



Housing Development Finance Corporation Plc.

# ANNUAL REPORT 2020







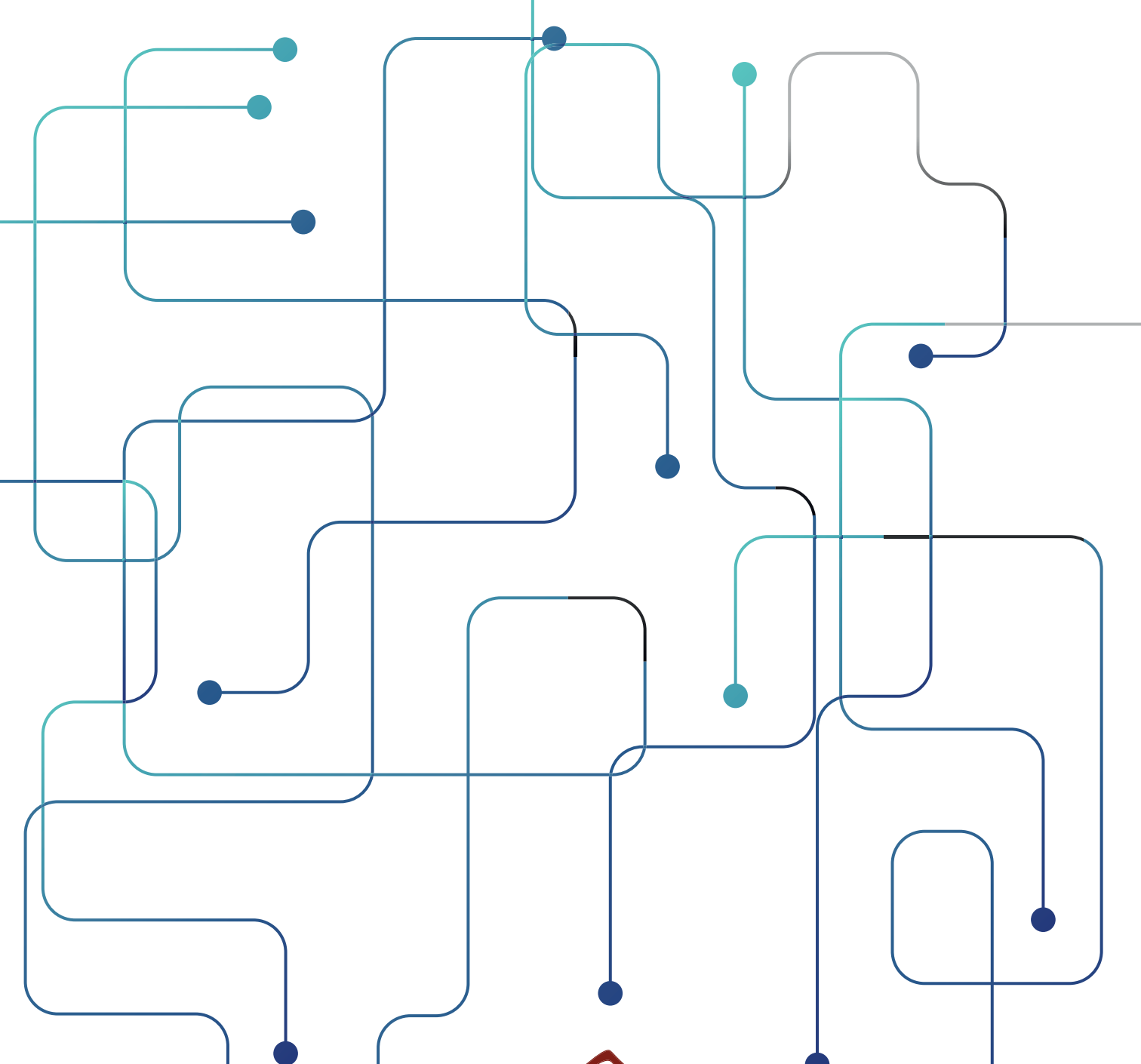


Housing Development Finance Corporation Plc.  
Annual Report 2020

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Housing Development Finance Corporation Plc.

# ANNUAL REPORT 2020



## DEFINITION

Annual Report 2020 comprises of the Annual Report of Housing Development Finance Corporation Plc. (HDFC) prepared in accordance with the Companies Act of the Republic of Maldives (10/96), Listing rules of Maldives Stock Exchange, the Securities Act of Maldives Security Depository and Corporate Governance Code of Capital Market Development Authority Requirements.

Unless otherwise specified in the Annual Report, the terms 'HDFC', 'we', 'us' and 'it' refer to Housing Development Finance Corporation Plc. The word 'Company' refers to HDFC Plc., including financing facilities extended from the Amna (Islamic Window). References to the year in this report are, unless otherwise indicated, references to the Company's financial year ending 31<sup>st</sup> December 2020. All Financial statements of HDFC are prepared in accordance with International Financial Reporting Standards (IFRS).

Cautionary statement with regard to forward looking statements

HDFC's Annual Report comprises of forward-looking statements that are based on current expectations or views, as well as expectations about future events. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward looking statements frequently use words such as 'anticipate', 'target', 'expect', 'would', 'could', 'estimate', 'intend', 'plan', 'goal', 'believe', 'will', 'may', 'should' or other words of similar meaning. Undue reliance should not be placed on any such statements because, by their very nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results, and HDFC plans and objectives to differ materially from those expressed or implied in the forward-looking statements.

There are several factors which could cause actual results to differ materially from those expressed or implied in forward looking statements. Among the factors are changes in the global, economic, political, business, competitive, market and regulatory forces, future exchange and interest rates, changes in tax rates and future business combinations or dispositions. HDFC cannot guarantee future results, levels of activity, performance or successes.



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# CHAIRMAN'S COMMUNIQUÉ

## A TRUSTED MARKET PARTNER

Dear shareholders,

It gives me immense pleasure and a sense of pride to welcome you all to the seventeenth annual report and audited financial statements of the Housing Development Finance Corporation Plc. (HDFC) Maldives for the year ended 31 December 2020. As I sign this statement, the world is yet going through one of the most turbulent times with challenges that are unprecedented. Every nation is striving to fight the Covid-19 pandemic. Economic activity had almost come to a standstill as we lived through a period of intense uncertainties and is only now beginning to resume. The impact is sweeping across every sector of society and every economic activity. However, amidst these challenges, it is evident that these events have only accelerated the pace of change and will redefine the way businesses, people and governments engage. This will give rise to new technological paradigms. Year 2021 is going to be a turning point for everyone and in every way.

Continuing the run of overall positive performances in recent years, HDFC concluded the year 2020 on a positive note, despite mounting pressure from competitors on housing finance activities and an overall uncertainty in the country's economic outlook, arising from Covid-19 instability and downward revisions in the country rating.

### GLOBAL ECONOMY

Once in while we come across a world-wide event that alters the 'normal' way of life. The global economy faced several headwinds last year ranging from weak demand, slowing global trade volumes, trade war between US and China, Brexit woes and geo-political tensions amongst others, thus leading to a slowdown in global economic growth. While the global economy was initially expected to see a recovery in 2020, however the sudden outbreak of Covid-19 pandemic and the consequent lockdowns that were imposed across several nations has severely impacted global growth prospects. With economies gradually opening up, the economic momentum in most countries have started to show some promising signs of improvement though much depends on how soon the pandemic troubles disappear. Citing the evolving challenges of the global economy, International Monetary Fund (IMF) estimated the world economic output to contract by 4.9 percent in 2020, much worse than the 2008-2009 financial crisis. The revival of the economic growth is now projected to be more gradual than earlier estimates. The World Bank expects global economy to expand by 4 percent in 2021.



**International Monetary Fund (IMF) estimated the world economic output to contract by 4.9% in 2020, much worse than the 2008-2009 financial crisis. The revival of the economic growth is now projected to be more gradual than earlier estimates. The World Bank expects global economy to expand by 4% in 2021.**



## MALDIVIAN ECONOMY

The domestic economy saw some growth momentum build in January and February 2020, but that has been reversed by COVID-19 linked disruption with the associated downward effects on fiscal 2020 growth expectation.

The Covid-19 pandemic adversely impacted economic activity in the first month of the fiscal year, especially tourism, fishing, and construction. During February - March before the lockdown we experienced sluggishness in tourism and financial services pulled down the service sector growth to 5.5 percent y.o.y from 7.7 percent y.o.y in March 2020.

## GROWTH AND INFLATION

IMF Country Report 20/133, April 2020 states the COVID-19 shock will reverse what was expected to be a promising year for tourism with the opening of the new airport runway and several resorts. GDP growth in 2020 was projected at 7 percent, with the pandemic causing a -15.1 percentage point shock to 2020 growth. The tourism sector directly accounts for -11.7 percentage points of that revision. Growth is expected to resume in 2021 driven by a rebound in tourist arrivals to 2019 level. The inflation outlook in the medium term is slightly favourable. Further, the upward pressure on annual inflation continued to be exerted by the increase in price of tobacco. However, prices remained to fall in communication services and housing rent, following the reduction in telecommunication prices and relief given on rental property due to Covid-19.



**During February - March before the lockdown we experienced sluggishness in tourism and financial services pulled down the service sector growth to 5.5% y.o.y from 7.7% y.o.y in March 2020.**



## POLICY SOLUTIONS

Policymakers need to continue to sustain the recovery, gradually shifting from income support to growth-enhancing policies.

In the longer run, in emerging markets and developing economies, policies to improve health and education services, digital infrastructure, climate resilience, and business and governance practices will help mitigate the economic damage caused by the pandemic, reduce poverty and advance shared prosperity, while in the context of reduced public spending and elevated debt, institutional reforms to branch organic growth are particularly important.

## OUR PERFORMANCE

Continuing the run of overall positive performances in recent years, HDFC concluded the year 2020 on a positive note, despite mounting pressure from competitors on housing finance activities and an overall uncertainty in the country's economic outlook, arising from Covid-19 instability and downward revisions in the country rating.

Although our bottom line did not improve as had been expected, I would however like to note that generally, the overall results for the year were on the whole, pleasing given the continued difficult business environment due to Covid-19.

The Company reported a 5.20 percent increase in Gross Revenue from operations at MVR 228.96 million for the financial year ended 31<sup>st</sup> December 2020 as against MVR 217.65 million from the previous year. Profit After Tax (PAT) for the year ended 31<sup>st</sup> December 2020 has increased to MVR 95.32 million against MVR 91.09 million for the previous year, (increased by 4.64 percent) over the last year. This is primarily due to Covid-19 holiday moratorium given to our customers. The Net Interest Income (NII) has increased by 2.05 percent which is MVR 104.03 million for the year 2020. Return on Equity (ROE) records at MVR 658.37 million with Earning Per Share (EPS) of MVR 59.81. Based on the performance of the Company, the Board of Directors have declared a dividend of MVR 12.50 per share, with a pay-out ratio of 21 percent..

## GOVERNANCE

As a financial institution, HDFC is exposed to a variety of risks, primarily credit risk, market risk, liquidity risk, operational risk, information technology risk, compliance risk, legal risk, and many more. The Board of Directors of the Company has overseeing of all risks assumed by the Company with specific Committees of the Board constituted to facilitate focussed risk management.

It is noteworthy, the new Maldives Monetary Authority's Corporate Governance Code (CGC) will be followed in the future. The new CGC will be effective from 21<sup>st</sup> July 2021. We are working towards achieving the guidelines under the MMA Corporate Governance Code before 21<sup>st</sup> July 2021.

## CRITICAL TRENDS

The key trends that will drive the institution in the coming year will focus on risk management, frauds, and cybersecurity.

At HDFC, we remain focused on operating our business in a way which generates value for our customers, and other stakeholders. We will aim on better use of data and analytics, seamless and low-cost service delivery, and superior recovery management. Technological innovations and initiations play a predominant role in reducing costs improving efficiency and canvassing business by delighting customers. A great deal of emphasis is being placed by the Company on digitising core business process.

## GOING FORWARD

Despite Maldivian economy performing poorly in 2020, I am optimistic that the year 2021 would pave the way for better prospects for the country in the years ahead. I am confident that today HDFC is well prepared to confront the challenges and take advantage of the opportunities to build scale and grow the housing portfolio. Going forward, we will continue to fine-tune our strategy to deliver exceptional results in line with our business plan, strengthen our lending approaches to maintain "A" grade assets and focus on improving the resilience of our funding structure, all of which will accelerate our growth trajectory.

Technology and digitisation will play an integral part in meeting this objective. The Company focuses on providing high levels of functionality and investing



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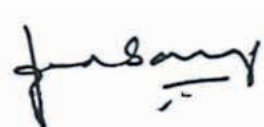


in technologies to provide a secure, seamless, and uniform service experience to customers. Digital initiatives have played a key role in driving growth and efficiency. These initiatives have improved the efficiency of the Company especially during the lockdown period. HDFC is now able to serve more customers to perform more value-added activities through a consolidated single database and payment portal to our customers. Given the changing environment, the Company would also accordingly strategize to overcome the challenges and take advantage of the emerging opportunities.

In the last twelve years since the time the Company has been privatised, the Company has demonstrated strength in steering through challenging circumstances. Businesses have been driven with a focus on risk-calibrated profitable growth. The balance sheet of HDFC has been strengthened substantially and risk management practices have focussed on generating sustainable and stable growth in business. The steps taken have enabled the Corporation to emerge more dynamic and this reflects in the performance of the Company in fiscal year 2020.

## APPRECIATIONS

The performance set out in this report required co-ordinated teamwork. I thank the Board for their rigorous oversight of performance and constructive challenge of views which was key to delivering performance and key milestones in the journey. I also take this opportunity to place on record, the Board's appreciation of Mr. Mohamed Mauroof Jameel, Government Nominee Director for his invaluable contribution to the Company and wish him the very best for the days ahead. I like to thank the MMA, Ministry of Finance, CMDA, and other regulatory authorities for their assistance. I thank our loyal customers who have been enthusiastic supporters of our products. My sincere appreciation to our business partners who play an important part in enabling us to deliver services to our customers. I thank our shareholders for their continued confidence in a challenging year, as we frame our future. Before I conclude, with the continued encouragement and patronage of all, I am confident that HDFC would reach greater heights during the coming years and look forward to the team scaling new heights of glory and hence I would like to thank all the employees of HDFC for their steadfast commitment in a very difficult situation and adapting to the new normal.



**CONRAD D'SOUZA**

**Chairman**

On behalf of the Board of Directors  
HDFC Maldives

# MANAGING DIRECTOR'S REPORT

## A JOURNEY THROUGH CHALLENGING TIMES

### A MISSION OF ENABLING HOME OWNERSHIP

Housing Development Finance Corporation Limited's mission is to serve as a trusted partner to our clients by responsibly providing finance that enable home ownership and economic prosperity. Our core activities are providing housing finance for our customers, accessing long term funds from locally and internationally for our growth and developing capital market by offering debt instruments. We have more than 17 years of experience helping our clients meet the world's toughest challenge and embrace their greatest dream of all times, "owning a home". We are HDFC, the only specialised financial institute – an institution connecting thousands of people across 20 Atolls in the Maldives. HDFC has demonstrated resilience by growing strongly and consistently even during the challenging times. This feat would not have been possible but for the strong ethical business practices, processes, and passion of the highly energetic employees.



**We have more than 17 years of experience helping our clients meet the world's toughest challenge and embrace their greatest dream of all times, "owning a home".**



We have endured many storms in our journey of 17 years of serving the population as a mortgage financial institution of the nation. Our performance this year reflects our strength. Despite the country's troubled economy which had an adverse impact on the banking sector more importantly on the housing sector, HDFC pulled through with an overall profitable performance. We are proud of our most valuable asset our human capital and equally value our dedicated customers with whom our staff at all levels have created an unwavering bond of confidence in their excellent customer service which has driven the Company to a solid performance throughout the years. Finally, it has been the continuous investments made in our human capital, our excellent customer relationships, and overall quality of service as a Licensed Specialized Housing Finance institution that has been the path to our sustained success.



**As the entire globe reeled in shock, the economy took a heavy toll in the months that followed March 2020 after the first case of Corona with many key sectors such as tourism, leisure and transport facing the brunt of the impact.**





**While most homebuyers are expected to adopt a wait and watch stance till the situation tends towards normalcy, the fundamental demand for housing in Maldives is likely to continue to be strong on factors such as Government focus on social housing.**



## HOUSING MARKET

Independent examiners have also revealed that out of the 20,000 houses that are required in the country, 4000 to 5000 affordable housing is needed for middle income earners in the Country. The need for accommodation arises primarily because of migration from outer islands to the capital and the need to invest in business including real estate. This is evidently changing the urban landscape of Maldives Apartment complexes that cater to diverse segments of the population are being established in urbanised areas particularly in the Greater Male' region which includes, Male', Hulhumale' and Villimale'.

The nation entered 2020 with a great deal of optimism, which is why it was impossible to come to terms with the calamitous impact of the Covid-19 virus that would once again thrust the whole world into dark times. As the entire globe reeled in shock, the economy took a heavy toll in the months that followed March 2020 after the first case of Corona with

many key sectors such as tourism, leisure and transport facing the brunt of the impact. Furthermore, given the heightened uncertainty surrounding by the Covid-19, it is no surprise that Maldives growth forecasts were downgraded with GDP projected to grow in negative.

The low consumer confidence owing to economic slowdown on account of COVID-19 is expected to impact the take-off of home loans thereby affecting the loans portfolio of this institution. The insecurities arising out of job losses, salary cuts and other uncertainties is expected to further shrink the demand for residential and real estate. The under-construction housing projects have also got impacted because of labour migration and lockdowns, which delayed project execution, completion, and sales, and has further impacted the cash flow of this segment.

While most homebuyers are expected to adopt a wait and watch stance till the situation tends towards normalcy, the fundamental demand for housing in Maldives is likely to continue to be strong on factors such as Government focus on social housing. Further, keeping in view the agenda for "Housing for All", the government social housing 7000 units under Hiyaa Project has been extended up to May 2021 which will benefit 7000 families during 2021. On the hindsight there will be some jolt to the rental market.

Amidst this backdrop, we stepped back from the growth path we had been pursuing and declared 2020 to be a year of consolidation where we would focus extensively on improving our asset quality.



## OUTLOOK 2021

Looking ahead, there are significant challenges for the economy and the housing sector in fiscal year 2021. A contraction in economic growth is inevitable and regaining the confidence and momentum of activity as in the past may take some time. A health emergency of this magnitude will lead to extraordinary responses and outcomes. Under these circumstances, HDFC is mindful of the elevated risks in the operating environment and will take steps to remain strong and resilient and be well-positioned to understand potential losses that could arise. Our passion to create value continues in these challenging times. The coming year is expected to be extremely demanding. We have to improve our digital channels and connectivity for deepening customer relationships and re-align our business models for different scenarios.

The economic impact of the pandemic and the anticipated compression in the economy may result in higher non-performing assets. The business growth and key performance parameters - asset quality, liquidity, earnings of HDFC's are expected to be subdued, particularly in the short term, and recovery be dependent on the overall economic turnaround. The likely loss of livelihoods and a reduction in income, especially for self-employed borrowers, are likely to impact both income and the asset quality of home loans.



## APPRECIATION

I express gratitude to the Almighty for guiding us in our relentless journey for excellence and then to all who were concerned for us in tough times to HDFC, the Ministry of Finance, MMA, and the Ministry of National Planning Housing and Infrastructure to name a few and our regulatory bodies.

I would like to thank the thousands of HDFC customers across 20 atolls for placing their trust in our team. You remain the purpose we are driven to evolve and grow.

I take this opportunity to convey my sincere appreciation to our management as well as members of Team HDFC who have proven beyond doubt that they are our greatest strength. A special word of thanks also to the Board of Directors for their steadfast support, and commitment and conscientious stewardship of the Company at all times. And finally, to our shareholders, investors and other stakeholders while thanking you for being part of our journey.

It is with immense gratitude that I record the invaluable contribution made by Director, Mr. Mohamed Mauroof Jameel who retired during this year. He has had and displayed a deep and abiding interest in every aspect of HDFC's activities during his time on the Board and has been instrumental in driving the growth as well as the profitability of the organisation, in order for HDFC to be what it is today. In particular, I wish to record Mr. Jameel led the Company during the turbulence surrounding with the many of the challenges posed by the COVID-19 pandemic and the first lockdown. His contribution to the Company has been immeasurable. His departure is a loss not just felt by the Board, but the Management too in the years to come.

With more than 17 years of experience, understanding of our customer needs and the way this business is done backed firmly by our passion, energy, and entrepreneurship, has made us to emerge as a strong, reliable, and resilient housing finance provider.

May Allah the Almighty bestows his boundless blessings upon all of us.



**RAHEEMA SALEEM**  
Managing Director  
HDFC Maldives

# CORPORATE INFORMATION

**Name of the Company** Housing Development Finance Corporation Plc.

**Legal Form** HDFC is a company incorporated as state owned enterprise on 28 January 2004 by a Presidential Decree under the Companies Act No.10/96, registered as a public company on 9th February 2006 and privatized on 23 July, 2008 with the signing of a shareholder's agreement between Government of Maldives (49%), IFC (18%), ADB (18%) and HDFC-Investments Ltd.- India (15%).

**Company Registration Number** C-107/2006

**Share Capital** MVR 159,375,000

**Chairman** Mr. Conrad D'Souza

**Managing Director** Ms. Raheema Saleem

**Auditors** PricewaterhouseCoopers (External Auditors)  
KPMG (Internal Auditors)

**Legal Counsel** Mazlan & Murad Law Associates

**Company Secretary** Mr. Adam Athif

**Registered Address** Mialani, 4th Floor,  
Sosun Magu, Male'  
Republic of Maldives  
Phone: (960) 3338810 / 3315896 / 3315897  
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Email: [info@hdfc.com.mv](mailto:info@hdfc.com.mv)

## VISION

Our vision is to provide decent housing to all segments of the society to pioneer innovative, responsible home finance solutions to realize their financial aspirations towards home ownership, and to become the market leader and add value to all our stakeholders.

## MISSION

Our mission is to inspire better living in our communities to accelerate home ownership by providing a selection of home financing solutions with highest quality, manage investment products professionally and profitably, and educate financial literacy by delivering customer service with a sense of warmth, individual pride and company spirit to the complete satisfaction of all stakeholders.

Our vision is our foundation. Our values are our strengths and we raise not just hopes, but the promise to bring in a happier tomorrow.

## PLEDGE

Strive hard and explore all avenues to:

- Provide a solution to every single customer.
- Process loan applications to the highest professional standard to give a speedy and effective service.
- Manage all aspects of customer relationship with due care, communication and sensitivity to ensure 100% loan performance.
- Conduct all affairs as a responsible corporate citizen with good governance, accountability and transparency.

# PRODUCT PORTFOLIO

HOME WHERE YOUR HEART IS



## STANDARD LOAN

Standard Home Loan is below MVR 1 million with less than one third of the developed area may be given on rent and two third or more should be owner occupied at 11.25% per annum.



## MILLION PLUS

Home loans exceeding MVR 1 million with less than one third of the developed area given on rent and two third or more should be owner occupied. Rate applicable is 11.50% per annum.



## RENT OPTION HOME LOAN

Home loan where the total developed area or mor than one third area of the property can be rented at 12.50% per annum.



### HOME IMPROVEMENT LOAN

Home improvement loan is for essential repairs and improvements brought to the property at 11.25% per annum for 7 years.



### YOUTH LOAN

Home purchase loan for youth at 10.5% per annum.



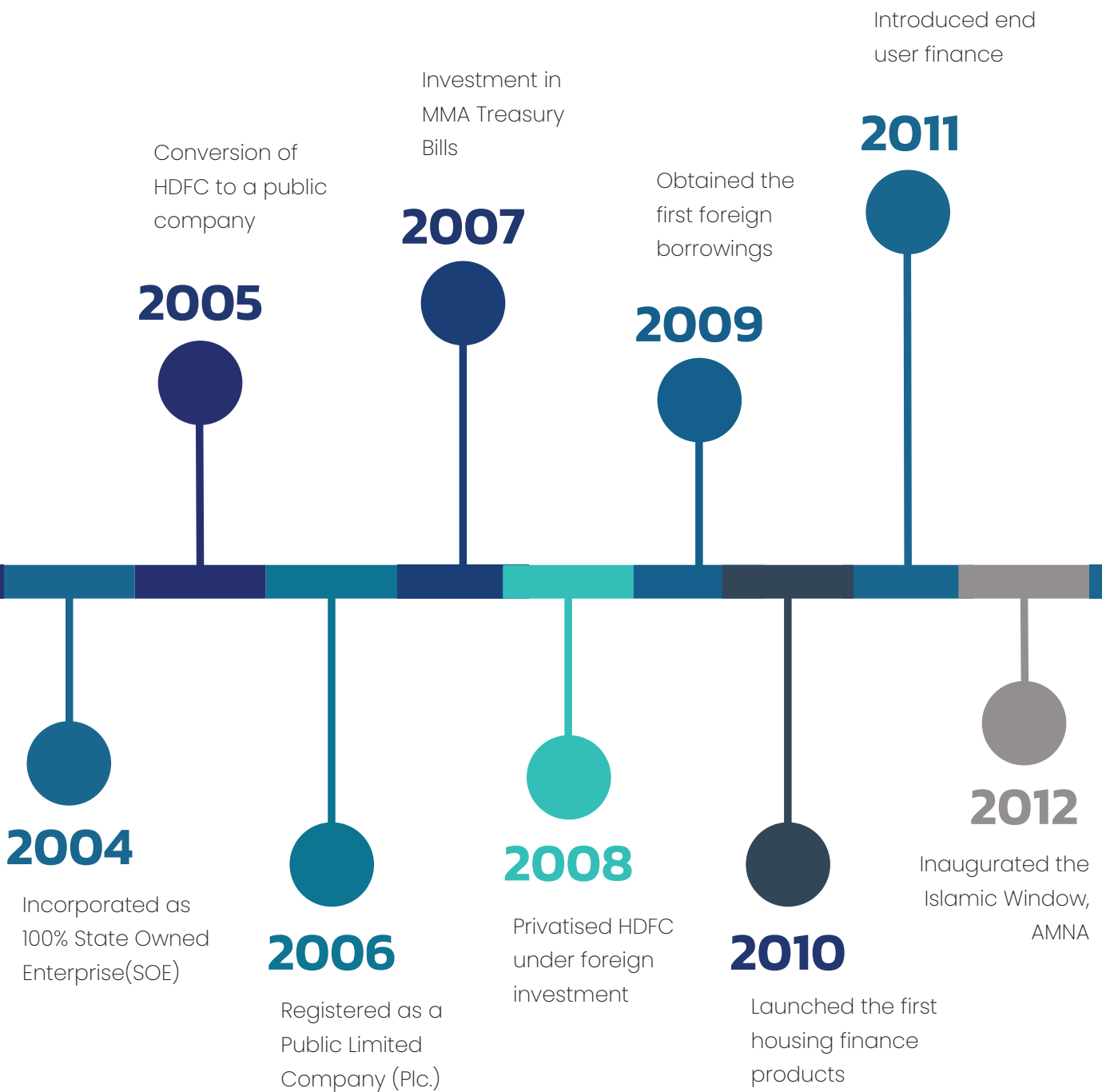
### MUSHARAKA MUTHANAQISA

Islamic facility given by Amna where the customer and HDFC agree to enter into a partnership to purchase land and construct a home or purchase an apartment for the purpose of living by the owners and other co-owners or for rental.

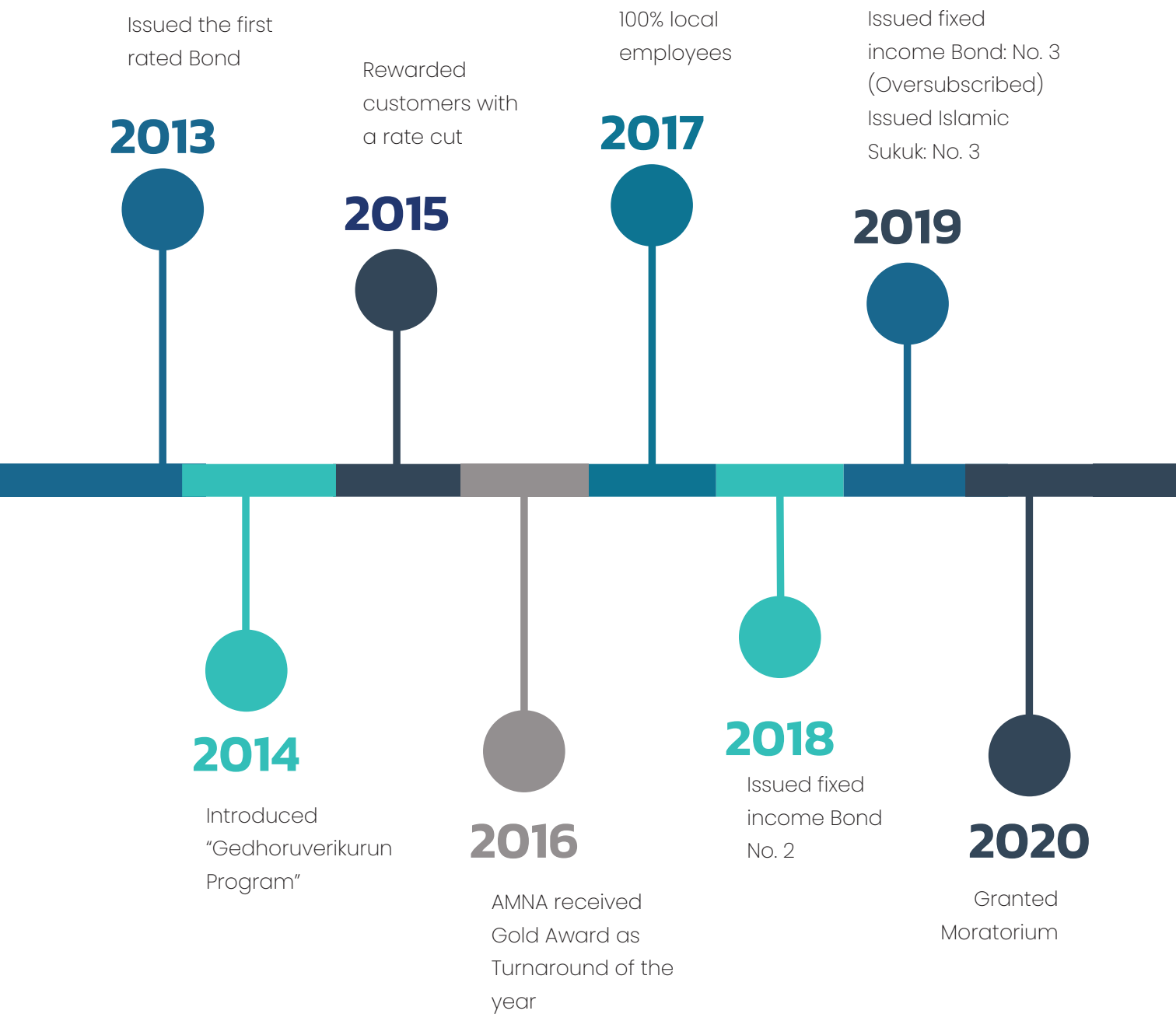


### MURAABAHA FINANCING FACILITY

Islamic facility given by Amna where HDFC and the customer enter into a contract for the sale of goods required to renovate the house/flat/apartment. The contract involves the purchase of goods identified by the client and then sell them to the customer at an agreed mark-up.



# OUR JOURNEY



# DIRECTOR'S REPORT

HOME IS THE PLACE WHERE OUR EPIC  
STORY BEGINS....

Dear Shareholders,

The Board of Directors is pleased to welcome you all to the 17<sup>th</sup> Annual General Meeting (AGM) of HDFC-Maldives and present before you the Annual Report along with the Audited Financial Statements for the year 2020. A review of business and financial performance and the underlying forces affecting these have been briefly indicated out.

As you are aware the Company has moved on its 18 year of operation. Since its inception HDFC has played a prominent role in the growth of the housing sector specially to increase home ownership in the urban areas of the country. We can proudly claim that the Company has contributed substantially to enhance the home ownership levels of the lower, middle and upper middle-income population during the past 17 years. The Company strives continually to ensure quality service to the clients by catering to their needs and providing effective and innovative solutions.

## ECONOMIC OUTLOOK

The world is going through an extraordinary time, as the pandemic hits its businesses, economies, and lives. The world's economic landscape was already burdened with uncertainties, ranging from trade tensions between US and China to Brexit, which led to volatility in global oil prices and financial markets.

## GLOBAL GROWTH

World Economic Outlook published by IMF January 2021; states recent multiple vaccine approvals have raised hopes of a turnaround in the pandemic later this year. However, new waves and different variants of the virus pose concerns for the outlook. Amid exceptional uncertainty, the global economy is projected to grow by 4 percent in 2021 and 4.2 percent in 2022.

While multiple vaccine approvals and the launch of vaccination in some countries in December have raised aspirations for swifter global recovery of an ultimate end to the pandemic. The strength of the recovery is projected to vary significantly across the globe, depending on access to medical interventions, effectiveness of policy support etc. Going forward, global economic developments will largely depend on the path of the pandemic.

## MALDIVIAN ECONOMY

**Gross Domestic Product** - After an unprecedented economic contraction in Q2 of 2020, the decrease in domestic economic activity slowed in Q3 of 2020. While Gross Domestic Product (GDP) is estimated to be significantly below pre-pandemic levels in Q4 of 2020, high frequency indicators and business survey results for Q4 of 2020 showed that the contraction in economic activity in Q4 of 2020 further toned down, driven by the increase in tourist arrivals during the Q4 of 2020.



**Since its inception HDFC has played a prominent role in the growth of the housing sector specially to increase home ownership in the urban areas of the country.**



The National Bureau of Statistics (NBS) on 31<sup>st</sup> January 2021 reported, real GDP contracted by 44.2 percent in Q3 of 2020 year-on-year, following a sharp contraction of 52 percent in Q2 of 2020 and is drastically lower than the 5.0 percent growth in Q3 of 2019, as the pandemic continues to heavily impact on the Maldivian economy.

Going forward, real GDP is projected to grow by 13.5 percent in 2021 with bed nights growth estimated at 57 percent. In 2021, domestic economic activity is expected to remain well below pre-pandemic levels (MMA Quarterly Economic Bulletin December 2020).

The world is going through an extraordinary time, as the pandemic hits its businesses, economies, and lives. The world's economic landscape was already burdened with uncertainties, ranging from trade tensions between US and China to Brexit, which led to volatility in global oil prices and financial markets.

**Inflation** - The rate of inflation remained subdued at -1.1 percent in Q4 of 2020, unchanged from the previous quarter. The unchanged negative inflation rate during the quarter mainly indicated the continued COVID-19, owing mainly due to the government's administrative price controls on the staple food as well as drop in house rent (MMA, Jan 2021).

**Unemployment** – The one and half-month island-wide lockdown imposed by the government of Maldives from 16<sup>th</sup> April to 31<sup>st</sup> May 2020 in a bid to control the COVID-19 first wave, had a sizable impact on the country's labour market. As a result, the first half of the year was characterised by unusually low labour force participation as well as high unemployment levels. Available data suggests that unemployment levels in the first half of 2020 shot up to 6.40 percent from 6.10 percent in the corresponding period of 2019.



Photo by Ahmed Nishaath on Unsplash

## PERFORMANCE OF THE MAJOR CONTRIBUTORS TO THE ECONOMY

**Tourism** – After a strong head start in January, tourist arrivals plunged from February 2020 and were wiped out in the second quarter as Maldives closed its borders on 27 March in response to the COVID-19 pandemic. Despite the continuation of tourism activity during Q3 of 2020, following the opening of the country's international borders on 15<sup>th</sup> July 2020 to tourists across the globe, arrivals remained flat during Q4 of 2020 when compared to a year ago.

The sharp decline in arrivals reflected the continued spread of the pandemic and the resurgence of cases in major source markets in Europe, which resulted in the reintroduction of stricter travel constraints.

**Construction** – Construction was weak but was moderated during Q2 of 2020 and Q3 of 2020. The pace of decline of construction activity slowed for the second consecutive quarter. While this reflected factors such as the complete lifting of movement restrictions within the Greater Male' region during the review quarter, activity in the sector remained slow.

**Wholesale and Retail Trade** – The lifting of lockdown measures and movement restrictions, particularly in the Greater Male' region, as well as the pickup in tourism activity and transportation, impacted economic activity positively during the review quarter. According to the MMA's Quarterly Business Survey for Q4 of 2020, the wholesale and retail trade sector improved further during the quarter.

## MORATORIUM ON LOANS AND FACILITIES TO CUSTOMERS

Given our focus on customer-centricity and the unprecedented impact of the pandemic on customers' businesses, HDFC was fully supportive of Governments move that helped ease borrowers' concerns with respect to repayment of loans in a lockdown. Instalments were deferred for 6 months. The process of availing moratorium was simplified by HDFC by enabling customers to apply digitally.

The Government of Maldives has advised certain regulatory measures to mitigate the burden of debt servicing brought about by disruptions on account of COVID-19 pandemic. HDFC offered moratorium to its customers for a period of six months (March 2020 - August 2020). While this was a "deferment" in contracted repayment obligations, interest on the loan continued to accrue.

Given income losses of households, many lenders may need debt rescheduling measures, where income losses are largely compensated by using their rental income, saving. Court systems are non-active, limiting pursuance of foreclosure enforcement.

## IMPACT FROM MORATORIUM –“DAY 1” LOSS

The impact of the moratorium granted to customers have taken their toll on the Company's income. Interest income showed a minimal growth by just 1 percent in 2020 compared to 2019. As per the modification methods under IFRS 9, the day-one loss arising from the moratorium loan and facilities were recorded against the income. The day one loss amounts to MVR 15.23 million.

## COVID 19 AND HOUSING SECTOR

Housing finance market is expected to see a slower credit growth with self-employed borrowers to be affected the most. Asset quality is expected to deteriorate, and higher provisioning requirements are estimated to drive up the credit costs over the next year and beyond.

The moratorium extended to the customers pose a risk as it will impact the financial discipline of the borrowers. Besides the challenges on asset side, the funding challenges could mount again as commercial banks become more selective in extending credit to housing. The environment is turbulent and ever evolving and the priority for the housing finance company is to focus on asset quality, liquidity, and slow return to growth path as the economic outlook improves.

We are currently focusing on recovery and keeping a control on our asset quality as well as focusing on control to reduce cost. At the same time, we have put in place new credit guidelines for further business and disbursements of already approved loans.

We continue to stay close to our customers and remain mindful of their needs. We also continue to be agile and build on our strengths, to leverage market opportunities and to respond proactively to the challenges.

## LESSONS FROM THE PANDEMIC

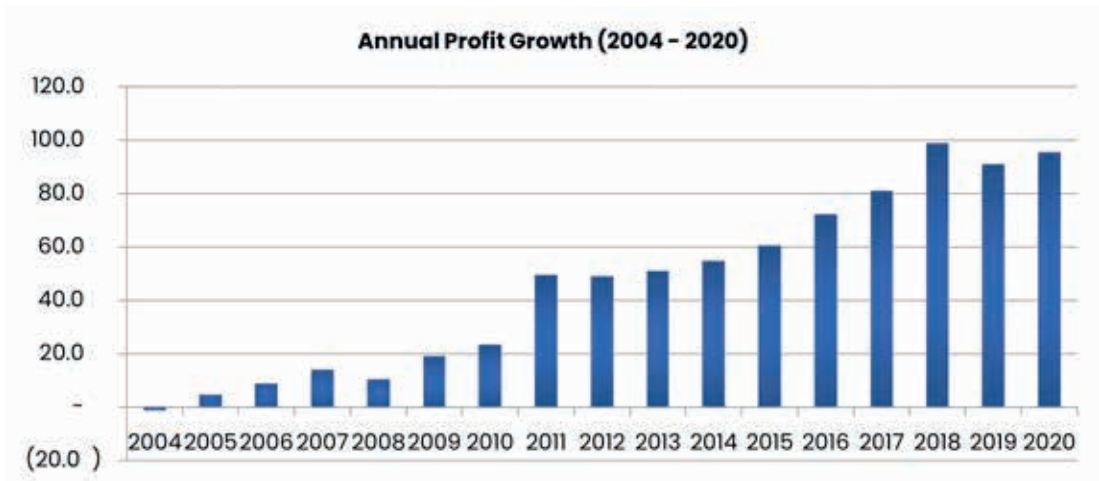
Forced to respond to some challenging realities, we learned valuable lessons in the early months of the pandemic. There was no accessible guideline, so we had to find new ways to do things.

Going forward, we should look to institutionalize some of these learnings to create more agile workforces. They should develop new talent models to facilitate flexible, self-organizing teams that come together for a common purpose. We should also focus on workplace redesign to help strike the right balance between in-person work environments and remote arrangements, which should be based on the specific needs of various roles or jobs. However, the goal of these changes should be to boost productivity, creativity, and collaboration.

## OUR PERFORMANCE IN 2020

The worldwide pandemic of COVID-19 has caused a huge disruption creating an unprecedented impact on the financial well-being of nations, corporations, and individuals. The highlights of financial results are as under:

| <b>FINANCIAL PERFORMANCE HIGHLIGHTS - (IN MVR)</b> |             |             |             |             |             |
|--|-------------|-------------|-------------|-------------|-------------|
| <b>FINANCIAL POSITION (IN MILLIONS)</b>            | <b>2016</b> | <b>2017</b> | <b>2018</b> | <b>2019</b> | <b>2020</b> |
| Total assets                                       | 1361.79     | 1588.93     | 1751.44     | 2185.66     | 2084.83     |
| Shareholders Equity                                | 467.76      | 513.89      | 515.78      | 563.04      | 658.37      |
| Facilities to customers (net)                      | 1302.98     | 1410.52     | 1617.38     | 1738.37     | 1834.85     |
| Customer EMI deposits                              | 64.50       | 68.44       | 82.42       | 88.68       | 80.31       |
| Borrowings   | 614.98      | 672.86      | 637.87      | 692.38      | 624.55      |
| <b>EARNINGS</b>                                    |             |             |             |             |             |
| Total income                                       | 151.77      | 173.24      | 191.25      | 217.65      | 228.96      |
| Net interest income                                | 84.42       | 89.82       | 95.11       | 101.94      | 104.03      |
| Net Income on Shari'ah Product                     | 14.44       | 22.58       | 25.08       | 33.96       | 37.66       |
| Total operating income                             | 105.08      | 119.51      | 126.31      | 141.41      | 145.45      |
| Total operating expenses                           | 15.40       | 15.64       | 18.27       | 33.78       | 32.06       |
| Profit before tax                                  | 85.66       | 93.29       | 116.30      | 107.62      | 116.07      |
| Profit after tax                                   | 72.30       | 81.19       | 99.00       | 91.09       | 95.32       |
| <b>PERFORMANCE INDICATORS</b>                      |             |             |             |             |             |
| Net asset value per share                          | 261.24      | 286.51      | 323.62      | 353.28      | 413.09      |
| Earning per share (EPS)                            | 45.4        | 50.9        | 62          | 57.16       | 59.81       |
| Dividend per share                                 | 20          | 22          | 25          | 27.5        | 12.50       |
| Debt/Equity (times)                                | 2.27        | 2.47        | 2.4         | 2.88        | 2.17        |
| Interest cover (times)                             | 2.96        | 2.96        | 3.14        | 2.7         | 2.8         |
| Dividend pay out (%)                               | 44          | 43          | 40          | 48          | 21          |
| ROE (%)  | 17          | 18          | 19          | 16          | 15          |

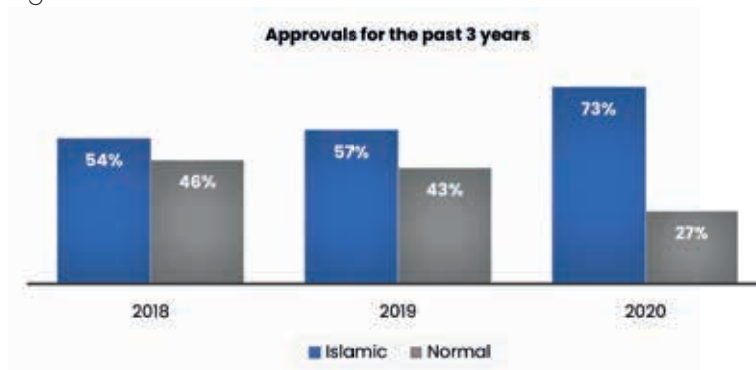


## TYPES OF PRODUCTS

The Company offers customers home loans and facilities for the purchase or construction of residential properties and for renovation and extension of existing housing units. Although the portfolio has reached MVR 1.88 billion, from March no new loans/facilities were approved and added to the loan portfolio for the year 2020 due to the on-going pandemic.



As at 31<sup>st</sup> December 2020, housing facilities contributed about 30 percent, MVR 563 million of the housing portfolio. The break down for AMNA products and conventional products are given below:



## INCOME

During the year under review, the Company's revenue from operations was MVR 228.96 million as compared to MVR 217.65 in 2019, recording a growth of 5.20 percent. Out of the total revenue, interest income on loans and facilities advanced for 2020 was MVR 153.36 million. Income from AMNA products contributed MVR 64.27 million. Short term investments were MVR 3.56 million.

## FEE INCOME

Fee income of the Company was less by 17.74 percent from MVR 3.10 million in 2019 to MVR 2.55 million in 2020. This drop was primarily due to the decrease in portfolio growth as a result of Covid-19. Similarly, there is a decline in fee income from the managed portfolio of the Ministry of Housing by from MVR 2.26 million in 2019 to MVR 2.08 million in 2020.

## EXPENSES

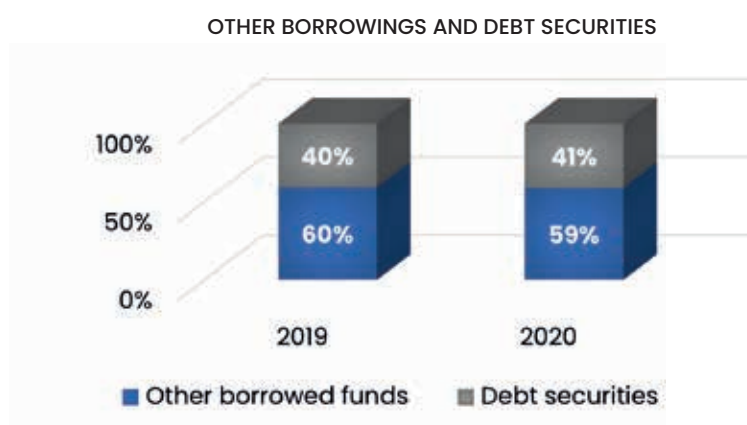
The company's total expense during the year was MVR 136.31 million as compared to MVR 126.56 million in 2019, which is an increase of 7.70 percent. Out of the total expense for the year, loan interest and AMNA facilities cost was MVR 83.51 million (61.26 percent), and operating expenditure (excluding modification loss and impairment losses) was 16.82 MVR million compared to MVR 17.93 million in 2019, this is 6.14 percent decrease when compared to 2019.

## TAX CONTRIBUTION

HDFC pays to the government's tax revenue of 15 percent as business profit tax. The Company contributed MVR20.74 million in Business Profit Tax to the Government for the year 2020. Total tax contribution was 9.05 percent of its total income generated during the year 2020.

## BORROWINGS AND DEBT INSTRUMENTS

The company raises funds from issuing debt instruments to the market and from commercial banks to finance its business and strengthen its capital structure at agreed rates, tenure and other terms and conditions. Debt instruments and other borrowing of the company account for 74 percent of its total liabilities for the year 2020, and 72 percent for the year 2019.



## DECLARATION OF DIVIDEND

Board meeting held on 23<sup>rd</sup> May 2021 approved the financials of FY2020, and subsequently considering the overall performance of the Company, while retaining capital to assist future growth, the board of directors on 30<sup>th</sup> May 2021 agreed a dividend of MVR 12.50 per share with a pay-out ratio of 21 percent.

## IMPAIRMENT CHARGE

The Company remains committed to continuously assess the credit quality of its a portfolio in order to ensure that adequate provisions are recognised in the financial statements. In the year under review, the credit quality of the Loans were evaluated, and appropriate provisions were made, excluding those customers who were in the debt moratorium. Further, provisions were made by increasing the probability weightage on the worst-case macro-economic scenario to capture the expected credit losses. Due to all these prudential measures taken by HDFC Gross carrying amount of loans and advances against Stage 2 and Stage 3 loans for the year 2020 increased by 88.26 percent and 38.42 percent respectively compared to 2019. During the year 2019, the Organisation had to make higher impairment provisions due to the Covid-19 as a subsequent event.

## CREDIT QUALITY MANAGEMENT

Having made a conscious decision to scale back on our lending activities in 2020, in light of the weak credit demand, due to Covid-19 we then turned our attention towards managing credit quality of our assets. Taking a holistic approach, we looked at strengthening credit quality management from both the pre-credit and post-credit perspectives. From the pre-credit angle, the priority was to improve the first line of defence to ensure adequate customer profiling and comprehensive credit evaluation is carried out. This was coupled with strengthening the current credit underwriting guidelines and providing proper training for all the front line and credit officers to reinforce the importance of adhering to the Company's credit policy and other protocols to safeguard credit quality. At the same time, special emphasis was placed on strengthening our credit risk management which led to several policy-level changes being implemented to take note of internal business developments as well as external changes arising from the immediate operating environment.

We also increased the involvement of our recovery team in the post-credit monitoring mechanisms, to initiate watch listing of customers. A series of assets were also made to keep a close watch by the Recovery Department, among them reviewing the health of the asset of all default customers. A proactive follow up right from initial stage of default/non-payment. We also closely examine the repayment patterns of existing customers to detect early warning signals.



**HDFC has responded through various measures including allowing moratorium period, providing solution framework for stressed accounts due to COVID-19 and numerous other measures.**



### IMPACT ON ECL PROVISION

The disruption throughout the globe due to the COVID-19 pandemic has hit the Maldivian economy considerably. The financial sector has suffered a massive blow due to the impact of the pandemic on the credit worthiness and repayment capacity of the overall general public. HDFC has responded through various measures including allowing moratorium period, providing solution framework for stressed accounts due to COVID-19 and numerous other measures.

The report noted reversal in Expected Credit Loss (ECL) allowance of MVR 2.67 million as of 31<sup>st</sup> December 2020.

### RECOVERIES AND NON-PERFORMING LOANS AND FACILITIES

The economic impact of the pandemic, policymakers across the nation advised to issue measures to provide relief to distressed borrowers. There are important differences in the scope and general design of these measures, but the common denominator is that they introduce temporary concessions to the contractual terms of borrowers' repayment obligations on loans and facilities owed to the Company. The Management is highly committed towards reducing the NPLs as it has become increasingly difficult and challenging year for the Company. Covid-19 pandemic health crisis,

economic recession, construction interruption etc. of previous year have brought in a bad signal to housing finance market. Moreover, in this competitive environment, it has become a challenging task. Non-Performing loans and facilities increase to 3.09 percent as of 31<sup>st</sup> December 2020, in comparison to the 1.51 percent at the end of 2019. Following the direction of Board of Directors along with competent and strategic steps of the Company, stepping to hard-line recovery policy and taking legal procedures as per requirement has created a ground of possibility for making the recovery more active and successful in the forthcoming years.

### IMPROVING THE SERVICE QUALITY AND CUSTOMER CARE

As our motto *"Our customer, our responsibility"*, we always believe in better customer services to prove it. Our business can only thrive if our customers feel that we are helping them in meaningful ways. We are here to help our clients to build their homes. We strive to earn and maintain our customers' trust by constantly adhering to the highest ethical standards. Everything we do in HDFC should be in our customers' interest and create economic value. This inspires our products, the delivery of our services and the principles that run through our business.

Understanding customer expectations and responding through appropriate products and services has been central to the Company's business plan. The demand for convenience, speed and customised solutions with quick turnaround and innovative solutions requires a dynamic culture in the Company. The concept of customer satisfaction has now been replaced by 'delight' in our service experience. HDFC has embraced and built upon this transition while being committed to the core belief *"our customer" "our responsibilities"*.

A specialized team handles inquiries, suggestions and complaints submitted by customers, and responds to them positively and professionally. It follows up and solves them completely within a specific time and is directly reported to the management.



## CORPORATE SOCIAL RESPONSIBILITY

Our Company believes that carrying out Corporate Social Responsibility (CSR) helps in tangible value-creation. Moreover, CSR creates a positive image in society for HDFC. Since the inception of the organisation, we are committed to supporting our people and fulfilling social responsibilities alongside our lending operation. We have followed this through 2010 with utmost dedication and spending to carry out various CSR activities. The areas of our contribution under the banner of corporate social responsibility are well diversified across different segments and considering the needs of the nation.

HDFC is quite conscious about its social responsibility. We are serving the humanity through different welfare activities giving emphasis on health, education etc. The Company evaluates the environmental effects of projects in lending process and the projects found detrimental to the environment are not approved for financing. Our involvement in CSR events enable us to address important community concerns, build and maintain relationships and play a role in the society beyond simply that of wealth creation.

## CORPORATE GOVERNANCE

The rapidly changing nature of the business environment within which our Company operates has witnessed the introduction of fundamental changes from both a regulatory and governance perspective. Our board has positively embraced these changes and has sought to harmonise the approach between conformance and performance, with the objective of conducting the business of HDFC in an ever-more responsible and efficient manner.

The board remains committed to the principles of the Company's Corporate Governance, which defines sound governance as the exercise of ethical and effective leadership by a governing body, being the board of directors, towards the achievement of its desired governance outcomes., which defines sound governance as the exercise of ethical and effective leadership by a governing body, being the board of directors, towards the achievement of its desired governance outcomes.

## OUR STRATEGIES FOR 2021

In order to be successful in the backdrop of this rapidly changing competitive housing sector, we have prepared ourselves appropriately. Our strategy is to continue the business steadily for a sustainable growth. Better management of our exposure in our mortgage finance business, curbing our NPLs, customer care and improving our digital platform is our main focus.

## ADAPTING TO THE NEW NORMAL

This pandemic has presented several challenges to the Company; however, we have used this as an opportunity to solve problems in the most unique manner such as conducting virtual meetings of the Board of Directors, other stakeholders, online transfer collections process and continuous communication with investors for data sharing and discussions.

To ensure the safety of all the employees without compromising on the operations, the Company adapted by implementing alternate technology, Work from Home (WFH) enablement, and other functional and connectivity support for those who are required.

## RISK ASSESSMENT

As a lender we conducted stress tests of our portfolios to assess, for example, the proportion of their borrowers who are reliant on income from hospitality/tourism sectors/rental etc. This risk assessment can help us in the planning for a potential wave of defaults. This will help us in planning on servicing needs for delinquent borrowers, while also helping with financial planning in terms of provisions and future growth.

Looking ahead the housing sector could see some challenging times. Credit growth has been slowing over time given the risk aversion of lenders and the declining demand from borrowers affected by the economic disruption related to the pandemic.

With most forecasts anticipating a contraction in economic activity due to significant disruptions caused by the pandemic, FY21 is likely to remain a challenging year for the Maldivian economy and to our profitability.

In line with slowdown in economic growth in FY2020, commercial banks credit recorded a significantly low growth as of March 2020 – largely driven by growth in personal loans. Credit growth to industry and services has been decelerating dramatically. The domestic money market conditions tightened considerably since the onset of COVID-19, with the bond Sukuk investors demanding the full profit despite the situation. The Company paid our investors on time to build the investor confidence and to avoid premature redemption pressures. At the same time, we are also strengthening our IT security features.

## CHALLENGES

HDFC faces several challenges. Managing liquidity usually tops the list. We are experiencing stress, after years of relative calm. As COVID-19 severely blunts the economy, and unemployment reaches level high, many households are struggling to keep up with their mortgage payments. Not all borrowers are in the same situation. The ability to honour deferred principal and interest payments varies from borrower to borrower. While our competitors are well-capitalized and have sufficient liquidity to manage these commitments, we are a non-bank financial institution and is facing a different set of realities.

Should ‘another wave’ materialize and prevent tourists from visiting in 2021, the downturn would be even more severe. While the unique ‘one island, one resort’ concept facilitates socially distanced vacations, difficulties in resuming commercial flights and recent increases in domestic transmission pose challenges to attracting more visitors. Although medium- and long-term tourism prospects remain strong, visitor arrivals are not projected to return to pre-pandemic levels until 2023. Meanwhile, the potential closure of tourist establishments and other small businesses could result in permanent supply-side losses, hurting long-term growth.

## DIGITAL IMPROVEMENT

Digital innovations are transforming economies and financial ecosystems the world over. Customers are demanding services that are simple, functional, reliable, and seamless. New opportunities for business growth abound as do new risks to data security and compliance, among others. In the ever-evolving market scenario strengthening digital capabilities is our key priority. We have been continuously trying to increase operational efficiency by digitalizing internal operational processes. Introducing new service features in has become integral part of our DNA. We are compelled to invest in and improve our digital systems and platforms for a smoother customer experience, which, to an extent, will be driven by customer demand as well as the competitive pressure to offer the best digital solutions. As a result, from the digital technology side, majority of customers using internet banking. We are enhancing transaction security; we are committed to give our customers utmost comfort. To safeguard IT assets from various outsider attacks, we are taking all necessary backup of data so that it can be retrieved in the event of emergency situation. We are also working on upgrading the current accounting software (SAGE) to enhance our operational efficiency which will lead to better customer experience.

As you may be aware, for some years now we have been working on the fundamental premise that digitisation is the key to delivering simple, fast, and convenient service to our customers we have invested heavily in expanding, redesigning, and strengthening our technology foundation with the aim of completely transforming HDFC’s front end and back-end operations.

Continuing to change the way customers pay their EMI and other charges we launched the payment portal in 2020. Meanwhile as part of an aggressive effort to decrease the number of cash customers opting for digital solutions, we developed a dedicated payment portal. Thanks to this initiative by our management, as we see more and more customers migrating to this portal rather than visiting the company in person.

## SUSTAINABILITY

For the past decade or so, our focus on sustainability has always gone hand in hand with our business. Staying true to our core competencies, we continue to focus on financially empowering customers by providing financial knowledge and spearhead their journey towards gaining access to affordable financial housing facilities. By taking this strategic approach towards sustainability we are looking to position HDFC as an inclusive financial institution with the capacity to contribute to the “socio-economic” development of our nation. We reinforce this premise through our flagship *“Our customer our responsibility”*.

## BUSINESS CONTINUITY PLANNING

Today’s business practices, changes in technology and increases in unforeseen events and concerns have focused greater attention on the need for effective business continuity planning. HDFC’s Business Continuity Plan (BCP) seeks to protect staff, minimise down time and losses, safeguard the Company’s reputation and sustain customer confidence. The BCP will be regularly updated and strengthened for effectiveness using various realistic scenarios.

## HUMAN CAPITAL

### *the lively force that propels HDFC forward*

The agility, competencies, and attitudes of the 37 strong HDFC Team enabled the Company to be resilient in an extremely challenging year, ensuring customer needs were fulfilled and business objectives were met despite the lockdown and numerous operational challenges that prevailed.

In 2020, HDFC introduced the Work from Home concept, which was launched as a pilot programme due to the COVID-19 lockdown. This intervention aptly positioned the organisation to continue its operations uninterrupted, amid the restrictions imposed due to the pandemic.

## ANNUAL GENERAL MEETING AND BOARD MEETINGS

In an effort to ensure the health and safety of HDFC’s shareholders while also staying in line with Guidelines issued by the Health Protection Agency (HPA) to prevent the spread of COVID-19 hosted a fully-fledged virtual AGM. The 17<sup>th</sup> AGM was held from the Head Office to shareholders without any disruptions, via “Zoom” video communications app.

Board Meetings were migrated to a virtual platform enabling the smooth functioning of the Board functions in view of COVID-19 pandemic.

## APPOINTMENT OF AUDITORS

In 2020, at the AGM, PWC was appointed as the external auditor and KPMG have been appointed as the internal auditor. During the year one statutory audit and four internal audits were conducted. Appointment of auditors for 2021 will be placed before the shareholders in the forthcoming Annual General Meeting for selection.

## DIRECTOR'S RESIGNATION

At the time of inscription of this report, Mr. Mohamed Mauroof Jameel (government of Maldives Nominee Director) resigned with effect from 21 December 2020. The Board and on my own behalf thank Mr. Jameel for his contribution and wish him the best for his future endeavours.

## ANTI- MONEY LAUNDERING AND COMBATING THE FINANCE OF TERRORISM

Today, Money Laundering has become a global concern. It is a process by which one conceals the illegal source of income and makes it legitimate through a complex sequence of banking transfers or commercial transactions. HDFC complies with the Law No. 10/2014 PREVENTION OF MONEY LAUNDERING AND FINANCING OF TERRORISM ACT. Under this Act the Company has appointed **Mr. Mohamed Nawaz Hassan, Assistant Manager - Credit**, as the AML officer who directly reports to Maldives Monetary Authority. In order to ensure effective implementation of AML framework the Company has adapted a Risk based approach, primarily based on Know Your Customer (KYC) and monitoring/reporting of suspicious transactions. This includes large as well as structured cash transactions above a certain threshold as per applicable regulatory/ internal guidelines. HDFC takes all necessary steps to adhere with the directives issued by the Financial Intelligence Unit (FIU) at MMA and reporting directly to the FIU.

## MONITORING & REPORTING OF SUSPICIOUS TRANSACTION & ACTIVITY

As a part of transaction monitoring, the company monitor flow of funds towards loans/facility equity payments, to safeguard us from being used as a channel for financial crime. Transaction monitoring is conducted for both Anti-Money Laundering (AML) and Combating of Financing of Terrorism (CFT) purposes. At the initial stage or during the course of any finance transaction, if we become aware that the transaction presents higher financial crime risks or it is suspicious in nature, we report to FIU at MMA weekly for their perusal to taking necessary action in this regard.

## DECLARATION OF INTEREST

All directors are required to disclose any matters which may lead to or be perceived as a conflict of interest in compliance with the Company's Code of Conduct; and key management personnel have fully disclosed any conflict of interest between their duties to HDFC in their individual profile.

## DIRECTORS' RESPONSIBILITY STATEMENT

The Board of Directors hereby state that:

1. In the preparation of the annual accounts, applicable accounting standards have been followed. Appropriate accounting policies have been consistently followed to give a true and fair view of the state of affairs of the Company at the end of the financial year, and for the profit of the Company for the year.
2. Proper and adequate accounting records and controls have been maintained in accordance with the provisions of the Company's Act 10/96, safeguarding the assets of the Company and preventing irregularities.
3. The annual accounts have been prepared on a going- concern basis.
4. There were no unexpired service contracts within one year without payment of compensation to any Director.
5. The Board of Directors affirms that there no other interest of the Directors except those disclosed in this report and the accompanying financial statements.

The Board of Directors further affirms that no major events have occurred subsequent to the balance sheet date which would require adjustments to, or disclosure in the financial statements.

## GEARING FOR THE FUTURE

With competitive and regulatory pressures on the rise and numerous other complexities affecting our economy and operating environment, we decided to take a deep dive into our business and critically re-evaluate the company's readiness to face 2021 and beyond. The entire month of October 2020 was dedicated towards this exercise with a series of intense brain storming sessions with the management team to formulate our business plan.

A gradual increase in private sector credit is expected towards the latter part of the year as economic activity picks up and business improves. However, with key sectors such as tourism, fisheries, aviation, and consumption yet to fully recover, portfolio growth is likely to remain subdued in the near future as market volatility and uncertainty surrounding the impact of the pandemic delay construction by individuals and contractors.

Looking ahead, the next twelve months will be a crucial period for the Maldivian economy, after a very challenging year, it is important that the economy gradually settles into a steady growth pace over the coming months in order to set the tone for the next few years. The recovery of key sectors such as tourism and fisheries will be vital in order to increase economic activities and boost investor confidence. Moreover, borrowing cost will need to remain on a downward trend if revival in home financing credit demand is to materialise.

While it is obvious that we are not in a position to control the impacts arising out of the external environment, and as we journey towards a promising future, we will embed sustainable solutions to the overall operations of our business.

Finally, leveraging a leading market position and a unified technology platform, while fully implementing ‘My customer my responsibility’ programme to raise customer experience to new levels. The Company will continue to migrate more customer servicing to digital channels and develop new opportunities for growth.

## APPRECIATION

During my tenure as a Director of the HDFC Board, I am truly grateful to my Board of Directors for their timely and judicious counsel in navigating this year of extraordinary uncertainties and the Corporate Management for their unwavering dedication towards meeting our goals. I take this opportunity to thank the Government of Maldives, the Ministry of Finance, the Maldives Monetary Authority and other regulatory authorities of the Maldives for their valuable and constant support and prudent guidance as the Company continues to face during the challenging times. As always, I am grateful to our shareholders for their understanding and continued confidence in us.

Team HDFC deserves praise for their dedicated efforts in 2020, without which we could not have made it through the year. Thank you to each of our stakeholders, especially our customers for being a true partner in this journey. It is through the support and encouragement of all our stakeholders that we as a financial institution can stand strong and persevere through the challenges, uncertain and tough times, that have gone by and those that are coming ahead. You helped us to ‘Stay Focused’ so that we can ‘Stay Ahead of Time’.



**AMINATH SHEENA MUSTHAFA**

Nominee Director

On behalf of the Board of Directors

# BOARD OF DIRECTORS

## Nominee Director

|                                     |                                   |
|-------------------------------------|-----------------------------------|
| Mr. Conrad D'Souza (Chairman)       | HDFC Investments Ltd. India       |
| Mr. Mohamed Mauroof Jameel *        | Government of Maldives            |
| Mr. Nihal Senanayake Welikala       | International Finance Corporation |
| Ms. Aminath Sheena Musthafa         | Government of Maldives            |
| Ms. Kohe Noor Binte Mahmoodul Hasan | Asian Development Bank            |

## Alternate Director

|                       |                        |
|-----------------------|------------------------|
| Mr. Hamid Sodique     | Government of Maldives |
| Mr. Mohamed Zuhair    | Government of Maldives |
| Mr. Asif Saeed Cheema | Asian Development Bank |

## Managing Director

Ms. Raheema Saleem

## Company Secretary

Mr. Adam Athif

*\* Resigned effective from 21<sup>st</sup> December 2020*

### **Audit Committee**

|                                     |          |
|-------------------------------------|----------|
| Mr. Conrad D'Souza                  | Chairman |
| Mr. Nihal Senanayake Welikala       | Member   |
| Ms. Aminath Sheena Musthafa         | Member   |
| Ms. Kohe Noor Binte Mahmoodul Hasan | Member   |

### **Credit Risk Management Committee**

|                                     |          |
|-------------------------------------|----------|
| Mr. Nihal Senanayake Welikala       | Chairman |
| Ms. Aminath Sheena Musthafa         | Member   |
| Ms. Kohe Noor Binte Mahmoodul Hasan | Member   |

### **Nomination & Remuneration Committee**

|                                     |             |
|-------------------------------------|-------------|
| Ms. Aminath Sheena Musthafa         | Chairperson |
| Ms. Kohe Noor Binte Mahmoodul Hasan | Member      |
| Mr. Conrad D'Souza                  | Member      |

### **Shariah Committee**

|                                   |           |
|-----------------------------------|-----------|
| Dr. Ibrahim Zakariyya Moosa       | Chairman  |
| Assoc. Professor Dr. Rusni Hassan | Member    |
| Sheikh Ali Zahir bin Saeed Qasim* | Member    |
| Dr. Mohamed Ibrahim**             | Member    |
| Uz. Azmeen Rasheed                | Secretary |

### **IPO Committee\*\*\***

|                                     |          |
|-------------------------------------|----------|
| Mr. Conrad D'Souza                  | Chairman |
| Mr. Nihal Senanayake Welikala       | Member   |
| Ms. Kohe Noor Binte Mahmoodul Hasan | Member   |
| Ms. Aminath Sheena Musthafa         | Member   |

\* Appointed on 21<sup>st</sup> October 2020

\*\* Resigned on 6<sup>th</sup> September 2020

\*\*\* Committee was disbanded effective 19<sup>th</sup> December 2020

# BOARD OF DIRECTORS PROFILE



## MS. AMINATH SHEENA MUSTHAFA

**Nominee Director, Non-Executive  
Government of Maldives**

Ms. Aminath Sheena Musthafa was appointed as a Non-Executive Director by the Government of Maldives on 11<sup>th</sup> April 2018.

### QUALIFICATION AND EXPERIENCE

Ms. Sheena has more than 20 years of experience working in the Government of Maldives. She holds Master of Business Administration from Anglia Polytechnic University, Anglia Business School, Cambridge, UK. In addition, she also holds Degree of Bachelor of Arts (Management Single Honours) from Trinity and All Saints University College, University of Leeds, UK. She has also served as the Chairperson of the Management Audit Committee (Joint Project of the President's Office and Civil Service Commission), as a member in the Maldives Scholarship Board and as a member of the Civil Service Innovation Award Committee. She is currently Head of the Human Resource and Performance Management Unit at The President's Office as Director General.

### OTHER APPOINTMENTS

- **Director General:** Head of Human Resources and Performance Management Section - President's Office

### BOARD COMMITTEES:

- Audit Committee (Member)
- Credit Risk Management Committee (Member)
- Nomination & Remuneration Committee (Chairman)
- IPO Committee (Member)

She does not hold any shares in any Company in the Maldives that has as a conflict of interest with HDFC Plc.

## MR. CONRAD D'SOUZA

**Nominee Director, Non-Executive  
HDFC Investments Limited (India)**

Mr. D'Souza was appointed as the Nominee Director on 15<sup>th</sup> March 2019.



### QUALIFICATION AND EXPERIENCE

Mr. Conrad has a Master's Degree in Commerce, a Master's Degree in Business Administration and is a Senior Executive Program (SEP) graduate of the London Business School. He joined HDFC in 1984 and is a Member of the Executive Management & Chief Investor Relations Officer. He is also a Member of the Asset Liability Committee (ALCO) and the Risk Management Committee. He was earlier the Treasurer of HDFC and his responsibilities included resource mobilisation both domestic and international and asset liability management. He has also worked earlier in Operations and Management Services at HDFC and was also Regional Manager – Maharashtra.

As Treasurer he was also responsible for HDFC's US\$ 500 million Foreign Currency Convertible Bond and also the country's first simultaneous issue of a Non-Convertible Bond with a Warrant in the domestic markets.

He has been a consultant to USAID / UNDP and IFC (Washington) and has undertaken assignments in Asia, Africa and Eastern Europe.

### OTHER APPOINTMENTS

Mr D'Souza has been a member of national committees to review the Introduction of Variable Rate Mortgages and for the creation of a Secondary Mortgage Market in India. He has been instrumental in setting up mortgage finance companies in Bangladesh, Egypt, Maldives and Tanzania and is currently on the Board of First Housing Finance (Tanzania) Limited. He is also a Director on Nations Trust Bank, Sri Lanka. He is also a member of the Board of HDFC Sales Limited India's largest mortgage distribution company

### BOARD COMMITTEES:

- Audit Committee (Chairman)
- Nomination & Remuneration Committee (Member)
- IPO Committee (Chairman)

He does not hold any shares in any Company in the Maldives that has as a conflict of interest with HDFC Plc.



## MR. NIHAL SENANAYAKE WELIKALA

**Nominee Director, Non-Executive  
International Finance Corporation (IFC)**

Mr. Welikala was appointed as the nominee director by the International Finance Corporation on 02<sup>nd</sup> November 2016.

### QUALIFICATION AND EXPERIENCE

Mr. Nihal has been with the NDB Group for more than 9 years including more than 6 years as CEO and prior to this post he was employed at Citibank in Colombo from 1981 to 1999 which included 11 years as CEO where he was the first Sri Lankan to hold this post. He qualified as a Chartered Accountant in the United Kingdom, is a Fellow of the Institute of Chartered Accountants in England and Wales and worked for seven years with EY in London. He also holds a Bachelor of Laws degree from the University of Sri Lanka. He holds a Bachelor of Law degree from the University of Sri Lanka. In addition, Mr. Nihal also served as NDB's Nominee-Director at MFLC, Maldives.

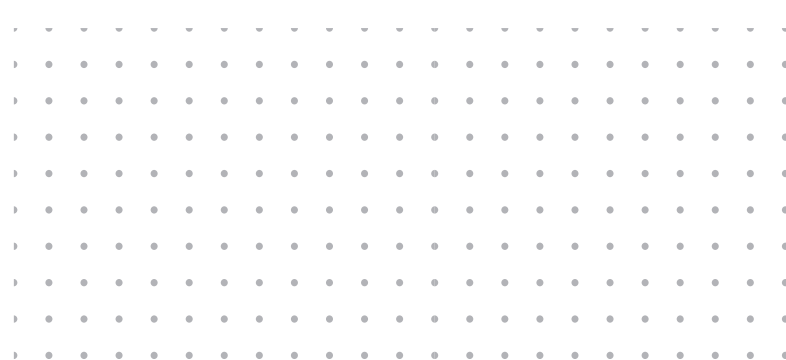
### OTHER APPOINTMENTS

- Consultant to the Ministry of Public Enterprise Development, Chairman, AMW Capital Leasing Ltd of Al-futaim group of Dubai,
- Non-Executive Director of National Development Bank (NDB) and Bartleet & Co Ltd.
- Independent consultant in the financial sector.

### BOARD COMMITTEES:

- Credit Risk Management Committee (Chairman)
- Audit Committee (Member)
- IPO Committee (Chairman)

He does not hold any shares in any Company in the Maldives that has as a conflict of interest with HDFC Plc.



## MS. KOHE NOOR BINTE MAHMOODUL HASAN

**Nominee Director, Non-Executive  
Asian Development Bank (ADB)**

Ms. Kohe was appointed as the Nominee Director on 09<sup>th</sup> August 2019.



### QUALIFICATION AND EXPERIENCE

Ms. Kohe has an LLB (Hons), from National University of Singapore. She is a partner with Reed Smith's Singapore office and is one of three directors of Resource Law LLC, Reed Smith's Singapore alliance partner law firm, which she was instrumental in setting up in June 2016. And she is the first female partner in Singapore and their first Singapore-qualified senior hire.

Kohe has been in practice for almost 15 years and is experienced in all forms of litigation and arbitration, particularly in power, international trade, commodities, and transportation disputes.

### OTHER APPOINTMENTS

Outside of law, Kohe volunteers actively and is a Board Member of the International Union against Tuberculosis and Lung Disease Asia Pacific Ltd, a registered charity in Singapore. Kohe also sits on the Board of Marine Offshore Oil and Gas Association of Singapore. Kohe is also an independent, non-executive director of Hong Lai Huat Group, SGX, Cambodia.

### BOARD COMMITTEES:

- Credit Risk Management Committee (Member)
- Nomination & Remuneration Committee (Member)
- IPO Committee (Member)

She does not hold any shares in any Company in the Maldives that has as a conflict of interest with HDFC Plc.



## MS. RAHEEMA SALEEM

Executive Director, Managing Director  
HDFC Plc, Maldives

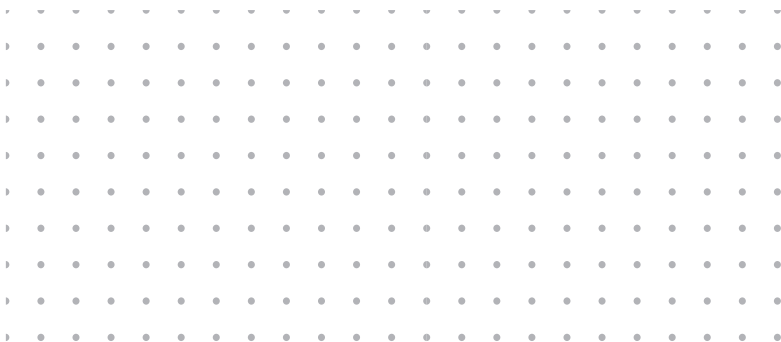
### QUALIFICATION AND EXPERIENCE

She was the founding managing director from 2004 until the Company was privatised in 2008, where she was appointed as the advisor to the Managing Director until 2010 when she left for her sabbatical and returned in 2014 and was appointed as the Operations Director and Company Secretary till 2017. In February 2017 she was appointed as the Managing Director of the Company. She was also on the Board of Directors of HDFC from 2004 till 2010. Prior to joining HDFC, she served in the Ministry of Finance and Treasury for more than 16 years in various senior positions. In addition, she also served as a Board Director of State Trading Organisation and during those 3 years, she was also the Chairman of the Maldives National Oil Company in Singapore. Further, she was also the Chairman of the Audit Committee of the STO Board. She holds master's degree in management from Monash University, Melbourne, Australia and master's degree in Tourism from Monash University Melbourne, Australia. In addition, she obtained her Bachelor of Commerce, in Accounting and Marketing (Double Major) from Curtin University of Technology, Perth, Australia.

**OTHER APPOINTMENTS** (None)

**BOARD COMMITTEES:** (None)

She has declared that she does not hold any shares in any Company in the Maldives that has or will be perceived as a conflict of interest with HDFC. Plc.



## MR. HAMID SODIQUE

**Alternate Director, Non-Executive  
Government of Maldives**

Mr. Sodique was appointed as the Alternate Director by the Government of Maldives on 10<sup>th</sup> April 2011.



### QUALIFICATION AND EXPERIENCE

Mr. Sodique has over 15 years of experience in management consulting, socioeconomic research and strategy advisory services. He is the Chief Executive Officer (CEO) of FJS Consulting Pvt. Ltd. Maldives and is a visiting lecturer of Corporate Strategy at the Maldives National University. He has previously served as a Board Director at the Maldives Pension Administration Office and chaired its investment committee. He also served as the Secretary General of Maldives National Commission for UNSECO. He began his professional career in the Maldives Monetary Authority and since then has worked in senior positions of number of public and private sector organisation and has executed several research and consulting projects for prominent local and international clients including government ministries and multilateral organisations. Mr. Sodique holds a Master's Degree in Business Administration from University Adelaide, Australia. He has also obtained his Bachelor's Degree in Business Administration from the University of Brunei Darussalam.

**OTHER APPOINTMENTS** CEO, FJS Consulting Pvt.

**BOARD COMMITTEES:** (None)

He has declared that he does not hold any shares in any Company in the Maldives that has or will be perceived as a conflict of interest with HDFC. Plc.



## MR. MOHAMED ZUHAIR

**Alternate Director, Non-Executive  
Government of Maldives**

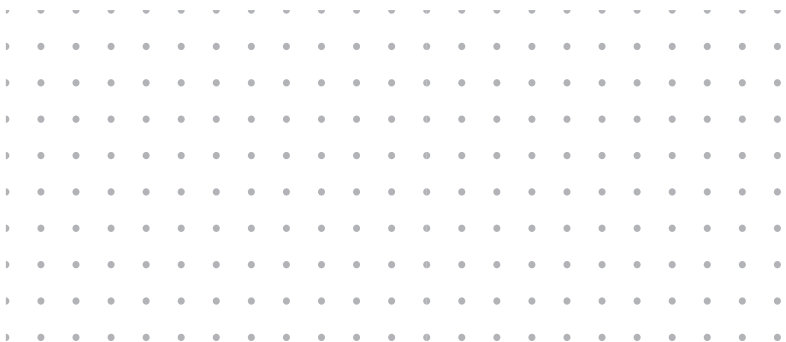
Mr. Mohamed Zuhair was appointed as a Non-Executive Alternate Director by the Government of Maldives on 11<sup>th</sup> April 2018.

### QUALIFICATION AND EXPERIENCE

He has more than 30 years of experience at prominent positions in the Government of Maldives. He holds MSc in Agricultural Studies from University of Queensland, Australia. In addition, he also holds Bachelor of Science (in Agriculture) and Post Graduate Diploma of Ingenieur Agricola from American University of Beirut, Lebanon. He also served as a Deputy Minister at the Ministry of Fisheries, Agriculture and Marine Resources and Minister of State at the Ministry of Defence and National Security. In addition, he has served as Chairman of MIFCO, Chairman of Kadhdhoo Airport Company Ltd (KACL) and Managing Director at Fantasy Pvt Ltd.

**BOARD COMMITTEES:** (None)

He does not hold any shares in any Company in the Maldives that has or will be perceived as a conflict of interest with HDFC. Plc.



## MR. ASIF SAEED CHEEMA

**Alternate Director, Non-Executive  
Asian Development Bank (ADB)**

Mr. Cheema was appointed as the Alternate Director by the Asian Development Bank on the 1<sup>st</sup> April 2015.



### QUALIFICATION AND EXPERIENCE

Mr. Cheema started his career at Deutsche Bank Securities, New York as an Equity Research Associate in 1996. Before joining ADB, Mr. Cheema has worked in various financial institutions including J.P. Morgan Securities, New York, HSBC Investment Bank, Dubai and London, Nomura International, Dubai as Executive Director, Corporate Finance and Investment Banking. He also has worked at Alpen Capital, Dubai, and UAE. Mr. Cheema, holds a Master's Degree in Business Administration (MBA) from Yale University and course work in International Affairs from Columbia University and Bachelor of Science in Accounting and Finance from New York Institute of Technology, New York.

**OTHER APPOINTMENTS** Financial Institutions Investment Specialist (ADB)

**BOARD COMMITTEES:** (None)

He does not hold any shares in any Company in the Maldives that has or will be perceived as a conflict of interest with HDFC Plc.

# MANAGEMENT TEAM'S PROFILE

## **MS. RAHEEMA SALEEM**

**Managing Director (Appointed 2017)**

- Joined HDFC in 2004
- Key positions held in HDFC includes, Founding Managing Director, Advisor, Director of Operations
- Worked at the Ministry of Finance and Treasury for over 15 years
- Over 15 years of experience in Housing Finance
- Master's in management from Monash University, Melbourne, Masters in Tourism from Monash University, Melbourne, Australia, B. Com Accounting and Marketing (Double Major) from Curtin University of Western Australia

## **MR. MOHAMED FATHY**

**Assistant General Manager, IT (Appointed in 2017)**

- Joined HDFC in 2004
- Key positions held in HDFC include, Head of Internal Audit, Manager- IT and Senior Manager IT
- M.Sc. in IT Management from Asia Pacific University of Malaysia and B.Com. from Bangalore University of India

## **DR. MOHAMED SHAFEEQ**

**Assistant General Manager, Finance (Appointed in 2017)**

- Joined HDFC in 2009
- Worked at Society of Health Education (SHE) as Finance Director from 1997-2009.
- Key positions held in HDFC include, Head of Finance, Senior Manager Business Development and Operations, Manager Business Development and CRM and Accountant.
- Registered Auditor in the Maldives,
- Fellow member of Association of Chartered Certified Accountants (ACCA).
- Doctor of Business Administration (DBA) from IIC University of Technology Cambodia, through EIPEL Campus, Sri Lanka, Master of Business Administration (MBA) from University of Ballarat, Australia, through Unity College International, Malaysia, BA (Hons) Accounting and Finance by University of East London, UK obtained through HELP University College, Malaysia.

### **MS. AISHATH RASHEEDA**

**Assistant General Manager, Credit (Appointed in 2017)**

- Joined HDFC in 2004
- Worked in Maldives Monetary Authority for more than 15 years
- Key positions held in HDFC include Credit Officer, Manager Credit and Senior Manager Credit.
- Over 15 years of experience in mortgage finance
- Master of Business Administration from Cardiff Metropolitan University, UK through International College of Business Technology (ICBT) Sri Lanka

### **MR. ADAM ATHIF**

**Assistant General Manager, Admin & CS (Appointed in 2019)**

- Joined HDFC in 2004
- Worked in the government and private sector since 1990-2004
- Key positions held at HDFC include Senior Manager Administration and Human Resource Development, Manager Administration and Human Resource Development and Manager Administration.
- Diploma in Business Administration (ABE)

### **MR. FAISAL HALEEM**

**Manager - Compliance and Quality Assurance (Appointed in 2017)**

- Joined HDFC in 2009
- Worked in the Ministry of Education
- Held key positions at HDFC including Assistant Manager-credit, Assistant Manager Credit Audit
- Affiliate member of Association of Chartered Certified Accountants (ACCA).
- BA (Hons) Accounting and Finance from University of East London, UK through HELP University College, Malaysia.

### **UZ. AZMEEN RASHEED**

**Manager, Amna (Appointed in 2016)**

- Joined HDFC in 2016
- Registered attorney in the Maldives,
- Lecturer on governance and Sharia related subjects.
- Master's in law, (Banking and Taxation Law) from Maldives National University.
- Bachelor's Degree majoring in Sharia Law from Islamic University of Almadinah Al Munawwarah (KSA).

# THE SHAREHOLDING STRUCTURE

HDFC's major shareholders are

- Government of Maldives (49%),
- Asian Development Bank (18%),
- International Finance Corporation (18%), and
- HDFC Investments Limited, India (15%)

| Name                              | No. of Share(s) held | Value of share(s) held in MVR |             |
|-----------------------------------|----------------------|-------------------------------|-------------|
| Government of Maldives            | 780,928              | 78,092,800.00                 | 49%         |
| International Finance Corporation | 286,875              | 28,687,500.00                 | 18%         |
| Asian Development Bank            | 286,875              | 28,687,500.00                 | 18%         |
| HDFC Investment Ltd (India)       | 239,062              | 23,906,200.00                 | 15%         |
| Mr. Ibrahim Naeem                 | 1                    | 100.00                        |             |
| Ms. Raheema Saleem                | 1                    | 100.00                        |             |
| Mr. Hamid Yoosuf                  | 1                    | 100.00                        |             |
| Mr. Mohamed Shahudy               | 1                    | 100.00                        |             |
| Ms. Aishath Rasheeda              | 1                    | 100.00                        |             |
| Mr. Mohamed Fathy                 | 1                    | 100.00                        |             |
| Mr. Mohamed Hamdan Fahumy         | 1                    | 100.00                        |             |
| Mr. Ahmed Anwar                   | 1                    | 100.00                        |             |
| Mr. Nahid Idrees                  | 1                    | 100.00                        |             |
| Expat MD                          | 1                    | 100.00                        |             |
| <b>TOTAL</b>                      | <b>1,593,750</b>     | <b>159,375,000.00</b>         | <b>100%</b> |



# CORPORATE GOVERNANCE



**HDFC is committed to follow high disclosure standards and transparency in financial reporting so as to keep investors and stakeholders adequately well informed and updated at frequent intervals.**



At HDFC we firmly believe that our approach to governance and leadership in our business creates shared value by underpinning responsive thinking and responsible behaviour through enhanced accountability, effective leadership, robust risk management, clear performance management and greater transparency. In our way forward to achieve sustained value we embrace governance as a business enabler in order to maintain trust with our stakeholders now and in the future.

Corporate Governance reflects the built-in value system of the organisation in conducting its day-to-day affairs. HDFC emphasizes and honours the critical importance of effective Corporate Governance for the safe functioning of HDFC and lays emphasis on ensuring that structures, processes, and systems are put in place to establish strategic objectives, through vigilant monitoring, to serve the interest of the Company and its stakeholders. The Board provides policy guidelines & directions to the management, approves strategic and major policy decisions, and oversees the higher management to attain business goals. For the sake of providing strategic support to the Board, different committees, namely the Audit committee and Credit Risk Management Committee are actively

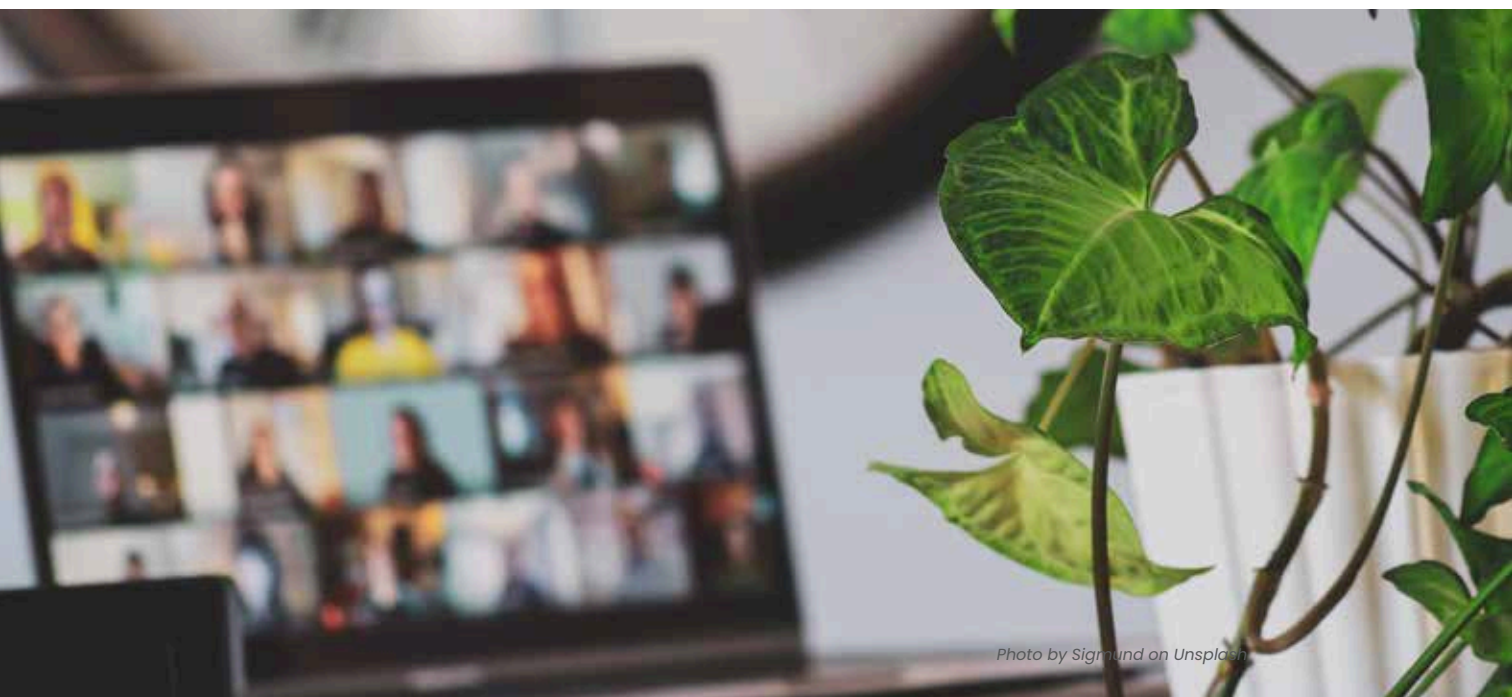
performing and providing the best support. Good governance is based on the principles of:

- Conducting business with integrity and fairness
- Ensuring transparency in all the transactions,
- Making all relevant disclosures as per the various regulations in force
- Complying with all the laws and regulations
- Ensuring accountability and responsibility when dealing with the stakeholders; and
- Commitment for conducting the business in an ethical and transparent manner

The Company has laid down a well-defined code of conduct which fairly addresses the issues of integrity, conflict of interest and confidentiality and stresses the need of ethical conduct, which is the basis of Good Governance. This code of conduct is applied to all the members of the Board Senior Management and other staff of the organisation. HDFC gives high priority to good governance, which reflects on transparent ownership structure, management, and accounting practice. The Board recognizes its role in promoting good governance and in creating a framework of the best practices, processes, and ethics to

observe and promote high ethical standards. HDFC is also committed to follow high disclosure standards and transparency in financial reporting so as to keep investors and stakeholders adequately well informed and updated at frequent intervals.

In an ever evolving and complex regulatory environment, banks are expected to adapt to those changes quickly to entrench good governance practices while being proactive to the changes in regulatory landscape. We constantly review our governance framework to ensure that we have embraced the world class banking practices and robust institutional frameworks to act in the best interest of our stakeholders.



*Photo by Sigmund on Unsplash*

We are committed to the highest level of governance and strive to foster a culture that values and rewards exemplary ethical standards, personal and corporate integrity, and respect for others. In our aspiration to be a responsible corporate citizen, we follow regulatory requirements, voluntary codes, and internal elements of corporate governance applicable to this Company. They are:

### **REGULATORY REQUIREMENTS**

- Company Act 10/96
- MMA directions issued to non-banking financial institution
- MIRA Business Profit Tax Act (Act Number 5/2011)
- CMDA Corporate Governance Code of (January 2014)
- MMA Corporate Governance Code of (21 July 2020)
- Information Act No: 1/2014
- Prevention of Money Laundering and Financing of Terrorism Act (2014)
- Securities Act 2/2006

## INTERNAL ELEMENTS

- Board Charter
- Board Subcommittee Charters
- Code of conduct
- Labour Law 2/2008

## GOVERNANCE STRUCTURE

Housing Development Finance Corporation has a well-defined governance structure with clearly defined delegation of authority. The governance processes in place ensure that we deliver against this strategy to create value for ourselves and our stakeholders – now and the way forward. The Board of Directors being the custodian of governance serves as the top decision-making authority of the Company. The responsibilities of the Board are cascaded down to the Board Committees, Management Committees, and the Management. Management and the Management Committees are responsible for execution of the strategies directed and approved by the Board.

The Company has been complying with the standards of corporate governance required under the regulatory requirement mentioned above.

## BOARD OF DIRECTORS

The Board of Directors is the ultimate authority responsible for corporate governance across the Company, and for providing ethical and effective stewardship towards the achievement of the organisation's strategy within the agreed risk appetite level. They meaningfully contribute to leading the Company by bringing diversity to Board deliberations and create sustained value by constructively challenging the Management. A clear division of responsibilities of Board ensures that no Director has unfettered powers in decision-making. The Board monitors and holds Corporate Management accountable for the Company's operational performance, financial performance and effective internal control systems and Management is open and transparent with the Board, bringing all significant matters to its attention. These engagements take place with mutual respect and honesty.

## BOARD COMPOSITION

The present Board comprises of Directors who are eminent professionals in their chosen fields of expertise and skills to carry out deliberations on matters set before the Board. The Director's insight and understanding growth cycle of the company in working out solutions at challenging times is considered invaluable. It has a formal schedule of matters reserved for its consideration and decision, apart from the legally required matters.

The Board of Directors comprise of 5 Nominee Directors, three Alternate Directors and one Executive Director. Except for the Government of Maldives (GOM) all shareholders have one Nominee Director. The GOM has two Nominee Directors. There are three women on the board which includes an Executive Director who is the Managing Director.

## ROLES, RESPONSIBILITIES AND POWERS OF THE BOARD

The roles and responsibilities and the powers reserved to the Board are given in the Board Charter to act as the final decision-making authority with regard to any matter related to the Company subject to restrictions made in the Board Charter or any other laws or regulations in force. To arrive at suitable decisions on financial matters subject to provisions of the approved Manuals of HDFC and other applicable laws or regulations in force. To formulate policies and guidelines to govern all activities of the Corporation in order to ensure that most favourable business initiatives are taken at all levels.

HDFC's governance framework is based on the following key principles:

- Constitution of a Board of Directors of appropriate composition, size, varied experience, and commitment to discharge their responsibilities and duties.
- Conduct all affairs adhering to the highest standards of ethics, transparency, accountability, honesty, and integrity.
- Ensuring timely flow of information by providing accurate, fair, timely, and meaningful disclosures in the periodic reports to the Board, its Committees and other stakeholders and regulatory agencies to enable them to discharge their functions effectively.
- Independent verification and assured integrity of financial reporting.
- Timely and balanced disclosure of all material information concerning the Company and potential conflicts of interest that the directors or management may have in the discharge of their duties and responsibilities on corporate governance.
- A sound system of risk management and internal control. Prevent the misuse of misapplication of HDFC's assets and resources. Compliance with applicable laws, rules and regulations.
- Having a simple and transparent corporate structure driven solely by business needs

Even though the main principles of Corporate Governance are derived from the Shareholders Agreement and the Articles of Association, the Company has complied with applicable standards of corporate governance required which are listed above. The Board discharges the duties and responsibilities as required under applicable laws.

## CHANGES TO THE BOARD OF DIRECTORS

The composition of the Board is in conformity with Companies Act of Maldives 10/96 S45, and the provisions provided under the constitutional documents. During the year 2020 Nominee Director Mr. Mohamed Mauroof Jameel resigned on 21<sup>st</sup> December 2020. On behalf of the Board of Directors, we place on record our appreciation for his contribution during his time on the board.

## CHAIRMAN OF THE BOARD

Mr. Conrad D'Souza is the Chairman effective 25<sup>th</sup> July 2020. The Chairman to the Board of Directors is appointed for one year in rotation and shall preside at all meetings of the Board or any Committees where he is a member and at all General Meetings. The Chairman has no casting or second vote at any meeting of the Board or any committee in the event of an equality of votes. As Chairman, he is responsible for fostering and promoting the integrity of the Board while nurturing a culture where the Board works harmoniously for the long-term benefit of the Company and all its stakeholders and oversee the management of the Boards administrative activities, such as meetings, schedules, and agenda.

## CONFLICTS OF INTEREST

The members of the Board are committed to act in the best interest of the Company in good faith and avoid undue conflicts of interest whether financially or otherwise. Directors are required to inform the Board promptly of conflicts or potential conflicts of interest that they may have in relation to particular items of business.

## BOARD COMMITTEES

The Board consists of various committees, Audit Committee, Nomination and Remuneration Committee, Credit and Risk Management Committee, and IPO Committee. In addition, a Sharia Advisory Committee is formed to advise the Board on Sharia related issues.

## BOARD MEETINGS AND ATTENDANCE

The venue of the Board Meeting is usually held at HDFC Head Office at Male', Maldives, however consideration is always placed in arranging the best convenience location to ensure maximum participation of directors can be achieved. On that note, due Covid 19 Board meetings and AGM was held virtually. A tentative date is always agreed upon at the end of each meeting which is firmed up later. HDFC strives to hold a meeting at least once in a quarter to review the performance and provide direction, in addition to monthly reports shared electronically.

The agenda is drawn in consultation with the Managing Director and the EXCO members and shared with Chairman for inputs prior to finalization, Directors also share their additional inputs in inclusion of matters which would add value to the Board discussions. During the year under review, the Board has met four times. The attendance of the directors and the key areas of discussion are briefed.

## BOARD INDUCTION AND TRAINING

HDFC identifies the importance of well-focused induction and training to ensure new Directors are adequately briefed and have the requisite knowledge of the Company and its operations enabling them to contribute fully to Board deliberations. This further outlines the Directors' fiduciary and statutory duties and provides guidance on all legal and governance related obligations. Directors receive informative updates and training throughout their tenure from the Secretary to the Board which assist in keeping directors abreast of economic, regulatory and industry trends. Directors participate in the training / knowhow programmes organised by the regulator or any other authority. At present, only local directors attend these programs.

## MANAGEMENT COMMITTEES

In addition to the Board Committees, HDFC has constituted Management Committees. These have been established under a Board approved terms of reference. The Managing Director acts as the Chairman of all Management Committees according to the terms of reference of those committees. The Committees deliberate on matters which are critical to the operations of the Company.

## BOARD MEETINGS AND MEMBERS ATTENDANCE

| Name                          | Capacity          | Board meeting 1 | Board meeting 2 | Board meeting 3 | Board meeting 4 | Number of meetings 2020 |
|-------------------------------|-------------------|-----------------|-----------------|-----------------|-----------------|-------------------------|
| Mr. Conrad D'Souza            | Chairman          | 📺 zoom          | 📺 zoom          | 📺 zoom          | 📺 zoom          | 4/4                     |
| Mr. Mauroof Jameel            | Director-GOM      | 📺 zoom          | 📺 zoom          | 📺 zoom          | 📺 zoom          | 4/4                     |
| Ms. Aminath Sheena Musthafa   | Director-GOM      | 📺 zoom          | 📺 zoom          | 📺 zoom          | 📺 zoom          | 4/4                     |
| Mr. Nihal Senanayake Welikala | Director-IFC      | 📺 zoom          | 📺 zoom          | 📺 zoom          | 📺 zoom          | 4/4                     |
| Ms. Kohe Hasan                | Director-ADB      | 📺 zoom          | 📺 zoom          | 📺 zoom          | 📺 zoom          | 4/4                     |
| Ms. Raheema Saleem            | Managing Director | 📺 zoom          | 📺 zoom          | 📺 zoom          | 📺 zoom          | 4/4                     |
| Mr. Adam Athif                | Company Secretary | 📺 zoom          | 📺 zoom          | 📺 zoom          | 📺 zoom          | 4/4                     |

## SUMMARY OF THE KEY ACTIVITIES THE BOARD UNDERTOOK DURING THE YEAR 2020 ARE AS FOLLOWS:

- Approved Audited Financials FY2019.
- Approved Shariah Committee's Report for YE 2019.
- Approved Directors Report for YE 2019.
- Approved the appointment of external auditors for the year 2020.
- Approved the appointment of internal auditors for the year 2020.
- Approved the appointment of Sharia Compliance Audit for the year 2020.
- Finalization of the Chairman for 01 year
- Reviewed the Financial Performance/Liquidity status of the Company.
- Adopted the Budget and Business Plan FY2021.
- Adoption of Key Internal Audit finding for Q1 & Q2 of 2020.
- Reviewed the Portfolio status of pre- and post-moratorium impact.
- Reviewed the progress of IT development
- Discussed Day 1 loss and ECL in relation to Covid-19 Moratorium
- Reviewed the compliance updates and compliance requirements under MMA CG Regulations.
- Approved renewal of Managing Directors' Contract



## ANNUAL GENERAL MEETING

The Annual General Meeting (AGM) was held on 25<sup>th</sup> July 2020 virtually due to Covid-19 situation prevailing in the Country.

### Attendees at the AGM:

1. Mr. Conrad D'Souza –Director for HDFC Investments Ltd.
2. Ms. Kohe Hasan- Director for Asian Development Bank (ADB)
3. Mr. Nihal Senanayake Welikala – Director for International Finance Corporation
4. Mr. Mohamed Mauroof Jameel – Director for Government of Maldives
5. Mr. Aminath Sheena Musthafa – Director for Government of Maldives
6. Ms. Raheema Saleem – Managing Director
7. Government of Maldives (Proxy held by Mr. Ismail Ali Manik)
8. HDFC Investments Limited (Proxy held by Mr. Conrad D'Souza)
9. IFC (Proxy held by Mr. Walid Fayad)
10. ADB (Proxy held by Mr Samarendra Singh)
11. Ms. Aishath Rasheeda – Shareholder
12. Mr. Mohamed Fathy – Shareholder
13. Mr. Adam Athif – Company Secretary

### Shareholders absent at the AGM:

1. Mr. Ibrahim Naeem – Shareholder
2. Mr. Mohamed Shahudy – Shareholder
3. Mr. Hamid Yusuf – Shareholder
4. Mr. Ahmed Anwar – Shareholder
5. Mr. Nahid Idris – Shareholder
6. Mr. Mohamed Hamdhan Fahumy – Shareholder

## SUMMARY OF THE MAJOR DECISION TAKEN AT THE AGM

- Approval and adoption of the Audited Financial statements for the year ended 31<sup>st</sup> December 2019
- Approval and adoption of the Annual Report for the year ended 31<sup>st</sup> December 2019
- Declaration and confirmation of the dividend for the year 2019
- Approval of External, Internal Auditors and Shariah Compliance Auditors and finalization of their remuneration
- Announcement of change in Directorship

## THE AUDIT COMMITTEE




The Audit Committee was established in accordance with the Articles of Association 123 of HDFC Plc., and Articles II Corporate Governance Section (b) of the Shareholders Agreement executed between the shareholders on 23<sup>rd</sup> July 2008, consisting of 3 Non-Executive Directors from amongst the Board Directors.

## OBJECTIVES OF THE AUDIT COMMITTEE

The Prime objective of the Audit Committee is to assist the Board in fulfilling its overall responsibilities and shall include the following.

- To oversee the financial reporting process and disclosure of financial information.
- To review with management, quarterly, half yearly and annual financial statements and accuracy and correctness before submission to the Board.
- Review the effectiveness of HDFC's internal risk controls and risk management system.
- To review with management and internal auditors, the adequacy of internal control systems, approving the internal audit plans/ reports and reviewing the efficacy of their function, discussion and review of periodic audit reports including findings of internal investigations.
- To recommend the appointment of the internal and statutory auditors and their remuneration.
- To review and approve required provisions to be maintained and write off decisions.
- To hold discussions with the Statutory and Internal Auditors.
- Review and monitoring of the auditor's independence and performance, and effectiveness of the audit process.
- Examination of the auditors' report on financial statements of the Company (in addition to the financial statements) before submission to the Board.
- Scrutiny of corporate loans and investments.
- Review valuation undertaken for the Company.
- Review and critically evaluate the accounting policies, including the consistency in the application of the policies, and any change being recommended to the accounting policies.
- Ensure that compliance requirements are adhered to and are being reported on a timely manner.
- Evaluation of the risk management systems.
- To hold post audit discussions with the auditors to ascertain any area of concern.

## AUDIT COMMITTEE MEMBERS AND THEIR ATTENDANCE

| Name                          | Capacity          | Audit Committee Meeting 1  | Audit Committee Meeting 2  | Audit Committee Meeting 3  | Audit Committee Meeting 4  | Number of meetings 2020 |
|-------------------------------|-------------------|--|--|--|--|-------------------------|
| Mr. Conrad D'Souza            | Chairman          |  zoom |  zoom |  zoom |  zoom | 4/4                     |
| Mr. Mauroof Jameel            | Member            |  zoom |  zoom |  zoom |  zoom | 4/4                     |
| Mr. Nihal Senanayake Welikala | Member            |  zoom |  zoom |  zoom |  zoom | 4/4                     |
| Mr. Adam Athif                | Company Secretary |  zoom |  zoom |  zoom |  zoom | 4/4                     |





Summary of the key activities the Audit Committee undertook in 2020 are as follows:

- Reviewed the Financials presented by PWC.
- Reviewed the Shariah Committee's Report for YE 2019.
- Reviewed and approved the external auditor and their fee for the 2020.
- Reviewed and approved the internal auditor and their fee for the year 2020.
- Reviewed and approved the Shariah Compliance auditor and their fee for year 2020.
- Reviewed the Q4/2019 Internal Audit Report.
- Reviewed the liquidity status of the Company.
- Reviewed the Q1 & Q2/2020 Internal Audit Report.

## NOMINATION AND REMUNERATION COMMITTEE

The Nomination and Remuneration Committee was established in accordance with the Article of Association 123 and Article II of the Corporate Governance Section (b) of the Shareholders Agreement executed between the Shareholders on 23<sup>rd</sup> July 2008, consisting of 3 Non-Executive Directors from amongst the Board of Directors. Due to the limited number of Directors, the Board has decided to combine the Nomination and Remuneration Committee since both committees will consists of the same members. During the year only 1 meeting was held. Details of composition and the meetings are as follows:

## NOMINATION AND REMUNERATION MEMBERS AND THEIR ATTENDANCE

| Name                          | Capacity          | N&R Committee Meeting 1  | Number of meetings 2020 |
|-------------------------------|-------------------|--|-------------------------|
| Mr. Mauroof Jameel            | Chairman          |  zoom | 1/1                     |
| Mr. Conrad D'Souza            | Member            |  zoom | 1/1                     |
| Mr. Nihal Senanayake Welikala | Member            |  zoom | 1/1                     |
| Mr. Adam Athif                | Company Secretary |  zoom | 1/1                     |

## OBJECTIVES OF THE NOMINATION AND REMUNERATION COMMITTEE

Prime objective of the Nomination and Remuneration Committee is to assist the Board in fulfilling its overall responsibilities and shall include the following:

- Formulation of the criteria for determining qualifications, positive attributes and independence of a director and recommend to the board of directors a policy relating to, the remuneration of the directors, key managerial personnel and other employees.
- Formulation of criteria for evaluation of performance of independent directors and the board of directors.
- Review of the organisation structure.
- Review and endorse HR policies.

- Adopt best HR practices for training, retention, and development of staff
- Set and recommend new staff benefit schemes to the Board.
- Identify and shortlist suitable candidates to be recruited to the senior level positions.

Summary of the key activities the Nomination and Remuneration Committee undertook in 2020 are as follows:

- Renewal of Managing Directors' Contract
- Disbanding of the IPO Committee

## **CREDIT RISK MANAGEMENT COMMITTEE**

The Credit Risk Management Committee was established in accordance with the Articles of Association 123 of HDFC and Article II of Corporate Governance Section (b) of the Shareholders Agreement executed between the Shareholders on 23<sup>rd</sup> July 2008, consisting of 3 Non-Executive Directors from amongst the Board of Directors. During the year 1 meeting was held. Details of composition and the meetings are as follows:

### **CREDIT RISK MANAGEMENT MEMBERS AND THEIR ATTENDANCE**

There were no formal meetings held during the reporting period.

### **OBJECTIVES OF THE CREDIT RISK MANAGEMENT COMMITTEE**






- To approve proposed changes in Lending Prudential guidelines and major credit policies.
- To approve discretions and onward delegation guidelines of the next level of management.
- To consider and determine proposals exceeding management's approval limits.
- To receive and review reports on credit quality, risk management policies and procedures.
- To consider and approve general provisioning policies and specific provisions.
- Carryout such other duties that may be delegated to the committee by the Board from time to time.
- Ensure infrastructure, resources and systems are in place for risk management.
- Monitoring the risk profile and performance of the credit portfolios including portfolio composition, risk concentrations, portfolio analytics, arrears performance, provisioning, non-performing facilities, and loss performance.
- Monitoring the independence, performance, and effectiveness of the credit risk management function.
- Monitoring emerging trends and risks that may impact the credit risk profile along with relevant legislative, regulatory and industry developments and overseeing management's plans to manage these risks and developments.

Summary of the key activities the Credit Risk Management Committee undertook during the year 2020 are as follows:

Even though there were no formal meetings held during the reporting period, recommendations made by the Credit Committee were referred electronically to the committee 05 times during the year 2020. This includes re-evaluation of the customers income change due to Covid-19 Pandemic. Furthermore, situation analysis on moratorium related customers were periodically reviewed to understand the stress level on the repayment capacity of customers.

## IPO COMMITTEE

The IPO committee of the Board was constituted by the Directors by a written resolution DWR 10/2019 with Government of Maldives (GOM), International Finance Corporation (IFC), Asian Development Bank (ADB), and HDFC Investments Ltd (HDFC-I each having a representation of one member in the Committee. Details of composition and the meetings are as follows:

| Name                          | Capacity          | IPO Committee Meeting 1  | Number of meetings 2020 |
|-------------------------------|-------------------|--|-------------------------|
| Mr. Conrad D'Souza            | Chairman          |  zoom   | 1/1                     |
| Mr. Nihal Senanayake Welikala | Member            |  zoom  | 1/1                     |
| Ms. Kohe Hasan                | Member            |  zoom | 1/1                     |
| Ms. Aminath Sheena Musthafa   | Member            |  zoom | 1/1                     |
| Mr. Adam Athif                | Company Secretary |  zoom | 1/1                     |

## OBJECTIVES OF THE IPO COMMITTEE

Objective of the IPO Committee is to overlook all areas in relation to the IPO of HDFC Plc. This committee is established as a one-time committee and will remain in effect until all processes related to the offering are complete and finalised, upon which the purpose of the formation of the committee has been fulfilled the committee will be considered dissolved.











Summary of the key activities the IPO Committee undertook during the year 2020 are as follows:

- Discussion on the engagement of the Investment Banker.

The Committee has been disbanded effective from 19<sup>th</sup> December 2020 based on the economic conditions and IPO discussion being put on hold temporarily.

## SHARIAH ADVISORY COMMITTEE

HDFC's AMNA wing is managed to ensure proper shariah governance mechanism both within the department and among its shareholders. A Shariah Committee consisting of three members has been established to advise the Board of Directors of the Company on Shariah related matters and issues. Details of composition and the meetings are as follows:

| Name                               | Capacity  | SAC Meeting 1  | SAC Meeting 2  | Number of meetings 2020 |
|------------------------------------|-----------|--|--|-------------------------|
| Dr. Ibrahim Zakariya Moosa         | Chairman  |  zoom |  zoom | 2/2                     |
| Prof. Ms. Rusni Binti Hassan       | Member    |  zoom |  zoom | 2/2                     |
| Dr. Mohamed Ibrahim*               | Member    |  zoom |  zoom | 1/2                     |
| Sheikh Ali Zahir bin Saeed Qasim** | Member    |  zoom |  zoom | 1/2                     |
| Uz. Azmeen Rasheed                 | Secretary |  zoom |  zoom | 2/2                     |

\* Resigned on 6<sup>th</sup> September 2020

\*\* Joined on 21<sup>st</sup> October 2020

## REMUNERATION OF DIRECTORS

### 1. MANAGING DIRECTOR (EXECUTIVE DIRECTOR)

A total remuneration paid to Managing Director including the sitting fee in the year 2020 was MVR 992,604.76

### 2. NON-EXECUTIVE DIRECTORS

The Non-Executive Directors receive remuneration by way of sitting fees for each meeting of the Board and its various committees. A total of MVR 176,000.00 was paid out in the year 2020 as remuneration.





Housing Development Finance Corporation Plc.

## HDFC AMNA – OVERVIEW

Islam provides us complete lifestyle. The main objective of Islam is to be winning both in the mortal and eternal life. Therefore, in every aspect of our life we should follow the doctrine of Al-Quran and Sunnah of Prophet Mohammed (SAW) for our supreme success. HDFC-AMNA commenced its journey in 2012 with the said principles in mind to introduce Islamic Finance based on Al-Quran and Sunnah.

HDFC-AMNA started its operation in May 2012 and over a period of 8 years of successful journey it has emerged as one of the branded Islamic finance providers in the country. We gratefully acknowledge the trust and confidence our customers and shareholders have had on us during the last 8 years of journey.

AMNA is overseen by the Shariah Advisory Committee which is an independent committee comprising professional jurists in Islamic commercial jurisprudence, which is entrusted with directing, and reviewing, the activities of HDFC-AMNA, in order to ensure that the AMNA operation complies with the established principles of Shariah Law.

The board sets out to ensure that all shariah matters regarding the Company are dealt with in a professional manner and in strict accordance with the Shariah standards set out by MMA and other governing authorities. AMNA's operation is audited by external auditors who are specialised in Islamic Finance. The audit findings are heavily reviewed by the Sharia Committee and are presented to the Board by the auditors for further action. The Shariah Advisory Committee rulings and resolutions are binding on the HDFC.

## ISLAMIC FINANCIAL SECTOR DEVELOPMENT

The exceptional growth of the Islamic finance industry in the last decade is a remarkable development from a low base, but the industry still constitutes a tiny fraction of global finance. The risk-sharing nature of Islamic finance has attracted attention in all financial sectors, including banking, capital markets, and insurance.

More than 300 Banks and financial institutions are serving Islamic finance throughout the world. At present Maldives has one full-fledged Islamic Bank operating successfully. And one traditional bank and one non-bank finance institutions have Islamic finance wings conducting Shariah based activities.

According to Islamic Financial Services Board (2019) The Islamic banking sector has become systemically important in various jurisdictions where it has reached a share of 15 percent or higher of the overall banking sector. Thirty percent of the global Islamic banking assets are held by jurisdictions where the Islamic banking sector is systemically important.

## A CHALLENGING YEAR

All we all know that due COVID-19 the business in the year 2020 was a challenging year for AMNA too. We know that the world is changing, and it is changing really fast. Many of our usual practices are gradually becoming obsolete and new technologically advanced interfaces are replacing those. Moreover, this pandemic situation has given rise to many 'NEW' things which are being considered as new normal for us now. Thus, in order to get the best, we have no option left but to leverage the technological advancements to maintain profitability.

Trusting upon Almighty Allah, believing our Shareholders confidence on us and knowing our abilities to achieve the goal, we have set out a mission of being "The Best Islamic Housing Finance provider in the country. We believe with all our honesty, integrity, efficiency, and most of all with our strictness to comply with Shariah and Regulatory directions in every point, In sha Allah we shall be able to reach our goal of being recognized as one of the best Islamic Housing Finance provider in the Maldives in the coming years.

## LIQUIDITY

The Covid-19 pandemic has increased banking sector risks significantly and across the board. Due to lockdowns and curfews imposed with the uncertain health situation, the default rate is expected to rise considerably. Banks turn to the liquidity support from the Maldives Monetary Authority to meet the excessive demand. However, as a non-bank financial institution, we have extremely limited avenues.

Another major concern that potentially constrains the ability of the AMNA in general is to raise capital from the public. The credit environment for the financial sector has deteriorated considerably since the onset of Covid-19. Given the health crisis and associated economic uncertainty, and extended lockdowns, it is expected that considerable time will be required for the financial sector to return to the pre-Covid-19 situation. There is a clear need to look at the challenges of liquidity management for AMNA, especially in the wake of facility moratorium and deferment programs.

## JOURNEY TOWARDS EXCELLENCE

There are ups and downs in every journey and our journey towards excellence was not always a smooth ride. But we have never wavered from our pursuit of continued excellence in all of our services even in the time of a global pandemic. We are grounded to our vision. Our clients speak for us. In recognition of our endeavour to achieve excellence in terms of ensuring sustainable development. We have grown resilient in the face of economic recession or liquidity crisis in the industry. The best accolade we have ever achieved, besides numerous institutional awards, is the unwavering trust of our clients in us over more than 8 years. This journey towards excellence will not stop. Our motto is to improve ourselves and become better with each passing day.

## AMNA PERFORMANCE

By the grace of Almighty Allah (SWT), HDFC-AMNA has made satisfactory profit and growth in most of the areas of business given the COVID-19 economic conditions. HDFC-AMNA took a strategy of quality growth of its assets by adhering to compliance in all spheres of operation particularly in respect of Shariah and regulatory laws and guidelines. As a continued policy, AMNA remained focused in all the key areas covering good asset quality, sound management, and good earnings. AMNA portfolio stood at MVR 563,053,767 million during the year registering an increase by MVR 65,208,021 million (13 percent growth) over the previous year.

The Corona virus outbreak which witnessed in late 2019 and prolonged to 2020 and 2021, had resulted in a major disruption in the supply chain. Despite the outbreak of the pandemic, domestic economy registered a phenomenal growth of around 8 percent in 2020. But as the pandemic has started spreading like wildfire, businesses have taken up various measures, the government has launched number of stimulus packages to maintain financial stability and arrest the economic meltdown caused by COVID 19 outbreak. Nevertheless, as this is an "ALL-NEW" situation for all of us, the future of housing industry cannot be predicted right away. Uncertainty is the key word to focus on. Given this condition, we have also taken various thrifty measures and adopted a cautious approach to keep AMNA at a sustainable level and move forward accordingly.

The following is a summary of the highlights of the year 2020.

- Due to the economic downturn caused by the pandemic Covid-19, a moratorium of six months was given to those eligible facilities. The mechanism for application was changed from applying via letter/s emails to application via Google forms which proved to be more efficient. For AMNA facilities, no capitalisation of the deferred profit was done. For Istisna facilities in the EMI period, the deferred amount is added to the tenure. Arrangements were made for the facilities in the grace period by giving additional time after the moratorium period, to pay back the deferred amount.
- Stress testing was carried out via Google forms and direct calls to Customers to check the financial status of the applicants who applied for moratorium.
- The requests for leniency in payments after the moratorium period was brought to the attention of the management and arrangements were made after a full evaluation of their financial status.
- Extra effort was made to deliver the construction projects under Istisna faster and with regular construction follow ups, progress inspections and meetings with all the parties to resolve any issues regarding the project.
- Legal pocket audit of all the AMNA facilities were also completed during 2020.

## AMNA WORKFORCE

Hiring and retaining of quality human resources, empowering them, and creating an enabling environment for them to achieve their full potential is at the heart of AMNA. Our human resources policies are embedded with true motivation. Employee motivation is a key driver to our people to perform and excel and have created a performance-based culture in the organisation. We recognise the effort of our employees; our time appropriate policies and our organisational culture infuse the feeling into our employees to exert their best. We also deeply believe in women empowerment and takes different strategies to make it happen.

## TRAINING

Training is an accepted and effective mechanism for human resources development. Training involves the development of skills that are usually necessary to perform comprehensive activities. It brings positive changes in Knowledge, Skills, Attitude (KSA) and builds the confidence of the human capital, so that they can be efficient in performing their duties and responsibilities. At HDFC-AMNA we are working to respond to the need for capacity building of all the officials for achieving the goal and targets of AMNA.

## ADHERENCE TO THE SHARIAH PRINCIPLES

AMNA abides by a strong Shari'ah Advisory Committee consisted of 02 (Two) renowned Islamic scholars of the country and 01 (one) from Malaysia. The committee is playing a vital role in framing and exerting policy for strict adherence of Shari'ah principles in all activities of the AMNA Wing. The Shari'ah Advisory Committee, which possesses a high status in the structure of HDFC meet when required and deliberate on different issues confronting AMNA on Shari'ah matters. By the grace of Almighty Allah the Committee managed to contribute a lot to run all the business activities of the AMNA according to Shariah principles and guidelines.

HDFC AMNA is supervised from a Shari'ah perspective by the Shari'ah Council of Maldives Monetary Authority. In addition, AMNA is regularly audited by an independent accounting firm annually consisting of renowned and qualified auditors.

During the year 2020 with some unavoidable circumstances such as lockdown and Covid-19 with one member being appointed to the supreme court of the Maldives, we had to re-announce to fill the vacant position to maintain quorum. Our Committee Members of the Shariah Advisory Committee held 02 Meetings to discuss the matters of the AMNA to give opinions and directives and given solutions thereof from the viewpoint of Shari'ah Principle. Key deliberations include directives on application of accounting standards to moratorium availed customers and paying profit in advance to the investors.

Regulatory Compliance at HDFC-AMNA is regulated by the MMA and is therefore required to comply with their regulations, circulars, and notices. In addition, AMNA is required to comply with all applicable laws and regulations of the Maldives.

## A NOTE OF THANKS

We would like to convey our deep sense of gratitude to the members of the Board of Directors for their continued support and guidance. 2020 was a challenging year in our journey towards excellence. We would like to convey our heartfelt gratitude to the Company for their time-befitting policies, guidance and supports. Now, we would like to express our sincerest thanks to the valued stakeholders for their endless support in AMNA's continued success. Finally, we would recall the valuable suggestions and support offered by HDFC Board and management for which we were able to take the AMNA to this level and offer our heartfelt thanks to all of them. Let us pray to Almighty Allah (SWT) to give us courage and strength to achieve our set vision and mission and hope that our sailing through success shall continue in the years to come Insha Allah. May the blessings of Allah shower upon of us.

Islamic Window – AMNA

## SHARIAH COMMITTEE'S REPORT

In the name of Allah, the Beneficent, the Merciful

In compliance with the Shariah Governance Manual of HDFC endorsed by the Board of Directors, we are required to submit the following report:

We have reviewed the principles and the contracts relating to the transactions and applications introduced by HDFC Amna during the period ended 31<sup>st</sup> December 2020.

We have also conducted our review to form an opinion as to whether HDFC AMNA has complied with the Shariah principles and with the Shariah rulings issued by the Shariah Advisory Council of Maldives Monetary Authority (MMA), as well as Shariah decisions made by the Shariah Committee.

The management of HDFC AMNA is responsible for ensuring that the financial institution conducts its business in accordance with Shariah principles. It is our responsibility to form an independent opinion, based on our review of the operations of HDFC AMNA, and to report to the Board of Directors.

We have assessed the work carried out by Shariah review and Shariah audit which included examining, on a test basis, each type of transaction, the relevant documentation and procedures adopted by the HDFC AMNA. We planned and performed our review so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that HDFC AMNA has not violated the Shariah principles.

In our opinion:

1. the contracts, transactions and dealings entered into by HDFC AMNA during the year ended which has been reviewed are in compliance with the Shariah principles;
2. for the sukuk's that has been issued, that the allocation of profit and charging of losses relating to usage of sukuk proceeds conform to the basis that had been approved by us in accordance with Shariah principles;
3. all earnings that have been received as penalty have been considered for disposal to charitable causes; and
4. the calculation of zakat is in compliance with Shariah principles.

We, the members of the Shariah Committee of HDFC AMNA, do hereby confirm that the operations of HDFC AMNA for the year ended 31<sup>st</sup> December 2020 have been conducted in conformity with the Shariah principles.

Chairman of the Shariah Committee: .....

Name: Dr. Ibrahim Zakariyya Moosa



# DECLARATION BY THE BOARD OF DIRECTORS

The Board of Directors declare that to the best of our knowledge and belief, the information presented in this Annual Report is true and accurate and that there are no other material facts, or omission of which would make any statement herein misleading or inaccurate. The Board of Directors of HDFC Plc. of Maldives declare that this report has been prepared in compliance with the Companies Act of the Republic of Maldives (Law No.: 10/96), Prudential Regulation issued by the Maldives Monetary Authority the Maldives Securities Act (Law No.: 2/2006), the Securities (Continuing Disclosure Obligations of Issuers) Regulations 2019 (Regulation No.: 2019/ R-1050), the Corporate Governance Code of the Capital Market Development Authority ("CG Code") and the Listing Rules of the Maldives Stock Exchange (the "Listing Rules"). During the performance of the duties and responsibilities of the Company, the Board of Directors has practiced and given due consideration towards maintaining complete transparency through timely disclosures, absolute fairness by instilling mechanisms to address concerns and being persistent in ensuring proper due diligence is followed by offering our highest commitment to safeguard the best interest of the Shareholders and worked towards increasing the value for our shareholders.

On behalf of the Board of Directors:



**RAHEEMA SALEEM**  
Managing Director



**MOHAMED SHAFEEQ**  
Assistant General Manager - Finance

# INFORMATION TECHNOLOGY REPORT



Embracing the digital frontier to  
enable better customer service and  
reduce complexity



Technology plays a critical role in improving Company's operational efficiency, in optimising cost, enabling it to strengthen its competitive position and stay relevant in increasing data and technology-driven business landscape.

Digitisation is becoming increasingly widespread in financial services with adoption occurring at an unprecedented rate. Impacts include transforming customer interactions, process automation as well as heightened customer expectations on convenience and accessibility.

The period under evaluation centred around developing an-in-house activities, giving effect to develop, the re-integration of application environments and the upgrading of associated infrastructure.

During the year, the Company made significant progress in automating many of the manual processes which helped it improve the overall operational efficiency and shorten the end-to-end processing time.

## STREAMLINING BUSINESS PROCESSES

Embedding operational efficiencies through streamlined business processes has been a passion of the IT department and a key strategic initiative of HDFC. Accordingly, many processes were streamlined with IT interventions during the year resulting in significant gains in productivity and cost savings during the year.

Facility Management System (FMS) readiness efforts to go live in 2021 touched every facet of the organisation, with transformational change management principles embedded in people, processes, and technologies. End-user training and awareness occurring through a series of instructor led sessions, followed by a comprehensive range of data analysis in all business processing functions.

Rigorous user acceptance and data migration testing will also commence, with close supervision by executive management and will be reviewed externally. Additionally, the electronic document management system, will be integrated with the new environment, and will be implemented as a central repository for system-generated, and scanned documentation.

For the period ahead and following this milestone event, we will make allowances for the post-implementation, processes and people, while harvesting the efficiencies of the Company's core systems, including enhanced processing performance levels, extensive reporting capabilities. Systems are being developed with efficient integration models, fluid end-user experiences, advanced security amongst other benefits, that will influence improvements in internal and external customer serviceability.

Digitalisation initiatives, other than those inherent in FMS, include automation with in-house to address and develop for automating critical system alerts to improve the service of the Company.

Cyber security, data privacy and governance will evolve, with the complexity of threats taking on new dimensions and requiring persistent user awareness, adaptive security models, enhanced layers of protection for organisational assets .

Planned projects include the use of data analytics that can assist in understanding customer behaviour and trends. Digitalisation initiatives continue with existing and planned projects, in alignment with the Company's IT strategies. Cyber security remains a top priority, with an increasing number of threat alerts impacting the financial sector. Project is underway to enhance our cyber resilience capabilities to industry standards.



## DIGITAL AVENUE TO HELP CUSTOMERS TO ADAPT TO THE NEW NORMAL

As COVID-19 began affecting life as we know it, it became abundantly clear that digital technology will play a vital role in adapting to the new normal.

We made significant progress in our digital journey in 2020, as we took important steps towards creating a payment receipt portal environment that would give customers better service experience than that they would otherwise have experienced through our physical channels.

The fact that we were able to convert the routine transactions to digital channels during the initial lockdown period, we believe is a proof of the versatility of our digital initiatives in meeting the customers' expectations.



## OUTLOOK

With the Company's core business system completed, we will focus on maximising the usefulness of the additional features it provides to enhance customer experiences, strengthen internal controls and compliance, provide improved information to facilitate decision making and improve risk management of the Company.

IT is at the heart of the Company transformation programme FSM and we will continue to focus on supporting new product development, streamlining business processes, safeguarding the information systems and enhancing the decision making capability within the organisation.

Despite challenges in the macroeconomic environment, we will continue to invest in areas where we see opportunities for customer growth, particularly through a collaborative focus on enhancing our digital customer services. Across HDFC, we will continuously innovate to enhance our value proposition and accelerate our speed. We are simplifying our client onboarding process, working on providing more personalized offers and solutions to our customers, creating more convenient digital platforms, and taking problem points out of our processes.

# CORPORATE SOCIAL RESPONSIBILITY REPORT

“The future depends on what we do in the present”  
*Mahatma Gandhi*

In line with this philosophy, we have in place a strategically focused corporate social investment programme, utilised to make a positive impact on the lives and circumstances of the nation. Our vision is to create value for our customers, employees, shareholders and communities and we measure it by the positive impacts we can realise working in collaboration with our diverse stakeholders.

Corporate social responsibility (CSR) is the commitment by organizations to 'behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as the local community and society at large'. It is most important for the most productive businesses, allocate financial contributions out of the profit for social righteousness.

## MANAGING OUR NATURAL CAPITAL

We have implemented a management plan to mitigate our overall GHG (Green House Gas) impact. Reiterating our commitment to climate action, multiple measures have been introduced on better energy and waste management in an effort to mitigate our overall environmental footprint. We constantly look at innovative methods of conducting business that are less harmful to the environment. These efforts showcase our tireless commitment to integrating sustainability into our operations.

## WASTE MANAGEMENT

Understanding the severity of irresponsible disposal of solid waste and its circumstances on biodiversity and human health, we have implemented a responsible waste management process across our organisation.

## ENERGY CONSERVATION AND EFFICIENCY IMPROVEMENTS

We constantly seek ways to increase energy efficiency, reduce energy consumption and eliminate waste, even though our operations are not energy intensive. Our main consumption source is electricity.

## PAPER RECYCLING

We have significantly reduced paper consumption by promoting paperless communication through our departments.

## FUEL AND EMISSIONS MANAGEMENT

We have accounted for fuel consumption in transportation for business-related travels under energy consumption. We adopt measures to reduce fuel usage by using effective measures, relating to customers. Most of the customer related documents are emailed to their given email address instead of physical delivery.

## PROMOTING RESPONSIBLE FINANCE AND GREEN FINANCE

Geography has made the Maldives especially vulnerable to the consequences of climate change. Being land scarce and low lying, the country is exposed to the risks of intensifying weather events.

Giving due consideration to environmental impacts in our lending and investment policy enables us to reap long-term advantages which extend beyond mere monetary benefits. We promote responsible lending by educating new recruits and employees on the ethics of responsible lending, which encompass the social and environmental impact of lending. Both these aspects are assessed before a lending decision is made. Accordingly, compliance to all relevant environmental regulations, including EIA reports of our end-user financing projects and the impact on the environment from our business operations are assessed prior to approval.

Climate change has become a hot topic for financial markets. Today, most of the organizations are promoting green financing in their projects to enhance the usage of environment-friendly projects so as to decrease the negative impact of climate on their economy.

The concept of "green finance" is not a newly coined term, it has been around for over a decade, but it was the signing of the Paris Agreement on climate change in 2015 that introduced the idea to a wider audience.

HDFC in collaboration with the Ministry of Energy has exchanged high level talks and working sessions with the Ministry's technical team on how we can incorporate green products in our facilities.

## OUR PRODUCTS

Everything changes with time. Especially the consumption patterns of people do change. Changes occur in such a pattern that the conditions in the past year cannot be applied to today. No one can survive alone in the financial market. Various strategic methodologies are used to maintain a continuous relationship. HDFC, as the only specialised housing finance institution, is the first such corporation in the Maldives. Therefore, it is essential to maintain the reputation, prestige, and the continuous trust of the public.

As per the Articles of Association and Memorandum of Understanding the company offered various financial facilities to the customers. Financial facilities for construction of houses as well as end-user purchase. HDFC has won the hearts of people for more than 17 years due to the reason of maintaining its transparency.

## STRATEGIC CSR

The information given demonstrates our commitment to creating sustainable social value. The Corporate Social Responsibility Committee of the Company is responsible for decision-making of sustainability related economic, environment and social topics.

### Responsible Lending

To achieve long-term success, we're committed to taking a responsible approach to lending through behaving fairly, and responsibly and maintaining high standards of conduct for our customers, our employees, our stakeholders, and our communities.

### Governance

HDFC's Governance Framework has been carefully designed to address the varying needs of the Company diverse stakeholders, particularly given its status as the only specialised housing finance institution systemically being an important institution. The framework aims to address potential trade-offs between long-term and short-term outcomes while ensuring an appropriate balance of power and accountability across the Company. Extending beyond mere compliance, the HDFC views corporate governance as an enabler which leads to greater transparency, accountability, robust risk management and effective leadership.

Recognizing the importance of implementation of the best standards and practices of good governance as the cornerstone of maintaining HDFC's reputation and enhancing the confidence of potential shareholders, investors and stakeholders, the Company continuously develops and enhances the processes of disclosure, internal controls, and the decision-making mechanisms as the outputs of governance system and as an integral part of the values and culture of the Company.





## Responsible Employment

We're committed to supporting our people and to promoting gender equality in the workplace, helping them thrive at work. We also continue to support the development of the community for the long-term benefit of our business and the national economy

## Positive social impact

We are committed to improving the financial wellbeing of all of our customers. We strive to be a respected community partner that continues to improve the financial wellbeing of our customers, our employees, our stakeholders, and our communities.

## OUTLOOK

We will continue to push the sustainable lending agenda through greater stakeholder engagement. Meanwhile we will continue to avoid, minimise and mitigate our environmental impact through greater emphasis on green financing, by reviewing our environmental and social management system and by striving to reduce our carbon footprint through more responsible consumption of resources.

# RISK MANAGEMENT REPORT

## OVERVIEW

As a licensed specialised non-bank finance institution HDFC has continued to foster an internal culture geared towards sound internal controls and risk management, reflecting its accountability to all stakeholders. The risk appetite of the Company for all material and relevant risk categories and the risk capital positions have been established to support the overall risk management system. Consequent to ongoing reviews and revisions, HDFC has further strengthened its risk management culture to enhance day-to-day aspects of risk assessment, quantifying, managing, and reporting, while also fine-tuning the overall risk management framework. Risk management is integrated with the Company's growth strategy to ensure that business and risk management goals and responsibilities are aligned across various departments which is the heart of the HDFC. We believe a strong risk ownership culture promotes a philosophy of responsibility and contributes towards business sustainability.



**We are committed to continuous improvements of our Risk Management Framework towards long term growth and sustainability of our mortgage finance business.**



## RISK CULTURE

The success of the Internal Risk Management Framework (IRMF) is largely dependent on a strong risk culture. We believe a proactive risk intelligence culture that helps to identify and effectively manage potential risks that may have an impact on the day-to-day operations of the organisation, is the key to achieving our medium to long-term growth targets on a sustainable basis. Robust risk practices are in place to continually assess the risk culture across all operations and ensure that Risk Management goes hand in hand with the way that our employees work, think and respond to challenges.



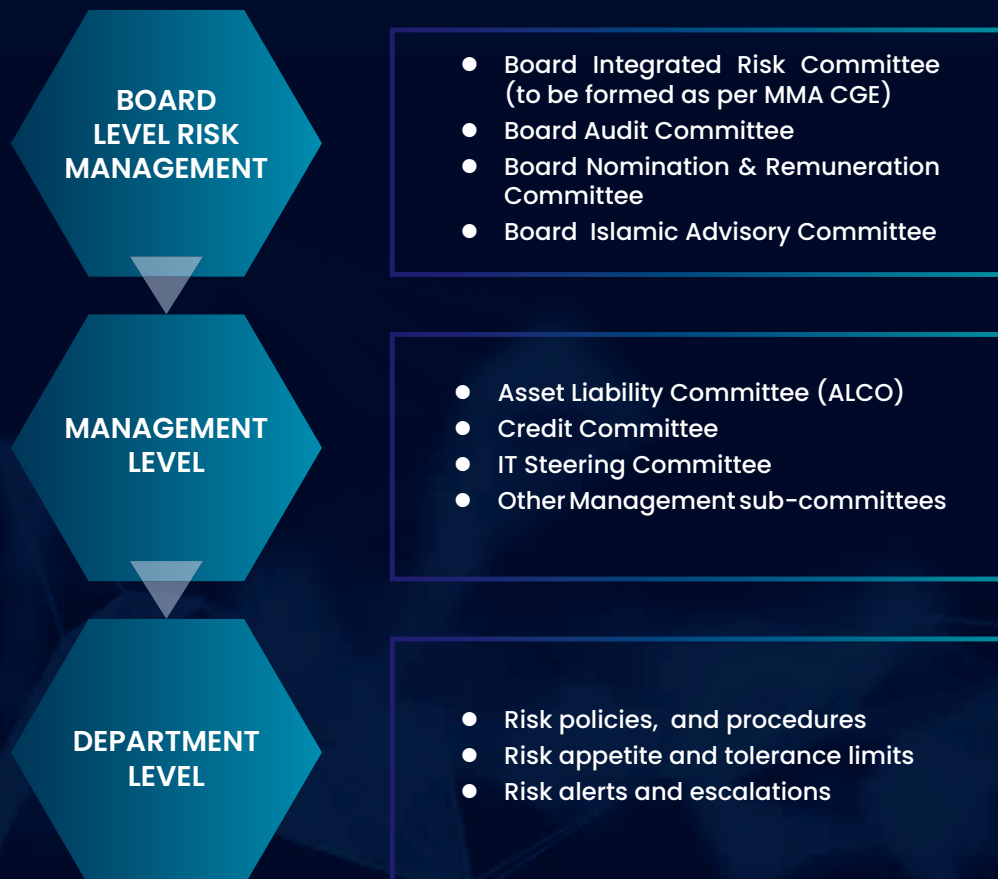
## RISK GOVERNANCE STRUCTURE

The HDFC risk governance model includes a management committee, Risk Management Committee formed on 16<sup>th</sup> March 2021 to support transparent risk reporting and discussion with overall risk and control oversight provided by the Board and its committees. The Committee determines long-term direction within the Company's risk appetite and applies it to the businesses. Risk Management Committee sets risk strategy and Risk Management Policy and provides independent oversight to support a comprehensive and proactive risk management approach. The ultimate and collective responsibility of establishing the Risk Management Policies and Risk Management Framework and continuous monitoring of its effectiveness is vested with the Board of Directors.

## RISK MANAGEMENT FRAMEWORK

The Board of Directors provides oversight to ensure that all risks faced by the Company are comprehensively evaluated, monitored, and controlled by management at all times. To achieve this, a Board sub-committee needs to be formed. Integrated Risk Management Framework (IRMF) to identify, assess, monitor, and control risks within the Company's established risk appetite. At the heart of the IRMF is the "three-lines-of-defense" model, which underpins the symbiotic roles and responsibilities needed for the effective management of risk across the entire organisation.

## HDFC'S 3 LINES OF RISK MANAGEMENT



### THE FIRST LINE OF DEFENCE

The first line of defence is the supervision and monitoring of risk management practices by the Risk Management Committee. The Risk Management Committee is responsible for measuring and monitoring risk at operational levels on an ongoing basis to ensure compliance with the parameters set out by the Board for carrying out the overall risk management function in the Company. The Risk Management Committee is involved with product or business strategy development and entering into new business lines and gives input from the initial design stage throughout the process from a risk management perspective.

### THE SECOND LINE OF DEFENCE

The second line of defence is enforced through a number of management committees including the Asset and Liability Committee, the Credit Committee, Recovery Committee, and the IT Steering Committee, and Strategic Process Implementation Committee (need to be created). The responsibilities and tasks of these Committees are stipulated in the Board-approved Charters and Terms of References (TORs) and the membership of each committee is defined to bring an optimal balance between business and risk management.

## AT THE HIGHEST LEVEL

The function of independent risk monitoring, validation, policy review and compliance are implemented by the Board Risk Management Committee, (to be re-named as Integrated Risk Management Committee, Audit Committee and other related committees of the board.

## RISK APPETITE AND TOLERANCE

Risk Appetite is defined as the quantum of risk the organisation is willing to assume in different areas of business in achieving its strategic objectives and ensuring maintenance of desired risk profile. The Risk Appetite framework and Risk Tolerance limits must be defined by the Board in consultation with the Senior Management of the Company in-line with the HDFC's overall business strategy, providing clear direction to the business units for ongoing operations and risk management. The Risk Appetite framework and Risk Tolerance limits are reviewed and adjusted by the Board when required, based on developments in the operating environment.

In the event the risk appetite threshold has been breached, risk management and business controls are implemented to bring the exposure level back within the accepted range.

Risk appetite is the maximum level of risk the Corporation is prepared to accept its objectives and have been defined based on regulatory requirements, borrowing covenants, and internal limits for prudential purposes. The Risk Appetite Framework, where risk appetite and tolerance levels are defined clearly for each identified risk area, was continually implemented at all three levels and risk management will be monitored within predefined tolerance levels. Stress testing was conducted to ensure the Company can absorb future macro-economic shocks. In the event the risk tolerance threshold has been breached or it is approaching the levels not desirable by the Company's, risk mitigating measures and business controls are implemented to bring the exposure level back within the accepted range. Risk appetite and tolerance, therefore, translate into operational measures such as new or enhanced limits or qualitative checks for the dimensions such as capital, earnings volatility, of risks.

## STRESS TESTING

Stress testing is an integral part of our risk management process. It helps determine the Company's potential vulnerability to adverse macro-economic scenarios, identify and define mitigating actions before the onset of an adverse event. Stress testing is conducted at major risk categories, while portfolio-specific stress testing is conducted as when required for highly sensitive aspects of the business, mainly recovery, credit, and liquidity. All stress tests are formally documented, with all mitigating actions for different scenarios being recorded in detail and reported to Management and the Board.

## OUR KEY RISKS

We have analysed and identified the key risks that may impact our ability to grow sustainably. These Risks are the cornerstone of our overall risk control strategy and as such are under continuous scrutiny with ongoing improvements forming part of the Company's cohesive risk control framework.

## SCOPE AND MAIN CONTENT OF RISK REPORTING TO BOARD AND SENIOR MANAGEMENT

| Risk Type                    | Scope and main content of Risk Reporting  |
|------------------------------|---|
| Overall risk                 | <ul style="list-style-type: none"> <li>Regulatory capital adequacy and advisory limits</li> <li>Stress testing of key risks and overall exposures. Reports on top and emerging strategic and overall business risk analysis</li> <li>Monitoring and reporting capital adequacy Ratio</li> </ul>   |
| <b>Credit Risk</b>           |   |
| Pre-Credit Risk Management   | <ul style="list-style-type: none"> <li>Credit Risk Rating for loans valued at MVR 5 Mn</li> <li>Credit risk policies and delegation of authority</li> <li>Review of credit risk management policies</li> <li>Staff training and knowledge sharing sessions</li> <li>Disbursement control</li> </ul>   |
| Post-Credit Risk Management  | <ul style="list-style-type: none"> <li>Loan review mechanism</li> <li>Reports on validation results and changes implemented for risk rating</li> <li>Risk appetite limit monitoring</li> <li>Reviewing of Watch List</li> <li>Implementation of new risks</li> </ul>  |
| Market and Liquidity Risk    | <ul style="list-style-type: none"> <li>Review and updating liquidity and market risk management policies</li> <li>Reports on liquidity and treasury market risk analysis</li> <li>Liquidity risk monitoring on IFRS requirements</li> <li>Reviewing of recommendations by ALCO</li> </ul>   |
| <b>Operational Risks</b>     |   |
| IT and Systems Security Risk | <ul style="list-style-type: none"> <li>Reports on business continuity plan and disaster recovery drills undertaken</li> <li>Review and updating operational risk management policies</li> <li>Monitoring reporting of KPIs</li> <li>Analysing internal loss events and risk from external events</li> <li>Monitoring of IT system risks, legal risk, and people risk</li> </ul> |
| Compliance Risk              | <ul style="list-style-type: none"> <li>Status of the Company's compliance with rules and regulations</li> <li>Results of compliance undertaken and assessment of compliance risk levels</li> <li>Report on new rules and regulations</li> <li>Review of compliance related policies and procedures</li> </ul>   |

## CAPITAL ADEQUACY RATIO

There is no specific capital minimum requirement for Non-Banking Finance Institutions set by the MMA of the Maldives. The Company maintains capital management ratio stand above 12 percent.

## IN FOCUS

- Credit Underwriting Guideline has been strengthened.
- Focusing to decrease the NPL ratios, Loan origination processes were reviewed and disbursement approval, loan approval delegations, implemented.
- The stress testing framework needs to be drawn to include stress testing in relation to the economic and macro environmental factors.
- Staff refreshing programs are conducted to all staff and also to newly recruited staff

## KEY RISK CHALLENGES IN YEAR 2021

Technological breakthroughs, innovative and complex products, tech-based fraud tightening regulatory and compliance requirements, have given rise to many challenges to the company. While meeting industry challenges, HDFC has unique challenges in the year to come. Enhancing cyber security and developing IT infrastructure.

## TYPES OF RISK

Rapid development of technology, high competitiveness, and the globalization process has significantly influenced the behaviour of the country's economy, which in turn has affected the operations of the financial sector. Therefore, we have identified risk management as an important managerial function and have set up an appropriate control system within the organization. For the purpose of risk management, HDFC has identified Credit Risk, Interest Rate Risk, Liquidity, Legal Risk and Operational Risk as premier risks associated with HDFC's business operation.

### Interest Rate Risk

HDFC is exposed to interest rate risk in respect of borrowing rates of the market and international financial institutions and lending rates to customers and when investing surplus funds in money market instruments are limited to Treasury Bills. Changes in interest rates in the market can impact HDFC's financial results by affecting the spread earned on the housing portfolio particularly due to its long-term lending. However, the interest rate risk has been reduced to a great extent by obtaining long-term funds from long-term debt-instruments such as Bonds and Sukuks.

### Liquidity Risk

Liquidity risk is the potential loss to earnings and/ or capital due to the inability to meet the Company's contractual obligations as and when they are due. The inherent maturity mismatch between the Company's short-term borrowing liabilities and longer-term maturities of its lending portfolio exposes it to liquidity risks, the management of which is critical to preserving financial stability.

The ALCO is in charge for managing liquidity risks and consistently monitors the organisations liquidity position to ensure compliance to regulatory requirements and internal targets.

HDFC do not have a complex business model as it only lends to housing and does not invest in complex financial instruments. We invest our surplus funds in Government Treasury Bills and Islamic General Investment Account in the case of Amna Islamic.

The management of the liquidity position under 'normal' conditions is described in the finance manual. The company manages the liquidity position to withstand a liquidity crisis without damaging the on-going viability of its business.

The daily liquidity management is currently executed at EXCO level as it is the business strategy of HDFC to have this process close to the management team so to determine the required liquidity.

Reporting requirements including regular updates to the Board, which enables the Board to ensure that liquidity indicators are maintained within the parameters agreed by the Board.

On an aggregated level, the Finance Department monitors the liquidity buffer versus the daily required limits.

### Market Risk

Market risk is the risk of loss arising from movements in market driven variables such as interest rates, exchange rates, commodity prices, equity and debt prices and their correlations. The Company's operations are exposed to these variables and correlations in varying magnitudes. Exposure to market risk arises mainly from IRR and Foreign exchange risk.

The market risk is managed through a risk governance structure and a comprehensive suite of risk management processes which include policies, market risk limits, monitoring and risk assessment.

### Operational risk

Operational risk is the risk of losses stemming from inadequate or failed internal processes, people, and systems, or from external events such as natural disasters, social or political events. It is inherent in all financial institutions and processes and our objective is to control it in a cost-effective manner. Operational risk includes legal risk.

HDFC manages operational risk through the operational risk management framework which comprises a robust risk governance structure and a comprehensive suite of risk management processes which include policies, risk assessment, risk mitigation through insurance coverage, policies and procedures relating to outsourcing of business activities, managing technology risk, a comprehensive Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP), creating a culture of risk awareness across the Company, stress testing, monitoring and reporting.

### Legal Risk

Defined as the exposure to the adverse consequences resulting from inaccurately drafted contracts, their execution, the absence of written agreements or inadequate agreements, legal risk is an integral part of operational risk. It includes, but is not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as cost of private settlements.

Legal risk is managed by ensuring that applicable regulations are fully taken into consideration in all relations and contracts with individuals and institutions who maintain business relationships with the Company and that they are supported by required documentation whereas risk of breaching the rules and regulations is managed by establishing and operating a sufficient mechanism for verification of conformity of operations with applicable regulations.

## RISK POLICIES & PROCESSES CREDIT RISK

Credit risk is the risk of financial loss, if a customer or counterparty fails to meet a payment obligation under a contract. It arises principally from direct lending and also from off-balance sheet products. Credit Risk generates the largest of the risks we incur.

### Objectives of Credit Risk Management

- Ensure optimal Risk-Reward payoff for the entire organisation and to maximize returns
- Maintain the quality of the portfolio by minimizing the non-performing loans and probable losses
- Maintain a well-diversified portfolio by prudently managing the risk asset portfolio to ensure that the risk of excessive concentration to any industry, sector or individual customer is minimized.
- Ensure that exposures to any industry or customer are determined by the regulatory guidelines, clearly defined internal policies, debt service capability and balance sheet management guidelines
- Avoid all situations of conflict of interest

## KEY RISK CHALLENGES IN YEAR 2020

Technological breakthroughs, innovative and complex products, tech-based-frauds, tightening regulatory and compliance requirements, have given rise to many challenges to the Company's IT system. While being exposed to industry challenges, HDFC also faces some unique challenges in years to come.

- Enhancing cybersecurity and developing IT infrastructure
- Restructuring funding mechanism to minimise the concentration risk.

# HUMAN CAPITAL

We have a planned approach focused on building strong connections with our employees both individually and collectively as Team HDFC, to ensure every team member is deeply committed to the Company's core values and purpose. At HDFC, we consider Human Capital to be one of the most important elements of our organisation's success. That is why we believe that developing human capital requires a broad-based approach to create an environment where employees feel empowered to learn and develop the required skills, behaviours, attitudes, and apply innovative ideas to give HDFC a definite edge that would accelerate our onward journey

Our employees are the key executors of our business strategies. Their motivation, capabilities and above all the unity amongst them have been and will be one of the key factors underpinning our success.

Each employee's performance indicators continued to exhibit improvements during the year under review. We believe that our staff requires systematic and need-based training to achieve the best possible integration between the expected performance and actual performance. We are moving towards building a new performance and result oriented culture. The human resource factor in the Company is one of the most critical elements which have a direct bearing on its performance and productivity. The challenge is to encourage staff to be creative, think and act like business-minded people and take the full responsibility of their job. The employee Code of Conduct sets out the professional and ethical conduct expected from all employees, setting the tone for a culture which values integrity and transparency.

## TEAM HDFC

The HDFC team comprises 39 dynamic and highly skilled employees who are a key source of the organisation's competitive edge. All employees are engaged on a full-time basis while permanent staff accounts for 59 percent of the total talent pool; the remaining are recruited on contract basis.

## HUMAN CAPITAL PROFILE

- 39 employees
- 13 percent of employees have been with the Company for over 10 years
- 22:17 (male: female) overall gender ratio
- 40 percent female representation in the Senior Management

## NON-DISCRIMINATION

We are committed to maintaining a workplace that is free from physical and verbal harassment and discrimination on the basis of gender, or social status. We follow a policy of non-discrimination on any of the above criteria which apply to employee recruitment, reward and recognition, and promotions. The fact that we have the highest number of female employees in the Company is a strong testament of the non-discriminatory culture within the organisation.

## PROMOTING EMPLOYEE WELL-BEING

We aim to create a work environment which is supportive of well-being, to remove barriers and to create healthy behaviour, and to motivate employees to lead healthy lifestyles and enhance their standing at work. We have provided opportunities for staff to participate in staff engagement activities organised through the Company's Recreation Club.

Additionally, a two-hour nursing interval and permission for early departure is given for mothers at work. We do not encourage our employees to work beyond the standard working hours.

## GRIEVANCE HANDLING

A clear and transparent, board approved grievance handling framework is in place to handle employee grievances which arise due to difficulties they face as a part of their working relationship. A course of action is provided to forward any complaints and to ensure all employees are treated fairly, reasonably, and in a timely manner.

In case of a grievance, the employee should report to the immediate supervisor. If the matter is unresolved, it can be elevated to the Company's HR Department. There is a mechanism to redress employee concerns / grievances by presenting them to the Grievance Committee. The grievances concerns are reviewed by this committee consisting of members of the Corporate Management and one Director of the Board.



## ADHERENCE TO THE HIGHEST STANDARDS

We support our people to be at their best, conduct themselves with integrity and adhere to highest standards. The following policies have been established to enable them to do the right thing, make the right decisions, and working in the right way:

- **Code of Corporate Governance** – a formal document containing the values and conduct sets the tone for all employees to ensure ethical behaviour and integrity within the Company.
- **Code of Conduct for Employees** – All employees of the Company are expected to abide by the Code of Conduct and are required to sign the code upon being employed by HDFC.
- **Disciplinary Code** – A formal document that defines what is construed as misconduct and sets out the formal disciplinary procedure applicable in such instances.
- **Whistleblower Policy** – A further measure against misconduct and corruption reflecting the Company's zero tolerance approach towards corruption. An employee can report via email to [hdfcwhistleblowing@hdfc.com.mv](mailto:hdfcwhistleblowing@hdfc.com.mv). The following issues can be directly lodged formally to the Whistle Blowing Committee. The anonymity is guaranteed to safeguard the employees':
  - I. Breach of the Disciplinary Code
  - II. Failure to comply with legal/regulatory obligation
  - III. Miscarriage of Justice
  - IV. Financial malpractices



## ADAPTING TO COVID-19 CHALLENGES

### *Adapting to new ways of working*

Following the outbreak of the pandemic in March 2020, HDFC activated its Pandemic Response plan, which was refined to suit the prevalent conditions, enabling the Company to respond to the emerging challenges in a proactive, rather than a reactive manner. In addition to introducing a range of health and safety measures we quickly adapted to the new realities of work through introducing roster-based, Work from Home arrangements and split shifts arrangements. As far as practically possible, all training and employee engagement initiatives were shifted to digital platforms. The organisation's agility in responding to and embracing new ways of working enabled it to continue its operations relatively smoothly while ensuring the safety of its employees and offering uninterrupted services to its customers.



### *Ensuring Employee Health and Safety*

Ensuring our employees were safe with minimal risk of infection was a key HR priority during the year, especially in the backdrop of the finance industry being declared as an essential service by the Government. In addition to the guidelines issued by the Health Protection Authority (HPA) and providing all necessary protective equipment, the Company implemented the guidelines.

**D** **Physical Distance**

**S** **Sanitising**

**M** **to wear face masks for all employees**

**D** **Temperature is checked daily for all employees**

### *Safety Preparedness*

- Set up a COVID-19 Prevention Focal Point. HR to serve as the main liaison between HDFC and the health authorities and advise the Company's management regarding specific actionable initiatives.
- Proactive steps were taken to ensure employee safety; mask wearing was made mandatory, installed sanitising stations in all floors and departments.
- Office is disinfected as and when needed.

### *Work Arrangements*

- Office operating hours were curtailed as per the guidelines issued by the government.
- New work arrangements, including the work-from-home model was introduced for staff and Corporate Management.

### *COVID-19 Monitoring*

- A central "COVID-19 Monitoring Desk" was set up under the purview of the HR Department to manage communication between all internal and external stakeholders.

## FOR OUR EMPLOYEES

To counter the immediate after-effects of the nationwide lockdown, we enabled our employees with amenities such as laptops, desk-tops and internet connectivity. With this, we aimed to ensure smooth working from home, and enabled them to be productive even in a remote working environment.

Might we add that we were fully committed to safeguarding our employees' financial wellbeing as well. Therefore, despite the challenges on the business front, no pay cuts or retrenchments were made during 2020.

## PERFORMANCE APPRAISAL

All employees are appraised annually against a set of predetermined evaluation criteria. In the future performance of all employees including corporate management will be evaluated based on the KPIs set in collaboration with the respective employees and the superiors which will be approved by the Board. The appraisals will be conducted by the immediate supervisor of the employee.

Employees are encouraged to obtain professional qualifications to enhance their career development process.

## REWARDS AND RECOGNITION

The Company reward schemes are transparent, unbiased and nurtures a performance driven culture. Rewards schemes comprise guaranteed pay, variable pay, statutory benefits along with other rewards. Performance appraisals are used as an effective tool to provide feedback and identify areas for further improvement. Despite the liquidity difficulties that prevailed during the year, we ensured that all employees received full remuneration, with zero pay cuts or redundancies.

## LEARNING AND DEVELOPMENT

The learning agenda is aligned to the Company's objectives, with the aim of equipping employees with the skills required to drive strategic objectives. Training needs are identified training calendars are prepared. Given the need for social distancing in 2020, training programmes were moved to virtual platforms as far as reasonably possible.

Number of Local trainings conducted: 8

Number of In-house trainings conducted: 7

Our training activities were moved to digital platforms to focus on building staff capacity in some core areas: Construction, Climate finance, mid-term strategy, energy efficient appliances, hands on training on transfer slip portal, Arabic language training, credit underwriting updates, and Islamic Finance.

## CULTURE AND ENGAGEMENT

HDFC has successfully nurtured an open organisational culture which values diversity, innovation, and agility. An open-door policy encourages employees to present their grievances/suggestions while numerous formal and informal engagement mechanisms are in place.

## DIVERSITY AND EQUAL OPPORTUNITY

We are committed to building an inclusive culture and diverse workforce. We believe that a culture of inclusion is vital to creating an environment where all our people can be at their best. As an equal opportunity employer, we foster a workforce diverse in terms of gender, social background bringing about innovative thinking while creating an enabling environment which promotes a productive workforce.

This diversity has enriched our organisation culture. We pride in the fact that we have one of the highest female representation in our workforce and most importantly we are a league of our own where all employees are locals.

## DIGNITY AT WORK

HDFC is committed to creating a workplace in which all our employees feel safe, valued, and respected. We have zero tolerance for any form of harassment and the Company's comprehensive harassment policy ensure that all employees are aware of this view. communications were shared with all employees highlighting the particulars of the policy, what constitutes harassment, among others.

## PROTECTING OUR EMPLOYEES AT ALL TIMES

With the pandemic progressively worsening and bringing fresh worries regarding its health risks, the safety of our employees took on a whole new meaning.

In hindsight, we realised that the comprehensive action we took at the onset of the global outbreak in early 2020 was the key to ensuring that none of our employees were adversely affected by COVID-19 either directly or indirectly. The COVID-19 Action focal point (HR) acts as the main liaison between the management and the employees. Moreover, the implementation of stringent safety precautions, detailed work schedules drawn up for HR team and corporate management, and a temperature monitoring gadget was introduced during the course of the year have proven to be highly effective in helping staff to cope with the situation.

Undeterred by the current challenges, we continued with ongoing human capital development activities. Our employee training activities were conducted virtually.

## FOR OUR CUSTOMERS

During COVID times, we offered all the services digitally even though it was limited. We also provided options to make online payments, submit moratorium requests. We re-imagined a scenario where the customer does not have to physically visit our office and can be serviced 24/7 in the comforts of his home through online payment and our payment portal. We are moving further in a direction where the customer is serviced with no human contact. We are redesigning our business operations to service needs of tomorrow's customers. Enhanced customer servicing through online portal which enabled effective collection mechanism.

## OUTLOOK

The Company's HR strategy will be directly aligned with the business plan, ensuring that the requisite competencies, behaviours, and attitudes are in place to drive the strategic ambitions. As customer-centricity will be a key differentiator for the HDFC, we hope to drive behavioural changes that will achieve this objective through behaviour assessment scales and linking behaviour with the performance. Other areas of focus will be competency gap analysis and aligning the HR policy to enable strategy through work force planning and support matrix structures.



# FINANCIAL STATEMENTS

31<sup>st</sup> DECEMBER 2020

AUDITED BY:



**HOUSING DEVELOPMENT FINANCE CORPORATION PLC**

Financial Statements- 31 December 2020



## *Independent auditor's report*

To the Shareholders of Housing Development Finance Corporation Plc

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### *Our opinion*

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Housing Development Finance Corporation Plc ("the Company") as at December 31, 2020, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

### **What we have audited**

The financial statements of the Company, which comprise:

- the statement of financial position as at December 31, 2020;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

### **Independence**

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

### **Key audit matters**

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

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*Resident Partner Jatindra Bhatray FCA*

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| Key audit matter  | How our audit addressed the Key audit matter   |
|---|--|
| <b><i>Impairment of loans and advances</i></b>  |  |
| Refer to Note 17 of the financial statements.   | Specific work that we performed on the allowance on loans and advances recognised by management included the following;  |
| As at 31 December 2020, 88 % of the total assets of the Company consisted of loans and advances amounting to MVR 1.8 billion shown net of loss allowance of MVR 42.1 million.   | - Tested the completeness of the loans and advances considered in the loan loss calculation by checking the mathematical accuracy of the listing obtained and matched the outstanding balances with the general ledger.  |
| The loss allowance in respect of loans and advances represent management's best estimate of the impairment loss incurred and expected within the loan portfolio at the reporting date.  | - Assessed the reasonableness of management's estimated future recoveries of individual customer loans and advances including the expected future cash flows, discount rates and valuation of collateral held by testing the key underlying assumptions and evaluating the process by which those were drawn up.   |
| The loss allowance had been calculated using statistical methods and historical collection trends adjusted for forward-looking information. Significant estimates and assumptions used by the management in such calculations and the basis for impairment allowance is disclosed in note 30.1. | - Tested the accuracy and completeness of underlying information in loans and advances used in the expected loan loss calculation, such as disbursed and undisbursed loan amounts, deposits, value of the collateral, aging and loan tenure periods by agreeing details with the respective customer statements and files on a sample basis.<br><br>- We tested the methodology applied in the loan loss allowance calculation by checking compliance with the requirements of IFRS 9, <i>Financial instruments; recognition and measurement</i> , and also considered reasonableness of macro-economic and other factors used by the management by comparing them with publicly available data and information sources. |
| We have identified expected credit loss allowance for loans and advances as a key audit matter as the calculation of loan loss allowance is a complex area and requires management to make significant assumptions and judgements.  | - Assessed the adequacy of the related financial statement disclosures as set out on Notes 17, 30 for compliance with required IFRS 9 disclosures.<br><br>- Based on the work performed we found the estimation of impairment provision on loans and advances by the management had been based on reasonable assumptions and methodology.  |



### *Other information*

Management is responsible for the other information. The other information comprises the annual report for the year ended 31 December 2020 (but does not include the financial statements and our auditors report thereon) which is expected to be made available to us after the date of auditors' report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appear to be materially misstated.

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

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

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

### *Auditor's responsibilities for the audit of the financial statements*

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

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

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



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with the ethical requirements in accordance with IESBA Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

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

MALE`

23 May 2021

For PRICEWATERHOUSECOOPERS

Jatindra Bhatray  
Partner

# HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2020

## Statement of comprehensive income

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

|   | Notes | Year ended 31 December |              |
|---|-------|------------------------|--------------|
|   |       | 2020                   | 2019         |
| Interest income                                       | 5     | 156,923,525            | 155,584,875  |
| Interest expense                                      | 5     | (52,889,377)           | (53,644,598) |
| <b>Net interest income</b>                            |       | 104,034,148            | 101,940,277  |
| Net income on shari'ah products                       | 6     | 37,664,514             | 33,958,171   |
| Fee income  | 7     | 2,548,989              | 3,103,390    |
| Other income  | 8     | 1,207,471              | 2,404,751    |
| <b>Operating income</b>                               |       | 145,455,122            | 141,406,589  |
| Reversal of / (impairment losses) on financial assets | 10    | 2,671,583              | (15,853,930) |
| Modification loss of loans and advances               | 11    | (15,238,597)           | -            |
| Salaries and personnel expenses                       | 9     | (10,237,640)           | (10,135,717) |
| Other operating expenses                              | 12    | (6,582,141)            | (7,796,192)  |
| <b>Profit before income tax</b>                       |       | 116,068,327            | 107,620,750  |
| Income tax expense                                    | 13    | (20,742,352)           | (16,525,599) |
| <b>Profit for the year</b>                            |       | 95,325,975             | 91,095,151   |
| Earnings per share - basic / diluted (MVR)            | 15    | 59.81                  | 57.16        |



The notes on pages 9 to 74 are an integral part of these financial statements.

# HOUSING DEVELOPMENT FINANCE CORPORATION PLC

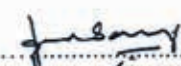
31 December 2020

## Statement of financial position


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

|                                     | Notes | As at 31 December    |                      |
|-------------------------------------|-------|----------------------|----------------------|
|                                     |       | 2020                 | 2019                 |
| <b>ASSETS</b>                       |       |                      |                      |
| Cash and cash equivalents           | 16    | 107,623,155          | 198,051,509          |
| Loans and advances                  | 17    | 1,834,851,202        | 1,738,373,448        |
| Financial assets at amortised cost  | 18    | 119,885,240          | 224,846,517          |
| Property, plant and equipment       | 19    | 1,053,352            | 1,043,806            |
| Intangible assets                   | 22    | 246,724              | 488,557              |
| Right-of-use assets                 | 21    | 8,738,051            | 9,838,535            |
| Deferred income tax assets          | 20    | 5,117,559            | 5,820,179            |
| Other assets                        | 23    | 7,312,015            | 7,193,895            |
| <b>Total assets</b>                 |       | <b>2,084,827,298</b> | <b>2,185,656,446</b> |
| <b>LIABILITIES</b>                  |       |                      |                      |
| Deposits from customers             | 24    | 80,313,469           | 88,684,184           |
| Debt securities in issue            | 25    | 432,618,697          | 468,902,701          |
| Other borrowed funds                | 26    | 624,550,502          | 692,377,506          |
| Other liabilities                   | 27    | 268,893,707          | 351,666,575          |
| Lease liabilities                   | 21    | 9,664,668            | 10,256,653           |
| Current tax liabilities             | 13    | 10,417,880           | 10,726,427           |
| <b>Total liabilities</b>            |       | <b>1,426,458,923</b> | <b>1,622,614,046</b> |
| <b>SHAREHOLDERS' EQUITY</b>         |       |                      |                      |
| Share capital                       | 28    | 159,375,000          | 159,375,000          |
| General reserve                     | 33    | 15,000,000           | 15,000,000           |
| Retained earnings                   |       | 483,993,375          | 388,667,400          |
| <b>Total shareholders' equity</b>   |       | <b>658,368,375</b>   | <b>563,042,400</b>   |
| <b>Total equity and liabilities</b> |       | <b>2,084,827,298</b> | <b>2,185,656,446</b> |

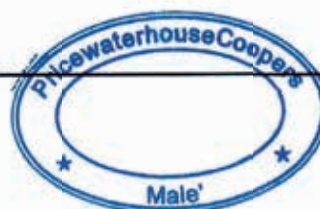
These financial statements were approved by the board of directors on 23 May 2021 and signed on their behalf by:

  
.....  
Conrad D' Souza  
Chairman

  
.....  
Raheema Saleem  
Managing Director

  
.....  
Mohamed Shafeeq  
AGM - Finance

The notes on pages 9 to 74 are an integral part of these financial statements.



**HOUSING DEVELOPMENT FINANCE CORPORATION PLC**

**31 December 2020**

**Statement of changes in equity**

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

|                                    | Notes | Share capital      | General reserve   | Retained earnings  | Total              |
|------------------------------------|-------|--------------------|-------------------|--------------------|--------------------|
| <b>Balance at 1 January 2019</b>   |       | 159,375,000        | 15,000,000        | 341,400,374        | 515,775,374        |
| Dividend declared                  | 14    | -                  | -                 | (43,828,125)       | (43,828,125)       |
| Profit for the year                |       | -                  | -                 | 91,095,151         | 91,095,151         |
| <b>Balance at 31 December 2019</b> |       | <b>159,375,000</b> | <b>15,000,000</b> | <b>388,667,400</b> | <b>563,042,400</b> |
| <b>Balance at 1 January 2020</b>   |       | 159,375,000        | 15,000,000        | 388,667,400        | 563,042,400        |
| Profit for the year                |       | -                  | -                 | 95,325,975         | 95,325,975         |
| <b>Balance at 31 December 2020</b> |       | <b>159,375,000</b> | <b>15,000,000</b> | <b>483,993,375</b> | <b>658,368,375</b> |



The notes on pages 9 to 74 are an integral part of these financial statements.

# HOUSING DEVELOPMENT FINANCE CORPORATION PLC

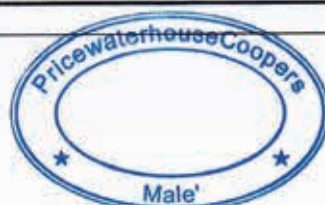
31 December 2020

## Statement of cash flows

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

|  | Note | Year ended 31 December |               |
|--|------|------------------------|---------------|
|  |      | 2020                   | 2019          |
| <b>Cash flows from operating activities</b>                            |      |                        |               |
| Profit before tax  |      | 116,068,327            | 107,620,750   |
| <i>Adjustments for:</i>  |      |                        |               |
| Depreciation on property, plant and equipment                          | 19   | 420,055                | 419,150       |
| Depreciation on right-of-use assets                                    | 21   | 1,100,484              | 827,669       |
| Reversal of / (impairment losses) on financial assets                  | 10   | (2,671,583)            | 15,853,930    |
| Modification loss of loans and advances                                | 11   | 15,238,597             | -             |
| Amortization of intangible assets                                      | 22   | 241,833                | 235,448       |
| Loss on disposal   |      | -                      | 225           |
| Interest expense on lease liabilities                                  | 5    | 848,015                | 667,615       |
| Interest expenses  |      | 82,662,163             | 75,577,536    |
| Interest income  |      | (223,645,142)          | (212,143,599) |
| Cash flows from operating activities before changes in working capital |      | (9,737,252)            | (10,941,276)  |
| <i>Changes in working capital:</i>                                     |      |                        |               |
| Increase in loans and advances to customers                            |      | (35,591,782)           | (134,781,531) |
| Increase in other assets   |      | (118,120)              | (797,235)     |
| (Decrease) / increase in other liabilities                             |      | (38,944,564)           | 59,661,469    |
| (Decrease) / increase in deposits from customers                       |      | (8,370,715)            | 5,608,712     |
| Cash used in operating activities                                      |      | (92,762,432)           | (81,249,861)  |
| Interest received  |      | 150,192,156            | 210,076,448   |
| Interest paid  |      | (80,019,993)           | (70,414,519)  |
| Income tax paid  | 13   | (20,348,279)           | (16,865,394)  |
| Net cash (used in) / generated from operating activities               |      | (42,938,547)           | 41,546,674    |
| <b>Cash flows from investing activities</b>                            |      |                        |               |
| Purchases of property, plant and equipment                             | 19   | (429,601)              | (139,128)     |
| Purchases of intangible assets   | 22   | -                      | (102,158)     |
| Proceeds from realisation / (paid for) investments                     |      | 104,961,277            | (194,870,421) |
| Net cash flow from / (used in) investing activities                    |      | 104,531,676            | (195,111,707) |
| <b>Cash flows from financing activities</b>                            |      |                        |               |
| Repayments of debt securities in issue                                 |      | (37,250,330)           | (11,061,796)  |
| Repayments of other borrowed funds                                     |      | (120,840,456)          | (129,085,245) |
| Proceeds from debt securities in issues                                |      | -                      | 256,931,000   |
| Proceeds from other borrowed funds                                     |      | 50,489,593             | 184,100,052   |
| Dividend paid  |      | (43,828,304)           | (39,843,879)  |
| Principal elements of lease payments                                   | 21   | (591,985)              | (1,077,166)   |
| Net cash (used in) / generated from financing activities               |      | (152,021,482)          | 259,962,966   |
| <b>Net (decrease) / increase in cash and cash equivalents</b>          |      |                        |               |
|  |      | (90,428,354)           | 106,397,934   |
| Cash and cash equivalents at beginning of the year                     |      | 198,051,509            | 91,653,575    |
| <b>Cash and cash equivalents at end of the year</b>                    | 16   | 107,623,155            | 198,051,509   |

The notes on pages 9 to 74 are an integral part of these financial statements.



# HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2020

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## Notes to the financial statements

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

### 1 General information

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

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

### 2 Summary of significant accounting policies

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

#### 2.1 Basis of preparation

This financial report for the year ended 31 December 2020 has been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have been prepared under the historical cost convention whereby the transactions are recorded at the values prevailing on the dates when the assets were acquired, the liabilities were incurred or the capital obtained.

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

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

#### 2.2 Summary of significant accounting policies

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

##### 2.2.1 Financial assets and liabilities

###### Measurement methods

###### *Amortised cost and effective interest rate*

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal 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.

## HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2020

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### Notes to the financial statements (continued)

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

## 2.2 Summary of significant accounting policies (continued)

### 2.2.1 Financial assets and liabilities (continued)

#### Measurement methods (continued)

##### *Amortised cost and effective interest rate (continued)*

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

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

##### *Interest income*

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

##### *Initial recognition and measurement*

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

At initial recognition, HDFC measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost, as described in note 2.2, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

## HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2020

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### Notes to the financial statements (continued)

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

#### 2.2 Summary of significant accounting policies (continued)

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

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

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

##### 2.2.1.1 Financial assets

###### (i) Classification and subsequent measurement

HDFC classifies its financial assets at amortised cost.

The classification requirements for debt instruments are described below:

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

Classification and subsequent measurement of debt instruments depend on:

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

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

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

**Notes to the financial statements (continued)**

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

**2.2 Summary of significant accounting policies (continued)**

**2.2.1.1 Financial assets (continued)**

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

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

**(ii) Impairment**

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

(i) The time value for money; and

(ii) Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

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

**(iii) Modification of loans**

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

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.

## HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2020

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### Notes to the financial statements (continued)

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

## 2.2 Summary of significant accounting policies (continued)

### 2.2.1.1 Financial assets (continued)

- 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.

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

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

#### (iv) Derecognition other than on a modification

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

### 2.2.1.2 Financial liabilities

#### (i) Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified and subsequently measured at amortised cost except for loan commitments (Note 2.2.2).

## HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2020

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### Notes to the financial statements (continued)

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

## 2.2 Summary of significant accounting policies (continued)

### 2.2.1.2 Financial liabilities (continued)

#### (i) Classification and subsequent measurement (continued)

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

### 2.2.2 Loan commitments

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

## HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2020

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### Notes to the financial statements (continued)

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

#### 2.2 Summary of significant accounting policies (continued)

##### 2.2.2 Loan commitments (continued)

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

#### 2.3 Foreign currency translation

##### (a) Functional and presentation currency

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

##### (b) Transactions and balances

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

#### 2.4 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.

## HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2020

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### Notes to the financial statements (continued)

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

#### 2.5 Offsetting financial instruments

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

#### 2.6 Property, plant and equipment

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

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

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

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

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 statement.

## HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2020

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### Notes to the financial statements (continued)

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

#### 2.7 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.

#### 2.8 Intangible assets

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

#### 2.9 Leases

The HDFC's lease policy is as follows.

*(i) HDFC leasing activities and how these are accounted for*

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

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

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by HDFC.

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

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

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

## HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2020

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### Notes to the financial statements (continued)

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

#### 2.9 Leases (continued)

##### *(i) HDFC leasing activities and how these are accounted for (continued)*

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

To determine the incremental borrowing rate, HDFC:

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

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

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

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

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

##### *(ii) Extension and termination options*

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

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

## HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2020

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### Notes to the financial statements (continued)

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

#### 2.10 Debt securities in issue

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

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

#### 2.11 Other borrowed funds

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

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

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

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

#### 2.12 Customer accounts

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

## HOUSING DEVELOPMENT FINANCE CORPORATION PLC

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### Notes to the financial statements (continued)

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

#### 2.13 Derivative financial instruments

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

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

#### 2.14 Provisions for liabilities and charges

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

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

#### 2.15 Trade and other payables

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

#### 2.16 Share capital

Ordinary shares are classified as equity.

#### 2.17 Dividends

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

#### 2.18 Fiduciary activities

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

## HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2020

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### Notes to the financial statements (continued)

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

#### 2.19 Current and deferred income 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.

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

Deferred income 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.

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

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

#### 2.20 Fees, commissions and other income and expenses

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

## **HOUSING DEVELOPMENT FINANCE CORPORATION PLC**

**31 December 2020**

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### **Notes to the financial statements (continued)**

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

#### **2.21 Staff costs and related contributions**

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

#### **2.22 Segment reporting**

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

#### **2.23 Comparatives**

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

## HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2020

### Notes to the financial statements (continued)

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

#### 2.24 Presentation of statement of financial position in order of liquidity

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

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

|                                    | 31 December 2020                            |   | 31 December 2019                            |   | Total                |                      |
|------------------------------------|---|---|---|---|----------------------|----------------------|
|                                    | Amounts expected to be recovered or settled |   | Amounts expected to be recovered or settled |   |                      |                      |
|                                    | Within 12 months of the reporting period    | After 12 months of the reporting period | Within 12 months of the reporting period    | After 12 months of the reporting period |                      |                      |
| <b>Assets</b>                      |   |   |   |   |                      |                      |
| Cash and cash equivalents          | 107,623,155                                 | -                                       | 107,623,155                                 | 198,051,509                             | -                    | 198,051,509          |
| Financial assets at amortised cost | 119,885,240                                 | -                                       | 119,885,240                                 | 224,846,517                             | -                    | 224,846,517          |
| Loans and advances                 | 48,737,000                                  | 1,786,114,202                           | 1,834,851,202                               | 45,994,769                              | 1,692,378,679        | 1,738,373,448        |
| Property, plant and equipment      | -   | 1,053,352                               | 1,053,352                                   | -                                       | 1,043,806            | 1,043,806            |
| Intangible assets                  | -   | 246,724                                 | 246,724                                     | -                                       | 488,557              | 488,557              |
| Right-of-use assets                | -   | 8,738,051                               | 8,738,051                                   | -                                       | 9,838,535            | 9,838,535            |
| Deferred income tax assets         | -   | 5,117,559                               | 5,117,559                                   | -                                       | 5,820,179            | 5,820,179            |
| Other assets                       | 80,273                                      | 7,231,742                               | 7,312,015                                   | 1,147,351                               | 6,046,544            | 7,193,895            |
| <b>Total assets</b>                | <b>276,325,668</b>                          | <b>1,808,501,630</b>                    | <b>2,084,827,298</b>                        | <b>470,040,146</b>                      | <b>1,715,616,301</b> | <b>2,185,656,446</b> |
| <b>Liabilities</b>                 |   |   |   |   |                      |                      |
| Deposits from customers            | 2,074,034                                   | 78,239,435                              | 80,313,469                                  | -                                       | 88,684,184           | 88,684,184           |
| Debt securities in issue           | 63,470,877                                  | 369,147,820                             | 432,618,697                                 | 44,951,000                              | 423,951,701          | 468,902,701          |
| Other borrowed funds               | 184,047,000                                 | 440,503,502                             | 624,550,502                                 | 209,966,000                             | 482,411,506          | 692,377,506          |
| Other liabilities                  | 8,533,000                                   | 260,360,707                             | 268,893,707                                 | 61,829,886                              | 289,836,689          | 351,666,575          |
| Lease liabilities                  | 700,508                                     | 8,964,159                               | 9,664,668                                   | 591,985                                 | 9,664,668            | 10,256,653           |
| Current tax liabilities            | 10,417,880                                  | -                                       | 10,417,880                                  | 10,726,428                              | -                    | 10,726,428           |
| <b>Total liabilities</b>           | <b>269,243,299</b>                          | <b>1,157,215,624</b>                    | <b>1,426,458,923</b>                        | <b>328,065,299</b>                      | <b>1,294,548,748</b> | <b>1,622,614,047</b> |

## HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2020

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### Notes to the financial statements (continued)

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

#### 3 Critical accounting estimates, and judgements in applying accounting policies

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

##### 3.1 Impairment losses on loans and advances

The measurement of the expected credit loss allowance for financial assets measured at amortised cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior. Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 30.1, which also sets out key sensitivities of the ECL to changes in these elements.

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

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

Detailed information about the judgements and estimates made by HDFC in the above areas is set out in the note 30.1.

##### 3.2 Deferred tax asset recognition

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.

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.

## HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2020

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### Notes to the financial statements (continued)

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

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

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

#### 3.4 Impact of COVID 19

HDFC has carefully considered the impact of COVID-19 in preparing the financial statements for the year ended 31 December 2020. The key impacts on the financial statements including the application of critical estimates and judgements are as follows:

##### (a) Loans and advances

HDFC granted moratorium to its performing customers who opted, which include loan repayment deferrals. Interest over the deferral period is recovered from the customers in 28 months installments commencing from May 2021 or the remaining period of the loan, whichever is lower. A total modification loss of MVR 15 million was recognized in relation to these loans. Refer note 11 for details.

##### (b) Provision for impairment

HDFC has considered the effects of COVID-19 in assessing the forecast conditions on a reasonable and supportable basis. The IFRS 9 impairment methodology, and the definition of default have remained consistent with prior periods. Forward looking adjustments have been determined based on forecasted macro economic factors which take into account impact of COVID-19 and mitigating impacts of Government. Moratorium is not borrower specific but rather given to all performing customers and have therefore not been classified automatically as stage 2 loans.

##### (c) Fair value measurement

HDFC has considered the impact of economic and market disruptions due to COVID-19, however, there were no material changes to fair values of financial instruments as a consequence of COVID-19.

## HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2020

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### Notes to the financial statements (continued)

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

#### 4 Changes in accounting policies

##### Adoption of new or revised standards and interpretations

###### (a) New and amended accounting standards adopted by the Company

The HDFC has applied the following standards and amendments for the first time for their annual reporting periods commencing 1 January 2020. Most of the amendments listed below did not have any significant impact on amounts recognised in prior periods and are not significantly affect current or future period. The HDFC did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards:

- i. Definition of Material – Amendments to IAS 1 and IAS 8
- ii. Revised Conceptual Framework for Financial Reporting
- iii. Interest Rate Benchmark Reform - Amendments to IFRS 7, IFRS 9 and IAS 39

###### (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:

- a) 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
- b) 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:

- a) increasing the prominence of stewardship in the objective of financial reporting
- b) reinstating prudence as a component of neutrality
- c) defining a reporting entity, which may be a legal entity, or a portion of an entity
- d) revising the definitions of an asset and a liability
- e) removing the probability threshold for recognition and adding guidance on derecognition
- f) adding guidance on different measurement basis, and
- g) 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

31 December 2020

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### Notes to the financial statements (continued)

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

#### 4 Changes in accounting policies (continued)

##### Adoption of new or revised standards and interpretations (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 1 January 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised Framework.

###### (iii) Interest Rate Benchmark Reform – Amendments to IFRS 7, IFRS 9 and IAS 39

The amendments made to IFRS 7 Financial Instruments: Disclosures, IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement provide certain reliefs in relation to interest rate benchmark reforms.

The reliefs relate to hedge accounting and have the effect that the reforms should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Given the pervasive nature of hedges involving IBOR-based contracts, the reliefs will affect companies in all industries.

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

The following standards and interpretations had been issued by IASB, but not mandatory for the annual reporting period ending 31 December 2020.

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

- i. Classification of Liabilities as Current or Non-current – Amendments to IAS 1
- ii. Annual Improvements to IFRS Standards 2018–2020

###### (i) 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.

## HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2020

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### Notes to the financial statements (continued)

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

#### 4 Changes in accounting policies (continued)

##### Adoption of new or revised standards and interpretations (continued)

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 1 January 2023.

##### (ii) Annual Improvements to IFRS Standards 2018–2020

The following improvements were finalised in May 2020:

- IFRS 9 Financial Instruments – clarifies which fees should be included in the 10% test for derecognition of financial liabilities.
- IFRS 16 Leases – amendment of illustrative example 13 to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.

**HOUSING DEVELOPMENT FINANCE CORPORATION PLC****31 December 2020****Notes to the financial statements continued**

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

**5 Net interest income**

|  | <b>2020</b>        | <b>2019</b>        |
|--|--------------------|--------------------|
| <b>Interest income</b>   |                    |                    |
| Housing loans  | 153,361,233        | 153,050,924        |
| Treasury bills   | 3,562,292          | 2,533,951          |
|  | <u>156,923,525</u> | <u>155,584,875</u> |
| <b>Interest expense</b>  |                    |                    |
| Other borrowed funds   | 37,077,468         | 42,743,628         |
| Debt securities in issue   | 13,916,608         | 9,126,996          |
| Deposits from customers  | 1,047,286          | 1,106,359          |
| Interest and finance charges paid/payable for lease liabilities<br>(Note 21) | 848,015            | 667,615            |
|  | <u>52,889,377</u>  | <u>53,644,598</u>  |
| Net interest income  | <u>104,034,148</u> | <u>101,940,277</u> |

**6 Net income on Shari'ah products**

|                                     | <b>2020</b>       | <b>2019</b>       |
|-------------------------------------|-------------------|-------------------|
| Revenue from housing facilities     | 64,275,462        | 53,561,594        |
| Revenue from short term investments | 2,446,155         | 964,642           |
| Fee income                          | 1,563,698         | 2,032,488         |
| Amna investors' profit share        | (30,620,801)      | (22,600,553)      |
|                                     | <u>37,664,514</u> | <u>33,958,171</u> |

**7 Fee income**

|                              | <b>2020</b>      | <b>2019</b>      |
|------------------------------|------------------|------------------|
| Housing loan processing fees | 192,287          | 498,758          |
| Other fee income             | 276,714          | 339,702          |
| Management fees              | 2,079,988        | 2,264,930        |
|                              | <u>2,548,989</u> | <u>3,103,390</u> |

## HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2020

### Notes to the financial statements continued

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

#### 8 Other income

|                       | 2020             | 2019             |
|-----------------------|------------------|------------------|
| Penalty interest      | 1,028,901        | 1,400,784        |
| Insurance commissions | 178,570          | 1,003,967        |
|                       | <u>1,207,471</u> | <u>2,404,751</u> |

#### 9 Salaries and personnel expenses

|  | 2020              | 2019              |
|--|-------------------|-------------------|
| Salaries and allowances                | 9,323,951         | 8,861,778         |
| Contribution to employees pension fund | 406,035           | 378,945           |
| Employee benefit expense amortisation  | 238,541           | 208,224           |
| Staff medical insurance                | 149,113           | 147,741           |
| Ramadan allowances and bonus           | 120,000           | 539,029           |
|  | <u>10,237,640</u> | <u>10,135,717</u> |

#### 10 (Reversal) / provision for loan impairment

|  | 2020               | 2019              |
|--|--------------------|-------------------|
| Provision (reversed) / charged during the year (Note 17) | <u>(2,671,583)</u> | <u>15,853,930</u> |

#### 11 Modification loss of loans and advances

The following table includes summary of information for loans and advances whose cashflows were modified during the year.

##### Loans and advances to customers

|  |                      |
|--|----------------------|
| Amortised cost of moratorium granted loans | 1,344,076,065        |
| Net modification loss                      | <u>(15,238,597)</u>  |
|  | <u>1,328,837,468</u> |

The COVID-19 pandemic continues to disrupt the economies around the globe including Maldives, which has impacted majority of the sectors in the country. This in turn has implications on the performance and operations of the Company. Hence, as part of financial support to borrowers, HDFC granted moratorium for its financing facilities on 26 March 2020. For customers who opted for moratorium, principal repayments during 1 March 2020 to 31 August 2020 were deferred by 6 months. The simple interest accrued during the moratorium period is to be recovered from the customers in 28 monthly installments commencing from May 2021 or the remaining period of the loan, whichever is lower. Accounting policies for the modification of financial assets are disclosed in note 30.1.5.

## HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2020

### Notes to the financial statements continued

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

#### 12 Other operating expenses

|   | 2020             | 2019             |
|---|------------------|------------------|
| Depreciation on right-of-use asset (Note 21)            | 1,100,484        | 827,669          |
| Professional fees                                       | 1,051,038        | 1,064,447        |
| Amna expenses   | 688,322          | 616,269          |
| Other expenses  | 529,617          | 627,205          |
| Listing expenses  | 510,245          | 633,297          |
| Depreciation on property, plant and equipment (Note 19) | 420,055          | 419,150          |
| IT expenses   | 405,505          | 859,692          |
| Bank charges  | 380,252          | 144,009          |
| Communication expenses                                  | 339,663          | 343,284          |
| Board remuneration and meeting expenses                 | 328,262          | 765,617          |
| Premises, equipment and establishment expenses          | 294,721          | 352,716          |
| Amortization on intangible assets (Note 22)             | 241,833          | 235,448          |
| Printing and stationary expenses                        | 204,139          | 210,560          |
| Advertising and marketing expenses                      | 61,151           | 562,350          |
| Withholding tax   | 26,854           | 34,254           |
| Loss on disposal  | -                | 225              |
| Corporate social responsibility                         | -                | 100,000          |
|   | <u>6,582,141</u> | <u>7,796,192</u> |

#### 13 Taxation

|                        | 2020              | 2019              |
|------------------------|-------------------|-------------------|
| Current tax            | 20,039,732        | 19,220,550        |
| Deferred tax (Note 20) | 702,620           | (2,694,951)       |
| Income tax expense     | <u>20,742,352</u> | <u>16,525,599</u> |

Reconciliations between income tax expenses and the accounting profit :

|                                | 2020               | 2019               |
|--------------------------------|--------------------|--------------------|
| <b>Profit before tax</b>       | <u>116,068,327</u> | <u>107,620,750</u> |
| Current tax (15%)              | 17,410,249         | 16,143,113         |
| Add: Non-deductible expenses   | 15,493,984         | 11,316,397         |
| Less: Deductible expenses      | (12,086,881)       | (11,095,055)       |
| Tax allowance                  | (75,000)           | (75,000)           |
| Under provision of prior years | -                  | 236,145            |
| Total current tax              | <u>20,742,352</u>  | <u>16,525,599</u>  |

## HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2020

### Notes to the financial statements continued

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

#### 13 Taxation (continued)

##### Current tax liabilities

|                                | 2020              | 2019              |
|--------------------------------|-------------------|-------------------|
| As at 1 January                | 10,726,427        | 8,371,271         |
| Provisions during the year     | 20,039,732        | 18,984,405        |
| Under provision of prior years | -                 | 236,145           |
| Payments made during the year  | (20,348,279)      | (16,865,394)      |
| As at 31 December              | <u>10,417,880</u> | <u>10,726,427</u> |

#### 14 Dividends

Dividend of MVR 27.50 per share amounting to MVR 43,828,125 was declared for the year December 2019 in the board meeting held on 15 December 2019. No dividends were declared for the year ended 31 December 2020.

#### 15 Earnings per share

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

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

|   | 2020         | 2019         |
|---|--------------|--------------|
| Net profit attributable to shareholders             | 95,325,975   | 91,095,151   |
| Weighted average number of ordinary shares in issue | 1,593,750    | 1,593,750    |
| Earnings per share - basic / diluted (MVR)          | <u>59.81</u> | <u>57.16</u> |

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

#### 16 Cash and cash equivalents

|                                 | 2020               | 2019               |
|---------------------------------|--------------------|--------------------|
| Cash in hand                    | 6,500              | 6,500              |
| Balances with other banks       | 50,559,234         | 127,988,993        |
| Short term investments with MIB | 57,057,421         | 70,056,016         |
|                                 | <u>107,623,155</u> | <u>198,051,509</u> |

## HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2020

### Notes to the financial statements continued

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

#### 16 Cash and cash equivalents (continued)

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

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

#### 17 Loans and advances

|                                | 2020                 | 2019                 |
|--------------------------------|----------------------|----------------------|
| Housing loans to customers     | 1,308,792,983        | 1,278,033,104        |
| Housing loans to staff         | 5,201,709            | 5,761,103            |
| Amna assets                    | 563,053,767          | 497,845,746          |
|                                | <u>1,877,048,459</u> | <u>1,781,639,953</u> |
| Less: Provision for impairment | (42,197,257)         | (43,266,505)         |
| Net housing loans              | <u>1,834,851,202</u> | <u>1,738,373,448</u> |

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

#### Movements in provision for impairment are as follows:

|   | 2020              | 2019              |
|---|-------------------|-------------------|
| Opening balance   | 43,266,505        | 26,209,891        |
| (Reversal) / provision charged during the year ( Note 10) | (2,671,583)       | 15,853,930        |
| Unrecognised interest on stage 3 assets                   | 1,602,336         | 1,202,684         |
| Closing balance   | <u>42,197,257</u> | <u>43,266,505</u> |

#### 18 Financial assets at amortised cost

|                               | 2020               | 2019               |
|-------------------------------|--------------------|--------------------|
| Investments in Treasury bills | 119,885,240        | 194,806,343        |
| Investments in MIB            | -                  | 30,040,174         |
|                               | <u>119,885,240</u> | <u>224,846,517</u> |

Treasury bills amounting MVR 59,982,786 and MVR 59,902,454 will mature on 4 and 18 January 2021 respectively and carry an interest rate of 3.5% per annum.

**HOUSING DEVELOPMENT FINANCE CORPORATION PLC**

**31 December 2020**

**Notes to the financial statements continued**

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

**19 Property, plant and equipment**

|                                    | Office equipment<br>and other asset | Computer<br>equipment | Furniture<br>and fixtures | Leaschold<br>improvements | Total       |
|------------------------------------|-------------------------------------|-----------------------|---------------------------|---------------------------|-------------|
| <b>Year ended 31 December 2019</b> |                                     |                       |                           |                           |             |
| Opening net book amount            | 320,820                             | 748,211               | 252,869                   | 2,153                     | 1,324,053   |
| Additions                          | 55,873                              | 65,250                | 18,005                    | -                         | 139,128     |
| Depreciation charge (Note 12)      | (82,189)                            | (258,707)             | (77,587)                  | (667)                     | (419,150)   |
| Disposals                          | -                                   | -                     | -                         | -                         | -           |
| - Cost                             | -                                   | (73,000)              | (18,557)                  | -                         | (91,557)    |
| - Accumulated depreciation         | -                                   | 73,000                | 18,332                    | -                         | 91,332      |
| Balance as at 31 December 2019     | 294,504                             | 554,754               | 193,062                   | 1,486                     | 1,043,806   |
| <b>At 31 December 2019</b>         |                                     |                       |                           |                           |             |
| Cost                               | 896,276                             | 2,753,688             | 820,995                   | 832,103                   | 5,303,062   |
| Accumulated depreciation           | (601,772)                           | (2,198,934)           | (627,933)                 | (830,617)                 | (4,259,256) |
| Net book amount                    | 294,504                             | 554,754               | 193,062                   | 1,486                     | 1,043,806   |
| <b>Year ended 31 December 2020</b> |                                     |                       |                           |                           |             |
| Opening net book amount            | 294,504                             | 554,754               | 193,062                   | 1,486                     | 1,043,806   |
| Additions                          | 82,287                              | 117,311               | 112,873                   | 117,130                   | 429,601     |
| Depreciation charge (Note 12)      | (84,635)                            | (229,992)             | (93,100)                  | (12,328)                  | (420,055)   |
| Balance as at 31 December 2020     | 292,156                             | 442,073               | 212,835                   | 106,288                   | 1,053,352   |
| <b>At 31 December 2020</b>         |                                     |                       |                           |                           |             |
| Cost                               | 978,563                             | 2,870,999             | 933,868                   | 949,233                   | 5,732,663   |
| Accumulated depreciation           | (686,407)                           | (2,428,926)           | (721,033)                 | (842,945)                 | (4,679,312) |
| Net book amount                    | 292,156                             | 442,073               | 212,835                   | 106,288                   | 1,053,352   |

a) HDFC operates business from the premises taken on lease from third parties which are disclosed under note 21.

b) Property, plant and equipment aggregating to MVR 4,639,659 (December 2019: MVR 4,085,483) were fully depreciated as at the reporting date.

**HOUSING DEVELOPMENT FINANCE CORPORATION PLC****31 December 2020****Notes to the financial statements continued**

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

**20 Deferred income tax assets**

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

|   | <b>2020</b>      | <b>2019</b>      |
|---|------------------|------------------|
| Deferred tax assets                                 | 5,117,559        | 5,820,179        |
| Net deferred tax asset                              | <u>5,117,559</u> | <u>5,820,179</u> |
|   | <b>2020</b>      | <b>2019</b>      |
| Opening balance                                     | 5,820,179        | 3,125,228        |
| (Charge) / credit to the income statement (Note 13) | (702,620)        | 2,694,951        |
| Closing balance                                     | <u>5,117,559</u> | <u>5,820,179</u> |

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

|   | <b>2020</b>       | <b>2019</b>       |
|---|-------------------|-------------------|
| Temporary difference on PPE                                       | 231,086           | 622,833           |
| Temporary difference on provisions for loan impairment            | 33,885,972        | 37,760,239        |
| Temporary difference on right-of-use assets and lease liabilities | -                 | 418,118           |
|   | <u>34,117,058</u> | <u>38,801,190</u> |
| Tax rate  | 15%               | 15%               |
| Net deferred tax asset  | <u>5,117,559</u>  | <u>5,820,179</u>  |

The balance comprises the following deferred tax assets.

|                                      | <b>2020</b>      | <b>2019</b>      |
|--------------------------------------|------------------|------------------|
| <i>Property, plant and equipment</i> |                  |                  |
| Opening balance                      | 93,425           | 19,684           |
| Credit to the income statement       | (58,762)         | 73,741           |
| Closing balance                      | <u>34,663</u>    | <u>93,425</u>    |
| <i>Provision for loan impairment</i> |                  |                  |
| Opening balance                      | 5,664,036        | 3,105,544        |
| Credit to the income statement       | (581,140)        | 2,558,492        |
| Closing balance                      | <u>5,082,896</u> | <u>5,664,036</u> |
| <i>Right-of-use asset</i>            |                  |                  |
| Opening balance                      | 62,718           | -                |
| Credit to the income statement       | (62,718)         | 62,718           |
| Closing balance                      | <u>-</u>         | <u>62,718</u>    |
| Net deferred tax asset               | <u>5,117,559</u> | <u>5,820,179</u> |

## HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2020

### Notes to the financial statements continued

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

#### 21 Leases

(i) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

|                            | As at 31<br>December 2020 | As at 31<br>December 2019 |
|----------------------------|---------------------------|---------------------------|
| <b>Right-of-use assets</b> |                           |                           |
| Buildings                  | 8,738,051                 | 9,838,535                 |
|                            | <u>8,738,051</u>          | <u>9,838,535</u>          |

**Movement in right-of-use asset as follows:**

|                                    | Buildings        |
|------------------------------------|------------------|
| <b>Year ended 31 December 2019</b> |                  |
| Initial application of IFRS 16     | 7,508,208        |
| Additions                          | 3,157,996        |
| Depreciation charged (Note 12)     | (827,669)        |
| Closing net book amount            | <u>9,838,535</u> |
| <b>Year ended 31 December 2020</b> |                  |
| Opening net book amount            | 9,838,535        |
| Depreciation charged (Note 12)     | (1,100,484)      |
| Closing net book amount            | <u>8,738,051</u> |

#### **Lease liabilities**

**Movement in lease liabilities as follows:**

|  | As at 31<br>December 2020 | As at 31<br>December 2019 |
|--|---------------------------|---------------------------|
| Opening balance                        | 10,256,653                | 7,508,208                 |
| Additions during the year              | -                         | 3,157,996                 |
| Interest expense for the year (Note 5) | 848,015                   | 667,615                   |
| Principal repayment during the year    | (591,985)                 | (409,551)                 |
| Interest repayment during the year     | (848,015)                 | (667,615)                 |
| Closing balance                        | <u>9,664,668</u>          | <u>10,256,653</u>         |
| <b>Lease liabilities</b>               |                           |                           |
| Current                                | 700,508                   | 591,985                   |
| Non-current                            | 8,964,159                 | 9,664,668                 |
|  | <u>9,664,668</u>          | <u>10,256,653</u>         |

## HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2020

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### Notes to the financial statements continued

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

#### 21 Leases (continued)

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

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

|   | 2020             | 2019             |
|---|------------------|------------------|
| Depreciation charge of right-of-use assets - buildings                      | 1,100,484        | 827,669          |
| Interest and finance charges paid/payable for lease liabilities<br>(Note 5) | 848,015          | 667,615          |
|   | <u>1,948,499</u> | <u>1,495,284</u> |

Interest expense on lease liabilities are included in interest expenses.

The total cash outflow for leases in the year ended 31 December 2020 was MVR 1,440,000.

#### 22 Intangible assets

|                                    | Software costs     |
|------------------------------------|--------------------|
| <b>Year ended 31 December 2019</b> |                    |
| Opening net book amount            | 621,847            |
| Additions                          | 102,158            |
| Amortisation charge (Note 12)      | <u>(235,448)</u>   |
| Closing net book amount            | <u>488,557</u>     |
| <b>At 31 December 2019</b>         |                    |
| Cost                               | 1,711,544          |
| Accumulated amortisation           | <u>(1,222,987)</u> |
| Net book amount                    | <u>488,557</u>     |
| <b>Year ended 31 December 2020</b> |                    |
| Opening net book amount            | 488,557            |
| Amortisation charge (Note 12)      | <u>(241,833)</u>   |
| Closing net book amount            | <u>246,724</u>     |
| <b>At 31 December 2020</b>         |                    |
| Cost                               | 1,711,544          |
| Accumulated amortisation           | <u>(1,464,820)</u> |
| Net book amount                    | <u>246,724</u>     |

## HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2020

### Notes to the financial statements continued

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

#### 23 Other assets

|                       | 2020             | 2019             |
|-----------------------|------------------|------------------|
| Accounts receivable   | 80,273           | 1,147,351        |
| Pre-payments          | 6,348,082        | 5,040,620        |
| Advance paid to staff | 883,660          | 1,005,924        |
|                       | <u>7,312,015</u> | <u>7,193,895</u> |

#### 24 Deposits from customers

|                                      | 2020              | 2019              |
|--------------------------------------|-------------------|-------------------|
| Equated monthly installment deposits | 78,105,434        | 82,694,656        |
| Borrowers deposits                   | 2,208,035         | 5,989,528         |
|                                      | <u>80,313,469</u> | <u>88,684,184</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.

#### 25 Debt securities in issue

|                            | 2020               | 2019               |
|----------------------------|--------------------|--------------------|
| Listed and corporate bonds | 190,363,621        | 227,108,162        |
| Listed Sukuk               | 242,255,076        | 241,794,539        |
|                            | <u>432,618,697</u> | <u>468,902,701</u> |

##### Maturity analysis of debt securities in issue

|                         |                    |                    |
|-------------------------|--------------------|--------------------|
| Payable within one year | 63,470,877         | 44,951,000         |
| Payable after one year  | 369,147,820        | 423,951,701        |
|                         | <u>432,618,697</u> | <u>468,902,701</u> |

Listed bonds amounting MVR 81,390,000 was raised in July 2018. These bonds carry an interest rate of 7% per annum for 10 years from the allotment date. Interest payments are made every six months after the date of allotment, until the bond is fully redeemed. The cumulative redemption as at 31 December 2020 equals to MVR 12,113,468.

Listed bonds for MVR 80,000,000 were issued and subscribed in December 2019. These bonds carry an interest rate of 7% per annum for 10 years from the allotment date. Interest payments are made every six months after the date of allotment, until the bond is fully redeemed. The cumulative redemption as at 31 December 2020 equals to MVR 5,741,443.

## HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2020

### Notes to the financial statements continued

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

#### 25 Debt securities in issue (continued)

In January 2019 HDFC issued corporate bond with value of MVR 10,000,000 with two year maturity and carry an interest rate of 7% per annum. In May 2019 HDFC issued corporate bond with value of MVR 15,000,000 with two year maturity and carry an interest rate of 7% per annum. In August 2019 HDFC issued corporate bond with value of MVR 20,000,000 with two year maturity and carry an interest rate of 6.5% per annum.

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

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

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

#### 26 Other borrowed funds

|   | 2020               | 2019               |
|---|--------------------|--------------------|
| Deutsche Investitions und Entwicklungs Gesellschaft MBH (DEG) | 58,981,576         | 82,794,965         |
| Bank of Ceylon  | 45,102,325         | 76,406,536         |
| Bank of Maldives  | 187,810,870        | 159,250,000        |
| Habib Bank Limited  | 31,150,500         | 51,050,000         |
| Wakala facilities   | 175,107,960        | 180,369,018        |
| Pension benefit scheme fund                                   | 4,830,844          | 4,715,914          |
| State Bank of India   | 106,449,807        | 117,764,772        |
| Commercial Bank of Maldives                                   | 15,116,620         | 20,026,301         |
|   | <u>624,550,502</u> | <u>692,377,506</u> |

## HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2020

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### Notes to the financial statements continued

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

#### 26 Other borrowed funds (continued)

##### Maturity analysis of other borrowed funds

|                         |                    |                    |
|-------------------------|--------------------|--------------------|
| Payable within one year | 184,047,000        | 209,966,000        |
| Payable after one year  | 440,503,502        | 482,411,506        |
|                         | <u>624,550,502</u> | <u>692,377,506</u> |

##### Deutsche Investitions und Entwicklungs Gesellschaft MBH (DEG)

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

##### Bank of Ceylon - Male' branch

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

##### Term loan from Bank of Maldives

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

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

## HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2020

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### Notes to the financial statements continued

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

#### 26 Other borrowed funds (continued)

##### **Habib Bank limited (HBL)**

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

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

##### **Commercial Bank of Maldives (CBM)**

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

##### **Wakala facilities**

During 2012, Maldives Islamic Bank has invested MVR 20,000,000 with HDFC under a Wakalah arrangement with a profit target of 11.5% for a year at a profit sharing ratio of 35% : 65% between HDFC and investor respectively. This has been rolled over for the eighth time during 2020 for another year. During May 2017, Maldives Islamic bank invested MVR 10,000,000 for one year and this was rolled over 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 HDFC with a target yield of 10% - 11% per annum with a profit sharing ratio of (30% -35%) : (70% - 65%) for 5 years. The investments made in 2015 was rolled over in 2020 for another 5 years. However, the investment amounting MVR 50,000,000 can be withdrawn with three months prior notice.

## HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2020

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### Notes to the financial statements continued

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

#### 26 Other borrowed funds (continued)

##### Wakala facilities (continued)

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 and this was rolled over for 2 more years in 2020. Further in February 2019, MVR 7,000,000 was invested by Amana Takaful with a maturity of two years.

During the year 2017, Bank of Maldives PLC has invested MVR 17,188,262 out of an approved investment amounting MVR 50,000,000 with profit target of 8% per annum. Upon maturity this has been rolled over for two more years in June 2019. Bank of Maldives PLC invested the balance undrawn Wakala facility of MVR 20,632,646 and MVR 12,179,092 in January 2019 and February 2019 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.

In December 2018, Ayady Takaful invested MVR 16,000,000 with HDFC for two years with a profit sharing ratio of 70% - 30% respectively between the investor and HDFC. This was rolled over for another two years in 2020. In May 2019, Amana Takaful Plc invested MVR 5,000,000 for two years with profit sharing ratio of 45% - 65%.

##### Pension benefit scheme fund

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

##### State Bank of India (SBI)

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

## HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2020

### Notes to the financial statements continued

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

#### 27 Other liabilities

|  | 2020               | 2019               |
|--|--------------------|--------------------|
| Ministry of Housing and Infrastructure - GED Islamic fund          | 65,904,809         | 65,832,170         |
| Ministry of Housing and Infrastructure - MHI Islamic fund          | 30,877,674         | 24,707,834         |
| Ministry of Housing and Infrastructure - MHUD<br>Conventional fund | 41,808,643         | 39,243,507         |
| Ministry of Housing and Infrastructure 704 - Conventional<br>fund  | 51,008,511         | 103,648,827        |
| Ministry of Housing and Infrastructure CMEC - Housing<br>funds     | 10,472,861         | 4,997,251          |
| Insurance premium payable  | 6,351,336          | 7,455,323          |
| Amounts received from customers in advance                         | 9,340,271          | 8,540,275          |
| Accruals and other liabilities                                     | 1,660,429          | 1,948,976          |
| Employees pension contribution                                     | 61,913             | 57,008             |
| Advance for share capital  | 51,407,100         | 51,407,100         |
| Dividends payable  | 160                | 43,828,304         |
|  | <u>268,893,707</u> | <u>351,666,575</u> |

#### Ministry of Housing and Infrastructure - GED Islamic fund

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

#### Ministry of Housing and Infrastructure - MHI Islamic fund

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

## HOUSING DEVELOPMENT FINANCE CORPORATION PLC

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### Notes to the financial statements continued

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

#### 27 Other liabilities (continued)

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

#### Ministry of Housing and Infrastructure - MHUD Conventional fund

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

#### Ministry of Housing and Infrastructure - 704 - Conventional fund

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

#### Ministry of Housing and Infrastructure - CMEC - Conventional fund

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

#### 28 Share capital

|                     | Number of        | Ordinary shares    |
|---------------------|------------------|--------------------|
| At 31 December 2019 | 1,593,750        | 159,375,000        |
| At 31 December 2020 | <u>1,593,750</u> | <u>159,375,000</u> |

The total authorized number of ordinary shares as at 31 December 2020 was 3,187,500 (2019: 3,187,500) with a par value of MVR 100 (2019: MVR 100) per share. As at 31 December 2020, 1,593,750 shares were issued, which were fully paid.

## HOUSING DEVELOPMENT FINANCE CORPORATION PLC

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### Notes to the financial statements

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#### 29 Segment Analysis

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

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

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

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

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

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

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

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

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

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

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

Segment information for the reportable segments as at 31 December 2020 and for the year ended 31 December 2020 is set out below:

(As at 31 December 2020)

| <i>In thousands of MVR</i>         | Conventional | Islamic | Unallocated | Total     |
|------------------------------------|--------------|---------|-------------|-----------|
| 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 at amortised cost | 119,885      | -       | -           | 119,885   |
| Right-of-use assets                | -            | -       | 8,738       | 8,738     |
| Other assets                       | -            | -       | 12,430      | 12,430    |
| Total assets                       | 1,441,860    | 620,499 | 22,468      | 2,084,827 |

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### Notes to the financial statements

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

#### 29 Segment Analysis (continued)

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

| <i>In thousands of MVR</i> | Conventional   | Islamic        | Unallocated   | Total            |
|----------------------------|----------------|----------------|---------------|------------------|
| 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           |
| <b>Total liabilities</b>   | <b>801,323</b> | <b>536,233</b> | <b>88,903</b> | <b>1,426,459</b> |
| Capital expenditure        | -              | -              | 430           | 430              |

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

##### (For the year ended 31 December 2020)

| <i>In thousands of MVR</i>                    | Conventional   | Islamic       | Unallocated     | Total          |
|---|----------------|---------------|-----------------|----------------|
| External revenues:                            |                |               |                 |                |
| - Interest / profit share                     | 156,924        | 66,722        | -               | 223,645        |
| - Fee and commission income                   | 2,549          | 1,564         | -               | 4,113          |
| - Other operating income                      | 1,207          | -             | -               | 1,207          |
| <b>Total revenues</b>                         | <b>160,680</b> | <b>68,286</b> | <b>-</b>        | <b>228,965</b> |
| Interest expense / profit share               | (52,889)       | (30,621)      | -               | (83,510)       |
| Reversal of / (impairment losses)             | (2,992)        | 5,664         | -               | 2,672          |
| Modification loss                             | (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)       |
| <b>Result</b>                                 | <b>80,116</b>  | <b>37,715</b> | <b>(22,505)</b> | <b>95,326</b>  |

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

##### (As at 31 December 2019)

| <i>In thousands of MVR</i>        | Conventional     | Islamic        | Unallocated   | Total            |
|-----------------------------------|------------------|----------------|---------------|------------------|
| Loans and advances                | 1,263,027        | 475,346        | -             | 1,738,373        |
| Cash and cash equivalents         | 84,236           | 113,816        | -             | 198,052          |
| Non-current assets                | -                | -              | 1,532         | 1,532            |
| Financial assets held-to-maturity | 224,847          | -              | -             | 224,847          |
| Right-of-use assets               | -                | -              | 9,839         | 9,839            |
| Other assets                      | -                | -              | 13,014        | 13,014           |
| <b>Total assets</b>               | <b>1,572,110</b> | <b>589,162</b> | <b>24,385</b> | <b>2,185,657</b> |

## HOUSING DEVELOPMENT FINANCE CORPORATION PLC

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### Notes to the financial statements

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

#### 29 Segment Analysis (continued)

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

| <i>In thousands of MVR</i> | <b>(As at 31 December 2019)</b> |                |                |                  |
|----------------------------|---------------------------------|----------------|----------------|------------------|
|                            | Conventional                    | Islamic        | Unallocated    | Total            |
| Deposits from customers    | 62,641                          | 26,044         | -              | 88,684           |
| Debt securities in issue   | 227,108                         | 241,795        | -              | 468,903          |
| Other borrowed funds       | 512,008                         | 180,369        | -              | 692,378          |
| Other liabilities          | 147,890                         | 90,540         | 113,237        | 351,667          |
| Lease liabilities          | -                               | -              | 10,257         | 10,257           |
| Current tax liabilities    | -                               | -              | 10,726         | 10,726           |
| <b>Total liabilities</b>   | <b>949,647</b>                  | <b>538,747</b> | <b>134,220</b> | <b>1,622,615</b> |
| Capital expenditure        | -                               | -              | 241            | 241              |

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

| <i>In thousands of MVR</i>                  | <b>(For the year ended 31 December 2019)</b> |               |                 |                |
|---|--|---------------|-----------------|----------------|
|   | Conventional                                 | Islamic       | Unallocated     | Total          |
| External revenues:                          |  |               |                 |                |
| - Interest / profit share                   | 155,585                                      | 54,526        | -               | 210,111        |
| - Fee and commission income                 | 3,103  | 2,032         | -               | 5,136          |
| - Other operating income                    | 2,405  | -             | -               | 2,405          |
| <b>Total revenues</b>                       | <b>161,093</b>                               | <b>56,559</b> | <b>-</b>        | <b>217,652</b> |
| Interest expense / profit share             | (53,645)                                     | (22,601)      | -               | (76,245)       |
| Provision for loan impairment               | (6,087)                                      | (9,767)       | -               | (15,854)       |
| Depreciation and amortisation               | -  | -             | (1,482)         | (1,482)        |
| Administrative and other operating expenses | (15,006)                                     | (1,444)       | -               | (16,450)       |
| Income tax                                  | -  | -             | (16,526)        | (16,526)       |
| <b>Result</b>                               | <b>86,356</b>                                | <b>22,747</b> | <b>(18,008)</b> | <b>91,095</b>  |

#### 30 Financial risk management

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

## HOUSING DEVELOPMENT FINANCE CORPORATION PLC

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### Notes to the financial statements (continued)

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

#### 30 Financial risk management (continued)

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

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

#### 30.1 Credit risk

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

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

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

##### 30.1.1 Credit risk measurement

###### Loans and advances (including loan commitments)

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

##### 30.1.2 Expected credit loss measurement

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

## HOUSING DEVELOPMENT FINANCE CORPORATION PLC

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### Notes to the financial statements (continued)

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

#### 30.1 Credit risk (continued)

##### 30.1.2 Expected credit loss measurement (continued)

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

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

The following diagram summarises the impairment requirements under IFRS 9:

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

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

##### 30.1.2.1 Significant increase in credit risk

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

##### 30.1.2.2 Definition of default and credit-impaired assets

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

## HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2020

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### Notes to the financial statements (continued)

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

#### 30.1 Credit risk (continued)

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

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

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

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

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

The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12 MN PD), or over the remaining lifetime (Life time PD) of the obligation. PIT PD ( Point-in-time Probability of Default) is calculated using duration or hazard rate approach (Makov chain approach) and TTC PD (Through-the-Cycle Probability of Default) is derived from average empirical matrix from 2012 to 2020.

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

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

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### Notes to the financial statements (continued)

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

#### 30.1 Credit risk (continued)

##### 30.1.2.3 Measuring the ECL - Explanation of inputs, assumptions and estimation techniques (continued)

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

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

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

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

##### 30.1.2.4 Forward looking information incorporated in ECL models

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

HDFC 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, HDFC has assigned higher weight for worst case scenario than the best case when assessing the probability weighted forward looking macro-economic indicators.

## HOUSING DEVELOPMENT FINANCE CORPORATION PLC

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### Notes to the financial statements (continued)

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

#### 30.1 Credit risk (continued)

##### 30.1.2.4 Forward looking information incorporated in ECL models (continued)

###### *Estimation approach used in 2019*

HDFC performed 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 31 December 2020 are set out below.

|                   | 2021   | 2022   | 2023  | 2024  | 2025  |
|-------------------|--------|--------|-------|-------|-------|
| GDP growth rate   | 12.70% | 10.99% | 7.54% | 6.69% | 5.89% |
| Inflation         | 2.12%  | 2.02%  | 2.02% | 2.02% | 2.02% |
| Unemployment rate | 6.14%  | 6.14%  | 6.14% | 6.14% | 6.14% |

The weightage assigned for each economic scenario at 31 December 2020 as follows:

|                | Best | Base | Worst |
|----------------|------|------|-------|
| All portfolios | 11%  | 68%  | 21%   |

Set out below are changes to ECL as at 31 December 2020 that would result from reasonably possible changes in these parameters from actual assumptions used in HDFC's economic variable assumptions.

|                   | -1%        | No change  | +1%        |
|-------------------|------------|------------|------------|
| GDP growth rate   | 42,332,842 | 42,197,257 | 42,060,874 |
| Inflation         | 39,087,652 | 42,197,257 | 44,941,656 |
| Unemployment rate | 39,573,582 | 42,197,257 | 44,556,484 |

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### Notes to the financial statements (continued)

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

#### 30.1 Credit risk (continued)

##### 30.1.2.5 Grouping of instruments for losses measured on a collective basis

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

##### 30.1.3 Loss allowance

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

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

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

## HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2020

### Notes to the financial statements (continued)

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

#### 30.1 Credit risk (continued)

##### 30.1.3 Loss allowance (continued)

| Loss allowance                            | Stage 1          | Stage 2           | Stage 3           | Total             |
|---|------------------|-------------------|-------------------|-------------------|
|   | 12-month ECL     | Life time ECL     | Life time ECL     |                   |
| Loss allowance as at 1 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         |
| <b>Loss allowance at 31 December 2020</b> | <b>4,318,767</b> | <b>15,098,274</b> | <b>22,780,216</b> | <b>42,197,257</b> |

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).

Reduction in allowance on stage 1 loans during the year have contributed to decrease in the loss allowance.

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

**HOUSING DEVELOPMENT FINANCE CORPORATION PLC**

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**Notes to the financial statements (continued)**

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

**30.1 Credit risk (continued)**

**30.1.3 Loss allowance (continued)**

| Loans and advances                                  | Stage 1              | Stage 2            | Stage 3           | Total                |
|---|----------------------|--------------------|-------------------|----------------------|
|   | 12-month ECL         | Life time ECL      | Life time ECL     |                      |
| <b>Gross carrying amount as at 1 January 2020</b>   | 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        | 2,366,434            |
| Transfer from Stage 2 to Stage 3                    | -                    | (22,958,673)       | 24,182,157        | 1,223,485            |
| Transfer from Stage 3 to Stage 2                    | -                    | 13,414,303         | (13,278,374)      | 135,928              |
| 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           |
| <b>Gross carrying amount as at 31 December 2020</b> | <b>1,545,664,133</b> | <b>268,691,735</b> | <b>62,692,591</b> | <b>1,877,048,459</b> |

**HOUSING DEVELOPMENT FINANCE CORPORATION PLC****31 December 2020****Notes to the financial statements (continued)**

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

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

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

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

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

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

**HOUSING DEVELOPMENT FINANCE CORPORATION PLC**

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**Notes to the financial statements (continued)**

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

**30.1 Credit risk (continued)**

**30.1.3 Loss allowance (continued)**

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

**30.1.4 Write-off policy**

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

**30.1.5 Modification of financial assets**

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

## HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2020

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### Notes to the financial statements (continued)

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

#### 30.1.5 Modification of financial assets (continued)

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

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. HDFC monitors the subsequent performance of modified assets. HDFC may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL).

#### 30.1.6 Risk limit control and mitigation policies

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

Some other specific control and mitigation measures are outlined below.

##### *(a) Collateral*

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

HDFC's policy is to sell the repossessed assets at the earliest possible opportunity and the HDFC's policies regarding obtaining collateral have not significantly changed during the reporting period. There has been no significant change in the overall quality of the collateral held by HDFC since the prior period. HDFC closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that HDFC will take possession of collateral to mitigate potential credit losses.

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.

## HOUSING DEVELOPMENT FINANCE CORPORATION PLC

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### Notes to the financial statements (continued)

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

#### 30.1.6 Risk limit control and mitigation policies (continued)

##### Collateral information

| As of 31 December 2020          | Customer loans       | Staff loans      | Amna assets        | Total                |
|---------------------------------|----------------------|------------------|--------------------|----------------------|
| Loans collateralised by:        |                      |                  |                    |                      |
| - house property                | 1,308,792,983        | 5,201,709        | 563,053,767        | 1,877,048,459        |
| <b>Total loans and advances</b> | <b>1,308,792,983</b> | <b>5,201,709</b> | <b>563,053,767</b> | <b>1,877,048,459</b> |
| As of 31 December 2019          | Customer loans       | Staff loans      | Amna assets        | Total                |
| Loans collateralised by:        |                      |                  |                    |                      |
| - house property                | 1,278,033,104        | 5,761,103        | 497,845,746        | 1,781,639,953        |
| <b>Total loans and advances</b> | <b>1,278,033,104</b> | <b>5,761,103</b> | <b>497,845,746</b> | <b>1,781,639,953</b> |

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

| As of 31 December 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 |
| 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            |                              |                          |
| <b>Total loans and advances</b> | <b>1,877,048,459</b>         | <b>5,166,628,130</b>     | <b>-</b>                     | <b>-</b>                 |
| As of 31 December 2019          | Over-collateralised assets   |                          | Under-collateralised assets  |                          |
|                                 | Carrying value of the assets | Fair value of collateral | Carrying value of the assets | Fair value of collateral |
| Customer loans                  | 1,278,033,104                | 3,814,057,909            | -                            | -                        |
| Staff loans                     | 5,761,103                    | 15,622,914               | -                            | -                        |
| Amna assets                     | 497,845,746                  | 1,240,072,906            |                              |                          |
| <b>Total loans and advances</b> | <b>1,781,639,953</b>         | <b>5,069,753,729</b>     | <b>-</b>                     | <b>-</b>                 |

## HOUSING DEVELOPMENT FINANCE CORPORATION PLC

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### Notes to the financial statements (continued)

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

#### 30.1.6 Risk limit control and mitigation policies (continued)

##### *(b) Credit-related commitments*

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

#### 30.1.7 Impairment and provisioning policies

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

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

Maximum exposure before collateral equals to the net carrying value of all the assets in the Statement of financial position except cash and bank balances representing a worse case scenario of credit risk exposure to HDFC at 31 December 2020 and 31 December 2019, without taking account of any collateral held.

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

- All the housing loans are backed by collateral.
- 83.98% of the loans and advances portfolio are considered to be neither past due nor impaired (31 December 2019: 89.10 %);

#### 30.1.9 Concentration of risks of financial assets with credit risk exposure

##### *(a) Geographical sectors*

HDFC's lending activities are limited to Maldives.

##### *(b) Sectors*

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

|                            | 2020                 | 2019                 |
|----------------------------|----------------------|----------------------|
| Residential - Conventional | 1,311,723,613        | 1,281,057,773        |
| Residential - Islamic      | 563,053,767          | 497,845,746          |
| Commercial                 | 2,271,079            | 2,736,434            |
| Grand total                | <u>1,877,048,459</u> | <u>1,781,639,953</u> |

## HOUSING DEVELOPMENT FINANCE CORPORATION PLC

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### Notes to the financial statements (continued)

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

#### 30.2 Market risk

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

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

##### 30.2.1 Foreign exchange risk

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

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

By virtue of the SWAP agreements, HDFC will be able to service the US\$ loans obtained from DEG. As at the reporting date, the outstanding balance in this borrowing amounts to US\$ 3,825,005 (2019: US\$ 5,369,323), against which the amounts of US\$ to be purchased from STO PLC is US\$ 3,823,523 (2019: US\$ 5,352,940).

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

|   | (Amount in USD) |             |
|---|-----------------|-------------|
|   | 2020            | 2019        |
| <b>Assets</b>                           |                 |             |
| Cash and balances with other banks      | 52,897          | 289,281     |
| Total assets                            | 52,897          | 289,281     |
| <b>Liabilities</b>                      |                 |             |
| Borrowings                              | (3,825,005)     | (5,369,323) |
| Total liabilities                       | (3,825,005)     | (5,369,323) |
| Net on-balance sheet financial position | (3,772,108)     | (5,080,042) |
| Currency SWAP                           | 3,823,528       | 5,352,940   |
| Net                                     | 51,420          | 272,898     |

## HOUSING DEVELOPMENT FINANCE CORPORATION PLC

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### Notes to the financial statements

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

#### 30.2.1 Foreign exchange risk (continued)

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

| <i>Amounts in USD</i>          | As at 31 December 2020      |                     | As at 31 December 2019      |                     |
|--------------------------------|-----------------------------|---------------------|-----------------------------|---------------------|
|                                | Impact on<br>profit or loss | Impact on<br>equity | Impact on<br>profit or loss | Impact on<br>equity |
| US Dollar strengthening by 10% | 5,142                       | -                   | 27,290                      | -                   |
| US Dollar weakening by 10%     | (5,142)                     | -                   | (27,290)                    | -                   |

#### 30.2.2 Interest rate risk

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

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

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

## HOUSING DEVELOPMENT FINANCE CORPORATION PLC

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### Notes to the financial statements

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

#### 30.2.2 Interest rate risk (continued)

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

| As at 31 December 2020              | Up to<br>1 month | 1-3 months    | 3-12 months      | 1-5 years        | Over 5 years     | Non- interest<br>bearing | Total            |
|-------------------------------------|------------------|---------------|------------------|------------------|------------------|--------------------------|------------------|
| (in MVR '000)                       |                  |               |                  |                  |                  |                          |                  |
| <b>Assets</b>                       |                  |               |                  |                  |                  |                          |                  |
| 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 assets                        | -                | -             | 80               | -                | -                | -                        | 80               |
| <b>Total financial assets</b>       | <b>173,988</b>   | <b>67,874</b> | <b>34,463</b>    | <b>236,764</b>   | <b>1,549,350</b> | <b>-</b>                 | <b>2,062,439</b> |
| <b>Liabilities</b>                  |                  |               |                  |                  |                  |                          |                  |
| 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 liabilities                   | -                | -             | -                | -                | -                | 208,084                  | 208,084          |
| Lease liabilities                   | 52               | 157           | 492              | 4,120            | 4,844            | -                        | 9,665            |
| <b>Total financial liabilities</b>  | <b>16,939</b>    | <b>37,211</b> | <b>196,142</b>   | <b>438,819</b>   | <b>455,805</b>   | <b>210,315</b>           | <b>1,355,232</b> |
| <b>Total interest repricing gap</b> | <b>157,049</b>   | <b>30,663</b> | <b>(161,679)</b> | <b>(202,055)</b> | <b>1,093,545</b> | <b>(210,315)</b>         | <b>707,207</b>   |

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**30.2.2 Interest rate risk (continued)**

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

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

## HOUSING DEVELOPMENT FINANCE CORPORATION PLC

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### Notes to the financial statements

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#### 30.2.2 Interest rate risk (continued)

Exposure to Interest rate risk - Loans and advances

*Sensitivity analysis of net interest income*

| (in MVR '000)        | As at 31 December 2020 |             | As at 31 December 2019 |             |
|----------------------|------------------------|-------------|------------------------|-------------|
|                      | 1% increase            | 1% decrease | 1% increase            | 1% decrease |
| Average for the year | 9,175                  | (9,175)     | 7,790                  | (7,790)     |

#### 30.3 Liquidity risk

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

##### 30.3.1 Liquidity risk management process

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

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

**Notes to the financial statements**

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

**30.3.1 Liquidity risk management process (continued)**

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

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

**30.3.2 Funding approach**

Sources of liquidity are regularly reviewed by the ALCO.

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### Notes to the financial statements

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

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

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

| As at 31 December 2020             | Up to 1 month  | 1-3 months     | 3-12 months     | 1-5 years      | Over 5 years     | Total            | Carrying amount  |
|------------------------------------|----------------|----------------|-----------------|----------------|------------------|------------------|------------------|
| (in MVR '000)                      |                |                |                 |                |                  |                  |                  |
| <b>Liabilities</b>                 |                |                |                 |                |                  |                  |                  |
| Deposits from customers            | 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 liabilities                  | -              | -              | 8,533           | -              | 199,552          | 208,085          | 208,085          |
| Lease liabilities                  | 120            | 360            | 1,080           | 6,495          | 5,655            | 13,710           | 9,665            |
| <b>Total liabilities</b>           | <b>40,552</b>  | <b>43,501</b>  | <b>240,734</b>  | <b>579,177</b> | <b>718,691</b>   | <b>1,622,655</b> | <b>1,355,232</b> |
| <b>Assets</b>                      |                |                |                 |                |                  |                  |                  |
| 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 assets                       | -              | -              | 80              | -              | -                | 80               | 80               |
| <b>Total assets</b>                | <b>191,664</b> | <b>120,696</b> | <b>190,996</b>  | <b>997,007</b> | <b>2,690,661</b> | <b>4,191,024</b> | <b>2,062,440</b> |
| <b>Net</b>                         | <b>151,112</b> | <b>77,195</b>  | <b>(49,738)</b> | <b>417,830</b> | <b>1,971,970</b> | <b>2,568,369</b> | <b>707,208</b>   |

## HOUSING DEVELOPMENT FINANCE CORPORATION PLC

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### Notes to the financial statements

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

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

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

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

## HOUSING DEVELOPMENT FINANCE CORPORATION PLC

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### Notes to the financial statements (continued)

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

#### 30.4 Capital management

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

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

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

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

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

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

The table below summarises the composition of capital and the ratios of HDFC as at 31 December 2020 and 31 December 2019. HDFC complied with all of the externally imposed capital requirements to which they are subjected.

| <b>Capital</b>                    | <b>2020</b>        | <b>2019</b>        |
|-----------------------------------|--------------------|--------------------|
| Share capital                     | 159,375,000        | 159,375,000        |
| Retained earnings                 | 483,993,375        | 388,667,400        |
| Reserves                          | 15,000,000         | 15,000,000         |
| <b>Total qualifying Capital</b>   | <b>658,368,375</b> | <b>563,042,400</b> |
| <b>Total capital</b>              | <b>658,368,375</b> | <b>563,042,400</b> |
| <b>Risk-weighted assets</b>       |                    |                    |
| On-balance sheet                  | 968,659,652        | 939,155,236        |
| <b>Total risk-weighted assets</b> | <b>968,659,652</b> | <b>939,155,236</b> |
| <b>Basel ratio</b>                | <b>68%</b>         | <b>60%</b>         |

**HOUSING DEVELOPMENT FINANCE CORPORATION PLC****31 December 2020****Notes to the financial statements (continued)**

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

**30.4 Capital management (continued)**

| <b>Risk-weighted assets</b>                         | <b>2020</b>          |                    |
|---|----------------------|--------------------|
|   | Unweighted value     | Weighted Value     |
| Cash  | 6,500                | -                  |
| Balances with other banks                           | 50,559,234           | 10,111,847         |
| Short term investments with MIB                     | 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> |

The increase in the regulatory capital was mainly due to the profit earned during the year ended 31 December 2020. The increase in risk-weighted assets reflects the expansion of the loan portfolio during year.

| <b>Risk-weighted assets</b>                         | <b>2019</b>          |                    |
|---|----------------------|--------------------|
|   | Unweighted value     | Weighted Value     |
| Cash  | 6,500                | -                  |
| Balances with other banks                           | 127,988,993          | 25,597,799         |
| Short term investments with MIB                     | 70,056,016           | 14,011,203         |
| Financial assets at amortised cost                  | 224,846,517          | -                  |
| Loans and advances                                  | 1,781,639,953        | 890,819,977        |
| Prepayments and deposits                            | 7,193,895            | 7,193,895          |
| Property, plant and equipment and intangible assets | 1,532,363            | 1,532,361          |
|   | <u>2,213,264,237</u> | <u>939,155,236</u> |

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

**HOUSING DEVELOPMENT FINANCE CORPORATION PLC****31 December 2020****Notes to the financial statements**

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

**31 Analysis of financial instruments by measurement basis**

| As at 31 December 2020             | Amortised cost    | Total         |
|------------------------------------|-------------------|---------------|
| <b>Financial assets</b>            |                   |               |
| 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 |
| Total assets                       | 2,062,359,597     | 2,062,359,597 |
|                                    | Amortised cost    | Total         |
| <b>Financial liabilities</b>       |                   |               |
| 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 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 |
|                                    | Amortised cost    | Total         |
| As at 31 December 2019             |                   |               |
| <b>Financial assets</b>            |                   |               |
| Cash and cash equivalents          | 198,051,509       | 198,051,509   |
| Financial assets at amortised cost | 224,846,517       | 224,846,517   |
| Loans and advances                 | 1,738,373,448     | 1,738,373,448 |
| Total assets                       | 2,161,271,474     | 2,161,271,474 |
|                                    | Other liabilities | Total         |
| <b>Financial liabilities</b>       |                   |               |
| Debt securities in issue           | 468,902,701       | 468,902,701   |
| Other borrowed funds               | 692,377,506       | 692,377,506   |
| Deposits from customers            | 88,684,184        | 88,684,184    |
| Other liabilities                  | 351,666,575       | 351,666,575   |
| Lease liabilities                  | 10,256,653        | 10,256,653    |
| Total liabilities                  | 1,611,887,619     | 1,611,887,619 |

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### Notes to the financial statements continued

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

### 32 Fair value of financial instruments

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

|  | As at 31 December 2020<br>Carrying amount | As at 31 December 2019<br>Carrying amount |
|--|---|---|
| <b>Assets carried at amortised cost</b>      |   |   |
| Cash and cash equivalents                    | 107,623,155                               | 198,051,509                               |
| Financial asset at amortised cost            | 119,885,240                               | 224,846,517                               |
| Loans and advances to customers              | 1,834,851,202                             | 1,738,373,448                             |
|  | <u>2,062,359,597</u>                      | <u>2,161,271,474</u>                      |
| <b>Liabilities carried at amortised cost</b> |   |   |
| Deposits from customers                      | 80,313,469                                | 88,684,184                                |
| Debt securities in issue                     | 432,618,697                               | 468,902,701                               |
| Other borrowed funds                         | 624,550,502                               | 692,377,506                               |
|  | <u>1,137,482,668</u>                      | <u>1,249,964,391</u>                      |

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

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

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

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### Notes to the financial statements continued

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#### 33 Reserves

|                                   | 2020              | 2019              |
|-----------------------------------|-------------------|-------------------|
| General reserve                   | 15,000,000        | 15,000,000        |
| Total reserves at end of the year | <u>15,000,000</u> | <u>15,000,000</u> |

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

#### 34 Contingencies

(a) *Contingent liabilities*

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

(b) *Contingent assets*

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

#### 35 Commitments

(a) *Capital commitments*

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

(b) *Loan commitments*

|  | As at 31<br>December 2020 | As at 31<br>December 2019 |
|--|---------------------------|---------------------------|
| Undisbursed loans and other facilities | <u>47,238,800</u>         | <u>123,209,897</u>        |

#### 36 Related party transactions

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

##### Key management compensation

|                               | 2020             | 2019             |
|-------------------------------|------------------|------------------|
| Executive management salaries | <u>2,899,509</u> | <u>3,124,003</u> |

##### Remuneration to Board of Directors

|   | 2020           | 2019           |
|---|----------------|----------------|
| Board remuneration and committee sitting fees | <u>196,000</u> | <u>182,000</u> |

## HOUSING DEVELOPMENT FINANCE CORPORATION PLC

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### Notes to the financial statements continued

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#### 36 Related party transactions (continued)

##### Shareholding structure


The HDFC'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 Ltd (India)       | 15% | 239,062          | 23,906,200          |
| Other shareholders                |     | 10               | 1,000               |

#### 37 Events after the reporting period

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





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