



Standard
Bank
Isle of Man Limited
Summary Financial Statements 2016

Contents

	Page
Officers of Standard Bank Isle of Man Limited	2
Summary financial statements	3 – 6
Independent auditor's report	7
Contacts	8

Officers of the Company

Directors

C A Broadley (Chairman)
I W Hamilton
G F Karran
J C N Peake
W P T Thorp
C E Till

Secretary

N D Cole

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 2016. It is a summary of information contained in the Bank's audited financial statements for the year ended 31 December 2016 ("the full annual financial statements"), as approved by the Board of Directors on 20 February 2017. 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 directors' report and do not contain sufficient information to allow for a full understanding of the Bank's results and its state of affairs.

Copies of the full annual financial statements are available on request from the offices of the Bank at Standard Bank House, One Circular Road, Douglas, Isle of Man IM1 1SB.

Summary financial statements

for the year ended 31 December 2016

	2016	2015
	£'000	£'000
Summary statement of comprehensive income		
Profit for the year after tax	21 796	15 166
Total other comprehensive (loss)/income	(3 336)	2 662
Total comprehensive income for the year	18 460	17 828
Summary statement of financial position		
	2016	2015
	£'000	£'000
Assets		
Loans and advances to banks – group	1 677 867	1 465 955
Loans and advances to banks – other	56 119	33 247
Derivative financial instruments	23 801	19 421
Financial assets designated at fair value	610 070	389 982
Available-for-sale financial asset	408	2 587
Loans and advances to customers	292 653	246 773
Property, plant and equipment	227	279
Deferred tax asset	161	97
Other assets	873	615
Total assets	2 662 179	2 158 956
Liabilities		
Deposits from banks	21 411	16 467
Derivative financial instruments	14 471	10 489
Deposits from customers	2 500 990	2 025 627
Current tax liability	2 058	1 658
Subordinated debt	10 550	10 550
Other liabilities and provisions	5 432	5 996
Retirement benefit obligations	1 608	971
Total liabilities, excluding shareholders' funds	2 556 520	2 071 758
Equity shareholders' funds		
Share capital	5 000	5 000
Retained earnings	102 801	81 005
Available-for-sale reserves	(8)	2 587
Share option reserves	16	15
Post employment benefits reserve	(2 150)	(1 409)
Equity shareholders' funds	105 659	87 198
Total liabilities and shareholders' funds	2 662 179	2 158 956

Notes to the summary financial statements

for the year ended 31 December 2016

Available-for-sale financial asset

Following the announcement of the sale of Visa Europe Limited to Visa Inc. ("the transaction") in December 2015, the Bank, as a shareholder and principal member of Visa Europe Limited, remeasured through OCI the value of its shareholding in line with the valuation methodology determined by the Bank.

Following the closure of the transaction in 2016, the value of the final consideration to be received by the Bank and its sponsored member was estimated as €8,906k (£7,427k), with the various components detailed below:

- €10 for the one ordinary share in Visa Europe Limited;
- Upfront cash of €7,631k ("Upfront Cash");
- 5,470 Series B Visa Inc. preferred stock ("Preferred Stock") valued at €485k¹; and
- Deferred cash to be received shortly after the third anniversary of the transaction close date ("Deferred Cash") valued at €790k.

¹ Valued at 10% of the advised value to account for the lock-in period and estimated Covered Claims.

Consistent with provisions of the Visa Europe Limited membership rules that each principal member agrees how to share the consideration with its sponsored members, the Bank entered into an agreement with its only sponsored member Standard Bank Jersey Limited ("SBJ"), to transfer 40% of the rights to the final consideration received to SBJ. The rights within this agreement meet the derecognition criteria under IAS 39 and consequently only 60% of the final consideration above has been recognised in the financial statements of the Bank.

Preferred Stock

Description: The Preferred Stock held is automatically converted to Class A Visa Inc. Common Stock on the twelfth anniversary of the transaction close date. The number of Class A Visa Inc. Common Stock shares received will be dependent on the conversion factor on 21 June 2028 (2016: 13.9520) applied to the Preferred Stock holding. 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 at 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 from dividends, 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, using Visa Inc.'s cost of equity.

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 publically available information relating to Covered Claims. Due to the uncertainty around the quantum, the related pay-out of the Covered Claims and the period of time to settlement, certain unobservable inputs have been used.

Level 3 sensitivity: The significant unobservable input for the Preferred Stock is the exposure to Covered Claims, as noted above. The table below details the sensitivity analysis for the significant unobservable input:

Valuation input	Valuation approach	Sensitivity analysis
Pay-out of Covered Claims	<p>Estimated total pay-out for Covered Claims These have been estimated using Covered Claims made as at the valuation date, with an assumption that future claims of equal value are to be made. Additionally pay-out rates have been assumed at 75% for current claims and 50% for future claims.</p> <p>Covered Claims attributable to the Bank These have been obtained by applying the Bank's share of the total Preferred Stock to the total estimated pay-out for Covered Claims.</p> <p>Cash flows attributed to Covered Claims The pay-out attributable to the Bank has been estimated as £2.2m and the timing of the related cash flows has been evenly spread over the period to conversion.</p>	<p>Adverse If all existing and estimated future claims were to be paid out fully the value of the preferred stock would reduce by £371k.</p> <p>Favourable If no future claims were to be made and pay-out for existing claims concluded at 50% the value of the preferred stock would increase by £564k.</p>

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.

Notes to the summary financial statements (continued)

for the year ended 31 December 2016

The total outstanding commitments and contingent liabilities are as follows:

	2016 £'000	2015 £'000
Cash backed financial guarantees	11 025	10 859
Other financial guarantees	146	121
	11 171	10 980

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 since 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 2016 are £1.1m (2015: £2.5m), which represent non-cancellable facilities.

The Bank also had unconditionally cancellable facilities of £27.5 m (2015: £29.1m).

	2016 £'000	2015 £'000
Commitments under operating leases		
Total commitments under operating leases		
Future minimum lease payments		
Commitments payable within one year	576	576
Commitments payable between one and five years	908	1 485
Commitments payable after five years	-	-
Total commitments payable	1 484	2 061

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 archive 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.

Sub-participated loans

The banks within the group may sub-participate loans to their fellow subsidiaries (the "host bank") as part of their 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.

Loans were sub-participated to the Bank from its fellow subsidiary, Standard Bank Jersey Limited. Total sub-participated loans recognised in the statement of financial position at 31 December 2016 amounted to £53,933,000 (2015: £49,197,000).

Notes to the summary financial statements (continued)

for the year ended 31 December 2016

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 3 to 6 are extracts from the full audited financial statements, which were approved by the board of directors on 20 February 2017 and were signed on its behalf by:

Directors

C Till
J C N Peake

The summary financial statements were approved by:

C Till	J C N Peake
Director	Director

for and on behalf of Standard Bank Isle of Man Limited on 28th April 2017.

Report of the independent auditor on the summary financial statements to the members of Standard Bank Isle of Man Limited

Our opinion

In our opinion, the summary 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 "Officers of the Company".

Summary financial statements

The summary financial statements are derived from the audited financial statements of the Company for the year ended 31 December 2016 and comprise:

- the summary statement of financial position as at 31 December 2016;
- the summary statement of comprehensive income for the year then ended; and
- the notes to the summary financial statements.

The summary 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 20 February 2017.

Directors' responsibility for the summary financial statements

The directors are responsible for the preparation of the abridged financial statements in accordance with the basis described in "Officers of the Company".

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 members as a body in accordance with Rule 2.26 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

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 auditor does not involve consideration of these matters and, accordingly, the auditor 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.

Contacts

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