INVESTEC PLC | 2019

Financial information (excludes results of Investec Limited)

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

IFRS – Pounds Sterling

Investec

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)	720 244	738 832	(2.5%)	1 463 975
Operating costs (£'000)	550 353	557 956	(1.4%)	1 103 187
Adjusted operating profit (£'000)	153 038	173 909	(12.0%)	338 577
Earnings attributable to ordinary shareholders (£'000)	82 746	119 792	(30.9%)	192 390
Cost to income ratio (%)	76.5%	75.2%		75.2%
Total capital resources (including subordinated liabilities) (£'000)	3 131 524	3 026 683	3.5%	3 088 971
Total equity (£'000)	2 319 940	2 222 795	4.4%	2 285 272
Total assets (£'000)	23 544 534	21 692 405	8.5%	22 636 653
Net core loans and advances (£'000)	10 795 132	10 056 099	7.3%	10 514 251
Customer accounts (deposits) (£'000)	13 366 979	12 376 364	8.0%	13 150 824
Loans and advances to customers as a % of customer deposits	80.8%	81.3%		80.0%
Cash and near cash balances (£'mn)	6 619	6 456	2.5%	6 991
Funds under management (£'mn)	123 282	114 688	7.5%	115 450
Total gearing ratio (i.e. total assets to equity)	10.1x	9.8x		9.9x
Total capital ratio	15.2%	15.2%		15.4%
Tier 1 ratio	12.2%	11.9%		12.2%
Common equity tier 1 ratio	10.5%	10.1%		10.4%
Leverage ratio – current	7.6%	7.5%		7.7%
Leverage ratio – 'fully loaded'	7.3%	7.1%		7.3%
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% #	0.41% #		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	392 890	350 013	728 006
Interest expense	(199 868)	(157 852)	(341 612)
Net interest income	**193 022**	**192 161**	**386 394**
Fee and commission income	556 688	536 204	1 045 827
Fee and commission expense	(100 055)	(89 872)	(180 589)
Investment income	17 188	28 684	90 533
Share of post-taxation profit of associates and joint venture holdings	3 595	–	2 950
Trading income arising from			
– customer flow	45 736	48 420	86 766
– balance sheet management and other trading activities	(2 336)	17 553	17 845
Other operating income	6 406	5 682	14 249
Total operating income before expected credit loss impairment charges	**720 244**	**738 832**	**1 463 975**
Expected credit loss impairment charges	(16 087)	(10 005)	(24 553)
Operating income	**704 157**	**728 827**	**1 439 422**
Operating costs	(550 353)	(557 956)	(1 103 187)
Depreciation on operating leased assets	(845)	(1 167)	(2 137)
Operating profit before acquired intangibles and strategic actions	**152 959**	**169 704**	**334 098**
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	**96 942**	**136 387**	**255 547**
Financial impact of group restructures	8 632	6 234	(20 782)
Profit before taxation	**105 574**	**142 621**	**234 765**
Taxation on operating profit before acquired intangibles and strategic actions	(25 517)	(23 822)	(48 672)
Taxation on acquired intangibles and strategic actions	12 353	5 098	17 760
Profit after taxation	**92 410**	**123 897**	**203 853**
Profit attributable to asset management of non-controlling interests	(9 743)	(8 310)	(15 942)
Loss attributable to other non-controlling interests	79	4 205	4 479
Earnings attributable to shareholders	**82 746**	**119 792**	**192 390**

^ *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	**92 410**	**123 897**	**203 853**
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*	859	232	1 505
Foreign currency adjustments on translating foreign operations	7 026	8 129	3 767
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
Remeasurement of net defined benefit pension liability/asset	(1 197)	69	(1 924)
Total comprehensive income	**99 068**	**142 997**	**212 826**
Total comprehensive income attributable to non-controlling interests	9 162	3 693	11 050
Total comprehensive income attributable to ordinary shareholders	81 192	130 628	184 406
Total comprehensive income attributable to perpetual preferred securities and Other Additional Tier 1 securities	8 714	8 676	17 370
Total comprehensive income	**99 068**	**142 997**	**212 826**

* *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	3 331 166	4 445 431	3 882 704
Loans and advances to banks	1 117 645	1 164 051	1 088 766
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	464 627	498 265	356 598
Derivative financial instruments	727 694	625 550	585 998
Securities arising from trading activities	780 367	798 224	783 308
Investment portfolio	374 788	493 268	472 601
Loans and advances to customers	10 796 848	10 515 665	10 057 631
Other loans and advances	174 175	207 863	217 152
Other securitised assets	114 733	118 143	126 595
Interests in associated undertakings and joint venture holdings	56 397	53 451	51 327
Deferred taxation assets	138 409	148 351	157 556
Other assets	1 598 513	1 028 611	1 321 355
Property and equipment	311 993	99 796	100 705
Investment properties	14 500	14 500	14 500
Goodwill	349 239	356 048	356 445
Intangible assets	79 284	85 022	95 339
	23 544 534	**22 636 653**	**21 692 405**
Liabilities			
Deposits by banks	1 361 524	1 330 843	1 436 671
Derivative financial instruments	954 871	707 692	638 969
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)	13 366 979	13 150 824	12 376 364
Debt securities in issue	2 323 626	2 454 551	2 353 677
Liabilities arising on securitisation of other assets	116 544	113 711	121 161
Current taxation liabilities	115 233	131 896	152 433
Deferred taxation liabilities	19 069	20 704	20 274
Other liabilities	1 827 484	1 242 909	1 325 935
	20 413 010	**19 547 682**	**18 665 722**
Subordinated liabilities	811 584	803 699	803 888
	21 224 594	**20 351 381**	**19 469 610**
Equity			
Ordinary share capital	202	200	200
Perpetual preference share capital	29	29	29
Share premium	1 447 371	1 382 732	1 377 459
Treasury shares	(174 047)	(113 651)	(134 807)
Other reserves	(173 347)	(175 878)	(139 352)
Retained income	952 211	928 753	856 283
Shareholders' equity excluding non-controlling interests	**2 052 419**	**2 022 185**	**1 959 812**
Other Additional Tier 1 securities in issue	250 000	250 000	250 000
Non-controlling interests in partially held subsidiaries	17 521	13 087	12 983
Total equity	**2 319 940**	**2 285 272**	**2 222 795**
Total liabilities and equity	**23 544 534**	**22 636 653**	**21 692 405**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

£'000	Ordinary share capital	Perpetual preference share capital	Share premium	Treasury shares
At 31 March 2018	**195**	**29**	**1 317 115**	**(102 876)**
Adoption of IFRS 9	–	–	–	–
At 1 April 2018	**195**	**29**	**1 317 115**	**(102 876)**
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	–	–	–	–
Remeasurement of net defined benefit pension asset	–	–	–	–
Total comprehensive income for the year	**–**	**–**	**–**	**–**
Share-based payments adjustments	–	–	–	–
Dividends paid to ordinary shareholders	–	–	–	–
Dividends paid to perpetual preference shareholders	–	–	–	–
Dividends declared to Other Additional Tier 1 security holders^	–	–	–	–
Dividends paid to Other Additional Tier 1 security holders^	–	–	–	–
Dividends paid to non-controlling interests	–	–	–	–
Issue of ordinary shares	5	–	65 617	–
Net equity impact of non-controlling interest movements	–	–	–	–
Movement of treasury shares	–	–	–	(10 775)
Transfer own credit reserve on sale of subordinated liabilities	–	–	–	–
At 31 March 2019	**200**	**29**	**1 382 732**	**(113 651)**
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	–	–	–	–
Remeasurement of net defined benefit pension liability	–	–	–	–
Total comprehensive income for the year	–	–	–	–
Share-based payments adjustments	–	–	–	–
Dividends paid to ordinary shareholders	–	–	–	–
Dividends paid to perpetual preference shareholders	–	–	–	–
Dividends declared to Other Additional Tier 1 security holders	–	–	–	–
Dividends paid to Other Additional Tier 1 security holders	–	–	–	–
Dividends paid to non-controlling interests	–	–	–	–
Issue of ordinary shares	2	–	64 639	–
Net equity impact of non-controlling interest movements	–	–	–	–
Movement of treasury shares	–	–	–	(60 396)
At 30 September 2019	**202**	**29**	**1 447 371**	**(174 047)**

^ *Restated as detailed on pages 25 to 27*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(continued)

Other reserves								
Capital reserve account	Fair value reserve	Foreign currency reserves	Own credit reserve	Retained income	**Shareholders' equity excluding non-controlling interests**	Other Additional Tier 1 securities in issue	Non-controlling interests	**Total equity**
(131 158)	**10 151**	**1 846**	**–**	**979 649**	**2 074 951**	**250 000**	**15 750**	**2 340 701**
–	(7 619)	–	(55 388)	(148 924)	(211 931)	–	–	(211 931)
(131 158)	**2 532**	**1 846**	**(55 388)**	**830 725**	**1 863 020**	**250 000**	**15 750**	**2 128 770**
–	–	–	–	192 390	192 390	–	11 463	203 853
–	(47)	–	(817)	(708)	(1 572)	–	–	(1 572)
–	(1 907)	–	–	–	(1 907)	–	–	(1 907)
–	1 505	–	–	–	1 505	–	–	1 505
–	1	4 179	–	–	4 180	–	(413)	3 767
–	–	–	9 104	–	9 104	–	–	9 104
–	–	–	–	(1 924)	(1 924)	–	–	(1 924)
–	**(448)**	**4 179**	**8 287**	**189 758**	**201 776**	**–**	**11 050**	**212 826**
–	–	–	–	30 164	30 164	–	–	30 164
–	–	–	–	(109 334)	(109 334)	–	–	(109 334)
–	–	–	–	(490)	(490)	–	–	(490)
–	–	–	–	(16 880)	(16 880)	16 880	–	–
–	–	–	–	–	–	(16 880)	–	(16 880)
–	–	–	–	–	–	–	(14 110)	(14 110)
–	–	–	–	–	65 622	–	–	65 622
–	–	–	–	30 534	30 534	–	397	30 931
(31 452)	–	–	–	–	(42 227)	–	–	(42 227)
–	–	–	25 724	(25 724)	–	–	–	–
(162 610)	**2 084**	**6 025**	**(21 377)**	**928 753**	**2 022 185**	**250 000**	**13 087**	**2 285 272**
–	–	–	–	82 746	82 746	–	9 664	92 410
–	(24)	–	(479)	–	(503)	–	–	(503)
–	(1 069)	–	–	–	(1 069)	–	–	(1 069)
–	859	–	–	–	859	–	–	859
–	–	7 528	–	–	7 528	–	(502)	7 026
–	–	–	1 542	–	1 542	–	–	1 542
–	–	–	–	(1 197)	(1 197)	–	–	(1 197)
–	**(234)**	**7 528**	**1 063**	**81 549**	**89 906**	**–**	**9 162**	**99 068**
–	–	–	–	13 514	13 514	–	–	13 514
–	–	–	–	(62 891)	(62 891)	–	–	(62 891)
–	–	–	–	(274)	(274)	–	–	(274)
–	–	–	–	(8 440)	(8 440)	8 440	–	–
–	–	–	–	–	–	(8 440)	–	(8 440)
–	–	–	–	–	–	–	(6 709)	(6 709)
–	–	–	–	–	64 641	–	–	64 641
–	–	–	–	–	–	–	1 981	1 981
(5 826)	–	–	–	–	(66 222)	–	–	(66 222)
(168 436)	**1 850**	**13 553**	**(20 314)**	**952 211**	**2 052 419**	**250 000**	**17 521**	**2 319 940**

SEGMENTAL BUSINESS ANALYSIS – INCOME STATEMENT

Segmental business analysis – income statement **For the six months to 30 September 2019** **£'000**	Asset Management	Wealth & Investment	Specialist Banking	Group costs	**Total group**
Net interest income	(1 207)	6 694	187 535	–	193 022
Fee and commission income	299 280	155 807	101 601	–	556 688
Fee and commission expense	(94 888)	(339)	(4 828)	–	(100 055)
Investment income	(158)	(372)	17 718	–	17 188
Share of post taxation profit of associates and joint venture holdings	–	–	3 595	–	3 595
Trading income arising from					
– customer flow	–	483	45 253	–	45 736
– balance sheet management and other trading activities	4 054	17	(6 407)	–	(2 336)
Other operating income	3 822	–	2 584	–	6 406
Total operating income before expected credit loss impairment charges	**210 903**	**162 290**	**347 051**	**–**	**720 244**
Expected credit loss impairment release/(charges)	–	1	(16 088)	–	(16 087)
Operating income	**210 903**	**162 291**	**330 963**	**–**	**704 157**
Operating costs	(151 929)	(131 836)	(250 749)	(15 839)	(550 353)
Depreciation on operating leased assets	–	–	(845)	–	(845)
Operating profit before acquired intangibles and strategic actions	**58 974**	**30 455**	**79 369**	**(15 839)**	**152 959**
Loss attributable to other non-controlling interests	–	–	79	–	79
Adjusted operating profit	**58 974**	**30 455**	**79 448**	**(15 839)**	**153 038**
Profit attributable to Asset Management non-controlling interests	(9 743)	–	–	–	(9 743)
Adjusted operating profit after non-controlling interests	**49 231**	**30 455**	**79 448**	**(15 839)**	**143 295**
Selected returns and key statistics					
Cost to income ratio	72.0%	81.2%	72.4%	n/a	76.5%
Total assets (£'million)	492	959	22 093	n/a	23 545

SEGMENTAL BUSINESS ANALYSIS – INCOME STATEMENT

(continued)

Segmental business analysis – income statement^ **For the six months to 30 September 2018** **£'000**	Asset Management	Wealth & Investment	Specialist Banking	Group costs	**Total group**
Net interest income	305	4 046	187 810	–	192 161
Fee and commission income	274 140	155 895	106 169	–	536 204
Fee and commission expense	(83 436)	(373)	(6 063)	–	(89 872)
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	4 471	3	13 079	–	17 553
Other operating income	2 700	–	2 982	–	5 682
Total operating income before expected credit loss impairment charges	**198 180**	**160 011**	**380 641**	**–**	**738 832**
Expected credit loss impairment charges	(2)	(27)	(9 976)	–	(10 005)
Operating income	**198 178**	**159 984**	**370 665**	**–**	**728 827**
Operating costs	(141 338)	(123 637)	(275 754)	(17 227)	(557 956)
Depreciation on operating leased assets	–	–	(1 167)	–	(1 167)
Operating profit before acquired intangibles and strategic actions	**56 840**	**36 347**	**93 744**	**(17 227)**	**169 704**
Loss attributable to other non-controlling interests	–	–	4 205	–	4 205
Adjusted operating profit	**56 840**	**36 347**	**97 949**	**(17 227)**	**173 909**
Profit attributable to Asset Management non-controlling interests	(8 310)	–	–	–	(8 310)
Adjusted operating profit after non-controlling interests	**48 530**	**36 347**	**97 949**	**(17 227)**	**165 599**
Selected returns and key statistics					
Cost to income ratio	71.3%	77.3%	71.9%	n/a	75.2%
Total assets (£'million)	481	876	20 335	n/a	21 692

^ *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	7 562 967	41 078	6 995 295	26 903
Loans and advances	2	10 796 848	293 451	10 057 631	286 489
Private client		4 494 748	91 154	3 692 360	83 095
Corporate, institutional and other clients		6 302 100	202 297	6 365 271	203 394
Other debt securities and other loans and advances#		638 802	49 434	573 750	36 621
Finance lease receivables*		335 355	8 927	–	–
Total interest-earning assets		**19 333 972**	**392 890**	**17 626 676**	**350 013**

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	3 925 373	80 400	3 945 507	61 944
Customer accounts (deposits)		13 366 979	85 266	12 377 515	69 601
Subordinated liabilities		811 584	24 172	803 888	26 307
Lease liabilities*		583 303	10 030	–	–
Total interest-bearing liabilities		**18 687 239**	**199 868**	**17 126 910**	**157 852**
Net interest income			**193 022**		**192 161**
Annualised net interest margin			**2.02%**		**2.23%**

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^
Asset management and wealth management businesses net fee and commission income	**359 860**	**346 226**
Fund management fees/fees for assets under management	433 591	405 733
Private client transactional fees	21 496	24 302
Fee and commission expense	(95 227)	(83 809)
Specialist Banking net fee and commission income	**96 773**	**100 106**
Corporate and institutional transactional and advisory services	95 930	101 060
Private client transactional fees	5 671	5 109
Fee and commission expense	(4 828)	(6 063)
Net fee and commission income	**456 633**	**446 332**
Annuity fees (net of fees payable)	347 776	332 976
Deal fees	108 857	113 356

^ *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)	(584)	61 893
Unrealised*	(1 073)	(35 558)	(6 726)	(43 357)	73	1 293	(4 392)	(46 383)
Dividend income	1	631	–	632	–	–	–	632
Funding and other net related income	–	–	–	–	–	1 046	–	1 046
	(1 543)	**11 574**	**7 935**	**17 966**	**3 780**	**418**	**(4 976)**	**17 188**
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	–	3 331 166	–	3 331 166
Loans and advances to banks	–	1 117 645	–	1 117 645
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	254 293	–	464 627
Derivative financial instruments*	727 694	–	–	727 694
Securities arising from trading activities	780 367	–	–	780 367
Investment portfolio	374 788	–	–	374 788
Loans and advances to customers	1 184 744	9 612 104	–	10 796 848
Other loans and advances	–	174 175	–	174 175
Other securitised assets	114 733	–	–	114 733
Interests in associated undertakings and joint venture holdings	–	–	56 397	56 397
Deferred taxation assets	–	–	138 409	138 409
Other assets	85 075	911 566	601 872	1 598 513
Property and equipment	–	–	311 993	311 993
Investment properties	–	–	14 500	14 500
Goodwill	–	–	349 239	349 239
Intangible assets	–	–	79 284	79 284
	5 704 074	**16 288 766**	**1 551 694**	**23 544 534**
Financial liabilities				
Deposits by banks	1 094	1 360 430	–	1 361 524
Derivative financial instruments*	954 871	–	–	954 871
Other trading liabilities	87 457	–	–	87 457
Repurchase agreements and cash collateral on securities lent	23 454	216 769	–	240 223
Customer accounts (deposits)	–	13 366 979	–	13 366 979
Debt securities in issue	312 028	2 011 598	–	2 323 626
Liabilities arising on securitisation of other assets	116 544	–	–	116 544
Current taxation liabilities	–	–	115 233	115 233
Deferred taxation liabilities	–	–	19 069	19 069
Other liabilities	–	931 336	896 148	1 827 484
	1 495 448	**17 887 112**	**1 030 450**	**20 413 010**
Subordinated liabilities	378 414	433 170	–	811 584
	1 873 862	**18 320 282**	**1 030 450**	**21 224 594**

* *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	727 694	–	692 899	34 795
Securities arising from trading activities	780 367	749 414	23 893	7 060
Investment portfolio	374 788	12 624	4 740	357 424
Loans and advances to customers	1 184 744	–	–	1 184 744
Other securitised assets	114 733	–	–	114 733
Other assets	85 075	85 075	–	–
	5 704 074	**2 995 221**	**883 115**	**1 825 738**
Liabilities				
Deposits by banks	1 094	–	–	1 094
Derivative financial instruments	954 871	3 694	922 629	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	–	–
	1 873 862	**469 565**	**1 258 111**	**146 186**
Net assets	**3 830 212**	**2 525 656**	**(374 996)**	**1 679 552**

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	**473 442**	**1 169 133**	**118 143**	**128 923**	**1 889 641**
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	**357 424**	**1 184 744**	**114 733**	**168 837**	**1 825 738**

£'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 from 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/TECHNIQUE	**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	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	357 424	Potential impact on income statement		61 971	(56 193)
		Price earnings multiple	3.2 x -9.7 x	7 115	(6 116)
		Underlying asset value^^	^^	8 850	(4 944)
		Other^	^	46 006	(45 133)
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	**1 825 738**			**126 100**	**(128 786)**
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	**1 679 552**				

* *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	3 331 166	3 331 166
Loans and advances to banks	1 117 645	1 117 645
Reverse repurchase agreements and cash collateral on securities borrowed	887 817	887 897
Other debt securities	254 293	247 948
Loans and advances to customers	9 612 104	9 624 905
Other loans and advances	174 175	172 768
Other assets	911 566	911 544
	16 288 766	**16 293 873**
Liabilities		
Deposits by banks	1 360 430	1 366 537
Repurchase agreements and cash collateral on securities lent	216 769	216 769
Customer accounts (deposits)	13 366 979	13 372 323
Debt securities in issue	2 011 598	2 043 821
Other liabilities	931 336	928 311
Subordinated liabilities	433 170	434 167
	18 320 282	**18 361 928**

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	14 258	18 863
Other loans and advances	5	(2 796)
Other balance sheet assets	230	(5 590)
Off-balance sheet commitments	1 594	(472)
	16 087	**10 005**

Operating costs

For the six months to 30 September £'000	2019	2018^
Staff costs	404 648	405 722
Premises expenses*	27 030	34 539
Premises expenses (excluding depreciation)*	10 282	31 542
Premises depreciation*	16 748	2 997
Equipment expenses (excluding depreciation)	27 775	25 408
Business expenses	69 885	73 008
Marketing expenses	15 835	15 544
Depreciation, amortisation and impairment of equipment and intangibles*	5 180	3 735
Depreciation on operating leased assets	845	1 167
	551 198	**559 123**

* *The group adopted IFRS 16 from 1 April 2019. The impact has been to increase the depreciation charge by £13.5 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	465 222	498 638
Expected credit loss	(595)	(373)
Net other debt securities	**464 627**	**498 265**
Bonds	210 240	215 631
Asset-backed securities	254 387	282 634
	464 627	**498 265**

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	9 746 272	9 494 393
Gross loans and advances to customers at FVOCI^	473 098	397 068
Gross loans and advances to customers subject to expected credit losses	**10 219 370**	**9 891 461**
Expected credit losses on loans and advances to customers at amortised cost and FVOCI^	(134 168)	(147 880)
Net loans and advances to customers at amortised cost and FVOCI^	**10 085 202**	**9 743 581**
Loans and advances to customers at fair value through profit and loss	711 646	772 084
Loans and advances to customers	**10 796 848**	**10 515 665**
Gross other loans and advances	174 253	207 936
Expected credit losses on other loans and advances	(78)	(73)
Net other loans and advances	**174 175**	**207 863**

^ *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	720 248	570 036
Trading properties	44 041	55 531
Prepayments and accruals	150 731	142 986
Pension assets	–	180
Trading initial margins	13 822	13 822
Finance lease receivables*	335 355	–
Other	334 316	246 056
	1 598 513	**1 028 611**

* *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	89 690	67 871
Three months to one year	66 707	129 046
One to five years	1 668 786	1 699 558
Greater than five years	498 443	558 076
	2 323 626	**2 454 551**

Other liabilities

£'000	30 Sept 2019	31 March 2019
Settlement liabilities	653 061	565 990
Other creditors and accruals	370 750	492 252
Other non-interest-bearing liabilities	216 829	182 749
Lease liabilities*	583 303	–
Expected credit losses on off-balance sheet	3 541	1 918
	1 827 484	**1 242 909**

* *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 perpetual preference share capital

£'000	30 Sept 2019	31 March 2019
Perpetual preference share capital	29	29
Perpetual preference share premium	24 765	24 765
	24 794	**24 794**

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	3 331 166	–	3 331 166	–	–	3 331 166
Loans and advances to banks	1 117 645	–	1 117 645	–	(338 447)	779 198
Reverse repurchase agreements and cash collateral on securities 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	464 627	–	464 627	–	–	464 627
Derivative financial instruments	727 694	–	727 694	(292 765)	(66 240)	368 689
Securities arising from trading activities	780 367	–	780 367	(460 839)	–	319 528
Investment portfolio	374 788	–	374 788	–	(2 114)	372 674
Loans and advances to customers	10 796 848	–	10 796 848	–	–	10 796 848
Other loans and advances	174 175	–	174 175	–	(4 735)	169 440
Other securitised assets	114 733	–	114 733	–	–	114 733
Other assets	1 598 513	–	1 598 513	–	–	1 598 513
	22 594 712	**–**	**22 594 712**	**(921 047)**	**(413 191)**	**21 260 474**
Liabilities						
Deposits by banks	1 361 524	–	1 361 524	–	(110 874)	1 250 650
Derivative financial instruments	954 871	–	954 871	(448 598)	(263 330)	242 943
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)	13 366 979	–	13 366 979	–	(24 924)	13 342 055
Debt securities in issue	2 323 626	–	2 323 626	(309 448)	(2 580)	2 011 598
Liabilities arising on securitisation of other assets	116 544	–	116 544	–	–	116 544
Other liabilities	1 827 484	–	1 827 484	–	(2 114)	1 825 370
Subordinated liabilities	811 584	–	811 584	–	–	811 584
	21 090 292	**–**	**21 090 292**	**(921 047)**	**(413 191)**	**19 756 054**

Offsetting *(continued)*

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
	Amounts subject to enforceable netting arrangements					
	Effects of offsetting on balance sheet			**Related amounts not offset**		
Assets						
Cash and balances at central banks	4 445 431	–	4 445 431	–	–	4 445 431
Loans and advances to banks	1 164 051	–	1 164 051	–	(133 458)	1 030 593
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	498 265	–	498 265	–	–	498 265
Derivative financial instruments	625 550	–	625 550	(268 182)	(90 734)	266 634
Securities arising from trading activities	798 224	–	798 224	(579 642)	–	218 582
Investment portfolio	493 268	–	493 268	–	–	493 268
Loans and advances to customers	10 515 665	–	10 515 665	–	–	10 515 665
Other loans and advances	207 863	–	207 863	–	(328)	207 535
Other securitised assets	118 143	–	118 143	–	–	118 143
Other assets	1 028 611	–	1 028 611	–	–	1 028 611
	21 879 485	**–**	**21 879 485**	**(998 975)**	**(225 607)**	**20 654 903**
Liabilities						
Deposits by banks	1 330 843	–	1 330 843	–	(120 365)	1 210 478
Derivative financial instruments	707 692	–	707 692	(422 583)	(76 590)	208 519
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)	13 150 824	–	13 150 824	–	(35 804)	13 115 020
Debt securities in issue	2 454 551	–	2 454 551	(363 559)	(5 337)	2 085 655
Liabilities arising on securitisation of other assets	113 711	–	113 711	–	–	113 711
Other liabilities	1 242 909	–	1 242 909	–	–	1 242 909
Subordinated liabilities	803 699	–	803 699	–	–	803 699
	20 198 781	**–**	**20 198 781**	**(998 975)**	**(243 543)**	**18 956 263**

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 £223 million, finance lease receivables of £330 million relating to certain subleases, and lease liabilities of £584 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: £1.6m).

Key Management Assumptions

The group's planned demerger of Investec Asset Management from the Investec group leads to significant judgement on the presentation and disclosure implications for the current period. The main consideration is whether the current progress on the demerger requires the Investec Asset Management business to be classified as a disposal group and discontinued operation.

The group has considered the requirements of IFRS 5 Non-current assets held for Sale and Discontinued Operations, where the key tests for this classification are that a business must be available for immediate sale in its present condition and that the transaction should be highly probable. The group considers that the former test is met as the Investec Asset Management business functions in a relatively stand-alone way with only those shared services which would be normal in a demerger or similar transaction. However, given that the transaction is subject to both regulatory and shareholder approval and that at the reporting date, there was not sufficient certainty of the outcome of these approval processes we were unable to conclude that this transaction is highly probable. The group's conclusion is therefore that the demerger cannot be classified as a disposal group and discontinued operation at 30 September 2019. While some progress has been made subsequent to the reporting date, this has not affected our overall conclusion.

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:

- Proposed demerger of the asset management business
- 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 the 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 Other 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 taxation for the six months to 30 September 2018 by £1.6 million and for the year to 31 March 2019 by £3.2 million.

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 shareholders 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	350 003	10	350 013	728 003	3	728 006
Interest expense	(161 145)	3 293	(157 852)	(348 514)	6 902	(341 612)
Net interest income	**188 858**	**3 303**	**192 161**	**379 489**	**6 905**	**386 394**
Fee and commission income	552 746	(16 542)	536 204	1 072 767	(26 940)	1 045 827
Fee and commission expense	(89 012)	(860)	(89 872)	(183 536)	2 947	(180 589)
Investment income	5 409	23 275	28 684	32 674	57 859	90 533
Share of post taxation profit of associates and joint venture holdings	94	(94)	–	3 100	(150)	2 950
Trading income arising from						
– customer flow	48 420	–	48 420	86 766	–	86 766
– balance sheet management and other trading activities	17 137	416	17 553	17 924	(79)	17 845
Other operating income	5 682	–	5 682	14 249	–	14 249
Total operating income before expected credit loss impairment charges	**729 334**	**9 498**	**738 832**	**1 423 433**	**40 542**	**1 463 975**
Expected credit loss impairment charges	(10 005)	–	(10 005)	(24 553)	–	(24 553)
Operating income	**719 329**	**9 498**	**728 827**	**1 398 880**	**40 542**	**1 439 422**
Operating costs	(569 133)	11 177	(557 956)	(1 129 976)	26 789	(1 103 187)
Depreciation on operating leased assets	(1 167)	–	(1 167)	(2 137)	–	(2 137)
Operating profit before acquired intangibles and strategic actions	**149 029**	**20 675**	**169 704**	**266 767**	**67 331**	**334 098**
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	**142 621**	**(6 234)**	**136 387**	**253 809**	**1 738**	**255 547**
Financial impact of group restructures	–	6 234	6 234	(19 044)	(1 738)	(20 782)
Profit before taxation	**142 621**	**–**	**142 621**	**234 765**	**–**	**234 765**
Taxation on operating profit before acquired intangibles and strategic actions	(21 498)	(2 324)	(23 822)	(39 102)	(9 570)	(48 672)
Taxation on acquired intangibles and strategic actions	1 170	3 928	5 098	4 983	12 777	17 760
Profit after taxation	**122 293**	**1 604**	**123 897**	**200 646**	**3 207**	**203 853**
Profit attributable to other non-controlling interests	(8 310)	–	(8 310)	(15 942)	–	(15 942)
Profit attributable to Asset Management non-controlling interest	4 205	–	4 205	4 479	–	4 479
Earnings attributable to shareholders	**118 188**	**1 604**	**119 792**	**189 183**	**3 207**	**192 390**

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	8 632	6 234	(20 782)
Costs incurred in relation to proposed Asset Management demerger	(4 125)	–	(6 191)
Closure of Click & Invest	(4 020)	(3 483)	(14 265)
Sale of the Irish Wealth & Investment business	18 959	–	–
Restructure of the Irish branch	(1 265)	9 717	(326)
Sale of UK Property Fund	(917)	–	–
Financial impact of strategic actions	**(40 837)**	**(20 675)**	**(86 375)**

* *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.

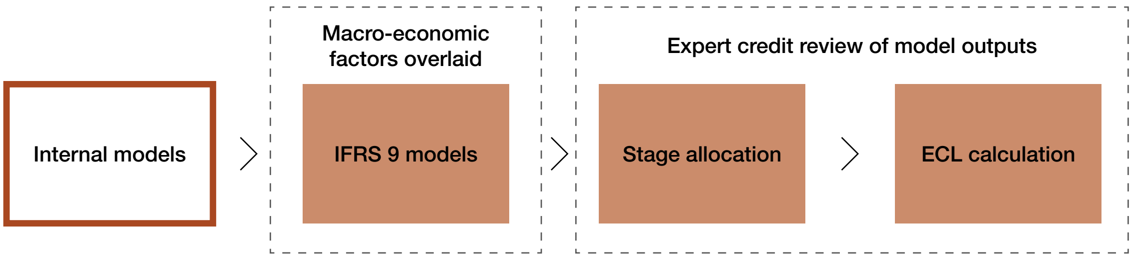
Key drivers of ECL – subjective elements and inputs

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 group'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.

In the UK, 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 group'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 group's gross credit and counterparty exposures.

An analysis of gross credit and counterparty exposures

Gross credit and counterparty exposure totalled £22.5 billion at 30 September 2019. Cash and near cash balances amounted to £6.6 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	1 118	1 164
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	466	499
Derivative financial instruments	695	570
Securities arising from trading activities	488	530
Loans and advances to customers	10 931	10 663
Other loans and advances	131	178
Other securitised assets	8	8
Other assets	107	46
Total on-balance sheet exposures	**20 389**	**20 087**
Guarantees	86	85
Committed facilities related to loans and advances to customers	1 678	1 484
Contingent liabilities, letters of credit and other	306	413
Total off-balance sheet exposures	**2 070**	**1 982**
Total gross credit and counterparty exposures	**22 459**	**22 069**

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	1 118	–	1 118	–	–	1 118
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	466	210	256	(1)	–	465
Derivative financial instruments	695	695	–	–	33	728
Securities arising from trading activities	488	488	–	–	292	780
Investment portfolio	–	–	–	–	375 *	375
Loans and advances to customers	10 931	712	10 219	(136)	–	10 795
Other loans and advances	131	–	131	–	43	174
Other securitised assets	8	8	–	–	107 ^^	115
Interest in associated undertakings	–	–	–	–	56	56
Deferred taxation assets	–	–	–	–	138	138
Other assets	107	–	107	–	1 492 **	1 599
Property and equipment	–	–	–	–	312	312
Investment properties	–	–	–	–	15	15
Goodwill	–	–	–	–	349	349
Intangible assets	–	–	–	–	79	79
Total on-balance sheet exposures	**20 389**	**2 775**	**17 614**	**(137)**	**3 291**	**23 543**
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	306	–	306	–	62	368
Total off-balance sheet exposures	**2 070**	**52**	**2 018**	**(3)**	**62**	**2 129**
Total exposures	**22 459**	**2 827**	**19 632**	**(140)**	**3 353**	**25 672**

^ *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 group manages all risks (including credit risk) from a day-to-day operational perspective, certain assets are within special purpose vehicles that ring-fence the assets to specific credit providers and limit security to the assets in the vehicle. This balance reflects the credit exposure to credit providers external to the group. The net credit exposure that the group has in the vehicles is reflected in the 'total credit and counterparty exposure'.*
** *Other assets include settlement debtors which we deem to have no credit risk exposure as they are settled on a delivery against payment basis.*

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	1 164	–	1 164	–	–	1 164
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	499	275	224	(1)	–	498
Derivative financial instruments	570	570	–	–	56	626
Securities arising from trading activities	530	530	–	–	268	798
Investment portfolio	–	–	–	–	493 *	493
Loans and advances to customers	10 663	772	9 891	(149)	–	10 514
Other loans and advances	178	–	178	–	30	208
Other securitised assets	8	8	–	–	110 ^^	118
Interest in associated undertakings	–	–	–	–	53	53
Deferred taxation assets	–	–	–	–	148	148
Other assets	46	–	46	–	983 **	1 029
Property and equipment	–	–	–	–	100	100
Investment properties	–	–	–	–	15	15
Goodwill	–	–	–	–	356	356
Intangible assets	–	–	–	–	85	85
Total on-balance sheet exposures	**20 087**	**2 551**	**17 536**	**(150)**	**2 697**	**22 634**
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	413	–	413	–	31	444
Total off-balance sheet exposures	**1 982**	**43**	**1 939**	**(2)**	**31**	**2 011**
Total exposures	**22 069**	**2 594**	**19 475**	**(152)**	**2 728**	**24 645**

^ *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 group manages all risks (including credit risk) from a day-to-day operational perspective, certain assets are within special purpose vehicles that ring-fence the assets to specific credit providers and limit security to the assets in the vehicle. This balance reflects the credit exposure to credit providers external to the group. The net credit exposure that the group has in the vehicles is reflected in the 'total credit and counterparty exposure'.*
** *Other assets include settlement debtors which we deem to have no credit risk exposure as they are settled on a delivery against payment basis.*

Gross credit and counterparty exposures by residual contractual maturity

At 30 September 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	1 101	–	–	17	–	–	1 118
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	277	466
Derivative financial instruments	121	87	97	182	129	79	695
Securities arising from trading activities	–	–	4	59	62	363	488
Loans and advances to customers	1 204	702	1 204	5 804	1 467	550	10 931
Other loans and advances	5	–	–	–	35	91	131
Other securitised assets	–	–	–	–	–	8	8
Other assets	107	–	–	–	–	–	107
Total on-balance sheet exposures	**7 251**	**1 527**	**1 593**	**6 342**	**1 835**	**1 841**	**20 389**
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	9	9	76	175	37	–	306
Total off-balance sheet exposures	**203**	**44**	**252**	**1 242**	**264**	**65**	**2 070**
Total gross credit and counterparty exposures	**7 454**	**1 571**	**1 845**	**7 584**	**2 099**	**1 906**	**22 459**

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	–	–	–	–	–	–	1 118
Reverse repurchase agreements and cash collateral on securities borrowed	–	–	–	–	–	–	914
Sovereign debt securities	–	–	–	–	2 148	–	–
Bank debt securities	–	–	–	–	–	–	52
Other debt securities	–	–	–	9	7	–	227
Derivative financial instruments	12	2	–	83	2	10	408
Securities arising from trading activities	–	–	–	–	359	–	129
Loans and advances to customers	2 618	1 952	8	470	201	981	1 483
Other loans and advances	–	–	–	–	–	–	100
Other securitised assets	–	–	–	–	–	–	–
Other assets	–	–	–	1	–	–	106
Total on-balance sheet exposures	**2 630**	**1 954**	**8**	**563**	**6 048**	**991**	**4 537**
Guarantees	18	–	–	–	–	–	61
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**	**–**	**418**	**25**	**169**	**418**
Total gross credit and counterparty exposures	**2 831**	**2 397**	**8**	**981**	**6 073**	**1 160**	**4 955**

Retailers and wholesalers	Manufacturing and commerce	Construction	Other residential mortgages	Corporate commercial real estate	Mining and resources	Leisure, entertainment and tourism	Transport	Communication	**Total**
–	–	–	–	–	–	–	–	–	3 331
–	–	–	–	–	–	–	–	–	1 118
–	–	–	–	–	–	–	–	–	914
–	–	–	–	–	–	–	–	–	2 148
–	–	–	–	–	–	–	–	–	52
–	–	–	132	–	–	–	84	7	466
16	29	1	–	43	14	–	74	1	695
–	–	–	–	–	–	–	–	–	488
339	848	112	–	212	148	204	1 104	251	10 931
–	–	–	31	–	–	–	–	–	131
–	–	–	8	–	–	–	–	–	8
–	–	–	–	–	–	–	–	–	107
355	**877**	**113**	**171**	**255**	**162**	**204**	**1 262**	**259**	**20 389**
–	–	–	–	–	1	–	6	–	86
54	81	–	–	117	47	8	30	19	1 678
6	1	–	–	26	–	–	–	–	306
60	**82**	**–**	**–**	**143**	**48**	**8**	**36**	**19**	**2 070**
415	**959**	**113**	**171**	**398**	**210**	**212**	**1 298**	**278**	**22 459**

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	–	–	–	–	–	–	1 164
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	162
Derivative financial instruments	12	1	1	54	8	10	376
Securities arising from trading activities	–	–	–	–	420	–	110
Loans and advances to customers	2 332	1 958	7	414	207	892	1 633
Other loans and advances	–	–	–	–	–	–	103
Other securitised assets	–	–	–	–	–	–	–
Other assets	–	–	–	–	–	–	46
Total on-balance sheet exposures	**2 344**	**1 959**	**8**	**497**	**6 386**	**931**	**4 279**
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**	**4 712**

	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**
	–	–	–	–	–	–	–	–	–	4 445
	–	–	–	–	–	–	–	–	–	1 164
	–	–	–	–	–	–	–	–	–	633
	–	–	–	–	–	–	–	–	–	1 299
	–	–	–	–	–	–	–	–	–	52
	–	–	19	167	–	–	–	79	7	499
	18	20	3	–	9	12	1	45	–	570
	–	–	–	–	–	–	–	–	–	530
	350	822	99	–	177	177	242	1 132	221	10 663
	–	–	–	75	–	–	–	–	–	178
	–	–	–	8	–	–	–	–	–	8
	–	–	–	–	–	–	–	–	–	46
	368	**842**	**121**	**250**	**186**	**189**	**243**	**1 256**	**228**	**20 087**
	–	–	–	–	–	–	–	6	–	85
	53	81	–	–	59	121	15	16	18	1 484
	4	46	–	–	–	28	4	–	–	413
	57	**127**	**–**	**–**	**59**	**149**	**19**	**22**	**18**	**1 982**
	425	**969**	**121**	**250**	**245**	**338**	**262**	**1 278**	**246**	**22 069**

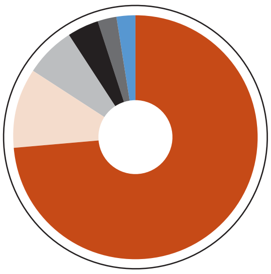
The tables that follow provide information on gross core loans and advances.

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.

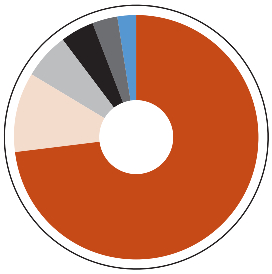
£'million	30 Sept 2019	31 March 2019
Loans and advances to customers per the balance sheet	10 797	10 516
ECL held against FVOCI loans reported on the balance sheet within reserves	(2)	(2)
Net core loans and advances	**10 795**	**10 514**
of which amortised cost and FVOCI ('subject to ECL')	10 083	9 742
of which FVPL	712	772
Add: ECL	136	149
Gross core loans and advances	**10 931**	**10 663**
of which amortised cost and FVOCI ('subject to ECL')	10 219	9 891
of which FVPL	712	772

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



30 SEPTEMBER 2019
£10 931 million

73.7%	United Kingdom
10.7%	Europe (excluding UK)
6.5%	North America
4.1%	Australia
2.6%	Other
2.4%	Asia



31 MARCH 2019
£10 663 million

73.1%	United Kingdom
10.6%	Europe (excluding UK)
6.1%	North America
4.6%	Australia
3.1%	Asia
2.5%	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	**10 219**	**9 891**
Stage 1	9 360	8 996
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)	(35)
Average gross core loans and advances subject to ECL	10 055	9 396
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	**8 996**	**(14)**	**576**	**(27)**	**319**	**(108)**	**9 891**	**(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)	334	–	(53)	1	(41)	23	240	24
Changes to risk parameters and models	–	(5)	–	–	–	–	–	(5)
Foreign exchange and other	78	1	7	(1)	3	(1)	88	(1)
At 30 September 2019	**9 360**	**(18)**	**542**	**(26)**	**317**	**(92)**	**10 219**	**(136)**

An analysis of credit quality by internal rating grade

The group 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 group 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	**4 975**	**4 719**	**208**	**317**	**10 219**
Stage 1	4 932	4 298	130	–	9 360
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	**4 719**	**4 655**	**198**	**319**	**9 891**
Stage 1	4 667	4 211	118	–	8 996
Stage 2	52	444	80	–	576
Stage 3	–	–	–	319	319
ECL	**(3)**	**(33)**	**(5)**	**(108)**	**(149)**
Stage 1	(2)	(12)	–	–	(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	414	(1)	20	(1)	–	–	434	(2)	–	434
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	**5 310**	**(17)**	**338**	**(13)**	**78**	**(31)**	**5 726**	**(61)**	**635**	**6 361**
At 31 March 2019										
Corporate and acquisition finance	1 328	(5)	125	(3)	–	–	1 453	(8)	212	1 665
Asset-based lending	341	–	53	(1)	–	–	394	(1)	–	394
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	**5 237**	**(13)**	**368**	**(14)**	**62**	**(29)**	**5 667**	**(56)**	**706**	**6 373**

Investment risk in the banking book

Investment risk in the banking book comprises 1.86% of total assets at 30 September 2019, reduced from 2.57% 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	359	54	472	71
Listed equities	16	4	21	5
Total investment portfolio	**375**	**58**	**493**	**76**
Investment and trading properties	59	10	70	13
Warrants and profit shares	5	2	19	6
Total	**439**	**70**	**582**	**95**

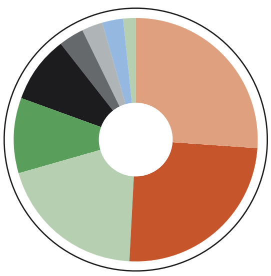
* *In order to assess our earnings sensitivity to a movement in the valuation of these investments, the stress testing parameters detailed below are applied:*

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 £70 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 group to report a loss, but could have a significantly negative impact on earnings for that period. The probability of all these asset classes in all geographies in which we operate being negatively impacted at the same time is 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
£380 million

26.3%	Manufacturing and commerce
24.8%	Real estate
19.6%	Finance and insurance
9.9%	Retailers and wholesalers
9.1%	Communication
3.2%	Transport
2.9%	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 group. During the last six months we did not undertake any new securitisation transactions.

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

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

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

In July 2016, the for securitisation, introducing both a new standardised approach and external ratings approach and setting out the grandfathering provisions which apply in 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 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	
Rated	382	462	Other debt securities and other loans and advances
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**

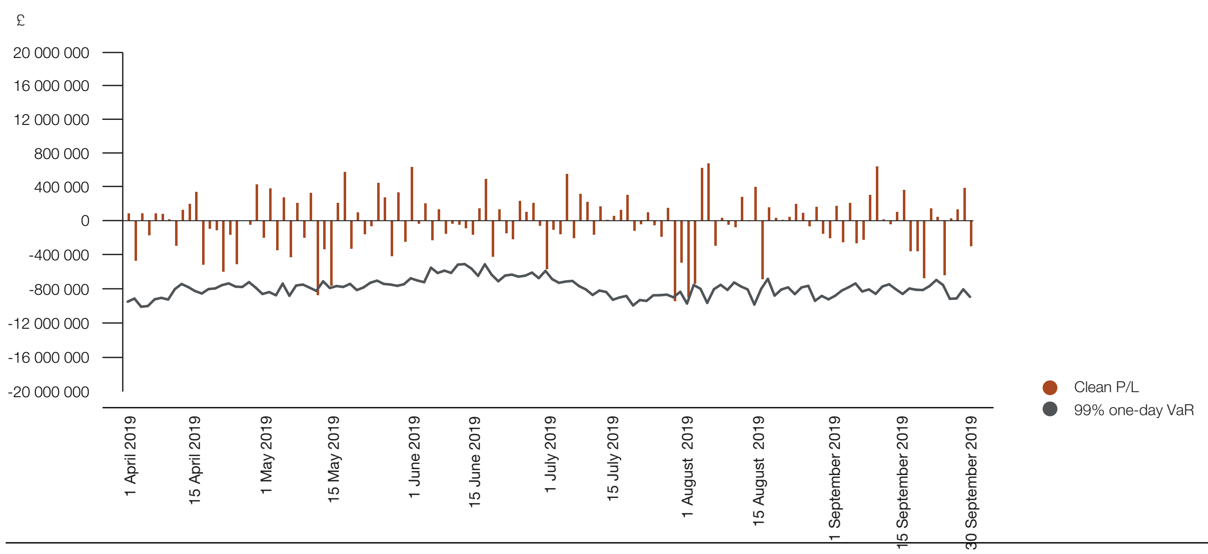
Backtesting

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.

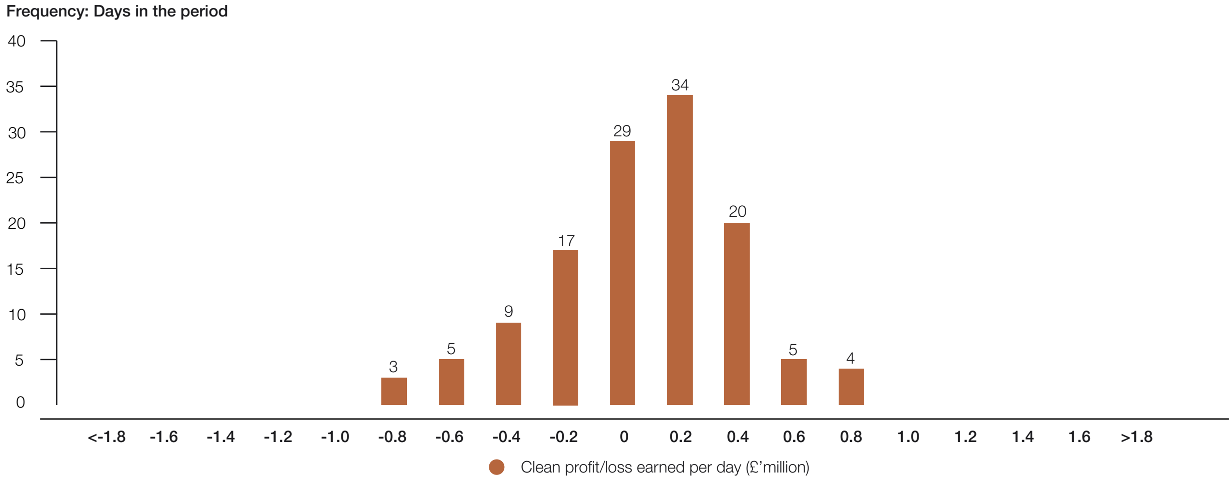
99% EVT £'000	**30 Sept 2019 Period end**	31 March 2019 Year end
Equities	1 033	1 114
Foreign exchange	45	77
Interest rates	286	339
Credit	67	3
Consolidated*	**1 155**	**1 190**

* *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.

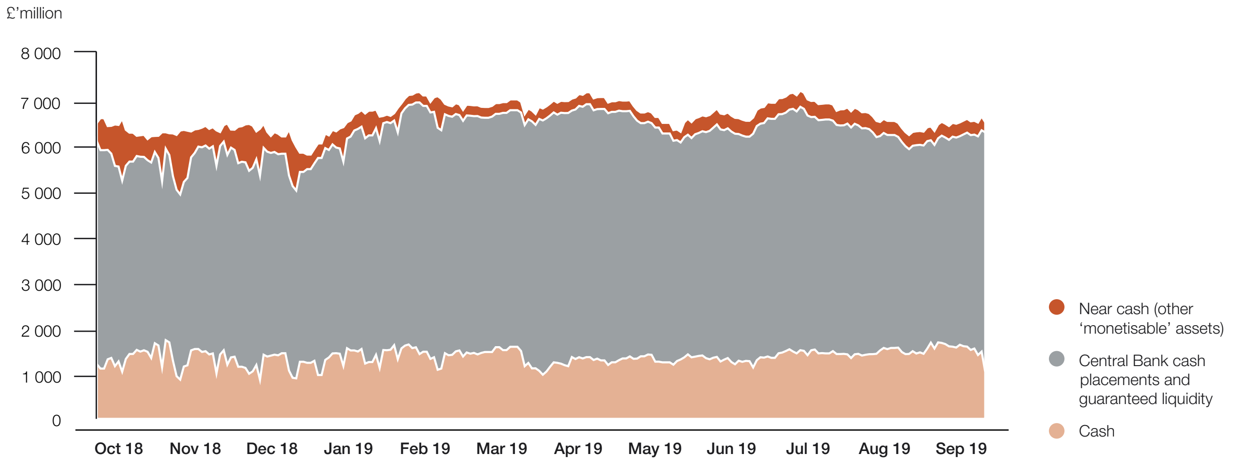
Liquidity risk

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.

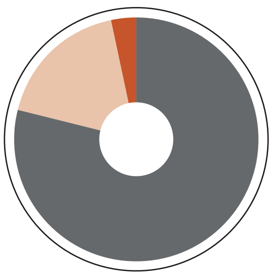
Liquidity risk is further broken down into:

- **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



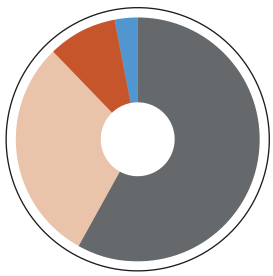
An analysis of cash and near cash at 30 September 2019



£6 619 million

78.9%	Central Bank cash placements and guaranteed liquidity
17.8%	Cash
3.3%	Near cash (other 'monetisable' assets)

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



£14 729 million

58.1%	Individuals
29.8%	Non-financial corporates
9.2%	Banks
2.9%	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 both Investec plc and Investec Bank plc (solo basis), the LCR is calculated following the European Commission Delegated Regulation 2015/61 and our own interpretations where the regulation calls for it. The reported LCR may change over time with updates to our methodologies and interpretations. As at 30 September 2019, the LCR reported to the PRA was 309% for Investec plc and 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 plc and 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 was 126% for Investec plc and 126% for Investec Bank plc (solo basis).

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 group would meet any unexpected net cash outflows by reporting 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	4 116	283	17	14	2	17	–	4 449
Investment/trading assets	429	866	334	769	264	813	2 043	5 518
Securitised assets	–	–	3	–	2	12	98	115
Advances	177	508	475	697	1 159	5 809	2 146	10 971
Other assets	276	695	125	11	80	536	769	2 492
Assets	**4 998**	**2 352**	**954**	**1 491**	**1 507**	**7 187**	**5 056**	**23 545**
Deposits – banks	(68)	(1)	(1)	–	(15)	(1 260)	(17)	(1 362)
Deposits – non-banks	(4 439)	(693)	(3 121)	(2 485)	(788)	(1 606)	(235)	(13 367)
Negotiable paper	–	(6)	(38)	(30)	(55)	(1 686)	(509)	(2 324)
Securitised liabilities	–	–	(3)	(3)	(5)	(35)	(71)	(117)
Investment/trading liabilities	(289)	(95)	(118)	(17)	(40)	(342)	(382)	(1 283)
Subordinated liabilities	–	–	–	–	–	(379)	(433)	(812)
Other liabilities	(248)	(697)	(110)	(125)	(184)	(233)	(363)	(1 960)
Liabilities	**(5 044)**	**(1 492)**	**(3 391)**	**(2 660)**	**(1 087)**	**(5 541)**	**(2 010)**	**(21 225)**
Total equity	–	–	–	–	–	–	(2 320)	(2 320)
Contractual liquidity gap	**(46)**	**860**	**(2 437)**	**(1 169)**	**420**	**1 646**	**726**	**–**
Cumulative liquidity gap	(46)	814	(1 623)	(2 792)	(2 372)	(726)	–	

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	**4 884**	**546**	**(1 659)**	**(1 358)**	**306**	**(3 076)**	**357**	**–**
Cumulative	4 884	5 430	3 771	2 413	2 719	(357)	–	

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 group 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 group 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 table below shows 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	4 381	–	–	–	–	–	4 381
Investment/trading assets	2 466	776	129	186	18	368	3 943
Securitised assets	115	–	–	–	–	–	115
Advances	6 317	1 586	530	2 307	231	–	10 971
Other assets	–	–	–	–	–	2 338	2 338
Assets	**13 279**	**2 362**	**659**	**2 493**	**249**	**2 706**	**21 748**
Deposits – banks	(1 236)	(17)	–	–	–	–	(1 253)
Deposits – non-banks	(10 561)	(927)	(718)	(1 156)	(5)	–	(13 367)
Negotiable paper	(1 924)	–	–	(400)	–	–	(2 324)
Securitised liabilities	(117)	–	–	–	–	–	(117)
Investment/trading liabilities	(102)	–	–	–	–	–	(102)
Subordinated liabilities	(84)	–	–	(728)	–	–	(812)
Other liabilities	–	–	–	–	–	(1 453)	(1 453)
Liabilities	**(14 024)**	**(944)**	**(718)**	**(2 284)**	**(5)**	**(1 453)**	**(19 428)**
Total equity	–	–	–	–	–	(2 320)	(2 320)
Balance sheet	**(745)**	**1 418**	**(59)**	**209**	**244**	**(1 067)**	**–**
Off-balance sheet	652	197	(32)	(677)	(140)	–	–
Repricing gap	**(93)**	**1 615**	**(91)**	**(468)**	**104**	**(1 067)**	**–**
Cumulative repricing gap	(93)	1 522	1 431	963	1 067	–	

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	(13.2)	7.1	(7.5)	5.6	(1.2)	(1.7)	(12.7)
200bps up	10.1	(5.5)	5.8	(4.3)	0.9	1.3	9.8

Capital structure and capital adequacy

£'million	30 Sept 2019*	31 March 2019*
Tier 1 capital		
Shareholders' equity	1 972	1 918
Shareholders' equity excluding non-controlling interests	2 052	2 022
Foreseeable charges and dividends	(37)	(63)
Perpetual preference share capital and share premium	(25)	(25)
Deconsolidation of special purpose entities	(18)	(16)
Non-controlling interests	**9**	**7**
Non-controlling interests per balance sheet	18	13
Surplus non-controlling interest disallowed in common equity tier 1	(9)	(6)
Regulatory adjustments to the accounting basis	**97**	**110**
Additional value adjustments	(8)	(5)
Gains or losses on liabilities at fair value resulting from changes in our credit standing	20	21
Adjustment under IFRS 9 transitional arrangements	85	94
Deductions	**(435)**	**(447)**
Goodwill and intangible assets net of deferred taxation	(422)	(434)
Deferred taxation assets that rely on future profitability excluding those arising from temporary difference	(13)	(13)
Common equity tier 1 capital	**1 643**	**1 588**
Additional Tier 1 capital	**274**	**274**
Additional tier 1 instruments	274	274
Total tier 1 capital	**1 917**	**1 862**
Tier 2 capital	**466**	**489**
Tier 2 instruments	565	596
Phase out of non-qualifying tier 2 instruments	(1)	(1)
Non-qualifying surplus capital attributable to non-controlling interests	(98)	(106)
Total regulatory capital	**2 383**	**2 351**
Risk-weighted assets^^	**15 712**	**15 313**
Capital ratios^^		
Common equity tier 1 ratio	10.5%	10.4%
Tier 1 ratio	12.2%	12.2%
Total capital ratio	15.2%	15.4%

* *The capital adequacy disclosures for Investec 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 plc's CET 1 ratio would be 24bps (31 March 2019: 41bps) higher on this basis.*

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

Capital Requirements and risk-weighted assets

	30 Sept 2019	31 March 2019
Capital requirements	**1 257**	**1 225**
Credit risk	937	909
Equity risk	8	10
Counterparty credit risk	55	48
Credit valuation adjustment risk	5	6
Market risk	59	68
Operational risk	193	184
Risk-weighted assets	**15 712**	**15 313**
Credit risk	11 707	11 361
Equity risk	100	121
Counterparty credit risk	693	605
Credit valuation adjustment risk	62	75
Market risk	739	855
Operational risk	2 411	2 296

Leverage

	30 Sept 2019	31 March 2019
Total exposure	25 124	24 282
Tier 1 capital°°	1 917	1 862
Leverage ratio – current**	**7.6%**	**8.2%**
Total exposure fully loaded	25 021	24 167
Tier 1 capital fully loaded	1 825	1 761
Leverage ratio – 'fully loaded'^^**	**7.3%**	**7.3%**

A summary of capital adequacy and leverage ratios

	30 Sept 2019*	31 March 2019
Common equity tier 1 (as reported)°°	10.5%	10.4%
Common equity tier 1 ('fully loaded')^^	10.1%	9.9%
Tier 1 (as reported)°°	12.2%	12.2%
Total capital adequacy ratio (as reported)°°	15.2%	15.4%
Leverage ratio** – current	7.6%	7.7%
Leverage ratio** – ('fully loaded')^^	7.3%	7.3%
Leverage ratio – current UK leverage ratio framework^^^	9.0%	9.6%

* *The capital adequacy disclosures for Investec 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 for foreseeable charges and dividends when calculating CET 1 capital. Investec plc's CET 1 ratio would be 24bps (31 March 2019: 41bps) 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 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 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, total capital adequacy amounts and ratios are calculated applying the IFRS 9 transitional arrangements.*

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	152 959	169 704	334 098
Add: Loss attributable to other non-controlling interests	79	4 205	4 479
Adjusted operating profit	*153 038*	*173 909*	*338 577*

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)	550 353	557 956	1 103 187
Total operating income before expected credit losses	720 244	738 832	1 463 975
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)	719 478	741 870	1 466 317
Cost to income ratio (A/B)	*76.5%*	*75.2%*	*75.2%*

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