20th January 2014

Banking Research Report 2014

Industry Overview

21 Banks operating in Mauritius

The Mauritian banking industry comprises of 21 banks, among which 9 local banks, 8 foreign owned subsidiaries and 4 branches of foreign banks. The Bank of Mauritius (BoM) granted its 21st bank license to a new bank, Banyan Tree Bank Limited, which started operations in February 2013. All the banks are licensed by the Bank of Mauritius to carry out banking business both locally and internationally.

The banking industry offers a wide array of services. Besides traditional banking facilities, banks offer card-based payment services, such as credit and debit cards internet banking and phone banking facilities. Moreover, specialised services such as fund administration, custodial services, trusteeship, structured lending, structured trade finance, international portfolio management, investment banking, private client activities, treasury and specialised finance are also offered by banks. The international banks offer a wide range of global banking and financial services to corporate, institutional and private clients. Some of the biggest international banks are present in Mauritius and actively carry out international cross border activities.

Resilient banking sector

Despite various shocks faced by the international banking sector resulting from the international financial crisis and weak economic activity worldwide, Mauritian banks remained resilient and profitable. The banking sector continued to expand during the year ended 30 June 2013 as highlighted by total bank assets which grew by 10.2% to Rs 1,003.4bn.

Sector performance

Operating Income

Operating income grew by 13.2% to Rs 30.5bn on the back of higher net interest income (+12.9%) as well as higher non-interest income (+13.7%). The main source of income of the sector remains interest on advances which amounted to Rs 26.4bn for the financial year 2013. Other sources of income for the sector such as interest on securities and net fee income & commission were relatively low compared to interest on loans and amounted to Rs 8.2bn and Rs 4.8bn respectively.

Expenses and Provisions

Non-interest expense maintained its upward trend and progressed by 13.7% to 10.6bn. However, cost to income ratio of the sector remained on par with previous year at 0.4x. Provisions rose significantly by 76.7% to Rs 3.1bn after having witnessed a decline of 14.2% in 2012. The higher provision indicates higher credit risk which increased with the prevailing weak economic activity, impacting negatively on banks' asset quality.

Profits

According to the BoM, only 4 banks operating in Mauritius incurred losses for their financial year 2012/13. Three banks saw their profits wiped out by impairment charges while the fourth bank, being a new entrant in the sector incurred high operational expenses. Aggregate post-tax profit of banks rose by 9.6% to Rs 13.8bn, higher than previous year profit growth which stood at 6.0%.

Sector Highlights (Yr ended June) (Rs M)	2009	2010	2011	2012	2013
Number of banks	18	19	20	20	21
Net Interest income	15,579	15,249	17,297	17,555	19,816
% Δ		*-2.1%*	*13.4%*	*1.5%*	*12.9%*
Non-Interest income	8,373	9,323	7,964	9,363	10,642
% Δ		*11.3%*	*-14.6%*	*17.6%*	*13.7%*
Operating income	23,952	24,572	25,261	26,918	30,458
% Δ		*2.6%*	*2.8%*	*6.6%*	*13.2%*
Non interest expenses	8,703	9,170	9,967	10,758	11,740
% Δ		*5.4%*	*8.7%*	*7.9%*	*9.1%*
Operating Profit before Provisions	15,249	15,402	15,294	16,160	18,718
% Δ		*1.0%*	*-0.7%*	*5.7%*	*15.8%*
Provisions	1,811	1,524	2,070	1,777	3,140
% Δ		*-15.8%*	*35.8%*	*-14.2%*	*76.7%*
Profit After Tax	12,428	12,367	11,918	12,628	13,846
% Δ		*-0.5%*	*-3.6%*	*6.0%*	*9.6%*

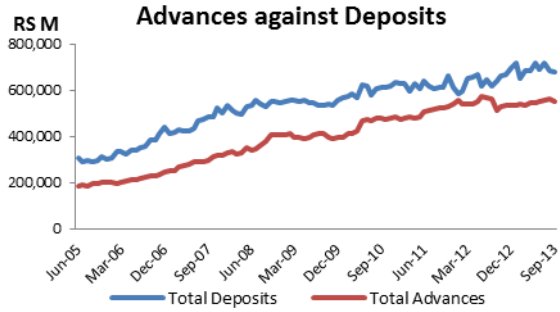
Source: Bank of Mauritius

Sector Balance Sheet (Yr ended June) (Rs M)	2009	2010	2011	2012	2013
Assets	743,354	843,174	875,077	910,300	1,003,355
% Foreign	57.7%	60.6%	56.8%	55.2%	55.5%
Deposits	547,763	620,544	641,102	620,575	690,529
% Foreign	64.1%	65.1%	64.1%	59.6%	61.0%
Advances	397,754	474,060	506,133	574,417	550,621
% Foreign	52.4%	56.9%	55.8%	55.4%	50.5%
Key Ratios					
Cost/Income	36.3%	37.3%	39.5%	40.0%	38.5%
ROA	1.7%	1.5%	1.4%	1.4%	1.4%
Loan/Deposit	72.6%	76.4%	78.9%	92.6%	79.7%

Source: Bank of Mauritius

Overview of consolidated balance sheet of banks

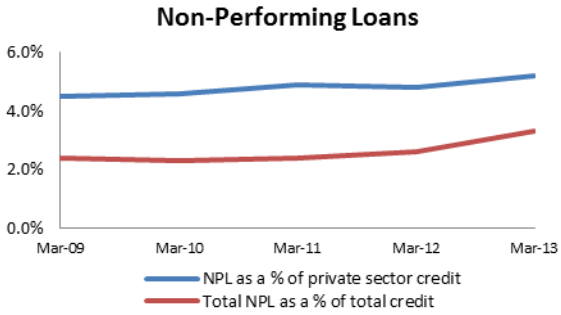
According to the Oct-13 BoM's Bulletin total assets reached Rs 1,015.3bn with foreign assets accounting for 53.8%. The ratio of foreign assets to total assets is at its lowest level since the December 2005. The percentage of foreign assets reached its highest level in November 2007, where it stood at 66.5%. Deposits amounted to Rs 677.7bn, 60.6% being foreign deposits while total advances stood at Rs 552.4bn. Advances to deposit ratio stood at 77.7% as at June 2013.



Sectors with highest credit concentration are Construction and Tourism

Higher level of non-performing loans.

Credit to the private sector was mainly geared towards the tourism and construction industry which accounted for 16% and 25% of total credit respectively. These two sectors were suffering from prevailing economic situation and lead to higher non-performing loans (NPL) on banks' balance sheet. According to the Financial Stability report of the BOM, NPL accounted for 5.2% of private sector credit and 3.3% of total credit.



New regulations on credit allocation

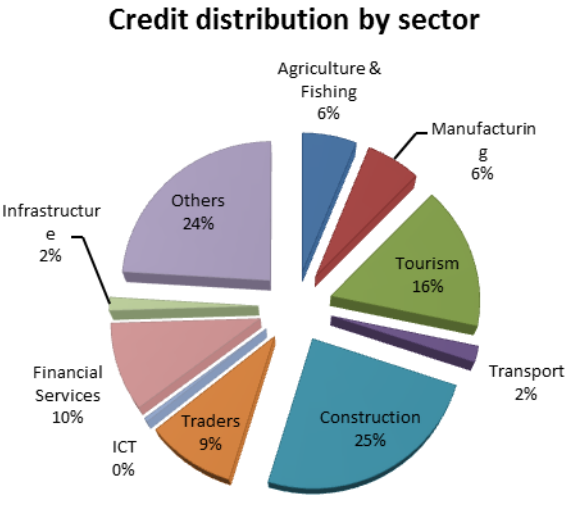
New regulations due to increasing levels of NPL

Due to increasing levels of non-performing loans, the BoM recently introduced new guidelines on sectoral credit concentration for segment A activities. The limits are applicable as from 1st July 2014 and should be calculated as percentage of a bank's total exposures to the specified sector to its total exposures to the private sector.

(i) Tourism Sector:
25.0 per cent to be reduced to 24 per cent as from 1 July 2015 and 22.5 per cent as from 1 July 2016.

(ii) Personal Sector:
15.0 per cent to be reduced to 12.5 per cent as from 1 July 2015.

(iii) Commercial, residential and land parcelling sector (classified under 'Construction'):
15.0 per cent to be reduced to 12.5 per cent as from 1 July 2015.

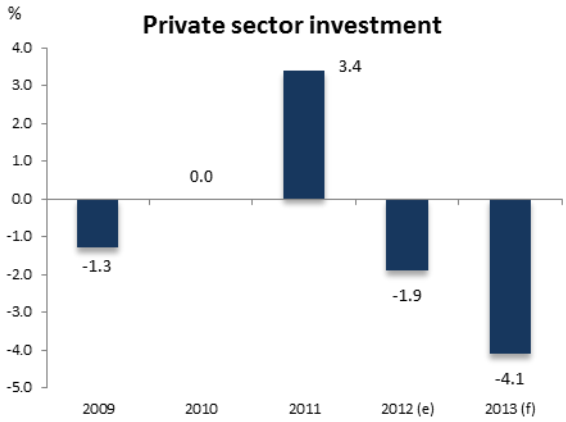


Source: Bank of Mauritius

Outlook of the Industry

Increased competition on the restrained domestic market with slow-moving domestic investment

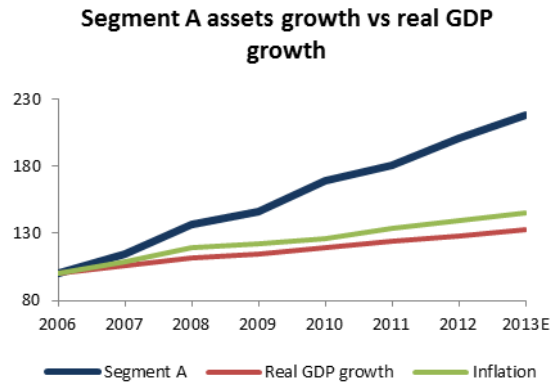
Even though the banks in Mauritius are seen as financially sound as highlighted by the Financial Stability Report of the BoM and their camel rating, there is strong competition in order to increase or maintain market share domestically with the 2 main banks controlling 57% of total bank assets. GDP growth in Mauritius slowed since 2010 mainly due to difficulties faced by export-oriented enterprises, tourism industry and construction sector. The banking industry is expected to face some difficulties to grow domestically with the increasing number of players in a competitive market. Moreover, investment which is of particular concern to the banking sector is expected to continue on its declining trend with private sector investment expected to contract by 4.1% (-1.9% in 2012). The soft economic conditions, higher level of uncertainty and difficulties faced by the enterprises deterred the private sector investment.



Source: Statistics Mauritius

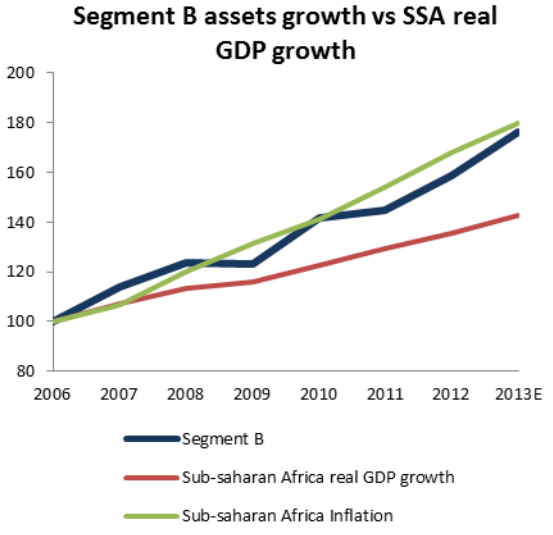
Cross border activities to lead future growth

Some sectors of the economy were heavily indebted and lobbied for lower repo rate in order to meet their financial obligations during the recent crisis. The BoM proposed a Special Line of Credit in Foreign Currency in August 2012, in order for export and tourism operators to match currency of their revenue with their expenses. Other measures to help these sectors ease their debt servicing difficulties were extension of their debt repayment cycle in order to meet with their future cash flows. However, since the level NPL kept on rising, the BoM will implement new guidelines on credit allocation towards the private sector for commercial banks. The BoM also issued new regulations with respect to Loan-to-Value ratio for residential and commercial property loans. Although these macroprudential guidelines will help to reduce the level of NPL, banks already above minimum exposure level will find it difficult to grow their loan book.



Source: Statistics Mauritius

We noticed efforts from banks to develop their segment B activity which offers significant growth potential. Moreover, recent introduction of guidelines, caps and levies on domestic operations is expected to lower both Net Interest Income and Fee & Commission Income of banks from segment A activities. Taxes on domestic operations will change from 3.4% of book profit + 1% of operating income to 10% of chargeable income. We believe international operations will be the key driver for the growth of the banking industry and expect banks with greater foreign exposure to outperform their peers. Sub-Saharan Africa and India represent interesting markets for Mauritian banks and leading commercial banks are already paving way towards these jurisdictions.



Source: IMF World Economic Outlook, October 2013

Buy

Share Price

Rs 217.00

Market Cap

Rs 54.3bn

US$ 1.8bn

Year End

30-Jun

NAV

Rs 126.04

Shares in issue

250.4 (m)

12 Months (Rs)

High

Rs 217.00
(Jan-14)

Low

Rs178.00
(Jan-13)

Camel Rating

2-

Moody's Bank Financial Strength

D+

CAR

16.5%

Net NPL

3.1%

Reuters

MCBL.MZ

Bloomberg

MCB.MP

ISIN Code

MU0008N00006

Overseas activities driving growth

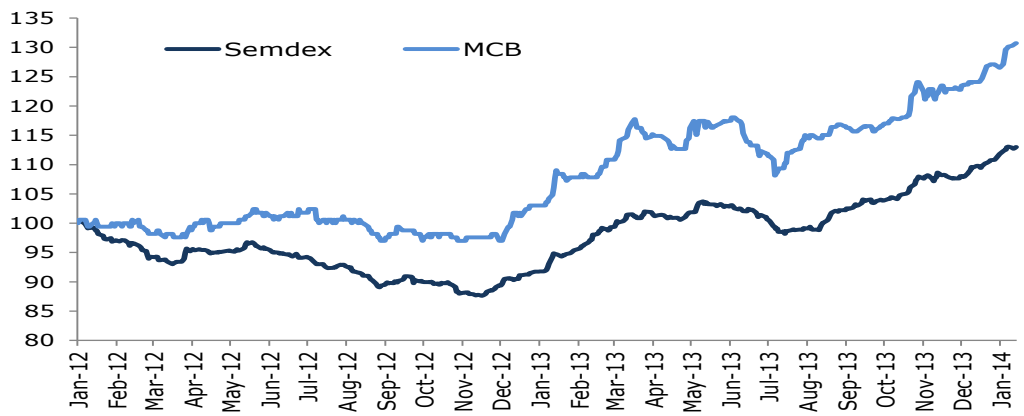
2013 was an eventful year for MCB, where the banking group witnessed positive performance from its financing activities in Africa and it also laid the foundations to prepare itself for further diversification of its operations. Foreign Sourced Income accounted for 46% of Group profit in FY2013, driven to a considerable extent by Net Fee & Commission. However the allowance for credit impairment which went above Rs1.0bn last year, mainly due to 60% triggered by a Global business exposure, alarmed investors.

MCB is currently being restructured where the banking and non-banking activities shall be segregated into entities to be held under a new holding entity, the MCB Group Limited. As for its expansion in Africa, an application was made to set up a representative office in Kenya. Business opportunities in Rwanda are also in the pipeline.

Financial Performance (Rs' m) - June End	2010	2011	2012	2013	2014F
Net Interest income	5,145	5,886	6,385	7,047	7,638
Net fee and commission	1,697	1,882	2,227	2,629	3,246
Other Income *(excl.exceptional item in 2011)*	1,152	1,425	1,396	1,347	1,438
Non interest expenses	(3,714)	(4,022)	(4,616)	(4,996)	(5,393)
Allowance for credit impairment	(272)	(315)	(519)	(1,081)	(833)
PAT	3,420	4,517	4,147	4,350	5,217
EPS (Rs) *(excl.exceptional item in 2011)*	14.38	17.18	17.32	18.15	21.67
PER (x)	9.9	9.9	9.8	10.2	10.0
DPS (Rs)	5.25	5.75	5.85	6.10	7.00
Dividend Yield (%)	2.8	3.4	3.5	3.3	3.2
NAV (Rs)	85.61	99.89	110.02	123.81	139.84
PBV (x)	2.17	1.68	1.54	1.65	1.55
Balance Sheet (Rs' m)					
Advances	109,442	122,440	137,641	155,145	175,314
Deposit	132,484	136,210	150,877	166,113	184,386
Shareholders' Equity	20,319	23,729	26,136	29,432	33,258
Key Ratios					
Cost/Income	46.46	42.59	46.12	45.33	46.12
ROA	2.18	2.75	2.32	2.12	2.24
ROE	17.55	20.39	16.50	15.53	16.44
Loan/Deposit	83%	90%	91%	93%	95%
NPL Ratio *(% of Gross Loans)*	3.9	3.4	4.5	5.0	5.3

Stock Performance

	1 mth	6 mths	1 yr	3 yrs
MCB	5.3%	18.6%	19.9%	24.0%
SEMDEX	2.9%	14.6%	19.3%	5.2%



Q1 2014 ending results

Operating income grew by 13.2% during the 3months ending Sept.2013, supported by 19% growth in Net Fee and Commission as well as 20% increase in Forex income. Higher effective tax rate was taken into consideration, due to the special bank levy revised. Moreover, improvement income generated BFCOI and PAD lead to Rs42.2m growth in share of results from associates. Income from overseas and non-banking operations contributed more than 50% of Group profits during the quarter ended Sept.2013.

Segment B's share of the income pie

The evolution of income since the last 3 years leads us to believe that MCB's overseas operations shall contribute beyond 50% of profits at Group level in 2014. In FY2013, Segment B accounted for 46% of Group profit against 43% in FY2012 and 40% in 2011. Net Interest income at group level witnessed 10% growth in 2013 (8% in 2012), which was considerably driven by foreign advances. **Segment B represents 41% of the MCB's advances, compared to 36% in 2012.** Segment A (local) operations are highly dependent on the Mauritian GDP expansion, which has hovered above 3% since 2011 and private investment which has been declining for the last two years, hence the single digit growth in net interest income derived from local advances. **Net Fee and Commission grew by 18% during the last two years respectively.** The interesting element here is the progression of the foreign sourced fee and commission, generated mostly through structured trade and commodities financing in Sub Saharan Africa, with Oil Exporting countries. Income from this line of business is now at the level that Segment A's net fee and commission was back in 2011(see illustration) Given the diversification strategy of the banking group, risk management and impact on future income requires closer assessment.

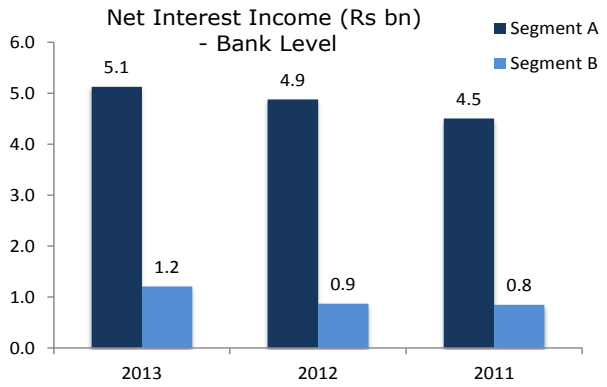
Sector Credit Exposure and Impairment

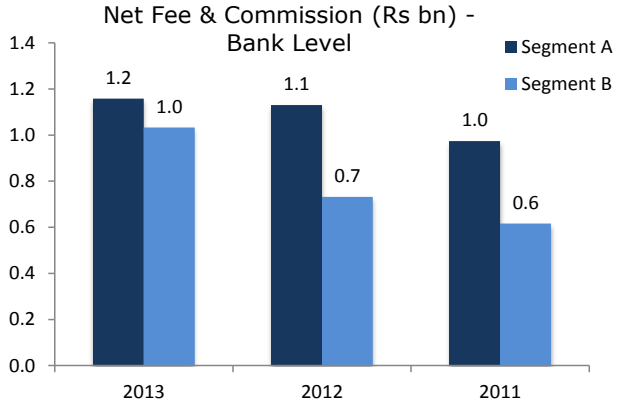
Lending to corporates remain a significant chunk of gross loans (61% in 2013) while loans to the retail segment accounted for 19% (11% being mortgages). Overall, Non-performing loans (NPL) which amounted to Rs7.8bn in 2013 were highly skewed towards Construction (28% of NPL) which is 10% of MCB's credit exposure (CE) and Retail (29% of NPL) which accounts for 18% of CE. Net NPLs to Net Loans stood at 3.1% in 2013 (5.1% Gross NPLs to gross loans) FY 2013 performance was marked by a significant increase of 108% to over Rs1.0bn in allowance for credit impairment, mainly due to a non-performing Global Business exposure. Although we anticipate reduction in allowances for FY2014, providing there are no more surprises, we were nonetheless surprised by the allowance increase to Rs183m in Q1 2014, against Rs77m in Q1 2013.

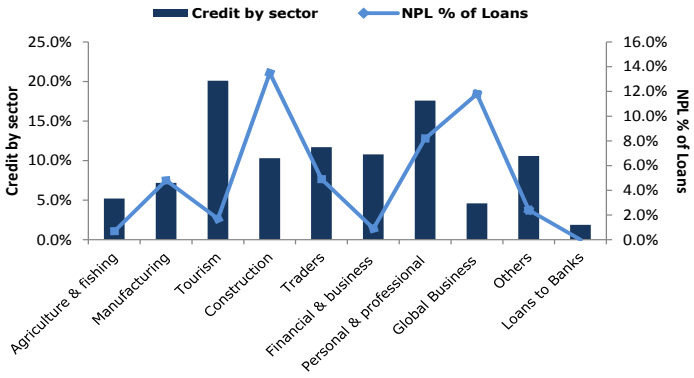
Lower Operating Expenses in 2013

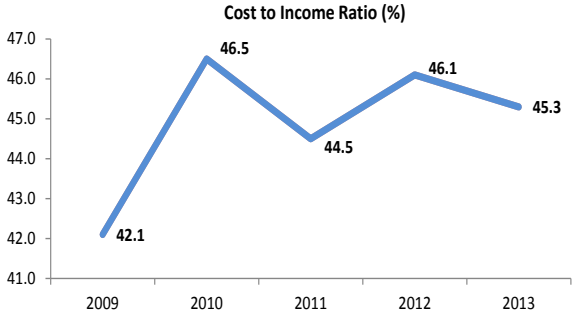
Non-Interest Expenses grew by 15% in 2012, following major capital expenditure carried out by the group last year such as, I.T systems and costs associated with the new building at St Jean, Mauritius. However expenses were mostly contained in 2013 where they increased by 8%, hence the improvement in Cost/Income ratio to 45.3% against 46.1% in 2012. No major expenses are anticipated in 2014, at least on the local front.

Financial Performance Sept Ended (Rs m)	2013	2012	% Change
Net Interest income	1,918	1,751	9.5%
Non Interest income	1,038	861	20.6%
Non Interest expense	(1,335)	(1,240)	7.7%
Allowance for Credit Imp.	(183)	(106)	72.6%
Attributable Profits	1,283	1,136	12.9%
EPS(Rs.)	5.40	4.78	12.9%
NAV (Rs.)	126.04	110.88	13.7%



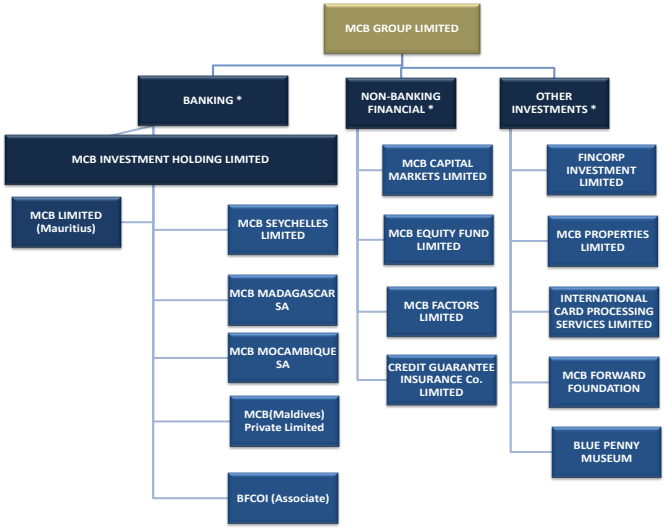






A new structure as from 2014

In line with regulatory developments and MCB's expansion ambitions, a new group structure shall be put in place which consists of the segregation of MCB's banking and non-banking operating units into three distinct business segments, as illustrated below. Currently all of the banking operating units, non-banking operating units, as well as associates and subsidiaries are held under a single holding entity, MCB Limited. The segregation of the group activities will also provide a better view of the return on investment of each business segments, although Banking shall remain the predominant contributor to group profits. Also illustrated below are the relative contribution of MCB's operating entities and associates to group profits, under the current group structure.



	% of group profits - 30 June 2013
MCB	85.1%
MCB Seychelles Limited	2.8%
MCB Mocambique SA	1.3%
MCB Madagascar SA	1.0%
MCB(Maldives) Private Limited	2.0%
BFCOI (Associate)	5.5%
MCB Equity Fund Limited	0.1%
MCB Capital Markets Limited	0.3%
MCB Factors Limited	0.9%
Credit Guarantee Company Limited	0.1%
International Card Processing Services Limited	0.2%
Fincorp Investment Limited	0.7%
MCB Properties Limited	0.0%
Blue Penny Museum	0.0%

From MCB to MCB Group Limited

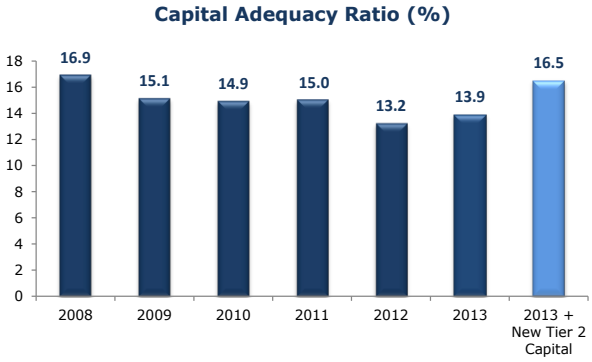
The group's banking subsidiaries and associates shall be held by **MCB Investment Holding Limited (MCBIH)**, a subsidiary of the **MCB Group Limited**, the ultimate holding company of the whole group, following the restructuring exercise. Moreover, a **Scheme of Arrangement (Scheme)** has been put in place which addresses the exchange of shares of MCB for the new holding entity as well as the unbundling of the group's current associates and subsidiaries.
Upon implementation of the Scheme, each share held by the current shareholders of MCB will be exchanged for 1 share in MCB Group Limited (1:1). The latter will in turn hold 100% of MCBIH, which in turn will hold 100% of MCB Limited, the Mauritian banking arm along with other non-local banking units.

A special meeting for shareholders was convened on the **27th of December 2013,** where the Scheme was considered and approved. The tentative date for the dealing of MCB Group Limited shares is on the **4th of March 2014**. Trading of MCB shares shall be suspended around the **21st of February 2014.**

Impact of Restructuring on Share Capital

MCB's share capital as at 30 June 2013 stood at MUR 2.5billion, whereby 250,375,595 ordinary shares with a par value of Rs10 per share. Treasury shares which currently amount to 12,567,596 shall be cancelled during the restructuring exercise. Hence 100% of MCB's issued share capital will be held by MCB Group Limited.
The number of shares of MCB Group Limited which will be admitted on the Official market shall amount to 237,835,837. Additionally, given that the Scheme includes the cancellation of the outstanding options under the Employee Share Option Scheme (ESOS), a further 5,000,000 ordinary shares of the MCB Group Limited will be admitted under the Group Employee Share Option Scheme (GESOS) to which subscription shall be possible by way of exercise of options. GESOS shares share the same economic benefits with existing issued shares, such as dividends, capital, voting rights, etc.

Capital Base



MCB Bank (Rs m)	Jun-13	Pre-restructuring	Post-restructuring
Tier 1 Capital	20,783	20,783	**17,535**
Tier 2 Capital	1,370	6,770	**6,966**
CAR (%)	11.5%	14.3%	**12.9%**
MCB Group (Rs m)	**Jun-13**	**Pre-restructuring**	**Post-restructuring**
Tier 1 Capital	27,586	27,586	**27,586**
Tier 2 Capital	1,970	7,370	**7,370**
CAR (%)	13.9%	16.5%	**16.5%**

The higher CAR is due to funding mobilised last year to compensate for the impact of restructuring, but also to enable regional business expansion and to prepare for additional buffers as per Basel 3 requirements. MUR 4.5bn, classified as Tier 2 capital was raised back in August 2013 in the form of floating rate subordinated notes, which were oversubscribed given the liquidity available on the market. The notes were then listed on the official market of the stock exchange. Further funding package of value of USD150m were obtained from the African Development Bank (Afdb) to pursue activities in Africa, out of which USD 30m (MUR 900m) were in the form of subordinated loan. Hence an additional MUR 5.4bn of Tier 2 capital is now available. Bank CAR is currently at 12.9% and Group Car is at 16.5%.

Outlook

Performance from now on will be significantly skewed by income being generated from Segment B activities. Following the recent capital obtained through Afdb and potentially more funding to be gathered in the future, we must now monitor the African countries as well as industries being exposed to, such as to what extent the growth momentum can be sustained through the current strategy, but also the level of risks associated. As for domestic operations, other than being impacted by the higher bank levy and to a certain extent the new lending regulations pertaining to residential property construction (due to our central bank fearing a housing bubble), growth will be dependent on the GDP, which is currently at +3.5%. Higher interest expenses are to be expected due to the recent debt mobilised from the public and Afdb. As for non-operating expenses, they should be maintained at least for this year. Based on a forward PER of 10x, we maintain our **BUY** recommendation.

About the Company

MCB is the largest banking group in Mauritius with above 40% market share in terms of local credit and deposits, and 50% of cards issued in Mauritius. MCB is also engaged in other non-banking activities such as leasing, factoring, credit cards, investment management, stockbroking and registry services. The banking group continues to diversify its income base and is more and more present in cross border operations, via its Bank of Banks strategy, where over 5 clients are being serviced. It is currently present in 8 foreign countries.

Shareholding Structure

- National Pension Fund **3.43%**
- The Anglo-Mauritius Assurance Society Ltd **2.87%**
- Promotion and Development **2.00%**
- State Street Bank and Trust Co. **1.70%** (A/C The Africa Emerging Markets Fund)
- SSLN C/O Boston Old Mutual Life **1.65%**
- Assurance Co. (South Africa) Ltd.
- La Prudence Mauricienne Assurance **1.61%** Limitée
- SSL c/o SSB Boston Investec Africa **1.56%** Fund
- SSB (A/C SQM Frontier Africa Master Fund Ltd.) **1.39%**
- Pictet et Cie. (A/C Blakeney LP) **1.36%**
- Policy Ltd **1.29%**

MCB Financials – Historical & Forecast

Financial Performance (Rs' m) - June End	2010	2011	2012	2013	2014F
Net Interest income	5,145	5,886	6,385	7,047	7,638
Net fee and commission	1,697	1,882	2,227	2,629	3,246
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EPS (Rs) *(excl.exceptional item in 2011)*	14.38	17.18	17.32	18.15	21.67
PER (x)	9.9	9.9	9.8	10.2	10.0
DPS (Rs)	5.25	5.75	5.85	6.10	7.00
Dividend Yield (%)	2.8	3.4	3.5	3.3	3.2
NAV (Rs)	85.61	99.89	110.02	123.81	139.84
PBV (x)	2.17	1.68	1.54	1.65	1.55
Balance Sheet (Rs' m)					
Advances	109,442	122,440	137,641	155,145	175,314
Deposit	132,484	136,210	150,877	166,113	184,386
Shareholders' Equity	20,319	23,729	26,136	29,432	33,258
Key Ratios					
Cost/Income	46.46	42.59	46.12	45.33	46.12
ROA	2.18	2.75	2.32	2.12	2.24
ROE	17.55	20.39	16.50	15.53	16.44
Loan/Deposit	83%	90%	91%	93%	95%
NPL Ratio *(% of Gross Loans)*	3.9	3.4	4.5	5.0	5.3
% Change	**2010**	**2011**	**2012**	**2013**	**2014F**
Net Interest income	2%	14%	8%	10%	8%
Net fee and commission	7%	11%	18%	18%	23%
Other Income	-30%	24%	-2%	-4%	7%
Non interest expenses	7%	8%	15%	8%	8%
Allowance for credit impairment	-27%	16%	65%	108%	-23%
PAT	-15%	32%	-8%	5%	20%
EPS (Rs)	-14%	19%	1%	5%	19%
PER (x)	32%	0%	-1%	4%	-2%
DPS (Rs)	0%	10%	2%	4%	15%
Dividend Yield (%)	-23%	21%	1%	-5%	-2%
NAV (Rs)	9%	17%	10%	13%	13%
PBV (x)	19%	-23%	-9%	7%	-6%
Advances	13%	12%	12%	13%	13%
Deposit	9%	3%	11%	10%	11%
Shareholders' Equity	9%	17%	10%	13%	13%
Cost/Income	10%	-8%	8%	-2%	2%
ROA	-22%	26%	-16%	-9%	6%
ROE	-23%	16%	-19%	-6%	6%
Loan/Deposit	3%	9%	1%	2%	2%
NPL Ratio *(% of Gross Loans)*	-19%	-13%	32%	11%	6%

Buy

Share Price

Rs 1.07

Market Cap

Rs 32.5bn

US$ 1.1bn

Year End

31-Dec

NAV

Rs 0.75

Shares in issue

30,374 (m)

12 Months (Rs)

High

Rs 1.07
(Jan-14)

Low

Rs0.89
(Jan-13)

Camel Rating

2+

Moody's Bank Financial Strength

C-

CAR – Group

21.8%

Net NPL to Net Advances

0.62%

Reuters

SBML.MZ

Bloomberg

SBM.MP

ISIN Code

MU0008N00006

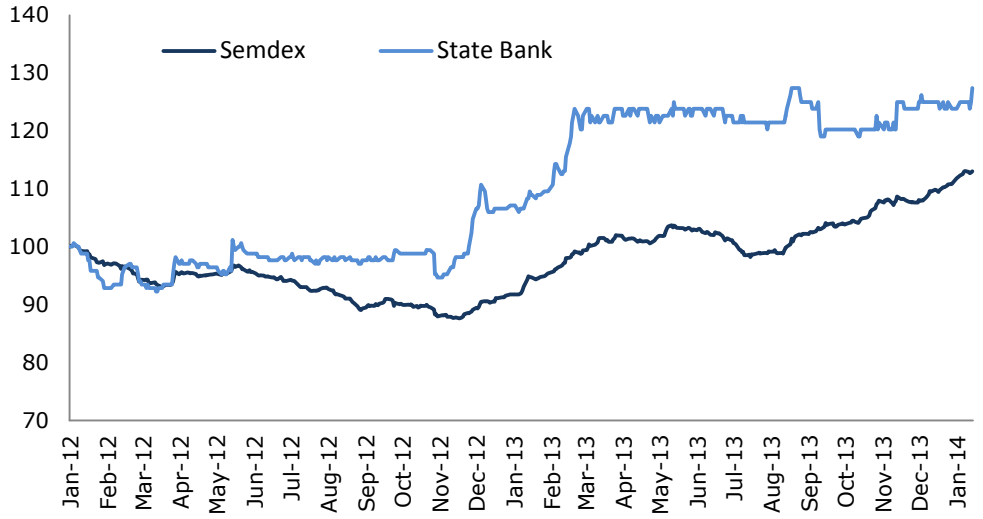
Pursuing reorganisation exercise

The banking group has undertaken a balance sheet re-engineering program since 2012 which has been beneficial with net interest income boosting results. As at June 2013, the latter increased by 23% compared to June 2012. Moreover, SBM is undergoing a restructuring exercise and in this respect is issuing two classes of Senior unsecured bonds of floating interest rate denominated in Mauritian Rupee and US Dollar which will be listed on the Stock Exchange of Mauritius. Those debts which shall be classified as Tier 2 Capital would reinforce the group's already strong capital base (CAR stood at 21.7% as at June 2012) as well as enable the bank to finance its domestic and overseas business growth. As for its overseas expansion, new guidelines were set by the Reserve Bank of India, should enable the bank to see more visibility with regards to its strategy in India and the African venue is still in discussion phase. We eagerly await SBM's next strategic move to optimize the bank's external growth with the increased fire power should it successfully raise the desired capital.

Financial Performance (Rs m)	Jun-10	Jun-11	Jun-12	Jun-13	CY 2013F	CY 2014F
Net Interest income	2,493	2,499	3,199	3,919	4,080	4,410
Net fee and commission	648	880	1,155	1,046	1,041	1,086
Other Income	696	826	715	898	670	698
Non interest expenses	1,373	1,455	1,624	1,772	1,850	1,996
Net Impairment loss	318	319	254	298	372	310
Attributable Earnings	1,859	2,049	2,653	3,200	3,047	3,207
EPS (cents)	7.20	7.94	10.28	12.40	11.80	12.42
PER (x)	10.97	12.09	7.98	8.31	9.07	8.62
DPS (cents)	2.75	3.00	3.50	6.00	4.00	4.25
Dividend Yield (%)	3.48	3.13	4.27	5.83	3.74	3.97
NAV (Rs)	0.57	0.59	0.67	0.77	0.78	0.80
PBV (x)	1.39	1.63	1.23	1.34	1.38	1.34
Balance Sheet (Rs m)						
Advances	43,732	58,133	64,337	69,560	70,455	75,386
Deposits	61,698	71,107	76,275	77,893	81,250	86,125
Shareholders' Equity	14,656	15,171	17,248	19,855	20,087	20,690
Key Ratios (%)						
Cost/Income	35.79	34.61	32.03	30.22	31.95	32.24
ROA	2.34	2.35	2.75	3.16	2.87	2.92
ROE	13.47	13.74	16.37	17.25	16.02	15.73
Loan/Deposit	70.88	81.75	84.35	89.30	86.71	87.53

Stock Performance

	1 mth	6 mths	1 yr	3 yrs
State Bank	1.9%	4.9%	16.3%	12.0%
Semdex	2.9%	14.6%	19.3%	5.2%



Quarter September 2013 ending results

For Sept 2013 net interest income went up by 6.4% to reach Rs996m. On the other hand, Non-interest income went down by 11.6% with net fee and commission fee declining by 1.3% and net trading income dropped significantly by 29.3%. Non-interest expense rose slightly by 1.6% to Rs434.1m. Net impairment loss on financial assets went up considerable to reach Rs115.2m from last quarter June 2013 and same period in 2012. Share of associates increased by 26.2% to Rs24.7m. Hence, attributable profits rose by only 0.2% to Rs690.9m compared to Rs689.3m in 2012.

12mths ending June 2013

Effective balance sheet management

The group posted an excellent FY 2012 results with attributable earnings climbing by 29.5% on the back of net interest income (+28.0%). This was achieved via the balance sheet re-engineering undertaken whereby funds were reallocated from low yielding government assets as well as high cost foreign liabilities to increase advances (+10.6%) on the domestic front. Same upward trend was noted for 12mths ending June 2013 with attributable earnings surging by 20.6% yet again driven by net interest income (+22.5%) and growth in advances was 8%. The group's loan to deposit ratio has been on the rising trend to reach 89.3% in 2013. However net fee and commission stemming from cross border transactions and card related income which was commendable in 2012 (growth of 31%) was lower for the period 2013 by 9.4%.

Improve cost to income ratio

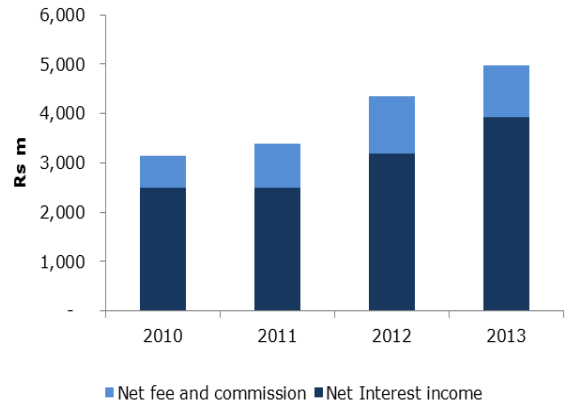
The group's non-interest expense has been ascending and in 2013 it increased by 9.1% mainly due to higher system and business transformation costs. However management expects technology upgrade to be completed by June 2014. Moreover cost containment is SBM's strong point whereby cost to income ratio improved from 32.03% to reach 30.22% for the 12mths ending June 2013. To note income figures include an exceptional dividend received from Mauritius Telecom.

Increase in impairment

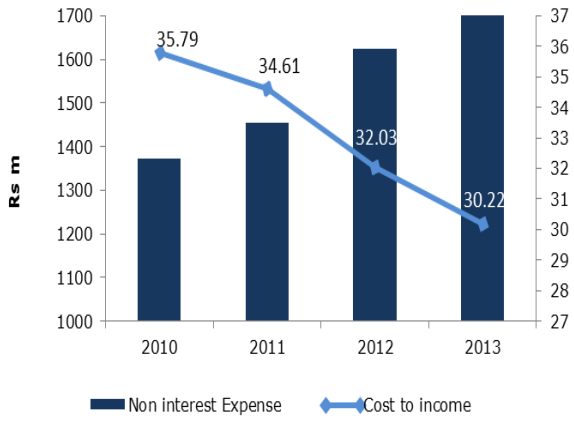
In 2012 net impairment loss on financial assets decreased due to a reduction in specific provision. Moreover, for the last three years the group's gross impairment and net impairment ratios remained low and was at a declining trend. However, for the 12mths ending June 2013 impairment grew by 17.6% to reach Rs298.3m (2012:Rs253.6m). A further increase in impairment was also noted in the quarter ending Sept. 2013 attributable to the group's overseas operations and we expect it to continue to rise.

Financial Performance Sept Ended (Rs m)	2013	2012	% Change
Net Interest income	996	936	6.4%
Non Interest income	342	387	-11.6%
Non Interest expense	(434)	(427)	1.6%
Net impairment loss	(115)	(47)	145.6%
Attributable Profits	691	689	0.2%
EPS (cents)	2.68	2.67	0.2%
NAV (cents)	74.81	66.68	12.2%

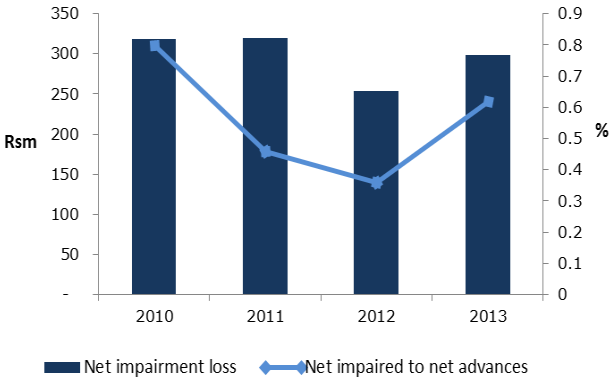
Income Evolution



Expenditure Evolution

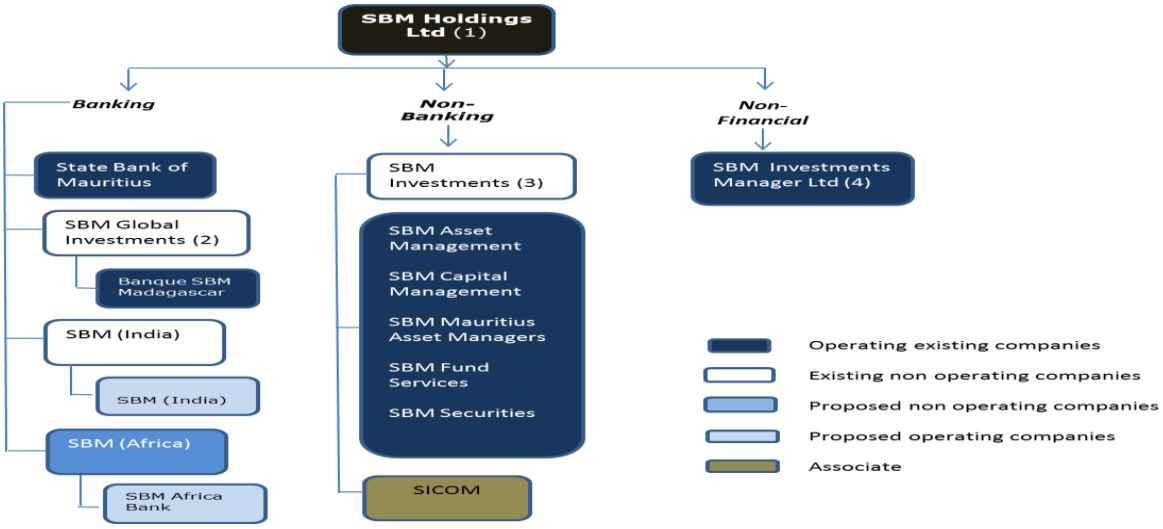


Provision and credit quality



Group re-organisation structure

Coherent with new regulatory progress and so as to abide by the concept of dedicated capital, SBM will undergo a re-organisation exercise whereby its activities will be segregated into Banking, Non-Banking and Non-Financial clusters (*see proposed group holding structure diagram below*). This new structure will not have any impact on the group's business operations. Moreover, SBM undertook a share split of 1 for 100 shares so as to increase the volatility of the stock in the market. The banking group continuously seeks to strengthen its operations and recently announced that it will raise multi-currency unsecured bonds. To note the group has changed its FY reporting date from June to December.



1. *Subject to regulatory approval*
2. *Name being changed to SBM (Madagascar)*
3. *Name being changed to SBM NBFC Investments Ltd*
4. *Name being changed to SBM NFC Investments Ltd*

Multi-currency unsecured bonds

SBM is issuing two classes of Senior Unsecured bonds of floating interest namely Class A 1 Series Bonds of Rs1bn due 2024 and Class B 1 Series USD 50m due 2021, having an option in event of oversubscription to retain maximum of 50% over and above the issue amount for both bonds classes. The purpose of this offer is to strengthen the capital adequacy ratio, capital base of the group following the re-organisation exercise as per regulations and as well as reinforce the group's operations. Hence both bonds will be classified as Tier 2 Capital.

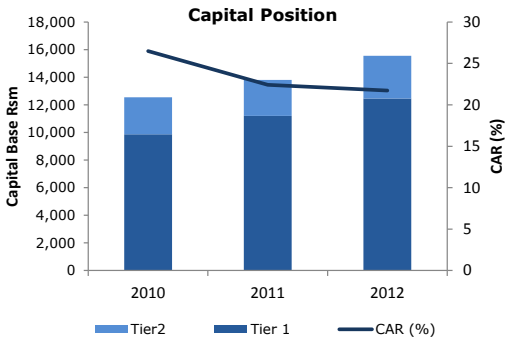
The bonds will be listed on the official market of the Stock Exchange of Mauritius. A minimum of 100 Class A 11 Series Bonds and 100 Class B 1 Series Bonds (*or higher as per the Board discretion may determine*) will be offered for sale by the issue on the first trading session at an indicative nominal price of Rs10,000 per bond and USD 1,000 per bond respectively. The table below illustrates the characteristics of both bonds classes.

Instrument	**Floating Rate Class A 1 Series Bond (Rs 1bn) due 2024**	**Floating Rate Class B 1 Series Bond (USD 50m) due 2021**
Coupon Floating – Interest rate (p.a)	Repo rate + 1.35%	6-months LIBOR + 175bps
Currency	Denominated in Rs	Denominated in USD
Principal Amount per bond	Rs10,000	USD 1,000
Minimum subscription	Rs50k in multiples of Rs10k	USD10 in multiples of USD 1k
Issue Price	100% of Subscription amount	100% of Subscription amount
Redemption amount	100% of Principal amount	100% of Principal amount
Coupon Frequency	Half Yearly	Half Yearly
Interest Payment date*	10 March and 10 Sept	30 May and 30 Nov
Maturity	10 years - 2024	7 years - 2021
Offer open date	20 Dec 2013	15 Feb 2014
Offer end date**	15 Feb 2014	16 May 2014
Listing date	Around 25 Mar 2014	Around 18 Jun 2014

**Interest payment for Class A 1 Series Bond will start on 10 Sept 2014 and 30 Nov 2014 for Class B 1 Series Bond.*
***May close earlier if oversubscribed but not before 15-Jan-2014 (Class A 1 Series Bond) & 31-Mar-2014 (Class B 1 Series Bond)*

Capital Position

As at June 2012, the group maintained its capitalization level with the Tier 1 and capital adequacy ratio standing at 17.8% and 21.7% respectively. Moreover for June 2013, the group's CAR was 21.82%. The multi-currency bonds to be undertaken by SBM will principally strengthen the group's Tier 2 capital which enable the group to expand pursue its expansion locally as well in India and East Africa.



Impact of the bond issue on the Banking Group's capital base

Rs m	Pre-Bond Jun 2013	Post-Bond Jun 2013
Net core capital (Tier 1)	13,954	13,954
Tier 2 Capital	607	4,357
Capital base	**14,560**	**18,311**
Total risk weighted assets	**72,221**	**75,971**
Risk Asset Ratio (%)	**20.16**	**24.10**

The above was calculated assuming that a maximum of Rs1.5bn and USD 75m will be raised. The banking group's Tier 1 capital will remained unaltered, whilst the Tier 2 Capital will increase by Rs3.7bn after taking into consideration the bond issue. Hence, leading to a rise in the capital base from Rs14.6bn to reach Rs18.3bn. Similarly, total risk weighted assets pre-bond as at Jun 2013 was Rs72.2bn and post-bond as at Jun 2013 it would be Rs76bn Thus, the banking group's CAR on a pro-forma basis as Jun 2013 would increase to 24.1% from 20.2%.

Brief Overview of company

Established in 1973, SBM was listed on the Stock Exchange of Mauritius in 1995 and became the second largest company by market capitalization. The group provides its services through its network of 51 service units and counters in Mauritius, India and Madagascar. Moreover, SBM continues to be recognized both in the local and international fronts.

Moody's Rating	
Outlook	Stable
Bank deposits - Foreign currency	Baa1/P-2
Bank deposits - Domestic Currency	Baa1/P-2
Banks Financial Strength	C-
Issuer rating	Baa1

Number of Branches & Offices	
Domestic	44
Overseas	7

Shareholding Structure

Substantial Shareholders as at Nov 2013

- National Pensions Fund **18.01%**
- SICOM **15.04%**
- Government of Mauritius **5.79%**
- Old Mutual Life Assurance **3.58%**
- Pictet Europe (A/c Blakeney) **2.35%**
- State Street Bank Trust **2.27%**
- Development Bank of Mauritius **2.24%**
- The Anglo-Mauritius Assurance Society **2.16%**

Outlook

Net interest income has been the driver of growth as mirrored in June 2012 accounts through its balance sheet re-engineering and positive results were also demonstrated for 12mths ending June 2013. Moreover, as a means to further improve its service quality SBM has been pursuing its investment and implementation of business and technology transformation.

As for the overseas operations, the banking group seeks to further fortify its presence in India whereby it currently has four branches. SBM aims at increasing its branches up to 50 but growth was restricted by the Reserve Bank of India with regards to the new regulations relating to presence of foreign banks in the country. However, a new framework was released by RBI for setting up of wholly owned subsidiaries by overseas players in the country and hence enabling SBM to obtain greater visibility in terms of its strategy in India. Moreover, the banking group is also looking to tap opportunities on the regional front such as East Africa. However, external growth should emanate in the medium to long term. Domestic operations are anticipated to be impacted by the special levy imposed and expenses are also expected to increase. We remain positive on the banking group's performance and based a forward PER 8.62x we would maintain our **BUY** recommendation.

Financial Performance (Rs m)	Jun-10	Jun-11	Jun-12	Jun-13	CY 2013F	CY 2014F
Net Interest income	2,493	2,499	3,199	3,919	4,080	4,410
Net fee and commission	648	880	1,155	1,046	1,041	1,086
Other Income	696	826	715	898	670	698
Non interest expenses	1,373	1,455	1,624	1,772	1,850	1,996
Net Impairment loss	318	319	254	298	372	310
Attributable Earnings	1,859	2,049	2,653	3,200	3,047	3,207
EPS (cents)	7.20	7.94	10.28	12.40	11.80	12.42
PER (x)	10.97	12.09	7.98	8.31	9.07	8.62
DPS (cents)	2.75	3.00	3.50	6.00	4.00	4.25
Dividend Yield (%)	3.48	3.13	4.27	5.83	3.74	3.97
NAV (Rs)	0.57	0.59	0.67	0.77	0.78	0.80
PBV (x)	1.39	1.63	1.23	1.34	1.38	1.34
Balance Sheet (Rs m)						
Advances	43,732	58,133	64,337	69,560	70,455	75,386
Deposits	61,698	71,107	76,275	77,893	81,250	86,125
Shareholders' Equity	14,656	15,171	17,248	19,855	20,087	20,690
Key Ratios (%)						
Cost/Income	35.79	34.61	32.03	30.22	31.95	32.24
ROA	2.34	2.35	2.75	3.16	2.87	2.92
ROE	13.47	13.74	16.37	17.25	16.02	15.73
Loan/Deposit	70.88	81.75	84.35	89.30	86.71	87.53
Financial Performance (% Change)	**Jun-10**	**Jun-11**	**Jun-12**	**Jun-13**	**CY 2013F**	**CY 2014F**
Net Interest income (Rs m)	4%	0%	28%	23%	13%	8%
Net fee and commission (Rs m)	-13%	36%	31%	-9%	-5%	4%
Other Income (Rsm)	-17%	19%	-13%	26%	-23%	4%
Non interest expenses (Rs m)	-3%	6%	12%	9%	7%	8%
Allowance for credit impairment (Rs m)	14%	0%	-21%	18%	33%	-17%
Attributable (Rs m)	-8%	10%	29%	21%	1%	5%
EPS (cents)	-8%	10%	29%	21%	1%	5%
PER (x)	23%	10%	-34%	4%	17%	-5%
DPS (cents)	0%	9%	17%	71%	14%	6%
Dividend Yield (%)	-11%	-10%	36%	37%	-12%	6%
NAV (Rs)	13%	4%	14%	15%	11%	3%
PBV (x)	-0.3%	17%	-25%	9%	-8%	-3%
Balance Sheet						
Advances	3%	33%	11%	8%	5%	7%
Deposits	-3%	15%	7%	2%	2%	6%
Shareholders' Equity	13%	4%	14%	15%	12%	3%
Key Ratios						
Cost/Income	0%	-3%	-7%	-6%	3%	1%
ROA	-15%	0%	17%	15%	-0.4%	2%
ROE	-20%	2%	19%	5%	-9%	-2%
Loan/Deposit	6%	15%	3%	6%	3%	1%

Anglo-Mauritius Stockbrokers

Reduce

Share Price

Rs 8.00

Market Cap

Rs 7.2bn

US$ 238.8m

Year End

30-Dec

NAV

Rs 1.33

Issued Capital

901.3 (m)

12 Months (Rs)

High

Rs 9.00
(Mar-14)

Low

Rs 5.82
(Aug-21)

Camel Rating

3+

Moody's Bank Financial Strength

N/A

CAR

12.8% (2012)

Net NPL

3.7%

Reuters

BBC.MZ

Bloomberg

BBC.MP

ISIN Code

MU0359N00003

Performance Review (Q3 2013)

Net interest income drove BBC's profitability

For the quarter ended 30 Sept 2013, the group reported growth of 11.6% in attributable profits to Rs 5.8m. This increase was achieved on the back of higher net interest income which climbed by 61.9%. However, net fee and commission dropped by 12.5% to Rs 17.5m and other income declined by 28.3% to Rs 11.9m. Deposits and net loans & advances progressed by 24.3% and 24.0% respectively. Total Assets were up by 25.8% to Rs 14.3bn.

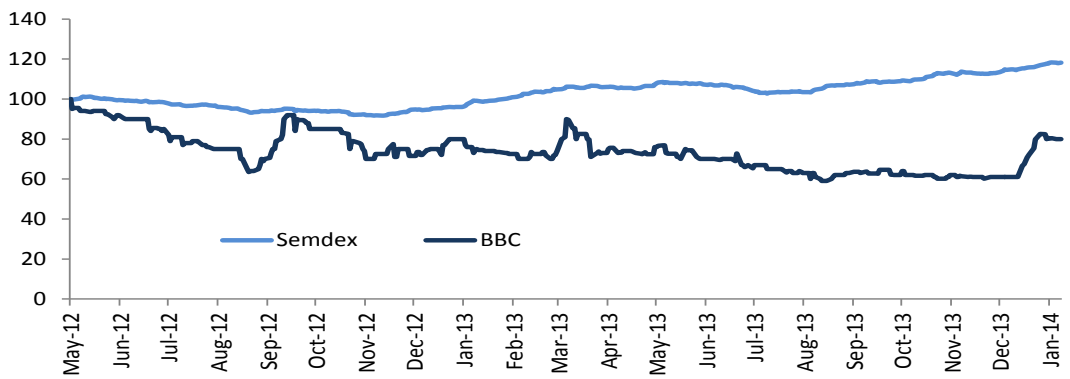
Overview and Outlook

BBC emerged from the merger between the Bank and Mauritius Leasing and FY 2012 figures include only post-merger entity over the 8 months ended 31 December 2012. We view positively the progression of its loan-book which grew by around 24.8% since December 2012. Moreover, its deposit base grew by 30.2% leading to a loan to deposit ratio of 70%. This provides the Group with ample leeway to grow this ratio aggressively in 2014. However, BBC fares much lower than its peers fundamentally with triple digits PER and we believe the Group will have to progress further to support current pricing level. The potential for organic growth seems very challenging especially against well-established banks on the domestic market. We have a **REDUCE** recommendation on the stock.

Financial Performance (Rs'000)	2012 (8mths)	2013E	2014F
Net Interest income	193,372	366,694	447,366
Net fee and commission	51,707	76,393	85,560
Other Income	38,756	51,169	56,286
Operating Income	283,835	494,256	589,212
Non interest expenses	(274,023)	(471,641)	(556,537)
PAT	16,542	19,901	26,140
EPS (Rs)	0.02	0.02	0.03
PER (x)	400.00	362.32	275.83
DPS (Rs)	0.02	0.02	0.02
Dividend Yield (%)	0.3%	0.3%	0.3%
NAV/S (Rs)	1.34	1.35	1.38
PBV (x)	5.98	5.93	5.81
Balance Sheet (Rs'M)			
Advances	6,216	8,146	9,775
Deposit	8,525	11,650	12,233
Shareholders' Equity	1,205	1,215	1,241
Key Ratios			
Cost/Income	96.5%	95.4%	94.5%
ROA	0.2%	0.1%	0.2%
ROE	1.4%	1.6%	2.1%
Loan/Deposit	72.9%	69.9%	79.9%

Stock Performance

	1 mth	6 mths	1 yr	Since Listing
BBC	31.1%	19.4%	7.4%	-20.0%
Semdex	2.9%	14.6%	19.3%	18.2%



Anglo-Mauritius Stockbrokers

Peer Comparatives

	PAT (Rs m)	Cost to income ratio (%)	ROA (%)	ROE (%)	Loans (Rs m)	Deposits (Rs m)	Capital Adequacy ratio (%)	Year Ended
Sector	13,846	38.5%	1.4%	14.7%	557,106	716,917	15.9%	30-Jun-13
MCB	4,315	45.3%	2.1%	15.5%	155,145	166,113	13.9%	30-Jun-13
State Bank (Estimates)	3,047	32.0%	2.9%	16.0%	69,560	77,893	20.2%	CY 2013
Bank One	203	58.0%	1.2%	20.0%	12,248	17,198	11.2%	31-Dec-12
Afrasia	206	44.9%	0.7%	10.0%	14,008	27,224	12.8%	30-Jun-13
Bramer (Estimates)	20	95.4%	0.1%	1.6%	8,146	11,650	12.8% *(2012)*	31-Dec-13

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