

2016

**INVESTEC BANK PLC
FINANCIAL INFORMATION**
(a subsidiary of Investec plc)

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

IFRS – Pounds Sterling



Out of the Ordinary®





Overview of results

	30 Sept 2016	30 Sept 2015	% change	31 March 2016
Total operating income before impairment losses on loans and advances (£'000)	470 373	438 303	7.3%	859 189
Operating costs (£'000)	353 016	313 595	12.6%	628 515
Operating profit before goodwill, acquired intangibles, non-operating items, taxation and after non-controlling interests (£'000)	85 160	91 921	(7.4%)	146 347
Earnings attributable to ordinary shareholder (£'000)	62 385	60 091	3.8%	96 635
Cost to income ratio	75.1%	71.6%	4.9%	73.3%
Total capital resources (including subordinated liabilities) (£'000)	2 571 530	2 470 050	4.1%	2 440 165
Total shareholder's equity (£'000)	1 946 355	1 845 258	5.5%	1 842 856
Total assets (£'000)	19 867 188	16 933 304	17.3%	18 334 568
Net core loans and advances (£'000)	8 268 436	7 186 326	15.1%	7 781 386
Customer accounts (deposits) (£'000)	12 328 366	10 039 603	23.4%	11 038 164
Cash and near cash balances (£'000)	6 062 943	4 354 356	39.2%	5 046 052
Funds under management (£'mn)	33 723	28 708	17.5%	30 104
Capital adequacy ratio	16.5%	18.6%		17.0%
Tier 1 ratio	11.8%	13.1%		11.9%
Common equity tier 1 ratio	11.8%	13.1%		11.9%
Leverage ratio – current	7.3%	8.0%		7.5%
Leverage ratio – “fully loaded”	7.3%	8.0%		7.5%
Defaults (net of impairments) as a % of net core loans and advances	1.87%	2.94%		2.19%
Net defaults (after collateral and impairments) as a % of net core loans and advances	–	–		–
Annualised credit loss ratio (i.e. income statement impairment charge as a % of average core loans and advances)	0.74%	0.89%		1.13%
Total gearing ratio (i.e. total assets to total equity)	10.2x	9.2x		9.9x
Loans and advances to customers: customer accounts (deposits)	67.1%	71.6%		70.5%

Consolidated income statement



Unaudited

£'000	Six months to 30 Sept 2016	Six months to 30 Sept 2015	Year to 31 March 2016
Interest income	277 175	278 898	550 715
Interest expense	(139 214)	(144 188)	(280 649)
Net interest income	137 961	134 710	270 066
Fee and commission income	246 796	213 451	437 650
Fee and commission expense	(7 794)	(2 208)	(11 608)
Investment income	18 751	43 921	67 308
Share of post tax operating profit of associates	797	799	1 975
Trading income arising from			
– customer flow	68 379	45 477	92 683
– balance sheet management and other trading activities	1 625	(447)	(8 552)
Other operating income	3 858	2 600	9 667
Total operating income before impairment losses on loans and advances	470 373	438 303	859 189
Impairment losses on loans and advances	(30 078)	(31 314)	(84 217)
Operating income	440 295	406 989	774 972
Operating costs	(353 016)	(313 595)	(628 515)
Depreciation on operating leased assets	–	(216)	(2 149)
Operating profit before goodwill and acquired intangibles	87 279	93 178	144 308
Amortisation of acquired intangibles	(7 187)	(7 233)	(14 477)
Operating profit	80 092	85 945	129 831
Net loss on disposal of subsidiaries	–	(4 751)	(4 805)
Profit before taxation	80 092	81 194	125 026
Taxation on operating profit before goodwill and acquired intangibles	(17 373)	(21 284)	(35 131)
Taxation on acquired intangibles and acquisition/disposal/integration of subsidiaries	1 785	1 438	4 701
Profit after taxation	64 504	61 348	94 596
(Profit)/loss attributable to non-controlling interests	(2 119)	(1 257)	2 039
Earnings attributable to shareholder	62 385	60 091	96 635



Consolidated statement of total comprehensive income

Unaudited

£'000	Six months to 30 Sept 2016	Six months to 30 Sept 2015	Year to 31 March 2016
Profit after taxation	64 504	61 348	94 596
Other comprehensive income/(loss):			
Items that may be reclassified to the income statement:			
Gains on realisation of available-for-sale assets recycled through the income statement*	(5 420)	(482)	(1 298)
Fair value movements on available-for-sale assets taken directly to other comprehensive income*	28 058	(2 964)	(20 170)
Foreign currency adjustments on translating foreign operations	16 854	(12 916)	3 968
Total comprehensive income	103 996	44 986	77 096
Total comprehensive income/(loss) attributable to non-controlling interests	1 774	1 274	(2 149)
Total comprehensive income attributable to ordinary shareholder	102 222	43 712	79 245
Total comprehensive income	103 996	44 986	77 096

* Net of taxation.

Consolidated balance sheet



Unaudited

£'000	At 30 Sept 2016	At 31 March 2016	At 30 Sept 2015
Assets			
Cash and balances at central banks	3 780 237	2 638 064	1 683 273
Loans and advances to banks	1 115 490	935 071	813 964
Reverse repurchase agreements and cash collateral on securities borrowed	521 751	557 025	1 367 202
Sovereign debt securities	966 144	1 252 991	1 075 933
Bank debt securities	185 546	188 397	189 287
Other debt securities	446 270	403 521	303 115
Derivative financial instruments	980 862	842 936	648 587
Securities arising from trading activities	470 418	524 344	663 177
Investment portfolio	491 873	419 861	406 643
Loans and advances to customers	8 268 436	7 781 386	7 186 326
Other loans and advances	598 254	577 584	630 308
Other securitised assets	143 411	150 565	156 491
Interests in associated undertakings	23 407	17 446	15 582
Deferred taxation assets	60 320	71 563	64 480
Other assets	1 376 463	1 453 050	1 220 910
Property and equipment	54 267	53 042	56 274
Investment properties	–	79 051	58 309
Goodwill	262 950	261 804	261 035
Intangible assets	121 089	126 867	132 408
	19 867 188	18 334 568	16 933 304
Liabilities			
Deposits by banks	582 146	526 717	241 676
Derivative financial instruments	1 118 213	964 386	787 406
Other trading liabilities	132 578	226 598	269 125
Repurchase agreements and cash collateral on securities lent	175 005	281 260	420 145
Customer accounts (deposits)	12 328 366	11 038 164	10 039 603
Debt securities in issue	1 613 055	1 508 672	1 386 805
Liabilities arising on securitisation of other assets	112 754	120 617	123 237
Current taxation liabilities	132 514	141 064	134 211
Deferred taxation liabilities	31 104	26 143	36 075
Other liabilities	1 069 923	1 060 782	1 024 971
	17 295 658	15 894 403	14 463 254
Subordinated liabilities	625 175	597 309	624 792
	17 920 833	16 491 712	15 088 046
Equity			
Ordinary share capital	1 186 800	1 186 800	1 186 800
Share premium	143 288	143 288	143 288
Capital reserve	162 789	162 789	162 789
Other reserves	3 656	(36 181)	(35 168)
Retained income	449 515	387 606	385 569
Shareholder's equity excluding non-controlling interests	1 946 048	1 844 302	1 843 278
Non-controlling interests in partially held subsidiaries	307	(1 446)	1 980
Total equity	1 946 355	1 842 856	1 845 258
Total liabilities and equity	19 867 188	18 334 568	16 933 304



Summarised consolidated cash flow statements

Unaudited

£'000	Six months to 30 Sept 2016	Year to 31 March 2016	Six months to 30 Sept 2015
Cash inflows from operations	180 856	135 364	120 642
(Increase)/decrease in operating assets	(396 216)	(580)	407 438
Increase/(decrease) in operating liabilities	1 422 245	329 042	(1 085 532)
Net cash inflow/(outflow) from operating activities	1 206 885	463 826	(557 452)
Net cash (outflow)/inflow from investing activities	(12 624)	(5 855)	(1 237)
Net cash (outflow)/inflow from financing activities	–	(40 000)	–
Effects of exchange rate changes on cash and cash equivalents	25 870	16 194	11 562
Net increase/(decrease) in cash and cash equivalents	1 220 131	434 165	(547 127)
Cash and cash equivalents at the beginning of the period	3 312 617	2 878 452	2 878 452
Cash and cash equivalents at the end of the period	4 532 748	3 312 617	2 331 325

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

Condensed consolidated statement of changes in equity



Unaudited

£'000	Six months to 30 Sept 2016	Six months to 30 Sept 2015	Year to 31 March 2016
Balance at the beginning of the period	1 842 856	1 801 115	1 801 115
Profit after taxation	64 504	61 348	94 596
Gains on realisation of available-for-sale assets recycled through the income statement*	(5 420)	(482)	(1 298)
Fair value movements on available-for-sale assets taken directly to other comprehensive income*	28 058	(2 964)	(20 170)
Foreign currency adjustments on translating foreign operations	16 854	(12 916)	3 968
Total comprehensive income for the period	103 996	44 986	77 096
Share-based payments adjustments	(476)	(871)	4 620
Dividends paid to ordinary shareholder	–	–	(40 000)
Movement arising on reduction/acquisition of non-controlling interests	(21)	28	25
Balance at the end of the period	1 946 355	1 845 258	1 842 856

* Net of taxation.



Segmental business analysis – income statement

Unaudited

For the six months to 30 September 2016 £'000	Wealth & Investment	Specialist Banking	Total group
Net interest income	2 124	135 837	137 961
Fee and commission income	129 106	117 690	246 796
Fee and commission expense	(315)	(7 479)	(7 794)
Investment income	1 366	17 385	18 751
Share of post tax operating profit of associates	702	95	797
Trading income arising from			
– customer flow	246	68 133	68 379
– balance sheet management and other trading activities	185	1 440	1 625
Other operating income	–	3 858	3 858
Total operating income before impairment losses on loans and advances	133 414	336 959	470 373
Impairment losses on loans and advances	–	(30 078)	(30 078)
Operating income	133 414	306 881	440 295
Operating costs	(104 223)	(248 793)	(353 016)
Operating profit before goodwill and acquired intangibles	29 191	58 088	87 279
Profit attributable to non-controlling interests	–	(2 119)	(2 119)
Operating profit before goodwill, acquired intangibles and after non-controlling interests	29 191	55 969	85 160
Cost to income ratio	78.1%	73.8%	75.1%
Total assets (£'million)	1 028	18 839	19 867

For the six months to 30 September 2015 £'000	Wealth & Investment	Specialist Banking	Total group
Net interest income	2 022	132 688	134 710
Fee and commission income	122 353	91 098	213 451
Fee and commission expense	(284)	(1 924)	(2 208)
Investment income	(230)	44 151	43 921
Share of post tax operating profit of associates	695	104	799
Trading income arising from			
– customer flow	532	44 945	45 477
– balance sheet management and other trading activities	(16)	(431)	(447)
Other operating income	–	2 600	2 600
Total operating income before impairment losses on loans and advances	125 072	313 231	438 303
Impairment losses on loans and advances	–	(31 314)	(31 314)
Operating income	125 072	281 917	406 989
Operating costs	(99 274)	(214 321)	(313 595)
Depreciation on operating leased assets	–	(216)	(216)
Operating profit before goodwill and acquired intangibles	25 798	67 380	93 178
Profit attributable to non-controlling interests	–	(1 257)	(1 257)
Operating profit before goodwill, acquired intangibles and after non-controlling interests	25 798	66 123	91 921
Cost to income ratio	79.4%	68.5%	71.6%
Total assets (£'million)	916	16 017	16 933

Additional income statement note disclosures



Unaudited (continued)

Net interest income

For the six months to 30 September		2016		2015	
£'000	Notes	Balance sheet value	Interest income	Balance sheet value	Interest income
Cash, near cash and bank debt and sovereign debt securities	1	6 569 168	21 365	5 129 659	23 943
Core loans and advances	2	8 268 436	223 947	7 186 326	208 956
Private client		3 470 466	71 932	3 498 779	73 466
Corporate, institutional and other clients		4 797 970	152 015	3 687 547	135 490
Other debt securities and other loans and advances		1 044 524	31 863	933 423	45 999
Other interest-earning assets	3	–	–	156 491	–
Total interest-earning assets		15 882 128	277 175	13 405 899	278 898

For the six months to 30 September		2016		2015	
£'000	Notes	Balance sheet value	Interest expense	Balance sheet value	Interest expense
Deposits by banks and other debt-related securities	4	2 370 206	41 278	2 048 626	20 126
Customer accounts (deposits)		12 328 366	69 490	10 039 603	70 377
Other interest-bearing liabilities	5	–	–	123 237	21 299
Subordinated liabilities		625 175	28 446	624 792	32 386
Total interest-bearing liabilities		15 323 747	139 214	12 836 258	144 188
Net interest income			137 961		134 710

Notes:

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



Additional income statement note disclosures

Unaudited (continued)

Net fee and commission income

For the six months to 30 September
£'000

	2016	2015
Wealth management businesses net fee and commission income	128 791	122 069
Fund management fees/fees for assets under management	101 903	93 277
Private client transactional fees	27 203	29 076
Fee and commission expense	(315)	(284)
Specialist Banking net fee and commission income	110 211	89 174
Corporate and institutional transactional and advisory services	99 670	79 904
Private client transactional fees	18 020	11 194
Fee and commission expense	(7 479)	(1 924)
Net fee and commission income	239 002	211 243
Annuity fees (net of fees payable)	130 502	145 191
Deal fees	108 500	66 052

Investment income

For the six months to 30 September
£'000

	Investment portfolio (listed and unlisted equities)*	Debt securities (sovereign, bank and other)**	Investment Properties	Other asset categories	Total
2016					
Realised	10 470	(4 858)	18 600	1 650	25 862
Unrealised [^]	(6 799)	(5 257)	(10 008)	3 136	(18 928)
Dividend income	8 553	–	–	–	8 553
Funding and other net related income	–	–	–	3 264	3 264
	12 224	(10 115)	8 592	8 050	18 751
2015					
Realised	6 835	30 766	–	114	37 715
Unrealised [^]	6 861	(8 076)	–	(7 144)	(8 359)
Dividend income	12 486	–	–	–	12 486
Funding and other net related income	–	–	–	2 079	2 079
	26 182	22 690	–	(4 951)	43 921

* Including embedded derivatives (warrants and profit shares).

** Includes write downs of debt securities of £4m in the current period (2015: £nil).

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



Unaudited

Analysis of financial assets and liabilities by measurement basis

At 30 September 2016 £'000	Total instruments at fair value [^]	Total instruments at amortised cost	Non- financial instruments	Total
Assets				
Cash and balances at central banks	1 672	3 778 565	–	3 780 237
Loans and advances to banks	–	1 115 490	–	1 115 490
Reverse repurchase agreements and cash collateral on securities borrowed	53 503	468 248	–	521 751
Sovereign debt securities	966 144	–	–	966 144
Bank debt securities	7 834	177 712	–	185 546
Other debt securities	217 342	228 928	–	446 270
Derivative financial instruments*	980 862	–	–	980 862
Securities arising from trading activities	470 418	–	–	470 418
Investment portfolio	491 873	–	–	491 873
Loans and advances to customers	80 638	8 187 798	–	8 268 436
Other loans and advances	–	598 254	–	598 254
Other securitised assets	140 436	2 975	–	143 411
Interests in associated undertakings	–	–	23 407	23 407
Deferred taxation assets	–	–	60 320	60 320
Other assets	257 004	911 586	207 873	1 376 463
Property and equipment	–	–	54 267	54 267
Investment properties	–	–	–	–
Goodwill	–	–	262 950	262 950
Intangible assets	–	–	121 089	121 089
	3 667 726	15 469 556	729 906	19 867 188
Liabilities				
Deposits by banks	–	582 146	–	582 146
Derivative financial instruments*	1 118 213	–	–	1 118 213
Other trading liabilities	132 578	–	–	132 578
Repurchase agreements and cash collateral on securities lent	52 638	122 367	–	175 005
Customer accounts (deposits)	–	12 328 366	–	12 328 366
Debt securities in issue	420 218	1 192 837	–	1 613 055
Liabilities arising on securitisation of other assets	112 754	–	–	112 754
Current taxation liabilities	–	–	132 514	132 514
Deferred taxation liabilities	–	–	31 104	31 104
Other liabilities	–	887 549	182 374	1 069 923
	1 836 401	15 113 265	345 992	17 295 658
Subordinated liabilities	–	625 175	–	625 175
	1 836 401	15 738 440	345 992	17 920 833

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

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



Additional IAS 34 disclosures

Unaudited (continued)

Financial instruments carried at fair value

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

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

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

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

At 30 September 2016 £'000	Valuation technique applied			
	Total instruments at fair value	Level 1	Level 2	Level 3
Assets				
Cash and balances at central banks	1 672	1 672	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	53 503	–	53 503	–
Sovereign debt securities	966 144	966 144	–	–
Bank debt securities	7 834	7 834	–	–
Other debt securities	217 342	2 150	206 199	8 993
Derivative financial instruments	980 862	404	926 940	53 518
Securities arising from trading activities	470 418	440 776	22 077	7 565
Investment portfolio	491 873	54 932	31 401	405 540
Loans and advances to customers	80 638	–	–	80 638
Other securitised assets	140 436	–	–	140 436
Other assets	257 004	257 004	–	–
	3 667 726	1 730 917	1 240 120	696 690
Liabilities				
Derivative financial instruments	1 118 213	778	1 115 329	2 106
Other trading liabilities	132 578	132 578	–	–
Repurchase agreements and cash collateral on securities lent	52 638	–	52 638	–
Debt securities in issue	420 218	–	407 844	12 374
Liabilities arising on securitisation of other assets	112 754	–	–	112 754
	1 836 401	133 356	1 575 811	127 234
Net assets	1 831 326	1 597 561	(335 691)	569 456

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

TRANSFERS BETWEEN LEVEL 1 AND LEVEL 2

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



Unaudited (continued)

LEVEL 3 INSTRUMENTS

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

£'000	Total level 3 financial instruments	Fair value through profit and loss instruments	Available-for-sale instruments
Balance as at 1 April 2016	528 039	473 072	54 967
Total gains/(losses)	7 215	(5 431)	12 646
In the income statement	8 020	(5 431)	13 451
In the statement of comprehensive income	(805)	–	(805)
Purchases	57 595	57 366	229
Sales	(24 123)	(12 493)	(11 630)
Issues	(843)	(843)	–
Settlements	(21 732)	(10 266)	(11 466)
Transfers into level 3	(9 965)	(9 965)	–
Transfers out of level 3	–	–	–
Foreign exchange adjustments	33 270	35 209	(1 939)
Balance as at 30 September 2016	569 456	526 649	42 807

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

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

For the six months to 30 September 2016 £'000	Total	Realised	Unrealised
Total gains or (losses) included in the income statement for the year			
Net interest income	1 366	1 366	–
Fee and commission income	4 522	–	4 522
Investment income/(expense)	(633)	9 753	(10 416)
Trading income arising from customer flow	2 795	–	2 795
	8 020	11 119	(3 099)
Total gains or (losses) included in other comprehensive income for the year			
Gains on realisation of available-for-sale assets recycled through the income statement	13 451	13 451	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	(805)	–	(805)
	12 646	13 451	(805)



Additional IAS 34 disclosures

Unaudited (continued)

LEVEL 2 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

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



Unaudited (continued)

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

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

	Balance sheet value £'000	Significant unobservable input changed	Range of unobservable inputs used	Favourable changes £'000	Unfavourable changes £'000
At 30 September 2016					
Assets					
Other debt securities	8 993	Reflected in income statement Cash flow adjustments		316	(436)
		Other	CPR 5 – 9% CDS Spreads	289 27	(433) (3)
Derivative financial instruments	53 518	Reflected in income statement Volatilities Cash flow adjustments Other [^]	3.8% – 9% CPR 8% – 12% ^	3 632 753 4 193	(1 876) (1 544) (3 015)
Securities arising from trading activities	7 565	Reflected in income statement Cash flow adjustments	CPR 9.1% – 10%	717	(1 059)
Investment portfolio	405 540	Reflected in income statement Price earnings multiple Other [^]	1x – 9.1x ^	3 116 32 459	(2 888) (28 576)
		Reflected in other comprehensive income EBITDA Other [^]		3 633 115 3 518	(908) (21) (887)
Loans and advances to customers	80 638	Reflected in income statement Discount rates EBITDA Other [^]	16% 10% ^	1 633 5 086 –	(988) (5 086) (9 129)
Other securitised assets*	140 436	Reflected in income statement Cash flow adjustments	CPR 6.25%	2 416	(2 434)
Liabilities					
Derivative financial instruments	(2 106)	Reflected in income statement Cash flow adjustments Volatilities	CPR 8% 7% – 8.5%	716 18	(1 510) (70)
Liabilities arising on securitisation of other assets*	(112 754)	Reflected in income statement Cash flow adjustments	CPR 6.25%	1 011	(1 104)
Deposits by banks and other debt related securities	(12 374)	Reflected in income statement Volatilities	7%	175	(828)
Net level 3 assets	569 456			59 874	(61 451)

* 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 for the private equity and embedded derivatives (profit shares) portfolios has been assessed by adjusting various inputs such as expected cash flows, discount rates, earnings multiples rather than a single input. It is deemed appropriate to reflect the outcome on a portfolio basis for the purposes of this analysis as the sensitivity of the investments cannot be determined through the adjustment of a single input.



Additional IAS 34 disclosures

Unaudited (continued)

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

Credit spreads

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

Discount rates

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

Volatilities

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

Cash flows

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

Price earnings multiple

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

EBITDA

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

Fair value of financial instruments at amortised cost

At 30 September 2016 £'000	Carrying amount	Fair value
Assets		
Cash and balances at central banks	3 778 565	3 778 565
Loans and advances to banks	1 115 490	1 115 490
Reverse repurchase agreements and cash collateral on securities borrowed	468 248	468 248
Bank debt securities	177 712	182 393
Other debt securities	228 928	218 751
Loans and advances to customers	8 187 798	8 208 903
Other loans and advances	598 254	583 377
Other securitised assets	2 975	2 975
Other assets	911 586	911 580
	15 469 556	15 470 282
Liabilities		
Deposits by banks	582 146	588 684
Repurchase agreements and cash collateral on securities lent	122 367	122 367
Customer accounts (deposits)	12 328 366	12 347 335
Debt securities in issue	1 192 837	1 174 641
Other liabilities	887 549	887 548
Subordinated liabilities	625 175	718 556
	15 738 440	15 839 131



Unaudited (continued)

Operating costs For the six months to 30 September £'000	2016	2015
Staff costs	260 106	226 936
Premises expenses (excluding depreciation)	15 835	14 745
Equipment expenses (excluding depreciation)	15 929	11 792
Business expenses	38 752	41 755
Marketing expenses	16 463	13 035
Depreciation, amortisation and impairment of property, equipment and intangibles	5 931	5 548
	353 016	313 811
Reverse repurchase agreements and cash collateral on securities borrowed and repurchase agreements and cash collateral on securities lent		
£'000	30 Sept 2016	31 March 2016
Assets		
Reverse repurchase agreements	433 077	476 308
Cash collateral on securities borrowed	88 674	80 717
	521 751	557 025
Liabilities		
Repurchase agreements	52 638	154 142
Cash collateral on securities lent	122 367	127 118
	175 005	281 260
Extract of other debt securities		
£'000	30 Sept 2016	31 March 2016
Bonds	320 419	303 687
Commercial paper	34 106	31 969
Asset-based securities	89 153	65 743
Other investments	2 592	2 122
	446 270	403 521
Extract of securities arising from trading activities		
£'000	30 Sept 2016	31 March 2016
Bonds	225 702	194 485
Government securities	100 388	198 181
Listed equities	142 681	130 113
Unlisted equities	317	329
Other investments	1 330	1 336
	470 418	524 344
Extract of loans and advances to customers and other loans and advances		
£'000	30 Sept 2016	31 March 2016
Gross loans and advances to customers	8 426 001	7 924 577
Impairments of loans and advances to customers	(157 565)	(143 191)
Specific impairments	(125 654)	(121 791)
Portfolio impairments	(31 911)	(21 400)
Net loans and advances to customers	8 268 436	7 781 386
Gross other loans and advances to customers	605 678	584 469
Impairments of other loans and advances	(7 424)	(6 885)
Specific impairments	(6 674)	(6 112)
Portfolio impairments	(750)	(773)
Net other loans and advances	598 254	577 584



Additional IAS 34 disclosures

Unaudited (continued)

Extract of securitised assets and liabilities arising on securitisation £'000	30 Sept 2016	31 Mar 2016
Total other securitised assets	143 411	150 565
Other assets £'000	30 Sept 2016	31 Mar 2016
Settlement debtors	835 350	828 356
Trading properties	115 371	95 522
Prepayments and accruals	71 898	53 648
Trading initial margins	257 004	301 426
Other	96 840	174 098
	1 376 463	1 453 050
Debt securities in issue £'000	30 Sept 2016	31 Mar 2016
Repayable in:		
Less than three months	41 697	35 001
Three months to one year	111 977	116 680
One to five years	1 046 893	853 918
Greater than five years	412 488	503 073
	1 613 055	1 508 672
Other liabilities £'000	30 Sept 2016	31 Mar 2016
Settlement liabilities	783 444	776 249
Other creditors and accruals	213 707	225 570
Other non-interest-bearing liabilities	72 772	58 963
	1 069 923	1 060 782
Extract of deferred taxation £'000	30 Sept 2016	31 Mar 2016
Losses carried forward	921	5 948
Extract of subordinated liabilities £'000	30 Sept 2016	31 Mar 2016
Issued by Investec Finance Plc	18 155	18 272
Issued by Investec Bank Plc	607 020	579 037
Remaining maturities:		
In one year or less, or on demand	18 155	18 272
In more than one year, but not more than two years	–	–
In more than two years, but not more than five years	–	–
In more than five years	607 020	579 037
	625 175	597 309



Unaudited (continued)

Offsetting

Amounts subject to enforceable netting arrangements						
Effects of offsetting on balance sheet				Related amounts not offset		
At 30 September 2016 £'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	3 780 237	–	3 780 237	–	–	3 780 237
Loans and advances to banks	1 115 490	–	1 115 490	–	(207 352)	908 138
Reverse repurchase agreements and cash collateral on securities borrowed	524 368	(2 617)	521 751	(127 938)	–	393 813
Sovereign debt securities	966 144	–	966 144	(1 326)	–	964 818
Bank debt securities	185 546	–	185 546	(28 450)	–	157 096
Other debt securities	446 270	–	446 270	–	–	446 270
Derivative financial instruments	980 862	–	980 862	(230 295)	(361 740)	388 827
Securities arising from trading activities	470 418	–	470 418	(347 838)	–	122 580
Investment portfolio	491 873	–	491 873	–	–	491 873
Loans and advances to customers	8 268 436	–	8 268 436	–	–	8 268 436
Other loans and advances	598 254	–	598 254	–	–	598 254
Other securitised assets	143 411	–	143 411	–	–	143 411
Other assets	1 373 846	2 617	1 376 463	–	(137 416)	1 239 047
	19 345 155	–	19 345 155	(735 847)	(706 508)	17 902 800
Liabilities						
Deposits by banks	582 146	–	582 146	–	(73 712)	508 434
Derivative financial instruments	1 118 213	–	1 118 213	(230 295)	(525 694)	362 224
Other trading liabilities	132 578	–	132 578	(127 938)	–	4 640
Repurchase agreements and cash collateral on securities lent	175 005	–	175 005	(153 682)	–	21 323
Customer accounts (deposits)	12 328 366	–	12 328 366	–	(57 775)	12 270 591
Debt securities in issue	1 613 055	–	1 613 055	(223 932)	(36 132)	1 352 991
Liabilities arising on securitisation of other assets	112 754	–	112 754	–	–	112 754
Other liabilities	1 069 923	–	1 069 923	–	–	1 069 923
Subordinated liabilities	625 175	–	625 175	–	–	625 175
	17 757 215	–	17 757 215	(735 847)	(693 313)	16 328 055



Additional IAS 34 disclosures

Unaudited (continued)

At 31 March 2016 £'000	Amounts subject to enforceable netting arrangements					
	Effects of offsetting on balance sheet			Related amounts not offset		
	Gross amounts	Amounts offset	Net amounts reported on the balance sheet	Financial instruments (including non-cash collateral)	Cash collateral	Net amount
Assets						
Cash and balances at central banks	2 638 064	–	2 638 064	–	–	2 638 064
Loans and advances to banks	935 071	–	935 071	–	(159 775)	775 296
Reverse repurchase agreements and cash collateral on securities borrowed	557 110	(85)	557 025	(221 151)	(849)	335 025
Sovereign debt securities	1 252 991	–	1 252 991	(183 881)	–	1 069 110
Bank debt securities	188 397	–	188 397	(33 564)	–	154 833
Other debt securities	403 521	–	403 521	–	–	403 521
Derivative financial instruments	842 936	–	842 936	(247 749)	(267 660)	327 527
Securities arising from trading activities	524 344	–	524 344	(449 383)	–	74 961
Investment portfolio	419 861	–	419 861	–	–	419 861
Loans and advances to customers	7 822 386	(41 000)	7 781 386	–	–	7 781 386
Other loans and advances	577 584	–	577 584	–	(7 933)	569 651
Other securitised assets	150 565	–	150 565	–	–	150 565
Other assets	1 453 166	(116)	1 453 050	–	(183 115)	1 269 935
	17 765 996	(41 201)	17 724 795	(1 135 728)	(619 332)	15 969 735
Liabilities						
Deposits by banks	526 717	–	526 717	–	(69 276)	457 441
Derivative financial instruments	964 386	–	964 386	(247 749)	(518 932)	197 705
Other trading liabilities	226 598	–	226 598	(221 151)	–	5 447
Repurchase agreements and cash collateral on securities lent	281 260	–	281 260	(280 806)	(454)	–
Customer accounts (deposits)	11 079 164	(41 000)	11 038 164	–	(16 118)	11 022 046
Debt securities in issue	1 508 672	–	1 508 672	(386 022)	(1 057)	1 121 593
Liabilities arising on securitisation of other assets	120 617	–	120 617	–	–	120 617
Other liabilities	1 060 983	(201)	1 060 782	–	–	1 060 782
Subordinated liabilities	597 309	–	597 309	–	–	597 309
	16 365 706	(41 201)	16 324 505	(1 135 728)	(605 837)	14 582 940

Consolidated summarised ongoing income statement



£'000	For the six months to 30 Sept 2016	For the six months to 30 Sept 2015	Variance	% change
Net interest income	138 647	133 351	5 296	4.0%
Net fee and commission income	239 078	207 927	31 151	15.0%
Investment income	18 527	43 907	(25 380)	(57.8%)
Share of post tax operating profit of associates	797	799	(2)	(0.3%)
Trading income arising from				
– customer flow	68 420	45 900	22 520	49.1%
– balance sheet management and other trading activities	1 625	(147)	1 771	>100%
Other operating income	3 858	2 600	1 258	48.4%
Total operating income before impairment losses on loans and advances	470 952	434 337	36 615	8.4%
Impairment losses on loans and advances	(1 491)	(2 915)	1 424	(48.9%)
Operating income	469 461	431 422	38 039	8.8%
Operating costs	(347 827)	(302 506)	(45 321)	15.0%
Depreciation on operating leased assets	–	(216)	216	(100.0%)
Operating profit before goodwill, acquired intangibles and non-operating items	121 634	128 700	(7 066)	(5.5%)
Profit attributable to other non-controlling interests	(2 119)	(1 257)	(862)	68.6%
Operating profit before taxation	119 515	127 443	(7 928)	(6.2%)
Taxation	(24 382)	(29 509)	5 127	(17.4%)
Adjusted earnings before goodwill, acquired intangibles and non-operating items	95 133	97 934	(2 801)	(2.9%)



Reconciliation from statutory summarised income statement to ongoing summarised income statement

	Removal of: **		
For the six months to 30 September 2016 £'000	Statutory as disclosed	UK legacy business excluding sale assets	Ongoing business
Net interest income	137 961	(686)	138 647
Net fee and commission income	239 002	(76)	239 078
Investment income	18 751	224	18 527
Share of post tax operating profit of associates	797	–	797
Trading income arising from			
– customer flow	68 379	(41)	68 420
– balance sheet management and other trading activities	1 625	–	1 625
Other operating income	3 858	–	3 858
Total operating income before impairment losses on loans and advances	470 373	(579)	470 952
Impairment losses on loans and advances	(30 078)	(28 587)	(1 491)
Operating income	440 295	(29 166)	469 461
Operating costs	(353 016)	(5 189)	(347 827)
Depreciation on operating leased assets	–	–	–
Operating profit/(loss) before goodwill, acquired intangibles and non-operating items	87 279	(34 355)	121 634
Profit attributable to other non-controlling interests	(2 119)	–	(2 119)
Operating profit/(loss) before taxation	85 160	(34 355)	119 515
Taxation*	(17 373)	7 009	(24 382)
Adjusted earnings before goodwill, acquired intangibles and non-operating items	67 787	(27 346)	95 133
Cost to income ratio	75.1%		73.9%

* Applying the group's effective statutory taxation rate of 20.4%.

** Where:

- The UK legacy business is as described further on.

Reconciliation from statutory summarised income statement to ongoing summarised income statement



(continued)

	Removal of: **		
For the six months to 30 September 2015 £'000	Statutory as disclosed	UK legacy business excluding sale assets	Ongoing business
Net interest income	134 710	1 359	133 351
Net fee and commission income	211 243	3 316	207 927
Investment income	43 921	14	43 907
Share of post tax operating profit of associates	799	–	799
Trading income arising from			
– customer flow	45 477	(423)	45 900
– balance sheet management and other trading activities	(447)	(300)	(147)
Other operating income	2 600	–	2 600
Total operating income before impairment losses on loans and advances	438 303	3 966	434 337
Impairment losses on loans and advances	(31 314)	(28 399)	(2 915)
Operating income	406 989	(24 433)	431 422
Operating costs	(313 595)	(11 089)	(302 506)
Depreciation on operating leased assets	(216)	–	(216)
Operating profit/(loss) before goodwill, acquired intangibles and non-operating items	93 178	(35 522)	128 700
Profit attributable to other non-controlling interests	(1 257)	–	(1 257)
Operating profit/(loss) before taxation	91 921	(35 522)	127 443
Taxation*	(21 284)	8 225	(29 509)
Adjusted earnings before goodwill, acquired intangibles and non-operating items	70 637	(27 297)	97 934
Cost to income ratio	71.6%		69.7%

* Applying the group's effective statutory taxation rate of 23.2%.

** Where:

- The UK legacy business is as described further on.



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

	Removal of:**		
	UK and Other Specialist Banking statutory as disclosed	UK legacy business excluding sale assets	UK and Other Specialist Banking ongoing business
For the six months to 30 September 2016			
£'000			
Net interest income	135 837	(686)	136 523
Net fee and commission income	110 211	(76)	110 287
Investment income	17 385	224	17 161
Share of post tax operating profit of associates	95	–	95
Trading income arising from			
– customer flow	68 133	(41)	68 174
– balance sheet management and other trading activities	1 440	–	1 440
Other operating income	3 858	–	3 858
Total operating income before impairment losses on loans and advances	336 959	(579)	337 538
Impairment losses on loans and advances	(30 078)	(28 587)	(1 491)
Operating income	306 881	(29 166)	336 047
Operating costs	(248 793)	(5 189)	(243 604)
Operating profit/(loss) before goodwill, acquired intangibles and non-operating items	58 088	(34 355)	92 443
Profit attributable to other non-controlling interests	(2 119)	–	(2 119)
Operating profit/(loss) before taxation	55 969	(34 355)	90 324

** Where:

- The UK legacy business is as described further on.

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



(continued)

	Removal of: **		
For the six months to 30 September 2015 £'000	UK and Other Specialist Banking statutory as disclosed	UK legacy business excluding sale assets	UK and Other Specialist Banking ongoing business
Net interest income	132 688	1 359	131 329
Net fee and commission income	89 174	3 316	85 858
Investment income	44 151	14	44 137
Share of post tax operating profit of associates	104	–	104
Trading income arising from			
– customer flow	44 945	(423)	45 368
– balance sheet management and other trading activities	(431)	(300)	(131)
Other operating income	2 600	–	2 600
Total operating income before impairment losses on loans and advances	313 231	3 966	309 265
Impairment losses on loans and advances	(31 314)	(28 399)	(2 915)
Operating income	281 917	(24 433)	306 350
Operating costs	(214 321)	(11 089)	(203 232)
Depreciation on operating leased assets	(216)	–	(216)
Operating profit/(loss) before goodwill, acquired intangibles and non-operating items	67 380	(35 522)	102 902
Profit attributable to other non-controlling interests	(1 257)	–	(1 257)
Operating profit/(loss) before taxation	66 123	(35 522)	101 645

** Where:

- The UK legacy business is as described further on.



Ongoing segmental business analysis – summarised income statement

For the six months to 30 September 2016 £'000	Wealth & Investment	Specialist Banking	Total group
Net interest income	2 124	136 523	138 647
Net fee and commission income	128 791	110 287	239 078
Investment income	1 366	17 161	18 527
Share of post tax operating profit of associates	702	95	797
Trading income arising from			
– customer flow	246	68 174	68 420
– balance sheet management and other trading activities	185	1 440	1 625
Other operating income	–	3 858	3 858
Total operating income before impairment losses on loans and advances	133 414	337 538	470 952
Impairment losses on loans and advances	–	(1 491)	(1 491)
Operating income	133 414	336 047	469 461
Operating costs	(104 223)	(243 604)	(347 827)
Operating profit before goodwill, acquired intangibles and non-operating items	29 191	92 443	121 634
Profit attributable to other non-controlling interests	–	(2 119)	(2 119)
Operating profit before goodwill, acquired intangibles and non-operating items and after non-controlling interests	29 191	90 324	119 515
Selected returns and key statistics			
Cost to income ratio	78.1%	72.2%	73.9%

Ongoing segmental business analysis – summarised income statement



(continued)

For the six months to 30 September 2015 £'000	Wealth & Investment	Specialist Banking	Total group
Net interest income	2 022	131 329	133 351
Net fee and commission income	122 069	85 858	207 927
Investment income	(230)	44 137	43 907
Share of post tax operating profit of associates	695	104	799
Trading income arising from			
– customer flow	532	45 368	45 900
– balance sheet management and other trading activities	(16)	(131)	(147)
Other operating income	–	2 600	2 600
Total operating income before impairment losses on loans and advances	125 072	309 265	434 337
Impairment losses on loans and advances	–	(2 915)	(2 915)
Operating income	125 072	306 350	431 422
Operating costs	(99 274)	(203 232)	(302 506)
Depreciation on operating leased assets	–	(216)	(216)
Operating profit before goodwill, acquired intangibles and non-operating items	25 798	102 902	128 700
Profit attributable to other non-controlling interests	–	(1 257)	(1 257)
Operating profit before goodwill, acquired intangibles and non-operating items and after non-controlling interests	25 798	101 645	127 443
Selected returns and key statistics			
Cost to income ratio	79.4%	65.8%	69.7%



Ongoing segmental business analysis – summarised income statement

(continued)

Legacy business in the UK Specialist Bank

The legacy business in the UK Specialist Bank comprises:

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

Legacy business – overview of results

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

AN ANALYSIS OF ASSETS OF WITHIN THE LEGACY BUSINESS

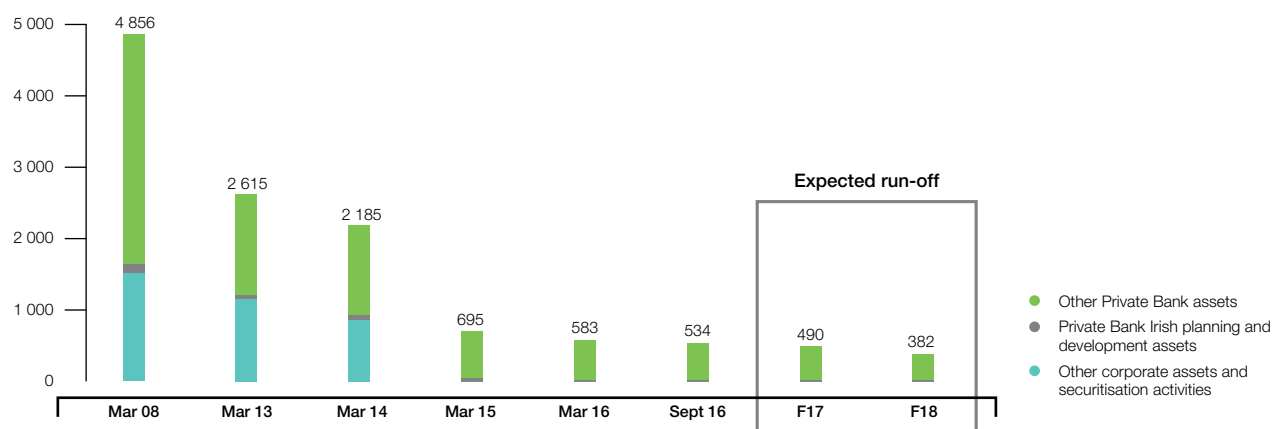
£'million	30 Sept 2016		31 March 2016	
	Total net assets (after impairments)	Total balance sheet impairment	Total net assets (after impairments)	Total balance sheet impairment
Private Bank Irish planning and development assets	24	14	23	14
Other Private Bank assets	510	120	560	107
Total other legacy assets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

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

EXPECTED RUN-OFF OF LEGACY ASSETS

Total remaining UK legacy assets

£'million





Unaudited

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

£'000	30 Sept 2016	31 March 2016
Gross core loans and advances to customers	7 757 207	7 220 129
Total impairments	(23 461)	(21 838)
Specific impairments	(22 461)	(20 838)
Portfolio impairments	(1 000)	(1 000)
Net core loans and advances to customers	7 733 746	7 198 291
Average gross core loans and advances to customers	7 488 668	6 786 386
Total income statement charge for impairments on core loans and advances	(1 553)	(17 806)
Gross default loans and advances to customers	51 817	49 795
Specific impairments	(22 461)	(20 838)
Portfolio impairments	(1 000)	(1 000)
Defaults net of impairments before collateral held	28 356	27 957
Collateral and other credit enhancements	43 299	34 777
Net default loans and advances to customers (limited to zero)	–	–
Ratios:		
Total impairments as a % of gross core loans and advances to customers	0.30%	0.30%
Total impairments as a % of gross default loans	45.28%	43.86%
Gross defaults as a % of gross core loans and advances to customers	0.67%	0.69%
Defaults (net of impairments) as a % of net core loans and advances to customers	0.37%	0.39%
Net defaults as a % of net core loans and advances to customers	–	–
Annualised credit loss ratio (i.e. income statement impairment charge on core loans as a % of average gross core loans and advances)	0.04%	0.26%

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

	Statutory as disclosed	Removal of: UK legacy business excluding sale assets	Ongoing business
30 September 2016 (£'000)			
Gross core loans and advances to customers	8 426 001	668 794	7 757 207
Total impairments	(157 565)	(134 104)	(23 461)
Specific impairments	(125 654)	(103 193)	(22 461)
Portfolio impairments	(31 911)	(30 911)	(1 000)
Net core loans and advances to customers	8 268 436	534 690	7 733 746
31 March 2016 (£'000)			
Gross core loans and advances to customers	7 924 577	704 448	7 220 129
Total impairments	(143 191)	(121 353)	(21 838)
Specific impairments	(121 791)	(100 953)	(20 838)
Portfolio impairments	(21 400)	(20 400)	(1 000)
Net core loans and advances to customers	7 781 386	583 095	7 198 291



Capital structure and capital adequacy

£'million	30 Sept 2016	31 March 2016
Tier 1 capital		
Shareholder's equity	1 894	1 793
Shareholder's equity per balance sheet	1 946	1 844
Foreseeable dividends	(35)	(34)
Deconsolidation of special purpose entities	(17)	(17)
Non-controlling interests	–	(1)
Non-controlling interests per balance sheet	–	(1)
Regulatory adjustments to the accounting basis	(5)	(6)
Additional value adjustments	(5)	(6)
Deductions	(381)	(386)
Goodwill and intangible assets net of deferred tax	(371)	(374)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences	(4)	(8)
Securitisation positions	(3)	(4)
Debt valuation adjustment	(3)	
Common equity tier 1 capital	1 508	1 400
Tier 1 capital	1 508	1 400
Tier 2 capital	590	590
Tier 2 instruments	590	590
Total regulatory capital	2 098	1 990
Risk-weighted assets	12 739	11 738
Capital ratios		
Common equity tier 1 ratio	11.8%	11.9%
Tier 1 ratio	11.8%	11.9%
Total capital ratio	16.5%	17.0%

Capital structure and capital adequacy



Unaudited (continued)

£'million	30 Sept 2016	31 March 2016
Capital requirements	1 019	939
Credit risk – prescribed standardised exposure classes	763	698
Corporates	412	338
Secured on real estate property	154	150
Retail	41	44
Institutions	31	35
Other exposure classes	114	122
Securitisation exposures	11	9
Equity risk – standardised approach	8	8
Listed equities	1	3
Unlisted equities	7	5
Counterparty credit risk	49	41
Credit valuation adjustment risk	6	5
Market risk	71	74
Interest rate	29	27
Foreign exchange	18	21
Equities	17	16
Options	7	10
Operational risk – standardised approach	122	113
Risk-weighted assets (banking and trading)	12 739	11 738
Credit risk – prescribed standardised exposure classes	9 539	8 720
Corporates	5 146	4 224
Secured on real estate property	1 924	1 876
Retail	509	550
Institutions	389	439
Other exposure classes	1 429	1 524
Securitisation exposures	142	107
Equity risk – standardised approach	99	102
Listed equities	11	43
Unlisted equities	88	59
Counterparty credit risk	618	518
Credit valuation adjustment risk	77	58
Market risk	885	924
Interest rate	358	332
Foreign exchange	227	261
Equities	209	201
Options	85	130
Underwriting	6	–
Operational risk – standardised approach	1 521	1 416



Capital structure and capital adequacy

Unaudited (continued)

LEVERAGE

	30 Sept 2016	31 March 2016
Tier 1 Capital	1 508	1 400
Total exposure	20 588	18 565
Leverage ratio	7.3%	7.5%

A SUMMARY OF CAPITAL ADEQUACY AND LEVERAGE RATIOS

	30 Sept 2016*	31 March 2016*
Common equity tier 1 (as reported)	11.8%	11.9%
Common equity tier 1 ("fully loaded")^^	11.8%	11.9%
Tier 1 (as reported)	11.8%	11.9%
Total capital adequacy ratio (as reported)	16.5%	17.0%
Leverage ratio** – permanent capital	7.3%	7.5%
Leverage ratio** – current	7.3%	7.5%
Leverage ratio** – ("fully loaded")^^	7.3%	7.5%
Leverage ratio** – current UK leverage ratio framework^^^	8.9%	n/a

* The capital adequacy disclosures for Investec Bank plc include the deduction of foreseeable dividends when calculating common equity tier 1 (CET1) capital as now required under the Capital Requirements Regulation (CRR) and EBA technical standards. These disclosures are different to the capital disclosures included in the Interim Report, which follows our normal basis of presentation and do not include the deduction for foreseeable dividends when calculating CET1 capital. Investec Bank plc's CET1 ratio would be 31bps (31 March 2016: 30bps) higher on this basis.

^^ Based on the group's understanding of current regulations, "fully loaded" is based on CRR requirements as fully phased in by 2022.

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

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

Risk management

Credit and counterparty risk management

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

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

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

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

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

Investec's credit risk appetite with regard to country risk is characterised by the following principles:

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

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

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

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

An analysis of gross credit and counterparty exposures

Credit and counterparty exposures increased by 11.3% to £18.8 billion since 31 March 2016. Cash and near cash balances increased by 20.2% to £6.1 billion and are largely reflected in the following line items in the table below: cash and balances at central banks, loans and advances to banks and sovereign debt securities.

£'000	30 Sept 2016	31 March 2016	% change	Average*
Cash and balances at central banks	3 778 499	2 636 837	43.3%	3 207 668
Loans and advances to banks	1 115 490	935 071	19.3%	1 025 281
Reverse repurchase agreements and cash collateral on securities borrowed	521 751	557 025	(6.3%)	539 388
Sovereign debt securities	966 144	1 252 991	(22.9%)	1 109 568
Bank debt securities	185 546	188 397	(1.5%)	186 972
Other debt securities (gross)	450 342	393 652	14.4%	421 997
Derivative financial instruments	735 286	572 324	28.5%	653 805
Securities arising from trading activities	327 526	393 964	(16.9%)	360 745
Loans and advances to customers (gross)	8 426 001	7 924 577	6.3%	8 175 289
Other loans and advances (gross)	378 976	331 617	14.3%	355 297
Other securitised assets (gross)	13 721	11 341	21.0%	12 531
Other assets	317 878	397 409	(20.0%)	357 644
Total on-balance sheet exposures	17 217 160	15 595 205	10.4%	16 406 183
Guarantees ^	21 642	68 938	(68.6%)	45 290
Contingent liabilities, committed facilities and other	1 535 010	1 203 323	27.6%	1 369 167
Total off-balance sheet exposures	1 556 652	1 272 261	22.4%	1 414 457
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	18 773 812	16 867 466	11.3%	17 820 639

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

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

Risk management

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

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

£'000	Total credit and counterparty exposure	Assets that we deem to have no legal credit exposure	Note reference	Total balance sheet
At 30 September 2016				
Cash and balances at central banks	3 778 499	1 738		3 780 237
Loans and advances to banks	1 115 490	-		1 115 490
Reverse repurchase agreements and cash collateral on securities borrowed	521 751	-		521 751
Sovereign debt securities	966 144	-		966 144
Bank debt securities	185 546	-		185 546
Other debt securities	450 342	(4 072)	2	446 270
Derivative financial instruments	735 286	245 576		980 862
Securities arising from trading activities	327 526	142 892		470 418
Investment portfolio	-	491 873	1	491 873
Loans and advances to customers	8 426 001	(157 565)	2	8 268 436
Other loans and advances	378 976	219 278	3	598 254
Other securitised assets	13 721	129 690	4	143 411
Interest in associated undertakings	-	23 407		23 407
Deferred taxation assets	-	60 320		60 320
Other assets	317 878	1 058 585	5	1 376 463
Property and equipment	-	54 267		54 267
Investment properties	-	-		-
Goodwill	-	262 950		262 950
Intangible assets	-	121 089		121 089
Total on-balance sheet exposures	17 217 160	2 650 028		19 867 188
At 31 March 2016				
Cash and balances at central banks	2 636 837	1 227		2 638 064
Loans and advances to banks	935 071	-		935 071
Reverse repurchase agreements and cash collateral on securities borrowed	557 025	-		557 025
Sovereign debt securities	1 252 991	-		1 252 991
Bank debt securities	188 397	-		188 397
Other debt securities	393 652	9 869		403 521
Derivative financial instruments	572 324	270 612		842 936
Securities arising from trading activities	393 964	130 380		524 344
Investment portfolio	-	419 861	1	419 861
Loans and advances to customers	7 924 577	(143 191)	2	7 781 386
Other loans and advances	331 617	245 967	3	577 584
Other securitised assets	11 341	139 224	4	150 565
Interest in associated undertakings	-	17 446		17 446
Deferred taxation assets	-	71 563		71 563
Other assets	397 409	1 055 641	5	1 453 050
Property and equipment	-	53 042		53 042
Investment properties	-	79 051		79 051
Goodwill	-	261 804		261 804
Intangible assets	-	126 867		126 867
Total on-balance sheet exposures	15 595 205	2 739 363		18 334 568

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

2. Largely relates to impairments.

3. Largely intergroup lending which is deemed to have no credit exposure.

4. While the group manages all risks (including credit risk) from a day-to-day operational perspective, certain of these assets are within special purpose vehicles that ring-fence the assets to specific credit providers and limit the security to the assets in the vehicle. The table above reflects the net credit exposure in the vehicle that the group has reflected in the 'total credit and counterparty exposure' with the maximum credit exposure referenced to credit providers external to the group in the column headed 'assets that we deem to have no legal credit exposure'.

5. Other assets include settlement debtors less than 2 days which we deem to have no credit risk exposure as they are settled on a delivery against payment basis.

Risk management

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

£'000	Up to three months	Three to six months	Six months to one year	One to five years	Five to 10 years	>10 years	Total
Cash and balances at central banks	3 778 499	-	-	-	-	-	3 778 499
Loans and advances to banks	1 112 117	3 130	227	16	-	-	1 115 490
Reverse repurchase agreements and cash collateral on securities borrowed	521 751	-	-	-	-	-	521 751
Sovereign debt securities	660 147	150 316	8 836	-	-	146 845	966 144
Bank debt securities	45	9 389	20 000	156 112	-	-	185 546
Other debt securities (gross)	3 099	448	11 929	118 428	57 709	258 729	450 342
Derivative financial instruments	137 453	70 071	110 592	158 345	161 054	97 771	735 286
Securities arising from trading activities	17 831	-	9 555	106 370	84 275	109 495	327 526
Loans and advances to customers (gross)	1 328 402	843 879	999 600	3 921 278	933 694	399 148	8 426 001
Other loans and advances (gross)	1 777	263	3 110	40 145	48 852	284 829	378 976
Other securitised assets (gross)	-	-	-	-	-	13 721	13 721
Other assets	317 878	-	-	-	-	-	317 878
Total on-balance sheet exposures	7 878 999	1 077 496	1 163 849	4 500 694	1 285 584	1 310 538	17 217 160
Guarantees [^]	16 751	2 468	214	2 209	-	-	21 642
Contingent liabilities, committed facilities and other	373 287	201 999	215 108	680 597	56 645	7 374	1 535 010
Total off-balance sheet exposures	390 038	204 467	215 322	682 806	56 645	7 374	1 556 652
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	8 269 037	1 281 963	1 379 171	5 183 500	1 342 229	1 317 912	18 773 812

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

Risk management

An analysis of gross credit and counterparty exposure by industry

Corporate client loans account for 57.2% of total core loans and advances and are well diversified across various industries. A more detailed analysis of the corporate client loan portfolio is provided further on. The remainder of core loans and advances largely relate to private client lending, as represented by the industry classification 'HNW and professional individuals' as well as 'lending collateralised by property'. A more detailed analysis of the private client loan portfolio is provided further on.

	Gross core loans and advances		Other credit and counterparty exposures		Total	
£'000	30 Sept 2016	31 March 2016	30 Sept 2016	31 March 2016	30 Sept 2016	31 March 2016
High net worth and professional individuals	1 557 067	1 458 552	185 309	146 028	1 742 376	1 604 580
Lending collateralised by property - largely to private clients	2 053 019	2 179 999	270 142	245 020	2 323 161	2 425 019
Agriculture	3 636	3 234	499	53	4 135	3 287
Electricity, gas and water (utility services)	606 339	440 728	397 958	340 167	1 004 297	780 895
Public and non-business services	175 014	134 917	4 928 656	4 120 421	5 103 670	4 255 338
Business services	489 547	415 673	111 033	102 227	600 580	517 900
Finance and insurance	1 122 196	971 773	3 339 519	3 054 426	4 461 715	4 026 199
Retailers and wholesalers	369 042	383 089	117 876	128 327	486 918	511 416
Manufacturing and commerce	532 658	490 197	166 335	117 798	698 993	607 995
Construction	46 048	41 049	1 890	1 803	47 938	42 852
Corporate commercial real estate	118 893	115 241	45 836	36 469	164 729	151 710
Other residential mortgages	-	-	365 170	318 167	365 170	318 167
Mining and resources	115 314	139 621	168 946	160 615	284 260	300 236
Leisure, entertainment and tourism	267 494	227 573	32 979	35 738	300 473	263 311
Transport	793 061	762 899	174 059	104 676	967 120	867 575
Communication	176 673	160 032	41 604	30 954	218 277	190 986
Total	8 426 001	7 924 577	10 347 811	8 942 889	18 773 812	16 867 466

Risk management

Detailed analysis of gross credit and counterparty exposure by industry

£'000	HNW and professional individuals	Lending collateralised by property - largely to private clients	Agriculture	Electricity, gas and water (utility services)	Public and non-business services	Business services	Finance and insurance	Retailers and wholesalers
At 30 September 2016								
Cash and balances at central banks	-	-	-	-	3 778 499	-	-	-
Loans and advances to banks	-	-	-	-	-	-	1 115 490	-
Reverse repurchase agreements and cash collateral on securities borrowed	-	-	-	-	-	-	521 751	-
Sovereign debt securities	-	-	-	-	966 144	-	-	-
Bank debt securities	-	-	-	-	-	-	185 546	-
Other debt securities (gross)	-	-	-	38 313	6 980	3 597	125 900	-
Derivative financial instruments	12 529	-	499	65 542	239	38 688	468 180	23 876
Securities arising from trading activities	-	-	-	33 747	100 388	-	173 974	39
Loans and advances to customers (gross)	1 557 067	2 053 019	3 636	606 339	175 014	489 547	1 122 196	369 042
Other loans and advances (gross)	-	-	-	-	-	-	152 488	-
Other securitised assets (gross)	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	317 878	-
Total on-balance sheet exposures	1 569 596	2 053 019	4 135	743 941	5 027 264	531 832	4 183 403	392 957
Guarantees ^a	18 960	-	-	-	-	-	-	605
Contingent liabilities, committed facilities and other	153 820	270 142	-	260 356	76 406	68 748	278 312	93 356
Total off-balance sheet exposures	172 780	270 142	-	260 356	76 406	68 748	278 312	93 961
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	1 742 376	2 323 161	4 135	1 004 297	5 103 670	600 580	4 461 715	486 918

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

£'000	Manufacturing and commerce	Construction	Corporate commercial real estate	Other residential mortgages	Mining and resources	Leisure, entertainment and tourism	Transport	Communication	Total
At 30 September 2016									
Cash and balances at central banks	-	-	-	-	-	-	-	-	3 778 499
Loans and advances to banks	-	-	-	-	-	-	-	-	1 115 490
Reverse repurchase agreements and cash collateral on securities borrowed	-	-	-	-	-	-	-	-	521 751
Sovereign debt securities	-	-	-	-	-	-	-	-	966 144
Bank debt securities	-	-	-	-	-	-	-	-	185 546
Other debt securities (gross)	42 702	-	-	125 048	54 942	4 372	39 206	9 282	450 342
Derivative financial instruments	66 206	1 890	1 899	-	24 270	12 927	14 369	4 172	735 286
Securities arising from trading activities	1 793	-	882	-	761	172	2	15 768	327 526
Loans and advances to customers (gross)	532 658	46 048	118 893	-	115 314	267 494	793 061	176 673	8 426 001
Other loans and advances (gross)	-	-	87	226 401	-	-	-	-	378 976
Other securitised assets (gross)	-	-	-	13 721	-	-	-	-	13 721
Other assets	-	-	-	-	-	-	-	-	317 878
Total on-balance sheet exposures	643 359	47 938	121 761	365 170	195 287	284 965	846 638	205 895	17 217 160
Guarantees ^a	-	-	-	-	1 863	-	-	214	21 642
Contingent liabilities, committed facilities and other	55 634	-	42 968	-	87 110	15 508	120 482	12 168	1 535 010
Total off-balance sheet exposures	55 634	-	42 968	-	88 973	15 508	120 482	12 382	1 556 652
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	698 993	47 938	164 729	365 170	284 260	300 473	967 120	218 277	18 773 812

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

Risk management

Detailed analysis of gross credit and counterparty exposure by industry

£'000	HNW and professional individuals	Lending collateralised by property - largely to private clients	Agriculture	Electricity, gas and water (utility services)	Public and non-business services	Business services	Finance and insurance	Retailers and wholesalers
At 31 March 2016								
Cash and balances at central banks	-	-	-	-	2 636 837	-	-	-
Loans and advances to banks	-	-	-	-	-	-	935 071	-
Reverse repurchase agreements and cash collateral on securities borrowed	-	-	-	-	-	-	557 025	-
Sovereign debt securities	-	-	-	-	1 252 991	-	-	-
Bank debt securities	-	-	-	-	-	-	188 397	-
Other debt securities (gross)	-	-	-	36 787	6 429	3 382	101 474	-
Derivative financial instruments	53	-	53	45 174	19 947	63 632	317 338	26 033
Securities arising from trading activities	-	-	-	24 606	198 181	-	156 639	35
Loans and advances to customers (gross)	1 458 552	2 179 999	3 234	440 728	134 917	415 673	971 773	383 089
Other loans and advances (gross)	-	-	-	-	-	-	130 952	-
Other securitised assets (gross)	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	397 409	-
Total on-balance sheet exposures	1 458 605	2 179 999	3 287	547 295	4 249 302	482 687	3 756 078	409 157
Guarantees ^a	36 494	-	-	-	-	-	30 155	605
Contingent liabilities, committed facilities and other	109 481	245 020	-	233 600	6 036	35 213	239 966	101 654
Total off-balance sheet exposures	145 975	245 020	-	233 600	6 036	35 213	270 121	102 259
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	1 604 580	2 425 019	3 287	780 895	4 255 338	517 900	4 026 199	511 416

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

£'000	Manufacturing and commerce	Construction	Corporate commercial real estate	Other residential mortgages	Mining and resources	Leisure, entertainment and tourism	Transport	Communication	Total
At 31 March 2016									
Cash and balances at central banks	-	-	-	-	-	-	-	-	2 636 837
Loans and advances to banks	-	-	-	-	-	-	-	-	935 071
Reverse repurchase agreements and cash collateral on securities borrowed	-	-	-	-	-	-	-	-	557 025
Sovereign debt securities	-	-	-	-	-	-	-	-	1 252 991
Bank debt securities	-	-	-	-	-	-	-	-	188 397
Other debt securities (gross)	29 581	-	-	106 246	65 939	4 017	26 914	12 883	393 652
Derivative financial instruments	49 147	1 803	1 489	-	9 474	16 424	18 682	3 075	572 324
Securities arising from trading activities	1 738	-	781	-	-	1 093	2	10 889	393 964
Loans and advances to customers (gross)	490 197	41 049	115 241	-	139 621	227 573	762 899	160 032	7 924 577
Other loans and advances (gross)	-	-	85	200 580	-	-	-	-	331 617
Other securitised assets (gross)	-	-	-	11 341	-	-	-	-	11 341
Other assets	-	-	-	-	-	-	-	-	397 409
Total on-balance sheet exposures	570 663	42 852	117 596	318 167	215 034	249 107	808 497	186 879	15 595 205
Guarantees ^a	-	-	-	-	1 684	-	-	-	68 938
Contingent liabilities, committed facilities and other	37 332	-	34 114	-	83 518	14 204	59 078	4 107	1 203 323
Total off-balance sheet exposures	37 332	-	34 114	-	85 202	14 204	59 078	4 107	1 272 261
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	607 995	42 852	151 710	318 167	300 236	263 311	867 575	190 986	16 867 466

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



Risk management

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

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

£'000	30 Sept 2016	31 March 2016
Gross core loans and advances to customers	8 426 001	7 924 577
Total impairments	(157 565)	(143 191)
Specific impairments	(125 654)	(121 791)
Portfolio impairments	(31 911)	(21 400)
Net core loans and advances to customers	8 268 436	7 781 386
Average gross core loans and advances to customers	8 175 289	7 574 356
Current loans and advances to customers	8 059 181	7 539 409
Past due loans and advances to customers (1 - 60 days)	39 615	65 880
Special mention loans and advances to customers	14 985	5 354
Default loans and advances to customers	312 220	313 934
Gross core loans and advances to customers	8 426 001	7 924 577
Current loans and advances to customers	8 059 181	7 539 409
Default loans that are current and not impaired	15 070	29 639
Gross core loans and advances to customers that are past due but not impaired	83 571	99 354
Gross core loans and advances to customers that are impaired	268 179	256 175
Gross core loans and advances to customers	8 426 001	7 924 577
Total income statement charge for impairments on core loans and advances	(30 140)	(85 954)
Gross default loans and advances to customers	312 220	313 934
Specific impairments	(125 654)	(121 791)
Portfolio impairments	(31 911)	(21 400)
Defaults net of impairments	154 655	170 743
Aggregate collateral and other credit enhancements on defaults	203 052	202 524
Net default loans and advances to customers (limited to zero)	-	-
Ratios		
Total impairments as a % of gross core loans and advances to customers	1.87%	1.81%
Total impairments as a % of gross default loans	50.47%	45.61%
Gross defaults as a % of gross core loans and advances to customers	3.71%	3.96%
Defaults (net of impairments) as a % of net core loans and advances to customers	1.87%	2.19%
Net defaults as a % of net core loans and advances to customers	-	-
Annualised credit loss ratio (i.e. income statement impairment charge on core loans as a % of average gross core loans and advances)	0.74%	1.13%

Risk management

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

£'000	30 Sept 2016	31 March 2016
Default loans that are current	117 758	138 988
1 - 60 days	61 774	80 729
61 - 90 days	14 329	16 118
91 - 180 days	49 944	43 284
181 - 365 days	42 251	22 539
> 365 days	80 764	83 510
Past due and default core loans and advances to customers (actual capital exposure)	366 820	385 168
1 - 60 days	1 792	3 033
61 - 90 days	904	210
91 - 180 days	2 217	3 277
181 - 365 days	8 095	7 859
> 365 days	75 805	74 064
Past due and default core loans and advances to customers (actual amount in arrears)	88 813	88 443

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

£'000	Current watchlist loans	1 - 60 days	61 - 90 days	91 - 180 days	181 - 365 days	> 365 days	Total
At 30 September 2016							
Default loans that are current and not impaired							
Total capital exposure	15 070	-	-	-	-	-	15 070
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	-	61 719	3 613	7 543	1 063	9 633	83 571
Amount in arrears	-	1 737	639	475	316	9 511	12 678
Gross core loans and advances to customers that are impaired							
Total capital exposure	102 688	55	10 716	42 401	41 188	71 131	268 179
Amount in arrears	-	55	265	1 742	7 779	66 294	76 135
At 31 March 2016							
Default loans that are current and not impaired							
Total capital exposure	29 639	-	-	-	-	-	29 639
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	-	71 077	526	16 210	1 139	10 402	99 354
Amount in arrears	-	2 965	49	1 333	171	7 847	12 365
Gross core loans and advances to customers that are impaired							
Total capital exposure	109 349	9 652	15 592	27 074	21 400	73 108	256 175
Amount in arrears	-	68	161	1 944	7 688	66 217	76 078



Risk management

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

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

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

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

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

£'000	Current watchlist						Total
	loans	1 - 60 days	61 - 90 days	91 - 180 days	181 - 365 days	> 365 days	
Past due (1 - 60 days)	-	65 880	-	-	-	-	65 880
Special mention	-	4 828	526	-	-	-	5 354
Special mention (1 - 90 days)	-	4 828	-	-	-	-	4 828
Special mention (61 - 90 days and item well secured)	-	-	526	-	-	-	526
Default	138 988	10 021	15 592	43 284	22 539	83 510	313 934
Sub-standard	72 254	369	3 828	23 327	6 361	58 079	164 218
Doubtful	65 328	9 652	11 755	18 950	15 413	4 352	125 450
Loss	1 406	-	9	1 007	765	21 079	24 266
Total	138 988	80 729	16 118	43 284	22 539	83 510	385 168

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

£'000	Current watchlist						Total
	loans	1 - 60 days	61 - 90 days	91 - 180 days	181 - 365 days	> 365 days	
Past due (1 - 60 days)	-	2 959	-	-	-	-	2 959
Special mention	-	6	49	-	-	-	55
Special mention (1 - 90 days)	-	6	-	-	-	-	6
Special mention (61 - 90 days and item well secured)	-	-	49	-	-	-	49
Default	-	68	161	3 277	7 859	74 064	85 429
Sub-standard	-	1	39	1 383	3 343	48 662	53 428
Doubtful	-	67	114	887	3 751	4 352	9 171
Loss	-	-	8	1 007	765	21 050	22 830
Total	-	3 033	210	3 277	7 859	74 064	88 443

Risk management

An analysis of core loans and advances to customers

£'000	Gross core loans and advances neither past due nor impaired	Gross core loans and advances that are past due but not impaired	Gross core loans and advances that are impaired	Total gross core loans and advances (actual capital exposure)	Specific impairments	Portfolio impairments	Total net core loans and advances (actual capital exposure)	Actual amount in arrears
At 30 September 2016								
Current core loans and advances	8 059 181	-	-	8 059 181	-	(31 911)	8 027 270	-
Past due (1 - 60 days)	-	39 615	-	39 615	-	-	39 615	832
Special mention	-	14 985	-	14 985	-	-	14 985	1 480
Special mention (1 - 90 days)	-	13 853	-	13 853	-	-	13 853	1 410
Special mention (61 - 90 days and item well secured)	-	1 132	-	1 132	-	-	1 132	70
Default	15 070	28 971	268 179	312 220	(125 654)	-	186 566	86 501
Sub-standard	15 070	28 971	131 783	175 824	(42 406)	-	133 418	55 575
Doubtful	-	-	109 201	109 201	(60 432)	-	48 769	9 332
Loss	-	-	27 195	27 195	(22 816)	-	4 379	21 594
Total	8 074 251	83 571	268 179	8 426 001	(125 654)	(31 911)	8 268 436	88 813
At 31 March 2016								
Current core loans and advances	7 539 409	-	-	7 539 409	-	(21 400)	7 518 009	-
Past due (1 - 60 days)	-	65 880	-	65 880	-	-	65 880	2 959
Special mention	-	5 354	-	5 354	-	-	5 354	55
Special mention (1 - 90 days)	-	4 828	-	4 828	-	-	4 828	6
Special mention (61 - 90 days and item well secured)	-	526	-	526	-	-	526	49
Default	29 639	28 120	256 175	313 934	(121 791)	-	192 143	85 429
Sub-standard	29 639	28 120	106 459	164 218	(32 379)	-	131 839	53 428
Doubtful	-	-	125 450	125 450	(69 827)	-	55 623	9 171
Loss	-	-	24 266	24 266	(19 585)	-	4 681	22 830
Total	7 569 048	99 354	256 175	7 924 577	(121 791)	(21 400)	7 781 386	88 443

Risk management

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

£'000	Private client, professional and high net worth individuals	Corporate sector	Insurance, financial services (excluding sovereign)	Public and government sector (including central banks)	Total core loans and advances to customers
At 30 September 2016					
Current core loans and advances	3 280 759	3 483 996	1 121 631	172 795	8 059 181
Past due (1 - 60 days)	34 683	3 456	367	1 109	39 615
Special mention	14 375	460	-	150	14 985
Special mention (1 - 90 days)	13 853	-	-	-	13 853
Special mention (61 - 90 days and item well secured)	522	460	-	150	1 132
Default	280 269	30 793	198	960	312 220
Sub-standard	154 801	20 757	-	266	175 824
Doubtful	102 151	6 772	123	155	109 201
Loss	23 317	3 264	75	539	27 195
Total gross core loans and advances to customers	3 610 086	3 518 705	1 122 196	175 014	8 426 001
Total impairments	(139 620)	(17 153)	(136)	(656)	(157 565)
Specific impairments	(107 709)	(17 153)	(136)	(656)	(125 654)
Portfolio impairments	(31 911)	-	-	-	(31 911)
Net core loans and advances to customers	3 470 466	3 501 552	1 122 060	174 358	8 268 436
At 31 March 2016					
Current core loans and advances	3 296 034	3 140 362	971 565	131 448	7 539 409
Past due (1 - 60 days)	53 707	10 833	41	1 299	65 880
Special mention	4 995	211	2	146	5 354
Special mention (1 - 90 days)	4 828	-	-	-	4 828
Special mention (61 - 90 days and item well secured)	167	211	2	146	526
Default	283 815	27 930	165	2 024	313 934
Sub-standard	144 030	18 786	2	1 400	164 218
Doubtful	118 168	6 910	122	250	125 450
Loss	21 617	2 234	41	374	24 266
Total gross core loans and advances to customers	3 638 551	3 179 336	971 773	134 917	7 924 577
Total impairments	(128 224)	(14 357)	(102)	(508)	(143 191)
Specific impairments	(106 824)	(14 357)	(102)	(508)	(121 791)
Portfolio impairments	(21 400)	-	-	-	(21 400)
Net core loans and advances to customers	3 510 327	3 164 979	971 671	134 409	7 781 386

Risk management

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

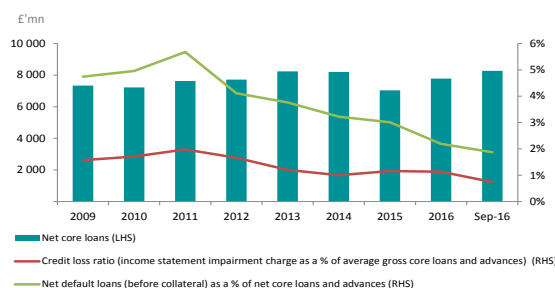
£'000	Gross core loans	Gross defaults	Aggregate collateral and other credit enhancements on defaults	Balance sheet impairments	Income statement impairments [^]
Lending collateralised by property	2 053 019	254 709	154 689	(101 353)	(17 902)
Commercial real estate	1 210 805	101 938	58 845	(43 308)	(8 406)
Commercial real estate - investment	977 476	53 763	36 449	(17 344)	(8 556)
Commercial real estate - development	127 547	11 252	3 762	(7 491)	(5)
Commercial vacant land and planning	105 782	36 923	18 634	(18 473)	155
Residential real estate	842 214	152 771	95 844	(58 045)	(9 496)
Residential real estate - investment	295 929	69 139	45 767	(23 401)	(7 987)
Residential real estate - development	496 845	55 115	29 162	(25 953)	(1 203)
Residential vacant land and planning	49 440	28 517	20 915	(8 691)	(306)
High net worth and other private client lending	1 557 067	25 560	34 357	(6 356)	21
Mortgages	1 161 400	10 440	23 598	(658)	(59)
High net worth and specialised lending	395 667	15 120	10 759	(5 698)	80
Corporate and other lending	4 815 915	31 951	14 006	(17 945)	(1 834)
Acquisition finance	1 068 688	-	-	-	943
Asset-based lending	289 934	-	-	-	-
Fund finance	752 077	-	-	-	-
Other corporate and financial institutions and governments	696 278	-	-	-	-
Asset finance	1 358 657	12 351	4 492	(7 859)	(2 683)
Small ticket asset finance	1 012 057	12 351	4 492	(7 859)	(2 683)
Large ticket asset finance	346 600	-	-	-	-
Project finance	629 907	3 801	3 707	(94)	(94)
Resource finance	20 374	15 799	5 807	(9 992)	-
Portfolio impairments				(31 911)	(10 425)
Total	8 426 001	312 220	203 052	(157 565)	(30 140)

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

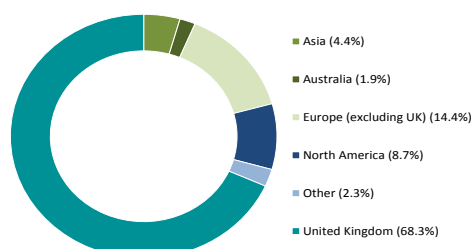
£'000	Gross core loans	Gross defaults	Aggregate collateral and other credit enhancements on defaults	Balance sheet impairments	Income statement impairments [^]
Lending collateralised by property	2 179 999	264 283	168 722	(101 064)	(75 732)
Commercial real estate	1 314 745	108 746	64 068	(45 030)	(32 441)
Commercial real estate - investment	1 096 376	61 090	43 958	(17 151)	(21 155)
Commercial real estate - development	109 086	11 138	3 647	(7 491)	(634)
Commercial vacant land and planning	109 283	36 518	16 463	(20 388)	(10 652)
Residential real estate	865 254	155 537	104 654	(56 034)	(43 291)
Residential real estate - investment	298 740	72 449	55 151	(20 907)	(13 353)
Residential real estate - development	516 352	56 651	30 390	(26 854)	(24 747)
Residential vacant land and planning	50 162	26 437	19 113	(8 273)	(5 191)
High net worth and other private client lending	1 458 552	19 532	18 650	(5 760)	(8 194)
Mortgages	1 146 241	4 307	7 489	(600)	(49)
High net worth and specialised lending	312 311	15 225	11 161	(5 160)	(8 145)
Corporate and other lending	4 286 026	30 119	15 152	(14 967)	(14 810)
Acquisition finance	899 190	-	-	-	(1 284)
Asset-based lending	274 173	-	-	-	-
Fund finance	673 379	-	-	-	-
Other corporate and financial institutions and governments	766 815	-	-	-	-
Asset finance	1 205 400	11 891	5 961	(5 930)	(4 223)
Small ticket asset finance	932 865	11 891	5 961	(5 930)	(4 223)
Large ticket asset finance	272 535	-	-	-	-
Project finance	449 266	3 708	3 708	-	(2 699)
Resource finance	17 803	14 520	5 483	(9 037)	(6 604)
Portfolio impairments				(21 400)	12 782
Total	7 924 577	313 934	202 524	(143 191)	(85 954)

[^] Where a positive number represents a recovery

Asset quality trends



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



Risk management

Collateral

A summary of total collateral is provided in the table below

£'000	Collateral held against		Total
	Core loans and advances	Other credit and counterparty exposures*	
At 30 September 2016			
Eligible financial collateral	455 581	618 919	1 074 500
Listed shares	393 768	83 968	477 736
Cash	61 813	144 682	206 495
Debt securities issued by sovereigns	-	390 269	390 269
Property charge	5 040 583	200 509	5 241 092
Residential property	2 504 133	200 509	2 704 642
Residential development	880 985	-	880 985
Commercial property developments	275 643	-	275 643
Commercial property investments	1 379 822	-	1 379 822
Other collateral	4 715 543	153 846	4 869 389
Unlisted shares	674 610	-	674 610
Charges other than property	26 036	153 846	179 882
Debtors, stock and other corporate assets	3 128 150	-	3 128 150
Guarantees	675 075	-	675 075
Other	211 672	-	211 672
Total collateral	10 211 707	973 274	11 184 981
At 31 March 2016			
Eligible financial collateral	313 156	399 786	712 942
Listed shares	242 551	76 126	318 677
Cash	70 605	109 180	179 785
Debt securities issued by sovereigns	-	214 480	214 480
Property charge	4 940 344	209 478	5 149 822
Residential property	2 457 252	209 478	2 666 730
Residential development	780 534	-	780 534
Commercial property developments	187 484	-	187 484
Commercial property investments	1 515 074	-	1 515 074
Other collateral	4 247 959	135 508	4 383 467
Unlisted shares	682 021	-	682 021
Charges other than property	21 573	135 508	157 081
Debtors, stock and other corporate assets	2 727 354	-	2 727 354
Guarantees	650 988	-	650 988
Other	166 023	-	166 023
Total collateral	9 501 459	744 772	10 246 231

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

Risk management

Investment risk in the banking book

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

- **Principal Investments:** investments are selected based on the track record of management, the attractiveness of the industry and the ability to build value for the existing business by implementing an agreed strategy. Investments in listed shares may arise on the IPO of one of our investments. Additionally, listed investments may be considered where we believe that the market is mispricing the underlying security or where there is an opportunity to stimulate corporate activity.
- **Lending transactions:** the manner in which we structure certain transactions results in equity, warrant and profit shares being held, predominantly within unlisted companies
- **Property activities:** we source development, investment and trading opportunities to create value and trade for profit within agreed risk parameters.

Valuation and accounting methodologies

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

	Income/(loss) (pre funding costs)				
Category £'000	Unrealised*	Realised*	Dividends	Total	Fair value through equity
For the six months to 30 September 2016					
Unlisted investments	11 121	10 470	7 281	28 872	408
Listed equities	(13 926)	-	1 272	(12 654)	(1 198)
Investment and trading properties	(12 578)	18 616	-	6 038	-
Warrants, profit shares and other embedded derivatives	(3 994)	-	-	(3 994)	-
Total	(19 377)	29 086	8 553	18 262	(790)
For the year ended 31 March 2016					
Unlisted investments	15 674	14 099	15 419	45 192	184
Listed equities	2 340	(7 249)	-	(4 909)	1 424
Investment and trading properties	(3 145)	2 364	-	(781)	-
Warrants, profit shares and other embedded derivatives	(2 452)	3 469	-	1 017	-
Total	12 417	12 683	15 419	40 519	1 608

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

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



Risk management

Summary of investments held and stress testing analyses

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

Category £'000	On-balance sheet value of investments 30 Sept 2016	Valuation change stress test 30 Sept 2016*	On-balance sheet value of investments 31 March 2016	Valuation change stress test 31 March 2016*
Unlisted investments	410 755	61 613	331 921	49 788
Listed equities	81 118	20 280	87 940	21 985
Total investment portfolio	491 873	81 893	419 861	71 773
Investment and trading properties	115 371	23 074	174 573	27 009
Warrants, profit shares and other embedded derivatives	24 900	8 715	32 902	11 516
Total	632 144	113 682	627 336	110 298

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

Stress test values applied

Unlisted investments	15%
Listed equities	25%
Trading properties	20%
Investment properties	10%
Warrants, profit shares and other embedded derivatives	35%

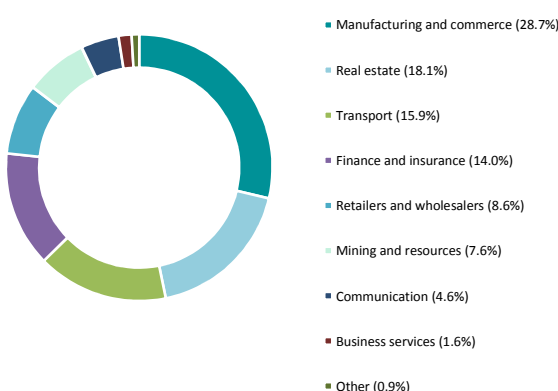
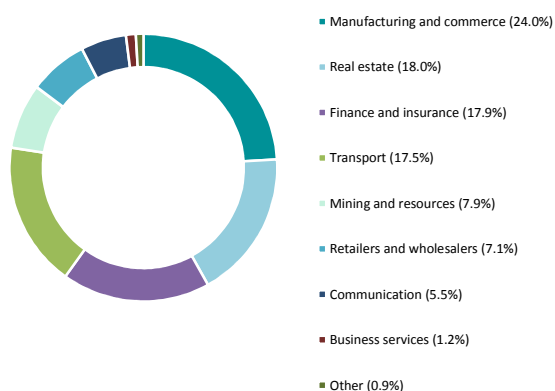
Stress testing summary

Based on the information at 30 September 2016, as reflected above, we could have a £114 million reversal in revenue (which assumes a year in which there is a 'severe stress scenario' simultaneously across all asset classes). This would not cause the group to report a loss but could have a significantly negative impact on earnings for that period. The probability of all these asset classes in all geographies in which we operate being negatively impacted at the same time is very low, although the probability of listed equities being negatively impacted at the same time is very high.

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

30 September 2016 (£517 million)

31 March 2016 (£453 million)



Risk management

Securitisation/structured credit activities exposures

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

Credit analysis

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

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

* Analysis further below

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

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

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

Risk management

Market risk in the trading book

Traded market risk description

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

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

Management and measurement of traded market risk

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

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

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

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

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

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

VaR

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

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

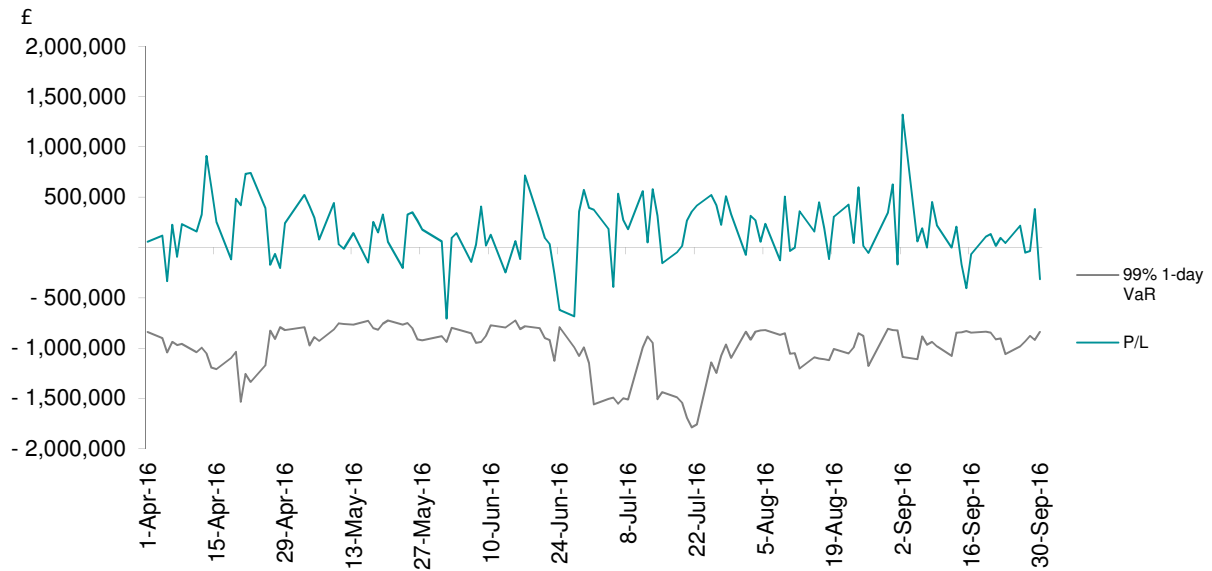


Risk management

Traded market risk management

99% one-day VaR backtesting

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



Risk management

ETL

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

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

Stress testing

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

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

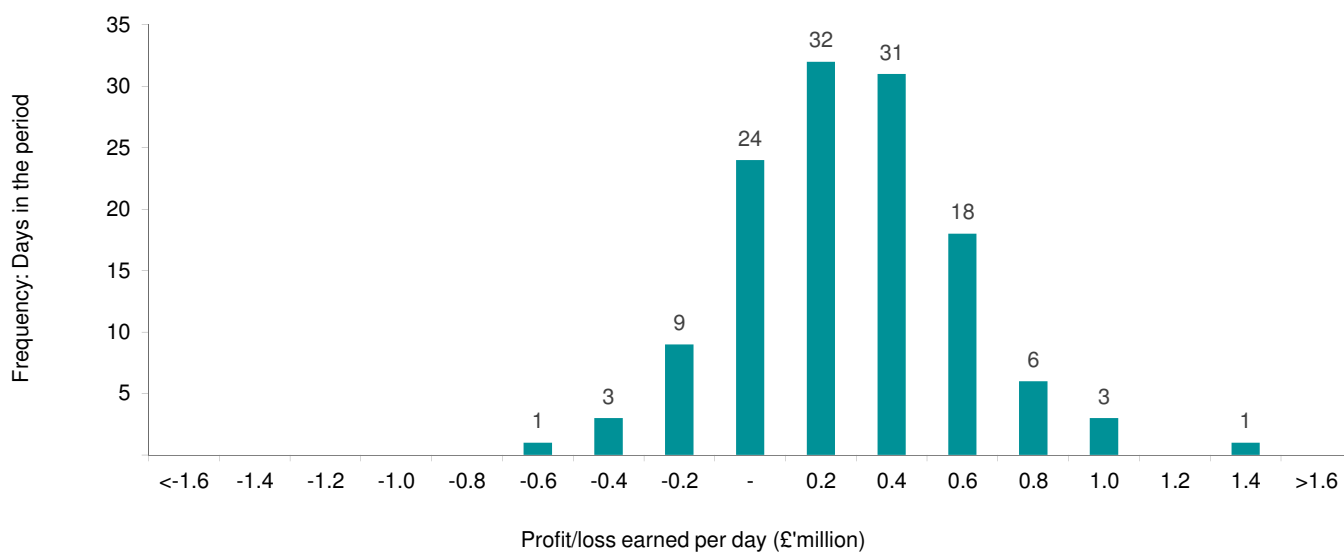
** The consolidated stress test numbers are lower than the sum of the individual stress test numbers. This arises from the correlation offset between various asset classes (diversification).



Risk management

Profit and loss histogram

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





Risk management

Balance sheet risk management

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

Non-trading interest rate risk description

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

Sources of interest rate risk include:

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

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

Risk management

Interest rate sensitivity gap

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

£'million	Not > three months	> Three months but < six months	> Six months but < one year	> One year but < five years	> Five years	Non-rate	Total non-trading
Cash and short-term funds - banks	4 896	-	-	-	-	-	4 896
Investment/trading assets and statutory liquids	1 195	52	80	367	443	-	2 137
Securitised assets	143	-	-	-	-	-	143
Advances	6 138	1 318	314	867	230	-	8 867
Non-rate assets	-	-	-	-	-	1 835	1 835
Assets	12 372	1 370	394	1 234	673	1 835	17 878
Deposits - banks	(581)	-	-	-	-	-	(581)
Deposits - non-banks	(9 742)	(679)	(687)	(992)	(228)	-	(12 328)
Negotiable paper	(1 171)	-	(67)	(269)	(23)	-	(1530)
Securitised liabilities	(113)	-	-	-	-	-	(113)
Subordinated liabilities	-	(18)	-	-	(575)	(32)	(625)
Other liabilities	-	-	-	-	-	(877)	(877)
Liabilities	(11 607)	(697)	(754)	(1 261)	(826)	(909)	(16 054)
Shareholders' funds	-	-	-	-	-	(1 824)	(1 824)
Balance sheet	765	673	(360)	(27)	(153)	(898)	-
Off-balance sheet	744	(356)	(43)	(87)	(258)	-	-
Repricing gap	1 509	317	(403)	(114)	(411)	(898)	-
Cumulative repricing gap	1 509	1 826	1 423	1 309	898	-	-

Economic value sensitivity at 30 September 2016

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

'million	Sensitivity to the following interest rates (expressed in original currencies)						All (GBP)
	GBP	USD	EUR	AUD	ZAR	Other (GBP)	
200bps down	(37.1)	(2.9)	(7.4)	0.4	-	0.1	(48.2)
200bps up	48.8	3.4	7.3	(0.4)	-	(0.1)	61.1



Risk management

Balance sheet risk management

Liquidity risk

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

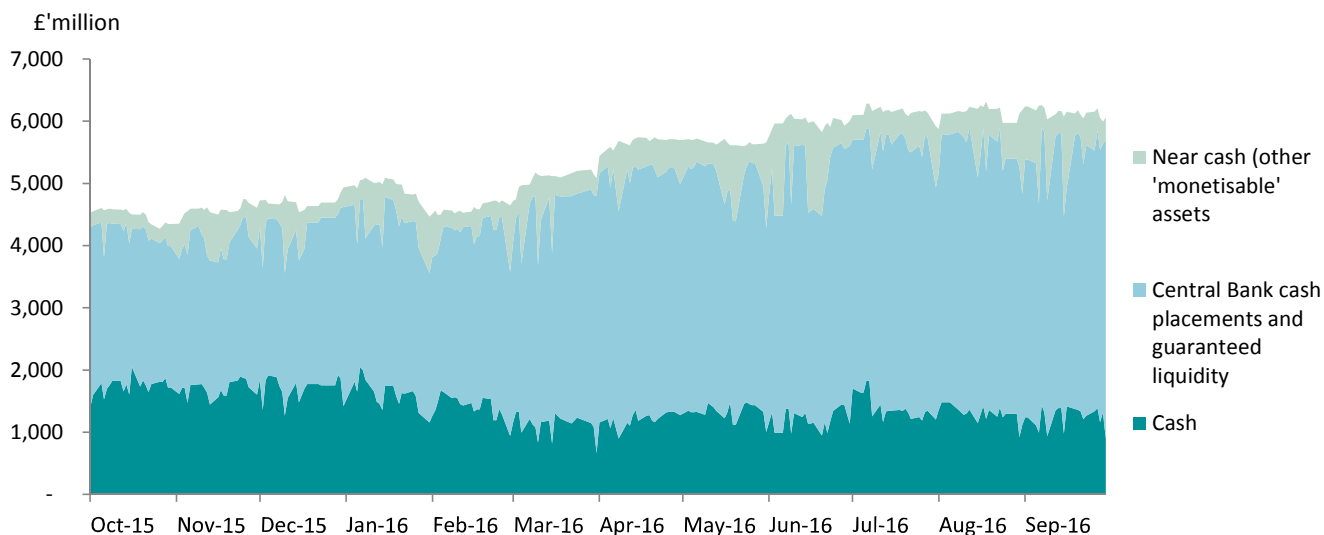
Liquidity risk is further broken down into:

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

Sources of liquidity risk include:

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

Cash and near cash trend

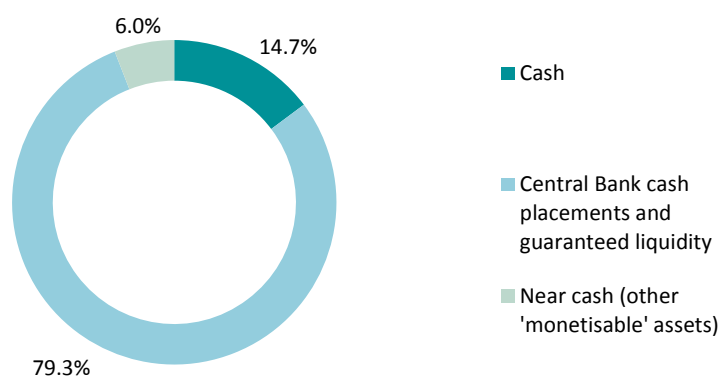




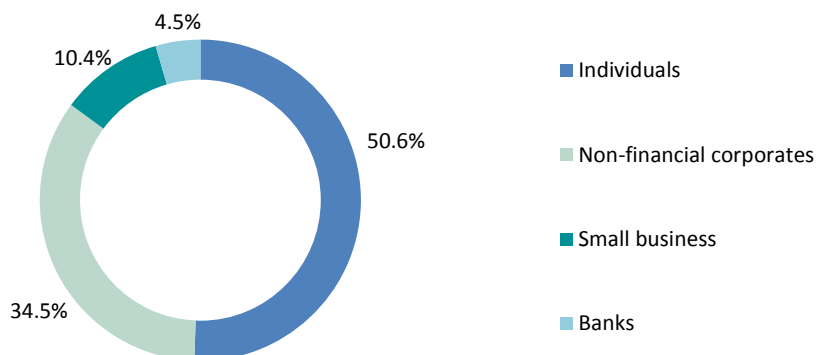
Risk management

Balance sheet risk management (continued)

An analysis of cash and near cash at 30 September 2016 (£6 063 million)



Bank and non-bank depositor concentration by type at 30 September 2016 (£12 910 million)



Liquidity coverage ratio

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

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

The LCR reported to the PRA at 30 September 2016 was 901% for Investec Bank plc (solo basis).

Risk management

Liquidity mismatch

The table that follows shows our contractual liquidity mismatch.

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

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

With respect to the contractual liquidity mismatch:

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

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

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

- set the time horizon to 'on demand' to monetise our statutory liquid assets for which liquidity is guaranteed by the central bank;

- set the time horizon to one month to monetise our cash and near cash portfolio of 'available for sale' discretionary treasury assets, where there are deep secondary markets for this elective asset class; and

- reported the 'contractual' profile by way of a note to the tables.

With respect to the behavioural liquidity mismatch:

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

Contractual liquidity at 30 September 2016

£'million	Demand	Up to one month	One to three months	Three to six months	Six months to one year	One to five years	> Five years	Total
Cash and short term funds - banks	4 147	433	297	-	13	3	3	4 896
Investment/trading assets	265	865	364	220	192	998	1 182	4 086
Securitised assets	-	5	2	1	1	6	128	143
Advances	189	425	823	769	1 002	4 007	1 652	8 867
Other assets	129	1 055	41	11	4	203	432	1 875
Assets	4 730	2 783	1 527	1 001	1 212	5 217	3 397	19 867
Deposits - banks	(33)	(139)	-	-	-	(319)	(91)	(582)
Deposits - non-banks	(2 051)	(2 366)	(2 339)	(1 859)	(1 046)	(2 525)	(142)	(12 328)
Negotiable paper	(11)	(196)	(22)	(41)	(53)	(1 051)	(414)	(1 788)
Securitized liabilities	-	-	(4)	(3)	(4)	(44)	(58)	(113)
Investment/trading liabilities	(1)	(30)	(73)	(94)	(261)	(305)	(487)	(1 251)
Subordinated liabilities	-	-	-	-	(23)	-	(602)	(625)
Other liabilities	(98)	(796)	(58)	(35)	(127)	(89)	(31)	(1 234)
Liabilities	(2 194)	(3 527)	(2 496)	(2 032)	(1 514)	(4 333)	(1 825)	(17 921)
Shareholders' funds	-	-	-	-	-	-	(1 946)	(1 946)
Contractual liquidity gap	2 536	(744)	(969)	(1 031)	(302)	884	(374)	-
Cumulative liquidity gap	2 536	1 792	823	(208)	(510)	374	-	-

Behavioural liquidity

£'million	Demand	Up to one month	One to three months	Three to six months	Six months to one year	One to five years	> Five years	Total
Behavioural liquidity gap	4 181	(493)	938	(1 031)	(301)	(2 773)	(521)	-
Cumulative	4 181	3 688	4 626	3 595	3 294	521	-	-