ANNEXURE A - Rating Rationale
Banyan Tree Bank Limited

Ratings

Facility/Instrument	Amount	Ratings*	Remarks
Fixed Deposit Programme	USD 150 Million (equivalent to Mur 5.4 billion)	**CARE MAU BBB+; Stable [Triple B Plus; Outlook: Stable]**	**Reaffirmed**

**Please note that the rating does not consider the impact of any capital controls that may be imposed by the government authorities in Mauritius that may restrict access/convertibility/use of foreign currency.*
The explanatory notes regarding the rating symbols of CARE Ratings (Africa) Private Limited ("CRAF") are attached as Annexure I

Rating Rationale

The rating factors in the experienced promoters and management team, moderate asset quality, higher capital adequacy than regulatory requirement and low gearing.

The rating is, however, constrained by moderate scale of operations with deposit & asset concentration risk, slower than anticipated scale up of operations during the last 3 years, significant withdrawal of deposits during last 2 years leading to contraction of the bond investment portfolio, reduced in low cost CASA deposit, continuous decline in profitability during last 3 years, volatility of profit due to market and currency risk, small size of the bank in the banking sector of Mauritius and potential volatility due to market related risks.

Ability to scale up operations profitably, ability to improve profitability and maintain asset quality in fresh disbursements, diversification in loan portfolio and market risks on assets are key rating sensitivities.

The rating outlook is stable and may be revised with improvement in profitability, further diversification in loan portfolio and growth in deposits.

BACKGROUND

BanyanTree Bank ("BTB") is promoted by Mr. Sanjiv Singhal who is also the promoter & Managing Director of India based Banyan Tree Capital Advisors. Indo-Mauritian business persons and global strategic investors are also shareholders in BTB. 12.23% shareholding is with Sanjiv Singhal & his daughter (through a Singapore company – Neemtree Advisors), 10% is with Mauritian entities (groups / individuals), 10% with employee trust and rest with individuals predominantly from the financial services sector.

BTB was incorporated in Mauritius on 11th June 2012 and received its banking license from the Bank of Mauritius (BoM) on 6th September 2012. Commercial operations effectively started in 2013. The growth has been at a steady & cautious pace and it has received the backing of some large investors. While in the initial years, BTB was focusing on raising funds and investing in short term/medium term bonds of Indian & foreign banks, however since CY16 the bank is steadily trying to reduce investment in corporate bonds and focus on lending to corporates in Mauritius, the United Kingdom, the Middle East and Asia for tenures mainly ranging between 1-2 years. The long-term lending and expansion strategies and introduction of new products are expected to give results in future.

Total assets stood at MUR 3.5 Bn on December 2018 and MUR 3.8 Bn on June 2019 (MUR 4.2 Bn on December 2018).

Mr. Sanjiv Singhal, the promoter and the vice-chairman, has spent 15 years in banking (firstly with Citibank and later with SCB). He holds an MBA from Wharton Business School (USA), an MA with distinction from the University of Essex, UK and a BA with honours from Delhi University.

The Bank operates from its corporate office in Ebene Cybercity (Mauritius) with 24 employees. The Bank also has opened a customer lounge in Port Louis (Mauritius).

CREDIT RISK ASSESSMENT

Experienced Promoters and Management

The promoters and management have experience in the financial & banking sector. The presence of a local shareholder (Terra Maurice group) and Mr. Marcel Posthuma provides stability to the profile of the bank and helps attract domestic and international deposits.

BTB is managed by a team of experienced banking and financial sector professionals having worked in different segments and geographies (including India and Mauritius). The origination and initial appraisal of loan portfolio is done by management. The operative model for BTB is focused fully towards wholesale banking and private banking while retail banking operations are very limited.

In March 2018, Mr. Robert Oliver Martin Green joined as CEO in BTB, prior to which he was an Independent Director. He has over 40 years of experience in the international banking sector split equally between Bank of Boston and Standard Chartered Bank. He is a seasoned risk professional with core expertise in corporate credit risk management particularly in South Asia and South East Asia.

BTB is in the process of expanding its team size in Mauritius at senior management level. BTB has recently appointed Mr. Parvin Jain as a Deputy CEO & Treasury Head and Mr. Deenesh Ghurburrun as Compliance Head.

BTB also has experienced Board of Directors that provides strong oversight. Non-Executive Chairman of the Board was Mr. Jagdish Capoor up to March 2019. . In FY18, BTB has appointed Mr. Mark William Jenner, Mrs. Gail Johnson-Goring, Mr. Mohammed Iqbal Belath and Mr. Rajiv Servansingh as an Independent directors. In line with Corporate Governance requirements, Mr. Sanjiv Singhal has resigned from the Board of Directors. Recently, Mr. Rajiv Servansingh (Director of Economic Development Board) has been appointed as the Chairman of BanyanTree Bank Limited.

During the year the Bank closed its representative office in Dubai. Most employees were transferred to a new entity - BanyanTree Asset Management Limited (BTAML), which is licensed by the Dubai Financial Services Authority to provide asset management and other advisory services. BTAML will work closely with the BTB in sourcing liabilities and custody business.

Moderate scale of operations

BTB is one of the smallest banks in Mauritius. But its growth has been at a steady & cautious pace and it has received the backing of some of the large investors. While in CY14 & CY15, BTB was focusing on raising fund and investing in short term/medium term Bonds of Indian & foreign banks, however with induction of new management, the bank is steadily trying to reduce investment in Corporate Bonds and focus on lending to Corporates in U.K. generally

for a period of 1 year and Dubai & Mauritius for a longer tenure. However, in CY18 and CY17, there has been contraction in the bond portfolio due to withdrawal of deposits.
BTB is continuously increasing its business through focus on lending to Corporates, fund managers and individuals based out of Mauritius, London and Dubai.

Improvement in capital adequacy and gearing

Capital Adequacy Ratio ("CAR") was 17.42% as of December 2018 and 17.37% as of December 2017 and 16.80% as of June 2019 (including Tier II capital of Mur 73 million). As per Basel III guidelines, banks in Mauritius are required to maintain a minimum CAR of 11.25% for FY18, 11.875% for FY19 and 12.5% for FY20. BTB has computed its CAR on 31 December 2018 in compliance with the requirements of the regulatory guidelines on Basel III as well as the macro-prudential measures introduced by BOM, effective July 2014.
Tier II capital of MUR 73 million was raised in May 2017 as a subordinated loan for 10 years from an individual. BOM has also allowed BTB to consider the same for CAR calculation.

Gearing of the bank has also improved from 7.14x as on December 2017 to 7.08x as on December 2018 and 6.62x as on June 2019.

Resource profile and Liquidity position

BTB's CASA has decreased from 23.3% in Dec 17 to 14.3% in Dec18. The deposit base, after declining in FY18, has stabilized at the same level as on June 30, 2019.

As on / for the period ending (Mur Million)	Dec-17	Dec-18	June 19
Deposits	2,988	2,533	2,482
Borrowings	642	455	740
Subordinated debt	74	74	74
Total Deposits & Borrowings	**3,704**	**3,602**	**3,296**
Tangible Net worth	**519**	**432**	**498**
Overall gearing (x)	**7.14**	**7.08**	**6.62**
CASA (%)	**23.3**	**14.3**	**-**

There was a decline in total deposits from MUR 3.0 billion in FY17 to MUR 2.5 billion in FY18, primarily due to withdrawal of deposits by few parastatal bodies.

Despite such withdrawals, BTB is consistently raising deposit from private companies and Govt bodies. Deposits face moderate concentration risk as 37% is from top 4 investors. Rate of interest on deposit varies from 1-5%.
BTB accept deposits in MUR, USD, GBP and EUR. Since most of the assets are in USD, deposits in foreign currencies are hedged by taking derivatives to convert these currencies to USD liabilities. BTB's position are fully hedged barring its equity investment in BLA power.
BTB has maximum deposits in USD (64.5%) and the balance in MUR (31.3%), GBP (2.3%) and EUR (1.9%).
BTB's borrowings are from J. Safra Sarasin Ltd (Swiss Bank), Banque Internationale à Luxembourg S.A. and Global Prime Bank. BTB has entered into a credit facility agreement with these Banks and BTB can borrow funds against its bond portfolio. These loans formed around 22% of total deposits & borrowings of BTB as on June 30, 2019 (13% as on Dec 31, 2018 and 17% as on Dec31, 2017). The positions are hedged as assets are matched with the liabilities for both maturity and currency.

Moderate asset quality

BTB has Investments in Corporate Bonds and GOM T-Bills (47% of total assets as on Dec18 vis-à-vis 56% in Dec 17) and loans & receivables from customers (37% of total assets as on Dec 18 vis-à-vis 31% in Dec 17). Cash and cash equivalents was 11% of total assets as on June 30, 2019 (6% on Dec18 and 9% in Dec 17). Movement of BTB's loans and advances to customers & investment in securities are as under:

Particulars	**30-Dec-17 MUR million**	**% of portfolio**	**30-Dec-18 MUR million**	**% of portfolio**	**30-June-19 MUR million**	**% of portfolio**
Investment in Corporate Bonds	1,913	53%	1,447	47%	1,635	50%
Investment in T-Bills	100	3%	-	0%	-	
Loan & Receivables from customers	1,111	31%	1,136	37%	1,362	41%
Equity Shares & CCD (BLA Power)	26	1%	16	1%	16	1%
Investment in Kotak Advantage Banking Fixed Fund & Alpen (in USD)	490	13%	493	16%	250	8%
Total	**3,640**	100%	**3,092**	100	**3,263**	
Cash & cash equivalents	**375**		**211**		**411**	
Total Assets	**4,235**		**3,503**		**3,834**	

The majority of BTB's investment (50% in June 19 and 47% in Dec 18) are in Corporate Bonds, which are investment grade on international scales. BTB also has investment in 2 mutual funds: Kotak Opportunities Fund and Alpen Asset Advisors Fund, which are managed by the company and can be disinvested anytime, if required.
BTB has been rebalancing its total investments portfolio by growing its Loans Book (MUR 421 million in FY15 to MUR 1,136 million in FY18 and Mur 1,362 million in June 19) and reducing its Corporate Bonds investments. This apart, BTB is also selling its Investment in Corporate Bonds to repay the deposits and strategically reducing its debt.

As on June 30, 2019, BTB doesn't have any NPA in its Corporate Bonds portfolio. However, in FY17 and FY18, BTB has made specific provision of USD 0.29 million and USD 0.9 million on its investments in BILT and BLA power.
BTB has investment in BILT Bond (USD 2.3 million equivalent to Mur 77 million). BILT is facing operational difficulties and consequently they have deferred coupon payment as per the agreed terms of bond issue. The bond issue is a perpetual and is not in default as BILT has the right to defer coupon payments and pay during redemption (2021). However, as a part of prudent policy, BTB is not accruing the interest income on BILT Bonds in its P/L and has taken a charge of USD 0.29 million in FY17 and USD 0.60 million in FY18.
As on June 30, 2019, BTB doesn't have any NPA in its loans and receivables portfolio.In CY16, 2 of BTB's Mauritius based client with an aggregate outstanding exposure of MUR 1.77 million as on Dec 31, 2016 defaulted in payment of principle and interest for more than 90 days and went into administration. BTB has made a provision of MUR 1.77 million in P/L account in FY16. This apart BTB has no NPA or delinquent asset in its 6-year history.

Satisfactory Liquidity

In October 2017, BOM has introduced a revised Guidelines on Liquidity Coverage Ratio ("LCR"), whereby all banks are required to calculate and submit LCR. BTB's LCR, (MUR & USD), stood at 397% on 30th June 2019.

BTB has a positive cumulative liquidity gap both in short and long term. BTB also has credit lines with J. Safra Sarasin Ltd. and Banque Internationale à Luxembourg (the oldest Luxembourgish private bank) which can be utilised when there is need for additional liquidity. BTB's Asset-Liability Maturity Profile as on June 30, 2019:

At 30 June 2019 (Mur Million)	Up to 1 month	1-3 months	3-6 months	6-12 Months	1-3 years	Over 3 years
Net liquidity gap	**1,591**	**(1,399)**	**(111)**	**792**	**(362)**	**79**
Cumulative liquidity gap	**1,591**	**192**	**82**	**874**	**511**	**590**

Market related risks

Risks including currency risk, market risk and country risks are likely to lead to volatility in the business performance.
Market risk on the bond portfolio is actively managed. Investments are predominantly in the AFS bucket.
Currency risk is also actively managed within the regulatory limits. The regulations imposed by the BOM that limit the overall foreign exchange exposure to 15% of Tier I capital and a single currency exposure to 10% of Tier I capital where exposure is defined as net open position in that currency (sum of net forward position and net spot position).
Presence of these risks, along with mark to market requirements under IFRS and translation gains / losses are likely to lead to volatility in profits.

Volatility in profitability in FY18 & H1FY19

All banks in Mauritius are affected by currency risk and face volatility in reported profits as liabilities are raised both in USD and MUR. Also, many banks have exposures outside of Mauritius (Africa / Asia) which add to the currency risk. There are also mark-to-market changes due to IFRS that are visible in financials.

In FY18 (Jan-December), BTB's total income declined to MUR 205 million (MUR 243 million in FY17) due to reduced earnings momentum (caused by the withdrawal of deposits in FY17 and FY18) and lower non-interest income. In FY18, the costs increased due to higher provisioning (Mur 40 million), introduction of IFRS9, higher personnel costs and Dubai restructuring. This in turn resulted in BTB posting a loss of MUR 72 million in FY18 (loss of MUR 41 million in FY17).
Provisions on financial assets of MUR 40 million was recognized in FY18 and Mur 8 million in H1FY19 in line with adaptation of IFRS 9 leading to provisioning of loans and advances (as per BOM Guidelines) and also additional provisioning in Corporate Bond book (BILT and BLA Power). IFRS 9 was implemented by the Bank on 1st Jan 2018, requiring in effect a doubling of its general provision on loans.
In H1FY19 (Jan-June 19), BTB posted a PAT of Mur 38 million due to lower operating expenses, higher fees & commission income and marked-to-marked profit of Mur 34 million due to sale/revaluation of its investments in Corporate bonds and Kotak Advantage Banking Fixed Fund & Alpen (USD), on account of appreciation of USD vis-a-vis Mur. Till September 2019, BTB has already booked around 50% of the MTM profit as cash profit, by selling its investment in Kotak Advantage Banking Fixed Fund & Alpen (USD).

Prospects

The banking sector in Mauritius has to be seen in the overall context of the economy. Mauritius is growing as an international finance center and that is the key driver that determines the nature of its banking system. There are 21 licensed banks of which 8 are domestic banks in Mauritius that are not subsidiaries or branches of foreign banks. Given this market structure, the business models in Mauritius or any other finance centre would be more heterogeneous than the traditional inward-looking banking structures focused on domestic markets.

BTB has a wholesale banking model which is different from the traditional banking models. It has grown rapidly and the growth rate is expected to continue given that it has a low base of operations and that the assets it is looking at are not constrained by local geography. Overall the bank's ability to scale up operations profitably, improvement in resource profile, maintain liquidity & capital adequacy, diversification in asset quality of loans portfolio and market risks on assets are key rating sensitivities

Financials *(MUR Million)*

Particulars	**Dec-16**	**Dec-17**	**Dec-18**	**Jun-18**	**Jun-19**
	12M	**12M**	**12M**	**6M**	**6M**
	(Audited)			**(Unaudited)**	
Interest Income	250	221	211	114	100
Non-Interest Income	67	22	(7)	5	43
Total Income	317	243	205	119	142
Interest Expenses	132	91	87	44	40
Net Interest Income	118	130	124	70	60
Operating Expenses (Incl. Depreciation)	140	141	164	83	70
Provisions on financial assets	2	16	40	11	7
Net Foreign Exchange Gains (Losses)	(10)	(36)	13	17	12
PBT	32	(40)	(73)	(2)	38
PAT	33	(41)	(72)	(16)	38
Other comprehensive income	9	51	(12)	-	28
Total Comprehensive PAT	43	10	(84)	(16)	66
Deposits	3,453	2,988	2,533	2,371	2,482
Borrowings	1,940	643	455	418	740
Subordinated debt	-	74	74	74	74
Total Deposits & Borrowings	5,394	3,705	3,062	2,863	3,296
Tangible Net worth	509	519	432	503	498
Cash & Cash Equivalents	1,314	375	211	339	411
Advances	744	1,100	1,136	1,118	1,363
Investments	3,673	2,527	1,956	1,821	1,902
Total Assets	5,928	4,235	3,503	3,412	3,834
Key Ratios (%)					
Interest Income/Avg. Interest Earning Assets (a)	4.76	5.45	6.23	-	6.20
Interest Expenses / Avg. Interest Bearing Liabilities (b)	2.29	2.00	2.58	-	2.51
Interest Spread (a-b)	2.47	3.45	3.65	-	3.69
Net Interest Margin (NIM)	1.88	2.56	3.21	1.84	3.25
Operational Expenses / Avg. Total Assets	2.24	2.77	4.23	2.16	3.79
Cost to Income Ratio (%)	75.76	92.35	139.35	109.89	67.93
Operational Expenses / Total Income (%)	44.26	57.79	79.94	69.31	48.86
Non-Interest Income / Total Income (%)	21.20	9.15	(3.24)	3.97	29.98
Credit Cost [Prov. & Write-off / Avg. Total Assets] (%)	0.34%	1.75%	3.55%	0.01	0.59%
ROTA	0.53	(0.81)	(1.86)	(0.41)	2.05
RONW	6.82	(7.96)	(15.15)	(3.10)	16.19
Overall Gearing (times)	10.60	7.14	7.08	5.69	6.62
Capital Adequacy Ratio	10.62	17.37	17.42	20.31	16.80
Tier I Capital Adequacy Ratio	10.62	17.37	17.42	-	
Credit/Deposit ratio (times)	0.73	0.82	1.01	-	0.99
CASA Proportion (%)	18.22	23.26	14.28	-	-

Adjustments

1. Tangible networth 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 Networth.
4. Total Income is the sum of Interest income, Fees & Commission income, Foreign exchange gain/ (loss) and other income.