MCB MICROFINANCE LTD

ANNUAL REPORT - FOR THE YEAR ENDED

JUNE 30, 2022

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REPORT OF THE DIRECTORS
FOR THE YEAR ENDED JUNE 30, 2022

The directors are pleased to submit the Annual Report of MCB Microfinance Ltd, together with the audited financial statements for the year ended June 30, 2022 as set out on pages 6 to 48.

This report was approved by the Board of Directors on 23 SEP 2022

Director

Director

MCB MICROFINANCE LTD

SECRETARY'S CERTIFICATE
FOR THE YEAR ENDED JUNE 30, 2022

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 Mauritian Companies Act 2001.

MCB Group Corporate Services Ltd

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

Date: 23 SEP 2022

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 2022, to the best of the Board's knowledge, the organisation has complied with the Code.

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 has adopted its charter and reviews the latter regularly. The Board 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 provide 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

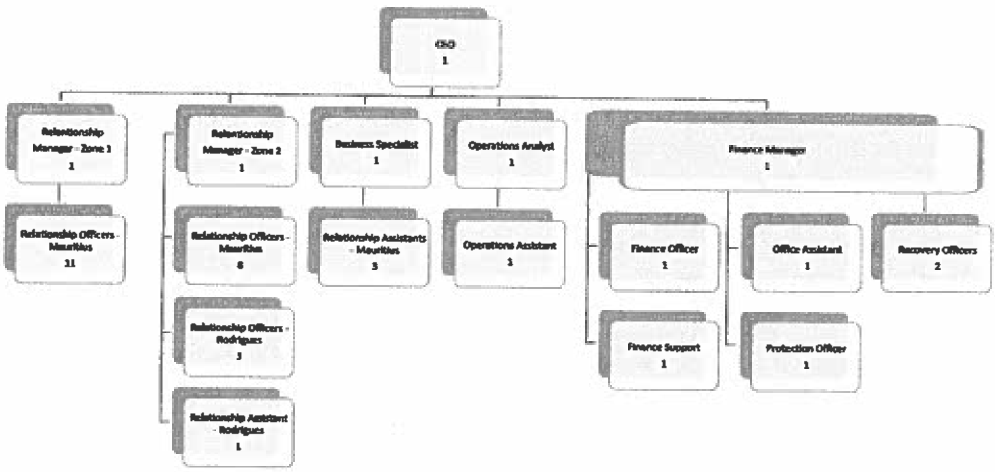
The Board is responsible and accountable for the long term success of the Company and as such has approved and set the main accountabilities of the Chief Executive Officer ("CEO") and the Board collectively as follows:

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 shareholder
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 utilisation of resources - Sets direction and oversees operations

1.3.4 Organisation Chart



1.3.5 Material Clauses of the Constitution

In accordance with Section 39 of the Companies Act 2001 of Mauritius (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 shareholder, 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 materially during the Financial Year 2021/2022 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 regularly to ensure that there is an appropriate balance of skill, experience and knowledge on the Board to carry out its duties and responsibilities effectively.

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 LECLÉZIO	Chief Executive Officer	Executive	Female	Mauritius
Alain REY	Director	Independent	Male	Mauritius
Jean-Philippe COULIER	Director	Independent	Male	Mauritius

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

2.3 Profile of Directors

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

2. THE BOARD STRUCTURE (CONT'D)

2.3 Profile of Directors (cont'd)

(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 Limited in April 2014.
He is a Board member of several companies within the MCB Group 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 Limited following the Group's restructuring exercise.

<u>Directorship in listed companies</u>
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 Master's Degree in Statistics and Economics from the École 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 Aurélie Leclézio graduated from "Sciences Po" Toulouse and holds a "Master 2" in Political Science, specialization in Geopolitics and International Relations from the Institut d'Études 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 Ltd in July 2016.

(iv) Jean-Philippe Coulier, Independent Director

Mr Jean-Philippe Coulier holds a 'Diplôme d'Études Supérieures en Droit' and 'Diplôme de l'Institut d'Études Politiques de Paris' (France). During his career, he has accumulated extensive experience in 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. He is currently a Board member in several companies within the MCB Group.

2. THE BOARD STRUCTURE (CONT'D)

2.3 Profile of Directors (cont'd)

(iv) Jean-Philippe Coulier, Independent Director (cont'd)

He was appointed director and Chairperson of both, Promotion and Development Ltd and Caudan Development Ltd In December 2018 and director of Hotelest Limited and Constance Hotels Services Limited in January 2021.

Directorship in listed companies
MCB Group Limited
Caudan Development Limited
Promotion and Development Limited
Fincorp Investment Limited
Hotelest Limited
Constance Hotels Services Limited

(v) Gilbert Gnany, Non-Executive Director

Mr. Gilbert Gnany holds a Master's degree in Econometrics from the University of Toulouse and a 'DESS' in Management/Micro-Economics from Paris-X. Gilbert 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 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 of Mauritius 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.

He is currently a Board member of several companies within the Group. On the institutional side, he is an external IMF expert in statistics, in particular, on data dissemination standards and strategy. Moreover, he is a member of the Financial Services Consultative Council. He also acts as 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
Caudan Development Limited
Promotion and Development Limited
Compagnie Des Villages De Vacances De L'Isle De France Limitée
Médine Limited

2. THE BOARD STRUCTURE (CONT'D)

2.3 Profile of Directors (cont'd)

(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
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 meetings 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	3
Mr Gilbert Gnany	3
Mrs Aurélie Leclézio	4
Mr Alain Rey	4
Mr Jean-Philippe Coulier	4

2. THE BOARD STRUCTURE (CONT'D)

2.6 Board Committees

An Audit Committee comprising of three members, namely, Mr Jean-Philippe Coulier, the Chairperson, Mr Alain Rey and Mr Gilbert Gnany was set up on 30 April 2019. During the financial year under review, the Committee met twice and all members were present.

The terms of reference of the Audit Committee can be viewed on the website of the Company. The Board reviews the charter of the Committee on a regular basis. 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 auditor's independence, objectivity and effectiveness and make recommendations to the Board on the appointment and retention of external auditor.

No significant issues were identified by the Audit Committee in relation to the Financial Statements of the Company.

3. DIRECTORS APPOINTMENT PROCEDURES

3.1 Directors Selection

The Remuneration, Corporate Governance, Ethics and Sustainability Committee (RCGESC) 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 RCGESC and whether the potential new directors are fit and proper and are not disqualified from being directors. The RCGESC 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 DIRECTORS APPOINTMENT PROCEDURES (CONT'D)

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 RCGESC of the MCB Group Limited.

The RCGESC 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 for directors, 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. BOARD PERFORMANCE AND EVALUATION (CONT'D)

4.3 Directors' Remuneration

The Directors' fees and remuneration are in accordance with market rates. The total remuneration and benefits received or due and receivable by each director from the Company are as follows:

	Rs.
Mr Alain Rey	88,600
Mr Jean-Philippe Coulier	129,800
Mr Pierre Guy Noël	-
Mr Gilbert Gnany	-
Mr Paul Corson	-
Total Non-Executive	***218,400***
Mrs Aurélie Leclézio	2,711,030.70
Total Executive	***2,711,030.70***
Total (Non-Executive and Executive)	**2,929,430.70**

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 22 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 by MCBG, have been adopted by the Company.

4.8 Whistleblowing Policy

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 Conflicts of interest and Related Party Transaction Policy

The objective of the policy is to define the scope of conflicts of interest and related party transactions conducted by the Directors and Senior officers of MCB Group Limited and its subsidiaries (collectively the "Group") and to set out prudent rules and limits for granting credit (referred as 'Credit Exposure') to related parties.

4.10 Policies of the Company

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.

There is no significant expenditure relating to Information Technology since the Company uses the IT infrastructure of the MCB Group.

Code of Ethics and Credit 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.

4.11 Register of Interest

A Register of Interests is maintained by the Company Secretary and is available for consultation by the shareholder upon request.

4.12 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, and resolved to carry out an evaluation exercise every three years. A review was conducted internally for the financial year 2020/2021 and the results concluded that the Board is operating effectively and that the Chairperson and the directors are fulfilling their roles. The next evaluation exercise would be carried out in financial year 2023/2024.

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.

The compliance function has been outsourced to the Risk & Compliance unit of MCB Capital Markets Ltd ("R&C). R&C reports directly to the Board on matters of relevance with regard to 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. Proper processes and procedures have been set out 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 the 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 in respect of 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. The Loan Committee's 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.

5 RISK GOVERNANCE AND INTERNAL CONTROL (CONT'D)

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 bank faces to serve micro-businesses, MCB Group has been willing to explore opportunities to provide microfinance services. The Company was therefore launched on 15 July 2016 to offer business loans to micro-enterprises and self-employed individuals. The Company 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, and since October 2020, a third category of loans, "start-up loans" from Rs 15,000 to Rs 200,000 for the setting up of a microbusiness:

Products	Tenor	Interest rates
Working Capital loans	6-18 months	15%
Investment loans	12-60 months	15%
Start-up loans	6-36 months	15%

Credit policy and methodology

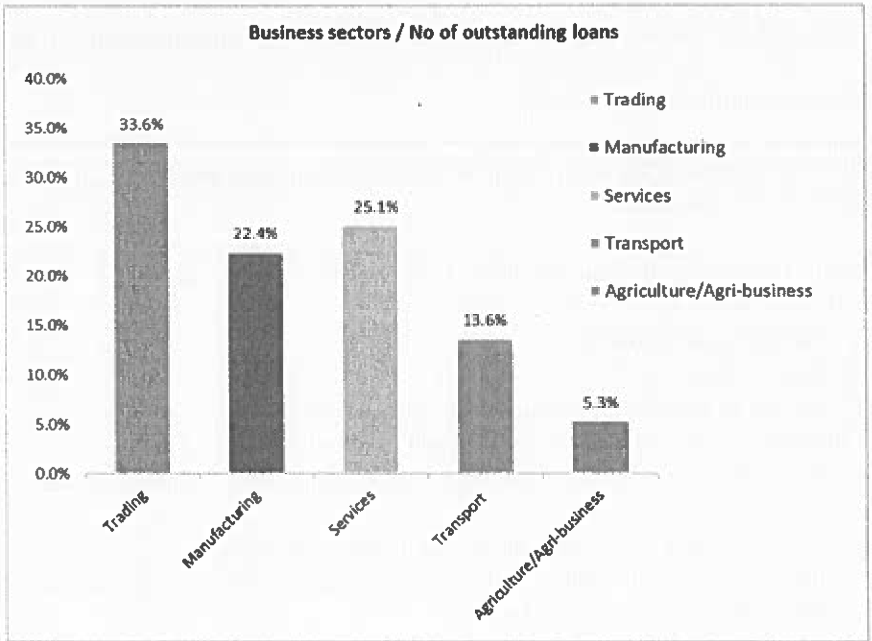
- Businesses must have a minimum of one year of existence (except for start-up loans).
- Businesses must be registered (Business Registration Card).
- No guarantee is required.
- Close client monitoring by Relationship Officers (ROs).

6. REPORTING WITH INTEGRITY (CONT'D)

6.3 Key Performance Indicators, Performance and Outlook

Status of operations as at 30 June 2022

- 5,120 loans disbursed (Rs. 1,039.5 million)
- 2,958 clients financed
- 2,239 outstanding loans (Rs. 367 million)
- 27 loans written-off (Rs 5.9 million)
- 1,882 active clients
- The Portfolio at Risk > 90 days: 15.97%



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.

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. REPORTING WITH INTEGRITY (CONT'D)

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, 2022.

6.9 Documents available on the Website

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 Internal Audit department of The Mauritius Commercial Bank Ltd (IA), which provides another balanced assessment of key risks and controls, independent from reports received from the Company's management.

The Head of IA 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.

7. AUDIT (CONT'D)

7.1 Internal Audit (cont'd)

IA ensures that the quality of internal audit services provided to MCB Microfinance Ltd is aligned with recognised best practices. IA leverages on a systematic and disciplined approach, notably through the use of well-focused audit work programmes 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 quality assessment carried out by an internationally recognised firm confirmed the Internal Audit BU's compliance with the International Standards for the Professional Practice of Internal Audit.

The internal audit exercise has been carried out from March 2022 to June 2022 focused on the framework put in place at MCB Microfinance Ltd in respect of mitigating the risk of Money Laundering and Terrorism Financing [AML/CFT]:

- Compliance to different procedures: Verify that the different documented systems and controls are appropriately designed and implemented and are effectively operated to reduce the risk of the business being used in connection with ML/TF;
- Risk Based Approach: Verify and review the following: (a) Application of a risk based approach for managing potential risks; (b) Documentation on the Risk Assessment framework; (c) The Risks factors being considered and the allocation of scores to the different risk factors [Countries and Territories Risk Factors, Products, Services and Transactions Risk Factors...] (d) Appropriate steps to mitigate any risks that have been identified; and (e) Whether any risk assessment systems used have been reviewed regularly;
- Money Laundering, Terrorist Financing, and Proliferation financing: Assess whether the measures taken are adequate to ensure that neither it nor any service offered by it, is capable of being used by a person to commit or to facilitate the commission of a money laundering offence or the financing of terrorism;
- Responsibilities of MLRO: Review the work of the MLRO and assess as to whether sufficient time and resources are allocated to effectively discharge the functions;
- Customer Risk Assessment: (a) Enquire and verify as to how the customer risk assessment is being performed and verify the documentation in place to demonstrate its basis; (b) Verify the frequency of the reviews for the customer risk assessments;
- Customer Due Diligence ('CDD'): a) Verify as to how the customer relationship information with respect to all its customers, the respective source of funds and the source of wealth are kept; (b) The documentation in place for the PEPs;
- Monitoring Transactions and Activity: Enquire and verify as to whether ongoing monitoring is being effected in respect of scrutiny of transactions undertaken throughout the course of the relationship, including, where necessary, the source of funds, to ensure that the transactions are consistent with knowledge of the customer and the business and risk profile of the customer;
- Reporting suspicious transactions: Verify that there are documented reporting procedures in place that will enable all its directors, management and all appropriate employees to know to whom they should report any knowledge or suspicion of ML/TF activity;

7. AUDIT (CONT'D)

7.1 Internal Audit (cont'd)

- Employee Screening and Training: (a) Enquire as to whether screening was duly performed for the staff in the compliance function; and (b) Enquire about the training being dispensed;
- Responsibilities of Compliance Officer: (a) Review the different policies and procedures in place in respect of the responsibilities of the Compliance Officer; (b) Review the compliance policy and ensure that those areas deemed to pose the greatest risk are reviewed more frequently; (c) Ensure that the Compliance Officer has put in place internal programmes for the ongoing compliance with the FSC AML/CFT Handbook; (d) Verify the work being performed by the Compliance Officers and assess its adequacy by benchmarking against the requirements of the AML CFT Handbook; (e) Review the scope of work performed by the Compliance Officer.

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

7.2 External Auditors

The Audit Committee of MCB Group Limited ("Audit Committee MCBG") recommends the appointment of External Auditor 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 Auditor.

The Audit Committee of MCB Microfinance Ltd discusses policies, judgements and estimates with the External Auditor and has evaluated the latter's performance and reviewed their integrity, independence and objectivity by:

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

The Board would recommend the appointment of the External Auditor to the shareholder in the Annual Meeting for approval by way of an ordinary resolution.

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

7.3 Auditor' Fee

The fees payable to the auditor (exclusive of VAT), for audit and other services for the last 2 years were:

	2022 **Rs.**	2021 Rs.
Audit fees - BDO & Co:	**265,650**	265,650

The auditor 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 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.

8.1 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

Management Agreements are in place between subsidiaries of the MCB Group where there are common directors. However, all the companies are 100% owned and controlled by the same entity.

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 of Mauritius 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 auditor is 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:

Pierre Guy Noël
Director

Aurélie Leclézio
Director

Date: 23rd September 2022

STATEMENT OF COMPLIANCE FOR THE YEAR ENDED JUNE 30, 2022

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

Name of Public Interest Entity : MCB Microfinance Ltd

Reporting Period : 1 July 2021 to 30 June 2022

We, the directors of MCB Microfinance Ltd, confirm to the best of our knowledge that the Company has complied with all of its obligations and requirements under the Code of Corporate Governance.

Signed for and on behalf of the Board of Directors on 23rd September 2022.

Pierre Guy Noël
Chairman

Aurélie Leclézio
Director

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Port Louis, Mauritius
P.O. Box 799

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 48 which comprise the statement of financial position as at June 30, 2022, 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 48 give a true and fair view of the financial position of the Company as at June 30, 2022, 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 Mauritian 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' *International Code of Ethics for Professional Accountants (including International Independence Standards) (the "IESBA Code").* We have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The Directors are responsible for the other information. The other information comprises the information included in the annual report. but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 Mauritian 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.

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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

To the Shareholder of MCB Microfinance Ltd

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

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 skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by 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.
- 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

To the Shareholder of MCB Microfinance Ltd

Report on Other Legal and Regulatory Requirements

Mauritian Companies Act 2001

The Mauritian Companies Act 2001 requires that in carrying out our audit we consider and report on the following matters. We confirm that:

- We have no relationship with, or interests in, the Company, other than in our capacity as auditor, 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.

Mauritian Financial Reporting Act 2004

Our responsibility under the Mauritian Financial Reporting Act 2004 is to report on the compliance with the Code of Corporate Governance ("Code") 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 Mauritian Financial Reporting Act 2004, complied with the requirements of the Code.

Other Matter

This report is made solely to the Company's shareholder, as a body, in accordance with Section 205 of the Mauritian 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

Port Louis,
Mauritius

Ameenah Ramdin FCCA, FCA
Licensed by FRC

September 23, 2022

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME - YEAR ENDED JUNE 30, 2022

	Notes	2022	2021
		Rs.	Rs.
Interest income	2(f)	**43,666,155**	34,914,755
Interest expense		**(2,232,813)**	(2,521,130)
Net interest income	5	**41,433,342**	32,393,625
Other income	2(g) & 6	**1,513,487**	848,891
Operating income		**42,946,829**	33,242,516
Allowance for credit impairment	7	**(13,013,209)**	(3,523,325)
Write-off		-	(283,137)
Personnel expenses	8	**(30,480,879)**	(28,956,229)
Depreciation	11 & 12	**(3,390,350)**	(3,486,891)
Amortisation	13	-	(388,810)
Other expenses	9	**(6,459,697)**	(4,520,052)
Loss before tax		**(10,397,306)**	(7,915,928)
Income tax credit	10(b)	**95,712**	756,688
Loss for the year		**(10,301,594)**	(7,159,240)
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurements of post employment benefit obligations	18	**(1,393,000)**	1,057,000
Deferred tax on remeasurement of post employment benefit obligations	16(b)	**236,810**	(179,690)
Other comprehensive income for the year, net of tax		**(1,156,190)**	877,310
Total comprehensive income for the year, net of tax		**(11,457,784)**	(6,281,930)
Loss per share	21	**(8.24)**	(5.73)

The notes on pages 10 to 48 form an integral part of the financial statements.
Independent auditor's report on pages 5 to 5(b).

STATEMENT OF FINANCIAL POSITION AS AT JUNE 30, 2022

	Notes	2022 Rs.	2021 Rs.
ASSETS			
Equipment	11	**4,358,190**	4,786,865
Right-of-use assets	12	**3,954,892**	5,748,015
Financial assets at amortised cost	14	**301,249,754**	258,081,571
Deferred tax assets	16	**11,553,641**	11,221,119
Other assets	15	**191,630**	752,489
Cash in hand and at bank	20(b)	**258,831**	227,798
Total assets		**321,566,938**	280,817,857
LIABILITIES			
Borrowings	17	**256,313,377**	204,686,586
Lease liabilities	12A	**4,541,953**	6,289,832
Current tax liabilities	10(a)	**7,876**	7,709
Other liabilities	18	**6,210,662**	3,882,876
Total liabilities		**267,073,868**	214,867,003
Shareholder's equity			
Stated capital	19	**125,000,000**	125,000,000
Revenue deficit		**(70,506,930)**	(59,049,146)
Total equity		**54,493,070**	65,950,854
Total equity and liabilities		**321,566,938**	280,817,857

The financial statements have been approved for issue by the board of directors on: 23 SEP 2022

....
Director

....
Director

The notes on pages 10 to 48 form an integral part of the financial statements.
Independent auditor's report on pages 5 to 5(b).

STATEMENT OF CHANGES IN EQUITY - YEAR ENDED JUNE 30, 2022

	Note	Stated capital	Revenue deficit	Total
		Rs.	Rs.	Rs.
Balance at July 1, 2021		125,000,000	(59,049,146)	65,950,854
Loss for the year		-	(10,301,594)	(10,301,594)
Other comprehensive income for the year		-	(1,156,190)	(1,156,190)
Balance at June 30, 2022		**125,000,000**	**(70,506,930)**	**54,493,070**
Balance at July 1, 2020		125,000,000	(52,767,216)	72,232,784
Loss for the year		-	(7,159,240)	(7,159,240)
Other comprehensive income for the year		-	877,310	877,310
Balance at June 30, 2021		**125,000,000**	**(59,049,146)**	**65,950,854**

The notes on pages 10 to 48 form an integral part of the financial statements.
Independent auditor's report on pages 5 to 5(b).

MCB MICROFINANCE LTD

STATEMENT OF CASH FLOWS - YEAR ENDED JUNE 30, 2022

	Notes	2022	2021
		Rs.	Rs.
Cash flows from operating activities			
Loss before tax		**(10,397,306)**	(7,915,928)
Adjustments for:			
Depreciation on equipment	11	**1,462,092**	1,628,464
Depreciation on right-of-use assets	12	**1,928,258**	1,858,427
Amortisation of intangible assets	13	**-**	388,810
Scrapped assets		**-**	3,105
Interest income	5	**(45,121,342)**	(35,669,738)
Interest expense		**2,232,813**	2,521,130
Provision for retirement benefit obligations	18	**269,000**	350,000
Charge for credit impairment	7	**13,013,209**	3,523,325
Net lease modification adjustment	12/12A	**-**	(225,868)
Changes in working capital:			
- loans to customers		**(56,267,945)**	(24,197,966)
- other assets		**(5,141)**	(58,552)
- other liabilities		**1,471,906**	861,205
Cash absorbed in operations		**(91,414,456)**	(56,933,586)
Interest received		**45,207,895**	39,047,719
Interest paid		**(2,245,975)**	(2,510,600)
Contributions paid	18	**(240,000)**	(238,000)
Net cash used in operating activities		**(48,692,536)**	(20,634,467)
Cash flows from investing activities			
Purchase of equipment	11	**(1,033,417)**	(90,507)
Purchase of intangible assets	13	**-**	(28,210)
Net cash used in investing activities		**(1,033,417)**	(118,717)
Cash flows from financing activities			
Loan from holding company		**25,000,000**	25,000,000
Proceeds from borrowings	20	**776,770,000**	823,130,000
Payments on borrowings		**(750,130,000)**	(825,970,000)
Principal paid on lease liabilities	12A	**(1,883,014)**	(1,676,749)
Net cash generated from financing activities		**49,756,986**	20,483,251
Net increase/(decrease) in cash and cash equivalents		**31,033**	(269,933)
Movement in cash and cash equivalents			
At July 1,		**227,798**	497,731
Increase/(decrease)		**31,033**	(269,933)
At June 30,	20(b)	**258,831**	227,798

The notes on pages 10 to 48 form an integral part of the financial statements.
Independent auditor's report on pages 5 to 5(b).

1. GENERAL INFORMATION

MCB Microfinance Ltd (the "Company") 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 consistently applied to all the years presented unless otherwise stated.

(a) Basis of preparation

The financial statements of MCB Microfinance Ltd comply with the Mauritian Companies Act 2001 and have been prepared in accordance with International Financial Reporting Standards (IFRS). These financial statements are that of an individual entity. The financial statements are presented in Mauritian Rupees and all values are rounded to the nearest rupee (Rs), except when otherwise stated.

Where necessary, comparative figures have been amended to conform with change in presentation in the current year. The financial statements are prepared under the historical cost convention.

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

Interest Rate Benchmark Reform Phase 2
The amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 amend requirements relating to changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities, hedge accounting and disclosures. The amendments have no impact on the Company`s financial statements.

The amendments have no impact on the Company`s financial statements.

IFRS 16 Leases
The amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 amend requirements relating to changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities, hedge accounting and disclosures. The amendment to IFRS 16 enables a company to apply a practical expedient to account for a lease modification required by the IBOR reform. The amendments have no impact on the Company`s financial statements.

Covid 19 related rent concessions: Effective June 1, 2020, further to IFRS 16 amendment to provide a practical expedient for lessees accounting for rent concessions that arise as a direct consequence of the COVID-19 pandemic. The amendment provides lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification. The amendments have 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 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, 2022 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:

Effective date January 1, 2022

IFRS 3 Business Combinations

Reference to the Conceptual Framework : The amendment updates a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.

IFRS 9 Financial Instruments

Annual Improvements to IFRS Standards 2018-2020 : The amendment clarifies which fees an entity includes when it applies the ' 10 per cent' test in assessing whether to derecognise a financial liability.

IAS 16 Property, Plant and Equipment

Property, Plant and Equipment: Proceeds before Intended Use : The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.

IAS 37 Provisions, Contingent Liabilities and Contingent Assets

Onerous Contracts-Cost of Fulfilling a Contract : The amendments specify which costs should be included in an entity's assessment whether a contract will be loss-making.

Effective date January 1, 2023

IAS 1 Presentation of Financial Statements

Classification of Liabilities as Current or Non-current : Narrow-scope amendments to IAS 1 to clarify how to classify debt and other liabilities as current or non-current.

Disclosure of Accounting Policies : The amendments require companies to disclose their material accounting policy information rather than their significant accounting policies, with additional guidance added to the Standard to explain how an entity can identify material accounting policy information with examples of when accounting policy information is likely to be material.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(a) Basis of preparation (cont'd)

Standards, Amendments to published Standards and Interpretations issued but not yet effective (cont'd)

Effective date January 1, 2023 (cont'd)

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

Definition of Accounting Estimates: The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates, by replacing the definition of a change in accounting estimates with a new definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". The requirements for recognising the effect of change in accounting prospectively remain unchanged.

IAS 12 Income Taxes

Deferred Tax related to Assets and Liabilities arising from a Single Transaction: The amendment clarifies how a company accounts for income tax, including deferred tax, which represents tax payable or recoverable in the future. In specified circumstances, companies are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. The aim of the amendments is to reduce diversity in the reporting of deferred tax on leases and decommissioning obligations, by clarifying when the exemption from recognising deferred tax would apply to the initial recognition of such items.

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

The preparation of financial statements in conformity with IFRS requires 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 statements are disclosed in Note 4.

(b) Equipment

All equipment are initially recorded at cost and stated at historical cost less accumulated depreciation and accumulated impairment. 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.

After recognition as an asset, an item of equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(b) Equipment (cont'd)

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 of the asset concerned. The principal estimated annual rates are:

	Per annum
Leasehold improvement	20%
Office equipment	10 - 20%
Furnitures & fixtures	10%
Computer hardware	20%
Generator and other utility installation	10%

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

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

An item of property and equipment is derecognised upon the disposal or when no future economic benefits are expected to arise from the continued use of the asset.

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

(c) Leases

Leases are accounted for by recognising a right-of-use asset and a lease liability except for:
- Leases of low value assets; and
- Leases with a duration of 12 months or less.

Identifying Leases
The Company accounts for a contract, or a portion of a contract, as a lease when it conveys the right to use an asset for a period of time in exchange for consideration. Leases are those contracts that satisfy the following criteria:
(a) There is an identified asset;
(b) Right to control the identified asset;
(c) The Company obtains substantially all the economic benefits from use of the asset; and
(d) The Company has the right to direct use of the asset.

The Company considers whether the supplier has substantive substitution rights. If the supplier does have those rights, the contract is not identified as giving rise to a lease.

In determining whether the Company obtains substantially all the economic benefits from use of the asset, the Company considers only the economic benefits that arise use of the asset, not those incidental to legal ownership or other potential benefits.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Leases (cont'd)

Identifying Leases (cont'd)

In determining whether the Company has the right to direct use of the asset, the Company considers whether it directs how and for what purpose the asset is used throughout the period of use. If there are no significant decisions to be made because they are pre-determined due to the nature of the asset, the Company considers whether it was involved in the design of the asset in a way that predetermines how and for what purpose the asset will be used throughout the period of use. If the contract or portion of a contract does not satisfy these criteria, the Company applies other applicable IFRSs rather than IFRS 16.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the Company's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:
- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favour of the Company if it is reasonably certain to assess that option; and
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right of use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:
- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the Company is contractually required to dismantle, remove or restore the leased asset (typically leasehold dilapidations).

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

When the Company revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at a revised discount rate. The carrying value of lease liabilities is revised using the initial discount rate when the variable element of future lease payments dependent on a rate or index is revised. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Leases (cont'd)

Identifying Leases (cont'd)

When the Company renegotiates the contractual terms of a lease with the lessor, the accounting depends on the nature of the modification:

- if the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy.
- in all other cases where the renegotiated increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount.
- if the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial of full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date. The right-of-use asset is adjusted by the same amount.

For contracts that both convey a right to the company to use an identified asset and require services to be provided to the company by the lessor, the company has elected to account for the entire contract as a lease, i.e. it does allocate any amount of the contractual payments to, and account separately for, any services provided by the supplier as part of the contract.

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss.

(d) Intangible assets

<u>Computer software</u>

Acquired computer software licences are capitalised on the basis of costs incurred to acquire and bring to use the specific software. The carrying amounts of the computer software are reviewed annually and adjusted for impairment where considered necessary.

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values. Computer software development costs recognised as assets are amortised using the straight line method over its estimated useful lives as follows:

	Per annum
Computer Software	20%

Costs associated with developing or maintaining computer software are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software controlled by the Company and that will generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(e) Financial Instruments

(i) *Recognition and initial measurement*

Financial assets are initially recognised at fair value plus or minus transaction costs, except for fair value through profit and loss, that are directly attributable to its acquisition or issue, when the Company becomes a party to the contractual provisions of the instrument.

(ii) *Classification and subsequent measurement*

IFRS 9 classification is based on two aspects; the business model within which the asset is held (the business model test) and the contractual cash flows of the asset which meet the solely payments of principal and interest (SPPI) test.

IFRS 9 includes three principal classifications categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The Company determines the classification at initial recognition.

Financial assets at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are soley payment of principal and interest on the principal amount outstanding.

Solely payments of principal and interest (SPPI)

Under IFRS 9, the SPPI test requires that the contractual terms of the financial asset (as a whole) give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding i.e. cash flows that are consistent with a basic lending arrangement.

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g: Liquidity risks and administrative cost), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of the contractual cash flows such that it would meet this condition. In making the assessment, the Company considers:

- contingent events that would change the amount and timing of cash flows;
- prepayment and extension terms;

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to the expected credit loss requirements.

Financial assets at amortised cost 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 ECL.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(e) Financial Instruments (cont'd)

Solely payments of principal and interest (SPPI) (cont'd)
The Company's financial assets measured at amortised cost include cash and cash equivalents and loan to customers on the statement of financial position.

Impairment
The Company uses the General approach model to calculate ECL.

Impairment provisions for the financial assets are recognised based on the 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's 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 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) Financial Instruments (cont'd)

Impairment (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) Financial Instruments (cont'd)

Impairment (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 (Stage 3)	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 against 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 category	Expected credit loss rate 2022	2021	Basis for recognition of expected credit loss provision
Performing	**1%**	1%	12 months
Under-	**13%**	8%	Lifetime
Default	**100%**	100%	Lifetime

Specific instruments

Cash comprises cash in hand, cash held at banks and other short-term highly liquid investments with original maturities of 3 months or less. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commiments rather than for investment or other purposes. The Company has elected to present the statement of cash flows using the indirect method.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(e) Financial Instruments (cont'd)

Derecognition of financial assets

A financial asset (or where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay them in full without material delay to third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs.

Financial liabilities

(i) *Recognition and initial measurement*

Financial liabilities initially recognised at fair value plus or minus, transaction costs that are directly attributable to its acquisition or issue, when the Company becomes a party to the contractual provisions of the instrument. Other financial liabilities are recognised on the date on which they are originated.

(ii) *Classification and subsequent measurement*

Financial liabilities are classified as measured at amortised cost. They are subsequently measured at amortised cost using the effective interest method. Any interest expense is recognised in profit or loss. Any gain on derecognition is also recognised in profit or loss. Financial liabilities include trade and other payables.

(iii) *Derecognition of financial liabilities*

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

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
- 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)

(f) Interest income and expense

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 revises 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.

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) Other income

Other income consists of penalty fees, early closure fees and recoveries.

(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 year calculated on the basis of tax laws enacted or substantively enacted by the end of the reporting period. The amount of current tax payable is the best estimate of the tax amount expected to be paid that reflects uncertainty related to income taxes, if any.

The directors have assessed the impact of IFRIC 23 - Uncertainty over Income Tax Treatments on the financial statements and have concluded that there is no uncertain tax positions.

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 statements.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(i) Current and deferred income tax (cont'd)

Deferred tax (cont'd)

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 amounts will be available against which deductible temporary differences and losses can be utilised.

Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting not taxable profit or loss.

Current and deferred tax assets and liabilities are offset only if:

- The Company has a legally enforceable right to set the recognised amount; and
- The Company intends to settle on a net basis, or to realise the asset and settle the liability

(j) Retirement benefit obligations

Defined benefit plan

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

Remeasurement of the net defined benefit liability, which comprise actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest) is recognised immediately in other comprehensive income in the period in which they occur. Remeasurements recognised in other comprehensive income shall not be reclassified to profit or loss in subsequent period.

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

Service costs comprising current service cost, past service cost, as well as gains and losses on curtailments and settlements are recognised immediately in profit or loss. Plan service cost is recognised in profit or loss in the period of a plan amendment.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(j) Retirement benefit obligations (cont'd)

Gratuity on retirement

For employees who are not covered (or who are insufficiently covered by the above pension plans), the net present value of gratuity on retirement payable under the Workers' Rights Act 2019 (2018 - Employment Rights Act 2018) is calculated by a qualified actuary and provided for. The obligations arising under this item are not funded.

Those employees, whose pension benefits are not expected to fully offset the Company's retirement gratuity obligations under the Workers' Rights Act 2019, are therefore entitled to residual retirement gratuities.

Termination benefits

Termination benefits are payable when the employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits.

The Company recognises a liability and expense for termination benefits at the earlier of the following

- when the Company can no longer withdraw the offer of those benefits; and
- when the Company recognises costs for a restructuring that is within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets, and involves the payment of termination benefits.

For termination benefits payable as a result of an employee's decision to accept an offer of benefits in exchange for the termination of employment, the time when the Company can no longer withdraw the offer of termination benefits is the earlier of:

- when the employee accepts the offer; and
- when a restriction (eg a legal, regulatory or contractual requirement or other restriction) on the Company's ability to withdraw the offer takes effect. This would be when the offer is made, if the restriction existed at the time of the offer.

For termination benefits payable as a result of the Company's decision to terminate an employee's employment, the Company can no longer withdraw the offer when the entity has communicated to the affected employees a plan of termination meeting all of the following criteria:

- Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made.
- The plan identifies the number of employees whose employment is to be terminated, their job classifications or functions and their locations (but the plan need not identify each individual employee) and the expected completion date.
- The plan establishes the termination benefits that employees will receive in sufficient detail that employees can determine the type and amount of benefits they will receive when their employment is terminated.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(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).

(m) Other expenses

Expenses are accounted under accrual basis in the basis in the financial statements.

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.

Credit risks arises from financial assets at amortised cost and cash and cash equivalents.

Financial assets at amortised cost
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	**2022**	2021
	Rs.	Rs.
Neither past due nor impaired	**258,551,470**	230,883,235
Impaired	**108,249,452**	79,743,646
Gross	**366,800,922**	310,626,881
Less allowances for credit impairment	**(65,551,168)**	(52,545,310)
Net	**301,249,754**	258,081,571

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.

Cash and cash equivalents
For banks and financial institutions, only independently rated parties are accepted. Cash and cash equivalents are held with renowned local banks. The Directors have assessed that the credit risk is low as cash and cash equivalents are held with reputable institutions duly licensed and rated investment grade by credit rating agencies.

There are no significant concentrations of credit risk, whether through exposure to individual customers, specific industry sectors and/or regions.

3. FINANCIAL RISK MANAGEMENT (CONT'D)

3.1 Financial Risk Factors (cont'd)

(a) Credit risk (cont'd)

Cash and cash equivalents (cont'd)

Further disclosures on credit risk and expected credit losses (ECL") are provided in the following notes: Note 14 - Financial assets at amortised costs and Note 20 - Cash and cash equivalents.

(b) Interest rate risk

It is the Company's policy to apply fixed interest rates on finance provided to micro businesses.

(c) 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. The Company aims at maintaining flexibility in funding by keeping committed credit lines available.

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Management does not foresee any liquidity risk problems in the future. The maturity profile of financial instruments is set out below:

Maturities of assets and liabilities

At June 30, 2022	Up to 1 year	1- 3 years	Over 3 years	Non-Maturity Items	Total
Financial assets	Rs.	Rs.	Rs.	Rs.	Rs.
At amortised cost:					
Financial assets at amortised cost	193,689,005	170,666,087	2,445,830	-	366,800,922
Cash in hand and at bank	-	-	-	258,831	258,831
	193,689,005	170,666,087	2,445,830	258,831	367,059,753
Less allowances for credit impairment					(65,551,168)
Total					301,508,585
Financial liabilities					
At amortised cost:					
Borrowings	256,313,377	-	-	-	256,313,377
Lease liabilities	2,407,820	2,407,818	-	-	4,815,638
Other liabilities *	5,098,662	-	-	-	5,098,662
	263,819,859	2,407,818	-	-	266,227,677
Total					266,227,677
Net liquidity gap	(70,130,854)	168,258,269	2,445,830	258,831	100,832,076
Less allowances for credit impairment					(65,551,168)
					35,280,908

3. FINANCIAL RISK MANAGEMENT (CONT'D)

3.1 Financial Risk Factors (cont'd)

(c) Liquidity risk (cont'd)

Maturities of assets and liabilities (cont'd)

At June 30, 2021	Up to 1 year	1- 3 years	Over 3 years	Non-Maturity Items	Total
Financial assets	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**
At amortised cost:					
Financial assets at amortised cost	155,924,758	119,278,580	35,423,543	-	310,626,881
Cash in hand and at bank	-	-	-	227,798	227,798
	155,924,758	119,278,580	35,423,543	227,798	310,854,679
Less allowances for credit impairment					(52,545,310)
Total					**258,309,369**
Financial liabilities					
At amortised cost:					
Borrowings	204,686,586	-	-	-	204,686,586
Lease liabilities	1,845,652	4,249,366	194,814	-	6,289,832
Other liabilities *	3,626,876	-	-	-	3,626,876
	210,159,114	4,249,366	194,814	-	214,603,294
Total					**214,603,294**
Net liquidity gap	(54,234,356)	115,029,214	35,228,729	227,798	96,251,385
Less allowances for credit impairment					(52,545,310)
					43,706,075

* *Retirement benefit obligations have been exclucted from other liabilities.*

3.2 Fair value estimation

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 shareholder 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.

3. FINANCIAL RISK MANAGEMENT (CONT'D)

3.3 Capital risk management (cont'd)

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 shareholder, return capital to shareholder, issue new shares, or sell assets to reduce debt.

During 2022, the Company's strategy which was unchanged from 2021, was to maintain the debt-to-capital ratio at the lower end in order to secure access to finance at a reasonable cost. The debt-to-capital ratios at June 30, 2022 and June 30, 2021 were as follows:

	2022	2021
	Rs.	Rs.
Total debt (Note 12A & 17)	260,855,330	210,976,418
Less: Cash in hand and at bank (Note 20(b))	(258,831)	(227,798)
Net debt	260,596,499	210,748,620
Total equity	54,493,070	65,950,854
Total capital plus net debt	315,089,569	276,699,474
Debt to capital ratio	82.71%	76.17%

4. USE OF JUDGEMENT AND CRITICAL ACCOUNTING ESTIMATES

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

4.1 Significant judgement – Going concern

The Company's Board has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, the Board is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements have been prepared on a going concern basis.

4.2 Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(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:

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

4.2 Critical accounting estimates and assumptions (cont'd)

(a) Expected credit losses on financial assets (cont'd)

(i) 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).

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

(b) Asset lives and residual values

Equipment are depreciated over its useful life taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In reassessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values. Consideration is also given to the extent of current profits and losses on the disposal of similar assets.

(c) Depreciation policies

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

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

(d) Pension benefits

The present value of the pension obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost/(income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations.

In determining the appropriate discount rate, the Company considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension obligation.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in Note 18.

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

4.2 Critical accounting estimates and assumptions (cont'd)

(e) Limitation of sensitivity analysis

Sensitivity analysis in respect of market risk demonstrates the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear and larger or smaller impacts should not be interpolated or extrapolated from these results.

Sensitivity analysis does not take into consideration that the Company's assets and liabilities are managed. Other limitations include the use of hypothetical market movements to demonstrate potential risk that only represent the Company's view of possible near-term market changes that cannot be predicted with any certainty.

5. NET INTEREST INCOME

	2022	2021
	Rs.	Rs.
Interest income		
Loan to customers	**43,666,155**	34,914,755
Interest expense		
Money market line	**1,664,989**	1,803,942
Leases	**520,485**	672,295
Bank overdraft	**47,339**	44,893
	2,232,813	2,521,130
Net interest income	**41,433,342**	32,393,625

6. OTHER INCOME

	2022	2021
	Rs.	Rs.
Penalty fees	**980,852**	387,566
Others	**532,635**	461,325
	1,513,487	848,891

7. IMPAIRMENT LOSS ON FINANCIAL ASSETS

	2022	2021
	Rs.	Rs.
Allowances for credit impairment		
- Loans to customers	**13,013,209**	3,523,325
- Amount written off	-	283,137
	13,013,209	3,806,462

8. PERSONNEL EXPENSES

	2022	2021
	Rs.	Rs.
Wages and salaries	**25,447,399**	24,226,898
Contributions to pension costs	**2,948,003**	2,785,793
Social security obligations	**1,005,730**	858,703
Other personnel expenses	**1,079,747**	1,084,835
	30,480,879	28,956,229

9. OTHER EXPENSES

	2022	2021
	Rs.	Rs.
Sundry and maintenance	**1,456,021**	1,275,816
Professional fees	**1,804,878**	1,071,790
Software licence and other fees	**662,847**	653,155
Advertising costs	**548,881**	187,050
Rental and service fees	**24,136**	18,456
Scrapped assets	-	3,105
Utilities	**313,129**	185,544
Telephone	**539,774**	514,924
Postage	**259,946**	121,595
Director fees	**218,400**	218,400
Others	**631,685**	270,217
	6,459,697	4,520,052

10. INCOME TAX

	2022	2021
	Rs.	Rs.
(a) In the Statement of Financial Position		
At July 1,	7,709	7,575
TDS during the year	94,482	92,342
Paid during the year	(94,315)	(92,208)
At June 30,	7,876	7,709

(b) In the Statement of Profit or Loss

	2022	2021
	Rs.	Rs.
Deferred income tax credit (Note 16(b))	95,712	756,688
	95,712	756,688

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:

	2022	2021
	Rs.	Rs.
Loss before tax	(10,397,306)	(7,915,928)
Tax calculated at 15% (2021: 15%)	(1,559,596)	(1,187,389)
Income not subject to tax	(5,102,557)	(4,391,637)
Expenses not deductible for tax purposes	4,890,326	4,591,015
Deferred tax rate differential on corporate social responsibility tax	(195,197)	(95,507)
Tax losses for which no deferred income tax asset was recognised	1,871,312	326,830
	(95,712)	(756,688)

11. EQUIPMENT

2022	Leasehold improvement	Office equipment	Furnitures & fixtures	Computer hardware	Generator and other utility installation	Total
COST	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**
At July 1, 2020	4,425,148	2,016,187	1,595,771	1,548,299	1,900	9,587,305
Additions	-	-	20,679	69,828	-	90,507
Scrap	-	(23,288)	-	-	-	(23,288)
At June 30, 2021	**4,425,148**	**1,992,899**	**1,616,450**	**1,618,127**	**1,900**	**9,654,524**
Additions	-	30,493	42,444	960,480	-	1,033,417
Scrap	-	(55,973)	-	(15,323)	-	(71,296)
At June 30, 2022	**4,425,148**	**1,967,419**	**1,658,894**	**2,563,284**	**1,900**	**10,616,645**
DEPRECIATION						
At July 1, 2020	804,144	984,360	493,560	976,681	633	3,259,378
Charge for the year	886,776	286,518	160,611	294,369	190	1,628,464
Scrap adjustment	-	(20,183)	-	-	-	(20,183)
At June 30, 2021	**1,690,920**	**1,250,695**	**654,171**	**1,271,050**	**823**	**4,867,659**
Charge for the year	886,776	169,457	162,950	242,719	190	1,462,092
Scrap adjustment	-	(55,973)	-	(15,323)	-	(71,296)
At June 30, 2022	**2,577,696**	**1,364,179**	**817,121**	**1,498,446**	**1,013**	**6,258,455**
NET BOOK VALUE						
At June 30, 2022	**1,847,452**	**603,240**	**841,773**	**1,064,838**	**887**	**4,358,190**
At June 30, 2021	2,734,228	742,204	962,279	347,077	1,077	4,786,865

12. RIGHT-OF-USE ASSETS

	Buildings
	Rs.
At July 1, 2020	8,147,269
Modification adjustment	(677,009)
Depreciation	(1,858,427)
Variable lease payment adjustment	136,182
At June 30, 2021	**5,748,015**
Depreciation	(1,928,258)
Variable lease payment adjustment	135,135
At June 30, 2022	**3,954,892**

(a) Nature of leasing activities (in the capacity as lessee)

The company leases building premises. The lease contracts provide for payments which will increase each year by the annual variation in Consumer Price Index (CPI) during the twelve-month period ending in June of the previous twelve-month period.

(b) Variable lease payments

The percentages in the table below reflect the current proportions of lease payments that are variable. The sensitivity reflects the impact on the carrying amount of lease liabilities and right-of-use assets if there was an uplift of 5% on the balance sheet date to lease payments that are variable.

June 30, 2022	*Lease Contracts*	*Fixed payments*	*Variable payments*	*Sensitivity*
	Number	*%*	*%*	*± Rs.*
Property leases with payments linked to inflation	2	-	100%	227,098
	2	-	100%	227,098

June 30, 2021	*Lease Contracts*	*Fixed payments*	*Variable payments*	*Sensitivity*
	Number	*%*	*%*	*± Rs.*
Property leases with payments linked to inflation	2	-	100%	314,492
	2	-	100%	314,492

As per lease agreement, MCB Microfinance Ltd is required to make a bank guarantee of Rs. 454,884 (2021: Rs. 454,884) representing three months of the initial rent to the lesssor.

(c) Extension and termination options

Extension and termination options are included in a number of property leases across the Company. These are used to maximise operational flexibility in terms of managing the assets used in the Company's operations. The majority of extension and termination options held are exercisable only by the Company and not by the respective lessor.

(d) Lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

12. RIGHT-OF-USE ASSETS (CONT'D)

(d) Lease term (cont'd)

The lease term is revised if an option is actually exercised (or not exercised) or the Company becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

12A. LEASE LIABILITIES

	Buildings
	Rs.
At July 1, 2020	8,733,276
Modification adjustment	(902,877)
Interest expense	672,295
Variable lease payment adjustment	136,182
Lease payments	(2,349,044)
At June 30, 2021	**6,289,832**
Interest expense	520,485
Variable lease payment adjustment	135,135
Lease payments	(2,403,499)
At June 30, 2022	**4,541,953**
Current	2,407,820
Non current	2,608,470
	5,016,290

The maturity of lease liabilities is as follows:

As at June 30, 2022	Carrying amount	**Contractual Cash Flows**					
		6 months or less	6 - 12 months	1 - 2 years	2 - 5 years	More than 5 years	Total
Lease liabilities	4,541,953	1,203,910	1,203,910	2,407,818	200,652	-	**5,016,290**

As at June 30, 2021	Carrying amount	**Contractual Cash Flows**					
		6 months or less	6 - 12 months	1 - 2 years	2 - 5 years	More than 5 years	Total
Lease liabilities	6,289,832	1,177,993	1,177,993	2,355,987	2,552,319	-	**7,264,292**

Interest expense	**2022**	2021
	Rs.	Rs.
Interest expense	**520,485**	672,295

The total cash outflow for leases in 2022 was Rs.2,403,499 (2021: Rs.2,349,044).

13. INTANGIBLE ASSETS

	Computer software
2022	Rs.
COST	
At July 1, 2020	1,800,769
Additions	28,210
At June 30, 2021	**1,828,979**
Additions	-
At June 30, 2022	**1,828,979**
AMORTISATION	
At July 1, 2020	**1,440,169**
Charge for the year	388,810
At June 30, 2021	**1,828,979**
Charge for the year	-
At June 30, 2022	**1,828,979**
NET BOOK VALUE	
At June 30, 2022	-
At June 30, 2021	-

14. FINANCIAL ASSETS AT AMORTISED COST

	2022	2021
	Rs.	Rs.
Loans to customers	**364,682,580**	308,421,982
Interest receivable	**2,118,342**	2,204,899
Gross loans	**366,800,922**	310,626,881
Less allowance for impairment (Note 14(b))	**(65,551,168)**	(52,545,310)
	301,249,754	258,081,571

(a) Remaining term of maturity:

	2022	2021
	Rs.	Rs.
Up to 3 months	**79,238,666**	64,622,917
Over 3 months and up to 6 months	**38,290,066**	33,876,180
Over 6 months and up to 12 months	**66,627,582**	57,425,661
Over 1 year and up to 5 years	**182,644,608**	154,553,299
Over 5 years	-	148,824
	366,800,922	310,626,881

(b) Allowances for credit impairment

	Stage 1	Stage 2	Stage 3	Total
	Rs.	Rs.	Rs.	Rs.
At July 1, 2021	3,815,633	872,691	47,856,986	52,545,310
Transfer to stage 1	2,377,144	(280,397)	(2,096,747)	-
Transfer to stage 2	(185,374)	841,985	(656,611)	-
Transfer to stage 3	(369,613)	(417,768)	787,381	-
Additional provision	3,312,029	1,559,016	18,695,657	23,566,702
Provision released	(3,408,888)	(576,101)	(3,545,759)	(7,530,748)
Assets derecognised	(629,555)	(123,217)	(2,269,973)	(3,022,745)
Write offs	-	-	(7,351)	(7,351)
At June 30, 2022	**4,911,376**	**1,876,209**	**58,763,583**	**65,551,168**

14. FINANCIAL ASSETS AT AMORTISED COST (CONT'D)

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

	Stage 1	Stage 2	Stage 3	Total
	Rs.	Rs.	Rs.	Rs.
At July 1, 2020	8,585,989	3,918,169	37,037,533	49,541,691
Transfer to stage 1	6,164,999	(2,537,471)	(3,627,528)	-
Transfer to stage 2	(352,620)	1,531,972	(1,179,352)	-
Transfer to stage 3	(580,471)	(599,974)	1,180,445	-
Additional provision	2,031,458	472,097	19,052,042	21,555,597
Provision released	(10,658,525)	(1,294,297)	(2,175,989)	(14,128,811)
Assets derecognised	(1,375,197)	(617,805)	(1,627,322)	(3,620,324)
Write offs	-	-	(802,843)	(802,843)
At June 30, 2021	**3,815,633**	**872,691**	**47,856,986**	**52,545,310**

2022

	Gross amount of loans	Default loans	Stage 1	Stage 2	Stage 3	Total provision
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Agriculture and fishing	**13,757,248**	**1,697,772**	**185,634**	**62,174**	**1,697,772**	**1,945,580**
Manufacturing	**78,813,862**	**17,840,849**	**1,018,553**	**234,908**	**17,840,849**	**19,094,310**
Transport	**78,649,195**	**9,305,421**	**1,239,020**	**518,533**	**9,305,421**	**11,062,974**
Traders	**103,583,521**	**16,212,256**	**1,261,162**	**572,479**	**16,212,256**	**18,045,897**
Others	**91,997,096**	**13,707,285**	**1,207,008**	**488,114**	**13,707,285**	**15,402,407**
	366,800,922	**58,763,583**	**4,911,377**	**1,876,208**	**58,763,583**	**65,551,168**

2021

	Gross amount of loans	Default loans	Stage 1	Stage 2	Stage 3	Total provision
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Agriculture and fishing	13,849,916	1,199,441	184,094	13,118	1,199,441	1,396,653
Manufacturing	70,424,637	15,390,413	732,077	168,536	15,390,413	16,291,026
Transport	67,626,785	6,701,812	861,821	386,126	6,701,812	7,949,759
Traders	85,156,815	13,804,807	1,064,902	201,573	13,804,807	15,071,282
Others	73,568,728	10,760,517	972,737	103,336	10,760,517	11,836,590
	310,626,881	47,856,990	3,815,631	872,689	47,856,990	52,545,310

(c) Credit concentration of risk by industry sectors:

	2022	2021
	Rs.	Rs.
Agriculture and fishing	**13,757,248**	13,849,916
Manufacturing	**78,813,862**	70,424,637
Transport	**78,649,195**	67,626,785
Traders	**103,583,521**	85,156,815
Others	**91,997,096**	73,568,728
	366,800,922	310,626,881

15. OTHER ASSETS

	2022	2021
	Rs.	Rs.
Retirement benefit assets (Note 18(a))	-	566,000
Prepayments	137,630	132,489
Deposits	54,000	54,000
	191,630	752,489

16. DEFERRED INCOME TAX

Deferred income tax is calculated on all temporary differences under the liability method at 17% (2021: 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 statement of financial position:

	2022	2021
	Rs.	Rs.
Deferred tax assets	12,104,871	12,316,332
Deferred tax liabilities	(551,230)	(1,095,213)
Net deferred income tax assets	11,553,641	11,221,119

The amount and expiry date of tax losses are as follows:

	2022	2021
Expiry date	Rs.	Rs.
Year of assessment 2022/2023	-	10,014,668
Year of assessment 2023/2024	517,045	517,045
Year of assessment 2024/2025	566,967	566,967
Year of assessment 2025/2026	646,406	646,406
	1,730,418	11,745,086

At the end of the reporting period, the Company had unused tax losses of Rs.10.94m (2021: Rs.20.96m) available for offset against future profits. Tax losses of Rs 9,477,036 has expired during the year. No deferred tax asset has been recognised on tax losses due to unpredictability of future profit streams. The tax losses expire on a rolling basis over 5 years.

(b) The movement on the deferred income tax account is as follows:

	2022	2021
	Rs.	Rs.
At July 1,	(11,221,119)	(10,644,121)
Credited to profit or loss (Note 10)	(95,712)	(756,688)
(Credited)/Charged to other comprehensive income	(236,810)	179,690
At June 30,	(11,553,641)	(11,221,119)

16. DEFERRED INCOME TAX (CONT'D)

(c) The movement in deferred tax assets and 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 annual allowance	Right-of-use assets	Total
	Rs.	Rs.	Rs.
At June 30, 2021	118,050	977,163	1,095,213
Credited to profit or loss	(239,152)	(304,831)	(543,983)
At June 30, 2022	**(121,102)**	**672,332**	**551,230**

	Accelerated annual allowance	Right-of-use assets	Total
	Rs.	Rs.	Rs.
At June 30, 2020	352,595	1,385,036	1,737,631
Credited to profit or loss	(234,545)	(407,873)	(642,418)
At June 30, 2021	**118,050**	**977,163**	**1,095,213**

(ii) **Deferred tax assets**

	Impairment losses	Tax losses	Retirement benefit obligations	Lease liabilities	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
At June 30, 2021	(8,932,703)	(2,367,058)	52,700	(1,069,271)	(12,316,332)
(Credited)/Charged to profit or loss	(2,210,996)	2,367,058	(4,930)	297,139	448,271
Credited to other comprehensive income	-	-	(236,810)	-	(236,810)
At June 30, 2022	**(11,143,699)**	**-**	**(189,040)**	**(772,132)**	**(12,104,871)**

	Impairment losses	Tax losses	Retirement benefit obligations	Lease liabilities	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
At June 30, 2020	(8,422,087)	(2,367,058)	(107,950)	(1,484,657)	(12,381,752)
(Credited)/Charged to profit or loss	(510,616)	-	(19,040)	415,386	(114,270)
Credited to other comprehensive income	-	-	179,690	-	179,690
At June 30, 2021	**(8,932,703)**	**(2,367,058)**	**52,700**	**(1,069,271)**	**(12,316,332)**

17. BORROWINGS

	2022	2021
	Rs.	Rs.
Short term bank borrowings	81,300,000	54,660,000
Interest payable to short term bank borrowings	13,377	26,586
Loan from holding company	175,000,000	150,000,000
	256,313,377	204,686,586

The rates of interest on these short term bank borrowings is at 3.10% (2021: 2.70%) with maturity up to 1 month.

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

18. OTHER LIABILITIES

	2022	2021
	Rs.	Rs.
Amount due to related parties (Note 22)	1,918,347	1,319,066
Retirement benefit obligations (Note 18(a) & (b))	1,112,000	256,000
Provision for annual bonus	735,589	638,420
Accrued general expenses	174,916	89,562
Accrued professional fees	316,825	315,290
Provision for performance bonus	1,061,251	965,575
Other payables	891,734	298,963
	6,210,662	3,882,876

The carrying amounts of other payables approximate their fair value.

Retirement benefit obligations

	2022	2021
	Rs.	Rs.
Amounts recognised in the statement of financial position:		
Defined pension benefits (Note 18(a)(ii))	224,000	(566,000)
Other post retirement benefits (Note 18(b)(i))	888,000	256,000
	1,112,000	(310,000)
Analysed as follows:		
Non-current assets	-	566,000
Non-current liabilities	1,112,000	256,000
Amounts charged to profit or loss:		
Defined pension benefits (Note 18(a)(ii))	164,000	218,000
Other post retirement benefits (Note 18(b)(i))	105,000	132,000
	269,000	350,000
Amounts charged/(credited) to other comprehensive income:		
Defined pension benefits (Note 18(a)(ii))	866,000	(812,000)
Other post retirement benefits (Note 18(b)(i))	527,000	(245,000)
	1,393,000	(1,057,000)

18. OTHER LIABILITIES (CONT'D)

(a) Defined pension benefits

(i) The Company contributes to a defined benefit pension. The plan is a final salary plan, which provides benefits to members in the form of pension payable for life. The level of benefits provided depends on members' length of service and their salary in the final years leading up to retirement.

The assets of the plan are self-administered and funded separately from the Company.

The most recent actuarial valuation of the plan assets and the present value of the defined benefit obligations were carried out at June 30, 2022 by Aon Hewitt Ltd.

The present value of the defined benefit obligations, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

(ii) The amounts recognised in the statement of financial position are as follows:

	2022	2021
	Rs.	Rs.
Present value of funded obligations	**2,583,000**	1,569,000
Fair value of plan assets	**(2,359,000)**	(2,135,000)
Liability/(asset) in the statement of financial position	**224,000**	(566,000)

The reconciliation of the opening balances to the closing balances for the net defined benefit liability/(asset) is as follows:

	2022	2021
	Rs.	Rs.
At July 1,	**(566,000)**	266,000
Charged to profit or loss	**164,000**	218,000
Charged/ (Credited) to other comprehensive income	**866,000**	(812,000)
Contributions paid	**(240,000)**	(238,000)
At June 30,	**224,000**	(566,000)

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

	2022	2021
	Rs.	Rs.
At July 1,	**1,569,000**	1,828,000
Current service cost	**190,000**	214,000
Interest expense	**87,000**	58,000
Remeasurements:		
- Actuarial (gain)/loss arising from:		
- financial assumptions	**756,000**	(528,000)
Liability experience gain	**(16,000)**	-
Benefits paid	**(3,000)**	(3,000)
At June 30,	**2,583,000**	1,569,000

18. OTHER LIABILITIES (CONT'D)

(a) Defined pension benefits (cont'd)

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

	2022	2021
	Rs.	Rs.
At July 1,	2,135,000	1,562,000
Interest income	113,000	54,000
Remeasurements:		
- Return on plan assets, excluding amount included in interest income	(126,000)	284,000
Contributions by the employer	240,000	238,000
Benefits paid	(3,000)	(3,000)
At June 30,	2,359,000	2,135,000

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

	2022	2021
	Rs.	Rs.
Current service cost	190,000	214,000
Net interest on net defined benefit liability/(asset)	(26,000)	4,000
Total included in employee benefit expense	164,000	218,000

Total included in employee benefit expense can be analysed as follows:

	2022	2021
	Rs.	Rs.
Included in:		
- Personnel expenses	164,000	218,000

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

	2022	2021
	Rs.	Rs.
Remeasurement on the net defined benefit liability:		
Liability experience losses	(16,000)	-
Actuarial losses/(gains) arising from changes in financial assumptions	756,000	(528,000)
Actuarial (gains)/losses	740,000	(528,000)
Return on plan assets below/(above) interest income	126,000	(284,000)
	866,000	(812,000)

(vii) The fair value of the plan assets at the end of the reporting period for each category, are allocated as follows:

	2022	2021
	%	%
Equity - Local quoted	38.0	32.0
Equity - Local unquoted	1.0	1.0
Debt - Overseas quoted	-	1.0
Debt - Local quoted	11.0	12.0
Debt - Local unquoted	5.0	5.0
Property - Local	6.0	5.0
Investment funds	31.0	37.0
Cash and other	8.0	7.0
	100.0	100.0

18. OTHER LIABILITIES (CONT'D)

Defined pension benefits (cont'd)

(vii) The fair value of the plan assets at the end of the reporting period for each category, are allocated as follows: (cont'd)

Pension plan assets include the following:	2022	2021
	%	%
Reporting entity's own transferable financial instruments	**11.0**	10.0
Property occupied by reporting entity	**6.0**	5.0
Other assets used by reporting entity	**3.0**	3.0

(viii) The principal actuarial assumptions used for the purposes of the actuarial valuations were:

	2022	2021
Discount rate (%)	**5.3**	5.0
Rate of salary increases (%)	**3.7**	2.0
Rate of pension increases (%)	**2.2**	1.0
Average retirement age (ARA) (Years)	**63.0**	63.0
Average life expectancy for:		
Male at ARA (Years)	**17.3**	17.3
Female at ARA (Years)	**21.7**	21.7

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

	2022	2021
	Rs.	Rs.
Increase due to 1% decrease in discount rate	**883,000**	544,000
Decrease due to 1% increase in discount rate	**641,000**	394,000

An increase/decrease of 1% in other principal actuarial assumptions would not have a material impact on defined benefit obligations at the end of the reporting period.

The sensitivity above have been determined based on a method that extrapolates the impact on net defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The present value of the defined benefit obligation has been calculated using the projected unit credit method.

The sensitivity analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

18. OTHER LIABILITIES (CONT'D)

(a) Defined pension benefits (cont'd)

(x) The defined benefit pension plan exposes the Company to actuarial risks, such as longevity risk, interest rate risk, market (investment) risk and salary risk.

Longevity Risk
The liabilities disclosed are based on the mortality tables PA(90). Should the experience of the pension plans be less favorable than the standard mortality tables, the liabilities will increase.

Interest Rate Risk
If the bond interest rate decreases, the liabilities would be calculated using a lower discount rate and would therefore increase. However, this may be partially offset by an increase in the return on the plan's debt investments and a decrease in inflationary pressures on salary and pension increases.

Investment Risk
The present value of the liabilities of the plan are calculated using a discount rate. Should the returns on the assets of the plan be lower than the discount rate, a deficit will arise.

Salary Risk
If salary increases are higher than assumed in our basis, the liabilities would increase giving rise to actuarial losses.

(xi) The funding requirements are based on the pension fund's actuarial measurement framework set out in the funding policies of the plan. The funding policy is to pay contributions to an external legal entity at the rate recommended by the entity's actuaries.

(xii) The Company expects to pay Rs. 388,000 in contributions to its post-employment benefit plans for the year ending June 30, 2023.

(xiii) The weighted average duration of the defined benefit obligation is 31 years at the end of the reporting period (2021: 30 years).

(b) Other post retirement benefits

Other post retirement benefits comprise mainly of gratuity on retirement payable under the Workers' Rights Act 2019 and other benefits.

(i) Movement in gratuity on retirement:

	2022	2021
	Rs.	Rs.
At July 1,	256,000	369,000
Charged to profit or loss	105,000	132,000
Charged/(Credited) to other comprehensive income	527,000	(245,000)
At June 30,	888,000	256,000

18. OTHER LIABILITIES (CONT'D)

(b) Other post retirement benefits (cont'd)

(ii) The principal actuarial assumptions used for the purposes of the valuation of the residual retirement gratuities were:

	2022	2021
Discount rate (%)	**5.3**	5.0
Rate of salary increases (%)	**3.7**	2.0
Average retirement age (ARA) (Years)	**63.0**	63.0

(iii) Sensitivity analysis on residual retirement gratuities at end of the reporting date:

	2022	2021
	Rs.	Rs.
Increase due to 1% decrease in discount rate	**620,000**	292,000
Decrease due to 1% increase in discount rate	**447,000**	190,000

The above sensitivity analysis has been carried out by recalculating the present value of obligation at end of period after increasing or decreasing the discount rate while leaving all other assumptions unchanged. Any similar variation in the other assumptions would have shown smaller variations in the gratuity payable.

(iv) The funding policy is to pay benefits out of the Company's cashflow as and when due.

(v) The Company does not expect to make any contribution to this post-employment benefit plan for the year ending June 30, 2022.

(vi) The weighted average duration of the defined benefit obligation is 31 years at the end of the reporting period (2021: 31 years).

19. STATED CAPITAL

	Number of shares (thousands)	Ordinary shares	Total
		Rs.	Rs.
At June 30, 2022 & 2021	**1,250**	**125,000,000**	**125,000,000**

The total authorised and issued number of ordinary shares is 1,250,000 shares (2021: 1,250,000 shares). All issued shares are at no par value and are fully paid.

An ordinary share confer to the holder:

(a) the right to one vote on a poll at a meeting of the Company on any resolution;

(b) the right to an equal share in dividends authorised by the Board;

(c) the right to an equal share in the distribution of the surplus assets of the Company.

20. CASH AND CASH EQUIVALENTS

(a) Reconciliation of liabilities arising from financing activities

	2021	Net cash flows	Non-Cash changes Variable lease payment adjustment	2022
	Rs.	Rs.	Rs.	**Rs**
Loan from holding company	150,000,000	25,000,000	-	**175,000,000**
Short term borrowings	54,660,000	26,640,000	-	**81,300,000**
Lease liabilities	6,289,832	(1,883,014)	135,135	**4,541,953**
Total liabilities from financing activities	210,949,832	49,756,986	135,135	**260,841,953**

	2020	Net cash flows	Non-Cash changes Variable lease payment adjustment	Non-Cash changes Other adjustment	2021
	Rs.	Rs.	Rs.	Rs.	**Rs**
Loan from holding company	125,000,000	25,000,000	-	-	**150,000,000**
Short term borrowings	57,500,000	(2,840,000)	-	-	**54,660,000**
Lease liabilities	8,733,276	(1,676,749)	136,182	(902,877)	**6,289,832**
Total liabilities from financing activities	191,233,276	20,483,251	136,182	(902,877)	**210,949,832**

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

	2022	2021
	Rs.	Rs.
Cash in hand and at bank	**258,831**	227,798
	258,831	227,798

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

21. LOSS PER SHARE

	2022	2021
	Rs.	Rs.
Loss per share is based on:		
Loss for the year	**(10,301,594)**	(7,159,240)
Weighted average number of ordinary shares in issue	**1,250,000**	1,250,000
Loss per share	**(8.24)**	(5.73)

22. 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	Bank balances
(a)(i) 2022	Rs.	Rs.	Rs.	Rs.	Rs.
Holding company	**41,422**	**-**	**175,000,000**		**-**
Fellow subsidiary	**270,450**	**-**	**-**	**75,389**	**-**
Entities under common shareholders	**2,446,750**	**1,726,484**	**81,300,000**	**1,842,911**	**251,320**
(ii) 2021					
Holding company	-	-	150,000,000	-	-
Fellow subsidiary	201,330	-	-	16,771	-
Entities under common shareholders	1,587,637	1,848,835	54,686,586	1,302,295	221,455

(b) 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.

(c) **Key management personnel compensation**

	2022	2021
	Rs.	Rs.
Salaries and short-term employee benefits	**2,711,031**	2,682,560

23. 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.

24. FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for the financial instruments have been applied to the items below:

	2022	2021
	Rs.	Rs.
Assets as per statement of financial position		
Financial assets at amortised cost	**301,249,754**	258,081,571
Cash in hand and at bank	**258,831**	227,798
	301,508,585	258,309,369
Liabilities as per statement of financial position		
Borrowings	**256,313,377**	204,686,586
Lease liabilities	**4,541,953**	6,289,832
Other liabilities	**5,098,662**	3,626,876
	265,953,992	214,603,294

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

Except, where stated elsewhere, the carrying amounts of the Company's financial assets and financial liabilities approximate their fair value.