



Standard Bank **Isle of Man Limited**

Summary Financial Statements 2019

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General Information

Directors

P L Schlebusch (Chairman)
I W Hamilton
J C N Peake
W P T Thorp
C E Till
M Nienaber
I M McArdle
G F Karran (resigned on 12 February 2019)
A A J Doherty (appointed on 12 March 2019)
G M Vogel (appointed on 18 November 2019)

Secretary

M G Fletcher

Registered office

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Contacts

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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 2019 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 2019 ("the full annual financial statements"), as approved by the Board of Directors on 11 February 2020. 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>

Financial Review

For the year ended 31 December 2019

Performance commentary

The Bank showed a strong performance in 2019, with a net profit for year of £45.9m (2018: £37.0m). The increase year-on-year ("YoY") was due to revenue growth of 19.6% (£11.9m), partly offset by growth in operating expenses (including management charges) of 4.5% (£0.9m).

Income

Net interest income ("NII") accounted for 91.5% of the 19.6% revenue growth, increasing by 23.9% from £45.6m in 2018 to £56.2m in 2019. NII growth was driven by average deposits which grew by £156m YoY, average client loan growth of £19m and balance sheet management initiatives which led to increased higher margin placements with Standard Bank South Africa ("SBSA"). Overall margins also benefitted from base rate rises in 2018, three in the US and one in the UK, with the full year impact realised in 2019.

Non-interest revenue ("NIR") was £1.3m (9%) up largely driven by increased client FX volume. NIR also included the benefit of better exchange rates on non-sterling revenues with GBP weakening on average 9% year on year against major currencies.

Expenses

Total operating expenses increased 8% YoY (£1.6m) mainly due to management charges increasing 19% from £5.45m to £7.69m YoY offset by other operating expenses decreasing by 4.3% (£0.63m). The increase in management charges was primarily driven by increased IT costs and general management costs. The cost-to-income ratio decreased from 33.2% to 30.0% YoY.

Loans and advances

Gross loans and advances to customers grew 4.7% YoY, due to the Bank's continued strategy to grow the loan book through improved pipeline conversion. Loans and advances to SBSA decreased by 5.7% YoY.

Capital, funding and liquidity

The Bank remains well capitalised. The Bank's Total Capital Ratio ("TCR") closed the year at 22.5% (2018: 21.2%) prior to capitalising the profits for 2019, well above the minimum jurisdictional regulatory requirement of 10%. 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) increased during the year and closed at £1,640m (2018: £1,393m). The increase was driven by the increase in the deposit base.

Looking forward, the Bank's performance is expected to benefit from its strong client proposition to drive profitability. The loans and deposits pipelines continue to show a healthy outlook.

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Summary Financial Statements For the year ended 31 December 2019

Summary statement of comprehensive income for the year ended 31 December 2019	2019 £'000	2018 £'000
Profit for the year after income tax	45 949	37 047
Total other comprehensive income	2 013	444
Total comprehensive income for the year	47 962	37 491
Summary statement of financial position as at 31 December 2019	2019 £'000	2018 £'000
Assets		
Loans and advances to banks – Group	1 455 582	1 543 803
Loans and advances to banks – Other	34 935	22 396
Derivative financial instruments	34 462	19 907
Financial assets at amortised cost	1 639 540	1 393 799
Equity instruments at fair value through OCI	4 852	3 272
Loans and advances to customers	424 440	405 224
Property, plant, equipment and right of use assets	1 677	400
Deferred tax asset	13	–
Other assets	975	1,372
Retirement benefit asset	–	29
Total assets	3 596 476	3 390 202
Liabilities		
Deposits from banks	28 333	17 830
Derivative financial instruments	30 947	19 165
Deposits from customers	3 302 466	3 157 051
Current tax liability	5 062	4 095
Deferred tax liability	–	3
Other liabilities and provisions	14 098	12 572
Retirement benefit obligations	133	–
Total liabilities, excluding shareholder's funds	3 381 039	3 210 716
Equity shareholder's funds		
Share capital	5 000	5 000
Non-Cumulative Additional Tier 1 Capital Notes	10 550	10 550
Retained earnings	197 153	163 215
Cashflow hedging reserves	1 353	–
FVOCI reserve	4 436	2 856
Share option reserves	17	17
Post-employment benefits reserve	(3 072)	(2 152)
Equity shareholder's funds	215 437	179 486
 Total liabilities and shareholder's funds	 3 596 476	 3 390 202

Standard Bank Isle of Man Limited

Notes to the summary financial statements For the year ended 31 December 2019

1. Basis of compliance

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

2. Equity instrument at FVOCI

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:	2019 £'000	2018 £'000
Balance at 1 January	2 856	2 538
Re-measurement of Preferred Stocks	1 580	318
Balance at 31 December	4 436	2 856
	2019 £'000	2018 £'000

Amounts recognised in the income statements

Dividends received	18	20
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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:

	2019 £'000	2018 £'000
Cash backed financial guarantees	3 335	1 394

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 2019 amount to £3.0m (2018: £5.1m), which represent non-cancellable facilities. The Bank also had unconditionally cancellable facilities of £28m (2018: £29m).

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Notes to the summary financial statements (continued) For the year ended 31 December 2019

4. Leases

The Bank recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the Bank's incremental borrowing rate as at 1 January 2019. This incremental borrowing rate was calculated for the Bank utilising the internal funding rate. Right of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018.

From 1 January 2019, all existing operating leases, which were either not less than 12 months or not deemed a low value asset, were recognised as a right of use asset and a corresponding lease liability.

The impact of the adoption of IFRS 16 on the transition date, 1 January 2019 was as follows:

	2019	
	£'000	
Assets		
Right of use asset	2 130	
Other assets	(145)	
	1 985	
Equity and Liabilities		
Right of use asset	128	
Other liabilities and provisions	1 857	
	1 985	
Commitments under leases	2019	2018
	£'000	£'000
Future minimum lease payments		
Commitments payable within one year	484	592
Commitments payable between one and five years	571	1 421
Total commitments payable	1 055	2 013

The above 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.

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 11 February 2020 and were signed on its behalf on 27 February 2020 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 29 April 2020.

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 2019 and comprise:

- the summary statement of financial position as at 31 December 2019;
- 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 3 March 2020.

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
29 April 2020

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.

Contacts

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