



Standard Bank **Isle of Man Limited**

Summary Financial Statements 2018

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General Information

Directors

P L Schlebusch (Chairman)
I W Hamilton
G F Karran (Resigned 12 February 2019)
J C N Peake
W P T Thorp
C E Till
M Nienaber
I M McArdle (Appointed 2 May 2019)

Secretary

M G Fletcher

Registered office

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The directors present the summary financial statements of Standard Bank Isle of Man Limited (the "Bank") for the year ended 31 December 2018 which have been prepared in accordance with the applicable requirements of the Financial Services Act 2008 and the regulations (the Financial Services Rule Book) made thereunder. It is a summary of information contained in the Bank's audited financial statements for the year ended 31 December 2018 ("the full annual financial statements"), as approved by the Board of Directors on 12 February 2019. The independent auditor has issued an unqualified report on the full annual financial statements. Their report on the full annual financial statements contained no statement under the Isle of Man Financial Services Act 2008 – Financial Services Rule Book, Section 127.4 of the Isle of Man Companies Act 1931 and Sections 15.4 and 15.6 of the Isle of Man Companies Act 1982.

The summary financial statements are derived from the Bank's full annual financial statements and do not contain the equivalent detailed note disclosures or additional information regarding the Bank's results and its state of affairs.

Copies of the full annual financial statements are available on request from the registered office of the Bank.

The Bank is a wholly owned subsidiary company of Standard Bank Offshore Group Limited which is incorporated in Jersey. The ultimate holding company is Standard Bank Group Limited, a company registered in the Republic of South Africa.

Copies of the financial statements of Standard Bank Group Limited are available on <http://reporting.standardbank.com>

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Financial Review For the year ended 31 December 2018

Performance commentary

The Bank has shown a strong performance in 2018, with a profit for year of £37.0m (2017: £23.7m). The increase in net profit compared to the prior year is largely attributable to an increase in the interest income as a result of higher balances in the loan book over 2018 and an increase in net interest margins.

Revenue

Net interest income (NII) increased by 130% underpinned by a growth in the loan book, a reduced deposit base (and related interest expense) during the year and margin expansion arising from USD and GBP interest rate policy changes. Additionally, interest income arising from treasury bills was previously classified in 'fair value gains' prior to the adoption of IFRS 9. The adoption of IFRS 9 resulted in the classification of treasury bills as assets held at amortised cost and consequently, the related income is classified as NII for the current year and going forward.

Other income decreased by 33.0% year-on-year. This was a reflection of the reclassification of interest income on the treasury bills, previously classified as fair value gains.

Expenses

Expenses (operating, personnel and management) increased by 18.6%. This was mainly driven by personnel expenses as headcount increased during the year. Another driver of this increase was IT costs as the business invested in IT projects in order to improve operational efficiencies as well as reduce operational risk. The Bank's cost-to-income ratio of 33.2% was lower than that of the prior year (39.9%) as NII growth was significantly higher than the growth in expenses.

Loans and advances

Gross loans and advances to customers grew 24.2% year-on-year, due to the Bank's continued strategy to grow the loan book through improved pipeline conversion. Loans and advances to Standard Bank South Africa ("SBSA") increased by 25.6% year-on-year.

Capital, funding and liquidity

The Bank remains well capitalised. The Bank's risk asset ratio ("RAR") closed the year at 21.2% (2017: 13.7%) prior to capitalising the profits for 2018, well above the minimum regulatory requirement of 11.5%. The expected credit loss provision remained immaterial.

The Bank's liquidity position remained strong and within approved risk appetite and tolerance limits. The Bank's investment into liquid assets (treasury bills and floating rate negotiable certificates of deposit) reduced during the year and closed at £1,394m (2017: £1,461m). The decrease was driven by changes in the Bank's asset diversification requirements following a lower risk assessment of SBSA.

Looking forward, the Bank's performance is anticipated to remain positive and aligned with the Standard Bank Group's client proposition. The loans and deposits pipelines continue to show a healthy outlook.

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Summary Financial Statements For the year ended 31 December 2018

	2018 £'000	2017 £'000
Summary statement of comprehensive income		
Profit for the year after income tax	37 047	23 646
Total other comprehensive income	444	2 418
Total comprehensive income for the year	37 491	26 064
Summary statement of financial position as at 31 December 2018		
	2018 £'000	2017 £'000
Assets		
Loans and advances to banks – Group	1 543 803	1 229 556
Loans and advances to banks – Other	22 396	88 295
Derivative financial instruments	19 907	22 791
Financial assets designated at fair value	–	1 461 120
Financial assets designated at amortised cost	1 393 799	–
Available-for-sale financial asset	–	2 954
Equity instruments at fair value through OCI	3 272	–
Loans and advances to customers	405 224	326 390
Property, plant and equipment	400	216
Deferred tax asset	–	94
Other assets	1 372	1 566
Net pension asset	29	–
Total assets	3 390 202	3 132 982
Liabilities		
Deposits from banks	17 830	19 994
Derivative financial instruments	19 165	21 174
Deposits from customers	3 157 051	2 935 361
Current tax liability	4 095	2 436
Deferred tax liability	3	–
Other liabilities and provisions	12 572	10 827
Retirement benefit obligations	–	935
Total liabilities, excluding shareholder's funds	3 210 716	2 990 727
Equity shareholder's funds		
Share capital	5 000	5 000
Non-Cumulative Additional Tier 1 Capital Notes	10 550	10 550
Retained earnings	163 215	126 428
Available-for-sale reserves	–	2 538
FVOCI reserve	2 856	–
Share option reserves	17	17
Post employment benefits reserve	(2 152)	(2 278)
Equity shareholder's funds	179 486	142 255
 Total liabilities and shareholder's funds	 3 390 202	 3 132 982

Standard Bank Isle of Man Limited

Notes to the summary financial statements
For the year ended 31 December 2018

1. Basis of compliance

The Bank's full annual financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB).

2. Equity instrument at FVOCI (previously Available-for-sale financial asset under IAS 39)

Following the purchase of Visa Europe Limited by Visa Inc., in June 2016, among other consideration the Bank received 3,282 Series B Visa Inc. Participating Preferred Stock ("Preferred Stock"). The Preferred Stock will be automatically converted to Class A Visa Inc. Common Stock no later than the twelfth anniversary of the transaction close date (21 June 2016). The eventual number of Class A Visa Inc. Common Stock shares to be received is dependent on the conversion factor on 21 June 2028. As of the reporting date, the conversion factor is 12.939 (2017:12.966). The conversion factor is expected to reduce over the period to maturity based upon any costs or pay-outs associated with covered claims. Covered claims are certain legal claims, as defined in the Litigation Management Deed, dated 21 June 2016, that have been or will be made against Visa Inc. These covered claims will be borne by the members of Visa Europe Limited through a reduction in the conversion factor noted above.

Over the twelve-year period, the Bank has a right to Class A Visa Inc. Common Stock dividends based upon the conversion factor as of the close of business on the date immediately prior to the record date for the dividend.

Valuation approach: The Bank has used a discounted cash flow model to determine the fair value of the Preferred Stock. The projected future cash flows the likely pay-out from covered claims and a projected disposal value of the Class A Visa Inc. Common Stock at the conversion date have been discounted to a net present value. For the purposes of performing the year end valuation, the 12th anniversary has been used as the projected conversion date.

Observability: Where possible, observable market inputs have been used, including the current share price of Visa Inc., as well as using the conversion factor based on publicly available information relating to covered claims. Due to the uncertainty around the quantum of the covered claims and the period of time to settlement, certain unobservable inputs have been used.

Equity instrument at FVOCI reserves

The following table outlines the Equity instrument at FVOCI reserves movements in the year and prior year:

	2018 £'000	2017 £'000
Balance at 1 January	2 538	(8)
Re-measurement of Preferred Stocks	318	2 546
Balance at 1 January	<u>2 856</u>	<u>2 538</u>
	2018 £'000	2017 £'000
Amounts recognised in the income statements	<u>20</u>	<u>14</u>
Dividends received	<u>20</u>	<u>14</u>

3. Contingent liabilities and commitments

To meet the financial needs of customers the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the statement of financial position, they carry credit risk and are therefore part of the overall risk of the Bank.

Guarantees

Guarantees commit the Bank to make payments on behalf of customers in the event of a specific act. Guarantees and standby letters of credit carry the same credit risk as loans.

The total outstanding commitments and contingent liabilities are as follows:

	2018 £'000	2017 £'000
Cash backed financial guarantees	1 394	954
Other financial guarantees	-	133
	<u>1 394</u>	<u>1 087</u>

Loan commitments

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiry dates or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent cash requirements.

However, the potential credit loss is less than the total unused commitments as most commitments to extend credit are contingent upon customers maintaining specific standards. The Bank monitors the term to maturity of credit commitments because longer term commitments generally have a greater degree of credit risk than shorter term commitments.

Total loan commitments as at 31 December 2018 amount to £5.1m (2017: £1.8m), which represent non-cancellable facilities. The Bank also had unconditionally cancellable facilities of £29m (2017: £63m).

Standard Bank Isle of Man Limited

Notes to the summary financial statements (continued)
For the year ended 31 December 2018

3. Contingent liabilities and commitments (continued)

	2018	2017
	£'000	£'000
Commitments under operating leases		
Future minimum lease payments		
Commitments payable within one year	592	592
Commitments payable between one and five years	1 421	340
Total commitments payable	2 013	932

The above operating leases relate to the properties occupied by the Standard Bank group of companies in the Isle of Man and its employees. These properties primarily include the registered office of the Bank and the Bank's disaster recovery site. Rent payable in respect of the registered office and the disaster recovery site is determined using the market rent basis. Contingent rent payable for the disaster recovery site is payable on a Retail Price Index basis. The lease governing the rental of the registered office grants the Bank the right to extend the lease subject to specified conditions. There are no specific renewal terms outlined in the lease contracts for any of the other leased properties. All leased properties must be fully insured and maintained in a state of full repair under the terms of the leases.

4. Sub-participated loans

The banks within the Standard Bank Group may sub-participate loans to their fellow subsidiaries (the "host bank") as part of capital and liquidity management. The loan participation agreement entails full payment by the host bank of the sub-participated loan principal amount to the originating bank. The originating bank assumes an obligation to pay all cash flows received from the sub-participated loans, in full and without material delay, to the host bank under a "pass through" arrangement, effectively transferring substantially all risk and rewards of the loans participated to the host bank. The terms of the agreement provide that the originating bank is not obligated to pay the host bank any amounts that have not been received (for example: in case of customer default). Sub-participated loans are derecognised from the statement of financial position of the originating bank. The host bank recognises the loan and the corresponding income.

The Bank had sub-participated loans during the year with Standard Bank Jersey Limited, its fellow subsidiary as discussed above. The total sub-participated loans recognised in the statement of financial position as at 31 December 2018 amounted to £Nil (2017: £68,655,000) following the repayment of these loans by Standard Bank Jersey Limited as part of the group's capital and liquidity management.

5. Immediate and ultimate holding company

The Bank is a wholly owned subsidiary of Standard Bank Offshore Group Limited, a company incorporated in Jersey. The ultimate holding company is Standard Bank Group Limited, a company registered in the Republic of South Africa.

The summary financial statements on pages 4 to 6 are extracts from the full annual financial statements, which were approved by the board of directors on 12 February 2019 and were signed on its behalf on 19 February 2019 by C E Till and J C N Peake.

These summary financial statements were approved by:

C E Till
Director

J C N Peake
Director

For and on behalf of Standard Bank Isle of Man Limited on 24 April 2019.

Standard Bank Isle of Man Limited

Report of the independent auditor on the abridged financial statements to the member of Standard Bank Isle of Man Limited

Our opinion

In our opinion, the abridged financial statements of Standard Bank Isle of Man Limited (the "Company") are consistent, in all material respects, with the audited financial statements, in accordance with the basis described in 'General information'.

Abridged financial statements

The abridged financial statements are derived from the audited financial statements of the Company for the year ended 31 December 2018 and comprise:

- the summary statement of financial position as at 31 December 2018;
- the summary statement of comprehensive income for the year then ended; and
- the related notes.

The abridged financial statements do not contain all the disclosures required by International Financial Reporting Standards. Reading the abridged financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited financial statements and auditor's report thereon. The summary financial statements and the audited financial statement do not reflect the effects of events that occurred subsequent to the date of our report on the audited financial statements.

The audited financial statements and our report thereon

We expressed an unmodified audit opinion on the audited financial statements in our report dated 21 February 2019.

Directors' responsibility for the abridged financial statements

The directors are responsible for the preparation of the abridged financial statements in accordance with the basis described in 'General information'.

Auditor's responsibility

Our responsibility is to express an opinion on whether the abridged financial statements are consistent in all material respects, with the audited financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), Engagements to Report on Summary Financial Statements.

This report, including the opinion, has been prepared for and only for the Company's member in accordance with Rule 2.22 of the Financial Services Rule Book and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLC
Chartered Accountants
Douglas, Isle of Man
24 April 2019

Notes:

- (a) The maintenance and integrity of the Standard Bank Isle of Man Limited website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the summary financial statements since they were initially presented on the website.
- (b) Legislation in the Isle of Man governing the preparation and dissemination of summary financial statements may differ from legislation in other jurisdictions.

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