Mauritius Housing Company Ltd

("MHC" or the "Company")

Management Discussion & Analysis

1.0 THE ECONOMIC ENVIRONMENT

This current period was even more challenging. Whilst, the economy started opening gradually, travel restrictions were eased, the exports sector and the construction sector started getting momentum due to the continued support measures that were extended by the monetary and fiscal authorities. In particular, the household credit expanded at a strong pace, partly reflecting confidence in economic perspectives and moderation of risks due to the rebound in economic activity.

As per the last Financial Stability report from the central bank, the annual growth rate in the household credit went up to 6.3% as at end-September 2021, from 3% as at end-March 2021. The growing share of housing credit, reaching 67.3% of total household credit in September 2021. The low interest rate environment remained favourable to housing credit. Overall, the economy is expected to increase in 2021/2022 by 7.2% against a contraction by 14.9% in June 2021 as opposed to a growth of 3% in 2019. Unemployment rate for 2020 stood at 8.7% as compared for 9.2% in 2021. The headline inflation rate at June 2022 was 11.5% as compared to 2.5% in June 2021.

During the year the central Bank through the Monetary Policy Committee reviewed upward the repo rate twice by 40 basis point to reach 2.25% in order to maintain price stability and of promoting orderly and balanced economic development.

Overview

Our objective to be in the forefront in the housing sector enabled us to maintain our operations to serve as many of our customers and the public at large to fulfilled their dreams in acquiring a home or a property. Although the difficult situation and the cut throat competition in the market, the company maintained its resilience during the period on the back of strong adaptability and a through strategic execution process. Our core values and strategies have always been centered on the following areas: increase returns, reduce costs, increase our asset base, improve NPA, come with innovative products that suit our customer needs and focus and always be customer oriented.

Our current reserves were mainly based on the strategic objectives, that have been put forward in 2021/2022. The key achievements during the year include:

(i) Enhancing the front, middle and back office concept.
(ii) Improved quality of service by continued monitoring of customer requests.
(iii) Review of processes to enhance customer journey for onboarding and loan disbursement by putting in place a new process flow.
(iv) Inclusion of government budget incentives in our home loan products.
(v) Improving risk management culture.
(vi) Embarking on the digital platforms to improve our communication.
(vii) Improve our digital access for our customers to enable on-line applications.

(viii) We are also committed to help in upgrade our human skills through adequate training and performance management, while ensuring quality at all times. We equally believe in treating our employees with integrity and respect - and in turn, sustaining optimal performance.

2.0 FINANCIAL REVIEW

Financial Highlights & Analysis

Items	Year ended 30 Jun 2022 Rs m	18-months period ended 30/06/21-Rs m	Year ended 31 Dec 2019 Rs m
Interest Income	406.01	548.10	526.28
Interest Expense	144.51	216.24	191.91
Net Profit	96.9	75.77	127.97
Net Assets	3,471.6	3,398.9	3,483.83
Retained Earnings	2,307.7	2,271.31	2,307.52
Interest Cover (Times)	2.81	2.53	2.74
Net Profit Margin (%)	18.6	10.48	20.19
Housing Loans Assets	9,895.6	9,352.80	8,769.92
Fixed Assets (Net of Depreciation)	549.24	516.94	609.18
Total Assets	11,870.9	11,152	9,932.24
Shareholders' Funds	3471.7	3,398.8	3,483.8
Capital Employed	3,471.7	3,416.66	3,483.83
PEL & JPS (Capital Deposited)	1,640.73	1,606.75	1,496.36
HDC (Capital Deposited)	5311.51	4,631.91	3,209.41
Gearing (Times)	1.69	1.65	1.32
Current Ratio	1.23	1.40	1.69
ROCE (%)	2.79	2.22	3.57
EPS (Rs)	4.85	3.79	6.40
Total Income to Capital Employed Ratio	14.99	21.16	17.66
Reserves	3,271.6	3,198.8	3,283.83
Interest Income Growth (%)	11.2	4.15	8.56
Total Income Growth (%)	7.9	14.10	7.01
Interest Expense Growth (%)	0.2	12.68	10.01
Total Expense Growth (%)	8.9	37.14	2.18
Operating Income to Operating Expenses (%)	35.96	41.62	162.2
Return on Shareholders' Funds (%)	3.01	2.39	3.83
Return on Total Assets (%)	0.82	0.68	1.27
Portfolio Quality (%)	5.53	6.02	6.08
Net Interest Margin/ Interest Earning Assets (%)	2.55	3.38	3.49
Net Interest Income /Total Assets	2.20	2.97	3.33
Debt Coverage Ratio	56.09	51.69	52.89

The reporting period as at 30th June 2022 give figures for the 12 months whilst the comparative figures are for a period ending June 2021 represents an accounting period of eighteen months due to alignment of financial periods to June. The figures are therefore not comparable however, where applicable prorated figures have been used to assess the performance.

3.0 PROFIT & LOSS AND OTHER COMPREHENSIVE INCOME

a) Revenue

Our gross revenue for the 12 months ended 30 June 2022, stood at Rs 520.3m whilst for the prorated period to 12 months ended June 2021 was Rs 482.1m as compared to Rs 633.7m for 12 months ended 31 December 2019. Gross revenue rose by 7.9% mainly through interest income generated from loan business. The level of fees and commissions, rent and income from investments were also monitored hence satisfactorily achieved the target as planned.

b) Other Income

Other income amounted to Rs 114.3m for the 12 months ended 30 June 2022 as compared to Rs 116.7m for the 12 months prorated to June 2021 and Rs 107.5m as at 31 December 2019 a net decrease of 2%. Other income consists mainly of insurance premiums, rent on investment properties and fee-based income collected from loan clients. The decrease is mainly due to premium from insurance where clients have opted to contract insurance policies from third parties and for flexi loans for which we are not offering insurance policies.

c) Expenses

Interest Expense

Interest expense amounted to Rs 144.5m for the 12 months ended 30 June 2022 as compared to Rs 144.2m for 12 months prorated to June 2021. Expenses incurred were Rs 191.9m for the 12 months ended 31 December 2019. Interest expense represents interest payable on borrowings, savings and term deposits accounts. We have been containing the interest expenses mainly due to no new loans were contracted and for deposits product we have been granting interest as per the market trend.

Non-interest Expense

Non-interest expense was Rs 317.9m for the 12 months ended 30th June 2022 as compared to Rs 280.3m for 12 months prorated to June 2021 and Rs 272.4m in 2019. The increase is mainly due to increase in staff costs related to provision for pension as well as the impact of amortization of intangible assets relating to the implementation of the core banking system.

d) Cost Ratios

Cost to income ratio stood at 88.9% as at June 2022 whilst the cost to income for 12 months to June 2021 was 88.1% compared to 73.3% for year ended 31 December 2019. The net increase of 0.8% is mainly due to revenue did not increase correspondingly whilst, expenses rose due additional pension provisions.

Non-interest expense to total income ratio stood at 61.4% compared to 58.2% for 30 June 2021 whilst this ratio stood at 43.2% for 2019.

Personnel expenses represents 55.3% compared to 58.4 % of total operating expenses for June 2021. Personnel expenses was 56.1% of the total operating expenses for 2019.

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 30th June 2022 there has been a reversal of provision of Rs 8.6m as compared to additional provision of Rs 37.9m for 18 months to June 2021 and Rs 21.1m in December 2019.The reversal of provision is mainly due to implementation of: (a) new policies on financial assets; (b) NPA loans restructured for those clients who have been regular in their repayments.

There has been a net gain of Rs 7.4m on the sale of foreclosed properties compared Rs 0.1m for the 18 months to June 2021 and the gain was Rs 1.2m for the 12 months ended 31 December 2019. The result is mainly due to management taking all the required steps to dispose foreclosed properties as soon as possible

Our profit for the twelve months ended June 2022 was Rs 96.9m whilst for the 12 months prorated to 30th June 2021 this amounted to Rs 50.5m compared to Rs 127.9m for the year ended December 2019. With the increase in profit the earnings per share for the year under review increased to Rs 4.85 compared to Rs 3.79 for the eighteen months to 30th June 2021 and to Rs 6.4 at December 2019.

The return on capital employed was 2.79% as at June 2022 whilst as at 30 June 2021, it stood at 2.22% compared to 3.57% at 31 December 2019.

The main reasons for increase in profit are due to:

1) Our pricing strategy for adopting a fair market pricing and matching our cost of fund.
2) Our products mix and related fees income.
3) Increase in revenue from investments.
4) Decrease in impairment provision on NPA loans whilst encouraging customers regularizing their loans
5) Increase in fair value of investment property as a result of the revaluation exercise which is as per our approved policies.

4.0 ASSETS & LIABILITIES

Our total assets increased by 6.4% from Rs 11.15bn in June 2021 to Rs 11.87bn at June 2022. For the period under review, we maintained our core business activities namely Loan, Savings and Deposits. We maintained a balance sheet with a very conservative asset profile consisting mainly of loans to customers which are secured by collaterals and also increase in our cash equivalent and deposits. On the liability side deposits form customers was the main item affecting the balance sheet.

a) Cash Flow

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 individuals, corporate depositors. The minimum compliance deposits were also maintained to cater for any sudden withdrawals by depositors.

Funds in excess of our normal working capital requirements were judiciously placed on fixed deposits and treasury bills in order to secure a good return. The company is sufficiently liquid to cater for its cash requirements whether for the short term or long term. As at 30th June 2022 cash in hand and at bank balances amounted to Rs 1748.3m compared to Rs 1,615.6m as at June 2021 and Rs 802.5m as at December 2019. Rs 1.375m was placed on term deposits and treasury bills.

b) Loans to Customers

Gross loans to customers increased by 5.8% to reach Rs 9,895m in June 2022 as compared to Rs 9,353.8m in June 2021 and Rs 8,769.9m in December 2019. Net amount after impairment stood at Rs 9,069.2m as compared to Rs 8,497.3m as at June 2021 and Rs 8,002.5m in December 2019.

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.

(i) Impairment on Financial Assets

Following the partial waiver of sanitary measures, we adopted new strategies to reduce the number of default rate and in line with Government policy, clients who were facing financial difficulties to service their loans were able to benefit for moratorium on both capital and interest up to June 2022. The non-performing loans stood at Rs 1,342.9m as at June 2022 as compared to Rs 1,520m as at 30 June 2021; a net decrease of 11.7%

The overall non-performing loan ratio stood at 13.6% compared to 16.3% for the 18 months ended 30 June 2022 and 15.2% in December 2019.

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 decreased from Rs 563.3m as at June 2021 to Rs 547.1m in June 2022 and compared to Rs 533.6m in December 2019. Interest suspended reduced from Rs 196.9m (30 June 2021) to Rs 183.8m (June 2022), this amount was Rs 169.9m as at December 2019. The debt coverage ratio stood at 56.09% June 2022 as compared to 51.7% at 30 June 2021.

(ii) Portfolio Provision

A portfolio provision is charged to the financial statement 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 73.3m as at June 2022 as compared to Rs 69.8m as at 30 June 2021 and Rs 63.9m in 2019. There has been an increase in the portfolio provision due to increase in the financial assets.

c) Investment Property

Investment properties rose by 18.1% from Rs 128.3m (June 2021) to Rs 151.6m (June 2022) compared to Rs125.4m in 2019.This increase is mainly due to the revaluation exercise was carried out as per the accounting policy. The increase in fair value of investment stood at Rs 23.3 m as compared to Rs 2.9m in June 2021 and Rs 4.7m in 2019.

d) 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 2022, total intangible assets stood at Rs 132.3m as compared to Rs 150.1m in June 2021 and Rs 134.7m in 2019. The system has completed the stabilization phase.

e) Other Assets

Other assets decreased from Rs 34.7m as at June 2021 to Rs 26.8m in June 2022 due to the decrease in staff loans and reduction in provision for impairment of other assets stood at Rs 96.9m as at 2019. The other main items included under other assets at 30 June 2022 are other receivables and prepayments.

f) Property Development

This asset decreased from Rs 149.4m in June 2021 to Rs 136.4m in June 2022 as a result of the disposal of Housing Units at le Hochet as well as sale of housing lots at Roches Brunes. As at 2019 this amount was Rs 99.3m

g) Deposits

(i) PEL/JPS

PEL deposits increased by 0.6%, that is, from Rs 1,933.2m (2021), to Rs 1,944.1m as at June 2022, the fund was Rs 1,870m as at 31 December 2019. The main aim of PEL is to inculcate customers to save for the future in view to constitute a capital and it is a prerequisite to avail of a loan.

(ii) Housing Deposit Certificate (HDC)

The fund increased by 14.7% for the 12 months at 30 June 2022 to reach Rs 5,505.9m when compared to Rs 4,801m (June 2021), the fund was Rs 3,404.3m as at December 2019.We have constantly reviewed the product so as to remain competitive in the market since this is one of the main sources of funds.

h) Borrowings

Borrowings decreased from Rs 456.5m as at June 2021 to Rs 324.8m as at June 2022 and same was Rs733.6m as at December 2019. As a result of payments effected as per contractual obligations.

i) Retired Benefits Obligations

The fund increased by 20.7% from to Rs 347.2m in June 2021 to Rs 419.2m in June 2022 the fund stood at Rs 256.7m as at December 2019. This increase is mainly as a result of the provision made to reduce the deficit in obligations as per IAS 19 report received from SICOM.

j) Equity

Total equity increased by 2.1% to reach Rs 3,471.6m as compared to Rs 3,398.9m as at 30 June 2021 and was Rs 3,483.8m in 2019. The increase is mainly due to the following: -

i. Revaluation of assets.
ii. Increase in retained earnings as a result of the increase in profits

Return on shareholders' fund stood at 3.01% as compared to 2.3% in June 2021. The increase in return is mainly attributable to the increase in profits

k) 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;
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.
iii. The minimum capital adequacy requirements by the Bank of Mauritius is at 10%. Capital Adequacy Ratio for the12 months worked out to 37.0% as compared to 18 months to June 21 which was 38.8%.

5.0 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.

6.0 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. Further details are provided in the Corporate Governance Report.

7.0 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.

8.0 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 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.

9.0 OUTLOOK

The most important characteristic of the current economic context is its scope where many businesses are facing difficult situations. We will strive to achieve the strategic objectives of the company by granting as much as possible loans to individuals and to corporate customers in view to help them acquire their dreams for securing a home. We will also not forget to serve all categories of the population from low to high income earners.

Granting loans is our core business and we have noted an increase in demand for home loans from customers, following the continuous review of our credit policies.We will adopt a prudent approach whilst assessing the requests for credits in view to reduce our NPA level.

We have also observed a change in customer behavior with an increase utilization of funds held in savings due to the increasing cost of living. This affects our funding strategies but we will manage to grow our liabilities book by securing deposits from the high net-worth individuals and corporate clients. Apart from the above we will ensure the following:

a) bring growth in the main asset (loan portfolio), as well as savings and deposits;
b) reduce non-performing assets by adopting new strategies for recovery;
c) reduce cost to income;
d) increase returns.

For the coming financial period, we have planned to implement the internet and mobile banking; this will help to improve our customer base and 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.

In view of further expansion of our business model, we are anticipating a major change in our shareholding structure in the next financial period, by creating Mauritius Housing Holdings Ltd together with other subsidiaries to cater for the need and the new set of objectives of the company as a whole.

10.0 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 materialize 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.

Paper has been discussed at our Audit Committee of 27th September 2022 and is being recommended to the Board for approval please.

Approved by the Board on 29th SEPT 2022

CHAIRMAN MANAGING DIRECOR DIRECTOR