MCB Microfinance

FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

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REPORT OF THE DIRECTORS
FOR THE YEAR ENDED JUNE 30, 2019

The directors have pleasure in submitting the Annual Report of MCB Microfinance Ltd for the year ended June 30, 2019 as set out on pages 6 to 31.

The shareholder agrees that in conformity with Section 221 (4) of The Companies Act 2001 ("Act"), the Annual Report of the Company need not comply with paragraphs (a), (d) and (e) of Section 221 (1) of the Act.

This report was approved by the Board of Directors on 29 AUG 2019

Director	Director
GILBERT GNANY	AURELIE LECLEZIO

SECRETARY'S CERTIFICATE
FOR THE YEAR ENDED JUNE 30, 2019

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 Companies Act 2001.

For and on behalf of
MCB Group Corporate Services Ltd
Company Secretary

Date: 29 AUG 2019

1. GOVERNANCE STRUCTURE

1.1 Overview

MCB Microfinance Ltd (the "Company" or "MCBMF") is a private Company wholly owned by MCB Group Limited ("MCBG"). MCBMF provides credit finance to micro businesses and is a Public Interest Entity as defined by law. It is committed to the highest standard of business integrity, transparency and professionalism in all its activities to ensure that the activities within the Company are managed ethically and responsibly to enhance business value for all stakeholders.

1.2 Statement of Compliance

The board of directors has given and will continue to give due consideration to the principles of good corporate governance which are applicable to the Company under the National Code of Corporate Governance for Mauritius (2016) (the"Code").

Throughout the year ended 30th June 2019 to the best of the Board's knowledge the organization has complied with the Code in all material aspects except for the disclosure of directors' remuneration which is considered as sensitive information.

The board of directors will regularly reassess the requirements of the Code to ensure that the Company remains compliant thereto.

1.3 Constitutive documents or Charter documents

1.3.1 Board Charter

The Board Charter has been duly approved by the Board and is reviewed by the latter regularly and updated as and when required. The Charter provides for delegation of authority and clear lines of responsibility with a reporting mechanism whereby matters affecting the affairs and reputation of the Company are duly escalated to the Board of the Company and to the Board of the ultimate holding company by the Chairperson.

1.3.2 Position Statements

Position Statements have also been approved by the Board and provides for a clear definition of the roles and responsibilities of the Chairperson, Chief Executive Officer as well as that of the Company Secretary.

1.3.3 Statement of Main Accountabilities

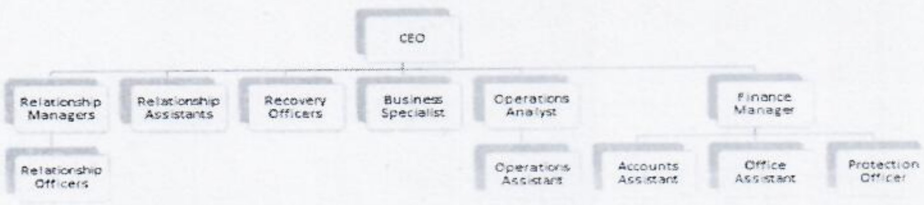
The Board is responsible and accountable for the long term success of the Company and as such has approved and set the main accountabilities of the Chief Executive Officer ("CEO") and the Board collectively as follows:

1. GOVERNANCE STRUCTURE (CONT'D)

1.3.3 Statement of Main Accountabilities (cont'd)

	Main Accountabilities
Chairperson	- Provides overall leadership to the Board - Ensures that the Board is effective in its tasks of setting and implementing the Company's direction and strategy - Ensures that the development needs of the directors are identified and appropriate training is provided to continuously update their skills and knowledge - Maintains sound relations with the shareholders
Board	- Ensures compliance by the Company with applicable legislation, regulation and policies - Sets the Company's direction and strategy - Safeguards the assets of the Company - Ensures long term interests of the shareholder are being served
CEO	- Communicates vision and strategy to staff - Ensures efficient utilization of resources - Sets direction and oversee operations

1.3.4 Organisation Chart



1.3.5 Material Clauses of the Constitution

In accordance with Section 39 of The Companies Act 2001 (the "Act"), the Company has opted not to have a constitution and as such the rights, powers, duties and obligations of the Company, the Board, each director and the shareholder are those set out in the Act.

2. THE BOARD STRUCTURE

2.1 Board and Chairperson roles and responsibilities

The Board structure is unitary with a mix of executive, independent and non-executive directors. All the members of the Board possess the necessary knowledge, skills, objectivity, intellectual honesty, integrity, experience and commitment to make sound judgements on various key issues relevant to the business of the Company, independent of management and to protect the interests of shareholders, clients and other stakeholders.

The Chairperson's primary role is to ensure that the Board is effective in its tasks of setting and implementing the Company's direction and strategy. It is the Chairperson's responsibility to ensure that appropriate policies and procedures are in place for the effective management of the Company.

The external obligations of the Chairperson have not changed during the Financial Year 2018/2019 and those obligations have in no way hindered the discharge of his duties and responsibilities.

2.2 Composition of the Board

The Board examines the size, composition and the essential competencies of its members annually to ensure that there is an appropriate balance of skill, experience and knowledge on the Board to carry out its duties and responsibilities effectively.

An Independent Director, namely, Mr Jean-Philippe Coulier, was appointed on 6th March 2019. The Board currently consists of one executive, two independent and three non-executive directors. Given the small size of the Company's operation, the Board does not consider it practical to have at least two executive directors. .

Board members:

Name	Title	Category	Gender	Country of Residence
Pierre Guy NOEL	Chairperson	Non-Executive	Male	Mauritius
Paul CORSON	Director	Non-Executive	Male	Mauritius
Gilbert GNANY	Director	Non-Executive	Male	Mauritius
Aurélie LECLEZIO	Chief Executive Officer	Executive	Female	Mauritius
Alain REY	Director	Independent	Male	Mauritius
Jean-Philippe COULIER	Director	Independent	Male	Mauritius

Messrs Pierre Guy NOEL, Gilbert GNANY and Alain REY are also directors of MCBG, the holding company.

2. THE BOARD STRUCTURE (CONT'D)

2.3 Profile of Directors

A brief profile of each director along with their directorships is set out below:

(i) Pierre Guy Noël, Non-Executive Director and Chairperson

Mr Pierre Guy Noël holds a BSc (Honours) in Economics from the London School of Economics and Political Science and is a Fellow of the Institute of Chartered Accountants in England and Wales. From 1981 to 1991, Pierre Guy worked at De Chazal Du Mée & Co. where he became a partner in financial consultancy. He joined MCB in 1992 as Planning and Development Consultant before being appointed General Manager of the Bank in 1996. Following the organisation's restructuring, he became the Chief Executive of MCB Group Ltd in April 2014. He is a Board member of several companies within the Group namely Banque Française Commerciale Océan Indien, MCB Madagascar, MCB Seychelles, MCB Maldives, MCB Investment Holding Ltd, MCB Capital Markets Ltd, MCB Equity Fund Ltd, MCB Consulting Services Ltd, MCB Factors Ltd, International Card Processing Services Ltd, Credit Guarantee Insurance Co. Ltd and MCB Group Ltd amongst others, acting either as Chairperson or Director. He was appointed to the Board of MCB Ltd in 2005 and was a Director thereof until March 2014 when he joined the Board of MCB Group Ltd following the Group's restructuring exercise.

Directorship in listed companies
MCB Group Limited
Compagnie Des Villages De Vacances De L'Isle De France Limitée

(ii) Paul Corson, Non-Executive Director

Mr Paul Corson holds an MBA in Management/Business Administration from Laval University and a Masters' Degree in Statistics and Economics from the Ecole Nationale de la Statistique et de l'Administration Economique (ENSAE), France. Soon after ending his studies in 1982, he joined MCB in 1983.

(iii) Aurélie Leclézio, Executive Director and CEO

Mrs Aurelie Leclezio graduated from "Sciences Po" Toulouse and holds a "Master 2" in Political Science, specialization in Geopolitics and International Relations from the Institut d'Etudes Politiques (IEP) of Toulouse. She started her professional carrier as Strategic Analyst at Enterprise Mauritius in 2005. From 2006 to 2009, Aurelie worked as Lecturer in International Relations at the University of Mauritius. In 2009, she was recruited by the United Nations Development Programme (UNDP) to hold the position of Communications Officer for the Maurice Ile Durable Fund, under the aegis of the Ministry of Renewable Energy and Public Utilities. Aurelie finally joined the MCB in July 2010 as Sustainable Development Coordinator, then as Project Manager-Microfinance as from March 2015. She became the Chief Executive Officer of MCB Microfinance in July 2016.

(iv) Jean-Philippe Coulier, Independent Director

Mr Jean-Philippe Coulier holds a 'Diplôme d'Etudes Supérieures en Droit' and 'Diplôme de l'Institut d'Etudes Politiques de Paris' (France). During his career he has accumulated extensive experience in

2. THE BOARD STRUCTURE (CONT'D)

2.3 Profile of Directors (cont'd)

the banking sector, having worked for Société Générale Group for some 40 years, where he has assumed a range of high-level responsibilities, acting as director, chief operating officer and chief executive officer in its various offices worldwide. Before his retirement from Société Générale in early 2013, he was the Vice Chairman and Managing Director of the National Société Générale Bank in Cairo, Egypt. In 2012, he joined the Board of The Mauritius Commercial Bank Limited, where he held the Chairmanship from 2014 to 2018. Thereafter he was appointed as director of Fincorp Investment Ltd, MCB Microfinance Ltd and MCB Factors Ltd. In December 2018, he was appointed director and Chairperson of both, Promotion and Development Ltd and Caudan Development Ltd.

Directorship in listed companies
Caudan Development Ltd
Promotion and Development Ltd
Fincorp Investment Ltd

(v) Gilbert Gnany, Non-Executive Director

Mr. Gilbert Gnany holds a 'Licence ès Sciences Economiques (Economie Mathématique)', a 'Maîtrise en Econométrie' and a 'DESS en Méthodes Scientifiques de Gestion et Calcul Economique Approfondi' (France) . He previously worked as Senior Advisor on the World Bank Group's Executive Board where he was responsible for issues relating mainly to the International Finance Corporation and to the private and financial sectors. Prior to joining the World Bank, he was the MCB Group Chief Economist and Group Head of Strategy, Research & Development after having been the Economic Advisor to the Minister of Finance in Mauritius. During his career, he has been involved in various high-profile boards/committees. Amongst others, he chaired the Stock Exchange of Mauritius Ltd, the Statistics Advisory Council and the Statistics Board as well as having been a member of the Board of Governors of the Mauritius Offshore Business Activities Authority, a director of the Board of Investment and of the Mauritius Sugar Authority. He was also a member of the IMF Advisory Group for sub-Saharan Africa and a member of the Senate of the University of Mauritius and a director of the Financial Services Institute. He is currently a Board member of several companies within the Group namely MCB Capital Markets Ltd, MCB Seychelles, MCB Maldives, MCB Madagascar and MCB Consulting Services Ltd amongst others. On the institutional side, he is an external IMF expert in statistics, in particular on data dissemination standards and strategy and is also a member of the Financial Services Consultative Council. Furthermore, he is the Chairperson of the Economic Commission of Business Mauritius which serves, *inter alia*, as a platform for public-private sector dialogue.

Directorship in listed companies
MCB Group Limited

2. THE BOARD STRUCTURE (CONT'D)

2.3 Profile of Directors (cont'd)

Caudan Development Ltd
Promotion and Development Ltd
Compagnie Des Villages De Vacances De L'Isle De France Limitée
Médine Ltd

Directorship in listed funds
MCB India Sovereign Bond ETF
African Domestic Bond Fund

(vi) Alain Rey, Independent Director

Mr Alain Rey has acquired wide financial experience, having been Manager at Citibank NA (Paris) and Regional Corporate Manager at Barclays Plc in Mauritius. He also has a long experience in the textile industry and was Financial Director at Corotex, General Manager at Shape Fabrics Ltd and has served as Senior Vice President and Chief Financial Officer at Novel Denim Holdings Ltd. a NASDAQ listed company. He has also been the Chief Executive Officer at Compagnie de Mont Choisy Ltée, a company involved in agricultural and property development activities. He was previously a director of AfrAsia Bank Ltd, State Bank of Mauritius Ltd and SBM Holdings Ltd.

Directorship in listed companies
MCB Group Limited
CIEL Textile Ltd
New Mauritius Hotels Limited
Terra Mauricia Ltd

2.4 Company Secretary

The Company Secretary of MCBMF is MCB Group Corporate Services Ltd a private company incorporated in Mauritius with registered office 9-15 Sir William Newton Street, Port Louis. All board members have access to the Company Secretary for information relating to the Board matters.

2.5 Board Attendance

Board meeting are held on a regular basis but may be convened at any time in case urgent matters need to be discussed.

No of Meetings held during the year	4
Directors	
Mr Pierre Guy Noël	4
Mr Paul Corson	2
Mr Gilbert Gnany	4
Mrs Aurélie Leclézio	4
Mr Alain Rey	4
Mr Jean-Philippe Coulier (appointed on 06/03/2019)	2

2. THE BOARD STRUCTURE (CONT'D)

2.6 Board Committees

Initially all audit-related issues of the Company were taken up at the level of the Audit Committee of MCBG, which meets on a quarterly basis and at the level of the Board of directors of the Company. On 30 April 2019, an Audit Committee was set up comprising of three members, namely, Mr Jean-Philippe Coulier, the Chairperson, Mr Alain Rey and Mr Gilbert Gnany. The Committee shall meet on 29 August 2019 for the first time.

The terms of reference of the Audit Committee which was also approved on 30 April 2019 can be viewed on the website of the Company. The main roles of the Audit Committee are:

- to monitor the integrity of the audited financial statements of the Company;
- to monitor and review the effectiveness of the Internal Audit;
- to monitor the external auditors' independence, objectivity and effectiveness and make recommendations to the Board on the appointment and retention of external auditors.

3. DIRECTORS APPOINTMENT PROCEDURES

3.1 Directors Selection

The Remuneration, Corporate Governance and Ethics Committee (RCGEC) of MCB Group Limited identifies suitable candidates for the Board the Company after determining whether the potential candidates have the required criteria established by the RCGEC and whether the potential new directors are fit and proper and are not disqualified from being directors. The RCGEC then proposes the selected candidates to the Board of MCBMF for review and approval.

3.2 Election and Re-election of Directors

All directors are re-elected each year at the Annual Meeting of Shareholders.

3.3 Induction of new Directors

New Directors are given an induction pack, which comprises the constitutive documents and the minutes of the last Board proceedings of the Company. An introductory meeting is organised with the CEO to explain the business activities of the Company and its governing policies.

The Chairperson, the CEO as well as the Company Secretary are readily available to answer to any further queries that the newly appointed directors may have with respect to the Company.

The above mentioned programme meets the specific needs of both the Company and the newly appointed Directors and enable the latter to participate actively in Board's discussion.

3.4 Professional Development

The Chairperson regularly reviews and comes to an agreement with each Director, if necessary, on his or her training and development needs. Upon request from the Directors, the Company shall provide the necessary resources for developing and updating its directors' knowledge and capabilities.

3.5 Succession Planning

MCBG is one of Mauritius' largest group of companies with more than 3,000 staff with different skills, academic and professional qualifications, and expertise in various fields of business. The MCB Group strategy includes the recognition and fostering of talents within executive and management levels across the Group thus ensuring that the Group creates opportunities to develop current and future leaders.

3.6 Time Commitment

Each director is expected to devote sufficient time and attention to the affairs of the Company. The Company anticipates a time commitment of around 2 days per year. This will include attendance at Board meetings, at Board committees (if applicable), the Annual Meeting of Shareholders and meetings as part of the Board evaluation process, trainings and development programmes. There is always the possibility of additional time commitment in respect of ad hoc matters that may arise from time to time, and particularly when the Company is undergoing a period of increased activity.

4. BOARD PERFORMANCE AND EVALUATION

4.1 Legal duties of Directors

The directors are aware of their legal duties as listed in the Act and of other legal obligations as contained in other legislations. They exercise the required standard degree of care, skill and diligence which a reasonably prudent and competent director in his or her position would exercise.

4.2 Remuneration Philosophy

The Board of MCBMF reviews the adequacy of the directors' and senior executives' remuneration and recommendations are made to the RCGEC of the MCB Group Limited.

The RCGEC of MCB Group Limited is responsible for the setting up and developing of the Group's general policy concerning the remuneration of directors. MCBG lays significant emphasis on appointing the right people with the right skills and behaviours whilst rewarding them adequately, in line with market practices.

The Company applies the same remuneration philosophy as its ultimate holding company, MCB Group Limited which mainly consists of:

- a monthly basic retainer for membership of the Board
- an attendance fee per sitting of the Board and Committee
- the Chairpersons of the Board and Committee, having wider responsibilities receive higher remuneration;

4.3 Directors' Remuneration

The Directors' fees and remuneration are in accordance with market rates and amount paid to independent directors is as follows:

	Rs.
Mr Alain Rey	62,375
Mr Jean-Philippe Coulier	25,000

The executive director's fees and remuneration have not been disclosed due to the sensitive nature of the information.

4. BOARD PERFORMANCE AND EVALUATION (CONT'D)

4.3 Directors' Remuneration (cont'd)

Non-executive directors have not received remuneration in the form of share options or bonuses associated with organizational performance.

4.4 Directors' interests in shares

The directors do not hold shares in the Company directly or through any associate (as defined under the Listing Rules of the Stock Exchange of Mauritius).

4.5 Directors' service contracts

There are no fixed term contracts and service contracts between the Company and the Directors.

4.6 Related Party Transactions

Related party transactions have been conducted in accordance with the Conflicts of interest and Related Party Transaction Policy and the Code of Ethics. For related party transactions, please refer to note 21 of the Financial Statements.

4.7 Policies of the Company

The following policies of the holding company, MCBG, which is reviewed on a regular basis, have been adopted by the Company :

- Information, Information Technology and Information Security Governance Policy
- Conflicts of interest and Related Party Transaction Policy
- Whistleblowing Policy

The Company has its own Code of Ethics approved in October 2016 and a Credit Policy approved in August 2016 by the Board. Compliance with the Code of Ethics is regularly monitored and evaluated by the Board.

4.8 Whistleblowing

The Whistleblowing Policy of MCBG provides the employees a reporting channel on suspected misconduct or malpractice within the Company without the risk of subsequent victimization or discrimination. The policy outlines the complaint handling and reporting processes to improve transparency.

4. BOARD PERFORMANCE AND EVALUATION (CONT'D)

4.9 Information Governance

The Board oversees information governance within the organization. The Information, Information Technology and Information Security Governance Policy of the MCB Group applies to all the subsidiaries of the Group. All policies relating to information security are made accessible to all the employees of the Group without restriction via its intranet system. Appropriate governance arrangements are in place whereby the IT function and function responsible for monitoring adherence to Information Risk and IT are kept separate.

4.10 Register of Interest

An interests register is maintained by the Company Secretary and is available for consultation by the shareholder upon request.

4.11 Board, Committees and Directors' Performance

The Board acknowledges the need of regularly reviewing the performance and effectiveness of the Board, its Committees and its Directors. An annual review was therefore conducted internally for the financial year 2017/2018 by means of a questionnaire filled by each Director to assess the Board's effectiveness and to determine whether directors continue to discharge their respective duties effectively. The questions were categorized as follows:

- Structure of the Board
- Board efficiency and effectiveness
- Strategy and performance
- Risk management and Governance
- Director's self-assessment
- Chairperson's appraisal

The results concluded that the Board is operating effectively and that the chairperson and the directors are fulfilling their roles as required.

The Board has decided that an evaluation of the board and its effectiveness be carried out every three years. As such, the next board evaluation would be undertaken in 2021.

5. RISK GOVERNANCE AND INTERNAL CONTROL

The Board is responsible for risk management, the procedures in place within the organisation and for the definition of the overall strategy for risk tolerance.

The Company's policy on risk management encompasses all significant business risks including physical, operational, human resources, technology, business continuity, financial, compliance and reputational which could influence the achievement of the Company's objectives.

5. RISK GOVERNANCE AND INTERNAL CONTROL (CONT'D)

Risk and Compliance monitoring function has been outsourced to the Risks and Compliance unit of MCB Capital Markets Ltd. The team reports directly to the Board on matters of relevance with regard to the internal controls, legal, regulatory or licensing matters and the Company's anti-money laundering responsibilities and processes.

The system of internal controls, which is embedded in all key operations, provides reasonable assurance that the Company's business objectives will be achieved. The Board of Directors is guided in this task by the Risk Management and Compliance Unit of MCB Capital Markets, which has been mandated to provide its methods, technologies, expertise and experience in the field of compliance and related matters to the Company. The Board is satisfied regarding the implementation, operation and effectiveness of internal controls and risk management.

The key risks for the Company are legal, regulatory, operational, reputational, performance and financial risks. The Board is ultimately responsible for these matters but delegates the ongoing tasks to management.

Legal risks are managed by the Legal Strategic Business Unit of The Mauritius Commercial Bank Ltd. The Board also takes out appropriate insurance cover.

Regulatory risks are managed by the Risk & Compliance Unit of MCB Capital Markets and involves the setting out of proper processes and procedures in order to meet the licensing requirements set by the Financial Services Commission and the Company's responsibilities under The Financial Intelligence and Anti-Money Laundering Act 2002.

The operational risk profile of business activities and processes have been analysed and following evaluation, appropriate controls have been designed and implemented by Board. In addition, risk arising from business processes is managed through the application of the necessary technical controls at every stage of the loan assessment, disbursement and recovery processes.

Credit risks are managed by the Loan Committee of the Company. The Loan Committee's policy over credit risk is to limit its exposure to clients with a perceived high risk of default by assessing the creditworthiness of the borrower and determining whether economic conditions will be favourable to repayment. The Company's assessment of its clients includes consideration of their character and integrity, core competencies, track record and financial strength. A strong emphasis is placed on income and cash flow streams generated by the clients. Our primary assessment method is therefore the ability of the client to meet these payment obligations. Regular reporting of credit risk exposures is made to management and the board.

Reputational and performance risks are managed by the Board.

During the financial year under review all significant areas with respect to risk governance were covered by the internal control and no risk or deficiency has been noted in the organisation's system of internal controls.

6. REPORTING WITH INTEGRITY

6.1 Organisational Overview

Highly committed to promote sustainable development and conscious of the limitations that a bank faces to serve micro-businesses, MCB Group has been willing to explore opportunities to provide microfinance services.

In that context, in February 2015, the Group commissioned HORUS Development Finance, a microfinance consulting company with operational experience as manager of a network of microfinance institutions (Advans), to carry out a feasibility study for the setting up of a microfinance business in Mauritius.

A feasibility report, submitted by HORUS in April 2015, confirmed an unmet demand by traditional lending schemes for business loans to Mauritian micro-enterprises, including self-employed, and the new MCB Group Limited's subsidiary, MCB Microfinance Ltd. was launched on 15 July 2016. The Company, which offers business loans to micro-enterprises and self-employed individuals, is supervised by the Financial Services Commission (Credit Finance licence) and operates in complete independence from The Mauritius Commercial Bank Limited.

6.2 The Business Model

The Company offers its services both in Mauritius and in Rodrigues (since March 2017).

MCB Microfinance offers two categories of business loans from Rs 15,000 to Rs 800,000 to self-employed individuals and micro-enterprises:

Products	Tenor	Interest rates
Working Capital loans	6-18 months	15%
Investment loans	12-60 months	15%

Credit policy and methodology

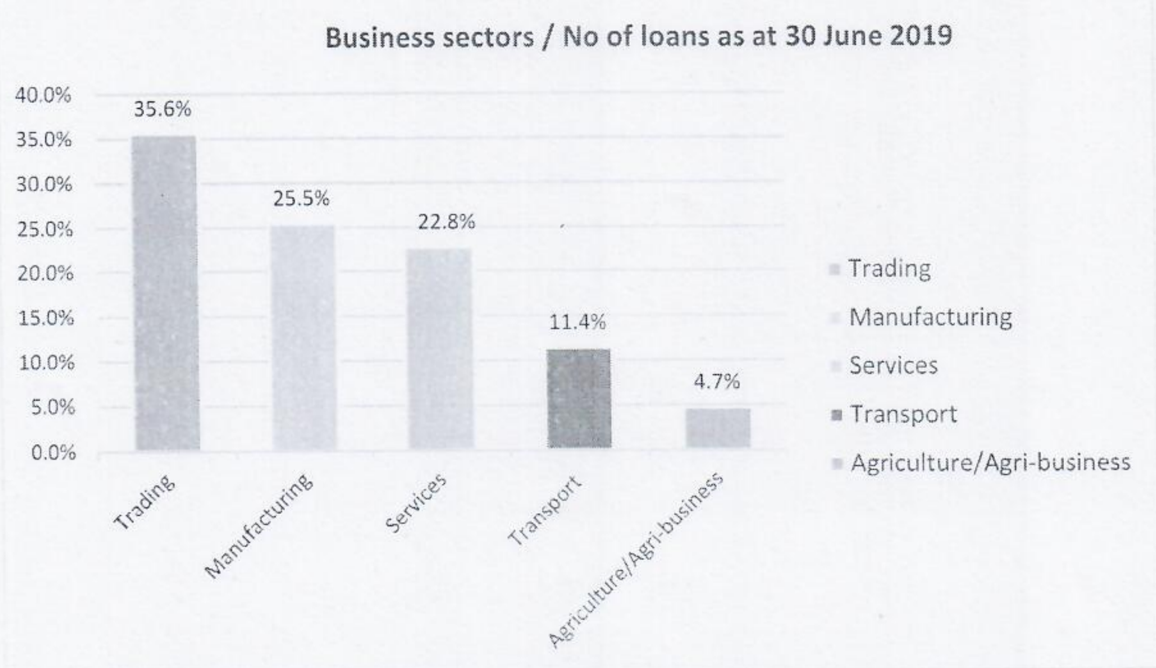
- Businesses must have a minimum of one year of existence
- Businesses must be registered (Business Registration Card)
- No guarantee is required
- Close client monitoring by Relationship Officers (ROs)

6. REPORTING WITH INTEGRITY (CONT'D)

6.3 Key Performance Indicators, Performance and Outlook

Status of operations as at 30 June 2019

- 2,762 loans disbursed (MUR 528 million)
- 1,945 clients financed
- 1,861 outstanding loans (MUR 274 million)
- 19 loans written-off (MUR 5 million)
- 1,636 active clients
- 91% overall on-time repayment
- The Portfolio at Risk > 90 days: 10%



6.4 Sustainable Development

The Company ensures compliance with MCB Group's Environmental and Social Policy.

6.5 Health and Safety Issues

The Company is committed to the highest standards of integrity and ethical conduct in dealing with all its stakeholders.

6. REPORTING WITH INTEGRITY (CONT'D)

6.5 Health and Safety Issues (cont'd)

The health and safety of staff and visitors is paramount and all reasonable measures are taken to ensure a sound and healthy working environment.

The Company is an equal opportunity employer and does not discriminate in any way with regard to race, religion or gender. All employment opportunities are openly advertised and the selection process involves the whole staff.

6.6 Corporate Social Responsibility (CSR)

For the year under review there was no chargeable income and as such no CSR contribution was made during the year.

6.7 Charitable Donation

No donation was made by the Company during the year under review.

6.8 Political Donation

The Company did not make any political donations during the year ended June 30, 2019.

6.9 Documents available on the Website

The Board of directors is pleased to announce that the following documents amongst others which have been approved by the Board can be viewed on the Website of the Company:

- ⇒ The full Annual Report of the Company including the financial statements
- ⇒ The Board Charter
- ⇒ The Audit Committee Charter
- ⇒ The Code of Ethics
- ⇒ The Conflicts of interests and related party transactions policy
- ⇒ The Information, information technology and information security policy
- ⇒ The Position Statements of the Chairperson, the CEO and the Company Secretary
- ⇒ The Organizational chart
- ⇒ The Statement of major accountabilities within the organization
- ⇒ The structure, organization and qualifications of the key members of the internal audit function
- ⇒ The Nomination and appointment process
- ⇒ Profile of the directors
- ⇒ Profile of the Company Secretary

7. AUDIT

7.1 Internal Audit

The internal audit function is outsourced to the Group Internal Audit department of The Mauritius Commercial Bank Ltd (GIA), which provides another balanced assessment of key risks and controls, independent from reports received from the Company's management.

The Head of GIA is independent of the Executive Management of the Company and shall report to the Audit Committee of the Company as well as to the Audit Committee of MCBG.

GIA ensures that the quality of internal audit services provided to MCB Microfinance Ltd is aligned with recognised best practices. GIA leverages on a systematic and disciplined approach, notably through the use of well-focused audit work programs and computer aided audit techniques to evaluate the effectiveness of the internal control systems of the Company. The Institute of Internal Auditors requires each internal audit function to have an external quality assessment conducted at least once every five years. The last exercise was carried out in November/December 2018 by an internationally recognised auditing firm which confirmed the Internal Audit BU's compliance with the International Standards for the Professional Practice of Internal Audit issued by the above mentioned institute.

Areas, systems and processes covered by internal audit including non-financial matters are as follows:

- Accounting Cycle including fixed assets management, budget and budgetary controls and bank reconciliation.
- Governance including review of Board minutes and frequency of board meetings and existence of Service Level Agreements with the relevant parties.
- Regulatory Framework and Reporting consisting of review of returns to regulatory bodies and compliance with relevant laws, codes and standards.
- Customer on boarding which involves client take on, amendment to client files and project creation.
- Loan process from loan application to repayments and follow up.
- Human Resources including leaves management, portfolio distributions and staff training.
- Physical Security, Keys Management and Layout.
- Archives and filing processes.
- Information Technology including logical access control, server security, data security and business continuity plan as well as disaster recovery plan.

There are no restrictions placed on the internal auditors in conducting their audit exercises.

7. AUDIT (CONT'D)

7.2 External Auditors

The Audit Committee of MCB Group Limited ("Audit Committee MCBG") recommends the appointment of External Auditors for all the subsidiaries of MCB Group including MCB Microfinance Ltd on a yearly basis, after having reviewed the Audit Plan presented by the External Auditors.

For the period under review the Audit Committee MCBG had the responsibility to evaluate the performance of the External Auditors and to review their integrity, independence and objectivity by:

- Confirming that the External Auditors were independent from the Company
- Considering whether the relationships that may exist between the Company and the External Auditors impair the latter's judgement

Henceforth the above mentioned assignments would be undertaken by both, the Audit Committee of MCB Microfinance Ltd and of MCBG and recommendation would be made to the Board. The Board would then recommend the appointment of the External Auditors to the shareholders in the Annual Meeting for approval by way of an ordinary resolution.

BDO & Co has held office as auditors of the Company since 2016.

7.3 Auditors' Fees

The fees payable to the auditors, for audit and other services for the last 2 years were:

	2019 **Rs.**	2018 Rs.
Audit fees - BDO & Co:	**188,370**	193,200

The auditors did not receive any fees for other services.

8. RELATIONS WITH THE SHAREHOLDER AND OTHER KEY STAKEHOLDERS

The shareholder is properly kept informed on matters affecting the Company as the shareholder is fairly represented on the Board. The Annual Meeting of Shareholder is held in accordance with the Companies Act and upon consultation with the shareholder. Notices for the annual meeting and other shareholder meetings are duly sent to the shareholder.

The Company's website is used to provide relevant information to other stakeholders. Open lines of communication are maintained to ensure transparency and optimal disclosure.

8. RELATIONS WITH THE SHAREHOLDER AND OTHER KEY STAKEHOLDERS (CONT'D)

8.1 Shareholders Agreement Affecting the Governance of the Company by the Board

There is currently no such agreement.

8.2 Major Transaction

No Major transaction as defined under section 130(2) of the Act was undertaken.

8.3 Third Party Management Agreement

No such agreement presently exists.

8.4 Shareholders Holding more than 5% of the Company

The Company is wholly owned by MCBG.

8.5 Share Option Plan

No such scheme currently exists within the Company.

8.6 Timetable of important events

The Board aims to hold board meetings on a quarterly basis.

8.7 Dividend Policy

The Company intends to distribute any excess cash as dividends, subject to its overall capital requirements, liquidity and profitability. No dividend was declared for the year under review.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors collectively as a Board acknowledge their responsibilities for the following and state that:

(i) the financial statements fairly present the state of affairs of the Company as at the end of the financial year and the result of operations and cash flows for the period:
(ii) adequate accounting records and effective internal control systems and risk management have been maintained;
(iii) appropriate accounting policies supported by reasonable and prudent judgements and estimates have been used consistently;
(iv) the financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), International Accounting Standard (IAS), the Companies Act 2001 and the Financial Reporting Act 2004;
(v) the financial statements have been prepared on a going concern basis;
(vi) they are responsible for safeguarding the assets of the Company;
(vii) they are responsible for leading and controlling the organization and meeting all legal and regulatory requirements;
(viii) they have taken reasonable steps for the prevention and detection of fraud and other irregularities.

The external auditors are responsible for reporting on whether the financial statements are fairly presented.

Having taken all the matters considered by the Board and brought to the attention of the Board during the year into account, we are satisfied that the annual report and accounts taken as a whole are fair, balanced and understandable.
For and on behalf of the Board of Directors:

....	....
Director	Director
GILBERT GNANY	AURELIE LECLEZIO.

Date: 29 August 2019

STATEMENT OF COMPLIANCE FOR THE YEAR ENDED JUNE 30, 2019

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

Name of Public Interest Entity : MCB Microfinance Ltd

Reporting Period : 1 July 2018 to 30 June 2019

We, the directors of MCB Microfinance Ltd, confirm to the best of our knowledge the Company has not complied with certain Principles of the Code. Reasons for non-compliance are set out below.

Principles	Sections relating to	Reasons for non-compliance
4	Disclosure of Directors' remuneration	Due to the sensitive nature of the information, executive director's remuneration and fees have not been disclosed.

Signed for and on behalf of the Board of Directors on 29 August 2019.

....
Chairman
PIERRE-GUY NOEL

....
Director
AURELIE LECLEZIO.

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P.O. Box 799

MCB MICROFINANCE LTD

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of MCB Microfinance Ltd

Report on the audit of the Financial Statements

Opinion

We have audited the financial statements of MCB Microfinance Ltd (the "Company") on pages 6 to 31 which comprise the statement of financial position as at June 30, 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements on pages 6 to 31 give a true and fair view of the financial position of the Company as at June 30, 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Companies Act 2001.

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 Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in Mauritius, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

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 and Those Charged with Governance 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 Companies Act 2001, and for such internal control as the directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

BDO & Co, a firm of Chartered Accountants in Mauritius, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

BDO is the brand name for the BDO network and for each of the BDO Member Firms.

Responsibilities of Directors and Those Charged with Governance for the Financial Statements (continued)

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.

Those charged with governance 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.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism 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 directors.
- Conclude on the appropriateness of 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.

BDO

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

Companies Act 2001

We have no relationship with, or interests in, the Company, other than in our capacity as auditors, and dealings in the ordinary course of business.

We have obtained all information and explanations we have required.

In our opinion, proper accounting records have been kept by the Company as far as it appears from our examination of those records.

Other Matter

This report is made solely to the shareholder of MCB Microfinance Ltd (the "Company"), as a body, in accordance with Section 205 of the Companies Act 2001. Our audit work has been undertaken so that we might state to the Company's shareholder 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 shareholder as a body, for our audit work, for this report, or for the opinions we have formed.

BDO & Co

BDO & CO
Chartered Accountants

Ramdin

Ameenah Ramdin FCCA, ACA
Licensed by FRC

Port Louis,
Mauritius.
29 Aug 2019

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED JUNE 30, 2019

	Notes	2019	2018
		Rs.	Rs.
Interest income	2(f)	**34,139,956**	28,011,749
Interest expense		**(2,713,031)**	(2,240,326)
Net interest income	5	**31,426,925**	25,771,423
Fee and commission income	6	**3,291,437**	2,463,056
Operating income		**34,718,362**	28,234,479
Net impairment loss on financial assets	7	**(9,555,172)**	(16,056,975)
Personnel expenses	8	**(20,766,608)**	(19,091,597)
Depreciation	11	**(1,968,789)**	(2,089,709)
Amortisation	12	**(360,602)**	(360,602)
Other expenses	9	**(6,849,300)**	(6,670,119)
Loss before tax		**(4,782,109)**	(16,034,523)
Income tax	10	**573,670**	2,725,360
Loss for the year		**(4,208,439)**	(13,309,163)
Other comprehensive income		**-**	-
Total comprehensive income for the year		**(4,208,439)**	(13,309,163)
Loss per share	20	**(4.48)**	(17.75)

The notes on pages 10 to 31 form an integral part of the financial statements.
Auditors' report on pages 5 to 5(b).

STATEMENT OF FINANCIAL POSITION AS AT JUNE 30, 2019

	Notes	2019	2018
		Rs.	Rs.
ASSETS			
Plant and equipment	11	**3,010,670**	4,078,564
Intangible assets	12	**721,201**	1,081,803
Financial assets at amortised cost	13	**245,410,919**	208,569,584
Other assets	14	**159,787**	136,185
Deferred tax assets	15	**7,861,740**	7,288,070
Cash in hand and at bank	19(b)	**52,697**	79,328
Total assets		**257,217,014**	221,233,534
LIABILITIES			
Borrowings	16	**189,257,660**	177,853,109
Other liabilities	17	**6,407,803**	4,949,503
Total liabilities		**195,665,463**	182,802,612
Shareholders' equity			
Stated capital	18	**100,000,000**	75,000,000
Revenue deficit		**(38,448,449)**	(36,569,078)
Total equity		**61,551,551**	38,430,922
Total equity and liabilities		**257,217,014**	221,233,534

The financial statements have been approved for issue by the board of directors on: 29 AUG 2019

Director
GILBERT GNANY

Director
AURELIE LECLEZIO

The notes on pages 10 to 31 form an integral part of the financial statements.
Auditors' report on pages 5 to 5(b).

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED JUNE 30, 2019

	Notes	Share Capital	Revenue Deficit	Total
		Rs.	Rs.	Rs.
Balance at July 1, 2018				
- as previously reported		75,000,000	(36,569,078)	38,430,922
- effect of changes in accounting policy	24	-	2,329,068	2,329,068
- as restated		75,000,000	(34,240,010)	40,759,990
Issue of shares	18	25,000,000	-	25,000,000
Loss for the year		-	(4,208,439)	(4,208,439)
Balance at June 30, 2019		**100,000,000**	**(38,448,449)**	**61,551,551**
Balance at July 1, 2017 - as restated		75,000,000	(23,259,915)	51,740,085
Loss for the year		-	(13,309,163)	(13,309,163)
Balance at June 30, 2018		**75,000,000**	**(36,569,078)**	**38,430,922**

The notes on pages 10 to 31 form an integral part of the financial statements.
Auditors' report on pages 5 to 5(b).

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2019

	Note	2019	2018
		Rs.	Rs.
Cash flow from operating activities			
Loss before tax		(4,782,109)	(16,034,523)
Adjustments for:			
Depreciation on plant and equipment		1,968,789	2,089,709
Amortisation of intangible assets		360,602	360,602
Write off on scrap assets		10,731	16,806
Interest income		(34,139,956)	(28,011,749)
Interest expense		2,713,031	2,240,326
Provision for gratuity		185,691	612,812
Charge for credit impairment		9,303,416	15,772,959
Changes in working capital:			
- loans to customers		(43,577,512)	(43,032,876)
- other assets		(23,602)	108,562
- other liabilities		541,067	903,626
- deferred income		277,764	269,013
Interest paid		(2,717,416)	(2,343,788)
Interest received		33,901,785	27,774,067
Net cash used in operating activities		(35,977,719)	(39,274,454)
Cash flows from investing activity			
Purchase of plant and equipment		(457,848)	(78,033)
Net cash used in investing activity		(457,848)	(78,033)
Cash flows from financing activities			
Issue of shares		25,000,000	-
Loan from holding company		25,000,000	50,000,000
Proceeds from borrowings		942,300,000	766,521,000
Payments on borrowings		(955,800,000)	(782,556,000)
Net cash generated from financing activities		36,500,000	33,965,000
Net increase/(decrease) in cash and cash equivalents		64,433	(5,387,487)
Movement in cash and cash equivalents			
At July 1,		(228,892)	5,158,595
Increase/(decrease)		64,433	(5,387,487)
At June 30,	19(b)	(164,459)	(228,892)

The notes on pages 10 to 31 form an integral part of the financial statements.
Auditors' report on pages 5 to 5(b).

1. GENERAL INFORMATION

MCB Microfinance Ltd is a private company limited by shares domiciled and incorporated in Mauritius on January 20, 2016.

The activities of the Company consist mainly in providing microfinance services.

The address of its registered office is Sir William Newton Street, MCB Centre, Port Louis.

These financial statements will be submitted for consideration and approval at the forthcoming Annual Meeting of the Company.

2. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

The financial statement of MCB Microfinance Ltd comply with the Companies Act 2001 and have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements is prepared under the historical cost convention except for financial assets and liabilities which are stated at fair value.

Standards, Amendments to published Standards and Interpretations effective in the reporting period

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The adoption of IFRS 9 Financial Instruments from January 1, 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in Note 2(d) and 2(e). The Company has elected to apply the exemption in IFRS 9 paragraph 7.2.15 not to restate prior periods in the year of initial application of the standard. The Company has chosen to adopt the general approach credit loss model for loans to customers in accordance with IFRS 9 paragraph 5.5.15.

IFRS 15 Revenue from Contracts with Customers is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The Company has adopted IFRS 15 Revenue from Contracts with Customers from July 1, 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in Note 2(f) and 2(g). In accordance with the transition provisions in IFRS 15, the Company has not restated comparatives for previous financial year, year ended June 30, 2018.

Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)
The amendments clarify the measurement basis for cash-settled share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. The amendment has no impact on the Company's financial statements.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)
The amendment provides two different solutions for insurance companies: a temporary exemption from IFRS 9 for entities that meet specific requirements (applied at the reporting entity level), and the 'overlay approach'. Both approaches are optional. The amendment has no impact on the Company's financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(a) Basis of preparation (cont'd)

Standards, Amendments to published Standards and Interpretations effective in the reporting period (cont'd)

Annual Improvements to IFRSs 2014-2016 Cycle

- IFRS 1 - deleted short-term exemptions covering transition provisions of IFRS 7, IAS 19 and IFRS 10 which are no longer relevant.
- IAS 28 - clarifies that the election by venture capital organisations, mutual funds, unit trusts and similar entities to measure investments in associates or joint ventures at fair value through profit or loss should be made separately for each associate or joint venture at initial recognition. The amendment has no impact on the Company's financial statements.

IFRIC 22 Foreign Currency Transactions and Advance Consideration. The interpretation clarifies how to determine the date of transaction for the exchange rate to be used on initial recognition of a related asset, expense or income where an entity pays or receives consideration in advance for foreign currency-denominated contracts. The amendment has no impact on the Company's financial statements.

Transfers of Investment Property (Amendments to IAS 40). The amendments clarify that transfers to, or from, investment property can only be made if there has been a change in use that is supported by evidence. A change in use occurs when the property meets, or ceases to meet, the definition of investment property. A change in intention alone is not sufficient to support a transfer. The amendment has no impact on the Company's financial statements.

Standards, Amendments to published Standards and Interpretations issued but not yet effective

Certain standards, amendments to published standards and interpretations have been issued that are mandatory for accounting periods beginning on or after January 1, 2019 or later periods, but which the Company has not early adopted.

At the reporting date of these financial statements, the following were in issue but not yet effective:

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)
IFRS 16 Leases
IFRS 17 Insurance Contracts
IFRIC 23 Uncertainty over Income Tax Treatments
Prepayment Features with negative compensation (Amendments to IFRS 9)
Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)
Annual Improvements to IFRSs 2015-2017 Cycle
Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)
Definition of a Business (Amendments to IFRS 3)
Definition of Material (Amendments to IAS 1 and IAS 8)

Where relevant, the Company is still evaluating the effect of these Standards, Amendments to published Standards and Interpretations issued but not yet effective, on the presentation of its financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(a) Basis of preparation (cont'd)

IFRS 16 Leases - effective July 01, 2019

Adoption of IFRS 16 will result in the Company recognising right-of-use assets and lease liabilities for all contracts that are, or contain, a lease. For leases currently classified as operating leases, under current accounting requirements the Company does not recognise related assets or liabilities, and instead spreads the lease payments on a straight-line basis over the lease term, disclosing in its annual financial statements the total commitment. The Company is assessing the impact of this new standard and will adopt the standard when it becomes effective.

The preparation of financial statement in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statement, are disclosed in Note 4.

(b) Plant and equipment

All plant and equipment is initially recorded at cost and stated at historical cost less depreciation. 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.

Work in progress for production, rental or administrative purposes or for purposes not yet determined are carried at cost less any recognised impairment loss. Cost includes professional fees and for qualifying assets, borrowing costs capitalised. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is calculated on the straight line method to write off the cost of the assets to their residual values over their estimated useful lives as follows:

	Per annum
Leasehold improvements	33.33% - 46%
Office equipment	10-20%
Furniture & fixtures	10%
Computer hardware	20%
Generator and other utility installation	10%

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

Gains and losses on disposal of plant and equipment are determined by comparing proceeds with carrying amount and are included in the statement of profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Intangible assets

Computer software

Acquired computer software licences are capitalised on the basis of costs incurred to acquire and bring to use the specific software and are amortised over their estimated useful lives as follows:

	Per annum
Computer Software	20%

Costs associated with maintaining computer software are recognised as an expense as incurred.

(d) Financial assets at amortised cost

These assets arise principally from the provision of services to customers, but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions for the financial assets are recognised based on the forward looking expected credit loss model.

Impairment provisions for receivables from related parties and loans to related parties are recognised based on a forward looking expected credit loss model. The methodology used to determine the amount of the provision is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset. For those where the credit risk has not increased significantly since initial recognition of the financial asset, twelve month expected credit losses along with gross interest income are recognised. For those for which credit risk has increased significantly, lifetime expected credit losses along with the gross interest income are recognised. For those that are determined to be credit impaired, lifetime expected credit losses along with interest income on a net basis are recognised.

The Company's financial assets measured at amortised cost includes cash and cash equivalents on the statement of financial position.

Bank overdrafts are shown with borrowings in liabilities on the statement of financial position.

The Company classifies its financial liabilities as follows:

- bank borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. For the purposes of each financial liability, interest expense includes initial transaction costs and any premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.
- Other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(e) Impairment losses on financial assets

Prior to adoption of IFRS 9

Specific allowances are made on a collective basis based on Company policy as follows:

1-30 days overdue	8%
31-60 days overdue	13%
61-90 days overdue	19%
more than 90 days overdue	100%

A portfolio allowance for credit losses of 1% is made on all unimpaired loans. The changes in portfolio allowances are charged/credited to the statement of profit or loss at the end of each period.

On adoption of IFRS 9

The adoption of IFRS 9 has fundamentally changed the Company's loan loss impairment method by replacing IAS 39's incurred loss approach with a forward-looking ECL approach.
From January 1, 2018 the Company has been recording allowance for expected credit losses for all of its financial assets.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL).

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of the financial instruments.

The Company considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition.

It considers available reasonable and supportive forwarding-looking information. Macroeconomic information (such as market interest rates or growth rates) is incorporated as part of the internal rating model.

A significant increase in credit risk is presumed if a debtor is more than 1-89 days past due in making a contractual payment.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Company. The Company categorises a loan for write off when a debtor fails to make contractual payments greater than 90 days past due. Where loans have been written off, the Company continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(e) Impairment losses on financial assets (cont'd)

The calculation of ECLs

PD - The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period.

LGD - Loss given default is defined as the likely loss intensity in case of a counterparty default. It provides an estimation of the exposure that cannot be recovered in a default event and therefore captures the severity of a loss. Conceptually, LGD estimates are independent of a customer's probability of default. The LGD models ensure that the main drivers for losses (i.e., different levels and quality of collateralization and customer or product types or seniority of facility) are reflected in specific LGD factors.

EAD - The Exposure at Default 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, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

The mechanics of the ECL method are summarised below:

Stage 1: The 12-month ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Company calculates the 12-month ECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD, and discounted by an approximation to the original EIR.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. These expected default probabilities are applied to a forecast EAD and multiplied by the expected LGD.

Stage 3: For loans considered credit-impaired, the Company recognises the lifetime expected credit losses for these loans. The ECL set at 100%.

Overview of ECL principles

A summary of the assumptions underpinning the Company's expected credit loss model is as follows:

Company internal category	Company definition of category	Basis for recognition of expected credit loss provision
Performing	Customers having zero days past due	12 month expected credit losses

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(e) Impairment losses on financial assets (cont'd)

Overview of ECL principles (cont'd)

Company internal category	Company definition of category	Basis for recognition of expected credit loss provision
Under-Performing	Loans for which there is a significant increase in credit risk presumed if principal and/or interest repayments are 1-89 days past due	Lifetime expected losses
Default	Principal and/or interest repayments are 90+ days past due and there is no reasonable expectation of recovery	Lifetime expected losses

Microfinancing loans are provided to micro-business to assist them in the day-to-day running or in the expansion of their business, as part of the Company's ongoing support for local entrepreneurs. The Company does not require the micro-business customers to pledge collateral as security agains the loan.

Over the term of the loans, the Company accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. In calculating the expected credit loss rates, the Company considers the historical loss rates for each category of customers and adjusts for forward looking macroeconomic data. The Company provides for credit losses against loans financial assets at amortised cost as follows:

Company internal	Expected	Basis for
Performing	1%	12 months
Under-Performing	4%	Lifetime
Default	100%	Assets

(f) Interest income and expense

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.

For all financial instruments measured at amortised cost, interest income and interest expenses are recognised in a time-proportion basis using the effective interest method. This method uses the effective interest rate (EIR) that exactly discounts the estimated future cash receipts or payments over 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 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(f) Interest income and expense

When a financial asset becomes credit-impaired and is considered as 'Stage 3', the Company calculates interest income by applying the effective interest rate to the outstanding amount of the financial asset. For all credit impaired assets, the interest income is reversed and charged against the outstanding amount of the financial asset. If the financial assets recovers and is no longer credit-impaired, the Company reverts to calculating interest income on a gross basis.

(g) Fees and commissions

Fees and commissions are generally recognised when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with the related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

(h) Stated capital

Ordinary shares

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

(i) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

Current tax

The current income tax charged is based on taxable income for the period calculated on the basis of tax laws enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred income tax is provided in full, using the liability method, only temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statement. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for.

Deferred income tax is determined using tax rates that have been enacted or substantively enacted at the reporting date and are expected to apply in the period when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which deductible temporary differences can be utilised.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(j) Gratuity on retirement

For employees who are not covered under the pension scheme, the net present value of gratuity on retirement payable under the Employment Rights Act 2008 is calculated. The obligations arising under this item are not funded.

The Employment Rights Act stipulates that the Gratuity paid on Retirement should be based on the remuneration (which is inclusive of payment for extra work, productivity bonus, attendance bonus, commission in return for services and any other regular payment) of the employee. The amount due per year of service is 15 days remuneration based on a month of 26 days (15/26).

(k) Borrowings

Borrowings are recognised initially at fair value being their issue proceeds net of transaction cost incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

(l) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources that can be reliably estimated will be required to settle the obligation.

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 estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

3. FINANCIAL RISK MANAGEMENT

3.1 Financial Risk Factors

The Company's activities expose it to a variety of financial risks: credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. A description of the significant risk factors is given below together with the risk management policies applicable.

(a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's microfinance loans to customers.

The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the Company's management based on the current environment.

The Company has no significant concentration of credit risks with exposure spread over a large number of counterparties and customers. The Company has policies to limit the amount of credit exposure to any one financial position. The Company has policies in place to ensure that loans are granted to customers with appropriate credit history.

Credit Quality of Loans	**2019**	2018
	Rs.	Rs.
Neither past due nor impaired	**214,333,981**	183,088,337
Impaired	**61,548,378**	49,542,370
Gross	**275,882,359**	232,630,707
Less allowances for credit impairment	**(30,471,440)**	(24,061,123)
Net	**245,410,919**	208,569,584

The Company has policies to provide allowances for credit impairment on all microfinance loans up to full provisioning after three months.

The Company provides microfinance loans which are not secured by any collaterals.

(b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering of cash or another financial asset. Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding and the ability to close out market positions. The Company aimed at maintaining flexibility in funding by keeping committed credit lines available.

3. FINANCIAL RISK MANAGEMENT (CONT'D)

3.1 Financial Risk Factors (cont'd)

(b) Liquidity risk (cont'd)

Maturities of assets and liabilities

At June 30, 2019	Up to 1 year	1- 3 years	Over 3 years	Non-Maturity Items	Total
Financial assets	Rs.	Rs.	Rs.	Rs.	Rs.
Loans to customers	145,380,986	130,501,373	-	-	275,882,359
Cash in hand and at bank	-	-	-	52,697	52,697
	145,380,986	130,501,373	-	52,697	275,935,056
Less allowances for credit impairment					(30,471,440)
Total					**245,463,616**
Financial liabilities					
Borrowings	189,257,660	-	-	-	189,257,660
	189,257,660	-	-	-	189,257,660
Total					**189,257,660**
Net liquidity gap	(43,876,674)	130,501,373	-	52,697	86,677,396
Less allowances for credit impairment					(30,471,440)
					56,205,956

At June 30, 2018	Up to 1 year	1- 3 years	Over 3 years	Non-Maturity Items	Total
Financial assets	Rs.	Rs.	Rs.	Rs.	Rs.
Loans to customers	102,980,977	129,649,730	-	-	232,630,707
Cash in hand and at bank	-	-	-	79,328	79,328
	102,980,977	129,649,730	-	79,328	232,710,035
Less allowances for credit impairment					(24,061,123)
Total					**208,648,912**
Financial liabilities					
Borrowings	177,853,109	-	-	-	177,853,109
	177,853,109	-	-	-	177,853,109
Total					**177,853,109**
Net liquidity gap	(74,872,132)	129,649,730	-	79,328	54,856,926
Less allowances for credit impairment					(24,061,123)
					30,795,803

3. FINANCIAL RISK MANAGEMENT (CONT'D)

3.2 Fair values of financial assets and liabilities

The carrying amounts of bank balances, other receivables, other payables approximate their fair values. The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values.

3.3 Capital risk management

The Company's objectives when managing capital are:

- to safeguard the entity's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- to provide an adequate return to shareholders by pricing services commensurately with the level of risk.
- to maintain at all times a minimum paid up and unimpaired stated capital and shareholder's funds at the higher of Rs. 10m or 5% of its total liabilities.

The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Expected credit losses on financial assets

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Elements ECL models that are considered accounting judgements and estimates include mainly:

(a) the development of ECL models, including the various formulas and the choice of inputs which normally include determination of associations between macroeconomics scenarios and, economic inputs, such as gross domestic products rate and collateral values, and the effect on the probability of default (PDs), Exposure At Default (EADs) and Loss Given Default (LGD).

(b) selection of forward-looking macroeconomic scenarios and their probablity weightings, to derive the economic inputs into the ECL models.

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

(b) Asset lives and residual values

Plant and equipment are depreciated over their useful lives taking into account residual values, where appropriate. The estimate lives of the assets and residual values are assessed annually and may vary depending on a number of factors (maintenance, future market conditions, projected disposal values amongst other things). The directors make estimates based on historical experience and use best judgement to assess the useful lives of the assets and to forecast expected residual values of the assets at the end of their expected useful lives.

(c) Depreciation policies

Property, plant 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.

(d) Deferred tax assets arising from tax losses

The Company has deferred tax assets of Rs 2.4m (2018: Rs 3.2m), arising mainly from tax losses. The Company has made estimates of its future taxable income and believes that the tax losses will be fully utilised within the relevant period during which such tax losses may be carried forward.

5. NET INTEREST INCOME

	2019	2018
	Rs.	Rs.
Interest income		
Loan to customers	34,139,956	28,011,749
Interest expense		
Money market line	2,640,940	2,148,907
Bank overdraft	72,091	91,419
	2,713,031	2,240,326
Net interest income	31,426,925	25,771,423

6. FEE AND COMMISSION INCOME

	2019	2018
	Rs.	Rs.
Processing fees	1,586,791	1,158,697
Penalty fees	634,228	909,698
Others	1,070,418	394,661
	3,291,437	2,463,056

7. NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

	2019	2018
	Rs.	Rs.
Allowances for credit impairment		
- Loans to customers	9,303,416	15,772,959
- Amount written off	251,756	284,016
	9,555,172	16,056,975

8. PERSONNEL EXPENSES

	2019	2018
	Rs.	Rs.
Wages and salaries	17,948,609	16,000,189
Social security obligations	730,121	653,813
Contributions to pension costs	1,309,659	1,578,128
Other personnel expenses	778,219	859,467
	20,766,608	19,091,597

9. OTHER EXPENSES

	2019	2018
	Rs.	Rs.
Software licencing and other information technology cost	165,017	144,167
Rental and service fees	1,493,656	1,528,656
Professional fees	1,747,800	1,610,459
Advertising costs	516,699	433,642
Sundry and maintenance	1,272,395	1,196,223
Loss on sale of property and equipment	10,731	16,806
Other	1,643,002	1,740,166
	6,849,300	6,670,119

10. INCOME TAX

	2019	2018
	Rs.	Rs.
(a) Deferred tax (Note 15)	573,670	2,725,360
	573,670	2,725,360

10. INCOME TAX (CONT'D)

(b) The tax on the Company's loss before tax differs from the theoretical amount that would arise using the basic tax rate of the Company as follows:

	2019	2018
	Rs.	Rs.
Loss before income tax	**(4,782,109)**	(16,034,523)
Income tax at 15%	**(717,316)**	(2,405,178)
Expenses not deductible for tax purposes	**257,719**	450
Deferred tax rate differential on corporate social responsibility tax	**(114,073)**	(320,632)
	(573,670)	(2,725,360)

11. PLANT AND EQUIPMENT

2019	**Leasehold Improvement**	**Office Equipment**	**Furniture & Fixtures**	**Computer Hardware**	**Generator and other utility installation**	**Work in Progress**	**Total**
COST	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**
At July 1, 2017	4,370,815	1,746,133	1,089,600	1,143,068	77,030	-	8,426,646
Additions	-	-	67,326	10,707	-	-	78,033
Disposals	(55,000)	-	-	-	-	-	(55,000)
At June 30, 2018	**4,315,815**	**1,746,133**	**1,156,926**	**1,153,775**	**77,030**	**-**	**8,449,679**
Additions	96,123	183,912	51,635	126,178	-	453,777	911,625
Disposals	-	-	-	(20,769)	-	-	(20,769)
At June 30, 2019	**4,411,938**	**1,930,045**	**1,208,561**	**1,259,184**	**77,030**	**453,777**	**9,340,535**
DEPRECIATION							
At July 1, 2017	1,661,294	284,936	119,057	245,485	8,828	-	2,319,600
Charge for the year	1,476,392	265,040	111,604	228,970	7,703	-	2,089,709
Disposal adjustment	(38,194)	-	-	-	-	-	(38,194)
At June 30, 2018	**3,099,492**	**549,976**	**230,661**	**474,455**	**16,531**	**-**	**4,371,115**
Charge for the year	1,312,446	290,052	119,184	239,404	7,703	-	1,968,789
Disposal adjustment	-	-	-	(10,039)	-	-	(10,039)
At June 30, 2019	**4,411,938**	**840,028**	**349,845**	**703,820**	**24,234**	**-**	**6,329,865**
NET BOOK VALUE							
At June 30, 2019	**-**	**1,090,017**	**858,716**	**555,364**	**52,796**	**453,777**	**3,010.670**
At June 30, 2018	1,216,323	1,196,157	926,265	679.320	60,499	-	4,078,564

12. INTANGIBLE ASSETS

	Computer Software
2019	Rs.
COST	
At July 1, 2017	1,800,769
Additions	-
At June 30, 2018	**1,800,769**
Additions	-
At June 30, 2019	**1,800,769**
AMORTISATION	
At July 1, 2017	**358,364**
Charge for the year	360,602
At June 30, 2018	**718,966**
Charge for the year	360,602
At June 30, 2019	**1,079,568**
NET BOOK VALUE	
At June 30, 2019	**721,201**
At June 30, 2018	1,081,803

13. FINANCIAL ASSETS AT AMORTISED COST

	2019	2018
	Rs.	Rs.
Loans to customers	**274,056,001**	231,042,520
Interest receivable	**1,826,358**	1,588,187
Gross loans	**275,882,359**	232,630,707
Less allowance for impairment (Note 13(b))	**(30,471,440)**	(24,061,123)
	245,410,919	208,569,584

(a) **Remaining term of maturity:**

	2019	2018
	Rs.	Rs.
Up to 3 months	**47,871,127**	34,309,208
Over 3 months and up to 6 months	**32,060,755**	24,908,730
Over 6 months and up to 12 months	**57,146,288**	43,763,038
Over 1 year and up to 5 years	**138,804,189**	129,649,731
	275,882,359	232,630,707

(b) **Allowances for credit impairment**

	Stage 1	Stage 2	Stage 3	Total
	Rs.	Rs.	Rs.	Rs.
At 30 June 2018	3,348,282	1,692,954	19,019,887	24,061,123
Effect of changes in accounting policy (Note 24)	(1,130,710)	(1,198,358)	-	(2,329,068)
Balance at 01 July 2018	**2,217,572**	**494,596**	**19,019,887**	**21,732,055**
Transfer to stage 1	56,786	(56,786)	-	-
Transfer to stage 2	(110,762)	110,762	-	-
Transfer to stage 3	(120,921)	(288,301)	409,222	-
Additional provision	1,675,608	276,119	12,848,964	14,800,691
Provision released	(548,119)	(4,629)	(1,135,995)	(1,688,743)
Assets derecognised	(520,488)	(128,076)	(2,908,212)	(3,556,776)
Write offs	-	-	(815,787)	(815,787)
At 30 June 2019	**2,649,676**	**403,685**	**27,418,079**	**30,471,440**

13. LOANS TO CUSTOMERS (CONT'D)

(b) Allowances for credit impairment (cont'd)

Comparative information under IAS 39	Specific provision	Portfolio provision	Total provision
	Rs.	Rs.	Rs.
At July 1, 2017	9,904,645	1,669,679	11,574,324
Provision for credit impairment for the year	15,622,635	150,324	15,772,959
Amount written off	(3,286,160)	-	(3,286,160)
At June 30, 2018	**22,241,120**	**1,820,003**	**24,061,123**

	2019					
	Gross amount of loans	**Non performing loans**	**Stage 1**	**Stage 2**	**Stage 3**	**Total provision**
	Rs.	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**
Agriculture and fishing	**10,614,268**	**1,050,642**	**92,403**	**32,026**	**1,050,642**	**1,175,071**
Manufacturing	**67,807,739**	**8,839,437**	**641,868**	**113,539**	**8,839,437**	**9,594,844**
Transport	**56,584,801**	**2,909,639**	**574,913**	**77,775**	**2,909,639**	**3,562,327**
Traders	**74,527,935**	**8,878,326**	**698,080**	**125,822**	**8,878,326**	**9,702,228**
Others	**66,347,616**	**5,740,037**	**642,410**	**54,523**	**5,740,037**	**6,436,970**
	275,882,359	**27,418,081**	**2,649,674**	**403,685**	**27,418,081**	**30,471,440**

Comparative information under IAS 39	2018				
	Gross amount of loans	Non performing loans	Specific provision	Portfolio provision	Total provision
	Rs.	Rs.	Rs.	Rs.	Rs.
Agriculture and fishing	9,132,772	2,001,835	1,108,850	70,905	1,179,755
Manufacturing	57,351,856	13,170,887	6,559,905	439,116	6,999,021
Transport	43,779,475	7,789,252	2,724,541	357,849	3,082,390
Traders	66,494,718	15,997,449	4,469,682	450,085	4,919,767
Others	55,871,886	10,582,947	7,378,142	502,048	7,880,190
	232,630,707	49,542,370	22,241,120	1,820,003	24,061,123

(c) Credit concentration of risk by industry sectors:

	2019	2018
	Rs.	Rs.
Agriculture and fishing	**10,614,268**	9,132,772
Manufacturing	**67,807,739**	57,351,856
Transport	**56,584,801**	43,779,475
Traders	**74,527,935**	66,494,718
Others	**66,347,616**	55,871,886
	275,882,359	232,630,707

14. OTHER ASSETS

	2019	2018
	Rs.	Rs.
Prepayments	**105,787**	82,185
Deposits	**54,000**	54,000
	159,787	136,185

15. DEFERRED INCOME TAX

Deferred income tax is calculated on all temporary differences under the liability method at 17%.

(a) There is a legally enforceable right to offset current tax assets against current tax liabilities and deferred income tax assets and liabilities when the deferred income taxes relate to the same fiscal authority on the same entity. The following amounts are shown in the statements of financial position:

The movement on the deferred income tax account is as follows:	2019	2018
	Rs.	Rs.
Deferred tax assets	7,755,105	7,460,975
Deferred tax liabilities	106,635	(172,905)
Net deferred income tax assets	**7,861,740**	7,288,070

At the end of the reporting period, the Company had unused tax losses of Rs 13.92m (2018: Rs 18.79m) available for offset against future profits. A deferred tax asset has been recognised in respect of Rs 2.37m (2018: Rs 3.19m) of such losses. The tax losses expire on a rolling basis over 5 years.

(b) The movement on the deferred income tax account is as follows:	2019	2018
	Rs.	Rs.
At July 1, - as restated	7,288,070	4,562,710
Credited to profit or loss (Note 10)	573,670	2,725,360
At June 30,	**7,861,740**	7,288,070

(c) The movement in deferred tax liabilities during the year, without taking into consideration the offsetting of balances within the same fiscal authority, is as follows:

(i) Deferred tax liabilities	Accelerated tax depreciation	Total
	Rs.	Rs.
At June 30, 2018	172,905	172,905
Credited to profit or loss	(279,540)	(279,540)
At June 30, 2019	**(106,635)**	**(106,635)**

(ii) Deferred tax assets	Impairment losses	Tax losses	Provision on gratuity	Total
	Rs.	Rs.	Rs.	Rs.
At June 30, 2018	4,090,391	3,194,250	176,334	7,460,975
Credited/(charged) to profit or loss	1,089,754	(827,192)	31,568	294,130
At June 30, 2019	**5,180,145**	**2,367,058**	**207,902**	**7,755,105**

16. BORROWINGS

	2019	2018
	Rs.	Rs.
Short term bank borrowings	64,000,000	77,500,000
Interest payable to short term bank borrowings	40,504	44,889
Loan from holding company	125,000,000	100,000,000
Bank overdraft (Note 19)	217,156	308,220
	189,257,660	177,853,109

16. **BORROWINGS (CONT'D)**

The rates of interest on these short term bank borrowings is at 3.30% (2018: 3.30%) with maturity up to 1 month.

The loan from holding company is repayable on demand and is interest free.

17. **OTHER LIABILITIES**

	2019	2018
	Rs.	Rs.
Amount due to related parties (Note 22)	901,192	396,712
Retirement benefit obligations (Note 17(a))	1,222,951	1,037,260
Deferred income	2,327,738	2,049,974
Other payables	1,955,922	1,465,557
	6,407,803	4,949,503

The carrying amounts of other payables approximate their fair value.

(a) **Retirement benefit obligations**

	2019	2018
	Rs.	Rs.
(i) Amounts recognised in the statement of financial position:		
Other post retirement benefits (Note 17(b))	1,222,951	1,037,260
(ii) Amounts charged to profit or loss:		
Other post retirement benefits (Note 17(b))	185,691	612,812

(b) **Other post retirement benefits**

Other post retirement benefits comprise mainly of gratuity on retirement payable under the Employment Rights Act 2008 and other benefits.

(i) Movement in gratuity on retirement:	2019	2018
	Rs.	Rs.
At July 1,	1,037,260	424,448
Total expense charged in profit or loss	185,691	612,812
At June 30,	1,222,951	1,037,260

18. **STATED CAPITAL**

	Number of shares (thousands)	Ordinary shares	Total
		Rs.	Rs.
At June 30, 2018	750	75,000,000	75,000,000
Issue of shares	250	25,000,000	25,000,000
At June 30, 2019	**1,000**	**100,000,000**	**100,000,000**

19. **CASH AND CASH EQUIVALENTS**

The total authorised and issued number of ordinary shares is 1,000,000 shares (2018: 750,000 shares). All issued shares are at no par value and are fully paid.

19. CASH AND CASH EQUIVALENTS (CONT'D)

(a) Reconciliation of liabilities arising from financing activities

	2018	Cash flows	**2019**
	Rs	Rs	**Rs**
Loan from holding company	100,000,000	25,000,000	**125,000,000**
Short term borrowings	77,500,000	(13,500,000)	**64,000,000**
Total liabilities from financing activities	177,500,000	11,500,000	**189,000,000**

	2019	2018
	Rs.	Rs.
(b) Cash in hand and at bank	**52,697**	79,328

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Cash and cash equivalents include the following for the purpose of the statement of cash flows.

	2019	2018
	Rs.	Rs.
Cash in hand and at bank	**52,697**	79,328
Bank overdraft (Note 16)	**(217,156)**	(308,220)
	(164,459)	(228,892)

(c) Non-cash transactions	**2019**	2018
	Rs.	Rs.
Acquisitions of plant and equipment	**453,777**	-
	453,777	-

20. LOSS PER SHARE

	2019	2018
	Rs.	Rs.
Loss per share is based on:		
Loss for the year	**(4,208,439)**	(13,309,163)
Weighted average number of ordinary shares in issue	**938,356**	750,000
Loss per share	**(4.48)**	(17.75)

21. RELATED PARTY TRANSACTIONS

The following transactions were carried out by the Company with related parties.

	Purchase of services	**Financial charges**	**Loans from**	**Amount owed to related parties**
(a) **2019**	**Rs.**	**Rs.**	**Rs.**	**Rs.**
Holding company	**4,656**	**3,000**	**125,000,000**	**-**
Fellow subsidiary	**209,035**	**-**	**-**	**12,583**
Entities under common shareholders	**1,597,408**	**2,724,899**	**64,040,504**	**888,609**

21. RELATED PARTY TRANSACTIONS (CONT'D)

	Purchase of services	Financial charges	Loans from	Amount owed to related parties
	Rs.	Rs.	Rs.	Rs.
2018				
Holding company	-	-	100,000,000	-
Fellow subsidiary	-	-	-	12,583
Entities under common shareholders	1,025,236	2,251,433	77,544,889	384,129

The above transactions have been made on normal commercial terms and in the normal course of business. The balances owed to related parties represent recharged by group companies comprising mainly of IT services, engineering fees, secretarial fees and compliance fees.

The outstanding balances are unsecured, and settlement occurs in cash within one year.

(b) Key management personnel compensation

	2019	2018
	Rs.	Rs.
Salaries and short-term employee benefits	**2,194,717**	2,079,601

22. HOLDING COMPANY

The Company is controlled by MCB Group Limited whose registered office is at Sir William Newton Street, MCB Centre, Port Louis, incorporated in Mauritius which owns 100% of the Company's shares.

23. CHANGES IN ACCOUNTING POLICIES

(a) Impact on the financial statements

IFRS 9 and IFRS 15 were adopted without restating comparative information. Any adjustments arising from the new accounting policies are not reflected in the comparatives year ended June 30, 2018 but are recognised in the opening reserves on July 1, 2018.

The following tables show the adjustments recognised for each individual line item:

Statement of Financial Position (extract)	June 30, 2018	IFRS 9	IFRS 15	July 01, 2018 Restated
	Rs.	Rs.	Rs.	Rs.
Assets				
Loans to customers	**208,569,584**	**2,329,068**	-	**210,898,652**
Equity				
Revenue deficit	**(36,569,078)**	**2,329,068**	-	**(34,240,010)**

The impact of transition to IFRS 9 on the accumulated losses as at July 1, 2018 is as follows:

	Rs.
Revenue deficit - June 30, 2018	**(36,569,078)**
Adjustments from adopting IFRS 9	
Decrease in provision for loans to customers	**2,329,068**
Restated revenue deficit - July 1, 2018	**(34,240,010)**

24. CHANGES IN ACCOUNTING POLICIES (CONT'D)

(i) Classification and measurement

On July 1, 2018, management has assessed which business models apply to the financial assets held and has classified its financial instruments into the appropriate IFRS 9 categories. The business model has not changed and there have been no reclassification of financial assets.

On the date of initial application, July 1, 2018, the financial instruments of the Company were as follows:

	Measurement category		**Carrying amount**	
	Original (IAS 39)	New (IFRS 9)	**Original**	**New**
	Rs.	Rs.	**Rs.**	**Rs.**
Assets				
Loans to customers	Amortised	Amortised cost	**208,569,584**	**210,898,652**
Other assets (excluding prepayments)	Amortised	Amortised cost	**54,000**	**54,000**
Liabilities				
Borrowings	Amortised	Amortised cost	**177,853,109**	**177,853,109**
Other liabilities	Amortised	Amortised cost	**3,912,243**	**3,912,243**

(ii) Impairment of financial assets

The Company has loan to customers that are subject to IFRS 9's new expected credit loss model. The Company was required to revise its impairment methodology under IFRS 9. The impact of the change in impairment methodology on the Company's retained earnings and equity is disclosed above.

While cash and cash equivalent are also subject to the impairment requirements of IFRS 9, no impairment loss was recognised during the year.

The Company has chosen to adopt the general approach expected credit loss model for loans to customers in accordance with IFRS 9 paragraph 5.5.15. This resulted in a decrease of Rs 2.3m of the allowance for credit impairment on July 1, 2018 for loans to customers.

(b) IFRS 15 Revenue from Contracts with customers

IFRS 15 Revenue from Contracts with customers has no significant impact to the Company.