

**HOUSING DEVELOPMENT FINANCE CORPORATION PLC
(INCORPORATED IN THE REPUBLIC OF MALDIVES)**

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31ST DECEMBER 2021**

**HOUSING DEVELOPMENT FINANCE CORPORATION PLC
(INCORPORATED IN THE REPUBLIC OF MALDIVES)
STATEMENT OF COMPREHENSIVE INCOME**

FOR THE YEAR ENDED 31ST DECEMBER 2021

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**Independent Auditors' Report
 To the Shareholders of Housing Development Finance Corporation PLC**

Opinion

We have audited the accompanying financial statements of Housing Development Finance Corporation PLC ("the Company"), which comprise the statement of financial position as at 31st December 2021, the statements of comprehensive income, changes in equity and cash flows for the period then ended and notes to the financial statements, comprising a summary of significant accounting policies and other explanatory information set out in pages 5 to 67.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31st December 2021 and of its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards ("IFRSs").

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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards), ("IESBA Code") and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

1. Impairment of Receivables from Financing Activities - Financial Instruments

(Refer to the accounting policies and critical accounting estimates, assumptions and judgments in note 3.2.4 of the financial statements)

Risk Description	Our Response
<p>IFRS 9 Financial Instruments requires impairment based on expected credit losses ("ECL").</p> <p>High degree of complexity and judgement are involved in estimating expected credit loss of MVR 51,725,693/- against the receivables from financing activities as at the reporting date.</p>	<p>We performed audit procedures to gain assurance on the process of estimating the impairment allowance on receivables from financing activities. This included evaluating the accounting interpretations for compliance with IFRS 9 and testing the adjustments and disclosures.</p>



Independent Auditors' Report (Continued)
To the Shareholders of Housing Development Finance Corporation PLC

Key Audit Matters (Continued)

1. Impairment of Receivables from Financing Activities - Financial Instruments (Continued)

Risk Description	Our Response
<p>Allowance for expected credit losses is a key audit matter due to the significance of the receivable to the financial statement and the inherent complexity of the Company's ECL model used to measure ECL allowances.</p> <p>Key judgements and estimates in respect of the timing and measurement of ECL include;</p> <ul style="list-style-type: none"> - Judgments over the grouping of loans and advances based on the similar risk characteristics. - Allocation of assets to stage 1, 2, or 3 using criteria in accordance with the accounting standard; - Accounting interpretations and modelling assumptions used to build the models that calculate the ECL; - Completeness and accuracy of data used to calculate the ECL; - Inputs and assumptions used to estimate the impact of multiple economic scenarios; - Completeness and valuation of post model adjustments; - Measurements of individually assessed provisions including the assessment of multiple scenarios; and - Accuracy and adequacy of the financial statement disclosures. 	<ul style="list-style-type: none"> - Assessing the design, implementation and operating effectiveness of key controls over impairment provision of loans and advances. - Evaluating the management process over identifications contracts to be assessed, evaluation of the inputs, assumptions and adjustments to the ECL. - Challenging the criteria used to allocate an asset to stage 1, 2 or 3 in accordance with IFRS 9; this includes peer benchmarking to assess staging levels. Testing loans and advances in stage 1, 2 and 3 to verify that they were allocated to the appropriate stage. - Challenging the key assumptions, evaluating the reasonableness of the key judgments and estimates used by the management with the assistance of own IFRS 9 specialists. This includes assessing the appropriateness of model design, formulas used, recalculating the Probability of Default, Loss Given Default and Exposure at Default for a sample of models. - Assessing the completeness, accuracy and relevance of data used for the ECL calculation. - Assessing the completeness and appropriateness of the assessment of required post model adjustments. - Assessing appropriateness of the accounting policies based on the requirements of IFRS 9 and the adequacy and appropriateness of disclosures for compliance with the accounting standards.



Independent Auditors' Report (Continued)
To the Shareholders of Housing Development Finance Corporation PLC

Other Matter relating to comparative balances

The financial statements of the Company as at and for the year ended 31st December 2020 were audited by another auditor who expressed an unmodified opinion on those statements on 23rd May 2021. We were not engaged to audit, review, or apply any procedures to the comparative information. Accordingly, we do not express an opinion or any other form of assurance on comparative information.

Other Information

The Board of Directors (the "Board") is responsible for the other information. The other information comprises the information included in the annual report, but does not include in the financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will 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 when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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 the Board of Directors for the Financial Statements

The Board of Directors (the "Board") is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free to be reviewed from material misstatement, whether due to fraud or error.

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

The Board of Directors are responsible for overseeing the Company's financial reporting processes

Auditors' 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 auditors' 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 skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.



Independent Auditors' Report (Continued)
To the Shareholders of Housing Development Finance Corporation PLC

Auditors' Responsibilities for the Audit of the Financial Statements (Continued)

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 the Board.
- Conclude on the appropriateness of the Board'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 auditors' 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 auditors' 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 the Board 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 ethical requirements in accordance with the 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 the Board, 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 auditors' 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 auditors' report is R. W .M.O. W. Duminda B. Rathnadiwakara.

Chartered Accountants
For and on behalf of KPMG Maldives
Male'

16th March 2022

**HOUSING DEVELOPMENT FINANCE CORPORATION PLC
(INCORPORATED IN THE REPUBLIC OF MALDIVES)
STATEMENT OF COMPREHENSIVE INCOME**

FOR THE YEAR ENDED		31/12/2021	31/12/2020
	Note	MVR	MVR
Interest income	5	152,313,369	156,923,525
Interest expense	5	(51,400,844)	(52,889,377)
Net interest income		<u>100,912,525</u>	<u>104,034,148</u>
Net income on shari'ah products	6	37,436,932	37,664,514
Fee income	7	3,094,776	2,548,989
Other income	8	2,050,634	1,207,471
Total Operating Income		<u>143,494,867</u>	<u>145,455,122</u>
Reversal made of provision for impairment loss on loans and advances	10	(8,116,088)	2,671,583
Reversal / (recognition) of modification loss on loans and advances	11	3,183,549	(15,238,597)
Salaries and personnel expenses	9	(11,309,743)	(10,237,640)
Other operating expenses	12	(6,381,968)	(6,582,141)
Total Operating Expenses Including Impairment Provision		<u>(22,624,250)</u>	<u>(29,386,795)</u>
Profit before income tax		120,870,617	116,068,327
Income tax expense	13	(19,205,147)	(20,742,352)
Profit for the year		<u>101,665,470</u>	<u>95,325,975</u>
Basic earning per share	14	<u>63.79</u>	<u>59.81</u>

Figures in brackets indicate deductions

The financial statements are to be read in conjunction with the related notes, which form an integral part of the financial statements of the Company set out on pages 5 to 67. The Report of the Independent Auditors is given on pages 1 and 2.

**HOUSING DEVELOPMENT FINANCE CORPORATION PLC
(INCORPORATED IN THE REPUBLIC OF MALDIVES)
STATEMENT OF FINANCIAL POSITION**

AS AT		31/12/2021	31/12/2020
	Notes	MVR	MVR
ASSETS			
Cash and cash equivalents	15	369,042,432	107,623,155
Loans and advances	16	1,716,389,516	1,834,851,202
Financial assets at amortised cost	17	257,549,099	119,885,240
Property, plant and equipment	18	868,788	1,053,352
Right-of-use assets	19	7,637,567	8,738,051
Intangible assets	20	74,724	246,724
Other assets	21	7,144,823	7,312,015
Deferred Tax Asset	13.3	5,067,075	5,117,559
Total assets		2,363,774,024	2,084,827,298
LIABILITIES			
Deposits from customers	22	78,518,115	80,313,469
Debt securities in issue	23	574,745,395	432,618,697
Other borrowed funds	24	605,317,977	624,550,502
Other liabilities	25	366,943,681	268,893,707
Lease liabilities	26	9,053,613	9,664,668
Current tax liabilities	13	9,005,148	10,417,880
Total liabilities		1,643,583,929	1,426,458,923
SHAREHOLDERS' EQUITY			
Share capital	27	159,375,000	159,375,000
General reserve	27.4	15,000,000	15,000,000
Retained earnings		545,815,095	483,993,375
Total shareholders' equity		720,190,095	658,368,375
Total equity and liabilities		2,363,774,024	2,084,827,298

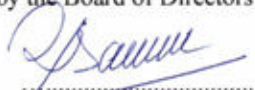
The figures in bracket indicate deductions.

The financial statements are to be read in conjunction with the related notes, which form an integral part of the financial statements of the Company set out on pages 5 to 67. The Report of the Independent Auditors is given on pages 1 and 2.

These financial statements were approved by the Board of Directors and signed on its behalf by:



Mohamed Ahmed
Chairman - Audit Committee



Raheema Saleem
Managing Director



Mohamed Shafeeq
Chief Financial Officer

16th March 2022

HOUSING DEVELOPMENT FINANCE CORPORATION PLC
(INCORPORATED IN THE REPUBLIC OF MALDIVES)
STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31ST DECEMBER 2021

	Share capital MVR	General reserve MVR	Retained earnings MVR	Total MVR
As at 1 st January 2020	159,375,000	15,000,000	388,667,400	563,042,400
Profit for the year	-	-	95,325,975	95,325,975
As at 31 st December 2020	159,375,000	15,000,000	483,993,375	658,368,375
As at 1 st January 2021	159,375,000	15,000,000	483,993,375	658,368,375
Profit for the year	-	-	101,665,470	101,665,470
Total Comprehensive Income for the Year	-	-	101,665,470	101,665,470
Transactions with owners of the Company				
Dividend declared during the year (Note 27.3)	-	-	(39,843,750)	(39,843,750)
Total transactions with owners of the Company	-	-	(39,843,750)	(39,843,750)
As at 31 st December 2021	159,375,000	15,000,000	545,815,095	720,190,095

The figures in bracket indicate deductions.

The financial statements are to be read in conjunction with the related notes, which form an integral part of the financial statements of the Company set out on pages 5 to 67. The Report of the Independent Auditors is given on pages 1 and 2.

HOUSING DEVELOPMENT FINANCE CORPORATION PLC
(INCORPORATED IN THE REPUBLIC OF MALDIVES)
STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31ST DECEMBER 2021

	Notes	31/12/2021 MVR	31/12/2020 MVR
Cash flows from operating activities			
Profit before tax		120,870,617	116,068,327
<i>Adjustments for:</i>			
Depreciation on property, plant and equipment	18	395,400	420,055
Depreciation on right-of-use assets	19	1,100,484	1,100,484
Impairment losses on financial assets	10	8,116,088	(2,671,583)
Reversal made of modification loss of loans and advances	11	(3,183,549)	15,238,597
Amortization of intangible assets	20	172,000	241,833
Interest expense on lease liabilities	5	828,945	848,015
Loss on disposal of property, plant and equipment		12,703	-
Interest expenses		83,467,354	82,662,163
Interest income		(218,703,374)	(223,645,142)
Operating loss before working capital changes		(6,923,332)	(9,737,252)
<i>Changes in working capital:</i>			
Increase / (decrease) in loans and advances to customers		48,604,522	(35,591,782)
Increase / (decrease) in other assets		167,192	(118,120)
Increase / (decrease) in other liabilities		58,206,063	(38,944,564)
Decrease in deposits from customers		(2,275,321)	(8,370,715)
Cash generated from / (used in) operating activities		97,779,124	(92,762,432)
Interest received		281,125,394	150,192,156
Interest paid		(72,168,716)	(80,019,993)
Income tax paid	13	(20,567,395)	(20,348,279)
Net cash generated from / (used in) operating activities		286,168,407	(42,938,547)
Cash flows from investing activities			
Purchases of property, plant and equipment	18	(225,032)	(429,601)
Proceed from disposal of property, plant and equipment		1,493	-
Net investments on treasury bills during the year		(135,161,254)	104,961,277
Net cash (used in) / generated from investing activities		(135,384,793)	104,531,676
Cash flows from financing activities			
Repayments of debt securities in issue		(58,122,860)	(37,250,330)
Repayments of other borrowed funds		(165,934,622)	(120,840,456)
Proceeds from debt securities in issues		203,403,000	-
Proceeds from other borrowed funds		131,901,200	50,489,593
Dividend paid		-	(43,828,304)
Repayment of lease liabilities	26	(611,055)	(591,985)
Net cash generated from / (used in) financing activities		110,635,663	(152,021,482)
Net increase / (decrease) in cash and cash equivalents		261,419,277	(90,428,354)
Cash and cash equivalents at beginning of the year		107,623,155	198,051,509
Cash and cash equivalents at end of the year	15	369,042,432	107,623,155

The figures in bracket indicate deductions.

The financial statements are to be read in conjunction with the related notes, which form an integral part of the financial statements of the Company set out on pages 5 to 67. The Report of the Independent Auditors is given on pages 1 and 2.

**HOUSING DEVELOPMENT FINANCE CORPORATION PLC
(INCORPORATED IN THE REPUBLIC OF MALDIVES)
NOTES TO THE FINANCIAL STATEMENTS**

1. REPORTING ENTITY

Housing Development Finance Corporation Public Limited Company (the “Company”) was incorporated and domiciled in the Republic of Maldives since 28th January 2004. Initially the Company was incorporated as a stated own enterprise (Housing Development Finance Corporation) on 28th January 2004, by a Presidential Decree and presently governed under the Companies Act No. 10 of 1996.

The Company was registered as a public limited company on 9th February 2006 and privatized on 23rd July 2008 by signing of a shareholders’ agreement between Government of Maldives, International Finance Corporation, Asian Development Bank and HDFC Investments Limited India. The registered office of the Company is at 4th Floor, H. Mialani, Sosun Magu, Male’, Republic of Maldives. The Company is engaged in the business of granting housing loans for residential and commercial purpose.

2. BASIS OF PREPARATION

(a) Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”).

(b) Basis of Measurement

The financial statements have been prepared on the historical cost other than assets and liabilities measured at fair value.

(c) Functional and Presentation Currency

These financial statements are presented in Maldivian Rufiyaa, which is the Company’s functional currency. All financial information presented in Maldivian Rufiyaa has been rounded to the nearest rufiyaa.

(d) Use of Estimates and Judgements

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

A. Judgements

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are included in the following notes.

**HOUSING DEVELOPMENT FINANCE CORPORATION PLC
(INCORPORATED IN THE REPUBLIC OF MALDIVES)
NOTES TO THE FINANCIAL STATEMENTS**

2. BASIS OF PREPARATION (CONTINUED)

A. Judgements (continued)

- establishing the criteria for determining whether credit risk on the financial assets has increased significantly since initial recognition, determining the methodology for incorporating forward-looking information into the measurement of ECL and selection and approval of models used to measure ECL. (Refer note 29.1.2)
- classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPP on the principal amount outstanding. (Refer note 3.2.4)

B. Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31st December 2021 is included in the following notes.

- impairment of financial instruments: determination of inputs into the ECL measurement model, including key assumptions used in estimating recoverable cash flows and incorporation of forward-looking information. (Refer note 29.1.2.3)

Impact from Coronavirus (COVID-19) pandemic

The ongoing COVID-19 pandemic has increased the estimation uncertainty in the preparation of these Financial Statements. The estimation uncertainty is associated with

- the extent and duration of the disruption to business arising from the actions by governments, businesses and consumers to contain the spread of the virus;
- the extent and duration of the expected economic downturn and forecasts for key economic factors including such as GDP and inflation. This includes the disruption to capital markets, deteriorating credit, liquidity concerns, increasing unemployment, declines in consumer discretionary spending, reductions in production because of decreased demand, and other restructuring activities; and
- the effectiveness of government and monetary authority measures that have and will be put in place to support businesses and consumers through this disruption and economic downturn.

(e) Going Concern

The Board has made an assessment of the Company's ability to continue as a going concern and are satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the Board is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern and it does not intend either to liquidate or to cease operations of the Company. Therefore, the financial statements continue to be prepared on the going concern basis.

**HOUSING DEVELOPMENT FINANCE CORPORATION PLC
(INCORPORATED IN THE REPUBLIC OF MALDIVES)
NOTES TO THE FINANCIAL STATEMENTS**

3. SIGNIFICANT ACCOUNTING POLICIES

Except for describe below in note 3.1, the accounting policies applied in these financial statements are the same as those applied in the financial statements as at and for the period ended 31st December 2020.

The following amendments to IFRS have been applied by the Company in preparation of these financial statements. The below were effective from 1st January 2021:

Interest Rate Benchmark Reform

Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) 1st January 2021

Effective from 1 January 2021, the Company has adopted Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16). These amendments provide practical relief from certain requirements in IFRS.

These reliefs relate to modifications of financial instruments and lease contracts by a replacement of a benchmark interest rate in a contract with a new alternative benchmark rate.

If the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortised cost changed as a result of interest rate benchmark reform, then the Company updated the effective interest rate of the financial asset or financial liability to reflect the change that is required by the reform.

A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if the following conditions are met:

- the change is necessary as a direct consequence of the reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis – i.e. the basis immediately before the change.

Since the Company had no transactions for which the benchmark rate had been replaced with an alternative benchmark rate as at 31st December 2020, there is no impact on opening equity balances as a result of retrospective application.

If changes are made to a financial assets or liability in addition to changes to the basis for determining the contractual cashflows required by interest rate benchmark reform, then the Company first update the effective interest rate of the financial assets or financial liability to reflect the change that is required by interest rate benchmark reform. Subsequently, the Company applies the policies on accounting for modification set out above to the additional change.

The amendments also provide an exception to use a revised discount rate that reflect the change in interest rate when remeasuring a lease facility because of a lease modification that is required by interest rate benchmark reform.

Managing interest rate benchmark reform and associated risks due to a replacement of an alternative benchmark rate are discussed in Note 29.2

**HOUSING DEVELOPMENT FINANCE CORPORATION PLC
(INCORPORATED IN THE REPUBLIC OF MALDIVES)
NOTES TO THE FINANCIAL STATEMENTS**

3. SIGNIFICANT ACCOUNTING POLICIES

3.1. Transactions in Foreign Currency

Transactions in currencies other than Maldivian Rufiyaa are translated to Maldivian Rufiyaa at the exchange rate ruling at the date of transaction. Monetary assets and liabilities denominated in currencies other than Maldivian Rufiyaa are translated to Maldivian Rufiyaa at the exchange rate ruling at the reporting date. Foreign exchange differences arising on translations are recognized in profit or loss.

Non-monetary assets and liabilities, which are measured at historical cost, denominated in currencies other than Maldivian Rufiyaa, are translated to Maldivian Rufiyaa at the exchange rates ruling at the dates of transactions. Non monetary assets and liabilities, which are stated at fair value, denominated in currencies other than Maldivian Rufiyaa, are translated to Maldivian Rufiyaa at the exchange rates ruling at the dates the values were determined.

3.2. Financial assets and liabilities

3.2.1. 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 the Company revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial.

3.2.2. 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).

3.2.3. Initial recognition and measurement

Financial assets and financial liabilities are recognised when the Company 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 the Company commits purchase or sell the asset.

At initial recognition, the Company 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

**HOUSING DEVELOPMENT FINANCE CORPORATION PLC
(INCORPORATED IN THE REPUBLIC OF MALDIVES)
NOTES TO THE FINANCIAL STATEMENTS**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2. Financial assets and liabilities (continued)

3.2.3. Initial recognition and measurement (continued)

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 3.2.4, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

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.

3.2.4. Financial assets

(i) Classification

The Company 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:

- a. The Company's business model for managing the asset; and
- b. The cash flow characteristics of the asset

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

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

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit ("SPPP").

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2. Financial assets and liabilities (continued)

3.2.4. Financial assets (continued)

Financial assets measured at amortised cost comprise receivables from Murabaha, Istisna'a, Diminishing Musharaka, Education Financing, balances with Maldives Monetary Authority ("MMA"), cash in hand and balances with banks.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. Accordingly, the Bank has irrevocably elected to present subsequent changes in fair value in OCI.

Financial assets designated at FVOCI comprise Bank's investments in equity shares.

All other financial assets are classified as measured at FVTPL.

Financial assets measured at FVTPL comprise Bank's money market placements and some Wakala and Mudharaba placements which are not SPPP on the principal outstanding.

Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual profit revenue, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2. Financial assets and liabilities (continued)

3.2.4. Financial assets (continued)

Assessment of whether contractual cash flows are solely payments of principal and profit

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition.

'Profit' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and profit, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, The Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse financing facilities); and
- features that modify consideration of the time value of money (e.g. periodical reset of profit rates).

The Bank holds a portfolio of long-term fixed rate financing facilities for which the Bank has the option to propose to revise the profit rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the finance facility subject to rebate policy of the Bank. The Bank has determined that the contractual cash flows of these financing facilities are solely payments of principal and profit because the option varies the profit rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Equity instruments have contractual cash flows that do not meet the SPPP criterion. Accordingly, all such financial assets are measured at FVOCI.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

(ii) Subsequent measurement

Financial assets measured at 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

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3.2. Financial assets and liabilities (continued)

3.2.4. Financial assets (continued)

amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in note 29.1.2. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.

(iii) Impairment

The Company assesses on a forward-looking basis the expected credit loss ('ECL') associated with its debt instrument assets carried at amortised cost with the exposure arising from loan commitments. The Company 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.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- other financial instruments on which credit risk has not increased significantly since their initial recognition.

12-month ECL are the portion of lifetime ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which 12-month ECL are recognised are referred to as 'Stage 1 financial instruments'. Financial instruments allocated to Stage 1 have not undergone a significant increase in credit risk since initial recognition and are not credit-impaired.

Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument or the maximum contractual period of exposure. Financial instruments for which lifetime ECL are recognised but that are not credit-impaired are referred to as 'Stage 2 financial instruments'. Financial instruments allocated to Stage 2 are those that have experienced a significant increase in credit risk since initial recognition but are not credit-impaired.

Financial instruments for which lifetime ECL are recognised and that are credit-impaired are referred to as 'Stage 3 financial instruments'.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);

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3.2. Financial assets and liabilities (continued)

3.2.4. Financial assets (continued)

(iii) Impairment (continued)

Measurement of ECL (continued)

- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn finance commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

When discounting future cash flows, the following discount rates are used:

- financial assets other than purchased or originated credit-impaired (POCI) financial assets: the original effective profit rate or an approximation thereof;
- POCI assets: a credit-adjusted effective profit rate;
- undrawn finance commitments: the effective profit rate, or an approximation thereof, that will be applied to the financial asset resulting from the finance commitment; and
- financial guarantee contracts issued: the rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows.

Restructured Financial Assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- if the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- if the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective profit rate if the existing financial asset.

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3.2. Financial assets and liabilities (continued)

3.2.4. Financial assets (continued)

(iii) Impairment (continued)

Measurement of ECL (continued)

Credit-Impaired Financial Assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a finance facility by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A financing facility that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a financing facility provided to an individual customer that is overdue for 120 days or more is considered credit-impaired even when the regulatory definition of default is different.

Purchased or Originated Credit-Impaired (POCI) Financial Assets

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- finance commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the finance commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

Refer Note 29.1.2 for more details of how the expected credit loss allowance is measured.

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3.2. Financial assets and liabilities (continued)

3.2.4. Financial assets (continued)

(iii) Impairment (continued)

Write-off

Financing and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are recognised when cash is received and are included in 'impairment losses on financial instruments' in the statement of profit or loss and other comprehensive income.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

Loan commitments

Loan commitments provided by the Company are measured as the amount of the loss allowance (calculated as described in note 29.1.2.3). The Company 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 the Company 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.

(iv) Modification of loans

The Company sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, The Company assesses whether or not the new terms are substantially different to the original terms. The Company 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.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

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3.2. Financial assets and liabilities (continued)

3.2.4. Financial assets (continued)

(iv) Modification of loans (continued)

If the terms are substantially different, the Company 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, the Company 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 the Company 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.

(v) 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) the Company transfers substantially all the risks and rewards of the ownership, or (ii) the Company neither transfers nor retains substantially all the risk and rewards of ownership and the Company has not retained the control.

3.2.5. 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.

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). The exchange between the Company and its original lenders of debt instruments with substantially different terms, as well as substantial

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3.2. Financial assets and liabilities (continued)

3.2.5. Financial liabilities (continued)

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.

3.2.6. Interest Rate Benchmark Reform

When the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortised cost changed as a result of interest rate benchmark reform, the Company updated the effective interest rate of the financial asset or financial liability to reflect the change that is required by the reform. A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if the following conditions are met:

- the change is necessary as a direct consequence of the reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis – i.e. the basis immediately before the change.

When changes were made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, the Company first updated the effective interest rate of the financial asset or financial liability to reflect the change that is required by interest rate benchmark reform. After that, the Company applied the policies on accounting for modifications to the additional changes.

3.3. 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4. 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 the Company or the counter party.

3.5. 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 Company 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 fixtures	-	5 years
Computer equipment	-	5 years
Motor vehicles	-	4 years
Office equipment	-	3 to 8 years

Leasehold improvements consist of partitions and fixtures on the leasehold properties. These assets are depreciated over the shorter of their useful life or the lease term, unless the entity expects to use the assets beyond the lease term. 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.

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 statements.

3.5. Impairment of non-financial assets

Property, plant and equipment and intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6. 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.

3.7. Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16.

Payments made under operating leases are recognized in profit or loss on accrual basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(i) As a lessee (Continued)

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognises right-of-use assets and a lease liabilities at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use assets are subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use assets reflect that the Company will exercise a purchase option. In that case the right-of-use assets will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use assets are periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liabilities.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8. Leases (continued)

Lease payments included in the measurement of the lease liabilities comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liabilities are measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a

residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets that do not meet the definition of investment property in "Right-of-Use Asset" and lease liability in "Lease Liability" in the statement of financial position.

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

3.9. Debt securities in issue

Debt securities in issue include bonds and sukuk issued by the Company. Debt securities are stated at amortised cost. If the Company 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10. 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.

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 the Company has an unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

3.11. Customer deposits

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

3.12. 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).

3.13. Provisions for liabilities and charges

Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Company 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.14. Trade and other payables

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

3.15. Share Capital

Ordinary shares are classified as equity.

3.16. Dividends

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

3.17. Fiduciary Activities

The Company 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 Company.

3.18. Current and deferred 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 income 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 income 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 Income Tax Act.

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

Deferred 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 income 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 income 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 income tax asset is realised or the deferred income tax liability is settled.

The recognised deferred tax asset represents income 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8. Current and deferred tax (continued)

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.

3.9. 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.

3.10. Employee Benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. The Company contributes 7% of members' salary into the scheme with an additional, minimum, 7% of salary being contributed by the members.

3.20. Employee Benefits (continued)

(ii) Short-term benefits

Short-term employee benefit obligations of the Company are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

3.21. Segment Reporting

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

3.22. Presentation of statement of financial position in order of liquidity

The Company 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 29.3.3.

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NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.22. Presentation of statement of financial position in order of liquidity

31 st December 2021	Amounts expected to be recovered or settled		
	Within 12 months of the reporting period	After 12 months of the reporting period	Total
Assets			
Cash and cash equivalents	369,042,432	-	369,042,432
Financial assets at amortised cost	257,549,099	-	257,549,099
Loans and advances	45,505,000	1,670,884,516	1,716,389,516
Property, plant and equipment	-	868,788	868,788
Intangible assets	-	74,724	74,724
Right-of-use assets	-	7,637,567	7,637,567
Deferred income tax assets	-	5,067,075	5,067,075
Other assets	-	7,144,823	7,144,823
Total assets	672,096,531	1,691,677,493	2,363,774,024

Liabilities			
Deposits from customers	2,082,000	76,436,115	78,518,115
Debt securities in issue	19,790,000	554,955,395	574,745,395
Other borrowed funds	216,564,000	388,753,977	605,317,977
Other liabilities	-	366,943,680	366,943,680
Lease liabilities	762,000	8,291,613	9,053,613
Current tax liabilities	9,005,148	-	9,005,148
Total liabilities	248,203,148	1,395,380,780	1,643,583,929

31 st December 2020	Amounts expected to be recovered or settled		
	Within 12 months of the reporting period	After 12 months of the reporting period	Total
Assets			
Cash and cash equivalents	107,623,155	-	107,623,155
Financial assets at amortised cost	119,885,240	-	119,885,240
Loans and advances	48,737,000	1,786,114,202	1,834,851,202
Property, plant and equipment	-	1,053,352	1,053,352
Intangible assets	-	246,724	246,724
Right-of-use assets	-	8,738,051	8,738,051
Deferred income tax assets	-	5,117,559	5,117,559
Other assets	80,273	7,231,742	7,312,015
Total assets	276,325,668	1,808,501,630	2,084,827,298

Liabilities			
Deposits from customers	2,074,034	78,239,435	80,313,469
Debt securities in issue	63,470,877	369,147,820	432,618,697
Other borrowed funds	184,047,000	440,503,502	624,550,502
Other liabilities	8,533,000	260,360,707	268,893,707
Lease liabilities	700,508	8,964,159	9,664,668
Current tax liabilities	10,417,880	-	10,417,880
Total liabilities	269,243,299	1,157,215,624	1,426,458,923

**HOUSING DEVELOPMENT FINANCE CORPORATION PLC
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4. AMENDMENTS TO ACCOUNTING STANDARDS EFFECTIVE BUT NOT YET ADOPTED

A number of amendments to International Accounting Standards (IFRSs/IASs) are effective for annual periods beginning after 1st January 2021 and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these financial statements.

The following amended standards and interpretation are not expected to have a significant impact on the Company's financial statements.

- i) Definition of Material – Amendments to IAS 1 and IAS 8
- ii) Revised Conceptual Framework for Financial Reporting
- iii) Covid 19 Related Rent Concessions (Amendments to IFRS 16)
- iv) Classification of Liabilities as Current or Non-current – Amendments to IAS 1

(i) Definition of Material – Amendments to IAS 1 and IAS 8

The amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors which use a consistent definition of materiality throughout International Financial Reporting Standards and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in IAS 1 about immaterial information. In particular, the amendments clarify:

- That the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and
- The meaning of 'primary users of general-purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need

(ii) Revised Conceptual Framework for Financial Reporting

The revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. Key changes include:

- increasing the prominence of stewardship in the objective of financial reporting
- reinstating prudence as a component of neutrality
- defining a reporting entity, which may be a legal entity, or a portion of an entity
- revising the definitions of an asset and a liability
- removing the probability threshold for recognition and adding guidance on derecognition
- adding guidance on different measurement basis, and
- stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements

**HOUSING DEVELOPMENT FINANCE CORPORATION PLC
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4. AMENDMENTS TO ACCOUNTING STANDARDS EFFECTIVE BUT NOT YET ADOPTED (CONTINUED)

(ii) Revised Conceptual Framework for Financial Reporting (Continued)

No changes will be made to any of the current accounting standards. However, entities that rely on the Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised Framework from 1st January 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised Framework.

(iii) Covid 19 Related Rent Concessions (Amendments to IFRS 16)

The Company assessed the impact from COVID-19 Related Rent Concessions – Amendments to IFRS 16 issued on 28th May 2020 which is effective from 1st June 2020 and early adoption also permitted from 1st January 2020. The amendment introduces an optional practical expedient for leases in which the Company is a lessee- i.e for leases to which the Company applies practical expedient, the Company is not required to assess whether eligible rent concessions that are a direct consequence of the COVID-19 coronavirus pandemic are lease modifications.

Further, the an entity applies the practical expedient allowing it not to assess whether eligible rent concessions that are a direct consequence of the COVID-19 pandemic are lease modifications. The Company applies the practical expedient consistently to contracts with similar characteristics and in similar circumstances. For rent concessions in leases to which the Company chooses not to apply the practical expedient, or that do not qualify for the practical expedient, the Company assesses whether there is a lease modification.

However, there is no impact to the financial statements of the Company from leases as at 1st January 2021.

(iv) Classification of Liabilities as Current or Non-current – Amendments to IAS 1

The narrow-scope amendments to IAS 1 Presentation of Financial Statements clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g. the receipt of a waiver or a breach of covenant). The amendments also clarify what IAS 1 means when it refers to the 'settlement' of a liability.

The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity. They must be applied retrospectively in accordance with the normal requirements in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

In May 2020, the IASB issued an Exposure Draft proposing to defer the effective date of the amendments to 1st January 2023.

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5	NET INTEREST INCOME	2021 MVR	2020 MVR
	Interest Income Calculated using the Effective Interest Rate Method (Note 5.1)	152,313,369	156,923,525
	Less: Interest Expense (Note 5.3)	(51,400,844)	(52,889,377)
	Net Interest Income	100,912,525	104,034,148
5.1	Interest Income Calculated using Effective Interest Rate Method		
	Loans and Advances (Note 5.2)	144,415,174	153,361,233
	Investments in Treasury Bills	7,898,195	3,562,292
		152,313,369	156,923,525
5.2	Interest Income from Loans and Advances		
	Housing Loans and Advances	144,243,184	153,218,351
	Staff Loans	171,990	142,882
		144,415,174	153,361,233
5.3	Interest expenses		
	Other borrowed funds	36,791,431	37,077,468
	Debt securities in issue	12,829,196	13,916,608
	Deposits from customers	951,272	1,047,286
	Interest on lease liabilities (Note 26)	828,945	848,015
		51,400,844	52,889,377
6	NET INCOME ON SHARI'AH PRODUCTS	2021 MVR	2020 MVR
	Revenue from housing facilities	66,390,005	64,275,462
	Revenue from short term investments	2,291,785	2,446,155
	Fee income	1,650,597	1,563,698
	Amna investors' profit share	(32,895,455)	(30,620,801)
		37,436,932	37,664,514
7	FEE INCOME	2021 MVR	2020 MVR
	Housing loan processing fees	177,304	192,287
	Other fee income	101,206	276,714
	Management fees	2,816,266	2,079,988
		3,094,776	2,548,989
8	OTHER INCOME	2021 MVR	2020 MVR
	Penalty interest	1,934,422	1,028,901
	Insurance commissions	116,212	178,570
		2,050,634	1,207,471

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FOR THE YEAR ENDED 31ST DECEMBER 2021**

9 SALARIES AND PERSONNEL EXPENSES	2021	2020
	MVR	MVR
Salaries and allowances	9,457,917	9,323,951
Contribution to employees pension fund	770,630	406,035
Employee benefit expense amortisation	197,112	238,541
Ramadan allowances and bonus	735,925	149,113
Staff medical insurance	148,159	120,000
	<u>11,309,743</u>	<u>10,237,640</u>
10 PROVISION FOR IMPAIRMENT LOSS ON LOANS AND ADVANCES	2021	2020
	MVR	MVR
Provision recognised / (reversed) during the year (Note 16)	<u>8,116,088</u>	<u>(2,671,583)</u>
11 MODIFICATION LOSS ON LOANS AND ADVANCES		
The following table includes summary information for loans and advances whose cashflows were modified		
	2021	2020
	MVR	MVR
Amortised cost of moratorium granted loans	-	1,344,076,065
Modification loss recognised during the year (Note 11.1)	-	(15,238,597)
	<u>-</u>	<u>1,328,837,468</u>
Reversal of Modification loss recognised during the year (Note 11.2)	<u>3,183,549</u>	<u>-</u>
11.1 The Company granted moratorium for its financing facilities as a part of financial support to borrowers on 26 th March 2020. For customers who opted for moratorium, principal repayments during 1 st March 2020 to 31 st August 2020 were deferred by 6 months. The simple interest accrued during the moratorium period is to be recovered from the customers within 36 months commencing from September 2020 or the remaining period of the loan, whichever is lower.		
11.2 During the year ended 31 st December 2021, the Company has recognised a modification reversal of MVR 3,183,549/- on loans and advances after remeasurement of amortised cost based on expected future cash flows from moratorium interest receivables as at 31 st December 2021.		
12 OTHER OPERATING EXPENSES	2021	2020
	MVR	MVR
Depreciation on right-of-use asset (Note 19)	1,100,484	1,100,484
Professional fees	1,060,146	1,051,038
Listing expenses	705,619	510,245
Amna expenses	636,777	688,322
Other expenses	619,252	529,617
Depreciation on property, plant and equipment (Note 18)	395,400	420,055
Communication expenses	356,043	339,663
Premises, equipment and establishment expenses	347,939	294,721
IT expenses	336,021	405,505
Board remuneration and meeting expenses	331,857	328,262
Amortization on intangible assets (Note 20)	172,000	241,833
Printing and stationary expenses	107,141	204,139
Advertising and marketing expenses	88,554	61,151
Irrecoverable Withholding tax	67,667	26,854
Bank charges	44,365	380,252
Loss on disposal of property, plant and equipment	12,703	-
	<u>6,381,968</u>	<u>6,582,141</u>

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FOR THE YEAR ENDED 31ST DECEMBER 2021

13 TAXATION	2021 MVR	2020 MVR
Income tax expense (Note 13.1)	19,154,663	20,039,732
Reversal of deferred tax asset during the year (Note 13.3)	50,484	702,620
	<u>19,205,147</u>	<u>20,742,352</u>

13.1 Reconciliation between Accounting Profit and Taxable Income :

	2021 MVR	2020 MVR
Profit before tax	120,870,617	116,068,327
Aggregate Disallowable Items	68,559,557	30,116,767
Aggregate Allowable Items	(61,232,422)	(12,086,881)
Tax Free Allowance	(500,000)	(500,000)
Taxable income for the year	<u>127,697,752</u>	<u>133,598,213</u>
Income tax expense at 15%	<u>19,154,663</u>	<u>20,039,732</u>

The taxable profits and income of the Company is liable at the rate of 15% in terms of provisions of the Income Tax Act No 25 of 2019 which is effective from 1st January 2020, relevant regulations and amendments thereto. (2020 : 15%)

13.2 Current tax liabilities

	2021 MVR	2020 MVR
Opening balance	10,417,880	10,726,427
Provisions made during the year	19,154,663	20,039,732
Payments made during the year	(20,567,395)	(20,348,279)
Closing balance	<u>9,005,148</u>	<u>10,417,880</u>

13.3 Net Deferred Tax Asset

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

	31/12/2021 MVR	31/12/2020 MVR
Opening balance	5,117,559	5,820,179
Reversed through profit or loss (Note 13)	(50,484)	(702,620)
Closing balance	<u>5,067,075</u>	<u>5,117,559</u>

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FOR THE YEAR ENDED 31ST DECEMBER 2021

13 Net Deferred Tax Asset (Continued)

13.3. Deferred Tax Asset is Attributable for Following:

	31/12/2021		31/12/2020	
	Temporary Difference	Tax Effect	Temporary Difference	Tax Effect
	MVR	MVR	MVR	MVR
Property, Plant and Equipment	492,136	73,820	231,086	34,663
Provision for impairment on loans and advances	33,288,367	4,993,255	33,885,972	5,082,896
	<u>33,780,503</u>	<u>5,067,075</u>	<u>34,117,058</u>	<u>5,117,559</u>

13.3. Reconciliation of temporary differences

	31/12/2021 MVR	31/12/2020 MVR
<i>Property, plant and equipment</i>		
Opening balance	34,663	93,425
Recognised / (Reversed) Through Profit or Loss	39,157	(58,762)
Closing balance	<u>73,820</u>	<u>34,663</u>
<i>Provision for loan impairment</i>		
Opening balance	5,082,896	5,664,036
Reversed Through Profit or Loss	(89,641)	(581,140)
Closing balance	<u>4,993,255</u>	<u>5,082,896</u>
<i>Right-of-use asset</i>		
Opening balance	-	62,718
Reversed Through Profit or Loss	-	(62,718)
Closing balance	<u>-</u>	<u>-</u>
Net deferred tax asset	<u>5,067,075</u>	<u>5,117,559</u>

14 BASIC EARNINGS PER SHARE

The calculation of the basic earning per share is based on profit after tax attributable to the equity shareholders and the weighted average number of ordinary shares outstanding during the year.

	2021	2020
Profit attributable to the ordinary shareholders of the Company (MVR)	101,665,470	95,325,975
Weighted average number of ordinary shares (nos.)	1,593,750	1,593,750
Basic Loss per share (MVR)	<u>63.79</u>	<u>59.81</u>

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FOR THE YEAR ENDED 31ST DECEMBER 2021

15 CASH AND CASH EQUIVALENTS	31/12/2021	31/12/2020
	MVR	MVR
Cash in hand	6,500	6,500
Balances with other banks	104,433,783	50,559,234
Short term investments (Note 15.1)	264,602,149	57,057,421
Cash and cash equivalents for the purpose of statement of cash flows	<u>369,042,432</u>	<u>107,623,155</u>
15.1 Short term investments in "General Investments Account" at Maldives Islamic Bank PLC for a period of 3 months and are entitled for a profit share in the range of 2% to 3% per annum.(2020 2% to 3%)		
16 LOANS AND ADVANCES CARRIED AT AMORTISED COST	31/12/2021	31/12/2020
	MVR	MVR
Gross Loans and Advances (Note 16.1)	1,768,115,209	1,877,048,459
Less: Impairment Loss Allowance (Note 16.2)	(51,725,693)	(42,197,257)
Net Loans and Advances	<u>1,716,389,516</u>	<u>1,834,851,202</u>
16.1 Loans and Advances - Product wise Analysis	31/12/2021	31/12/2020
	MVR	MVR
Conventional housing loans to customers	1,207,350,746	1,308,792,983
Housing loans to staff	4,975,605	5,201,709
Diminishing Musharakah	90,350,839	90,419,652
Murabaha	435,993	513,209
Istisna'	465,002,026	472,120,906
	<u>1,768,115,209</u>	<u>1,877,048,459</u>
Less: Impairment Loss Allowance	(51,725,693)	(42,197,257)
Net Loans and Advances	<u>1,716,389,516</u>	<u>1,834,851,202</u>
The Company has granted staff loan at 5% (2020: 5%) interest rate and the staff loan balances are measured at fair value.		
16.2 Movement of Provision for Impairment Loss on Loans and Advances	31/12/2021	31/12/2020
	MVR	MVR
Opening balance	42,197,257	43,266,505
Provision recognised / (reversed) during the year (Note 10)	8,116,088	(2,671,584)
Provision recognised for unrecognised interest income on non-performing loans and advances	1,412,348	1,602,336
Closing balance	<u>51,725,693</u>	<u>42,197,257</u>
17 INVESTMENT SECURITIES MEASURED AT AMORTISED COST	31/12/2021	31/12/2020
	MVR	MVR
Investments in Treasury bills (Note 17.1)	257,549,099	119,885,240
	<u>257,549,099</u>	<u>119,885,240</u>
17.1 The Company has invested in treasury bills in Maldives Monetary Authority ("MMA") amounting to MVR 257,549,099/- (2020 - MVR 119,885,240/-) for 28 days to 182 days which carry interest rates from 3.5% to 4.23% (2020: 3.5% to 4.23%).		

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18 PROPERTY, PLANT AND EQUIPMENT

	Office equipment		Computer equipment		Furniture and fixtures		Leasehold improvements		Total	
	MVR		MVR		MVR		MVR		31/12/2021	31/12/2020
Cost										
Opening Balance	978,563	2,870,999	933,868	949,233					5,732,663	5,303,062
Additions During the Year	76,448	139,004	9,580	-					225,032	429,601
Disposals during the year	(25,020)	(78,441)	(8,282)	(80,130)					(191,873)	-
Closing Balance	1,029,991	2,931,562	935,166	869,103					5,765,822	5,732,663
Accumulated Depreciation										
Opening Balance	(686,407)	(2,428,926)	(721,033)	(842,945)					(4,679,311)	(4,259,256)
Charge for the Year	(87,319)	(212,410)	(83,343)	(12,328)					(395,400)	(420,055)
Disposals during the year	22,033	67,232	8,282	80,130					177,677	-
Closing Balance	(751,693)	(2,574,104)	(796,094)	(775,143)					(4,897,034)	(4,679,311)
Net Carrying Value										
As at 31 st December 2021	278,298	357,458	139,072	93,960					868,788	
As at 31 st December 2020	292,156	442,073	212,835	106,288						1,053,352

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19 RIGHT-OF-USE ASSETS

Right-of-Use assets related to leased properties that do not meet the definition of investment property are presented as Right-of-Use asset (See note 3.8).

	<u>31/12/2021</u>	<u>31/12/2020</u>
	<u>MVR</u>	<u>MVR</u>
Cost		
Opening Balance	10,666,204	-
Recognition of Right-of-Use Assets on Initial Application of IFRS 16	-	10,666,204
Closing Balance	<u>10,666,204</u>	<u>10,666,204</u>
Accumulated Depreciation		
Opening Balance	1,928,153	827,669
Charge for the year	1,100,484	1,100,484
Closing Balance	<u>3,028,637</u>	<u>1,928,153</u>
Net Carrying Value	<u>7,637,567</u>	<u>8,738,051</u>

20 INTANGIBLE ASSETS

	<u>31/12/2021</u>	<u>31/12/2020</u>
	<u>MVR</u>	<u>MVR</u>
Cost		
Balance as at 01 st January	1,711,544	1,711,544
Balance as at 31 st December	<u>1,711,544</u>	<u>1,711,544</u>
Accumulated Amortization		
Balance as at 01 st January	1,464,820	1,222,987
Charge for the year	172,000	241,833
Balance as at 31 st December	<u>1,636,820</u>	<u>1,464,820</u>
Carrying Value		
Balance as at 31 st December	<u>74,724</u>	<u>246,724</u>

The Company has purchased computer softwares and cost of the same has recognised as intangible assets and amortised over 4 years.

21 OTHER ASSETS

	<u>31/12/2021</u>	<u>31/12/2020</u>
	<u>MVR</u>	<u>MVR</u>
Pre-payments	5,996,569	6,348,082
Staff loans measured at fair value	1,118,481	883,660
Accounts receivable	29,773	80,273
	<u>7,144,823</u>	<u>7,312,015</u>

22 DEPOSITS FROM CUSTOMERS

	<u>31/12/2021</u>	<u>31/12/2020</u>
	<u>MVR</u>	<u>MVR</u>
Equated monthly installment deposits	78,515,468	78,105,434
Borrowers deposits	2,647	2,208,035
	<u>78,518,115</u>	<u>80,313,469</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.

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23 DEBT SECURITIES IN ISSUE	31/12/2021 MVR	31/12/2020 MVR
Listed and corporate bonds (Note 23.1)	164,276,517	190,363,621
Listed Sukuk (Note 23.2)	410,468,878	242,255,076
	<u>574,745,395</u>	<u>432,618,697</u>
Maturity analysis of debt securities in issue		
Payable within one year	19,537,972	63,470,877
Payable after one year	555,207,423	369,147,820
	<u>574,745,395</u>	<u>432,618,697</u>

23.1 Listed and corporate bonds

Listed bonds of 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 31st December 2021 equals to MVR 18,851,587/-.

Listed bonds of MVR 80,000,000/- were issued 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 cumulative redemption as at 31st December 2021 equals to MVR 11,923,593/-.

The Company has issued corporate bonds to Allied Insurance Company of the Maldives Private Limited of MVR 35,000,000/- with two years maturity and carry an interest rate of 7% per annum during the period ended 31st December 2021.

23.2 Listed Sukuk

- (i) On 27th January 2014, the Company has allotted Mudarabah Sukuk amounting to MVR 22,566,000 (45,132 Sukuk at a price of MVR 500 per sukuk) for ten (10) years. Profit is paid every six months from the allotment date until maturity date.
- (ii) On 25th October 2017, the Company has allotted Mudarabah Sukuk No. 2, amounting to MVR 89,036,000 (89,036 Sukuk at a price of MVR 1,000 per sukuk) for ten (10) years). The profit is paid every six months after the date of allotment, until the maturity date.
- (iii) On 5th December 2019, the Company has allotted Mudarabah Sukuk No. 3, amounting to MVR 126,931,000 (126,931 Sukuk at a price of MVR 1,000 per sukuk) for ten (10) years). The profit is paid every six months after the date of allotment, until the maturity date.
- (iv) On 2nd December 2021, the Company has issued Mudarabah Sukuk No. 4, amounting to MVR 168,403,000 (168,403 Sukuk at a price of MVR 1,000 per sukuk) for ten (10) years). The profit is paid every six months after the date of allotment, until the maturity date.

The funds received from Mudarabah Sukuk No 1,2 and 3 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 the Company (Mudarib) at a rate of 65% and 35% respectively.

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24 OTHER BORROWED FUNDS	31/12/2021	31/12/2020
	MVR	MVR
Deutsche Investitions und Entwicklungs Gesellschaft MBH ("DEG") (Note 24.1)	35,584,702	58,981,576
Bank of Ceylon PLC (Note 24.2)	38,754,444	45,102,325
Bank of Maldives PLC (Note 24.3)	263,500,940	187,810,870
Habib Bank Limited (Note 24.4)	11,236,123	31,150,500
Commercial Bank of Maldives Private Limited (Note 24.5)	6,668,490	15,116,620
Wakala facilities (Note 24.6)	160,259,225	175,107,960
Pension benefit scheme fund (Note 24.7)	4,356,111	4,830,844
State Bank of India Limited (Note 24.8)	84,957,942	106,449,807
	<u>605,317,977</u>	<u>624,550,502</u>
Maturity analysis of other borrowed funds		
Payable within one year	138,465,967	184,047,000
Payable after one year	466,852,010	440,503,502
	<u>605,317,977</u>	<u>624,550,502</u>

24.1 Deutsche Investitions und Entwicklungs Gesellschaft MBH (DEG)

During the year 2014, the Company has obtained a loan of MVR 200,460,000/- from Deutsche Investitions und Entwicklungs Gesellschaft MBH ("DEG"). The loan carries an interest of LIBOR + 5%. The loan is repayable in seventeen semi-annual installments commencing from 15th June 2015 and ending on 15th June 2023. The DEG loan is secured by a first ranking mortgage on the Company'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.

24.2 Bank of Ceylon PLC - Male' branch

The Company has obtained a loan facility of MVR 150,000,000 per the agreement dated 15th March 2016 from Bank of Ceylon PLC for the purpose of providing mortgage housing loans. The loan carries an interest at the rate of 1 month treasury bill rate + 2.3% per annum during the grace year and second year onwards an interest at 6 months 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. The Company shall ensure a minimum 150% security coverage. The borrowing is denominated in Maldivian Rufiyaa.

The Company has obtained a loan facility of MVR 150,000,000/- per the agreement dated 20th June 2021 from Bank of Ceylon for the purpose of providing mortgage housing loans. The loan carries an interest at the rate of 1 month treasury bill rate + 2.3% which is 5.8% per annum during the grace year and second year onwards an interest at 6 months treasury bill rate + 2.3% which is 6.53% per annum (floating a floor rate of 5.5% per annum will be applied). This loan is repayable in semi-annual installments commencing after one year grace period and ending in December 2027. The Company shall ensure a minimum 150% security coverage. Further, the Company has received the first disbursement of MVR 23,000,000/- on 13th December 2021. The borrowing is denominated in Maldivian Rufiyaa.

24.3 Term loan from Bank of Maldives PLC

The Company has obtained a loan of MVR 150,000,000/- per the agreement dated 3rd 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 the Company's mortgage portfolio created out of proceeds of this facility. The borrowing is denominated in Maldivian Rufiyaa.

The Company 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 the Company's mortgage portfolio created out of proceeds of this facility. The borrowing is denominated in Maldivian Rufiyaa.

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24 OTHER BORROWED FUNDS (CONTINUED)

24.3 Term loan from Bank of Maldives (continued)

Further, the Company has obtained a loan of MVR 150,000,000/- per the agreement entered in December 2020 from Bank of Maldives for the purpose of providing mortgage housing loans. The loan carries an interest at a rate of 9% per annum and repayable in monthly instalments for a 10 years period commencing from December 2020 to November 2030. The Company has received second disbursement on 19th April 2021 and third disbursement on 30th June 2021 by MVR 50,000,000 each. The loan is secured by the Company's mortgage portfolio created out of proceeds of this facility. The borrowing is denominated in Maldivian Rufiyaa.

24.4 Habib Bank limited (HBL)

The Company 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). The loan is repayable in ten semi-annual installments starting from June 2017 and the interest is paid on monthly basis. The Company shall ensure a security coverage ratio of at least 150% of the outstanding loan amount. The borrowing is denominated in Maldivian Rufiyaa.

The Company 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). The loan is repayable in ten semi-annual installments starting from December 2019 and the interest is payable on a monthly basis. The Company shall ensure a security coverage ratio of at least 150% of the outstanding loan amount. The borrowing is denominated in Maldivian Rufiyaa.

24.5 Commercial Bank of Maldives Private Limited (CBM)

The Company has obtained a loan facility of MVR 20,000,000 per the agreement dated 24th 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 in December 2022. Interest is payable monthly. The Company shall ensure a security coverage ratio of at least 150% of the outstanding loan amount. The borrowing is denominated in Maldivian Rufiyaa.

24.6 Wakala facilities

During 2012, Maldives Islamic Bank PLC ("MIB") has invested MVR 20,000,000/- with the Company under a Wakalah arrangement with a profit target of 11.5% for a year at a profit sharing ratio of 35% : 65% between The Company and MIB respectively. This was extended for another two more years during 2018. In May 2017, MIB further invested MVR 10,000,000/- for one year and this was extended for one more year in May 2020. This has a target yield of 7.5%.

During 2015 and 2016 Maldives Hajj Corporation Limited has invested MVR 60,000,000/- with the Company 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 value of MVR 50,000,000/- can be withdrawn before five years with three months prior notice.

In May 2019, Amana Takaful Plc invested MVR 5,000,000/- for two years with profit sharing ratio of 45% - 65%. 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.

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24.6 Wakala facilities (Continued)

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

Ayady Takaful invested MVR 16,000,000/- and MVR 5,000,000/- with the Company for two years with profit sharing ratios of 70% - 30% respectively between the investor and the Company during December 2018 and April 2021. In May 2019, Amana Takaful Plc invested MVR 5,000,000/- for two years with profit sharing ratios of 45% - 65%.

24.7 Pension benefit scheme fund

The Company has signed an MOU with Maldives Pension Administrative Office (MPAO) to establish a general working arrangement between MPAO and the Company 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 are able to collateralize the accumulated savings in RSA as down payment for home finance (end user). The amount that can be collateralized ("collateralized amount") as down payment will be determined by MPAO and disbursed to the Company. The determination of the eligibility for home finance and acceptability of collateralized amount will be made and decided by the Company. 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.

24.8 State Bank of India (SBI)

The Company has obtained a loan of MVR 150,000,000/- per the agreement dated 5th 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 the Company's mortgage portfolio created out of proceeds of this facility. The borrowing is denominated in Maldivian Rufiyaa.

25 OTHER LIABILITIES

	31/12/2021	31/12/2020
	MVR	MVR
Ministry of Housing and Infrastructure - GED Islamic fund (Note 25.1)	9,481,202	65,904,809
Ministry of Housing and Infrastructure - MHI Islamic fund (Note 25.2)	9,328,942	30,877,674
Ministry of Housing and Infrastructure - MHUD Conventional fund (Note 25.3)	13,204,990	41,808,643
Ministry of Housing and Infrastructure 704 - Conventional fund (Note 25.4)	43,575,790	51,008,511
Ministry of Housing and Infrastructure CMEC - Housing funds (Note 25.5)	15,669,880	10,472,861
Ministry of Housing and Infrastructure GED Con - Housing funds (Note 25.6)	173,649,642	-
Insurance premium payable	3,142,591	6,351,336
Amounts received from customers in advance	5,548,800	9,340,271
Accruals and other liabilities	1,651,936	1,660,429
Employees pension contribution	438,898	61,913
Advance for share capital	51,407,100	51,407,100
Dividends payable	39,843,910	160
	366,943,681	268,893,707

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25 OTHER LIABILITIES (CONTINUED)

25.1 Ministry of Housing and Infrastructure - GED Islamic fund

In accordance with the agreement dated 16 February 2014, the Company manages and administers loan schemes under which the Company, 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 the Company 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 the Company 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.

25.2 Ministry of Housing and Infrastructure - MHI Islamic fund

(i) The Company has been 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. the Company 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) The Company has started managing new housing loans / facilities during December 2017. The Company was appointed as the sole representative to act on behalf MHI in matters related to the scheme as a collecting agent. the Company 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.

25.3 Ministry of Housing and Infrastructure - MHUD Conventional fund

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

25.4 Ministry of Housing and Infrastructure - 704 - Conventional fund

The Company has been 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. the Company 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.

25.5 Ministry of Housing and Infrastructure - CMEC - Conventional fund

The Company has been 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. the Company 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.

25.6 Ministry of National Planning, Housing and Infrastructure Gedhoruveriya loan - Conventional fund

The Ministry of National Planning, Housing and Infrastructure ("MNPHI"), on behalf of the Government of Maldives, has decided to offer an affordable limited loan scheme under the name, "Gedhoruveriya Loan". In accordance with the agreement dated 8th August 2021, the Company has received funds amounting to MVR 175,000,000/-. The Company has to manage and administrate each loan granted under this loan scheme. The management fee of MVR 250/- will be charged per active account on monthly basis.

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26 LEASE LIABILITIES	31/12/2021 MVR	31/12/2020 MVR
Opening Balance	9,664,668	10,256,653
Interest expense for the year (Note 5.3)	828,945	848,015
Principal repayment during the year	(611,055)	(591,985)
Interest repayment during the year	(828,945)	(848,015)
Closing Balance	<u>9,053,613</u>	<u>9,664,668</u>

Extension Options

Some property leases contain extension options exercisable by the Company up to one to ten years before the end of the non-cancellable contract period. The extensions held are exercisable only when both parties mutually agreed. The Company assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Company reassesses whether it is reasonably certain to exercise the option if there is a significant event or significant changes in circumstances within control.

Current Liability

Lease Liabilities	<u>701,263</u>	<u>700,509</u>
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Non Current Liability

Lease Liabilities	<u>8,352,350</u>	<u>8,964,159</u>
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Amounts recognised in Statement of Comprehensive Income

- Interest on Lease Liabilities	<u>828,945</u>	<u>848,015</u>
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Amounts recognised in Statement of Cash Flows

- Payment of Lease Liabilities	<u>1,440,000</u>	<u>1,440,000</u>
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Analysis of Undiscounted cash flows and interest

	Future Minimum Lease Payments		Interest	
	31/12/2021	31/12/2020	31/12/2021	31/12/2020
Less than One Year	1,440,000	1,440,000	738,737	795,688
Between One and Five Years	8,955,000	8,523,000	2,305,974	2,721,883
More than Five Years	1,755,000	3,627,000	97,766	407,761
	<u>12,150,000</u>	<u>13,590,000</u>	<u>3,142,477</u>	<u>3,925,332</u>

27 SHARE CAPITAL

27.1 Authorized

The authorized share capital comprises of 3,187,500/- (2020 : 3,187,500/-) ordinary shares of MVR. 100/- each.

27.2 Issued and Fully Paid

Issued and fully paid share capital comprises 1,593,750 of MVR 100/- each as at 31st December 2021. (2020 :

27.3 Dividends and Voting Rights

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings of the Company.

During the year ended 31st December 2021,

Dividend of MVR 12.50/- per share amounting to MVR 19,921,875/- was declared for the year ended 31st December 2020.

Dividend of MVR 12.50/- per share amounting to MVR 19,921,875/- was declared for the year ended 31st December 2021.

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27 SHARE CAPITAL (CONTINUED)

27.4 Reserves

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

28 SEGMENT ANALYSIS

Operating segments are components that engage in business activities that may earn revenues or incur

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

The Company is organised on the basis of two main business segments:

- (i) Conventional financing service – representing conventional housing finance services; and
- (ii) Islamic services – representing Amna house related scheme and sukuk and other shari'ah compliant

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

The Company's segments are strategic business units that focus on different customers. They are

(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

- (i) funds are generally not allocated between segments;
- (ii) income taxes are not allocated to segments;
- (iii) loan provisions are recognised based on management judgement and availability of information, and
- (iv) commission income relating to lending is recognised immediately rather than deferred using the

The board of directors evaluate the performance of each segment based on the net income before

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

Segment information for the reportable segments for the year then ended on 31st December 2021 is set out below:

As at 31 st December 2021	Conventional MVR '000	Islamic MVR '000	Unallocated MVR '000	Total MVR '000
Loans and advances	1,178,955	537,434	-	1,716,389
Cash and cash equivalents	91,304	277,739	-	369,042
Non-current assets	-	-	944	944
Financial assets at amortised cost	257,549	-	-	257,549
Right-of-use assets	-	-	7,638	7,638
Other assets	-	-	12,212	12,212
Total assets	<u>1,527,808</u>	<u>815,173</u>	<u>20,793</u>	<u>2,363,774</u>

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28 SEGMENT ANALYSIS (CONTINUED)

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

As at 31 st December 2021	Conventional MVR 000	Islamic MVR 000	Unallocate MVR 000	Total MVR 000
Deposits from customers	57,461	21,057	-	78,518
Debt securities in issue	164,277	410,469	-	574,746
Other borrowed funds	445,059	160,259	-	605,319
Other liabilities	246,100	18,810	102,032	366,943
Lease liabilities	-	-	9,054	9,054
Current tax liabilities	-	-	9,005	9,005
Total liabilities	<u>912,897</u>	<u>545,615</u>	<u>101,661</u>	<u>1,643,583</u>
Capital expenditure	-	-	225	225

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

For the year ended 31 st December 2021	Conventional MVR 000	Islamic MVR 000	Unallocate MVR 000	Total MVR 000
External revenues:				
- Interest / profit share	152,313	68,682	-	220,995
- Fee and commission income	3,094	1,651	-	4,745
- Other operating income	2,051	-	-	2,051
Total revenues	<u>157,459</u>	<u>70,332</u>	<u>-</u>	<u>227,791</u>
Interest expense / profit share	(51,401)	(32,895)	-	(84,296)
Reversal of provision for impairment loss on loans and advances	(8,116)	-	-	(8,116)
Reversal of modification loss on loans and advances	3,184	-	-	3,184
Depreciation and amortisation	-	-	(877)	(877)
Administrative and other operating expenses	(15,204)	(1,611)	-	(16,814)
Income tax expense	-	-	(19,205)	(19,205)
Profit for the year	<u>85,922</u>	<u>35,826</u>	<u>(20,082)</u>	<u>101,665</u>

Segment information for the reportable segments for the year and then ended on 31st December 2020 is set out below:

As at 31 st December 2020	Conventional MVR 000	Islamic MVR 000	Unallocate MVR 000	Total MVR 000
Loans and advances	1,288,862	545,989	-	1,834,851
Cash and cash equivalents	33,113	74,510	-	107,623
Non-current assets	-	-	1,300	1,300
Financial assets held-to-maturity	119,885	-	-	119,885
Right-of-use assets	-	-	8,738	8,738
Other assets	-	-	12,430	12,430
Total assets	<u>1,441,860</u>	<u>620,499</u>	<u>22,468</u>	<u>2,084,827</u>

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28 SEGMENT ANALYSIS (CONTINUED)

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

As at 31 st December 2020	Conventional MVR 000	Islamic MVR 000	Unallocated MVR 000	Total MVR 000
Deposits from customers	58,227	22,087	-	80,313
Debt securities in issue	190,364	242,255	-	432,619
Other borrowed funds	449,443	175,108	-	624,551
Other liabilities	103,290	96,782	68,821	268,894
Lease liabilities	-	-	9,665	9,665
Current tax liabilities	-	-	10,418	10,418
Total liabilities	<u>801,323</u>	<u>536,232</u>	<u>88,903</u>	<u>1,426,459</u>
Capital expenditure	<u>-</u>	<u>-</u>	<u>430</u>	<u>430</u>

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

For the year ended 31 st December 2020	Conventional MVR 000	Islamic MVR 000	Unallocated MVR 000	Total MVR 000
External revenues:				
- Interest / profit share	156,924	66,722	-	223,646
- Fee and commission income	2,549	1,564	-	4,113
- Other operating income	1,207	-	-	1,207
Total revenues	<u>160,680</u>	<u>68,286</u>	<u>-</u>	<u>228,966</u>
Interest expense / profit share	(52,889)	(30,621)	-	(83,510)
Reversal of provision for impairment loss on loans and advances	(2,992)	5,664	-	2,672
Recognition of modification loss on loans and advances	(11,148)	(4,091)	-	(15,239)
Depreciation and amortisation	-	-	(1,762)	(1,762)
Administrative and other operating expenses	(13,534)	(1,523)	-	(15,057)
Income tax	-	-	(20,742)	(20,742)
Profit for the year	<u>(80,563)</u>	<u>(30,571)</u>	<u>(22,504)</u>	<u>95,328</u>

29 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(i) Overview

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The Company'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. The Company's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Company's financial performance.

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29 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(i) Overview (continued)

The Company'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. The Company regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

(ii) Risk Management Framework

Risk management is carried out by the Company under policies approved by the Board of Directors. The Company identifies and evaluates financial risks in close co-operation with the Company'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.

29.1 Credit risk

The Company takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Company by failing to discharge an obligation. Credit risk is the most important risk for the Company'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 the Company'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.

29.1.1 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. The Company 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.

29.1.2 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:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Company.
- 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 29.1.2.1 for a description of how the Company determines when a significant increase in credit risk has occurred.

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29.1 Credit risk (continued)

29.1.2 Expected credit loss measurement (continued)

- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Please refer to note 29.1.2.2 description of how the Company 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 29.1.2.3 for a description of inputs, assumptions and estimation techniques
 - A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information. Note 29.1.2.4 includes an explanation of how the Company has incorporated
- Further explanation is also provided of how the Company determines appropriate grouping when ECL is measured on a collective basis (refer note 29.1.2.5).

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 the Company in addressing the requirements of the standard are discussed below:

29.1.2.1 Significant increase in credit risk

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

29.1.2.2 Definition of default and credit-impaired assets

The Company 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.

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

90 days default presumption is rebutted considering historical behavior. 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

29.1.2.3 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

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29.1 Credit risk (continued)

29.1.2.3 Measuring the ECL - Explanation of inputs, assumptions and estimation techniques (Continued)

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 (12M 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 2020.

EAD is based on the amounts the Company 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, the Company 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, the Company 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.

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 29.1.2.4 for an explanation of forward-looking information and its inclusion in ECL calculations.

29.1.2.4 Forward looking information incorporated in ECL models

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

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29 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

29.1 Credit risk (continued)

29.1.2.4 Forward looking information incorporated in ECL models (Continued)

The Company has used a score card approach for further refining the ECL model in order to obtain a more realistic default rate. The score card incorporates qualitative and quantitative macro-economic factors which are selected based on the relevancy and appropriateness. Each factor is assigned a weightage based on the relative interdependence with the default rate. Quantitative factors include GDP growth rate, inflation, unemployment rate and qualitative factors include management outlook on loan portfolio, regulatory impact, government policies and industry and business. Quantitative factors are based on economic data and forecasts published by IMF. Further, the Company has assigned higher weight for worst case scenario than the best case when assessing the probability weighted forward looking macro-economic indicators.

The Company performs statistical regression analysis between historical macro economic data (GDP) and historical credit index. Estimated credit indexes were determined by plugging forecasted macro economic variables in the factor model developed in the regression analysis. Forecasted PDs were computed by shifting Through the Cycle (TTC) matrix using estimated credit index.

Economic variable assumptions

The most significant period end assumptions used for ECL estimate as at 31st December 2021 are set out below.

	2020	2021	2022	2023	2024
GDP growth rate	-18.56%	18.90%	10.99%	7.54%	6.69%
Inflation	1.51%	1.40%	2.02%	2.02%	2.02%
Unemployment rate	6.14%	6.30%	6.14%	6.14%	6.14%

The weightage assigned for each economic scenario at 30th June 2021 as follows:

	Best	Base	Worst
All portfolios	11%	68%	21%

Set out below are changes to ECL as at 31st December 2021 that would result from reasonably possible changes in these parameters from actual assumptions used in the Company's economic variable assumptions.

	-1%	No change	+1%
GDP growth rate	40,060,898	40,068,001	40,075,651
Inflation	39,938,581	40,068,001	39,735,712
Unemployment	40,068,629	40,068,001	40,065,619

29.1.2.5 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.

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29 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

29.1 Credit risk (continued)

29.1.3 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:

Loss allowance	Stage 1	Stage 2	Stage 3	Total
	12-month ECL MVR	Life time ECL MVR	Life time ECL MVR	
Loss allowance as at 1st January 2021	4,318,766	15,098,274	22,780,217	42,197,257
Transfer from Stage 1 to Stage 2	(2,155,993)	2,010,235	-	(145,758)
Transfer from Stage 1 to Stage 3	(3,328,036)	-	2,021,045	(1,306,991)
Transfer from Stage 2 to Stage 1	(4,356,658)	6,512,651	-	2,155,993
Transfer from Stage 3 to Stage 1	(4,635,027)	-	1,306,991	(3,328,036)
New financial assets originated	72,688	18,033	4,683,776	4,774,498
Transfers from stage 2 to stage 3	-	(3,141,689)	3,141,689	-
Financial assets settled during the year	(180,800)	(231,688)	(935,619)	(1,348,106)
Unrecognised interest on stage 3 assets	-	-	1,412,347	1,412,347
Other movements	14,569,677	(452,766)	(6,802,423)	7,314,488
Loss allowance as at 31st December 2020	4,304,617	19,813,051	27,608,024	51,725,692

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29.1 Credit risk (continued)

29.1.3 Loss allowance (continued)

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 moved from stage 1 to 2 and stage 2 to 3 contributed to a increase in provision by MVR 4,008,813/-. The provision was further increased by the increase in the PD rates of stage 3 loans.

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:

Loans and advances	Stage 1	Stage 2	Stage 3	Total
	12-month ECL MVR	Life time ECL MVR	Life time ECL MVR	
Gross carrying amount as at 1st January 2021	1,545,664,133	268,691,736	62,692,590	1,877,048,459
<i>Transfers:</i>				
Transfer from Stage 1 to Stage 2	(171,025,739)	174,210,830	-	3,185,091
Transfer from Stage 1 to Stage 3	54,777	-	(3,121,766)	(3,066,989)
Transfer from Stage 2 to Stage 3	-	(212,332)	212,332	-
Transfer from Stage 2 to Stage 1	(15,368,342)	14,067,771	-	(1,300,571)
Transfer from Stage 3 to Stage 1	3,121,766	-	(3,066,989)	54,777
Financial assets settled during the year	(48,904,566)	(154,419,026)	(1,526,613)	(204,850,205)
New financial assets originated	12,520,733	15,060,445	-	27,581,178
Other movements	64,371,677	(1,997,654)	7,089,446	69,463,469
Gross carrying amount as at 31st December 2021	1,390,434,439	315,401,770	62,279,000	1,768,115,209

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29 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

29.1 Credit risk (continued)

29.1.3 Loss allowance (continued)

Loss allowance	Stage 1	Stage 2	Stage 3	Total
	12-month ECL MVR	Life time ECL MVR	Life time ECL MVR	
Loss allowance as at 1 st January 2020	14,735,094	12,753,229	15,778,182	43,266,505
Transfer from Stage 1 to Stage 2	(2,468,364)	12,359,714	-	9,891,350
Transfer from Stage 1 to Stage 3	(48,087)	-	501,685	453,598
Transfer from Stage 2 to Stage 1	489,529	(10,790,336)	-	(10,300,807)
Transfer from Stage 3 to Stage 1	50,708	-	(2,838,066)	(2,787,358)
New financial assets originated	74,513	-	-	74,513
Transfers from stage 2 to stage 3	-	(91,823)	335,392	243,569
Transfer from stage 3 to stage 2	-	2,095,128	(4,775,147)	(2,680,019)
Financial assets settled during the year	(637,143)	-	-	(637,143)
Unrecognised interest on stage 3 assets	-	-	1,602,336	1,602,336
Other movements	(7,877,484)	(1,227,638)	12,175,835	3,070,713
Loss allowance at 31st	4,318,766	15,098,274	22,780,217	42,197,257

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:

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29 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

29.1 Credit risk (continued)

29.1.3 Loss allowance (continued)

Loans and advances	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Life time ECL	Life time ECL	
	MVR	MVR	MVR	
Gross carrying amount as at 1 January 2020	1,593,627,284	142,723,937	45,288,732	1,781,639,953
<i>Transfers:</i>				
Transfer from Stage 1 to Stage 2	(215,481,479)	234,254,729	-	18,773,250
Transfer from Stage 1 to Stage 3	(12,531,296)	-	14,897,729	2,366,433
Transfer from Stage 2 to Stage 3	-	(22,958,673)	24,182,157	1,223,484
Transfer from Stage 3 to Stage 2	-	13,414,303	(13,278,374)	135,929
Transfer from Stage 2 to Stage 1	103,176,908	(103,047,545)	-	129,363
Transfer from Stage 3 to Stage 1	10,393,224	-	(10,571,890)	(178,666)
Financial assets settled during the year	(5,514,334)	-	-	(5,514,334)
New financial assets originated	30,127,994	4,626,093	-	34,754,087
Other movements	41,865,832	(321,108)	2,174,236	43,718,960
Gross carrying amount as at 31st	1,545,664,133	268,691,736	62,692,590	1,877,048,459

29.1.4 Write-off policy

The Company 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 Company'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.

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29 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

29.1 Credit risk (continued)

29.1.5 Modification of financial assets

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

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. the Company monitors the subsequent performance of modified assets. the Company 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).

29.1.6 Risk limit control and mitigation policies

The Company manages, limits and controls concentrations of credit risk wherever they are identified in particular, to individual counterparties and groups, and to corporates. the Company 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

The Company 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. the Company 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 the

The Company's policy is to sell the repossessed assets at the earliest possible opportunity and the Company'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 the Company since the prior period. the Company closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Company will take possession of

The valuation technique used for housing properties is based on the construction and other cost to completion that would be incurred by a market participant. Accordingly, the fair value measurement of collateral was classified to level 3.

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29 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

29.1 Credit risk (continued)

29.1.6 Risk limit control and mitigation policies (continued)

Collateral information

As at 31 st December 2021	Customer loans	Staff loans	Amna assets	Total
	MVR	MVR	MVR	MVR
Loans collateralised by:				
- house property	1,207,350,746	4,975,605	555,788,858	1,768,115,209
Total loans and advances	<u>1,207,350,746</u>	<u>4,975,605</u>	<u>555,788,858</u>	<u>1,768,115,209</u>
As at 31 st December 2020	Customer loans	Staff loans	Amna assets	Total
	MVR	MVR	MVR	MVR
Loans collateralised by:				
- house property	1,308,792,983	5,201,709	563,053,767	1,877,048,459
Total loans and advances	<u>1,308,792,983</u>	<u>5,201,709</u>	<u>563,053,767</u>	<u>1,877,048,459</u>

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 at 31 st December 2021	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
	MVR	MVR	MVR	MVR
Customer loans	1,207,350,746	3,790,498,938	-	-
Staff loans	4,975,605	15,622,914	-	-
Amna assets	555,788,858	1,287,907,073	-	-
Total loans and advances	<u>1,768,115,209</u>	<u>5,094,028,925</u>	<u>-</u>	<u>-</u>
As at 31 st December 2020	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
	MVR	MVR	MVR	MVR
Customer loans	1,308,792,983	3,827,454,703	-	-
Staff loans	5,201,709	15,622,914	-	-
Amna assets	563,053,767	1,323,550,514	-	-
Total loans and advances	<u>1,877,048,459</u>	<u>5,166,628,131</u>	<u>-</u>	<u>-</u>

(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, the Company 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. the Company monitors the term to maturity of credit commitments.

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29 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

29.1 Credit risk (continued)

29.1.7 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.

29.1.8 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 the Company at 31st December 2021 and 31st December 2020, 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 Company resulting from its loan portfolio and based on the following:

- All the housing loans are backed by collateral.
- 97.19% of the loans and advances portfolio are considered to be neither past due nor impaired (31st December 2020: 83.98%);

29.1.9 Concentration of risks of financial assets with credit risk exposure

(a) Geographical sectors

the Company's lending activities are limited to Maldives.

(b) Sectors

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

	31/12/2021	31/12/2020
	MVR	MVR
Residential - Conventional	1,210,563,019	1,311,723,613
Residential - Islamic	555,788,858	563,053,767
Commercial	1,763,332	2,271,079
Total	<u>1,768,115,209</u>	<u>1,877,048,459</u>

29.2 Market risk

the Company 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 the Company's housing and cost of funds. The market risks arising from non-trading activities are concentrated in the Company's Assets and Liabilities Management Committee (ALCO).

Managing interest rate benchmark reform and associated risks

Fundamental reform of major interest rate benchmarks is being undertaken globally, replacing some interbank offered rates (IBORs) with alternative nearly risk-free rates (referred to as 'IBOR reform'). As at 31st December 2021, there are no any financial instruments that contractually reference an IBOR benchmark planned to transition to a risk-free rate.

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29 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

29.2 Market risk (Continued)

29.2.1 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.

The Company has borrowed 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. The Company has entered into two SWAP agreements with STO by which STO will sell equal amount of US\$ to honor the US\$ requirement relating to the principle amount of DEG loan at the rate of 1 US\$ = MVR 15.42. However, this arrangement does not cover the interest element of the loan installment.

By virtue of the SWAP agreements, the Company 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\$ 2,307,698/- (2020: US\$ 3,825,005/-), against which the amounts of US\$ to be purchased from STO PLC is US\$ 2,307,698/- (2020: US\$ 3,823,528/-).

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

	31/12/2021	31/12/2020
	US\$	US\$
Assets		
Cash and balances with other banks	48,416	52,897
Total assets	48,416	52,897
Liabilities		
Borrowings	(205,884)	(3,825,005)
Total liabilities	(205,884)	(3,825,005)
Net on-balance sheet financial position	(157,468)	(3,772,108)
Currency SWAP	2,307,698	3,823,528
Net	<u>2,150,230</u>	<u>51,420</u>

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 the Company, with all other variables held constant.

	As at 31st December 2021		As at 31st December 2020	
	Impact on	Impact on	Impact on	Impact on
	US\$	US\$	US\$	US\$
US Dollar strengthening by 10%	21,719	-	5,142	-
US Dollar weakening by 10%	(21,289)	-	(5,142)	-

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29 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

29.2.2 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. The Company 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 the Company in re-pricing them. Assets and Liability Committee ("ALCO") regularly reviews these gaps to ensure that they are within acceptable norms. The Company regularly monitors the market behavior and products are appropriately re-priced when necessary.

The Company 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 the Company is not open to any price fluctuation risks.

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

	As at 31 st December 2021						Total
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	
	MVR '000	MVR '000	MVR '000	MVR '000	MVR '000	MVR '000	MVR '000
Financial assets							
Cash and balances with banks	114,440	254,602	-	-	-	-	369,042
Financial assets at amortised cost	257,549	-	-	-	-	-	257,549
Loans and advances	3,302	10,099	32,104	221,179	1,449,704	-	1,716,388
Other financial assets	-	-	-	-	-	1,118	1,118
Total financial assets	375,291	264,701	32,104	221,179	1,449,704	1,118	2,344,097
Financial liabilities							
Deposits from customers	151	462	1,469	10,118	66,318	-	78,518
Debt securities in issue	-	-	19,790	124,547	430,408	-	574,745
Other borrowed funds	2,980	64,524	149,060	251,247	137,507	-	605,318
Other financial liabilities	-	-	-	-	-	268,053	268,053
Lease liabilities	56	171	535	4,934	3,358	-	9,054
Total financial liabilities	3,187	65,157	170,854	390,846	637,591	268,053	1,535,688
Total interest repricing gap	372,104	199,544	(138,750)	(169,667)	812,113	(266,935)	808,409

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29.2.2 Interest rate risk (continued)

	As at 31 st December 2020							Total
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing		
	MVR '000	MVR '000	MVR '000	MVR '000	MVR '000	MVR '000	MVR '000	
Financial assets								
Cash and balances with banks	50,566	57,057	-	-	-	-	107,623	
Financial assets at amortised cost	119,885	-	-	-	-	-	119,885	
Loans and advances	3,537	10,817	34,383	236,764	1,549,350	-	1,834,851	
Other financial assets	-	-	80	-	-	-	80	
Total financial assets	173,988	67,874	34,463	236,764	1,549,350	-	2,062,439	
Financial liabilities								
Deposits from customers	151	460	1,463	10,076	65,932	2,231	80,313	
Debt securities in issue	10,000	1,790	51,681	83,973	285,175	-	432,619	
Other borrowed funds	6,737	34,804	142,506	340,650	99,854	-	624,551	
Other financial liabilities	-	-	-	-	-	208,084	208,084	
Lease liabilities	52	157	492	4,120	4,844	-	9,665	
Total financial liabilities	16,939	37,211	196,142	438,819	455,805	210,315	1,355,232	
Total interest repricing gap	157,049	30,663	(161,679)	(202,055)	1,093,545	(210,315)	707,207	

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

Exposure to Interest rate risk - Loans and advances

Sensitivity analysis of net interest income

	As at 31 st December 2021		As at 31 st December 2020	
	1% increase MVR '000	1% decrease MVR '000	1% increase MVR '000	1% decrease MVR '000
Average for the year	9,868	(9,868)	9,175	(9,175)

29.3 Liquidity risk

Liquidity risk is the risk that the Company 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.

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29 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

29.3 Liquidity risk (continued)

29.3.1 Liquidity risk management process

The Company's liquidity management process, as carried out within the Company and monitored by the senior management in the Company, 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

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.

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

29.3.2 Funding approach

Sources of liquidity are regularly reviewed by the ALCO.

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

The table below presents the cash flows payable by the Company 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 the Company manages the inherent liquidity risk based on expected undiscounted cash inflows.

	As at 31st December 2021						Carrying MVR '000
	Up to 1 month MVR '000	1-3 months MVR '000	3-12 months MVR '000	1-5 years MVR '000	Over 5 years MVR '000	Total MVR '000	
Financial liabilities							
Deposits from customers	909	2,726	8,179	42,712	115,268	169,794	78,518
Debt securities in issue	-	3,584	38,236	221,167	474,812	737,799	574,745
Other borrowed funds	6,005	70,478	172,058	323,140	153,234	724,915	605,318
Other financial liabilities	-	-	-	-	268,864	268,864	268,053
Lease liabilities	56	171	535	4,934	3,311	9,007	9,054
	6,970	76,959	219,008	591,953	1,015,489	1,910,379	1,535,688
Financial assets							
Cash and balances with banks	115,150	254,602	-	-	-	369,752	369,042
Financial assets at amortised cost	257,549	-	-	-	-	257,549	257,549
Loans and advances	19,945	59,835	179,504	937,409	2,529,820	3,726,513	1,716,388
Other financial assets	-	-	1,148	-	-	1,148	1,118
	392,644	314,437	180,652	937,409	2,529,820	4,354,962	2,344,097
Net	385,674	237,478	(38,356)	345,456	1,514,331	2,444,583	808,409

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29 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

29.3 Liquidity risk (continued)

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

As at 31 st December 2020	Up to 1 month					Over 5 years	Total	Carrying amount
	MVR '000	1-3 months	3-12 months	1-5 years	MVR '000			
Financial liabilities								
Deposits	1,369	-	167	5,757	73,020		80,313	80,313
Debt securities in issue	29,409	3,175	66,687	176,733	334,814		610,818	432,619
Other borrowed funds	9,654	39,966	164,267	390,192	105,650		709,729	624,551
Other financial liabilities	-	-	8,533	-	199,552		208,085	208,085
Lease liabilities	120	360	1,080	6,495	5,655		13,710	9,665
	40,552	43,501	240,734	579,177	718,691		1,622,655	1,355,232
Financial assets								
Cash and balances with banks	50,566	57,057	-	-	-		107,623	107,623
Financial assets at amortised cost	119,885	-	-	-	-		119,885	119,885
Loans and advances	21,213	63,639	190,916	997,007	2,690,661		3,963,436	1,834,851
Other financial assets	-	-	964	-	-		964	964
	191,664	120,696	191,880	997,007	2,690,661		4,191,908	2,063,324
Net	151,112	77,195	(48,854)	417,830	1,971,970		2,569,253	708,091

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. The Company would also be able to meet unexpected net cash outflows by discounting treasury bills, other investments and utilizing the undrawn borrowing facilities.

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29 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

29.4 Capital management

the Company'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 the Company'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 the Company's management, employing techniques based on the guidelines developed by the Basel I Committee, for supervisory purposes.

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

the Company'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 the Company as at 31st December 2021 and 31st December 2020. the Company complied with all of the externally imposed capital requirements to which they are subjected.

	<u>31/12/2021</u>	<u>31/12/2020</u>
	<u>MVR</u>	<u>MVR</u>
Capital		
Share capital	159,375,000	159,375,000
Retained earnings	545,815,095	483,993,375
Reserves	15,000,000	15,000,000
Total qualifying Capital	<u>720,190,095</u>	<u>658,368,375</u>
Total capital	<u>720,190,095</u>	<u>658,368,375</u>
Risk-weighted assets		
On-balance sheet	<u>965,953,126</u>	<u>968,659,652</u>
Total risk-weighted assets	<u>965,953,126</u>	<u>968,659,652</u>
Basel ratio	<u>75%</u>	<u>68%</u>

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29 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

29.4 Capital management (continued)

Risk-weighted assets	As at 31 st December 2021	
	Unweighted value	Weighted Value
	MVR	MVR
Cash in hand	6,500	-
Balances with other banks	104,433,783	20,886,757
Short term investments in Treasury Bills	264,602,149	52,920,430
Financial assets at amortised cost	257,549,099	-
Loans and advances	1,768,115,209	884,057,605
Prepayments and deposits	7,144,823	7,144,823
Property, plant and equipment and Intangible assets	943,512	943,512
	<u>2,402,795,075</u>	<u>965,953,126</u>

The changes in the regulatory capital was mainly due to the profit earned during the year ended 31st December 2021. The increase in risk-weighted assets reflects the expansion of the loan portfolio during period.

Risk-weighted assets	As at 31 st December 2020	
	Unweighted value	Weighted Value
	MVR	MVR
Cash	6,500	-
Balances with other banks	50,559,234	10,111,847
Short term investments in Treasury Bills	57,057,421	11,411,484
Financial assets at amortised cost	119,885,240	-
Loans and advances	1,877,048,459	938,524,230
Prepayments and deposits	7,312,015	7,312,015
Property, plant and equipment and Intangible assets	1,300,076	1,300,076
	<u>2,113,168,945</u>	<u>968,659,652</u>

30 ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

As at 31 st December 2021	Amortised cost	Total
	MVR	MVR
Financial assets		
Cash and cash equivalents	369,042,432	369,042,432
Financial assets at amortised cost	257,549,099	257,549,099
Loans and advances	1,716,389,516	1,716,389,516
Other financial assets	1,118,481	1,118,481
Total financial assets	<u>2,344,099,528</u>	<u>2,344,099,528</u>
	Amortised cost	Total
	MVR	MVR
Financial liabilities		
Debt securities in issue	574,745,395	574,745,395
Other borrowed funds	605,317,977	605,317,977
Deposits from customers	78,518,115	78,518,115
Other financial liabilities	309,548,883	309,548,883
Lease liabilities	9,053,613	9,053,613
Total financial liabilities	<u>1,577,183,983</u>	<u>1,577,183,983</u>

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30 ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

As at 31 st December 2020	Amortised cost MVR	Total MVR
Financial assets		
Cash and cash equivalents	107,623,155	107,623,155
Financial assets at amortised cost	119,885,240	119,885,240
Loans and advances	1,834,851,202	1,834,851,202
Other financial assets	963,933	963,933
Total assets	2,063,323,530	2,062,359,597
	Amortised cost MVR	Total MVR
Financial liabilities		
Debt securities in issue	432,618,697	432,618,697
Other borrowed funds	624,550,502	624,550,502
Deposits from customers	80,313,469	80,313,469
Other financial liabilities	208,084,423	208,084,423
Lease liabilities	9,664,668	9,664,668
Total liabilities	1,355,231,759	1,355,231,759

31 FAIR VALUE MEASUREMENT

The fair value of financial assets and liabilities, together with the carrying amount shown in the statement of financial

	As at 31 st December 2021		As at 31 st December 2020	
	Carrying amount MVR	Fair value MVR	Carrying amount MVR	Fair value MVR
Assets carried at amortised cost				
Cash and cash equivalents	369,042,432	369,042,432	107,623,155	107,623,155
Financial asset at amortised cost	257,549,099	257,549,099	119,885,240	119,885,240
Loans and advances to customers	1,716,389,516	1,716,389,516	1,834,851,202	1,834,851,202
Other financial assets	1,118,481	1,118,481	963,933	963,933
	2,344,099,528	2,344,099,528	2,063,323,530	2,063,323,530
Liabilities carried at amortised cost				
Deposits from customers	78,518,115	78,518,115	80,313,469	80,313,469
Debt securities in issue	574,745,395	574,745,395	432,618,697	432,618,697
Other borrowed funds	605,317,977	605,317,977	624,550,502	624,550,502
Other financial liabilities	309,548,883	309,548,883	208,084,423	208,084,423
	1,258,581,487	1,258,581,487	1,137,482,668	1,137,482,668

Assets for which fair value approximates carrying value

Cash and cash equivalents : the Company'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: the Company'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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32 CONTINGENCIES

There were no material contingent liabilities or assets which require disclosure in the Financial Statements as at the reporting date.

33 CAPITAL COMMITTEMENTS

There were no material capital commitments as at the reporting date which require disclosure in the Financial Statements as at the reporting date.

34 COMMITTEMENTS	31/12/2021	31/12/2020
	MVR	MVR
Undisbursed loans and other facilities	40,670,051	47,238,800

35 RELATED PARTY TRANSACTIONS

35.1 The Bank carried out transactions in the ordinary course of business on an arm's length basis at commercial rates with parties who are defined as Related Parties as per the International Accounting Standard – IAS 24 on "Related Party Disclosures".

35.2 Key management compensation	2021	2020
	MVR	MVR
Executive management salaries	3,328,204	2,899,509

35.3 Remuneration to Board of Directors	2021	2020
	MVR	MVR
Board remuneration and committee sitting fees	192,000	196,000

Shareholding structure

The Company's shareholding structure are as follows:

Shareholder	%	Number of shares	Value of shares
			MVR
Government of Maldives	49%	780,928	78,092,800
International Finance Corporation	18%	286,875	28,687,500
Asian Development Bank	18%	286,875	28,687,500
HDFC Investment Limited (India)	15%	239,062	23,906,200
Other shareholders	0%	10	1,000
		<u>1,593,750</u>	<u>159,375,000</u>

36 COMPARATIVE FIGURES

Comparative figures of the financial statements have been reclassified to conform with current year's classifications, whenever necessary.

37 DIRECTOR'S RESPONSIBILITY

The Board of Directors of the Bank is responsible for the preparation and presentation of these financial statements.

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38 EVENTS AFTER THE REPORTING PERIOD

No circumstances have arisen since reporting date which require adjustments to/or disclosure in the financial statements except for the following.

38.1 Final Dividend Declared

The Board of Directors of the Company has declared a final dividend of MVR 12.50/- per ordinary share for the financial year ended 31st December 2021.

In accordance with the IAS 10, Events after the reporting period, the final dividend has not been recognised as a liability in the Financial Statements as at 31st December 2021.

39 IMPACT FROM COVID-19

During year, there has been an outbreak of the novel Coronavirus (“COVID-19”), which has rapidly evolved across the country and globally. The Health authorities has taken some actions such as travel restrictions, lockdown and quarantine measures which have had a direct impact on the Maldives’ economy and the Company’s operating results. These measures and policies have caused significant disruption in the operation of many companies in the Republic of Maldives and around the globe.

The Board of Directors has considered the potential impacts of the current economic downturn and challenges and uncertainty involved in the determination of the reported amounts of the Company’s financial and non-financial assets and liabilities in the financial statements.

The impact of COVID-19 on the country’s economy and how governments, businesses and consumers respond are uncertain. This uncertainty is reflected in the Company’s assessment of expected credit losses which is subject to a number of management judgements and estimates. The judgements and associated assumptions have been made within the context of the impact of COVID-19 and reflect historical experience and other factors that are considered to be relevant, including expectations of future events that are believed to be reasonable under the circumstances. Accordingly, the Company’s ECL estimates are inherently uncertain and, as a result, actual results may differ from these estimates.

Further, the management has not noticed any triggering event of impairment of property and equipment, intangible assets and right-of-use assets and accordingly no material impairment losses were recognized in the financial statements.

The management and the Board of Directors (“BOD”) have been closely monitoring the potential impact of the COVID 19 developments on the Company’s operations and financial position. The Company has also put in place contingency measures, which include, but are not limited to enhancing and testing of business continuity plans including its liquidity requirements. Based on their assessment, the BOD is of the view that the Company will continue as a going concern entity for the next 12 months from the date of signing these financial statements.