Annual Report 2019

Housing Development Finance Corporation Plc.

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HDFC Plc.
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H. Mialani, 4th Floor
Sosun Magu
Male' Republic of Maldives
Tel: 3338810 / 3334666
Fax: 3315138
Email: Info@hdfc.com.mv
www.hdfc.com.mv

Concept and Artwork by: Ms. Raheema Saleem
Photo Contribution: Mr.Abdulla Faiz

بسم الله الرحمن الرحيم

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Definition

Annual Report 2019 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 2019. 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.

Chairman's Statement

"Partnering home ownership"

It is an honour and a privilege for me to welcome you to the sixteenth Annual Report and audited financial statements of the Housing Development Finance Corporation Plc. (HDFC) Maldives for the year ended 31 December 2019.

Over the past decade and half, HDFC has proven itself a vehicle for national and social development, providing housing solutions to the needs of middle- and low-income segments. Originating from a very modest beginning, the Company has transformed into a dynamic and innovative financial institution, overcoming multitude of challenges. The year 2019 showcases the Company's resilience, stature and progress despite the systematic risks arising from changes in the macro environment that were beyond our control and HDFC turned in a good performance, staying on plan towards sustainable growth, demonstrating the effectiveness of strategy and resilience.

Global Economy

According to IMF October 2019, World Economic Outlook, the global economic growth is forecasted at 3.0 percent for 2019 and this growth is projected to pick up to 3.4 percent in 2020, reflecting mainly a projected improvement in economic performance in a number of developing markets that are under macroeconomic stress. However, it will further slow down on the backdrop of increased US-China trade tensions and political and economic uncertainty arising from Brexit and from the unexpected outbreak of COVID-19 worldwide. In addition, a noteworthy feature of the slow growth in 2019 is the slowdown in manufacturing and global trade. Couple of reasons are forcing this; higher tariffs and lengthy uncertainty surrounding trade policy have damaged investment and demand for capital goods, which are heavily traded. The effects of the COVID-19 pandemic on the global economy are still largely unknown and the degree of its impact will depend entirely on how long the pandemic will last. The challenge for policymakers is to implement targeted policies that address what has been expected to be short-term problems without creating distortions in economies that can outlast the impact of the virus itself.

Maldivian economy and impact of Covid-19

World Bank October update on the country, the GDP was expected to grow at 5.7 percent in 2019. The national economic growth is expected to rebound to 7.5 percent in 2020 as new tourism related projects pick up pace. However, with the outbreak of COVID-19 the situation has drastically changed, and the figures need to be revisited once the boarders open up for tourist arrivals in Mid July 2020 and the associated industries resume its operations.

Policy measures to mitigate the economic impact of Covid-19 on the tourism

While the medium and long-term impacts of COVID-19 remain uncertain and will vary from country to country. It is exemplary to note that the Maldivian government has taken much required aggressive and co-ordinated policy action at the local, national, and international level, to minimise job losses and business closures in the immediate and medium-term. Some of the measures are in the form of economy-wide stimulus packages, including liquidity injections to the financial sector and fiscal relief.

State of the COVID -19 on HDFC

Consumer households are already facing financial hardship as a result of the coronavirus outbreak. Thousands are now experiencing the realities of unemployment and more are likely to in the coming months. While some of these consumers will receive relief in the form of unemployment allowance, in most cases it will not be enough to cover basic living expenses plus mortgage payments. Hence considering the government recovery plan HDFC has provided mortgage payment deferrals to qualifying borrowers of six months from March to August 2020.

New regulations and compliances

IFRS 16 was issued in January 2016 and applies to annual reporting periods beginning on or after 1 January 2019. IFRS 16 specifies how a company will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

Governments vision for housing

The present administration has embraced on the path of making housing for all a reality. Housing sector in general and affordable housing in particular has been one of the top item on the Governments agenda. The positive initiatives of this administration include plans to construct 20,000 social housing units in the next 4 years, and MVR 600,000 million is earmarked to construct 10,000 social housing units in 2020. The thrust on affordable housing shows the commitment of the Government to ensure social justice and equality under its inclusive development approach.

In order to achieve the growth estimated for 2020 the government plans to empower local councils by allocating a portion of the annual state budget and to develop at least 5 regional economic hubs across the archipelago. The government has also embarked on a series of reforms such as, re-establish the justice system, and protect fundamental human rights. Also high on the new government's agenda is climate change.

Our performance

Many of the initiatives taken by the Company for achieving competitiveness and sustainable growth have begun yielding desired results as reflected in the financial performance of your Company for the year ended 31 December 2019. The Company reported a 13.80% increase in Gross Revenues from operations at MVR217.65 million for the financial year ended 31 December 2019 as against MVR191.25 million for the previous year. Profit after Tax (PAT) for the year ended 31 December 2019 has decreased to MVR91.09 million against MVR98.99 million for the previous year, decreased by 7.99% over the last year. This was due to the impact of COVID-19 on ECL provision. Gross housing portfolio grew by 8.40% to MVR1.78 billion. The Net Interest Income (NII) has grown 7.18% to MVR 101.94 million. Return on Equity (ROE) records to 16.16% with Earning Per Share (EPS) of MVR57.16. Based on the performance of the company, the Board of Directors have declared dividend of MVR27.50 per share.

Outlook

We need to remain positive on the tourism's expected growth (12.7%) in 2020. The current crisis is affecting businesses of all sizes, from the largest companies to the smallest independent hotel, guest house owners and SMEs'. In response to the immediate and widespread effects on the sector, the government has immediately developed and introduced policy measures that provide financial reliefs to individuals and those who are suffering business and income loss. With these constructive measures tourism and with the recent infrastructure investments it is likely to help ease supply bottlenecks in this sector as soon as the economy begins to revive.
Together, we are weathering historic times. As we continue to monitor the evolving COVID-19 situation, the health, safety, and well-being of both our customer and employees remains our top priority.

We will use this time of disruption to consider reinventing HDFC from the inside out. It is a time when we need to better understand the way customers expect their financial institution to support their financial needs. Now is the time to demonstrate why and how we must be at the frontline of that financial stewardship for individuals and families, the whole concept of personalization – really understanding who the customer requires not only understanding what their needs are, but proactively reaching out to them. HDFC have provided solutions that are going to have a real impact on our customers by providing 6 months moratorium to pay their home loans and facilities.

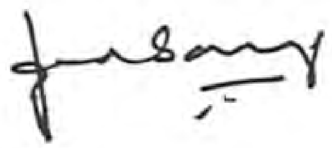
In addition, the Government of Maldives has initiated talks with the three international shareholders ADB, IFC and HDFC-Investments regarding the exit strategy agreed as per the shareholders agreement. Plans are underway and the Board has formed an IPO Committee to execute the sale of the existing three shareholders 51 percent stake in the HDFC- Maldives.

From where we stand today, we are all set to take on the opportunities the future unfolds. I have immense trust in HDFC's team and therefore, I am confident that the coming years would see the Company sailing through its strong historical growth pathway, in a stable and sustainable manner, upholding the core values of customer first and ethical standards.

Appreciation

I take this opportunity to extend my sincere gratitude and place on record my sincere appreciation and gratitude to all those who have untiringly contributed to the Company's progress. I would like to convey my sincere appreciation to my colleagues on the Board for their valuable support and guidance and to the entire team of employees led by executive management, it is their talents, unreserved effort and commitment that propel the Company to keep expanding its horizons. A special thank you to Ms. Renu Sud Karnad who resigned from the Board on 15th March 2019, for her valuable support. I also wish to extend my sincere gratitude to the shareholders and all other stakeholders and our local customers for their support and the confidence placed in us.

On behalf of the Board of Directors



Conrad D'Souza
Chairman – HDFC Maldives

Towards building a nation of”
“homeowners

Managing Director’s Report

The word “home” triggers several sentiments in our hearts. A vital necessity of life, which several Maldivians need. A concept for social and economic development.

For over one and half decade, HDFC has been fulfilling the dreams of thousands of Maldivians for home ownership. Our focus on providing easy accessible housing finance to the lower- and middle-income groups has turned their aspirations into reality.

In this journey, we have gained immense knowledge and consumer insights, that help us design and offer innovative products and services, to meet the emerging housing needs of our customers. As we further our Founding Vision of ‘enabling access to home ownership’, we envisage playing a significant role towards building a nation of homeowners.

Housing situation in the Maldives

Male' is one of the most densely populated cities in the world, is the home of over 135,000 people in an area of less than 10 square kilometres. It is estimated that the urban population constitutes one third of the total population of the country. Thus far, making housing available to all is increasingly becoming a big challenge in Maldives. Like any other developing nation, Maldives also faces limited housing supply. However, this shortage of housing number seems unclear, the need to build 20,000 units across the nation has become one of the top priority of the present Administration.

Housing Finance

Housing finance remains a challenge for many householders 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. The income received from many-lower and middle-income households may not be able to afford housing at market rates of interest and house prices, single incomes may not be fixed or documented, or past credit histories may be inadequate. Hence, there is a remarkable need to support the design and the implementation of sound housing finance policies in Maldives to enhance access to housing and, as a result, an improved living standard for a greater share of the population. Two major challenges can be identified for a sustainable housing finance market; on one hand the need to enhance affordability of housing finance alternatives for low- and middle-income segments, and on the other hand the need to foster long-term funding for housing finance. In order to overcome these challenges, it is necessary to introduce policy practices intended to enlarge primary mortgage markets making them accessible to a previously underserved population and to stimulate linkages between mortgage markets and capital markets.

The policy makers can contribute in accelerating the development of mortgage markets by improving the legal and regulatory framework e.g. an efficient title and mortgage registration process and fast-tracking court cases.

COVID-19 impact on housing market

When 2020 dawned, global GDP began to fall sharply as had international trade, tourism, construction and manufacturing as economies worldwide were battered by the Covid-19 pandemic. Maldives was no exception and is not immune to these influences.

If the novel coronavirus (COVID-19) continues to reshape the way our world is interconnected, from how we conduct business to how we live our lives. Maldives housing market could see a significant pullback this year because of the COVID-19 pandemic. Market activity in the Maldives in a matter of few weeks, surging unemployment, and market illiquidity are to name a few. In response to unprecedented and coordinated fiscal stimuli, monetary easing, and government support for banks, Maldives GDP may be heavily impacted leading to a negative GDP growth in 2020.

The outbreak of Corvid -19 is expected to further exacerbate the weakness of residential and real estate sector that has already been reeling from the adverse impact of the prevailing liquidity crunch, weak affordability and subdued demand conditions. In case of a longer outbreak though, we believe, the impact on overall economic activity is likely to be deeper and more sustained, which would, in turn result in a more significant impact on financier's cash flows giving rise to delay in finishing end-user projects and retail housing projects on time.

Declining tourism, imports on construction materials

Developing countries, particularly those dependent on tourism and commodity exports, face heightened economic risks. The sudden stop in tourist arrivals will hurt the tourism sector in Small Island Developing States (SIDS) that employs hundreds of low-skilled workers. Commodity-dependent economies like Maldives will hit hard as global manufacturing production could contract significantly, amid the possibility of extended disruptions to global supply chains.

The COVID-19 outbreak is expected to bring several long-lasting and short-term negative consequences. Even if the government do not call for direct halts to construction, the effects of COVID-19 as pandemic are far reaching. A wide array of building materials is imported from COVID-19-embattled countries, like China, India or other nations many of which have shuttered factories to contain the pandemic. There is a decline in construction related imports due to decrease in manufacturing output and extended interruption to global supply chain.

The current forecast assumes that the outbreak is controlled across all major markets by the end of the second quarter, following which, conditions would allow for a return to normalcy in terms of economic activity and freedom of movement in the second half of the year. However, there will be a lingering and potentially heavy impact on home loans owing to the financial toll that inflicted upon businesses and investors across a wide range of sectors.

Gazing into the future

I believe that the housing projects of "Housing for All" and Infrastructure Development initiatives amongst others, should help improve the overall economic growth across sectors. The Housing Finance sector, in particular, is riding on a new wave of optimism following the Government's commitment to build 20,000 housing units across the nation. This may have not only increased homebuyer's sentiments but should also increase the confidence of contactors and long-term investors. HDFC has shown itself to be immensely agile and innovative over the years, and these attributes will continue to serve it well in the years ahead. As we enter the 17th year of our journey, we re-affirm our commitment to exceed our customers' expectations while also creating value for all our stakeholders.

The Company has now more than 16 years of experience in housing finance. It is within this span of experience that we have launched new products. Therefore, we are supported not only by qualified personnel, but also by a heritage of specialised knowledge. Furthermore, our future strategy therefore will be to strengthen long-term funding through bonds, sukuk and term loans. With the blessing from Allah we will be innovating novel products and will continue to add value to our customers in their quest for homeownership.

Appreciations

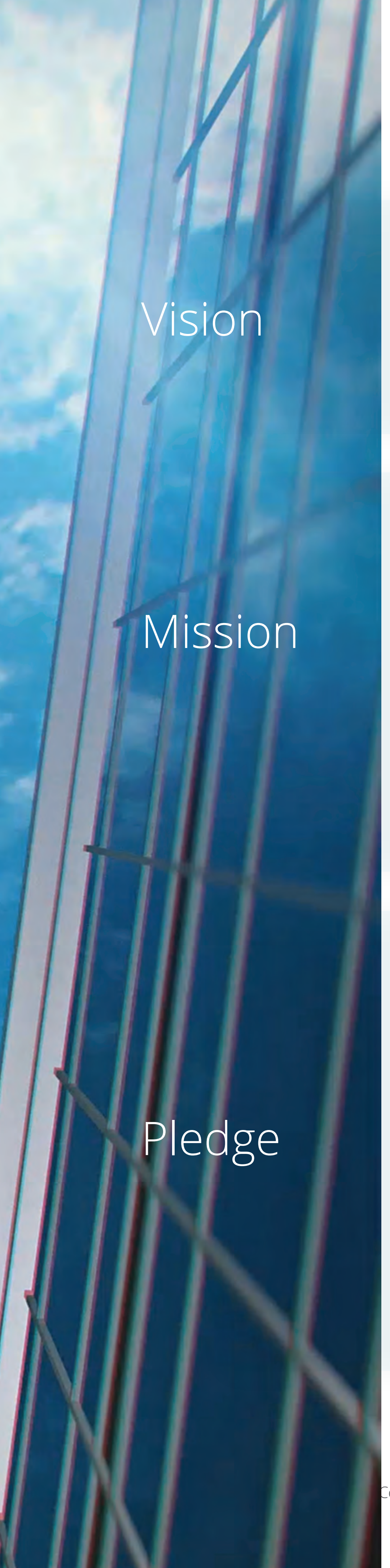
The continued growth of the Company and its favourable performance have been due to the support of various stakeholders including customers, and business associates. I am indeed grateful to these parties for their contributions which have resulted to record another year of achievement. I take this opportunity to convey my gratitude and sincere thanks to the Chairman and the Board of Directors for their continued guidance, advice and support. I warmly thank HDFC's staff for their unmatched pursuit of excellence and teamwork towards the organization's performance. I would also like to thank all the regulatory bodies for their guidance and support. Finally, my gratitude goes to shareholders for the confidence reposed in HDFC and pledge our commitment to an onward journey, which includes strategies to increase shareholder value.

May Almighty Allah grant us wisdom and strength in days to come.

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 9th February 2006 and privatized on 23 July, 2008 with the signing of a shareholder's agreement between Government of Maldives (49%), IFC (18%), ADB (18%) and HDFC-Investments Ltd.- India (15%).
Company Registration Number	C-107/2006
Share capital	MVR 159,375,000
Chairman	Mr. Conrad D'Souza
Managing Director	Ms. Raheema Saleem
Auditors	PricewaterhouseCoopers (External Auditors) KPMG (Internal Auditors)
Legal Counsel	Mazlan & Murad Law Associates
Company Secretary	Mr. Adam Athif
Registered address	Mialani, 4th Floor, Sosun Magu, Male' Republic of Maldives Phone: (960) 3338810 / 3315896 / 3315897 Fax: 3315138 Website : www.hdfc.com.mv Email: info@hdfc.com.mv



Vision

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

Mission

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

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

Pledge

Strive hard and explore all avenues to:

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

Hdfc's Product Portfolio

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

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

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

HOME IMPROVEMENT LOAN
Home improvement loan is for essential repairs and improvements brought to the property at 11.25% per annuum for 7 years

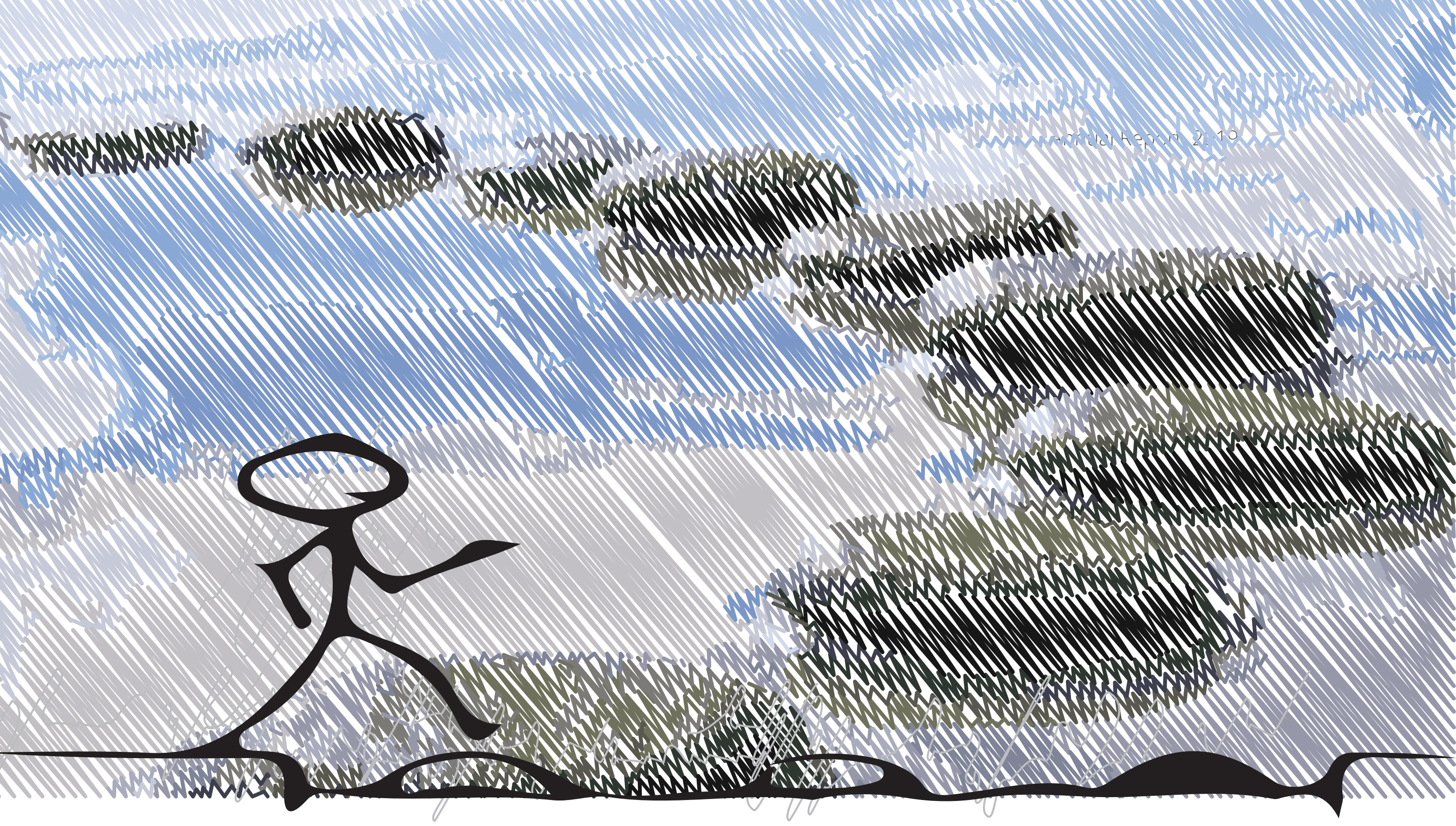
YOUTH LOAN
Home purchase loan for youth at 10.5% pe

Home where your heart is

ISTHISNA' HOME CONSTRUCTION
Islamic facility given by Amna under Isthisna' concept for home construction.

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

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



Our Journey

- **2019** Issued fixed income Bond: No. 3 (Oversubscribed) Issued Islamic Sukuk: No. 3
- **2018** Issued fixed income Bond No.2
- **2017** 100% local employees
- **2016** Amna received Gold Award as Turnaround of the year
- **2015** Rewarded customers with a rate cut
- **2014** Introduced "Gedhoruverikurun Program"
- **2013** Issued the first rated Bond
- **2012** Inaugurated the Islamic Window, AMNA
- **2011** Introduced end user finance
- **2010** Launched the first housing finance products
- **2009** Obtained the first foreign borrowings
- **2008** Privatised HDFC under foreign investment
- **2007** Investment in MMA Treasury Bills
- **2006** Registered as a Public Limited Company (Plc.)
- **2005** Conversion of HDFC to a public company
- **2004** Incorporated as 100% State Owned Enterprise(SOE)

Directors' Report

We can truly be called pioneers in providing small ticket home loans. Our initiatives are to keep us on the forefront of the path where we began our journey

We are pleased to present the 16th Annual Report of HDFC- Plc Maldives (the Company or HDFC"), and audited accounts for the year ended 31 December 2019.

Over the last 16 years of operation, HDFC is maintaining its' mission to provide high quality, reliable and innovative financial solutions though its values of service, transparency, ethics, respect and sustainability.

During the last one and half decade or so the Company has cruised through unchartered territories laying down strong and deeper foundations to actualise its dream of becoming the most respected housing finance Company in the nation. HDFC has significantly grown in its relevance to the opportunity in the housing finance sector today. Going by its performance in the recent years. We have no doubt in my mind that the Company will achieve its goals sooner than later.

It is gratifying to note the Company has exhibited an appreciable performance. The Company has maintained high quality of loan assets with NPAs at 1.54%. The large part of the credit for this performance goes to the whole team of HDFC employees who have put in their sincere efforts to achieve the goals of the Company. We, the Directors express our hearty congratulations to each and every member of the company and every member of the management for having led the team from the front to reach these milestones.

Our performance in 2019

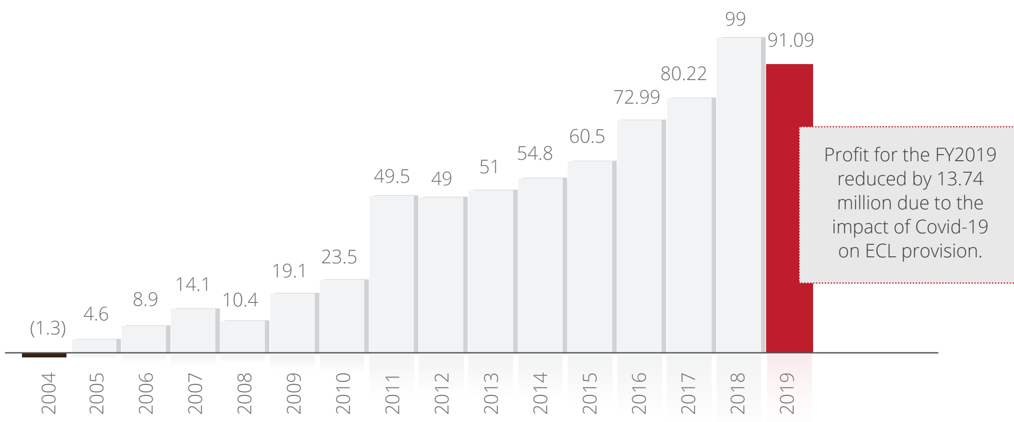
Housing Development Finance Corporation Plc. is the only specialized housing finance institution in the Maldives with total assets MVR 2,185.66 million and an annual income of MVR 217.65 million

We achieved an income growth of 13.80% during this year which is admirable considering the strong competition in the market and it was the year in which the industry faced high impairment charges as a result of declining asset quality. To summarize, HDFC was able to generate sustainable profits. The investor appetite for the Maldivian Rufiyaa bond and Sukuk issue during the year were particularly encouraging as it reflected market acceptance of HDFC.

Financial performance highlights

	2015	2016	2017	2018	2019
GROWTH					
Total assets	1,237.25	1,361.79	1,588.93	1,751.44	2,185.66
Facilities to customers	1,086.54	1,302.98	1,410.52	1,617.38	1,738.37
Customer EMI deposit	59.44	64.50	68.44	82.42	88.68
Borrowings	609.45	614.98	672.86	637.87	692.38
EARNINGS					
Total Income	131.61	151.77	173.24	191.25	217.65
Net Interest Income	76.77	84.42	89.82	95.11	101.94
Net Income on Shari'ah Product	6.05	14.44	22.58	25.08	33.96
Total Operating Income	90.31	105.08	119.51	126.31	141.41
Total Operating Expenses	16.96	15.40	15.64	18.27	33.78
Profit Before Tax	71.49	85.66	93.29	116.30	107.62
Profit After Tax	60.54	72.30	81.19	99.00	91.09
PERFORMANCE					
Net asset value per share	253.38	261.24	286.51	323.62	353.28
Earing per share(EPS)	38.00	45.49	50.90	62.00	57.16
Dividend per share	18.00	20.00	22.00	25.00	27.50
Debt/Equity(times)	2.06	2.27	2.47	2.40	2.88
Interest cover(times)	1.60	2.00	2.00	2.10	1.70
Dividend pay out	46%	44%	43%	40%	48%
ROE	15%	17%	18%	19%	16%

Performance at a glance (Profit growth)

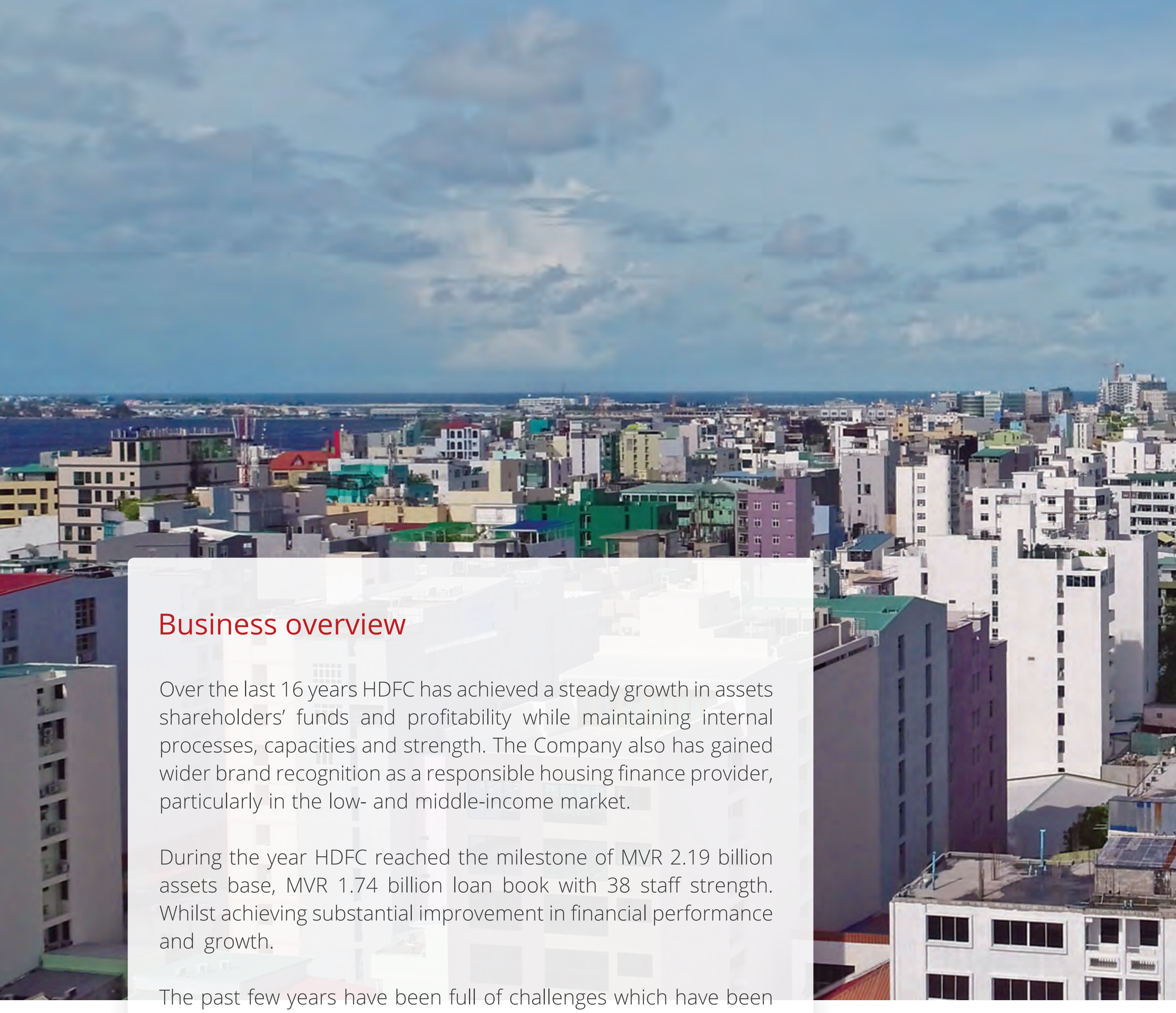


Housing industry outlook

The present administration has created an aura of hopefulness and growth with respect to housing with cheaper credit to affordable housing sector. These initiatives have the potential to help the housing sector. The real effectiveness of these measures and overall impact on the social housing sector will be seen over the next few years. The business environment would surely remain vibrant and HDFC is geared well to respond to the emerging circumstances.

The slowdown in some sectors such as exports, had a trickle-down impact on the country's housing sector, even as its impact was mitigated on account of increased regulation, funding controls, risk management and asset protection. The sector appeared poised to sustain an increase growth on the back of a growing population, strengthening incomes, rising aspirations, accelerating urbanization and transforming demographics. These realities provide the optimism that household numbers could rise in line with age changes in the younger population group, increase in the working population, growing incomes, robust housing demand, growing preference for mortgage appreciation in real estate values, government fiscal incentives by allowing tax exemption for first home buyers more affordable, customized product offerings and an increased availability of housing stock.

Even though initial forecast of GDP with the outbreak of COVID 19 was low, with the Government of Maldives quick approach to combat the pandemic, through deferments, relief packages to SME and measures to curb employment has delivered positive results to a large extent. The conditions are looking favourable to return to normalcy in terms of opening the economy for tourist arrivals and the business resuming their operations. However, though being positive we cannot ignore the fact of potential effect on home loans owing to the loss of jobs and income from businesses.



Business overview

Over the last 16 years HDFC has achieved a steady growth in assets shareholders' funds and profitability while maintaining internal processes, capacities and strength. The Company also has gained wider brand recognition as a responsible housing finance provider, particularly in the low- and middle-income market.

During the year HDFC reached the milestone of MVR 2.19 billion assets base, MVR 1.74 billion loan book with 38 staff strength. Whilst achieving substantial improvement in financial performance and growth.

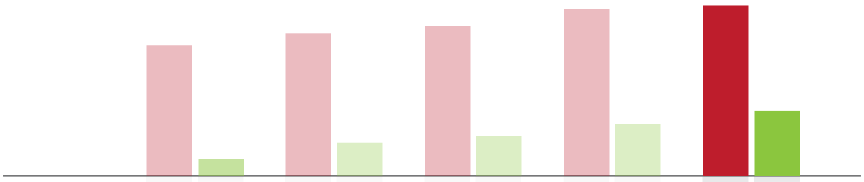
The past few years have been full of challenges which have been overcome with a fair amount of satisfaction, we coasted through the right path rather than taking short cuts to achieve rapid returns and be left with huge NPLs. This approach will sustain and make the business more viable in the years to come.

Our journey has been guided by the objective of becoming a reliable solution provider to the needs of the housing finance sector. Inspired by the focus, we strive to deepen our understanding of the customers' requirements, grip over our processes and controls and our engagement with the employees.

Backed by a top league Board of Directors our concerted efforts have effectuated a noteworthy performance which stand deep rooted on our fundamental values. Today HDFC is a name recognised within the Maldives housing finance sector.

Our beliefs and corporate philosophy

With our achievements over the years, we believe that our Company has taken robust steps ahead with the direction of the strategic vision and mission to be a premier housing finance player in the market by delivering innovative solutions to meet the needs of housing. We are committed to create long term values to our shareholders while balancing economic, environmental and social footprints for the long-term prosperity of the mankind. HDFC, in our daily operation we respect our values; transparency, fairness and openness, and also pay respects to economic, environmental and social rights of our stakeholders. We pay particular emphasis to be complied with regulatory requirements and locally and internationally accepted industry standards and norms and social codes of ethics.



	2015	2016	2017	2018	2019
Conventional	979,130	1,073,495	1,142,797	1,259,261	1,283,794
Amna	121,394	247,487	296,300	384,327	497,846

Gross Portfolio — Conventional 72% — Amna 28%

Housing industry performance

Performance of the housing finance industry was fairly progressive in 2019, supported by, improved investor confidence and low inflation. According to MMA reports soundness of financial institutions in terms of capital, liquidity, profitability and asset quality improved. The regulatory and prudential framework of the financial sector was further strengthened by MMA. Financial system was more liquid largely driven by increased capital inflows and HDFC was able to achieve an overall improvement in financial performance and growth.

The year gone by had its own bag of opportunities and challenges. Starting on a positive note, it gave rise to a new Government in the 2018 presidential election. The investment climate in the Maldives drew the attention of domestic as well as foreign investors. The year witnessed reduction in food and other commodity prices which helped the nation rein its trade and current account deficit. However, interest rates remained at a static-high of 10.45% to 12.5%.

In spite of several positives of the Country, the overall economic environment remained dreary, effecting the rental property big and small alike. The trickle-down effect has a deleterious impact on the demand for end-user finance projects and home loans. Furthermore, due to the collective impact of the economic and regulatory environment, the overall excitement in the housing finance industry remained low-key.

On the contrary, given the potential demand for housing in the Country, if the housing finance ecosystem (comprising of the regulations, banks, end-user projects, real estate developers and customers) is established in a collaborative manner, the time is not for when one would see much higher level of growth in the sector. Housing for all, may indeed become a dream come true in the mid-term future.

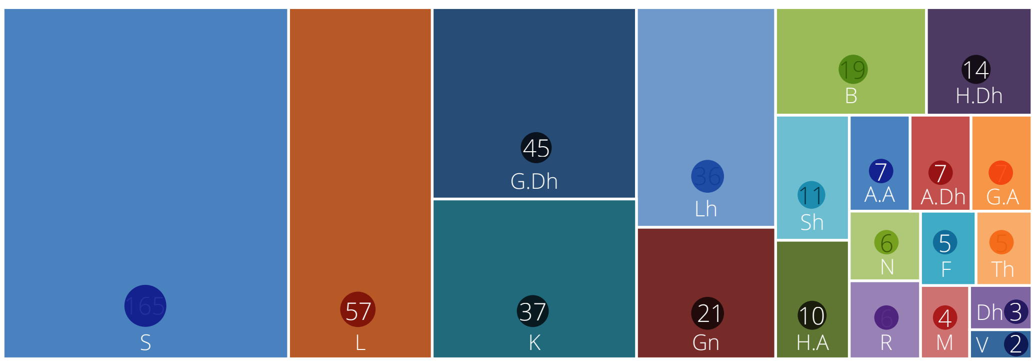
Income

Total operating income was MVR 217.65 million, an increase of 13.80. % from the previous year. Net interest income (NII) which had increased by 7.18% over the previous year. From the total operating income, NII still plays the major role accounting for 65.52.%. Out of the total revenue, interest income on facilities advanced for 2019 was MVR155.58 million, Net income from Amna unit amounted MVR33.96 million. Income from short-term investments was MVR 3.49 million and fee income amounted MVR 3.1 million.

Our coverage in the Maldives

Due to the distribution of our population and ever-increasing land value in the Greater Male' region, housing has become a tremendous issue particularly in the Greater Male' Region (GMR). The Company targeted the under-served low- and middle-income population specifically in the outer atolls. HDFC has covered 20 Atolls and have provided housing facilities to79 islands to generate 467 housing units.

Developing the outer Atolls



Fee income

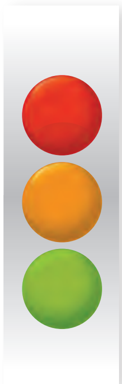
Fee income of the Company less by 38.10 % from MVR 5.01 million in 2018 to MVR 3.10 million in 2019. This decline was primarily due to the decrease in the loan/facility processing fee income. However, fee income of the managed portfolio of the Ministry of Housing increased from MVR 2.25 million to MVR 2.26 million.

Expenses

The Companies total expenses (except provisions) during the year was MVR71.58 million as compared to MVR64.57 million in the previous year, which is increased by 10.86%. Out of the total expenses for the year, interest expenditure was MVR53.64 million (74.94%), and operating expenditure was MVR17.93 million compared to MVR 18.27 in 2018.

Customer deposits

Customers are required to deposit 3 months' equal monthly instalments for the tenure of the customer' facility as a buffer. For the deposit held at the company, if the customer is unable to pay on due date due to any reason, it will be deducted from the deposit and is asked to replenish the amount utilised. However, if the 3 months' deposit is held unutilised the customer is paid a profit at commercial banks savings rate.



NPL Management

The issue of non-performing loans is a continuous and unstoppable challenge not only for a specific institution but also around the world.

The IFRS 9 introduced a new impairment model based on Expected Credit Losses rather than Incurred Losses to better reflect the general pattern of deteriorations or improvements in the credit quality of financial instruments.

HDFC is pursuing both preventive management and curative management strategies for controlling NPAs. The strong credit assessment and risk management mechanism is in place to filter out the likely NPAs. Regular monitoring of accounts at every level are regularly carried out to sense early warning signs to reduce the likely incidence of NPAs. A detailed due diligence on KYC profile of clients were an emphasis on creditability default history etc. is done as part of our credit pre- sanction process while establishing credit relationship. HDFC has been able to lower the NPA to 1.54%. Regarding classification of loans as Watch List. Loan loss provision at the rate 1.50% is to be maintained for loan falls under Watch List. We are able to keep low level of NPA and provision of Watch Listed accounts on back of close monitoring of accounts through prompt recovery efforts. Effectiveness of the process is reflected in the improved NPL ratio which is 1.54% as at end of 2019. We have also been actively monitoring overdue facilities with a view to identifying customers who face genuine difficulties.

Asset quality

Asset quality has always been paramount to us, and we have always delivered an uncompromising performance on this count. The sustainability of the HDFC's operations largely depends on the quality of the portfolio of loans and facilities to customers. Over the years, we have enjoyed one of the lowest NPAs in the industry. Reflecting the industry-wide trend of a deteriorating asset quality, the Company too experienced a slight increase in NPLs compared to 2018. However, due to the conservative risk profile with a moderate risk appetite, robust risk management framework and the strengthened recovery initiatives, the Company managed to contain the gross and the net NPL ratios to 1.57% and 1.07% was reduced to 1.54% and 1.01% respectively as at December 31, 2019.

At the end of 31 December, the total net portfolio amounts to MVR 1.75 billion. The company maintains an internal credit rating system for all facilities either past due or impaired.

Impact of COVID-19

The COVID-19 pandemic is, first and foremost, a humanitarian crisis affecting people's lives, triggering a global economic crisis. This has very tangible impacts for the tourism sector, which is critical for the Maldives who depends heavily on this industry. Tourism generates foreign exchange, drives national development, directly supports numerous categories of jobs and businesses and underpins the local communities. As a labour-intensive sector, tourism is a leading job creator, and in normal circumstances can help to provide diverse employment opportunities for many low skilled workers.

In the Maldives, the impact of COVID-19 on tourism has been overwhelming and immediate. Furthermore, despite the sector's proven resilience in response to previous crises, the sheer depth and breadth of COVID-19–related impacts on tourism and the wider economy is still to be assessed.

The economic impact will vary across the tourism sector, firms, and destinations depending upon a number of factors, including the nature of the tourism offer, the impact of travel restrictions on visitor flows, the speed with which the economy picks up in main source markets, the scale and complexity of business operations, the size of the domestic tourism market and exposure to international markets. The tourism sector is also highly fragmented and diverse, covering a wide range of industries. Tourism services are often interdependent and a crisis in one sub-sector, such as aviation, can have disastrous follow-on effects on the tourism value chain.

Measures implemented to address the impact

As part of government recovery plan to minimize the impact on individuals, HDFC has agreed to the Government of Maldives (GOM) request to provide a moratorium of 06 months to all customers, which allows deferment of Equal Monthly Instalment (EMI); monthly principal and interest repayment for 06months. A total 64% of the portfolio applied for the moratorium and 95% was approved. As a result of deferment impact to the cash inflow will be significant. (decrease by about MVR 18 million per month). These deferrals allowed by HDFC will not be reported to the credit bureau at MMA.

Furthermore, measures also have been implemented to carry out review of income generating capacity to obtain better insight on the impact to the loan portfolio.

Impact on ECL provision

The economic variable assumption and impact on ECL provision for loans and advances for pre covid and post Covid scenarios are mentioned below:

GDP rates	2020	2021	2022	2023	2024	ECL provision (MVR)
Pre covid	6.5%	5.5%	5.5%	5.5%	5.5%	29.52 Mn
Post covid	-0.5%	5.5%	5.5%	5.5%	5.5%	43.26 Mn
Change	-7%	-	-	-	-	13.74 Mn

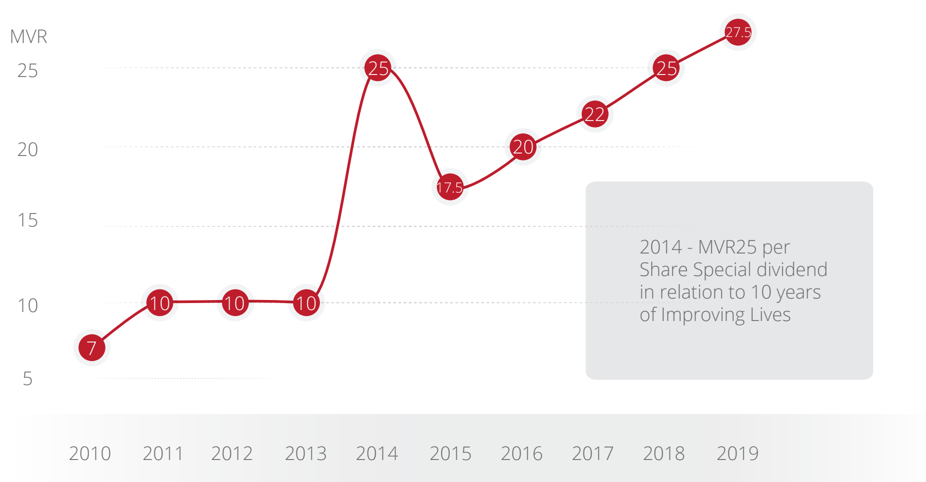
Therefore, due to the impact of Covid19' financial year 2019 profit has dropped by about MVR 13.74 million.

Borrowings and debt instruments

The Company raises funds from issuing debt instruments to the market and from commercial banks to finance its business and strengthen its capital structures at agreed rates, tenures and other terms and conditions. HDFC incurs interest expenses in respect of borrowings and debt instruments issued, which are reflected in the Income Statement together with the interest expenses paid on debt instruments to customers. Debt instruments and other borrowings of the Company account for 71.53% of its total liabilities with debt instruments accounting for 28.90% other commercial borrowings accounting for 42.67%.

Dividend

The Company has consistently maintained a high dividend pay-out ratio. The primary purpose of HDFC dividend policy is to maximize the value of shareholders' returns and to reward shareholders with consistently high returns commensurate with the Company's performance. On 15 December 2019, the Board of Directors recommended MVR 27.50 per share. The pay-out ratio was 48% while retaining capital to support to the future growth of the Company.



Historic bond issue
(a double rainbow)

A noteworthy development in 2019 was our third and highly successful listed Bond and Sukuk that raised MVR 206,931,000 million where the Bond was oversubscribed which is not only an affirmation of the HDFC brand equity, but it also demonstrates the appetite of the investors for financial instruments. Our objectives for the Bonds was to raise long term funds to manage our assets and liability gap and to utilise the funds for home financing. We believe this will pave the way to a gradual development of the Capital Market and the housing finance market, thus empowering us to establish housing finance with matching funds in the future.

Investments

During the year, as per the guidance of the Board of Directors the Company's investment policy drawn by the Asset and Liability Management Committee (ALCO) has set limits for short-term investments depending on the investment opportunities available at that particular week. The power to invest funds has been delegated to the ALCO. The Managing Director chairs the ALCO and is assisted by three senior exco executives. The investment function is carried out to maintain sufficient liquidity for day-to-day operations of the Company. Surplus funds generated out of borrowings and operations are invested in various short-term securities with the objective to maximise return on liquid funds at a reasonable risk and expense.

Considering the time lag between raising of resources and its deployment, the conventional surplus funds are generally parked in MMA (treasury bills) while Amna excess funds are invested at Maldives Islamic Bank (GIA).

Shareholders' funds

Shareholders fund grew by 9.16% YOY in 2019, due to the increase in retained profits during the year. The fund base grew from MVR 515.78 million to MVR 563.04 million.

HDFC's market share

As there are no pure statistics on housing sector alone, HDFC's market share in terms of total housing portfolio over 30%.

Performances of loans and facilities

During the year, the Company has sanctioned facilities to 53 customers amounting MVR 125 million as compared to 107 customers amounting MVR363 million in 2018, recording a dip of 50% in sanction number and 65% in sanction amount.

During the year, the Company has disbursed facilities of MVR 259 million as compared to MVR310 million in the previous year, which is reduction of 16%.

Amna profit

Amna's growth has increased to MVR33.96 million in 2019 compared to MVR25.08 million in the previous year. This reflects an increase of 35.41%. At the end of the year Amna holds 28% of the Company's portfolio.

Loans and facilities outstanding

Total loans and facilities outstanding as at 31 December 2019 were MVR 1.75 billion Loans and facilities outstanding comprises MVR1.28 billion for conventional and MVR497.85 million for Islamic.

Strengthening infrastructure

During the year, new workspace of about 1500 sq. ft was added taking the total to approximately 5000sq.ft. Several infrastructural changes in terms of relocation, refurbishment of existing office was done in order to make the work atmosphere more comfortable for the employees and to provide a pleasant and safe experience to the customers.

Professionally managed centralised file storage

With the implementation of ENADOC, files and security documents are being moved to a professionally managed repository where they are appropriately logged using barcodes. Internal audit checks and continuous tracking of movement of files and documents is maintained as standard procedure. Application forms related documents get filed physically for the purpose of audit. However, this physical files will be streamlined once the procedure and SOP on this matter is finalised by the related government institutions. This has improved customer service standards and reduced the turnaround time, while exploiting economies of scale.

Supporting government development initiatives

We continued to support Government development initiatives and in 2019, HDFC collaborated closely with the Ministry of Housing to implement the CMEC Phase 2 program, aimed at providing housing for low- and middle-income populations in the outer atolls. These loans are provided at a concessionary rate. In addition, we work in partnership with the Government's inclusive growth agenda of affordable housing. The Ministry of Housing promotes affordable housing finance to the low-income segment through their (MHUD, 704, GED, MHI and CMEC Phase 2) housing schemes to the borrowers.

Streamlined processes

HDFC's multifunctional risk management - loan origination, credit appraisal, loan disbursement, and collection and recovery – strengthened working. Some key processes comprised:

- Personal interview by the credit officer with one or two executive members
- Site visits
- Scrutiny of income documents and obtaining encumbrance certificates

Know your customer

Appropriate due diligence is rigorously conducted to ensure that the financial activities of the customers are performed in accordance with the guidelines issued by the regulatory authorities. HDFC adheres to the provisions of Law No. 10/2014 (Prevention of Money Laundering and Financing of Terrorism Act), of FIU of Maldives Monetary Authority. This includes Ministry of Housing social housing portfolio.

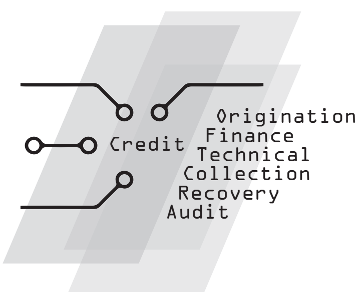
Customer centricity

The Company places its customers at the centre of all its activities, in its endeavours to enhance their overall experience. This calls for a perfect understanding of the customer, in addition to developing and delivering products and services in ways that exceed their expectations, despite the many challenges.

Driving positive customer experience is at the centre of our initiatives and we are working to elevate our business to customer consultation centres for financial empowerment, with well-trained employees equipped with the expertise to facilitate this. Further, the business portfolio diversification with distinct business units offering relevant value propositions for each segment is poised to deepen our relationship with customers. This has enabled us to differentiate our value proposition and build customer loyalty.

Our people

Needless to say, with our various product strategy, human resource is a priority, to ensure an efficient implementation of the strategy. One of the biggest challenges we faced was the need for a mind-set change, as our staff are equipped only to provide housing loans. HDFC shall constantly strive to innovate and deliver total financial solution to satisfy customers beyond their expectation in their home and lifestyle needs. In order to achieve this a training calendar was mapped out for the year to expedite training needs rapidly and equip our staff for their roles. This will be driven by caring customer service, anticipating requirements and delivering proactive solution. Detail of HR management will be detailed out in this report separately.

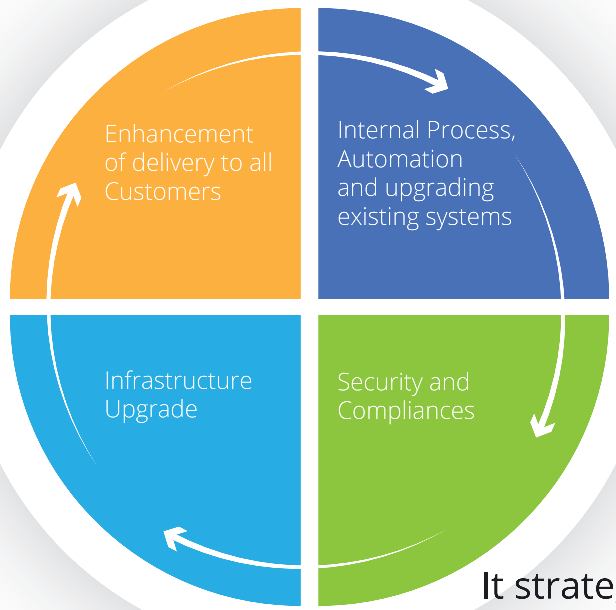


Technology

Improving our technology remained a priority, to capitalise on efficiency and productivity gains that can be facilitated through the creative use of IT and other technologies. Technology driven innovations is necessitated by changing customer preferences and is transforming the financial sector landscape. We are also committed towards transforming ourselves into a digitized organization through adopting innovative technologies which would deliver convenience to customer, minimize risks, maximize profitability by reducing our cost and ultimately benefit the customers and stakeholders at large.

It is our vision to build a strong IT platform to enhance our customer experience, provide comprehensive business functionality and drive profitability. Hence, a strategic planning was initiated facilitating to build technology driven operation within the organization. However, even though we do not own a sophisticated core banking system, HDFC do have several standalone systems to support the day-to-day business operation.

We have IT Security systems in place to control the threat and risk associated with which address all the concerns including maintenance of customers' confidentiality, security and integrity of data. HDFC's data centre where the Company's database resides (both Primary and Disaster Recovery Site, MMA) has developed the accreditation for high standard for Information Security Management Systems. As part of ongoing improvement programs, policies on securities were updated, to



It strategy has four key areas of focus

strengthen and standardize IT operation. Furthermore, Standard Operating Procedure (SOP) on major areas were formulated and awareness program to staff were conducted during the year.

In an endeavour to provide its customers a service experience that is modern and delightful, HDFC is working diligently to implement a system solution which will seamlessly integrates all the stand alone activities of the Company including loan origination, loan management, recovery, customer service, integrated accounting applications such as CRMS, document management, business intelligence reports and customer online portal. The plan is now underway by recruiting two developers locally and designing the systems. Once the system is in place the following business value will be derived.

- End-to-end business automation, eliminating manual efforts
- Configurable system, scalable to support high business growth
- A workflow-based model, improving operational efficiency
- Enhanced customer service

The architecture of data center and data recovery will be designed on the principles, data, security, data integrity, data availability and data scalability. Comprehensive system manuals will be prepared incorporating the process workflow and the system workflow. HDFC will conduct extensive training programs for all the employees preparing them for both work and environment changes.

The second phase of this project will craft an online portal that would enable our customers to login and access information on their facilities and upload applications and documents.
Once the system is in order, it will support operational readiness and sustainable business growth by automating the process. This will improve efficiency and quality, thereby making the overall business model more secure, scalable and effective.

All the applications have built-in security features like access control, transmission through secured channels as per the requirement of the application. The threat of virus is minimized by having a centralized anti-virus solution. Adequate Firewalls is in place so as to prevent unauthorized access to the network. The Disaster Recovery Plan (DRP) for all the operations is in place. HDFC has taken steps to increase security awareness amongst staff to ensure compliance of IT security.

Great emphasis has been placed on maintaining an environment friendly work space that reduce Carbon Footprint through minimizing and installing high energy consumption hardware, instead opt for emerging Cloud Services. Furthermore, enhancement was brought to Electronic Document Management which has immensely contributed to reduction in paper usage.

The IT strategy of the HDFC is aligned with its corporate strategy. Our vision is to achieve business excellence, exceed customer expectations and speedy delivery through technology.

Asset-liability management (ALM)

Assets and liabilities are classified on the basis of their contracted maturities. Housing Finance being our core business, maintaining the liquidity for meeting the growth perspective in the business as also to honour our committed repayments is the fundamental objective of the Asset Liability Management (ALM) framework. Investment being our ancillary activity is derived of this ALM requirement and it is imperative to constantly monitor the liquidity of our investments to achieve our core objective. The Asset Liability Management Committee (ALCO) of the Company oversees efficient management of risk associated with derivative transactions. Company identifies, measures, monitors the exposure associated with derivative transaction. For effective mitigation of risk, it has an internal mechanism to conduct regular review of the outstanding contracts which is reported to the ALCO. ALCO committee meets once a week to monitor, control and set guidelines in managing liquidity risk.

Impairment provison

In accordance with IFRS 9, HDFC follows a model-based approach for assessing the adequacy of provisions for loan losses. Provisions for individually impaired credit exposures are determined by discounting expected future cash flows.

Whistle blowing policy

HDFC's Whistle Blowing Policy is intended to serve as a channel of corporate fraud risk management. The policy will allow any HDFC Team Member who has a legitimate concern on an existing or potential "misconduct", done by any person within the Company to come forward voluntarily, and bring such concern to the notice of an independent designated authority. Concerns raised are investigated and the identity of the person raising the concern is kept confidential, as even anonymous complains are looked at.

The mechanism adopted by the Company encourages the whistle blower to report genuine concerns and provides for adequate safeguards against victimisation of whistle blower who avails of such mechanism. HDFC accepted whistle blowing as a strong mechanism against corruptions, malpractices and irregularities and four-member committee is formed to accept and analyse whistle-blower compliance.

Anti-corruption

HDFC has an uncompromising commitment to prevent and eliminate possibilities of corrupt behaviour. A Code of Conduct, including provisions relating to anti-corruption, are instilled amongst all staff and reiterated through continuous reviews and updates. The application of these principles is monitored throughout all business operations.

Financial reporting

HDFC furnishes the following information to its shareholders and investors:

- 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 THE 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

IFRS16 "LEASES", this new standard is effective from 1 January 2019.The new standard changes the accounting requirements for lessees. All leases (except for short term- and small ticket leases) should be accounted for on the balance sheet of the lessee as a right to use the asset and a corresponding liability, and the lease payments should be recognised as amortisation and interest expense. The accounting requirements for lessors are unchanged. Additional disclosures are also required.

Appointment of auditors

In 2019, AGM, PWC was re-appointed as the external auditors and KPMG was re-appointed at the Company's' internal auditors. During the year, one half yearly and an annual audit was done. Four internal audit was done each per quarter. All audit findings were presented to the Board. In addition, MMA also conducted an on-site audit, and findings were presented to the Board.

Anti- money laundering and combating the finance of terrorism

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

Monitoring & Reporting of Suspicious Transaction & Activity

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

Compliance

HDFC has established a permanent and effective compliance function. A dedicated Compliance officer independently monitors adherence to all applicable laws, regulations and statutory requirements and reports to the Management confirming compliance with the Company's Compliance Calendar created by the Compliance Officer including external compliances. A report is also tabled quarterly at Board meetings for the information of the Directors.

Awards and recognition

Over the years HDFC has been recognised for its services to the public by different institutions and in the current year too, we continued to set industry benchmarks. We were presented the Award by Amana Takaful as one of a best business partner, Gold 100 award by Corporate Maldives and Jaah Award for the best finance institution.

Way forward 2020

HDFC
Housing Development Finance Corporation Plc.

- Enhance profitability of HDFC
- Automate customer delivery platforms to make the process seamless and make more agile to our customers
- Create positive dynamic service culture and increase efficiency
- Retain customers
- Maintain asset quality

Declaration of interest

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

Directors' responsibility statement

The Board of Directors hereby state that:

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

Appreciation

On behalf of the Board of Directors of HDFC, I would like express our deepest gratitude to our loyal customers, Ministry of Finance, Maldives Monetary Authority, Capital Market Development Authority, Maldives Stock Exchange and other statutory and Regulatory bodies and our business partners for advice, continued support and guidance extended. In addition, on behalf of the Management team, I would like to extend my gratitude to fellow directors of the past and present for their exemplary guidance in departing their knowledge to ensure, that we maintain a consistence trajectory of sustainable approach to our operations. In addition, a note of gratitude is also extended to the advisory services provided by the Shariah Committee and guidance given to ascertain, we stay on the right path of Shariah principles in the operation of our Islamic Window (AMNA)

To end with, the directors would like to express their appreciation to the management and employees for the unwavering dedication and commitment displayed. I would like to assure, that we all at HDFC, will continue to execute with dedication towards building a sustainable company and ensure that we remain a responsible finance institution in delivering our responsibilities.

Mohamed Mauroof Jameel
Board of Director, Government of Maldives

Board Of Directors

Nominee Director

Mr. Conrad D'Souza (Chairman)	HDFC Investments Ltd. India
Mr. Mohamed Mauroof Jameel	GOM
Mr. Nihal Senanayake Welikala	IFC
Mr. Gaurav Agarwal *	ADB
Ms. Aminath Sheena Musthafa	GOM
Ms. Kohe Noor Binte Mahmoodul Hassan**	ADB

Alternate Director

Mr. Hamid Sodique	GOM
Mr. Mohamed Zuhair	GOM
Mr. Asif Saeed Cheema	ADB

Managing Director

Ms. Raheema Saleem

Company Secretary

Mr. Adam Athif

* (term ended on 30 June 2019)

** (Appointed on 9 Aug 2019)

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
Ms. Kohe Noor Binte Mahmoodul Hassan	Member

Nomination & Remuneration Committee

Mr. Mohamed Mauroof Jameel	Chairman
Ms. Kohe Noor Binte Mahmoodul Hassan	Member
Mr. Conrad D'Souza	Member

Shariah Committee

Dr. Ibrahim Zakariyya Moosa	Chairman
Assoc. Professor Dr. Rusni Hassan	Member
Dr. Aishath Muneeza*	Member
Dr. Mohamed Ibrahim	Member (8th April 2019)
Uz. Azmeen Rasheed	Secretary

* (Term ended on 8 April 2019)

IPO Committee

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

Board of Directors profile

Mr. Mohamed Mauroof Jameel
Nominee Director, Non-Executive
Government of Maldives

Mr. Mohamed Mauroof Jameel was appointed as a 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
Nominee Director, Non-Executive
Government of Maldives

Ms. Aminath Sheena Musthafa was appointed as a non-executive Director by the Government of Maldives on 11 April 2018.

Qualification and experience

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

- PO Committee (Member)

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
Nominee Director Non-Executive
HDFC Investments Limited (India)

Mr. D'Souza was appointed as the Nominee Director on 15 March 2019. Previously he was the alternate director by the HDFC Investments Ltd. India from 9th September 2009 till 14 March 2019.

Qualification and Experience

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

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

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

Other appointments

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

Board Committees

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

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

Mr. Nihal Senanayake Welikala
Nominee Director, Non-Executive
International Finance Corporation (IFC)

Mr. Welikala was appointed as the nominee director by the International Finance Corporation on 02 November 2016.

Qualification and experience

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

Other appointments

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

Board Committees:

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

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

Mr. Gaurav Agarwal *
Nominee Director, Non-Executive
Asian Development Bank (ADB)

Mr. Gaurav was appointed as the nominee director by the Asian Development Bank on 14th 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 the first Islamic Mortgage Company in Dubai, UAE and adapt in risk management, product management and treasury. Currently he manages a management consultancy firm based in Dubai. Gaurav is GEMBA from INSEAD, France and qualified MBA, ICWAI, and ICFAI- Hyderabad, India.

Other Appointments

He manages a consultancy firm in 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.

* His term ended on 30 June 2019.

Ms. Kohe Noor Binte Mahmoodul Hasan
Nominee Director, Non-Executive
Asian Development Bank (ADB)

Ms. Kohe was appointed as the Nominee Director on 09 August 2019.

Qualification and Experience

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

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

Other appointments

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

Board Committees

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

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.

Ms. Raheema Saleem
Executive Director, Managing Director
HDFC PLC- MALDIVES

Qualification and experience

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

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.

Other Appointments: None
Board Committees: None.

Mr. Hamid Sodique
Alternate Director, Non-Executive
Government of Maldives

Mr. Sodique was appointed as the alternate director by the government of Maldives on 10th April 2011.

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

Other appointments: CEO, FJS Consulting Pvt.
Board Committees: None

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

Mr. Mohamed Zuhair
Alternate Director, Non-Executive
Government of Maldives

Mr. Mohamed Zuhair was appointed as a non-executive alternate director by the Government of Maldives on 11 April 2018.

Qualification and experience

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

Board Committees: None

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

Mr. Asif Saeed Cheema
Alternate Director, Non-Executive
Asian Development Bank (ADB)

Mr. Cheema was appointed as the alternate director by the Asian Development Bank on the 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.

Management Team's Profile

Raheema Saleem
Managing Director (Appointed 2017)

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

Mohamed Fathy
Assistant General Manager IT (Appointed in 2017)

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

Aishath Rasheeda
Assistant General Manager, Credit (Appointed in 2017)

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

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

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

Dr. Mohamed Shafeeq
Assistant General Manager, Finance (Appointed in 2017)

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

Faisal Haleem
Manager - Compliance and Quality Assurance (Appointed in 2017)

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

Azmeen Rasheed
Manager, Amna (Appointed in 2016)

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

Ahmed Jawad
Manager, IT (Appointed in 2016)

- 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 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%) and HDFC Investments Limited, India (15%).

Name	No. of Share(s) held	Value of share(s) held in MVR	
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	
Ms. Aishath Rasheeda	1.00	100.00	
Mr. Mohamed Fathy	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	
Expat MD	1.00	100.00	
TOTAL	**1,593,750.00**	**159,375,000.00**	

Face Value of a share is MVR 100.00

Corporate Governance
Philosophy

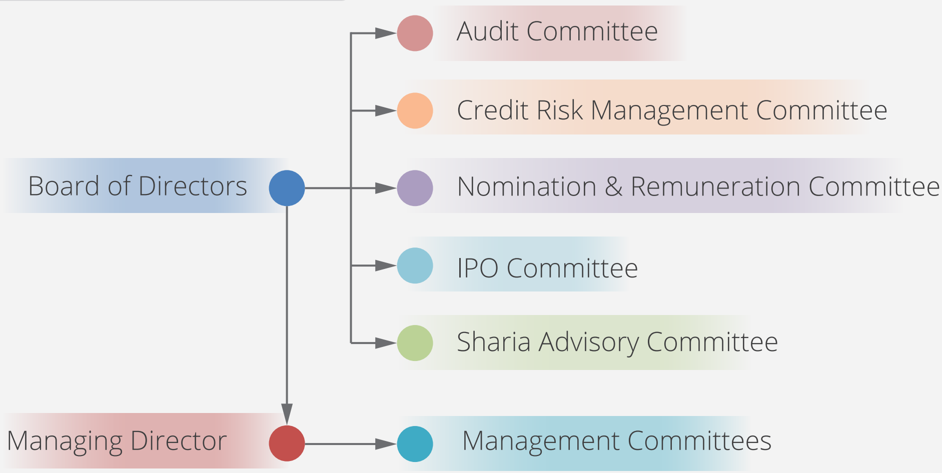
Good governance is more than just corporate”
“compliance and reporting

Corporate governance encompasses the internal policies and practices by which HDFC -Maldives is operated and controlled on behalf of its shareholders and all other stakeholders. The advantages of sound corporate governance include having a strong Board of Directors that is accountable to the Company and its owners. A good system of corporate governance also helps HDFC maintain the confidence of investors, which allows the Company to raise capital efficiently.

The governance framework

The business affairs of HDFC Plc. are conducted under the direction of the Board of Directors in accordance with the internal policies, and the HDFC Shareholders Agreement and By-laws. The role of the Board of Directors is to effectively govern the affairs of the Company in the best interest of the shareholders and other constituencies, which include the corporation’s employees, customers, suppliers, and the communities in which it does business. The Board strives to ensure the success and continuity of the Company’s business through the election of qualified management. It is also responsible for ensuring that the Company’s activities are conducted in the highest standards of professional and ethical norms.

HDFC Governance structure



HDFC's Governance framework defines the Company's legal obligations and business ethics and includes a number of regulations and internal codes of conduct. The Company has been complying with the standards of corporate governance required under the Companies Act 10/96, MMA, CMDA, MSE and "Shareholders Agreement". The Board discharges the duties and responsibilities as required under applicable laws. The highest governing body of the Company is the Board of Directors. The Directors are assisted by five Board Sub Committees. 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

Even though the main principles of Corporate Governance are derived from the Shareholders Agreement and the Articles of Association, the Company has complied with applicable standards of corporate governance required under the Companies Act 10/96, MMA, CMDA and MSE (Listing Obligations and Disclosure Requirements). The Board discharges the duties and responsibilities as required under applicable laws.

Board composition

HDFC's board hails people from extensive background equipped with years of experience in the financial sector, mortgages, banking, credit appraisal, human resources, legal as well as understanding of the housing sector in Maldives. Their oversight and understanding growth cycle of the company in working out solutions at challenging times is considered invaluable.

The Board of Directors comprise of 5 nominee directors, three alternate directors 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.

Changes in the Board of Directors

The composition of the Board is in conformity with Companies Act of Maldives 10/96 S45, and the provisions provided under the constitutional documents. During the year 2019 Nominee Director Ms. Renu Sud Karnad, resigned on 15 March 2019, while Alternate Director, Mr. Conrad D'Souza was appointed nominee director on 15 March 2019. Consequent upon finishing the 2-year term of Mr. Gaurav Agrawal on 30 June 2019 and Ms. Kohe Noor has been nominated by ADB as a nominee director on the 9 August 2019. On behalf of the Board of Directors, we place on record our appreciation for their contribution.

Chairman of the Board

Mr. Conrad D'Souza is the Chairman effective May 18, 2019. The Chairman to the Board of Directors is appointed for one year in rotation and shall preside at all meetings of the Board or any Committees where he is a member and at all General Meetings. The Chairman has no casting or second vote at any meeting of the Board or any committee in the event of an equality of votes. As Chairman, he is responsible for fostering and promoting the integrity of the Board while nurturing a culture where the Board works harmoniously for the long-term benefit of the Company and all its stakeholders and oversee the management of the Boards administrative activities, such as meetings, schedules, agenda.

Board meetings and attendance

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

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

		Board Meeting - 2019				No.of Meetings held during the tenure
		1	2	3	4	
		17 March (Male')	18 May (Male')	29 Sep (Colombo)	15 Dec (Male')	
Mr.Conrad D'Souza [1]	Chairman / Director HDFC Investments - India	👤	👤	👤	👤	4/4
Mr.Mohamed Mauroof Jameel	Director GOM	👤	👤	👤	👤	4/4
Ms.Aminath Sheena Musthafa	Director GOM	👤	👤	👤	-	3/4
Mr.Nihal Senanayake Welikala	Director IFC	👤	-	👤	-	2/4
Mr.Gaurav Agarwal [2]	Director ADB	👤	👤	-	-	2/2
Ms.Raheema Saleem	Managing Director	👤	👤	👤	👤	2/2
Ms. Kohe Hasan [3]	Director ADB	-	-	👤	👤	2/2
Mr. Adam Athif	Company Secretary	👤	👤	👤	👤	4/4

Note:

Ms. Renu Sud Karnad (Resigned on 15 March 2019)

1 Mr. Conrad D'Souza (Appointed as Nominee Director on 15 March 2019)

2 Mr. Gaurav Agarwal (Resigned on 30 June 2019)

3 Ms. Kohe Hasan (Appointed as Nominee Director – on 09 August 2019)

Summary of the key activities the Board undertook during the year 2019 are as follows:

- Finalization of Chairman for the next 1 year
- Approval of the audited financials for the year ended 31 December 2018
- Appointment of internal and external auditors for 2019 and fixing their remuneration
- Appointment of Sharia Committee members and their remuneration
- Appointment of Sharia compliance auditor and their remuneration
- Renewal of MD's Contract
- Approval of bonus and Ramadan allowance
- Approved issuance of a Conventional Bond and Sukuk for 10 years
- Adoption of Disaster Recovery Policy
- Approval on limiting loan value to the outer atolls.
- Appointment of KPMG as Shariah (compliance) Audit for 2019 and finalization of the remuneration
- Finalization of Dividend for the year 2018
- Endorsement of the Annual Report for the year 2018
- Approved acquiring of additional Office Space.
- Approved to increase Home Improvement Facilities Limit and Tenure
- Approved endorsement of the IPO Committee
- Approved opening of MVR account in the Commercial Bank of Maldives
- Approval of Interim Dividend for 2019
- Adoption of Budget and Business Plan for 2020
- Adoption of Audited Financials for the half year audit - 2019
- Adoption of recommendation of key internal audit findings in Q3/2019
- Approval recruitment of 2 application developers
- Approval recruitment of additional staff for recovery
- Approval of providing End-user Finance for MWSC Hiya Project Phase 1
- Approval to obtain a corporate debit card from BML
- Approval of share split

Board Committees

In order to ensure smooth functioning of the company the board has delegated powers to various committees with specific responsibilities; Audit Committee, Nomination and Remuneration Committee, Credit Risk Management Committee and IPO Committee. In addition, a Shariah Committee is formulated to advice the Board on Sharia issues. The deliberation and discussion are placed before the Board for adoption.

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. During the year 3 meetings were held. Details of composition and the meetings are as follows:

Audit Committee members and their attendence

		Audit Committee - 2019			
		1	2	3	
		16 March (Male')	16 Sep (Colombo)	14 Dec (Male')	No.of Meetings held during the tenure
Mr.Conrad D'Souza	Chairman				3/3
Mr.Mohamed Mauroof Jameel	Member				3/3
Mr.Nihal Senanayake Welikala	Member			-	2/3
Mr. Adam Athif	Secretary				3/3

Summary of the key activities the Audit Committee undertook during the year 2019 are as follows:

- Reviewed the Internal Audit Report of Q4/2018
- Reviewed the Sharia Committee report
- Reviewed the Audited Financials for the year ended 2018
- Reviewed the proposals sent by the external auditors for 2019 (PWC)
- Reviewed the proposals sent by the internal auditors for 2019 (KPMG)
- Reviewed the proposal received for the selection of Shariah Compliance Auditor

- Reviewed the Internal Audit Report for Q1 & Q2 of 2019
- Reviewed the CMDA quarterly reports through circulation
- Reviewed the half yearly Audit of 2019
- Reviewed Internal Audit Report of Q3/2019
- Recommended the interim dividend
- Reviewed and recommended budget and business plan for 2020
- Reviewed and recommended Ramadan allowance and bonus
- Reviewed credit limits
- Reviewed the presentation on the audit on physical title deeds
- Reviewed the presentation of AML report
- Reviewed the presentation of loan book against title deeds.

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 audit process;
- Examination of the auditors' report on financial statements of the Company (in addition to the financial statements) before submission to the Board;
- Scrutiny of corporate loans and investments;
- Review valuation undertaken for the Company;
- Review and critically evaluate the accounting policies, including the consistency in the application of the policies, and any change being recommended to the accounting policies;
- Ensure that compliance requirements are adhered to and are being reported on a timely manner;
- Evaluation of the risk management systems
- To hold post audit discussions with the auditors to ascertain any area of concern;

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 from amongst the Board of Directors. Due to the limited no. of directors, the Board have decided to combine Nomination and Remuneration Committee since both committees will constitute of same members During the year 3 meetings were held. Details of composition and the meetings are as follows:

Nomination and Remuneration Committee members and their attendence

		N&R Committee -2019		
		1	2	
		16 March (Male')	28 Sep (Colombo)	No.of Meetings held during the tenure
Mr.Mohamed Mauroof Jameel	Chairman			2/2
Mr.Conrad D'Souza	Member			2/2
Mr.Gaurav Agarwal	Member		-	1/1
Ms. Kohe Hasan	Member	-		1/1
Mr. Adam Athif	Secretary			2/2

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 2019 are as follows:

- Finalization of the Managing Director's Contract and remuneration
- Reviewed the Bonus for 2019
- Selection of the Sharia Committee Advisory Members and fixing their remuneration.
- Endorsed the appointment of new Nominee Director from ADB, Ms. Kohe Noor Binte Mahmoodul Hasan
- Reconstituted the Board Committees
- Officially endorsed the newly formed IPO Committee and appointed the Chairman to oversee the Committee

Credit Risk Management Committee members and their attendance

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, consisting of 3 non-executive directors from amongst the Board of Directors. During the year 1 meeting was held. Details of composition and the meetings are as follows:

		17 March -2019 (Male')	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
Ms. Kohe Hasan	Member	-	0/0
Mr. Adam Athif	Secretary	👤	1/1

Objectives of the Committee

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

Summary of the key activities the Credit Risk Management Committee undertook during the year 2019 are as follows

- Reviewed Annual review of the of Anti-Money Laundering Report
- Reviewed the amendments to the Credit Manual
- Reviewed on Credit Limits

An internal credit committee has been formulated by the Board of Directors amongst the EXCO members. The Board has delegated powers to sanction loans according the credit policy parameters and underwriting guidelines approved. High ticket applications which is over and above the parameters set, but shows maximum business return, is referred to CRM Committee for their review and approval.

IPO Committee

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

		IPO Committee -2019		
		1	2	No.of Meetings held during the tenure
		30 Sep (Colombo)	14 Dec (Colombo)	
Mr.Conrad D'Souza	Chairman			2/2
Mr.Nihal Senanayake Welikala	Member		-	1/2
Ms. Kohe Hasan	Member			2/2
Ms.Aminath Sheena Musthafa	Member		-	1/2
Mr. Adam Athif	Secretary			2/2

Objectives of the Committee

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

Summary of the key activities the IPO Committee undertook during the year 2019 are as follows

- Reviewed proposals received on the appointment of an Investment Manager
- Finalization of the IPO Committee Mandate
- Discussion to appoint a Manager for the IPO Issue
- Discussion of Share of Share split

Sharia Advisory Committee

HDFC's Amna wing is managed to ensure proper shariah governance mechanism both within the department and among its shareholders. A shariah committee consisting of three members has been established to advise the board of directors of the company on shariah related matters and issues. Details of composition and the meetings are as follows:

		4 February 2019 (Male')	7 October 2019 (Male')	Total number of meetings held during the tenure
Dr Zakariyya Moosa	Chairperson			2/2
Pro. Rusni Binti Hassan	Member			2/2
Dr. Mohamed Ibrahim	Member			2/2
Uz. Azmeen Rasheed	Secretary			2/2

Summary of the key activities the Shariah Advisory Committee undertook during the year 2019 are as follows

- New advisory committee was formed after the lapse of 2-year contract of the members
- Approval of the appointment of external auditors for Shariah Audit
- Approval of Standard Operating Procedure for Amna
- Review of contractor's agreement

Annual General Meeting

The Annual General Meeting (AGM) was held on 18 May at 2019 at Champa Central 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 –Director for HDFC Investments Ltd.
2. Mr. Gaurav Agarwal- Director for Asian Development Bank (ADB)
3. Mr. Mohamed Mauroof Jameel – Director for Government of Maldives
4. Ms. Aminath Sheena Musthafa – Director for Government of Maldives
5. Ms. Raheema Saleem – Managing Director /Shareholder
6. Government of Maldives/MOFT -Proxy held by Mr. Mohamed Nizar
7. HDFC Investments Limited -Proxy held by Mr. Conrad D'Souza
8. IFC -Proxy held Mr. Dinesh Warusavittharana
9. ADB- Proxy held by Mr. Emaad A. Siddiqui
10. Ms. Aishath Rasheeda – Shareholder
11. Mr. Mohamed Fathy - Shareholder
12. Mr. Adam Athif–Company Secretary

Shareholders absent at the AGM.

1. Mr. Ibrahim Naeem – Shareholder
2. Mr. Mohamed Shahudy – Shareholder
3. Mr. Hamid Yusuf – Shareholder
4. Mr. Ahmed Anwar- Shareholder
5. Mr. Nahid Idris – Shareholder
6. Mr. Mohamed Hamdhan Fahumy- Shareholder
7. Mr. Nihal Senanayake Welikala – Director for International Finance Corporation (IFC)

Summary of the Major decision taken at the AGM

- Approval and adoption of the Audited Financial statements for the year ended 31 December 2018
- Approval and adoption of the Annual Report for the year ended 31 December 2018
- Declaration of the dividend for the year 2018
- Approval of external and internal auditors and finalization of their remuneration
- Announcement in change in directorship
- Appointment of the chairman

HR Policy Framework

A comprehensive HR policy framework based on the Maldivian Employment Act (Act No 2/2008) and other best practices has been developed and approved by the Board of Directors to ensure that human rights are upheld and that the culture of the organisation facilitates high performance. The policy framework addresses the recruitment, development and retention of our employees as depicted below. The policies are revised when required to ensure that they are relevant. HR section has drawn an employee handbook encapsulating the HR policy framework of the Company to make sure compliance with the policy framework of the Company and to address other HR related matters.

As code of conduct is drawn, which gives, guideline with regard to the behaviour, dress code, and appearance and all employees are expected to adhere to the regulations stated.

Employee Capital

HDFC's is a team of achievers driven by the Company's' corporate values - a winning formula focused on integrity, care, passion, teamwork and excellent customer service. In turn, the Company aspires at all times to be a great employer, a policy that underpins all aspects of our human resources development agenda. The discussion that follows is about how the Organisation builds its employee capital by attracting the best of talent, nurturing and moulding their development and rewarding performance in its pursuit of excellence.

HDFC HR Framework

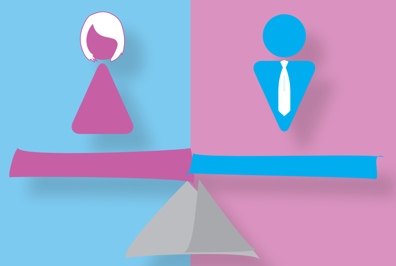
1 RECRUITMENT
- Equal opportunity & diversity

2 HUMAN RESOURCES DEVELOPMENT
- Performance based appraisal
- Career path development
- Skill development and training

3 RETENTION
- Safety and wellbeing
- Defined benefit plan
- Grievance handling

Recruitment

HDFC is a non-discriminatory employer and is fully committed to diversity in the workplace. As such, we hire based on the candidate's suitability for the specific job role, vis-a-vis their qualifications, experience and mindset. Hence, we recruit qualified individuals who have the potential for growth and advancement and demonstrate the capacity to handle greater responsibility. Competency testing and a formal interview process are the main pre-requisites of the Company's highly transparent recruitment process. Employment and appointment terms are subject to strict compliance with the rules and regulations and applicable common law.



Equal opportunity and diversity

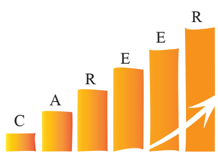
HDFC is an equal opportunity employer that treats all staff with due respect irrespective of gender, or social background. In fact, we recognize the synergies that are to be reaped through such a diverse and talented group that not only enriches our human capital but also helps in aligning our business model to better serve the needs and aspirations of local communities. The equal treatment of males and females is fundamental to the Company's values and extends to selection, appointments, training and remuneration.

Human resource development

The number of staff, both permanent and contractual, employed at HDFC is 40. Though a relatively small number, have been contributing to the progress and growth of the Company. Our lean and agile team comprises some of the finest professionals in their chosen fields, working in harmony and sharply aligned with our strategic direction. The manpower requirement of the of the company is assessed by the Board of Directors and recruitment is conducted accordingly. Personal skills of the employees are fine-tuned, and knowledge is enhanced by providing them internal and external training from time to time. Outstanding performers are rewarded by way of promotion to the higher cadre. Apart from fixed salary and perquisites, the employees are paid performance linked incentives which motivates them to perform better. All material HR matters are referred to the Nomination and Remuneration Committee of the Board.

Performance based appraisals

A staff appraisal system has been formulated to recommend annual salary increments and bonus and also to identify employee attitudes and training and development needs. Annual appraisals are conducted for the entire staff of the Company. Company loan targets, recoveries and fund mobilisation, compliance reports are some the categories used in performance appraisal.



Career path development

The career path encompasses both the employee's desired destination and the steps, experience, and development he or she will need to make progress on the journey. A career path gives the employee a sense of direction, a way to assess career progress, and an opportunity to achieve career goals and milestones along the way. HDFC endeavours to provide career-development opportunities to all employees in keeping with their abilities, commitment, job performance and the availability of suitable openings.

Skill development and training

The existing training and development framework aim to help employees to develop their personal and organizational skills, knowledge and abilities. Our philosophy is train and develop our employees, who drive the business. Each year a training budget is included in the business plan and approved by the Board. Orientation programmes are held for new recruits, newly promoted staff to help them ease into their new responsibilities. HR continues to leverage on the blended learning approach combining both in-house training and external training where relevant. The effectiveness of our capacity building efforts are monitored through feedback forms.

Retention

Employee retention strategies go a long way in motivating the employees so that they stick to the organization for the maximum time and contribute effectively, Employee retention has become a major concern for corporates in the current scenario. Individuals once being trained tend to move to other organizations for several reasons.

HDFC promotes carrier progression, personal development stimulating an ethical environment, with high standards of professionalism, rewards and benefits. We provide a number of benefit to our staff in addition to statutory benefits which include pension plan and profit related bonus.

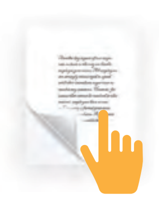
Health and wellbeing

Health and wellbeing of our employees is of paramount importance. HDFC is committed to providing a safe working environment for all employees and takes appropriate measures to ensure that health and safety concerns are prioritized and addressed across the Company. HDFC provides medical insurance to our employees except for those on probation. The Company acquire additional workplace to provide comfort to the staff. In that respect the Board room is relocated to the 3rd floor and two additional rooms are available to meet our customers.
We are a member of the State Pension Scheme, whereby the employer' contribution of mandated 7% of the basic salary of each employee provides as a security for them upon their retirement.
Our workplace is designed effectively to prevent safety hazards, ill health and incidents. Fire extinguishers are in place as a preventive measure.

A Staff Recreation Club was formed in 2017, the object of the Club is to be a change agent in an environment of rapid expansion and diversity. It aims to encourage staff participation and increase interaction between different departments, building a sense of belonging and identity with the culture of the Company. The club also offers benefits to employees by organizing social events, the costs of which are borne by the Company and which bring an element of fun and excitement to the workplace.

Defined benefit plan

All permanent employees are provided numerous benefits including bonuses, traveling allowances for those who live in V.Villigili, staff distress loans, assistance in attaining an educational and professional qualification, staff housing loans, medical insurance, Ramadan bonus, leave encashment (10 days).



Grievance handling

Another key aspect of our corporate culture is the way we handle employee grievances. All employees are strongly encouraged to speak with their immediate supervisor to resolve any concerns. However, for issues that cannot be resolved in this manner, employees have access to Company's formal grievance handling procedures. A grievance committee is in established with a panel consisting of a Board of Director along with the senior management to provide further clarification to the grievances and provide remedial measures to rectify the grievances raised by employees.

Corporate Social Responsibility

Corporate Social Responsibility (CSR) has always had a profound impact in all that we do. Evolving in cycle with emerging socio-economic needs, our CSR philosophy reflects the changing times and unchanging values. As a responsible corporate citizen HDFC is mindful of the impact it makes on local communities and the environment. Our approach to Corporate Social Responsibility (CSR) is aligned not only with the Company's values and objectives but also with the expectations and needs of its stakeholders. It is a carefully structured three-pronged agenda that covers operational, strategic and philanthropic CSR initiatives. It is a win-win approach that recognizes that the ability of HDFC to create value for itself over time is inextricably linked to the value it creates for others.

What does CSR mean to us?

Corporate social responsibility (CSR) is a self-regulating business model that helps us be socially accountable—to itself, its stakeholders, and the public. At HDFC, the concept of corporate social responsibility has many aspects:

- Direct giving to non-profit groups, often in conjunction with volunteer efforts by employees and donations from the company
- Job training programs for the employees, and educating through sponsorship
- Commitments to ensure diversity in the workforce across gender, furthermore, ensuring that employees understand the Company's values and code of conduct. Effective CSR, we believe, demands the commitment of the management. Thus, responsible business practice including, lending, investing is integrated into the decision-making process
- A focus on reducing the company's environmental footprint, through more efficient supply chains, recycling, reduced energy use, and other efforts

Social responsibility initiatives

HDFC-Maldives has shown its commitment to the society at large and has engaged in various social initiatives under Corporate Social Responsibility (CSR). As a partner in progress of the community, HDFC remains always conscious about its responsibility towards the society as a whole every year the Company is contributing for the progress of the community and country through several initiatives. We supported directly or in partnership with other organizations, to various institutions in wider area of social life including education, health etcetera.

Philanthropic CSR

HDFC has supported the Tiny Heart of the Maldives through with financial assistance. Tiny Heart of the Maldives an association established in 2009, to educate and assist those who suffer congenital heart condition.

During the year HDFC also provided financial support to the Cancer Society of the Maldives. An active society which creates awareness to the public and assisting those who are cancer victims.

Operational CSR

Initiatives to uphold the principles of sustainable development in the workplace included ethical Business, Waste Reduction/ Recycling and matters related to employees.

Responsible housing finance

Decent housing is a basic human need. Housing assists in several dimensions to improve the physical quality of life and economic growth of a country. Owning a house is the largest investment of an average income earning family. It is also the only lifetime saving for many. Because of ever increasing construction costs and land prices, gaining an ownership of a house has become a dream which most families struggle to realise. HDFC's core business and statutory objective is assisting people in finance in housing development and other amenities. As per the income distribution, around 60-65% of the Maldivian population is coming under the low- and middle-income households' segment who commonly faces the challenge of realising the dream of housing from their average income. In this circumstances, HDFC is strategically as well as obligatorily has to focused more on this large segment of the market in managing its core business through family pooling.

HDFC is therefore focused in managing the core operation of the Company in a manner which delivers long-term value creation in the economic, environmental and social front of the largest segment of the population and thereby seizing economic opportunities that ensures the Company's continued growth and stability maximising shareholders' wealth while delivering its overriding objective of expanding home ownership in the country.

Acting as a social and economic stabilizer

HDFC's primary business objective is assisting people to own a decent house by providing affordable housing finance, the foundation upon which our economic and social sustainability ethos has been constructed. Housing not only provides physical shelter but also has significant impact on the lives of the dwellers in terms of skill enhancement, education, health, income generation, security, self-confidence and human dignity. In a social context it reduces domestic violence and addresses many other social issues.

Housing is also a key driver of a country 's economy. According to international assessment, it is estimated that several industries are linked to housing. One Maldivian Rufiyaa invested in housing creates Maldivian Rufiyaa five to seven impact in other economic sectors. Therefore, broadly, housing development finance plays a crucial role in boosting economic growth and reducing poverty, improving living conditions and empowering low- and middle-income groups.

Environmental stewardship

Housing begins with construction which involves the input of a large amount of capital, energy, water, other natural resources and making of substantial amounts of solid and liquid waste. It permeates an adverse impact on the environment and prevalent eco-systems if resources are not managed properly. At HDFC we believe that sustainable housing practices could mitigate the negative impact of housing on the environment while delivering long lasting economic and social benefits. Hence, we strive to promote a culture where the end result of our operation must be the

fruition of sustainable construction, which delivers long lasting economic, environmental and social benefits to our stakeholders.

Disposing Assets

Obsolete physical assets, such as computers and furniture that are still in working condition are donated to deserving institutions. Assets that are beyond use or repair are disposed of responsibly.

Resource Saving

Paperless Operations - Employees are encouraged to use electronic communications, online approvals and other web-based applications, printing out documents only if hard copies are strictly necessary.

HDFC Team believes that sustainability should be a core focus of our business. At the same time, we want to be a role model of an economically stable, ecologically responsible and socially fair corporate citizen. Therefore, we strive to ensure that our business fundamentals are within the industry norms and standards, and follows generally accepted codes of best practices and respect sustainability principles and practices related to human rights, the environment and anti-corruption which leads to long-term value creation, that can simultaneously benefit the corporate and the societies at large.

Policy directives

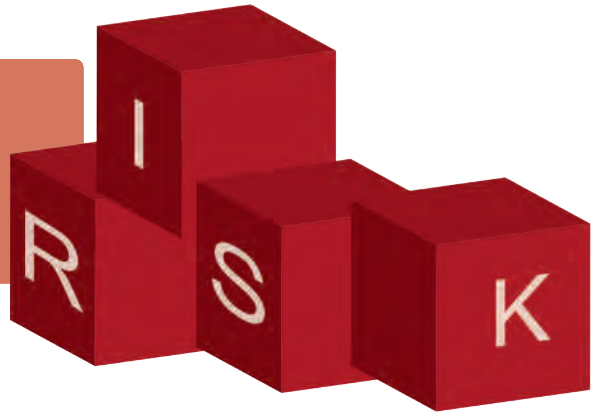
In consideration of the strategic focus, the Board of Directors has approved a policy framework under the corporate governance of the shareholders' agreement which guides the sustainability ethos stakeholder's communication of HDFC. We believe that HDFC is to conduct business in a best possible way that demonstrates our commitment to continued improvement and the advancement of sustainable development practices and engagement with crucial stakeholders, in an open and straightforward manner to balance HDFC's corporate objectives with their interest. Our approach to recognising important stakeholders HDFC recognises that statutory and financial obligations and equitable partnership as the basic principles used in the process of identifying the stakeholders with whom the Company is to maintain regular engagement. The prime stakeholder, the Company is statutorily obliged to engage with the government, who is the founder of the Company and the single major shareholder (49%). The secondary priority of the Company is in its financial and statutory obligation to the shareholders / investors who ensures the existence of the Company. HDFC also maintains an equitable partnership with the other stakeholders who directly and indirectly interact and are influenced by the Company's operations which includes investors, Government of Maldives and regulators, customers, employees, suppliers, environment and community at large.

PLEDGE

Our Environmental Pledge

We, the HDFC Team pledge, to reduce, reuse, and recycle to protect our environment, in the interest of self, our organisation, our community and the nation at large

Risk Management



Taking risks is inherent in any business strategic plan. The Company's risk philosophy is that the risk should be taken in line HDFC's risk appetite and it should fit in with the Company's business strategy, assist the decision-making process and enhance management effectiveness. Risk management continues to be a key area of focus providing the framework for a stable foundation of HDFC. In the changing environment the structures, tools and techniques are also aligned to effectively identify, measure and manage the risks. As part of our regular risk and cross-risk analysis, sensitivities of the key portfolio risks are reviewed through a bottom-up risk assessment and through a top-down macro-economic and regulatory scenario analysis. These approaches allow us to capture risks that have an impact across our risk inventories and those that are relevant only to specific portfolios as we manage several government housing portfolios.

Uncertainties and risk management

We balance risk and return taking account of changing conditions through the economic cycle and monitor economic trends in our markets very closely. We also continuously review the suitability of our risk policies and controls. Rapid economic development and change of business in both local and global economies provide opportunities but at the same time is a challenging task under risky economic environment. The world economy is facing a difficult period and uncertainty remains high. Businesses are bracing for a longer and steeper Coronavirus-triggered downturn than initially anticipated. There is a standard classification of risk, based on origin and nature, as follows:

- Credit risk
- Liquidity risk
- Foreign exchange risk
- Legal risk
- Non-compliance risk

Corporate risk register

A Corporate Risk Register is developed by the Company, and action taken to mitigate and minimize the possibility of losses that could arise. The Risk Rating considers the impact of the respective risk (in the event it occurs), and how well the mitigating measures have contributed to bring down the level of risk to an acceptable level. The risk register also provides a tracking mechanism that highlights the risks that may adversely affect the Company's business objectives, creating an opportunity for the Company to take necessary action proactively. The risk register is periodically, reviewed and updated.

Credit Risk

Credit risk is defined as the potential for loss arising from the failure of a counterparty to perform according to its contractual arrangements with the Company it includes failures in repayment of capital or interest/profit in full within the agreed time period, at the agreed rate of interest/profit in local currency as agreed upon. HDFC uses the following principles/methods to manage credit risk across the Company:

- Structured and standardized credit approval process. – depending on the nature of the project/product standardized formats have been designed and evaluations are carried out by competent staff. There are clear guidelines set to ensure that credit is extended only to suitable and well-identified customers and
  – never where there is any doubt as to their ethical standards and record,
  – where the source of repayment is unknown or speculative nor where the purpose, origination and destination of funds is undisclosed,
  – never to take a credit risk where ability of the customer to meet obligations is based on the most optimistic forecast of events.

- Delegation of Authority - Board of Directors has delegated approval authority to the Senior management, approval limits are name specific and are based on the individual experience, facility type, collateral in order to ensure accountability and mitigate any judgmental errors. There are four Executive Credit Committee Members comprise senior officers of the Company. The delegated authority limits are reviewed periodically, and the Company follows decisions based on detailed credit evaluation carried out by officers and reviewed/approved by designated approving authority. Non-performing assets are identified at an early stage, enabling management to act as appropriate.

Credit risk management at HDFC

HDFC manages the credit risk in the entire portfolio as well as corporate credits or transactions with a view to minimize the non-performing loans and also to manage any concentrations as well as to maximize returns. Credit risk management reviews and manages the credit process from origination to collection. The Company has a well-defined credit policy approved by the Board of Directors. It defines the

- credit culture of the Company
- target markets for lending
- credit granting process
- acceptable risk parameters
- corrective and recovery actions

Liquidity risk

Liquidity risk arises due to unmatched maturities of assets and liabilities, that hinders honouring commitments as and when they fall due or will have to do so at an excessive cost. Thus, the overall funding strategy takes into consideration both timing and size of business and investment together with the various sources of funding. Effective liquidity risk management is essential to maintain the confidence of depositors and counterparties as well as to ensure that the HDFC's core businesses continue to generate revenue, even under adverse condition.

Liquidity risk management

The objective of our liquidity framework is to ensure that all anticipated funding commitments can be met when due and allow us to withstand liquidity stresses whilst maintaining our business profile. It is designed to be adaptable to changing business models, market and regulations. The Company maintains well-articulated liquidity risk management policies and procedures, which drive the level of liquidity risk exposures and determine the business size and maturities which ensure that it has at all times sufficient liquidity to meet its financial obligations at a fair market price. We also monitor key liquidity metrics on a regular basis, both on local currency and foreign currency.

Foreign exchange risk

Foreign exchange risk arises out of the impact of volatility of foreign exchange rates on open foreign exchange positions. Foreign exchange risk is mitigated through a hedging mechanism by entering into a "Currency Swap Agreement" with State Trading Organisation.

Legal risk

The Company is subject to a comprehensive range of legal obligations and as a result, is exposed to many forms of legal risks, which may arise in a number of ways:

- Business may not be conducted in accordance with applicable laws.
- Contractual obligations may either not be enforceable as intended or may be enforced in an adverse way
- Legal repercussions of omissions in documents, forms, advertisements and other modes of conduct and communication adopted by the Company
- Intellectual property may not be adequately protected
- Liability for damages may be incurred to third parties harmed by conduct of its business

Non- Compliance risk

Compliance risk is defined as the risk of legal or regulatory sanctions, material financial loss, or loss to reputation and integrity an institution may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organizational standards, and codes of conduct applicable to its business activities. Thus, it is very closely related with reputation and legal/regulatory risk. The Company has a well laid out; Compliance calendar, which defines the fundamental principles, and responsibilities. The compliance events are presented to the board.

Housing Development Finance Corporation Plc.

Message From The Noble Quran
O ye who believe, eat not up your property among yourselves"
in vanities; but let there be amongst you traffic and trade by
.(mutual good will" (Surah An- Nisaa: 29

Hdfc Amna Development

Overview

The framework of an Islamic financial system is based on elements of Sharia which governs Islamic societies. Sharia originates from two principal sources: the Quran and the teaching and practices of the Prophet Muhammad (SAW). The fundamental concept of Islamic finance is that money has no intrinsic value and should only be used as a measure of worth.

There is a growing demand for Shari'ah-compliant products to meet the needs of our customers who seek to regulate their affairs according to the Shari'ah. Over the few years, Amna developed some modes for financing. Some of such modes we provide are Musharaka Mutanaqisah (MM), Murabaha, and Isthisna. However, Isthisna is not hassle free and some of the issues includes agency problem, delay in delivering the project on time and termination of the contracts.

Amna growth (Delivering excellence)

HDFC Amna was established in 2012 as the 2nd institution aiming to offer a compelling concept in Islamic finance that combines both Investment opportunities and Islamic housing products.

Built on the same strengths and vision of HDFC, Amna is strong contributor in Islamic housing finance for more than 7 years. Amna is committed to the creation of assets and wealth for its stakeholders, participation in the advancement and growth and larger to the Maldivian economy, and the promotion of Islamic finance products. Amna's mission is to deliver excellence and innovation through a range of financial products that comply with Shari'a principles. At the end of 2019 Amna's contribution stands at 29% of the HDFC portfolio.

We are working to build HDFC- Amna's reputation for adopting the highest Shari'a compliance standards is matched by its commitment to maintaining a robust financial position and honouring seven years history of ingenuity and leadership. This can only be reflected by the dedication of the HDFC team as a whole and also to their work while they strive to meet the needs of a fast-growing market.

With demand steadily growing for Shari'a compliant products and investments HDFC Amna plays a pioneering role in developing investment vehicles that can meet the needs of our customers and attract a good return to their investments.

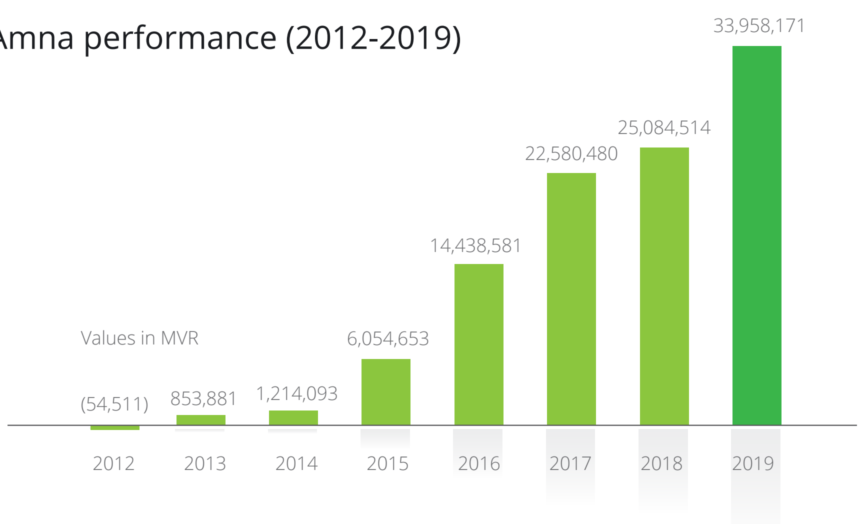
Since its establishment, Amna has created a strong portfolio of products and investments have gained the confidence of a rapidly expanding customer and investor base throughout its Consumer, Corporate, and Investment operations of the Company.

Financial performance

HDFC provides Islamic products with exceptional customer care. Our products and investment instruments cater to the long-term needs of customers, considering local market characteristics. Our growth is driven by a determination to continuously improve our service quality, while delivering superior Shari'a compliant products.

Notwithstanding challenging market conditions, Amna performed well in 2019, continuing on its growth track and meeting shareholder expectations while effectively managing risk. Underscoring its ability to remain flexible and adaptable, fiscal year 2019 saw Amna record a net income of MVR33.96 million, an increase of 35.41% on the previous year, (2018: MVR25.08million), taking into consideration allowance for customer delay in payments and impairment. The positive results are attributable to a steady increase in the demand for Sharia Compliant products. Furthermore, HDFC's recovery strategy witnessed the progress of substantial delinquent and past due assets, which also contributed positively to the bottom-line

Amna performance (2012-2019)



Treasury management

Amidst an environment of tight liquidity, HDFC- Amna opened a Sukuk for MVR 200 million locally for 10 years which is backed by high quality securities, and while maintaining sound liquidity position was a key and challenging objective. Amna managed to increase the funding lines from the local market. Going into 2020, our focus will be on optimizing the cost vs. revenue stream of the balance sheet given the escalating cost of fund and, considering liquidity risk.

Regulation, compliance & governance

One key strategic aim of HDFC- Amna in 2019 was to even further enhance our governance environment with a view to ensuring that the Amna remains amongst the best in the industry. To that end, specific focus was brought to take on to key functions such as Audit, Risk & Compliance to further empower the teams to drive for excellence. This included timely and effective solution of all challenges as well as seeking to deliver standards above the market norms.

Adherence to the principles of islamic finance

On behalf of the Board the management is pleased to recognize the remarkable work of our Shari'a Advisory Committee comprising of the well-renowned and respected scholars Dr. Ibrahim Zakariyya Moosa (Chairman), Prof. Rusni Hussein and Dr. Mohamed Ibrahim who contributed their valuable time and effort to ensure the Amna products and services adhere to Islamic principles, supported by a dedicated professional team within HDFC. It is our duty to put on record, to thank Dr. Aishath Muneeza for her incalculable contribution and guidance during her term in the Committee. The Sharia Committee met 02 times during the year and most urgent issues facing Amna were discussed.

Challenges and way forward

Islamic Finance in the Maldives has significant growth potential particularly considering a nation with 100 percent Muslim population. However, Amna face several challenges and some such challenges includes access to long term funds, educating customers and lack of competent personnel.

Plans are underway to raise funds locally through debt instruments which will narrow the gap we face in the mismatch of short-term funding and long-term lending.

We strongly believe that there is a huge need to educate not only our customers but also all stakeholders on issues and their implications as well as the solutions available. Islamic finance not only provides the mean but other tools such as Zakat (Islamic tax), and Sadaqat (charity) can be leveraged to promote social and economic inclusion through promoting and spurring economic activities.

Another major obstacle to the development of Islamic finance is the shortage of personnel available to provide education in specialised areas. Most Islamic finance degrees are general in nature but lacking in specialised knowledge. While regulatory bodies need to take a keen interest in the development of Islamic finance education by offering qualifications designed to equip professionals in mainstream finance with Islamic finance skills, they remain limited in specialization.

In summary measurement of the development of the Islamic finance goes beyond just measuring core business components such as financial performance. There is also a need to investigate the industry's infrastructure, including its management components (Governance and Corporate Social Responsibility) and industry ecosystem (Knowledge and Awareness) to see whether it is heading in the right direction.

Appreiciation

We thank our supportive Board of Directors, Sharia Committee, valuable shareholders, business partners, and our loyal customers whose ongoing backing drives our continued success. With commitment and dedication, the valuable team at HDFC played an instrumental role in the growth achieved in 2019. We wish everyone the best of life and hereafter. May Almighty Allah be generous on us and empower us to combat against challenges upfront.

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 External Sharia Audit Report relating to the transactions and applications introduced by HDFC Amna during the period ended 31st December 2019.

We have also Assessed the Audit and review documents 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 conform that 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 that has been presented to us, 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, based on the information provided to us, do hereby confirm that the operations of HDFC Amna for the year ended 31st December 2019 have been conducted in conformity with the Shariah principles.

Chairman of the Shariah Committee:
Name: Dr. Ibrahim Zakariyya Moosa

Declaration by the Board of Directors

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

On behalf of the Board of Directors:

Raheema Saleem	Mohamed Shafeeq
Managing Director	Assistant General Manager - Finance

Financial Statements

31 December 2019

Audited By

pwc

HOUSING DEVELOPMENT FINANCE CORPORATION PLC

Financial Statements – 31 December 2019

Independent auditor's report

To the Shareholders of Housing Development Finance Corporation Plc

Our opinion

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

What we have audited

The financial statements of the Company, which comprise:

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

Basis for opinion

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

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

Independence

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

Key audit matters

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

PricewaterhouseCoopers, H. Thandiraimage, 3rd Floor, Roshanee Magu, Malé, Republic of Maldives
Tel: +960 3318342, 3336046, Fax: +960 3314601, www.pwc.com/lk
Partners D.T.S.H. Mudalige FCA, C.S. Manoharan FCA, Ms. S. Perera ACA, T.U. Jayasinghe FCA
Resident Partner Jatindra Bhattray FCA

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 allowance on loans and advances recognised by management included the following;
As at 31 December 2019, 79.5 % of the total assets of the Company consisted of loans and advances amounting to MVR 1.7 billion shown net of loss allowance of MVR 43.26 million. 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 30.1.	- 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 calculation, such as disbursed and undisbursed loan amounts, deposits, value of the collateral, aging and loan tenure periods by agreeing details with the respective customer statements and files on a sample basis. - We 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.
We have identified expected credit loss allowance for loans and advances as a key audit matter as the calculation of loan loss allowance is a complex area and requires management to make significant assumptions and judgements.	- Assessed the adequacy of the related financial statement disclosures as set out on Notes 16, 30 for compliance with required IFRS 9 disclosures.

Other information

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

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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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`
10 June 2020

For PRICEWATERHOUSECOOPERS
Registration No: F0005

Jatindra Bhattray
Partner

Statement of comprehensive income

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

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

Statement of financial position

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

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

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

………………………………	………………………………	………………………………
Conrad D' Souza Chairman	Raheema Saleem Managing Director	Mohamed Shafeeq AGM - Finance

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

Statement of changes in equity

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

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

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

Statement of cash flows

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

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

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

Notes to the financial statements

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

1 General information

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

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

2 Summary of significant accounting policies

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

2.1 Basis of preparation

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

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

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

2.2 Changes in accounting policies

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

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

Notes to the financial statements (continued)

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

2.2 Changes in accounting policies (continued)

(i) Practical expedients applied

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

• applying a single discount rate to a portfolio of leases with reasonably similar characteristics.

• relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019.

• accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases.

• excluding initial direct costs for the meaesurment of the right-of-use asset at the date of initial application, and

• using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

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

(ii) Measurement of lease liabilities

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

(iii) Measurement of right-of-use assets

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

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

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

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

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

Notes to the financial statements (continued)

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

2.3 Summary of significant accounting policies

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

2.3.1 Financial assets and liabilities

Measurement methods

Amortised cost and effective interest rate

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

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

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

Interest income

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

Initial recognition and measurement

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

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

Notes to the financial statements (continued)

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

2.3 Summary of significant accounting policies (continued)

2.3.1 Financial assets and liabilities (continued)

Measurement methods (continued)

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

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

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

2.3.1.1 Financial assets

(i) Classification and subsequent measurement

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

The classification requirements for debt instruments are described below:

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

Classification and subsequent measurement of debt instruments depend on:

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

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

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

Notes to the financial statements (continued)

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

2.3 Summary of significant accounting policies (continued)

2.3.1.1 Financial assets (continued)

(i) Classification and subsequent measurement (continued)

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

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

(ii) Impairment

HDFC assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortised cost with the exposure arising from loan commitments. HDFC recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
(i) The time value for money; and
(ii) Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

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

(iii) Modification of loans

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

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

Notes to the financial statements (continued)

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

2.3 Summary of significant accounting policies (continued)

2.3.1.1 Financial assets (continued)

(iii) Modification of loans (continued)

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

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

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

(iv) Derecognition other than on a modification

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

2.3.1.2 Financial liabilities

(i) Classification and subsequent measurement

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

Interest expenses

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

(ii) Derecognition

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

Notes to the financial statements (continued)

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

2.3 Summary of significant accounting policies (continued)

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

2.3.2 Loan commitments

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

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

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial 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.

(b) Transactions and balances

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

Notes to the financial statements (continued)

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

2.5 Cash and cash equivalents

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

2.6 Offsetting financial instruments

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

2.7 Property, plant and equipment

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

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

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

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

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

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

Notes to the financial statements (continued)

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

2.7 Property, plant and equipment (continued)

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

2.8 Intangible assets

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

2.9 Leases

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

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

2.10 Debt securities in issue

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

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

2.11 Other borrowed funds

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

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

Notes to the financial statements (continued)

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

2.11 Other borrowed funds (continued)

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

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

2.12 Customer accounts

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

2.13 Derivative financial instruments

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

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

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

2.15 Trade and other payables

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

2.16 Share capital

Ordinary shares are classified as equity.

2.17 Dividends

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

Notes to the financial statements (continued)

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

2.18 Fiduciary activities

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

2.19 Current and deferred business profit tax

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

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

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

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

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

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

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

Notes to the financial statements (continued)

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

2.20 Fees, commissions and other income and expenses

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

2.21 Staff costs and related contributions

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

2.22 Segment reporting

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

2.23 Comparatives

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

Notes to the financial statements (continued)

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

2.24 Presentation of statement of financial position in order of liquidity

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

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

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

Notes to the financial statements (continued)

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

3 Critical accounting estimates, and judgements in applying accounting policies

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

3.1 Impairment losses on loans and advances

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

A number of 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 30.1.2.

3.2 Deferred tax asset recognition

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

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

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

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

Notes to the financial statements (continued)

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

4 Adoption of new or revised standards and interpretations

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

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

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

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

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

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

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

Notes to the financial statements continued

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

5 Net interest income

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

6 Net income on Shari'ah products

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

7 Fee income

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

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

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

9 Salaries and personnel expenses

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

10 Provision for loan impairment

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

11 Other operating expenses

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

Notes to the financial statements continued

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

12 Taxation

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

Reconciliations between business profit tax expenses and the accounting profit :

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

Current tax liabilities

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

13 Dividends

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

Notes to the financial statements continued

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

14 Earnings per share

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

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

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

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

15 Cash and cash equivalents

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

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

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

16 Loans and advances

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

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

Notes to the financial statements continued

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

16 Loans and advances (continued)

Movements in provision for impairment are as follows:

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

17 Financial assets at amortised cost

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

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

18 Deferred business profit tax assets

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

	2019	2018
Deferred tax assets	5,820,179	3,125,228
Net deferred tax asset	5,820,179	3,125,228

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

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

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

Notes to the financial statements continued

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

18 Deferred business profit tax assets (continued)

The balance comprises the following deferred tax assets.

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

Notes to the financial statements continued

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

19 Property, plant and equipment

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

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

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

Notes to the financial statements continued

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

20 Leases

(i) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

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

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

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

	2019	2018
Depreciation charge of right-of-use assets		
Buildings	827,669	-
	827,669	-

Interest expense on lease liabilities are included in interest expenses.

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

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

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

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

Notes to the financial statements continued

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

20 Leases (continued)

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

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

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

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

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

To determine the incremental borrowing rate, HDFC:

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

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

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

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

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

(iv) Extension and termination options

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

Notes to the financial statements continued

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

21 Intangible assets

	Software costs
Year ended 31 December2018	
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
Year ended 31 December 2019	
Opening net book amount	621,847
Additions	102,158
Amortisation charge (Note 11)	(235,448)
Closing net book amount	488,557
At 31 December 2019	
Cost	1,711,544
Accumulated amortisation	(1,222,987)
Net book amount	488,557

22 Other assets

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

Notes to the financial statements continued

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

23 Deposits from customers

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

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

24 Debt securities in issue

	2019	2018
Listed and corporate bonds	227,108,162	104,759,542
Listed Sukuk	241,794,539	114,219,795
	468,902,701	218,979,337
Maturity analysis of debt securities in issue		
Payable within one year	44,951,000	8,865,375
Payable after one year	423,951,701	210,113,962
	468,902,701	218,979,337

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

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

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

Notes to the financial statements continued

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

24 Debt securities in issue (continued)

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

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

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

25 Other borrowed funds

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

Notes to the financial statements continued

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

25 Other borrowed funds (continued)

Netherlands Development Finance Company (FMO)

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

Deutsche 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.

Bank of Ceylon - Male' branch

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

Term loan from Bank of Maldives

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

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

Notes to the financial statements continued

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

25 Other borrowed funds (continued)

Habib Bank limited (HBL)

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

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

Commercial Bank of Maldives (CBM)

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

Wakala facilities

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

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

Notes to the financial statements continued

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

25 Other borrowed funds (continued)

Wakala facilities (continued)

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

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

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

Pension benefit scheme fund

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

State Bank of India (SBI)

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

Notes to the financial statements continued

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

26 Other liabilities

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

Ministry of Housing and Infrastructure - GED Islamic fund

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

Ministry of Housing and Infrastructure - MHI Islamic fund

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

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

Notes to the financial statements continued

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

26 Other liabilities (continued)

Ministry of Housing and Infrastructure - MHUD Conventional fund

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

Ministry of Housing and Infrastructure - 704 - Conventional fund

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

Ministry of Housing and Infrastructure - CMEC - Conventional fund

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

27 Share capital

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

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

28 Reserves

	2019	2018
General reserve	15,000,000	15,000,000
Total reserves at end of the year	15,000,000	15,000,000

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

Notes to the financial statements

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

29 Segment Analysis

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

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

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

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

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

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

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

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

(i) funds are generally not allocated between segments;

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

(iii) loan provisions are recognised based on management judgement and availability of information, and based on the expected credit loss model prescribed in IFRS 9;

(iv) commission income relating to lending is recognised immediately rather than deferred using the effective interest method; and

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

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

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

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

Notes to the financial statements

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

29 Segment Analysis (continued)

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

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

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

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

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

			(As at 31 December 2018)	
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	-	91,653
Non-current assets	-	-	1,946	1,946
Financial assets held-to-maturity	29,976	-	-	29,976
Other assets	-	-	10,482	10,482
Total assets	1,321,053	417,955	12,428	1,751,436

Notes to the financial statements

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

29 Segment Analysis (continued)

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

				(As at 31 December 2018)
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	-	218,980
Other borrowed funds	497,648	140,217	-	637,865
Other liabilities	93,327	83,874	110,820	288,021
Current tax liabilities	-	-	8,371	8,371
Total liabilities	758,247	358,222	119,191	1,235,660
Capital expenditure	-	-	1,036	1,036

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

				(For the year ended 31 December 2018)
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)
Provision for loan impairment	6,692	1,534	-	8,226
Depreciation and amortisation	-	-	(624)	(624)
Administrative and other operating expenses	(16,456)	(1,191)	-	(17,647)
Business profit tax	-	-	(17,267)	(17,267)
Result	91,458	25,427	(17,891)	98,995

30 Financial risk management

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

Notes to the financial statements (continued)

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

30 Financial risk management (continued)

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

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

30.1 Credit risk

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

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

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

30.1.1 Credit risk measurement

Loans and advances (including loan commitments)

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

30.1.2 Expected credit loss measurement

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

Notes to the financial statements (continued)

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

30.1 Credit risk (continued)

30.1.2 Expected credit loss measurement (continued)

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

• If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. Please refer to note 30.1.2.1 for a description of how HDFC determines when a significant increase in credit risk has occured.

• If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Please refer to note 30.1.2.2 description of how HDFC defines credit-impaired and default.

• Financial instruments in stage 1 have their ECL measured at an amount equal to the proportion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stage 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer to note 30.1.2.3 for a description of inputs, assumptions and estimation techniques used in measuring the ECL.

• A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information. Note 30.1.2.4 includes an explanation of how HDFC has incorporated this in its ECL models.

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

The following diagram summarises the impairment requirements under IFRS 9:

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

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

30.1.2.1 Significant increase in credit risk

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

30.1.2.2 Definition of default and credit-impaired assets

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

Notes to the financial statements (continued)

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

30.1 Credit risk (continued)

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

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

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

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

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

The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12 MN PD), or over the remaining lifetime (Life time PD) of the obligation. PIT PD (Point-in-time 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 2019.

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

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

Notes to the financial statements (continued)

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

30.1 Credit risk (continued)

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

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

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

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

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

30.1.2.4 Forward looking information incorporated in ECL models

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

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

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

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

Notes to the financial statements (continued)

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

30.1 Credit risk (continued)

30.1.2.4 Forward looking information incorporated in ECL models (continued)

Sensitivity analysis

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

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

30.1.2.5 Grouping of instruments for losses measured on a collective basis

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

30.1.3 Loss allowance

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

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

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

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

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

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

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

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

Notes to the financial statements (continued)

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

30.1 Credit risk (continued)

30.1.3 Loss allowance (continued)

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

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

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

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

Notes to the financial statements (continued)

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

30.1 Credit risk (continued)

30.1.3 Loss allowance (continued)

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

Notes to the financial statements (continued)

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

30.1 Credit risk (continued)

30.1.3 Loss allowance (continued)

Loans and advances	Stage 1 12-month ECL	Stage 2 Life time ECL	Stage 3 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 are shown in Maldivian Rufiyaa unless otherwise stated)

30.1 Credit risk (continued)

30.1.3 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

30.1.4 Write-off policy

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

30.1.5 Modification of financial assets

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

Notes to the financial statements (continued)

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

30.1.5 Modification of financial assets (continued)

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

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

30.1.6 Risk limit control and mitigation policies

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

Some other specific control and mitigation measures are outlined below.

(a) Collateral

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

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

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

Notes to the financial statements (continued)

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

30.1.6 Risk limit control and mitigation policies (continued)

Collateral information

As of 31 December 2019	Customer loans	Staff loans	Amna assets	Total
Loans collaterised by:				
- house property	1,278,033,104	5,761,103	497,845,746	1,781,639,953
Total loans and advances	1,278,033,104	5,761,103	497,845,746	1,781,639,953

As of 31 December 2018	Customer loans	Staff loans	Amna assets	Total
Loans 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

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

As of 31 December 2019	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Customer loans	1,278,033,104	3,814,057,909	-	-
Staff loans	5,761,103	15,622,914	-	-
Amna assets	497,845,746	1,240,072,906		
Total loans and advances	1,781,639,953	5,069,753,729	-	-

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

Notes to the financial statements (continued)

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

30.1.6 Risk limit control and mitigation policies (continued)

(b) Credit-related commitments

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

30.1.7 Impairment and provisioning policies

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

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

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

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

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

30.1.9 Concentration of risks of financial assets with credit risk exposure

(a) Geographical sectors

HDFC's lending activities are limited to Maldives.

(b) Sectors

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

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

Notes to the financial statements (continued)

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

30.2 Market risk

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

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

30.2.1 Foreign exchange risk

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

HDFC has borrowed from Netherlands Development Finance Company (FMO) and from Deutsche 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 two SWAP agreements with STO by which STO will sell equal amount of US$ to honour the US$ requirement of HDFC at the rate of 1 US$ = MVR 15.42.

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

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

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

Notes to the financial statements

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

30.2.1 Foreign exchange risk (continued)

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

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

30.2.2 Interest rate risk

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

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

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

Notes to the financial statements

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30.2.2 Interest rate risk (continued)

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

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

Notes to the financial statements

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

30.2.2 Interest rate risk (continued)

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

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

Notes to the financial statements

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

30.2.2 Interest rate risk (continued)

Exposure to Interest rate risk - Loans and advances

Sensitivity analysis of net interest income

(in MVR '000)	**As at 31 December 2019**		**As at 31 December 2018**	
	1% increase	1% decrease	1% increase	1% decrease
Average for the year	7,790	(7,790)	7,755	(7,755)

30.3 Liquidity risk

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

30.3.1 Liquidity risk management process

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

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

Notes to the financial statements

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

30.3.1 Liquidity risk management process (continued)

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

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

30.3.2 Funding approach

Sources of liquidity are regularly reviewed by the ALCO.

Notes to the financial statements

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

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

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

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

Notes to the financial statements

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

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

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

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

Notes to the financial statements (continued)

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

30.4 Capital management

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

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

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

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 as at 31 December 2019 and 31 December 2018. HDFC complied with all of the externally imposed capital requirements to which they are subjected.

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

Notes to the financial statements (continued)

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

30.4 Capital management (continued)

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

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

Notes to the financial statements

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

31 Analysis of financial instruments by measurement basis

As at 31 December 2019	Amortised cost	Total
Financial assets		
Cash and cash equivalents	198,051,509	198,051,509
Financial assets at amortised cost	224,846,517	224,846,517
Loans and advances	1,738,373,448	1,738,373,448
Total assets	2,161,271,474	2,161,271,474

	Amortised cost	Total
Financial liabilities		
Debt securities in issue	468,902,701	468,902,701
Other borrowed funds	692,377,506	692,377,506
Deposits from customers	88,684,184	88,684,184
Other liabilities	351,666,575	351,666,575
Total liabilities	1,601,630,966	1,601,630,966

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

	Other liabilities	Total
Financial liabilities		
Debt securities in issue	218,979,337	218,979,337
Other borrowed funds	637,865,650	637,865,650
Deposits from customers	82,423,308	82,423,308
Other liabilities	288,020,860	288,020,860
Total liabilities	1,227,289,155	1,227,289,155

Notes to the financial statements continued

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

32 Fair value of financial instruments

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

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

Assets for which fair value approximates carrying value

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

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

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

Notes to the financial statements continued

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

33 Contingencies

(a) Contingent liabilities

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

(b) Contingent assets

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

34 Commitments

(a) Capital commitments

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

(b) Loan commitments

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

(c) Non cancellable operating lease

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

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

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

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

Rental expense relating to operating leases

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

Notes to the financial statements continued

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

35 Related party transactions

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

Key management compensation

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

36 Events after the reporting period

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

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HDFC

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