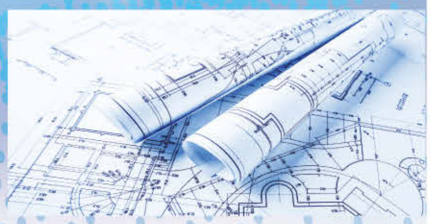
MAURITIUS HOUSING COMPANY LTD

La référence en prêt logement

Annual Report 2019



Mauritius Housing Company Ltd has enhanced its system to better connect with its clients.

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COMPANY OVERVIEW

Company Profile

The Mauritius Housing Company (MHC) Ltd stems from the former Mauritius Housing Corporation, a parastatal body set up in 1963. The latter has taken over in housing loan business from the Mauritius Agricultural Bank which had been providing such loans since 1951. The Mauritius Housing Company Ltd was incorporated in 1989, with the aim of being a complete solution provider in respect of housing finance requirements and of more efficiently meeting the challenges posed by the financial market

With more than five decades at the service of the nation, Mauritius Housing Company Ltd is the only financial institution in Mauritius and Rodrigues that offers a variety of solutions with respect to the promotion of home ownership. Mauritius Housing Company Ltd also provides architectural, technical, legal and insurance services, estates projects as well as deposit-taking and savings schemes. To this day, the Company's distribution networks include 9 offices including Rodrigues.

COMPANY OVERVIEW

"To be the undisputed benchmark and the most preferred provider of housing financial services in Mauritius and the region"

PRODUCT/SERVICES ASPECT

To offer a wide range of attractive housing financial services with respect to Construction Projects, Renovation, Extension, Reimbursement, Purchase and Acquisition of lodging/apartments and Refinancing of housing loans so as to enable every Mauritian and Rodriguan to own a house.

CUSTOMER ASPECT

To professionally and continuingly delight our customers, ranging from a new born to a senior citizen, with a wide spectrum of competitive products that better meet their needs and expectations whilst ensuring their brilliant future.

GEOGRAPHY ASPECT

With a view to fulfilling the MHC's mandate, we shall maximise our share of the market in Mauritius and Rodrigues without disregarding the regional market, using tailor-made strategies and objectives.

TECHNOLOGY ASPECT

To make full use of available, affordable and applicable technologies that will take the Organisation to business excellence.

GOOD GOVERNANCE ASPECT

To leave no stone unturned in addressing the currently applicable Code and Bank of Mauritius guidelines on Corporate Governance and any established industry practices aiming at the enhancement of customer confidence and legal compliance.

PEOPLE ASPECT

We shall always put our most valued asset, which is our people, at the core of our business operations, through adequate training and performance management whilst ensuring quality at all times.

REGISTERED OFFICE

Révérend Jean Lebrun Street, Port Louis, Mauritius
Post Code: 11328
Telephone: (230) 405 5555
Fax: (230) 212 3325
Website: www.mhc.mu
Email: mhc@mhc.mu

BUSINESS REGISTRATION NO.

C06008524

INCORPORATED ON

12 December 1989

COMPANY STATUS

Public Company Limited by shares

NATURE OF BUSINESS

Housing Financial Services

OTHER ACTIVITIES

Deposit Taking/Saving Schemes
Architectural Services
Estates Development
Legal Services

Our Branch Network

- **HEAD OFFICE**
MHC Building,
Révérend Jean Lebrun Street
P.O Box 478, Port Louis.
Tel: 405 5555
Fax: 212 3325
Post Code: 11328

- **CUREPIPE OFFICE**
Charles Lees Street,
Curepipe.
Tel: 676 0245/46/49
Fax: 676 0248
Post Code: 74404

- **GOODLANDS OFFICE**
Block A2, Cr Royal Road &
Les Pensées Street,
Goodlands.
Tel: 282 1442/60
Fax: 282 1461
Post Code: 30406

- **FLACQ OFFICE**
François Mitterand Street,
Flacq.
Tel: 413 5139/40
Fax: 413 5138
Post Code: 40606

- **BAMBOUS OFFICE**
Royal Road,
Bambous.
Tel: 452 0372/1665
Fax: 452 0372
Post Code: 90102

- **TRIOLET OFFICE**
Royal Road,
Triolet.
Tel: 261 7623
Fax: 261 5324
Post Code: 21503

- **MOKA OFFICE**
Royal Road,
Moka.
Tel: 460 1234
Fax: 434 0539
Post Code: 80808

- **ROSE BELLE OFFICE**
Royal Road,
Rose Belle.
Tel: 660 9787
Fax: 628 0200
Post Code: 51829

- **RODRIGUES OFFICE**
Camp du Roi,
Rodrigues.
Tel: 831 1787/0930
Fax: 831 1788
Post Code: R5109

OUR MILESTONE

- **1990** – Opening of a branch in Rodrigues.
- **1989** – Incorporation of the MHC Ltd as a state-owned Public Company under the name of Mauritius Housing Company (MHC) Ltd.
- **1988** – The ‘Plan Epargne Logement’ (PEL) was launched and has over the years remained one of our highly demanded product.
- **1986** – Introduction of Government Sponsored Loans (GSL) to stimulate house ownership.
- **1970** – Development of real estate projects that have become landmarks in Mauritius (Clos Verger and Vuillemin are few examples).
- **1963** – Foundation of the Mauritius Housing Corporation

1994

Extension of our marketing and service network with the opening of a branch in Flacq.

2001/02

Two new branches, in Curepipe and Goodlands, bring us closer to our customers.
Introduction of Land Purchase Scheme and In-House Architectural Services
- Deposit taking activities – Housing Deposit Certificate (HDC)
- Introduction of Fast Loan Scheme
- Laying down of Foundation Stone of Camp du Roi Complex, Rodrigues.
- Joint Venture between BPML and MHC Ltd in the Cyber Village Project at Ebène.

2006

Launching of new schemes targeting existing MHC Ltd clients in response to their changing requirements.

2007/08

- New products are developed – 'Complete ou Lakaz', Mixed Construction Loan and Dream Express Scheme – to strongly differentiate the Mauritius Housing Company Ltd from Competition.
- Introduction of Dream Home Express Loan Scheme.
- Introduction of Home Loan Extra Scheme.
- Vuillemin Housing Project.

2009

Development of a new Savings product, Junior PEL Saver (JPS) aimed at parents who wish to secure abright future for their child.

2010

Implementation of a Quality Management System (QMS) to improve the efficiency of our processes and enhance customers' satisfaction.

2011

Vuillemin Phase III housing project.

2012

- ISO 9001:2008 Certification.
- Social Housing Projects at Dubreuil & Sottise
- Opening of a branch in Triolet.

2013

- Golden Jubilee Celebration.
- MHC Ltd is the Grand Winner of The Mauritius Business Excellence Award 2012, a national competition aimed at fostering a culture of excellence among Mauritian Economic operators.
- MHC Ltd proudly hosted the 29th Annual conference of The African Union for Housing finance (AUHF)

2014

Launching of a new Housing Loan product for the middle-income earners: the MHC Housing Empowerment Loan Scheme(HES).

2015

Launching of the Centralised Banking Information System (CBIS) project.

2016

Winner of the Africa's Best Brand of the Employer Awards acknowledging MHC' Ltd's innovative approach.

2017

Opening of a new branch in Moka.

2018

- Launching of a housing loan at 1% interest rate during the first year. A first-up in the housing loans market.
- Laying of foundation stone at Domaine Le Hochet.
- Winner of the Bronze Award for NPQC 2018.

2019

- Completion of Domaine Le Hochet Phase 1.
- Opening of a branch in Rose Belle.
- Sale of Bare Land at Roches Brunes.
- Launching of the MHC Flexi Loan and quick mortgage loan.
- Launching of the Home Loan 2.55% first year.

BOARD OF DIRECTORS

Mr. Rashad Racheed Daureeawoo
Chairman - Non-Executive Director
(As from 06 February 2020)

Mr. Anand Babbea
Executive Director (As from 01 May 2020)

Mr. Azaad Aumeerally
Independent Director

Mr. Ashis Kumar Hoolass
Non-Executive Director
(As from 09 March 2020)

Mr. Koosiram Conhye
Non-Executive Director
(Up to 16 January 2020)

Mr. Georges Henry Jeanne
Non-Executive Director
(Up to 07 April 2020)

Mr. Dunputh Khoosye
Independent Director

Mr. Arveen Sharma Sunt
Executive Director
(From 11 July 2019 to 19 June 2020)

Mr. Latanraj Ghoorah
Non- Executive Director (From 27 June 2014 to 06 May 2019)

Mr. Darsanand Balgobin
Chairman - Independent Director (From 14 March 2017 up to 11 October 2019)

Dr. (Mrs.) Rooba Yanembal Moorghen
Non – Executive Director
(As from 04 June 2020).

Mr. Swaminathan Ragen
Non- Executive Director
(From 13 November 2018 to 10 April 2020

Mr. Mohummad Shamad Ayoob Saab
Non – Executive Director
(As from 11 July 2019 Ag Chairman (From 22 October 2019 to 06 February 2020)

Mr. Vidianand Lutchmeeparsad
Non-Executive Director (From 11 July 2019 to 25 February 2020)

CHAIRMAN'S STATEMENT

Dear Valued Shareholders,

As Chairman of the Board of Directors, I have the pleasure to present the Annual Report and Financial Statements of the Mauritius Housing Company Ltd for year ending 31 Dec 2019.

This year was a challenging one for MHC Ltd which was at cross road as the Company was embarking on a new IT project with the main aim to provide an effective and efficient service to the Mauritian society.

Information Technology

The Business and IT transformation project via a Core banking solution went live in November 2019. This new tool will change the way MHC Ltd is doing business and both the Company and its clients are expected to reap the benefits shortly as the features provided would enhance the level of service to our customers.

Revamp of the Website

In line with the new technological change taking place, the existing website was revamped so as to provide more information to customers seeking quotes for loans and returns on deposit and savings. Additional information was provided about documents needed in order to avail of a loan as well as for deposits and savings. This was done mainly to ease the life of the clients so that they get all information about documents required online.

Estate Development

Construction works for housing units at Domaine le Hochet were completed and legal procedures are underway for the sale of the housing units. The infrastructure work for housing lots at Roches Brunes were also completed and the sale of the lots are being finalized. Feasibility study are being undertaken for new projects in the center of the island as there are increasing demand for housing in these regions.

Innovative Products

The Term Deposit Scheme for Senior Citizens which was recently launched at very competitive interest was a success and the results obtained exceeded our expectation.

New products were launched for housing, namely the Flexi loan as well as a new home loan product at affordable rate of 2.55% in the first year. This was in line with the success we obtained for loans at 1% for the first year which was very appreciated by our clients as this measure helped and eased the life of many of our customers who faced financial difficulties in the first years when they start repaying their loans.

Opening of new Branch

In line with our policy to come closer to our customers, a new branch was opened in Rose Belle in July 2019 with the objective to serve the residents in southern part of the island.

MHC Ltd strategy is to have many branches across the island in order to assist the population in having a decent home and in this context preliminary discussions are underway for the opening of another branch in the southern region and ensure property development on our existing land.

Company Performance

Though much effort was on the core banking system the Company forge its way ahead and achieved a level of profit of Rs 127M and for the first time its assets exceeded Rs 10Billion.

With this wave of change taking place and the increasing demand for housing, I am sure that MHC Ltd has taken the right direction to be the leader in the housing market, in providing a one stop shop for all services related to housing. We are confident that, in spite of the Covid-19 pandemic, we will continue the same trend, to ensure development in the housing sector.

I seize this opportunity to thank all Directors of the Board for their support and the staff for their efforts and devotion to achieve this goal.

Me R. Racheed Daureeawoo
Chairman

SENIOR MANAGEMENT TEAM

Mr. Anand Babbea
Executive Director (As from 01 May 2020)

Mr Hassen Issop Abdool, Officer In Charge (Up to 30 April 2020) & Resumed as Head (Finance) (As from 01 May 2020)

Mr. Rajeev Abeeluck,
Head (Technical)

Mr. Koondan Khusul,
Head (Commercial)

Mr. Surendra Puholoo, Ag. Head (Finance) (Up to 30 April 2020) & Resumed as Senior Accountant (As from 01 May 2020)

Mr. Rama Krishna Mudaliar,
Internal Auditor (From February 2019 to 29 November 2019)

Mr. Jayraj Maywah, Ag Internal Auditor (As from 12 February 2020)

Mrs. Ashvina Kalapnauth-Rajcoomar, Manager (Corporate Services)

Mr. Devanand Maywah, Manager (Procurement)

Mr. Naim Maudarbocus, Manager (ICT)

Mr. Shakeel Sheik Muhammad Maudarun, Ag Senior Accountant (Up to 30 April 2020) & Resumed as Accountant (As from 01 May 2020)

Mr. Rakeshsing Boojhawon, Ag. Internal Auditor (up to 05 February 2019) & Assigned Assistant Manager of Risk and Compliance Unit (As from 01 April 2019)

MANAGING DIRECTOR'S STATEMENT

"REPOSITIONING MAURITIUS HOUSING COMPANY LTD TOWARDS THE FUTURE"

Management is pleased to present the Audited Financial Statement and Annual Report for the year ended 31st December 2019.

2019 has been a very challenging year for Mauritius Housing Company (MHC) Ltd. The GDP growth attained 3.6% principally on account of construction sector. The unemployment rate for 2019 stood at 6.8%, lower than the rate of 6.9% for 2018. The country average inflation rate as at December 2019 was around 1% compared to 4.7% for 2018.

The public sector investment as a percentage of GDP stood at 3.2% compared to private sector investment to 13.3% whilst gross domestic deposits stood at 9.7%.

During the year under review, the Monetary Policy Committee of the Bank of Mauritius met to review the economic situation and the repo rate was maintained at 3.35% at year end. MHC Ltd continued to offer competitive interest rates averaging 4.50% on deposits and 5.50% on its loans products.

MHC's business model is inspired by the vision to become the preferred provider of housing financial services in the Republic of Mauritius and the region. Looking forward, the business segment in which MHC Ltd operates is set to be turbulent and volatile with lots of competition ahead. The continued challenges are outside the span and control and these challenges usually impact on business as a whole. The strategy derived, is centered on four areas: the consolidation of the mortgage finance business; expansion; diversification of our solution; modernisation and capacity building.

Granting mortgage loan is the main business of MHC Ltd. The bulk of the revenue is from interest income generated from loans. Amidst, an increasingly competitive market, we strive to strengthen our positioning and market share by improving service quality and efficiency. In line with our vision to become the preferred provider of loans solutions, we are gradually deploying our expansion strategy which resolves around opening of new branches in view to better reach out to customers whilst capitalising on our strength.

At the same time, we are broadening the range of solutions that we offer to our clients, a range of products and services in achieving their dreams. We are providing adapted products to cater to customers' needs. Starting with products for construction, renovations, purchase of properties, mixed construction, deposits plan, term deposits and other ancillary services. In addition, we also provide advisory services which is a plus in our core business activities.

Recently, with the objective of improving customer experience, we have modernised our IT platform, products offering and service delivery. We expect that the new IT system will create new business opportunities and help the Company to go forward.

In order to support and sustain growth we are progressively building capacity in areas of Organisation and Governance, Human Resource Planning, Risk Management and Technology. Moreover, the Company observed most of the Corporate Governance requirements and applications by t he setting up of proper board's sub committees. Human Resource is systematically trained to acquire the right skill and knowledge. Our risk appetite, risk policies and procedures have been reviewed by a consultant to guard against a repeat issue faced in previous years.

MHC's Performance

Year 2019 was a period of consolidation with lot of challenges, there were a number of projects being implemented such as the Domaine Le Hochet & Roches Brunes projects, the IRIS system, and the revamping of the MHC Ltd's website. There were lot of constraints in achieving the objectives since one third of the total resources were involved in these projects and sales objectives could not materialise as expected. On the other hand, the high cost of funds and the increasing competitions had impacts on the operations. MHC Ltd's profit for the year under review amounted to Rs 127.9M compared to Rs 204.2M for year ended 2018 due to fall in interest income following a decrease in pricing of products impacting on the margin compared to cost of funding.

I would like to seize this opportunity to thanks the Chairman, the Board of Directors, the Top Management and to the Employees for their support and commitment during the year 2019.

Anand Babbea
Managing Director

BUSINESS OVERVIEW

OUR PRODUCTS & SERVICES

Our products and services are accessible to all segments of the population of the Republic of Mauritius, whichever they choose, and whether through our Head Office, at any of our branches or online.

Housing Loan Products

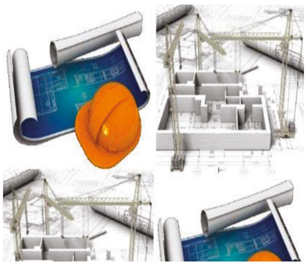
The MHC Ltd offers a range of attractive tailor-made housing loan products for land purchase, construction, completion, renovation and extension, purchase of residential property/apartments, refinancing of existing loans with other institutions and a Hassle-Free Housing Loan without mortgage, namely, the Flexi loan.

Savings & Deposits

The Company offers a wide range of savings and investment products. These include the regular monthly savings (Plan Epargne Logement - PEL), children's savings (Junior PEL Saver – JPS) and also term deposits (Housing Deposit Certificates - HDC) for individuals, Corporate and Senior Citizen with investments at attractive rates of interest and terms ranging from 6 to 120 months.

Insurance

The MHC Ltd provides its clients with life and building insurance as part of the home loan package with a view to protecting their interests and safeguarding their properties against contingencies.



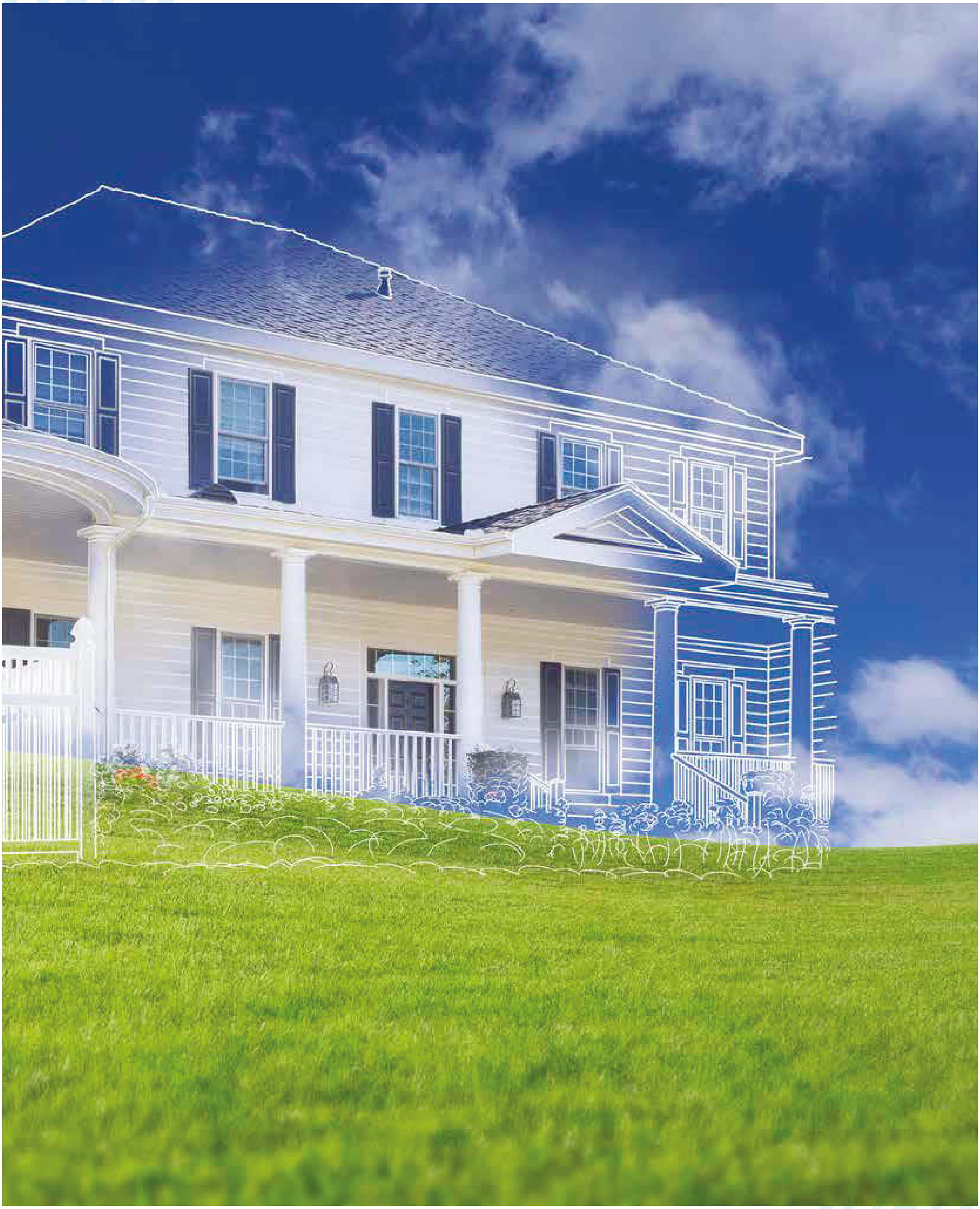
Architectural & Technical

The Company undertakes the architectural design of houses and also offers technical assistance to its clients to enable them realise their housing projects, based on their financial capabilities and also on practical advice for an optimal use of their land area for house construction.

Estate Development

The MHC Ltd's assets (land and buildings) are maintained and foreclosed properties are monitored through rental up to disposal. The Company has an impressive track record of estate development projects throughout the island, starting in the 1970s and catering for various income groups, with a dozen of residential projects (including Harbour View, Clos Verger, Govinden Court, La Tour Koenig, Roches Brunes, Vuillemin, Le Hochet and Cybervillage).

BUSINESS REVIEW



Commercial Business Unit

In year 2019, our Commercial Business Unit had set objective to endeavoured the strength to be more closer and helpful to our clients and to meet their requirements. We has always assist our clients through different stages in their housing project and we also provide counselling services to our clients.

In the year, two housing loan products were launched namely the MHC Flexi Loan at a competitive rate of 6.5% and a Home Loan with the interest rate of 2.55% first year and afterward at 5.55% linked to reporate.

We have embarked in a new core banking system to better serve our clients where processing of loans is being done faster.

Enhancing the Customer Service

Customer Service is very important for home loan business. Therefore, in the year of 2019, more emphasis has been laid on customer service. That's why, to be closer to our clients and to enhance our networks, a new branch was opened in Rose Belle.

During the year under review, Rs 1.23 billion of loans were approved. MHC Ltd will always help the Mauritians and Rodriguans to achieve their goals and to become owner of their houses.

Finally, trust, transparency and honesty continue to guide the employees of our Commercial Business Unit in their everyday interactions with existing customers and future prospects for a sustainable growth of the Company.

Marketing Strategies

During the year 2019, MHC Ltd has gone through different challenges and one of the biggest challenges was the Go Live of the IRIS Project. The sales and marketing team also participated in the implementation of the IRIS project through the development of Sales Force Automation (SFA) and the marketing module.

Massive campaign were done to market different projects and products, like the sale of individual houses at Domaine Le Hochet, the Sale of bare land at Roches Brunes, the launching of the MHC Flexi Loan, Quick Mortgage Loan, and the Home Loan 2.55% first year and HDCs' Scheme (Normal & Senior Citizen)

Moreover during the year, MHC Ltd was in touch with the general public all over the island. The sales and marketing team had organised many roadshows, workshops, open days at Domaine Le Hochet and has participated in the Financial Fair at Bel Air Riviere Seche, and Salon de la Maison, at SVICC Pailles,

The opening of a branch at Rose Belle aims at being closer to the customers and the revamping of our website aims to be more user friendly and facilitates the life of the clients. The sales and marketing team will pursue its efforts to strengthen its marketing thrust to stay competitive in the market.

BUSINESS REVIEW

Corporate Services Business Unit

MHC Ltd is amongst the market leaders in mortgage finance, this strong position in this sector has been attained thanks to the contribution of our dedicated and hardworking staff that the Organisation possesses. As at 31st December 2019, we had a workforce comprising of 216 talented and experienced individuals of different background, gender, age and ethnicity. To enhance the customer service, eight Executive Assistants and one Safety and Health officer have been recruited by the Company.

During the year 2019, one officer in the grade of Executive Assistant resigned and four senior officers recognizing more than 25 years of service in the Company have retired from the services of the Company.

Realisation of the year 2019

In fulfilling the Company's commitment to develop and retain the best available talent, we had been continuously investing in our people by providing training to the employees conducted by reputed professional institutions. Apart from external training, the Company regularly organised in-house training for enhancing the skill and knowledge of the employees in different operational areas.

The year 2019 was very crucial as we had undergone a major IT transformation phase that is the implementation of the IRIS project. Before the Go-live massive training was conducted across the Company touching all employees.

To make each and every employee adapt to the new system, a change management team was set up under the guidance of an external consultant.

Employee Welfare

To promote team work and interaction among staff members of different levels and business unit, a team building exercise was organized at Domaine De L'Etoile in August 2019 and a Staff Get Together at Long Beach Hotel in December 2019.

Reward

To compensate our employees for their effort during the year in achieving the targeted loan business, a productivity bonus of one-month salary were paid to all employees.

BUSINESS REVIEW

Information Communication & Technology Business Unit

Over the past years, MHC Ltd has become increasingly reliant on technology. Information Technology facilitates and streamlines the day-to-day work and allow us to collaborate seamlessly and securely both internally and with other stakeholders.

MHC Ltd is focusing on the modernization and automation of its IT systems, phasing out legacy systems, and protecting its people, information, and systems against increasingly sophisticated threats. Most importantly, the IT solutions implemented are crafted in alignment with MHC Ltd's strategic objectives.

With the IRIS project successfully rolled out in the year under review, MHC Ltd has paved its way towards digital transformation and the provision of world-class banking experience to its customers.

The key benefits realized include the following:

- Faster customer turn-around time offering enhanced customer experience;
- Seamless integration with better governance, risk management, and security;
- Higher productivity, operational efficiency and effectiveness leading to cost reduction;
- Faster time to market new products and services;
- Adoption of world-class practices leading to increased revenue due to better customer experience and richer product sets.

As part of the IRIS project, a new Data Centre and a Disaster Recovery Environment were successfully implemented providing the assurance to MHC Ltd that its critical business functions can be recovered quickly in case a disaster occurs.

BUSINESS REVIEW

Technical Business Unit

The main objective of the Technical Business Unit is to safeguard the interests of MHC Ltd's investment and comprises of the Inspectorate, Project & Estates, Drawing and Maintenance units.

MHC Ltd is the only Financial Institution which have a Technical Business Unit, which offers the following facilities:

- Working out the estimated value of land, construction work/projects for MHC Ltd's, customers who intend to pursue the construction of their residential projects ;
- Preparation of reports on the progress of work during different construction stages to;
  - Ascertain that the funds released to customers are actually being used for the said purposes;
  - Ensure that the construction works conform to acceptable technical standards as well as approved plans and specifications;
- Preparation of schedules of disbursement. It is on the basis of the progress reports prepared after site visits, that funds are subsequently released to clients;
- Advising clients on technical issues relating to their construction;
- Architectural Services and;
- Property Development.

Project Unit

The Project Unit was established in July 2001 and has so far provided its services to approximately 800 MHC customers from different income groups and backgrounds.

The Project Unit is primarily client-oriented in terms of design with emphasis on socio-environmental aspects. It provides architectural and structural engineering services to MHC Ltd's customers.

MHC Ltd's in-house Property Development Projects

This service includes the preparation of architectural and/or structural drawings for the submission to the authorities for development permits or building permits and for construction purposes. The drawings are prepared after taking into account client's needs and preferences or requirement.

Estate Unit

- The Estates Unit manages the properties, the estates and the foreclosed properties of MHC Ltd.
- The sale of MHC Ltd projects is made on a "first come first serve" basis.
- The foreclosed properties are disposed of by public bid through press advertisement.
- Flexible credit facilities are granted to prospective purchasers.
- During the Year 2019, two projects have come to light, namely Domaine le Hochet (sale of individual houses) and Sale of bare land at Roches Brunes.

BUSINESS REVIEW

Procurement Unit

The Procurement Unit is a supportive unit which help the different Business Units in achieving their objectives in procuring goods, works, consultancy services and other services.

The objective of the Procurement Unit is to carry out all the procurement activities in accordance with the Public Procurement Act 2006 and its Regulations. We do our level best to minimise cost in procurement proceedings in the interest of the Company. In order to achieve the objective, an Annual Procurement Plan is of utmost importance. The plan is prepared every year and is an instrument that covers the requirements of all the Business Units of the Company and is a live process, adapting to changes in the requirements as and when required.

Moreover, MHC Ltd complies with the Construction Industry Development Board Act 2008 (CIDB) in respect to public works contracts. Registered contractors are requested to submit their bids in a bidding process and contracts are awarded to the lowest evaluated substantially responsive bidder.

Bidders have an important role and are considered as major stakeholders in the procurement process. We therefore ensure, that there are fairness and transparency in our procurement proceedings, thus enhancing competition to obtain value for money.

CORPORATE GOVERNANCE

Mauritius Housing Company Ltd, the "Company' or 'MHC', has always been committed to observe 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 has been 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;

CORPORATE GOVERNANCE

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 Ltd 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 Ltd 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;

PRINCIPLE 1 - GOVERNANCE STRUCTURE (CONT'D)
Key Governance Positions (Cont'd)

The main functions of the Managing Director are (Cont'd):

- To strive consistently to achieve MHC Ltd's financial and operation goals and objects and ensure the proper management and monitoring of the daily business of MHC Ltd;
- 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 imperative
- To be the chief spokesperson for MHC Ltd 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 Degree and Post Graduate Diploma in Architecture	02 Jul 2001
Mr. **Khusul** Koondan	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

CORPORATE GOVERNANCE

PRINCIPLE 1 - GOVERNANCE STRUCTURE (CONT'D)

Senior Management Profile

Mr. Anand BABBEA is the Managing Director of Mauritius Housing Company (MHC) Ltd since 01 May 2020. Mr. Babbea has grown within the Banking, Financial and Payments Industry and is a professional reckoning with 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 Ltd, 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 Master's degree in Business Administration from the University of Mauritius.

Mr. Hassen Issop ABDOOL joined MHC Ltd on 01 July 1992 and is actually the 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 Ltd as an Architect on 02 July 2001 before being appointed as Head (Technical) 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 Ltd on 18 May 1982 and occupied the position of the Head, (Commercial) He holds a Bachelor of Business Administration (BBA),a post graduate Diploma in Management studies (PDGMS) (2011) and a Master's Degree in Business Administration (MBA) (2014) from the Management college of South Africa.

Mr. Surendra PUHOLOO joined MHC Ltd on 02 July 1990 and presently holds the post of Senior Accountant in a substantively capacity. Mr. 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 Ltd on 01 June 1992. He resumed as Internal Auditor 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 Ltd 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.

Mrs. Ashvina KALAPNAUTH-RAJCOOMAR joined MHC Ltd 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.

PRINCIPLE 1 - GOVERNANCE STRUCTURE (CONT'D)

Senior Management Profile (Cont'd)

Mr. Devanand MAYWAH joined MHC Ltd 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.

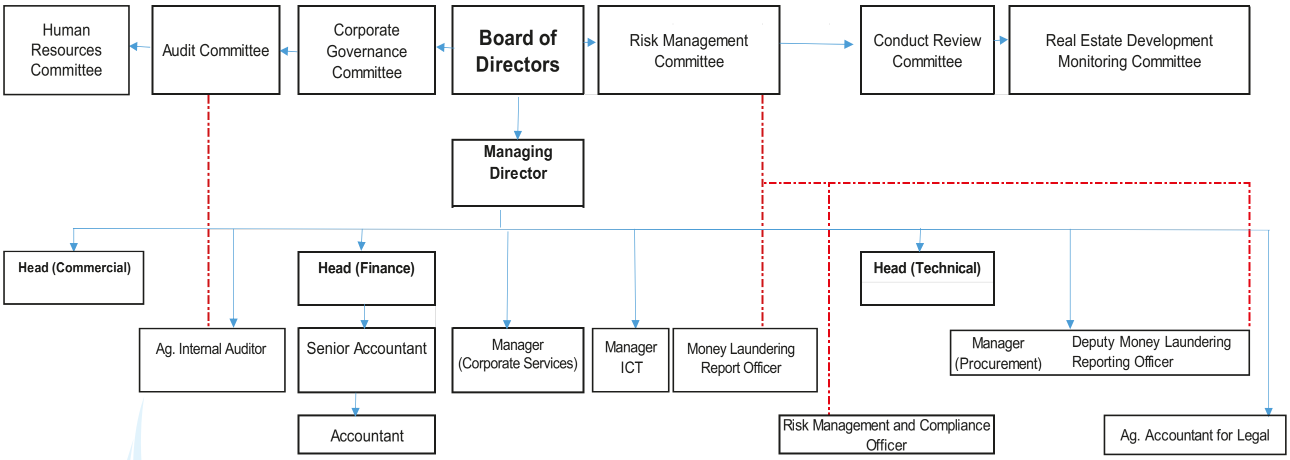
Mr. Naim MAUDARBOCUS joined MHC Ltd as an Analyst/Programmer in 1995 before promoted to systems Analyst in 1999. He currently holds the position of ICT (Manager). He holds a Master's in computer science from the University of Bordeaux I, France and a Master's in Business Administration, with specialisation in Finance,from the University of Technology, Mauritius.

Mr. Muhammad Sheik Shakeel MAUDARUN joined MHC Ltd on 08 March 1992 and presently holds the post of Accountant in a substantively capacity. He is presently acting as Senior 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 Ltd 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 Ltd. 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 is as follows:



CORPORATE GOVERNANCE

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)(as from 07-Feb 2020)	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
Officers who ceased to be directors during the year under consideration		
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 Ltd.

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.

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

However, as at date, the above mentioned Corporate Governance provision (ii) and (iii) has been complied with the appointment as follows:

(i) In addition to the Representative of MHC Staff Association (Executive Director), a Managing Director was appointed on 01 May 2020; and

(ii) A Lady Director, namely Dr. (Mrs.) Rooba Yanembal Moorghen, was appointed on 04 June 2020.

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 firstelection. The Board consists of two independent Directors namely MrAzaad Aumeerally and Mr. Dunputh 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 attaing 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.

CORPORATE GOVERNANCE

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

Board Meetings

The Board met thirteen (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 Ltd compliance with its Code of Ethics.

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

- Determining the MHC's Ltd purpose, strategy and values;
- Providing guidance, maintaining effective controls over MHC Ltd and monitoring management in carrying out Board's plans and strategies;
- Monitoring and evaluating the implementation of MHC's Ltd strategies, policies and management of its performance criteria and business plans;
- Exercising leadership, enterprise, intellectual honesty, integrity, objectivity and judgement in directing MHC Ltd so as to achieve sustainable prosperity;
- Ensuring that procedures and practices are in place to safeguard the MHC's Ltd assets and reputation and providing guarantee on the effectiveness of MHC's Ltd internal control system;
- Monitoring and evaluating regularly compliance with the Code of Ethics;
- Approving and monitoring MHC's Ltd 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 Ltd financial health and performance against budgets, including ensuring that the balance between "conformance" and "performance" is healthy. Conformance is linked to MHC's Ltd 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.

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	Human Resource Committee ***	Corporate Governance	Real Estate Development Committee
Mr. Rashad Racheed Daureeawoo (As from 06 February 2020)**	Non-Executive Chairman	-	-	-	-	-	-	-
Mr. Mohummad Shamad Ayoob Saab (As from 22 October 2019)	Non-Executive Chairman	4/4	-	1/1	1/1	-	-	-
Mr. Mohummad 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. Dunputh 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.*

CORPORATE GOVERNANCE

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

Board Sub 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 sub 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 Monitoring 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, is approved by the board, and is 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 is 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.

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.
  - 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 as its meeting was 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

CORPORATE GOVERNANCE

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 is 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.

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
Officers who ceased to be Members during the year under consideration		
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*

CORPORATE GOVERNANCE

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

Board Sub Committees (Cont'd)

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 Ltd. 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 Ltd 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 Ltd.

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 Ltd.

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
Officers who ceased to be Members during the year under consideration		
Mr. L. Ghoorah (Up to his resignation on 06 May 2019)	Chairperson	1/1

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

Board Sub 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 has been 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
Officers who ceased to be Members during the year under consideration		
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

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

Board Sub Committees (Cont'd)

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 has been 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.

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 the implementation of projects as approved by the Board and to ensure that deliverables are met within set timeline.

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

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

Board Sub 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
Officers who ceased to be Members during the year under consideration		
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

CORPORATE GOVERNANCE

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

Directors' Profile

Mr. Rashad Racheed Daureeawoo, Non-Executive Chairperson of the MHC Ltd, 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 Masters 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. Mohummad Shamad Ayoob Saab, Non-Executive Director, holds a Diploma in Public Administration with specialisation in Public Management and a Masters 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.

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.
He 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.

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

Mr. Vidianand Lutchmeepersad 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 Landscope (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 Price Water House, 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.

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

Directors' Profile (Cont'd)

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.

Mr. Arveen Sharma Sunt, Executive Director joined MHC Ltd on 04 December 2006 and presently holds the post of IT Specialist (Hardware Administration). He resigned as Director on the Board of MHC Ltd on 19 June 2020. Mr. Sunt holds a Bachelor in Computer Applications from the Bangalore University, India. He was 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 Brimingham. 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. She resigned as a Director with immediate effect.

Mr. Darsanand 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. He holds a BSc (Hons) Economics and an MBA Financial 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 Masters 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.

CORPORATE GOVERNANCE

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. Mohammud 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
	Landscope (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 Ltd. 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.

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 market place; 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.

CORPORATE GOVERNANCE

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 Directors 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 Ltd, 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.

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 Ltd.

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 Ltd. 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.

CORPORATE GOVERNANCE

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 Ltd 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
Mr. A. Aumeerally	Independent	410,000
Mr. K. Conhye	Non-Executive	332,500
Mr. G. H. Jeanne	Non-Executive	375,000
Mr. D. Khoosye	Independent	390,000
Mr. V. Lutchmeeparsad	Non-Executive	144,435
Mr. A. S. Sunt	Executive	141,935
Officers who ceased to be directors during the year under consideration		
Mr. D. Balgobin (Up to 11 October 2019)	Independent Chairman	724,995
Mr. L. Ghoorah (Up to 06 May 2019)	Non-Executive	144,758
Mr. S. Ragen (Up to 10 April 2019)	Non-Executive	112,500

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.

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 Ltd 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 Ltd 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 Ltd. 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 Ltd 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.

CORPORATE GOVERNANCE

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 priorities 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 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 towards the MHC Ltd as and when they fall due. MHC Ltd 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 Ltd credit assessment, structuring, monitoring process and the Credit Risk Scoring System.

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;
- Capacity 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 Ltd 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. It is regularly reviewed by Management to comply with the provisions of new guidelines and legislations. Credit risk is managed in MHC Ltd 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 Ltd 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 Ltd risk exposures and therefore provides a vital management process for MHC Ltd.

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 Ltd 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 Ltd 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.

CORPORATE GOVERNANCE

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 Ltd 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 honours all its financial commitments (both contractual and those determined on the basis of behavioural patterns), when they become due.
Thus, all MHC Ltd 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 Ltd 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 Ltd 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, incorporates the following eight principles:

- An agreed strategy for day-to-day management of liquidity;
- Identification of liquidity risk in MHC Ltd 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.

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 Ltd 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 Ltd earnings and net assets values due to changes in interest rates. Fluctuations in interest rates affect MHC Ltd 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 Ltd.

MHC Ltd 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 Ltd 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 Ltd 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.

CORPORATE GOVERNANCE

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 Ltd 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 Ltd 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 Ltd 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 Ltd 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 Unit 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 Ltd has a risk register for all the processes whereby Management assesses its effectiveness and assessment is done on a quarterly basis. Following the implementation of Enterprise Risk Management Framework, the register will be aligned with best practices.

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

Whistle Blowing Policy

MHC Ltd 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.

CORPORATE GOVERNANCE

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 Ltd 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 Ltd 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 Ltd 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 Ltd 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 Ltd 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 Ltd sponsored an amount of Rs 263,391/- during the year under review.

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

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 have already been replaced by recessed LED panels of 48W.
b. Existing halogen spot lights 50W have already been 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 have already been 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 Ltd 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 Ltd policies and procedures are already on intranet. A cloud-based infrastructure addresses both energy and resource efficiency while saving space and providing MHC Ltd staff with the flexibility to work from anywhere.

5. Plastic Free

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

6. Shredding of old files for Recycling

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

CORPORATE GOVERNANCE

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 Ltd Constitution:

(1) To promote property development within the Republic of Mauritius on its own or in partnership or as 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 deviation to those standards 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.

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 Ltd, 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 judgement.

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.

CORPORATE GOVERNANCE

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 Ltd 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 Ltd .

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 Ltd 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, flexi Loan savings and deposits and providing them with timely information about the services and facilities being offered by MHC Ltd.

Employees

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

CORPORATE GOVERNANCE

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.

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 was scheduled in September 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
30 September 2020*	Annual General Meeting
30 September 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.*

CORPORATE GOVERNANCE

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 with the above provisions. However, the above-mentioned documents were approved on 03 July 2020 and now we are compliant.

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.

Principle 2: Composition of the Board (Cont'd)

The Code recommends that the Charter of each committee be approved by the Board and will be published on our 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 not to be 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**

FINANCIAL HIGHLIGHTS

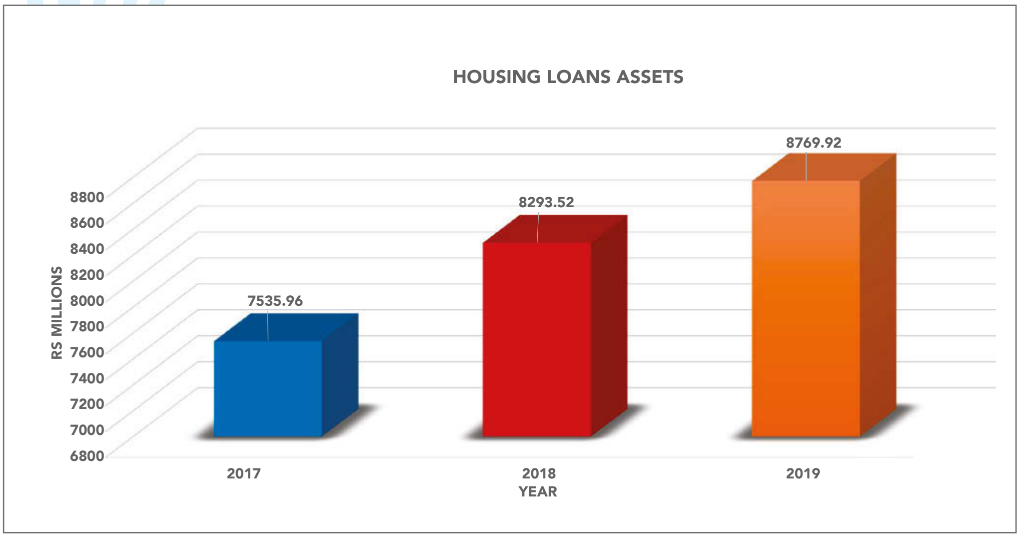
EVOLUTION OF KEY FINANCIAL FIGURES

Our financial review details the performance of MHC Ltd including key performance indicators and our businesses' contribution to the overall performance of the Organisation. MHC Ltd has continued to deliver consistent, diverse and sustained growth while investing to underpin future momentum.

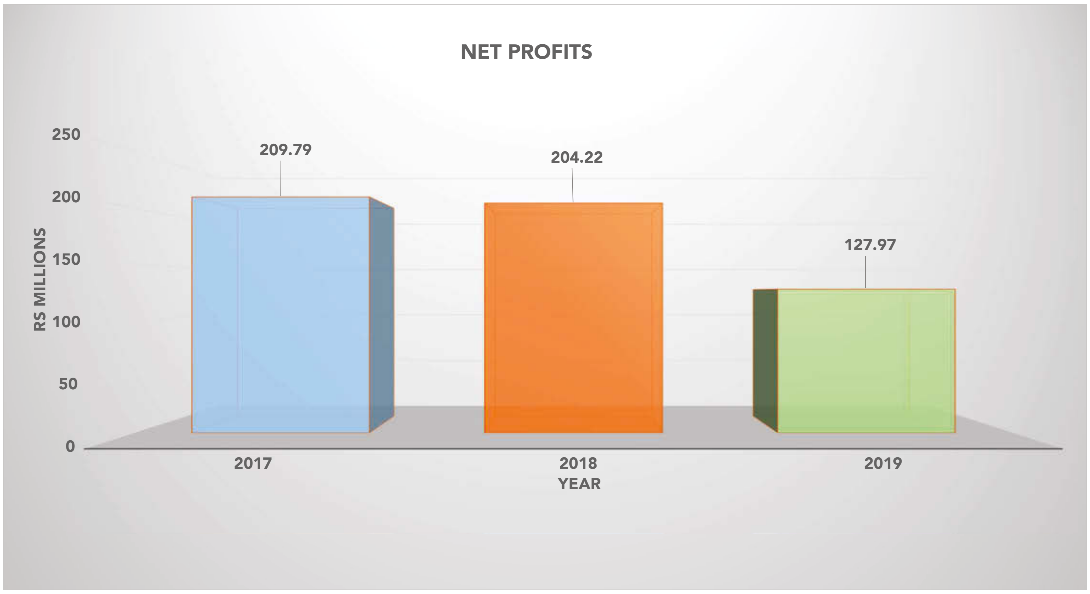
	Year ended 31st Dec 2019 (Rs M)	Year ended 31st Dec 2018 (Restated) (Rs M)	Year ended 31st Dec 2017 (Restated) (Rs M)
Interest Income	**526.28**	484.77	518.61
Interest Expense	**191.91**	174.43	183.87
Net Profit	**127.97**	204.22	209.79
Net Assets	**3,589.03**	3,470.52	3,262.82
Retained Earnings	**2,412.72**	2,067.68	1,982.44
Interest Cover (Times)	**2.74**	2.77	2.82
Net Profit Margin (%)	**20.19**	34.48	35.19
Housing Loan Assets	**8,769.92**	8,293.93	7,535.96
Fixed Assets (Net of Depreciation)	**609.18**	606.07	491.85
Total Assets	**10,037.44**	9,028.38	8,227.11
Shareholders' Funds	**3,344.45**	3,199.07	2,991.37
Capital Employed	**3,589.03**	3,470.52	3,262.82
PEL & JPS (Capital Deposited)	**1,496.36**	1,393.84	1,303.76
HDC (Capital Deposited)	**3,209.41**	2,181.42	2,069.85
Gearing (Times)	**1.32**	1.26	1.20
Current Ratio	**1.69**	1.48	1.82
ROCE (%)	**3.57**	5.88	6.43
EPS (Rs)	**6.40**	10.21	10.49
Total Income to Capital Employed Ratio	**17.66**	17.07	18.27
Reserves	**3,389.03**	3,270.52	3,062.82
Interest Income Growth (%)	**8.56**	(6.53)	(0.96)
Total Income Growth (%)	**7.01**	(0.66)	(3.16)
Interest Expense Growth (%)	**10.01**	(5.13)	(6.70)
Total Expense Growth (%)	**2.18**	2.03	3.69
Operating Income to Operating Expense (%)	**162.2**	149.24	157.67
Return on Shareholders' Funds (%)	**3.83**	6.38	7.01
Return on Total Assets (%)	**1.27**	2.26	2.55
Portfolio Quality (%)	**6.08**	6.19	6.80
Net Interest Margin/Interest Earning Assets (%)	**3.49**	3.56	4.18
Net Interest Income/Total Assets	**3.33**	3.44	4.07
Debt Coverage Ratio	**52.89**	52.18	49.87

FINANCIAL HIGHLIGHTS

REVIEW OF THE YEAR'S PERFORMANCE

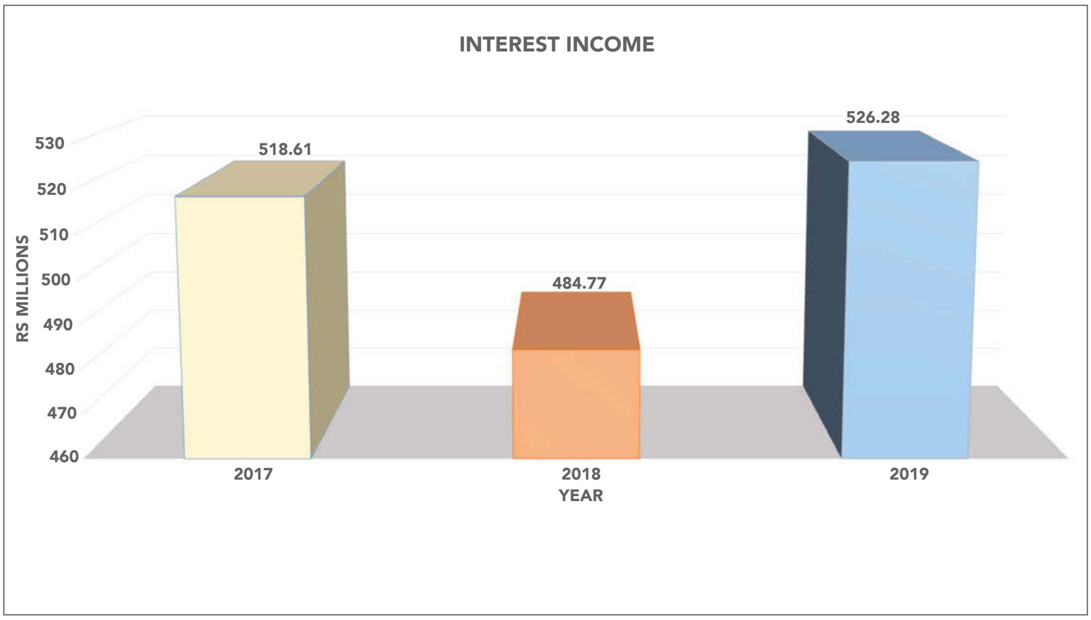


The Housing loan assets of the company increased by 5.7% from Rs 8,293.3 M to Rs 8,769.9 M

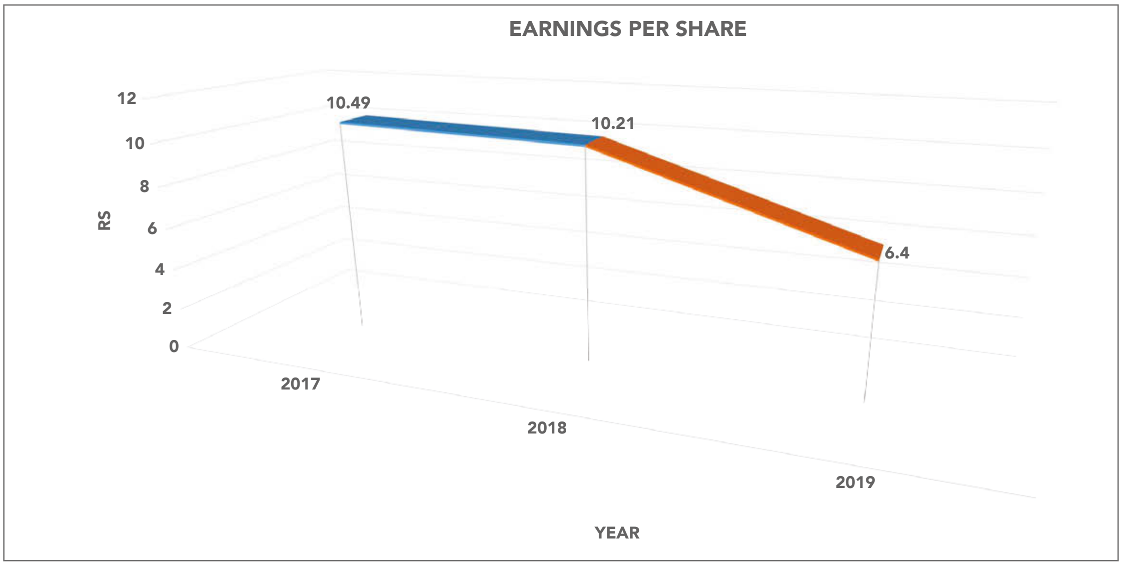


Net profit for the year under review was Rs 127.97 M compared to figure of Rs 204.22 M for year ended 31st December 2018 resulting a decrease of 37.4%.

COMPONENTS OF REVENUE AND EXPENSES AND FINANCIAL RATIOS



Interest income on Housing Loan increased by 8.6% ie from Rs 484.77 M to Rs 526.28 M.



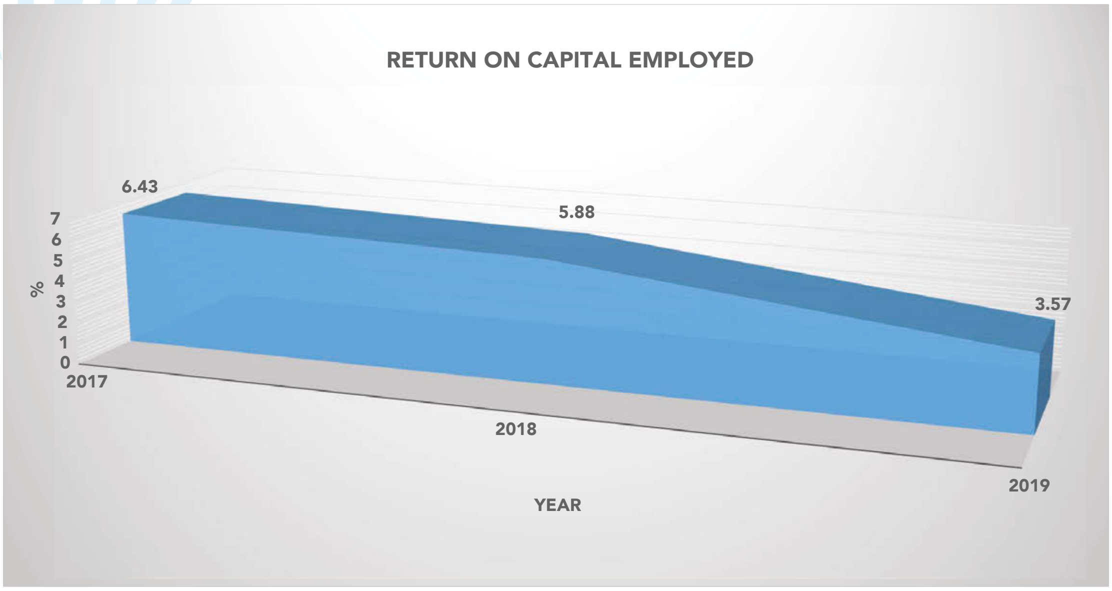
During the year under review EPS was Rs 6.40 M compared to Rs 10.21 M for the year ended 31st December 2018 a decrease of 37.3%.

Current Ratio
Current ratio has increased from 1.48% to 1.69% in year 2019.

Interest Cover
Interest cover has decreased from 2.77 to 2.74 for the financial year 2019.

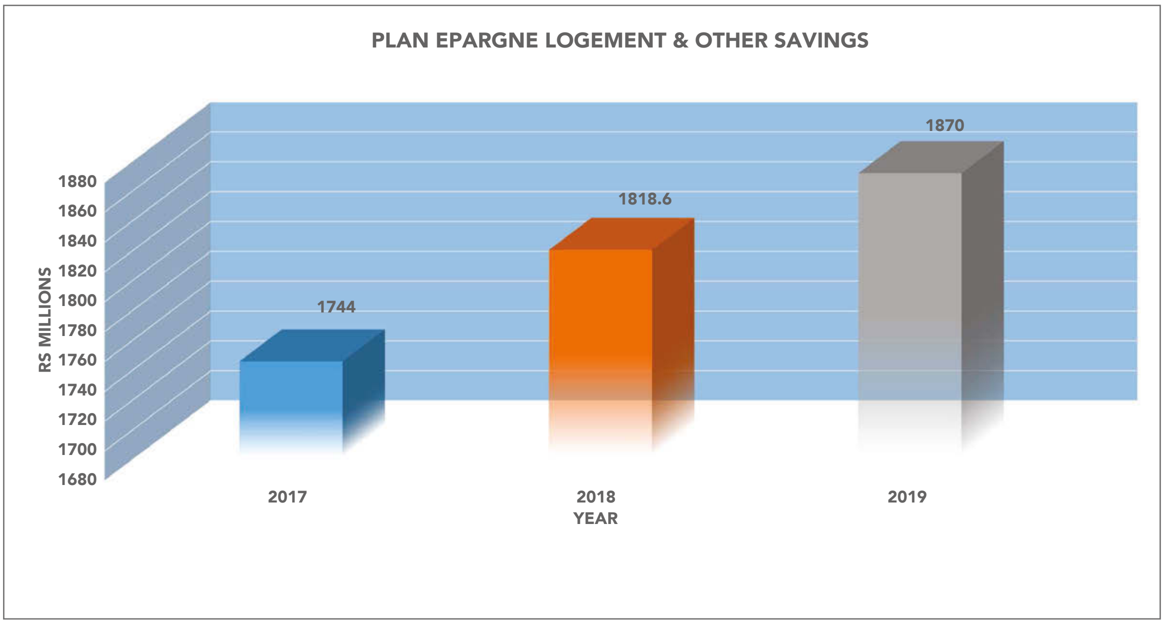
Gearing
Gearing stood at 1.32 for financial year 2019.

FINANCIAL HIGHLIGHTS



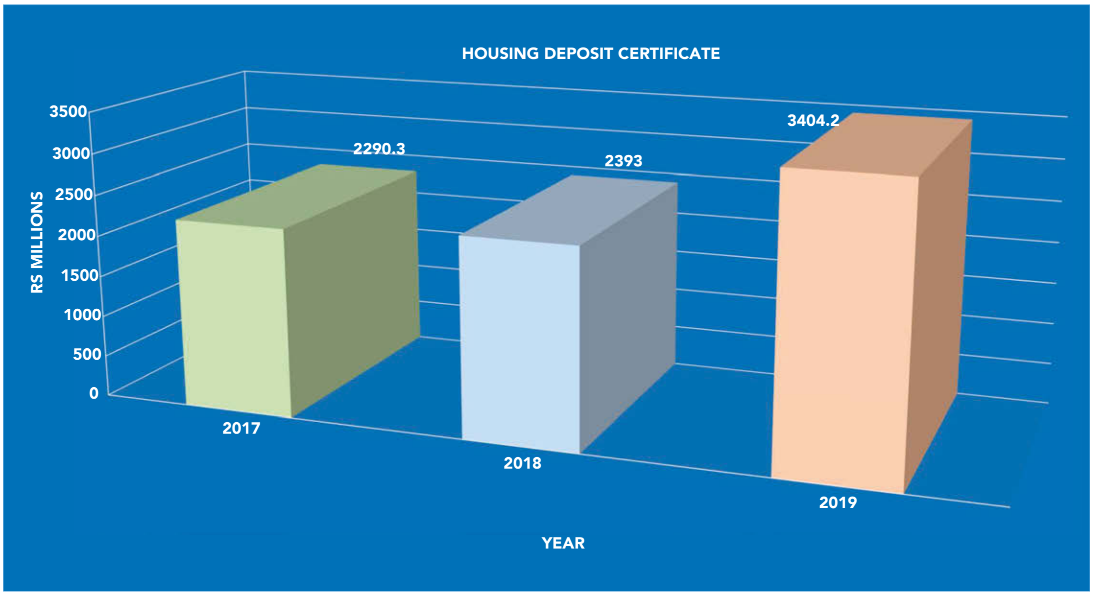
The Company's ROCE decreased by 39.2% in 2019 compared to 5.88% for financial year 2018.

Savings and Term Deposits



The PEL portfolio increased from Rs 1,818.6 M to Rs 1,870 M. This represents an increase of 2.82%.

Housing Saving Deposits



The HDC portfolio increased from Rs 2,393 to Rs 3,404.2. This represents an increase of 42.3%.

MANAGEMENT DISCUSSION AND ANALYSIS

The Economic Environment

The revised estimates for 2019 indicated that the economic growth would remain broadly in line with last year's outcome. The real GDP growth attained 3.6% principally on account of construction sector. Unemployment rate for 2019 stood at 6.8%, lower than the rate of 6.9% for 2018. The headline inflation rate at December 2019 was around 1% compared to 4.7% for 2018.

The public sector investment as a percentage of GDP stood at 3.2% compared to private sector investment to 13.3% whilst gross domestic deposits stood at 9.7%.

During the year under review, the Monetary Policy Committee of the Bank of Mauritius met to review the economic situation and the repo rate was maintained at 3.35% at year end. The weighted yield on 91 days Treasury Bills took a downward trend during the year under review. It decreased from 3.36% from January 2019 to 1.98% in December 2019. Mauritius Housing Company Ltd ("MHC" or the "Company") continued to offer competitive interest rates averaging 4.5% p.a, on deposits and 5.50% p.a on its loans products.

It is now believed that the consumption pattern will change and large expenditure will be put off.

Overview

MHC's business model is inspired by the vision to become the preferred provider of housing financial services in the Republic of Mauritius and the region. Looking forward, the business segment in which MHC Ltd operates is set to be turbulent and volatile with lot of competitions ahead. The continued challenges are outside the span and control and these challenges usually impact the business as a whole. The strategy derived is centered on four areas: the consolidation of the mortgage finance business; expansion; diversification of our solution; modernisation and capacity building.

Granting mortgage loan is the main business of MHC Ltd. The bulk of the revenue is from interest income generated from loans. Amidst, an increasingly competitive market, we strive to strengthen our positioning and market share by improving service quality and efficiency. In line with our vision to become the preferred provider of loans solutions we are gradually deploying our expansion strategy which resolves around opening of new branches in view to go towards the customers whilst capitalising on our strength.

At the same time, we are broadening the range of solutions that we offer to our clients, a range of products and services in achieving their dreams. We are providing adapted products to cater to customers' needs. Starting with products for construction, renovations, purchase of properties, mixed construction, deposits plan, term deposits and other ancillary services. In addition, we also provide advisory services which is a plus in our core business activities.

Recently, with the objective of improving customer experience, we have modernised our IT platform, products offering and service delivery. We are expecting that the new IT system will create new business opportunities and help the Company to go forward.

In order to support and sustain growth we are progressively building capacity in areas of organisation and governance, human resource planning, risk management and technology. Moreover, the Company observed most of the corporate governance requirements and applications by the setting up of proper board's sub committees. Human resource is systematically trained to acquire the right skill and knowledge. Our risk appetite, risk policies and procedures have been reviewed by a consultant to be in line with best practices in the financial industry.

Performance against objectives

The targets for 2019 were set with key strategic priorities with the objectives relating to Company's mission of safeguarding stability, enhancing the customer base and to continue to build on the momentum growth to deliver superior returns to the shareholders, greater efficiency, cost savings and to build the reserves. The objectives set were to achieve operating profit of Rs 135.5M; return on capital employed to increase to 6.47% and earning per share to be at 11.3%.

The table below gives a comparison between objectives set and actual results.

Item	Objective 2019	Performance	Objectives 2020
Operating profit	Achieve an operating profit of Rs 135.5M	Increase by 25%	Achieve at least 50% of 2019 operating profit
Total operating income	To achieve total income of Rs 680M	Total income Rs 633M	Forecast total operating income above Rs 500M
Total operating expenses	Spending in core business activities including human capital amounting to Rs 306.13M	Operating expense Rs 272.3M. Reduced by 11.0%.	Forecast total operating expenses of Rs 290M
Loans and advances	To approve loan up to Rs 1.5Bn	Loan approved Rs 1.23Bn. Reduced by 18%.	Forecast for loan approved is Rs 1.0Bn
Deposits from customers	Expected deposits to increase by 20%	Increased by 25.2%	Increase deposit by 15%
Asset Quality	To reduce NPA below 10%	NPA reduced to 15%	To reduce NPA below 10%
Capital Management	Capital adequacy to be maintained at 50%	Capital adequacy of 57.3%	To maintain at 50%
Cost to income	To attain a cost to income of 70%	Cost to income stood at 73%	Reduce total cost by 5%

Year 2019 was a period of consolidation with lot of challenges, there were a number of projects being implemented such as the Le Hochet, Roches Brunes projects, the IRIS system, and the new website. There were lot of constraints in achieving the objectives since one third of the total resources were involved in the IRIS project and sales objectives could not materialise as expected. On the other hand, the high cost of funds and the increasing competitions had impacted on the operations.

Although the difficult situation, the Company was able to carry business with an increase in the operating profit of 25%. Total operating income stood at Rs 633M compared to the targeted figure of Rs 680M. This reduction in operating income was mainly due to pricing strategies with a low margin to attract customers, a fall in the repo rate in 2019 around mid of the year and also the low return on investments.

Total operating expenses were contained at Rs 272.3M compared to the budgeted figure of Rs 306.13M. The objective to reduce cost to income was achieved and it is anticipated that operating cost will be contained at this level through a rigorous monitoring of expenses. However, funding cost will be dependent on market trend and mobilisation of deposits.

Loans to customers were lower by 18%. The total loan sanctioned amounted to Rs 1.23Bn against the targeted figure of Rs 1.5Bn. The low sales were mainly due to resources transferred to achieve the projects of 2020 where it is expected that sales will pick up. MHC expects to maintain its customer base by introducing new products following implementation of the new information technology facilities.

Deposits increased by 25.2% and the trend is expected to continue since the Company has been offering the best rates on its deposits products to raise funding.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial analysis (Cont'd)

Summarised Income Statement for year ended 31 December 2019

	Dec-19 Rs'M	Dec-18 Rs'M	Dec-17 Rs'M
Net interest income	334.4	310.3	334.7
Other income	107.4	107.5	77.6
Operating income	**441.8**	**417.8**	**412.3**
Non- interest expenses	-272.4	-279.9	-261.5
Operating profit before impairment	**169.4**	**137.9**	**150.8**
Provision on other assets	-26.3	-	-
Impairment provision	-21	56.4	54.8
Profit/(loss) on foreclosed properties	1.2	5.2	-7.6
Increase in fair value adjustment of investment properties	4.6	4.7	11.8
Profit for the year	**127.9**	**204.2**	**209.8**

MHC Ltd profit for the twelve months ended December 2019 amounted to Rs 127.9M compared to Rs 204.2M for the year ended December 2018, representing a decrease of 37.4%. As a result, the earnings per share for the year under review has decreased to Rs 6.40 for the twelve months to 31 December 2019 compared to Rs 10.21 in 2018. Total cost to income ratio for year ended 31 December 2019 stood at 73.3% against 76.7% for the year ended 31 December 2018 and return on capital employed stood at 3.57%.

Profit has decreased due to:

1. Fall in interest income following a decrease in pricing of products impacting on the margin compared to cost of funding.
2. Revenue from investment was also low. Besides the payout interest on term deposits was higher compared to previous years.
3. Provision on treasury deposits.

Revenue

Despite a low margin, the Company gross revenue for the 12 months ended 31 December 2019 stood at Rs 633.7M compared to Rs 592.3M for the year ended 31 December 2018 representing an increase of 6.98%. Interest income has increased by 8.6%. Gross revenue mainly constituted of interest income generated from loan business, fees and commissions, rent and income from investments.

Financial analysis (Cont'd)

Non-interest income

Other income amounted to Rs 107.47M for the year ended 31 December 2019 which has remained almost the same as compared to Rs 107.48M for the year ended 31 December 2018. Non-interest income consists mainly of insurance premiums, rent on investment properties and fee-based income collected from loan clients.

Expenses

Interest expense amounted to Rs 191.9M for the year ended 31 December 2019 compared to Rs174.4M for year ended 31 December 2018. Interest expense represents interest payable on borrowings, savings and term deposits accounts. For the year under review, interest expense grew due to additional funds from banks and increase in deposits from clients. Furthermore, MHC contracted a medium-term loan with one of the banks which resulted to an increase in interest.

Non-interest expense decreased by 2.71% from Rs 279.9M to Rs 272.3M in 2019 in line with initiatives taken to reduce cost. Non-interest expense in general items has been contained as far as possible with the aim to reduce cost.

Cost to income ratio stood at 73.3% for year under review compared to 76.7% for 2018. Non-interest expense to total income ratio stood at 42.9% for 2019 compared to 47.3% for 2018. Personnel expenses represented 56.2% of the total operating expenses for 2019 compared to 63.9% for 2018. The decrease in personnel expenses can be explained by the reinforcement of the cost saving strategies over the variablecosts.

Other items affecting the income statement

The Company made provision against its financial assets including loans and investment in deposits as required by IFRS 9 and Bank of Mauritius guidelines. For the current year under review there has been an additional provision of Rs 21M on loans to customers and Rs 25M against treasury deposit where one of the deposit taking institution has gone under administrative review. The fair value change of investment properties amounting to Rs 4.6M has also been recognised in the income statement.

Summarised Balance Sheet as at 31 December 2019

	Dec-19 Rs'M	Dec-18 Rs'M	Dec-17 Rs'M
Cash & cash equivalents	327.6	118.1	97.4
Treasury deposits	475	300	375
Property development	99.3	2.4	2.4
Loan to customers	8,002.50	7,550.70	6,793.30
Investment property	125,4	120.7	116
Property & equipment	609.2	606.1	491.9
Intangible assets	134.7	59.1	48.5
Other assets	202.1	207.2	235.6
Asset held for sale	61.6	64.04	66.88
Total Assets	**10,037.40**	**9,028.40**	**8,227.10**
Equity	3,589.10	3,470.50	3,262.80
Savings & deposits	5,274.20	4,211.80	4,034.30
Borrowings	733.6	903.5	496.3
Insurance funds	123.9	97.1	97.1
Other payables	316.6	345.5	336.6
Total Equity & Liabilities	**10,037.40**	**9,028.40**	**8,227.10**

MANAGEMENT DISCUSSION AND ANALYSIS

Financial analysis (Cont'd)

The total assets of MHC Ltd have increased to reach Rs 10.04 Billion as at the close of December 2019 compared to Rs 9.02 Billion at the end of financial year 2018. For 2019, MHC Ltd maintained its core business activities as well as embarked on estate development; and also investments in new IT system. MHC Ltd maintained a balance sheet with a very conservative asset profile consisting mainly of loans to customers which are secured by collaterals. Cash and cash equivalents also increased due to repayment of loans and raising of new deposits.

Cash flow position

Repayment from loans, fee income and deposits mainly contributed to meet all commitments as regards to business activities such as grant of credits and operational activities. For the year under review, MHC Ltd opted for funding facilities from depositors. The minimum compliance deposits were also maintained to cater for any sudden withdrawals by depositors. Funds in excess of our normal working capital requirements were judiciously placed on fixed deposits and treasury bills in order to secure a good return. MHC Ltd keeps sufficient cash in hand to meet cash requirements on demand by customers.

As at 31 December 2019, cash in hand and at bank balances amounted to Rs 827.6M, out of which Rs 500M was placed on term deposits and treasury bills. The returns on treasury bills and term deposits contributed towards the total revenue of the Company. However during the same period, one of the deposit taking institution has gone under administrative review and MHC Ltd, on a prudent side, has made a provision of Rs 25M to minimize the risk of loss.

Loans to customers

Gross loans to customers increased by 5.7% to reach Rs 8,769.9M as at 31 December 2019 (December 2018: Rs 8,293.9M). Net amount after impairment stood at Rs 8,002.5M (December 2019) and Rs 7,550.7M (December 2018). In 2019, there was a change in the customer profile while MHC Ltd came forward with different products following market research which resulted to a review of pricing and enhanced promotional campaigns. Competition among other financial institutions was at its peak and MHC Ltd had to revisit its strategies to remain competitive.

Impairment on financial assets

MHC Ltd implemented new strategies to avoid the increasing number of default rate compared to prior years by ensuring better credit assessment and the setting up of the credit review committee. Year by year the default rate went down since all steps were taken to enhance follow up. There has also been a change in the profile of our clients whereby the assessment was geared to ensuring the collection of the loan repayment. The non-performing loans stood at Rs 1,329M as at 31 December 2019 compared to Rs 1,303 M for 31 December 2018.

In spite of the difficult economic situation, the overall non-performing loan ratio improved from 15.7% in December 2018 to 15.0% in December 2019. Necessary monitoring tools have been put in place to cater for the non-performing loans. The recovery process has been improving over the years with a closer monitoring system in place for newly granted credits. As a result, the non-performing loans on new credits for the year 2019 stood at 0.4% compared to 1.8% in 2018.

Impaired loans increased from Rs 1,303M as at 31 December 2018 to Rs 1,329M as at 31 December 2019. The Company ensures that adequate provision is made in line with the guidelines issued by the Bank of Mauritius and IFRS 9. Specific allowance for credit impairment has increased to Rs 533.6M and interest suspended stood at Rs 169.9M. This brings a debt coverage ratio of 52.9 %.

Financial analysis (Cont'd)

Loans to customers (Cont'd)

Portfolio provision

Portfolio provision is computed on non-impaired loans based on the micro and macro-economic indicators and the 12-month expected credit losses. The portfolio general provision stood at Rs 63.9M at 31 December 2019 against Rs 63.3M at 31 December 2018.

Investment property

As per the Company's policy, all investment properties are revalued on an annual basis. This year the revaluation exercise has been carried out and the revalued amount stood at Rs 125.4M (December 2019) compared to Rs 120.7M (December 2018). The revaluation exercise was carried out by an independent valuer based on comparison of prices paid on similar properties within close vicinity of the site adjusted to reflect the characteristic of the subject properties at the relevant date. The increase in fair value of investment stood at Rs 4.6M (2019) compared to Rs 4.7M (2018).

Intangible assets

As part of MHC Ltd strategy in terms of technological investment and digitalisation plan, a substantial part of the capital expenditure was made towards the banking software (CBIS), computer software, DC infrastructure and computer equipments. At 31 December 2019, total intangible assets stood at Rs 134.7M compared to Rs 59.1M at 31 December 2018. Investment in intangible assets mainly relates to the implementation of the new Core Banking system which went live in November 2019. The system is completing the stabilisation phase and is expected to offer a wide range of solutions in view to enhance efficiency and service to customers.

Other assets

Other assets decreased from Rs 207.1M (December 2018) to Rs 202.1M (December 2019). Main items included under other assets are HDC bonus receivable, staff loan and prepayments.

Deposits

PEL/JPS

PEL deposits increased by 2.82% that is from Rs 1,818.6M (2018) to Rs 1,870.0M (2019). The main aim of PEL is to inculcate customers to save for the future in view to constitute a capital. For the year under review, there has been an increase in the number of accounts opened compared to previous periods. Besides lump sum deposits in the PEL accounts customers are encouraged to make regular monthly contributions.

Housing Deposit Certificate (HDC)

The products for HDC were reviewed in view to raise funds and reduce mismatch between assets and liabilities. One of the new schemes introduced was that of senior citizen with monthly interest payment. The fund increased by 42.3% for the year under review to reach Rs 3,404.2M as at 31 December 2019 compared to Rs 2,393.0M as at 31 December 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial analysis (Cont'd)

Borrowings

Borrowings decreased from Rs 903.5M at 31 December 2018 to Rs 733.6M at 31 December 2019 representing a decrease of 18.8%. During the current year, MHC repaid some of the capital element on the new loan of Rs 500M contracted in early 2019.

Equity

The equity increased by 3.4% to reach Rs 3,589.1M as at 31 December 2019 (31 December 2018: Rs 3,470.5M) with the inclusion of the current year's profit. Return on shareholders' fund stood at 3.83% at 31 December 2019 compared to 6.38% at 31 December 2018.

Outlook

Going forward the MHC Ltd is expecting to boost its business and mainly focus on sales and customer service by t apping into new cross selling avenues. The new system is expected to help in the achieving the objectives with a view to:

a) Bring growth in the main asset (loan portfolio).
b) Reduce Non-performing assets by introducing new strategies for recovery.
c) Increase operating profit.
d) Reduce cost to income.

Besides, we will equally ponder for the implementation of the new risk management framework and embark in new estates development. Raising of cheap funds will continue to be a priority together with implementing of controls across all operations.

The impact of Covid-19 creates lots of uncertainties which compel MHC Ltd to review the business plans accordingly and to be in line with the market.

MHC Ltd will pursue its business strategies and will aim to consolidate its position in the housing finance market. Focus will be put on enhancing the customer experience, reinforcing the operational capabilities as well as adopting technology-based practices.

The continuous review of processes and procedures will be a priority in order to offer a better-quality service to our customers. This will serve as the differentiating factor to acquire new business as well as retain existing customers. Finally, it is also set to review the organisation structure of the Company to be in line with the best banking practices and the system in place.

Capital adequacy

Capital Adequacy Ratio measures the percentage of a bank's capital to its risk weighted assets. Capital is split into two tiers when computing the capital adequacy – Tier 1 refers to core capital, the sum of paid share capital, statutory reserves and revenue reserves; tier 2 refers to lesser quality components to absorb losses and includes undisclosed reserves, revaluation reserves, general banking reserves, portfolio provisions and subordinated long-term debt. Risk-weighted assets are determined by applying prescribed risk weightings to and off-balance sheet exposures according to relative credit risk of the counterparty. The minimum capital adequacy requirements by the Bank of Mauritius is at 10%. Capital adequacy ratio for the year therefore worked out to 57.3% compared to 60.8% in December 2018 against the minimum of 10%.

Capital Base	Dec-19	Dec-18
Core capital (Tier 1 capital)		
Share capital	**200**	200
Statutory reserve	**200**	200
Other reserves	**2,412.72**	2,067.68
	2,812.72	2,467.68
Deduct		
Other intangible assets	**-134.7**	-59.1
Total core capital	**2,678.02**	2,408.59
Supplementary capital (Tier 2 capital)		
Other reserves	**191.31**	275.49
Portfolio provision	**64.02**	56.4
Total supplementary capital	**255.33**	331.89
Total net capital	**2,933.35**	2,740.48
Risk weighted assets		
Property, plant & equipment	**609.18**	606.07
Housing loans	**3,390.11**	3,335.47
Cash in hand	**95**	60
Other assets	**1027.57**	510.36
Total risk weighted assets	**5,121.86**	4,511.90
Capital adequacy ratio (%)	**57.3**	60.7


Revenue growth divisions.
TYU division
FRT division
Distribution marketing participation in the securities market.
20% BNI
45% JYT
35% HUY
JYT
BNI
HUY
Distribution of the securities market key players
12%
10%
RDE 9%
RDW 8%
RTG 6%
WEF 5%
BGY
FEW
RDW
HRT
RTG
TRG
RTG
RDW
WEF
254 320 241 250 650 550 450 650 720 600 900 1200 850 800 960 1500 900 1200 1200 1400
TYU division
FRT division
GHT 254 550 254 274 154 415
RDW 650 320 754 273 825 154
TRG 241 450 144 364 954 174
RTG 254 650 874 657 125 274
WEF 784 145 124 752 741 759
HRT 453 784 954 241 741 345

REPORT FROM DIRECTOR

MAURITIUS HOUSING COMPANY LTD

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 10 & 11.

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 88) amounted to Rs 717,301 (2018: Rs 587,905 and 2017: Rs 1,508,630).

REPORT FROM DIRECTOR

MAURITIUS HOUSING COMPANY LTD

DIRECTORS' REMUNERATION

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

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

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:

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

CHAIRMAN **DIRECTOR** **DIRECTOR**

Date: 03 July 2020

MAURITIUS HOUSING COMPANY LTD

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 July 2020

REPORT FROM THE SECRETARY

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 Act 2001.

For Prime Partners Ltd
Secretary

Date: 03 July 2020

INDEPENDENT AUDITOR'S REPORT

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 98 to 154 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 AUDITOR'S REPORT

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
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: • 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. 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.	Our procedures included the following, amongst others: • 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. Overall, the results of our evaluation of the Company's expected credit losses on loans to customers are consistent with management's assessment.

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 AUDITOR'S REPORT

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.

- 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.

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

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

- 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 AUDITOR'S REPORT

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

Grant Thornton
Chartered Accountants

Y NUBEE, FCCA
Licensed by FRC

Date: 03 July 2020

Ebène 72201, Republic of Mauritius

FINANCIAL STATEMENT

FINANCIAL STATEMENT

MAURITIUS HOUSING COMPANY LTD
STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2019

	Notes	2019	2018	2017
		Rs'000	Rs'000	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 3 July 2020 and signed on its behalf by:

CHAIRMAN **DIRECTOR** **DIRECTOR**

The notes on pages 102 to 154 form an integral part of these financial statements.
Auditor's Report on pages 91 to 96.

MAURITIUS HOUSING COMPANY LTD
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				
Items that will not be reclassified to profit or loss:				
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 102 to 154 form an integral part of these financial statements.
Auditor's Report on pages 91 to 96.

FINANCIAL STATEMENT

MAURITIUS HOUSING COMPANY LTD
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital	Revaluation reserves	Building insurance reserve	Retained earnings	Life Insurance reserve	Statutory reserve *	Other reserves **	Total
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	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								
- as previously stated	200,000	489,743	116,810	1,926,138	154,642	200,000	121,860	3,209,193
Adjustment made to long term borrowings	-	-	-	(1,060)	-	-	-	(1,060)
Movement on reserve	-	-	-	2,673	-	-	(2,673)	-
	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 102 to 154 form an integral part of these financial statements.
Auditor's Report on pages 91 to 96.

MAURITIUS HOUSING COMPANY LTD
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 Rs'000	2018 Rs'000	2017 Rs'000
Operating activities				
Profit for the year		**127,966**	204,225	209,787
Adjustments for:				
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
		206,254	163,802	163,497
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		**(511,842)**	(534,636)	(218,875)
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		**(193,533)**	(16,650)	(19,896)
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		**915,692**	**573,903**	**158,466**
Change in cash and cash equivalents		**210,317**	**22,617**	**(80,305)**
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		**327,503**	**117,186**	**94,569**
Cash and cash equivalents				
Cash at bank and in hand		**327,547**	118,130	97,433
Bank overdrafts (Note 21)		**(44)**	(944)	(2,864)
		327,503	**117,186**	**94,569**

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
	5,115,251	956,537	(63,876)	6,007,912

The notes on pages 102 to 154 form an integral part of these financial statements.
Auditor's Report on pages 91 to 96.

MAURITIUS HOUSING COMPANY LTD

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%.

MAURITIUS HOUSING COMPANY LTD

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 activites, 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.

MAURITIUS HOUSING COMPANY LTD

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)**

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

MAURITIUS HOUSING COMPANY LTD

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

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.

MAURITIUS HOUSING COMPANY LTD

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

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.

MAURITIUS HOUSING COMPANY LTD
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.

MAURITIUS HOUSING COMPANY LTD

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

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 intial 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.

MAURITIUS HOUSING COMPANY LTD

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 bankrupcy 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 renegotiatied 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.

MAURITIUS HOUSING COMPANY LTD

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 occuring 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.

MAURITIUS HOUSING COMPANY LTD

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 intial 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.

MAURITIUS HOUSING COMPANY LTD

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.

MAURITIUS HOUSING COMPANY LTD

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.

FINANCIAL STATEMENT

MAURITIUS HOUSING COMPANY LTD

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.

MAURITIUS HOUSING COMPANY LTD

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 occurence 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.

MAURITIUS HOUSING COMPANY LTD

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 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.

MAURITIUS HOUSING COMPANY LTD

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 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.

MAURITIUS HOUSING COMPANY LTD

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	2018	2017
	Rs'000	Rs'000	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	2018	2017
	Rs'000	Rs'000	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.

MAURITIUS HOUSING COMPANY LTD

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

MAURITIUS HOUSING COMPANY LTD

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

MAURITIUS HOUSING COMPANY LTD

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	Stage 1 Exposure	Stage 2 ECL	Stage 2 Exposure	Stage 3 ECL	Stage 3 Exposure
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	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	Stage 1 Exposure	Stage 2 ECL	Stage 2 Exposure	Stage 3 ECL	Stage 3 Exposure
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	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	2018	2017
	Rs'000	Rs'000	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	2018	2017
Credit risk - exposure and past due	**Rs'000**	Rs'000	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	2018	2017
	Rs'000	Rs'000	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

FINANCIAL STATEMENT

MAURITIUS HOUSING COMPANY LTD

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	
Loans to customers	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
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

MAURITIUS HOUSING COMPANY LTD

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
Mortgage lending	**Rs'000**	**Rs'000**	**Rs'000**	**Rs'000**	**Rs'000**	**Rs'000**
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	2018	2017
	Rs 000	Rs 000	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.

MAURITIUS HOUSING COMPANY LTD

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 %
Financial assets						
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
Financial liabilities						
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 Rs'000**	**Increase of 1% Rs'000**	**Decrease of 1% Rs'000**
Intererst 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

MAURITIUS HOUSING COMPANY LTD
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				
Assets				
- 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
	754,907	8,078,489	171,960	9,005,356
Liabilities				
- 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
	-	5,999,934	54,882	6,054,816
2018				
Assets				
- 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
	590,661	7,408,169	175,019	8,173,849
Liabilities				
- 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
	-	5,104,089	50,792	5,154,881
2017				
Assets				
- 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
	751,554	6,531,928	215,706	7,499,188
Liabilities				
- 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
	-	4,519,428	67,480	4,586,908

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.

MAURITIUS HOUSING COMPANY LTD
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	Between 3 months and 1 year	Over one year	Total
	Rs'000	**Rs'000**	**Rs'000**	**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	**2,020,298**	**603,939**	**3,430,579**	**6,054,816**
- 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	2,051,941	519,191	2,583,749	5,154,881
- 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	1,860,917	520,297	2,205,694	4,586,908

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.

MAURITIUS HOUSING COMPANY LTD

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	Between 3 months and 1 year	Over one year	Total
	Rs'000	Rs'000	Rs'000	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
	629,354	313,804	8,062,198	9,005,356
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
	2,020,298	603,939	3,430,579	6,054,816
Liquidity gap	(1,390,944)	(290,135)	4,631,619	2,950,540

Maturities of financial assets and liabilities at 31 December 2018:

Assets	Less than 3 months	Between 3 months and 1 year	Over one year	Total
	Rs'000	Rs'000	Rs'000	Rs'000
- 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
	428,453	216,435	7,528,961	8,173,849

FINANCIAL STATEMENT

MAURITIUS HOUSING COMPANY LTD

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
Liabilities	Rs'000	Rs'000	Rs'000	Rs'000
- 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:

	Less than 3 months	Between 3 months and 1 year	Over one year	Total
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)	Funding
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.

MAURITIUS HOUSING COMPANY LTD

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.

MAURITIUS HOUSING COMPANY LTD

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 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.

MAURITIUS HOUSING COMPANY LTD
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 macro economic 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.

FINANCIAL STATEMENT

MAURITIUS HOUSING COMPANY LTD
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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.

MAURITIUS HOUSING COMPANY LTD

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.

	2019	2018	2017
	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
	526,276	484,771	518,611
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)
	(191,906)	(174,438)	(183,869)
Net interest income	334,370	310,333	334,742

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.

FINANCIAL STATEMENT

MAURITIUS HOUSING COMPANY LTD

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	-	-

MAURITIUS HOUSING COMPANY LTD

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.

FINANCIAL STATEMENT

MAURITIUS HOUSING COMPANY LTD

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**

(a) 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.

	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

MAURITIUS HOUSING COMPANY LTD
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

15. **LOANS TO CUSTOMERS (CONT'D)**

(b) Allowance for credit impairment

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

(c) Provision for credit losses

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

MAURITIUS HOUSING COMPANY LTD
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

15. **LOANS TO CUSTOMERS (CONT'D)**

(d) Remaining term to maturity

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

16. **INVESTMENT PROPERTY**

	Freehold Building	**Cybervillage land**	**Total**
VALUATION	**Rs'000**	**Rs'000**	**Rs'000**
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	2018	2017
	Rs'000	Rs'000	Rs'000
Rental income on investment properties	**7,170**	6,156	5,913

No expenses on investment properties were incurred during the year.

MAURITIUS HOUSING COMPANY LTD

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

17. PROPERTY AND EQUIPMENT

	Freehold land	Buildings	Furniture and equipment	Motor vehicles	Right - of -use	Total
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
COST OR VALUATION						
At 01 January 2017	286,440	185,294	160,379	6,008	-	638,121
Addition		-	6,723	-	-	6,723
Disposal		-	(4)	-	-	(4)
At 31 December 2017	286,440	185,294	167,098	6,008	-	644,840
Addition		-	3,064	1,770	-	4,834
Fair value adjustment	69,430	41,427	-	-	-	110,857
Disposal		-	(1,735)	-	-	(1,735)
At 31 December 2018	355,870	226,721	168,427	7,778	-	758,796
Addition		-	8,511	-	10,379	18,890
Disposal		-	(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 yea		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 yea		3,706	8,194	1,168	-	13,068
Fair value adjustmen		(11,596)	-	-	-	(11,596)
At 31 December 2018	-	-	147,412	5,312	-	152,724
Disposal	-	-	(5)	(964)	-	(969)
Charge for the yea		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 revalution 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	2018	2017
	Rs'000	Rs'000	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.

FINANCIAL STATEMENT

MAURITIUS HOUSING COMPANY LTD

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.

MAURITIUS HOUSING COMPANY LTD

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

FINANCIAL STATEMENT

MAURITIUS HOUSING COMPANY LTD

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

20 (b). **HOUSING DEPOSIT CERTIFICATES (CONT'D)**

	2019	2018	2017
	Rs'000	Rs'000	Rs'000
Analysed as follows:			
Individuals	**2,762,441**	1,757,873	1,764,819
Corporates	**641,825**	635,180	525,508
	3,404,266	2,393,053	2,290,327

	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
	3,209,411	**194,855**	2,181,416	211,637	2,069,851	220,476

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	2018	2017
	Rs'000	Rs'000	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**	-	-
	194,975	268,366	95,264
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**	-	-
	538,662	635,162	400,992
Total borrowings	**733,637**	903,528	496,256

MAURITIUS HOUSING COMPANY LTD

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

	2019 Rs'000	2018 Rs'000	2017 Rs'000
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.

MAURITIUS HOUSING COMPANY LTD
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 materialy 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

MAURITIUS HOUSING COMPANY LTD

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 buildin	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 year	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 mateirally different from their fair values.

FINANCIAL STATEMENT

MAURITIUS HOUSING COMPANY LTD
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

MAURITIUS HOUSING COMPANY LTD

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

FINANCIAL STATEMENT

MAURITIUS HOUSING COMPANY LTD

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 occuring 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.

MAURITIUS HOUSING COMPANY LTD

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

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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 aising 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.

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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
Items that will not be reclassified to profit or loss:			
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 DR	CR	At 31 December 2017
	Rs'000	Rs'000	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
	121,860	(2,673)	-	119,187

	At 01 January 2018	Movement during the year DR	CR	At 31 December 2018
	Rs'000	Rs'000	Rs'000	Rs'000
EDF revolving fund	12,068	-	-	12,068
Gervaise reserve	529	-	-	529
General reserve	106,590	-	-	106,590
	119,187	-	-	119,187

	At 01 January 2019	**Movement during the year DR**	**CR**	**At 31 December 2019**
	Rs'000	**Rs'000**	**Rs'000**	**Rs'000**
EDF revolving fund	**12,068**	**(12,068)**	**-**	**-**
Gervaise reserve	**529**	**(529)**	**-**	**-**
General reserve	**106,590**	**-**	**-**	**106,590**
	119,187	**(12,597)**	**-**	**106,590**

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**	2018	2017
	Rs'000	Rs'000	Rs'000
(a) **Loans**			
Loans approved but not yet disbursed to individuals	**138,083**	344,382	168,560

(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.

MAURITIUS HOUSING COMPANY LTD

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	2018	2017
		Rs'000	Rs'000	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	2018	2017
	Rs'000	Rs'000	Rs'000
Salaries and benefits	**20,104**	22,850	22,186

	Nature of transactions	(Credit)/ debit balances at 31 December 2019	(Credit)/ debit balances at 31 December 2018	(Credit)/ debit balances at 31 December 2017
		Rs'000	Rs'000	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.

FINANCIAL STATEMENT

MAURITIUS HOUSING COMPANY LTD

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.

MAURITIUS HOUSING COMPANY LTD

La référence en prêt logement

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