ANNUAL REPORT
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Housing Development Finance Corporation PLC.

ANNUAL REPORT
2018

HDFC

Housing Development Finance Corporation Plc.

DEFINITION

Annual Report 2018, comprises of the Annual Report of Housing Development Finance Corporation Plc. (HDFC) prepared in accordance with the Companies Act of the Republic of Maldives (10/96), Listing rules of Maldives Stock Exchange, the Securities Act of Maldives Security Depository and Corporate Governance Code of Capital Market Development Authority Requirements. Unless otherwise specified in the Annual Report, the terms 'HDFC', 'we', 'us' and 'it' refer to Housing Development Finance Corporation Plc. The word 'Company' refers to HDFC Plc., including financing facilities extended from the Amna (Islamic Window).

References to the year in this report are, unless otherwise indicated, references to the Company's financial year ending 31st December 2018.

Financial statements of HDFC is prepared in accordance with International Financial Reporting Standards (IFRS).

Cautionary statement with regard to forward looking statements

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

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

HDFC PLC.
ANNUAL REPORT 2018
Published: April 2019

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CHAIRMAN'S STATEMENT

"Empowering Communities"

Dear shareholders,

On behalf of the Board of Directors, I present the 15th Annual Report and financial statements of Housing Development Finance Corporation Plc. (HDFC) for the year ended December 31, 2018.

HDFC has once again delivered a good performance under all parameters and has positioned itself amongst the top players in the sector. The Company has been delivering, what it had promised at the time of establishment. This is possible because HDFC is built on strong fundamentals, driven by determination and held together by strong values and ethics. Our growth is steady, inclusive and an outcome of concentrated efforts by our team members to achieve a larger purpose - that of creating a healthy ecosystem for the mortgage industry such that it benefits society at large.

The driving force behind this journey has been the single-minded mission of bringing people and processes together and driven by operational excellence in the delivery model for our customers and stakeholders. We are one of the significant contributors in facilitating home ownership in the Maldives by helping customers fulfill their dream of owning a home. It is indeed our humble endeavour towards accumulation of the nation's wealth. 2018 has been a year of unexpected challenges, not only in the Maldives,

but globally as well, with an overall economic slowdown. However, it pleases me to report that HDFC has demonstrated prudence in ensuring that the Company continues to perform consistently.

WORLD AT A GLANCE

According to a World Bank Report ("Global Economic Prospects (2018)"), global growth is expected to slow down over the next two years after reaching 3.1 percent in 2018. Emerging markets and developing economies (EMDEs) are expected to plateau, reaching 4.7 percent in 2019 and 2020, up from 4.5 percent in 2018. Several EMDEs policy makers are recognising the benefits of boosting potential growth by promoting competitiveness, adapting to technological changes and encouraging trade openness.

THE MALDIVIAN ECONOMY

The Maldivian economy grew by 7% in 2018 and is projected to continue to grow at the same pace in 2019 as well.

Most of the economic developments in the Maldives are driven by the tourism and construction sectors, which showed resilient growth in 2018. Growth in tourist arrivals reached its highest since 2014. The robust growth was in part due to the upgradation of the Velana International Airport, which now has the capacity to land large aircrafts. This enabled the Maldives Airports Company Limited (MACL) to secure new contracts with airlines and increase the number of tourist arrivals.

The government has plans to undertake various initiatives that will both enhance and diversify its revenues in 2019. The government is promoting the nation as an attractive location for investment into various economic activities. Initiatives include the promotion by the Ministry of Tourism for Maldives as a unique tourist attraction and expansion of infrastructure. The government support and promotion of the Economic Zone will also provide for economic growth at all levels. These initiatives are expected to play a positive role in enhancing local development, while strengthening the economy and business in the Maldives.

The estimated budget of the government for housing is MVR 1,609 million for 2019. This includes around MVR 321 million for the construction of housing units in L. Gan, Lh. Naifaru, B. Thulahadhoo, M. Kolhufushi. The government also projected MVR 102 million to provide housing for Police and Defence personnel. (Moft, Budget Speech, 2019).

OUR PERFORMANCE

The aspiration of 'Owning a Home' is a cherished dream for most Maldivians. Over the past 15 years, we at HDFC have been at the forefront of enabling homeownership of the lower- and middle-income citizens of the country. We are securing our customer's future by actively addressing their financial needs through our diversified product offerings, while creating financial awareness. With an ever-expanding focus on financial inclusion and building a stronger ecosystem, we are reinforcing our commitment towards transforming the lives of the common man. Led by an in-depth understanding of our customer's housing needs combined with our time-tested expertise in this space, we are proud of 'Providing a Home', which resonates with the government's national mission of 'Housing for All by 2022'.

> The society at large becomes more harmonious and developments more holistic, as the population of homeowners increase in the country. We believe we are supporting the nation towards the next phase of inclusive progress.

The financial year 2018 has become a landmark year in the journey of HDFC, with the public listing of the second bond issue on the Maldives Stock Exchange. Our second bond offer of MVR 100 million turned out to be one of the most awaited investment opportunities for the local investors, who gave an overwhelming response to the issue.

The Company's total operating income increased by 24.6% to MVR 116.3 million. Due to the vigilant management, the ratio of non-performing loans remained stable at 1.5% as at 31 December 2018. The return on shareholders' equity stood at 19.1%, while operating expenses increased by 16.8% over the previous year. The Company's total assets grew by 10.2% over the previous year to MVR 1.7 billion. Total loans and advances grew by 14.6% over the previous year to stand at MVR 1.6 billion.

During the year under review, we continued to strengthen our capabilities to support business growth. This involved a renewed focus to closer align people, products, processes and systems across the organization. We enhanced our human capital and information technology infrastructure. We also strengthened our corporate governance framework to ensure on-going compliance in an evolving regulatory environment. We intensified our focus on a prudent risk management approach to ensure that the Company remains systematic and resilient in the face of volatile economic and market conditions.

NEW REGULATORY CHANGES

During the year under review, we saw a major regulatory change with the introduction of IFRS 9. This new financial reporting standard is aimed at enhancing stability across the financial system. IFRS 9 changes the way credit losses are recognised in the profit and loss statement of institutions. While in the past, impairments were based on incurred losses, IFRS 9, introduces an approach based on future expectations, namely expected losses. As part of impairment provisioning under IFRS 9, companies have to identify relevant macroeconomic variables for their businesses, study them for historical trends and impact, establish their relationship with historical default rates and track them for available forecasts in order to estimate expected credit losses. This accounting standard has been followed with effect from 1 January 2018.

CONCLUSION

As we begin another challenging year, we are delighted to celebrate the 15th anniversary of the foundation of HDFC in 2004. This has been a journey of consistent profitable growth, from an initial share capital of just MVR 1 million to a net worth of MVR 515.8 million as at 31 December 2018. We believe that the combination of HDFC's focused strategy and diversified business model will continue to create long-term value for our stakeholders.

We will continue to leverage our expertise in the local housing market to develop unconventional and effective strategies to sustain growth and create long-term value for all stakeholders.

Finally, I would like to thank our shareholders and Board of Directors for their continued support and invaluable guidance. I also wish to extend gratitude and appreciation to the Maldives Monetary Authority, Ministry of Finance, and other regulatory bodies for their support. I also thank our customers who have reposed their faith in us both as borrowers and lenders. Lastly, I deeply appreciate the dedication and hard work of each and every employee of HDFC who have worked together to contribute to the success of the company.

Conrad D'Souza
Chairman, HDFC- Maldives

MANAGING DIRECTOR'S REVIEW

Growth is one of the realistic benchmarks of success. Housing Development Finance Corporation has indeed travelled far in its journey from its relatively modest beginning in 2004, as an institution to serve the nation in providing housing solutions to those in need. Through our journey of 15 years, our singular focus on one product- housing, steadfast approach, strong business values and financial discipline have helped us become a household name. We focused on our reputation to strengthen our presence, while being innovative and customer centric in our financial solutions. Our strategy to achieve this will be to increase our efficiency, analyse financial markets, and customer needs in-depth, develop appropriate solutions, leverage cutting-edge technology and empower our employees. The one promise that we make to ourselves and our stakeholders every day is to drive growth.

THE HOUSING INDUSTRY

The industry struggled throughout the year with high lending rates and relatively high housing prices preventing low- and middle-income households from affording a house.

Having perceived a rise in income levels and lifestyle changes for the better, the private sector is now a major housing provider for middle- and high-income groups, while the Government remains involved in facilitating housing for low and lower middle-income groups. The Government, through the Ministry of Housing did establish several housing development programmes including "Gedhoruveri kurun", "Baiy bil Tag sit "and "704" which contributed more than 1155 housing units to the market.

In late November last year (2018) the government launched the single largest social housing project in Hulhumale', the "Hiyaa Project". This project will produce 7000 social housing units in Phase II of Hulhumale. The project is part of the larger program by HDC to establish 15,000 social housing units in Hulhumale' This is in addition to the hundreds of semi luxury and luxury units awarded to more than a dozen private companies.

The lack of a comprehensive market study remains a major concern to all developers and financiers while the government inaugurated hundreds of social housing projects could flood the greater Male' region. This is evidenced by several private developers struggling to secure the sale of all their units as the overpriced high-end flats makes more unaffordable to the people who are in dire need of housing. In the near future and the current real estate trend suggests a possible lack of appropriate safety measure could stress the present vulnerable economy of the country.

TRUE VALUE OF HOUSING FINANCE

Housing finance cannot be equated to any other credit facility. It is an asset class, supported by long term house mortgages that produce long term returns. It is a tangible asset creator and wealth maximiser. Housing finance is an integral part of economic development as it increases savings, investments and household wealth and results in a beneficial spill-over effect on the entire financial system. Each Rufiyaa invested in the housing sector triggers a multiplier increase in other sectors of the economy and indirectly impacts employment, fiscal returns and consumption.

SUSTAINABLE LIVING ENVIRONMENT

The process of house construction requires a large amount of capital, natural resources, earthmoving and management of substantial amount of solid waste. Homes are not just houses; but environments which project aspirations of individual families. A cluster of homes form neighbourhoods and a group of neighbourhood's form towns and cities. Thus, the manner in which houses are planned, and developed has an impact on the environment and ecosystem of the country. Affordability also plays a vital role in building a home. If the house is not cost effective, it would not offer cost saving technologies and will not suit the modern-day lifestyles of its occupants.

CHALLENGES AHEAD

One of the biggest challenges faced by HDFC is managing the interest rate risk. Being a long-term lender, HDFC is open to the interest rate risk when long-term loans and facilities are not matched with long term funds. Due to the lack of a long-term money market, a shortage in long term funds exists. Even though we have succeeded in reducing the maturity gaps to some extent, additional measures have to be taken to increase our future profitability. In this context, we strive to achieve a sustainable growth by accessing long term funding lines to match the planned growth in loans and facilities. Another challenge for HDFC is the absence of a comprehensive ERP system. With IT being the conduit that fuels success in any field, the absence of such a system is too risky for the organisation. Hence, to empower our people to meet the goals of the company's business plan, we need an accelerated but strategic infusion of a proper banking solution for the growth of the company. Presently, a gap analysis is undertaken by a foreign party to seek the best solution to the company.

MOVING FORWARD

Over the last 15 years, HDFC has made a significant contribution to the economy of our nation as a housing finance company. HDFC has provided affordable housing financing solutions to the multitude of people and gained wide acceptance from the low- and middle-income segment of our society.

It was clear that despite the challenging business environment of 2017, the Company was able to make significant progress towards its key stated goals. We expected 2018 to be equally if not more challenging with the introduction of IFRS 9. We continue to remain optimistic however with a sustained investment in our staff, and most of all customer satisfaction.

Refocusing HDFC as an institution providing a speedy service, whilst balancing economic, social and environmental objectives and working actively alongside the government's initiatives in achieving the development goals laid out.

A NOTE OF GRATITUDE

I wish to take this opportunity to extend my appreciation to the Chairman and the Board of Directors for displaying immense confidence in me in allowing me to steer the company in line with the goals we had set out for the year and the support and guidance extended at all times to ensure that we remain on that path. To my "Team" who have remained at my side to be true partners in this progressive but challenging journey we have embarked on, thank you very much. Our loyal customers have been a source of strength and we hope will remain so in the years to come. May Allah grant everyone the best in this Life and the Hereafter.

Raheema Saleem
Managing Director

CORPORATE INFORMATION

NAME OF THE COMPANY	Housing Development Finance Corporation Plc.
LEGAL FORM	HDFC is a company incorporated as state owned enterprise on 28 January 2004 by a Presidential Decree under the Companies Act No.10/96, registered as a public company on 9 February 2006 and privatized on 23 July 2008 with the signing of a shareholder's agreement between the Government of Maldives (49%), IFC (18%), ADB (18%) and HDFC-Investments Ltd.- India (15%).
COMPANY REGISTRATION NUMBER	C-107/2006
SHARE CAPITAL	MVR 159,375,000
CHAIRMAN	Mr. Conrad D'Souza
MANAGING DIRECTOR	Ms. Raheema Saleem
AUDITORS	PricewaterhouseCoopers (External Auditors) KPMG (Internal Auditors)
LEGAL COUNSEL	Mazlan & Murad Law Associates
COMPANY SECRETARY	Mr. Adam Athif
REGISTERED ADDRESS	Mialani, 4th Floor, Sosun Magu, Male', Republic of Maldives
PHONE:	(+960) 3338810 / 3315896 / 3315897 / 3334666
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Our vision is our foundation. Our values are our strengths and we raise not just hopes, but the promise to bring in a happier tomorrow.

OUR VISION

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

OUR MISSION

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

PLEDGE

Strive hard and explore all avenues to:

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

HDFC PRODUCTS

HDFC offers both Conventional and Islamic housing finance facilities with affordability, flexibility and longest repayment period .

STANDARD LOAN

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

MILLION PLUS

Home loans exceeding MVR 1 million with less than one third of the developed area given on rent and two third or more occupied by owner/s and or co-applicant/s at 11.50% per annum.

RENT OPTION HOME LOAN

Home Loan where the total developed area or more than one third area of the property is intended for, or already rented out, at 12.50% per annum.

RENOVATION HOME LOAN

Home loan for essential repairs, refurbishments, and improvement to the home at 11.25% per annum.

YOUTH PRODUCT

Home purchase loan for Youth at 10.5% per annum for 30 years.

ISTISNA' HOME CONSTRUCTION

Islamic Finance Product given by HDFC Amna under Istisna' concept for financing of home construction.

MUSHARAKA MUTHANAQISA

Islamic finance product given by HDFC where the customer and the financial institution agree to enter into a partnership agreement to purchase land and construct a house or purchase a housing unit / apartment for the purpose of residential / rental to be occupied by the owners / co-owners / tenants.

MURABAHA FINANCING FACILITY

Islamic finance product given by HDFC where HDFC and the customer enter into a contract for the sale of goods required to renovate the housing. The contract involves the purchase of goods identified by the client and then sells them to the customer at an agreed mark up.

2018
Issued Fixed Income Bond: 2

2017
100% locals

2016
AMNA achieved GOLD Award for the Islamic Finance Turnaround of the year.

2015
Reward Customers with a rate cut

2014
Start of "Gedhoruveri Kurumuge Program"

2013
Issued with first rated income Bond

2012
Inaugurated the Islamic Window, AMNA.

2011
Introduction of End User Finance

2010
Launched the First Housing Finance Products.

2009
Received the first foreign borrowings

2008
Privatized HDFC with Joint Foreign Investment

2007
Investment in MMA Treasury Bills

2006
Registered as a PLC

2005
Transformation of HDFC to a public company.

2004
Incorporated as an 100% SOE

“A man’s home is his castle”, a source of pride and joy with the feeling of closeness, peace and most importantly, family.”

The directors have the privilege of presenting their 15th Annual Report of HDFC PLC. (the "Company or HDFC"), together with the audited accounts of the Company for the year ended 31 December 2018.

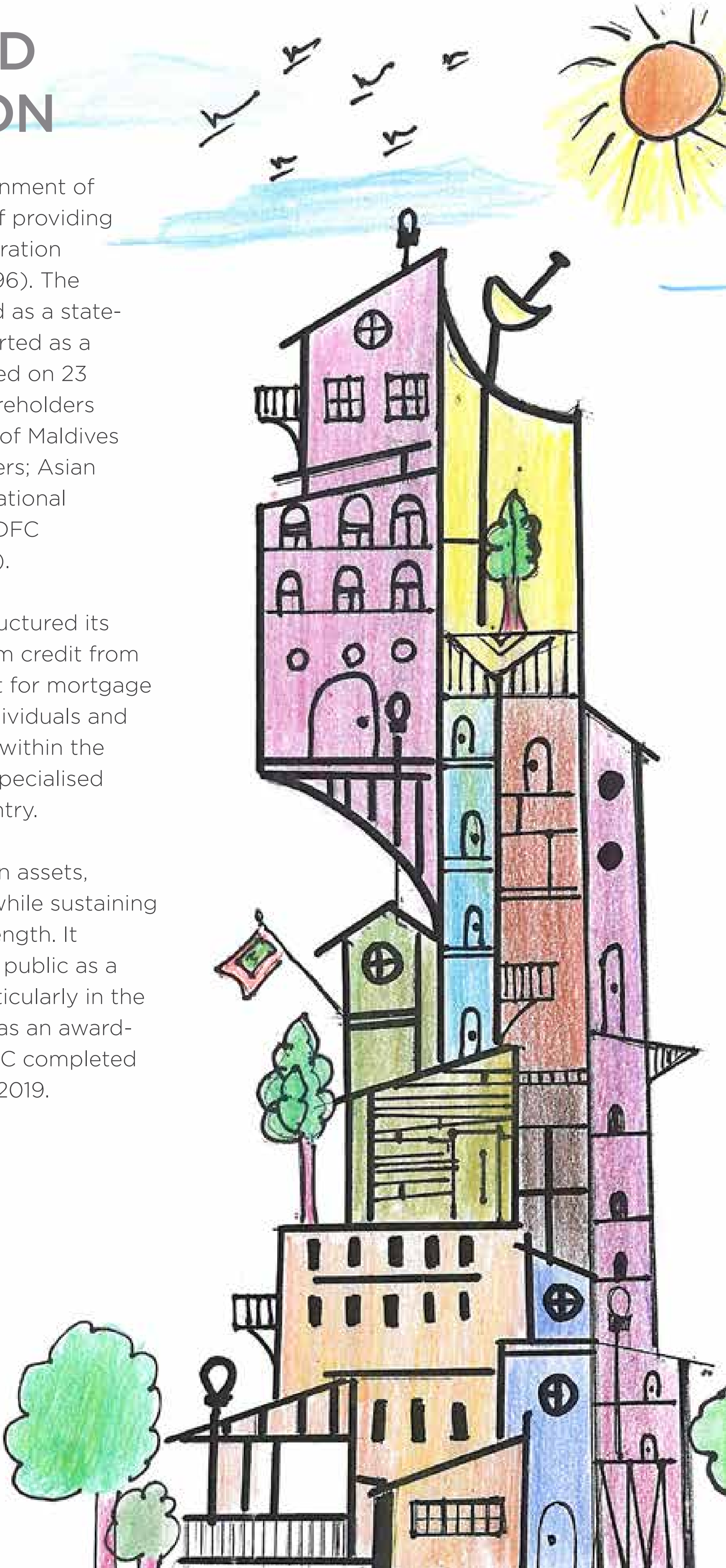
DIRECTORS' report

CORPORATE OBJECTIVE AND INCORPORATION

HDFC was incorporated by the Government of Maldives with the primary objective of providing housing finance and the scope of operation enacted under the Company Law (1996). The Corporation was originally established as a state-owned-enterprise in 2004, and converted as a public company in 2006, and privatised on 23 July 2008 with the signing of the shareholders agreement between the Government of Maldives (GOM 49%) and three new shareholders; Asian Development Bank (ADB 18%), International Finance Corporation (IFC 18%) and HDFC Investments Limited (HDFC India 15%).

In February 2009, the Company restructured its capital and with new lines of long-term credit from ADB and IFC, it re-entered the market for mortgage loans to cater to housing needs of individuals and families. HDFC is uniquely positioned within the Maldives financial sector as the only specialised housing finance institution in the country.

HDFC has achieved a steady growth in assets, shareholders' funds and profitability while sustaining internal processes, capacities and strength. It has gained wide recognition from the public as a leading player in housing finance, particularly in the low- and middle-income market, and as an award-winning responsible corporation. HDFC completed its 15th year in service on 28 January 2019.



PERFORMANCE OF OPERATION

HDFC posted a (Profit Before Tax) of MVR 116.3million in 2018, representing a 25% increase from (Profit Before Tax) of MVR 93.3million in 2017. Earnings per share for 2018 was MVR 62.11, compared to MVR 50.94 in 2017. The Company's improving profitability in 2018 resulted in an increase in ROE to 19% from 18% in 2017.

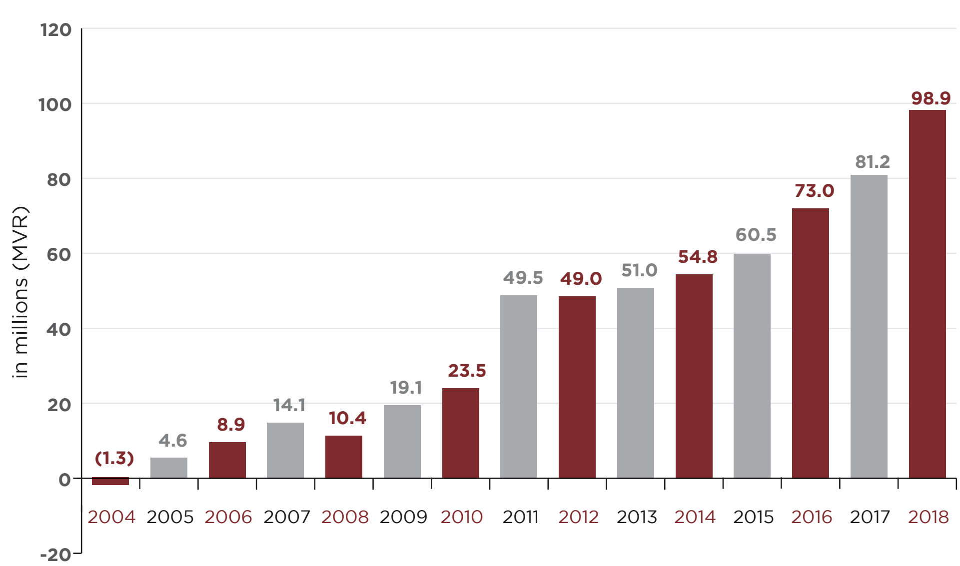
Financial Highlights in millions (MVR)

(MVR Millions)

Performance	2014	2015	2016	2017	2018
Total Income	122.6	131.6	151.8	169.8	190.2
Profit Before Tax	64.6	71.5	85.7	93.3	116.3
Profit After Tax	54.9	60.5	72.3	81.2	98.9
Total Equity	383.1	403.8	416.4	462.5	515.8
Net Portfolio (Loans/facilities)	941.5	1,086.5	1,303.0	1,410.5	1,617.4
Financial Ratios					
Net Assets value per Share	239.4	252.4	260.3	290.2	323.6
Earnings Per Share (EPS)	34.4	38.0	45.4	50.9	62.1
Dividend Per Share	25	17.5	20	22	25
Liquidity (%) (Equity/Total Assets)	40%	37%	35%	29%	29%
Dividend pay-out (%)	73%	46%	44%	43%	40%
ROE (%)	14%	15%	17%	18%	19%
Debt/Equity (times)	1.9	2.1	2.3	2.4	2.4
Interest Cover (times)	1.5	1.6	2.0	2.0	2.1

PERFORMANCE AT A GLANCE

PROFIT GROWTH



MALDIVES ECONOMIC PERFORMANCE

During the latter quarter of 2018 we witnessed a changing of the guard with continued challenges for the newly elected president, Hon. Ibrahim Mohamed Solih, who took his oath as the seventh president of the Maldives on 17 November 2018. The Republic of Maldives, a nation with a population of about 400,000 people is spread over 188 islands. Its economy is highly dependent on tourism and fisheries, burdened with a high fiscal deficit, public debt, and high youth unemployment. As per the Maldives Monetary Authority's latest Quarterly Economic Bulletin (Sep 2018) the average inflation marked a turnaround and stood at 0.4% in Q3 2018, after recording a negative inflation rate of -1.5% in Q2 2018. The acceleration in prices was mainly because of increase in rent and rise in the prices of vegetables and tobacco. However, the growth in prices was mainly offset by a reduction in the prices of staple food items and electricity during the period. The performance of the Construction industry continued to be robust during Q3 2018, mostly owing to the increase in loans for construction of residential, real estate developments and resort construction. Imports related to this sector posted a significant growth of 39% in annual terms during the quarter. The continued resilience of this sector is largely attributed to the various infrastructure projects that are under way.

According to Global Economic Prospects (January 2019), the Maldives economic activity will be underpinned by strong infrastructure investments and consumption. The Maldives remain strong and reliant on construction and tourism and economic growth is expected to moderate to 6.3 percent in 2019 as construction activity returns to long-term averages and capital investment projects gradually slow down.

The Maldives faces important challenges that are common to small island states including small, slim, and delicate resource base, high youth and female unemployment, a shortage of skilled manpower and capacity constraints, difficult inter-island transport and communication, high cost of social and economic infrastructure provision, heavy dependence on external trade, and vulnerability to external shocks, climate change and natural disasters.

HDFC's core business and statutory objective is to assist people in financing housing and other necessities related to it, and hence expanding home-ownership in the country

RESPONSIBLE HOUSING FINANCE

Decent housing is a basic human necessity. Housing improves the quality of life and economic growth of a nation by several degrees. Owning a house is the largest investment of an average income family. It is also the only lifetime saving for many. Because of ever increasing construction costs and land prices, owning a house has become a dream which most families struggle to realise. HDFC's core business and statutory objective is to assist people in financing housing and other necessities related to it, and hence expanding home-ownership in the country. As per the income distribution, around 60-65% of the Maldivian population is in the low- and middle-income households' segment, and that segment faces the challenge of realising the dream of house ownership. HDFC is strategically as well as obligatorily focused to manage its core business in a manner which delivers long-term value creation, in the economic, environmental, and social front, the largest segment of the population, thereby seizing economic opportunities that ensure the Company's continued growth and stability while maximising shareholders' wealth.

HOUSING MARKET CURRENT DEMAND FOR MORTGAGE FINANCE

The housing demand of the Maldivian population (estimated 400,000) nationwide, is currently offset by the existing housing units of 75,000. According to Census 2014, average household size in Male' is 5.4 and Atolls is 5.1 and 5.2 person living per household.

Housing is a special consumer good and an important part of the financial markets. It is the largest component of the typical household asset portfolio and often the largest single category of household expense. It is a key component in creating stable and healthy communities, and a very visible indicator of social welfare. Housing Finance remains a problem for many households in emerging markets such as Maldives often reflecting the lack of an appropriate infrastructure and preconditions for lending. In particular, the provision of funds to lower- and middle-income households is limited. Many-lower- and middle-income households may not be able to afford housing at market rates of interest and house prices, and individual incomes may not be stable or documented, or past credit records may be poor.

Housing finance is currently provided mainly by leading commercial banks. Today, these institutions account for about 60 % of the market. The current market generally serves upper- and middle-income borrowers and the lower income market through government at a subsidized rate. There is a need for private sector to provide more mortgage financing and specifically target the under-served market customers.

The national housing shortage is estimated at 15,000 units and an annual increase in household needs is estimated at up to 500 units each year. With respect to mortgage loan characteristics and tenor, the average tenor of mortgage loans varies between 10-20 years with a maximum of 30 years in special products such as Youth Product. The maximum loan size is dependent upon the individual's repayment capacity and is subjected to a maximum allowable deduction stipulated by the underwriting credit guidelines (currently 45% of the gross income).

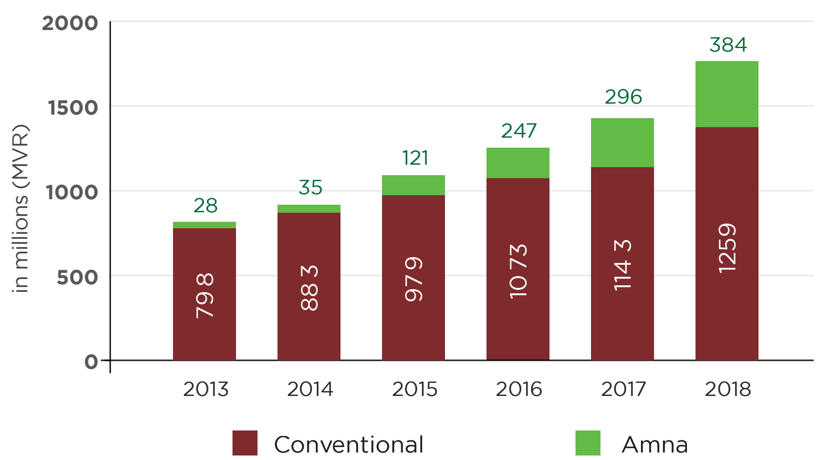
Potential mortgage borrowers are evaluated on income, employment status, existing financial commitments and liabilities, credit history, age of borrower, value of house and/ or property to be purchased, borrower's contribution towards the project, current assets owned, and formal documents.

To boost effective demand for homes to match actual national housing needs, housing finance availability is essential.

PERFORMANCE OVERVIEW

The operating environment during 2018 was somewhat challenging for a company like HDFC in a scenario of rising cost structure and increasing interest rates. This tends to have a direct negative impact on customer

Gross Loan & facility portfolio



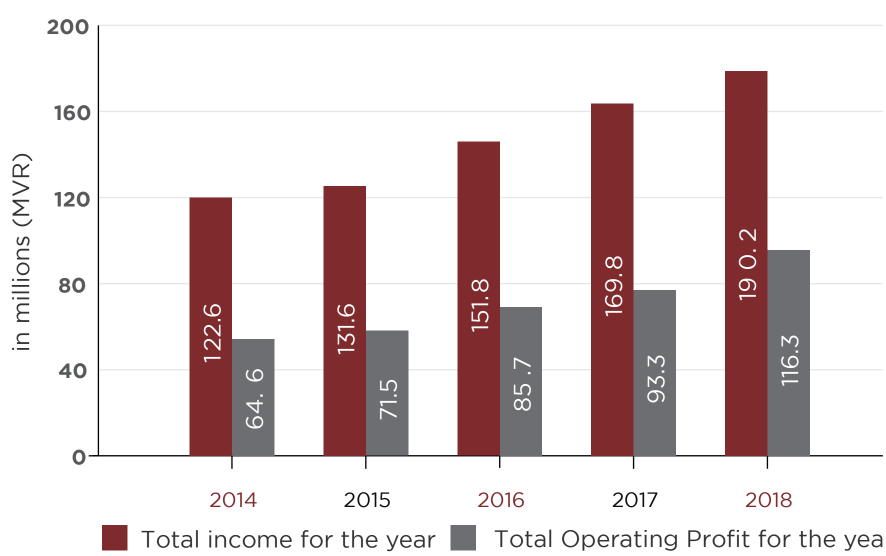
demand patterns as well as on cost of funding. In HDFC's case, we heavily depend on the housing finance market as it is the only product we offer to our customers. The Company's housing loan and facility portfolio has reached MVR 1.6 billion.

During the year, 2018 the Company approved loans and facilities amounting to MVR 363.9 million as compared to MVR 324 in the same period of the previous year, recording a growth of 12.3%. In the same year (2018), the Company disbursed loans worth MVR 315.1 million while in the previous year MVR 230.1 were disbursed. This is an increase of 37%. We believe this growth is commendable when compared with the industry credit growth on pure housing as HDFC operates in a more limited market than traditional commercial banks.

INCOME

During the year, the Company's revenue from operations was MVR 190.2 million as compared to MVR 169.8 million in 2017, recording a growth of 12%. Out of the total revenue, interest income on loans was MVR 141.4 million, income from HDFC-Amna amounted to MVR 43.7million income from short-term investments was MVR 1.1million, and MVR 5 million came as fee income.

Growth of income & profitability



EXPENSES

Total operational expenses (except provisions) during the year 2018 amounted to MVR 18.2 million as compared to MVR 15.6 million in 2017, which is an increase of 16.6%. During the year the total interest expenditure recorded was MVR 46.3 million, and Amna's investors profit share distributed was MVR 18.6 million.

DIVIDEND

In considering the overall performance of the Company, while retaining capital to assist future growth. The Board of Directors on the 29th of November 2018 recommended a dividend of MVR 25 per share with a pay-out ratio of 40 %.

TECHNOLOGY

In HDFC, IT infrastructure and software systems are closely monitored and upgraded with the changes in technology trends and business needs as well as for the improvement of operational efficiency. We have been continuously refining our approach to make the most of what the digital medium has to offer. The key focus of HDFC is to introduce a core banking solution to HDFC to achieve the strategic business objectives of the Company whilst maintaining and enhancing the existing systems to support the business operations. During the current year, a gap analysis was undertaken to identify a suitable core banking solution for the Company.

We are keen to upgrade and improve our technologies to benefit from cost advantages presented through technology applications. In this respect the Company has taken major initiatives to improve employee experience, by implementing an HR Metrix software which manage, payroll, attendance, leave, and employee profile. Such innovative solution will empower employee efficiency.

DIGITISED DOCUMENTATION

In 2018, IT department successfully implemented ENADOC (Document Archiving System) for easy access and better performance. Reducing the dependence on physical file movement, we are now digitizing all loan documents and maintaining data on two secure servers which can be simultaneously viewed by multiple departments. This improves loan decision making, and greatly shortens turnaround time.

NEW PRODUCT

HDFC continues to offer new products and adding value to its existing products. HDFC has been a pioneer in introducing new products, and it continues to do so in keeping with the changing needs in the marketplace.

HDFC Maldives is the only specialised housing finance institution in the Maldives with total assets of MVR

1.7 billion

and a housing loan portfolio of MVR

1.6 billion

as at 31 December 2018.

The new product launched by HDFC in 2018 was "Youth Product "which has the longest tenure and the lowest interest rate. It enables youth to buy their dream home at a lower interest rate. 10.5%, with a repayment period up to 30 years.

The prime focus of this product is to provide a favourable service to low- and middle-income segments which constitute approximately 40 percent of the population and falls under the category of Youth.

INTERNAL CONTROL SYSTEM

HDFC has adequate system of internal controls for business processes, covering operations, financial reporting, fraud control, compliance with applicable laws and regulations. These internal controls and systems are devised as a part of the principles of good governance and are accordingly implemented within the framework of proper check and balances. The Company ensures that this reasonably effective internal control framework operates throughout the organisation. This provides assurance regarding safeguarding the assets, reliability of financial and operational information, compliance with applicable laws, execution of the transactions as per the authorisation and compliance with the internal policies of the Company. The internal audit adopts a risk-based audit approach and conducts audits of the Company. It evaluates on a continuous basis, (quarterly) the adequacy and effectiveness of the internal control mechanism, adherence to the policies and procedures of the Company as well as regulatory and legal requirements. The internal auditor place their findings before the Audit Committee of the Board of Directors at regular intervals (end of each quarter). The Audit Committee of the Board of Directors actively reviews the adequacy and effectiveness of internal control systems and suggests improvement for strengthening the control systems according to the changing business needs from time to time.

RECOVERIES AND NON-PERFORMING LOANS

The Company's collection philosophy is keeping its NPLs as the lowest in the market. Along with rigorous implementation of collection efforts and best possible use of legal channel, of recovery, HDFC has maintained the same lowest NPLs among the leading banks in the industry. Structured early warning system, regular reviews and prompt actions have helped in minimising default and maximising collections. However, we experienced a slight increase in Non-Performing loans (NPLs) to 1.5% as at 31 December 2018, in comparison to 1.4% at the end of 2017.

IMPAIRMENT PROVISION

The impairment provision is computed in compliance with IFRS 9 for the year, and collective impairment total provision reduced by MVR 2.3 million to MVR 26.2 million as at 31 December 2018. During the year, the Company did not write off any bad loans or facilities.

BUSINESS REVIEW

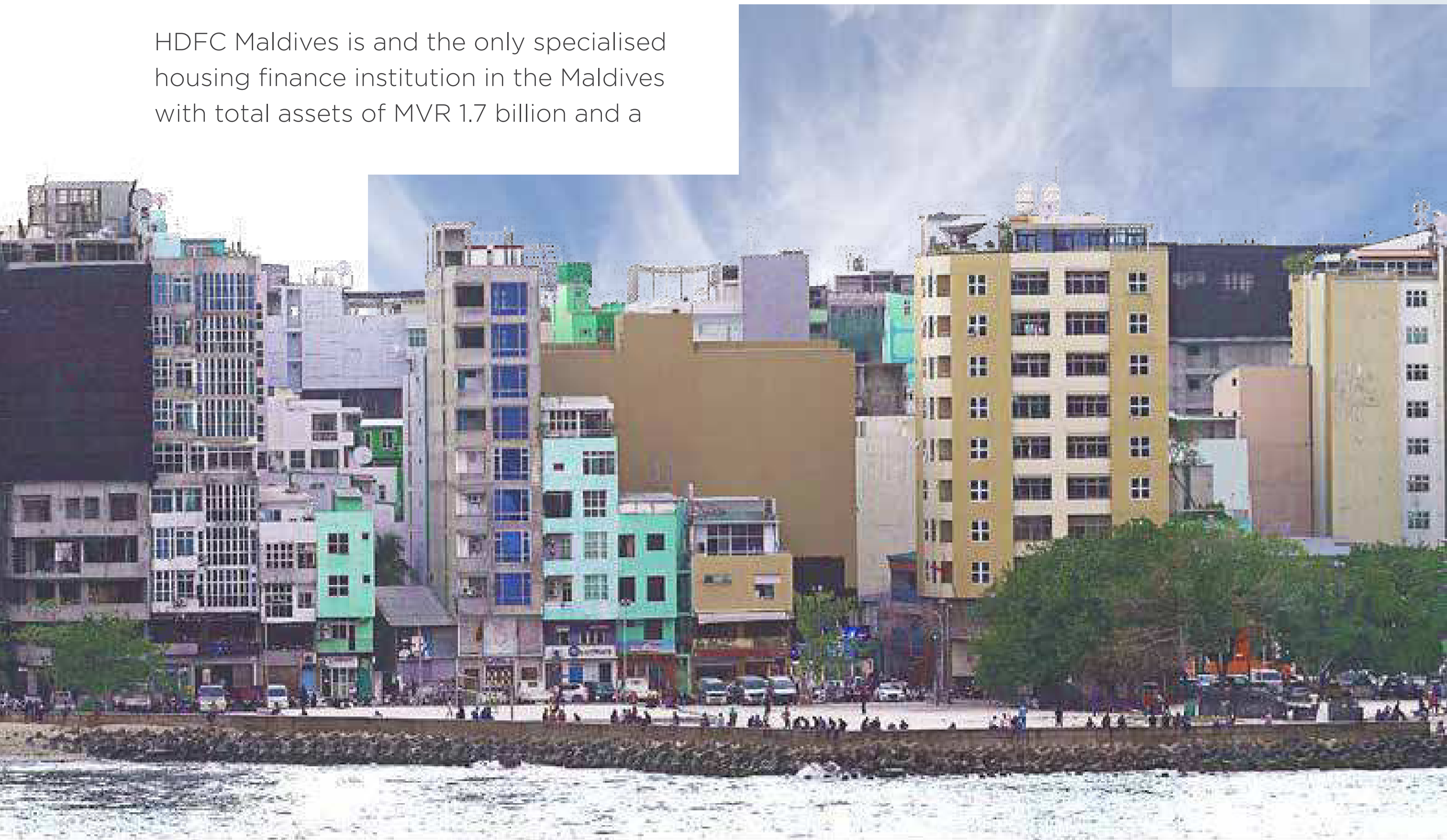
In order to be a customer driven, best managed enterprise that enjoys market leadership in providing housing related finance, HDFC provides several attractive home loan products through a competent and motivated team of employees to maintain financial stability and growth of the organization while contributing to the national goal of providing decent housing for those who are in need.

HDFC Maldives is and the only specialised housing finance institution in the Maldives with total assets of MVR 1.7 billion and a housing loan portfolio of MVR 1.6 billion as at 31 December 2018. It offers a variety of financial products, to target the client base of lower- and middle-income customers. The lending and other financial products of HDFC include individual home mortgages portfolio performance and profitability are the factors that drive the company.

HDFC generates its revenues through the following activities:

Financing activities: These involve offering various housing products including construction loans; purchase loans and renovation loans. These secured financing activities generate revenues from interest/ profit payments made by our borrowers, and loan/facility processing fees.

Investment activities: A portion of HDFC's cash holding is invested in Government Treasury Bills, and in GIA account in Maldives Islamic Bank and as at 31 December 2018 the value of such investments was MVR 30 million. Investment activity generates revenues from interest payments made upon maturity of such investments.



Fee-based activities: Such activities involve Business Referral fee for insurance policies, from insurance companies such as Amana Takaful, and Allied Insurance. In addition, HDFC also manage the collection of monthly EMI for the social housing programs as directed by the Government of Maldives. The Company recorded a total fee income of MVR 5 million for the fiscal year ended 31 December 2018, which is an increase of 39% from MVR 3.6 million for the past fiscal year 2017.

THE HOUSING FINANCE SECTOR

The housing market in the country today is primarily driven by private sector developers and the government (in the case of social housing).
There are, however, state-owned companies (SOEs) that are emerging as players in the residential real estate sector. It is predicted in the next 2-5 years 15,000 housing units will be built across the nation, concentrating more housing units in Hulhumale'.
We believe that formal housing finance can play a critical role in the government's effort to managing sustainability of urban expansion, income distribution, and empowerment. At the macro level, housing finance generates economic growth via mport duty, real estate, and economic linkages. At the individual level, it makes possible for people to have both shelter and a real asset, which might be the largest investment a family makes in a lifetime. In addition, housing finance spur expansion in financial and capital markets.

However, regulators need to formulate a clear medium-term vision and a road-map for the housing finance sector. With newer faith in our proven strategies, we are making the right moves to continue the success.

OUR STRATEGY

HDFC is focused on maximising growth opportunities within the housing industry, the strategy being driven by the following key principles:

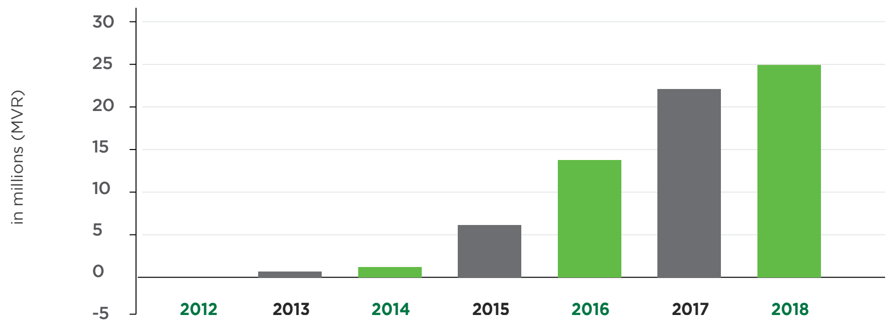
The Company will continue to grow its client base, by secured lending and tightening the credit underwriting criteria, and shall maintain its focus on low risk segments in order to maintain a high-quality loan portfolio and minimise client delinquencies and defaults.

LONG-TERM FUNDING & FINANCIAL INSTRUMENTS

HDFC, being a non-banking financial institution, it relies on short- to mid-term funding from banks, and other corporations. Being a long-term lender, it is exposed to the interest rate risk when long-term loans and facilities are met with short term funds. In short, all of our lending is long term, while borrowings are short term.
In order to facilitate long-term sources of funds, HDFC took an innovative step by issuing a 10-year listed conventional bond to the local market whereby we were able to raise more than 80 percent of the offered bond. This demonstrates the appetite of investors for longer term, and we believe this will pave the way to a gradual development of the capital market and the housing finance market. The Company shall continue to identify and seek various alternative sources of funding to maintain low cost of funds.

AMNA PROFIT

Net Income on Shariah products increased from MVR 22.5 million to MVR 25.1 million for the year 2018.



ASSET QUALITY

The Company maintained its asset quality during the year (when compared to 2017 of the same periods) despite the aggressive competition. At the end of 31 December 2018, the total net portfolio amounts to MVR 1.6 billion. The Company maintains an internal credit rating system for all facilities either past due or impaired. The facility value falling under category A+ was maintained at 100% as at 31 December 2018 and in 2017 as well.

In order to minimise the potential increase of the credit risk exposure, HDFC focuses more on securing loans to greater Male' region. All assets are covered by insurances i.e.; contractor risk insurance during the grace period and fire insurance during the repayment period for the tenure of both conventional loans and Islamic facilities.

INTERNAL CREDIT RATING

Loans neither past due nor impaired

		As at 31 December 2018		As at 31 December 2017	
Internal Ratings	Basis for grading (B/A)	Loans to customers	Percentage of total loans	Loans to customers	Percentage of total loans
		MVR		MVR	
A+	0.2%	1,467,845,678	100.00%	1,175,930,073	100.00%
A	0.2% to 0.5%	-	-	-	-
A-	0.5% to 1%	-	-	-	-
B+	1% to 1.5%	-	-	-	-
B	1.5% to 2%	-	-	-	-
C	above 2%	-	-	-	-
		1,467,845,678	100%	1,175,930,073	100.00%

APPOINTMENT OF AUDITORS

In 2018 at the AGM, PWC was appointed as the new external auditors. KPMG have been serving HDFC for the last 4 years, KPMG has been appointed as the internal auditors. During the year one statutory audit, a half yearly audit and four internal audits were conducted. Appointment of auditors for 2019 will be placed before the shareholders in the forthcoming AGM for approval.

SHARIAH COMMITTEE AND COMPLIANCE AUDIT

The Shariah Committee consists of three Islamic scholars who review the Amna products with general Shari'a principles and specific pronouncements, rulings and guidelines issued. Shariah-compliance has always been HDFC's strength and no compromise is made on Shariah principles. Shariah-compliance mechanism at HDFC operates at different levels, ranging from customer visits, specific process flows for financing customers, to formal Shariah compliance Audits. Their review includes examination of evidence relating to the documentation and procedures adopted by the Company to ensure that its activities are conducted according to Islamic Shari'a principles. The Shari'a Committee met 3 times during the year.

BOARD COMPOSITION

HDFC's Board comprise of 5 directors, who are well experienced and professionals in their own fields. The Board has one woman Nominee Director. Only Managing Director is the (executive) Director. The Board has a formal schedule of matters reserved for its consideration and decision, apart from the legally required matters. During the year, four board meetings were held.

DIRECTORS' NEW APPOINTMENTS AND REAPPOINTMENTS

At the time of inscription of this report, Ms. Renu Sud Karnad, (HDFC- Investments Ltd.) resigned with effect from 15 March 2019. In her place Mr. Conrad D'Souza is now appointed as the Director with effect from 16 March 2019. No other change has been brought to the Board of Directors of the Company. The profile of Directors of the Company has been presented in page nos. from 36 to 45 of the Annual Report.

APPOINTMENT OF CHAIRMAN

As a general practice, the Chairmanship is rotated for a period of one year. The present Chairman is Mr. Conrad D'Souza and his term will end on the day of the AGM. The Board has nominated Mr. Conrad D' Souza for another term.

CORPORATE GOVERNANCE

Corporate governance is a code that sets the principles, systems, and practices through which the Board of Directors of the Company ensures transparency, fairness and accountability in the Company's relationship with all its stakeholders, viz. regulators, shareholders, creditors, government agencies, and employees among others. HDFC has been complying with the standards of corporate governance (CG) required under the Companies Act and CMDA governance code. The Board of Directors discharge its duties under the applicable statutes. (Details of C.G is given in page 50).

HUMAN RESOURCES

HDFC is fully committed to the development of human resources – investing in people: after all it is the employees who provide us with a competitive advantage within the knowledge economy we operate in today. This priority is addressed through well-planned training programs conducted throughout the year with experts in the field. The Management has placed great faith in its human resource and recognises its role in the company's development and is constantly engaged to ensure employees are provided with continuous training and education, enabling them to service customers beyond expectations. We would continue to monitor and deliver upon training and development needs of our staff, particularly with regard to technology, as a priority area.

HDFC IN THE COMMUNITY

HDFC is not structured merely to grow and gain profit only but it is also a responsible corporate entity, through its continuous effort to promote ownership of housing, wealth creation and towards the improvement by looking out for the needs and welfare of the society. We believe in giving back to the community, through a number of programs that benefit various sections of the community. Education and human development took precedence amongst HDFC's Corporate Social Responsibility programme in 2018 and invested in healthcare, education and training. (Details of the training is given in page 62)

CLOSING OF THE ADDU CENTER

Addu Center was opened in 2012 to serve the nearby island which includes, Fuvahmulah, and Thinadhoo and Addu Atoll. The Addu Center's work was transferred to HDFC Male' office and the Center was closed on 10 December 2018.

LITIGATIONS

At the date of publication of this Report, to the best of the Company's knowledge and understanding, there are no on-going litigations by, or against HDFC, or any of its directors.

TAXES

The Company is required to pay the following taxes.

1) Business Profit Tax of 15 % to MIRA
2) Withholding Tax of 10% to MIRA

AFFIRMATIVE COVENANTS

The Company adheres to the following covenants:

- Undertake its business activities and investments in compliance with the applicable laws;
- Obtain and maintain all applicable, regulatory authorization and stay in compliance with the applicable laws;
- Maintain adequate accounting, management, and financial controls, and compliance, and risk management systems;
- Form an Audit Committee, Nomination and Remuneration Committee, Credit Risk Management Committee, and Sharia Advisory Committee which report directly to the Board of Directors;
- Conduct its business in accordance with the business plan;
- Not register any transfer of shares in contravention of the provisions of the Company's Shareholder's Agreement or its Charter;
- Not engage in activities set out in the Prohibited Investment Activities List;
- Maintain appropriate insurance with financially sound and reputable insurers for losses and/or damages that may occur with respect to its properties;
- Abide by the best practices based on the recommendations of the Board of Directors.

ANTI-MONEY LAUNDERING AND COMBATING THE FINANCE TERRORISM

The Company complies with the (Law No. 10/2014) "PREVENTION OF MONEY LAUNDERING AND FINANCING OF TERRORISM ACT", which was gazetted on 13 April 2014.

The main objectives of the Act are as follows:

1. Provide for the prohibition and prevention of money laundering and financing of terrorism;
2. Provide for procedures and policies in respect of prevention of money laundering and financing of terrorism and offences related thereto;
3. Provide and administer procedures in respect of detection of money laundering and financing of terrorism activities;
4. Provide detection of persons engaged in money laundering and financing of terrorism activities, investigation of such matters, and actions against such persons,
5. Determine the roles and responsibilities of financial institutions and reporting entities, and the regulatory and supervisory authorities of such institutions and entities, in respect of prevention of money laundering and financing of terrorism;
6. Under the Prevention of Money Laundering and Financing of Terrorism Act of Maldives (No.10/2014), HDFC has appointed Mr. Mohamed Nawaz Hassan, Assistant Manager-Credit as the AML Officer, who reports directly to MMA.

FUTURE OUTLOOK

The Maldivian economy is predicted to continue its growth momentum in 2019 by 6.8 percent. This offers wider opportunities to HDFC to grow its business, and also to contribute more in its role as one of the leading housing finance institutions. Nevertheless, the financial sector remains cautious on the downside pressure on domestic sentiment from concerns such as high domestic living costs and uncertainty in policy developments in the advanced economies from where much of the imports are carried out. Increased complexity in the finance sector results in new emerging risks which in turn, increases the need for tighter scrutiny and regulatory environment to be in place for the risks to be managed effectively. The construction sector is expected to record a stronger growth driven primarily by existing multi-year housing projects. The government is expected to continue to support the infrastructure projects, underpinned by the nation's development needs and the government's ability to support the projects.

The capital markets are still underdeveloped in the country and the regulatory environment could be strengthened, which would help to support further growth of this market. Furthermore, market data is not as robust as it should be. Pressure for housing and housing loans will continue to grow. For the mortgage market to rapidly expand beyond current effective demand

Our future strategy will be to source long term funds through borrowing and issuing financial instruments, and at the same time, we will also focus to increase our client base in both islamic and conventional products.

and address some of the existing housing finance gaps, adequate mortgage funding is needed from a diverse and increased number of commercial banks. The outlook for 2019 looks challenging, especially with the introduction of new IFRS 9 regulations, which may impact the profit of the organisation.

Technology remains a crucial dynamic in our growth strategy. Given our smaller stature in the larger landscape of the banking space and reach, we are well aware that sophisticated technology will give HDFC the competitive edge in moving forward. This will also circumvent some of the emerging challenges we observe, including lack of trained human resources which is universal to all institutions in this field. Building technology that enables people to have access via the Internet and mobile phones for example, will in turn reduce human intervention enable products and services accessible anytime, anywhere.

Our future strategy therefore will be to source long term funds through borrowing and issuing financial instruments, and at the same time, we will also focus to increase our client base in both islamic and conventional products.

FINANCIAL REPORTING

The Company furnishes the following information to its Shareholders;

- Annual Audited Financial Statements within 120 days after the end of each financial year, which is prepared in accordance with the International Financial Reporting Standards (IFRS);
- Quarterly financial statements: within 45 days after the end of each quarter,
- Under the RIGHT TO INFORMATION ACT OF MALDIVES (No:01/2014), the Company must present its independent annual review within 31 days after the year end to the Information Commissioner's Office. Mr. Faisal Haleem, Manager, Compliance is appointed as the Information Officer.

EFFECTIVE NEW STANDARDS

The following new standards and amendments are effective for the year ended 31 December 2018, have been applied while preparing these consolidated financial statements:

IFRS 9: Financial Instruments - Hedge Accounting (Amendments to IFRS 9, IFRS 7 and IAS 39)

introduces new requirements for Hedge Accounting that align hedge accounting more closely with risk management. The requirements also establish a more principles-based approach to hedge accounting and address inconsistencies and weakness in the hedge accounting model in IAS 39.

IFRS 9: Financial Instruments - Impairment

introduces new requirements for impairment. IFRS 9 Financial Instruments, bringing together the classification and measurement, impairment and hedge accounting to replace IAS 39 Financial Instruments: Recognition and measurement and all previous versions of IFRS 9. The new standard addresses the key concern that arose as a result of the financial crisis that the incurred loss model in IAS 39 which contributed to the delayed recognition of credit losses, by issuing the new impairment requirements that are based on a more forward-looking expected credit loss model. The reporting requirements of IFRS 9 relating to impairment was 1 January 2018.

NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BUT NOT YET ADOPTED

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods.

IFRS 16 Leases

The IASB has published IFRS 16 – the new leases standard. It came into effect on 1 January 2019. The new Standard eliminates a lessee's classification of leases as either operating leases or finance leases. Instead, almost all leases are 'capitalised' by recognising a lease liability and right-of-use asset on the balance sheet. There is a little change for lessors. The right to use the leased item and a financial liability to pay rentals are recognised. The only exceptions are short-term and low value leases. HDFC has taken a store room space on the ground floor of the office building, in Male'. HDFC is in the process of evaluating the impact, and it's not expected to have a material impact.

DIRECTORS' RESPONSIBILITY STATEMENT

The Board of Directors hereby state that:

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

DECLARATION OF INTEREST

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

AWARDS AND RECOGNITION

Over the years HDFC has been recognised for its services given to the public by many different institutions and in 2018 too, it was presented with the best Award for Excellence in Finance from Blazon Inc. In February 2019, we also received the GOLD 100 award presented by Corporate Maldives.

APPRECIATION

On behalf of HDFC, I would like to extend my highest gratitude to our customers, the Ministry of Finance, Maldives Monetary Authority, and regulatory bodies and our business partners for their continued support and guidance. On behalf of the Management team, I would also like to express my sincere appreciation to the Board of Directors and Shariah Committee for all the guidance and invaluable advice provided. Most importantly, I am grateful for the commitment demonstrated by the Management and staff of HDFC. I look forward to continue working with all of you as we undertake this exciting journey oftransformation and improvement for HDFC in the coming years.

Mohamed Mauroof Jameel
Board Director, Government of Maldives

BOARD OF DIRECTORS

Mr. Conrad D'Souza*	Chairman/Alternate Director, HDFC Investments Ltd. India * (resigned as Alt. Director on the 15 of March 2018 and was appointed as the Nominee Director on the 15 March 2018)
Mr. Mohamed Mauroof Jameel	Nominee Director, GOM
Mr. Nihal Senanayake Welikala	Nominee Director, IFC
Mr. Gaurav Agarwal	Nominee Director, ADB
Ms. Renu Sud Karnad*	Nominee Director, HDFC Investments Ltd. India (Resigned on 15 March 2019)
Ms. Aminath Sheena Musthafa *	Nominee Director, GOM (Appointed on 11 April 2018)
Ms. Raheema Saleem	Managing Director
Mr. Hamid Sodique	Alternate Director, GOM
Mr. Mohamed Zuhair *	Alternate Director, GOM (Appointed on 11 April 2018)
Mr. Asif Saeed Cheema	Alternate Director, ADB
Mr. Adam Athif	Company Secretary

AUDIT COMMITTEE

Mr. Conrad D' Souza	Chairman
Mr. Mohamed Mauroof Jameel	Member
Mr. Nihal Senanayake Welikala	Member

CREDIT RISK MANAGEMENT COMMITTEE

Mr. Nihal Senanayake Welikala	Chairman
Mr. Mohamed Mauroof Jameel	Member
Mr. Gaurav Agarwal	Member

NOMINATION & REMUNERATION COMMITTEE

Mr. Mohamed Mauroof Jameel	Chairman
Mr. Gaurav Agarwal	Member
Mr. Conrad D'Souza	Member

SHARIAH COMMITTEE

Dr. Ibrahim Zakariyya Moosa	Chairman
Assoc. Professor Dr. Rusni Hassan	Member
Dr. Aishath Muneeza*	Member (Term ended on 7 April 2019)
Mr. Mohamed Ibrahim*	Member (Appointed on 8 April 2019)
Uz. Azmeen Rasheed	Secretary

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BOARD OF DIRECTORS' PROFILE

Mr. Mohamed Mauroof Jameel

Independent, Non - Executive Director
Government of Maldives

Mr. Mohamed Mauroof Jameel was appointed as an Independent, Non - Executive Director by the Government of Maldives on 22 September 2016.

Qualification and Experience

He has more than 30 years of experience in architecture and construction. He is an architect and specialist. He holds MSc in Architecture from University of Malaya, Malaysia, and a Post Graduate Diploma from the University of Sheffield, UK. In addition, he also holds Ba (Hons.) in Architecture, Manchester Metropolitan University, UK. Mr. Mauroof Jameel is also a fellow of the Chartered Architect of the Royal Institute of British Architectural (RIBA), UK since 2004. He also served as a cabinet Minister at the Ministry of Construction and Public Infrastructure and was the Chairman and CEO of Hulhumale Development Corporation.

Other Appointments

- Part-time lecturer at Maldives National University

Board Committees

- N&R Committee (Chairman)
- Audit Committee (Member)
- Credit Risk Management Committee (Member)

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

Ms. Aminath Sheena Musthafa

Independent, Non - Executive Director
Government of Maldives

Ms. Aminath Sheena Musthafa was appointed as an Independent, Non - Executive Director by the Government of Maldives on 11 April 2018.

Qualification and Experience

She has more than 18 years of experience working in the Government of Maldives. She holds a Master of Business Administration from Anglia Polytechnic University, Anglia Business School, Cambridge, UK. In addition, she also holds a Bachelor of Arts Degree (Management Single Honours) from Trinity and All Saints University College, University of Leeds, UK. She has also served as the Chairperson of the Management Audit Committee (Joint Project of the President's Office and Civil Service Commission), as a member in the Maldives Scholarship Board and as a member of the Civil Service Innovation Award Committee. She is currently Head of the Human Resource and Performance Management Section at The President's Office as Director General.

Other Appointments

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

Board Committees:

None

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

Mr. Conrad D'Souza

Independent, Non - Executive Director
HDFC Investments Limited (India)

Mr. D'Souza was appointed as an Independent, Non - Executive Director on 15 March 2019. Previously he was the Alternate Director for HDFC Investments Ltd. India from 9 September 2009 till 14 March 2019.

Qualification and Experience

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

He has been a consultant to multilateral agencies and has undertaken assignments in Asia, Africa, and Eastern Europe.

Other Appointments

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

Board Committees

- Audit Committee (Chairman)
- Nomination and Remuneration Committee (Member)

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

Mr. Nihal Senanayake Welikala

Independent, Non - Executive Director
International Finance Corporation (IFC)

Mr. Welikala was appointed as an Independent, Non - Executive Director by the International Finance Corporation on 02 November 2016.

Qualification and experience

Mr. Nihal has been with the NDB Group for more than 9 years including more than 6 years as CEO and prior to this post he was employed at Citibank in Colombo from 1981 to 1999 which included 11 years as CEO where he was the first Sri Lankan to hold this post. In addition, Mr. Nihal also has worked at Ernst & Young, London Office for more than 7 years in the audit and tax department. He is trained as a Chartered Accountant with Ernst & Young in London. He holds a Bachelor of Law degree from the University of Sri Lanka and is also a Fellow member of the Institute of Chartered Accountants in England and the Institute of Chartered Accountants of Sri Lanka.
In addition, Mr. Nihal also served as NDB's Nominee-Director at MFLC, Maldives.

Other Appointments

- Non executive director of subsidiary companies of National Development Bank.
- Global treasurer, International Union for the Conservation of Nature.
- Independent consultant in the financial sector.

Board Committees:

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

He does not hold any shares in any company in the Maldives.

Mr. Gaurav Agarwal

Independent, Non - Executive Director
Asian Development Bank (ADB)

Mr. Gaurav was appointed as an Independent, Non - Executive Director by the Asian Development Bank on 14 February 2017.

Qualification and Experience

Mr. Agarwal has more than 24 years of working experience which includes more than 10 years of experience as a chief finance officer (CFO) in mortgage finance and banking industry. He has contributed to build first Islamic mortgage company in Dubai, UAE and adept in risk management, product management and treasury. Currently he manages a management consultancy firm and based in Dubai. Gaurav is GEMBA from INSEAD, France, and qualified MBA, ICWAI and ICFAI-Hyderabad, India.

Other Appointments

- CFO Emirates Investment Bank Pjsc, Dubai.

Board Committees

- Credit Risk Management Committee (member)
- Nomination and Remuneration Committee (member)

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

Ms. Raheema Saleem

Non - Independent, Executive Director
HDFC PLC - MALDIVES

Ms. Raheema was appointed as the Managing Director on 28 February 2017.

Qualification and Experience

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

Other Appointments

None

Board Committees

None

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

Mr. Hamid Sodique

Independent, Non - Executive Director
Government of Maldives

Mr. Sodique was appointed as an Independent, Non - Executive Director by the Government of Maldives on 10 April 2011.

Qualification and Experience

Mr. Sodique has over 15years of experience in management consulting, socio-economic research and strategic advisory services. He is presently the Chief Executive Officer of FJS Consulting Pvt. Ltd., a leading management consulting firm in the Maldives, and is a visiting lecturer of Corporate Strategy at the Maldives National University. He has previously served on the Board of the Maldives Pension Administration Office and chaired its Investment Committee, and served as the Secretary-General of Maldives National Commission for UNESCO. Mr. Sodique started his Professional career in the Maldives Monetary Authority and since then has worked at senior positions of a number of public and private sector organizations, and has executed numerous research and consulting projects for prominent local and international clients including government ministries and multilateral organizations. Mr. Sodique holds a master's degree in business administration from the University of Adelaide, Australia in addition to a bachelor's degree in Business Administration from the University of Brunei Darussalam.

Other Appointments

- Chief Executive Officer, FJS Consulting Pvt. Ltd.

Board Committees

None

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

Mr. Mohamed Zuhair

Independent, Non - Executive Director
Government of Maldives

Mr. Mohamed Zuhair was appointed as an Independent, Non - Executive Director by the Government of Maldives on 11 April 2018.

Qualification and Experience

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

Other Appointments

- Chairman of Kadhdhoo Airport Company

Board Committees

None

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

Mr. Asif Saeed Cheema

Independent, Non - Executive Director
Asian Development Bank (ADB)

Mr. Cheema was appointed as an Independent, Non - Executive Director by the Asian Development Bank on the 1st April 2015.

Qualification and Experience

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

Other Appointments

- Financial Institutions Investment Specialist (ADB)

Board Committees

None

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

Ms. Renu Sud Karnad

Independent, Non - Executive Director
HDFC Investments Limited (India).

Ms. Renu Sud Karnad was appointed as an Independent, Non - Executive Director by HDFC Investments Ltd. India, on 9 September 2008 - 14 March 2019. She resigned on the 15 March 2019.

Qualification and Experience

Ms. Karnad has more than 38 years of experience in Housing Mortgage Finance. She joined HDFC India in 1978. Having spent 20 years in various post of the Company, Ms. Karnad was appointed to the Board as Executive Director in 2000 and was re-designated as Managing Director from 1st January 2010. Ms. Karnad also holds Pravin Fellowship from the Woodrow Wilson School of International Affairs, Princeton, NJ. Ms. Karnad is a Law Graduate and also holds a Masters degree in Economics from Delhi University. Over the years, Ms. Karnad has received numerous awards and accolades.

Other Appointments

Managing Director at Housing Development Finance Corp. Ltd, Mrs. Karnad is a member on the following Committees of the Board of the Bank:
Stakeholders' Relationship Committee
Corporate Social Responsibility Committee (Chairperson)
Risk Policy and Monitoring Committee (Chairperson)
Premises Committee (Chairperson)

Board Committees

None

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

PROFILE OF THE MANAGEMENT TEAM

Raheema Saleem
Managing Director

- Appointed as MD in February 2017
- Joined HDFC in 2004
- Key positions held in HDFC includes, Founding Managing Director, Advisor, Director of Operations
- Worked at the Ministry of Finance and Treasury for over 15 years
- Over 15 years of experience in Housing Finance
- Master's in management from Monash University, Melbourne, Masters in Tourism from Monash University, Melbourne, Australia, B. Com Accounting and Marketing (Double Major) from Curtin University of Western Australia

Mohamed Fathy
Assistant General Manager (IT)

- Appointed as AGM- IT in 2017
- Joined HDFC in 2004.
- Key positions held in HDFC include, Head of Internal Audit, Manager- IT and Senior Manager IT.
- M.Sc. in IT Management from Asia Pacific University of Malaysia and B.Com. from Bangalore University of India

Aishath Rasheeda
Assistant General Manager (Credit)

- Appointed as AGM- Credit in 2017
- Joined HDFC in 2004
- Worked in Maldives Monetary Authority for more than 15 years
- Key positions held in HDFC include Credit Officer, Manager Credit and Senior Manager Credit.
- Over 15 years of experience in mortgage finance
- Master of Business Administration from Cardiff Metropolitan University, UK through International College of Business Technology (ICBT) Sri Lanka

Adam Athif
Assistant General Manager (Administration) & Company Secretary

- Appointed as Senior Manager in 2014
- Joined HDFC in 2004
- Worked in the government and private sector since 1990-2004.
- Key positions held at HDFC include Senior Manager Administration and Human Resource Development, Manager Administration and Human Resource Development and Manager Administration.
- Diploma in Business Administration (ABE)

Mohamed Shafeeq

Assistant General Manager (Finance)

- Appointed as AGM (Finance) in 2017
- Joined HDFC in 2009
- Key positions held in HDFC include, Head of Finance, Senior Manager Business Development and Operations, Manager Business Development and CRM and Accountant.
- Worked at Society of Health Education (SHE) as Finance Director from 1997-2009.
- Fellow member of the Association of Chartered Certified Accountants (ACCA).
- Master of Business Administration from the University of Ballarat, through Unity College, Malaysia, BA (Hons) Accounting and Finance by University of East London, UK obtained through HELP University College, Malaysia.

Azmeen Rasheed

Manager (Islamic Finance)

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

Faisal Haleem

Manager - (Compliance and Quality Assurance)

- Appointed as Manager in 2017 (Compliance & Quality & Assurance)
- Joined HDFC in 2009
- Worked in the Ministry of Education
- Key positions held at HDFC including Assistant Manager-credit, Assistant Manager Credit Audit.
- Affiliate member of the Association of Chartered Certified Accountants (ACCA).
- BA (Hons) Accounting and Finance from the University of East London, UK through HELP University College, Malaysia.

Ahmed Jawad

Manager (IT)

- Appointed in 2016 as Manager IT
- Joined HDFC in 2016
- Worked in MIFCO from 2003-2016
- Over 14 years of experience in Information Technology, especially in Enterprise Resource Planning Environments and Data Management.
- M.Sc. in IT Management from Staffordshire University, UK, through Asia Pacific University of Malaysia and a BA in Business Information Technology from Coventry University, UK through INTI International University of Malaysia.

THE SHAREHOLDING STRUCTURE

HDFC's major shareholders are;

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

Face Value of a share is MVR 100.00

Name	Number of shares held	Value of shares held	Percentage
Government of Maldives	780,928.00	78,092,800.00	49%
International Finance Corporation	286,875.00	28,687,500.00	18%
Asian Development Bank	286,875.00	28,687,500.00	18%
HDFC Investment Ltd, India	239,062.00	23,906,200.00	15%
Mr. Ibrahim Naeem	1.00	100.00	
Ms. Raheema Saleem	1.00	100.00	
Mr. Hamid Yoosuf	1.00	100.00	
Mr. Mohamed Shahudy	1.00	100.00	
Mr. Mohamed Fathy	1.00	100.00	
Ms. Aishath Rasheeda	1.00	100.00	
Mr. Mohamed Hamdan Fahumy	1.00	100.00	
Mr. Ahmed Anwar	1.00	100.00	
Mr. Nahid Idrees	1.00	100.00	
Reserved 1 share (Expat MD if any)	1.00	100.00	
Total	**1,593,750.00**	**159,375,000.00**	

Face value of share is MVR 100

CORPORATE GOVERNANCE PHILOSOPHY

Corporate governance is about maximizing shareholder value legally, ethically and on a sustainable basis. At HDFC, the goal of corporate governance is to ensure fairness for every stakeholder – our customers, shareholders, investors, the community, and the government. We believe that sound corporate governance is critical in enhancing and retaining investor trust. It reflects our culture, our policies, our relationship with stakeholders and our commitment to values. Accordingly, we always seek to ensure that our performance is driven by integrity.

The Corporate Governance policy in the Company encompasses the simple doctrines of integrity, transparency and fairness in whatever the company does and what it basically aims at achieving is a complete adherence to the applicable statutes while at the same time ensuring a complete commitment to values and the highest ethical standards in every facet of its operations and in each of the functional areas. This in turn ensures that best in the class concept of Corporate Governance practices become a way of life in the Company.

Our Board exercises its fiduciary responsibilities in the widest sense of the term. Our disclosures seek to attain the best practices in international corporate governance. We also endeavour to enhance long-term shareholder value and respect minority rights in all our business decisions.

In line with the nature and size of operations of the Company, the Corporate Governance framework in HDFC Maldives is based on the following key principles:

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

The Company has been complying with the standards of corporate governance required under the Companies Act 10/96, MMA, CMDA and MSE. The Board discharges the duties and responsibilities as required under applicable laws.

and experience and proven track records in housing finance, business administration and other diverse fields including banking and finance. The Board comprises of the following directors. During the year, four (4) board meetings were held.

BOARD COMPOSITION

The Board of Directors comprise of 5 nominee directors, two alternate directors and one executive director, who is the Managing Director without a voting right. Except for the Government of Maldives (GOM) all shareholders have one nominee director. The GOM has two nominee directors. There are two women on the board. The Board members possess skills

RESPONSIBILITIES OF THE BOARD

The HDFC Board is accountable to the shareholders for overseeing the management and performance of the Company and is responsible for the Company's overall strategy and governance. The Board has delegated the responsibility for day-to-day management of the Company to the Managing Director.

BOARD MEETINGS AND ATTENDANCE

Name	Capacity	Board Meeting 1.	Board Meeting 2.	Board Meeting 3.	Board Meeting 4.	No. of Meetings held during the tenure
Mr. Conrad D'Souza-* Chairman	Alternate Director HDFC-Investments India					4/4
Mr. Mohamed Mauroof Jameel	Director-GOM					4/4
Ms. Renu Sud Karnad*	Director, HDFC Investments	–	–	–	–	0/4
Ms. Aminath Sheena Musthafa*	Director-GOM	–				3/3
Mr. Nihal Senanayake Welikala	Director- IFC					4/4
Mr. Gaurav Agarwal	Director-ADB					4/4
Ms. Raheema Saleem	Managing Director					4/4
Mr. Adam Athif	Company Secretary					4/4

NOTE: Ms. Renu Sud Karnad* (Resigned on 15 March 2019)
Nominee Director - HDFC Investments Ltd.
Mr. Conrad D' Souza (Appointed as nominee director on 15 March 2019)
Nominee Director - HDFC Investments Ltd.
Ms. Aminath Sheena Mustafa* 3/3 (Joined on 11 April 2018)
Nominee Director, GOM
Mr. Mohamed Zuhair* (Joined on 11 April 2018)
Alternate Director, GOM

CHAIRMAN OF THE BOARD

Mr. Conrad D'Souza is the Chairman effective from 31 May 2018. The Chairman of the Board of Directors is appointed for one year in rotation and shall preside at all meetings of the Board or any Committees where he is a member and at all General Meetings. The Chairman has no casting or second vote at any meeting of the Board or any committee in the event of an equality of votes. As Chairman, he is responsible for fostering and promoting the integrity of the Board while nurturing a culture where the Board works harmoniously for the long-term benefit of the Company and all its stakeholders and oversee the management of the Boards administrative activities, such as meetings, schedules, agenda.

BOARD COMMITTEES

The Board consists of various committees; Audit Committee, Nomination and Remuneration Committee, and Credit Risk Management Committee. In addition, a Shariah Committee is formulated to advise the Board on Sharia issues.

THE AUDIT COMMITTEE

The Audit Committee was established in accordance with the Articles of Association 123 of HDFC Plc., and Article II Corporate Governance Section (b) of the Shareholders Agreement executed between the Shareholders on 23 July 2008, consisting of 3 non-executive directors from amongst the Board Directors.

AUDIT COMMITTEE MEMBERS AND THEIR ATTENDANCE

Name	Capacity	Audit Committee 1.	Audit Committee 2.	Audit Committee 3.	No. of Meetings held during the tenure
Mr. Conrad D'Souza-* Chairman	Alternate Director HDFC-Investments India				3/3
Mr. Mohamed Mauroof Jameel	Member				3/3
Ms. Nihal Senanayake Welikala	Member		–		2/3
Mr. Adam Athif	Company Secretary				3/3

OBJECTIVES OF THE AUDIT COMMITTEE

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

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

The Audit Committee deliberated on the followings:

- Reviewed the Audited Financials for the year ended 2017
- Reviewed the budget for 2018 and approved for authorisation from the Board
- Reviewed the proposals sent by the external auditors for 2018 (PWC)
- Reviewed the proposals sent by the internal auditors for 2018 (KPMG)
- Reviewed CMDA quarterly reports through circulation
- Approval of Ramzan allowance
- Presentation of AML reports
- Endorsements of the changes made to the manuals
- Presentation of loan book against title deeds
- Review of directors' approval on credit limit for borrowers
- Approval for closing of Addu Center and the transfer of Addu Center's operations to HDFC Male' Office
- Approval of 2019 budget and 2019 Business Plan
- Approval of Dividend
- Approval of Whistle Blowing Policy, Dividend Policy and Corporate Governance Policy

NOMINATION AND REMUNERATION COMMITTEE

The Nomination and Remuneration Committee was established in accordance with the Article of Association 123 and Article II of the Corporate Governance Section (b) of the Shareholders Agreement executed between the Shareholders on 23 July 2008, consisting of 3 non-executive directors. During the year 3 meetings were held. Details of the meetings are as follows.

Due to the fact that there are limited no. of directors, the Board have decided to combine the Nomination and Remuneration Committee since both the committees will constitute of the same members.

NOMINATION AND REMUNERATION COMMITTEE MEMBERS AND THEIR ATTENDANCE

Name	Capacity	NR Committee 1.	NR Committee 2.	NR Committee 3.	No. of Meetings held during the tenure
Mr. Mohamed Mauroof Jameel	Chairman				3/3
Mr. Conrad D'Souza	Member				3/3
Mr. Gaurav Agarwal	Member				3/3
Mr. Adam Athif	Company Secretary				3/3

OBJECTIVES OF THE NOMINATION AND REMUNERATION COMMITTEE

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

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

- Set and recommend new staff benefit schemes to the Board.
- Identify and shortlist suitable candidates to be recruited to the senior level positions.

Summary of the key activities the N & R Committee undertook during the year 2018 are as follows:

- Approval of the renewal of MD's Contract
- Approval of the bonus for 2018 and Ramadan Allowance for 2019
- Endorsement of the newly appointed nominee directors and alternate director

CREDIT RISK MANAGEMENT COMMITTEE

The Credit Risk Management Committee was established in accordance with the Articles of Association 123 of HDFC and Article II of Corporate Governance Section (b) of the Shareholders Agreement executed between the Shareholders on July 23, 2008. The Credit Risk Management Committee comprises of the following members. Only one credit committee was held where all members were present.

CREDIT RISK COMMITTEE MEMBERS AND THEIR ATTENDANCE

Name	Capacity	Credit Risk Management Committee 1.	No. of Meetings held during the tenure
Mr. Nihal Senanayake Welikala	Chairman		1/1
Mr. Mohamed Mauroof Jameel	Member		1/1
Mr. Gaurav Agarwal	Member		1/1
Mr. Adam Athif	Company Secretary		1/1

OBJECTIVES OF THE COMMITTEE

- To approve proposed changes in Lending Prudential guidelines and major credit policies
- To approve discretion and onward delegation guidelines of the next level of management
- To consider and determine proposals exceeding management's approval limits
- To receive and review reports on credit quality, risk management policies and procedures
- To consider and approve general provisioning policies and specific provisions
- Carry out such other duties that may be delegated to the committee by the Board from time to time

NOTE: All matters relating to credit approvals were circulated to the committee members. Ten conventional credit files were circulated to the board for approval and 12 Islamic Credit files were circulated to the board for their approval.

SHARIAH COMMITTEE

HDFC's Amna wing is managed to ensure proper shariah governance mechanism both within the department and among its shareholders. a shariah committee consisting of three members has been established to advise the board of directors of the company on shariah related matters and issues. During the year 3 meetings were held.

SHARIAH COMMITTEE MEMBERS AND THEIR ATTENDANCE

Name	Capacity	26 Feb 2018	29 Apr 2018	3 May 2018	24 & 25 Oct 2018	4 Dec 2018
Dr Zakariyya Moosa	Chairperson	👤	–	–	👤	👤
Pro. Rusni Binti Hassan	Member	📞	👤	–	📞	–
Dr. Aishath Muneeza	Member	👤	👤	👤	👤	👤
Uz. Azmeen Rasheed	Secretary	👤	👤	👤	–	👤

ANNUAL GENERAL MEETING

The Annual General Meeting (AGM) was held on 31 May at 2018 at Hulhule Island Hotel. The AGM of the shareholders requires a quorum comprising of shareholders holding a majority of shares in the Company.

Attendees at the AGM

1. Mr. Conrad D'Souza –Alternate Director for HDFC Investments Ltd.
2. Mr. Gaurav Agarwal- Director for Asian Development Bank (ADB)
3. Mr. Nihal Senanayake Welikala – Director for International Finance Corporation (IFC)
4. Mr. Mohamed Mauroof Jameel – Director for Government of Maldives
5. Ms. Aminath Sheena Musthafa – Director for Government of Maldives
6. Ms. Raheema Saleem – Managing Director /Shareholder
7. Government of Maldives/MOFT -Proxy by Mr. Mohamed Nizar
8. HDFC Investments Limited -Proxy held by Mr. Conrad D'Souza
9. IFC -Proxy held Mr. Conrad D'Souza
10. Ms. Chandrasekaran Mudale Manohari S. Gunawardena – Holding Proxy for Shareholder ADB
11. Ms. Aishath Rasheeda – Shareholder
12. Mr. Mohamed Fathy - Shareholder
13. Mr. Mohamed Hamdhan Fahumy- Shareholder
14. Mr. Adam Athif–Company Secretary

Shareholders absent at the AGM

1. Mr. Ibrahim Naeem
2. Mr. Mohamed Shahudy
3. Mr. Hamid Yusuf
4. Mr. Ahmed Anwar
5. Mr. Nahid Idris

SUMMARY OF THE MAJOR DECISIONS TAKEN AT THE AGM

- Declaration of the final dividend for the year 2017
- Approval and adoption of the Annual Report for the year ended 31 December 2017
- Announcement of the directors retiring
- Appointment of the directors in place of those retiring
- Appointment and fixing of the external and internal auditors for the year 2018
- Appointment of the chairman

HUMAN RESOURCES DEVELOPMENT

Our employees, our forte

With the Company's business continuing to grow at a stable pace, the Human Resource function plays a crucial role in staffing and training the employees to sustain this growth. Digitization of the HR functions has enabled creation of an environment that fosters learning. We realise the importance of continuous learning and regular trainings are held covering business processes and procedures, customer service standards, underwriting process, collection, credit disbursals, and treasury functions. We consider our employees as our most valuable assets and endeavour to help them realize their full potential. At HDFC, integrity and transparency are key values. These values are an integral part of the manner in which the employees conduct themselves.

We believe that our best investment is in human resources, as the Company trusts that human resource is the strength on which the company's performance and productivity are standing on. As human resources are one of the key success factors of the company, HDFC maintains its policy of recruiting the most suitable and implementing continuous programs to develop, motivate and retain its talented and capable human resources. HDFC team comprised of 36 employees, where males are 20 females 16

HR PLANNING

HDFC focus on hiring the right person for the right position and also concentrate on the proper development and motivation of the personnel. HR Department, in consultation with other departments, forecasts the future manpower requirements. Then we meet such requirements through recruitment, talent development and succession planning. The objective of HDFC is to recruit dynamic people who are best suited for the particular job.

We believe that our best investment is in human resources, as the Company trusts that human resource is the strength on which the company's performance and productivity are standing on

TRAINING AND DEVELOPMENT

In line to keep up with the pace of ever-changing business world with regard to altering business processes, embracing technological changes and meet up new compliance and regulatory requirements HDFC undertakes training and development plan for its employees and arranges in-house functional training sessions as well as sends them over for attending public training programs. During the year, a total of 21 training programs were conducted with one 15 months full time study program training was offered.

Number of in-house training	7
Local training	14
Overseas training	3

PERFORMANCE APPRAISAL AND REWARD

All employees of the Company undergo a formal performance appraisal each year. The performance appraisal helps to emphasize on the career growth of our employees and also helps to identify the training needs. This process ensures that the efforts and contributions of each employee are properly recognized and rewarded., The Human Resources department organizes skills development training. It carries out the performance evaluation program in each year. HR department is responsible for ensuring compliance with the service rules and regulations. Beside the mandatory requirements directed by the law, the following benefits are applicable to all permanent employees.

- Annual incentive bonus based on performance
- Reward and recognition for employees' hard work and dedication to the Company
- Contribution by the Company to the pension fund
- Staff loans including housing loans, personal loans are provided at a subsidised rate
- Comprehensive medical scheme
- Professional Financial support by reimbursing membership fees of professional bodies
- Support for professional education
- Special travel allowance for those who live in Villingili and Hulhumale'

HEALTH, SAFETY AND EMPLOYEE WELL-BEING

Healthy employees are productive and sustainably engaged in their workplace. We always comply with internal workplace health and safety policies. At HDFC we are well equipped with fire extinguishers and basic first aid kit etc. In addition, we are coordinating with the Ministry of Defence and National Security and Red Crescent to carry out periodic fire drills to test the effectiveness of the fire safety system.

We have health insurance and hospitalization insurance coverage for all the employees. All our employees enjoy earned annual leave of 30 days and 30 days of sick/casual leave. In addition, employees are eligible to option to encash 10 days out of their annual leave, where majority of the staff choose this option.

GRIEVANCE

At HDFC our employees are encouraged to come forward and inform about anything to the management, which are not aligned with the Core values of the Company. It is the policy of the company to handle employee complaints promptly and fairly. The management always entertains any kind of complaint or a state of dissatisfaction. The management has set principles and procedures for handling any kind of complaints of the employees. Complaints are handled strictly, and actions are taken based on the merits of the issues. The Company also have formed a Grievance Committee comprising of 2 local board directors.

WHISTLE BLOWER POLICY

We are committed to adhere to the highest standards of ethical, moral and legal conduct of its business operations. To maintain these standards, the Company has implemented the Whistle Blower Policy (''the Policy''), to provide an avenue for employees to report matters without the risk of subsequent victimization, discrimination or disadvantage. The Policy applies to all employees working for the Company. Pursuant to the Policy, the whistle blowers can raise concerns relating to matters such as breach of Company's Code of Conduct, fraud, bribery, corruption, employee misconduct, illegality, misappropriation of Company's funds/ assets etc. A whistle-blowing or reporting mechanism, as set out in the Policy, invites all employees to act responsibly to uphold the reputation of the Company. The Policy aims to ensure that serious concerns are properly raised and addressed and are recognized as an enabling factor in administering good governance practices. This policy has been now adopted by the Board of Directors.

CORPORATE SOCIAL RESPONSIBILITY

HDFC aims to positively influence the communities we work in. We are aware of our corporate social responsibility (CSR) towards enhancing the quality of life. Thus, we undertake comprehensive interventions through various initiatives in the realm of education, skill development of children and youth, and contribute to the nation's development process and implementation.

We would say that it would be fair to consider our whole business as a part of CSR as housing plays such a vital role in moulding the life-style of the community, particularly through the provision of housing finance for the low-income category who have less access to financial institutions.

- HDFC considers CSR as a part and parcel of the organization process, and therefore, strives to develop a sustainable existence for all stakeholder categories of the society through CSR initiatives.
- The CSR initiatives of HDFC goes beyond the natural obligation which cover under activities of ordinary course of business and aspire to attain the ultimate objective of CSR by being sensitive to societal needs.
- With proven expertise and professionalism in banking and finance, the Company mainly focus its CSR efforts towards economic development and growth of the individual and society at large.
- CSR initiatives of the Company will not in any way use for image building activities or to secure business for the Company and therefore, any form of advertising will not be encouraged.

As a responsible corporate citizen HDFC-Maldives Inclusive Business Model is based on responsible financial inclusion strategy incorporating emerging best practices such complete transparency of pricing, terms and conditions of all financial products and product differentiation to benefit customers who are from low-to-middle income segments of society.

Product design for inclusion began by defining market segments, maintaining a middle to low income orientation and augmenting such methods as Flexible Installment Plans (FLIP), Step-Up Repayment Facility (SURF), and savings related loan products for the

We take great care in all phases of our credit process to determine that clients have the capacity to repay without becoming over-indebted.

self-employed and prudential norms on fixed obligations to income ratio (FOIR) to eliminate over indebtedness.

The monitoring of compliance and implementation of key policy is carried out at all operational levels, including front office reception staff, loan appraisal by credit officers, loan approvals by credit committee, accounts, internal audit and human resources. The financial inclusion business plan, with environment and housing quality standards including low cost houses has been executed with special MIS support for oversight. Process management using critical path to deliver timely solutions to HDFC customers has assisted in the development of a zero-default tolerant business culture.

Responsible Financial inclusion Strategy set out the following Strategic objectives: -

- Extend financial services to underserved segments
- Create income generation potential in the down-market segment
- Integrate micro and SME income support solutions to create a responsible credit culture
- Design customer-centric products to maximise the social benefit
- Contribute to the learning agenda in social performance

ACCESS TO FINANCE

The success of IFC's Pilot Program using Performance Based Grant Initiatives for Access to Finance, is based on an inclusive business model with the following objectives:

- Expand financial services to underserved segments by developing a range of financial services available to lower-income products tailored to the needs of low-income customers.
- Going down-market with a clear strategy to manage risk though principles of customer protection.
- Widening the range of products, features and serves based on a customer-centric approach.
- Contribute to the learning agenda in social performance and improving customer's financial literacy.

PRINCIPLES AND PRACTICE OF CLIENT PROTECTION

Products and delivery channels are designed giving primacy to client characteristics.

PREVENTION OF OVER-INDEBTEDNESS

We take great care in all phases of our credit process to determine that clients have the capacity to repay without becoming over-indebted.

TRANSPARENCY

We communicate clear, sufficient and timely information in a manner and language clients can understand so that clients can make informed decisions. The need for transparent information on pricing terms and conditions of products is highlighted in our counselling service extended at every step of the process.

RESPONSIBLE PRICING

Pricing terms and conditions are set in a way that is affordable to clients while allowing our operations to be sustainable with positive real returns on housing finance.

FAIR AND RESPECTFUL TREATMENT OF CLIENTS

We always treat our clients fairly and respectfully without compromise or discrimination. We have zero tolerance any malpractices or corruption as well as aggressive or abusive treatment of clients by staff, particularly during the loan processing and debt collection processes.

PRIVACY OF CLIENT DATA

The privacy of individual client data is respected at all times in accordance with the laws and regulations of the Maldives. Such data will only be used for the purposes specified at the time the information is collected or as permitted by law, unless otherwise agreed with the client.

ENVIRONMENT FRIENDLY LOAN FINANCING

We have incorporated sustainability principles into day-to-day activities of the Company. Our aim is to ensure that the credits we extend to our customers are utilized for environmentally sound and sustainable purposes. HDFC complies with environmental standard while financing. Projects with likely adverse impact on the environment are strongly discouraged by the Company. As an environment responsive Financial Institution, we ensure that the borrower has the due environmental clearance certificate from the concerned authorities while granting facilities. We also encourage our big borrowers to have solar panels in their project.

GENDER EQUALITY

HDFC considers the responsibility for the protection of human rights, gender equality and women's empowerment. HDFC is successfully developing in bringing diversity in workforce in context of age, gender, ethnicity and locality. We attempt to strike a balance between male and female employees in the workforce although at times either the number may vary.

IMPROVED IN-HOUSE MANAGEMENT AND GREEN PRACTICES

The Company has been maintaining a balanced initiative and supporting activity to contain things that may adversely affect the environment. HDFC encourages rational use of energy in the office and promotes the spirit of environment friendly action plans. Reduced utilization of electricity and minimum use of water and paper have become mandatory for the employees.

COMMUNITY PARTICIPATION

The primary purpose of HDFC's CSR Philosophy is to make meaningful and measurable impact on the lives of economically, physically and socially challenged communities of the country by supporting initiatives aimed at creating conditions suitable for growth in these communities. In this regard, HDFC initiated and provided financial aid to Society of Health and Sciences and Care Society. The Care Society runs outreach programmes and mobilizes voluntary support to develop projects and to maintain and enhance service provision. SHE conducts selective research to assess and report on emergent health issues (especially the high incidence of thalassaemia). Care Society of Maldives is a non-governmental organization (NGO) who works for the benefit of persons with disabilities in the Maldives and other vulnerable groups. Care Society provides education and rehabilitation services and Community Based rehabilitation services for persons with disabilities.

RISK MANAGEMENT

As a housing finance Company, HDFC is exposed to various risks like credit risk, market risk (interest rate and currency risk), liquidity risk and operational risk (technology, employee, transaction and reputation risk). To identify and mitigate these risks the Company has an effective Risk Management Control Framework that has been developed encompassing all the above areas.

The Company's risk management process encompasses the various dimensions of risk as follows:

CREDIT RISK

Credit risk represents the potential financial loss as a consequence of a customer's inability to honour the terms and conditions of the credit facility. The Company has a well laid out procedures, not only to appraise but also to regularly monitor credit risk. Regular reviews are carried out and risks identified are mitigated in a number of ways, which include, counselling, taking an additional guarantees from the borrower or third party. In addition, the incomes of the borrowers are discounted. Therefore, credit policies are stated to fulfill the requirements under prudential due-diligence to establish customer's credit worthiness. Strong credit sanctioning policy are given by the Board of Directors with limited authority imposed for processing applications. An internal grading system and review process ensures prompt identification of any deterioration in credit risk and consequent implementation of corrective action. HDFC applies rigorous standards for provisioning and monitoring of non- performing loans. Adequate provisions are carried to guard against inherent risks in the portfolio.

HDFC ensures that the collateral accepted for risk mitigation purposes is of high quality and supported by legally effective and enforceable documentation. When determining security, the Company will be guided by:

- Whether the ownership and the title to the security is acceptable without any defects or other encumbrances with stable minimum value and required margin of security in favour of the HDFC to support the borrowing through the period of repayment.
- Whether the security can be realised without any difficulties to recover our dues fully in an eventuality.

The Company's board has constituted a credit risk management committee with three non-executive directors to oversee all risk issues and ensure authorities are properly structured. The compliance audit also plays an integral role in evaluating the accuracy of the calculations done by the credit department.

FUNDING AND LIQUIDITY RISK

Funding and liquidity risk management has two dimensions:

- Liquidity risk management focuses on having a sufficient buffer to cope with a short-term situations.
- Funding risk management ensures long-term compliance with both internal and external goals.

Managing funding and liquidity risk focuses both on "business as usual" (based on the run-off profile to show the stickiness of deposits combined with the run-off of assets without new production) on a stressed situation. For liquidity risk, the Company focuses the time to survive under cash flow projections, while for funding risk we focus on having a stable funding profile. HDFC seeks to manage liquidity risk across all classes of assets and liabilities to ensure that even under adverse conditions; we have access to funds at a reasonable cost. Ultimate responsibility for liquidity management lies with the Asset Liability Committee (ALCO), with Treasury managing the liquidity and funding needs of the Company on a daily basis. We raise funds locally or internationally, mostly through from borrowings and issuance of debt instruments.

At HDFC the key elements in managing liquidity risk are in tapping available sources of liquidity in the local market, preserving necessary funding capacity, and continuous contingency planning. Liquidity targets are maintained to ensure that even under adverse conditions; funds are available to cover customer needs, maturing liabilities, and other funding requirements.

LEGAL RISKS

Legal risk arises from failure to comply with statutory and regulatory regulations, uncertainty of the outcome of all litigation and probable adverse consequences resulting from deficient documentation. We manage these legal risks effectively through our legal counsel where all contracts and security documentation are legally vetted taking into consideration the applicable laws and regulations.

IT- SECURITY RISK

Information is a valuable asset and information pertaining to customers is also a great responsibility. Safeguarding business information and IT Infrastructure from any kind of cyber security threat is a top priority and this is done through effective monitoring and implementation of risk mitigation measures.

In HDFC, IT infrastructure and software systems are being governed, closely monitored and upgraded with the changes of technology trends and business needs as well as for the improvement of operational efficiency. Data protection and cyber security is of highest importance to us. We have appropriate control system for Cyber security which is regularly monitored. IT policies has been formulated and Standard Operating procedures are also in place. Our business continuity and Disaster Recovery Plan ensures that critical business functions are available even if the environment has completely failed. Backup and restore policy have been implemented to safeguard critical data.

HDFC has taken cover from the insurance providers as one of the risk mitigation strategies for high severity, low probability and the uncontrollable operational risk events such as natural disasters, fire as well as internal and external frauds, errors, omissions, fidelity etcetera.

INTERNAL CONTROLS

Internal controls include the policies and procedures that financial institutions establish to reduce risks and ensure they meet operating, reporting, and compliance

objectives of the Company. The Company's internal controls programs are designed to ensure it operate effectively, safeguard assets, produce reliable financial records and comply with the applicable laws and regulations.

The Internal Control System (ICS) of HDFC consists of a set of rules, procedures and organizational structures which aim to:

- ensure that corporate strategy is implemented
- achieve effective and efficient corporate processes
- safeguard the value of corporate assets
- ensure the reliability and integrity of accounting and management data
- ensure that operations comply with all existing rules and regulations.

At HDFC, to minimize risk, two statutory audits are undertaken in addition to four internal audits conducted yearly. In addition Maldives Monetary Authority conducts Supervisory Audit to assure regulatory and statutory compliance which guides the Company to update to the industry's best practice.

Internal Audit

KPMG was appointed as the Company's internal auditor for 2018. The key responsibility is to guide, approve and review Internal Audit Plan, Internal Audit Process and Procedure, ensuring compliance on audit recommendation(s) and scope of development, compliance status of audit recommendation, quarterly assessment of the performance of audit and inspection activity and the efficiency and effectiveness of internal audit function.

External Audit

PWC was appointed as the Company's external auditor for 2018. The key responsibility of the auditor is to provide reasonable assurance that the financial statements are free from material misstatements and prepared according to the accounting standards.

The Audit Committee expresses its sincere thanks and gratitude to the Auditors for their excellent support to the Committee when they carried out their duties and responsibilities.

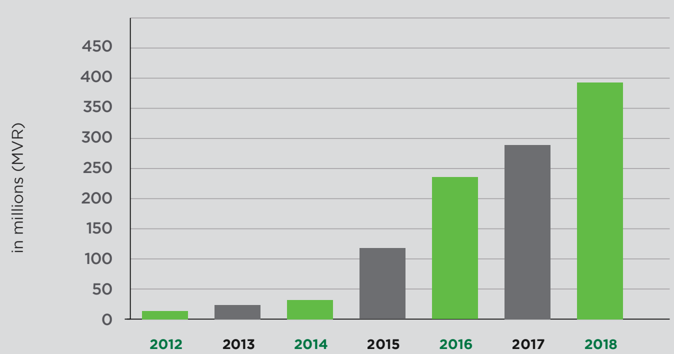
Housing Development Finance Corporation Plc.

HDFC- AMNA

The fast and stable growth of Islamic Finance during the last few years indicate the inherent strength of Islamic Finance as a challenging alternative to the interest based capitalistic financial system. The establishment of the HDFC- Amna in 2012, gave an accelerating momentum to the Islamic Finance products in the Maldives.

HDFC Amna has initiated the development of adequate processes, methodologies and tools to identify and monitor the positive impact of our financing products. This requires a paradigm shift in our business practices particularly in our screening process that not only considers Shariah aspects but considers the consequences of our financing to today's society, and subsequently our future generation. HDFC continues to embrace the client-centred culture that preserves long-term relationships with our customers. Moving forward, we will also encourage greater transparency among our clients in disclosing their business impact on community wellbeing, sustainable environment and economic growth.

AMNA Portfolio



The Board of Directors recognize the excellent work of the Shariah Committee comprising of and Shariah Advisory Committee comprising of the well-respected scholars Dr. Ibrahim Zakariyya Moosa (Chairman) Dr. Rusni Hussein and Dr. Aishath Muneeza who continued to work tirelessly to ensure HDFC's Amna products adhere to Islamic principles, supported by a hard working Amna team within the Company.

Shariah Committee's Report

In the name of Allah, the Beneficent, the Merciful

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

We have reviewed the principles and the contracts relating to the transactions and applications introduced by HDFC Amna during the period ended 31st December 2018.
We have also conducted our review to form an opinion as to whether HDFC Amna has complied with the Shariah principles and with the Shariah rulings issued by the Shariah Advisory Council of Maldives Monetary Authority (MMA), as well as Shariah decisions made by the Shariah Committee.

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

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

In our opinion:

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

We, the members of the Shariah Committee of HDFC Amna, do hereby confirm that the operations of HDFC Amna for the year ended 31st December 2018 have been conducted in conformity with the Shariah principles.

Chairman of the Shariah Committee: ....

Name: Dr. Ibrahim Zakariyya Moosa

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REPORT 2018

HOUSING DEVELOPMENT FINANCE CORPORATION PLC

Financial Statements – 31 December 2018

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Independent auditor's report

To the Shareholders of Housing Development Finance Corporation Plc

Our opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Housing Development Finance Corporation Plc ("the Company") as at December 31, 2018, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The financial statements of the Company, which comprise:

- the statement of financial position as at December 31, 2018;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

Key audit matters

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

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

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Key audit matter	How our audit addressed the Key audit matter
Impairment of loans and advances	
Refer to Note 16 of the financial statements.	Specific work that we performed on the loss allowance on loans and advances recognised by management included the following;
As at 31 December 2018, 92.3% of the total assets of the Company consisted of loans and advances amounting to MVR 1.6 billion shown net of loss allowance of MVR 26.2 million. The loss allowance in respect of loans and advances represent management's best estimate of the impairment loss incurred and expected within the loan portfolio at the reporting date. The loss allowance had been calculated using statistical methods and historical collection trends adjusted for forward-looking information. Significant estimates and assumptions used by the management in such calculations and the basis for impairment allowance is disclosed in Note 29.1.	- Tested the completeness of the loans and advances considered in the loan loss calculation by checking the mathematical accuracy of the listing obtained and matched the outstanding balances with the general ledger. - Assessed the reasonableness of management's estimated future recoveries of individual customer loans and advances including the expected future cash flows, discount rates and valuation of collateral held by testing the key underlying assumptions and evaluating the process by which those were drawn up. - Tested the accuracy and completeness of underlying information in loans and advances used in the expected loan loss allowance calculation, such as disbursed and undisbursed loan amounts, deposits, values of the collateral, aging and loan tenure periods by agreeing details with the respective customer statements and files on a sample basis. - Tested the methodology applied in the loan loss allowance calculation by checking compliance with the requirements of IFRS 9, *Financial instruments; recognition and measurement*, and also considered reasonableness of macro-economic and other factors used by the management by comparing them with publicly available data and information sources.
The impact on transition to IFRS 9 on recognition of expected credit loss to the Company's financial statements has been quantified and presented separately in Note 2.2 of the financial statements.	- Assessed the adequacy of the related financial statement disclosures as set out on Notes 2.2, 16 and 29.1 for compliance with required IFRS 9 disclosures.
We have identified expected credit loss allowance for loans and advances as a key audit matter as the calculation of loan loss allowance is a complex area and requires management to make significant assumptions and judgements.	

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Other information

Management is responsible for the other information. The other information comprises the annual report for the year ended 31 December 2018 (but does not include the financial statements and our auditor's report thereon) which is expected to be made available to us after the date of this auditors' report.

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

MALE`

25 March 2019

For PRICEWATERHOUSECOOPERS
Registration No: F0005

Jatindra Bhattray
Partner

HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2018

Statement of comprehensive income

(All amounts in Maldivian Rufiyaa)

	Notes	Year ended 31 December 2018	2017
Interest income	5	141,409,648	131,234,043
Interest expense	5	(46,301,913)	(41,411,125)
Net interest income		95,107,735	89,822,918
Net income on shari'ah products	6	25,084,514	22,580,480
Fee income	7	5,013,744	3,695,355
Other income	8	1,100,843	3,409,175
Operating income		126,306,836	119,507,928
Credit impairment gains/ (losses)	10	8,226,277	(10,576,163)
Salaries and personnel expenses	9	(9,956,478)	(8,906,470)
Other operating expenses	11	(8,314,111)	(6,730,645)
Profit before business profit tax		116,262,524	93,294,650
Business profit tax expense	12	(17,267,299)	(12,107,541)
Profit for the year		98,995,225	81,187,109
Earnings per share - basic / diluted (MVR)	14	62.11	50.94

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The notes on pages 9 to 64 are an integral part of these financial statements.

HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2018

Statement of financial position

(All amounts in Maldivian Rufiyaa)

	Notes	As at 31 December 2018	2017
ASSETS			
Cash and cash equivalents	15	91,653,575	135,525,548
Financial assets at amortised cost	17	29,976,096	29,959,834
Loans and advances	16	1,617,378,696	1,410,515,498
Property, plant and equipment	19	1,324,053	1,221,874
Intangible assets	20	621,847	385,118
Deferred business profit tax assets	18	3,125,228	3,450,871
Other assets	21	7,356,305	7,867,946
Total assets		1,751,435,800	1,588,926,689
LIABILITIES			
Deposits from customers	22	82,423,308	68,435,976
Debt securities in issue	23	218,979,337	149,404,938
Other borrowed funds	24	637,865,650	672,860,514
Other liabilities	25	288,020,860	227,933,743
Current tax liabilities	12	8,371,271	7,812,821
Total liabilities		1,235,660,426	1,126,447,992
SHAREHOLDERS' EQUITY			
Share capital	26	159,375,000	159,375,000
General reserve	27	15,000,000	15,000,000
Staff education reserve	27	-	2,136,480
Retained earnings		341,400,374	285,967,217
Total shareholders' equity		515,775,374	462,478,697
Total equity and liabilities		1,751,435,800	1,588,926,689

These financial statements were approved by the management on 17th March 2019 and signed on their behalf by:

Raheema Saleem
Managing Director

Housing Development Finance Corporation PLC
HDFC
C-107/2006

Conrad D' Souza
Director

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The notes on pages 9 to 64 are an integral part of these financial statements.

ment of changes in equity

nounts in Maldivian Rufiyaa)

	Notes	Share capital	General reserve	Staff education reserve	Retained earnings	Total
ce at 1 January 2017		159,375,000	15,000,000	1,284,754	240,694,334	416,354,088
ered from staff		-	-	851,726	(851,726)	-
end declared	13	-	-	-	(35,062,500)	(35,062,500)
for the year		-	-	-	81,187,109	81,187,109
ce at 31 December 2017		159,375,000	15,000,000	2,136,480	285,967,217	462,478,697
ce at 1 January 2018		159,375,000	15,000,000	2,136,480	285,967,217	462,478,697
es on initial application of 9	16	-	-	-	(5,854,798)	(5,854,798)
ted balance at 1 January		**159,375,000**	**15,000,000**	**2,136,480**	**280,112,419**	**456,623,899**
end declared	13	-	-	-	(39,843,750)	(39,843,750)
tion reserve transferred to ed earnings		-	-	(2,136,480)	2,136,480	-
for the year		-	-	-	98,995,225	98,995,225
ce at 31 December 2018		159,375,000	15,000,000	-	341,400,374	515,775,374

es on pages 9 to 64 are an integral part of these financial statements.

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HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2018

Statement of cash flows

(All amounts in Maldivian Rufiyaa)

	Note	Year ended 31 December 2018	2017
Cash flows from operating activities			
Profit before tax		116,262,524	93,294,650
Adjustments for:			
Depreciation on property, plant and equipment	19	449,492	464,924
Credit impairment (gains) / losses	10	(8,226,277)	10,576,163
Amortization of intangible assets	20	174,147	71,793
Loss on disposal		72,624	52,047
Net interest income		(120,192,249)	(112,403,398)
Cash flows from operating activities before changes in working capital		(11,459,739)	(7,943,821)
Changes in working capital:			
Increase in loans and advances to customers		(206,890,389)	(114,295,634)
Decrease in other assets		511,641	685,083
Increase in other liabilities		55,305,806	23,793,503
Increase in deposits from customers		13,987,332	3,932,203
Increase in derivatives held for risk management		-	374,231
Cash used in operating activities		(148,545,349)	(93,454,435)
Interest received		187,536,409	162,293,368
Interest paid		(63,792,938)	(52,618,445)
Business profit tax paid	12	(16,383,206)	(15,596,902)
Net cash (used in) / generated from operating activities		(41,185,084)	623,587
Cash flows from investing activities			
Purchases of property, plant and equipment	19	(625,535)	(464,930)
Purchases of intangible assets	20	(410,876)	(454,296)
Proceeds on disposal of property, plant and equipment		1,240	-
Proceeds paid for investments		(16,262)	(76,995,218)
Net cash used in investing activities		(1,051,433)	(77,914,444)
Cash flows from financing activities			
Repayments of debt securities in issue		(33,977,254)	(21,549,248)
Repayments of other borrowed funds		(186,036,509)	(150,186,033)
Proceeds from debt securities in issues		101,390,000	114,036,000
Proceeds from other borrowed funds		152,051,004	206,773,073
Dividend paid		(35,062,697)	(31,875,214)
Net cash (used in) / generated from financing activities		(1,635,456)	117,198,578
Net (decrease) / increase in cash and cash equivalents		(43,871,973)	39,907,721
Cash and cash equivalents at beginning of the year		135,525,548	28,617,827
Cash and cash equivalents at end of the year	15	91,653,575	68,525,548

The notes on pages 9 to 64 are an integral part of these financial statements.

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Notes to the financial statements

(All amounts in Maldivian Rufiyaa)

1 General information

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

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

2 Summary of significant accounting policies

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

2.1 Basis of preparation

This financial report for the year ended 31 December 2018 has been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have been prepared under the historical cost convention whereby the transactions are recorded at the values prevailing on the dates when the assets were acquired, the liabilities were incurred or the capital obtained.

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

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

2.2 Changes in accounting policies

HDFC has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. HDFC did not early adopt any of IFRS in previous periods.

As permitted by the transitional provisions of IFRS 9, HDFC elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings of the current period. Consequently, for notes disclosure, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in the accounting policies for recognition, classification and measurement of financial asssets and liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 "Financial instruments: Disclosures".

Set out below are disclosures relating to the impact of the adoption of IFRS 9 of HDFC. Further details of the specific IFRS 9 accounting policies applied in the current period (as well as the previous IAS 39 accounting policies applied in the comparative period) are described in more detail in section 2.3 below.

Notes to the financial statements (continued)

(All amounts in Maldivian Rufiyaa)

2.2 Changes in accounting policies (continued)

(a) classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared as follows:

Financial assets	IAS 39		IFRS 9	
	Measurement category	**Carrying amount**	**Measurement category**	**Carrying amount**
Cash and cash equivalents	Amortised cost (Loans and receivables)	135,525,548	Amortised cost	135,525,548
Financial assets held to maturity	Amortised cost (Held to maturity)	29,959,834	Amortised cost	29,959,834
Loans and advances	Amortised cost (Loans and receivables)	1,410,515,498	Amortised cost	1,404,660,700

There were no changes to the classification and measurement of financial liabilities.

(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

HDFC performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics.

Please refer to the note 2.3.1 for more detailed information regarding the new classification requirements of IFRS 9.

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

	IAS 39 carrying amount 31 December 2017	**Remeasurements**	**IFRS 9 carrying amount 1 January 2018**
Amortised cost			
Cash and cash equivalents			
Opening balance under IAS 39 and closing balance under IFRS 9	135,525,548	-	135,525,548
Financial assets held to maturity			
Opening balance under IAS 39 and closing balance under IFRS 9	29,959,834	-	29,959,834

Notes to the financial statements (continued)

(All amounts in Maldivian Rufiyaa)

2.2 Changes in accounting policies (continued)

(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued)

	IAS 39 carrying amount 31 December 2017	Remeasurements	IFRS 9 carrying amount 1 January 2018
Amortised cost			
Loans and advances			
Opening balance under IAS 39	1,410,515,498		
Remeasurement : ECL allowance		(5,854,798)	
Closing balance under IFRS 9			1,404,660,700

The total remeasurement loss of MVR 5,854,798 was recognised in opening retained earnings at 1 January 2018.

(c) Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018:

Measurement category	Loan loss allowance under IAS 39/ Provision under IAS 37	Remeasurements	Loan loss provision under IFRS 9
Loans and receivables (IAS 39) / financial assets at amortised cost (IFRS 9)			
Loans and advances	28,581,371	4,918,633	33,500,004
Loan commitments			
Loans and advances	-	936,165	936,165

Further information on the measurement of the impairment allowance under IFRS 9 can be found in note 29.1.2.

2.3 Summary of significant accounting policies

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

2.3.1 Financial assets and liabilities

Measurement methods

Amortised cost and effective interest rate

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

Notes to the financial statements (continued)

(All amounts in Maldivian Rufiyaa)

2.3 Summary of significant accounting policies

2.3.1 Financial assets and liabilities (continued)

Measurement methods (continued)

Amortised cost and effective interest rate (continued)

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

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

Interest income

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

Initial recognition and measurement

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

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

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

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

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

Notes to the financial statements (continued)

(All amounts in Maldivian Rufiyaa)

2.3 Summary of significant accounting policies (continued)

2.3.1.1 Financial assets

(i) Classification and subsequent measurement

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

The classification requirements for debt instruments are described below:

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

Classification and subsequent measurement of debt instruments depend on:

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

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

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

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

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

(ii) Impairment

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

Notes to the financial statements (continued)

(All amounts in Maldivian Rufiyaa)

2.3 Summary of significant accounting policies (continued)

2.3.1.1 Financial assets (continued)

(ii) 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.

Note 29.1.2 provides more detail of how the expected credit loss allowance is measured.

(iii) Modification of loans

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

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

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

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

(iv) Derecognition other than on a modification

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

Notes to the financial statements (continued)

(All amounts in Maldivian Rufiyaa)

2.3 Summary of significant accounting policies (continued)

2.3.1.2 Financial liabilities

(i) Classification and subsequent measurement

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

(ii) Derecognition

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

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

2.3.2 Loan commitments

Loan commitments provided by HDFC are measured as the amount of the loss allowance (calculated as described in note 29.1.3). HDFC has not provided any commitment to provide loans at a below market interest rate, or that can be settled in cash or by delivering or issuing another financial instrument.

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

2.4 Foreign currency translation

(a) Functional and presentation currency

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

Notes to the financial statements (continued)

(All amounts in Maldivian Rufiyaa)

2.4 Foreign currency translation (continued)

(b) Transactions and balances

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

2.5 Cash and cash equivalents

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

2.6 Offsetting financial instruments

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

2.7 Property, plant and equipment

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

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

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

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

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

Notes to the financial statements (continued)

(All amounts in Maldivian Rufiyaa)

2.7 Property, plant and equipment (continued)

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

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

2.8 Intangible assets

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

2.9 Operating leases

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the operating expenses in the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

2.10 Debt securities in issue

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

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

2.11 Other borrowed funds

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

Notes to the financial statements (continued)

(All amounts in Maldivian Rufiyaa)

2.11 Other borrowed funds (continued)

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 captalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

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

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

2.12 Customer accounts

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

2.13 Derivative financial instruments

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

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

2.14 Provisions for liabilities and charges

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

2.15 Trade and other payables

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

2.16 Share capital

Ordinary shares are classified as equity.

2.17 Dividends

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

Notes to the financial statements (continued)

(All amounts in Maldivian Rufiyaa)

2.18 Fiduciary activities

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

2.19 Current and deferred business profit tax

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

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

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

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

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

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

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

2.20 Fees, commissions and other income and expenses

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

Notes to the financial statements (continued)

(All amounts in Maldivian Rufiyaa)

2.21 Staff costs and related contributions

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

2.22 Segment reporting

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

2.23 Comparatives

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

Notes to the financial statements (continued)

(All amounts in Maldivian Rufiyaa)

2.24 Presentation of statement of financial position in order of liquidity

HDFC does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, analysis of assets and liabilities by their expected maturities is presented in Note 29.2.2.

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

	31 December 2018 Amounts expected to be recovered or settled			31 December 2017 Amounts expected to be recovered or settled		
	Within 12 months of the reporting period	After 12 months of the reporting period	Total	Within 12 months of the reporting period	After 12 months of the reporting period	Total
Assets						
Cash and cash equivalents	91,653,575	-	91,653,575	135,525,548	-	135,525,548
Financial assets at amortised cost	29,976,096	-	29,976,096	29,959,834	-	29,959,834
Loans and advances	210,577,567	1,406,801,129	1,617,378,696	122,027,588	1,288,487,910	1,410,515,498
Property, plant and equipment	-	1,324,053	1,324,053	-	1,221,874	1,221,874
Intangible assets	-	621,847	621,847	-	385,118	385,118
Deferred business profit tax assets	3,125,228	-	3,125,228	3,450,871	-	3,450,871
Other assets	1,780,826	5,575,479	7,356,305	1,048,740	6,819,206	7,867,946
Total assets	337,113,292	1,414,322,508	1,751,435,800	292,012,581	1,296,914,108	1,588,926,689
Liabilities						
Deposits from customers	-	82,423,308	82,423,308	-	68,435,976	68,435,976
Debt securities in issue	8,865,375	210,113,962	218,979,337	37,802,938	111,602,000	149,404,938
Other borrowed funds	170,040,277	467,825,373	637,865,650	204,818,894	468,041,620	672,860,514
Other liabilities	59,412,596	228,608,264	288,020,860	55,570,179	172,363,564	227,933,743
Current tax liabilities	8,371,271	-	8,371,271	7,812,821	-	7,812,821
Total liabilities	246,689,519	988,970,907	1,235,660,426	306,004,832	820,443,160	1,126,447,992

Notes to the financial statements (continued)

(All amounts in Maldivian Rufiyaa)

3 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

3.1 Impairment losses on loans and advances

The measurement of the expected credit loss allowance for financial assets measured at amortised cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour. Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 29.1.2, which also sets out key sensitivities of the ECL to changes in these elements.

A number of siginificant judgements are also required in applying the accounting requirements for measuring ECL, such as;
- determining the criteria for significant increase in credit risk; and
- Choosing appropriate models and assumptions for the measurement of ECL.

Detailed information about the judgements and estimates made by HDFC in the above areas is set out in the note 29.1.2.

3.2 Deferred tax asset recognition

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

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

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

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

Notes to the financial statements (continued)

(All amounts in Maldivian Rufiyaa)

4 Adoption of new or revised standards and interpretations

(a) New accounting standards, amendments and interpretations adopted in 2018

The following amendments to the International Accounting Standards that are relevant for the preparation of the financial statements have been adopted by HDFC for the first time with effect from financial year beginning on 1 January 2018.

- IFRS 9- *Financial instruments*

- IFRS 15- *Revenue from contracts with customers*

IFRS 15 is effective from 1 January 2018. This standard defines principles for recognising revenue and are applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases continue to fall outside the scope of IFRS 15 and are regulated by the other applicable standards (e.g. IFRS 9 and IFRS 16).

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Revenue under IFRS 15 requires to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows from customers.

An evaluation of relevant existing contracts, which fall mainly under fee and commission based income, had been performed by HDFC in relation to the adoption of IFRS 15. This assessment did not reveal any significant change to HDFC's revenue recognition pattern. However, HDFC continues to evaluate and quantify the accounting impact and will modify its systems and processes if necessary.

- *Annual improvements 2014-2016 cycle*

- Interpretation 22 - *Foreign Currency Transactions and Advance Consideration*

- Interpretation 23 - *Uncertainity over income tax treatment.*

HDFC had to change its accounting policies and make certain adjustments following the adoption of IFRS 9. This is disclosed in Note 2. Most of the other amendments listed above did not have any impact on the amounts recognized in prior periods and are not expected to significantly affect the current or future periods.

Notes to the financial statements (continued)

(All amounts in Maldivian Rufiyaa)

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

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

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by HDFC.

- *IFRS 16 Leases*

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the statement of financial position by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. HDFC will apply the standard from its mandatory adoption date of 1 January 2019. HDFC intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses). HDFC has taken an office premise in Male`which is on lease. HDFC is in the process of evaluating the impact and it is not expected to have material impact.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Notes to the financial statements continued

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

5 Net interest income

	2018	2017
Interest income		
Housing loans	140,344,524	130,696,265
Treasury bills / other deposits with banks	1,065,124	537,778
	141,409,648	131,234,043
Interest expense		
Other borrowed funds	40,626,443	38,450,982
Debt securities in issue	4,576,593	1,875,641
Deposits from customers	1,098,877	1,084,502
	46,301,913	41,411,125
Net interest income	95,107,735	89,822,918

6 Net income on Shari'ah products

	2018	2017
Revenue from housing facilities	40,133,888	33,050,608
Revenue from short term investments	1,069,364	58,266
Fee income	2,524,840	1,790,461
Amna investors' profit share	(18,643,578)	(12,318,855)
	25,084,514	22,580,480

7 Fee income

	2018	2017
Housing loan processing fees	1,786,147	1,933,175
Other fee income	978,427	1,214,850
Management fees	2,249,170	547,330
	5,013,744	3,695,355

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

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

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

Notes to the financial statements continued

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

8 Other income

	2018	2017
Penalty interest and early interest settlement charges	724,865	2,207,101
Insurance commissions	375,978	350,348
Recovery of professional development expenses	-	851,726
	1,100,843	3,409,175

9 Salaries and personnel expenses

	2018	2017
Salaries and allowances	8,348,445	7,668,667
Ramadan allowances and bonus	821,870	727,889
Contribution to employees pension fund	364,056	332,815
Employee benefit expense amortisation	278,204	97,941
Staff medical insurance	143,903	79,158
	9,956,478	8,906,470

10 Provision for loan impairment

	2018	2017
Provision (reversed)/ made during the year (Note 16)	(8,226,277)	10,576,163

11 Other operating expenses

	2018	2017
Other expenses	2,298,462	2,183,078
Professional fees	1,611,411	963,923
Premises, equipment and establishment expenses	1,387,945	1,128,470
Board remuneration and meeting expenses	1,080,224	791,165
Bank charges	534,677	309,828
Depreciation on property, plant and equipment (Note 19)	449,492	464,924
Communication expenses	300,906	310,069
Advertising and marketing expenses	231,261	274,798
Amortization on intangible assets (Note 20)	174,147	71,793
Printing and stationary expenses	172,962	180,550
Loss on disposal	72,624	52,047
	8,314,111	6,730,645

12 Taxation

	2018	2017
Current tax	16,941,656	15,506,981
Deferred tax (Note 18)	325,643	(3,399,440)
Business profit tax expense	17,267,299	12,107,541

Notes to the financial statements continued

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

12 Taxation (continued)

Reconciliations between business profit tax expenses and the accounting profit :

	2018	2017
Profit before tax	116,262,524	93,294,650
Add: Non-deductible expenses	67,462,908	65,945,158
Adjusted net profit for the year	183,725,432	159,239,808
Less: Deductible expenses	(74,852,379)	(55,359,937)
Taxable profit	108,873,053	103,879,871
Tax allowance	(500,000)	(500,000)
Taxable profit after tax allowance	108,373,053	103,379,871
Current tax (15%)	16,255,958	15,506,981
Prior year adjustments	685,698	-
Total current tax	16,941,656	15,506,981
Deferred tax	325,643	(3,399,440)
Business profit tax expense	17,267,299	12,107,541

Current tax liabilities

	2018	2017
As at 1 January	7,812,821	7,902,742
Provisions during the year	16,255,958	15,506,981
Prior year adjustments	685,698	-
Payments made during the year	(16,383,206)	15,596,902
As at 31 December	8,371,271	7,812,821

13 Dividends

Dividend of MVR 22 per share amounting to MVR 35,062,500 was declared for the year ended 31 December 2017 in the board meeting held on 5 November 2017. Dividend amounting MVR 25 per share totalling to MVR 39,843,750 was declared for the year December 2018 in the board meeting held on 29 November 2018.

14 Earnings per share

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

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

Notes to the financial statements continued

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

14 Earnings per share (continued)

	2018	2017
Net profit attributable to shareholders	98,995,225	81,187,109
Weighted average number of ordinary shares in issue	1,593,750	1,593,750
Earnings per share - basic / diluted (MVR)	62.11	50.94

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

15 Cash and cash equivalents

	2018	2017
Cash on hand	9,500	9,500
Balances with other banks	76,644,075	68,516,048
Short term investments with MIB	15,000,000	67,000,000
	91,653,575	135,525,548

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

Short term investments with MIB are for a period of 3 months and are entitled for a profit share which has ranged between 1.5% to 3.5% per annnum.

16 Housing loans

	2018	2017
Housing loans to customers	1,252,647,892	1,137,133,718
Housing loans to staff	6,613,752	5,663,292
Amna assets	384,326,943	296,299,857
	1,643,588,587	1,439,096,867
Less: Provision for impairment	(26,209,891)	(28,581,369)
Net housing loans	1,617,378,696	1,410,515,498

Movements in provision for impairment are as follows:

	2018	2017
Provision for impairment		
Opening balance	28,581,371	18,005,208
Changes on initial application of IFRS 9	5,854,798	-
Provision (reversed)/ made during the year (Note 10)	(8,226,277)	10,576,163
Closing balance	26,209,891	28,581,371

Notes to the financial statements continued

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

17 Financial assets at amortised cost

	2018	2017
Investments in Treasury bills	29,976,096	29,959,834

Treasury bills amounting MVR 19,988,528 and MVR 9,987,568 will mature on 7 and 14 January 2019 respectively and carry an interest rate of 3.5% per annum.

18 Deferred business profit tax assets

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

	2018	2017
Deferred tax assets	3,125,228	3,461,266
Deferred tax liabilities	-	(10,395)
Net deferred tax asset	3,125,228	3,450,871

	2018	2017
Opening balance	3,450,871	51,431
(Debit) / credit to the income statement	(325,643)	3,399,440
Closing balance	3,125,228	3,450,871

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

	2018	2017
Temporary difference on PPE	131,225	(69,297)
Temporary difference on provisions for loan impairment	20,703,625	23,075,103
	20,834,850	23,005,806
Tax rate	15%	15%
Net deferred tax asset	3,125,228	3,450,871

The balance comprises the following temporary differences.

	2018	2017
Property plant and equipment		
Opening balance	(10,395)	51,431
Credit / (debit) to the income statement	30,079	(61,826)
Closing balance	19,684	(10,395)
Provision for loan impairment		
Opening balance	3,461,266	-
(Debit) / credit to the income statement	(355,722)	3,461,266
Closing balance	3,105,544	3,461,266
Net deferred tax asset	**3,125,228**	**3,450,871**

19 Property, plant and equipment

	Office equipment	Computer equipment	Furniture and fixtures	Motor vehicles	Leasehold improvements	Total
Year ended 31 December 2017						
Opening net book amount	327,972	518,599	193,215	16,562	217,567	1,273,915
Additions	151,854	245,222	67,854	-	-	464,930
Depreciation charge (Note 11)	(79,367)	(198,873)	(70,267)	(16,562)	(99,855)	(464,924)
Disposals						
- Cost	(151,516)	(377,015)	(81,223)	-	(91,196)	(700,950)
- Accumulated depreciation	130,028	377,015	81,223	-	60,637	648,903
Balance as at 31 December 2017	378,971	564,948	190,802	-	87,153	1,221,874
At 31 December 2017						
Cost	901,412	2,438,291	774,864	66,250	914,948	5,095,765
Accumulated depreciation	(522,441)	(1,873,343)	(584,062)	(66,250)	(827,795)	(3,873,891)
Net book amount	378,971	564,948	190,802	-	87,153	1,221,874
Year ended 31 December 2018						
Opening net book amount	378,971	564,948	190,802	-	87,153	1,221,874
Additions	39,519	437,336	148,680	-	-	625,535
Depreciation charge (Note 11)	(81,483)	(239,442)	(71,458)	-	(57,109)	(449,492)
Disposals						-
- Cost	(100,528)	(114,188)	(101,998)	-	(82,846)	(399,560)
- Accumulated depreciation	84,341	99,557	86,843	-	54,955	325,696
Balance as at 31 December 2018	320,820	748,211	252,869	-	2,153	1,324,053
At 31 December 2018						
Cost	840,403	2,761,439	821,546	66,250	832,102	5,321,740
Accumulated depreciation	(519,583)	(2,013,228)	(568,677)	(66,250)	(829,949)	(3,997,687)
Net book amount	320,820	748,211	252,869	-	2,153	1,324,053

a) HDFC operates business from the premises owned by third parties for which MVR 998,575 (December 2017: MVR 600,000) were paid as rent during the year.

b) Property, plant and equipment aggregating to MVR 3,713,474 (December 2017: MVR 3,001,951) were fully depreciated as at the reporting date.

Notes to the financial statements continued

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

20 Intangible assets

	Software costs
Year ended 31 December 2017	
Opening net book amount	2,615
Additions	454,296
Amortisation charge (Note 11)	(71,793)
Closing net book amount	385,118
At 31 December 2017	
Cost	1,198,510
Accumulated amortisation	(813,392)
Net book amount	385,118
Year ended 31 December 2018	
Opening net book amount	385,118
Additions	410,876
Amortisation charge (Note 11)	(174,147)
Closing net book amount	621,847
At 31 December 2018	
Cost	1,609,386
Accumulated amortisation	(987,539)
Net book amount	621,847

21 Other assets

	2018	2017
Accounts receivable	953,826	824,730
Pre-payments	5,354,084	5,908,649
Advance paid to staff	1,048,395	1,134,567
	7,356,305	7,867,946

22 Deposits from customers

	2018	2017
Equated monthly installment deposits	74,061,145	64,844,086
Borrowers deposits	8,362,163	3,591,890
	82,423,308	68,435,976

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 2.5 % per annum.

Notes to the financial statements continued

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

23 Debt securities in issue

	2018	2017
Listed and Corporate bonds	104,759,542	36,847,574
Listed Sukuk	114,219,795	112,557,364
	218,979,337	149,404,938

Maturity analysis of debt securities in issue		
Payable within one year	8,865,375	37,802,938
Payable after one year	210,113,962	111,602,000
	218,979,337	149,404,938

New listed bonds for MVR 100,000,000 were issued in June 2018, out of which, MVR 81,390,000 was raised. These bonds carry an interest rate of 7% per annum for 10 years from the allotment date. The bonds were allotted in July 2018. Interest payments are made every six months after the date of allotment, until the bond is fully redeemed and the first payment was made on 31 December 2018.

During the months of March 2018 HDFC issued two corporate bonds for a value of MVR 10,000,000 each with two year maturity. In May 2018 corporate bond with a value of MVR 5,000,000 was rolled over for one year upon maturity . These corporate bonds carry an interest rate of 6.5% per annum.

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

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

Notes to the financial statements continued

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

24 Other borrowed funds

	2018	2017
Netherlands Development Finance Company (FMO)	21,454,736	42,902,920
Deutsche Investitutions und Entwicklungs Gesellschaft MBH (DEG)	106,475,238	130,035,038
Hongkong and Shanghai Banking Corporation Limited	-	15,743,280
Bank of Ceylon	106,970,084	137,224,408
Bank of Maldives	74,250,000	89,250,000
Habib Bank Limited	46,200,000	61,600,000
Wakala facilities	140,217,356	144,028,896
Pension benefit scheme fund	3,041,482	2,075,827
State Bank of India	139,256,754	50,000,145
	637,865,650	672,860,514

Maturity analysis of other borrowed funds

	2018	2017
Payable within one year	170,040,277	204,818,851
Payable after one year	467,825,373	468,041,663
	637,865,650	672,860,514

Netherlands Development Finance Company (FMO)

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

Deutsche Investitutions und Entwicklungs Gesellschaft MBH (DEG)

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

Notes to the financial statements continued

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

24 Other borrowed funds (continued)

Term loan from HSBC

HDFC obtained a loan of MVR 150,000,000 per the agreement dated 6 February 2013 from HSBC Maldives Branch for the purpose of financing mortgage housing loan programs as set out in the agreement dated 28 June 2012 between HDFC and the Government of Maldives. The loan carried an interest at MTBR + 1.5% per annum and was repaid in ten semi-annual installments commenced from six months after the first utilisation date. This loan was fully settled in March 2018. The loan was secured by a guarantee from the Government of Maldives. The borrowing was denominated in Maldivian Rufiyaa.

Bank of Ceylon - Male' branch

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

Term loan from Bank of Maldives

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

Habib Bank limited (HBL)

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

Notes to the financial statements continued

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

24 Other borrowed funds (continued)

Wakala facilities

During 2012, Maldives Islamic Bank has invested MVR 20,000,000 with HDFC under a Wakalah arrangement with a profit target of 11.5% for a year at a profit sharing ratio of 35% : 65% between HDFC and investor respectively. This has been rolled over for the seventh time during 2018 for one more year. During May 2017, Maldives Islamic bank invested MVR 10,000,000 for one year and this was rolled over for 2 more years upon Maturity in May 2018. This has a target yield of 7.5%.

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

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

During the year 2017, Bank of Maldives PLC has invested MVR 17,188,262 out of an approved investment amounting MVR 50,000,000 with profit target of 8% per annum. HDFC has undrawn borrowing (Wakala) facilities to the extent of MVR 32,811,738 from Bank of Maldives PLC as at the reporting date.This wakala facility from BML Islamic is for 2 years. The wakala facilities are denominated in Maldivian Rufiyaa.

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

Pension benefit scheme fund

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

Notes to the financial statements continued

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

24 Other borrowed funds (continued)

State Bank of India (SBI)

HDFC has obtained a loan of MVR 150,000,000 per the agreement dated 5 October 2017 from SBI for the purpose of providing mortgage housing loans. The loan carries an interest at a rate of 8% per annum and repayable in 8 years on semi-annual basis. The SBI loan is secured by HDFC's mortgage portfolio created out of proceeds of this facility. As of 31 December 2018, HDFC has fully withdrawn the loan amount. The borrowing is denominated in Maldivian Rufiyaa.

25 Other liabilities

	2018	2017
Ministry of Housing and Infrastructure - GED fund	64,803,265	64,184,740
Ministry of Housing and Infrastructure - MHI Islamic	19,070,945	26,627,304
Ministry of Housing and Infrastructure - MHUD Conventional fund	34,315,111	30,143,690
Ministry of Housing and Infrastructure - 704 Housing	59,011,843	-
Insurance premium payable	10,333,607	9,224,053
Amounts received from customers in advance	7,991,246	8,308,628
Accruals and other liabilities	1,189,971	2,927,339
Employees pension contribution	53,893	48,321
Advance for share capital	51,407,100	51,407,100
Dividends payable	39,843,879	35,062,568
	288,020,860	227,933,743

Ministry of Housing and Infrastructure - GED fund

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

Ministry of Housing and Infrastructure - MHI Islamic fund

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

Notes to the financial statements continued

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

25 Other liabilities (continued)

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

Ministry of Housing and Infrastructure - MHUD Conventional fund

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

Ministry of Housing and Infrastructure - 704- Housing fund

(i) HDFC was appointed as the sole representative to act on behalf of the Ministry of Housing and Infrastructure in matters related to the scheme as a collecting agent. HDFC to use their best effort to obtain monthly instalments due under the 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 Share capital

	Number of shares	Ordinary shares
At 31 December 2017	1,593,750	159,375,000
At 31 December 2018	1,593,750	159,375,000

The total authorized number of ordinary shares as at 31 December 2018 was 3,187,500 (2017: 3,187,500) with a par value of MVR 100 (2017: MVR 100) per share. As at 31 December 2018, 1,593,750 shares were issued, which were fully paid.

27 Reserves

	2018	2017
General reserve	15,000,000	15,000,000
Staff education reserve	-	2,136,480
Total reserves at end of the year	15,000,000	17,136,480

HDFC maintained a staff education reserve for the purpose of providing financial assistance for higher education of HDFC staff members. During the year the reserve was transferred to retained earnings.

HOUSING DEVELOPMENT FINANCE CORPORATION PLC

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Notes to the financial statements

(All amounts in Maldivian Rufiyaa)

28 Segment Analysis

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

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

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

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

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

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

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

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

(i) funds are generally not allocated between segments;

(ii) business profit taxes are not allocated to segments;

(iii) loan provisions are recognised based on management judgement and availability of information, and based on the expected credit loss model prescribed in IFRS 9;
(iv) commission income relating to lending is recognised immediately rather than deferred using the effective interest method; and

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

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

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

In thousands of MVR	Conventional	Islamic	Unallocated	Total
Loans and advances	1,246,980	370,399	-	1,617,379
Cash and cash equivalents	44,097	47,556	-	91,654
Non-current assets	-	-	1,946	1,946
Financial assets at amortised cost	29,976	-	-	29,976
Other assets	-	-	10,482	10,482
Total assets	1,321,053	417,955	12,427	1,751,436

Notes to the financial statements

(All amounts in Maldivian Rufiyaa)

28 Segment Analysis (continued)

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

In thousands of MVR	Conventional	Islamic	Unallocated	Total
Deposits from customers	62,512	19,911	-	82,423
Debt securities in issue	104,760	114,220	-	218,979
Other borrowed funds	497,648	140,217	-	637,866
Other liabilities	93,327	83,874	110,820	288,021
Current tax liabilities	-	-	8,371	8,371
Total liabilities	758,247	358,223	119,191	1,235,660
Capital expenditure	-	-	1,036	1,036

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

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

Segment information for the reportable segments as at 31 December 2017 and for the year ended 31 December 2017 is set out below:

In thousands of MVR	Conventional	Islamic	Unallocated	Total
Loans and advances	1,142,796	296,300	(28,581)	1,410,515
Cash and cash equivalents	41,800	26,726	-	68,526
Non-current assets	-	-	1,607	1,607
Financial assets held-to-maturity	29,960	67,000	-	96,960
Other assets	-	-	11,319	11,319
Total assets	1,214,556	390,026	(15,655)	1,588,927

Notes to the financial statements

(All amounts in Maldivian Rufiyaa)

28 Segment Analysis (continued)

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

In thousands of MVR	Conventional	Islamic	Unallocated	Total
Deposits from customers	55,581	12,855	-	68,436
Debt securities in issue	36,848	112,557	-	149,405
Other borrowed funds	528,832	144,029	-	672,861
Other liabilities	30,144	90,811	106,978	227,933
Current tax liabilities	-	-	7,813	7,813
Total liabilities	651,405	360,252	114,791	1,126,448
Capital expenditure	-	-	919	919

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

In thousands of MVR	Conventional	Islamic	Unallocated	Total
External revenues:				
- Interest / profit share	131,235	33,109	-	164,344
- Fee and commission income	3,695	1,790	-	5,485
- Other operating income	3,409	-	-	3,409
Total revenues	138,339	34,899	-	173,238

In thousands of MVR	Conventional	Islamic	Unallocated	Total
Total revenues	138,339	34,899	-	173,238
Interest expense / profit share	(41,411)	(12,319)	-	(53,730)
Provision for loan impairment	(8,461)	(2,115)	-	(10,576)
Depreciation and amortisation	-	-	(537)	(537)
Administrative and other operating expenses	(13,343)	(1,757)	-	(15,100)
Business profit tax	-	-	(12,108)	(12,108)
Result	75,124	18,708	(12,645)	81,187

29 Financial risk management

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

Notes to the financial statements (continued)

(All amounts in Maldivian Rufiyaa)

29 Financial risk management (continued)

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

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

29.1 Credit risk

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

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

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

29.1.1 Credit risk measurement

Loans and advances (including loan commitments)

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

29.1.2 Expected credit loss measurement

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

Notes to the financial statements (continued)

(All amounts in Maldivian Rufiyaa)

29.1 Credit risk (continued)

29.1.2 Expected credit loss measurement (continued)

• A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by HDFC.

• If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. Please refer to note 29.1.2.1 for a description of how HDFC determines when a significant increase in credit risk has occured.

• If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Please refer to note 29.1.2.2 description of how HDFC defines credit-impaired and default.

• Financial instruments in stage 1 have their ECL measured at an amount equal to the proportion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stage 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer to note 29.1.2.3 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 29.1.2.4 includes an explanation of how HDFC has incorporated this in its ECL models.

Further explanation is also provided of how HDFC determines appropriate grouping when ECL is measured on a collective basis (refer note 29.1.2.5).

The following diagram summarises the impairment requirements under IFRS 9:

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

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

29.1.2.1 Significant increase in credit risk

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

29.1.2.2 Definition of default and credit-impaired assets

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

Notes to the financial statements (continued)

(All amounts in Maldivian Rufiyaa)

29.1 Credit risk (continued)

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

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

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

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

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

The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12 MN PD), or over the remaining lifetime (Life time PD) of the obligation. PIT PD (Point-in-time Probablity of Default) is calculated using duration or hazard rate approach (Makov chain approach) and TTC PD (Through-the-Cycle Probablity of Default) is derived from average empirical matrix from 2012 to 2017.

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

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

Notes to the financial statements (continued)

(All amounts in Maldivian Rufiyaa)

29.1 Credit risk (continued)

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

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

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

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

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. Refer note 29.1.2.4 for an explanation of forward-looking information and its inclusion in ECL calculations.

29.1.2.4 Forward looking information incorporated in ECL models

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

Forecasts of these economic variables (the “base economic scenario”) are obtained by HDFC from IMF and trading economic.com. The impact of these economic variables on the PD has been determined by performing statistical regression analysis to macro economic variable with credit index. Estimated credit indexes are determined by plugging forcasted macro economic variables in the factor model developed in the regression analysis. Forcasted PDs are computed by shifting Through the Cycle (TTC) matrix using estimated credit index.

Sensitivity analysis

Set out below are the changes to the ECL as at 31 December 2018 that would result from reasonably possible changes in the parameter from the actual assumption used in HDFC’s economic variable assumption.

Notes to the financial statements (continued)

(All amounts in Maldivian Rufiyaa)

29.1 Credit risk (continued)

29.1.2.4 Forward looking information incorporated in ECL models (continued)

Sensitivity analysis (continued)

	GDP		
	-5%	No change	+5%
	MVR	MVR	MVR
Loss allowance as at 31 December 2018	26,891,804	26,209,891	25,760,901

29.1.2.5 Grouping of instruments for losses measured on a collective basis

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

29.1.3 Loss allowance

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

-Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent “step up” (or “step down”) between 12-month and Lifetime ECL;

- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;

-Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;

-Impacts on the measurement of ECL due to changes made to models and assumptions;

-Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;

-Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

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

HOUSING DEVELOPMENT FINANCE CORPORATION PLC

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Notes to the financial statements (continued)

(All amounts in Maldivian Rufiyaa)

29.1 Credit risk (continued)

29.1.3 Loss allowance (continued)

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

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

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

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

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

Notes to the financial statements (continued)

(All amounts in Maldivian Rufiyaa)

29.1 Credit risk (continued)

29.1.3 Loss allowance (continued)

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

29.1.4 Write-off policy

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

29.1.5 Modification of financial assets

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

Notes to the financial statements (continued)

(All amounts in Maldivian Rufiyaa)

29.1.5 Modification of financial assets (continued)

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

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

29.1.6 Risk limit control and mitigation policies

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

Some other specific control and mitigation measures are outlined below.

(a) Collateral

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

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

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

Notes to the financial statements (continued)

(All amounts in Maldivian Rufiyaa)

29.1.6 Risk limit control and mitigation policies (continued)

Collateral information

As of 31 December 2018	Customer loans	Staff loans	Amna Assets	Total
Loans collaterised by:				
- house property	1,252,647,891	6,613,752	384,326,944	1,643,588,587
Total loans and advances	1,252,647,891	6,613,752	384,326,944	1,643,588,587

As of 31 December 2017	Customer loans	Staff loans	Amna Assets	Total
Loans collaterised by:				
- house property	1,137,133,718	5,663,292	296,299,857	1,439,096,867
Total loans and advances	1,137,133,718	5,663,292	296,299,857	1,439,096,867

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

As of 31 December 2018	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Customer loans	1,252,647,891	3,838,618,519	-	-
Staff loans	6,613,752	17,486,292	-	-
Amna assets	384,326,944	1,063,706,371		
Total loans and advances	1,643,588,587	4,919,811,182	-	-

As of 31 December 2017	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Customer loans	1,137,133,718	3,483,952,673	-	-
Staff loans	5,663,292	15,111,892	-	-
Amna Assets	296,299,857	704,644,372		
Total loans and advances	1,439,096,867	4,203,708,937	-	-

Notes to the financial statements (continued)

(All amounts in Maldivian Rufiyaa)

29.1.6 Risk limit control and mitigation policies (continued)

(b) Credit-related commitments

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

29.1.7 Impairment and provisioning policies

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

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

Maximum exposure before collateral equals to the net carrying value of all the assets in the Statement of financial position except cash and bank balances representing a worse case scenario of credit risk exposure to HDFC at 31 December 2018 and 31 December 2017, without taking account of any collateral held.

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

• All the housing loans are backed by collateral.

• 89.31 % of the loans and advances portfolio are considered to be neither past due nor impaired (31 December 2017: 81.71 %);

29.1.9 Loans and advances

Loans and advances are summarised as follows:

	2018	2017
Neither past due nor impaired (less than 30 days)	1,467,845,678	1,175,930,073
Past due but not impaired (30-60 days)	38,242,556	109,413,873
Past due but not impaired (60-90 days)	50,990,753	68,397,115
Past due but not impaired (90-120 days)	32,449,908	27,299,855
Impaired (more than 120 days)	54,059,692	58,055,950
Gross loans and advances	1,643,588,587	1,439,096,867
Less: allowance for impairment	(26,209,891)	(28,581,369)
Net loans and advances	1,617,378,696	1,410,515,498

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29.1.9 Loans and advances (continued)

Further information of the impairment allowance for loans and advances to customers is provided in Note 16.

During the period 31 December 2018, HDFC's total value of loans and advances increased by 14.21% (2017: 8.94%) as a result of new disbursement of the housing loans. In order to minimise the potential increase of credit risk exposure, the HDFC focused more on lending house construction loans providing collateral and strong repayment capacity from employment, other business and rental income.

(a) Loans neither past due nor impaired

Currently HDFC does maintain an internal credit rating system for loans neither past due or impaired. Internal rating is calculated by taking total receipts for the period (A) and total late penalty for the period (B), an arriving at a percentage by dividing B by A, (i.e. B/A). Percentages are graded as follows;

		As at 31 December 2018		**As at 31 December 2017**	
Internal Ratings	Basis for grading (B/A)	Loans to customers	Percentage of total loans	Loans to customers	Percentage of total loans
		MVR		MVR	
A+	0.2%	1,467,845,678	100.00%	1,175,930,073	100.00%
A	0.2% to 0.5%	-	-	-	-
A-	0.5% to 1%	-	-	-	-
B+	1% to 1.5%	-	-	-	-
B	1.5% to 2%	-	-	-	-
C	above 2%	-	-	-	-
		1,467,845,678	100%	1,175,930,073	100.00%

(b) Loans and advances past due but not impaired

Loans and advances less than 120 days past due are not considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by areas to customers that were past due but not impaired were as follows:

(Amount in MVR '000)

	Housing loan			
31 December 2018	**Male'**	**Hulhumale'**	**Outer atoll**	**Total**
Past due 30-60 days	10,923	19,307	8,012	38,243
Past due 60-90 days	17,127	29,115	4,748	50,991
Past due 90-120 days	3,311	28,303	836	32,450
Total	31,361	76,726	13,597	121,683

Notes to the financial statements (continued)

(All amounts in Maldivian Rufiyaa)

29.1.9 Loans and advances (continued)

(b) Loans and advances past due but not impaired (continued)

31 December 2017	Male'	Hulhumale'	Outer atoll	Total
Past due 30-60 days	57,212	45,714	6,488	109,414
Past due 60-90 days	22,324	40,046	6,028	68,397
Past due 90-120 days	7,660	17,263	2,376	27,300
Total	87,196	103,023	14,892	205,111

Upon initial recognition of housing loan, the cost incurred to construct the house is taken as the fair value of the mortgaged house.

(c) Loans and advances impaired

The impaired loans and advances to customers is MVR 54,059,692 (as compared to on 31 December 2017 when impaired loans and advances to customers were MVR 58,055,950).

The breakdown of the gross amount of impaired loans and advances by areas are as follows:

	(Amount in MVR '000) Housing loan			
31 December 2018	**Male'**	**Hulhumale'**	**Outer atoll**	**Total**
Impaired loans	19,627	29,510	4,923	54,060
Total	19,627	29,510	4,923	54,060

31 December 2017	Male'	Hulhumale'	Outer atoll	Total
Impaired loans	19,366	33,261	5,429	58,056
Total	19,366	33,261	5,429	58,056

29.1.10 Concentration of risks of financial assets with credit risk exposure

(a) Geographical sectors

HDFC’s lending activities are limited to Maldives.

(b) Sectors

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

	2018	2017
Residential - Conventional	1,256,098,708	1,139,243,180
Residential - Islamic	384,326,943	296,299,857
Commercial	3,162,936	3,553,830
Grand total	1,643,588,587	1,439,096,867

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29.2 Market risk

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

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

29.2.1 Foreign exchange risk

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

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

By virtue of the SWAP agreements, HDFC will be able to service the US$ loans obtained from FMO and DEG. As at the reporting date, the outstanding balance in these two borrowings amounts to US$ 8,296,367 (2017: US$ 11,215,172), against which the amounts of US$ to be purchased from STO PLC is US$ 8,218,891 (2017: US$ 11,084,841).

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

	(Amount in USD)	
	2018	**2017**
Assets		
Cash and balances with other banks	97,915	147,593
Total assets	97,915	147,593
Liabilities		
Borrowings	(8,296,367)	(11,215,172)
Total liabilities	(8,296,367)	(11,215,172)
Net on-balance sheet financial position	(8,198,451)	(11,067,579)
Currency SWAP	8,218,891	11,084,841
Net	20,440	17,262

Notes to the financial statements

(All amounts in Maldivian Rufiyaa)

29.2.1 Foreign exchange risk (continued)

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

Amounts in MVR	As at 31 December 2018		As at 31 December 2017	
	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
US Dollar strengthening by 10%	2,044	-	1,726	-
US Dollar weakening by 10%	(2,044)	-	(1,726)	-

29.2.2 Interest rate risk

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

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

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

Notes to the financial statements

(All amounts in Maldivian Rufiyaa)

29.2.2 Interest rate risk (continued)

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

As at 31 December 2018	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non- interest bearing	Total
(in MVR '000)							
Assets							
Cash and balances with banks	44,088	15,000	-	-	-	32,566	91,654
Financial assets at amortised cost	-	29,976	-	-	-	-	29,976
Loans and advances	13,455	30,359	166,764	398,410	1,008,390	-	1,617,378
Other assets	-	-	-	-	-	7,356	7,356
Total financial assets	57,543	75,335	166,764	398,410	1,008,390	39,922	1,746,364
Liabilities							
Deposits from customers	-	-	-	-	74,061	8,362	82,423
Debt securities in issue	2,618	1,248	5,000	20,000	190,114	-	218,979
Other borrowed funds	1,250	19,470	149,320	436,075	31,750	-	637,865
Other liabilities	-	-	-	-	-	288,021	288,021
Current tax liabilities	-	-	-	-	-	8,371	8,371.27
Total financial liabilities	3,868	20,718	154,320	456,075	295,925	304,754	1,235,660
Total interest repricing gap	53,675	54,617	12,443	(57,665)	712,465	(264,832)	510,704

Notes to the financial statements

(All amounts in Maldivian Rufiyaa)

29.2.2 Interest rate risk (continued)

As at 31 December 2017	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Non- interest bearing**	**Total**
(in MVR '000)							
Assets							
Cash and balances with banks	41,800	67,000	-	-	-	26,726	135,526
Financial assets at amortised cost	29,960	-	-	-	-	-	29,960
Loans and advances	10,008	27,101	84,919	329,255	959,232	-	1,410,515
Other assets	-	-	-	-	-	7,868	7,868
Total financial assets	81,768	94,101	84,919	329,255	959,232	34,594	1,583,869
Liabilities							
Deposits from customers	-	-	-	-	64,844	3,592	68,436
Debt securities in issue	8,955	18,848	10,000	111,602	-	-	149,405
Other borrowed funds	16,444	45,597	142,777	392,001	76,042	-	672,861
Other liabilities	-	-	-	-	-	227,933	227,933
Current tax liabilities	-	-	-	-	-	7,813	7,813
Total financial liabilities	25,399	64,445	152,777	503,603	140,886	239,338	1,126,448
Total interest repricing gap	56,369	29,656	(67,858)	(174,348)	818,346	(204,744)	457,421

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

Notes to the financial statements

(All amounts in Maldivian Rufiyaa)

29.2.2 Interest rate risk (continued)

Exposure to Interest rate risk - Loans and advances

Sensitivity Analysis of Net interest income

(in MVR '000)	As at 31 December 2018		As at 31 December 2017	
	1% increase	1% decrease	1% increase	1% decrease
Average for the year	7,755	(7,755)	6,622	(6,622)

29.3 Liquidity risk

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

29.3.1 Liquidity risk management process

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

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

Notes to the financial statements

(All amounts in Maldivian Rufiyaa)

29.3.1 Liquidity risk management process (continued)

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

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

29.3.2 Funding approach

Sources of liquidity are regularly reviewed by the ALCO.

Notes to the financial statements

(All amounts in Maldivian Rufiyaa)

29.3.3 Non-derivative cash flows

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

As at 31 December 2018	Upto 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total	Carrying amount
(in MVR '000)							
Liabilities							
Deposits	-	-	8,362	-	74,061	82,423	82,423
Debt securities in issue	2,756	1,475	14,307	78,696	256,727	353,961	218,979
Other borrowed funds	4,468	23,337	173,670	490,699	34,142	726,316	637,866
Other liabilities	-	-	59,413	-	228,608	288,021	288,021
Current tax liabilities	-	-	8,371	-	-	8,371	8,371.27
Total liabilities	7,224	24,812	255,752	569,395	593,538	1,450,722	1,227,289
Assets							
Cash and balances with banks	76,654	15,000	-	-	-	91,654	91,654
Financial assets at amortised cost	-	29,976	-	-	-	29,976	29,976
Loans and advances	28,839	61,027	303,097	1,069,349	1,919,623	3,381,935	1,617,378
Other assets	80	147	1,553.83	5,575	-	7,356	7,356
Total assets	105,572	106,150	304,651	1,074,925	1,919,623	3,510,920	1,746,364
Net	98,348	81,338	48,899	505,530	1,326,085	2,060,199	519,075

Notes to the financial statements

(All amounts in Maldivian Rufiyaa)

29.3.3 Non-derivative cash flows (continued)

As at 31 December 2017	**Upto 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**	**Carrying amount**
(in MVR '000)							
Liabilities							
Deposits	-	-	3,592	-	64,844	68,436	68,436
Debt securities in issue	9,036	19,182	10,208	111,602	-	150,028	149,405
Other borrowed funds	19,527	51,711	168,091	465,000	92,437	796,766	672,861
Other liabilities	-	-	55,570	-	172,364	227,934	227,934
Current tax liability	-	-	7,813	-	-	7,813	7,813
Total liabilities	28,563	70,893	237,461	576,602	329,645	1,243,164	1,118,636
Assets							
Cash and balances with banks	68,526	67,000	-	-	-	135,526	135,526
Financial assets at amortised cost	29,960	-	-	-	-	29,960	29,960
Loans and advances	16,325	32,651	146,928	783,618	1,959,044	2,938,566	1,410,515
Other assets	-	825	224	4,330	2,489	7,868	7,868
Total assets	114,811	100,476	147,152	787,948	1,961,533	3,111,920	1,583,869
Net	86,248	29,583	(90,309)	211,346	1,631,888	1,868,756	465,233

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

Notes to the financial statements (continued)

(All amounts in Maldivian Rufiyaa)

29.4 Capital management

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

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

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

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

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

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

The table below summarises the composition of capital and the ratios of HDFC for the years ended 31 December 2018 and 2017. HDFC complied with all of the externally imposed capital requirements to which they are subjected.

Capital	**2018**	**2017**
Share capital	159,375,000	159,375,000
Retained earnings	341,400,374	285,967,217
Reserves	15,000,000	17,136,480
Total qualifying Capital	515,775,374	462,478,697
Total capital	515,775,374	462,478,697
Risk-weighted assets		
On-balance sheet	849,425,314	728,435,996
Total risk-weighted	849,425,314	728,435,996
Basel ratio	61%	63%

The changes in the regulatory capital was mainly due to the profit earned during the year ended 31 December 2018. The increase in risk-weighted assets reflects the expansion of the loan portfolio during year.

Notes to the financial statements

(All amounts in Maldivian Rufiyaa)

30 Analysis of financial instruments by measurement basis

As at 31 December 2018	Amortised cost	Total
Financial assets		
Cash and cash equivalents	91,653,575	91,653,575
Financial assets at amortised cost	29,976,096	29,976,096
Loans and advances	1,617,378,696	1,617,378,696
Total assets	1,739,008,367	1,739,008,367

	Amortised cost	Total
Financial liabilities		
Debt securities in issue	218,979,337	218,979,337
Other borrowed funds	637,865,650	637,865,650
Deposits from customers	82,423,308	82,423,308
Total liabilities	939,268,295	939,268,295

As at 31 December 2017	Held-to-maturity	Loan and receivables	Total
Financial assets			
Cash and cash equivalents	-	135,525,548	135,525,548
Financial assets held to maturity	29,959,834	-	29,959,834
Loans and advances	-	1,410,515,498	1,410,515,498
Total assets	29,959,834	1,546,041,046	1,576,000,880

	Other liabilities	Total
Financial liabilities		
Debt securities in issue	149,404,938	149,404,938
Other borrowed funds	672,860,514	672,860,514
Deposits from customers	68,435,976	68,435,976
Total liabilities	890,701,428	890,701,428

Notes to the financial statements continued

31 Fair value of financial instruments

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

	As at 31 December 2018		As at 31 December 2017	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Assets carried at amortised cost				
Cash and cash equivalents	91,653,575	91,653,575	135,525,548	135,525,548
Financial asset at amortised cost	29,976,096	29,976,096	29,959,834	29,959,834
Loans and advances to customers	1,617,378,696	1,617,378,696	1,410,515,498	1,410,515,498
	1,739,008,367	1,739,008,367	1,576,000,880	1,576,000,880
Liabilities carried at amortised cost				
Deposits from customers	82,423,308	82,423,308	68,435,976	68,435,976
Debt securities in issue	218,979,337	218,979,337	149,404,938	149,404,938
Other borrowed funds	637,865,650	637,865,650	672,860,514	672,860,514
	939,268,295	939,268,295	890,701,428	890,701,428

Notes to the financial statements continued

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

32 Contingencies

(a) Contingent liabilities

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

(b) Contingent assets

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

33 Commitments

(a) Capital commitments

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

(b) Loan commitments

	2018	**2017**
Undisbursed loans and other facilities	265,061,285	231,385,456

(c) Operating lease commitments

	2018	**2017**
Not later than one year	1,032,000	905,000
Later than one year and not later than five years	3,683,000	4,320,000
More than five years	-	1,905,000
	4,715,000	7,130,000

34 Related party transactions

Key management compensation

	2018	**2017**
Executive management salaries	2,543,594	1,027,198

35 Events after the reporting period

No significant events have occurred since the reporting date, which would require adjustments to, or disclosure in, the financial statements.

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