Rating Rationale
CIEL Finance Limited

Ratings

Instrument	Amount (MUR Million)	Rating	Rating Action
Bond Issue	500	**CARE MAU A+ Stable [Single A Plus; Outlook: Stable]**	**Reaffirmed**

Rating Rationale

The rating assigned to the bond of MUR 500 million of CIEL Finance Limited ("CFL") has been reaffirmed at CARE MAU A+ Stable. The rating continues to derive strength from a strong parentage of CIEL and Amethis group, experienced and resourceful promoters, professional and experienced management team, satisfactory performance of various affiliates in banking & financial sector of Mauritius and Madagascar, strong operational and financial parameters of major dividend (80-90%) paying company - BNI Madagascar, successful performance of KIBO Funds with track record of profitable exit from majority of the investments in KIBO Fund I and satisfactory financial performance with low gearing & high debt service coverage indicators.

The rating is however constrained by high dependency on dividend income from affiliates – which is primarily contingent on the performance of BNI Madagascar, high level of competition in Mauritian and Madagascar banking segment, low penetration rate of banking operations in Madagascar, dependency of the operations of BNI Madagascar to the political and economic environment of the country and its exposure to foreign currency fluctuation risk and interest rate risks.

The rating is sensitive to operational & financial performance of major dividend paying bank – BNI Madagascar, turnaround in performance in Bank One, political & economic stability in Madagascar and successful exit from the KIBO funds in timely manner.

BACKGROUND

CIEL Finance Limited ("CFL"), incorporated in February 2013, is the investment holding company for the Finance cluster of CIEL group. CFL is engaged in banking, fiduciary services, private equity investment and asset management services.

At the time of inception, CFL was wholly owned, controlled and managed by CIEL Limited. CIEL group is one of the largest industrial and investment groups based in Mauritius with operations across African and Asian countries. In 2015, Amethis Africa Finance Limited acquired 24.9% stake of CFL. Amethis is one of the leading investment fund managers dedicated to the African continent, with an investment capacity exceeding €725 Million and is led by a team of experienced investors and bankers.

In 1992, CIEL group ventured into the financial sector by setting up Investment Professionals Limited (IPRO), which is engaged in providing discretionary portfolio management (pension funds and private clients) and fund management services (Mauritius and India). Mauritius International Trust Company

Limited (MITCO) is another subsidiary of CFL which is one of the Tier 2 players in the offshore sector of Mauritius.

In 2008, CIEL made an entry into the banking sector through the acquisition of First City Bank Limited (subsequently renamed as Bank One) in a joint venture with I&M Holdings of Kenya. Bank One (rated CARE MAU A+ Negative) is among the fastest growing bank in Mauritius.

In 2014, CIEL acquired a controlling stake in BNI Madagascar, the oldest and second largest commercial bank of Madagascar. In 2015, CIEL transferred the stake in BNI Madagascar to CFL.

CFL also owns a 39.7% stake in KIBO Fund LLC (KIBO I), 8.3% stake in KIBO Fund II LLC (KIBO II) and a 50% stake in KIBO Capital Partners Limited which manages the two private equity funds (KIBO I and KIBO II). It holds 23% in a stockbroker, LCF Securities Ltd. (along with the IBL group) and 100% in CIEL Finance Data Services Ltd.

CFL is a professionally managed company. It is currently governed by a Board of 9 Directors, comprising of 1 Executive Director, 7 Non-executive directors and 1 Independent Non-Executive Director. The day to day operations of the company are looked after by Marc Emmanuel Vives and assisted by a team of experienced professionals. Mr. Vives joined CFL as CEO in September 2014. He holds a master's degree in business administration from HEC Business School France and had more than 25 years of experience at Société Générale.

CREDIT RISK ASSESSMENT

Experienced and resourceful promoters with strong parentage of CIEL and Amethis group

CFL's promoters, Dalais family of CIEL group, have been engaged in providing financial services in Mauritius since 1992. CIEL is one of the largest industrial and investment groups based in Mauritius with operations in African and Asian countries. Apart from Mauritius, the CIEL group clusters are present in Maldives through the hotel industry, Tanzania and Kenya through the agricultural industry, Uganda and Nigeria through the healthcare sector, Kenya, Seychelles, Madagascar & Botswana through the finance industry and Madagascar, India and Bangladesh through the textile industry. CIEL Limited is rated CARE MAU AA; Negative/CARE MAU A1+, and six of CIEL group companies are also rated, namely City and Beach Hotels (Mauritius) Limited [CARE MAU A-; Under Negative Watch with negative implication], Bank One [CARE MAU A+; Negative], The Medical and Surgical Centre Limited (CARE MAU A; Stable/ CARE MAU A1), Alteo Limited (CARE MAU A Stable), Aquarelle International Limited (CARE MAU A Stable) and Aquarelle India Private Limited (CARE BBB Stable).

The other shareholder, Amethis Africa Finance Limited, is engaged in various businesses through their committed investment and ambitious development strategies. Amethis is a partnership between its founders, Luc Rigouzzo and Laurent Demey, and Edmond de Rothschild Private Equity, a subsidiary of the Edmond de Rothschild Group.

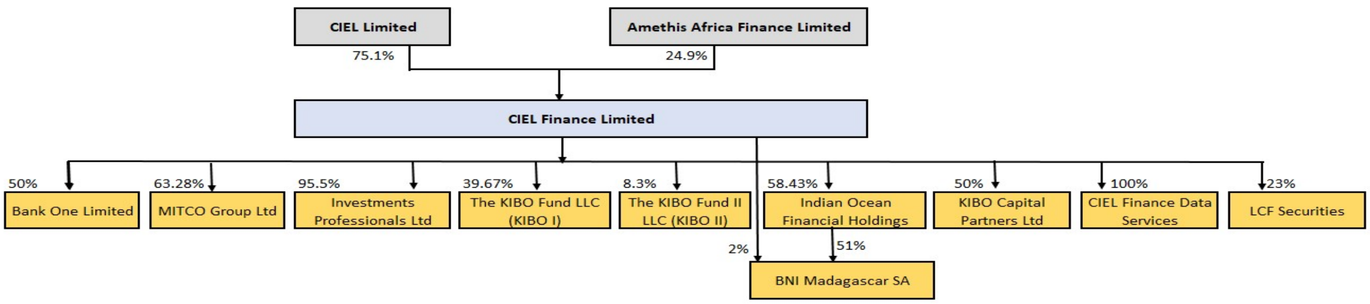
During FY19 and FY20, total dividend received by CFL was MUR 238 Million and MUR 199 Million respectively.

Professional and qualified management team

CIEL Finance Limited has a qualified and experienced employee pool having vast experience in their related field. CFL Group's improvement in operational efficiency over the years can be attributed to its sound management team. Each affiliate is then managed by a CEO and team of professionals.

Established group with strong presence in banking and financial sector

CFL operates in different countries with its major operations being in Mauritius and Madagascar. It holds participations in 2 banks, 1 fiduciary business, 1 private equity business with 2 funds, 1 asset management business and a minority stake in a stockbroking company. The summarised group structure and activities of the major group companies are as under:



Particulars (Amt. in MUR Million)	Period of reporting	Business	Stake (%)	Revenue**		PAT		Dividend Pay-out		Debt	
				CY	PY	CY	PY	CY	PY	CY	PY
BNI Madagascar (BNI)	Dec 19	Banking	2***	3,013	2,502	753	549	444	369	1,423*	437
Bank One Limited	Dec 19	Banking	50.0	2,501	2,147	630	393	138	79	3,163	3,390
Indian Ocean Financial Holdings Ltd. (IOFHL)	Dec 19	Investment holding company of BNI	58.4	252	208	245	201	245	205	0.0	0.0
MITCO Group Ltd****	June 20	Management Services	63.28	225	204	34	51	20	49	0.0	0.0
IPRO	June 20	Investment advisor	95.5	14	32	5	11	3	2	0.5	0.0
The KIBO Fund LLC II	Dec 19	Investment entity	8.3	192	259	145	188	-	-	0.0	0.0

**BNI has availed of short term loans as part of its funding mix.*
*** Revenue includes- Interest income, Fees & Commission income, Foreign exchange gain/ (loss) and other income.*
****CFL directly holds 2% stake in BNI Madagascar.*
*****During the year CFL increased its share in MITCO Group Ltd. from 61.2% to 63.28%.*

Investment in group companies

As on June 30, 2020, CFL had a total investment of MUR 3,853 million (MUR 3,886 million as on June 30, 2019) in its various business verticals.

Consistent flow of dividends from various group companies

CFL's revenue for last 4 years is generated in the form of the dividends from various group companies.

Dividend Income from Companies	Dividend received (MUR Million)			
	FY17	FY18	FY19	FY20
Indian Ocean Financial Holdings Limited (Holding company of BNI Madagascar)	133	114	132	170
BNI Madagascar	8	13	14	15
Bank One Limited	13	40	69	0
MITCO Group	33	28	23	12
Investments Professionals Limited	-	2	0	2
Total	**187**	**197**	**238**	**199**

Over last few years, CFL has received majority of the dividend (85-90%) from IOFHL (controlling holding company of BNI Madagascar), BNI Madagascar and Bank One. MITCO is also a stable dividend paying company. Going forward as from FY22, 95% of the dividend will be paid by IOFHL, BNI and Bank One.

Indian Ocean Financial Holdings Limited - holding company of BNI Madagascar

Indian Ocean Financial Holdings Limited (IOFHL) was incorporated in Mauritius in December 2011. The shareholders of IOFHL are CIEL Finance (58.4%) and First Immo, a part of Axian Group (41.6%). In June 2014, CIEL Limited and the Hiridjee Group (now Axian) acquired 51% of BNI Madagascar shares held by Crédit Agricole SA, through IOFHL. As on date, the principal activity of IOFHL is investment holding company, holding the stake in BNI Madagascar. Its major source of revenue is dividend from BNI Madagascar. IOFHL is a debt free company.

Strong financial and operational parameters of BNI Madagascar

BNI Madagascar (BNI) is one of the two largest commercial banks in Madagascar (out of 11 commercial banks) and occupies around 25% of the Malagasy banking market with a deposit base of MUR 23 billion and advances of MUR 16 billion as on December 31, 2019. It is the largest bank in the corporate banking segment of Madagascar with over 1,000 employees, 94 branches and a network of more than 100 ATMs. It was formed in 1919 as the result of the merger between two local banks, Crédit Foncier and Caisse de Crédit Agricole. BNI offers all the services of a universal bank (retail, corporate, SME banking, etc.). It serves a client base of some 283,000 companies, SMEs, professionals and private customers (to which should be added around 366,000 customers of nano-loans and nano-deposits subscribed exclusively through mobile phones). In June 2014, IOFHL, a subsidiary of CFL and First Immo, acquired a majority stake in BNI. As on June 30, 2020, shareholding of BNI is as under:

Name of the Company	*Stake in BNI*
Indian Ocean Financial Holding Limited	51.00%
State Government of Madagascar	32.58%
First Immo	10.00%
Individual Personnel and former staff of BNI Madagascar	4.42%
CIEL Finance	2.00%

First Immo is part of the Axian group of Madagascar, owned by the Hiridjee family. The Hiridjee family has been present in Madagascar for 5 generations and Axian has a leading presence in the telecommunications sector, energy and petroleum products distribution, and real estate, among others.

As at December 31, 2019, BNI`s CAR was comfortable at 9.5% (regulatory requirement of 8.00%), and Common Equity Tier I (CET I) ratio was 8.3%. CAR as on June 30, 2019 was 10.5%.

BNI has a stable deposit base and the term deposits have witnessed good rollover rate (75%) in recent years. Total deposits, which remain the Bank`s core source of funding, grew by 19% in FY19 (13% in FY18) with CASA proportion at 88% as on December 31, 2019. As at June 30, 2020, BNI offered interest in the range of 1% - 4%, depending on tenure of maturity. The Bank's credit to deposit ratio has also remained stable over the past years.

Net interest income went up by 15% in FY19 over FY18 due to growth in advances booked (27%). The Bank will therefore benefit fully from the related income in FY20. The Bank achieved a PAT of MUR 753 million, an increase of 39% in FY 19 over FY18. The financial performance of BNI is as under:

Particulars	FY17 (MUR Million)	FY18 (MUR Million)	FY19 (MUR Million)
Total Income	2,057	2,502	3,013
Interest Expenses	386	497	607
Net Interest Income	973	1,098	1,249
PAT	477	549	753
Dividend	369	369	444
Deposits	17,612	19,839	23,273
Borrowings	404	442	1,423
Tangible Net worth	1,776	2,007	2,322
Advances	10,893	12,562	15,798
Investments	2,606	3,878	4,427
Cash & cash equivalents	3,233	3,121	3,277
Total Assets	21,574	24,539	29,378
Gross NPAs	1,337	1,255	1,273
Key Ratios (%)			
Net Interest Margin (NIM)	4.92	4.76	4.66
ROTA	2.41	2.38	2.81
RONW	27.36	29.01	34.99
Overall Gearing (times)	10.15	10.10	10.64
Capital Adequacy Ratio (BASEL II)	11.0%	10.5%	9.5%
Gross NPA to Gross Advances (%)	11.52	9.11	8.06
Net NPA to Net Advances (%)	2.94	1.89	2.21
Net NPA to Tangible Net worth (%)	18.05	11.85	15.04

Asset-Liability Maturity Profile as on 31 December 2019

	<1 month	1-3 months	3-12 months	1-5 years	>5years
	MUR Million				
Total assets	9,855	5,479	3,624	10,023	551
Total Liabilities	4,069	11,101	3,540	9,646	1,176
Net liquidity gap	**5,786**	**(5,622)**	**84**	**377**	**(625)**
Cumulative gap	**5,786**	**164**	**248**	**625**	**0**

BNI has a favourable asset-liability maturity profile. This apart, BNI has a deposit of MUR 7.6 billion with Central Bank of Madagascar or invested in Treasury Bonds or G-Sec of Madagascar Government.

Satisfactory financial and operational parameters of BANK ONE [CARE MAU A+; Negative]

Bank One, one of the fastest growing banks in Mauritius, provides a wide range of banking products and services to its clients through a network of 10 branches and a well-distributed ATM network. It has over 50,000 clients and as at June 30, 2020 manages deposits and net advance of MUR 55 billion and MUR 28 billion respectively.

As at December 31, 2019, Bank One`s CAR stood comfortable at 14.71% (against a regulatory requirement of 11.25%), and Common Equity Tier I (CET I) CAR was 10.97% (against regulatory requirement of 6.5%). CAR as on June 30, 2020 was 17.09% (against a regulatory requirement of 11.875%) and Common Equity Tier I (CET I) stood at 10.85% (against the regulatory requirement of 8.0%).

Bank One has a stable deposit base and the term deposits have witnessed good rollover rate (75-80%) in last 2-3 years. Total deposits which remain the Bank`s core source of funding grew by 44% in FY19 (18% in FY18) with CASA proportion at 71% as on December 31, 2019. The Bank offers 0.35 - 0.40% in saving deposit and around 3-4% in term deposits, depending on maturity. The Bank's credit to deposit ratio has also remained stable over the past years.

International banking (Private and Institutional) has been the major deposit raising source for the bank, contributing around 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 around 21% of the total Bank deposits. 46% of the term deposits are more than Mur 100 Million and 8% are less than Mur 5 Million.

Net interest income went up by 14% in FY19 over FY18, as the growth in the Bank's interest earning assets was more significant during the year. Non-interest income went up by 28%, excluding onetime recovery of Mur 141 million. The Bank achieved a PAT of Mur 630 million in FY19.

Impairment ratio improved from 4.74% to 4.23% as at 31st December 2019. Recovery actions started in prior years paid off well with assets recovered during the year. The financials of Bank One are as under

Particulars	**FY17 (MUR Million)**	**FY18 (MUR Million)**	**FY19 (MUR Million)**
Total Income	1,450	2,147	2,501
Interest Expenses	367	442	597
Net Interest Income	714	954	1,087
PAT	374	393	630
Dividend	26	79	138
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
Gross NPA	1,226	1,345	1,169
Key Ratios (%)			
Net Interest Margin (NIM)	2.51	2.67	2.29
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%
Gross NPA to Gross Advances (%)	6.06	4.74	4.23
Net NPA to Tangible Net worth (%)	35.19	17.09	9.42

Asset-Liability Maturity Profile as on June 30, 2020

	<1 month	**1-3 months**	**3-6 months**	**6-12 months**	**1-3 years**	**>3 years**	**Non-maturity items**
	MUR Million						
Total assets	41,703	8,330	1,046	1,277	1,865	3,896	4,301
Total Liabilities	46,242	1,991	2,326	1,669	2,042	3,704	4,444
Net liquidity gap	**(4,539)**	6,339	**(1,280)**	**(392)**	**(177)**	**193**	**(143)**
Cumulative gap	**(4,539)**	**1,799**	**519**	**127**	**(50)**	**143**	**0**

Bank One has cumulative negative mismatch in 1-month 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. 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	June 2020
LCR#	295%	267%	238%

#minimum LCR is 100%

In H1FY20, Bank One posted a loss of Mur 427 Million, mainly due to the provisioning of Mur 823 Million due to default by 2 Dubai based clients and general provisioning for COVID-19. This was expected to impact the CAR of the company. In order to mitigate the same, Bank One's shareholders infused equity of MUR 300 million (CFL infused MUR 150 million out of the dividend received from BNI Madagascar) and the Bank raised Mur 600 Million of Tier 2 capital through a local bond issue. Accordingly, the Bank's capital ratios have strengthened over the period. CAR as on June 30, 2020 was 17.09% (against a regulatory requirement of 11.875%).

<u>MITCO Group Ltd – steady dividend paying & debt free subsidiary of CIEL Finance</u>

Operating since 1993, MITCO Group Ltd. is an investment holding company of other entities providing advisory, structuring, set-up, administering, company secretarial, compliance, professional outsourcing and back office services. CIEL Finance holds 63.28% stake in MITCO (CFL increased its stake from 61.2% to 63.28% during the FY20). The majority of the balance stake (36.21%) is held by the Li Kwong Wing family. Prior to FY 2017, CFL held direct investments in the 4 operating entities of MITCO Group Ltd. As a part of the Group restructuring in 2017, MITCO Group was introduced as an intermediary holding company above the 4 subsidiaries and CFL transferred all its investment in the 4 subsidiaries to MITCO Group. MITCO Fund Services Ltd. (29.42% stake of CFL) has completed its winding up process and awaiting for a final clearance from the authorities.

In FY20, MITCO Group Ltd. has posted a PAT of 34 Million (Mur 39 Million for FY19) on a revenue of MUR 225 million (Mur 222 Million in FY19). It is a debt free company.

Investment Professionals Limited

Investment Professionals Limited (IPRO), was incorporated in August 1992. The company has been licensed under the Financial Reporting Act 2007 and Securities Act 2005 to act as Investment Advisor (Unrestricted) and to engage in distribution of financial products. The company was granted a Foreign Institutional Investor License by the Securities and Exchange Board of India in October 2008 to invest in Indian stocks. CIEL Finance holds 95.5% stake in the subsidiary. The company covers both Mauritian and global market with approximately Mur 4 Billion worth of assets under management on behalf of private clients and pension funds. In FY20, IPRO has posted a PAT of Mur 5 Million (Mur 1 Million in FY19) on a revenue of MUR 14 million (Mur 21 Million in FY19). It is a debt free company.

Investment in KIBO funds

KIBO FUND I

In FY07, Kibo Fund LLC (KIBO I) was incorporated in Mauritius as a private company limited by shares and designated as a Limited Life Fund with a life of 10 years. The principal activity of KIBO I was to make private equity and equity-related investments in companies located in Sub-Saharan Africa and in the islands of the Indian Ocean. The investors in the fund are CIEL Finance (39.7%), FMO (Netherlands Development Finance Company), DEG (member of KFW banking group of Germany), Swan Group and regional investors. With the fund size of EURO 29 Million, shareholders of KIBO I decided to extend the life of the fund up to May 2020, post which the fund went under liquidation and an administrator was appointed for the same.

Till date, KIBO has exited most of its investments and has received around Euro 26 million, which had been utilized for repayment of capital received from its shareholders including CFL and this has been used by CFL to repay part of the capital received from CIEL and Amethis. KIBO has written off completely the investment in 2 companies but expects to receive part amount by end of FY2021. The Fund has been put in liquidation under Section 290 of the Companies Act.

THE KIBO FUND II LLC

The KIBO FUND II LLC (KIBO II) was incorporated in the Republic of Mauritius in June 2014 as a private company limited by shares and designated as a Limited Life Fund with a life of 10 years. The principal activity of KIBO II is to make private equity and equity-related investments in companies located in Sub-Saharan Africa and in the islands of the Indian Ocean. The Fund is a multi-country, multi-sector and multi-strategy investment vehicle. Investors include leading global development FIs - like International Finance Corporation (IFC from the World Bank Group)-18.4%, the African Development Bank-20%, DEG (a member of KfW Bankengruppe – KfW banking group of Germany)- 20%, CIEL Finance 8.3% and others.

The total size of the fund is USD 62.6 Million, which is currently invested in 11 companies. As on June 30, 2020, valuation of the investments was higher than the cost.

THE KIBO FUND III LP

KIBO Capital Partners is in the process of fund-raising for a new private equity fund namely, The KIBO Fund III LP, with a target size of US$ 125 Million to invest in fast growing, mid-sized companies (KIBO III).

Satisfactory Financial performance

In FY20 (July 1-June 30), CFL (standalone) posted a profit after tax of Mur 103 Million (Mur 130 Million in FY19) and revenue of Mur 203 Million (MUR 234 million in FY19). Dividend from various group companies are the major source of income of CFL. Revenue has increased steadily up to FY19 with a decrease of 14% in FY20 mainly due to non-distribution of dividend by Bank One Limited. Dividend income from BNI Madagascar has increased significantly over the last 3 years with an increase of 28% in FY20 (16% in FY18) amounting to Mur 170 Million. EBIDTA level & margin has remained stable with the decrease in expenses by 26% in FY20. With decrease in revenue, PAT & GCA also witnessed a decrease of around 15% compared to FY19. Company has paid an interim dividend of Mur 22 Million and did not declare any final dividend for the year.

In FY14, CFL invested in KIBO Fund II for 10 years, and the latter invests in various countries and industries in Africa. The fund is projected to mature in FY24 and FY25, and the proceeds will be utilized for refund of the capital received from its shareholders, including CFL. KIBO Fund II is already profitable and CFL has track record of exiting from the majority of KIBO Fund I assets at a profit.

Industry

Banking Industry in Mauritius

As on March 31, 2020, 20 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 excess liquidity (MUR 33 Billion in October 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) with domestic asset quality being under stress due to underperformance of construction & tourism sector, credit to deposit ratio of 0.74x and 12% plus 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 outbreak. 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 per cent 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.

COVID19 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 11 % for the Mauritian economy in 2020. The budget deficit, which has evolved in a stable range of 3–3.5 percent of GDP since 2013, is estimated to explode to 13.6 percent 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 has changed in April 2020 to 1.85% (2.85% in March 2020 and 3.35 in August 2019), banks' Savings deposit (SDR) and Prime lending rates ranges 0.25-0.35% and 4.10-5.05% respectively as at end-May 2020.

However, Government of Mauritius 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 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.

COVID19 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: 2017/18 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.

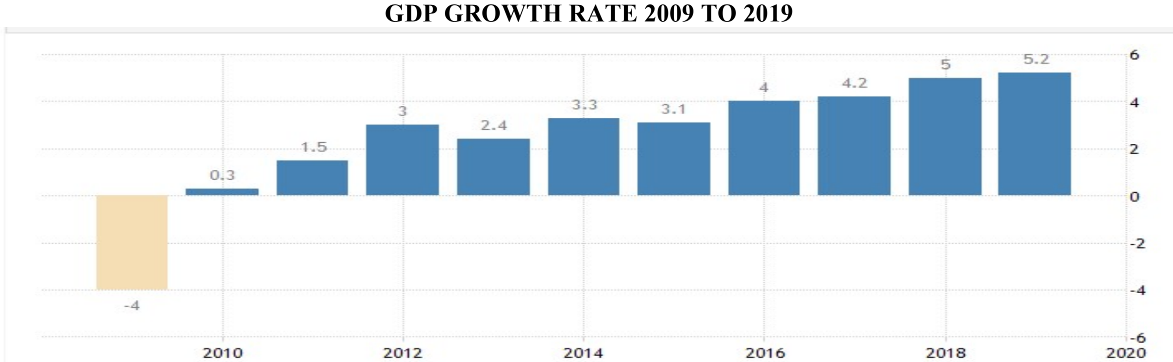
In 2019, the Bank of Mauritius made several amendments to several Banking guidelines. The Guideline on Liquidity Risk Management was revised to require banks to report their Liquidity Coverage Ratios (LCRs) twice a month compared to the earlier monthly reporting. Guideline on Credit Impairment Measurement and Income Recognition was updated (effective January 2020) and aligned with international standards and best practices. 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.

Banking Industry in Madagascar

There are 11 commercial banks in Madagascar, including three microfinance institutions (MFIs) with a banking license. The banking sector is, however, highly concentrated around four banks (including BNI Madagascar), which owns around 90% of total banking sector assets, 85% of total deposits, 86% of the loans and share between them around 90% of profit. ***The banking penetration rate i.e. access to a bank account, among Madagascar's population stood around 8% in 2019.*** The microfinance sector is developing, with a 17% penetration rate among households. Despite a difficult context and protracted crisis situation, Madagascar's financial sector remains dynamic and resilient to the crisis. With the launch of new services and facilities like, Mobile Money, the banking sector is trying to improve the bank penetration rate and offering opportunities to increase financial inclusion. Percentage of adults with an account at a financial institution or mobile money service in Madagascar has doubled over the past three years.

Madagascar's economy has been performing well with the GDP annual growth rate of 5.2% in 2019 as compare to 5% in 2018. Since 2015, the most important driver of growth has been the services sector, which is characterized by a small but dynamic private sector. One component of the services sector that is performing particularly well is trade, which increased significantly in 2019. Madagascar has enjoyed sustained economic growth over the last eight years as depicted below:

GDP GROWTH RATE 2009 TO 2019



GDP Annual Growth Rate in Madagascar is expected to reach -2.00 percent by the end of 2020, according to Trading Economics global macro models and analyst's expectations. In the long-term, the Madagascar GDP Annual Growth Rate is projected to trend around 5.00 percent in 2021 and 4.70 percent in 2022, according to econometric models.GDP in Madagascar was USD 14.08 billion in 2019, representing 0.01% of the world economy. Madagascar's economy depends mainly on agriculture (shrimps, spices, coffee, cacao, cotton, tobacco are the most important products), ecotourism and mining (graphite, chromie). Approximately 80% of the population is engaged in agricultural activities.

Madagascar exports are essentially agricultural and mineral. Main exports are graphite, chromite, shrimp, coffee, vanilla and sugar. The production of goods for export and offshore services such as telecommunications undertaken in export processing zones continues to realize steady growth.

The country's unique climate has led certain cash crops such as vanilla, cloves and other spices to thrive. The significantly higher prices of vanilla boosted export earnings in 2017, which in turn allowed the Central Bank to accumulate more foreign exchange reserves than expected. International prices of vanilla have since then reduced sharply, especially over the past 18 months, which may add pressure on the valuation of the local currency.

Prospects

The prospects of CFL depends on operational & financial performance of major dividend paying bank – BNI Madagascar, turnaround in the performance of Bank One and successful exit from the KIBO funds in a timely manner.

Financial Performance (Standalone) *(Mur Million)*

For the year ended as on June 30	2017	2018	2019	2020
	Audited			
Revenue	187	196	238	199
Total Income	194	201	242	203
EBITDA	99	96	146	132
Interest	16	17	16	21
PBT	79	79	130	109
PAT	80	83	130	103
Gross Cash Accruals (GCA)	80	83	131	105
Dividend paid/proposed	72	83	95	22
Equity share capital	2,093	2,093	2,033	2,033
Tangible net worth	3,278	3,466	3,591	2,162
Total debt	225	262	181	542
Cash & Bank balances	44	19	15	6
Key Ratios				
EBITDA/Total income (%)	50.88	47.92	60.40	65.03
PAT/Total income (%)	41.50	41.24	53.84	50.83
ROCE- operating (%)	3.00	2.66	3.90	5.25
RONW (%)	2.63	2.45	3.70	4.86
Long term debt equity ratio	0.07	0.06	0.05	0.24
Overall gearing ratio	0.07	0.08	0.05	0.25
Interest coverage (EBIDTA/Interest)	6.09	5.74	9.26	6.17
Total Debt/ EBITDA	2.28	2.72	1.23	4.11

Financial Performance (Consolidated) *(MUR Million)*

For the year ended as on	Jun-17	Jun-18	Jun-19	Jun-20
	Audited			
Total Income	2,346	2,611	2,853	3,462
EBITDA	773	767	938	1,289
Depreciation	127	166	159	204
Interest	16	17	15	30
PAT	648	742	630	501
Gross Cash Accruals (GCA)	776	908	789	704
Tangible net worth	3,027	3,224	3,343	3,613
Total debt	416	445	393	762
Key Ratios				
EBITDA/Total income (%)	32.9	29.4	32.9	37.2
PAT/Total income (%)	27.6	28.4	22.1	14.5
Overall gearing ratio	0.14	0.15	0.12	0.77
Interest coverage (EBIDTA/Interest)	47.0	44.0	62	43
Total Debt/ EBITDA	0.56	0.62	0.42	0.59

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

Utilisation of the Bond proceeds:

As in September 2019, CFL issued a Bond of MUR 500 million and utilised the proceeds for repayment of existing high cost borrowings (5.75%) of MUR 175 million (was due in September 2022) with Mauritius Commercial Bank, capital contribution of MUR 150 million in Bank One Limited and refinancing / investing in KIBO Fund II LLC for an amount of MUR 175 million.

Details of Instrument

1. Details of proposed Bond Issue

Instrument	Repayment Amount (MUR Million)	Repayment Terms
Long term Bond of Mur 500 Million	Tranche I- 150	5 years from disbursement (September 2024)
	Tranche II- 175	6 years from disbursement (September 2025)
	Tranche III- 175	7 years from disbursement (September 2026)

The repayment terms are as follows: *(MUR Million)*

	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27
Principal	0.0	0.0	0.0	0.0	0.0	150	175	175