

Investec Bank plc

(a subsidiary of Investec plc)

Unaudited consolidated financial
information for the year ended
31 March 2017

IFRS – Pounds Sterling

2017



Out of the Ordinary[®]



Investec

Overview of results

For the year to 31 March	2017	2016	% change
Total operating income before impairment losses on loans and advances (£'000)	982 690	859 189	14.4%
Operating costs (£'000)	744 716	628 515	18.5%
Operating profit before goodwill, acquired intangibles, non-operating items, taxation and after non-controlling interests (£'000)	161 057	146 347	10.1%
Earnings attributable to ordinary shareholder (£'000)	117 793	96 635	21.9%
Cost to income ratio	75.9%	73.3%	
Total capital resources (including subordinated liabilities) (£'000)	2 559 287	2 440 165	4.9%
Total shareholders' equity (£'000)	1 979 931	1 842 856	7.4%
Total assets (£'000)	18 381 414	18 334 568	0.3%
Net core loans and advances (£'000)	8 598 639	7 781 386	10.5%
Customer accounts (deposits) (£'000)	11 289 177	11 038 164	2.3%
Cash and near cash balances (£'000)	4 852 710	5 046 052	(3.8%)
Funds under management (£'mn)	35 941	30 104	19.4%
Capital adequacy ratio	16.6%	17.0%	
Tier 1 ratio	12.2%	11.9%	
Common equity tier 1 ratio	12.2%	11.9%	
Leverage ratio – current	8.0%	7.5%	
Leverage ratio – 'fully loaded'	8.0%	7.5%	
Defaults (net of impairments) as a % of net core loans and advances	1.55%	2.19%	
Net defaults (after collateral and impairments) as a % of net core loans and advances	–	–	
Credit loss ratio (i.e. income statement impairment charge as a % of average core loans and advances)	0.90%	1.13%	
Total gearing ratio (i.e. total assets to total equity)	9.3x	9.9x	
Loans and advances to customers: customer accounts (deposits)	76.2%	70.5%	

Consolidated income statement

For the year to 31 March
£'000

	2017	2016
Interest income	562 092	550 715
Interest expense	(263 340)	(280 649)
Net interest income	298 752	270 066
Fee and commission income	502 106	437 650
Fee and commission expense	(13 260)	(11 608)
Investment income	55 900	67 308
Share of post taxation operating profit of associate	1 741	1 975
Trading income arising from		
– customer flow	129 706	92 683
– balance sheet management and other trading activities	(138)	(8 552)
Other operating income	7 883	9 667
Total operating income before impairment losses on loans and advances	982 690	859 189
Impairment losses on loans and advances	(74 956)	(84 217)
Operating income	907 734	774 972
Operating costs	(744 716)	(628 515)
Depreciation on operating leased assets	(2 141)	(2 149)
Operating profit before goodwill and acquired intangibles	160 877	144 308
Impairment of goodwill	(3 134)	–
Amortisation of acquired intangibles	(14 386)	(14 477)
Operating profit	143 357	129 831
Net loss on disposal of subsidiaries	–	(4 805)
Profit before taxation	143 357	125 026
Taxation on operating profit before goodwill and acquired intangibles	(29 049)	(35 131)
Taxation on acquired intangibles, goodwill and disposal of subsidiaries	3 305	4 701
Profit after taxation	117 613	94 596
Loss attributable to non-controlling interests	180	2 039
Earnings attributable to shareholder	117 793	96 635

Consolidated statement of total comprehensive income

For the year to 31 March

£'000

	2017	2016
Profit after taxation	117 613	94 596
Other comprehensive income/(loss):		
Items that may be reclassified to the income statement:		
Gains on realisation of available-for-sale assets recycled through the income statement*	(2 622)	(1 298)
Fair value movements on available-for-sale assets taken directly to other comprehensive income*	29 809	(20 170)
Foreign currency adjustments on translating foreign operations	27 418	3 968
Total comprehensive income	172 218	77 096
Total comprehensive loss attributable to non-controlling interests	(538)	(2 149)
Total comprehensive income attributable to ordinary shareholder	172 756	79 245
Total comprehensive income	172 218	77 096

* Net of taxation.

Consolidated balance sheet

At 31 March

£'000

2017

2016

Assets

Cash and balances at central banks	2 853 567	2 638 064
Loans and advances to banks	922 764	935 071
Reverse repurchase agreements and cash collateral on securities borrowed	536 173	557 025
Sovereign debt securities	952 902	1 252 991
Bank debt securities	184 626	188 397
Other debt securities	408 149	403 521
Derivative financial instruments	610 371	842 936
Securities arising from trading activities	522 760	524 344
Investment portfolio	454 566	419 861
Loans and advances to customers	8 598 639	7 781 386
Other loans and advances	556 464	577 584
Other securitised assets	138 628	150 565
Interests in associated undertakings	23 818	17 446
Deferred taxation assets	78 945	71 563
Other assets	1 089 390	1 453 050
Property and equipment	58 857	53 042
Investment properties	14 500	79 051
Goodwill	259 965	261 804
Intangible assets	116 330	126 867
	18 381 414	18 334 568

Liabilities

Deposits by banks	673 586	526 717
Derivative financial instruments	583 562	964 386
Other trading liabilities	136 041	226 598
Repurchase agreements and cash collateral on securities lent	223 997	281 260
Customer accounts (deposits)	11 289 177	11 038 164
Debt securities in issue	1 640 839	1 508 672
Liabilities arising on securitisation of other assets	128 838	120 617
Current taxation liabilities	146 743	141 064
Deferred taxation liabilities	26 557	26 143
Other liabilities	972 787	1 060 782
	15 822 127	15 894 403

Subordinated liabilities

579 356

597 309

16 401 483

16 491 712

Equity

Ordinary share capital	1 186 800	1 186 800
Share premium	143 288	143 288
Capital reserve	162 789	162 789
Other reserves	18 782	(36 181)
Retained income	470 272	387 606

Shareholder's equity excluding non-controlling interests

1 981 931

1 844 302

Non-controlling interests in partially held subsidiaries

(2 000)

(1 446)

Total equity

1 979 931

1 842 856

Total liabilities and equity

18 381 414

18 334 568

Statement of changes in equity

£'000	2017	2016
Balance at the beginning of the year	1 842 856	1 801 115
Movement in reserves		
Profit after taxation	117 613	94 596
Gains on realisation of available-for-sale assets recycled through the income statement	(2 622)	(1 298)
Fair value movements on available-for-sale assets	29 809	(20 170)
Foreign currency adjustments on translating foreign operations	27 418	3 968
Total comprehensive income for the year	172 218	77 096
Share-based payments adjustments	(127)	4 620
Dividends paid to ordinary shareholder	(35 000)	(40 000)
Movement arising on reduction/acquisition of non-controlling interests	(16)	25
Balance at the end of the year	1 979 931	1 842 856

Segmental business analysis – income statement

For the year to 31 March 2017 £'000	Wealth & Investment	Specialist Banking	Total group
Net interest income	4 368	294 384	298 752
Fee and commission income	268 429	233 677	502 106
Fee and commission expense	(582)	(12 678)	(13 260)
Investment income	2 169	53 731	55 900
Share of post taxation operating profit of associates	1 509	232	1 741
Trading income arising from			
– customer flow	740	128 966	129 706
– balance sheet management and other trading activities	215	(353)	(138)
Other operating income	–	7 883	7 883
Total operating income before impairment losses on loans and advances	276 848	705 842	982 690
Impairment losses on loans and advances	–	(74 956)	(74 956)
Operating income	276 848	630 886	907 734
Operating costs	(211 658)	(533 058)	(744 716)
Depreciation on operating leased assets	–	(2 141)	(2 141)
Operating profit before goodwill and acquired intangibles	65 190	95 687	160 877
Loss attributable to non-controlling interests	–	180	180
Operating profit before goodwill, acquired intangibles and after non-controlling interests	65 190	95 867	161 057
Selected returns and key statistics			
Cost to income ratio	76.5%	75.8%	75.9%
Total assets (£ million)	952	17 429	18 381

For the year to 31 March 2016 £'000	Wealth & Investment	Specialist Banking	Total group
Net interest income	4 064	266 002	270 066
Fee and commission income	246 202	191 448	437 650
Fee and commission expense	(1 209)	(10 399)	(11 608)
Investment income	5 817	61 491	67 308
Share of post taxation operating profit of associates	1 191	784	1 975
Trading income arising from			
– customer flow	333	92 350	92 683
– balance sheet management and other trading activities	138	(8 690)	(8 552)
Other operating income	–	9 667	9 667
Total operating income before impairment losses on loans and advances	256 536	602 653	859 189
Impairment losses on loans and advances	–	(84 217)	(84 217)
Operating income	256 536	518 436	774 972
Operating costs	(193 507)	(435 008)	(628 515)
Depreciation on operating leased assets	–	(2 149)	(2 149)
Operating profit before goodwill and acquired intangibles	63 029	81 279	144 308
Loss attributable to non-controlling interests	–	2 039	2 039
Operating profit before goodwill, acquired intangibles and after non-controlling interests	63 029	83 318	146 347
Selected returns and key statistics			
Cost to income ratio	75.4%	72.4%	73.3%
Total assets (£ million)	1 026	17 309	18 335

Additional income statement note disclosures

Net interest income

		2017		2016	
For the year to 31 March £'000	Notes	Balance sheet value	Interest income	Balance sheet value	Interest income
Cash, near cash and bank debt and sovereign debt securities	1	5 450 032	33 054	5 571 548	47 164
Core loans and advances	2	8 598 639	469 649	7 781 386	424 660
Private client		3 454 366	151 645	3 510 327	150 060
Corporate, institutional and other clients		5 144 273	318 004	4 271 059	274 600
Other debt securities and other loans and advances		964 613	59 389	981 105	78 891
Total interest-earning assets		15 013 284	562 092	14 334 039	550 715

		2017		2016	
For the year to 31 March £'000	Notes	Balance sheet value	Interest expense	Balance sheet value	Interest expense
Deposits by banks and other debt-related securities	3	2 538 422	75 667	2 316 649	85 771
Customer accounts		11 289 177	131 791	11 038 164	138 007
Subordinated liabilities		579 356	55 882	597 309	56 871
Total interest-bearing liabilities		14 406 955	263 340	13 952 122	280 649
Net interest income			298 752		270 066
Net interest margin			2.04%		1.88%

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 year to 31 March

£'000

	2017	2016
Asset management and wealth management businesses net fee and commission income	267 847	244 993
Fund management fees/fees for assets under management	211 474	191 944
Private client transactional fees	56 955	54 258
Fee and commission expense	(582)	(1 209)
Specialist Banking net fee and commission income	220 999	181 049
Corporate and institutional transactional and advisory services	204 233	163 525
Private client transactional fees	29 444	27 923
Fee and commission expense	(12 678)	(10 399)
Net fee and commission income	488 846	426 042
Annuity fees (net of fees payable)	269 765	260 056
Deal fees	219 081	165 986

Investment income

For the year to 31 March

£'000

	Investment portfolio (listed and unlisted equities)*	Debt securities (sovereign, bank and other)	Investment properties	Other asset categories	Total
2017					
Realised	38 533	(8 482)	18 337	(2 128)	46 260
Unrealised [^]	(3 086)	5 138	(10 008)	(1 315)	(9 271)
Dividend income	12 339	–	–	–	12 339
Funding and other net related income	–	–	–	6 572	6 572
Total investment income	47 786	(3 344)	8 329	3 129	55 900
2016					
Realised	10 319	36 331	–	2 673	49 323
Unrealised [^]	15 562	(7 468)	1 282	(11 687)	(2 311)
Dividend income	15 419	–	–	–	15 419
Funding and other net related income	–	–	–	4 877	4 877
Total investment income	41 300	28 863	1 282	(4 137)	67 308

* Including embedded derivatives (warrants and profit shares).

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

Additional IAS 34 disclosures

Analysis of financial assets and liabilities by measurement basis

At 31 March £'000	Total instruments at fair value	Total instruments at amortised cost	Non- financial instruments	Total
2017				
Assets				
Cash and balances at central banks	2 497	2 851 070	–	2 853 567
Loans and advances to banks	–	922 764	–	922 764
Reverse repurchase agreements and cash collateral on securities borrowed	71 028	465 145	–	536 173
Sovereign debt securities	952 902	–	–	952 902
Bank debt securities	8 067	176 559	–	184 626
Other debt securities	140 166	267 983	–	408 149
Derivative financial instruments*	610 371	–	–	610 371
Securities arising from trading activities	522 760	–	–	522 760
Investment portfolio	454 566	–	–	454 566
Loans and advances to customers	86 482	8 512 157	–	8 598 639
Other loans and advances	–	556 464	–	556 464
Other securitised assets	138 628	–	–	138 628
Interests in associated undertakings	–	–	23 818	23 818
Deferred taxation assets	–	–	78 945	78 945
Other assets	148 251	725 383	215 756	1 089 390
Property and equipment	–	–	58 857	58 857
Investment properties	–	–	14 500	14 500
Goodwill	–	–	259 965	259 965
Intangible assets	–	–	116 330	116 330
	3 135 718	14 477 525	768 171	18 381 414
Liabilities				
Deposits by banks	–	673 586	–	673 586
Derivative financial instruments*	583 562	–	–	583 562
Other trading liabilities	136 041	–	–	136 041
Repurchase agreements and cash collateral on securities lent	77 154	146 843	–	223 997
Customer accounts (deposits)	–	11 289 177	–	11 289 177
Debt securities in issue	427 576	1 213 263	–	1 640 839
Liabilities arising on securitisation of other assets	128 838	–	–	128 838
Current taxation liabilities	–	–	146 743	146 743
Deferred taxation liabilities	–	–	26 557	26 557
Other liabilities	–	746 197	226 590	972 787
	1 353 171	14 069 066	399 890	15 822 127
Subordinated liabilities	–	579 356	–	579 356
	1 353 171	14 648 422	399 890	16 401 483

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

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 31 March £'000	Valuation technique applied			
	Total instruments at fair value	Level 1	Level 2	Level 3
2017				
Assets				
Cash and balances at central banks	2 497	2 497	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	71 028	–	71 028	–
Sovereign debt securities	952 902	952 902	–	–
Bank debt securities	8 067	8 067	–	–
Other debt securities	140 166	2 147	138 019	–
Derivative financial instruments	610 371	–	551 871	58 500
Securities arising from trading activities	522 760	491 675	22 014	9 071
Investment portfolio	454 566	48 833	17 923	387 810
Loans and advances to customers	86 482	–	–	86 482
Other securitised assets	138 628	–	–	138 628
Other assets	148 251	148 251	–	–
	3 135 718	1 654 372	800 855	680 491
Liabilities				
Derivative financial instruments	583 562	1 676	580 838	1 048
Other trading liabilities	136 041	136 041	–	–
Repurchase agreements and cash collateral on securities lent	77 154	–	77 154	–
Debt securities in issue	427 576	–	414 894	12 682
Liabilities arising on securitisation of other assets	128 838	–	–	128 838
	1 353 171	137 717	1 072 886	142 568
Net assets/(liabilities)	1 782 547	1 516 655	(272 031)	537 923

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

Transfers between level 1 and level 2

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

Additional IAS 34 disclosures

(continued)

Fair value hierarchy (continued)

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

£'000	Total level 3 financial instruments	Fair value through profit and loss instruments	Available- for-sale instruments
Balance as at 1 April 2016	528 039	473 072	54 967
Total gains or losses	72 550	58 374	14 176
In the income statement	74 751	58 374	16 377
In the statement of comprehensive income	(2 201)	–	(2 201)
Purchases	98 275	95 155	3 120
Sales	(134 386)	(122 877)	(11 509)
Issues	(16 226)	(16 226)	–
Settlements	(51 847)	(30 404)	(21 443)
Transfers into level 3	–	–	–
Transfers out of level 3	–	–	–
Foreign exchange adjustments	41 518	39 537	1 981
Balance as at 31 March 2017	537 923	496 631	41 292

The group transfers between levels within the fair value hierarchy when the observability of inputs change or if the valuation methods change. The following table quantifies the gains or (losses) included in the income statement and other comprehensive income recognised on level 3 financial instruments:

For the year to £'000	Total	Realised	Unrealised
31 March 2017			
Total gains or (losses) included in the income statement for the year			
Net interest income	1 831	1 831	–
Fee and commission income	11 732	11 443	289
Investment income	34 490	35 034	(544)
Trading income arising from customer flow	26 661	16	26 645
Trading income arising from balance sheet management and other trading activities	37	37	–
	74 751	48 361	26 390
Total gains or (losses) included in other comprehensive income for the year			
Gains on realisation of available-for-sale assets recycled through the income statement	16 377	16 377	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	(2 201)	–	(2 201)
	14 176	16 377	(2 201)

Additional IAS 34 disclosures

(continued)

The following table sets out the group's principal valuation techniques as at 31 March 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
Assets		
Reverse repurchase agreements and cash collateral on securities borrowed	Discounted cash flow model, Hermite interpolation, Black-Scholes	Discount rates
Other debt securities	Discounted cash flow model	Discount rates, swap curves and NCD curves, external prices, broker quotes
Derivative financial instruments	Discounted cash flow model, Hermite interpolation, industry standard derivative pricing models including Black-Scholes	Discount rate, risk free rate, volatilities, 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
Liabilities		
Derivative financial instruments	Discounted cash flow model, Hermite interpolation, industry standard derivative pricing models including Black-Scholes	Discount rate, risk free rate, volatilities, forex forward points and spot rates, interest rate swap curves and credit curves
Repurchase agreements and cash collateral on securities lent	Discounted cash flow model, Hermite interpolation	Discount rates
Debt securities in issue	Discounted cash flow model	Discount rates

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:

	Balance sheet value £'000	Significant unobservable input	Range of unobservable input used	Favourable changes £'000	Unfavourable changes £'000
31 March 2017					
Assets					
Derivative financial instruments	58 500	Reflected in income statement		6 632	(4 956)
		Volatilities	4% – 9.5%	2 465	(1 537)
		EBITDA	5% – 6 %	648	(1 086)
		Cash flow adjustments	CPR 6.25% – 8.4%	63	–
		Other [^]	^	3 456	(2 333)
Securities arising from trading activities	9 071	Reflected in income statement			
		Cash flow adjustments	CPR 9%	1 290	(1 074)
Investment portfolio	387 810	Reflected in income statement		41 632	(32 599)
		Price earnings multiple	3 x – 10.3 x	5 429	(5 788)
		Other [^]	^	36 203	(26 811)
		Reflected in other comprehensive income		6 228	(2 655)
		Price earnings multiple	4.0 x – 4.5 x	630	(301)
		Other [^]	^	5 598	(2 354)
Loans and advances to customers	86 482	Reflected in income statement		9 825	(9 716)
		EBITDA	10%	5 681	(5 681)
		Other [^]	^	4 144	(4 035)
Other securitised assets*	138 628	Reflected in income statement			
		Cash flow adjustments	CPR 6.25%	48	(38)
Liabilities					
Derivative financial instruments	1 048	Reflected in income statement		734	(1 580)
		Cash flow adjustments	CPR 8%	716	(1 510)
		Volatilities	7% – 8.5%	18	(70)
Liabilities arising on securitisation of other assets*	128 838	Reflected in income statement			
		Cash flow adjustments	CPR 6.25%	931	(847)
Debt securities in issue	12 682	Reflected in income statement			
		Volatilities	7%	401	(608)
Net level 3 assets	537 923			67 721	(54 073)

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

[^] Other – The valuation sensitivity for the private equity and embedded derivatives (profit 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 31 March 2017
£'000

	Carrying amount	Fair value
Assets		
Cash and balances at central banks	2 851 070	2 851 070
Loans and advances to banks	922 764	922 764
Reverse repurchase agreements and cash collateral on securities borrowed	465 145	465 145
Bank debt securities	176 559	189 296
Other debt securities	267 983	262 187
Loans and advances to customers	8 512 157	8 499 792
Other loans and advances	556 464	538 634
Other assets	725 383	725 324
	14 477 525	14 454 212
Liabilities		
Deposits by banks	673 586	684 153
Repurchase agreements and cash collateral on securities lent	146 843	146 843
Customer accounts (deposits)	11 289 177	11 334 732
Debt securities in issue	1 213 263	1 229 551
Other liabilities	746 197	746 192
Subordinated liabilities	579 356	707 146
	14 648 422	14 848 617

Understanding the group's results

In order to present a more meaningful view of the group's performance, additional management information is presented on the group's ongoing businesses, as set out on the following pages.

The additional information presented on an ongoing basis excludes items, that in management's view, could distort the comparison of performance between periods. Based on this principle, the remaining legacy business in the UK (as set out on page 24) has been excluded from underlying statutory profit to derive the group's ongoing operating profit.

A reconciliation between the statutory and ongoing income statement is provided on page 17.

This basis of preparation is consistent with the approach adopted for the year ended 31 March 2016.

Ongoing information

The tables that follow provide information on our ongoing results.

Consolidated summarised ongoing income statement

For the year to 31 March £'000	2017	2016	Variance	% change
Net interest income	299 396	268 226	31 170	11.6%
Net fee and commission income	488 913	422 757	66 156	15.6%
Investment income	55 328	66 815	(11 487)	(17.2%)
Share of post taxation operating profit of associate	1 741	1 975	(234)	(11.9%)
Trading income arising from				
– customer flow	129 711	93 335	36 376	39.0%
– balance sheet management and other trading activities	(278)	(8 312)	8 034	96.6%
Other operating income	7 558	9 667	(2 109)	(21.8%)
Total operating income before impairment losses on loans and advances	982 369	854 463	127 906	15.0%
Impairment losses on loans and advances	(20 651)	(16 069)	(4 582)	28.5%
Operating income	961 718	838 394	123 324	14.7%
Operating costs	(733 485)	(617 969)	(115 516)	18.7%
Depreciation on operating leased assets	(2 141)	(2 149)	8	(0.4%)
Operating profit before goodwill, acquired intangibles and non-operating items	226 092	218 276	7 816	3.6%
Loss attributable to non-controlling interests	180	2 039	(1 859)	(91.2%)
Operating profit before taxation	226 272	220 315	5 957	2.7%
Taxation	(40 853)	(53 138)	12 485	(23.5%)
Attributable earnings before goodwill, acquired intangibles and non-operating items	185 419	167 177	18 242	11.0%
Cost to income ratio	74.8%	72.5%		

Reconciliation from statutory summarised income statement to ongoing summarised income statement

For the year to 31 March 2017 £'000	Statutory as disclosed	UK legacy business	Ongoing business
Net interest income	298 752	(644)	299 396
Net fee and commission income	488 846	(67)	488 913
Investment income	55 900	572	55 328
Share of post taxation operating profit of associate	1 741	–	1 741
Trading income arising from			
– customer flow	129 706	(5)	129 711
– balance sheet management and other trading activities	(138)	140	(278)
Other operating income	7 883	325	7 558
Total operating income before impairment losses on loans and advances	982 690	321	982 369
Impairment losses on loans and advances	(74 956)	(54 305)	(20 651)
Operating income	907 734	(53 984)	961 718
Operating costs	(744 716)	(11 231)	(733 485)
Depreciation on operating leased assets	(2 141)	–	(2 141)
Operating profit/(loss) before goodwill, acquired intangibles and non-operating items	160 877	(65 215)	226 092
Loss attributable to non-controlling interests	180	–	180
Operating profit/(loss) before taxation	161 057	(65 215)	226 272
Taxation*	(29 049)	11 804	(40 853)
Attributable earnings before goodwill, acquired intangibles and non-operating items	132 008	(53 411)	185 419
Cost to income ratio	75.9%		74.8%

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

Ongoing information

(continued)

Reconciliation from statutory summarised income statement to ongoing summarised income statement (continued)

For the year to 31 March 2016 £'000	Statutory as disclosed	UK legacy business	Ongoing business
Net interest income	270 066	1 840	268 226
Net fee and commission income	426 042	3 285	422 757
Investment income	67 308	493	66 815
Share of post taxation operating profit of associate	1 975	–	1 975
Trading income arising from			
– customer flow	92 683	(652)	93 335
– balance sheet management and other trading activities	(8 552)	(240)	(8 312)
Other operating income	9 667	–	9 667
Total operating income before impairment losses on loans and advances	859 189	4 726	854 463
Impairment losses on loans and advances	(84 217)	(68 148)	(16 069)
Operating income	774 972	(63 422)	838 394
Operating costs	(628 515)	(10 546)	(617 969)
Depreciation on operating leased assets	(2 149)	–	(2 149)
Operating profit/(loss) before goodwill, acquired intangibles and non-operating items	144 308	(73 968)	218 276
Loss attributable to non-controlling interests	2 039	–	2 039
Operating profit/(loss) before taxation	146 347	(73 968)	220 315
Taxation*	(35 131)	18 007	(53 138)
Attributable earnings before goodwill, acquired intangibles and non-operating items	111 216	(55 961)	167 177
Cost to income ratio	73.3%		72.5%

* Applying the bank's effective statutory taxation rate of 24.3%.

Reconciliation from statutory summarised income statement to ongoing summarised income statement for the Specialist Banking business

For the year to 31 March 2017 £'000	Specialist Banking statutory as disclosed[^]	UK legacy business	Specialist Banking ongoing business
Net interest income/(expense)	294 384	(644)	295 028
Net fee and commission income/(expense)	220 999	(67)	221 066
Investment income	53 731	572	53 159
Share of post taxation operating profit of associate	232	–	232
Trading income arising from			
– customer flow	128 966	(5)	128 971
– balance sheet management and other trading activities	(353)	140	(493)
Other operating income	7 883	325	7 558
Total operating income before impairment losses on loans and advances	705 842	321	705 521
Impairment losses on loans and advances	(74 956)	(54 305)	(20 651)
Operating income	630 886	(53 984)	684 870
Operating costs	(533 058)	(11 231)	(521 827)
Depreciation on operating leased assets	(2 141)	–	(2 141)
Operating profit/(loss) before goodwill, acquired intangibles and non-operating items	95 687	(65 215)	160 902
Loss attributable to non-controlling interests	180	–	180
Operating profit/(loss) before taxation	95 867	(65 215)	161 082

[^] Refer to page 7.

Ongoing information

(continued)

Reconciliation from statutory summarised income statement to ongoing summarised income statement for the Specialist Banking business (continued)

For the year to 31 March 2016 £'000	Specialist Banking statutory as disclosed [^]	UK legacy business	Specialist Banking ongoing business
Net interest income	266 002	1 840	264 162
Net fee and commission income	181 049	3 285	177 764
Investment income	61 491	493	60 998
Share of post taxation operating profit of associate	784	–	1 975
Trading income arising from			
– customer flow	92 350	(652)	93 002
– balance sheet management and other trading activities	(8 690)	(240)	(8 450)
Other operating income	9 967	–	9 967
Total operating income before impairment losses on loans and advances	602 653	4 726	597 927
Impairment losses on loans and advances	(84 217)	(68 148)	(16 069)
Operating income	518 436	(63 422)	581 858
Operating costs	(435 008)	(10 546)	(424 462)
Depreciation on operating leased assets	(2 149)	–	(2 149)
Operating profit/(loss) before goodwill, acquired intangibles and non-operating items	81 279	(73 968)	155 247
Loss attributable to non-controlling interests	2 039	–	2 039
Operating profit/(loss) before taxation	83 318	(73 968)	157 286

[^] Refer to page 7.

Ongoing segmental business analysis – summarised income statement

For the year to 31 March 2017 £'000	Wealth & Investment	Specialist Banking	Total group
Net interest income	4 368	295 028	299 396
Net fee and commission income	267 847	221 066	488 913
Investment income	2 169	53 159	55 328
Share of post taxation operating profit of associate	1 509	232	1 741
Trading income arising from			
– customer flow	740	128 971	129 711
– balance sheet management and other trading activities	215	(493)	(278)
Other operating income	–	7 558	7 558
Total operating income before impairment losses on loans and advances	276 848	705 521	982 369
Impairment losses on loans and advances	–	(20 651)	(20 651)
Operating income	276 848	684 870	961 718
Operating costs	(211 658)	(521 827)	(733 485)
Depreciation on operating leased assets	–	(2 141)	(2 141)
Operating profit before goodwill, acquired intangibles and non-operating items	65 190	160 902	226 092
Loss attributable to non-controlling interests	–	180	180
Operating profit before goodwill, acquired intangibles and non-operating items and after non-controlling interests	65 190	161 082	226 272
Cost to income ratio	76.5%	74.2%	74.8%

Ongoing information

(continued)

Ongoing segmental business analysis – summarised income statement (continued)

For the year to 31 March 2016 £'000	Wealth & Investment	Specialist Banking	Total group
Net interest income	4 064	264 162	268 226
Net fee and commission income	244 993	177 764	422 757
Investment income	5 817	60 998	66 815
Share of post taxation operating profit of associate	1 191	784	1 975
Trading income arising from			
– customer flow	333	93 002	93 335
– balance sheet management and other trading activities	138	(8 450)	(8 312)
Other operating income	–	9 667	9 667
Total operating income before impairment losses on loans and advances	256 536	597 927	854 463
Impairment losses on loans and advances	–	(16 069)	(16 069)
Operating income	256 536	581 858	838 394
Operating costs	(193 507)	(424 462)	(617 969)
Depreciation on operating leased assets	–	(2 149)	(2 149)
Operating profit before goodwill, acquired intangibles and non-operating items	63 029	155 247	218 276
Loss attributable to non-controlling interests	–	2 039	2 039
Operating profit before goodwill, acquired intangibles and non-operating items and after non-controlling interests	63 029	157 286	220 315
Cost to income ratio	75.4%	71.2%	72.5%

Ongoing information

(continued)

An analysis of core loans and advances to customers and asset quality by geography

£'000	31 March 2017	31 March 2016
Gross core loans and advances to customers	8 147 798	7 220 129
Total impairments	(25 356)	(21 838)
Specific impairments	(12 393)	(20 838)
Portfolio impairments	(12 963)	(1 000)
Net core loans and advances to customers	8 122 442	7 198 291
Average gross core loans and advances to customers	7 683 964	6 786 386
Total income statement charge for impairments on core loans and advances	(20 690)	(17 806)
Gross default loans and advances to customers	34 166	49 795
Specific impairments	(12 393)	(20 838)
Portfolio impairments	(12 963)	(1 000)
Defaults net of impairments before collateral held	8 810	27 957
Collateral and other credit enhancements	25 948	34 777
Net default loans and advances to customers (limited to zero)	-	-
Ratios:		
Total impairments as a % of gross core loans and advances to customers	0.31%	0.30%
Total impairments as a % of gross default loans	74.21%	43.86%
Gross defaults as a % of gross core loans and advances to customers	0.42%	0.69%
Defaults (net of impairments) as a % of net core loans and advances to customers	0.11%	0.39%
Net defaults as a % of net core loans and advances to customers	-	-
Credit loss ratio (i.e. income statement impairment charge on core loans as a % of average gross core loans and advances)	0.27%	0.26%

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

	Statutory as disclosed	Removal of UK legacy business	Ongoing business
31 March 2017 (£'000)			
Gross core loans and advances to customers	8 725 515	577 717	8 147 798
Total impairments	(126 876)	(101 520)	(25 356)
Specific impairments	(83 488)	(71 095)	(12 393)
Portfolio impairments	(43 388)	(30 425)	(12 963)
Net core loans and advances to customers	8 598 639	476 197	8 122 442
31 March 2016 (£'000)			
Gross core loans and advances to customers	7 924 577	704 448	7 220 129
Total impairments	(143 191)	(121 353)	(21 838)
Specific impairments	(121 791)	(100 953)	(20 838)
Portfolio impairments	(21 400)	(20 400)	(1 000)
Net core loans and advances to customers	7 781 386	583 095	7 198 291

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 from £583 million to £476 million, through asset sales, redemptions and write-offs. The total legacy business over the period reported a loss before taxation of £64.6 million (2016: £78.3 million). The remaining legacy portfolio will continue to be managed down. Given the uncertainty in the UK following the EU referendum, the legacy book could take longer to wind down than management's original expectation of two to four years. Total net defaults in the legacy book amount to £125 million (2016: £143 million).

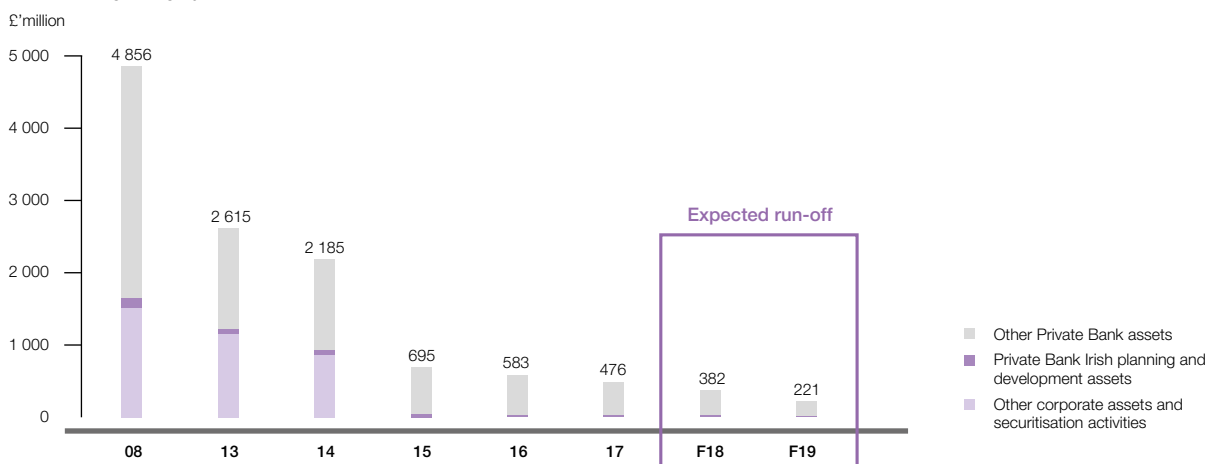
An analysis of assets within the legacy business

£'million	31 March 2017 Total net assets (after impairments)	31 March 2017 Total balance sheet impairment	31 March 2016 Total net assets (after impairments)	31 March 2016 Total balance sheet impairment
Private Bank Irish planning and development assets	18	9	23	14
Other Private Bank assets	458	93	560	107
Total legacy assets	476	102	583	121
Performing	351	–	440	–
Non-performing*	125	102*	143	121*

* Included in balance sheet impairments is a group portfolio impairment of £30.4 million (31 March 2016: £20.4 million).

Expected run-off of legacy assets

Total remaining UK legacy assets



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

At 31 March

£'000	2017	2016
Gross core loans and advances to customers	8 725 515	7 924 577
Total impairments	(126 876)	(143 191)
Specific impairments	(83 488)	(121 791)
Portfolio impairments	(43 388)	(21 400)
Net core loans and advances to customers	8 598 639	7 781 386
Average gross core loans and advances to customers	8 325 046	7 574 356
Current loans and advances to customers	8 394 580	7 539 409
Past due loans and advances to customers (1 – 60 days)	48 003	65 880
Special mention loans and advances to customers	22 585	5 354
Default loans and advances to customers	260 347	313 934
Gross core loans and advances to customers	8 725 515	7 924 577
Current loans and advances to customers	8 394 580	7 539 409
Default loans that are current and not impaired	6 993	29 639
Gross core loans and advances to customers that are past due but not impaired	105 645	99 354
Gross core loans and advances to customers that are impaired	218 297	256 175
Gross core loans and advances to customers	8 725 515	7 924 577
Total income statement charge for impairments on core loans and advances	(74 995)	(85 954)
Gross default loans and advances to customers	260 347	313 934
Specific impairments	(83 488)	(121 791)
Portfolio impairments	(43 388)	(21 400)
Defaults net of impairments	133 471	170 743
Aggregate collateral and other credit enhancements on defaults	192 760	202 524
Net default loans and advances to customers (limited to zero)	–	–
Ratios:		
Total impairments as a % of gross core loans and advances to customers	1.45%	1.81%
Total impairments as a % of gross default loans	48.73%	45.61%
Gross defaults as a % of gross core loans and advances to customers	2.98%	3.96%
Defaults (net of impairments) as a % of net core loans and advances to customers	1.55%	2.19%
Net defaults as a % of net core loans and advances to customers	–	–
Credit loss ratio (i.e. income statement impairment charge on core loans as a % of average core gross loans and advances)	0.90%	1.13%

Risk management

(continued)

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 enhance- ments on defaults	Balance sheet impairments	Income statement impairments [^]
Lending collateralised by property	1 963 754	227 515	167 972	(70 633)	(45 114)
Commercial real estate	1 190 836	80 987	48 998	(31 989)	(21 748)
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)
Residential real estate	772 918	146 528	118 974	(38 644)	(23 366)
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)
High net worth and other private client lending	1 598 801	18 458	17 139	(6 130)	(1 928)
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)
Corporate and other lending	5 162 960	14 374	7 649	(6 725)	(5 965)
Acquisition finance	1 309 335	–	–	–	(1 951)
Asset-based lending	311 628	–	–	–	–
Fund finance	861 140	–	–	–	–
Other corporates 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
Portfolio impairments	–	–	–	(43 388)	(21 988)
Total	8 725 515	260 347	192 760	(126 876)	(74 995)

[^] Where a positive number represents a recovery.

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

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

[^] Where a positive number represents a recovery or provision released.

Capital adequacy

(continued)

Capital structure and capital adequacy

£'million	31 March* 2017	31 March 2016
Tier 1 capital		
Shareholders' equity	1 939	1 793
Shareholders' equity per balance sheet	1 982	1 844
Foreseeable dividends	(35)	(34)
Deconsolidation of special purpose entities	(8)	(17)
Non-controlling interests	(4)	(1)
Non-controlling interests per balance sheet	(4)	(1)
Non-controlling interests in deconsolidated entities	–	–
Regulatory adjustments to the accounting basis	(4)	(6)
Additional value adjustments	(4)	(6)
Deductions	(379)	(386)
Goodwill and intangible assets net of deferred tax	(365)	(374)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences	(10)	(8)
Securitisation positions	(3)	(4)
Debt valuation adjustment	(1)	–
Common equity tier 1 capital	1 552	1 400
Tier 1 capital	1 552	1 400
Tier 2 capital	560	590
Tier 2 instruments	560	590
Total regulatory capital	2 112	1 990
Risk-weighted assets	12 716	11 738
Capital ratios		
Common equity tier 1 ratio	12.2%	11.9%
Tier 1 ratio	12.2%	11.9%
Total capital ratio	16.6%	17.0%

* The capital adequacy disclosures for Investec Bank plc include the deduction of foreseeable dividends when calculating common equity tier 1 (CET1) capital as now required under the Capital Requirements Regulation (CRR) and EBA technical standards. These disclosures are different to the capital disclosures included in the Interim Report, which follows our normal basis of presentation and do not include the deduction for foreseeable dividends when calculating CET1 capital. Investec Bank plc's CET1 ratio would be 28bps (31 March 2016: 30bps) higher on this basis.

Capital adequacy

(continued)

Capital requirements

£'million	31 March 2017	31 March 2016
Capital requirements	1 017	939
Credit risk – prescribed standardised exposure classes	776	698
Corporates	431	338
Secured on real estate property	156	150
Retail	45	44
Institutions	28	35
Other exposure classes	108	122
Securitisation exposures	8	9
Equity risk – standardised approach	6	8
Listed equities	1	3
Unlisted equities	5	5
Counterparty credit risk	39	41
Credit valuation adjustment risk	6	5
Market risk	68	74
Interest rate	29	27
Foreign exchange	8	21
Equities	20	16
Options	11	10
Operational risk – standardised approach	122	113
Risk-weighted assets (banking and trading)	12 716	11 738
Credit risk – prescribed standardised exposure classes	9 687	8 720
Corporates	5 380	4 224
Secured on real estate property	1 948	1 876
Retail	557	550
Institutions	353	439
Other exposure classes	1 349	1 524
Securitisation exposures	100	107
Equity risk – standardised approach	80	102
Listed equities	11	43
Unlisted equities	69	59
Counterparty credit risk	494	518
Credit valuation adjustment risk	78	58
Market risk	856	924
Interest rate	360	332
Foreign exchange	106	261
Equities	248	201
Options	142	130
Operational risk – standardised approach	1 521	1 416

Capital adequacy

(continued)

Leverage

	31 March 2017	31 March 2016
Tier 1 Capital	1 552	1 400
Total exposure	19 417	18 565
Leverage ratio	8.0%	7.5%

A summary of capital adequacy and leverage ratios

	31 March 2017	31 March 2016
Common equity tier 1 (as reported)	12.2%	11.9%
Common equity tier 1 ('fully loaded')^^	12.2%	11.9%
Tier 1 (as reported)	12.2%	11.9%
Total capital adequacy ratio (as reported)	16.6%	17.0%
Leverage ratio** – permanent capital	8.0%	7.5%
Leverage ratio** – current	8.0%	7.5%
Leverage ratio** – ('fully loaded')^^	8.0%	7.5%

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

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

The full set of annual financial statements will be available on 30 June 2017.