

Out of the Ordinary



Investec Bank plc
(a subsidiary of Investec plc)
Unaudited consolidated financial information
for the year ended 31 March 2018
IFRS – Pounds Sterling

2018



Overview of results

For the year to 31 March	2018	2017	% change
Total operating income before impairment losses on loans and advances (£'000)	1 040 147	982 690	5.8%
Operating costs (£'000)	797 049	744 716	7.0%
Operating profit before goodwill, acquired intangibles, non-operating items, taxation and after non-controlling interests (£'000)	136 347	161 057	(15.3%)
Earnings attributable to ordinary shareholder (£'000)	97 841	117 793	(16.9%)
Cost to income ratio	76.8%	75.9%	
Total capital resources (including subordinated liabilities and Additional Tier 1 securities in issue) (£'000)	2 788 840	2 559 287	9.0%
Total shareholder equity (including non-controlling interests and Additional Tier 1 securities in issue) (£'000)	2 209 167	1 979 931	11.6%
Total assets (£'000)	20 097 225	18 381 414	9.3%
Net core loans and advances (£'000)	9 663 172	8 598 639	12.4%
Customer accounts (deposits) (£'000)	11 969 625	11 289 177	6.0%
Cash and near cash balances (£'000)	5 598 418	4 852 710	15.4%
Funds under management (£'million)	37 276	35 941	3.7%
Capital adequacy ratio	16.5%	16.6%	
Tier 1 ratio	13.2%	12.2%	
Common equity tier 1 ratio	11.8%	12.2%	
Leverage ratio – current	8.5%	8.0%	
Leverage ratio – 'fully loaded'	8.5%	8.0%	
Defaults (net of impairments) as a % of net core loans and advances	2.16%	1.55%	
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)	1.14%	0.90%	
Total gearing ratio (i.e. total assets to total equity)	9.1x	9.3x	
Loans and advances to customers: customer accounts (deposits)	80.7%	76.2%	

Consolidated income statement

For the year to 31 March £'000	2018	2017
Interest income	598 494	562 092
Interest expense	(248 876)	(263 340)
Net interest income	349 618	298 752
Fee and commission income	504 606	502 106
Fee and commission expense	(10 094)	(13 260)
Investment income	68 943	55 900
Share of post taxation profit of associates	1 444	1 741
Trading income arising from:		
– customer flow	114 502	129 706
– balance sheet management and other trading activities	2 838	(138)
Other operating income	8 290	7 883
Total operating income before impairment losses on loans and advances	1 040 147	982 690
Impairment losses on loans and advances	(106 085)	(74 956)
Operating income	934 062	907 734
Operating costs	(797 049)	(744 716)
Depreciation on operating leased assets	(2 350)	(2 141)
Operating profit before goodwill and acquired intangibles	134 663	160 877
Impairment of goodwill	–	(3 134)
Amortisation of acquired intangibles	(13 273)	(14 386)
Operating profit	121 390	143 357
Profit before taxation	121 390	143 357
Taxation on operating profit before goodwill and acquired intangibles	(27 651)	(29 049)
Taxation on goodwill and acquired intangibles	2 418	3 305
Profit after taxation	96 157	117 613
Loss attributable to other non-controlling interests	1 684	180
Earnings attributable to shareholder	97 841	117 793

Consolidated statement of total comprehensive income

For the year to 31 March £'000	2018	2017
Profit after taxation	96 157	117 613
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*	(1 278)	(2 622)
Fair value movements on available-for-sale assets taken directly to other comprehensive income*	4 525	29 809
Foreign currency adjustments on translating foreign operations	(14 187)	27 418
Total comprehensive income	85 217	172 218
Total comprehensive loss attributable to non-controlling interests	(1 186)	(538)
Total comprehensive income attributable to ordinary shareholder	82 167	172 756
Total comprehensive income attributable to Additional Tier 1 securities	4 236	–
Total comprehensive income	85 217	172 218

* Net of taxation.

Consolidated balance sheet

At 31 March £'000	2018	2017
Assets		
Cash and balances at central banks	3 487 768	2 853 567
Loans and advances to banks	772 984	922 764
Reverse repurchase agreements and cash collateral on securities borrowed	750 428	536 173
Sovereign debt securities	1 155 472	952 902
Bank debt securities	107 938	184 626
Other debt securities	288 349	408 149
Derivative financial instruments	610 201	610 371
Securities arising from trading activities	701 728	522 760
Investment portfolio	472 083	454 566
Loans and advances to customers	9 663 172	8 598 639
Other loans and advances	417 747	556 464
Other securitised assets	132 172	138 628
Interests in associated undertakings	6 414	23 818
Deferred taxation assets	84 599	78 945
Other assets	1 013 440	1 089 390
Property and equipment	53 183	58 857
Investment properties	14 500	14 500
Goodwill	261 075	259 965
Intangible assets	103 972	116 330
	20 097 225	18 381 414
Liabilities		
Deposits by banks	1 295 847	673 586
Derivative financial instruments	533 319	583 562
Other trading liabilities	103 496	136 041
Repurchase agreements and cash collateral on securities lent	168 640	223 997
Customer accounts (deposits)	11 969 625	11 289 177
Debt securities in issue	1 942 869	1 640 839
Liabilities arising on securitisation of other assets	127 853	128 838
Current taxation liabilities	135 517	146 743
Deferred taxation liabilities	22 120	26 557
Other liabilities	1 009 099	972 787
	17 308 385	15 822 127
Subordinated liabilities	579 673	579 356
	17 888 058	16 401 483
Equity		
Ordinary share capital	1 186 800	1 186 800
Share premium	143 288	143 288
Capital reserve	162 789	162 789
Other reserves	7 344	18 782
Retained income	512 006	470 272
Shareholder equity excluding non-controlling interests	2 012 227	1 981 931
Additional Tier 1 securities in issue	200 000	–
Non-controlling interests in partially held subsidiaries	(3 060)	(2 000)
Total equity	2 209 167	1 979 931
Total liabilities and equity	20 097 225	18 381 414

Statement of changes in equity

£'000	2018	2017
Balance at the beginning of the year	1 979 931	1 842 856
Movement in reserves		
Profit after taxation	96 157	117 613
Gains on realisation of available-for-sale assets recycled through the income statement	(1 278)	(2 622)
Fair value movements on available-for-sale assets	4 525	29 809
Foreign currency adjustments on translating foreign operations	(14 187)	27 418
Total comprehensive income for the year	85 217	172 218
Share-based payments adjustments	1 129	(127)
Dividends paid to ordinary shareholder	(53 000)	(35 000)
Issue of Additional Tier 1 securities	200 000	–
Dividends paid to Additional Tier 1 security holders	(4 236)	–
Net equity impact of non-controlling interest movements	126	(16)
Balance at the end of the year	2 209 167	1 979 931

Segmental business analysis – income statement

For the year to 31 March 2018 £'000	Wealth & Investment	Specialist Banking	Total group
Net interest income	5 181	344 437	349 618
Fee and commission income	297 629	206 977	504 606
Fee and commission expense	(722)	(9 372)	(10 094)
Investment income	10 446	58 497	68 943
Share of post taxation profit of associates	416	1 028	1 444
Trading income arising from:			
– customer flow	1 032	113 470	114 502
– balance sheet management and other trading activities	(7)	2 845	2 838
Other operating income	235	8 055	8 290
Total operating income before impairment losses on loans and advances	314 210	725 937	1 040 147
Impairment losses on loans and advances	–	(106 085)	(106 085)
Operating income	314 210	619 852	934 062
Operating costs	(244 940)	(552 109)	(797 049)
Depreciation on operating leased assets	–	(2 350)	(2 350)
Operating profit before goodwill and acquired intangibles	69 270	65 393	134 663
Loss attributable to non-controlling interests	–	1 684	1 684
Operating profit before goodwill, acquired intangibles and after non-controlling interests	69 270	67 077	136 347
Selected returns and key statistics			
Cost to income ratio	78.0%	76.3%	76.8%
Total assets (£'million)	996	19 101	20 097

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 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

Additional income statement note disclosures

Net interest income

		2018		2017	
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	6 274 590	26 475	5 450 032	33 054
Core loans and advances	2	9 663 172	514 737	8 598 639	469 649
Private client		3 785 828	161 107	3 454 366	151 645
Corporate, institutional and other clients		5 877 344	353 630	5 144 273	318 004
Other debt securities and other loans and advances		706 096	57 282	964 613	59 389
Total interest-earning assets		16 643 858	598 494	15 013 284	562 092

		2018		2017	
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	3 407 356	76 206	2 538 422	75 667
Customer accounts		11 969 625	117 325	11 289 177	131 791
Subordinated liabilities		579 673	55 345	579 356	55 882
Total interest-bearing liabilities		15 956 654	248 876	14 406 955	263 340
Net interest income			349 618		298 752
Net interest margin			2.21%		2.04%

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	2018	2017
Wealth management businesses net fee and commission income	296 907	267 847
Fund management fees/fees for assets under management	243 000	211 474
Private client transactional fees	54 629	56 955
Fee and commission expense	(722)	(582)
Specialist Banking net fee and commission income	197 605	220 999
Corporate and institutional transactional and advisory services	192 445	204 233
Private client transactional fees	14 532	29 444
Fee and commission expense	(9 372)	(12 678)
Net fee and commission income	494 512	488 846
Annuity fees (net of fees payable)	312 491	269 765
Deal fees	182 021	219 081

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
2018					
Realised	38 517	5 779	(86)	(657)	43 553
Unrealised [^]	13 798	2 730	–	(9 714)	6 814
Dividend income	10 171	–	–	–	10 171
Funding and other net related income	–	–	–	8 405	8 405
Total investment income/(loss)	62 486	8 509	(86)	(1 966)	68 943
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/(loss)	47 786	(3 344)	8 329	3 129	55 900

* 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
2018				
Assets				
Cash and balances at central banks	7 784	3 479 984	–	3 487 768
Loans and advances to banks	–	772 984	–	772 984
Reverse repurchase agreements and cash collateral on securities borrowed	37 878	712 550	–	750 428
Sovereign debt securities	1 155 472	–	–	1 155 472
Bank debt securities	–	107 938	–	107 938
Other debt securities	79 099	209 250	–	288 349
Derivative financial instruments*	610 201	–	–	610 201
Securities arising from trading activities	701 728	–	–	701 728
Investment portfolio	472 083	–	–	472 083
Loans and advances to customers	133 740	9 529 432	–	9 663 172
Other loans and advances	–	417 747	–	417 747
Other securitised assets	132 172	–	–	132 172
Interests in associated undertakings	–	–	6 414	6 414
Deferred taxation assets	–	–	84 599	84 599
Other assets	57 218	730 754	225 468	1 013 440
Property and equipment	–	–	53 183	53 183
Investment properties	–	–	14 500	14 500
Goodwill	–	–	261 075	261 075
Intangible assets	–	–	103 972	103 972
	3 387 375	15 960 639	749 211	20 097 225
Liabilities				
Deposits by banks	–	1 295 847	–	1 295 847
Derivative financial instruments*	533 319	–	–	533 319
Other trading liabilities	103 496	–	–	103 496
Repurchase agreements and cash collateral on securities lent	34 886	133 754	–	168 640
Customer accounts (deposits)	–	11 969 625	–	11 969 625
Debt securities in issue	471 886	1 470 983	–	1 942 869
Liabilities arising on securitisation of other assets	127 853	–	–	127 853
Current taxation liabilities	–	–	135 517	135 517
Deferred taxation liabilities	–	–	22 120	22 120
Other liabilities	–	790 689	218 410	1 009 099
	1 271 440	15 660 898	376 047	17 308 385
Subordinated liabilities	–	579 673	–	579 673
	1 271 440	16 240 571	376 047	17 888 058

* 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
2018				
Assets				
Cash and balances at central banks	7 784	7 784	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	37 878	–	37 878	–
Sovereign debt securities	1 155 472	1 155 472	–	–
Other debt securities	79 099	6 868	61 993	10 238
Derivative financial instruments	610 201	–	567 312	42 889
Securities arising from trading activities	701 728	670 814	24 160	6 754
Investment portfolio	472 083	41 310	12 685	418 088
Loans and advances to customers	133 740	–	–	133 740
Other securitised assets	132 172	–	–	132 172
Other assets	57 218	57 218	–	–
	3 387 375	1 939 466	704 028	743 881
Liabilities				
Derivative financial instruments	533 319	–	531 877	1 442
Other trading liabilities	103 496	103 496	–	–
Repurchase agreements and cash collateral on securities lent	34 886	–	34 886	–
Debt securities in issue	471 886	–	457 687	14 199
Liabilities arising on securitisation of other assets	127 853	–	–	127 853
	1 271 440	103 496	1 024 450	143 494
Net assets/(liabilities) at fair value	2 115 935	1 835 970	(320 422)	600 387

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 and prior year 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 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 2017	537 923	496 631	41 292
Total gains or losses	58 315	43 144	15 171
In the income statement	55 579	43 144	12 435
In the statement of comprehensive income	2 736	–	2 736
Purchases	164 814	164 814	–
Sales	(107 952)	(90 054)	(17 898)
Issues	–	–	–
Settlements	(6 175)	(6 175)	–
Transfers into level 3	–	–	–
Transfers out of level 3	(17 916)	(17 351)	(565)
Foreign exchange adjustments	(28 622)	(27 587)	(1 035)
Balance as at 31 March 2018	600 387	563 422	36 965

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 2018			
Total gains or (losses) included in the income statement for the year			
Net interest income	–	–	–
Fee and commission income	93	–	93
Investment income	59 084	30 594	28 490
Trading income arising from customer flow	(3 598)	(488)	(3 110)
Trading income arising from balance sheet management and other trading activities	–	–	–
	55 579	30 106	25 473
Total gains included in other comprehensive income for the year			
Gains on realisation of available-for-sale assets recycled through the income statement	12 435	12 435	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	2 736	–	2 736
	15 171	12 435	2 736

For the period ended 31 March 2018, instruments to the value of £17.9 million were transferred from level 3 to level 2 (31 March 2017: nil). The valuation methodologies were reviewed and observable inputs are used to determine the fair value.

There were no transfers from level 2 to the level 3 category in the current and prior years.

Additional IAS 34 disclosures

(continued)

The following table sets out the group's principal valuation techniques as at 31 March 2018 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:

31 March 2018	Balance sheet value £'000	Significant unobservable input	Range of unobservable input used	Favourable changes £'000	Unfavourable changes £'000
Assets					
Other debt securities	10 238	Reflected in income statement		402	(513)
		Cash flow adjustments	CPR 8.3% – 10%	254	(363)
		Other [^]	^	148	(150)
Derivative financial instruments	42 889	Reflected in income statement		6 376	(8 598)
		Volatilities	4% – 9%	356	(356)
		Cash flow adjustments	CPR 8% – 10%	154	(140)
		WACC	19.5% – 48.5%	4 049	(5 750)
		Other [^]	^	1 817	(2 352)
Securities arising from trading activities	6 754	Reflected in income statement			
		Cash flow adjustments	CPR 8%	1 180	(1 080)
Investment portfolio	418 088	Reflected in income statement		62 474	(70 454)
		Price earnings multiple	5.0 x – 10 x	6 159	(6 120)
		WACC	19.5% – 48.5%	12 799	(23 769)
		Other [^]	^	43 516	(40 565)
		Reflected in other comprehensive income			
		Price earnings multiple	4.0 x – 5.5 x	2 138	(2 113)
		Other [^]	^	1 963	(1 867)
Loans and advances to customers	133 740	Reflected in income statement		15 490	(16 771)
		EBITDA	10%	10 349	(10 349)
		Other [^]	^	5 141	(6 422)
Other securitised assets*	132 172	Reflected in income statement			
		Cash flow adjustments	CPR 8%	885	(742)
Total level 3 assets	743 881			88 945	(100 271)
Liabilities					
Derivative financial instruments	1 442	Reflected in income statement		(110)	122
		Cash flow adjustments	CPR 10%	(107)	119
		Volatilities	8%	(3)	3
Debt securities in issue	14 199	Reflected in income statement			
		Volatilities	6%	(157)	157
Liabilities arising on securitisation of other assets*	127 853	Reflected in income statement			
		Cash flow adjustments	CPR 8%	(236)	231
Total level 3 liabilities	143 494			(503)	510
Net level 3 assets	600 387				

* 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. It is an unobservable input into a discounted cash flow valuation.

Discount rates

Discount rates (including WACC) are used to adjust for the time value of money when using a discounted cash flow valuation method. Where relevant, the discount rate also accounts for illiquidity, market conditions and uncertainty of future cash flows.

Volatilities

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

Cash flows

Cash flows relate to the future cash flows which can be expected from the instrument and requires judgement. Cash flows are input into a discounted cash flow valuation.

Price earnings multiple

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

EBITDA

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

Fair value of financial instruments at amortised cost

At 31 March 2018 £'000	Carrying amount	Fair value
Assets		
Cash and balances at central banks	3 479 984	3 479 984
Loans and advances to banks	772 984	773 019
Reverse repurchase agreements and cash collateral on securities borrowed	712 550	712 582
Bank debt securities	107 938	116 875
Other debt securities	209 250	206 923
Loans and advances to customers	9 529 432	9 524 320
Other loans and advances	417 747	414 832
Other assets	730 754	726 696
	15 960 639	15 955 231
Liabilities		
Deposits by banks	1 295 847	1 290 150
Repurchase agreements and cash collateral on securities lent	133 754	133 754
Customer accounts (deposits)	11 969 625	11 949 170
Debt securities in issue	1 470 983	1 540 406
Other liabilities	790 689	786 638
Subordinated liabilities	579 673	710 580
	16 240 571	16 410 698

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 2017.

Ongoing information

The tables that follow provide information on our ongoing results.

Consolidated summarised ongoing income statement

For the year to 31 March £'000	2018	2017	Variance	% change
Net interest income	349 321	299 396	49 925	16.7%
Net fee and commission income	494 519	488 913	5 606	1.1%
Investment income	68 617	55 328	13 289	24.0%
Share of post taxation profit of associate	1 444	1 741	(297)	(17.1%)
Trading income arising from:				
– customer flow	114 520	129 711	(15 191)	(11.7%)
– balance sheet management and other trading activities	2 819	(278)	3 097	>(100%)
Other operating income	8 213	7 558	655	8.7%
Total operating income before impairment losses on loans and advances	1 039 453	982 369	57 084	5.8%
Impairment losses on loans and advances	(21 419)	(20 651)	(768)	3.7%
Operating income	1 018 034	961 718	56 316	5.9%
Operating costs	(786 880)	(733 485)	(53 395)	7.3%
Depreciation on operating leased assets	(2 350)	(2 141)	(209)	9.8%
Operating profit before goodwill, acquired intangibles and non-operating items	228 804	226 092	2 712	1.2%
Loss attributable to non-controlling interests	1 684	180	1 504	>100%
Operating profit before taxation	230 488	226 272	4 216	1.9%
Taxation	(47 232)	(40 853)	(6 379)	15.6%
Attributable earnings before goodwill, acquired intangibles and non-operating items	183 256	185 419	(2 163)	(1.2%)
Cost to income ratio	75.9%	74.8%		

Reconciliation from statutory summarised income statement to ongoing summarised income statement

For the year to 31 March 2018 £'000	Removal of:		Ongoing business
	Statutory as disclosed	UK legacy business	
Net interest income	349 618	297	349 321
Net fee and commission income	494 512	(7)	494 519
Investment income	68 943	326	68 617
Share of post taxation profit of associate	1 444	–	1 444
Trading income arising from:			
– customer flow	114 502	(18)	114 520
– balance sheet management and other trading activities	2 838	19	2 819
Other operating income	8 290	77	8 213
Total operating income before impairment losses on loans and advances	1 040 147	694	1 039 453
Impairment losses on loans and advances	(106 085)	(84 666)	(21 419)
Operating income	934 062	(83 972)	1 018 034
Operating costs	(797 049)	(10 169)	(786 880)
Depreciation on operating leased assets	(2 350)	–	(2 350)
Operating profit/(loss) before goodwill, acquired intangibles and non-operating items	134 663	(94 141)	228 804
Loss attributable to non-controlling interests	1 684	–	1 684
Operating profit/(loss) before taxation	136 347	(94 141)	230 488
Taxation	(27 651)	19 581*	(47 232)
Attributable earnings before goodwill, acquired intangibles and non-operating items	108 696	(74 560)	183 256
Cost to income ratio	76.8%		75.9%

* Applying the bank's effective statutory taxation rate of 20.8%.

Ongoing information

(continued)

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

For the year to 31 March 2017 £'000	Removal of:		Ongoing business
	Statutory as disclosed	UK legacy business	
Net interest income/(expense)	298 752	(644)	299 396
Net fee and commission income/(expense)	488 846	(67)	488 913
Investment income	55 900	572	55 328
Share of post taxation 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 for the Specialist Banking business

For the year to 31 March 2018 £'000	Removal of:		Specialist Banking ongoing business
	Specialist Banking statutory as disclosed [^]	UK legacy business	
Net interest income	344 437	297	344 140
Net fee and commission income/(expense)	197 605	(7)	197 612
Investment income	58 497	326	58 171
Share of post taxation profit of associate	1 028	–	1 028
Trading income arising from:			
– customer flow	113 470	(18)	113 488
– balance sheet management and other trading activities	2 845	19	2 826
Other operating income	8 055	77	7 978
Total operating income before impairment losses on loans and advances	725 937	694	725 243
Impairment losses on loans and advances	(106 085)	(84 666)	(21 419)
Operating income	619 852	(83 972)	703 824
Operating costs	(552 109)	(10 169)	(541 940)
Depreciation on operating leased assets	(2 350)	–	(2 350)
Operating profit/(loss) before goodwill, acquired intangibles and non-operating items	65 393	(94 141)	159 534
Loss attributable to non-controlling interests	1 684	–	1 684
Operating profit/(loss) before taxation	67 077	(94 141)	161 218

[^] 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 2017 £'000	Removal of:		Specialist Banking ongoing business
	Specialist Banking statutory as disclosed [^]	UK legacy 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 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 segmental business analysis – summarised income statement

For the year to 31 March 2018 £'000	Wealth & Investment	Specialist Banking	Total group
Net interest income	5 181	344 140	349 321
Net fee and commission income	296 907	197 612	494 519
Investment income	10 446	58 171	68 617
Share of post taxation profit of associate	416	1 028	1 444
Trading income arising from:			
– customer flow	1 032	113 488	114 520
– balance sheet management and other trading activities	(7)	2 826	2 819
Other operating income	235	7 978	8 213
Total operating income before impairment losses on loans and advances	314 210	725 243	1 039 453
Impairment losses on loans and advances	–	(21 419)	(21 419)
Operating income	314 210	703 824	1 018 034
Operating costs	(244 940)	(541 940)	(786 880)
Depreciation on operating leased assets	–	(2 350)	(2 350)
Operating profit before goodwill, acquired intangibles and non-operating items	69 270	159 534	228 804
Loss attributable to non-controlling interests	–	1 684	1 684
Operating profit before goodwill, acquired intangibles and non-operating items and after non-controlling interests	69 270	161 218	230 488
Cost to income ratio	78.0%	75.0%	75.9%

Ongoing information

(continued)

Ongoing segmental business analysis – summarised income statement (continued)

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 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)

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

£'000	31 March 2018	31 March 2017
Gross core loans and advances to customers	9 388 559	8 147 798
Total impairments	(38 434)	(25 356)
Specific impairments	(37 357)	(12 393)
Portfolio impairments	(1 077)	(12 963)
Net core loans and advances to customers	9 350 125	8 122 442
Average gross core loans and advances to customers	8 768 179	7 683 964
Total income statement charge for impairments on core loans and advances	(21 198)	(20 690)
Gross default loans and advances to customers	157 203	34 166
Specific impairments	(37 357)	(12 393)
Portfolio impairments	(1 077)	(12 963)
Defaults net of impairments before collateral held	118 769	8 810
Collateral and other credit enhancements	130 498	25 948
Net default loans and advances to customers (limited to zero)	–	–
Ratios:		
Total impairments as a % of gross core loans and advances to customers	0.41%	0.31%
Total impairments as a % of gross default loans	24.45%	74.21%
Gross defaults as a % of gross core loans and advances to customers	1.67%	0.42%
Defaults (net of impairments) as a % of net core loans and advances to customers	1.27%	0.11%
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)	0.24%	0.27%

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

£'000	Removal of		
	Statutory as disclosed	UK legacy business	Ongoing business
31 March 2018			
Gross core loans and advances to customers	9 815 012	426 453	9 388 559
Total impairments	(151 840)	(113 406)	(38 434)
Specific impairments	(89 863)	(52 506)	(37 357)
Portfolio impairments	(61 977)	(60 900)	(1 077)
Net core loans and advances to customers	9 663 172	313 047	9 350 125
31 March 2017			
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

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

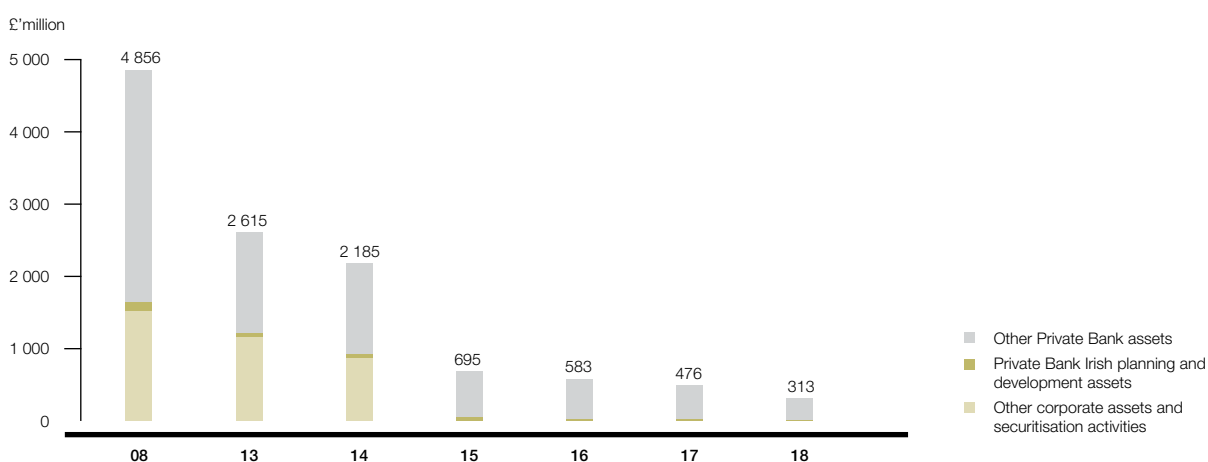
Since 31 March 2017 the group's legacy portfolio in the UK has continued to be actively managed from £476 million to £313 million, through asset sales, redemptions and write-offs. The total legacy business over the period reported a loss before taxation of £94.1 million (2017: £65.2 million) reflecting an increase in impairments for accelerated exits anticipated to occur on certain legacy assets. Total net defaults in the legacy book amount to £90 million (2017: £125 million).

An analysis of assets within the legacy business

£'million	31 March	31 March	31 March	31 March
	2018	2018	2017	2017
	Total	Total	Total	Total
	net assets	balance	net assets	balance
	(after	sheet	(after	sheet
	impairments)	impairment	impairments)	impairment
Private Bank Irish planning and development assets	12	1	18	9
Other Private Bank assets	301	112	458	93
Total legacy assets	313	113	476	102
Performing	223	–	351	–
Non-performing*	90	113*	125	102*

* Included in balance sheet impairments is a group portfolio impairment of £60.9 million (31 March 2017: £30.4 million).

Total UK legacy assets



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

At 31 March £'000	2018	2017
Gross core loans and advances to customers	9 815 012	8 725 515
Total impairments	(151 840)	(126 876)
Specific impairments	(89 863)	(83 488)
Portfolio impairments	(61 977)	(43 388)
Net core loans and advances to customers	9 663 172	8 598 639
Average gross core loans and advances to customers	9 270 264	8 325 046
Current loans and advances to customers	9 376 976	8 394 580
Past due loans and advances to customers (1 – 60 days)	40 315	48 003
Special mention loans and advances to customers (1 – 90 days)	37 085	22 585
Default loans and advances to customers	360 636	260 347
Gross core loans and advances to customers	9 815 012	8 725 515
Current loans and advances to customers	9 376 976	8 394 580
Default loans that are current and not impaired	50 224	6 993
Gross core loans and advances to customers that are past due but not impaired	135 830	105 645
Gross core loans and advances to customers that are impaired	251 982	218 297
Gross core loans and advances to customers	9 815 012	8 725 515
Total income statement charge for impairments on core loans and advances	(105 864)	(74 995)
Gross default loans and advances to customers	360 636	260 347
Specific impairments	(89 863)	(83 488)
Portfolio impairments	(61 977)	(43 388)
Defaults net of impairments	208 796	133 471
Aggregate collateral and other credit enhancements on defaults	291 834	192 760
Net default loans and advances to customers (limited to zero)	–	–
Ratios:		
Total impairments as a % of gross core loans and advances to customers	1.55%	1.45%
Total impairments as a % of gross default loans	42.10%	48.73%
Gross defaults as a % of gross core loans and advances to customers	3.67%	2.98%
Defaults (net of impairments) as a % of net core loans and advances to customers	2.16%	1.55%
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)	1.14%	0.90%

Risk management

(continued)

An analysis of core loans and advances by risk category at 31 March 2018

£'000	Gross core loans	Gross defaults	Aggregate collateral and other credit enhancements on defaults	Balance sheet impairments	Income statement impairments [^]
Lending collateralised by property	1 988 385	248 008	207 059	(54 089)	(56 048)
Commercial real estate	1 149 140	74 714	43 681	(31 060)	(29 235)
Commercial real estate – investment	953 388	48 495	35 199	(13 296)	(22 442)
Commercial real estate – development	140 222	–	–	–	–
Commercial vacant land and planning	55 530	26 219	8 482	(17 764)	(6 793)
Residential real estate	839 245	173 294	163 378	(23 029)	(26 813)
Residential real estate – investment	243 675	46 937	42 205	(5 880)	(15 918)
Residential real estate – development	524 893	97 475	90 151	(10 813)	(5 865)
Residential vacant land and planning	70 677	28 882	31 022	(6 336)	(5 030)
High net worth and other private client lending	1 918 168	11 186	13 277	(4 736)	(3 185)
Mortgages	1 481 355	6 601	10 069	(1 856)	(130)
High net worth and specialised lending	436 813	4 585	3 208	(2 880)	(3 055)
Corporate and other lending	5 908 459	101 442	71 498	(31 038)	(26 498)
Corporate and acquisition finance	1 534 815	18 102	14 202	(4 000)	(3 983)
Asset-based lending	330 820	–	–	–	–
Fund finance	1 030 450	–	–	–	–
Other corporates and financial institutions and governments	650 312	–	–	–	(61)
Asset finance	1 872 821	79 272	53 589	(26 677)	(25 436)
Small ticket asset finance	1 386 610	15 177	6 320	(8 857)	(7 616)
Large ticket asset finance	486 211	64 095	47 269	(17 820)	(17 820)
Project finance	483 788	4 068	3 707	(361)	2 982
Resource finance	5 453	–	–	–	–
Portfolio impairments				(61 977)	(20 133)
Total	9 815 012	360 636	291 834	(151 840)	(105 864)

[^] Where a positive number represents a recovery.

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 [^]
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)
Corporate and 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.

Capital adequacy

Capital structure and capital adequacy

£'million	31 March* 2018	31 March 2017
Tier 1 capital		
Shareholder equity	1 989	1 938
Shareholder equity excluding non-controlling interests	2 012	1 982
Foreseeable charges and dividends	(18)	(35)
Deconsolidation of special purpose entities	(5)	(9)
Non-controlling interests	(3)	(2)
Non-controlling interests per balance sheet	(3)	(2)
Regulatory adjustments to the accounting basis	(4)	(4)
Additional value adjustments	(4)	(4)
Deductions	(361)	(380)
Goodwill and intangible assets net of deferred tax	(348)	(366)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences	(9)	(10)
Securitisation positions	(3)	(3)
Debt valuation adjustment	(1)	(1)
Common equity tier 1 capital	1 621	1 552
Additional tier 1 instruments	200	–
Tier 1 capital	1 821	1 552
Tier 2 capital	445	560
Tier 2 instruments	445	560
Total regulatory capital	2 266	2 112
Risk-weighted assets	13 744	12 716
Capital ratios		
Common equity tier 1 ratio	11.8%	12.2%
Tier 1 ratio	13.2%	12.2%
Total capital ratio	16.5%	16.6%

* The capital adequacy disclosures for Investec Bank plc include the deduction of foreseeable charges and dividends when calculating common equity tier 1 (CET1) capital as required under the Capital Requirements Regulation and European Banking Authority technical standards. These disclosures are different to the capital disclosures included in Investec's 2018 and 2017 Integrated Annual Report, which follows our normal basis of presentation and do not include this deduction when calculating CET1 capital. Investec Bank plc's CET1 ratio would be 13bps (2017: 28bps) higher on this basis.

Capital adequacy

(continued)

Capital requirements

£'million	31 March 2018	31 March 2017
Capital requirements	1 099	1 017
Credit risk	822	776
Equity risk	6	6
Counterparty credit risk	52	39
Credit valuation adjustment risk	10	6
Market risk	77	68
Operational risk	132	122
Risk-weighted assets (banking and trading)	13 744	12 716
Credit risk	10 271	9 687
Equity risk	79	80
Counterparty credit risk	652	494
Credit valuation adjustment risk	121	78
Market risk	965	856
Operational risk	1 656	1 521

Leverage

	31 March 2018	31 March 2017
Exposure measure	21 335	19 417
Tier 1 capital	1 821	1 552
Leverage ratio** – current	8.5%	8.0%
Tier 1 capital fully loaded	1 821	1 552
Leverage ratio** – 'fully loaded'^^	8.5%	8.0%

A summary of capital adequacy and leverage ratios

	31 March* 2018	31 March 2017
Common equity tier 1 (as reported)	11.8%	12.2%
Common equity tier 1 ('fully loaded')^^	11.8%	12.2%
Tier 1 (as reported)	13.2%	12.2%
Total capital adequacy ratio (as reported)	16.5%	16.6%
Leverage ratio** – current	8.5%	8.0%
Leverage ratio** – ('fully loaded')^^	8.5%	8.0%
Leverage ratio** – current UK leverage ratio framework^^^	10.2%	9.3%

* The capital adequacy disclosures for Investec Bank plc include the deduction of foreseeable charges and dividends when calculating CET1 capital as required under the Capital Requirements Regulation and European Banking Authority technical standards. These disclosures are different to the capital disclosures included in Investec's 2018 and 2017 Integrated Annual Report, which follows our normal basis of presentation and do not include this deduction when calculating CET1 capital. Investec Bank plc's CET1 ratio would be 13bps (2017: 28bps) higher on this basis.

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

^^ At the Investec Bank plc level there is no difference between the 'reported' basis and the 'fully loaded' basis.

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

The full set of annual financial statements will be available on 30 June 2018.