SWAN

24 March 2017

Banking Research Report

Industry Overview

As of March 2017, the local banking industry constitutes of 23 licensed banks by the Bank of Mauritius (BoM), of which 10 are local banks, 9 are foreign-owned subsidiaries, and 4 are branches of international banks. Of the 23 banks, 2 carry on exclusively private banking business and 1 carries on exclusively Islamic banking business.

In April 2015, the BoM revoked the banking licence of Bramer Banking Corporation Ltd (BBCL) owing to serious impairment in its capital and failure to demonstrate its ability to address capital and liquidity issues in accordance to the BoM's requirements. A new licence has been issued to the National Commercial Bank Ltd (NCB Ltd) with the assets of ex-BBCL transferred to the new bank. In early January 2016, the assets and liabilities of NCB Ltd were transferred to the Mauritius Post and Cooperative Bank Ltd, which now operates as a new entity known as the MauBank Ltd. Following the aforementioned revocation, dealings in the securities of the defunct Bramer Bank has been suspended by the Stock Exchange of Mauritius (SEM) with immediate effect.

On another note, ABC Banking Ltd which obtained its banking licence in year 2010, was listed on the Development and Enterprise Market (DEM) of the SEM on the 18th February 2016. The newcomer witnessed a remarkable hike of 83.3% to its introductory share price of Rs15.00 during the year 2016 and hit a record high of Rs27.80 during February this year.

With the vision to act as a bridge between Africa and Asia, BOM issued a licence to the Bank of China (Mauritius), a subsidiary of the Bank of China, which started its operations in Sept 2016. With no exchange controls and a stable environment, Mauritius offers considerable potential for the establishment of Renminbi trading platform.

The Mauritian banking industry offers a wide array of services ranging from individual, corporate& institutional as well as High Net worth Clients; private banking. The Mauritian Banking industry has well evolved from traditional banking facilities to card-based payment services, internet and phone banking, custodial services, and international portfolio management amongst others. Large foreign banks based in Mauritius on their side, carry out international cross-border activities.

In spite of global uncertainties and turmoil characterised by Brexit, current French presidential election and the unexpected US presidential election of Mr Trump as well as the ambiguity on the local scene following the major collapse of the BAI Group, which has been thoughtfully handled by the BoM and other relevant authorities, the banking sector is acknowledged to remain financially sound, resilient and adequately capitalised. Total assets of banks grew by 2.1% to reach Rs1, 208.0bn in FY2015-16* (Rs1, 240.7bn as at end of Dec 2016) while the deposits base widened by 1.8% for the same period. Asset quality of the banking system which is closely monitored by the Central bank has deemed to be of good quality despite a rise in non-performing loans was noted. Capital adequacy ratio (CAR) averaged 17.5% as at end of June 2016, which is well above the minimum regulatory level of 10%.

(*) FY2015-16 refers to financial year ended June 2016

Listed and traded on the Official Market

- Mauritius Commercial Bank Group
- State Bank of Mauritius Group

Listed on the DEM

- ABC Banking Corporation, since January 2016

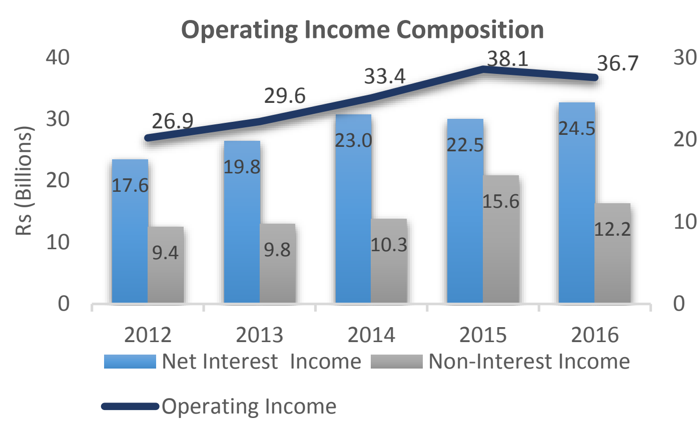
Others

- Bank One Limited (41% owned by Ciel Group)
- AfrAsia Bank (24.71% owned by IBL Ltd)
- Banyan Tree (10% owned by Terra)

Sector Performance

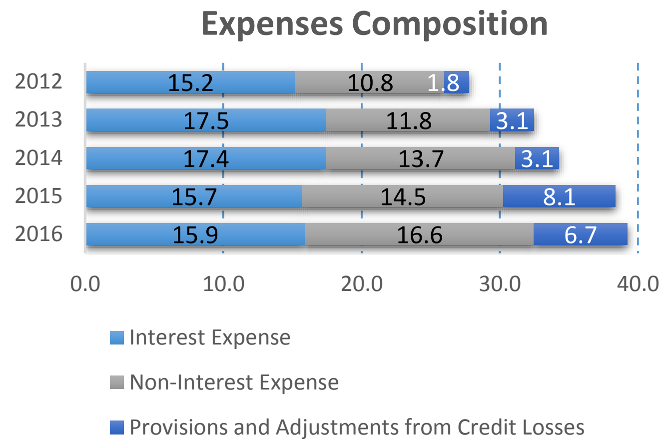
Operating income

FY2015-16 saw a surge in net interest income of 9.0% to Rs24.5bn. However, the fall in non-interest income from Rs15.6bn to Rs12.2bn (-21.7%) has more than offset the rise in net interest income to bring operating income lower from Rs38.1bn to stand at Rs36.7bn in FY2015-16 (-3.6%). Interest earned from advances contributed R29.3bn to income (72.5%). Other income-items such as interest on securities and net fee income on the other hand made only minor contributions of Rs7.2bn and Rs6.5bn respectively. The component that contributed to slash 'Total Non-Interest Income' has been those classified under 'Other Non-interest Income', down by Rs4.9bn to Rs2.3bn.



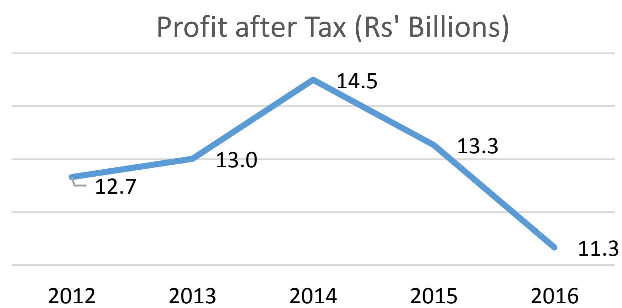
Expenses and Provisions

Interest expense rose marginally to Rs15.9bn (+1.0%) while non-interest expenses experienced a substantial rise of 14.1% to Rs16.6bn. Cost-to-income ratio reached 44.3%. Provisions and adjustments from credit losses also dropped to Rs6.7bn in FY2015-16, indicating relatively lower credit risk for the financial year. Altogether, these led to a final increase in the banking sector's total expenses, to Rs39.2bn (+2.2%).



Profits

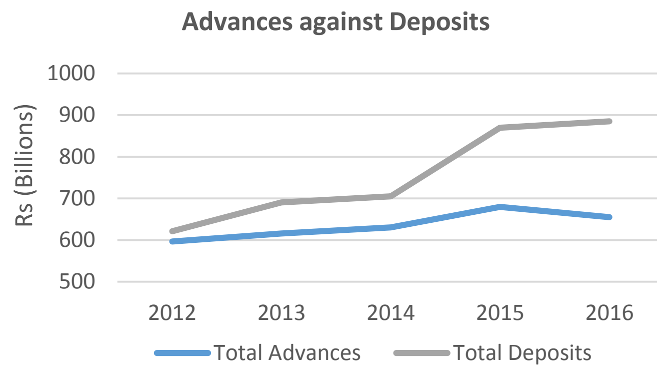
In the FY2015-16, except for 4 banks, all remaining banks operating in Mauritius posted profit after taxation. One of the loss-making banks was a new entrant facing high start-up costs; another one reported high charges for impairment. Consequently, net post-tax profit, following the declining trend from the previous year, dived down by 14.7% to Rs11.3bn in FY2015-16.



Sector Balance Sheet (Yr Ended June)	2012	2013	2014	2015	2016
Assets (Rs'bn)	910.3	1,003.4	1,013.7	1,183.3	1,208.0
% Foreign	55.2%	55.5%	52.6%	56.1%	53.7%
Deposits (Rs'bn)	620.6	690.5	705.0	869.5	884.9
% Foreign Currency	59.6%	61.0%	57.9%	63.3%	61.4%
Advances (Rs'bn)	596.7	615.3	630.4	679.7	654.6
% total deposits	96.2%	89.1%	89.4%	78.2%	74.0%
Key Ratios (Year Ended June)	**2012**	**2013**	**2014**	**2015**	**2016**
Cost to Income	40.0	38.4	41.1	37.6	44.3
Return on Assets (%)	1.6%	1.5%	1.6%	1.4%	1.2%
Return on Equity (%)	15.5%	14.7%	14.2%	12.1%	9.3%

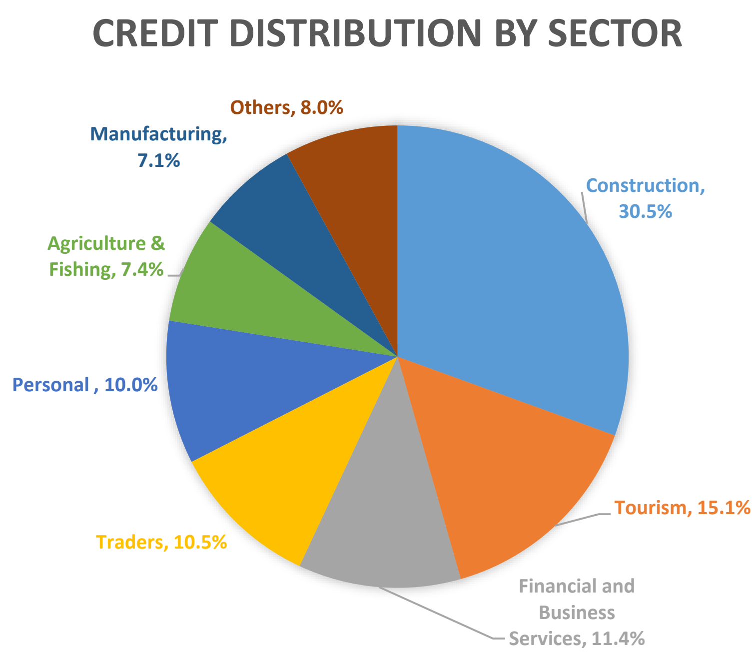
Overview of consolidated balance sheet of banks

As per the BoM's Statistical Bulletin Jan-17, the banking sector's total assets as at Dec-16 amounted to Rs1,240.7bn, of which 52.8% (Rs655.4bn) represented foreign assets. Deposits, which are bank's principal source of funding, totaled to Rs912.6bn for the same period (vs Dec-2015 Rs884.9bn), of which 61.1% were foreign deposits. Rise in deposit base was led essentially by Segment A Deposits. Advances stood at Rs654.6bn as at end-June 2016 with the ratio of advances to deposits declining to 74.0%.



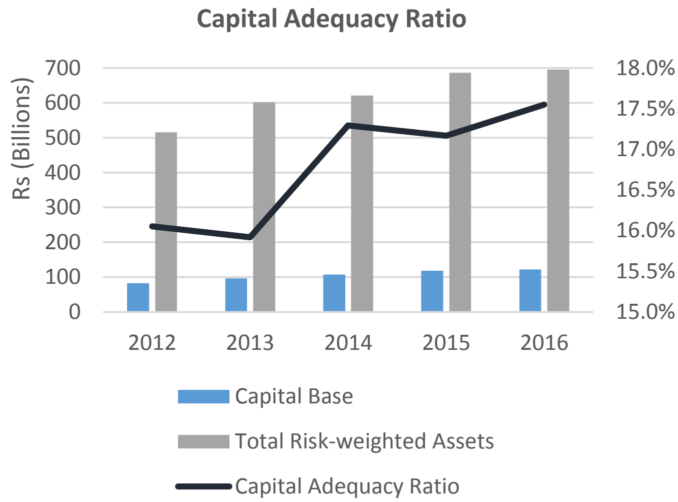
Higher level of non-performing advances

Credits to the private sector were mainly geared towards the construction industry and the tourism industry which accounted to 30.5% and 15.1% of total credit respectively. Banks' total non-performing advances (NPAs) rose significantly from Rs33.7bn as at end-June 2015 to Rs46.7bn as at end-June 2016 (+38.5%), thereby resulting in a deterioration in the ratio of NPAs to total advances from 5.0% to 7.1% for FY2015-16. This rise could somewhat be attributed to the important credit granted to the still convalescing construction industry whereby previously earmarked infrastructural projects delayed to kick off.



Capital Adequacy

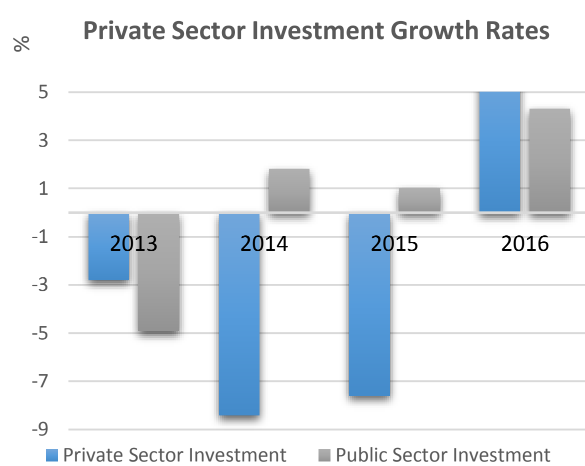
With the implementation of Basel III framework being phased in from July 2014 till January 2020, banks are required to meet higher capital standards through retention of earnings and capital raising programmes. In Mauritius, banks are required to maintain, at all times, a minimum risk-weighted capital adequacy ratio (CAR) of 10%. The CAR averaged 17.5% as at end-June 2016, well above the minimum of 10%. Banks have managed to maintain healthy capital buffers and their funding profiles are deemed as sound enough to cope with stressed situations.



The capital base, made up of Tier 1 and Tier 2 capital, increased by 3.6% to Rs122.1bn as at end-June 2016. Total risk-weighted assets amounted to Rs695.8bn. While the rise in Tier 1 Capital by 9.2% to Rs110.6bn is justified by the undistributed balance in the profit and loss account created by appropriations of retained earnings, Tier2 dropped significantly by 31.1% to Rs11.5bn. This is because of the phasing out of capital instruments that are no longer classified as Tier 2 capital as per Basel III requirements.

Outlook of the industry

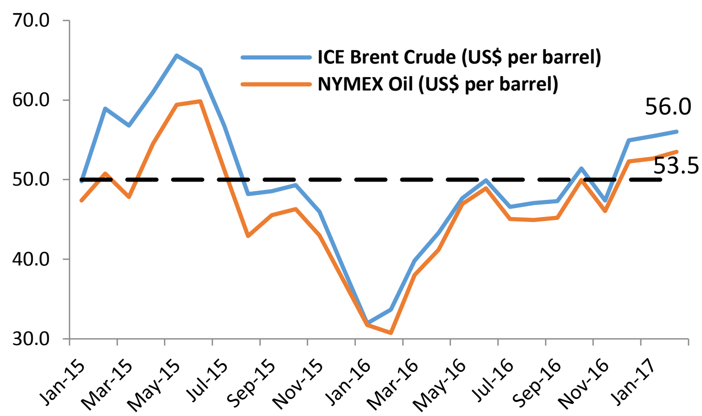
BoM's 2016 reports along with communication made to the public, mentioned that banks in Mauritius are generally financially sound and resilient during the year despite a sluggish economic growth. The domestic banking sector remains well capitalized with the aggregate capital adequacy ratio being higher than threshold regulatory level of 10% at 17.5% as at end-June 2016.In an attempt to rekindle the economy amidst a low inflation context, the monetary policy stance has been particularly accommodative. The repo rate was kept unchanged at a historically low of 4.00% on the last MPC meeting held on the 20th February 2017, after witnessing 2 drops: one of 25 basis points to 4.40% in November 2015 and another one of 40 basis points to 4.00% in July 2016. Accordingly, commercial banks decreased their savings and prime lending rates, albeit to varying degrees. Despite its supposed resilience, the banking sector was affected to some extent by the soft economic atmosphere, as assets grew by only 2.1% during the year 2015-16. Additionally, profitability of banks worsened as the low interest rates continue to represent missed revenues of banks, leading to lower return on equity. Asset quality worsened, with NPL ratio rising significantly to 7.1% as at end-June 2016 (5.0% previously). The coverage ratio - reflecting the level of provisioning to cater for NPL - increased to 51.3% as at end-June 2016, from 39.5% at end-June 2015.



As part of liquidity management purposes, the BoM pursued active open market operations including sterilized interventions to successfully keep excess reserves under control and improve the transmission of the monetary policy signals to market interest rates. This improvement has also been brought about by the BoM's announcement of revamping the operational framework of the conduct of the monetary policy. Excess cash holdings of banks was quite volatile during 2015-16 and was driven upwards during times of limited demand for credit. As of March 2017, excess cash holdings of banks stood at Rs11.6bn while the overall weighted yield of GMTBs for Feb 2017 was at 2.21%..

The BoM noted that the two largest domestic banks are not exposed to major treaty-related liquidity fears. Also, the BoM had already imposed prudential norms regarding liquidity risk several years ago following the announcement of the General Anti-Avoidance Rule (GAAR) by India in 2012. Banks with GBC-related businesses have solid capital buffers to resist potential shocks. In addition, latest missions by IMF and World Bank concluded that the banking sector was resilient to liquidity shocks which could arise from withdrawals of GBC deposits in the event of an unfavorable DTAA.

We still believe that the growth of the sector relies on international expansion. MCB, the largest commercial bank, has changed its strategy of growing segment B businesses which relied mostly on trade finance activities on oil. The business declined following the significant drop in oil prices. The Group is now growing the value chain over and above trade financing and one recent agreement was into a pre-export finance facility of USD 100m with Erin Energy Corp. On the other hand, SBMH is growing into Africa through acquisitions. However, these activities have higher risk level and we may witness higher impairments link with international businesses going forward.



SWAN

BUY

The Mauritius Commercial Bank Group

Security Code
MCBG.N0000

Share Price
Rs 224.00

Market Cap (Semdex)
Rank: 1st
Rs 53.4bn
US$ 1.50bn

Av. Daily value Traded (Yr 2016)
Rs 17.3m
US$ 448.2k

Net Foreign Sales (Yr 2016)
Rs 609.3m
US$ 17.1m

Financial Year End
30-Jun

NAV per share
Rs 171.00

Issued Capital
238.4 (m)

Yr 2016 (Rs)

High
223.00 (Oct-2016)

Low
203.00 (Jan-2016)

Reuters
MCBG.MZ

Bloomberg
MCBG.MP

ISIN Code
MU0424N00005

Record profits driven mostly by Exceptional items

FY2015/16 was an outstanding year for the MCB group. It boasts an increase of 15.8% in its attributable profits to a record level of Rs6.63bn amidst a relatively mediocre and still-below-potential GDP growth of 3.0% in 2015 and 3.6% in 2016 for Mauritius. Upon release of this remarkable performance, the stock traded for some days beyond Rs220.00 to then average at Rs214.87 for the period from Nov 2016 to end-Dec 2016, further peaking to its new all-time high of Rs228.00 post earnings announcement in February 2017. Despite a marginal decline in its loan portfolio and a drop in trade finance fees for its FY2015-16, the group benefited from a commendable 25.8% growth in profit on exchange, non-recurrent gains at the level of its associate Promotion and Development Ltd (PAD) and also with respect to a successful exit from an investment at the level of its equity fund. While the banking cluster grew by 11%, its contribution to Group's profits declined from 94% to 90% due to the excellent performance of the non-banking segment. Segment A (domestically-sourced) contribution to profits rose slightly to 40% in FY2015-16, while its Segment B (foreign-sourced) contracted to 36%. In December 2016, the CEO of MCB Ltd, M. Antony Withers, resigned for retirement and M. Alain Law Min, currently Deputy CEO in charge of Retail, has been appointed as acting CEO with immediate effect. As for the performance of the Group, going forward, we expect growth to gain further momentum, albeit on a dampened note, amidst global uncertainties & the prevailing excess liquidity condition. Measures announced in the last budget should also give a boost to investment.

Financial Performance (Rs'M) - June End	2014	2015	2O16	2017F	2018F
Net Interest income	**7,256.3**	**8,154.2**	**8,890.3**	**9,690.4**	**10,659.5**
Net fee and commission	**2,887.9**	**3,364.4**	**3,191.3**	**3,574.3**	**3,931.7**
Other Income	**2,130.7**	**1,695.6**	**2,336.2**	**1,985.8**	**2,085.1**
Operating income	**12,274.9**	**13,214.2**	**14,417.8**	**15,250.5**	**16,676.2**
% change	11.4%	7.7%	9.1%	5.8%	9.3%
Non interest expenses	**-5,290.3**	**-5,525.6**	**-5,789.0**	**-6,078.5**	**-6,443.2**
% change	7.9%	4.4%	4.8%	5.0%	6.0%
Net impairment on financial assets	-2,039.1	-1,163.1	-1,021.9	-1,042.3	-1,073.6
Operating profit	**4,945.5**	**6,525.5**	**7,606.9**	**8,129.7**	**9,159.4**
Profit After Tax	**4,453.1**	**5,771.2**	**6,804.9**	**7,148.5**	**8,017.0**
Attributable profits	**4,365.0**	**5,722.0**	**6,625.5**	**6,934.0**	**7,776.5**
% change	0.5%	31.1%	15.8%	4.7%	12.1%
Earnings per share (Rs)	**18.34**	**24.04**	**27.82**	**29.08**	**32.62**
Dividend per share (Rs)	**6.45**	**8.00**	**8.75**	**9.60**	**10.80**
Balance Sheet (Rs'M)	**2014**	**2015**	**2O16**	**2017F**	**2018F**
Loans	160,779.6	176,027.4	173,797.0	187,700.8	210,224.9
Deposit	186,087.5	221,140.0	255,261.6	280,787.8	303,250.8
Shareholders' Equity	30,967.7	35,933.3	40,729.9	45,131.1	50,397.8
Key Ratios	**2014**	**2015**	**2O16**	**2017F**	**2018F**
Loan to Deposit ratio	86.4%	79.6%	68.1%	66.8%	69.3%
Cost to income	43.1%	41.8%	40.2%	39.9%	38.6%
ROA	1.9%	2.2%	2.2%	2.1%	2.1%
ROE	14.7%	17.1%	17.3%	16.2%	16.3%
Dividend Yield (%)	3.0%	3.7%	4.1%	4.3%	4.8%
PER (x)	11.7	9.0	7.6	7.7	6.9
PBV (x)	1.7	1.4	1.2	1.2	1.1
NPL Ratio (% of Gross Loans)	7.3%	6.2%	6.2%	6.0%	6.0%

(*) Price of 23rd March 2017 was used to calculate ratios in 2017 and 2018

FY2015-16 Review

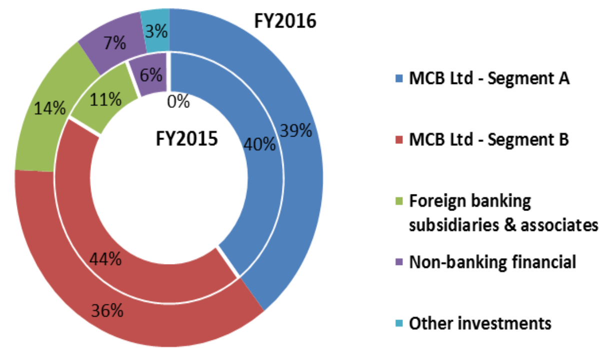
- ***Loan portfolio*** slightly decreased to Rs173.8m (-1.3%) owing to a reduction in foreign currency lending side which more than offset the rise in Segment A loans, the former arising from lower level of activity in short-term trade finance coupled with a more prudent approach to some foreign exposures.

- ***Net interest income*** however rose by 9% to Rs8.9bn which benefited from increased income from Govt. securities following higher investments and better yields across most banking subsidiaries.

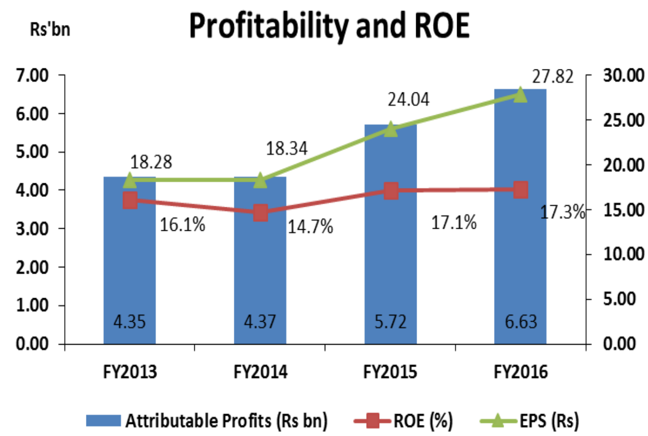
- Low oil prices impacted negatively on regional trade financing and contributed to drive '***Net fee and commission income***' down by 5.1% to Rs31.9bn.

- Boosted by a rise in ***profit on exchange*** (+25.8%) and a profit on disposal of Rs250m from an investment in the automotive fast-fit services industry in France at the level of its Equity Fund, '***Other income***' grew by 37.8% to Rs2.3bn.

- Contribution from BFCOI and PAD nearly doubled ***share of profit from associates*** to reach Rs735m. The former contributed to Rs439m to Group's profits (FY2015: Rs436m) on the back of lower impairment losses. PAD witnessed a surge in its profits to Rs798.3m (FY2015: Rs60.9m) on the back of non-recurrent gains on disposal of shares of a major hotel group and the fair revaluation of investment properties of its associate Medine Ltd.



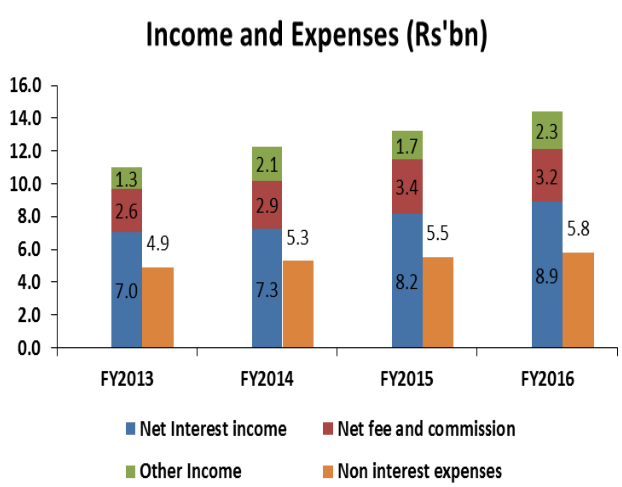
Note: Inside doughnut refers to FY2015 figures

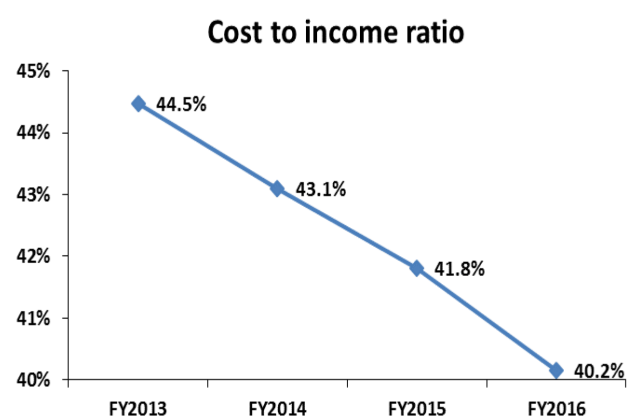


- ***Non-interest expenses*** rose to Rs5.8bn with its major component, staff cost, increasing by 7.3% thereby reflecting continued investment in human capital.

- ***Net impairment*** fell due to a decline in impairment charges at the level of foreign banking subsidiaries.

- ***NPL (% of gross loans)*** was maintained at 6.2%.

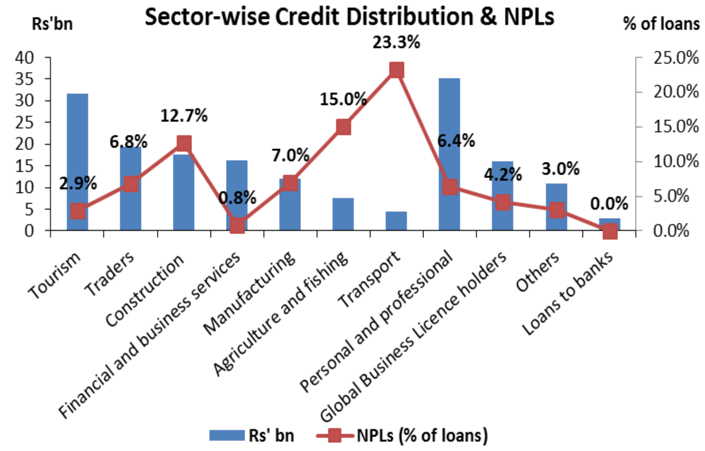


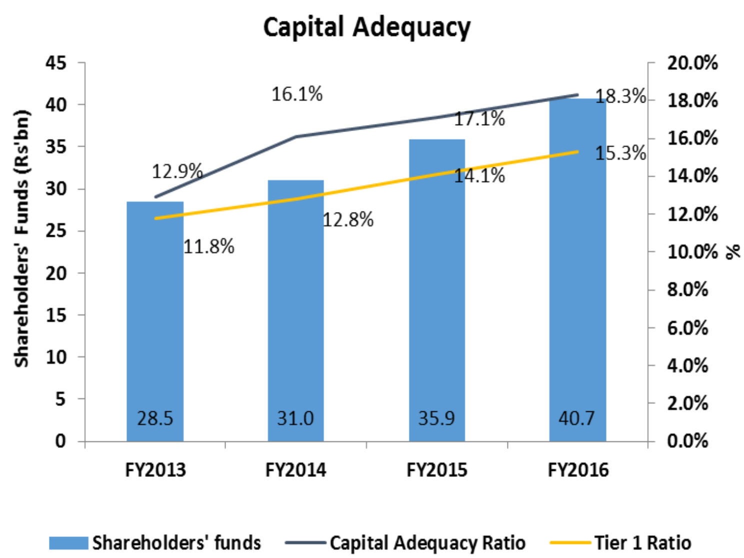


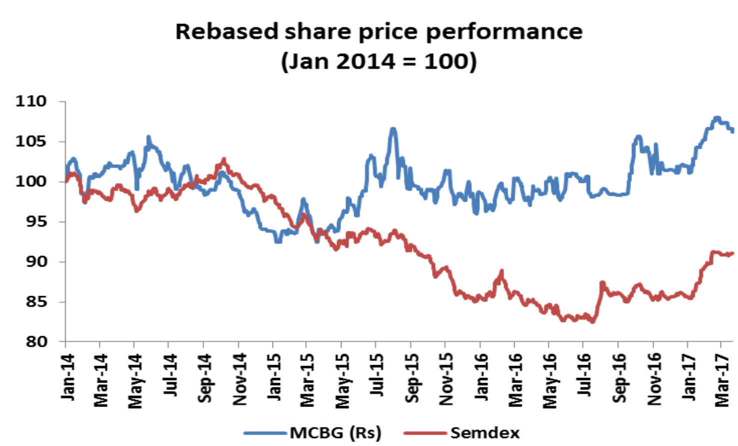
Outlook:

The group is the largest banking group in Mauritius with a widening client base of around 988k. It secures 40% of market share in terms of domestic credit and 45% market share in local currency deposits with more than 50% of cards issued. The bank is also present beyond domestic shores with focus on Sub-Saharan Africa. MCBG maintains its leadership position locally, and germinating from its diversification strategy, it is well poised to continue broadening its regional footprint along with boosting its non-bank activities. Already, reported profits for the first semester of its FY2016-17 rose by 7.1% to Rs3.37bn compared to the corresponding period in FY2015-16. The Group is showing much resilience in a currently difficult market conditions which is scourged by persisting excess liquidity with sluggish credit demand and subdued investment. The stock has outperformed the market during the past year. Going forward, trade finance activities are expected to get a boost from the pick-up in oil prices following OPEC's decision to restrict output. Even though Group profits were mainly driven by its Segment A activities, we notice efforts to boost its Segment B activities. The Group is now looking for other opportunities related to the energy sector which is slightly riskier than trade finance – a recent development being the agreement into a Pre-export Finance Facility of US$ 100m with Erin Energy Corporation and its subsidiary, Erin Petroleum Nigeria Limited in early February 2017. As a result, impairment arising from Segment B activities might be on the rise. The loan book is also expected to improve on the back of the implementation of public investment projects as announced in the last budget speech, as well as some private sector projects. Cost to income ratio will likely oscillate around its long-term target of 40%. We expect results to improve, albeit at a smaller growth rate than last year, owing to some items that may not necessarily recur, given their exceptional nature. Moreover, impairment may grow slightly as mentioned above with riskier projects on Segment B activities. In line with management, we expect a moderate growth in bottom line for FY2016-17 whereby results shall much depend on the global economy, regional performance and materialisation of budgetary measures to boost investment. Most importantly, financial soundness indicators are expected to stay at comfortable levels to support the Group's growth strategy.

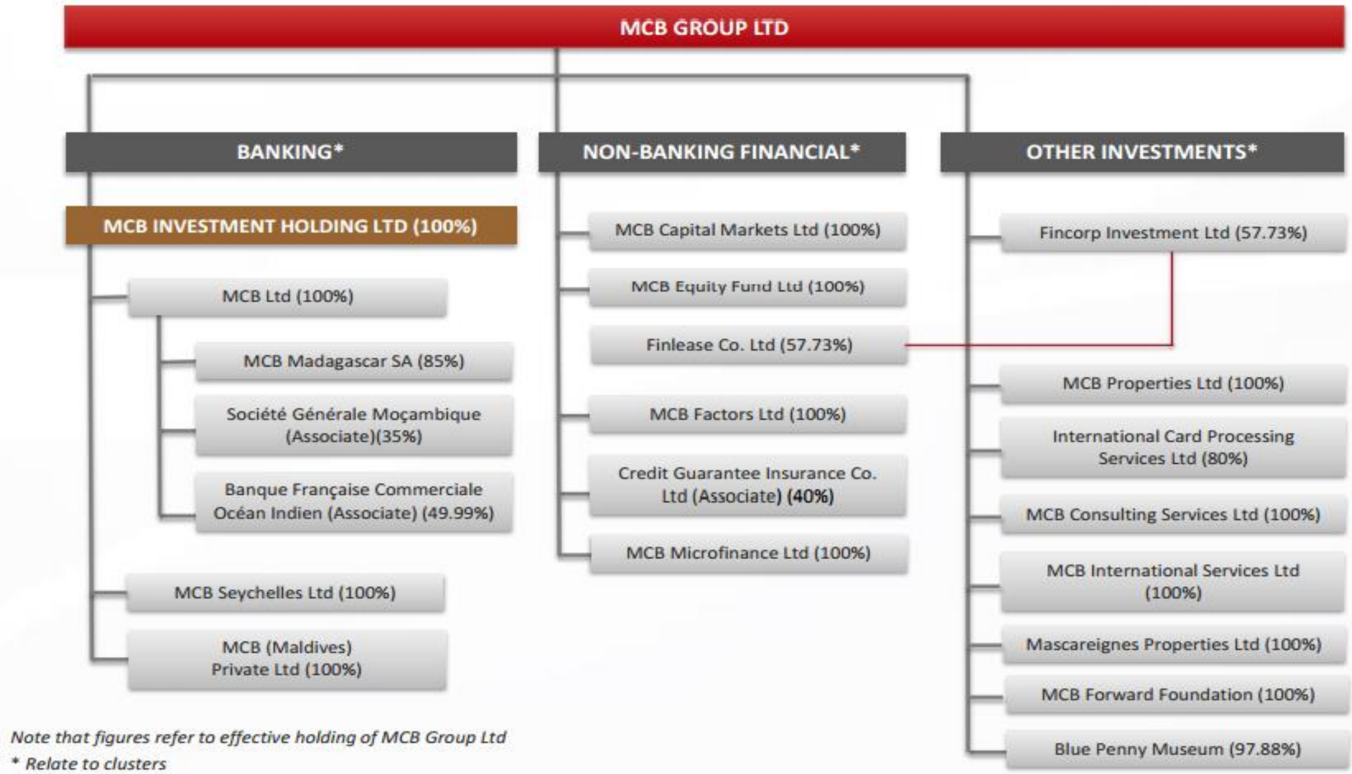
The stock is trading at a forward PER of 7.7x and a current dividend yield of around 3.9%. Based on its strong fundamentals, we have a **BUY** recommendation on the stock.







Structure of The MCB Group Ltd



Shareholding Structure (% Holding)

Shareholding Structure (10 Largest shareholders) as at 31 December 2016	
	% Holding
National Pension Fund	7.4
Swan Life Ltd	3.3
Promotion and Development Ltd	2.9
State Insurance Company of Mauritius Ltd	1.7
La Prudence (Mauricienne) Assurances Limitée	1.5
The Bank of New York Mellon	1.4
SSB A/C SQM Frontier Africa Master Fund	1.2
Policy Ltd	1.1
SSL C/O SSB A/C Lloyd George Investment Company PLC	1.0
The MCB Ltd (A/C New Mauritius Hotels Group Superannuation Fund)	1.0

About the company:

Following a restructuring exercise initiated in 2013, MCB Group became the ultimate holding company of the whole group with operations being segregated into 3 distinct business segments namely: banking, non-banking financial and other investments. During FY2015/16, MCB Seychelles and MCB Maldives have been transferred from MCB Ltd to MCB Investment Holding Ltd. MCB Madagascar shall follow suit. Also during the previous year, Société Générale injected MZN 828m of capital into the bank to acquire a stake in former subsidiary MCB Mocambique SA, thereby diluting MCB Group effective shareholding down from 95% to 35%. Rebranded Société Générale Mocambique thus became an associate of MCB Group as from October 2015. With regards to its non-banking cluster, the Group launched MCB Microfinance Ltd as its wholly-owned subsidiary. It essentially aims to help SMEs to get easier access to loans.

Credit Ratings (MCB Ltd)

Agency		Outlook	Long Term	Short Term
Moody's		Stable	Baa3	P-3
Fitch Ratings		Stable	BBB-	F3

State Bank of Mauritius

Buy

Strong stock fundamentals

SBMH will be releasing its financial results for the year 2016 by the end of March and we expect attributable earnings to reach Rs 2.6bn, significantly higher than FY 2015 whereby earnings amounted to Rs 1.6bn. The lower impairment charge is the main reason for the expected surge in earnings. SBMH is expected to deliver such results despite relatively sluggish credit demand and persisting excess liquidity which is putting pressure on profitability and margins. Government announced several infrastructure projects including the Metro Express which should give a boost to the economy in 2017. Going forward, the Group will tap on non-banking businesses and cross-border activities to boost bottom lines. A new IT system has been implemented and will help the Group to expand geographically using the same platform. The Group has obtained a banking license to operate in the Seychelles and acquired a Bank in Kenya. Cost to income ratio is expected to increase significantly with the new IT system which would cost around USD 150m and will add around Rs 700m to non-interest expenses per year. Capacity building initiatives such as recruitment of new talents to drive different businesses should also increase expenses. In the current environment of low interest rate, investors may find the dividend yield of the stock quite appealing at 6%. The stock is also trading at a discount of 28% to its NAV and a PER of 6.6x. We recommend **buying** the stock at current levels.

Security Code
SBMH.N0000

Share Price
Rs 7.00

Market Cap (Semdex)
Rank: 3rd
Rs 21.26bn
US$ 598.35m

Av. Daily Value (Yr 2016)
Rs 4.72m
US$ 132.7k

Net Foreign Sales (Yr 2016)
Rs 499.0m
US$ 14.0m

Year End
31-Dec

NAV per Share
Rs 9.21

Issued Capital
3,037.4 (m)

Yr 2016 (Rs)

High (adj)
Rs 7.50
(Aug-16)

Low (adj)
Rs 6.20
(Apr-2016)

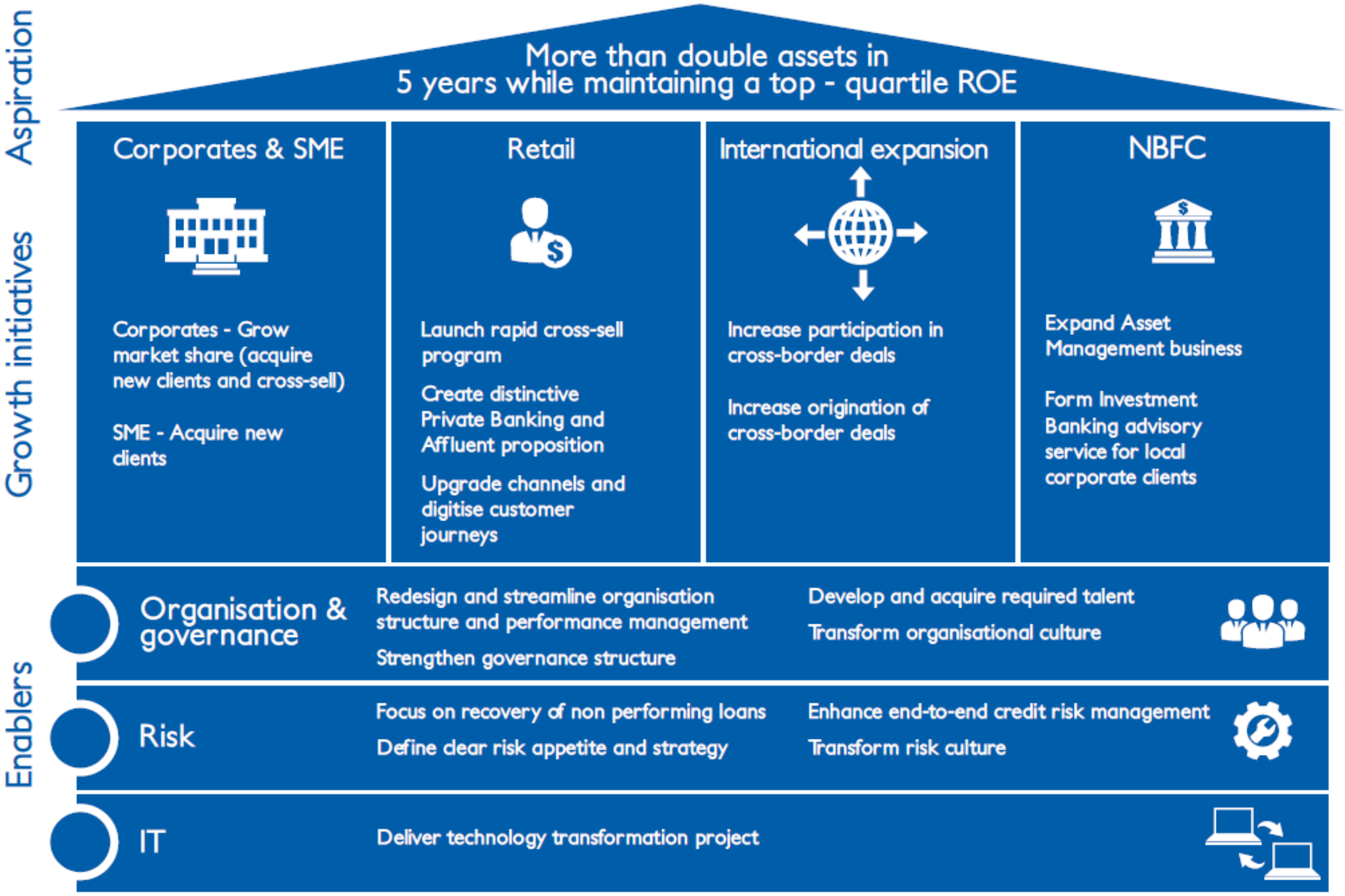
Reuters
SBML.MZ

Bloomberg
SBM.MP

ISIN Code
MU0040N00009

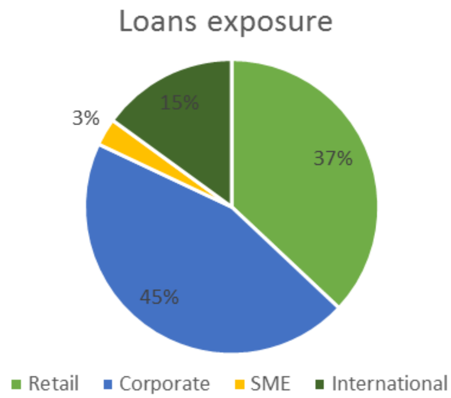
Financial Performance Year Ended (Rs m)	2014	2015	2016E	2017F	2018F
Net Interest income	4,050	4,253	4,473	5,097	5,691
Δ%		*5%*	*5%*	*14%*	*12%*
Net fee and commission	915	1,029	1,183	1,420	1,633
Other Income	1,295	974	1,217	1,461	1,680
Non interest income	2,210	2,003	2,400	2,880	3,313
Δ%		*-9%*	*20%*	*20%*	*15%*
Operating Income	6,260	6,255	6,873	7,978	9,004
Δ%		*0%*	*10%*	*16%*	*13%*
Non interest expenses	(3,153)	(2,271)	(2,838)	(3,538)	(3,892)
Net Impairment loss	(630)	(1,937)	(678)	(712)	(747)
Δ%		*207%*	*-65%*	*5%*	*5%*
PBT	2,541	2,048	3,357	3,728	4,364
TAX	(673)	(440)	(739)	(820)	(960)
Attributable Earnings	1,868	1,608	2,619	2,908	3,404
Δ%		-14%	63%	11%	17%
EPS (cents)	7.24	6.23	10.14	11.26	13.19
Δ%		*-14%*	*63%*	*11%*	*17%*
EPS Adj. (Rs)	0.72	0.62	1.01	1.13	1.32
PER (x)	14.09	11.40	6.55	6.22	5.31
DPS Adj.(Rs)	0.45	0.40	0.40	0.45	0.50
Dividend Yield (%)	4.4%	5.6%	6.0%	6.4%	7.1%
NAV Adj. (Rs)	8.55	8.59	9.21	9.88	10.70
PBV (x)	1.19	0.83	0.72	0.71	0.65
Price (year end)	10.20	7.10	6.64		
Balance Sheet (Rs m)					
Advances	69,107	72,296	73,019	80,321	88,353
Deposits	91,785	104,281	111,581	114,928	120,674
Shareholders' Equity	22,074	22,188	23,774	25,520	27,633
Key Ratios (%)					
Cost/Income	50%	36%	41%	44%	43%
ROA	1.6%	1.2%	1.8%	1.8%	2.0%
ROE	9.0%	7.3%	11.4%	11.8%	12.8%
Loan/Deposit	75%	69%	65%	70%	73%

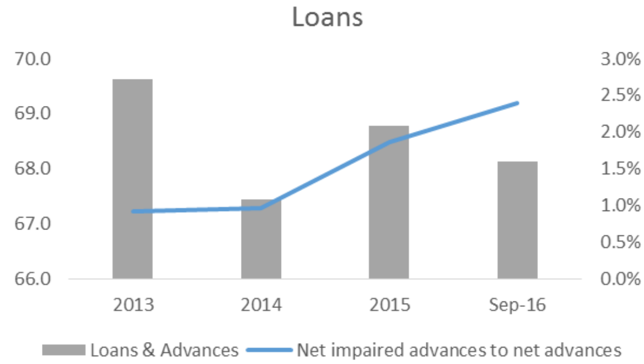
**Price of 23rd March 2017 was used to calculate ratios in 2017 and 2018*

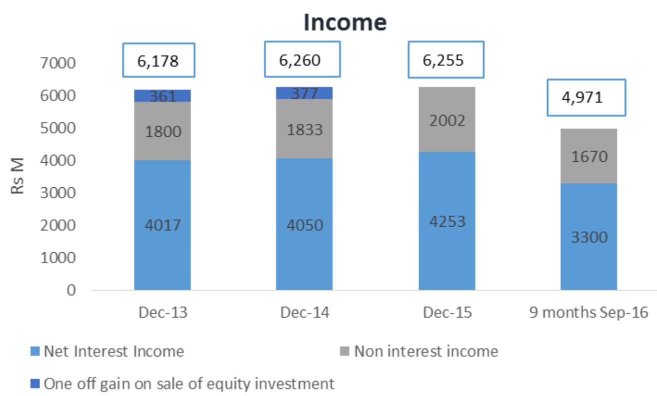


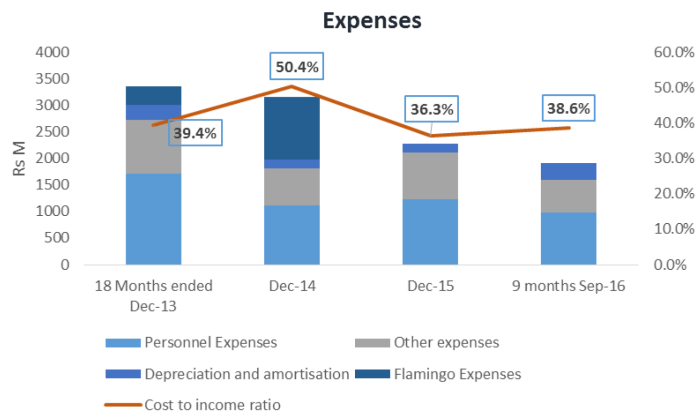
Outlook

A report by McKinsey, depicted in the diagram above, pointed out that there is potential for the Group to grow further and develop its activities, with focus on five key pillars namely: consolidation, diversification, regionalisation, modernisation and capacity building. The Group aspires to more than double its assets in five years. It aims to consolidate its Mauritian banking operations as well as enhance its revenue base by increasing the share of income from cross-border activities and non-banking operations. The Group has implemented its new IT platform since September 2016 which is expected to help the smooth international expansion of the SBMH. The Group pursued expansion opportunities overseas and has this year obtained a banking license to operate in the Seychelles. More recently, as part of its strategic regional expansion in Africa, SBMH acquired Fidelity Commercial Bank (FCB) for Kenya Shillings one hundred (KES 100/-). FCB is a family owned bank headquartered in Nairobi with a network of 14 branches across the country and has a total balance sheet of Kenya Shillings 12.9 billion as at 30 June 2016. In addition, the Africa Export-Import Bank (Afreximbank) will be working in partnership with SBMH for trade financing and commercial opportunities in African countries and in this connection set up an Infrastructure Fund which will enable SBMH to deploy its excess liquidity to a more productive use. It also intends to convert into a wholly owned subsidiary in India. Other strategic initiatives of the Group include capacity building and modernization of the Group's channels of service delivery. New talents have also been recruited to drive new poles of the business and management is also removing the contract policy (SBMH used to employ on a 5-year contract) in an effort to retain employees in the Group.



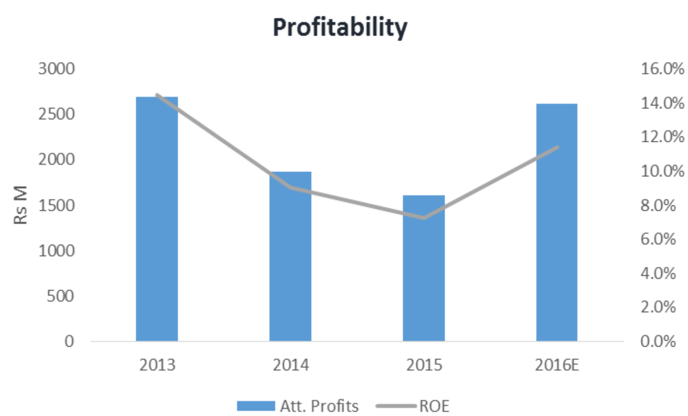


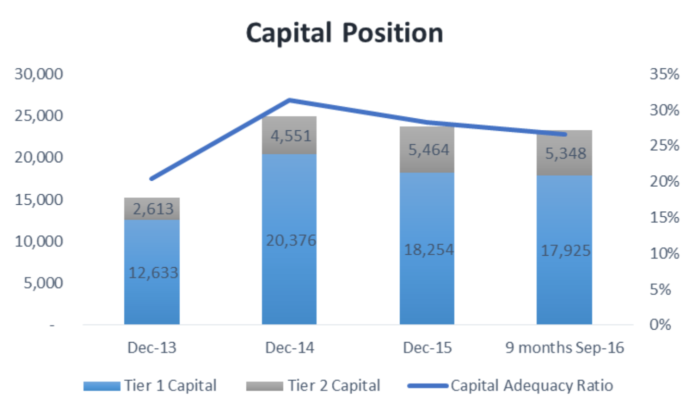




For the period ended 30 Sept 2016:

- Despite weak credit demand, SBMH managed to increase net interest income by 5.2% to Rs 3.3bn for the 9-month ended 2016.
- Yield on MUR and FCY advances reached 7.10% and 5.47% respectively. Cost of deposits amounted to 1.83% on MUR and 1.13% on FCY.
- Net interest margins is following a downward trend and stood at 3.12%, 13bps lower compared to Dec-15.
- Non interest income was also much higher, leading to higher operating income. In 2013 and 2014, operating income included one off gains on sale of equity investments. Since the new board was appointed in 2015, the Group did not incur these exceptional sales.
- However, expenses will also increase significantly with the recruitment of new staff, depreciation and maintenance costs of the new IT platform.
- Profitability will be significantly higher this year mainly on the back of lower impairments.
- The capital base and equity of the Group stood at MUR 23.27 billion and MUR 23.34 billion respectively as at 30 September 2016 The Group's capital adequacy ratio (CAR) reached 26.61% well above the minimum required level of 10%.





Brief Overview of company

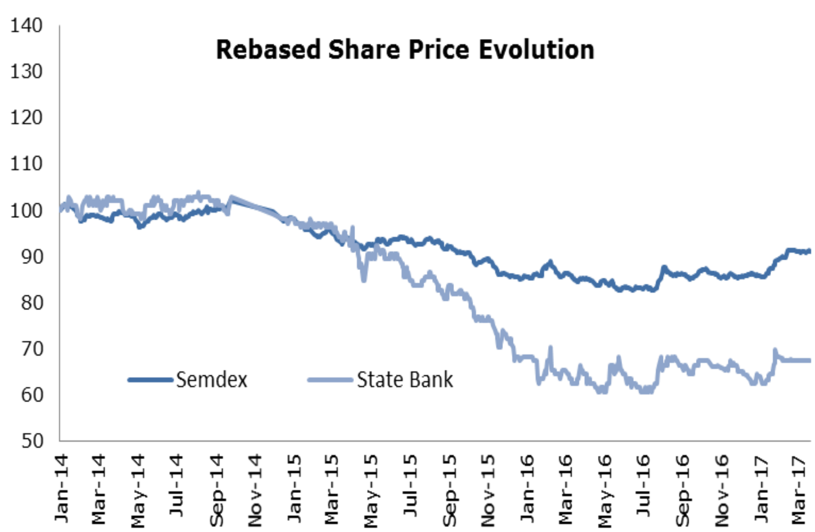
Established in 1973, SBM was listed on the Stock Exchange of Mauritius in 1995 and became the second largest company by market capitalization. SBM has more than 1,100 employees and services over 450,000 customers through its network of 50 service units and counters in Mauritius, Madagascar and India with a representative office in Myanmar. SBM undertook a re-organisation exercise in 2014 whereby its activities were segregated into Banking, Non-Banking and Non-Financial clusters.

Moody's Rating	
Outlook	Stable
Bank deposits	Baa3/P-3
Baseline Credit Assessment	ba1
Counterparty Risk Assessment	Baa2(cr)/P-2(cr)
Issuer rating	Baa3

Shareholding Structure

SHAREHOLDING AS AT 31 Dec 2015	
Major Shareholders	**% Holding**
National Pensions Fund	19.44%
State Bank Of Mauritius Ltd - Treasury Shares	15.00%
State Insurance Company Of Mauritius Ltd - Pension Fund	14.63%
Government Of Mauritius	4.92%
National Savings Fund	2.64%
Swan Life	2.01%
Development Bank of Mauritius	1.90%
Pictet Europe A/C Blakeney L.P	1.77%
State Investment Corporation	1.40%
NTGS Lux A/C The Africa Emerging Markets Fund	1.35%

Share Price Performance



SBMH closed a second consecutive year in the red zone with share price performance of -6.5% year to date (2015: -30.4%). SBMH became a penny stock after a share split in the ratio of 1 to 100 in 2013 and the share price oscillated between Rs 1.00 in and Rs 1.08 in 2013 and 2014. The stock weakened in 2015 after the Minister of Finance announced publicly that SBMH would acquire Bramer Bank after the latter saw its licence revoked. Management quickly reacted and announced that this acquisition will not go forward after proper due diligence was carried out. However, impairment loss reached record amount of Rs 1.9bn during that year relating to the collapse of the BAI Group. In 2016, investors remained careful as the Group announced its new IT platform would cost around USD 150m and will add around Rs 700m to non-interest expenses per year. The Board opted for a reverse share split during the year 2016, bringing the share price to Rs 7.00 currently, still much lower than the Pre-BAI levels of Rs 10.00.

SWAN

ABC BANKING CORPORATION LTD

ACCUMULATE

Security Code
ABCB.I0000

Share Price
Rs 27.45
(23-Mar-2017)

Market Cap
Rs2.9bn
US$ 58.9m
Rank 7th

Av. Daily Value (Yr 2016)
Rs 1.35m
US$ 38.0k

Net Foreign Buy (Yr 2016)
Rs 104.2m
US$ 2.9m

Year End
30-June

NAV per share
Rs 12.33

Yr 2016 (Rs)
High
27.50
(23-Dec-2016)
Low
15.00
(18-Jan-2016)

Bloomberg
ABCB.MP

ISIN Code
MU0507I00007

FY 2016 Yearly Review and Forecast

Financial Performance June end (Rs M)	FY 2015	FY 2016	FY 2017F	FY 2018F
Net Interest Income	**175.7**	**268.0**	**300.0**	**336.0**
Net Fee & Commission Income	**37.6**	**34.8**	**38.3**	**42.1**
Other income (incl dividend & Trading income)	**108.2**	**131.7**	**164.6**	**197.5**
Operating Income	**321.5**	**434.5**	**502.9**	**575.6**
% Change	*57%*	*35%*	*16%*	*14%*
Non interest expense	**-174.8**	**-188.0**	**-211.2**	**-230.2**
% Change	*41%*	*8%*	*12%*	*9%*
Operating profit before impairment	**146.7**	**246.5**	**291.7**	**345.4**
Allowance for credit impairment	-71.6	-44.5	-40.0	-34.0
Operating profit after impairment	75.1	202.0	251.6	311.3
Profit for the period	**68.2**	**176.5**	**217.8**	**273.9**
% Change	*352%*	*159%*	*23%*	*26%*
EPS	**1.6**	**3.5**	**2.9**	**3.6**
Dividend per share	**0.2**	**0.5**	**0.4**	**0.6**
Weighted number of shares	42,738,413	50,952,111	76,271,872	76,271,872
Balance Sheet (Rs M)	**FY 2015**	**FY 2016**	**FY 2017F**	**FY 2018F**
Loans	3,023	4,618	5,172	5,793
Deposits	11,210	13,264	14,192	14,902
Shareholders' Equity	607.9	1,205.7	1,389.9	1,621.6
Key ratios	**FY 2015**	**FY 2016**	**FY 2017F**	**FY 2018F**
Loan to deposit ratio	26.97%	34.82%	36.44%	38.87%
Cost to income ratio	54.4%	43.3%	42.0%	40.0%
Return on Equity	11.2%	14.6%	15.7%	16.9%
Dividend yield*	0.6%	2.0%	1.6%	2.0%
P/E *	-	7.9	5.0	4.0
P/BV*	-	1.7	0.8	0.7

Prices of 23 March was used to calculate ratios in 2017 and 2018

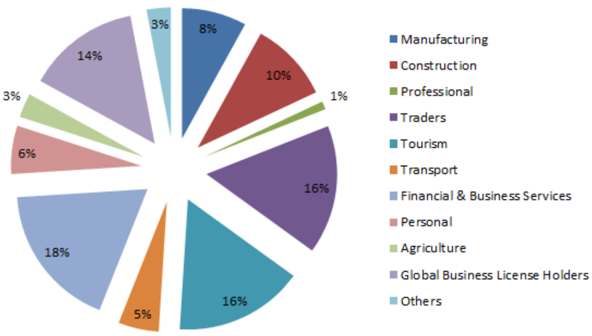
FY 2016 Review

Net Interest Income of the bank rose remarkably by 52.6% driven by the increase in loans and advances to both customers and banks and government securities.

Net fee and Commission dropped to Rs34.80m (-7.3%) However, non-interest income grew by 14.2% to Rs166.48m.

Operating Income up by 35.2% to Rs434.47m. Allowance for credit impairment stood at Rs44.49m (vs 2015 Rs71.57m). Profit for 2016 reached Rs176m (vs 2015 Rs68m)

Credit Exposure as at 30 June 2016



The loans and advances portfolio grew significantly by 52% to reach Rs 4800m at 30 June 2016. 50% of total exposures was concentrated in 3 sectors, namely, Tourism, Traders and Financial & Business Services. While exposures to Segment B doubled to Rs 1,034.2m as at June 2 6, cross border exposure remained selective.

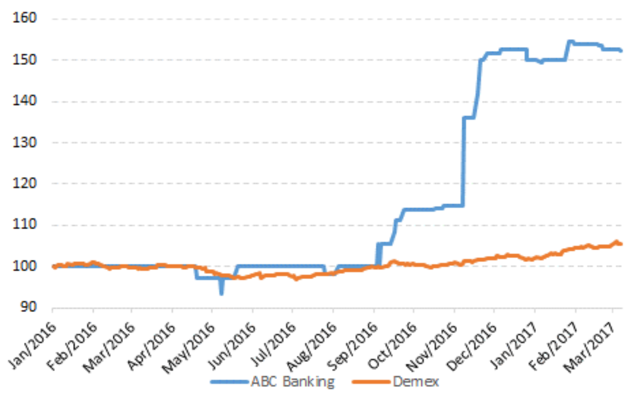
About the Company

In January 2016, ABC Banking opened its shareholding to the public by issuing 57,203,904 ordinary shares by way of introduction on the Development and Enterprise Market of the Stock Exchange of Mauritius Ltd at Rs15.00 per share. Furthermore, in April 2016, the Bank obtained the approval of the Listing Committee of the Stock Exchange of Mauritius and the Financial Services Commission to proceed with a right issue of up to 19,067,968 new ordinary shares of par value Rs10.00 each at an issue price of Rs16.00 per share in the ratio 1 New Ordinary Share for every 3 ordinary shares held on 10 May 2016, representing a maximum amount of approximately Rs305m.

The Bank has achieved a decent growth across its three main pillars of Corporate and SME ("Small & Medium Enterprise") banking, International banking and Treasury operations. Domestic Banking remains one of the main income drivers of the bank. The International Banking department continues to grow and still remains one of the key income pillars of the bank, with the latter contributing to around 18% to the total revenue for FY 2016

The Bank has also won many awards such as Best International Bank Indian Ocean by Capital Finance in 2016, Best Bank for International banking Services Mauritius by global Banking & Finance review in 2015

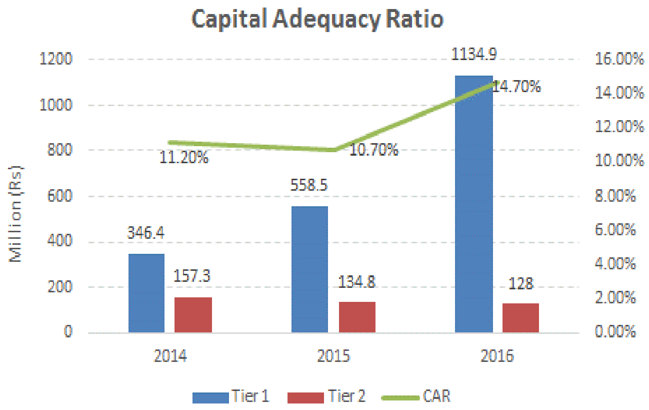
Rebased Share Price Evolution

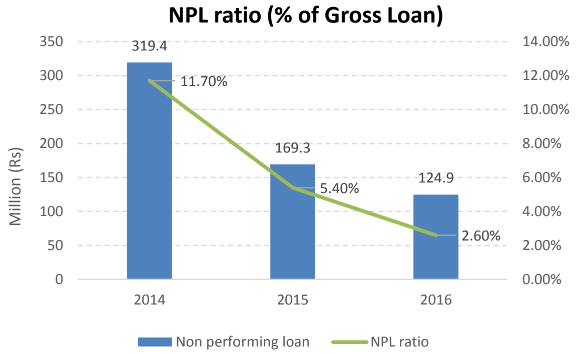


Recent development

In January 2017, ABC banking corporation ltd obtained a license from Hong Kong Monetary Authority (HKMA) for the opening of a representative office. This is the latest strategic move made by the Bank to increase its visibility in one of the biggest financial centers in Asia. This presence in Hong Kong will help the Bank to further strengthen its international banking activities as well as acting as a point of contact for investors who want to invest in Africa.

Capital Strength





The NPL ratio was down to 2.6% from 5.4% on the back of a drop in impaired loans and growing loan portfolio.

Outlook

Management has expressed its intention to grow its loan book and to improve its loan to deposit ratio gradually to 40%. This will be possible subject to implementation of budgetary measures such as the Metro Express project along with a network of integrated urban terminals, smart cities projects and road decongestion programme. Nevertheless, the actual challenge for banks is the excess liquidity on the market and the low interest margin environment. The latter has encouraged some of the large Groups to refinance their debts through bonds thereby reducing their finance costs. However, we expect higher private investment and therefore higher credit demand next year once a few projects are launched. ABC bank is laid on good fundamentals as witnessed by its increasing profits, low NPL, commendable ROE and a significant decrease in its credit impairment due to proper risk management. The Bank has also access to cheap source of funding through its international banking segment. We believe that there is good growth potential for the Bank.

We recommend accumulating the stock which is currently trading at a trailing P/E of 7.9x and P/BV 1.7x.

Swan Securities Ltd
Swan Centre
10 Intendance Street
Port Louis, Mauritius
T (230) 208 7010
F (230) 212 9867
W swanforlife.com
BRN C06007932