

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

FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31ST DECEMBER 2022

Financial Statements 2022

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

FOR THE YEAR ENDED 31ST DECEMBER 2022

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

Opinion

We have audited the accompanying financial statements of Housing Development Finance Corporation PLC ("the Company"), which comprise the statement of financial position as at 31st December 2022, the statements of comprehensive income, changes in equity and cash flows for the period then ended and notes to the financial statements, comprising a summary of significant accounting policies and other explanatory information set out in pages 5 to 64.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31st December 2022 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

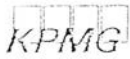
Key Audit Matters

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

1. Impairment of loans and advances

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

Risk Description	Our Response
<p>IFRS 9 Financial Instruments requires impairment based on expected credit losses ("ECL").</p> <p>High degree of complexity and judgement are involved in estimating expected credit loss of MVR 53,381,868/- against loans and advances as at 31st December 2022.</p>	<p>We performed audit procedures to gain assurance on the process of estimating the impairment allowance on loans advances. This included evaluating the accounting interpretations for compliance with IFRS 9 and testing the adjustments and disclosures.</p>

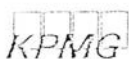


Independent Auditors' Report (Continued)
To the Shareholders of Housing Development Finance Corporation PLC

Key Audit Matters (Continued)

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

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



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

Responsibilities of the Board of Directors for the Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditors' report is R. W. M. O. W. Duminda B. Rathnadiwakara.



Chartered Accountants

For and on behalf of KPMG Maldives

Male'

07th March 2023.

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

FOR THE YEAR ENDED

	Note	31/12/2022 MVR	31/12/2021 MVR
Interest income	6.1	146,729,195	152,313,369
Interest expense	6.3	(47,821,738)	(51,400,844)
Net interest income		<u>98,907,457</u>	<u>100,912,525</u>
Net income on shari'ah products	7	33,937,734	37,436,932
Fee income	8	3,813,799	3,094,776
Other income	9	2,796,427	2,050,634
Total Operating Income		<u>139,455,417</u>	<u>143,494,867</u>
Salaries and personnel expenses	10	(10,489,660)	(11,309,743)
Recognition of provision for impairment loss on loans and advances	11	(1,992,757)	(8,116,088)
Reversal of modification loss on loans and advances	12	6,892,659	3,183,549
Other operating expenses	13	(9,318,088)	(6,381,968)
Total Operating Expenses Including Impairment Provision		<u>(14,907,846)</u>	<u>(22,624,250)</u>
Profit before income tax		124,547,571	120,870,617
Income tax expense	14	(16,484,182)	(19,205,147)
Profit for the year		<u>108,063,389</u>	<u>101,665,470</u>
Basic earning per share	15	<u>67.80</u>	<u>63.79</u>

Figures in brackets indicate deductions

The financial statements are to be read in conjunction with the related notes, which form an integral part of the financial statements of the Company set out on pages 5 to 64. The Report of the Independent Auditors is given on pages 1 to 4.

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

AS AT		31/12/2022	31/12/2021
	Notes	MVR	MVR
ASSETS			
Cash and cash equivalents	16	258,866,342	369,042,432
Loans and advances	17	1,636,354,256	1,716,389,516
Financial assets at amortized cost	18	494,575,784	257,549,099
Property, plant and equipment	19	2,883,633	868,788
Right-of-use assets	20	6,537,083	7,637,567
Intangible assets	21	1,933,885	74,724
Other assets	22	7,281,981	7,144,823
Deferred Tax Asset	14.4	7,445,610	5,067,075
TOTAL ASSETS		<u>2,415,878,574</u>	<u>2,363,774,024</u>
LIABILITIES			
Deposits from customers	23	81,401,050	78,518,115
Debt securities in issue	24	564,273,781	574,745,395
Other borrowed funds	25	594,024,042	605,317,977
Other liabilities	26	394,499,389	366,943,681
Lease liabilities	27	8,352,349	9,053,613
Current tax liabilities	14.3	8,027,604	9,005,148
TOTAL LIABILITIES		<u>1,650,578,215</u>	<u>1,643,583,929</u>
SHAREHOLDERS' EQUITY			
Share capital	28	159,375,000	159,375,000
General reserve	28.4	15,000,000	15,000,000
Retained earnings		590,925,359	545,815,095
TOTAL SHAREHOLDERS' EQUITY		<u>765,300,359</u>	<u>720,190,095</u>
TOTAL EQUITY AND LIABILITIES		<u>2,415,878,574</u>	<u>2,363,774,024</u>

The figures in bracket indicate deductions.

The financial statements are to be read in conjunction with the related notes, which form an integral part of the financial statements of the Company set out on pages 5 to 64. The Report of the Independent Auditors is given on pages 1 to 4.

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



Mohamed Ahmed
Chairman - Audit
Committee



Raheema Saleem
Managing Director



Mohamed Shafeeq
Chief Financial Officer

07th March 2023



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

FOR THE YEAR ENDED 31ST DECEMBER 2022

	Share capital MVR	General reserve MVR	Retained earnings MVR	Total MVR
As at 1st January 2021	159,375,000	15,000,000	483,993,375	658,368,375
Profit for the year	-	-	101,665,470	101,665,470
Total Comprehensive Income for the Year	<u>-</u>	<u>-</u>	<u>101,665,470</u>	<u>101,665,470</u>
Transactions with owners of the Company				
Dividend declared during the year (Note 28.3)	-	-	(39,843,750)	(39,843,750)
Transactions with owners of the Company	<u>-</u>	<u>-</u>	<u>(39,843,750)</u>	<u>(39,843,750)</u>
As at 31st December 2021	<u>159,375,000</u>	<u>15,000,000</u>	<u>545,815,095</u>	<u>720,190,095</u>
As at 1st January 2022	159,375,000	15,000,000	545,815,095	720,190,095
Profit for the year	-	-	108,063,389	108,063,389
Total Comprehensive Income for the Year	<u>-</u>	<u>-</u>	<u>108,063,389</u>	<u>108,063,389</u>
Transactions with owners of the Company				
Dividend declared during the year (Note 28.3)	-	-	(62,953,125)	(62,953,125)
Total transactions with owners of the Company	<u>-</u>	<u>-</u>	<u>(62,953,125)</u>	<u>(62,953,125)</u>
As at 31st December 2022	<u>159,375,000</u>	<u>15,000,000</u>	<u>590,925,359</u>	<u>765,300,359</u>

The figures in bracket indicate deductions.

The financial statements are to be read in conjunction with the related notes, which form an integral part of the financial statements of the Company set out on pages 5 to 64. The Report of the Independent Auditors is given on pages 1 to 4.

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

FOR THE YEAR ENDED 31ST DECEMBER 2022

	Notes	31/12/2022 MVR	31/12/2021 MVR
Cash flows from operating activities			
Profit before tax		124,547,571	120,870,617
<i>Adjustments for:</i>			
Depreciation on property, plant and equipment	19	396,973	395,400
Depreciation on right-of-use assets	20	1,100,484	1,100,484
Impairment losses on financial assets	11	1,992,757	8,116,088
Reversal of modification loss of loans and advances	12	(6,892,659)	(3,183,549)
Amortization of intangible assets	21	68,339	172,000
Interest expense on lease liabilities	6	738,737	828,945
Loss on disposal of property, plant and equipment		-	12,703
Reversal of the interest income of stage 3 customers	17.2	745,066	1,412,348
Interest expenses & Amna investors' profit share		84,669,073	83,467,354
Interest income & income from shari'ah products		(215,960,789)	(218,703,374)
Operating loss before working capital changes		(8,594,448)	(5,510,984)
<i>Changes in working capital:</i>			
Decrease in loans and advances to customers		90,138,993	48,604,522
Increase / (decrease) in other assets		(137,158)	167,192
Increase in other liabilities		4,059,914	58,206,063
Increase / (decrease) in deposits from customers		2,536,007	(2,275,321)
Cash generated from operating activities		88,003,307	99,191,472
Interest received		207,618,122	281,108,409
Interest paid		(81,227,013)	(73,564,079)
Income tax paid	14.3	(19,840,261)	(20,567,395)
Net cash generated from operating activities		194,554,155	286,168,407
Cash flows from investing activities			
Purchases of property, plant and equipment	19	(2,411,818)	(225,032)
Purchases of intangible assets	21	(1,927,500)	-
Proceed from disposal of property, plant and equipment		-	1,493
Net investments on treasury bills during the year		(234,566,424)	(135,161,254)
Net cash used in investing activities		(238,905,742)	(135,384,793)
Cash flows from financing activities			
Repayments of debt securities in issue		(14,057,536)	(58,122,860)
Repayments of other borrowed funds		(138,119,203)	(165,934,622)
Proceeds from debt securities in issues		-	203,403,000
Proceeds from other borrowed funds		126,498,800	131,901,200
Dividend paid		(39,445,300)	-
Repayment of lease liabilities	26	(701,264)	(611,055)
Net cash (used in) / generated from financing activities		(65,824,503)	110,635,663
Net (decrease) / increase in cash and cash equivalents		(110,176,090)	261,419,277
Cash and cash equivalents at beginning of the year		369,042,432	107,623,155
Cash and cash equivalents at end of the year	16	258,866,342	369,042,432

The figures in bracket indicate deductions.

The financial statements are to be read in conjunction with the related notes, which form an integral part of the financial statements of the Company set out on pages 5 to 64. The Report of the Independent Auditors is given on pages 1 to 4.

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

1. REPORTING ENTITY

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

The Company was registered as a public limited company on 9th February 2006 and privatized on 23rd July 2008 by signing of a shareholders’ agreement between Government of Maldives, International Finance Corporation, Asian Development Bank and HDFC Investments Limited India.

The registered office of the Company is at 4th Floor, H. Mialani, Sosun Magu, Male’, Republic of Maldives. The Company is engaged in the business of granting housing loans for residential and commercial purpose.

2. BASIS OF PREPARATION

(a) Statement of Compliance

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

(b) Basis of Measurement

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

(c) Functional and Presentation Currency

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

(d) Use of Estimates and Judgements

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

A. Judgements

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

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

2. BASIS OF PREPARATION (CONTINUED)

A. Judgements (continued)

- establishing the criteria for determining whether credit risk on the financial assets has increased significantly since initial recognition, determining the methodology for incorporating forward-looking information into the measurement of ECL and selection and approval of models used to measure ECL. (Refer note 30.1.2)

- classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPP on the principal amount outstanding. (Refer note 3.2.4)

B. Assumptions and estimation uncertainties

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

- impairment of financial instruments: determination of inputs into the ECL measurement model, including key assumptions used in estimating recoverable cash flows and incorporation of forward-looking information. (Refer note 30.1.2.3)

(e) Going Concern

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

3. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

The Company assessed the impact from amendments to International Accounting Standards which are effective from 1st January 2022 and early adoption also permitted. However, there is no material impact to the financial statements of the Company from amendments to International Accounting Standards which are effective from 1st January 2022.

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all the periods presented in these financial statements and have been applied consistently by the company.

4.1. Transactions in Foreign Currency

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.1. Transactions in Foreign Currency (Continued)

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

4.2. Financial assets and liabilities

4.2.1. Amortised cost and effective interest rate

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

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

4.2.2. Interest income

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

4.2.3. Initial recognition and measurement

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

At initial recognition, the Company measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.2. Financial assets and liabilities (Continued)

4.2.3. Initial recognition and measurement (Continued)

- (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.

4.2.4. Financial assets

(i) Classification

The Company classifies its financial assets at amortised cost. The classification requirements for debt instruments are described below:

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

Classification and subsequent measurement of debt instruments depend on:

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

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.2. Financial assets and liabilities (Continued)

4.2.4. Financial assets (Continued)

(i) Classification (continued)

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

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

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

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

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

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

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.2. Financial assets and liabilities (Continued)

4.2.4. Financial assets (Continued)

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

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse financing facilities); and

- features that modify consideration of the time value of money (e.g. periodical reset of profit rates).

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

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

Reclassifications

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

(ii) Subsequent measurement

Financial assets measured at amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in note 29.1.2. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.

(iii) Impairment

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

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.2. Financial assets and liabilities (Continued)

4.2.4. Financial assets (Continued)

(iii) Impairment (Continued)

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

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

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

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

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

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

Measurement of ECL

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

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn finance commitments: as the present value of the difference between the contractual cash flows that are due to the Company if the commitment is drawn down and the cash flows that the Company expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Company expects to recover.

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.2. Financial assets and liabilities (Continued)

4.2.4. Financial assets (Continued)

Measurement of ECL (Continued)

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

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

Restructured Financial Assets

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

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

Credit-Impaired Financial Assets

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

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a finance facility by the Company on terms that the Company would not consider otherwise;

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.2. Financial assets and liabilities (Continued)

4.2.4. Financial assets (Continued)

(iii) Impairment (Continued)

Credit-Impaired Financial Assets (Continued)

- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

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

Purchased or Originated Credit-Impaired (POCI) Financial Assets

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

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

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

Write-off

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

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

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

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.2. Financial assets and liabilities (Continued)

4.2.4. Financial assets (Continued)

(iii) Impairment (Continued)

Loan commitments

Loan commitments provided by the Company are measured as the amount of the loss allowance (calculated as described in note 29.1.2.3). The Company has not provided any commitment to provide loans at a below market interest rate, or that can be settled in cash or by delivering or issuing another financial instrument.

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

(iv) Modification of loans

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

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Significant extension of loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Company derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred.

However, the Company also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Company recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss.

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.2. Financial assets and liabilities (Continued)

4.2.4. Financial assets (Continued)

(iv) Modification of loans (Continued)

The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate.

(v) Derecognition other than on a modification

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

4.2.5. Financial liabilities

(i) Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified and subsequently measured at amortized cost except for loan commitments.

Interest expenses

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

(ii) Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expired). The exchange between the Company and its original lenders of debt instruments with substantially different terms, as well as substantial 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.

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.2. Financial assets and liabilities (Continued)

4.2.5. Financial liabilities (Continued)

(ii) Derecognition (Continued)

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.

(iii) Interest Rate Benchmark Reform

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

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

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

4.3. Cash and cash equivalents

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include all Company 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.

4.4. Offsetting Financial Instruments

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

4.5. Property, plant and equipment

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

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.5. Property, plant and equipment (Continued)

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

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

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

Leasehold improvements consist of partitions and fixtures on the leasehold properties. These assets are depreciated over the shorter of their useful life or the lease term, unless the entity expects to use the assets beyond the lease term. The charge for the depreciation commences from the date on which the assets are available for use. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

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

4.6. 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.

4.7. 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.

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.8. Leases

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

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

(i) As a lessee

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

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

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

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

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

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

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.8. Leases (Continued)

The lease liabilities are measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

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

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

Short-term leases and leases of low-value assets

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

4.9. Debt securities in issue

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

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

4.10. Other borrowed funds

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

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

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

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.10. Other borrowed funds (Continued)

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

4.11. Customer deposits

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

4.12. Derivative financial instruments

Derivative financial instruments, including currency swaps are carried at their fair value. All derivative instruments are carried as assets when fair value is positive, and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the period (gains less losses on derivatives).

4.13. Provisions for liabilities and charges

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

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

4.14. Trade and other payables

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

4.15. Share Capital

Ordinary shares are classified as equity.

4.16. Dividends

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

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.17. Fiduciary Activities

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

4.18. Current and deferred tax

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

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax computation with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. The provisions for income tax is based on the elements of income and expenditure as reported in the financial statements and computed in accordance with the provisions of the Income Tax Act.

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

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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.

4.19. 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.

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.20. Employee Benefits

(i) Defined contribution plans

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

(ii) Short-term benefits

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

4.21. Segment Reporting

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

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

The Company does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, analysis of assets and liabilities by their expected maturities is presented in Note 29.3.3

31st December 2022	Amounts expected to be recovered or settled		
	Within 12 months of the reporting period	After 12 months of the reporting period	Total
Cash and cash equivalents	258,866,342	-	258,866,342
Financial assets at amortised cost	494,575,784	-	494,575,784
Loans and advances	43,194,770	1,593,159,486	1,636,354,256
Property, plant and equipment	-	2,883,633	2,833,633
Intangible assets	-	1,933,885	1,933,885
Right-of-use assets	-	6,537,083	6,537,083
Deferred income tax assets	-	7,445,610	7,445,610
Other assets	-	7,281,981	7,281,981
Total assets	796,636,896	1,619,241,678	2,415,878,574

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

31st December 2022	Amounts expected to be recovered or settled		
Liabilities	Within 12 months of the reporting period	After 12 months of the reporting period	Total
Deposits from customers	2,158,151	79,242,899	81,401,050
Debt securities in issue	59,377,125	504,896,656	564,273,781
Other borrowed funds	138,465,967	455,558,075	594,024,042
Other liabilities	-	394,499,389	394,499,389
Lease liabilities	897,262	7,455,087	8,352,349
Current tax liabilities	8,027,604	-	8,027,604
Total liabilities	208,926,109	1,441,652,106	1,650,578,215

After 12 months of the reporting period

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

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

5. AMENDMENTS TO ACCOUNTING STANDARDS EFFECTIVE BUT NOT YET ADOPTED

A number of amendments to International Accounting Standards are effective for annual period beginning after 01st January 2023 and earlier adoption is permitted; however, the Company has not adopted or early adopted following amended standards in preparing these financial statements.

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5. AMENDMENTS TO ACCOUNTING STANDARDS EFFECTIVE BUT NOT YET ADOPTED (CONTINUED)

The following amendments and interpretations are not expected to have a significant impact on the Company's financial statements.

- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (*Amendments to IAS 12*).
- Classification of liabilities as Current or Non-Current (*Amendments to IAS 1*).
- Disclosure of Accounting Policies (*Amendments to IAS 1 and IFRS Practice Statement 2*).
- Definition of Accounting Estimates (*Amendments to IAS 8*).

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6 NET INTEREST INCOME	2022	2021
	MVR	MVR
Interest Income Calculated using the Effective Interest Rate Method (Note 6.1)	146,729,195	152,313,369
Less: Interest Expense (Note 6.3)	(47,821,738)	(51,400,844)
Net Interest Income	98,907,457	100,912,525
6.1 Interest Income Calculated using Effective Interest Rate Method		
Loans and Advances (Note 6.2)	134,033,538	144,415,174
Investments in Treasury Bills	12,695,657	7,898,195
	146,729,195	152,313,369
6.2 Interest Income from Loans and Advances		
Housing Loans and Advances	133,894,916	144,243,184
Staff Loans	138,622	171,990
	134,033,538	144,415,174
6.3 Interest expenses		
Other borrowed funds	35,027,833	36,791,431
Debt securities in issue	11,124,508	12,829,196
Deposits from customers	930,660	951,272
Interest on lease liabilities (Note 26)	738,737	828,945
	47,821,738	51,400,844
7 NET INCOME ON SHARI'AH PRODUCTS	2022	2021
	MVR	MVR
Revenue from housing facilities	62,709,216	66,390,005
Revenue from short term investments	6,522,378	2,291,785
Fee income	2,292,212	1,650,597
Amna investors' profit share	(37,586,072)	(32,895,455)
	33,937,734	37,436,932
8 FEE INCOME	2022	2021
	MVR	MVR
Housing loan processing fees	512,128	177,304
Other fee income	122,597	101,206
Management fees	3,179,074	2,816,266
	3,813,799	3,094,776
9 OTHER INCOME	2022	2021
	MVR	MVR
Penalty interest	2,757,973	1,934,422
Insurance commissions	38,454	116,212
	2,796,427	2,050,634

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10 SALARIES AND PERSONNEL EXPENSES	2022	2021
	MVR	MVR
Salaries and allowances	9,052,794	9,457,917
Contribution to employees pension fund	188,512	770,630
Employee benefit expense amortization	261,128	197,112
Ramadan allowances and bonus	870,869	735,925
Staff medical insurance	116,357	148,159
	<u>10,489,660</u>	<u>11,309,743</u>

11 PROVISION FOR IMPAIRMENT LOSS ON LOANS AND ADVANCES	2022	2021
	MVR	MVR
Provision recognised during the year (Note 16)	<u>1,992,757</u>	<u>8,116,088</u>

12 MODIFICATION LOSS ON LOANS AND ADVANCES

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

	2022	2021
	MVR	MVR
Reversal of Modification loss recognized during the year (Note 12.2)	<u>6,892,659</u>	<u>3,183,549</u>

12.1 The Company granted moratoriums for its financing facilities as a part of financial support to borrowers on 26th March 2020. For customers who opted for moratorium, principal repayments during 1st March 2020 to 31st August 2020 were deferred by 6 months. The simple interest accrued during the moratorium period is to be recovered from the customers within 36 months commencing from September 2020 or the remaining period of the loan, whichever is lower.

12.2 During the year ended 31st December 2022, the Company has recognized a modification reversal of MVR 6,892,659/- on loans and advances after remeasurement of amortized cost based on expected future cash flows from moratorium interest receivables as at 31st December 2022. (2021 : MVR 3,183,549/-)

13 OTHER OPERATING EXPENSES	2022	2021
	MVR	MVR
Depreciation on right-of-use asset (Note 20)	1,100,484	1,100,484
Professional fees	1,032,962	1,060,146
Listing expenses	628,775	705,619
Amna training expenses	728,908	636,777
Other expenses	1,193,412	619,252
IPO expenses	888,042	-
Depreciation on property, plant and equipment (Note 19)	395,400	395,400
Communication expenses	314,767	356,043
Premises, equipment and establishment expenses	318,250	347,939
IT expenses	692,944	336,021
Board remuneration and meeting expenses	578,383	331,857
Amortization on intangible assets (Note 21)	68,339	172,000
Printing and stationary expenses	198,191	107,141
Advertising and marketing expenses	252,396	88,554
Irrecoverable Withholding tax	702,216	67,667
Bank charges	224,619	44,365
Loss on disposal of property, plant and equipment	-	12,703
	<u>9,318,088</u>	<u>6,381,968</u>

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14 TAXATION	2022 MVR	2021 MVR
Income tax expense (Note 14.1)	18,862,717	19,154,663
Reversal of deferred tax asset during the year (Note 14.4.1)	(2,378,535)	50,484
	<u>16,484,182</u>	<u>19,205,147</u>

14.1 Reconciliation between Accounting Profit and Taxable Income :

	2022 MVR	2021 MVR
Profit before tax	124,547,571	120,870,617
Aggregate Disallowable Items	87,926,507	68,559,557
Aggregate Allowable Items	(86,222,631)	(61,232,422)
Tax Free Allowance	(500,000)	(500,000)
Taxable income for the year	<u>125,751,447</u>	<u>127,697,752</u>
Income tax expense at 15%	<u>18,862,717</u>	<u>19,154,663</u>
Effective income tax rate	15%	15%
Effective current tax rate (Note 14.2)	13.24%	15.89%

The taxable profits and income of the Company is liable at the rate of 15% in terms of provisions of the Income Tax Act No 25 of 2019 which is effective from 1st January 2020, relevant regulations and amendments thereto. (2021 : 15%)

14.2 Reconciliation of Effective Income Tax Rate

	2022		2021	
	%	MVR	%	MVR
Profit before income tax	-	124,547,571	-	120,870,617
Income tax for the year	15.00%	18,682,136	15.00%	18,130,593
Impact from reconciliation of accounting profit to taxable income	0.14%	180,581	0.85%	1,024,070
Deferred taxation	(1.91%)	(2,378,535)	0.04%	50,484
Total income tax expense (Note 14)	13.24%	16,484,182	15.89%	19,205,147

14.3 Current tax liabilities

	12/31/2022 MVR	12/31/2021 MVR
Opening balance	9,005,148	10,417,880
Provisions made during the year (Note 14.1)	18,862,717	19,154,663
Payments made during the year	(19,840,261)	(20,567,395)
Closing balance	<u>8,027,604</u>	<u>9,005,148</u>

14.4 Net Deferred Tax Asset

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

	31/12/2022 MVR	31/12/2021 MVR
Opening balance	5,067,075	5,117,559
Recognized / (Reversed) through profit or loss (Note 14)	2,378,535	(50,484)
Closing balance	<u>7,445,610</u>	<u>5,067,075</u>

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14.4 Net Deferred Tax Asset (Continued)

14.4.2 Deferred Tax Asset is Attributable for Following:

	31/12/2022		31/12/2021	
	Temporary Difference	Tax Effect	Temporary Difference	Tax Effect
	MVR	MVR	MVR	MVR
Property, Plant and Equipment	1,448,710	217,307	492,136	73,820
Provision for impairment on loans and advances	48,188,686	7,228,303	33,288,367	4,993,255
	<u>49,637,396</u>	<u>7,445,610</u>	<u>33,780,503</u>	<u>5,067,075</u>

14.4.3 Reconciliation of temporary differences

	31/12/2022	31/12/2021
	MVR	MVR
<i>Property, plant and equipment</i>		
Opening balance	73,820	34,663
Recognized Through Profit or Loss	143,487	39,157
Closing balance	<u>217,307</u>	<u>73,820</u>
<i>Provision for loan impairment</i>		
Opening balance	4,993,255	5,082,896
Recognized / (Reversed) Through Profit or Loss	2,235,048	(89,641)
Closing balance	<u>7,228,303</u>	<u>4,993,255</u>
Net deferred tax asset	<u>7,445,610</u>	<u>5,067,075</u>

15 BASIC EARNINGS PER SHARE

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

	2022	2021
Profit attributable to the ordinary shareholders of the Company (MVR)	108,063,389	101,665,470
Weighted average number of ordinary shares (Nos.)	1,593,750	1,593,750
Basic Loss per share (MVR)	<u>67.80</u>	<u>63.79</u>

16 CASH AND CASH EQUIVALENTS

	31/12/2022	31/12/2021
	MVR	MVR
Cash in hand	6,500	6,500
Balances with other banks	73,406,078	104,433,783
Short term investments (Note 16.1)	185,453,764	264,602,149
Cash and cash equivalents for the purpose of statement of cash flows	<u>258,866,342</u>	<u>369,042,432</u>

16.1 Short term investments in "General Investments Account" at Maldives Islamic Bank PLC for a period of 3 months and are entitled for a profit share in the range of 2% to 3% per annum (2021: 2% to 3%).

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17 LOANS AND ADVANCES CARRIED AT AMORTISED COST	31/12/2022 MVR	31/12/2021 MVR
Gross Loans and Advances (Note 17.1)	1,689,736,124	1,768,115,209
Less: Impairment Loss Allowance (Note 17.2)	(53,381,868)	(51,725,693)
Net Loans and Advances	<u>1,636,354,256</u>	<u>1,716,389,516</u>

17.1 Loans and Advances - Product wise Analysis	31/12/2022 MVR	31/12/2021 MVR
Conventional housing loans to customers	1,137,092,588	1,207,350,746
Housing loans to staff	3,774,669	4,975,605
Diminishing Musharakah	141,771,924	90,350,839
Murabaha	364,653	435,993
Istisna'	406,732,290	465,002,026
	<u>1,689,736,124</u>	<u>1,768,115,209</u>
Less: Impairment Loss Allowance	(53,381,868)	(51,725,693)
Net Loans and Advances	<u>1,636,354,256</u>	<u>1,716,389,516</u>

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

17.2 Movement of Provision for Impairment Loss on Loans and Advances	31/12/2022 MVR	31/12/2021 MVR
Opening balance	51,725,693	42,197,257
Provision recognized during the year (Note 11)	1,992,757	8,116,088
Provision recognized for unrecognized interest income on non-performing loans and advances	745,066	1,412,348
Write-off during the year	(1,081,648)	-
Closing balance	<u>53,381,868</u>	<u>51,725,693</u>

18 INVESTMENT SECURITIES MEASURED AT AMORTISED COST	31/12/2022 MVR	31/12/2021 MVR
Investments in Treasury bills (Note 18.1)	494,575,784	257,549,099
	<u>494,575,784</u>	<u>257,549,099</u>

18.1 The Company has invested in treasury bills in Ministry of Finance amounting to MVR 494,575,784/- (2021 - MVR 257,549,099/-) for 28 days to 182 days which carry interest rates from 3.5% to 4.6% (2021: 3.5% to 4.23%).

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19 PROPERTY, PLANT AND EQUIPMENT

	Office equipment MVR	Computer equipment MVR	Furniture and fixtures MVR	Leasehold improvements MVR	Total 31/12/2022 MVR	Total 31/12/2021 MVR
Cost						
Opening Balance	1,029,991	2,931,562	935,166	869,103	5,765,822	5,732,663
Additions During the Year	106,216	2,264,401	38,651	2,550	2,411,818	225,032
Disposals during the year	-	-	-	-	-	(191,873)
Closing Balance	<u>1,136,207</u>	<u>5,195,963</u>	<u>973,817</u>	<u>871,653</u>	<u>8,177,640</u>	<u>5,765,822</u>
Accumulated Depreciation						
Opening Balance	(751,693)	(2,574,104)	(796,094)	(775,143)	(4,897,034)	(4,679,311)
Charge for the Year	(65,720)	(254,188)	(62,546)	(14,519)	(396,973)	(395,400)
Disposals during the year	-	-	-	-	-	177,677
Closing Balance	<u>(817,413)</u>	<u>(2,828,292)</u>	<u>(858,640)</u>	<u>(789,662)</u>	<u>(5,294,007)</u>	<u>(4,897,034)</u>
Net Carrying Value						
As at 31 st December 2022	<u>318,794</u>	<u>2,367,671</u>	<u>115,177</u>	<u>81,991</u>	<u>2,883,633</u>	
As at 31 st December 2021	<u>278,298</u>	<u>357,458</u>	<u>139,072</u>	<u>93,960</u>		<u>868,788</u>

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20 RIGHT-OF-USE ASSETS

Right-of-Use assets related to leased properties that do not meet the definition of investment property are presented as Right-of-Use asset (See note 4.8).

	31/12/2022	31/12/2021
	MVR	MVR
Cost		
Opening Balance	10,666,204	10,666,204
Closing Balance	<u>10,666,204</u>	<u>10,666,204</u>
Accumulated Depreciation		
Opening Balance	3,028,637	1,928,153
Charge for the year	1,100,484	1,100,484
Closing Balance	<u>4,129,121</u>	<u>3,028,637</u>
Net Carrying Value	<u>6,537,083</u>	<u>7,637,567</u>

21 INTANGIBLE ASSETS

	Computer Software Under Development	Computer Software	31/12/2022	31/12/2021
	MVR	MVR	Total	Total
			MVR	MVR
Cost				
Balance as at 01 st January	-	1,711,544	1,711,544	1,711,544
Additions During the Year	1,927,500	-	1,927,500	-
	<u>1,927,500</u>	<u>1,711,544</u>	<u>3,639,044</u>	<u>1,711,544</u>
Accumulated Amortization				
Balance as at 01 st January	-	1,636,820	1,636,820	1,464,820
Amortisation for the year	-	68,339	68,339	172,000
Balance as at 31 st December	<u>-</u>	<u>1,705,159</u>	<u>1,705,159</u>	<u>1,636,820</u>
Carrying Value				
Balance as at 31 st December	<u>1,927,500</u>	<u>6,385</u>	<u>1,933,885</u>	<u>74,724</u>

21.1 The Company has purchased computer softwares and cost of the same has recognized as intangible assets and amortized over 4 years.

21.2 The "Computer Software Under Development" represents a ERP system which is currently being developed. ERP refers to a type of software that will be used to manage day to day business activities as a core operational system which include accounting, loan management, procurement, CRM, fixed assets and budget control.

22 OTHER ASSETS

	31/12/2022	31/12/2021
	MVR	MVR
Pre-payments	5,031,555	5,996,569
Staff loans measured at fair value	1,287,857	1,118,481
Accounts receivable	962,569	29,773
	<u>7,281,981</u>	<u>7,144,823</u>

23 DEPOSITS FROM CUSTOMERS

	31/12/2022	31/12/2021
	MVR	MVR
Equated monthly installment deposits	79,014,628	78,515,468
Borrowers deposits	2,386,422	2,647
	<u>81,401,050</u>	<u>78,518,115</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. (2021: 1% & 2.5%)

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24 DEBT SECURITIES IN ISSUE	31/12/2022	31/12/2021
	MVR	MVR
Listed and corporate bonds (Note 24.1)	152,689,876	164,276,517
Listed Sukuk (Note 24.2)	411,583,905	410,468,878
	<u>564,273,781</u>	<u>574,745,395</u>
Maturity analysis of debt securities in issue		
Payable within one year	59,377,125	19,537,972
Payable after one year	504,896,656	555,207,423
	<u>564,273,781</u>	<u>574,745,395</u>

24.1 Listed and corporate bonds

Listed bonds of MVR 81,390,000/- was raised in July 2018. These bonds carry an interest rate of 7% per annum for 10 years from the allotment date. Interest payments are made every six months after the date of allotment, until the bond is fully redeemed. The cumulative redemption as at 31st December 2022 equals to MVR 29,840,925/-.

Listed bonds of MVR 80,000,000/- were issued in December 2019. These bonds carry an interest rate of 7% per annum for 10 years from the allotment date. Interest payments are made every six months after the date of allotment, until the bond is fully redeemed. The cumulative redemption as at 31st December 2022 equals to MVR 18,529,635/-.

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

24.2 Listed Sukuk

- (i) On 27th January 2014, the Company has allotted Mudarabah Sukuk amounting to MVR 22,566,000/- (45132 Sukuk at a price of MVR 500/- per sukuk) for ten (10) years. Profit is paid every six months from the allotment date until maturity date.
- (ii) On 25th October 2017, the Company has allotted Mudarabah Sukuk No. 2, amounting to MVR 89,036,000/- (89036 Sukuk at a price of MVR 1,000/- per sukuk) for ten (10) years). The profit is paid every six months after the date of allotment, until the maturity date.
- (iii) On 5th December 2019, the Company has allotted Mudarabah Sukuk No. 3, amounting to MVR 126,931,000/- (126931 Sukuk at a price of MVR 1,000/- per sukuk) for ten (10) years). The profit is paid every six months after the date of allotment, until the maturity date.
- (iv) On 2nd December 2021, the Company has issued Mudarabah Sukuk No. 4, amounting to MVR 168,403,000/- (168403 Sukuk at a price of MVR 1,000/- per sukuk) for ten (10) years). The profit is paid every six months after the date of allotment, until the maturity date.

The funds received from Mudarabah Sukuk No 1, 2, 3 & 4 are utilized in order to fund shari'ah compliant mortgage housing finance operations under principles and rules of Shari'ah. The profit is shared between Sukuk holder (Rabb al Mal) and the Company (Mudarib) at a rate of 65% and 35% respectively.

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25 OTHER BORROWED FUNDS	31/12/2022	31/12/2021
	MVR	MVR
Deutsche Investitions und Entwicklungs Gesellschaft MBH ("DEG") (Note 25.1)	11,846,190	35,584,702
Bank of Ceylon PLC (Note 25.2)	150,572,767	38,754,444
Bank of Maldives PLC (Note 25.3)	227,743,578	263,500,940
Habib Bank Limited (Note 25.4)	6,736,024	11,236,123
Commercial Bank of Maldives Private Limited (Note 25.5)	-	6,668,490
Wakala facilities (Note 25.6)	128,875,787	160,259,225
Pension benefit scheme fund (Note 25.7)	4,239,696	4,356,111
State Bank of India Limited (Note 25.8)	64,010,000	84,957,942
	<u>594,024,042</u>	<u>605,317,977</u>
Maturity analysis of other borrowed funds		
Payable within one year	138,465,967	138,465,967
Payable after one year	455,558,075	466,852,010
	<u>594,024,042</u>	<u>605,317,977</u>

25.1 Deutsche Investitions und Entwicklungs Gesellschaft MBH (DEG)

During the year 2014, the Company has obtained a loan of MVR 200,460,000/- from Deutsche Investitions und Entwicklungs Gesellschaft MBH ("DEG"). The loan carries an interest of LIBOR + 5%. The loan is repayable in seventeen semi-annual installments commencing from 15th June 2015 and ending on 15th June 2023. The DEG loan is secured by a first ranking mortgage on the Company's mortgage portfolio and charged over the account in the Maldives into which proceeds of the loan were disbursed and from which housing loans were disbursed. The borrowing is denominated in United States Dollars.

25.2 Bank of Ceylon PLC - Male' branch

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

The Company has obtained a loan facility of MVR 150,000,000/- per the agreement dated 20th June 2021 from Bank of Ceylon for the purpose of providing mortgage housing loans. The loan carries an interest at the rate of 1 month treasury bill rate + 2.3% which is 5.8% per annum during the grace year and second year onwards an interest at 6 months treasury bill rate + 2.3% which is 6.53% per annum (floating a floor rate of 5.5% per annum will be applied). This loan is repayable in semi-annual installments commencing after one year grace period and ending in December 2027. The Company shall ensure a minimum 150% security coverage. Further, the Company received remaining amount of the loan amounting to MVR 126,500,000 during the year 2022. The borrowing is denominated in Maldivian Rufiyaa.

25.3 Term loans from Bank of Maldives PLC

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

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

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25 OTHER BORROWED FUNDS (CONTINUED)

25.3 Term loans from Bank of Maldives (continued)

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

25.4 Habib Bank limited (HBL)

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

25.5 Commercial Bank of Maldives Private Limited (CBM)

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

25.6 Wakala facilities

In May 2017, MIB invested MVR 10,000,000/- for one year and this was extended for one more year in May 2020. This has a target yield of 7.5%. The Company has settled this facility in fully during 2022.

During 2015 and 2016 Maldives Hajj Corporation Limited has invested MVR 60,000,000/- with the Company with a target yield of 10% - 11% per annum for 5 years. After the end of the initial investment period, such facilities have been renewed for another 5 years.

In May 2019, Amana Takaful Plc invested MVR 5,000,000/- for two years with a target yield of 6.5%. This facility has been renewed for another 2 years in May 2021. In October 2018 MVR 5,000,000/- was invested by Amana Takaful with a maturity of two years with a target yield of 6%. This facility has been fully settled in October 2022. Further in February 2019 MVR 7,000,000/- was invested by Amana Takaful with a maturity of two years. This has a target yield of 6%. Such facility has been renewed for another 2 years in February 2021.

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25.6 Wakala facilities (Continued)

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

Ayady Takaful invested MVR 16,000,000/- with the Company for two years with a target yield of 7% during December 2018. Such facility was renewed for another 2 years in December 2020 and the Company fully settled the same facility during December 2022. Further, Ayady Takaful invested MVR 5,000,000/- in April 2021 with a target yield of 7%.

25.7 Pension benefit scheme fund

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

25.8 State Bank of India (SBI)

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

26 OTHER LIABILITIES

	31/12/2022	31/12/2021
	MVR	MVR
Ministry of Housing and Infrastructure - GED Islamic fund (Note 26.1)	859,098	9,481,202
Ministry of Housing and Infrastructure - MHI Islamic fund (Note 26.2)	12,162,492	9,328,942
Ministry of Housing and Infrastructure - MHUD Conventional fund (Note 26.3)	3,040,695	13,204,990
Ministry of Housing and Infrastructure 704 - Conventional fund (Note 26.4)	67,936,032	43,575,790
Ministry of Housing and Infrastructure CMEC - Housing funds (Note 26.5)	20,604,864	15,669,880
Ministry of Housing and Infrastructure GED Con - Housing funds (Note 26.6)	160,107,901	173,649,642
Insurance premium payable	5,219,101	3,142,591
Amounts received from customers in advance	6,128,487	5,548,800
Accruals and other liabilities	3,438,480	1,651,936
Employees pension contribution	255,535	438,898
Amount received from Ministry of Finance (Note 26.7)	51,407,000	51,407,100
Dividends payable	63,339,704	39,843,910
	394,499,389	366,943,681

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26 OTHER LIABILITIES (CONTINUED)

26.1 Ministry of Housing and Infrastructure - GED Islamic fund

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

26.2 Ministry of Housing and Infrastructure - MHI Islamic fund

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

26.3 Ministry of Housing and Infrastructure - MHUD Conventional fund

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

26.4 Ministry of Housing and Infrastructure - 704 - Conventional fund

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

26.5 Ministry of Housing and Infrastructure - CMEC - Conventional fund

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

26.6 Ministry of National Planning, Housing and Infrastructure - GED, MHUD, 704 Flat & MHI

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

26.7 Amount received from Ministry of Finance

As per the letter received from the Ministry of Finance on 31st January 2023 the total amount is due for full settlement by 30th April 2023. The first installment of MVR 10 Mn was paid on 20th February 2023. The 2nd installment of MVR 20 Mn and the final payment of MVR 21.4 Mn are agreed to settled on 30th March 2023 and 30th April 2023 respectively.

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27 LEASE LIABILITES	31/12/2022	31/12/2021
	MVR	MVR
Opening Balance	9,053,613	9,664,668
Interest expense for the year (Note 6.3)	738,737	828,945
Principal repayment during the year	(701,264)	(611,055)
Interest repayment during the year	(738,737)	(828,945)
Closing Balance	<u>8,352,349</u>	<u>9,053,613</u>

Extension Options

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

Current Liability

Lease Liabilities	<u>897,262</u>	<u>701,263</u>
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Non Current Liability

Lease Liabilities	<u>7,455,087</u>	<u>8,352,350</u>
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Amounts recognized in Statement of Comprehensive Income

- Interest on Lease Liabilities	<u>738,737</u>	<u>828,945</u>
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Amounts recognized in Statement of Cash Flows

	<u>1,440,001</u>	<u>1,440,000</u>
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Analysis of Undiscounted cash flows and interest

	Future Minimum Lease		Interest	
	Payments			
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Less than One Year	1,572,000	1,440,000	674,738	738,737
Between One and Five Years	7,383,000	8,955,000	1,585,147	2,305,974
More than Five Years	1,755,000	1,755,000	97,766	97,766
	<u>10,710,000</u>	<u>12,150,000</u>	<u>2,357,651</u>	<u>3,142,477</u>

28 SHARE CAPITAL

28.1 Authorized

The authorized share capital comprises of 3,187,500/- (2021 : 3,187,500/-) ordinary shares of MVR. 100/- each.

28.2 Issued and Fully Paid

Issued and fully paid share capital comprises 1,593,750 of MVR 100/- each as at 31st December 2022. (2021 : 1,593,750/-).

28.3 Dividends and Voting Rights

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

Following dividend were declared during the year ended 31st December 2022. (2021 : MVR 39,843,750/-)

- (a) Final dividend of 12.50 per share amounting to MVR 19,921,875/- was declared from the profit earned during the year ended 31st December 2021.
- (b) Interim dividend of 27/- per share amounting to MVR 43,031,250/- was declared from the profit earned during the year ended 31st December 2022

28.4 General Reserves

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

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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

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

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

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

The Company's segments are strategic business units that focus on different customers. They are 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 recognized based on management judgement and availability of information, and
- (iv) commission income relating to lending is recognized immediately rather than deferred using the

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 for the year then ended on 31st December 2022 is set out below:

As at 31st December 2022	Conventional MVR '000	Islamic MVR '000	Unallocated MVR '000	Total MVR '000
Loans and advances	1,107,912	528,442	-	1,636,354
Cash and cash equivalents	23,869	234,997	-	258,866
Non-current assets	-	-	4,818	4,818
Financial assets at amortised cost	494,576	-	-	494,576
Right-of-use assets	-	-	6,537	6,537
Other assets	-	-	14,728	14,728
Total assets	1,626,357	763,439	26,082	2,415,878

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29 SEGMENT ANALYSIS (CONTINUED)

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

As at 31st December 2022	Conventional MVR 000	Islamic MVR 000	Unallocate MVR 000	Total MVR 000
Deposits from customers	57,487	23,914	-	81,401
Debt securities in issue	152,690	411,584	-	564,274
Other borrowed funds	465,148	128,876	-	594,024
Other liabilities	251,689	13,022	129,788	394,499
Lease liabilities	-	-	8,352	8,352
Current tax liabilities	-	-	8,028	8,028
Total liabilities	927,014	545,616	101,668	1,650,578
Capital expenditure	-	-	2,412	2,412

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

For the year ended 31st December 2022	Conventional MVR 000	Islamic MVR 000	Unallocate MVR 000	Total MVR 000
External revenues:				
- Interest / profit share	146,729	69,232	-	215,961
- Fee and commission income	3,813	2,292	-	6,106
- Other operating income	2,796	-	-	2,796
Total revenues	153,339	71,524	-	224,863
Interest expense / profit share	(47,822)	(37,586)	-	(85,408)
Reversal of provision for impairment loss on loans and advances	(1,993)	-	-	(1,993)
Reversal of modification loss on loans and advances	6,893	-	-	6,893
Depreciation and amortization	-	-	(772)	(772)
Administrative and other operating expenses	(17,414)	(1,622)	-	(19,035)
Income tax expense	-	-	(16,484)	(16,484)
Profit for the year	93,004	32,316	(17,256)	108,063

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

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

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29 SEGMENT ANALYSIS (CONTINUED)

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

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

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

For the year ended 31st December 2021	Conventional MVR 000	Islamic MVR 000	Unallocated MVR 000	Total MVR 000
External revenues:				
- Interest / profit share	152,313	68,682	-	220,995
- Fee and commission income	3,094	1,651	-	4,745
- Other operating income	2,051	-	-	2,051
Total revenues	157,459	70,332	-	227,791
Interest expense / profit share	(51,401)	(32,895)	-	(84,296)
Reversal of provision for impairment loss on loans and advances	(8,116)	-	-	(8,116)
Recognition of modification loss on loans and advances	3,184	-	-	3,184
Depreciation and amortization	-	-	(1,272)	(1,272)
Administrative and other operating expenses	(14,809)	(1,611)	-	(16,419)
Income tax	-	-	(19,205)	(19,205)
Profit for the year	86,317	35,826	(20,477)	101,665

30 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(i) Overview

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

- Credit risk
- Liquidity risk
- Market risk

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

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30 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(i) Overview (continued)

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

(ii) Risk Management Framework

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

30.1 Credit risk

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

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

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

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. The Company measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is similar to the approach used for purposes of measuring Expected Credit Loss (ECL) under IFRS 9.

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 summarized below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Company.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. Please refer to note 29.1.2.1 for a description of how the Company determines when a significant increase in credit risk has occurred.

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30 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.1 Credit risk (continued)

30.1.2 Expected credit loss measurement (continued)

- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Please refer to note 30.1.2.2 description of how the Company defines credit-impaired and default.
- Financial instruments in stage 1 have their ECL measured at an amount equal to the proportion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stage 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer to note 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 the Company has incorporated this in its ECL models.

Further explanation is also provided of how the Company 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 the Company in addressing the requirements of the standard are discussed below:

30.1.2.1 Significant increase in credit risk

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

30.1.2.2 Definition of default and credit-impaired assets

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

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

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

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30 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.1 Credit risk (continued)

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

The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD), or over the remaining lifetime (Life time PD) of the obligation. PIT PD (Point-in-time Probability of Default) is calculated using duration or hazard rate approach (Makov chain approach) and TTC PD (Through-the-Cycle Probability of Default) is derived from average empirical matrix from 2015 to 2022.

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

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

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

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

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

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. Refer note 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. the Company has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for the loan portfolio.

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30.1 Credit risk (continued)

30.1.2.4 Forward looking information incorporated in ECL models (Continued)

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

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

Economic variable assumptions

The most significant period end assumptions used for ECL estimate as at 31st December 2022 are set out below.

	2023	2024	2025	2026	2027
GDP growth rate	13.30%	14.40%	15.50%	16.70%	18.00%
Inflation	4.30%	2.00%	2.00%	2.00%	2.00%
Unemployment rate	6.00%	6.00%	6.00%	6.00%	6.00%

The weightage assigned for each economic scenario at 31st December 2022 as follows:

	Best	Base	Worst
All portfolios	11%	68%	21%

Set out below are changes to ECL as at 31st December 2022 that would result from reasonably possible changes in these parameters from actual assumptions used in the Company's economic variable assumptions.

	-1%	No change	+1%
GDP growth rate	53,441,720	53,381,868	53,321,599
Inflation	52,814,416	53,381,868	53,914,379
Unemployment	53,095,163	53,381,868	53,659,389

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.

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30 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.1 Credit risk (continued)

30.1.3 Loss allowance

The loss allowance recognized 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 recognized during the period, as well as releases for financial instruments de-recognized 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 derecognized during the period and write-offs of allowances related to assets that were written off during the period.

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

Loss allowance	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Life time ECL	Life time ECL	
	MVR	MVR	MVR	
Loss allowance as at 1st January 2022	4,304,618	19,813,051	27,608,024	51,725,693
Transfer from Stage 1 to Stage 2	(41,999)	1,428,564	-	1,386,565
Transfer from Stage 1 to Stage 3	(44,403)	-	1,027,587	983,184
Transfer from Stage 2 to Stage 1	239,555	(4,332,631)	-	(4,093,076)
Transfer from Stage 2 to Stage 3	-	(1,640,128)	3,484,044	1,843,916
Transfer from Stage 3 to Stage 1	-	-	-	-
Transfer from Stage 3 to Stage 2	-	8,752	(56,957)	(48,205)
New financial assets originated	280,745	-	-	280,745
Financial assets settled during the year	(294,675)	(4,632)	-	(299,307)
Unrecognized interest on stage 3 assets	-	-	745,066	745,066
Other movements	(1,090,124)	(11,119,798)	13,067,209	857,287
Loss allowance as at 31st December 2022	3,353,717	4,153,178	45,874,973	53,381,868

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30.1 Credit risk (continued)

30.1.3 Loss allowance (continued)

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

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

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

Loans and advances	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Life time ECL	Life time ECL	
	MVR	MVR	MVR	
Gross carrying amount as at 1st January 2022	1,390,434,442	315,401,767	62,279,000	1,768,115,209
<i>Transfers:</i>				
Transfer from Stage 1 to Stage 2	(19,534,250)	19,911,774	-	377,524
Transfer from Stage 1 to Stage 3	(5,505,790)	-	5,862,130	356,340
Transfer from Stage 2 to Stage 1	37,172,242	(39,799,144)	-	(2,626,902)
Transfer from Stage 3 to Stage 2	-	3,648,806	(4,499,751)	(850,945)
Transfer from Stage 3 to Stage 1	1,525,644	-	(2,725,741)	(1,200,097)
New financial assets originated	90,184,199	-	-	90,184,199
Transfer from Stage 2 to Stage 3	-	(11,214,154)	11,729,874	515,720
Financial assets settled during the year	(86,220,566)	(104,775)	(344,153)	(86,669,494)
Other movements	125,662,946	(226,638,696)	22,510,319	(78,465,430)
Gross carrying amount as at 31st December 2022	1,533,718,867	61,205,578	94,811,678	1,689,736,124

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30 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.1 Credit risk (continued)

30.1.3 Loss allowance (continued)

Loss allowance	Stage 1	Stage 2	Stage 3	Total
	12-month ECL MVR	Life time ECL MVR	Life time ECL MVR	
Loss allowance as at 1st January 2021	4,318,766	15,098,274	22,780,217	42,197,257
Transfer from Stage 1 to Stage 2	(2,155,993)	2,010,235	-	(145,758)
Transfer from Stage 1 to Stage 3	(3,328,036)	-	2,021,045	(1,306,991)
Transfer from Stage 2 to Stage 1	(4,356,658)	6,512,651	-	2,155,993
Transfer from Stage 3 to Stage 1	(4,635,027)	-	1,306,991	(3,328,036)
New financial assets originated	72,688	18,033	4,683,776	4,774,498
Transfers from stage 2 to stage 3	-	(3,141,689)	3,141,689	-
Transfer from stage 3 to stage 2	-	-	-	-
Financial assets settled during the year	(180,800)	(231,688)	(935,619)	(1,348,106)
Unrecognised interest on stage 3 assets	-	-	1,412,347	1,412,347
Other movements	14,569,677	(452,766)	(6,802,423)	7,314,489
Loss allowance at 31st December 2021	4,304,618	19,813,051	27,608,024	51,725,693

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

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

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

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30 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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	
	MVR	MVR	MVR	
Gross carrying amount as at 1 January 2021	1,545,664,133	268,691,736	62,692,590	1,877,048,459
<i>Transfers:</i>				
Transfer from Stage 1 to Stage 2	(171,025,739)	174,210,830	-	3,185,091
Transfer from Stage 1 to Stage 3	54,777	-	(3,121,766)	(3,066,989)
Transfer from Stage 2 to Stage 1	(15,368,342)	14,067,771	-	(1,300,571)
Transfer from Stage 3 to Stage 1	3,121,766	-	(3,066,989)	54,777
Transfers from stage 2 to stage 3	-	(212,332)	212,332	-
Financial assets settled during the year	(48,904,566)	(154,419,026)	(1,526,613)	(204,850,205)
New financial assets originated	12,520,733	15,060,442	-	27,581,175
Other movements	64,371,680	(1,997,654)	7,089,446	69,463,472
Gross carrying amount as at 31st December 2021	1,390,434,442	315,401,767	62,279,000	1,768,115,209

30.1.4 Write-off policy

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

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30 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.1 Credit risk (continued)

30.1.5 Modification of financial assets

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

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

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. the Company monitors the subsequent performance of modified assets. the Company may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL).

30.1.6 Risk limit control and mitigation policies

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

Some other specific control and mitigation measures are outlined below.

(a) Collateral

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

The Company's policy is to sell the repossessed assets at the earliest possible opportunity and the Company's policies regarding obtaining collateral have not significantly changed during the reporting period. There has been no significant change in the overall quality of the collateral held by the Company since the prior period. the Company closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Company will take possession of 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.

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30 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.1 Credit risk (continued)

30.1.6 Risk limit control and mitigation policies (continued)

Collateral information

As at 31 st December 2022	Customer loans MVR	Staff loans MVR	Amna assets MVR	Total MVR
Loans collateralised by:				
- house property	1,137,092,588	3,774,669	548,868,867	1,689,736,124
Total loans and advances	<u>1,137,092,588</u>	<u>3,774,669</u>	<u>548,868,867</u>	<u>1,689,736,124</u>
As at 31 st December 2021	Customer loans MVR	Staff loans MVR	Amna assets MVR	Total MVR
Loans collateralised by:				
- house property	1,207,350,746	4,975,605	555,788,858	1,768,115,209
Total loans and advances	<u>1,207,350,746</u>	<u>4,975,605</u>	<u>555,788,858</u>	<u>1,768,115,209</u>

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

As at 31 st December 2022	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
	MVR	MVR	MVR	MVR
Customer loans	1,137,092,588	3,579,439,163	-	-
Staff loans	3,774,669	15,492,322	-	-
Amna assets	548,868,867	1,380,514,112	-	-
Total loans and advances	<u>1,689,736,124</u>	<u>4,975,445,597</u>	<u>-</u>	<u>-</u>
As at 31 st December 2021	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
	MVR	MVR	MVR	MVR
Customer loans	1,207,350,746	3,790,498,938	-	-
Staff loans	4,975,605	15,622,914	-	-
Amna assets	555,788,858	1,287,907,073	-	-
Total loans and advances	<u>1,768,115,209</u>	<u>5,094,028,925</u>	<u>-</u>	<u>-</u>

(b) Credit-related commitments

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

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30.1 Credit risk (continued)

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 the Company at 31st December 2022 and 31st December 2021, without taking account of any collateral held.

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

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

30.1.9 Concentration of risks of financial assets with credit risk exposure

(a) Geographical sectors

the Company's lending activities are limited to Maldives.

(b) Sectors

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

	31/12/2022	31/12/2021
	MVR	MVR
Residential - Conventional	1,139,103,925	1,210,563,019
Residential - Islamic	548,868,867	555,788,858
Commercial	1,763,332	1,763,332
Total	<u>1,689,736,124</u>	<u>1,768,115,209</u>

30.1.10 Credit risk of financial assets at amortised cost

The Company has invested in Conventional and Islamic treasury bills issued by the Ministry of Finance on behalf of the Government of Maldives and measured at amortised cost. The Company analyses credit quality of debt securities at amortised cost as at the reporting date based on the credit ratings and determine whether any adjustment is required for allowance for impairment loss on the carrying amount. The latest sovereign credit rating issued and published on 13th October 2022 for the Maldives was B- (Negative) by the Fitch ratings. Since the debt securities were issued by the Government and short term with no history of defaults, the Company has determined that the credit risk is considered to be very negligible.

30.2 Market risk

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

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

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30 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.2 Market risk (Continued)

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.

The Company has borrowed from Deutsche Investitions und Entwicklungs Gesellschaft MBH (DEG) in US\$. The proceeds from these were sold to State Trading Organisation PLC (STO) for equivalent Rufiyaa at 1 US\$ = MVR 15.42. The Company has entered into two SWAP agreements with STO by which STO will sell equal amount of US\$ to honor the US\$ requirement relating to the principle amount of DEG loan at the rate of 1 US\$ = MVR 15.42. However, this arrangement does not cover the interest element of the loan installment.

By virtue of the SWAP agreements, the Company will be able to service the US\$ loans obtained from DEG. As at the reporting date, the outstanding balance in this borrowing amounts to US\$ 2,307,698/- (2020: US\$ 3,825,005/-), against which the amounts of US\$ to be purchased from STO PLC is US\$ 2,307,698/- (2020: US\$ 3,823,528/-).

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

	<u>31/12/2022</u>	<u>31/12/2021</u>
	US\$	US\$
Assets		
Cash and balances with other banks	58,220	48,416
Total assets	58,220	48,416
Liabilities		
Borrowings	(181,431)	(205,884)
Total liabilities	(181,431)	(205,884)
Net on-balance sheet financial position	(123,211)	(157,468)
Currency SWAP	2,307,698	2,307,698
Net	<u>2,184,487</u>	<u>2,150,230</u>

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

	<u>As at 31st December 2022</u>		<u>As at 31st December 2021</u>	
	Impact on	Impact on	Impact on	Impact on
	US\$	US\$	US\$	US\$
US Dollar strengthening by 10%	22,066	-	21,719	-
US Dollar weakening by 10%	(21,629)	-	(21,289)	-

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30 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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. The Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on cash flow risks. Interest margins may increase / decrease as a result of such changes but may reduce losses in the event that unexpected movements arise.

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

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

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

As at 31st December 2022

	Up to 1 month MVR '000	1-3 months MVR '000	3-12 months MVR '000	1-5 years MVR '000	Over 5 years MVR '000	Non- interest bearing MVR '000	Total MVR '000
Financial assets							
Cash and balances with banks	73,413	185,453	-	-	-	-	258,866
Financial assets at amortised cost	10,552	176,741	307,283	-	-	-	494,576
Loans and advances	3,135	9,586	30,474	209,947	1,383,213	-	1,636,355
Other financial assets	-	-	-	-	-	1,288	1,288
Total financial assets	87,100	371,780	337,757	209,947	1,383,213	1,288	2,391,085
Financial liabilities							
Deposits from customers	157	479	1,523	10,490	68,753	-	81,402
Debt securities in issue	-	20,000	31,718	81,736	430,819	-	564,273
Other borrowed funds	3,130	17,009	133,417	283,715	156,754	-	594,025
Other financial liabilities	-	-	-	-	-	269,930	269,930
Lease liabilities	-	185	712	5,609	1,847	-	8,353
Total financial liabilities	3,287	37,673	167,370	381,550	658,173	269,930	1,517,983
Total interest repricing gap	83,813	334,107	170,387	(171,603)	725,040	(268,642)	873,103

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30 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.2.2 Interest rate risk (continued)

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

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

Exposure to Interest rate risk - Loans and advances

Sensitivity analysis of net interest income

	As at 31 st December 2022		As at 31 st December 2021	
	1% increase MVR '000	1% decrease MVR '000	1% increase MVR '000	1% decrease MVR '000
	Average for the year	<u>9,452</u>	<u>(9,452)</u>	<u>9,868</u>

Fundamental reform of major interest rate benchmarks is being undertaken globally, replacing some interbank offered rates (IBORs) with alternative nearly risk-free rates (referred to as 'IBOR reform'). As at 31st December 2022, there are no any financial instruments that contractually reference an IBOR benchmark planned to transition to a risk-free rate, and have a contractual maturity date beyond the planned IBOR cessation date.

30.3 Liquidity risk

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

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30 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.3 Liquidity risk (continued)

30.3.1 Liquidity risk management process

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

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

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

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

30.3.2 Funding approach

Sources of liquidity are regularly reviewed by the ALCO.

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

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

As at 31st December 2022	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total	Carrying
	MVR '000	MVR '000	MVR '000	MVR '000	MVR '000	MVR '000	MVR '000
Financial liabilities							
Deposits from customers	909	2,726	8,179	42,712	115,268	169,794	81,402
Debt securities in issue	2,550	4,706	43,364	239,771	486,861	777,252	564,273
Other borrowed funds	7,078	24,489	163,714	368,781	174,331	738,392	594,025
Other financial liabilities	-	-	-	-	269,930	269,930	269,930
Lease liabilities	56	171	535	4,934	3,311	9,007	8,353
	<u>10,593</u>	<u>32,092</u>	<u>215,792</u>	<u>656,198</u>	<u>1,049,701</u>	<u>1,964,375</u>	<u>1,517,983</u>
Financial assets							
Cash and balances with banks	73,413	185,453	-	-	-	258,866	258,866
Financial assets at amortised cost	10,552	176,741	307,283	-	-	494,576	494,576
Loans and advances	18,794	56,381	169,144	883,306	2,383,811	3,511,436	1,636,355
Other financial assets	-	-	1,288	-	-	1,288	1,288
	<u>102,759</u>	<u>418,576</u>	<u>477,715</u>	<u>883,306</u>	<u>2,383,811</u>	<u>4,266,166</u>	<u>2,391,085</u>
Net	<u>92,166</u>	<u>386,484</u>	<u>261,923</u>	<u>227,108</u>	<u>1,334,110</u>	<u>2,301,791</u>	<u>873,103</u>

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30 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.3 Liquidity risk (continued)

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

As at 31 st December 2021	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total	Carrying amount
	<u>MVR '000</u>	<u>MVR '000</u>	<u>MVR '000</u>	<u>MVR '000</u>	<u>MVR '000</u>	<u>MVR '000</u>	<u>MVR '000</u>
Financial liabilities							
Deposits from customers	909	2,726	8,179	42,712	115,268	169,794	78,518
Debt securities in issue	-	3,584	38,236	221,167	474,812	737,799	574,745
Other borrowed funds	6,005	70,478	172,058	323,140	153,234	724,915	605,318
Other financial liabilities	-	-	-	-	268,864	268,864	268,053
Lease liabilities	56	171	535	4,934	3,311	9,007	9,054
	<u>6,970</u>	<u>76,959</u>	<u>219,008</u>	<u>591,953</u>	<u>1,015,489</u>	<u>1,910,379</u>	<u>1,535,688</u>
Financial assets							
Cash and balances with banks	115,150	254,602	-	-	-	369,752	369,042
Financial assets at amortized cost	65,155	60,231	132,163	-	-	257,549	257,549
Loans and advances	19,945	59,835	179,504	937,409	2,529,820	3,726,513	1,716,388
Other financial assets	-	-	1,148	-	-	1,148	1,118
	<u>200,250</u>	<u>374,668</u>	<u>312,815</u>	<u>937,409</u>	<u>2,529,820</u>	<u>4,354,962</u>	<u>2,344,097</u>
Net	<u>193,280</u>	<u>297,709</u>	<u>93,807</u>	<u>345,456</u>	<u>1,514,331</u>	<u>2,444,583</u>	<u>808,409</u>

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

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30 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.4 Capital management

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

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

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

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

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

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

The table below summarises the composition of capital and the ratios of the Company as at 31st December 2022 and 31st December 2021. the Company complied with all of the externally imposed capital requirements to which they are subjected.

	31/12/2022	31/12/2021
	MVR	MVR
Capital		
Share capital	159,375,000	159,375,000
Retained earnings	590,925,359	545,815,095
Reserves	15,000,000	15,000,000
Total qualifying Capital	765,300,359	720,190,095
Total capital	765,300,359	720,190,095
Risk-weighted assets		
On-balance sheet	908,739,529	965,953,126
Total risk-weighted assets	908,739,529	965,953,126
Basel ratio	84%	75%

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30 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.4 Capital management (continued)

Risk-weighted assets	As at 31st December 2022	
	Unweighted value	Weighted Value
	MVR	MVR
Cash in hand	6,500	-
Balances with other banks	73,406,078	14,681,216
Short term investments in Treasury Bills	185,453,764	37,090,753
Financial assets at amortised cost	494,575,784	-
Loans and advances	1,689,736,124	844,868,062
Prepayments and deposits	7,281,981	7,281,981
Property, plant and equipment and Intangible assets	4,817,518	4,817,518
	2,455,277,749	908,739,529

The changes in the regulatory capital was mainly due to the profit earned during the year ended 31st December 2022. The decrease in risk-weighted assets reflects the decrease the loan portfolio during period.

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

31 ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

As at 31st December 2022	Amortised cost	Total
	MVR	MVR
Financial assets		
Cash and cash equivalents	258,866,342	258,866,342
Financial assets at amortised cost	494,575,784	494,575,784
Loans and advances	1,636,354,256	1,636,354,256
Other financial assets	1,287,857	1,287,857
Total financial assets	2,391,084,239	2,391,084,239
	Amortised cost	Total
	MVR	MVR
Financial liabilities		
Debt securities in issue	564,273,781	564,273,781
Other borrowed funds	594,024,042	594,024,042
Deposits from customers	81,401,050	81,401,050
Other financial liabilities	336,708,367	336,708,367
Lease liabilities	8,352,349	8,352,349
Total financial liabilities	1,584,759,589	1,584,759,589

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31 ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS (CONTINUED)

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

32 FAIR VALUE MEASUREMENT

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 st December 2022		As at 31 st December 2021	
	Carrying amount MVR	Fair value MVR	Carrying amount MVR	Fair value MVR
Assets carried at amortised cost				
Cash and cash equivalents	258,866,342	258,866,342	369,042,432	369,042,432
Financial asset at amortised cost	494,575,784	494,575,784	257,549,099	257,549,099
Loans and advances to customers	1,636,354,256	1,636,354,256	1,716,389,516	1,716,389,516
Other financial assets	1,287,857	1,287,857	1,118,481	1,118,481
	2,391,084,239	2,391,084,239	2,344,099,528	2,344,099,528
Liabilities carried at amortised cost				
Deposits from customers	81,401,050	81,401,050	78,518,115	78,518,115
Debt securities in issue	564,273,781	564,273,781	574,745,395	574,745,395
Other borrowed funds	594,024,042	594,024,042	605,317,977	605,317,977
Other financial liabilities	345,060,716	345,060,716	309,548,883	309,548,883
	1,584,759,589	1,584,759,589	1,568,130,370	1,568,130,370

Assets for which fair value approximates carrying value

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

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

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

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33 CONTINGENCIES

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

34 CAPITAL COMMITTEMENTS

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

35 COMMITTEMENTS	31/12/2022	31/12/2021
	MVR	MVR
Undisbursed loans and other facilities	<u>58,040,729</u>	<u>40,670,051</u>

36 RELATED PARTY TRANSACTIONS

36.1 The Company carried out transactions in the ordinary course of business on an arm's length basis at commercial rates with parties who are defined as Related Parties as per the International Accounting Standard – IAS 24 on "Related Party Disclosures". The Company has identified Ministry of Finance and Ministry of Housing and Infrastructure as related parties and disclosed balances in the notes 18 and 26 of this financial statements.

36.2 Key management compensation	2022	2021
	MVR	MVR
Executive management salaries	<u>3,332,953</u>	<u>3,328,204</u>

36.3 Remuneration to Board of Directors	2022	2021
	MVR	MVR
Board remuneration and committee sitting fees	<u>246,000</u>	<u>192,000</u>

Shareholding structure

The Company's shareholding structure are as follows:

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

At the Extraordinary General Meeting of shareholders held on November 29th, 2022, in accordance with Article 19(d) of the Articles of Association, the Shareholders approved a share split of 1,593,750 ordinary shares of MVR 100/- each into 15,937,500 ordinary shares of MVR 10/- each. However, the company has not completed the formalities as at 31st December, 2022

37 COMPARATIVE FIGURES

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

38 DIRECTOR'S RESPONSIBILITY

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

39 EVENTS AFTER THE REPORTING PERIOD

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