

MAURITIUS HOUSING COMPANY LTD

Financial Statements

For the year ended 31 December 2019

MAURITIUS HOUSING COMPANY LTD

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CORPORATE INFORMATION

DIRECTORS	Mr. Rashad Racheed DAUREEAWOO	Chairman as from 06 February 2020
	Mr. Darsanand BALGOBIN	Chairman up to 11 October 2019
	Mr. Mohummad Shamad AYOOB SAAB	appointed on 11 July 2019 and Ag Chairman up to 06 February 2020
	Mr. Dunpath KHOOSYE	
	Mr. Latanraj GHOORAH	up to 06 May 2019
	Mr. Georges Henry JEANNE	up to 07 April 2020
	Mr. Azaad AUMEERALLY	
	Mr. Koosiram CONHYE	up to 16 January 2020
	Mr. Sawnminathan RAGEN	up to 10 April 2019
	Mr. Vidianand LUCHMEEPERSAD	up to 25 February 2020
	Mr. Arveen Sharma SUNT	appointed on 11 July 2019 and resigned on 19 June 2020
	Mr. Ashis Kumar HOOLASS	appointed on 09 March 2020
	Mr. Anand BABBEA	appointed on 01 May 2020
	Dr. (Mrs.) Rooba Yanembal MOORGHEN	appointed on 04 June 2020
MANAGING DIRECTOR	Mr. Anand BABBEA	appointed on 01 May 2020
	Mr. Hassen Issop ABDOOL (Officer in Charge)	up to 30 April 2020
REGISTERED OFFICE	MHC Building Reverend Jean Lebrun Street Port Louis Republic of Mauritius	
SECRETARY	Prime Partners Ltd 15 th Floor, Air Mauritius Building John Kennedy Street Port Louis Republic of Mauritius	
AUDITORS	Grant Thornton, Ebene Tower 52, Cybercity Ebene 72201 Republic of Mauritius	
LEGAL ADVISER	Me. Noor-e-shad Shayfiudhin Hussene Suite 705, 6 th Floor, Chancery House Lislet Geofroy Street Port Louis Republic of Mauritius	
BANKERS	The Mauritius Commercial Bank Ltd	
	SBM Bank (Mauritius) Ltd	
	ABSA Bank (Mauritius) Ltd (formerly Barclays Bank Mauritius Limited)	
	Bank of Mauritius	
	Habib Bank Ltd	
	The Hong Kong and Shanghai Banking Corporation	
	Bank One Ltd	
	Bank of Baroda Ltd	
	Development Bank of Mauritius Ltd	
	SBI (Mauritius) Ltd	
	AfrAsia Bank Ltd	
	BanyanTree Bank Ltd	
	BCP Bank (Mauritius) Limited	

ANNUAL REPORT

The Directors have the pleasure in submitting the Annual Report together with the audited financial statements of Mauritius Housing Company Ltd, the "Company" or "MHC", for the year ended 31 December 2019.

INCORPORATION

The Company was incorporated in the Republic of Mauritius on 12 December 1989 as a public company with limited liability.

PRINCIPAL ACTIVITIES

The principal activities of the Company are the granting of loans for the construction/purchase of houses, to engage in deposits taking and to promote property development. The Company operates under a deposit taking business licence from the Bank of Mauritius.

RESULTS AND DIVIDENDS

The results for the year are as shown in the statement of profit or loss and other comprehensive income.

For the year 2019, the Directors have recommended a dividend of Rs 25,593,200 subject to the Bank of Mauritius's approval (2018: Rs 40,844,706 and 2017: Rs 41,957,400).

DIRECTORS

The present membership of the Board is set out on page 2.

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

Company law requires the Directors to prepare financial statements for each financial year which present fairly the financial position, financial performance and the cash flows of the Company. The Directors are also responsible for keeping accounting records which:

- correctly record and explain the transactions of the Company;
- disclose with reasonable accuracy at any time the financial position of the Company; and
- the financial statements comply with the Mauritius Companies Act 2001, applicable legislations and guidelines and International Financial Reporting Standards ("IFRS").

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

DIRECTORS' SHARE INTERESTS

The Directors hold no share in the Company whether directly or indirectly.

DIRECTORS' EMOLUMENTS

Emoluments of the Executive Director for the year under review (excluding any remuneration as disclosed under Directors' Remuneration as shown on page 4) amounted to Rs 717,301 (2018: Rs 587,905 and 2017: Rs 1,508,630).

ANNUAL REPORT (CONT'D)

DIRECTORS' REMUNERATION

Remuneration and other benefits received by the Directors from the Company are as follows:

	<u>2019</u> <u>Rs</u>	<u>2018</u> <u>Rs</u>	<u>2017</u> <u>Rs</u>
Executive Director	141,935	77,500	307,500
Non-Executive Directors	<u>2,913,194</u>	<u>3,080,818</u>	<u>3,105,169</u>

SIGNIFICANT CONTRACTS

No contracts of significance existed during the year under review between the Company and its Directors. Loans to the Directors are done in the normal course of business.

DONATIONS

No donation has been made during the year ended 31 December 2019 (2018: Rs 30,000 and 2017: Rs Nil).

AUDITORS

Fees, inclusive of VAT, payable to **Grant Thornton** for the year ended 31 December 2019 and to **Deloitte** for the years ended 2017 and 2018 are as follows:

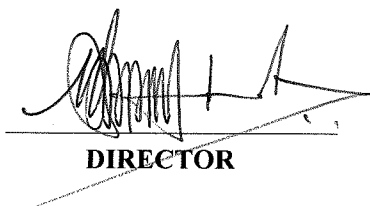
	<u>2019</u> <u>Rs</u>	<u>2018</u> <u>Rs</u>	<u>2017</u> <u>Rs</u>
Audit fees	1,380,000	1,457,500	1,150,000
Review of impairment model and consultancy fee	<u>-</u>	<u>2,725,500</u>	<u>287,500</u>



CHAIRMAN



DIRECTOR



DIRECTOR

Date: 03 JUL 2020

STATEMENT OF MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements for the Company's operations in the Republic of Mauritius presented in the annual report have been prepared by Management, which is responsible for their integrity, consistency, objectivity and reliability. International Financial Reporting Standards, as well as the requirements of the Mauritius Companies Act 2001 and the Banking Act 2004 as applicable to the Company and the guidelines issued thereunder, have been applied and Management has exercised its judgement and made best estimates where deemed necessary.

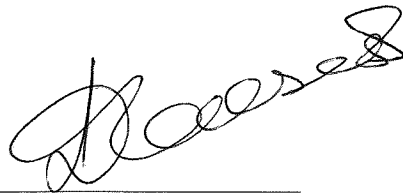
The Company has designed and maintained its accounting systems, related internal controls and supporting procedures, to provide reasonable assurance that financial reporting is complete and accurate and that assets are safeguarded against losses from unauthorised use or disposal. These supporting procedures include careful selection and training of qualified staffs, the implementation of organisation and governance structures providing a well-defined division of responsibilities, authorisation levels and accountability for performance, and the communication of the Company's policies, procedures manuals and guidelines of the Bank of Mauritius throughout the Company.

The Company's Board of Directors, acting in part through the Audit Committee and the Conduct Review and Risk Committee, which comprise of independent directors, oversees Management's responsibility for financial reporting, internal controls, assessment and control of major risk areas, and assessment of significant and related party transactions.

The Company's Internal Auditor, who has full and free access to the Audit Committee, conducts a well designed program of internal audits. In addition, the Company's compliance function maintains policies, procedures and programs directed at ensuring compliance with regulatory requirements.

Pursuant to the provisions of Banking Act 2004, the Bank of Mauritius makes such examination and inquiry into the operations and affairs of the Company, as it deems necessary.

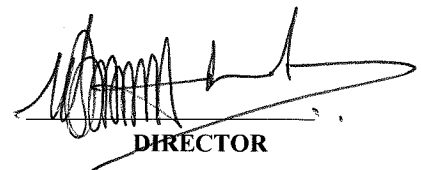
The Company's external auditors, **Grant Thornton**, have full and free access to the Board of Directors and its committees to discuss the audit and matters arising therefrom, such as their observations on the fairness of financial reporting and the adequacy of internal controls.



CHAIRMAN



DIRECTOR



DIRECTOR

Date: 03 JUL 2020

MAURITIUS HOUSING COMPANY LTD
CORPORATE GOVERNANCE REPORT FOR YEAR ENDED 31 DECEMBER 2019

Mauritius Housing Company Ltd, the “Company” or ‘MHC’, has always been committed to observing high standards of Corporate Governance, promoting corporate transparency and enhancing shareholders’ value. The Company is a Public Interest Entity (PIE), in accordance with the Financial Reporting Act 2004.

The Company’s objective is to comply as far as possible with all the principles and guidelines set out in the National Code of Corporate Governance in Mauritius (the “Code”) which brings considerable changes, from the corporate governance reporting perspective. This report outlines the Company’s corporate governance processes and provides explanations accordingly. Reasons for any deviation are also provided.

PRINCIPLE 1 - GOVERNANCE STRUCTURE

“All organisations should be headed by an effective Board. Responsibilities and accountabilities within the organisation should be clearly identified.”

The Directors of the Company are skilled, knowledgeable and experienced professionals. The Board takes its fiduciary responsibilities very carefully. Each Director is appointed with the understanding of the amount of time and care that they will need to devote to the Board and to the organisation for it to prosper. The Board is in the process of approving most of the key guiding documents and policies. The Constitution of the Company has been published on MHC’s website.

The following governance documents were approved on 03 July 2020 and will be published on the Company’s website:-

- Board Charter;
- Code of Ethics for Directors; and
- A Statement of Key Governance Responsibilities and Accountabilities.

Key Governance Responsibilities

The Board has ensured that the key governance positions within the organisation are matched with the corresponding accountabilities.

Key Governance Positions

Chairman of the Board

The Chairman of the Board is responsible for the activities of the Board and its committees. He acts as spokesman for the Board and is the principal Board contact for the Executive team. The Chairman and the Executive team of the Board meet regularly. The Chairman of the Board presides over the meetings of shareholders.

Duties of the Chairman of the Board

The Chairman ensures that: -

- (i) The Board fulfills its duties;
- (ii) Board Members, when appointed, participate in an induction program and, if needed, in supplementary training programs;
- (iii) Members receive all the information necessary for them to perform their duties;
- (iv) The agenda of Board meetings is determined;
- (v) The Board meetings are chaired in an effective manner;
- (vi) The Board has sufficient time for deliberation and decision-making;

MAURITIUS HOUSING COMPANY LTD

CORPORATE GOVERNANCE REPORT FOR YEAR ENDED 31 DECEMBER 2019

PRINCIPLE 1 - GOVERNANCE STRUCTURE (CONT'D)

Key Governance Positions (Cont'd)

Duties of the Chairman of the Board (Cont'd)

- (vii) Participation of each Director in discussions and Board matters;
- (viii) Minutes of Board and Committee Meetings are properly recorded and stored;
- (ix) The committees function properly;
- (x) Consultations are held with external advisors appointed by the Board;
- (xi) The performance of Board Members is evaluated regularly;
- (xii) Problems related to the performance of individual Board Members are addressed;
- (xiii) Internal disputes and conflicts of interest concerning individual Board Members, including the possible resignation of such Members as a result, are addressed;
- (xiv) The Board has proper contact with the executive team; and
- (xv) For each financial year, the compliance statement has been submitted to the Bank of Mauritius.

Chairman of the Audit Committee

Duties of the Chairman of the Audit Committee

The Chairman of the Audit Committee works in close cooperation with and provides support and advice to the Chairman of the Board. He has the following responsibilities, amongst others:-

- To ensure the financial statements comply with the appropriate accounting standards; and
- To report on the deliberations of the Audit Committee to the Board.

The Chairman of the Audit Committee is Mr. A. Aumeerally.

Chairman of the Corporate Governance Committee

Duties of the Chairman of the Corporate Governance Committee

The Chairman of the Corporate Governance Committee works in close collaboration with, and provides support and advice to, the Chairman of the Board. He has the following responsibilities, amongst others:-

- To provide expertise in the areas of corporate governance;
- To ensure that the Board is up to the standard with the Code; and
- To report on the deliberations of the Corporate Governance Committee to the Board.

The Chairman of the Corporate Governance Committee was Mr. K. Conhye until his resignation on 16 January 2020. Following the appointment of new Directors on the Board, the Company is in the process of reconstituting its Corporate Governance Committee and a new chairman will be nominated.

Other Key Governance Positions

Managing Director

The main functions of the Managing Director are:

- To develop and recommend to the Board a long-term vision and strategy for MHC which will generate satisfactory levels of shareholders' value and positive reciprocal relations with the relevant stakeholders;
- To devise and recommend to the Board annual business plans and budgets that support MHC's long-term strategy;
- To ensure that a proper assessment of the risks under a variety of possible or likely scenarios is undertaken and presented to the Board;

MAURITIUS HOUSING COMPANY LTD

CORPORATE GOVERNANCE REPORT FOR YEAR ENDED 31 DECEMBER 2019

PRINCIPLE 1 - GOVERNANCE STRUCTURE (CONT'D)**Key Governance Positions (Cont'd)****The main functions of the Managing Director are:**

- To strive consistently to achieve MHC's financial and operation goals and objects and ensure the proper management and monitoring of the daily business of MHC;
- To execute and implement the strategy of the Board;
- To monitor the organisation's performance and to keep the Board informed accordingly;
- To foster a corporate culture that promotes ethical practices, rejects corrupt practices, offers equal opportunities, encourages individual integrity and meets social responsibility objectives and imperatives;
- To be the chief spokesperson for MHC in relation to all operational and day-to-day matters; and
- The Managing Director must attend meetings of shareholders and be ready to present material operational developments to the meeting as well as the annual business plans and budgets that support the organisation's strategy.

Senior Management Team

Name	Position	Qualifications	Date Joined
Mr. Babbea, Anand	Managing Director (As from 01 May 2020)	MBA	01 May 2020
Mr. Abdool, Hassen Issop	Officer in Charge (Up to 30 April 2020) Resumed as Head (Finance) (As from 01 May 2020)	FCCA	01 Jul 1992
Mr. Abeeluck, Rajeev	Head (Technical)	Bachelor in Architecture	02 Jul 2001
Mr. Khusul, Koodan	Head – Commercial	MBA (General)	18 May 1982
Mr. Puholoo, Surendra	Ag. Head (Finance) (Up to 30 April 2020) Resumed as Senior Accountant (As from 01 May 2020)	FCCA	02 Jul 1990
Mr. Mudaliar, Rama Krishna	Internal Auditor (From February to 29 November 2019)	FCCA	01 Jun 1992
Mr. Maywah, Jayraj	Ag Internal Auditor (As from 12 February 2020)	CMIIA (Affiliate), FCCA	20 May 1985
Mrs. Kalapnauth – Rajcoomar Ashvina	Manager (Corporate Services)	MBA (Human Resource and Knowledge Management)	30 Jul 2003
Mr. Maywah Devanand	Manager (Procurement)	MBA (Human Resource and Knowledge Management)	11 Dec 1976
Mr. Maudarbocus Naim	Manager ICT	MBA (Finance & Investment), Maîtrise d'Informatique	05 Nov 1995
Mr. Maudarun Sheik Muhammad Shakeel	Ag Senior Accountant (Up to 30 April 2020) Resumed as Accountant (As from 01 May 2020)	FCCA, MBA	08 Mar 1992
Mr. Boojhawon, Rakeshsing	Ag. Internal Auditor (up to 05 February 2019) Assigned Assistant Manager of the Risk and Compliance Unit (As from 01 April 2019)	FCCA	07 Dec 1994

MAURITIUS HOUSING COMPANY LTD

CORPORATE GOVERNANCE REPORT FOR YEAR ENDED 31 DECEMBER 2019

PRINCIPLE 1 - GOVERNANCE STRUCTURE (CONT'D)

Senior Management Profile

Mr. Anand BABBEA is the Managing Director of Mauritius Housing Company Ltd (MHC) since 01 May 2020. Mr. Babbea has grown within the Banking, Financial and Payments Industry and is a professional reckoning more than 29 years of experience. He was also among the Pioneers of the e-Commerce Acquiring within the Banking Sector in Mauritius. Mr. Babbea is equally a Member of the Mauritius Institute of Directors (MIoD).

Mr. Babbea has started his career at the Ministry of Finance. He then, joined the State Bank (Mauritius) Ltd, where he had a long and rich career over 21 years. He also worked as Head of eCommerce at CIM Finance Ltd for approximately 4 years, from 2013 to 2017. Prior to joining the (MHC), Mr. Babbea was the Chief Executive Officer of the GPN Data (Mauritius) Ltd for more than 3 years. Concurrently, he also served as the Chairman of the Development Bank of Mauritius (DBM) Ltd, as from 2017.

He holds a Bachelor Degree with Honours in Financial Services and a Masters in Business Administration from the University of Mauritius.

Mr. Hassen Issop ABDOOL joined MHC on 01 July 1992 and is actually Head (Finance). He held the position of Officer in Charge from 04 August 2016 up to 30 April 2020.

He was qualified in December 1993 and he was admitted as a Member of the Association of Chartered Certified Accountants in December 1997 and as a Fellow member in December 2002.

Mr. Rajeev ABEELUCK joined MHC as an Architect on 02 July 2001 before being appointed as Head of Technical Department in October 2013.

He holds a Bachelor Degree in Architecture and a Post Graduate Diploma in Architecture from the University of Natal in Durban, South Africa, and is registered with the Professional Architects' Council of Mauritius (1995).

Mr. Koondan KHUSUL joined MHC on 18 May 1982 and presently occupies the position of Head of Commercial Department.

He holds a Bachelor of Business Administration (BBA), a postgraduate Diploma in Management studies (PGDMS) (2011) and a Master's Degree in Business Administration (MBA) (2014) from the Management College of Southern Africa.

Mr. Surendra PUHOLOO joined MHC on 02 July 1990 and presently holds the post of Senior Accountant in a substantively capacity. Mr. Surendra PUHOLOO acted as Head (Finance) up to 30 April 2020. He was admitted as a Member of the Association of Chartered Certified Accountants in December 1997 and Fellow member in December 2002.

Mr. Rama Krishna MUDALIAR joined MHC on 01 June 1992. He resumed as Head of Internal Audit in February 2019 up to November 2019. He was admitted as a Member of the Association of Chartered Certified Accountants in November 1990 and as a Fellow member in November 1995.

Mr. Jayraj MAYWAH joined the MHC on 20 May 1985. He has been assigned as Acting Internal Auditor since 12 February 2020. Previously he occupied several senior positions at the MHC.

He was qualified in December 1998. He was admitted as a Member of the Association of Chartered Certified Accountants in 1999 and as a Fellow member in 2004. Mr. Maywah is also an affiliate of the Chartered Institute of Internal auditors since November 2013.

MAURITIUS HOUSING COMPANY LTD

CORPORATE GOVERNANCE REPORT FOR YEAR ENDED 31 DECEMBER 2019

PRINCIPLE 1 - GOVERNANCE STRUCTURE (CONT'D)**Senior Management Profile (Cont'd)**

Mrs. Ashvina KALAPNAUTH-RAJCOOMAR joined MHC on 30 July 2003 and presently holds the post of Manager Corporate Services.

She holds a BSc (Hons) in Human Resource Management (2006) and an MBA in Human Resource Management (2011) from the University of Technology, Mauritius.

Mr. Devanand MAYWAH joined MHC on 11 December 1976 and currently occupies the post of Manager Procurement.

He holds a Diploma in Public Administration and Management (2007), a BSc (Hons) in Public Administration and Management (2008) and an MBA in Human Resource with Knowledge Management (2011) from the University of Technology, Mauritius.

Mr. Naim MAUDARBOCUS joined MHC as an Analyst/Programmer in 1995 before being promoted to Systems Analyst in 1999. He currently holds the position of ICT Manager.

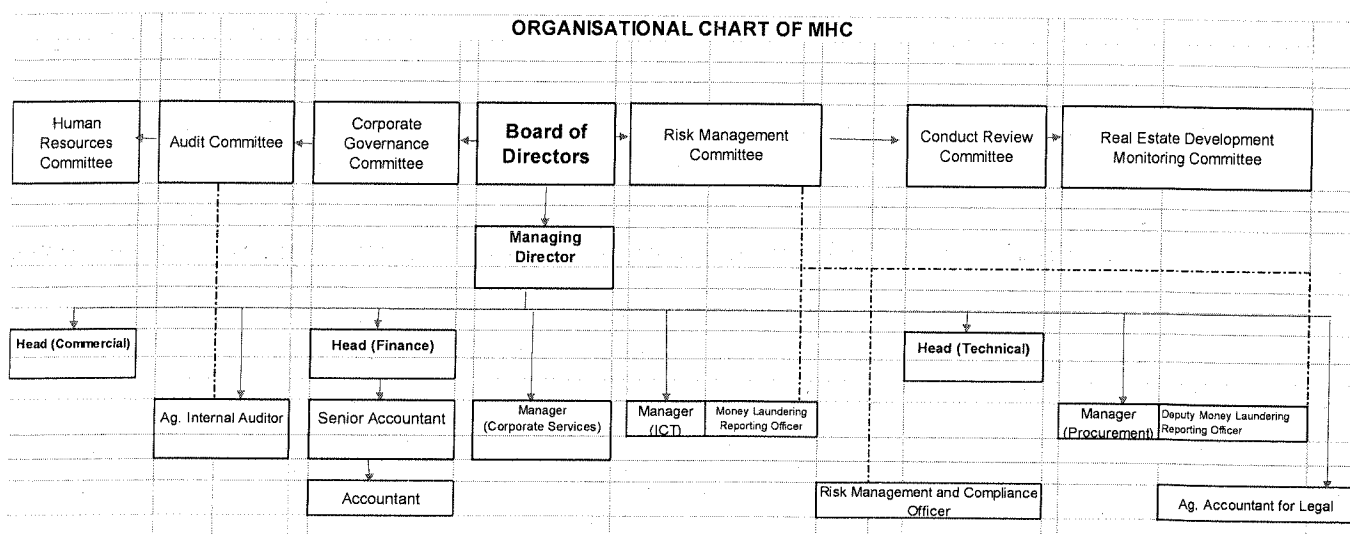
He holds a Master's in Computer Science from the University of Bordeaux I, France and a Master's in Business Administration, with specialisation in Finance, from the University of Technology, Mauritius.

Mr. Muhammad Sheik Shakeel MAUDARUN joined MHC on 08 March 1992 and presently holds the post of Accountant in a substantively capacity. He is presently acting as Accountant. He was admitted as a Member of the Association of Chartered Certified Accountants in November 2008 and as a Fellow member in November 2013.

Mr. Rakeshsing BOOJHAWON joined MHC on 07 December 1994 and presently holds the post of Assistant Manager of the Risk and Compliance Unit on an assigned basis. Previously he occupied several senior positions at MHC. He acted as Internal Auditor from 06 December 2015 up to 05 February 2019. He was admitted as a Member of the Association of Chartered Certified Accountants in March 2009 and as a Fellow member in April 2014.

Organisation Chart

The existing organisational chart of the Company has been updated as follows:



MAURITIUS HOUSING COMPANY LTD

CORPORATE GOVERNANCE REPORT FOR YEAR ENDED 31 DECEMBER 2019

PRINCIPLE 2 –THE STRUCTURE OF THE BOARD AND ITS BOARD COMMITTEES

“The Board should contain independently minded directors. It should include an appropriate combination of executive directors, independent directors and non-independent non-executive directors to prevent one individual or a small group of individuals from dominating the Board’s decision taking. The Board should be of a size and level of diversity commensurate with the sophistication and scale of the organisation. Appropriate Board committees may be set up to assist the Board in the effective performance of its duties.”

The Constitution of the Company provides for a minimum of five (5) and a maximum nine (9) directors. The Unitary Board consists of seven (7) directors, as shown below:-

Director Name*	Role	Category
Mr. Rashad Racheed Daureeawoo (As from 06 February 2020)	Chairman	Non-Executive
Mr. Mohummad Shamad Ayoob Saab (As from 11 July 2019)	Director	Non-Executive
Mr. Mohummad Shamad Ayoob Saab (from 22 October 2019 to 06 February 2020)	Chairman	
Mr. Anand Babbea (As from 01 May 2020)	Director	Executive
Mr. Azaad Aumeerally	Director	Independent
Mr. Ashis Kumar Hoolass (As from 09 March 2020)	Director	Non-Executive
Mr. Koosiram Conhye (Up to 16 January 2020)	Director	Non-Executive
Mr. Georges Henry Jeanne (Up to 07 April 2020)	Director	Non-Executive
Mr. Dunputh Khoosye	Director	Independent
Mr. Vidianand Lutchmeeparsad (From 11 July 2019 to 25 February 2020)	Director	Non- Executive
Mr. Arveen Sharma Sunt (From 11 July 2019 to 19 June 2020)	Director	Executive
Dr. (Mrs.) Rooba Yanembal Moorghen (As from 04 June 2020)	Director	Non-Executive
<i>Officers who ceased to be directors during the year under consideration</i>		
Mr. Darsanand Balgobin (from 14 March 2017 up to 11 October 2019)	Chairman	Independent
Mr. Latanraj Ghoorah (from 27 June 2014 up to 06 May 2019)	Director	Non-Executive
Mr. Swaminathan Ragen (from 13 November 2018 to 10 April 2019)	Director	Non-Executive

The Board is unitary and its composition is “balanced”, that is there is a mix of executive, non-executive and independent directors. The Directors consider that the Board is of reasonable size and that its members possess the right mix of skills and experience to provide leadership, reflect integrity and make judgment for managing the affairs of the Company. The Directors have expertise in domains such as Investment, Economics, Finance, Accounting, Legal and Administration. The Board of Directors affirms that the independent Directors do not have any relationship (other than as per normal terms and conditions as members) with the MHC.

As at 31 December 2019, the Company did not comply with the following Corporate Governance provisions:

- (i) Given the Chairman was not independent, at least 50% of the Board to be independent;
- (ii) Appointment of two (2) Executive Directors on the Board. The Company has only one Executive Director as at date;
- (iii) Appointment of at least one lady Director on the Board; and
- (iv) A sufficient number of Directors does not have a relationship with the organisation and major shareholders.

However, as at date, the Corporate Governance provision (iii) has been complied with the appointment of a lady Director, namely Dr. (Mrs.) Rooba Yanembal Moorghen, on 04 June 2020.

MAURITIUS HOUSING COMPANY LTD

CORPORATE GOVERNANCE REPORT FOR YEAR ENDED 31 DECEMBER 2019

PRINCIPLE 2 –THE STRUCTURE OF THE BOARD AND ITS BOARD COMMITTEES (CONT'D)

Only Board Members attend Board Meetings. Management and other subject matter experts attend the meeting or part thereof on invitation of the Chairman. The use of alternate director is discouraged. A clear division of responsibilities at Board level ensures that no Director has unfettered powers in decision making.

All Directors are resident in Mauritius and the Board consists of two independent Directors, namely Mr. A. Aumeerally and Mr. D. Khoosye.

The Chairman of the Board and the Chairman of Board Committees are all carefully selected based on their relevant knowledge and experience in these key governance roles.

Executive Directors

The Company is headed by a Managing Director who attends the Company's Board/Committee meetings and assists the Non-Executive Directors in the decision-making process.

The Code recommends the appointment of two Executive Directors on the Board. In addition to the appointment of the President of the MHC Staff Association namely Mr. Arveen Sharma Sunt as Executive Director on the Board, Mr. Anand Babbea has been appointed as Managing Director of the Company.

Director's Independence Review

The Board is determined to ensure on an annual basis and as when the circumstances require, whether or not a director is independent. Additionally, rigorous reviews are conducted and particular consideration is given to directors who have served on the Board for more than six consecutive years, from the date of their first election. Presently the Board consists of two Independent Directors namely Mr. Azaad Aumeerally and Mr. Dunpath Khoosye.

The Board recognises that over time independent directors develop significant insights in the Company's business and operations and can contribute objectively to the Board as a whole. In circumstances where a director has served as an Independent Director for over six years, the Board will do a rigorous review of his/her continuing contribution and independence.

Non - Executive Directors

The Non-Executive Directors constructively challenge and help develop proposals on strategy, review the performance of management in attaining goals and objectives, monitor the reporting of performance and meet regularly without the presence of Management. The Non-Executive Directors meet and/or hold discussion regularly without the presence of Management.

Powers of the Board

The key roles and responsibilities of the Board of Directors are set in the Board Charter and the Constitution. The Board is aware of its responsibility to ensure that the Company adheres to all relevant legislations such as the Mauritius Companies Act 2001, the Banking Act 2004, the Financial Intelligence and Anti-Money Laundering Act 2002 and the Financial Reporting Act 2004. The Board also follows the principle of good corporate governance as recommended in the Code and the Guideline on Corporate Governance, as issued by the Bank of Mauritius.

MAURITIUS HOUSING COMPANY LTD

CORPORATE GOVERNANCE REPORT FOR YEAR ENDED 31 DECEMBER 2019

PRINCIPLE 2 –THE STRUCTURE OF THE BOARD AND ITS BOARD COMMITTEES (CONT'D)

Board Meetings

The Board met twelve (13) times during the financial year ended 31 December 2019.

The Board deliberated on a range of issues including: -

- Examination and endorsement of the recommendations of various Board Committees;
- Review of operations and approval of strategies to improve performance of the Company;
- Setting of corporate objectives and budgets;
- Governance and internal audit issues;
- Approval of audited accounts;
- Declaration and payment of dividends;
- Review of tenders for allocation of contracts to service providers;
- Staff matters;
- Review of the Company's Code of Ethics to ensure that they are in line with the Company's objectives;
- Approval of related party transactions;
- Approval of IT related projects;
- Approval of housing loan projects; and
- Approval of the risk framework.

The Board also regularly monitors and evaluates MHC's compliance with its Code of Ethics.

Some of the key functions of the Board of Directors include:

- Determining the MHC's purpose, strategy and values;
- Providing guidance, maintaining effective controls over MHC and monitoring management in carrying out Board's plans and strategies;
- Monitoring and evaluating the implementation of MHC's strategies, policies and management of its performance criteria and business plans;
- Exercising leadership, enterprise, intellectual honesty, integrity, objectivity and judgement in directing MHC so as to achieve sustainable prosperity;
- Ensuring that procedures and practices are in place to safeguard the MHC's assets and reputation and providing guarantee on the effectiveness of MHC's internal control system;
- Monitoring and evaluating regularly compliance with the Code of Ethics;
- Approving and monitoring MHC's risk management policies including the setting of limits by assessing its risk appetite, skills available for managing risk and its risk bearing capacity;
- Ensuring that succession is professionally planned in a timely manner; and
- Monitoring MHC's financial health and performance against budgets, including ensuring that the balance between "conformance" and "performance" is healthy. Conformance is linked to MHC's compliance with various laws, regulations and codes governing it while performance relates to the development of a commensurate enterprise culture that will ensure maximisation of shareholders' returns are not detrimental to other stakeholders' interests.

MAURITIUS HOUSING COMPANY LTD

CORPORATE GOVERNANCE REPORT FOR YEAR ENDED 31 DECEMBER 2019

PRINCIPLE 2 – THE STRUCTURE OF THE BOARD AND ITS BOARD COMMITTEES (CONT'D)**Board Attendance**

The following table depicts the attendance at Board/Board Committees meetings of the Directors during the year under review:-

Director	Category	Board	Audit Committee	Conduct Review Committee	Risk Management Committee	Human Resource Committee ***	Corporate Governance Committee ***	Real Estate Development Committee
Mr. Rashad Racheed Daureeawoo (As from 06 February 2020)**	Non-Executive Chairman	-	-	-	-	-	-	-
Mr. Mohammad Shamad Ayoob Saab (As from 22 October 2019)	Non-Executive Chairman	4/4	-	1/1	1/1	-	-	-
Mr. Mohammad Shamad Ayoob Saab (As from 11 July 2019)	Non-Executive	3/3	-	1/1	2/2	-	-	-
Mr. Azaad Aumeerally	Independent	12/13	10/10	4/4	4/4	-	2/2	-
Mr. Koosiram Conhye (Up to 16 January 2020)	Non-Executive	5/13	-	3/4	1/4	-	1/2	-
Mr. Georges Henry Jeanne	Non-Executive	10/13	7/10	3/4	3/3	5/5	-	3/4
Mr. Dunpuh Khoosye	Independent	12/13	10/10	2/2	-	3/5	1/2	4/4
Mr. Vidianand Lutchmeeparsad (From 11 July 2019 to 25 February 2020)	Non-Executive	6/7	-	-	1/3	2/3	-	0/1
Mr. Arveen Sharma Sunt (From 11 July 2019 to 19 June 2020)	Executive	7/7	-	1/1	-	-	2/2	-
Officers who ceased to be directors during the year under consideration								
Mr. Darsanand Balgobin (Up to 11 October 2019)	Independent/ Non-Executive Chairman	9/9	-	-	-	3/3	-	4/4
Mr. Latanraj Ghoorah (Up to 06 May 2019)	Non-Executive	5/5	-	1/1	1/1	-	-	2/2
Mr. Swaminathan Ragen (Up to 10 April 2019)	Non-Executive	4/4	-	-	-	1/1	-	1/2

* Attendance to meetings for the year ended 31 December 2019

** Mr. Rashad Racheed Daureeawoo was appointed as Chairman on 06 February 2020, i.e. after year end and not included in the above table.

***The Corporate Governance and Human Resource Committees were combined up to 23 July 2019 but thereafter separated.

MAURITIUS HOUSING COMPANY LTD

CORPORATE GOVERNANCE REPORT FOR YEAR ENDED 31 DECEMBER 2019

PRINCIPLE 2 –THE STRUCTURE OF THE BOARD AND ITS BOARD COMMITTEES (CONT'D)

Board Committees

The Board has carefully considered the work that it needs to carry out to be effective and to implement its strategy successfully. To this end and in accordance with the Banking Act 2004, the following committees have been set up:

- (i) Audit Committee;
- (ii) Conduct Review Committee;
- (iii) Risk Management Committee;
- (iv) Human Resource Committee;
- (v) Corporate Governance Committee; and
- (vi) Real Estate Development Committee.

The objectives of these Committees are as follows:

- To bring focus and appropriate expertise and specialisation to the consideration of specific Board issues;
- To enhance Board efficiency and effectiveness;
- To enable key issues to be studied in depth; and
- To make recommendations to the Board.

The Board reviews each Committee's mandate. The mandates set out the roles, responsibilities, scope of authority, composition, terms of reference and procedures of each Committee. The Board ensures that the Company is being managed in line with the Company's objectives through deliberations and reporting of its various Committees.

The Charter of the Committees, which is in the process of approval by the Board, will be available on the website of the Company.

Audit Committee

The Audit Committee is governed by a Charter in line with the provisions of the Code. The Charter of the Committee was approved on 03 July 2020 and will be available on the website of the Company.

The Board considers that the members of the Audit Committee are appropriately qualified to discharge their responsibilities.

As at date, the Committee does not have three independent Members as per the Bank of Mauritius Guideline on Corporate Governance due to the lack of Independent Directors on the Board. However, the shareholders have been informed of the current situation and to consider appropriate actions accordingly.

The Audit Committee has the authority to investigate any matter within its terms of reference. In addition, the Audit Committee has full access to and co-operation of Management as well as full discretion to invite any Director to attend its meetings.

MAURITIUS HOUSING COMPANY LTD

CORPORATE GOVERNANCE REPORT FOR YEAR ENDED 31 DECEMBER 2019

PRINCIPLE 2 –THE STRUCTURE OF THE BOARD AND ITS BOARD COMMITTEES (CONT'D)

Board Committees (Cont'd)

Audit Committee (Cont'd)

The main duties/functions of the Audit Committee include amongst others: -

- To oversee the internal financial reporting process to provide reasonable assurance that the financial statements represent a true and fair view of the financial affairs of the Company and comply with IFRS and applicable legislations and guidelines.
- To oversee the audit process (external and internal) to provide material comfort to Board, inter alia, as to the effectiveness of the internal control systems put in place by Management as well as the overall Company's compliance status with both statutory and regulatory requirements.
- To approve the external and internal audit plans that are required to be risk-based. In addition, this process provides the Committee with an evaluation of the quality of risk enterprise framework set up by Management.
- As per the nature of its responsibilities, all members of the Audit Committee are required to be strictly independent Board directors.
- To demonstrate a clear separation of powers and a complete independence in the discharge of this process as follows:
 - To recommend to shareholders the appointment, removal, and remuneration of external auditors and to approve the engagement letter setting out the scope and terms of external audit.
 - To consider Internal Audit reports from the Head of Internal Audit in the discharge of his duty in providing objective assurance and consulting input to add value to the activities of the Company. The Head of Internal Audit has furthermore independent access to the Chairperson of the Audit Committee and to the Chairman of the Board.
 - To periodically have private interaction with a) External Audit and b) Internal Audit respectively.
- To assess periodically the skills, resources, and independence of the external auditors and their practices for quality control.
- To discuss with senior management and external auditors the overall results of the audit, the quality of financial statements and any concerns raised by external auditors.
- To review and monitor management responsiveness to BOM as well as Internal Audit findings and recommendations and to ensure that critical issues are escalated to Board in a timely fashion.

In performing its function, the Audit Committee meets with the internal and external auditors. Where necessary, the Audit Committee also meets separately with the internal and external auditors whereby any issues may be raised directly to the Audit Committee, without the presence of Management. The internal and external auditors have unrestricted access to the Audit Committee.

The Audit Committee recommended to the Board to approve the audited financial statements of the Company for the financial year ended 31 December 2018 and Declaration of Dividend. The Committee also considered the Audited Financial Statements for the year ended 31 December 2019 at its meeting scheduled on 26 June 2020.

The Committee met ten times during the year. It examined the annual financial statements, discussed issues raised by the External Auditors and deliberated on their recommendations.

MAURITIUS HOUSING COMPANY LTD

CORPORATE GOVERNANCE REPORT FOR YEAR ENDED 31 DECEMBER 2019

PRINCIPLE 2 –THE STRUCTURE OF THE BOARD AND ITS BOARD COMMITTEES (CONT'D)**Board Committees (Cont'd)****Audit Committee (Cont'd)****Members and Attendance as at 31 December 2019**

Members	Role	Audit Committee
Mr. A. Aumeerally	Chairperson	10/10
Mr. D. Khoosye	Member	10/10
Mr. G. H. Jeanne	Member	7/10

Conduct Review Committee

The Conduct Review Committee is governed by a Charter which was approved by the Board on 03 July 2020. The Charter will be available on the website of the Company.

The Conduct Review Committee is responsible for monitoring and reviewing related party transactions, their terms and conditions and ensuring the effectiveness of established procedures and compliance with the Bank of Mauritius Guideline on Related Party Transactions.

The mandate of the Conduct Review Committee is as follows:

- (a) To require management of the financial institution to establish policies and procedures to comply with the requirements of the Bank of Mauritius guideline;
- (b) To review the policies and procedures periodically to ensure their continuing adequacy and enforcement, in the best interests of the financial institution;
- (c) To review and approve each credit exposure to related parties;
- (d) To ensure that market terms and conditions are applied to all related party transactions;
- (e) To review the practices of the financial institution to ensure that any transaction with related parties that may have a material effect on the stability and solvency of the financial institution is identified and dealt with in a timely manner; and
- (f) To report periodically and in any case not less frequently than on a quarterly basis to the Board of Directors on matters reviewed by it, including exceptions to policies, processes and limits.

MAURITIUS HOUSING COMPANY LTD

CORPORATE GOVERNANCE REPORT FOR YEAR ENDED 31 DECEMBER 2019

PRINCIPLE 2 –THE STRUCTURE OF THE BOARD AND ITS BOARD COMMITTEES (CONT'D)**Board Committees (Cont'd)****Conduct Review Committee (Cont'd)**

The Conduct Review Committee met four (4) times during the year to consider related party matters.

Members and Attendance as at 31 December 2019

Members	Role	Conduct Review Committee
Mr. G.H. Jeanne	Chairperson	3/4
Mr. A. Aumeerally	Member	4/4
Mr. M. S. Ayoob Saab (As from 11 July 2019)	Member	2/2
Mr. K. Conhye	Member	3/4
<i>Officers who ceased to be Members during the year under consideration</i>		
Mr. D. Khoosye (Up to 23 July 2019)*	Member	3/3
Mr. L. Ghoorah (up to his resignation on 06 May 2019)	Member	1/1

**Reconstitution of Board Committees*

Risk Management Committee

The Risk Management Committee shall assist the Board in setting up risk strategies and to assess and monitor the risk management process of the MHC. The Committee shall also advise the Board on risk issues and shall monitor the risk of the different portfolios against the set risk appetite.

The Risk Management Committee has the responsibility for advising the Board on MHC's overall current and future risk appetite, overseeing senior management's implementation of the risk appetite framework and reporting on the state of risk culture at MHC.

MAURITIUS HOUSING COMPANY LTD

CORPORATE GOVERNANCE REPORT FOR YEAR ENDED 31 DECEMBER 2019

PRINCIPLE 2 –THE STRUCTURE OF THE BOARD AND ITS BOARD COMMITTEES (CONT'D)**Board Committees (Cont'd)****Risk Management Committee (Cont'd)**

The major tasks of the Risk Management Committee include:

- (a) Identification of principal risks, including those relating to credit, market, liquidity, operational, compliance, and reputation of the institution, and actions to mitigate the risks;
- (b) Appointment of a chief risk officer who, among other things, shall provide assurance that the oversight of risk management is independent from operational management and is adequately resourced with proper visibility and status in the organisation;
- (c) Ensuring independence of the chief risk officer from operational management without any requirement to generate revenues;
- (d) Requirement of the chief risk officer to provide regular reports to the Committee, Senior Management and the Board on his activities and findings relating to the institution's risk appetite framework;
- (e) Receive from senior officers periodic reports on risk exposures and activities to manage risks; and
- (f) Formulate and make recommendations to the Board on risk management issues.

The Risk Management Committee met four times during the year to consider risks faced by MHC.

Members and Attendance as at 31 December 2019

Members	Role	Risk Management Committee
Mr. M.S. Ayoob Saab	Chairperson	3/3
Mr. A. Aumeerally	Member	4/4
Mr. K. Conhye	Member	1/4
Mr. V. Lutchmeeparsad (As from 11 July 2019)	Member	1/3
<i>Officers who ceased to be Members during the year under consideration</i>		
Mr. L. Ghoorah (Up to his resignation on 06 May 2019)	Chairperson	1/1

MAURITIUS HOUSING COMPANY LTD**CORPORATE GOVERNANCE REPORT FOR YEAR ENDED 31 DECEMBER 2019****PRINCIPLE 2 –THE STRUCTURE OF THE BOARD AND ITS BOARD COMMITTEES (CONT'D)****Board Committees (Cont'd)****Human Resources Committee**

The Human Resources Committee is governed by a Charter which was approved by the Board on 03 July 2020. The Charter will be published on the website of the Company.

The main function of the Human Resources Committee is to determine, agree and develop the Company's human resource strategies, policies and procedures in line with local legislation and regulations and benchmarked to best practice.

The Human Resources Committee met five times during the year to consider staff matters.

Members and Attendance as at 31 December 2019

Members	Role	Human Resources Committee
Mr. V. Lutchmeeparsad (As from 11 July 2019)	Chairperson	2/3
Mr. G.H. Jeanne	Member	5/5
Mr. D. Khoosye	Member	3/5
<i>Officers who ceased to be Members during the year under consideration</i>		
Mr. D. Balgobin (Chairperson of the Committee up to 23 July 2019 but remained Member up to his resignation on 11 October 2019)	Chairperson/Member	3/3
Mr. S. Ragen (up to his resignation on 10 April 2019)	Member	1/1

Corporate Governance Committee

The Corporate Governance Committee is governed by a Charter in line with the provisions of the Code. The Charter of the Corporate Governance Committee was approved by the Board on 03 July 2020 and will be published on the website of the Company.

The Corporate Governance Committee is a useful mechanism for making recommendations to the Board on various corporate governance issues so that the Board remains effective and complies with good governance principles.

MAURITIUS HOUSING COMPANY LTD**CORPORATE GOVERNANCE REPORT FOR YEAR ENDED 31 DECEMBER 2019****PRINCIPLE 2 –THE STRUCTURE OF THE BOARD AND ITS BOARD COMMITTEES (CONT'D)****Board Committees (Cont'd)****Corporate Governance Committee (Cont'd)**

The duties of the Corporate Governance Committee include the following: -

- Oversee the implementation of the corporate governance framework;
- Periodically review and evaluate the effectiveness of the Company's Code of Conduct and Ethics;
- Review the position descriptions of the Chairperson, and Board Committee Chairs and recommend any amendment to the Board; and
- Review annually the size and composition of the Board as a whole.

The Committee met twice during the year.

Members and Attendance as at 31 December 2019

Members	Role	Corporate Governance Committee
Mr. K. Conhye	Chairperson	1/2
Mr. A. Aumeerally	Member	2/2
Mr. D. Khoosye	Member	1/2
Mr. A.S. Sunt (As from 23 July 2019) *	Member	2/2

**Reconstitution of Board Committees*

Real Estate Development Monitoring Committee

The Real Estate Development Monitoring Committee is governed by a Charter which was approved on 03 July 2020. The Charter will be available on the website of the Company.

The main function of the Real Estate Development Monitoring Committee is to monitor closely the good running of housing projects and to ensure that deliverables are met within set timeline.

The Real Estate Development Monitoring Committee met four (4) times during the year.

MAURITIUS HOUSING COMPANY LTD

CORPORATE GOVERNANCE REPORT FOR YEAR ENDED 31 DECEMBER 2019

PRINCIPLE 2 –THE STRUCTURE OF THE BOARD AND ITS BOARD COMMITTEES (CONT'D)**Board Committees (Cont'd)****Real Estate Development Monitoring Committee (Cont'd)**Members and Attendance as at 31 December 2019

Members	Role	Real Estate Development Monitoring Committee
Mr. D. Khoosye	Chairperson	4/4
Mr. G. H. Jeanne	Member	3/4
Mr. V. Lutchmeeparsad (As from 11 July 2019)	Member	0/1
<i>Officers who ceased to be Members during the year under consideration</i>		
Mr. D. Balgobin (up to his resignation on 11 October 2019)	Member	4/4
Mr. L. Ghoorah (Up to his resignation on 06 May 2019)	Member	2/2
Mr. S. Ragen (Up to his resignation 10 April 2019)	Member	1/2

Directors' Profile

Mr. Rashad Racheed Daureeawoo, Non-Executive Chairperson of the MHC, was previously Chairperson of the Mauritius Duty Free Paradise Co Ltd. He is a Practising Barrister at Law and is holder of a Degree in Commerce from University of Delhi and a Master's in Law from University of Paris. Over the past 20 years, he has been serving the Judicial Department as Magistrate and served the Town of Beau Bassin/Rose-Hill as Councillor and Mayor respectively. He has formerly held important positions including Member of Parliament, Deputy Chairman of Committees and Chaired the Parliamentary Committee on ICAC (Independent Commission Against Corruption).

Mr. Mohammad Shamad Ayoob Saab, Non-Executive Director, holds a Diploma in Public Administration with specialisation in Public Management and a Master in Business Administration.

He joined the Public Service in 1984 and has since then climbed up the ladder to the post of Permanent Secretary. He has served in various ministries and is at present posted to the Ministry of Finance, Economic Planning and Development.

Mr. Ayoob Saab has served several boards namely NPF, NHDC, NPFL, FSC and NCCG. He is presently Director and Chairperson of the Corporate Governance Committee of the State Investment Corporation Ltd.

MAURITIUS HOUSING COMPANY LTD

CORPORATE GOVERNANCE REPORT FOR YEAR ENDED 31 DECEMBER 2019

PRINCIPLE 2 –THE STRUCTURE OF THE BOARD AND ITS BOARD COMMITTEES (CONT'D)

Directors' Profile (Cont'd)

Mr. Azaad Aumeerally was appointed as Independent Director of the Mauritius Housing Company Ltd on 20 March 2015 and re-appointed on 27 June 2018. He is currently the Chairperson of the Audit Committee.

Mr. Aumeerally holds a BSc (Actuarial Science) and he is a fellow of the Institute of Actuaries (Australia).

Mr. Aumeerally is also the Chairperson of the Sugar Insurance Fund Board (SIFB) and the Founder of NestInvest.

Mr. Koosiram Conhye was appointed as Non-Executive Director of the Mauritius Housing Company Ltd on 28 May 2018 and re-appointed on 27 June 2018 and resigned on 16 January 2020.

Mr. Conhye holds an MSc in Finance. He is also an associate member of the ICSA and holds a Diploma in Marketing.

Mr. Conhye is also the Permanent Secretary at the Ministry of Social Security, National Solidarity and Environment and Sustainable Development.

Mr. Koosiram Conhye was also the Chairperson of the CBIS Steering Committee.

Mr. Georges Henry Jeanne was appointed as Independent Director of the Mauritius Housing Company Ltd on 20 March 2015 and re-appointed on 27 June 2018. He holds a BA in Economics and Social Sciences and is the Chairperson of the Conduct Review Committee of the MHC.

Mr. Dunpath Khoosye was appointed as Independent Director of the Mauritius Housing Company Ltd on 20 March 2015 and re-appointed on 27 June 2018.

Mr. Khoosye is a retired officer of the police force and Ex-Mayor of Vacoas – Phoenix. He is currently a municipal councillor.

Mr. Khoosye is the Chairperson of the Real Estate Development Monitoring Committee of the MHC.

Mr. Vidianand Luchmeepersad is a member of the Institute of Chartered Secretaries and Administrators and holds also a Masters in Business Administration (MBA) with specialisation in Marketing. Before retirement, he was the Senior Chief Executive at the Ministry of Housing and Lands (previously the Permanent Secretary of Ministry of Finance and Economic Development). He is a member of the Board of Landscape (Mauritius) Ltd, NIC Healthcare Ltd, SBM Holdings Ltd and various other companies. He has a rich career in Public Administration and Management. He has worked for PriceWaterHouse, International (UK) on the Public Sector Management and Improvement Programme (PSMIP), where he was fully involved in the reforms that have been initiated in the Public Sector in the 1980's. Since 1989, he has toured several Ministries. As Administrative Officer at the Prime Minister's Office, he carried out a survey on various Parastatal Bodies and provided reports on the basis of which the Government took policy decisions for the redeployment of man-power within the Public Service. He has also headed the Health Infrastructure Planning Section of the Ministry of Health and Quality of Life where he was in charge of the Project of Mediclinics and Polyclinics and for the processing of the issue of Health Development Certificates to Private Promoters in the 1980's. He has been representing the Government on a number of Boards and Committees.

MAURITIUS HOUSING COMPANY LTD

CORPORATE GOVERNANCE REPORT FOR YEAR ENDED 31 DECEMBER 2019

PRINCIPLE 2 –THE STRUCTURE OF THE BOARD AND ITS BOARD COMMITTEES (CONT'D)

Directors' Profile (Cont'd)

Mr. Arveen Sharma Sunt, Executive Director joined MHC on 04 December 2006 and presently holds the post of IT Specialist (Hardware Administration). He resigned as Director on the Board of MHC on 19 June 2020.

Mr. Sunt holds a Bachelor in Computer Applications from the Bangalore University, India. He is also the President of the Mauritius Housing Company Staff Association.

Dr. (Mrs.) Rooba Yanembal Moorghen is a Director of the Mauritius Housing Company Ltd since 04 June 2020. She is presently Permanent Secretary at the Ministry of Housing and Lands Use Planning. She holds a PHD from University of Birmingham. Dr. (Mrs.) Moorghen has more than forty years of experience in the Public Service of Mauritius including more than fifteen years at management level. She was also a part-time lecturer at tertiary institutions in Mauritius lecturing on Public Policy, Public Sector Management Strategic, Human Resource Management, Public Policy Administration and Management and Administrative Reforms. She holds Directorship (Non-Executive) in state-owned enterprises, such as NHDC.

Mr. Deepak Balgobin was appointed as Independent Director and Chairman of the Mauritius Housing Company Ltd on 15 March 2017 and resigned on 11 October 2019.

Mr. D. Balgobin is graduated from SHATEC (Singapore) as well as the University of Technology Mauritius.

Previously, he has acted as Director on the Board of the State Land Development Company (SLDC) and member of the Board of Human Resources Development Council (HRDC). He was also the CEO of the National Productivity and Competitiveness Council as from January 2018 to October 2019.

Mr. Latanraj Ghoorah was appointed as Non-Executive Director of the Mauritius Housing Company Ltd on 30 June 2016 and resigned on 06 May 2019.

Mr. L. Ghoorah holds a BSc (Hons) Economics and an MBA Financial Management.

Mr. L. Ghoorah is a Lead Analyst at the Ministry of Finance & Economic Development. He was also the Chairperson of the Risk Management Committee.

Mr. Swaminathan Ragen was appointed as Non-Executive Director of the Mauritius Housing Company Ltd on 28 November 2018 and resigned on 10 April 2019. He holds an Msc Public Sector Management.

Mr. Ashis Kumar Hoolass is a Director of the Mauritius Housing Company Ltd since 09 March 2020. He holds a BA in Sociology from the University of Bombay, a Post Graduate Diploma in Hotel and Tourism Management from IITC Bombay, a Diploma in Public Administration and Management from the University of Mauritius and a Master Degree in Personnel Management from the University of Pune in India.

He joined the public service on 31 October 1984. He has served in various ministries at senior management level. Since 02 December 2019, he is the Permanent Secretary at the Ministry of Social Integration, Social Security and National Solidarity (Social Security and National Solidarity Division).

*The profile of the Managing Director is provided under Senior Management Profile.

MAURITIUS HOUSING COMPANY LTD**CORPORATE GOVERNANCE REPORT FOR YEAR ENDED 31 DECEMBER 2019****PRINCIPLE 2 –THE STRUCTURE OF THE BOARD AND ITS BOARD COMMITTEES (CONT'D)****Directors' Profile (Cont'd)****Directorship in other companies as at 31 December 2019**

Director	Companies	Directorship Type (Executive/Non-Executive/Independent)
Mr. Mohamud Shamad Ayoob Saab	The State Investment Corporation Limited	Non-Executive
Mr. Azaad Aumeerally	Sugar Insurance Fund Board (SIFB)	Independent Chairperson
Mr. Vidianand Lutchmeeparsad	SBM Holdings	Non-Executive
	State Investment Co Ltd	Non-Executive
	NIC Healthcare Co Ltd	Non-Executive Chairman
	National Insurance Co Ltd	Non-Executive
	NIC General Insurance Co Ltd	Non-Executive
	Mauritius Technologies Holdings Ltd	Non-Executive Chairman
	National Property Fund Ltd	Non-Executive
	National Day Celebrations Co Ltd	Non-Executive
	Landscape (Mauritius) Ltd	Non-Executive
	Mauri-Facilities Management Company Ltd	Non-Executive Chairman
	National Housing Development Co Ltd	Non-Executive

The Company Secretary

The Company Secretary is appointed by the Board. The role of the Company Secretary is to ensure that Board Members have the proper advice and resources for performing their duties towards shareholders under the relevant legal frameworks. The Company Secretary is also responsible for the organisation and coordination of the Board and Committee meetings, and ensuring that the records, or minutes of those meetings, reflect the proper discussions and deliberations held at those meetings.

Prime Partners Ltd is the Company Secretary of MHC. Prime Partners Ltd, a wholly owned subsidiary of The State Investment Corporation Limited, is actively involved in the provision of statutory corporate secretarial services and registrar & transfer office services to Domestic Companies/Trusts/Mutual Funds registered in Mauritius.

Training/ Continuous Professional Development

The staff of Prime Partners Ltd regularly follow ongoing courses organised either internally or by professional training institutions.

MAURITIUS HOUSING COMPANY LTD

CORPORATE GOVERNANCE REPORT FOR YEAR ENDED 31 DECEMBER 2019

PRINCIPLE 3 – DIRECTORS APPOINTMENT PROCEDURES

“There should be a formal, rigorous and transparent process for the appointment, election, induction and re-election of Directors. The search for Board candidates should be conducted, and appointments made, on merit, against objective criteria (to include skills, knowledge, experience, and independence and with due regard to the benefits of diversity on the Board, including gender). The Board should ensure that a formal, rigorous and transparent procedure be in place for planning the succession of all key officeholders.”

Appointment of Directors

The Board carefully considers the needs of the Company in appointing Board Members. The following factors are considered: -

- Skills, knowledge and expertise required on the Board;
- Skills, knowledge and expertise of the proposed Director;
- Previous experience as a Director;
- Specific roles required on the Board such as Chairman of a Committee;
- Balance required on the Board such as gender and age;
- Independence where required;
- Amount of time the proposed director is able to devote to the business of the Board; and
- Conflicts of interests.

Following adoption of Charter of the Corporate Governance Committee, the role of the said Committee in respect of nomination of Directors includes the following: -

- (i) To keep under review the leadership needs of the Company, both executive and non-executive, with a view to ensuring the continued ability of the Company to compete effectively in the marketplace; and
- (ii) To identify and nominate for the approval of the Board, candidates to fill board vacancies as and when they arise.

The proposed appointee is required to disclose any other business interests that may result in a conflict of interest and to report any future business interests that could result in a conflict of interest.

The Board considers its succession very carefully and assumes responsibility for succession planning. The Corporate Governance Committee is responsible to give consideration to succession planning for directors and other senior executives in the course of its work, taking into account the challenges and opportunities facing the Company, and the skills and expertise needed on the Board in the future.

Professional Development

The Board is reviewing the professional development and training of Directors. An assessment of the Board & Sub - Committees was planned in 2019. However, as some directors resigned due to change in posting and were replaced by new ones to represent the relevant stakeholders, assessment of the effectiveness at Board & Sub - Committees was considered to be not appropriate at year end. Hence, the exercise has been postponed and planned to be conducted in 2020.

MAURITIUS HOUSING COMPANY LTD

CORPORATE GOVERNANCE REPORT FOR YEAR ENDED 31 DECEMBER 2019

PRINCIPLE 3 – DIRECTORS APPOINTMENT PROCEDURES (CONT'D)

Induction

On appointment to the Board, all directors receive a formal induction program designed to provide them with sufficient knowledge and understanding of the nature of business, opportunity and challenges, to enable them to effectively contribute to strategic discussions and oversight of the Company. The topics covered by the induction include the Constitution and latest Annual Report of the Company, which clearly outlines their duties and obligations, the new Code for Corporate Governance in Mauritius, the Company Profile and introduction to key stakeholders. They are also provided with the Company's relevant constitutive documents.

Messrs. M.S.Ayoob Saab, V. Lutchmeeparsad and A. S. Sunt who were appointed during the year under review, followed the above-mentioned induction program.

Election and Re-election of Directors

Each director is elected by a separate resolution at the Annual Meeting of Shareholders until the next Annual Meeting.

Article 13.1 of the Constitution provides that the total number of directors shall not at any time be less than five (5) nor exceed nine (9). The director appointed during the course of the year holds office only until the next Annual Meeting.

PRINCIPLE 4 - DIRECTOR DUTIES, REMUNERATION AND PERFORMANCE

“Directors should be aware of their legal duties. Directors should observe and foster high ethical standards and a strong ethical culture in their organisation. Each director must be able to allocate sufficient time to discharge his or her duties effectively. Conflicts of interest should be disclosed and managed. The Board is responsible for the governance of the organisation’s information, information technology and information security. The Board, committees and individual directors should be supplied with information in a timely manner and in an appropriate form and quality to perform to required standards. The Board, committees and individual directors should have their performance evaluated and be held accountable to appropriate stakeholders. The Board should be transparent, fair and consistent in determining the remuneration policy for directors and senior executives.”

Legal Duties

All Directors are fully aware of their fiduciary duties.

Code of Ethics

The Company adopted a Code of Ethics for the Board on 03 July 2020. As for the staff of the MHC, the Board has already approved a Code of Conduct for Employees. The Board monitors and evaluates compliance with the Code of Ethics and Business Conduct for the Board/Code of Conduct for Employees.

MAURITIUS HOUSING COMPANY LTD

CORPORATE GOVERNANCE REPORT FOR YEAR ENDED 31 DECEMBER 2019

PRINCIPLE 4 - DIRECTOR DUTIES, REMUNERATION AND PERFORMANCE (CONT'D)

Conflict of Interest

Board Members have a fiduciary duty to conduct themselves without conflict of the interests of the Company. In their capacity as Board Members, they must subordinate personal individual business, third-party and other interests to the welfare and best interests of the Company.

A conflict of interest occurs when a present transaction or relationship might conflict with a Board Member's obligations owed to the Company and the Board Member's personal, business or other interests. The Conflict of Interest Policy is embedded in the Code of Ethics and Business Conduct for Board Directors.

The Company ensures that directors declare any interest and report to the Chairman and Company Secretary any related party transactions. The Company Secretary maintains the interest register for Directors and Senior Officers and is made available for inspection upon requests.

Information, IT and Information Security Governance

The Board of Directors ensures that appropriate resources are allocated for the implementation of an information and IT security framework at MHC.

The existing IT policies and procedures are being reviewed in alignment with the setup of the new Centralised Banking Information System. New policies and procedures have been introduced in compliance with the Information Technology Infrastructure Library (ITIL) governance framework. The main categories of IT policies are Information Security, Change Management, Data Backup, Batch Processing, Incident Handling, System Access and User Request.

Board Information

The Chairperson is responsible for ensuring that the Directors receive accurate, timely and clear information. The Company Secretary's responsibilities include ensuring good information flows within the Board and its committees and between senior management and non-executive directors. Management has an obligation to provide accurate, timely and clear information. Directors seek clarification or amplification where necessary.

The Board ensures that Directors have access to independent professional advice at the Company's expense in cases where the directors judge it necessary for discharging their responsibilities as directors.

All Directors keep information relating to the Company, gathered in their capacity as Directors, strictly confidential and private and do not divulge them to anyone without the authority of the Board.

The Company Secretary should arrange appropriate Directors and Officers Insurance for all Board Members, the Company Secretary and other appropriate staff.

Directors & Officers Liability Insurance

The above liability is presently being met by the MHC. The Company is considering extending its present Insurance Policy to include Directors & Officers Liability in respect of legal action or liability that can arise against its Directors and Officers. The cover does not provide insurance against fraudulent, malicious or willful acts or omissions.

MAURITIUS HOUSING COMPANY LTD

CORPORATE GOVERNANCE REPORT FOR YEAR ENDED 31 DECEMBER 2019

PRINCIPLE 4 - DIRECTOR DUTIES, REMUNERATION AND PERFORMANCE (CONT'D)**Board Evaluation**

The Company had planned an assessment of the Board & Sub - Committees in 2019. However, as some Directors resigned due to change in posting and were replaced by new ones to represent relevant stakeholders, the assessment of the effectiveness at Board & Sub - Committees was considered to be not appropriate at year end. Hence the exercise was postponed and planned to be conducted in 2020.

Statement of Remuneration Philosophy

The Directors are remunerated for their knowledge, experience and insight. The remuneration policy is to reward the collective contribution of directors towards achievement of the Company's objectives. The Directors' remuneration in similar companies is also used as a guide. The Board is of the view that the remuneration policy at the MHC is fair.

The total fees earned by Directors during the year under review, are as follows:-

Directors	Category	Directors' Remuneration(Mur)
Mr. M.S.Ayoob Saab (Non-Executive Director as from 11 July 2019 and Chairman as from 22 October 2019)	Non-Executive Director/Chairman	274,919.35
Mr. A. Aumeerally	Independent	410,000.00
Mr. K. Conhye	Non-Executive	332,500.00
Mr. G. H. Jeanne	Non-Executive	375,000.00
Mr. D. Khoosye	Independent	390,000.00
Mr. V. Lutchmeeparsad	Non-Executive	144,435.48
Mr. A. S. Sunt	Executive	141,935.48
<i>Officers who ceased to be directors during the year under consideration</i>		
Mr. D. Balgobin (Up to 11 October 2019)	Independent Chairman	724,995.51
Mr. L. Ghoorah (Up to 06 May 2019)	Non-Executive	144,758.06
Mr. S. Ragen (Up to 10 April 2019)	Non-Executive	112,500.00

The Non-Executive Directors' remuneration is fixed. There is no variable component to the effect that the Non-Executive Directors do not receive remuneration in the form of share options or bonuses associated with the Company's performance. However, the Executive Director, being an employee, is entitled to performance bonuses as per the Company's Policy.

The remuneration of officers is reviewed by the Human Resources Committee.

PRINCIPLE 5 – RISK GOVERNANCE AND INTERNAL CONTROL

"The Board should be responsible for risk governance and should ensure that the organisation develops and executes a comprehensive and robust system of risk management. The Board should ensure the maintenance of a sound internal control system."

The Board of Directors has the ultimate responsibility for risk governance and strategy. It ensures that the Company develops and executes a comprehensive and robust system of risk management. It is also responsible to determine the nature and extent of principal risks that the Company is willing to take with respect to the business model in place and to achieve its strategic objectives through proper definition of its risk appetite and the tolerance level. In addition, the Board ensures that there is a sound internal control system in place. The Audit Committee monitors the performance including financial risks of the Company.

MAURITIUS HOUSING COMPANY LTD

CORPORATE GOVERNANCE REPORT FOR YEAR ENDED 31 DECEMBER 2019

PRINCIPLE 5 – RISK GOVERNANCE AND INTERNAL CONTROL (CONT'D)

Risk Management

Risk management is the process of identifying, assessing and prioritising of risks, which is followed by coordination and economical application of resources and controls to mitigate the negative impact of potential events on objectives or to maximise on opportunities.

The primary goals of risk management in MHC is to develop a common understanding of risk across the Company to ensure conformity with applicable rules, guidelines, legislations and any mandatory obligations so that risk is effectively managed. Similarly assisting in better decision making, improving effectiveness and efficiency, risk management provides assurance to the Board and other stakeholders. It also ensures that the outcomes of risk-taking activities are congruent with MHC's strategies, risk appetite and the tolerance level, to keep an appropriate balance between risk and reward to maximise shareholders returns.

To enable the Company meeting the above objectives, a consultant has been hired to review the existing risk management framework and implementing an enhanced one so as to align itself with risk management best practices. This includes the implementation of a new risk architecture, the risk management strategy and protocols with clear definition of responsibilities in terms of risk identification, assessment and monitoring.

At present, the milestones of inception and gap analysis are almost completed, a draft risk register was released by the Consultant to enable documentation of controls by MHC. The document is yet to be finalised.

During the year, reliance was placed on the existing framework to identify, assess, manage and report risks to Board or its sub committees. The Directors derive assurance of the effectiveness of the risk management processes at MHC through the Audit Committee and the Risk Management Committee. Reports together with findings and recommendations are submitted by the internal auditor and periodically by the external auditors. The reporting to these committees is also done by the risk team as well as senior management.

The ultimate goal of risk management is the preservation of the physical and human assets of the organisation for the successful continuation of its operations.

The purpose of Enterprise Risk Management is to provide a framework for risk management which involves identifying particular events or circumstances i.e. both risks and opportunities that can affect the Company's objectives. The impact of their likelihood and magnitude is assessed and appropriate responses for the risks and opportunities are put in place.

Early identification and taking effective measures to address risks and opportunities help companies to protect and create values for their stakeholders, including the shareholders and employees, among others.

General aims of the risk management framework are to:

- Provide guidance on the use of a systematic approach to risk management;
- Facilitate in consolidating a risk aware culture throughout the Company to enable proper handling of risk events; and
- Allow the Board and Management to take risk-informed decisions.

MAURITIUS HOUSING COMPANY LTD

CORPORATE GOVERNANCE REPORT FOR YEAR ENDED 31 DECEMBER 2019

PRINCIPLE 5 – RISK GOVERNANCE AND INTERNAL CONTROL (CONT'D)

Assurance on risk management processes

The Board relies on the risk and compliance functions, internal and external audits who report on weaknesses together with recommendations for remedial actions through the Risk Management Committee and Audit Committee respectively. The objective is to ensure the effective and efficient use of available resources and ascertain the accuracy of information used in the preparation of financial statements.

The internal and external auditors report directly to the Audit Committee on a regular basis for identification of any deficiency noted in internal processes and controls, compliance issues and any material misstatements noted in the financial reports.

The risk management and compliance unit reports to Risk Management Committee on outcome of compliance audits and risk assessment and monitoring.

Objectives

The objectives of the Risk Management Unit are to:

- To identify and prioritise potential risk events;
- Help develop risk management strategies and risk management plans;
- Use established risk management methods, tools and techniques to assist in the analysis and reporting of identified risk events;
- Find ways to identify and evaluate risks;
- Develop strategies and plans for lasting risk management strategies;
- Report to Management on the state of risk and risk practices; and
- Document strategies according to organisational requirements.

The Risk Management Unit independently analyses the quality of the portfolio, the adequacy of provisions and credit risk ratings. It ensures the objectivity and comprehensiveness of the risk assessments and recommends corrective measures.

As a secondary role, the unit is required to assess the Credit Policy, processes managements, and implementation of Credit Risk Scoring System. The existing Risk Manual and the Compliance Manual are currently being reviewed to align them with best practices.

Credit Risk Management

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the MHC as and when they fall due. MHC needs to manage the credit risk inherent in the entire portfolio as well as the risk in individual credits or transactions.

The Credit Risk Management Framework caters for regulatory requirements, as stipulated in applicable guidelines issued by the Bank of Mauritius, like Credit Risk Management, Credit Impairment Measurement and Income Recognition, Write-Off of Non-Performing Assets and Credit Concentration Risk. Credit Risk exposures are managed through MHC's credit assessment, structuring, monitoring process and the Credit Risk Scoring System.

MAURITIUS HOUSING COMPANY LTD

CORPORATE GOVERNANCE REPORT FOR YEAR ENDED 31 DECEMBER 2019

PRINCIPLE 5 – RISK GOVERNANCE AND INTERNAL CONTROL (CONT'D)

Credit Risk Management (Cont'd)

Most of the credit facilities are granted based on the following attributes:

- Credit scoring system;
- Source of repayment;
- Value of the collateral for secured credit facilities; and
- Debt servicing ability of the borrower.

Fundamentally, before a credit facility is granted, MHC conducts a proper assessment on the borrower's income and uses the information available on the Mauritius Credit Information Bureau to test for credit worthiness.

There is a lending operation policy manual in place. The document is regularly reviewed by Management to comply with the provisions of new guidelines and legislations. Credit risk is managed in MHC through regular review of loans in arrears followed by appropriate actions taken by Management. Exposure to credit risk is also managed by obtaining collateral from the borrowers. MHC has put in place a Credit Risk Review Committee which analyses all the loan requests before making recommendation for approval. The committee meets on a daily basis.

The Risk Management Unit gives an independent evaluation of MHC's risk exposures and therefore provides a vital management process for MHC.

Operational Risk Management

Operational risk is inherent in all business activities. This has been defined by the Basel Committee on Banking Supervision as 'the risk of loss resulting from inadequate or failed internal processes, people, and system and external events.'

MHC has established an Operational Risk Management Framework with the objective to ensure that operational risks are identified, monitored, managed and reported in a structured, systematic and consistent manner.

Operational risk can be categorised in the following ways for better understanding:

- Human Risk: Potential losses due to human error, done willingly or unconsciously;
- IT/System risk: Potential losses due to system failures and programming errors; and
- Processes risk: Potential losses due to improper information processing, leaking or hacking of information and inaccuracy of data processing.

MHC has established the processes and procedures in writing to better understand the business activities of the Company and mainly for newcomers. Following the implementation of the new Core Banking Solution, the processes and procedures were reviewed during the year to adapt itself with the environment.

The Risk management & Compliance unit identifies the operational risk and report to the relevant committees and Management for appropriate actions.

MAURITIUS HOUSING COMPANY LTD

CORPORATE GOVERNANCE REPORT FOR YEAR ENDED 31 DECEMBER 2019

PRINCIPLE 5 – RISK GOVERNANCE AND INTERNAL CONTROL (CONT'D)

Market Risk Management

Market risk is the potential that assets, liabilities and revenues or the ability to meet business objectives will be affected by adverse movements in prices or market rates, in particular changes in interest rates. Market risk is often propagated by other forms of financial risk such as credit and liquidity risks. The MHC's market risk framework comprises five principles which stipulate compliance with market risk policies and practices, including delegation of authority, market risk limits, risk models and methodologies to measure interest spread over various maturities, which are in line with regulatory guidelines and international best practices.

The Company carries market intelligence exercise on a weekly basis to observe the fluctuations of interest rate in the market and adapts its interest margins in response to changes in the market rates.

Liquidity Risk Management

Liquidity reflects an institution's ability to fund its assets and meet financial obligations. Liquidity is essential in all financial institutions to meet customer withdrawals, compensate for balance sheet fluctuations and provide funds for growth.

Liquidity Risk is the risk that an institution will be unable to obtain funds, such as customer deposits or borrowings at a reasonable price within a required period to meet its financial obligations. As a financial institution, the Company is subject to regulatory obligations whereby it has to comply with the cash ratio.

The Company maintains adequate cost-effective funds to enable it honour all its financial commitments (both contractual and those determined on the basis of behavioural patterns), when they become due. Thus, all MHC's commitments which are required to be funded are met out of readily available and secured sources of funding.

The principal sources of funds for MHC are its self-revolving fund, raising of funds through savings and termed deposits from business customers and borrowings from financial institutions.

The maturities between funds raised and loans granted are kept under constant review to limit liquidity risk.

The goal of liquidity management is to protect the financial strength of the Company and maintain its ability to withstand stressful events in financial markets. In this respect, MHC has set up an Assets-Liability Committee (ALCO) for proper management of its balance sheet. In addition, the Liquidity Management Committee monitors the liquidity position on a daily basis.

The liquidity risk management framework, which is currently being implemented, incorporates the following eight principles:

- An agreed strategy for day-to-day management of liquidity;
- Identification of liquidity risk in MHC's activities;
- An organisation structure for managing liquidity;
- Adequate information systems for measuring, monitoring, controlling and reporting liquidity risk;
- A process for the ongoing measurement and monitoring of net funding requirements;
- Internal controls that help to ensure integrity of liquidity risk management;
- Diversification of liabilities and maintaining the capacity to sell assets; and
- A Contingency Plan to address the strategy for holding a liquidity crisis.

MAURITIUS HOUSING COMPANY LTD

CORPORATE GOVERNANCE REPORT FOR YEAR ENDED 31 DECEMBER 2019

PRINCIPLE 5 – RISK GOVERNANCE AND INTERNAL CONTROL (CONT'D)

Liquidity Risk Management (Cont'd)

The above ensure:

- Maintenance of a sufficient liquidity buffer;
- Assurance of a sound statement of financial position;
- Management of short and long-term cash flow;
- Preservation of a diversified funding base;
- Regular liquidity stress testing and scenario analysis; and
- Maintenance of adequate contingency funding plans.

Interest Rate Risk Management

MHC manages the potential adverse effect of interest rate movements on net interest income and the economic value of capital.

Interest rate risk is the potential impact on the MHC's earnings and net assets values due to changes in interest rates. Fluctuations in interest rates affect MHC's earnings, by changing the net interest income and the level of other interest-sensitive income and expenses. Effective management of interest rate risk is essential for safety and soundness of MHC.

MHC's approach to managing interest rate risk is governed by the Bank of Mauritius Guidelines on Measurement and Management of Market Risk and the Company's internal policy.

Concentration of Credit Risk

MHC seeks to diversify its credit risk by limiting exposure to single borrower or group of related borrowers. Concentration of credit risk is governed by Guideline on Credit Concentration issued by the Bank of Mauritius.

The Assets and Liabilities committee (ALCO) is mandated to look into credit risk. The committee's set-up prescribes that asset and liability management will deal with aspects related to credit risk as the purpose of this function is also to manage the impact of the entire credit portfolio (including cash, investments and loans) on the balance sheet.

Compliance Risk

Compliance risk is the risk that the Company fails to comply with all relevant laws, Codes, rules, regulations and Company's policies. Non-compliance will lead to fines and penalties which can have adverse impact on the business of the Company. Up to now MHC has not incurred any fines or penalties for non-compliance.

There is an in-house compliance unit which monitors whether process owners and senior management are complying with relevant laws, guidelines, codes, rules and regulations. Compliance risk is reviewed on an ad-hoc basis by owners.

MAURITIUS HOUSING COMPANY LTD

CORPORATE GOVERNANCE REPORT FOR YEAR ENDED 31 DECEMBER 2019

PRINCIPLE 5 – RISK GOVERNANCE AND INTERNAL CONTROL (CONT'D)

Business Continuity Risk

Business continuity encompasses planning and preparation to ensure that an organisation can continue to operate in case of serious incidents or disaster and is able to recover to an operational state within a reasonable short period. It is a holistic management process to identify threats and the impacts of those threats if ever materialised and providing a framework for organisational resilience with a capability for an effective response to safeguard key stakeholders' interests, reputation, brand and value creating activities.

Senior management draws cash flow projections on a regular basis to monitor the operational activities and other commitments of the Company. In addition, it keeps an eye on the market to identify potential threats to MHC's business model.

There is also the threat that the Government stop subsidising the deposit products and this particular move may adversely impact on the business. Management is in the process of designing new strategies to counter the effect of possible withdrawal of the grant.

With the implementation of the enhanced integrated risk management framework and the core banking solution, the Company will have to revisit its business continuity model.

Technological Risk

Technological risk is the risk of accidental or intentional unauthorised use, modification, disclosure or destruction of information resources which would compromise the confidentiality, integrity or availability of information.

At MHC there is segregation of duties, thus only IT people can have access to the systems. Access is granted to users based on a defined matrix and also after appropriate approval has been obtained. Changes effected on system are tracked through audit trails and logs. Besides, there is an existing Information Security policy in place, which is subject to review with the implementation of the new system.

The Risk Management Committee, through management reporting and that of the risk and compliance team, monitors and evaluates the above risks including that of compliance.

Internal Control

Internal Control in MHC is one of the mechanisms used to reduce risk to an acceptable level. Management is responsible for the design, implementation and monitoring of the internal control system.

The first line of defense of the internal control system is operated by MHC's Management and is about ensuring that the control mechanism embedded in the daily activities of the Company is effective. An assessment of the effectiveness of the Internal Control is conducted on a quarterly basis and reported to the Audit Committee.

As the second defensive line, Risk and Compliance conducts audits and other checks to ensure the effectiveness of the internal control environment and findings together with proposed remedial actions are reported to the Risk Management Committee.

Internal Audit, being the third line of defense, independently assess the effectiveness of the Internal Control environment and reports to the Audit Committee.

MHC has built up a risk register for all the processes whereby Management assesses its effectiveness on conducted on a quarterly basis. Following the implementation of Enterprise Risk Management, the register will be aligned with best practices.

MAURITIUS HOUSING COMPANY LTD

CORPORATE GOVERNANCE REPORT FOR YEAR ENDED 31 DECEMBER 2019

PRINCIPLE 5 – RISK GOVERNANCE AND INTERNAL CONTROL (CONT'D)

Whistle Blowing Policy

MHC is committed to the highest standards of openness, probity and accountability. In line with that commitment, the Company has established a Whistle Blowing Policy to allow staff to come forward and voice out their concerns in a responsible and effective manner.

FINANCIAL RISK FACTORS

Please refer to Note 4 of the financial statements.

SOLVENCY RISK

Solvency risk is managed within the risk appetite of the Company.

Frameworks and processes for the sound management of risk and Internal Controls

The internal auditor reviews the effectiveness of the Company's systems of internal control, including internal financial control and business risk management and maintaining effective internal control systems. This ensures that appropriate frameworks and effective processes are in place for a sound management of risk.

Management is responsible for the implementation of internal control and risk management systems under the supervision of the Audit Committee which ensure that proper accounting records are maintained and that the strategies and policies adopted by the Board are being implemented.

The internal audit covers all key areas of activities. Any deviation in policies and non-performance of internal control are duly reported and discussed at large at Management and Audit Committee levels. Corrective actions are promptly taken, and regular follow ups are done. This enables the Board to derive assurance that the internal control systems are effective.

PRINCIPLE 6: REPORTING WITH INTEGRITY

“The Board should present a fair, balanced and understandable assessment of the organisation's financial, environmental, social and governance position, performance and outlook in its annual report”

The Annual Report is published in full on the Company's website.

The Annual Report comprises several key elements:-

- Performance review;
- Economic and market review;
- Risks;
- KPIs, performance and outlook;
- Corporate social responsibility and donations; and
- Environmental policy.

MAURITIUS HOUSING COMPANY LTD**CORPORATE GOVERNANCE REPORT FOR YEAR ENDED 31 DECEMBER 2019****PRINCIPLE 6: REPORTING WITH INTEGRITY (CONT'D)**

In addition, the following documents will be included on the website of the Company:

- Annual report and accounts;
- Board and committee charters;
- Code of ethics;
- Details on board and governance structure;
- Dividend policy and declaration; and
- Financial highlights.

Organisational overview

MHC is the pioneer in home loan finance. It emanates from the former Mauritius Housing Corporation, a parastatal body set up in 1963. It started its activities with the prime objective to accommodate many Mauritian families who were facing housing problems. MHC was incorporated as a public Company in 1989, and since then it has maintained a consistent and healthy growth in its operations, to remain amongst the market leaders in mortgage finance.

The main purpose of the Company is to enhance the residential housing sector in Mauritius through the provision of housing finance in a systematic and professional manner, so as to promote home ownership. MHC aspires to provide its customers with unique home loan solutions and make home ownership easy and simple. Besides housing lending business, the Company is a deposit-taking institution and also provides architectural, technical, legal and insurance services.

Overview of the external environment**Business Model****Key Performance Indicators, Performance and Outlook**

The Board has identified the key performance indicators and align same with MHC's strategy, namely Customer Excellence, Processing Time for Loan Application, Loan Business and Good Corporate Governance, amongst others. These are used to evaluate the performance of the organisation. Concerning the outlook, the business segment in which MHC operates is set to remain volatile, with continuing challenges and constraints that are unfortunately not within its control.

Community Welfare Fund

The Company has set up a Community Welfare Fund (similar to CSR), designed to promote the interest of the community and the creation of a sustainable society. In line with this intent, MHC sponsored an amount of Rs 263,391/- during the year under review.

No political donation, political or others was made during the year under review.

MAURITIUS HOUSING COMPANY LTD

CORPORATE GOVERNANCE REPORT FOR YEAR ENDED 31 DECEMBER 2019

PRINCIPLE 6: REPORTING WITH INTEGRITY (CONT'D)**Environmental Policy**

The Company ensures that its operation has no major impact on the environment. The following measures are taken at MHC Ltd to reduce Carbon Emission.

1. Office environment

- a. Existing fluorescent light fittings which consisted mainly of 4x18W recessed fluorescent light fittings are being replaced by recessed LED panels of 48W.
- b. Existing halogen spot lights 50W are being replaced by LED spot lights 3-12W.
- c. Existing AC units HCFC-22, R22 refrigerant that contain Ozone-depleting substances (ODS) and which are more than 10 years old are being replaced by AC units of R410 which are ozone friendly.

2. Electricity Usage

Lights, air conditioners, machines, computers, elevators, and other appliances consume a lot of electricity at MHC and wise usage of these appliances can save a lot of the energy. More often employees habitually leave appliances such as printers, computers and other electronic items in standby mode, which means that they continuously consume energy even when they are not being used. Thus, employees are advised to switch off appliances after use.

3. Paper Usage

Management has always strived all staff to keep an eye on paper usage. Heads of Business Units have been informed to give instruction to print if absolutely necessary to encourage the use a printer's two-sided print feature and use the back of one-sided paper as scrap paper.

4. Reduce Paperwork

Most of MHC policies and procedures are clouded on intranet. A cloud-based infrastructure addresses both energy and resource efficiency while saving space and providing MHC staff with the flexibility to work from anywhere.

5. Plastic Free

Paper bags and paper cups are being used for all MHC activities.

6. Shredding of old files for Recycling

Old files are shredded massively, and the waste materials produced are collected by recycling industries.

MAURITIUS HOUSING COMPANY LTD

CORPORATE GOVERNANCE REPORT FOR YEAR ENDED 31 DECEMBER 2019

PRINCIPLE 6: REPORTING WITH INTEGRITY (CONT'D)

Safety and Health Issues

The Company has appointed a Health and Safety Officer as per the requirements of the Operational Safety and Health Act 2005, who ensures compliance with the Act and other legislative and regulatory frameworks.

Third Party Management Agreement

There was no management agreement between third parties and the Company during the year under review.

Material Clauses of the MHC's Constitution:

- (1) To promote property development within the Republic of Mauritius on its own or in partnership or as agent or as shareholder of a company;
- (2) To grant loans for the purchase of residential lands;
- (3) To set up such housing savings scheme as would be appropriate;
- (4) To carry on business in the nature of insurance in respect of its clients and/or its guarantor/s and client's/s' and/or guarantor's/s' property/ies; and
- (5) To do all such other things as are incidental or conducive to the above objects.

Related Party Transaction

Related Party transactions are disclosed in Note 32 of the Financial Statements.

Statement of Directors' Responsibilities

Directors acknowledge their responsibilities for:

- Adequate accounting records and for maintenance of effective internal control systems;
- Preparation of financial statements which fairly present the state of affairs of the Company at end of the financial year and the cash flows for that year ended, and which comply with International Financial Reporting Standards (IFRS);
- Using appropriate accounting policies supported by reasonable and prudent judgments and estimates;
- Ensuring that adequate accounting records and an effective system of internal controls and risk management have been maintained;
- Ensuring that appropriate accounting policies supported by reasonable and prudent judgments and estimates have been used consistently;
- Ensuring that the International Financial Reporting Standards have been adhered to. Any departure has been disclosed, explained and quantified in the financial statements; and
- Ensuring that the Code of Corporate Governance has been adhered to, in all material aspects. Reasons for non-compliance have been provided, where appropriate.

The External Auditors are responsible for reporting on whether the financial statements are fairly presented.

MAURITIUS HOUSING COMPANY LTD

CORPORATE GOVERNANCE REPORT FOR YEAR ENDED 31 DECEMBER 2019

PRINCIPLE 7 – AUDIT

“Organisations should consider having an effective and independent internal audit function that has the respect, confidence and co-operation of both the Board and the management. The Board should establish formal and transparent arrangements to appoint and maintain an appropriate relationship with the organisation’s auditors”

Internal Audit

The role of Internal Audit is to provide independent and objective assurance to management and the Board of Directors through the Audit Committee. By following a systematic and disciplined approach, Internal Audit helps to accomplish the Company’s objectives by evaluating and recommending improvements to operations, internal controls, risk management systems, and governance process.

The Internal Audit function is independently carried out by the Internal Auditor of MHC, who is a qualified and experienced person. The internal auditor reports directly to the Audit Committee and for administrative purpose to the Managing Director/ Officer in Charge. The Internal Auditor has unrestricted access to review all activities and transactions undertaken within the Company and to appraise and report thereon. There was no restriction placed over the right of access by the Internal Auditor to the records, management or employees of the organisation. All significant risk areas are covered by the internal audit. The internal audit plan is reviewed annually by the Audit Committee.

The Internal Auditor has no operational responsibility or authority over any of the activities audited. Accordingly, he is not involved in internal controls, developing procedures, installing systems, preparing records, or engaging in any other activity that may impair the Internal Auditor’s judgment.

The Internal Auditor submits regular reports to the Audit Committee. The areas, systems and processes covered by the internal audit is risk based and the following significant areas are covered:

- Loans;
- Deposits;
- Treasury; and
- Liquidity Management Internal controls.

The Audit Committee reviewed the Financial Statements in the presence of External Auditors and Management. Management was requested to address the significant issues identified with the financial statements and amend the documents accordingly.

External Audit

In line with Section 39 of the Banking Act 2004 and following a tender exercise, **Grant Thornton** was appointed as the external auditors for the financial year ended 31 December 2019 at the Annual General Meeting held in June 2019. They are in office for the first year for the audit of the financial statements of the Company.

The Audit Committee ensures that the external auditor is rotated at least every 5 years. The approach to appointing external auditor is done through a tendering process. The last tender for the appointment of Grant Thornton was conducted in April 2019 for a period of 5 years, renewable annually.

MAURITIUS HOUSING COMPANY LTD**CORPORATE GOVERNANCE REPORT FOR YEAR ENDED 31 DECEMBER 2019**

PRINCIPLE 7 – AUDIT (CONT'D)**Meeting with Audit Committee**

The External Audit Firm has open lines of communication and reporting with Audit and Corporate Governance Committees. The External Auditors met with the Chairman of the Audit Committee at least twice during the year, without the presence of Management, during which meeting, the financial statements of the Company, timeline of the audit, the audit approach, the accounting principles and critical policies adopted were discussed.

Evaluation of the Auditors

The Audit Committee evaluates the external auditor in fulfilling their duty annually, to make an informed recommendation to the Board for their reappointment. The Audit Committee assesses the qualifications and performance of the auditor; the quality of the auditor's communications with the Audit Committee and the auditor's independence, objectivity and professional scepticism.

Grant Thornton is of relevant size and has the required experience and resources to undertake the audit of the Company. The External Audit firm and the Audit Partner are licensed by the Financial Reporting Council and their appointment has been approved by the Bank of Mauritius. The quality processes of Grant Thornton are based on international best practice.

The individuals assigned to the team for the assignment at MHC have the required expertise, including industry knowledge to effectively audit the Company. The external audit's scope is to address the financial reporting risks facing the Company, including the provision of an internal control review as required by the Bank of Mauritius.

The key issues raised by the Auditors are discussed at the Audit Committee and Management is invited to provide explanations and take remedial measures.

Information on non-audit services

Grant Thornton did not provide any non-audit services to MHC.

MAURITIUS HOUSING COMPANY LTD**CORPORATE GOVERNANCE REPORT FOR YEAR ENDED 31 DECEMBER 2019****PRINCIPLE 8- RELATIONS WITH SHAREHOLDERS AND OTHER KEY STAKEHOLDERS**

“The Board should be responsible for ensuring that an appropriate dialogue takes place among the organisation, its shareholders and other key stakeholders. The Board should respect the interests of its shareholders and other key stakeholders within the context of its fundamental purpose”

SHAREHOLDING STRUCTURE

The shareholding structure of Mauritius Housing Company Ltd as at 31 December 2019 was as follows:-

	Name of Shareholders	Shareholding (%)
1.	Government of Mauritius	60.01
2.	State Investment Corporation Ltd	13.33
3.	State Insurance Company of Mauritius Ltd	13.33
4.	National Pensions Fund	13.33

All of the above-mentioned shareholders hold more than 5% share capital of the Company as at the year end.

Dividend Policy

The Company has a dividend pay-out policy of 20% of Net Profit. Payment of dividends is subject to the performance of the Company, cash flow, working capital and capital expenditure requirements, satisfying the solvency test and prior approval from the Bank of Mauritius.

COMPANY KEY STAKEHOLDERS

The Company continuously engages with its stakeholders to understand their concern and priorities. The Company's key stakeholders and its interactions are as follows:-

Shareholders

MHC aims at understanding properly the information needs of its shareholders and places great importance on an open and meaningful dialogue. It ensures that shareholders are kept informed on matters affecting the Company. Besides official press communiqués to shareholders, open lines of communication are maintained to ensure transparency and optimal disclosure.

All decisions are taken in the best interests of its members and in compliance with the relevant legislations. The Company is very attentive to the request of its members and aims at providing good service at all times.

All shareholders have the same voting rights.

Customers/Public

By offering competitive financial products, namely housing loans, savings and deposits and providing them with timely information about the services and facilities being offered by MHC.

Employees

By fostering a working environment that supports sustainable performance, promotes continuous professional/personal development and decent conditions of employment.

MAURITIUS HOUSING COMPANY LTD

CORPORATE GOVERNANCE REPORT FOR YEAR ENDED 31 DECEMBER 2019

PRINCIPLE 8- RELATIONS WITH SHAREHOLDERS AND OTHER KEY STAKEHOLDERS (CONT'D)

COMPANY KEY STAKEHOLDERS (CONT'D)

Suppliers

Dealing through strict procurement procedures where there is a fairness and equity.

Regulators

Relationships with the regulators, mainly the Bank of Mauritius, Registrar of Companies, Mauritius Revenue Authority and the Financial Reporting Council are considered as critical for good running of the Company. The Company maintains relationship with its regulators through written communications, filing of returns and financial reports, participation in forums, conferences and workshops as well as compliance with relevant legislation.

These relationships are viewed as strategic partnerships to ensure that the Company upholds and maintains best practices with full transparency.

CONDUCT OF SHAREHOLDERS' MEETINGS

During the Annual Meetings, shareholders are given the opportunity to communicate their views and to engage with the Board and Management with regard to the Company's business activities and financial performance.

All Directors and External Auditors are invited to attend Shareholders' Meetings.

The Constitution allows a shareholder of the Company to appoint a proxy, whether a shareholder or not, to attend and vote on its behalf.

At the Shareholders' Meeting, each of the following issues is proposed in a separate resolution:-

- The approval of the Annual Report and Audited Financial Statements;
- The ratification of dividend (if applicable);
- The election or re-election of Directors of the Board until the next Annual Meeting;
- The appointment or re-appointment of Auditors under section 200 of the Companies Act 2001; and
- Any other matter which may require the Shareholders approval.

COMMUNICATION WITH THE SHAREHOLDERS

Communication between the Company and its shareholders takes place on a regular basis.

Annual report containing the audited financial statements, performance review and other essential information is sent to all shareholders. The shareholders are also invited to the Annual Meeting where they are encouraged to interact with Directors and ask questions or seek clarifications from the Board and Management regarding operations of the Company. Furthermore, any queries addressed to Management and/or the Company Secretary, are promptly attended to.

MAURITIUS HOUSING COMPANY LTD

CORPORATE GOVERNANCE REPORT FOR YEAR ENDED 31 DECEMBER 2019

PRINCIPLE 8- RELATIONS WITH SHAREHOLDERS AND OTHER KEY STAKEHOLDERS (CONT'D)**COMMUNICATION WITH THE SHAREHOLDERS (CONT'D)****Annual Meeting of Shareholders**

The next Annual Meeting of the Company is scheduled in August 2020. Appropriate notice of meeting is given to the shareholders, who are provided with the opportunity to communicate their views and to engage with the Board of Directors and Management with regards to the Company's business activities and financial performance.

CALENDAR OF IMPORTANT EVENTS

The following is a schedule of forthcoming events:

Date	Event
28 August 2020*	Annual General Meeting
28 August 2020	Declaration of Dividend
30 December 2020	Payment of Dividend
31 December 2020	End of Financial Year

** Due to the Covid-19 outbreak, the Companies Division has granted all companies with balance sheet date of 31 December 2019, a 3-months extension as from the deadline of 30 June 2020, i.e. up to 30 September 2020, to hold their annual meetings.*

MAURITIUS HOUSING COMPANY LTD**CORPORATE GOVERNANCE REPORT FOR YEAR ENDED 31 DECEMBER 2019**

Statement of Compliance

(Section 75 (3) of the Financial Reporting Act)

Name of PIE: Mauritius Housing Company Ltd

Reporting period: 31 December 2019

We, the Directors of Mauritius Housing Company Ltd, the “Company”, confirm to the best of our knowledge that the Company has complied as far as possible with its obligations and requirements under the Code of Corporate Governance except for the following sections:-

Principle 1: Governance Structure

The Code recommends every organisation to prepare and ratify the following governance documents:

- (i) The Board’s Charter;
- (ii) The Organisation’s Code of Ethics; and
- (iii) A Statement of Key Governance Responsibilities and Accountabilities.

As at 31 December 2019, the Company did not comply to the above provisions. However, the above-mentioned documents were approved on 03 July 2020.

Principle 2: Composition of the Board

The recommendation of the Code is to have at least two Executive Directors.

As at 31 December 2019, the Company did not comply with the following Corporate Governance provisions:

- (i) Given the Chairman was not Independent, at least 50% of the Board to be independent;
- (ii) Appointment of two (2) Executive Directors on the Board. The Company has only one Executive Director as at date;
- (iii) Appointment of at least one lady Director on the Board;
- (iv) The Audit Committee to comprise of three Independent Members; and
- (v) A sufficient number of Directors does not have a relationship with the organisation and major shareholders.

As at date, the Board does not have at least four (i.e. 50%) independent Directors as per the Bank of Mauritius Guideline on Corporate Governance. Thus, the Audit Committee also does not have three Independent Members. However, the shareholders have been informed of the current situation and to consider appropriate actions accordingly.

Moreover, as at date, the non-compliance in respect of the appointment of at least one lady Director on the Board has been addressed with the appointment of Dr. (Mrs.) Rooba Yanembal Moorghen on 04 June 2020.

The issue in respect of the Directors’ relationship with the organisation and major shareholders will be raised with the shareholders at the next Annual General Meeting.

MAURITIUS HOUSING COMPANY LTD**CORPORATE GOVERNANCE REPORT FOR YEAR ENDED 31 DECEMBER 2019****Statement of Compliance (Cont'd)****Principle 2: Composition of the Board (Cont'd)**

The Code recommends that the Charter of each committee be approved by the Board and published on its website. The Charter of the following Committees was approved on 03 July 2020 and will be published on MHC's website:

- (i) Audit Committee;
- (ii) Corporate Governance Committee;
- (iii) Conduct Review Committee;
- (iv) Risk Management Committee;
- (v) Resources Committee; and
- (vi) Real Estate Development Monitoring Committee.

As at date, the Audit Committee does not have three independent Members as per the Bank of Mauritius Guideline on Corporate Governance due to the lack of Independent Directors on the Board. However, the shareholders have been informed of the current situation and to consider appropriate actions accordingly.

Principle 4**Board Evaluation**

The Code makes the following recommendation:


- (i) Each company to conduct a Board Evaluation and Development; and
- (ii) The company should take appropriate Directors and Management Insurance for all Board Members, the Company Secretary and other appropriate staff.


As at 31 December 2019, the Company did not comply with the above-mentioned provisions. However, steps are being taken to comply with the Code as stated below.

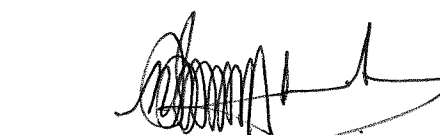
The Company had planned an assessment of the Board & Sub - Committees in 2019. However, as some Directors resigned due to change in posting and were replaced by new ones to represent relevant stakeholders, the assessment of the effectiveness at Board & Sub - Committees was considered to be not appropriate at year end. Hence the exercise was postponed and planned to be conducted in 2020.

The Company is considering to extend its present Insurance Policy to include Directors & Officers Liability in respect of legal action or liability that can arise against its Directors and Officers. The cover does not provide insurance against fraudulent, malicious or willful acts or omissions.

Signed on behalf of the Board of Directors:



Chairman


Director


Director

03 JUL 2020

**REPORT FROM THE SECRETARY
TO THE MEMBERS OF MAURITIUS HOUSING COMPANY LTD**

We confirm that, based on the records and information made available to us by the Directors and Shareholders of the Company, the Company has filed with the Registrar of Companies all such returns as are required of the Company under Section 166(d) of the Mauritius Companies Act 2001.



**For Prime Partners Ltd
Secretary**

Date: 03 JUL 2020



Independent auditors' report To the members of Mauritius Housing Company Ltd

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **Mauritius Housing Company Ltd**, the "Company", which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements on pages 54 to 110 give a true and fair view of the financial position of the Company as at 31 December 2019 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, and the requirements of the Mauritius Companies Act 2001, the Banking Act 2004 and the Financial Reporting Act 2004.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 36 to the financial statements which describes the difference identified during a reconciliation exercise for the other receivables balance. Our opinion is not modified in respect of this matter.

Key Audit Matter

Key audit matter is a matter that, in our professional judgement, is of most significance in our audit of the financial statements for the year ended 31 December 2019. A key audit matter is addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on such matter.

The only key audit matter identified in relation to the audit of the financial statements is as described below:

Independent auditors' report (Cont'd)
To the members of Mauritius Housing Company Ltd

Report on the Audit of the Financial Statements (Cont'd)

Key Audit Matter (Cont'd)

Risk description

Provision for expected credit losses	How our audit addressed the key audit matter
<p>The estimation of expected credit losses ("ECL") on financial instruments, involves significant management judgement and estimates. The key areas where we identified greater levels of management judgement and estimates and therefore increased levels of audit focus in the Company's estimation of ECLs are:</p> <ul style="list-style-type: none"> • Assumptions applied to estimate the probability of default ("PD"), exposure at default ("EAD") and loss given default ("LGD") within the ECL measurement; • Incorporation of macro-economic inputs and forward-looking information into the ECL measurement; and • Assessment of ECL of stage 3 as this involves a significant level of management judgements and estimates. <p>The effect of these matters is that, as part of our risk assessment, we determined that the impairment of loans to customers has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The credit risk sections of the financial statements disclose the sensitivities estimated by the Company.</p>	<p>Our procedures included the following, amongst others:</p> <ul style="list-style-type: none"> • We assessed and tested the design and operating effectiveness of the controls established by management over the approval, recording and monitoring of loans, including impairment assessment. • We have tested the appropriateness of the IFRS 9 impairment methodologies and independently assessed the probability of default, loss given default and exposure at default assumptions. • We have tested the completeness and accuracy of the underlying loan data used in the impairment calculation by agreeing details to the Company's source documents, on a sample basis. • We evaluated the ageing of a sample of loans within the loan risk classification categories to ensure that the loans were included in the right category and provisioned accordingly. • We assessed whether the disclosures are in accordance with the requirements of IFRS 9. <p>Overall, the results of our evaluation of the Company's expected credit losses on loans to customers are consistent with management's assessment.</p>



Independent auditors' report (Cont'd) **To the members of Mauritius Housing Company Ltd**

Report on the Audit of the Financial Statements (Cont'd)

Other Matter

The financial statements for the year ended 31 December 2018 were audited by another auditor who expressed an unmodified opinion on the financial statements on 29 March 2019.

Information Other than the Financial Statements and Auditors' Report Thereon ("Other Information")

Management is responsible for the Other Information. The Other Information comprises mainly of information included under the Corporate Information, the Annual Report, the Statement of Management Responsibility for Financial Reporting and the Corporate Governance Report sections, but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the Other Information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard,

Corporate Governance Report

Our responsibility under the Financial Reporting Act 2004 is to report on the compliance with the Code of Corporate Governance ("the Code") disclosed in the Annual Report and assess the explanations given for non-compliances with any requirement of the Code. From our assessment of the disclosures made on corporate governance in the Annual Report, the Company has, pursuant to Section 75 of the Financial Reporting Act 2004, complied with the requirements of the Code.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Mauritius Companies Act 2001, the Banking Act 2004 and the Financial Reporting Act 2004, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.



Independent auditors' report (Cont'd) **To the members of Mauritius Housing Company Ltd**

Report on the Audit of the Financial Statements (Cont'd)

Responsibilities of Management and Those Charged with Governance for the Financial Statements (Cont'd)

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



Independent auditors' report (Cont'd) **To the members of Mauritius Housing Company Ltd**

Report on the Audit of the Financial Statements (Cont'd)

Auditors' Responsibilities for the Audit of the Financial Statements (Cont'd)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

(a) *Mauritius Companies Act 2001*

In accordance with the requirements of the Mauritius Companies Act 2001, we report as follows:

- we have no relationship with, or any interests in, the Company other than in our capacity as auditors;
- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by the Company as far as it appears from our examination of those records.



Independent auditors' report (Cont'd)
To the members of Mauritius Housing Company Ltd

Report on Other Legal and Regulatory Requirements (Cont'd)

(b) *Banking Act 2004*

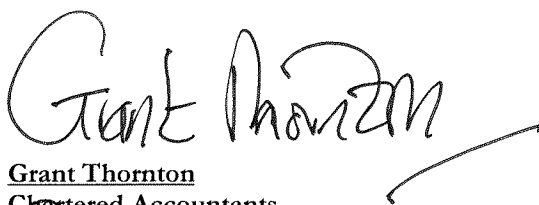
(i) In our opinion, the financial statements:

- have been prepared on a basis consistent with that of the preceding year;
- are complete, fair and properly drawn up; and
- comply with the Banking Act 2004 as well as the regulations and guidelines of the Bank of Mauritius.

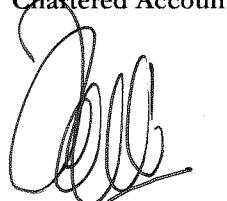
(ii) The explanations or information called for or given to us by the officers or agents of the Company were satisfactory.

Other

Our report is made solely to the members of the Company as a body in accordance with Section 205 of the Mauritius Companies Act 2001. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinion we have formed.



Grant Thornton
Chartered Accountants



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Licensed by FRC

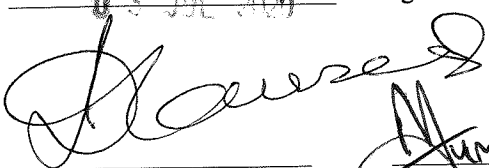
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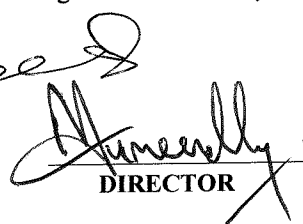
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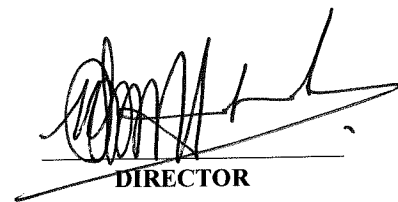
STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2019

	Notes	2019 Rs'000	2018 Rs'000	2017 Rs'000
ASSETS				
Cash at banks and in hand	13(a)	327,547	118,130	97,433
Treasury deposits	13(b)	475,000	300,000	375,000
Property development	14	99,343	2,405	2,405
Loans to customers	15	8,002,544	7,550,700	6,793,334
Investment property	16	125,409	120,749	116,000
Property and equipment	17	609,183	606,072	491,853
Intangible assets	18	134,666	59,097	48,534
Other assets	19 (a)	202,111	207,181	235,662
Assets held for sale	19 (b)	61,641	64,045	66,887
Total assets		10,037,444	9,028,379	8,227,108
LIABILITIES				
PEL and other savings accounts	20(a)	1,870,009	1,818,670	1,744,007
Housing deposits certificates	20(b)	3,404,266	2,393,053	2,290,327
Borrowings	21	733,637	903,528	496,256
Retirement benefit obligations	22	256,717	299,225	267,558
Other liabilities	23	59,814	46,279	69,041
Total liabilities		6,324,443	5,460,755	4,867,189
Insurance funds	24	123,973	97,100	97,100
SHAREHOLDERS' EQUITY				
Share capital	25	200,000	200,000	200,000
Revaluation reserves	17(a)	425,138	612,197	489,743
Building insurance reserve	27	116,810	116,810	116,810
Life insurance reserve	24	127,769	154,642	154,642
Retained earnings	28	2,412,721	2,067,688	1,982,437
Statutory reserve	29(b)	200,000	200,000	200,000
Other reserves	29(a)	106,590	119,187	119,187
Total equity		3,589,028	3,470,524	3,262,819
Total equity and liabilities		10,037,444	9,028,379	8,227,108

These financial statements have been approved and authorised for issue by the Board of Directors on 03 JUL 2020 and signed on its behalf by:


 CHAIRMAN


 DIRECTOR


 DIRECTOR

The notes on pages 58 to 110 form an integral part of these financial statements.
Auditor's Report on pages 48 to 53.

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Notes	2019 Rs'000	2018 Rs'000	2017 Rs'000
Interest income		526,276	484,771	518,611
Interest expense		(191,906)	(174,438)	(183,869)
Net interest income	6	334,370	310,333	334,742
Fee and commission income		37,928	33,332	25,016
Rent received		8,301	7,397	7,349
Policy fees and charges on loan		6,282	7,367	5,055
Other operating income	7	54,965	59,387	40,151
		107,476	107,483	77,571
Operating income		441,846	417,816	412,313
Personnel expenses	8	(152,966)	(179,069)	(167,900)
Depreciation and amortisation		(18,235)	(14,336)	(15,568)
Other expenses	9(a)	(101,187)	(86,559)	(78,037)
Non-interest expense		(272,388)	(279,964)	(261,505)
Operating profit		169,458	137,852	150,808
(Net impairment loss on financial assets)/release of allowance for credit impairment on financial assets	15(b)	(21,017)	56,373	54,799
Other provisions	9(b)	(26,348)	-	-
Gain/(loss) on sale of foreclosed properties		1,213	5,251	(7,580)
Increase in fair value of investment property	16	4,660	4,749	11,760
Profit for the year		127,966	204,225	209,787
Other comprehensive income				
<i>Items that will not be reclassified to profit or loss:</i>				
Remeasurement of post-employment benefit obligations	22(a)(iv)	58,256	(18,411)	(105,078)
Gains on revaluation of land & buildings	17	-	122,454	-
Transfer from life insurance reserve	24	(26,873)	-	-
Gain on foreclosed properties		-	-	(2,673)
Other comprehensive income for the year	26	31,383	104,043	(107,751)
Total comprehensive income for the year		159,349	308,268	102,036
Earnings per share (Rs)	12	6.40	10.21	10.49

The notes on pages 58 to 110 form an integral part of these financial statements.
Auditor's Report on pages 48 to 53.

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Share capital Rs'000	Revaluation reserves Rs'000	Building insurance reserve Rs'000	Retained earnings Rs'000	Life Insurance reserve Rs'000	Statutory reserve * Rs'000	Other reserves ** Rs'000	Total Rs'000
At 01 January 2019	200,000	612,197	116,810	2,067,688	154,642	200,000	119,187	3,470,524
Profit for the year	-	-	-	127,966	-	-	-	127,966
Other comprehensive income for the year	-	-	-	58,256	(26,873)	-	-	31,383
Total comprehensive income for the year	-	-	-	186,222	(26,873)	-	-	159,349
Dividends (Note 11)	-	-	-	(40,845)	-	-	-	(40,845)
Transaction with the owners	-	-	-	(40,845)	-	-	-	(40,845)
Reclassification	-	(187,059)	-	199,656	-	-	(12,597)	-
	-	(187,059)	-	199,656	-	-	(12,597)	-
At 31 December 2019	200,000	425,138	116,810	2,412,721	127,769	200,000	106,590	3,589,028
At 01 January 2018	200,000	489,743	116,810	1,982,437	154,642	200,000	119,187	3,262,819
Impact of adopting IFRS 9	-	-	-	(58,606)	-	-	-	(58,606)
Restated opening balance under IFRS 9	200,000	489,743	116,810	1,923,831	154,642	200,000	119,187	3,204,213
Profit for the year	-	-	-	204,225	-	-	-	204,225
Other comprehensive income for the year	-	122,454	-	(18,411)	-	-	-	104,043
Total comprehensive income for the year	-	122,454	-	185,814	-	-	-	308,268
Dividends (Note 11)	-	-	-	(41,957)	-	-	-	(41,957)
Transaction with the owners	-	-	-	(41,957)	-	-	-	(41,957)
At 31 December 2018	200,000	612,197	116,810	2,067,688	154,642	200,000	119,187	3,470,524
At 01 January 2017	200,000	489,743	116,810	1,926,138	154,642	200,000	121,860	3,209,193
- as previously stated	-	-	-	(1,060)	-	-	-	(1,060)
Adjustment made to long term borrowings	-	-	-	2,673	-	-	(2,673)	-
Movement on reserve	200,000	489,743	116,810	1,927,751	154,642	200,000	119,187	3,208,133
Profit for the year	-	-	-	209,787	-	-	-	209,787
Other comprehensive income for the year	-	-	-	(105,078)	-	-	-	(105,078)
Total comprehensive income for the year	-	-	-	104,709	-	-	-	104,709
Dividends (Note 11)	-	-	-	(50,023)	-	-	-	(50,023)
Transaction with the owners	-	-	-	(50,023)	-	-	-	(50,023)
At 31 December 2017	200,000	489,743	116,810	1,982,437	154,642	200,000	119,187	3,262,819

* As per Banking Act 2004, 15% of the net profit for the year is transferred to statutory reserve until the balance is equal to the amount of stated capital

** See Note 29

The notes on pages 58 to 110 form an integral part of these financial statements.

Auditor's Report on pages 48 to 53.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

		2019 Rs'000	2018 Rs'000	2017 Rs'000
Operating activities				
Profit for the year		127,966	204,225	209,787
<i>Adjustments for:</i>				
Allowance for credit impairment	15(b)	21,017	(56,373)	(55,424)
Other provisions	9(b)	26,348	-	-
Depreciation	17	15,780	13,068	13,508
Amortisation	18	2,455	1,268	2,060
(Gain)/loss on sale of foreclosed properties		(1,213)	(5,251)	7,580
Increase in fair value of investment property	16	(4,660)	(4,749)	(11,760)
Interest in suspense		3,132	(1,627)	(9,462)
Profit on disposal of property and equipment	7	(319)	(15)	(4)
Provision for retirement benefit obligation		15,748	13,256	7,212
		<u>206,254</u>	<u>163,802</u>	<u>163,497</u>
Changes in operating assets and liabilities				
Changes in other assets		3,722	28,481	(19,374)
Changes in assets held for sale		3,617	8,093	(6,825)
Changes in treasury deposits		(200,000)	75,000	25,000
Changes in other liabilities		13,535	(22,762)	18,436
Changes in accrued interest payable		(62,977)	(29,278)	(17,821)
Changes in loans to customers		(475,993)	(757,972)	(402,666)
Changes in insurance funds		-	-	20,878
Net cash used in operating activities		<u>(511,842)</u>	<u>(534,636)</u>	<u>(218,875)</u>
Investing activities				
Purchase of property and equipment	17	(18,890)	(4,834)	(6,723)
Purchase of intangible assets	18	(78,024)	(11,831)	(13,177)
Proceeds from disposal of property and equipment		319	15	4
Additions to property development		(96,938)	-	-
Net cash used in investing activities		<u>(193,533)</u>	<u>(16,650)</u>	<u>(19,896)</u>
Financing activities				
Housing deposits certificates (HDC)	20 (b)	1,027,995	111,565	228,271
Plan Epargne Logement Savings (PEL)	20 (a)	97,534	95,103	63,829
Repayment of borrowings		(168,992)	409,192	(83,611)
Dividends paid	11	(40,845)	(41,957)	(50,023)
Net cash from financing activities		<u>915,692</u>	<u>573,903</u>	<u>158,466</u>
Change in cash and cash equivalents		<u>210,317</u>	<u>22,617</u>	<u>(80,305)</u>
Movement in cash and cash equivalents				
Cash and cash equivalents as at 01 January		117,186	94,569	174,874
Change in cash and cash equivalents		210,317	22,617	(80,305)
Cash and cash equivalents as at 31 December		<u>327,503</u>	<u>117,186</u>	<u>94,569</u>
Cash and cash equivalents				
Cash at bank and in hand		327,547	118,130	97,433
Bank overdrafts (Note 21)		(44)	(944)	(2,864)
		<u>327,503</u>	<u>117,186</u>	<u>94,569</u>

Reconciliation of liabilities arising from financing activities

	Jan-19 Rs'000	Movement in capital Rs'000	Movement in interest Rs'000	Dec-19 Rs'000
Housing Deposit Certificates	2,393,053	1,027,995	(16,782)	3,404,266
PEL and Other Savings Accounts	1,818,670	97,534	(46,195)	1,870,009
Borrowings	903,528	(168,992)	(899)	733,637
	<u>5,115,251</u>	<u>956,537</u>	<u>(63,876)</u>	<u>6,007,912</u>

The notes on pages 58 to 110 form an integral part of these financial statements.
Auditor's Report on pages 48 to 53.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

1. GENERAL INFORMATION

Mauritius Housing Company Ltd, the "Company", was incorporated on 12 December 1989 as a public company with limited liability. The principal activities of the Company are the granting of loans for the construction/purchase of houses, to engage in deposits taking and to promote property development. The registered office of the Company is MHC Building, Reverend Jean Lebrun Street, Port Louis, Republic of Mauritius.

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

2.1 New and revised standards and interpretations that are effective for the year beginning on 01 January 2019

In the current year, the following new and revised standards and one interpretation issued by the IASB became mandatory for the first time for the financial year beginning on 01 January 2019:

IFRS 16, Leases

The new standard requires lessees to account for leases 'on-balance sheet' by recognising a 'right of use' asset and a lease liability. It will affect most companies that report under IFRS and are involved in leasing, and will have a substantial impact on the financial statements of lessees of property with high value equipment.

IFRIC 23, Uncertainty over Income Tax Treatments

The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12.

IFRS 9, Prepayments Features with Negative Compensation (Amendments to IFRS 9)

This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.

IAS 28, Long-term interest in Associates and Joint Ventures (Amendments to IAS 28)

These amendments provide clarification in the case where an entity applies IFRS 9 'Financial Instruments' to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

IAS 19, Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement.

Management has assessed the impact of these new and revised standards and interpretation and concluded that only *IFRS 16, Leases* has an impact on these financial statements.

IFRS 16 'Leases'**The adoption of IFRS 16 'Leases' has the following impact:**

IFRS 16 'Leases' replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease').

The adoption of this new Standard has resulted in the Company recognising a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

The application of IFRS 16 did not have an impact on net cash flows.

The new Standard has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Management has made an assessment of the application of IFRS 16 on the opening retained earnings and concluded that prior period adjustment is not required.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Company has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets, the Company has applied the optional exemption to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 4.25%.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

2 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (CONT'D)

2.1 New and revised standards and interpretations that are effective for the year beginning on 01 January 2019 (Cont'd)

IFRS 16 'Leases' (Cont'd)

The adoption of IFRS 16 'Leases' has the following impact: (Cont'd)

The following is a reconciliation of the financial statements line items from IAS 17 to IFRS 16 at 01 January 2019:

	Carrying amount as at 31 December 2018 Rs'000	Reclassification Rs'000	Remeasurement Rs'000	IFRS 16 carrying amount at 01 January 2019 Rs'000
Property plant and equipment	606,072	-	10,379	616,451

The following is a reconciliation of total operating lease commitments at 31 December 2018 (as disclosed in the financial statements at 31 December 2018) to the lease liabilities recognised at 01 January 2019:

	Rs' 000
Total operating lease commitments disclosed at 31 December 2018	12,212
Recognition exemptions:	
Leases which do not meet the definition of finance lease under IFRS 16 "Leases"	-
Other minor adjustments relating to commitment disclosures	(734)
	(734)
Operating lease liabilities before discounting	11,478
Discounted using incremental borrowing rate	(1,099)
Total lease liabilities recognised under IFRS 16 at 01 January 2019	10,379

All the operating lease arrangements have been accounted as finance lease as from 01 January 2019 as they meet the definitions of finance lease under *IFRS 16, Leases*.

2.2 Standards, amendments to existing standards and interpretations that are not yet effective and have not been adopted early by the Company

At the date of authorisation of these financial statements, certain new standards and amendments to existing standards have been published but are not yet effective, and have not been adopted early by the Company.

Management anticipates that all of the relevant pronouncements, as applicable to the Company's activities, will be adopted in the Company's accounting policies for the first year beginning after the effective date of the pronouncements. Information on new standards and amendments to existing standards is provided below.

IFRS 17, Insurance Contracts

IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4, Insurance Contracts as of 01 January 2021.

IAS 1 and IAS 8, Definition of Material (Amendments to IAS 1 and IAS 8)

The IASB has made amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors which use a consistent definition of materiality throughout International Financial Reporting Standards and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in IAS 1 about immaterial information.

In particular, the amendments clarify:

- that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole; and
- the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

IAS 1, Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)

The amendments in classification as liabilities as current or non-current affect only the presentation of liabilities in the statement of financial position – not the amount or timing of recognition of any asset, liability, income or expense, or the information that entities disclose about those items. They:

- clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the "right" to defer settlement by at least twelve months and make explicit that only rights in place "at the end of the reporting period" should affect the classification of a liability;
- clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and
- make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

IFRS 9, IAS 39 and IFRS 7, Interest Rate Benchmark Reform (IBOR)

The IASB has issued amendments to IFRS 9, IAS 39 and IFRS 7 that provide certain reliefs in connection with interest rate benchmark reform. The reliefs relate to hedge accounting and have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Given the pervasive nature of hedges involving IBOR-based contracts, the reliefs will affect companies in all industries.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (CONT'D)**

Standards, amendments to existing standards and interpretations that are not yet effective and have not been adopted early by the

2.2 Company (Cont'd)**IFRS 3, Definition of a Business (Amendments to IFRS 3)**

The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term 'outputs' is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits.

Management has yet to assess the impact of the above standards and amendments on the Company's financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements of the Company comply with the Mauritius Companies Act 2001 and have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements are presented in Mauritian Rupees and all values are rounded to the nearest thousand (Rs000), except where otherwise indicated.

Where necessary, comparative figures have been amended to conform with change in presentation in the current year. The financial statements are prepared under the historical cost convention, except that land and buildings and investment properties are stated at their fair values, and relevant financial assets and liabilities are stated at their fair values or amortised cost.

(b) Property and equipment

Land and buildings are stated at their fair values, based on periodic valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

All other property and equipment, are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the assets carrying amount or recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Owned-used property is defined as property held for use in the supply of services or for administrative purposes.

Depreciation is calculated to write off the cost of each asset or its revalued amount to its residual value over its estimated useful life, with the exception of freehold land and housing estates.

Increases in the carrying amount arising on revaluation are credited to other comprehensive income and shown as revaluation reserves in shareholders' equity. Decreases that offset previous increases of the same assets are charged against the revaluation reserves; all other decreases are charged to profit or loss.

The annual rates and method used are as follows:

Freehold buildings	2%	Straight line method
Furniture and equipment	10% and 33 1/3%	Straight line method
Motor vehicles	20%	Straight line method
Right-of-use	14% and 33 1/3%	Straight line method

The assets' residual values, useful lives and depreciation method are reviewed, and adjusted prospectively if appropriate, at the end of each reporting date.

Where the carrying amount of an asset is greater than estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of property and equipment are determined by the difference between their carrying values and their net disposal proceeds and are included in profit or loss. On disposal of revalued assets, the amounts included in revaluation surplus are transferred to retained earnings.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**(c) Intangible assets***Computer software*

Intangible assets consist of computer software. Management has assessed the useful life of the new computer software to be 8 years and it is amortised on a straight line basis. In prior years, all intangible assets were amortised on a straight line basis over a period of 3 years.

Progress payments

Progress payments on computer software are recognised when they meet criteria relating to identifiability, probability that future economic benefits will flow to the enterprise, and the cost can be measured reliably. No depreciation is charged on progress payments.

(d) Assets held for sale - Foreclosed property

Foreclosed property has been reclassified as assets held for sale and represents houses acquired through auction at the Master's Bar following the default by clients. Foreclosed property is held for trading and is stated at the price paid at Master's bar on the acquisition. If the acquisition value is greater than the loan balance outstanding, the difference is reported as an unrealised gain in the Mortgage Insurance Reserve Account. If the acquisition value is less than the carrying amount, it is recognised as a loss in the statement of profit or loss. Where there is no mortgage insurance, the unrealised gain is credited to the Foreclosed Property Reserve.

Upon disposal of the foreclosed property, the realised loss/gain is charged to profit or loss.

At year end, the properties are revalued and assessed for any impairment.

(e) Investment properties

Investment properties are properties which are held to earn rental income and/or for capital appreciation and not occupied by the Company. They are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are carried at fair value determined by external valuers. Changes in fair values are included in profit or loss.

On disposal of an investment property, the difference between the net disposal proceeds and the carrying amount is charged or credited to profit or loss.

(f) Financial instruments**Initial recognition**

Financial assets and financial liabilities are recognised in the statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Recognised financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

For all financial assets the amounts presented on the statement of financial position represent all amounts receivable including interest accruals.

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**(f) Financial instruments (Cont'd)****Classification of financial assets**Amortised cost

Financial assets that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Other types of financial assets

Financial assets that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Company may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Company may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met; and
- the Company may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so, eliminates or significantly reduces an accounting mismatch.

Business model assessment

The Company determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Company's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- > How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- > The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- > How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected); and
- > The expected frequency, value and timing of sales are also important aspects of the Company's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**(f) Financial instruments (Cont'd)****The SPPI test**

As a second step of its classification process, the Company assesses the contractual terms of financial instruments to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Company applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. In contrast, contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form. In such cases, the financial asset is required to be measured at FVTPL which is not currently applicable for the Company.

Reclassifications

If the business model under which the Company holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Company's financial assets. During the current financial year and previous accounting period there was no change in the business model under which the Company holds financial assets and therefore no reclassifications were made.

Measurement of ECL

Measurement of ECL : The key inputs into the measurement of ECL are the following:

- (i) probability of default (PD);
- (ii) loss given default (LGD);
- (iii) exposure at default (EAD).

PD is an estimate of the likelihood of default over a given time horizon. It is estimated as at a point in time. The calculation is based on statistical models. These statistical models are based on market data (where available), as well as internal data comprising both quantitative and qualitative factors. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates. The estimation is based on current conditions, adjusted to take into account estimates of future conditions that will impact PD.

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realisation of collateral, crosscollateralisation and seniority of claim, cost of realisation of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery, recovery rates and seniority of claims. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original EIR of the loan.

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities. The Company's approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortisation profiles, early repayment or overpayment, changes in utilisation of undrawn commitments and credit mitigation actions taken before default.

The Company measures ECL considering the risk of default over the maximum contractual period (including extension options) over which the Company is exposed to credit risk and not a longer period, even if contact extension or renewal is common business practice.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**(f) Financial instruments (Cont'd)****Measurement of ECL (Cont'd)**

The Company recognises loss allowances for ECLs on the following financial instruments that are not measured at FVTPL:

- Loans to customers
- Treasury deposits

ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as stage 1); or
- full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as stage 2 and stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

ECLs are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive);
- financial assets that are credit impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

The Company has established the criteria for provision for credit losses and for adjustment in respect of interest income suspended and these criteria are in line with the spirit of 'social mission' which guides the Company:

Collateral valuation

To mitigate its credit risks on financial assets, the Company seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities and real estate. Collateral, unless repossessed, is not recorded on the Company's statement of financial position. However, the fair value of collateral affects the calculation of ECLs.

To the extent possible, the Company uses active market data for valuing financial assets held as collateral. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as an external valuers which are appointed by the Company.

Collateral repossessed

The Company's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in line with the Company's policy.

In its normal course of business, the Company does not physically repossess properties or other assets in its retail portfolio, but initiate legal action to recover the funds. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are recorded in the statement of financial position as asset held for sale.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**(f) Financial instruments (Cont'd)****Credit-impaired financial asset**

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Credit impaired financial assets are referred to as Stage 3 assets. Evidence that a financial asset is credit impaired include observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender would not otherwise consider;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- (e) the disappearance of an active market for the financial asset because of financial difficulties; or
- (f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event - instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Company assesses whether debt instruments that are financial assets measured at amortised cost, are credit-impaired at each reporting date.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 90 days or more is considered impaired.

Definition of default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

The Company considers the following as constituting an event of default:

- the borrower is past due more than 90 days on any material credit obligation to the Company; or
- the borrower is unlikely to pay its credit obligations to the Company in full.

This definition of default is used by the Company for accounting purposes as well as for internal credit risk management purposes and is broadly aligned to the regulatory definition of default. The definition of default is appropriately tailored to reflect different characteristics of different types of assets.

When assessing if the borrower is unlikely to pay its credit obligation, the Company takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Company uses a variety of sources of information to assess default which are either developed internally or obtained from external sources. As noted in the definition of credit impaired financial assets above, default is evidence that an asset is credit impaired. Therefore credit impaired assets will include defaulted assets, but will also include other non-defaulted given the definition of credit impaired is broader than the definition of default.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**(f) Financial instruments (Cont'd)****Significant increase in credit risk**

The Company monitors all financial assets that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been significant increase in credit risk, the Company measures the loss allowance based on lifetime rather than 12-month ECL. In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of default that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, the Company considers back stop indicators as well as qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Company's historical experience and expert credit assessment including forward-looking information.

For corporate lending, forward-looking information includes the future prospects of the industries in which the Company's counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies, as well as consideration of various internal and external sources of actual and forecast economic information. For retail lending, forward-looking information includes the same economic forecasts as corporate lending with additional forecasts of local economic indicators, particularly to certain industries, as well as internally generated information of customer payment behaviour.

The PDs used are forward looking and the Company uses the same methodologies and data used to measure the loss allowance for ECL for both retail and corporate lending. There is a particular focus on assets that are included on a 'watch list' given an exposure is on a watch list once there is a concern that credit worthiness of the specific counterparty has deteriorated.

The qualitative factors that indicate a significant increase in credit risk are reflected in PD models on a timely basis. However the Company still considers separately some qualitative factors to assess if credit risk has increased significantly, such as, creditworthiness of counterparty which has deteriorated as unemployment, bankruptcy or death.

As a back-stop when an asset becomes 30 days past due (rebuttable presumption), the Company considers that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL. If there is evidence of credit impairment, the assets are classified in stage 3 of the impairment model.

Modification of financial asset

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing covenants of an existing loan would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the interest rate that arises when covenants are breached).

The Company renegotiates loans to customers in financial difficulties to maximise collection opportunities and minimise the risk of default. Under this policy, renegotiation is performed on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original terms and the debtor is expected to be able to meet the revised terms.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**(f) Financial instruments (Cont'd)****Modification of financial asset (Cont'd)**

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to renegotiation policy. For financial assets modified, the estimate of PD reflects whether the modification has improved or restored the Company's ability to collect interest and principal based on the Company's previous experience on similar renegotiation.

Generally modification of financial assets is a qualitative indicator of a significant increase in credit risk and may constitute evidence that the exposure is credit-impaired/ in default. A customer needs to demonstrate consistently good payment behaviour over a period of time, as prescribed by the Guideline on Credit Impaired Measurement and Income Recognition before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

Where the restructuring occurs prior to the classification of a loan as impaired, the restructured loan is classified as impaired when, in the aggregate, the period of time the loan is in arrears before and after restructuring is 90 days or more.

Where the restructuring occurs after a loan has been classified as impaired, the restructured loan is continued to be classified as impaired until repayments have been received by the Company, in amount and in such stipulated time, for a continuous period of six months, strictly in accordance with the terms and conditions of the restructured loan.

Where the loan has been restructured more than once, the restructured loan shall continue to be classified as impaired until repayments have been received by the Company in amount and in such stipulated time, for a continuous period of nine months, at a minimum, strictly in accordance with the terms and conditions of the restructured loan.

Incorporation of forward-looking information

The Company incorporates forward looking information that is available without undue cost and effort into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on analysis from the Company's Risk Committee and consideration of a variety of external actual and forecast information, the Company formulates a view of the future direction of relevant economic variables.

The Company has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables, credit risk and credit losses. The following key indicators were considered for year ended 31 December 2019: GDP and interest rates.

Write-offs

Financial assets are written off either partially or in their entirety only when the Company has stopped pursuing the recovery. A write off constitutes a derecognition event. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**(f) Financial instruments (Cont'd)****Derecognition of financial assets**

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received. On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities*Classification as debt or equity*

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instrument

An equity instrument is any contract that evidences a residual interest in the asset of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Borrowings

Interest bearing loans and bank overdrafts are initially recorded at the proceeds received, net of direct issue costs. Finance charges are accounted for on an accrual basis and are added to the carrying amount of the instalment to the extent that they are not settled in the period in which they arise. Borrowings are subsequently measured at amortised cost.

Plan Epargne Logement (PEL) and other savings accounts and Housing deposits certificates

PEL and other savings accounts and Housing deposits certificates are stated at their amortised cost using the effective interest method.

Other liabilities

Other liabilities are stated at their amortised cost using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the interest rate, transaction costs and other premium or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**(f) Financial instruments (Cont'd)****Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Portfolio provision

A portfolio provision for credit impairment is maintained on the aggregate amount of all loans and advances to allow for potential losses not specifically identified but which experience indicates are present in the portfolio loans. The Bank of Mauritius's Guideline on Credit Impairment Measurement and Income Recognition prescribes that the portfolio provision should be no less than 1 per cent of the aggregate amount of loan and advances excluding impaired advances, excluding loans granted to or guaranteed by the Government of Mauritius and excluding loans to the extent that they are supported by collateral of liquid assets held by the Company. The charge for portfolio provision is recognised in profit or loss. At 01 January 2018, the portfolio provision has been replaced with the ECL stage 1 and stage 2 provision and any increase/decrease in provision has been accounted in retained earnings.

(g) Retirement benefit obligations*Defined benefit plans and defined contribution plans*

The defined benefit plan is a pension plan which defines the amount of pension benefits that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The benefits on the defined contribution plan is dependent on the contribution made.

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

Remeasurement of the net defined benefit liability, which comprises actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), is recognised immediately in other comprehensive income in the period in which it occurs. Remeasurement recognised in other comprehensive income shall not be reclassified to profit or loss in subsequent period.

The Company determines the net interest expense/(income) on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/(asset), taking into account any changes in the net defined liability/(asset) during the period as a result of contributions and benefit payments. Net interest expense/(income) is recognised in profit or loss.

Service costs comprising current service cost, past service cost, as well as gains and losses on curtailments and settlements are recognised immediately in profit or loss.

Pension contributions

Contributions to the Family Protection Scheme (FPS) and Contributions to the National Pension Scheme (NPS) are expensed to profit or loss in the period in which they fall due.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(h) Statutory reserve**

As required by Section 21 of the Banking Act 2004, the Company has set up a Statutory Reserve in which 15% of the net profit is transferred annually to this reserve until the balance is equal to the stated capital. Such reserve is not distributable.

(i) Cash at banks and in hand

Cash at banks and in hand comprise cash in hand, deposits held at call with banks, net of bank overdrafts. In the statement of financial position, bank overdrafts are included within borrowings.

(j) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as deduction from proceeds.

(k) Net interest income

Interest income and expense for all financial instruments are recognised in 'Net interest income' as 'Interest income' and 'Interest expense' in the profit or loss account using the effective interest method. Interest, other than bank interest, is recognised on an accrual basis as income in profit or loss of the accounting period in which it is receivable.

Interest income is suspended when loans become non-performing.

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation of the EIR includes all fees paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts. For financial assets at FVTPL transaction costs are recognised in profit or loss at initial recognition.

The interest income is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortised cost of the financial asset before adjusting for any expected credit loss allowance). For credit-impaired financial assets the interest income is calculated by applying the EIR to the amortised cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses (ECLs)).

(l) Rental income

Rental income from investment property is recognised in profit or loss on a straight line basis over the term of the lease.

(m) Fees and commission income

Fee and commission income and expense include fees other than those that are an integral part of EIR. The fees included in the part of the Company's statement of profit or loss include, amongst others, fees charged for servicing a loan when it is unlikely that these will result in a specific lending arrangement and loan syndication fees.

Fee and commission expenses with regards to services are accounted for as the services are received.

Penalty on late payments

There is a surcharge equivalent to 10% per annum of the monthly repayment and 5% per annum on monthly unpaid capital for cases falling under the Borrowers Protection Act if payment is effected after fifteen days from the last day of the month when the payment falls due. This surcharge is accounted for in profit or loss as and when received.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**Life assurance and building insurance**

The Company is empowered by virtue of Section 4(b) of the Mauritius Housing Corporation (Transfer of Undertaking) Act 1989 to transact life assurance in connection with loans granted by the Company. Insurers have to comply with the provisions of the Insurance Act 2005 but the Company does not fall within the scope of the Insurance Act 2005. However, the provisions of the Mauritius Civil Code pertaining to insurance apply to the Company's insurance operations.

The Company operates the following insurance schemes:

Secured loans holders are required to make contribution to the Company to provide life assurance cover for a sum equal to the balance outstanding in their account. Premium is calculated on the basis of monthly reducing balances and credited to the statement of profit or loss. Claims arising upon occurrence of the insured event is charged to the statement of profit or loss as claims paid and includes changes in the provision for outstanding claims including provision for claims incurred but not reported. It is the policy of the Company to appoint a qualified actuary to carry a liability adequacy test of the Life Assurance Fund every two years.

Building insurance premium is charged to those who have taken loans for construction purposes. The premium is based on the expected valuation of the building. Premium is calculated monthly and credited to the statement of profit or loss. Claims arising upon occurrence of the insured event is charged to the statement of profit or loss as claims paid.

(o) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events and, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimates to settle the present obligation, its carrying amount is the present value of more cash flows.

(p) Impairment of assets

At each reporting date, the Company reviews the carrying amounts of its assets to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated, being the higher of the asset's fair value less costs to sell and its value in use, to determine the extent of the impairment loss, if any, and the carrying amount of the asset is reduced to its recoverable amount. The impairment loss is recognised in profit or loss. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(q) Leased assets

As described in Note 2, the Company has applied IFRS 16 using the modified retrospective approach and therefore comparative information has not been restated. This means comparative information is still reported under IAS 17.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**(q) Leased assets (Cont'd)****Accounting policy applicable from 01 January 2019****The Company as a lessee**

For any new contracts entered into on or after 01 January 2019, the Company considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Company assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company;
- the Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and
- the Company has the right to direct the use of the identified asset throughout the period of use. The Company assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Measurement and recognition of leases as a lessee

At lease commencement date, the Company recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Company, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Company depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Company also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Company measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the Company's incremental borrowing rate. Lease payments included in the measurement of the lease liability are made up of fixed payments.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero. The Company has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets have been included in property and equipment and lease liabilities have been disclosed as part of borrowings.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

Accounting policy applicable before 01 January 2019**The Company as a lessee**

Management applies judgment in considering the substance of a lease agreement and whether it transfers substantially all the risks and rewards incidental to ownership of the leased asset. Key factors considered include the length of the lease term in relation to the economic life of the asset, the present value of the minimum lease payments in relation to the asset's fair value, and whether the Company obtains ownership of the asset at the end of the lease term. The finance lease liability is reduced by lease payments net of finance charges.

The interest element of lease payments is charged to profit or loss, as finance costs over the period of the lease.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**(q) Leased assets (Cont'd)**

Accounting policy applicable before 01 January 2019 (Cont'd)

Operating leases

All other leases are treated as operating leases. Where the Company is a lessee, payments on operating lease agreements are recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

(r) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements when the dividends are approved by the Board of Directors and Bank of Mauritius.

(s) Related parties

For the purposes of these financial statements, parties are considered to be related to the Company if they have the ability, directly or indirectly, to control the Company, or exercise significant influence over the Company in making financial and operating decisions, (or vice versa) or if they and the Company are subject to common control. Related parties may be individuals or entities.

(t) Amount receivable from Government

Amount receivable from Government comprises of Government Grants and interest differential refundable by the Government. Amounts are only recognised if they meet the conditions to qualify for the refund.

Government grants pertaining to Government sponsored loans scheme (GSL) are recognised as an asset in the period the grants are paid to the GSL beneficiaries.

Interest differential refundable by the Government includes a 2 per cent interest bonus over and above the rate offered by the Company on Housing Deposit Certificates (HDC) with maturity above 3 years refundable by the Government. It also includes amount refundable on a 3 per cent interest bonus over and above the rate offered by the Company on PEL accounts for customers that make regular contributions and that have taken a housing loan from the Company. The amount receivable is accounted on the basis of the interest accrued on those deposits.

(u) Property Development

Property development is recognised to the extent of costs incurred to construct the complex. Upon disposal of a property, the cost is matched against the sales proceeds to calculate any gain or loss which is taken to the statement of profit or loss and other comprehensive income.

(v) Expense recognition

All expenses are accounted for on an accrual basis.

4. FINANCIAL RISKS

In its ordinary operations, the Company is exposed to various risks such as capital risk, interest rate risk, credit risk and liquidity risk. The Company has devised a set of specific policies for managing these exposures.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

4. FINANCIAL RISKS (CONT'D)

Strategy in using financial instruments

The use of financial instruments is a major feature of the Company's operations. The Company accepts deposits from customers and secures borrowings from financial and non-financial institutions at variable rates and seeks to earn above-average interest margins by investing these funds.

In pursuance of its objectives of maximising returns on investments, the Company takes into account the maintenance of sufficient liquidity to meet all claims that might fall due and to provide loans facilities for housing purposes.

Capital risk management

Capital risk is the risk that the Company has insufficient capital resources to meet the minimum regulatory requirements where regulated activities are undertaken, to support its credit rating and to support its growth and strategic options.

The Company's capital management objective is to ensure that adequate capital resources are available for sustained business growth as well as coping with adverse situations. The minimum capital adequacy ratio that has to be maintained by the Company is 10% of risk weighted assets computed as follows:

	2019 Rs'000	2018 Rs'000	2017 Rs'000
Tier 1 capital	2,678,055	2,408,591	2,333,903
Tier 2 capital	255,335	331,887	271,200
Total capital base	2,933,390	2,740,478	2,605,103
Risk weighted assets	5,121,862	4,511,900	4,065,218
Capital adequacy ratio	57.3	60.7	64.1

Categories of financial assets and financial liabilities

	2019 Rs'000	2018 Rs'000	2017 Rs'000
Financial Assets			
Measured at Amortised Cost	9,005,356	8,173,849	7,499,188
	9,005,356	8,173,849	7,499,188
Financial Liabilities			
Measured at Amortised Cost	6,054,816	5,154,881	4,586,908
	6,054,816	5,154,881	4,586,908

The carrying amounts of the Company's financial assets and financial liabilities approximate their fair values.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

4. FINANCIAL RISKS (CONT'D)

Credit risk

Credit risk represents the loss the Company would suffer if a borrower fails to meet its contractual obligations. Such risk is inherent in traditional financial products such as loans and commitments. The credit quality of counterparties may be affected by various factors such as an economic downturn, lack of liquidity, an unexpected political event or death. Any of these events could lead the Company to incur losses.

All loans are secured loans and the Company has formulated policies for determining the stage where a loan becomes impaired. The Company has established procedures for the recovery of bad debts.

Additionally, customers are required to procure a life assurance and building and mortgage insurance in order to cater for any unforeseen event. Management believes that impairment in the portfolio at the reporting date is adequately covered by allowances and provisions.

Credit Risk Management

The Company's Credit Committee is responsible for managing its credit risk by:

- Ensuring that appropriate credit risk practices, including an effective system of internal control, are applied to consistently determine adequate allowances in accordance with the Company's stated policies and procedures, IFRS and relevant supervisory guidance.
- Identifying, assessing and measuring credit risk across the Company, from an individual instrument to a portfolio level.
- Creating credit policies to protect the Company against the identified risks including the requirements to obtain collateral from borrowers, to perform ongoing credit assessment of borrowers and to continually monitor exposures against internal risk limits.
- Establishing a framework regarding the authorisation structure for the approval and renewal of credit facilities.
- Developing and maintaining the Company's risk grading to categorise exposures according to the degree of risk of default. The risk grades are subject to regular reviews.
- Developing and maintaining the Company's processes for measuring ECL including monitoring of credit risk, incorporation of forward-looking information and the method used to measure ECL.
- Ensuring that the Company has policies and procedures in place to appropriately maintain and validate models used to assess and measure ECL.
- Establishing a sound credit risk accounting assessment and measurement process that provides it with a strong basis for common systems, tools and data to assess credit risk and to account for ECL.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Company in the management of credit risk.

The internal audit function performs regular audits making sure that the established controls and procedures are adequately designed and implemented.

Significant increase in credit risk

The Company collects performance and default information about its credit risk exposures analysed by type of product and borrower. The information used is both internal and external depending on the portfolio assessed. The table below provides a summary of the staging of the loan portfolio and treasury deposits.

Portfolio Staging	31 December 2017		
	EAD	Average PD	Average LGD
	Rs 000	%	%
Retail loans	7,413,826	8.53	20.86
Treasury deposits	375,000	0.27	45.00
Corporate loans	39,786	0.73	45.00

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

4. FINANCIAL RISKS (CONT'D)

Credit risk (Cont'd)

Significant increase in credit risk (Cont'd)

	31 December 2018		
Portfolio Staging	EAD	Average PD	Average LGD
	Rs 000	%	%
Retail loans	6,990,923	8.41	21.07
Treasury deposits	300,000	0.27	45.00
Corporate loans	53,649	0.73	45.00

	31 December 2019		
Portfolio Staging	EAD	Average PD	Average LGD
	Rs 000	%	%
Retail loans	7,440,002	7.95	21.97
Treasury deposits	671,820	0.27	45.00
Corporate loans	61,498	0.73	45.00

The Company uses different criteria to determine whether credit risk has increased significantly per portfolio of assets. The criteria used are both quantitative changes in PDs as well as qualitative. The table below summarises per type of asset the range above which an increase in lifetime PD is determined to be significant, as well as some indicative qualitative indicators assessed.

Incorporation of forward-looking information

The table below summarises the principal macroeconomic indicators used at 31 December 2019 for the years 2020 to 2024, for Mauritius, which is the country where the Company operates and therefore is the country that has a material impact in ECLs.

Macroeconomic indicators	Year 2020	Year 2021	Year 2022	Year 2023	Year 2024
Inflation rate %	2.34%	2.84%	3.09%	3.22%	3.28%
GDP growth rate %	3.40%	3.60%	3.60%	3.60%	3.60%

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 10 years.

The Company has performed a sensitivity analysis on how ECL on the main portfolios will change if the key assumptions used to calculate ECL change by 1%. The table below outlines the total ECL per portfolio as at 31 December 2019, if the assumptions used to measure ECL remain as expected (amount as presented in the statement of financial position), as well as if each of the key assumptions used change by plus or minus 1%. The changes are applied in isolation for illustrative purposes, and are applied to each probability weighted scenarios used to develop the estimate of expected credit losses. In reality there will be interdependencies between the various economic inputs and the exposure to sensitivity will vary across the economic scenarios.

Portfolio: Loan and advances - Dec 2018	ECL	Average PD	Average LGD
	Rs 000	%	%
Inflation rate			
Base rate	63,301	8.41	11.28
Increased by 1%		8.63	11.05
Decreased by 1%		8.20	11.51

Portfolio: Loan and advances - Dec 2019	ECL	Average PD	Average LGD
	Rs 000	%	%
Inflation rate			
Base rate	63,935	7.95	11.80
Increased by 1%		8.16	11.56
Decreased by 1%		7.75	12.04

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

4. FINANCIAL RISKS (CONT'D)

Credit risk (Cont'd)

Credit loss expense

Year: 2018	Stage 1 ECL Rs 000	Stage 1 Exposure Rs 000	Stage 2 ECL Rs 000	Stage 2 Exposure Rs 000	Stage 3 ECL Rs 000	Stage 3 Exposure Rs 000
Loans to customers	(49,272)	6,696,731	(14,029)	294,192	(513,156)	1,303,008
Treasury deposits	(365)	300,000	-	-	-	-
Other assets (Staff loans)	(139)	30,000	-	-	-	-
Total impairment loss	(49,776)	7,026,731	(14,029)	294,192	(513,156)	1,303,008

Year: 2019	Stage 1 ECL Rs 000	Stage 1 Exposure Rs 000	Stage 2 ECL Rs 000	Stage 2 Exposure Rs 000	Stage 3 ECL Rs 000	Stage 3 Exposure Rs 000
Loans to customers	(51,268)	7,148,797	(12,667)	291,205	(533,539)	1,329,922
Treasury deposits	(847)	671,820	-	-	-	-
Other assets (Staff loans)	(138)	28,305	-	-	-	-
Total impairment loss	(52,253)	7,848,922	(12,667)	291,205	(533,539)	1,329,922

Credit quality

An analysis of the Company's credit risk concentrations per class of financial asset is provided in the following tables.

	2019 Rs'000	2018 Rs'000	2017 Rs'000
Loan to customers at amortised cost	8,769,924	8,293,931	7,535,960
Treasury deposits at amortised cost	475,000	300,000	375,000

	2019 Rs'000	2018 Rs'000	2017 Rs'000
Loans that are neither past due nor impaired	7,148,797	6,696,731	5,887,625
Loans that are past due but not impaired	291,205	294,192	282,715
Impaired loans	1,329,922	1,303,008	1,365,620
	8,769,924	8,293,931	7,535,960

Ageing of past due but not impaired:			
Less than 3 months	291,205	294,192	282,715

Non performing loans

The carrying amount of impaired loans and specific allowance held are shown below:

	2019 Rs'000	2018 Rs'000	2017 Rs'000
Impaired loans	1,329,922	1,303,008	1,365,620
Specific provision in respect of impaired loans	533,539	513,156	512,566
Discounted fair value of collaterals of impaired loans	919,413	892,158	942,061

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

4. FINANCIAL RISKS (CONT'D)

Credit risk (Cont'd)

Credit quality (Cont'd)

The collaterals mainly represent properties held by the Company as security against credit advances. The security is usually in the form of fixed and floating charges on the properties.

Maximum exposure to credit risk before collateral and other credit risk enhancements.

	2019	2018	2017
	Rs'000	Rs'000	Rs'000
Loans to customers	8,002,544	7,550,700	6,793,334
Other assets	1,002,812	623,149	705,854
	9,005,356	8,173,849	7,499,188

As discussed above in the significant increase in credit risk section, under the Company's monitoring procedures a significant increase in credit risk is identified before the exposure has defaulted, and at the latest when the exposure becomes 30 days past due. This is the case mainly for loans to customers. The table below provides an analysis of the gross carrying amount of loans to customers by past due status.

	2019		2018		2017	
	Gross carrying amount	Expected Credit Loss	Gross carrying amount	Expected Credit Loss	Gross carrying amount	Expected Credit Loss
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
Loans to customers						
0 - 30 days	7,148,797	51,268	6,696,731	49,272	5,887,625	43,465
31 - 89 days	291,205	12,667	294,192	14,029	282,715	13,432
90 days and above	1,329,922	533,539	1,303,008	513,156	1,365,620	575,933
Total	8,769,924	597,474	8,293,931	576,457	7,535,960	632,830

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**4. FINANCIAL RISKS (CONT'D)****Credit risk (Cont'd)****Collateral held as security and other credit enhancements**

The Company holds collateral to mitigate credit risk associated with financial assets. The main types of collaterals are land and buildings, cash and deposits. The collateral presented relates to instruments that are measured at amortised cost.

Mortgage lending

The Company holds residential properties as collateral for the mortgage loans it grants to its customers. The Company monitors its exposure to retail mortgage lending using the loan to value (LTV) ratio, which is calculated as the ratio of the gross amount of the loan – or the amount committed for loan commitments – to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is typically based on the collateral value at origination updated based on changes in house price indices. For credit-impaired loans the value of collateral is based on the most recent appraisals. The tables below show the exposures from mortgage loans by ranges of loan to value.

Year ended	31-Dec-19		31-Dec-18		31-Dec-17	
	Gross carrying amount	Expected Credit Loss	Gross carrying amount	Expected Credit Loss	Gross carrying amount	Expected Credit Loss
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
Mortgage lending						
Less than 75%	6,119,221	456,372	5,961,908	377,446	5,582,016	477,454
75% to 89%	1,849,047	78,349	1,650,622	83,058	1,098,253	78,198
90% to 100%	483,354	23,936	403,505	32,292	347,616	34,949
above 100%	318,302	38,817	277,896	83,661	508,075	42,229
Total	8,769,924	597,474	8,293,931	576,457	7,535,960	632,830

Personal lending

The Company's personal lending portfolio consists of computer loan, staff personal loan, and vehicle loans.

Corporate lending - Loan to Promoters

The Company requests collateral and guarantees for corporate lending. The most relevant indicator of corporate customers' creditworthiness is an analysis of their financial performance and their liquidity, leverage, management effectiveness and growth ratios. For this reason the valuation of collateral held against corporate lending is not routinely updated. The valuation of such collateral is updated if the loan is put on "watch-list" and is therefore monitored more closely.

Assets obtained by taking possession of collateral - Foreclosed properties

The Company obtained the following financial and non-financial assets during the year by taking possession of collateral held as security against loans to customers and held at the year end. The Company's policy is to realise collateral on a timely basis. The Company does not use non-cash collateral for its operations.

	2019 Rs 000	2018 Rs 000	2017 Rs 000
Foreclosed properties	61,641	64,045	66,887

Market risk

Market risk is the risk of loss arising from movement in observable market variables such as interest rates, exchange rates and equity markets. The market risk management policies at the Company are set by and controlled by the Risk Committee.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**4. FINANCIAL RISKS (CONT'D)****Market risk (Cont'd)****Market risk management**

The Company's market risk management objective is to manage and control market risk exposures in order to optimise return on risk while ensuring solvency.

As with liquidity risk, ALCO is responsible for ensuring the effective management of market risk throughout the Company. Specific levels of authority and responsibility in relation to market risk management have been assigned to appropriate market risk committees.

The core market risk management activities are:

- the identification of all key market risks and their drivers;
- the independent measurement and evaluation key market risks and their drivers;
- the use of results and estimates as the basis for the Company's risk/return-oriented management; and
- monitoring risks and reporting on them.

Cash flow and interest rate risks

Cash flow risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Company exercises a close follow-up on the market interest rates and adapts its interest margins in response to changes in the rates. The Company sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily. The Company obtains credit facilities at favourable interest rates as these facilities are guaranteed by the Government of Mauritius.

The Company manages the interest rate risks by maintaining an appropriate mix between fixed and floating rate borrowings.

Interest rate risk

The Company is exposed to the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of the change in market interest rates. The interest rate profile of the financial assets and financial liabilities of the Company as at 31 December was:

Currency : MUR

Interest rate % per annum

	2019		2018		2017	
	Lowest %	Highest %	Lowest %	Highest %	Lowest %	Highest %
<i>Financial assets</i>						
Deposits with banks	0.60	4.00	0.60	3.95	1.15	3.40
Loans to customers	3.00	15.50	3.00	15.50	4.00	15.50
<i>Financial liabilities</i>						
Savings and fixed deposits	0.95	5.10	2.00	5.50	1.85	5.50
Borrowings from Government of Mauritius	-	2.50	-	2.50	-	2.50
Borrowings from Bank of Mauritius	-	3.00	-	3.00	-	3.00
Borrowings - Commercial banks	4.50	5.40	4.50	5.40	4.75	5.40
Borrowings - Financial institutions	2.50	6.00	5.00	6.00	5.00	6.00

A sensitivity analysis has been carried on the main products at MHC. Assuming either an increase or a decrease of 1% in repo rate, the impact on interest will be as follows:

Products	As at Dec 2019	Increase of 1%	Decrease of 1%
	Rs'000	Rs'000	Rs'000
Interest income on loan to customers	445,952	535,001	356,903
Interest expense on Plan Epargne Logement - (PEL)	23,846	38,810	8,882
Interest expense on Housing deposits certificates - (HDC)	129,657	161,751	97,563

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

4. FINANCIAL RISKS (CONT'D)

Market risk (Cont'd)

Interest rate risk (Cont'd)

The tables below analyse the Company's financial assets and liabilities in term of sensitivity to interest rate.

Interest rate risk

	Fixed interest rate Rs'000	Floating interest rate Rs'000	Non-interest bearing Rs'000	Total Rs'000
2019				
<u>Assets</u>				
- Cash at banks and in hand	-	327,547	-	327,547
- Treasury deposits	475,000	-	-	475,000
- Loans to customers	251,602	7,750,942	-	8,002,544
- Other assets	28,305	-	171,960	200,265
	<u>754,907</u>	<u>8,078,489</u>	<u>171,960</u>	<u>9,005,356</u>
<u>Liabilities</u>				
- PEL	-	1,870,009	-	1,870,009
- HDC	-	3,404,266	-	3,404,266
- Borrowings	-	725,659	7,978	733,637
- Other liabilities	-	-	46,904	46,904
	<u>-</u>	<u>5,999,934</u>	<u>54,882</u>	<u>6,054,816</u>
2018				
<u>Assets</u>				
- Cash at banks and in hand	-	118,130	-	118,130
- Treasury deposits	300,000	-	-	300,000
- Loans to customers	260,661	7,290,039	-	7,550,700
- Other assets	30,000	-	175,019	205,019
	<u>590,661</u>	<u>7,408,169</u>	<u>175,019</u>	<u>8,173,849</u>
<u>Liabilities</u>				
- PEL	-	1,818,670	-	1,818,670
- HDC	-	2,393,053	-	2,393,053
- Borrowings	-	892,366	11,162	903,528
- Other liabilities	-	-	39,630	39,630
	<u>-</u>	<u>5,104,089</u>	<u>50,792</u>	<u>5,154,881</u>
2017				
<u>Assets</u>				
- Cash at banks and in hand	-	97,433	-	97,433
- Treasury deposits	375,000	-	-	375,000
- Loans to customers	358,839	6,434,495	-	6,793,334
- Other assets	17,715	-	215,706	233,421
	<u>751,554</u>	<u>6,531,928</u>	<u>215,706</u>	<u>7,499,188</u>
<u>Liabilities</u>				
- PEL	-	1,744,007	-	1,744,007
- HDC	-	2,290,327	-	2,290,327
- Borrowings	-	485,094	11,162	496,256
- Other liabilities	-	-	56,318	56,318
	<u>-</u>	<u>4,519,428</u>	<u>67,480</u>	<u>4,586,908</u>

Currency risk

The Company is not exposed to currency risk as all its financial assets and liabilities are denominated in Mauritian Rupees, the Company's reporting currency.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

4. FINANCIAL RISKS (CONT'D)

Liquidity risk

The table shows the remaining contractual maturities of financial liabilities

	Less than 3 months Rs'000	Between 3 months and 1 year Rs'000	Over one year Rs'000	Total Rs'000
Financial Liabilities				
- PEL	1,870,009	-	-	1,870,009
- HDC	122,552	409,008	2,872,706	3,404,266
- Borrowings	44	194,931	538,662	733,637
- Other liabilities	27,693	-	19,211	46,904
31 December 2019	<u>2,020,298</u>	<u>603,939</u>	<u>3,430,579</u>	<u>6,054,816</u>
- PEL	1,818,670	-	-	1,818,670
- HDC	206,155	251,769	1,935,129	2,393,053
- Borrowings	944	267,422	635,162	903,528
- Other liabilities	26,172	-	13,458	39,630
31 December 2018	<u>2,051,941</u>	<u>519,191</u>	<u>2,583,749</u>	<u>5,154,881</u>
- PEL	1,744,007	-	-	1,744,007
- HDC	76,120	427,897	1,786,310	2,290,327
- Borrowings	2,864	92,400	400,992	496,256
- Other liabilities	37,926	-	18,392	56,318
31 December 2017	<u>1,860,917</u>	<u>520,297</u>	<u>2,205,694</u>	<u>4,586,908</u>

Liquidity risk is the risk that the Company does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows which is inherent in all banking operations and can be affected by a range of Company-specific and market-wide events.

Being a financial institution, the Company's liquidity risk is subject to statutory obligation whereby it has to meet the Bank of Mauritius requirements in respect of liquidity ratio to be maintained at all times. The Company manages its liquidity risk by ensuring timely collection of receivables and also by availing credit facilities from banks and facilities which are guaranteed by Government of Mauritius. For insurance contracts, the contractual maturity refers to the death/permanent incapacity of the policy holder and damages to the insured properties. The Company discharges its obligation towards the insured when the event occurs. Past experience over the last four years, shows that on average of 25% of the premium received in that particular period, has been used to offset loan balances regarding life assurance; for Building insurance claims average 1% of total premium over the last four years.

Liquidity risk management

The Company established a comprehensive policy and control framework for managing liquidity risk. The Company's Asset and Liability Management Committee (ALCO) is responsible for managing the Company's liquidity risk via a combination of policy formation, review and governance, analysis, stress testing, limit setting and monitoring. In order to effectively manage liquidity risk the Company:

- maintains a portfolio of highly liquid assets;
- ensures that there is diversity in its funding base;
- monitors the behavioural characteristics of financial assets and liabilities;
- monitors liquidity reports;
- analyses the expected maturity profile of assets and liabilities;
- establishes early warning indicators of potential liquidity stress events and ensures that there are assets available to be used as collateral if needed;
- performs regular stress tests; and
- maintains a contingency funding plan.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

4. FINANCIAL RISKS (CONT'D)

Liquidity risk (Cont'd)

Liquidity risk management (Cont'd)

The tables below analyse the Company's financial assets and liabilities to the relevant maturity groupings based on the remaining years of repayment.

Maturities of financial assets and liabilities at 31 December 2019:

	Less than 3 months Rs'000	Between 3 months and 1 year Rs'000	Over one year Rs'000	Total Rs'000
Assets				
- Cash at banks and in hand	327,547	-	-	327,547
- Treasury deposits	150,000	200,000	125,000	475,000
- Loans to customers	23,305	70,346	7,908,893	8,002,544
- Other assets	128,502	43,458	28,305	200,265
	<u>629,354</u>	<u>313,804</u>	<u>8,062,198</u>	<u>9,005,356</u>
Liabilities				
- PEL	1,870,009	-	-	1,870,009
- HDC	122,552	409,008	2,872,706	3,404,266
- Borrowings	44	194,931	538,662	733,637
- Other liabilities	27,693	-	19,211	46,904
	<u>2,020,298</u>	<u>603,939</u>	<u>3,430,579</u>	<u>6,054,816</u>
Liquidity gap	<u>(1,390,944)</u>	<u>(290,135)</u>	<u>4,631,619</u>	<u>2,950,540</u>

Maturities of financial assets and liabilities at 31 December 2018:

	Less than 3 months Rs'000	Between 3 months and 1 year Rs'000	Over one year Rs'000	Total Rs'000
Assets				
- Cash at banks and in hand	118,130	-	-	118,130
- Treasury deposits	150,000	150,000	-	300,000
- Loans to customers	9,832	41,907	7,498,961	7,550,700
- Other assets	150,491	24,528	30,000	205,019
	<u>428,453</u>	<u>216,435</u>	<u>7,528,961</u>	<u>8,173,849</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**4. FINANCIAL RISKS (CONT'D)****Liquidity risk (Cont'd)****Liquidity risk management (Cont'd)**

	Less than 3 months	Between 3 months and 1 year	Over one year	Total
	Rs'000	Rs'000	Rs'000	Rs'000
Liabilities				
- PEL	1,818,670	-	-	1,818,670
- HDC	206,155	251,769	1,935,129	2,393,053
- Borrowings	944	267,422	635,162	903,528
- Other liabilities	26,172	-	13,458	39,630
	2,051,941	519,191	2,583,749	5,154,881
Liquidity gap	(1,623,488)	(302,756)	4,945,212	3,018,968

Maturities of financial assets and liabilities at 31 December 2017:**Assets**

- Cash at banks and in hand	97,433	-	-	97,433
- Treasury deposits	275,000	100,000	-	375,000
- Loans to customers	5,408	28,094	6,759,832	6,793,334
- Other assets	202,652	13,054	17,715	233,421
	580,493	141,148	6,777,547	7,499,188

Liabilities

- PEL	1,744,007	-	-	1,744,007
- HDC	76,120	427,897	1,786,310	2,290,327
- Borrowings	2,864	92,400	400,992	496,256
- Other liabilities	37,926	-	18,392	56,318
	1,860,917	520,297	2,205,694	4,586,908
Liquidity gap	(1,280,424)	(379,149)	4,571,853	2,912,280

The negative liquidity gap is mainly due to classification of PEL savings account with no maturity classified under less than 3 months.

Analysis bases on last 10 years show that the average withdrawal on PEL portfolio represents only 13%. Part of the PEL portfolio is on contractual terms.

Stress test simulation on PEL portfolio

The Company seeks to maintain liquid assets sufficient to cover stressed scenarios.

Scenario	Less than 3 mths (Rs'000)	Available
Average yearly withdrawals as at Dec 2019	(240,000)	Negative
Scenario 1 - an increase of 10% on PEL withdrawal	(24,000)	Negative
Scenario 2 - an increase of 30% on PEL withdrawal	(72,000)	Negative
Scenario 3 - an increase of 50% on PEL withdrawal	(120,000)	Negative

Insurance risk management

The Company accepts insurance risk through its insurance contracts where it assumes the risk of loss from persons or organisations that are directly subject to the underlying loss. The Company is exposed to the uncertainty surrounding the timing, frequency and severity of claims under these contracts. The Company manages its risk via its underwriting strategy within an overall risk management framework. Pricing is based on assumptions relating to trends and past experience. Exposures are managed by having documented underwriting limits and criteria.

Sensitivity analysis

The risk associated with insurance contracts is complex and subject to a number of variables which complicate quantitative sensitivity analysis.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

4. FINANCIAL RISKS (CONT'D)**Legal claim**

Due to the nature of the business, the Company is exposed to claims, disputes and legal proceedings arising in the ordinary course of business. Such legal proceedings may result in monetary damages, legal defence costs and penalties. It is the policy of the Company to seek legal advice on each case.

Risks related to the COVID-19 pandemic

On 11 March 2020, the World Health Organisation categorised COVID-19 as a pandemic and on 19 March 2020, the Government of Mauritius announced a lockdown for two weeks which was further extended up to 01 June 2020.

The Government of Mauritius and the Bank of Mauritius have come forward with a number of measures to support the public at large to alleviate their financial burden due to the halt in the economic activities during the lockdown period.

The Bank of Mauritius has revised the repo rate downward on two occasions with a first decrease of 50 basis points on 10 March 2020 and a second decrease of 100 basis points on 16 April 2020.

Impact of COVID-19 on MHC Ltd business

Recognising that the situation and the information available are evolving every day and therefore accepting that any risk assessment is susceptible to continuous updates, at the time of assessment the Board of Directors and Management have identified the following specific risks that could affect the Company:

(a) Credit risk

The cashflow of many clients will collapse due to lack of business activities and lower business revenues. These in turn will cause distress for customers who will struggle to meet their obligations and hence there is high risk that the non-performing loans could increase drastically. Moreover, it is expected that many clients will come forward for waivers, re-schedulement and moratorium. The Directors believe that the prevailing situation will have an impact and a close monitoring of the evolution is warranted to assist management in their decision making process. The Company will also reinforce its credit risk management process to ensure that the credit risk is adequately analysed and managed.

(b) Income reduction

The main source of revenue is mainly from repayment of loans. The Company gets its repayments from salary deductions, bank standing orders and cash at counter. The risk that companies are significantly affected and people lose their jobs is on the high side. As a result, the risk that clients fail to honor their obligations towards the Company is high which will have a direct effect on the income of the Company. Secondly, the decrease in repo rate by 150 basis points will also have a direct impact on income. Banks will revise the interest rates to attract more business but at the level of MHC, we will have to match the cost and ensure sufficient returns and also work out on other strategies to allay the impact.

(c) Operating costs

The cumulative impact of the above two points will lead to a mis-alignment of short-term revenue and expenses for the Company. It is expected that there will be a range of impact on the business activities where a number of adjustments need to be considered and implemented. The business activities will be reduced in the forthcoming months and the gradual pick up is expected as from August/September 2020. As a result, the fixed costs and the variable costs will be monitored closely in view that the Company does not have liquidity stress.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**4. FINANCIAL RISKS (CONT'D)****Risks related to the COVID-19 pandemic (Cont'd)****(d) Cash flow, liquidity and repayment of debt**

Under normal circumstances the main inflow of funds is from repayment of loans, deposit from PEL/JPS and other income namely bank interest, arrears recovery and on an adhoc basis, sale of foreclosed properties. With the impact of COVID-19, it is expected that the cash flow will be affected since many clients will find difficulties to honor their obligations and loan business will be low, thus a reduction in fee income as well as low deposits is expected. However, the Directors consider that at this stage the Company will be in a position to meet its obligations with a high level of liquid asset but a close monitoring of the liquidity position is critically important to avoid a liquidity crisis.

(e) Going concern of the Company

As at the date of this report, it is difficult to reliably estimate the financial effect (if any) of the virus on the Company considering the high level of uncertainties in the economy and the ensuing impact. The Directors made an assessment of the Company's ability to continue as a going concern taking into account all available information about the future including the analysis of the possible impacts in relation to COVID-19, which is at least, but is not limited to, twelve months from the date of approval of these financial statements and confirmed that the preparation of these financial statements on a going concern basis is appropriate. In making this assessment, the Directors have considered the global economic conditions, the capital strength of the Company, Government of Mauritius and Bank of Mauritius decisions regarding the activities in which the Company is engaged, the continuous grants and financial support obtained from the Government of Mauritius for the Company to pursue its activities and other risks that could affect the Company.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Company's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Existing circumstances and assumptions about future developments may change due to circumstances beyond the Company's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

(a) Pension benefits

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. Other key assumptions for pension obligations are based in part on current market conditions.

(b) Revaluation of property and equipment and investment property

The Company carries its investment property at fair value, with changes in fair value being recognised in profit or loss. In addition, it measures land and buildings at revalued amounts with changes in fair value being recognised in other comprehensive income. The Company engaged an independent valuation specialists to determine fair value. The impact is reflected in Notes 16 and 17.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT'D)****(c) Limitation of sensitivity analysis**

Sensitivity analysis in respect of market risk demonstrates the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear and larger or smaller impacts should not be interpolated or extrapolated from these results.

Sensitivity analysis does not take into consideration that the Company's assets and liabilities are managed. Other limitations include the use of hypothetical market movements to demonstrate potential risk that only represents the Company's view of possible near-term market changes that cannot be predicted with any certainty.

(d) Asset lives and residual values

Property and equipment are depreciated over its useful life taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In reassessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values. Consideration is also given to the extent of current profits and losses on the disposal of similar assets.

(e) Impairment of credit losses

The Company makes provision against its loan portfolio as per guidance of IFRS and the BOM Guidelines in order to determine its best estimate of the provision required. The measurement of impairment losses under IFRS 9 and the BOM Guidelines across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Company's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- > The Company's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL (Lifetime Expected Credit Losses) basis and the qualitative assessment;
- > The segmentation of financial assets when their ECL is assessed on a collective basis;
- > Development of ECL models, including the various formulas and the choice of inputs;
- > Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs; and
- > Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

It has been the Company's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

- Business model assessment: Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Company determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Company monitors financial assets measured at amortised cost that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Company's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT'D)**(e) Impairment of credit losses (Cont'd)**

- **Significant increase of credit risk:** ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Company takes into account qualitative reasonable and supportable forward looking information and backstop indicators.

- **Establishing groups of assets with similar credit risk characteristics:** When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. The Company monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differs.

- **Models and assumptions used:** The Company uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

The following are key estimations that the directors have used in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

- **When measuring ECL** the Company uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.
- **Probability of default:** PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.
- **Loss Given Default:** LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral.

(f) Impact of COVID-19

In January 2020, the World Health Organisation has declared the outbreak of a novel coronavirus (COVID-19) as a "Public Health Emergency of International Concern," which continues to spread throughout the world and has adversely impacted global commercial activity and contributed to significant declines and volatility in financial markets.

The Directors have considered the potential adverse impact of COVID-19 on the Company's activities and have exercised significant judgement in assessing that the preparation of these financial statements on a going concern basis is appropriate. In making this assessment, the directors have considered the global economic conditions, the capital strength of the Company, Government of Mauritius and Bank of Mauritius decisions regarding the activities in which the Company is engaged, the continuous grants and financial support obtained from the Government of Mauritius for the Company to pursue its activities and other risks that could affect the Company.

Details on risks related to COVID-19 are provided in Note 4 to these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**6. NET INTEREST INCOME**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
	Rs'000	Rs'000	Rs'000
Interest income			
Loans interest	445,952	439,069	458,095
Interest on bank deposits	24,025	9,003	17,510
Others	56,299	36,699	43,006
	<u>526,276</u>	<u>484,771</u>	<u>518,611</u>
Interest expense			
Bank overdrafts	(464)	(303)	(185)
Bank loans	(37,921)	(23,921)	(26,969)
Plan Epargne Logement - (PEL)	(23,846)	(42,519)	(45,363)
Housing deposits certificates - (HDC)	(129,657)	(107,677)	(111,331)
Others	(18)	(18)	(21)
	<u>(191,906)</u>	<u>(174,438)</u>	<u>(183,869)</u>
Net interest income	<u>334,370</u>	<u>310,333</u>	<u>334,742</u>

For all financial instruments measured at amortised cost, interest income or expense is recorded at the effective interest rate (EIR), which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Company revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

However, for a reclassified financial asset for which the Company subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

7. OTHER OPERATING INCOME	2019	2018	2017
	Rs'000	Rs'000	Rs'000
Insurance premium (net of claims paid and change in incurred but not reported claims)	52,794	56,386	37,571
Profit on disposal of property and equipment	319	15	4
Others	1,852	2,986	2,576
	54,965	59,387	40,151
8. PERSONNEL EXPENSES	2019	2018	2017
	Rs'000	Rs'000	Rs'000
Salaries and human resource development	127,306	151,379	148,192
Pension contributions and other staff benefits	25,660	27,690	19,708
	152,966	179,069	167,900
9(a). OTHER EXPENSES	2019	2018	2017
	Rs'000	Rs'000	Rs'000
Maintenance and repairs	11,368	7,338	8,937
Travelling and transport	15,640	16,307	14,089
Staff welfare, training and study schemes	15,279	7,876	9,537
General expenses	4,609	5,274	4,643
Electricity	4,931	4,942	4,825
Passages benefits	6,548	5,477	6,526
Printing and stationery	2,393	2,313	1,877
Telephone	2,479	2,282	1,910
Motor vehicles running expenses	864	868	806
Directors' emoluments	3,055	3,158	3,413
Audit fees	1,380	1,208	1,150
Professional fees	6,491	7,772	3,713
Family protection schemes' contribution	1,889	2,039	1,788
Software maintenance costs	5,326	3,021	2,638
Rent of properties	-	2,244	1,735
Advertising	6,512	6,663	6,414
Postages	4,562	3,614	1,665
Legal fees and expenses	110	205	(24)
Sponsorship & Corporate Social Responsibility	264	1,666	563
Retirement benefits (Voluntary Early Retirement)	414	333	249
Donations	-	30	-
Project expenses	939	113	138
Others	6,134	1,816	1,445
	101,187	86,559	78,037
9(b). OTHER PROVISIONS	2019	2018	2017
	Rs'000	Rs'000	Rs'000
Provision on other assets (Note 19(a))	1,348	-	-
Provision on fixed deposits (Note 13(b))	25,000	-	-
	26,348	-	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

10. PROFIT FOR THE YEAR	2019	2018	2017
	Rs'000	Rs'000	Rs'000
Profit for the year is arrived at after charging:			
Depreciation on property and equipment	15,780	13,068	13,508
Amortisation on intangible assets	2,455	1,268	2,060
Staff costs Note (a)	155,269	181,441	169,937
(a) Analysis of staff costs	2019	2018	2017
	Rs'000	Rs'000	Rs'000
Wages and salaries (Note 8)	127,306	151,379	148,192
Pension costs and other contributions (Note 8)	25,660	27,690	19,708
Retirement benefits (Voluntary Early Retirement)	414	333	249
Family protection schemes' contribution	1,889	2,039	1,788
	155,269	181,441	169,937
11. DIVIDENDS	2019	2018	2017
	Rs'000	Rs'000	Rs'000
Dividends paid	40,845	41,957	50,023
	Rs	Rs	Rs
Dividend per share	2.04	2.10	2.50
On 03 July 2020, the Directors proposed a dividend in respect of the year ended 31 December 2019 of Rs 1.28 per share amounting to a total dividend of Rs 25,593,200. This dividend has not been recognised as a liability at 31 December 2019 in accordance with IAS 10 and pending approval from Bank of Mauritius.			
12. EARNINGS PER SHARE	2019	2018	2017
	Rs'000	Rs'000	Rs'000
Profit for the year	127,966	204,225	209,787
No. of shares	20,000,000	20,000,000	20,000,000
Earnings per share	Rs. 6.40	10.21	10.49
13. CASH AND CASH EQUIVALENTS			
(a) Cash at banks and in hand	2019	2018	2017
	Rs'000	Rs'000	Rs'000
Cash in hand	2,722	1,111	953
Cash at banks	78,678	117,019	96,480
Treasury bills	246,147	-	-
	327,547	118,130	97,433

Cash at banks and in hand include highly liquid investment that are readily convertible to cash and which are subject to an insignificant risk of change in value. Such investments are normally those with less than three months' maturity from the date of acquisition. The balances in cash in hand and at banks are held with reputable financial institutions in the Republic of Mauritius, as such, the ECL provisions are immaterial.

There exists no restriction on the above bank balances.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**13. CASH AND CASH EQUIVALENTS (CONT'D)****(b) Treasury deposits**

	2019	2018	2017
	Rs'000	Rs'000	Rs'000
Fixed term deposits (Note (i))	500,000	300,000	375,000
Provision on treasury deposits (Note (ii))	(25,000)	-	-
	475,000	300,000	375,000

(i) Treasury deposits measured at amortised cost, are fund held on fixed term with maturities of six to twelve months, held with financial institutions and can be recalled.

(ii) The Company holds a fixed deposit of Rs 100,000,000 in Bank One Ltd at the reporting date. In February 2020, the said deposit matured and same was placed with BanyanTree Bank Limited (the "Bank"). In March 2020, the Bank of Mauritius appointed a conservator under the Banking Act 2004 to protect the assets of the Bank due to financial issues affecting the said Bank.

As at the date of this report, the conservator is still in discussion with potential buyers for a takeover of the Bank. Management has therefore, on prudential ground, made a provision for impairment of Rs 25,000,000 given the credit risk associated with the deposit. The provision adjustment is considered as an adjusting event.

14. PROPERTY DEVELOPMENT

	2019	2018	2017
	Rs'000	Rs'000	Rs'000
At 01 January	2,405	2,405	2,405
Costs incurred during the year	96,938	-	-
At 31 December	99,343	2,405	2,405

Pursuant to a Memorandum of Understanding of February 2004 between Business Park of Mauritius Ltd (BPML), a locally incorporated company, and the Company, it was agreed that both companies will undertake a joint project for the development of an integrated residential and recreational complex at Ebene Cybervillage site, Mauritius.

All the housing units at Ebene Cybervillage have been sold except for one where the deed of sale has not been finalised yet. The apartment will be sold once court decision is obtained and this will have no bearing on the cost of the apartment. At 31 December 2019, included in other liabilities is an amount of Rs 340,500 (2018 and 2017: Rs 340,500) representing deposit from potential buyer of the remaining property development at Ebene Cybervillage.

During the year 2019, there has been a reclassification of cost relating to the development of housing units at Le Hochet from other assets to property development since construction of the housing units has started and the construction of phase one has been completed.

15. LOANS TO CUSTOMERS

Housing loans are granted to clients only after a well defined pre-established sanctioning process is completed and the repayment terms vary from 1 to 35 years.

(a)

	2019	2018	2017
	Rs'000	Rs'000	Rs'000
Fast loans	69,401	2,576	3,093
Secured loans	8,700,523	8,291,355	7,532,867
Total loans advanced	8,769,924	8,293,931	7,535,960
Provision for credit losses (Note (c) below)	(597,474)	(576,457)	(574,224)
Interest suspended	(169,906)	(166,774)	(168,402)
	8,002,544	7,550,700	6,793,334
Analysed as follows:			
Current	506,102	454,840	440,634
Non-current	8,263,822	7,839,091	7,095,326
	8,769,924	8,293,931	7,535,960

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

15. LOANS TO CUSTOMERS (CONT'D)

(b) Allowance for credit impairment

	2019 Rs'000	2018 Rs'000	2017 Rs'000
(Net impairment loss)/release of allowances for credit impairment	(21,017)	56,373	55,424
Amount written off	-	-	(625)
	<u>(21,017)</u>	<u>56,373</u>	<u>54,799</u>

(c) Provision for credit losses

	Specific Provision Rs'000	Portfolio Provision Rs'000	Total Rs'000
At 01 January 2017	572,825	56,823	629,648
Movement during the year	(60,259)	4,835	(55,424)
At 31 December 2017	<u>512,566</u>	<u>61,658</u>	<u>574,224</u>
At 01 January 2018	512,566	61,658	574,224
Adjustment as per IFRS 9	63,367	(4,761)	58,606
	<u>575,933</u>	<u>56,897</u>	<u>632,830</u>
Movement during the year	(62,777)	6,404	(56,373)
At 31 December 2018	<u>513,156</u>	<u>63,301</u>	<u>576,457</u>
At 01 January 2019	513,156	63,301	576,457
Movement during the year	20,383	634	21,017
At 31 December 2019	<u>533,539</u>	<u>63,935</u>	<u>597,474</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**15. LOANS TO CUSTOMERS (CONT'D)****(d) Remaining term to maturity**

	2019 Rs'000	2018 Rs'000	2017 Rs'000
Within 3 months	23,305	9,832	5,408
Over 3 months and up to 6 months	35,923	11,935	6,520
Over 6 months and up to 12 months	34,423	29,972	21,574
Over 1 year and up to 5 years	442,561	482,880	514,685
Over 5 years	8,233,712	7,759,312	6,987,773
Total	8,769,924	8,293,931	7,535,960

(e) Credit concentration of risk by industry sectors

	2019 Rs'000	2018 Rs'000	2017 Rs'000
Name of sector			
Construction (Housing finance)	8,769,924	8,293,931	7,535,960

16. INVESTMENT PROPERTY

	Freehold Building Rs'000	Cybervillage land Rs'000	Total Rs'000
VALUATION			
At 31 December 2017	76,000	40,000	116,000
Fair value adjustment in 2018	2,749	2,000	4,749
At 31 December 2018	78,749	42,000	120,749
Fair value adjustment in 2019	1,660	3,000	4,660
At 31 December 2019	80,409	45,000	125,409

- (i) The investment properties are classified as level 3 in term of the fair value hierarchy.

Revaluation of investment properties

On 20 December 2019, the investment properties were revalued by Mr & Mrs N Jeetun, Msc, M.R.I.C.S, M.M.I.S, P.M.A.P.I of NP Jeetun, independent Chartered Valuation Surveyor. The properties have been valued using comparative method and investment method of valuation. This is based on comparison of prices paid of similar properties within close vicinity of the site and adjusted to reflect the characteristic of the subject properties, at the relevant date.

- (ii) The Company has pledged its investment properties to secure the borrowings.

	2019 Rs'000	2018 Rs'000	2017 Rs'000
Rental income on investment properties	7,170	6,156	5,913

No expenses on investment properties were incurred during the year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

17. PROPERTY AND EQUIPMENT

	Freehold land Rs'000	Buildings Rs'000	Furniture and equipment Rs'000	Motor vehicles Rs'000	Right - of -use Rs'000	Total Rs'000
COST OR VALUATION						
At 01 January 2017	286,440	185,294	160,379	6,008	-	638,121
Additions	-	-	6,723	-	-	6,723
Disposals	-	-	(4)	-	-	(4)
At 31 December 2017	286,440	185,294	167,098	6,008	-	644,840
Additions	-	-	3,064	1,770	-	4,834
Fair value adjustment	69,430	41,427	-	-	-	110,857
Disposals	-	-	(1,735)	-	-	(1,735)
At 31 December 2018	355,870	226,721	168,427	7,778	-	758,796
Additions	-	-	8,511	-	10,379	18,890
Disposals	-	-	(5)	(963)	-	(968)
At 31 December 2019	355,870	226,721	176,933	6,815	10,379	776,718
DEPRECIATION						
At 01 January 2017	-	3,610	132,738	3,135	-	139,483
Disposal	-	-	(4)	-	-	(4)
Charge for the year	-	4,280	8,219	1,009	-	13,508
At 31 December 2017	-	7,890	140,953	4,144	-	152,987
Disposal	-	-	(1,735)	-	-	(1,735)
Charge for the year	-	3,706	8,194	1,168	-	13,068
Fair value adjustment	-	(11,596)	-	-	-	(11,596)
At 31 December 2018	-	-	147,412	5,312	-	152,724
Disposal	-	-	(5)	(964)	-	(969)
Charge for the year	-	4,534	7,312	1,168	2,766	15,780
At 31 December 2019	-	4,534	154,719	5,516	2,766	167,535
NET BOOK VALUES						
At 31 December 2019	355,870	222,187	22,214	1,299	7,613	609,183
At 31 December 2018	355,870	226,721	21,015	2,466	-	606,072
At 31 December 2017	286,440	177,404	26,145	1,864	-	491,853

(i) The land and buildings are classified as Level 3 in terms of the fair value hierarchy.

Revaluation of land and buildings

On 29 November 2018, the land and buildings were revalued by Mr & Mrs N Jeetun, Msc, M.R.I.C.S, M.M.I.S, P.M.A.P.I of NP Jeetun, independent Chartered Valuation Surveyor. The land and buildings were revalued using comparative method of valuation. This is based on comparison of sales of similar properties within close vicinity of the site and adjusted to reflect the characteristic of the subject properties, at the relevant date. No revaluation was done in 2019 as management is of the view that there has not been significant factors which would affect the values of 2018.

(ii) Movement in revaluation reserves is as follows:

	2019 Rs'000	2018 Rs'000	2017 Rs'000
At 01 January	612,197	489,743	489,743
Movement during the year	-	122,454	-
Transfer to retained earnings (Note (a))	(187,059)	-	-
At 31 December	425,138	612,197	489,743

(a) During the current financial year, it came to the attention of management that the revaluation reserves are overstated by Rs 187,059,000 and therefore same has been reclassified to retained earnings. The comparatives figures have not been restated as the reclassification has no effect on total equity and the prior years' profits.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**17. PROPERTY AND EQUIPMENT (CONT'D)***Revaluation of land and buildings (Cont'd)*

The book values of the properties were adjusted to the revalued amounts and the resulted surplus was credited to revaluation reserves in shareholders' equity. If land and buildings were stated on the historical cost basis, the net book value would be as follows:

	2019	2018	2017
	Rs' 000	Rs' 000	Rs' 000
Cost	15,183	15,183	15,183
Accumulated depreciation	(7,027)	(6,724)	(6,420)
Net book value	8,156	8,459	8,763

- (ii) Included in the net carrying amount of property and equipment is right-of-use assets for an amount of Rs 7,613,000.
- (iii) The Company has pledged its property and equipment to secure borrowings.

18. INTANGIBLE ASSETS

	COMPUTER SOFTWARE	PROGRESS PAYMENTS	TOTAL
	Rs'000	Rs'000	Rs'000
COST			
At 1 January 2017	20,730	34,089	54,819
Additions	-	13,177	13,177
At 31 December 2017	20,730	47,266	67,996
Additions	-	11,831	11,831
At 31 December 2018	20,730	59,097	79,827
Additions	-	78,024	78,024
At 31 December 2019	20,730	137,121	157,851
AMORTISATION			
At 1 January 2017	17,402	-	17,402
Charge for the year	2,060	-	2,060
At 31 December 2017	19,462	-	19,462
Charge for the year	1,268	-	1,268
At 31 December 2018	20,730	-	20,730
Charge for the year	-	2,455	2,455
At 31 December 2019	20,730	2,455	23,185
NET BOOK VALUES			
At 31 December 2019	-	134,666	134,666
At 31 December 2018	-	59,097	59,097
At 31 December 2017	1,268	47,266	48,534

The Directors have reviewed the carrying value of the intangible assets and are of opinion that at 31 December 2019, the carrying value has not suffered any impairment.

The progress payments refer to cost incurred for the implementation of a new Core Banking System which has gone live as from November 2019. Part of the cost incurred for the Go Live of the project has been capitalised and amortised. Upon completion of all milestone payments, all costs will be capitalised.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**19(a). OTHER ASSETS**

	2019	2018	2017
	Rs'000	Rs'000	Rs'000
Staff loans	28,305	30,000	17,715
Receivable from Government	133,199	116,509	112,652
Instalments due from customers	-	46,482	102,500
Other receivables and prepayments	45,304	26,690	15,295
	206,808	219,681	248,162
Less:			
- Provision for impairment	(4,697)	(3,349)	(12,500)
- Amount written off	-	(9,151)	-
	202,111	207,181	235,662

19(b). ASSETS HELD FOR SALE

	2019	2018	2017
	Rs'000	Rs'000	Rs'000
Foreclosed properties	61,108	63,607	73,202
Allowance for impairment on foreclosed properties	(4,268)	(4,363)	(11,373)
Land and apartments repossessed	4,801	4,801	5,058
	61,641	64,045	66,887

The foreclosed properties represent houses acquired at Masters' bar on default by clients and these are stated at the lower of carrying amount and fair value less costs to sell. Management is committed to dispose the properties as soon as there is a potential buyer. However, there are legal procedures that take much time before the sale can actually happen. Where clients are willing to buy and already occupying the properties, MHC charged an indemnity fee for occupancy until the sale is finalised.

Legal procedures normally take between 2 to 3 years. Where properties do have a potential buyer during the legal procedures, same is not rented.

20(a). PEL AND OTHER SAVINGS ACCOUNTS

	2019	2018	2017
	Rs'000	Rs'000	Rs'000
Capital	1,496,360	1,398,843	1,303,758
Interest payable	371,769	417,964	438,404
Other savings accounts	1,880	1,863	1,845
	1,870,009	1,818,670	1,744,007

20(b). HOUSING DEPOSIT CERTIFICATES

	2019	2018	2017
	Rs'000	Rs'000	Rs'000
Capital	3,209,411	2,181,416	2,069,851
Interest payable	194,855	211,637	220,476
	3,404,266	2,393,053	2,290,327
Analysed as follows:			
Current	531,560	457,924	504,017
Non-current	2,872,706	1,935,129	1,786,310
	3,404,266	2,393,053	2,290,327

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

20 (b). HOUSING DEPOSIT CERTIFICATES (CONT'D)

	2019 Rs'000	2018 Rs'000	2017 Rs'000
Analysed as follows:			
Individuals	2,762,441	1,757,873	1,764,819
Corporates	641,825	635,180	525,508
	<u>3,404,266</u>	<u>2,393,053</u>	<u>2,290,327</u>

	2019		2018		2017	
	Capital Rs'000	Interest Rs'000	Capital Rs'000	Interest Rs'000	Capital Rs'000	Interest Rs'000
Within 3 months	101,199	21,353	164,268	41,887	65,949	10,171
Over 3 months and up to 6 months	149,973	20,872	107,515	26,852	105,080	21,618
Over 6 months and up to 12 months	207,563	30,600	100,753	16,649	254,282	46,917
Over 1 year and up to 2 years	352,237	38,326	439,821	59,562	371,985	69,233
Over 2 years	2,398,439	83,704	1,369,059	66,687	1,272,555	72,537
	<u>3,209,411</u>	<u>194,855</u>	<u>2,181,416</u>	<u>211,637</u>	<u>2,069,851</u>	<u>220,476</u>

The HDC balance at the end of the year include an amount of Rs 864.7M (2018: Rs 646.5M) which was due to one of the Company largest depositors, with a deposit concentration ratio of 27.0% (2018: 27.0%).

21. BORROWINGS

	2019 Rs'000	2018 Rs'000	2017 Rs'000
Current			
Bank overdrafts (Secured) (Note (d) below)	44	944	2,864
Loan capital (Note (a) below)	8,854	9,088	9,067
Short term loan (Note (e) below)	-	100,000	-
Bank loans (Note (b) below)	183,335	158,334	83,333
Lease liabilities (Note (f) below)	2,742	-	-
	<u>194,975</u>	<u>268,366</u>	<u>95,264</u>
Non-current			
Loan capital (Note (a) below)	98,068	112,338	119,833
Bank loans (Note (b) below)	435,358	511,662	269,997
Loan - Government of Mauritius (Note (c) below)	-	11,162	11,162
Lease liabilities (Note (f) below)	5,236	-	-
	<u>538,662</u>	<u>635,162</u>	<u>400,992</u>
Total borrowings	<u>733,637</u>	<u>903,528</u>	<u>496,256</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

21. BORROWINGS (CONT'D)

(a) Loan capital - Government Guaranteed

Rate of interest	Lenders	Terms of repayment	Repayment period	2019 Rs'000	2018 Rs'000	2017 Rs'000
2.50%	European Development Fund	Half Yearly	30.12.1991 – 30.06.2021	2,909	4,790	6,624
2.50%	Mauritius Marine Authority	Yearly	28.07.1999 - 28.07.2018	-	-	115
2.50%	Mauritius Marine Authority	Yearly	23.02.2001 - 23.02.2020	377	746	1,093
2.50%	Mauritius Marine Authority	Yearly	27.04.2002 - 27.04.2021	739	1,202	1,565
2.50%	Mauritius Marine Authority	Yearly	20.05.2002 - 20.05.2022	535	768	938
2.50%	Mauritius Marine Authority	Yearly	09.07.2002 - 19.07.2023	618	834	977
2.50%	Mauritius Marine Authority	Yearly	14.08.2009 - 14.08.2028	2,674	3,183	3,437
2.50%	Mauritius Marine Authority	Yearly	21.07.2012 - 21.07.2031	3,601	4,070	4,289
2.50%	Mauritius Marine Authority	Yearly	Part of loan disbursed	3,634	3,634	3,634
2.50%	Government Sponsored Loan	Yearly	17.10.1978 - 18.06.2024	1,119	1,756	2,378
6.00%	Anglo Mauritius	Quarterly	29.02.2008 – 01.02.2028	41,250	46,250	51,250
3.00%	Bank of Mauritius	Yearly	No fixed repayment terms	49,466	54,193	52,600
				106,922	121,426	128,900
Less repayable within one year shown as short term loans				(8,854)	(9,088)	(9,067)
				98,068	112,338	119,833
Repayable by instalments:						
- after one year and before five years				25,299	28,690	31,817
- after five years				19,669	25,821	31,782
Repayment terms not yet finalised				3,634	3,634	3,634
Repayable other than by instalments				49,466	54,193	52,600
				98,068	112,338	119,833

Included in borrowings, is the balance of housing loans for Bank of Mauritius staff scheme amounting to Rs 49.5 M (2018:Rs 54.2M and 2017: Rs 52.6M) which are managed by Mauritius Housing Company Ltd in return for a payment of a six monthly service charge on the outstanding balance.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

21. BORROWINGS (CONT'D)

(b) Bank loans	2019	2018	2017
	Rs'000	Rs'000	Rs'000
4.50% - 5.40% (2018: 4.50% - 5.40% and 2017: 5.50% - 7.40%) per annum and bank loans repayable by monthly/quarterly instalments	618,693	669,996	353,330
Current			
Portion repayable within one year	183,335	158,334	83,333
Non-current			
Portion repayable after one year and before five years	435,358	479,995	249,995
Portion repayable after five years	-	31,667	20,002
	435,358	511,662	269,997
Total	618,693	669,996	353,330

Included in the bank loans is an amount of Rs 492,030,318 (2018: Rs 473,333,333 and 2017: Rs 86,666,667) secured on the assets of the Company. The remaining loans are guaranteed by Government of Mauritius

(c) Loan – Government of Mauritius

The loan from Government of Mauritius, which was interest free and unsecured, has been fully repaid during the year.

(d) Bank overdrafts are secured against fixed deposits that the Company holds with the respective banks.
The carrying amounts of borrowings are not materially different from their fair values.**(e) In prior year, the Company has entered into a Money Market Line Agreement with Bank One Ltd in order to secure its liquidity position, which was fully repaid during the current financial year.****(f) Leases liabilities**

Lease liabilities are presented in the statement of financial position as follows:

	2019	2018
	Rs' 000	Rs' 000
Current	2,742	-
Non-current	5,236	-
	7,978	-

The Company's lease arrangement includes rental of buildings. All the Company's leases are recognised as finance lease as the contractual terms of the lease meet the definition of finance lease under IFRS 16, Leases. The Company classifies its right-of-use assets in a consistent manner to its property and equipment (Note 17).

Future minimum lease payments at 31 December 2019 were as follows:

	Within 1 year	1 to 2 years	Total
	Rs' 000	Rs' 000	Rs' 000
Lease payment	3,081	5,633	8,714
Finance charges	(339)	(397)	(736)
Net present value	2,742	5,236	7,978

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**21. BORROWINGS (CONT'D)****(f) Leases liabilities (Cont'd)**

Additional information on the right-of-use assets by class of assets is as follows:

	Carrying amount as at 31 Dec 2019	Depreciation for the year	Impairment
	Rs' 000	Rs' 000	Rs' 000
Office building	7,613	2,766	-

The right-of-use assets are included in property and equipment.

Operating lease**The Company as a lessee**

The Company accounted its operating lease under IAS 17, Leases in prior years. The leasing arrangements for the past two years ended 31 December 2018 are as disclosed below:

	2018	2017
	Rs' 000	Rs' 000
Minimum lease payment	2,244	1,735

As at 31 December 2018, the Company had outstanding commitments under non-cancellable operating leases which fall due as follows:

	2018	2017
	Rs' 000	Rs' 000
Within one year	2,295	2,250
Between 2 and 5 years	9,917	9,659
	12,212	11,909

Operating lease payments represent rental for office buildings

The Company as a lessor**Leasing arrangements**

Operating lease represents rental income from premises rented to outside parties. The leases are negotiated for an average term of ten years and rentals are fixed for an average term of five years. All operating contracts contain market review clauses in the event the lessee exercises its option to renew. The lessees do not have an option to purchase the property at the expiry of the lease.

	2019	2018	2017
	Rs'000	Rs'000	Rs'000
Rent received under operating lease recognised in statement of profit or loss*	7,170	6,156	5,913

There were no direct operating expenses incurred in respect of the investment property.

* Rent received under operating lease is exclusive of occupational costs in relation to foreclosed properties.

The future minimum lease payments receivable under non-cancellable operating leases are as follows:

	2019	2018	2017
	Rs'000	Rs'000	Rs'000
Within one year	6,156	6,156	5,913
Between 2 and 5 years	24,625	24,625	23,653
After more than 5 years	6,156	6,156	5,913
	36,937	36,937	35,479

(g) The carrying amounts of borrowings are not materially different from their fair values.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**22. RETIREMENT BENEFIT OBLIGATIONS**

Amounts recognised in the statement of financial position:

	2019	2018	2017
	Rs' 000	Rs' 000	Rs' 000
Amounts recognised in the statement of financial position:			
- Pension benefits (note (a)(ii))	246,157	288,665	256,998
- Funds kept within the Company (note (c))	10,560	10,560	10,560
	256,717	299,225	267,558
Amount charged to profit or loss:			
- Pension benefits (note (a)(iii))	26,273	25,723	19,636
Amount charged to other comprehensive income:			
- Pension benefits (note (a)(iv))	(58,256)	18,411	105,078

(a)(i) Pension benefits

The Company operates both a defined benefit plan and a defined contribution plan. The defined benefit arrangement is a final salary plan, which provides benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on members' length of service and their salary in the final years leading up to retirement. The defined contribution benefit plan is dependent on the contribution made.

The assets of the funded plan are held independently and are administered by The State Insurance Company of Mauritius Ltd.

(ii) The amounts recognised in the statement of financial position are as follows:

	2019	2018	2017
	Rs'000	Rs'000	Rs'000
Pension benefit obligations	585,844	602,822	578,022
Fair value of plan assets	(339,687)	(314,157)	(321,024)
Liability recognised at end of year	246,157	288,665	256,998

(iii) The amounts recognised in profit or loss are as follows:

	2019	2018	2017
	Rs'000	Rs'000	Rs'000
Current service cost	14,517	15,347	17,294
Fund expenses	317	352	376
Net interest expense	17,025	16,674	8,576
Employee contributions	(5,586)	(6,650)	(6,610)
Total included in staff costs	26,273	25,723	19,636
Actual return on plan assets	35,272	11,006	23,314

(iv) The amounts recognised in other comprehensive income are as follows:

	2019	2018	2017
	Rs'000	Rs'000	Rs'000
Remeasurement			
Liabilities (gain)/loss	(40,923)	9,850	110,635
Assets (gain)/loss	(17,333)	8,561	(5,557)
	(58,256)	18,411	105,078

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**22. RETIREMENT BENEFIT OBLIGATIONS (CONT'D)**

(v) The reconciliation of the opening balances to the closing balances for the defined benefit liability is as follows:

	2019	2018	2017
	Rs'000	Rs'000	Rs'000
At 01 January	288,665	256,998	144,708
Charged to profit or loss	26,273	25,723	19,636
Contributions paid	(10,525)	(12,467)	(12,424)
Charged to other comprehensive income	(58,256)	18,411	105,078
At 31 December	246,157	288,665	256,998

(vi) The movement in the defined benefit obligations over the year is as follows:

	2019	2018	2017
	Rs'000	Rs'000	Rs'000
At 01 January	602,822	578,022	438,882
Current service cost	14,517	15,347	17,294
Interest expense	34,963	36,243	26,333
Benefits paid	(25,535)	(36,640)	(15,122)
Liability experience (gain)/loss	(40,923)	9,850	110,635
At 31 December	585,844	602,822	578,022

(vii) The movement in the fair value of plan assets of the year is as follows:

	2019	2018	2017
	Rs'000	Rs'000	Rs'000
At 01 January	314,157	321,024	294,174
Expected return on plan assets	17,938	19,568	17,756
Employer contributions	10,241	12,184	12,175
Employee contributions	5,586	6,650	6,610
Benefits paid	(25,568)	(36,708)	(15,248)
Assets gain/(loss)	17,333	(8,561)	5,557
At 31 December	339,687	314,157	321,024

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**22. RETIREMENT BENEFIT OBLIGATIONS (CONT'D)**

(viii) Distribution of plan assets at end of year

	2019	2018	2017
Percentage of assets at end of year/period			
Fixed securities and cash	58.2%	56.5%	57.7%
Loans	3.1%	3.8%	3.9%
Local equities	13.6%	13.6%	15.5%
Overseas bonds and equities	24.6%	25.5%	22.3%
Property	0.5%	0.6%	0.6%
Total	100.0%	100.0%	100.0%

(ix) The cost of providing the benefits is determined using the Projected Unit method. The principal assumptions used for the purpose of the actuarial valuation were as follows:

	2019	2018	2017
Discount rate	5.80%	6.27%	6.00%
Future salary growth rate	4.50%	5.00%	5.00%
Future pension growth rate	3.50%	4.00%	4.00%

The discount rate is determined by reference to market yields on bonds.

(x) Sensitivity analysis on defined benefit obligations at end of the reporting date:

Significant actuarial assumptions for the determination of the defined benefit obligation are discount rate, expected salary increase and mortality. The sensitivity analyses below have been determined based reasonably on possible changes of the assumptions occurring at the end of the reporting period.

If the discount rate would be 100 basis points (one percent) higher (lower), the defined benefit obligation would decrease by Rs 73.9 M (increase by Rs 92.8 M) if all other assumptions were held unchanged.

If the expected salary growth would increase (decrease) by 1%, the defined benefit obligation would increase by Rs 39.8 M (decrease by Rs 34.3 M) if all other assumptions were held unchanged.

If life expectancy would increase (decrease) by one year, the defined benefit obligation would increase by Rs 18.4 M (decrease by Rs 18.6 M) if all assumptions were held unchanged.

In reality one might expect interrelationships between the assumptions, especially between discount rate and expected salary increases, given that both depends to a certain extent on the expected inflation rates. The analysis above abstracts from these interdependence between the assumptions.

- (xi) The plan is exposed to actuarial risks such as: investment risk, interest rate risk, longevity risk and salary risk.
- (xii) The expected employer contributions for 2020 will amount to Rs 10,387,880.
- (xiii) The weighted average duration of the defined benefit obligation is 14 years.
- (xiv) The funding requirements are based on the pension fund's actuarial measurement framework set out in the funding policies of the plan.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**22. RETIREMENT BENEFIT OBLIGATIONS (CONT'D)**

(b) State Pension Plan	2019	2018	2017
	Rs'000	Rs'000	Rs'000
National Pension Scheme contributions	1,151	1,080	1,158
(c) The funds pertain to provision made to cater for future obligation payable to the members of the Widows and Orphans Plan which existed before Family Protection Scheme.			

23. OTHER LIABILITIES

	2019	2018	2017
	Rs'000	Rs'000	Rs'000
Deposits against foreclosed properties	12,909	6,649	12,722
Leave passage provision	15,266	13,117	18,052
Accruals	10,382	8,216	20,086
Other payables	21,257	18,297	18,181
	59,814	46,279	69,041

The Company has financial risk management in place to ensure that all payables are paid within the credit timeframe and according to contractual terms.

24. INSURANCE FUNDS

	2019	2018	2017
	Rs'000	Rs'000	Rs'000
Life assurance reserve (Note (a))	118,191	91,318	91,318
Building insurance reserve (IBNR)	1,507	1,507	1,507
Mortgage insurance reserve	4,275	4,275	4,275
	123,973	97,100	97,100

Movement in insurance funds

	2019	2018	2017
	Rs'000	Rs'000	Rs'000
At 01 January	97,100	97,100	97,100
Transfer from life assurance reserve (Note 26)	26,873	-	-
At 31 December	123,973	97,100	97,100

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**24. INSURANCE FUNDS (CONT'D)**

- (a) The policy liabilities have been valued as at 31 December 2019 in respect of policies issued under the Long Term Insurance business by the Company, in accordance with the solvency rules and accepted actuarial practice, including selection of appropriate valuation assumptions and methods. It is the Company's policy to have independent Actuarial Valuation every two years.

The valuation of the Decreasing Term Assurance book of business was performed using the Gross Premium valuation method. The reserves were established by discounting the future expected claims and expenses, less the future office premiums on a policy-by-policy basis.

The main assumptions used to calculate these liabilities are:

- investment return: 3.46% (3.66% p.a)
- renewal expense: Rs1,031.79 per policy p.a, increasing at 3.12% p.a
- mortality: 77.0% of SA85/90 plus 1.38% HA2 AIDS allowance
- total permanent disability: 88% of CSI skilled disability table
- withdrawal rate: Nil
- Commission: No Commission is payable
- Contingency provision: 10% of basic reserve

The insurance funds were estimated at Rs 123,973,000 as at 31 December 2019. The Directors have decided to transfer an amount of Rs 26,873,000 from the life insurance reserve to the insurance funds. The life insurance reserve was created to cater for any shortfall arising from the insurance funds.

There are no reinsurance arrangements in place in respect of the life assurance fund and the decreasing term assurance business is written on a non-profit sharing basis.

Life Insurance Reserve	Rs'000
At 01 January 2019	154,642
Transfer to insurance funds	(26,873)
At 31 December 2019	127,769

25. SHARE CAPITAL

	2019	2018	2017
	Rs'000	Rs'000	Rs'000
Authorised			
25,000,000 ordinary shares of Rs10 each	250,000	250,000	250,000
Issued and fully paid			
20,000,000 ordinary shares of Rs10 each	200,000	200,000	200,000

Fully paid ordinary shares, which have a par value of Rs10, carry one vote per share and a right to dividends.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**26. OTHER COMPREHENSIVE INCOME**

	Revaluation Reserve Rs'000	Actuarial gains/ (losses) Rs'000	Life insurance reserve Rs'000
<i>Items that will not be reclassified to profit or loss:</i>			
2019			
Remeasurement of defined benefit obligations	-	58,256	-
Transfer from life insurance reserve	-	-	(26,873)
2018			
Gain on revaluation of land & buildings	122,454	-	-
Remeasurement of defined benefit obligations	-	(18,411)	-
2017			
Gain on revaluation of land & buildings	-	-	(2,673)
Remeasurement of defined benefit obligations	-	(105,078)	-

Revaluation reserve

The revaluation reserve arises on the revaluation of freehold land and buildings which are revalued by an independent valuer every 3 years.

Actuarial gain/(losses)

The actuarial gain/(losses) reserve represents the cumulative remeasurement of defined benefit obligation recognised based on independent actuarial valuation.

27. BUILDING INSURANCE RESERVE

	2019 Rs'000	2018 Rs'000	2017 Rs'000
Building insurance reserve	116,810	116,810	116,810

Building insurance relates to fund kept for insurance of mortgaged houses over the loan period against fire, cyclone and structural damages.

The policy liabilities have been valued in respect of policies issued in accordance with the solvency rules and accepted actuarial practice, including selection of appropriate valuation assumptions and methods. The policy liabilities together with the capital requirement do not exceed the amount of insurance funds of Rs 116.8M. It is the Company's policy to have independent actuarial valuation every two years, last performed in the current year. The Directors consider that at 31 December 2019 the fund provision is adequate.

The main assumptions used to calculate these liabilities are:

- the IBNR reserve is quantified on a factor-based method at 7% of written premium over the past years.
- UPR reserve is not applicable as Building Insurance Premiums are paid and recorded in the financial statements on a monthly basis.
- insurance liability capital charge of 10% of the IBNR.
- catastrophe capital charge of 5% of the written premium.

28. RETAINED EARNINGS

	2019 Rs'000	2018 Rs'000	2017 Rs'000
At 01 January	2,067,688	1,982,437	1,926,138
Adjustment as per IFRS 9	-	(58,606)	-
Transfer (Notes 17(a) and 29(a))	199,656	-	-
Movement on reserves	58,256	(18,411)	1,613
Profit for the year	127,966	204,225	209,787
Actuarial reserve	-	-	(105,078)
Dividends (Note 11)	(40,845)	(41,957)	(50,023)
At 31 December	2,412,721	2,067,688	1,982,437

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**29. RESERVES****(a) OTHER RESERVES**

	At 01 January 2017	Movement during the year		At 31 December 2017
	Rs'000	DR Rs'000	CR Rs'000	Rs'000
Foreclosed property reserve	2,673	(2,673)	-	-
EDF revolving fund	12,068	-	-	12,068
Gervaise reserve	529	-	-	529
General reserve	106,590	-	-	106,590
	<u>121,860</u>	<u>(2,673)</u>	<u>-</u>	<u>119,187</u>
	At 01 January 2018	Movement during the year		At 31 December 2018
	Rs'000	DR Rs'000	CR Rs'000	Rs'000
EDF revolving fund	12,068	-	-	12,068
Gervaise reserve	529	-	-	529
General reserve	106,590	-	-	106,590
	<u>119,187</u>	<u>-</u>	<u>-</u>	<u>119,187</u>
	At 01 January 2019	Movement during the year		At 31 December 2019
	Rs'000	DR Rs'000	CR Rs'000	Rs'000
EDF revolving fund	12,068	(12,068)	-	-
Gervaise reserve	529	(529)	-	-
General reserve	106,590	-	-	106,590
	<u>119,187</u>	<u>(12,597)</u>	<u>-</u>	<u>106,590</u>

During the year, the EDF revolving fund and Gervaise reserve have been transferred to retained earnings as they do not represent valid reserves. The General Reserve was created in early years to cater for provisions in respect of potential impaired loans. This reserve is maintained on a prudence basis over the years.

(b) STATUTORY RESERVES

Pursuant to the provision of the Banking Act 2004, a sum equal to no less than 15% of the profit after tax is transferred to a Statutory Reserve Account, until the balance in that reserve account is equal to the Bank's paid up capital. This reserve is not distributable.

As at 31 December 2019, the reserve amounts to Rs 200M which is equal to the paid up share capital of the Company (Note 25).

30. COMMITMENTS

	2019 Rs'000	2018 Rs'000	2017 Rs'000
(a) Loans			
Loans approved but not yet disbursed to individuals	<u>138,083</u>	<u>344,382</u>	<u>168,560</u>

(b) Capital commitments

The Company has a total capital commitment of Rs 93.0M out of which Rs 65.5M is in respect of the new core banking system and Rs 27.5M relating to Le Hochet Housing development project and Roche Brunes project.

31. TAXATION

Pursuant to the Mauritius Housing Company Corporation (Transfer of Undertaking) Act 1989, all rights and privileges of the Mauritius Housing Corporation have been transferred to Mauritius Housing Company Ltd. The provisions of this Act have also dispensed the Company from any income tax/capital gain tax liability.

No deferred tax asset or liability has been provided in the financial statements due to the exempt income tax status of the Company.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**32. RELATED PARTIES TRANSACTIONS**

The Company is making the following disclosures in accordance with IAS 24 (Related Party Disclosures):

Transactions during the year

	Nature of transactions	2019 Rs'000	2018 Rs'000	2017 Rs'000
Shareholders of the company				
Government of Mauritius	Loans	2,518	2,457	2,541
	Interest paid	152	214	13
	Interest received	19,398	31,619	37,541
	Rental expense	33	38	38
Others	Other transactions	40	38	38
Directors and key management personnel				
	Loans	3,700	4,012	4,093
	Loan interest	681	795	731
	Deposits capital	1,155	(76)	(750)
	Deposits interest	(472)	225	(20)
	PEL capital	(1,376)	207	909
	PEL interest	(8)	(351)	273

Remuneration and other benefits relating to key management personnel, including directors, were as follows:

	2019 Rs'000	2018 Rs'000	2017 Rs'000
Salaries and benefits	20,104	22,850	22,186
	(Credit)/ debit balances at 31 December 2019 Rs'000	(Credit)/ debit balances at 31 December 2018 Rs'000	(Credit)/ debit balances at 31 December 2017 Rs'000
Government of Mauritius			
Loans	(4,028)	(17,708)	(20,164)
Interest payable	(28)	(36)	(49)
Interest receivable	128,502	104,009	100,152
Directors and key management personnel			
Loans	20,477	19,625	20,946
Deposits capital	4,904	3,749	3,825
Deposits interest	501	973	748
PEL capital	4,058	5,434	5,227
PEL interest	171	179	530

The terms of the borrowings have been disclosed in Note 21.

The loans to Directors and key management personnel are secured by a first rank mortgaged on their property bearing an interest rate ranging between 4% to 5% and has a maximum repayment capacity of 40% of monthly salary.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

33. REPORTING CURRENCY

The financial statements are presented in thousands of Mauritian Rupees since this is the currency in which the Company's transactions are denominated.

34. OWNERSHIP STRUCTURE

The Directors consider the Government of Mauritius, which owns 60.1% of the share capital, as the holding and controlling entity of the Company.

35. EVENTS AFTER THE REPORTING DATE

The Company acknowledges the current outbreak of COVID-19 which is causing economic disruption in most countries and its potential adverse economic impact on the Company's operations. This is an additional risk factor which could impact the Company after year end. Refer to Note 4 for impact of Covid-19 on the business. The Company is actively monitoring developments closely and given the nature of the outbreak and the ongoing developments, there is a high degree of uncertainty and it is not possible at this time to predict the extent and nature of the overall future impact on the Company's operations.

The Company has concluded that the developments in the global financial markets after the year end did not provide evidence of conditions that existed at the end of the reporting year and have therefore assessed that any impact they have had as non-adjusting. Management has reviewed both its working capital commitments and level of liquidity, and concluded that the Company will continue as a going concern in the foreseeable future.

36. EMPHASIS OF MATTER

A reconciliation exercise between subsidiary ledgers and the general ledger balances done both post the IT migration project and for financial reporting purposes, has shown that the general ledger balance for other receivables exceeded the relevant listing by Rs 16,082,625 (Note 19(a)). Management is of the view that it is premature to provide for the difference until the detailed analysis currently underway is not completed. We wish to draw attention that if the whole difference is provided for, the profit for the year would decrease to Rs 111,883,375 and total equity would amount to Rs 3,572,945,375.