



# Investec plc

2017

**FINANCIAL INFORMATION**  
(excluding the results  
of Investec Limited)

Unaudited consolidated financial  
information for the six months  
ended 30 September 2017

**IFRS – Pounds Sterling**



*Out of the Ordinary*<sup>®</sup>



**Investec**

## Overview of results

	30 Sept 2017	30 Sept 2016	% change	31 March 2017
Total operating income before impairment losses on loans and advances (£'000)	656 025	624 391	5.1%	1 306 941
Operating costs (£'000)	512 165	475 477	7.7%	1 005 130
Operating profit before goodwill, acquired intangibles, non-operating items, taxation and after other non-controlling interests (£'000)	109 303	116 717	(6.3%)	224 894
Earnings attributable to ordinary shareholders (£'000)	78 216	83 770	(6.6%)	159 728
Cost to income ratio	78.2%	76.2%		77.0%
Total capital resources (including subordinated liabilities) (£'000)	2 670 584	2 659 484	0.4%	2 610 875
Total shareholders' equity (£'000)	2 063 244	2 034 309	1.4%	2 031 519
Total assets (£'000)	18 858 338	20 365 915	(7.4%)	18 788 617
Net core loans and advances (£'000)	8 899 704	8 299 100	7.2%	8 620 742
Customer accounts (deposits) (£'000)	10 849 643	12 042 361	(9.9%)	11 021 581
Cash and near cash balances (£'000)	5 013 067	6 186 729	(19.0%)	5 026 198
Funds under management (£'million)	102 412	92 753	10.4%	97 320
Total capital adequacy ratio	14.2%	14.6%		14.6%
Tier 1 ratio	11.1%	10.7%		11.1%
Common equity tier 1 ratio	10.9%	10.5%		10.9%
Leverage ratio	7.7%	6.8%		7.5%
Leverage ratio – 'fully loaded'	7.6%	6.7%		7.4%
Defaults (net of impairments) as a % of net core loans and advances	1.44%	1.86%		1.55%
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)	0.84%	0.73%		0.90%
Total gearing (i.e. total assets to total equity)	9.1x	10.0x		9.2x
Loans and advances to customers: customer accounts (deposits)	82.0%	68.9%		78.2%

## Consolidated income statement

£'000	Six months to 30 Sept 2017	Six months to 30 Sept 2016	Year to 31 March 2017
Interest income	285 884	277 779	563 354
Interest expense	(128 358)	(145 133)	(274 173)
<b>Net interest income</b>	<b>157 526</b>	<b>132 646</b>	<b>289 181</b>
Fee and commission income	493 238	447 833	932 146
Fee and commission expense	(73 545)	(58 367)	(128 283)
Investment income	15 474	18 751	59 975
Share of post taxation operating profit of associates	1 368	1 016	2 349
Trading income arising from			
– customer flow	55 400	64 913	129 706
– balance sheet management and other trading activities	1 823	12 269	8 672
Other operating income	4 741	5 330	13 195
<b>Total operating income before impairment losses on loans and advances</b>	<b>656 025</b>	<b>624 391</b>	<b>1 306 941</b>
Impairment losses on loans and advances	(37 631)	(30 078)	(74 956)
<b>Operating income</b>	<b>618 394</b>	<b>594 313</b>	<b>1 231 985</b>
Operating costs	(512 165)	(475 477)	(1 005 130)
Depreciation on operating leased assets	(1 149)	–	(2 141)
<b>Operating profit before goodwill and acquired intangibles</b>	<b>105 080</b>	<b>118 836</b>	<b>224 714</b>
Impairment of goodwill	–	–	(3 134)
Amortisation of acquired intangibles	(6 636)	(7 187)	(14 386)
<b>Operating profit</b>	<b>98 444</b>	<b>111 649</b>	<b>207 194</b>
<b>Profit before taxation</b>	<b>98 444</b>	<b>111 649</b>	<b>207 194</b>
Taxation on operating profit before goodwill and acquired intangibles	(18 787)	(21 789)	(39 144)
Taxation on acquired intangibles and goodwill	1 209	1 785	3 305
<b>Profit after taxation</b>	<b>80 866</b>	<b>91 645</b>	<b>171 355</b>
Profit attributable to Asset Management non-controlling interests	(6 873)	(5 756)	(11 807)
Loss/(profit) attributable to other non-controlling interests	4 223	(2 119)	180
<b>Earnings attributable to shareholders</b>	<b>78 216</b>	<b>83 770</b>	<b>159 728</b>

## Consolidated statement of total comprehensive income

£'000	Six months to 30 Sept 2017	Six months to 30 Sept 2016	Year to 31 March 2017
<b>Profit after taxation</b>	<b>80 866</b>	<b>91 645</b>	<b>171 355</b>
Other comprehensive income/(loss):			
<b>Items that may be reclassified to the income statement:</b>			
(Gains) on available-for-sale assets recycled through the income statement*	(2 036)	(5 420)	(2 622)
Fair value movements on available-for-sale assets taken directly to other comprehensive income*	4 530	28 058	29 809
Foreign currency adjustments on translating foreign operations	(11 125)	23 089	37 139
<b>Items that will never be reclassified to the income statement:</b>			
Remeasurement of net defined benefit pension liability	–	–	(43 580)
<b>Total comprehensive income</b>	<b>72 235</b>	<b>137 372</b>	<b>192 101</b>
Total comprehensive income attributable to non-controlling interests	2 937	7 530	11 253
Total comprehensive income attributable to ordinary shareholders	69 086	128 214	178 986
Total comprehensive income attributable to perpetual preferred securities	212	1 628	1 862
<b>Total comprehensive income</b>	<b>72 235</b>	<b>137 372</b>	<b>192 101</b>

\* Net of taxation.

# Consolidated balance sheet

£'000	At 30 Sept 2017	At 31 March 2017	At 30 Sept 2016
<b>Assets</b>			
Cash and balances at central banks	2 847 986	2 853 571	3 780 240
Loans and advances to banks	1 035 550	1 130 998	1 262 188
Reverse repurchase agreements and cash collateral on securities borrowed	479 243	536 173	521 751
Sovereign debt securities	806 063	952 902	966 144
Bank debt securities	157 953	184 626	185 546
Other debt securities	291 532	398 278	436 613
Derivative financial instruments	587 833	604 175	979 968
Securities arising from trading activities	714 393	522 760	470 418
Investment portfolio	481 517	459 745	526 437
Loans and advances to customers	8 899 704	8 620 742	8 299 100
Other loans and advances	401 160	413 430	420 290
Other securitised assets	135 580	138 628	143 411
Interests in associated undertakings	45 439	63 390	30 310
Deferred taxation assets	87 607	89 941	71 795
Other assets	1 351 142	1 276 132	1 737 835
Property and equipment	58 353	60 528	58 026
Investment property	14 500	14 500	–
Goodwill	355 482	355 155	358 141
Intangible assets	107 301	112 943	117 702
	<b>18 858 338</b>	<b>18 788 617</b>	<b>20 365 915</b>
<b>Liabilities</b>			
Deposits by banks	730 554	690 749	594 024
Derivative financial instruments	448 950	582 600	1 116 873
Other trading liabilities	108 813	136 041	132 578
Repurchase agreements and cash collateral on securities lent	182 920	223 997	175 005
Customer accounts (deposits)	10 849 643	11 021 581	12 042 361
Debt securities in issue	2 293 815	1 955 447	1 926 300
Liabilities arising on securitisation of other assets	131 740	128 838	112 754
Current taxation liabilities	140 197	143 585	135 819
Deferred taxation liabilities	23 833	26 236	38 744
Other liabilities	1 277 289	1 268 668	1 431 973
	<b>16 187 754</b>	<b>16 177 742</b>	<b>17 706 431</b>
Subordinated liabilities	607 340	579 356	625 175
	<b>16 795 094</b>	<b>16 757 098</b>	<b>18 331 606</b>
<b>Equity</b>			
Ordinary share capital	194	191	191
Perpetual preference share capital	29	29	29
Share premium	1 310 086	1 246 282	1 245 347
Treasury shares	(111 648)	(90 411)	(91 170)
Other reserves	(82 579)	(45 381)	(49 216)
Retained income	935 671	905 809	912 952
<b>Shareholders' equity excluding non-controlling interests</b>	<b>2 051 753</b>	<b>2 016 519</b>	<b>2 018 133</b>
Non-controlling interests	11 491	15 000	16 176
<b>Total equity</b>	<b>2 063 244</b>	<b>2 031 519</b>	<b>2 034 309</b>
<b>Total liabilities and equity</b>	<b>18 858 338</b>	<b>18 788 617</b>	<b>20 365 915</b>

## Statement of changes in equity

£'000	Six months to 30 Sept 2017	Six months to 30 Sept 2016	Year to 31 March 2017
<b>Balance at the beginning of the period</b>	<b>2 031 519</b>	<b>1 880 808</b>	<b>1 880 808</b>
Profit after taxation	80 866	91 645	171 355
Gains on available-for-sale assets recycled through the income statement*	(2 036)	(5 420)	(2 622)
Fair value movements on available-for-sale assets taken directly to other comprehensive income*	4 530	28 058	29 809
Foreign currency adjustments on translating foreign operations	(11 125)	23 089	37 139
Remeasurement of net defined benefit pension liability	–	–	(43 580)
<b>Total comprehensive income for the period</b>	<b>72 235</b>	<b>137 372</b>	<b>192 101</b>
Share-based payments adjustments	13 987	10 827	25 987
Dividends paid to ordinary shareholders	(62 107)	(41 459)	(105 727)
Dividends paid to perpetual preference shareholders	(212)	(1 628)	(1 862)
Dividends paid to non-controlling interests	(6 448)	(4 650)	(9 690)
Issue of ordinary shares	63 807	173 147	174 082
Redemption of preferences shares	–	(81 621)	(81 743)
Net equity impact on non-controlling interest movements	2	27	7 477
Movement of treasury shares	(49 539)	(38 514)	(49 914)
<b>Balance at the end of the period</b>	<b>2 063 244</b>	<b>2 034 309</b>	<b>2 031 519</b>

\* Net of taxation.

## Segmental business analysis – income statement

### Segmental business analysis – income statement For the six months to 30 September 2017 £'000

	Asset Management	Wealth & Investment	Specialist Banking	Group costs	Total group
Net interest income	19	2 025	155 482	–	157 526
Fee and commission income	238 823	147 539	106 876	–	493 238
Fee and commission expense	(69 280)	(395)	(3 870)	–	(73 545)
Investment income	–	411	15 063	–	15 474
Share of post taxation operating profit of associates	–	415	953	–	1 368
Trading income arising from					
– customer flow	–	380	55 020	–	55 400
– balance sheet management and other trading activities	(1 683)	2	3 504	–	1 823
Other operating income	1 972	–	2 769	–	4 741
<b>Total operating income before impairment on loans and advances</b>	<b>169 851</b>	<b>150 377</b>	<b>335 797</b>	<b>–</b>	<b>656 025</b>
Impairment losses on loans and advances	–	–	(37 631)	–	(37 631)
<b>Operating income</b>	<b>169 851</b>	<b>150 377</b>	<b>298 166</b>	<b>–</b>	<b>618 394</b>
Operating costs	(119 902)	(114 936)	(260 032)	(17 295)	(512 165)
Depreciation on operating leased assets	–	–	(1 149)	–	(1 149)
<b>Operating profit before goodwill and acquired intangibles</b>	<b>49 949</b>	<b>35 441</b>	<b>36 985</b>	<b>(17 295)</b>	<b>105 080</b>
Loss attributable to other non-controlling interests	–	–	4 223	–	4 223
<b>Operating profit before goodwill, acquired intangibles and after other non-controlling interests</b>	<b>49 949</b>	<b>35 441</b>	<b>41 208</b>	<b>(17 295)</b>	<b>109 303</b>
Profit attributable to Asset Management non-controlling interests	(6 873)	–	–	–	(6 873)
<b>Operating profit before goodwill, acquired intangibles and after non-controlling interests and after non-controlling interests</b>	<b>43 076</b>	<b>35 441</b>	<b>41 208</b>	<b>(17 295)</b>	<b>102 430</b>
<b>Selected returns and key statistics</b>					
Cost to income ratio	70.6%	76.4%	77.7%	n/a	78.2%
Total assets (£'million)	379	919	17 560	n/a	18 858

### For the six months to 30 September 2016 £'000

	Asset Management	Wealth & Investment	Specialist Banking	Group costs	Total group
Net interest income	90	2 124	130 432	–	132 646
Fee and commission income	200 316	129 106	118 411	–	447 833
Fee and commission expense	(53 938)	(315)	(4 114)	–	(58 367)
Investment income	–	1 366	17 385	–	18 751
Share of post taxation operating profit of associates	–	702	314	–	1 016
Trading income arising from					
– customer flow	–	246	64 667	–	64 913
– balance sheet management and other trading activities	1 337	185	10 747	–	12 269
Other operating income	1 472	–	3 858	–	5 330
<b>Total operating income before impairment losses on loans and advances</b>	<b>149 277</b>	<b>133 414</b>	<b>341 700</b>	<b>–</b>	<b>624 391</b>
Impairment losses on loans and advances	–	–	(30 078)	–	(30 078)
<b>Operating income</b>	<b>149 277</b>	<b>133 414</b>	<b>311 622</b>	<b>–</b>	<b>594 313</b>
Operating costs	(106 162)	(104 223)	(247 334)	(17 758)	(475 477)
Depreciation on operating leased assets	–	–	–	–	–
<b>Operating profit/(loss) before goodwill and acquired intangibles</b>	<b>43 115</b>	<b>29 191</b>	<b>64 288</b>	<b>(17 758)</b>	<b>118 836</b>
Profit attributable to other non-controlling interests	–	–	(2 119)	–	(2 119)
<b>Operating profit/(loss) before goodwill, acquired intangibles and after other non-controlling interests</b>	<b>43 115</b>	<b>29 191</b>	<b>62 169</b>	<b>(17 758)</b>	<b>116 717</b>
Profit attributable to Asset Management non-controlling interests	(5 756)	–	–	–	(5 756)
<b>Operating profit/(loss) before goodwill, acquired intangibles and after non-controlling interests</b>	<b>37 359</b>	<b>29 191</b>	<b>62 169</b>	<b>(17 758)</b>	<b>110 961</b>
<b>Selected returns and key statistics</b>					
Cost to income ratio	71.1%	78.1%	72.4%	n/a	76.2%
Total assets (£'million)	458	1 028	18 880	n/a	20 366

## Additional income statement note disclosures

### Net interest income

		2017		2016	
For the six months to 30 September		Balance	Interest	Balance	Interest
£'000		sheet value	income	sheet value	income
	Notes				
Cash, near cash and bank debt and sovereign debt securities	1	5 326 795	11 354	6 715 869	20 791
Core loans and advances	2	8 899 704	249 946	8 299 100	225 485
Private client		3 544 194	85 744	3 470 466	71 932
Corporate, institutional and other clients		5 355 510	164 202	4 828 634	153 553
Other debt securities and other loans and advances		692 692	24 584	856 903	31 503
<b>Total interest-earning assets</b>		<b>14 919 191</b>	<b>285 884</b>	<b>15 871 872</b>	<b>277 779</b>

		2017		2016	
For the six months to 30 September		Balance	Interest	Balance	Interest
£'000		sheet value	expense	sheet value	expense
	Notes				
Deposits by banks and other debt-related securities	3	3 207 289	43 190	2 695 330	48 164
Customer accounts (deposits)		10 849 643	57 420	12 042 361	68 523
Subordinated liabilities		607 340	27 748	625 175	28 446
<b>Total interest-bearing liabilities</b>		<b>14 664 272</b>	<b>128 358</b>	<b>15 362 866</b>	<b>145 133</b>
<b>Net interest income</b>			<b>157 526</b>		<b>132 646</b>
<b>Annualised net interest margin</b>			<b>2.05%</b>		<b>1.81%</b>

Notes:

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



# Additional income statement note disclosures

(continued)

## Net fee and commission income

For the six months to 30 September

£'000	2017	2016
<b>Asset management and wealth management businesses net fee and commission income</b>	<b>316 687</b>	<b>275 169</b>
Fund management fees/fees for assets under management	358 837	302 219
Private client transactional fees	27 525	27 203
Fee and commission expense	(69 675)	(54 253)
<b>Specialist Banking net fee and commission income</b>	<b>103 006</b>	<b>114 297</b>
Corporate and institutional transactional and advisory services	94 033	100 245
Private client transactional fees	12 843	18 166
Fee and commission expense	(3 870)	(4 114)
<b>Net fee and commission income</b>	<b>419 693</b>	<b>389 466</b>
Annuity fees (net of fees payable)	333 111	280 927
Deal fees	86 582	108 539

## 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
<b>2017</b>					
Realised	8 133	4 339	(86)	790	13 176
Unrealised <sup>^</sup>	(6 416)	2 088	–	(2 887)	(7 215)
Dividend income	5 977	–	–	–	5 977
Funding and other net related income	–	–	–	3 536	3 536
	<b>7 694</b>	<b>6 427</b>	<b>(86)</b>	<b>1 439</b>	<b>15 474</b>
<b>2016</b>					
Realised	10 470	(4 858)	18 600	1 650	25 862
Unrealised <sup>^</sup>	(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
	<b>12 224</b>	<b>(10 115)</b>	<b>8 592</b>	<b>8 050</b>	<b>18 751</b>

\* Including embedded derivatives (warrants and profit shares).

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

## Additional IAS 34 disclosures

### Analysis of financial assets and liabilities by category of financial instrument

At 30 September 2017 £'000	Total instruments at fair value <sup>^</sup>	Total instruments at amortised cost	Non-financial instruments	Total
<b>Assets</b>				
Cash and balances at central banks	1 325	2 846 661	–	2 847 986
Loans and advances to banks	77 042	958 508	–	1 035 550
Reverse repurchase agreements and cash collateral on securities borrowed	39 563	439 680	–	479 243
Sovereign debt securities	806 063	–	–	806 063
Bank debt securities	–	157 953	–	157 953
Other debt securities	92 927	198 605	–	291 532
Derivative financial instruments*	587 833	–	–	587 833
Securities arising from trading activities	714 393	–	–	714 393
Investment portfolio	481 517	–	–	481 517
Loans and advances to customers	96 680	8 803 024	–	8 899 704
Other loans and advances	–	401 160	–	401 160
Other securitised assets	135 580	–	–	135 580
Interests in associated undertakings	–	–	45 439	45 439
Deferred taxation assets	–	–	87 607	87 607
Other assets	179 846	958 817	212 479	1 351 142
Property and equipment	–	–	58 353	58 353
Investment properties	–	–	14 500	14 500
Goodwill	–	–	355 482	355 482
Intangible assets	–	–	107 301	107 301
	<b>3 212 769</b>	<b>14 764 408</b>	<b>881 161</b>	<b>18 858 338</b>
<b>Liabilities</b>				
Deposits by banks	–	730 554	–	730 554
Derivative financial instruments*	448 950	–	–	448 950
Other trading liabilities	108 813	–	–	108 813
Repurchase agreements and cash collateral on securities lent	43 407	139 513	–	182 920
Customer accounts (deposits)	–	10 849 643	–	10 849 643
Debt securities in issue	494 137	1 799 678	–	2 293 815
Liabilities arising on securitisation of other assets	131 740	–	–	131 740
Current taxation liabilities	–	–	140 197	140 197
Deferred taxation liabilities	–	–	23 833	23 833
Other liabilities	–	982 266	295 023	1 277 289
	<b>1 227 047</b>	<b>14 501 654</b>	<b>459 053</b>	<b>16 187 754</b>
Subordinated liabilities	–	607 340	–	607 340
	<b>1 227 047</b>	<b>15 108 994</b>	<b>459 053</b>	<b>16 795 094</b>

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

<sup>^</sup> Included in total instruments at fair value are available-for-sale instruments of £890 million.

## Additional IAS 34 disclosures

(continued)

### Fair value hierarchy

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

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

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

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

At 30 September 2017 £'000	Total instruments at fair value	Valuation technique applied		
		Level 1	Level 2	Level 3
<b>Assets</b>				
Cash and balances at central banks	1 325	1 325	–	–
Loans and advances to banks	77 042	77 042	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	39 563	–	39 563	–
Sovereign debt securities	806 063	806 063	–	–
Other debt securities	92 927	5 987	83 611	3 329
Derivative financial instruments	587 833	–	533 489	54 344
Securities arising from trading activities	714 393	684 152	23 333	6 908
Investment portfolio	481 517	40 329	15 700	425 488
Loans and advances to customers	96 680	–	–	96 680
Other securitised assets	135 580	–	–	135 580
Other assets	179 846	179 846	–	–
	<b>3 212 769</b>	<b>1 794 744</b>	<b>695 696</b>	<b>722 329</b>
<b>Liabilities</b>				
Derivative financial instruments	448 950	–	447 667	1 283
Other trading liabilities	108 813	108 813	–	–
Repurchase agreements and cash collateral on securities lent	43 407	–	43 407	–
Debt securities in issue	494 137	–	479 361	14 776
Liabilities arising on securitisation of other assets	131 740	–	–	131 740
	<b>1 227 047</b>	<b>108 813</b>	<b>970 435</b>	<b>147 799</b>
<b>Net assets</b>	<b>1 985 722</b>	<b>1 685 931</b>	<b>(274 739)</b>	<b>574 530</b>

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

### Transfers between level 1 and level 2

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

## Additional IAS 34 disclosures

(continued)

### Fair value hierarchy (continued)

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

£'000	Total level 3 financial instruments	Fair value through income statement	Available- for-sale instruments
<b>Balance as at 1 April 2017</b>	<b>543 218</b>	<b>501 376</b>	<b>41 842</b>
Total gains/(losses)	18 654	14 128	4 526
In the income statement	16 546	14 128	2 418
In the statement of comprehensive income	2 108	–	2 108
Purchases	69 824	69 824	–
Sales	(41 282)	(37 739)	(3 543)
Issues	–	–	–
Settlements	(7 956)	(7 427)	(529)
Transfers into level 3	–	–	–
Transfers out of level 3	–	–	–
Foreign exchange adjustments	(7 928)	(7 006)	(922)
<b>Balance as at 30 September 2017</b>	<b>574 530</b>	<b>533 156</b>	<b>41 374</b>

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 2017

£'000	Total	Realised	Unrealised
<b>Total gains or (losses) included in the income statement for the year</b>			
Net interest income	–	–	–
Fee and commission income	1 000	–	1 000
Investment income	17 444	4 882	12 562
Trading income arising from customer flow	(1 898)	919	(2 817)
	<b>16 546</b>	<b>5 801</b>	<b>10 745</b>
<b>Total gains or (losses) included in other comprehensive income for the year</b>			
Gains on realisation of available-for-sale assets recycled through the income statement	2 418	2 418	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	2 108	–	2 108
	<b>4 526</b>	<b>2 418</b>	<b>2 108</b>

For the period ended 30 September 2017, there were no significant transfers from level 3 into level 2. There were no transfers from level 2 to the level 3 category.

## Additional IAS 34 disclosures

(continued)

### Level 2 financial assets and financial liabilities

The following table sets out the group's principal valuation techniques as at 30 September 2017 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
<b>Assets</b>		
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, forex forward points and spot rates, interest rate swap curves and credit curves
Securities arising from trading activities	Standard industry derivative pricing model	Interest rate curves, implied bond spreads, equity volatilities
Investment portfolio	Discounted cash flow model, net asset value model Comparable quoted inputs	Discount rate and fund unit price Net assets
<b>Liabilities</b>		
Derivative financial instruments	Discounted cash flow model, Hermite interpolation, industry standard derivative pricing models including Black-Scholes	Discount rate, risk free rate, volatilities, forex forward points and spot rates, interest rate swap curves and credit curves
Repurchase agreements and cash collateral on securities lent	Discounted cash flow model, Hermite interpolation	Discount rates
Debt securities in issue	Discounted cash flow model	Discount rates

## Additional IAS 34 disclosures

(continued)

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

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

30 September 2017	Balance sheet value £'000	Significant unobservable input	Range of unobservable input used	Favourable changes £'000	Un-favourable changes £'000
<b>Assets</b>					
Other debt securities	3 329	Potential impact on income statement Cash flow adjustments	CPR 7.5% – 8.5%	391	(337)
Derivative financial instruments	54 344	Potential impact on income statement Volatilities Cash flow adjustments Other <sup>^</sup>	4% – 10.5% CPR 7.5% – 8.5% ^	4 789 1 180 614 2 995	(5 834) (2 483) (1 347) (2 004)
Securities arising from trading activities	6 908	Potential impact on income statement Cash flow adjustments	CPR 9%	1 724	(1 118)
Investment portfolio	425 488	Potential impact on income statement EBITDA Price earnings multiple Other <sup>^</sup>	3% 4x – 10.3x ^	46 824 437 5 133 41 254	(48 778) (437) (5 254) (43 087)
		Potential impact on other comprehensive income Price earnings multiple Other <sup>^</sup>	4x ^	5 003 79 4 924	(1 576) (167) (1 409)
Loans and advances to customers	96 680	Potential impact on income statement Other	^	10 292	(10 187)
Other securitised assets*	135 580	Potential impact on income statement Cash flow adjustments	CPR 7.5%	493	(649)
<b>Total level 3 assets</b>	<b>722 329</b>			<b>69 516</b>	<b>(68 479)</b>
<b>Liabilities</b>					
Derivative financial instruments	1 283	Potential impact on income statement Cash flow adjustments Volatilities	CPR 7.5% – 8.5% 8.5%	(1 325) (1 321) (4)	591 587 4
Debt securities in issue	14 776	Potential impact on income statement Volatilities	7%	(617)	229
Liabilities arising on securitisation of other assets*	131 740	Potential impact on income statement Cash flow adjustments	CPR 6.25%	(350)	325
<b>Total level 3 liabilities</b>	<b>147 799</b>			<b>(2 292)</b>	<b>1 145</b>
<b>Net level 3 assets</b>	<b>574 530</b>				

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

<sup>^</sup> Other – The valuation sensitivity for the private equity and embedded derivatives (profit share) 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

(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 2017  
£'000

	Carrying amount	Fair value
<b>Assets</b>		
Cash and balances at central banks	2 846 661	2 846 661
Loans and advances to banks	958 508	958 518
Reverse repurchase agreements and cash collateral on securities borrowed	439 680	439 646
Bank debt securities	157 953	170 653
Other debt securities	198 605	197 597
Loans and advances to customers	8 803 024	8 790 130
Other loans and advances	401 160	394 780
Other assets	958 817	958 816
	<b>14 764 408</b>	<b>14 756 801</b>
<b>Liabilities</b>		
Deposits by banks	730 554	746 433
Repurchase agreements and cash collateral on securities lent	139 513	139 513
Customer accounts (deposits)	10 849 643	10 884 286
Debt securities in issue	1 799 678	1 847 028
Other liabilities	982 266	982 244
Subordinated liabilities	607 340	725 084
	<b>15 108 994</b>	<b>15 324 588</b>

## Additional IAS 34 disclosures

(continued)

### Operating costs

For the six months to 30 September

£'000

	2017	2016
Staff costs	377 108	346 734
Premises expenses (excluding depreciation)	25 171	21 745
Equipment expenses (excluding depreciation)	24 575	19 546
Business expenses	58 700	61 125
Marketing expenses	20 459	19 971
Depreciation, amortisation and impairment of property, equipment and intangibles	6 152	6 356
Depreciation on operating leased assets	1 149	–
	<b>513 314</b>	<b>475 477</b>

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

£'000	30 Sept 2017	31 March 2017
<b>Assets</b>		
Reverse repurchase agreements	391 811	446 326
Cash collateral on securities borrowed	87 432	89 847
	<b>479 243</b>	<b>536 173</b>
<b>Liabilities</b>		
Repurchase agreements	43 407	77 154
Cash collateral on securities lent	139 513	146 843
	<b>182 920</b>	<b>223 997</b>

### Extract of other debt securities

£'000

	30 Sept 2017	31 March 2017
Bonds	265 877	371 613
Commercial paper	25 655	24 518
Other investments	–	2 147
	<b>291 532</b>	<b>398 278</b>

### Extract of securities arising from trading activities

£'000

	30 Sept 2017	31 March 2017
Bonds	220 343	207 047
Government securities	240 296	130 714
Listed equities	253 754	183 730
Unlisted equities	–	1 269
	<b>714 393</b>	<b>522 760</b>

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

£'000

	30 Sept 2017	31 March 2017
Gross loans and advances to customers	9 033 858	8 747 618
Impairments of loans and advances to customers	(134 154)	(126 876)
Specific impairments	(81 490)	(83 488)
Portfolio impairments	(52 664)	(43 388)
Net loans and advances to customers	<b>8 899 704</b>	<b>8 620 742</b>
Gross other loans and advances	405 808	421 004
Impairments of other loans and advances	(4 648)	(7 574)
Specific impairments	(3 965)	(6 858)
Portfolio impairments	(683)	(716)
Net other loans and advances	<b>401 160</b>	<b>413 430</b>



## Additional IAS 34 disclosures

(continued)

<b>Extract of securitised assets and liabilities arising on securitisation</b> <b>£'000</b>	<b>30 Sept</b> <b>2017</b>	<b>31 March</b> <b>2017</b>
Total other securitised assets	<b>135 580</b>	<b>138 628</b>
<b>Other assets</b> <b>£'000</b>	<b>30 Sept</b> <b>2017</b>	<b>31 March</b> <b>2017</b>
Settlement debtors	832 267	730 658
Trading properties	109 005	129 148
Prepayments and accruals	130 978	120 684
Pension assets	2 293	2 076
Trading initial margins	124 218	148 251
Other	152 381	145 315
	<b>1 351 142</b>	<b>1 276 132</b>
<b>Debt securities in issue</b> <b>£'000</b>	<b>30 Sept</b> <b>2017</b>	<b>31 March</b> <b>2017</b>
Repayable in:		
Less than three months	29 349	48 630
Three months to one year	59 099	94 129
One to five years	1 421 884	955 682
Greater than five years	783 483	857 006
	<b>2 293 815</b>	<b>1 955 447</b>
<b>Other liabilities</b> <b>£'000</b>	<b>30 Sept</b> <b>2017</b>	<b>31 March</b> <b>2017</b>
Settlement liabilities	787 097	690 875
Other creditors and accruals	363 674	446 205
Other non-interest-bearing liabilities	126 518	131 588
	<b>1 277 289</b>	<b>1 268 668</b>
<b>Extract of perpetual preference share capital</b> <b>£'000</b>	<b>30 Sept</b> <b>2017</b>	<b>31 March</b> <b>2017</b>
Perpetual preference share capital	29	29
Perpetual preference share premium	24 765	24 765
	<b>24 794</b>	<b>24 794</b>
<b>Extract of deferred taxation</b> <b>£'000</b>	<b>30 Sept</b> <b>2017</b>	<b>31 March</b> <b>2017</b>
Losses carried forward	<b>9 744</b>	<b>10 460</b>
<b>Extract of subordinated liabilities</b> <b>£'000</b>	<b>30 Sept</b> <b>2017</b>	<b>31 March</b> <b>2017</b>
Issued by Investec Bank plc	607 340	579 356
Remaining maturities:		
In one year or less, or on demand	–	–
In more than one year, but not more than two years	–	–
In more than two years, but not more than five years	607 340	579 356
In more than five years	–	–
	<b>607 340</b>	<b>579 356</b>

# Additional IAS 34 disclosures

(continued)

## Offsetting

	Amounts subject to enforceable netting arrangements					
	Effects of offsetting on balance sheet			Related amounts not offset		
At 30 September 2017 £'000	Gross amounts	Amounts offset	Net amounts reported on the balance sheet	Financial instruments (including non-cash collateral)	Cash collateral	Net amount
<b>Assets</b>						
Cash and balances at central banks	2 847 986	–	2 847 986	–	–	2 847 986
Loans and advances to banks	1 035 550	–	1 035 550	–	(120 764)	914 786
Reverse repurchase agreements and cash collateral on securities borrowed	479 243	–	479 243	(106 410)	(4 985)	367 848
Sovereign debt securities	806 063	–	806 063	–	–	806 063
Bank debt securities	157 953	–	157 953	(8 504)	–	149 449
Other debt securities	291 532	–	291 532	–	–	291 532
Derivative financial instruments	587 833	–	587 833	(180 039)	(141 747)	266 047
Securities arising from trading activities	714 393	–	714 393	(417 396)	–	296 997
Investment portfolio	481 517	–	481 517	–	–	481 517
Loans and advances to customers	8 899 704	–	8 899 704	–	–	8 899 704
Other loans and advances	401 160	–	401 160	–	–	401 160
Other securitised assets	135 580	–	135 580	–	–	135 580
Other assets	1 351 896	(754)	1 351 142	–	–	1 351 142
	<b>18 190 410</b>	<b>(754)</b>	<b>18 189 656</b>	<b>(712 349)</b>	<b>(267 496)</b>	<b>17 209 811</b>
<b>Liabilities</b>						
Deposits by banks	730 554	–	730 554	–	(173 287)	557 267
Derivative financial instruments	448 950	–	448 950	(180 039)	(50 073)	218 838
Other trading liabilities	108 813	–	108 813	(106 410)	–	2 403
Repurchase agreements and cash collateral on securities lent	183 672	(752)	182 920	(128 678)	–	54 242
Customer accounts (deposits)	10 849 643	–	10 849 643	–	(14 449)	10 835 194
Debt securities in issue	2 293 815	–	2 293 815	(297 222)	(4 700)	1 991 893
Liabilities arising on securitisation of other assets	131 740	–	131 740	–	–	131 740
Other liabilities	1 277 291	(2)	1 277 289	–	–	1 277 289
Subordinated liabilities	607 340	–	607 340	–	–	607 340
	<b>16 631 818</b>	<b>(754)</b>	<b>16 631 064</b>	<b>(712 349)</b>	<b>(242 509)</b>	<b>15 676 206</b>

## Additional IAS 34 disclosures

(continued)

Amounts subject to enforceable netting arrangements						
Effects of offsetting on balance sheet			Related amounts not offset			
At 31 March 2017 £'000	Gross amounts	Amounts offset	Net amounts reported on the balance sheet	Financial instruments (including non-cash collateral)	Cash collateral	Net amount
<b>Assets</b>						
Cash and balances at central banks	2 853 571	–	2 853 571	–	–	2 853 571
Loans and advances to banks	1 130 998	–	1 130 998	–	(195 242)	935 756
Reverse repurchase agreements and cash collateral on securities borrowed	536 173	–	536 173	(131 867)	–	404 306
Sovereign debt securities	952 902	–	952 902	(14 198)	–	938 704
Bank debt securities	184 626	–	184 626	(28 516)	–	156 110
Other debt securities	398 278	–	398 278	–	–	398 278
Derivative financial instruments	604 175	–	604 175	(167 564)	(188 518)	248 093
Securities arising from trading activities	522 760	–	522 760	(367 890)	–	154 870
Investment portfolio	459 745	–	459 745	–	–	459 745
Loans and advances to customers	8 620 742	–	8 620 742	–	–	8 620 742
Other loans and advances	413 430	–	413 430	–	–	413 430
Other securitised assets	138 628	–	138 628	–	–	138 628
Other assets	1 276 899	(767)	1 276 132	–	–	1 276 132
	<b>18 092 927</b>	<b>(767)</b>	<b>18 092 160</b>	<b>(710 035)</b>	<b>(383 760)</b>	<b>16 998 365</b>
<b>Liabilities</b>						
Deposits by banks	690 749	–	690 749	–	(211 802)	478 947
Derivative financial instruments	582 600	–	582 600	(167 564)	(66 240)	348 796
Other trading liabilities	136 041	–	136 041	(131 867)	–	4 174
Repurchase agreements and cash collateral on securities lent	224 507	(510)	223 997	(147 368)	(21 404)	55 225
Customer accounts (deposits)	11 021 581	–	11 021 581	–	(21 145)	11 000 436
Debt securities in issue	1 955 447	–	1 955 447	(263 236)	(40 264)	1 651 947
Liabilities arising on securitisation of other assets	128 838	–	128 838	–	–	128 838
Other liabilities	1 268 925	(257)	1 268 668	–	–	1 268 668
Subordinated liabilities	579 356	–	579 356	–	–	579 356
	<b>16 588 044</b>	<b>(767)</b>	<b>16 587 277</b>	<b>(710 035)</b>	<b>(360 855)</b>	<b>15 516 387</b>

# Consolidated summarised ongoing income statement

(continued)

£'000	For the six months to 30 Sept 2017	For the six months to 30 Sept 2016	Variance	%
				change
Net interest income	157 579	133 332	24 247	18.2%
Net fee and commission income	419 693	389 542	30 151	7.7%
Investment income	15 299	18 527	(3 228)	(17.4%)
Share of post taxation operating profit of associates	1 368	1 016	352	34.6%
Trading income arising from				
– customer flow	55 403	64 954	(9 551)	(14.7%)
– balance sheet management and other trading activities	1 820	12 269	(10 449)	(85.2%)
Other operating income	4 743	5 330	(587)	(11.0%)
<b>Total operating income before impairment losses on loans and advances</b>	<b>655 905</b>	<b>624 970</b>	<b>30 935</b>	<b>4.9%</b>
Impairment losses on loans and advances	(9 139)	(1 491)	(7 648)	512.9%
<b>Operating income</b>	<b>646 766</b>	<b>623 479</b>	<b>23 287</b>	<b>3.7%</b>
Operating costs	(507 612)	(471 598)	(36 014)	7.6%
Depreciation on operating leased assets	(1 149)	–	(1 149)	>100%
<b>Operating profit before goodwill, acquired intangibles and non-operating items</b>	<b>138 005</b>	<b>151 881</b>	<b>(13 876)</b>	<b>(9.3%)</b>
Loss/(profit) attributable to other non-controlling interests	4 223	(2 119)	6 342	(299.3%)
Profit attributable to Asset Management non-controlling interests	(6 873)	(5 756)	(1 117)	19.4%
<b>Operating profit before taxation</b>	<b>135 355</b>	<b>144 006</b>	<b>(8 651)</b>	<b>(6.0%)</b>
Taxation	(24 499)	(28 278)	3 779	(13.4%)
<b>Adjusted earnings before goodwill, acquired intangibles and non-operating items</b>	<b>110 856</b>	<b>115 728</b>	<b>(4 872)</b>	<b>(4.2%)</b>
Cost to income ratio	77.5%	75.5%		

## Reconciliation from statutory summarised income statement to ongoing summarised income statement

For the six months to 30 September 2017 £'000	Removal of:		
	Statutory as disclosed <sup>^</sup>	UK legacy business	Ongoing business
Net interest income	157 526	(53)	157 579
Net fee and commission income	419 693	–	419 693
Investment income	15 474	175	15 299
Share of post taxation operating profit of associates	1 368	–	1 368
Trading income arising from		–	–
– customer flow	55 400	(3)	55 403
– balance sheet management and other trading activities	1 823	3	1 820
Other operating income	4 741	(2)	4 743
<b>Total operating income before impairment losses on loans and advances</b>	<b>656 025</b>	<b>120</b>	<b>655 905</b>
Impairment losses on loans and advances	(37 631)	(28 492)	(9 139)
<b>Operating income</b>	<b>618 394</b>	<b>(28 372)</b>	<b>646 766</b>
Operating costs	(512 165)	(4 553)	(507 612)
Depreciation on operating leased assets	(1 149)	–	(1 149)
<b>Operating profit/(loss) before goodwill, acquired intangibles and non-operating items</b>	<b>105 080</b>	<b>(32 925)</b>	<b>138 005</b>
Loss attributable to other non-controlling interests	4 223	–	4 223
Profit attributable to Asset Management non-controlling interests	(6 873)		(6 873)
<b>Operating profit/(loss) before taxation</b>	<b>102 430</b>	<b>(32 925)</b>	<b>135 355</b>
Taxation*	(18 540)	5 959	(24 499)
<b>Adjusted earnings before goodwill, acquired intangibles and non-operating items</b>	<b>83 890</b>	<b>(26 966)</b>	<b>110 856</b>
<b>Selected returns and key statistics</b>			
Cost to income ratio	78.2%		77.5%

\* Applying the group's effective statutory taxation rate of 18.1%.

<sup>^</sup> Refer to page 3.

# Reconciliation from statutory summarised income statement to ongoing summarised income statement

(continued)

For the six months to 30 September 2016 £'000	Removal of:		
	Statutory as disclosed <sup>^</sup>	UK legacy business	Ongoing business
Net interest income	132 646	(686)	133 332
Net fee and commission income	389 466	(76)	389 542
Investment income	18 751	224	18 527
Share of post taxation operating profit of associates	1 016	–	1 016
Trading income arising from			
– customer flow	64 913	(41)	64 954
– balance sheet management and other trading activities	12 269	–	12 269
Other operating income	5 330	–	5 330
<b>Total operating income before impairment losses on loans and advances</b>	<b>624 391</b>	<b>(579)</b>	<b>624 970</b>
Impairment losses on loans and advances	(30 078)	(28 587)	(1 491)
<b>Operating income</b>	<b>594 313</b>	<b>(29 166)</b>	<b>623 479</b>
Operating costs	(475 477)	(3 879)	(471 598)
Depreciation on operating leased assets	–	–	–
<b>Operating profit/(loss) before goodwill, acquired intangibles and non-operating items</b>	<b>118 836</b>	<b>(33 045)</b>	<b>151 881</b>
Profit attributable to other non-controlling interests	(2 119)	–	(2 119)
Profit attributable to Asset Management non-controlling interests	(5 756)	–	(5 756)
<b>Operating profit/(loss) before taxation</b>	<b>110 961</b>	<b>(33 045)</b>	<b>144 006</b>
Taxation*	(21 789)	6 489	(28 278)
<b>Adjusted earnings before goodwill, acquired intangibles and non-operating items</b>	<b>89 172</b>	<b>(26 556)</b>	<b>115 728</b>
<b>Selected returns and key statistics</b>			
Cost to income ratio	76.2%		75.5%

\* Applying the group's effective statutory taxation rate of 19.6%.

<sup>^</sup> Refer to page 3.

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

(continued)

For the six months to 30 September 2017 £'000	UK and Other Specialist Banking statutory as disclosed <sup>^</sup>	Removal of: UK legacy business	UK and Other Specialist Banking ongoing business
Net interest income	155 482	(53)	155 535
Net fee and commission income	103 006	–	103 006
Investment income	15 063	175	14 888
Share of post taxation operating profit of associates	953	–	953
Trading income arising from			
– customer flow	55 020	(3)	55 023
– balance sheet management and other trading activities	3 504	3	3 501
Other operating income	2 769	(2)	2 771
<b>Total operating income before impairment losses on loans and advances</b>	<b>335 797</b>	<b>120</b>	<b>335 677</b>
Impairment losses on loans and advances	(37 631)	(28 492)	(9 139)
<b>Operating income</b>	<b>298 166</b>	<b>(28 372)</b>	<b>326 538</b>
Operating costs	(260 032)	(4 553)	(255 479)
Depreciation on operating leased assets	(1 149)	–	(1 149)
<b>Operating profit/(loss) before goodwill, acquired intangibles and non-operating items</b>	<b>36 985</b>	<b>(32 925)</b>	<b>69 910</b>
Loss attributable to other non-controlling interests	4 223	–	4 223
<b>Operating profit/(loss) before taxation</b>	<b>41 208</b>	<b>(32 925)</b>	<b>74 133</b>

For the six months to 30 September 2016 £'000	UK and Other Specialist Banking statutory as disclosed <sup>^</sup>	Removal of: UK legacy business	UK and Other Specialist Banking ongoing business
Net interest income	130 432	(686)	131 118
Net fee and commission income	114 297	(76)	114 373
Investment income	17 385	224	17 161
Share of post taxation operating profit of associates	314	–	314
Trading income arising from			
– customer flow	64 667	(41)	64 708
– balance sheet management and other trading activities	10 747	–	10 747
Other operating income	3 858	–	3 858
<b>Total operating income before impairment losses on loans and advances</b>	<b>341 700</b>	<b>(579)</b>	<b>342 279</b>
Impairment losses on loans and advances	(30 078)	(28 587)	(1 491)
<b>Operating income</b>	<b>311 622</b>	<b>(29 166)</b>	<b>340 788</b>
Operating costs	(247 334)	(3 879)	(243 455)
<b>Operating profit/(loss) before goodwill, acquired intangibles and non-operating items</b>	<b>64 288</b>	<b>(33 045)</b>	<b>97 333</b>
Profit attributable to other non-controlling interests	(2 119)	–	(2 119)
<b>Operating profit/(loss) before taxation</b>	<b>62 169</b>	<b>(33 045)</b>	<b>95 214</b>

<sup>^</sup> Refer to page 7.

## Ongoing segmental information

### Segmental geographical and business analysis of operating profit before goodwill, acquired intangibles, non-operating items, taxation and after other non-controlling interests – ongoing business

For the six months to 30 September £'000	2017	2016	% Change
Asset Management	49 949	43 115	15.9%
Wealth & Investment	35 441	29 191	21.4%
Specialist Banking	74 133	95 214	(22.1%)
	<b>159 523</b>	<b>167 520</b>	<b>(4.8%)</b>
Group costs	(17 295)	(17 758)	(2.6%)
<b>Total group</b>	<b>142 228</b>	<b>149 762</b>	<b>(5.0%)</b>

### A reconciliation of the UK and Other Specialist Banking's operating profit: ongoing vs statutory basis

For the six months to 30 September £'000	2017	2016	% Change
Total ongoing UK and Other Specialist Banking per above	74 133	95 214	(22.1%)
UK legacy remaining	(32 925)	(33 045)	(0.4%)
Total UK and Other Specialist Banking per statutory accounts	<b>41 208</b>	<b>62 169</b>	<b>(33.7%)</b>



## Ongoing segmental business analysis – summarised income statement

For the six months to 30 September 2017 £'000	Asset Management	Wealth & Investment	Specialist Banking	Group Costs	Total group
Net interest income	19	2 025	155 535	–	157 579
Net fee and commission income	169 543	147 144	103 006	–	419 693
Investment income	–	411	14 888	–	15 299
Share of post taxation operating profit of associates	–	415	953	–	1 368
Trading income arising from					
– customer flow	–	380	55 023	–	55 403
– balance sheet management and other trading activities	(1 683)	2	3 501	–	1 820
Other operating income	1 972	–	2 771	–	4 743
<b>Total operating income before impairment losses on loans and advances</b>	<b>169 851</b>	<b>150 377</b>	<b>335 677</b>	<b>–</b>	<b>655 905</b>
Impairment losses on loans and advances	–	–	(9 139)	–	(9 139)
<b>Operating income</b>	<b>169 851</b>	<b>150 377</b>	<b>326 538</b>	<b>–</b>	<b>646 766</b>
Operating costs	(119 902)	(114 936)	(255 479)	(17 295)	(507 612)
Depreciation on operating leased assets	–	–	(1 149)	–	(1 149)
<b>Operating profit before goodwill, acquired intangibles and non-operating items</b>	<b>49 949</b>	<b>35 441</b>	<b>69 910</b>	<b>(17 295)</b>	<b>138 005</b>
Loss attributable to other non-controlling interests	–	–	4 223	–	4 223
<b>Operating profit/(loss) before goodwill, acquired intangibles and non-operating items and after other non-controlling interests</b>	<b>49 949</b>	<b>35 441</b>	<b>74 133</b>	<b>(17 295)</b>	<b>142 228</b>
Profit attributable to Asset Management non-controlling interests	(6 873)	–	–	–	(6 873)
<b>Operating profit before goodwill, acquired intangibles and non-operating items and after non-controlling interests</b>	<b>43 076</b>	<b>35 441</b>	<b>74 133</b>	<b>(17 295)</b>	<b>135 355</b>
<b>Selected returns and key statistics</b>					
Cost to income ratio	70.6%	76.4%	76.4%	n/a	77.5%

# Ongoing segmental business analysis – summarised income statement

(continued)

For the six months to 30 September 2016 £'000	Asset Management	Wealth & Investment	Specialist Banking	Group Costs	Total group
Net interest income	90	2 124	131 118	–	133 332
Net fee and commission income	146 378	128 791	114 373	–	389 542
Investment income	–	1 366	17 161	–	18 527
Share of post taxation operating profit of associates	–	702	314	–	1 016
Trading income arising from					
– customer flow	–	246	64 708	–	64 954
– balance sheet management and other trading activities	1 337	185	10 747	–	12 269
Other operating income	1 472	–	3 858	–	5 330
<b>Total operating income before impairment losses on loans and advances</b>	<b>149 277</b>	<b>133 414</b>	<b>342 279</b>	<b>–</b>	<b>624 970</b>
Impairment losses on loans and advances	–	–	(1 491)	–	(1 491)
<b>Operating income</b>	<b>149 277</b>	<b>133 414</b>	<b>340 788</b>	<b>–</b>	<b>623 479</b>
Operating costs	(106 162)	(104 223)	(243 455)	(17 758)	(471 598)
<b>Operating profit/(loss) before goodwill, acquired intangibles and non-operating items</b>	<b>43 115</b>	<b>29 191</b>	<b>97 333</b>	<b>(17 758)</b>	<b>151 881</b>
Profit attributable to other non-controlling interests	–	–	(2 119)	–	(2 119)
<b>Operating profit/(loss) before goodwill, acquired intangibles and non-operating items and after other non-controlling interests</b>	<b>43 115</b>	<b>29 191</b>	<b>95 214</b>	<b>(17 758)</b>	<b>149 762</b>
Profit attributable to Asset Management non-controlling interests	(5 756)	–	–	–	(5 756)
<b>Operating profit/(loss) before goodwill, acquired intangibles and non-operating items and after non-controlling interests</b>	<b>37 359</b>	<b>29 191</b>	<b>95 214</b>	<b>(17 758)</b>	<b>144 006</b>
<b>Selected returns and key statistics</b>					
Cost to income ratio	71.1%	78.1%	71.1%	n/a	75.5%

## Ongoing information

### An analysis of core loans and advances to customers and asset quality – ongoing business

£'000	30 Sept 2017	31 March 2017
<b>Gross core loans and advances to customers</b>	<b>8 501 878</b>	<b>8 169 901</b>
<b>Total impairments</b>	<b>(27 115)</b>	<b>(25 356)</b>
Specific impairments	(11 962)	(12 393)
Portfolio impairments	(15 153)	(12 963)
<b>Net core loans and advances to customers</b>	<b>8 474 763</b>	<b>8 144 545</b>
<b>Average gross core loans and advances to customers</b>	<b>8 335 890</b>	<b>7 706 123</b>
<b>Total income statement charge for impairments on core loans and advances</b>	<b>(8 965)</b>	<b>(20 690)</b>
Gross default loans and advances to customers	49 255	34 166
Specific impairments	(11 962)	(12 393)
Portfolio impairments	(15 153)	(12 963)
<b>Defaults net of impairments before collateral held</b>	<b>22 140</b>	<b>8 810</b>
Collateral and other credit enhancements	44 358	25 948
<b>Net default loans and advances to customers (limited to zero)</b>	<b>–</b>	<b>–</b>
<b>Ratios</b>		
Total impairments as a % of gross core loans and advances to customers	0.32%	0.31%
Total impairments as a % of gross default loans	55.05%	74.21%
Gross defaults as a % of gross core loans and advances to customers	0.58%	0.42%
Defaults (net of impairments) as a % of net core loans and advances to customers	0.26%	0.11%
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)	0.22%	0.27%

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

	Statutory as disclosed	UK legacy business	Ongoing business
<b>30 September 2017 (£'000)</b>			
<b>Gross core loans and advances to customers</b>	<b>9 033 858</b>	<b>531 980</b>	<b>8 501 878</b>
<b>Total impairments</b>	<b>(134 154)</b>	<b>(107 039)</b>	<b>(27 115)</b>
Specific impairments	(81 490)	(69 528)	(11 962)
Portfolio impairments	(52 664)	(37 511)	(15 153)
<b>Net core loans and advances to customers</b>	<b>8 899 704</b>	<b>424 941</b>	<b>8 474 763</b>
<b>31 March 2017 (£'000)</b>			
<b>Gross core loans and advances to customers</b>	<b>8 747 618</b>	<b>577 717</b>	<b>8 169 901</b>
<b>Total impairments</b>	<b>(126 876)</b>	<b>(101 520)</b>	<b>(25 356)</b>
Specific impairments	(83 488)	(71 095)	(12 393)
Portfolio impairments	(43 388)	(30 425)	(12 963)
<b>Net core loans and advances to customers</b>	<b>8 620 742</b>	<b>476 197</b>	<b>8 144 545</b>

## 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 2017 the group's legacy portfolio in the UK has continued to be actively managed down from £476 million to £425 million largely through asset sales, redemptions and write-offs. The total legacy business over the period reported a loss before taxation of £32.9 million (2016: £33.0 million). The remaining legacy portfolio will continue to be managed down. Total net defaults in the legacy book amounted to £106 million (31 March 2017: £125 million).

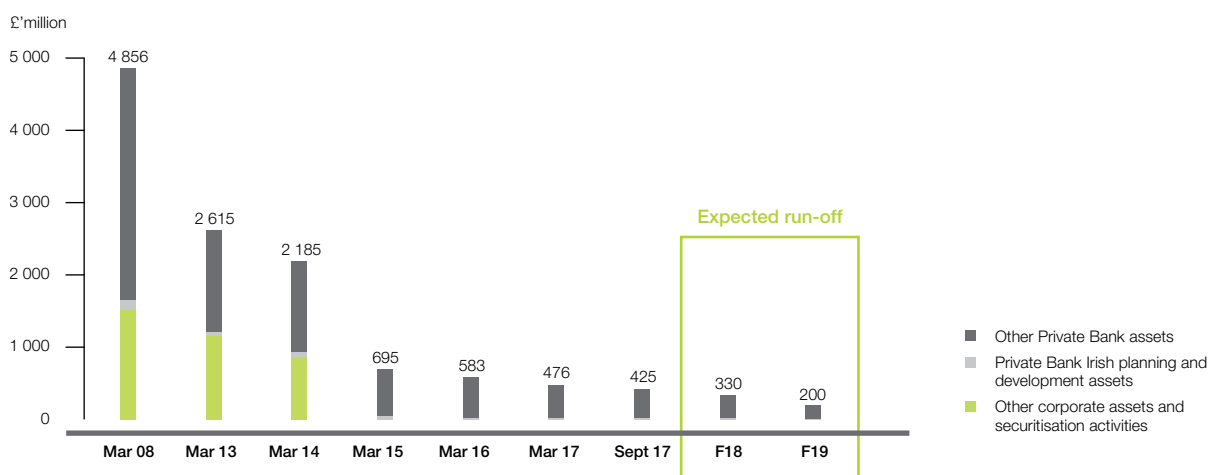
### An analysis of assets within the legacy business

£'million	30 Sept 2017		31 March 2017	
	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	15	13	18	9
Other Private Bank assets	410	94	458	93
<b>Total legacy assets</b>	<b>425</b>	<b>107</b>	<b>476</b>	<b>102</b>
Performing	319	–	351	–
Non-performing	106	107*	125	102

\* Included in balance sheet impairments is a group portfolio impairment of £37.5 million (31 March 2017: £30.4 million).

### Expected run-off of legacy assets

#### Total remaining UK legacy assets



# Capital adequacy

## Capital structure and capital adequacy

£'million	30 Sept 2017*	31 March 2017*
<b>Tier 1 capital</b>		
Shareholders' equity	1 973	1 921
Shareholders' equity per balance sheet	2 052	2 017
Foreseeable dividends	(43)	(60)
Perpetual preference share capital and share premium	(25)	(25)
Deconsolidation of special purpose entities	(11)	(11)
Non-controlling interests	7	11
Non-controlling interests per balance sheet	11	15
Surplus non-controlling interest disallowed in common equity tier 1	(4)	(4)
Regulatory adjustments to the accounting basis	(6)	(6)
Defined benefit pension fund adjustment	(2)	(2)
Additional value adjustments	(4)	(4)
Deductions	(465)	(478)
Goodwill and intangible assets net of deferred taxation	(451)	(464)
Deferred taxation assets that rely on future profitability excluding those arising from temporary differences	(10)	(10)
Securitisation positions	(4)	(3)
Debt valuation adjustment	–	(1)
<b>Common equity tier 1 capital</b>	<b>1 509</b>	<b>1 448</b>
Additional tier 1 instruments	24	24
<b>Tier 1 capital</b>	<b>1 533</b>	<b>1 472</b>
<b>Tier 2 capital</b>	<b>430</b>	<b>475</b>
Tier 2 instruments	503	560
Non-qualifying surplus capital attributable to non-controlling interests	(73)	(85)
<b>Total regulatory capital</b>	<b>1 963</b>	<b>1 947</b>
<b>Risk-weighted assets</b>	<b>13 824</b>	<b>13 312</b>
<b>Capital ratios</b>		
Common equity tier 1 ratio	10.9%	10.9%
Tier 1 ratio/ <i>Pro forma</i> **	11.1% / 12.9%	11.1%
Total capital adequacy ratio/ <i>Pro forma</i> **	14.2% / 16.0%	14.6%

\* The capital adequacy disclosures for Investec plc include the deduction of foreseeable dividends when calculating common equity tier 1 capital as required under the Capital Requirements Regulation and European Banking Authority technical standards. These disclosures are different to the capital adequacy disclosures included in the Interim Report, which follow our normal basis of presentation and do not include the deduction for foreseeable dividends when calculating common equity tier 1 capital. Investec plc's common equity tier 1 ratio would be 31bps (31 March 2017: 45bps) higher on this basis.

\*\* *Pro forma* 30 September 2017 capital ratios include the proceeds of the Investec plc inaugural £250 million Perpetual 6.75% Non-Call 2024 additional tier 1 capital instrument issued in October 2017.

# Capital adequacy

(continued)

## Capital Requirements

	30 Sept 2017	31 March 2017
<b>Capital requirements</b>	<b>1 106</b>	<b>1 064</b>
Credit risk – prescribed standardised exposure classes	794	790
Corporates	453	434
Secured on real estate property	128	156
Retail	48	45
Institutions	27	30
Other exposure classes	131	117
Securitisation exposures	7	8
Equity risk – standardised approach	5	6
Listed equities	3	3
Unlisted equities	2	3
Counterparty credit risk	44	39
Credit valuation adjustment risk	8	6
Market risk	88	71
Interest rate	31	29
Foreign exchange	10	11
Equities	28	20
Options	19	11
Operational risk – standardised approach	167	152
<b>Risk-weighted assets (banking and trading)</b>	<b>13 824</b>	<b>13 312</b>
Credit risk – prescribed standardised exposure classes	9 925	9 873
Corporates	5 659	5 432
Secured on real estate property	1 600	1 948
Retail	604	557
Institutions	337	370
Other exposure classes	1 636	1 466
Securitisation exposures	89	100
Equity risk – standardised approach	68	80
Listed equities	37	40
Unlisted equities	31	40
Counterparty credit risk	547	494
Credit valuation adjustment risk	95	78
Market risk	1 102	882
Interest rate	385	360
Foreign Exchange	127	132
Equities	344	248
Options	246	142
Operational risk – standardised approach	2 087	1 905

# Capital adequacy

(continued)

## Leverage

	30 Sept 2017	31 March 2017
Tier 1 capital	1 533	1 472
Total exposure	19 808	19 689
Leverage ratio	7.7%	7.5%

## A summary of capital adequacy and leverage ratios

	30 Sept 2017*	31 March 2017*
Common equity tier 1 (as reported)	10.9%	10.9%
Common equity tier 1 ('fully loaded') <sup>^^</sup>	10.9%	10.9%
Tier 1 (as reported)/Pro forma <sup>***</sup>	11.1% / 12.9%	11.1%
Total capital adequacy ratio (as reported)/Pro forma <sup>***</sup>	14.2% / 16.0%	14.6%
Leverage ratio <sup>**</sup> – permanent capital/Pro forma <sup>***</sup>	7.7% / 9.0%	7.5%
Leverage ratio <sup>**</sup> – current/Pro forma <sup>***</sup>	7.7% / 9.0%	7.5%
Leverage ratio <sup>**</sup> – ('fully loaded') <sup>^^</sup> /Pro forma <sup>***</sup>	7.6% / 8.9%	7.4%
Leverage ratio <sup>**</sup> – current UK leverage ratio framework <sup>^^^</sup> /Pro forma <sup>***</sup>	9.0% / 10.5%	8.7%

\* The capital adequacy disclosures for Investec plc include the deduction of foreseeable dividends when calculating common equity tier 1 capital as now required under the Capital Requirements Regulation and European Banking Authority technical standards. These disclosures are different to the capital disclosures included in the Interim Report, which follows our normal basis of presentation and do not include the deduction for foreseeable dividends when calculating common equity tier 1 capital. Investec plc's common equity tier 1 ratio would be 31bps (31 March 2017: 45bps) higher on this basis.

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

\*\*\* Pro forma 30 September 2017 capital and leverage ratios include the proceeds of the Investec plc inaugural £250 million Perpetual 6.75% Non-Call 2024 additional tier 1 capital instrument issued in October 2017.

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

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

## 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 may 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, with the one party effecting required settlements as they fall due but not receiving the performance to which they are entitled.
  - Replacement risk is the risk following defaults by the original counterparty resulting in the contract holder having to enter into a replacement contract with a secondary counterparty in order to fulfil the transaction.

The relevant credit committees within Investec will also consider wrong-way risk at the time of granting credit limits to each counterparty. In the banking book environment, wrong-way risk occurs where the value of collateral to secure a transaction, or guarantor, is positively correlated with the probability of default of the borrower or counterparty. For counterparty credit risk resulting from transactions in traded products (such as OTC derivatives), wrong-way risk is defined as exposure to a counterparty that is adversely correlated with the credit quality of that counterparty. It arises when default risk and credit exposure increase together.

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 decreased by 1.4% to £17.4 billion since 31 March 2017. Cash and near cash balances remained flat at £5.0 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 2017	31 March 2017	% change	Average*
Cash and balances at central banks	2 846 201	2 850 664	(0.2%)	2 848 433
Loans and advances to banks	1 035 550	1 130 998	(8.4%)	1 083 274
Reverse repurchase agreements and cash collateral on securities borrowed	479 243	536 173	(10.6%)	507 708
Sovereign debt securities	806 063	952 902	(15.4%)	879 482
Bank debt securities	157 953	184 626	(14.4%)	171 290
Other debt securities	291 532	398 278	(26.8%)	344 905
Derivative financial instruments	543 124	554 710	(2.1%)	548 917
Securities arising from trading activities	453 866	331 705	36.8%	392 785
Loans and advances to customers (gross)	9 033 858	8 747 618	3.3%	8 890 738
Other loans and advances (gross)	357 490	343 090	4.2%	350 290
Other securitised assets (gross)	8 303	12 851	(35.4%)	10 577
Other assets	59 378	49 894	19.0%	54 636
<b>Total on-balance sheet exposures</b>	<b>16 072 561</b>	<b>16 093 509</b>	<b>(0.1%)</b>	<b>16 083 035</b>
Guarantees ^	18 420	27 204	(32.3%)	22 812
Contingent liabilities, committed facilities and other	1 302 675	1 524 436	(14.5%)	1 413 556
<b>Total off-balance sheet exposures</b>	<b>1 321 095</b>	<b>1 551 640</b>	<b>(14.9%)</b>	<b>1 436 368</b>
<b>Total gross credit and counterparty exposures pre-collateral or other credit enhancements</b>	<b>17 393 656</b>	<b>17 645 149</b>	<b>(1.4%)</b>	<b>17 519 403</b>

\* 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
<b>At 30 September 2017</b>				
Cash and balances at central banks	2 846 201	1 785		2 847 986
Loans and advances to banks	1 035 550	-		1 035 550
Reverse repurchase agreements and cash collateral on securities borrowed	479 243	-		479 243
Sovereign debt securities	806 063	-		806 063
Bank debt securities	157 953	-		157 953
Other debt securities	291 532	-		291 532
Derivative financial instruments	543 124	44 709		587 833
Securities arising from trading activities	453 866	260 527		714 393
Investment portfolio	-	481 517	1	481 517
Loans and advances to customers	9 033 858	(134 154)	2	8 899 704
Other loans and advances	357 490	43 670	3	401 160
Other securitised assets	8 303	127 277	4	135 580
Interest in associated undertakings	-	45 439		45 439
Deferred taxation assets	-	87 607		87 607
Other assets	59 378	1 291 764	5	1 351 142
Property and equipment	-	58 353		58 353
Investment properties	-	14 500		14 500
Goodwill	-	355 482		355 482
Intangible assets	-	107 301		107 301
<b>Total on-balance sheet exposures</b>	<b>16 072 561</b>	<b>2 785 777</b>		<b>18 858 338</b>
<b>At 31 March 2017</b>				
Cash and balances at central banks	2 850 664	2 907		2 853 571
Loans and advances to banks	1 130 998	-		1 130 998
Reverse repurchase agreements and cash collateral on securities borrowed	536 173	-		536 173
Sovereign debt securities	952 902	-		952 902
Bank debt securities	184 626	-		184 626
Other debt securities	398 278	-		398 278
Derivative financial instruments	554 710	49 465		604 175
Securities arising from trading activities	331 705	191 055		522 760
Investment portfolio	-	459 745	1	459 745
Loans and advances to customers	8 747 618	(126 876)	2	8 620 742
Other loans and advances	343 090	70 340	3	413 430
Other securitised assets	12 851	125 777	4	138 628
Interest in associated undertakings	-	63 390		63 390
Deferred taxation assets	-	89 941		89 941
Other assets	49 894	1 226 238	5	1 276 132
Property and equipment	-	60 528		60 528
Investment properties	-	14 500		14 500
Goodwill	-	355 155		355 155
Intangible assets	-	112 943		112 943
<b>Total on-balance sheet exposures</b>	<b>16 093 509</b>	<b>2 695 108</b>		<b>18 788 617</b>

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 security to the assets in the vehicle. The table above reflects the net credit exposure in the vehicles 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 2017

£'000	Six						Total
	Up to three months	Three to six months	months to one year	One to five years	Five to 10 years	>10 years	
Cash and balances at central banks	2 846 201	-	-	-	-	-	2 846 201
Loans and advances to banks	1 030 925	-	4 625	-	-	-	1 035 550
Reverse repurchase agreements and cash collateral on securities borrowed	439 192	-	40 051	-	-	-	479 243
Sovereign debt securities	478 416	173 499	88 695	-	-	65 453	806 063
Bank debt securities	32	1 276	8 500	148 145	-	-	157 953
Other debt securities	19 639	519	1 739	76 388	23 320	169 927	291 532
Derivative financial instruments	112 339	42 269	34 064	172 491	33 336	148 625	543 124
Securities arising from trading activities	9 312	245	10 038	59 121	130 507	244 643	453 866
Loans and advances to customers (gross)	1 662 479	748 359	895 134	4 294 054	1 109 305	324 527	9 033 858
Other loans and advances (gross)	4 375	123	573	12 689	97 338	242 392	357 490
Other securitised assets (gross)	-	-	-	-	-	8 303	8 303
Other assets	59 378	-	-	-	-	-	59 378
<b>Total on-balance sheet exposures</b>	<b>6 662 288</b>	<b>966 290</b>	<b>1 083 419</b>	<b>4 762 888</b>	<b>1 393 806</b>	<b>1 203 870</b>	<b>16 072 561</b>
Guarantees <sup>^</sup>	6 855	1 921	212	6 788	2 644	-	18 420
Contingent liabilities, committed facilities and other	267 375	101 075	101 822	655 013	139 902	37 488	1 302 675
<b>Total off-balance sheet exposures</b>	<b>274 230</b>	<b>102 996</b>	<b>102 034</b>	<b>661 801</b>	<b>142 546</b>	<b>37 488</b>	<b>1 321 095</b>
<b>Total gross credit and counterparty exposures pre-collateral or other credit enhancements</b>	<b>6 936 518</b>	<b>1 069 286</b>	<b>1 185 453</b>	<b>5 424 689</b>	<b>1 536 352</b>	<b>1 241 358</b>	<b>17 393 656</b>

<sup>^</sup> 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

	Gross core loans and advances		Other credit and counterparty exposures		Total	
	30 September 2017	31 March 2017	30 September 2017	31 March 2017	30 September 2017	31 March 2017
<b>£'000</b>						
High net worth and professional individuals	1 659 466	1 598 801	176 977	169 056	1 836 443	1 767 857
Lending collateralised by property	1 996 948	1 963 754	239 429	224 306	2 236 377	2 188 060
Agriculture	5 732	5 539	1 230	156	6 962	5 695
Electricity, gas and water (utility services)	415 789	487 089	390 573	561 426	806 362	1 048 515
Public and non-business services	157 447	149 220	3 910 050	3 982 752	4 067 497	4 131 972
Business services	567 865	431 659	59 292	77 807	627 157	509 466
Finance and insurance	1 464 475	1 321 630	2 725 839	2 935 642	4 190 314	4 257 272
Retailers and wholesalers	365 389	414 629	92 281	104 040	457 670	518 669
Manufacturing and commerce	697 103	637 182	118 766	160 127	815 869	797 309
Construction	59 072	52 833	7 647	527	66 719	53 360
Corporate commercial real estate	107 022	100 941	5 992	8 709	113 014	109 650
Other residential mortgages	-	-	292 535	314 616	292 535	314 616
Mining and resources	147 878	120 544	175 189	184 741	323 067	305 285
Leisure, entertainment and tourism	264 283	291 573	31 085	27 403	295 368	318 976
Transport	980 411	989 328	108 396	110 179	1 088 807	1 099 507
Communication	144 978	182 896	24 517	36 044	169 495	218 940
<b>Total</b>	<b>9 033 858</b>	<b>8 747 618</b>	<b>8 359 798</b>	<b>8 897 531</b>	<b>17 393 656</b>	<b>17 645 149</b>

Corporate client loans account for 59.5% of total gross core loans and advances and are well diversified across various industry classifications. 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.

Risk management

Detailed analysis of gross credit and counterparty exposure by industry

£'000	High net worth and professional individuals	Lending collateralised by property	Agriculture	Electricity, gas and water (utility services)	Public and non-business services	Business services	Finance and insurance	Retailers and wholesalers	Manufacturing and commerce
<b>At 30 September 2017</b>									
Cash and balances at central banks	-	-	-	-	2 846 201	-	-	-	-
Loans and advances to banks	-	-	-	-	-	-	1 035 550	-	-
Reverse repurchase agreements and cash collateral on securities borrowed	-	-	-	-	-	-	479 243	-	-
Sovereign debt securities	-	-	-	-	806 063	-	-	-	-
Bank debt securities	-	-	-	-	-	-	157 953	-	-
Other debt securities	-	-	-	45 148	6 169	502	74 765	321	34 452
Derivative financial instruments	1 692	-	1 230	66 905	-	26 790	320 446	29 925	36 666
Securities arising from trading activities	-	-	-	12 607	240 295	-	193 021	3 402	1 660
Loans and advances to customers (gross)	1 659 466	1 996 948	5 732	415 789	157 447	567 865	1 464 475	365 389	697 103
Other loans and advances (gross)	-	-	-	-	-	-	120 926	-	-
Other securitised assets (gross)	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	59 378	-	-
<b>Total on-balance sheet exposures</b>	<b>1 661 158</b>	<b>1 996 948</b>	<b>6 962</b>	<b>540 449</b>	<b>4 056 175</b>	<b>595 157</b>	<b>3 905 757</b>	<b>399 037</b>	<b>769 881</b>
Guarantees <sup>^</sup>	15 287	-	-	-	-	-	1 000	-	-
Contingent liabilities, committed facilities and other	159 998	239 429	-	265 913	11 322	32 000	283 557	58 633	45 988
<b>Total off-balance sheet exposures</b>	<b>175 285</b>	<b>239 429</b>	<b>-</b>	<b>265 913</b>	<b>11 322</b>	<b>32 000</b>	<b>284 557</b>	<b>58 633</b>	<b>45 988</b>
<b>Total gross credit and counterparty exposures pre-collateral or other credit enhancements</b>	<b>1 836 443</b>	<b>2 236 377</b>	<b>6 962</b>	<b>806 362</b>	<b>4 067 497</b>	<b>627 157</b>	<b>4 190 314</b>	<b>457 670</b>	<b>815 869</b>

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

£'000	Construction	Corporate commercial real estate	Other residential mortgages	Mining and resources	Leisure, entertainment and tourism	Transport	Communication	Total
<b>At 30 September 2017</b>								
Cash and balances at central banks	-	-	-	-	-	-	-	2 846 201
Loans and advances to banks	-	-	-	-	-	-	-	1 035 550
Reverse repurchase agreements and cash collateral on securities borrowed	-	-	-	-	-	-	-	479 243
Sovereign debt securities	-	-	-	-	-	-	-	806 063
Bank debt securities	-	-	-	-	-	-	-	157 953
Other debt securities	-	-	47 712	33 574	2 777	37 308	8 804	291 532
Derivative financial instruments	574	2 054	-	5 827	11 786	37 234	1 995	543 124
Securities arising from trading activities	-	-	-	-	2 881	-	-	453 866
Loans and advances to customers (gross)	59 072	107 022	-	147 878	264 283	980 411	144 978	9 033 858
Other loans and advances (gross)	-	44	236 520	-	-	-	-	357 490
Other securitised assets (gross)	-	-	8 303	-	-	-	-	8 303
Other assets	-	-	-	-	-	-	-	59 378
<b>Total on-balance sheet exposures</b>	<b>59 646</b>	<b>109 120</b>	<b>292 535</b>	<b>187 279</b>	<b>281 727</b>	<b>1 054 953</b>	<b>155 777</b>	<b>16 072 561</b>
Guarantees <sup>^</sup>	-	-	-	1 921	-	-	212	18 420
Contingent liabilities, committed facilities and other	7 073	3 894	-	133 867	13 641	33 854	13 506	1 302 675
<b>Total off-balance sheet exposures</b>	<b>7 073</b>	<b>3 894</b>	<b>-</b>	<b>135 788</b>	<b>13 641</b>	<b>33 854</b>	<b>13 718</b>	<b>1 321 095</b>
<b>Total gross credit and counterparty exposures pre-collateral or other credit enhancements</b>	<b>66 719</b>	<b>113 014</b>	<b>292 535</b>	<b>323 067</b>	<b>295 368</b>	<b>1 088 807</b>	<b>169 495</b>	<b>17 393 656</b>

<sup>^</sup> 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	High net worth and professional individuals	Lending collateralised by property	Agriculture	Electricity, gas and water (utility services)	Public and non-business services	Business services	Finance and insurance	Retailers and wholesalers	Manufacturing and commerce
<b>At 31 March 2017</b>									
Cash and balances at central banks	-	-	-	-	2 850 664	-	-	-	-
Loans and advances to banks	-	-	-	-	-	-	1 130 998	-	-
Reverse repurchase agreements and cash collateral on securities borrowed	-	-	-	-	-	-	536 173	-	-
Sovereign debt securities	-	-	-	-	952 902	-	-	-	-
Bank debt securities	-	-	-	-	-	-	184 626	-	-
Other debt securities (gross)	-	-	-	48 297	5 832	551	128 797	195	45 106
Derivative financial instruments	13 629	-	156	75 743	17	15 041	359 915	16 018	46 042
Securities arising from trading activities	-	-	-	26 280	132 415	-	154 676	39	1 771
Loans and advances to customers (gross)	1 598 801	1 963 754	5 539	487 089	149 220	431 659	1 321 630	414 629	637 182
Other loans and advances (gross)	-	-	-	-	-	-	118 507	-	-
Other securitised assets (gross)	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	47 671	-	2 223
<b>Total on-balance sheet exposures</b>	<b>1 612 430</b>	<b>1 963 754</b>	<b>5 695</b>	<b>637 409</b>	<b>4 091 050</b>	<b>447 251</b>	<b>3 982 993</b>	<b>430 881</b>	<b>732 324</b>
Guarantees <sup>^</sup>	17 652	153	-	-	-	-	-	-	-
Contingent liabilities, committed facilities and other	137 775	224 153	-	411 106	40 922	62 215	274 279	87 788	64 985
<b>Total off-balance sheet exposures</b>	<b>155 427</b>	<b>224 306</b>	<b>-</b>	<b>411 106</b>	<b>40 922</b>	<b>62 215</b>	<b>274 279</b>	<b>87 788</b>	<b>64 985</b>
<b>Total gross credit and counterparty exposures pre-collateral or other credit enhancements</b>	<b>1 767 857</b>	<b>2 188 060</b>	<b>5 695</b>	<b>1 048 515</b>	<b>4 131 972</b>	<b>509 466</b>	<b>4 257 272</b>	<b>518 669</b>	<b>797 309</b>

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

£'000	Construction	Corporate commercial real estate	Other residential mortgages	Mining and resources	Leisure, entertainment and tourism	Transport	Communication	Total
<b>At 31 March 2017</b>								
Cash and balances at central banks	-	-	-	-	-	-	-	2 850 664
Loans and advances to banks	-	-	-	-	-	-	-	1 130 998
Reverse repurchase agreements and cash collateral on securities borrowed	-	-	-	-	-	-	-	536 173
Sovereign debt securities	-	-	-	-	-	-	-	952 902
Bank debt securities	-	-	-	-	-	-	-	184 626
Other debt securities (gross)	-	-	74 338	42 694	2 775	43 434	6 259	398 278
Derivative financial instruments	527	2 365	-	7 192	4 630	11 759	1 676	554 710
Securities arising from trading activities	-	-	2 892	-	-	3 037	10 595	331 705
Loans and advances to customers (gross)	52 833	100 941	-	120 544	291 573	989 328	182 896	8 747 618
Other loans and advances (gross)	-	48	224 535	-	-	-	-	343 090
Other securitised assets (gross)	-	-	12 851	-	-	-	-	12 851
Other assets	-	-	-	-	-	-	-	49 894
<b>Total on-balance sheet exposures</b>	<b>53 360</b>	<b>103 354</b>	<b>314 616</b>	<b>170 430</b>	<b>298 978</b>	<b>1 047 558</b>	<b>201 426</b>	<b>16 093 509</b>
Guarantees <sup>^</sup>	-	-	-	9 193	-	-	206	27 204
Contingent liabilities, committed facilities and other	-	6 296	-	125 662	19 998	51 949	17 308	1 524 436
<b>Total off-balance sheet exposures</b>	<b>-</b>	<b>6 296</b>	<b>-</b>	<b>134 855</b>	<b>19 998</b>	<b>51 949</b>	<b>17 514</b>	<b>1 551 640</b>
<b>Total gross credit and counterparty exposures pre-collateral or other credit enhancements</b>	<b>53 360</b>	<b>109 650</b>	<b>314 616</b>	<b>305 285</b>	<b>318 976</b>	<b>1 099 507</b>	<b>218 940</b>	<b>17 645 149</b>

<sup>^</sup> 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 2017	31 March 2017
<b>Gross core loans and advances to customers</b>	<b>9 033 858</b>	<b>8 747 618</b>
<b>Total impairments</b>	<b>(134 154)</b>	<b>(126 876)</b>
Specific impairments	(81 490)	(83 488)
Portfolio impairments	(52 664)	(43 388)
<b>Net core loans and advances to customers</b>	<b>8 899 704</b>	<b>8 620 742</b>
<b>Average gross core loans and advances to customers</b>	<b>8 890 738</b>	<b>8 347 205</b>
Current loans and advances to customers	8 690 355	8 416 683
Past due loans and advances to customers (1 - 60 days)	45 752	48 003
Special mention loans and advances to customers	35 192	22 585
Default loans and advances to customers	262 559	260 347
<b>Gross core loans and advances to customers</b>	<b>9 033 858</b>	<b>8 747 618</b>
Current loans and advances to customers	8 690 355	8 416 683
Default loans that are current and not impaired	5 121	6 993
Gross core loans and advances to customers that are past due but not impaired	115 283	105 645
Gross core loans and advances to customers that are impaired	223 099	218 297
<b>Gross core loans and advances to customers</b>	<b>9 033 858</b>	<b>8 747 618</b>
<b>Total income statement charge for impairments on core loans and advances</b>	<b>(37 457)</b>	<b>(74 995)</b>
Gross default loans and advances to customers	262 559	260 347
Specific impairments	(81 490)	(83 488)
Portfolio impairments	(52 664)	(43 388)
<b>Defaults net of impairments</b>	<b>128 405</b>	<b>133 471</b>
Aggregate collateral and other credit enhancements on defaults	192 934	192 760
<b>Net default loans and advances to customers (limited to zero)</b>	<b>-</b>	<b>-</b>
<b>Ratios</b>		
Total impairments as a % of gross core loans and advances to customers	1.49%	1.45%
Total impairments as a % of gross default loans	51.09%	48.73%
Gross defaults as a % of gross core loans and advances to customers	2.91%	2.98%
Defaults (net of impairments) as a % of net core loans and advances to customers	1.44%	1.55%
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)	0.84%	0.90%



## Risk management

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

£'000	30 September 2017	31 March 2017
Default loans that are current	72 568	68 069
1 - 60 days	91 882	106 174
61 - 90 days	4 610	4 174
91 - 180 days	14 072	63 707
181 - 365 days	87 577	16 205
> 365 days	72 794	72 606
<b>Past due and default core loans and advances to customers (actual capital exposure)</b>	<b>343 503</b>	<b>330 935</b>
1 - 60 days	1 686	1 863
61 - 90 days	2 666	173
91 - 180 days	3 640	3 341
181 - 365 days	6 791	7 517
> 365 days	55 931	57 851
<b>Past due and default core loans and advances to customers (actual amount in arrears)</b>	<b>70 714</b>	<b>70 745</b>

### 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
<b>At 30 September 2017</b>							
<b>Default loans that are current and not impaired</b>							
Total capital exposure	5 121	-	-	-	-	-	5 121
<b>Gross core loans and advances to customers that are past due but not impaired</b>							
Total capital exposure	-	88 544	2 122	6 504	7 827	10 286	115 283
Amount in arrears	-	1 685	178	845	550	9 453	12 711
<b>Gross core loans and advances to customers that are impaired</b>							
Total capital exposure	67 447	3 338	2 488	7 568	79 750	62 508	223 099
Amount in arrears	-	1	2 488	2 795	6 241	46 478	58 003
<b>At 31 March 2017</b>							
<b>Default loans that are current and not impaired</b>							
Total capital exposure	6 993	-	-	-	-	-	6 993
<b>Gross core loans and advances to customers that are past due but not impaired</b>							
Total capital exposure	-	89 947	4 171	1 270	1 331	8 926	105 645
Amount in arrears	-	1 819	170	385	344	8 403	11 121
<b>Gross core loans and advances to customers that are impaired</b>							
Total capital exposure	61 076	16 227	3	62 437	14 874	63 680	218 297
Amount in arrears	-	44	3	2 956	7 173	49 448	59 624

## Risk management

### An age analysis of past due and default core loans and advances to customers at 30 September 2017 (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)	-	45 752	-	-	-	-	45 752
Special mention	-	33 070	2 122	-	-	-	35 192
Special mention (1 - 90 days)	-	33 070	-	-	-	-	33 070
Special mention (61 - 90 days and item well secured)	-	-	2 122	-	-	-	2 122
<b>Default</b>	<b>72 568</b>	<b>13 060</b>	<b>2 488</b>	<b>14 072</b>	<b>87 577</b>	<b>72 794</b>	<b>262 559</b>
Sub-standard	49 831	13 060	2 488	6 504	64 778	53 082	189 743
Doubtful	22 737	-	-	5 851	21 652	16 024	66 264
Loss	-	-	-	1 717	1 147	3 688	6 562
<b>Total</b>	<b>72 568</b>	<b>91 882</b>	<b>4 610</b>	<b>14 072</b>	<b>87 577</b>	<b>72 794</b>	<b>343 503</b>

### An age analysis of past due and default core loans and advances to customers at 30 September 2017 (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)	-	1 104	-	-	-	-	1 104
Special mention	-	537	178	-	-	-	715
Special mention (1 - 90 days)	-	537	-	-	-	-	537
Special mention (61 - 90 days and item well secured)	-	-	178	-	-	-	178
<b>Default</b>	<b>-</b>	<b>45</b>	<b>2 488</b>	<b>3 640</b>	<b>6 791</b>	<b>55 931</b>	<b>68 895</b>
Sub-standard	-	45	2 488	845	1 926	47 105	52 409
Doubtful	-	-	-	1 083	3 730	5 138	9 951
Loss	-	-	-	1 712	1 135	3 688	6 535
<b>Total</b>	<b>-</b>	<b>1 686</b>	<b>2 666</b>	<b>3 640</b>	<b>6 791</b>	<b>55 931</b>	<b>70 714</b>

### An age analysis past due and default core loans and advances to customers at 31 March 2017 (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)	-	48 003	-	-	-	-	48 003
Special mention	-	20 028	2 557	-	-	-	22 585
Special mention (1 - 90 days)	-	20 028	-	-	-	-	20 028
Special mention (61 - 90 days and item well secured)	-	-	2 557	-	-	-	2 557
<b>Default</b>	<b>68 069</b>	<b>38 143</b>	<b>1 617</b>	<b>63 707</b>	<b>16 205</b>	<b>72 606</b>	<b>260 347</b>
Sub-standard	39 561	27 622	1 614	48 839	11 849	51 120	180 605
Doubtful	27 970	10 508	-	13 324	3 458	13 644	68 904
Loss	538	13	3	1 544	898	7 842	10 838
<b>Total</b>	<b>68 069</b>	<b>106 174</b>	<b>4 174</b>	<b>63 707</b>	<b>16 205</b>	<b>72 606</b>	<b>330 935</b>

### An age analysis of past due and default core loans and advances to customers at 31 March 2017 (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)	-	1 094	-	-	-	-	1 094
Special mention	-	63	127	-	-	-	190
Special mention (1 - 90 days)	-	63	-	-	-	-	63
Special mention (61 - 90 days and item well secured)	-	-	127	-	-	-	127
<b>Default</b>	<b>-</b>	<b>706</b>	<b>46</b>	<b>3 341</b>	<b>7 517</b>	<b>57 851</b>	<b>69 461</b>
Sub-standard	-	670	43	1 018	3 884	45 313	50 928
Doubtful	-	25	-	789	2 735	4 708	8 257
Loss	-	11	3	1 534	898	7 830	10 276
<b>Total</b>	<b>-</b>	<b>1 863</b>	<b>173</b>	<b>3 341</b>	<b>7 517</b>	<b>57 851</b>	<b>70 745</b>



## 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
<b>At 30 September 2017</b>								
<b>Current core loans and advances</b>	<b>8 690 355</b>	-	-	<b>8 690 355</b>	-	(52 664)	<b>8 637 691</b>	-
<b>Past due (1 - 60 days)</b>	-	<b>45 752</b>	-	<b>45 752</b>	-	-	<b>45 752</b>	<b>1 104</b>
<b>Special mention</b>	-	<b>35 192</b>	-	<b>35 192</b>	-	-	<b>35 192</b>	<b>715</b>
Special mention (1 - 90 days)	-	33 070	-	33 070	-	-	33 070	537
Special mention (61 - 90 days and item well secured)	-	2 122	-	2 122	-	-	2 122	178
<b>Default</b>	<b>5 121</b>	<b>34 339</b>	<b>223 099</b>	<b>262 559</b>	<b>(81 490)</b>	-	<b>181 069</b>	<b>68 895</b>
Sub-standard	5 121	34 339	150 283	189 743	(41 866)	-	147 877	52 409
Doubtful	-	-	66 264	66 264	(34 192)	-	32 072	9 951
Loss	-	-	6 552	6 552	(5 432)	-	1 120	6 535
<b>Total</b>	<b>8 695 476</b>	<b>115 283</b>	<b>223 099</b>	<b>9 033 858</b>	<b>(81 490)</b>	<b>(52 664)</b>	<b>8 899 704</b>	<b>70 714</b>
<b>At 31 March 2017</b>								
<b>Current core loans and advances</b>	<b>8 416 683</b>	-	-	<b>8 416 683</b>	-	(43 388)	<b>8 373 295</b>	-
<b>Past due (1 - 60 days)</b>	-	<b>48 003</b>	-	<b>48 003</b>	-	-	<b>48 003</b>	<b>1 094</b>
<b>Special mention</b>	-	<b>22 585</b>	-	<b>22 585</b>	-	-	<b>22 585</b>	<b>190</b>
Special mention (1 - 90 days)	-	20 028	-	20 028	-	-	20 028	63
Special mention (61 - 90 days and item well secured)	-	2 557	-	2 557	-	-	2 557	127
<b>Default</b>	<b>6 993</b>	<b>35 057</b>	<b>218 297</b>	<b>260 347</b>	<b>(83 488)</b>	-	<b>176 859</b>	<b>69 461</b>
Sub-standard	6 993	35 057	138 555	180 605	(38 237)	-	142 368	50 928
Doubtful	-	-	68 904	68 904	(37 430)	-	31 474	8 257
Loss	-	-	10 838	10 838	(7 821)	-	3 017	10 276
<b>Total</b>	<b>8 423 676</b>	<b>105 645</b>	<b>218 297</b>	<b>8 747 618</b>	<b>(83 488)</b>	<b>(43 388)</b>	<b>8 620 742</b>	<b>70 745</b>

## 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)	Trade finance and other	Total core loans and advances to customers
<b>At 30 September 2017</b>						
<b>Current core loans and advances</b>	<b>3 358 615</b>	<b>3 686 125</b>	<b>1 463 203</b>	<b>155 444</b>	<b>26 968</b>	<b>8 690 355</b>
<b>Past due (1 - 60 days)</b>	<b>28 693</b>	<b>15 069</b>	<b>870</b>	<b>1 120</b>	-	<b>45 752</b>
<b>Special mention</b>	<b>23 922</b>	<b>11 211</b>	-	<b>59</b>	-	<b>35 192</b>
Special mention (1 - 90 days)	22 188	10 882	-	-	-	33 070
Special mention (61 - 90 days and item well secured)	1 734	329	-	59	-	2 122
<b>Default</b>	<b>245 184</b>	<b>16 149</b>	<b>402</b>	<b>824</b>	-	<b>262 559</b>
Sub-standard	183 754	5 513	246	230	-	189 743
Doubtful	58 947	6 910	111	296	-	66 264
Loss	2 483	3 726	45	298	-	6 552
<b>Total gross core loans and advances to customers</b>	<b>3 656 414</b>	<b>3 728 554</b>	<b>1 464 475</b>	<b>157 447</b>	<b>26 968</b>	<b>9 033 858</b>
<b>Total impairments</b>	<b>(112 220)</b>	<b>(21 393)</b>	<b>(105)</b>	<b>(436)</b>	-	<b>(134 154)</b>
Specific impairments	(73 709)	(7 240)	(105)	(436)	-	(81 490)
Portfolio impairments	(38 511)	(14 153)	-	-	-	(52 664)
<b>Net core loans and advances to customers</b>	<b>3 544 194</b>	<b>3 707 161</b>	<b>1 464 370</b>	<b>157 011</b>	<b>26 968</b>	<b>8 899 704</b>
<b>At 31 March 2017</b>						
<b>Current core loans and advances</b>	<b>3 252 498</b>	<b>3 673 173</b>	<b>1 321 251</b>	<b>147 658</b>	<b>22 103</b>	<b>8 416 683</b>
<b>Past due (1 - 60 days)</b>	<b>41 973</b>	<b>5 183</b>	<b>211</b>	<b>636</b>	-	<b>48 003</b>
<b>Special mention</b>	<b>22 111</b>	<b>402</b>	<b>3</b>	<b>69</b>	-	<b>22 585</b>
Special mention (1 - 90 days)	20 028	-	-	-	-	20 028
Special mention (61 - 90 days and item well secured)	2 083	402	3	69	-	2 557
<b>Default</b>	<b>245 973</b>	<b>13 352</b>	<b>165</b>	<b>857</b>	-	<b>260 347</b>
Sub-standard	176 021	4 384	8	192	-	180 605
Doubtful	62 844	5 704	119	237	-	68 904
Loss	7 108	3 264	38	428	-	10 838
<b>Total gross core loans and advances to customers</b>	<b>3 562 555</b>	<b>3 692 110</b>	<b>1 321 630</b>	<b>149 220</b>	<b>22 103</b>	<b>8 747 618</b>
<b>Total impairments</b>	<b>(108 189)</b>	<b>(18 036)</b>	<b>( 101)</b>	<b>(550)</b>	-	<b>(126 876)</b>
Specific impairments	(76 763)	(6 074)	(101)	(550)	-	(83 488)
Portfolio impairments	(31 426)	(11 962)	-	-	-	(43 388)
<b>Net core loans and advances to customers</b>	<b>3 454 366</b>	<b>3 674 074</b>	<b>1 321 529</b>	<b>148 670</b>	<b>22 103</b>	<b>8 620 742</b>

## Risk management

### An analysis of core loans and advances by risk category at 30 September 2017

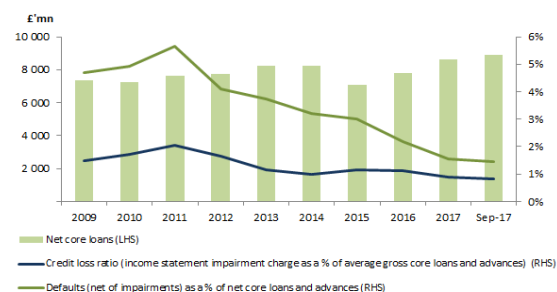
£'000	Gross core loans	Gross defaults	Aggregate collateral and other credit enhancements on defaults	Balance sheet impairments	Income statement impairments <sup>A</sup>
<b>Lending collateralised by property</b>	<b>1 996 948</b>	<b>226 975</b>	<b>162 518</b>	<b>(67 975)</b>	<b>(24 504)</b>
<b>Commercial real estate</b>	<b>1 168 660</b>	<b>73 303</b>	<b>47 761</b>	<b>(26 299)</b>	<b>(8 298)</b>
Commercial real estate - investment	1 020 394	42 381	28 029	(14 641)	(7 911)
Commercial real estate - development	86 866	-	-	-	-
Commercial vacant land and planning	61 400	30 922	19 732	(11 658)	(387)
<b>Residential real estate</b>	<b>828 288</b>	<b>153 672</b>	<b>114 757</b>	<b>(41 676)</b>	<b>(16 206)</b>
Residential real estate - investment	265 605	67 896	55 469	(13 513)	(11 867)
Residential real estate - development	492 826	66 689	46 475	(20 331)	(3 266)
Residential vacant land and planning	69 857	19 087	12 813	(7 832)	(1 073)
<b>High net worth and other private client lending</b>	<b>1 659 466</b>	<b>18 209</b>	<b>18 785</b>	<b>(5 732)</b>	<b>373</b>
Mortgages	1 304 424	8 680	11 785	(1 367)	(130)
High net worth and specialised lending	355 042	9 529	7 000	(4 365)	503
<b>Corporate and other lending</b>	<b>5 377 444</b>	<b>17 375</b>	<b>11 631</b>	<b>(7 783)</b>	<b>(3 319)</b>
Corporate and acquisition finance	1 342 433	-	-	-	15
Asset-based lending	360 715	-	-	-	-
Fund finance	967 981	-	-	-	-
Other corporate and financial institutions and governments	680 724	-	-	-	-
Asset finance	1 591 179	13 395	7 924	(7 510)	(3 245)
Small ticket asset finance	1 182 525	13 395	5 886	(7 510)	(3 245)
Large ticket asset finance	408 654	-	2 038	-	-
Project finance	424 791	3 980	3 707	(273)	(89)
Resource finance	9 621	-	-	-	-
<b>Portfolio impairments</b>				<b>(52 664)</b>	<b>(10 007)</b>
<b>Total</b>	<b>9 033 858</b>	<b>262 559</b>	<b>192 934</b>	<b>(134 154)</b>	<b>(37 457)</b>

### An analysis of core loans and advances by risk category at 31 March 2017

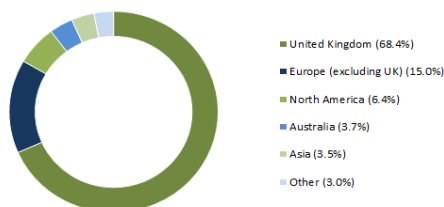
£'000	Gross core loans	Gross defaults	Aggregate collateral and other credit enhancements on defaults	Balance sheet impairments	Income statement impairments <sup>A</sup>
<b>Lending collateralised by property</b>	<b>1 963 754</b>	<b>227 515</b>	<b>167 972</b>	<b>(70 633)</b>	<b>(45 114)</b>
<b>Commercial real estate</b>	<b>1 190 836</b>	<b>80 987</b>	<b>48 998</b>	<b>(31 989)</b>	<b>(21 748)</b>
Commercial real estate - investment	934 117	40 120	30 773	(9 347)	(12 373)
Commercial real estate - development	149 188	4 768	1 680	(3 088)	-
Commercial vacant land and planning	107 531	36 099	16 545	(19 554)	(9 375)
<b>Residential real estate</b>	<b>772 918</b>	<b>146 528</b>	<b>118 974</b>	<b>(38 644)</b>	<b>(23 366)</b>
Residential real estate - investment	262 844	46 841	43 018	(9 222)	(11 126)
Residential real estate - development	458 441	77 250	61 727	(19 754)	(10 615)
Residential vacant land and planning	51 633	22 437	14 229	(9 668)	(1 625)
<b>High net worth and other private client lending</b>	<b>1 598 801</b>	<b>18 458</b>	<b>17 139</b>	<b>(6 130)</b>	<b>(1 928)</b>
Mortgages	1 228 877	4 906	6 957	(1 237)	(637)
High net worth and specialised lending	369 924	13 552	10 182	(4 893)	(1 291)
<b>Corporate and other lending</b>	<b>5 185 063</b>	<b>14 374</b>	<b>7 649</b>	<b>(6 725)</b>	<b>(5 965)</b>
Corporate and acquisition finance	1 309 335	-	-	-	(1 951)
Asset-based lending	333 731	-	-	-	-
Fund finance	861 140	-	-	-	-
Other corporate and financial institutions and governments	718 760	-	-	-	-
Asset finance	1 488 142	10 483	3 942	(6 541)	(5 630)
Small ticket asset finance	1 062 069	10 483	3 942	(6 541)	(5 630)
Large ticket asset finance	426 073	-	-	-	-
Project finance	464 142	3 891	3 707	(184)	(176)
Resource finance	9 813	-	-	-	1 792
<b>Portfolio impairments</b>				<b>(43 388)</b>	<b>(21 988)</b>
<b>Total</b>	<b>8 747 618</b>	<b>260 347</b>	<b>192 760</b>	<b>(126 876)</b>	<b>(74 995)</b>

<sup>A</sup> Where a positive number represents a recovery.

### Asset quality trends



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



Trends in the above graph are for the year ended 31 March, unless otherwise stated

## 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*	
<b>At 30 September 2017</b>			
<b>Eligible financial collateral</b>	<b>1 032 820</b>	<b>422 045</b>	<b>1 454 865</b>
Listed shares	896 323	82 239	978 562
Cash	136 497	145 347	281 844
Debt securities issued by sovereigns	-	194 459	194 459
<b>Property charge</b>	<b>5 205 801</b>	<b>192 714</b>	<b>5 398 515</b>
Residential property	2 770 182	192 714	2 962 896
Residential development	890 881	-	890 881
Commercial property developments	180 441	-	180 441
Commercial property investments	1 364 297	-	1 364 297
<b>Other collateral</b>	<b>4 897 745</b>	<b>324 326</b>	<b>5 222 071</b>
Unlisted shares	538 978	-	538 978
Charges other than property	18 264	324 326	342 590
Debtors, stock and other corporate assets	3 322 142	-	3 322 142
Guarantees	812 154	-	812 154
Other	206 207	-	206 207
<b>Total collateral</b>	<b>11 136 366</b>	<b>939 085</b>	<b>12 075 451</b>
<b>At 31 March 2017</b>			
<b>Eligible financial collateral</b>	<b>911 474</b>	<b>664 898</b>	<b>1 576 372</b>
Listed shares	692 067	84 723	776 790
Cash	219 407	194 463	413 870
Debt securities issued by sovereigns	-	385 712	385 712
<b>Property charge</b>	<b>5 121 750</b>	<b>202 096</b>	<b>5 323 846</b>
Residential property	2 551 729	202 096	2 753 825
Residential development	961 844	-	961 844
Commercial property developments	367 925	-	367 925
Commercial property investments	1 240 252	-	1 240 252
<b>Other collateral</b>	<b>4 909 925</b>	<b>199 809</b>	<b>5 109 734</b>
Unlisted shares	670 406	-	670 406
Charges other than property	19 145	199 809	218 954
Debtors, stock and other corporate assets	3 177 267	-	3 177 267
Guarantees	823 122	-	823 122
Other	219 985	-	219 985
<b>Total collateral</b>	<b>10 943 149</b>	<b>1 066 803</b>	<b>12 009 952</b>

\* 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

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

Category £'000	Income/(loss) (pre funding costs)				Fair value through equity
	Unrealised*	Realised*	Dividends	Total	
<b>For the six months to 30 September 2017</b>					
Unlisted investments	8 918	10 129	5 975	25 022	556
Listed equities	(13 373)	(1 996)	2	(15 367)	1 564
Investment and trading properties	(2 663)	1 601	-	(1 062)	-
Warrants, profit shares and other embedded derivatives	(1 961)	-	-	(1 961)	-
<b>Total</b>	<b>(9 079)</b>	<b>9 734</b>	<b>5 977</b>	<b>6 632</b>	<b>2 120</b>
<b>For the year ended 31 March 2017</b>					
Unlisted investments	24 391	38 512	11 066	73 969	624
Listed equities	(20 442)	21	1 273	(19 148)	(2 831)
Investment and trading properties	(14 892)	17 504	-	2 612	-
Warrants, profit shares and other embedded derivatives	(7 035)	-	-	(7 035)	-
<b>Total</b>	<b>(17 978)</b>	<b>56 037</b>	<b>12 339</b>	<b>50 398</b>	<b>(2 207)</b>

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

## 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 2017	Valuation change stress test 30 Sept 2017*	On-balance sheet value of investments 31 March 2017	Valuation change stress test 31 March 2017*
Unlisted investments	420 976	63 146	383 267	57 490
Listed equities	60 541	15 135	76 478	19 120
<b>Total investment portfolio</b>	<b>481 517</b>	<b>78 281</b>	<b>459 745</b>	<b>76 610</b>
Investment and trading properties	123 505	23 251	143 648	27 280
Warrants, profit shares and other embedded derivatives	15 085	5 280	18 194	6 368
<b>Total</b>	<b>620 107</b>	<b>106 812</b>	<b>621 587</b>	<b>110 258</b>

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

#### Stress test values applied

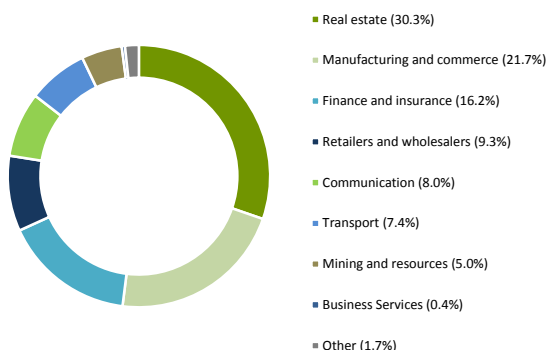
Unlisted investments	15%
Listed equities	25%
Trading properties	20%
Investment properties	10%
Warrants, profit shares and other embedded derivatives	35%

#### Stress testing summary

Based on the information at 30 September 2017, as reflected above, we could have a £107 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 2017 (£497 million)



## Risk management

### Securitisation/structured credit activities exposures

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

The information below sets out initiatives we have focused on over the past few years, albeit that most of these business lines have curtailed given the changes in the securitisation market and given the strategic divestment Investec has undertaken in the last couple of years.

During the six months to September 2017 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. We hold rated structured credit instruments. These exposures are largely in the UK and US and amount to £305 million at 30 September 2017 (31 March 2017: £339 million).

#### Credit analysis

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

Nature of exposure/activity	Exposure at	Exposure at	Balance sheet and credit risk classification
	30 Sept 2017	31 March 2017	
	£'million	£'million	
Structured credit (gross exposure)*	315	349	Other debt securities and other loans and advances
Rated	305	339	
Unrated	10	10	
Loans and advances to customers and third party intermediary originating platforms (mortgage loans) (net exposure)	136	141	Other loans and advances

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

£'million	30 September 2017			31 March 2017		
	Rated**	Unrated	Total	Rated**	Unrated	Total
US corporate loans	135	-	135	136	-	136
UK and European RMBS	147	10	157	163	10	173
UK and European ABS	-	-	-	4	-	4
UK and European corporate loans	23	-	23	36	-	36
<b>Total</b>	<b>305</b>	<b>10</b>	<b>315</b>	<b>339</b>	<b>10</b>	<b>349</b>

#### \*\*A further analysis of rated structured credit at 30 September 2017

£'million	30 September 2017							Total
	AAA	AA	A	BBB	BB	B	CCC and below	
US corporate loans	57	50	28	-	-	-	-	135
UK and European RMBS	21	74	50	-	2	-	-	147
UK and European corporate loans	8	9	6	-	-	-	-	23
<b>Total at 30 September 2017</b>	<b>86</b>	<b>133</b>	<b>84</b>	<b>-</b>	<b>2</b>	<b>-</b>	<b>-</b>	<b>305</b>
<b>Total at 31 March 2017</b>	<b>102</b>	<b>153</b>	<b>77</b>	<b>5</b>	<b>2</b>	<b>-</b>	<b>-</b>	<b>339</b>

## 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

Market risk management teams review 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.

These reports are distributed to management and traders. There is a formal process for management recognition and authorisation for any risk excesses incurred. The production of risk reports allows for the monitoring of all positions in the trading books against prescribed limits. Limits are set at trading desk level with aggregate risk across all desks also monitored against overall market risk appetite limits. Trading limits are generally tiered, taking into account liquidity and the inherent risks of traded instruments. Valuation models for new instruments or products are independently validated by market risk before trading can commence. Each traded instrument undergoes various stresses to assess potential losses.

Measurement techniques used to quantify market risk arising from our trading activities include sensitivity analysis, value at risk (VaR), stressed VaR (sVaR), expected shortfall (ES) 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. ESs 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. Scenario analysis is done at least once a week and is included in the data presented to Review ERRF.

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, a backtesting exception is considered to have occurred. Over time we expect the average rate of observed backtesting exceptions to be consistent with the percentile of the VaR statistic being tested.

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 2017				31 March 2017			
	Period end	Average	High	Low	Year end	Average	High	Low
<b>(using 95% one-day VaR)</b>								
Equities	541	580	746	448	503	547	1 317	340
Foreign exchange	7	21	80	2	13	34	162	1
Interest rates	81	83	108	71	88	191	287	83
<b>Consolidated*</b>	<b>515</b>	<b>575</b>	<b>740</b>	<b>439</b>	<b>547</b>	<b>586</b>	<b>1 364</b>	<b>373</b>

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



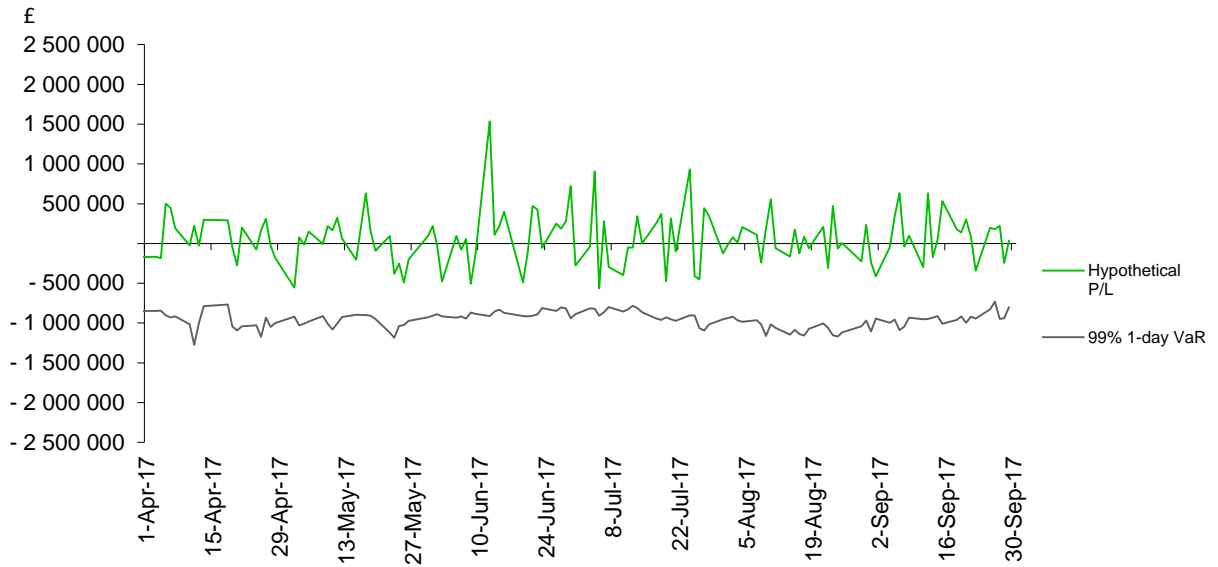


## Risk management

### Traded market risk management

#### 99% one-day VaR backtesting

The average VaR utilisation for the six months to 30 September 2017 remains largely unchanged comparing to the year ended 31 March 2017. 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.



## Risk management

### Expected shortfall

The table below contains the 95% one-day expected shortfall (ES) figures. The 95% one-day ES is the average loss given that the 95% one-day VaR level has been exceeded.

95% (one-day) £'000	30 Sept 2017	31 March 2017
Equities	727	731
Foreign exchange	13	24
Interest rates	113	118
<b>Consolidated*</b>	<b>734</b>	<b>764</b>

\* The consolidated ES is lower than the sum of the individual ESs. 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 using a parametric form suitable for extreme moves.

£'000	30 September 2017				31 March 2017 Year end
	Period end	Average	High	Low	
<b>(using 99% EVT)</b>					
Equities	2 479	2 157	5 735	1 370	1 638
Foreign exchange	42	101	415	30	114
Interest rates	228	239	329	195	264
<b>Consolidated**</b>	<b>1 526</b>	<b>2 125</b>	<b>5 390</b>	<b>1 348</b>	<b>1 949</b>

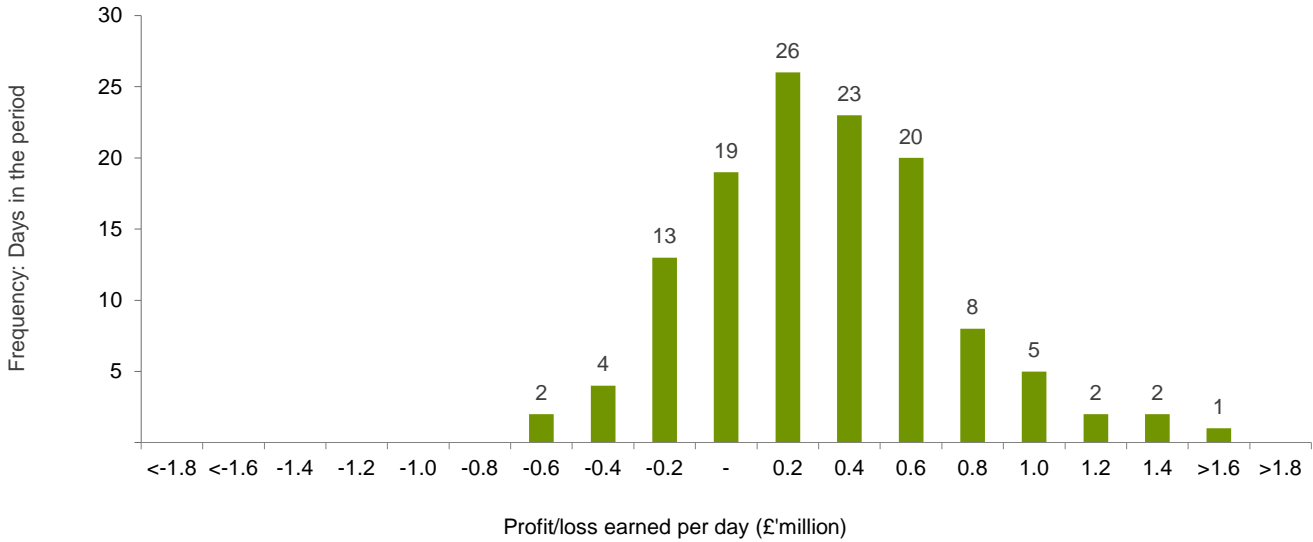
\*\* The consolidated stress test number is lower than the sum of the individual stress test numbers. This arises from the correlation offset between various asset classes (diversification).



## 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 positive trading revenue was realised on 87 days out of a total of 125 days in the trading business for the six months to 30 September 2017. The average daily trading revenue generated for the six months to 30 September 2017 as £211 997 (year to 31 March 2017: £184 716).





## 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, encumbrance and non-trading interest rate risk.

### Liquidity risk

Liquidity risk refers to the possibility that, despite being solvent, we have insufficient capacity to fund increases in assets, or are unable to meet our payment obligations as they fall due, 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.

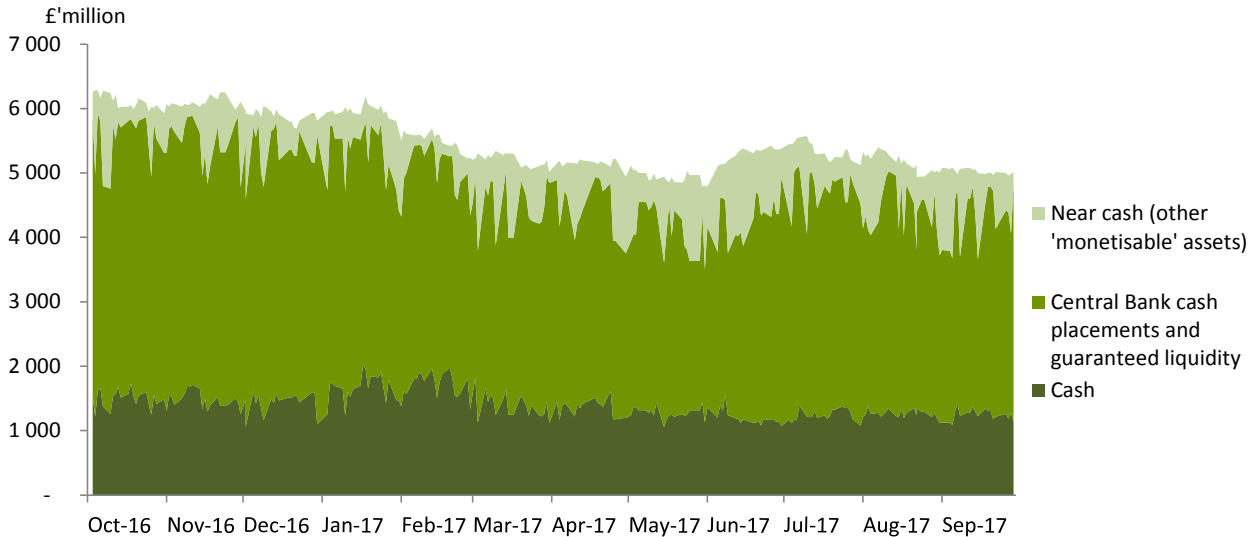
#### Liquidity risk is further broken down into:

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

#### 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

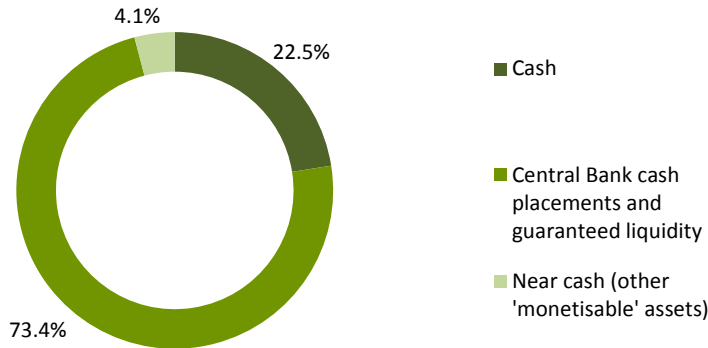




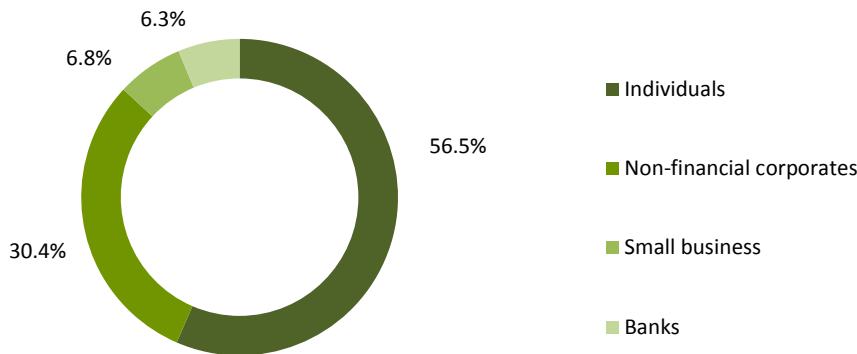
## Risk management

### Balance sheet risk management (continued)

#### An analysis of cash and near cash at 30 September 2017 (£5 013 million)



#### Bank and non-bank depositor concentration by type at 30 September 2017 (£11 581 million)



## Regulatory ratios

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. From 1 January 2017, UK banks were required to maintain a minimum of 90%, rising to 100% on 1 January 2018. The published LCR excludes Pillar 2 add-ons. For Investec plc and 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 2017 was 610% for Investec plc and 520% for Investec Bank plc (solo basis).

In November 2016, the European Commission released a number of proposals amending the CRR including a number of adjustments with respect to the NSFR. Banks will be expected to hold a NSFR of at least 100% on an ongoing basis and report their NSFR at least quarterly. The implementation date of this requirement will be two years after the date entry into force of the proposed regulation. The NSFR therefore remains subject to an observation period in advance of such implementation and we will continue to monitor these rules until final implementation. The reported NSFR may change over time with regulatory developments and guidance.

Based on our own interpretations and in line with the BCBS' final recommendations (BCBS 295), Investec plc and Investec Bank plc (solo basis) comfortably exceed the 100% minimum level for the NSFR.

## Risk management

### Liquidity mismatch

The table that follows shows our contractual liquidity mismatch.

This table incorporates cash flows on a contractual, undiscounted basis based on the earliest date on which the group can be required to pay, and reflects that loans and advances to customers are financed by stable funding sources.

With respect to the contractual liquidity mismatch:

- No assumptions are made except as mentioned below, and we record all assets 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 the assets in the liquidity buffer is of little consequence, as practically Investec would meet any unexpected net cash outflows by repo'ing or selling these 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 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 undefined 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 2017

£'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	3 644	192	23	14	5	3	2	3 883
Investment/trading assets	222	427	481	211	201	928	1 094	3 564
Securitised assets	-	4	-	-	1	11	120	136
Advances	127	490	695	876	971	4 365	1 777	9 301
Other assets	358	775	57	82	17	161	524	1 974
<b>Assets</b>	<b>4 351</b>	<b>1 888</b>	<b>1 256</b>	<b>1 183</b>	<b>1 195</b>	<b>5 468</b>	<b>3 517</b>	<b>18 858</b>
Deposits - banks	(251)	(3)	(2)	-	-	(468)	(7)	(731)
Deposits - non-banks	(3 268)	(1 639)	(2 172)	(634)	(536)	(2 467)	(134)	(10 850)
Negotiable paper	(52)	(18)	(13)	(27)	(32)	(1 390)	(762)	(2 294)
Securitized liabilities	-	-	(3)	(3)	(6)	(44)	(76)	(132)
Investment/trading liabilities	(37)	(131)	(32)	(28)	(32)	(222)	(258)	(740)
Subordinated liabilities	-	-	-	-	(34)	(573)	-	(607)
Other liabilities	(160)	(764)	(109)	(153)	(45)	(172)	(38)	(1 441)
<b>Liabilities</b>	<b>(3 768)</b>	<b>(2 555)</b>	<b>(2 331)</b>	<b>(845)</b>	<b>(685)</b>	<b>(5 336)</b>	<b>(1 275)</b>	<b>(16 795)</b>
<b>Shareholders' funds</b>	-	-	-	-	-	-	<b>(2 063)</b>	<b>(2 063)</b>
<b>Contractual liquidity gap</b>	<b>583</b>	<b>(667)</b>	<b>(1 075)</b>	<b>338</b>	<b>510</b>	<b>132</b>	<b>179</b>	-
Cumulative liquidity gap	583	(84)	(1 159)	(821)	(311)	(179)	-	-

### 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
<b>Behavioural liquidity gap</b>	<b>2 880</b>	<b>(667)</b>	<b>1 098</b>	<b>339</b>	<b>510</b>	<b>(4 270)</b>	<b>110</b>	-
Cumulative	2 880	2 213	3 311	3 650	4 160	(110)	-	-

## Risk management

### Non-trading interest rate risk description

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

Sources of interest rate risk include:

- **Repricing risk:** arises from the timing differences in the fixed rate maturity and floating rate repricing of bank assets, liabilities and off-balance sheet derivative positions. This affects the interest rate margin realised between lending income and borrowing costs when applied to our rate sensitive portfolios
- **Yield curve risk:** repricing mismatches also expose the bank to changes in the slope and shape of the yield curve
- **Basis risk:** arises from imperfect correlation in the adjustments of the rates earned and paid on different instruments with otherwise similar repricing characteristics
- **Embedded option risk:** arises from optional elements embedded in items where the bank or its customers can alter the level and timing of their cash flows
- **Endowment risk:** refers to the interest rate risk exposure arising from the net differential between interest rate insensitive assets, interest rate insensitive liabilities and capital

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

### Interest rate sensitivity gap

The table below shows our non-trading interest rate mismatch at 30 September 2017. These exposures affect the interest rate margin realised between lending income and borrowing costs assuming no management intervention.

£'million	Sensitivity to the following interest rates (expressed in original currencies)					Non-rate	Total non-trading
	Not > three months	> Three months but < six months	> Six months but < one year	> One year but < five years	> Five years		
Cash and short-term funds - banks	3 847	-	-	-	-	-	3 847
Investment/trading assets and statutory liquids	1 546	180	95	213	124	496	2 654
Securitised assets	136	-	-	-	-	-	136
Advances	7 143	578	251	1 055	274	-	9 301
Non-rate assets	-	-	-	-	-	1 471	1 471
<b>Assets</b>	<b>12 672</b>	<b>758</b>	<b>346</b>	<b>1 268</b>	<b>398</b>	<b>1 967</b>	<b>17 409</b>
Deposits - banks	(689)	-	-	-	-	-	(689)
Deposits - non-banks	(9 398)	(252)	(480)	(717)	(3)	-	(10 850)
Negotiable paper	(1 629)	-	(35)	(615)	(15)	-	(2 294)
Securitised liabilities	(132)	-	-	-	-	-	(132)
Investment/trading liabilities	(83)	(1)	-	-	-	-	(84)
Subordinated liabilities	-	-	-	(575)	-	(32)	(607)
Other liabilities	-	-	-	-	-	(690)	(690)
<b>Liabilities</b>	<b>(11 931)</b>	<b>(253)</b>	<b>(515)</b>	<b>(1 907)</b>	<b>(18)</b>	<b>(722)</b>	<b>(15 346)</b>
Shareholders' funds	-	-	-	-	-	(2 063)	(2 063)
<b>Balance sheet</b>	<b>741</b>	<b>505</b>	<b>(169)</b>	<b>(639)</b>	<b>380</b>	<b>(818)</b>	<b>-</b>
Off-balance sheet	39	-	(11)	286	(314)	-	-
<b>Repricing gap</b>	<b>780</b>	<b>505</b>	<b>(180)</b>	<b>(353)</b>	<b>66</b>	<b>(818)</b>	<b>-</b>
Cumulative repricing gap	780	1 285	1 105	752	818	-	-

### Economic value sensitivity at 30 September 2017

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	(30.4)	6.0	(5.4)	0.3	12.5	0.7	(29.1)
200bps up	27.6	(5.4)	4.9	(0.2)	(11.4)	(0.6)	26.5