

Standard Bank PLC

Results Announcement

For the year ended 31 December 2018

AUDITED SUMMARY CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS



STATEMENTS OF PROFIT OR LOSS

In millions of Malawi Kwacha

	Consolidated		Separate	
	Restated*	Restated*	Restated*	Restated*
	2018 MKm	2017 MKm	2018 MKm	2017 MKm
Interest income	38,998	43,787	39,048	43,829
Interest expense	(4,258)	(3,938)	(4,263)	(3,939)
Net interest income	34,740	39,849	34,785	39,890
Fee and commission income	12,976	10,010	12,976	10,010
Fee and commission expense	(871)	(639)	(871)	(639)
Net fee and commission income	12,105	9,371	12,105	9,371
Net trading income	8,955	7,960	7,362	7,012
Other operating income	117	74	187	119
Other gains and losses on financial instruments	69	-	69	-
Total operating income	55,986	57,254	54,508	56,392
Credit impairment charges	(4,902)	(6,224)	(4,902)	(6,224)
Income after credit impairment charges	51,084	51,030	49,606	50,168
Staff costs	(13,769)	(14,306)	(13,769)	(14,306)
Depreciation and amortisation	(3,639)	(2,599)	(3,639)	(2,599)
Other operating expenses	(17,904)	(16,664)	(17,583)	(16,400)
Total expenditure	(35,312)	(33,569)	(34,991)	(33,305)
Profit before income tax expense	15,772	17,461	14,615	16,863
Income tax expense	(5,190)	(5,299)	(4,846)	(5,120)
Profit for the year attributable to ordinary shareholders	10,582	12,162	9,769	11,743
Earnings per share				
Basic and diluted (MK per share)	45.22	51.97	41.75	50.19

STATEMENTS OF OTHER COMPREHENSIVE INCOME

	2018	2017	2018	2017
Profit for the year	10,582	12,162	9,769	11,743
Items that will not be reclassified to profit or loss				
Net revaluation gain on property and equipment	-	3,322	-	3,322
Items that may be reclassified subsequently to profit or loss				
Net change in fair value of available for sale financial assets - (IAS 39)	-	442	-	442
Net change in expected credit losses -IFRS 9	19	-	19	-
Net change in debt financial assets measured at fair value through other comprehensive income (OCI) - IFRS 9	(540)	-	(540)	-
Total other comprehensive income for the year, net of tax	(521)	3,764	(521)	3,764
Total comprehensive income for the year attributable to ordinary shareholders	10,061	15,926	9,248	15,507

STATEMENTS OF FINANCIAL POSITION

In millions of Malawi Kwacha

	Consolidated			Separate		
	Restated*	Restated*	Restated*	Restated*	Restated*	Restated*
	2018 MKm	2017 MKm	2016 MKm	2018 MKm	2017 MKm	2016 MKm
ASSETS						
Cash and balances with Central Bank	29,385	35,234	36,866	29,260	34,962	36,715
Derivative assets	369	541	726	369	541	726
Trading assets	11,993	23,522	18,008	11,993	23,522	18,008
Current tax asset	-	3,362	408	-	3,361	408
Loans and advances to banks and other financial institutions	76,448	174,788	107,530	76,383	173,730	107,530
Loans and advances to customers	112,632	94,219	91,008	113,255	94,604	91,008

Financial investments	85,376	46,893	37,623	85,376	46,893	37,623
Investment in subsidiary	-	-	-	100	100	100
Other assets	5,623	9,429	6,314	5,653	9,445	6,333
Property and equipment	15,845	15,208	12,613	15,845	15,208	12,613
Intangible assets	19,487	20,942	591	19,487	20,942	591
Total assets	357,158	424,138	311,687	357,721	423,308	311,655

LIABILITIES

Derivative liabilities	160	188	195	160	188	195
Trading liabilities	444	135	322	444	103	322
Deposits and loans from banks	34,579	60,659	19,234	34,583	60,681	19,234
Deposits from customers	229,284	259,488	204,410	231,859	259,820	205,138
Other liabilities	8,267	23,107	16,873	8,268	23,102	16,865
Income tax payable	408	65	3,217	264	-	3,132
Provisions	3,761	2,941	3,167	3,761	2,941	3,167
Deferred tax liabilities	3,015	5,323	1,469	3,050	5,333	1,475
Total liabilities	279,918	351,906	248,887	282,389	352,168	249,528

EQUITY

Share capital	234	234	234	234	234	234
Share premium	8,492	8,492	8,492	8,492	8,492	8,492
Revaluation reserve	7,533	7,533	4,211	7,533	7,533	4,211
Available for sale reserve	-	358	(84)	-	358	(84)
Fair value through OCI reserve	(151)	-	-	(151)	-	-
Share-based payment reserve	-	2	4	-	2	4
Loan loss reserve	-	2,845	-	-	2,845	-
Retained earnings	61,132	52,768	49,943	59,224	51,676	49,270
Total equity	77,240	72,232	62,800	75,332	71,140	62,127
Total liabilities and equity	357,158	424,138	311,687	357,721	423,308	311,655

SUMMARY STATEMENTS OF CHANGES IN EQUITY

In millions of Malawi Kwacha

	Consolidated		Separate	
	As at 31 December 2018	As at 31 December 2017	As at 31 December 2018	As at 31 December 2017
Opening equity	72,232	62,800	71,140	62,127
IFRS 9 transition adjustment	(2,352)	-	(2,355)	-
Restated opening balance	69,880	62,800	68,785	62,127
Dividend paid	(2,699)	(6,500)	(2,699)	(6,500)
Profit for the year	10,582	12,162	9,769	11,743
Movement in other reserves	(523)	3,770	(523)	3,770
Closing equity	77,240	72,232	75,332	71,140
Basic earnings per share (MK)	45.22	51.97	41.75	50.19
Dividend per share (tambala)	1,153	2,778	1,153	2,778
Number of ordinary shares in issue (million)	234	234	234	234
Market price per share (MK)	670	610	670	610

STATEMENTS OF CASH FLOWS

In millions of Malawi Kwacha

	Consolidated		Separate	
	Restated	Restated	Restated	Restated
	2018 MKm	2017 MKm	2018 MKm	2017 MKm
Cash flows from operating activities:				
Interest received	38,998	43,787	39,048	43,829
Interest paid	(4,258)	(3,938)	(4,263)	(3,939)
Fee and commission income	12,976	10,010	12,976	10,010
Fee and commission expense	(871)	(639)	(871)	(639)
Trading and other income receipts	9,499	8,012	8,008	7,077
Recoveries from impairment losses	411	547	411	547

Payments to employees and suppliers	(32,478)	(33,717)	(32,155)	(33,450)
Cash flows from operating activities before changes in operating assets and liabilities	24,277	24,062	23,154	23,435
Changes in operating assets and liabilities:				
Loans and advances	(26,620)	(3,049)	(26,858)	(3,434)
Liquidity reserve requirements	1,310	(3,621)	1,310	(3,621)
Trading assets with maturity of over 90 days	7,872	(8,463)	7,872	(8,463)
Financial investments with maturity of over 90 days	(38,892)	(24,458)	(38,892)	(24,458)
Balance with banks with maturity of over 90days	38,082	(64,486)	38,082	(64,486)
Other assets	3,867	(6,199)	3,851	(6,195)
Deposits from customers	(29,999)	53,491	(27,757)	53,097
Deposits and loans from other banks	(24,789)	39,657	(24,807)	39,679
Other liabilities	(13,289)	5,746	(13,284)	5,746
Net cash (used in) /generated from/ operating activities before income tax	(58,181)	12,680	(57,329)	11,300
Income tax paid	(2,506)	(6,347)	(2,219)	(6,143)
Net cash (used in) / generated from operating activities	(60,687)	6,333	(59,548)	5,157
Cash flows from investing activities				
Purchase of property and equipment and intangible assets	(2,854)	(23,643)	(2,854)	(23,643)
Proceeds from sale of property and equipment	25	-	25	-
Net cash used in investing activities	(2,829)	(23,643)	(2,829)	(23,643)
Cash flows to financing activities				
Dividends paid	(2,699)	(6,500)	(2,699)	(6,500)
Net (decrease)/increase in cash and cash equivalents	(66,215)	(23,810)	(65,076)	(24,986)
Effect of exchange rate fluctuations on cash and cash equivalents held	(2,136)	3,188	(2,136)	3,188
Cash and cash equivalents at 1 January	127,096	147,718	125,768	147,566
Cash and cash equivalents at 31 December	58,745	127,096	58,556	125,768

*= Prior year amounts have been restated in the statements of profit or loss and statements of financial position due to change in classification of income, interest expense and deferred tax asset. More details on the restatement are available in the consolidated and separate financial statements.

NOTES TO THE SUMMARY CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Impairment Losses/Non-Performing Credit Facilities and Provisions for Losses by Industry Sector

	As at 31 st Dec 2018			As at 31 st Dec 2017		
	Out-standing Amount (MK'm)	Impaired amount (MK'm)	Stage 3 provision (MK'm)	Out-standing Amount (MK'm)	Impaired amount (MK'm)	Specific provision (MK'm)
Agriculture	49,801	1,443	422	48,531	10,491	5,953
Manufacturing	6,526	2,058	1,398	13,642	1,518	446
Mining	1	-	-	699	-	-
Construction	1,291	53	16	549	10	9
Energy/Electricity	650	-	-	173	-	-
Gas/Water	-	-	-	61	-	-
Transport	2,288	-	-	931	75	36
Communication	9,882	-	-	311	-	-
Financial Services	757	-	-	671	-	-
Wholesale/Retail	15,894	3,896	2,351	12,130	1,124	477

Individual/Household	29,841	705	557	25,617	603	416
Real Estate	4,757	-	-	-	-	-
Tourism	383	-	-	61	-	-
Total	122,071	8,155	4,744	103,376	13,821	7,337

Credit Concentrations

Total credit facilities including guarantees, acceptances and other similar commitments extended to any one customer or group of related customers where amounts exceed 25% of our core capital.

Sector of Borrower	As at 31 st Dec 2018 (MK'm)	% of Core Capital	As at 31 st Dec 2017 (MK'm)	% of Core Capital
Agriculture	21,207	33%	14,859	26%
Transport	52,182	81%	-	-

Loans to Directors, Senior Management and Other Related Parties

	31 st Dec 2018 (MK'm)	31 st Dec 2017 (MK'm)
Directors		
Balance at beginning of the period	34	31
Loans granted during the year	43	4
Repayments	(22)	(1)
Balance at end of the year	55	34

	31 st Dec 2018 (MK'm)	31 st Dec 2017 (MK'm)
Other Related Parties		
Balance at beginning of year	425	47
Loans granted during the year	491	386
Repayments	(246)	(8)
Balance at end of the year	670	425

	31 st Dec 2018 (MK'm)	31 st Dec 2017 (MK'm)
Senior Management Officials		
Balance at beginning of year	335	288
Loans granted during the year	204	73
Repayments	(120)	(26)
Balance at end of the year	419	335

Name of Subsidiary	Number of shares	Percentage holding	Current year (MK'm)	Previous year (MK'm)
Standard Bank Bureau De Change Limited	99,999,999	100%	100	100

	31 st Dec 2018	31 st Dec 2017
Base Lending Rate		
Base Lending Rate (local currency)	23%	25%
Maximum Applicable Range (percentage points)	10	10
Base Lending Rate (foreign currency loans)	8.5%	8.5%
Reserve Bank of Malawi Bank Rate	16%	16%

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Deposit Rates

Type of Deposit	As at 31 December 2018 Rate	As at 31 December 2017 Rate
Malawi Kwacha		
Current account	0.10%	0.10%
Call	4.0%	4.0%
7 day Notice	4.5%	3.0%
30 day Notice	4.5%	3.0%
Transact plus	0.1%	0.1%
Savings	3%	5%
Pure save	5%	7%
Contract save	11%	14%
1 month fixed	5%	9%
2 month fixed	6%	8%
3 month fixed	7%	7%
More than 3 months fixed	Negotiable	Negotiable
Foreign Currency Denominated Accounts (FCDAs)		
USD	0.37%	0.37%
GBP	0.1%	0.1%
EUR	0.0%	0.0%
ZAR	0.0%	0.0%

FINANCIAL REVIEW

We are pleased to present the audited financial results of the Group for the year ended 31 December 2018.

Economic Highlights

Headline inflation averaged 9.2% in 2018 supported by a moderate increase in food prices and to an extent a stable exchange rate. The Kwacha lost some ground against the United States dollar in the second half driven by strong demand for foreign exchange against a slowdown in supply as the tobacco auction drew to an end. Interest rates remained stable for the greater part supported by a single digit inflation rate environment.

Performance

The Group's 2018 performance was negatively impacted due to contraction of the revenue base. The revenue contracted as a result of a drop in interest rates as well as a drop in investments in financial assets. This was due to a drop in excess funding arising from a decline in customer deposits which were down by 12% year on year. Despite the decline in interest income, loans and advances to customers grew by 20% year on year.

The Group's profit after tax of MK10.6billion was 13% below prior year due to a drop in net interest income which was down 13% year on year. However, non-interest revenue was 22% above the same period last year due to growth in transaction volumes in the transactional business. This increase cushioned the impact of the drop in interest income.

Credit impairments were 21% below prior year due to the decline of the non-performing loan book, especially in the Agriculture sector. The decline in credit impairments was due to the Group's focus on robust credit risk management. The Group continues to place emphasis on recoveries of previously written off loans.

Operating costs grew by 5% year on year below average inflation for the year of 9.2% due to the Group's focus on cost management. However, the cost to income ratio was 63% compared to 59% in the prior year due to a drop in revenues. Going into 2019, the Group will focus on diversifying its revenue base and will continue to focus on cost management.

Earnings per share for the year decreased from MK52 in 2017 to MK45 in 2018.

Outlook

The Group expects macroeconomic stability could continue in 2019 supported by stable food prices and lower than prior year projected global oil prices.

As a Group, we remain committed to ensuring customer satisfaction. In order to improve customer satisfaction and improve efficiencies, the Group implemented a new core banking system in 2017. With the new system in place, we will continue to drive digitisation in order to improve customer experience. We will also focus on cost rationalisation, prudent management of risk and liquidity, diversify balance sheet and maintain a healthy capital position.

Basis of preparation

The summary consolidated and separate financial statements are prepared in order to meet the requirements of the Malawi Stock Exchange Listings Requirements for summarised financial statements and the Financial Services Act 2010. The Listings Requirements require summarised financial statements to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and Financial Pronouncements as issued by the Financial Reporting Standards Council. The accounting policies applied in the preparation of the consolidated and separate financial statements, from which the summary consolidated and separate financial statements were derived, are in terms of International Financial Reporting Standards and are consistent with the accounting policies applied in the preparation of the previous consolidated and separate financial statements.

INDEPENDENT AUDITOR'S REPORT ON THE SUMMARY CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

To the shareholders of Standard Bank PLC

Opinion

The summary consolidated and separate financial statements of Standard Bank PLC, which comprise the summary consolidated and separate statements of financial position as at 31 December 2018, the consolidated and separate statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, and related notes, are derived from the audited consolidated and separate financial statements of Standard Bank PLC for the year ended 31 December 2018.

In our opinion, the accompanying summary consolidated and separate financial statements of Standard Bank PLC (the "Company") and its subsidiary (together the "Group"), are consistent, in all material respects, with the audited consolidated and separate financial statements, in accordance with the requirements of the Malawi Stock Exchange Listings Requirements for preliminary reports, as set out in the Basis of preparation note to the summary consolidated and separate financial statements, and the requirements of the Malawi Financial Services Act, 2010 as applicable to summary consolidated and separate financial statements.

The summary consolidated and separate financial statements

The summary consolidated and separate financial statements do not contain all the disclosures required by International Financial Reporting Standards and the requirements of the Companies Act, 2013 of Malawi as applicable to annual consolidated and separate financial statements. Reading the summary consolidated and separate financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited consolidated and separate financial statements and the auditor's report thereon.

The audited consolidated and separate financial statements and our report thereon

We expressed an unmodified audit opinion on the audited consolidated and separate financial statements in our report dated 7 March 2019. That report also includes the communication of key audit matters. Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the audited consolidated and separate financial statements of the current period.

Directors' responsibility for the summary consolidated and separate financial statements

The directors are responsible for the preparation of the summary consolidated and separate financial statements in accordance with the requirements of the Malawi Stock Exchange Listings Requirements for preliminary reports, and the requirements of the Malawi Financial Services Act, 2010 as applicable to summary consolidated and separate financial statements.

Auditor's responsibility

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



PricewaterhouseCoopers
Chartered Accountants (Malawi)
Lilongwe

Andrew Vere
7 March 2019

Dividend

An interim dividend of **MK1.7billion** (2017: MK1.5billion) was paid in September 2018 representing **MK7.24** (2017: MK6.39) per ordinary share. The directors recommend a final dividend of **MK4billion** (2017: MK1billion) representing **MK17.05** (2017: MK4.26) per ordinary share to be tabled at the forthcoming Annual General Meeting.

By order of the Board

Date: 7 March 2019

Name	Designation	Signature	Date
1. R. Harawa	Chairman		28 February, 2019
2. A. Chioko	Director		28 February, 2019
3. W. le Roux	Chief Executive		28 February, 2019
4. T. Simwaka	Chief Financial Officer		28 February, 2019