



SBC Limited and Subsidiaries

Group Results

for the year ended 31 December 2018

(Incorporated in the Kingdom of Eswatini Reg. No. 473 of 2011)
ISIN Code: SZE00031031 Share Code: SBC
Listed on the Eswatini Stock Exchange

HIGHLIGHTS OVER THE PERIOD

Loan book growth of
11% ▲

Revenue growth of
7% ▲

Headline earnings declined
9% ▼

First rental units in Malkerns
nearing completion

Figures in Emalangeni	Audited 12 months to 31 December 2018	Audited 12 months to 31 December 2017
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME		
Revenue	260,972,743	243,577,361
Operating expenses	(117,314,160)	(116,068,213)
OPERATING PROFIT	143,658,583	127,509,148
Other income	54,137,082	50,588,266
Finance costs	(138,643,585)	(116,589,725)
PROFIT BEFORE TAXATION	59,152,080	61,507,689
Taxation	(17,254,702)	(14,493,206)
PROFIT FOR THE PERIOD	41,897,378	47,014,483
Other comprehensive income	-	-
TOTAL COMPREHENSIVE INCOME	41,897,378	47,014,483
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Owners of the parent	41,894,732	46,647,923
Non-controlling interest	2,646	366,560
	41,897,378	47,014,483
Basic (cents)	39	43
Diluted basic (cents)	39	43

Figures in Emalangeni	Audited 12 months to 31 December 2018	Audited 12 months to 31 December 2017
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION		
ASSETS		
NON-CURRENT ASSETS		
Investment property	130,365,735	68,645,099
Property, plant and equipment	6,028,187	824,991
Goodwill	209,448,253	209,448,253
Amounts owing by related parties	20,000,000	20,000,000
Deferred tax asset	6,937,395	1,832,989
Loans and advances	665,209,109	502,640,531
	1,037,988,679	803,391,863
CURRENT ASSETS		
Amounts owing by related parties	297,860,104	278,303,434
Current tax receivable	4,963	3,580,118
Work in progress	7,000,000	14,537,897
Loans and advances	221,762,877	292,432,203
Trade and other receivables	16,015,705	12,484,630
Cash and cash equivalents	117,982,606	156,592,016
	660,626,255	757,930,298
TOTAL ASSETS	1,698,614,934	1,561,322,161
EQUITY AND LIABILITIES		
EQUITY		
Share capital	348,329,629	348,329,629
Retained earnings	68,507,417	58,181,187
	416,837,046	406,510,816
Non-controlling interest	23,518	1,656,150
	416,860,564	408,166,966
NON-CURRENT LIABILITIES		
Amounts owing to related parties	-	-
Other financial liabilities	732,572,570	701,174,362
Deferred tax liability	11,700,061	4,476,629
	744,272,631	705,650,991
CURRENT LIABILITIES		
Amounts owing to related parties	1,376,967	40,492,709
Other financial liabilities	521,799,203	390,921,558
Current tax payable	1,186,118	1,737,202
Trade and other payables	13,119,451	14,352,735
	537,481,739	447,504,204
TOTAL LIABILITIES	1,281,754,370	1,153,155,195
TOTAL EQUITY AND LIABILITIES	1,698,614,934	1,561,322,161

Figures in Emalangeni	2018	2017
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY		
SHARE CAPITAL		
Balance at the beginning of the period	9,649	9,649
SHARE PREMIUM	348,319,980	348,319,980
Balance at the beginning of the period	348,319,980	348,319,980
RETAINED EARNINGS	68,507,417	58,181,187
Balance at the beginning of the period	58,181,187	39,180,214
Dividends declared	(29,998,448)	(30,000,000)
Profit for the period	41,894,732	46,647,923
Movement on acquisition of NCI	(1,570,054)	2,353,050
NON-CONTROLLING INTEREST	23,518	1,656,150
Balance at the beginning of the period	1,656,150	3,883,562
Movement for the period	(1,632,632)	(2,227,412)
TOTAL EQUITY	416,860,564	408,166,966

Figures in Emalangeni	2018	2017
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS		
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash used in operations	(26,821,041)	(162,981,554)
Interest income	47,671,105	42,918,730
Finance costs	(138,643,585)	(116,589,725)
Tax paid	(12,111,603)	(15,222,134)
NET CASH USED IN OPERATING ACTIVITIES	(129,905,124)	(251,874,683)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(6,014,928)	(290,095)
Sale of property, plant and equipment	5,276	66,623
Expenditure incurred for investment property	(41,270,735)	-
NET CASH USED IN INVESTING ACTIVITIES	(47,280,387)	(223,472)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from other financial liabilities	365,686,253	442,372,520
Repayment of other financial liabilities	(203,410,400)	(140,325,613)
Acquisition of non-controlling interests	(3,203,780)	-
Dividends paid	(20,495,972)	(9,125,553)
NET CASH GENERATED BY FINANCING ACTIVITIES	138,576,101	292,921,354
TOTAL CASH MOVEMENT FOR THE PERIOD	(38,609,410)	40,823,199
Cash at the beginning of the period	156,592,016	115,768,817
TOTAL CASH AT END OF THE PERIOD	117,982,606	156,592,016

NOTES

1. STATEMENT OF COMPLIANCE

The annual financial results have been prepared in accordance with International Financial Reporting Standards (IFRS), IAS 34, in the manner required by the Companies Act of Eswatini. The accounting policies and methods of compilation applied in these financial results are consistent with those applied in the preparation of the annual financial statements for the year ended 31 December 2017 other than in relation to the following accounting policy changes which became mandatory in the current period:

- IFRS9 Financial Instruments sets out requirements for recognising and measuring financial assets and financial liabilities. The Group has adopted IFRS9 using the cumulative effect method without restating comparatives.
- IFRS15 Revenue from Contracts with Customers establishes a comprehensive framework for determining whether, how much and when revenue is recognised. The Group has adopted IFRS15 using the cumulative effect method without restating comparatives.

The accounting policy changes did not have a significant impact on the Group Results.

The financial results have been prepared under the supervision of the Group Chief Financial Officer, Mr R Zoio.

2. HEADLINE EARNINGS

2.1 EARNINGS PER SHARE (CENTS)

	2018	2017
Headline	39	43
Diluted headline	39	43

2.2. RECONCILIATION BETWEEN BASIC AND HEADLINE EARNINGS

	2018	2017
Basic earnings	41,894,732	46,647,923
Fair value gain on investment property	(4,286,200)	(5,339,697)
Headline earnings	37,608,532	41,308,226

2.3. NUMBER OF ORDINARY SHARES OF E0.0001 EACH IN ISSUE

	2018	2017
Actual	96,490,000	96,490,000
Weighted average	96,490,000	96,490,000
Diluted	96,490,000	96,490,000

3. LOANS AND ADVANCES

	2018	2017
Advances	923,608,193	830,176,639
Impairment for credit losses of loans and advances	(36,636,207)	(35,103,905)
	886,971,986	795,072,734

4. CASH AND CASH EQUIVALENTS

Select Limited, a subsidiary of SBC Limited, provided surety for an overdraft and short term loan facility from CFC Stanbic Bank Kenya to Select Management Services Limited (Kenya) ("SMSK") of KES215.0 million (2017: KES215.0 million) by placing E38.3 million (2017: E35.6 million) on call with Standard Bank South Africa. With effect from 1 January 2018 Select is recovering the net carrying cost from SMSK.

A guarantee was issued by Select Africa Finance Limited, the holding company of SBC Limited, to Select Limited for R20.0 million.

5. OTHER FINANCIAL LIABILITIES

5.1 HELD AT AMORTISED COST

	2018	2017
Medium term notes	704,271,111	585,155,460
Term loan	109,560,390	78,168,774
Promissory notes	440,540,272	428,771,686
	1,254,371,773	1,092,095,920

5.2 MEDIUM TERM NOTE PROGRAMME

The Group raises funds through Promissory Notes and Medium Term Note Programmes (MTNs). The MTNs are listed on the Eswatini Stock Exchange in the name of Select Limited, a subsidiary of SBC Limited, and had an available facility of E37,671,576 as at 31 December 2018 (2017: E227,540,800). On 5 February 2019 a new approval for E400,000,000 was received.

6. RELATED PARTY TRANSACTIONS

Transactions with holding company and fellow subsidiaries:

	2018	2017
Administration and advisory fees	(38,951,144)	(39,570,661)
Group life and funeral cover	(12,028,984)	(11,486,411)
IT infrastructure	(1,454,233)	(3,431,635)
Net interest income	39,047,092	29,597,598
Insurance claims recovered	705,975	1,272,798

There have been no guarantees provided or received for any related party receivables or payables. The Group has not recorded any impairment of receivables relating to amounts owed by related parties during the period.

7. CASH USED IN OPERATIONS

	2018	2017
Profit before tax	59,152,080	61,507,689
Adjustments for:		
Depreciation	806,179	536,237
Bad debts written off	13,131,047	5,015,251
Gain exchange differences - unrealised	(554,254)	(288,232)
Fair value gain on investment property	(5,912,000)	(7,365,099)
Interest received	(47,671,105)	(42,918,730)
Finance costs	138,643,585	116,589,725
Gain on disposal of assets	277	(16,205)
Impairment for credit losses of loans and advances	1,532,301	9,585,204
Changes in working capital:		
Decrease/(Increase) in trade and other receivables	(3,531,075)	(4,923,205)
(Decrease)/Increase in trade and other payables	(1,233,284)	(1,624,319)
Increase in work in progress	(7,000,000)	(13,127,230)
Increase in loans and advances	(106,562,600)	(109,894,514)
Amounts received from related parties	-	33,795,452
Amounts paid to related parties	(67,622,192)	(209,853,578)
	(26,821,041)	(162,981,554)

8. SEGMENTAL ANALYSIS

Segments are derived by geographic region. This is aligned with management's approach to the business. There is no segmental reporting available on the basis of product groups. As the Group provides retail and housing micro-finance products there are no major customers or customer groups.

Segmental reporting	Eswatini		Lesotho		Elimination		Group	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Operating profit	101,611,105	103,500,761	42,047,478	24,008,387	-	-	143,658,583	127,509,148
Profit before tax	33,700,322	49,610,469	25,451,758	11,897,220	-	-	59,152,080	61,507,689
Taxation consolidated	(10,873,501)	(11,518,892)	(6,381,201)	(2,974,314)	-	-	(17,254,702)	(14,493,206)
Profit for the year	22,826,821	38,091,577	19,070,557	8,922,906	-	-	41,897,378	47,014,483
Gross advances to customers	684,573,978	674,306,910	239,034,215	155,869,729	-	-	923,608,193	830,176,639
Impairment provisions	(28,792,497)	(27,883,800)	(7,843,710)	(7,220,105)	-	-	(36,636,207)	(35,103,905)
Net advances	655,781,481	646,423,110	231,190,505	148,649,624	-	-	886,971,986	795,072,734
Total segment assets	1,546,862,133	1,458,214,158	248,043,374	155,979,816	(96,290,573)	(52,871,813)	1,698,614,934	1,561,322,161
Borrowings	1,177,548,626	1,084,516,583	174,490,687	100,943,859	(96,290,573)	(52,871,813)	1,254,371,773	1,153,155,195
Total segment liabilities	1,201,313,339	1,102,288,405	176,731,604	103,738,603	(96,290,573)	(52,871,813)	1,281,754,370	1,153,155,195

COMMENTARY

INTRODUCTION

The SBC Limited Financial services retail group ("the Group", "SBC") continues to deliver on its strategic intent by evolving its value proposition, products and financial solutions to suit stakeholder expectations. This value proposition targets the retail sector in both the Kingdoms of Eswatini and Lesotho where we trade under the "Select" and "Lesana" franchises respectively. These financial solutions are predominately incremental housing loans but the wider product suite incorporates education and consumer loans, all structured towards improving the livelihood of our clients, their families and the broader Eswatini and Lesotho communities.

The Malkerns Square project [Malkerns] augments the business offerings by enabling ultimate ownership of affordable quality housing to a wider sector of the market. Malkerns represents the Group's initial step towards fulfilling this social need as a first world living standards development that meets the demands of the modern family and homeowner. The development will also incorporate a retail center whose construction will commence shortly. The retail center will incorporate a supermarket, a pharmacy, a notable brand fast food outlet, together with certain other supporting line shop offerings complimentary to the Malkerns residential offering.

FINANCIAL REVIEW

SBC increased its level of disbursements to E338m (2017: E309m) for the year due to disbursements in Lesotho which grew to M131m (2017: M85m) on the back of opportunities afforded by the mobile loan acquisition system, the securing of addition funding as well as sales infrastructure expansion. This has been facilitated by a relatively stable political environment in both jurisdictions and, along with that, a consistent collection performance.

Disbursements (net of rollovers) in Eswatini amounted to E207m (2017: E224m), an 8% decline on the prior year and this is an indication of the pressures currently constraining this sector of the market. Considering that the last civil servant pay increase was more than 2 years ago, and given that the primary driver in increased loan extension in this market segment comes predominantly from increases in gross income (and thus increases in affordability), the above dynamic is better understood.

The result was that the gross loan book grew by 11% during the period to E924m compared to 14% in the prior year.

Revenue grew by 7% to E261m (2017: E244m) with lower yielding Eswatini revenue seeing a further erosion of its yield from 30.5% to 28.5%. This is attributed to the ongoing impact of interest rate restrictions introduced in 2016 by the Central Bank of Eswatini, coupled with a relatively reduced contribution from the higher yielding, short term loan book occasioned by the discontinuance of certain high yield products deemed to be excessively risky in the prevailing environment. This reduction was partially offset by growth in the Lesana loan book which yields at a rate of 34.2% and comprised 26% of the total gross loan book at year end; an improvement compared to 20% in the prior year.

In this environment, SBC was able to restrict its operating expense escalation to 1% at E117m. Credit impairments, being the sum of bad debt write offs and provisions raised during the year, was flat on the prior year at E15m. This included an adjustment to achieve IFRS9 compliance, which was insignificant. Group costs at E52m were down 4% on the prior year as a result of rationalisation exercises on the shared group structure as well as growth in other areas of the Select Group, which enabled these businesses to absorb a greater share of the shared expenses. Staff costs increased 14% to E19m but this included an amount of E2.5m on a deferred incentive scheme payment to a senior employee. Excluding this payment, staff costs decreased by 1%. Operating profit lifted by 13% to E144m (2017: E128m).

Other income, at E54m, includes E6m arising from a fair value adjustment on investment property following an independent valuation. The majority of the balance relates to E48m earned on loans to related parties, which take place on an arms length basis, and interest on deposits with banks. The net interest earned on net loans to related parties amounted E39m at an average rate of 13.6%.

Finance costs at E139m (2017: E117m) increased by 19% over the prior year and predominately arose from interest on notes issued under the listed medium term note program and other promissory notes issued by subsidiary, Select Limited. Average borrowings increased by 16% and the average rate increased by 0.5% to 11.6% over the prior year in an escalating borrowing cost environment.

Profit before tax declined by 4% to E59m (2017: E62m). An adjustment to a prior year estimate amounting to E2m