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Standard Bank Group Limited - Unaudited results and dividend announcement for the six months ended 30 June 2004
Standard Bank Group Limited
(Incorporated in the Republic of South Africa)
(Registered bank controlling company)
(Reg No 1969/017128/06)
JSE Securities Exchange share code: SBK
Namibian Stock Exchange share code: SNB
ISIN: ZAE000038873
Unaudited results and dividend announcement for the six months ended 30 June 2004
* Headline earnings 15% up
* Headline earnings per share 14% higher
* Dividend per share 22% up
* ROE 23,0%
* Cost-to-income ratio 55,9%

Overview of financial results
Standard Bank Group continued its long-term earnings growth trend in the first six months of this year. Headline earnings for the period were 14,6% higher at R3 389 million and the group"s return on equity was 23,0%. This result was achieved despite the adverse effect of the stronger rand on the translation of earnings from the group"s foreign operations and the negative impact of reduced net interest margins in the group"s domestic banking operations. South Africa, the group"s most important market, continued the momentum created by healthy economic fundamentals. Inflation was contained within central bank targets and a stable and relatively low interest rate environment was maintained for the period under review, further entrenched by the recent interest rate cut of 50 basis points. A significant feature of the period was a further strengthening of the rand which has had a mixed effect across the different sectors of the South African economy. Consumers have benefited from reduced import prices coupled with lower interest rates, while many companies, particularly exporters have come under increasing pressure due to reduced revenues.
Against this backdrop, the group"s domestic banking operations produced strong overall earnings growth of 22%, with Retail Banking up 26% and Corporate and Investment Banking up 13%. This performance was characterised by further improvements in credit experience, substantial growth in advances in the higher-margin retail categories and good growth in non-interest revenues. These positive factors largely compensated for the net interest margin compression caused by the lower interest rates. Earnings in Africa which grew by 19% benefited from the newly acquired operations in Botswana and Mocambique. The group"s international operations produced earnings of USD56 million, 10% down on the exceptional performance of the prior year and 26% lower when translated into rand. Liberty"s headline earnings recovered from the low base in the first six months of 2003 and increased by 29% as a result of favourable operational performance and better investment returns.

The group"s key financial highlights were:
- return on equity of 23,0% up from 22,5%;
- headline earnings of R3 389 million improved by 15%;
- headline earnings per share of 252,5 cents, 14% higher;
- interim dividend of 50,5 cents per share, 22% up; and
- the cost-to-income ratio increased to 55,9% from 54,9%.

Income statement

Net interest income - down 8%
Domestic operational results are sensitive to the level of interest rates. Consequently the 535 basis point reduction in the average prime interest rate from that of the comparative period resulted in substantially lower interest being earned on shareholders" funds, and reduced interest margins on transactional deposits such as current account credit balances. The reduction in net interest income was also impacted by the scaling down of International"s bond portfolio held as a banking asset and its transfer in late 2003 to the trading book. Healthy asset growth in all domestic retail lending categories helped offset margin loss. This benefit was partly reduced by greater reliance on wholesale funding as retail deposits grew at a slower pace than retail assets. The group"s active management of its assets and liabilities helped to counter the adverse effects of the interest rate cycle on the domestic banking portfolio. Nonetheless as anticipated in the prospects statement in the group"s 2003 year- end profit announcement, given the current interest rate cycle, significant domestic margin compression has occurred.

Provision for credit losses - reduced 26%
A highlight of the period was a greater than anticipated reduction in credit losses across the group off an already improved base. The group"s provision for credit losses as a percentage of average loans and advances reduced from 1,17% to 0,72%. Total provisions against non-performing loans were 31% lower and against performing loans 2% lower. Lower domestic interest rates, increasing property values, further improvements in retail collections and the return to health of corporate customers previously considered doubtful all assisted in the significant reduction in domestic credit losses. Lower credit provisioning was also achieved in International and Africa, mainly as a result of good recoveries. Non-performing loans as a percentage of gross loans and advances continued to reduce from 2,29% in June 2003 to 2,15% in December 2003 and 1,77% in June 2004. The ratio of specific provisions to non-performing loans, before considering security, increased from 42% at December 2003 to 48% and remained at 100% including security and anticipated recoveries.

Non-interest revenue - up 17%
Fee and commission income for the period grew by 19%, trading income increased by 8% and other income by 49%. The ratio of non-interest revenue to total revenue increased from 51% to 57%. Domestic Banking"s fee income grew 17% and was the main contributor to the group"s growth in fee and commission income. Increased transaction volumes, a growing customer base and an increase in advisory fees from corporate clients all contributed to

this increase. Growth in rand terms of 22% occurred in International, primarily from increased asset management fees. Higher transaction volumes led to an increase of 31% in Africa. Domestic Banking increased trading income by 25% off a comparatively low base. Although impacted on translation by the stronger rand, International benefited from an increase in client flow in the base metals and precious metals markets and also experienced higher foreign exchange trading volumes. Other income benefited from an improved loss ratio in Stanbic Insurance, the group"s short-term insurance arm, higher property related income and gains on private equity.

Operating expenses - up 7%

Given the continued expansion in Africa and International, cost growth was well contained with growth in staff costs at 5% and growth in other operating expenses at 9%. An increase in Domestic Banking"s operating expenses of 10% was mainly due to increased business volumes necessitating additional staff costs and infrastructure expansion. Staff numbers in Africa increased due to acquisitions, retail banking initiatives and the strengthening of central risk management and support functions.

The group"s cost-to-income ratio increased from 54,9% in June 2003 to 55,9%, but remained below the 2003 twelve-month ratio of 56,2%. The lower net interest income in the current period was the main reason for the ratio increasing.

Exceptional items and goodwill

Exceptional items represent profit realised on the sale of properties. Goodwill consists mainly of amortisation charges arising from investments in International and Africa.

Taxation

The effective tax rate reduced from 32,1% to 30,2%. The direct tax rate remained virtually unchanged at 26,7% compared to 27,0%. The indirect tax rate declined from 5,1% to 3,5% mainly due to an improvement in the recovery rate of Value Added Tax as a result of a change in the mix of the domestic bank"s revenues.

Balance sheet

Banking assets

Total assets in Standard Bank operations increased marginally by 1%. Domestic Banking"s assets declined by R8 billion, or 2%, as derivative asset values were R30 billion lower as a result of lower fair value adjustments. This was due to more stable interest rate conditions and the effect of the stronger rand on forward exchange contracts. Domestic asset growth excluding derivatives was 9%.

Loans and advances were 17% higher with strong domestic loan growth of 24%, while Africa reported a growth of 21% in rand terms mainly due to acquisitions. The highlight of the domestic loan growth was a 35% increase in mortgage loan balances. This is due to a combination of higher property prices, successful business retention strategies and maintaining domestic market share of new loans granted. Vehicle and asset finance loan balances grew by 26%, assisted by a 20% increase in domestic motor vehicle sales. An increase in consumer spending and further improvements in credit card processes saw Card debtors increasing by 31%. Subdued demand for corporate credit and Corporate and Investment Banking"s approach of avoiding low-margin corporate lending business resulted in overall loan growth being restricted to 9%.

Standard Bank Group has gained further domestic market share in the main lending categories since June 2003:
- mortgage loans: 24,5% (21,2%);
- instalment finance: 22,5% (21,5%); and
- credit cards: 30,9% (26,6%).

International"s loan balances in dollar terms remained in line with the prior period.

Shareholders" funds

The group"s ordinary shareholders" funds grew by 13% to R30 billion at 30 June 2004. This includes a negative movement for the period in currency translation reserves due to the stronger rand of R825 million.

Liberty

Liberty increased its contribution to Standard Bank"s headline earnings by 29%. Progress was made in those areas of the business which Liberty singled out for focus, which include the improvement of service levels, cost reduction, capital management, new market segments and people. Volatility in local and foreign investment markets and a stronger than expected rand negatively influenced investors" demand for investment products offered by the life insurance industry. Risk product sales were however encouraging. Liberty produced strong operational results for the half year to 30 June 2004. Operating profit from life insurance operations was 33% higher due to an improvement in the investment return of the weighted policyholder investment portfolio. Total new business premiums increased to R6 342 million (up 17%) and net cash inflows from insurance operations increased to R2 382 million (up 38%). The new business margin increased to 21% and embedded value remained flat compared with 31 December 2003. Liberty is well capitalised with a cover of 2,5 times required capital.

Capital

The group"s capital adequacy ratio increased to 15,4% from 14,9% in December 2003. This compares to a weighted regulatory requirement of 10,4%. Capital adequacy benefited from lower trading counterparty requirements, growth in 50% risk weighted mortgage loans, together with an increase in retained earnings.

Dividend

An interim dividend of 50,5 cents per share, 22% higher than the 2003 dividend of 41,5 cents, has been declared in terms of the group"s policy to declare one third of the previous year"s total dividend per share at interim. As stated previously it is the group"s intention to reduce its dividend cover for 2004 to 3,0 times, at which stage the dividend policy will be reviewed to assess the possibility of further reductions in cover.

Black ownership initiative

Following the introduction of the Financial Sector Charter in 2003 Standard Bank recently announced the introduction of direct black ownership whereby an effective 10% interest of its South African banking operations (7,47% of Standard Bank Group) will be obtained by qualifying black partners. This will be achieved through the proposed sale of 99,2 million shares to strategic partners, black managers, non-executive directors and regional businesses and communities for R4,0 billion together with a bonus allocation to black employees of R0,1 billion. This transaction secures strategic domestic partnerships for the group and leadership through the empowerment of the strategic black partners, staff and regional businesses and communities. The empowerment transaction is still subject to shareholder approval at a special general meeting which is planned for 13 September 2004.

Prospects
The group"s black ownership initiative, if approved by shareholders, will only be effective from October 2004 and is therefore expected to have a minimal impact on the group"s 2004 earnings per share. For the balance of the year domestic economic conditions are expected to remain favourable while no significant changes in conditions have been assumed for Africa and the markets in which International operates. The group"s diverse spread of business should continue to produce returns to shareholders in line with our published objectives. Standard Bank"s principal financial objectives for 2004 remain unchanged at a return on equity in excess of 20% and headline earnings growth of inflation (CPIX) plus 10 percentage points.
Derek Cooper, Chairman
Jacko Maree, Chief Executive
Declaration of dividend no. 70
Notice is hereby given that an interim dividend no. 70 of 50,5 cents per ordinary share has been declared payable on Monday, 13 September 2004 to shareholders recorded in the books of the company at the close of business on the record date, Friday 10 September 2004. The last day to trade to participate in the dividend is Friday, 3 September 2004. Shares will commence trading ex-dividend from Monday, 6 September 2004.

The relevant dates for the payment of the dividend are as follows:
Last day to trade "CUM" dividend Friday 3 September 2004
Shares trade "EX" dividend Monday 6 September 2004
Record date Friday 10 September 2004
Payment date Monday 13 September 2004
Share certificates may not be dematerialised or rematerialised between Monday, 6 September 2004 and Friday, 10 September 2004, both days inclusive. Where applicable, dividends in respect of certificated shares will be transferred electronically to shareholders" bank accounts on payment date. In the absence of specific mandates, dividend cheques will be posted to shareholders. Shareholders who have dematerialised their share certificates will have their accounts at their CSDP or broker credited on Monday, 13 September 2004.
By order of the board,
Loren Wulfsohn, Group Secretary
17 August 2004

Accounting policies

Basis of preparation

The financial statements have been prepared under the historical cost basis, as modified by the revaluation of financial instruments classified as instruments available-for-sale, held for trading, held at fair value or derivative instruments, as well as investment and owner-occupied properties in the group"s insurance operations.

The accounting policies comply in all material respects with South African Statements and Interpretations of SA GAAP, as well as with the South African Companies Act of 1973.

Change in accounting policy

The accounting policies are consistent with those applied in 2003, except for the adoption of AC 501, Accounting for Secondary Tax on Companies (STC), with effect from 1 January 2004. As required by this new interpretation, a deferred tax asset is recognised for unused STC credits to the extent that the group expects that it will utilise the credits to reduce its STC liability in future. No deferred tax asset was previously recognised on unused STC credits. The impact of adopting AC 501 is as follows:

	June 2003 R million	Dec 2003 R million
Income statement		
Reduction in taxation and increase in earnings	16	32
Balance sheet		
Increase in retained earnings and increase in deferred tax asset included in other assets	223	176

There was no impact on minorities" interest. Comparative amounts have been restated accordingly. The impact of the change in accounting policy on the current period"s earnings was insignificant.

Segmental report

	% change	June 2004 R million Unaudited	June 2003 R million Unaudited	Dec 2003 R million Unaudited
Headline earnings				
Domestic Banking	22	2 560	2 101	4 641
Retail Banking	26	1 274	1 011	2 542
Corporate and Investment Banking	13	1 201	1 065	2 150
Other domestic operations		85	25	(51)
Africa	19	297	249	489
International	(26)	371	499	866
Stanlib	(29)	22	31	40

Central funding and eliminations		10	(22)	(26)
Standard Bank operations	14	3 260	2 858	6 010
Liberty	29	129	100	270
Standard Bank Group	15	3 389	2 958	6 280

Consolidated income statement

	% change	Six months ended June 2004 Unaudited	Six months ended June 2003 Unaudited	Six months ended Dec 2004 Unaudited
Standard Bank operations				
Net interest income before provision for credit losses	(8)	5 377	5 841	11 437
Provision for credit losses	(26)	829	1 124	1 848
Net interest income	(4)	4 548	4 717	9 589
Non-interest revenue	17	7 139	6 085	12 790
Total income	8	11 687	10 802	22 379
Operating expenses	7	6 996	6 543	13 608
Staff costs	5	3 924	3 724	7 581
Other operating expenses	9	3 072	2 819	6 027
Income from operations	10	4 691	4 259	8 771
Income from associates	28	46	36	102
Goodwill amortisation		(61)	(48)	(173)
Exceptional items		17	44	144
Income before taxation	9	4 693	4 291	8 844
Taxation	3	1 418	1 377	2 741
Income after taxation	12	3 275	2 914	6 103
Attributable to minorities	(2)	59	60	104
Standard Bank income attributable to ordinary shareholders	13	3 216	2 854	5 999

Liberty				
Income from operations	19	675	565	1 713
Realised investment gains attributable to shareholders' assets		61	32	471
Goodwill amortisation		(6)	(72)	(78)
Income before taxation		730	525	2 106
Taxation		237	232	823
Income after taxation		493	293	1 283
Attributable to minorities		349	205	904
Liberty income attributable to ordinary shareholders		144	88	379
Group income attributable to ordinary shareholders	14	3 360	2 942	6 378

Consolidated balance sheet

	% change	June 2004 R million Unaudited	June 2003 R million Unaudited	Dec 2003 R million Unaudited
Assets				
Standard Bank operations	1	435 251	432 679	444 371
Cash and short-term negotiable securities	15	52 326	45 637	44 099
Derivative assets	(20)	76 199	95 492	104 723
Trading assets	(12)	31 880	36 240	31 811
Investment securities	(33)	17 251	25 859	19 487
Loans and advances	17	231 436	198 232	220 375
Other assets	(17)	22 474	27 218	19 787
Interest in associates	(33)	237	355	541
Goodwill and other intangible assets	(12)	506	576	508
Property and equipment	(4)	2 942	3 070	3 040
Liberty	14	97 829	86 081	96 195

Current assets	2	3 705	3 631	3 687
Investments	14	93 508	81 959	91 869
Goodwill and other intangible assets	71	249	146	276
Equipment and furniture	6	367	345	363
Total assets	3	533 080	518 760	540 566
Equity and liabilities				
Liabilities	2	496 511	486 485	505 302
Standard Bank operations	(0)	407 230	408 175	417 518
Derivative liabilities	(26)	70 672	95 159	98 634
Trading liabilities	(28)	12 751	17 752	18 162
Deposit and current accounts	14	294 063	257 125	272 677
Other liabilities and provisions	(27)	22 777	31 113	20 989
Subordinated bonds	(1)	6 967	7 026	7 056
Liberty	14	89 281	78 310	87 784
Other liabilities	(4)	2 676	2 792	2 444
Convertible bonds	(18)	1 408	1 714	1 500
Policyholder liabilities	15	85 197	73 804	83 840
Capital and reserves	13	30 008	26 450	28 843
Share capital	1	143	141	142
Share premium	11	2 429	2 180	2 273
Reserves	14	27 436	24 129	26 428
Minority interest	13	6 561	5 825	6 421
Total equity and liabilities	3	533 080	518 760	540 566

Consolidated cash flow information

	June 2004 R million Unaudited	June 2003 R million Unaudited	Dec 2003 R million Unaudited
Cash flows from operating activities	8 698	9 223	16 986
Cash flows from/ (used in) operating funds	3 093	(6 262)	(11 374)
Net cash used in investing activities	(2 763)	(2 800)	(5 863)
Net cash used in financing activities	(1 576)	(1 186)	(1 759)

Contingent liabilities and capital

commitments			
Contingent liabilities			
Letters of credit	4 270	3 703	4 920
Guarantees	17 346	23 407	16 562
	21 616	27 110	21 482
Capital commitments			
Contracted capital expenditure	315	421	215
Capital expenditure authorised but not yet contracted	540	496	505
	855	917	720

Headline earnings

	% change	Six months ended June 2004 R million	Six months ended June 2004 R million	Year ended Dec 2003 R million
Group income attributable to ordinary shareholders	14	3 360	2 942	6 378
Standard Bank income adjusted for:				
Goodwill amortised		61	48	173
Exceptional items		(17)	(44)	(162)
Exceptional items before taxation		(17)	(44)	(144)
- Profit on sale of properties and businesses		(17)	(38)	(238)
- Impairment of properties and intangibles		-	-	157
- Other capital profits		-	(6)	(63)
Taxation on the above items		-	-	(18)
Liberty income adjusted for:				
Goodwill amortised		(15)	12	(109)
Realised investment gains attributable to shareholders' assets		(61)	(32)	(471)
Capital gains tax		4	2	25
Attributable to minorities		36	(30)	259
Headline earnings	15	3 389	2 958	6 280

Financial statistics

Standard Bank Group Shares in issue (millions) Number of ordinary shares in issue				
- end of period		1 346	1 334	1 339
- weighted average		1 342	1 332	1 334
Cents per ordinary share				
Headline earnings	14	252.5	222.1	470.7
Dividend	22	50.5	41.5	151.0
Earnings	13	250.3	220.9	478.1
Fully diluted earnings	12	245.4	218.5	472.2
Net asset value	12	2 228	1 983	2 154
Financial performance (%)				
Return on equity		23,0	22,5	22,9
Standard Bank operations Financial performance (%)				
Return on equity		24,2	23,9	24,0
Cost-to-income ratio		55,9	54,9	56,2
Effective tax rate		30,2	32,1	31,0
Capital adequacy (%) Capital ratio				
- primary capital		12,0	11,0	11,5
- total capital		15,4	14,6	14,9
Consolidated statement of changes in shareholders" funds				
Balance at beginning of the year		28 843	25 828	25 828
Change in accounting policy		-	144	144
Restated balance at beginning of the year		28 843	25 972	25 972
Group income		3 360	2 942	6 378
Dividends paid		(1 470)	(1 197)	(1 753)

Net translation reversal	(825)	(1 292)	(1 866)
Issue of share capital and share premium	157	39	133
Other reserve movements, net of taxation and minorities	(57)	(14)	(21)
Balance at end of the year	30 008	26 450	28 843

Board of Directors

DE Cooper (Chairman)
JH Maree* (Chief Executive)
DDB Band
E Bradley
T Evans
TS Gcabashe
DA Hawton
Sir Paul Judge#
SJ Macozoma
RP Menell
Adv KD Moroka
AC Nissen
RA Plumbridge
MJD Ruck*
MJ Shaw
Sir Robert Smith#
Dr CL Stals
Dr CB Strauss

* Executive Directors # British
Group Secretary
L Wulfsohn

Registered office
9th Floor, Standard Bank Centre, 5 Simmonds Street, Johannesburg, 2001
PO Box 7725, Johannesburg, 2000
Share transfer secretaries in South Africa
Computershare Investor Services 2004 (Proprietary) Limited
70 Marshall Street, Johannesburg, 2001, PO Box 61051, Marshalltown, Johannesburg, 2107

In Namibia

Transfer Secretaries (Proprietary) Limited
Shop 8, Kaiserkrone Centre, Post Street Mall, Windhoek, PO Box 2401, Windhoek
Website disclosure

The Standard Bank Group Limited results for the six months ended 30 June 2004 will be published on the Standard Bank website at 8h30 South African time.

http://www.standardbank.co.za
Live broadcast on Summit TV
A live results broadcast will be available to Southern African viewers via Summit, DSTV Channel 55 at 10h00. Questions can be submitted by dialling into the conference call facility on 0800-200-648.
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