

Mauritius Housing Company Ltd

Financial Statements

For the Year Ended

31 December 2018

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CORPORATE INFORMATION

DIRECTORS	Mr. Darsanand BALGOBIN	Chairman
	Mr. Dunpath KHOOSYE	
	Mr. Latanraj GHOORAH	
	Mr. Georges Henry JEANNE	
	Mr. Azaad AUMEERALLY	
	Mr. Koosiram CONHYE	appointed on 28 May 2018
	Mr. Sawminathan RAGEN	appointed on 28 November 2018
	Mr. Mohammad Taslim DOOKY	up to 03 April 2018
	Mrs. Dalida ALLAGAPEN	up to 14 November 2018
	Mr. Bojrazsingh BOYRAMBOLI	up to 11 May 2018
OFFICER IN CHARGE	Mr. Hassen Issop ABDOOL	
REGISTERED OFFICE	MHC Building Reverend Jean Lebrun Street Port Louis Mauritius	
SECRETARY	Mr S M Shakeel Maudarun Ag secretary Sona lane Pailles	
AUDITOR	Deloitte 7th- 8th Floor, Standard Chartered Tower 19-21 Bank Street, Cybercity Ebène, 72201 Mauritius	
LEGAL ADVISER	Me. Noor-e-shad Shayfiudhin Hussene Suite 705, 6th floor, Chancery House Lislet Geoffroy street Port Louis Mauritius	
BANKERS	The Mauritius Commercial Bank Ltd SBM Bank (Mauritius) Ltd Barclays Bank PLC Bank of Mauritius Habib Bank Ltd The Hong Kong and Shanghai Banking Corporation Bank One Ltd Bank of Baroda Ltd Development Bank of Mauritius Ltd SBI (Mauritius) Ltd AfrAsia Bank Ltd MauBank Ltd	

ANNUAL REPORT

The Directors have the pleasure in submitting the Annual Report together with the audited financial statements of Mauritius Housing Company Ltd, "the Company", for the year ended 31 December 2018.

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.

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 2018, the directors have recommended a dividend of Rs 40,844,706 subject to Bank of Mauritius approval (year ended 31 December 2017, the amount recommended as dividend was Rs 41,957,400 and year ended 31 December 2016 was Rs 50,023,301).

DIRECTORS

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

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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

- correctly record and explain the transaction 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.

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 Executive Director for the year under review (excluding any remuneration as disclosed under directors Remuneration as shown on page 4) was Rs587,905 (December 2017: Rs1,508,630 and December 2016 :Rs 1,114,156).

ANNUAL REPORT (CONT'D)**DIRECTORS' REMUNERATION**

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

	<u>2018</u> Rs	<u>2017</u> Rs	<u>2016</u> Rs
Executive Director	77,500	307,500	300,000
Non-Executive Directors	3,080,818	3,105,169	2,700,000

SIGNIFICANT CONTRACTS

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

DONATIONS

The Company has made donation amounting to Rs 30,000 during the year ended 31 December 2018 (year ended 31 December 2017: Rs Nil and year ended 31 December 2016: Rs 155,956).

AUDITOR

Fees, inclusive of VAT, payable to Deloitte for the year ended 31 December are as follows:

	<u>2018</u> Rs	<u>2017</u> Rs	<u>2016</u> Rs
Audit fees	1,457,500	1,150,000	1,121,250
Review of impairment model and Consultancy fee	2,725,500	287,500	-


 CHAIRMAN


 DIRECTOR


 DIRECTOR

Date: 29 MAR 2019

STATEMENT OF MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

The Company's financial statements for the Company's operations in 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 unauthorized use or disposal. These supporting procedures include careful selection and training of qualified staff, the implementation of organisation and governance structures providing a well-defined division of responsibilities, authorization 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 Conduct Review and Risk Policy Committee, which comprise 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, Deloitte, 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: 29 MAR 2019

MAURITIUS HOUSING COMPANY LTD

CORPORATE GOVERNANCE REPORT AND RISK MANAGEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

THE NATIONAL CODE OF CORPORATE GOVERNANCE FOR MAURITIUS

The Code of Corporate Governance was published in 2003 and revised in 2016. The adoption of the Code was then recommended as best practice and was not mandatory. It aimed at improving ethical conduct of directors and senior staff members in the management of companies.

However, as from July 2009, following amendments to the Financial Reporting Act, public entities are required to comply with the Code of Corporate Governance, and are also required to provide justification for not adopting any of the provisions of the Code, in their financial statements or reports.

The National Code of Corporate Governance 2016 has been introduced with eight basic Corporate Governance principles and an innovative “apply and explain” concept, the Code gives a new impulse to the corporate world setting the country’s Corporate Governance standards at par with international best practices while maintaining all relevance to the local context. The new national code of governance will be applicable as from 1st July and as Mauritius Housing Company Ltd (MHC) is Public Interest Entity (PIE), it is applicable as from 1st January 2018.

The Company is in the process of updating its website to contain such disclosure requirements as the Board may decide.

Principle 1: Governance Structure

The Mauritius Housing Company Ltd is headed by an effective Board of Directors. Responsibilities and accountabilities within Mauritius Housing Company Ltd (MHC) are clearly identified. The Board is a unitary Board and comprises of executive and non-executive directors.

The Board of Directors affirms that MHC shall comply with all of the Principles contained in the National Code of Corporate Governance and assumes responsibility for its long-term success, reputation, governance as well as leading and controlling MHC in line with legal and regulatory requirements applicable to the Company.

MHC has in place a Conduct and Ethics Policy and in line with same, it is committed to employing qualified and competent personnel and to promote a culture of mutual respect and ethical behaviour. Employees and Directors are expected to treat each other with consideration and respect and are not permitted to engage in conduct which is hostile or offensive towards another person. MHC promotes transparency and all staff and Directors are made aware of their responsibilities.

The Board of MHC has approved all the key guiding documents and policies and affirms each key governance role, as follows:

1. Constitution;
2. Board Charter;
3. Code of Ethics;
4. Job Description or Position Statements;
5. Organisational Chart and Statement of Accountabilities.

The aforesaid documents will be made available on the Company’s website which is being revamped.

Chairperson of the Board

The roles of the Chairperson include:

- To preside meetings of Directors and to ensure the smooth functioning of the Board in the interests of good governance. He will usually also preside over the MHC’s meetings of shareholders;
- To provide general leadership to the Board and encourage active participation of each Director in discussions and board matters;
- To participate in the selection of Board members to ensure an appropriate mix of competencies, experience, skill and independence on the Board;
- To oversee a formal succession plan for the Board, the CEO and the Senior Management;
- To make sure that monitoring and evaluation of the Board and the Directors’ appraisal are carried out;
- To ensure that all relevant information and facts are given to the Board so as to enable it to take informed decisions;
- To maintain sound relations with the MHC’s shareholders and ensure that the principles of effective communication and pertinent disclosures are followed; and
- To submit to the Bank, for each financial year, a compliance statement certifying that the MHC has complied with the provisions of law and regulations and guidelines.

MAURITIUS HOUSING COMPANY LTD

CORPORATE GOVERNANCE REPORT AND RISK MANAGEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

Officer In Charge

Pending the recruitment of a Managing Director, the Head – Finance, Mr H ABDOOL has been appointed as Officer in Charge.

The main functions of the Officer In Charge are:

- To develop and recommend to the Board a long-term vision and strategy for MHC that will generate satisfactory levels of shareholder value and positive, reciprocal relations with the relevant stakeholders;
- To devise and recommend to the Board annual business plans and budgets that support MHC's long-term strategy. The OIC must ensure that a proper assessment of the risks under a variety of possible or likely scenarios is undertaken and presented to the Board;
- To strive consistently to achieve MHC's financial and operating goals and objects and ensure the proper management and monitoring of the daily business of MHC; and
- To be the chief spokesperson for MHC in relation to all operational and day-to-day matters. The OIC of MHC must attend meetings of shareholders and be ready to present material operational developments to the meeting.

Profile of Senior Management Team:

Name	Position	Qualifications	Date Joined
Mr. Abdool, Hassen Issop	Officer in Charge	FCCA	1 July 1992
Mr. Abeeluck, Rajeev	Head (Technical)	Bachelor in Architecture	2 July 2001
Mr Khusul, Koodan	Head – Commercial	MBA (General)	18 May 1982
Mr. Puholoo, Surendra	Ag. Head (Finance)	FCCA	2 July 1990
Mr Maywah Devanand	Manager – Procurement Unit	MBA (Human Resource and Knowledge Management)	11 December 1976
Mrs Kalapnauth – Rajcoomar Ashwina	Manager - Corporate Services	MBA (Human Resource and Knowledge Management)	30 July 2003
Mr Maudarun Sheik Muhammad Shakeel	Ag Company Secretary	FCCA, MBA	08 March 1992
Mr. Boojhawon, Rakeshsing	Ag. Internal Auditor	FCCA	7 December 1994
Mr Maudarbocus Naim	Manager ICT	MBA(Finance & Investment), Maîtrise d'Informatique	5 November 1995

Principle 2: The Structure of the Board and its Committees

The constitution of the Company makes provision for a minimum of five (5) and maximum of nine (9) directors. The composition of MHC Board for the year 2018 is given below.

	Name of Directors	Remarks
1.	Mr. Darsanand BALGOBIN	Chairman - Independent Director
2.	Mr. Dunpath KHOOSYE	Independent Director
3.	Mr. Latanraj GHORAH	Non-Executive Director
4.	Mr. Georges Henry JEANNE	Independent Director
5.	Mr. Azaad AUMEERALLY	Independent Director
6.	Mr Koosiram CONHYE	Non-Executive Director as from 28 May 2018
7.	Mr Swaminathan RAGEN	Non-Executive Director as from 28 November 2018
Officers who ceased to be directors during the year under consideration		
1.	Mr. Mohammad Taslim DOOKY	Executive Director – representative of MHC staff association Up to 03 April 2018
2.	Mrs. Dalida ALLAGAPEN	Non-Executive Director (up to 14 November 2018)
3.	Mr. Bojrazsingh BOYRAMBOLI	Non-Executive Director (up to 11 May 2018)

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CORPORATE GOVERNANCE REPORT AND RISK MANAGEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

The Board of Directors contains independently minded directors. It includes an appropriate combination of executive, independent 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 of Directors is of a size and level of diversity that commensurate with the sophistication and scale of MHC. Appropriate Board committees have been set up to assist the Board of Directors in the effective performance of its duties. The Directors have expertise in domain such as investment, economics, finance, accounting, human resource management and administration.

The composition of the Board of Directors is "balanced", that is, there is a mix of executive, non- executives and independent directors. The Board of Directors affirms that the independent directors do not have a relationship (other than as per normal terms and conditions as members) with MHC. The Board consists of more than two independent directors.

The absence of Executive directors on the current composition of the Board is due to the fact that the Company could not find a suitable candidate the post of Managing Director despite several advertisement and that no representative was delegated to occupy the other seat of executive director attributed to the union. The Board is currently looking for a high calibre professional to act as Managing Director.

As per the constitution of the Mauritius Housing Company, the Board of directors of the Company (size and composition) is appointed by the shareholders. The Board consists of 9 directors which is considered of adequate size. All directors are residents of Mauritius. There was one (1) woman among the directors up to November 2018. However, she has to resign following her reassignment to another Ministry. The Board Charter, including powers and duties of Directors are set out in the Company's Constitution. The Board formulates the strategic objectives and plans, sets corporate objectives and budgets, and oversees the operations and delegates' authority to Management to implement strategies, plans and policies approved by the Board.

The Board follows the principle of good corporate governance as recommended in the National Code of Corporate Governance 2016 and the BOM Guidelines on Corporate Governance 2001 (revised October 2017). The Board reviews and approves on a regular basis the Company's Code of Ethics to ensure that they are in line with MHC's objectives. It also regularly monitors and evaluates the MHC's compliance with its Code of Ethics.

The key functions of the Board of Directors include:

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

The Board charter is reviewed whenever there are changes in legislation and/or at the discretion of the Board.

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CORPORATE GOVERNANCE REPORT AND RISK MANAGEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

Number of meetings held during the year

Directors	Board	Audit	CG&HR	Risk Mgt	Conduct Review	Real Estate	CBIS Steering
No of meetings held	17	14	9	4	5	5	2
Mr. Darsanand BALGOBIN	16		9			5	
Mr Latanraj GHORAH	12			3	2	2	2
Mr Georges Henry JEANNE	13	12	8	3	5	4	
Mr Azaad AUMEERALLY	15	14		4	5		
Mr Dunputh KHOOSYE	17	14	9		5	5	
Mr Koosiram CONHYE	7			2	3		2
Mr Swaminathan RAGEN	Nil					Nil	Nil
Mrs. Dalida ALLAGAPEN	16		9	2		4	1
Mr. Bojrazsingh BOYRAMBOLI	5			2	2		
Mr Mohammad Taslim DOOKY	3				1		

Board of Directors' Profile:

Mr Deepak BALGOBIN

He was appointed as an Independent Director and Chairman of the Mauritius Housing Company Ltd on 15 March 2017.

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

Previously, he has acted as Director in the board of the State Land Development Company (SLDC) and member of the Board of Human Resources Development Council (HRDC)

Mr BALGOBIN is presently also the Executive Director of National Productivity and Competitiveness Council (NPCC)

Mr Latanraj GHORAH

He was appointed as Non-Executive Director of the Mauritius Housing Company Ltd on 30 June 2016.

Mr GHORAH holds a BSc (Hons) In Economics and an MBA (Financial Management).

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

Mr George Henry JEANNE

He was appointed as Independent Director of the Mauritius Housing Company Ltd on 20 March 2015.

Mr JEANNE holds a BA in Economics and Social Sciences, and is the permanent Secretary at the Ministry of Local Government & outer Islands. As the appointment as Independent Director had been made by the Shareholders, the Board noted Mr Jeanne to be independent under both the Mauritius Code of Corporate Governance and Bank of Mauritius Guideline on Corporate Governance on the basis of the shareholder determination and its own assessment of independence in character, appointment, personal responsibility and judgement and substance of relationship to always act in the best interest of the financial institution.

Mr JEANNE is also the chairperson of the Conduct Review Committee.

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CORPORATE GOVERNANCE REPORT AND RISK MANAGEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

Mr Azaad AUMEERALLY

He was appointed as Independent Director of the Mauritius Housing Company Ltd on 20 March 2015 and is currently the Chairperson of the Audit Committee.

Mr AUMEERALLY holds a BSc (Actuarial Science) and he is a fellow of the Institute of Actuaries (Australia) and is the founder of Nest Invest – a private investment entity.

Mr Dunpath KHOOSYE

He was appointed as Independent Director of the Mauritius Housing Company Ltd on 20 March 2015.

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

Mr KHOOSYE is also the Chairperson of the Real Estate Development Monitoring Committee.

Mr Koosiram CONHYE

He was appointed as Non-Executive Director of the Mauritius Housing Company Ltd on 28 May 2018.

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 is the Chairperson of the CBIS Steering Committee.

Mr Swaminathan RAGEN

He was appointed as Non-Executive Director of the Mauritius Housing Company Ltd on 28 November 2018.

He holds an MSC Public Sector Management.

He is the Acting Senior Chief Executive at the Ministry of Housing and Lands.

Board Sub-Committees

The Board has set up 5 committees to assist it in the discharge of its duties and responsibilities, namely the Audit Committee, Corporate Governance and HR Committee, Risk Management Committee, Conduct Review Committee and Real Estate Development Committee. In addition, an ad-hoc committee, namely the CBIS Steering Committee has been set up during the year.

Audit Committee

Members of the Audit Committee: (All Independent Directors)

- Mr. A. AUMEERALLY (Chairperson)
- Mr. G.H JEANNE
- Mr. D. KHOOSYE

The Internal Auditor is in attendance at all the Audit Committee meetings

2 Corporate Governance and HR Committee Composition: *

- Mr. D. BALGOBIN (Chairperson)
- Mr. D. KHOOSYE
- Mr. G.H. JEANNE
- Mrs Dalida ALLAGAPEN (up to 14 November 2018)
- Mr. S. RAGEN - as from 28 November 2018

* The Committee has been split into Remuneration and Nomination Committee and Corporate Governance Committee in March 2019. The Chairperson of the Board no more chairs any committee.

MAURITIUS HOUSING COMPANY LTD

CORPORATE GOVERNANCE REPORT AND RISK MANAGEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

Risk Management Committee Composition:

- Mr. G.H. JEANNE (Chairperson) up to 26 June 2018
- Mr. L. GHORAH (Chairperson) as from 27 June 2018
- Mr. K.CONHYE - as from 27 June 2018
- Mrs Dalida ALLAGAPEN - up to 14 November 2018
- Mr. A. AUMEERALLY
- Mr. Bojrazsingh BOYRAMBOLI (up to 11 May 2018)
- Mr. S. RAGEN - as from 28 November 2018

Conduct Review Committee Composition:

- Mr. Bojrazsingh BOYRAMBOLI - (Chairperson) up to 11 May 2018
- Mr. G.H. JEANNE - (Chairperson) as from 27 June 2018
- Mr. A. AUMEERALLY
- Mr T Dooky up to 03 April 2018
- Mr. D.KHOOSYE
- Mr. K. CONHYE – as from 27 June 2018
- Mr. L. GHORAH

Real Estate Development Committee Composition:

- Mr. D. KHOOSYE (Chairperson)
- Mr. D. BALGOBIN
- Mr. L. GHORAH
- Mr. G.H. JEANNE
- Mrs Dalida ALLAGAPEN (up to 14 November 2018)
- Mr. S.RAGEN (as from 28 November 2018)

CBIS Steering Committee Composition

- Mr. K. CONHYE (Chairperson)
- Mr. L. GHORAH
- Mrs Dalida ALLAGAPEN (up to 14 November 2018)
- Mr. S.RAGEN (as from 28 November 2018)

I Audit Committee

Main Terms of Reference:

1. The Audit Committee should approve the audit plans (external and internal) to ensure that these are risk-based and address all activities over a measurable cycle, and that the work of external and internal auditors is coordinated.
2. The Audit Committee, not senior management, should recommend to shareholders the appointment, removal, and remuneration of external auditors. It should also approve the engagement letter setting out the scope and terms of external audit.
3. The Audit Committee shall approve the remuneration of the Head of Internal Audit.
4. The Audit Committee should assess periodically the skills, resources, and independence of the external audit firm and its practices for quality control.
5. The Audit Committee should assess whether the accounting practices of the auditee are appropriate and within the bounds of acceptable practice.
6. The Committee should ensure that there is appropriate structure in place for identifying, monitoring, and managing compliance risk as well as a reporting system to advise the Committee and the board of instances of non-compliance on a timely basis.

MAURITIUS HOUSING COMPANY LTD

CORPORATE GOVERNANCE REPORT AND RISK MANAGEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

7. The Audit Committee should 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. This should include:
 - (a) key areas of risk for misinformation in the financial statements, including critical accounting policies, accounting estimates and financial statement disclosures;
 - (b) changes in audit scope;
 - (c) whether the external auditor considers the estimates used as aggressive or conservative within an acceptable range;
 - (d) significant or unusual transactions; and
 - (e) internal control deficiencies identified during the course of the audit.
8. The Audit Committee should review and monitor management responsiveness to Internal Audit findings and recommendations and the issues escalated to the Board.

II Risk Management Committee (RMC)

Main Terms of Reference:

1. The Risk Management Committee has the responsibility for advising the board on the financial institution's overall current and future risk appetite, overseeing senior management's implementation of the risk appetite framework and reporting on the state of risk culture in the financial institution
2. 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.

III Conduct Review Committee (CRC)

Main Terms of Reference:

The Conduct Review Committee shall have the mandate to:

- (a) require management of the financial institution to establish policies and procedures to comply with the requirements of this guideline;
- (b) review the policies and procedures periodically to ensure their continuing adequacy and enforcement, in the best interests of the financial institution;
- (c) review and approve each credit exposure to related parties;
- (d) ensure that market terms and conditions are applied to all related party transactions;
- (e) 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;
- (f) 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.

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CORPORATE GOVERNANCE REPORT AND RISK MANAGEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

IV Corporate Governance & Human Resources Committee (CG &HR)

Main Terms of Reference

The CG&HR Committee has the following mandate:

- (a) recommend to the board candidates for board positions, including the chair of the board and chairs of the board committees;
- (b) recommend criteria for the selection of board members and criteria for the evaluation of their performance;
- (c) prepare for approval of the board the remuneration and compensation package for directors, senior managers, and other key personnel, taking into account the soundness of risk taking and risk outcomes as well as any relevant information available on industry norms;
- (d) recommend to the board an incentive package, as necessary, to enhance staff performance, while ensuring that incentives embedded within remuneration structures do not incentivise staff to take excessive risk;
- (e) recommend nominees for board committees; and
- (f) comment on the contribution of individual directors to the achievement of corporate objectives as well as on the regularity of their attendance at the board and committee meetings
- (g) appraisal and evaluation of the Board as a whole and the Directors individually;
- (h) review remuneration policy; ensure that the reporting requirements on Corporate Governance, whether in the annual report, or on an ongoing basis, are in accordance with the principles of the Code of Corporate Governance and the Bank of Mauritius Guidelines on Corporate Governance.

V Real Estate Development Monitoring Committee (REDMC)

Main Terms of Reference

- 1 **The Real Estate Development Monitoring Committee shall assist and advise the Board in fulfilling its governance responsibilities with respect to the Company Real Estate development strategies.**
- 2 **The mandate of the Committee includes the following:**
 - (a) Review and recommend the investment proposals relating to Real Estate Development;
 - (b) Review and recommend policies relating to Real Estate Development;
 - (c) Recommend to the Board construction and renovation projects;
 - (d) monitor closely the good running of real estate projects and ensure that deliverables are met within set timeline.
 - (e) Provide guidance and strategic input into Management plans and operations for development of and entitlement of company land.
 - (f) Review and recommend the acquisition and disposal of immovable properties.
 - (g) Ensure that sources of financing for property construction and acquisition are clearly identified and approved by the Board.
 - (h) Review and recommend to the Board principles, policies, guidelines and master plan relating to building and property matters.

VI CBIS Steering Committee

Main Terms of Reference

- a) Providing overall guidance and strategy to the CBIS project in terms of its direction, objectives and progress.
- b) establishing desired frameworks to achieve the CBIS project objectives.
- c) Reviewing and approving any Scope Change Requests (SCR).
- d) Getting feedback from the Project Monitoring Team (PMT) on the project progress, risks and challenges.
- e) To look into any other matters relating to project timelines, scope, costs and quality.

MAURITIUS HOUSING COMPANY LTD

CORPORATE GOVERNANCE REPORT AND RISK MANAGEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

Other Directorships Held by Members of the Board

The following directors have external directorships as given below:

Directors	COMPANY
Mr Latanraj GHORAH	Director of Le Val Development Ltd, subsidiary of SIC
Mr Koosiram CONHYE	Director of SICOM Group and Mauritius Telecom Ltd
Mr Swaminathan RAGEN	Director of NHDC, Chairman of Morcellement Board and Town and Country Planning Board

COMPANY SECRETARY

The Company Secretary provides assistance and guidance to the Directors in fulfilling their duties while acting with the utmost integrity and independence in the best interest of the MHC. It has a key role to play in the application of corporate governance within the MHC. MHC has retained the services of Prime Partners Ltd to perform the company secretarial duties as from 01 March 2019.

Role and function of the Company Secretary

The role and functions of the Company Secretary are as follows:

- providing the Board with guidance as to its duties, responsibilities and powers;
- informing the Board of all legislation relevant to or affecting meetings of shareholders and directors and reporting at any meetings and the filing of any documents required of the company and any failure to comply with such legislation;
- ensuring that minutes of all meetings of shareholders or directors are properly recorded and all statutory registers are properly maintained;
- certifying in the annual financial statements of the company that the company has filed with the Corporate and Business Administrative Department all such returns as are required of the company;
- ensuring that a copy of the company's annual financial statements and, where applicable, the annual reports are available to every person entitled to such statements.

Principle 3: Directors' Appointment Procedures

At the Mauritius Housing Company Ltd there is a formal, rigorous and transparent process for the appointment, election, induction and re-election of directors. The search for Board candidates is conducted, and appointments made, on merit, against objective criteria (to include skills, knowledge, experience, and independence and with due regard for the benefits of diversity on the Board of Directors, including gender). The Board of Directors ensures that a formal, rigorous and transparent procedure is in place for planning the succession of all key officeholders.

Induction

Following appointment on the Board, the Directors receive an induction training to familiarize themselves with the activities of the MHC. In addition to receiving an information pack, the Directors also get accustomed with the Terms of Reference of the Board and their statutory duties and obligations. Directors also receive regular ongoing training on regulatory changes and updates, which includes briefings to Audit Committee members. The Chairman ensures that the development needs of the Directors are identified and consequently appropriate training is provided to continuously update their skills and knowledge.

Regarding the succession planning, the Board assumes its responsibilities for it to affirm that a succession plan has been developed. All the directors are appointed or reappointed annually at the meeting of the shareholders, by a separate resolution. The Board assumes its responsibilities for induction of new directors to the Board.

MAURITIUS HOUSING COMPANY LTD

CORPORATE GOVERNANCE REPORT AND RISK MANAGEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

Principle 4: Director Duties, Remuneration and Performance

The Directors of MHC are fully appraised of their fiduciary duties as laid out in the Mauritius Companies Act 2001.

The Board of Directors regularly monitors and evaluates compliance with its code of ethics which is regularly monitored.

Interest in shares

None of the directors have a direct or indirect share in the equity of the Company.

Board Appraisal

An internal appraisal has been done internally as per the code.

Remuneration Philosophy

The Board as the employer decides on the appointment and remuneration of all the MHC employees. The Corporate Governance & HR Committee considers and recommends to the Board matters pertaining to remuneration of MHC employees, including senior executives' remunerations. The remuneration of employees was found adequate and no change was proposed.

The remuneration of the Chairman, Managing Director and other Directors, is decided by the Shareholders and was found to be adequate, hence no change, at the last meeting.

Director's Remuneration

During the year under review, the Executive Directors received remuneration inclusive of emoluments amounting to Rs587,905: December 2017: Rs 1,508,630 and December 2016: Rs 1,414,156).

Non-Executive Directors received total remuneration amounting to Rs 3,080,818 (December 2017: Rs 3,105,169 and December 2016: Rs2,700,000).

Details about Directors' remuneration have not been disclosed individually due to the sensitive nature of information.

Conflict of Interest

The Board of Directors affirms that all conflicts-of-interest (if any) has been conducted in accordance with the Conflicts-of-interest Policy. As per the constitution of MHC, the Directors are required to disclose their interest in any matter placed before the Board for a decision. Any disclosure of interests by a Director is recorded in an interest register by the Company Secretary, which is available to shareholders upon written request made to the Company Secretary.

Related Party Transactions

The Board of Directors affirms that all related-party transactions have been conducted in accordance to related-party transactions policy and the Code of Ethics. The Board has set up a Conduct Review Committee to look into all cases of Related Party Transactions at MHC.

Information, IT and Information security Governance

The Board of Directors affirms that an Information Security Policy and IT policy exists.

All significant expenditures on Information Technology are evaluated during the strategic meeting before finalising the budget. The monitoring of these expenditures is done on a quarterly basis during the performance review exercise.

The Board oversees information governance through the information that are submitted in the various Board sub-committees and to the Board of Directors. The right of access to information is in accordance with Companies Act 2001, Section 206.

Service Contract of the Managing Director:

Pending the recruitment of a Managing Director, Mr Hassen Issop Abdool, Head- Finance, has been appointed as Officer in Charge.

MAURITIUS HOUSING COMPANY LTD

CORPORATE GOVERNANCE REPORT AND RISK MANAGEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

Principle 5: Risk Governance and Internal Control

The Board of Directors is responsible for risk governance and ensures that MHC develops and executes a comprehensive and robust system of risk management. In so doing, a consultant has been hired to revamp the risk framework currently available to ensure that MHC adopts best practice in terms of risk management. The financial risks are monitored by the Audit Committee. The Board ensures the maintenance of a sound internal control system as well.

Risk Management

Risk management is the identification, assessment and prioritization of risks followed by coordination and economical application of resources to minimize, monitor, and control the probability and or impact of unfortunate events or to maximize the realization of opportunities.

The primary goals of risk management in MHC is to ensure that the outcomes of risk-taking activities are consistent with MHC's strategies and risk appetite, and that there is an appropriate balance between risk and reward in order to maximize shareholders returns. MHC's enterprise-wide risk management framework provides the foundation for achieving these goals

MHC has an Integrated Risk Management Framework in place to identify, assess, manage, report risks, risk adjusted returns in a reliable and consistent manner. The Risk Management Framework is based on transparency, management accountability and independent oversight.

MHC's Integrated Risk Management Framework which is continuous, proactive and systematic process to understand, manage and communicate risk from an organization – wide perspective. It is about making decisions that contribute to the achievement of an organization's overall corporate objectives.

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

The purpose of the Integrated Risk Management Framework (IRMF) is to:

- Provide guidance to advance the use of a more corporate and systematic approach to risk management;
- Contribute to building a risk-smart workforce and environment to allow for innovation and responsible risk-taking while ensuring legitimate precautions are taken to protect the public interest, maintain public trust and ensure due diligence; and
- Propose risk evaluation models for assets that departments can adapt to their specific circumstances and mandate for a proactive and collaborative approach to risk management while maintaining constant vigilance at all times.

Credit Risk Management

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the MHC and as and when they fall due. MHC need 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 key applicable Bank of Mauritius guidelines such as the guideline on Standardized Approach to Credit Risk, the Guideline on Credit Impairment Measurement and Income Recognition, and the Guideline on Credit Concentration Risk. Credit Risk exposures are managed through the MHC's credit assessment, structuring, monitoring process and the Credit Risk Scoring System.

Most of the credit facilities are granted based on the credit scoring system, source of repayment and debt servicing ability of the borrower. As a fundamental credit principle, MHC does not grant credit facilities solely on the basis of the collateral provided, the income assessment of the borrower is very essential together with the Score card as per the Credit Risk Scoring system. MHC uses the information available on the Mauritius Credit Information Bureau in assessing the credit worthiness of the borrower.

A policy manual for lending operation has been developed and is actually being implemented. Same is regularly reviewed by management.

Credit risk is managed in MHC through regular review of loans in arrears followed by appropriate actions taken by management. Exposure to credit risk is also managed by obtaining collateral from the borrowers. MHC has put in place a Credit Risk Review Committee where the committee analyses all the loan requests before making recommendation for approval. The committee meets on a daily basis.

MAURITIUS HOUSING COMPANY LTD

CORPORATE GOVERNANCE REPORT AND RISK MANAGEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

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

Assurance on risk management processes

The Board relies on the internal and external audit functions to report on any weaknesses and to make recommendations via the Audit Committee & Risk Management Committee, the objective being to ensure the effective and efficient use of available resources and ascertaining 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.

Objectives

The objectives of the Risk Management Unit is to:

- To identify and prioritize 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;
- Document strategies according to organizational requirements.

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

As a secondary role, the unit is required to assess the Credit Policy, processes managements, and implementation of Credit Risk Scoring System. The Risk manual and the Compliance manual have been made available on the MHC's intranet to create compliance and risk awareness and for easy reference.

Operational Risk Management

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

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

Operational risk can be categorized in the following way for better understanding:

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

MHC has established the processes and procedures in writing to better understand the business activities of the company and mainly for newcomers.

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

MAURITIUS HOUSING COMPANY LTD

CORPORATE GOVERNANCE REPORT AND RISK MANAGEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

Market Risk Management

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

The Company exercises a market intelligence 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 a financial institution's ability to fund assets and meet financial obligations. Liquidity is essential in all 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 borrowed funds, at a reasonable price or within a necessary period to meet its financial obligations. Being a financial institution, the Company is subject to regulatory obligations whereby it has to comply with the cash ratio.

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

The principal sources of funds for the MHC are the company's self-revolving fund, deposits from business customers and borrowings from financial institutions.

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

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

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

- An agreed strategy for day-to-day management of liquidity;
- Identification of liquidity risk in the MHC's activities;
- An organization 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 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.

The above ensure:

- Maintenance of a sufficiently large liquidity buffer;
- Assurance of a structurally 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.

MAURITIUS HOUSING COMPANY LTD

CORPORATE GOVERNANCE REPORT AND RISK MANAGEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

Interest Rate Risk Management

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

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

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

Concentration of Credit Risk

MHC seeks to diversify its credit risk by limiting exposure to single borrower or group of related borrowers. Concentration of credit risk is governed by guidelines on credit concentration limits issued by 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 Risks

Compliance risk is the risk that we fail to comply with all relevant laws, Codes, rules, regulations and policies of the company and incur fines and penalties and suffer damages to our business. Up to now MHC has not incurred any fines or penalties for non-compliance.

There is an in-house compliance unit as well as a legal department which together with senior management oversee and review those risks on an ad hoc basis.

Business Continuity Risk

Business continuity encompasses planning and preparation to ensure that an organization 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. The senior management draws a future cash flow on a regular basis to monitor the operational activities of the company. In addition, they keep an eye on the market to identify potential threats to MHC's business model. MHC has hired a Consultant to review its business model with a view to provide the Company with the appropriate strategies to have a competitive edge on the market. Board reviewed the proposals of the Consultant.

Technological risk

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

At MHC there is segregation of duties, thus only IT people can have access to the systems. Access are granted to users only upon approval. There is a log in the system that can detect who has made changes in the systems. Besides, there is an Information Security policy in place.

Internal Control

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

The first line of defence of the internal control system is operated by MHC management and is about ensuring that control mechanism embedded in the daily activities of the Company is effective. An assessment of the effectiveness of the Internal control is done on a quarterly basis and sent to the Audit Committee. Internal Audit acts as the second line of defence while the external auditors are the third one.

MHC has built up a risk register for all the processes and assessment is done on a quarterly basis.

MAURITIUS HOUSING COMPANY LTD

CORPORATE GOVERNANCE REPORT AND RISK MANAGEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

Whistle Blowing Policy

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

Principle 6: Reporting with Integrity

The Board of Directors presents a fair, balanced and understandable assessment of MHC's financial, environmental, social and governance position, performance and outlook in its annual report and on its website.

The Board of Directors is responsible for the preparation of accounts that fairly presents the state of affairs of MHC Ltd. The accounts adhere to International Financial Reporting Standards, International Accounting Standards and Companies Act. Any departure (if any) shall be disclosed, explained and quantified and any material uncertainties shall be identified in the reports of auditors.

The Board of Directors affirms that the Annual Report, which contains the Corporate Governance Report, and quarterly financial statements are actually published in full on the website.

Organisational overview

The Mauritius Housing Company 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. The MHC was incorporated as a public Company in 1989, and since then it has maintained a consistent and healthy growth in its operations, to remain amongst the market leaders in mortgage finance.

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

Overview of the external environment

Business Model

Key Performance Indicators, Performance and Outlook

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

Donations

MHC has made a donation of an amount of Rs 30,000 during the financial year ended 2018.

Political Donations

No Political contribution was made during the year under review.

MAURITIUS HOUSING COMPANY LTD

CORPORATE GOVERNANCE REPORT AND RISK MANAGEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

Third Party Management Agreement

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

Material Clauses of the MHC's Constitution:

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

Related Party Transactions

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

Corporate Social Responsibility

MHC has for long been involved in activities designed to promote the interest of the community and the creation of a sustainable society. In line with this intent, MHC contributed an amount of Rs 1.0 Million to the Prime Minister's cyclone relief fund in the year under review.

Environmental Policy

The Company ensures that its operation has no major impact on the environment.

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.

Principle 7: Audit

Internal Audit

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to the evaluation and improvement of risk management, control and governance processes. An internal audit helps the Board and management maintain and improve the process by which risks are identified and managed and helps the Board discharge its responsibilities for maintaining and strengthening the internal control framework.

The Internal Auditor sends reports regularly to the Audit Committee. The areas, systems and processes covered by internal audit is risk based and the following areas are covered – Loans, Deposits, Treasury and Liquidity Management Internal controls. There were no significant areas that were not covered.

The Internal Audit function is independently carried out by the internal auditor of MHC, who is qualified accountant (FCCA). The internal auditor reports directly to the Audit committee and for administrative purpose to the Managing Director/ Officer in Charge. There are no restrictions placed over right of access to records, to management and to employees by the Internal Audit. All significant risk areas are covered by the internal audit. The internal audit plan is reviewed annually by the Audit Committee.

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 effect amendments accordingly.

MAURITIUS HOUSING COMPANY LTD

CORPORATE GOVERNANCE REPORT AND RISK MANAGEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

External audit

In line with Section 39 of the Banking Act and following a tender exercise, Deloitte was appointed external auditor for the financial year ended 31 December 2018. The technical and financial evaluation was discussed in relevant committees. The result was then discussed in the Audit Committee. In accordance with section 29 of the BOM Guideline on Corporate Governance, the Audit Committee recommended the appointment of Deloitte as external auditor for the year 2018.

Meeting with Audit Committee

The Board of Directors affirms that the Audit Committee has discussed accounting principles and Internal Control with the external auditor. The Audit Committee meets the external auditor without management presence on an annual basis or as required.

Deloitte Mauritius forms part of the Deloitte international network and is one of the leading audit firms in Mauritius. It has the experience, size, resources required to audit the financial statements of the Company. The External Audit Firm and the Audit Partner are licensed by the Financial Reporting Council. The Bank of Mauritius provided its approval for selection of the firm. The quality processes of Deloitte are based on international best practice.

The staff assigned to the external audit team have the requisite expertise, including industry knowledge, to effectively audit the Company. The External Audit scope is adequate to address the financial reporting risks facing the Company and includes the provision of an internal control review as required by the Bank of Mauritius.

The External Audit firm has open lines of communication and reporting with the Audit and Corporate Governance Committee. Significant weaknesses in internal controls are appropriately communicated.

Based on the above factors, the external audit process is deemed effective by the Board of Directors.

Deloitte was appointed in 2015 following a tender exercise and their subsequent reappointment is reviewed on an annual basis and is subject to Bank of Mauritius approval.

Information on non-audit services carried out by external auditor and for which the amount was paid in the financial year 2018.

Sn	Details	Fees (Rs) inclusive of VAT
1	Review of CBIS system	391,000
2	Review of impairment model	2,334,500

Whenever the external auditor provides non-auditing services, the auditor's objectivity and independence are safeguarded as the non-audit services are carried out by different partners with different teams.

Principle 8: Relations with Shareholders and Other Key Stakeholders

Shareholding Structure:

MHC's Shareholding Structure as at 31 December 2018 is 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

MAURITIUS HOUSING COMPANY LTD

CORPORATE GOVERNANCE REPORT AND RISK MANAGEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

Dividend Policy

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

The key stakeholders of the Company are as follows:

1. Customers
2. Public
3. Employees
4. Banks
5. Suppliers
6. Regulators
7. Government

The Company responds to the reasonable expectations and interests of its key stakeholders as follows:

1. Customers / Public - by offering them competitive financial products, namely housing loans, savings and deposits and providing them with timely information about the services and facilities which are made available to them.
2. Employees - by fostering a working environment that supports sustainable performance, promotes continual professional/personal development and a decent condition of employment.
3. Banks - by carrying out transaction with transparency and integrity.
4. Suppliers - by dealing through strict procurement procedures where there is fairness and equity.
5. Regulators - by complying with all regulatory requirements.
6. Government - by complying with relevant legislations and support its vision.

The Board of Directors affirms that relevant stakeholders have been involved in a dialogue on the organisational position.

MHC aims at understanding properly the information needs of its shareholders and places great importance on an open and meaningful dialogue. It ensures that shareholders are kept informed on matters affecting MHC.

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

The Board of Directors affirms that MHC holds an Annual General Meeting. The Board of Directors provides sufficient notice of the Annual General meeting and any other shareholders meetings. The Company encourages attendance of the directors and committee chairperson at the annual general meeting to answer queries. The Board of Directors provides appropriate papers for the annual general meeting and other shareholders meetings in advance. All resolutions were unanimously approved in the Annual general Meeting

MAURITIUS HOUSING COMPANY LTD**CORPORATE GOVERNANCE REPORT AND RISK MANAGEMENT FOR THE YEAR ENDED 31 DECEMBER 2018**

held 27 June 2018. Shareholders' Circular resolution for appointment of new directors following resignation of existing one were duly approved.

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 period, and which comply with International Financial Reporting Standards (IFRS);
- Using appropriate accounting policies supported by reasonable and prudent judgments and estimates;
- Ensuring that adequate accounting records and an effective system of internal controls and risk management have been maintained;
- Ensuring that appropriate accounting policies supported by reasonable and prudent judgments and estimates have been used consistently;
- Ensuring that the International Financial Reporting Standards have been adhered to. Any departure has been disclosed, explained and quantified in the financial statements; and
- Ensuring that the Code of Corporate Governance has been adhered to in all material aspects. Reasons for non-compliance have been provided, where appropriate.

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

MAURITIUS HOUSING COMPANY LTD

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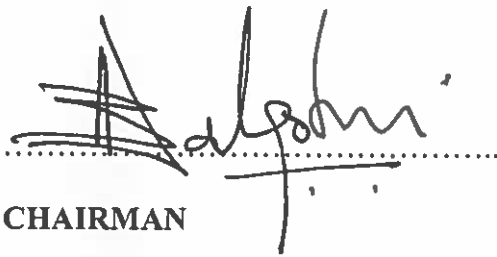
STATEMENT OF COMPLIANCE (Section 75 (3) of the Financial Reporting Act)

Name of PIE: Mauritius Housing Company Ltd

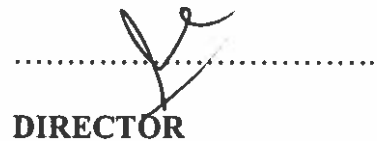
Reporting Period: Year ended 31 December 2018

We, the Directors of **Mauritius Housing Company Ltd**, confirm that to the best of our knowledge, **Mauritius Housing Company Ltd** has complied with all its obligations and requirements under the Code of Corporate Governance.

SIGNED BY:


.....
CHAIRMAN

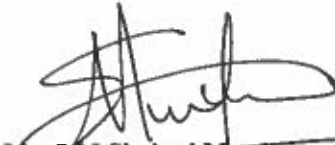
DATE: 29 MAR 2019


.....
DIRECTOR

DATE: 29 MAR 2019

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

I certify that, to the best of my knowledge and belief, the Company has filed with the Registrar of Companies all such returns as are required of the Company under the Mauritius Companies Act 2001, in terms of section 166 (d) during the financial year ended 31 December 2018.


Mr. S M Shakeel Maudarun
Ag Secretary

Date: 29 MAR 2019

Independent auditor's report to the Shareholders of Mauritius Housing Company Ltd

Report on the audit of the financial statements

Opinion

We have audited the financial statements of **Mauritius Housing Company Ltd** (the "Company" and the "Public Interest Entity") set out on pages 30 to 86, which comprise the statement of financial position as at 31 December 2018, 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 give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and comply with the requirements of the Mauritius Companies Act 2001 and the Financial Reporting Act 2004.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those Standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standard Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were 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 these matters.

Key audit matter	How our audit addressed the key audit matter
Provision for credit losses <p>IFRS 9 was implemented by the Company on 1 January 2018. This new standard requires to recognise expected credit losses ('ECL') on financial instruments, which involves significant judgement and estimates. The key areas where we identified greater levels of management judgements and estimates and therefore increased levels of audit focus in the implementation of IFRS 9 are:</p> <ul style="list-style-type: none"> Macro-Economic Forecasts – IFRS 9 requires to measure ECLs on a forward-looking basis using the most appropriate macro- economic forecasts. The macro-economic forecasts are estimates of future economic conditions. Model estimations – Statistical modelling is used to estimate ECLs which involves determining Probabilities of Default ('PD'), Loss Given Default ('LGD'), and Exposures at Default ('EAD'). The PD and LGD models used in the loans portfolios are the key drivers of the ECL results and are therefore the most significant areas of judgements and estimates used in the ECL modelling approach. Qualitative adjustments – Adjustments to the model-driven ECL results are raised by management to address known impairment model limitations or emerging trends. Such adjustments are inherently uncertain and significant management judgement is involved in estimating these amounts. <p>The effect of these matters is that, as part of our risk assessment, we determined that the impairment of loans and advances to customers has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The credit risk sections of the financial statements disclose the sensitivities estimated by the Company.</p>	<p>Our procedures included the following amongst others:</p> <ul style="list-style-type: none"> Use of specialist team in performing certain procedures. Evaluating the appropriateness of the IFRS 9 impairment methodologies. Testing the design and operating effectiveness of the key controls over the completeness and accuracy of the key inputs and assumptions into the IFRS 9 impairment models. Assessing the appropriateness of the macro- economic forecasts used. Independently assess probability of default, loss given default and exposure at default assumptions. Assessing the reasonableness of the model predictions by comparing them against actual results. Sample testing over key inputs and assumptions including economic forecasts, PD, LGD assumptions and qualitative adjustments impacting ECL calculations. Assessing whether the disclosures are in accordance with the requirements of IFRS 9. <p>We found the assumptions used in determining the expected credit loss and related disclosures to be appropriate.</p>

Independent auditor's report to the Shareholders of Mauritius Housing Company Ltd (Continued)

Report on other legal and regulatory requirements

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 interest in, the Company other than in our capacity as auditor and related services;
- we have obtained all information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by the Company as far as appears from our examination of those records.

Banking Act 2004

- In our opinion, the financial statements have been prepared on a basis consistent with that of the preceding year and are complete, fair and properly drawn up and comply with the provisions of the Banking Act 2004 and the regulations and guidelines of the Bank of Mauritius; and
- the explanations or information called for or given to us by the officers or agents of the Company were satisfactory.

Other information

The directors are responsible for the other information. The other information comprises Corporate Information, the Annual Report, the Statement of Management Responsibility for financial reporting, Corporate Governance Report, Report from the Secretary, but does not include the financial statements, and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance or 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 is to report on the compliance with the Code of Corporate Governance disclosed in the annual report and assess the explanations given for non-compliance with any requirement of the Code. From our assessment of the disclosures made on corporate governance in the annual report, the Public Interest Entity has, pursuant to section 75 of the Financial Reporting Act, complied with the requirements of the Code.

Responsibilities of directors for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and in compliance with the requirements of the Mauritius Companies Act 2001, the Banking Act 2004 and the Financial Reporting Act 2004 and the Insurance Act 2005 and they are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are 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 the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the Company's financial reporting process.

Auditor's 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 auditor's 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 ISAs 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.

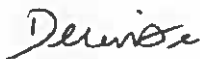
**Independent auditor's report to the Shareholders of
Mauritius Housing Company Ltd (Continued)**

As part of an audit in accordance with ISAs, we exercise professional judgement 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 the directors' 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 auditor's 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 auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

This report is made solely to the Company's shareholders, 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 shareholders those matters we are required to state to them in an auditor's 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 shareholders as a body, for our audit work, for this report, or for the opinions we have formed.



Deloitte

Chartered Accountants

29 March 2019



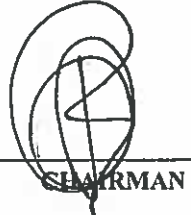
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STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2018

	Notes	2018 Rs'000	2017 Rs'000	2016 Rs'000
ASSETS				
Cash at banks and in hand	13(a)	118,130	97,433	180,745
Treasury deposits	13(b)	300,000	375,000	400,000
Property development	14	2,405	2,405	2,405
Loans to customers	15	7,550,700	6,793,334	6,325,782
Investment property	16	120,749	116,000	104,240
Property and equipment	17	606,072	491,853	498,638
Intangible assets	18	59,097	48,534	37,417
Other assets	19 (a)	207,181	235,662	221,195
Assets held for sale	19 (b)	64,045	66,887	62,735
Total assets		9,028,379	8,227,108	7,833,157
LIABILITIES				
PEL and other savings accounts	20(a)	1,818,670	1,744,007	1,696,990
Housing deposits certificates	20(b)	2,393,053	2,290,327	2,063,065
Borrowings	21	903,528	496,256	581,814
Retirement benefit obligations	22	299,225	267,558	155,268
Other liabilities	23	46,279	69,041	50,605
Total liabilities		5,460,755	4,867,189	4,547,742
Insurance funds	24	97,100	97,100	76,222
SHAREHOLDERS' EQUITY				
Share capital	25	200,000	200,000	200,000
Revaluation reserves		612,197	489,743	489,743
Building insurance reserve	27	116,810	116,810	116,810
Life insurance reserve		154,642	154,642	154,642
Retained earnings	28	2,067,688	1,982,437	1,926,138
Statutory reserve		200,000	200,000	200,000
Other reserves	29	119,187	119,187	121,860
Total equity		3,470,524	3,262,819	3,209,193
Total equity and liabilities		9,028,379	8,227,108	7,833,157

These financial statements have been approved and authorized for issue by the Board of Directors on 29 MAR 2019 and signed on its behalf by:


CHAIRMAN


DIRECTOR


DIRECTOR

The notes on pages 34 to 86 form an integral part of these financial statements.
Auditor's Report on pages 27 to 29.

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Notes	2018 Rs'000	2017 Rs'000	2016 Rs'000
Interest income		483,144	509,149	507,722
Interest expense		(174,438)	(183,869)	(197,083)
Interest suspended		1,627	9,462	15,906
Net interest income	6	310,333	334,742	326,545
Fee and commission income		33,332	25,016	20,438
Rent received		7,397	7,349	7,052
Policy fees and charges on loan		7,367	5,055	4,413
Other operating income	7	59,387	40,151	60,117
		107,483	77,571	92,020
Operating income		417,816	412,313	418,565
Personnel expenses	8	(179,069)	(167,900)	(146,642)
Depreciation and amortisation		(14,336)	(15,568)	(15,011)
Other expenses	9	(86,559)	(78,037)	(70,776)
Non-interest expense		(279,964)	(261,505)	(232,429)
Operating profit		137,852	150,808	186,136
(Release of allowance for credit impairment) Net impairment loss on financial assets	15(b)	56,373	54,799	69,081
Loss on foreclosed properties		5,251	(7,580)	(5,102)
Increase in fair value of investment property	16	4,749	11,760	-
Profit for the year		204,225	209,787	250,115
Other comprehensive income	26			
<i>Items that will not be reclassified to profit or loss:</i>				
Remeasurement of post employment benefit obligations	22(a)(iv)	(18,411)	(105,078)	(14,657)
Gains on revaluation of land & buildings		122,454	-	-
Gain on foreclosed properties		-	(2,673)	-
Other comprehensive income for the year		104,043	(107,751)	(14,657)
Total comprehensive income for the year		308,268	102,036	235,458
Earnings per share (Rs) - as reported	12	10.21	10.49	12.51

The notes on pages 34 to 86 form an integral part of these financial statements.
Auditor's Report on pages 27 to 29.

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018**

	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 1 January 2016								
- as previously stated	200,000	489,743	116,810	1,713,035	154,642	200,000	121,860	2,996,090
- adjustment to property development	-	-	-	2,405	-	-	-	2,405
- effect of adjustment on provision	-	-	-	15,061	-	-	-	15,061
	200,000	489,743	116,810	1,730,501	154,642	200,000	121,860	3,013,556
Dividend (Note 11)	-	-	-	(39,821)	-	-	-	(39,821)
Profit for the year	-	-	-	250,115	-	-	-	250,115
Other comprehensive income	-	-	-	(14,657)	-	-	-	(14,657)
At 31 December 2016	200,000	489,743	116,810	1,926,138	154,642	200,000	121,860	3,209,193
At 1 January 2017	200,000	489,743	116,810	1,926,138	154,642	200,000	121,860	3,209,193
Movement on reserve	-	-	-	2,673	-	-	(2,673)	-
Adjustment made to long term borrowings	-	-	-	(1,060)	-	-	-	(1,060)
Dividend (Note 11)	-	-	-	(50,023)	-	-	-	(50,023)
Profit for the year	-	-	-	209,787	-	-	-	209,787
Other comprehensive income	-	-	-	(105,078)	-	-	-	(105,078)
At 31 December 2017	200,000	489,743	116,810	1,982,437	154,642	200,000	119,187	3,262,819
At 1 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 (Note 2.1)	-	-	-	(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
Dividend	-	-	-	(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

* 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 notes 29

The notes on pages 34 to 86 form an integral part of these financial statements.

Auditor's Report on pages 27 to 29.

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018**

		2018 Rs'000	2017 Rs'000	2016 Rs'000
Cash flows from operating activities				
Profit for the year		204,225	209,787	250,115
<i>Adjustments for:</i>				
Allowance for credit impairment	15(b)	(56,373)	(55,424)	(69,081)
Depreciation	17	13,068	13,508	12,689
Amortisation	18	1,268	2,060	2,322
Loss on sale of foreclosed properties		(5,251)	7,580	5,102
Profit on disposal of property development	7	-	-	(52)
Increase in fair value of investment property	16	(4,749)	(11,760)	-
Interest in suspense		(1,627)	(9,462)	(15,906)
Profit on disposal of property and equipment	7	(15)	(4)	(1,464)
Provision for retirement benefit obligation		13,256	7,212	4,873
		<u>163,802</u>	<u>163,497</u>	<u>188,598</u>
Change in operating assets and liabilities				
Decrease/(increase) in other assets		28,481	(19,374)	(22,629)
Decrease/(increase) in assets held for sales		8,093	(6,825)	4,597
Decrease/(Increase) in treasury deposit		75,000	25,000	(75,000)
(Decrease)/increase in other liabilities		(22,762)	18,436	(1,556)
(Decrease)/Increase in accrued interest payable		(29,278)	(17,821)	(31,010)
Increase in loans to customers		(757,972)	(402,666)	(292,707)
Increase/(decrease) in insurance funds		-	20,878	-
Net cash (used in)/generated from operating activities		<u>(534,636)</u>	<u>(218,875)</u>	<u>(229,707)</u>
Cash flows from investing activities				
Purchase of property and equipment	17	(4,834)	(6,723)	(5,843)
Purchase of intangible assets		(11,831)	(13,177)	(13,713)
Proceeds from disposal of property and equipment		15	4	1,464
Proceeds from disposal of property development		-	-	2,465
Net cash (used in)/generated from investing activities		<u>(16,650)</u>	<u>(19,896)</u>	<u>(15,627)</u>
Cash flows from financing activities				
Housing deposits certificates (HDC)	20 (b)	111,565	228,271	10,451
Plan Epargne Logement Savings (PEL)	20 (a)	95,103	63,829	88,024
Repayment of borrowings		409,192	(83,611)	(113,948)
Dividends paid	11	(41,957)	(50,023)	(39,821)
Net cash generated from/(used in) financing activities		<u>573,903</u>	<u>158,466</u>	<u>(55,294)</u>
(Decrease)/increase in cash and cash equivalents		<u>22,617</u>	<u>(80,305)</u>	<u>(300,628)</u>
Movement in cash and cash equivalents				
Cash and cash equivalents as at 1 January		94,569	174,874	475,502
Increase/(decrease) in cash and cash equivalents		<u>22,617</u>	<u>(80,305)</u>	<u>(300,628)</u>
Cash and cash equivalents at 31 December		<u>117,186</u>	<u>94,569</u>	<u>174,874</u>
Cash and cash equivalents				
Cash at bank and in hand		118,130	97,433	180,745
Bank overdrafts (Note 21)		(944)	(2,864)	(5,871)
		<u>117,186</u>	<u>94,569</u>	<u>174,874</u>

Reconciliation of liabilities arising from financing activities

	01 January 2018	Movement in capital	Movement in interest	31 December 2018
	Rs'000	Rs'000	Rs'000	Rs'000
Housing Deposit Certificates	2,290,327	111,565	(8,839)	2,393,053
PEL and Other Savings Accounts	1,744,007	95,103	(20,440)	1,818,670
Borrowings	496,256	409,192	(1,920)	903,528
	<u>4,530,590</u>	<u>615,860</u>	<u>(31,199)</u>	<u>5,115,251</u>

The notes on pages 34 to 86 form an integral part of these financial statements.

Auditor's Report on pages 27 to 29.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**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, Mauritius.

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

In the current year, the Company has applied all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board ("the IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB that are effective for accounting period beginning on 01 January 2018 and relevant to its operations.

2.1 New and revised IFRS applied with no material effect on financial statements

The following relevant revised Standards have been applied in these financial statements. Except for IFRS 7 and 9, their application has not had any significant impact on the amounts reported for the current and prior periods but may affect the accounting treatment for future transactions or arrangements.

IAS 39 Financial Instruments: Recognition and Measurement: Amendments to permit an entity to elect to continue to apply the hedge accounting requirements in IAS 39 for a fair value hedge of the interest rate exposure of a portion of a portfolio of financial assets or financial liabilities when IFRS 9 is applied, and to extend the fair value option to certain contracts that meet the 'own use' scope exception.

IAS 40 Investment Property: Amendments to clarify transfers or property to, or from, investment property.

IFRS 15 Revenue from Contracts with Customers - Original issue.

IFRS 15 Revenue from Contracts with Customers – Clarifications to IFRS 15

Impact of application of IFRS 9 Financial instruments

In the current year, the Company has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. In accordance with the transition provisions of IFRS 9, the company has elected not to restate the comparative information, which continues to be reported under IAS 39. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings.

Additionally, the company adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that were applied to the disclosure for 2018.

IFRS 9 introduced new requirements for:

- 1) The classification and measurement of financial assets and financial liabilities,
- 2) Impairment of financial assets, and
- 3) General hedge accounting.

The company have not applies hedge accounting to its financial instruments during the year ended 31 December 2017 and 2018.

Details of these new requirements as well as their impact on the company's financial statements are described below.

(a) Classification and measurement of financial assets

The date of initial application (i.e. the date on which the company has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 January 2018. Accordingly, the Company has applied the requirements of IFRS 9 to instruments that continue to be recognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. Comparative amounts in relation to instruments that continue to be recognised as at 1 January 2018 have not been restated.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (CONT'D)****2.1 Impact of application of IFRS 9 Financial instruments (cont'd)****(a) Classification and measurement of financial assets (cont'd)**

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently 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, specifically:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortised cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI);
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI);
- all other debt investments and equity investments 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 that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination in other comprehensive income; 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.

In the current year, the Company has not designated any debt investments that meet the amortised cost or FVTOCI criteria as measured at FVTPL.

When a debt investment measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. When an equity investment designated as measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is subsequently transferred to retained earnings.

Debt instruments that are measured subsequently at amortised cost or at FVTOCI are subject to impairment. See (b) below.

The directors of the Company reviewed and assessed the Company's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on the Company's financial assets as regards their classification and measurement:

- the Company's investment in equity shares (neither held for trading nor a contingent consideration arising from a business combination) that were previously classified as available-for-sale financial assets and were measured at cost less impairment at each reporting date under IAS 39 have been designated as at FVTOCI. The change in fair value on the equity investment continues to be accumulated in the investment revaluation reserve;
- financial assets classified as "loans and receivables" under IAS 39 that were measured at amortised cost continue to be measured at amortised cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

There were no financial assets or financial liabilities which the Company had previously designated as at FVTPL under IAS 39 that were subject to reclassification or which the Company has elected to reclassify upon the application of IFRS 9. There were no financial assets or financial liabilities which the Company has elected to designate as at FVTPL at the date of initial application of IFRS 9.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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

2.1 Impact of application of IFRS 9 Financial instruments (cont'd)

In summary, upon adoption of IFRS 9, the company had the following required or elected reclassifications as at 1 January 2018:

As on 01 January 2018					
Particulars	Note	IAS 39 measurement category	New measurement category under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial Assets				Rs' 000	Rs' 000
Cash at banks and in hand	13 (a)	Loans & receivables	Amortised cost	97,433	97,433
Treasury deposit	13 (b)	Held to maturity	Amortised cost	375,000	374,544
Loans to customers	15	Loans & receivables	Amortised cost	6,793,334	6,734,728
Other assets - Staff loans	19	Loans and receivables	Amortised cost	17,715	17,634
Financial Liabilities					
Other financial liabilities		Amortised cost	Amortised cost	4,867,189	4,867,189

(b) Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Specifically, IFRS 9 requires the Company to recognise a loss allowance for expected credit losses on:

- (1) Debt investments measured subsequently at amortised cost or at FVTOCI;
- (2) Lease receivables;
- (3) Trade receivables and contract assets; and
- (4) Financial guarantee contracts to which the impairment requirements of IFRS 9 apply.

In particular, IFRS 9 requires the Company to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Company is required to measure the loss allowance for that financial instrument at an amount equal to 12-months ECL. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (CONT'D)****2.1 Impact of application of IFRS 9 Financial instruments (cont'd)****(b) Impairment of financial assets (cont'd)**

The company has three types of financial assets that are subject to IFRS 9's new ECL model and the impact of the change in impairment methodology are as follows:

Items that existed at 01/01/18 that are subject to impairment provisions of IFRS 9	Credit risk attributes at 01/01/18	Cumulative additional loss allowance recognised on 01/01/18
		Rs'000
Cash at banks and in hand	All bank balances are assessed to have low credit risk at reporting date since they are held with reputable banking institutions. The identified impairment loss was immaterial.	-
Treasury deposits	All treasury deposits are assessed to have low credit risk at reporting date since they are held with reputable banking institutions.	456
Loans to customers	The company has applied the general approach and recognised lifetime ECL for these assets.	632,293
Other assets (Staff loans)	All staff loans are assessed to have low credit risk at reporting date.	81
		<u>632,830</u>

The additional credit loss allowance of Rs 58.606M has been recognised against retained earnings on 1 January 2018.

The reconciliation between the ending provision for impairment in accordance with IAS 39 to the opening loss allowance determined in accordance with IFRS 9 for the above financial instruments on 1 January 2018 is as follows and further details are disclosed in Notes

	Loss provision under IAS 39/IAS 37 at 31 December 2017	Remeasurement due to IFRS 9	ECLs under IFRS 9 at 01 January 2018
	Rs 000	Rs 000	Rs 000
Impairment allowance for:			
Loans to customers	574,224	58,069	632,293
Treasury deposits	-	456	456
Other assets (Staff loans)	-	81	81
	<u>574,224</u>	<u>58,606</u>	<u>632,830</u>

The impact of transition to IFRS 9 on reserves and retained earnings is, as follows:

	Reserves and retained earnings Rs 000
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	1,982,437
Effect of reclassification adjustments in relation to adopting IFRS 9	(58,606)
Opening balance under IFRS 9 (01 January 2018)	<u>1,923,831</u>
Total change in equity due to adopting IFRS 9	<u>(58,606)</u>

The consequential amendments to IFRS 7 have also resulted in more extensive disclosures about the company's exposure to credit risk in the financial statements (Refer to notes 4 and 15(c))

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (CONT'D)New and revised IFRSs in issue but not yet effective

- 2.2 At the date of authorisation of these financial statements, the following relevant new and revised Standards were in issue but effective on annual periods beginning on or after the respective dates as indicated:

IAS 1 Presentation of Financial Statements: Amendments regarding the definition of material (effective 1 January 2020)

IAS 19 Employee Benefits: Amendments regarding plan amendments, curtailments or settlements (effective 1 January 2019)

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Amendments regarding the definition of material (effective 1 January 2020)

IFRS 9 Financial Instruments: Amendments regarding prepayment features with negative compensation and modifications of financial liabilities (Effective 1 January 2019)

IFRS 16 Leases: Original issue (Effective 1 January 2019)

The directors anticipate that these amendments will be adopted in the Company's financial statements at the above effective dates in future periods. The directors have not yet assessed the potential impact of the application of these amendments.

IFRS 16 Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related Interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The date of initial application of IFRS 16 for the Company will be 1 January 2019.

Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This will replace the previous requirement to recognise a provision for onerous lease contracts.

As at 31 December 2018, the Company has non-cancellable operating lease commitments of Rs 12,212,000. A preliminary assessment indicates that all these arrangements relate to leases other than short-term leases and leases of low-value assets. Management has not yet assessed the amounts for right of use asset and corresponding liability in respect of these leases to be recognised in the statement of financial position.

Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently.

The Company's activities as a lessor are not material and hence the Company does not expect any significant impact on the financial statements. However, some additional disclosures will be required from next year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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 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 when 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
Motors vehicles	20%	Straight line method

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

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

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

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

Intangible assets consist of computer software. The computer software cost is amortised on a straight line basis over their estimated useful lives of 3 years.

Progress payments

Progress payments on computer software are recognized 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. On completion of the project, the cost will be amortised over a period of 5 years.

(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 income statement. 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 for which a provision is made.

(e) Investment property

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 Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

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.

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in profit or loss. For all financial assets the amount 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(f) Financial instruments (cont'd)

Classification of financial assets

Debt instruments 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

Debt instruments 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 (see (ii) below); 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

Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

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.

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.

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).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(f) Financial instruments (cont'd)

The SPPI test (cont'd)

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 applicable for MHC currently.

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 entity is exposed to credit risk and not a longer period, even if contact extension or renewal is common business practice.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**3. SIGNIFICANT ACCOUNTING POLICIES (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

No impairment loss is recognised on financial liabilities

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

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

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

ECL 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. The Company's accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same as it was under IAS 39. 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 valuer which are appointed by the Company.

Collateral repossessed

The Company's accounting policy under IFRS 9 remains the same as it was under IAS 39. 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 on the balance sheet under asset held for sale.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(f) Financial instruments (cont'd)

Credit-impaired financial asset

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

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

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

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

Definition of default

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(f) Financial instruments (cont'd)

Significant increase in credit risk

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

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

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

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

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

Modification of financial asset

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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 BOM guidelines on Credit Impaired Measurement (see below) 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 financial institutions in amount and in such stipulated time, for a continuous period of nine months, at a minimum, strictly in accordance with the terms and conditions of the restructured loan.

Incorporation of forward-looking information

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

The Company has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables, credit risk and credit losses. The following key indicators were considered for year ending 31 December 2018: GDP and interest rates.

Write-offs

The Company's accounting policy under IFRS 9 remains the same as it was under IAS 39. Financial assets are written off either partially or in their entirety only when the Company has stopped pursuing the recovery. A write off constitutes a derecognition event. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**(f) Financial instruments (cont'd)***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 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 31 December 2017, 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 comprise 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 they occur. Remeasurements recognised in other comprehensive income shall not be reclassified to profit or loss in subsequent period.

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

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

Pension contributions

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**(h) Statutory reserve**

As required by the Banking Act 2004 Section 21, 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, in hand and treasury deposit

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 among other things fees charged for servicing a loan when it is unlikely that these will result in a specific lending arrangement and loan syndication fees.

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

Penalty on late payments

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**(n) 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 MHC Ltd does not fall within the scope of the Insurance Act. However, the provisions of the Mauritius Civil Code pertaining to insurance apply to the Company's insurance operations.

The Company operates the following insurance schemes:

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

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

(o) Provisions

Provisions are recognized 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) Leases

The Company as lessor

Assets leased out under operating leases are included in the statement of financial position as investment property. Rental income is recognised on a straight line basis over the lease term.

The Company as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**(r) Dividend distribution**

Dividend distribution to the Company's shareholders is recognized as a liability in the financial statement 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 other entities.

(t) Amount receivable from Government

Amount receivable from Government comprise 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 MHC on 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 MHC on PEL accounts for customers that make regular contributions and that have taken a housing loan from MHC. The amount receivable is accounted on the basis of the interest accrued on those deposits.

(u) Property Development

Property development is recognized at cost. 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.

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.

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 maximizing 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

4. FINANCIAL RISKS (CONT'D)

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:

	2018 Rs'000	2017 Rs'000	2016 Rs'000
Tier 1 capital	2,408,591	2,333,903	2,288,721
Tier 2 capital	331,887	271,200	269,261
Total capital base	2,740,478	2,605,103	2,557,982
Risk weighted assets	4,511,900	4,065,218	3,910,171
Capital adequacy ratio	60.7	64.1	65.4

Categories of financial asset and financial instruments

	2018 Rs'000	2017 Rs'000	2016 Rs'000
Financial Assets			
Loan and Receivables measured at Amortised Cost	8,173,849	7,499,188	7,126,552
	<u>8,173,849</u>	<u>7,499,188</u>	<u>7,126,552</u>
Financial Liabilities			
Measured at Amortised Cost	5,154,881	4,586,908	4,380,911
	<u>5,154,881</u>	<u>4,586,908</u>	<u>4,380,911</u>

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

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

Credit risk represents the loss the Company would suffer if a borrower failed 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 are 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, 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 Group's risk grading to categorise exposures according to the degree of risk of default.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

4. FINANCIAL RISKS (CONT'D)

Significant increase in credit risk (Cont'd)

Portfolio Stage	Year ended 31 December 2018		
	EAD	Average PD	Average LGD
	Rs 000	%	%
Retail loans	8,171,480	8.41	21.07
Treasury deposits	300,000	0.27	45.00
Corporate loans	53,649	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 2018 for the years 2019 to 2023, for Mauritius, which is the country where the Company operates and therefore is the country that has a material impact in ECLs.

	Year 2019	Year 2020	Year 2021	Year 2022	Year 2023
Inflation rate %	4.54%	4.42%	3.99%	3.77%	3.66%
GDP growth rate %	3.90%	3.80%	3.80%	3.70%	3.70%

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 2018, 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	ECL	Average PD	Average LGD
	Rs 000	%	%
Inflation rate			
Base rate	513,156	8.41	11.28
Increased by 1%		8.63	11.05
Decreased by 1%		8.20	11.51

Credit Loss Expense

Year: 2018	Stage 1	Stage 1	Stage 2	Stage 2	Stage 3
	ECL	Exposure	ECL	Exposure	ECL
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Loans to customers	(48,768)	6,613,757	(14,029)	294,192	(513,156)
Treasury deposits	(365)	300,000	-	-	-
Other assets (Staff loans)	(139)	30,000	-	-	-
Total impairment loss	(49,272)	6,943,757	(14,029)	294,192	(513,156)

Credit quality

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

	Year 2018	Year 2017
Loan to customers at amortised cost	8,293,931	7,535,960
Treasury deposits at amortised cost	300,000	375,000

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

4. FINANCIAL RISKS (CONT'D)

Credit quality (Cont'd)

Credit risk - exposure and past due

Loans that are neither past due nor impaired
 Loans that are past due but not impaired
 Impaired loans

2018	2017	2016
Rs'000	Rs'000	Rs'000
6,696,731	5,887,625	5,361,817
294,192	282,715	320,448
1,303,008	1,365,620	1,451,029
8,293,931	7,535,960	7,133,294

Ageing of past due but not impaired:
 Less than 3 months

294,192	282,715	320,448
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Non performing loans

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

	2018	2017	2016
	Rs'000	Rs'000	Rs'000
Impaired loans	1,303,008	1,365,620	1,451,029
Specific provision in respect of impaired loans	513,156	575,933	572,825
Discounted fair value of collaterals of impaired loans	892,158	942,061	878,204

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.

	2018	2017	2016
	Rs'000	Rs'000	Rs'000
Loans to customers	7,550,700	6,793,334	6,325,782
Other assets	505,019	608,421	620,025
	8,055,719	7,401,755	6,945,807

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 and advances to customers. The table below provides an analysis of the gross carrying amount of loans and advances to customers by past due status.

	2017		2018	
	carrying amount	Expected Credit Loss	carrying amount	Expected Credit Loss
	Rs'000	Rs'000	Rs'000	Rs'000
Loans to customers				
0 - 30 days	5,887,625	43,465	6,643,757	49,271
31 - 89 days	282,715	13,432	294,192	14,030
90 days and above	1,365,620	575,933	1,303,008	513,156

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

4. FINANCIAL RISKS (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 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 LTV.

Year ended 31 December 2017	Gross carrying amount Rs'000	Expected Credit Loss Rs'000
Mortgage lending		
Less than 75%	5,582,016	477,454
75% to 89%	1,098,253	78,198
90% to 100%	347,616	34,949
above 100%	508,075	42,229
Year ended 31 December 2018	Gross carrying amount Rs'000	Expected Credit Loss Rs'000
Mortgage lending		
Less than 75%	5,961,908	377,446
75% to 89%	1,650,622	83,058
90% to 100%	403,505	32,292
above 100%	277,896	83,661

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 property

The Company obtained the following financial and non-financial assets during the year by taking possession of collateral held as security against loans and advances 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.

	Year ended 31 Dec 2017 Rs 000	Year ended 31 Dec 2018 Rs 000
Foreclosed property	66,887	64,045

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

4. FINANCIAL RISKS (CONT'D)

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.

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

	2018		2017		2016	
	Lowest %	Highest %	Lowest %	Highest %	Lowest %	Highest %
<i>Financial assets</i>						
Deposits with banks	0.60	3.95	1.15	3.40	1.50	3.90
Loans to customers	3.00	15.50	4.00	15.50	4.00	15.50
<i>Financial liabilities</i>						
Savings and fixed deposits	2.00	5.50	1.85	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	4.75	5.40	5.25	5.90
Borrowings - Financial institutions	5.00	6.00	5.00	6.00	5.00	6.00

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

4. FINANCIAL RISKS (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
2018				
<u>Assets</u>				
- Cash and Cash equivalent	-	118,130	-	118,130
- Treasury deposit	300,000	-	-	300,000
- Loans and advances	260,661	7,290,039	-	7,550,700
- Other assets	30,000	-	175,019	205,019
	<u>590,661</u>	<u>7,408,169</u>	<u>175,019</u>	<u>8,173,849</u>
<u>Liabilities</u>				
- PEL	-	1,818,670	-	1,818,670
- HDC	-	2,393,053	-	2,393,053
- Borrowings	-	892,366	11,162	903,528
- Other liabilities	-	-	39,629	39,629
	<u>-</u>	<u>5,104,089</u>	<u>50,791</u>	<u>5,154,880</u>
2017				
<u>Assets</u>				
- Cash and Cash equivalent	-	97,433	-	97,433
- Treasury deposit	375,000	-	-	375,000
- Loans and advances	358,839	6,434,495	-	6,793,334
- Other assets	17,715	-	215,706	233,421
	<u>751,554</u>	<u>6,531,928</u>	<u>215,706</u>	<u>7,499,188</u>
<u>Liabilities</u>				
- PEL	-	1,744,007	-	1,744,007
- HDC	-	2,290,327	-	2,290,327
- Borrowings	-	485,094	11,162	496,256
- Other liabilities	-	-	56,318	56,318
	<u>-</u>	<u>4,519,428</u>	<u>67,480</u>	<u>4,586,908</u>
2016				
<u>Assets</u>				
- Cash and Cash equivalent	-	180,745	-	180,745
- Treasury deposit	400,000	-	-	400,000
- Loans and advances	415,862	5,909,920	-	6,325,782
- Other assets	17,043	-	202,982	220,025
	<u>832,905</u>	<u>6,090,665</u>	<u>202,982</u>	<u>7,126,552</u>
<u>Liabilities</u>				
- PEL	-	1,696,990	-	1,696,990
- HDC	-	2,063,065	-	2,063,065
- Borrowings	-	570,652	11,162	581,814
- Other liabilities	-	-	39,042	39,042
	<u>-</u>	<u>4,330,707</u>	<u>50,204</u>	<u>4,380,911</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

4. FINANCIAL RISKS (CONT'D)

The table shows the remaining contractual maturities of financial liabilities

	Less than 3 months Rs'000	Between 3 months and 1 year Rs'000	Over one year Rs'000	Total Rs'000
Financial Liabilities				
- PEL	1,818,670	-	-	1,818,670
- HDC	206,155	251,769	1,935,129	2,393,053
- Borrowings	944	267,422	635,162	903,528
- Other liabilities	26,172	-	13,458	39,630
31 December 2018	<u>2,051,941</u>	<u>519,191</u>	<u>2,583,749</u>	<u>5,154,881</u>
- PEL	1,744,007	-	-	1,744,007
- HDC	76,120	427,897	1,786,310	2,290,327
- Borrowings	2,864	92,400	400,992	496,256
- Other liabilities	37,926	-	18,392	56,318
31 December 2017	<u>1,860,917</u>	<u>520,297</u>	<u>2,205,694</u>	<u>4,586,908</u>
- PEL	1,696,990	-	-	1,696,990
- HDC	73,062	332,209	1,657,794	2,063,065
- Borrowings	1,629	97,058	483,127	581,814
- Other liabilities	22,408	-	16,634	39,042
31 December 2016	<u>1,794,089</u>	<u>429,267</u>	<u>2,157,555</u>	<u>4,380,911</u>

Liquidity risk

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 discharge 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 analysing 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 designed

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

4. FINANCIAL RISKS (CONT'D)

Liquidity risk (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 2018:

	Less than 3 months Rs'000	Between 3 months and 1 year Rs'000	Over one year Rs'000	Total Rs'000
Assets				
- Cash and cash equivalents	118,130	-	-	118,130
- Treasury deposit	150,000	150,000	-	300,000
- Loans and advances	9,832	41,907	7,498,961	7,550,700
- Other assets	150,491	24,528	30,000	205,019
	<u>428,453</u>	<u>216,435</u>	<u>7,528,961</u>	<u>8,173,849</u>
Liabilities				
- PEL	1,818,670	-	-	1,818,670
- HDC	206,155	251,769	1,935,129	2,393,053
- Borrowings	944	267,422	635,162	903,528
- Other liabilities	26,172	-	13,458	39,630
	<u>2,051,941</u>	<u>519,191</u>	<u>2,583,749</u>	<u>5,154,881</u>
Liquidity gap	<u>(1,623,488)</u>	<u>(302,756)</u>	<u>4,945,212</u>	<u>3,018,968</u>

Maturities of financial assets and liabilities at 31 December 2017:

	Less than 3 months Rs'000	Between 3 months and 1 year Rs'000	Over one year Rs'000	Total Rs'000
Assets				
- Cash and cash equivalents	97,433	-	-	97,433
- Treasury deposit	275,000	100,000	-	375,000
- Loans and advances	5,408	28,094	6,759,832	6,793,334
- Other assets	202,652	13,054	17,715	233,421
	<u>580,493</u>	<u>141,148</u>	<u>6,777,547</u>	<u>7,499,188</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

4. FINANCIAL RISKS (CONT'D)

Liquidity risk (Cont'd)

	Less than 3 months Rs'000	Between 3 months and 1 year Rs'000	Over one year Rs'000	Total Rs'000
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
	<u>1,860,917</u>	<u>520,297</u>	<u>2,205,694</u>	<u>4,586,908</u>
Liquidity gap	<u>(1,280,424)</u>	<u>(379,149)</u>	<u>4,571,853</u>	<u>2,912,280</u>

*Maturities of financial assets and liabilities at 31 December 2016:*Assets

- Cash and cash equivalents	180,745	-	-	180,745
- Treasury deposit	100,000	300,000	-	400,000
- Loans and advances	5,165	34,215	6,286,402	6,325,782
- Other assets	188,970	14,012	17,043	220,025
	<u>474,880</u>	<u>348,227</u>	<u>6,303,445</u>	<u>7,126,552</u>

Liabilities

- PEL	1,696,990	-	-	1,696,990
- HDC	73,062	332,209	1,657,794	2,063,065
- Borrowings	1,629	97,058	483,127	581,814
- Other liabilities	22,408	-	16,634	39,042
	<u>1,794,089</u>	<u>429,267</u>	<u>2,157,555</u>	<u>4,380,911</u>
Liquidity gap	<u>(1,319,209)</u>	<u>(81,040)</u>	<u>4,145,890</u>	<u>2,745,641</u>

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 shows 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 for less than 3 months.

Scenario	Less than 3 mths	Funding
Scenario 1 - an increase of 10% on PEL withdrawal	(30,388)	Negative
Scenario 2 - an increase of 30% on PEL withdrawal	(44,959)	Negative
Scenario 3 - an increase of 50% on PEL withdrawal	(59,529)	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 are complex and subject to a number of variables which complicate quantitative sensitivity analysis.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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.

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.

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 consolidated 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, plant and equipment and investment properties

The Company carries its investment properties 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 as at 31 December 2018. The impact is reflected in note 16 and note 17.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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 represent the Company's view of possible near-term market changes that cannot be predicted with any certainty.

(d) Asset lives and residual values

Property, plant 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) Depreciation policies

Property and equipment are depreciated to their residual values over their estimated useful lives. The residual value of an asset is the estimated net amount that the Company would currently obtain from disposal of the asset, if the asset were already of the age and in condition expected at the end of its useful life.

The directors therefore make estimates based on historical experience and use best judgement to assess the useful lives of assets and to forecast the expected residual values of the assets at the end of their expected useful lives.

(f) 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 both under IFRS 9 and IAS 39 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 basis and the qualitative assessment;
 - > The segmentation of financial assets when their ECL is assessed on a collective basis;
 - > Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs; and
- > Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT'D)

(f) Impairment of credit losses

- **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.

- **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 differ.

- **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 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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.

	2018 Rs'000	2017 Rs'000	2016 Rs'000
Interest income			
Loans interest	437,442	448,633	450,545
Interest on bank deposits	9,003	17,510	22,960
Others	36,699	43,006	34,217
	<u>483,144</u>	<u>509,149</u>	<u>507,722</u>
Interest expense			
Bank overdrafts	(303)	(185)	(1,209)
Bank loans	(23,921)	(26,969)	(33,459)
Plan Epargne Logement (PEL)	(42,519)	(45,363)	(48,585)
Housing deposits certificates - (HDC)	(107,677)	(111,331)	(113,807)
Others	(18)	(21)	(23)
	<u>(174,438)</u>	<u>(183,869)</u>	<u>(197,083)</u>
Interest suspended	<u>1,627</u>	<u>9,462</u>	<u>15,906</u>
Net interest income	<u>310,333</u>	<u>334,742</u>	<u>326,545</u>

For all financial instruments measured at amortised cost, interest income or expense is recorded at the effective interest rate, 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 revise their estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

7. OTHER OPERATING INCOME

	2018 Rs'000	2017 Rs'000	2016 Rs'000 Restated
Insurance premium (net of claims paid and change in incurred but not reported claims)	56,386	37,571	56,199
Profit on disposal of property development	-	-	52
Profit on disposal of NHDC property foreclosed	-	-	1,151
Profit on disposal of property and equipment	15	4	313
Others	2,986	2,576	2,402
	<u>59,387</u>	<u>40,151</u>	<u>60,117</u>

8. PERSONNEL EXPENSES

	2018 Rs'000	2017 Rs'000	2016 Rs'000
Salaries and human resource development	151,379	148,192	130,544
Pension contributions and other staff benefits	27,690	19,708	16,098
	<u>179,069</u>	<u>167,900</u>	<u>146,642</u>

9. OTHER EXPENSES

	2018 Rs'000	2017 Rs'000	2016 Rs'000
Maintenance and repairs	7,338	8,937	6,361
Travelling and transport	16,307	14,089	14,384
Staff welfare, training and study schemes	7,876	9,537	7,360
General expenses	5,274	4,643	5,213
Electricity	4,942	4,825	4,621
Passages benefits	5,477	6,526	5,689
Printing and stationery	2,313	1,877	1,942
Telephone	2,282	1,910	1,986
Motor vehicles running expenses	868	806	455
Directors' emoluments	3,158	3,413	3,000
Audit fees	1,208	1,150	1,121
Professional fees	7,772	3,713	2,149
Family protection schemes' contribution	2,039	1,788	1,762
Software maintenance costs	3,021	2,638	1,143
Rent of properties	2,244	1,735	1,504
Advertising	6,663	6,414	4,299
Postages	3,614	1,665	2,410
Legal fees and expenses	205	(24)	298
Foreclosed expenses	-	-	1,745
Sponsorship & Corporate Social Responsibility	1,666	563	189
Retirement benefits (Voluntary Early Retirement)	333	249	268
Donations	30	-	156
Le Hochet Development expenses	113	138	1,067
Others	1,816	1,445	1,654
	<u>86,559</u>	<u>78,037</u>	<u>70,776</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

10. PROFIT FOR THE YEAR	2018	2017	2016
	Rs'000	Rs'000	Rs'000
Profit for the year is arrived at after charging			
Depreciation on property and equipment	13,068	13,508	12,689
Amortisation on intangible asset	1,268	2,060	2,322
Staff costs Note (a)	181,441	169,937	148,672
(a) Analysis of staff costs	2018	2017	2016
	Rs'000	Rs'000	Rs'000
Wages and salaries (Note 8)	151,379	148,192	130,544
Pension costs and other contributions (Note 8)	27,690	19,708	16,098
Retirement benefits (Voluntary Early Retirement)	333	249	268
Family protection schemes' contribution	2,039	1,788	1,762
	181,441	169,937	148,672
11. DIVIDEND	2018	2017	2016
	Rs'000	Rs'000	Rs'000
Dividend	40,845	41,957	50,023
	Rs	Rs	Rs
Dividend per share	2.04	2.10	2.50
On 28th March 2019, the directors proposed a dividend in respect of the year ended 31 December 2018 of Rs 2.04 per share amounting to a total dividend of Rs 40,844,706. This dividend has not been recognised as a liability at 31 December 2018 in accordance with IAS 10 and pending approval from Bank of Mauritius.			
On 30th March 2018, the directors proposed a dividend in respect of the year ended 31 December 2017 of Rs2.10 per share amounting to a total dividend of Rs41,957,400.			
12. EARNINGS PER SHARE	2018	2017	2016
	Rs'000	Rs'000	Rs'000
Profit for the year	204,225	209,787	250,115
No. of shares	20,000,000	20,000,000	20,000,000
Earnings per share	Rs. 10.21	10.49	12.51
13(a) CASH AND CASH EQUIVALENTS	2018	2017	2016
	Rs'000	Rs'000	Rs'000
Cash in hand	1,111	953	681
Cash at banks	117,019	96,480	90,543
Treasury bills	-	-	89,521
	118,130	97,433	180,745

Cash and cash equivalents 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 at reputable financial institutions of Mauritius, as such, the ECL provisions are immaterial.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

13(b) TREASURY DEPOSIT	2018 Rs'000	2017 Rs'000	2016 Rs'000
Treasury deposit	300,000	375,000	400,000

The 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.

14. PROPERTY DEVELOPMENT	2018 Rs'000	2017 Rs'000	2016 Rs'000
At 1 January	2,405	2,405	4,818
Movement during the year	-	-	(2,413)
At 31 December	2,405	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 Ebène Cybervillage site.

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 2018, included in other liabilities is an amount of Rs 340,500 (2017 and 2016: Rs 340,500) representing deposit from potential buyer of the remaining property development.

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.

Prior to 01 January 2018

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate.

Loans and advances to non-bank customers are classified under loans and receivables and are measured at amortised cost, less allowance for credit impairment. Allowance for credit impairment consists of specific and portfolio allowances.

From 01 January 2018

From 1 January 2018, the Company only measures Loans and advances to customers and other financial investments at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

	2018 Rs'000	2017 Rs'000	2016 Rs'000
Fast loans	2,576	3,093	3,510
Secured loans	8,291,355	7,532,867	7,129,784
Total loan advanced	8,293,931	7,535,960	7,133,294
Provision for credit losses (Note (c) below)	(576,457)	(574,224)	(629,648)
Interest suspended	(166,774)	(168,402)	(177,864)
	7,550,700	6,793,334	6,325,782
Analysed as follows:			
Current	454,840	440,634	429,962
Non-current	7,839,091	7,095,326	6,703,332
	8,293,931	7,535,960	7,133,294

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

15. LOANS TO CUSTOMERS (CONT'D)

(b) Allowance for credit impairment

	2018	2017	2016
	Rs'000	Rs'000	Rs'000
Release of provision	56,373	55,424	69,081
Amount written off	-	(625)	-
	<u>56,373</u>	<u>54,799</u>	<u>69,081</u>

(c) Provision for credit losses

	Specific Provision	Portfolio Provision	Total
	Rs'000	Rs'000	Rs'000
At 1 January 2016	645,575	53,154	698,729
Movement during the year	(72,750)	3,669	(69,081)
At 31 December 2016	<u>572,825</u>	<u>56,823</u>	<u>629,648</u>
At 1 January 2017	572,825	56,823	629,648
Movement during the year	(60,259)	4,835	(55,424)
At 31 December 2017	<u>512,566</u>	<u>61,658</u>	<u>574,224</u>
As previously reported on 1 January 2018	512,566	61,658	574,224
Adjustment as per IFRS 9	63,367	(4,761)	58,606
As restated on 1 January 2018	575,933	56,897	632,830
Movement during the year	(62,777)	6,404	(56,373)
At 31 December 2018	<u>513,156</u>	<u>63,301</u>	<u>576,457</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

15. LOANS TO CUSTOMERS (CONT'D)

(d) Remaining term to maturity

	2018 Rs'000	2017 Rs'000	2016 Rs'000
Within 3 months	9,832	5,408	5,165
Over 3 months and up to 6 months	11,935	6,520	13,636
Over 6 months and up to 12 months	29,972	21,574	20,579
Over 1 year and up to 5 years	482,880	514,685	572,061
Over 5 years	7,759,312	6,987,773	6,521,853
Total	8,293,931	7,535,960	7,133,294

(e) Credit concentration of risk by industry sectors

	2018 Rs'000	2017 Rs'000	2016 Rs'000
Name of sector			
Construction - (Housing finance)	8,293,931	7,535,960	7,133,294

16. INVESTMENT PROPERTY

	Freehold Building Rs'000	Cybervillage land Rs'000	Total Rs'000
VALUATION			
At 01 January and 31 December 2016	66,240	38,000	104,240
Fair value adjustment in 2017	9,760	2,000	11,760
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

On 29th November 2018, 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.

The company has pledged its investment properties to secure the borrowings.

	2018 Rs'000	2017 Rs'000	2016 Rs'000
Rental income on investment properties	6,156	5,913	5,913

No expenses on investment properties were incurred during the year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

17. PROPERTY AND EQUIPMENT

	Freehold land Rs'000	Buildings Rs'000	Furniture and equipment Rs'000	Motor vehicles Rs'000	Total Rs'000
COST OR VALUATION					
At 1 January 2016	286,440	185,294	155,715	5,558	633,007
Additions	-	-	4,668	1,175	5,843
Disposals	-	-	(4)	(725)	(729)
At 31 December 2016	286,440	185,294	160,379	6,008	638,121
Additions	-	-	6,723	-	6,723
Disposals	-	-	(4)	-	(4)
At 31 December 2017	286,440	185,294	167,098	6,008	644,840
Additions	-	-	3,064	1,770	4,834
Fair Value Adjustment	69,430	41,427	-	-	110,857
Disposals	-	-	(1,735)	-	(1,735)
At 31 December 2018	355,870	226,721	168,427	7,778	758,796
DEPRECIATION					
At 1 January 2016	-	-	124,672	2,851	127,523
Disposal	-	-	(4)	(725)	(729)
Charge for the year	-	3,610	8,070	1,009	12,689
At 31 December 2016	-	3,610	132,738	3,135	139,483
Disposal	-	-	(4)	-	(4)
Charge for the year	-	4,280	8,219	1,009	13,508
At 31 December 2017	-	7,890	140,953	4,144	152,987
Disposal	-	-	(1,735)	-	(1,735)
Charge for the year	-	3,706	8,194	1,168	13,068
Fair Value Adjustment	-	(11,596)	-	-	(11,596)
At 31 December 2018	-	-	147,412	5,312	152,724
NET BOOK VALUE					
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
At 31 December 2016	286,440	181,684	27,641	2,873	498,638

The land and buildings are classified as Level 2 in terms of the fair value hierarchy.

Revaluation of land and building

On 29th 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 have been 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

17. PROPERTY AND EQUIPMENT (CONT'D)

Revaluation of land and building (cont'd)

The book values of the properties were adjusted to the revalued amounts and the resultant 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:

	2018 Rs' 000	2017 Rs' 000	2016 Rs' 000
Cost	15,183	15,183	15,183
Accumulated depreciation	(6,724)	(6,420)	(6,116)
Net book value	8,459	8,763	9,067

The company has pledged its property and equipment to secure the borrowings.

18. INTANGIBLE ASSETS

	COMPUTER SOFTWARE Rs'000	PROGRESS PAYMENTS Rs'000	TOTAL Rs'000
COST			
At 1 January 2016	16,926	24,180	41,106
Additions	3,804	9,909	13,713
At 31 December 2016	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
AMORTISATION			
At 1 January 2016	15,080	-	15,080
Charge for the year	2,322	-	2,322
At 31 December 2016	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
NET BOOK VALUE			
At 31 December 2018	-	59,097	59,097
At 31 December 2017	1,268	47,266	48,534
At 31 December 2016	3,328	34,089	37,417

The directors have reviewed the carrying value of the intangible assets and are of opinion that at 31 December 2018, the carrying value has not suffered any impairment.

The progress payment refers to cost incurred for the implementation of a new Core Banking System. The project is still under the user acceptance testing phase.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

19 (a) OTHER ASSETS	2018	2017	2016
	Rs'000	Rs'000	Rs'000
Staff loans	30,000	17,715	17,043
Amount receivable from Government	107,358	112,652	106,398
Instalments due from customers	46,482	102,500	95,072
Other receivables and prepayments	26,690	15,295	15,182
	<u>210,530</u>	<u>248,162</u>	<u>233,695</u>
Less provision for impairment	(3,349)	(12,500)	(12,500)
	<u>207,181</u>	<u>235,662</u>	<u>221,195</u>
19 (b) ASSETS HELD FOR SALE	2018	2017	2016
	Rs'000	Rs'000	Rs'000
Foreclosed properties	63,607	73,202	68,809
Allowance for impairment on foreclosed property	(4,363)	(11,373)	(10,052)
Land and apartments repossessed	4,801	5,058	3,978
At 31 December	<u>64,045</u>	<u>66,887</u>	<u>62,735</u>
<p>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.</p> <p>Legal procedures normally take between 2 to 3 years. Where properties do have a potential buyer during the legal procedures, same is not rented.</p>			
20(a). PEL AND OTHER SAVINGS ACCOUNTS	2018	2017	2016
	Rs'000	Rs'000	Rs'000
Capital	1,398,843	1,303,758	1,239,949
Interest payable	417,964	438,404	455,216
Other savings accounts	1,863	1,845	1,825
	<u>1,818,670</u>	<u>1,744,007</u>	<u>1,696,990</u>
20(b). HOUSING DEPOSIT CERTIFICATES	2018	2017	2016
	Rs'000	Rs'000	Rs'000
Capital	2,181,416	2,069,851	1,841,580
Interest payable	211,637	220,476	221,485
	<u>2,393,053</u>	<u>2,290,327</u>	<u>2,063,065</u>
Analysed as follows:			
Current	457,924	504,017	405,271
Non-current	1,935,129	1,786,310	1,657,794
	<u>2,393,053</u>	<u>2,290,327</u>	<u>2,063,065</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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

	2018 Rs'000	2017 Rs'000	2016 Rs'000
Analysed as follows:			
Individuals	1,757,873	1,764,819	1,781,953
Corporates	635,180	525,508	281,112
	<u>2,393,053</u>	<u>2,290,327</u>	<u>2,063,065</u>

	2018		2017		2016	
	Capital Rs'000	Interest Rs'000	Capital Rs'000	Interest Rs'000	Capital Rs'000	Interest Rs'000
Within 3 months	164,268	41,887	65,949	10,171	68,565	4,497
Over 3 months and up to 6 months	107,515	26,852	105,080	21,618	34,000	5,785
Over 6 months and up to 12 months	100,753	16,649	254,282	46,917	232,309	60,115
Over 1 year and up to 2 years	439,821	59,562	371,985	69,233	387,848	60,343
Over 2 years	1,369,059	66,687	1,272,555	72,537	1,118,858	90,745
	<u>2,181,416</u>	<u>211,637</u>	<u>2,069,851</u>	<u>220,476</u>	<u>1,841,580</u>	<u>221,485</u>

The HDC balance at the end of the year include an amount of Rs646.5M (31 Dec 2017: Rs648.1M) which was due to one of the Company largest depositors, with a deposit concentration ratio of 27.0% (31 Dec 2017: 28.3%).

21 BORROWINGS

	2018 Rs'000	2017 Rs'000	2016 Rs'000
Current			
Bank overdrafts (Secured) (Note (d) below)	944	2,864	5,871
Loan capital (Note (a) below)	9,088	9,067	9,483
Short term loan (Note (f) below)	100,000	-	-
Bank loans (Note (b) below)	158,334	83,333	83,333
	<u>268,366</u>	<u>95,264</u>	<u>98,687</u>
Non-current			
Loan capital (Note (a) below)	112,338	119,833	118,635
Bank loans (Note (b) below)	511,662	269,997	353,330
Loan - Government of Mauritius (Note (c) below)	11,162	11,162	11,162
	<u>635,162</u>	<u>400,992</u>	<u>483,127</u>
Total borrowings	<u>903,528</u>	<u>496,256</u>	<u>581,814</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

21. BORROWINGS (CONT'D)

(a) Loan capital - Government Guaranteed

Rate of interest	Lenders	Terms of repayment	Repayment period	2018 Rs'000	2017 Rs'000	2016 Rs'000
2.50%	European Development Fund	Half Yearly	30.12.1991 – 30.06.2021	4,790	6,624	8,413
6.00%	Mauritius Marine Authority	Yearly	11.09.1998 - 11.07.2017	-	-	411
5.00%	Mauritius Marine Authority	Yearly	28.07.1999 - 28.07.2018	-	115	224
5.00%	Mauritius Marine Authority	Yearly	23.02.2001 - 23.02.2020	746	1,093	1,423
5.00%	Mauritius Marine Authority	Yearly	27.04.2002 - 27.04.2021	1,202	1,565	1,911
5.00%	Mauritius Marine Authority	Yearly	20.05.2002 - 20.05.2022	768	938	1,100
5.00%	Mauritius Marine Authority	Yearly	09.07.2002 - 19.07.2023	834	977	1,114
5.00%	Mauritius Marine Authority	Yearly	14.08.2009 - 14.08.2028	3,183	3,437	3,678
5.00%	Mauritius Marine Authority	Yearly	21.07.2012 - 21.07.2031	4,070	4,289	4,498
5.00%	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	1,756	2,378	3,130
6.00%	Anglo Mauritius	Quarterly	29.02.2008 – 01.02.2028	46,250	51,250	56,250
3.00%	Bank of Mauritius	Yearly	No fixed repayment terms	54,193	52,600	42,332
				121,426	128,900	128,118
Less repayable within one year shown as short term loans				(9,088)	(9,067)	(9,483)
				112,338	119,833	118,635
Repayable by instalments:						
- after one year and before five years				28,690	31,817	34,760
- after five years				25,821	31,782	37,909
Repayment terms not yet finalised				3,634	3,634	3,634
Repayable other than by instalments				54,193	52,600	42,332
				112,338	119,833	118,635

Included in borrowings, is the balance of housing loans for Bank of Mauritius staff scheme amounting to Rs 54.2 M (2017:Rs 52.6M and 2016: Rs 42.3M) which are managed by Mauritius Housing Company Ltd in return for a payment of a six monthly service charge on the outstanding balance.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

21. BORROWINGS (CONT'D)

(b) Bank loans	2018 Rs'000	2017 Rs'000	2016 Rs'000
4.50% - 5.40% (31 December 2017: 5.50% - 7.40% and 31 December 2016: 5.72% - 7.40%) per annum bank loans repayable by monthly/quarterly instalments	669,996	353,330	436,663
Current			
Portion repayable within one year	158,334	83,333	83,333
Non-current			
Portion repayable after one year and before five years	479,995	249,995	306,663
Portion repayable after five years	31,667	20,002	46,667
	511,662	269,997	353,330
Total	669,996	353,330	436,663

Included in the bank loans is an amount of Rs 473,333,333 (2017: Rs 86,666,667 and 2016: Rs 100,000,000) secured by 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 is interest free, unsecured and will not be repaid within the next twelve months. The Directors are of opinion that the carrying amount of the loan reflects the fair value.

(d) Bank overdrafts are secured against fixed deposits that the Company holds with the respective banks.

(e) The carrying amounts of borrowings are not materially different from their fair values.

(f) The Company has entered into a Money Market line agreement with Bank One at the rate of 3.7% renewable every four months in order to secure its liquidity position.

22. RETIREMENT BENEFIT OBLIGATIONS

Amounts recognised in the statement of financial position:

	2018 Rs' 000	2017 Rs' 000	2016 Rs' 000
Amounts recognised in the statement of financial position:			
- Pension benefits (note (a)(ii))	288,665	256,998	144,708
- Funds kept within the Company (note (c))	10,560	10,560	10,560
	299,225	267,558	155,268
Amount charged to profit or loss:			
- Pension benefits (note (a)(iii))	25,723	19,636	16,098
Amount charged to other comprehensive income:			
- Pension benefits (note (a)(iv))	18,411	105,078	14,657

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

22. RETIREMENT BENEFIT OBLIGATIONS (CONT'D)**(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:

	2018	2017	2016
	Rs'000	Rs'000	Rs'000
Pension benefit obligations	602,822	578,022	438,882
Fair value of plan assets	(314,157)	(321,024)	(294,174)
Liability recognised at end of year	<u>288,665</u>	<u>256,998</u>	<u>144,708</u>

(iii) The amounts recognised in profit or loss are as follows:

	2018	2017	2016
	Rs'000	Rs'000	Rs'000
Current service cost	15,347	17,294	12,649
Fund expenses	352	376	339
Net Interest expense	16,674	8,576	9,097
Employee contributions	(6,650)	(6,610)	(5,987)
Total included in staff costs	<u>25,723</u>	<u>19,636</u>	<u>16,098</u>
Actual return on plan assets	<u>11,006</u>	<u>23,314</u>	<u>10,904</u>

(iv) The amounts recognised in other comprehensive income are as follows:

	2018	2017	2016
	Rs'000	Rs'000	Rs'000
Remeasurement			
Liabilities loss	9,850	110,635	5,398
Assets loss/(gain)	8,561	(5,557)	9,259
	<u>18,411</u>	<u>105,078</u>	<u>14,657</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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:

	2018 Rs'000	2017 Rs'000	2016 Rs'000
At 1 January,	256,998	144,708	125,178
Charged to profit or loss	25,723	19,636	16,098
Contributions paid	(12,467)	(12,424)	(11,225)
Charged to other comprehensive income	18,411	105,078	14,657
At 31 December,	288,665	256,998	144,708

- (vi) The movement in the defined benefit obligations over the year is as follows:

	2018 Rs'000	2017 Rs'000	2016 Rs'000
At 1 January,	578,022	438,882	417,999
Current service cost	15,347	17,294	12,649
Interest expense	36,243	26,333	29,260
Benefits paid	(36,640)	(15,122)	(26,424)
Liability experience losses	9,850	110,635	5,398
At 31 December,	602,822	578,022	438,882

- (vii) The movement in the fair value of plan assets of the year is as follows:

	2018 Rs'000	2017 Rs'000	2016 Rs'000
At 1 January,	321,024	294,174	292,821
Expected return on plan assets	19,568	17,756	20,163
Employer contributions	12,184	12,175	10,977
Employee contributions	6,650	6,610	5,987
Benefits paid	(36,708)	(15,248)	(26,515)
Assets (loss)/gain	(8,561)	5,557	(9,259)
At 31 December,	314,157	321,024	294,174

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

22. RETIREMENT BENEFIT OBLIGATIONS (CONT'D)

(viii) Distribution of plan assets at end of year

	2018	2017	2016
Percentage of assets at end of year/period			
Fixed securities and cash	56.5%	57.7%	57.8%
Loans	3.8%	3.9%	4.6%
Local equities	13.6%	15.5%	14.8%
Overseas bonds and equities	25.5%	22.3%	22.1%
Property	0.6%	0.6%	0.7%
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:

	2018	2017	2016
Discount rate	6.27%	6.00%	7.00%
Future salary growth rate	5.00%	5.00%	5.00%
Future pension growth rate	4.00%	4.00%	3.00%

The discount rate is determined by reference to market yields on bonds.

(x) Sensitivity analysis on defined benefit obligations at end of the reporting date:

Significant actuarial assumptions for the determination of the defined benefit obligation are discount rate, expected salary increase and mortality. The sensitivity analyses below have been determined based reasonably on possible changes of the assumptions occurring at the end of the reporting period.

If the discount rate would be 100 basis points (one percent) higher (lower), the defined benefit obligation would decrease by Rs 81.3 M (increase by Rs 102.9 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 43.6 M (decrease by Rs 37.6 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 18.0 M (decrease by Rs 18.0 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 2019 amount to **Rs 10,596,688**

(xiii) The weighted average duration of the defined benefit obligation is 15 years.

(xiv) The funding requirements are based on the pension fund's actuarial measurement framework set out in the funding policies of the plan.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

22. RETIREMENT BENEFIT OBLIGATIONS (CONT'D)

(b) State Pension Plan	2018 Rs'000	2017 Rs'000	2016 Rs'000
National Pension Scheme contributions	1,080	1,158	1,141

- (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

	2018 Rs'000	2017 Rs'000	2016 Rs'000
Deposits against foreclosed properties	6,649	12,722	11,222
Leave passage provision	13,117	18,052	16,634
Accruals	8,216	20,086	6,979
Other payables	18,297	18,181	15,770
	46,279	69,041	50,605

The company has financial risk management in place to ensure that all payables are paid within the credit timeframe.

24. INSURANCE FUNDS

	2018 Rs'000	2017 Rs'000	2016 Rs'000
Life assurance reserve (Note (a))	92,825	91,318	71,947
Building insurance reserve	-	1,507	-
Mortgage insurance reserve	4,275	4,275	4,275
	97,100	97,100	76,222

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

24. INSURANCE FUNDS (CONT'D)

- (a) The policy liabilities have been valued as at 31 December 2017 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. The actuary concluded that the policy liabilities together with the capital requirement do not exceed the amount of the insurance fund. It is the Company's policy to have independent Actuarial Valuation every two years. The Directors consider that at 31 December 2018 the fund is adequate.

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 in the report dated 15 February 2018 to calculate these liabilities are:

- investment return: 3.66% p.a
 - renewal expenses: Rs 807.79 per policy per annum, increasing at 3.38% per annum
 - 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: Nil
- Contingency provision: 10% of basic reserve

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.

25. SHARE CAPITAL

	2018	2017	2016
	Rs'000	Rs'000	Rs'000
Authorised			
25,000,000 ordinary shares of Rs10 each	250,000	250,000	250,000
Issued and fully paid			
20,000,000 ordinary shares of Rs10 each	200,000	200,000	200,000

Fully paid ordinary shares, which have a par value of Rs10, carry one vote per share and a right to dividends.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

26. OTHER COMPREHENSIVE INCOME	Revaluation Reserve Rs'000	Actuarial gains (losses) Rs'000	Foreclosed property Rs'000
<i>Items that will not be reclassified to profit or loss:</i>			
2018			
Gain on revaluation of land & buildings	122,454	-	-
Remeasurement of defined benefit obligations	-	(18,411)	-
2017			
Gain on revaluation of foreclosed properties	-	-	(2,673)
Remeasurement of defined benefit obligations	-	(105,078)	-
2016			
Gain on revaluation of land & buildings	-	-	-
Remeasurement of defined benefit obligations	-	(14,657)	-

Revaluation reserve

The revaluation reserve arises on the revaluation of freehold land and buildings.

Actuarial gains (losses)

The actuarial gain (losses) reserve represents the cumulative remeasurement of defined benefit obligation recognised based on independent actuarial valuation.

Foreclosed property reserve

The foreclosed property reserve represents the unrealised profit arising on foreclosed properties acquired by the company. In 2017, the amount has been transferred to retained earnings as these relate to gain on foreclosed property previously classified under the Foreclosed property reserve.

27. BUILDING INSURANCE RESERVE	2018 Rs'000	2017 Rs'000	2016 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 2017. The Directors consider that at 31 December 2018 the fund is adequate.

28. RETAINED EARNINGS	2018 Rs'000	2017 Rs'000	2016 Rs'000
At 1 January	1,982,437	1,926,138	1,730,501
Adjustment as per IFRS 9	(58,606)	-	-
Movement on reserve	(18,411)	1,613	-
Profit for the year	204,225	209,787	250,115
Actuarial reserve	-	(105,078)	(14,657)
Dividends (Note 11)	(41,957)	(50,023)	(39,821)
At 31 December	2,067,688	1,982,437	1,926,138

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

29. OTHER RESERVES

	At 1 January 2016	Movement during the year		At 31 December 2016
	Rs'000	DR Rs'000	CR Rs'000	Rs'000
Foreclosed property reserve	2,673	-	-	2,673
EDF revolving fund	12,068	-	-	12,068
Gervaise reserve	529	-	-	529
General reserve	106,590	-	-	106,590
	<u>121,860</u>	<u>-</u>	<u>-</u>	<u>121,860</u>

	At 1 January 2017	Movement during the year		At 31 December 2017
	Rs'000	DR Rs'000	CR Rs'000	Rs'000
Foreclosed property reserve	2,673	(2,673)	-	-
EDF revolving fund	12,068	-	-	12,068
Gervaise reserve	529	-	-	529
General reserve	106,590	-	-	106,590
	<u>121,860</u>	<u>(2,673)</u>	<u>-</u>	<u>119,187</u>

	At 1 January 2018	Movement during the year		At 31 December 2018
	Rs'000	DR Rs'000	CR Rs'000	Rs'000
Foreclosed property reserve	-	-	-	-
EDF revolving fund	12,068	-	-	12,068
Gervaise reserve	529	-	-	529
General reserve	106,590	-	-	106,590
	<u>119,187</u>	<u>-</u>	<u>-</u>	<u>119,187</u>

30. COMMITMENTS

	2018	2017	2016
	Rs'000	Rs'000	Rs'000
(a) Loans			
Loans approved but not yet disbursed to individuals	<u>344,382</u>	<u>168,560</u>	<u>160,535</u>

(b) Capital commitments

The Company has a total capital commitment of Rs.118.55M out of which Rs65.5M is in respect of the new Core banking system and Rs53.1M relating to Le Hochet Housing development project and Roche Brunes project.

(c) Operating lease

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

30. COMMITMENTS (CONT'D)

(c) Operating lease (cont'd)

	2018 Rs'000	2017 Rs'000	2016 Rs'000
Rent received under operating lease recognised in statement of profit or loss.	6,156	5,913	5,913

There were no direct operating expenses incurred in respect of the investment property.

The future minimum lease payments receivable under non-cancellable operating leases are as follows:

	2018 Rs'000	2017 Rs'000	2016 Rs'000
Within one year	6,156	5,913	5,913
Between 2 and 5 years	24,625	23,653	23,653
After more than 5 years	6,156	5,913	5,913
	36,937	35,479	35,479

The Company as a lessee*Leasing arrangements*

Operating lease payments represent rental for office buildings. The leases are negotiated for an average term of 3-5 years and rentals are fixed for an average of 3-5 years. The Company does not have an option to purchase the property at the expiry of the lease period.

	2018 Rs'000	2017 Rs'000	2016 Rs'000
Minimum lease payment	2,244	1,735	1,504

At the reporting date, the Company had outstanding commitments under non-cancellable operating leases which fall due as follows:

	2018 Rs'000	2017 Rs'000	2016 Rs'000
Within one year	2,295	2,250	1,637
Between 2 and 5 years	9,917	9,659	7,024
	12,212	11,909	8,661

31. TAXATION

Pursuant to the Mauritius Housing Company Corporation (Transfer of Undertaking) Act 1989, all rights and privileges of the Mauritius Housing Corporation have been transferred to Mauritius Housing Company Ltd. The provisions of this Act have also dispensed the Company from any income tax/capital gain tax liability.

No deferred tax asset or liability has been provided in the financial statements due to the exempt income tax status of the Company.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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	2018 Rs'000	2017 Rs'000	2016 Rs'000
Shareholders of the company				
Government of Mauritius	Loans	2,457	2,541	2,481
	Interest paid	214	13	14
	Interest received	31,619	37,541	30,083
	Rental expense	38	38	38
Others	Other transactions	38	38	35
Directors and key management personnel				
	Loans	4,012	4,093	2,187
	Loan interest	795	731	812
	Deposits capital	(76)	(750)	2,630
	Deposits interest	225	(20)	464
	PEL capital	207	909	580
	PEL interest	(351)	273	99

Remuneration and other benefits relating to key management personnel, including directors, were as follows:

		2018 Rs'000	2017 Rs'000	2016 Rs'000
Salaries and benefits		22,850	22,186	20,231
		(Credit)/ debit balances at 31 December 2018 Rs'000	(Credit)/ debit balances at 31 December 2017 Rs'000	(Credit)/ debit balances at 31 December 2016 Rs'000
Government of Mauritius	Loans	(17,708)	(20,164)	(22,705)
	Interest payable	(36)	(49)	(62)
	Interest receivable	104,009	100,152	93,898
Directors and key management personnel	Loans	19,625	20,946	20,440
	Deposits capital	3,749	3,825	4,575
	Deposits interest	973	748	768
	PEL capital	5,434	5,227	4,318
	PEL interest	179	530	257

The terms of the borrowings have been disclosed in Note 21(a).

The loans to directors and key management personnel are secured by a first rank mortgaged on their property bearing an interest rate ranging between 4% to 5% and has a maximum repayment capacity of 40% of monthly salary.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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. HOLDING AND CONTROLLING ENTITY

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. SUBSEQUENT EVENTS

The Directors are of the opinion that no material adjusting and non-adjusting events have arisen between the reporting date and the date the financial statements were approved, except for as disclosed in Notes 11 to the financial statements.