

Mwango Capital Notes on Equity Bank Acquiring Spire Bank's Business

- + **Summary:** The acquiring entity is Equity Bank (Kenya) is a subsidiary of Equity Group Holdings, a non-operating holding company. The target entity is Spire Bank. The transaction is an Assets and Liabilities Purchase Agreement for the purchase of certain assets and liabilities of Spire Bank. The project has been labeled "Project Gamma".
- + **Background:** Mwalimu Sacco acquired a KES 2.4B for a 75% stake in Spire in 2015, and purchased the remaining 25% stake in 2020. Earlier this year, they seem to put in KES [3.4B as capital into the bank](#) to keep it afloat. Spire's 2021 full year accounts reported a drop in deposits of KES 3.25 bn, mirroring an increase in paid-up capital of KES 3,4 bn. This points to a likely conversion of deposits from the principal shareholder to share capital.
- + **On completion of the transaction:**
 - o **Deposits:** Equity Bank Kenya will take up all of Spire Bank's existing 20k deposit customers with ~KES 1.32B deposits and ~3,700 customers with a net loan book of KES 945M.
 - o **Customers:** All Spire Bank depositors in Spire Bank (other than remaining deposits from Spire Bank's controlling shareholder Mwalimu Sacco) will become customers of EBKL and EBKL will be the one to meet these liabilities.
 - o **Loans:** EBKL will take on all of Spire Bank's loan customers (3,700 loan customers). These have outstanding loan balances reported at a net carrying value after statutory loan loss provisions of KES 945M as at the end of H1 2022.
- + The **initial cash consideration** is about KES 468M but this may change:

"The Agreement specifies that Spire Bank will pay a cash amount to EBKL such that the value of loan assets plus the cash amount paid to EBKL exactly equals the value of deposit liabilities EBKL will assume on completion of the Proposed Transaction. The estimated cash consideration specified in the Agreement is KES 468 million although the final amount paid will vary to take into account changes in Spire Bank's customer deposits and loan book up to the completion date"
- + **The financials of Spire Bank:** [As of June 2022](#), customer deposit liabilities at Spire stood at KES 1,938M against a loan book of KES 1,745M, representing a **loan-to-deposit** ratio of 90%. Spire Bank's financials as at June 2022 show the Non Performing Loan book at KES 2,322 mn, implying an NPL ratio of 133%. NPL are more than the loan book!

Financials

	Equity H1 22	Spire H1 22	YoY Equity	YoY Spire
Loan Book	650.6B	1.7B	29%	-25%
Deposits	970.9B	1.9B	18%	-63%
Interest Income	55B	119.7M	29%	-32%
Shareholder Funds	150.4B	9.6M	-3%	-100%
Investment Securities	365B	1.3B	16%	-10%
Non Interest Income	25.8B	35.6M	24%	-12%
Loan Loss Provision	4.1M	107.8M	-100%	0%
Net Income	24.4B	-403M	36%	-21%

Table: Mwango Capital • Source: Company Statements • Created with Datawrapper

✚ **Notable:** Equity bank goes to great length to show how small Spire Bank is.

- They say that the acquired deposits represent “0.25% of EBKL’s customer deposits of KES 522,75M and approximately 0.14% of Equity Group’s consolidated customer deposits of KES 970,943M” as at the end of H1 2022.
- The loans are also “0.23% of EBKL’s reported net loans and advances to customers of KES 417,482 million and approximately 0.15% of Equity Group’s reported consolidated net loans and advances to customers KES 650,556 million as at 30 June 2022”

✚ **Implications:** After the acquisition, Spire Bank will cease providing banking services.

✚ **Notice:** Spire Bank (the transferor) made [this notice](#) on 16th September 2022:

- “...the Transferee will only assume Liabilities incurred by or on behalf of the Transferor in relation to the Transfer Assets and Transfer Liabilities and shall not assume any of the other debts or Liabilities incurred by or on behalf of the Transferor in connection with the Transferor’s banking business or other activities”

Local acquisitions of lower-tiered banks in the last three years:

- ✚ The acquisition of Sidian Bank by Access Bank in June 2022.
- ✚ Cooperative Bank’s acquisition of 90% of the issued share capital of Jamii Bora Bank in 2020, which was subsequently renamed to Kingdom Bank.
- ✚ The acquisition of 100% shareholding of National Bank of Kenya by KCB Group in 2019.
- ✚ SBM Bank(Kenya) acquired certain assets of Chase Bank in 2018. SBM had earlier acquired 100% shareholding of Fidelity Bank.
- ✚ Commercial International Bank (Egypt) acquired 51% stake in Mayfair Bank

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