Mauritius Housing Company Ltd

("MHC or the "Company")

Management Discussion & Analysis

Directors are pleased to submit the Financial Statements and this management discussion paper for the period ended 30 June 2023. The financial reports have been prepared in accordance with the Bank of Mauritius guidelines on public disclosures of information and the international financial reporting standards and other accounting standards where applicable.

1.0 The Economic Environment

The latest indications show that the Mauritian economy is slowly picking up. Government in its last budget announced some challenges to build back the economy through promoting a higher economic growth, more jobs, higher revenue, higher investment, higher foreign direct investment, and higher exports. The economic players now forecast that the domestic recovery from the COVID-19 pandemic should continue, and the revised projection for real GDP growth in 2023 will be around 5%. The inflation rate at June 2023 stood at around 10% compared to 7.7% in June 2022. Going forward, the annual average headline inflation on the current trends is expected to decline to 5% by the end of December 2023.

From a policy perspective, to counter the inflation, the Bank of Mauritius has, as expected, pursued its monetary policy tightening cycle to quell inflation with the key repo rate. The latter was raised from 2.25% to 4.5% in June 2023 implying a cumulative rise of 2.25 basis points since the beginning of the financial period.

The economic environment also encouraged further expansion of housing credit, with low interest rates prevailing during the first half of 2022. Fiscal support measures introduced in 2021-2022 also increased households' demand for housing loans.

Housing credit expanded from 9.7% as at end of December 2021 to an annual rate of 13.7% as at end of June 2023. Therefore, the share of housing loans as a proportion of total credit disbursed by financial sector increased from 26.1% to 26.5% respectively.

As per the monetary policy, the risks to financial stability arising from the household sector have so far been well contained. The tightening of high inflation and the phasing-out of several pandemic-related support measures as from 01 July 2022 was likely to exert financial strains on households going forward. Further interest rate increases would increase the debt servicing costs and a drop in real income of households.

The end of moratorium on loans to households may lead to an increase in monthly debt servicing costs for the beneficiaries. To counter this effect, several fiscal measures were announced in 2022-2023 to alleviate financial strains on households, especially the most vulnerable ones. Individuals earning up to a predefined income threshold became eligible for a monthly income allowance. In addition, the income threshold for individuals to benefit from a lower tax rate was raised. These measures are expected to partly shield vulnerable households from the impact of high inflation and rising interest rates.

Overview

The principal activities of the Company are to grant housing loans and offer deposit facilities to the public at large. We had a challenging environment and market pressures coupled with fluctuation of interest rates. The year 2022/2023 was characterized by consolidating our business environment, by increasing returns, reducing costs, increasing our asset base, improving non-performing assets ("NPA"), and come with innovative products that suit our customer needs.

We pursued our endeavor to reduce the operating costs, which has started to show positive results. We also took a prudent approach to liquidity management and actively monitored the maturity and symmetry of all assets and liabilities. We have also consolidated our deposit base, while retaining sufficient liquid assets to meet unforeseen liquidity needs.

Apart from the business operations, we have during this current year focused a lot on the risk aspect. We have developed several policies which established the control aspect across the organisation. Enhancement has been brought on managing risks through the implementation of the risk framework. Risks identification has been across the organisation through brainstorming and workshops. Lots of efforts have also been put in categorisation of risk including their impact on our financials. Management is committed for a proper control and enhancing them with emerging measures. The second line and the third line of defense continue to work independently to bring support to board objectives regarding risk.

In addition to the above, an effective control system has been implemented through a proper reporting system and assessment. Focus has also been made on the financial control with the emphasis on safeguarding our assets.

Our IT system has also been enhanced to respond to our business objectives and to respond to our customer needs. The implementation of e-correspondence, online registration and the IVR system give a different dimension to service the customers. Besides, we have also enhanced our security aspects by upgrading of the existing firewall and the network system. Presently customers have the possibility to connect with several mobile platforms to pay their monthly instalments. These facilities enable the customers to transact more easily.

To further focus on the market, we have set up a new marketing and communication department. The main objectives are to come with innovative products and be in line with the customer demand, and to enhance communication by using different channels.

2.0 Financial Review

2.1 Performance Against Objectives

The targets for 2022/2023 were set with the objectives of improving and consolidating key areas to be in line with the Company's mission and to maintain growth. The focus was to increase revenue and to contain costs, reduce NPA, increase the deposit base, implement cost savings measures which will increase growth, increase returns to shareholders and improve efficiency, which will eventually result in an increase in profits and reserves.

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

Objectives	Budgeted 22/23	Achieved 22/23	Expected June 23/24
Gross Profit (Rs m)	112	109.9	128
Net Profit (Rs m)	99	103	106
NPA Level	13.7%	14.3%	12.2%
Cost to Income Ratio	82.0%	85.0%	80%
Total Assets Growth (Rs m)	12,985	13,055	13,958
Housing Loan Assets Growth (Rs m)	10,463	10,476	11,263

a) Gross profit was forecasted to Rs 112m; we have achieved Rs 109.9m, a short fall of Rs 2.1m, that is a negative performance of 1.9%.

b) Net profit was budgeted to Rs 99m; we have achieved an amount of Rs 103m that is a positive variance of 4.04%. The main causes are due to increase in fees income and cost containment strategies, return in investments, fees income and fair valuation gains.

c) The objective for non-performing loan was set to 13.7%; the ratio achieved stood at 14.3%, showing an increase of 4.3% mainly due to the impact of rise in interest rates.
d) Cost was contained as far as possible but due to committed cost, a marginal increase was noted. Cost to income was set to be at 82%. Achieved ratio stood at 85% compared to the initial target.
e) Total assets grew to Rs 13,055m compared to budgeted amount of Rs 12,985m.
f) The loan portfolio had a growth of 0.12% that is Rs 10,476m compared to the budgeted amount of Rs 10,463m.

2.2 Key Financial Indicators

Statement of Profit and Loss (Rs m)	**Year ended 30 June 2023**	**Year ended 30 June 2022**	**18 months to June 2021**
Interest Income	628.0	406.01	548.10
Interest Expense	290.0	144.51	216.24
Net Profit	103.7	96.9	75.77
Retained Earnings	2,182	2,137.7	2,101.3
Interest Cover (Times)	2.16	2.81	2.53
Net Profit Margin (%)	14.0	18.6	10.48
Statement of Financial Position (Rs m)			
Housing Loans Assets	10,476	9,895.6	9,352.80
Fixed Assets (Net of Depreciation)	504.5	549.24	516.94
Total Assets	13,054.1	11,870.9	11,152.3
Net Assets	3,485.0	3,471.6	3,398.9
Shareholders' Funds	3,239.1	3,227.07	3,154.2
Capital Employed	7,884.7	7,401.7	7,079.1
PEL & JPS (Capital Deposited)	1,678.1	1,640.73	1,606.75
HDC (Capital Deposited)	6,097.0	5,311.51	4,631.91
Performance Ratios			
Interest Income Growth (%)	54.6	11.1	4.15
Total Income Growth (%)	41.6	7.9	14.10
Interest Expense Growth (%)	100.7	-33.17	12.68
Total Expense Growth (%)	35.6	8.9	37.14
Total cost to Total income (%)	85.0	88.9	88.0
ROCE (%)	1.32	1.31	1.07
EPS (Rs)	5.19	4.85	3.79
Net Interest Margin/ Interest Earning Assets (%)	3.18	2.55	3.38
Net Interest Income /Total Assets	2.59	2.20	2.97
Return on Total Assets (%)	0.79	0.82	0.68
Return on Shareholders' Funds (%)	3.20	3.01	2.39
Total Income to Capital Employed	9.34	7.02	10.2
Reserves	3,239	3,271.6	3,198.8
Current Ratio	1.19	1.23	1.40
Gearing (Times)	1.83	1.69	1.65
Asset Quality			
Non-Performing Loan	14.3	13.5	16.2

Portfolio Quality (%)	5.22	5.53	6.02
Debt Coverage Ratio	50.0	56.09	51.69

2.3 Financial Analysis

(i) Summarised Income Statement

Items	Year ended 30 June 2023 Rs m	Year ended 30 June 2022 Rs m	18 months to June 2021 Rs m
Net interest income	337.9	261.5	331.9
Other income	109.2	114.3	175.0
Operating income	**447.1**	**375.8**	**506.9**
Non- interest expenses	(337.2)	(317.9)	(420.5)
Operating profit before impairment	**109.9**	**57.9**	**86.4**
Provision on other assets	(0.3)	(0.2)	24.3
Impairment provision	(6.5)	8.5	(38.0)
Profit on foreclosed properties	0.5	7.4	0.1
Provision for loss on disposal- property development	(1.3)		
Increase in fair value adjustment-investment properties	1.4	23.3	2.9
Profit for the year/period	**103.7**	**96.9**	**75.7**

Figures for 30 June 2023 and 30 June 2022 are comparable since both are for 12 months. Whilst, figures for the period ended June 2021 represents an accounting period of eighteen months due to alignment of financial periods from December to June. The figures for period June 2021 are therefore not comparable with the current year.

a) Revenue

Our gross revenue for the 12 months ended 30 June 2023 stood at Rs 737.2m compared to June 2022 amounting to Rs 520.3m. Gross revenue rose by 41.6% compared to the corresponding period. This improved performance is mainly attributable to higher net interest income on our loan business, interest on deposits and other fee income.

b) Other Income

Other income amounted to Rs 109.2m for the 12 months ended 30 June 2023 as compared to Rs 114.3m for 2022. Other income consists mainly of insurance premiums, rent on investment properties and fee-based income collected from loan clients. The slight decrease of 4.4% is mainly due to premium from insurance fee where clients have opted to contract insurance policies from third parties and some loans for which we are not offering insurance policies.

c) Expenses

Interest Expense

Interest expense amounted to Rs 290m for the 12 months ended 30 June 2023 as compared to Rs 144.5m for 2022. Interest expense represents interest payable on borrowings, savings, and term deposits accounts. The increase in interest is mainly due to the increase in deposits and the impact of increase in the key rate.

Non-interest Expense

Non-interest expense amounted to Rs 337.2m for the 12 months ended 30 June 2023 as compared to Rs 317.9m for 2022, that is an increase of 6.07%. We have as far as possible contained the cost following the strategies put in place. Other expenses have followed the same trend compared to other financial periods. There has been a slight increase in the depreciation charge due to additions to our fixed assets. The recurrent expenses increased slightly due to increase maintenance costs. The personnel expenses stood at Rs 191.6m compared to Rs 175.8m; a net increase of Rs 15.8m. An amount of Rs 10.8m has been accrued for the payment effected after year end for performance bonus relating to period January 2021 to June 2022 and for the amount due for the period July 2022 to June 2023.

d) Cost Ratios

The total cost stood at Rs 627.2m at June 2023 compared Rs 462.4m at June 2022 whilst, the total revenue stood at Rs 737.2m at June 2023 compared to Rs 520.3m at June 2022.

Cost to income ratio stood at 88.9% as at June 2022 for the current period at June 2023 the cost to income has decreased to 85.0%. The cost to income ratio has improved by 4.3%. Non-interest expense to total income ratio stood at 45.7% compared to 61.0% for 30 June 2022. Personnel expenses to total operating expenses represents 30.5% at June 2023 compared to 38% at June 2022.

e) Other items affecting the income statement

The Company made provision against its financial assets including loans and investment in deposits as required by IFRS 9 and Bank of Mauritius guidelines. For the 12 months ended 30 June 2023 an additional provision of Rs 6.5m has been provided compared to a reversal of provision in June 2022 of Rs 8.5m. The additional impairment provision was mainly due to credits that have deteriorated from stage 2 to 3 resulting from the increase in interest rates and economic conditions.

The Company is committed to dispose as soon as possible all the foreclosed properties; sales are mainly through bid exercise. A net gain of Rs 0.5m has been realised on the sale of foreclosed properties compared to a gain of Rs 7.4m for 2022. Whilst, a provision for loss of Rs 1.3m has been charged to the income statement for the housing units at Le Hochet where sales has not yet been finalized at year end. Additionally, our investment properties have appreciated in its fair value by Rs 1.3m.

Our operating profit grew by 89.8% that is from Rs 57.9m for June 2022 to Rs 109.9m June 2023. The result shows that for the current year our operating profit improved by two folds mainly due to improved sales volume, improved fee income, our product development strategies in line with the market demand the increase in interest rate, increase in return on investment, improvement in the recovery process for default cases and the cost containment strategies put forward.

Whilst, our net profit for June 2023 stood at Rs 103.7m compared to Rs 96.9m for 30 June 2022. Our net profit has improved by 7.0% after accounting for some exceptional items such as impairment for non-performing accounts and gain on sales of foreclosed properties.

The earnings per share for the year under review increased to Rs 5.19 compared to Rs 4.85 for 30 June 2022. The return on capital employed was 1.32% as at June 2023 whilst as at 30 June 2022 it stood at 1.31%.

(ii) Assets and liabilities at 30 June 2023

Items	Jun 2023 Rs m	Jun 2022 Rs m	Jun 2021 Rs m
Cash & cash equivalents	148.1	373.3	465.4
Treasury deposits	2,275.0	1,375.0	1,150.0
Property development	120.6	136.4	149.4
Loan to customers	9,641.0	9069.2	8,497.3
Investment property	153.0	151.6	128.3
Investment in subsidiary	25.0	-	-
Property & equipment	504.6	549.2	516.9
Intangible assets	115.4	132.3	150.1
Other assets	18.3	26.9	34.7
Asset held for sale	53.1	57.0	59.8
Total Assets	**13,054.1**	**11,870.9**	**11,152.3**
Equity	3,483.7	3,471.6	3,398.9
Savings & deposits	8,334.7	7450.1	6,734.2
Borrowings	515.2	324.8	456.5
Insurance funds	123.9	123.9	123.9
Other payables	596.6	500..5	438.8
Total Equity & Liabilities	**13,054.1**	**11,870.9**	**11,152.3**

Our total assets increased by 9.9% from Rs 11.87bn in June 2022 to Rs 13.05bn in June 2023. For the year under review, we maintained our core business activities namely granting of home loan, savings, and deposits. We introduce several loans and deposits products to cater for customers' demand. Our philosophy was to enhanced the customers' experience by providing customised services and products.

Cash Flow Position

The Company is sufficiently liquid to cater for its cash requirements whether for the short-term or long-term. As at 30 June 2023, cash in hand and at bank balances amounted to Rs 2,423.1m compared to Rs 1,748.3m as at June 2022. A sum of Rs 148.1m was kept as a working capital whilst Rs 2,275m of funds in excess of our normal working capital requirements were judiciously placed in fixed deposits and treasury bills in order to secure a good return. This amount also caters for the compliance requirements for deposits held. Repayment from loans, fee income and deposits mainly contributed to meet all commitments as regards to business activities such as grant of credits and operational activities. For the year under review, we opted for funding facilities namely from deposits from individuals, corporate and the senior citizen groups.

Loans to Customers

Gross loans to customers increased by 5.8% to reach Rs 10,476.9m in June 2023 as compared to Rs 9,895.5m in June 2022. Net amount after impairment stood at Rs 9,641m as compared to Rs 9,069.2m as at June 2021. A net increase by 6.3% over the year.

This performance was driven by granting loans to the individual business segment. Despite, a very competitive environment we were able to grant loans as per our objectives together with the implementation of innovative products such as our senior citizen loan which is the only product existing in its category. We also introduced a risk-based approach for doubtful sectors due to the Covid-19 impact.

In the final quarter, we also introduced the Eco Loan Scheme for the construction of a house with the green concept.

(i) Impairment on Financial Assets

The current financial year was a period of stabilisation after the Covid-19 period, the implementation of measures such as moratorium period, waivers of penalties and interest helped many clients to regularise their loans. On the other hand, actions have been taken to help clients who were in difficult financial difficulties. Clients who were facing financial difficulties to service their loans were able to benefit from our restructuring solutions. Unfortunately, during 2022/2023 the rise in Key Rate coupled with the high inflation rate, increase in prices, and change in economic situations affected our customers to service their loans. Clients who were regular in their repayment of loan suddenly fell in default situation and could not regularise. At 30 June 2023 the non-performing loans stood at Rs 1,505m as compared to Rs 1,342.4m as at 30 June 2022; a net increase of 12.1%.

The overall non-performing loan ratio stood at 14.3% compared to 13.5% for the 12 months ended 30 June 2022.

The Company ensures that adequate provision is made in line with the guideline issued by the Bank of Mauritius and IFRS 9 – Financial Instruments. Specific allowance for credit impairment stood at Rs 754.8m as at June 2023. The debt coverage ratio stood at 50% at June 2023.

(ii) Portfolio Provision

In addition to the specific provision on impaired loan, the Company provides for a portfolio provision on non-impaired loans based on the micro and macro-economic indicators and the 12-month expected credit losses. The portfolio provision stood at Rs 80.8m as at June 2023 as compared to Rs 73.2m as at 30 June 2022.

Investment Property

a) Investment properties rose from Rs 151.6m (June 2022) to Rs 153m (June 2023) mainly due to the revaluation exercise carried out as per the Company's policy. The increase in fair value of investment stood at Rs 1.3m.

b) During the current year, the Company incorporated a new subsidiary namely MHC Properties Ltd, to cater for the development of projects. The subsidiary is 100% owned with a stated capital of Rs 25m. The total amount has been accrued in other liabilities since same has not yet been paid nor there has been any transfer of assets as at the reporting date.

Intangible Assets

Investment in capital expenditure was made towards the banking software (CBIS), computer software, DC infrastructure and computer equipment. The investment in intangible assets mainly relates to the implementation of the Core Banking System which went live in November 2019. As at 30 June 2023, new additions for the upgrading of the system and part payment for the implementation of Mobile Banking stood at Rs 7.2m. Hence, the total intangible assets stood at Rs 115.4m in June 2023 as compared to Rs 132.3m in June 2022 net of depreciation.

Other Assets

Other assets decreased from Rs 26.8m in June 2022 to Rs 18.2m as at June 2023 due to the repayments of staff loans, decrease in receivable for rent and other prepayments. The other main items included under other assets at 30 June 2023 are fixed charges fees paid on behalf of customers and part payment on accounts for fixed assets.

Property Development

Items under property development mainly consist of the remaining seven housing units at Le Hochet project, one housing unit at Cybervillage further to a court award and investment for the new project at Residence Clos Verger. Buyers for the remaining housing units have already been identified and sales are under process. As at 30 June 2023 the balance stood at Rs 120.5m compared to Rs 136.3m at June 2022.

Deposits

(i) PEL/JPS

PEL deposits increased by 1%, that is, from Rs 1,944.1m in June 2022 to Rs 1,964.1m in June 2023. The PEL savings remains a prerequisite to avail of a loan, it inculcates customers to save for the future in view to constitute a capital and to use the amount saved for the construction.

(ii) Housing Deposit Certificate (HDC)

The fund increased by 15.7% as at 30 June 2023 to reach Rs 6,370.6m compared to Rs 5,505.9m in June 2022. We have constantly reviewed the HDC products to remain competitive in the market since this is one of the main sources of funds. During the year, we have equally launched our Unit Link deposits which gives the customers additional benefits in case of premature closures.

Borrowings

Borrowings increased from Rs 324.7m as at June 2022 to Rs 515m as at June 2023, as a result of new loans raised for the construction of the Clos Verger project and part to be used to finance our loan business.

Retirement Benefits Obligations

The fund increased by 19.3% from to Rs 419.1m in June 2022 to Rs 500.4m in June 2023.This increase is mainly as a result of the provision made to reduce the deficit in obligations as per IAS 19 – Employee Benefits.

Equity

Total equity increased by 0.4% to reach Rs 3,483.7.0m as compared to Rs 3,471.6m as at 30 June 2022.The items affecting the equity is the reversal of revaluation reserves for land at Clos Verger further to the start of the construction and amount transferred from the other comprehensive income following the actuarial report for the re-measurement of the post-employment benefit. The retained earnings increased by Rs 23m after adjusting the two items.

Return on shareholders' fund stood at 3.20% in June 2023 as compared to 3.01% in June 2022. The increase in return is mainly attributable to the increase in profits.

(iii) Capital Adequacy

Capital Adequacy Ratio measures the percentage of a bank's capital to its risk weighted assets. Capital is split into two tiers when computing the capital adequacy:

i. Tier 1 refers to core capital, the sum of paid of share capital, statutory reserves, and revenue reserves; and
ii. Tier 2 refers to lesser quality components to absorb losses and includes undisclosed reserves, revaluation reserves, general banking reserves, portfolio provisions and subordinated long-term debt. Risk-weighted assets are determined by applying prescribed risk weightings to and off-balance sheet exposures according to relative credit risk of the counterparty.

The minimum capital adequacy requirement by the Bank of Mauritius is at 10%. Capital Adequacy Ratio as at 30 June 2023 stood to 35.0%.

3.0 Risk Management Policies and Controls

MHC has a Risk Management Committee which is responsible in setting up risk strategies to assess and monitor the risk management process at MHC and it also has the responsibility for advising the Board of Directors on MHC's overall current and future risk appetite, overseeing management's implementation of the risk appetite framework and reporting on the state of risk culture of MHC.

The Corporate Governance Report provides further details on the risk policies at MHC.

4.0 Concentration of Risk Policies

MHC follows the principles described in the Bank of Mauritius Guideline on Credit Concentration Risk regarding its exposure to credit risk. The Asset and Liability Committee (ALCO) monitors the risk concentration. Further details are provided in the Corporate Governance Report.

5.0 Related Party Transactions, Policies and Practices

The Company follows the principles described in the Bank of Mauritius Guideline on Related Party Transactions and IAS 24 – Related Party Disclosures for all transactions and balances with related parties. Note 32 to the financial statements provides details on related parties transactions and balances. MHC has also adopted a new Related Party Transaction Policy on 29 June 2022.

6.0 Statement of Corporate Governance Policies

MHC has a Corporate Governance Committee in place and which is headed by a chairperson. The responsibilities of the Committee are to:

- Provide expertise in the areas of corporate governance;
- Ensure that the Board of Directors is up to the standard with the Code of Corporate Governance; and
- Report on its deliberations to the Board of Directors.

The Corporate Governance Report provides further details on the corporate governance policies followed by MHC.

7.0 Outlook

The current economic environment and the rise in inflation are making operations difficult. Customers are more cautious and are prioritising their expenditures. We have set a series of objectives for the coming financial year starting with the increase in revenue and the deposit base. Our balance sheet is expected to rise by 7.4% as well as our returns. We also expect to increase our earnings per share by more than 6%. Among our objectives for 2023/2024 we will continue to:

a) Develop our customised products to market trend.
b) Explore the possibility for new market segments.
c) Bring growth in the main asset (loan portfolio), as well as savings and deposits.
d) Reduce non-performing assets by adopting new strategies for recovery.
e) Continue with cost containment strategies.
f) Improve on customer access and go digital.

The launching of the internet and mobile banking is also planned to reinforce the operational capabilities as well as adopting technology-based practices. The continuous review of processes and procedures will be a priority in order to offer a better-quality service to our customers. This will serve as the differentiating factor to acquire new business as well as retain existing customers.

The Company has also embarked on a series of residential projects. For the year 2023/2024, the Company is investing in the construction of 40 apartments and 4 penthouses at the residence Clos Verger, Rose-Hill. The construction has already started and is expected to be completed by June 2024. Besides, a residential project is also envisaged at Mourouk, Rodrigues.

8.0 Cautionary Note on Forward-Looking Statement

The MDA includes forward-looking statements and there are risks that forecasts, projections and assumptions contained therein may not materialise and that actual results may vary materially from the plans and expectations. MHC has no plans to update any forward-looking statements periodically and therefore users are advised not to place any undue reliance on such forecasts.

This Paper has been submitted at our Audit Committee of 26th September 2023 and was recommended to the Board for approval.

Approved by the Board on 27 SEP 2023

CHAIRMAN **MANAGING DIRECTOR** **DIRECTOR**