CARE Ratings AFRICA

Rating Rationale
Bank One Limited

Ratings

Facility/Instrument	Amt. (MUR Million)	Rating	Rating Action
Issuer Rating	Not Applicable	**CARE MAU A+ (Is); Stable [Single A Plus (Issuer); Outlook: Stable]**	**Assigned**

Rating Rationale

The issuer rating assigned to Bank One Limited ("Bank One") derives 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") well above the regulatory norm, stable business performance with 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 is however constrained by the fact that Bank One is a medium-sized bank in an increasingly competitive Mauritian banking sector and the banks' exposure to customer concentration risk both in the domestic & international market, regulatory risks and interest rate volatility risk.

Ability of Bank One to maintain asset quality & profitability while growing its business, maintaining comfortable liquidity and capitalisation levels well above regulatory norms act as the key rating sensitivities.

BACKGROUND

Bank One, a Mauritius based medium-sized private sector bank, serves the Retail, Corporate, and Private banking segments both in Mauritius and offshore (primarily in Africa). Headquartered in Port Louis, the bank provides a wide range of banking products and services to its clients through a network of 13 branches and a well-distributed ATM network in Mauritius. The bank has over 50,000 clients and manages a deposit and net advance of Mur 28.2 billion and Mur. 21.5 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 was incorporated in March 2002 as *Del Subs Company Limited*. It was renamed as *First City Bank Ltd.* in May 2002. In February 2008, First City Bank was acquired by a joint venture of CIEL Finance Limited [75.1% subsidiary of CIEL Limited (rated 'CARE MAU AA; Stable', 'CARE MAU A1+')] and I&M Holdings Limited of Kenya with both entities owning sizeable banking operations in Madagascar, Kenya, Tanzania and Rwanda. In August 2008, First City Bank was rechristened as *Bank One Limited.*

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 also has a representative office in South Africa. The bank also offers treasury services.

Bank One is governed by a 9-member Board of Directors comprising of experienced bankers and professionals. The strategic affairs of the Bank are looked after by Mr. Ravneet Chowdhury (CEO), who has a rich banking background, having worked in a number of international banks throughout the African continent. He is assisted by a team of professionals looking after various functions. Mr. Chowdhury reports to the Board of Directors.

CREDIT RISK ASSESSMENT

Satisfactory track record with experienced promoters group

Bank One has a successful operational track record of more than 15 years. For the last 10 years, the Bank is being managed by CIEL Group (market capitalization of USD 345 million as on December 2017) and I&M Holdings (market capitalization of USD 430 million as on December 2017). Bank One's ownership is shared equally between CIEL Finance Limited ("CFL") and I&M Holdings Limited ("IMH").

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), shortly after its incorporation. IMH operates in four countries: Kenya, Tanzania, Rwanda and Mauritius with an aggregate of 79 branches and 1,764 employees. Minard Holdings Limited ("MHL") holds 21.37% stake in IMH. MHL is a family holding company controlled by Mr. S.B.R Shah.

Bank One's exposure to related party (Ciel group & I&M group) as on December 31, 2017 was 4.44% of net advances and 44% of Tier I Capital (60% as per Bank of Mauritius ("BOM") Guideline).

Professional and highly qualified management team

Bank One has a highly qualified and experienced employee pool of above 350 staff having large experience in their related field. The Executive team comprises of 10 seasoned bankers with different banking backgrounds.

Comfortable Capital Adequacy Ratio

As per Basel III guidelines, Banks in Mauritius are required to maintain a minimum Capital Adequacy Ratio of 10.625% in FY17, 11.25% in FY18, 11.875% in FY19 and 12.5% in FY20 and thereafter. As at December 2017, Bank One`s CAR stood comfortable at 12.93% (against a regulatory requirement of 10.625%), and Common Equity Tier I (CET I) ratio was 9.40% (against regulatory norm of 6.5%).
In FY16, Bank One has raised subordinated debt/liabilities from a well-known International Financial Institution for a period of 10 years. CAR as on March 31, 2018 was 12.57%.

Stable business performance

Bank One operates under 4 main segments: Retail, Corporate, Private and International banking.
Retail Banking ("RB") has witnessed growth of 6% in its total assets, despite a challenging domestic economic climate. The principal contributors for this growth have been the SME and the housing segments. RB remains one of the core local deposit raising arm of the Bank. As part of its long-term strategy, the Bank has plans to launch new segments, review its distribution channels and products in 2018 and 2019 with particular focus on digitalisation of the banking services
Corporate Banking Division ("CBD") deals with the local business community consisting of major top listed 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 financing.
International Banking Division ("IBD") grew its assets by 30% in FY17 over FY16 and contributes above 34% to the total bank`s assets. The assets growth has done very selectively with particular focus on the quality of Assets being onboarded. The liability pool also grew by over 24% during the year and the bulk of the growth came from low-cost deposits.
Treasury has maintained a stable performance in FY17 as compared to FY16. Treasury has been able to maximize on the falling interest rate scenario on local market.

For the period ended (MUR Million)	FY15	FY16	FY17
Interest income			
Income from Investment in securities	52	89	141
Loans and advances to customers	694	790	831
Loans and advances to banks	34	26	34
Int. from Inter Bank Lending	123	118	75
Total Interest Income	**903**	**1023**	**1081**
Fees and commission Income	319	412	271
Profit/(loss) on Sale of Investment (Treasury profit)	9	0.4	15
Profit/(loss) on Exchg. Trans.	72	84	83
Non-Interest income	**401**	**496**	**369**
TOTAL INCOME	**1304**	**1519**	**1450**

In FY15 and FY16, the bank collected an important share of its Fees and commission from E-commerce business whose market was principally focussed on the US. However, elections in the US and the subsequent decisions reduced the E-commerce transaction by US clients, which led to lower collection of fees and commission in FY17. The company has reviewed its strategy and diversified its operations to Asian as well as European countries with the objective to increase the related income on E-commerce activities.

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 (90%) grew by 28% in FY17 with CASA proportion at 67% as on 31 December 2017.

Deposits	**FY15**		**FY16**		**FY17**	
	MUR Million	**%**	***MUR Million***	**%**	***MUR Million***	**%**
Deposits-Demand	6,950	40%	8,751	39%	11,307	40%
Deposits-Savings	6,090	35%	6,847	31%	7,526	27%
Deposits-Term	4,282	25%	6,589	30%	9,466	33%
Total Deposits	**17,322**		**22,187**		**28,299**	
CASA	**13,040**		**15,598**		**18,933**	
CASA proportion	**75%**		**70%**		**67%**	
CASA Y-o-Y growth	**16%**		**20%**		**21%**	
Cost of deposit	**2.53%**		**2.42%**		**2.11%**	
Credit to Deposit Ratio	**0.79**		**0.73**		**0.78**	

The Bank offers 1.9% 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.

	FY15	**FY16**	**FY17**
Deposits from customers	***MUR Million***		
Retail customers (Domestic)	6,089	7,218	8,176
Corporate customers (Domestic)	2,108	3,477	4,790
International customers	9,026	11,125	15,172
Government	98	367	162
Total	**17,322**	**22,187**	**28,299**
Maturing within one year	*16,399*	*20,479*	*26,073*
Maturing in more than one year	*923*	*1,708*	*2,226*

Retail Banking (domestic & international) remains one of the core local deposit raising arm of the Bank contributing above 38% of the total Bank deposits with a growth of 48% in 2017. Corporate Banking also achieved a robust performance, with the deposits book growing by 39% in 2017. 50% of the term deposits are more than Mur 100 million and 12% is less than Mur 5 million.

Comfortable liquidity profile

Bank One manages its liquidity on a prudent basis and ensures that the statutory minimum cash reserve requirements are maintained throughout the year. No statutory 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 2017

	<1 month	1-3 months	3-6 months	6-12 months	1-3 years	>3 years	Non-maturity items
Assets	**MUR Million**						
Total assets	8,263	2,892	5,673	3,748	8,854	7,202	2,651
Total Liabilities	21,257	1,384	1,700	1,575	1,760	1,408	454
Net liquidity gap	**(12,995)**	**1,508**	**3,973**	**2,174**	**7,094**	**5,794**	**2,197**
Cumulative gap	**(12,995)**	**(11,487)**	**(7,513)**	**(5,340)**	**1,754**	**7,548**	**9,745**

Bank One has cumulative negative mismatch in 1-month time bucket (based on a static scenario), primarily considering withdrawal of entire low-cost CASA deposits (demand deposits & savings deposit) within 1 month, which is very unlikely. However, it may be noted that the bank has witnessed 15- 20% annual growth in CASA deposit for last 3 years. This apart more than 75% rollover of term deposits during last 2 years also provides comfort.

In case of stressed liquidity issues, the bank can dispose of its investment in securities with BOM and make use of other funding options to meet any shortfall.

In October 2017, BOM has introduced a revised Guidelines on 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. Bank One's last 5 months cumulative LCR is as under:

	January 2018	February 2018	March 2018	April 2018	May 2018
LCR* #	125%	197%	289%	101%	167%

#minimum LCR is 100%

Stable advances portfolio with customer concentration risk

Bank One's focus is to cater to Corporate customers and banks in International market. During FY17, the Bank's net advances witnessed a growth of 39.3% (19.7% during FY16) which was a result of increase in exposures to domestic and international corporate.

	Dec-15	Dec-16	Dec-17
Loans & Advances to		***MUR Million***	
Retail customers (credit card, mortgages and other retail loans)	3,568	3,040	2,957
Corporate customers (Domestic)	5,602	6,217	7,947
Corporate customers (International)	2,815	4,118	6,442
SME	350	375	400
Banks in and outside Mauritius	534	1,650	3,707
Total	**12,869**	**15,401**	**21,453**

Bank One is exposed to corporate customer concentration risk, since its top 20 domestic corporate customers account for 80% of domestic exposure and top 20 International Corporate customers accounts for 90% of international exposure. The Bank manages concentration risk in a dynamic way and has set internal deposit limits for both individuals and groups. In domestic market the bank`s strategy has been to acquire the top corporates locally. In the international market, the bank`s strategy has been to lend to renowned Corporates, Investment grade rated Sovereigns, Sovereign guaranteed exposure, participate in syndicated transaction but with a cap in terms of maximum exposure.

In the corporate credit segment, maximum exposure has shifted from the vulnerable construction sector in FY16 to that of the Financial & Business Services. Further 60% of the exposures in the construction sector relate to retail mortgages. The bank’s fund-based exposure to major industries is as under:

Sector	FY 15	FY 16	FY 17
Financial services	9%	17%	33%
Construction	28%	21%	14%
Trade	19%	19%	13%
Tourism	8%	6%	9%
Manufacturing	6%	5%	6%
Agriculture & fishing	4%	5%	5%
Total	**74%**	**73%**	**80%**

In FY17, Eastern Africa accounted for 36% of the Country Risk exposure. The concentration risk to Eastern Africa has reduced substantially from 63% in FY16. The Bank has diversified its country risk with greater exposures towards North America, Asia Pacific and Southern Africa.

	FY 16	FY17
Eastern Africa	63%	36%
North America	2%	15%
Europe	12%	12%
Asia Pacific	8%	15%
Middle East	5%	8%
Southern Africa	0.3%	6%
Western Africa	9%	6%

Satisfactory Asset Quality

In compliance with IAS 39 and BOM guideline on Credit Impairment and Income Recognition, the Bank held portfolio provisions of Mur 206 million on its performing loan book as at December 2017, representing above 1% of the performing loan portfolio. In compliance with the `Macro-prudential policy measures for the Banking Sector` issued by the Bank of Mauritius in October 2013, the Bank maintained additional portfolio provisions on certain specific sectors booked as General Reserve as an appropriation of Retained Earnings.

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

Particulars	**FY 15**	**FY 16**	**FY 17**
	MUR Million		
Gross NPAs at beginning of the year	941	1,184	1,226
Additions during the year	402	483	425
Reduction during the year (asset upgradation, cash recovery and technical write -off)	159	441	306
Gross NPAs at the end of the year	**1,184**	**1,226**	**1,345**
Provisions	**594**	**531**	**526**
Net NPA at the end of year	**590**	**695**	**819**
Gross Advances	13,609	16,106	22,185
Net Advances	12,869	15,400	21,453
Networth	1,699	2,010	2,326
Gross NPA/Advances (%)	8.70%	7.61%	6.06%
Net NPA /Advances (%)	4.59%	4.51%	3.82%
Net NPA/Networth (%)	34.73%	34.56%	35.19%
Provision Coverage (%)	50.16%	43.31%	39.13%

Gross NPA of the bank as on December 31, 2017 was Mur. 1,344.7 million. Majority of the NPA are from legacy accounts pertaining to lending prior to FY08.

During FY17, Bank One's Gross NPA ratio improved to 6.06% (5.50% as on March 2018) as against 7.61% during FY16. Out of total gross NPA of Mur 1,345 million as on 31 December 2017, 33% corresponds to top 20 customers against which the entity has already created a provision of Mur 131 million.

Stable financial performance

Net interest income went up by 2% in FY17, over FY16 as the increase in assets happened primarily during H2FY17. The Bank will therefore benefit fully from the related income in FY18. The Bank continues its efforts and commitment to uplift the skills of its team members, which resulted in an increase of 17% in the staff related costs. The Bank achieved a PAT of Mur 374 million an increase of 20% over FY16.

The Bank delivered a reasonable Return on Networth of 17.26% and Return on Assets of 1.32% despite the challenging business environment both locally and on the international front.

Bank' assets book witnessed a growth of 25% in FY17 contributed by both local and offshore business. Total deposits grew by 28% during the year contributed by both local and international business. Gross loans book went up by 38% during the year under review reaching Mur 22.2 bn as at December 2017 as compared to Mur 16.1 bn in December 2016.

Despite an increase of 10% in the impairment level from Mur 1.2bn as at December 2016 to Mur 1.3bn for the same period in 2017, the impairment ratio improved significantly from 7.61% to 6.06% as at

December 2017. Recovery actions started in prior years paid off well with substantial assets recovered during the year.

Industry Risk

Mauritius banking industry is characterized by excess liquidity (Mur 27.5 billion in May 2018), low Non-performing loan ratio (6.8% in Dec 2016), large exposure to international assets, with domestic asset quality being under stress due to underperformance of construction & tourism sector, credit to deposit ratio of 0.74x and 12% plus return on networth.

The economy of Mauritius is among the most dynamic in the Sub-Saharan region in spite of its relatively low level of growth. The economy grew at 3.9% in 2017 compared to 3.8% growth in 2016 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. 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. Medical tourism, outsourcing, new technologies and the luxury industry are among the growing sectors.

The financial and insurance sector growth is expected to gather momentum and increase by 5.5% in 2018, in line with the implementation of major public infrastructure projects and expected uptick in private sector investment. This is expected to provide support to credit offtake in FY18. In parallel, planned initiatives by the Bank of Mauritius to absorb excess liquidity should help uphold margins.

Regulatory Guidelines: FY17 saw amendments made to several Banking guidelines. The Guideline on Credit Impairment Measurement and Income Recognition was revised, 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. The Central Bank established new operational frameworks for primary dealers and foreign exchange market makers. The aim is to develop the secondary market in Government papers and improve liquidity levels, while creating well-functioning money and foreign exchange markets. Four banks were appointed as Primary Dealers and Market Makers. Guidelines on liquidity risk, after factoring in the Basel Framework for Liquidity Coverage Ratio was also introduced.

Prospects

The bank's prospects depend upon its ability to shore up its capital, continue the momentum to raise low cost deposit, expand its presence in the retail sector and maintain its profitability, asset quality & CAR at satisfactory levels.

Financial Performance

Mur Million

As on	FY15	FY16	FY17	Q1FY17	Q1FY18
	Audited			Un-audited	
Interest Income	903	1,023	1,081	259	311
Non-Interest Income	401	496	369	79	95
Total Income	**1,304**	**1,519**	**1,450**	**338**	**407**
Interest Expenses	294	323	367	90	95
Net Interest Income	**608**	**699**	**714**	**169**	**216**
Fees and commission expenses	152	200	123		
Operating Expenses (Incl. Depreciation)	481	493	547		
Provisions (excl tax)	165	154	11	13	48
PBT	**211**	**349**	**401**	99	77
PAT	**227**	**312**	**374**	**92**	**80**
Deposits	17,322	22,187	28,299	22,327	27,253
Borrowings	885	713	636		
Tangible Net worth	1,699	2,010	2,326	2,181	2,429
Advances	12,869	15,400	21,454	14,373	22,229
Investments	2,526	3,791	4,218	4,253	3,740
Total Assets	20,194	25,185	31,582	31,593	30,577
Key Ratios (%)					
Interest Income/Avg. Interest Earning Assets (a)	5.48	5.29	4.65		
Interest Expenses / Avg. Interest Bearing Liabilities (b)	2.72	2.57	2.32		
Interest Spread (a-b)	**2.76**	**2.73**	**2.33**		
Net Interest Margin (NIM)	**3.19**	**3.08**	**2.51**		
Operational Expenses / Avg. Total Assets	4.00	3.58	2.25		
Cost / Net Income	71	61	54		
Operational Expenses / Total Income	47	40	36		
Treasury Income/PBT	4.45	0.11	3.74		
Yield on advances (Int on Adv/Avg Adv)	5.79	5.34	4.42		
Cost of Deposits (Interest on deposits/ Av. Deposits)	2.53	2.42	2.11		
Core Spread	3.26	2.92	2.31		
Credit Cost [Prov. & Write-off / Avg. Net Advances] (%)	**1.72**	**1.36**	**0.27**		
ROTA	1.19	1.37	1.32		
RONW	14.86	16.80	17.26		
Overall Gearing (times)	10.71	11.39	12.44		
Capital Adequacy Ratio (BASEL III)	12.92	12.93	12.93	14.52	12.57
Tier I Capital Adequacy Ratio	10.12	9.24	9.40		
Gross NPA to Gross Advances (%)	8.70	7.61	6.06		
Net NPA to Net Advances (%)	4.59	4.51	3.82		
Net NPA to Tangible Net worth (%)	34.73	34.56	35.19		
Restructured assets to net worth (%)	67.32	58.05	8.81		

Adjustments

1. Tangible networth is calculated by netting off intangible assets and revaluation reserve from total equity.
2. Overall Gearing ratio is calculated as total debt (subordinated debt + Total Deposits + Total borrowings)/Tangible Networth.
3. Total asset is calculated by netting off intangible assets, revaluation reserve and deferred tax liability.

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