ANNUAL REPORT | 2019

Investec Bank (Channel Islands) Limited

Financial statements
for the year ended 31 March 2019

Out of the Ordinary

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Company Summary for the year ended 31 March 2019

Directors

I Wohlman (Chairman)
S D Henry (Resigned 1 April 2019)
K Allen
R Le Roux
C Goodwin (Non-Executive) (Resigned 30 June 2018)
S Platts (Non-Executive)
P Stevens (Non-Executive)
F Carvill (Non-Executive) (Appointed 1 July 2018)
B Stewart (Appointed 1 April 2019)

Auditors

Ernst & Young LLP
Royal Chambers
St Julian's Avenue
St Peter Port
Guernsey

Registered Office

Glategny Court
Glategny Esplanade
St Peter Port
Guernsey
Telephone: (01481) 723506

Report of the Directors for the year ended 31 March 2019

The Directors of Investec Bank (Channel Islands) Limited (the "Company") submit their report and the audited Financial Statements of the Company for the year ended 31 March 2019.

Principal activities

The Company carries on the business of banking and related financial services. The Company has assets under administration amounting to approximately £298m (2018: £341m) which are not included in the financial statements.

Accounting framework

The Company adopts FRS 101 Reduced Disclosure Framework.

Results

The results of the Company are shown in the Statement of Comprehensive Income on page 6.

Dividend

Dividends totalling £25.0m (2018: £16.6m) were paid during the year.

Directors

The Directors of the Company during the year and to the date of this report are as stated on page 1.

Statement of directors' responsibilities

The Directors are responsible for preparing the financial statements in accordance with applicable Guernsey law and generally accepted accounting practices.

Guernsey Company law requires the Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements the Directors should:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements. They also confirm that so far as they are aware, there is no material relevant audit information of which the Company's auditors are unaware and they have taken all the steps they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Report of the Directors for the year ended 31 March 2019

Statement of directors' responsibilities (continued)

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with The Banking Supervision (Bailiwick of Guernsey) Law, 1994 and The Companies (Guernsey) Law, 2008. The Directors also have additional responsibilities as the Company is a Designated Person under the Protection of Investors (Bailiwick of Guernsey) Law 1987, and The Licences (Conduct of Business) Rules 2016. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor

A resolution to reappoint Ernst & Young LLP as auditors will be proposed at the next Annual General Meeting.

By order of the Board

Directors

Date: 27 June 2019

Independent Auditor's report

To the Members of Investec Bank (Channel Islands) Limited

Opinion

We have audited the financial statements of Investec Bank (Channel Islands) Limited ("the Company") for the year ended 31 March 2019, which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 41. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework".

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2019 and of the Company's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Accounting Standards including FRS 101 "The Financial Reporting Standards" applicable in UK and Ireland; and
- have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008, The Banking Supervision (Bailiwick of Guernsey) Law, 1994 and the Protection of Investors (Bailiwick of Guernsey) Law, 1987.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's ("FRC") Ethical Standards, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Company Information and Directors' Report but does not include the financial statements or our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Matters for which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the company; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Independent Auditor's report

Responsibilities of directors

As explained more fully in the Statement of Directors' responsibilities set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law 2008. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP
Guernsey, Channel Islands
27 June 2019

Statement of Comprehensive Income for the year ended 31 March 2019

	Notes	2019 £	2018 £
Interest receivable	6	48 990 553	40 961 877
Interest payable	7	(10 942 117)	(7 895 378)
Net interest income		**38 048 436**	**33 066 499**
Fees and commission receivable	8	5 256 586	4 965 853
Fees and commission payable	8	(308 780)	(549 794)
Net fees and commission income		**4 947 806**	**4 416 059**
Other operating income	9	672 665	629 283
Impairment losses on financial assets		–	(2 352 535)
Credit gain on financial assets	10	2 033 514	–
Net loss from financial instruments at fair value through profit or loss		(8 484)	–
Net operating income		**45 693 937**	**35 759 306**
Administrative expenses	11	(17 534 233)	(13 391 362)
Depreciation and amortisation	20, 21	(804 204)	(765 900)
Profit on ordinary activities before taxation		**27 355 500**	**21 602 044**
Tax on profit on ordinary activities	12	(2 537 436)	(1 729 365)
Profit for the financial year		**24 818 064**	**19 872 679**
Other comprehensive income			
Items that will be reclassified to the income statement			
Fair value gain on on debt instruments at fair value through other comprehensive income		265 531	–
Fair value loss on available for sale assets		–	(226 338)
Total comprehensive income for the year		**25 083 595**	**19 646 341**

All of the items in the above Statement of Comprehensive Income are derived from continuing operations.

The notes on pages 9 to 41 form an integral part of these financial statements.

Balance Sheet
at 31 March 2019

	Notes	2019 £	2018 £
Assets			
Loans and advances to banks	13	561 805 491	529 212 070
Debt securities - available for sale	14	–	666 018 638
Debt instruments at fair value through other comprehensive income	14	573 190 574	–
Financial assets at fair value through profit or loss	17	975 000	–
Loans and advances to customers	15	832 286 269	833 085 661
Derivative financial instruments	16	307 423	2 266 904
Investment in subsidiary company	18	100 000	100 000
Intangible fixed assets	20	519 206	881 286
Tangible fixed assets	21	812 989	1 044 719
Prepayments and accrued income	22	1 527 893	4 001 089
Deferred taxation assets	12	439 306	–
Other assets		1 260 683	2 929 625
Total assets		**1 973 224 834**	**2 039 539 992**
Liabilities			
Deposits by banks	23	10 090 595	9 159 829
Customer accounts	24	1 803 443 694	1 890 834 375
Derivative financial instruments	16	477 834	1 942 105
Current taxation liabilities		2 681 895	1 118 138
Other liabilities	25	3 822 707	1 959 609
Subordinated liabilities	26	25 313 783	–
Total liabilities		**1 845 830 508**	**1 905 014 056**
Equity			
Called up share capital	27	14 652 339	14 652 339
Share premium account	28	20 347 661	20 347 661
Retained earnings		88 868 165	96 713 768
Share based payment reserve	28	3 485 150	3 038 506
Fair value reserve	28	41 011	(226 338)
Total equity		**127 394 326**	**134 525 936**
Total liabilities and equity		**1 973 224 834**	**2 039 539 992**

The financial statements on pages 6 to 41 were approved and authorised for issue by the Board of Directors on 27 June 2019 and are signed on its behalf by:

(Director) (Director)

The notes on pages 9 to 41 form an integral part of these financial statements.

Statement of Changes in Equity
for the year ended 31 March 2019

	Notes	Share capital	Share premium £	Share based payment reserve £	Fair value reserve £	Retained Earnings £	Total £
Balance at 31 March 2017		**14 652 339**	**20 347 661**	**2 642 698**	**–**	**93 441 089**	**131 083 787**
Profit for year		–	–	–	–	19 872 679	19 872 679
Other comprehensive income		–	–	–	(226 338)	–	(226 338)
Total comprehensive income for the year		**–**	**–**	**–**	**(226 338)**	**19 872 679**	**19 646 341**
Dividend paid	29	–	–	–	–	(16 600 000)	(16 600 000)
Share based payments adjustment		–	–	395 808	–	–	395 808
Balance at 31 March 2018		**14 652 339**	**20 347 661**	**3 038 506**	**(226 338)**	**96 713 768**	**134 525 936**
IFRS9 Transitional Adjustments:							
Recognition of expected credit losses under IFRS9 for debt instruments at FVOCI	4	–	–	–	331 608	(331 608)	–
Recognition of IFRS 9 ECLs	4	–	–	–	–	(7 633 386)	(7 633 386)
Recognition of deferred tax asset on IFRS 9 ECLs	4	–	–	–	–	871 131	871 131
Re-measurement impact of reclassifying financial assets held at amortised cost to FVPL	4	–	–	–	–	(569 804)	(569 804)
Opening balance at 1 April 2018		**14 652 339**	**20 347 661**	**3 038 506**	**105 270**	**89 050 101**	**127 193 877**
Profit for year		–	–	–	–	24 818 064	24 818 064
Movement in in value of assets measured at FVOCI		–	–	–	265 531	–	265 531
Total comprehensive income for the year		**–**	**–**	**–**	**265 531**	**24 818 064**	**25 083 595**
Dividend paid	29	–	–	–	–	(25 000 000)	(25 000 000)
Movement of IFRS 9 ECLs including those measured at FVOCI		–	–	–	(329 790)	–	(329 790)
Share based payments adjustment		–	–	446 644	–	–	446 644
Balance at 31 March 2019		**14 652 339**	**20 347 661**	**3 485 150**	**41 011**	**88 868 165**	**127 394 326**

The notes on pages 9 to 41 form an integral part of these financial statements.

Notes to the financial statements for the year ended 31 March 2019

1. Corporate information

Investec Bank (Channel Islands) Limited (the "Company") is a company incorporated and domiciled in Guernsey, Channel Islands.

2. Statement of compliance

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with The Banking Supervision (Bailiwick of Guernsey) Law, 1994.

The Company is a wholly owned subsidiary company and the consolidated financial statements of Investec Bank PLC ("the Group") in which the Company is included are publicly available. Further details can be found in note 40.

3. Summary of significant accounting policies

3.1 Basis of preparation

These accounts are prepared under UK Accounting Standards FRS 101 for all periods presented. The Company has taken advantage of the following disclosure exemptions under FRS 101:

(a) the requirements of IAS7 *Statement of Cash Flows*;
(b) the requirements of paragraphs 30 and 31 of IAS8 *Accounting Policies, Changes in Accounting Estimates and Errors* to disclose the nature and impact of IFRSs that have been issued but are not yet effective;
(c) the requirements of paragraph 17 of IAS24 *Related Party Disclosures* to disclose key management personnel compensation;
(d) the requirements in IAS24 *Related Party Disclosures* to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
(e) the requirement in paragraph 38 of IAS1 Presentation of Financial Statements to present comparative information in respect of:
  (i) paragraph 73(e) of IAS16 Property, Plant and Equipment;
  (ii) paragraph 118(e) of IAS38 Intangible Assets;
(f) the requirements of paragraphs 10(d) and 10(f) of IAS1 *Presentation of Financial Statements*.

These separate financial statements of the Company, which present information about the Company as an individual undertaking, are prepared under both the going concern basis and the historical cost basis, except for debt securities, derivative financial instruments and financial assets measured at fair value through the profit or loss which are measured at fair value.

The Directors consider the use of the going concern basis of accounting as appropriate due to there being no material uncertainties related to events or conditions that may cast significant doubt on the ability of the Company to continue as a going concern over the 12 month period from the date of approval of the financial statements.

3.2 Changes in accounting policies and disclosures

3.2.1 New and amended standards and interpretations

In these financial statements, the Company has applied IFRS9 *Financial Instruments* (IFRS9) and IFRS7R *Financial Instruments: Disclosures (Revised)* (IFRS7R), effective for annual periods beginning on or after 1 January 2018, for the first time. The Company has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

(a) IFRS9 Financial Instruments

IFRS9 replaces IAS39 for annual periods on or after 1 January 2018.

The Company has not restated comparative information for financial instruments in the scope of IFRS9. Therefore, the comparative information for March 2018 is reported under IAS39 and is not comparable to the information presented for March 2019. Differences arising from the adoption of IFRS9 have been recognised directly in retained earnings as of 1 April 2018 and are disclosed in Note 4.

Changes to classification and measurement:

To determine their classification and measurement category, IFRS9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS39 measurement categories of financial assets (fair value through profit or loss (FVPL), available for sale (AFS), held-to-maturity and amortised cost) have been replaced by:

- Debt instruments at amortised cost
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition
- Financial assets at FVPL

3. Summary of significant accounting policies (continued)

3.2 Changes in accounting policies and disclosures (continued)

3.2.1 New and amended standards and interpretations (continued)

(a) IFRS9 Financial Instruments (continued)

The accounting for financial liabilities remains largely the same as it was under IAS39.

Under IFRS9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on the business model and their contractual terms, as explained in Note 3.9.2.1. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed. The Company's accounting policies for embedded derivatives are set out in Note 3.9.2.2.

The Company's classification of its financial assets and liabilities is explained in Notes 3.9.1.

Changes to the impairment calculation

The adoption of IFRS9 has fundamentally changed the Company's accounting for loan loss impairments by replacing IAS39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS9 requires the Company to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination.

Details of the Company's impairment method are disclosed in Note 3.11.

The quantitative impact of applying IFRS 9 as at 1 April 2018 is disclosed in the Statement of Changes in Equity.

(b) IFRS7R Financial Instruments: Disclosures (Revised)

To reflect the differences between IFRS9 and IAS39, IFRS7 *Financial Instruments: Disclosures* was updated and the Company has adopted it, together with IFRS9, for the year beginning 1 April 2018. Changes include transition disclosures as shown in Note 4, detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are set out in Note 5 and Note 15.

Reconciliations from opening to closing ECL allowances are presented in Notes 13, 15 and 25.

(c) IFRS15 Revenue from Contracts with Customers

IFRS15 *Revenue from Contracts with Customers* which replaces all existing revenue requirements and related interpretations and is effective for annual periods beginning on 1 January 2018. IFRS15 redefined the principles for recognising revenue and is applicable to all contracts with customers other than contracts in the scope of other standards (e.g., interest and fee income integral to financial instruments which would be in the scope of IFRS9 and lease income). The Company adopted IFRS15 with an initial application date of 1 April 2018.

Many of the Company's revenue streams (e.g., interest income, gains and losses on financial instruments) are outside the scope of IFRS15 and, therefore, accounting for those streams did not change as a result of the adoption of IFRS15. The Company's revenue streams that are within the scope of IFRS15 relate to fee and commission income disclosed in Note 8.

The adoption of IFRS15 has resulted in no material impact to the Company's equity at 1 April 2018.

3.3 Foreign currency transactions

The presentation and functional currency of the Company is Sterling.

Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the Statement of Comprehensive Income.

3.4 Investment in subsidiary

Subsidiaries are held for the long term and are held at cost less any applicable provision for impairment. Impairment losses are recognised as an expense in the Statement of Comprehensive Income in the period in which they are identified.

Realised gains and losses on the sale of investments in subsidiaries are reflected in Statement of Comprehensive Income.

3.5 Tangible fixed and intangible assets

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses.

Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended.

Depreciation is provided on all property, plant and equipment, and amortisation on intangible assets, on a straight-line basis over its expected useful life as stated on the following page.

Notes to the financial statements for the year ended 31 March 2019

3. Summary of significant accounting policies (continued)

3.5 Tangible fixed and intangible assets (continued)

	Useful life	
	years	**%**
Leasehold improvements	10	10%
Office equipment - furniture and fittings	3-5	20% - 33%
Office equipment - general	5-6	15% - 20%
Office equipment - computer equipment	3	33%
Intangible assets	3	33%

The carrying values of property, plant and equipment and intangible assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable, and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

An item of property, plant and equipment or intangible asset is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the derecognition of the asset is included in the Statement of Comprehensive Income in the period of derecognition.

3.6 Impairment of non-financial assets

The Company assesses the impairment of non-financial assets at each reporting date or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. If any such indication exists, the Company makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses are recognised as an expense in the Statement of Comprehensive Income in the period in which they are identified.

3.7 Share-based payments (Equity settled transactions)

The Company operates share option and share purchase schemes for employees, on an equity settled basis. The purpose of the staff share schemes is to promote an 'esprit de corps' within the organisation, create an awareness of Investec's performance and provide an incentive to maximise individual and group performance by allowing staff to share in the risks and rewards of the Company.

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined by an external valuer using an appropriate pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the company (market conditions).

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the number of equity instruments that will ultimately vest or in the case of an instrument subject to market conditions, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the Statement of Comprehensive Income, with a corresponding entry in equity.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the statement of comprehensive income for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the Statement of Comprehensive Income.

3. Summary of significant accounting policies (continued)

3.8 Revenue recognition

3.8.1 Interest income

Under both IAS39 and IFRS9, interest income is recognised in the Statement of Comprehensive Income using the effective interest method for all financial instruments measured at amortised cost. Interest income on interest bearing financial assets measured at FVOCI under IFRS9, similarly to interest bearing financial assets classified as available-for-sale under IAS39 are also recorded by using the EIR method.

The Company calculates interest income on financial assets, other than those considered credit-impaired, by applying the EIR to the gross carrying amount of the financial asset.

When a financial asset becomes credit-impaired (as set out in Note 5.1) and is therefore regarded as 'Stage 3', the Company calculates interest income by applying the EIR to the net amortised cost of the financial asset. If the financial assets cures (as outlined in Note 5.1) and is no longer credit-impaired, the Company reverts to calculating interest income on a gross basis.

3.8.2 Fee and commission income

Fee and commission income includes fees earned from foreign exchange, credit related fees, bank charges and custodian services. All such commissions and fees are recognised as revenue when the related services are performed.

Fees charged on lending transactions are included in the effective yield calculation to the extent that they form an integral part of the effective interest yield, but exclude those fees earned for a separately identifiable significant act, which are recognised upon completion of the act.

The effective interest yield calculation is based on the estimated cash flows of the underlying instrument. Where this is not readily available, the contractual cash flows is used.

3.8.3 Rental income

Rental income arising from operating leases on properties with other group entities is recognised on a straight line basis over the term of the lease.

3.9 Financial Instruments - Initial Recognition

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

3.9.1 Measurement categories of financial assets and liabilities

From 1 April 2018, the Company classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit or loss (FVPL)

The Company classifies and measures its derivative portfolio at FVPL. The Company may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

Before 1 April 2018, the Company classified its financial assets as loans and receivables (amortised cost), FVPL, or Available-for-sale.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are derivative instruments.

Notes to the financial statements for the year ended 31 March 2019

3. Summary of significant accounting policies (continued)

3.9 Financial Instruments - Initial Recognition (continued)

3.9.2 Financial assets and liabilities

3.9.2.1 Loans and advances to banks and Loans and advances to customers

Before 1 April 2018, Loans and advances to banks and Loans and advances to customers, included non–derivative financial assets with fixed or determinable payments that were not quoted in an active market, other than those:

- That the Company intended to sell immediately or in the near term
- That the Company, upon initial recognition, designated as at FVPL or as available-for-sale

From 1 April 2018, the Company only measures Loans and advances to banks and Loans and advances to customers at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding

The details of these conditions are outlined below.

Business model assessment

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test

As a second step of its classification process the Company assesses the contractual terms of a financial asset to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Company applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

3.9.2.2 Derivatives financial instruments

Derivatives include forward foreign exchange contracts and interest rate swaps.

All derivative instruments of the Company are initially recorded and re-measured on balance sheet at fair value. Positive and negative fair values are reported as assets and liabilities respectively and are offset when there is both an intention to settle net and a legal right to offset exists.

Forward foreign exchange contracts are valued using appropriate valuation techniques applying a comparison to similar instruments for which observable market prices exist. Gains and losses are recognised in the profit and loss account.

Changes in the fair value of derivatives held for trading are included in other operating income.

3.9.2.3 Debt instruments at FVOCI (Policy applicable from 1 April 2018)

The Company applies the new category under IFRS9 of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset meet the SPPI test

These instruments largely comprise assets that had previously been classified as financial investments available-for-sale under IAS39.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost.

3. Summary of significant accounting policies (continued)

3.9 Financial Instruments - Initial Recognition (continued)

3.9.2 Financial assets and liabilities (continued)

3.9.2.4 Subordinated debt
After initial measurement, debt issued and other borrowed funds are subsequently measured at amortised cost (see Note 26).

3.9.2.5 Financial assets at fair value through profit or loss (policy applicable from 1 April 2018)
Financial assets in this category are those that are not held for trading and are mandatorily required to be measured at fair value under IFRS9 as the assets contain one or more embedded derivatives.

Financial assets at FVPL are recorded in the Balance Sheet at fair value.

Changes in fair value are recorded in profit and loss.

3.9.2.6 Financial guarantees and undrawn loan commitments
In the ordinary course of business, the Company gives financial guarantees. Financial guarantees are initially recognised in the financial statements at fair value in 'Other liabilities' being the premium received adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Company's liability under each guarantee is measured at the higher of the amount recognised less cumulative amortisation and the best estimate of expenditure required to settle any present financial obligation arising as a result of the guarantee at reporting date.

The premium received is recognised in the Statement of Comprehensive Income in 'Net fees and commission income' on a straight line basis over the life of the guarantee.

Undrawn loan commitments are commitments under which, over the duration of the commitment, the Company is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, under IAS39, a provision was made if they were an onerous contract but, from 1 April 2018, these contracts are in the scope of the ECL requirements. At 31 March 2018 no provision was made.

The nominal contractual value of financial guarantees and undrawn loan commitments are not recorded on in the Balance Sheet. The nominal values of these instruments together with the corresponding ECLs are disclosed in Note 31.

3.9.2.7 Available for sale financial assets (policy applicable before 1 April 2018)
Available for sale financial assets are those which are designated as such or do not qualify to be classified as designated at fair value through profit or loss or loans and receivables. Further, certain loans and receivables that are held at fair value due to being quoted on an active market, which are neither actively traded nor held-to-maturity instruments, are classified as available for sale financial assets.

Financial assets classified as available for sale are subsequently measured at fair value on the balance sheet, with unrealised gains and losses recognised as other comprehensive income directly in equity in to the available for sale reserve. When the asset is disposed of, the cumulative gain or loss previously recognised in equity is recognised in 'Profit/loss on available for sale assets'. Interest earned whilst holding available for sale financial assets is reported as interest income using the effective interest rate.

The losses arising from impairment of such financial assets are recognised in the Statement of Comprehensive Income in 'Fair value (loss)/gain on available for sale assets' and removed from the Available-for-sale reserve.

3.9.2.8 Financial Liabilities
Financial liabilities classified as non-trading include Deposits by banks and Customer accounts while held for trading include derivative financial instruments.

Non-trading liabilities are recorded at amortised cost.

Notes to the financial statements for the year ended 31 March 2019

3. Summary of significant accounting policies (continued)

3.10 Derecognition of financial assets and liabilities

3.10.1 Derecognition due to substantial modification of terms and conditions

The Company derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be Purchased or originated credit impaired (POCI).

When assessing whether or not to derecognise a loan to a customer, amongst others, the Company considers the following factors:

- Change in currency of the loan
- Introduction of an equity feature
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition.

3.10.2 Derecognition other than for substantial modification

A financial asset or a portion thereof, is derecognised when the Company's rights to cash flows have expired; or when the Company has transferred its rights to cash flows relating to the financial assets, including the transfer of substantially all of the risks and rewards associated with financial assets or when control over the financial asset has passed.

A financial liability is derecognised when it is extinguished, that is when the obligation is discharged, cancelled or expired.

3.11 Impairment of financial assets (Policy applicable from 1 April 2018)

3.11.1 Overview of the ECL principles

As described in Note 3.2.1, the Company has, from 1 April 2018, been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL).

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

Based on the above process, the Company groups its loans into Stage 1, Stage 2, and Stage 3, as described below:

- Stage 1: (12mECL): IFRS9 requires that for financial assets where there has been no significant increase in credit risk since origination a loss allowance equivalent to 12 month expected credit losses should be held. Previously under IAS39 these exposures would not be subject to a specific impairment allowance.
- Stage 2: (LTECL): IFRS9 requires financial assets that have experienced a significant increase in credit risk since initial recognition to carry a lifetime expected credit loss allowance. Under IAS39, no specific impairment provision was held for Stage 2 assets.
- Stage 3: (LTECL; Multiple economic scenarios): This relates to additional impairment allowances required on Stage 3 exposures already in default or impaired under IAS 39. This is due to the differences in the way ECL under IFRS9 and incurred loss provisions under IAS39 are calculated, including the introduction of a range of forward-looking, probability weighted macro-economic scenarios as opposed to an expected outcome. Assets are individually assessed using multiple economic scenarios under IFRS9, whereas assets treated as impaired under IAS39 carried a provision reducing the carrying value to the expected recoverable amount.
- POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.
- Loan commitments: When estimating LTECLs for undrawn loan commitments, the Company estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the four scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.
- Financial guarantee contracts: The Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, the Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability-weighting of the four scenarios.

3. Summary of significant accounting policies (continued)

3.11 Impairment of financial assets (Policy applicable from 1 April 2018) (continued)

3.11.2 The calculation of ECLs

The calculation of ECLs is required to be unbiased, probability-weighted and should incorporate all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the ECL should take into account the time value of money. As a result, the recognition and measurement of impairment is intended to be more forward-looking than under IAS 39, and the resulting impairment charge may be more volatile. IFRS9 will result in an increase in the total level of impairment allowances, since all financial assets if not measured at fair value through profit and loss (FVPL) will be assessed for at least 12 month ECL and the population of financial assets to which lifetime ECL applies is larger than the population for which there is objective evidence of impairment in accordance with IAS39.

The key elements of the ECL calculations are as follows:

- PD: The *Probability of Default* is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- EAD: The *Exposure at Default* is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- LGD: The *Loss Given Default* is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral.

The calculation of the 12-month ECL is based on the 12-month PD and LGD along with the EAD and effective interest rate (EIR) for the asset. Lifetime ECL is calculated using the lifetime PD curve, and the appropriate LGDs and EADs and discount rates derived from the EIR based on the remaining life of the financial asset.

Expert judgement models have also been utilised for certain portfolios where the ECL is found to be minimal, either due to the portfolio's relative size or the highly-rated nature of these portfolios, such as cash and balances held at central banks.

Management adjustments are made to modelled output to account for situations where additional information and known or expected risk factors have not been captured in the modelling process.

The maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Company has the legal right to call it earlier.

The measurement of ECL also requires the use of multiple economic scenarios to calculate an unbiased and a probability weighted forward-looking estimate. These scenarios are updated at least twice a year, or more frequently if there is a macro-economic shock or significant shift in expectations. A number of forecast economic scenarios are considered for capital planning, stress testing (including Investec specific stress scenarios) and IFRS 9, including multiple scenarios.

3.11.3 Debt instruments measured at fair value through OCI

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the Statement of Financial Position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

3.12 Impairment of financial assets (Policy before 1 April 2018)

The Company assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include: indications that the borrower or a group of borrowers is experiencing significant financial difficulty; the probability that they will enter bankruptcy or other financial reorganisation; the lender granting a concession to the borrower which would not normally be considered; default or delinquency in interest or principal payments; and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

3. Summary of significant accounting policies (continued)

3.12 Impairment of financial assets (continued)

3.12.1 Financial assets carried at amortised cost (Policy before 1 April 2018)

For financial assets carried at amortised cost (such as amounts due from banks and loans and advances to customers), the Company assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Comprehensive Income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of Interest and similar income.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write–off is later recovered, the recovery is credited to the 'Impairment losses on loans and advances to customers'.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate ("EIR"). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. If the Company has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new EIR determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

See Note 15 for an analysis of the impairment allowance on loans and advances.

3.12.2 Available-for-sale financial investments

For available-for-sale financial investments, the Company assesses at each reporting date whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as available-for-sale, the Company assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that instrument previously recognised in the Statement of Comprehensive Income. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of Interest and similar income. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the Statement of Comprehensive Income, the impairment loss is reversed through the Statement of Comprehensive Income.

3.13 Other Debtors

Other debtors, which generally have 30-90 day terms, are recognised and carried at the lower of their original invoiced value and recoverable amount. Provision for impairment is made through statement of comprehensive income when there is objective evidence that the Company will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

3.14 Taxation

3.14.1 Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Notes to the financial statements for the year ended 31 March 2019

3. Summary of significant accounting policies (continued)

3.14 Taxation (continued)

3.14.2 Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it becomes probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current and deferred taxes are recognised in the Statement of Comprehensive Income.

3.15 Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

3.15.1 Impairment losses on financial assets

The measurement of impairment losses both under IFRS9 and IAS39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Company's ECL calculations are outputs of complex models with a number of underlying assumptions regarding accounting judgements and estimates include:

- The Company's internal credit grading model, which assigns PDs to the individual grades
- The Company's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

3.16 Standards issued but not yet effective

3.16.1 IFRS16 Leases

The standard is effective for annual periods beginning on or after 1 January 2019. IFRS16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS17 Leases.

Lessees will be required to recognise a lease liability measured at the present value of remaining cash flows and a right of use (ROU) asset measured at the amount of the initial measurement of the lease liability, plus any lease payments made prior to commencement date, initial direct costs, and estimated costs of restoring the underlying asset to the condition required by the lease, less any lease incentives received. Subsequently the lease liability will increase for the accrual of interest, resulting in a constant rate of return throughout the life of the lease, and reduce when payments are made. The right of use asset will amortise to the income statement over the life of the lease.

Notes to the financial statements for the year ended 31 March 2019

4. Transitional Disclosures

The following section sets out the impact of adopting IFRS9 on the Balance Sheet Assets and Liabilities including the effect of replacing IAS39's incurred credit loss calculations with IFRS9's ECLs.

Assets	Ref	IAS39 measurement Amount	Re-classification	Remeasurement ECL	Remeasurement Other	IFRS9 Amount
Loans and advances to banks		529 212 070	–	(26 832)	–	529 185 238
Debt securities - available for sale	*A*	666 018 638	(666 018 638)	–	–	–
To: Debt Instruments at FVOCI			*(666 018 638)*	–	–	–
Debt instruments at FVOCI	*A*	–	666 018 638	–	–	666 018 638
From: Debt Securities - available for sale			*666 018 638*	–	–	–
Financial assets at FVPL	*B*	–	50 988 548	–	(569 804)	50 418 744
From: Loans and advances to customers		–	*48 908 548*	–	–	–
From: Non Financial Assets		–	*2 080 000*	–	–	–
Loans and advances to customers	*B*	833 085 661	(47 930 986)	(7 169 862)	–	777 984 813
To: Financial assets at FVPL		–	*(48 908 548)*	–	–	–
From: Non Financial Assets		–	*977 562*	–	–	–
Derivative financial instruments		2 266 904	–	–	–	2 266 904
Deferred taxation assets		–	–	–	871 131	871 131
Prepayments & accrued income		4 001 089	(3 057 562)	–	–	943 527
To: Financial assets at FVPL		–	*(2 080 000)*	–	–	–
To: Loans and Advances to customers		–	*(977 562)*	–	–	–
Total Assets		**2 034 584 362**	**–**	**(7 196 694)**	**301 327**	**2 027 688 995**

A As of 1 April 2018, the Company has assessed its liquidity portfolio which had previously been classified as AFS debt instruments. The Company concluded that these instruments are managed within a business model of collecting contractual cash flows and selling the financial assets. Accordingly, the Company has classified these investments as debt instruments measured at FVOCI.

B As of 1 April 2018, the Company's analysis highlighted that certain complex loan arrangements did not meet the SPPI criterion. Therefore, the Company reclassified these loans. The balance of these loans on 1 April 2018 was reclassified to financial assets at FVPL. The Company did not voluntarily designate any loans previously measured at amortised cost as financial assets measured at FVPL.

Liabilities	Amount	Re-classification	Remeasurement ECL	Remeasurement Other	IFRS9 Amount
Deposits by banks	9 159 829	–	–	–	9 159 829
Customer accounts	1 890 834 375	–	–	–	1 890 834 375
Derivative financial instruments	1 942 105	–	–	–	1 942 105
Other liabilities	1 959 609	–	436 692	–	2 396 301
Total Liabilities	**1 903 895 918**	**–**	**436 692**	**–**	**1 904 332 610**

4. Transitional Disclosures (continued)

Reserves and retained earnings	Fair value reserve £	Retained Earnings £	Change in equity due to adopting IFRS9 £
Closing balance under IAS39 (31 March 2018)	**(226 338)**	**96 713 768**	**–**
Recognition of ECL for Debt instruments at FVOCI	331 608	(331 608)	–
Recognition of ECLs on financial assets at amortised cost	–	(7 633 386)	(7 633 386)
Recognition of deferred tax asset on ECL	–	871 131	871 131
Re-measurement impact of reclassifying financial assets held at amortised cost to FVPL	–	(569 804)	(569 804)
Opening balance under IFRS9 (1 April 2018)	**105 270**	**89 050 101**	**(7 332 059)**

5. Review of the Company's risk profile

Risk management

Risk is inherent in the Company's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls.

The Company is exposed to credit risk, liquidity risk, financing and interest rate risk, foreign currency risk and operational risk. The Company's Board of Directors reviews and agrees policies for managing each of these risks and they are summarised below.

Risk Management processes throughout the Company are audited by the internal audit function, that examines both the adequacy of the procedures and the Company's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings to the Audit Committee of the Company's parent company. Internal Audit reviews occur on an 18 month rolling basis.

Monitoring and controlling risks is primarily performed based on limits established by the Company or allocated to the Company by its parent company. Reports are prepared daily to ensure that all agreed limits are adhered to. A daily summary is circulated to senior management, to identify any breaches of market limits, foreign exchange exposures, interest rate risk and liquidity.

The Company's liquidity risk and exposure to interest rate and foreign exchange risks are managed by the Company's treasury department. Treasury seeks to reduce or eliminate financial risk, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. It operates within policies and procedures agreed by the Company's Board of Directors and the ultimate parent company, which include strict controls on the use of financial instruments in managing the Company's risk.

Although the Company does not actively trade, it is authorised to take small positions in currency within the overall limits imposed by the Company's Board of Directors.

5. Review of the Company's risk profile (continued)

5.1 Credit risk

Credit risk is the risk that a customer or counterparty will be unwilling or unable to meet a commitment that it has entered into with the Company. The Company continuously reviews the credit quality of counter-parties and limits individual aggregate exposures accordingly. The Company's Board of Directors receive regular reports on credit exposures. These include information on large credit exposures, asset concentration, levels of bad debt provisioning and country exposure limits.

Total credit exposures are summarised below:

	31 March 2019 £m	31 March 2018 £m
Loans and advances to banks	562	529
Debt securities held as available for sale	–	666
Debt instruments at FVOCI	573	–
Financial assets at FVPL	1	–
Loans and advances to customers	832	833
Derivative financial instruments	–	2
Other assets	5	10
Total on balance sheet credit exposures	**1 973**	**2 040**
Guarantees	1	2
Undrawn loans	98	108
Gross off-balance sheet exposure	**99**	**110**
Total credit exposures	**2 072**	**2 150**

An analysis of the counterparty risk on loans and advances to banks is shown below:

Fitch Equivalent Rating	**As at 31 March 2019**		As at 31 March 2018	
	Limit £m	**Exposure £m**	Limit £m	Exposure £m
AAA	–	–	–	–
AA+	–	–	–	–
AA	80	13	20	7
AA-	411	62	471	28
A+	120	–	55	–
A	157	61	157	–
A-	180	94	245	20
*BBB+	540	331	648	473
BBB	–	–	–	–
BBB-	18	–	–	–
BB+	40	1	40	1
	1 546	**562**	**1 636**	**529**

*Of the total BBB+ rated exposure of £331m, £292m relates to the Company's parent, Investec Bank plc. Of this exposure £31m is secured (2018 -£241m).

In addition to placing funds with the Company's parent, funds are also placed with other banks. The Company has limits on the maximum value of funds it can place with any counterparty. These limits are approved by Group Credit and allocated to the Company. These limits are monitored daily and any breaches of limits are reviewed by the Company's Board of Directors.

5. Review of the Company's risk profile (continued)

5.1 Credit risk (continued)

Credit risk classification and provisioning policy

The Company has incorporated IFRS9 requirements into its credit risk classification and provisioning process. A framework has been established that incorporates both quantitative and qualitative measures. Any decisions in relation to significant increase in credit risk will be management decisions subject to approval by the appropriate committees. The policies for financial assets at amortised cost, in accordance with IFRS9, have been developed as described below:

Definition of default

The Company has aligned the IFRS9 and regulatory definitions of default, credit impaired and non-performing exposure. Assets that are more than 90 days past due, or considered by management as unlikely to pay their obligations in full without realisation of collateral are considered as exposures in default.

Stage 1

All assets that are considered performing and have not had a significant increase in credit risk will be reported as Stage 1 assets. Under IFRS9 these Stage 1 financial assets have loss allowances measured at an amount equal to 12 month ECL.

Stage 2

Financial assets are considered to be in Stage 2 when their credit risk has increased significantly since initial recognition. The Company was not required to hold specific impairments against these assets under IAS39, however, a loss allowance equivalent to a lifetime ECL is now required to be held under IFRS9.

The Company's primary indicator for Stage 2 assets are distressed loans, potential problem loans and exposures in arrears that require additional attention and supervision from Watchlist committees and are under management review. This comprises exposures that may potentially become distressed as a result of changes in the economic environment or adverse share price movements, or that are vulnerable to volatile exchange rate or interest rate movements or idiosyncratic financial distress, or private clients who have undergone a significant deterioration in financial circumstances.

Assets that have been subject to forbearance are considered to be, at a minimum, Stage 2. Forbearance measures refer to concessions such as modification of the terms and conditions or refinancing that has been granted to a debtor in financial difficulties. These exposures are assessed on a case by case basis to determine whether the proposed modifications will be considered as forbearance. Where the credit committee considers it likely that the client will be able to return to perform against the original contractual obligations within a reasonable timeframe these assets will be considered performing and in Stage 2. Forbearance is distinguished from commercial renegotiations which take place as part of normal business activity and standard banking practice. At 31 March 2019 the Company had exposure of £0.9m forborne within Stage 2 and Stage 3 representing 0.04% of total gross credit and counterparty exposures (31 March 2018: £32.9m representing 1.5% of total gross credit and counterparty exposures).

In addition to loans under management review, an asset may also move from Stage 1 to Stage 2 if the model calculated probability of default (PD) has significantly increased since origination. This is tested as both a relative and absolute measure to further inform whether a significant deterioration in lifetime risk of default has occurred.

As a backstop, the group does not rebut the presumption in IFRS9 that all financial assets that are more than 30 days past due have experienced a significant increase in credit risk.

Exposures move back to Stage 1 once they no longer meet the criteria above for a significant increase in credit risk and as cure periods (specifically relating to forborne exposures) are met.

Stage 3

Financial assets will be included in Stage 3 when there is objective evidence of credit impairment. Under IFRS9, the Company assesses a loan as Stage 3 when contractual payments of either principal or interest are past due for more than 90 days, the debtor is assessed as unlikely to pay and credit impaired, or the loan is otherwise considered to be in default, for example due to the appointment of an administrator or in receivership. Forborne loans that are considered non-performing, for example if a loan is not expected to return to fulfil the original contractual obligations in a reasonable timeframe, will be classified as Stage 3.

The Company's policy is not to rebut the presumption in IFRS9 that loans which are more than 90 days past due are in default.

Write-offs

The Company's policy on when financial assets are written off has not significantly changed on adoption of IFRS9. A loan or advance is normally written off, in full, against the related allowance when the proceeds from realising any available security have been received or there is a reasonable amount of certainty that the exposure will not be recovered. Similarly the treatment and recognition of recoveries is unaffected by the implementation of IFRS9. Any recoveries of amounts previously written off decrease the amount of impairment losses.

Notes to the financial statements for the year ended 31 March 2019

5. Review of the Company's risk profile (continued)

5.2 Financing and Interest Rate Risk

Exposure to interest rate risk is the risk that arises when there is an imbalance between rate and non rate-sensitive assets, liabilities and off balance sheet items. The Company's policy is to maintain the interest rate risk at a minimal level except that management may invest the shareholders' funds in fixed or floating rate instruments in response to market conditions.

Note 35 shows management's estimate of the interest rate sensitivity gap as at 31 March 2019. Assets and liabilities are included in the table at the earliest date at which the applicable interest rate can change.

Company policy dictates that interest rates should not be fixed for any period greater than one year. If circumstances arise which require rates to be fixed for greater than one year, the Company enters into interest rate swaps to manage that risk. Details of contracts entered into as at 31 March 2019 are in Note 16 (further information in Note 35).

The Company monitors interest rate risk using MPM (Million Pound Months) analysis. Using this analysis, exposures are expressed on the basis of residual term to earliest interest re-pricing date (in months) nominal value of the exposure. Limits are set for each currency and are monitored daily.

Summary of MPM Position:

	As at 31 March 2019			As at 31 March 2018		
Currency	**MPM Position £m**	**MPM Limit £m**	**% Utilisation**	MPM Position £m	MPM Limit £m	% Utilisation
GBP	(697)	1 500	46%	(774)	1 500	52%
USD	(789)	2 220	36%	(1 167)	2 220	53%
JPY	–	50	0%	–	50	0%
EURO	(108)	500	22%	(177)	500	35%
AUD	8	50	-17%	3	50	-6%
CHF	–	50	0%	–	50	0%
Others	2	50	-3%	3	50	-6%
Overall	**1 604**	**3 600**	**45%**	**2 124**	**3 600**	**59%**

The overall MPM Position represents the absolute exposure rather than the sum of individual currency positions. The overall MPM limit represents the maximum exposure permitted. It does not equate to the sum of the individual currency limits.

5.3 Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in realising assets or otherwise raising funds to meet commitments. The table in Note 34 shows the maturity analysis of the balance sheet of the Company.

To protect against potential shocks the Company holds a liquidity buffer in the form of government securities, money market instruments and bank deposits. Government securities held during the year comprise Treasury Bills. These portfolios are managed within board approved targets. The Company does not rely on overnight interbank deposits to fund term lending.

The Company's Balance sheet is fully unencumbered and the Company does not enter into commodities contracts.

Regulatory liquidty is measured by the Liquidity Coverage (LCR) ratio. The Company is required to maintain a minimum LCR ratio of 100%. The LCR reported to the Guernsey Financial Services Commission (GFSC) at 31 March 2019 was 446% (272% - 2018).

The table below summarises the maturity profile of the Company's financial liabilities based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were given immediately. However, the Company expects that many customers will not request repayment on the earliest date the Company could be required to pay and the table does not reflect the expected cashflows indicated by the Company's deposit retention history.

5. Review of the Company's risk profile (continued)

5.3 Liquidity Risk (continued)

At 31 March 2019	Up to 1 month £	More than 1 month but not more than 3 months £	More than 3 months but not more than 6 months £	More than 6 months but not more than 1 year £	Over 1 year £	Total £
Liabilities						
Deposits by banks	5 788 185	46 041	4 275 266	–	–	10 109 492
Customer accounts	1 150 534 326	528 007 746	93 243 769	11 080 656	23 760 613	1 806 627 110
Derivative financial instruments	196 345	–	–	58 880	222 609	477 834
Subordinated debt	–	–	–	–	32 253 491	32 253 491
Loan commitments	97 964 205	–	–	–	–	97 964 205
Guarantees	1 000 000	–	–	–	–	1 000 000

At 31 March 2018	£	£	£	£	£	£
Liabilities						
Deposits by banks	6 633 218	399 844	2 132 260	–	–	9 165 322
Customer accounts	1 234 365 533	499 714 202	114 997 769	28 014 460	16 739 414	1 893 831 378
Derivative financial instruments	1 630 652	–	–	334 488	(23 035)	1 942 105
Loan Commitments	108 410 239	–	–	–	–	108 410 239
Guarantees	193 383	2 200 542	–	–	–	2 393 925

5.4 Foreign Currency Risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's foreign currency exposure arises from providing services to customers. The Company's policy is to hedge against foreign exchange risk by matching currency liabilities with currency assets. The Company's Board of Directors receive regular reports on foreign currency exposures.

The table in Note 33 shows the Company's exposure to major currencies as at 31 March 2019.

Fluctuations in exchange rates can have an effect on profit and equity. The table below summarises the effect on profit and equity of a 5% increase of exchange rates against sterling, assuming the net positions in each currency remain unchanged. The table shows the main exposures of the Company. A negative value indicates a decrease in profit. Due to the policy of matching currency liabilities with currency assets, the effect of exchange rate movements on profit and equity is minimal.

Currency	Increase in FX rate against GBP	31 March 2019 Effect on Profit and Equity £	31 March 2018 Effect on Profit and Equity £
USD	5%	40 739	28 140
NZD	5%	(390)	(93)
SEK	5%	(470)	(1 188)
CHF	5%	1 328	(298)
EUR	5%	10 573	8 106
CAD	5%	(388)	1 268
AUD	5%	2 203	2 090
ZAR	5%	1 276	1 172
JPY	5%	888	360

5. Review of the Company's risk profile (continued)

5.5 Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Company does not expect to eliminate all operational risks, but through effective control procedures and by monitoring and responding to potential risks, the Company is able to manage the risks. All anticipated risks are identified and monitored, using the Group approved operational risk software. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff training, and assessment processes.

6. Interest and similar income

	2019 £	2018 £
In respect of:		
Cash and short term funds	306 369	252 986
Due from banks	9 527 091	6 014 292
Loans and advances to customers	32 064 294	30 884 924
Financial investments - available for sale	–	3 809 675
Debt instruments at fair value through other comprehensive income	7 092 799	–
	48 990 553	**40 961 877**

7. Interest and similar expense

	2019 £	2018 £
In respect of:		
Deposits by banks	(147 320)	(147 454)
Customer accounts	(10 027 012)	(7 747 924)
Subordinated debt	(767 785)	–
	(10 942 117)	**(7 895 378)**

8. Net fees and commission income

	2019 £	2018 £
Foreign exchange	2 771 548	2 497 580
Credit related fees and commissions	300 433	353 622
Bank charges and commissions	1 768 460	1 744 637
Custody and safekeeping charges	416 145	370 014
Total fees and commission income	**5 256 586**	**4 965 853**
Brokerage and commissions paid	(6 600)	(22 076)
Other fees paid	(302 180)	(527 718)
Total fees and commission expense	(308 780)	(549 794)
Net fees and commission income	**4 947 806**	**4 416 059**

Notes to the financial statements for the year ended 31 March 2019

9. Other operating income

	2019 £	2018 £
Net trading income		
Foreign exchange trading income	417 124	358 225
Net change in fair value of Foreign Exchange contracts and Interest Rate Swaps	(9 298)	18 743
	407 826	**376 968**
Other		
Rental income received	264 839	252 315
	264 839	**252 315**
Total other operating income	**672 665**	**629 283**

10. Expected credit losses impairment release

	2019 £	2018 £
Expected credit losses impairment charges has arisen on the following line items:		
Movement in ECL on loans and advances to customers	4 205 328	–
Movement in ECL on other balance sheet assets	356 295	–
Movement in ECL on off-balance sheet commitments	322 886	–
Loans and advances to customers written off	(2 850 995)	–
Total expected credit losses impairment release	**2 033 514**	**–**

11. Administrative expenses

	2019 £	2018 £
Staff costs	11 295 078	8 718 031
Recharges of Group Central Costs	2 195 537	1 351 839
IT and office services	1 061 166	1 023 993
Marketing, travel and entertainment	677 862	535 586
Accommodation	234 599	225 067
Rental expense	808 704	780 939
Auditors remuneration - current year audit fees	118 862	115 400
Auditors remuneration - other services	38 951	39 944
Directors' fees	128 532	100 448
Legal fees	552 823	276 267
Other professional fees including GFSC fees	200 271	160 676
Operating losses	171 901	–
Other costs	49 947	63 172
	17 534 233	**13 391 362**

Group Central Costs relate to expenses recharged by Investec Bank PLC for HR, Risk, Compliance, Operations, Regulatory Reporting and IT Support. These services are provided at group level on an arm's length basis.

Notes to the financial statements for the year ended 31 March 2019

12. Taxation

	2019 £	2018 £
Guernsey income tax based on profits for the year	2 102 280	1 726 288
Deferred tax charge	431 825	–
Under accrual in prior year	3 331	3 077
Tax charge reported in the statement of comprehensive income	**2 537 436**	**1 729 365**

The tax assessed for the year is lower than the intermediate rate of income tax in Guernsey of 10% applicable to banking activities. The differences are explained below.

	2019 £	2018 £
Profit on ordinary activities	27 355 500	21 602 044
	27 355 500	**21 602 044**
Profit on ordinary activities at intermediate rate of tax at 10%	2 735 550	2 160 204
Add tax effect of disallowable expenditure:		
- Guernsey (net)	(345 609)	(113 291)
Less tax effect of Guernsey allowable deductions:		
- Capital allowances	(24 631)	(100 704)
- Income taxable at 0%	(263 030)	(219 921)
Current tax charge for the year	**2 102 280**	**1 726 288**

The Standard rate of income tax payable by Investec Bank (Channel Islands) Limited is 10% on its Banking business profits.

	2019 £	2018 £
Deferred Taxation		
Deferred taxation assets	**439 306**	**–**

Deferred tax assets are recognised to the extent it is likely that profits will arise in future periods.

The deferred taxation assets arises from the timing difference as a result of the the closing ECL balance recognised at 31 March 2019.

An amount of £871,131 was a recognised as a transitional adjustment as a result of the adoption of IFRS9 on 1 April 2018 (See Note 4).

13. Loans and advances to banks

	2019 £	2018 £
Due from Investec Bank PLC - secured	30 779 519	240 912 331
Due from Investec Bank PLC - unsecured	260 695 225	232 013 886
Due from banks	259 434 259	55 068 464
Deposits with fellow subsidiaries	10 896 815	1 217 389
Loans and advances to banks	**561 805 818**	**529 212 070**
Less: Expected Credit Loss Allowance	(327)	–
	561 805 491	**529 212 070**

Of the total 'Loans and advances to banks', £292m (52%) was due from the Company's parent company Investec Bank plc (2018 - £473m).

The Company adopted IFRS9 with effect from 1 April 2018. An ECL allowance on Loans and advances to banks of £26,832 was recognised on transition. The reduction in the ECL allowance of £26,505 during the year ended 31 March 2019 was recognised in the Statement of Comprehensive Income.

Notes to the financial statements for the year ended 31 March 2019

14. Debt securities

	2019 £	2018 £
Debt securities - available for sale (IAS39)	–	666 018 638
Debt instruments at fair value through other comprehensive income (IFRS9)	573 190 574	–
Total Debt Securities	**573 190 574**	**666 018 638**

The Company adopted IFRS9 with effect from 1 April 2018. Debt securities which were previously classified as Available for Sale were reclassified as Fair value through profit or loss. There was no change to the carrying value of these assets, however an Expected Credit Loss allowance of £331,608 was recognised on transition. This allowance was reported as an adjustment to the Fair value reserve as shown in the Statement of Changes in Equity. The reduction in the ECL allowance during the year ended 31 March 2019 of £329,790 was recognised in the Statement of Comprehensive Income.

15. Loans and advances to customers

	2019 £	2018 £
Commercial property	180 113 537	145 447 321
Other - secured	157 489 001	219 305 716
Residential mortgages	499 142 472	469 925 315
Unsecured	367 735	263 407
Gross loans and advances to customers	**837 112 745**	**834 941 759**
Less: Expected Credit Loss Allowance (IFRS9)	(4 826 476)	–
Less: Allowance for impairment losses (IAS39)	–	(1 856 098)
	832 286 269	**833 085 661**

Loans and advances to customers are contractually repayable on demand but it is not the Company's intention to call loans before the anticipated term of the loan.

Of the total 'Loans and advances to customers', 98.6% (£826m) was secured by collateral (2018 - £803m). The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The main types of collateral are residential property, commercial property, cash and investment portfolios.

The Company adopted IFRS9 with effect from 1 April 2018. The impact of the introduction of IFRS9 was to reclassify £48.9m of loans from Loans and advances to customer to financial assets at fair value through profit or loss and to recognise an ECL allowance of £7.17m (See Note 4).

Notes to the financial statements for the year ended 31 March 2019

15. Loans and advances to customers (continued)

An analysis of loans and advances to customers and asset quality is shown in the table below:

	31 March 2019 £000s	1 April 2018 £000s
Gross core loans and advances to customers under IAS39	**n/a**	**834 942**
Reclassifications under IFRS9	n/a	(47 931)
Gross core loans and advances to customers under IFRS9	**837 113**	**787 011**
Gross exposure subject to ECL (£000)	**837 113**	**787 011**
Stage 1	752 260	701 768
Stage 2	42 353	40 460
Stage 3	42 500	44 783
Gross exposure (%)		
Stage 1	89.9%	89.2%
Stage 2	5.1%	5.1%
Stage 3	5.1%	5.7%
IFRS9 ECL (£000)	**4 826**	**9 025**
Stage 1	356	799
Stage 2	1 567	3 519
Stage 3	2 902	4 707
ECL coverage ratio (%)	**0.6%**	**1.1%**
Stage 1	0.0%	0.1%
Stage 2	3.7%	8.7%
Stage 3	6.8%	10.5%

An analysis of the changes in gross carrying amount and the corresponding ECL allowances in relation to loans and advances to customers under IFRS9 is shown in the tables below:

Changes in Gross Carrying Amount (£000s):	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 April 2018	**701 772**	**40 460**	**44 779**	**787 011**
New assets originated	155 594	24 214	536	180 345
Assets repaid (excluding write-offs)	(84 295)	(6 335)	(3 478)	(94 109)
Transfers to Stage 1	21 175	(18 991)	(2 184)	–
Transfer to Stage 2	(3 997)	13 290	(9 293)	–
Transfer to Stage 3	(8 508)	(9 580)	18 088	–
Other movements	(29 482)	(629)	94	(30 017)
Amounts written-off	–	(75)	(6 042)	(6 117)
Gross carrying amount as at 31 March 2019	**752 260**	**42 353**	**42 500**	**837 113**

Changes in ECL Allowance (£000s):	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 April 2018	**799**	**3 519**	**4 707**	**9 025**
New assets originated	36	627	21	684
Assets repaid (excluding write-offs)	(63)	(295)	(980)	(1 338)
Transfers to Stage 1	13	(1 198)	(691)	(1 876)
Transfer to Stage 2	(17)	255	–	238
Transfer to Stage 3	(14)	(396)	1 101	691
Other movements	(398)	(945)	1 030	(313)
Amounts written-off	–	–	(2 286)	(2 286)
ECL allowance as at 31 March 2019	**356**	**1 567**	**2 902**	**4 826**

During the year to 31 March 2019 loans and advances to customers with a carrying value of £2,851k were written off, at the point they were written off these loans had ECL allowances totalling £2,286k.

15. Loans and advances to customers (continued)

An analysis of the allowance for impairment losses for Loans and advances to customers under IAS39 for the year to 31 March 2018 is as follows:

	£
Balance at 1 April 2017	4 167 149
(Decrease)/increase in provision for the year	3 052 534
Written off during the year	(5 363 585)
Balance at 31 March 2018	**1 856 098**
Movement for the year	(2 311 051)

The specific impairment provision at 31 March 2018 relates to one residential loan.

The charge for the prior year in the Statement of Comprehensive income was £2,353k, being the increase in provision of £3,053k less funds recovered of £700k.

Interest receivable recognised in the Statement of Comprehensive Income on the loans and advances to customers which have specific impairments against them totalled £106k during the year.

Analysis of Loans and advances to customers by risk category:

At 31 March 2019	**Stage 1**		**Stage 2**		**Stage 3**		**Total**	
£000s	**Exposure**	**ECL**	**Exposure**	**ECL**	**Exposure**	**ECL**	**Exposure**	**ECL**
Commercial Property	**115 093**	**(21)**	**41 159**	**(1 542)**	**23 862**	**(1 780)**	**180 114**	**(3 343)**
Investment	115 093	(21)	29 156	(761)	23 862	(1 780)	168 111	(2 562)
Development	–	–	3 461	(92)	–	–	3 461	(92)
Planning	–	–	8 541	(689)	–	–	8 541	(689)
Residential Property	**480 206**	**(216)**	**985**	**(25)**	**17 951**	**(1 072)**	**499 142**	**(1 313)**
Mortgages	87 168	(17)	–	–	5 368	(98)	92 536	(115)
Investment	383 046	(194)	985	(25)	4 864	(682)	388 895	(900)
Development	9 842	(5)	–	–	7 719	(292)	17 561	(297)
Planning	151	–	–	–	–	–	151	(0)
Other Secured Loans	**156 593**	**(119)**	**209**	**–**	**687**	**(50)**	**157 489**	**(169)**
Growth & Acquisition Finance	7 360	(8)	–	–	–	–	7 360	(8)
Leverage/Acquisition Finance	9 207	(6)	–	–	–	–	9 207	(6)
Non Property Structured Lending	100 768	(92)	–	–	–	–	100 768	(92)
Other corporate lending	21 447	(8)	–	–	–	–	21 447	(8)
Other	17 811	(5)	209	–	687	(50)	18 707	(55)
Unsecured Loans	**368**	**–**	**–**	**–**	**–**	**–**	**368**	**(0)**
Unsecured Loans	368	–	–	–	–	–	368	(0)
Total	**752 260**	**(356)**	**42 353**	**(1 567)**	**42 500**	**(2 902)**	**837 113**	**(4,826)**

Notes to the financial statements for the year ended 31 March 2019

15. Loans and advances to customers (continued)

At 1 April 2018	Stage 1		Stage 2		Stage 3		Total	
£000s	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL
Commercial Property	**67 968**	**(33)**	**17 051**	**(2 109)**	**34 882**	**(1 180)**	**119 900**	**(3 322)**
Investment	36 342	(18)	497	(17)	34 882	(1 180)	71 720	(1 214)
Development	31 546	(15)	10 950	(462)	–	–	42 495	(478)
Planning	80	–	5 605	(1 630)	–	–	5 685	(1 630)
Residential Property	**434 142**	**(541)**	**22 350**	**(1 365)**	**8 602**	**(3 427)**	**465 094**	**(5 333)**
Mortgages	82 048	(58)	4 274	(244)	2 802	(1 856)	89 125	(2 158)
Investment	343 165	(460)	10 518	(811)	5 799	(1 571)	359 481	(2 842)
Development	4 839	(5)	7 558	(310)	–	–	12 397	(316)
Planning	4 090	(17)	–	–	–	–	4 090	(17)
Other Secured Loans	**199 395**	**(224)**	**1 059**	**(45)**	**1 300**	**(100)**	**201 754**	**(370)**
Leverage/Acquisition Finance	20 795	(56)	–	–	760	(90)	21 555	(146)
Non Property Structured Lending	132 687	(133)	–	–	–	–	132 687	(133)
Other corporate lending	29 404	(20)	–	–	–	–	29 404	(20)
Other	16 509	(16)	1 059	(45)	540	(10)	18 109	(71)
Unsecured Loans	**263**	**–**	**–**	**–**	**–**	**–**	**263**	**–**
Unsecured Loans	263	–	–	–	–	–	263	–
Total	**701 768**	**(799)**	**40 460**	**(3 519)**	**44 783**	**(4 707)**	**787 011**	**(9 025)**

16. Derivative financial instruments

The Company enters into various contracts for derivatives for the purpose of hedging foreign exchange and interest rate exposures.

In the table below, notional principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent either the market risk or the credit risk. The fair value of a derivative financial instrument represents the positive or negative cashflows which would have been incurred had the rights and obligations arising from that instrument been closed out by the Company in an orderly market transaction at balance sheet date.

	Assets 2019 £	Liabilities 2019 £	Notional Amount 2019 £
Derivatives held for trading			
Forward foreign exchange contracts	279 913	(255 226)	80 594 970
Interest rate swaps	27 510	(222 608)	43 938 832
	307 423	**(477 834)**	**124 533 802**

	Assets 2018 £	Liabilities 2018 £	Notional Amount 2018 £
Derivatives held for trading			
Forward foreign exchange contracts	1 968 176	(1 965 140)	198 106 563
Interest rate swaps	298 728	23 035	36 324 638
	2 266 904	**(1 942 105)**	**234 431 201**

Forward foreign exchange contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market.

Interest rate swaps relate to contracts taken out by the Company with other financial institutions in which the Company either receives or pays a floating rate of interest in return for paying or receiving, respectively, a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

Notes to the financial statements for the year ended 31 March 2019

17. Fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

Treasury Bills

When fair values of publicly traded financial instruments are based on quoted market prices, or binding deal price quotations, in an active market for identical assets without any adjustments, the instruments are included within Level 1 of the hierarchy. The Company values these investments at bid price for long positions and ask price for short positions.

Over-the-counter derivatives

The Company uses widely recognised valuation models for determining fair values of over-the-counter interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including any adjustments for counterparty and own credit risk, foreign exchange spot and forward rates and interest rate curves. For these financial instruments, significant inputs into models are market observable and are included within Level 2.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss is comprised of loans to customers which contain one or more embedded derivatives.

	31 March 2019 £	**Level 1 £**	**Level 2 £**	**Level 3 £**
Assets classified as fair value through profit or loss				
Forward foreign exchange contracts	279 913	–	279 913	–
Interest rate swap contracts	27 510	–	27 510	–
Loans to customers at fair value through profit or loss	975 000	–	–	975 000
Assets classified as fair value through other comprehensive income				
Treasury Bills	573 190 574	573 190 574	–	–
Liabilities classified as fair value through profit or loss				
Forward foreign exchange contracts	(255 226)	–	(255 226)	–
Interest Rate Swap Contracts	(222 608)	–	(222 608)	–

	31 March 2018 £	Level 1 £	Level 2 £	Level 3 £
Assets classified as fair value through profit or loss				
Forward foreign exchange contracts	1 968 176	–	1 968 176	–
Interest rate swap contracts	298 728	–	298 728	–
Assets classified as available for sale				
Treasury Bills	666 018 638	666 018 638	–	–
Liabilities classified as fair value through profit or loss				
Forward foreign exchange contracts	(1 965 140)	–	(1 965 140)	–
Interest rate swap contracts	23 035	–	23 035	–

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

During the reporting period ended 31 March 2019, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

17. Fair value hierarchy (continued)

Reconciliation of financial assets at fair value through profit or loss (Level 3)

	2019 **£**	2018 £
Reclassification of loans to customers on 1 April 2018 (note 4)	50 418 744	–
Advances	8 484	–
Settlements	(24 648 207)	–
Reclassifications	(24 795 537)	–
Fair value movement	(8 484)	–
Financial assets at fair value through profit or loss at 31 March 2019	**975 000**	**–**

During the year to 31 March 2019 loans to customers with a fair value of £24,795,537 were restructured, removing the embedded derivatives. These loans have been reclassified to loans to customers held at amortised cost.

There were no Level 3 Financial Instruments reported during the previous year.

18. Investment in subsidiary company

Name of subsidiary	**Nature of business**	**Issued Capital (£)**	**% held**	**Country of incorp-oration**
Investec Bank (Channel Islands) Nominees Limited	Nominee company	100 000	100%	Guernsey

19. Interest Rate Swaps

The Company uses derivatives for management of financial risks relating to its asset and liability portfolios, mainly associated with non-trading interest rate risks and exposures to foreign currency risk.

Interest rate swaps are entered into mainly to hedge the exposure of changes in fair value of fixed rate loans attributable to interest rates.

Description of financial instrument **2019**	**FV of interest rate swaps** **£**	**Cumulative gains/(losses) on interest rate swaps** **£**	**Current year gains/(losses) on interest rate swaps** **£**	**Cumulative gains/(losses) on fixed rate loans** **£**	**Current year gains/(losses) on fixed rate loans** **£**
Interest Rate Swap	(195 100)	(195 100)	(516 863)	214 838	485 912
2018	£	£	£	£	£
Interest Rate Swap	321 763	321 763	387 363	(271 074)	(344 421)

Notes to the financial statements for the year ended 31 March 2019

20. Intangible fixed assets

	Computer Software £
Cost	
At 31 March 2018	3 932 658
Additions	35 051
Disposals	–
At 31 March 2019	**3 967 709**
Amortisation and impairment	
At 31 March 2018	3 051 372
Charge for the year	397 131
Disposals	–
At 31 March 2019	**3 448 503**
Net book value	
At 31 March 2018	881 286
At 31 March 2019	**519 206**

21. Tangible fixed assets

	Leasehold improvements £	Office Equipment £	Total £
Cost			
At 31 March 2018	1 330 419	1 369 682	2 700 101
Additions	–	175 343	175 343
Disposals	–	–	–
At 31 March 2019	**1 330 419**	**1 545 025**	**2 875 444**
Depreciation			
At 31 March 2018	776 533	878 849	1 655 382
Charge for the year	142 406	264 667	407 073
On Disposals	–	–	–
At 31 March 2019	**918 939**	**1 143 516**	**2 062 455**
Net book value			
At 31 March 2018	553 886	490 833	1 044 719
At 31 March 2019	**411 480**	**401 509**	**812 989**

22. Prepayments and accrued income

	2019 £	2018 £
Prepaid expenses	1 218 665	921 917
Loan Fees due from Clients	309 228	3 079 172
	1 527 893	**4 001 089**

The Company adopted IFRS9 with effect from 1 April 2018. The impact of the introduction of IFRS9 was to reclassify £977k of exit fees receivable from prepayments and accrued income to loans and advances to customers (See Note 4).

Notes to the financial statements for the year ended 31 March 2019

23. Deposits by banks

	2019 £	2018 £
Due to fellow subsidiaries	10 090 595	7 927 626
Due to other banks	–	1 232 203
	10 090 595	**9 159 829**

24. Customer accounts

	2019 £	2018 £
Current accounts	1 046 049 531	1 091 016 172
Notice and fixed	757 394 163	799 818 203
	1 803 443 694	**1 890 834 375**

25. Other liabilities

	2019 £	2018 £
Staff expenses accrued	1 892 283	1 142 284
Due to holding company	156 216	120 346
ECL allowance on undrawn loans	113 806	–
Other liabilities	1 660 402	696 979
	3 822 707	**1 959 609**

Other liabilities includes £113,806 in respect of an ECL allowance on undrawn loans (note 31). The Company adopted IFRS9 with effect from 1 April 2018. An ECL allowance on undrawn loans of £436,692 was recognised on transition. The reduction in the ECL allowance of £322,886 during the year ended 31 March 2019 was recognised in the Statement of Comprehensive Income.

26. Subordinated debt

	2019 £	2018 £
Subordinated debt	25 313 783	–

During the year the Company issued £25m of debt. The debt has a 10 year term, with a call option after 5 years. The debt was purchased by Investec Bank (Switzerland) AG, a fellow subsidiary of Investec Bank PLC.

27. Share capital

	2019 £	2018 £
Authorised: 23,250,000 ordinary shares of £1 each	23 250 000	23 250 000
Allotted, called up and fully paid: Ordinary shares of £1 each	14 652 339	14 652 339

Each ordinary share entitles the holder to one vote at a meeting of shareholders and to an equal share of any dividends or residual net assets on wind up.

28. Reserves and share premium account

Share premium

This reserve relates to the excess proceeds over par value received on the issue of the Company's equity share capital, comprising £1 ordinary shares.

Share based payment reserve

The share-based payments reserve is used to recognise the value of equity-settled share-based payments provided to employees, including key management personnel, as part of their remuneration. Refer to Note 37 for further details of these plans.

Fair value reserve

This reserve records fair value changes on debt securites and the ECL allowance on debt securities. The Company adopted IFRS9 with effect from 1 April 2018. An ECL allowance on debt securities of £331,608 was recognised on transition. The reduction in the ECL allowance of £329,790 during the year ended 31 March 2019 was recognised in the Statement of Comprehensive Income. The closing ECL allowance on debt securities at 31 March 2019 was £1,818.

29. Dividends

	2019 **£**	2018 £
Dividend declared and paid during the year	**25 000 000**	16 600 000
Dividend per share	**£1.71**	£1.13

30. Operating leases

Future minimum lease payments under non-cancellable operating leases as at 31 March 2019 are as follows:

	2019 **£** **Property**	2018 £ Property
Falling due:		
Within one year	**786 724**	742 780
In the second to fifth years inclusive	**3 049 544**	2 919 066
Over five years	**7 355 320**	7 673 245
	11 191 588	**11 335 091**

As at 31 March 2019 the Company held no non-cancellable operating sub-leases (2018: Nil).

Notes to the financial statements for the year ended 31 March 2019

31. Commitments and contingent liabilities

In the normal course of business there are various outstanding commitments and contingent liabilities.

(i) Forward Foreign Exchange Contracts (Nominal Value)	**2019 £**	2018 £
Falling due:		
Within one year	**80 594 970**	**198 106 563**

(ii) Undrawn loans		
Falling due:		
Within one year	**97 964 205**	**108 410 239**

(iii) Guarantees		
Falling due:		
Within one year	**1 000 000**	**2 393 925**

Included in other liabilities in Note 25 is an amount of £113,806 in respect of stage 1 ECL allowances on undrawn loans. The Company adopted IFRS9 with effect from 1 April 2018. A stage 1 ECL allowance on undrawn loans of £436,692 was recognised on transition. The reduction in the stage 1 ECL allowance of £322,886 during the year ended 31 March 2019 was recognised in the Statement of comprehensive income.

32. Geographical analysis

	Assets £ 2019	**Liabilities & Shareholders' Funds £ 2019**	Assets £ 2018	Liabilities & Shareholders' Funds £ 2018
Channel Islands	408 547 209	1 153 466 171	427 795 373	1 241 190 732
United Kingdom	1 010 718 155	193 261 892	1 138 488 312	236 252 474
Other EU member states	169 699 287	21 382 608	44 489 934	29 446 802
Other	384 260 183	605 114 163	428 766 373	532 649 984
	1 973 224 834	**1 973 224 834**	**2 039 539 992**	**2 039 539 992**

33. Currency exposure

The currency exposure is stated in the Sterling equivalent, including the impact of currency hedging transactions with Investec Bank Plc.

31 March 2019	**Sterling £**	**%**	**US Dollar £**	**%**	**Euro £**	**%**	**Other Currencies £**	**%**	**Total £**
Assets	1 290 002 967	65%	512 213 334	26%	105 881 411	5%	65 127 122	3%	1 973 224 834
Liabilities including shareholders' funds	(1 290 002 967)	65%	(512 213 334)	26%	(105 881 411)	5%	(65 127 122)	3%	(1 973 224 834)
Net assets/(liabilities)	–		–		–		–		–
Off balance sheet									
Assets	15 553 320	19%	6 542 621	8%	25 847 414	32%	32 477 305	40%	80 420 660
Liabilities	(30 664 057)	38%	(42 220 676)	52%	(7 544 924)	9%	(165 313)	0%	(80 594 970)
Net off balance sheet assets/(liabilities)	**(15 110 737)**		**(35 678 055)**		**18 302 490**		**32 311 992**		**(174 310)**

33. Currency exposure (continued)

31 March 2018	Sterling £	%	US Dollar £	%	Euro £	%	Other Currencies £	%	Total £
Assets	1 264 687 451	62%	597 481 331	29%	124 652 889	6%	52 718 321	3%	2 039 539 992
Liabilities including shareholders' funds	(1 264 687 451)	62%	(597 481 331)	29%	(124 652 889)	6%	(52 718 321)	3%	(2 039 539 992)
Net assets/(liabilities)	–		–		–		–		–
Off balance sheet									
Assets	27 584 015	14%	94 754 734	48%	47 323 178	24%	28 444 635	14%	198 106 562
Liabilities	(25 917 234)	13%	(96 188 635)	49%	(47 608 820)	24%	(28 388 831)	14%	(198 103 520)
Net off balance sheet assets/(liabilities)	**1 666 781**		**(1 433 901)**		**(285 642)**		**55 804**		**3 042**

34. Contractual maturity analysis

The table below shows client assets and liabilities, debt securities and subordinated debt analysing when they are expected to be recovered or settled, based on contractual repayment obligations. Repayments which are subject to notice are treated as if notice were given immediately. However, the Company expects that many customers will not request repayment on the earliest date the Company could be required to pay and the table does not reflect the expected cashflows indicated by the Company's deposit retention history.

	Up to 1 month	More than 1 month but not more than 3 months	More than 3 months but not more than 6 months	More than 6 months but not more than 1 year	More than 1 year but not more than 5 years	More than 5 years	Total
At 31 March 2019	£	£	£	£	£	£	£
Assets							
Loans and advances to banks	290 980 717	230 272 428	40 608 622	(53 347)	(2 929)	–	561 805 491
Loans and advances to customers at amortised costs	18 210 917	31 306 374	24 476 114	59 779 941	609 242 485	89 270 438	832 286 269
Loans to customers at fair value through profit or loss	–	–	975 000	–	–	–	975 000
Debt securities	145 301 162	248 571 810	149 213 591	15 078 792	15 025 219	–	573 190 574
Liabilities							
Deposits by banks	(5 788 181)	(46 039)	(4 256 375)	–	–	–	(10 090 595)
Customer accounts	(1 133 676 576)	(543 722 263)	(92 423 247)	(10 966 603)	(12 637 055)	(10 017 950)	(1 803 443 694)
Subordinated debt	–	–	–	–	(25 313 783)	–	(25 313 783)
Net position	**(684 971 961)**	**(33 617 690)**	**118 593 705**	**63 838 783**	**586 313 937**	**79 252 488**	**154 723 045**
At 31 March 2018							
Assets							
Loans and advances to banks	217 385 851	248 036 076	64 148 254	(341 968)	(16 143)	–	529 212 070
Loans and advances to customers	105 403 596	25 339 399	17 367 730	91 266 301	513 496 198	80 212 437	833 085 661
Debt securities	179 823 206	229 437 361	186 449 558	70 308 513	–	–	666 018 638
Liabilities							
Deposits by banks	(6 633 215)	(399 494)	(2 127 120)	–	–	–	(9 159 829)
Customer accounts	(1 234 342 568)	(499 027 958)	(114 396 832)	(27 828 198)	(5 235 361)	(10 003 458)	(1 890 834 375)
Net position	**(738 363 130)**	**3 385 384**	**151 441 590**	**133 404 648**	**508 244 694**	**70 208 979**	**128 322 165**

Notes to the financial statements for the year ended 31 March 2019

35. Interest rate sensitivity analysis

Part of the Company's return on financial instruments is obtained from controlled mismatching of the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which the instruments mature. The table below summarises these repricing mismatches on the Company's non-trading book as at 31 March 2019. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the maturity date, taking into account the effect of derivative financial instruments whose effect is to alter the interest basis of an asset or liability.

	Not more than 3 months £	More than 3 months but not more than 6 months £	More than 6 months but not more than 1 year £	More than 1 year but not more than 5 years £	More than 5 years £	Non-interest bearing £	Total £
Assets							
Fixed rate – up to 3%	647 896 380	149 192 935	30 019 492	–	–	–	827 108 807
Fixed rate – above 3%	8 356 583	–	–	41 176 677	549 773	–	50 083 033
Floating rate – up to 3%	500 403 069	–	672 390	–	–	–	501 075 459
Floating rate – above 3%	588 562 917	–	–	–	–	–	588 562 917
Non-interest bearing	–	–	–	–	–	6 398 377	6 398 377
Total Assets	**1 745 218 949**	**149 192 935**	**30 691 882**	**41 176 677**	**549 773**	**6 398 377**	**1 973 228 593**
Liabilities							
Fixed rate – up to 3%	22 914 551	621 091	484 934	1 538 078	–	–	25 558 654
Fixed rate – above 3%	–	–	–	–	–	–	–
Floating rate – up to 3%	1 771 865 018	1 841 653	8 220 316	3 494 869	–	–	1 785 421 856
Floating rate – above 3%	27 673 262	194 301	–	–	–	–	27 867 563
Non-interest bearing	–	–	–	–	–	6 982 435	6 982 435
Total Liabilities	**1 822 452 831**	**2 657 045**	**8 705 250**	**5 032 947**	**–**	**6 982 435**	**1 845 830 508**
Equity	–	–	–	–	–	127 394 326	127 394 326
Interest rate sensitivity gap before Interest Rate Swaps	**(77 233 882)**	**146 535 890**	**21 986 632**	**36 143 730**	**549 773**	**(127 978 384)**	**3 759**
Interest Rate Swaps	**40 960 303**	**–**	**–**	**(40 964 062)**	**–**	**–**	**(3 759)**
Interest rate sensitivity gap after Interest Rate Swaps	**(36 273 579)**	**146 535 890**	**21 986 632**	**(4 820 332)**	**549 773**	**(127 978 384)**	**–**
Cumulative interest rate sensitivity gap as at 31 March 2019	**(36 273 579)**	**110 262 311**	**132 248 943**	**127 428 611**	**127 978 384**	**–**	**–**
Cumulative interest rate sensitivity gap as at 31 March 2018	**(110 042 179)**	**72 157 267**	**124 351 437**	**128 645 234**	**128 322 166**	**–**	**–**

Notes to the financial statements for the year ended 31 March 2019

36. Credit quality of loans and advances to customers

The credit quality of loans and advances to customers is managed by the Company using internal credit ratings. The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on the Companies' internal credit rating system. The amount presented are gross of impairment and ECL allowances.

Loans and advances to customers	2019 £'000	2019 %	2018 £'000	2018 %
Satisfactory	750 918	90%	737 022	88%
Medium risk	7 079	1%	2 961	0%
Forborne	883	0%	32 911	4%
Watchlist - special mention	–	0%	23 929	3%
Watchlist - management review	39 214	5%	5 380	1%
Watchlist - sub-standard	39 019	5%	32 692	4%
Watchlist - default	–	0%	47	0%
	837 113		**834 942**	

37. Share based payments

Weighted average fair value of options granted in the year:

	2019 Number of share options	2019 Weighted average exercise price	2018 Number of share options	2018 Weighted average exercise price
Exercised during the year	**(82 679)**	**£1.05**	(120 090)	£3.29
Outstanding at the end of the year	**429 482**	**£2.27**	469 618	£3.03

No options were exercisable at the end of the year.

The exercise price range and weighted average remaining contractual life for the Strike Cost Options outstanding at 31 March 2019 are as follows:

	2019	2018
Exercise price range	**£5.03 - £6**	£4.31 - £6
Weighted average remaining contractual life	1.27 years	1.74 years

The exercise price range and weighted average remaining contractual life for the Nil Cost Options outstanding at 31 March 2019 are as follows:

	2019	2018
Exercise price range	**£Nil**	£Nil
Weighted average remaining contractual life	2.40 years	2.13 years

Notes to the financial statements for the year ended 31 March 2019

38. Capital

For the purpose of the Company's capital management, capital includes issued capital, share premium and all other equity reserves.

The Company maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Company's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) and adopted by the Guernsey Financial Services Commission, ("Regulator") in supervising the Company.

During the past year, no breaches of externally imposed capital requirement were reported to the Regulator by the Company (2018: the same).

The primary objectives of the Company's capital management are:

- to comply with the requirements set by the regulators of the markets where the Company operates;
- to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for its shareholders;
- to maintain a strong capital base to support the development of its business.

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Company may return capital to shareholders or issue capital securities. No changes yet have been made in the objectives, policies and processes from the previous years however, it is under constant scrutiny of the Board.

Regulatory capital - Unaudited	**2019**		2018	
	Actual £'000	**Required £'000**	Actual £'000	Required £'000
Tier 1 capital	101 045	81 151	113 673	90 921
Tier 2 capital	25 000	n/a	–	n/a
Total regulatory capital	**126 045**	**101 377**	113 673	90 921
Risk weighted assets	**818 878**		763 403	
Tier 1 capital ratio	12.34%		14.89%	
Total capital ratio	**15.39%**		14.89%	

The numbers above are sourced from the unaudited 31 March 2019 GFSC Regulatory Return.

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium and retained earnings and Tier 2 capital in the form of subordinated debt purchased by Investec Bank (Switzerland) AG, a fellow subsidiary of Investec Bank PLC.

39. Pension costs

The pension cost for the year was £664,351 (2018: £590,078). There were no outstanding or prepaid contributions as at 31 March 2019.

The Company operates a money purchase pension scheme. Contributions of the Company were 10%, 13%, 15%, 20% or 27% of staff salaries, depending on age and length of service. Contributions are recorded as an expense under 'Administrative Expenses'. Any unpaid contributions are recorded as a liability.

40. Parent company, ultimate parent company and controlling party

INVESTEC BANK (CHANNEL ISLANDS) LIMITED is a wholly owned subsidiary of Investec Bank PLC which is incorporated in the United Kingdom and registered in England and Wales. The company's ultimate parent undertaking and controlling party is Investec PLC, a company incorporated in the United Kingdom, registered in England and Wales and listed on the London Stock Exchange. The company is included within these consolidated group accounts which are publicly available. The registered address of both Investec Bank PLC and Investec PLC is 30 Gresham Street, London, EC2V 7QP.

41. Post Balance Sheet Events

There are no post Balance Sheet events to report.