

Equity Bank Kenya Limited acquisition of certain assets and liabilities of Spire Bank Limited

Recently, Equity Bank (Kenya) Limited [announced](#) the completion of acquisition of certain assets and liabilities of Spire Bank Limited following the approval by the Central Bank of Kenya (CBK) and Cabinet Secretary for the National Treasury and Planning. Mwalimu National SACCO, which fully owns Spire Bank Limited, will pay Equity Bank Limited Kshs 510.7 mn to cover for the difference in liabilities and assets after the bank's equity was wiped out following a string of losses totaling Kshs 10.0 bn since it acquired the bank in 2014. This note aims to provide a picture of how Mwalimu Sacco ended up paying extra to sell Spire Bank Limited to Equity Bank Kenya Limited, this note shall cover the following;

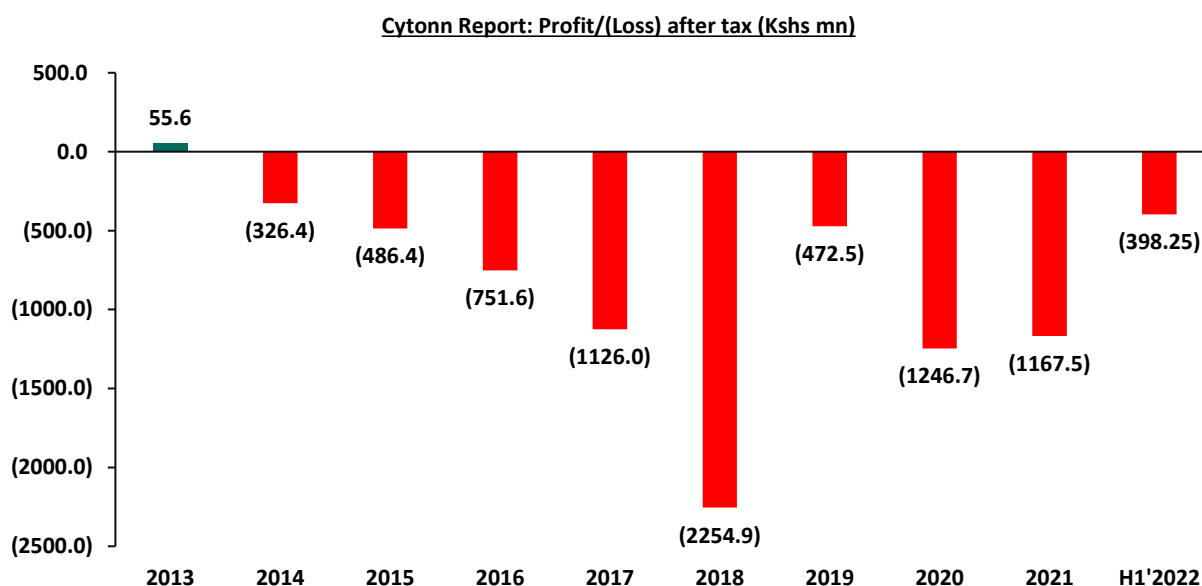
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I. Introduction

Spire Bank formerly Equatorial Commercial Bank Limited, was founded in 1983 as a Finance company and became a fully-fledged commercial bank in 1995. In 2010 it merged with Southern Credit Banking Corporation in a strategic move to grow and develop in the dynamic and competitive market. In September 2014, Mwalimu National SACCO, Kenya's largest SACCO by assets made a bid to acquire 75.0% stake in Equatorial Commercial Bank in two phases. In phase one, Mwalimu SACCO acquired 51.0% in a deal valued at Kshs 1.7 bn and in 2015, the SACCO further bought an additional 24.0% stake in the bank for Kshs 0.7 bn bringing its shareholding to 75.0%, after which the lender was rebranded to Spire Bank Limited. In 2020, Mwalimu National SACCO completed the acquisition of the remaining 25.0% stake in the bank in undisclosed fee taking the full ownership of the Bank. According to Central Bank of Kenya, Spire Bank was [ranked](#) at position 39 out of 39 banks in terms of composite market share, with a market share of 0.01% and a total of 12 branches countrywide as at 31st December 2022.

II. Spire Bank Limited Financial Review

Since the acquisition of Spire Bank by Mwalimu National SACCO in 2014, it has never recorded an annual profit, and at the time of its takeover by Equity Bank Limited, it had amassed losses of about 10.0 bn including the conversion of Kshs 3.4 bn of Mwalimu National SACCO deposit into equity. The chart below shows the profit/ (loss) recorded by Spire Bank Limited from 2013 to H1'2022:



The streak of losses recorded by the troubled lender is largely attributable to its high operating expenses which massively exceeded operating income, despite the lender laying down cost-cutting measures. Net Interest income has also been on a downward trajectory mainly due to the inability of the bank to lend as a result of low deposits and capital following huge customer withdrawals. The table below highlights key items on Spire Bank's income statement from 2018 to H1'2022:

Income Statement	2018	2019	2020	2021	H1'2022
Interest Income	773.0	555.5	346.8	292.6	119.7
Interest Expense	712.0	486.2	455.8	464.9	85.0
Net Interest Income	61.0	69.3	(109.0)	(172.4)	34.7
Net non-Interest Income	183.9	344.8	54.7	70.5	38.0
Total Operating Income	245.0	414.1	-54.3	-101.8	72.6
Total Operating Expense	(990.7)	(886.6)	(1,192.5)	(1,064.3)	(470.9)
Profit/ (Loss) before tax	(745.8)	(472.5)	(1,246.7)	(1,166.1)	(398.2)
Profit after tax	(2,254.9)	(472.5)	(1,246.7)	(1,167.5)	(398.2)

Additionally, Spire bank's financial statements indicates it has been experiencing massive withdrawals, with customer deposits dropping by 71.6% to Kshs 1.9 bn H1'2022 from Kshs 6.7 bn in 2018. The low customer deposit base has been a huge stumbling block for the bank, limiting its ability to lend. This is evidenced by 61.4% decline in net loans and advances to Kshs 1.7 bn in H1'2022 from Kshs 4.4 bn in 2018. The table below compares key elements in Spire Banks balance sheet from 2018 to H1'2022:

Cytonn Report: Spire Bank Balance Sheet (Amount in Kshs bn)					
	2018	2019	2020	2021	H1'2022
Net Loans and Advances	4.4	3.3	2.6	1.9	1.7
Total Assets	9.2	6.9	5.1	3.9	3.5
Customer Deposits	6.7	4.6	4.8	1.8	1.9
Deposits per branch	0.6	0.4	0.4	0.2	0.2
Total Liabilities	10.3	7.4	6.9	3.4	3.5
Shareholders' Fund	(1.0)	(0.6)	(1.8)	0.4	0.0

By 2018 the bank had breached all the statutory minimum capital adequacy requirements, and has been operating on the leniency of the regulator as it sought for a strategic investor. In H1'2022, its liquidity ratio was at 6.8%, 13.2% points below the statutory requirement of 20.0%, core capital to liabilities ratio was at negative 40.8%, a deficit of 48.8% points of the required 8.0%. The table below show a summary of the bank's management quality and capital adequacy ratios from 2018 to H1'2022:

Cytonn Report: Spire Bank Management Quality Ratios					
	2018	2019	2020	2021	H1'2022
Yield on Interest Earning Assets (YIEA)	0.8%	1.3%	(2.5%)	(5.6%)	1.2%
Net Interest Margin	3.2%	1.1%	(2.2%)	(6.4%)	(1.1%)
Gross Non-Performing Loan Ratio	44.0%	51.5%	58.6%	62.7%	64.7%
Return on Assets (ROA)	(23.2%)	(5.9%)	(20.8%)	(30.3%)	(33.5%)

Cytonn Report: Spire Bank Capital Adequacy Ratios					
	2018	2019	2020	2021	H1'2022
Core Capital/Total Liabilities	(25.1%)	(31.0%)	(55.0%)	(17.9%)	(40.8%)
Minimum Statutory ratio	8.0%	8.0%	8.0%	8.0%	8.0%

Excess/(Deficit)	(33.1%)	(39.0%)	(63.0%)	(25.9%)	(48.8%)
Core Capital/Total Risk Weighted Assets	(23.5%)	(21.9%)	(61.8%)	(12.1%)	(33.4%)
Minimum Statutory ratio	10.5%	10.5%	10.5%	10.5%	10.5%
Excess/(Deficit)	(34.0%)	(32.4%)	(72.3%)	(22.6%)	(43.9%)
Total Capital/Total Risk Weighted Assets	(22.0%)	(20.6%)	(60.6%)	(10.9%)	(32.2%)
Minimum Statutory ratio	14.5%	14.5%	14.5%	14.5%	14.5%
Excess/(Deficit)	(36.5%)	(35.1%)	(75.1%)	(24.5%)	(46.7%)
Liquidity Ratio	(10.1)	7.5%	7.7%	8.9%	6.8%
Minimum Statutory ratio	20.0%	20.0%	20.0%	20.0%	20.0%
Excess/(Deficit)	(9.9%)	(12.5%)	(12.3%)	(11.9%)	(13.2%)

III. Acquisition by Equity Bank Limited

In January 2023, Equity Bank Kenya Limited [announced](#) it had completed acquisition of certain assets and liabilities in Spire Bank Limited in a deal which would see Mwalimu National SACCO pay Equity Bank Limited Kshs 510.7 mn to settle the difference in liabilities and assets. The announcement came after Equity Bank Kenya Limited [announced](#) on September 12th 2022, that it had signed an Assets and Liabilities Purchase agreement with Spire Bank Limited in a transaction that would see Equity bank acquires approximately 20,000 deposit customers with deposit holdings of approximately Kshs 1.3 bn and 3,700 loan customers with loan balances of approximately Kshs 0.9 bn after statutory loan loss provisions. The table below shows the combined pro-forma financials for the two banks:

Cytonn Report: Combined Pro-forma Balance Sheet			
Balance Sheet	**Equity Group	*Spire Bank	Combined Entity
Net Loans (Kshs bn)	673.9	1.7	675.6
Customer Deposits (Kshs bn)	1,007.3	1.3	1,008.6
Total Assets (Kshs bn)	1,363.7	3.6	1,371.3
Total Liabilities Kshs bn)	1,209.7	2.9	1,212.6
No. of Branches	337	12	349

****Figures for the period ended 30th September 2022, *Figures for the period ended 30th June 2022**

Source: Equity Bank and Spire Bank Unaudited Financial Statements

In a summary, we estimate Mwalimu National SACCO's total losses since it took over Spire bank Limited, to be around Kshs 7.7 bn. In detail, it includes; (a) acquisition of the 75.0% stake in 2014 in a deal valued at Kshs 2.4 bn, (b) later acquiring the remaining 25.0% stake in 2020 at an estimated value of about Kshs 0.8 bn based on the value of its previous stake acquisitions, (c) the SACCO's Kshs 3.4 bn deposits in Spire Bank converted to Equity which had been wiped out due to string of losses registered by the lender, (d) currently obligated to pay Equity Bank limited Kshs 0.5 bn to cover the differences in liabilities and assets, and, (e) still holding 0.6 bn of customer deposits that were not acquired by Equity Bank Limited. The table below shows a summary estimate of losses incurred by Mwalimu National SACCO move in acquisition of Spire Bank Limited:

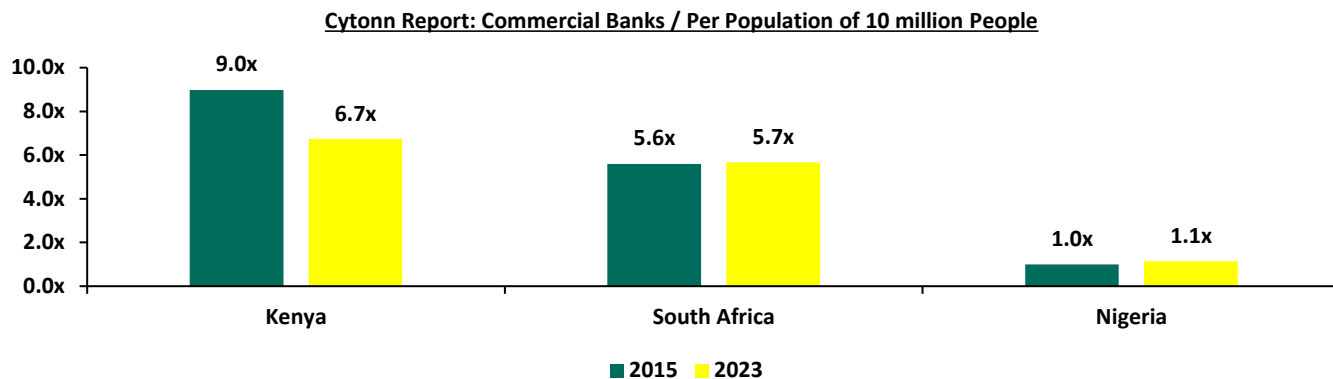
Cytonn Report: Estimated losses incurred by Mwalimu National SACCO in Spire Bank Ltd	
	Amount (Kshs bn)
Purchase of 75.0% stake	2.4
Acquisition of remaining 25.0% stake	*0.8
Converted deposits to Equity	3.4
Payment to Equity Bank Ltd	0.5
Unacquired deposit Liabilities	0.6
Total Losses	7.7

***estimate based on value of the previous stakes acquisitions**

IV. Conclusion

We applaud the deal as it salvaged thousands of Spire banks depositors from financial damages, as opposed to if the regulator had placed the bank under statutory management. We also expect the uniqueness of the transaction to boost confidence of depositors in the Kenyan banking industry, with the deal preventing the collapse of the bank,

following the collapse of other banking players such as, Chase Bank, Imperial Bank and Dubai bank. With the acquisition of Spire Bank Kenya, the number of commercial banks in Kenya has reduced to 38, and the ratio of the number of banks per 10 million populations in Kenya now stands at 6.7x, a decline from 6.9x recorded in H1'2022. The chart below compares commercial banks per population of 10 mn people in Kenya, South Africa and Nigeria.



Source: World Bank, Central Bank of Kenya, South Africa Reserve Bank, Central Bank of Nigeria,

Going forward, we anticipate more consolidation activities in the Kenyan Banking Sector as undercapitalized banks merges with well capitalized banks to establish strong industry players that can thrive in the market dynamic's and cutthroat competition.