Investec

INVESTEC BANK PLC | 2019

(a subsidiary of Investec plc)

Financial information

Unaudited condensed consolidated financial information for the year ended 31 March 2019

IFRS – Pounds Sterling

Introduction

On 1 April 2018 the bank adopted IFRS 9 'Financial Instruments' which replaced IAS 39 'Financial Instruments: Recognition and Measurement' IFRS 9 requires a move from incurred loss methodology under IAS 39 to an expected credit loss (ECL) methodology. Disclosure related to the initial application and the impact of the transition from IAS 39 to IFRS 9 were included in the transition disclosures published on 15 June 2018. The Investec Bank plc transition disclosures can be accessed via the Investec website at https://www.investec.com/en_int/welcome-to-investec/about-us/investor-relations/financial-information/subsidiary-results.html

The disclosure of the impact and accounting policies is included on pages 19 to 24. Throughout the rest of the financial disclosures comparative information is provided as at 31 March 2018 and has been presented on an IAS 39 basis and not restated as permitted under IFRS 9. Credit risk disclosures shown on pages 25 to 28 are reported under IFRS 9 with 1 April 2018 comparatives.

Additionally on 1 April 2018, the bank adopted IFRS 15, 'Revenue from Contracts with Customers' which replaced IAS 18 'Revenue'. It applies to all contracts with customers except leases, financial instruments and insurance contracts. The standard establishes a more systematic approach for revenue measurement and recognition by introducing a five-step model governing revenue recognition. There is no impact on measurement and recognition principles previously applied under IAS 18. There is also no impact from the disclosure requirements of IFRS 15.

Overview of results

Key financial statistics	31 March 2019	31 March 2018	% change
Total operating income before expected credit losses/impairment losses (£'000)	1 049 300	1 040 147	0.9%
Operating costs (£'000)	819 169	797 049	2.8%
Operating profit before goodwill and acquired intangibles, non-operating items, taxation, and after non-controlling interests (£'000)	207 482	136 347	52.2%
Earnings attributable to ordinary shareholder (£'000)	159 277	97 841	62.8%
Cost to income ratio^ (%)	77.9%	76.7%	
Total capital resources (including subordinated liabilities) (£'000)	2 966 927	2 788 840	6.4%
Total shareholder's equity	2 163 228	2 209 167	(2.1%)
Total assets (£'000)	22 121 020	20 097 225	10.1%
Net core loans and advances* (£'000)	10 486 678	9 663 172	8.5%
Customer accounts (deposits) (£'000)	13 499 234	11 969 625	12.8%
Loans and advances to customers as a % of customer deposits	77.7%	80.7%	
Cash and near cash balances (£'000)	6 792 462	5 598 418	21.3%
Funds under management (£'mn)	39 482	37 276	5.9%
Total gearing ratio/leverage ratio (i.e. total assets to equity)	10.2x	9.1x	

Key asset quality and capital ratios	31 March 2019	1 April 2018
Capital adequacy ratio	17.0%	16.0%
Tier 1 ratio	12.9%	12.8%
CET 1 ratio	11.2%	11.3%
Leverage ratio – current	7.9%	8.2%
Leverage ratio – 'fully loaded'	7.7%	8.1%
Stage 3 exposure as a % of gross core loans and advances to customers subject to ECL	3.2%	6.3%
Stage 3 exposure net of ECL as a % of net core loans and advances to customers subject to ECL	2.2%	4.3%
Credit loss ratio#	0.38%	1.14%**

* *Loans and advances to customers net of ECL held against FVOCI loans reported within reserves.*

** *As at 31 March 2018.*

Expected credit loss (ECL) impairment charges on gross core loans and advances as a % of average gross core loans and advances subject to ECL.

^ *The group has changed its cost to income ratio definition to exclude operating profits or losses attributable to other non-controlling interests. As such, the cost to income ratio is calculated as: operating costs divided by operating income (net of depreciation on operating leased assets and net of operating profits or losses attributable to other non-controlling interests).*

CONSOLIDATED INCOME STATEMENT

£'000	Year to 31 March 2019	Year to 31 March 2018
Interest income	727 742	598 494
Interest expense	(336 363)	(248 876)
Net interest income	**391 379**	**349 618**
Fee and commission income	523 247	504 606
Fee and commission expense	(12 366)	(10 094)
Investment income	34 236	68 943
Share of post taxation profit of associates	2 830	1 444
Trading income arising from		
– customer flow	86 766	114 502
– balance sheet management and other trading activities	12 732	2 838
Other operating income	10 476	8 290
Total operating income before expected credit losses/impairment losses	**1 049 300**	**1 040 147**
Expected credit loss impairment charges*	(24 991)	–
Impairment losses on loans and advances*	–	(106 085)
Operating income	**1 024 309**	**934 062**
Operating costs	(819 169)	(797 049)
Depreciation on operating leased assets	(2 137)	(2 350)
Operating profit before goodwill and acquired intangibles	**203 003**	**134 663**
Amortisation of acquired intangibles	(12 958)	(13 273)
Operating profit	**190 045**	**121 390**
Financial impact of group restructures	(12 853)	–
Profit before taxation	**177 192**	**121 390**
Taxation on operating profit before goodwill and acquired intangibles	(27 216)	(27 651)
Taxation on goodwill, acquired intangibles and financial impact of group restructures	4 822	2 418
Profit after taxation	**154 798**	**96 157**
Loss attributable to non-controlling interests	4 479	1 684
Earnings attributable to shareholder	**159 277**	**97 841**

* *On adoption of IFRS 9, there is a move from an incurred loss model to an expected credit loss methodology.*

CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

£'000	Year to 31 March 2019	Year to 31 March 2018
Profit after taxation	**154 798**	**96 157**
Other comprehensive income/(loss):		
Items that may be reclassified to the income statement:		
Gains on realisation of debt instruments at FVOCI recycled through the income statement*^	(1 907)	–
Fair value movements on debt instruments at FVOCI taken directly to other comprehensive income*^	1 517	–
Gains on realisation of available-for-sale assets recycled through income statement*^	–	(1 278)
Fair value movements on available-for-sale assets taken directly to other comprehensive income*^	–	4 525
Foreign currency adjustments on translating foreign operations	2 381	(14 187)
Items that will never be reclassified to the income statement:		
Effect of rate change on deferred tax relating to adjustment for IFRS 9	(1 572)	–
Gains attributable to own credit risk*	9 104	–
Total comprehensive income	**164 321**	**85 217**
Total comprehensive income attributable to non-controlling interests	(4 891)	(1 186)
Total comprehensive income attributable to ordinary shareholders	157 958	82 167
Total comprehensive income attributable to Additional Tier 1 securities	11 254	4 236
Total comprehensive income	**164 321**	**85 217**

* *Net of taxation (except for the impact of rate changes on deferred tax as shown separately above).*
^ *Following the adoption of IFRS 9, "Financial Instruments" on 1 April 2018, the fair value reserve was introduced replacing the available-for-sale reserve.*

CONSOLIDATED BALANCE SHEET

£'000	At 31 March 2019	At 1 April 2018*	At 31 March 2018*
Assets			
Cash and balances at central banks	4 445 430	3 487 716	3 487 768
Loans and advances to banks	954 938	772 231	772 984
Reverse repurchase agreements and cash collateral on securities borrowed	633 202	750 102	750 428
Sovereign debt securities	1 298 947	1 155 472	1 155 472
Bank debt securities	52 265	113 274	107 938
Other debt securities	508 142	281 939	288 349
Derivative financial instruments	642 530	604 848	610 201
Securities arising from trading activities	798 224	701 728	701 728
Investment portfolio	486 493	472 083	472 083
Loans and advances to customers	10 488 022	9 539 858	9 663 172
Other loans and advances	246 400	415 666	417 747
Other securitised assets	118 143	132 172	132 172
Interests in associated undertakings	8 855	6 414	6 414
Deferred taxation assets	133 344	148 636	84 599
Other assets	847 604	1 013 440	1 013 440
Property and equipment	94 714	53 183	53 183
Investment properties	14 500	14 500	14 500
Goodwill	260 858	261 075	261 075
Intangible assets	88 409	103 972	103 972
	22 121 020	**20 028 309**	**20 097 225**
Liabilities			
Deposits by banks	1 318 776	1 295 847	1 295 847
Derivative financial instruments	719 027	533 319	533 319
Other trading liabilities	80 217	103 496	103 496
Repurchase agreements and cash collateral on securities lent	314 335	168 640	168 640
Customer accounts (deposits)	13 499 234	11 969 625	11 969 625
Debt securities in issue	2 050 141	1 942 869	1 942 869
Liabilities arising on securitisation of other assets	113 711	127 853	127 853
Current taxation liabilities	136 818	135 517	135 517
Deferred taxation liabilities	21 341	22 120	22 120
Other liabilities	900 493	1 014 956	1 009 099
	19 154 093	**17 314 242**	**17 308 385**
Subordinated liabilities	803 699	716 564	579 673
	19 957 792	**18 030 806**	**17 888 058**
Equity			
Ordinary share capital	1 186 800	1 186 800	1 186 800
Share premium	143 288	143 288	143 288
Capital reserve	162 789	162 789	162 789
Other reserves	(19 647)	(56 014)	7 344
Retained income	447 924	363 700	512 006
Shareholder's equity excluding non-controlling interests	**1 921 154**	**1 800 563**	**2 012 227**
Additional Tier 1 securities in issue	250 000	200 000	200 000
Non-controlling interests in partially held subsidiaries	(7 926)	(3 060)	(3 060)
Total equity	**2 163 228**	**1 997 503**	**2 209 167**
Total liabilities and equity	**22 121 020**	**20 028 309**	**20 097 225**

* *The 1 April 2018 balance sheet has been presented on an IFRS 9 basis and the comparative as at 31 March 2018 on an IAS 39 basis.*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

£'000	Ordinary share capital	Share premium	Capital reserve account
At 31 March 2017	**1 186 800**	**143 288**	**162 789**
Movement in reserves 1 April 2017 – 31 March 2018			
Profit after taxation	–	–	–
Losses on realisation of available-for-sale assets recycled through the income statement	–	–	–
Fair value movements on available-for-sale assets	–	–	–
Foreign currency adjustments on translating foreign operations	–	–	–
Total comprehensive income for the year	**–**	**–**	**–**
Share-based payments adjustments	–	–	–
Issue of Additional Tier 1 security instruments	–	–	–
Dividends paid to ordinary shareholder	–	–	–
Dividends declared to Additional Tier 1 security holders	–	–	–
Dividends paid to Additional Tier 1 security holders	–	–	–
Net equity impact of non-controlling interest movements	–	–	–
At 31 March 2018	**1 186 800**	**143 288**	**162 789**
Adoption of IFRS 9	–	–	–
At 1 April 2018	**1 186 800**	**143 288**	**162 789**
Movement in reserves 1 April 2018 – 31 March 2019			
Profit after taxation	–	–	–
Effect of rate change on deferred tax relating to adjustment for IFRS 9	–	–	–
Gains on realisation of debt instruments at FVOCI recycled through the income statement	–	–	–
Fair value movements on debt instruments at FVOCI taken directly to other comprehensive income	–	–	–
Foreign currency adjustments on translating foreign operations	–	–	–
Gains attributable to own credit risk	–	–	–
Total comprehensive loss for the year	**–**	**–**	**–**
Share-based payments adjustments	–	–	–
Issue of Additional Tier 1 security instruments	–	–	–
Dividends paid to ordinary shareholders	–	–	–
Dividends declared to Additional Tier 1 security holders	–	–	–
Dividends paid to Additional Tier 1 security holders	–	–	–
Transfer own credit reserve on sale of subordinated liabilities	–	–	–
Net equity impact of non-controlling interest movements	–	–	–
At 31 March 2019	**1 186 800**	**143 288**	**162 789**

^ *Following the adoption of IFRS 9, Financial Instruments on 1 April 2018, the fair value reserve was introduced replacing the available for sale reserve.*

Other reserves							
Available-for-sale reserve/ Fair value reserve^	**Foreign currency reserve**	**Own credit reserve**	**Retained income**	**Shareholder's equity excluding non-controlling interests**	**Additional Tier 1 securities in issue**	**Non-controlling interests**	**Total equity**
7 243	**11 539**	**–**	**470 272**	**1 981 931**	**–**	**(2 000)**	**1 979 931**
–	–	–	97 841	97 841	–	(1 684)	96 157
(1 278)	–	–	–	(1 278)	–	–	(1 278)
4 525	–	–	–	4 525	–	–	4 525
–	(14 685)	–	–	(14 685)	–	498	(14 187)
3 247	**(14 685)**	**–**	**97 841**	**86 403**	**–**	**(1 186)**	**85 217**
–	–	–	1 129	1 129	–	–	1 129
–	–	–	–	–	200 000	–	200 000
–	–	–	(53 000)	(53 000)	–	–	(53 000)
–	–	–	(4 236)	(4 236)	4 236	–	–
–	–	–	–	–	(4 236)	–	(4 236)
–	–	–	–	–	–	126	126
10 490	**(3 146)**	**–**	**512 006**	**2 012 227**	**200 000**	**(3 060)**	**2 209 167**
(7 970)	–	(55 388)	(148 306)	(211 664)	–	–	(211 664)
2 520	**(3 146)**	**(55 388)**	**363 700**	**1 800 563**	**200 000**	**(3 060)**	**1 997 503**
–	–	–	159 277	159 277	–	(4 479)	154 798
(47)	–	(817)	(708)	(1 572)	–	–	(1 572)
(1 907)	–	–	–	(1 907)	–	–	(1 907)
1 517	–	–	–	1 517	–	–	1 517
1	2 792	–	–	2 793	–	(412)	2 381
–	–	9 104	–	9 104	–	–	9 104
(436)	**2 792**	**8 287**	**158 569**	**169 212**	**–**	**(4 891)**	**164 321**
–	–	–	(2 367)	(2 367)	–	–	(2 367)
–	–	–	–	–	50 000	–	50 000
–	–	–	(35 000)	(35 000)	–	–	(35 000)
–	–	–	(11 254)	(11 254)	11 254	–	–
–	–	–	–	–	(11 254)	–	(11 254)
–	–	25 724	(25 724)	–	–	–	–
–	–	–	–	–	–	25	25
2 084	**(354)**	**(21 377)**	**447 924**	**1 921 154**	**250 000**	**(7 926)**	**2 163 228**

SEGMENTAL BUSINESS ANALYSIS – INCOME STATEMENT

Segmental business analysis – income statement **For the year ended 31 March 2019** **£'000**	Wealth & Investment	Specialist Banking	**Total group**
Net interest income	9 189	382 190	391 379
Fee and commission income	306 165	217 082	523 247
Fee and commission expense	(724)	(11 642)	(12 366)
Investment income	1 185	33 051	34 236
Share of post taxation profit of associates	–	2 830	2 830
Trading income arising from			
– customer flow	793	85 973	86 766
– balance sheet management and other trading activities	(1)	12 733	12 732
Other operating income	342	10 134	10 476
Total operating income before expected credit losses	**316 949**	**732 351**	**1 049 300**
Expected credit loss impairment charges*	(24)	(24 967)	(24 991)
Operating income	**316 925**	**707 384**	**1 024 309**
Operating costs	(260 561)	(558 608)	(819 169)
Depreciation on operating leased assets	–	(2 137)	(2 137)
Operating profit before goodwill and acquired intangibles	**56 364**	**146 639**	**203 003**
Loss attributable to other non-controlling interests	–	4 479	4 479
Operating profit before goodwill and acquired intangibles and after other non-controlling interests	**56 364**	**151 118**	**207 482**
Selected returns and key statistics			
Cost to income ratio**	82.2%	76.0%	77.9%
Total assets (£'million)	866	21 255	22 121

Segmental business analysis – income statement **For the year to 31 March 2018** **£'000**	Wealth & Investment	Specialist Banking	**Total group**
Net interest income	5 181	344 437	349 618
Fee and commission income	297 629	206 977	504 606
Fee and commission expense	(722)	(9 372)	(10 094)
Investment income	10 446	58 497	68 943
Share of post taxation profit of associates	416	1 028	1 444
Trading income arising from			
– customer flow	1 032	113 470	114 502
– balance sheet management and other trading activities	(7)	2 845	2 838
Other operating income	235	8 055	8 290
Total operating income before impairment on loans and advances	**314 210**	**725 937**	**1 040 147**
Impairment losses on loans and advances*	–	(106 085)	(106 085)
Operating income	**314 210**	**619 852**	**934 062**
Operating costs	(244 940)	(552 109)	(797 049)
Depreciation on operating leased assets	–	(2 350)	(2 350)
Operating profit before goodwill and acquired intangibles	**69 270**	**65 393**	**134 663**
Loss attributable to non-controlling interests	–	1 684	1 684
Operating profit before goodwill, acquired intangibles and after non-controlling interests	**69 270**	**67 077**	**136 347**
Selected returns and key statistics			
Cost to income ratio**	78.0%	76.1%	76.7%
Total assets (£'million)	996	19 101	20 097

* *On adoption of IFRS 9, there is a move from an incurred loss model to an expected credit loss methodology.*

** *The group has changed its cost to income ratio definition to exclude operating profits or losses attributable to other non-controlling interests. As such, the cost to income ratio is calculated as: operating costs divided by operating income (net of depreciation on operating leased assets and net of operating profits or losses attributable to other non-controlling interests).*

Net interest income

For the year ended 31 March £'000	Notes	2019 Balance sheet value	2019 Interest income	2018 Balance sheet value	2018 Interest income
Cash, near cash and bank debt and sovereign debt securities	1	7 384 782	61 821	6 274 590	26 475
Loans and advances	2	10 488 022	582 915	9 663 172	514 737
Private client		4 197 181	169 702	3 785 828	161 107
Corporate, institutional and other clients		6 290 841	413 213	5 877 344	353 630
Other debt securities and other loans and advances		754 542	83 006	706 096	57 282
Total interest-earning assets		**18 627 346**	**727 742**	**16 643 858**	**598 494**

For the year ended 31 March £'000	Notes	2019 Balance sheet value	2019 Interest expense	2018 Balance sheet value	2018 Interest expense
Deposits by banks and other debt-related securities	3	3 683 252	126 161	3 407 356	76 206
Customer accounts (deposits)		13 499 234	159 151	11 969 625	117 325
Subordinated liabilities		803 699	51 051	579 673	55 345
Total interest-bearing liabilities		**17 986 185**	**336 363**	**15 956 654**	**248 876**
Net interest income			**391 379**		**349 618**
Annualised net interest margin			**2.22%**		**2.21%**

Notes:

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

Net fee and commission income

For the year ended 31 March £'000	2019	2018
Wealth management businesses net fee and commission income	**305 441**	**296 907**
Fund management fees/fees for assets under management	258 394	243 000
Private client transactional fees	47 771	54 629
Fee and commission expense	(724)	(722)
Specialist Banking net fee and commission income	**205 440**	**197 605**
Corporate and institutional transactional and advisory services	206 632	192 445
Private client transactional fees	10 450	14 532
Fee and commission expense	(11 642)	(9 372)
Net fee and commission income	**510 881**	**494 512**
Annuity fees (net of fees payable)	299 956	312 491
Deal fees	210 925	182 021

Investment income

For the year ended 31 March £'000	Investment portfolio (listed and unlisted equities)*	Debt securities (sovereign, bank and other)	Investment properties	Other asset categories	Total
2019					
Realised	36 201	7 313	–	(21 115)	22 399
Unrealised^	(4 564)	1 530	–	3 905	871
Dividend income	4 256	–	–	–	4 256
Funding and other net related income	–	–	–	6 710	6 710
	35 893	**8 843**	**–**	**(10 500)**	**34 236**
2018					
Realised	38 517	5 779	(86)	(657)	43 553
Unrealised^	13 798	2 730	–	(9 714)	6 814
Dividend income	10 171	–	–	–	10 171
Funding and other net related income	–	–	–	8 405	8 405
	62 486	**8 509**	**(86)**	**(1 966)**	**68 943**

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

Analysis of financial assets and liabilities by category of financial instruments

At 31 March 2019 £'000	At fair value through profit or loss IFRS 9 mandatory Trading*	Non-trading*	Designated at initial recognition
Financial assets			
Cash and balances at central banks	–	1	–
Loans and advances to banks	–	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	24 863	–	–
Sovereign debt securities	–	318 798	–
Bank debt securities	–	52 265	–
Other debt securities	–	275 268	–
Derivative financial instruments**	642 530	–	–
Securities arising from trading activities	283 071	7 117	508 036
Investment portfolio	–	486 493	–
Loans and advances to customers	–	772 084	–
Other loans and advances	–	–	–
Other securitised assets	–	–	118 143
Interests in associated undertakings	–	–	–
Deferred taxation assets	–	–	–
Other assets	–	13 822	–
Property and equipment	–	–	–
Investment properties	–	–	–
Goodwill	–	–	–
Intangible assets	–	–	–
	950 464	**1 925 848**	**626 179**
Financial liabilities			
Deposits by banks	–	–	–
Derivative financial instruments**	719 027	–	–
Other trading liabilities	80 217	–	–
Repurchase agreements and cash collateral on securities lent	21 933	–	–
Customer accounts (deposits)	–	–	–
Debt securities in issue	–	–	368 895
Liabilities arising on securitisation of other assets	–	–	113 711
Current taxation liabilities	–	–	–
Deferred taxation liabilities	–	–	–
Other liabilities	–	–	–
	821 177	**–**	**482 606**
Subordinated liabilities	–	–	367 707
	821 177	**–**	**850 313**

* *Fair value through profit and loss balance sheet positions have been split as trading and non-trading, as defined by regulatory rules for the trading book and banking book requirements respectively. Trading consists of positions held for trading intent or to hedge elements of the trading book. Non-trading consists of positions that are expected to be held to maturity.*

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

At fair value through other comprehensive income				
Debt instrument with dual business model	**Total instruments at fair value**	**Amortised cost**	**Non-financial instruments or scoped out of IFRS 9**	**Total BS**
–	1	4 445 429	–	4 445 430
–	–	954 938	–	954 938
–	24 863	608 339	–	633 202
980 149	1 298 947	–	–	1 298 947
–	52 265	–	–	52 265
–	275 268	232 874	–	508 142
–	642 530	–	–	642 530
–	798 224	–	–	798 224
–	486 493	–	–	486 493
397 068	1 169 152	9 318 870	–	10 488 022
–	–	246 400	–	246 400
–	118 143	–	–	118 143
–	–	–	8 855	8 855
–	–	–	133 344	133 344
–	13 822	570 737	263 045	847 604
–	–	–	94 714	94 714
–	–	–	14 500	14 500
–	–	–	260 858	260 858
–	–	–	88 409	88 409
1 377 217	**4 879 708**	**16 377 587**	**863 725**	**22 121 020**
–	–	1 318 776	–	1 318 776
–	719 027	–	–	719 027
–	80 217	–	–	80 217
–	21 933	292 402	–	314 335
–	–	13 499 234	–	13 499 234
–	368 895	1 681 246	–	2 050 141
–	113 711	–	–	113 711
–	–	–	136 818	136 818
–	–	–	21 341	21 341
–	–	699 789	200 704	900 493
–	**1 303 783**	**17 491 447**	**358 863**	**19 154 093**
–	367 707	435 992	–	803 699
–	**1 671 490**	**17 927 439**	**358 863**	**19 957 792**

Fair value hierarchy

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

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

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

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

		Valuation technique applied		
£'000	**Total instruments at fair value**	Level 1	Level 2	Level 3
31 March 2019				
Assets				
Cash and balances at central banks	1	1	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	24 863	–	24 863	–
Sovereign debt securities	1 298 947	1 298 947	–	–
Bank debt securities	52 265	–	52 265	–
Other debt securities	275 268	–	192 098	83 170
Derivative financial instruments	642 530	–	603 895	38 635
Securities arising from trading activities	798 224	767 337	23 769	7 118
Investment portfolio	486 493	12 265	6 582	467 646
Loans and advances to customers	1 169 152	–	19	1 169 133
Other securitised assets	118 143	–	–	118 143
Other assets	13 822	13 822	–	–
	4 879 708	**2 092 372**	**903 491**	**1 883 845**
Liabilities				
Derivative financial instruments	719 027	5 857	696 544	16 626
Other trading liabilities	80 217	80 217	–	–
Repurchase agreements and cash collateral on securities lent	21 933	–	21 933	–
Debt securities in issue	368 895	–	368 895	–
Liabilities arising on securitisation of other assets	113 711	–	–	113 711
Subordinated liabilities	367 707	367 707	–	–
	1 671 490	**453 781**	**1 087 372**	**130 337**
Net assets/(liabilities) at fair value	**3 208 218**	**1 638 591**	**(183 881)**	**1 753 508**

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

Transfers between level 1 and level 2

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

Fair value hierarchy *(continued)*

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

£'000	Investment portfolio	Loans and advances to customers	Other securitised assets	Other balance sheet assets[1]	Total
Assets					
Balance as at 31 March 2018	**418 088**	**133 740**	**132 172**	**59 881**	**743 881**
Adoption of IFRS 9	8 060	1 167 625	–	75 692	1 251 377
Balance as at 1 April 2018	**426 148**	**1 301 365**	**132 172**	**135 573**	**1 995 258**
Total gains or (losses)	23 350	69 261	(2 834)	16 865	106 642
In the income statement	23 350	69 056	(2 834)	16 865	106 437
In the of comprehensive income	–	205	–	–	205
Purchases	130 643	1 263 362	–	6 909	1 400 914
Sales	(59 003)	(889 145)	–	(8 404)	(956 552)
Issues	–	–	–	–	–
Settlements	(59 851)	(624 061)	(11 196)	(29 456)	(724 564)
Transfers into level 3	–	–	–	–	–
Transfers out of level 3	–	–	–	–	–
Foreign exchange adjustments	6 359	48 351	1	7 436	62 147
Balance as at 31 March 2019	**467 646**	**1 169 133**	**118 143**	**128 923**	**1 883 845**

£'000	Liabilities arising on securitisation of other assets	Other balance sheet liabilities[2]	Total
Liabilities			
Balance as at 31 March 2018	**127 853**	**15 641**	**143 494**
Adoption of IFRS 9	–	–	–
Balance as at 1 April 2018	**127 853**	**15 641**	**143 494**
Total (gains) or losses	(5 084)	(12 653)	(17 737)
In the income statement	(5 084)	(12 653)	(17 737)
In the statement of comprehensive income	–	–	–
Purchases	–	23 798	23 798
Sales	–	(11 800)	(11 800)
Issues	–	–	–
Settlements	(9 058)	–	(9 058)
Transfers into level 3	–	2 854	2 854
Transfers out of level 3	–	–	–
Foreign exchange adjustments	–	(1 214)	(1 214)
Balance as at 31 March 2019	**113 711**	**16 626**	**130 337**

1 *Comprises of level 3 other debt securities, derivative financial instruments and securities arising from trading*
2 *Comprises of level 3 derivative financial instruments*

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

For the year ended 31 March 2019, there were no transfers from level 3 into level 2. There were transfers from level 2 into level 3 of £nil assets and £2.9 million of liabilities.

The following table quantifies the gains or (losses) included in the income statement and other comprehensive income recognised on level 3 financial instruments:

For the year ended 31 March 2019 £'000	Total	Realised	Unrealised
Total gains or (losses) included in the income statement for the year			
Net interest income	99 951	86 118	13 833
Investment income	27 495	1 939	25 556
Trading income arising from customer flow	(3 272)	6 910	(10 182)
	124 174	**94 967**	**29 207**
Total gains or (losses) included in other comprehensive income for the year			
Gains on realisation on debt instruments at FVOCI recycled through the income statement	–	–	–
Fair value movements on debt instruments at FVOCI taken directly to other comprehensive income	205	–	205
	205	**–**	**205**

Level 2 financial assets and financial liabilities

The following table sets out the group's principal valuation techniques as at 31 March 2019 used in determining the fair value of its financial assets and financial liabilities that are classified within level 2 of the fair value hierarchy.

	Valuation basis/techniques	Main assumptions
Assets		
Reverse repurchase agreements and cash collateral on securities borrowed	Discounted cash flow model, Hermite interpolation	Discount rates
Other debt securities	Discounted cash flow model	Discount rates, swap curves and NCD curves, external prices, broker quotes
Derivative financial instruments	Discounted cash flow model, Hermite interpolation, industry standard derivative pricing models including Black-Scholes	Discount rate, risk free rate, volatilities, forex forward points and spot rates, interest rate swap curves and credit curves
Securities arising from trading activities	Standard industry derivative pricing model	Interest rate curves, implied bond spreads, equity volatilities
Investment portfolio	Discounted cash flow model, net asset value model	Discount rate and fund unit price
	Comparable quoted inputs	Net assets
Liabilities		
Derivative financial instruments	Discounted cash flow model, Hermite interpolation, industry standard derivative pricing models including Black-Scholes	Discount rate, risk free rate, volatilities, forex forward points and spot rates, interest rate swap curves and credit curves
Repurchase agreements and cash collateral on securities lent	Discounted cash flow model, Hermite interpolation	Discount rates
Debt securities in issue	Discounted cash flow model	Discount rates

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

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

31 March 2019	Balance sheet value £'000	Significant unobservable input	Range of unobservable input used	Favourable changes £'000	Unfavourable changes £'000
Assets					
Other debt securities	83 170	Potential impact on income statement		7 741	(7 543)
		Credit spreads	5.8%	117	(114)
		Other^	^	7 624	(7 429)
Derivative financial instruments	38 635	Potential impact on income statement		22 720	(5 882)
		Volatilities	4.0% – 9.0%	129	(129)
		Credit spreads	7.1%	6	(9)
		Cash flow adjustments	CPR 6.2% – 10.2%	134	(124)
		Underlying asset value^^	^^	7 731	(3 731)
		Other^	^	14 720	(1 889)
Securities arising from trading activities	7 118	Potential impact on income statement			
		Cash flow adjustments	CPR 9.2%	1 119	(1 480)
Investment portfolio	467 646	Potential impact on income statement		108 427	(78 504)
		Price earnings multiple	3.2 x – 9.0 x	8 852	(8 563)
		Underlying asset value^^	^^	16 426	(10 448)
		Other^	^	83 149	(59 493)
Loans and advances to customers	1 169 133	Potential impact on income statement		58 774	(74 960)
		Credit spreads	0.1% – 6.2%	6 327	(9 089)
		Price earnings multiple	4.9 x	703	(493)
		Underlying asset value^^	^^	2 778	(2 347)
		Other^	^	48 966	(63 031)
		Potential impact on other comprehensive income			
		Credit spreads	0.03% – 2.1%	1 673	(2 933)
Other securitised assets*	118 143	Potential impact on income statement			
		Cash flow adjustments	CPR 6.2%	496	(473)
Total level 3 assets	**1 883 845**			**200 950**	**(171 775)**
Liabilities					
Derivative financial instruments	16 626	Potential impact on income statement		(8 035)	8 045
		Cash flow adjustments	CPR 6.2% – 10.2%	(107)	116
		Volatilities	5.0% – 9.0%	(174)	174
		Underlying asset value^^	^^	(7 754)	7 755
Liabilities arising on securitisation of other assets*	113 711	Potential impact on income statement			
		Cash flow adjustments	CPR 6.2%	(365)	344
Total level 3 liabilities	**130 337**			**(8 400)**	**8 389**
Net level 3 assets	**1 753 508**				

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

^ *Other – The valuation sensitivity has been assessed by adjusting various inputs such as expected cash flows, discount rates, earnings multiples rather than a single input. It is deemed appropriate to reflect the outcome on a portfolio basis for the purposes of this analysis as the sensitivity of the assets cannot be determined through the adjustment of a single input.*

^^*Underlying asset values are calculated by reference to a tangible asset, for example property, aircraft or shares.*

Within the Hong Kong portfolio there is a connected exposure across the investment portfolio, loans and advances to customers and derivatives financial instruments lines with a balance sheet value of £69 million. The consideration of reasonable possible alternative assumptions with respect to the fair value of this exposure results in a favourable changes of £95 million and a unfavourable change of £69 million, included within the above table.

In determining the value of level 3 financial instruments, the following are the principal inputs that can require judgement:

Credit spreads

Credit spreads reflect the additional yield that a market participant would demand for taking exposure to the credit risk of an instrument. The credit spread for an instrument forms part of the yield used in a discounted cash flow calculation. In general a significant increase in a credit spread in isolation will result in a movement in fair value that is unfavourable for the holder of a financial instrument. It is an unobservable input into a discounted cash flow valuation.

Discount rates

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

Volatilities

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

Cash flows

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

Price earnings multiple

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

EBITDA

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

Underlying asset value

In instances where cash flows have links to referenced assets, the underlying asset value is used to determine the fair value. The underlying asset valuation is derived using observable market prices sourced from broker quotes, specialist valuers or other reliable pricing sources.

Fair value of financial instruments at amortised cost

At 31 March 2019 £'000	Carrying amount	Fair value
Assets		
Cash and balances at central banks^	4 445 429	4 445 429
Loans and advances to banks	954 938	954 927
Reverse repurchase agreements and cash collateral on securities borrowed	608 339	608 354
Other debt securities	232 874	223 906
Loans and advances to customers	9 318 870	9 370 480
Other loans and advances	246 400	248 294
Other assets	570 737	571 380
	16 377 587	**16 422 770**
Liabilities		
Deposits by banks	1 318 776	1 325 870
Repurchase agreements and cash collateral on securities lent^	292 402	292 402
Customer accounts (deposits)	13 499 234	13 468 093
Debt securities in issue	1 681 246	1 687 922
Other liabilities	699 789	698 720
Subordinated liabilities	435 992	433 112
	17 927 439	**17 906 119**

^ *Financial instruments for which fair value approximates carrying value.*

Transition disclosures

Reconciliation of movements and revaluation

The table below reflects the impact of IFRS 9 implementation on the balance sheet lines and shows movements between amortised cost and fair value:

Only assets and liabilities which have changes are shown.

£'000	IAS 39 carrying amount 31 March 2018	Reclassifications (in)	Reclassifications (out)	Remeasurements and ECLs	IFRS 9 carrying amount 1 April 2018
Financial assets at amortised cost (previously loans and receivables)					
Cash and balances at central banks	3 479 984	–	–	(52)	3 479 932
Loans and advances to banks	772 984	–	–	(753)	772 231
Reverse repurchase agreements and cash collateral on securities borrowed	712 550	–	–	(326)	712 224
Bank debt securities	107 938	–	(49 301)	(48)	58 589
Other debt securities	209 250	29 098	(87 887)	(5 174)	145 287
Loans and advances to customers	9 529 432	–	(1 191 063)	(109 875)	8 228 494
Other loans and advances	417 747	–	(2 454)	(2 078)	413 215
Other assets	730 754	–	–	*	730 754
Financial assets at fair value through profit or loss (mandatory and designated)^					
Cash and balances at central banks	7 784	–	–	–	7 784
Bank debt securities	–	52 044	–	2 641	54 685
Other debt securities	79 099	87 887	(29 098)	(1 236)	136 652
Derivative financial instruments	610 201	–	(5 353)	–	604 848
Securities arising from trading activities	701 728	–	–	–	701 728
Investment portfolio	472 083	–	–	–	472 083
Loans and advances to customers	133 740	1 193 673	–	(16 049)	1 311 364
Other loans and advances	–	2 454	–	(3)	2 451
Other securitised assets	132 172	–	–	–	132 172
Other assets	57 218	–	–	–	57 218
Financial liabilities at amortised cost					
Other liabilities	(790 689)	–	–	(5 857)	(796 546)
Subordinated liabilities	(579 673)	–	579 673	–	–
Financial liabilities at fair value					
Subordinated liabilities	–	(579 673)	–	(136 891)	(716 564)
Off balance sheet exposures[1]					
Guarantees	–	–	–	(139)	(139)
Committed facilities related to loans and advances to customers	–	–	–	(5 715)	(5 715)

1 *ECL on off balance sheet exposures is booked as a provision in other liabilities.*
* *Less than £1 000.*
^ *Includes £402 million of sell down exposures held at fair value through other comprehensive income.*

Transition disclosures *(continued)*

Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles prior year's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 April 2018:

£'000	Loan loss allowance under IAS 39/Provision under IAS 37	Reclassification	Remeasurement	**ECL under IFRS 9**
Loans and receivables (IAS 39)/Financial assets at amortised cost (IFRS 9)				
Cash and balances at central banks	–	–	(52)	(52)
Loans and advances to banks	–	–	(753)	(753)
Reverse repurchase agreements and cash collateral on securities borrowed	–	–	(326)	(326)
Bank debt securities	–	–	(48)	(48)
Sovereign debt securities	–	–	–	–
Other debt securities	(5 087)	4 803	(5 174)	(5 458)
Loans and advances to customers	(151 840)	15 980	(109 875)	(245 735)
Other loans and advances	(822)	–	(2 078)	(2 900)
Other assets	–	–	–	–
	(157 749)	**20 783**	**(118 306)**	**(255 272)**
Available for sale/Financial assets FVOCI (IFRS 9)				
Sovereign debt securities	–	–	(461)	(461)
Loans and advances to customers	–	–	(1 687)	(1 687)
	–	**–**	**(2 148)**	**(2 148)**
Loan commitments and financial guarantee contracts				
Guarantees	–	–	(139)	(139)
Committed facilities (core loans)	–	–	(5 715)	(5 715)
	–	**–**	**(5 854)**	**(5 854)**
Total	**(157 749)**	**20 783**	**(126 308)**	**(263 274)**

The group accounting policies related to financial instruments, which have been significantly changed as the result of the implementation of IFRS 9, are applicable with effect from 1 April 2018, and are set out below. The full set of accounting policies is set out in the 2019 annual report.

Standards adopted during the year ending 31 March 2019

The requirements of IFRS 9 'Financial Instruments' were adopted from 1 April 2018. IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting, which the group has exercised.

The adoption of IFRS 9 includes the adoption of 'Prepayment Features with Negative Compensation (Amendments to IFRS 9)' which is effective for annual periods beginning on or after 1 January 2019 with early adoption permitted. This amendment was endorsed by the EU in March 2018 and the group has decided to apply the amendment from 1 April 2018 in order to reflect all of the effects of IFRS 9 at the same time.

The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirement to restate comparative periods. The group is not restating comparatives on initial application as permitted by IFRS 9.

Financial instruments

Financial instruments are initially recognised at their fair value. For financial assets or financial liabilities not held at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial assets or financial liabilities are included in the initial measurement. All other transaction costs are recorded in the income statement immediately. Regular way purchase and sales transactions in respect of financial assets that require delivery of a financial instrument within the timeframe established by market convention are recorded at trade date.

Business model assessment

For financial assets, IFRS 9 requires that a business model assessment is carried out which reflects how the group manages the assets in order to generate cash flows. The assessment is at a portfolio level, being the level at which the portfolio is managed. Factors considered by the group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the assets' performance is evaluated and reported and how risks are assessed and managed.

The standard sets out different types of business model:

- **Hold to collect:** it is intended to hold the asset to maturity to earn interest, collecting repayments of principal and interest from the customer. These assets are accounted for at amortised cost.
- **Hold to collect and sell:** this model is similar to the hold to collect model, except that the entity may elect to sell some or all of the assets before maturity to achieve the objectives of the business model. These assets are accounted for at FVOCI.
- **Hold to sell/managed on a fair value basis:** the entity originates or purchases an asset with the intention of disposing of it in the short or medium term to benefit from capital appreciation or the portfolio is managed on a fair share basis. These assets are accounted for at FVPL.

However, the group may make the following irrevocable election/designation at initial recognition of a financial asset on an asset-by-asset basis:

- elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, in OCI; and
- a debt instrument that meets the amortised cost or FVOCI criteria as measured at FVPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

The classification into one of these categories is based on the entity's business model for managing the assets and the contractual cash flow characteristics of the assets.

Solely payment of principal and interest (SPPI)

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the group assesses whether the assets' cash flows represent solely payments of principal and interest (the SPPI test). In making this assessment, the group considers whether the contractual cash flows are consistent with a basic lending arrangement (i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement). Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related asset is classified and measured at FVPL.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

Financial assets and liabilities measured at amortised cost

Financial assets that are held to collect the contractual cash flows and that contain contractual terms that give rise to cash flows that are solely payments of principal and interest, such as most loans and advances to banks and customers and some debt securities, are measured at amortised cost. In addition, most financial liabilities are measured at amortised cost.

The group may commit to provide a loan which has not yet been drawn. When the loan that arises from the lending commitment is expected to meet the criteria to be measured at amortised cost the undrawn commitment is also considered to be and is included in the impairment calculation below.

The carrying value of these financial assets at initial recognition includes any directly attributable transactions costs. If the initial fair value is lower than the cash amount advanced, such as in the case of some leveraged finance and syndicated lending activities, the difference is deferred and recognised over the life of the loan through the recognition of interest income, unless the loan is credit impaired.

Financial assets and liabilities measured at fair value through other comprehensive income (FVOCI)

Financial assets held for a business model that is achieved by both collecting contractual cash flows and selling and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at FVOCI. They are recognised on the trade date when the group enters into contractual arrangements to purchase and are normally derecognised when they are either sold or redeemed.

They are subsequently remeasured at fair value and changes therein (except for those relating to impairment, interest income and foreign currency exchange gains and losses) are recognised in other comprehensive income until the assets are sold. Upon disposal, the cumulative gains or losses in other comprehensive income are recognised in the income statement as 'Gains less losses arising from derecognition of debt instruments measured at fair value through other comprehensive income'.

Financial assets measured at FVOCI are included in the impairment calculations set out below and impairment is recognised in profit or loss.

Impairment of financial assets held at amortised cost or FVOCI

At each balance sheet date each financial asset or portfolio of advances categorised at amortised cost or at fair value through other comprehensive income, issued financial guarantee and loan commitment is measured for ECL impairment. Loss allowances are forward-looking, based on 12-month expected credit losses where there has not been a significant increase in credit risk rating, otherwise allowances are based on lifetime expected losses.

Expected credit losses are a probability-weighted estimate of credit losses. The probability is determined by the risk of default which is applied to the cash flow estimates. On a significant increase in credit risk, credit losses are rebased from 12-month to lifetime expectations. A change in credit risk is typically but not necessarily associated with a change in the expected cash flows.

The costs of loss allowances on assets held at amortised cost are presented as impairments in the income statement. Allowances in respect of financial guarantees and loan commitments are presented as other liabilities and charges recorded within income statement impairments. Financial assets held at amortised cost are presented net of allowances except where the asset has been wholly or partially written off.

Financial assets where 12-month ECL is recognised are considered to be 'Stage 1, financial assets which are considered to have experienced a significant increase in credit risk are in 'Stage 2', and financial assets for which there is objective evidence of impairment so are considered to be in default or otherwise credit-impaired are in 'Stage 3'.

Financial assets and liabilities held at fair value through profit or loss

Financial instruments held at fair value through profit or loss include all instruments classified as held-for-trading those instruments designated as held at fair value through profit or loss and those financial assets which do not meet the criteria for amortised cost or FVOCI.

Financial instruments classified as FVPL are initially recorded at fair value on the balance sheet with changes in fair value subsequently recognised in the income statement. Financial instruments are classified as trading when they are held with the intention of short-term disposal, held with the intention of generating short-term profit, or are derivatives which are not designated as part of effective hedges. Financial instruments designated as held at fair value through profit or loss are designated as such on initial recognition of the instrument and remain in this classification until derecognition.

Own credit risk on financial liabilities designated at fair value is recognised in other comprehensive income.

Financial assets and liabilities are designated as held at fair value through profit or loss only if:

- they eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- a group of financial liabilities or both financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy and information about the group is provided internally on that basis to the group's key management personnel; or
- a financial liability contract contains one or more embedded derivatives (which significantly modifies the cash flows that would be required by the contract and is not clearly prohibited from separation from the host contract) and the group has designated the entire hybrid contract as a financial instrument at fair value through profit or loss.

Securitisation/credit investment and trading activities exposures

The group makes use of securitisation vehicles as a source of finance, as a means of risk transfer and to leverage returns through the retention of equity tranches in low default rate portfolios. The group predominantly focuses on the securitisation of lease receivables. The group also trades in structured credit investments.

The structured entities are consolidated under IFRS 10 Consolidated Financial Statements when the group has exposure to or rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Loans and advances that are originated are transferred to structured entities, and the structured entities issue debt securities to external investors to fund the purchase of the securitised assets. When the group consolidates the structured entity, the group recognises the assets and liabilities on a gross basis. When the group does not consolidate the structured entity, the securitised assets are derecognised and only any position still held by the group in the structured entity is reflected.

Day-one profit or loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on the valuation technique whose variables include only data from observable markets, the difference between the transaction price and fair value is recognised immediately in the income statement.

In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the income statement when the inputs become observable, or when the instrument is derecognised or over the life of the transaction.

Derecognition of financial assets and liabilities

A financial asset, or a portion thereof, is derecognised when the group's rights to cash flows have expired or when the group has transferred its rights to cash flows relating to the financial assets and either (a) the group has transferred substantially all the risks and rewards associated with the financial assets or (b) the group has neither transferred nor retained substantially all the risks and rewards associated with the financial assets but has transferred control of the assets.

The treatment of a renegotiation or modification of the contractual cash flows of a financial asset depends upon whether the modification is done for commercial reasons, in which case if they are significant the old asset is derecognised and a new asset recognised, or because of financial difficulties of the borrower.

A financial liability is derecognised when it is extinguished, that is when the obligation is discharged, cancelled or expired. When an existing financial liability is replaced or modified with substantially different terms, such a replacement or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

Financial assets are only reclassified where there has been a change in business model. Financial liabilities cannot be reclassified.

Derivative financial instruments

All derivative instruments of the group are recorded on the balance sheet at fair value. Positive and negative fair values are reported as assets and liabilities respectively.

Derivative positions are entered into either for trading purposes or as part of the group's asset and liability management activities to manage exposures to interest rate and foreign currency risks. Both realised and unrealised profit or losses arising on derivatives are recognised in the income statement as part of trading income (other than circumstances in which cash flow hedging is applied as detailed in the hedge accounting section below).

Derivative instruments entered into as economic hedges which do not qualify for hedge accounting and derivatives that are entered into for trading purposes are treated in the same way as instruments that are held-for-trading.

Credit derivatives are entered into for trading purposes. Credit derivatives are initially recognised at their fair values, being the transaction price of the derivative. Subsequently the derivatives are carried at fair value, with movements in fair value through profit or loss, based on the current market price or remeasured price. The counterparty risk from derivative transactions is taken into account when reporting the fair value of derivative positions. The adjustment to the fair value is known as the credit value adjustment (CVA).

Hedge accounting

The group applies either fair value or hedge of net investments in foreign operations accounting when the transactions meet the specified hedge accounting criteria. To qualify for hedge accounting treatment, the group ensures that all of the following conditions are met:

- At inception of the hedge, the group formally documents the relationship between the hedging instrument(s) and hedged item(s) including the risk management objectives and the strategy in undertaking the hedge transaction. Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. A hedge is expected to be highly effective if the changes in fair value attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%.
- The effectiveness of the hedge can be reliably measured, i.e. the fair value of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured.
- The hedge effectiveness is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

For qualifying fair value hedges, the change in fair value of the hedging instrument is recognised in the income statement. Changes in fair value of the hedged item that is attributable to the hedged risk are also recognised in the income statement.

Embedded derivatives

To the extent that a derivative may be embedded in a hybrid contract for a financial liability and the hybrid contract is not carried at fair value with changes in fair value recorded in the income statement, the embedded derivative is separated from the host contract and accounted for as a standalone derivative if and only if:

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; and
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset when there is both an intention to settle on a net basis (or simultaneously) and a currently enforceable legal right to offset exists.

Issued debt and equity financial instruments

Financial instruments issued by the group are classified as liabilities if they contain a contractual obligation to deliver cash or another financial asset.

Financial instruments issued by the group are classified as equity where they confer on the holder a residual interest in the group, and the group has no obligation to deliver either cash or another financial asset to the holder. The components of compound issued financial instruments are accounted for separately with the liability component separated first and any residual amount being allocated to the equity component.

Equity instruments issued by subsidiaries of Investec Bank plc are recorded as non-controlling interests on the balance sheet. Equity instruments are initially measured net of directly attributable issue costs.

Treasury shares represent Investec plc shares repurchased by the group which has not been cancelled. Treasury shares are deducted from shareholders' equity and represent the purchase consideration, including directly attributable costs. Where treasury shares are subsequently sold or reissued, net proceeds received are included in shareholders' equity.

Dividends on ordinary shares are recognised as a deduction from equity at the earlier of payment date or the date that it is approved by Investec plc shareholders.

Sale and repurchase agreements (including securities borrowing and lending)

Securities sold subject to a commitment to repurchase, at a fixed price or a selling price plus a lender's return, remain on balance sheet. Proceeds received are recorded as a liability on balance sheet under 'repurchase agreements and cash collateral on securities lent'. Securities that are purchased under a commitment to resell the securities at a future date are not recognised on the balance sheet. The consideration paid is recognised as an asset under 'reverse repurchase agreements and cash collateral on securities borrowed'.

The difference between the sale and repurchase prices is treated as interest income/expense and is accrued over the life of the agreement using the effective interest method.

Securities borrowing transactions that are not cash collateralised are not included on the balance sheet. Securities lending and borrowing transactions which are cash collateralised are accounted for in the same manner as securities sold or purchased subject to repurchase commitments.

Financial guarantees

Financial guarantee contracts issued by the group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due, in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at fair value, adjusted for the transaction costs that are directly attributable to the issuance of the guarantee.

Subsequent to initial recognition, the liability under each guarantee is measured at the higher of the amount recognised less cumulative amortisation and any impairment calculated as set out above. Subsequent to initial measurement, all changes in the balance sheet carrying value are recognised in the income statement.

An analysis of gross core loans and advances, asset quality and ECL

Composition of core loans and advances

£'million	31 March 2019	1 April 2018
Loans and advances to customers per the balance sheet	10 488	9 540
ECL held against FVOCI loans reported on the balance sheet within reserves	*(1)*	*(1)*
Net core loans and advances	**10 487**	**9 539**
of which amortised cost and FVOCI ('subject to ECL')	9 715	8 630
of which FVPL	772	909
Add: ECL	149	247
Gross core loans and advances	**10 636**	**9 786**
of which amortised cost and FVOCI ('subject to ECL')	9 864	8 877
of which FVPL	772	909

An analysis of gross core loans and advances subject to ECL by stage

£'million	31 March 2019	1 April 2018
Gross core loans and advances subject to ECL	**9 864**	**8 877**
Stage 1	8 969	7 721
Stage 2	576	592
of which past due greater than 30 days	*13*	*18*
Stage 3	319	564
*of which Ongoing (excluding Legacy) Stage 3**	*149*	*221*
Gross core loans and advances subject to ECL (%)		
Stage 1	91.0%	87.0%
Stage 2	5.8%	6.7%
Stage 3	3.2%	6.3%
*of which Ongoing (excluding Legacy) Stage 3**	*1.5%*	*2.6%*

An analysis of ECL impairments on gross core loans and advances subject to ECL

£'million	31 March 2019	31 March 2018^
ECL impairment charges on core loans and advances	(36)	–
Average gross core loans and advances subject to ECL	9 371	–
Income statement charge for impairments on core loans and advances	–	(106)
Average gross core loans and advances	–	9 270
Credit loss ratio	**0.38%**	**1.14%**

^ *Comparative information has been presented on an IAS 39 basis. On adoption of IFRS 9 there is a move from an incurred loss model to an expected credit loss methodology.*

£'million	31 March 2019	1 April 2018
ECL	**(149)**	**(247)**
Stage 1	(14)	(15)
Stage 2	(27)	(40)
Stage 3	(108)	(192)
*of which Ongoing (excluding Legacy) Stage 3**	*(35)*	*(45)*
ECL coverage ratio (%)		
Stage 1	0.2%	0.2%
Stage 2	4.7%	6.8%
Stage 3	33.9%	34.0%
*of which Ongoing (excluding Legacy) Stage 3**	*23.5%*	*20.4%*

* *Ongoing information, as separately disclosed from 2014 to 2019, excludes Legacy, which comprises of pre-2008 assets held on the balance sheet, that had low/negative margins and assets relating to business we are no longer undertaking.*

A further analysis of Stage 3 gross core loans and advances subject to ECL

£'million	31 March 2019	1 April 2018
Stage 3 net of ECL	211	372
*of which Ongoing (excluding Legacy) Stage 3**	*114*	*176*
Aggregate collateral and other credit enhancements on Stage 3	228	414
Stage 3 net of ECL and collateral	–	–
Stage 3 as a % of gross core loans and advances subject to ECL	3.2%	6.3%
*of which Ongoing (excluding Legacy) Stage 3**	*1.5%*	*2.6%*
Total ECL as a % of Stage 3 exposure	46.7%	43.8%
Stage 3 net of ECL as a % of net core loans and advances subject to ECL	2.2%	4.3%
*of which Ongoing (excluding Legacy) Stage 3**	*1.2%*	*2.0%*

* *Ongoing information, as separately disclosed from 2014 to 2019, excludes Legacy, which comprises of pre-2008 assets held on the balance sheet, that had low/negative margins and assets relating to business we are no longer undertaking.*

An analysis of gross core loans and advances by risk category

High net worth and other private client lending

	Gross core loans and advances at amortised cost and FVOCI								Gross core loans and advances at FVPL	Gross core loans and advances
	Stage 1		Stage 2		Stage 3		Total			
£'million	Gross exposure	ECL	Gross exposure	ECL	Gross exposure	ECL	**Gross exposure**	**ECL**		
At 31 March 2019										
Mortgages	1 778	–	22	(1)	25	(1)	1 825	(2)	–	1 825
High net worth and specialised lending	474	–	14	(1)	4	(3)	492	(4)	15	507
Total high net worth and other private client lending	**2 252**	**–**	**36**	**(2)**	**29**	**(4)**	**2 317**	**(6)**	**15**	**2 332**
At 1 April 2018										
Mortgages	1 430	(1)	33	(2)	18	(3)	1 481	(6)	–	1 481
High net worth and specialised lending	411	(1)	3	–	8	(6)	422	(7)	13	435
Total high net worth and other private client lending	**1 841**	**(2)**	**36**	**(2)**	**26**	**(9)**	**1 903**	**(13)**	**13**	**1 916**

Lending collateralised by property

	Gross core loans and advances at amortised cost and FVOCI								Gross core loans and advances at FVPL	Gross core loans and advances
	Stage 1		Stage 2		Stage 3		Total			
£'million	Gross exposure	ECL	Gross exposure	ECL	Gross exposure	ECL	**Gross exposure**	**ECL**		
At 31 March 2019										
Commercial real estate	**908**	**(1)**	**158**	**(11)**	**106**	**(22)**	**1 172**	**(34)**	**11**	**1 183**
Commercial real estate – investment	790	(1)	149	(10)	104	(22)	1 043	(33)	10	1 053
Commercial real estate – development	118	–	3	–	–	–	121	–	1	122
Commercial vacant land and planning	–	–	6	(1)	2	–	8	(1)	–	8
Residential real estate	**599**	**–**	**14**	**–**	**122**	**(53)**	**735**	**(53)**	**40**	**775**
Residential real estate – investment	330	–	9	–	29	(11)	368	(11)	35	403
Residential real estate – development	268	–	2	–	57	(24)	327	(24)	3	330
Residential vacant land and planning	1	–	3	–	36	(18)	40	(18)	2	42
Total lending collateralised by property	**1 507**	**(1)**	**172**	**(11)**	**228**	**(75)**	**1 907**	**(87)**	**51**	**1 958**
At 1 April 2018										
Commercial real estate	**586**	**(1)**	**255**	**(21)**	**225**	**(65)**	**1 066**	**(87)**	**72**	**1 138**
Commercial real estate – investment	476	(1)	239	(19)	176	(40)	891	(60)	59	950
Commercial real estate – development	110	–	10	–	17	(7)	137	(7)	3	140
Commercial vacant land and planning	–	–	6	(2)	32	(18)	38	(20)	10	48
Residential real estate	**496**	**–**	**41**	**(2)**	**201**	**(80)**	**738**	**(82)**	**92**	**830**
Residential real estate – investment	135	–	17	(1)	39	(15)	191	(16)	46	237
Residential real estate – development	356	–	24	(1)	112	(43)	492	(44)	33	525
Residential vacant land and planning	5	–	–	–	50	(22)	55	(22)	13	68
Total lending collateralised by property	**1 082**	**(1)**	**296**	**(23)**	**426**	**(145)**	**1 804**	**(169)**	**164**	**1 968**

Corporate and other lending

£'million	Gross core loans and advances at amortised cost and FVOCI								Gross core loans and advances at FVPL	Gross core loans and advances
	Stage 1		Stage 2		Stage 3		Total			
	Gross exposure	ECL	Gross exposure	ECL	Gross exposure	ECL	Gross exposure	ECL		
At 31 March 2019										
Corporate and acquisition finance	1 328	(5)	125	(3)	–	–	1 453	(8)	212	1 665
Asset-based lending	314	–	53	(1)	–	–	367	(1)	–	367
Fund finance	1 156	(1)	–	–	–	–	1 156	(1)	55	1 211
Other corporate and financial institutions and governments	396	(1)	27	(1)	–	–	423	(2)	219	642
Asset finance	1 599	(6)	108	(6)	56	(28)	1 763	(40)	171	1 934
Small ticket asset finance	1 451	(6)	86	(5)	26	(14)	1 563	(25)	–	1 563
Large ticket asset finance	148	–	22	(1)	30	(14)	200	(15)	171	371
Project finance	404	–	55	(3)	6	(1)	465	(4)	37	502
Resource finance	13	–	–	–	–	–	13	–	12	25
Total corporate and other lending	**5 210**	**(13)**	**368**	**(14)**	**62**	**(29)**	**5 640**	**(56)**	**706**	**6 346**
At 1 April 2018										
Corporate and acquisition finance	1 262	(5)	39	(1)	19	(6)	1 320	(12)	213	1 533
Asset-based lending	279	(1)	41	(1)	11	(1)	331	(3)	–	331
Fund finance	1 017	(1)	13	(1)	–	–	1 030	(2)	–	1 030
Other corporate and financial institutions and governments	418	–	13	(1)	–	–	431	(1)	216	647
Asset finance	1 422	(4)	100	(8)	78	(31)	1 600	(43)	272	1 872
Small ticket asset finance	1 294	(3)	79	(7)	14	(9)	1 387	(19)	–	1 387
Large ticket asset finance	128	(1)	21	(1)	64	(22)	213	(24)	272	485
Project finance	400	(1)	54	(3)	4	–	458	(4)	26	484
Resource finance	–	–	–	–	–	–	–	–	5	5
Total corporate and other lending	**4 798**	**(12)**	**260**	**(15)**	**112**	**(38)**	**5 170**	**(65)**	**732**	**5 902**

Capital structure and capital adequacy

£'million	31 March 2019*	1 April 2018	31 March 2018*
Tier 1 capital			
Shareholders' equity	**1 889**	**1 777**	**1 989**
Shareholders' equity excluding non-controlling interests	1 921	1 800	2 012
Foreseeable charges and dividends	(19)	(18)	(18)
Deconsolidation of special purpose entities	(13)	(5)	(5)
Non-controlling interests	**(8)**	**(3)**	**(3)**
Non-controlling interests per balance sheet	(8)	(3)	(3)
Regulatory adjustments to the accounting basis	**110**	**145**	**(4)**
Additional value adjustments	(5)	(4)	(4)
Gains or losses on liabilities at fair value resulting from changes in our credit standing	21	55	–
Adjustment under IFRS 9 transitional arrangements	94	94	–
Deductions	**(348)**	**(361)**	**(361)**
Goodwill and intangible assets net of deferred taxation	(335)	(348)	(348)
Deferred taxation assets that rely on future profitability excluding those arising from temporary differences	(13)	(9)	(9)
Securitisation positions	–	(3)	(3)
Debt valuation adjustment	–	(1)	(1)
Common equity tier 1 capital	**1 643**	**1 558**	**1 621**
Additional Tier 1 capital	**250**	**200**	**200**
Additional tier 1 instruments	250	200	200
Tier 1 capital	**1 893**	**1 758**	**1 821**
Tier 2 capital	**596**	**445**	**445**
Tier 2 instruments	596	445	445
Total regulatory capital	**2 489**	**2 203**	**2 266**
Risk-weighted assets^^	**14 631**	**13 777**	**13 744**
Capital ratios^^			
Common equity tier 1 ratio	11.2%	11.3%	11.8%
Tier 1 ratio	12.9%	12.8%	13.2%
Total capital ratio	17.0%	16.0%	16.5%

* *The capital adequacy disclosures for Investec Bank plc include the deduction of foreseeable charges and dividends when calculating common equity tier (CET) 1 capital as required under the Capital Requirements Regulation and European Banking Authority technical standards. These disclosures are different to the capital adequacy disclosures included in the Interim Report, which follow our normal basis of presentation and do not include the deduction for foreseeable charges and dividends when calculating CET 1 capital. Investec Bank plc's CET 1 ratio would be 13bps (31 March 2018: 13bps) higher on this basis.*

^^ *CET 1, Tier 1 (T1), total capital adequacy ratios and risk-weighted assets are calculated applying the IFRS 9 transitional arrangements.*

Capital Requirements

	31 March 2019	1 April 2018	31 March 2018
Capital requirements	**1 170**	**1 101**	**1 099**
Credit risk	893	824	822
Equity risk	9	6	6
Counterparty credit risk	49	52	52
Credit valuation adjustment risk	6	10	10
Market risk	67	77	77
Operational risk	146	132	132
Risk-weighted assets	**14 631**	**13 777**	**13 744**
Credit risk	11 174	10 304	10 271
Equity risk	115	79	79
Counterparty credit risk	611	652	652
Credit valuation adjustment risk	76	121	121
Market risk	833	965	965
Operational risk	1 822	1 656	1 656

Leverage

	31 March 2019	**1 April 2018**	**31 March 2018**
Exposure measure	**23 849**	**21 335**	**21 335**
Tier 1 capital∞	1 893	1 758	1 821
Leverage ratio – current**	**7.9%**	**8.2%**	**8.5%**
Tier 1 capital fully loaded	1 816	1 713	1 821
Leverage ratio – 'fully loaded'^^**	**7.7%**	**8.1%**	**8.5%**

A summary of capital adequacy and leverage ratios

	31 March 2019*	**1 April 2018**	**31 March 2018***
Common equity tier 1 (as reported)∞	11.2%	11.3%	11.8%
Common equity tier 1 ('fully loaded')^^	10.8%	11.0%	11.8%
Tier 1 (as reported)∞	12.9%	12.8%	13.2%
Total capital adequacy ratio (as reported)∞	17.0%	16.0%	16.5%
Leverage ratio** – current	7.9%	8.2%	8.5%
Leverage ratio** – ('fully loaded')^^	7.7%	8.1%	8.5%
Leverage ratio – current UK leverage ratio framework^^^	10.0%	9.8%	10.2%

* *The capital adequacy disclosures for Investec Bank plc include the deduction of foreseeable charges and dividends when calculating CET 1 capital as now required under the Capital Requirements Regulation and European Banking Authority technical standards. These disclosures are different to the capital disclosures included in the Interim Report, which follows our normal basis of presentation and do not include the deduction of foreseeable charges and dividends when calculating CET 1 capital. Investec Bank plc's CET 1 ratio would be 13bps (31 March 2018: 13bps) higher on this basis.*

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

^^ *Based on the group's understanding of current regulations, 'fully loaded' is based on CRR requirements as fully phased in by 2022, including full adoption of IFRS 9. As a result of the adoption of IFRS 9 Investec Bank plc elected to designate its subordinated fixed rate medium-term notes due in 2022 at fair value. By the time of full adoption of IFRS 9 in 2023, these subordinated liabilities will have reached final maturity and will be redeemed at par value. The remaining interest rate portion of the fair value adjustment at 31 March 2019 of £17.7 million (post-taxation), has therefore been excluded from the fully loaded ratios as it will be released into profit and loss over the remaining life of the instrument.*

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

∞ *The reported CET 1, T1 and total capital adequacy amounts and ratios are calculated applying the IFRS 9 transitional arrangements.*

NOTES

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