

# STATE BANK OF MAURITIUS (SBM) HOLDINGS LIMITED ANALYSIS: IS INVESTORS CASH SAFE WITH SBM?

## SBM

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**List of Abbreviations:**

BOM - Bank of Mauritius

CBK - Central bank of Kenya

EOI - Expression of Interest

KDIC - Kenya Deposit Insurance Corporation

Kes - Kenya Shillings

NAV - Net Assets Value

SEMTRI - Stock Exchange of Mauritius Total Return Index

SEM - Stock Exchange of Mauritius

SBM - State bank of Mauritius

ROE - Return on Equity

USD - United States Dollar

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## Executive Summary

SBM Holdings 'SBM' was founded in 1973 by the Government of Mauritius and was listed in the Stock Exchange of Mauritius 'SEM' in 1995. The Bank is engaged in banking, non-banking financial services and non-financial investments. As at 31<sup>st</sup> December 2017, the bank had a market capitalization of USD 581 Million.

The Government of Mauritius directly and through state corporations has a controlling stake of 70.4% in the Bank. The Bank has a unitary structure and presently comprises eight non-executive directors of which six are independent non-executive directors with broad experience across the various sectors of the economy.

SBM is strong financially with reasonable Cost to Income and Profitability ratios. The Bank is well run and the funds are utilized efficiently. As at 30<sup>th</sup> September, the Bank's cost to income ratio was 44.83% compared to an average of 53.62% for her Kenyan peers. For the same period, the Bank posted an ROE of 21.84% compared to her Kenyan peers who had an average of 12.84%. With an asset base of USD 5.328 Billion as at 30<sup>th</sup> September 2017, the Bank would rank second only to KCB, with total assets of USD 6.438 Billion, in East Africa and would be ranked a Tier I bank.

In 2017, SBM entered the Kenyan market through a 100% acquisition of a Tier III bank, Fidelity Commercial Bank, which had a market share of 0.4% at the time. Fidelity Bank was rebranded to SBM (Kenya). After this deal, they injected a fresh capital of Kes 1.5B (USD 15B) as the Bank was below statutory minimum capital requirements. Kenya to them, would operate as a gateway to the rest of Africa. Recently, they have offered a Binding offer to take over 75% of Chase Bank's Assets and Liabilities. In this latest offer, which is expected to be concluded by Q1 of 2018, they have done a shrewd deal on Chase, effectively buying Chase, in a very low risk way for nothing, an indication of very smart management.

There is, however, one reason for caution on SBM. Fusion has not been able to source reliable third party analysis of their financials, nor have they published their accounts in Kenya or elsewhere, for 2017. We understand from confidential sources that this relates to their purchase of Fidelity Bank in 2017. CBK has, apparently, not yet approved their Kenyan auditors, and prior to the takeover, the previous management at Fidelity had not published accounts. We have no reason to believe that this points to trading problems with their Kenyan acquisition, but it remains a reason for caution in assessing their strength and prospects. SBM will have to publish information soon, in order to engage with Kenyan depositors, and we assume this is in management's mind, as they complete the Chase transaction.

## Bank Overview

SBM Holdings 'SBM' was founded in 1973 by the Government of Mauritius and was listed in the Stock Exchange of Mauritius in 1995. The Bank is engaged in banking, non-banking financial services and non-financial investments. As at 30th September 2017, the bank had a market share (Mauritius) of 30.7% in Personal Banking and 20.7% in Business Banking, with 43 branches and a market share of more than 20%, making it one of the biggest banks in Mauritius. The Group has presence in Madagascar, India and Kenya with a representative office in Myanmar. In 2016, the group was ranked among the top 1000 world banks by The Banker (À Global Financial Intelligence organization), with a Tier 1 market capitalization of USD 558 Million. In 2017, SBM was awarded the Best Retail Banking in Mauritius in the Bank Africa West African award.

SBM' long-term and short-term deposit both foreign and domestic are rated at Baa3/P-3 by Moody's (the Sovereign Rating of Mauritius stands at Baa1)

## Ownership and Governance

The bank is listed on the Stock Exchange of Mauritius and as at 31st December 2016, the ownership was as follows:

	Name	Shares Held (000)	% Holding
1	National Pension Fund	586,928	22.73%
2	SBM Treasury Shares*	455,610	17.65%
3	State Insurance Company of Mauritius	444,440	17.21%
4	Government of Mauritius*	149,526	5.79%
5	National Savings Fund	80,217	3.11%
6	Swan Life Fund	61,169	2.37%
7	Development Bank of Mauritius	57,795	2.24%
8	State Investment Corporation of Mauritius	42,032	1.63%
9	The Bank Of New York Melion	41,083	1.59%
10	Pictet Europe A/C Blakenery	40,148	1.56%
11	Others	622,842	24.12%
		<b>2,581,790</b>	<b>100%</b>

Source: Company Financials \* Government of Mauritius

The Government of Mauritius has a 23.4% controlling in SBM directly and through the Treasury and is the largest shareholder followed by National Pension Fund, State Insurance Company of Mauritius, National Savings Fund, Development Bank of Mauritius and State Investment Corporation of Mauritius in that order. Combined, all these entities control 70.4% of SBM and are linked to the Government of Mauritius.

## Corporate Governance

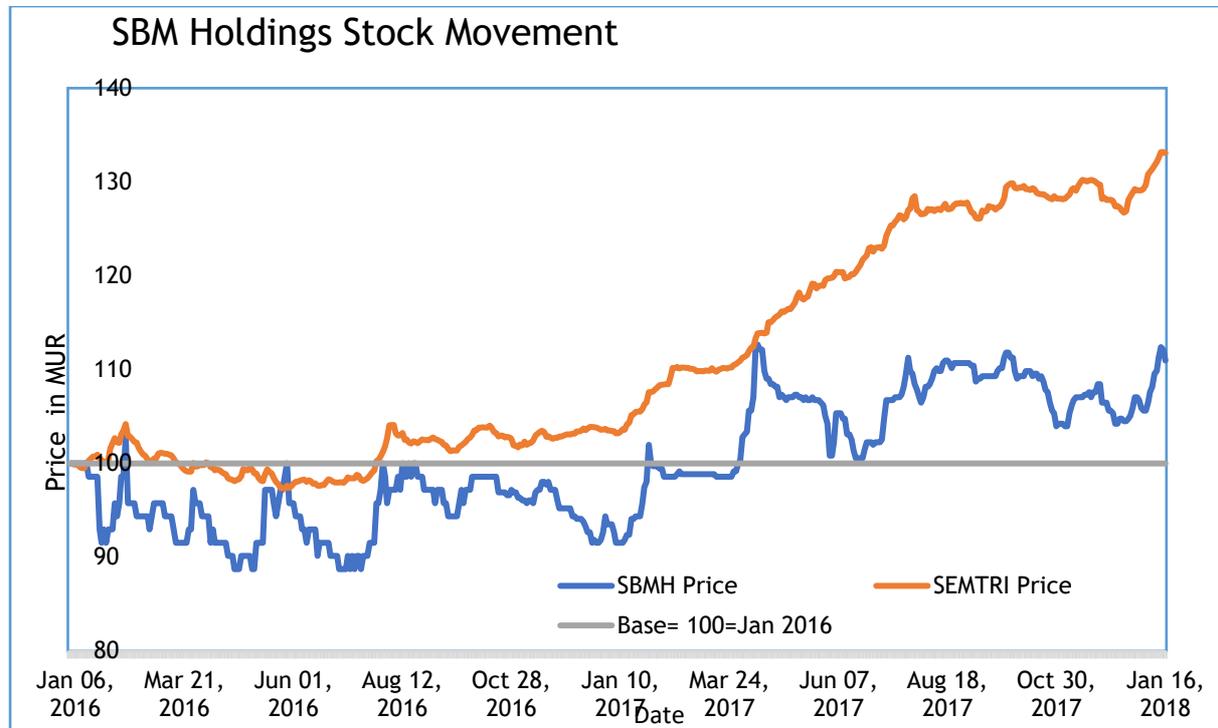
SBM has a unitary structure and presently comprises eight non-executive directors of which six are independent non-executive directors. The directors have expertise in the domains of Financial Services, accountancy, manufacturing, service, textile, tourism, economic, Chairman of boards and public administration. The following are the board member of SBM Holdings Limited:

<p><b>Kee Chong Li Kwong Wing, Chairman &amp; Non-executive member</b></p>	<p>Mr Kwong, a holder of the National Laureateship, G.O.S.K. is an economist who graduated from the London School of Economics. He is the founder of the Mauritius International Trust Co. Ltd one of the first professional firms licensed to provide financial services to international private and institutional clients. He was elected as a director in June 2015 and has since been designated as its Chairman.</p>
<p><b>Azim Currimjee, Non-executive member</b></p>	<p>Mr Currimjee joined the Board in June 2016. He holds a BA in Mathematics from Williams College, Massachusetts and an MBA from Trinity College, Dublin. He is the Managing Director of the Food &amp; Beverages Cluster of the Currimjee Group of Companies and the Managing Director of Quality Beverages Ltd. He has over 25 years of experience in Industry, and has led large textile concerns in the past and has been leading a significant food and beverage business for the last 15 years. He sits in the Board of all the principal companies of the Currimjee Group as a non-executive Director and is currently the President of the Mauritius Chamber of Commerce and Industry, a position he also held in 2007.</p>
<p><b>Medha Gunpath, Non-executive member</b></p>	<p>Mr Gunpath joined the Board in February 2015. He is a holder of a BSc (General) from the University of Punjab, India and a Diploma in Public Administration &amp; Management at the University of Mauritius. He is the Permanent Secretary to the Minister Mentor's Office, Ministry of Defence and Rodrigues effective February 2017. Prior to that, he was the Permanent Secretary to the Private Office of the Prime Minister's Office. He is currently a director of the Mauritius Post Ltd.</p>
<p><b>Maxime Hardy, Non-executive member</b></p>	<p>Mr Hardy was elected as director of the Board in June 2015. He is a Fellow Member of the Association of Accounting Technicians, UK and has experience in the accounting and finance field, having spent several years in the sugar, beverage, textile and car dealer industries.</p>

<b>Vidianand Lutchmeeparsad,</b> <b>Non-executive member</b>	<p>Mr Lutchmeeparsad is a holder of Master in Business Administration from the University of Mauritius and also holds post graduate qualifications from universities in Australia and India. He is the current Permanent Secretary at the Ministry of Finance and Economic Development, and has more than 30 years' experience in the field of public administration, having served, at senior management level in different Ministries. He is a Director on the Board of State Investment Corporation Ltd, Landscape (Mauritius) Ltd, NIC Health Care Limited and National Day Celebrations Co Ltd.</p>
<b>Ramprakash Maunthrooa,</b> <b>Non-executive member</b>	<p>Mr Maunthrooa was elected as Director of the Board on 30 June 2015. He also serves on the Board of Air Mauritius and of the Board of Investment (BOI) as the chairman. He is also a Senior Adviser at the Prime Minister's Office. He has also worked as a freelance Consultant as a port specialist and subsequently as an Investment and Management Consultant both in Mauritius and the region.</p>
<b>Roodesh Muttylall,</b> <b>Non-executive member</b>	<p>Mr Muttylall joined the Board the in 30 June 2015. He holds a Master's Degree in Finance from the University of Mauritius. He is a Fellow Member of the Association of Chartered Certified Accountants, UK and an Associate Member of the Institute of Chartered Secretaries and Administrators, UK. He is currently the Financial Controller of a Global Business Company and has several years of experience in similar positions in the hotel sector.</p>
<b>Ouma Shankar Ochit,</b> <b>Non-executive member</b>	<p>Mr Shankar joined the Board in June 2015. He is a holder of Master of Business Administration, with specialisation in Finance, from the University of Mauritius and is a fellow of the Chartered Association of Certified Accountants. He is the Senior Partner of Nexia Baker &amp; Arenson, a member of Nexia International. He sits on the Board of the Tertiary Education Commission.</p>

## SBM Stock Performance

The graph below shows the SBM stock performance in the Stock exchange of Mauritius



For the last two years, the SBM stock price has been relatively stable within the range of 6.3 MUR (USD 0.19) and 8 MUR (USD 0.24) whereas the SEMTRI (Stock Exchange of Mauritius Total Return Index) has been on an uptrend since July 2016.

## SBMH Acquisition of Fidelity Commercial Bank (Kenya)

In 2017, SBM completed the acquisition of a Tier III Bank in Kenya, Fidelity Commercial Bank, a bank which was founded 22 years ago, had 14 branches and was ranked 31 out of 41 Kenyan lenders with a market share of 0.4% at the time of the transaction. They paid a price of 1.6X Book Value on Fidelity commercial Bank compared to an average price of 2.0X Book Value of past similar transactions. This lower multiple compared to the previous transactions average could be justified by the fact that at the time of acquisition, the listed equities were at a historic low valuation of 1.0X Book Value, against a historical average of 1.9X. At the same time, a higher multiple than the market average at the time, could be justified by the fact that CBK had placed a moratorium on the licensing of new banks, thus existing banks had additional negotiating power.

After this transaction, SBM injected a further Kes 1.5B (USD 15M) as growth capital into the bank.

## SBM Financial Performance

	31-Dec-14	31-Dec-15	31-Dec-16	30-Sep-17 (9 Months)	
Statement of Comprehensive Financial	USD '000	USD '000'	USD '000'	USD '000'	CAGR
Interest Income	193,537	192,729	187,493	155,641	-7%
<i>Growth</i>		-0.42%	-2.72%	-16.99%	
Interest Expense	(72,024)	(65,147)	(55,995)	(49,480)	-12%
<i>Growth</i>		-9.55%	-14.05%	-11.64%	
Net interest income	121,513	127,582	131,498	106,161	-4%
Non-interest revenue	66,313	60,077	61,889	58,664	-4%
<i>Growth</i>		-9.40%	3.02%	-5.21%	
<b>Total income</b>	<b>187,826</b>	<b>187,659</b>	<b>193,387</b>	<b>164,825</b>	<b>-6%</b>
Credit impairment charges	(18,911)	(58,105)	(21,507)	(24,303)	9%
<i>Growth</i>		207.26%	-62.99%	13.00%	
Income after impairment charges	168,915	129,554	171,880	140,523	-6%
Total operating expenses	(94,574)	(68,114)	(82,249)	(73,897)	-8%
<b>Profit before taxation</b>	<b>74,341</b>	<b>61,440</b>	<b>89,631</b>	<b>66,626</b>	<b>-4%</b>
<b>Share of Profit from associates</b>	<b>1,890</b>			<b>2,088</b>	
Income tax expense	(20,179)	(13,213)	(20,413)	(12,816)	
<b>Net Profit for the year</b>	<b>56,052</b>	<b>48,227</b>	<b>69,267</b>	<b>53,810</b>	<b>-1%</b>

	31-Dec-14	31-Dec-15	31-Dec-16	30-Sep-17 (9 Months)	
Statement of Financial Position	USD '000	USD '000'	USD '000'	USD '000'	CAGR
Cash and balances with Central Banks	442,286	482,821	497,646	822,695	23%
<i>Growth</i>		9.16%	3.07%	65.32%	
Financial investments	1,112,754	1,303,260	1,393,183	1,400,468	8%
Derivative assets	6,157	4,324	4,980	117,203	
Loans and advances	2,044,100	2,099,794	2,288,124	3,224,569	16%
<i>Growth</i>		2.72%	8.97%	40.93%	
Other assets	37,459	30,413	19,080	19,055	
Property and equipment	82,599	84,828	84,293	88,289	
Other intangible assets	37,570	71,119	113,108	117,775	46%
Deferred income tax	5,143	8,303	6,458	9,232	
<b>Total assets</b>	<b>3,768,068</b>	<b>4,084,863</b>	<b>4,406,871</b>	<b>5,799,286</b>	<b>15%</b>
<i>Growth</i>		8.41%	7.88%	31.60%	
Trading liabilities	4,399	3,623	5,472	43,357	114%
Deposits with banks and customers	2,771,367	3,150,985	3,355,586	4,469,105	17%
<i>Growth</i>		13.70%	6.49%	33.18%	
Borrowings	153,390	63,975	134,580	321,426	28%

<i>Growth</i>		-58.29%	110.36%	138.84%	
Other liabilities	174,064	188,870	186,152	206,522	6%
Current income tax	2,639	11,759	10,940	4,098	
<b>Total liabilities</b>	<b>3,105,858</b>	<b>3,419,212</b>	<b>3,692,730</b>	<b>5,044,509</b>	
Ordinary share capital	975,006	975,006	975,006	975,006	
Revenue and other reserves	-312,796	-309,355	-260,865	-220,227	-11%
<b>Total equity</b>	<b>662,210</b>	<b>665,651</b>	<b>714,141</b>	<b>754,779</b>	<b>4%</b>
<b>Total equity and liabilities</b>	<b>3,768,068</b>	<b>4,084,863</b>	<b>4,406,871</b>	<b>5,799,288</b>	

	31-Dec-14	31-Dec-15	31-Dec-16	30-Sep-17 (9 Months)
<b>Statement of Cash Flows</b>	USD '000'	USD '000'	USD '000'	USD '000'
Net cash generated from operating activities	(28,059)	186,915	58,514	145,115
Net cash used in financing activities	33,760	(117,273)	38,946	159,727
Net cash from investing activities	28,792	(40,242)	(88,872)	(44,638)
<b>Net change in cash and cash equivalents</b>	<b>34,493</b>	<b>29,400</b>	<b>8,588</b>	<b>260,204</b>
Net foreign exchange differences			894	
Cash and cash equivalents at beginning of period	211,330	245,824	275,224	284,706
<b>Cash and cash equivalents at end of period</b>	<b>245,824</b>	<b>275,224</b>	<b>284,706</b>	<b>544,910</b>

The Bank Interest Income has been on the decline. This is explained by the Repo rate cut of 50bps in September 2017 and 40bps in July 2016 after which the prime lending rate were brought down. Similarly, the rate cut resulted in Savings rate coming down and hence the decline in the interest Expense over the same period.

In 2015, there was a spike in credit impairment charges as one of their major client went into receivership and they had to provide for the amount that was owed by the client.

The Banks Total assets grew at a Compounded Annual Growth Rate (CAGR) of 8.314% from 2014 to September 2017. This was mainly as a result of increased Loan and advances, cash and cash balances at central bank. For the nine months to September 2017, loans and advances grew at 41% whereas cash and cash balances at central bank grew at 65%.

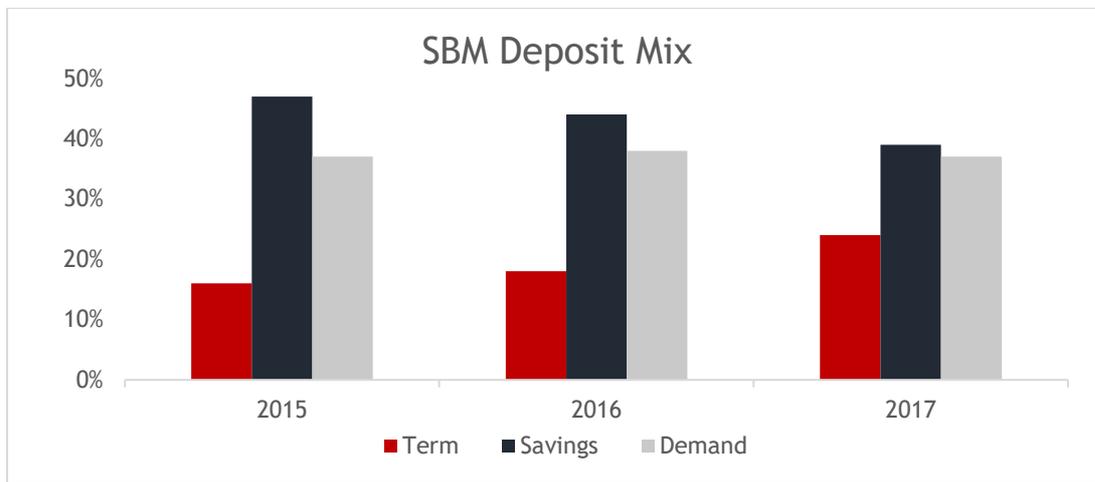
The intangible assets increased after the Bank acquired an IT system which was implemented in September 2016.

For the period to September, SBM borrowings more than doubled which is attributed to increased borrowing from BOM for refinancing activities. In 2012, BOM introduced

a line of credit worth € 600 Million (USD 740Million) to allow commercial Banks refinance expensive loans to exporters at a favorable rate, after the repayments became unsustainable for them. This after the euro zone crisis, the main market for Mauritius' exporters, dampened demand for exports such as textiles and Sugar and dented economic growth for Mauritius.

The group's net profit declined by 6.59% for the nine months' period ending September 2017 compared to the same period in 2106 largely due to an increase in interest expenses. Their term deposits increased and there was a Repo rate cut of 50bps in September 2017 and 40bps in July 2016 following which both SBM savings rate and prime lending rate were brought down.

For the last three years, the bank has maintained a well-balanced deposits mix as shown below:



## SBM Holding Comparison with some selected Kenyan Banks

All Bank	Stanbic	Equity	Co-op	Stanchart	KCB	Average	SBM
Cost to Income Ratio (%) - excl. provisioning	63.60%	57.46%	47.59%	47.52%	51.93%	53.62%	44.83%
Cost of Risk (ytd. Ann)	1.87%	0.00%	0.99%	-3.26%	0.75%	0.07%	0.75%
Net Interest Margin (%)	4.95%	5.33%	4.10%	6.44%	4.34%	5.03%	4.83%
Non-Interest Income Contribution	33.68%	43.60%	32.81%	31.78%	32.89%	34.95%	35.59%
Net Loans to Deposits	68.62%	71.20%	89.39%	44.17%	81.97%	71.07%	72.15%
Return on Equity	10.02%	17.39%	14.01%	6.76%	13.82%	12.40%	21.84%
Return on Assets	1.35%	3.02%	2.43%	0.97%	2.21%	2.00%	2.84%
Debt to Equity	0.27	0.53	0.42		0.14	0.34	0.43
Debt to Capital	3.58%	9.29%	7.21%		2.24%	5.58%	5.54%
Debt to Asset	3.58%	9.29%	7.21%		2.24%	5.58%	5.54%

From the above analysis, SBM has a better cost management system with cost to income ratio of 44.83% compared to the local banks in Kenya which have an average cost to income ratio of 53.62%. This also explains why SBM posted a better Return on Equity and Return on Assets at 21.84% and 2.84% respectively than the Kenyan banks which have an average Return on Equity and Return on Assets at 12.40% and 2%.

Net interest margin is higher for the Kenyan banks with an average of 5.03% against 4.83% for SBM. This is mainly due to low credit offtake in Mauritius caused by continued excess market liquidity and declining spread between the lending rate and deposit rate with an average of 4.63% since August 2015. In Kenya however, the spread rate between the Lending and deposit rate have been maintained at 7% since August 2015 (when the interest rate cap was introduced).

During the same period, SBM had a higher Debt to Equity ratio of 0.43 compared to the Kenyan banks average at 0.34. SBM increased their borrowings from Bank of Mauritius mainly for refinancing activities.

## SBM's Binding Offer on Chase Bank

SBM recently made a Binding offer to acquire 75% of certain assets and liabilities of Chase bank. This Binding offer was accepted by the Central of Bank of Kenya on 4th January 2018 and is expected to be operationalized in the next few weeks. In the offer, SBM will take over 75% of liabilities from Chase Bank and these will be matched with equivalent assets.

## Chase Bank Acquisition Terms

The Central Bank of Kenya and KDIC on 5th January 2018 agreed to the express terms of the Binding offer from SBM Holdings. In the Offer, SBMH through its subsidiary, SBM Bank (Kenya) Limited, will acquire 75% of assets and liabilities carved out of Chase Bank (Kenya) Limited.

SBM Bank Kenya already has a presence in Kenya after it acquired the Fidelity commercial Bank in Kenya. The related parties' liabilities and Assets will not be moving to SBM Bank (Kenya). As at the date Chase Bank was placed under receivership, they had the following subsidiaries:

Subsidiary	Shareholding	Description
Rafiki Microfinance Bank Ltd	75%	Deposit taking microfinance institution established to serve the unbanked market, founded in 2011 with 19 branches in Kenya
Chase Insurance Agency	100%	Insurance brokerage business established in 2009 to facilitate bank assurance for Chase Bank.

When this transaction is completed, 75% of Chase Bank's liabilities excluding related parties (Directors, Shareholders, Subsidiaries, etc) will move to SBM Bank Holdings. These liabilities on the other hand, will be matched by equivalent assets from Chase. As at 31<sup>st</sup> December 2015 (the latest available Chase Financials), Chase bank had a total assets of USD 1.4B broken down as follows:

Statement of Financial Position	USD '000
Cash and balances with Central Banks	116,357
Financial investments	129,166
Derivative assets	92,586
Loans and advances	1,033,050
Other assets	35,711
Property and equipment	25,316
Tax Recoverable	11,281
Other intangible assets	11,356
Deferred income tax	3,133
<b>Total assets</b>	<b>1,457,956</b>

In this transaction, SBM will take over 75% of the quality assets in the following order:

- i. Cash (both local & Foreign) (100%);
- ii. Balances with central Banks (100%);
- iii. Investment Securities (100%);
- iv. Deposits and Balances due from both local and Foreign entity (100%);
- v. Property Plant and Equipment (100%); and
- vi. Lastly only fill the balance from the Loans and Advances to Customers which we believe they will cherry pick from Chase Loan Book.

The CBK has not availed the Chase Bank's financials to the public either as at the day the bank went into receivership or the latest available numbers that were used in EOs invitation.

Looking at this deal, SBM would appear to be getting these assets for free from Chase Bank. The CBK Governor in the October 2017 meeting with the depositors explained that as at 30<sup>th</sup> June 2017, the bank Shareholders Funds (NAV) was already in negative and the deal that was entered into was for the interest of Depositors.

As stated above, SBM has already injected a capital of Kes 1.5B (USD 15B) in SBM Bank (Kenya) and may therefore not need another quick fresh injection as this is already more than the minimum capital of Kes 1Billion (USD 10M) required for any bank operating in Kenya.

## **Fusion's View on the terms of this deal**

In our view, this is a very attractive deal for SBM, a very easy way for them to grow their Kenyan market share, which will act as a gateway to the rest of Africa for them.

To the depositors, this is a welcome deal, at it will first of all guarantee access of 75% of their deposits even though it will come over a period of three years. The assets that will remain in Chase Bank including the related parties' assets, will also be used will ensure that 25% customer deposits payments are fast tracked, even though the timing has not been shared. There will be 25% assets and 25% liabilities left in Chase Bank, the assets will be represented by far much more than 25% deposits and once recovery is done, priority as contained in the KDIC Act will be given to the depositors. In our view, there will therefore be enough assets to meet the depositors' obligations without a haircut. The questions however, will remain on the quality of the assets that will remain with Chase Bank.

## **Fusion's View on SBM Bank acquiring Chase Bank**

The group's assets grew by 8% in 2016 attributable to increased investment in the government securities and growth in loan book by 9% in the same year. By end of September 2017, their assets had grown by 32% which was boosted by the 41% growth in loan book. Deposits also grew albeit at a slightly lower rate of 6.5% and 33% in 2016 and September 2017 respectively. This explains the reason for the loan to deposit ratio increasing from 68.19% and 72.15% in 2016 and September 2017 respectively. The group's deposit grew by 6.49% and 33.18% in 2016 and September 2017 respectively.

In summary, we see the below reasons as the main attractions for SBM to Chase Bank:

1. As at September 2017 SBM holdings had liquid assets worth USD 2,223 Million. On Day 1, a maximum USD 285 Million will be required to meet the 37.5% of Chase obligations representing 12.82% of their total liquid assets (September 2017). In addition, since Chase Bank was put under Receivership, collections have been ongoing and all this cash is being availed to SBM. SBM is therefore well able from her balance sheet and the cash that will be availed to meet the most immediate obligations of Day 1. When Chase Bank was re-opened in April 2016, the regulator expected that all the depositors who could access their cash would do so but the opposite happened. On their first day of trading, there were more deposits than withdrawals. This may however, change once the Fund Managers and large depositors are allowed access to their cash. Still, the maximum withdrawal will be within SBM liquid funds.
2. As at 30<sup>th</sup> September 2017, SBM had an asset base of USD 5.8 Billion which is 4 times bigger than Chase Bank Kenya which had an asset base of USD 1.4 Billion by December 2015 (The latest available financials). SBM's assets are also 4.3 times the total liabilities of Chase bank over the same period. This shows that SBM is well able to acquire the 75% of Chase.
3. Lending rates in Mauritius have been on a decline as shown on the financials with November rate standing at 6.20% and a deposit rate of 1.69%, representing a spread of 4.51% (Bank of Mauritius). This makes Kenya with spread of 7% (even with interest rate cap) attractive to SBM.
4. SBM will acquire 75% of the USD 760 Million deposit with Chase bank, but they will only be required to deposit a maximum of USD 285 Million (37.5% of USD 760 Million) on day 1 to guarantee the deposit. However, they will continue to trade with the balance of USD 475 Million (USD 760 Million less USD 285 Million) represented by assets which will not be paid for immediately and will

be required to pay 7% as interest. The scheduled deposits will make the entry less expensive for SBM but will give them a considerable loan book.

5. The Group's ambitions of entering to the rest of Africa will be boosted by the strong entry into the Kenyan Market through the acquisition of Fidelity bank of Kenya and now Chase bank. Kenya will be the launching pad to the rest of Africa due to the strategic location and Kenya's position in Africa.
6. We understand the group has been searching for new markets as net profit declined occasioned by depressed interest income due to lower return on loans from 6.66% to 5.59% resulting from declining return on advances on account of increasing competition and low credit offtake caused by continued excess market liquidity.

Based on the above points, we are confident that SBM has the financial capability to purchase and support the 75% of Chase Bank assets and liabilities and there is enough attraction for them invest Chase Bank.