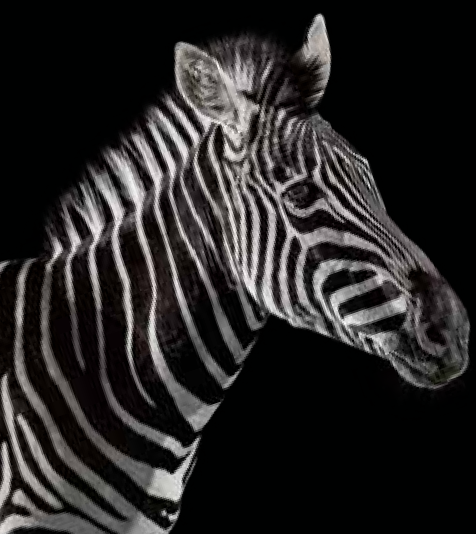
INVESTEC PLC | 2019

Financial information (excludes results of Investec Limited)

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

IFRS – Pounds Sterling



Investec

Introduction

On 1 April 2018 the group 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 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 disclosures financial 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 group 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)	1 423 433	1 380 220	3.1%
Operating costs (£'000)	1 129 976	1 074 112	5.2%
Operating profit before goodwill, acquired intangibles, non-operating items, taxation, and after other non-controlling interests (£'000)	271 246	199 357	36.1%
Earnings attributable to ordinary shareholders (£'000)	189 183	135 231	39.9%
Cost to income ratio^ (%)	79.3%	77.9%	
Total capital resources (including subordinated liabilities) (£'000)	3 088 971	2 920 374	5.8%
Total shareholder's equity (£'000)	2 285 272	2 340 701	(2.4%)
Total assets (£'000)	22 636 653	20 611 752	9.8%
Net core loans and advances* (£'000)	10 514 251	9 687 224	8.5%
Customer accounts (deposits) (£'000)	13 150 824	11 637 497	13.0%
Loans and advances to customers as a % of customer deposits	80.0%	83.2%	
Cash and near cash balances (£'000)	6 991 462	5 813 418	20.3%
Funds under management (£'mn)	115 450	106 647	8.3%
Total gearing ratio/leverage ratio (i.e. total assets to equity)	9.9x	8.8x	

Key asset quality and capital ratios	**31 March 2019**	1 April 2018
Capital adequacy ratio	15.4%	14.5%
Tier 1 ratio	12.2%	12.0%
CET 1 ratio	10.4%	10.1%
Leverage ratio – current	7.7%	8.0%
Leverage ratio – 'fully loaded'	7.3%	7.7%
Stage 3 exposure as a % of gross core loans and advances subject to ECL	3.2%	6.3%
Stage 3 exposure net of ECL as a % of net core loans and advances 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	728 003	599 410
Interest expense	(348 514)	(261 830)
Net interest income	**379 489**	**337 580**
Fee and commission income	1 072 767	1 005 635
Fee and commission expense	(183 536)	(155 701)
Investment income	32 674	68 516
Share of post taxation profit of associates	3 100	1 436
Trading income arising from		
– customer flow	86 766	114 402
– balance sheet management and other trading activities	17 924	(2 069)
Other operating income	14 249	10 421
Total operating income before expected credit losses/impairment losses	**1 423 433**	**1 380 220**
Expected credit loss impairment charges*	(24 553)	–
Impairment losses on loans and advances*	–	(106 085)
Operating income	**1 398 880**	**1 274 135**
Operating costs	(1 129 976)	(1 074 112)
Depreciation on operating leased assets	(2 137)	(2 350)
Operating profit before goodwill and acquired intangibles	**266 767**	**197 673**
Amortisation of acquired intangibles	(12 958)	(13 273)
Operating profit	**253 809**	**184 400**
Financial impact of group restructures	(19 044)	–
Profit before taxation	**234 765**	**184 400**
Taxation on operating profit before goodwill and acquired intangibles	(39 102)	(38 509)
Taxation on goodwill, acquired intangibles and financial impact of group restructures	4 983	2 418
Profit after taxation	**200 646**	**148 309**
Profit attributable to Asset Management non-controlling interests	(15 942)	(14 762)
Loss attributable to other non-controlling interests	4 479	1 684
Earnings attributable to shareholders	**189 183**	**135 231**

* *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	**200 646**	**148 309**
Other comprehensive income/(loss):		
Items that may be reclassified to the income statement:		
Losses 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*^	1 505	–
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	3 767	(18 350)
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	–
Remeasurement of net defined benefit pension asset	(1 924)	3 938
Total comprehensive income	**209 619**	**137 144**
Total comprehensive income attributable to non-controlling interests	11 050	13 577
Total comprehensive income attributable to ordinary shareholders	184 406	117 437
Total comprehensive income attributable to perpetual preferred securities and other Additional Tier 1 securities	14 163	6 130
Total comprehensive income	**209 619**	**137 144**

* *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 through other comprehensive income 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	4 445 431	3 487 717	3 487 769
Loans and advances to banks	1 164 051	1 002 972	1 003 796
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	498 265	272 064	278 474
Derivative financial instruments	625 550	591 912	597 264
Securities arising from trading activities	798 224	701 728	701 728
Investment portfolio	493 268	477 919	477 919
Loans and advances to customers	10 515 665	9 563 700	9 687 224
Other loans and advances	207 863	358 864	360 931
Other securitised assets	118 143	132 172	132 172
Interests in associated undertakings	53 451	77 059	77 059
Deferred taxation assets	148 351	162 192	98 156
Other assets	1 028 611	1 169 579	1 169 579
Property and equipment	99 796	54 493	54 493
Investment properties	14 500	14 500	14 500
Goodwill	356 048	356 265	356 265
Intangible assets	85 022	100 585	100 585
	22 636 653	**20 542 569**	**20 611 752**
Liabilities			
Deposits by banks	1 330 843	1 308 202	1 308 202
Derivative financial instruments	707 692	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)	13 150 824	11 637 497	11 637 497
Debt securities in issue	2 454 551	2 341 134	2 341 134
Liabilities arising on securitisation of other assets	113 711	127 853	127 853
Current taxation liabilities	131 896	152 355	152 355
Deferred taxation liabilities	20 704	21 892	21 892
Other liabilities	1 242 909	1 302 847	1 296 990
	19 547 682	**17 697 235**	**17 691 378**
Subordinated liabilities	803 699	716 564	579 673
	20 351 381	**18 413 799**	**18 271 051**
Equity			
Ordinary share capital	200	195	195
Perpetual preference share capital	29	29	29
Share premium	1 382 732	1 317 115	1 317 115
Treasury shares	(113 651)	(102 876)	(102 876)
Other reserves	(175 878)	(182 168)	(119 161)
Retained income	928 753	830 725	979 649
Shareholders' equity excluding non-controlling interests	**2 022 185**	**1 863 020**	**2 074 951**
Other Additional Tier 1 securities in issue	250 000	250 000	250 000
Non-controlling interests in partially held securities	13 087	15 750	15 750
Total equity	**2 285 272**	**2 128 770**	**2 340 701**
Total liabilities and equity	**22 636 653**	**20 542 569**	**20 611 752**

* *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	Perpetual preference share capital	Share premium	Treasury shares
At 31 March 2017	**191**	**29**	**1 246 282**	**(90 411)**
Movement in reserves 1 April 2017 – 31 March 2018				
Profit after taxation	–	–	–	–
Fair value movements on cash flow hedges	–	–	–	–
Gains 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	–	–	–	–
Remeasurement of net defined pension asset	–	–	–	–
Total comprehensive income for the year	**–**	**–**	**–**	**–**
Share–based payments adjustments	–	–	–	–
Issue of ordinary shares	4	–	70 833	–
Issue of Other Additional Tier 1 security instruments	–	–	–	–
Dividends paid to ordinary shareholders	–	–	–	–
Dividends declared to perpetual preference shareholders	–	–	–	–
Dividends declared to Other Additional Tier 1 security holders	–	–	–	–
Dividends paid to Other Additional Tier 1 security holders	–	–	–	–
Dividends paid to non–controlling interests	–	–	–	–
Net equity impact of non–controlling interest movements	–	–	–	–
Movement of treasury shares	–	–	–	(12 465)
Transfer to capital reserve account	–	–	–	–
At 31 March 2018	**195**	**29**	**1 317 115**	**(102 876)**
Adoption of IFRS 9	–	–	–	–
At 1 April 2018	**195**	**29**	**1 317 115**	**(102 876)**
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	–	–	–	–
Remeasurement of net defined benefit pension asset	–	–	–	–
Total comprehensive income for the year	**–**	**–**	**–**	**–**
Share–based payments adjustments	–	–	–	–
Dividends paid to ordinary shareholders	–	–	–	–
Dividends paid to perpetual preference shareholders	–	–	–	–
Dividends declared to Other Additional Tier 1 security holders	–	–	–	–
Dividends paid to Other Additional Tier 1 security holders	–	–	–	–
Dividends paid to non–controlling interests	–	–	–	–
Issue of ordinary shares	5	–	65 617	–
Net equity impact of non–controlling interest movements	–	–	–	–
Movement of treasury shares	–	–	–	(10 775)
Transfer own credit reserve on sale of subordinated liabilities	–	–	–	–
At 31 March 2019	**200**	**29**	**1 382 732**	**(113 651)**

^ *Following the adoption of IFRS 9, "Financial Instruments" on 1 April 2018, the fair value through other comprehensive income reserve was introduced replacing the available–for–sale reserve*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(continued)

Capital reserve account	Available–for–sale reserve/ Fair value reserve^	Foreign currency reserves	Own credit reserve	Retained income	**Shareholders' equity excluding non–controlling interests**	Other Additional Tier 1 securities in issue	Non–controlling interests	**Total equity**
	Other reserves							
(79 202)	**6 904**	**26 917**	**–**	**905 809**	**2 016 519**	**–**	**15 000**	**2 031 519**
–	–	–	–	135 231	135 231	–	13 078	148 309
–	–	–	–	–	–	–	–	–
–	(1 278)	–	–	–	(1 278)	–	–	(1 278)
–	4 525	–	–	–	4 525	–	–	4 525
–	–	(18 849)	–	–	(18 849)	–	499	(18 350)
–	–	–	–	3 938	3 938	–	–	3 938
–	**3 247**	**(18 849)**		**139 169**	**123 567**	**–**	**13 577**	**137 144**
–	–	–	–	31 232	31 232	–	–	31 232
–	–	–	–	–	70 837	–	–	70 837
–	–	–	–	–	–	250 000	–	250 000
–	–	–	–	(106 253)	(106 253)	–	–	(106 253)
–	–	–	–	(421)	(421)	–	–	(421)
–	–	–	–	(5 709)	(5 709)	5 709	–	–
–	–	–	–	–	–	(5 709)	–	(5 709)
–	–	–	–	–	–	–	(13 008)	(13 008)
–	–	–	–	9 074	9 074	–	181	9 255
(51 430)	–	–	–	–	(63 895)	–	–	(63 895)
(526)	–	(6 222)	–	6 748	–	–	–	–
(131 158)	**10 151**	**1 846**	**–**	**979 649**	**2 074 951**	**250 000**	**15 750**	**2 340 701**
–	(7 619)	–	(55 388)	(148 924)	(211 931)	–	–	(211 931)
(131 158)	**2 532**	**1 846**	**(55 388)**	**830 725**	**1 863 020**	**250 000**	**15 750**	**2 128 770**
–	–	–	–	189 183	189 183	–	11 463	200 646
–	(47)	–	(817)	(708)	(1 572)	–	–	(1 572)
–	(1 907)	–	–	–	(1 907)	–	–	(1 907)
–	1 505	–	–	–	1 505	–	–	1 505
–	1	4 179	–	–	4 180	–	(413)	3 767
–	–	–	9 104	–	9 104	–	–	9 104
–	–	–	–	(1 924)	(1 924)	–	–	(1 924)
–	**(448)**	**4 179**	**8 287**	**186 551**	**198 569**	**–**	**11 050**	**209 619**
–	–	–	–	30 164	30 164	–	–	30 164
–	–	–	–	(109 334)	(109 334)	–	–	(109 334)
–	–	–	–	(490)	(490)	–	–	(490)
–	–	–	–	(13 673)	(13 673)	13 673	–	–
–	–	–	–	–	–	(13 673)	–	(13 673)
–	–	–	–	–	–	–	(14 110)	(14 110)
–	–	–	–	–	65 622	–	–	65 622
–	–	–	–	30 534	30 534	–	397	30 931
(31 452)	–	–		–	(42 227)	–	–	(42 227)
	–	–	25 724	(25 724)	–	–	–	–
(162 610)	**2 084**	**6 025**	**(21 377)**	**928 753**	**2 022 185**	**250 000**	**13 087**	**2 285 272**

Segmental business analysis – income statement **For the year to 31 March 2019** **£'000**	Asset Management	Wealth & Investment	Specialist Banking	Group costs	**Total group**
Net interest income	568	9 189	369 732	–	379 489
Fee and commission income	549 113	306 165	217 489	–	1 072 767
Fee and commission expense	(170 933)	(724)	(11 879)	–	(183 536)
Investment income	–	1 185	31 489	–	32 674
Share of post taxation profit of associates	–	–	3 100	–	3 100
Trading income arising from					
– customer flow	–	793	85 973	–	86 766
– balance sheet management and other trading activities	5 120	(1)	12 805	–	17 924
Other operating income	3 773	342	10 134	–	14 249
Total operating income before expected credit losses	**387 641**	**316 949**	**718 843**	**–**	**1 423 433**
Expected credit loss impairment release/charges*	7	(24)	(24 536)	–	(24 553)
Operating income	**387 648**	**316 925**	**694 307**	**–**	**1 398 880**
Operating costs	(279 813)	(260 562)	(558 083)	(31 518)	(1 129 976)
Depreciation on operating leased assets	–	–	(2 137)	–	(2 137)
Operating profit before goodwill and acquired intangibles	**107 835**	**56 363**	**134 087**	**(31 518)**	**266 767**
Profits attributable to other non-controlling interests	–	–	4 479	–	4 479
Operating profit before goodwill, acquired intangibles and after other non-controlling interests	**107 835**	**56 363**	**138 566**	**(31 518)**	**271 246**
Profit attributable to Asset Management non-controlling interests	(15 942)	–	–	–	(15 942)
Operating profit before goodwill, acquired intangibles and after non-controlling interests	**91 893**	**56 363**	**138 566**	**(31 518)**	**255 304**
Selected returns and key statistics					
Cost to income ratio**	72.2%	82.2%	77.4%	n/a	79.3%
Total assets (£'million)	444	866	21 327	n/a	22 637

* *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).*

SEGMENTAL BUSINESS ANALYSIS – INCOME STATEMENT

(continued)

Segmental business analysis – income statement For the year to 31 March 2018 £'000	Asset Management	Wealth & Investment	Specialist Banking	Group costs	**Total group**
Net interest income	242	5 181	332 157	–	337 580
Fee and commission income	500 670	297 629	207 336	–	1 005 635
Fee and commission expense	(145 440)	(722)	(9 539)	–	(155 701)
Investment income	(47)	10 446	58 117	–	68 516
Share of post taxation profit of associates	–	416	1 020	–	1 436
Trading income arising from:					
– customer flow	–	1 032	113 370	–	114 402
– balance sheet management and other trading activities	(5 189)	(7)	3 127	–	(2 069)
Other operating income	2 131	235	8 055	–	10 421
Total operating income before impairment on loans and advances	**352 367**	**314 210**	**713 643**	**–**	**1 380 220**
Impairment losses on loans and advances	–	–	(106 085)	–	(106 085)
Operating income	**352 367**	**314 210**	**607 558**	**–**	**1 274 135**
Operating costs	(248 449)	(244 940)	(546 934)	(33 789)	(1 074 112)
Depreciation on operating leased assets	–	–	(2 350)	–	(2 350)
Operating profit/(loss) before goodwill and acquired intangibles	**103 918**	**69 270**	**58 274**	**(33 789)**	**197 673**
Loss attributable to other non-controlling interests	–	–	1 684	–	1 684
Operating profit/(loss) before goodwill, acquired intangibles and after other non-controlling interests	**103 918**	**69 270**	**59 958**	**(33 789)**	**199 357**
Profit attributable to Asset Management non-controlling interests	(14 762)	–	–	–	(14 762)
Operating profit/(loss) before goodwill, acquired intangibles and after non-controlling interests	**89 156**	**69 270**	**59 958**	**(33 789)**	**184 595**
Selected returns and key statistics					
Cost to income ratio**	70.5%	78.0%	76.7%	n/a	77.9%
Total assets (£'million)	423	996	19 193	n/a	20 612

* *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 to 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	7 593 896	62 445	6 505 403	26 413
Loans and advances	2	10 515 665	586 608	9 687 224	518 070
Private client		4 197 181	169 702	3 785 828	161 107
Corporate, institutional and other clients		6 318 484	416 906	5 901 396	356 963
Other debt securities and other loans and advances		706 128	78 950	639 405	54 927
Total interest-earning assets		**18 815 689**	**728 003**	**16 832 032**	**599 410**

For the year to 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	4 099 729	138 306	3 817 976	92 513
Customer accounts (deposits)		13 150 824	159 157	11 637 497	113 972
Subordinated liabilities		803 699	51 051	579 673	55 345
Total interest-bearing liabilities		**18 054 252**	**348 514**	**16 035 146**	**261 830**
Net interest income			**379 489**		**337 580**
Annualised net interest margin			**2.13%**		**2.11%**

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 to March £'000	2019	2018
Asset management and wealth management businesses net fee and commission income	**683 621**	652 137
Fund management fees/fees for assets under management	807 507	743 670
Private client transactional fees	47 771	54 629
Fee and commission expense	(171 657)	(146 162)
Specialist Banking net fee and commission income	**205 610**	**197 797**
Corporate and institutional transactional and advisory services	206 798	192 579
Private client transactional fees	10 691	14 757
Fee and commission expense	(11 879)	(9 539)
Net fee and commission income	**889 231**	**849 934**
Annuity fees (net of fees payable)	675 619	662 924
Deal fees	213 612	187 010

Investment income

For the year to 31 March £'000	Investment portfolio (listed and unlisted equities)*	Debt securities (sovereign bank and other)	Investment properties	Other asset categories	Total
2019					
Realised	36 201	7 313	–	(21 115)	22 399
Unrealised^	(6 126)	1 530	–	3 905	(691)
Dividend income	4 256	–	–	–	4 256
Funding and other net related income	–	–	–	6 710	6 710
	34 331	**8 843**		**(10 500)**	**32 674**
2018					
Realised	38 517	5 779	(86)	(705)	43 505
Unrealised^	13 419	2 730	–	(9 714)	6 435
Dividend income	10 171	–	–	–	10 171
Funding and other net related income	–	–	–	8 405	8 405
	62 107	**8 509**	**(86)**	**(2 014)**	**68 516**

^ *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 fair value through profit or loss		
	IFRS 9 mandatory		
At 31 March 2019 **£'000**	Trading*	Non–trading*	Designated at initial recognition
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**	625 550	–	–
Securities arising from trading activities	283 071	7 117	508 036
Investment portfolio	–	493 268	–
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	–	73 844	–
Property and equipment	–	–	–
Investment properties	–	–	–
Goodwill	–	–	–
Intangible assets	–	–	–
	933 484	**1 992 645**	**626 179**
Financial liabilities			
Deposits by banks	–	–	–
Derivative financial instruments**	707 692	–	–
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	–	–	–
	809 842	**–**	**482 606**
Subordinated liabilities	–	–	367 707
	809 842	**–**	**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 held-for-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	4 445 430	–	4 445 431
–	–	1 164 051	–	1 164 051
–	24 863	608 339	–	633 202
980 149	1 298 947	–	–	1 298 947
–	52 265	–	–	52 265
–	275 268	222 997	–	498 265
–	625 550	–	–	625 550
–	798 224	–	–	798 224
–	493 268	–	–	493 268
397 068	1 169 152	9 346 513	–	10 515 665
–	–	207 863	–	207 863
–	118 143	–	–	118 143
–	–	–	53 451	53 451
–	–	–	148 351	148 351
–	73 844	719 407	235 360	1 028 611
–	–	–	99 796	99 796
–	–	–	14 500	14 500
–	–	–	356 048	356 048
–	–	–	85 022	85 022
1 377 217	**4 929 525**	**16 714 600**	**992 528**	**22 636 653**
–	–	1 330 843	–	1 330 843
–	707 692	–	–	707 692
–	80 217	–	–	80 217
–	21 933	292 402	–	314 335
–	–	13 150 824	–	13 150 824
–	368 895	2 085 656	–	2 454 551
–	113 711	–	–	113 711
–	–	–	131 896	131 896
–	–	–	20 704	20 704
–	–	839 938	402 971	1 242 909
–	**1 292 448**	**17 699 663**	**555 571**	**19 547 682**
–	367 707	435 992	–	803 699
–	**1 660 155**	**18 135 655**	**555 571**	**20 351 381**

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		
At 31 March 2019 £'000	**Total instruments at fair value**	Level 1	Level 2	Level 3
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	625 550	–	586 915	38 635
Securities arising from trading activities	798 224	767 337	23 769	7 118
Investment portfolio	493 268	13 244	6 582	473 442
Loans and advances to customers	1 169 152	–	19	1 169 133
Other securitised assets	118 143	–	–	118 143
Other assets	73 844	73 844	–	–
	4 929 525	**2 153 373**	**886 511**	**1 889 641**
Liabilities				
Derivative financial instruments	707 692	5 857	685 209	16 626
Other trading liabilities	80 217	80 217	–	–
Debt securities in issue	21 933	–	21 933	–
Repurchase agreements and cash collateral on securities lent	368 895	–	368 895	–
Liabilities arising on securitisation of other assets	113 711	–	–	113 711
Subordinated liabilities	367 707	367 707	–	–
	1 660 155	**453 781**	**1 076 037**	**130 337**
Net assets	**3 269 370**	**1 699 592**	**(189 526)**	**1 759 304**

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 the fair value measurements 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	**423 796**	**133 740**	**132 172**	**59 881**	**749 589**
Adoption of IFRS 9	8 060	1 167 625	–	75 692	1 251 377
Balance as at 1 April 2018	**431 856**	**1 301 365**	**132 172**	**135 573**	**2 000 966**
Total gains or (losses)	21 788	69 261	(2 834)	16 865	105 080
In the income statement	21 788	69 056	(2 834)	16 865	104 875
In the statement of comprehensive income	–	205	–	–	205
Purchases	133 406	1 263 362	–	6 909	1 403 677
Sales	(60 117)	(889 145)	–	(8 404)	(957 666)
Issues	–	–	–	–	–
Settlements	(59 851)	(624 061)	(11 196)	(29 456)	(724 564)
Transfers into level 3	–	–	–	–	–
Transfers out of level 3	–	–	–	–	–
Foreign exchange adjustments	6 360	48 351	1	7 436	62 148
Balance as at 31 March 2019	**473 442**	**1 169 133**	**118 143**	**128 923**	**1 889 641**

£'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 to 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 to 31 March £'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	25 934	1 939	23 995
Trading income arising from customer flow	(3 272)	1 348	(4 620)
	122 613	**89 405**	**33 208**
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 Comparable quoted inputs	Discount rate and fund unit price Net assets
Liabilities		
Derivative financial instruments	Discounted cash flow model, Hermite interpolation, industry standard derivative pricing models including Black-Scholes	Discount rate, risk free rate, volatilities, forex forward points and spot rates, interest rate swap curves and credit curves
Repurchase agreements and cash collateral on securities lent	Discounted cash flow model, Hermite interpolation	Discount rates
Debt securities in issue	Discounted cash flow model	Discount rates

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	473 442	Potential impact on income statement		109 007	(79 083)
		Price earnings multiple	3.2 x – 9.0 x	8 852	(8 563)
		Underlying asset value^^	^^	16 426	(10 448)
		Other^	^	83 729	(60 072)
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	**1 889 641**			**201 530**	**(172 354)**
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	**1 759 304**				

* *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 reasonably possible alternative assumptions with respect to the fair value of this exposure results in a favourable change 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 valuation method. Where relevant, the discount rate also accounts for illiquidity, market conditions and uncertainty of future cash flows.

Volatilities

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

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 flows 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^	4 445 430	4 445 430
Loans and advances to banks	1 164 051	1 164 028
Reverse repurchase agreements and cash collateral on securities borrowed	608 339	608 354
Other debt securities	222 997	213 413
Loans and advances to customers	9 346 513	9 398 053
Other loans and advances	207 863	209 757
Other assets	719 407	720 053
	16 714 600	**16 759 088**
Liabilities		
Deposits by banks	1 330 843	1 337 090
Repurchase agreements and cash collateral on securities lent^	292 402	292 402
Customer accounts (deposits)	13 150 824	13 119 684
Debt securities in issue	2 085 656	2 120 183
Other liabilities	839 938	838 751
Subordinated liabilities	435 992	433 112
	18 135 655	**18 141 222**

^ *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	3 479 985	–	–	(52)	3 479 933
Loans and advances to banks	845 635	158 161	–	(824)	1 002 972
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	199 375	29 098	(87 887)	(5 174)	135 412
Loans and advances to customers	9 553 486	–	(1 190 755)	(110 395)	8 252 336
Other loans and advances	360 931	–	(2 454)	(2 064)	356 413
Other assets	847 659	–	–	*	847 659
Financial assets at fair value through profit or loss (mandatory and designated)^					
Loans and advances to banks	158 161	–	(158 161)	–	–
Bank debt securities	–	52 044		2 641	54 685
Other debt securities	79 099	87 893	(29 098)	(1 242)	136 652
Derivative financial instruments	597 264	–	(5 352)	–	591 912
Loans and advances to customers	133 740	1 193 364	–	(15 740)	1 311 364
Other loans and advances	–	2 454		(3)	2 451
Financial liabilities at amortised cost					
Other liabilities	(891 556)	–	–	(5 857)	(897 413)
Subordinated liabilities	(579 673)	–	579 673	–	–
Financial liabilities at fair value					
Subordinated liabilities	–	(579 673)	–	(136 891)	(716 564)
Financial liabilities at fair value					
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.*
^ *Includes £402 million of sell down exposures held at fair value through other comprehensive income.*
* *Less than £1 000.*

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	–	–	(824)	(824)
Reverse repurchase agreements and cash collateral on securities borrowed	–	–	(326)	(326)
Bank debt securities	–	–	(48)	(48)
Other debt securities	(5 087)	4 803	(5 174)	(5 458)
Loans and advances to customers	(151 840)	15 980	(110 395)	(246 255)
Other loans and advances	(822)	–	(2 064)	(2 886)
Other assets	–	–	–	–
	(157 749)	**20 783**	**(118 883)**	**(255 849)**
Available for sale/Financial assets at 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**	**(126 885)**	**(263 851)**

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 value 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 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.

Reclassification of financial instruments

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 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 initial amount recognised less cumulative revenue and the initial amount less 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	10 516	9 564
ECL held against FVOCI loans reported on the balance sheet within reserves	(2)	(2)
Net core loans and advances	**10 514**	**9 562**
of which amortised cost and FVOCI ('subject to ECL')	9 742	8 653
of which FVPL	772	909
Add: ECL	149	248
Gross core loans and advances	**10 663**	**9 810**
of which amortised cost and FVOCI ('subject to ECL')	9 891	8 901
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	**9 891**	**8 901**
Stage 1	8 996	7 743
Stage 2	576	594
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	(35)	–
Average gross core loans and advances subject to ECL	9 396	–
Income statement charge for impairments on core loans and advances	–	(106)
Average gross core loans and advances	–	9 293
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 incurred loss model to an expected credit loss methodology.*

£'million	31 March 2019	1 April 2018
ECL	**(149)**	**(248)**
Stage 1	(14)	(15)
Stage 2	(27)	(41)
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%	6.9%
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%	44.0%
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

£'million	Gross core loans and advances at amortised cost and FVOCI – Stage 1 Gross exposure	Stage 1 ECL	Stage 2 Gross exposure	Stage 2 ECL	Stage 3 Gross exposure	Stage 3 ECL	Total Gross exposure	Total ECL	Gross core loans and advances at FVPL	Gross core loans and advances
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	341	–	53	(1)	–	–	394	(1)	–	394
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	**5 237**	**(13)**	**368**	**(14)**	**62**	**(29)**	**5 667**	**(56)**	**706**	**6 373**
At 1 April 2018										
Corporate and acquisition finance	1 262	(5)	39	(1)	19	(6)	1 320	(12)	213	1 533
Asset-based lending	301	(1)	43	(2)	11	(1)	355	(4)	–	355
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	**4 820**	**(12)**	**262**	**(16)**	**112**	**(38)**	**5 194**	**(66)**	**732**	**5 926**

Capital structure and capital adequacy

£'million	31 March 2019	1 April 2018	31 March 2018*
Tier 1 capital			
Shareholders' equity	1 918	1 765	1 977
Shareholders' equity excluding non-controlling interests	2 022	1 863	2 075
Foreseeable charges and dividends	(63)	(65)	(65)
Perpetual preference share capital and share premium	(25)	(25)	(25)
Deconsolidation of special purpose entities	(16)	(8)	(8)
Non-controlling interests	**7**	**12**	**12**
Non-controlling interests per balance sheet	13	16	16
Surplus non-controlling interest disallowed in common equity tier 1	(6)	(4)	(4)
Regulatory adjustments to the accounting basis	**110**	**142**	**(7)**
Defined benefit pension fund adjustment	–	(3)	(3)
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	**(447)**	**(460)**	**(460)**
Goodwill and intangible assets net of deferred taxation	(434)	(447)	(447)
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	**1 588**	**1 459**	**1 522**
Additional Tier 1 capital	**274**	**274**	**274**
Additional tier 1 instruments	274	274	274
Tier 1 capital	**1 862**	**1 733**	**1 796**
Tier 2 capital	**489**	**368**	**359**
Tier 2 instruments	596	446	446
Phase out non-qualifying tier 2 instruments	(1)	–	–
Non-qualifying surplus capital attributable to non-controlling interests	(106)	(78)	(87)
Total regulatory capital	**2 351**	**2 101**	**2 155**
Risk-weighted assets^^	**15 313**	**14 444**	**14 411**
Capital ratios^^			
Common equity tier 1 ratio	10.4%	10.1%	10.6%
Tier 1 ratio	12.2%	12.0%	12.5%
Total capital ratio	15.4%	14.5%	15.0%

* *The capital adequacy disclosures for Investec 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 plc's CET 1 ratio would be 41bps (31 March 2018: 45bps) 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 and risk-weighted assets

	31 March 2019	1 April 2018	31 March 2018
Capital requirements	**1 225**	**1 156**	**1 153**
Credit risk	909	845	842
Equity risk	10	6	6
Counterparty credit risk	48	51	51
Credit valuation adjustment risk	6	10	10
Market risk	68	77	77
Operational risk	184	167	167
Risk-weighted assets	**15 313**	**14 444**	**14 411**
Credit risk	11 361	10 554	10 521
Equity risk	121	78	78
Counterparty credit risk	605	639	639
Credit valuation adjustment risk	75	121	121
Market risk	855	965	965
Operational risk	2 296	2 087	2 087

Leverage

	31 March 2019	1 April 2018	31 March 2018
Exposure measure	24 282	21 771	21 772
Tier 1 capital∞	1 862	1 733	1 796
Leverage ratio – current**	**7.7%**	**8.0%**	**8.2%**
Tier 1 capital fully loaded	1 761	1 663	1 772
Leverage ratio – 'fully loaded'^^**	**7.3%**	**7.7%**	**8.1%**

A summary of capital adequacy and leverage ratios

	31 March 2019	1 April 2018	31 March 2018*
Common equity tier 1 (as reported)∞	10.4%	10.1%	10.6%
Common equity tier 1 ('fully loaded')^^	9.9%	9.8%	10.6%
Tier 1 (as reported)∞	12.2%	12.0%	12.5%
Total capital adequacy ratio (as reported)∞	15.4%	14.5%	15.0%
Leverage ratio** – current	7.7%	8.0%	8.2%
Leverage ratio** – ('fully loaded')^^	7.3%	7.7%	8.1%
Leverage ratio – current UK leverage ratio framework^^^	9.6%	9.5%	9.8%

* *The capital adequacy disclosures for Investec 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 for foreseeable charges and dividends when calculating CET 1 capital. Investec plc's CET 1 ratio would be 41bps (31 March 2018: 45bps) 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 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 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, total capital adequacy amounts and ratios are calculated applying the IFRS 9 transitional arrangements.*

NOTES

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