concentrated on enhancing the simplicity and client centrality of its business model, structuring its activities into two key businesses: Corporate Banking and Investment Banking. The Investment Banking business is focused on mid-to-larger UK corporates and private equity firms with turnover of £100 million to £1 billion and also includes the specialist international businesses. The business saw strong activity levels; with diversified loan growth across fund finance, power and infrastructure finance and aviation, as well as a few notable transactions from our corporate advisory team. The Corporate Banking business, focused on smaller to mid-cap corporates with turnover of £10 million to £100 million, continued to generate a sound performance across its lending activities.

The Private Bank continued to focus on providing a differentiated service offering to both new and existing clients. Client acquisition over the past six months is in line with targets. The implementation of an integrated Customer Relationship Management system has allowed us to better understand our clients, find opportunities and keep track of our client interactions allowing us to be more effective in our client engagement.

We have dedicated much time to the development of our people and the hiring of the right talent needed to support anticipated growth of the Private Bank.

The recent launch of the private capital offering within the Private Bank has proved successful in providing an investment banking service for high net worth clients looking to grow their wealth in commercial and business activities. This is a key area that allows small -to-medium sized businesses to be cultivated in the Private Bank and then moved successfully into the Corporate and Investment Bank where the relationship can develop further.

We have successfully dealt with the bulk of the remaining legacy portfolio through increased impairments recognised in the prior financial year. We have continued to exit exposures over the past six months, reducing overall net Legacy exposure to £189 million (1.9% of the net core loan book) as at 30 September. We no longer have the substantial Legacy drag on profitability that has held back performance over the last several years. We will continue to manage down the remainder of the legacy portfolio and reduce our exposure in the short-term in line with our accelerated run down strategy.

In July we successfully executed a liability management exercise, repurchasing a portion of our 9.625% subordinated debt (due to mature in 2022) and issuing new subordinated debt at 4.25%.

Brexit related regulations have resulted in the need to restructure the bank's Irish branch into a MiFID licensed entity. Costs related to the consequential unwinding of Irish deposits and other restructuring costs are anticipated in the next six months. Significant additional liquidity has been raised in anticipation of this.

Q. What are your strategic objectives over the next six months?

The Corporate and Investment Bank will continue to focus on deepening and growing our client franchises and improving our ability to provide a more cohesive client experience. Other key objectives include adequate preparation to ensure that we continue to serve our EU based clients in the case of a 'Hard Brexit', as well as to improve our operational efficiency and develop our digital offering for businesses. We remain focused on improving our capital utilisation and one of our key focus areas is to develop our funds offering to allow us to create off-balance sheet solutions that meet client needs while reducing capital intensity.

With the bulk of the investment phase in the Private Bank being complete, there will be a strengthened focus on both retention and acquisition of target market clients. Other key objectives within the Private Bank include delivering the new mortgage lending platform to drive efficiency and to further develop a scalable retail funding platform using digital capabilities.

Q. What is your outlook over the next six months?

We remain cautious in the current economic environment, in light of the potential implications of Brexit on UK business activity. We have had a pleasing start to the year despite the challenging and uncertain political backdrop. With Legacy losses largely behind us, our focus is on building further scale in our core franchises and growing our recurring income. We are confident that we can deliver solid growth in the short to medium-term.



Specialist Banking

(continued)

Questions and answers

Richard Wainwright

Geographical business leader

Southern Africa

Q. How has the operating environment impacted your business over the past six months?

The momentum of the global economy has been weighed down by the uncertainty created by the trade tensions between the US and China. The local economy remains weak as the anticipated rebound in business confidence post the elective conference has not translated into stronger private sector fixed investment, undermined by continued policy uncertainty. Household spending is under pressure following tax increases, steep fuel price increases and utility rates. The performance of the economy has resulted in a poor profit performance from business and a slowdown in activity.

Notwithstanding the tough economic backdrop, the resilience of our client base has underpinned stable asset quality performance and our clients remaining active across a number of business areas by taking advantage of select opportunities.

Q. What have been the key developments in your business over the past six months?

The Specialist Bank in South Africa reported results slightly ahead of the prior period against a challenging backdrop. We have maintained our client focus, enhanced co-ordination across divisions and implemented new strategies to further penetrate our existing client base and grow our market share.

Investec Life, launched in October 2017, is a testament to our ability to deliver an innovative cost effective product with the client at the core of a digital experience. In the current period, we have embedded the Investec Life product onto our Private Bank mortgage systems and One Place digital platform in order to create a seamless functionality for clients.

Investec for Business was launched at the start of the current period, which consolidated a few existing product areas to create a more mid-market client focused strategy. The business offering has brought together different, but client-linked, product areas with the key focus on more holistically servicing our existing clients and attracting new clients.

We were recognised by the Financial Times of London as the Best Private Bank and Wealth Manager in South Africa for the sixth year running and we were recently ranked as the top private banking group in South Africa in Euromoney's Private Banking and Wealth Management Survey for 2018. This is reflective of our continued efforts to offer our private clients an international, streamlined offering.

Q. What are your strategic objectives over the next six months?

Building and developing our client franchises remains integral to the growth and development of our organisation. Our objectives are to deepen our existing client relationships and client acquisition through the collaboration of product offerings across our various businesses and geographies. Investment in our digital and technology platforms will continue in order to remain competitive in our client facing digital platform, while simultaneously focusing on efficiencies in our core infrastructure.

There will be a continued focus on optimising funding channels and capital light activities. In order to achieve these objectives there are a number of initiatives across the bank including Investec for Business, the launch of a transactional banking offering for mid-market clients and the development of an integrated banking proposition for our intermediary clients.

In order to manage our capital and optimise shareholder returns, we will maintain a disciplined client centric approach to our equity investments while investing in areas of specialisation and divesting of non-core investments.

Q. What is your outlook over the next six months?

We are cautious due to the delay in resolving key policy issues and the minimal investment activity during the first half of the year. However, our clients tend to be resilient in a difficult operating environment and therefore we continue to see opportunities to support them both domestically, on the continent and internationally. We do not anticipate any change in trend in our impairments and will continue to focus on our capital allocation and returns to shareholders.

Unaudited
financial results





Combined condensed consolidated income statement

Unaudited financial results

£'000	Six months to 30 Sept 2018	Six months to 30 Sept 2017	Year to 31 March 2018
Interest income	1 285 916	1 225 130	2 491 009
Interest expense	(880 902)	(860 809)	(1 730 611)
Net interest income	405 014	364 321	760 398
Fee and commission income	804 249	753 835	1 543 447
Fee and commission expense	(100 540)	(87 825)	(182 240)
Investment income	41 472	62 074	130 048
Share of post taxation profit of associates	20 782	23 677	46 823
Trading income/(loss) arising from			
– customer flow	65 078	64 160	138 226
– balance sheet management and other trading activities	39 031	5 146	(4 307)
Other operating income	6 238	5 669	11 115
Total operating income before expected credit losses/impairment losses	1 281 324	1 191 057	2 443 510
Expected credit loss impairment charges*	(31 022)	–	–
Impairment losses on loans and advances*	–	(59 593)	(148 556)
Operating income	1 250 302	1 131 464	2 294 954
Operating costs	(852 982)	(795 883)	(1 632 740)
Depreciation on operating leased assets	(1 207)	(1 177)	(2 421)
Operating profit before goodwill and acquired intangibles	396 113	334 404	659 793
Amortisation of acquired intangibles	(7 861)	(8 142)	(16 255)
Operating profit	388 252	326 262	643 538
Additional costs on acquisition of subsidiary	–	–	(6 039)
Profit before taxation	388 252	326 262	637 499
Taxation on operating profit before goodwill and acquired intangibles	(60 301)	(44 996)	(59 099)
Taxation on acquired intangibles and acquisition/disposal/integration of subsidiaries	1 577	1 631	3 253
Profit after taxation	329 528	282 897	581 653
Profit attributable to other non-controlling interests	(36 846)	(19 800)	(52 288)
Profit attributable to Asset Management non-controlling interests	(12 828)	(10 663)	(23 817)
Earnings attributable to shareholders	279 854	252 434	505 548
Earnings per share (pence)			
– Basic	27.6	25.8	51.2
– Diluted	26.8	24.9	49.8
Adjusted earnings per share (pence)			
– Basic	28.3	26.6	53.2
– Diluted	27.5	25.7	51.7
Dividends per share (pence)			
– Interim	11.0	10.5	10.5
– Final	n/a	n/a	13.5
Headline earnings per share (pence)			
– Basic	27.4	24.6	48.7
– Diluted	26.6	23.8	47.4
Number of weighted average shares (million)	937.2	922.9	923.5

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



Combined consolidated statement of comprehensive income

Unaudited financial results

£'000	Six months to 30 Sept 2018	Six months to 30 Sept 2017	Year to 31 March 2018
Profit after taxation	329 528	282 897	581 653
Other comprehensive income:			
Items that may be reclassified to the income statement			
Fair value movements on cash flow hedges taken directly to other comprehensive income*	(788)	(1 824)	(5 746)
Gains on debt instruments at FVOCI recycled to the income statement^*	(1 999)	–	–
Fair value movements on debt instruments at FVOCI taken directly to other comprehensive income^*	(12 023)	–	–
Gains on realisation of available-for-sale assets recycled to the income statement^*	–	(4 760)	(6 676)
Fair value movements on available-for-sale assets taken directly to other comprehensive income^*	–	13 816	20 051
Foreign currency adjustments on translating foreign operations	(249 312)	(220 844)	(25 300)
Items that will never be reclassified to the income statement			
Remeasurement of net defined pension liability	69	–	3 938
Gains and losses attributable to own credit risk	10 318	–	–
Total comprehensive income	75 793	69 285	567 920
Total comprehensive income attributable to ordinary shareholders	70 757	72 485	451 913
Total comprehensive (loss)/income attributable to non-controlling interests	(16 050)	(17 301)	83 027
Total comprehensive income attributable to perpetual preferred securities	21 086	14 101	32 980
Total comprehensive income	75 793	69 285	567 920

^ On adoption of IFRS 9 on 1 April 2018, the fair value reserve was introduced, replacing the available-for-sale reserve.

* Net of taxation of (£2.1 million) [six months to 30 September 2017: £3.0 million. Year to 31 March 2018: £11.7 million].



Combined condensed consolidated balance sheet

Unaudited financial results

At £'000	30 Sept 2018	1 April 2018*	31 March 2018*	30 Sept 2017
Assets				
Cash and balances at central banks	4 402 571	4 040 010	4 040 512	3 356 259
Loans and advances to banks	2 194 184	2 164 598	2 165 533	2 308 618
Non-sovereign and non-bank cash placements	566 221	599 982	601 243	574 521
Reverse repurchase agreements and cash collateral on securities borrowed	1 641 435	2 207 137	2 207 477	1 690 036
Sovereign debt securities	4 483 385	4 907 624	4 910 027	3 608 316
Bank debt securities	609 522	591 428	587 164	604 511
Other debt securities	1 109 942	898 122	903 603	968 597
Derivative financial instruments	1 098 812	1 345 744	1 352 408	1 201 602
Securities arising from trading activities	1 921 010	1 434 391	1 434 391	1 395 766
Investment portfolio	950 455	956 560	885 499	911 480
Loans and advances to customers	23 739 734	24 410 334	24 673 009	22 351 228
Own originated loans and advances to customers securitised	452 341	458 814	459 088	445 672
Other loans and advances	207 251	345 742	347 809	367 401
Other securitised assets	142 884	148 387	148 387	153 786
Interests in associated undertakings	421 139	467 852	467 852	371 294
Deferred taxation assets	215 388	242 239	157 321	123 435
Other assets	2 006 480	1 875 357	1 876 116	2 016 057
Property and equipment	269 174	233 340	233 340	100 910
Investment properties	1 041 323	1 184 097	1 184 097	1 063 771
Goodwill	367 480	368 803	368 803	366 969
Intangible assets	120 333	125 389	125 389	132 692
	47 961 064	49 005 950	49 129 068	44 112 921
Other financial instruments at fair value through profit or loss in respect of liabilities to customers	8 176 040	8 487 776	8 487 776	7 705 206
	56 137 104	57 493 726	57 616 844	51 818 127
Liabilities				
Deposits by banks	3 011 094	2 931 267	2 931 267	2 246 115
Derivative financial instruments	1 402 260	1 471 563	1 471 563	1 169 314
Other trading liabilities	1 006 572	960 166	960 166	968 917
Repurchase agreements and cash collateral on securities lent	488 271	655 840	655 840	730 170
Customer accounts (deposits)	30 348 761	30 985 251	30 987 173	27 966 006
Debt securities in issue	2 734 128	2 717 187	2 717 187	2 549 264
Liabilities arising on securitisation of own originated loans and advances	120 161	136 812	136 812	133 307
Liabilities arising on securitisation of other assets	121 161	127 853	127 853	131 740
Current taxation liabilities	170 794	185 486	185 486	197 244
Deferred taxation liabilities	30 507	32 158	32 158	38 304
Other liabilities	1 812 573	2 019 906	2 012 268	1 827 251
	41 246 282	42 223 489	42 217 773	37 957 632
Liabilities to customers under investment contracts	8 172 496	8 484 296	8 484 296	7 702 724
Insurance liabilities, including unit-linked liabilities	3 544	3 480	3 480	2 482
	49 422 322	50 711 265	50 705 549	45 662 838
Subordinated liabilities	1 596 958	1 619 878	1 482 987	1 389 091
	51 019 280	52 331 143	52 188 536	47 051 929
Equity				
Ordinary share capital	245	240	240	240
Perpetual preference share capital	31	31	31	31
Share premium	2 490 403	2 416 736	2 416 736	2 404 171
Treasury shares	(210 912)	(160 132)	(160 132)	(196 198)
Other reserves	(530 880)	(406 718)	(345 606)	(460 907)
Retained income	2 430 803	2 326 212	2 530 825	2 385 707
	4 179 690	4 176 369	4 442 094	4 133 044
Shareholders' equity excluding non-controlling interests				
Other Additional Tier 1 securities in issue	298 808	304 150	304 150	30 386
Non-controlling interests	639 326	682 064	682 064	602 768
– Perpetual preferred securities issued by subsidiaries	83 204	92 312	92 312	84 763
– Non-controlling interests in partially held subsidiaries	556 122	589 752	589 752	518 005
	5 117 824	5 162 583	5 428 308	4 766 198
Total equity	5 117 824	5 162 583	5 428 308	4 766 198
Total liabilities and equity	56 137 104	57 493 726	57 616 844	51 818 127

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

Summarised combined consolidated cash flow statement



Unaudited financial results

£'000	Six months to 30 Sept 2018	Six months to 30 Sept 2017	Year to 31 March 2018
Cash inflows from operations	404 278	357 998	732 242
Increase in operating assets	(1 926 505)	(1 009 683)	(3 352 869)
Increase in operating liabilities	1 845 075	705 103	3 075 779
Net cash inflow/(outflow) from operating activities	322 848	53 418	455 152
Net cash inflow/(outflow) from investing activities	58 190	5 292	(37 799)
Net cash outflow/(inflow) from financing activities	(203 047)	(121 852)	45 383
Effects of exchange rate changes on cash and cash equivalents	(106 538)	(144 595)	(54 085)
Net increase/(decrease) in cash and cash equivalents	71 453	(207 737)	408 651
Cash and cash equivalents at the beginning of the period	6 130 379	5 721 728	5 721 728
Cash and cash equivalents at the end of the period	6 201 832	5 513 991	6 130 379

Cash and cash equivalents is defined as including cash and balances at central banks, on-demand loans and advances to banks and non-sovereign and non-bank cash placements (all of which have a maturity profile of less than three months).



Combined consolidated statement of changes in equity

Unaudited financial results

£000	Ordinary share capital	Perpetual preference share capital	Share premium	Treasury shares
At 1 April 2017	237	31	2 341 228	(126 879)
Movement in reserves 1 April 2017 – 30 September 2017				
Profit after taxation	–	–	–	–
Fair value movements on cash flow hedges taken directly to other comprehensive income	–	–	–	–
Gains on available-for-sale assets recycled to the income statement	–	–	–	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	–	–	–	–
Foreign currency adjustments on translating foreign operations	–	–	(13 958)	–
Total comprehensive income for the period	–	–	(13 958)	–
Share-based payment adjustments	–	–	–	–
Dividends paid to ordinary shareholders	–	–	–	–
Dividends declared to perpetual preference shareholders and Other Additional Tier 1 security holders	–	–	–	–
Dividends paid to perpetual preference shareholders included in non-controlling interests and Other Additional Tier 1 security holders	–	–	–	–
Dividends paid to non-controlling interests	–	–	–	–
Issue of ordinary shares	3	–	105 203	–
Issue of equity by subsidiaries	–	–	–	–
Net equity impact of non-controlling interests	–	–	–	–
Movement of treasury shares	–	–	(28 302)	(61 223)
Transfer from regulatory general risk reserve	–	–	–	–
Transfer from share-based payment reserve to treasury shares	–	–	–	(8 096)
At 30 September 2017	240	31	2 404 171	(196 198)
Movement in reserves 1 October 2017 – 31 March 2018				
Profit after taxation	–	–	–	–
Fair value movements on cash flow hedges taken directly to other comprehensive income	–	–	–	–
Gains on available-for-sale assets recycled to the income statement	–	–	–	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	–	–	–	–
Foreign currency adjustments on translating foreign operations	–	–	15 659	–
Remeasurement of net defined pension liability	–	–	–	–
Total comprehensive income for the period	–	–	15 659	–
Share-based payments adjustments	–	–	–	–
Dividends paid to ordinary shareholders	–	–	–	–
Dividends declared to perpetual preference shareholders and Other Additional Tier 1 security holders	–	–	–	–
Dividends paid to perpetual preference shareholders included in non-controlling interests and Other Additional Tier 1 security holders	–	–	–	–
Dividends paid to non-controlling interests	–	–	–	–
Issue of ordinary shares	–	–	20 034	–
Issue of Other Additional Tier 1 security instruments	–	–	–	–

^ On adoption of IFRS 9 on 1 April 2018, the fair value reserve was introduced, replacing the available-for-sale reserve.

Combined consolidated statement of changes in equity

(continued)



Unaudited financial results

Other reserves											
Capital reserve account	Available-for-sale/ Fair value reserve*	Regulatory general risk reserve	Cash flow hedge reserve	Foreign currency reserves	Own credit risk reserve	Retained income	Shareholder's equity excluding non-controlling interests	Other Additional Tier 1 securities in issue	Non-controlling interests	Total equity	
10 973	12 203	39 807	(54 891)	(318 367)	-	2 226 751	4 131 093	32 798	644 738	4 808 629	
-	-	-	-	-	-	252 434	252 434	-	30 463	282 897	
-	-	-	(1 824)	-	-	-	(1 824)	-	-	(1 824)	
-	(4 760)	-	-	-	-	-	(4 760)	-	-	(4 760)	
-	13 816	-	-	-	-	-	13 816	-	-	13 816	
-	-	57	-	(156 744)	-	(23)	(170 668)	(2 412)	(47 764)	(220 844)	
-	9 056	57	(1 824)	(156 744)	-	252 411	88 998	(2 412)	(17 301)	69 285	
-	-	-	-	-	-	34 688	34 688	-	-	34 688	
-	-	-	-	-	-	(123 230)	(123 230)	-	-	(123 230)	
-	-	-	-	-	-	(14 101)	(14 101)	1 855	4 086	(8 160)	
-	-	-	-	-	-	-	-	(1 855)	(4 086)	(5 941)	
-	-	-	-	-	-	-	-	-	(29 272)	(29 272)	
-	-	-	-	-	-	-	105 206	-	-	105 206	
-	-	-	-	-	-	-	-	-	2	2	
-	-	-	-	-	-	(85)	(85)	-	4 601	4 516	
-	-	-	-	-	-	-	(89 525)	-	-	(89 525)	
-	-	(1 177)	-	-	-	1 177	-	-	-	-	
-	-	-	-	-	-	8 096	-	-	-	-	
10 973	21 259	38 687	(56 715)	(475 111)	-	2 385 707	4 133 044	30 386	602 768	4 766 198	
-	-	-	-	-	-	253 114	253 114	-	45 642	298 756	
-	-	-	(3 922)	-	-	-	(3 922)	-	-	(3 922)	
-	(1 916)	-	-	-	-	-	(1 916)	-	-	(1 916)	
-	6 235	-	-	-	-	-	6 235	-	-	6 235	
-	-	(1)	-	122 471	-	23	138 152	2 706	54 686	195 544	
-	-	-	-	-	-	3 938	3 938	-	-	3 938	
-	4 319	(1)	(3 922)	122 471	-	257 075	395 601	2 706	100 328	498 635	
-	-	-	-	-	-	34 530	34 530	-	-	34 530	
-	-	-	-	-	-	(104 678)	(104 678)	-	-	(104 678)	
-	-	-	-	-	-	(18 879)	(18 879)	7 480	3 823	(7 576)	
-	-	-	-	-	-	-	-	(7 480)	(3 823)	(11 303)	
-	-	-	-	-	-	-	-	-	(34 416)	(34 416)	
-	-	-	-	-	-	-	20 034	-	-	20 034	
-	-	-	-	-	-	-	-	271 058	-	271 058	



Combined consolidated statement of changes in equity

(continued)

Unaudited financial results

£000	Ordinary share capital	Perpetual preference share capital	Share premium	Treasury shares
Net equity impact of non-controlling interests	–	–	–	–
Movement of treasury shares	–	–	(23 128)	(9 280)
Transfer from capital reserve account	–	–	–	–
Transfer from regulatory general risk reserve	–	–	–	–
Transfer from share-based payment reserve to treasury shares	–	–	–	45 346
At 31 March 2018	240	31	2 416 736	(160 132)
Adoption of IFRS 9	–	–	–	–
At 1 April 2018	240	31	2 416 736	(160 132)
Movement in reserves 1 April 2018 – 30 September 2018				
Profit after taxation	–	–	–	–
Fair value movements on cash flow hedges	–	–	–	–
Gains on debt instruments at FVOCI recycled to the income statement	–	–	–	–
Fair value movements on debt instruments at FVOCI taken directly to other comprehensive income	–	–	–	–
Foreign currency adjustments on translating foreign operations	–	–	(18 893)	–
Gains attributable to own credit risk	–	–	–	–
Remeasurement of net defined pension liability	–	–	–	–
Total comprehensive income for the period	–	–	(18 893)	–
Share-based payments adjustments	–	–	–	–
Dividends paid to ordinary shareholders	–	–	–	–
Dividends declared to perpetual preference shareholders and Other Additional Tier 1 security holders	–	–	–	–
Dividends paid to perpetual preference shareholders included in non-controlling interests and Other Additional Tier 1 security holders	–	–	–	–
Dividends paid to non-controlling interests	–	–	–	–
Issue of ordinary shares	5	–	103 136	–
Net equity impact of non-controlling interests	–	–	–	–
Other comprehensive income of interest in associated undertakings	–	–	–	–
Movement of treasury shares	–	–	(10 576)	(64 123)
Transfer to regulatory general risk reserve	–	–	–	–
Transfer from share-based payment reserve to treasury shares	–	–	–	13 343
Transfer from own credit reserve on sale of subordinated liabilities	–	–	–	–
At 30 September 2018	245	31	2 490 403	(210 912)

^ On adoption of IFRS 9 on 1 April 2018, the fair value reserve was introduced, replacing the available-for-sale reserve.



Combined consolidated statement of changes in equity

(continued)

Unaudited financial results

Other reserves										
Capital reserve account	Available-for-sale/ Fair value reserve*	Regulatory general risk reserve	Cash flow hedge reserve	Foreign currency reserves	Own credit risk reserve	Retained income	Shareholder's equity excluding non-controlling interests	Other Additional Tier 1 securities in issue	Non-controlling interests	Total equity
-	-	-	-	-	-	14 850	14 850	-	13 384	28 234
-	-	-	-	-	-	-	(32 408)	-	-	(32 408)
(526)	-	-	-	(6 222)	-	6 748	-	-	-	-
-	-	(818)	-	-	-	818	-	-	-	-
-	-	-	-	-	-	(45 346)	-	-	-	-
10 447	25 578	37 868	(60 637)	(358 862)	-	2 530 825	4 442 094	304 150	682 064	5 428 308
-	(7 455)	-	-	-	(53 657)	(204 613)	(265 725)	-	-	(265 725)
10 447	18 123	37 868	(60 637)	(358 862)	(53 657)	2 326 212	4 176 369	304 150	682 064	5 162 583
-	-	-	-	-	-	279 854	279 854	-	49 674	329 528
-	-	-	(788)	-	-	-	(788)	-	-	(788)
-	(1 999)	-	-	-	-	-	(1 999)	-	-	(1 999)
-	(12 023)	-	-	-	-	-	(12 023)	-	-	(12 023)
-	1	(9)	-	(157 721)	-	(1 624)	(178 246)	(5 342)	(65 724)	(249 312)
-	-	-	-	-	10 318	-	10 318	-	-	10 318
-	-	-	-	-	-	69	69	-	-	69
-	(14 021)	(9)	(788)	(157 721)	10 318	278 299	97 185	(5 342)	(16 050)	75 793
-	-	-	-	-	-	33 084	33 084	-	-	33 084
-	-	-	-	-	-	(127 943)	(127 943)	-	-	(127 943)
-	-	-	-	-	-	(21 086)	(21 086)	9 837	3 721	(7 528)
-	-	-	-	-	-	-	-	(9 837)	(3 721)	(13 558)
-	-	-	-	-	-	-	-	-	(27 378)	(27 378)
-	-	-	-	-	-	-	103 141	-	-	103 141
-	-	-	-	-	-	(690)	(690)	-	690	-
-	-	-	-	-	-	(5 671)	(5 671)	-	-	(5 671)
-	-	-	-	-	-	-	(74 699)	-	-	(74 699)
-	-	4 110	-	-	-	(4 110)	-	-	-	-
-	-	-	-	-	-	(13 343)	-	-	-	-
-	-	-	-	-	33 949	(33 949)	-	-	-	-
10 447	4 102	41 969	(61 425)	(516 583)	(9 390)	2 430 803	4 179 690	298 808	639 326	5 117 824



Dividends and earnings per share

Unaudited financial results

	30 Sept 2018	30 Sept 2017
Ordinary dividends – pence per share		
Interim	11.0	10.5
Earnings	£'000	£'000
Earnings attributable to shareholders	279 854	252 434
Preference dividends paid	(21 086)	(14 101)
Earnings and diluted earnings attributable to ordinary shareholders	258 768	238 333
Weighted number of shares in issue		
Weighted total average number of shares in issue during the period	990 843 014	968 016 560
Weighted average number of treasury shares	(53 658 595)	(45 106 904)
Weighted average number of shares in issue during the period	937 184 419	922 909 656
Weighted average number of shares resulting from future dilutive potential shares	27 537 894	32 827 744
Adjusted weighted number of shares potentially in issue	964 722 313	955 737 400
Earnings per share – pence		
Basic earnings per share is calculated by dividing the earnings attributable to the ordinary shareholders in Investec plc and Investec Limited by the weighted average number of ordinary shares in issue during the year	27.6	25.8
Diluted earnings per share – pence		
Diluted earnings per share is calculated by dividing the earnings attributable to the ordinary shareholders of Investec plc and Investec Limited, adjusted for the effects of dilutive ordinary potential shares, by the weighted average number of shares in issue during the period plus the weighted average number of ordinary shares that would be issued on conversion of the dilutive ordinary potential shares during the year	26.8	24.9
Adjusted earnings per share – pence		
Adjusted earnings per share is calculated by dividing the earnings before deducting goodwill impairment and non-operating items attributable to the ordinary shareholders, after taking into account earnings attributable to perpetual preference shareholders, by the weighted average number of ordinary shares in issue during the year	28.3	26.6
	£'000	£'000
Earnings attributable to shareholders	279 854	252 434
Amortisation of acquired intangibles	7 861	8 142
Taxation on acquired intangibles and acquisition/disposal/integration of subsidiaries	(1 577)	(1 631)
Preference dividends paid	(21 086)	(14 101)
Accrual adjustment on earnings attributable to other equity holders*	271	436
Adjusted earnings attributable to ordinary shareholders before goodwill, acquired intangibles and non-operating items	265 323	245 280

* In accordance with IFRS, dividends attributable to equity holders are accounted for when a constructive liability arises i.e. on declaration by the board of directors and approval by the shareholders where required. Investec is of the view that EPS is best reflected by adjusting for earnings that are attributed to equity instruments (other than ordinary shares) on an accrual basis and therefore adjusts the paid dividend on such instruments to accrued in arriving at adjusted EPS.

Dividends and earnings per share

(continued)



Unaudited financial results

	30 Sept 2018	30 Sept 2017
Headline earnings per share – pence		
Headline earnings per share has been calculated and is disclosed in accordance with the JSE Listings Requirements, and in terms of circular 4/2018 issued by the South African Institute of Chartered Accountants	27.4	24.6
	£'000	£'000
Earnings attributable to shareholders	279 854	252 434
Preference dividends paid	(21 086)	(14 101)
Property revaluation, net of taxation and non-controlling interests**	(2 169)	(5 467)
Gains on available-for-sale instruments recycled to the income statement**	–	(4 760)
Profit on realisation of associate company	–	(836)
Headline earnings attributable to ordinary shareholders	256 599	227 270

** Taxation on headline earnings adjustments amounted to £0.9 million (2017: £2.8 million) with an impact of £2.2 million (2017: £4.0 million) on earnings attributable to non-controlling interests.



Exchange rate impact on results

Unaudited financial results

As discussed on page 7 exchange rates between local currencies and Pounds Sterling have fluctuated over the period. The most significant impact arises from the volatility of the Rand. The average Rand:Pounds Sterling exchange rate over the period has depreciated by 4.1% since September 2017 and the closing rate has depreciated by 11.0% since 31 March 2018. The following table provides an analysis of the impact of the Rand on our reported numbers.

Results in Pounds Sterling					
	Actual as reported Six months to 30 Sept 2018	Actual as reported Six months to 30 Sept 2017	Actual as reported % change	Neutral currency* Six months to 30 Sept 2018	Neutral currency % change
Operating profit before taxation* (million)	£359	£315	14.2%	£370	17.6%
Earnings attributable to shareholders (million)	£280	£252	10.9%	£288	13.9%
Adjusted earnings attributable to shareholders** (million)	£265	£245	8.2%	£272	11.1%
Adjusted earnings per share**	28.3p	26.6p	6.4%	29.1p	9.4%
Basic earnings per share	27.6p	25.8p	7.0%	28.4p	10.1%
Dividends per share	11.0p	10.5p	4.8%	n/a	

* Before goodwill, acquired intangibles, non-operating items and after other non-controlling interests.

** Before goodwill, acquired intangibles, non-operating items and after non-controlling interests.

^ For income statement items we have used the average Rand:Pounds Sterling exchange rate that was applied in the prior period, i.e. 17.06.

Results in Pounds Sterling					
	Actual as reported At 30 Sept 2018	Actual as reported At 31 March 2018	Actual as reported % change	Neutral currency^^ At 30 Sept 2018	Neutral currency % change
Net asset value per share	422.0p	452.5p	(6.7%)	440.9p	(2.6%)
Net tangible asset value per share	372.7p	401.5p	(7.2%)	391.2p	(2.6%)
Total equity (million)	£5 118	£5 428	(5.7%)	£5 429	0.0%
Total assets (million)	£56 137	£57 617	(2.6%)	£59 918	4.0%
Core loans and advances (million)	£24 190	£25 132	(3.7%)	£25 740	2.4%
Cash and near cash balances (million)	£12 467	£12 825	(2.8%)	£13 125	2.3%
Customer deposits (million)	£30 349	£30 987	(2.1%)	£32 317	4.3%
Third party assets under management (million)	£166 512	£160 576	3.7%	£172 180	7.2%

^^ For balance sheet items we have assumed that the Rand:Pounds Sterling closing exchange rate has remained neutral since 31 March 2018.

Exchange rate impact on results

(continued)



The following table provides a comparison of the group's results as reported in Pounds Sterling and the group's results as translated into Rands.

	Results in Pounds Sterling			Results in Rands		
	Six months to 30 Sept 2018	Six months to 30 Sept 2017	% change	Six months to 30 Sept 2018	Six months to 30 Sept 2017	% change
Operating profit before taxation* (million)	£359	£315	14.2%	R6 415	R5 378	19.3%
Earnings attributable to shareholders (million)	£280	£252	10.9%	R4 983	R4 321	15.3%
Adjusted earnings attributable to shareholders** (million)	£265	£245	8.2%	R4 725	R4 199	12.5%
Adjusted earnings per share**	28.3p	26.6p	6.4%	504c	455c	10.8%
Basic earnings per share	27.6p	25.8p	7.0%	492c	443c	11.1%
Headline earnings per share	27.4p	24.6p	11.4%	487c	422c	15.4%
Dividends per share	11.0p	10.5p	4.8%	206c	200c	3.0%

	At 30 Sept 2018	At 31 March 2018	% change	At 30 Sept 2018	At 31 March 2018	% change
Net asset value per share	422.0p	452.5p	(6.7%)	7 781c	7 521c	3.5%
Net tangible asset value per share	372.7p	401.5p	(7.2%)	6 872c	6 674c	3.0%
Total equity (million)	£5 118	£5 428	(5.7%)	R94 372	R90 218	4.6%
Total assets (million)	£56 137	£57 617	(2.6%)	R1 035 156	R957 592	8.1%
Core loans and advances (million)	£24 190	£25 132	(3.7%)	R446 096	R417 695	6.8%
Cash and near cash balances (million)	£12 467	£12 825	(2.8%)	R229 882	R213 155	7.8%
Customer deposits (million)	£30 349	£30 987	(2.1%)	R559 624	R515 007	8.7%
Third party assets under management (million)	£166 512	£160 576	3.7%	R3 070 500	R2 661 492	15.4%

* Before goodwill, acquired intangibles, non-operating items and after other non-controlling interests.

** Before goodwill, acquired intangibles, non-operating items and after non-controlling interests.



Statutory salient features

Unaudited financial results

	30 Sept 2018	30 Sept 2017	% change Sept 2018 vs Sept 2017	31 March 2018
Income statement and selected returns				
Adjusted earnings attributable to ordinary shareholders before goodwill, acquired intangibles and non-operating items (£'000)	265 323	245 280	8.2%	491 062
Headline earnings (£'000)	256 599	227 270	12.9%	449 647
Operating profit* (£'000)	359 267	314 604	14.2%	607 505
Operating profit: Southern Africa (% of total)*	57.3%	65.3%		67.2%
Operating profit: UK and Other (% of total)*	42.7%	34.7%		32.8%
Cost to income ratio	66.6%	66.9%		66.9%
Staff compensation to operating income ratio	46.8%	47.1%		47.5%
Annualised return on average adjusted shareholders' equity (post-tax)	13.4%	12.5%		12.1%
Annualised return on average adjusted tangible shareholders' equity (post-tax)	15.2%	14.3%		13.7%
Annualised return on average risk-weighted assets	1.54%	1.50%		1.45%
Operating profit per employee (£'000)	35.1	32.1		61.2
Net interest income as a % of operating income	31.6%	30.6%		31.1%
Non-interest income as a % of operating income	68.4%	69.4%		68.9%
Annuity income as a % of total operating income	75.5%	76.4%		76.2%
Effective operational tax rate	16.1%	14.5%		9.6%
Balance sheet				
Total capital resources (including subordinated liabilities) (£'million)	6 715	6 155	9.1%	6 911
Total equity (£'million)	5 118	4 766	7.4%	5 428
Shareholders' equity (excluding non-controlling interests) (£'million)	4 180	4 133	1.1%	4 442
Total assets (£'million)	56 137	51 818	8.3%	57 617
Net core loans and advances to customers (including own originated securitised assets) (£'million)	24 190	22 797	6.1%	25 132
Core loans and advances to customers as a % of total assets	43.1%	44.0%		43.6%
Cash and near cash balances (£'million)	12 467	10 683	16.7%	12 825
Customer accounts (deposits) (£'million)	30 349	27 966	8.5%	30 987
Third party assets under management (£'million)	166 512	154 338	7.9%	160 576
Gearing ratio (assets excluding assurance assets to total equity)	9.4x	9.3x		9.1x
Core loans to equity ratio	4.7x	4.8x		4.6x
Loans and advances to customers as a % of customer deposits	78.2%	79.9%		79.6%
Salient financial features and key statistics				
Adjusted earnings per share (pence)	28.3	26.6	6.4%	53.2
Headline earnings per share (pence)	27.4	24.6	11.4%	48.7
Basic earnings per share (pence)	27.6	25.8	7.0%	51.2
Diluted earnings per share (pence)	26.8	24.9	7.6%	49.8
Dividends per share (pence)	11.0	10.5	4.8%	24.0
Dividend cover (times)	2.6	2.5	4.0%	2.2
Net asset value per share (pence)	422.0	421.8	0.5%	452.5
Net tangible asset value per share (pence)	372.7	370.2	0.7%	401.5
Weighted number of ordinary shares in issue (million)	937.2	922.9	1.5%	923.5
Total number of shares in issue (million)	1 000.0	976.6	2.4%	980.6
Closing share price (pence)	540	545	(0.9%)	550
Market capitalisation (£'million)	5 400	5 322	1.4%	5 393
Number of employees in the group (including temps and contractors)	10 333	9 895	4.4%	10 146
Closing ZAR:£ exchange rate	18.44	18.10	(1.9%)	16.62
Average ZAR:£ exchange rate	17.76	17.06	(4.1%)	17.21

	30 Sept 2018	1 April 2018
Key asset quality and capital ratios		
Capital adequacy ratio: Investec plc [^]	15.4%	15.0%
Tier 1 ratio: Investec plc [^]	12.2%	12.4%
Common equity tier 1 ratio: Investec plc [^]	10.4%	10.5%
Leverage ratio: Investec plc [^]	7.7%	8.3%
Capital adequacy ratio: Investec Limited [^]	14.7%	14.5%
Tier 1 ratio: Investec Limited [^]	11.1%	10.8%
Common equity tier 1 ratio: Limited [^]	10.3%	10.0%
Leverage ratio: Investec Limited [^]	7.5%	7.4%
Annualised credit loss ratio (expected credit loss impairment charges on gross core loans and advances subject to ECL as a % of average gross core loans and advances subject to ECL)	0.34%	0.61%**
Stage 3 net of ECL as a % of net core loans and advances to customers subject to ECL	1.7%	2.0%

Refer to definitions and calculations on page 165.

* Before goodwill, acquired intangibles, non-operating items, taxation and after other non-controlling interests.

[^] The group's expected Basel III 'fully loaded' numbers are provided on page 163.

** As at 31 March 2018

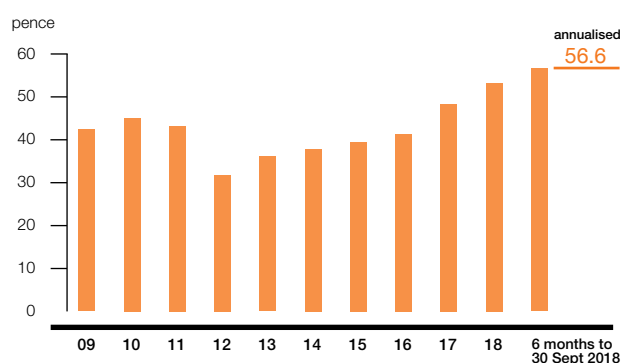


Track record

Unaudited financial results

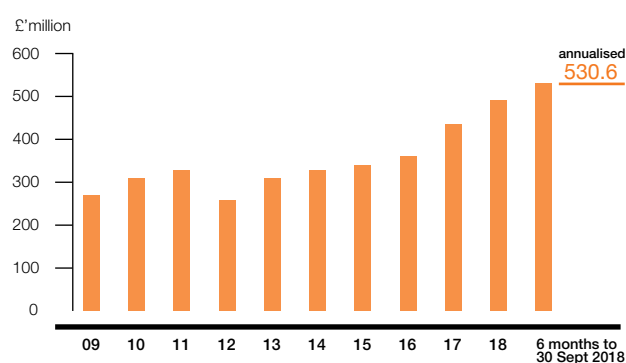
➔ Up 6.4% to 28.3 pence

Adjusted earnings per share



➔ Up 8.2% to £265.3 million

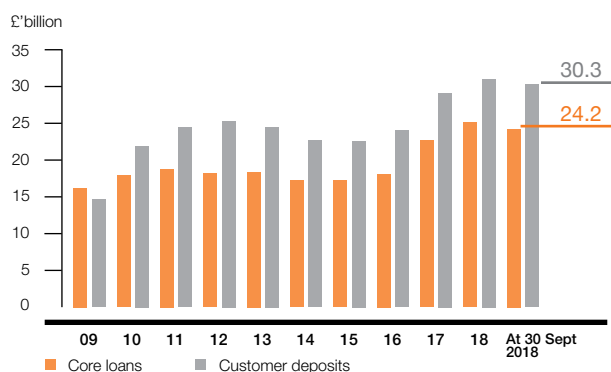
Adjusted earnings attributable to ordinary shareholders before goodwill, acquired intangibles and non-operating items



➔ Core loans: down 3.7% to £24.2 billion since 31 March 2018 – an increase of 2.4% on a currency neutral basis*

Deposits: down 2.1% to £30.3 billion since 31 March 2018 – an increase of 4.3% on a currency neutral basis*

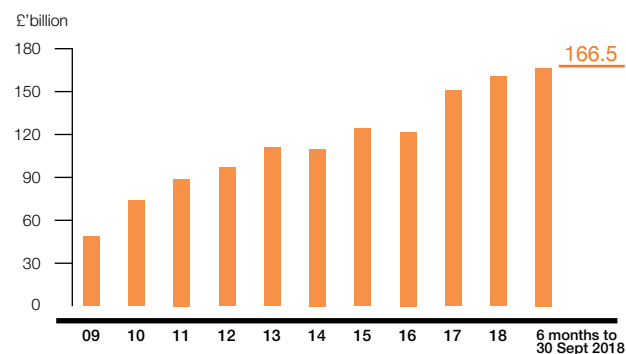
Core loans and customer deposits



➔ Up 3.7% to £166.5 billion since 31 March 2018 – an increase of 7.2% on a currency neutral basis*

Net inflows of £4.8 billion

Third-party assets under management



* Currency neutral basis: calculation assumes that the group's relevant closing exchange rates at 30 September 2018, as reflected on page 7, remain the same as those at 31 March 2018.



Financial targets

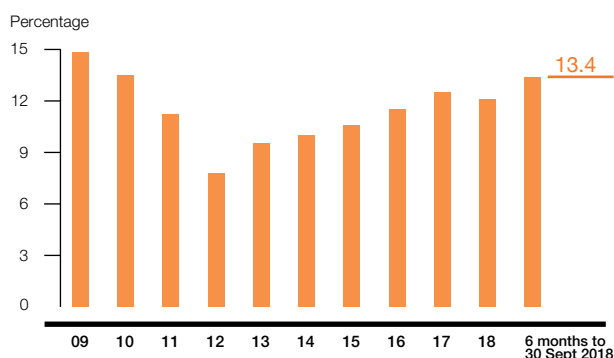
Unaudited financial results

Target

We have set the following target over the medium to long term:

Group ROE: 12% to 16% in Pounds Sterling

ROE*

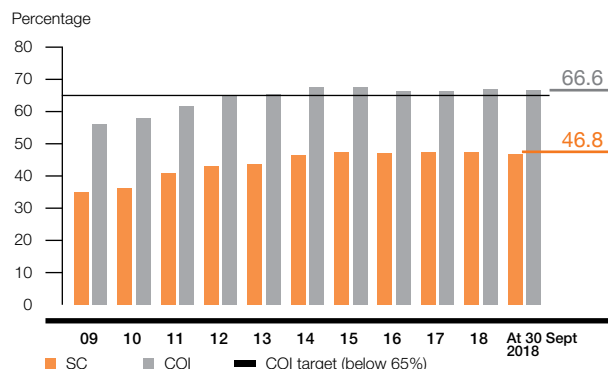


Target

We have set the following target over the medium to long term:

Group COI ratio: less than 65% in Pounds Sterling

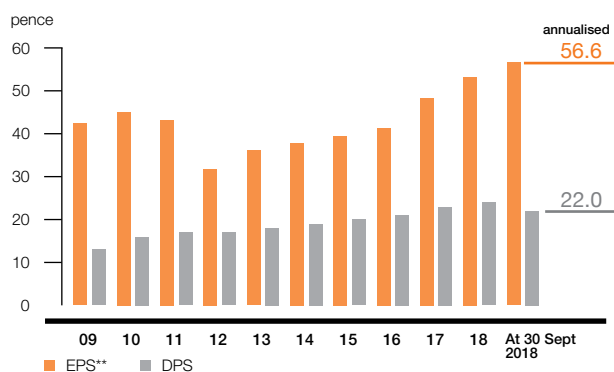
Cost to income ratio (COI) and staff compensation to operating income ratio (SC)



Target

We continually strive to build and maintain a sustainable business model. We intend to maintain a dividend cover of between 1.7 to 3.5 times based on earnings per share as defined below, denominated in Pounds Sterling

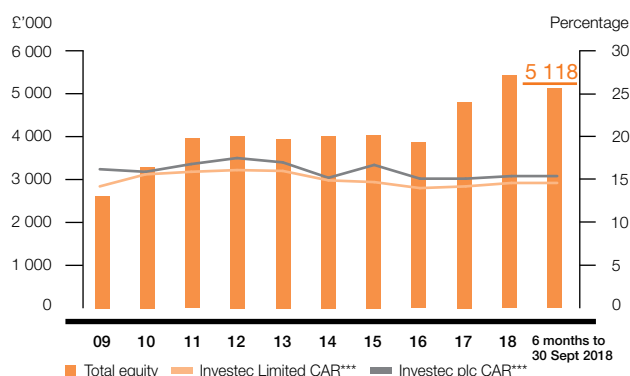
Adjusted earnings per share (EPS) and dividends per share (DPS)



Target

We intend to maintain a sufficient level of capital to satisfy regulatory requirements, as well as take advantage of opportunities that may arise in the financial services industry focusing on increasing our return on equity in the medium to long term. We target a capital adequacy ratio range of between 14% and 17% on a consolidated basis for Investec plc and Investec Limited, a minimum tier 1 ratio of 11% and a common equity tier 1 ratio above 10%

Total equity and capital adequacy ratios (CAR)



* ROE is post-tax return on adjusted average shareholders' equity as calculated on page 80.

** Adjusted EPS before goodwill, acquired intangibles and non-operating items as defined on page 56.

*** Investec Limited's numbers have been reported in terms of Basel III since 31 March 2013, and Investec plc has been reporting in terms of Basel III since 31 March 2014.

Note:

The numbers shown in the financial targets graphs on this page are for the years ended 31 March, unless otherwise stated.



Financial review
and additional
information

Key income drivers

We provide a wide range of financial products and services to a select client base in three principal markets, the UK and Europe, South Africa and Asia/Australia. We are organised as a network comprising three principal business divisions: Asset Management, Wealth & Investment and Specialist Banking

There are therefore a number of key income drivers for our business which are discussed below and alongside.

Asset Management

Key income drivers

- Fixed fees as a percentage of assets under management
- Variable performance fees.

Income statement – primarily reflected as

- Fees and commissions.

Income impacted primarily by

- Movements in the value of the assets underlying client portfolios
- Performance of portfolios against set benchmarks
- Net flows.

Wealth & Investment

Key income drivers

- Investment management fees levied as a percentage of assets under management
- Commissions earned for executing transactions for clients.

Income statement – primarily reflected as

- Fees and commissions.

Income impacted primarily by

- Movement in the value of assets underlying client portfolios
- The level of investment activity undertaken on behalf of clients, which, in turn, is affected by, among other things, the performance of the global stock markets (which drives investment opportunities), the equity investment risk appetite of our clients, tax considerations and market liquidity.

Key income drivers

(continued)

Specialist Banking

Key income drivers	Income statement – primarily reflected as	Income impacted primarily by
<ul style="list-style-type: none"> – Lending activities. 	<ul style="list-style-type: none"> – Net interest income – Fees and commissions – Investment income. 	<ul style="list-style-type: none"> – Size of loan portfolio – Clients' capital and infrastructural investments – Client activity – Credit spreads – Interest rate environment.
<ul style="list-style-type: none"> – Cash and near cash balances. 	<ul style="list-style-type: none"> – Net interest income – Trading income arising from balance sheet management activities. 	<ul style="list-style-type: none"> – Capital employed in the business and capital adequacy targets – Asset and liability management policies and risk appetite – Regulatory requirements – Credit spreads – Interest rate environment.
<ul style="list-style-type: none"> – Deposit and product structuring and distribution. 	<ul style="list-style-type: none"> – Net interest income – Fees and commissions. 	<ul style="list-style-type: none"> – Distribution channels – Ability to create innovative products – Regulatory requirements – Credit spreads – Interest rate environment.
<ul style="list-style-type: none"> – Investments made (including listed and unlisted equities; debt securities; investment properties) – Gains or losses on investments – Dividends received. 	<ul style="list-style-type: none"> – Net interest income – Investment income – Share of post taxation profit of associates. 	<ul style="list-style-type: none"> – Macro- and micro-economic market conditions – Availability of profitable exit routes – Whether appropriate market conditions exist to maximise gains on sale – Attractive investment opportunities – Credit spreads.
<ul style="list-style-type: none"> – Advisory services. 	<ul style="list-style-type: none"> – Fees and commissions. 	<ul style="list-style-type: none"> – The demand for our specialised advisory services, which, in turn, is affected by applicable, regulatory and other macro- and micro-economic fundamentals.
<ul style="list-style-type: none"> – Derivative sales, trading and hedging. 	<ul style="list-style-type: none"> – Fees and commissions – Trading income arising from customer flow. 	<ul style="list-style-type: none"> – Client activity, including lending activity – Market conditions/volatility – Asset and liability creation – Product innovation.
<ul style="list-style-type: none"> – Transactional banking services. 	<ul style="list-style-type: none"> – Net interest income – Fees and commissions. 	<ul style="list-style-type: none"> – Levels of activity – Ability to create innovative products – Appropriate systems infrastructure.

Key risks

Risks relating to our operations

In our ordinary course of business we face a number of risks that could affect our business operations.

These risks are summarised briefly in the table below.

Additional risks and uncertainties not presently known to us or that we currently deem immaterial may in the future also negatively impact our business operations.

The financial services industry in which we operate is intensely competitive.	Market, business and general economic conditions and fluctuations could adversely affect our businesses in a number of ways.	We may be exposed to country risk i.e. the risk inherent in sovereign exposure and events in other countries.
Credit and counterparty risk exposes us to losses caused by financial or other problems experienced by our clients.	Unintended environmental, social and economic risks could arise in our lending and investment activities.	We may be exposed to investment risk in our unlisted and listed investment portfolios.
Market risk arising in our trading book could affect our operational performance.	Liquidity risk may impair our ability to fund our operations.	Our net interest earnings and net asset value may be adversely affected by interest rate risk .
Operational risk (including financial crime and process failure) may disrupt our business or result in regulatory action.	We may be vulnerable to the failure of our systems and breaches of our security systems (including cyber and information security).	Employee misconduct could cause harm that is difficult to detect.
Reputational, strategic and business risk could impact our operational performance.	Compliance, legal and regulatory risks may have an impact on our business.	Retail conduct risk is the risk that we treat our customers unfairly and deliver inappropriate outcomes. Wholesale conduct risk is the risk of conducting ourselves inappropriately in the market.
We may have insufficient capital in the future and may be unable to secure additional financing when it is required.	We may be unable to recruit, retain and motivate key personnel .	We may be exposed to pension risk in our UK operations.

Income statement analysis

The overview that follows will highlight the main reasons for the variance in the major category line items on the face of the income statement during the year under review.

Further details on the key income drivers and significant variances in the various components of our operating income, expenses and profit can be found in the description of our principal businesses on pages 18 to 46.

Total operating income

Total operating income before expected credit losses/impairment losses increased by 7.6% to £1 281 million (2017: £1 191.1 million).

£'000	30 Sept 2018	% of total income	30 Sept 2017	% of total income	% change
Net interest income	405 014	31.6%	364 321	30.6%	11.2%
Net fees and commissions income	703 709	54.9%	666 010	55.9%	5.7%
Investment income	41 472	3.2%	62 074	5.2%	(33.2%)
Share of post taxation profit of associates	20 782	1.6%	23 677	2.0%	(12.2%)
Trading income arising from customer flow	65 078	5.1%	64 160	5.4%	1.4%
Trading income arising from balance sheet management and other trading activities	39 031	3.1%	5 146	0.4%	>100.0%
Other operating income	6 238	0.5%	5 669	0.5%	10.0%
Total operating income before credit losses/ impairments	1 281 324	100.0%	1 191 057	100.0%	7.6%

The following table sets out information on total operating income before expected credit losses/impairment losses by geography for the period under review.

£'000	30 Sept 2018	% of total income	30 Sept 2017	% of total income	% change
UK and Other	729 333	56.9%	656 025	55.1%	11.2%
Southern Africa	551 991	43.1%	535 032	44.9%	3.2%
Total operating income before credit losses/ impairments	1 281 324	100.0%	1 191 057	100.0%	7.6%

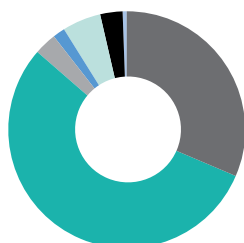
The following table sets out information on total operating income before expected credit losses/impairment losses by division for the period under review.

£'000	30 Sept 2018	% of total income	30 Sept 2017	% of total income	% change
Asset Management	291 279	22.7%	261 871	22.0%	11.2%
Wealth & Investment	202 675	15.8%	194 138	16.3%	4.4%
Specialist Banking	787 370	61.5%	735 048	61.7%	7.1%
Total operating income before credit losses/ impairments	1 281 324	100.0%	1 191 057	100.0%	7.6%

Financial review

(continued)

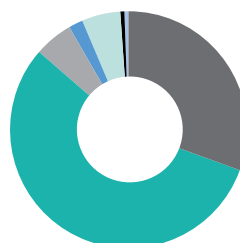
% of total operating income before expected credit losses/impairment losses



30 September 2018

£1 281.3 million total operating income before expected credit losses/impairment losses

Net interest income	31.6%
Net fees and commissions income	54.9%
Investment income	3.2%
Share of post taxation operating profit of associates	1.6%
Trading income arising from customer flow	5.1%
Trading income arising from balance sheet management and other trading activities	3.1%
Other operating income	0.5%



30 September 2017

£1 191.1 million total operating income before expected credit losses/impairment losses

Net interest income	30.6%
Net fees and commissions income	55.9%
Investment income	5.2%
Share of post taxation operating profit of associates	2.0%
Trading income arising from customer flow	5.4%
Trading income arising from balance sheet management and other trading activities	0.4%
Other operating income	0.5%

Net interest income

Net interest income increased by 11.2% to £405.0 million (2017: £364.3 million) driven by lending activity and endowment impact from rate rises in the UK.

£'000	30 Sept 2018	30 Sept 2017	Variance	% change
Asset Management	2 790	2 437	353	14.5%
Wealth & Investment	6 171	4 564	1 607	35.2%
Specialist Banking	396 053	357 320	38 733	10.8%
Net interest income	405 014	364 321	40 693	11.2%

A further analysis of interest received and interest paid is provided in the tables below.

		UK and Other		Southern Africa		Total group	
For the six months to 30 September 2018	Notes	Balance sheet value	Interest income	Balance sheet value	Interest income	Balance sheet value	Interest income
Cash, near cash and bank debt and sovereign debt securities	1	6 976 457	26 907	6 920 861	210 260	13 897 318	237 167
Loans and advances	2	10 057 631	286 501	14 134 444	676 940	24 192 075	963 441
Private client		3 692 360	83 095	9 719 739	467 123	13 412 099	550 218
Corporate, institutional and other clients		6 365 271	203 406	4 414 705	209 817	10 779 976	413 223
Other debt securities and other loans and advances		544 376	36 595	772 817	24 484	1 317 193	61 079
Other interest-earning assets	3	–	–	178 003	24 229	178 003	24 229
Total interest-earning assets		17 578 464	350 003	22 006 125	935 913	39 584 589	1 285 916

Notes:

1. Comprises (as per the balance sheet) cash and balances at central banks; loans and advances to banks; non-sovereign and non-bank cash placements; 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 and own originated loans and advances to customers securitised.
3. Comprises (as per the balance sheet) other securitised assets and Investec Import Solutions Debtors. No securitised assets are held at amortised cost outside of Southern Africa.

Financial review

(continued)

		UK and Other		Southern Africa		Total group	
For the six months to 30 September 2018		Balance sheet value	Interest expense	Balance sheet value	Interest expense	Balance sheet value	Interest expense
£'000	Notes						
Deposits by banks and other debt-related securities	4	3 852 343	(65 237)	2 381 150	(66 889)	6 233 493	(132 126)
Customer accounts		12 361 952	(69 601)	17 986 809	(608 097)	30 348 761	(677 698)
Other interest-bearing liabilities	5	–	–	120 161	(12 871)	120 161	(12 871)
Subordinated liabilities		803 888	(26 307)	793 070	(31 900)	1 596 958	(58 207)
Total interest-bearing liabilities		17 018 183	(161 145)	21 281 190	(719 757)	38 299 373	(880 902)
Net interest income			188 858		216 156		405 014
Net annualised interest margin (local currency)			2.19%		1.90%#		

		UK and Other		Southern Africa		Total group	
For the six months to 30 September 2017		Balance sheet value	Interest income	Balance sheet value	Interest income	Balance sheet value	Interest income
£'000	Notes						
Cash, near cash and bank debt and sovereign debt securities	1	5 307 182	11 354	6 835 079	216 724	12 142 261	228 078
Loans and advances	2	8 899 704	249 946	13 897 196	685 711	22 796 900	935 657
Private client		3 544 194	85 744	9 307 328	458 806	12 851 522	544 550
Corporate, institutional and other clients		5 355 510	164 202	4 589 868	226 905	9 945 378	391 107
Other debt securities and other loans and advances		642 872	24 584	693 126	22 711	1 335 998	47 295
Other interest-earning assets	3	–	–	18 206	14 100	18 206	14 100
Total interest-earning assets		14 849 758	285 884	21 443 607	939 246	36 293 365	1 225 130

		UK and Other		Southern Africa		Total group	
For the six months to 30 September 2017		Balance sheet value	Interest expense	Balance sheet value	Interest expense	Balance sheet value	Interest expense
£'000	Notes						
Deposits by banks and other debt-related securities	4	3 090 595	(43 190)	2 434 954	(69 266)	5 525 549	(112 456)
Customer accounts		10 841 458	(57 420)	17 124 548	(610 650)	27 966 006	(668 070)
Other interest-bearing liabilities	5	–	–	133 307	(16 473)	133 307	(16 473)
Subordinated liabilities		607 340	(27 748)	781 751	(36 062)	1 389 091	(63 810)
Total interest-bearing liabilities		14 539 393	(128 358)	20 474 560	(732 451)	35 013 953	(860 809)
Net interest income			157 526		206 795		364 321
Net annualised interest margin (local currency)			2.10%		1.82%#		

Notes:

1. Comprises (as per the balance sheet) cash and balances at central banks; loans and advances to banks; non-sovereign and non-bank cash placements; 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; and own originated loans and advances to customers securitised.
 3. Comprises (as per the balance sheet) other securitised assets and Investec Import Solutions Debtors. No securitised assets are held at amortised cost outside of Southern Africa.
 4. Comprises (as per the balance sheet) deposits by banks; debt securities in issue; repurchase agreements and cash collateral on securities lent.
 5. Comprises (as per the balance sheet) liabilities arising on securitisation of own originated assets; and liabilities arising on securitisation. No liabilities on securitisation are held at amortised cost outside of Southern Africa.
- # Impacted by debt funding issued by the Investec Property Fund in which the group has a 26.57% (2017: 27.24%) interest. Excluding this debt funding cost, the net interest margin amounted to 2.05% (2017: 1.98%).

Financial review

(continued)

Net fee and commission income

Net fee and commission income increased by 5.7% to £703.7 million (2017: £666.0 million) as a result of higher average funds under management and net inflows in the Asset Management and Wealth Management businesses as well as a good performance from the corporate advisory business in the UK.

£'000	30 Sept 2018	30 Sept 2017	Variance	% change
Asset Management	279 936	258 004	21 932	8.5%
Wealth & Investment	195 713	187 893	7 820	4.2%
Specialist Banking	228 060	220 113	7 947	3.6%
Net fee and commission income	703 709	666 010	37 699	5.7%

Further information on net fees by type of fee and geography is provided in the tables below.

For the six months to 30 September 2018 £'000	UK and Other	Southern Africa	Total group
Asset management and Wealth management businesses net fee and commission income	346 270	129 379	475 649
Fund management fees/fees for assets under management	405 777	112 943	518 720
Private client transactional fees	24 302	18 338	42 640
Fee and commission expense	(83 809)	(1 902)	(85 711)
Specialist Banking net fee and commission income	117 463	110 597	228 060
Corporate and institutional transactional and advisory services	117 534	96 526	214 060
Private client transactional fees	5 132	23 697	28 829
Fee and commission expense	(5 203)	(9 626)	(14 829)
Net fee and commission income	463 733	239 976	703 709
Annuity fees (net of fees payable)	350 378	212 444	562 822
Deal fees	113 355	27 532	140 887

For the six months to 30 September 2017 £'000	UK and Other	Southern Africa	Total group
Asset management and Wealth management businesses net fee and commission income	316 687	129 210	445 897
Fund management fees/fees for assets under management	358 836	113 715	472 551
Private client transactional fees	27 526	19 053	46 579
Fee and commission expense	(69 675)	(3 558)	(73 233)
Specialist Banking net fee and commission income	103 006	117 107	220 113
Corporate and institutional transactional and advisory services	94 033	104 007	198 040
Private client transactional fees	12 843	23 822	36 665
Fee and commission expense	(3 870)	(10 722)	(14 592)
Net fee and commission income	419 693	246 317	666 010
Annuity fees (net of fees payable)	333 111	212 522	545 633
Deal fees	86 582	33 795	120 377

Included in Specialist Banking corporate and institutional transactional and advisory services is net fee income of £38.0 million (2017: £41.0 million) for operating lease income.

Investment income

Investment income amounted to £41.5 million (2017: £62.1 million) reflecting a weaker performance from the group's listed and unlisted investment portfolio, as well as from the investment property portfolio in South Africa.

£'000	30 Sept 2018	30 Sept 2017	Variance	% change
Asset Management	17	25	(8)	(32.0%)
Wealth & Investment	333	631	(298)	(47.2%)
Specialist Banking	41 122	61 418	(20 296)	(33.0%)
Investment income	41 472	62 074	(20 602)	(33.2%)

Further information on investment income is provided in the tables below.

For the six months to 30 September 2018 £'000	UK and Other	Southern Africa	Total group
Realised	29 469	66 324	95 793
Unrealised [^]	(30 734)	(35 033)	(65 767)
Dividend income	2 380	6 887	9 267
Funding and other net related income/(costs)	4 294	(2 115)	2 179
Investment income	5 409	36 063	41 472

For the six months to 30 September 2018 £'000	Investment portfolio (listed and unlisted equities)*	Debt securities (sovereign, bank and other)	Investment properties	Other asset categories	Total
UK and Other	2 074	3 827	–	(492)	5 409
Realised	36 589	2 668	–	(9 788)	29 469
Unrealised [^]	(36 895)	1 159	–	5 002	(30 734)
Dividend income	2 380	–	–	–	2 380
Funding and other net related income/(costs)	–	–	–	4 294	4 294
Southern Africa	23 334	6 204	939	5 586	36 063
Realised	32 360	3 223	30 592	149	66 324
Unrealised [^]	(14 455)	2 981	(29 653)	6 094	(35 033)
Dividend income	6 856	–	–	31	6 887
Funding and other net related income/(costs)	(1 427)	–	–	(688)	(2 115)
Total investment income	25 408	10 031	939	5 094	41 472

* Including warrants and profit shares.

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

Financial review

(continued)

For the six months to 30 September 2017 £'000	UK and Other	Southern Africa	Total group
Realised	13 176	29 227	42 403
Unrealised [^]	(7 215)	10 154	2 939
Dividend income	5 977	8 615	14 592
Funding and other net related income/(costs)	3 536	(1 396)	2 140
Investment income	15 474	46 600	62 074

For the six months to 30 September 2017 £'000	Investment portfolio (listed and unlisted equities)*	Debt securities (sovereign, bank and other)	Investment properties	Other asset categories	Total
UK and Other	7 694	6 428	(86)	1 438	15 474
Realised	8 133	4 340	(86)	789	13 176
Unrealised [^]	(6 416)	2 088	–	(2 887)	(7 215)
Dividend income	5 977	–	–	–	5 977
Funding and other net related income/(costs)	–	–	–	3 536	3 536
Southern Africa	26 922	6 292	11 062	2 324	46 600
Realised	12 625	6 292	8 777	1 533	29 227
Unrealised [^]	7 870	–	2 285	(1)	10 154
Dividend income	8 602	–	–	13	8 615
Funding and other net related income/(costs)	(2 175)	–	–	779	(1 396)
Total investment income	34 616	12 720	10 976	3 762	62 074

* Including warrants and profit shares.

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

Share of post taxation profit of associates

Share of post taxation profit of associates of £20.8 million (2017: £23.7 million) reflects earnings in relation to the group's investment in the IEP Group.

Trading income

Trading income arising from customer flow increased by 1.4% to £65.1 million (2017: £64.2 million) reflecting subdued client flow trading levels given the uncertainty in both geographies.

Trading income from balance sheet management and other trading activities increased significantly to £39.0 million (2017: £5.1 million). The increase is largely reflective of both realised and unrealised translation gains on foreign currency equity investments in South Africa (partially offsetting the related weaker investment income performance) as well as the unwind of the UK subordinated debt fair value adjustment (recognised on the adoption of IFRS 9) as the instrument pulls to par over its remaining term.

Arising from customer flow

£'000	30 Sept 2018	30 Sept 2017	Variance	% change
Wealth & Investment	430	565	(135)	(23.9%)
Specialist Banking	64 648	63 595	1 053	1.7%
Trading income arising from customer flow	65 078	64 160	918	1.4%

Arising from balance sheet management and other trading activities

£'000	30 Sept 2018	30 Sept 2017	Variance	% change
Asset Management	4 537	(1 420)	5 957	>100.0%
Wealth & Investment	28	70	(42)	(60.0%)
Specialist Banking	34 466	6 496	(27 970)	>100.0%
Trading income arising from balance sheet management and other trading activities	39 031	5 146	33 885	>100.0%

Expected credit loss (ECL) impairment charges

The total ECL impairment charges amounted to £31.0 million, a substantial reduction from £59.6 million (under the IAS 39 incurred loss model) in the prior period, primarily reflecting a reduction in legacy impairments. The group's annualised credit loss ratio is now within its long-term average range at 0.34% (2017: 0.52%). Since 1 April 2018 gross core loan Stage 3 assets have reduced by £141 million to £595.0 million largely driven by a reduction of legacy exposures. The percentage of Stage 3 assets (net of ECL impairment charges but before taking collateral into account) to core loans and advances amounted to 1.7% (1 April 2018: 2.0%). Further information is provided on pages 125 to 127.

£'000	30 Sept 2018	30 Sept 2017	Variance	% change
UK and Other	(10 005)	(37 631)	27 626	73.4%
Southern Africa	(21 017)	(21 962)	945	4.3%
Expected credit losses/impairment losses	(31 022)	(59 593)	28 571	47.9%
Expected credit losses/impairment losses in home currency				
Southern Africa (R'million)	(378)	(373)	(5)	(1.3%)

£'000	30 Sept 2018	30 Sept 2017
Expected credit loss impairment charges have arisen on the following line items:		
Core loans and advances to customers	(39 925)	–
Other balance sheet assets	8 291	–
Off-balance sheet commitments	612	–
Impairment losses on loans and advances	–	(59 593)
	(31 022)	(59 593)

Operating costs

The cost to income ratio improved marginally, amounting to 66.6% (2017: 66.9%). Total operating costs grew by 7.2% to £854.2 million (2017: £797.1 million) largely driven by growth in headcount to support both activity levels and increased regulatory requirements.

£'000	30 Sept 2018	% of total operating costs	30 Sept 2017	% of total operating costs	% change
Staff costs	(613 309)	71.8%	(577 446)	72.5%	6.2%
– fixed	(404 967)	47.4%	(380 584)	47.8%	6.4%
– variable	(208 342)	24.4%	(196 862)	24.7%	5.8%
Business expenses	(105 123)	12.3%	(89 257)	11.2%	17.8%
Equipment expenses (excluding depreciation)	(45 618)	5.3%	(43 116)	5.4%	5.8%
Premises expenses (excluding depreciation)	(44 467)	5.2%	(39 133)	4.9%	13.6%
Marketing expenses	(30 199)	3.6%	(34 383)	4.3%	(12.2%)
Depreciation and impairment of property, plant, equipment and software	(14 266)	1.7%	(12 548)	1.6%	13.7%
Depreciation on operating leased assets	(1 207)	0.1%	(1 177)	0.1%	2.5%
Total operating costs	(854 189)	100.0%	(797 060)	100.0%	7.2%

Financial review

(continued)

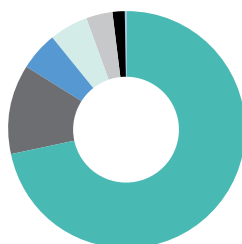
The following table sets out certain information on total operating costs by geography for the period under review.

£'000	30 Sept 2018	% of total expenses	30 Sept 2017	% of total expenses	% change
UK and Other	(570 300)	66.8%	(513 314)	64.4%	11.1%
Southern Africa	(283 889)	33.2%	(283 746)	35.6%	0.1%
Total operating costs	(854 189)	100.0%	(797 060)	100.0%	7.2%

The following table sets out certain information on total operating costs by division for the period under review.

£'000	30 Sept 2018	% of total expenses	30 Sept 2017	% of total expenses	% change
Asset Management	(199 751)	23.4%	(178 638)	22.4%	11.8%
Wealth & Investment	(156 240)	18.3%	(144 610)	18.1%	8.0%
Specialist Banking	(474 150)	55.6%	(449 156)	56.4%	5.6%
Group costs	(24 048)	2.7%	(24 656)	3.1%	(2.5%)
Total operating costs	(854 189)	100.0%	(797 060)	100.0%	7.2%

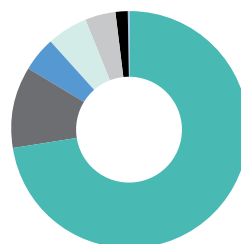
% of total operating costs



30 September 2018

£854.2 million total operating costs

Staff costs	71.8%
Business expenses	12.3%
Premises	5.2%
Equipment	5.3%
Marketing	3.6%
Depreciation	1.7%
Depreciation on operating leased assets	0.1%



30 September 2017

£797.1 million total operating costs

Staff costs	72.5%
Business expenses	11.2%
Premises	4.9%
Equipment	5.4%
Marketing	4.3%
Depreciation	1.6%
Depreciation on operating leased assets	0.1%

Operating profit before goodwill, acquired intangibles, non-operating items and after other non-controlling interests

As a result of the foregoing factors, our operating profit before goodwill, acquired intangibles, non-operating items, taxation and after other non-controlling interests increased by 14.2% from £314.6 million to £359.3 million.

The following tables set out information on operating profit before goodwill, acquired intangibles, non-operating items, taxation and after other non-controlling interests by geography and by division for the period under review.

For the six months to 30 September 2018 £'000	UK and Other	Southern Africa	Total group	% change	% of total
Asset Management	56 840	34 686	91 526	10.0%	25.5%
Wealth & Investment	32 864	13 544	46 408	(6.3%)	12.9%
Specialist Banking	80 756	164 625	245 381	18.8%	68.3%
	170 460	212 855	383 315	13.0%	106.7%
Group costs	(17 227)	(6 821)	(24 048)	(2.5%)	(6.7%)
Total group	153 233	206 034	359 267	14.2%	100.0%
Other non-controlling interest – equity			36 846		
Operating profit			396 113		
% change	40.2%	0.4%	14.2%		
% of total	42.7%	57.3%	100.0%		

For the six months to 30 September 2017 £'000	UK and Other	Southern Africa	Total group	% change	% of total
Asset Management	49 949	33 284	83 233	1.2%	26.5%
Wealth & Investment	35 441	14 087	49 528	14.7%	15.7%
Specialist Banking	41 208	165 291	206 499	14.9%	65.6%
	126 598	212 662	339 260	11.1%	107.8%
Group costs	(17 295)	(7 361)	(24 656)	3.5%	(7.8%)
Total group	109 303	205 301	314 604	11.8%	100.0%
Other non-controlling interest – equity			19 800		
Operating profit			334 404		
% of total	34.7%	65.3%	100.0%		

Financial review

(continued)

Key income drivers in our core businesses

The information below reflects our key income drivers in our core businesses.

Asset Management

Global business (in Pounds Sterling)	30 Sept 2018	31 March 2018	31 March 2017	31 March 2016	31 March 2015	31 March 2014
Operating margin	31.4%	33.0%	33.1%	32.0%	34.2%	34.7%
Net inflows in funds under management as a % of opening funds under management	8.0%*	5.6%	(0.8%)	4.1%	4.6%	3.7%
Average income yield earned on funds under management^	0.55%	0.54%	0.58%	0.55%	0.60%	0.60%

Wealth & Investment

Global business (in Pounds Sterling)	30 Sept 2018	31 March 2018	31 March 2017	31 March 2016	31 March 2015	31 March 2014
Operating margin	22.9%	24.3%	25.9%	26.4%	25.2%	22.9%
Net organic growth in funds under management as a % of opening funds under management	2.3%*	3.6%	2.7%	4.5%	6.6%	3.5%
Average income yield earned on funds under management^	0.72%	0.73%	0.72%	0.71%	0.72%	0.71%
UK and Other^^ (in Pounds Sterling)						
Operating margin^^	20.5%	22.0%	23.5%	24.6%	22.7%	20.1%
Net organic growth in funds under management as a % of opening funds under management	2.5%*	5.0%	4.2%	4.5%	7.1%	5.1%
Average income yield earned on funds under management^	0.84%	0.87%	0.85%	0.87%	0.89%	0.89%
South Africa (in Rands)						
Operating margin	31.9%	32.3%	33.8%	33.1%	35.1%	33.9%
Net organic growth in discretionary funds under management as a % of opening discretionary funds under management	4.3%*	4.6%	8.1%	10.4%	8.5%	13.6%
Average income yield earned on funds under management^**	0.48%	0.49%	0.47 %	0.45%	0.41%	0.41%

* Annualised.

** A large portion of the funds under management are non-discretionary funds.

^ The average income yield on funds under management represents the total operating income for the period as a percentage of the average of opening and closing funds under management. This calculation does not take into account the impact of market movements throughout the period on funds under management or the timing of acquisitions and disposals during the respective periods.

^^ 'Other' comprises the Wealth operations in Switzerland, the Republic of Ireland, the Channel Islands, and Hong Kong. Excluding 'Other', Investec Wealth & Investment UK has an operating margin of 23.2% (2017: 26.9%).

Specialist Banking – statutory basis

Global business (in Pounds Sterling)	30 Sept 2018	31 March 2018	31 March 2017	31 March 2016	31 March 2015	31 March 2014
Cost to income ratio	60.2%	61.2%	60.6%	60.1%	63.1%	63.2%
ROE post-tax [^]	11.3%	9.2%	10.5%	10.1%	8.6%	7.9%
ROE post-tax (ongoing business) [^]	n/a	11.7%	12.6%	13.0%	12.8%	11.9%
Growth in net core loans	(3.7%)	10.7%	25.3%	5.4%	0.2% ^{^^}	(6.8%)
Currency neutral growth in net core loans	2.4%	5.3%	7.6%	–	–	–
Growth in risk-weighted assets	(2.2%)	5.6%	22.2%	1.7%	(4.9%) ^{^^}	(6.0%)
Currency neutral growth in risk-weighted assets	3.8%	5.1%	7.2%	–	–	–
Stage 3/defaults net of ECL as a % of net core loans and advances to customers subject to ECL	1.7%	1.17%	1.22%	1.54%	2.07%	2.30%
Credit loss ratio on core loans subject to ECL	0.34% [~]	0.61%	0.54%	0.62%	0.68%	0.68%
UK and Other[#] (in Pounds Sterling)						
Cost to income ratio	76.6%	76.9%	74.8%	73.4%	78.9%	72.5%
ROE post-tax [^]	9.3%	3.2%	7.0%	5.5%	2.1%	3.6%
ROE post-tax (ongoing business) [^]	n/a	8.5%	11.5%	11.4%	9.6%	10.9%
Growth in net core loans	3.8%	12.4%	10.5%	10.5%	(14.1%) ^{^^}	(0.3%)
Growth in risk-weighted assets	4.7%	8.2%	8.4%	6.7%	(15.5%) ^{^^}	0.4%
Stage 3/defaults net of ECL as a % of net core loans and advances to customers subject to ECL	3.0%	2.16%	1.55%	2.19%	3.00%	3.21%
Credit loss ratio on core loans subject to ECL	0.41% [~]	1.14%	0.90%	1.13%	1.16%	0.99%
Southern Africa (in Rands)						
Cost to income ratio	45.2%	47.1%	46.9%	46.5%	47.2%	51.0%
ROE post-tax [^]	12.4%	12.8%	12.7%	15.1%	15.2%	12.5%
Growth in net core loans	1.5%	8.7%	8.4%	19.7%	16.1%	10.6%
Growth in risk-weighted assets	3.1%	3.0%	6.2%	15.1%	8.3%	11.0%
Stage 3/defaults net of ECL as a % of net core loans and advances to customers subject to ECL	0.8%	0.56%	1.02%	1.05%	1.43%	1.46%
Credit loss ratio on core loans subject to ECL	0.30% [~]	0.28%	0.29%	0.26%	0.28%	0.42%

[^] Divisional ROEs are reported on a pre-tax basis elsewhere in this report. For the purpose of this calculation we apply the group's effective tax rate in its respective geographies to derive post-tax numbers. We have applied a 'normalised' tax rate of 18% for 30 September 2018 in the UK instead of 14.4%, and 18% for 31 March 2018 in South Africa instead of 4.9%. Capital as at 30 September 2018 was c.£1.4 billion in the UK and c.R36 billion in South Africa.

^{^^} Impacted by sale of assets.

[#] Includes UK, other non-Southern African jurisdictions and the legacy business.

[~] Annualised.

Financial review

(continued)

Impairment of goodwill

There was no impairment of goodwill in the current period. The reduction in goodwill since 31 March 2018 is as a result of the weakening of the closing Rand exchange rate relative to Pounds Sterling.

Amortisation of acquired intangibles

Amortisation of acquired intangibles of £7.9 million largely relates to the Wealth & Investment business and mainly comprises amortisation of amounts attributable to client relationships.

Goodwill and intangible assets analysis by geography and line of business

£'000	30 Sept 2018	31 March 2018	30 Sept 2017
South Africa	11 035	12 538	11 487
Wealth and Investment	1 959	2 174	1 903
Specialist Banking	9 076	10 364	9 584
UK and Other	356 445	356 265	355 482
Asset Management	88 045	88 045	88 045
Wealth and Investment	243 463	243 343	243 387
Specialist Banking	24 937	24 877	24 050
Intangible assets	120 333	125 389	132 692
Wealth and Investment	92 541	97 238	104 676
Specialist Banking	27 792	28 151	28 016
Total group	487 813	494 192	499 661

Taxation

The effective tax rate amounted to 16.1% (2017: 14.5%), which remains below the group's historical effective tax rate mainly impacted by the utilisation of tax losses.

Effective tax rates

	30 Sept 2018	30 Sept 2017	30 Sept 2018 £'000	30 Sept 2017 £'000	% change
UK and Other	14.4%	18.1%	(21 498)	(18 787)	14.4%
Southern Africa	17.1%	12.7%	(38 803)	(26 209)	48.1%
Tax	16.1%	14.5%	(60 301)	(44 996)	34.0%

Profit attributable to non-controlling interests

Profit attributable to non-controlling interests mainly comprises:

- £12.8 million profit attributable to non-controlling interests in the Asset Management business.
- £36.4 million profit attributable to non-controlling interests in the Investec Property Fund Limited.

Earnings attributable to shareholders

As a result of the foregoing factors, earnings attributable to shareholders increased from £252.4 million to £279.9 million.

Dividends and earnings per share

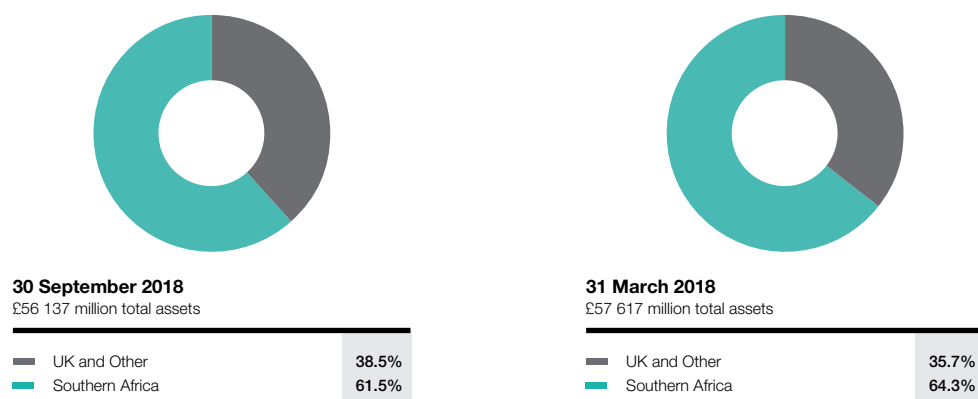
Information with respect to dividends and earnings per share is provided on pages 56 and 57 and pages 166 to 171.

Balance sheet analysis

Since 31 March 2018:

- Shareholders' equity decreased by 5.9% to £4.2 billion primarily as a result of the adoption of IFRS 9 on 1 April 2018 as well as from the depreciation of the closing Rand: Pounds Sterling exchange rate.
- Net asset value per share decreased 6.7% to 422.0 pence and net tangible asset value per share (which excludes goodwill and intangible assets) decreased 7.2% to 372.7 pence, primarily as a result of the adoption of IFRS 9 as well as from the depreciation of the closing Rand: Pounds Sterling exchange rate.
- The annualised return on adjusted average shareholders' equity increased from 12.1% to 13.4%.

Assets by geography



Net tangible asset value per share

The group's net tangible asset value per share is reflected in the table below.

£'000	30 Sept 2018	1 April 2018	31 March 2018	30 Sept 2017
Shareholders' equity	4 179 690	4 176 369	4 442 094	4 133 044
Less: perpetual preference shares issued by holding companies	(197 452)	(216 343)	(216 343)	(200 685)
Less: goodwill and intangible assets (excluding software)	(465 216)	(475 922)	(475 922)	(480 826)
Net tangible asset value	3 517 022	3 484 104	3 749 829	3 451 533
Number of shares in issue (million)	1 000.0	980.6	980.6	976.6
Treasury shares (million)	(56.3)	(46.7)	(46.7)	(44.3)
Number of shares in issue in this calculation (million)	943.7	933.9	933.9	932.3
Net tangible asset value per share (pence)	372.7	373.1	401.5	370.2
Net asset value per share (pence)	422.0	424.0	452.5	421.8

Financial review

(continued)

Return on risk-weighted assets

The group's return on risk-weighted assets is reflected in the table below.

	30 Sept 2018	31 March 2018	Average	30 Sept 2017	31 March 2017	Average
Adjusted earnings attributable to ordinary shareholders before goodwill, acquired intangibles and non-operating items (£'000)	265 323	491 062		245 280	434 504	
Investec plc risk-weighted assets (£'million)	15 111	14 411	14 761	13 824	13 312	13 568
Investec Limited risk-weighted assets (£'million)	18 933	20 366	19 650	18 754	19 667	19 210
Total risk-weighted assets (£'million)	34 044	34 777	34 411	32 578	32 979	32 778
Annualised return on average risk-weighted assets	1.54%	1.45%		1.50%	1.45%	
Investec Limited risk-weighted assets (R'million)	349 130	338 484	343 807	337 752	329 808	333 780

Return on equity

£'000	30 Sept 2018	1 April 2018	Average 1 April 2018 to 30 Sept 2018	31 March 2018	30 Sept 2017	31 March 2017	Average 31 March 2017 to 30 Sept 2017
Calculation of average shareholders' equity							
Ordinary shareholders' equity	3 982 238	3 960 026	3 971 132	4 225 751	3 932 359	3 916 448	3 924 404
Goodwill and intangible assets (excluding software)	(465 216)	(475 922)	(470 569)	(475 922)	(480 826)	(490 841)	(485 834)
Adjusted tangible shareholders' equity	3 517 022	3 484 104	3 500 563	3 749 829	3 451 533	3 425 607	3 438 570

£'000	30 Sept 2018	30 Sept 2017	31 March 2018
Operating profit*	396 113	334 404	659 793
Non-controlling interests	(49 674)	(30 463)	(76 105)
Accrued preference dividends, adjusted for currency hedge	(20 815)	(13 665)	(33 527)
Revised operating profit	325 624	290 276	550 161
Taxation on operating profit before goodwill and acquired intangibles	(60 301)	(44 996)	(59 099)
Adjusted attributable earnings to ordinary shareholders*	265 323	245 280	491 062
Pre-tax return on average adjusted shareholders' equity	16.4%	14.8%	13.5%
Post-tax return on average adjusted shareholders' equity	13.4%	12.5%	12.1%
Pre-tax return on average adjusted tangible shareholders' equity	18.6%	16.9%	15.3%
Post-tax return on average adjusted tangible shareholders' equity	15.2%	14.3%	13.7%

* Before goodwill, acquired intangibles and non-operating items.

Return on equity by geography

£'000	UK and Other	Southern Africa	Total group
Total operating profit	149 028	247 085	396 113
Tax on profit on ordinary activities	(21 498)	(38 803)	(60 301)
Non-controlling interests	(4 105)	(45 569)	(49 674)
Earnings attributable to other shareholders	(7 071)	(13 744)	(20 815)
Profit on ordinary activities after taxation – 30 September 2018	116 354	148 969	265 323
Profit on ordinary activities after taxation – 30 September 2017	83 432	161 848	245 280
Ordinary shareholders' equity – 30 September 2018	1 935 035	2 047 203	3 982 238
Goodwill and intangible assets (excluding software)	(440 931)	(24 285)	(465 216)
Tangible ordinary shareholders' equity – 30 September 2018	1 494 104	2 022 918	3 517 022
Ordinary shareholders' equity – 1 April 2018	1 838 196	2 121 830	3 960 026
Goodwill and intangible assets (excluding software)	(447 135)	(28 787)	(475 922)
Tangible ordinary shareholders' equity – 1 April 2018	1 391 061	2 093 043	3 484 104
Ordinary shareholders' equity – 31 March 2018	2 050 127	2 175 624	4 225 751
Goodwill and intangible assets (excluding software)	(447 135)	(28 787)	(475 922)
Tangible ordinary shareholders' equity – 31 March 2018	1 602 992	2 146 837	3 749 829
Ordinary shareholders equity – 30 September 2017	2 026 930	1 905 429	3 932 359
Goodwill and intangible assets (excluding software)	(452 999)	(27 827)	(480 826)
Tangible ordinary shareholders' equity – 30 September 2017	1 573 931	1 877 602	3 451 533
Average ordinary shareholders' equity – 30 September 2018**	1 886 616	2 084 516	3 971 132
Average tangible shareholders' equity – 30 September 2017	2 009 314	1 915 090	3 924 404
Average tangible shareholders' equity – 30 September 2018**	1 442 583	2 057 980	3 500 563
Average tangible shareholders' equity – 30 September 2017	1 553 192	1 885 378	3 438 570
Post-tax return on average ordinary shareholders' equity – 30 September 2018	12.3%	14.3%	13.4%
Post-tax return on average ordinary shareholders' equity – 30 September 2017	8.3%	16.9%	12.5%
Post-tax return on adjusted tangible shareholders' equity – 30 September 2018	16.1%	14.5%	15.2%
Post-tax return on adjusted tangible shareholders' equity – 30 September 2017	10.7%	17.2%	14.3%
Pre-tax return on adjusted average ordinary shareholders' equity – 30 September 2018	14.6%	18.0%	16.4%
Pre-tax return on adjusted average ordinary shareholders' equity – 30 September 2017	10.2%	19.6%	14.8%
Pre-tax return on average tangible ordinary shareholders' equity – 30 September 2018	19.1%	18.3%	18.6%
Pre-tax return on average tangible ordinary shareholders' equity – 30 September 2017	13.2%	19.9%	16.9%

* Before goodwill, acquired intangibles and non-operating items.

** Calculated as the average balance between 1 April 2018 and 30 September 2018.

Financial review

(continued)

Return on equity by business*

£'000	Asset Management	Wealth & Investment^	Specialist Banking
Total operating profit, after other non-controlling interests#	91 526	46 408	245 381
Notional return on regulatory capital	1 713	1 026	(2 739)
Notional cost of statutory capital	(1 244)	(2 250)	3 494
Cost of subordinated debt	(754)	(596)	1 350
Cost of preference shares	(485)	(384)	(19 946)
Adjusted earnings – 30 September 2018	90 756	44 204	227 540
Adjusted earnings – 30 September 2017	80 468	47 308	197 818
Ordinary shareholders' equity – 30 September 2018	193 462	250 259	3 379 467
Goodwill and intangible assets (excluding software)	(88 045)	(172 971)	(45 150)
Tangible ordinary shareholders' equity – 30 September 2018	105 417	77 288	3 334 317
Ordinary shareholders' equity – 1 April 2018	199 416	235 181	3 366 379
Goodwill and intangible assets (excluding software)	(88 045)	(179 223)	(49 604)
Tangible ordinary shareholders' equity – 1 April 2018	111 371	55 958	3 316 775
Ordinary shareholders' equity – 31 March 2018	199 416	235 181	3 632 104
Goodwill and intangible assets (excluding software)	(88 045)	(179 223)	(49 604)
Tangible ordinary shareholders' equity – 31 March 2018	111 371	55 958	3 582 500
Ordinary shareholders' equity – 30 September 2017	168 158	240 911	3 364 240
Goodwill and intangible assets (excluding software)	(88 045)	(185 381)	(48 350)
Tangible ordinary shareholders' equity – 30 September 2017	80 113	55 530	3 315 890
Average ordinary shareholders' equity – 30 September 2018**	196 439	242 720	3 372 922
Average ordinary shareholders' equity – 30 September 2017	177 291	246 217	3 341 846
Average tangible shareholders' equity – 30 September 2018**	108 394	66 623	3 458 408
Average tangible shareholders' equity – 30 September 2017	89 239	57 673	3 291 658
Pre-tax return on adjusted average ordinary shareholders' equity – 30 September 2018	92.4%	36.4%	13.5%
Pre-tax return on adjusted average ordinary shareholders' equity – 30 September 2017	90.8%	38.4%	11.8%
Pre-tax return on average tangible ordinary shareholders' equity – 30 September 2018	167.5%	132.7%	13.2%
Pre-tax return on average tangible ordinary shareholders' equity – 30 September 2017	180.3%	164.1%	12.0%

* The return on equity by business is based on the level of internal capital required by each business, inclusive of an allocation of any surplus capital held by the group. The operating profit is adjusted to reflect a capital structure that includes common equity, Additional Tier 1 capital instruments and subordinated debt.

^ Wealth & Investment is consistent with the group computation, except for an adjustment of £159.1 million between ordinary shareholders' funds and goodwill, which represents historical accounting gains with a corresponding effective increase in goodwill and intangible assets. These gains were excluded from group adjusted earnings.

Before goodwill, acquired intangibles, non-operating items and after other non-controlling interests.

** Calculated as the average balance between 1 April 2018 and 30 September 2018.

Number of employees

By division – permanent employees	30 Sept 2018	30 Sept 2017
Asset Management		
UK and Other	523	477
Southern Africa*	994	1 038
Total	1 517	1 515
Wealth & Investment		
UK and Other	1 378	1 312
Southern Africa	361	332
Total	1 739	1 644
Specialist Banking		
UK and Other	2 353	2 209
Southern Africa	4 016	3 839
Total	6 369	6 048
Total number of permanent employees	9 625	9 207

* Includes employees at Silica, its third party administration business.

By geography	30 Sept 2018	31 March 2018	31 March 2017	31 March 2016	31 March 2015	31 March 2014	31 March 2013
UK and Other	4 254	4 162	3 926	3 701	3 560	3 671	3 827
Southern Africa	5 371	5 282	5 103	4 720	4 199	3 986	3 748
Temporary employees and contractors	708	702	687	545	495	601	576
Total employees	10 333	10 146	9 716	8 966	8 254	8 258	8 151

Financial review

(continued)

Operating profit (before goodwill, acquired intangibles, non-operating items, taxation and after other non-controlling interests) per employee

By division – total employees	Asset Management	Wealth & Investment	Specialist Banking	Total group
Number of employees – 30 September 2018	1 600	1 884	6 849	10 333
Number of employees – 31 March 2018	1 592	1 821	6 733	10 146
Number of employees – 30 September 2017	1 604	1 763	6 528	9 895
Number of employees – 31 March 2017	1 654	1 697	6 365	9 716
Average employees – six months to 30 September 2018	1 596	1 853	6 791	10 240
Average employees – six months to 30 September 2017	1 629	1 730	6 447	9 806
Operating profit* – six months to 30 September 2018 (£'000)	91 526	46 408	245 381	383 315
Operating profit* – six months to 30 September 2017	83 233	49 528	206 499	339 260
Operating profit per employee^ – 30 September 2018 (£'000)	57.3^^	25.0	36.1	35.1
Operating profit per employee^ – 30 September 2017 (£'000)	51.1^^	28.6	32.0	32.1

By geography	UK and Other	Southern Africa	Total group
Number of employees – 30 September 2018	4 540	5 793	10 333
Number of employees – 31 March 2018	4 472	5 674	10 146
Number of employees – 30 September 2017	4 265	5 630	9 895
Number of employees – 31 March 2017	4 165	5 551	9 716
Average employees – six months to 30 September 2018	4 506	5 734	10 240
Average employees – six months to 30 September 2017	4 215	5 591	9 806
Operating profit – six months to 30 September 2018 (£'000)	153 233	206 034	359 267
Operating profit – six months to 30 September 2017 (£'000)	109 303	205 301	314 604
Operating profit per employee^ – 30 September 2018 (£'000)	34.0	35.9	35.1
Operating profit per employee^ – 30 September 2017 (£'000)	25.9	36.7	32.1

* Operating profit excludes group costs.

^ Based on average number of employees over the year.

^^ For Investec Asset Management, operating profit per employee includes Silica, its third party administration business.

Total third party assets under management

£'million	30 Sept 2018	31 March 2018	30 Sept 2017
Asset Management	109 204	103 862	98 226
UK and Other	74 978	69 371	64 912
Southern Africa	34 226	34 491	33 314
Wealth & Investment	56 687	56 048	55 455
UK and Other	39 355	36 923	37 111
Southern Africa	17 332	19 125	18 344
Specialist Banking	621	666	657
UK and Other	355	353	389
Southern Africa	266	313	268
Total third party assets under management	166 512	160 576	154 338

A further analysis of third party assets under management

At 30 September 2018 £'million	UK and Other	Southern Africa	Total
Asset Management	74 978	34 226	109 204
Mutual funds	30 351	15 648	45 999
Segregated mandates	44 627	18 578	63 205
Wealth & Investment	39 355	17 332	56 687
Discretionary	31 108	6 989	38 097
Non-discretionary	8 247	10 343	18 591
Specialist Banking	355	266	621
	114 688	51 824	166 512

At 31 March 2018 £'million	UK and Other	Southern Africa	Total
Asset Management	69 371	34 491	103 862
Mutual funds	29 615	15 126	44 741
Segregated mandates	39 756	19 365	59 121
Wealth & Investment	36 923	19 125	56 048
Discretionary	28 638	6 936	35 574
Non-discretionary	8 285	12 189	20 474
Specialist Banking	353	313	666
	106 647	53 929	160 576

Segmental geographic analysis – income statement

For the six months to 30 September 2018 £'000	UK and Other	Southern Africa	Total group
Net interest income	188 858	216 156	405 014
Net fee and commission income	463 733	239 976	703 709
Investment income	5 409	36 063	41 472
Share of post taxation profit of associates	94	20 688	20 782
Trading income arising from			
– customer flow	48 420	16 658	65 078
– balance sheet management and other trading activities	17 137	21 894	39 031
Other operating income	5 682	556	6 238
Total operating income before expected credit loss impairment charges	729 333	551 991	1 281 324
Expected credit loss impairment charges	(10 005)	(21 017)	(31 022)
Operating income	719 328	530 974	1 250 302
Operating costs	(569 133)	(283 849)	(852 982)
Depreciation on operating leased assets	(1 167)	(40)	(1 207)
Operating profit before goodwill and acquired intangibles	149 028	247 085	396 113
(Profit)/loss attributable to other non-controlling interests	4 205	(41 051)	(36 846)
Operating profit before goodwill, acquired intangibles and after other non-controlling interests	153 233	206 034	359 267
Profit attributable to Asset Management non-controlling interests	(8 310)	(4 518)	(12 828)
Operating profit before goodwill, acquired intangibles and after non-controlling interests	144 923	201 516	346 439
Amortisation of acquired intangibles	(6 408)	(1 453)	(7 861)
Earnings attributable to shareholders before taxation	138 515	200 063	338 578
Taxation on operating profit before goodwill and acquired intangibles	(21 498)	(38 803)	(60 301)
Taxation on acquired intangibles and acquisition/disposal/integration of subsidiaries	1 170	407	1 577
Earnings attributable to shareholders	118 187	161 667	279 854
Selected returns and key statistics			
ROE (post-tax)	12.3%	14.3%	13.4%
Return on tangible equity (pre-tax)	16.1%	14.5%	15.2%
Cost to income ratio	78.2%	51.4%	66.6%
Staff compensation to operating income	56.2%	35.4%	46.8%
Operating profit per employee (£'000)	34.0	35.9	35.1
Effective operational tax rate	14.4%	17.1%	16.1%
Total assets (£'million)	21 594	34 543	56 137

Segmental geographic analysis – income statement

(continued)

For the six months to 30 September 2017 £'000	UK and Other	Southern Africa	Total group
Net interest income	157 526	206 795	364 321
Net fee and commission income	419 693	246 317	666 010
Investment income	15 474	46 600	62 074
Share of post taxation profit of associates	1 368	22 309	23 677
Trading income arising from			
– customer flow	55 400	8 760	64 160
– balance sheet management and other trading activities	1 823	3 323	5 146
Other operating income	4 741	928	5 669
Total operating income before impairment on loans and advances	656 025	535 032	1 191 057
Impairment losses on loans and advances	(37 631)	(21 962)	(59 593)
Operating income	618 394	513 070	1 131 464
Operating costs	(512 165)	(283 718)	(795 883)
Depreciation on operating leased assets	(1 149)	(28)	(1 177)
Operating profit before goodwill and acquired intangibles	105 080	229 324	334 404
(Profit)/loss attributable to other non-controlling interests	4 223	(24 023)	(19 800)
Operating profit before goodwill, acquired intangibles and after other non-controlling interests	109 303	205 301	314 604
Profit attributable to Asset Management non-controlling interests	(6 873)	(3 790)	(10 663)
Operating profit before goodwill, acquired intangibles and after non-controlling interests	102 430	201 511	303 941
Amortisation of acquired intangibles	(6 636)	(1 506)	(8 142)
Earnings attributable to shareholders before taxation	95 794	200 005	295 799
Taxation on operating profit before goodwill and acquired intangibles	(18 787)	(26 209)	(44 996)
Taxation on acquired intangibles and acquisition/disposal/integration of subsidiaries	1 209	422	1 631
Earnings attributable to shareholders	78 216	174 218	252 434
Selected returns and key statistics			
ROE (post-tax)	8.3%	16.9%	12.5%
Return on tangible equity (pre-tax)	10.7%	17.2%	14.3%
Cost to income ratio	78.2%	53.0%	66.9%
Staff compensation to operating income	56.0%	36.3%	47.1%
Operating profit per employee (£'000)	25.9	36.7	32.1
Effective operational tax rate	18.1%	12.7%	14.5%
Total assets (£'million)	18 760	33 058	51 818

Financial review and additional information

Segmental business and geographic analysis – income statement

(continued)

	Asset Management			Wealth & Investment		
For the six months to 30 September 2018 £'000	UK and Other	Southern Africa	Total	UK and Other	Southern Africa	Total
Net interest income	305	2 485	2 790	4 046	2 125	6 171
Net fee and commission income	190 704	89 232	279 936	155 566	40 147	195 713
Investment income	–	17	17	47	286	333
Share of post taxation profit of associates	–	–	–	–	–	–
Trading income/(loss) arising from						
– customer flow	–	–	–	393	37	430
– balance sheet management and other trading activities	4 471	66	4 537	3	25	28
Other operating income	2 700	1 299	3 999	–	–	–
Total operating income before expected credit loss impairment charges	198 180	93 099	291 279	160 055	42 620	202 675
Expected credit loss impairment charges	(2)	–	(2)	(27)	–	(27)
Operating income	198 178	93 099	291 277	160 028	42 620	202 648
Operating costs	(141 338)	(58 413)	(199 751)	(127 164)	(29 076)	(156 240)
Depreciation on operating leased assets	–	–	–	–	–	–
Operating profit/(loss) before goodwill and acquired intangibles	56 840	34 686	91 526	32 864	13 544	46 408
(Profit)/loss attributable to other non-controlling interests	–	–	–	–	–	–
Operating profit/(loss) before goodwill, acquired intangibles and after other non-controlling interests	56 840	34 686	91 526	32 864	13 544	46 408
Profit attributable to Asset Management non-controlling interests	(8 310)	(4 518)	(12 828)	–	–	–
Operating profit/(loss) before goodwill, acquired intangibles and after non-controlling interests	48 530	30 168	78 698	32 864	13 544	46 408
Cost to income ratio	71.3%	62.7%	68.6%	79.5%	68.2%	77.1%
Staff compensation to operating income	50.0%	36.8%	45.8%	58.7%	43.2%	55.4%

Segmental business and geographic analysis – income statement

(continued)

	Specialist Banking			Group costs			
	UK and Other	Southern Africa	Total	UK and Other	Southern Africa	Total	Total group
	184 507	211 546	396 053	–	–	–	405 014
	117 463	110 597	228 060	–	–	–	703 709
	5 362	35 760	41 122	–	–	–	41 472
	94	20 688	20 782	–	–	–	20 782
						–	
	48 027	16 621	64 648	–	–	–	65 078
	12 663	21 803	34 466	–	–	–	39 031
	2 982	(743)	2 239	–	–	–	6 238
	371 098	416 272	787 370	–	–	–	1 281 324
	(9 976)	(21 017)	(30 993)	–	–	–	(31 022)
	361 122	395 255	756 377	–	–	–	1 250 302
	(283 404)	(189 539)	(472 943)	(17 227)	(6 821)	(24 048)	(852 982)
	(1 167)	(40)	(1 207)	–	–	–	(1 207)
	76 551	205 676	282 227	(17 227)	(6 821)	(24 048)	396 113
	4 205	(41 051)	(36 846)	–	–	–	(36 846)
	80 756	164 625	245 381	(17 227)	(6 821)	(24 048)	359 267
	–	–	–	–	–	–	(12 828)
80 756	164 625	245 381	(17 227)	(6 821)	(24 048)	346 439	
76.6%	45.5%	60.2%	n/a	n/a	n/a	66.6%	
53.8%	34.2%	43.5%	n/a	n/a	n/a	46.8%	

Segmental business and geographic analysis – income statement

(continued)

	Asset Management			Wealth & Investment		
For the six months to 30 September 2017 £'000	UK and Other	Southern Africa	Total	UK and Other	Southern Africa	Total
Net interest income	19	2 418	2 437	2 025	2 539	4 564
Net fee and commission income	169 543	88 461	258 004	147 144	40 749	187 893
Investment income	–	25	25	411	220	631
Share of post taxation profit of associates	–	–	–	415	–	415
Trading income/(loss) arising from						
– customer flow	–	–	–	380	185	565
– balance sheet management and other trading activities	(1 683)	263	(1 420)	2	68	70
Other operating income	1 972	853	2 825	–	–	–
Total operating income before impairment losses on loans and advances	169 851	92 020	261 871	150 377	43 761	194 138
Impairment losses on loans and advances	–	–	–	–	–	–
Operating income	169 851	92 020	261 871	150 377	43 761	194 138
Operating costs	(119 902)	(58 736)	(178 638)	(114 936)	(29 674)	(144 610)
Depreciation on operating leased assets	–	–	–	–	–	–
Operating profit/(loss) before goodwill and acquired intangibles	49 949	33 284	83 233	35 441	14 087	49 528
(Profit)/loss attributable to other non-controlling interests	–	–	–	–	–	–
Operating profit/(loss) before goodwill, acquired intangibles and after other non-controlling interests	49 949	33 284	83 233	35 441	14 087	49 528
Profit attributable to Asset Management non-controlling interests	(6 873)	(3 790)	(10 663)	–	–	–
Operating profit/(loss) before goodwill, acquired intangibles and after non-controlling interests	43 076	29 494	72 570	35 441	14 087	49 528
Cost to income ratio	70.6%	63.8%	68.2%	76.4%	67.8%	74.5%
Staff compensation to operating income	53.7%	39.6%	47.8%	36.0%	43.5%	51.5%

Segmental business and geographic analysis – income statement

(continued)

Specialist Banking			Group costs			
UK and Other	Southern Africa	Total	UK and Other	Southern Africa	Total	Total group
155 482	201 838	357 320	–	–	–	364 321
103 006	117 107	220 113	–	–	–	666 010
15 063	46 355	61 418	–	–	–	62 074
953	22 309	23 262	–	–	–	23 677
					–	
55 020	8 575	63 595	–	–	–	64 160
3 504	2 992	6 496	–	–	–	5 146
2 769	75	2 844	–	–	–	5 669
335 797	399 251	735 048	–	–	–	1 191 057
(37 631)	(21 962)	(59 593)	–	–	–	(59 593)
298 166	377 289	675 455	–	–	–	1 131 464
(260 032)	(187 947)	(447 979)	(17 295)	(7 361)	(24 656)	(795 883)
(1 149)	(28)	(1 177)	–	–	–	(1 177)
36 985	189 314	226 299	(17 295)	(7 361)	(24 656)	334 404
4 223	(24 023)	(19 800)	–	–	–	(19 800)
41 208	165 291	206 499	(17 295)	(7 361)	(24 656)	314 604
–	–	–	–	–	–	(10 663)
41 208	165 291	206 499	(17 295)	(7 361)	(24 656)	303 941
77.7%	47.1%	61.0%	n/a	n/a	n/a	66.9%
55.1%	35.3%	44.4%	n/a	n/a	n/a	47.1%

Segmental business analysis – income statement

(continued)

For the six months to 30 September 2018 £'000	Asset Management	Wealth & Investment	Specialist Banking	Group costs	Total group
Net interest income	2 790	6 171	396 053	–	405 014
Net fee and commission income	279 936	195 713	228 060	–	703 709
Investment income	17	333	41 122	–	41 472
Share of post taxation profit of associates	–	–	20 782	–	20 782
Trading income arising from					
– customer flow	–	430	64 648	–	65 078
– balance sheet management and other trading activities	4 537	28	34 466	–	39 031
Other operating income	3 999	–	2 239	–	6 238
Total operating income before expected credit loss impairment charges	291 279	202 675	787 370	–	1 281 324
Expected credit loss impairment charges	(2)	(27)	(30 993)	–	(31 022)
Operating income	291 277	202 648	756 377	–	1 250 302
Operating costs	(199 751)	(156 240)	(472 943)	(24 048)	(852 982)
Depreciation on operating leased assets	–	–	(1 207)	–	(1 207)
Operating profit/(loss) before goodwill and acquired intangibles	91 526	46 408	282 227	(24 048)	396 113
Profit attributable to other non-controlling interests	–	–	(36 846)	–	(36 846)
Operating profit/(loss) before goodwill, acquired intangibles and after other non-controlling interests	91 526	46 408	245 381	(24 048)	359 267
Profit attributable to Asset Management non-controlling interests	(12 828)	–	–	–	(12 828)
Operating profit before goodwill, acquired intangibles and after non-controlling interests	78 698	46 408	245 381	(24 048)	346 439
Selected returns and key statistics					
ROE (pre-tax)	92.4%	36.4%	13.5%	n/a	16.4%
Return on tangible equity (pre tax)	167.5%	132.7%	13.2%	n/a	18.6%
Cost to income ratio	68.6%	77.1%	60.2%	n/a	66.6%
Staff compensation to operating income	45.8%	55.4%	43.5%	n/a	46.8%
Operating profit per employee	57.3	25.0	36.1	n/a	35.1
Total assets (£'million)	8 832	1 867	45 438	–	56 137

Segmental business analysis – income statement

(continued)

For the six months to 30 September 2017 £'000	Asset Management	Wealth & Investment	Specialist Banking	Group costs	Total group
Net interest income	2 437	4 564	357 320	–	364 321
Net fee and commission income	258 004	187 893	220 113	–	666 010
Investment income	25	631	61 418	–	62 074
Share of post taxation profit of associates	–	415	23 262	–	23 677
Trading income/(loss) arising from					
– customer flow	–	565	63 595	–	64 160
– balance sheet management and other trading activities	(1 420)	70	6 496	–	5 146
Other operating income	2 825	–	2 844	–	5 669
Total operating income before impairment on loans and advances	261 871	194 138	735 048	–	1 191 057
Impairment losses on loans and advances	–	–	(59 593)	–	(59 593)
Operating income	261 871	194 138	675 455	–	1 131 464
Operating costs	(178 638)	(144 610)	(447 979)	(24 656)	(795 883)
Depreciation on operating leased assets	–	–	(1 177)	–	(1 177)
Operating profit/(loss) before goodwill and acquired intangibles	83 233	49 528	226 299	(24 656)	334 404
Profit attributable to other non-controlling interests	–	–	(19 800)	–	(19 800)
Operating profit/(loss) before goodwill, acquired intangibles and after other non-controlling interests	83 233	49 528	206 499	(24 656)	314 604
Profit attributable to Asset Management non-controlling interests	(10 663)	–	–	–	(10 663)
Operating profit before goodwill, acquired intangibles and after non-controlling interests	72 570	49 528	206 499	(24 656)	303 941
Selected returns and key statistics					
ROE (pre-tax)	90.8%	38.4%	11.8%	n/a	14.8%
Return on tangible equity (pre-tax)	180.3%	164.1%	12.0%	n/a	14.3%
Cost to income ratio	68.2%	74.5%	61.0%	n/a	66.9%
Staff compensation to operating income	48.8%	53.8%	45.5%	n/a	48.5%
Operating profit per employee	51.1	28.6	32.0	n/a	32.1
Total assets (£'million)	8 259	1 924	41 635	–	51 818

Financial review and additional information

Combined consolidated segmental geographic analysis – balance sheet assets and liabilities

At 30 September 2018 £'000	UK and Other	Southern Africa	Total group
Assets			
Cash and balances at central banks	3 882 704	519 867	4 402 571
Loans and advances to banks	1 069 927	1 124 257	2 194 184
Non-sovereign and non-bank cash placements	–	566 221	566 221
Reverse repurchase agreements and cash collateral on securities borrowed	681 276	960 159	1 641 435
Sovereign debt securities	1 287 931	3 195 454	4 483 385
Bank debt securities	54 619	554 903	609 522
Other debt securities	356 598	753 344	1 109 942
Derivative financial instruments	582 813	515 999	1 098 812
Securities arising from trading activities	776 093	1 144 917	1 921 010
Investment portfolio	472 601	477 854	950 455
Loans and advances to customers	10 057 631	13 682 103	23 739 734
Own originated loans and advances to customers securitised	–	452 341	452 341
Other loans and advances	187 778	19 473	207 251
Other securitised assets	125 814	17 070	142 884
Interests in associated undertakings	51 327	369 812	421 139
Deferred taxation assets	157 556	57 832	215 388
Other assets	1 282 161	724 319	2 006 480
Property and equipment	100 705	168 469	269 174
Investment properties	14 500	1 026 823	1 041 323
Goodwill	356 445	11 035	367 480
Intangible assets	95 339	24 994	120 333
	21 593 818	26 367 246	47 961 064
Other financial instruments at fair value through profit or loss in respect of liabilities to customers	–	8 176 040	8 176 040
	21 593 818	34 543 286	56 137 104
Liabilities			
Deposits by banks	1 400 465	1 610 629	3 011 094
Derivative financial instruments	615 531	786 729	1 402 260
Other trading liabilities	85 079	921 493	1 006 572
Repurchase agreements and cash collateral on securities lent	135 763	352 508	488 271
Customer accounts (deposits)	12 361 952	17 986 809	30 348 761
Debt securities in issue	2 316 115	418 013	2 734 128
Liabilities arising on securitisation of own originated loans and advances	–	120 161	120 161
Liabilities arising on securitisation of other assets	121 161	–	121 161
Current taxation liabilities	152 433	18 361	170 794
Deferred taxation liabilities	20 274	10 233	30 507
Other liabilities	1 307 615	504 958	1 812 573
	18 516 388	22 729 894	41 246 282
Liabilities to customers under investment contracts	–	8 172 496	8 172 496
Insurance liabilities, including unit-linked liabilities	–	3 544	3 544
	18 516 388	30 905 934	49 422 322
Subordinated liabilities	803 888	793 070	1 596 958
	19 320 276	31 699 004	51 019 280

Combined consolidated segmental geographic analysis – balance sheet assets and liabilities

(continued)

At 31 March 2018 £'000	UK and Other	Southern Africa	Total group
Assets			
Cash and balances at central banks	3 487 769	552 743	4 040 512
Loans and advances to banks	985 069	1 180 464	2 165 533
Non-sovereign and non-bank cash placements	–	601 243	601 243
Reverse repurchase agreements and cash collateral on securities borrowed	750 428	1 457 049	2 207 477
Sovereign debt securities	1 155 472	3 754 555	4 910 027
Bank debt securities	107 938	479 226	587 164
Other debt securities	278 474	625 129	903 603
Derivative financial instruments	596 506	755 902	1 352 408
Securities arising from trading activities	694 974	739 417	1 434 391
Investment portfolio	477 919	407 580	885 499
Loans and advances to customers	9 687 224	14 985 785	24 673 009
Own originated loans and advances to customers securitised	–	459 088	459 088
Other loans and advances	331 842	15 967	347 809
Other securitised assets	130 388	17 999	148 387
Interests in associated undertakings	77 059	390 793	467 852
Deferred taxation assets	98 156	59 165	157 321
Other assets	1 161 631	714 485	1 876 116
Property and equipment	54 493	178 847	233 340
Investment properties	14 500	1 169 597	1 184 097
Goodwill	356 265	12 538	368 803
Intangible assets	100 585	24 804	125 389
	20 546 692	28 582 376	49 129 068
Other financial instruments at fair value through profit or loss in respect of liabilities to customers	–	8 487 776	8 487 776
	20 546 692	37 070 152	57 616 844
Liabilities			
Deposits by banks	1 259 073	1 672 194	2 931 267
Derivative financial instruments	514 499	957 064	1 471 563
Other trading liabilities	103 496	856 670	960 166
Repurchase agreements and cash collateral on securities lent	150 757	505 083	655 840
Customer accounts (deposits)	11 624 157	19 363 016	30 987 173
Debt securities in issue	2 303 027	414 160	2 717 187
Liabilities arising on securitisation of own originated loans and advances	–	136 812	136 812
Liabilities arising on securitisation of other assets	127 853	–	127 853
Current taxation liabilities	152 355	33 131	185 486
Deferred taxation liabilities	21 892	10 266	32 158
Other liabilities	1 270 738	741 530	2 012 268
	17 527 847	24 689 926	42 217 773
Liabilities to customers under investment contracts	–	8 484 296	8 484 296
Insurance liabilities, including unit-linked liabilities	–	3 480	3 480
	17 527 847	33 177 702	50 705 549
Subordinated liabilities	579 673	903 314	1 482 987
	18 107 520	34 081 016	52 188 536

Financial review and additional information

Combined consolidated segmental geographic analysis – balance sheet assets and liabilities

(continued)

At 30 September 2017 £'000	UK and Other	Southern Africa	Total group
Assets			
Cash and balances at central banks	2 847 986	508 273	3 356 259
Loans and advances to banks	1 015 937	1 292 681	2 308 618
Non-sovereign and non-bank cash placements	–	574 521	574 521
Reverse repurchase agreements and cash collateral on securities borrowed	479 243	1 210 793	1 690 036
Sovereign debt securities	806 063	2 802 253	3 608 316
Bank debt securities	157 953	446 558	604 511
Other debt securities	291 532	677 065	968 597
Derivative financial instruments	582 057	619 545	1 201 602
Securities arising from trading activities	707 484	688 282	1 395 766
Investment portfolio	481 517	429 963	911 480
Loans and advances to customers	8 899 704	13 451 524	22 351 228
Own originated loans and advances to customers securitised	–	445 672	445 672
Other loans and advances	351 340	16 061	367 401
Other securitised assets	135 580	18 206	153 786
Interests in associated undertakings	45 439	325 855	371 294
Deferred taxation assets	87 607	35 828	123 435
Other assets	1 334 580	681 477	2 016 057
Property and equipment	58 353	42 557	100 910
Investment properties	14 500	1 049 271	1 063 771
Goodwill	355 482	11 487	366 969
Intangible assets	107 301	25 391	132 692
	18 759 658	25 353 263	44 112 921
Other financial instruments at fair value through profit or loss in respect of liabilities to customers	–	7 705 206	7 705 206
	18 759 658	33 058 469	51 818 127
Liabilities			
Deposits by banks	665 721	1 580 394	2 246 115
Derivative financial instruments	425 841	743 473	1 169 314
Other trading liabilities	108 813	860 104	968 917
Repurchase agreements and cash collateral on securities lent	182 920	547 250	730 170
Customer accounts (deposits)	10 841 458	17 124 548	27 966 006
Debt securities in issue	2 241 954	307 310	2 549 264
Liabilities arising on securitisation of own originated loans and advances	–	133 307	133 307
Liabilities arising on securitisation of other assets	131 740	–	131 740
Current taxation liabilities	140 197	57 047	197 244
Deferred taxation liabilities	23 833	14 471	38 304
Other liabilities	1 242 875	584 376	1 827 251
	16 005 352	21 952 280	37 957 632
Liabilities to customers under investment contracts	–	7 702 724	7 702 724
Insurance liabilities, including unit-linked liabilities	–	2 482	2 482
	16 005 352	29 657 486	45 662 838
Subordinated liabilities	607 340	781 751	1 389 091
	16 612 692	30 439 237	47 051 929

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 integrated 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, 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.

Additionally on 1 April 2018, the group 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 material impact on measurement and recognition principles previously applied under IAS 18. There is also no material impact from the disclosure requirements of IFRS 15.

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 models:

- **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 value 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.

IFRS 9 transition information

(continued)

Accounting policies (continued)

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.

On initial recognition of an equity investment that is not held for trading, the group may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by-investment basis.

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 or are considered to be in default or otherwise credit-impaired are in 'Stage 3'.

Accounting policies (continued)

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.

Changes in fair value resulting from 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.

IFRS 9 transition information

(continued)

Accounting policies (continued)

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.

Accounting policies (continued)

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

Treasury shares represent issued equity 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 (in relation to dividends declared by Investec plc) and Investec Limited (in relation to dividends declared by Investec Limited) 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 initial amount recognised less cumulative revenue and the initial amount less 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.

IFRS 9 transition information

(continued)

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 and held-to-maturity)					
Cash and balances at central banks	4 032 728	–	–	(502)	4 032 226
Loans and advances to banks	1 929 456	236 081	–	(939)	2 164 598
Non-sovereign and non-bank cash placements	566 699	–	–	(1 261)	565 438
Reverse repurchase agreements and cash collateral on securities borrowed	1 419 572	–	–	(340)	1 419 232
Sovereign debt securities	208 384	68 817	–	(2 404)	274 797
Bank debt securities	217 992	103 909	(49 301)	(1 120)	271 480
Other debt securities	273 323	164 799	(87 887)	(4 245)	345 990
Loans and advances to customers	23 501 381	–	(1 409 048)	(149 494)	21 942 839
Own originated loans and advances to customers securitised	459 088	–	–	(274)	458 814
Other loans and advances	347 809	–	(2 454)	(2 064)	343 291
Other assets	1 239 331	–	–	(760)	1 238 571
Financial assets at fair value (previously trading and designated at inception and available-for-sale)					
Loans and advances to banks	236 077	–	(236 077)	–	–
Sovereign debt securities	4 701 643	1 765 614	(1 834 430)	–	4 632 827
Bank debt securities	369 172	69 958	(121 823)	2 641	319 948
Other debt securities	630 280	145 227	(222 133)	(1 242)	552 132
Derivative financial instruments	1 352 408	–	(6 664)	–	1 345 744
Investment portfolio	885 499	98 760	–	(27 699)	956 560
Loans and advances to customers	1 171 628	1 314 245	–	(18 378)	2 467 495
Other loans and advances	–	2 454	–	(3)	2 451
Other securitised assets	130 388	–	–	–	130 388
Other assets	190 740	–	–	–	190 740
Financial liabilities at amortised cost					
Other liabilities	1 245 016	–	–	7 638	1 252 654
Subordinated liabilities	1 482 987	–	(579 673)	–	903 314
Financial liabilities at fair value					
Customer accounts (deposits)	2 375 704	–	–	(1 921)	2 373 783
Subordinated liabilities	–	579 673	–	136 891	716 564
Off balance sheet exposures¹					
Guarantees	–	–	–	434	434
Committed facilities (core loans)	–	–	–	7 204	7 204

¹ ECL on off balance sheet exposures is booked as a provision in other liabilities.

IFRS 9 transition information

(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:

At 1 April 2018 £'000	Loan loss allowance under IAS 39/Provision under IAS 37	Reclassification	Remeasurement	ECL under IFRS 9	Total increase in impairment allowances
Loans and receivables (IAS 39)/Financial assets at amortised cost (IFRS 9)					
Cash and balances at central banks	–	–	(502)	(502)	(502)
Loans and advances to banks	–	–	(936)	(936)	(936)
Non-sovereign and non-bank cash placements	–	–	(1 261)	(1 261)	(1 261)
Reverse repurchase agreements and cash collateral on securities borrowed	–	–	(326)	(326)	(326)
Sovereign debt securities	–	–	(181)	(181)	(181)
Bank debt securities	–	–	(229)	(229)	(229)
Other debt securities	(5 087)	4 803	(5 392)	(5 676)	(589)
Loans and advances to customers	(237 767)	25 289	(151 788)	(364 266)	(126 499)
Own originated loans and advances to customers securitised	(385)	–	(274)	(659)	(274)
Other loans and advances	(2 349)	–	(2 064)	(4 413)	(2 064)
Other assets	(3 211)	–	(758)	(3 969)	(758)
	(248 799)	30 092	(163 711)	(382 418)	(133 619)
Available-for-sale/Financial assets FVOCI (IFRS 9)					
Sovereign debt securities	–	–	(1 618)	(1 618)	(1 618)
Bank debt securities	–	–	(416)	(416)	(416)
Other debt securities	–	–	(207)	(207)	(207)
Loans and advances to customers	–	–	(1 687)	(1 687)	(1 687)
	–	–	(3 928)	(3 928)	(3 928)
Off-balance sheet exposures					
Guarantees	–	–	(434)	(434)	(434)
Committed facilities (core loans)	–	–	(7 204)	(7 204)	(7 204)
	–	–	(7 638)	(7 638)	(7 638)
Total	(248 799)	30 092	(175 277)	(393 984)	(145 185)

Analysis of financial assets and liabilities by category of financial instrument

At 30 September £'000	At fair value through profit or loss		Designated at initial recognition
	Trading	Non-trading	
2018			
Assets			
Cash and balances at central banks	–	695	–
Loans and advances to banks	–	–	–
Non-sovereign and non-bank cash placements	4 495	43 118	–
Reverse repurchase agreements and cash collateral on securities borrowed	362 510	165 424	–
Sovereign debt securities	–	819 926	–
Bank debt securities	–	81 739	–
Other debt securities	–	296 606	–
Derivative financial instruments*	1 098 812	–	–
Securities arising from trading activities	1 411 417	57 275	452 318
Investment portfolio	–	950 455	–
Loans and advances to customers	–	1 009 198	907 370
Own originated loans and advances to customers securitised	–	–	–
Other loans and advances	–	–	–
Other securitised assets	–	–	125 814
Interests in associated undertakings	–	–	–
Deferred taxation assets	–	–	–
Other assets	34 009	194 385	–
Property and equipment	–	–	–
Investment properties	–	–	–
Goodwill	–	–	–
Intangible assets	–	–	–
	2 911 243	3 618 821	1 485 502
Other financial instruments at fair value through profit or loss in respect of liabilities to customers	–	–	–
	2 911 243	3 618 821	1 485 502
Liabilities			
Deposits by banks	–	–	–
Derivative financial instruments	1 402 260	–	–
Other trading liabilities	1 006 572	–	–
Repurchase agreements and cash collateral on securities lent	175 187	–	–
Customer accounts (deposits)	–	–	2 300 787
Debt securities in issue	–	–	390 098
Liabilities arising on securitisation of own originated loans and advances	–	–	–
Liabilities arising on securitisation of other assets	–	–	121 161
Current taxation liabilities	–	–	–
Deferred taxation liabilities	–	–	–
Other liabilities	37 059	–	–
	2 621 078	–	2 812 046
Liabilities to customers under investment contracts	–	–	–
Insurance liabilities, including unit-linked liabilities	–	–	–
	2 621 078	–	2 812 046
Subordinated liabilities	–	–	385 060
	2 621 078	–	3 197 106

Analysis of financial assets and liabilities by category of financial instrument

(continued)

At fair value through other
comprehensive income

Financial review and additional information

	Debt instrument with dual business model	Equity instruments	Financial assets linked to investment contract liabilities	Total financial instruments at fair value	Financial instruments at amortised cost	Non-financial instruments or scoped out of IFRS 9	Total
	–	–	–	695	4 401 875	–	4 402 571
	–	–	–	–	2 194 184	–	2 194 184
	–	–	–	47 613	518 608	–	566 221
	–	–	–	527 934	1 113 501	–	1 641 435
	3 380 314	–	–	4 200 240	283 145	–	4 483 385
	192 286	–	–	274 025	335 497	–	609 522
	402 120	–	–	698 726	411 216	–	1 109 942
	–	–	–	1 098 812	–	–	1 098 812
	–	–	–	1 921 010	–	–	1 921 010
	–	–	–	950 455	–	–	950 455
	527 284	–	–	2 443 852	21 295 882	–	23 739 734
	–	–	–	–	452 341	–	452 341
	–	–	–	–	207 251	–	207 251
	–	–	–	125 814	17 070	–	142 884
	–	–	–	–	–	421 139	421 139
	–	–	–	–	–	215 388	215 388
	–	–	–	228 394	1 160 686	617 400	2 006 480
	–	–	–	–	–	269 174	269 174
	–	–	–	–	–	1 041 323	1 041 323
	–	–	–	–	–	367 480	367 480
	–	–	–	–	–	120 333	120 333
	4 502 004	–	–	12 517 570	32 391 257	3 052 237	47 961 064
	–	–	8 176 040	8 176 040	–	–	8 176 040
	4 502 004	–	8 176 040	20 693 610	32 391 257	3 052 237	56 137 104
	–	–	–	–	3 011 094	–	3 011 094
	–	–	–	1 402 260	–	–	1 402 260
	–	–	–	1 006 572	–	–	1 006 572
	–	–	–	175 187	313 084	–	488 271
	–	–	–	2 300 787	28 047 974	–	30 348 761
	–	–	–	390 098	2 344 030	–	2 734 128
	–	–	–	–	120 161	–	120 161
	–	–	–	121 161	–	–	121 161
	–	–	–	–	–	170 794	170 794
	–	–	–	–	–	30 507	30 507
	–	–	–	37 059	1 167 966	607 548	1 812 573
	–	–	–	5 433 124	35 004 309	808 849	41 246 282
	–	–	8 172 496	8 172 496	–	–	8 172 496
	–	–	3 544	3 544	–	–	3 544
	–	–	8 176 040	13 609 164	35 004 309	808 849	49 422 322
	–	–	–	385 060	1 211 898	–	1 596 958
	–	–	8 176 040	13 994 224	36 216 207	808 849	51 019 280

Financial instruments carried at fair value

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

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

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

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

At 30 September 2018 £'000	Total financial instruments at fair value	Fair value category		
		Level 1	Level 2	Level 3
Assets				
Cash and balances at central banks	695	695	–	–
Non-sovereign and non-bank cash placements	47 613	4 495	43 118	–
Reverse repurchase agreements and cash collateral on securities borrowed	527 934	–	527 934	–
Sovereign debt securities	4 200 240	4 200 240	–	–
Bank debt securities	274 025	266 206	7 819	–
Other debt securities	698 726	194 776	411 716	92 234
Derivative financial instruments	1 098 812	–	1 060 819	37 993
Securities arising from trading activities	1 921 010	1 917 605	3 405	–
Investment portfolio	950 455	182 062	31 590	736 803
Loans and advances to customers	2 443 852	–	970 182	1 473 670
Other securitised assets	125 814	–	–	125 814
Other assets	228 394	228 394	–	–
Other financial instruments at fair value through profit or loss in respect of liabilities to customers	8 176 040	8 176 040	–	–
	20 693 610	15 170 513	3 056 583	2 466 514
Liabilities				
Derivative financial instruments	1 402 260	–	1 382 215	20 045
Other trading liabilities	1 006 572	883 181	123 391	–
Repurchase agreements and cash collateral on securities lent	175 187	–	175 187	–
Customer accounts (deposits)	2 300 787	–	2 300 787	–
Debt securities in issue	390 098	–	390 098	–
Liabilities arising on securitisation of other assets	121 161	–	–	121 161
Other liabilities	37 059	–	37 059	–
Subordinated liabilities	385 060	385 060	–	–
Liabilities to customers under investment contracts	8 172 496	8 172 496	–	–
Insurance liabilities, including unit-linked liabilities	3 544	3 544	–	–
	13 994 224	9 444 281	4 408 737	141 206
Net financial assets at fair value	6 699 386	5 726 232	(1 352 154)	2 325 308

Transfers between level 1 and level 2

There were no significant transfers between level 1 and level 2 in the current period.

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

Financial instruments carried at fair value

(continued)

Level 2 financial assets and financial liabilities

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		
Non-sovereign and non-bank cash placements	Discounted cash flow model	Yield curves
Reverse repurchase agreements and cash collateral on securities borrowed	Discounted cash flow model, Hermite interpolation	Yield curves
Bank debt securities	Discounted cash flow model	Yield curves NCD curves
Other debt securities	Discounted cash flow model	Yield 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	Yield curves, 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 Adjusted quoted price	Interest rate curves, implied bond spreads, equity volatilities Liquidity adjustments
Investment portfolio	Discounted cash flow model, relative valuation model Comparable quoted inputs	Discount rate and fund unit price, net assets
Loans and advances to customers	Discounted cash flow model	Yield curves
Liabilities		
Derivative financial instruments	Discounted cash flow model, Hermite interpolation, industry standard derivative pricing models including Black-Scholes	Yield curves, risk-free rate, volatilities, forex forward points and spot rates, interest rate swap curves and credit curves
Other trading liabilities	Discounted cash flow model	Yield curves
Repurchase agreements and cash collateral on securities lent	Discounted cash flow model, Hermite interpolation	Yield curves
Customer accounts (deposits)	Discounted cash flow model	Yield curves
Debt securities in issue	Discounted cash flow model	Yield curves
Other liabilities	Discounted cash flow model	Yield curves

Financial instruments carried at fair value

(continued)

For the six months to 30 September 2018 £'000	Net level 3 financial instruments
The following table is a reconciliation of the opening balances to the closing balances for fair value measurements in level 3 of the fair value hierarchy:	
Balance as at 31 March 2018	776 176
Adoption of IFRS 9	1 341 810
Balance as at 1 April 2018	2 117 986
Total gains or losses	73 464
In the income statement	73 206
In the statement of comprehensive income	258
Purchases	800 061
Sales	(348 240)
Issues	16 616
Settlements	(391 874)
Transfers into level 3	12 123
Foreign exchange adjustments	45 172
Balance as at 30 September 2018	2 325 308

For the period ended 30 September 2018, GBP12.1 million has been transferred out of level 2 into level 3 as a result of the inputs to the valuation method becoming unobservable in the market.

For the six months to 30 September 2018 £'000	Total	Realised	Unrealised
Total gains/(losses) included in the income statement for the period			
Net interest income	51 731	40 662	11 069
Fee and commission income	9 600	11 512	(1 912)
Investment income	7 071	1 334	5 737
Trading income arising from customer flow	4 804	3 734	1 070
	73 206	57 242	15 964
Total gains recognised in other comprehensive income for the period			
Gains on realisation on debt instruments at FVOCI recycled to 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

Financial instruments carried at fair value

(continued)

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	92 234	Potential impact on income statement		7 975	(7 887)
		Cash flow adjustments	CPR 8.6%	–	(68)
		Credit spreads	5.1%	140	(136)
		EBITDA	(5%)/5%	348	(348)
		Other [^]	[^]	7 487	(7 335)
Derivative financial instruments	37 993	Potential impact on income statement		6 964	(9 205)
		Volatilities	4.0% – 9.0%	212	(212)
		Cash flow adjustments	CPR 7.6% – 11.2%	110	(101)
		Underlying asset value [†]	[†]	5 684	(8 029)
		EBITDA	(5%)/20%	128	(32)
		Other [^]	[^]	830	(831)
Investment portfolio	736 803	Potential impact on income statement		122 097	(124 731)
		Price earnings multiple	4.0 x – 10.3 x	6 117	(5 828)
		WACC	20.0%	29 594	(35 004)
		Underlying asset value [†]	[†]	9 472	(3 029)
		EBITDA	^{^^}	23 602	(19 226)
		Cash flow adjustments	(15%)/25%	3 151	(2 638)
		Precious and industrial metals prices	(10%)/6%	1 139	(1 898)
		Property values	(5%)/5%	9 339	(9 339)
		Other [^]	[^]	39 683	(47 769)
Loans and advances to customers	1 473 670	Potential impact on income statement		41 750	(54 993)
		Credit spreads	0.2% – 29.0%	4 202	(6 048)
		Cash flow adjustments	(15%)/5%	1 637	(4 910)
		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*	125 814	Potential impact on income statement			
		Cash flow adjustments	CPR 7.7%	723	(728)
Total level 3 assets	2 466 514			180 644	(199 159)
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	2 325 308				

* 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.

^{^^} The EBITDA has been stressed on an investment by investment basis to obtain a favourable and unfavourable valuation.

[†] Underlying asset values are calculated by reference to a tangible asset, for example property, aircraft or shares.

Financial instruments carried at fair value

(continued)

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

Credit spreads

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

Discount rates (including WACC)

Discount rates are used to adjust for the time value of money when using a discounted cash flow valuation 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.

EBITDA

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

Price earnings multiple

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

Precious and industrial metals & Property value

The price of precious and industrial metals and property value is a key driver of future cash flows on certain investments.

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 assets and liabilities at amortised cost

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

At 30 September 2018 £'000	Carrying amount	Fair value
Assets		
Loans and advances to banks	2 194 184	2 194 749
Reverse repurchase agreements and cash collateral on securities borrowed	1 113 501	1 113 413
Sovereign debt securities	283 145	274 120
Bank debt securities	335 497	334 171
Other debt securities	411 216	406 266
Loans and advances to customers	21 295 882	21 275 003
Other loans and advances	207 251	240 619
Other assets	1 160 686	1 159 535
Liabilities		
Deposits by banks	3 011 094	3 039 929
Repurchase agreements and cash collateral on securities lent	313 084	309 554
Customer accounts (deposits)	28 047 974	28 035 101
Debt securities in issue	2 344 030	2 372 763
Other liabilities	1 167 966	1 169 085
Subordinated liabilities	1 211 898	1 282 250

Shareholder analysis

Investec ordinary shares

As at 30 September 2018 Investec plc and Investec Limited had 681.1 million and 318.9 million ordinary shares in issue respectively.

Largest ordinary shareholders as at 30 September 2018

In accordance with the terms provided for in section 793 of the UK Companies Act 2006 and section 56 of the South African Companies Act, 2008, as amended, the group has conducted investigations into the registered holders of its ordinary shares (including nominee and asset management companies) and the results are as discussed below.

Investec plc

Shareholder analysis by manager group	Number of shares	% holding
1. Allan Gray (ZA)	80 427 158	11.81%
2. Public Investment Corporation (ZA)	45 179 526	6.63%
3. BlackRock Inc (UK & US)	39 910 856	5.86%
4. Coronation Fund Managers (ZA)	39 664 008	5.82%
5. Prudential Group (ZA)	35 181 028	5.17%
6. The Vanguard Group, Inc (UK & US)	21 884 233	3.21%
7. Old Mutual Plc (UK & ZA)	19 917 376	2.92%
8. State Street Corporation (UK & US)	16 820 069	2.47%
9. T Rowe Price Associates (UK)	16 712 144	2.45%
10. Legal & General Group (UK)	15 546 873	2.28%
	331 243 271	48.62%

The top 10 shareholders account for 48.62% of the total shareholding in Investec plc. This information is based on a threshold of 20 000 shares. Some major fund managers hold additional shares below this, which may cause the above figures to be marginally understated. The above analysis excludes shares held by Investec directors.

Investec Limited

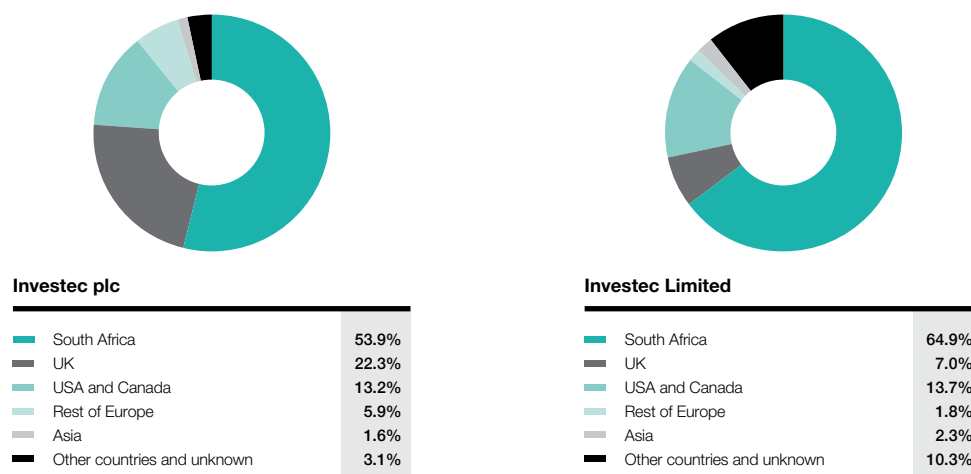
Shareholder analysis by manager group	Number of shares	% holding
1. Public Investment Corporation (ZA)	38 221 550	11.99%
2. Allan Gray (ZA)	37 961 055	11.90%
3. Old Mutual Plc (UK & ZA)	14 951 999	4.69%
4. Investec Staff Share Scheme (ZA)	13 189 871	4.14%
5. Coronation Fund Managers (ZA)	13 117 273	4.11%
6. BlackRock Inc (UK & US)	12 519 118	3.93%
7. The Vanguard Group, Inc (UK & US)	10 599 984	3.32%
8. Sanlam Group (ZA)	9 414 119	2.95%
9. Dimensional Fund Advisors (UK & US)	8 028 829	2.52%
10. Entrepreneurial Development Trust (ZA)	5 468 406	1.71%
	163 472 204	51.26%

The top 10 shareholders account for 51.26% of the total shareholding in Investec Limited. This information is based on a threshold of 20 000 shares. Some major fund managers hold additional shares below this, which may cause the above figures to be marginally understated. The above analysis excludes shares held by Investec directors.

Shareholder analysis

(continued)

Geographical holding by beneficial ordinary shareholder as at 30 September 2018



Share statistics

Investec plc

For the period ended	30 Sept 2018	31 March 2018	31 March 2017	31 March 2016	31 March 2015	31 March 2014	31 March 2013
Closing market price per share (Pounds Sterling)							
– period ended	5.40	5.50	5.44	5.13	5.61	4.85	4.59
– highest	5.95	6.49	6.19	6.47	6.06	5.08	5.14
– lowest	4.81	4.61	4.19	4.03	4.91	3.66	3.10
Number of ordinary shares in issue (million) ¹	681.1	669.8	657.1	617.4	613.6	608.8	605.2
Market capitalisation (£'million) ¹	3 678	3 684	3 575	3 167	3 442	2 953	2 778
Daily average volume of share traded ('000)	2 088	1 807	1 618	1 474	2 170	1 985	1 305

Investec Limited

For the period ended	30 Sept 2018	31 March 2018	31 March 2017	31 March 2016	31 March 2015	31 March 2014	31 March 2013
Closing market price per share (Rands)							
– period ended	102.52	92.28	91.46	109.91	100.51	84.84	64.26
– highest	105.31	105.62	112.11	121.90	107.35	85.04	69.89
– lowest	89.4	85.00	81.46	93.91	86.02	59.00	41.31
Number of ordinary shares in issue (million) ²	318.9	310.7	301.2	291.4	285.7	282.9	279.6
Market capitalisation (R'million) ²	102 520	90 486	87 646	99 886	90 388	75 652	56 857
Market capitalisation (£'million) ²	5 400	5 393	5 213	4 662	5 045	4 325	4 061
Daily average volume of shares traded ('000)	820	1 031	1 149	963	739	810	980

¹ The LSE only include the shares in issue for Investec plc, i.e. currently 681.1 million, in calculating market capitalisation, as Investec Limited is not incorporated in the UK.

² The JSE have agreed to use the total number of shares in issue for the combined group, comprising Investec plc and Investec Limited, in calculating market capitalisation, i.e. currently a total of 1 000.0 million shares in issue.

Risk management

The following risk management and capital section will provide details on the quantitative disclosure required on a semi-annual basis. 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.

Philosophy and approach to risk management

The board risk and capital committee (comprising both executive and non-executive directors) meets six times per annum and approves the overall risk appetite for the Investec group. The group risk and capital committee, comprising of executive directors and executive management is chaired by the CEO. All members and chairman of this committee are appointed by the board risk and capital committee. The group's risk appetite statement sets broad parameters relating to the board's expectations around performance, business stability and risk management. The board ensures that there are appropriate resources to manage the risk arising from running our businesses.

Our comprehensive risk management process involves identifying, quantifying, managing and mitigating the risks associated with each of our businesses.

Risk awareness, control and compliance are embedded in all our day-to-day activities. As fundamental to our values, we have a strong and embedded risk and capital management culture.

Group risk management monitors, manages and reports on our risks to ensure that they are within the stated risk appetite mandated by the board of directors through the board risk and capital committee.

We monitor and control risk exposure through independent credit, market, liquidity, operational, legal risk, internal audit and compliance teams. This approach is core to assuming a tolerable risk and reward profile, helping us to pursue controlled growth across our business.

Group risk management operates within an integrated geographical and divisional structure, in line with our management approach, ensuring that the appropriate processes are used to address all risks

across the group. There are specialist divisions in the UK and Southern Africa and smaller risk divisions in other regions tasked with promoting sound risk management practices.

Risk management units are locally responsive yet globally aware. This helps to ensure that all initiatives and businesses operate within our defined risk parameters and objectives, continually seeking new ways to enhance techniques.

We believe that the risk management systems and processes we have in place are adequate to support the group's strategy and allow the group to operate within its risk appetite tolerance.

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 group has incorporated IFRS 9 requirements into our group 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 group 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 group 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 group'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 group 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 forbore exposures) are met.

Stage 3

Financial assets are included in Stage 3 when there is objective evidence of credit impairment. Under IFRS 9, the group 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 group'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.

In the UK, 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 UK bank'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 UK 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 group'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.

Risk management

(continued)

An analysis of gross credit and counterparty exposures

Gross credit and counterparty exposure totalled £47.0 billion at 30 September 2018. Cash and near cash balances amounted to £12.5 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 96.5% of overall ECLs.

An analysis of gross credit and counterparty exposures by geography

	UK and Other		Southern Africa		Total	
£'million	30 Sept 2018	1 April 2018	30 Sept 2018	1 April 2018	30 Sept 2018	1 April 2018
Cash and balances at central banks	3 882	3 480	512	551	4 394	4 031
Loans and advances to banks	1 071	985	1 124	1 181	2 195	2 166
Non-sovereign and non-bank cash placements	–	–	567	601	567	601
Reverse repurchase agreements and cash collateral on securities borrowed	681	750	960	1 457	1 641	2 207
Sovereign debt securities	1 288	1 155	3 196	3 754	4 484	4 909
Bank debt securities	55	113	556	480	611	593
Other debt securities	357	278	754	626	1 111	904
Derivative financial instruments	533	511	347	412	880	923
Securities arising from trading activities	496	496	62	42	558	538
Loans and advances to customers	10 219	9 810	13 821	14 964	24 040	24 774
Own originated loans and advances to customers securitised	–	–	452	460	452	460
Other loans and advances	188	332	20	19	208	351
Other securitised assets	8	9	–	–	8	9
Other assets	53	45	175	202	228	247
Total on-balance sheet exposures	18 831	17 964	22 546	24 749	41 377	42 713
Guarantees	65	22	524	637	589	659
Committed facilities related to loans and advances to customers	1 368	1 092	2 978	2 880	4 346	3 972
Contingent liabilities, letters of credit and other	210	121	423	426	633	547
Total off-balance sheet exposures	1 643	1 235	3 925	3 943	5 568	5 178
Total gross credit and counterparty exposures	20 474	19 199	26 471	28 692	46 945	47 891

An analysis of gross credit and counterparty exposures by geography



30 September 2018
£46 945 million

■ Southern Africa 56.4%
■ UK and Other 43.6%



1 April 2018
£47 891 million

■ Southern Africa 59.9%
■ UK and Other 40.1%

A further analysis of our gross credit and counterparty exposure

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	4 394	–	4 394	–	9	4 403
Loans and advances to banks	2 195	–	2 195	(1)	–	2 194
Non-sovereign and non-bank cash placements	567	48	519	(1)	–	566
Reverse repurchase agreements and cash collateral on securities borrowed	1 641	528	1 113	–	–	1 641
Sovereign debt securities	4 484	820	3 664	(1)	–	4 483
Bank debt securities	611	82	529	(1)	–	610
Other debt securities	1 111	297	814	(1)	–	1 110
Derivative financial instruments	880	880	–	–	219	1 099
Securities arising from trading activities	558	558	–	–	1 363	1 921
Investment portfolio	–	–	–	–	950*	950
Loans and advances to customers	24 040	1 919	22 121	(302)	–	23 738
Own originated loans and advances to customers securitised	452	–	452	–	–	452
Other loans and advances	208	–	208	(1)	–	207
Other securitised assets	8	8	–	–	135 ^{^^}	143
Interest in associated undertakings	–	–	–	–	421*	421
Deferred taxation assets	–	–	–	–	215	215
Other assets	228	–	228	(4)	1 782 ^{**}	2 006
Property and equipment	–	–	–	–	269	269
Investment properties	–	–	–	–	1 041	1 041
Goodwill	–	–	–	–	368	368
Intangible assets	–	–	–	–	121	121
Other financial instruments at fair value to profit or loss in respect of liabilities to customers	–	–	–	–	8 176	8 176
Total on-balance sheet exposures	41 377	5 140	36 237	(312)	15 069	56 134
Guarantees	589	–	589	(1)	56	644
Committed facilities related to loans and advances to customers	4 346	38	4 308	(4)	2	4 344
Contingent liabilities, letters of credit and other	633	–	633	–	730	1 363
Total off-balance sheet exposures	5 568	38	5 530	(5)	788	6 351
Total exposures	46 945	5 178	41 767	(317)	15 857	62 485

[^] Expected credit losses include £3.2 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.

Risk management

(continued)

A further analysis of gross credit and counterparty exposures (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	4 031	–	4 031	(1)	10	4 040
Loans and advances to banks	2 166	–	2 166	(1)	–	2 165
Non-sovereign and non-bank cash placements	601	35	566	(1)	–	600
Reverse repurchase agreements and cash collateral on securities borrowed	2 207	788	1 419	–	–	2 207
Sovereign debt securities	4 909	869	4 040	(1)	–	4 908
Bank debt securities	593	73	520	(1)	–	592
Other debt securities	904	201	703	(6)	–	898
Derivative financial instruments	923	923	–	–	423	1 346
Securities arising from trading activities	538	538	–	–	896	1 434
Investment portfolio	–	–	–	–	957*	957
Loans and advances to customers	24 774	2 067	22 707	(366)	–	24 408
Own originated loans and advances to customers securitised	460	–	460	(1)	–	459
Other loans and advances	351	3	348	(5)	–	346
Other securitised assets	9	9	–	–	139^^	148
Interest in associated undertakings	–	–	–	–	468*	468
Deferred taxation assets	–	–	–	–	242	242
Other assets	247	–	247	(3)	1 631**	1 875
Property and equipment	–	–	–	–	233	233
Investment properties	–	–	–	–	1 184	1 184
Goodwill	–	–	–	–	369	369
Intangible assets	–	–	–	–	125	125
Other financial instruments at fair value to profit or loss in respect of liabilities to customers	–	–	–	–	8 488	8 488
Total on-balance sheet exposures	42 713	5 506	37 207	(386)	15 165	57 492
Guarantees	659	–	659	(1)	66	724
Committed facilities related to loans and advances to customers	3 972	3	3 969	(7)	–	3 965
Contingent liabilities, letters of credit and other	547	86	461	–	1 191	1 738
Total off-balance sheet exposures	5 178	89	5 089	(8)	1 257	6 427
Total exposures	47 891	5 595	42 296	(394)	16 422	63 919

[^] Expected credit losses include £3.9 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 the '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	4 394	–	–	–	–	–	4 394
Loans and advances to banks	2 164	–	21	10	–	–	2 195
Non-sovereign and non-bank cash placements	562	2	1	1	1	–	567
Reverse repurchase agreements and cash collateral on securities borrowed	1 261	104	176	49	48	3	1 641
Sovereign debt securities	1 360	1 256	515	395	460	498	4 484
Bank debt securities	4	9	140	156	289	13	611
Other debt securities	89	28	35	530	119	310	1 111
Derivative financial instruments	219	131	142	286	39	63	880
Securities arising from trading activities	–	5	–	76	60	417	558
Loans and advances to customers	2 606	1 491	3 325	12 502	2 865	1 251	24 040
Own originated loans and advances to customers securitised	–	–	–	2	35	415	452
Other loans and advances	1	7	14	–	38	148	208
Other securitised assets	–	–	–	–	–	8	8
Other assets	228	–	–	–	–	–	228
Total on-balance sheet exposures	12 888	3 033	4 369	14 007	3 954	3 126	41 377
Guarantees	98	98	229	117	18	29	589
Committed facilities related to loans and advances to customers	1 266	88	274	1 441	253	1 024	4 346
Contingent liabilities, letters of credit and other	42	28	86	336	61	80	633
Total off-balance sheet exposures	1 406	214	589	1 894	332	1 133	5 568
Total gross credit and counterparty exposures	14 294	3 247	4 958	15 901	4 286	4 259	46 945

Risk management

(continued)

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 – largely to private clients	Agriculture	Electricity, gas and water (utility services)	Public and non-business services	Business services	Finance and insurance
Cash and balances at central banks	–	–	–	–	4 394	–	–
Loans and advances to banks	–	–	–	–	–	–	2 195
Non-sovereign and non-bank cash placements	3	–	67	–	–	42	125
Reverse repurchase agreements and cash collateral on securities borrowed	17	–	–	–	–	1	1 574
Sovereign debt securities	–	–	–	–	4 484	–	–
Bank debt securities	–	–	–	–	–	–	611
Other debt securities	–	–	–	158	7	–	507
Derivative financial instruments	18	–	8	103	–	3	627
Securities arising from trading activities	–	–	–	4	427	–	122
Loans and advances to customers	9 066	4 075	164	827	473	1 070	2 839
Own originated loans and advances to customers securitised	452	–	–	–	–	–	–
Other loans and advances	–	–	–	–	–	–	110
Other securitised assets	–	–	–	–	–	–	–
Other assets	–	–	–	–	–	–	59
Total on-balance sheet exposures	9 556	4 075	239	1 092	9 785	1 116	8 769
Guarantees	285	59	–	63	–	34	55
Committed facilities related to loans and advances to customers	1 953	577	45	176	45	206	535
Contingent liabilities, letters of credit and other	194	101	–	134	69	1	34
Total off-balance sheet exposures	2 432	737	45	373	114	241	624
Total gross credit and counterparty exposures	11 988	4 812	284	1 465	9 899	1 357	9 393

Risk management

(continued)

	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
	-	-	-	-	-	-	-	-	-	4 394
	-	-	-	-	-	-	-	-	-	2 195
	55	104	2	18	-	49	2	54	46	567
	-	-	-	10	-	1	3	35	-	1 641
	-	-	-	-	-	-	-	-	-	4 484
	-	-	-	-	-	-	-	-	-	611
	4	80	19	63	82	5	-	110	76	1 111
	17	29	1	17	-	26	1	26	4	880
	2	-	-	-	-	-	-	3	-	558
	561	1 181	214	635	-	370	383	1 620	562	24 040
	-	-	-	-	-	-	-	-	-	452
	-	7	-	-	91	-	-	-	-	208
	-	-	-	-	8	-	-	-	-	8
	130	31	2	-	-	1	4	-	1	228
	769	1 432	238	743	181	452	393	1 848	689	41 377
	4	36	3	1	-	40	1	7	1	589
	129	117	7	135	-	151	69	76	125	4 346
	16	2	-	-	-	24	12	-	46	633
	149	155	10	136	-	215	82	83	172	5 568
	918	1 587	248	879	181	667	475	1 931	861	46 945

Risk management

(continued)

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 – largely to private clients	Agriculture	Electricity, gas and water (utility services)	Public and non-business services	Business services	Finance and insurance
Cash and balances at central banks	–	–	–	–	4 031	–	–
Loans and advances to banks	–	–	–	–	–	–	2 166
Non-sovereign and non-bank cash placements	–	–	1	–	–	111	133
Reverse repos and cash collateral on securities borrowed	40	–	–	–	–	5	2 104
Sovereign debt securities	–	–	–	–	4 909	–	–
Bank debt securities	–	–	–	–	–	–	593
Other debt securities	–	–	–	60	85	–	234
Derivative financial instruments	22	–	3	118	–	15	601
Securities arising from trading activities	–	–	–	5	381	3	113
Loans and advances to customers	9 483	4 411	182	826	504	1 383	2 733
Own originated loans and advances to customers securitised	460	–	–	–	–	–	–
Other loans and advances	–	–	–	–	–	–	121
Other securitised assets	–	–	–	–	–	–	–
Other assets	–	–	–	–	–	1	68
Total on-balance sheet exposures	10 005	4 411	186	1 009	9 910	1 518	8 866
Guarantees	282	59	–	57	–	67	10
Committed facilities related to loans and advances to customers	1 926	491	47	139	42	121	453
Contingent liabilities, letters of credit and other	245	83	–	72	43	–	35
Total off-balance sheet exposures	2 453	633	47	268	85	188	498
Total gross credit and counterparty exposures	12 458	5 044	233	1 277	9 995	1 706	9 364

Risk management

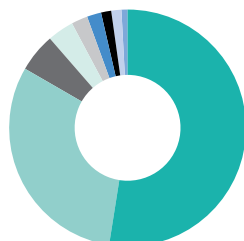
(continued)

	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
	-	-	-	-	-	-	-	-	-	4 031
	-	-	-	-	-	-	-	-	-	2 166
	104	123	30	12	-	24	2	9	52	601
	-	56	-	-	-	-	-	2	-	2 207
	-	-	-	-	-	-	-	-	-	4 909
	-	-	-	-	-	-	-	-	-	593
	-	120	19	57	40	147	-	74	68	904
	43	28	3	26	-	25	4	32	3	923
	3	-	-	-	-	2	-	-	31	538
	577	1 231	182	542	-	297	411	1 541	471	24 774
	-	-	-	-	-	-	-	-	-	460
	-	-	-	-	230	-	-	-	-	351
	-	-	-	-	9	-	-	-	-	9
	121	27	8	-	-	-	4	-	18	247
	848	1 585	242	637	279	495	421	1 658	643	42 713
	5	64	8	28	-	63	9	3	4	659
	112	112	25	14	-	230	20	97	143	3 972
	19	1	1	-	-	1	4	-	43	547
	136	177	34	42	-	294	33	100	190	5 178
	984	1 762	276	679	279	789	454	1 758	833	47 891

Risk management

(continued)

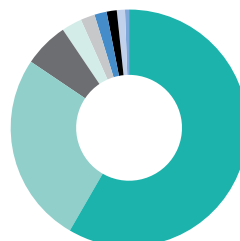
An analysis of total gross core loans and advances to customers by country of exposure



30 September 2018

£24 492 million

South Africa	52.6%
United Kingdom	30.9%
EU (excluding UK)	5.3%
North America	3.5%
Australia	2.4%
Africa (excluding RSA)	1.9%
Asia	1.4%
Other	1.4%
Europe (Non-EU)	0.6%



1 April 2018

£25 234 million

South Africa	58.5%
United Kingdom	26.2%
EU (excluding UK)	5.9%
North America	2.9%
Australia	1.8%
Africa (excluding RSA)	1.7%
Asia	1.5%
Other	1.1%
Europe (Non-EU)	0.4%

Composition of core loans and advances to customers

	UK and Other		Southern Africa		Total group	
£'million	30 Sept 2018	1 April 2018	30 Sept 2018	1 April 2018	30 Sept 2018	1 April 2018
Loans and advances to customers per the balance sheet	10 058	9 564	13 682	14 846	23 740	24 410
Add: own originated loans and advances to customers per the balance sheet	–	–	452	459	452	459
Add: ECLs held against FVOCI loans reported on the balance sheet within reserves	(2)	(2)	–	–	(2)	(2)
Net core loans and advances to customers	10 056	9 562	14 134	15 305	24 190	24 867
of which subject to ECL*	9 142	8 653	13 965	15 186	23 107	23 839
Net core loans and advances to customers at amortised cost and FVOCI	9 142	8 653	13 131	14 151	22 273	22 804
Net fixed rate loans which have passed the SPPI test, designated at FVPL (for which management calculates ECL) [^]	–	–	834	1 035	834	1 035
Of which FVPL (excluding fixed rate loans above)	914	909	169	119	1 083	1 028
Add: ECLs	163	248	139	119	302	367
Gross core loans and advances to customers	10 219	9 810	14 273	15 424	24 492	25 234
of which subject to ECL*	9 305	8 901	14 104	15 305	23 409	24 206
Of which FVPL (excluding fixed rate loans above)	914	909	169	119	1 083	1 028

[^] These are fixed rate loans which have passed the sole payments of principal and interest test and are held in a business model to collect contractual cash flows but have been designated at FVPL to eliminate accounting mismatches (interest rate risk is being economically hedged). The underlying loans have been fair valued for interest rate risk and are subject to the ECL calculation in order to obtain a reasonable estimate of the credit risk component. The portfolio is managed on the same basis as gross core loans and advances measured at amortised cost. The drawn exposure in stage 1, stage 2 and stage 3 amounts to £836.1 million (1 April 2018: £1.0 billion). The related ECL on the portfolio is £2.2 million (1 April 2018: £3.2 million).

* For which management evaluates ECL.

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 gross loans and advances on a statutory basis. Our exposure (net of ECL) to the UK 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 as indicated below.

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

	UK and Other		Southern Africa		Total group	
£'million	30 Sept 2018	1 April 2018	30 Sept 2018	1 April 2018	30 Sept 2018	1 April 2018
Gross core loans and advances to customers subject to ECL	9 305	8 901	14 104	15 305	23 409	24 206
Stage 1	8 375	7 743	13 489	14 564	21 864	22 307
Stage 2	542	594	408	569	950	1 163
<i>of which past due greater than 30 days</i>	19	18	11	19	30	37
Stage 3	388	564	207	172	595	736
<i>of which Ongoing (excluding Legacy) Stage 3*</i>	193	221	207	172	400	393
Gross core loans and advances to customers subject to ECL (%)						
Stage 1	90.0%	87.0%	95.6%	95.2%	93.4%	92.2%
Stage 2	5.8%	6.7%	2.9%	3.7%	4.1%	4.8%
Stage 3	4.2%	6.3%	1.5%	1.1%	2.5%	3.0%
<i>of which Ongoing (excluding Legacy) Stage 3*</i>	2.1%	2.6%	1.5%	1.1%	1.7%	1.6%

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

	UK and Other		Southern Africa		Total group	
£'million	30 Sept 2018	31 March 2018^	30 Sept 2018	31 March 2018^	30 Sept 2018	31 March 2018^
ECL impairment charges on core loans and advances	(19)	–	(21)	–	(40)	–
Income statement charge for impairments on core loans and advances	–	(106)	–	(41)	–	(147)
Average gross core loans and advances to customers subject to ECL	9 103	–	14 704	–	23 807	–
Average gross core loans and advances to customers	–	9 293	–	14 845	–	24 138
Annualised credit loss ratio	0.41%	1.14%	0.30%	0.28%	0.34%	0.61%

* Refer to definitions on page 165.

^ 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.

Risk management

(continued)

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

	UK and Other		Southern Africa		Total group	
£'million	30 Sept 2018	1 April 2018	30 Sept 2018	1 April 2018	30 Sept 2018	1 April 2018
ECL	(163)	(248)	(139)	(119)	(302)	(367)
Stage 1	(14)	(15)	(33)	(36)	(47)	(51)
Stage 2	(38)	(41)	(17)	(16)	(55)	(57)
Stage 3	(111)	(192)	(89)	(67)	(200)	(259)
of which Ongoing (excluding Legacy) Stage 3*	(39)	(45)	(89)	(67)	(128)	(112)
ECL coverage ratio (%)						
Stage 1	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Stage 2	7.0%	6.9%	4.2%	2.8%	5.8%	4.9%
Stage 3	28.6%	34.0%	43.0%	39.0%	33.6%	35.2%
of which Ongoing (excluding Legacy) Stage 3*	20.2%	20.4%	43.0%	39.0%	32.0%	28.5%

* Refer to definitions on page 165.

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

	UK and Other		Southern Africa		Total group	
£'million	30 Sept 2018	1 April 2018	30 Sept 2018	1 April 2018	30 Sept 2018	1 April 2018
Stage 3 net of ECL	277	372	118	105	395	477
of which Ongoing (excluding Legacy) stage 3*	154	176	118	105	272	281
Aggregate collateral and other credit enhancements on stage 3	297	414	181	214	478	628
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%	1.5%	1.1%	2.5%	3.0%
of which Ongoing (excluding Legacy) stage 3*	2.1%	2.6%	1.5%	1.1%	1.7%	1.6%
Total 3 ECL impairments as a % of Stage 3 exposure	42.0%	44.0%	67.3%	69.1%	50.8%	49.9%
Stage 3 net of ECL as a % of net core loans and advances to customers subject to ECL	3.0%	4.3%	0.8%	0.7%	1.7%	2.0%
of which Ongoing (excluding Legacy) stage 3*	1.7%	2.0%	0.8%	0.7%	1.2%	1.2%

Stage 1: 93.4% 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: 4.1% 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 £30.1 million or 3.2% 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: 2.5% of gross exposure is in Stage 3 which is made up of assets that are credit impaired. This has reduced from 3.0% at 1 April 2018 as we continue to make progress in reducing UK legacy loans. The coverage ratio totals 33.6% and the remaining net exposure is considered well covered by collateral. In the UK, the legacy portfolio is predominantly reported in stage 3 and makes up 50.4% of UK and Other Stage 3 gross loans. These assets have been significantly provided for and coverage for these assets remains high at 36.9%. Excluding Legacy, UK Ongoing stage 3 exposures total £193 million or 2.1% of gross core loans and advances to customers subject to ECL. This has reduced from 2.6% at 1 April 2018.

* Refer to definitions on page 165.

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. Foreign exchange and other category largely comprises impact on the closing balance as a result of movements and translations 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 pages.

	Stage 1		Stage 2		Stage 3		Total	
£'million	Gross exposure	ECL	Gross exposure	ECL	Gross exposure	ECL	Gross exposure	ECL
At 1 April 2018	22 307	(51)	1 163	(57)	736	(259)	24 206	(367)
Transfer from Stage 1	(341)	2	282	(1)	59	(1)	–	–
Transfer from Stage 2	285	(8)	(348)	11	63	(3)	–	–
Transfer from Stage 3	10	(1)	1	–	(11)	1	–	–
ECL re-measurement arising from transfer of stage	–	1	–	(9)	–	(20)	–	(28)
New lending net of repayments (includes assets written off)	854	1	(107)	1	(235)	77	512	79
Changes to risk parameters and models	–	6	–	(1)	–	(2)	–	3
Foreign exchange and other	(1 251)	3	(41)	1	(17)	7	(1 309)	11
At 30 September 2018	21 864	(47)	950	(55)	595	(200)	23 409	(302)

Risk management

(continued)

An analysis of core loans and advances by risk category – Total group

Gross core loans and advances at Amortised cost, FVOCI and FVPL (subject to ECL)							Gross core loans and advances at FVPL (not subject to ECL)	Gross core loans and advances		
Stage 1	Stage 2	Stage 3	Total							
At 30 September 2018 £'million	Gross exposure	Gross ECL	Gross exposure	Gross ECL	Gross exposure	Gross ECL	Gross exposure	ECL		
Lending collateralised by property	3 378	(7)	256	(23)	346	(101)	3 980	(131)	95	4 075
Commercial real estate	2 792	(4)	197	(20)	190	(45)	3 179	(69)	41	3 220
Commercial real estate – investment	2 405	(3)	187	(18)	168	(37)	2 760	(58)	36	2 796
Commercial real estate – development	339	(1)	–	–	5	(3)	344	(4)	3	347
Commercial vacant land and planning	48	–	10	(2)	17	(5)	75	(7)	2	77
Residential real estate	586	(3)	59	(3)	156	(56)	801	(62)	54	855
Residential real estate – investment	194	–	9	–	37	(9)	240	(9)	41	281
Residential real estate – development	367	(2)	45	(3)	75	(27)	487	(32)	8	495
Residential vacant land and planning	25	(1)	5	–	44	(20)	74	(21)	5	79
High net worth and other private client lending	9 275	(13)	106	(3)	106	(35)	9 487	(51)	31	9 518
Mortgages	5 358	(4)	75	(2)	73	(15)	5 506	(21)	–	5 506
High net worth and specialised lending	3 917	(9)	31	(1)	33	(20)	3 981	(30)	31	4 012
Corporate and other lending	9 211	(27)	588	(29)	143	(64)	9 942	(120)	957	10 899
Corporate and acquisition finance	1 901	(6)	137	(6)	12	(4)	2 050	(16)	346	2 396
Asset-based lending	579	(3)	40	(1)	15	(9)	634	(13)	33	667
Fund finance	1 508	(1)	–	–	–	–	1 508	(1)	7	1 515
Other corporate and financial institutions and governments	2 749	(12)	155	(11)	33	(17)	2 937	(40)	329	3 266
Asset finance	1 716	(4)	105	(7)	69	(27)	1 890	(38)	200	2 090
Small ticket asset finance	1 533	(4)	84	(5)	24	(13)	1 641	(22)	3	1 644
Large ticket asset finance	183	–	21	(2)	45	(14)	249	(16)	197	446
Project finance	721	(1)	151	(4)	8	(1)	880	(6)	34	914
Resource finance	37	–	–	–	6	(6)	43	(6)	8	51
Gross core loans and advances	21 864	(47)	950	(55)	595	(200)	23 409	(302)	1 083	24 492

Risk management

(continued)

An analysis of core loans and advances by risk category – UK and Other (continued)

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	Gross ECL	Gross exposure	Gross ECL	Gross exposure	Gross ECL	Gross exposure	Gross 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	5 225	(12)	326	(17)	87	(32)	5 638	(61)	788	6 426
Corporate and acquisition finance	1 228	(4)	115	(5)	11	(4)	1 354	(13)	277	1 631
Asset-based lending	298	(1)	36	(1)	–	–	334	(2)	–	334
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	8 375	(14)	542	(38)	388	(111)	9 305	(163)	914	10 219

[^] Legacy exposures are included in the table above and largely 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 above, £82.5 million or 0.9% of total Ongoing gross core loans subject to ECL would be reported as Stage 3 lending collateralised by property (1 April 2018: £89.2 million or 1.0%).

Risk management

(continued)

An analysis of core loans and advances by risk category – Southern Africa (continued)

Gross core loans and advances at Amortised cost, FVOCI and FVPL (subject to ECL)								Gross core loans and advances at FVPL (not subject to ECL)	Gross core loans and advances	
Stage 1	Stage 2	Stage 3	Total							
At 30 September 2018 £'million	Gross exposure	Gross ECL	Gross exposure	Gross ECL	Gross exposure	Gross ECL	Gross exposure	ECL		
Lending collateralised by property	2 261	(6)	85	(4)	74	(30)	2 420	(40)	–	2 420
Commercial real estate	2 111	(3)	51	(2)	60	(20)	2 222	(25)	–	2 222
Commercial real estate – investment	1 812	(2)	47	(2)	49	(17)	1 908	(21)	–	1 908
Commercial real estate – development	251	(1)	–	–	4	(2)	255	(3)	–	255
Commercial vacant land and planning	48	–	4	–	7	(1)	59	(1)	–	59
Residential real estate	150	(3)	34	(2)	14	(10)	198	(15)	–	198
Residential real estate – investment	–	–	–	–	–	–	–	–	–	–
Residential real estate – development	127	(2)	33	(2)	9	(5)	169	(9)	–	169
Residential vacant land and planning	23	(1)	1	–	5	(5)	29	(6)	–	29
High net worth and other private client lending	7 242	(12)	61	(1)	77	(27)	7 380	(40)	–	7 380
Mortgages	3 718	(3)	47	(1)	52	(12)	3 817	(16)	–	3 817
High net worth and specialised lending	3 524	(9)	14	–	25	(15)	3 563	(24)	–	3 563
Corporate and other lending	3 986	(15)	262	(12)	56	(32)	4 304	(59)	169	4 473
Acquisition finance	673	(2)	22	(1)	1	–	696	(3)	69	765
Asset-based lending	281	(2)	4	–	15	(9)	300	(11)	33	333
Fund finance	272	–	–	–	–	–	272	–	–	272
Other corporate and financial institutions and governments	2 306	(11)	137	(10)	33	(17)	2 476	(38)	67	2 543
Asset finance	135	–	–	–	1	–	136	–	–	136
Small ticket asset finance	102	–	–	–	1	–	103	–	–	103
Large ticket asset finance	33	–	–	–	–	–	33	–	–	33
Project finance	288	–	99	(1)	–	–	387	(1)	–	387
Resource finance	31	–	–	–	6	(6)	37	(6)	–	37
Gross core loans and advances	13 489	(33)	408	(17)	207	(89)	14 104	(139)	169	14 273

Risk management

(continued)

An analysis of core loans and advances by risk category – Total group

	Gross core loans and advances at Amortised cost, FVOCI and FVPL (subject to ECL)						Gross core loans and advances at FVPL (not subject to ECL)	Gross core loans and advances		
	Stage 1	Stage 2	Stage 3	Total						
At 1 April 2018 £'million	Gross exposure	Gross ECL	Gross exposure	Gross ECL	Gross exposure	Gross ECL	Gross exposure	ECL		
Lending collateralised by property	3 345	(8)	409	(23)	478	(166)	4 232	(197)	179	4 411
Commercial real estate	2 641	(4)	355	(21)	267	(81)	3 263	(106)	87	3 350
Commercial real estate – investment	2 315	(4)	326	(19)	217	(55)	2 858	(78)	74	2 932
Commercial real estate – development	285	–	18	–	17	(7)	320	(7)	3	323
Commercial vacant land and planning	41	–	11	(2)	33	(19)	85	(21)	10	95
Residential real estate	704	(4)	54	(2)	211	(85)	969	(91)	92	1 061
Residential real estate – investment	135	–	17	(1)	39	(15)	191	(16)	46	237
Residential real estate – development	526	(2)	28	(1)	121	(47)	675	(50)	33	708
Residential vacant land and planning	43	(2)	9	–	51	(23)	103	(25)	13	116
High net worth and other private client lending	9 698	(14)	123	(4)	109	(36)	9 930	(54)	13	9 943
Mortgages	5 433	(4)	73	(3)	71	(14)	5 577	(21)	–	5 577
High net worth and specialised lending	4 265	(10)	50	(1)	38	(22)	4 353	(33)	13	4 366
Corporate and other lending	9 264	(29)	631	(30)	149	(57)	10 044	(116)	836	10 880
Corporate and acquisition finance	2 024	(9)	112	(2)	25	(6)	2 161	(17)	213	2 374
Asset-based lending	545	(3)	74	(3)	25	(10)	644	(16)	36	680
Fund finance	1 312	(1)	13	(1)	–	–	1 325	(2)	–	1 325
Other corporate and financial institutions and governments	3 036	(10)	205	(12)	9	(5)	3 250	(27)	284	3 534
Asset finance	1 578	(4)	103	(8)	79	(31)	1 760	(43)	272	2 032
Small ticket asset finance	1 425	(3)	81	(7)	14	(9)	1 520	(19)	–	1 520
Large ticket asset finance	153	(1)	22	(1)	65	(22)	240	(24)	272	512
Project finance	731	(2)	124	(4)	4	–	859	(6)	26	885
Resource finance	38	–	–	–	7	(5)	45	(5)	5	50
Gross core loans and advances	22 307	(51)	1 163	(57)	736	(259)	24 206	(367)	1 028	25 234

Risk management

(continued)

An analysis of core loans and advances by risk category – UK and Other (continued)

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 1 April 2018 £'million	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	4 820	(12)	262	(16)	112	(38)	5 194	(66)	732	5 926
Corporate and acquisition finance	1 262	(5)	39	(1)	19	(6)	1 320	(12)	213	1 533
Asset-based lending	301	(1)	43	(2)	11	(1)	355	(4)	–	355
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	7 743	(15)	594	(41)	564	(192)	8 901	(248)	909	9 810

Risk management

(continued)

An analysis of core loans and advances by risk category – Southern Africa (continued)

Gross core loans and advances at Amortised cost, FVOCI and FVPL (subject to ECL)								Gross core loans and advances at FVPL (not subject to ECL)	Gross core loans and advances	
Stage 1		Stage 2		Stage 3		Total				
At 1 April 2018 £'million	Gross exposure	Gross ECL	Gross exposure	Gross ECL	Gross exposure	Gross ECL	Gross exposure	ECL		
Lending collateralised by property	2 263	(7)	113	–	52	(21)	2 428	(28)	15	2 443
Commercial real estate	2 055	(3)	100	–	42	(16)	2 197	(19)	15	2 212
Commercial real estate – investment	1 839	(3)	87	–	41	(15)	1 967	(18)	15	1 982
Commercial real estate – development	175	–	8	–	–	–	183	–	–	183
Commercial vacant land and planning	41	–	5	–	1	(1)	47	(1)	–	47
Residential real estate	208	(4)	13	–	10	(5)	231	(9)	–	231
Residential real estate – investment	–	–	–	–	–	–	–	–	–	–
Residential real estate – development	170	(2)	4	–	9	(4)	183	(6)	–	183
Residential vacant land and planning	38	(2)	9	–	1	(1)	48	(3)	–	48
High net worth and other private client lending	7 857	(12)	87	(2)	83	(27)	8 027	(41)	–	8 027
Mortgages	4 003	(3)	40	(1)	53	(11)	4 096	(15)	–	4 096
High net worth and specialised lending	3 854	(9)	47	(1)	30	(16)	3 931	(26)	–	3 931
Corporate and other lending	4 444	(17)	369	(14)	37	(19)	4 850	(50)	104	4 954
Acquisition finance	762	(4)	73	(1)	6	–	841	(5)	–	841
Asset-based lending	244	(2)	31	(1)	14	(9)	289	(12)	36	325
Fund finance	295	–	–	–	–	–	295	–	–	295
Other corporate and financial institutions and governments	2 618	(10)	192	(11)	9	(5)	2 819	(26)	68	2 887
Asset finance	156	–	3	–	1	–	160	–	–	160
Small ticket asset finance	131	–	2	–	–	–	133	–	–	133
Large ticket asset finance	25	–	1	–	1	–	27	–	–	27
Project finance	331	(1)	70	(1)	–	–	401	(2)	–	401
Resource finance	38	–	–	–	7	(5)	45	(5)	–	45
Gross core loans and advances	14 564	(36)	569	(16)	172	(67)	15 305	(119)	119	15 424

Risk management

(continued)

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.

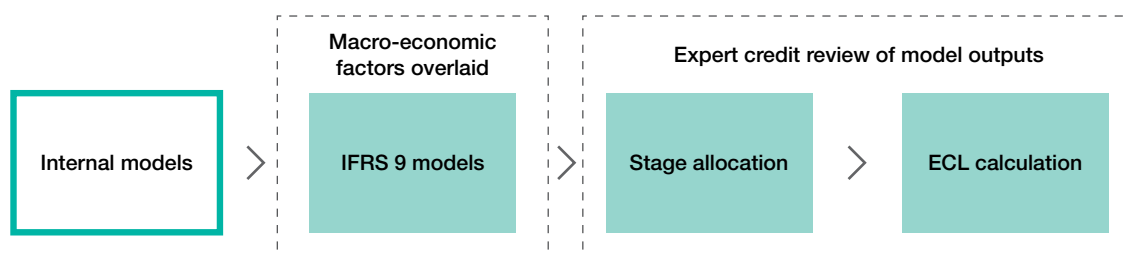
Regular reporting of credit and counterparty risk exposures within our operating units are made to management, the executives and the board at the group risk and capital committee (GRCC) and board risk and capital committee (BRCC). The board regularly reviews and approves the appetite for credit and 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.

In the UK, 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 UK bank'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 UK 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.

Risk management

(continued)

Investment risk in the banking book represents a moderate percentage of our total assets and is managed within appropriate risk limits

Investment risk in the banking book

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

- **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.

- **IEP Group:** Investec Bank Limited holds a 45.7% stake alongside third party investors and senior management of the business who hold the remaining 54.3%. The investment in the IEP Group is reflected as an investment in an associate.
- **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 tables below provide an analysis of income and revaluations recorded with respect to these investments.

Income/(loss) (pre-funding costs)

For the six months to 30 September 2018 £'000						Fair value through OCI
Country/category	Unrealised ^o	Realised ^o	Dividends	Other	Total	
Unlisted investments	(4 284)	22 916	4 049	–	22 681	(86)
UK and Other	(812)	17 307	2 285	–	18 780	–
Southern Africa	(3 472)	5 609	1 764	–	3 901	(86)
Listed equities	(35 866)	24 677	5 187	–	(6 002)	–
UK and Other	(24 101)	1 068	95	–	(22 938)	–
Southern Africa	(11 765)	23 609	5 092	–	16 936	–
Investment and trading properties	(33 446)	33 489	–	–	43	–
UK and Other	(3 505)	–	–	–	(3 505)	–
Southern Africa [^]	(29 941)	33 489	–	–	3 548	–
Warrants and profit shares	(11 200)	21 356	–	–	10 156	–
UK and Other	(11 982)	18 214	–	–	6 232	–
Southern Africa	782	3 142	–	–	3 924	–
IEP Group^{^^}	–	–	–	20 811	20 811	–
Southern Africa	–	–	–	20 811	20 811	–
Total	(84 796)	102 438	9 236	20 811	47 689	(86)

[^] For the purposes of the above analysis, the exposures arising from the consolidation of the Investec Property Fund have been reflected at the level of our economic ownership, being 26.6%. Impact on the income statement reflects the group's net attributable earnings from the investment.

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

^{^^} As explained above.

Risk management

(continued)

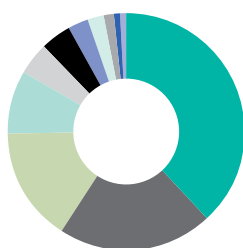
Income/(loss) (pre-funding costs)						
For the six months to 30 September 2017 £'000						Fair value through equity
Country/category	Unrealised°	Realised°	Dividends	Other	Total	
Unlisted investments	12 160	17 256	9 329	–	38 745	468
UK and Other	8 918	10 129	5 975	–	25 022	556
Southern Africa	3 242	7 127	3 354	–	13 723	(88)
Listed equities	(9 522)	1 448	5 250	–	(2 824)	1 564
UK and Other	(13 373)	(1 996)	2	–	(15 367)	1 564
Southern Africa	3 851	3 444	5 248	–	12 543	–
Investment and trading properties	(2 142)	11 999	–	–	9 857	–
UK and Other	(2 663)	1 601	–	–	(1 062)	–
Southern Africa^	521	10 398	–	–	10 919	–
Warrants, profit shares and other embedded derivatives	(1 184)	2 054	–	–	870	–
UK and Other	(1 961)	–	–	–	(1 961)	–
Southern Africa	777	2 054	–	–	2 831	–
IEP Group^^	–	–	–	21 924	21 924	–
Southern Africa	–	–	–	21 924	21 924	–
Total	(688)	32 757	14 579	21 924	68 572	2 032

[^] For the purposes of the above analysis, the exposures arising from the consolidation of the Investec Property Fund have been reflected at the level of our economic ownership, being 27.2%. It is noted that the ultimate impact on the income statement reflects the group's net attributable earnings from the investment.

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

^{^^} As explained on page 136.

An analysis of the investment portfolio, warrants and profit shares



30 September 2018

£972 million

Real estate	38.2%
Manufacturing and commerce	21.1%
Finance and insurance	15.7%
Communication	8.6%
Retailers and wholesalers	4.4%
Mining and resources	4.1%
Electricity, gas and water (utility services)	2.9%
Transport	2.2%
Other	1.2%
Agriculture	0.9%
Business services	0.7%

Risk management

(continued)

Summary of investments held and stress testing analyses

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

£'million Country/category	On-balance sheet value of investments 30 Sept 2018	Valuation change stress test 30 Sept 2018*	On-balance sheet value of investments 1 April 2018	Valuation change stress test 1 April 2018*
Unlisted investments	752	113	725	109
UK and Other	434	65	417	63
Southern Africa	318	48	308	46
Listed equities	198	50	232	58
UK and Other	39	10	61	15
Southern Africa	159	40	171	43
Investment and trading properties	682	100	708	98
UK and Other	164	31	113	21
Southern Africa^	518	69	595	77
Warrants and profit shares	22	8	35	12
UK and Other	11	4	22	8
Southern Africa	11	4	13	4
IEP Group^^	348	52	372	56
Southern Africa	348	52	372	56
Total	2 002	323	2 072	333

* In order to assess our earnings sensitivity to a movement in the valuation of these investments, the stress testing parameters detailed below are applied.

^ For the purposes of the above analysis, the exposures arising from the consolidation of the Investec Property Fund have been reflected at the level of our economic ownership, being 26.6% (1 April 2018: 26.8%).

^^ As explained on page 136.

Stress test values applied

Unlisted investments and the IEP Group	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 £323 million reversal in revenue (which assumes a year in which there is a 'severe stress scenario' simultaneously across all asset classes). This would not cause the group to report a loss, but could have a significantly negative impact on earnings for that period. The probability of all these asset classes in all geographies in which we operate being negatively impacted at the same time is very low, although the probability of listed equities being negatively impacted at the same time is very high.

Securitisation/structured credit activities exposures

Overview

The group'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 group 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 group's credit and counterparty exposure information.

The group applies the standardised approach in the assessment of regulatory capital for securitisation.

UK and Other

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).

South Africa

In South Africa we engage in transactions that involve the use of both special purpose entities and asset securitisation structures. Securitisation represents a small proportion of our current funding profile, but provides additional flexibility and a source of liquidity. We do not depend on special purpose vehicles for funding in its normal course of business. These entities form part of the consolidated group balance sheet as reported.

We have securitised assets originated by our Private Client business in South Africa. The primary motivations for the securitisation of these assets are to:

- Provide an alternative source of funding
- Act as a mechanism to transfer risk
- Leverage returns through the retention of equity tranches in low default rate portfolios
- Create a potential committed liquidity facility (CLF) asset.

Total assets that have been originated and securitised by the Private Client division amount to R8.3 billion at 30 September 2018 (1 April 2018: R7.6 billion) and consist of residential mortgages.

Within these securitisation vehicles loans greater than 90 days in arrears amounted to R29 million.

Further details of our various securitisation vehicles are highlighted below:

- Fox Street 1: R0.7 million notes of the original R1.5 billion are still in issue. R677 million notes are held internally
- Fox Street 2: R0.7 million notes of the original R1.5 billion are still in issue. R243 million of the notes are held internally
- Fox Street 3: R1.1 billion notes of the original R2.0 billion are still in issue. R201 million of these notes are held internally
- Fox Street 4: R2.0 billion notes of the original R3.7 billion are still in issue. All notes are held internally
- Fox Street 5: R2.1 billion notes of the original R2.9 billion are still in issue. All notes are held internally
- Fox Street 6: R1.3 billion notes of the original R1.3 billion are still in issue. R536 million of the notes are held internally.

There is a clean-up call option that can be exercised at 10% of original notes issued. The margin on the notes increases at pre-specified intervals and coincides with the originator call option dates.

We have also sought out select opportunities in the credit/debt markets and traded in and purchased structured credit. These have largely been rated UK and European Residential mortgage backed securities (RMBS), totalling R0.2 billion at 30 September 2018 (1 April 2018: R0.2 billion) and unrated South African RMBS totalling R1.6 billion at 30 September 2018 (1 April 2018: R1.0 billion).

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.

Assets that have been securitised by our Private Client division in South Africa are reflected as part of our core lending exposures and not our securitisation/structured credit exposures as we believe this reflects the true nature and intent of these exposures and activities.

Risk management

(continued)

Nature of exposure/activity	Exposure 30 Sept 2018 £'million	Exposure 1 April 2018 £'million	Balance sheet and credit risk classification	Asset quality – relevant comments
Structured credit (gross exposure)*	450	345	Other debt securities and other loans and advances	
Rated	352	276		
Unrated	98	69		
Loans and advances to customers and third party intermediary originating platforms (mortgage loans) (net exposure)	13	146	Other loans and advances	
Private Client division assets which have been securitised	452	459	Own originated loans and advances to customers	Analysed as part of the group's overall asset quality on core loans and advances as reflected on pages 124 to 126

*Analysis of rated and unrated structured credit

	30 September 2018			1 April 2018		
£'million	Rated**	Unrated	Total	Rated	Unrated	Total
US corporate loans	181	–	181	135	–	135
UK and European RMBS	164	10	174	129	10	139
UK and European corporate loans	5	–	5	10	–	10
Australian RMBS	2	–	2	2	–	2
South African RMBS	–	88	88	–	59	59
Total	352	98	450	276	69	345
Investec plc	343	10	353	266	10	276
Investec Limited	9	88	97	10	59	69

**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	–	9	–	–	164
UK and European corporate loans	–	5	–	–	–	–	–	5
Australian RMBS	–	2	–	–	–	–	–	2
Total at 30 September 2018	74	219	50	–	9	–	–	352
Total at 1 April 2018	72	127	67	–	10	–	–	276

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			
	Period end	Average	High	Low	Year end	Average	High	Low
UK and Other (using 95% one-day VaR)								
Equities (£'000)	423	435	567	327	495	519	746	345
Foreign exchange (£'000)	1	8	31	1	18	17	80	1
Interest rates (£'000)	82	77	92	70	81	84	147	67
Credit (£'000)	59	42	89	23	23	90	184	16
Consolidated (£'000)*	407	433	557	350	502	509	740	311
Southern Africa (using 95% one-day VaR)								
Commodities (R'million)	0.1	0.1	0.2	–	–	0.1	1.5	–
Equities (R'million)	4.2	2.9	7.4	1.5	3.6	3.4	7.4	2.0
Foreign exchange (R'million)	2.0	2.2	4.4	1.1	1.7	2.9	9.1	0.9
Interest rates (R'million)	1.5	2.8	9.0	0.4	2.4	2.2	4.7	0.3
Consolidated (R'million)*	4.8	4.2	9.7	1.7	3.4	5.0	13.7	2.4

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

Risk management

(continued)

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.

	30 Sept 2018 Period end	31 March 2018 Year end
UK and Other 95% (one-day)		
Equities (£'000)	662	655
Foreign exchange (£'000)	7	26
Interest rates (£'000)	124	113
Credit (£'000)	83	35
Consolidated (£'000)*	663	661
Southern Africa 95% (one-day)		
Commodities (R'million)	0.3	0.1
Equities (R'million)	6.3	7.1
Foreign exchange (R'million)	5.1	3.7
Interest rates (R'million)	2.7	4.1
Consolidated (R'million)*	8.0	8.8

* The consolidated ES for each entity 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.

	30 Sept 2018 Period end	31 March 2018 Year end
UK and Other (£'000)		
99% one-day sVaR	2 015	1 541
Southern Africa (R'million)		
99% one-day sVaR	14.9	13.3

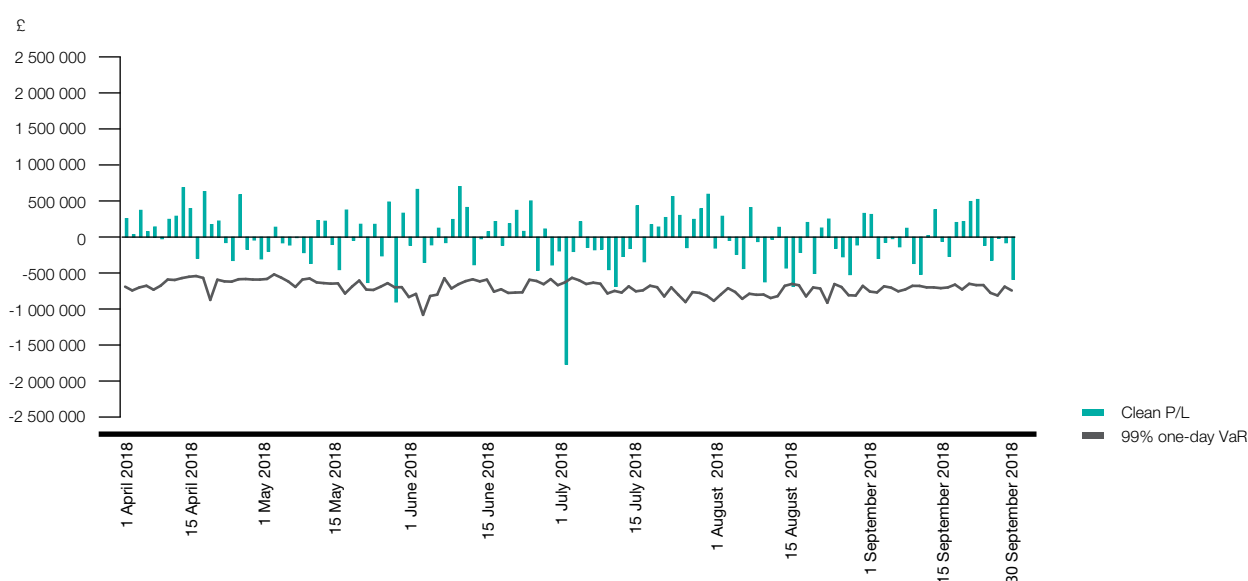
Backtesting

The graphs that follow show the result of backtesting the total daily 99% one-day VaR against the hypothetical 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 clean profit and loss excludes items such as fees and hedge costs included in new trades revenue. Based on these graphs, we can gauge the accuracy of the VaR figures i.e. 99% of the time, the total trading activities are not expected to lose more than the 99% one-day VaR.

UK and Other

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 in the equity markets.

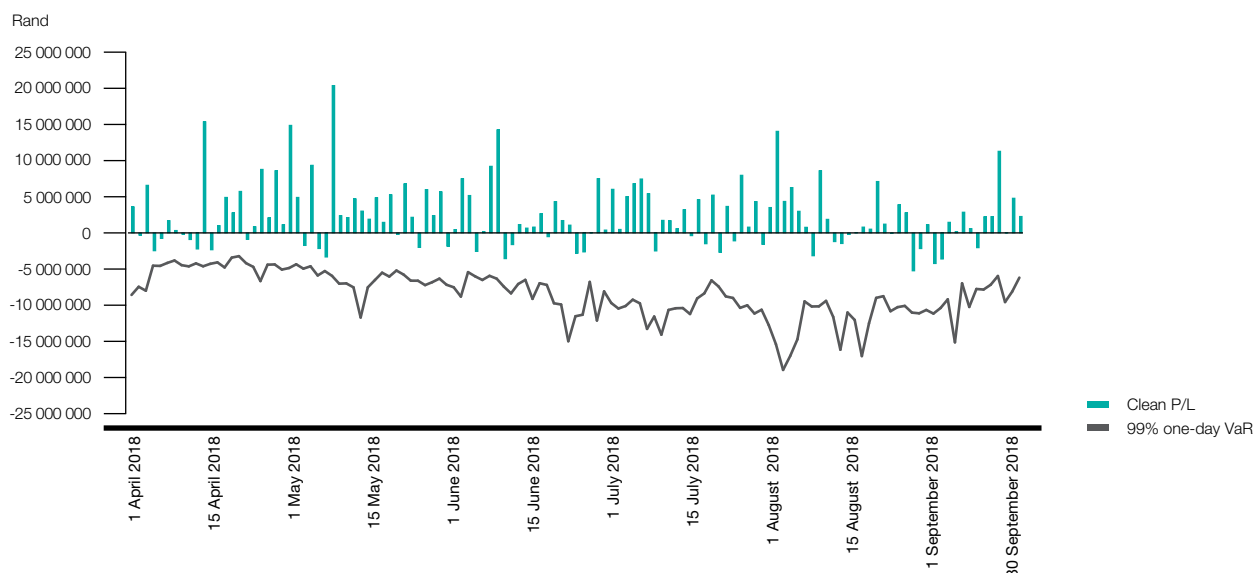
99% one-day VaR backtesting



Southern Africa

Average VaR for the period ended 30 September 2018 was slightly lower than the previous year end due to lower VaR utilisations on the equities and foreign exchange desks. Using clean profit and loss data for backtesting resulted in zero exceptions (as shown in the graph below), which is less than the expected number of exceptions.

99% one-day VaR backtesting



Risk management

(continued)

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.

	30 Sept 2018 Period end	31 March 2018 Year end
UK and Other (using 99% EVT)		
Equities (£'000)	1 964	1 475
Foreign exchange (£'000)	36	66
Interest rates (£'000)	276	226
Credit (£'000)	205	83
Consolidated (£'000)#	1 757	1 441
Southern Africa (using 99% EVT)		
Commodities (R'million)	2.4	0.2
Equities (R'million)	16.1	13.9
Foreign exchange (R'million)	34.4	20.1
Interest rates (R'million)	11.6	13.5
Consolidated (R'million)#	27.0	29.6

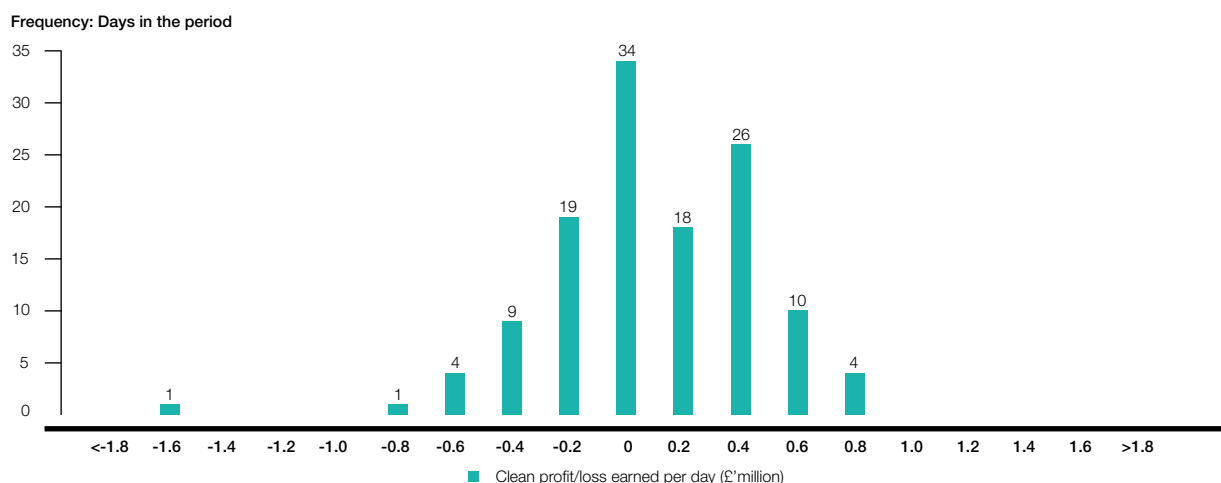
The consolidated stress testing for each entity is lower than the sum of the individual stress test numbers. This arises from the correlation offset between various asset classes (diversification).

Clean profit and loss histograms

UK and Other

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.

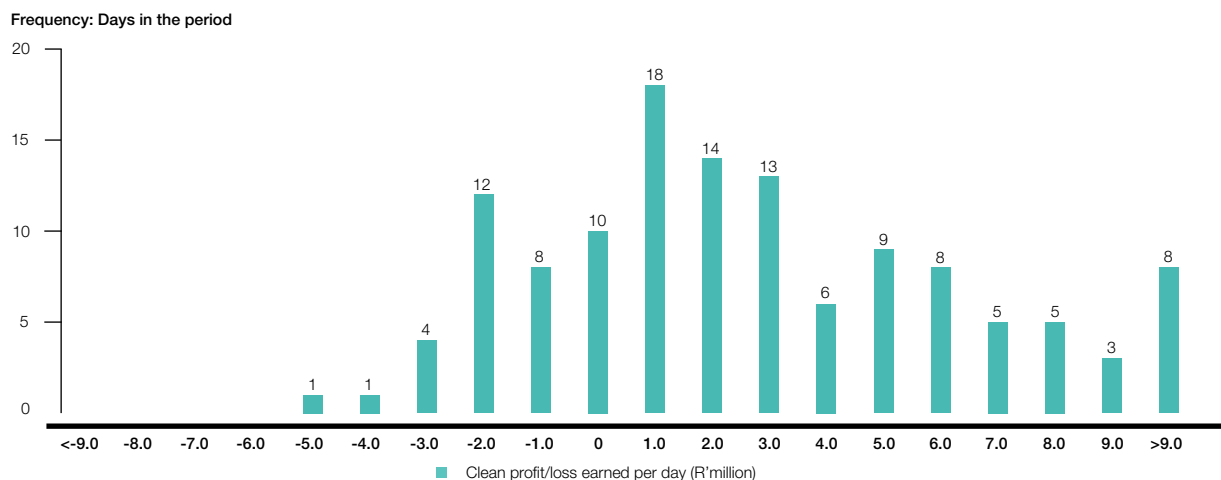
Clean profit and loss (excluding fees and hedge costs included in new trades revenue)



Southern Africa

The histogram below illustrates the distribution of clean profit and loss during the period for our trading businesses. The distribution is skewed to the profit side and the graph shows that positive trading revenue was realised on 89 days out of a total of 125 days in the trading business for the six months to 30 September 2018. The average daily trading revenue generated for the six months to 30 September 2018 was R2.4 million (six months to 30 September 2017: R0.6 million).

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



Risk management

(continued)

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.

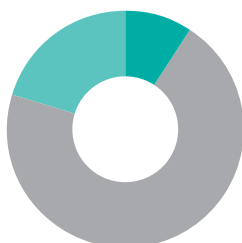
Liquidity risk is further broken down into:

- **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

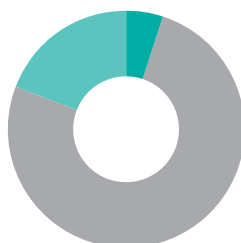
- **Market liquidity:** this relates to the risk that the bank may be unable to trade in specific markets or that it may only be able to do so with difficulty due to market disruptions or a lack of market liquidity.

An analysis of cash and near cash at 30 September 2018



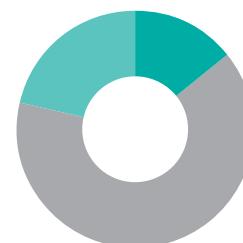
Total group
£12 467 million

Near cash (other 'monetisable' assets)	9.4%
Central Bank cash placements and guaranteed liquidity	70.5%
Cash	20.1%



Investec plc
£6 456 million

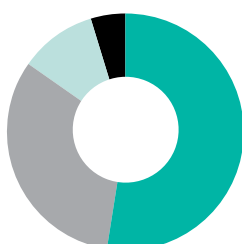
Near cash (other 'monetisable' assets)	5.0%
Central Bank cash placements and guaranteed liquidity	76.0%
Cash	19.0%



Investec Limited
R110 827 million

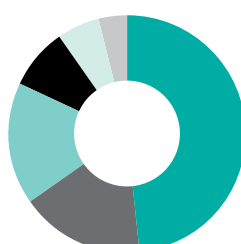
Near cash (other 'monetisable' assets)	14.3%
Central Bank cash placements and guaranteed liquidity	64.5%
Cash	21.2%

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



UK and Other
£13 813 million

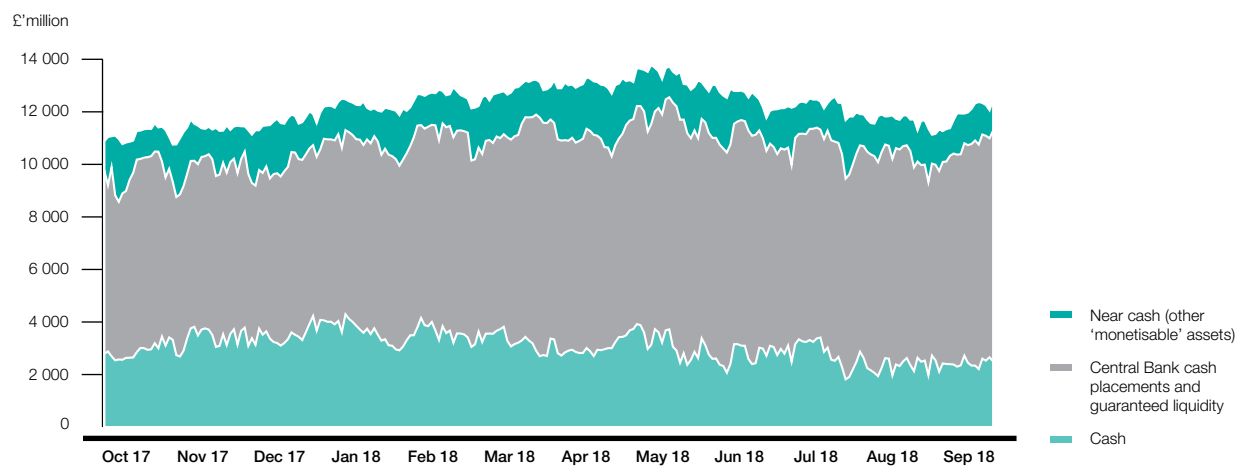
Individuals	52.7%
Non-financial corporates	32.3%
Small business	10.4%
Banks	4.6%



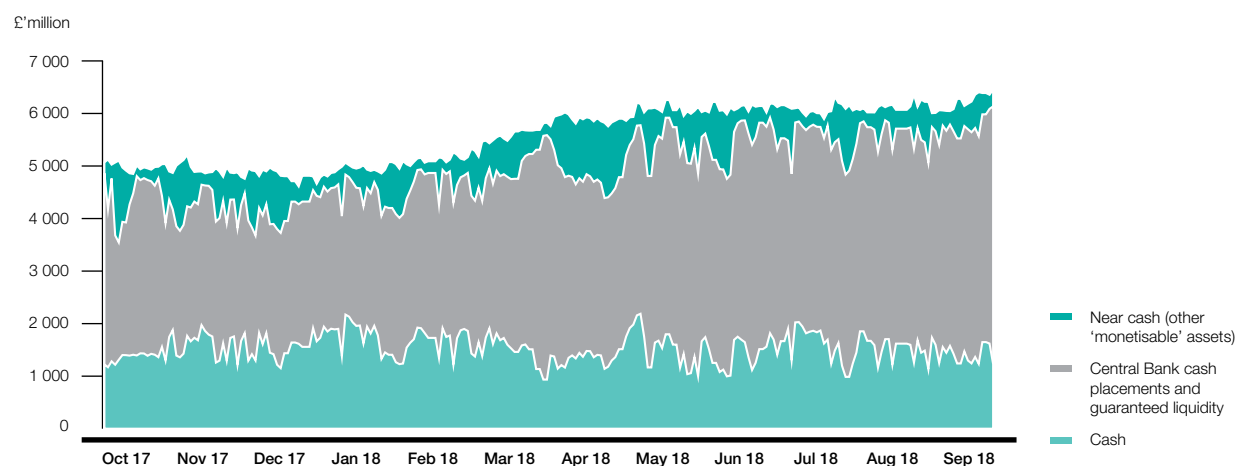
Southern Africa
R361 372 million

Other financials	48.5%
Non-financial corporates	16.9%
Individuals	16.7%
Banks	8.2%
Small business	6.0%
Public sector	3.7%

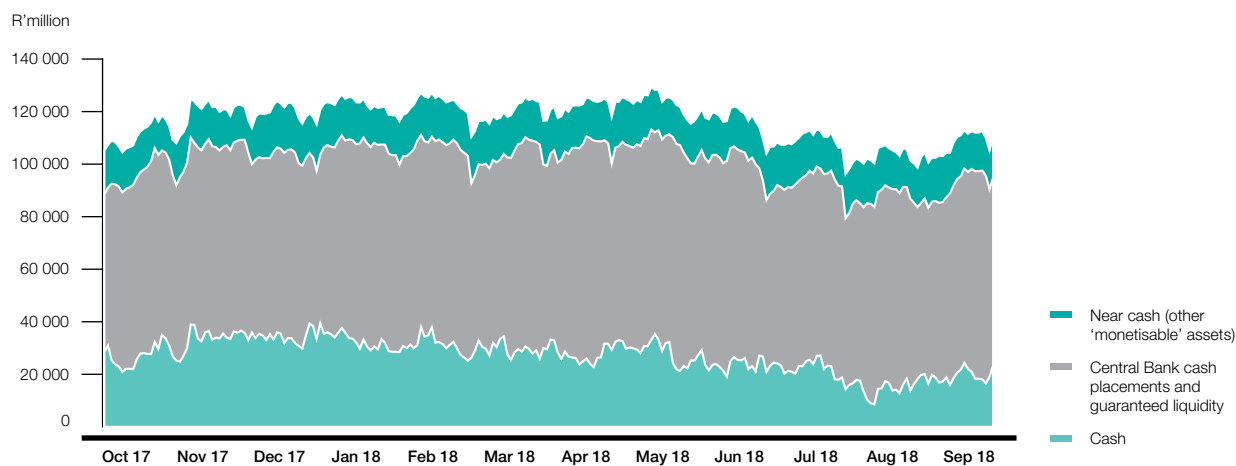
Total Investec group cash and near cash trend



Investec plc cash and near cash trend



Investec Limited cash and near cash trend



The liquidity position of the bank remained sound with total cash and near cash balances amounting to £12.5 billion

Regulatory requirements

UK

Since 1 January 2018, banks within the EU have been required to maintain a minimum LCR ratio of 100%. For both Investec plc and 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 plc and 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 plc and 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 332% for Investec plc and 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 group has applied its own interpretations of regulatory guidance and definitions from the BCBS final guidelines, to calculate the NSFR which was 140% for Investec plc and 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.

Investec plc undertakes an annual Individual Liquidity Adequacy Assessment Process (ILAAP) which documents the approach to liquidity management across the firm.

This document is reviewed and approved by the board before being provided to the PRA for use, alongside the Liquidity Supervisory Review and Evaluation Process, to determine the bank's Individual Liquidity Guidance, also known as a Pillar 2 requirement.

Southern Africa

South Africa, a member of the G20, has adopted the published BCBS guidelines for 'liquidity risk measurement standards and monitoring'.

There are certain shortcomings and constraints in the South African environment and the banking sector in Southern Africa is characterised by certain structural features such as:

- A low discretionary savings rate and a higher degree of contractual savings that are captured by institutions such as pension funds, provident funds and providers of asset management services
- There is currently no 'deposit protection scheme' in South Africa. However, the regulators plan to incorporate a deposit protection scheme within the broader amendments to the recovery and resolution framework
- Southern Africa has an insufficient supply of level 1 assets in domestic currency to meet the aggregate demand.

There are various regulatory and economic barriers that prevent liquidity from flowing out of the domestic economy. Namely, Southern Africa has exchange control that limits capital flows, along with prudential requirements on financial corporates.

A positive consequence of the above is that the Rand funding that the South African banks use is contained within the financial system and therefore the Rand is unlikely to be drained by currency withdrawal from offshore sources, or placements in offshore accounts.

To address this systemic challenge, the South African Prudential Authority exercised national discretion and has announced:

- The introduction of a Committed Liquidity Facility (CLF) whereby South African banks can apply to the Reserve Bank for the CLF against eligible collateral for a prescribed commitment fee. The CLF is limited to 40% of Net Outflows under the LCR. Investec Bank Limited does not make use of the CLF offered by the South African Prudential Authority
- A change to the available stable funding factor as applied to less than six months term deposits from the financial sector.

The change recognises 35% of less than six months financial sector deposits which has the impact of reducing the amount of greater than six months term deposits required by local banks to meet the NSFR, and will therefore mitigate any increases in the overall cost of funds.

Despite the above constraints, Investec Bank Limited comfortably exceeds the LCR and NSFR liquidity ratio requirements, having embedded these ratio into our processes.

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.

Risk management

(continued)

UK and Other

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	4 538	291	22	13	–	107	–	4 971
Investment/trading assets	508	526	334	582	158	825	1 341	4 274
Securitised assets	–	5	–	–	–	11	111	127
Advances	68	226	658	728	1 459	5 298	1 838	10 275
Other assets	124	656	79	162	234	128	662	2 045
Assets	5 238	1 704	1 093	1 485	1 851	6 369	3 952	21 692
Deposits – banks	(63)	(134)	–	(2)	(72)	(1 156)	(10)	(1 437)
Deposits – non-banks	(3 690)	(930)	(2 649)	(1 873)	(1 218)	(1 877)	(139)	(12 376)
Negotiable paper	–	(3)	(11)	(17)	(82)	(1 584)	(657)	(2 354)
Securitised liabilities	–	–	(3)	(3)	(5)	(42)	(68)	(121)
Investment/trading liabilities	(225)	(80)	(12)	(21)	(48)	(266)	(227)	(879)
Subordinated liabilities	–	–	–	–	–	(385)	(419)	(804)
Other liabilities	(134)	(664)	(217)	(22)	(255)	(76)	(130)	(1 498)
Liabilities	(4 112)	(1 811)	(2 892)	(1 938)	(1 680)	(5 386)	(1 650)	(19 469)
Total equity	–	–	–	–	–	–	(2 223)	(2 223)
Contractual liquidity gap	1 126	(107)	(1 799)	(453)	171	983	79	–
Cumulative liquidity gap	1 126	1 019	(780)	(1 233)	(1 062)	(79)	–	–

Behavioural liquidity



As discussed on page 148

£'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	3 920	(108)	58	(714)	172	(3 388)	60	–
Cumulative	3 920	3 812	3 870	3 156	3 328	(60)	–	–

Risk management

(continued)

Southern Africa

Contractual liquidity at 30 September 2018

R'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	27 016	2 335	539	18	212	98	100	30 318
Cash and short-term funds – non-banks	9 520	260	583	28	34	16	–	10 441
Investment/trading assets and statutory liquids	62 645	39 152	2 003	951	3 262	33 046	24 987	166 046
Securitised assets	65	129	246	354	756	3 337	3 769	8 656
Advances	5 228	4 255	6 758	11 114	21 189	100 989	103 121	252 654
Other assets	1 641	482	66	186	–	3 969	12 729	19 073
Assets	106 115	46 613	10 195	12 651	25 453	141 455	144 706	487 188
Deposits – banks	(899)	(250)	(1 903)	(366)	(1 487)	(24 520)	(275)	(29 700)
Deposits – non-banks	(139 020)^	(25 895)	(64 938)	(31 907)	(30 265)	(37 166)	(2 481)	(331 672)
Negotiable paper	(323)	(648)	(339)	(1 156)	(1 013)	(3 496)	(735)	(7 710)
Securitised liabilities	–	–	–	–	–	–	(2 216)	(2 216)
Investment/trading liabilities	(4 002)	(14 939)	(3 395)	(1 083)	(4 933)	(7 716)	(1 955)	(38 023)
Subordinated liabilities	–	(12)	–	–	–	(3 649)	(10 962)	(14 623)
Other liabilities	(1 120)	(936)	(772)	(92)	(1 363)	(510)	(5 193)	(9 986)
Liabilities	(145 364)	(42 680)	(71 347)	(34 604)	(39 061)	(77 057)	(23 817)	(433 930)
Total equity	–	–	–	–	–	–	(53 258)	(53 258)
Contractual liquidity gap	(39 249)	3 933	(61 152)	(21 953)	(13 608)	64 398	67 631	–
Cumulative liquidity gap	(39 249)	(35 316)	(96 468)	(118 421)	(132 029)	(67 631)	–	

^ Includes call deposits of R126 billion and the balance reflects term deposits which have finally reached/are reaching contractual maturity.

Behavioural liquidity



As discussed on page 148

R'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	53 783	3 007	(8 397)	(4 711)	(24 125)	(152 619)	133 062	–
Cumulative	53 783	56 790	48 393	43 683	19 557	(133 062)	–	

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 tables below show our non-trading interest rate mismatch. These exposures affect the interest rate margin realised between lending income and borrowing costs assuming no management intervention.

UK and Other – interest rate sensitivity at 30 September 2018

£'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	4 951	–	–	–	–	–	4 951
Investment/trading assets and statutory liquids	1 668	417	104	153	66	2	2 410
Securitised assets	127	–	–	–	–	–	127
Advances	7 158	692	325	1 915	185	–	10 275
Other assets	–	–	–	–	–	2 044	2 044
Assets	13 902	1 109	429	2 068	251	2 046	19 807
Deposits – banks	(1 414)	(10)	–	–	–	–	(1 424)
Deposits – non-banks	(9 063)	(1 190)	(1 061)	(1 057)	(5)	–	(12 376)
Negotiable paper	(1 963)	–	–	(391)	–	–	(2 354)
Securitised liabilities	(121)	–	–	–	–	–	(121)
Investment/trading liabilities	–	–	–	–	–	–	–
Subordinated liabilities	(51)	(25)	–	(728)	–	–	(804)
Other liabilities	–	–	–	–	–	(505)	(505)
Liabilities	(12 612)	(1 225)	(1 061)	(2 176)	(5)	(505)	(17 584)
Total equity	–	–	–	–	–	(2 223)	(2 223)
Balance sheet	1 292	(116)	(632)	(108)	246	(682)	–
Off-balance sheet	726	(357)	(107)	(37)	(225)	–	–
Repricing gap	2 018	(473)	(739)	(145)	21	(682)	–
Cumulative repricing gap	2 018	1 545	806	661	682	–	–

Risk management

(continued)

Southern Africa – interest rate sensitivity at 30 September 2018

R'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	20 301	–	–	–	–	9 239	29 540
Cash and short-term funds – non-banks	9 976	–	–	–	–	258	10 234
Investment/trading assets and statutory liquids	50 502	28 584	9 031	9 470	10 684	31 841	140 112
Securitised assets	8 655	–	–	–	–	1	8 656
Advances	225 217	4 231	1 621	14 586	2 458	4 293	252 406
Other assets	–	–	–	–	–	18 400	18 400
Assets	314 651	32 815	10 652	24 056	13 142	64 032	459 348
Deposits – banks	(29 310)	–	(373)	(17)	–	–	(29 700)
Deposits – non-banks	(264 662)	(23 360)	(25 644)	(10 446)	(1 913)	(3 505)	(329 530)
Negotiable paper	(6 760)	(242)	(509)	(141)	–	(58)	(7 710)
Securitised liabilities	(2 216)	–	–	–	–	–	(2 216)
Investment/trading liabilities	(14 682)	–	–	(92)	(64)	(4)	(14 842)
Subordinated liabilities	(12 134)	(1 957)	–	–	(441)	(91)	(14 623)
Other liabilities	–	(104)	–	–	–	(8 897)	(9 001)
Liabilities	(329 764)	(25 663)	(26 526)	(10 696)	(2 418)	(12 555)	(407 622)
Intercompany loans	11 280	(4 607)	(1 236)	48	(323)	(1 038)	4 124
Total equity	–	–	–	–	(1 297)	(51 961)	(53 258)
Balance sheet	(3 833)	2 545	(17 110)	13 408	9 104	(1 522)	2 592
Off-balance sheet	(4 826)	3 463	13 043	(8 410)	(5 862)	–	(2 592)
Repricing gap	(8 659)	6 008	(4 067)	4 998	3 242	(1 522)	–
Cumulative repricing gap	(8 659)	(2 651)	(6 718)	(1 720)	1 522	–	–

Economic value sensitivity at 30 September 2018

As outlined above, non-trading interest rate risk is measured and monitored using our economic value sensitivity approach. The tables below reflect 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.

UK and Other

Sensitivity to the following interest rates (expressed in original currencies)

million	GBP	USD	EUR	AUD	ZAR	Other (GBP)	All (GBP)
200bps down	7.8	(1.1)	3.3	(2.2)	(2.5)	(0.5)	8.0
200bps up	(5.0)	1.2	(2.6)	2.1	2.3	0.5	(4.7)

Southern Africa

Sensitivity to the following interest rates (expressed in original currencies)

million	ZAR	GBP	USD	EUR	AUD	Other (ZAR)	All (ZAR)
200bps down	466.3	(1.0)	25.7	0.1	1.0	–	824.3
200bps up	(201.4)	1.0	(19.2)	(2.4)	(1.0)	–	(503.1)

Risk management

(continued)

Capital management and allocation

Investec Limited (and its subsidiaries) and Investec plc (and its subsidiaries) are managed independently and have their respective capital bases ring-fenced, however, the governance of capital management is consistent across the two groups. The DLC structure requires the two groups to independently manage each group's balance sheet and capital is managed on this basis. This approach is overseen by the BRCC (via the Investec DLC capital committee) which is a board sub-committee with ultimate responsibility for the capital adequacy of both Investec Limited and Investec plc.

Both groups operate an approach to capital management that utilises both regulatory capital as appropriate to that jurisdiction and internal capital, which is an internal risk-based assessment of capital requirements. A summary of our approach to capital management and our capital and leverage ratio targets is provided on pages 81 to 83 of the Annual Report 2018, Investec Risk disclosures, Volume 2.

Current regulatory framework

Investec Limited is regulated by the South African Prudential Authority, whilst Investec plc is authorised by the PRA and is regulated by the FCA and the PRA on a consolidated basis. The regulatory frameworks which applied at 31 March 2018, are still in force and are consistently applied in each jurisdiction. Further information on these frameworks is provided on pages 79 to 81 of the Annual Report 2018, Investec Risk Disclosures, Volume 2.

Investec adopted IFRS 9 from 1 April 2018. IFRS 9 replaced IAS 39 and sets out the new requirements for the recognition and measurement of financial instruments. These requirements focus primarily on the classification and measurement of financial instruments and measurement of impairment losses based on an expected credit loss (ECL) model. Investec Limited confirmed to the South African Prudential Authority and Investec plc to the PRA that each group will apply the transitional IFRS 9 arrangements to absorb the full IFRS 9 impact allowable in the regulatory calculations.

Investec Limited

The South African Reserve Bank issued Directive 5/2017 that sets out the IFRS 9 transitional arrangements banks may apply to minimise the impact of the IFRS 9 expected credit loss accounting on regulatory capital.

In South Africa, the transitional arrangements allow the day one and any subsequent increases in Stage 1 and Stage 2 expected credit loss provisions to be phased in over three years, recognising 25% on 1 April 2018, 50% on 31 March 2019 and 75% on 31 March 2020, with full recognition in CET 1 capital in 2021.

Investec plc

In December 2017 the European Union issued the final regulation setting out the IFRS 9 transitional arrangements firms could apply to minimise the impact of the IFRS 9 expected credit loss accounting on regulatory capital.

In the UK the transitional arrangements allow the day one and any subsequent increases in Stage 1 and Stage 2 expected credit loss provisions to be phased in over five years, recognising 5% in 2018, increasing to 15% in 2019, 30% in 2020, 50% in 2021, and 75% in 2022, with full recognition in CET 1 capital in 2023.

Capital

Investec Limited

At 30 September 2018, Investec Limited's CET 1 ratio increased to 10.3% from 10.2% at 31 March 2018. The increase in CET 1 capital of R1.4 billion is mainly due to an increase in shareholders' equity arising from profits net of dividends and tax for the period and increases in the foreign currency translation reserve due to the weakened Rand, partially offset by the transitional arrangements on the adoption of IFRS 9 on 1 April 2018.

In April 2018 Investec Bank Limited redeemed tier 2, IV08 and IV09 instruments totalling R400 million and a further redemption of IV032 for R810 million in July 2018.

The SA countercyclical buffer (CCyB) calculation requirement is legislated in Directive 2 of 2018, resulting in an institution specific CCyB requirement at 30 September 2018 of 0.016%. The CCyB requirement for SA is 0% and is subject to a 1 year pre-announced date before implementation.

Investec plc

At 30 September 2018, Investec plc's CET 1 ratio decreased to 10.4% from 11.0% at 31 March 2018. The decrease in CET 1 capital of £17m is mainly due to a reduction in shareholders' equity per the balance sheet of £115m, primarily attributable to the adoption of IFRS 9 on 1 April 2018 net of profits and dividends for the period. This decrease is partly offset by:

- a £95 million add back to CET 1 capital due to the application of the IFRS 9 transitional arrangements, resulting in Investec plc only recognising 5% of the IFRS 9 impact during 2018; and
- a £11 million reversal of losses arising from our own credit standing in respect of tier 2 instruments designated at fair value following the adoption of IFRS 9.

In July 2018 Investec Bank plc successfully tendered to repurchase £267 million of its £575 million 9.625% subordinated notes due 2022. At the same time Investec Bank plc issued to the market a CRD IV compliant tier 2 instrument; £420 million 4.25% fixed rate reset callable subordinated notes due 2028. The net impact of this capital action was an increase in tier 2 capital at both the Investec plc and IBP level.

In June 2018 the UK countercyclical capital buffer (CCyB) requirement increased from 0% to 0.5%, resulting in an institution specific CCyB requirement at 30 September 2018 of 0.27%. From November 2018 the UK rate is expected to rise a further 0.5% to 1%.

Capital disclosures

The composition of our regulatory capital under a Basel III/CRD IV basis is provided in the table below.

Capital structure and capital adequacy

At 30 September 2018	Investec plc ^{*o} £'million	IBP ^{*o} £'million	Investec Limited ^{*^} R'million	IBL ^{*^} R'million
Tier 1 capital				
Shareholders' equity	1 920	1 878	37 773	37 775
Shareholders' equity excluding non-controlling interests	1 960	1 890	40 956	39 309
Perpetual preference share capital and share premium	(25)	–	(3 183)	(1 534)
Deconsolidation of special purpose entities	(15)	(12)	–	–
Non-controlling interests	8	(8)	–	–
Non-controlling interests per balance sheet	13	(8)	9 867	–
Non-controlling interests excluded for regulatory purposes	–	–	(9 867)	–
Surplus non-controlling interest disallowed in common equity tier 1	(5)	–	–	–
Regulatory adjustments to the accounting basis	98	101	1 379	1 365
Defined benefit pension fund adjustment	(3)	–	–	–
Additional value adjustments	(5)	(5)	–	–
Cash flow hedging reserve	–	–	1 014	1 014
Gains or losses on liabilities at fair value resulting from changes in own credit standing	11	11	–	–
Adjustment under IFRS 9 transitional arrangements	95	95	365	351
Deductions	(456)	(358)	(3 311)	(3 254)
Goodwill and intangible assets net of deferred tax	(442)	(344)	(672)	(631)
Investment in financial entity	–	–	(2 582)	(2 578)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences	(9)	(9)	–	–
Securitisation positions	(4)	(4)	–	–
Other regulator adjustments	–	–	(57)	(45)
Debit valuation adjustment	(1)	(1)	–	–
Common equity tier 1 capital	1 570	1 613	35 841	35 886
Additional tier 1 capital	274	200	2 791	963
Additional tier 1 instruments	274	200	5 617	1 884
Phase out of non-qualifying additional tier 1 instruments	–	–	(2 830)	(921)
Non-qualifying surplus capital attributable to non-controlling interest	–	–	(67)	–
Non-controlling interest in non-banking entities	–	–	71	–
Tier 1 capital	1 844	1 813	38 632	36 849
Tier 2 capital	487	626	12 518	13 484
Collective impairment allowances	–	–	730	731
Tier 2 instruments	627	626	14 623	12 753
Non-qualifying surplus capital attributable to non-controlling interests	(140)	–	(2 835)	–
Total regulatory capital	2 331	2 439	51 150	50 333
Risk-weighted assets^{^^}	15 111	14 416	349 130	330 146
Capital ratios^{^^}				
Common equity tier 1 ratio	10.4%	11.2%	10.3%	10.9%
Tier 1 ratio	12.2%	12.6%	11.1%	11.2%
Total capital adequacy ratio	15.4%	16.9%	14.7%	15.2%

* Where: IBP is Investec Bank plc consolidated. IBL is Investec Bank Limited. The information for Investec plc includes the information for IBP. The information for Investec Limited includes the information for IBL.

^o The capital adequacy disclosures follow Investec's normal basis of presentation so as to show a consistent basis of calculation across the jurisdictions in which the group operates. For Investec plc and IBP this does not include the deduction of foreseeable charges and dividends when calculating the CET 1 ratio as required under the Capital Requirements Regulation and European Banking Authority technical standards. The impact of this deduction totalling £45 million for Investec plc and £19 million for IBP would lower the CET 1 ratio by 30bps and 13bps respectively.

[^] Investec Limited's and IBL's capital information includes unappropriated profits. If unappropriated profits are excluded from capital information, Investec Limited's and IBL's common equity tier 1 ratio would be 27bps and 15bps lower respectively.

^{^^} CET 1, T1, total capital adequacy ratios and RWAs are calculated applying the IFRS 9 transitional arrangements.

Risk management

(continued)

Capital structure and capital adequacy (continued)

At 1 April 2018	Investec plc ^o £'million	IBP ^o £'million	Investec Limited [^] R'million	IBL [^] R'million
Tier 1 capital				
Shareholders' equity	1 830	1 795	35 265	35 637
Shareholders' equity per balance sheet	1 863	1 800	38 448	37 171
Perpetual preference share capital and share premium	(25)	–	(3 183)	(1 534)
Additional tier 1 instrument	–	–	–	–
Deconsolidation of special purpose entities	(8)	(5)	–	–
Non-controlling interests	12	(3)	–	–
Non-controlling interests per balance sheet	16	(3)	9 503	–
Non-controlling interests transferred to tier 1	–	–	(9 503)	–
Surplus non-controlling interest disallowed in CET 1	(4)	–	–	–
Regulatory adjustments to the accounting basis	142	145	1 358	1 345
Defined benefit pension fund adjustment	(3)	–	–	–
Unrealised gains on available-for-sale equities	–	–	–	–
Additional value adjustments	(4)	(4)	–	–
Cash flow hedging reserve	–	–	993	994
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	55	55	–	–
Adjustments under IFRS 9 transitional arrangements	94	94	365	351
Deductions	(460)	(361)	(2 773)	(2 696)
Goodwill and intangible assets net of deferred tax	(447)	(348)	(624)	(583)
Investment in financial entity	–	–	(2 149)	(2 113)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences	(9)	(9)	–	–
Securitisation positions	(3)	(3)	–	–
Debit valuation adjustment	(1)	(1)	–	–
Common equity tier 1 capital	1 524	1 576	33 850	34 286
Additional tier 1 capital	274	200	2 785	963
Additional tier 1 instruments	274	200	5 617	1 884
Phase out of non-qualifying additional tier 1 instruments	–	–	(2 830)	(921)
Non-qualifying surplus capital attributable to non-controlling interests	–	–	(72)	–
Minority interest in non banking entities	–	–	70	–
Tier 1 capital	1 798	1 776	36 635	35 249
Tier 2 capital	368	445	12 429	14 090
Collective impairment allowances	–	–	716	716
Tier 2 instruments	446	445	15 013	13 374
Non-qualifying surplus capital attributable to non-controlling interests	(78)	–	(3 300)	–
Total regulatory capital	2 166	2 221	49 064	49 339
Risk-weighted assets	14 444	13 777	337 892	320 475
Capital ratios				
Common equity tier 1 (as reported)	10.5%	11.4%	10.0%	10.7%
Tier 1 (as reported)	12.4%	12.9%	10.8%	11.0%
Total capital adequacy ratio (as reported)	15.0%	16.1%	14.5%	15.4%

^{*} Where: IBP is Investec Bank plc consolidated. IBL is Investec Bank Limited. The information for Investec plc includes the information for IBP. The information for Investec Limited includes the information for IBL.

^o The capital adequacy disclosures follow Investec's normal basis of presentation so as to show a consistent basis of calculation across the jurisdictions in which the group operates. For Investec plc and IBP this does not include the deduction of foreseeable charges and dividends when calculating the CET 1 ratio as required under the Capital Requirements Regulation and European Banking Authority technical standards. The impact of this deduction totalling £65 million for Investec plc and £18 million for IBP would lower the CET 1 ratio by 45bps and 13bps respectively.

[^] Investec Limited's and IBL's capital information includes unappropriated profits. If unappropriated profits are excluded from capital information, Investec Limited's and IBL's common equity tier 1 ratio would be 25bps and 13bps lower respectively.

Capital structure and capital adequacy (continued)

At 31 March 2018	Investec plc ^{*o} £'million	IBP ^{*o} £'million	Investec Limited ^{*^} R'million	IBL ^{*^} R'million
Tier 1 capital				
Shareholders' equity	2 042	2 007	36 159	36 531
Shareholders' equity excluding non-controlling interests	2 075	2 012	39 342	38 065
Perpetual preference share capital and share premium	(25)	–	(3 183)	(1 534)
Deconsolidation of special purpose entities	(8)	(5)	–	–
Non-controlling interests	12	(3)	–	–
Non-controlling interests per balance sheet	16	(3)	9 503	–
Non-controlling interests excluded for regulatory purposes	–	–	(9 503)	–
Surplus non-controlling interest disallowed in common equity tier 1	(4)	–	–	–
Regulatory adjustments to the accounting basis	(7)	(4)	993	994
Defined benefit pension fund adjustment	(3)	–	–	–
Additional value adjustments	(4)	(4)	–	–
Cash flow hedging reserve	–	–	993	994
Deductions	(460)	(361)	(2 772)	(2 696)
Goodwill and intangible assets net of deferred tax	(447)	(348)	(624)	(583)
Investment in financial entity	–	–	(2 149)	(2 113)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences	(9)	(9)	–	–
Securitisation positions	(3)	(3)	–	–
Debit valuation adjustment	(1)	(1)	–	–
Common equity tier 1 capital	1 587	1 639	34 379	34 829
Additional tier 1 capital	274	200	2 785	963
Additional tier 1 instruments	274	200	5 617	1 884
Phase out of non-qualifying additional tier 1 instruments	–	–	(2 830)	(921)
Non-qualifying surplus capital attributable to non-controlling interest	–	–	(72)	–
Non-controlling interest in non-banking entities	–	–	70	–
Tier 1 capital	1 861	1 839	37 164	35 792
Tier 2 capital	359	445	12 348	14 009
Collective impairment allowances	–	–	635	635
Tier 2 instruments	446	445	15 013	13 374
Non-qualifying surplus capital attributable to non-controlling interests	(87)	–	(3 300)	–
Total regulatory capital	2 220	2 284	49 512	49 801
Risk-weighted assets	14 411	13 744	338 484	320 607
Capital ratios				
Common equity tier 1 ratio	11.0%	11.9%	10.2%	10.9%
Tier 1 ratio	12.9%	13.4%	11.0%	11.2%
Total capital adequacy ratio	15.4%	16.6%	14.6%	15.5%

* Where: IBP is Investec Bank plc consolidated. IBL is Investec Bank Limited. The information for Investec plc includes the information for IBP. The information for Investec Limited includes the information for IBL.

^o The capital adequacy disclosures follow Investec's normal basis of presentation so as to show a consistent basis of calculation across the jurisdictions in which the group operates. For Investec plc and IBP this does not include the deduction of foreseeable charges and dividends when calculating the CET 1 ratio as required under the Capital Requirements Regulation and European Banking Authority technical standards. The impact of this deduction totalling £65 million for Investec plc and £18 million for IBP would lower the CET 1 ratio by 45bps and 13bps respectively.

[^] Investec Limited's and IBL's capital information includes unappropriated profits. If unappropriated profits are excluded from capital information, Investec Limited's and IBL's common equity tier 1 ratio would be 25bps and 13bps lower respectively.

Risk management

(continued)

Capital requirements

	Investec plc* £'million	IBP* £'million	Investec Limited* R'million	IBL* R'million
At 30 September 2018				
Capital requirements	1 209	1 153	38 897	36 785
Credit risk	878	862	31 011	30 420
Equity risk	9	9	2 658	2 316
Counterparty credit risk	50	50	654	655
Credit valuation adjustment risk	9	9	418	418
Market risk	79	77	557	501
Operational risk	184	146	3 599	2 475
At 1 April 2018				
Capital requirements	1 156	1 101	37 590	35 653
Credit risk	845	824	29 323	28 855
Equity risk	6	6	2 797	2 521
Counterparty credit risk	51	52	653	655
Credit valuation adjustment risk	10	10	695	697
Market risk	77	77	609	502
Operational risk	167	132	3 513	2 423
At 31 March 2018				
Capital requirements	1 153	1 099	37 656	35 668
Credit risk	842	822	29 389	28 870
Equity risk	6	6	2 797	2 521
Counterparty credit risk	51	52	653	655
Credit valuation adjustment risk	10	10	695	697
Market risk	77	77	609	502
Operational risk	167	132	3 513	2 423

Investec plc

Movement in risk-weighted assets

Total RWAs have increased by 5% over the period, predominantly within credit risk RWAs.

Credit risk RWAs

We have adopted the standardised approach for calculating credit risk RWAs. Credit risk RWAs, which include equity risk, increased by £491 million. The increase is primarily driven by diversified growth across the corporate portfolio coupled with continued mortgage loan growth.

Counterparty credit risk RWAs and CVA risk

Counterparty credit risk and CVA RWAs decreased by £18 million mainly due to a decrease in the facilitation of client derivative hedges.

Market risk RWAs

We apply the standardised approach for calculating market risk RWAs. Market risk RWAs increased marginally by £18 million due to an increase in foreign exchange risk and increased exposure to collective investment undertakings driven by an increase in client activity within the Financial Products business. The increase was largely offset by a reduction in general equity risk due to an increase in netting.

Operational risk RWAs

Operational risk RWAs are calculated using the standardised approach increased by £209 million. The increase is due to a higher three year average operating income.

Investec Limited

Movement in RWAs

Total RWA grew by 3.1% over the period, with the reasons identified in the categories below.

Risk-weighted assets

	Investec plc*	IBP*	Investec Limited*	IBL*
	£'million	£'million	R'million	R'million
At 30 September 2018				
Risk-weighted assets	15 111	14 416	349 130	330 146
Credit risk	10 972	10 777	278 346	273 020
Equity risk	118	113	23 859	20 785
Counterparty credit risk	628	628	5 869	5 875
Credit valuation adjustment risk	114	114	3 750	3 755
Market risk	983	962	5 001	4 500
Operational risk	2 296	1 822	32 305	22 211
At 1 April 2018				
Risk-weighted assets	14 444	13 777	337 892	320 475
Credit risk	10 554	10 304	263 579	259 362
Equity risk	78	79	25 140	22 663
Counterparty credit risk	639	652	5 867	5 887
Credit valuation adjustment risk	121	121	6 251	6 269
Market risk	965	965	5 477	4 515
Operational risk	2 087	1 656	31 578	21 779
At 31 March 2018				
Risk-weighted assets	14 411	13 744	338 484	320 607
Credit risk	10 521	10 271	264 171	259 494
Equity risk	78	79	25 140	22 663
Counterparty credit risk	639	652	5 867	5 887
Credit valuation adjustment risk	121	121	6 251	6 269
Market risk	965	965	5 477	4 515
Operational risk	2 087	1 656	31 578	21 779

* Where: IBP is Investec Bank plc consolidated and IBL is Investec Bank Limited. The information for Investec plc includes the information for IBP. The information for Investec Limited includes the information for IBL.

Investec Limited (continued)

Credit risk RWAs

Credit risk weighted assets grew by R14.2bn which is associated with growth in lending activities as well as an increase in term and short-dated corporate lending.

Counterparty credit risk and CVA RWAs

Counterparty credit risk RWAs decreased by R2.5bn. Over-the-counter (OTC) Derivative exposures are predominantly transacted with high credit quality financial counterparties largely on a collateralised basis. Secured financing transactions (SFT) remained flat over the period.

Equity risk RWAs

Equity risk decreased by R1.3 billion. The risk weight attributable to equity investments is relatively high, with listed equities attracting an effective 318% and unlisted equities 424%. The impact of this is proportionately much larger movement in RWA than the associated balance sheet equity value.

Market risk RWAs

Market risk RWAs are calculated using the Value at Risk (VaR) approach. Market Risk RWAs remained fairly stable over the six months to 30 September 2018. After initially declining, RWAs increased to end the period close to the levels observed at 31 March 2018, driven primarily by client flow.

Operational risk RWAs

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

Risk management

(continued)

Leverage ratios

	Investec plc £'million*	IBP £'million*	Investec Limited R'million*^	IBL R'million*^
At 30 September 2018				
Exposure measure	23 987	23 508	514 979	479 820
Tier 1 capital [∞]	1 844	1 813	38 632	36 849
Leverage ratio** – current	7.7%	7.7%	7.5%#	7.7%#
Tier 1 capital fully loaded	1 743	1 737	36 438	35 864
Leverage ratio** – ‘fully loaded’^^	7.3%	7.4%	7.1%#	7.5%#
At 1 April 2018				
Exposure measure	21 771	21 335	495 349	466 522
Tier 1 capital [∞]	1 798	1 776	36 635	35 249
Leverage ratio – current	8.3%	8.3%	7.4%#	7.6%#
Tier 1 capital fully loaded	1 729	1 731	34 179	33 935
Leverage ratio – ‘fully loaded’^^	8.0%	8.2%	6.9%#	7.3%#
At 31 March 2018				
Exposure measure	21 772	21 335	495 670	466 846
Tier 1 capital	1 861	1 839	37 164	35 792
Leverage ratio** – current	8.5%	8.6%	7.5%#	7.7%#
Tier 1 capital fully loaded	1 837	1 839	35 350	35 179
Leverage ratio** – ‘fully loaded’^^^	8.4%	8.6%	7.1%#	7.5%#

* Where: IBP is Investec Bank plc consolidated and IBL is Investec Bank Limited. The information for Investec plc includes the information for IBP. The information for Investec Limited includes the information for IBL.

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

^ Investec Limited's and IBL's capital information includes unappropriated profits. If unappropriated profits are excluded from capital information, Investec Limited's and IBL's common equity tier 1 ratio would be 27bps and 15bps lower. At 31 March 2018, Investec Limited's and IBL's common equity tier 1 ratio would be 25bps and 13bps lower.

Based on revised BIS rules.

∞ Tier 1 (T1) capital includes the IFRS 9 transitional arrangements.

^^ The fully loaded leverage ratio at 30 September and 1 April 2018 assumes full adoption of IFRS 9 and full adoption of all CRD IV rules or South African Prudential Authority regulations. As a result of the adoption of IFRS 9 Investec plc and IBP 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.

^^^ The fully loaded leverage ratio assumes full adoption of all CRD IV rules or South African Prudential Authority regulations.

Total regulatory capital flow statement

At 30 September 2018	Investec plc* £'million	IBP* £'million	Investec Limited* R'million	IBL* R'million
Opening common equity tier 1 capital	1 587	1 639	34 379	34 829
New capital issues	60	–	756	–
Dividends	(72)	(22)	(1 382)	(88)
Profit after taxation	118	96	2 862	2 132
IFRS 9 adjustment	(212)	(212)	(894)	(894)
Treasury shares	(43)	–	(567)	–
Share-based payment adjustments	14	(2)	346	–
Movement in other comprehensive income	20	17	493	92
Investment in financial entity	–	–	(434)	(465)
Goodwill and intangible assets (deduction net of related taxation liability)	5	4	(48)	(48)
Deconsolidation of special purpose entities	(7)	(7)	–	–
Gains or losses on liabilities at fair value resulting from changes in own credit standing	11	11	–	–
Adjustments under IFRS 9 transitional arrangements	95	95	365	351
Other, including regulatory adjustments and other transitional arrangements	(6)	(6)	(35)	(23)
Closing common equity tier 1 capital	1 570	1 613	35 841	35 886
Opening additional tier 1 capital	24	–	2 785	963
New additional tier 1 issues	250	200	–	–
Other, including regulatory adjustments and transitional arrangements	–	–	5	–
Movement in minority interest in non-banking entities	–	–	1	–
Closing additional tier 1 capital	274	200	2 791	963
Closing tier 1 capital	1 844	1 813	38 632	36 849
Opening tier 2 capital	359	445	12 348	14 009
New tier 2 capital issues	418	418	–	–
Redeemed capital	(267)	(267)	(1 210)	(1 210)
Collective impairment allowances	–	–	96	96
Amortisation adjustments	30	30	–	–
Other, including regulatory adjustments and other transitional arrangements	(53)	–	1 284	589
Closing tier 2 capital	487	626	12 518	13 484
Closing total regulatory capital	2 331	2 439	51 150	50 333

* Where: IBP is Investec Bank plc consolidated and IBL is Investec Bank Limited. The information for Investec plc includes the information for IBP. The information for Investec Limited includes the information for IBL.

Risk management

(continued)

Total regulatory capital flow statement (continued)

At 31 March 2018	Investec plc* £'million	IBP* £'million	Investec Limited* R'million	IBL* R'million
Opening common equity tier 1 capital	1 508	1 587	32 497	33 848
New capital issues	71	–	925	–
Dividends	(113)	(57)	(2 569)	(1 437)
Profit after taxation	135	98	6 302	4 673
Treasury shares	(64)	–	(985)	–
Non-controlling interest relating to partial disposal of subsidiaries	9	–	–	–
Gain on transfer of non-controlling interest	–	–	103	–
Share-based payment adjustments	31	1	656	–
Movement in other comprehensive income	(9)	(10)	(590)	(336)
Investment in financial entity	–	–	(2 149)	(2 113)
Goodwill and intangible assets (deduction net of related taxation liability)	17	16	96	96
Deferred tax that relies on future profitability (excluding those arising from temporary differences)	1	1	–	–
Deconsolidation of special purpose entities	2	3	–	–
Other, including regulatory adjustments and transitional arrangements	(1)	–	93	98
Closing common equity tier 1 capital	1 587	1 639	34 379	34 829
Opening additional tier 1 capital	24	–	2 900	767
New additional tier 1 issues	250	200	350	350
Other, including regulatory adjustments and transitional arrangements	–	–	(475)	(154)
Movement in minority interest in non-banking entities	–	–	10	–
Closing additional tier 1 capital	274	200	2 785	963
Closing tier 1 capital	1 861	1 839	37 164	35 792
Opening tier 2 capital	475	560	11 153	13 501
New tier 2 capital issues	–	–	3 287	2 273
Redeemed capital	–	–	(2 205)	(2 205)
Collective impairment allowances	–	–	314	314
Amortisation adjustments	(115)	(115)	–	–
Other, including regulatory adjustments and transitional arrangements	(1)	–	(201)	126
Closing tier 2 capital	359	445	12 348	14 009
Closing total regulatory capital	2 220	2 284	49 512	49 801

* Where: IBP is Investec Bank plc consolidated and IBL is Investec Bank Limited. The information for Investec plc includes the information for IBP. The information for Investec Limited includes the information for IBL.

A summary of capital adequacy and leverage ratios

	Investec plc ^{o*}	IBP ^{o*}	Investec Limited ^{*^}	IBL ^{*^}
As at 30 September 2018				
Common equity tier 1 (as reported) [□]	10.4%	11.2%	10.3%	10.9%
Common equity tier 1 ('fully loaded') ^{^^}	10.0%	10.8%	10.2%	10.8%
Tier 1 (as reported) [□]	12.2%	12.6%	11.1%	11.2%
Total capital adequacy ratio (as reported) [□]	15.4%	16.9%	14.7%	15.2%
Leverage ratio ^{**} – current	7.7%	7.7%	7.5% [#]	7.7% [#]
Leverage ratio ^{**} – 'fully loaded' ^{^^}	7.3%	7.4%	7.1% [#]	7.5% [#]
As at 1 April 2018				
Common equity tier 1 (as reported) [□]	10.5%	11.4%	10.0%	10.7%
Common equity tier 1 (fully loaded) ^{^^}	10.3%	11.2%	9.8%	10.6%
Tier 1 (as reported) [□]	12.4%	12.9%	10.8%	11.0%
Total capital adequacy ratio (as reported) [□]	15.0%	16.1%	14.5%	15.4%
Leverage ratio – current	8.3%	8.3%	7.4% [#]	7.6% [#]
Leverage ratio – 'fully loaded' ^{^^}	8.0%	8.2%	6.9% [#]	7.3% [#]
As at 31 March 2018				
Common equity tier 1 (as reported)	11.0%	11.9%	10.2%	10.9%
Common equity tier 1 ('fully loaded') ^{^^}	11.0%	11.9%	10.2%	10.9%
Tier 1 (as reported)	12.9%	13.4%	11.0%	11.2%
Total capital adequacy ratio (as reported)	15.4%	16.6%	14.6%	15.5%
Leverage ratio ^{**} – current	8.5%	8.6%	7.5% [#]	7.7% [#]
Leverage ratio ^{**} – 'fully loaded' ^{^^}	8.4%	8.6%	7.1% [#]	7.5% [#]

* Where: IBP is Investec Bank plc consolidated and IBL is Investec Bank Limited. The information for Investec plc includes the information for IBP. The information for Investec Limited includes the information for IBL.

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

° The capital adequacy disclosures follow Investec's normal basis of presentation so as to show a consistent basis of calculation across the jurisdictions in which the group operates. For Investec plc and Investec Bank plc this does not include the deduction of foreseeable charges and dividends when calculating the CET 1 ratio as required under the Capital Requirements Regulation and European Banking Authority technical standards. The impact of this deduction totalling £45 million (31 March 2018: £65 million) for Investec plc and £19 million (31 March 2018: £18 million) for IBP would lower the CET 1 ratio by 30bps (31 March 2018: 45bps) and 13bps (31 March 2018: 13bps) respectively.

^ Investec Limited's and IBL's capital information includes unappropriated profits. If unappropriated profits are excluded from capital information, Investec Limited's and IBL's common equity tier 1 ratio would be 27bps and 15bps lower. At 31 March 2018, Investec Limited's and IBL's common equity tier 1 ratio would be 25bps and 13bps lower.

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

^^ The CET 1 fully loaded ratio and the fully loaded leverage ratio assumes full adoption of IFRS 9 and full adoption of all CRDIV rules of South African Prudential Authority regulations. As a result of the adoption of IFRS 9 Investec 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 investment.

^^^ The fully loaded CET 1 ratio and leverage ratio assumes full adoption of all CRD IV rules or South African Prudential Authority regulations.

Based on revised BIS rules.



Annexures



Adjusted shareholders' equity

Refer to calculation on page 80

Cost to income ratio

Operating costs divided by operating income (net of depreciation on leased assets). Depreciation on operating leased assets has been netted off against operating income

Core loans and advances

Net loans and advances to customers plus net own originated securitised assets

Refer to calculation on page 124

Dividend cover

Adjusted earnings per ordinary share before goodwill and non-operating items divided by dividends per ordinary share

Earnings attributable to ordinary shareholders before goodwill, acquired intangibles and non-operating items (i.e. adjusted earnings)

Refer to page 56

Adjusted earnings per ordinary share before goodwill, acquired intangibles and non-operating items

Refer to page 56

Effective operational tax rate

Tax on profit on ordinary activities (excluding non-operating items) divided by operating profit

Legacy business in the UK Specialist Bank ("Legacy")

Legacy, as separately disclosed from 2014 to 2018, comprises pre-2008 assets held on the UK bank's balance sheet, that had very low/negative margins and assets relating to business we are no longer undertaking

Market capitalisation

Total number of shares in issue (including Investec plc and Investec Limited) multiplied by the closing share price of Investec plc on the London Stock Exchange

Net tangible asset value per share

Refer to calculation on page 79

Non-operating items

Reflects profits and/or losses on termination, restructuring or disposal of group operations and acquisitions made

Ongoing basis

Ongoing information, as separately disclosed from 2014 to 2018, excludes Legacy assets (refer to definition), as well as the following businesses sold in previous years: Investec Bank (Australia) Limited, Kensington Group plc and Start Mortgage Holdings Limited

Operating profit

Operating income less administrative expenses, impairments for bad and doubtful debts and depreciation of tangible fixed assets. This amount is before goodwill, acquired intangibles and non-operating items

Operating profit per employee

Refer to calculation on page 84

Annuity income

Net interest income plus net annuity fees and commissions expressed as a percentage of total operating income

Return on average adjusted shareholders' equity

Refer to calculation on page 80

Return on average adjusted tangible shareholders' equity

Refer to calculation on page 81

Return on risk-weighted assets

Adjusted earnings divided by average risk-weighted assets

Risk-weighted assets

Calculated as the sum of risk-weighted assets for Investec plc and Investec Limited (converted into Pounds Sterling) as reflected on page 80

Staff compensation to operating income ratio

All employee-related costs expressed as a percentage of operating income

Third party assets under administration

Includes third party assets under administration managed by the Wealth & Investment, Asset Management and Property businesses

Total capital resources

Includes shareholders' equity, subordinated liabilities and non-controlling interests

Total equity

Total shareholders' equity including non-controlling interests

Weighted number of ordinary shares in issue

The number of ordinary shares in issue at the beginning of the year increased by shares issued during the year, weighted on a time basis for the period during which they have participated in the income of the group less treasury shares. Refer to calculation on page 56



Annexure 2 – Dividend announcements

Investec plc

Incorporated in England and Wales
Registration number 3633621
JSE share code: INPPR
ISIN: GB00B4B0Q974

Rand-denominated preference share dividend announcement

Rand-denominated non-redeemable non-cumulative non-participating perpetual preference shares ("preference shares")

Declaration of dividend number 15

Notice is hereby given that preference dividend number 15 has been declared by the board from income reserves for the period 01 April 2018 to 30 September 2018 amounting to a gross preference dividend of 476.30137 cents per preference share payable to holders of the Rand-denominated non-redeemable non-cumulative non-participating perpetual preference shares as recorded in the books of the company at the close of business on Friday, 7 December 2018.

The relevant dates relating to the payment of dividend number 15 are as follows:

Last day to trade cum-dividend	Tuesday, 4 November 2018
Shares commence trading ex-dividend	Wednesday, 5 November 2018
Record date	Friday, 7 December 2018
Payment date	Tuesday, 18 December 2018

Share certificates may not be dematerialised or rematerialised between Wednesday, 5 December 2018 and Friday, 7 December 2018, both dates inclusive.

Additional information for South African resident shareholders of Investec plc

- Investec plc United Kingdom tax reference number: 2683967322360
- The issued rand-denominated preference share capital of Investec plc is 131 447 preference shares
- The dividend paid by Investec plc to shareholders recorded on the South African branch register is subject to South African Dividend Tax (Dividend Tax) of 20% (subject to any available exemptions as legislated)
- The net dividend amounts to 381.04110 cents per preference share for preference shareholders liable to pay the Dividend Tax and 476.30137 cents per preference share for preference shareholders exempt from paying the Dividend Tax.

By order of the board

D Miller

Company Secretary
14 November 2018

Annexure 2 – Dividend announcements

(continued)



Investec Limited

Incorporated in the Republic of South Africa
Registration number 1925/002833/06
JSE share code: INPR
NSX ordinary share code: IVD
BSE ordinary share code: INVESTEC
ISIN: ZAE000063814

Preference share dividend announcement

Non-redeemable non-cumulative non-participating preference shares ("preference shares")

Declaration of dividend number 28

Notice is hereby given that preference dividend number 28 has been declared by the board from income reserves for the period 01 April 2018 to 30 September 2018 amounting to a gross preference dividend of 389.91534 cents per share payable to holders of the non-redeemable non-cumulative non-participating preference shares as recorded in the books of the company at the close of business on Friday, 14 December 2018.

The relevant dates for the payment of dividend number 28 are as follows:

Last day to trade cum-dividend	Tuesday, 11 December 2018
Shares commence trading ex-dividend	Wednesday, 12 December 2018
Record date	Friday, 14 December 2018
Payment date	Tuesday, 18 December 2018

Share certificates may not be dematerialised or rematerialised between Wednesday, 12 December 2018 and Friday, 14 December 2018, both dates inclusive.

Additional information to take note of:

- Investec Limited South African tax reference number: 9800/181/71/2
- The issued preference share capital of Investec Limited is 32 214 499 preference shares in this specific class
- The dividend paid by Investec Limited is subject to South African Dividend Tax (Dividend Tax) of 20% (subject to any available exemptions as legislated)
- The net dividend amounts to 311.93227 cents per preference share for shareholders liable to pay the Dividend Tax and 389.91534 cents per preference share for preference shareholders exempt from paying the Dividend Tax.

By order of the board

N van Wyk

Company Secretary
14 November 2018



Annexure 2 – Dividend announcements

(continued)

Investec Bank Limited

Incorporated in the Republic of South Africa

Registration number: 1969/004763/06

Share code: INLP

ISIN: ZAE000048393

Preference share dividend announcement

Non-redeemable non-cumulative non-participating preference shares (“preference shares”)

Declaration of dividend number 31

Notice is hereby given that preference dividend number 31 has been declared by the board from income reserves for the period 01 April 2018 to 30 September 2018 amounting to a gross preference dividend of 417.79151 cents per share payable to holders of the non-redeemable non-cumulative non-participating preference shares as recorded in the books of the company at the close of business on Friday, 14 December 2018.

The relevant dates for the payment of dividend number 31 are as follows:

Last day to trade cum-dividend	Tuesday, 11 December 2018
Shares commence trading ex-dividend	Wednesday, 12 December 2018
Record date	Friday, 14 December 2018
Payment date	Tuesday, 18 December 2018

Share certificates may not be dematerialised or rematerialised between Wednesday, 12 December 2018 and Friday, 14 December 2018, both dates inclusive.

Additional information to take note of:

- Investec Bank Limited tax reference number: 9675/053/71/5
- The issued preference share capital of Investec Bank Limited is 15 447 630 preference shares in this specific class
- The dividend paid by Investec Bank Limited is subject to South African Dividend Tax (Dividend Tax) of 20% (subject to any available exemptions as legislated)
- The net dividend amounts to 334.23321 cents per preference share for shareholders liable to pay the Dividend Tax and 417.79151 cents per preference share for preference shareholders exempt from paying the Dividend Tax.

By order of the board

N van Wyk

Company Secretary

14 November 2018

Annexure 2 – Dividend announcements

(continued)



Investec plc

Incorporated in England and Wales
Registration number: 3633621
Share code: INPP
ISIN: GB00B19RX541

Preference share dividend announcement

Non-redeemable non-cumulative non-participating preference shares (“preference shares”)

Declaration of dividend number 25

Notice is hereby given that preference dividend number 25 has been declared by the board from income reserves for the period 01 April 2018 to 30 September 2018 amounting to a gross preference dividend of 7.93150 pence per preference share payable to holders of the non-redeemable non-cumulative non-participating preference shares as recorded in the books of the company at the close of business on Friday, 7 December 2018.

For shares trading on the Johannesburg Stock Exchange (JSE), the dividend of 7.93150 pence per preference share is equivalent to a gross dividend of 148.73149 cents per share, which has been determined using the Rand/Pound Sterling average buy/sell forward rate as at 11h00 (SA Time) on Wednesday, 14 November 2018.

The relevant dates relating to the payment of dividend number 25 are as follows:

Last day to trade cum-dividend

On the Johannesburg Stock Exchange (JSE)	Tuesday, 4 December 2018
On The International Stock Exchange (TISE)	Wednesday, 5 December 2018

Shares commence trading ex-dividend

On the Johannesburg Stock Exchange (JSE)	Wednesday, 5 December 2018
On The International Stock Exchange (TISE)	Thursday, 6 December 2018

Record date (on the JSE and TISE)

Friday, 7 December 2018

Payment date (on the JSE and TISE)

Tuesday, 18 December 2018

Share certificates may not be dematerialised or rematerialised between Wednesday, 5 December 2018 and Friday, 7 December 2018, both dates inclusive, nor may transfers between the United Kingdom share register and the South African branch register take place between Wednesday, 5 December 2018 and Friday, 7 December 2018, both dates inclusive.

Additional information for South African resident shareholders of Investec plc

- Investec plc United Kingdom tax reference number: 2683967322360
- The issued preference share capital of Investec plc is 2 754 587 preference shares
- The dividend paid by Investec plc to shareholders recorded on the South African branch register is subject to South African Dividend Tax (Dividend Tax) of 20% (subject to any available exemptions as legislated)
- The net dividend amounts to 118.98519 cents per preference share for preference shareholders liable to pay the Dividend Tax and 148.73149 cents per preference share for preference shareholders exempt from paying the Dividend Tax.

By order of the board

D Miller

Company Secretary
14 November 2017



Annexure 2 – Dividend announcements

(continued)

Investec Limited

Incorporated in the Republic of South Africa
Registration number: 1925/002833/06
JSE ordinary share code: INL
NSX ordinary share code: IVD
BSE ordinary share code: INVESTEC
ISIN: ZAE000081949

Ordinary share dividend announcement

Declaration of dividend number 126

Notice is hereby given that an interim dividend number 126, being a gross dividend of 206 cents (2017: 200 cents) per ordinary share has been declared by the board from income reserves in respect of the six months ended 30 September 2018 payable to shareholders recorded in the shareholders' register of the company at the close of business on Friday, 7 December 2018.

The relevant dates for the payment of dividend number 126 are as follows:

Last day to trade cum-dividend	Tuesday, 4 December 2019
Shares commence trading ex-dividend	Wednesday, 5 December 2019
Record date	Friday, 7 December 2019
Payment date	Wednesday, 19 December 2019

The interim gross dividend of 206 cents per ordinary share has been determined by converting the Investec plc distribution of 11 pence per ordinary share into Rands using the Rand/Pounds Sterling average buy/sell forward rate at 11h00 (SA time) on Wednesday, 14 November 2018.

Share certificates may not be dematerialised or rematerialised between Wednesday, 5 December 2018 and Friday, 7 December 2018, both dates inclusive.

Additional information to take note of:

- Investec Limited South African tax reference number: 9800/181/71/2
- The issued ordinary share capital of Investec Limited is 318 904 709 ordinary shares
- The dividend paid by Investec Limited is subject to South African Dividend Tax (Dividend Tax) of 20% (subject to any available exemptions as legislated)
- Shareholders who are exempt from paying the Dividend Tax will receive a net dividend of 206 cents per ordinary share
- Shareholders who are not exempt from paying the Dividend Tax will receive a net dividend of 164.8 cents per ordinary share (gross dividend of 206 cents per ordinary share less Dividend Tax of 41.2 cents per ordinary share).

By order of the board

N van Wyk

Company Secretary

14 November 2018

Annexure 2 – Dividend announcements

(continued)



Investec plc

Incorporated in England and Wales
Registration number 3633621
LSE ordinary share code: INVP
JSE ordinary share code: INP
ISIN: GB00B17BBQ50

Ordinary share dividend announcement

In terms of the DLC structure, Investec plc shareholders registered on the United Kingdom share register may receive all or part of their dividend entitlements through dividends declared and paid by Investec plc on their ordinary shares and/or through dividends declared and paid on the SA DAN share issued by Investec Limited.

Investec plc shareholders registered on the South African branch register may receive all or part of their dividend entitlements through dividends declared and paid by Investec plc on their ordinary shares and/or through dividends declared and paid on the SA DAS share issued by Investec Limited.

Declaration of dividend number 33

Notice is hereby given that an interim dividend number 33, being a gross dividend of 11 pence (2017: 10.5 pence) per ordinary share has been declared by the board from income reserves in respect of the six months ended 30 September 2018 payable to shareholders recorded in the shareholders' register of the company at the close of business on Friday, 7 December 2018.

- for Investec plc shareholders, registered on the United Kingdom share register, through a dividend payment by Investec plc from income reserves of 11 pence per ordinary share
- for Investec plc shareholders, registered on the South African branch register, through a dividend payment by Investec plc from income reserves of 3 pence per ordinary share and through a dividend paid by Investec Limited, on the SA DAS share, payable from income reserves, equivalent to 8 pence per ordinary share

The relevant dates for the payment of dividend number 33 are as follows:

Last day to trade cum-dividend	
On the Johannesburg Stock Exchange (JSE)	Tuesday, 4 December 2018
On the London Stock Exchange (LSE)	Wednesday, 5 December 2018
Shares commence trading ex-dividend	
On the Johannesburg Stock Exchange (JSE)	Wednesday, 5 December 2018
On the London Stock Exchange (LSE)	Thursday, 6 December 2018
Record date (on the JSE and LSE)	Friday, 7 December 2018
Payment date (on the JSE and LSE)	Wednesday, 19 December 2018

Share certificates on the South African branch register may not be dematerialised or rematerialised between Wednesday, 5 December 2018 and Friday, 7 December 2018, both dates inclusive, nor may transfers between the United Kingdom share register and the South African branch register take place between Wednesday, 5 December 2018 and Friday, 7 December 2018, both dates inclusive.

Additional information for South African resident shareholders of Investec plc

- Shareholders registered on the South African branch register are advised that the distribution of 11 pence, equivalent to a gross dividend of 206 cents per share, has been arrived at using the Rand/ Pound Sterling average buy/sell forward rate, as determined at 11h00 (SA time) on Wednesday, 14 November 2018
- Investec plc United Kingdom tax reference number: 2683967322360
- The issued ordinary share capital of Investec plc is 681 051 512 ordinary shares
- The dividend paid by Investec plc to South African resident shareholders registered on the South African branch register and the dividend paid by Investec Limited to Investec plc shareholders on the SA DAS share are subject to South African Dividend Tax (Dividend Tax) of 20% (subject to any available exemptions as legislated)
- Shareholders registered on the South African branch register who are exempt from paying the Dividend Tax will receive a net dividend of 206 cents per share, comprising 149.81818 cents per share paid by Investec Limited on the SA DAS share and 56.18182 cents per ordinary share paid by Investec plc
- Shareholders registered on the South African branch register who are not exempt from paying the Dividend Tax will receive a net dividend of 164.8 cents per share (gross dividend of 206 cents per share less Dividend Tax of 41.2 cents per share) comprising 119.85455 cents per share paid by Investec Limited on the SA DAS share and 44.94545 cents per ordinary share paid by Investec plc.

By order of the board

D Miller
Company Secretary
14 November 2018



Annexure 3 – Directors' responsibility statement

The directors listed below confirm that, to the best of their knowledge:

- (a) the condensed set of financial statements has been prepared in accordance with IAS 34 as adopted by the European Union; and
- (b) the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8.

Neither the company nor the directors accept any liability to any person in relation to the half-yearly financial report except to the extent that such liability could arise under English law. Accordingly, any liability to a person who has demonstrated reliance on any untrue or misleading statement or omission shall be determined in accordance with section 90A of the Financial Services and Markets Act 2000.

On behalf of the directors

Hendrik du Toit
Joint Chief Executive Officer
14 November 2018

Fani Titi
Joint Chief Executive Officer

Annexure 4 – Financial reporting and going concern



The directors have confirmed that they are satisfied that the group, as well as Investec plc and Investec Limited individually, have adequate resources to continue in business for the foreseeable future. The assumptions underlying the going concern statement are discussed at the time of the approval of the interim financial results by the board and these include:

- Budgeting and forecasts
- Profitability
- Capital
- Liquidity
- Solvency.

The board is of the opinion, based on its knowledge of the group, key processes in operation and enquiries, that there are adequate resources to support the group as a going concern for the foreseeable future. Further information on our liquidity and capital position is provided on pages 146 to 150 and pages 154 to 163.

Furthermore, the board is of the opinion that the group's risk management processes and the systems of internal control operate effectively.

The directors are responsible for monitoring and reviewing the preparation, integrity and reliability of the Investec plc and Investec Limited combined consolidated financial statements, accounting policies and the information contained in the interim report, and to ensure that the interim financial statements are fair, balanced and understandable.

In undertaking this responsibility, the directors are supported by an ongoing process for identifying, evaluating and managing the key risks Investec faces in preparing the financial and other information contained in this interim report. This process was in place for the period under review and up to the date of approval of this interim report and annual financial statements.

The process is implemented by management and independently monitored for effectiveness by the audit, risk and other sub-committees of the board.

Our interim report is prepared on a going concern basis, taking into consideration:

The group's strategy and prevailing market conditions and business environment

- Nature and complexity of our business
- Risks we assume, and their management and mitigation
- Key business and control processes in operation
- Credit rating and access to capital
- Needs of all our stakeholders
- Operational soundness
- Accounting policies adopted
- Corporate governance practices
- Desire to provide relevant and clear disclosures
- Operation of board committee support structures.



Annexure 5 – Auditors' review report

Independent review report to Investec plc

Introduction

We have been engaged by the company to review the condensed set of financial statements in the interim results presentation of Investec plc (incorporating Investec Limited) for the six months ended 30 September 2018 which comprises the Combined condensed consolidated income statement, Combined consolidated statement of comprehensive income, Combined condensed consolidated balance sheet, Summarised combined consolidated cash flow statement and Combined consolidated statement of changes in equity and related notes on pages 16 to 17, 48 to 57 and 86 to 111. We have read the other information contained in the interim results presentation and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with guidance contained in ISRE 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim results presentation is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim results presentation in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed on pages 16 to 17, the interim financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this interim results presentation have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the interim results presentation based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim results presentation for the six months ended 30 September 2018 are not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP

Ernst & Young LLP

London

14 November 2018

Notes:

1. The maintenance and integrity of the Investec plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Annexure 5 – Auditors' review report

(continued)



To the shareholders of Investec Limited

We have reviewed the accompanying combined condensed financial statements of Investec Limited (incorporating Investec plc), contained in the accompanying interim report, which comprise the combined condensed consolidated balance sheet as at 30 September 2018, and the related combined condensed consolidated income statement, the summarised combined consolidated statement of comprehensive income and the summarised combined consolidated statements of changes in equity and cash flows for the six months then ended, and selected explanatory notes, as set out on pages 16, 48 to 57, 86 to 111.

Directors' Responsibility for the Interim Condensed Consolidated Financial Statements

The directors are responsible for the preparation and presentation of these combined consolidated interim financial statements in accordance with the International Financial Reporting Standard, (IAS) 34 Interim Financial Reporting, the JSE Limited listing requirements, the SAICA Financial Reporting Guides, as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of combined consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on these combined consolidated interim financial statements. We conducted our review in accordance with International Standard on Review Engagements (ISRE) 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. ISRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements are not prepared in all material respects in accordance with the applicable financial reporting framework. This standard also requires us to comply with relevant ethical requirements.

A review of interim financial statements in accordance with ISRE 2410 is a limited assurance engagement. We perform procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluate the evidence obtained.

The procedures performed in a review are substantially less than and differ in nature from those performed in an audit conducted in accordance with International Standards on Auditing. Accordingly, we do not express an audit opinion on these combined consolidated financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying combined consolidated interim financial statements of Investec Limited (incorporating Investec plc) for the six months ended 30 September 2018 are not prepared, in all material respects, in accordance with the International Financial Reporting Standard, (IAS) 34 Interim Financial Reporting, the SAICA Financial Reporting Guides, as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council and the requirements of the Companies Act of South Africa.

Ernst & Young Inc.

Ernst & Young Inc.

Registered Auditor

Per Gail Moshoeshe
Chartered Accountant (SA)
Registered Auditor
Director

Ernst & Young Inc.

102 Rivonia Road
Private Bag X14
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2146
South Africa
14 November 2018



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Registration number

Investec plc

Registration number 3633621

Investec Limited

Registration number 1925/002833/06

Auditors

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Ernst & Young Inc.

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Directorate

Executive directors

Hendrik J du Toit (joint chief executive officer)
Fani Titi (joint chief executive officer)
Bernard Kantor (executive director)
Glynn R Burger (group risk and finance director)
Kim McFarland (executive director)
Stephen Koseff (executive director)

Non-executive directors

Perry KO Crosthwaite (chairman)
Zarina BM Bassa (senior independent NED)
Laurel C Bowden
Cheryl A Carolus
David Friedland
Philip A Hourquebie
Charles R Jacobs
Ian R Kantor
Lord Malloch-Brown (KCMG)
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