CARE Ratings AFRICA

# Rating Rationale
# Bank One Limited

**Ratings**

| Facility/ Instrument | Amount | Rating | Rating Action |
|---|---|---|---|
| Issuer Rating | Not Applicable | **CARE MAU A+ (Is); Negative [Single A Plus (Issuer); Outlook: Negative]** | **Reaffirmed with change in outlook from Stable to Negative** |
| Tier II Bond Issue | Mur 800 Million | **CARE MAU A+; Negative [Single A Plus; Outlook: Negative]** | **Assigned** |

## RATING RATIONALE

The issuer rating assigned to Bank One Limited ("Bank One") was reaffirmed with change in outlook from **Stable to Negative** in view of the negative impact of lockdown, due to COVID-19 pandemic, in the different economies and businesses where Bank One has lending exposures leading to increased credit risk.

CRAF expects the projected contraction *(around 7.5%-15% by BOM)* in GDP growth of Mauritius in CY20, due to prolonged impact of the lockdown in various businesses, to have an impact on the future provisioning requirements and NPAs of banks in Mauritius.

CRAF has also assigned **CARE MAU A+; with outlook Negative** to the proposed Tier II Bond issue of up to Mur 800 million for a period of 10 years of Bank One. CRAF, based on interaction with management of Bank One, understands that the proceeds from the Bond issue will be utilised to improve further the capitalisation level of the Bank *(which are comfortably above regulatory levels)* as well as support the planned growth.

The rating assigned to Bank One continues to derive strength from the experienced and resourceful promoter groups (CIEL and I&M Groups), satisfactory track record of the bank, professional and highly qualified management team, comfortable Capital Adequacy Ratio ("CAR") above the regulatory norm, stable business performance with satisfactory contribution from non-interest income, consistent growth in low cost deposits over the last three years, comfortable asset-liability maturity profile, stable advances portfolio with stringent Non-Performing Assets ("NPA") recognition norms and satisfactory asset quality.

The rating outlook is however constrained by the fact that Bank One is a medium-sized bank in an increasingly competitive Mauritian banking sector. As other banks in Mauritius, Bank One is exposed to customer concentration risk both in the domestic & international markets, regulatory risks and interest rate volatility risk.

Key rating sensitivities remain the ability of Bank One to maintain its asset quality & profitability while growing its business, as well as maintaining comfortable liquidity, delivering on the proposed equity infusion by the promoters, ability to raise Tier II bonds to maintain capitalisation levels well above regulatory norms and reduce gearing from current levels.

The rating has been reaffirmed based on the confirmation from the management, that there will be an equity infusion of Mur 300 million by the promoters by June 30, 2020 and the Bank is also in discussion with investors to raise Tier II Bond issue of up to Mur 800 million by June 30, 2020 to support planned assets growth. CRAF will continue to monitor this situation and delay in equity infusion may trigger a review of the assigned rating.

## BANK BACKGROUND

Bank One, a Mauritius *(Mauritius Sovereign Rating - Moody's Baa1 Outlook: Negative, Outlook)* based mid-sized private sector bank, provides retail, corporate, and private banking products and services both in Mauritius and offshore. Headquartered in Port Louis, the bank provides a wide range of banking products and services to its clients through a network of 10 branches and a well-distributed ATM network. The bank has a client base of over 50,000 clients. As at March 2020, Bank One reported total deposits and advances of Mur 52 billion and Mur 30 billion respectively.

Bank One offers current, savings and term deposit accounts, personal finance, trade finance, corporate finance, treasury services and an array of other banking products to its customers.

Bank One is licensed by the Financial Services Commission to act as an insurance agent, distributor of financial products, investment advisor and custodian.

Bank One is governed by a 9-member Board of Directors comprising of experienced bankers and professionals. In March 2020, the Board of Bank One appointed Mr. Mark Watkinson as the Chief Executive Officer and director of the company in replacement to Mr. Ravneet Chowdhury. Mr. Mark Watkinson has a rich banking background, having worked in HSBC for 33 years and held senior leadership roles in 10 countries in North America, Europe, Asia and the Middle East. He is assisted by a team of professionals looking after various functions.

## CREDIT RISK ASSESSMENT

- ***Strong Promoters***

In February 2008, First City Bank was acquired by a joint venture of CIEL Finance Limited *(rated CARE MAU A+ Stable)* [75.1% subsidiary of CIEL Limited *(rated CARE MAU AA; Negative/CARE MAU A1+)*] and I&M Holdings Limited of Kenya. In August 2008, First City Bank was rebranded as Bank One Limited.

The Bank's shareholders are CIEL Finance Limited (CFL) and I&M Holdings (IMH) - holding 50% ownership each.

CFL is the specialised Banking & Financial Services cluster of the CIEL Group. CIEL Ltd. is a leading diversified investment company in Mauritius, with activities organized under five distinct business segments, namely Agro Industry & Property, Banking & Financial Services, Healthcare, Hotel & Resorts, and Textile.

IMH is part of the I&M Group (Kenya) with interest in Banking, Insurance, Manufacturing and Real Estate. It is one of the oldest companies to be listed on the Nairobi Securities Exchange (August 1950). Apart from Mauritius through Bank One, IMH also operates in four countries: Kenya, Tanzania, Rwanda and Uganda with a total of 79 branches and 1,764 employees.

- ***Professional and highly qualified management team***

Bank One has a highly qualified and experienced employee base of over 400 having large experience in their related field. The Executive team comprises of 10 seasoned bankers with considerable experience in the sector.

- ***Comfortable Capital Adequacy Ratio***

As at December 2019, Bank One Capital Adequacy Ratio (CAR) stood comfortable at 14.71% *(against a regulatory requirement of 11.875%),* and Common Equity Tier I (CET I) was 10.97% *(against regulatory requirement of 6.5%).* As on March 31, 2020 the bank reported a CAR of 13.53% *(against a regulatory requirement of 11.875%)*.

Bank One has previously raised subordinated debt/long term senior debts of Euro 10 million, USD 67.5 million from well-known International Financial Institution's (Proparco, IFC,DEG) and Mur 300 million from local investors.

- ***Stable business performance***

Bank One operates under 4 main segments: Retail, Corporate, Private and International banking.
Retail Banking ("RB") has witnessed growth of 43% in its total assets, despite a challenging domestic economic climate. The principal contributors for this growth have been the consumer and the housing segments. As part of its long-term strategy, the Bank has plans to review its distribution channels and products in 2020 with focus on digitalisation of the banking services.
Corporate Banking Division ("CBD") deals with the local business community consisting of major corporates as well as medium-sized companies, parastatal and other government regulated bodies. The bank's product offering ranges from short-term working capital and trade finance related products to medium and long-term project financing. In FY19, CBD managed to grow its assets and liabilities by 6% and 31% respectively. CBD deposits represent 15% of the Bank's total deposits.
Private Banking ("PB") is a segment which offers banking services to high net worth individuals both locally and cross border. Over the past years, PB has been successful in building a strong team offering a wide array of products and services including custody for assets under management.
International Banking Division ("IBD") remains the mainstay of the Bank, representing 46% of its total deposits. IBD raises foreign currency deposits which are deployed in offshore assets. IBD has a diversified assets base with an increasing share of the portfolio to Financial Institutions and Insurance backed securities.

Other than these four segments, the two other business lines contributing to the bank non-interest revenue are Treasury as well as E Commerce.

- ***Consistent growth in Deposits***

Bank One has a stable deposit base and the term deposits has witnessed good rollover rate (75-80%) in recent years. Total deposits which remains the Bank`s core source of funding grew by 44% in FY19. Low cost deposits represented 71% as on 31 December 2019.

| **Deposits** | **FY17** | | **FY18** | | **FY19** | |
|---|---|---|---|---|---|---|
| | ***MUR Million*** | **%** | ***MUR Million*** | % | ***MUR Million*** | % |
| Deposits-Demand | 11,307 | 40% | 15,673 | 47% | 24,463 | 51% |
| Deposits-Savings | 7,526 | 27% | 7,379 | 22% | 9,621 | 20% |
| Deposits-Term | 9,365 | 33% | 10,379 | 31% | 14,055 | 29% |
| **Total Deposits** | **28,299** | | **33,432** | | **48,139** | |
| **CASA** | **18,833** | | **23,053** | | **34,084** | |
| **CASA proportion** | **67%** | | **69%** | | **71%** | |
| **CASA Y-o-Y growth** | **21%** | | **22%** | | **47.9%** | |
| **Cost of deposit** | **2.11%** | | **2.13%** | | **2.36%** | |
| **Credit to Deposit Ratio** | **0.79** | | **0.83** | | **0.86** | |

Bank One offered 0.35 - 0.40% in saving deposit and around 3-4% in term deposits, depending on tenure of maturity. The bank continues its efforts towards improving its cost of funds both in local as well as foreign currencies whilst at the same time maintaining the right balance between short and long-term liabilities for efficient liquidity management. Banks' credit to deposit ratio has also remained stable over the past years.

| | **FY17** | **FY18** | **FY19** |
|---|---|---|---|
| **Deposits from customers** | ***MUR Million*** | | |
| Retail customers (Domestic) | 8,176 | 8,478 | 9,903 |
| Corporate customers (Domestic) | 4,790 | 5,568 | 6,457 |
| International customers | 15,172 | 19,268 | 30,880 |
| Government | 162 | 118 | 898 |
| **Total** | **28,299** | **33,432** | **48,139** |
| *Maturing within one year* | *26,073* | 31,320 | *45,665* |
| *Maturing in more than one year* | *2,226* | 2,112 | *2,474* |

International customers (both corporate and individuals) have been the major foreign currency deposit raising source for the bank (*contributing above 64% of the total Bank deposits*) with a growth of 60% in 2019. Retail Banking (domestic) remains one of the core local deposit raising arm of the Bank contributing above 17% of the total Bank deposits. Corporate Banking also achieved a robust performance, with the deposits book growing by 17% in 2019. Furthermore, 46% of the term deposits are more than Mur 100 million and 8% is less than Mur 5 million.

- ***Comfortable liquidity profile***

Bank One manages its liquidity on a prudent basis and ensures that the related statutory ratios are maintained throughout the year. No regulatory limits have been breached during last 5 years.

The ALCO meets monthly, or on ad hoc basis if required to review the economic outlook as well as the market risks affecting the bank balance sheet including the liquidity position. Daily liquidity management is done at Treasury level and a daily report is circulated to Management. The Bank's funding comprises mainly of customer deposits and borrowings, both short as well as long term. Short-term interbank deposits are taken on a limited basis and the Bank is generally a net lender to interbank market.

***Asset-Liability Maturity Profile as on 31 December 2019***

| | <1 month | 1-3 months | 3-6 months | 6-12 months | 1-3 years | >3 years | Non-maturity Items |
|---|---|---|---|---|---|---|---|
| **Assets** | **MUR Million** | | | | | | |
| Total assets | 18,234 | 5,240 | 6,901 | 7,422 | 16,498 | 9,786 | 1,631 |
| Total Liabilities | 32,359 | 10,154 | 1,643 | 4,621 | 4,359 | 3,687 | 1,734 |
| **Net liquidity gap** | **(14,125)** | **(4,914)** | **5,258** | **2,801** | **12,139** | **6,099** | **(102)** |
| **Cumulative gap** | **(14,125)** | **(19,039)** | **(13,781)** | **(10,980)** | **1,159** | **7,258** | **7,155** |

Bank One has cumulative negative mismatch in 1-month to 1 year time bucket, in a situation where withdrawal of entire low-cost deposits *(demand deposits & savings deposit)* happens within 1 month. However, it may be noted that the bank has witnessed around 30% annual growth in low-cost deposit for last 3 years *(48% growth in FY19)*. Furthermore, the high roll over rate of more than 75% of the term deposits during last 2 years also provides comfort.

***Asset-Liability Maturity Profile as on March 31, 2020***

| | <1 month | 1-3 months | 3-6 months | 6-12 months | 1-3 years | >3 years | Non-maturity items | Total |
|---|---|---|---|---|---|---|---|---|
| **Assets** | **MUR Million** | | | | | | | |
| Cash & cash equivalents | 12,157 | - | - | - | - | 914 | | 13,071 |
| Derivative assets held for risk management | - | - | - | - | - | - | 6 | 6 |
| Loans & advances | 15,579 | 9,427 | 2,728 | 189 | 409 | 592 | | 28,924 |
| Securities purchased under agreement to sell | - | 2,154 | - | - | - | - | - | 2,154 |
| Investment securities | 2,583 | 3,695 | 1,376 | 2,087 | 3,662 | 400 | - | 13,803 |
| Other assets | - | - | - | - | - | - | 2,056 | 2,056 |
| **Total assets** | **30,319** | **15,276** | **4,104** | **2,276** | **4,071** | **1,906** | **2,062** | **60,014** |
| **Liabilities** | | | | | | | | |
| Deposits | 43,374 | 2,143 | 1,932 | 2,272 | 2,332 | 387 | 53 | 52,493 |
| Derivative liabilities held for risk management | - | - | - | - | - | - | 5 | 5 |
| Other borrowed funds | - | - | 100 | 204 | 1,333 | 1,000 | - | 2,637 |
| Subordinated liabilities | - | - | - | - | 298 | 432 | - | 730 |
| Other liabilities | - | - | 35 | - | - | - | 645 | 680 |
| Lease liabilities | 5 | 10 | 10 | 10 | 10 | 10 | | 55 |
| Networth | | | | | | | | 3,414 |
| **Total Liabilities** | **43,379** | **2,153** | **2,077** | **2,486** | **3,973** | **1,882** | **650** | **60,014** |
| **liquidity gap** | **(13,060)** | **13,123** | **2,027** | **(210)** | **98** | **24** | **1,412** | **0** |
| **Cumulative Liquidity gap** | **(13,060)** | **63** | **2,090** | **1,881** | **1,978** | **2,002** | **3,414** | |

As on March 31, 2020, in the scenario that 100% withdrawal of low-cost deposits happens within one month, Bank One will have cumulative negative mismatch in the 1-month time bucket. However, the bank has adequate options available to fund such gaps such as:

- Disposal of its investment in securities held with BOM
- Sale of investments in International Treasuries
- Drawdown on repurchase agreements with BOM and other local banks

- Utilize the credit lines available with local and international banks
- Sale of listed bonds of International Banks, if required.

In October 2017, BOM introduced Guidelines on Liquidity Risk (which was further revised in March 2019) covering the Liquidity Coverage Ratio ("LCR"). The objective of the LCR is to ensure that a bank maintains an adequate stock of unencumbered High- Quality liquid assets (HQLA*) (that consist of cash or assets that can be converted into cash at little or no loss of value in private markets)* to meet its liquidity needs for a 30-calendar day time period under a severe liquidity stress scenario. The liquidity coverage as per LCR for Dec 2019 and March 2020 submitted by Bank One to BOM are comfortably above the 100% regulatory requirement as shown in table below:

| | December 2019 | March 2020 |
|---|---|---|
| LCR* # | 295% | 267% |

*#minimum LCR is 100%*

The bank is comfortable as far as its liquidity position is concerned with positive mismatches in the time buckets over 1 month with high amount of excess deposit held with BOM (Mur 290 million as on Dec 2019), healthy term deposit rollover rate as well as its ability to raise subordinated debt and capital.

Excess liquidity in the domestic money market of Mur 52 billion in May 21, 2020 can also be accessed during times of stress.

- ***Increase in liquid Investment portfolio***

Banks One's break up of investment is as under:

| Investments / As at 31 Dec | 2017 | | 2018 | | 2019 | |
|---|---|---|---|---|---|---|
| | Mur Million | (%) | Mur million | % | Mur million | % |
| **Investments in Mauritius** | | | | | | |
| Inv in GOM/BOM Securities | 3,400 | 81 | 2,630 | 39 | 5,347 | 32 |
| Investment in Shares | 3 | 0 | 38 | 0 | 38 | 0 |
| Investment in U.S. & U.K. Govt. Treasury Bills and Corporate Bonds issued by International Banks | 781 | 19 | 4,065 | 60 | 11,515 | 68 |
| **(A) Investments in Mauritius (net)** | **4,184** | 99 | **6,732** | **99** | **16,863** | **99** |
| **(B) Investments outside Mauritius (net)** | **33.8** | 1 | **33.8** | **1** | **37.2** | **1** |
| **Total investment (net)** | **4,218** | **100** | **6,766** | **100** | **16,900** | **100** |

Bank One's investment in GOM and BOM securities amounted to Mur 5,347 million, which forms 32% (FY18: 39%) of the aggregate investments as on Dec 31, 2019. In line with the fall in general interest rates, yield on investments excluding treasury profits decreased to 1.87% in FY19. In FY19, the bank has increased its investment in good rated liquid corporate bonds as well as other Govt securities.

The break-up of Investment in U.S. & U.K. Govt. Treasury Bills and Corporate Bonds issued by International Banks (as on Dec 31, 2019) are as under:

| Investment in Govt. Treasury Bills and Corporate Bonds | Amount | (Mur Million) |
|---|---|---|
| U.S. Govt. Treasury Bills | USD 149 Million | 5,428 |
| GBP – U.K. Govt. Treasury Bills | GBP 75 million | 3,345 |
| Bonds issued by International Banks | USD 70 Million | 2,742 |
| **Grand total** | | **11,515** |

The bank's investment in HTM securities are primarily in Bonds/T-Bills/T-Notes issued by GOM and Bank of Mauritius and other corporates. In FY19 total investment in Corporate Bonds were Mur 11,515 million (Mur 4,065 million in FY18). In HTM, maturity of Corporate Bonds and T-Bills aggregating to Mur 10,660 million is within 1 years and balance between 1-5 years.

AFS investment securities include mainly investment in BOM/GOM securities.

- ***Stable advances portfolio with customer concentration risk***

During FY19, the Bank's gross advances witnessed a growth of 18% (10% during FY18) which was a result of increase in exposures to domestic and international corporate. Gross loan book went up from Mur 23.6 billion as at December 2018 to Mur 29.9 billion as at December 2019 and to Mur 31 billion as at March 2020.

| | Dec-17 | Dec-18 | Dec-19 |
|---|---|---|---|
| **Loans & Advances to** | ***MUR Million*** | | |
| Retail customers (credit card, mortgages and other retail loans) | 3,397 | 4,067 | 6,004 |
| Corporate customers (Domestic) | 8,004 | 9,504 | 10,279 |
| Corporate customers (International) | 6,346 | 7,098 | 6,645 |
| Banks in and outside Mauritius | 3,707 | 2,944 | 4,912 |
| Securities purchased under agreement to resell | - | - | 2,038 |
| **Total** | **21,454** | **23,613** | **29,878** |

Bank One is exposed to corporate customer concentration risk, since its top 20 domestic corporate customers account for 70% of domestic exposure and top 20 International Corporate customers' accounts for 94% of international exposure.

Bank One's exposure to related party (CIEL group & I&M group) as on December 31, 2019 was 2.5% of net advances and 33% of Tier I Capital.

The bank's fund-based exposure to major industries is as under:

| Sector | FY 17 | FY 18 | FY 19 |
|---|---|---|---|
| Construction | 19% | 16% | 22% |
| Financial services | 19% | 22% | 17% |
| Trade | 16% | 15% | 14% |
| Tourism | 11% | 10% | 11% |
| Agriculture & fishing | 6% | 6% | 5% |
| GBC | 4% | 4% | 3% |
| Manufacturing | 7% | 4% | 1% |
| Other (Transport, Personal, Professionals etc.) | 18% | 23% | 27% |
| **Total** | **100%** | **100%** | **100%** |

Exposures by region is shown in the table below:

| | FY17 | FY18 | FY19 |
|---|---|---|---|
| Eastern Africa | 36% | 31% | 15% |
| North America | 12% | 0.3% | 14% |
| Europe | 12% | 20% | 29% |
| Asia Pacific | 15% | 25% | 9% |
| Middle East | 8% | 9% | 5% |
| Southern Africa | 6% | 11% | 14% |
| Western Africa | 6% | 4% | 10% |

- ***Satisfactory Asset Quality***

| Particulars | FY17 | FY18 | FY19 | Q1FY20 |
|---|---|---|---|---|
| Gross NPAs at beginning of the year | 1,226 | 1,345 | 1,169 | 1,226 |
| Additions during the year | 425 | 51 | 348 | 680 |
| Reduction during the year (asset up gradation, cash recovery and technical write –off) | 306 | 227 | 291 | 41 |
| **Gross NPAs at the closing of the year** | **1,345** | **1,169** | **1,226** | **1,865** |
| Gross Advances | 22,185 | 24,657 | 29,000 | 30,434 |
| Net Advances | 21,454 | 23,613 | 27,841 | 28,925 |
| Net worth | 2,326 | 2,480 | 3,316 | 3,195 |
| Gross NPA/Advances (%) | 6.06% | 4.74% | 4.23% | 6.13% |
| Net NPA /Advances (%) | 3.82% | 1.79% | 1.13% | 2.21% |
| Net NPA/Net worth (%) | 35.19% | 17.09% | 9.42% | 20.01% |
| Provision Coverage (%) | 39.13% | 63.75% | 74.52% | 65.73% |

Gross NPA of the bank as on December 31, 2019 and Q1FY20 was Mur 1,226 million and 1,865 million respectively. The Top 15 NPAs contributes 90% of the Gross NPAs value.

During FY19, Bank One's Gross NPA ratio improved to 4.23% as against 4.74% during FY18. Furthermore, Net NPA stood at 1.13% as against 1.79% during FY18. Provision coverage ratio was 75% during FY19 indicating reasonable provisioning in the existing NPA assets. Sufficient tangible collateral covered the remaining 25%. In compliance with the `Macro-prudential policy measures for the Banking Sector` issued by the Bank of Mauritius, the Bank maintained additional portfolio provisions on certain specific sectors.

Bank One follows a prudent impairment policy, whereby all loans and advances past due above 90 days are automatically classified as impaired.

In March 31, 2020, Bank One has impaired an exposure of USD 15 million (Mur 593 million) to a UAE Group that has been subject to shareholder fraud. This caused the Gross NPA ratio to deteriorate to 6.13% and Net NPA stood at 2.21%.

Accordingly, for the quarter ending March 2020, Bank One took additional impairment provisions of Mur 352 Million for overall increase in credit risk due to COVID-19 pandemic as well as for the UAE exposure mentioned above.

- ***Stable financial performance***

| For the period ended (MUR Million) | FY17 | FY18 | FY19 |
|---|---|---|---|
| **Interest income** | | | |
| Income from Investment in securities | 141 | 172 | 316 |
| Loans and advances to customers | 831 | 1,078 | 1,143 |
| Loans and advances to banks | 34 | 77 | 94 |
| **For the period ended (MUR Million)** | **FY17** | **FY18** | **FY19** |
| Int. from Inter Bank Lending | 75 | 68 | 131 |
| ***Total Interest Income*** | **1081** | **1,396** | **1,684** |
| Fees and commission Income | 271 | 500 | 671 |
| Profit/(loss) on Sale of Investment (Treasury profit) | 15 | 148 | 7 |
| Profit/(loss) on Exchg. Trans. | 83 | 103 | 138 |
| ***Non-Interest income*** | **369** | **751** | **816** |
| **TOTAL INCOME** | **1450** | **2,147** | **2,500** |

Net interest income went up by 14% in FY19, over FY18 due to growth in advances book. The Bank achieved a PAT of Mur 630 million, with significant increase of 60% over FY18.

The Bank delivered a reasonable Return on Net worth of 21.74% and Return on Average Assets of 1.32% despite the challenging business environment both locally and on the international front.

In Q1FY20, Net interest income went up by 9% over Q1FY19 due to higher disbursements in half year ended FY19. Non-interest income went up by 21% over Q1FY19.Total deposits grew by 9% amounting to Mur 52 billion during the quarter compared to Mur 48 billion in FY2019, contributed by both local and international business.

Bank One reported profits before provisions for impairment of Mur 200 million in Q1FY20. However, the bank PAT was impacted by COVID-19 and UAE related provisions as well as other additional impairment provisions resulting into a loss of Mur 152 million in Q1FY20.

## INDUSTRY RISK

As on March 31, 2020, twenty banks were licensed by the Bank of Mauritius, of which 5 were local banks, 9 were subsidiaries of foreign banks, 1 joint venture, 1 private bank and 4 were branches of international banks. Mauritius banking sector is dominated by 2 large banks Mauritius Commercial Bank (MCB) and State Bank of Mauritius (SBM).

The banking industry is characterized by the following attributes:

- Excess liquidity (MUR 52 billion in May 2020)
- Low Non-performing loan ratio (5.5% in June 2019)
- Large exposure to international assets (Mur 257 billion in Dec 19) and domestic assets (Mur 275 billion in Dec 19).
- Credit to deposit ratio of 0.74x and
- 12% plus return on net worth (RONW).

The economy of Mauritius has been the most dynamic in the Sub-Saharan region in spite of its relatively low level of growth. The economy grew at 3.6% in 2019 compared to 3.8% growth in 2018 according to Statistics Mauritius. Although the services industry is the major contributor to the country's GDP, Mauritius possesses a diversified economy in several sectors including offshore financial activities, the textile industry and the production of sugarcane. Finance and insurance activities remains the highest contributor to overall growth in Mauritius. In addition, other developing sectors such as medical tourism, outsourcing, new technologies and the luxury industries also contributed to the economic growth of the country.

In 2020, like most economies worldwide, the Mauritian economy is impacted by the COVID-19 pandemic. The sectors most at risk include tourism, manufacturing in particular exports of textile, wholesale and storage, business and administrative activities, ICT/BPO, transportation amongst others.

These sectors account for nearly 40% of GDP. The uncertainty associated with the outbreak of COVID-19 is also likely to influence consumer and business confidence, which can potentially dent domestic spending and investment.

COVID-19 is thus having a significant impact on the banking sector. The most visible impact has been in impairments which are being driven by assumptions on the following:

- Unemployment rate – affecting borrower's ability to meet contractual payments;
- GDP – impacting company performance and collateral valuations;
- Inflation – impacting the likelihood of default.

On the domestic front, the pandemic is currently predicted to result into a contraction of 7-15% for the Mauritian economy in 2020. The budget deficit, which has evolved in a stable range of 3–3.5% of GDP since 2013, is estimated to increase significantly to 13.6% in 2020, largely due to the COVID-19 crisis. Headline inflation stood at 1.50% in April 2020, and is expected to increase further in CY20 due to COVID-19 led disruption in global supply chain and depreciation of the Mauritian currency vis-à-vis those of its trading partners. Key Repo Rate decreased in April 2020 to 1.85% (2.85% in March 2020 and 3.35 in August 2019). Banks' Savings deposit and Prime lending rates ranged between 0.25-0.35% and 4.10-5.05% respectively as at end-May 2020.

However, Government of Mauritius, through the Bank of Mauritius (BOM), introduced several measures to support economic operators across all sectors impacted by COVID-19.

- Wage assistance scheme;
- Commercial loan at 1.50% for 2 years;
- 6 month moratorium on capital and interest (corporates & individuals);
- BoM to bear cost of interest on households earning less than Mur 50,000 (combined);
- Reduction of cash reserve ratio by 1% to be utilized for lending;
- Delayed implementation of the 0.625% increase in the capital conservation buffer and
- Establishment of the Mauritius Investment Corporation to support systemically important sectors.

COVID-19 will result in lower ROE's for banks in 2020. However, Bank's with adequate capital, strong shareholder support, and good recovery & restructuring capabilities will be at an advantage.

## REGULATORY GUIDELINES

The Guideline on Credit Impairment Measurement and Income Recognition was revised in 2019, with definitions for 'large credit' changed and new sections brought about in relation to the classification and assessment of credit impairment, application of prudential norms in credit classification and provision for credit losses, and restructured loans to align to the International Financial Reporting

Standards and global best practices. However, the implementation date of the guideline has been postponed.

In 2019, the Bank of Mauritius made several amendments to several Banking guidelines. The Guideline on Liquidity Risk Management was revised to require banks to report their Liquidity Coverage Ratios (LCRs) twice a month compared to the earlier monthly reporting.. Details on the computation of Fund Based and Non-Fund Based exposures have been removed from BOM's Guideline on Credit Concentration Risk, and the requirement to define exposure value of on-balance sheet items as the accounting value of the exposure, net of specific provisions and value adjustments was added to the guideline.

## PROSPECTS

Bank One's prospects will rely on the continued ability to further strengthen its capital, ensuring acceptable asset quality and protecting the profitability. Equity infusion by the promoters to support growth is a key rating sensitivity.

**Financial Performance** **Mur Million**

| As on | 31/12/2017 | 31/12/2018 | 31/12/2019 |
|---|---|---|---|
| | 12 m | 12m | 12m |
| Interest Income | 1,081 | 1,395 | 1,685 |
| Non-Interest Income | 369 | 751 | 816 |
| **Total Income** | **1,450** | **2,147** | **2,501** |
| Interest Expenses | 367 | 442 | 597 |
| **Net Interest Income** | **714** | **954** | **1,087** |
| Operating Expenses (Incl. Depreciation) | 638 | 1,206 | 1,164 |
| Provisions (excl tax) | 11 | 340 | 95 |
| **PBT** | **401** | **449** | **661** |
| **PAT** | **374** | **393** | **630** |
| Deposits | 28,299 | 33,432 | 48,139 |
| Borrowings | 636 | 3,390 | 3,163 |
| Tangible Net worth | 2,326 | 2,480 | 3,316 |
| Advances | 21,454 | 23,613 | 29,879 |
| Investments | 4,218 | 6,732 | 16,900 |
| Cash & cash equivalents | 4,222 | 7,685 | 6,648 |
| Total Assets | 31,582 | 39,758 | 55,388 |
| **Key Ratios (%)** | | | |
| Interest Income/Avg. Interest Earning Assets (a) | 4.65 | 4.52 | 3.75 |
| Interest Expenses / Avg. Interest Bearing Liabilities (b) | 2.32 | 2.28 | 2.49 |
| **Interest Spread (a-b)** | **2.33** | **2.24** | **1.26** |
| **Net Interest Margin (NIM)** | **2.51** | **2.67** | 2.29 |
| Operational Expenses / Avg. Total Assets | 2.25 | 3.38 | 2.45 |
| Cost / Income | 54% | 65% | 0.51 |
| Operational Expenses / Total Income | 0.36 | 0.43 | 0.31 |
| Treasury Income/PBT | 3.74% | 32.95% | 1.05% |
| Yield on advances (Int on Adv/Avg Adv) | 4.42 | 4.63 | 3.58 |
| Cost of Deposits (Interest on deposits/ Av. Deposits) | 2.11 | 2.13 | 2.36 |
| **Core Spread** | **2.31** | **2.50** | 1.23 |
| **Credit Cost [Prov. & Write-off / Avg. Total Assets] (%)** | **0.27%** | **1.68%** | 0.50% |

| As on | 31/12/2017 | 31/12/2018 | 31/12/2019 |
|---|---|---|---|
| | 12 m | 12m | 12m |
| **ROTA** | **1.32** | **1.10** | 1.32 |
| **RONW** | **17.26** | **16.37** | 21.74 |
| Overall Gearing (times) | 12.44 | 14.85 | 15.47 |
| **Capital Adequacy Ratio (BASEL III)** | 12.93 | 12.99 | 14.71 |
| Tier I Capital Adequacy Ratio | 9.40 | 9.09 | 10.97 |
| Credit/Deposit ratio (times) | 0.79 | 0.83 | 0.86 |
| CASA Proportion (%) | 66.90 | 68.95 | 70.80 |
| Gross NPA to Gross Advances (%) | 6.06 | 4.74 | 4.23 |
| Net NPA to Net Advances (%) | 3.82 | 1.79 | 1.05 |
| Net NPA to Tangible Net worth (%) | 35.19 | 17.09 | 9.42 |
| Restructured assets to total net advances (%) | 1.46 | 1.49 | 0.01 |
| Restructured assets to net worth (%) | 13.50 | 14.23 | 0.1 |
| Gross Stressed Assets as a % of Gross Advances | 7.23% | 6.45% | 4.11% |
| Net Stressed Assets as a % of net worth | 44.04% | 31.31% | 9.52% |

**Adjustments**

1. Tangible net worth is calculated by netting off intangible assets from total equity.
2. GCA is calculated as PAT+ Depreciation + deferred tax+ other non-cash expenditure.
3. Overall Gearing ratio is calculated as total debt (long and short-term debt)/Tangible Net worth.
4. Total Assets and Total AUM is calculated after deducting Deferred Tax and Intangible Assets from Total Assets

## Details of Instrument

### 1. Details of proposed Bond Issue

| Instrument | Amt. (MUR Million) | Repayment |
|---|---|---|
| Tier II Bond<br>(Unsecured and Subordinated) | 800 | 10 years (June 2030)<br>Callable after June 2025 |