Investec

INVESTEC BANK PLC | 2019

(a subsidiary of Investec plc)

Financial information

Unaudited condensed consolidated financial information for the six months ended 30 September 2019

IFRS – Pounds Sterling

Introduction

On 1 April 2019 the group adopted IFRS 16 Leases which replaced IAS 17 Leases. The group's accounting as a lessor under IFRS 16 is substantially unchanged from its approach under IAS 17, apart from certain subleases which are now classified as finance lease receivables. For lessees, IFRS 16 removes the distinction between finance and operating leases and introduces a single lease accounting model that will with some limited exemptions, apply to all leases and result in bringing them on balance sheet.

The implementation and impact of IFRS 16 is included on page 24. As permitted by IFRS 16, the group has applied a modified retrospective basis and therefore comparative information has not been restated.

We supplement our IFRS figures with alternative performance measures used by management internally and which provide valuable, relevant information. The description of alternative performance measures and their calculation is provided on page 56. All other definitions can be found on page 57.

Key financial statistics	**30 Sept 2019**	30 Sept 2018^	% change	31 March 2019^
Total operating income before expected credit loss impairment charges (£'000)	513 441	546 730	(6.1%)	1 089 842
Operating costs (£'000)	383 489	400 455	(4.2%)	792 380
Adjusted operating profit (£'000)	113 161	138 950	(18.6%)	274 813
Earnings attributable to ordinary shareholders (£'000)	60 690	97 724	(37.9%)	161 917
Cost to income ratio (%)	74.8%	72.8%		72.6%
Total capital resources (including subordinated liabilities) (£'000)	3 066 788	2 886 130	6.3%	2 966 927
Total equity (£'000)	2 255 204	2 082 242	8.3%	2 163 228
Total assets (£'000)	23 000 166	21 162 620	8.7%	22 121 020
Net core loans and advances (£'000)	10 759 230	10 026 162	7.3%	10 486 701
Customer accounts (deposits) (£'000)	13 656 843	12 743 472	7.2%	13 499 234
Loans and advances to customers as a % of customer deposits	78.8%	78.7%		77.7%
Cash and near cash balances (£'mn)	6 460	6 294	2.6%	6 792
Funds under management (£'mn)	41 539	39 710	4.6%	39 482
Total gearing ratio (i.e. total assets to equity)	10.2x	10.2x		10.2x
Total capital ratio	17.1%	16.8%		17.0%
Tier 1 ratio	13.3%	12.4%		12.9%
Common equity tier 1 ratio	11.6%	11.1%		11.2%
Leverage ratio – current	8.0%	7.6%		7.9%
Leverage ratio – 'fully loaded'	7.8%	7.3%		7.7%
Stage 3 exposure as a % of gross core loans and advances subject to ECL	3.1%	4.2%		3.2%
Stage 3 exposure net of ECL as a % of net core loans and advances subject to ECL	2.2%	3.0%		2.2%
Credit loss ratio	0.28% #	0.42% #		0.38%

Annualised

^ *Restated as detailed on pages 25 to 27.*

CONDENSED CONSOLIDATED INCOME STATEMENT

£'000	Six months to 30 Sept 2019	Six months to 30 Sept 2018^	Year to 31 March 2019^
Interest income	392 847	349 669	727 745
Interest expense	(192 527)	(151 580)	(329 461)
Net interest income	**200 320**	**198 089**	**398 284**
Fee and commission income	257 299	261 119	496 307
Fee and commission expense	(5 156)	(5 580)	(9 419)
Investment income	18 492	28 684	92 095
Share of post taxation profit of associates and joint venture holdings	595	–	2 680
Trading income arising from			
– customer flow	45 736	48 420	86 766
– balance sheet management and other trading activities	(6 429)	13 016	12 653
Other operating income	2 584	2 982	10 476
Total operating income before expected credit loss impairment charges	**513 441**	**546 730**	**1 089 842**
Expected credit loss impairment charges	(16 025)	(10 363)	(24 991)
Operating income	**497 416**	**536 367**	**1 064 851**
Operating costs	(383 489)	(400 455)	(792 380)
Depreciation on operating leased assets	(845)	(1 167)	(2 137)
Operating profit before acquired intangibles and strategic actions	**113 082**	**134 745**	**270 334**
Amortisation of acquired intangibles	(6 548)	(6 408)	(12 958)
Closure and rundown of the Hong Kong direct investments business	(49 469)	(26 909)	(65 593)
Operating profit	**57 065**	**101 428**	**191 783**
Financial impact of group restructures	11 584	6 234	(14 591)
Profit before taxation	**68 649**	**107 662**	**177 192**
Taxation on operating profit before acquired intangibles and strategic actions	(19 745)	(19 233)	(37 353)
Taxation on acquired intangibles and strategic actions	11 707	5 090	17 599
Profit after taxation	**60 611**	**93 519**	**157 438**
Loss attributable to other non-controlling interests	79	4 205	4 479
Earnings attributable to shareholder	**60 690**	**97 724**	**161 917**

^ *Restated as detailed on pages 25 to 27*

CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

£'000	Six months to 30 Sept 2019	Six months to 30 Sept 2018^	Year to 31 March 2019^
Profit after taxation	**60 611**	**93 519**	**157 438**
Other comprehensive income/(loss):			
Items that may be reclassified to the income statement:			
Gains on realisation of debt instruments at FVOCI recycled through the income statement*	(1 069)	–	(1 907)
Fair value movements on debt instruments at FVOCI taken directly to other comprehensive income*	860	244	1 517
Foreign currency adjustments on translating foreign operations	5 379	6 052	2 381
Items that will never be reclassified to the income statement:			
Effect of rate change on deferred tax relating to adjustment for IFRS 9	(503)	–	(1 572)
Gains attributable to own credit risk*	1 542	10 670	9 104
Total comprehensive income	**66 820**	**110 485**	**166 961**
Total comprehensive income attributable to non-controlling interests	(581)	(4 617)	(4 891)
Total comprehensive income attributable to ordinary shareholders	58 963	108 351	157 958
Total comprehensive income attributable to perpetual preferred securities and Additional Tier 1 securities	8 438	6 751	13 894
Total comprehensive income	**66 820**	**110 485**	**166 961**

* *Net of taxation (except for the impact of rate changes on deferred tax as shown separately above).*
^ *Restated as detailed on pages 25 to 27*

CONSOLIDATED BALANCE SHEET

£'000	At 30 Sept 2019	At 31 March 2019	At 30 Sept 2018
Assets			
Cash and balances at central banks	3 331 165	4 445 430	3 882 703
Loans and advances to banks	938 460	954 938	882 183
Reverse repurchase agreements and cash collateral on securities borrowed	913 588	633 202	681 276
Sovereign debt securities	2 148 108	1 298 947	1 287 930
Bank debt securities	52 460	52 265	54 619
Other debt securities	474 293	508 142	366 261
Derivative financial instruments	742 129	642 530	610 332
Securities arising from trading activities	780 367	798 224	783 308
Investment portfolio	367 036	486 493	464 994
Loans and advances to customers	10 761 024	10 488 022	10 027 694
Other loans and advances	226 735	246 400	263 437
Other securitised assets	114 733	118 143	126 595
Interests in associated undertakings and joint venture holdings	8 802	8 855	6 958
Deferred taxation assets	126 912	133 344	144 689
Other assets	1 437 714	847 604	1 107 258
Property and equipment	226 499	94 714	97 902
Investment properties	14 500	14 500	14 500
Goodwill	252 970	260 858	261 255
Intangible assets	82 671	88 409	98 726
	23 000 166	**22 121 020**	**21 162 620**
Liabilities			
Deposits by banks	1 361 453	1 318 776	1 414 371
Derivative financial instruments	967 613	719 027	651 702
Other trading liabilities	87 457	80 217	85 079
Repurchase agreements and cash collateral on securities lent	240 223	314 335	155 159
Customer accounts (deposits)	13 656 843	13 499 234	12 743 472
Debt securities in issue	1 908 182	2 050 141	1 963 398
Liabilities arising on securitisation of other assets	116 544	113 711	121 161
Current taxation liabilities	132 693	136 818	156 289
Deferred taxation liabilities	19 713	21 341	20 501
Other liabilities	1 442 657	900 493	965 358
	19 933 378	**19 154 093**	**18 276 490**
Subordinated liabilities	811 584	803 699	803 888
	20 744 962	**19 957 792**	**19 080 378**
Equity			
Ordinary share capital	1 218 050	1 186 800	1 186 800
Share premium	162 038	143 288	143 288
Capital reserve	162 789	162 789	162 789
Other reserves	(12 936)	(19 647)	(4 687)
Retained income	481 789	447 924	401 729
Shareholder's equity excluding non-controlling interests	**2 011 730**	**1 921 154**	**1 889 919**
Additional Tier 1 securities in issue	250 000	250 000	200 000
Non-controlling interests in partially held subsidiaries	(6 526)	(7 926)	(7 677)
Total equity	**2 255 204**	**2 163 228**	**2 082 242**
Total liabilities and equity	**23 000 166**	**22 121 020**	**21 162 620**

CONDENSED CASH FLOW STATEMENTS

£'000	Six months to 30 Sept 2019	Year to 31 March 2019^	Six months to 30 Sept 2018^
Cash inflows from operations	100 236	159 947	69 713
Increase in operating assets	(1 322 225)	(1 183 864)	(768 128)
Increase in operating liabilities	365 232	1 932 859	978 117
Net cash (outflow)/inflow from operating activities	**(856 757)**	**908 942**	**279 702**
Net cash outflow from investing activities	(4 899)	(60 841)	(54 604)
Net cash (outflow)/inflow from financing activities	(14 423)	81 252	56 395
Effects of exchange rate changes on cash and cash equivalents	(21)	(3 994)	(1 887)
Net (decrease)/increase in cash and cash equivalents	**(876 100)**	**925 359**	**279 606**
Cash and cash equivalents at the beginning of the period	5 048 080	4 122 721	4 122 721
Cash and cash equivalents at the end of the period	**4 171 980**	**5 048 080**	**4 402 327**

^ *Restated as detailed on pages 25 to 27*

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

£'000	Ordinary share capital	Share premium	Capital reserve account
At 31 March 2018	**1 186 800**	**143 288**	**162 789**
Adoption of IFRS 9	–	–	–
At 1 April 2018	**1 186 800**	**143 288**	**162 789**
Movement in reserves 1 April 2018 – 31 March 2019			
Profit after taxation^	–	–	–
Effect of rate change on deferred tax relating to adjustment for IFRS 9	–	–	–
Gains on realisation of debt instruments at FVOCI recycled through the income statement	–	–	–
Fair value movements on debt instruments at FVOCI taken directly to other comprehensive income	–	–	–
Foreign currency adjustments on translating foreign operations	–	–	–
Gains attributable to own credit risk	–	–	–
Total comprehensive income for the year	**–**	**–**	**–**
Share-based payments adjustments	–	–	–
Issue of Additional Tier security instruments	–	–	–
Dividends paid to ordinary shareholders	–	–	–
Dividends declared to Additional Tier 1 security holders^	–	–	–
Dividends paid to Additional Tier 1 security holders^	–	–	–
Transfer own credit reserve on sale of subordinated liabilities	–	–	–
Net equity impact of non-controlling interest movements	–	–	–
At 31 March 2019	**1 186 800**	**143 288**	**162 789**
Movement in reserves 1 April 2019 – 30 September 2019			
Profit after taxation	–	–	–
Effect of rate change on deferred tax relating to adjustment for IFRS 9	–	–	–
Gains on realisation of debt instruments at FVOCI recycled through the income statement	–	–	–
Fair value movements on debt instruments at FVOCI taken directly to other comprehensive income	–	–	–
Foreign currency adjustments on translating foreign operations	–	–	–
Gains attributable to own credit risk	–	–	–
Total comprehensive income for the year	**–**	**–**	**–**
Share-based payments adjustments	–	–	–
Issue of ordinary shares	31 250	18 750	–
Dividends paid to ordinary shareholders	–	–	–
Dividends declared to Additional Tier 1 security holders	–	–	–
Dividends paid to Additional Tier 1 security holders	–	–	–
Net equity impact of non-controlling interest movements	–	–	–
At 30 September 2019	**1 218 050**	**162 038**	**162 789**

^ *Restated as detailed on pages 25 to 27*

Other reserves							
Fair value reserve	Foreign currency reserves	Own credit reserve	Retained income	**Shareholder's equity excluding non–controlling interests**	Additional Tier 1 securities in issue	Non-controlling interests	**Total equity**
10 490	**(3 146)**	**–**	**512 006**	**2 012 227**	**200 000**	**(3 060)**	**2 209 167**
(7 970)	–	(55 388)	(148 306)	(211 664)	–	–	(211 664)
2 520	**(3 146)**	**(55 388)**	**363 700**	**1 800 563**	**200 000**	**(3 060)**	**1 997 503**
–	–	–	161 917	161 917	–	(4 479)	157 438
(47)	–	(817)	(708)	(1 572)	–	–	(1 572)
(1 907)	–	–	–	(1 907)	–	–	(1 907)
1 517	–	–	–	1 517	–	–	1 517
1	2 792	–	–	2 793	–	(412)	2 381
–	–	9 104	–	9 104	–	–	9 104
(436)	**2 792**	**8 287**	**161 209**	**171 852**	**–**	**(4 891)**	**166 961**
–	–	–	(2 367)	(2 367)	–	–	(2 367)
–	–	–	–	–	50 000	–	50 000
–	–	–	(35 000)	(35 000)	–	–	(35 000)
–	–	–	(13 894)	(13 894)	13 894	–	–
–	–	–	–	–	(13 894)	–	(13 894)
–	–	25 724	(25 724)	–	–	–	–
–	–	–	–	–	–	25	25
2 084	**(354)**	**(21 377)**	**447 924**	**1 921 154**	**250 000**	**(7 926)**	**2 163 228**
–	–	–	60 690	60 690	–	(79)	60 611
(24)	–	(479)	–	(503)	–	–	(503)
(1 069)	–	–	–	(1 069)	–	–	(1 069)
860	–	–	–	860	–	–	860
–	5 881	–	–	5 881	–	(502)	5 379
–	–	1 542	–	1 542	–	–	1 542
(233)	**5 881**	**1 063**	**60 690**	**67 401**	**–**	**(581)**	**66 820**
–	–	–	(387)	(387)	–	–	(387)
–	–	–	–	50 000	–	–	50 000
–	–	–	(18 000)	(18 000)	–	–	(18 000)
–	–	–	(8 438)	(8 438)	8 438	–	–
–	–	–	–	–	(8 438)	–	(8 438)
–	–	–	–	–	–	1 981	1 981
1 851	**5 527**	**(20 314)**	**481 789**	**2 011 730**	**250 000**	**(6 526)**	**2 255 204**

Segmental business analysis – income statement **For the six months to 30 September 2019** **£'000**	Wealth & Investment	Specialist Banking	**Total group**
Net interest income	6 694	193 626	200 320
Fee and commission income	155 807	101 492	257 299
Fee and commission expense	(339)	(4 817)	(5 156)
Investment income	(372)	18 864	18 492
Share of post taxation profit of associates and joint venture holdings	–	595	595
Trading income arising from			
– customer flow	483	45 253	45 736
– balance sheet management and other trading activities	17	(6 446)	(6 429)
Other operating income	–	2 584	2 584
Total operating income before expected credit loss impairment charges	**162 290**	**351 151**	**513 441**
Expected credit loss impairment release/(charges)	1	(16 026)	(16 025)
Operating income	**162 291**	**335 125**	**497 416**
Operating costs	(131 836)	(251 653)	(383 489)
Depreciation on operating leased assets	–	(845)	(845)
Operating profit before acquired intangibles and strategic actions	**30 455**	**82 627**	**113 082**
Loss attributable to other non-controlling interests	–	79	79
Adjusted operating profit	**30 455**	**82 706**	**113 161**
Selected returns and key statistics			
Cost to income ratio	81.2%	71.8%	74.8%
Total assets (£'million)	959	22 041	23 000

Segmental business analysis – income statement^ **For the six months to 30 September 2018** **£'000**	Wealth & Investment	Specialist Banking	**Total group**
Net interest income	4 046	194 043	198 089
Fee and commission income	155 895	105 224	261 119
Fee and commission expense	(373)	(5 207)	(5 580)
Investment income	47	28 637	28 684
Share of post taxation profit of associates and joint venture holdings	–	–	–
Trading income arising from			
– customer flow	393	48 027	48 420
– balance sheet management and other trading activities	3	13 013	13 016
Other operating income	–	2 982	2 982
Total operating income before expected credit loss impairment charges	**160 011**	**386 719**	**546 730**
Expected credit loss impairment charges	(27)	(10 336)	(10 363)
Operating income	**159 984**	**376 383**	**536 367**
Operating costs	(123 637)	(276 818)	(400 455)
Depreciation on operating leased assets	–	(1 167)	(1 167)
Operating profit before acquired intangibles and strategic actions	**36 347**	**98 398**	**134 745**
Loss attributable to other non-controlling interests	–	4 205	4 205
Adjusted operating profit	**36 347**	**102 603**	**138 950**
Selected returns and key statistics			
Cost to income ratio	77.3%	71.0%	72.8%
Total assets (£'million)	876	20 287	21 163

^ *Restated as detailed on pages 25 to 27*

Net interest income

For the six months to 30 September £'000	Notes	2019 Balance sheet value	2019 Interest income	2018^ Balance sheet value	2018^ Interest income
Cash, near cash and bank debt and sovereign debt securities	1	7 383 781	40 870	6 788 711	26 545
Loans and advances	2	10 761 024	291 456	10 027 694	284 698
Private client		4 494 748	91 142	3 692 360	83 112
Corporate, institutional and other clients		6 266 276	200 314	6 335 334	201 586
Other debt securities and other loans and advances#		701 028	51 594	629 698	38 426
Finance lease receivables*		335 355	8 927	–	–
Total interest-earning assets		**19 181 188**	**392 847**	**17 446 103**	**349 669**

For the six months to 30 September £'000	Notes	2019 Balance sheet value	2019 Interest expense	2018^ Balance sheet value	2018^ Interest expense
Deposits by banks and other debt-related securities#	3	3 509 858	74 432	3 532 928	55 675
Customer accounts (deposits)		13 656 843	85 262	12 743 472	69 598
Subordinated liabilities		811 584	24 172	803 888	26 307
Lease liabilities*		497 707	8 661	–	–
Total interest-bearing liabilities		**18 475 992**	**192 527**	**17 080 288**	**151 580**
Net interest income			**200 320**		**198 089**
Annualised net interest margin			**2.12%**		**2.32%**

Notes:
1. *Comprises (as per the balance sheet) cash and balances at central banks; loans and advances to banks; reverse repurchase agreements and cash collateral on securities borrowed; sovereign debt securities; and bank debt securities.*
2. *Comprises (as per the balance sheet) loans and advances to customers.*
3. *Comprises (as per the balance sheet) deposits by banks; debt securities in issue; and repurchase agreements and cash collateral on securities lent.*

^ *Restated as detailed on pages 25 to 27*

* *The group adopted IFRS 16 from 1 April 2019. The impact has been to recognise interest income and interest expense on the unwind of finance lease receivables and lease liabilities respectively. The prior period comparatives have not been restated.*

Includes interest income and interest expense on derivative assets and liabilities used for hedging purposes. This results in interest income and interest expense being recognised with no associated balance sheet value.

Net fee and commission income

For the six months to 30 September £'000	2019	2018^
Wealth management businesses net fee and commission income	**155 468**	**155 522**
Fund management fees/fees for assets under management	134 311	131 594
Private client transactional fees	21 496	24 301
Fee and commission expense	(339)	(373)
Specialist Banking net fee and commission income	**96 675**	**100 017**
Corporate and institutional transactional and advisory services	95 958	100 239
Private client transactional fees	5 534	4 985
Fee and commission expense	(4 817)	(5 207)
Net fee and commission income	**252 143**	**255 539**
Annuity fees (net of fees payable)	143 983	143 118
Deal fees	108 160	112 421

^ *Restated as detailed on pages 25 to 27*

Investment income

For the six months to 30 September £'000	Listed equities	Unlisted equities	Warrants and profit shares	Total investment portfolio	Debt securities (sovereign, bank and other)	Investment and trading properties	Other asset categories	Total
2019								
Realised	(471)	46 501	14 661	60 691	3 707	(1 921)	563	63 040
Unrealised*	(1 073)	(35 401)	(6 726)	(43 200)	73	1 293	(4 392)	(46 226)
Dividend income	1	631	–	632	–	–	–	632
Funding and other net related income	–	–	–	–	–	1 046	–	1 046
	(1 543)	**11 731**	**7 935**	**18 123**	**3 780**	**418**	**(3 829)**	**18 492**
2018^								
Realised	1 068	14 170	17 124	32 362	2 667	–	(9 788)	25 241
Unrealised*	(15 209)	10 700	(4 884)	(9 393)	1 160	(3 505)	8 507	(3 231)
Dividend income	95	2 285	–	2 380	–	–	–	2 380
Funding and other net related income	–	–	–	–	–	4 294	–	4 294
	(14 046)	**27 155**	**12 240**	**25 349**	**3 827**	**789**	**(1 281)**	**28 684**

* *In a year of realisation, any prior period mark-to-market gains/(losses) recognised are reversed in the unrealised line item.*
^ *Restated as detailed on pages 25 to 27*

Analysis of financial assets and liabilities by category of financial instruments

At 30 September 2019 **£'000**	Total instruments at fair value	Amortised cost	Non–financial instruments or scoped out of IFRS 9	**Total BS**
Assets				
Cash and balances at central banks	–	3 331 165	–	3 331 165
Loans and advances to banks	–	938 460	–	938 460
Reverse repurchase agreements and cash collateral on securities borrowed	25 771	887 817	–	913 588
Sovereign debt securities	2 148 108	–	–	2 148 108
Bank debt securities	52 460	–	–	52 460
Other debt securities	210 334	263 959	–	474 293
Derivative financial instruments*	742 129	–	–	742 129
Securities arising from trading activities	780 367	–	–	780 367
Investment portfolio	367 036	–	–	367 036
Loans and advances to customers	1 184 744	9 576 280	–	10 761 024
Other loans and advances	–	226 735	–	226 735
Other securitised assets	114 733	–	–	114 733
Interests in associated undertakings and joint venture holdings	–	–	8 802	8 802
Deferred taxation assets	–	–	126 912	126 912
Other assets	13 822	785 365	638 527	1 437 714
Property and equipment	–	–	226 499	226 499
Investment properties	–	–	14 500	14 500
Goodwill	–	–	252 970	252 970
Intangible assets	–	–	82 671	82 671
	5 639 504	**16 009 781**	**1 350 881**	**23 000 166**
Financial liabilities				
Deposits by banks	1 094	1 360 359	–	1 361 453
Derivative financial instruments*	967 613	–	–	967 613
Other trading liabilities	87 457	–	–	87 457
Repurchase agreements and cash collateral on securities lent	23 454	216 769	–	240 223
Customer accounts (deposits)	–	13 656 843	–	13 656 843
Debt securities in issue	312 028	1 596 154	–	1 908 182
Liabilities arising on securitisation of other assets	116 544	–	–	116 544
Current taxation liabilities	–	–	132 693	132 693
Deferred taxation liabilities	–	–	19 713	19 713
Other liabilities	–	792 177	650 480	1 442 657
	1 508 190	**17 622 302**	**802 886**	**19 933 378**
Subordinated liabilities	378 414	433 170	–	811 584
	1 886 604	**18 055 472**	**802 886**	**20 744 962**

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

Fair value hierarchy

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

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

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

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

		Fair value category		
At 30 September 2019 £'000	**Total instruments at fair value**	Level 1	Level 2	Level 3
Assets				
Reverse repurchase agreements and cash collateral on securities borrowed	25 771	–	25 771	–
Sovereign debt securities	2 148 108	2 148 108	–	–
Bank debt securities	52 460	–	52 460	–
Other debt securities	210 334	–	83 352	126 982
Derivative financial instruments	742 129	–	707 334	34 795
Securities arising from trading activities	780 367	749 414	23 893	7 060
Investment portfolio	367 036	10 668	4 740	351 628
Loans and advances to customers	1 184 744	–	–	1 184 744
Other securitised assets	114 733	–	–	114 733
Other assets	13 822	13 822	–	–
	5 639 504	**2 922 012**	**897 550**	**1 819 942**
Liabilities				
Deposits by banks	1 094	–	–	1 094
Derivative financial instruments	967 613	3 694	935 371	28 548
Other trading liabilities	87 457	87 457	–	–
Repurchase agreements and cash collateral on securities lent	23 454	–	23 454	–
Debt securities in issue	312 028	–	312 028	–
Liabilities arising on securitisation of other assets	116 544	–	–	116 544
Subordinated liabilities	378 414	378 414	–	–
	1 886 604	**469 565**	**1 270 853**	**146 186**
Net assets	**3 752 900**	**2 452 447**	**(373 303)**	**1 673 756**

Transfers between level 1 and level 2

During the current year there were no transfers between level 1 and level 2.

Fair value hierarchy *(continued)*

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

£'000	Investment portfolio	Loans and advances to customers	Other securitised assets	Other balance sheet assets[1]	Total
Assets					
Balance as at 1 April 2019	**467 646**	**1 169 133**	**118 143**	**128 923**	**1 883 845**
Total gains or (losses)	(9 324)	12 480	2 318	20 048	25 522
In the income statement	(9 324)	12 364	2 318	20 048	25 406
In the statement of comprehensive income	–	116	–	–	116
Purchases	23 151	631 848	–	39 451	694 450
Sales	(128 310)	(429 673)	–	–	(557 983)
Issues	–	–	–	–	–
Settlements	(6 344)	(243 157)	(5 729)	(23 593)	(278 823)
Transfers into level 3	–	50	–	–	50
Transfers out of level 3	(3 823)	–	–	–	(3 823)
Foreign exchange adjustments	8 632	44 063	1	4 008	56 704
Balance as at 30 September 2019	**351 628**	**1 184 744**	**114 733**	**168 837**	**1 819 942**

£'000	Liabilities arising on securitisation of other assets	Other balance sheet liabilities[2]	Total
Liabilities			
Balance as at 1 April 2019	**113 711**	**16 626**	**130 337**
Total (gains) or losses	961	11 238	12 199
In the income statement	961	11 238	12 199
In the statement of comprehensive income	–	–	–
Purchases	–	1 094	1 094
Sales	–	–	–
Issues	7 306	–	7 306
Settlements	(5 434)	–	(5 434)
Transfers into level 3	–	–	–
Transfers out of level 3	–	–	–
Foreign exchange adjustments	–	684	684
Balance as at 30 September 2019	**116 544**	**29 642**	**146 186**

1. *Comprises level 3 other debt securities, derivative financial instruments and securities arising from trading.*
2. *Comprises level 3 deposits by banks and derivative financial instruments.*

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

For the six months to 30 September 2019, there were transfers of £3.8 million level 3 assets into level 1 where an equity position became listed in the period. There were transfers from level 2 into level 3 of £0.05 million assets.

Fair value hierarchy *(continued)*

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

For the six months to 30 September 2019 £'000	Total	Realised	Unrealised
Total gains or (losses) included in the income statement for the period			
Net interest income	37 536	24 132	13 404
Investment income	(21 729)	61 823	(83 552)
Trading income arising from customer flow	(2 260)	(285)	(1 975)
Other operating income	(340)	(340)	–
	13 207	**85 330**	**(72 123)**
Total gains or (losses) included in other comprehensive income for the period			
Gains on realisation on debt instruments at FVOCI recycled through the income statement	1 320	1 320	–
Fair value movements on debt instruments at FVOCI taken directly to other comprehensive income	116	–	116
	1 436	**1 320**	**116**

Level 2 financial assets and financial liabilities

The following table sets out the group's principal valuation techniques as at 30 September 2019 used in determining the fair value of its financial assets and financial liabilities that are classified within level 2 of the fair value hierarchy.

	VALUATION BASIS/TECHNIQUES	MAIN ASSUMPTIONS
Assets		
Reverse repurchase agreements and cash collateral on securities borrowed	Discounted cash flow model, Hermite interpolation	Discount rates
Bank debt securities	Discounted cash flow model	Discount rates
Other debt securities	Discounted cash flow model	Discount rates, swap curves and NCD curves, external prices, broker quotes
Derivative financial instruments	Discounted cash flow model, Hermite interpolation, industry standard derivative pricing models including Black-Scholes	Discount rate, risk free rate, volatilities, forex forward points and spot rates, interest rate swap curves and credit curves
Securities arising from trading activities	Standard industry derivative pricing model	Interest rate curves, implied bond spreads, equity volatilities
Investment portfolio	Discounted cash flow model, net asset value model Comparable quoted inputs	Discount rate and fund unit price
	Comparable quoted inputs	Net assets
Liabilities		
Derivative financial instruments	Discounted cash flow model, Hermite interpolation, industry standard derivative pricing models including Black-Scholes	Discount rate, risk free rate, volatilities, forex forward points and spot rates, interest rate swap curves and credit curves
Repurchase agreements and cash collateral on securities lent	Discounted cash flow model, Hermite interpolation	Discount rates
Debt securities in issue	Discounted cash flow model	Discount rates

Sensitivity of fair values to reasonably possible alternative assumptions by level 3 instrument type

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

At 30 September 2019	Balance sheet value £'000	Significant unobservable input	Range of unobservable input used	Favourable changes £'000	Unfavourable changes £'000
Assets					
Other debt securities	126 982	Potential impact on income statement		8 204	(8 016)
		Credit spreads	0.85%	32	(46)
		Discount rate	6.85%	85	(84)
		Underlying asset value^^	^^	201	–
		Other^	^	7 886	(7 886)
Derivative financial instruments	34 795	Potential impact on income statement		8 438	(8 430)
		Volatilities	4.0% - 9.5%	127	(127)
		Discount rate	6.85%	24	(25)
		Cash flow adjustments	CPR 6.4% - 10.3%	111	(102)
		Underlying asset value^^	^^	7 653	(7 653)
		Other^	^	523	(523)
Securities arising from trading activities	7 060	Potential impact on income statement			
		Cash flow adjustments	CPR 8.5%	829	(769)
Investment portfolio	351 628	Potential impact on income statement		61 391	(55 664)
		Price earnings multiple	3.2 x -9.7 x	7 115	(6 116)
		Underlying asset value^^	^^	8 850	(4 994)
		Other^	^	45 426	(44 554)
Loans and advances to customers	1 184 744	Potential impact on income statement		42 629	(50 959)
		Credit spreads	1.5% - 5.9%	1 822	(2 606)
		Price earnings multiple	4.9 x	707	(496)
		Underlying asset value^^	^^	1 828	(1 877)
		Other^	^	38 272	(45 980)
		Potential impact on other comprehensive income			
		Credit spreads	0.04% - 2.1%	1 232	(1 754)
Other securitised assets	114 733	Potential impact on income statement			
		Cash flow adjustments	CPR 6.4%	2 797	(2 665)
Total level 3 assets	**1 819 942**			**125 520**	**(128 257)**
Liabilities					
Deposits by banks	1 094	Potential impact on income statement		–	78
		Underlying asset value^^	^^	–	78
Derivative financial instruments	28 548	Potential impact on income statement		(7 866)	7 874
		Cash flow adjustments	CPR 6.4% - 10.3%	(79)	87
		Volatilities	4.0% - 9.5%	(134)	134
		Underlying asset value^^	^^	(7 653)	7 653
Liabilities arising on securitisation of other assets*	116 544	Potential impact on income statement			
		Cash flow adjustments	CPR 6.4%	(377)	396
Total level 3 liabilities	**146 186**			**(8 243)**	**8 348**
Net level 3 assets	**1 673 756**				

* *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, earnings multiples rather than a single input. It is deemed appropriate to reflect the outcome on a portfolio basis for the purposes of this analysis as the sensitivity of the assets cannot be determined through the adjustment of a single input.*
^^ *Underlying asset values are calculated by reference to a tangible asset, for example property, aircraft or shares.*

Within the Hong Kong portfolio there is a connected exposure across the investment portfolio and loans and advances to customers lines with a balance sheet value of £35 million. The consideration of reasonably possible alternative assumptions with respect to the fair value of this exposure results in a favourable change of £35 million and a unfavourable change of £35 million, included within the table on page 15.

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

Credit spreads

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

Discount rates

Discount rates (including WACC) are used to adjust for the time value of money when using a discounted cash flow 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. Cash flows are input into a discounted cash flows valuation.

Price earnings multiple

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

EBITDA

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

Underlying asset value

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

Fair value of financial instruments at amortised cost

At 30 September 2019 £'000	**Carrying amount**	**Fair value**
Assets		
Cash and balances at central banks	3 331 165	3 331 165
Loans and advances to banks	938 460	938 458
Reverse repurchase agreements and cash collateral on securities borrowed	887 817	887 897
Other debt securities	263 959	258 464
Loans and advances to customers	9 576 280	9 589 014
Other loans and advances	226 735	225 328
Other assets	785 365	785 343
	16 009 781	**16 015 669**
Liabilities		
Deposits by banks	1 360 359	1 366 459
Repurchase agreements and cash collateral on securities lent	216 769	216 769
Customer accounts (deposits)	13 656 843	13 662 187
Debt securities in issue	1 596 154	1 602 291
Other liabilities	792 177	790 485
Subordinated liabilities	433 170	434 167
	18 055 472	**18 072 358**

Expected credit losses impairment charges or (release)

For the six months to 30 September £'000	**2019**	2018
Expected credit losses have arisen on the following items:		
Loans and advances to customers	14 209	19 219
Other loans and advances	1	(2 796)
Other balance sheet assets	221	(5 588)
Off–balance sheet commitments	1 594	(472)
	16 025	**10 363**

Operating costs

For the six months to 30 September £'000	**2019**	2018^
Staff costs	286 873	294 719
Premises expenses*	19 198	28 607
Premises expenses (excluding depreciation)*	7 390	25 711
Premises depreciation*	11 808	2 896
Equipment expenses (excluding depreciation)	21 655	19 988
Business expenses	41 298	48 167
Marketing expenses	9 557	5 386
Depreciation, amortisation and impairment of equipment and intangibles*	4 908	3 588
Depreciation on operating leased assets	845	1 167
	384 334	**401 622**

* *The group adopted IFRS 16 from 1 April 2019. The impact has been to increase the depreciation charge by £8.6 million as a result of recognising a right-of-use asset and to reduce the premises expense in the six months to 30 September 2019. The prior period comparatives have not been restated. Depreciation on premises is now being shown next to other premises expenses to aid comparability.*

^ *Restated as detailed on pages 25 to 27*

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

£'000	30 Sept 2019	31 March 2019
Assets		
Gross reverse repurchase agreements and cash collateral on securities borrowed	913 596	633 204
Expected credit loss	(8)	(2)
Net reserve repurchase agreements and cash collateral on securities borrowed	**913 588**	**633 202**
Reverse repurchase agreements	855 199	575 891
Cash collateral on securities borrowed	58 389	57 311
	913 588	**633 202**
Liabilities		
Repurchase agreements	125 841	201 022
Cash collateral on securities lent	114 382	113 313
	240 223	**314 335**

Extract of other debt securities

£'000	30 Sept 2019	31 March 2019
Gross other debt securities	474 888	508 515
Expected credit loss	(595)	(373)
Net other debt securities	**474 293**	**508 142**
Bonds	210 240	215 631
Commercial paper	9 666	9 878
Asset–backed securities	254 387	282 633
	474 293	**508 142**

Extract of securities arising from trading activities

£'000	30 Sept 2019	31 March 2019
Asset-backed securities	7 060	7 118
Bonds	128 709	110 616
Government securities	359 406	419 350
Listed equities	285 192	261 140
	780 367	**798 224**

Extract of loans and advances to customers and other loans and advances

£'000	30 Sept 2019	31 March 2019
Gross loans and advances to customers at amortised cost	9 710 310	9 466 667
Gross loans and advances to customers at FVOCI^	473 098	397 068
Gross loans and advances to customers subject to expected credit losses	**10 183 408**	**9 863 735**
Expected credit losses on loans and advances to customers at amortised cost and FVOCI^	(134 030)	(147 797)
Net loans and advances to customers at amortised cost and FVOCI^	**10 049 378**	**9 715 938**
Loans and advances to customers at fair value through profit and loss	711 646	772 084
Loans and advances to customers	**10 761 024**	**10 488 022**
Gross other loans and advances	226 851	246 514
Expected credit losses on other loans and advances	(116)	(114)
Net other loans and advances	**226 735**	**246 400**

^ *Expected credit losses above do not include £1.8 million (31 March 2019: £1.4 million) ECL held against financial assets held at FVOCI. This is reported on the balance sheet within the fair value reserve.*

Other securitised assets

£'000	30 Sept 2019	31 March 2019
Loans and advances to customers	107 797	111 312
Other debt securities	6 936	6 831
	114 733	**118 143**

Other assets

£'000	30 Sept 2019	31 March 2019
Settlement debtors	675 673	498 534
Trading properties	44 041	55 529
Prepayments and accruals	126 099	118 425
Trading initial margins	13 822	13 822
Finance lease receivables*	335 355	–
Other	242 724	161 294
	1 437 714	**847 604**

* *The group adopted IFRS 16 from 1 April 2019. The group has a head lease and sublease arrangement with external partners and has recognised finance lease receivables of £330 million and corresponding lease liabilities of £325 million. The prior period comparatives have not been restated.*

Debt securities in issue

£'000	30 Sept 2019	31 March 2019
Repayable in:		
Less than three months	43 659	30 921
Three months to one year	66 707	129 046
One to five years	1 269 301	1 295 149
Greater than five years	528 515	595 025
	1 908 182	**2 050 141**
Analysis by customers type:		
Retail	883 732	933 498
Wholesale	1 024 450	1 116 643
	1 908 182	**2 050 141**

Other liabilities

£'000	30 Sept 2019	31 March 2019
Settlement liabilities	603 214	503 336
Other creditors and accruals	214 920	295 217
Other non-interest-bearing liabilities	123 275	100 022
Lease liabilities*	497 707	–
Expected credit losses on off-balance sheet	3 541	1 918
	1 442 657	**900 493**

* *The group adopted IFRS 16 from 1 April 2019 and as a result recognised lease liabilities. The prior period comparatives have not been restated.*

Extract of deferred taxation

£'000	30 Sept 2019	31 March 2019
Losses carried forward	**13 004**	**13 428**

Extract of subordinated liabilities

£'000	30 Sept 2019	31 March 2019
Issued by Investec Bank plc		
Remaining maturities:		
In one year or less, or on demand	–	–
In more than one year, but not more than two years	–	–
In more than two years, but not more than five years	378 414	367 707
In more than five years	433 170	435 992
	811 584	**803 699**

Medium-term notes

Subordinated fixed rate medium-term notes (denominated in Pounds Sterling) – accounted for as designated at fair value

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

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

On 1 April 2018 the group adopted IFRS 9 “Financial instruments” which replaced IFRS 39 “Financial instruments: recognition and measurement”. The impact of the IFRS 9 implementation on disclosing the subordinated liabilities at fair value of £716 546 000 against its amortised cost value £579 673 000 was an increase in disclosed liability of £136 891 000.

On 17 July 2018 Investec Bank plc completed a tender offer to purchase £267 038 000 aggregate nominal amount of the Notes at a cash purchase price of 121.513 pence plus an accrued interest payment. The total value of the debt redeemed was £335 541 000.

Subordinated fixed rate reset callable medium term notes (denominated in Pounds Sterling) – accounted for as amortised cost

On 24 July 2018 Investec Bank plc issued £420 000 000 of 4.25% subordinated notes due 2028 at a discount (2028 Notes). Interest is paid annually. The notes are listed on the London Stock Exchange. The notes will be redeemed at par on 24 July 2028. The issuer has a one-time redemption option on the early redemption date 24 July 2023 subject to conditions.

Offsetting

	Amounts subject to enforceable netting arrangements					
	Effects of offsetting on balance sheet			Related amounts not offset		
At 30 September 2019 £'000	Gross amounts	Amounts offset	**Net amounts reported on the balance sheet**	Financial instruments (including non-cash collateral)	Cash collateral	**Net amount**
Assets						
Cash and balances at central banks	3 331 165	–	3 331 165	–	–	3 331 165
Loans and advances to banks	938 460	–	938 460	–	(338 447)	600 013
Reverse repurchase agreements and cash collateral on securities borrowed borrowed	913 588	–	913 588	(80 447)	(1 655)	831 486
Sovereign debt securities	2 148 108	–	2 148 108	(86 996)	–	2 061 112
Bank debt securities	52 460	–	52 460	–	–	52 460
Other debt securities	474 293	–	474 293	–	–	474 293
Derivative financial instruments	742 129	–	742 129	(292 765)	(66 240)	383 124
Securities arising from trading activities	780 367	–	780 367	(460 839)	–	319 528
Investment portfolio	367 036	–	367 036	–	(2 114)	364 922
Loans and advances to customers	10 761 024	–	10 761 024	–	–	10 761 024
Other loans and advances	226 735	–	226 735	–	(4 735)	222 000
Other securitised assets	114 733	–	114 733	–	–	114 733
Other assets	1 437 714	–	1 437 714	–	–	1 437 714
	22 287 812	**–**	**22 287 812**	**(921 047)**	**(413 191)**	**20 953 574**
Liabilities						
Deposits by banks	1 361 453	–	1 361 453	–	(110 874)	1 250 579
Derivative financial instruments	967 613	–	967 613	(448 598)	(263 330)	255 685
Other trading liabilities	87 457	–	87 457	(80 447)	–	7 010
Repurchase agreements and cash collateral on securities lent	240 223	–	240 223	(82 554)	(9 369)	148 300
Customer accounts (deposits)	13 656 843	–	13 656 843	–	(24 924)	13 631 919
Debt securities in issue	1 908 182	–	1 908 182	(309 448)	(2 580)	1 596 154
Liabilities arising on securitisation of other assets	116 544	–	116 544	–	–	116 544
Other liabilities	1 442 657	–	1 442 657	–	(2 114)	1 440 543
Subordinated liabilities	811 584	–	811 584	–	–	811 584
	20 592 556	**–**	**20 592 556**	**(921 047)**	**(413 191)**	**19 258 318**

Offsetting *(continued)*

	Amounts subject to enforceable netting arrangements					
	Effects of offsetting on balance sheet			Related amounts not offset		
At 31 March 2019 £'000	Gross amounts	Amounts offset	**Net amounts reported on the balance sheet**	Financial instruments (including non-cash collateral)	Cash collateral	**Net amount**
Assets						
Cash and balances at central banks	4 445 430	–	4 445 430	–	–	4 445 430
Loans and advances to banks	954 938	–	954 938	–	(133 458)	821 480
Reverse repurchase agreements and cash collateral on securities borrowed	633 202	–	633 202	(77 985)	(1 087)	554 130
Sovereign debt securities	1 298 947	–	1 298 947	(73 166)	–	1 225 781
Bank debt securities	52 265	–	52 265	–	–	52 265
Other debt securities	508 142	–	508 142	–	–	508 142
Derivative financial instruments	642 530	–	642 530	(268 182)	(90 734)	283 614
Securities arising from trading activities	798 224	–	798 224	(579 642)	–	218 582
Investment portfolio	486 493	–	486 493	–	–	486 493
Loans and advances to customers	10 488 022	–	10 488 022	–	–	10 488 022
Other loans and advances	246 400	–	246 400	–	(328)	246 072
Other securitised assets	118 143	–	118 143	–	–	118 143
Other assets	847 604	–	847 604	–	–	847 604
	21 520 340	**–**	**21 520 340**	**(998 975)**	**(225 607)**	**20 295 758**
Liabilities						
Deposits by banks	1 318 776	–	1 318 776	–	(120 365)	1 198 411
Derivative financial instruments	719 027	–	719 027	(422 583)	(76 590)	219 854
Other trading liabilities	80 217	–	80 217	(77 985)	–	2 232
Repurchase agreements and cash collateral on securities lent	314 335	–	314 335	(134 848)	(5 447)	174 040
Customer accounts (deposits)	13 499 234	–	13 499 234	–	(35 804)	13 463 430
Debt securities in issue	2 050 141	–	2 050 141	(363 559)	(5 337)	1 681 245
Liabilities arising on securitisation of other assets	113 711	–	113 711	–	–	113 711
Other liabilities	900 493	–	900 493	–	–	900 493
Subordinated liabilities	803 699	–	803 699	–	–	803 699
	19 799 633	**–**	**19 799 633**	**(998 975)**	**(243 543)**	**18 557 115**

Updates to accounting policies

Implementation of IFRS 16

On 1 April 2019 the group adopted IFRS 16 Leases which replaced IAS 17 Leases. The group's accounting as a lessor under IFRS 16 is substantially unchanged from its approach under IAS 17, apart from certain subleases which are now classified as finance lease receivables. For lessees, IFRS 16 removes the distinction between finance and operating leases and introduces a single lease accounting model that will with some limited exemptions, apply to all leases and result in bringing them on balance sheet.

As a lessee, the group now recognises a lease liability measured at the present value of remaining cash flows and a right of use (ROU) asset measured at the amount of the initial measurement of the lease liability, plus any lease payments made prior to commencement date, initial direct costs, and estimated costs of restoring the underlying asset to the condition required by the lease, less any lease incentives received. The lease payments are discounted using the group's incremental borrowing rate. The incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow, over a similar term and with a similar security, the funds necessary to obtain an asset of a similar value to the ROU asset in a similar economic environment.

The lease liability will increase for the accrual of interest, and will result in a constant rate of return throughout the life of the lease, and reduce when payments are made. The ROU asset is being amortised to the income statement over the life of the lease.

As permitted by the standard the group applied IFRS 16 on a modified retrospective basis without restating prior years.

The group elected to take advantage of the following transition options on transition at 1 April 2019:

- applied IFRS 16 to contracts previously identified as leases by IAS 17
- calculated the ROU asset equal to the lease liability, adjusted for prepaid or accrued payments
- used the incremental borrowing rate as the discount rate
- not apply IFRS 16 to operating leases with a remaining lease term of less than 12 months
- relied on the assessment of whether the lease contract is onerous under IAS 37 at 31 March 2019 as an alternative to performing an impairment review of the right use of assets created on 1 April 2019. Where this is the case the carrying amount of the assets has been adjusted by the onerous lease provision.

The impact on adoption was the recognition of ROU assets of £141 million, finance lease receivables of £330 million relating to certain subleases, and lease liabilities of £500 million, with no impact on retained income.

IAS 12 – Income Taxes – Amendments to IAS 12

The IASB amended IAS 12 in order to clarify the accounting treatment of income tax consequences of dividends. As a result, the tax relief of all payments on financial instruments that are classified as equity for accounting purposes previously taken directly to retained profits, will now be reported as a reduction to the tax charge in the income statement. Comparatives have been restated. This resulted in reducing the tax charge and increasing the profit after tax for the six months ended 30 September 2019 £1.6m (30 September 2018: £1.3m).

RESTATEMENTS

The group remains committed to its objective to simplify and focus the business in pursuit of disciplined growth over the long-term.

In this regard the following strategic actions have been effected:

- Closure of Click & Invest which formed part of the UK wealth management business
- Sale of the Irish Wealth & Investment business
- Restructure of the Irish branch
- Sale of UK Property Fund
- Closure and rundown of the Hong Kong direct investments business.

We have elected to separately disclose the financial impact of these strategic actions as the financial impact from group restructures and the rundown of portfolios where operations have ceased. Due to the significant change in the nature of the entity's operations, we consider it appropriate to present the information on a like-for-like basis, resulting in reclassifications for related items which were previously included in operating income and operating costs in the income statement.

In addition, from 1 April 2019, as a result of amendments to IAS 12 Income Taxes, tax relief on payments in relation to Additional Tier 1 securities has been recognised as a reduction in taxation on operating profit before acquired intangibles and strategic actions, whereas it was previously recorded directly in retained income. Prior period comparatives have been restated, increasing the profit after tax for the six months to 30 September 2018 by £1.3 million and for the year to 31 March 2019 by £2.6 million.

RESTATEMENTS

(continued)

These reclassifications in the income statement for the prior reported periods and the consequential restated comparatives have been shown below.

The net effect on restated earnings attributable to shareholder relates solely to the tax previously included directly in equity which is now being reported in the income statement.

£'000	Six months to 30 Sept 2018 previously reported	Re-classification	**Six months to 30 Sept 2018 restated**	Year to 31 March 2019 as previously reported	Re-classification	**Year to 31 March 2019 restated**
Interest income	349 659	10	349 669	727 742	3	727 745
Interest expense	(154 873)	3 293	(151 580)	(336 363)	6 902	(329 461)
Net interest income	**194 786**	**3 303**	**198 089**	**391 379**	**6 905**	**398 284**
Fee and commission income	277 661	(16 542)	261 119	523 247	(26 940)	496 307
Fee and commission expense	(4 720)	(860)	(5 580)	(12 366)	2 947	(9 419)
Investment income	5 409	23 275	28 684	34 236	57 859	92 095
Share of post taxation profit of associates and joint venture holdings	94	(94)	–	2 830	(150)	2 680
Trading income arising from						
- customer flow	48 420	–	48 420	86 766	–	86 766
- balance sheet management and other trading activities	12 600	416	13 016	12 732	(79)	12 653
Other operating income	2 982	–	2 982	10 476	–	10 476
Total operating income before expected credit loss impairment charges	**537 232**	**9 498**	**546 730**	**1 049 300**	**40 542**	**1 089 842**
Expected credit loss impairment charges	(10 363)	–	(10 363)	(24 991)	–	(24 991)
Operating income	**526 869**	**9 498**	**536 367**	**1 024 309**	**40 542**	**1 064 851**
Operating costs	(411 632)	11 177	(400 455)	(819 169)	26 789	(792 380)
Depreciation on operating leased assets	(1 167)	–	(1 167)	(2 137)	–	(2 137)
Operating profit before acquired intangibles and strategic actions	**114 070**	**20 675**	**134 745**	**203 003**	**67 331**	**270 334**
Amortisation of acquired intangibles	(6 408)	–	(6 408)	(12 958)	–	(12 958)
Closure and rundown of the Hong Kong direct investments business	–	(26 909)	(26 909)	–	(65 593)	(65 593)
Operating profit	**107 662**	**(6 234)**	**101 428**	**190 045**	**1 738**	**191 783**
Financial impact of group restructures	–	6 234	6 234	(12 853)	(1 738)	(14 591)
Profit before taxation	**107 662**	**–**	**107 662**	**177 192**	**–**	**177 192**
Taxation on operating profit before acquired intangibles and strategic actions	(16 596)	(2 637)	(19 233)	(27 216)	(10 137)	(37 353)
Taxation on acquired intangibles and strategic actions	1 170	3 920	5 090	4 822	12 777	17 599
Profit after taxation	**92 236**	**1 283**	**93 519**	**154 798**	**2 640**	**157 438**
Profit attributable to other non-controlling interests	4 205	–	4 205	4 479	–	4 479
Earnings attributable to shareholder	**96 441**	**1 283**	**97 724**	**159 277**	**2 640**	**161 917**

Financial impact of strategic actions

£'000	Six months to 30 Sept 2019	Six months to 30 Sept 2018	Year to 31 March 2019
Closure and rundown of the Hong Kong direct investments business*	(49 469)	(26 909)	(65 593)
Financial impact of group restructures	11 584	6 234	(14 591)
Closure of Click & Invest	(4 020)	(3 483)	(14 265)
Sale of the Irish Wealth & Investment business	17 786	–	–
Restructure of the Irish branch	(1 265)	9 717	(326)
Sale of UK Property Fund	(917)	–	–
Financial impact of strategic actions	**(37 885)**	**(20 675)**	**(80 184)**

* *Included within the balance are fair value adjustments of £44.6 million (30 September 2018: £23.3 million; 31 March 2019: £57.8 million).*

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 2019.

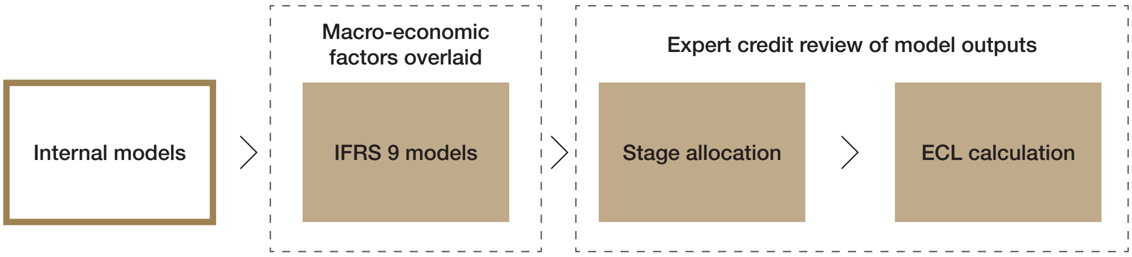
Key drivers of measurement uncertainty – subjective elements and inputs

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

- the assessment of a significant increase in credit risk;
- the introduction of a range of forward-looking probability weighted macro-economic scenarios; and
- estimations 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 bank's ECL methodology, which are not considered to have a material impact. This included the use of income recognition effective interest rates (EIRs), in accordance with accounting standards, as the discount factor in the 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.

Process to determine ECL



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 forecast 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 found to be minimal, either due to the portfolio's small relative size or the low default nature of these portfolios, such as cash and balances held at central banks.

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

A management overlay of £8 million (£8 million at 31 March 2019) has been considered appropriate in addition to the bank's calculated model-driven ECL. Initially, a £25 million management overlay was raised upon implementation of IFRS 9 due to the UK bank's limited experience of utilising model output for reporting purposes and uncertainty over the models' predictive capability, which has been reduced over time. The overlays were designed to capture specific areas of model uncertainty during the initial adoption of IFRS 9. 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.

Forward-looking macro-economic scenarios

The measurement of ECL also requires the use of multiple economic scenarios to calculate 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 the Investec plc and IBP Capital Committee and the 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.

Since 31 March 2019 our macro-economic scenarios have been refined to incorporate our updated economic outlooks. The relative weightings of these scenarios have also been adjusted to take into account the greater downside risks stemming from the global backdrop and continued Brexit uncertainty.

Four macro-economic scenarios are used in the measurement of ECL under IFRS 9. These scenarios incorporate a base case, an upside case and two downside cases.

The base case scenario envisages a modest pace of UK economic growth over the forecast horizon. This is supported by some recovery in business investment and consumer spending as Brexit related uncertainties clear. The labour market is expected to witness continued tightness with unemployment holding near historic lows and wage growth firming. Meanwhile the housing market is expected to see moderate price growth. Amidst this environment the Bank of England is expected to undertake a gradual and limited path of interest rate increases. More widely a modest pace of global growth is forecast over the projection horizon, although the near term picture remains subdued. Key points include a moderation in the pace of US economic activity, some stabilisation in the Chinese economy and a recovery in the Euro area following its recent weakness.

The downside case scenarios are severe but plausible, based on Investec specific bottom-up stress tests, whilst also considering IFRS 9 specific sensitivities and non-linearity. The focus of each downside case is either a global shock resulting in an asset price correction and corporate stress or a UK specific stress whereby persistent Brexit and political concerns lead to a prolonged period of weak investment and growth.

The upside case encompasses a scenario whereby productivity growth recovers from a sustained period of weakness following the 2008/09 financial crisis. This is evident not just in the UK, but amongst the world's major economies. The scenarios are forecast over five years. Beyond the forecast period, default rates are assumed to revert over time to an observed long run average.

The table below shows the key factors that form part of the macro-economic scenarios and the relative weightings of these scenarios applied as at 30 September 2019:

Macro-economic scenarios

Average 2019 – 2023	Upside %	Base case %	Downside 1 Global %	Downside 2 Domestic %
UK				
GDP growth	2.3	1.5	0.1	0.2
Unemployment rate	3.6	3.8	6.3	4.7
House price growth	2.2	2.1	(2.6)	(1.4)
Bank of England – Bank rate	2.1	1.0	0.2	0.2
Euro area				
GDP growth	2.3	1.4	0.2	1.3
US				
GDP growth	2.7	2.0	0.6	2.0
Scenario weightings	**9**	**45**	**16**	**30**

Macro-economic sensitivities

IFRS 9 may 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, in particular the bank's potential ECLs if each scenario were given a 100% weighting. In these instances all non-modelled ECLs, including credit assessed ECLs and other management judgements remain unchanged.

Credit and counterparty risk management

Credit and counterparty risk description

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

The tables that follow provide an analysis of the bank's gross credit and counterparty exposures.

An analysis of gross credit and counterparty exposures

Gross credit and counterparty exposure totalled £22.3 billion at 30 September 2019. Cash and near cash balances amounted to £6.5 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 99% of overall ECLs.

An analysis of gross credit and counterparty exposures

£'million	**30 Sept 2019**	31 March 2019
Cash and balances at central banks	3 331	4 445
Loans and advances to banks	938	955
Reverse repurchase agreements and cash collateral on securities borrowed	914	633
Sovereign debt securities	2 148	1 299
Bank debt securities	52	52
Other debt securities	475	509
Derivative financial instruments	709	587
Securities arising from trading activities	488	530
Loans and advances to customers	10 895	10 636
Other loans and advances	184	216
Other securitised assets	8	8
Other assets	107	46
Total on-balance sheet exposures	**20 249**	**19 916**
Guarantees	86	85
Committed facilities related to loans and advances to customers	1 678	1 484
Contingent liabilities, letters of credit and other	305	412
Total off-balance sheet exposures	**2 069**	**1 981**
Total gross credit and counterparty exposures	**22 318**	**21 897**

A further analysis of our gross credit and counterparty exposures

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

At 30 September 2019 £'million	Total gross credit and counterparty exposure	*of which FVPL*	*of which amortised cost and FVOCI*	ECL^	Assets that we deem to have no legal credit exposure	**Total assets**
Cash and balances at central banks	3 331	–	3 331	–	–	3 331
Loans and advances to banks	938	–	938	–	–	938
Reverse repurchase agreements and cash collateral on securities borrowed	914	26	888	–	–	914
Sovereign debt securities	2 148	584	1 564	–	–	2 148
Bank debt securities	52	52	–	–	–	52
Other debt securities	475	210	265	(1)	–	474
Derivative financial instruments	709	709	–	–	33	742
Securities arising from trading activities	488	488	–	–	292	780
Investment portfolio	–	–	–	–	367 *	367
Loans and advances to customers	10 895	712	10 183	(136)	–	10 759
Other loans and advances	184	–	184	–	43	227
Other securitised assets	8	8	–	–	107 ^^	115
Interest in associated undertakings	–	–	–	–	9	9
Deferred taxation assets	–	–	–	–	127	127
Other assets	107	–	107	–	1 331 **	1 438
Property and equipment	–	–	–	–	226	226
Investment properties	–	–	–	–	15	15
Goodwill	–	–	–	–	253	253
Intangible assets	–	–	–	–	83	83
Total on-balance sheet exposures	**20 249**	**2 789**	**17 460**	**(137)**	**2 886**	**22 998**
Guarantees	86	–	86	–	–	86
Committed facilities related to loans and advances to customers	1 678	52	1 626	(3)	–	1 675
Contingent liabilities, letters of credit and other	305	–	305	–	60	365
Total off-balance sheet exposures	**2 069**	**52**	**2 017**	**(3)**	**60**	**2 126**
Total exposures	**22 318**	**2 841**	**19 477**	**(140)**	**2 946**	**25 124**

^ *ECLs include £1.8 million ECL held against financial assets held at FVOCI, which is reported on the balance sheet within the fair value reserve. This will result in minor differences between certain balance sheet lines reported above (largely loans and advances to customers) and the statutory balance sheet.*
* *Relates to exposures that are classified as investment risk in the banking book.*
^^ *While the bank 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 bank. The net credit exposure that the bank 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.*

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

At 31 March 2019 £'million	Total gross credit and counterparty exposure	*of which FVPL*	*of which amortised cost and FVOCI*	ECL^	Assets that we deem to have no legal credit exposure	**Total assets**
Cash and balances at central banks	4 445	–	4 445	–	–	4 445
Loans and advances to banks	955	–	955	–	–	955
Reverse repurchase agreements and cash collateral on securities borrowed	633	25	608	–	–	633
Sovereign debt securities	1 299	319	980	–	–	1 299
Bank debt securities	52	52	–	–	–	52
Other debt securities	509	275	234	(1)	–	508
Derivative financial instruments	587	587	–	–	56	643
Securities arising from trading activities	530	530	–	–	268	798
Investment portfolio	–	–	–	–	486 *	486
Loans and advances to customers	10 636	772	9 864	(149)	–	10 487
Other loans and advances	216	–	216	–	30	246
Other securitised assets	8	8	–	–	110 ^^	118
Interest in associated undertakings	–	–	–	–	9	9
Deferred taxation assets	–	–	–	–	133	133
Other assets	46	–	46	–	802 **	848
Property and equipment	–	–	–	–	95	95
Investment properties	–	–	–	–	15	15
Goodwill	–	–	–	–	261	261
Intangible assets	–	–	–	–	88	88
Total on-balance sheet exposures	**19 916**	**2 568**	**17 348**	**(150)**	**2 353**	**22 119**
Guarantees	85	–	85	–	–	85
Committed facilities related to loans and advances to customers	1 484	43	1 441	(2)	–	1 482
Contingent liabilities, letters of credit and other	412	–	412	–	28	440
Total off-balance sheet exposures	**1 981**	**43**	**1 938**	**(2)**	**28**	**2 007**
Total exposures	**21 897**	**2 611**	**19 286**	**(152)**	**2 381**	**24 126**

^ *ECLs include £1.4 million ECL held against financial assets held at FVOCI, which is reported on the balance sheet within the fair value reserve. 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.*

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

^^ *While the bank 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 bank. The net credit exposure that the bank 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 2019 **£'million**	Up to three months	Three to six months	Six months to one year	One to five years	Five to 10 years	> 10 years	**Total**
Cash and balances at central banks	3 331	–	–	–	–	–	3 331
Loans and advances to banks	921	–	–	17	–	–	938
Reverse repurchase agreements and cash collateral on securities borrowed	805	–	109	–	–	–	914
Sovereign debt securities	534	729	178	160	74	473	2 148
Bank debt securities	–	–	–	52	–	–	52
Other debt securities	43	9	1	68	68	286	475
Derivative financial instruments	135	87	97	182	129	79	709
Securities arising from trading activities	–	–	4	59	62	363	488
Loans and advances to customers	1 171	699	1 204	5 804	1 467	550	10 895
Other loans and advances	5	–	–	–	35	144	184
Other securitised assets	–	–	–	–	–	8	8
Other assets	107	–	–	–	–	–	107
Total on-balance sheet exposures	**7 052**	**1 524**	**1 593**	**6 342**	**1 835**	**1 903**	**20 249**
Guarantees	7	3	–	55	21	–	86
Committed facilities related to loans and advances to customers	187	32	176	1 012	206	65	1 678
Contingent liabilities, letters of credit and other	8	9	76	175	37	–	305
Total off-balance sheet exposures	**202**	**44**	**252**	**1 242**	**264**	**65**	**2 069**
Total gross credit and counterparty exposures	**7 254**	**1 568**	**1 845**	**7 584**	**2 099**	**1 968**	**22 318**

Detailed analysis of gross credit and counterparty exposures by industry

At 30 September 2019 £'million	High net worth and other professional individuals	Lending collateralised by property	Agriculture	Electricity, gas and water (utility services)	Public and non-business services	Business services	Finance and insurance
Cash and balances at central banks	–	–	–	–	3 331	–	–
Loans and advances to banks	–	–	–	–	–	–	938
Reverse repurchase agreements and cash collateral on securities borrowed	–	–	–	–	–	–	914
Sovereign debt securities	–	–	–	–	2 148	–	–
Bank debt securities	–	–	–	–	–	–	52
Other debt securities	–	–	–	9	7	–	236
Derivative financial instruments	12	2	–	83	2	10	422
Securities arising from trading activities	–	–	–	–	359	–	129
Loans and advances to customers	2 618	1 952	8	470	201	977	1 483
Other loans and advances	–	–	–	–	–	–	153
Other securitised assets	–	–	–	–	–	–	–
Other assets	–	–	–	1	–	–	106
Total on-balance sheet exposures	**2 630**	**1 954**	**8**	**563**	**6 048**	**987**	**4 433**
Guarantees	18	–	–	1	–	–	60
Committed facilities related to loans and advances to customers	165	443	–	195	25	166	328
Contingent liabilities, letters of credit and other	18	–	–	223	–	3	29
Total off-balance sheet exposures	**201**	**443**	**–**	**419**	**25**	**169**	**417**
Total gross credit and counterparty exposures	**2 831**	**2 397**	**8**	**982**	**6 073**	**1 156**	**4 850**

Retailers and wholesalers	Manufac-turing and commerce	Construc-tion	Other residential mortgages	Corporate commercial real estate	Mining and resources	Leisure, entertainment and tourism	Transport	Com-munication	**Total**
–	–	–	–	–	–	–	–	–	3 331
–	–	–	–	–	–	–	–	–	938
–	–	–	–	–	–	–	–	–	914
–	–	–	–	–	–	–	–	–	2 148
–	–	–	–	–	–	–	–	–	52
–	–	–	132	–	–	–	84	7	475
16	29	1	–	43	14	–	74	1	709
–	–	–	–	–	–	–	–	–	488
315	840	112	–	212	148	204	1 104	251	10 895
–	–	–	31	–	–	–	–	–	184
–	–	–	8	–	–	–	–	–	8
–	–	–	–	–	–	–	–	–	107
331	**869**	**113**	**171**	**255**	**162**	**204**	**1 262**	**259**	**20 249**
–	–	–	–	–	1	–	6	–	86
54	81	–	–	117	47	8	30	19	1 678
5	1	–	–	26	–	–	–	–	305
59	**82**	**–**	**–**	**143**	**48**	**8**	**36**	**19**	**2 069**
390	**951**	**113**	**171**	**398**	**210**	**212**	**1 298**	**278**	**22 318**

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

At 31 March 2019 £'million	High net worth and other professional individuals	Lending collateralised by property	Agriculture	Electricity, gas and water (utility services)	Public and non-business services	Business services	Finance and insurance
Cash and balances at central banks	–	–	–	–	4 445	–	–
Loans and advances to banks	–	–	–	–	–	–	955
Reverse repurchase agreements and cash collateral on securities borrowed	–	–	–	–	–	–	633
Sovereign debt securities	–	–	–	–	1 299	–	–
Bank debt securities	–	–	–	–	–	–	52
Other debt securities	–	–	–	29	7	29	172
Derivative financial instruments	12	1	1	54	8	10	393
Securities arising from trading activities	–	–	–	–	420	–	110
Loans and advances to customers	2 332	1 958	7	414	207	892	1 634
Other loans and advances	–	–	–	–	–	–	141
Other securitised assets	–	–	–	–	–	–	–
Other assets	–	–	–	–	–	–	46
Total on-balance sheet exposures	**2 344**	**1 959**	**8**	**497**	**6 386**	**931**	**4 136**
Guarantees	18	3	–	–	–	–	58
Committed facilities related to loans and advances to customers	145	368	–	150	39	79	340
Contingent liabilities, letters of credit and other	–	–	–	296	–	–	35
Total off-balance sheet exposures	**163**	**371**	**–**	**446**	**39**	**79**	**433**
Total gross credit and counterparty exposures	**2 507**	**2 330**	**8**	**943**	**6 425**	**1 010**	**4 569**

Retailers and wholesalers	Manufacturing and commerce	Construction	Other residential mortgages	Corporate commercial real estate	Mining and resources	Leisure, entertainment and tourism	Transport	Communication	**Total**
–	–	–	–	–	–	–	–	–	4 445
–	–	–	–	–	–	–	–	–	955
–	–	–	–	–	–	–	–	–	633
–	–	–	–	–	–	–	–	–	1 299
–	–	–	–	–	–	–	–	–	52
–	–	19	167	–	–	–	79	7	509
18	20	3	–	9	12	1	45	–	587
–	–	–	–	–	–	–	–	–	530
331	815	99	–	177	175	242	1 132	221	10 636
–	–	–	75	–	–	–	–	–	216
–	–	–	8	–	–	–	–	–	8
–	–	–	–	–	–	–	–	–	46
349	**835**	**121**	**250**	**186**	**187**	**243**	**1 256**	**228**	**19 916**
–	–	–	–	–	–	–	6	–	85
53	81	–	–	59	121	15	16	18	1 484
3	46	–	–	–	28	4	–	–	412
56	**127**	**–**	**–**	**59**	**149**	**19**	**22**	**18**	**1 981**
405	**962**	**121**	**250**	**245**	**336**	**262**	**1 278**	**246**	**21 897**

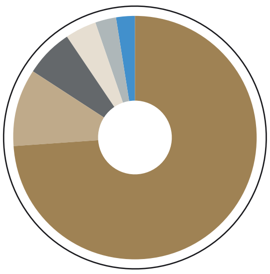
The tables that follow provide information on gross core loans and advances.

Composition of core loans and advances

The table below describes the differences between 'loans and advances to customers' as per the balance sheet and gross core loans and advances.

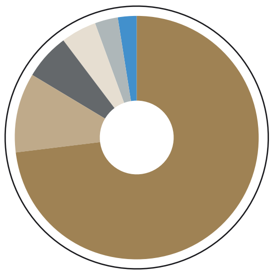
£'million	**30 Sept 2019**	31 March 2019
Loans and advances to customers per the balance sheet	10 761	10 488
ECL held against FVOCI loans reported on the balance sheet within reserves	(2)	(1)
Net core loans and advances	**10 759**	**10 487**
of which amortised cost and FVOCI ('subject to ECL')	10 047	9 715
of which FVPL	712	772
Add: ECL	136	149
Gross core loans and advances	**10 895**	**10 636**
of which amortised cost and FVOCI ('subject to ECL')	10 183	9 864
of which FVPL	712	772

An analysis of gross core loans and advances by country of exposure



30 SEPTEMBER 2019
£10 895 million

74.0%	United Kingdom
10.3%	Europe (excluding UK)
6.5%	North America
4.1%	Australia
2.7%	Other
2.4%	Asia



31 MARCH 2019
£10 636 million

73.3%	United Kingdom
10.4%	Europe (excluding UK)
6.1%	North America
4.7%	Australia
3.1%	Asia
2.4%	Other

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

The tables that follow provide information with respect to the asset quality of our gross core loans and advances on a statutory basis. Our exposure (net of ECL) to the UK Legacy portfolio* has reduced from £131 million at 31 March 2019 to £125 million at 30 September 2019. These assets are substantially impaired and are largely reported under Stage 3 as indicated below.

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

£'million	30 Sept 2019	31 March 2019
Gross core loans and advances subject to ECL	**10 183**	**9 864**
Stage 1	9 324	8 969
Stage 2	542	576
of which past due greater than 30 days	*17*	*13*
Stage 3	317	319
*of which Ongoing (excluding Legacy) Stage 3**	*172*	*149*
Gross core loans and advances subject to ECL (%)		
Stage 1	91.6%	91.0%
Stage 2	5.3%	5.8%
Stage 3	3.1%	3.2%
*of which Ongoing (excluding Legacy) Stage 3**	*1.7%*	*1.5%*

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

£'million	30 Sept 2019	31 March 2019
ECL impairment charges on core loans and advances	(14)	(36)
Average gross core loans and advances subject to ECL	10 024	9 371
Annualised credit loss ratio	**0.28%**	**0.38%**

£'million	30 Sept 2019	31 March 2019
ECL	**(136)**	**(149)**
Stage 1	(18)	(14)
Stage 2	(26)	(27)
Stage 3	(92)	(108)
*of which Ongoing (excluding Legacy) Stage 3**	*(39)*	*(35)*
ECL coverage ratio (%)		
Stage 1	0.2%	0.2%
Stage 2	4.8%	4.7%
Stage 3	29.0%	33.9%
*of which Ongoing (excluding Legacy) Stage 3**	*22.7%*	*23.5%*

* *Refer to definitions on page 57.*

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

£'million	30 Sept 2019	31 March 2019
Stage 3 net of ECL	225	211
*of which Ongoing (excluding Legacy) Stage 3**	*133*	*114*
Aggregate collateral and other credit enhancements on Stage 3	237	228
Stage 3 net of ECL and collateral	–	–
Stage 3 as a % of gross core loans and advances subject to ECL	3.1%	3.2%
*of which Ongoing (excluding Legacy) Stage 3**	*1.7%*	*1.5%*
Total ECL as a % of Stage 3 exposure	42.9%	46.7%
Stage 3 net of ECL as a % of net core loans and advances subject to ECL	2.2%	2.2%
*of which Ongoing (excluding Legacy) Stage 3**	*1.3%*	*1.2%*

* *Refer to definitions on page 57.*

Stage 1: 91.6% of gross exposure subject to ECL is in Stage 1 and has not experienced a significant increase in credit risk since origination. ECL is calculated based on a 12-month expected loss. Coverage for these performing, non-deteriorated assets is 0.2%.

Stage 2: 5.3% 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 £17 million or 0.2% of gross core loans and advances subject to ECL are shown in Stage 2 as 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: 3.1% of gross exposure is in Stage 3 which is made up of assets that are credit impaired. This has reduced from 3.2% at 31 March 2019. The coverage ratio totals 29.0% 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 45.7% of Stage 3 gross loans. These assets have been significantly provided for and coverage for these assets remains high at 36.6%. Excluding Legacy, Ongoing Stage 3 exposures total £172 million or 1.7% of gross core loans and advances subject to ECL.

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

The table below indicates underlying movements in gross core loans and advances subject to ECL from 31 March 2019 to 30 September 2019. The transfers between stages of gross core loans indicates the impact of stage transfers upon the gross exposure and associated opening ECL. The net remeasurement of ECL arising from stage transfers represents the (increase)/decrease in ECL due to these transfers. New lending net of repayments comprises new originations, further drawdowns, repayments and sell-downs as well as ECLs in Stage 3 that have been written off, typically when an asset has been sold. The ECL impact of changes to risk parameters and models during the period largely relates to updated macro-economic scenarios and relative weightings. The foreign exchange and other category largely comprises the impact on the closing balance as a result of movements and translations in foreign exchange rates since the opening date, 31 March 2019. Further analysis as at 30 September 2019 of gross core loans and advances 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 31 March 2019	**8 969**	**(14)**	**576**	**(27)**	**319**	**(108)**	**9 864**	**(149)**
Transfer from Stage 1	(135)	–	125	–	10	–	–	–
Transfer from Stage 2	86	(1)	(114)	2	28	(1)	–	–
Transfer from Stage 3	1	–	1	–	(2)	–	–	–
ECL remeasurement arising from transfer of stage	–	1	–	(1)	–	(5)	–	(5)
New lending net of repayments (includes assets written off)	327	–	(53)	1	(41)	23	233	24
Changes to risk parameters and models	–	(5)	–	–	–	–	–	(5)
Foreign exchange and other	76	1	7	(1)	3	(1)	86	(1)
At 30 September 2019	**9 324**	**(18)**	**542**	**(26)**	**317**	**(92)**	**10 183**	**(136)**

An analysis of credit quality by internal rating grade

The bank uses a 25-grade internal rating scale which measures the risk of default to an exposure without taking into account any credit mitigation, such as collateral. This internal rating scale allows the bank to measure credit risk consistently across portfolios. The internal rating scale is derived from a mapping to default probabilities (PDs) and can also be mapped to external rating agency scales.

Investec internal rating scale	Indicative external rating scale
IB01 – IB12	AAA to BBB-
IB13 – IB19	BB+ to B-
IB20 – IB25	B- and below
Stage 3	D

The internal credit rating distribution below is based on the 12-month PD at 30 September 2019 for gross core loans and advances subject to ECL by stage. The staging classifications are not only driven by the absolute PD, but on factors that determine a significant increase in credit risk, including relative movement in PD since origination. There is therefore no direct correlation between the credit quality of an exposure and its stage classification as shown in the table below:

At 30 September 2019 **£'million**	IB01-IB12	IB13-IB19	IB20-IB25	Stage 3	**Total**
Gross core loans and advances subject to ECL	**4 968**	**4 690**	**208**	**317**	**10 183**
Stage 1	4 925	4 269	130	–	9 324
Stage 2	43	421	78	–	542
Stage 3	–	–	–	317	317
ECL	**(3)**	**(34)**	**(7)**	**(92)**	**(136)**
Stage 1	(2)	(15)	(1)	–	(18)
Stage 2	(1)	(19)	(6)	–	(26)
Stage 3	–	–	–	(92)	(92)
Coverage ratio (%)	**0.1%**	**0.7%**	**3.4%**	**29.0%**	**1.3%**

At 31 March 2019 **£'million**	IB01-IB12	IB13-IB19	IB20-IB25	Stage 3	**Total**
Gross core loans and advances subject to ECL	**4 720**	**4 627**	**198**	**319**	**9 864**
Stage 1	4 668	4 183	118	–	8 969
Stage 2	52	444	80	–	576
Stage 3	–	–	–	319	319
ECL	**(3)**	**(32)**	**(6)**	**(108)**	**(149)**
Stage 1	(2)	(11)	(1)	–	(14)
Stage 2	(1)	(21)	(5)	–	(27)
Stage 3	–	–	–	(108)	(108)
Coverage ratio (%)	**0.1%**	**0.7%**	**2.5%**	**33.9%**	**1.5%**

An analysis of core loans and advances by risk category – Lending collateralised by property

	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			
£'million	Gross exposure	ECL	Gross exposure	ECL	Gross exposure	ECL	**Gross exposure**	**ECL**		
At 30 September 2019										
Commercial real estate	**919**	**–**	**134**	**(10)**	**104**	**(22)**	**1 157**	**(32)**	**23**	**1 180**
Commercial real estate – investment	718	–	125	(9)	104	(22)	947	(31)	19	966
Commercial real estate – development	201	–	3	–	–	–	204	–	4	208
Commercial vacant land and planning	–	–	6	(1)	–	–	6	(1)	–	6
Residential real estate	**611**	**–**	**23**	**(1)**	**103**	**(35)**	**737**	**(36)**	**35**	**772**
Residential real estate – investment	330	–	17	(1)	27	(10)	374	(11)	32	406
Residential real estate – development	280	–	2	–	40	(7)	322	(7)	–	322
Residential vacant land and planning	1	–	4	–	36	(18)	41	(18)	3	44
Total lending collateralised by property	**1 530**	**–**	**157**	**(11)**	**207**	**(57)**	**1 894**	**(68)**	**58**	**1 952**
At 31 March 2019										
Commercial real estate	**908**	**(1)**	**158**	**(11)**	**106**	**(22)**	**1 172**	**(34)**	**11**	**1 183**
Commercial real estate – investment	790	(1)	149	(10)	104	(22)	1 043	(33)	10	1 053
Commercial real estate – development	118	–	3	–	–	–	121	–	1	122
Commercial vacant land and planning	–	–	6	(1)	2	–	8	(1)	–	8
Residential real estate	**599**	**–**	**14**	**–**	**122**	**(53)**	**735**	**(53)**	**40**	**775**
Residential real estate – investment	330	–	9	–	29	(11)	368	(11)	35	403
Residential real estate – development	268	–	2	–	57	(24)	327	(24)	3	330
Residential vacant land and planning	1	–	3	–	36	(18)	40	(18)	2	42
Total lending collateralised by property	**1 507**	**(1)**	**172**	**(11)**	**228**	**(75)**	**1 907**	**(87)**	**51**	**1 958**

An analysis of core loans and advances by risk category – High net worth and other private client lending

	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			
£'million	Gross exposure	ECL	Gross exposure	ECL	Gross exposure	ECL	**Gross exposure**	**ECL**		
At 30 September 2019										
Mortgages	1 993	–	26	(1)	27	(1)	2 046	(2)	–	2 046
High net worth and specialised lending	527	(1)	21	(1)	5	(3)	553	(5)	19	572
Total high net worth and other private client lending	**2 520**	**(1)**	**47**	**(2)**	**32**	**(4)**	**2 599**	**(7)**	**19**	**2 618**
At 31 March 2019										
Mortgages	1 778	–	22	(1)	25	(1)	1 825	(2)	–	1 825
High net worth and specialised lending	474	–	14	(1)	4	(3)	492	(4)	15	507
Total high net worth and other private client lending	**2 252**	**–**	**36**	**(2)**	**29**	**(4)**	**2 317**	**(6)**	**15**	**2 332**

An analysis of core loans and advances by risk category – Corporate and other lending

	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			
£'million	Gross exposure	ECL	Gross exposure	ECL	Gross exposure	ECL	**Gross exposure**	**ECL**		
At 30 September 2019										
Corporate and acquisition finance	1 329	(7)	119	(3)	–	–	1 448	(10)	205	1 653
Asset-based lending	378	(1)	20	(1)	–	–	398	(2)	–	398
Fund finance	1 097	(1)	20	(1)	–	–	1 117	(2)	36	1 153
Other corporate and financial institutions and governments	441	(1)	15	(1)	13	(1)	469	(3)	219	688
Asset finance	1 673	(7)	103	(5)	59	(29)	1 835	(41)	93	1 928
Small ticket asset finance	1 524	(7)	81	(4)	27	(14)	1 632	(25)	1	1 633
Large ticket asset finance	149	–	22	(1)	32	(15)	203	(16)	92	295
Project finance	345	–	53	(2)	6	(1)	404	(3)	82	486
Resource finance	11	–	8	–	–	–	19	–	–	19
Total corporate and other lending	**5 274**	**(17)**	**338**	**(13)**	**78**	**(31)**	**5 690**	**(61)**	**635**	**6 325**
At 31 March 2019										
Corporate and acquisition finance	1 328	(5)	125	(3)	–	–	1 453	(8)	212	1 665
Asset-based lending	314	–	53	(1)	–	–	367	(1)	–	367
Fund finance	1 156	(1)	–	–	–	–	1 156	(1)	55	1 211
Other corporate and financial institutions and governments	396	(1)	27	(1)	–	–	423	(2)	219	642
Asset finance	1 599	(6)	108	(6)	56	(28)	1 763	(40)	171	1 934
Small ticket asset finance	1 451	(6)	86	(5)	26	(14)	1 563	(25)	–	1 563
Large ticket asset finance	148	–	22	(1)	30	(14)	200	(15)	171	371
Project finance	404	–	55	(3)	6	(1)	465	(4)	37	502
Resource finance	13	–	–	–	–	–	13	–	12	25
Total corporate and other lending	**5 210**	**(13)**	**368**	**(14)**	**62**	**(29)**	**5 640**	**(56)**	**706**	**6 346**

Investment risk in the banking book

Investment risk in the banking book comprises 1.87% of total assets at 30 September 2019, reduced from 2.60% at 31 March 2019.

Summary of investments held and stress testing analyses

An analysis of income and revaluations of these investments can be found in the investment income note on page 10. In addition, revaluations of certain assets reported below relating to the Hong Kong direct investments business can be found on page 2. The balance sheet value of investments is indicated in the table below.

£'million **Category**	**On-balance sheet value of investments 30 Sept 2019**	**Valuation change stress test 30 Sept 2019***	On-balance sheet value of investments 31 March 2019	Valuation change stress test 31 March 2019*
Unlisted investments	351	53	465	70
Listed equities	16	4	21	5
Total investment portfolio	**367**	**57**	**486**	**75**
Investment and trading properties	59	10	70	13
Warrants and profit shares	5	2	19	6
Total	**431**	**69**	**575**	**94**

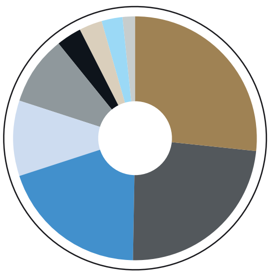
* *In order to assess our earnings sensitivity to a movement in the valuation of these investments, the stress testing parameters detailed below are applied:*

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

Stress testing summary

Based on the information at 30 September 2019, as reflected above, we could have a £69 million reversal in revenue (which assumes a year in which there is a 'severe stress scenario' simultaneously across all asset classes). This would not necessarily cause the bank to report a loss, but could have a significantly negative impact on earnings for that period. The probability of all these asset classes in all geographies in which we operate being negatively impacted at the same time is low, although the probability of listed equities being negatively impacted at the same time is high.

An analysis of the investment portfolio, warrants and profit shares



30 SEPTEMBER 2019
£372 million

26.8%	Manufacturing and commerce
23.7%	Real estate
19.5%	Finance and insurance
10.1%	Retailers and wholesalers
9.3%	Communication
3.2%	Transport
3.2%	Other
2.7%	Business services
1.5%	Mining and resources

Securitisation/structured credit activities exposures

Overview

The primary focus for new securitisation transactions remains to provide a cost effective, alternative source of financing to the bank. During the last six months we did not undertake any new securitisation transactions.

The bank's definition of securitisation/structured credit activities is wider than the definition as applied for regulatory purposes in that it groups all related activities in order for the reviewer to obtain a full picture of the exposures in this space. Some of the information provided below overlaps with the bank's credit and counterparty exposure information.

For regulatory purposes, the securitisation definition focuses on those securitisations in which the bank has achieved significant risk transfer.

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

In July 2016, the BCBS published the final standards on the securitisation framework which were implemented in the EU on 1 January 2019. The framework amended the regulatory capital requirements for securitisation, introducing both a new standardised approach and external ratings approach and setting out the grandfathering provisions which apply in the 2019 year for assets that were securitised before 1 January 2019.

We hold rated structured credit instruments. These are UK and US exposures that amount to £382 million at 30 September 2019 (31 March 2019: £462 million) with 96% being AAA and AA rated and 3% being A rated.

Credit analysis

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

Nature of exposure/activity	Exposure 30 Sept 2019 £'million	Exposure 31 March 2019 £'million	Balance sheet and credit risk classification
Structured credit (gross exposure)	389	469	Other debt securities and other loans and advances
Rated	382	462	
Unrated	7	7	

Analysis of gross structured credit exposure

£'million	AAA	AA	A	BBB	BB	B and below	Total rated	Total unrated	Total
US corporate loans	110	100	7	–	–	–	217	–	217
UK RMBS	82	75	6	–	2	–	165	7	172
Total at 30 September 2019	**192**	**175**	**13**	**–**	**2**	**–**	**382**	**7**	**389**
Total at 31 March 2019	**192**	**224**	**44**	**–**	**2**	**–**	**462**	**7**	**469**

Market risk in the trading book

Traded market risk description

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.

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. We use sensitivity measures to monitor and limit exposure across portfolios, products and risk types.

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. The VaR model used is based on full revaluation historical simulation and incorporates the following features:

- Two-year historical period based on an unweighted time series
- Daily movements in each risk factor e.g. foreign exchange rates, interest rates, equity prices, credit spreads and associated volatilities are simulated with reference to historical market rates and prices, with proxies only used when no or limited historical market data is available, and the resultant one-day VaR is scaled up using the square root of time for regulatory purposes
- Risk factor movements are based on both absolute and relative returns as appropriate for the different types of risk factors.

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 2019				31 March 2019			
95% one-day VaR £'000	**Period end**	Average	High	Low	**Year end**	Average	High	Low
Equities	605	523	745	303	415	490	748	327
Foreign exchange	24	9	44	1	20	13	117	1
Interest rates	122	109	132	90	133	94	156	70
Credit	4	2	4	1	1	55	123	1
Consolidated*	**622**	**519**	**748**	**301**	**417**	**484**	**739**	**350**

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

Expected shortfall

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

95% one-day ES £'000	**30 Sept 2019 Period end**	31 March 2019 Year end
Equities	726	638
Foreign exchange	30	29
Interest rates	151	179
Credit	10	1
Consolidated*	**763**	**618**

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

Stressed VaR

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

£'000	30 Sept 2019 Period end	31 March 2019 Year end
99% one-day sVaR	**2 898**	**2 594**

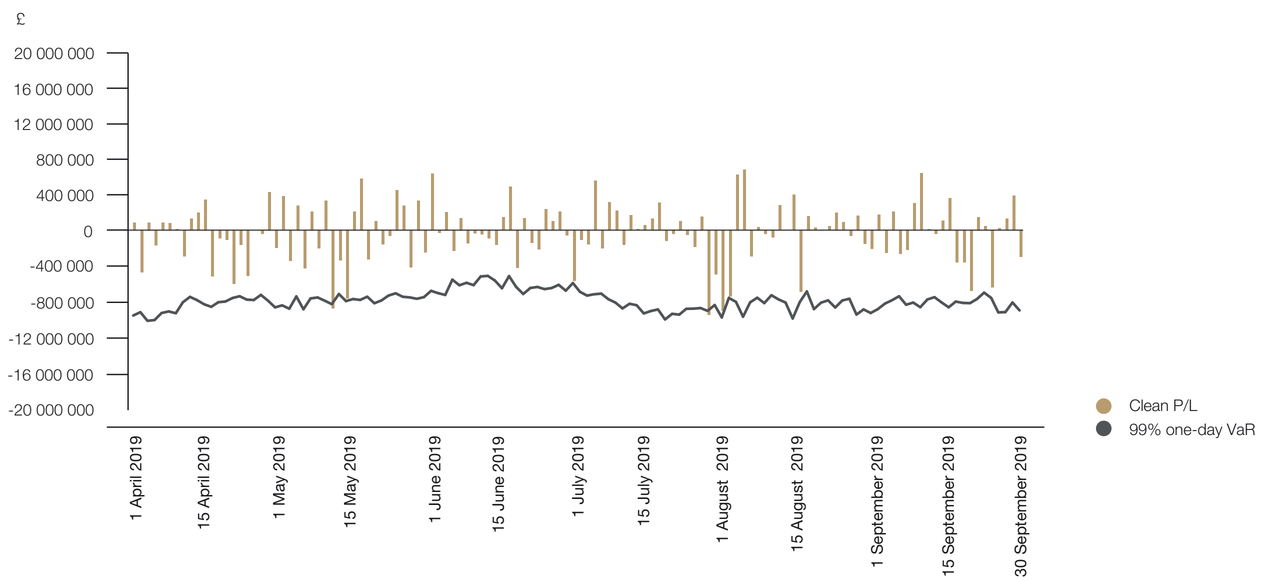
Backtesting

The performance of the VaR model is regularly monitored through backtesting. This is done by comparing daily clean profit and loss against one-day VaR based on a 99% confidence level. Clean profit and loss excludes items such as intra-day transactions, valuation adjustments, provisions, recoveries, commission, fees and hedge costs included in the new trade revenue. If a loss exceeds the one-day VaR, a backtesting exception is considered to have occurred. Over time we expect the average rate of observed backtesting exceptions to be consistent with the percentile of the VaR statistic being tested. This is conducted at an aggregate and desk level on a daily basis.

The graph that follows show the result of backtesting the total daily 99% one-day VaR against the clean profit and loss figures for our trading activities over the reporting period. Based on this graph, we can gauge the accuracy of the VaR figures i.e. 99% of the time, losses are not expected to exceed the 99% one-day VaR.

The average VaR for the six months ended 30 September 2019 was slightly higher than for the year ended 31 March 2019. Using clean profit and loss data for backtesting resulted in two exceptions over the period at the 99% confidence level, i.e. where the loss was greater than the 99% one-day VaR. This is slightly more than expected at this confidence level and is mainly due to idiosyncratic risk in the equity portfolio.

99% one-day VaR backtesting



Stress testing

The table below indicates the potential losses that could arise in the trading book portfolio per extreme value theory (EVT) at the 99% confidence level. EVT is a methodology widely used to estimate tail-event losses beyond the 95% one-day VaR. These numbers do not assume normality but rather rely on fitting a distribution to the tails of the VaR distribution.

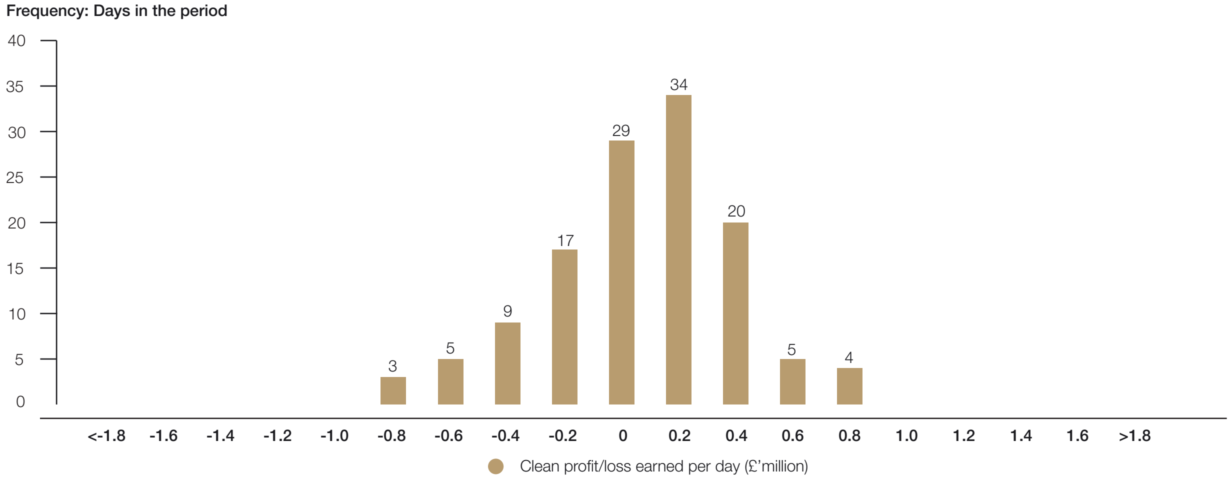
99% EVT £'000	**30 Sept 2019 Period end**	31 March 2019 Year end
Equities	1 033	1 114
Foreign exchange	45	77
Interest rates	286	339
Credit	67	3
Consolidated*	**1 155**	**1 190**

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

Clean profit and loss histogram

The histogram below illustrates the distribution of clean profit and loss during the financial year for our trading businesses. The graph shows that a clean profit was realised on 63 days out of a total of 126 days in the trading business. The average daily clean profit and loss generated for the six months to 30 September 2019 was -£33 171 (six months to 30 September 2018: £5 349). The average clean profit and loss was adversely impacted by UK equity markets remaining relatively range bound over most of the period as well as idiosyncratic risk in the equity portfolio.

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



Balance sheet risk management

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

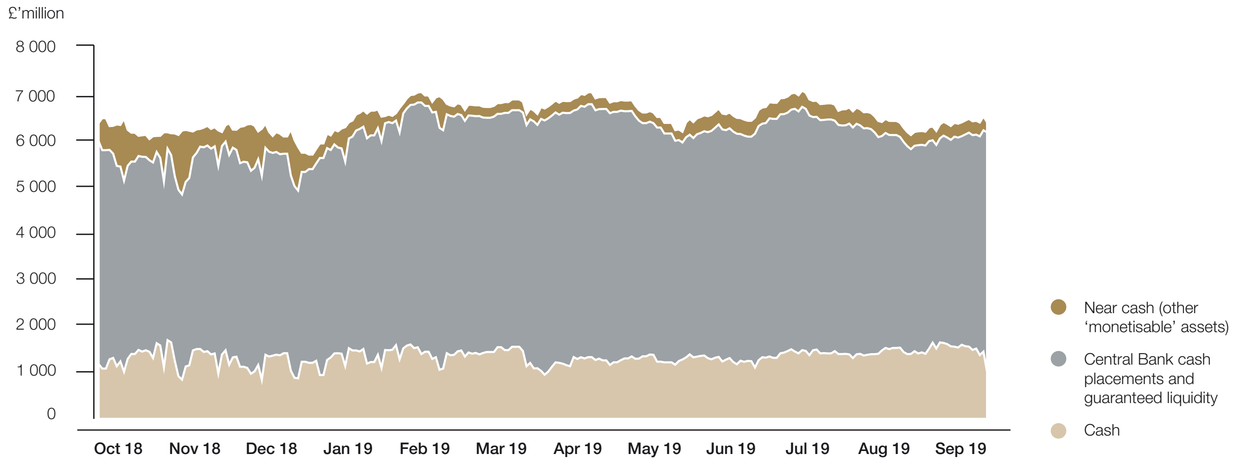
Liquidity risk

Liquidity risk refers to the possibility that, despite being solvent, we have insufficient capacity to fund increases in assets, or are unable to meet our payment obligations as they fall due in normal and stressed conditions. This includes repaying depositors or maturing wholesale debt. This risk arises from mismatches in the timing of cash-flows, and is inherent in all banking operations and can be impacted by a range of institution-specific and market-wide events.

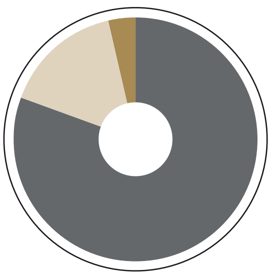
Liquidity risk is further broken down into:

- **Funding liquidity:** this relates to the risk that the bank will be unable to meet current and/or future cash flows or collateral requirements in the normal course of business, without adversely affecting its financial position or its reputation
- **Market liquidity:** this relates to the risk that the bank may be unable to trade in specific markets or that it may only be able to do so with difficulty due to market disruptions or a lack of market liquidity.

Cash and near cash trend



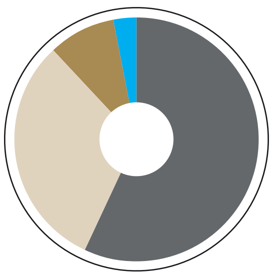
An analysis of cash and near cash at 30 September 2019



£6 460 million

80.8%	Central Bank cash placements and guaranteed liquidity
15.6%	Cash
3.6%	Near cash (other 'monetisable' assets)

Bank and non-bank depositor concentration by type at 30 September 2019



£15 018 million

57.0%	Individuals
31.1%	Non-financial corporates
9.1%	Banks
2.8%	Small business

Regulatory requirements

In response to the global financial crisis, the BCBS introduced a series of reforms designed to both strengthen and harmonise global liquidity standards to ensure strong financial risk management and a safer global economy.

Two minimum standards for funding liquidity were introduced:

- The liquidity coverage ratio (LCR) is designed to ensure that banks have sufficient high quality liquid assets to meet their liquidity needs throughout a 30-calendar day severe stress
- The net stable funding ratio (NSFR) is designed to capture structural issues over a longer time horizon by requiring banks to have a sustainable maturity structure of assets and liabilities.

Banks are required to maintain a minimum LCR ratio of 100%. For Investec Bank plc (solo basis), the LCR is calculated following the European Commission Delegated Regulation 2015/61 and our own interpretations where the regulation calls for it. The reported LCR may change over time with updates to our methodologies and interpretations. The LCR reported to the PRA at 30 September 2019 was 329% for Investec Bank plc (solo basis).

In June 2019, the CRR2/CRDV package was published in the EU Official Journal, including finalised rules for the calculation of the NSFR. This will become a binding metric in June 2021, at which point banks will be required to maintain a minimum NSFR of 100%. The internally calculated NSFR for Investec Bank plc (solo basis) is based upon these rules, but is subject to change in response to any further clarifications or guidelines. The NSFR at 30 September 2019 for Investec Bank plc (solo basis) was 126%.

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 IBP BRCC, DLC BRCC and by the IBP and DLC boards 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.

Liquidity mismatch

The table that follows shows the liquidity mismatch.

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 the bank 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 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 behaviourally withdrawals vary significantly from this. Historical observations of the products are used to model the behavioural lives, and this analysis has identified significant additional sources of structural liquidity in the form of core deposits that exhibit stable behaviour.

Contractual liquidity at 30 September 2019

£'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	4 050	170	17	14	2	17	–	4 270
Investment/trading assets	429	865	334	769	264	783	2 043	5 487
Securitised assets	–	–	3	–	2	12	98	115
Advances	193	508	476	697	1 159	5 809	2 146	10 988
Other assets	274	651	35	11	33	462	674	2 140
Assets	**4 946**	**2 194**	**865**	**1 491**	**1 460**	**7 083**	**4 961**	**23 000**
Deposits – banks	(67)	(1)	(1)	–	(15)	(1 260)	(17)	(1 361)
Deposits – non-banks	(4 729)	(693)	(3 120)	(2 486)	(788)	(1 606)	(235)	(13 657)
Negotiable paper	–	(6)	(38)	(30)	(37)	(1 298)	(499)	(1 908)
Securitised liabilities	–	–	(3)	(3)	(5)	(35)	(71)	(117)
Investment/trading liabilities	(301)	(95)	(118)	(17)	(40)	(342)	(382)	(1 295)
Subordinated liabilities	–	–	–	–	–	(379)	(433)	(812)
Other liabilities	(195)	(645)	(61)	(20)	(165)	(234)	(275)	(1 595)
Liabilities	**(5 292)**	**(1 440)**	**(3 341)**	**(2 556)**	**(1 050)**	**(5 154)**	**(1 912)**	**(20 745)**
Total equity	–	–	–	–	–	–	(2 255)	(2 255)
Contractual liquidity gap	**(346)**	**754**	**(2 476)**	**(1 065)**	**410**	**1 929**	**794**	**–**
Cumulative liquidity gap	(346)	408	(2 068)	(3 133)	(2 723)	(794)	–	

Behavioural liquidity

As discussed on page 51.

£'million	Demand	Up to one month	One to three months	Three to six months	Six months to one year	One to five years	> Five years	Total
Behavioural liquidity gap	**4 583**	**440**	**(1 699)**	**(1 254)**	**298**	**(2 792)**	**424**	**–**
Cumulative	4 583	5 023	3 324	2 070	2 368	(424)	–	

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 in the banking book 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 at 30 September 2019

The tables below show our non-trading interest rate mismatch assuming no management intervention.

£'million	Not > three months	> Three months but < six months	> Six months but < one year	> One year but < five years	> Five years	Non-rate	Total non-trading
Cash and short-term funds - banks	4 202	–	–	–	–	–	4 202
Investment/trading assets	2 434	776	129	186	18	368	3 911
Securitised assets	115	–	–	–	–	–	115
Advances	6 334	1 586	530	2 307	231	–	10 988
Other assets	–	–	–	–	–	2 139	2 139
Assets	**13 085**	**2 362**	**659**	**2 493**	**249**	**2 507**	**21 355**
Deposits – banks	(1 236)	(17)	–	–	–	–	(1 253)
Deposits – non-banks	(10 851)	(927)	(718)	(1 156)	(5)	–	(13 657)
Negotiable paper	(1 908)	–	–	–	–	–	(1 908)
Securitised liabilities	(117)	–	–	–	–	–	(117)
Investment/trading liabilities	(102)	–	–	–	–	–	(102)
Subordinated liabilities	(84)	–	–	(728)	–	–	(812)
Other liabilities	–	–	–	–	–	(1 251)	(1 251)
Liabilities	**(14 298)**	**(944)**	**(718)**	**(1 884)**	**(5)**	**(1 251)**	**(19 100)**
Total equity	–	–	–	–	–	(2 255)	(2 255)
Balance sheet	**(1 213)**	**1 418**	**(59)**	**609**	**244**	**(999)**	**–**
Off-balance sheet	1 052	197	(32)	(1 077)	(140)	–	–
Repricing gap	**(161)**	**1 615**	**(91)**	**(468)**	**104**	**(999)**	**–**
Cumulative repricing gap	(161)	1 454	1 363	895	999	–	

Economic value sensitivity at 30 September 2019

As outlined above, non-trading interest rate risk is measured and monitored using an economic value sensitivity approach. The table below reflects our economic value sensitivity to a 2% parallel shift in interest rates assuming no management intervention. The numbers represent the change to the value of the interest rate sensitive portfolios should such a hypothetical scenario arise. This sensitivity effect would only have a negligible direct impact on our equity.

	Sensitivity to the following interest rates (expressed in original currencies)						
'million	GBP	USD	EUR	AUD	ZAR	Other (GBP)	**All (GBP)**
200bps down	(11.4)	8.0	(7.5)	5.6	(1.2)	(1.7)	(11.3)
200bps up	8.8	(6.2)	5.8	(4.3)	0.9	1.3	8.7

Capital structure and capital adequacy

£'million	30 Sept 2019*	31 March 2019
Tier 1 capital		
Shareholders' equity	**1 980**	**1 889**
Shareholders' equity excluding non-controlling interests	2 012	1 921
Foreseeable charges and dividends	(18)	(19)
Deconsolidation of special purpose entities	(14)	(13)
Non-controlling interests	**(9)**	**(8)**
Non-controlling interests per balance sheet	(9)	(8)
Regulatory adjustments to the accounting basis	**97**	**110**
Additional value adjustments	(7)	(5)
Gains or losses on liabilities at fair value resulting from changes in our credit standing	20	21
Adjustment under IFRS 9 transitional arrangements	84	94
Deductions	**(336)**	**(348)**
Goodwill and intangible assets net of deferred taxation	(323)	(335)
Deferred taxation assets that rely on future profitability excluding those arising from temporary differences	(13)	(13)
Common equity tier 1 capital	**1 732**	**1 643**
Additional Tier 1 capital	**250**	**250**
Additional tier 1 instruments	250	250
Total tier 1 capital	**1 982**	**1 893**
Tier 2 capital	**564**	**596**
Tier 2 instruments	564	596
Total regulatory capital	**2 546**	**2 489**
Risk-weighted assets^^	**14 920**	**14 631**
Capital ratios		
Common equity tier 1 ratio	11.6%	11.2%
Tier 1 ratio	13.3%	12.9%
Total capital ratio	17.1%	17.0%

* *The capital adequacy disclosures for Investec Bank plc include the deduction of foreseeable charges and dividends when calculating common equity tier (CET) 1 capital as required under the Capital Requirements Regulation and European Banking Authority technical standards. These disclosures are different to the capital adequacy disclosures included in the Interim Report, which follow our normal basis of presentation and do not include the deduction for foreseeable charges and dividends when calculating CET 1 capital. Investec Bank plc's CET 1 ratio would be 12bps (31 March 2019: 13bps) higher on this basis.*

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

£'million	30 Sept 2019	31 March 2019
Capital requirements	**1 194**	**1 170**
Credit risk	917	893
Equity risk	7	9
Counterparty credit risk	56	49
Credit valuation adjustment risk	5	6
Market risk	58	67
Operational risk	151	146
Risk-weighted assets (banking and trading)	**14 920**	**14 631**
Credit risk	11 457	11 174
Equity risk	93	115
Counterparty credit risk	695	611
Credit valuation adjustment risk	62	76
Market risk	720	833
Operational risk	1 893	1 822

Leverage

£'million	30 Sept 2019	31 March 2019
Total exposure	**24 666**	**23 849**
Tier 1 capital°°	1 982	1 893
Leverage ratio – current**	**8.0%**	**7.9%**
Total exposure fully loaded^^	24 564	23 734
Tier 1 capital fully loaded^^	1 914	1 816
Leverage ratio – 'fully loaded'^^**	**7.8%**	**7.7%**

A summary of capital adequacy and leverage ratios

	30 Sept 2019*	31 March 2019*
Common equity tier 1 (as reported)°°	11.6%	11.2%
Common equity tier 1 ('fully loaded')^^	11.2%	10.8%
Tier 1 (as reported)°°	13.3%	12.9%
Total capital ratio (as reported)°°	17.1%	17.0%
Leverage ratio** – current	8.0%	7.9%
Leverage ratio** – ('fully loaded')^^	7.8%	7.7%
Leverage ratio – current UK leverage ratio framework^^^	9.5%	10.0%

* *The capital adequacy disclosures for Investec Bank plc include the deduction of foreseeable charges and dividends when calculating CET 1 capital as now required under the Capital Requirements Regulation and European Banking Authority technical standards. These disclosures are different to the capital disclosures included in the Interim Report, which follows our normal basis of presentation and do not include the deduction of foreseeable charges and dividends when calculating CET 1 capital. Investec Bank plc's CET 1 ratio would be 12bps (31 March 2019: 13bps) higher on this basis.*

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

^^ *Based on the group's understanding of current regulations, 'fully loaded' is based on CRR requirements as fully phased in by 2022, including full adoption of IFRS 9. As a result of the adoption of IFRS 9 Investec Bank plc elected to designate its subordinated fixed rate medium-term notes due in 2022 at fair value. By the time of full adoption of IFRS 9 in 2023, these subordinated liabilities will have reached final maturity and will be redeemed at par value. The remaining interest rate portion of the fair value adjustment at 30 September 2019 of £16 million (post-taxation), has therefore been excluded from the fully loaded ratios as it will be released into profit and loss over the remaining life of the instrument.*

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

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

ANNEXURE 1 – ALTERNATIVE PERFORMANCE MEASURES

We supplement our IFRS figures with alternative performance measures used by management internally and which provide valuable, relevant information to readers. A description of the group's alternative performance measures and their calculation, where relevant, is set out below.

Alternative performance measures constitute *pro forma* financial information. The *pro forma* financial information is the responsibility of the board of directors and is presented for illustrative purposes only and because of its nature may not fairly present the group's financial position, changes in equity, and results in operations or cash flows.

Adjusted operating profit	Refer to the calculation in the table below

£'000	30 Sept 2019	30 Sept 2018	31 March 2019
Operating profit before acquired intangibles and strategic actions	113 082	134 745	270 334
Add: Loss attributable to other non-controlling interests	79	4 205	4 479
Adjusted operating profit	*113 161*	*138 950*	*274 813*

Annualised net interest margin	Interest income net of interest expense multiplied by two, divided by average interest-earning assets. Refer to calculation on page 9
Annuity income	Net interest income (refer to page 9) plus net annuity fees and commissions (refer to page 10)
Cost to income ratio	Refer to calculation in the table below

£'000	30 Sept 2019	30 Sept 2018	31 March 2019
Operating costs (A)	383 489	400 456	792 380
Total operating income before expected credit losses	513 441	546 730	1 089 842
Less: Depreciation on operating leased assets	(845)	(1 167)	(2 137)
Add: Loss attributable to other non-controlling interests	79	4 205	4 479
Total (B)	512 675	549 768	1 092 184
Cost to income ratio (A/B)	*74.8%*	*72.8%*	*72.6%*

Coverage ratio	ECL as a percentage of gross core and advances subject to ECL
Credit loss ratio	ECL impairment charges on core loans and advances as a percentage of average gross core loans and advances subject to ECL
Gearing ratio	Total assets excluding assurance assets divided by total equity
Gross core loans and advances	Refer to calculation on page 38
Loans and advances to customers as a % of customer accounts	Loans and advances to customers as a percentage of customer accounts (deposits)
Net core loans and advances	Refer to calculation on page 38

Cash and near cash

Includes cash, near cash (other 'monetisable assets') and Central Bank cash placements and guaranteed liquidity

ECL

Expected credit loss

Effective operational tax rate

Tax on profit on ordinary activities (excluding non-operating items) divided by operating profit before goodwill and acquired intangibles and excluding share of post taxation profit of associates and joint venture holdings

FVOCI

Fair value through other comprehensive income

FVPL

Fair value through profit and loss

Interest-earning assets

Cash and near cash, bank debt securities, sovereign debt securities, loans and advances, other debt securities, other loans and advances and finance lease receivables. Refer to page 9 for calculation

Interest-bearing liabilities

Deposits by banks, customer accounts (deposits), repurchase agreements and cash collateral on securities lent, debt securities in issue, lease liabilities and subordinated liabilities. Refer to page 9 for calculation

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

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

Strategic actions

Includes closure and rundown of the Hong Kong direct investments business and financial impact of group restructures

Structured credit

Reflects the gross exposure of rated and unrated structured credit classified within other debt securities and other loans and advances on the balance sheet. Refer to page 46 for detail

Third party assets under administration

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