

The background of the entire page is a close-up, high-resolution image of a honeycomb. The hexagonal cells are filled with a golden-yellow substance, likely honey, which has a glossy, reflective surface. Two bees are positioned in the upper-middle section of the frame. One bee is facing downwards, while the other is facing right. The lighting is bright, creating highlights and shadows that emphasize the texture of the honey and the details of the bees.

Annual Report 2017



Housing Development Finance Corporation Plc



Celebrating the
Spirit of Housing

coloring
your dreams



Housing Development Finance Corporation Plc.

Housing Development Finance Corporation Plc.

Annual Report

2017

HDFC Plc.
Annual Report 2017

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Definition

Annual Report 2017, comprises of the Annual Report of Housing Development Finance Cooperation 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 'our' 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 2017.

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

Dear Shareholders,

On behalf of the Board of Directors it gives me great pleasure to present the Fourteenth Annual Report of Housing Development Finance Corporation (HDFC) Maldives.

2017 was another year of solid progress and achievement for HDFC, attained through our model of consistent, competitive, profitable and responsible growth. We have the second largest market share, with over one-third of the housing finance market and registered mortgages of 49.1%. We believe that this model of consistency, particularly in times of uncertainty is a good indication of a robust strategy and broader vision. Good quality top and bottom line growth has now been delivered for over a decade.

HDFC has concluded fourteen years of operations, having given more than MVR 2 billion of both, Conventional and Islamic housing finance to thousands of Maldivian citizens to enable them to realize their dream of having a decent home in a safe and healthy environment. With stable



**Financial
Highlights**

growth in business and profits and with customers being our most valuable partners, HDFC has achieved over 12.3% profit growth and 8.3% portfolio growth in FY 2017. During the year, HDFC has also maintained total expenses as a percentage of average total assets at 1.1% and the cost to income ratio stood at 9.3%. We have a system of rigorous collection efforts and judiciously use legal channels for recovery. This has enabled the Company to maintain its low non-performing assets (NPAs). The recovery process is structured through early warning arrangements, regular reviews and prompt legal action, wherever required. These measures have assisted in minimising defaults and maximising collections. As at December 31, 2017, the NPAs stood at 1.5% this is considerably lower than comparable industry level.

According to a World Bank report published in October 2017, overall GDP growth stood at 4.5 percent in 2016. Construction for housing and large infrastructure investment projects has been the vigour for growth since late 2014. Inflation fell further to 0.5 percent in 2016 due to continued low global food and oil prices and a steady exchange rate. The ADB's Country Operations Business Plan (2017) projects GDP growth at 3.8% in 2017 and 4.1% in 2018.

The Maldives is also likely to witness robust growth in real estate, with a number of upcoming residential and commercial projects. The financial sector in the Maldives is experiencing tighter liquidity conditions, increased cost of funding and deteriorating asset quality. The challenging macroeconomic scenario may have spill over effects on the financial sector.

For a nation like the Maldives, the housing and real estate sector always plays a crucial role. Over the past few years, this sector has grown consistently and has, directly and indirectly contributed to the development of the nation's economy. Maldives has a sufficient base of middle class and lower middle class population. This segment of the population requires homes which are affordable. Building such dwelling units require combined efforts of the government and the real estate developers.

Macroeconomic Environment and Housing in the Country

Government Initiatives

Today, the capital city, Male' is overcrowded due to the huge population pressure. It is difficult to provide affordable housing in the capital Male' due to limited space. The Government has initiated the concept of 'Smart City' with special focus on the youth by providing opportunities and necessary infrastructure to encourage innovative entrepreneurship amongst the youth of the nation. After completion of the 'Youth City', the project aims to provide housing for more than one-third of the total population of the Maldives. This indicates that the housing supply will increase to meet the demand of the Maldivian citizens.

To support this noble cause, HDFC has introduced a new housing product called "Youth Product". The tenor of this loan/facility is 30 years, with a 15% equity contribution and an interest rate of 10.5% p.a.

In addition, Maldives Monetary Authority has introduced a social loan scheme to make housing finance more affordable for the common citizens at the rate of 5%-6% with a cap up to MVR 2.2 million. These loans are available only from the commercial banks operating in the Maldives, effective from August 2017 for a 3 year period.

We are proud of our success in helping people stay in better homes, and we believe the social impact of what we do is additive to society in terms of trust and reputation.

Customer Focus

One of the key principles we believe in is adding value for our customers. In this entrepreneurial setting, our employees are armed with the freedom and ability to develop innovative solutions that deliver outstanding value to our customers.

As guided by our Board, we have now established an independent customer advocate personnel, who will directly report to the management. This initiative is to champion fairness for all customers and facilitate periodic, independent complaint reviews. We strongly believe that the more interaction we have with our customers, the more they will value our competencies and services.

Our corporate culture is one that tends to break silos and encourages teamwork. It reinforces a "one company" mind-set across all employees. Leading HDFC to where it is today in terms of deep-rooted customer relationships, would not have been possible without our employees' passion for outstanding customer service and their unwavering commitment to customer satisfaction.

Looking Ahead

We enter 2018 with a strong proven business model, clearly defined implementation strategies, diversified portfolio of assets, stable sources of funding and in pursuit of interesting opportunities offered by the competitive market. We remain deeply rooted in our core business of providing mortgage finance to our customers. As a cumulative result of the strengths we have built over the years, we stand strong to explore attractive opportunities now and in the future. However, we will continue to be selective in our approach to fresh opportunities, bearing in mind the need to balance rewards against various risks.

We remain optimistic about our ability to continue delivering optimum results for our shareholders. In conclusion, our unwavering focus is on enhancing the strength of HDFC and in creating sustained long-term value for our shareholders.

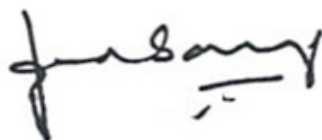
Appreciation And Gratitude

I take this opportunity to acknowledge and place on record my sincere appreciation and gratitude to all those who have untiringly contributed to the Company's progress:

- Board members, for their sharp insight and pro-active guidance,
- Maldives Monetary Authority, Ministry of Finance and Treasury, Capital Market Development Authority, Maldives Stock Exchange and other regulatory authorities for their continued guidance and valuable support,
- Our shareholders for their unwavering confidence and continuous loyalty,
- Our management and staff for their commendable teamwork, positive attitude, dedication to duty and untiring efforts and,
- Our loyal customers for their continued patronage and trust.

In conclusion, I express our sincere gratitude to all our stakeholders for reposing their faith in us.

On behalf of the Board of Directors



Conrad D'Souza
Chairman



Managing Director's Review

Maldives experienced number of challenges in 2017, including poor access to finance, interest rate volatility to name some. "Adequate Housing for All" by 2020 is an important mission of the Government of Maldives. As a housing solution provider, HDFC has a key role to play in warranting the Maldivians, this National Mission becomes a reality. HDFC views itself as an important contributor to this key socio-economic goal. HDFC believes that it can play a crucial role in shaping the future of the nation by addressing the need of decent housing for the Youth. To achieve this goal we are offering the best-in-class home loan solutions available. This new product will have 30 years of tenure with 15% equity at 10.5% per annum.



The Housing Finance Sector

In the housing finance sector the important and high priority areas that have to be addressed urgently are - the facilitation of the development of long-term money markets the enactment of mandatory provisions that direct long-term sources of funding for investment in the finance sector thus ensuring a maturity matching process and the integration of various agencies related to the housing and construction industry.

The emergence of new players entering in the housing finance business has created a vibrant operation in lending, with more options available to the consumers. This enthusiasm however, needs to be handled with care, with a focus on long-term benefits rather than short-term gain. A house has become the only commodity sold without a warranty. Purchasing a house is the biggest life time investment an average person makes. Therefore, condominium and house developers should extend a warranty (defect liability) of 2-3 years.

Leading Home Finance Provider

Trends over the recent past few years indicate that the field of housing finance has recorded substantial growth in the face of stiff competition, in the Maldives. In fact, it has been identified as one of the key driver of economic growth.

A growing population and a rapidly expanding economy have led to a continuous demand for home ownership. This demand is further driven by changes in demographic profile including increase in the rate of household formation due to structural shift from joint family system to nuclear family, rapid urbanization and rise in disposable income levels and increase in total income levels of the Maldives middle class.

Within the home loan segment, the company is particularly focused on offering loans at competitive rates to the salaried segment. HDFC has been one of the most widely recognized success stories of this housing industry. While the year saw an extremely competitive environment come into play with similar products flooding the market and customers have several options to choose.

HDFC has once again, delivered strong results despite volatile external environment. The Company has been maintaining a high asset quality. This is reflected by low levels of NPAs, amongst the best in the industry.



Strategic Direction

Backed by a sound balance sheet, an energetic and capable team, HDFC is well poised to play a leading role in supporting the national vision in the housing sector. The Company will put in place a very clear strategy spanning for three years, which will align the Company's vision, mission and values in to one nexus. This strategy spans across from 2018 to 2020 which will be prepared in consultation with the Board of Directors and the management. Thus, this strategy will encapsulate the thoughts and opinions of the very people who will be driving and actualising this strategy.

HDFC progressed with stability and consistency over the past years overcoming many challenges in the field of housing finance. Our business strategy is one of evolution and adaptation to facilitate a seamless delivery of a range of products in housing. The process will continue to evolve, whilst creating shareholder value and sustainable growth through meeting the aspirations of all our stakeholders.

Although, our fundamentals are healthy, yet we cannot ignore the uncertainty prevailing in the external environment. Therefore, without being overly cautious in our approach, the Company's management team is closely tracking and proactively managing changes in the environment that may impact our business. The Board of Directors has great confidence in the Company's prospects. We are equipped to seize growth opportunities, despite new challenges that may lie ahead.

Challenges

HDFC remains strongly committed to an exemplary corporate governance regime and the proliferation of a truly sustainable business model that nurtures and delivers value to all its stakeholders. The need for good governance is one of the main issues that stakeholders in the industry should address. Real estate now represents perhaps the largest asset class of any country and is the largest source of wealth for families. It therefore needs immediate consideration to regulate competition, accountability, transparency and residents-rights etc. These are the fundamental issues which will ensure long-term sustainability of the industry rather than short-term gains.

Real estate development cannot revolve only around profitability. It has to include decent homes for the commonalities as a prime objective. State housing programmes have been mainly focused on meeting the housing needs of lower income groups. The private sector has largely focused on upper middle and higher income groups.

In the fast moving business world with accelerated pace, taking a very informed decision is very imperative. With scenario changing at every second in the globalized village of the transaction, having up-to-date data is essential; and what, is even more, necessary is to have a centralized location of data which can be easily assimilated. The famous Professor William Pollard stated that "Information is a source of learning. But unless it is organized, processed, and available to the right people in a format for decision making, it is a burden, not a benefit." Often it is advertised that Enterprise Resource Planning (ERP) is a tool for big businesses. However, a business small or big have a common necessity to grow; and hence needs a common tool, centralised information structure or, in other words ERP, obviously with necessary customisation based on the size of the company and industry in which it is operating; along with any company- specific requirement. In general, our IT systems must enable and support the achievement of our evolving business goals. Management Information Systems (MIS) must be geared to provide the pertinent data needed to manage business units and people.

We need to invest in the people on whom we will depend, to achieve our goals. Our direction is clear, and we are confident of achieving success over our planned time horizon.

Acknowledgement

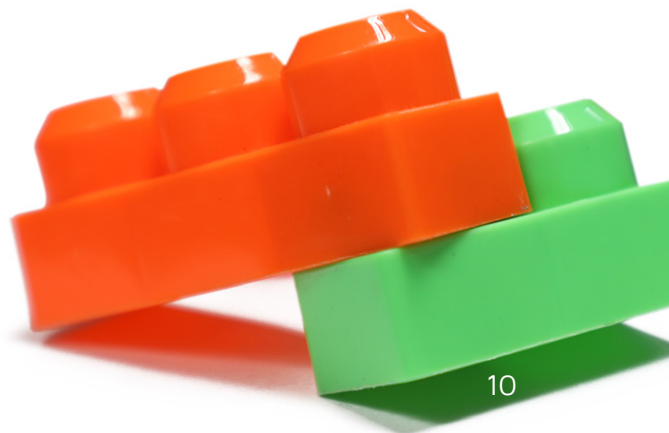
In conclusion I take this opportunity to convey my gratitude and sincere thanks to the Chairman Mr. Conrad D'Souza and the Board of Directors for their continued guidance, advice and support. I warmly thank HDFC's staff for their unmatched pursuit of excellence and teamwork towards the organization's performance.

We look forward to an inspiring journey ahead for HDFC. I know it will be challenging but I also foresee immense opportunity and potential for us in this new era of resurgence. My sincere hope is that you, our stakeholders, will join us in creating a completely new paradigm for HDFC in the Maldives where we can meet our objectives and ensure that we create an empowering and enabling environment for segments of society that have limited or no access to the primary need of a home.

Sincerely yours,



Raheema Saleem
Managing Director



Company Overview

Corporate Information

Housing Development Finance Corporation Plc.

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%).

C-107/2006
MVR 159,375,000

Mr. Conrad D'Souza
Ms. Raheema Saleem
PricewaterhouseCoopers (External Auditors)
KPMG (Internal Auditors)
Mazlan & Murad Law Associates
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Name of the Company

Legal Form

Company Registration Number
Share capital

Chairman
Managing Director
Auditors

Legal Counsel
Company Secretary

Registered address

Vision

Our vision is to provide decent and affordable homes in a safe and healthy environment, and work towards uplifting the living standards of all Maldivians by becoming the market leader for financial services in the Maldives.

Mission

Our mission is to offer financial and social strength to all Maldivians by providing home loans and other savings and investment products managed professionally and profitably to the highest international standards, and to the complete satisfaction of all stakeholders.

Pledge

Strive hard and explore all avenues to:

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





Directors' Report

“ *Our ability to maintain high asset quality and lower-than- the industry benchmark NPAs are due to our credit assessment tools and strong recovery processes.*

Your directors have the privilege of presenting their fourteenth Annual report of HDFC Plc. (the “Company or HDFC”), together with the Audited Accounts of the Company for the year ended 31 December, 2017.

Financial Highlights

In millions (MVR)

Performance

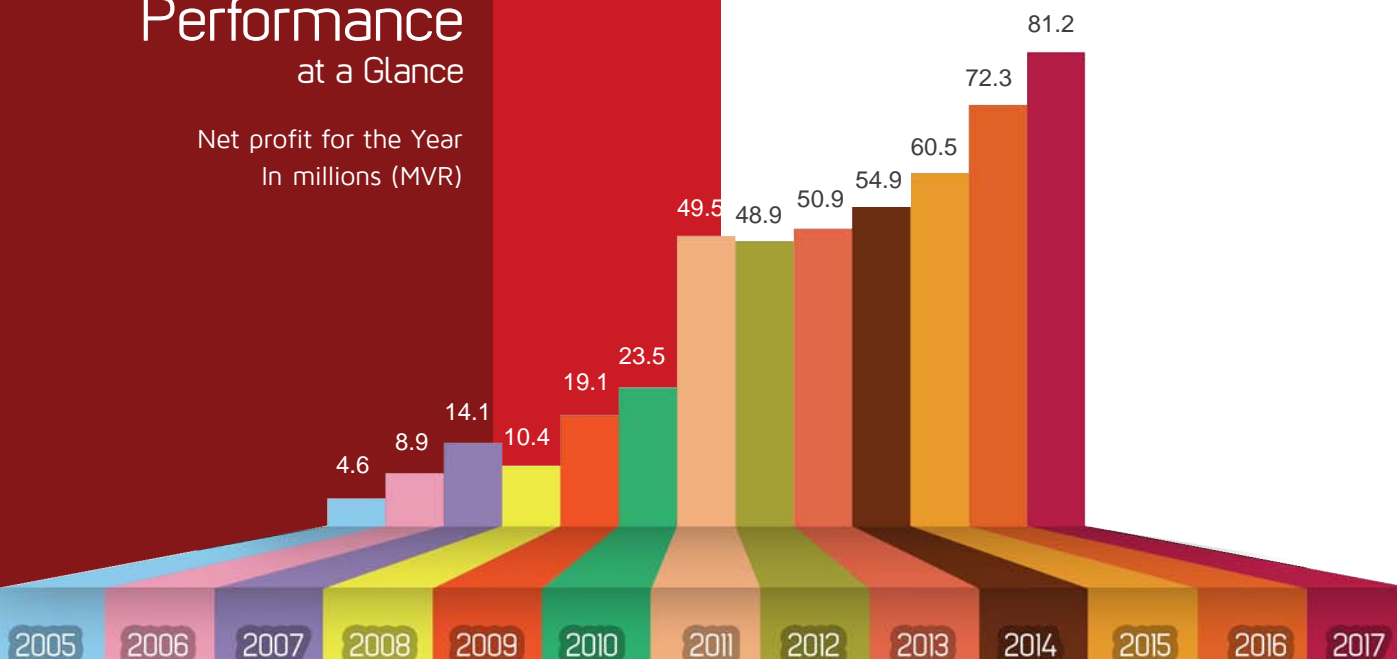
	2017	2016	2015	2014	2013
Total Income	173.2	151.8	131.6	122.6	108.8
Profit Before Tax	93.3	85.7	71.5	64.6	59.9
Profit After Tax	81.2	72.3	60.5	54.9	50.9
Total Equity	513.9	467.8	455.2	434.5	395.6
Net Portfolio (Loans/facilities)	1,410.5	1,302.9	1,086.5	941.5	842.2

Financial Ratios

Net Assets value per Share	322.4	293.5	285.6	272.7	248.2
Earnings Per Share (EPS)	50.94	45.4	38.0	34.4	32.0
Dividend Per Share	22	20	17.5	25	10
Liquidity (%) (Equity/Total Assets)	33%	35%	37%	40%	41%
Dividend pay-out (%)	43%	44%	46%	73%	31%
ROAE (%)	16%	19%	14%	13%	13%
Debt/Equity (times)	2.09	1.92	1.72	1.54	1.47
Interest Cover (times)	1.96	2.33	2.91	2.75	1.95

Performance at a Glance

Net profit for the Year
In millions (MVR)



Introduction

Housing finance is a unique consumer good and is an imperative part of the financial markets. Investment in a house is the primary component of the typical household asset portfolio and often the largest single category of household expenditure by way of rent. Housing sector is a crucial element in creating stable and strong communities and an indicator of social welfare.

Housing finance is a specialised banking product which needs deep understanding of the economy and needs of the end users to offer a good service. Due to this superior sectoral focus; HDFC has played a significant role in Maldives proliferation of home mortgage finance, despite the dominance of commercial banks with their extended reach and low-cost resources. Further, HDFC can play a crucial role in development of the housing finance in Maldives with additional policy level enabling initiatives by the Government and the regulatory bodies. Such policy level initiatives shall make home finance accessible and affordable for socio-economic advancement of Maldives.

Home Loan Portfolio

MVR1.4
billion

We hold one of the largest and performing home loan portfolios in Maldives. We would like to build on the strength of our people, process and technology in the home loan and facility origination, and emerge as the largest home loan provider.

Economic Performance

In 2018, the nation prepares for the presidential election, and hope and aspiration of the public is to seek a government that shall work towards establishing good governance in all the spheres of the society.

Economic growth is highly dependent on tourism and is likely be supported by the increase in the number of visitors from the European countries and China. Tourism sector will be supported by large infrastructure investments such as the expansion of international airport, China Maldives Friendship Bridge, which is likely to be operational in mid-2018. The construction sector is expecting a sharp increase once the bridge is connected and operational. The fisheries industry is also a key source of employment for several people living in the islands and in the capital.

According to MMA the rate of inflation at the end of December 2017 stood at 1.3%. This was mainly due to increase in home rental, selected food items and tobacco. However, the electricity prices decreased.

Tax revenue is estimated to increase in 2018, driven by tax reforms and introduction of new policies. The current account deficit is likely to remain large. Maldives lacks manufacturing, which puts a large stress on the balance of trade. Imports are estimated to accelerate due to the increase in demand for building materials for construction and other infrastructure.

Business Overview

HDFC was incorporated as a state owned enterprise on 28 January 2004 by a Presidential Decree under the Companies Act Law No. 10/96. The Company was registered as a public company on 9 February 2006 and was privatized with the signing of a "Shareholders" agreement for privatization between the Government of Maldives (GOM), International Finance Corporation (IFC) of the World Bank Group, Asian Development Bank (ADB) and HDFC Investments Ltd- India on July 23, 2008. This Public Private Partnership has a joint foreign investment of 51% shares, jointly held by IFC, ADB and HDFC Investments Ltd. of India. Initiative taken in July 2008 to restructure the capital and recommence the business of HDFC Plc. became effective in February 2009.

Having restructured its capital, and with new lines of long-term credit, HDFC re-entered the market for mortgage loans for housing needs of individuals and families. HDFC is a specialised housing finance institution in the Maldives. With seven commercial banks operating in the mortgage housing loan market, HDFC's competitive long repayment terms and pooled-income home loans enabled the Company's achievements.

Loan portfolio 2017 2016

Loan portfolio	2017	2016
Home loans	79 %	81 %
Islamic facilities	21 %	19 %
Home Construction	69 %	75 %
Home purchase	31 %	25 %

Over the years HDFC has developed and launched a number of products since its privatisation and has built the housing portfolio of over MVR 1.4 billion, both covering Conventional Home loans and Islamic facilities.

During the Financial Year 2017, a considerable growth is witnessed in the demand for housing as a result of the increase in expatriate workforce, growing income levels, and urbanization.

Despite high demand, the State's involvement in developing new housing projects was focused on mass housing programs only. As a result, the private sector has emerged as the major provider of houses for middle and high income segment, while the Government continues to be involved in providing housing facilities for low and middle income households and specific groups, where HDFC plays a key role in facilitating this segment.



Housing Market

Housing finance remains a challenge for many householders in developing markets such as the Maldives, often reflecting the lack of an appropriate infrastructure and preconditions for lending. In particular, providing funding to the lower and middle income households is limited due to various challenges like market rates of interest and high house prices, low affordability and poor credit history. Hence, there is a strong 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 segment of the population.



Products Offered

HDFC provides an array of products including conventional and Islamic. A list of products offered are given below:-

- Conventional Loans
- Islamic Facilities



Standard Home Loan

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



Million Plus Home Loan

Million Plus Home loans exceeding MVR 1 million with less than 1/3 of the developed area given on rent and 2/3 or more occupied by owner/s and or co-applicant/s, at 11.50% per annum.



Rent Option Home Loan

Rent Option Home loans where more than one third of the built area of the property is intended for, or already rented out at 12.50% per annum.



Renovation Home Loan

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



Isthisna'

Home construction facility.



Musharaka muthanaqisa

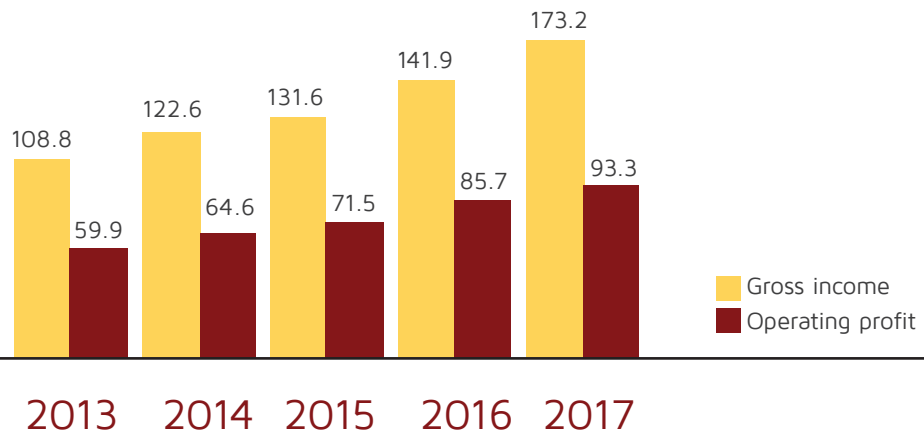
Purchase of land & construction or purchase of Housing units.



Murabahah

Purchase of materials.

Growth of Income and Profitability



Income

The total revenue for the year ended 31 December 2017 is recorded as MVR173.2 million as against MVR141.9 million corresponding period in the year 2016.

Operating Profit

Net interest income has grown to MVR 89.8 million from MVR 84.4 Million, in addition (Net income on shari'ah products, Fee income and other income) increased by MVR 9 million indicating an increase of operating profit by 14% compared to financial year 2016. Company generated operating profit for the year MVR 93.3 million.

Profit For The Year

With these performances, HDFC was able to record profit for the year MVR 81.1 million as against MVR72.3 million in 2016 an increase of 12.3%.

MVR 173.2
million

MVR 93.3
million

MVR 81.1
million

Sharia Profit

Net income from Sharia products increased to MVR 22.5 million in 2017 compared to MVR 14.4 million in previous year. This reflects an increase of 56.25%.

Since the genesis of HDFC AMNA in 2012, HDFC Amna now holds approximately 21% of the Loan portfolio of HDFC, where its total loan portfolio stands over MVR 1.4 billion. And it is expected to dominate the market by 2020, provided that the growth level remains steady. The reasons for the growth of Amna are as follows

- Increase in awareness
- Appeal of the term 'Islamic' because Maldives is an Islamic nation
- Scholarly approval of the products as Islamic and in accordance with their faith
- Maintaining competitive rates vis a vis conventional

We offer three sharia compliant products all related to housing. They are Isthisna' for Home Construction, Musharaka Muthanagisa for Home Purchase and Murabahah for Home Renovation. We received a total of 39 applications for Amna for the year 2017 and provided Housing facilities to 27 amongst them.

MVR 22.5
million

Operating Expenses

The total operating expenditure was MVR 26.2 million as compared to MVR 19.4 million in the same period of 2016, which is an increase of 35% which was mainly due to the provision made for additional MVR 6.6 million. Other overheads maintained at the same level.

MVR 26.2
million

Dividend

In view of the overall performance of the Company, while retaining capital to support future growth, the Board of Directors on the 5 November 2017 recommended a dividend of MVR 22.00 per share with a pay-out ratio of 43%.

Asset Quality

The Company improved its asset quality substantially during the year when compared to 2016 of the same period, despite the aggressive competition. At the end of 31 December 2017, the total net loan/facility portfolio amounts to MVR1.4 billion. The Company maintains an internal credit rating system for loans either past due or impaired. The loan value falling under category A+ was maintained at 99.86% as at 31 December 2017 and previous year as well. In order to minimise the potential increase of the credit risk exposure, HDFC focuses more on securing loans to greater Male' region than in the outer atolls. All assets are covered by insurance and all loans are now covered for the tenure of the loans/facilities.



Internal Credit Rating

Internal Ratings	Basis for grading (B/A)	31 December 2017		31 December 2016	
		Loans to customers (MVR)	Percentage of total loans	Loans to customers(MVR)	Percentage of total loans
A+	0.2%	1,343,042,214	99.86%	1,262,682,271	100.00%
A	0.2% to 0.5%	1,832,816	0.14%	-	0.00%
A-	0.5% to 1%	-	-	-	0.00%
B+	1% to 1.5%	-	-	-	0.00%
B	1.5% to 2%	-	-	-	0.00%
C	above 2%	-	-	-	0.00%
		1,344,875,030	100%	1,262,682,271	100.00%

Credit Rating

HDFC has received an AA credit rating from Care Rating, which was reaffirmed in April 2017 for our listed Fixed Income Bond, indicating a very strong degree of safety regarding timely payment of financial obligations.

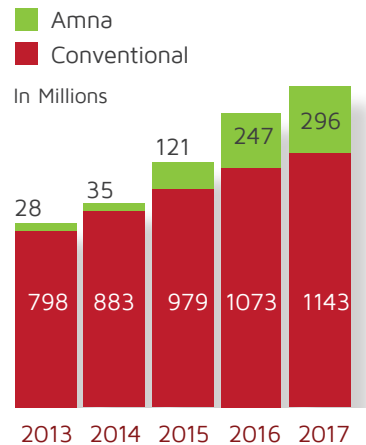
Auditors

The statutory auditors for 2017 are PWC. The Internal auditors are KPMG. PWC is engaged to do half yearly audit along with the annual audit. KPMG was engaged to do the quarterly internal audits. During the year four internal audits were conducted and presented to the Board.

Housing Loan Portfolio

The company's housing loan portfolio has reached to MVR1.4 billion (Conventional MVR1.14 billion and Amna MVR296 million) marking a growth of 9% compared to 2016.

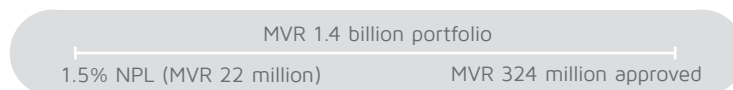
During the year, 2017 HDFC has approved loans amounting to MVR 324 million as compared to MVR 261 million in the same period of the previous year, recording a growth of 24%. During the year 2017, the Company disbursed loans worth MVR 249 million, the previous year MVR 324 million was disbursed.



Loans Performance

As of 31st December 2017 the Company's total portfolio value of loans/facilities has increased to MVR 1.4 billion from MVR 1.3 billion in 2016, with the loan attrition rate at 11%. In order to mitigate the attrition rate and the potential exposure to credit risk, HDFC focuses more on ways to make a positive customer experience and lending for home construction based on sound collateral and strong repayment capacity from employment and other businesses.

HDFC have substantial market share of 49.1% in (2016), with additional players in the market, the competition is now fierce. However, the credit culture of the Maldives continue to present a formidable challenge, more specifically in the light of the average NPL percentage of the Maldives Banking sector, which has exceeded by 10% in Q2 of 2017 as reported in the MMA's Quarterly Economic Bulletin of June 2017. HDFC's success in managing a low level of NPL is due to the commitment and diligence of all members of staff who are focused on managing this critical success factor every stop of the way by building effective relationships with each and every customer.



Recovery and Non-Performing Loans

Despite our unique credit evaluation process, we experienced a slight increase in Non-Performing Loans (NPL's) to 1.5% at the end of December 2017, and compared to 0.70% at the end of December 2016.

We have a rigorous implementation of collection efforts and possible use of legal channels of recovery, the Company has maintained its expectations of lowest NPLS among other commercial banks. The recovery process is structured with early warning arrangements, regular reviews and prompt legal actions. These actions have assisted the company in minimising defaults and maximising collections.

Housing Loans Impaired Amount in millions

Male'	6.1
Hulhumale'	12.6
Outer Atolls	3.6

Impairment Provision

The impairment provision is computed in compliance with IFRS (IAS 39) for the year, and made provision of MVR10.5 million giving us a collective impairment total provision of MVR28.6 million as of 31 December 2017. During the year the company did not write off any bad loans or facilities.

Safeguarding the Social and Operational Environment

The Company is bound by the Shareholder's Agreement to comply with its comprehensive Safeguard policies,

The Company uses all reasonable efforts to ensure the continuing operation of the Environmental Management system to assess and manage the social and environmental performance of the Operations and to comply with the Safeguard Policies,

At the end of the financial year, an annual monitoring report is delivered to ADB, consistent with the requirement of the Shareholder's Agreement, confirming compliance with the social and environmental covenants of the Agreement or, as the case may be, identifying any non-compliance or failure, and the actions being taken to remedy such deficiency.

In addition compliances required by our lenders such as DEG, FMO and other local lenders are fulfilled as per their lending agreements.

Solution For Long-Term Funding

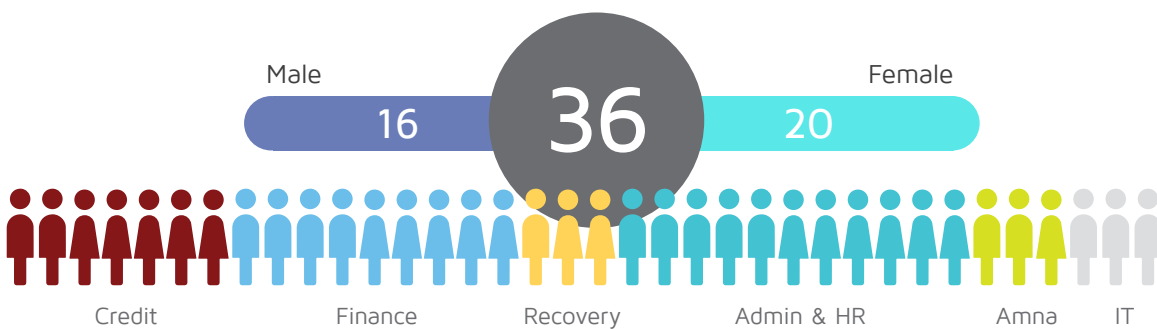
In order to facilitate long-term sources of funds, HDFC took an innovative step towards the development of a 10 year Sukuk from the local market. Such developments will resolve long-term funding needs of the Company to a greater extent. In addition the maturity mismatch gap will be narrowed.

Human Resources

The employee performance indicators continued to exhibit improvements during the year under review. We believe that our staff received systematic and need-based training to perform. Under a renewed HR policy, the HDFC is moving towards building a performance oriented culture. The human resource initiatives are prioritised in the Company to achieve performance, productivity and employee happiness at work. HR development shall remain a focus area in driving our Company towards excellence.

Last year, a comprehensive study was carried out by a local HR consultant to determine available levels of proficiency and to identify gaps in the structure of all levels of the Company. We took suitable measures based on the feedback and integrated the suggestions with our HR policies and necessary actions. We remain committed to improve the index of employee satisfaction and performance.

Staff Details



Corporate Governance

The Company has been complying with the standards of corporate governance (C.G) required under the Companies Act and CMDA governance code. The Board of directors discharge the duties under the applicable statutes. (Details of C.G are given in page 44)

Board Composition

HDFC's Board comprise of five directors, who are well experienced and professional in their own fields. The Board has three independent directors and two women directors. Only Managing Director is the Executive Director.

The Board has a formal schedule of matters reserved for its consideration and decision, apart from the legally required matters. During the year, four board meetings were held.

Directors Who Retired

The Nominee Director of Government of Maldives, Mr. Ismail Ali Manik retired on 17 April 2017 for personal reasons. The Directors of the Board wish to place on record his contribution made on the Board and its various committees

Appointment Of Chairman

As a practice, the Chairmanship is rotated for a period of one year. The present Chairman is Mr. Conrad D'Souza. Previously, Mr. Ismail Ali Manik was the chairman.

Litigations

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

There has not been any litigation against HDFC or any of its directors in the past five years, nor are there any penalties imposed by any regulatory authority or judicial decision.

Taxes

Housing Development Finance Corporation is required to pay the following taxes.

- 1) Business Profit Tax 15%
- 2) Withholding Tax 10%

Sanctionable Practices

As shareholders other than the International investors, have pledged that none of their affiliates shall engage in any Sanctionable practices as stipulated in the Shareholders Agreement.

Affirmative Covenants

The Company adheres to the following covenants:

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

Anti-Money Laundering and Combating the Finance Terrorism

The Company complies with the (Law No. 10/2014) PREVENTION OF MONEY LAUNDERING AND FINANCING OF TERRORISM ACT, which was gazetted on 13 April 2014. The main objectives of the Act are as follows:

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

Future Outlook

The Company progressed with stability and consistency over the past years overcoming many challenges in the field of housing finance. Today, it is established as one of the key players providing housing finance to all segments of our society and will continue to increase our contribution on this optimistic status in the future.

We will continue our efforts to improve financial literacy amongst our customers to promote responsible borrowing to the customer end and a robust portfolio for the Company.

HDFC being a long term lender is exposed to the interest rate risk and duration mismatch risk. Our lending is long term with fixed rate, while borrowings are short term fixed or variable rate. During the year we implemented further measures to address this inherent risk by enabling us to diversify the loan portfolio with short tenure housing loans.

Islamic Finance also referred to as HDFC Amna, is an area that has contributed towards the Company's profit while building social capital during its short tenure of engagement. Offering of Sharia Compliant products for end-users which proved to be very popular resulting in 21% of the Company's housing portfolio.

Financial Reporting

The Company furnishes the following information to its Shareholders;

- Audited Annual Financial Statements within 120 days after the end of each financial year, which is prepared in accordance with the International Financial Reporting Standards(IFRS);
- Within 45 days after the end of each quarter, quarterly financial statements.
- Information Rights:
Under the RIGHT TO INFORMATION ACT OF MALDIVES (No: 01/2014), the Company has appointed Mr. Faisal Haleem, Manager/Compliance as the Information Officer. Each year he independently presents his report to the Information Commission.

Directors' Responsibility Statement

The Board of Directors hereby state that:

1. In preparation of the annual accounts, the applicable accounting standards have been followed. Appropriate accounting policies have been applied consistently 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 of any Director proposed for election
5. The Board of directors affirms that there are no other interests of the Directors except those disclosed in this report and the accompanying financial statements
6. The Board of Directors further affirms that no major events have occurred subsequent to the balance sheet date, which would require adjustments to, or disclosure, in the financial statements.

Declaration of Interest

All directors are required to disclose any matters which may lead to or be perceived as conflict of interest in compliance with the Company's code of conduct and CMDA's Code of governance. Each of the Directors and Key Management Personal has fully disclosed any conflict of interest between his or her duties to HDFC, as stated in their individual profiles.

Appreciation

On behalf of the Board of Directors, I take this opportunity to put on record our gratitude to Maldives Monetary Authority and other regulatory and government bodies for their continued support and guidance. We thank our shareholders, and our valued customers for their continued patronage. In addition we like to extend our gratitude to the Company's Auditors, bankers, legal counsel. We also like to express deep sense of appreciation to all employees of the Company for their strong work ethic, solid performance, professionalism, teamwork, commitment and initiative, which has led HDFC towards commendable progress in today's challenging and competitive environment.



Mohamed Mauroof Jameel
Director-Government of Maldives

Board Of Directors

Directors

Mr. Conrad D'Souza
Mr. Mohamed Mauroof Jameel
Mr. Hamid Sodique
Mr. Nihal Senanayake Welikala
Mr. Gaurav Agarwal
Ms. Renu Sud Karnad
Mr. Asif Saeed Cheema
Ms. Aminath Sheena Musthafa *
Mr. Mohamed Zuhair *
Ms. Raheema Saleem

**Appointed on April 2018*

Mr. Adam Athif

AUDIT COMMITTEE

Mr. Conrad D' Souza
Mr. Ismail Ali Manik
Mr. Mohamed Mauroof Jameel
Mr. Nihal Senanayake Welikala

CREDIT RISK MANAGEMENT COMMITTEE

Mr. Nihal Senanayake Welikala
Mr. Mohamed Mauroof Jameel
Mr. Gaurav Agarwal
Mr. Ismail Ali Manik

NOMINATION AND REMUNERATION COMMITTEE

Mr. Mohamed Mauroof Jameel
Mr. Gaurav Agarwal
Mr. Conrad D'Souza
Mr. Ismail Ali Manik

SHARIAH COMMITTEE

Dr. Ibrahim Zakariyya Moosa
Assoc. Professor Dr. Rusni Hassan
Dr. Aishath Muneeza

Uz. Azmeen Rasheed

Chairman/ Alt. Director HDFC Investments Ltd. (India)
Nominee Director, GOM
Alternate Director, GOM
Nominee Director, IFC
Nominee Director, ADB
Nominee Director, HDFC Investments Ltd. (India)
Alternate Director ADB
Nominee Director, GOM
Alternate Director, GOM
Managing Director

Company Secretary

Chairman
Member* (Resigned in April 2017)
Member
Member

Chairman
Member
Member
Member* (Resigned in April 2017)

Chairman
Member
Member
Chairman* (Resigned in April 2017)

Chairman
Member
Member

Secretary

Profiles

of the Board of Directors



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 Post Graduate Diploma from University of Sheffield, UK. In addition he also holds Bā (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
- 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.

Board Committees

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



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

She 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.

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.

Board Committees : None



Mr. Hamid Sodique

Alternate Director-Non-Executive & Independent
Government of Maldives

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

Qualification and Experience

He has over 15 years of experience in Consultation work in Project and Management area and was a member of the Maldives Pension Administration Office and served in the Investment Committee of the Board until August 2011. He started his Professional career in the Maldives Monetary Authority in 2006 and since then has worked at prominent positions in well-known Organization such as UNESCO. He has executed many national and international projects on business management, strategic planning, Entrepreneurship Skills Training and Mentoring. Mr. Sodique holds a Master Degree in Business Administration from the University of Adelaide, Australia in addition to a Bachelor's Degree in Business Administration from University of Brunei Darussalam.

Other appointments

- Chief Executive Officer, FJS Consulting Pvt. Ltd.

Board Committees: None

He does not hold any shares in any company in the Maldives that has or will be perceived as a conflict of interest with HDFC Plc. except 1480 shares of Bank of Maldives Plc. and 145 shares of State Trading Organization.



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 Agricole from American University of Beirut, Lebanon. He also served as a Deputy Minister at the Ministry of Fisheries, Agriculture and Marine Resources and was the Chairman of MIFCO. In addition, he has served as Managing Director at Fantasy Pvt Ltd, a leading trading company in Maldives. His current portfolio is Minister of State at the Ministry of Defence and National Security.

Other appointments

Chairman of Kadhdhoo Airport Company

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.

Board Committees : None



Mr. Nihal Senanayaka 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. In addition Mr. Nihal also has worked at Ernst & Young, London Office for more than 7 years in the audit and tax department. He is trained as a Chartered Accountant with Ernst & Young in London. He holds a Bachelor of Law degree from the University of Sri Lanka and is also a Fellow member of the Institute of Chartered Accountants in England and Wales and Institute of Chartered Accountants 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)

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 14 February, 2017.

Qualification and experience

Mr. Agarwal has more than 20 years of working experience which includes more than 10 years of experience as a chief finance officer (CFO). He began his career in 1995 as a Senior Officer-Finance at Grindwell Norton Limited, India. At present he is the CFO at Emirates Investment Bank Pjsc, Dubai. Prior to joining Emirates Investment Bank he was the CFO of Tamweel Pjsc which is a subsidiary of Dubai Islamic Bank. Mr. Agrawal holds CFA from the Institute of Chartered Financial Analyst of India, ICWA from the Institute of Cost and Works Accountant of India, MBA from Kurukshetra University of India and Global Executive MBA from INSEAD. Mr. Agarwal has been felicitated with a Gold Medal for his MBA at Kurukshetra University.

Other appointments

CFO Emirates Investment Bank Pjsc, Dubai.

Board Committees

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

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



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.



Ms. Renu Sud Karnad

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

Ms. Renu Sud Karnad was appointed as the non-executive director by HDFC Investments Ltd. India, on 9 September, 2008.

Qualification and experience

Ms. Karnad has more than 38 years of experience in Housing Mortgage Finance. She joined HDFC India in 1978. Having spent 20 years in various post of the Company, Ms. Karnad was instated on to the Board as Executive Director in 2000 and was re-designated as Managing Director from 1st January 2010. She is a Pravin Fellow-, Woodrow Wilson School of International Affairs, Princeton, and University, USA. She holds Master's degree in Economics from Delhi University and is also a Law Graduate from the University of Mumbai.

Over the years, Ms. Karnad has received numerous awards and accolades.

Other appointments

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

Board Committees - None

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



Mr. Conrad D'souza

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

Mr. D'Souza was appointed as the alternate director by the HDFC Investments Ltd. India on 9th September, 2009.

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)

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



Ms. Raheema Saleem

Executive Director/Managing Director

She was the founding managing director 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 at the Ministry of Finance and Treasury for more than 16 years at various senior positions. In addition she also served as the Board Director of State Trading Organisation and during those 3 years she was also the Chairman of the Maldives National Oil Company and was also the Chairman of the Audit Committee of the STO Board. She holds Master of Management from Monash University and Master of Tourism from Monash University Australia and Bachelor of Commerce in Accounting and Marketing (Double Major) from Curtin University, Western Australia.

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



2017	<p>Only company in the finance sector managed by 100% locals.</p> <p>Issued 2nd Sukuk in the Maldives.</p>
2016	<p>Amna achieved GOLD Award for the Islamic Finance Turnaround Entity of the year.</p>
2015	<p>Rewarded customer loyalty by introducing a rate cut of 25 basis points to all the customers.</p>
2014	<p>Start of "Gedhoruveri kuruvumuge program".</p> <p>Received "The Bizz 2014" Award.</p>
2013	<p>Issue of Fixed Income Bond – First ever rated and listed bond in the Maldives.</p> <p>Issued first ever Sukuk in the Maldives.</p>
2012	<p>Inaugurated the Islamic Window of HDFC, AMNA.</p> <p>Opening of Addu Centre of HDFC.</p> <p>Achieved the International Star award for Quality in the Gold Category.</p>
2008	<p>Privatization of HDFC, with a joint foreign investment of 51% of share held by IFC, ADB and HDFC Investment of India.</p> <p>Started Managing Government Social Housing Schemes.</p>
2005	<p>Transformation of HDFC to a public company.</p>
2004	<p>Incorporation of the company as a 100% State Owned Entity (SOE) specialized in Housing Finance.</p> <p>Issued the first HDFC Corporate Bond.</p>

Management Team and their Profile

Raheema Saleem

Managing Director

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

Mohamed Fathy

Assistant General Manager (IT)

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

Mohamed Shafeeq

Assistant General Manager (Finance)

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

Aishath Rasheeda

Assistant General Manager (Credit)

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

Adam Athif

Senior Manager (Administration) & Company Secretary

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

Faisal Haleem

Manager - (Compliance And Quality Assurance)

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

Azmeen Rasheed

Manager (Islamic Finance)

- Appointed in 2016 as Manager (Islamic Finance)
- Joined HDFC in 2016
- Registered attorney in the Maldives,
- Lecturer on governance and Sharia related subjects.
- Master 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 as Manager IT
- Joined HDFC in 2016
- Worked in MIFCO from 2003-2016
- Over 14 years of experience in Information Technology, especially in Enterprise Resource Planning Environments and Data Management.
- M.Sc. in IT Management from Staffordshire University, UK, through Asia Pacific University of Malaysia and BA in Business Information Technology from Coventry University, UK through INTI International University of Malaysia.

Corporate Governance Philosophy

Sound Corporate Governance practices and responsible corporate behaviour contribute to long term performance of companies. Best practices on governance issues are an evolutionary and continuing process. There is no single template to define good governance. Broadly, however, good Corporate Governance practices should aim at striking a balance between interests of various stakeholders on the one hand and the duties and responsibilities of the Board and senior management in overseeing the affairs of the Company on the other. The Corporate Governance policy in the Company encompasses the simple doctrines of integrity, transparency and fairness in whatever the company does and what it basically aims at achieving is a complete adherence to the applicable statutes while at the same time ensuring a complete commitment to values and the highest ethical standards in every facet of its operations and in each of the functional areas. This in turn ensures that best in the class concept of Corporate Governance practices become a way of life in the Company.

In line with the nature and size of operations of the Company, the Corporate Governance framework in HDFC Maldives is based on the following main 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 or misapplication of HDFC's assets and resources.
- Compliance with applicable laws, rules and regulations.

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



Board Composition

The Board of Directors comprise of 5 nominee directors, four 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. The Board members possess skill and experience and proven track records in housing finance, business administration and other diverse fields including banking and finance. The Board comprise of the following directors. During the year 4 board meetings were held.

Responsibilities of the Board

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

Board Meetings and Attendance

	No. of Meetings
Mr. Conrad D'Souza- Chairman Alt. Director HDFC Investments	4/4
Mr. Mohamed Mauroof Jameel Nominee Director, GOM	3/4
Mr. Ismail Ali Manik Nominee Director, GOM*	1/4
Mr. Hamid Sodique Alt. Director, GOM	3/4
Mr. Nihal Senanayake Welikala Nominee Director, IFC	3/4
Mr. Gaurav Agarwal Nominee Director, ADB	4/4
Ms. Renu Sud Karnad Nominee Director, HDFC Investments	0/4
Mr. Asif Saeed Cheema Alt. Director ADB	0/4
Ms. Raheema Saleem Managing Director	4/4
Mr. Adam Athif Company Secretary	3/4

* Mr. Ismail Ali Manik resigned in April 2017

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
49%	Government of Maldives	780,928.00	78,092,800.00
18%	International Finance Corporation	286,875.00	28,687,500.00
18%	Asian Development Bank	286,875.00	28,687,500.00
15%	HDFC Investment Ltd (India)	239,062.00	23,906,200.00

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
Expatriate MD	1.00	100.00

TOTAL **1,593,750.00** **159,375,000.00**

Face Value of a share is MVR 100.00

Role of the Chairperson

The Chairman to the Board of Directors is appointed for one year on rotation. The Current Chairperson is Mr. Conrad D'Souza, who was elected to the post on 30 April 2017.

Board Committees

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

Audit Committee

The Board has re-constituted the Audit Committee on February, 2017. It comprises of three directors. During the year, two meetings were held.

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

Audit Committee Meetings and Attendance	No. of Meetings
Mr. Conrad D'Souza- Chairman Alt. Director HDFC Investments	2/2
Mr. Ismail Ali Manik Nominee Director, GOM*	0/2*
Mr. Mohamed Mauroof Jameel Nominee Director, GOM	1/2
Mr. Nihal Senanayake Welikala Nominee Director, IFC	1/2

* Mr. Ismail Ali Manik resigned in April 2017

In general the Audit Committee deliberated on the followings:

- Reviewed the Annual Audited Accounts of 2016
- Reviewed and approved the budget of 2017
- Reviewed the appointment of external auditors for 2017
- Reviewed the appointment of internal auditors for 2017
- Reviewed the 1st and 2nd quarterly internal audit reports
- Reviewed the 4th Quarter of 2016, 1st, 2nd and 3rd Quarter Compliance Reports (through circulation)

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. During the year 2 meetings were held.

Nomination and Remuneration Committee Meetings and Attendance	No. of Meetings
Mr. Mohamed Mauroof Jameel Nominee Director, GOM (Chairman)	1/2
Mr. Gaurav Agarwal Nominee Director, ADB	1/2
Mr. Conrad D'Souza Alt. Director HDFC Investments	2/2
Mr. Ismail Ali Manik Nominee Director. GOM*	0/2*

* Mr. Ismail Ali Manik resigned in April 2017

Summary of the key activities the committee undertook during the year 2017

- Nomination and recommendation of the new managing director
- Endorsement of the new HR structure
- Amendment to staff distress loan scheme
- Amendment to staff housing loan scheme
- Nomination of the Assistant General Managers

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.

Credit Risk Management Committee

Credit Risk Management Committee Meeting and Attendance

	No. of Meetings
Mr. Nihal Senanayake Welikala Nominee Director, IFC (Chairman)	1/1
Mr. Mohamed Mauroof Jameel Nominee Director, GOM	1/1
Mr. Gaurav Agrawal Nominee Director, ADB	1/1

The Credit Risk Management Committee was established in accordance with the Articles of Association 123 of HDFC and Article II of Corporate Governance Section (b) of the Shareholders Agreement executed between the Shareholders on July 23, 2008. The Credit Risk Management Committee comprise of the following members.

Note: All loan/facility above MVR 5 million are circulated to the committee for approval. Hence, in 2017 the Committee approved 11 conventional loans and 8 Islamic facilities.

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

Sharia 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. Seven meetings of the Shariah' Committee was held.

Sharia Committee Meetings and Attendance

No. of Meetings

Dr Zakariyya Moosa (Chairman)	7/7
Dr Aishath Muneeza	7/7
Dr Rusni Binti Hassan	6/7

Annual General Meeting

The Annual General Meeting (AGM) was held on 30 April 2017 at Hotel Jen. The AGM of the shareholders requires a quorum comprising of shareholders holding a majority of shares in the Company.

Summary of the Key Activities at the AGM

- Announcement of the dividend for the year 2017
- Appointment of the directors in place of those retiring
- Appointment and fixing of the External and Internal Auditors
- Appointment of the Chairman

Attendees at the AGM.

Mr. Mohamed Mauroof Jameel

Nominee Director, GOM

Mr. Hamid Sodique

Alt. Director, GOM

Mr. Gaurav Agarwal

Nominee Director, ADB

Mr. Mohamed Azad

Representative for GOM

Ms. Raheema Saleem

Managing Director

The following directors were absent:

Mr. Nihal Senanayake Welikala

Nominee Director, IFC

Mr. Conrad D'Souza

Alt. Director HDFC Investments




Human Resources Development

Human Resources Development is a shared responsibility, and employees for their part should possess the drive and initiative to take advantage of available learning and development opportunities. Employees are encouraged to improve their contribution in the context of their assigned job roles and the processes they supplement. Under the training and personnel development programme of the Company, much has been achieved to improve efficiency and professionalism amongst staff.

The HDFC team is the most valuable resource of HDFC. During the current Financial year we continued to strengthen our human resource base by recruiting new Personnel (customer care) and by investing in training and development to upgrade their skills.

The expansion in the human resource base in the recent past has mainly occurred in the category of Customer Care and Islamic Window (Amna). For no specific reason which has increased the number of female employees by one. However, in principle, HDFC is a non-discriminatory employer and recruitments are based on merit.



Our productivity is driven by our team. We value our employees and ensure roles and responsibilities are assigned as per their interest and specialisation of each employee. Over the mandatory stipulation HDFC's comprehensive benefit plan provides employee security and inspires continuous improvement at every stratum of the workplace. Captioned below is the general benefit structure applicable to all permanent employees.

- Annual performance bonus
- Contribution to the pension fund
- Staff loans at concessionary rate – includes housing loans, distress loans
- Comprehensive medical scheme
- Support for professional education- payment of course fees, professional membership fees
- Ramadan allowance- basic salary

Development of Knowledge Sharing

Knowledge sharing is essential for a company to achieve success, since it can facilitate decision-making capabilities, build learning organizations and finally, stimulate change and innovation.

Staff who undergo official training, both locally and abroad are informed to share what they learnt from their training to the rest of the staff. Information sharing mechanism is introduced to share new knowledge acquired amongst employees.

Information Technology

Information Technology department has been providing solution to almost all areas of the Company. During year 2017, apart from upgrading the existing software applications with enhanced/added features to meet the current and emerging business needs, new hardware were installed and some hardware's were upgraded. IT infrastructure plan was incorporated which includes Disaster Recovery System. Firewalls are in place to enhance the performance and security of the network. With an objective to strengthen and facilitate technological support in the organisation, IT hardware and software infrastructure is being upgraded. IT security mechanism was also upgrade with an IP based surveillance camera system to strengthen and prevent unauthorised access. The Company was taken forward by using Document Management System, scanning and storing large volume of documents.

The second phase of the Document Work Flow/LOS implementation is currently underway. The Loan Origination System (LOS) is developed specially to support the loan application processing needs of HDFC. It employs workflow technology to control and monitor the various work steps in the loan processing and uses digital imaging technology to decrease the delays and inefficiencies in handling paper documents. The most crucial feature of LOS system is its Loan Application Processing Workflow. Each loan application is monitored from the time it is entered into the system, and tracked through the various work flow of credit evaluation and approval process.



Corporate Social Responsibility

We are aware of our corporate social responsibility (CSR) towards enhancing the quality of life. Thus, we undertake comprehensive interventions through various initiatives in the realm of education, skill development of children and youth, and contribute to the nations development process and implementation.

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

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



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

Product design for inclusion began by defining market segments, maintaining a middle to low income orientation and augmenting such methods as Flexible Installment Plans (FLIP), Step-Up Repayment Facility (SURF), and savings related loan products for the self-employed and prudential norms on fixed obligations to income ratio (FOIR) to eliminate over indebtedness.

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

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

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

Access to Finance

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

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

Principles and Practice of Client Protection

Appropriate product design and delivery

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

Prevention of over-indebtedness

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

Transparency

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

Responsible pricing

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

Fair and respectful treatment of clients

We always treat our clients fairly and respectfully without compromise or discrimination. We have zero tolerance any malpractices or corruption as well as aggressive or abusive

treatment of clients by staff, particularly during the loan processing and debt collection processes.

Privacy of client data

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

Community Participation

The primary purpose of the HDFC's CSR Philosophy is to make meaningful and measurable impact on the lives of economically, physically and socially challenge communities of the country by supporting initiatives aimed at creating condition suitable for growth in theses communities. In this regard, HDFC initiated to upgrade the first Floor flooring with novilon. This projected was undertaken in partnership with the Gender ministry.

Risk and Risk Management

Risk evolves and grows due to the complex activity of any financial institutions. Likewise HDFC is also exposed to several risks including market risk, internal control risk and reputation risks.

Our risk management framework encompasses practices relating to the identification, analysis, evaluation, treatment, mitigation and monitoring of the strategic, external and operational controls risks to achieving our key business objectives. HDFC seeks to minimize the adverse impact of these risks, thus enabling the Company to leverage market opportunities effectively and enhance its long-term competitive advantage. HDFC's business activities primarily relate to mortgage home finance for the construction and purchase of residential properties. The company is exposed to the following risks

- Foreign exchange rate risk
- Credit risk
- Liquidity risk

Foreign Exchange Risk

Foreign exchange risk is mitigated through a hedging mechanism by entering into a "Currency Swap Agreement" between State Trading Organization Plc. and HDFC.

Credit Risk

HDFC gives special consideration to managing the credit risk. It is the most important risk for HDFC's business operation. Therefore, credit policies are formulated to fulfil the requirements under prudential due-diligence to establish customer's credit worthiness, and a strong credit sanctioning policy by the credit committee and Board of Directors with limited authority imposed for processing applications to ensure that the credit risk is managed well. The Company's board has constituted a credit risk management committee of three directions to oversee the credit risk of the company.

Liquidity Risk

Liquidity risk is another major risk faced by HDFC. Liquidity risk is mitigated through weekly meetings of Assets and Liability Committee (ALCO), which also monitors performance against benchmarks and liquidity coverage requirements of multilateral lenders are in place to ensure that liquidity risk is managed well. In addition, ALCO also advice how to invest access funds in short-term investments.

Insurance of Property

HDFC has insured all its properties and facilities against the risk of fire, theft, etc., so that financials are not impacted in the unfortunate event of such incidents. The employees of the Company are covered under the med claim facility against hospitalization.

Directors Liability Insurance

This policy covers the Director's and officer of the Company against the risk of third party actions arising out of their actions /directions which may have resulted in financial loss to any third party. The Company has appropriately insured itself to mitigate against such risk from any third party.

Internal Controls

Internal controls include the policies and procedures that financial institutions establish to reduce risks and ensure they meet operating, reporting, and compliance objectives of the Company. The Company's internal controls programs are designed to ensure it operate effectively, safeguard assets, produce reliable financial records and comply with the applicable laws and regulations.

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

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

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

External Auditors

PWC (Chartered Accountants) was appointed as the Company's External Auditors for financial year 2017.

During 2017, the external auditors have not provided any non-audit related services to the company.

Internal Auditors

KPMG (Chartered Accountants) was appointed as the Company's Internal Auditors for financial year 2017. The Audit was conducted on quarterly basis all throughout the year.

HDFC AMNA

The commercial practice of Islamic finance emerged quite recently, a new financial system different from the interest-based conventional finance. Islamic Finance has achieved a great success with rapid growth during the recent years in the Maldives. The objectives of offering Islamic home financing facilities by setting up HDFC Amna is to confer choice to the customers to choose between Islamic and conventional products, and allow them to build their homes by selecting their preferred choice of facility. It would also allow HDFC to diversify its portfolio in a cost-effective manner, and expand its market share and profits.



HDFC Amna observes the following standard to achieve Shariah compliance.

- Complete segregation of funds
- Shariah supervisory committee
- Products fully based on Islamic concepts including the contracts
- Management in accordance with Islamic principles

Since the genesis of HDFC AMNA in 2012, HDFC Amna now holds approximately 22% of the Company's housing portfolio, where its total loan portfolio stands over MVR 1.4 billion. It is expected to dominate the market by 2020, provided that the growth level remains steady. The reasons for the growth of Amna are as follows:-

- Increasing Awareness
- Appeal of the term 'Islamic' because Maldives is an Islamic nation
- Scholarly approval of the products as Islamic and in accordance with their faith
- Success of Islamic banks throughout the world
- Maintaining competitive rates vis a vis Conventional

We offer three sharia compliant products all related to housing. They are Isthina' for Home Construction, Musharaka Muthangisa for Home Purchase and Murabahah for Home renovation

Financed through Sukuk and Wakala facilities.





Housing Development Finance Corporation Plc.

Shariah Committee's Report

In the name of Allah, the Beneficent, the Merciful

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

We have reviewed the principles and the contracts relating to the transactions and applications introduced by HDFC Amna during the period ended 31st December 2017.

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

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 you.

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

In our opinion:

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

We, the members of the Shariah Committee of HDFC Amna, do hereby confirm that the operations of HDFC Amna for the year ended 31st December 2017 have been conducted in conformity with the Shariah principles.

Chairman of the Shariah Committee:

Name: Dr. Ibrahim Zakariyya Moosa

Audit Report 2017

For the year ended
31st December 2017



Independent auditor's report

To the Shareholders of Housing Development Finance Corporation Plc

Our opinion

In our opinion, Housing Development Finance Corporation Plc's financial statements give a true and fair view of the financial position of the Company as at 31 December 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

Housing Development Finance Corporation Plc's financial statements comprise:

- > the statement of financial position as at 31 December 2017;
- > the statement of comprehensive income for the year ended;
- > the statement of changes in equity for the year ended;
- > the statement of cash flows for the year 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 Corporation 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.

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Resident Partner Jatindra Bhatray FCA

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Independent auditor's report

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 year. 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.

Key audit matter	How our audit addressed the key audit matter
<p>Impairment of housing loans</p> <p>Refer to Note 2.9 and 3.1 of the financial statements.</p> <p>The Corporation's net loans and advances comprising of conventional housing loans and amna assets shown at MVR 1.41 billion after accumulated allowance of impairment amounting MVR 28.581 million, represent 89 % of the total asset as at 31 December 2017. Impairment calculation has been done in accordance with IAS-39, which involves identification of impaired assets, estimation of probability of default for unimpaired loans on portfolio basis and loss given default based on historical loss experiences for loans/ assets with similar credit risk characteristics.</p> <p>We focused on this area due to the size of the loan and advances balance and because of the complexities involved in the management's assessment of impairment, which is based on judgements on identification of impaired assets, probability of default and loss given default.</p>	<p>Specific work that we performed over the impairment review included the following:</p> <p>We reviewed the process followed by the management to identify overdue loans and advances and ageing of loans outstanding as at 31 December 2017 and, checked the accuracy of ageing on a sample basis.</p> <p>The statistical models used by the corporation to ascertain the probability of default and loss given default were reviewed and the assumptions underlying the calculation were validated by us with management's rationale and explanations.</p> <p>We checked the arithmetical accuracy of computation of impairment allowance on a sample basis.</p>

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

Management is responsible for the preparation of the financial statements that gives true and fair view in accordance with the 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 Corporation'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 Corporation or to cease operations, or has no realistic alternative but to do so.

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

Independent auditor's report

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation'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 Corporation'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 Corporation 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.

Independent auditor's report

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

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

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

MALE'

8 March 2018

For PRICEWATERHOUSECOOPERS
Registration No: F0005



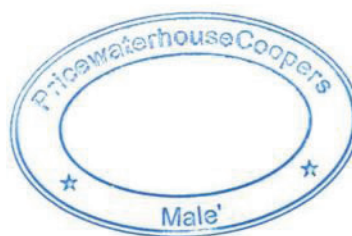
Jatindra Bhatray
Partner

HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2017

Statement of comprehensive income

	Notes	Year ended	
		2017	2016
(All amounts in Maldivian Rufiyaa)			
Interest income	5	131,234,043	121,228,951
Interest expense	5	(41,411,125)	(36,811,313)
Net interest income		89,822,918	84,417,638
Net income on shari'ah products	6	22,580,480	14,438,581
Fee income	7	3,695,355	4,311,927
Other income	8	3,409,175	1,915,739
Operating income		119,507,928	105,083,885
Provision for loan impairment	10	(10,576,163)	(4,021,155)
Salaries and personnel expenses	9	(8,906,470)	(9,596,634)
Other operating expenses	11	(6,730,645)	(5,802,791)
Profit before business profit tax		93,294,650	85,663,305
Business profit tax expense	12	(12,107,541)	(13,363,900)
Profit for the year		81,187,109	72,299,405
Basic earnings per share	14	50.941	45.36



The notes on pages 7 to 59 are an integral part of these financial statements.

HOUSING DEVELOPMENT FINANCE CORPORATION PLC

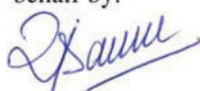
31 December 2017

Statement of financial position

(All amounts in Maldivian Rufiyaa)

	Notes	As at 31 December 2017	As at 31 December 2016
ASSETS			
Cash and cash equivalents	15	68,525,548	28,617,827
Financial assets held to maturity	17	96,959,834	19,964,616
Derivative financial instruments	19	-	374,231
Loans and advances	16	1,410,515,498	1,302,978,010
Property, plant and equipment	20	1,221,874	1,273,915
Intangible assets	21	385,118	2,615
Deferred business profit tax assets	18	3,450,871	51,431
Other assets	22	7,867,946	8,531,000
Total assets		1,588,926,689	1,361,793,645
LIABILITIES			
Deposits from customers	23	68,435,976	64,503,773
Debt securities in issue	24	149,404,938	57,099,425
Other borrowed funds	25	672,860,514	614,980,698
Other liabilities	26	184,339,464	157,448,561
Total liabilities		1,075,040,892	894,032,457
SHAREHOLDERS' EQUITY			
Share capital	27	159,375,000	159,375,000
Advance for shares		51,407,100	51,407,100
General reserve		15,000,000	15,000,000
Staff education reserve	28	2,136,480	1,284,754
Retained earnings		285,967,217	240,694,334
Total shareholders' equity		513,885,797	467,761,188
Total equity and liabilities		1,588,926,689	1,361,793,645

These financial statements were approved by the management on 3 March 2018 and signed on their behalf by:

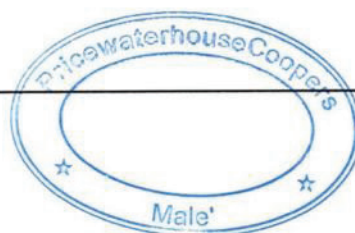


.....
Raheema Saleem
Managing Director



.....
Conrad De'Souza
Director

The notes on pages 7 to 59 are an integral part of these financial statements.



HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2017

Statement of change in equity

(All amounts in Maldivian Rufiyaa)

	Notes	Share capital	Advance for share capital	General reserve	Staff education	Retained earnings	Total
Balance at 1 January 2016		159,375,000	51,407,100	15,000,000	1,731,381	227,713,927	455,227,408
Utilized during the year		-	-	-	(446,627)	446,627	-
Dividend declared	13	-	-	-	-	(59,765,625)	(59,765,625)
Profit for the year		-	-	-	-	72,299,405	72,299,405
Balance at 31 December 2016		159,375,000	51,407,100	15,000,000	1,284,754	240,694,334	467,761,188
Balance at 1 January 2017		159,375,000	51,407,100	15,000,000	1,284,754	240,694,334	467,761,188
Recovered from staff	8	-	-	-	851,726	(851,726)	-
Dividend declared	13	-	-	-	-	(35,062,500)	(35,062,500)
Profit for the year		-	-	-	-	81,187,109	81,187,109
Balance at 31 December 2017		159,375,000	51,407,100	15,000,000	2,136,480	285,967,217	513,885,797

Note: Staff education reserve earlier utilised for higher education of a staff member recovered from him since he was unable to complete the course enrolled by him.



The notes on pages 7 to 59 are an integral part of these financial statements.

HOUSING DEVELOPMENT FINANCE CORPORATION PLC

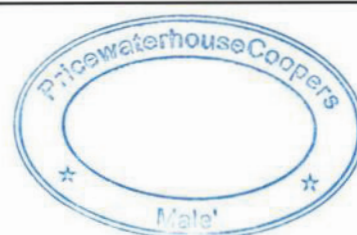
31 December 2017

Statement of cash flow

(All amounts in Maldivian Rufiyaa)

	Note:	Year ended	
		2017	2016
Cash flows from operating activities			
Profit before tax		93,294,650	85,663,305
<i>Adjustments for:</i>			
Depreciation on property, plant and equipment	20	464,924	523,844
Provision for impairment on loan and advances	10	10,576,163	4,021,155
Amortization of intangible assets	21	71,793	8,994
Loss on disposal		52,047	-
Net interest income		(112,403,398)	(98,856,219)
Cash flows from operating profit before changes in working capital		(7,943,821)	(8,638,921)
<i>Changes in working capital:</i>			
Increase in loans and advances to customers		(114,295,634)	(218,050,132)
Decrease in other assets		685,083	2,828,556
Increase in other liabilities		23,793,503	10,537,858
Increase in deposits from customers		3,932,203	5,067,307
Decrease in derivatives held for risk management		374,231	2,633,377
Cash used in operating activities		(93,454,434)	(205,621,955)
Interest received		162,293,368	143,261,396
Interest paid		(52,618,445)	(45,085,930)
Business profit tax paid		(15,596,902)	(11,467,816)
Net cash from / (used in) operating activities		623,587	(118,914,305)
Cash flows from investing activities			
Purchase of property, plant and equipment	20	(464,930)	(319,105)
Purchase of intangible asset	21	(454,296)	-
Proceeds (paid for) / received from investments		(76,995,218)	64,826,185
Net cash (used in) / generated from investing activities		(77,914,444)	64,507,080
Cash flows from financing activities			
Repayments of debt securities in issue		(21,549,248)	(10,941,334)
Repayments of other borrowed funds		(150,186,033)	(117,474,850)
Proceeds from debt securities in issue		114,036,000	15,000,000
Proceeds from other borrowed funds		206,773,073	174,440,256
Dividend paid		(31,875,214)	(27,890,625)
Net cash generated from financing activities		117,198,578	33,133,447
Net increase in cash and cash equivalents		39,907,721	(21,273,778)
Cash and cash equivalents at beginning of the year		28,617,827	49,891,605
Cash and cash equivalents at end of the year	15	68,525,548	28,617,827

The notes on pages 7 to 59 are an integral part of these financial statements.



Notes to the financial statements

(All amounts in Maldivian Rufiyaa)

1 General information

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

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

These financial statements for the year ended 31 December 2017 have been prepared for the purpose of appraisal of HDFC's financial result and financial position by the shareholders.

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 2017 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 Foreign currency translation

(a) Functional and presentation currency

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

Notes to the financial statements

(All amounts in Maldivian Rufiyaa)

2.2 Foreign currency translation (continued)

(b) Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow and qualifying net investment hedges.

2.3 Financial instruments - key measurement terms:

Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Amortised cost

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount.

Notes to the financial statements

(All amounts in Maldivian Rufiyaa)

2.3 Financial instruments - key measurement terms: (continued)

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

2.4 Initial recognition of financial instruments

All the financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recorded at trade date, which is the date on which HDFC commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

2.5 Derecognition of financial assets

HDFC derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) HDFC has transferred the rights to the cash flows from the financial assets while also transferring substantially all risks and rewards of ownership of the assets.

2.6 Grants

Grants are recognised at their fair value where there is a reasonable assurance that the grant will be received and HDFC will comply with all attached conditions.

Grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Notes to the financial statements

(All amounts in Maldivian Rufiyaa)

2.7 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.

2.8 Loans and advances to customers

Loans and advances to customers are recorded when HDFC advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates, and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

2.9 Impairment of financial assets carried at amortised cost

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If HDFC determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment.

The primary factors that HDFC considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by the borrower’s financial information that HDFC obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower; or
- the value of collateral significantly decreases as a result of deteriorating market conditions.

Notes to the financial statements

(All amounts in Maldivian Rufiyaa)

2.9 Impairment of financial assets carried at amortised cost (continued)

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment, are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods, and to remove the effects of past conditions that do not exist currently.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognized and a new asset is recognized at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss for the year.

Notes to the financial statements

(All amounts in Maldivian Rufiyaa)

2.10 Credit related commitments

HDFC issues commitments to provide loans. Commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that HDFC will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period.

2.11 Investments securities held to maturity

This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that HDFC has both the intention and ability to hold to maturity. An investment is not classified as a held-to-maturity investment if HDFC has the right to require that the issuer repay or redeem the investment before its maturity, because paying for such a feature is inconsistent with expressing an intention to hold the asset until maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at the end of each reporting period. Investment securities held to maturity are carried at amortised cost.

2.12 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.

2.13 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.

Notes to the financial statements

(All amounts in Maldivian Rufiyaa)

2.13 Property, plant and equipment (continued)

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 asset is put to use.

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in other operating income or other operating expenses, as the case may be, in the income statement. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

2.14 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.

2.15 Operating leases

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

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

Notes to the financial statements

(All amounts in Maldivian Rufiyaa)

2.16 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 consolidated 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.

2.17 Other borrowed funds

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

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

2.18 Customer accounts

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

2.19 Derivative financial instruments

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

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

2.20 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.

Notes to the financial statements

(All amounts in Maldivian Rufiyaa)

2.21 Trade and other payables

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

2.22 Share capital

Ordinary shares are classified as equity.

2.23 Dividends

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

2.24 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 Urban Development (MHUD). These assets and income arising thereon are excluded from these financial statements, as they are not assets of the HDFC.

2.25 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.

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

Notes to the financial statements

(All amounts in Maldivian Rufiyaa)

2.25 Current and deferred business profit tax (continued)

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 on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.26 Income and expense recognition

Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by HDFC to originate loans at market interest rates are integral to the effective interest rate if it is probable that HDFC will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. HDFC does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

Notes to the financial statements

(All amounts in Maldivian Rufiyaa)

2.26 Income and expense recognition (continued)

All other fees, commissions and other income and expense 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.

Income from Amna assets

Income on Amna's financing is recognized on time apportioned basis over the period and the profit rate is determined in advance upon agreement of all parties.

2.27 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.

2.28 Segment reporting

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

2.29 Comparatives

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

2.30 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 twelve months of the reporting period.

HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2017

Notes to the financial statements

(All amounts in Maldivian Rufiyaa)

2.30 Presentation of statement of financial position in order of liquidity (continued)

	31 December 2017			31 December 2016		
	Amounts expected to be recovered or settled		Total	Amounts expected to be recovered or settled		Total
	Within 12 months of the reporting period	After 12 months of the reporting period		Within 12 months of the reporting period	After 12 months of the reporting period	
Assets						
Cash and cash equivalents	68,525,548	-	68,525,548	28,617,827	-	28,617,827
Financial assets held to maturity	96,959,834	-	96,959,834	19,964,616	-	19,964,616
Derivative financial instruments	-	-	-	374,231	-	374,231
Loans and advances	122,027,588	1,288,487,910	1,410,515,498	51,210,452	1,251,767,558	1,302,978,010
Property, plant and equipment	-	1,221,874	1,221,874	-	1,273,915	1,273,915
Intangible assets	-	385,118	385,118	-	2,615	2,615
Deferred business profit tax assets	3,450,871	-	3,450,871	51,431	-	51,431
Other assets	6,733,379	1,134,567	7,867,946	354,372	8,176,628	8,531,000
Total assets	297,697,220	1,291,229,469	1,588,926,689	100,572,929	1,261,220,716	1,361,793,645
Liabilities						
Deposits from customers	-	68,435,976	68,435,976	-	64,503,773	64,503,773
Debt securities in issue	37,802,938	111,602,000	149,404,938	28,434,209	28,665,216	57,099,425
Other borrowed funds	234,434,894	438,425,620	672,860,514	186,017,223	428,963,475	614,980,698
Other liabilities	55,075,102	129,264,362	184,339,464	48,885,474	108,563,087	157,448,561
Total liabilities	327,312,934	747,727,958	1,075,040,892	263,336,906	630,695,551	894,032,457

Notes to the financial statements

(All amounts in Maldivian Rufiyaa)

3 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

3.1 Impairment losses on loans and advances

HDFC regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, HDFC makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio.

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in HDFC. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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.

Notes to the financial statements

(All amounts in Maldivian Rufiyaa)

4 Adoption of new or revised standards and interpretations

(a) New accounting standards, amendments and interpretations adopted in 2017

The following amendments to the International Accounting Standards that are relevant for the preparation of the financial statements have been adopted by the Company for the first time with effect from financial year beginning on 1 January 2017.

- Amendments to IAS 12, 'Income taxes' on Recognition of deferred tax assets for unrealised losses.
- Amendments to IAS 7, 'Statement of cash flows'.

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

The following new standards and amendments to standards had been issued but were not mandatory for annual reporting periods ending 31 December 2017.

- Amendments resulting from Annual Improvements 2014-2016 Cycle;
- Amendments to IFRS 1, 'First-time Adoption of International Financial Reporting Standards': removing short-term exemptions (effective annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 12 'Disclosure of Interests in Other Entities', clarifying scope (effective annual periods beginning on or after 1 January 2018).
- Amendments to IAS 28 'Investments in Associates and Joint Ventures', clarifying certain fair value measurements (effective annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 2, 'Share based payments', clarify the classification and measurement of share-based payment transactions (effective annual periods beginning on or after 1 January 2018).
- Amendments regarding the interaction of IFRS 4 'Insurance Contracted' and IFRS 9 'Financial Instruments', an entity choosing to apply the overlay approach retrospectively to qualifying financial assets does so when it first applies IFRS 9. An entity choosing to apply the deferral approach does so for annual periods beginning on or after 1 January 2018.
- IFRS 9 'Financial Instruments', finalised version, incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition (effective annual periods beginning on or after 1 January 2018).
- IFRS 15 'Revenue from Contracts with Customers' (effective annual periods beginning on or after 1 January 2018).
- IFRS 16 'Leases' (effective annual periods beginning on or after 1 January 2019).
- Amendments to IAS 40 'Investment Property', clarify transfers or property to, or from, investment property (effective annual periods beginning on or after 1 January 2019).
- The impact of IFRS 9 'Financial Instruments', IFRS 15 'Revenue from Contracts with Customers' and IFRS 16 'Leases' are still being assessed.

Apart from standards mentioned above, the adoption amendments to published standards are not expected to have a material impact to the financial statements of the Company.

HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2017

Notes to the financial statements continued

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

5 Net interest income

	Year ended	
	2017	2016
Interest income		
Housing loans	130,696,265	120,720,395
Treasury bills / other deposits with bank	537,778	508,556
	<u>131,234,043</u>	<u>121,228,951</u>
Interest expense		
Other borrowed funds	38,450,982	33,544,308
Debt securities in issue	1,875,641	2,206,565
Deposits from customers	1,084,502	1,060,440
	<u>41,411,125</u>	<u>36,811,313</u>
Net interest income	<u>89,822,918</u>	<u>84,417,638</u>

6 Net income on Shari'ah products

	Year ended	
	2017	2016
Revenue from housing facilities	33,050,608	22,801,868
Revenue from short term investments	58,266	249,563
Fee income	1,790,461	1,263,866
Amna investors' profit share	(12,318,855)	(9,876,716)
	<u>22,580,480</u>	<u>14,438,581</u>

7 Fee income

	Year ended	
	2017	2016
Housing loan processing fees	1,933,175	1,357,984
Other fee income	1,214,850	2,350,101
Management fees	547,330	603,842
	<u>3,695,355</u>	<u>4,311,927</u>

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.

HOUSING DEVELOPMENT FINANCE CORPORATION PLC**31 December 2017****Notes to the financial statements continued**

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

8 Other income

	Year ended	
	2017	2016
Penalty interest and early interest settlement charges	2,207,101	1,809,366
Insurance commissions	350,348	106,373
Recovery of professional development expenses	851,726	-
	<u>3,409,175</u>	<u>1,915,739</u>

9 Salaries and personnel expenses

	Year ended	
	2017	2016
Salaries and allowances	7,668,667	8,051,873
Ramadan allowances and bonus	727,889	989,969
Contribution to employees pension fund	332,815	273,965
Employee benefit expense amortisation	97,941	180,027
Staff medical insurance	79,158	100,800
	<u>8,906,470</u>	<u>9,596,634</u>

10 Provision for loan impairment

	Year ended	
	2017	2016
General provision made during the year	3,855,430	8,864,428
Specific provision made / (reversed) during the year	6,720,733	(4,843,273)
	<u>10,576,163</u>	<u>4,021,155</u>

11 Other operating expenses

	Year ended	
	2017	2016
Other expenses	2,183,078	1,438,954
Premises, equipment and establishment expenses	1,128,470	1,145,218
Professional fees	963,923	1,273,990
Board remuneration and meeting expenses	791,165	582,024
Bank charges	309,828	145,149
Depreciation on property, plant and equipment (Note 20)	464,924	523,844
Advertising and marketing expenses	274,798	207,966
Communication expenses	310,069	297,037
Printing and stationary expenses	180,550	179,615
Amortization on intangible assets (Note 21)	71,793	8,994
Loss on disposal	52,047	-
	<u>6,730,645</u>	<u>5,802,791</u>

HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2017

Notes to the financial statements continued

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

12 Taxation

	Year ended	
	2017	2016
Current tax	15,506,981	13,367,230
Deferred tax	(3,399,440)	(3,330)
Business profit tax expense	12,107,541	13,363,900

Reconciliations between business profit tax expenses and the accounting profit :

	Year ended	
	2017	2016
Profit before tax	93,294,650	85,663,305
Add: Non-deductible expenses	12,215,178	6,455,707
Adjusted net profit for the period	105,509,828	92,119,012
Less: Deductible expenses	(1,629,957)	(2,504,148)
Taxable profit	103,879,871	89,614,864
Tax allowance	(500,000)	(500,000)
Taxable profit after tax allowance	103,379,871	89,114,864
Current tax (15%)	15,506,981	13,367,230
Deferred tax	(3,399,440)	(3,330)
Business profit tax expense	12,107,541	13,363,900

13 Dividends

Dividend of MVR 22 per share amounting to MVR 35,062,500 was declared for the year ended 31 December 2017 in the board meeting held on 5th November 2017. A dividend of MVR 17.50 per share amounting to MVR 27,890,625 was declared for the year ended 31 December 2015 in the board meeting held on 21 May 2016. Further a dividend of MVR 20 per share amounting to MVR 31,875,000 was declared for the year ended 31 December 2016 in the board meeting held on 27 November 2016. This financial statements reflect these dividends payable, which had been accounted for under shareholders' equity as appropriations of retained earnings.

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.

	Year ended	
	2017	2016
Net profit attributable to shareholders	81,187,109	72,299,405
Weighted average number of ordinary shares in issue	1,593,750	1,593,750
Basic earnings per share	50.94	45.36

HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2017

Notes to the financial statements continued

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

15 Cash and cash equivalents

	As at 31 December 2017	As at 31 December 2016
Cash in hand	9,500	9,500
Balances with other banks	68,516,048	28,608,327
	<u>68,525,548</u>	<u>28,617,827</u>

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.

16 Housing loans

	As at 31 December 2017	As at 31 December 2016
Housing loans to customers	1,137,133,718	1,067,654,331
Housing loans to staff	5,663,292	5,841,408
Amna assets	296,299,857	247,487,479
	<u>1,439,096,867</u>	<u>1,320,983,218</u>
Less: Provision for impairment	(28,581,369)	(18,005,208)
Net housing loans	<u>1,410,515,498</u>	<u>1,302,978,010</u>

Movement in provision for impairment are as follows:

	As at 31 December 2017	As at 31 December 2016
Provision for impairment		
Opening balance	18,005,208	13,984,053
Provision made during the year (Note 10)	10,576,163	4,021,155
Closing balance	<u>28,581,370</u>	<u>18,005,208</u>

17 Financial assets held to maturity

	December 2017	December 2016
Investments in Treasury bills	29,959,834	19,964,616
Short term investments with MIB	67,000,000	-
	<u>96,959,834</u>	<u>19,964,616</u>

Treasury Bills will mature on 15th January 2018 and carry an interest rate of 3.5% per annum.

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

HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2017

Notes to the financial statements continued

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

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:

	As at 31 December 2017	As at 31 December 2016
Deferred tax assets	3,461,265	51,431
Deferred tax liabilities	(10,395)	-
Net deferred tax asset	<u>3,450,871</u>	<u>51,431</u>

	As at 31 December 2017	As at 31 December 2016
At beginning of the year	51,431	48,101
Credit to the income statement	3,399,440	3,330
At end of year	<u>3,450,871</u>	<u>51,431</u>

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

	As at 31 December 2017	As at 31 December 2016
Temporary difference on PPE	(69,297)	342,873
Temporary difference on provisions for loan impairment	23,075,103	-
	<u>23,005,806</u>	<u>342,873</u>
Tax rate	15%	15%
Net deferred tax asset	<u>3,450,871</u>	<u>51,431</u>

19 Derivative financial instruments

	As at 31 December 2017	As at 31 December 2016
Forward foreign exchange contracts	Assets	Assets
Opening balance	-	3,007,608
Fair value realized during the year	-	(2,633,377)
Closing balance	<u>-</u>	<u>374,231</u>

The Company has initially calculated and recognized the fair value of three currency SWAPs entered with State Trading Organization, based on the outstanding notional amounts as at the respective inception dates.

At each reporting year the Company estimates the fair value of the respective SWAPs and adjusts any gain/(loss) arising, in income statement.

The fair value gain is realized as and when a repurchase transaction in accordance with the agreement takes place.

HOUSING DEVELOPMENT FINANCE CORPORATION PLC
31 December 2017

20 Property, plant and equipment

	Office equipment	Computer equipment	Furniture and fixtures	Motor vehicles	Leasehold improvements	Total
Year ended 31 December 2016						
Opening net book amount	413,056	609,019	105,273	33,125	318,181	1,478,654
Additions	4,697	156,948	157,460	-	-	319,105
Depreciation charge (Note 11)	(89,781)	(247,368)	(69,518)	(16,563)	(100,614)	(523,844)
Balance as at 30 June 2016	<u>327,972</u>	<u>518,599</u>	<u>193,215</u>	<u>16,562</u>	<u>217,567</u>	<u>1,273,915</u>
At 31 December 2016						
Cost	901,074	2,570,084	788,233	66,250	1,006,144	5,331,785
Accumulated depreciation	(573,102)	(2,051,485)	(595,018)	(49,688)	(788,577)	(4,057,870)
Net book amount	<u>327,972</u>	<u>518,599</u>	<u>193,215</u>	<u>16,562</u>	<u>217,567</u>	<u>1,273,915</u>
Year ended 31 December 2017						
Opening net book amount	327,972	518,599	193,215	16,562	217,567	1,273,915
Additions	151,854	245,222	67,854	-	-	464,930
Depreciation charge (Note 11)	(79,367)	(198,873)	(70,267)	(16,562)	(99,855)	(464,924)
Disposals						
- Cost	(151,516)	(377,015)	(81,223)	-	(91,196)	(700,950)
- Accumulated depreciation	130,028	377,015	81,223	-	60,637	648,903
Balance as at 31 December 2017	<u>378,971</u>	<u>564,948</u>	<u>190,802</u>	<u>-</u>	<u>87,153</u>	<u>1,221,874</u>
At 31 December 2017						
Cost	901,412	2,438,291	774,864	66,250	914,948	5,095,765
Accumulated depreciation	(522,441)	(1,873,343)	(584,062)	(66,250)	(827,795)	(3,873,891)
Net book amount	<u>378,971</u>	<u>564,948</u>	<u>190,802</u>	<u>-</u>	<u>87,153</u>	<u>1,221,874</u>

a) The Company operates business from the premises owned by third parties for which MVR 600,000 (2016: MVR 600,000) were paid as rent during the year.

b) Property, plant and equipment aggregating to MVR 3,001,951 (2016: MVR 2,542,227) were fully depreciated as at the reporting date.

HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2017

Notes to the financial statements continued

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

21 Intangible assets

Software costs

Year ended 31 December 2016

Opening net book amount	11,609
Additions	-
Amortisation charge (Note 11)	(8,994)
Closing net book amount	<u>2,615</u>

At 31 December 2016

Cost	744,214
Accumulated amortisation	(741,599)
Net book amount	<u>2,615</u>

Year ended 31 December 2017

Opening net book amount	2,615
Additions	454,296
Amortisation charge (Note 11)	(71,793)
Closing net book amount	<u>385,118</u>

At 31 December 2017

Cost	1,198,510
Accumulated amortisation	(813,392)
Net book amount	<u>385,118</u>

22 Other assets

	As at 31 December 2017	As at 31 December 2016
Accounts receivable	824,730	354,372
Pre-payment of fees	5,908,649	7,882,935
Advance paid to staff	1,134,567	293,693
	<u>7,867,946</u>	<u>8,531,000</u>

HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2017

Notes to the financial statements continued

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

23 Deposits from customers

	As at 31 December 2017	As at 31 December 2016
Equated monthly installment deposits	64,844,086	60,092,971
Borrowers deposits	3,591,890	4,410,802
	<u>68,435,976</u>	<u>64,503,773</u>

Equated monthly installment deposits are held as contingency to settle the monthly installments in case the borrowers fail to pay.

Equated monthly installment deposits carry fixed interest rates at 2.5 % per annum.

24 Debt securities in issue

	As at 31 December 2017	As at 31 December 2016
Listed and Corporate bonds	36,847,574	33,577,806
Listed Sukuk	112,557,364	23,521,619
	<u>149,404,938</u>	<u>57,099,425</u>

Maturity analysis of debt securities in issue

Payable within one year	37,802,938	28,434,209
Payable after one year	111,602,000	28,665,216
	<u>149,404,938</u>	<u>57,099,425</u>

During the month of October 2013, the Company issued Listed bonds for a value of MVR 51,970,000 with maturity in 2018. As of 31st December 2017 the cumulative redemption of these bonds amounts to MVR 45,870,784. Listed bonds carry an interest rate of 7.5% per annum.

During the month of May 2016, the Company had issued Corporate bonds for a value of MVR 5,000,000, which was due for maturity in May 2017 but was renewed during the same month with maturity in May 2018. Further, during the month of October 2016, the Company issued Corporate bonds for a value of MVR 5,000,000 with maturity in October 2017. This bond was rolled over for another one year upon maturity. Corporate bonds carry an interest rate of 6.5% per annum.

In October 2017 bond value of MVR 8,000,000 was issued and this was matured in 31 December 2017 but was settled in January 2018. Also, in October 2017 another corporate bond value of MVR 12,000,000 was issued with a one year maturity at an interest rate of 7%.

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, the Company has issued Mudarabah Sukuk amounting to MVR 22,566,000 at a price of MVR 500 per sukuk of Ten (10) years from allotment date and profit will be 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 will be shared between Sukuk holder (Rabb al Mal) and Company (Mudarib) at a rate of 65% and 35% respectively.

On 24th October 2017 HDFC has issued Mudarabah Sukuk No. 2, amounting to MVR 89,036,000 (MVR1000 per sukuk of Ten (10) years), profit will be 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 will be shared between Sukuk holder (Rabb al Mal) and Company (Mudarib) at a rate of 65% and 35% respectively.

25 Other borrowed funds

	As at 31 December 2017	As at 31 December 2016
Netherlands Development Finance Company (FMO)	42,902,920	64,344,552
Deutsche Investitions und Entwicklungs Gesellschaft MBH (DEG)	130,035,038	153,784,047
Hongkong and Shanghai Banking Corporation Limited	15,743,280	45,635,711
Bank of Ceylon	137,224,408	124,650,093
Bank of Maldives	89,250,000	104,250,000
Habib Bank Limited (HBL)	61,600,000	-
Wakala facilities	144,028,896	122,316,295
Pension benefit scheme fund	2,075,827	-
State Bank of India (SBI)	50,000,145	-
	<u>672,860,514</u>	<u>614,980,698</u>

Maturity analysis of other borrowed funds

Payable within one year	204,818,851	186,017,223
Payable after one year	468,041,663	428,963,475
	<u>672,860,514</u>	<u>614,980,698</u>

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, the company had 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 16 half yearly installments commencing from 15th April 2012 and ending on 15th October 2019. The FMO loan is secured by all rights of HDFC under any security obtained by HDFC pursuant to the mortgage loans given by HDFC from the funds disbursed under the FMO loan. The borrowing is denominated in United States Dollars.

Deutsche Investitions und Entwicklungs Gesellschaft MBH (DEG)

During the year 2014, the Company had obtained a loan of MVR 200,460,000. The borrowings from DEG carry an interest at LIBOR + 5%. The loan is repayable in 17 half yearly installments commencing from 15th June 2015 and ending on 15th 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 was disbursed and from which housing loans were disbursed. The borrowing is denominated in United States Dollars.

Term loan from HSBC

The Company has obtained a loan of MVR 150,000,000 per the agreement dated 6th February 2013 from HSBC Maldives Branch for the purpose of financing mortgage housing loan programs as set out in the agreement dated 28th June 2012 between the Company and the Government of Maldives. The loan carries an interest at MTBR + 1.5% per annum and repayable in ten semi annual installments commencing from six month after the first utilisation date and ending on 19 March 2018. The loan is secured by a guarantee from the Government of Maldives. The borrowing is denominated in Maldivian Rufiyaa.

Bank of Ceylon - Male' branch

The Company has obtained a loan facility of MVR 150,000,000 per the agreement dated 15th March 2016 from Bank of Ceylon 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 onward 6 month treasury bill rate + 2.3% per annum (Floor rate - 5.5% and cap rate - 9.00%) repayable in bi-annual instalments commencing after one year grace and ending in March 2022. The Company shall ensure a minimum 150% security coverage. 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)

Term loan from Bank of Maldives

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

Habib Bank limited (HBL)

The Company has obtained a loan facility of MVR 77,000,000 per the agreement dated 16th March 2017 from Habib Bank Limited for the purpose of providing mortgage housing loans. The loan carries an interest rate of 8% or 1 year T-Bill (with NIL spread) which ever is higher. Interest rate will be 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 is on the higher side). Loan will be repaid in 10 equal half yearly installments starting from June 2017 and the interest is paid 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 sixth time during 2017.

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

During the year 2016, Amana Takaful Maldives and Ayady Takaful Maldives had invested MVR 15,000,000 each with HDFC for one year with option to renew at a profit sharing ratio of 35% : 65% between HDFC and investor. Further during the current year Amana Takaful renewed its investment amounting MVR 15,000,000 for another one year upon maturity.

Ayady Takaful renewed its investment of MVR 5,000,000 upon maturity in May 2017 for another one year. Also, MVR 5,000,000 which was matured in December 2017 was settled in January 2018 while the remaining MVR 5,000,000 was renewed for another one year upon maturity in January 2017 .

Notes to the financial statements continued

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

25 Other borrowed funds (continued)

During the year 2017, Bank of Maldives PLC had invested MVR 17,188,262 out of an approved investment amounting MVR 50,000,000 with profit target of 8% per annum. HDFC has undrawn borrowing (Wakala) facilities to the extent of MVR 32,811,738 from Bank of Maldives PLC as at the reporting date. Maldives Islamic Bank had invested MVR 10,000,000 with a target yield of 7.5%, Ayadi Takaful had invested MVR 5,000,000 with HDFC at a target yeild of 7.5%. The wakala facility from BML Islamic is for 2 years and the others are for one year term with a renewal option. The wakala facilities are denominated in Maldivian Rufiyaa.

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 biannually. Also, the amount received from MPAO will be repaid over the tenure of the individual loans to the end user bianually.

State Bank of India (SBI)

The Company has obtained a loan of MVR 150,000,000 per the agreement dated 5th October 2017 from SBI for the purpose of providing mortgage housing loans. The loan carries an interest at a rate of 8% per annum and repayable in 8 years and paid bianually. The SBI loan is secured by HDFC’s mortgage portfolio created out of proceeds of this facility. As of 31 December 2017 HDFC had drawn MVR 50 million and expected draw balance MVR 100 million during the year 2018. The borrowing is denominated in Maldivian Rufiyaa.

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26 Other liabilities

	As at 31 December 2017	As at 31 December 2016
Ministry of Housing and Infrastructure - GED fund	64,184,740	66,722,242
Ministry of Housing and Infrastructure - MHI Islamic	26,627,304	8,299,408
Ministry of Housing and Infrastructure - MHUD Conventional fund	30,143,690	26,237,857
Insurance premium payable	9,224,053	9,059,076
Tax payable	7,812,821	7,902,742
Amounts received from customers in advance	8,308,628	6,950,720
Accruals and other liabilities	2,927,339	352,860
Employees pension contribution	48,321	48,409
Dividends payable	35,062,568	31,875,247
	<u>184,339,464</u>	<u>157,448,561</u>

Ministry of Housing and Infrastructure - GED fund

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

Ministry of Housing and Infrastructure - MHI Islamic fund

(i) HDFC was appointed as the sole representative who will be acting on behalf of the Ministry of Housing and Infrastructure in matters related to the scheme as a collecting agent. HDFC shall 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 who will be acting on behalf MHI in matters related to the scheme as a collecting agent. HDFC shall 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.

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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 fees of 1.75% per annum on the outstanding balance of the loan at the end of every month.

27 Share capital

	Number of shares	Ordinary shares
At 31 December 2016	1,593,750	159,375,000
At 31 December 2017	<u>1,593,750</u>	<u>159,375,000</u>

The total authorized number of ordinary shares as at 31 December 2017 was 3,187,500 (2016: 3,187,500) with a par value of MVR 100 (2016: MVR 100) per share. As at 31 December 2017, 1,593,750 shares were issued, which were fully paid.

28 Reserves

	As at 31 December 2017	As at 31 December 2016
General reserve	15,000,000	15,000,000
Staff education reserve	2,136,480	1,284,754
Total reserves at end of the year	<u>17,136,480</u>	<u>16,284,754</u>

The Company maintains a staff education reserve for the purpose of providing financial assistance for higher education of HDFC staff members.

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29 Segment Analysis

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

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

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

- ♦ Conventional financing service – representing conventional housing finance
- ♦ 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 incurred loss model prescribed in IAS 39;
- (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.

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

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

<i>In thousands of MVR</i>	Conventional	Islamic	Unallocated	Total
Loans and advances	1,142,797	296,300	(28,581)	1,410,516
Cash and cash equivalents	41,800	26,726	-	68,526
Non-current assets	-	-	1,607	1,607
Financial assets held-to-maturity	29,960	67,000	-	96,960
Other assets	6,882	106	4,330	11,318
Total assets	1,221,439	390,132	(22,644)	1,588,927
Deposits from customers	55,581	12,855	-	68,436
Debt securities in issue	36,848	112,557	-	149,405
Other borrowed funds	528,832	144,029	-	672,861
Other liabilities	41,712	96,766	45,861	184,339
Total liabilities	662,973	366,207	45,861	1,075,041
Capital expenditure	-	-	919,226	919,226

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

<i>In thousands of MVR</i>	Conventional	Islamic	Unallocated	Total
External revenues:				
- Interest / profit share	131,235	33,109	-	164,344
- Fee and commission income	3,695	1,790	-	5,485
- Other operating income	3,409	-	-	3,409
Total revenues	138,339	34,899	-	173,238
Interest expense / profit share	(41,411)	(12,319)	-	(53,730)
Provision for loan impairment	(8,461)	(2,115)	-	(10,576)
Depreciation and amortisation	-	-	(537)	(537)
Administrative and other operating expenses	(13,343)	(1,757)	-	(15,100)
Business profit tax	-	-	(12,108)	(12,108)
Result	75,124	18,708	(12,645)	81,187

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29 Segment Analysis (continued)

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

Segment information for the reportable segments as at 31 December 2016 is set out below:

<i>In thousands of MVR</i>	Conventional	Islamic	Unallocated	Total
Loans and advances	1,073,496	247,487	(18,005)	1,302,978
Cash and cash equivalents	21,918	6,700	-	28,618
Non-current assets	-	-	1,276	1,276
Financial assets held-to-maturity	-	-	19,965	19,965
Other assets	8,463	68	425	8,956
Total assets	1,103,877	254,255	3,661	1,361,793
Deposits from customers	54,122	10,382	-	64,504
Debt securities in issue	33,578	23,522	-	57,100
Other borrowed funds	492,664	122,316	-	614,980
Other liabilities	36,796	80,474	40,179	157,449
Total liabilities	617,160	236,694	40,179	894,033
Capital expenditure	-	-	119,172	119,172

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

<i>In thousands of MVR</i>	Conventional	Islamic	Unallocated	Total
External revenues:				
- Interest / profit share	121,228	22,802	-	144,030
- Fee and commission income	4,312	1,513	-	5,825
- Other operating income	1,916	-	-	1,916
Total revenues	127,456	24,315	-	151,771
Interest expense / profit share	(36,811)	(9,877)	-	(46,688)
Provision for loan impairment	(3,257)	(764)	-	(4,021)
Depreciation and amortisation	-	-	(533)	(533)
Administrative and other operating expenses	(14,724)	(143)	-	(14,867)
Business profit tax	-	-	(13,364)	(13,364)
Result	72,664	13,531	(13,897)	72,298

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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.

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

The Company 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 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.

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30.1.1 Risk limit control and mitigation policies (continued)

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.

Collateral information

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

As of 31 December 2016	Customer loans	Staff loans	Amna Assets	Total
Loans collateralised by:				
- house property	1,067,654,331	5,841,408	247,487,479	1,320,983,218
Total loans and advances	1,067,654,331	-	247,487,479	1,320,983,218

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

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30.1.1 Risk limit control and mitigation policies (continued)

As of 31 December 2016	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	1,067,654,331	3,279,332,616	-	-
Staff loans	5,841,408	15,111,892	-	-
Amna Assets	247,487,479	619,185,650	-	-
Total loans and advances	1,320,983,218	3,913,630,158	-	-

(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.

30.1.2 Impairment and provisioning policies

Impairment provisions are recognised for financial reporting purposes based on expected future losses calculated based on historical default rates.

30.1.3 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 2017 and 31 December 2016, 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.
- 93.45% of the loans and advances portfolio are considered to be neither past due nor impaired (31 December 2016: 95.59%);

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30.1.4 Loans and advances

Loans and advances are summarised as follows:

	(Amount in MVR)	
	As at 31 December 2017	As at 31 December 2016
Neither past due nor impaired (less than 30 days)	1,344,875,030	1,262,682,271
Past due but not impaired (30-90 days)	71,854,984	49,010,598
Impaired (more than 90 days)	22,366,853	9,290,349
Gross loans and advances	1,439,096,867	1,320,983,218
Less: allowance for impairment	(28,581,369)	(18,005,208)
Net loans and advances	1,410,515,498	1,302,978,010

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

During the year 31 December 2017, HDFC's total value of loans and advances increased by 9% (2016 : 20%) as a result of new disbursement of the housing loans. In order to minimise the potential increase of credit risk exposure, the HDFC focused more on lending house construction loans providing collateral and strong repayment capacity from employment, other business and rental

(a) Loans neither past due nor impaired

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

Internal Ratings	Basis for grading (B/A)	31 December 2017		31 December 2016	
		Loans to customers	Percentage of total loans	Loans to customers	Percentage of total loans
		MVR		MVR	
A+	0.2%	1,343,042,214	99.86%	1,262,682,271	100.00%
A	0.2% to 0.5%	1,832,816	0.14%	-	0.00%
A-	0.5% to 1%	-	-	-	0.00%
B+	1% to 1.5%	-	-	-	0.00%
B	1.5% to 2%	-	-	-	0.00%
C	above 2%	-	-	-	0.00%
		1,344,875,030	100%	1,262,682,271	100.00%

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

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by areas to customers that were past due but not impaired were as follows:

(Amount in MVR '000)

	Housing loan			
	Male'	Hulhumale'	Outer atoll	Total
31 December 2017				
Past due 30-60 days	17,684	41,909	4,493	64,086
Past due 60-90 days	873	5,993	903	7,769
Total	18,557	47,902	5,396	71,855
31 December 2016				
Past due 30-60 days	10,735	32,928	3,352	47,015
Past due 60-90 days	-	1,520	475	1,995
Total	10,735	34,448	3,827	49,010

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

(c) Loans and advances impaired

The impaired loans and advances to customers is MVR 22,366,853 (as compared to on 31 December 2016 when impaired loans and advances to customers were MVR 9,292,185).

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

(Amount in MVR '000)

	Housing loan			
	Male'	Hulhumale'	Outer atoll	Total
31 December 2017				
Impaired loans	6,103	12,630	3,633	22,367
Total	6,103	12,630	3,633	22,367
31 December 2016				
Impaired loans	2,566	4,097	2,627	9,290
Total	2,566	4,097	2,627	9,290

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30.1.4 Loans and advances (continued)**(d) Housing loans renegotiated**

Restructuring activities include extended payment arrangements, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. There was no renegotiation during the year ended 31 December 2017.

30.1.5 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.

	31 December 2017	31 December 2016
Residential - Conventional	1,139,243,180	1,069,583,639
Residential - Islamic	296,299,857	247,487,479
Commercial	3,553,830	3,912,100
Grand total	<u>1,439,096,867</u>	<u>1,320,983,218</u>

30.2 Market

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).

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

By virtue of the SWAP agreements, HDFC will be able to service the US\$ loans obtained from FMO and DEG. As at the reporting date, the outstanding balance in these two borrowings amounts to US\$ 11,215,172 (2016: US\$ 14,145,824), against which the amounts of US\$ to be purchased from STO PLC is US\$ 11,084,841 (2016: US\$ 13,950,791).

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

	(Amount in USD)	
	31 December 2017	31 December 2016
Assets		
Cash and balances with other banks	147,593	39,516
Derivative financial instruments	-	24,269
Total assets	<u>147,593</u>	<u>63,785</u>
Liabilities		
Borrowings	<u>(11,215,172)</u>	<u>(14,145,824)</u>
Total liabilities	<u>(11,215,172)</u>	<u>(14,145,824)</u>
Net on-balance sheet financial position	(11,067,579)	(14,082,039)
Currency SWAP	<u>11,084,841</u>	<u>13,950,791</u>
Net	<u>17,261</u>	<u>(131,248)</u>

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30.2.1 Foreign exchange risk (continued)

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

<i>Amounts in MVR</i>	31 December 2017		31 December 2016	
	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
US Dollar strengthening by 10%	26,617	-	(202,384)	-
US Dollar weakening by 10%	(26,617)	-	202,384	-

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 held to maturity. Therefore HDFC is not open to any price fluctuation risks.

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30.2.2 Interest rate risk (continued)

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

As at 31 December 2017	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non- interest bearing	Total
(in MVR '000)							
Assets							
Cash and balances with banks	41,800	-	-	-	-	26,726	68,526
Financial assets held to maturity	29,960	67,000	-	-	-	-	96,960
Loans and advances	10,008	27,101	84,919	329,255	959,232	-	1,410,515
Other assets	-	-	-	-	-	7,868	7,868
Total financial assets	81,768	94,101	84,919	329,255	959,232	34,594	1,583,869
Liabilities							
Deposits from customers	-	-	-	-	64,844	3,592	68,436
Debt securities in issue	8,955	18,848	10,000	111,602	-	-	149,405
Other borrowed funds	16,444	45,597	142,777	392,001	76,042	-	672,861
Other liabilities	-	-	-	-	-	184,339	184,339
Total financial liabilities	25,399	64,445	152,777	503,603	140,886	187,931	1,075,041
Total interest repricing gap	56,369	29,656	(67,858)	(174,348)	818,346	(153,337)	508,828

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30.2.2 Interest rate risk (continued)

As at 31 December 2016	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	13,640	-	-	-	-	14,977	28,617
Financial assets held to maturity	19,965	-	-	-	-	-	19,965
Loans and advances to	4,041	8,201	38,968	270,287	981,481	-	1,302,978
Derivative financial instruments	-	374	-	-	-	-	374
Other assets	-	354	-	-	294	7,883	8,531
Total financial assets	37,646	8,929	38,968	270,287	981,775	22,860	1,360,465
Liabilities							
Deposits from customers	-	-	-	-	58,510	5,994	64,504
Debt securities in issue	956	11,318	16,160	6,099	22,566	-	57,099
Other borrowed funds	15,398	44,632	125,987	344,511	84,453	-	614,981
Other liabilities	48	-	48,837	-	6,994	101,569	157,449
Total financial liabilities	16,402	55,950	190,984	350,610	172,523	107,563	894,033
Total interest repricing gap	21,244	(47,021)	(152,016)	(80,323)	809,252	(84,703)	466,432

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.

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(All amounts in Maldivian Rufiyaa)

30.2.2 Interest rate risk (continued)

Exposure to Interest rate risk - Loans and advances

Sensitivity Analysis of Net interest income

(in MVR '000)

	31 December 2017		31 December 2016	
	1% increase	1% decrease	1% increase	1% decrease
Average for the year	6,622	(6,622)	5,511	(5,511)

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.

30.3.1 Liquidity risk management process (continued)

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

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

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

30.3.2 Funding approach

Sources of liquidity are regularly reviewed by the ALCO.

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30.3.3 Non-derivative cash flows

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

As at 31 December 2017	Upto 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total	Carrying amount
(in MVR '000)							
Liabilities							
Deposits	-	-	3,592	-	64,844	68,436	68,436
Debt securities in issue	9,036	19,182	10,208	111,602	-	150,028	149,405
Other borrowed funds	19,527	51,711	168,091	465,000	92,437	796,766	672,861
Other liabilities	-	-	55,075	-	129,264	184,339	184,339
Total liabilities	28,563	70,893	236,966	576,602	286,545	1,199,569	1,075,041
Assets							
Cash and balances with banks	68,526	-	-	-	-	68,526	68,526
Financial assets held to maturity	29,960	67,000	-	-	-	96,960	96,960
Loans and advances	16,325	32,651	146,928	783,618	1,959,044	2,938,566	1,410,515
Other assets	-	-	-	-	7,868	7,868	7,868
Total assets	114,811	99,651	146,928	783,618	1,966,912	3,111,920	1,583,869
Net	86,248	28,758	(90,038)	207,016	1,680,367	1,912,351	508,828

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(All amounts in Maldivian Rufiyaa)

30.3.3 Non-derivative cash flows (continued)

As at 31 December 2016	Upto 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total	Carrying amount
(in MVR '000)							
Liabilities							
Deposits	-	-	5,994	-	58,510	64,504	64,504
Debt securities in issue	-	11,629	18,878	13,928	26,366	70,801	57,099
Other borrowed funds	19,496	81,858	172,289	372,491	76,579	722,713	614,981
Other liabilities	49	-	48,837	-	108,563	157,449	157,449
Total liabilities	19,545	93,487	245,998	386,419	270,018	1,015,467	894,033
Assets							
Cash and balances with banks	28,618	-	-	-	-	28,618	28,618
Financial assets held to maturity	20,000	-	-	-	-	20,000	19,965
Loans and advances	16,934	33,868	152,407	1,016,043	1,249,029	2,468,281	1,302,978
Derivative financial instruments	374	-	-	-	-	374	374
Other assets	-	354	-	-	8,177	8,531	8,531
Total assets	65,926	34,222	152,407	1,016,043	1,257,206	2,525,804	1,360,466
Net	46,381	(59,265)	(93,591)	629,624	987,188	1,510,337	466,433

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

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

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

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

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

	31 December 2017	31 December 2016
Capital		
Share capital	159,375,000	159,375,000
Advance for shares	51,407,100	51,407,100
Retained earnings	285,967,217	240,694,334
Reserves	17,136,480	16,284,754
Total qualifying Capital	<u>513,885,797</u>	<u>467,761,188</u>
Total capital	<u>513,885,797</u>	<u>467,761,188</u>
Risk-weighted assets		
On-balance sheet	728,435,996	670,280,209
Total risk-weighted assets	<u>728,435,996</u>	<u>670,280,209</u>
Basel ratio	71%	70%

The increase of the regulatory capital for the year ended 31 December 2017 is mainly due to the contribution of the year end profit. The increase of the risk-weighted assets reflects the expansion of the loan portfolio in the year. However, the Basel ratio has increased marginally.

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31 Analysis of financial instruments by measurement basis

As at 31 December 2017	Fair value through profit or loss	Held-to- maturity	Loan and receivables	Total
Financial assets				
Cash and cash equivalents	-	-	68,525,548	68,525,548
Financial assets held to maturity	-	96,959,834	-	96,959,834
Loans and advances	-	-	1,410,515,498	1,410,515,498
Total assets	-	96,959,834	1,479,041,046	1,576,000,880

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

As at 31 December 2016	Fair value through profit or loss	Held-to- maturity	Loan and receivables	Total
Financial assets				
Cash and cash equivalents	-	-	28,617,827	28,617,827
Financial assets held to maturity	-	19,964,616	-	19,964,616
Derivative asset	374,231	-	-	374,231
Loans and advances	-	-	1,302,978,010	1,302,978,010
Total assets	374,231	19,964,616	1,331,595,837	1,351,934,684

	Other liabilities	Total
Financial liabilities		
Debt securities in issue	57,099,425	57,099,425
Other borrowed funds	614,980,698	614,980,698
Deposits from customers	64,503,773	64,503,773
Total liabilities	736,583,896	736,583,896

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Notes to the financial statements continued

32 Fair value of financial instruments

Fair value measurements are analyzed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, unobservable inputs). Management applied judgment in categorizing financial instruments using the fair value hierarchy. If a fair value measurement requires observable inputs that require significant adjustment, that measurement is level 3 measurement. The significance of valuation inputs is assessed against the fair value measurement in its entirety.

Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorized are as follows:

31 December 2017				31 December 2016			
Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total

Assets at fair value

Financial assets

- Derivative asset	-	-	-	-	374,231	-	374,231
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The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2017:

Assets at fair value

Valuation technique

Inputs used

Financial assets

- Derivate asset	Market value approach	Current market exchange rates
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There were no changes in valuation technique for level 2 recurring fair value measurements during the year ended 31 December 2017 (2016: None).

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 2017		As at 31 December 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets carried at fair value				
Derivate asset	-	-	374,231	374,231
Assets carried at amortised cost				
Cash and cash equivalents	68,525,548	68,525,548	28,617,827	28,617,827
Financial assets held to maturity	96,959,834	96,959,834	19,964,616	19,964,616
Loans and advances to customers	1,410,515,498	1,410,515,498	1,302,978,010	1,302,978,010
	<u>1,576,000,880</u>	<u>1,576,000,880</u>	<u>1,351,560,453</u>	<u>1,351,560,453</u>
Liabilities carried at amortised cost				
Deposits from customers	68,435,976	68,435,976	64,503,773	64,503,773
Debt securities in issue	149,404,938	149,404,938	57,099,425	57,099,425
Other borrowed funds	672,860,514	672,860,514	614,980,698	614,980,698
	<u>890,701,428</u>	<u>890,701,428</u>	<u>736,583,896</u>	<u>736,583,896</u>

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

33 Contingencies

(a) Contingent liabilities

The Company has terminated an employee for breach of contract in February 2012. Subsequently, the employee filed a case alleging wrongful termination with the Employment Tribunal, which decided in favor of the employee with reinstatement and compensation. The Company appealed this decision of the Tribunal at High Court and was successful in securing a favorable judgment that the Company's decision to terminate the employee was legitimate. However, the second part of the judgment requested that compensation be reviewed by the Employment Tribunal against which, the Company appealed at the Supreme Court challenging the High Court's decision to assess the quantum merit of damages to be awarded to the employee though it was proven that the termination was legitimate and legal. Appeal case at the Supreme Court is ongoing, and the Company is anticipating a favorable judgment. Nevertheless, if we take into consideration the scenario where the Supreme Court upholds the decision of the High Court, the Company will be able to challenge and argue as to what would be fair and just compensation to be awarded to the ex-employee during the sessions that will be held at the Employment Tribunal. Thus, giving leverage to minimize the compensatory damages to be awarded to the employee.

(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 2017	As at 31 December 2016
Undisbursed loans and other facilities	244,930,397	55,456,753

(c) Operating lease commitments

	As at 31 December 2017	As at 31 December 2016
Not later than one year	905,000	780,000
Later than one year and not later than five years	4,320,000	1,070,000
More than five years	1,905,000	1,545,000
	<u>7,130,000</u>	<u>3,395,000</u>

Notes to the financial statements continued

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

35 Related party transactions

Share capital of HDFC is held by the following shareholders:

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

	As at 31 December 2017	As at 31 December 2016
(i) Asian Development Bank		
Outstanding balance at the beginning of the year	-	10,674,422
Loan repaid during the year	-	(10,524,150)
Interest for the year		54,722
Interest paid	-	(204,994)
Dividends paid	(5,737,500)	(5,020,313)
Outstanding balance at the end of the year	-	-
	As at 31 December 2017	As at 31 December 2016
(ii) Government of Maldives		
Outstanding balance at the beginning of the year	-	-
Dividends paid	(15,618,560)	(13,666,405)
Outstanding balance at the end of the year	-	-
	As at 31 December 2017	As at 31 December 2016
(iii) International Finance Corporation		
Outstanding balance at the beginning of the year	-	12,382,668
Interest for the year	-	17,953
Loan repaid during the year	-	(12,164,667)
Interest paid	-	(235,954)
Dividends paid	(5,737,500)	(5,020,313)
Outstanding balance at the end of the year	-	-
	As at 31 December 2017	As at 31 December 2016
(iv) HDFC Investments Limited (India)		
Outstanding balance at the beginning of the year	-	-
Dividends paid	(4,781,240)	(4,183,585)
Outstanding balance at the end of the year	-	-

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

35 Related party transactions (continued)

(v) Key management compensation

	Year ended	
	31 December 2017	31 December 2016
Executive management salaries	1,027,198	2,351,002

36 Events after the reporting period

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



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