



Housing Development Finance Corporation Plc.

# *Annual Report* 2016

Housing Development Finance Corporation Plc.

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*Annual Report*  
2016



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HDFC Plc.  
Annual Report 2016

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4th Floor, H. Mialani  
Sosun Magu  
Male' Republic of Maldives  
Tel: 3338810  
Fax: 3315138  
Email: [Info@hdfc.com.mv](mailto:Info@hdfc.com.mv)

[www.hdfc.com.mv](http://www.hdfc.com.mv)

Photos by: Housing Development Corporation  
Hussain Sawad (Cover)  
Ahmed Hishan

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## Definition

Annual Report 2016, comprises 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 Cooperation 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 2016.

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 Message

بِسْمِ اللّٰهِ الرَّحْمٰنِ الرَّحِیْمِ

Dear Shareholders,

2016 has been a year of evolution and continued progress for the Company. HDFC have always recognized that customers are the foundation for everything we do. At the centre of the Company, focus on customers is our fundamental belief that every customer has the right to become better off.

Each employee is accountable for the Company's actions and results, including the Board of Directors. We are committed to the utmost levels of governance, ensuring we balance and protect the interests of our customers, shareholders, employees and communities where we operate. As we work to build an even better financial institution, HDFC remains firmly committed to making a positive difference in the society.

We believe that strong governance is an important foundation of HDFC's performance and will continue to strengthen our success. Our corporate governance policies provide a framework of accountability and responsible business practices which begin with an independent Board of Directors with the right balance of highly qualified people and diversity of gender, background, geography and expertise.

One of the strengths of HDFC is our ability to strike a balance between international corporate philosophy and local practice and culture. HDFC has taken seriously the importance of building strong communities for our customers. We are committed to helping our customers and communities become better off through our mortgage lending.

Sufficient diversity of affordable and social housing supply is vital to the nation's current and future economic, social and regional development. As an organisation, we have responded to the challenges facing housing in the country through the Government's Affordable Housing Strategy under the name of, MHUD Social Housing, "Gedhoruveri kurun", "Baiy Bil Thaqsit", Completion of Incomplete Housing Program are to name some. Opening doors to affordable housing through the Government's Affordable Housing Strategy.

The Corporations diverse roles and activities are underpinned by the belief that safe and secure housing is fundamental to the strength and wellbeing of any society. It is significant that our purpose and mission focuses on creating opportunities for people, and the ways in which we do that varies in response to changing housing market conditions and changing public demands.

Features of the past year have been easing the economic conditions, which has increased demand for housing. Regardless of the market cycle, people's lives are dynamic and circumstances change. Over the past year, we have laid the foundations for greater mobility across the housing continuum and helping people transition will be a feature of our operations in the years ahead. We continued to make a positive difference to the lives of Maldivian by delivering housing solutions ranging from home construction, home purchase and renovation.

On behalf of Board of Directors and Management I would like to thank Dr. ADP Baddevithana (former Managing Director) our shareholders, customers, employees and other stakeholders for their leadership and team effort who work hard to deliver strong results and to bring the Company's mortgage finance agenda to life every day.



Ismail Ali Manik  
*Chairman*



## Company Overview

*“We remain to march ahead and look forward to contribute towards attaining the Government of Maldives vision for housing”.*

Housing Development Finance Corporation (HDFC) was incorporated in 2004, by a Presidential Decree under the Companies Act. (Act No. 10/96). HDFC's commercial operations commenced on 29th March 2004 with hundred percent shareholding by the Government of Maldives which later in 2008 was privatized with the shareholding from ADB, IFC and HDFC Investments Ltd., (India) holding 51% of the share and the 41% of the shares by the Government of Maldives.

Having restructured its capital, and with new lines of long-term funding, HDFC re-entered the market for mortgage loans for housing needs of individuals and families. HDFC is unique as the only mortgage housing institution in the Maldives. We take pride in the fact that even today with the staff strength of 30 employees, our faith has not altered a bit as our commitment towards our customers has only increased everyday which pass by.

As the demand for housing loans continue to grow which exceeds the supply, the demand for Islamic facilities is growing at a faster speed than anticipated and to find the matching funds, we are structuring a long-term Sukuk in MVR as the way forward to cater Islamic facilities.

HDFC remains well positioned to deliver superior performance in the coming years due to its deep expertise in mortgage financing, and ability to adapt its portfolio mix to changing market conditions, the ongoing benefits of continued cost initiatives, a strong balance sheet and a proven risk management framework and culture.

## 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 applications to the highest professional standard to give a speedy and effective service.

Manage all aspects of customer relationship with due care to ensure 100% loan performance.

Conduct all affairs as a responsible corporate citizen with good governance, accountability and transparency.

## Corporate Information

Company Registration Number	C-107/2006
Place of incorporation	Male' Republic of Maldives
Head office	Housing Development Finance Corporation Plc 4th Floor, H. Mialani, Sosun Magu, Male' Republic of Maldives
Contact Number	3334666, 3338810 Fax: 3315138
Email	info@hdfc.com.mv
Managing Director	Ms. Raheema Saleem
Company Secretary	Mr. Adam Athif
Auditors	KPMG (Statutory), PWC (Internal)
Legal Counsel	Mazlan & Murad Law Associates



## HDFC amna

The commercial practice of Islamic finance emerged pretty 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.

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HDFC Amna observes the following standards to achieve Shari'ah compliance:

- Complete segregation of funds
- Shari'ah supervisory committee
- Products fully based on Islamic concepts including the contracts
- Management in accordance with Islamic principles
- The long term vision of HDFC is to convert HDFC Amna Window to a fully-fledged entity offering Islamic financing facilities

## Board of Directors

The Board of Directors is made up of five Nominee Directors from the shareholders; where the Government of Maldives, with 2 directors; Asian Development Bank; International Finance Corporation and HDFC Investments Ltd (India) represented by one nominee director.

The Shareholders' also have the right to nominate Alternate Directors who may partake in the Board Meetings but can only vote in the absence of the Nominee Director representing the Shareholder.

As per the shareholder's agreement, the Chairman to the Board of Directors is appointed on rotation for one year term. The Managing Director sits in the Board as an ex-officio responsible for policy implementation and on-going operations.

HDFC is governed by experienced and qualified board of Directors, and the present board includes the following Nominee Directors and Alternate Directors.

### Nominee Directors (Non-Executive)

Mr. Ismail Ali Manik	Government of Maldives (Chairman 6th Feb 2016 to 19th Apr 2017)
Mr. Mohamed Mauroof Jameel	Government of Maldives (since 22 Sep 2016)
Ms. Renu Sud Karnad	HDFC Investments Ltd (India)
Mr. Gaurav Agarwal	Asian Development Bank (since 14 Feb, 2017)
Mr. Nihal Senanayake Welikala	International Finance Corporation (since 02 Nov 2016)

### Alternate Directors (Non-Executive)

Mr. Conrad D'Souza	HDFC Investments Ltd. (India)
Mr. Hamid Sodique	Government of Maldives
Mr. Asif Saeed Cheema	Asian Development Bank
Ms. Raheema Saleem	Managing Director (Executive)

## Director's Qualification and experience



*Mr. Ismail Ali Manik*  
*Nominee Director, Non-Executive*  
*Government of Maldives*

Mr. Ismail Ali Manik has represented the Government of Maldives, as a nominee director since privatization of HDFC Plc., in 2009 till 2013 when he served as the Chairman of the Board. He started his professional career in the Ministry of Finance and Treasury and where he worked on fiscal policy, public financial management and economic policy matters. He has served in the

government public service for over twenty years. In addition he has also served in the World Bank, Washington DC office. With the appointment as Permanent Secretary of the Ministry of Finance and Treasury and as Board Director of Maldives Monetary Authority, he stepped down from HDFC Board.

Mr. Manik did his Master's Degree in Public Administration Program in Economic Policy Management) from Columbia University, New York. In addition, he holds Bachelor of Economics from University of Adelaide, Australia. Further, he has participated at various international seminars and workshops conducted by the World Bank, ADB and other multilateral agencies. 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.

Other appointments- Managing Partner at A2I Consulting LLP, a business and management consultancy firm.

### Board Committees

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



*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.

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 Ba (Hons.) in Architecture, Manchester Metropolitan University, UK. Mr. Mauroof Jameel is also a fellow of the Chartered Architect of the Royal Institute of British Architectural (RIBA), UK since 2004. He also served as a Cabinet Minister at the Ministry of Construction and Public Infrastructure and was the Chairman and CEO of Hulhumale Development Corporation.

#### Other appointments

Part-time lecturer at Maldives National University.

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

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



*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.

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 posts of the Company, Ms. Karnad was instated on to the Board as Executive Director in 2000 and was re-designated as Managing Director from January 1st 2010. She is a Pravin Fellow Woodrow Wilson School of International Affairs, Princeton, and University, USA. She holds a 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. Nihal S. 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.

Mr. Welikala has been with the NDB Group for more than 9 years including more than 6 years as CEO. 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. Welikala has also 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. Welikala also served as NDB's Nominee-Director at MFCL, 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. He also work as an independent consultant in the financial sector.

#### Board Committees

- Audit Committee
- Credit Risk Management Committee

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. 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

None

#### Board Committees

- Credit Risk Management Committee
- Nomination and Remuneration Committee



*Mr. Conrad D'Souza*  
*Alternate Director, Non-Executive*  
*HDFC Investments Ltd.*

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

Mr. D'Souza has more than 30 years of experience in the field of Housing Finance. He joined HDFC in 1984 and he was the Treasure of HDFC India and was responsible for resource mobilization for both domestic and international and asset liability management. Mr. D'Souza has been a consultant in the housing finance to UNAID/UNDP and IFC (Washington) and has undertaken assignments in Asia, Africa and Eastern Europe. He is a member of the National Stock Exchange of India Limited's Committee on Currency Derivatives and a member of the Association of Finance Professionals of India. Mr. D'Souza holds a Masters' Degree in Commerce and MBA and is a Senior Executive Program (SEP) graduate of the London Business School.

#### Other appointments

Senior General Manager, Management Services and Investor Relations. He is also a Board Director in the following companies. HDFC Holding Ltd., HDFC Investments Ltd., Chalet Hotels Pvt. Ltd, HDFC Education & Development Services Pvt. Ltd. HDFC Sales Pvt. Ltd., Association of Finance Professionals of India., Kooh Sports Pvt. Ltd., and Nationals Trust Bank Plc. Sri Lanka.

#### Board Committees

- Audit Committee

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



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

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

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 of 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. Asif 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.

Mr. Cheema started his career at Deutsche Bank Securities, New York as an Equity Research Associate in 1996. Before joining ADB, Mr. Cheema 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 at the Asian Development Bank.

Board Committees-None

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



*Ms. Raheema Saleem*  
Managing Director

She is the Operations Director since 2014 until she took office as Managing Director in 2017. Ms.Raheema was the founding Managing Director and remained until the Company was privatised in 2008. She was a Board Director prior and after the Company was privatised. Ms.Raheema served at the Ministry of Finance and Treasury for more than 16 years at various senior positions. In addition she also served as the Chairperson of the National Oil Company and as a Board of Director at State Trading Organisation.

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, 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.

## Our Management Team

“A home is a place where you grow up and make memories with, wanting to leave and wanting to return back to”

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### Mr. Mohamed Fathy

*Senior Manager, Information Technology*

Mr. Fathy joined HDFC Plc. in March 2004 as part of the initial team. He began his career in 2001 in the field of audit and gained experience at local firms and with the experience gained got engaged in providing consultancy services as a freelance consultant. At HDFC he headed the Internal Audit Division as well as the IT Division. In addition he has provided numerous contributions in the development of internal controls and systems of the company. He holds M.Sc. in IT Management from Asia Pacific University Malaysia and Bachelor of Commerce from Bangalore University of India.

He does not hold any shares in any company in Maldives that has a conflict of interest with HDFC Plc., except at Bank of Maldives Plc at which he holds 50 Shares.



### Ms. Aishath Rasheeda

*Senior Manager Credit & AML Officer*

She joined HDFC Plc. in March 2004 as part of the initial team. Ms. Rasheeda began her career at Maldives Monetary Authority in 1990 and spend 14 years serving as a Banking Officer in the Banking Section of the Authority. She joined HDFC as a credit officer in 2004 and was promoted as a Credit Manager in 2008, and as a Senior Credit Manager in 2012. She holds Master of Business Administration from Cardiff Metropolitan University, UK through International College of Business Technology (ICBT), Sri Lanka. She is also the Anti Money Laundry (AML) Officer of the Company.

She has declared that he does not hold any shares in any company in the Maldives that has a conflict of interest with HDFC. Plc. other than 83 shares in the Bank of Maldives.



## Mr. Mohamed Shafeeq

*Head of Finance*

Mr. Mohamed Shafeeq joined HDFC Plc. in 2009. Prior to joining the company he was the Finance Director at Society for Health Education (SHE). He is a member of Association of Chartered Certified Accounts (ACCA), and an Oxford Brooks University (OBU) certified mentor. He holds Masters in Business Administration (MBA) from the University of Ballarat, Australia through Unity College International, Malaysia, and a BA (Hons) Accounting and Finance by University of East London, UK, obtained through HELP University College, Malaysia.

He is a licensed Auditor by the Auditor General of Maldives and with Maldives Inland Revenue Authority (MIRA) approval for tax auditing.

He is also the Information Officer of the Company.

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



## Mr. Adam Athif

*Senior Manager Administration & Company Secretary*

Mr. Adam Athif, joined HDFC Plc. in December 2004. He started his career in the Government of Maldives in 1990 as a secretary and since then he has worked his way up the ladder and has worked in areas related to Administration and Human Resources in both private and government sector. He holds a Diploma in Business Administration and is well versed with the local housing market. He has attended various workshops both internationally and local in relation to Housing Finance. In addition, he is also the Company Secretary.

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



## Mr. Faisal Haleem

*Manager Credit / Compliance Officer*

Mr. Faisal Haleem joined HDFC plc. in 2009. Prior to joining HDFC he served the Ministry of Education in the capacity as head of schools to the date he joined HDFC. He holds BA (Hons) Accounting and Finance from the University of East London, UK, through HELP University College, Malaysia, he also holds Association of Chartered Certified Accounts (ACCA) through SEGI College, Malaysia. He is an ACCA Affiliate and a member of the Certified Practicing Accountants of Maldives (CPA Maldives).

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. Azmeen Rasheed

*Manager & Sharia Compliance Officer*

Mr. Azmeen Rasheed joined HDFC in April 2016. He holds a Juris Doctor Degree J.D (Hons) from Kingdom of Saudi-Arabia, majoring in Sharia Law, Jurisprudence. He also holds a Masters in Law, Legum Magister LL.M (Banking and Taxation Law) and is also a registered Attorney in the Maldives.

He is currently the Manager for HDFC Islamic Window Amna. He has conducted workshops and lectures in Islamic University of Maldives, Maldives National University on Governance and Sharia Related Subjects as well as Sharia Compliant Finance.

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. Ahmed Jawad

*Manager, Information Technology*

Mr. Ahmed Jawad joined HDFC in August 2016. He began his career at Maldives Industrial Fisheries Company Limited (MIFCO) in 2003 and worked as a Junior Executive in Accounts until December 2004. He then worked as a supervisor and Head of Information Systems Unit, Head of HR and Administration and at MIFCO Head office as System Administrator until August 2016. He has over 13 years of experience in Information Technology, especially in Enterprise Resource Planning Environments and Data Management.

He received a M.Sc. in IT Management from Staffordshire University, UK, through Asia Pacific University, Malaysia. He was awarded the Outstanding Student Prize 2014/2015 by the Faculty of Computing, Engineering & Science of Staffordshire University, UK. He also received BA in Business Information Technology from Coventry University, UK, obtained through INTI International University of Malaysia.

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.



# OUTLOOK

*for the year 2017*

During the year 2017, HDFC would follow its ambitious and challenging vision to drive the Company towards excellence and impact its bottom line of growth and profitability. Thereby, the Company would focus on product diversification, cost control, strengthening internal controls, improvement in assets' quality, technological advancements and strengthening the equity base. With improving economic conditions and future growth in housing sector, the institution would endeavour to dedicate all available resources to reap the resultant benefits and make its housing contribution towards the national development.



## Corporate Social Responsibility

*"We're committed to setting the standard for excellence in our industry, now and in the future".*

The primary purpose of the HDFC's CSR philosophy is to make meaningful and measurable impact on the lives of economically, physically and socially challenged communities of the country by supporting initiatives aimed at creating conditions suitable for growth in these communities.

As a team we strive to work with all our stakeholders to operate responsibly; create an engaging working environment for our employees; and develop expertise that have positive social, environmental, and business impacts. This helps us inspire and trust in our brand, develop strong relationships with our stakeholders, and create long-term value for society and our business.

## Affordable products

Consumers' habits are changing, regarding the use of housing finance. Credits are used more and more frequently, but changes in lives that impact the budget of the households are also increasing (job loss, separation, illness), so the question about the proper way to make housing loans, in order to limit the risk and to maintain a broad access to credit is becoming more complex.

Various products are designed for customers, depending on their income level and affordability. Different methods have been in place including, Salary Benefit Scheme, and Pension Benefit Scheme are some of the low-cost products offered by HDFC.

HDFC has been a partner with the Ministry of Housing and Infrastructure since 2008 to execute a joint social performance strategy to improve lives of the low income segments with affordable housing finance. A new initiative under this partnership was launched with the name of "Gedhoruverikurun". This scheme is mainly focused on improving housing for the communities living in the outer islands. This is an Islamic facility funded from the state budget.

An amount ranging from MVR 100,000 to 400,000 will be offered per family application to develop housing in the designated islands. This is a low cost Islamic facility, which is priced at an annual profit margin of 5% payable over twenty years following an additional grace period of one year during which the construction of the home has to be completed.



## Academic and Economic Events

HDFC is a supporter of several activities that take place including academic forums and conferences. During 2016, HDFC effectively contributed in supporting a number of economic conferences, seminars and meetings that were held to discuss economic, investment and financial issues in order to boost the capabilities of the institutions involved in these areas. Among the events that Company participated in 2016 are, seminar jointly organised by CMDA, MSE and Colombo Stock Exchange, seminar organised by MMA on Mobile Banking, SMP Audit Tool Kit workshop organised by Auditor General. In addition, the KPMG 4th Annual IFRS workshop, Islamic Capital Market organised by CMDA and the 3rd Maldives Banking Financial Industry (MIBFI) conference organised by UTO Edu Consultants (Pvt) Ltd Sri Lanka.

## Community participation

The Company is keen to support various charities and voluntary institutions to enable them to provide different services to the society. In this context, HDFC supported through the provision of sponsorship to the top students in the Holy Quran Competition organised by the Ministry of Islamic Affairs. HDFC Amna donated, ten Special Seating Mobility chair for disabled children, which will help such children to sit up right, get up from the ground, and be stimulated and enable mobility.

## Environmental Sustainability

Climate change poses a significant risk to the global economy and to society as a whole. As such, there is a growing expectation among internal and external stakeholders that the HDFC should have a position on climate change, including setting targets for reducing its own greenhouse gas (GHG) emissions. With the “Maldives Intended Nationality Determined Contribution (INDC), we have established the “Green Initiatives” in terms of recyclability minimising the usage of water and electricity by all staff.

HDFC has responded to opportunities related to alternative energy, through our lending. The first alternative energy loan was given to a Hulhumale’ customer to build a six storey housing unit which includes solar panels on the rooftop.

In order to become a social responsible organisation we have established the following requirements:

- Encouraging to establish a mindset of risk management, business ethics and corporate social responsibility through internal management of people and process;
- Edifying the staff to understand complex, financial products through internal management of people and process for the benefit of our investors and customers;

HDFC aims to help communities to become better off. By giving generously to important community projects and recognizing employees who volunteer their time and energy to local causes, the Company strives to make a positive difference wherever it does business. Its efforts range from supporting social service, education, and culture, and environmental initiatives to partnering with non-profit and charitable organizations to build capacity and empower people.

# Directors Report

For the year ended 31 December, 2016

*“We trust our customers the trust they have placed in us, and we understand the significant role we play in helping Maldivian economy to grow.”*

Your Directors present their thirteenth Annual Report of HDFC PLC (the “Company” or “HDFC”), along with the audited financial statements for the year ended 31 December 2016. We are extremely proud of the positive difference HDFC make each and every day in the lives of our customers.

## Financial Highlights

(Mvr Million)

	2011	2012	2013	2014	2015	2016
Total Income	61.07	91.00	108.78	122.69	130.61	151.88
Profit Before Tax	52.60	57.88	59.86	64.57	71.49	85.66
Profit After Tax	49.48	48.97	50.93	54.90	60.54	72.30
Total equity	327.54	360.58	395.57	434.53	455.23	467.76
Loans and Advances to customers	568.36	757.30	842.24	941.50	1086.54	1302.98
<b>Financial Ratios</b>						
ROAE	15%	14%	13%	13%	14%	19%
Earnings Per Share (EPS)	31.05	30.73	31.96	34.44	37.99	45.36
Dividend Per Share	10.00	10.00	10.00	25.00	17.50	20.00
Dividend (%)	33%	32%	31%	73%	46%	44%
Net Assets Value per Share	205.52	226.24	248.20	272.65	285.63	293.5
Debt/Equity (times)	1.03	1.21	1.47	1.54	1.72	1.92
Liquidity ratio	50%	46%	41%	40%	37%	35%
Interest Cover (times)	5.35	3.15	1.95	2.75	2.91	2.33

## Business Overview

HDFC was incorporated in 2004 and it has played a key role in developing the housing sector and thus contributing to the home ownership for Maldivian citizens. During the year 2016, HDFC remained focused on providing excellent customer services and competitive housing products. The Company was able to withstand highly competitive operating conditions and noteworthy progress has been registered in all facets of operating performances. The progress made during the year also portrays the escalating trust and confidence of valued customers which has enabled HDFC to embark upon the journey towards attaining its rightful place in the housing industry.

Over the years HDFC has developed and launched a number of products and achieved an active housing portfolio of MVR 1.3 Billion, both covering conventional and Islamic housing facilities. The present share of products in the portfolio is as follows.

Loan portfolio	2015	2016
Home Loan	89 %	81 %
Islamic Mortgages	11 %	19 %

The Islamic Window, HDFC AMNA has progressed tremendously during the year 2016, the share of Shari'ah portfolio increased by 8% during the financial year 2016.

## 2016

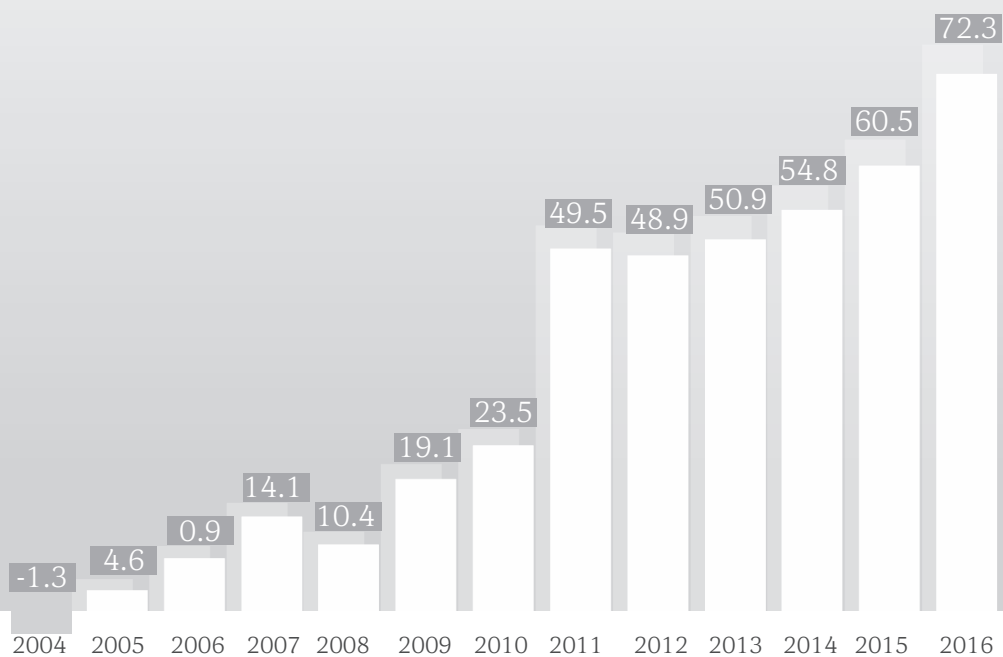
Total Revenue	151.8 Million
Operational Profit	85.7 Million
Loan Portfolio growth	19.9%
Housing finance injected by year end	1.3 Billion
Year on year increase in operational profit	19.8%

## Performance at a glance

HDFC has positioned itself as a specialist in providing housing solutions catering to the Maldivian citizens from all segments of the society. The company's success is not just increasing our profit, but rather it is serving a superior purpose. We are involved in a sector that contributes the development of our nation

HDFC's primary source of revenue is net interest income, comprised of interest received on loans and investments, less interest paid on deposits and borrowings. As at 31 December 2016, the Company's total value of loans and advances improved by 20% (15% in 2015) with the loan attrition sustained at 9% (9% in 2015). HDFC's total loan portfolio at the end of 2016 stood at MVR 1.3 Billion. Having crossed the threshold of MVR 1 billion as the market frontrunner with about 50% share in the market, the credit culture of the Maldives presents a daunting challenge, especially in the light of the average NPL percentage of the Maldives' banking sector, which has been in double digits exceeding 15% by Q4 of 2016 as reported by the Maldives Monetary Authority's Quarterly Economic Bulletin in December 2016. In contrast by end of Financial Year 2016 the NPL of HDFC was 0.70% (1.92% in 2015), success in managing a Net NPA at less than 1% at the end of 2016 and maintain it within the internal benchmark of 2%.

During 2016, the Company sanctioned total loans to the value of MVR 261 million and disbursed MVR 324 million. Disbursements were 18% higher than the envisaged business plan.



## Going Forward

The Island economy of the Maldives is sustained by industries related to tourism, fishing. National policies on Housing and Infrastructure have organized to attract much needed local investment to satisfy a backlog of housing exceeding 15,000 units according to recent estimates by Ministry of Housing and Infrastructure.

The housing stress is felt the most in the capital city Male' and to facilitate its decongestion, there is special emphasis on developing the reclaimed landmass in the Male' Atoll named Hulhumale' into a modern and sustainable community by providing housing development finance to match the pace of its infrastructure development. The underlying real estate market value of homes developed from HDFC mortgage loans is pivotal as a market characteristic. Therefore, while a vibrant Loan Outreach Program exists to achieve a widespread geographic distribution, the poor market value of property in outer atolls inhibited the growth of to the 12 islands identified in the program. Therefore, the Male', Hulhumale' and Vilimale' had a 93% share of the total loans disbursed by the Company over the ten years of operations.

Region	2015	2016
Male'	69 %	62 %
Hulhumale'	23 %	30 %
Other Atolls	08 %	08 %
Total	100 %	100 %

The present government's concept of developing economic zones unveiled in 2014 to create centralized demand for housing which will create a positive trend.

The need to create decent and affordable housing has become a national priority. The reclamation of the second phase of Hulhumale' development and the grand design for the Youth City unveiled by HDC, has paved the way for major local construction companies to enter the housing development industry, and last year was significant for the commencement of several exclusive projects which HDFC has funded.

Going forward, with the growing demand for housing in the Male' region, we are positive that the company's business will experience a positive growth in the coming years. The rising confidence will soon encourage customers to step into the housing market. HDFC have been a pioneer to various housing finance schemes which has been channelled and executed through HDFC including "Gedhoruverikurun".

## *Loan Performance*

During the year, the company has sanctioned loans amounting to MVR 261 million as compared to MVR 453 million in the previous year. 2015 figure was higher due to an exclusive end user project. As a result the disbursements increased from MVR 235.70 million to MVR324 million, recording a growth of 38%.

Even though portfolio grew upto MVR1.3 billion (20% growth in 2016) we managed to maintain the NPA below 1%.



## Asset Quality

The Company improved its asset quality substantially during 2016 compared to the previous year of 2015, where the challenges were greater due to the increase in completion with aggressive lending practice from competitors. Of the total active loan/facility portfolio of MVR. 1.30 billion as at the 2016 year end, (Y/E 2015- MVR 1.08 billion), Currently HDFC maintains an internal credit rating system for loans either past due or impaired. At the end of the year 2015 the loan value falls under category A+ was 96.39% and this has improved to 100% at the end of the year 2016. In order to minimise the potential increase of the credit risk exposure, HDFC focused more on securing the loans to greater Male' region, which gives us more comfort as the value of the property is much greater in the Male' region than in the outer atolls. Apart from the annual insurance, we have also encouraged customers to take insurance for the tenor of the loan and also to escrow the customer's business income through the banks. Further, the Company introduced specially designed HDFC/Allied Mortgage Loan Hybrid Package which ensures security in an event of an unfortunate demise or total permanent disability due to an accident.

### Internal Credit Rating

Internal Ratings	Basis for Grading (B/A)	2016	2015
A+	0.2%	100.00%	96.39%
A	0.2% to 0.5%	0.00%	0.99%
A-	0.5% to 1%	0.00%	0.61%
B+	1% to 1.5%	0.00%	0.47%
B	1.5% to 2%	0.00%	0.65%
C	above 2%	0.00%	0.89%
		100%	100%

*Internal rating is calculated by taking total receipts for the Year (A) and total late penalty for the Year (B)*

## Impairment Provision

The Collective Impairment Provision computed in compliance with IFRS, which increased by MVR 4,021,155 for 2016 to close at MVR 18,005,208. During the year the Company did not write off any bad loans or facilities.

## Net Interest Income

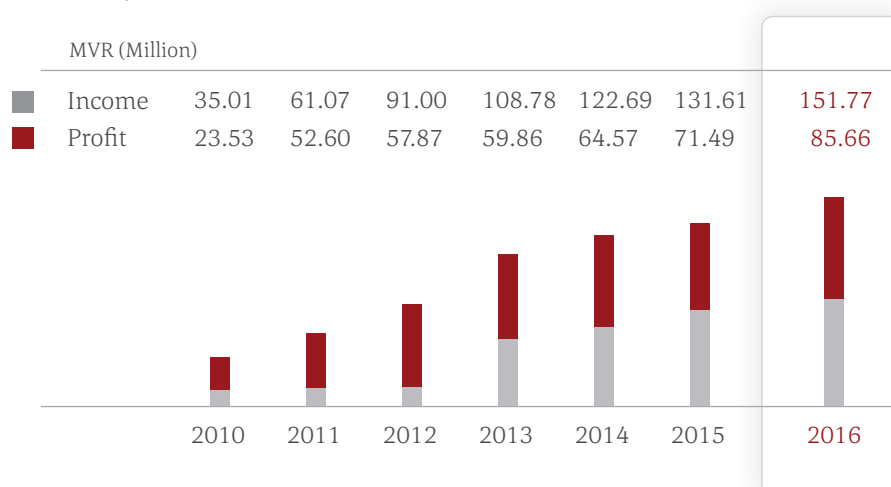
The Company's Net Interest Income from conventional finance grew by 9.97% at MVR 84.42 million compared to MVR 76.77 million for 2015. Additionally, for the Islamic Finance Window, the Net Shari'ah Income grew by 138.47% with MVR 14.44 million compared to MVR 6.05 million in the previous year which shows the recognition and the progress of the Islamic Finance Window.

## Expenditure

The total operating expenditure was MVR 19.42 million as compared to MVR18.22 million in the previous year, which is an increase of 6.59%. This increase was due to the impairment provision made for the loans/facilities as per the Collective Impairment Provision. Personal expenses and other operating expenses have been managed effectively in comparison to previous year (In 2016, cost to income ratio stood at 10% compared to 13% in 2015).

## Growth of Income and Profitability

The Company's income and PBT (Business Profit Tax was introduced in mid-2011) from 2009 were as follows:



## Risk Management

HDFC's activities primarily relate to the provision of mortgage home finance for the construction and purchase of residential properties. The company is exposed to the following risks;

- Exchange rate risk
- Credit risk
- Liquidity risk

### Exchange risk

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

### Credit risk

HDFC gives special consideration to managing the credit risk. It is the most important risk for HDFC's business operations. Therefore, credit policies are formulated to fulfil the requirements under prudential due-diligence to establish customers' creditworthiness, 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 directors to oversee the credit risk of the company.

### Liquidity risk

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

## Regulatory Compliance

The Housing Development Finance Corporation PLC is a Company incorporated as a Public Limited Liability Company under the Companies' Act No. 10 of 1996 in the Republic of Maldives. Licensed by the Maldives Monetary Authority as a Non-Bank Financial Institution, the Company engages in the business of granting housing loans for residential and commercial purposes. The Company complies with guidelines issued by the International Finance Corporation, and the Asian Development Bank as well as guidelines and directives issued by the regulatory bodies and the Company's Act, Articles of Association and Memorandum of Association. The company's financial statements have been prepared in accordance with International Financial Reporting Standards.

## Development of the Human Capital

HR strategy is an integral constituent of overall business strategy of HDFC. In today's fast-paced era of high business competition, organizational success greatly rest on not only on competitive business strategy, but also on proper alignment of the HR strategy with the Business strategies. HDFC's Human Resource Management is based on a strategic and rational approach for management of the Company's most valued asset—its staff. It has been ensured that recruitment process is transparent and programs to hire, motivate and retain the best employees are in place. Development of employee skills set has been assured through wide-ranging training programs with a view to develop workforce which can support current and emerging business goals of the organisation. Thereby, HDFC has been successful in creating an environment of employee engagement, empowerment and involvement where employees can perform their best. HDFC is constantly seeking for avenues to increase productivity and enhance delivery mechanisms of its divisions along with an ERP implementation project that continued during the year, which will see HDFC move onto an Oracle Platform fully in the year 2017. HDFC provides opportunities for in-house training, local sponsorship programs, study loans and short term training programs based on training need analysis is carried out as part of its staff appraisal system.

## Dividend

The Board of Directors of the Company has recommended a 20% dividend for 2016. This is translated to MVR 20.00 per share with a pay-out ratio of 44%.

## Islamic Finance



HDFC commenced its Islamic Finance window during 2012 under the brand name of “Amna” by offering Shari’ah compliant products and services. In line with customer demands, we remain committed to growing our Islamic Window and we thank our customers for their trust in HDFC- Amna. HDFC Amna’s growth has been quite significant over the last few years with serving financial needs of its customers under Murabahah, Istisna’ and Musharaka Mutanaqisa.

HDFC Amna is operated as a separate window of the Company, under the existing license of HDFC and is neither a separate company nor a subsidiary.

Musharaka Mutanaqisa

Murabahah

Istisna’

## Corporate Governance Philosophy



Sound Corporate Governance practices and responsible corporate behaviour contribute to long term performance of companies. Best practices on governance issues are a continuing process. There is no one single model to delineate good governance.

The Corporate Governance Policy in the Company is governed by Capital Market Development Authority's "Corporate Governance Code". Importantly, focus on the integrity, transparency and equality in whatever the Company does and what it basically aims at achieving a complete adherence to the applicable statutes while at the same time ensuring 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 the best in class concept of Corporate Governance practices become a way of life in the Company.

In line with the type of operations of the Company, the Corporate Governance framework in HDFC is based on the following key principles.

### Key Principles

- Constitution of a Board of Directors of appropriate composition, size, varied experience and commitment to discharge their responsibilities and duties.
- Transparency and independence in the functions of the Board.
- Ensuring timely flow of information to the Board and its Committees to enable them to discharge their functions effectively.
- Conduct all affairs adhering to the highest standards of ethics, transparency, accountability, honesty and integrity.
- Comply with the applicable laws, rules and regulations.
- Independent verification and assured integrity of financial reporting.
- Timely and balanced disclosure of all material information concerning the Company to all stakeholders and protection of their rights and interests.

## 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 responsibility for day-to-day operation of the Company to the Managing Director.

## Shareholding Structure

The HDFC have major 4 shareholders; Government of Maldives (49%), Asian Development Bank (18%), International Finance Corporation (18%), HDFC Investments Ltd., India (15%) and including 10 initial shareholders required under the company's Act 10/96. Details of the shares held by the shareholders depicted below.

### Shareholders List

Sl	Name	No. of Share(s) held	Value of share(s) held in MVR
1	Government of Maldives	780,928.00	78,092,800.00
2	International Finance Corporation	286,875.00	28,687,500.00
3	Asian Development Bank	286,875.00	28,687,500.00
4	HDFC Investments Ltd (India)	239,062.00	23,906,200.00
5	Mr. Ibrahim Naeem	1	100.00
6	Ms. Raheema Saleem	1	100.00
7	Mr. Hamid Yoosuf	1	100.00
8	Mr. Mohamed Shahudy	1	100.00
9	Ms. Aishath Rasheeda	1	100.00
10	Mr. Mohamed Fathy	1	100.00
11	Mr. Mohamed Hamdan Fahumy	1	100.00
12	Mr. Ahmed Anwar	1	100.00
13	Mr. Nahid Idrees	1	100.00
14	Expat MD	1	100.00
	<b>TOTAL</b>	<b>1,593,750.00</b>	<b>159,375,000.00</b>

Face Value of a share: MVR 100.00

## Board Membership And Its Composition

The Board consists of 5 nominee directors, three alternate directors and one Ex-officio who is the Managing Director, without voting right. Except for the Government of Maldives all the shareholders have one nominee director.

The Board members possess skill and experience and proven track records in housing finance and business administration and other diverse fields including banking, finance and business.

## Changes in Directorship

During the period under review Government of Maldives appointed Mr. Ismail Ali Manik and Mr. Mauroof Jameel as their Nominee Directors. Mr. Jameel continue to hold office while Mr. Manik has resigned. In addition during the year Mr. Nihal Welikala was appointed as the Nominee Director for IFC. The Managing Director, Dr. Priyanka Baddevithana, who was a non-voting director on the board left the company upon expiring his contract in September 2016. He served the company for 8 years.

## Role Of The Board And The Chairperson

HDFC Board is responsible for establishing the Company's policies and strategies and for regularly monitoring the effectiveness of the management and performance of the Company in carrying out those policies and strategies. HDFC Board is headed by the Chairperson, who ensures that the Board fulfils its obligations under the Company's Articles of Association and under the relevant laws and regulations, through effective leadership and guidance to the Board and the Company. The Board delegates responsibility for day to-day management of the Company to the Managing Director.

The Chairman to the Board of Directors is appointed on rotation. Mr. Ismail Ali Manik who was nominated as a director on 4th February, 2016 and was appointed as the Chairman of the Board of Directors on 6th February 2016. He held office until 19 April 2017.

## Board Meetings

The Board meets at least once in every three months to review the Company's performance and to address specific or urgent matters requiring Board direction and approval. Where appropriate, the Board liaises with senior management.

Directors	Attendance/No of meetings	
Mr. Ismail Ali Manik (GOM)	4/4	
Mr. Mohamed Mauroof Jameel (GOM)	1/1	Appointed on 22 Sept 2016
Mr. Hussain Suhail (GOM)	1/2	Removed
Mr. Conrad D'Souza (HDFC Investments)	4/4	
Mr. Sanjaya Gupta (ADB)	1/1	Resigned
Mr. Asif Cheema Saeed (ADB)	0/3	
Mr. Russell De Mel (IFC)	2/2	Resigned
Mr. Nihal Senanayake Welikala (IFC)	1/1	Appointed on 2 Nov 2016
Dr. ADP Baddevithana (HDFC/MD)	3/3	Contract expired on 5 Sep 16

## Annual General Meeting

The Annual General Meeting (AGM) of the Shareholders requires a quorum comprising of shareholders holding a majority of shares of the Company. The AGM is scheduled to be held on the 30th of April 2017 at Hotel Jen.



## Committees Of The Board

The Board has constituted three Committees, Audit Committee, Nomination and Remuneration Committee and Credit Risk Management Committee. In 2016 there were 4 Audit Committee meeting, and 3 Nominations and Remuneration meetings and no meeting was held for Credit Risk Management Committee.

## Audit Committee

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

### Objectives of the Committee

Key objectives of the Audit Committee is to assist the Board in fulfilling its overall responsibilities and shall include the following:

- Review the effectiveness of HDFC's internal risk control and risk management systems;
- Validate the integrity HDFC's interim and annual financial statements including the disclosures made and the context in which the financial statements have been prepared. In that respect the financials for the year ended 2016 was approved by the Audit Committee;
- Review and critically evaluate the accounting policies, including the consistency in the application of the policies, and any changes being recommended to the accounting policies;
- Engagement of internal and external auditors, and review of both the internal and external audit functions;
- Evaluate the independence and effectiveness of the work of the external auditors; and
- Ensure the compliance requirements are adhered to and are being reported on a timely manner.

Audit Committee shall have the mandate to investigate within its terms of reference, and shall have full discretion to invite any director or any officer to attend its meetings, and can utilise reasonable resources to enable it to discharge it's functions appropriately.

There were four meetings of the Audit Committee in 2016. Matters arising of the Audit Committee were also discussed across the Board. Membership and attendance details are as follows.

At present 3 directors form the Audit Committee, the Audit Committee composition and frequency of meetings are as follows.

With the resignation and appointment of Directors the Audit Committee has been re-constituted on the 21 May, 2016 with the following members.

Mr. Conrad D' Souza (HDFC Investments Ltd, India)	Chairman/Member
Mr. Russell De Mel (IFC)	Member
Mr. Ismail Ali Manik (GOM)	Member

In addition, due to some director's resignation from the Board, the Audit Committee has been reconstituted for the 2nd time on 27 November 2016 with the following members.

Mr. Conrad D'Souza (HDFC Investments Ltd, India)	Chairman
Mr. Mohamed Mauroof Jameel (GOM)	Member
Mr. Nihal Senanayake Welikala (IFC)	Member

Director	Attendance/No of meetings	
Mr. Conrad D' Souza (HDFC Investments Ltd., India)	4/4	
Mr. Russell De Mel (IFC)	2/2	Resigned
Mr. Nihal Welikala (IFC)	1/1	Appointed
Mr. Sanjaya Gupta (ADB)	1/1	Resigned
Mr. Asif Cheema (ADB)	0/3	
Mr. Hussain Suhail (GOM)	2/3	Removed
Mr. Mohamed Mauroof Jameel (GOM)	1/1	Appointed
Mr. Ismail Ali Manik (GOM)	4/4	

The committee in general deliberated on the following;

- Received the annual audited accounts for the year ended 31 December, 2016
- Received the interim audited accounts of 2016
- Reviewed the quarterly interal audit reports
- Reviewed the quarterly, compliance reports
- Reviewed the appointment of the internal auditors for 2017
- Reviewed the appointment of the external auditors for 2017
- Reviewed the budget for the year 2017

## Nomination And Remuneration Committee

The Nomination and Remuneration Committee was established in accordance with the Article 123 of the Association of HDFC Plc. and Article II Corporate Governance Section (b) of the Shareholders Agreement executed between the Shareholders on July 23, 2008. The Nomination and Remuneration Committee consists of 1 Director appointed by the Government of Maldives along with two international directors. The Nomination and the Remuneration Committee comprise of the following members in 2016.

Director	No of meetings
Mr. Ismail Ali Manik (Chairman)	3/3
Mr. Conrad D'Souza (Member)	3/3
Mr. Asif Saeed Cheema (Member)	0/3

The Committee has been re constituted on (26 Feb, 2017) with Mr. Ismail Ali Manik (Chairman), Mr. Conrad D' Souza and Mr. Gaurav Agarwal.

### Objectives of the Committee

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

- Set and review staff remuneration
- Review the organizational structure
- Endorse HR Policies
- Adopt best HR Practices for training, retention and development of staff
- Set and recommend new staff benefit schemes to the board
- Review, staff appraisals
- Identify and shortlist suitable candidates to be recruited to the senior level positions of the company.

### Summary of the key activities the committee undertook during the Year 2016

- Approved the withheld step up increment for Staff
- Deliberated on the Managing Directors' performance based bonus payment
- Deliberated on the Staff Bonus
- Approved Nomination of Shari'ah Committee Secretary
- Deliberated to recommend to the Board on the recruitment of a HR Consultant for Structural Human Resource re-organization assessment

## Credit Risk Management Committee

The Credit Risk Management Committee was established in accordance with the Article 123 of the Association of HDFC Plc. and Article II Corporate Governance Section (b) of the Shareholders Agreement executed between the Shareholders on July 23, 2008. The Credit Risk Committee consists of 1 Director appointed by the Government of Maldives along with two international directors. The Nomination and the Credit Risk Management Committee comprise of the following members.

Credit Risk Management Committee	
Mr. Nihal Welikala (IFC)	Chairman
Mr. Ismail Ali Manik (GOM)	Member
Mr. Gaurav Agarwal (ADB)	Member

### 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 discretions
- To receive and review reports on credit quality, risk management and policy/procedure adherence.
- To consider and approve general provisioning policies and specific provisions
- Carry out such other duties that may be delegated to it by the Board from time to time

Note: Credit Risk Management Committee did not hold any meeting during the year 2016. However, Credit Committee recommendation on credit appraisals exceeding MVR 5million (total customer exposure) is circulated electronically for risk evaluation and approval.

## Shari'ah Committee

The HDFC Amna Department is managed and systemised to ensure proper Shari'ah governance mechanism both within the department and among its shareholders. A Shari'ah Committee consisting of three members has been established to advise the Board of Directors of HDFC on Shari'ah related matters. Three meetings of the Shari'ah Committee was held. The Shari'ah Committee comprise of the following members.

Dr. Ibrahim Zakariyya Moosa	Chairman
Assoc. Professor Dr. Rusni Hassan	Member
Assoc. Professor Dr. Aishath Muneeza	Member
Mr. Azmeen Rasheed	Secretary (Since 14 April 16)

Director	No of meetings
Dr. Ibrahim Zakariyya Moosa (Chairman)	3/3
Assoc. Professor Dr. Rusni Hassan	1/3
Assoc. Professor Dr. Aishath Muneeza	3/3
Mr. Ibrahim Didi (Secretary till April)	1/1
Mr. Azmeen Rasheed (Secretary from April)	2/2

## Auditors

The retiring auditor, KPMG has been the statutory auditor for 2016 and are not eligible for re-appointment since they have completed 3 years of service. The retiring auditor, PWC has been the internal auditors for the last 3 years and will not be eligible for re-appointment as the firm has undertaken 3 years of internal audit.

## External Auditor

KPMG (Chartered Accountants) was appointed as the Company's External Auditors for 2016. KPMG conducted one 6 months audit, and 1 annual audit.

## Internal Auditor

PricewaterhouseCoopers was appointed as the Company's Internal Auditors for 2016. Four Internal Audit were conducted during the year.

## Declaration of Interests

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 conflicts of interest between his or her duties to HDFC, as stated in their individual profiles.

## 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 of 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 or 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.

## Acknowledgements

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



Mohamed Mauroof Jameel  
*Director*  
*Government of Maldives*

## 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 requirements of the Shareholders' 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.

## Sanctionable Practices

As Shareholders other than the International Investors, have pledged that none of their affiliates shall engage in any sanctionable practice 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 authorisations and otherwise stay in compliance with Applicable Law,
- Maintain adequate accounting, management, financial control, compliance and risk management systems,
- Created an Audit Committee, Remuneration Committee, and Credit Risk Management 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 Shareholders' 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 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 for detection 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 Ms. Aishath Rasheeda, Senior Manager- Credit as the AML Officer who reports directly to MMA.

## Information Rights

The Company furnishes the following information to its Shareholder;

- Audited Annual Financial Statements within 120 days after the end of each Financial Year, which is prepared in accordance with the International Financial Reporting Standard (IFRS).
- Within 45 days after the end of each quarter of each Financial Year, quarterly financial statements.

Under the RIGHT TO INFORMATION ACT OF MALDIVES (NO: 01/2014), the Company has appointed Mr. Mohamed Shafeeq, Head of Finance as the Information Officer. Each year he independently presents his report to the Information Commission.



## Report of the Shari'ah Committee

The Shari'ah Committee of HDFC Plc was established by the Board of Directors to advise HDFC Amna on the operations of its Islamic finance business in order to ensure that the activities do not involve any element which is non-Shari'ah compliant.

The Shari'ah Committee adheres to the Shari'ah opinions of Shari'ah Advisory Council of Maldives Monetary Authority (MMA) and its relevant directives.

The duties and responsibilities of Shari'ah Committee are to advise the Directors on the operations of the Islamic finance business of HDFC Amna to ensure that they do not involve any element which is not approved by Shariah.

The role of the Shari'ah Committee in monitoring the financing activities of HDFC Amna is as follows:

- i. To advise the Board of Directors on Shari'ah Matters
- ii. To endorse Shari'ah compliance manuals
- iii. To endorse and validate relevant documents
- iv. To provide written Shari'ah opinion

Based on the random cases reviewed and management representation, we, Dr. Ibrahim Zakariyya Moosa Dr. Rusni Binti Hassan and Dr. Aishath Muneeza, being the members of the Shari'ah Committee of HDFC Amna, do hereby confirm, that in our opinion, the operations of the HDFC Amna, to the extent that has been communicated to us, for the financial year ended 31 December 2016, to the best of our knowledge have been conducted in conformity with the Shari'ah principles.

 ..... <b>Dr. Ibrahim Zakariyya</b> (Chairperson)	 ..... <b>Dr. Rusni Binti Hassan</b> (Member)	 ..... <b>Dr. Aishath Muneeza</b> (Member)
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# Human Resources Development

“Our foundation, our team”



HDFC strongly believes that its staffs are key to driving performance and developing competitive advantage. The emphasis has been on proper recruitment of talent and empowerment while devoting resources for their continuous development. The Company aims to build a team of dedicated employees who work with passion and a sense of belongingness and play a defining role in accelerating the growth of the Company.

Our productivity is driven by our team. We value our employees and ensure roles and responsibilities are assigned as per the interest and specialisation of each employee. This has created a strong foundation of a dedicated and determined workforce. We focus on Financial Strength, Health and Security, Work life-balance and Personal Development.

## Providing Financial Strength

We provide financial assistance to all the staff to improve their living standards. As a responsible lending institution, HDFC provides a range of financial assistance to all permanent employees. Such assistance includes, home loans, personal loans and study loans.

## Health and Security

We offer free medical insurance to our employees which gives them security and permanence to continuously give their best. In 2016, a medical insurance was provided through Amana Takaful Insurance Company.

We are a member of the State Pension Scheme, whereby the employer's contribution of mandated 7% of the basic salary of each employee which provide as a security for them on their retirement.

## Training and Development

The Company conducts regular training and development sessions for our workforce to develop them as individuals and also prepare them to provide superior services to our customers in alignment with our objectives. HDFC aims to build dedicated employees who work with passion and play a defining role in accelerating the growth of the Company. During the year, training programs were designed, both in-house and international training through conferences and seminars and workshops held in Maldives such as Islamic Finance Forum.

## Performance bonus

HDFC align employees' performance with the Corporation's business priorities. For most employees, Bonus incentive is delivered through an annual incentive package. Bonus compensation ensures that each staff's pay is appropriately linked to individual and business performance, and is in line with Company's business growth.

## *Human rights in the workplace*

HDFC is committed to a workplace free from discrimination and harassment where all employees are treated equitably with dignity and respect. HDFC's Guidelines for Business Conduct describe the standards of behaviour required of all the employees and provide guidance on how to raise issues or concerns.

## *HDFC staff*

In an endeavour from HDFC's management to maintain continuous communication with its employees and enhance the positive relationship with them, the senior management of HDFC held number of meetings during 2016 to convey the vision, mission and strategies of the Company to them. Only thirty talented employee are the driving force behind HDFC's success. The Corporation strives to build strong relationships with its employees by providing them with enriched work experiences and opportunities for personal growth and success. HDFC appreciates effort and rewards results through bonus. We are working to make HDFC as a great place to work and enhance its ability to attract and retain talent.





## Technology

The impact of digital technology continues and has now become a mainstream factor determining success in everything from accounting to marketing. The industry is rapidly adjusting to consumers operating in a mobile, connected world. The Company fully acknowledges the importance of information technology in developing more flexible structure that can respond quickly to the dynamics of a fast changing market scenario. With focus on sophisticated product development, better market infrastructure, implementation of reliable techniques for control of risks and reach geographically distant markets has become a key component for HDFC.

During year 2016, implementation of Oracle E Business Suit is still in progress, once implemented fully, which would not only bring efficiency in operations but also help in attaining service excellence. In order to provide seamless services to our valued customers we have been equipped with back-up connectivity, while a comprehensive IT Security Policy has been put in place to ensure safety of customers' data and facilitate execution of the customer's transactions in a secured environment and to mitigate the risk involved in a disaster situation, Disaster Recovery protocols has been in place to ensure smooth conduct of customer services. Besides, to assist the management in day-to-day decision making, a robust Management Information System will be made available by the Company's IT Department once the Oracle E Business Suit begins to run on real time.

## Achievements

During the year 2016, the Company achieved a prestigious award for HDFC –Amna, the GOLD award for the Islamic Finance Turn-around Entity of the year, at the first Islamic Finance Forum of South Asia. This award was given based on HDFC Amna's performance in comparison to the year (2014 to 2015) which was a portfolio growth of 242%.



# *Audit Report 2016*

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

**FOR THE YEAR ENDED  
31ST DECEMBER 2016**

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

**FOR THE YEAR ENDED 31ST DECEMBER 2016**

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**KPMG**  
 (Chartered Accountants)  
 2<sup>nd</sup> Floor, H. Mialani  
 Sosun Magu,  
 Male',  
 Republic of Maldives.

Tel : +960 3310 420  
 +960 3310 421  
 +960 3310 422  
 +960 3323 393  
 Fax : +960 3323 175  
 E-mail : kpmgmvm@kpmg.com

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

**Opinion**

We have audited the accompanying financial statements of Housing Development Finance Corporation PLC (the "Company"), which comprise the statement of financial position as at 31<sup>st</sup> December 2016 and the statement of comprehensive income, changes in equity and cash flows for the year then ended and notes, comprising a summary of significant accounting policies and other explanatory information set out in pages 4 to 39.

In our opinion, the separate financial statements give a true and fair view of the financial position of the Company as at 31<sup>st</sup> December 2016 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

**Basis for Opinion**

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

**Key Audit Matter**

Key audit matter is this matter that, in our professional judgment, was of most significance in our audit of the financial statements of the current year. This matter was 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 this matter.

• **Impairment of loans and advances to customers**

(Refer to the significant accounting policies in note 3.7 (i) (2) of the financial statements).

Description	How the matter was addressed in our audit
Determining the adequacy of impairment allowance on loans and advances to customers is a key area of judgment for the management. Given the complexity and the high level of estimation uncertainty such as the identification of impairment events, the determination of appropriate parameters, the assumptions used in calculation of impairment and the significance of loans and advances to customers representing 96% of the total assets, the estimation of impairment on loans and advances to customers was considered to be a matter that require significant attention of us.	In this area, our audit procedures included, among others; <ul style="list-style-type: none"> <li>• Tested the accuracy and completeness of the key inputs to the impairment model.</li> <li>• Re-performed certain calculations over the computation of impairment provision.</li> <li>• Considered whether the disclosures in the financial statements appropriately reflect the Company's credit exposure.</li> </ul>

## **Other Information**

The Board of Directors (the "Board") is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

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

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

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

## **Responsibilities of the Board of directors for the Financial Statements**

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

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

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether these 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 skepticism throughout the audit. We also:

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



**Auditor's Responsibilities for the Audit of the Financial Statements (Continued)**

- Conclude on the appropriateness of the Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

The engagement partner on the audit resulting in this independent auditors' report is Mohamed Shameel.

**Mohamed Shameel**

**For and on behalf of KPMG**

26<sup>th</sup> February 2017

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

**FOR THE YEAR ENDED 31ST DECEMBER 2016**

	<b>Note</b>	<b>2016 Mrf.</b>	<b>2015 Mrf.</b>
Interest Income	<b>6</b>	121,228,951	114,146,641
Interest Expense	<b>6</b>	<u>(36,811,313)</u>	<u>(37,379,712)</u>
<b>Net Interest Income</b>	<b>6</b>	84,417,638	76,766,929
Net Income on Shari'ah Products	<b>7</b>	14,438,581	6,054,653
Fee Income	<b>8</b>	4,311,927	7,364,119
Other Income	<b>9</b>	<u>1,915,739</u>	<u>122,001</u>
<b>Operating Income</b>		105,083,885	90,307,702
Provision for Impairment Loss on Loans and Advances	<b>17.1</b>	(4,021,155)	(1,860,044)
Personnel Expenses	<b>10</b>	(9,596,634)	(10,439,354)
Other Operating Expenses	<b>11</b>	<u>(5,802,791)</u>	<u>(6,522,812)</u>
<b>Profit Before Tax</b>		85,663,305	71,485,492
Tax Expense	<b>12</b>	(13,363,900)	(10,942,716)
<b>Profit for the Year</b>		<u>72,299,405</u>	<u>60,542,776</u>
<b>Basic and Diluted Earnings Per Share</b>	<b>13</b>	<b>45.36</b>	<b>37.99</b>

Figures in brackets indicate deductions.

The Financial Statements are to be read in conjunction with the related notes which form an integral part of the Financial Statements of the Company set out on pages 8 to 39. The Report of the Independent Auditors is given on pages 1 to 3.

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

**AS AT 31ST DECEMBER 2016**

	Note	2016 MRf.	2015 MRf.
<b>ASSETS</b>			
Cash and Cash Equivalents	14	28,617,827	49,891,605
Financial Assets Held to Maturity	15	19,964,616	84,917,179
Derivative Asset	16	374,231	3,007,608
Loans and Advances to Customers	17	1,302,978,010	1,086,539,803
Property, Plant and Equipment	18	1,273,915	1,478,654
Intangible Assets	19	2,615	11,609
Deferred Tax Assets	12.2	51,431	48,101
Other Assets	20	8,531,000	11,359,556
<b>Total Assets</b>		<u>1,361,793,645</u>	<u>1,237,254,115</u>
<b>LIABILITIES</b>			
Deposits from Customers	21	64,503,773	59,436,466
Borrowings	22	672,080,123	609,453,952
Other Liabilities	23	149,545,819	107,132,961
Income Tax Payable		7,902,742	6,003,328
<b>Total Liabilities</b>		<u>894,032,457</u>	<u>782,026,707</u>
<b>EQUITY</b>			
Share Capital	24	159,375,000	159,375,000
Advance for Share Capital	24.4	51,407,100	51,407,100
General Reserve	25.1	15,000,000	15,000,000
Staff Education Reserve	25.2	1,284,754	1,731,381
Retained Earnings		240,694,334	227,713,927
<b>Total Equity</b>		<u>467,761,188</u>	<u>455,227,408</u>
<b>Total Liabilities and Equity</b>		<u>1,361,793,645</u>	<u>1,237,254,115</u>

The Financial Statements are to be read in conjunction with the related notes which form an integral part of the Financial Statements of the Company set out on pages 8 to 39. The Report of the Independent Auditors is given on pages 1 to 3.

These Financial Statements were approved by the Board of directors and signed on its behalf by:

Mr. Mohamed Shafeeq/ Head of Finance

**Name of the Director**

Mr. Ismail Ali Manik/ Chairman

Mr. Conrad D'Souza / Chairman of the Audit Committee

.....  
Signature  
.....  
.....

26th February 2017

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

**FOR THE YEAR ENDED 31ST DECEMBER 2016**

	<b>Share Capital</b>	<b>Advance for Share Capital</b>	<b>General Reserve</b>	<b>Staff Education Reserve</b>	<b>Retained Earnings</b>	<b>Total Equity</b>
	<b>MRf.</b>	<b>MRf.</b>	<b>MRf.</b>	<b>MRf.</b>	<b>MRf.</b>	<b>MRf.</b>
As at 1st January 2015	159,375,000	51,407,100	15,000,000	2,122,626	206,623,656	434,528,382
<b>Total Comprehensive Income</b>						
Profit for the Year	-	-	-	-	60,542,776	60,542,776
	-	-	-	-	60,542,776	60,542,776
Utilized during the Year	-	-	-	(391,245)	391,245	-
<b>Transactions with Owners, Recorded Directly in Equity</b>						
Dividend Paid (Note 24.3)	-	-	-	-	(39,843,750)	(39,843,750)
<b>Total Transactions with Owners, Recorded Directly in Equity</b>	-	-	-	-	(39,843,750)	(39,843,750)
As at 31st December 2015	<u>159,375,000</u>	<u>51,407,100</u>	<u>15,000,000</u>	<u>1,731,381</u>	<u>227,713,927</u>	<u>455,227,408</u>
As at 1st January 2016	159,375,000	51,407,100	15,000,000	1,731,381	227,713,927	455,227,408
<b>Total Comprehensive Income</b>						
Profit for the Year	-	-	-	-	72,299,405	72,299,405
	-	-	-	-	72,299,405	72,299,405
Utilized During the Year	-	-	-	(446,627)	446,627	-
<b>Transactions with Owners, Recorded Directly in Equity</b>						
Proposed Dividends (Note 24.3)	-	-	-	-	(31,875,000)	(31,875,000)
Dividend Paid (Note 24.3)	-	-	-	-	(27,890,625)	(27,890,625)
<b>Total Transactions with Owners, Recorded Directly in Equity</b>	-	-	-	-	(59,765,625)	(59,765,625)
As at 31st December 2016	<u>159,375,000</u>	<u>51,407,100</u>	<u>15,000,000</u>	<u>1,284,754</u>	<u>240,694,334</u>	<u>467,761,188</u>

Figures in brackets indicate deductions.

The Financial Statements are to be read in conjunction with the related notes which form an integral part of the Financial Statements of the Company set out on pages 8 to 39. The Report of the Independent Auditors is given on pages 1 to 3.

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

**FOR THE YEAR ENDED 31ST DECEMBER 2016**

	Note	2016 Mrf.	2015 Mrf.
<b>Cash Flow from Operating Activities</b>			
Profit Before Tax		85,663,305	71,485,492
<i>Adjustments for:</i>			
Depreciation on Property, Plant and Equipment	18	523,844	606,554
Provision for Impairment on Loan and Advances	17.1	4,021,155	1,860,044
Amortization of Intangible Assets	19	8,994	29,701
Gain on Disposals of Property, Plant and Equipment	9	-	(12,799)
Net Interest Income	6	(98,856,219)	(82,821,582)
<b>Operating Cash Flow Before Working Capital Changes</b>		<u>(8,638,921)</u>	<u>(8,852,590)</u>
<b>Working Capital Changes</b>			
Change in Loans and Advances to Customers		(218,050,132)	(143,358,681)
Change in Other Assets		2,828,556	(931,396)
Change in Other Liabilities		10,537,858	50,614,691
Change in Deposits from Customers		5,067,307	19,604,509
Change in Derivatives Held for Risk Management		2,633,377	7,471,758
<b>Cash Used in Operations</b>		<u>(205,621,955)</u>	<u>(75,451,709)</u>
Interest Received		143,261,396	120,800,219
Interest Paid	22	(45,085,930)	(41,019,036)
Income Tax Paid		(11,467,816)	(10,105,638)
<b>Net Cash Used in Operating Activities</b>		<u>(118,914,305)</u>	<u>(5,776,164)</u>
<b>Cash Flows from Investing Activities</b>			
Acquisition of Property, Plant and Equipment	18	(319,105)	(530,215)
Proceeds on Disposal of Property, Plant and Equipment		-	18,576
Investments Matured During the Year		64,826,185	28,349,883
<b>Net Cash from Investing Activities</b>		<u>64,507,080</u>	<u>27,838,244</u>
<b>Cash Flows from Financing Activities</b>			
Repayments of Borrowing During the Year	22	(128,416,184)	(145,149,846)
Borrowings During the Year	22	189,440,256	186,998,521
Dividend Paid	24.3	(27,890,625)	(39,843,539)
<b>Net Cash from Financing Activities</b>		<u>33,133,447</u>	<u>2,005,136</u>
<b>Net (Decrease)/ Increase in Cash and Cash Equivalents</b>		(21,273,778)	24,067,216
<b>Cash and Cash Equivalents at the Beginning of the Year</b>		49,891,605	25,824,389
<b>Cash and Cash Equivalents at End of the Year</b>	14	<u>28,617,827</u>	<u>49,891,605</u>

Figures in brackets indicate deductions.

The Financial Statements are to be read in conjunction with the related notes which form an integral part of the Financial Statements of the Company set out on pages 8 to 39. The Report of the Independent Auditors is given on pages 1 to 3.

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

**1. REPORTING ENTITY**

The Housing Development Finance Corporation PLC (the “Company”)/ “HDFC” is a Company incorporated as a Public Limited Liability Company under the Companies’ Act No. 10 of 1996, in the Republic of Maldives with its registered office at 4<sup>th</sup> floor, H Mialani, Sosun Magu, Male’, Republic of Maldives.

The Company engages in the business of granting housing loans for residential and commercial purpose.

**2. BASIS OF PREPARATION**

**(a) Statement of Compliance**

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

**(b) Basis of Measurements**

The financial statements have been prepared on the historical cost basis except for the following item, which are measured on an alternative basis.

<b>Items</b>	<b>Measurement Basis</b>
Derivative Financial instrument at fair value through profit or loss	Fair value

**(c) Functional and Presentation Currency**

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

**(d) Use of Estimates and Judgments**

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the Company’s financial statements is included in the respective notes.

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

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

**3. SIGNIFICANT ACCOUNTING POLICIES**

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

**3.1 Transactions in Foreign Currency**

Transactions in foreign currencies are translated into the functional currency of the Company at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the spot exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

**3.2 Interest Income and Expenses**

Interest income and expenses are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial Instrument, but not future credit losses.

The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the statement of comprehensive income includes interest on financial assets and financial liabilities measured at amortized cost calculated on an effective interest basis.

**3.3 Fees and Commission**

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including loan processing fees and fund management fees are recognized as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognized on a straight-line basis over the commitment period.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

**3.4 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.

**HOUSING DEVELOPMENT FINANCE CORPORATION PLC  
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.5 Tax Expense**

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognized in profit or loss.

**Current tax**

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date.

**Deferred tax**

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the tax rate enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits deductible temporary difference to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it no longer probable that the related tax benefits will be provided.

**3.6 Financial Assets and Financial Liabilities**

**(i) Recognition**

The Company initially recognizes loans and advances, deposits, debt securities issued and subordinated liabilities on the date at which they are originated. Regular way purchases and sales of financial assets are recognized on the trade date at which the Company commits to purchase or sell the asset. All other financial assets and liabilities are initially recognized on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, transaction costs that are directly attributable to its acquisition or issue.

**(ii) Classification**

Refer accounting policies 3(6), 3(7), 3(8) and 3(9).

**(iii) De-recognition**

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for de-recognition that is created or retained by the Company is recognized as a separate asset or liability in the statement of financial position.

**HOUSING DEVELOPMENT FINANCE CORPORATION PLC  
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.6 Financial assets and financial liabilities (Continued)**

**(iii) De-recognition (Continued)**

If the Company enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them, then the transferred assets are not derecognised. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

In transactions in which the Company neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Company continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions the Company retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the de recognition criteria. An asset or liability is recognised for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The Company de recognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

**(iv) Offsetting**

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to set off the recognized amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a Company of similar transactions such as in the Company's trading activity.

**(v) Amortised cost Measurement**

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

**(vi) Fair value Measurement**

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.

When available, the Company measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.7 Measurement of Impairment**

**(i) Impairment of Financial assets**

**(a) Non-derivative Finance Assets**

The finance assets not classified as at fair value through profit or loss is assessed at each reporting date to determine whether there is an objective evidence that it is impaired. A finance asset is impaired if there is objective evidence of impairment as a result of one or more event that occurs after the initial recognition of the asset, and that loss event (s) had an impact on the estimates future cash flows of that asset that can be estimated reliably.

Objective evidence that financial asset are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indicating that a debtor or issuer will enter bankruptcy, adverse changes in the payment status borrowers or issuers, cash flow difficulties experienced by the borrower, breach of loan covenants or conditions, deterioration in the value of collateral and economic condition that correlate of with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline it its fair value below its cost is objective evidence of impairment. Loans, where interest or principal repayment is past due for 90 days or more, are identified by the Company as non-performing loans.

**(b) Financial assets measured at amortised cost**

The Company considers evidence of impairment for finance assets measured at amortised cost loan and receivables and held-to-maturity investment at both a specific assets and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Company uses historical trend of the probability of default, the timing of the recoveries and the amount of loss incurred, adjusted for management' judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the different between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit and loss and interest on the impaired asset continued to be recongnised.

**(ii) Impairment of Non-Financial Assets**

The carrying amounts of the Company's non-financial assets and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognized.

**HOUSING DEVELOPMENT FINANCE CORPORATION PLC  
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.7 Measurement of Impairment (Continued)**

**(iii) De-recognition of Impairment Provision**

When an event occurring after the impairment was recognized causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

**3.8 Cash and Cash Equivalents**

Cash and cash equivalents include notes and coins on hand and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

**3.9 Loans and Advances**

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Company does not intend to sell immediately or in the near term.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except when the Company chooses to carry the loans and advances at fair value through profit or loss.

**3.10 Held-To-Maturity Investments**

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Company has the positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss or as available for sale.

Held-to-maturity investments are carried at amortized cost using the effective interest method. A sale or reclassification of more than an insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available for sale, and would prevent the Company from classifying investment securities as held to maturity for the current and the following two financial years.

However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- Sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value.
- Sales or reclassifications after the Company has collected substantially all of the asset's original principal.
- Sales or reclassifications attributable to non-recurring isolated events beyond the Company's control that could not have been reasonably anticipated.

**3.11 Derivative assets**

Derivatives assets include all derivative assets and liabilities that are not classified as trading assets or liabilities.

When a derivative is not held for trading, all changes in fair value are recognized immediately in profit or loss.

**HOUSING DEVELOPMENT FINANCE CORPORATION PLC  
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.12 Property, Plant and Equipment**

**(i) Recognition and Measurement**

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within other income in profit or loss.

**(ii) Subsequent Costs**

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

**(iii) Depreciation**

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative periods are as follows:

Leasehold Improvements	10 Years
Furniture and Fixture	5 Years
Computer Equipment	5 Years
Motor Vehicles	4 Years
Office Equipment	3 - 8 Years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

**HOUSING DEVELOPMENT FINANCE CORPORATION PLC  
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.13 Intangible Assets**

**(i) Recognition and Measurement**

Intangible assets that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses.

**(ii) Subsequent Expenditure**

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in profit or loss when incurred.

**(iii) Amortization**

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

Computer Software	Over 4 year
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Amortization methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

**3.14 Deposits and Subordinated Liabilities**

Deposits and subordinated liabilities are the Company's sources of debt funding. The Company classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

Deposits and subordinated liabilities are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Company chooses to carry the liabilities at fair value through profit or loss.

**3.15 Provisions**

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost' of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on the assets associated with that contract.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.16 Employee Benefits**

**(i) Defined Contribution Plans**

A defined contribution plan is a post-employment benefit plan under which Company pays fixed contributions and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss when they are due.

The Company contributes to the Maldives Retirement Pension Fund. All the local employees of HDFC are the members of this Fund to which the Company contributes 7% of employees' monthly basic salary. This contribution is recognized as employee benefit expense when they are due.

**(ii) Short-Term Benefits**

Short-term employee benefit obligations of the Company are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

**3.17 Operating Expenses**

All operating expenses incurred in the running of the Company and in maintaining the capital assets in a state of efficiency has been charged to the revenue in arriving at profits or loss for the period.

Expenses incurred for the purpose of acquiring, expending or improving assets of a permanent nature by means of which to carry on the business or for the purpose of increasing the earning capacity of the Company have been treated as capital expenses.

Gains or losses of a revenue nature on the disposal of property and equipment have been accounted for in the profit or loss.

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.

**3.18 Segment Reporting**

An operating segment is a component of the Company that engages in business activities from which it may earn revenue and incur expenses, whose operating results are reviewed regularly by the chief operating decision maker and for which discrete financial information is available. The Company's operations are looked at as a single operating segment.

**HOUSING DEVELOPMENT FINANCE CORPORATION PLC  
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**4. DETERMINATION OF FAIR VALUES**

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities.

Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

**(i) Trade and other receivables**

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

**(ii) Financial liabilities (Non-derivative)**

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases, the market rate of interest is determined by reference to similar lease agreements.

**5. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED**

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1<sup>st</sup> January 2017. The Company is currently in the process of evaluating the potential impact these standards and interpretation may have on the financial statements.

- Amendment to IAS 1 – Disclosure Initiative.
- IFRS 9 – Financial Instruments.
- IFRS 15 – Revenue from contracts with customers.
- IFRS 16 - Leases

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**FOR THE YEAR ENDED 31ST DECEMBER 2016**

<b>6 NET INTEREST INCOME</b>	<b>2016</b>	<b>2015</b>
	<b>MRf.</b>	<b>MRf.</b>
<b>Interest Income</b>		
Housing Loans	120,720,395	111,579,951
Treasury Bill and Other Bank Deposits	508,556	2,566,690
<b>Total Interest Income</b>	<u>121,228,951</u>	<u>114,146,641</u>
<b>Interest Expense</b>		
Deposits from Customers	1,060,440	957,586
Borrowings	33,544,308	33,955,171
Bonds	2,206,565	2,466,955
<b>Total Interest Expense</b>	<u>36,811,313</u>	<u>37,379,712</u>
<b>Net Interest Income</b>	<u>84,417,638</u>	<u>76,766,929</u>
<b>7 NET INCOME ON SHARI'AH PRODUCTS</b>	<b>2016</b>	<b>2015</b>
	<b>MRf.</b>	<b>MRf.</b>
Revenue from Housing Facilities	22,801,868	7,940,809
Revenue from Short Term Investments	249,563	627,505
Fee Income	1,263,866	1,413,521
Amna Investors' Profit Share	(9,876,716)	(3,927,182)
	<u>14,438,581</u>	<u>6,054,653</u>
<b>8 FEE INCOME</b>	<b>2016</b>	<b>2015</b>
	<b>MRf.</b>	<b>MRf.</b>
SWAP Commitment Fees ( <b>Note 8.1</b> )	2,350,101	3,676,410
Housing Loan Processing Fee ( <b>Note 8.2</b> )	1,357,984	1,861,142
Management Fee ( <b>Note 8.3</b> )	603,842	666,609
	<u>4,311,927</u>	<u>6,204,161</u>

**8.1 SWAP Commitment Fees**

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

In the initial SWAP agreement signed in 2009, the commitment fees, as stipulated in the agreement was 1% per annum.

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

**8.2 Housing Loan Processing Fee**

Housing Loan Processing Fee is computed based on the approved loan value subject to a maximum amount of MRf. 50,000/-.

**8.3 Management Fee**

Management Fee is computed based on the outstanding due to Ministry of Housing and Urban Development fund as at the end of each month at a rate of 1.75% per annum.

**HOUSING DEVELOPMENT FINANCE CORPORATION PLC  
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 31ST DECEMBER 2016**

<b>9</b>	<b>OTHER INCOME</b>	<b>2016</b>	<b>2015</b>
		<b>MRf.</b>	<b>MRf.</b>
	Penalty Income on Late Payments	1,809,366	1,159,958
	Insurance Commission	106,373	109,202
	Gain on Disposal of Property, Plant and Equipment	-	12,799
		<u>1,915,739</u>	<u>1,281,959</u>
<b>10</b>	<b>PERSONNEL EXPENSES</b>	<b>2016</b>	<b>2015</b>
		<b>MRf.</b>	<b>MRf.</b>
	Salaries	5,703,858	6,542,349
	Allowances and Bonus	3,337,984	3,401,590
	Staff Insurance	100,800	102,150
	Pension Contribution	273,965	310,474
	Amortization of Prepaid Staff Cost	180,027	82,791
		<u>9,596,634</u>	<u>10,439,354</u>
<b>11</b>	<b>OTHER OPERATING EXPENSES</b>	<b>2016</b>	<b>2015</b>
		<b>MRf.</b>	<b>MRf.</b>
	Professional Fees	1,273,990	985,101
	Premises, Equipment and Establishment Expenses	1,145,218	1,287,188
	Board, Remuneration and Meeting Expenses	582,024	830,213
	Advertising and Marketing Expenses	207,966	378,261
	Depreciation on Property, Plant and Equipment	523,844	606,554
	Amortization on Intangible Assets	8,994	29,701
	Communication Expenses	297,037	359,524
	Printing and Stationary Expenses	179,615	154,763
	Bank Charges	145,149	386,149
	Other Expenses	1,438,954	1,505,358
		<u>5,802,791</u>	<u>6,522,812</u>
<b>12</b>	<b>TAX EXPENSE</b>	<b>2016</b>	<b>2015</b>
		<b>MRf.</b>	<b>MRf.</b>
	Tax Expense ( <b>Note 12.1</b> )	13,367,230	10,928,976
	(Recognised)/ Reverse of Deferred Tax Asset ( <b>Note 12.2</b> )	(3,330)	13,740
		<u>13,363,900</u>	<u>10,942,716</u>

In accordance with the provisions of the Business Profit Tax Act No. 5 of 2011 and subsequent amendments and the regulations thereto, the Company is liable for income tax on its taxable income at the rate of 15%.

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**FOR THE YEAR ENDED 31ST DECEMBER 2016**

**12 TAX EXPENSE (CONTINUED)**

<b>12.1 Reconciliation Between Accounting Profit and Taxable Income:</b>	<b>2016 MRf.</b>	<b>2015 MRf.</b>
Profit Before Tax	85,663,305	71,485,492
Aggregate Disallowable Items	6,455,707	5,169,206
Aggregate Allowable Items	(2,504,148)	(3,294,859)
Tax Free Allowance	(500,000)	(500,000)
Taxable Income	<u>89,114,864</u>	<u>72,859,839</u>
Income Tax @ 15%	<u>13,367,230</u>	<u>10,928,976</u>

<b>12.2 Deferred Tax Assets</b>	<b>2016 MRf.</b>	<b>2015 MRf.</b>
As at 1st January	48,101	61,841
Recognised/ (Reversed) During the Year	3,330	(13,740)
As at 31st December	<u>51,431</u>	<u>48,101</u>

Deferred Tax Assets are Attributable to the Following Temporary Differences:

	<u>31/12/2016</u>		<u>31/12/2015</u>	
	<b>Temporary Differences MRf.</b>	<b>Tax Effect MRf.</b>	<b>Temporary Differences MRf.</b>	<b>Tax Effect MRf.</b>
Property, Plant and Equipment	344,182	51,627	329,667	49,450
Intangible Asset	(1,308)	(196)	(8,994)	(1,349)
	<u>342,874</u>	<u>51,431</u>	<u>320,673</u>	<u>48,101</u>

**13 BASIC AND DILUTED EARNINGS PER SHARE**

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

	<b>2016</b>	<b>2015</b>
Profit for the Year Attributable to Shareholders (MRf.)	72,299,405	60,542,776
Weighted Average Number of Ordinary Shares in Issue	1,593,750	1,593,750
Basic and Diluted Earnings Per Shares (MRf.)	<u>45.36</u>	<u>37.99</u>

**14 CASH AND CASH EQUIVALENTS**

	<b>31/12/2016 MRf.</b>	<b>31/12/2015 MRf.</b>
Cash in Hand	9,500	9,500
Balances with Other Banks	28,608,327	49,882,105
	<u>28,617,827</u>	<u>49,891,605</u>

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**FOR THE YEAR ENDED 31ST DECEMBER 2016**

<b>15 FINANCIAL ASSETS HELD TO MATURITY</b>	<b>31/12/2016</b>	<b>31/12/2015</b>
	<b>MRf.</b>	<b>MRf.</b>
Investments in Treasury Bills ( <b>Note 15.1</b> )	19,964,616	59,847,413
General Investments	-	25,069,766
	<u>19,964,616</u>	<u>84,917,179</u>

**15.1** Treasury Bills will mature on 16th and 23rd January 2017 and carry an interest rate of 3.5% per annum.

<b>16 DERIVATIVE ASSET</b>	<b>31/12/2016</b>	<b>31/12/2015</b>
	<b>MRf.</b>	<b>MRf.</b>
Opening Balance	3,007,608	10,479,366
Fair Value Realized During the Year	(2,633,377)	(7,471,758)
Closing Balance	<u>374,231</u>	<u>3,007,608</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 profit/ (loss).

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

<b>17 LOANS AND ADVANCES TO CUSTOMERS</b>	<b>31/12/2016</b>	<b>31/12/2015</b>
	<b>MRf.</b>	<b>MRf.</b>
Housing Loans to Customers	1,067,654,331	975,931,470
Housing Loans to Staff	5,841,408	3,198,299
Amna Assets	247,487,479	121,394,087
	<u>1,320,983,218</u>	<u>1,100,523,856</u>
Less: Impairment Provision for loans and advances ( <b>Note 17.1</b> )	(18,005,208)	(13,984,053)
	<u>1,302,978,010</u>	<u>1,086,539,803</u>

**17.1 Impairment Provision for loans and advances**

Opening Balance	13,984,053	12,124,009
Provision made for the Year	4,021,155	1,860,044
Closing Balance	<u>18,005,208</u>	<u>13,984,053</u>

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**18 PROPERTY, PLANT AND EQUIPMENT**

	<b>Leasehold Improvements MRf.</b>	<b>Office Equipment MRf.</b>	<b>Computer Equipment MRf.</b>	<b>Furniture and Fixtures MRf.</b>	<b>Motor Vehicles MRf.</b>	<b>Total 2016 MRf.</b>	<b>Total 2015 MRf.</b>
<b>Cost</b>							
As at 1st January	1,006,144	896,377	2,413,136	630,773	66,250	5,012,680	4,698,087
Additions During the Year	-	4,697	156,948	157,460	-	319,105	530,215
Disposals During the Year	-	-	-	-	-	-	(215,622)
As at 31st December	<u>1,006,144</u>	<u>901,074</u>	<u>2,570,084</u>	<u>788,233</u>	<u>66,250</u>	<u>5,331,785</u>	<u>5,012,680</u>
<b>Accumulated Depreciation</b>							
As at 1st January	687,963	483,321	1,804,117	525,500	33,125	3,534,026	3,137,317
Charge for the Year	100,614	89,781	247,368	69,518	16,563	523,844	606,554
Disposals During the Year	-	-	-	-	-	-	(209,845)
As at 31st December	<u>788,577</u>	<u>573,102</u>	<u>2,051,485</u>	<u>595,018</u>	<u>49,688</u>	<u>4,057,870</u>	<u>3,534,026</u>
<b>Net Carrying Value</b>							
As at 31st December 2016	<u>217,567</u>	<u>327,972</u>	<u>518,599</u>	<u>193,215</u>	<u>16,562</u>	<u>1,273,915</u>	
As at 31st December 2015	<u>318,181</u>	<u>413,056</u>	<u>609,019</u>	<u>105,273</u>	<u>33,125</u>		<u>1,478,654</u>

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<b>19 INTANGIBLE ASSETS</b>	<b>31/12/2016</b>	<b>31/12/2015</b>
	<b>MRf.</b>	<b>MRf.</b>
<b>Cost</b>		
Opening Balance	744,214	744,214
Additions During the Year	-	-
Closing Balance	<u>744,214</u>	<u>744,214</u>
<b>Accumulated Amortization</b>		
Opening Balance	732,605	702,904
Amortization During the Year	8,994	29,701
Closing Balance	<u>741,599</u>	<u>732,605</u>
<b>Net Book Value</b>	<u>2,615</u>	<u>11,609</u>

The purchase cost of accounting software has been recognized as an intangible asset and is amortized over a period of four years.

<b>20 OTHER ASSETS</b>	<b>31/12/2016</b>	<b>31/12/2015</b>
	<b>MRf.</b>	<b>MRf.</b>
Accounts Receivable	354,372	1,917,166
Pre-payment of Fees	7,882,935	8,048,161
Advance Paid to Supplier	-	745,446
Advances to Staff	293,693	648,783
	<u>8,531,000</u>	<u>11,359,556</u>

<b>21 DEPOSITS FROM CUSTOMERS</b>	<b>31/12/2016</b>	<b>31/12/2015</b>
	<b>MRf.</b>	<b>MRf.</b>
Monthly Installment Deposits (Note 21.1)	60,092,971	52,991,012
Borrowers Deposits	4,410,802	6,445,454
	<u>64,503,773</u>	<u>59,436,466</u>

**21.1 Monthly Installment Deposits**

Equated monthly installment deposits are held as contingency to settle the monthly installments of borrowings in case the borrower defaults the payment. These deposits carry fixed interest at 2.5% per annum.

<b>22 BORROWINGS</b>	<b>31/12/2016</b>	<b>31/12/2015</b>
	<b>MRf.</b>	<b>MRf.</b>
Opening Balance	609,453,952	567,317,419
Borrowings During the Year	189,440,256	186,998,521
Repayments During the Year	(128,416,184)	(145,149,846)
Interest Expenses for the Year	46,688,029	41,306,894
Interest Paid During the Year	(45,085,930)	(41,019,036)
Closing Balance	<u>672,080,123</u>	<u>609,453,952</u>

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**22 BORROWINGS (CONTINUED)**

**22.1 Sources of Funds**

International Finance Corporation	-	12,382,668
Asian Development Bank	-	10,674,422
Netherlands Development Finance Company (FMO) (Note 22.3)	64,344,552	85,818,942
Corporate Bonds (Note 22.4)	33,577,806	29,302,115
Wakala Facilities (Note 22.5)	122,316,295	76,186,632
Hongkong and Shanghai Banking Corporation Limited (Note 22.6)	45,635,711	75,126,595
Bank of Maldives (Note 22.7)	104,250,000	119,250,000
Listed Sukuk (Note 22.8)	23,521,619	23,320,939
Deutsche Investitions und Entwicklungs Gesellschaft MBH (DEG) (Note 22.9)	153,784,047	177,391,639
Bank of Ceylon (Note 22.10)	124,650,093	-
	<u>672,080,123</u>	<u>609,453,952</u>

**22.2 Maturity Analysis of Borrowings**

Payable Within One Year	301,732,248	181,849,307
Payable After One Year	370,347,875	427,604,645
	<u>672,080,123</u>	<u>609,453,952</u>

**22.3 Netherlands Development Finance Company (FMO)**

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 April 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.

**22.4 Corporate Bond**

During the year 2016, the Company has issued bonds for a value of MRF. 15,000,000 which are to be matured in 2017. These bonds carry an interest rate of 6% to 6.5%

**22.5 Wakala Facilities**

During 2012, Maldives Islamic Bank has invested MRF. 20,000,000/- with HDFC under a Wakalah arrangement with a profit target of 11.5% for a year of 12 months. This has been rolled over for the fifth term during 2016. Amana Takaful Maldives has invested a total of MRF. 10,000,000/- during 2012 under a wakalah arrangement with an annual profit target of 11.5% for a year of 12 months and out of this a facility for a value of MRF. 5,000,000 /- was settled during the year. Balance has been rolled over for the fourth term during 2016.

During 2015, Maldives Hajj Corporation Limited has invested MRF. 30,000,000/- with HDFC with a profit target of 8% per annum for 5 years. During 2015, Maldives Islamic Bank has invested MRF. 10,000,000/- under a wakalah arrangement with a profit 8.5% per annum for a year. Further, Amana Takaful Maldives has invested MRF. 5,000,000/- with a profit target of 8% for a year under wakalah for granting home financing facilities in accordance with the rules and principles of Sharia. These facilities were rolled over during the year for another year.

During the year 2016, Maldives Hajj Corporation Limited, Ayady Takaful Maldives, Amana Takaful Maldives has invested MRF. 30,000,000/- , MRF. 15,000,000/- and MRF. 5,000,000/- respectively with HDFC at a profit sharing ratio of 35% : 65% between HDFC and Investor.

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**22 BORROWINGS (CONTINUED)**

**22.6 Term Loan from The Hongkong and Shanghai Banking Corporation Limited (HSBC)**

The Company has obtained a loan of MRf. 150,000,000/- as 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% and repayable in ten semi annual installments commencing from six month after the first utilisation date. The loan is secured by a guarantee from the Government of Maldives.

**22.7 Term Loan from Bank of Maldives PLC**

The Company has obtained a loan of MRf. 150,000,000/- as 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 for 5-years, ending in 2018.

**22.8 Listed Sukuk**

The Company has issued transferrable Sukuk amounting to MRf. 22,566,000/- on 27th January 2014 at a price of MRf. 500/- per annum 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.

**22.9 Deutsche Investitions und Entwicklungs Gesellschaft MBH (DEG)**

The borrowings from DEG carry an interest at LIBOR + 5%. The loan is repayable in 18 half yearly installments commencing from 15th January 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.

**22.10 Bank of Ceylon - Male' Branch**

The Company has obtained a loan facility of MRf. 150,000,000/- as 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 an one year grace Year and ending in 2022.

**23 OTHER LIABILITIES**

	<b>31/12/2016 MRf.</b>	<b>31/12/2015 MRf.</b>
Ministry of Housing and Urban Development Fund (Note 23.1)	7,055,421	18,394,665
Ministry of Housing and Infrastructure Fund (Note 23.2)	86,214,588	70,000,000
Ministry of Housing and Infrastructure Social Housing Fund	8,299,408	5,275,217
Amounts Received from Customers in Advance	6,441,436	5,498,916
Dividends Payable	31,875,247	247
Insurance Premium Payable	9,059,076	7,279,139
Employees Pension Contribution	48,409	44,924
Accruals and Other Liabilities	552,234	639,853
	<u>149,545,819</u>	<u>107,132,961</u>

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**23.1 Ministry of Housing and Urban Development Fund**

HDFC manages and administers loan schemes under which HDFC, as a custodian receives funds from the Ministry of Housing and Urban Development (MHUD) and disburses such funds to beneficiaries. HDFC is paid management fees of 1.75% per annum on the outstanding balance of the loan at the end of every month. Undisbursed fund carries interest of 2.5% per annum.

**23.2 Ministry of Housing and Infrastructure Fund**

As per 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) and the Ministry of Housing and Urban Development Fund (MHUD) amounting to MRf. 40,000,000/- and MRf. 30,000,000/- respectively. The purpose of the fund is to construct houses in islands under HDFC Amna's Islamic outreach program and disburse such funds to beneficiaries. The initial Islamic Housing Fund approved for this program will be MRf. 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.

**24 SHARE CAPITAL**

**24.1 Authorized**

The authorized share capital comprises of 3,187,500 Ordinary Shares (2015: 3,187,500). All shares are at par value of MRf. 100/-.

**24.2 Issued and Fully Paid**

The issued and fully paid share capital comprises of 1,593,750 Ordinary Shares (2015: 1,593,750). All shares are at par value of MRf. 100/-.

**24.3 Dividends and Voting Rights**

The holders of Ordinary Shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at Shareholders' meetings of the Company.

Consequent to the decision taken by the Board of Directors of the Company, MRf. 17.50 per share is paid during the year ended 31<sup>st</sup> December 2016 as dividend out of the profits for the year ended 31<sup>st</sup> December 2015 totaling to an amount of MRf. 27,890,625/- (2015 paid : MRf. 39,843,750/-). In addition, MRf. 20/- per share totaling to an amount of MRf. 31,875,000/- is proposed and approved to be paid as interim dividend for the year ended 31<sup>st</sup> December 2016 on 27<sup>th</sup> November 2016.

**24.4 Advance for Share Capital**

Ministry of Finance and Treasury of Maldives has advanced MRf. 128,500,000/- to Housing Development Finance Corporation PLC on 11th January 2007. It is envisaged that the Ministry together with other equity partners will take up the increased share Capital of the Company. The Company has transferred MRf. 77,092,900/- to share capital and remaining will be converted to share capital in the future. Accordingly MRf. 51,407,100/- has been recorded as an advance for share capital.

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**25 RESERVES**

**25.1 General Reserve**

General reserve has been created by the discretion of the board of directors and will be utilized for any purpose decided by the board of directors.

**25.2 Staff Education Reserve**

The Company has created the staff education reserve for the purpose of providing finance assistance for higher education of HDFC staff members.

**26 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

**26.1 Overview**

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 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 practices.

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 risk.

**26.2 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. The credit risk is the most important risk for HDFC's business, management therefore carefully manages its exposure to the credit risk. Credit exposures arise principally from lending activities. There is also credit risk in off-balance sheet financial instruments, such as loan commitments.

The 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 / Acting 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.

**26.3 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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26 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

26.3 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 the credit risk. The most traditional of these is the obtaining security for 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 units that is financed by HDFC.

(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.

26.4 Impairment and Provisioning Policies

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

**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 31st December 2016 and 31st December 2015, 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.
- 95.59% of the loans and advances portfolio are considered to be neither past due nor impaired (2015: 97.25%);

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of loans and advances to customers.

	31/12/2016	31/12/2015
	Mrf.	Mrf.
Neither Past Due nor Impaired (Less than 30 days)	1,262,682,271	1,070,313,189
Past Due but Not Impaired (Outstanding 30 - 90 days)	49,010,598	7,414,935
Impaired (Outstanding for more than 90 days)	9,290,349	22,795,732
Gross Loans and Advances	1,320,983,218	1,100,523,856
Less: Provision for Impairment	(18,005,208)	(13,984,053)
Net Loans and Advances	<u>1,302,978,010</u>	<u>1,086,539,803</u>

During the year ended 31st December 2016, the Company's total value of loans and advances increased by 20.23% (2015: 15.41%) as a result of new disbursements of housing loans. In order to minimise the potential increase of credit risk exposure, HDFC focused more on lending house purchase and construction loans providing high value collateral and strong repayment capacity from employment, other business and rental income.

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**26 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

**26.4 Impairment and Provisioning Policies (Continued)**

**Maximum Exposure to Credit Risk Before Collateral Held or Other Credit Enhancements  
(Continued)**

*(a) Loans Neither Past Due nor Impaired*

Currently HDFC maintains an internal credit rating system for loans neither past due or impaired. Internal rating is calculated by taking total receipts for the Year (A) and total late penalty for the Year (B), and 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)	31/12/2016		31/12/2015	
		Loans to customers  MRf.	Percentage of Total Loans  MRf.	Loans to Customers  MRf.	Percentage of Total Loans  MRf.
A+	0.2%	1,264,834,119	100.00%	1,031,693,894	96.39%
A	0.2% to 0.5%	-	0.00%	10,635,368	0.99%
A-	0.5% to 1%	-	0.00%	6,513,665	0.61%
B+	1% to 1.5%	-	0.00%	5,036,014	0.47%
B	1.5% to 2%	-	0.00%	6,953,762	0.65%
C	above 2%	-	0.00%	9,480,486	0.89%
		<u>1,264,834,119</u>	<u>100%</u>	<u>1,070,313,189</u>	<u>100%</u>

*(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:

31st December 2016 (MRf. '000)	Male'	Hulhumale	Outer Atoll	Total
Past Due 31 - 60 days	10,735	32,928	3,352	47,015
Past Due 61 - 90 days	-	1,520	475	1,995
<b>Total</b>	<u>10,735</u>	<u>34,448</u>	<u>3,827</u>	<u>49,010</u>
31st December 2015 (MRf. '000)	Male'	Hulhumale	Outer Atoll	Total
Past Due 31 - 60 days	1,771	898	1,681	4,350
Past Due 61 - 90 days	414	2,164	487	3,065
<b>Total</b>	<u>2,185</u>	<u>3,062</u>	<u>2,168</u>	<u>7,415</u>

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26 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

26.4 Impairment and Provisioning Policies (Continued)

*(c) Loans and Advances Impaired*

The impaired loans and advances to customers before taking into consideration the cash flows from collateral held is MRF. 9,292,185/- (as compared to on 31st December 2015 when impaired loans and advances to customers were MRF. 22,795,732-).

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

31st December 2016 (MRF. '000)	Male'	Hulhumale'	Outer Atoll	Total
Impaired Loans	2,566	4,097	2,627	9,290
31st December 2015 (MRF. '000)	Male'	Hulhumale'	Outer Atoll	Total
Impaired Loans	14,505	3,767	4,524	22,796

26.5 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.

	31/12/2016 MRF.	31/12/2015 MRF.
Residential - Conventional	1,069,583,639	976,026,010
Residential - Islamic	247,487,490	120,257,411
Commercial	3,912,089	4,240,435
<b>Grand Total</b>	<b>1,320,983,218</b>	<b>1,100,523,856</b>

26.6 Market Risk

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

Non-trading portfolios primarily arise from the interest rate management of HDFC's housing and cost of funds.

The market risks arising from non-trading activities are concentrated in HDFC's Assets and Liabilities Management Committee (ALCO).

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**26 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

**26.7 Foreign Exchange Risk**

All the transactions except transactions carried out in local currency, Maldivian Rufiyaa (MRf.), 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\$ = MRf. 10.28/- to MRf. 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 forward contracts.

HDFC has borrowed US\$ 7.5 million from Asian Development Bank (ADB) and US\$ 4 million out of total US\$ 7.5 million from International Finance Corporation (IFC). HDFC also received share capital amount from foreign investors amounting to US\$ 6.875 million. The proceeds from these were sold to State Trading Organisation PLC (STO) for equivalent Rufiyaa at 1 US\$ = MRf. 12.85/-. HDFC has entered into a SWAP agreement with STO by which STO will sell equal amount of US\$ at the rate of 1 US\$ = 12.85/- MRf. to honour the US\$ requirement of HDFC.

HDFC has also borrowed balance US\$ 3.5 million out of total US\$ 7.5 million from International Finance Corporation (IFC) and US\$ 7 million from Netherlands Development Finance Company (FMO). HDFC has also borrowed US\$ 4.5 million from Deutsche Investitions- und (DEG). The proceeds from these were sold to State Trading Organisation PLC (STO) for equivalent Rufiyaa at 1 US\$ = MRf. 15.38/- and 1 US\$ = MRf. 15.42/- respectively. 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\$ = MRf. 15.38/- and MRf. 15.42/-.

By virtue of the SWAP agreement, HDFC will be able to service the US\$ loans obtained from ADB, IFC, FMO and DEG. As at the reporting date, the outstanding balance in borrowings, with regard to the money provided for this SWAP agreement, amounts to US\$ 14,066,176/-, against which the amounts of US\$ to be purchased from STO PLC is US\$ 13,950,791/-.

The Company's exposure to currency risk as at reporting date is as follows;

	<b>31/12/2016</b>	<b>31/12/2015</b>
	<b>US\$</b>	<b>US\$</b>
<b>Assets</b>		
Cash and Balances with Other Banks	(39,516)	92,027
Derivative Financial Instruments	24,269	195,046
Total Assets	<u>(15,247)</u>	<u>287,073</u>
<b>Liabilities</b>		
Borrowings	14,066,176	18,441,977
Total Liabilities	<u>14,066,176</u>	<u>18,441,977</u>
<b>Net on-Balance Sheet Financial Position</b>	<u>(14,081,423)</u>	<u>(18,154,904)</u>
<b>Commitments</b>	<u>13,950,791</u>	<u>19,538,268</u>
<b>Net</b>	<u><b>(130,632)</b></u>	<u><b>1,383,364</b></u>

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**26 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

**26.8 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

The extent of the interest rate risk depends on the value and year 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.

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 31st December 2016 (MRf. '000)*

	<b>1 Month</b>	<b>1-3 Months</b>	<b>3-12 Months</b>	<b>1-5 Years</b>	<b>Over 5 Years</b>	<b>Non - Interest Bearing</b>	<b>Total</b>
<b>Assets</b>							
Cash and Balances with Other Banks	13,640	-	-	-	-	14,977	28,617
Financial Assets Held to Maturity	19,965	-	-	-	-	-	19,965
Loans and Advances to Customers	4,041	8,201	38,968	270,287	983,575	-	1,305,072
Derivative Financial Instruments		374		-	-	-	374
Other Assets	-	-	-	-	-	6,365	6,365
<b>Total Financial Assets</b>	<b>37,646</b>	<b>8,575</b>	<b>38,968</b>	<b>270,287</b>	<b>983,575</b>	<b>21,342</b>	<b>1,360,393</b>
<b>Liabilities</b>							
Deposits from Customers	-	-	-	-	58,510	5,994	64,504
Borrowings	16,513	79,180	161,912	327,284	87,191	-	672,080
Other Liabilities	-	-	-	-	-	112,206	112,206
Bank Overdraft	-	-	-	-	-	-	-
<b>Total Financial Liabilities</b>	<b>16,513</b>	<b>79,180</b>	<b>161,912</b>	<b>327,284</b>	<b>145,701</b>	<b>118,200</b>	<b>848,790</b>
<b>Total Interest Repricing Gap</b>	<b>21,133</b>	<b>(70,605)</b>	<b>(122,944)</b>	<b>(56,997)</b>	<b>837,874</b>	<b>(96,859)</b>	<b>511,603</b>

*As at 31st December 2015 (MRf. '000)*

	<b>1 Month</b>	<b>1-3 Months</b>	<b>3-12 Months</b>	<b>1-5 Years</b>	<b>Over 5 Years</b>	<b>Non - Interest Bearing</b>	<b>Total</b>
<b>Assets</b>							
Cash and Balances with Other Banks	14,787	-	-	-	-	35,104	49,891
Financial Assets Held to Maturity	54,969	20,039	9,909	-	-	-	84,917
Loans and Advances to Customers	3,879	9,849	64,899	295,559	712,354	-	1,086,540
Derivative Financial Instruments	1,578	1,163	267	-	-	-	3,008
Other Assets	-	-	-	-	-	11,360	11,360
<b>Total Financial Assets</b>	<b>75,213</b>	<b>31,051</b>	<b>75,075</b>	<b>295,559</b>	<b>712,354</b>	<b>46,464</b>	<b>1,235,716</b>
<b>Liabilities</b>							
Deposits from Customers	-	-	-	-	50,719	8,717	59,436
Borrowings	19,177	40,288	120,696	347,833	81,460	-	609,454
Other Liabilities	-	-	-	-	-	113,136	113,136
<b>Total Financial Liabilities</b>	<b>19,177</b>	<b>40,288</b>	<b>120,696</b>	<b>347,833</b>	<b>132,179</b>	<b>121,853</b>	<b>782,026</b>
<b>Total Interest Repricing Gap</b>	<b>56,036</b>	<b>(9,237)</b>	<b>(45,621)</b>	<b>(52,274)</b>	<b>580,175</b>	<b>(75,389)</b>	<b>453,690</b>

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**26 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

**26.8 Interest Rate Risk (Continued)**

**Exposure to Interest Rate Risk – Loans and Advances**  
*Sensitivity Analysis of Net Interest Income*

	<u>31/12/2016</u> <u>1% Increase</u> <u>MRf.</u>	<u>31/12/2016</u> <u>1% Decrease</u> <u>MRf.</u>	<u>31/12/2015</u> <u>1% Increase</u> <u>MRf.</u>	<u>31/12/2015</u> <u>1% Decrease</u> <u>MRf.</u>
Average for the Year	<u>5,691,341</u>	<u>(5,691,341)</u>	<u>10,865,398</u>	<u>(10,865,398)</u>

**26.9 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.

**Liquidity Risk Management Process**

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

- a.) 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;
- b.) Maintaining a portfolio of deposits with bank and treasury bills that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- c.) Monitoring balance sheet liquidity ratios against internal requirements; and
- d.) 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 Years 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.

***Funding Approach***

Sources of liquidity are regularly reviewed by the ALCO.

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26 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

26.9 Liquidity Risk (Continued)

*Maturity Analysis of Financial Assets and Liabilities*

The table below set out the remaining contractual maturities of the Company's financial assets and financial liabilities.

<i>As at 31st December 2016 (MRf. '000)</i>	<b>Carrying Amount</b>	<b>Gross Nominal Inflow/ (Outflow)</b>	<b>1 Month</b>	<b>1-3 Months</b>	<b>3-12 Months</b>	<b>1-5 Years</b>	<b>Over 5 Years</b>
<b>Liabilities</b>							
Deposits	64,504	64,504	-	-	5,994	-	58,510
Borrowings	672,080	793,513	19,496	93,487	191,167	386,419	102,945
Other Liabilities	149,546	(149,546)	-	-	-	(149,546)	-
<b>Total Liabilities</b>	<b>886,130</b>	<b>708,471</b>	<b>19,496</b>	<b>93,487</b>	<b>197,160</b>	<b>236,873</b>	<b>161,455</b>
<b>Assets</b>							
<i>Non-Derivative Assets</i>							
Cash and Balances with Other Banks	28,618	28,618	28,618	-	-	-	-
Financial Assets Held to Maturity	19,965	20,000	20,000	-	-	-	-
Loans and Advances to Customers	1,302,978	2,468,281	16,934	33,868	152,407	1,016,043	1,249,029
Derivative Asset	374	374	374	-	-	-	-
Other Assets	8,531	6,365	-	-	-	6,365	-
<b>Total Assets</b>	<b>1,360,466</b>	<b>2,523,638</b>	<b>65,926</b>	<b>33,868</b>	<b>152,407</b>	<b>1,022,408</b>	<b>1,249,029</b>
<b>Net</b>		<b>3,232,109</b>	<b>85,422</b>	<b>127,355</b>	<b>349,567</b>	<b>1,259,281</b>	<b>1,410,484</b>
<b>As at 31st December 2015 (MRf. '000)</b>							
<i>As at 31st December 2015 (MRf. '000)</i>	<b>Carrying Amount</b>	<b>Gross Nominal Inflow/ (Outflow)</b>	<b>1 Month</b>	<b>1-3 Months</b>	<b>3-12 Months</b>	<b>1-5 Years</b>	<b>Over 5 Years</b>
<b>Liabilities</b>							
Deposits	59,436	(70,848)	-	-	(8,717)	-	(62,131)
Borrowings	609,454	(670,852)	(14,651)	(41,549)	(142,185)	(385,792)	(86,675)
Other Liabilities	113,136	(103,378)	-	-	-	(103,378)	-
<b>Total Liabilities</b>	<b>782,026</b>	<b>(845,078)</b>	<b>(14,651)</b>	<b>(41,549)</b>	<b>(150,902)</b>	<b>(489,170)</b>	<b>(148,806)</b>
<b>Assets</b>							
<i>Non-Derivative Assets</i>							
Cash and Balances with Other Banks	49,892	49,892	49,892	-	-	-	-
Financial Assets Held to Maturity	84,917	85,157	55,030	30,127	-	-	-
Loans and Advances to Customers	1,086,540	1,918,914	12,382	24,764	111,438	594,336	1,175,994
Derivative Asset	3,008	6,531	1,254	1,255	1,854	2,168	-
Other Assets	11,360	14,063	-	-	-	-	14,063
<b>Total Assets</b>	<b>1,235,717</b>	<b>2,074,557</b>	<b>118,558</b>	<b>56,146</b>	<b>113,292</b>	<b>596,504</b>	<b>1,190,057</b>
<b>Net</b>		<b>1,229,479</b>	<b>103,907</b>	<b>14,597</b>	<b>(37,610)</b>	<b>107,334</b>	<b>1,041,251</b>

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**26 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

**26.10 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.

The Asian Development Bank and International Finance Corporation require HDFC to maintain a ratio of total capital to the risk-weighted asset (the 'Basel ratio') at or above 10%.

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 31st December 2016. HDFC complied with all of the externally imposed capital requirements to which they are subjected.

	<b>31/12/2016</b>	<b>31/12/2015</b>
	<b>MRf.</b>	<b>MRf.</b>
<b>Capital</b>		
Share Capital	159,375,000	159,375,000
Advance for Share Capital	51,407,100	51,407,100
Retained Earnings	240,694,334	227,713,927
Reserves	16,284,754	16,731,381
<b>Total Qualifying Capital</b>	<u>467,761,188</u>	<u>455,227,408</u>
<b>Total Capital</b>	<u>467,761,188</u>	<u>455,227,408</u>
<b>Risk-Weighted Assets</b>		
On-Balance Sheet	670,280,209	571,382,788
<b>Total Risk-Weighted Assets</b>	<u>670,280,209</u>	<u>571,382,788</u>
<b>Basel Ratio</b>	<u>70%</u>	<u>80%</u>

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**26 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

**26.11 Analysis of Financial Instruments by Measurement Basis**

**As at 31st December 2016**

<b>Financial Assets</b>	<b>Fair Value Through Profit or Loss</b>	<b>Held-to-Maturity</b>	<b>Loan and Receivables</b>	<b>Total MRF.</b>
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 to Customers	-	-	1,302,978,010	1,302,978,010
<b>Total</b>	<b>374,231</b>	<b>19,964,616</b>	<b>1,331,595,837</b>	<b>1,351,934,684</b>

<b>Financial Liabilities</b>	<b>Other Liabilities</b>	<b>Total MRF.</b>
Borrowings	672,080,123	672,080,123
Deposits from Customers	64,503,773	64,503,773
<b>Total</b>	<b>736,583,896</b>	<b>736,583,896</b>

**As at 31st December 2015**

<b>Financial Assets</b>	<b>Fair Value Through Profit or Loss</b>	<b>Held-to-Maturity</b>	<b>Loan and Receivables</b>	<b>Total MRF.</b>
Cash and Cash Equivalents	-	-	49,891,605	49,891,605
Financial Assets Held to Maturity	-	84,917,179	-	84,917,179
Derivative Asset	3,007,608	-	-	3,007,608
Loans and Advances to Customers	-	-	1,086,539,803	1,086,539,803
<b>Total</b>	<b>3,007,608</b>	<b>84,917,179</b>	<b>1,136,431,408</b>	<b>1,224,356,195</b>

<b>Financial Liabilities</b>	<b>Other Liabilities</b>	<b>Total MRF.</b>
Borrowings	609,453,952	609,453,952
Deposits from Customers	59,436,466	59,436,466
<b>Total</b>	<b>668,890,418</b>	<b>668,890,418</b>

**26.12 Financial Instruments Measured at Fair Value – Fair Value Hierarchy**

The following table analyses financial instruments of HDFC measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position.

**As at 31st December 2016**

<b>Assets</b>	<b>Level 1 MRF.</b>	<b>Level 2 MRF.</b>	<b>Total MRF.</b>
Derivative Asset	-	374,231	374,231
<b>Total</b>	<b>-</b>	<b>374,231</b>	<b>374,231</b>

**As at 31st December 2015**

<b>Assets</b>	<b>Level 1 MRF.</b>	<b>Level 2 MRF.</b>	<b>Total MRF.</b>
Derivative Asset	-	3,007,608	3,007,608
<b>Total</b>	<b>-</b>	<b>3,007,608</b>	<b>3,007,608</b>

HDFC has used Level 2 in valuing Derivative Assets, since this is not trading in an active market and the input is observable. (Exchange rates are readily available at the market). The Company has used 1 US\$ = MRF. 15.42/- which is the exchange rate as at the reporting date.

HDFC has used the market value approach since the market price and other relevant information are generated by the market transactions that are available.

According to the information available, the valuation technique used, Inputs to valuation and Fair value Hierarchy have not significantly changed from the previous year and requirements imposed by IFRS 13.

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**26 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

**26.13 Fair Value Versus Carrying Amount**

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

	<u>31/12/2016</u> <b>Carrying Amount</b> <b>MRf.</b>	<u>31/12/2016</u> <b>Fair Value</b> <b>MRf.</b>	<u>31/12/2015</u> <b>Carrying Amount</b> <b>MRf.</b>	<u>31/12/2015</u> <b>Fair Value</b> <b>MRf.</b>
<b>Assets Carried at Fair Value</b>				
Derivative Asset	374,231	374,231	3,007,608	3,007,608
<b>Assets Carried at Amortized Cost</b>				
Cash and Cash Equivalents	28,617,827	28,617,827	49,891,605	49,891,605
Financial Assets Held to Maturity	19,964,616	19,964,616	84,917,179	84,917,179
Loans and Advances to Customers	1,302,978,010	1,302,978,010	1,086,539,803	1,086,539,803
	<u>1,351,560,453</u>	<u>1,351,560,453</u>	<u>1,221,348,587</u>	<u>1,221,348,587</u>
<b>Liabilities Carried at Amortized Cost</b>				
Deposits from Customers	64,503,773	64,503,773	59,436,466	59,436,466
Borrowings	672,080,123	672,080,123	609,453,952	609,453,952
	<u>736,583,896</u>	<u>736,583,896</u>	<u>668,890,418</u>	<u>668,890,418</u>

The methods and assumptions used to estimate the fair value of the financial instruments not carried at fair value are as follows:

- a) Cash and cash equivalents - The carrying amount of cash and cash equivalents approximate its fair value due to the relatively short maturity of the financial instruments.
- b) Financial Assets Held to Maturity - The carrying amount of Financial Assets Held to Maturity approximate its fair value due to the relatively short maturity of the financial instruments.
- c) Loan and advance to customers - The fair values of fixed rate loans and advances with remaining maturity of less than one year are estimated to approximate their carrying amounts. For fixed rate loans with remaining maturity of more than one year, the fair values are estimated based on discounted cash flows using market rates of loans of similar credit risks and maturity. The fair values of impaired loans are represented by their carrying amounts, net of any individual assessment allowance, being the expected recoverable amount.
- d) Deposits from customers and Borrowings - borrowings have variable interest rates determined under the contract, which reflects the current market interest rate. Hence the carrying amount of such financial instrument approximates its fair value.

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**27 RELATED PARTY TRANSACTIONS**

Name of Related Party	Relationship	Nature of Transactions	Amount	Amount	Balance	Balance
			2016 MRF.	2015 MRF.	Due from/ (to) As at 31/12/2016 MRF.	Due from/ (to) As at 31/12/2015 MRF.
Asian Development Bank	Shareholder (18%)	Loan Repayments	10,524,150	21,025,170	-	(10,674,422)
		Interest for the Year	(54,721)	(672,438)	-	-
		Interest Paid	204,994	-	-	-
		Dividend Paid	5,020,313	7,171,875	-	-
Government of Maldives	Shareholder (49%)	Dividend Paid	13,666,240	19,523,200	-	-
International Finance Corporation	Shareholder (18%)	Loan Repayments	12,164,667	24,329,333	-	(12,382,668)
		Interest for the Year	(17,953)	(675,963)	-	-
		Interest Paid	235,954	-	-	-
		Dividend Paid	5,020,313	7,171,875	-	-
HDFC Investments Limited (India)	Shareholder (15%)	Dividend Paid	4,183,585	5,976,550	-	-
		Payments	-	-	-	-

**27.1 Transactions with Key Management Personnel**

The Managing Director, Board of Directors, Chief Financial Officer and Operational Director/ Secretary of the Company are the members of the key management personnel. The Company has paid MRF. 2,446,002/- (2015: MRF.3,344,306/-) to the key management personnel during the six month year ended 31st December 2016 as follows,

	31/12/2016 MRF.	31/12/2015 MRF.
Executive Management Salaries (Note 27.2)	2,351,002	3,288,306
Sitting Fees	95,000	56,000
	<u>2,446,002</u>	<u>3,344,306</u>
<b>27.2 Executive Management Salaries</b>		
Managing Director	1,541,743	2,312,433
Operations Director/ Company Secretary	529,405	541,528
Chief Financial Officer/ Head of Finance	279,854	434,345
	<u>2,351,002</u>	<u>3,288,306</u>

**28 EVENTS SUBSEQUENT TO THE REPORTING DATE**

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

**29 DIRECTORS' RESPONSIBILITIES**

The board of directors' of the Company is responsible for the preparation and presentation of these Financial Statements.

**30 COMPARATIVE FIGURES**

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

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31	COMMITMENTS	31/12/2016 MRF.	31/12/2015 MRF.
31.1	Undrawn/ Partly Drawn Facilities of Contracted Loans and Advances	<u>25,559,744</u>	<u>150,185,038</u>
31.2	Operating lease Commitment	31/12/2016 MRF.	31/12/2015 MRF.
	Not later than one year	780,000	660,000
	Later than one year and not later than five years	1,120,000	775,000
		<u>1,900,000</u>	<u>1,435,000</u>

32 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.

33 OPERATING SEGMENTS

33.1 The Company's operations are solely providing Housing loans. The operations of the Company are looked at as a single operating segment.

33.2 Geographical Information

Housing facilities and their corresponding interest income/ Profit Share based on geographical location is as follows;

<b>Interest Income/ Profit Share</b>	<b>31/12/2016 MRF.</b>	<b>31/12/2015 MRF.</b>
Male	92,039,074	80,472,744
Hulhumale	39,708,780	27,234,543
Other Atolls	11,579,957	11,813,473
	<u>143,327,811</u>	<u>119,520,760</u>
<b>Housing Facilities (Gross)</b>	<b>31/12/2016 MRF.</b>	<b>31/12/2015 MRF.</b>
Male	812,848,621	755,583,729
Hulhumale	400,618,828	248,862,272
Other Atolls	107,515,769	96,077,855
	<u>1,320,983,218</u>	<u>1,100,523,856</u>

33.3 Major Customer

Since the Company provides housing loans to a large customer base, the Company does not have major individual customers who account for more than 10% of the entire revenue.



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