

Financial Statements

31 December 2019

Audited By



HOUSING DEVELOPMENT FINANCE CORPORATION PLC

Financial Statements – 31 December 2019



Independent auditor's report

To the Shareholders of Housing Development Finance Corporation Plc

Our opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Housing Development Finance Corporation Plc (**"the Company"**) as at December 31, 2019, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The financial statements of the Company, which comprise:

- the statement of financial position as at December 31, 2019;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers, H. Thandiraimage, 3rd Floor, Roshanee Magu, Malé, Republic of Maldives

Tel: +960 3318342, 3336046, Fax: +960 3314601, www.pwc.com/lk

Partners D.T.S.H. Mudalige FCA, C.S. Manoharan FCA, Ms. S. Perera ACA, T.U. Jayasinghe FCA

Resident Partner Jatindra Bhatray FCA

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Key audit matter	How our audit addressed the Key audit matter
<i>Impairment of loans and advances</i>	
<p>Refer to Note 16 of the financial statements.</p>	<p>Specific work that we performed on the allowance on loans and advances recognised by management included the following;</p>
<p>As at 31 December 2019, 79.5 % of the total assets of the Company consisted of loans and advances amounting to MVR 1.7 billion shown net of loss allowance of MVR 43.26 million.</p>	<ul style="list-style-type: none"> - Tested the completeness of the loans and advances considered in the loan loss calculation by checking the mathematical accuracy of the listing obtained and matched the outstanding balances with the general ledger.
<p>The loss allowance in respect of loans and advances represent management’s best estimate of the impairment loss incurred and expected within the loan portfolio at the reporting date.</p>	<ul style="list-style-type: none"> - Assessed the reasonableness of management’s estimated future recoveries of individual customer loans and advances including the expected future cash flows, discount rates and valuation of collateral held by testing the key underlying assumptions and evaluating the process by which those were drawn up.
<p>The loss allowance had been calculated using statistical methods and historical collection trends adjusted for forward-looking information. Significant estimates and assumptions used by the management in such calculations and the basis for impairment allowance is disclosed in note 30.1.</p>	<ul style="list-style-type: none"> - Tested the accuracy and completeness of underlying information in loans and advances used in the expected loan loss calculation, such as disbursed and undisbursed loan amounts, deposits, value of the collateral, aging and loan tenure periods by agreeing details with the respective customer statements and files on a sample basis.
	<ul style="list-style-type: none"> - We tested the methodology applied in the loan loss allowance calculation by checking compliance with the requirements of IFRS 9, <i>Financial instruments; recognition and measurement</i>, and also considered reasonableness of macro-economic and other factors used by the management by comparing them with publicly available data and information sources.
<p>We have identified expected credit loss allowance for loans and advances as a key audit matter as the calculation of loan loss allowance is a complex area and requires management to make significant assumptions and judgements.</p>	<ul style="list-style-type: none"> - Assessed the adequacy of the related financial statement disclosures as set out on Notes 16, 30 for compliance with required IFRS 9 disclosures.



Other information

Management is responsible for the other information. The other information comprises the annual report for the year ended 31 December 2019 (but does not include the financial statements and our **auditors report thereon**) which is expected to be made available to us after the date of auditors' report.

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 identified above 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 appear to be materially misstated.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Board.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is 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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's **financial reporting** process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an **auditor's report** that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's 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 the ethical requirements in accordance with IESBA Code of Ethics 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, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Jatindra Bhatray.

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10 June 2020

For PRICEWATERHOUSECOOPERS

Registration No: FO005

Jatindra Bhatray
Partner

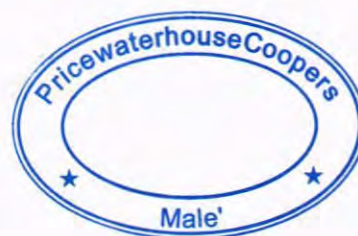
HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2019

Statement of comprehensive income

(all amounts are shown in Maldivian Rufiyaa unless otherwise stated)

	Notes	Year ended 31 December	
		2019	2018
Interest income	5	155,584,875	141,409,648
Interest expense	5	(53,644,598)	(46,301,913)
Net interest income		101,940,277	95,107,735
Net income on shari'ah products	6	33,958,171	25,084,514
Fee income	7	3,103,390	5,013,744
Other income	8	2,404,751	1,100,843
Operating income		141,406,589	126,306,836
Credit impairment (losses) / gains	10	(15,853,930)	8,226,277
Salaries and personnel expenses	9	(10,135,717)	(9,956,478)
Other operating expenses	11	(7,796,192)	(8,314,111)
Profit before business profit tax		107,620,750	116,262,524
Business profit tax expense	12	(16,525,599)	(17,267,299)
Profit for the year		91,095,151	98,995,225
Earnings per share - basic / diluted (MVR)	14	57.16	62.11



The notes on pages 9 to 69 are an integral part of these financial statements.

HOUSING DEVELOPMENT FINANCE CORPORATION PLC

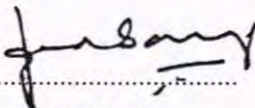
31 December 2019

Statement of financial position

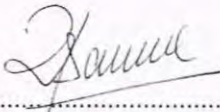
(all amounts are shown in Maldivian Rufiyaa unless otherwise stated)

	Notes	As at 31 December	
		2019	2018
ASSETS			
Cash and cash equivalents	15	198,051,509	91,653,575
Loans and advances	16	1,738,373,448	1,617,378,696
Financial assets at amortised cost	17	224,846,517	29,976,096
Property, plant and equipment	19	1,043,806	1,324,053
Intangible assets	21	488,557	621,847
Right-of-use assets	20	9,838,535	-
Deferred business profit tax assets	18	5,820,179	3,125,228
Other assets	22	7,193,895	7,356,305
Total assets		2,185,656,446	1,751,435,800
LIABILITIES			
Deposits from customers	23	88,684,184	82,423,308
Debt securities in issue	24	468,902,701	218,979,337
Other borrowed funds	25	692,377,506	637,865,650
Other liabilities	26	351,666,575	288,020,860
Lease liabilities	20	10,256,653	-
Current tax liabilities	12	10,726,427	8,371,271
Total liabilities		1,622,614,046	1,235,660,426
SHAREHOLDERS' EQUITY			
Share capital	27	159,375,000	159,375,000
General reserve	28	15,000,000	15,000,000
Retained earnings		388,667,400	341,400,374
Total shareholders' equity		563,042,400	515,775,374
Total equity and liabilities		2,185,656,446	1,751,435,800

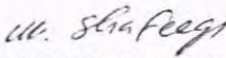
These financial statements were approved by the board of directors on 10th June 2020 and signed on their behalf by:



Conrad D' Souza
Chairman

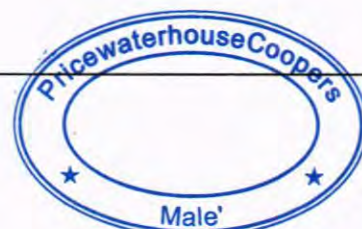


Raheema Saleem
Managing Director



Mohamed Shafeeq
AGM - Finance

The notes on pages 9 to 69 are an integral part of these financial statements.



HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2019

Statement of changes in equity

(all amounts are shown in Maldivian Rufiyaa unless otherwise stated)

	Notes	Share capital	General reserve	Staff education reserve	Retained earnings	Total
Balance at 1 January 2018		159,375,000	15,000,000	2,136,480	285,967,217	462,478,697
Changes on initial application of IFRS 9	16	-	-	-	(5,854,798)	(5,854,798)
Restated balance at 1 January 2018		159,375,000	15,000,000	2,136,480	280,112,419	456,623,899
Dividend declared	13	-	-	-	(39,843,750)	(39,843,750)
Staff education reserve transferred to retained earnings		-	-	(2,136,480)	2,136,480	-
Profit for the year		-	-	-	98,995,225	98,995,225
Balance at 31 December 2018		159,375,000	15,000,000	-	341,400,374	515,775,374
Balance at 1 January 2019		159,375,000	15,000,000	-	341,400,374	515,775,374
Dividend declared	13	-	-	-	(43,828,125)	(43,828,125)
Profit for the year		-	-	-	91,095,151	91,095,151
Balance at 31 December 2019		159,375,000	15,000,000	-	388,667,400	563,042,400



The notes on pages 9 to 69 are an integral part of these financial statements.

HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2019

Statement of cash flows

(all amounts are shown in Maldivian Rufiyaa unless otherwise stated)

	Note	Year ended 31 December	
		2019	2018
Cash flows from operating activities			
Profit before tax		107,620,750	116,262,524
<i>Adjustments for:</i>			
Depreciation on property, plant and equipment	19	419,150	449,492
Depreciation on right-of-use assets	20	827,669	-
Credit impairment losses / (gains)	10	15,853,930	(8,226,277)
Amortization of intangible assets	21	235,448	174,147
Loss on disposal		225	72,624
Interest expense on lease liabilities	5	667,615	-
Net interest income		(136,566,063)	(120,192,249)
Cash flows from operating activities before changes in working capital		(10,941,276)	(11,459,739)
<i>Changes in working capital:</i>			
Increase in loans and advances to customers		(134,781,531)	(206,890,389)
Decrease in other assets		(797,235)	511,641
Increase in other liabilities		59,661,469	55,305,806
Increase in deposits from customers		5,608,712	13,987,332
Cash used in operating activities		(81,249,861)	(148,545,349)
Interest received		210,076,448	187,536,409
Interest paid		(70,414,519)	(63,792,938)
Business profit tax paid	12	(16,865,394)	(16,383,206)
Net cash used in operating activities		41,546,674	(41,185,084)
Cash flows from investing activities			
Purchases of property, plant and equipment	19	(139,128)	(625,535)
Purchases of intangible assets	21	(102,158)	(410,876)
Proceeds on disposal of property, plant and equipment		-	1,240
Proceeds paid for investments		(194,870,421)	(16,262)
Net cash used in investing activities		(195,111,707)	(1,051,433)
Cash flows from financing activities			
Repayments of debt securities in issue		(11,061,796)	(33,977,254)
Repayments of other borrowed funds		(129,085,245)	(186,036,509)
Proceeds from debt securities in issues		256,931,000	101,390,000
Proceeds from other borrowed funds		184,100,052	152,051,004
Dividend paid		(39,843,879)	(35,062,697)
Principal elements of lease payments		(1,077,166)	-
Net cash generated from financing activities		259,962,966	(1,635,456)
Net increase in cash and cash equivalents		106,397,934	(43,871,973)
Cash and cash equivalents at beginning of the year		91,653,575	135,525,548
Cash and cash equivalents at end of the year	15	198,051,509	91,653,575

The notes on pages 9 to 69 are an integral part of these financial statements.



Notes to the financial statements

(all amounts are shown in Maldivian Rufiyaa unless otherwise stated)

1 General information

Housing Development Finance Corporation PLC (HDFC) is engaged in the business of granting housing loans for residential and commercial purpose. The registered office is situated at 4th Floor, H. Mialani, Sosun Magu, Male', Republic of Maldives.

HDFC is a limited liability company and is incorporated and domiciled in the Republic of Maldives.

2 Summary of 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.

2.1 Basis of preparation

This financial report for the year ended 31 December 2019 has been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have been prepared under the historical cost convention whereby the transactions are recorded at the values prevailing on the dates when the assets were acquired, the liabilities were incurred or the capital obtained.

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of new and amended standards as set out in Note 4.

In the process of applying HDFC's accounting policies, management has used its judgements and made estimates in determining the amount recognised in the financial statements. The most significant use of judgement and estimates are set out in Note 3.

2.2 Changes in accounting policies

As indicated in note 4 (a) below, HDFC has adopted IFRS 16 *Leases* retrospectively from 1 January 2019, but has not restated comparatives for 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in note 20.

On adoption of IFRS 16, HDFC recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 8.5%.

Notes to the financial statements (continued)

(all amounts are shown in Maldivian Rufiyaa unless otherwise stated)

2.2 Changes in accounting policies (continued)*(i) Practical expedients applied*

In applying IFRS 16 for the first time, HDFC has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics.
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019.
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases.
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

HDFC has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date HDFC relied on its assessment made applying IAS 17 and Interpretation 4 *Determining whether an Arrangement contains a Lease*.

(ii) Measurement of lease liabilities

	2019 MVR
Operating lease commitments disclosed as at 31 December 2018	4,715,000
Lease payments for extended period	6,630,000
Discounted using the lessee's incremental borrowing rate of at the date of initial application	(3,836,792)
Lease liability recognised as at 1 January 2019	7,508,208
Of which are:	
Current lease liabilities	605,000
Non-current lease liabilities	6,903,208
	7,508,208

(iii) Measurement of right-of-use assets

The right-of-use assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There was no prepaid and accrual lease payments, due to that, right of use assets are equal to the lease liabilities.

(iv) Adjustments recognised in the balance sheet on 1 January 2019

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

Right-of-use assets – increase by MVR 7,508,208
 Lease liabilities – increase by MVR 7,508,208

The net impact on retained earnings on 1 January 2019 was nil.

Notes to the financial statements (continued)

(all amounts are shown in Maldivian Rufiyaa unless otherwise stated)

2.3 Summary of significant accounting policies

This note sets out the significant accounting policies adopted in the preparation of these financial statements.

2.3.1 Financial assets and liabilities

Measurement methods

Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principle repayments, plus or minus the cumulative amortisation using effective interest rate method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

Effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and, the loan processing fees since the amount is immaterial.

When HDFC revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for the financial assets that have subsequently become credit-impaired (or stage 3), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

Initial recognition and measurement

Financial assets and financial liabilities are recognised when HDFC becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which HDFC commits purchase or sell the asset.

At initial recognition, HDFC measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost, as described in note 2.3.1.1, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

Notes to the financial statements (continued)

(all amounts are shown in Maldivian Rufiyaa unless otherwise stated)

2.3 Summary of significant accounting policies (continued)

2.3.1 Financial assets and liabilities (continued)

Measurement methods (continued)

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

(b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

2.3.1.1 Financial assets

(i) Classification and subsequent measurement

From 1 January 2018, HDFC has applied IFRS 9 and classifies its financial assets at amortised cost.

The classification requirements for debt instruments are described below:

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds.

Classification and subsequent measurement of debt instruments depend on:

- (i) HDFC's business model for managing the asset; and
- (ii) the cash flow characteristics of the asset.

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in note 30.1.2. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.

Business model: the business model reflects how HDFC manages the assets in order to generate cash flows. HDFC's objective is solely to collect the contractual cash flows from the assets. Factors considered by HDFC in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed.

Notes to the financial statements (continued)

(all amounts are shown in Maldivian Rufiyaa unless otherwise stated)

2.3 Summary of significant accounting policies (continued)

2.3.1.1 Financial assets (continued)

(i) Classification and subsequent measurement (continued)

SPPI: Where the business model is to hold assets to collect contractual cash flows, HDFC assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, HDFC considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

HDFC reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

(ii) Impairment

HDFC assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortised cost with the exposure arising from loan commitments. HDFC recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

- (i) The time value for money; and
- (ii) Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Note 30.1.2 provides more detail of how the expected credit loss allowance is measured.

(iii) Modification of loans

HDFC sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, HDFC assesses whether or not the new terms are substantially different to the original terms. HDFC does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Significant extension of loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.

Notes to the financial statements (continued)

(all amounts are shown in Maldivian Rufiyaa unless otherwise stated)

2.3 Summary of significant accounting policies (continued)

2.3.1.1 Financial assets (continued)

(iii) Modification of loans (continued)

- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, HDFC derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, HDFC also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and HDFC recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate.

(iv) Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) HDFC transfers substantially all the risks and rewards of the ownership, or (ii) HDFC neither transfers nor retains substantially all the risk and rewards of ownership and HDFC has not retained the control.

2.3.1.2 Financial liabilities

(i) Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified and subsequently measured at amortised cost except for loan commitments (Note 2.3.2).

Interest expenses

Interest expense is recorded using the Effective Interest Rate (EIR) method. EIR is the rate that estimated future cash payments or receipts through the expected life of the financial instruments or a shorter period, where appropriate, to the net carrying amount of the financial liability

(ii) Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expired).

Notes to the financial statements (continued)

(all amounts are shown in Maldivian Rufiyaa unless otherwise stated)

2.3 Summary of significant accounting policies (continued)

The exchange between HDFC and its original lenders of debt instruments with substantially different terms, as well as substantial modification of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of term is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

2.3.2 Loan commitments

Loan commitments provided by HDFC are measured as the amount of the loss allowance (calculated as described in note 30.1.3). HDFC has not provided any commitment to provide loans at a below market interest rate, or that can be settled in cash or by delivering or issuing another financial instrument.

For loan commitments, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and HDFC cannot separately identify the expected credit loss on the undrawn commitment component from those on the loan component, the expected credit loss on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined expected credit loss exceeds the gross carrying amount of the loan, the expected credit losses are recognised as a provision.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). These financial statements are presented in Maldivian Rufiyaa, which is HDFC's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Notes to the financial statements (continued)

(all amounts are shown in Maldivian Rufiyaa unless otherwise stated)

2.5 Cash and cash equivalents

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include all bank placements with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

2.6 Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statements of financial position if, and only if, there is currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The legal enforceable right must not be contingent on the future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of HDFC or the counter party.

2.7 Property, plant and equipment

All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the HDFC and the cost of the item can be measured reliably. All other repairs and maintenance are charged to other operating expenses during the financial year in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Leasehold improvements	- 10 years
Furniture and fixture	- 5 years
Computer equipment	- 5 years
Motor vehicles	- 4 years
Office equipment	- 3 - 8 years

The charge for the depreciation commences from the date on which the assets are available for use.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount, if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Notes to the financial statements (continued)

(all amounts are shown in Maldivian Rufiyaa unless otherwise stated)

2.7 Property, plant and equipment (continued)

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in other operating income or other operating expenses, as the case may be, in the income statement.

2.8 Intangible assets

Costs associated with software are capitalised and amortised using the straight-line method over estimated useful life of four years. The carrying amount of intangible asset is reviewed annually and adjusted for permanent impairment where it is considered necessary. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred.

2.9 Leases

As explained in note 4, HDFC has changed its accounting policy for leases where HDFC is the lessee. The new policy is described in note 20 and the impact of the change in note 2.2.

Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature.

2.10 Debt securities in issue

Debt securities in issue include bonds and sukuk issued by HDFC. Debt securities are stated at amortised cost. If HDFC purchases its own debt securities in issue, they are removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from early retirement of debt.

The obligation to make future payments of principal and interest to bondholders is carried at amortised cost until extinguished on maturity of the bonds.

2.11 Other borrowed funds

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of the loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Notes to the financial statements (continued)

(all amounts are shown in Maldivian Rufiyaa unless otherwise stated)

2.11 Other borrowed funds (continued)

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the statement of comprehensive income as other income or finance costs.

Borrowings are classified as current liabilities unless HDFC has an unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

2.12 Customer accounts

Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

2.13 Derivative financial instruments

Derivative financial instruments, including currency swaps are carried at their fair value.

All derivative instruments are carried as assets when fair value is positive, and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year (gains less losses on derivatives).

2.14 Provisions for liabilities and charges

Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when HDFC has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

2.15 Trade and other payables

Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

2.16 Share capital

Ordinary shares are classified as equity.

2.17 Dividends

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the HDFC's shareholders.

Notes to the financial statements (continued)

(all amounts are shown in Maldivian Rufiyaa unless otherwise stated)

2.18 Fiduciary activities

HDFC commonly acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of Ministry of Housing and Infrastructure (MHI). These assets and income arising thereon are excluded from these financial statements, as they are not assets of the HDFC.

2.19 Current and deferred business profit tax

The tax expenses for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity.

The current business profit tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax computation with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

The provisions for business profit tax is based on the elements of income and expenditure as reported in the financial statements and computed in accordance with the provisions of the Business Profit Tax Act.

HDFC is liable to business profit tax at rate of 15%, if the taxable profit of the year exceeds MVR 500,000.

Deferred business profit tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However deferred business profit tax is not accounted for if it 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. Deferred business profit tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred business profit tax asset is realised or the deferred business profit tax liability is settled.

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

Deferred business profit tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred business profit tax assets and liabilities relate to business profit tax levied by the same taxation authority. Current tax assets and tax liabilities are offset where HDFC has a legally enforceable right to offset and intend either to settle on a net basis, or to reduce the asset and settle the liability simultaneously.

Notes to the financial statements (continued)

(all amounts are shown in Maldivian Rufiyaa unless otherwise stated)

2.20 Fees, commissions and other income and expenses

Fees, commissions and other income and expenses items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

2.21 Staff costs and related contributions

Wages, salaries, contributions to the Maldives Government pension funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of HDFC. HDFC has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

2.22 Segment reporting

Segments are reported in a manner consistent with the internal reporting provided to the board of Directors of HDFC. Segments whose revenue results or assets are 10 percent or more of all the segments are reported separately.

2.23 Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current period.

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31 December 2019

Notes to the financial statements (continued)

(all amounts are shown in Maldivian Rufiyaa unless otherwise stated)

2.24 Presentation of statement of financial position in order of liquidity

HDFC does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, analysis of assets and liabilities by their expected maturities is presented in Note 30.2.2.

The following table provides information on amounts expected to be recovered or settled before and after 12 months of the reporting period.

	31 December 2019			31 December 2018		
	Amounts expected to be recovered or settled		Total	Amounts expected to be recovered or settled		Total
	Within 12 months of the reporting period	After 12 months of the reporting period		Within 12 months of the reporting period	After 12 months of the reporting period	
Assets						
Cash and cash equivalents	198,051,509	-	198,051,509	91,653,575	-	91,653,575
Financial assets at amortised cost	224,846,517	-	224,846,517	29,976,096	-	29,976,096
Loans and advances	45,994,769	1,692,378,679	1,738,373,448	210,577,567	1,406,801,129	1,617,378,696
Property, plant and equipment	-	1,043,806	1,043,806	-	1,324,053	1,324,053
Intangible assets	-	488,557	488,557	-	621,847	621,847
Right-of-use assets	-	9,838,535	9,838,535	-	-	-
Deferred business profit tax assets	-	5,820,179	5,820,179	-	3,125,228	3,125,228
Other assets	1,147,351	6,046,544	7,193,895	1,780,826	5,575,479	7,356,305
Total assets	470,040,146	1,715,616,301	2,185,656,446	333,988,064	1,417,447,736	1,751,435,800
Liabilities						
Deposits from customers	-	88,684,184	88,684,184	-	82,423,308	82,423,308
Debt securities in issue	44,951,000	423,951,701	468,902,701	8,865,375	210,113,962	218,979,337
Other borrowed funds	209,966,000	482,411,506	692,377,506	170,040,277	467,825,373	637,865,650
Other liabilities	61,829,886	289,836,689	351,666,575	59,412,596	228,608,264	288,020,860
Lease liabilities	591,985	9,664,668	10,256,653	-	-	-
Current tax liabilities	10,726,428	-	10,726,427	8,371,271	-	8,371,271
Total liabilities	328,065,299	1,294,548,748	1,622,614,047	246,689,519	988,970,907	1,235,660,426

Notes to the financial statements (continued)

(all amounts are shown in Maldivian Rufiyaa unless otherwise stated)

3 Critical accounting estimates, and judgements in applying accounting policies

HDFC makes estimates and assumptions that affect the amounts recognised in the financial statements, and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

3.1 Impairment losses on loans and advances

The measurement of the expected credit loss allowance for financial assets measured at amortised cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour. Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 30.1.2, which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as;

- determining the criteria for significant increase in credit risk; and
- choosing appropriate models and assumptions for the measurement of ECL.

Detailed information about the judgements and estimates made by HDFC in the above areas is set out in the note 30.1.2.

3.2 Deferred tax asset recognition

The recognised deferred tax asset represents business profit taxes recoverable through future deductions from taxable profits, and is recorded in the statement of financial position. Deferred tax assets are recorded to the extent that realisation of the related tax benefit is probable.

The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances.

3.3 Useful life time of property, plant and equipment and intangible assets

HDFC reviews the residual values, useful lives and methods of depreciation and amortisation of property, plant and equipment and intangible assets at each reporting date. Judgment of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

Notes to the financial statements (continued)

(all amounts are shown in Maldivian Rufiyaa unless otherwise stated)

4 Adoption of new or revised standards and interpretations

(a) New accounting standards, amendments and interpretations adopted in 2019

The following amendments to the International Accounting Standards that are relevant for the preparation of the financial statements have been adopted by HDFC for the first time with effect from financial year beginning on 1 January 2019.

- IFRS 16 Leases
- Prepayment Features with Negative Compensation – Amendments to IFRS 9
- Annual Improvements to IFRS Standards 2015 – 2017 Cycle
- Interpretation 23 Uncertainty over Income Tax Treatments.

HDFC had to change its accounting policies as a result of adopting IFRS 16. HDFC elected to adopt the new rules retrospectively but recognised the cumulative effect of initially applying the new standard on 1 January 2019. This is disclosed in note 2.2. The other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(b) New standards, amendments and interpretations issued but not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by HDFC. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

- Amendments to IAS 1 and IAS 8 on the definition of material

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Notes to the financial statements continued

(all amounts are shown in Maldivian Rufiyaa unless otherwise stated)

5 Net interest income

	2019	2018
Interest income		
Housing loans	153,050,924	140,344,524
Treasury bills	2,533,951	1,065,124
	<u>155,584,875</u>	<u>141,409,648</u>
Interest expense		
Other borrowed funds	42,743,628	40,626,443
Debt securities in issue	9,126,996	4,576,593
Deposits from customers	1,106,359	1,098,877
Interest and finance charges paid/payable for lease liabilities	667,615	-
	<u>53,644,598</u>	<u>46,301,913</u>
Net interest income	<u>101,940,277</u>	<u>95,107,735</u>

6 Net income on Shari'ah products

	2019	2018
Revenue from housing facilities	53,561,594	40,133,888
Revenue from short term investments	964,642	1,069,364
Fee income	2,032,488	2,524,840
Amna investors' profit share	(22,600,553)	(18,643,578)
	<u>33,958,171</u>	<u>25,084,514</u>

7 Fee income

	2019	2018
Housing loan processing fees	498,758	1,786,147
Other fee income	339,702	978,427
Management fees	2,264,930	2,249,170
	<u>3,103,390</u>	<u>5,013,744</u>

Other fee income includes SWAP commitment fees and other miscellaneous incomes such as documentation fees and printing charges.

SWAP commitment fees are computed on a daily basis on the outstanding US\$ balance committed to be sold back by State Trading Organisation Plc. The fee percentage is stipulated in the respective SWAP agreements.

In the second SWAP agreements signed in 2011, the commitment fees, as stipulated in the agreement, was 3% per annum.

HOUSING DEVELOPMENT FINANCE CORPORATION PLC**31 December 2019****Notes to the financial statements continued**

(all amounts are shown in Maldivian Rufiyaa unless otherwise stated)

8 Other income

	2019	2018
Penalty interest	1,400,784	724,865
Insurance commissions	1,003,967	375,978
	<u>2,404,751</u>	<u>1,100,843</u>

9 Salaries and personnel expenses

	2019	2018
Salaries and allowances	8,861,778	8,348,445
Ramadan allowances and bonus	539,029	821,870
Contribution to employees pension fund	378,945	364,056
Employee benefit expense amortisation	208,224	278,204
Staff medical insurance	147,741	143,903
	<u>10,135,717</u>	<u>9,956,478</u>

10 Provision for loan impairment

	2019	2018
Provision charged / (reversed) during the period (Note 16 and 30)	15,853,930	(8,226,277)

11 Other operating expenses

	2019	2018
Professional fees	1,064,447	1,611,411
IT expenses	859,692	297,877
Board remuneration and meeting expenses	765,617	1,080,224
Other expenses	627,205	991,539
Advertising and marketing expenses	562,350	231,264
Amna expenses	616,269	458,593
Listing expenses	633,297	550,453
Premises, equipment and establishment expenses	352,716	1,387,945
Bank charges	144,009	534,677
Depreciation on property, plant and equipment (Note 19)	419,150	449,492
Communication expenses	343,284	300,903
Amortization on intangible assets (Note 21)	235,448	174,147
Depreciation on right-of-use asset (Note 20)	827,669	-
Printing and stationary expenses	210,560	172,962
Loss on disposal	225	72,624
Corporate social responsibility	100,000	-
Withholding tax	34,254	-
	<u>7,796,192</u>	<u>8,314,111</u>

HOUSING DEVELOPMENT FINANCE CORPORATION PLC**31 December 2019****Notes to the financial statements continued**

(all amounts are shown in Maldivian Rufiyaa unless otherwise stated)

12 Taxation

	2019	2018
Current tax	19,220,550	16,941,656
Deferred tax (Note 18)	(2,694,951)	325,643
Business profit tax expense	<u>16,525,599</u>	<u>17,267,299</u>

Reconciliations between business profit tax expenses and the accounting profit :

	2019	2018
Profit before tax	107,620,750	116,262,524
Current tax (15%)	<u>16,143,113</u>	<u>17,439,379</u>
Add: Non-deductible expenses	11,316,397	9,101,948
Less: Deductible expenses	(11,095,055)	(9,884,725)
Tax allowance	(75,000)	(75,000)
Under provision of prior years	236,145	685,698
Total current tax	<u>16,525,599</u>	<u>17,267,299</u>

Current tax liabilities

	2019	2018
As at 1 January	8,371,271	7,812,821
Provisions during the year	18,984,405	16,255,958
Under provision of prior years	236,145	685,698
Payments made during the year	(16,865,394)	(16,383,206)
As at 31 December	<u>10,726,427</u>	<u>8,371,271</u>

13 Dividends

Dividend of MVR 25 per share amounting to MVR 39,843,750 was declared for the year December 2018 in the board meeting held on 29 November 2018. Dividend of MVR 27.50 per share amounting to MVR 43,828,125 was declared for the year December 2019 in the board meeting held on 15 December 2019.

HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2019

Notes to the financial statements continued

(all amounts are shown in Maldivian Rufiyaa unless otherwise stated)

14 Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

Diluted earnings per share is calculated by dividing the profit attributable to ordinary equity holders of HDFC by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. As there were no potential ordinary equity outstanding at year end, diluted earnings per share is equal to the basic earnings per share for the year.

	2019	2018
Net profit attributable to shareholders	91,095,151	98,995,225
Weighted average number of ordinary shares in issue	1,593,750	1,593,750
Earnings per share - basic / diluted (MVR)	57.16	62.11

There were no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of the completion of these financial statements which would require the restatement of earnings per share.

15 Cash and cash equivalents

	2019	2018
Cash in hand	6,500	9,500
Balances with other banks	127,988,993	76,644,075
Short term investments with MIB	70,056,016	15,000,000
	<u>198,051,509</u>	<u>91,653,575</u>

Cash and cash equivalents include the above for the purposes of the statement of cash flows. All the bank balances are maintained at the banks / branches located in Maldives. The banks in Maldives have not been rated.

Short term investments with MIB are for a period of 3 months and are entitled for a profit share which has ranged between 2% to 3% per annum.

16 Loans and advances

	2019	2018
Housing loans to customers	1,278,033,104	1,252,647,892
Housing loans to staff	5,761,103	6,613,752
Amna assets	497,845,746	384,326,943
	<u>1,781,639,953</u>	<u>1,643,588,587</u>
Less: Provision for impairment	(43,266,505)	(26,209,891)
Net housing loans	<u>1,738,373,448</u>	<u>1,617,378,696</u>

HDFC has granted staff loan at 5% interest rate and the staff loan balances are measured at fair value.

HOUSING DEVELOPMENT FINANCE CORPORATION PLC**31 December 2019****Notes to the financial statements continued**

(all amounts are shown in Maldivian Rufiyaa unless otherwise stated)

16 Loans and advances (continued)**Movements in provision for impairment are as follows:**

	2019	2018
Opening balance	26,209,891	28,581,371
Changes on initial application of IFRS 9	-	5,854,798
Provision charged / (reversed) during the year (Note 10)	15,853,930	(8,226,277)
Unrecognised interest on stage 3 assets	1,202,684	-
Closing balance	<u>43,266,505</u>	<u>26,209,891</u>

17 Financial assets at amortised cost

	2019	2018
Investments in Treasury bills	194,806,343	29,976,096
Investments in MIB	30,040,174	-
	<u>224,846,517</u>	<u>29,976,096</u>

Treasury bills amounting MVR 119,942,620 and MVR 74,863,723 will mature on 6 and 20 January 2020 respectively and carry an interest rate of 3.5% per annum.

18 Deferred business profit tax assets

Deferred business profit tax is calculated on all difference under the liability method. The movement in deferred business profit tax asset account is as follows:

	2019	2018
Deferred tax assets	5,820,179	3,125,228
Net deferred tax asset	<u>5,820,179</u>	<u>3,125,228</u>

	2019	2018
Opening balance	3,125,228	3,450,871
Credit /(debit) to the income statement	2,694,951	(325,643)
Closing balance	<u>5,820,179</u>	<u>3,125,228</u>

The movement in deferred tax assets and liabilities of HDFC during the year ended are as follows:

	2019	2018
Temporary difference on PPE	622,833	131,225
Temporary difference on provisions for loan impairment	37,760,239	20,703,625
Temporary difference on right-of-use assets and lease liabilities	418,118	-
	<u>38,801,190</u>	<u>20,834,850</u>
Tax rate	15%	15%
Net deferred tax asset	<u>5,820,179</u>	<u>3,125,228</u>

HOUSING DEVELOPMENT FINANCE CORPORATION PLC**31 December 2019**

Notes to the financial statements continued

(all amounts are shown in Maldivian Rufiyaa unless otherwise stated)

18 Deferred business profit tax assets (continued)

The balance comprises the following deferred tax assets.

	2019	2018
<i>Property, plant and equipment</i>		
Opening balance	19,684	(10,395)
Credit to the income statement	73,741	30,079
Closing balance	93,425	19,684
<i>Provision for loan impairment</i>		
Opening balance	3,105,544	3,461,266
Credit / (debit) to the income statement	2,558,492	(355,722)
Closing balance	5,664,036	3,105,544
<i>Right-of-use asset</i>		
Opening balance	-	-
Credit to the income statement	62,718	-
Closing balance	62,718	-
Net deferred tax asset	5,820,179	3,125,228

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31 December 2019

Notes to the financial statements continued

(all amounts are shown in Maldivian Rufiyaa unless otherwise stated)

19 Property, plant and equipment

	Office equipment	Computer equipment	Furniture and fixtures	Motor vehicles	Leasehold improvements	Total
Year ended 31 December 2018						
Opening net book amount	378,971	564,948	190,802	-	87,153	1,221,874
Additions	39,519	437,336	148,680	-	-	625,535
Depreciation charge (Note 11)	(81,483)	(239,442)	(71,458)	-	(57,109)	(449,492)
Disposals						
- Cost	(100,528)	(114,188)	(101,998)	-	(82,846)	(399,560)
- Accumulated depreciation	84,341	99,557	86,843	-	54,955	325,696
Balance as at 31 December 2018	<u>320,820</u>	<u>748,211</u>	<u>252,869</u>	<u>-</u>	<u>2,153</u>	<u>1,324,053</u>
At 31 December 2018						
Cost	840,403	2,761,439	821,546	66,250	832,102	5,321,740
Accumulated depreciation	(519,583)	(2,013,228)	(568,677)	(66,250)	(829,949)	(3,997,687)
Net book amount	<u>320,820</u>	<u>748,211</u>	<u>252,869</u>	<u>-</u>	<u>2,153</u>	<u>1,324,053</u>
Year ended 31 December 2019						
Opening net book amount	320,820	748,211	252,869	-	2,153	1,324,053
Additions	55,873	65,250	18,005	-	-	139,128
Depreciation charge (Note 11)	(82,189)	(258,707)	(77,587)	-	(667)	(419,150)
Disposals						
- Cost	-	(73,000)	(18,557)	-	-	(91,557)
- Accumulated depreciation	-	73,000	18,332	-	-	91,332
Balance as at 31 December 2019	<u>294,504</u>	<u>554,754</u>	<u>193,062</u>	<u>-</u>	<u>1,486</u>	<u>1,043,806</u>
At 31 December 2019						
Cost	896,276	2,753,688	820,995	-	832,103	5,303,062
Accumulated depreciation	(601,772)	(2,198,934)	(627,933)	-	(830,617)	(4,259,256)
Net book amount	<u>294,504</u>	<u>554,754</u>	<u>193,062</u>	<u>-</u>	<u>1,486</u>	<u>1,043,806</u>

a) HDFC operates business from the premises taken on lease from third parties which are disclosed under note 20.

b) Property, plant and equipment aggregating to MVR 4,085,483 (December 2018: MVR 3,713,474) were fully depreciated as at the reporting date.

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Notes to the financial statements continued

(all amounts are shown in Maldivian Rufiyaa unless otherwise stated)

20 Leases

(i) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	As at 31 December 2019	As at 1 January 2019
Right-of-use assets		
Buildings	9,838,535	7,508,208
	<u>9,838,535</u>	<u>7,508,208</u>
Lease liabilities		
Current	591,985	605,000
Non-current	9,664,668	6,903,208
	<u>10,256,653</u>	<u>7,508,208</u>

(ii) Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

	2019	2018
Depreciation charge of right-of-use assets		
Buildings	827,669	-
	<u>827,669</u>	<u>-</u>

Interest expense on lease liabilities are included in interest expenses.

The total cash outflow for leases in year ended 31 December 2019 was MVR 1,077,166.

(iii) HDFC leasing activities and how these are accounted for

HDFC has taken the office premises and warehouse on leases. Rental contracts are typically made for fixed period of 5 years.

The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets will not be used as security for borrowing purposes.

Notes to the financial statements continued

(all amounts are shown in Maldivian Rufiyaa unless otherwise stated)

20 Leases (continued)

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by HDFC.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payment:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the incremental borrowing rate, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, HDFC:

where possible, uses recent third-party financing received by HDFC as a starting point.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

(iv) Extension and termination options

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

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Notes to the financial statements continued

(all amounts are shown in Maldivian Rufiyaa unless otherwise stated)

21 Intangible assets

	Software costs
Year ended 31 December 2018	
Opening net book amount	385,118
Additions	410,876
Amortisation charge (Note 11)	(174,147)
Closing net book amount	<u>621,847</u>
At 31 December 2018	
Cost	1,609,386
Accumulated amortisation	(987,539)
Net book amount	<u>621,847</u>
Year ended 31 December 2019	
Opening net book amount	621,847
Additions	102,158
Amortisation charge (Note 11)	(235,448)
Closing net book amount	<u>488,557</u>
At 31 December 2019	
Cost	1,711,544
Accumulated amortisation	(1,222,987)
Net book amount	<u>488,557</u>

22 Other assets

	2019	2018
Accounts receivable	1,147,351	953,826
Pre-payments	5,040,620	5,354,084
Advance paid to staff	1,005,924	1,048,395
	<u>7,193,895</u>	<u>7,356,305</u>

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Notes to the financial statements continued

(all amounts are shown in Maldivian Rufiyaa unless otherwise stated)

23 Deposits from customers

	2019	2018
Equated monthly installment deposits	82,694,656	74,061,145
Borrowers deposits	5,989,528	8,362,163
	<u>88,684,184</u>	<u>82,423,308</u>

Equated monthly installment deposits are held as contingency to settle the monthly installments in case the borrowers fail to pay. Equated monthly installment deposits carry fixed interest rate at 1% & 2.5 % per annum.

24 Debt securities in issue

	2019	2018
Listed and corporate bonds	227,108,162	104,759,542
Listed Sukuk	241,794,539	114,219,795
	<u>468,902,701</u>	<u>218,979,337</u>

Maturity analysis of debt securities in issue

Payable within one year	44,951,000	8,865,375
Payable after one year	423,951,701	210,113,962
	<u>468,902,701</u>	<u>218,979,337</u>

Listed bonds amounting MVR 81,390,000 was raised in July 2018. These bonds carry an interest rate of 7% per annum for 10 years from the allotment date. Interest payments are made every six months after the date of allotment, until the bond is fully redeemed. The cumulative redemption as at 31 December 2019 equals to MVR 8,939,834.

Listed bonds for MVR 80,000,000 were issued and subscribed in December 2019. These bonds carry an interest rate of 7% per annum for 10 years from the allotment date. Interest payments are made every six months after the date of allotment, until the bond is fully redeemed. The bond was not redeemed during the year.

During the months of March 2018 HDFC issued two corporate bonds for a value of MVR 10,000,000 each with two year maturity and carry an interest rate of 6.5% per annum. In January 2019 HDFC issued corporate bond with value of MVR 10,000,000 with two year maturity and carry an interest rate of 7% per annum. In May 2019 HDFC issued corporate bond with value of MVR 5,000,000 and MVR 15,000,000 with one year maturity and two year maturity respectively. These corporate bonds carry an interest rate of 7% per annum. In August 2019 HDFC issued corporate bond with value of MVR 20,000,000 with two year maturity and carry an interest rate of 6.5% per annum.

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Notes to the financial statements continued

(all amounts are shown in Maldivian Rufiyaa unless otherwise stated)

24 Debt securities in issue (continued)

During the month of January 2014, HDFC has issued Mudarabah Sukuk amounting to MVR 22,566,000 at a price of MVR 500 per sukuk for ten (10) years from allotment date and profit is paid every six months after the date of allotment, until maturity date. The funds are utilized in order to fund shari'ah compliant mortgage housing finance operations under principles and rules of Shari'ah. The profit is shared between Sukuk holder (Rabb al Mal) and HDFC (Mudarib) at a rate of 65% and 35% respectively.

On 24 October 2017 HDFC has issued Mudarabah Sukuk No. 2, amounting to MVR 89,036,000 (MVR 1,000 per sukuk for ten (10) years), profit is paid every six months after the date of allotment, until maturity date. The funds are utilized in order to fund shari'ah compliant mortgage housing finance operations under principles and rules of Shari'ah. The profit is shared between Sukuk holder (Rabb al Mal) and HDFC (Mudarib) at a rate of 65% and 35% respectively.

On 22 September 2019 HDFC issued Mudarabah Sukuk No. 3, amounting to MVR 126,931,000 (MVR 1,000 per sukuk for ten (10) years), profit is paid every six months after the date of allotment, until maturity date. The funds are utilized in order to fund shari'ah compliant mortgage housing finance operations under principles and rules of Shari'ah. The profit is shared between Sukuk holder (Rabb al Mal) and HDFC (Mudarib) at a rate of 65% and 35% respectively.

25 Other borrowed funds

	2019	2018
Netherlands Development Finance Company (FMO)	-	21,454,736
Deutsche Investitions und Entwicklungs Gesellschaft MBH (DEG)	82,794,965	106,475,238
Bank of Ceylon	76,406,536	106,970,084
Bank of Maldives	159,250,000	74,250,000
Habib Bank Limited	51,050,000	46,200,000
Wakala facilities	180,369,018	140,217,356
Pension benefit scheme fund	4,715,914	3,041,482
State Bank of India	117,764,772	139,256,754
Commercial Bank of Maldives	20,026,301	-
	<u>692,377,506</u>	<u>637,865,650</u>
Maturity analysis of other borrowed funds		
Payable within one year	209,966,000	170,040,277
Payable after one year	482,411,506	467,825,373
	<u>692,377,506</u>	<u>637,865,650</u>

Notes to the financial statements continued

(all amounts are shown in Maldivian Rufiyaa unless otherwise stated)

25 Other borrowed funds (continued)

Netherlands Development Finance Company (FMO)

During the year 2010, HDFC obtained a term facility of MVR 154,200,000. The borrowings from FMO carry an interest at LIBOR + 4.25%. The term loan from FMO is repayable in sixteen semi-annual installments commencing from 15 April 2012 and ending on 15 October 2019. The FMO loan was secured by all rights of HDFC under any security obtained by HDFC pursuant to the mortgage loans given by HDFC from the funds disbursed under the FMO loan. The borrowing was denominated in United States Dollars. The loan has been completely repaid.

Deutsche Investitions und Entwicklungs Gesellschaft MBH (DEG)

During the year 2014, HDFC has obtained a loan of MVR 200,460,000. The borrowings from DEG carry an interest at LIBOR + 5%. The loan is repayable in seventeen semi-annual installments commencing from 15 June 2015 and ending on 15 June 2023. The DEG loan is secured by a first ranking mortgage on HDFC's mortgage portfolio and charged over the account in the Maldives into which proceeds of the loan were disbursed and from which housing loans were disbursed. The borrowing is denominated in United States Dollars.

Bank of Ceylon - Male' branch

HDFC has obtained a loan facility of MVR 150,000,000 per the agreement dated 15 March 2016 from Bank of Ceylon for the purpose of providing mortgage housing loans. The loan carries an interest payable monthly during the grace year at the rate of 1 month treasury bill rate + 2.3% per annum and second year onwards 6 month treasury bill rate + 2.3% per annum (Floor rate - 5.5% and cap rate - 9.00%). This loan is repayable in semi-annual installments commencing after one year grace period and ending in March 2022. HDFC shall ensure a minimum 150% security coverage. The borrowing is denominated in Maldivian Rufiyaa.

Term loan from Bank of Maldives

HDFC has obtained a loan of MVR 150,000,000 per the agreement dated 3 April 2013 from Bank of Maldives for the purpose of providing mortgage housing loans. The loan carries an interest at a rate of 8.5% per annum and repayable in monthly instalments commencing from the first utilization date (November 2013) for 10 years ending on October 2023. The loan is secured by HDFC's mortgage portfolio created out of proceeds of this facility. The borrowing is denominated in Maldivian Rufiyaa.

HDFC has also obtained a loan of MVR 100,000,000 per the agreement dated March 2019 from Bank of Maldives for the purpose of providing mortgage housing loans. The loan carries an interest at a rate of 8.5% per annum and repayable in monthly instalments commencing from the first utilization date (March 2019) for 10 years ending on March 2029. The loan is secured by HDFC's mortgage portfolio created out of proceeds of this facility. The borrowing is denominated in Maldivian Rufiyaa.

Notes to the financial statements continued

(all amounts are shown in Maldivian Rufiyaa unless otherwise stated)

25 Other borrowed funds (continued)

Habib Bank limited (HBL)

HDFC has obtained a loan facility of MVR 77,000,000 per the agreement dated 16 March 2017 from Habib Bank Limited for the purpose of providing mortgage housing loans. The loan carries an interest of 8% or 1 year T-Bill rate (with NIL spread), which ever is higher. Interest rate is reset semi-annually (January and July) by taking the 1 year T-Bill rate of the last day of the preceding month (if the T-Bill rate is on the higher side). Loan is repaid in ten semi-annual installments starting from June 2017 and the interest is paid on monthly basis. HDFC shall ensure a security coverage ratio of at least 150% of the outstanding loan amount. The borrowing is denominated in Maldivian Rufiyaa.

HDFC has also obtained a loan facility of MVR 22,500,000 per the agreement dated 4 July 2019 from Habib Bank Limited for the purpose of providing mortgage housing loans. The loan carries an interest rate of 8% or 6 month T-Bill rate + 2.3% per annum, whichever is higher. Interest rate is reset semi-annually (January and July) by taking the 6 month T-Bill rate of the last day of the preceding month (if the T-Bill rate is on the higher side). Loan is repaid in ten semi-annual installments starting from December 2019 and the interest is paid on a monthly basis. HDFC shall ensure a security coverage ratio of at least 150% of the outstanding loan amount. The borrowing is denominated in Maldivian Rufiyaa.

Commercial Bank of Maldives (CBM)

HDFC has obtained a loan facility of MVR 20,000,000 per the agreement dated 24 December 2019 from Commercial Bank of Maldives for the purpose of providing mortgage housing loans. The loan carries an interest of 8% per annum with a cap rate of 8.5% per annum and floor rate of 7.5% per annum which is repayable in 12 quarterly instalments commencing from the first utilization date, December 2019 and ending on December 2022. Interest to be serviced monthly. HDFC shall ensure a security coverage ratio of at least 150% of the outstanding loan amount. The borrowing is denominated in Maldivian Rufiyaa.

Wakala facilities

During 2012, Maldives Islamic Bank has invested MVR 20,000,000 with HDFC under a Wakalah arrangement with a profit target of 11.5% for a year at a profit sharing ratio of 35% : 65% between HDFC and investor respectively. This has been rolled over for the seventh time during 2018 for two more years. During May 2017, Maldives Islamic bank invested MVR 10,000,000 for one year and this was rolled over for one more year upon Maturity in May 2019. This has a target yield of 7.5%.

During 2015 and 2016 Maldives Hajj Corporation Limited has invested MVR 60,000,000 with HDFC with a target yield of 10% - 11% per annum with a profit sharing ratio of (30% -35%) : (70% - 65%) for 5 years. However, the investment amounting MVR 50,000,000 can be withdrawn before five years with three months prior notice.

Notes to the financial statements continued

(all amounts are shown in Maldivian Rufiyaa unless otherwise stated)

25 Other borrowed funds (continued)

Wakala facilities (continued)

During May 2016 and January 2016, Amana Takaful invested MVR 5,000,000 each with HDFC for one year with option to renew at a profit sharing ratio of 35% : 65% between HDFC and investor. This was rolled over for 2 years upon maturity in 2018. In October 2018 MVR 5,000,000 was invested by Amana Takaful with a maturity of two years. Further in February 2019 MVR 7,000,000 was invested by Amana Takaful with a maturity of two years.

During the year 2017, Bank of Maldives PLC has invested MVR 17,188,262 out of an approved investment amounting MVR 50,000,000 with profit target of 8% per annum. Upon maturity this has been rolled over for two more years in June 2019. Bank of Maldives PLC invested the balance undrawn Wakala facility of MVR 20,632,646 and MVR 12,179,092 in January 2019 and February 2019. This Wakala facility from BML Islamic can be rolled over for maximum tenor of 10 years from the the initial date of disbursement. The wakala facilities are denominated in Maldivian Rufiyaa.

In December 2018, Ayady Takaful invested MVR 16,000,000 with HDFC for two years with a profit sharing ratio of 70% - 30% respectively between the investor and HDFC. In May 2019, Amana Takaful Plc invested MVR 5,000,000 for two years with profit sharing ratio of 45% - 65%.

Pension benefit scheme fund

HDFC has signed an MOU with Maldives Pension Administrative Office (MPAO) to establish a general working arrangement between MPAO and HDFC to facilitate the collateralization of accumulated Retirement Saving Account (RSA) for the purpose of paying the down payment in obtaining home finance for the members of MRPS. Under this scheme, eligible applicants will be able to collateralize the accumulated savings in RSA as down payment for home finance (end user). The amount that can be collateralized (hereafter referred as “collateralized amount”) as down payment will be determined by MPAO and disbursed to HDFC. The determination of the eligibility for home finance and acceptability of collateralized amount will be made and decided by HDFC. Accrued interest at 4.9% per annum is payable to MPAO semi-annually. Also, the amount received from MPAO will be repaid over the tenure of the individual loans to the end user semi-annually.

State Bank of India (SBI)

HDFC has obtained a loan of MVR 150,000,000 per the agreement dated 5 October 2017 from SBI for the purpose of providing mortgage housing loans. The loan carries an interest at a rate of 8% per annum and repayable in 8 years on semi-annual basis. The SBI loan is secured by HDFC’s mortgage portfolio created out of proceeds of this facility. The borrowing is denominated in Maldivian Rufiyaa.

Notes to the financial statements continued

(all amounts are shown in Maldivian Rufiyaa unless otherwise stated)

26 Other liabilities

	2019	2018
Ministry of Housing and Infrastructure - GED Islamic fund	65,832,170	64,803,265
Ministry of Housing and Infrastructure - MHI Islamic fund	24,707,834	19,070,945
Ministry of Housing and Infrastructure - MHUD Conventional fund	39,243,507	34,315,111
Ministry of Housing and Infrastructure 704 - Conventional fund	103,648,827	59,011,843
Ministry of Housing and Infrastructure CMEC - Housing funds	4,997,251	-
Insurance premium payable	7,455,323	10,333,607
Amounts received from customers in advance	8,540,275	7,991,246
Accruals and other liabilities	1,948,976	1,189,971
Employees pension contribution	57,008	53,893
Advance for share capital	51,407,100	51,407,100
Dividends payable	43,828,304	39,843,879
	351,666,575	288,020,860

Ministry of Housing and Infrastructure - GED Islamic fund

In accordance with the agreement dated 16 February 2014, HDFC manages and administers loan schemes under which HDFC, as a custodian receives funds from the Ministry of Housing and Infrastructure (MHI). The purpose of the fund is to construct houses in islands under HDFC Amna's Islamic outreach program. The initial Islamic Housing Fund approved for this program was MVR 100,000,000 treated as a revolving grant for investment with a profit share of 65% to HDFC and 35% to the Islamic Housing Finance Scheme Fund. The fee income earned from the fund is included in Net income on shari'ah products.

Ministry of Housing and Infrastructure - MHI Islamic fund

(i) HDFC was appointed as the sole representative to act on behalf of the Ministry of Housing and Infrastructure in matters related to the scheme as a collecting agent. HDFC to use their best effort to obtain monthly instalments due under the Islamic financing facility and all records of collections should be maintained separately. The accumulated fund after deducting the agency fee shall be released to the Ministry upon receiving written request from the Ministry.

(ii) HDFC has started managing new housing loans / facilities during December 2017. HDFC was appointed as the sole representative to act on behalf MHI in matters related to the scheme as a collecting agent. HDFC to use their best effort to obtain monthly instalments due and all records of collections should be maintained separately. The accumulated fund after deducting the agency fee shall be released to the Ministry upon receiving written request from the Ministry. This scheme is for 25 years period.

Notes to the financial statements continued

(all amounts are shown in Maldivian Rufiyaa unless otherwise stated)

26 Other liabilities (continued)**Ministry of Housing and Infrastructure - MHUD Conventional fund**

Since 2008, HDFC manages and administers conventional loan scheme under which HDFC, as a custodian received funds from the Ministry of Housing and Urban Development (MHUD). HDFC receives a management fee of 1.75% per annum on the outstanding balance of the loan at the end of every month.

Ministry of Housing and Infrastructure - 704 - Conventional fund

HDFC was appointed as the sole representative to act on behalf of the Ministry of Housing and Infrastructure in matters related to the scheme as a collecting agent. HDFC to use their best effort to obtain monthly instalments due under the facility and all records of collections should be maintained separately. The accumulated fund after deducting the agency fee shall be released to the Ministry upon receiving written request from the Ministry.

Ministry of Housing and Infrastructure - CMEC - Conventional fund

HDFC was appointed as the sole representative to act on behalf of the Ministry of Housing and Infrastructure in matters related to the scheme as a collecting agent. HDFC to use their best effort to obtain monthly instalments due under the facility and all records of collections should be maintained separately. The accumulated fund after deducting the agency fee shall be released to the Ministry upon receiving written request from the Ministry.

27 Share capital

	Number of shares	Ordinary shares
At 31 December 2018	1,593,750	159,375,000
At 31 December 2019	<u>1,593,750</u>	<u>159,375,000</u>

The total authorized number of ordinary shares as at 31 December 2019 was 3,187,500 (2018: 3,187,500) with a par value of MVR 100 (2018: MVR 100) per share. As at 31 December 2019, 1,593,750 shares were issued, which were fully paid.

28 Reserves

	2019	2018
General reserve	15,000,000	15,000,000
Total reserves at end of the year	<u>15,000,000</u>	<u>15,000,000</u>

General reserve represents the amount set aside from HDFC's profits to meet future (known or unknown) obligations. The general reserve may not be used to declare dividends.

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29 Segment Analysis

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the Board of Directors, and for which discrete financial information is available.

(a) Description of products and services from which each reportable segment

HDFC is organised on the basis of two main business segments:

- ♦ Conventional financing service – representing conventional housing finance services;
- ♦ Islamic services – representing Amna house related scheme and sukuk and other shari'ah compliant services.

(b) Factors that management used to identify the reportable segments

HDFC's segments are strategic business units that focus on different customers. They are managed separately because each business unit requires different strategies and service level.

(c) Measurement of operating segment profit or loss, assets and liabilities

The Board of directors review financial information prepared based on the requirements of internal reporting. Such financial information differs in certain aspects from International Financial Reporting Standards:

- (i) funds are generally not allocated between segments;
- (ii) business profit taxes are not allocated to segments;
- (iii) loan provisions are recognised based on management judgement and availability of information, and based on the expected credit loss model prescribed in IFRS 9;
- (iv) commission income relating to lending is recognised immediately rather than deferred using the effective interest method; and

The board of directors evaluate the performance of each segment based on the net income before administrative expenses and tax.

(d) Information about reportable segment profit or loss, assets and liabilities

Segment information for the reportable segments as at 31 December 2019 and for the year ended 31 December 2019 is set out below:

<i>In thousands of MVR</i>	Conventional	Islamic	Unallocated	Total
Loans and advances	1,263,027	475,346	-	1,738,373
Cash and cash equivalents	84,236	113,816	-	198,052
Non-current assets	-	-	1,532	1,532
Financial assets at amortised cost	224,847	-	-	224,847
Right-of-use assets	-	-	9,839	9,839
Other assets	-	-	13,014	13,014
Total assets	1,572,110	589,161	24,385	2,185,657

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29 Segment Analysis (continued)

(d) Information about reportable segment profit or loss, assets and liabilities (continued)

<i>In thousands of MVR</i>	Conventional	Islamic	Unallocated	Total
Deposits from customers	62,641	26,044	-	88,684
Debt securities in issue	227,108	241,795	-	468,903
Other borrowed funds	512,008	180,369	-	692,378
Other liabilities	147,890	90,540	113,237	351,667
Lease liabilities	-	-	10,257	10,257
Current tax liabilities	-	-	10,726	10,726
Total liabilities	949,647	538,747	134,220	1,622,615
Capital expenditure	-	-	241	241

Capital expenditure represents additions to non-current assets other than financial instruments and deferred tax assets.

<i>In thousands of MVR</i>	Conventional	Islamic	Unallocated	Total
External revenues:				
- Interest / profit share	155,585	54,526	-	210,111
- Fee and commission income	3,103	2,032	-	5,136
- Other operating income	2,405	-	-	2,405
Total revenues	161,093	56,559	-	217,652
Interest expense / profit share	(53,645)	(22,601)	-	(76,245)
Credit impairment losses	(6,087)	(9,767)	-	(15,854)
Depreciation and amortisation	-	-	(1,482)	(1,482)
Administrative and other operating expenses	(15,006)	(1,444)	-	(16,450)
Business profit tax	-	-	(16,526)	(16,526)
Result	86,356	22,747	(18,008)	91,095

Segment information for the reportable segments as at 31 December 2018 and for the year ended 31 December 2018 is set out below:

<i>In thousands of MVR</i>	Conventional	Islamic	Unallocated	Total
Loans and advances	1,246,980	370,399	-	1,617,379
Cash and cash equivalents	44,097	47,556	-	91,653
Non-current assets	-	-	1,946	1,946
Financial assets held-to-maturity	29,976	-	-	29,976
Other assets	-	-	10,482	10,482
Total assets	1,321,053	417,955	12,428	1,751,436

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(all amounts are shown in Maldivian Rufiyaa unless otherwise stated)

29 Segment Analysis (continued)

(d) Information about reportable segment profit or loss, assets and liabilities (continued)

<i>In thousands of MVR</i>	(As at 31 December 2018)			
	Conventional	Islamic	Unallocated	Total
Deposits from customers	62,512	19,911	-	82,423
Debt securities in issue	104,760	114,220	-	218,980
Other borrowed funds	497,648	140,217	-	637,865
Other liabilities	93,327	83,874	110,820	288,021
Current tax liabilities	-	-	8,371	8,371
Total liabilities	758,247	358,222	119,191	1,235,660
Capital expenditure	-	-	1,036	1,036

Capital expenditure represents additions to non-current assets other than financial instruments and deferred tax assets.

<i>In thousands of MVR</i>	(For the year ended 31 December 2018)			
	Conventional	Islamic	Unallocated	Total
External revenues:				
- Interest / profit share	141,410	41,203	-	182,613
- Fee and commission income	5,014	2,525	-	7,539
- Other operating income	1,101	-	-	1,101
Total revenues	147,524	43,728	-	191,252
Interest expense / profit share	(46,302)	(18,644)	-	(64,945)
Provision for loan impairment	6,692	1,534	-	8,226
Depreciation and amortisation	-	-	(624)	(624)
Administrative and other operating expenses	(16,456)	(1,191)	-	(17,647)
Business profit tax	-	-	(17,267)	(17,267)
Result	91,458	25,427	(17,891)	98,995

30 Financial risk management

HDFC's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. HDFC's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on HDFC's financial performance.

Notes to the financial statements (continued)

(all amounts are shown in Maldivian Rufiyaa unless otherwise stated)

30 Financial risk management (continued)

HDFC's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. HDFC regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management is carried out by HDFC under policies approved by the Board of Directors. HDFC identifies and evaluates financial risks in close co-operation with the HDFC's operating unit. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as credit risk and liquidity risk. In addition, internal audit is responsible for the independent review of risk management and the control environment. The most important types of risk are credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk and interest rate risks.

30.1 Credit risk

HDFC takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for HDFC by failing to discharge an obligation. Credit risk is the most important risk for HDFC's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances. There is also credit risk in off-balance sheet financial instruments, such as loan commitments.

Credit policies were formulated covering HDFC's credit activities and establishment of individual limits of authority for initiating, reviewing and approving credit.

A credit Committee comprising the Managing Director, Operations Director, Head of Finance, Senior Manager Credit, Senior Manager Islamic Finance and Senior Manager IT meets regularly to discuss credit proposals in line with credit policies. The credit Committee also reviews non-performing assets, documentation and other credit related issues.

30.1.1 Credit risk measurement

Loans and advances (including loan commitments)

The estimation of credit exposure for risk management purpose is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. HDFC measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is similar to the approach used for purposes of measuring Expected Credit Loss (ECL) under IFRS 9.

30.1.2 Expected credit loss measurement

IFRS 9 outlines a 'three-stage' model for impairment based on change in credit quality since initial recognition as summarised below:

Notes to the financial statements (continued)

(all amounts are shown in Maldivian Rufiyaa unless otherwise stated)

30.1 Credit risk (continued)

30.1.2 Expected credit loss measurement (continued)

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by HDFC.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. Please refer to note 30.1.2.1 for a description of how HDFC determines when a significant increase in credit risk has occurred.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Please refer to note 30.1.2.2 description of how HDFC defines credit-impaired and default.
- Financial instruments in stage 1 have their ECL measured at an amount equal to the proportion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stage 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer to note 30.1.2.3 for a description of inputs, assumptions and estimation techniques used in measuring the ECL.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information. Note 30.1.2.4 includes an explanation of how HDFC has incorporated this in its ECL models.

Further explanation is also provided of how HDFC determines appropriate grouping when ECL is measured on a collective basis (refer note 30.1.2.5).

The following diagram summarises the impairment requirements under IFRS 9:

Change in credit quality since initial recognition		
Stage 1	Stage 2	Stage 3
(Initial recognition)	(Significant increase in credit risk since the initial recognition)	(credit impaired assets)
12 months expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

The key judgements and assumptions adopted by HDFC in addressing the requirements of the standard are discussed below:

30.1.2.1 Significant increase in credit risk

HDFC considers loans and receivables have experienced significant increase in credit risk when the arrears are past due for more than 30 days.

30.1.2.2 Definition of default and credit-impaired assets

HDFC defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired when the borrower is more than 120 days past due states on its contractual payments.

Notes to the financial statements (continued)

(all amounts are shown in Maldivian Rufiyaa unless otherwise stated)

30.1 Credit risk (continued)

30.1.2.2 Definition of default and credit-impaired assets (continued)

The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) throughout HDFC's expected loss calculations.

90 days default presumption is rebutted considering historical behaviour. Over 120 days is taken as default considering significant number of facilities that were over 120 days remained in over 120 days bucket. This rebuttal will be monitored and reviewed by credit department on an annual basis to ensure it is appropriate.

30.1.2.3 Measuring the ECL - Explanation of inputs, assumptions and estimation techniques

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or lifetime basis depending on whether a significant increase in credit risk has occurred since the initial recognition on whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default(PD), Exposure at Default(EAD), and Loss Given Default(LGD), defined as follows:

The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12 MN PD), or over the remaining lifetime (Life time PD) of the obligation. PIT PD (Point-in-time Probability of Default) is calculated using duration or hazard rate approach (Makov chain approach) and TTC PD (Through-the-Cycle Probability of Default) is derived from average empirical matrix from 2012 to 2019.

EAD is based on the amounts HDFC expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, HDFC includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.

LGDs are determined based on the factors which impact the recoveries made post default. Historical LGD is used for facilities outside Male'. Since there were no adequate history of default in Male' facilities, LGD is computed based on the projected collateral values, historical discounts to market/ book values to forced sales, time to repossession and recovery cost observed. When arriving the present value of cash flows after default, HDFC applies 50% and 75% haircut to the market value of the collateral to estimate force sale values for the facilities less than 12 months in arrears and 24 months in arrears respectively. Force sales values are then deducted from EAD to arrive LGD.

Notes to the financial statements (continued)

(all amounts are shown in Maldivian Rufiyaa unless otherwise stated)

30.1 Credit risk (continued)**30.1.2.3 Measuring the ECL - Explanation of inputs, assumptions and estimation techniques (continued)**

The ECL is determined by projecting the PD, LGD and EAD for each future year and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future year, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets. This is supported by historical analysis.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by the product type. For amortising loans, this is based on the contractual repayments owed by the borrower over a 12 month or lifetime basis. For the loan commitments, the EAD is predicted by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default.

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. Refer note 30.1.2.4 for an explanation of forward-looking information and its inclusion in ECL calculations.

30.1.2.4 Forward looking information incorporated in ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. HDFC has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for the loan portfolio.

Forecasts of these economic variables (the "base economic scenario") are obtained by HDFC from IMF and trading economic.com as of 14 January 2020. GDP growth forecasts for 2020 have been adjusted for changes expected from Covid-19 pandemic based on the expectation of the Government of Maldives and the views of Board of Directors of HDFC. Economic variable assumptions and sensitivity analysis showing the impact on ECL with a change in GDP growth by +/- 1% is set out in the following paragraphs. The impact of these economic variables on the PD has been determined by performing statistical regression analysis to macro economic variable with credit index. Estimated credit indexes are determined by plugging forecasted macro economic variables in the factor model developed in the regression analysis. Forecasted PDs are computed by shifting Through the Cycle (TTC) matrix using estimated credit index.

The economic variable assumptions used for the ECL estimate as at 31 December 2019 are set out below:

	2020	2021	2022	2023	2024
GDP	-0.5%	5.5%	5.5%	5.5%	5.5%

Notes to the financial statements (continued)

(all amounts are shown in Maldivian Rufiyaa unless otherwise stated)

30.1 Credit risk (continued)

30.1.2.4 Forward looking information incorporated in ECL models (continued)

Sensitivity analysis

Set out below are the changes to the ECL as at 31 December 2019 that would result from reasonably possible changes in the parameter from the actual assumption used in HDFC's economic variable assumption.

	GDP growth		
	-1%	No change	+1%
	MVR	MVR	MVR
Loss allowance as at 31 December 2019	46,529,494	43,266,505	40,263,425

30.1.2.5 Grouping of instruments for losses measured on a collective basis

For expected credit losses provision modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within the group are homogeneous. Both conventional and Amna assets are pooled together as primarily the products are same and considering the size of portfolio.

30.1.3 Loss allowance

The loss allowance recognised in the period is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent “step up” (or “step down”) between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

The following table explain the changes in the loss allowance between the beginning and end of the annual period due to these factors:

HOUSING DEVELOPMENT FINANCE CORPORATION PLC**31 December 2019****Notes to the financial statements (continued)**

(all amounts are shown in Maldivian Rufiyaa unless otherwise stated)

30.1 Credit risk (continued)**30.1.3 Loss allowance (continued)**

Loans and advances	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Life time ECL	Life time ECL	
Loss allowance as at 1 January 2019	4,352,288	8,115,849	13,741,754	26,209,891
Transfer from Stage 1 to Stage 2	(150,716)	5,582,682	-	5,431,966
Transfer from Stage 1 to Stage 3	(6,444)	-	156,778	150,334
Transfer from Stage 2 to Stage 1	519,455	(1,980,308)	-	(1,460,853)
Transfer from Stage 3 to Stage 1	71,810	-	(1,869,557)	(1,797,746)
New financial assets originated	1,756,265	-	-	1,756,265
Transfers from stage 2 to stage 3	-	(1,339,155)	2,352,571	1,013,416
Transfer from stage 3 to stage 2	-	1,162,072	(1,620,913)	(458,842)
Financial assets settled during the year	(80,556)	(5,257)	(107,225)	(193,037)
Unrecognised interest on stage 3 assets	-	-	1,202,684	1,202,684
Other movements	8,272,991	1,217,346	1,922,090	11,412,427
Loss allowance at 31 December 2019	14,735,094	12,753,229	15,778,182	43,266,505

The unwind of interest on Stage 3 financial assets is reported within 'Interest income' so that interest income recognised on the amortised cost (after deducting the ECL allowance).

Loans which moved from Stage 2 to Stage 3 during the period have contributed to increase in the loss allowance.

The following table further explains changes in the gross carrying amount of the mortgage portfolio to help explain their significance to the changes in the loss allowance for the same portfolio as discussed above:

HOUSING DEVELOPMENT FINANCE CORPORATION PLC**31 December 2019****Notes to the financial statements (continued)**

(all amounts are shown in Maldivian Rufiyaa unless otherwise stated)

30.1 Credit risk (continued)**30.1.3 Loss allowance (continued)**

Loans and advances	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Life time ECL	Life time ECL	
Gross carrying amount as at 1 January 2019	1,469,141,143	125,871,020	48,576,424	1,643,588,587
<i>Transfers:</i>				
Transfer from Stage 1 to Stage 2	(49,876,701)	58,639,919	-	8,763,218
Transfer from Stage 1 to Stage 3	(850,142)	-	842,918	(7,224)
Transfer from Stage 2 to Stage 3	-	(8,403,096)	8,332,938	(70,158)
Transfer from Stage 3 to Stage 2	-	7,922,240	(8,423,513)	(501,273)
Transfer from Stage 2 to Stage 1	33,325,847	(36,958,619)	-	(3,632,771)
Transfer from Stage 3 to Stage 1	2,375,353	-	(3,517,654)	(1,142,301)
Financial assets settled during the year	(26,863,168)	(1,571,612)	(744,839)	(29,179,619)
New financial assets originated	108,416,609	-	-	108,416,609
Other movements	57,958,342	(2,775,916)	222,458	55,404,883
Gross carrying amount as at 31 December 2019	1,593,627,284	142,723,937	45,288,732	1,781,639,953

HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2019

Notes to the financial statements (continued)

(all amounts are shown in Maldivian Rufiyaa unless otherwise stated)

30.1 Credit risk (continued)

30.1.3 Loss allowance (continued)

Loans and advances	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Life time ECL	Life time ECL	
Loss allowance as at 1 January 2018	5,628,528	15,134,481	13,673,160	34,436,169
Transfers:				
Transfer from Stage 1 to Stage 2	(131,658)	1,019,128	-	887,470
Transfer from Stage 1 to Stage 3	(13,833)	-	485,038	471,205
Transfer from Stage 2 to Stage 1	432,292	(6,374,130)	-	(5,941,838)
Transfer from Stage 3 to Stage 1	42,549	-	(1,406,896)	(1,364,347)
New financial assets originated	266,562	22,957	-	289,519
Transfers:				
Transfers from stage 2 to stage 3	-	(1,761,006)	4,422,969	2,661,963
Transfer from stage 3 to stage 2	-	1,223,473	(3,665,565)	(2,442,092)
Financial assets settled during the year	(11,695)	(166,271)	(7,259)	(185,225)
Other movements	(1,860,457)	(982,783)	240,307	(2,602,933)
Loss allowance at 31 December 2018	4,352,288	8,115,849	13,741,754	26,209,891

The unwind of interest on Stage 3 financial assets is reported within 'Interest income' so that interest income recognised on the amortised cost (after deducting the ECL allowance).

Significant changes in gross carrying amount of financial assets that contributed to changes in the loss allowance were as follows:

Although the high volume of new mortgages loans originated during the period increased the gross carrying amount of the mortgage book by 14%, there were reductions in stage 2 and stage 3 assets by 33.3% with a corresponding decrease in loss allowance amounting to MVR 8,226,278.

The following table further explains changes in the gross carrying amount of the mortgage portfolio to help explain their significance to the changes in the loss allowance for the same portfolio as discussed above:

HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2019

Notes to the financial statements (continued)

(all amounts are shown in Maldivian Rufiyaa unless otherwise stated)

30.1 Credit risk (continued)

30.1.3 Loss allowance (continued)

Loans and advances	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Life time ECL	Life time ECL	
Gross carrying amount as at 1 January 2018	1,177,459,575	203,641,030	57,996,262	1,439,096,867
<i>Transfers:</i>				
Transfer from Stage 1 to Stage 2	(17,855,063)	17,244,457	-	(610,606)
Transfer from Stage 1 to Stage 3	(1,066,662)	-	1,121,699	55,037
Transfer from Stage 2 to Stage 3	-	(18,055,179)	18,372,293	317,114
Transfer from Stage 3 to Stage 2	-	20,779,728	(22,191,796)	(1,412,068)
Transfer from Stage 2 to Stage 1	86,885,849	(90,843,561)	-	(3,957,712)
Transfer from Stage 3 to Stage 1	3,472,002	-	(3,836,120)	(364,118)
Financial assets settled during the year	(23,005,747)	(4,390,189)	(1,551,986)	(28,947,922)
New financial assets originated	237,933,703	173,117	-	238,106,820
Other movements	5,317,486	(2,678,383)	(1,333,928)	1,305,175
Gross carrying amount as at 31 December 2018	1,469,141,143	125,871,020	48,576,424	1,643,588,587

30.1.4 Write-off policy

HDFC writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the HDFC's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

30.1.5 Modification of financial assets

HDFC sometimes modifies the terms of loans provided to customers due to commercial renegotiations with a view to maximising recovery.

Notes to the financial statements (continued)

(all amounts are shown in Maldivian Rufiyaa unless otherwise stated)

30.1.5 Modification of financial assets (continued)

Such restructuring activities include extended payment term arrangements, payment holidays and payment forgiveness. Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. HDFC monitors the subsequent performance of modified assets. HDFC may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL). There was no modification during the year.

30.1.6 Risk limit control and mitigation policies

HDFC manages, limits and controls concentrations of credit risk wherever they are identified in particular, to individual counterparties and groups, and to corporates. HDFC structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to corporates. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.

Some other specific control and mitigation measures are outlined below.

(a) Collateral

HDFC employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for the housing loans, which is a common practice. HDFC implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for housing loans are mortgage over housing unit that is financed by HDFC.

HDFC's policy is to sell the repossessed assets at the earliest possible opportunity and the HDFC's policies regarding obtaining collateral have not significantly changed during the reporting period. There has been no significant change in the overall quality of the collateral held by HDFC since the prior period.

HDFC closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that HDFC will take possession of collateral to mitigate potential credit losses.

HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2019

Notes to the financial statements (continued)

(all amounts are shown in Maldivian Rufiyaa unless otherwise stated)

30.1.6 Risk limit control and mitigation policies (continued)

Collateral information

As of 31 December 2019	Customer loans	Staff loans	Amna assets	Total
Loans collateralised by:				
- house property	1,278,033,104	5,761,103	497,845,746	1,781,639,953
Total loans and advances	1,278,033,104	5,761,103	497,845,746	1,781,639,953
As of 31 December 2018	Customer loans	Staff loans	Amna assets	Total
Loans collateralised by:				
- house property	1,252,647,891	6,613,752	384,326,944	1,643,588,587
Total loans and advances	1,252,647,891	6,613,752	384,326,944	1,643,588,587

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset (over-collateralised assets) and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset (“under-collateralised assets”). The effect of collateral is as follows:

As of 31 December 2019	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Customer loans	1,278,033,104	3,814,057,909	-	-
Staff loans	5,761,103	15,622,914	-	-
Amna assets	497,845,746	1,240,072,906		
Total loans and advances	1,781,639,953	5,069,753,729	-	-
As of 31 December 2018	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Customer loans	1,252,647,891	3,838,618,519	-	-
Staff loans	6,613,752	17,486,292	-	-
Amna assets	384,326,944	1,063,706,371		
Total loans and advances	1,643,588,587	4,919,811,182	-	-

Notes to the financial statements (continued)

(all amounts are shown in Maldivian Rufiyaa unless otherwise stated)

30.1.6 Risk limit control and mitigation policies (continued)

(b) Credit-related commitments

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans. With respect to credit risk on commitments to extend credit, HDFC is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is negligible than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards and since generally these exposures are secured against adequate collateral. HDFC monitors the term to maturity of credit commitments.

30.1.7 Impairment and provisioning policies

Impairment provisions are recognised for financial reporting purposes based on expected credit losses calculated based on historical default rates and forward looking information.

30.1.8 Maximum exposure to credit risk before collateral held or other credit enhancements

Maximum exposure before collateral equals to the net carrying value of all the assets in the Statement of financial position except cash and bank balances representing a worse case scenario of credit risk exposure to HDFC at 31 December 2019 and 31 December 2018, without taking account of any collateral held.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the HDFC resulting from its loan portfolio and based on the following:

- All the housing loans are backed by collateral.
- 89.10% of the loans and advances portfolio are considered to be neither past due nor impaired (31 December 2018: 89.31 %);

30.1.9 Concentration of risks of financial assets with credit risk exposure

(a) Geographical sectors

HDFC's lending activities are limited to Maldives.

(b) Sectors

The following table breaks down HDFC's main credit exposure at their carrying amounts, as categorised by the sectors of our counterparties.

	2019	2018
Residential - Conventional	1,281,057,773	1,256,098,708
Residential - Islamic	497,845,746	384,326,943
Commercial	2,736,434	3,162,936
Grand total	1,781,639,953	1,643,588,587

Notes to the financial statements (continued)

(all amounts are shown in Maldivian Rufiyaa unless otherwise stated)

30.2 Market risk

HDFC takes on exposure to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate and currency, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads and foreign exchange rates.

Non-trading portfolios primarily arise from the interest rate management of HDFC's housing and cost of funds. The market risks arising from non-trading activities are concentrated in HDFC's Assets and Liabilities Management Committee (ALCO).

30.2.1 Foreign exchange risk

All the transactions except transactions carried out in local currency, Maldivian Rufiyaa (MVR), are carried out mainly in United States Dollars (US\$) for which exchange rate was pegged. However, with effect from 10 April 2011, the government declared a managed float of the currency within a 20% band (1 US\$ = MVR 10.28 to MVR 15.42). The Corporation takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The management has set up a policy to manage their foreign exchange risk against their functional currency, by entering into currency SWAP.

HDFC has borrowed from Netherlands Development Finance Company (FMO) and from Deutsche Investitions und Entwicklungs Gesellschaft MBH (DEG) in US\$. The proceeds from these were sold to State Trading Organisation PLC (STO) for equivalent Rufiyaa at 1 US\$ = MVR 15.42. HDFC has entered into two SWAP agreements with STO by which STO will sell equal amount of US\$ to honour the US\$ requirement of HDFC at the rate of 1 US\$ = MVR 15.42.

By virtue of the SWAP agreements, HDFC will be able to service the US\$ loans obtained from DEG. As at the reporting date, the outstanding balance in this borrowing amounts to US\$ 5,369,323 (2018: US\$ 8,296,367), against which the amounts of US\$ to be purchased from STO PLC is US\$ 5,352,940 (2018: US\$ 8,218,891).

The table below summarises HDFC's exposure to foreign currency exchange rate risk at the end of the reporting period.

	(Amount in USD)	
	2019	2018
Assets		
Cash and balances with other banks	289,281	97,915
Total assets	<u>289,281</u>	<u>97,915</u>
Liabilities		
Borrowings	(5,369,323)	(8,296,367)
Total liabilities	<u>(5,369,323)</u>	<u>(8,296,367)</u>
Net on-balance sheet financial position	(5,080,042)	(8,198,452)
Currency SWAP	5,352,940	8,218,891
Net	<u>272,898</u>	<u>20,439</u>

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30.2.1 Foreign exchange risk (continued)

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency of HDFC, with all other variables held constant.

<i>Amounts in MVR</i>	As at 31 December 2019		As at 31 December 2018	
	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
US Dollar strengthening by 10%	27,290	-	1,726	-
US Dollar weakening by 10%	(27,290)	-	(1,726)	-

30.2.2 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. HDFC takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on cash flow risks. Interest margins may increase / decrease as a result of such changes but may reduce losses in the event that unexpected movements arise.

The extent of the interest rate risk depends on the value and period of the maturity mismatch between interest bearing assets and liabilities and the ability and speed of HDFC in re-pricing them. ALCO regularly reviews these gaps to ensure that they are within acceptable norms. HDFC regularly monitors the market behaviour and products are appropriately re-priced when necessary.

HDFC does not carry a trading portfolio or does not generally invest in stocks or shares other than Government treasury bills, for which investments are generally less than 3 months and hold to collect. Therefore HDFC is not open to any price fluctuation risks.

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30.2.2 Interest rate risk (continued)

The table below summarises HDFC's exposure to interest rate risks. It includes HDFC's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

As at 31 December 2019	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non- interest bearing	Total
(in MVR '000)							
Assets							
Cash and balances with banks	-	70,056	-	-	-	127,995	198,051
Financial assets at amortised cost	194,806	-	30,041	-	-	-	224,847
Loans and advances	3,634	7,374	34,986	247,194	1,445,185	-	1,738,373
Other assets	-	-	-	-	-	2,153	2,153
Total financial assets	198,440	77,430	65,027	247,194	1,445,185	130,148	2,163,424
Liabilities							
Deposits from customers	-	-	-	-	82,695	5,990	88,684
Debt securities in issue	3,262	20,000	21,689	124,890	299,062	-	468,903
Other borrowed funds	6,317	33,223	170,426	395,736	86,677	-	692,379
Other liabilities	-	-	-	-	-	351,667	351,667
Lease liabilities	60	96	449	3,425	6,227	-	10,257
Total financial liabilities	9,639	53,319	192,564	524,051	474,661	357,656	1,611,890
Total interest repricing gap	188,801	24,111	(127,537)	(276,857)	970,524	(227,508)	551,535

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30.2.2 Interest rate risk (continued)

As at 31 December 2018	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non- interest bearing	Total
(in MVR '000)							
Assets							
Cash and balances with banks	44,088	15,000	-	-	-	32,566	91,654
Financial assets at amortised cost	-	29,976	-	-	-	-	29,976
Loans and advances	13,455	30,359	166,764	398,410	1,008,390	-	1,617,378
Other assets	-	-	-	-	-	2,002	2,002
Total financial assets	57,543	75,335	166,764	398,410	1,008,390	34,568	1,741,010
Liabilities							
Deposits from customers	-	-	-	-	74,061	8,362	82,423
Debt securities in issue	2,618	1,248	5,000	20,000	190,114	-	218,980
Other borrowed funds	1,250	19,470	149,320	436,075	31,750	-	637,865
Other liabilities	-	-	-	-	-	288,021	288,021
Current tax liabilities	-	-	-	-	-	8,371	8,371
Total financial liabilities	3,868	20,718	154,320	456,075	295,925	304,754	1,235,660
Total interest repricing gap	53,675	54,617	12,444	(57,665)	712,465	(270,186)	505,350

Additionally, HDFC is confident that it has sufficient interest margins to absorb any adverse impacts due to interest fluctuations on any unmatched positions. Further HDFC has the option of changing the interest offered to customers per the sanction letters issued to the customers.

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30.2.2 Interest rate risk (continued)

Exposure to Interest rate risk - Loans and advances

Sensitivity analysis of net interest income

(in MVR '000)

	As at 31 December 2019		As at 31 December 2018	
	1% increase	1% decrease	1% increase	1% decrease
Average for the year	7,790	(7,790)	7,755	(7,755)

30.3 Liquidity risk

Liquidity risk is the risk that HDFC is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

30.3.1 Liquidity risk management process

HDFC's liquidity management process, as carried out within HDFC and monitored by the senior management in HDFC, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers;
- Maintaining a portfolio of deposits with bank and treasury bills that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring balance sheet liquidity ratios against internal requirements; and
- Managing the concentration and profile of debt maturities.

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30.3.1 Liquidity risk management process (continued)

Monitoring and reporting take the form of cash flow measurement and projections for the next week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

HDFC also monitors unmatched medium-term assets, the level and type of undrawn lending commitments and undrawn borrowings.

30.3.2 Funding approach

Sources of liquidity are regularly reviewed by the ALCO.

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30.3.3 Contractual maturities of undiscounted cash flows of financial assets and financial liabilities

The table below presents the cash flows payable by HDFC under non-derivative financial liabilities by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas HDFC manages the inherent liquidity risk based on expected undiscounted cash inflows.

As at 31 December 2019	Upto 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total	Carrying amount
(in MVR '000)							
Liabilities							
Deposits	91	182	6,809	4,369	85,971	97,422	88,684
Debt securities in issue	4,890	24,468	44,835	253,042	452,306	779,541	468,903
Other borrowed funds	9,738	38,452	197,914	482,643	165,613	894,360	692,378
Other liabilities	-	-	61,830	-	289,837	351,667	351,667
Lease liabilities	120	240	2,160	6,219	6,171	14,910	10,257
Total liabilities	14,839	63,342	313,548	746,273	999,898	2,137,900	1,611,888
Assets							
Cash and balances with banks	127,995	70,056	-	-	-	198,051	198,052
Financial assets at amortised cost	194,806	-	30,041	-	-	224,847	224,847
Loans and advances	20,352	61,055	162,814	976,883	2,462,559	3,683,663	1,738,373
Other assets	-	-	1,147	1,006	-	2,153	2,153
Total assets	343,153	131,111	194,002	977,889	2,462,559	4,108,714	2,163,425
Net	328,314	67,769	(119,546)	231,616	1,462,661	1,970,814	551,537

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30.3.3 Contractual maturities of undiscounted cash flows of financial assets and financial liabilities (continued)

As at 31 December 2018	Upto 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total	Carrying amount
(in MVR '000)							
Liabilities							
Deposits	-	-	8,362	-	74,061	82,423	82,423
Debt securities in issue	2,756	1,475	14,307	78,696	256,727	353,961	218,979
Other borrowed funds	4,468	23,337	173,670	490,699	34,142	726,316	637,866
Other liabilities	-	-	59,413	-	228,608	288,021	288,021
Total liabilities	7,224	24,812	255,752	569,395	593,538	1,450,721	1,227,289
Assets							
Cash and balances with banks	76,654	15,000	-	-	-	91,654	91,654
Financial assets at amortised cost	-	29,976	-	-	-	29,976	29,976
Loans and advances	28,839	61,027	303,097	1,069,349	1,919,623	3,381,935	1,617,378
Other assets	80	147	1,554	5,575	-	7,356	7,356
Total assets	105,573	106,150	304,651	1,074,924	1,919,623	3,510,921	1,746,364
Net	98,349	81,338	48,899	505,529	1,326,085	2,060,200	519,075

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, deposits with banks, financial asset at amortised cost and housing loan repayment from customers. HDFC would also be able to meet unexpected net cash outflows by discounting treasury bills, other investments and utilizing the undrawn borrowing facilities.

Notes to the financial statements (continued)

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30.4 Capital management

HDFC's objectives when managing capital, which is a broader concept than the 'equity' on the face of statement of financial position, are:

- To comply with the capital requirements set by the lenders;
- To safeguard HDFC's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by HDFC's management, employing techniques based on the guidelines developed by the Basel I Committee, for supervisory purposes.

Netherlands Development Finance Company and Deutsche Investitions und Entwicklungs Gesellschaft MBH require HDFC to maintain a ratio of total capital to the risk-weighted asset (the 'Basel ratio') at or above 12%.

HDFC's capital as managed by its management comprises of share capital, retained earnings and reserves created by appropriations of retained earnings and current year earnings.

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarises the composition of capital and the ratios of HDFC as at 31 December 2019 and 31 December 2018. HDFC complied with all of the externally imposed capital requirements to which they are subjected.

Capital	2019	2018
Share capital	159,375,000	159,375,000
Retained earnings	388,667,400	341,400,374
Reserves	15,000,000	15,000,000
Total qualifying Capital	563,042,400	515,775,374
Total capital	563,042,400	515,775,374
Risk-weighted assets		
On-balance sheet	939,155,236	849,425,314
Total risk-weighted assets	939,155,236	849,425,314
Basel ratio	60%	61%

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Notes to the financial statements (continued)

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30.4 Capital management (continued)

Risk-weighted assets	2019	
	Unweighted value	Weighted Value
Cash	6,500	-
Balances with other banks	127,988,993	25,597,799
Short term investments with MIB	70,056,016	14,011,203
Financial Assets at amortised cost	224,846,517	-
Loans and advances	1,781,639,953	890,819,977
Prepayments and Deposits	7,193,895	7,193,895
Property, plant and equipment and Intangible assets	1,532,363	1,532,361
	<u>2,213,264,237</u>	<u>939,155,235</u>

The changes in the regulatory capital was mainly due to the profit earned during the year ended 31 December 2019. The increase in risk-weighted assets reflects the expansion of the loan portfolio during year.

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31 Analysis of financial instruments by measurement basis

As at 31 December 2019	Amortised cost	Total
Financial assets		
Cash and cash equivalents	198,051,509	198,051,509
Financial assets at amortised cost	224,846,517	224,846,517
Loans and advances	1,738,373,448	1,738,373,448
Total assets	2,161,271,474	2,161,271,474
	Amortised cost	Total
Financial liabilities		
Debt securities in issue	468,902,701	468,902,701
Other borrowed funds	692,377,506	692,377,506
Deposits from customers	88,684,184	88,684,184
Other liabilities	351,666,575	351,666,575
Total liabilities	1,601,630,966	1,601,630,966
	Amortised cost	Total
As at 31 December 2018		
Financial assets		
Cash and cash equivalents	91,653,575	91,653,575
Financial assets at amortised cost	29,976,096	29,976,096
Loans and advances	1,617,378,696	1,617,378,696
Total assets	1,739,008,367	1,739,008,367
	Other liabilities	Total
Financial liabilities		
Debt securities in issue	218,979,337	218,979,337
Other borrowed funds	637,865,650	637,865,650
Deposits from customers	82,423,308	82,423,308
Other liabilities	288,020,860	288,020,860
Total liabilities	1,227,289,155	1,227,289,155

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32 Fair value of financial instruments

The fair value of financial assets and liabilities, together with the carrying amount shown in the statement of financial position, are as follows:

	As at 31 December 2019		As at 31 December 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets carried at amortised cost				
Cash and cash equivalents	198,051,509	198,051,509	91,653,575	91,653,575
Financial asset at amortised cost	224,846,517	224,846,517	29,976,096	29,976,096
Loans and advances to customers	1,738,373,448	1,738,373,448	1,617,378,696	1,617,378,696
	<u>2,161,271,474</u>	<u>2,161,271,474</u>	<u>1,739,008,367</u>	<u>1,739,008,367</u>
Liabilities carried at amortised cost				
Deposits from customers	88,684,184	88,684,184	82,423,308	82,423,308
Debt securities in issue	468,902,701	468,902,701	218,979,337	218,979,337
Other borrowed funds	692,377,506	692,377,506	637,865,650	637,865,650
	<u>1,249,964,391</u>	<u>1,249,964,391</u>	<u>939,268,295</u>	<u>939,268,295</u>

Assets for which fair value approximates carrying value

Cash and cash equivalents : HDFC's cash and cash equivalents includes cash on hand and deposits in banks. Due to their short-term nature, the carrying amount reported in the financial statements approximate the fair value of the cash and cash equivalents.

Financial asset at amortised cost: HDFC's financial assets at amortised cost include government treasury bills and short term investments with banks. Due to their short-term nature, the carrying amount reported in the financial statements approximate the fair value of the financial assets at amortised cost.

Loans and advances to customers, Deposits from customer, Debt securities in issue and other borrowed funds : carries interest at market rate. Therefore non derivative cash flows arising out of principal repayment and interest if discounted by the respective interest rate the fair value will be approximate to the carrying amount.

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33 Contingencies

(a) Contingent liabilities

There were no material contingent liabilities recognized at the reporting date.

(b) Contingent assets

There were no material contingent assets recognized at the reporting date.

34 Commitments

(a) Capital commitments

There were no material capital commitments as at the reporting date.

(b) Loan commitments

	As at 31 December 2019	As at 31 December 2018
Undisbursed loans and other facilities	123,209,897	265,061,285

(c) Non cancellable operating lease

HDFC leases offices and warehouses under noncancellable operating leases expiring within five years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

From 1 January 2019, HDFC has recognised right-of-use assets for these leases, except for short term and low-value leases, see note 2.2 and note 20 for further information.

Commitments for minimum lease payments in relation to noncancellable operating leases are payable as follows:

	As at 31 December 2019	As at 31 December 2018
Within one year	-	1,032,000
Later than one year but not later than five years	-	3,683,000
	-	4,715,000

Rental expense relating to operating leases

	2019	2018
Minimum lease payments	-	1,032,000
Total rental expense relating to operating leases	-	1,032,000

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35 Related party transactions

HDFC carries out transactions in the ordinary course of business with parties who are defined as "Related Parties" on IAS 24 - Related party disclosures.

Key management compensation

	2019	2018
Executive management salaries	3,124,003	2,543,594

36 Events after the reporting period

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and has spread across the globe and Maldives, causing disruptions to businesses and economic activity. HDFC considers this outbreak to be a non-adjusting post balance sheet event. As the situation is fluid and rapidly evolving, we do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Corporation.