ANNUAL REPORT | 2020

Investec Bank (Channel Islands) Limited
financial statements
for the year ended 31 March 2020

Investec

Contents

Company Summary for the year ended 31 March 2020

Directors

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

Auditors

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

Registered Office

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Report of the Directors for the year ended 31 March 2020

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 2020.

Principal activities

The Company carries on the business of banking and related financial services. The Company has assets under administration amounting to approximately £364m (2019: £298m) 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 £12.0m (2019: £25.0m) 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 2020

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.

Going concern

The Directors have undertaken a review to establish whether the use of the going concern basis is appropriate for the preparation of the financial statements. This review involved the preparation of detailed forecasts of the profitability, cash position and regulatory capital position of the company up until 31 March 2023. These forecasts take into account the current operating environment and economic conditions, including the expected impact of the COVID-19 pandemic, and have been stress tested for the potential further adverse impact on trading performance that could result from COVID-19 or other circumstances beyond those expected.

Details of the company's liquidity and financial risk management procedures are set out in note 5 to the financial statements. After taking into account the results of the review set out above, the Directors consider that the company is adequately positioned to successfully manage the risks faced. The Directors therefore have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Auditor

A resolution to reappoint Ernst & Young LLP as auditors was agreed at the Board meeting held on 24 June 2020.

By order of the Board

Directors

Date: 24 June 2020

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 2020, 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 2020 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 pages 2-3, 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
25 June 2020

Statement of Comprehensive Income
for the year ended 31 March 2020

	Notes	2020 £	2019 £
Interest receivable	6	52 249 945	48 990 553
Interest payable	7	(14 745 905)	(10 942 117)
Net interest income		**37 504 040**	**38 048 436**
Fees and commission receivable	8	5 388 486	5 256 586
Fees and commission payable	8	(275 570)	(308 780)
Net fees and commission income		**5 112 916**	**4 947 806**
Other operating income	9	610 449	672 665
Expected credit (losses)/impairment release	10	(1 901 672)	2 033 514
Net gain/(loss) from financial instruments at fair value through profit or loss		374 725	(8 484)
Net operating income		**41 700 458**	**45 693 937**
Administrative expenses	11	(17 717 387)	(17 534 233)
Depreciation and amortisation	20, 21	(1 558 907)	(804 204)
Profit on ordinary activities before taxation		**22 424 164**	**27 355 500**
Tax on profit on ordinary activities	12	(2 088 350)	(2 537 436)
Profit for the financial year		**20 335 814**	**24 818 064**
Other comprehensive income			
Items that will be reclassified to the income statement			
Fair value gain on debt instruments at fair value through other comprehensive income		1 111 597	265 531
Share options granted on restructure of parent company		(114 040)	–
Total comprehensive income for the year		**21 333 371**	**25 083 595**

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

The notes on pages 9 to 38 form an integral part of these financial statements.

Balance Sheet
at 31 March 2020

	Notes	2020 £	2019 £
Assets			
Loans and advances to banks	13	578 045 786	561 805 491
Debt instruments at fair value through other comprehensive income	14	544 404 420	573 190 574
Financial assets at fair value through profit or loss	17	1 355 860	975 000
Loans and advances to customers	15	941 284 340	832 286 269
Derivative financial instruments	16	5 206 202	307 423
Investment in subsidiary company	18	100 000	100 000
Intangible fixed assets	20	663 938	519 206
Tangible fixed assets and right of use assets	21	9 946 446	812 989
Prepayments and accrued income	22	1 149 579	1 527 893
Deferred taxation assets	12	485 950	439 306
Other assets		1 461 476	1 260 683
Total assets		**2 084 103 997**	**1 973 224 834**
Liabilities			
Deposits by banks	23	16 488 223	10 090 595
Customer accounts	24	1 883 655 353	1 803 443 694
Derivative financial instruments	16	6 368 094	477 834
Current taxation liabilities		2 266 029	2 681 895
Other liabilities	25	12 817 277	3 822 707
Subordinated liabilities	26	25 307 209	25 313 783
Total liabilities		**1 946 902 185**	**1 845 830 508**
Equity			
Called up share capital	27	14 652 339	14 652 339
Share premium account	28	20 347 661	20 347 661
Retained earnings		97 089 939	88 868 165
Share based payment reserve	28	3 961 083	3 485 150
Fair value reserve	28	1 150 790	41 011
Total equity		**137 201 812**	**127 394 326**
Total liabilities and equity		**2 084 103 997**	**1 973 224 834**

The financial statements on pages 6 to 38 were approved and authorised for issue by the Board of Directors on 24 June 2020 and are signed on its behalf by:

(Director) (Director)

The notes on pages 9 to 38 form an integral part of these financial statements.

Statement of Changes in Equity
for the year ended 31 March 2020

	Notes	Share capital £	Share premium £	Share based payment reserve £	Fair value reserve £	Retained Earnings £	Total £
Balance at 31 March 2018		**14 652 339**	**20 347 661**	**3 038 506**	**105 270**	**89 050 101**	**127 193 877**
Profit for the financial year		–	–	–	–	24 818 064	24 818 064
Movement 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 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**
Profit for the financial year		–	–	–	–	20 335 814	20 335 814
Movement in value of assets measured at FVOCI		–	–	–	1 111 597	–	1 111 597
Total comprehensive income for the year		**–**	**–**	**–**	**1 111 597**	**20 335 814**	**21 447 411**
Dividend paid	29	–	–	–	–	(12 000 000)	(12 000 000)
Movement of IFRS9 ECLs measured at FVOCI		–	–	–	(1 818)	–	(1 818)
Share options granted on restructure of parent company		–	–	–	–	(114 040)	(114 040)
Share based payments adjustment		–	–	475 933	–	–	475 933
Balance at 31 March 2020		**14 652 339**	**20 347 661**	**3 961 083**	**1 150 790**	**97 089 939**	**137 201 812**

The notes on pages 9 to 38 form an integral part of these financial statements.

Notes to the financial statements for the year ended 31 March 2020

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 profit or loss which are measured at fair value.

The Directors consider the use of the going concern basis of accounting as appropriate, more details are included in the Report of the Directors.

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 IFRS 16 *Leases* (IFRS 16) for the first time. Several other amendments and interpretations apply for the first time to accounting periods beginning on or after 1 January 2019, but do not have an impact on the Company’s financial statements. The Company has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 16 Leases

IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an arrangement contains a Lease*, SIC-15 *Operating Leases-incentives* and SIC-27 *Evaluating the Substance of Transaction involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

The Company adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 April 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Company elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at 1 April 2019. Instead the Company applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The Company has lease contracts in respect of its premises. Before the adoption of IFRS 16 the Company classified each of its leases (as lessee) at the inception date as operating leases.

Upon adoption of IFRS, the Company applied a single recognition and measurement approach for all leases except short-term leases and leases of low-value assets. The standard provides specific transition requirements which have been applied by the Company.

Notes to the financial statements for the year ended 31 March 2020

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)

Leases previously accounted for as operating leases

The Company recognised right of use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right of use assets for most leases were recognised based on the amount equal to lease liabilities, adjusted for any related prepaid and accrued lease payments previously recorded. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of the initial application.

Right of use assets are depreciated on a straight line basis over the lease term. Lease liabilities are subsequently measured by increasing the carrying amount to reflect the interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company also applied the available practical expedients wherein it:
(a) Relied on its assessment of whether leases are onerous immediately before the date of initial application
(b) Applied the short-term leases exemptions to leases with a lease term that ends within 12 months of the date of initial application
(c) Excluded the initial direct costs from the measurement of the right of use asset at the date of initial application

The quantitative impact of applying IFRS 16 as at 1 April 2019 is disclosed in Note 4.

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 below.

	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%

Right of use assets

The Company recognises right of use assets at the commencement date of the lease. Right of use assets are measured at cost, less any depreciation and impairment losses, and adjusted for an remeasurement of lease liabilities. The cost of right of use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right of use assets are depreciated on a straight line basis over the lease term.

Right of use assets are subject to impairment in line with the Bank's policy as described in Note 3.6.

Notes to the financial statements for the year ended 31 March 2020

3. Summary of significant accounting policies (continued)

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.

3.8 Revenue recognition

3.8.1 Interest income

Under 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 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.

Notes to the financial statements for the year ended 31 March 2020

3. Summary of significant accounting policies (continued)

3.8 Revenue recognition (continued)

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

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.

3.9.2 Financial assets and liabilities

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

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.

Notes to the financial statements for the year ended 31 March 2020

3. Summary of significant accounting policies (continued)

3.9 Financial Instruments - Initial Recognition (continued)

3.9.2 Financial assets and liabilities (continued)

3.9.2.3 Debt instruments at FVOCI

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

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.

3.9.2.4 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

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. These contracts are in the scope of the Expected Credit Loss (ECL) requirements.

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 Financial Liabilities

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

Non-trading liabilities are recorded at amortised cost.

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).

Notes to the financial statements for the year ended 31 March 2020

3. Summary of significant accounting policies (continued)

3.10 Derecognition of financial assets and liabilities (continued)

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

AAfinancial 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

3.11.1 Overview of the ECL principles

The Company records 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.
- 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.
- Stage 3: (LTECL; Multiple economic scenarios): This relates to additional impairment allowances required on Stage 3 exposures already in default or impaired. Under IFRS9, loss provisions are calculated using a range of forward-looking, probability weighted macro-economic scenarios and assets are individually assessed using multiple economic scenarios under IFRS9.
- 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.

Notes to the financial statements for the year ended 31 March 2020

3. Summary of significant accounting policies (continued)

3.11 Impairment of financial assets (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. 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.

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 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.

3.13 Leases

3.13.1 Operating leases (Policy applicable before 1 April 2019)

Leases that do not transfer to the Company substantially all of the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

Notes to the financial statements for the year ended 31 March 2020

3. Summary of significant accounting policies (continued)

3.13 Leases (continued)

3.13.2 Lease liabilities (Policy applicable as of 1 April 2019)
The Company assesses at contract inception whether a contract is, or contains a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company applies a single recognition and measurement approach for all leases, except short-term leases and leases of low value assets. The Company recognises lease liabilities to make lease payments.

At the commencement of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments(less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

Lease liabilities are subsequently measured by increasing the carrying amount to reflect the interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

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.

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 ECLs 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

Notes to the financial statements for the year ended 31 March 2020

3. Summary of significant accounting policies (continued)

3.16 Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

3.16.1 IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts, covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4). IFRS 17 applies to all types of insurance effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4). This standard is not applicable to the Company.

3.16.2 Amendments to IFRS 3: Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Company will not be affected by these amendments on the date of transition.

3.16.3 Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The amendments to the definition of material is not expected to have a significant impact on the Company's financial statements.

4. Transitional Disclosures

The following section sets out the impact of adopting IFRS 16 Leases on the Balance Sheet Assets and Liabilities.

Assets	Ref	Balance sheet position 31 March 2019 £	IFRS 16 Initial recognition 1 April 2019 £	Balance sheet position 1 April 2019 £
Tangible fixed assets and right of use assets	*A*	812 989	9 862 927	10 675 916

Liabilities	Ref	Balance sheet position 31 March 2019 £	IFRS 16 Initial recognition 1 April 2019 £	Balance sheet position 1 April 2019 £
Other liabilities	*B*	3 822 707	9 862 927	13 685 634

A As of 1 April 2019, right of use assets of £9,862,927 were recognised and presented in the statement of financial position with "Tangible fixed assets and right of use assets.

B As of 1 April 2019, lease liabilities of £9,862,927 were recognised in other liabilities.

The adoption of IFRS 16 had no impact on the Company's retained earnings and no material impact on its Common Equity Tier 1 capital ratio.

Notes to the financial statements
for the year ended 31 March 2020

4. Transitional Disclosures (continued)

The lease liabilities as at 1 April 2019 can be reconciled to the operating lease commitments as of 31 March 2019 as follows:

	£
Operating lease commitments as at 31 March 2019	11 191 588
Less:	
Commitments relating to short term assets and leases of low-value assets	(7 481)
Operating lease commitments on leases recognised as lease liabilities at 1 April 2019	11 184 107
Weighted average incremental borrowing rate at 1 April 2019	1.68%
Discounted operating lease commitments as at 1 April 2019	**9 862 927**

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 the Board. It also 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.

5.1 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:

	As at 31 March 2020 £m	As at 31 March 2019 £m
Loans and advances to banks	578	562
Debt instruments at FVOCI	544	573
Financial assets at FVPL	1	1
Loans and advances to customers	941	832
Derivative financial instruments	5	–
Other assets	14	5
Total on balance sheet credit exposures	**2 083**	**1 973**
Guarantees	–	1
Undrawn loans	90	98
Gross off-balance sheet exposure	**90**	**99**
Total credit exposures	**2 173**	**2 072**

Notes to the financial statements for the year ended 31 March 2020

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

5.1 Credit risk (continued)

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

Fitch Equivalent Rating	As at 31 March 2020 Limit £m	As at 31 March 2020 Exposure £m	As at 31 March 2019 Limit £m	As at 31 March 2019 Exposure £m
AAA	–	–	–	–
AA+	–	–	–	–
AA	20	–	80	13
AA-	476	99	411	62
A+	230	31	120	–
A	170	72	157	61
A-	73	55	180	94
*BBB+	537	320	540	331
BBB	–	–	–	–
BBB-	–	–	18	–
BB+	–	–	40	1
BB	45	1	–	–
	1 551	**578**	**1 546**	**562**

*Of the total BBB+ rated exposure of £320m, £274m relates to the Company's parent, Investec Bank plc. Of this exposure £32m is secured (2019: £292m / £31m).

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.

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. Under IFRS9 a loss allowance equivalent to a lifetime ECL is required to be held.

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. Where payment holidays have been granted to clients in respect of the current COVID-19 pandemic the loan is not considered to be in forbearance and will not be classified as Stage 2 unless there are factors that cause them to be classified as Stage 2. At 31 March 2020 one loan with a value of £640k had been granted a payment holiday due to COVID-19.

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

5.1 Credit risk (continued)

Credit risk classification and provisioning policy (continued)

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

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. Any recoveries of amounts previously written off decrease the amount of impairment losses.

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 2020. 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 2020 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 2020			As at 31 March 2019		
Currency	**MPM Position £m**	**MPM Limit £m**	**% Utilisation**	MPM Position £m	MPM Limit £m	% Utilisation
GBP	(635)	1 500	42%	(697)	1 500	46%
USD	(1 070)	2 220	48%	(789)	2 220	36%
JPY	–	50	0%	–	50	0%
EURO	(78)	500	16%	(108)	500	22%
AUD	1	50	-1%	8	50	-17%
CHF	–	50	0%	–	50	0%
Others	20	50	-40%	2	50	-3%
Overall	**1 804**	**3 600**	**50%**	**1 604**	**3 600**	**45%**

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.

Notes to the financial statements for the year ended 31 March 2020

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

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 liquidity 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 2020 was 280% (2019: 446%).

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.

	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**
At 31 March 2020	**£**	**£**	**£**	**£**	**£**	**£**
Liabilities						
Deposits by banks	9 798 355	550 411	6 165 211	–	–	16 513 977
Customer accounts	1 274 896 124	493 451 548	95 662 325	5 870 320	16 258 153	1 886 138 470
Derivative financial instruments	5 255 263	–	–	10 091	1 102 740	6 368 094
Subordinated debt	–	–	–	–	30 533 356	30 533 356
Loan commitments	90 114 580	–	–	–	–	90 114 580
Guarantees	–	–	–	–	–	–
At 31 March 2019	£	£	£	£	£	£
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

Notes to the financial statements for the year ended 31 March 2020

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

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 2020.

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 2020 Effect on Profit and Equity £**	31 March 2019 Effect on Profit and Equity £
USD	5%	25 413	40 739
NZD	5%	(1 391)	(390)
EUR	5%	16 172	10 573
ZAR	5%	1 842	1 276

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

	2020 £	2019 £
In respect of:		
Cash and short term funds	461 907	306 369
Due from banks	12 304 142	9 527 091
Loans and advances to customers	32 727 064	32 064 294
Debt instruments at fair value through other comprehensive income	6 756 832	7 092 799
	52 249 945	**48 990 553**

7. Interest and similar expense

	2020 £	2019 £
In respect of:		
Deposits by banks	(145 976)	(147 320)
Customer accounts	(12 964 345)	(10 027 012)
Unwinding of lease liabilities	(160 986)	–
Subordinated debt	(1 474 598)	(767 785)
	(14 745 905)	**(10 942 117)**

Notes to the financial statements for the year ended 31 March 2020

8. Net fees and commission income

	2020 £	2019 £
Foreign exchange	2 741 731	2 771 548
Credit related fees and commissions	362 978	300 433
Bank charges and commissions	1 880 647	1 768 460
Custody and safekeeping charges	403 130	416 145
Total fees and commission income	**5 388 486**	**5 256 586**
Brokerage and commissions paid	–	(6 600)
Other fees paid	(275 570)	(302 180)
Total fees and commission expense	(275 570)	(308 780)
Net fees and commission income	**5 112 916**	**4 947 806**

9. Other operating income

	2020 £	2019 £
Net trading income		
Foreign exchange trading income	404 332	417 124
Net change in fair value of Foreign Exchange contracts and Interest Rate Swaps	934	(9 298)
	405 266	**407 826**
Other		
Rental income received	205 183	264 839
	205 183	**264 839**
Total other operating income	**610 449**	**672 665**

10. Expected credit losses impairment release

	2020 £	2019 £
Expected credit losses impairment charges has arisen on the following line items:		
Movement in ECL on loans and advances to customers	(1 142 281)	4 205 328
Movement in ECL on other balance sheet assets	1 668	356 295
Movement in ECL on off-balance sheet commitments	105 337	322 886
Loans and advances to customers written off	(886 396)	(2 850 995)
Total expected credit (losses)/impairment release	**(1 901 672)**	**2 033 514**

Notes to the financial statements for the year ended 31 March 2020

11. Administrative expenses

	2020 £	2019 £
Staff costs	11 343 032	11 295 078
Recharges of Group Central Costs	2 288 946	2 195 537
IT and office services	1 592 805	1 061 166
Marketing, travel and entertainment	576 839	677 862
Accommodation	314 343	234 599
Rental expense	49 730	808 704
Auditors remuneration - current year audit fees	121 831	118 862
Auditors remuneration - other services	35 982	38 951
Directors' fees	112 500	128 532
Legal fees	888 398	552 823
Other professional fees including GFSC fees	201 694	200 271
Operating losses	130 706	171 901
Other costs	60 581	49 947
	17 717 387	**17 534 233**

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.

12. Taxation

	2020 £	2019 £
Guernsey income tax based on profits for the year	2 130 090	2 102 280
Deferred tax charge	(46 644)	431 825
Under accrual in prior year	4 904	3 331
Tax charge reported in the statement of comprehensive income	**2 088 350**	**2 537 436**

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.

	2020 £	2019 £
Profit on ordinary activities	22 424 164	27 355 500
	22 424 164	**27 355 500**
Profit on ordinary activities at intermediate rate of tax at 10%	2 242 416	2 735 550
Add tax effect of disallowable expenditure:		
- Guernsey (net)	237 316	(345 609)
Less tax effect of Guernsey allowable deductions:		
- Capital allowances	(83 148)	(24 631)
- Income taxable at 0%	(266 494)	(263 030)
Current tax charge for the year	**2 130 090**	**2 102 280**

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

	2020 £	2019 £
Deferred Taxation		
Deferred taxation assets	**485 950**	**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 closing ECL balance recognised at the year end.

Notes to the financial statements for the year ended 31 March 2020

13. Loans and advances to banks

	2020 £	2019 £
Due from Investec Bank PLC - secured	32 189 389	30 779 519
Due from Investec Bank PLC - unsecured	236 979 099	260 695 225
Due from other group companies	1 189 052	–
Due from banks	284 750 814	259 434 259
Deposits with fellow subsidiaries	22 937 910	10 896 815
Loans and advances to banks	**578 046 264**	**561 805 818**
Less: Expected Credit Loss Allowance	(478)	(327)
	578 045 786	**561 805 491**

Of the total 'Loans and advances to banks', £269m (46.6%) was due from the Company's parent company Investec Bank plc (2019: £292m).

The increase in the ECL allowance of £151 during the year ended 31 March 2020 (2019: reduction of £26,505) was recognised in the Statement of Comprehensive Income.

14. Debt securities

	2020 £	2019 £
Debt instruments at fair value through other comprehensive income	544 404 420	573 190 574
Total Debt Securities	**544 404 420**	**573 190 574**

At 31 March 2020 there was no ECL allowance on debt instruments at fair value through other comprehensive income (2019: £1,818). The reduction in the ECL allowance during the year ended 31 March 2020 of £1,818 (2019: £329,790) was recognised in the Statement of Comprehensive Income.

15. Loans and advances to customers

	2020 £	2019 £
Commercial property	241 374 601	180 113 537
Other - secured	141 230 848	157 489 001
Residential mortgages	564 285 482	499 142 472
Unsecured	365 397	367 735
Gross loans and advances to customers	**947 256 328**	**837 112 745**
Less: Expected Credit Loss Allowance (IFRS9)	(5 971 988)	(4 826 476)
	941 284 340	**832 286 269**

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', 96.8% (£911m) was fully secured by collateral (2019: £826m). 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.

Notes to the financial statements for the year ended 31 March 2020

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 2020 £000s	31 March 2019 £000s
Gross core loans and advances to customers under IFRS9	**947 256**	**837 113**
Gross exposure subject to ECL (£000)	**947 256**	**837 113**
Stage 1	867 697	752 260
Stage 2	9 413	42 353
Stage 3	70 146	42 500
Gross exposure (%)		
Stage 1	91.6%	89.9%
Stage 2	1.0%	5.1%
Stage 3	7.4%	5.1%
IFRS9 ECL (£000)	**5 972**	**4 826**
Stage 1	928	356
Stage 2	780	1 567
Stage 3	4 264	2 902
ECL coverage ratio (%)	**0.6%**	**0.6%**
Stage 1	0.1%	0.0%
Stage 2	8.3%	3.7%
Stage 3	6.1%	6.8%

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 31 March 2019	**752 260**	**42 353**	**42 500**	**837 113**
New assets originated	195 463	–	111	195 574
Assets repaid (excluding write-offs)	(68 477)	(2 930)	(6 516)	(77 923)
Transfers to Stage 1	–	–	–	–
Transfer to Stage 2	(3 783)	3 783	–	–
Transfer to Stage 3	(2 526)	(33 281)	35 807	–
Other movements	(5 240)	(512)	(890)	(6 642)
Amounts written-off	–	–	(866)	(866)
Gross carrying amount as at 31 March 2020	**867 697**	**9 413**	**70 146**	**947 256**

Changes in ECL Allowance (£000s):	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 31 March 2019	**356**	**1 567**	**2 902**	**4 826**
New assets originated	91	1	3	95
Assets repaid (excluding write-offs)	(32)	(4)	(103)	(139)
Transfers to Stage 1	–	–	–	–
Transfer to Stage 2	(1)	89	–	88
Transfer to Stage 3	(5)	(878)	2 167	1 284
Other movements	519	5	5	529
Amounts written-off	–	–	(710)	(710)
ECL allowance as at 31 March 2020	**928**	**780**	**4 264**	**5 972**

Notes to the financial statements for the year ended 31 March 2020

15. Loans and advances to customers (continued)

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**

Analysis of Loans and advances to customers by risk category:

At 31 March 2020	Stage 1		Stage 2		Stage 3		Total	
£000s	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL
Commercial Property	**179 292**	**(53)**	**5 606**	**(690)**	**56 477**	**(3 404)**	**241 375**	**(4 147)**
Investment	179 292	(53)	–	–	53 130	(3 240)	232 422	(3 293)
Development	–	–	–	–	3 347	(164)	3 347	(164)
Planning	–	–	5 606	(690)	–	–	5 606	(690)
Residential Property	**547 242**	**(276)**	**3 788**	**(89)**	**13 255**	**(834)**	**564 285**	**(1 199)**
Mortgages	99 156	(31)	–	–	3 639	–	102 795	(31)
Investment	444 499	(245)	3 788	(89)	3 545	(520)	451 832	(854)
Development	3 587	–	–	–	6 071	(314)	9 658	(314)
Planning	–	–	–	–	–	–	–	–
Other Secured Loans	**140 798**	**(99)**	**19**	**(1)**	**414**	**(26)**	**141 231**	**(126)**
Growth & Acquisition Finance	10 378	(4)	–	–	–	–	10 378	(4)
Leverage/Acquisition Finance	3 499	(45)	–	–	–	–	3 499	(45)
Non Property Structured Lending	92 019	(48)	–	–	–	–	92 019	(48)
Other corporate lending	22 365	(1)	–	–	–	–	22 365	(1)
Other	12 537	(1)	19	(1)	414	(26)	12 970	(28)
Unsecured Loans	**365**	**–**	**–**	**–**	**–**	**–**	**365**	**–**
Unsecured Loans	365	–	–	–	–	–	365	–
Unallocated	**–**	**(500)**	**–**	**–**	**–**	**–**	**–**	**(500)**
Total	**867 697**	**(928)**	**9 413**	**(780)**	**70 146**	**(4 264)**	**947 256**	**(5 972)**

Notes to the financial statements for the year ended 31 March 2020

15. Loans and advances to customers (continued)

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	–
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**	**–**
Unsecured Loans	368	–	–	–	–	–	368	–
Total	**752 260**	**(356)**	**42 353**	**(1 567)**	**42 500**	**(2 902)**	**837 113**	**(4 826)**

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 2020 £	**Liabilities 2020 £**	**Notional Amount 2020 £**
Derivatives held for trading			
Forward foreign exchange contracts	5 206 202	(5 255 263)	387 742 801
Interest rate swaps	–	(1 112 831)	71 056 025
	5 206 202	**(6 368 094)**	**458 798 826**

	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**

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 2020

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 derivatives and loans to customers which contain one or more embedded derivatives.

	31 March 2020 £	**Level 1 £**	**Level 2 £**	**Level 3 £**
Assets classified as fair value through profit or loss				
Forward foreign exchange contracts	5 206 202	–	5 206 202	–
Interest rate swap contracts	–	–	–	–
Loans to customers at fair value through profit or loss	1 355 860	–	–	1 355 860
Assets classified as fair value through other comprehensive income				
Treasury Bills	544 404 420	544 404 420	–	–
Liabilities classified as fair value through profit or loss				
Forward foreign exchange contracts	(5 255 263)	–	(5 255 263)	–
Interest rate swap contracts	(1 112 831)	–	(1 112 831)	–

	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)	–

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 2020, 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.

Notes to the financial statements for the year ended 31 March 2020

17. Fair value hierarchy (continued)

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

	2020 **£**	2019 £
Financial assets at fair value through profit or loss at 31 March 2019	975 000	50 418 744
Advances	6 135	8 484
Settlements	–	(24 648 207)
Reclassifications	–	(24 795 537)
Fair value movement	374 725	(8 484)
Financial assets at fair value through profit or loss at 31 March 2020	**1 355 860**	**975 000**

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

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

The Company bears the cost of administering Investec Bank (Channel Islands) Nominees Limited.

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 **2020**	**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	(1 190 808)	(1 190 808)	(995 709)	1 207 254	992 416
2019	£	£	£	£	£
Interest Rate Swap	(195 100)	(195 100)	(516 863)	214 838	485 912

Notes to the financial statements for the year ended 31 March 2020

20. Intangible fixed assets

	Computer Software £
Cost	
At 31 March 2019	3 967 709
Additions	606 158
Disposals	–
At 31 March 2020	**4 573 867**
Amortisation and impairment	
At 31 March 2019	3 448 503
Charge for the year	461 426
Disposals	–
At 31 March 2020	**3 909 929**
Net book value	
At 31 March 2019	519 206
At 31 March 2020	**663 938**

21. Tangible fixed assets

	Right of Use Assets - Buildings £	Leasehold improvements £	Office Equipment £	Total £
Cost				
At 1 April 2019	9 862 927	1 330 419	1 545 025	12 738 371
Additions	–	243 165	124 846	368 011
Disposals	–	–	–	–
At 31 March 2020	**9 862 927**	**1 573 584**	**1 669 871**	**13 106 382**
Depreciation				
At 1 April 2019	–	918 939	1 143 516	2 062 455
Charge for the year	713 601	151 413	232 467	1 097 481
On Disposals	–	–	–	–
At 31 March 2020	**713 601**	**1 070 352**	**1 375 983**	**3 159 936**
Net book value				
At 31 March 2019	–	411 480	401 509	812 989
At 31 March 2020	**9 149 326**	**503 232**	**293 888**	**9 946 446**

Set out below are the carrying amounts of lease liabilities (included under other liabilities in Note 25) and the movements during the period:

	2020 £
At 1 April 2019 - effect of adoption of IFRS 16	9 862 927
Accretion of interest	160 986
Payments	(784 199)
At 31 March 2020	**9 239 714**

The maturity analysis of lease liabilities is disclosed in Note 34.

In the year to 31 March 2020 the Company had total cash outflows for leases of £784,199. The initial application of IFRS 16 resulted in non-cash additions to right of use assets and lease liabilities of £9,862,927 at 1 April 2019.

Notes to the financial statements for the year ended 31 March 2020

22. Prepayments and accrued income

	2020 £	2019 £
Prepaid expenses	934 087	1 218 665
Loan Fees due from Clients	215 492	309 228
	1 149 579	**1 527 893**

23. Deposits by banks

	2020 £	2019 £
Due to fellow subsidiaries	16 488 223	10 090 595
	16 488 223	**10 090 595**

24. Customer accounts

	2020 £	2019 £
Current accounts	1 198 697 814	1 046 049 531
Notice and fixed	684 957 539	757 394 163
	1 883 655 353	**1 803 443 694**

25. Other liabilities

	2020 £	2019 £
Staff expenses accrued	1 627 456	1 892 283
Due to holding company	268 277	156 216
ECL allowance on undrawn loans	8 477	113 806
Lease liabilities (Note 21)	9 239 714	–
Other liabilities	1 673 353	1 660 402
	12 817 277	**3 822 707**

Other liabilities includes £8,477 (2019: £113,806) in respect of an ECL allowance on undrawn loans (Note 31). The reduction in the ECL allowance of £105,329 during the year ended 31 March 2020 (2019: £322,886) was recognised in the Statement of Comprehensive Income.

26. Subordinated debt

	2020 £	2019 £
Subordinated debt	25 307 209	25 313 783

During the prior 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

	2020 £	2019 £
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.

Notes to the financial statements for the year ended 31 March 2020

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 securities and the ECL allowance on debt securities. The reduction in the ECL allowance of £1,818 during the year ended 31 March 2020 was recognised in the Statement of Comprehensive Income (2019: £329,790). The closing ECL allowance on debt securities at 31 March 2020 was £nil (2019: £1,818).

29. Dividends

	2020 **£**	2019 £
Dividend declared and paid during the year	**12 000 000**	25 000 000
Dividend per share	**£0.82**	£1.71

30. Operating leases

Future minimum lease payments under non-cancellable operating leases as at 31 March 2020 are as follows:

	2020 **£** **Property**	2019 £ Property
Falling due:		
Within one year	–	786 724
In the second to fifth years inclusive	–	3 049 544
Over five years	–	7 355 320
	–	**11 191 588**

As at 31 March 2020 the Company held no non-cancellable operating sub-leases (2019: Nil).

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)	**2020** **£**	2019 £
Falling due:		
Within one year	**387 742 801**	**80 594 970**
(ii) Undrawn loans		
Falling due:		
Within one year	**90 114 580**	**97 964 205**
(iii) Guarantees		
Falling due:		
Within one year	**–**	**1 000 000**

Included in other liabilities in Note 25 is an amount of £8,477 in respect of stage 1 ECL allowances on undrawn loans (2019: £113,806). The reduction in the stage 1 ECL allowance of £105,329 during the year ended 31 March 2020 was recognised in the Statement of comprehensive income (2019: £322,886).

Notes to the financial statements for the year ended 31 March 2020

32. Geographical analysis

	Assets £ 2020	**Liabilities & Shareholders' Funds £ 2020**	Assets £ 2019	Liabilities & Shareholders' Funds £ 2019
Channel Islands	481 278 939	1 217 975 028	408 547 209	1 153 466 171
United Kingdom	900 575 111	262 884 913	1 010 718 155	193 261 892
Other EU member states	197 040 392	25 252 709	169 699 287	21 382 608
Other	505 209 555	577 991 347	384 260 183	605 114 163
	2 084 103 997	**2 084 103 997**	**1 973 224 834**	**1 973 224 834**

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 2020	**Sterling £**	**%**	**US Dollar £**	**%**	**Euro £**	**%**	**Other Currencies £**	**%**	**Total £**
Assets	1 274 112 787	61%	595 397 410	29%	139 394 184	7%	75 199 616	4%	2 084 103 997
Liabilities including shareholders' funds	(1 274 112 787)	61%	(595 397 410)	29%	(139 394 184)	7%	(75 199 616)	4%	(2 084 103 997)
Net assets/(liabilities)	–		–		–		–		–
Off balance sheet									
Assets	197 557 999	51%	47 171 620	12%	91 006 122	23%	52 035 944	13%	387 771 685
Liabilities	(191 106 670)	49%	(52 979 787)	14%	(92 785 373)	24%	(50 870 971)	13%	(387 742 801)
Net off balance sheet assets/(liabilities)	**6 451 329**		**(5 808 167)**		**(1 779 251)**		**1 164 973**		**28 884**

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)**

Notes to the financial statements for the year ended 31 March 2020

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.

At 31 March 2020	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 £
Assets							
Loans and advances to banks	281 960 860	263 959 843	32 136 258	(1 635)	(9 540)	–	578 045 786
Loans and advances to customers at amortised costs	41 292 780	9 904 750	52 282 994	72 397 770	680 998 860	84 407 186	941 284 340
Loans to customers at fair value through profit or loss	–	–	–	–	1 355 860	–	1 355 860
Debt securities	203 860 798	198 226 545	78 139 854	64 177 223	–	–	544 404 420
Liabilities							
Deposits by banks	(9 798 355)	(549 789)	(6 140 079)	–	–	–	(16 488 223)
Customer accounts	(1 274 886 088)	(492 587 072)	(94 912 837)	(5 797 262)	(5 454 144)	(10 017 950)	(1 883 655 353)
Lease liabilities	(64 937)	(129 874)	(194 817)	(387 316)	(2 970 417)	(6 653 519)	(10 400 880)
Subordinated debt	–	–	–	–	(25 307 209)	–	(25 307 209)
Net position	**(757 634 942)**	**(21 175 597)**	**61 311 373**	**130 388 780**	**648 613 410**	**67 735 717**	**129 238 741**

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 £	More than 1 year but not more than 5 years £	More than 5 years £	Total £
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**	**129 409 262**

Notes to the financial statements
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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 2020. 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%	600 356 140	78 139 854	64 177 223	1 006 180	–	–	743 679 397
Fixed rate – above 3%	32 839 722	–	1 630 917	70 143 757	549 773	–	105 164 169
Floating rate – up to 3%	819 534 150	–	475 294	–	–	–	820 009 444
Floating rate – above 3%	396 226 222	–	–	–	–	–	396 226 222
Non-interest bearing	–	–	–	–	–	19 013 591	19 013 591
Total Assets	**1 848 956 234**	**78 139 854**	**66 283 434**	**71 149 937**	**549 773**	**19 013 591**	**2 084 092 823**
Liabilities							
Fixed rate – up to 3%	88 299 467	1 636 287	5 624 350	1 783 816	–	–	97 343 920
Fixed rate – above 3%	402 423	–	119 376	–	–	–	521 799
Floating rate – up to 3%	1 772 223 551	–	–	–	–	–	1 772 223 551
Floating rate – above 3%	55 361 515	–	–	–	–	–	55 361 515
Non-interest bearing	–	–	–	–	–	21 451 400	21 451 400
Total Liabilities	**1 916 286 956**	**1 636 287**	**5 743 726**	**1 783 816**	**–**	**21 451 400**	**1 946 902 185**
Equity	–	–	–	–	–	137 201 812	137 201 812
Interest rate sensitivity gap before Interest Rate Swaps	**(67 330 722)**	**76 503 567**	**60 539 708**	**69 366 121**	**549 773**	**(139 639 621)**	**(11 174)**
Interest Rate Swaps	**(71 134 002)**	**–**	**1 604 644**	**69 540 532**	**–**	**–**	**11 174**
Interest rate sensitivity gap after Interest Rate Swaps	**(138 464 724)**	**76 503 567**	**62 144 352**	**138 906 653**	**549 773**	**(139 639 621)**	**–**
Cumulative interest rate sensitivity gap as at 31 March 2020	**(138 464 724)**	**(61 961 157)**	**183 195**	**139 089 848**	**139 639 621**	**–**	**–**
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**	**–**	**–**

Notes to the financial statements for the year ended 31 March 2020

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.

	2020		2019	
Loans and advances to customers	**£'000**	**%**	£'000	%
Satisfactory	867 650	92%	750 918	90%
Medium risk	3 849	0%	7 079	1%
Forborne	–	0%	883	0%
Watchlist - management review	40 198	4%	39 214	5%
Watchlist - sub-standard	6 071	1%	39 019	5%
Watchlist - default	29 488	3%	–	0%
	947 256		**837 113**	

37. Share based payments

Weighted average fair value of options granted in the year:

	2020		2019	
	Number of share options	**Weighted average exercise price**	Number of share options	Weighted average exercise price
Exercised during the year	(52 585)	£0.00	(82 679)	£1.05
Granted during the year	367 533	£0.37	–	n/a
Lapsed during the year	(88 717)	£5.64	–	n/a
Outstanding at the end of the year	**655 713**	**£0.73**	**429 482**	**£2.27**

15,499 options were exercisable at the end of the year with a weighted average exercise price of nil (2019: nil).

The exercise price range and weighted average remaining contractual life for the Strike Cost Options outstanding at 31 March 2020 are as follows:

	2020	2019
Exercise price range	**£2.90 - £4.27**	£5.03 - £6
Weighted average remaining contractual life	1 year	1.27 years

The exercise price range and weighted average remaining contractual life for the Nil Cost Options outstanding at 31 March 2020 are as follows:

	2020	2019
Exercise price range	**£Nil**	£Nil
Weighted average remaining contractual life	2.38 years	2.40 years

Notes to the financial statements for the year ended 31 March 2020

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 (2019: 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	**2020**		2019	
	Actual £'000	**Required £'000**	Actual £'000	Required £'000
Tier 1 capital	115 065	91 069	101 045	81 151
Tier 2 capital	25 000	n/a	25 000	n/a
Total regulatory capital	**140 065**	**113 767**	**126 045**	**101 377**
Risk weighted assets	**918 960**		818 878	
Tier 1 capital ratio	12.52%		12.34%	
Total capital ratio	**15.24%**		**15.39%**	

The numbers above are sourced from the unaudited 31 March 2020 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 £733,387 (2019: £664,351). There were no outstanding or prepaid contributions as at 31 March 2020.

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

The Directors continue to closely monitor the impact of COVID-19 on the operations of the Company, its clients, staff and other stakeholders.

As set out in the Report of the Directors, the Directors consider that the Company is well positioned to successfully manage the risks that the business faces.

There are no other post Balance Sheet events to report.