



10 years  
improving lives  
Celebrating 10th anniversary, 2004-2014

Annual Report  
2013



Housing Development Finance Corporation Plc.  
Male', Maldives



# Annual Report 2013



## **Housing Development Finance Corporation Plc.**

Registered Address: 4th Floor, H.Mialani, Sosun Magu, Male', Rep. Of Maldives.

Telephone: 3338810 / 3315896 / 3315897 Fax: 3315138

Email: [info@hdfc.com.mv](mailto:info@hdfc.com.mv)

## **HDFC Plc.**

Annual Report 2013

Published: May 2014

### **Housing Development Finance Corporation Plc.**

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)

## Content

Vision, Mission and Pledge.....	4
Chairman’s Statement.....	5
Company Overview.....	7
HDFC AMNA.....	9
Corporate Information.....	10
Board of Directors.....	11
Profile of HDFC Plc’s Board.....	12
Profile of Members of the Management Team.....	17
HDFC Corporate Social Responsibility.....	20
HDFC Plc CSR framework.....	20
Community participation.....	22
Directors’ Report.....	23
Financial overview.....	23
Dividend.....	24
Business overview.....	24
Risk Management.....	27
Business Outlook for 2014.....	28
Directors’ responsibility statement.....	29
Change in Directorship.....	29
Auditors.....	30
Acknowledgement.....	30
Corporate Governance.....	31
Audit Committee Report.....	38
Nomination and Remuneration Committee Report.....	41
Report of the Shari’ah Committee.....	44
Managing Director’s Report.....	45
Achievements of a decade 2004- 2014.....	47
Going Beyond Responsible Finance.....	48
Strategizing for Social Performance.....	50
Situation on the National Housing Policy.....	53
Human Resource Development.....	55
Going forward... ..	57
Accolades.....	58
Appreciation.....	59
Audit Report 2013.....	60



improving lives  
Celebrating 10th anniversary, 2004-2014



## Annual Report 2013

HDFC Plc. of the Maldives proudly presents our successful journey of a decade, adding value to the lives of tens of thousands of people.

We are privileged to be the nation's only specialized provider of housing finance for people to live in a decent home in a safe and healthy environment.

We are Global Partners of IFC's Community of Practitioners of Responsible Finance adhering to the principles of client protection to give a sustainable solution that is the best-fit for our customers to make their dream home a reality.

We understand that our success depends on the quality of our Board of Directors, Controlling Shareholders, Management and Staff, and strive to raise the bar at every opportunity so that we could progressively add best value to our customers, and uplift their living standards.

We relentlessly work with passion and dedication to improve lives of the people in the Maldives who mean more than simply customers to us. As we complete a decade, we are proud to call them "Members of the HDFC Family."

# Housing Development Finance Corporation Plc

---

## 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 to become 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

HDFC would strive hard and explore all avenues to:

Provide a solution to every single customer.

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

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

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

## Chairman's Statement

The World Economic Outlook Report, 2014 contends that the year 2013 ended on a slightly positive note as global growth picked up in the second half of the year. This augurs well for the Maldives, which is an economy largely dependent on global tourism. On the other hand, there remain concerns for the Maldivian economy given that most emerging market economies have slowed down.

Despite the global outlook for emerging markets, the Maldives was able to expand its economic activity, bolstered by a continued strong trend in tourism. Tourism in the Maldives achieved a breakthrough in 2013, by crossing its annual target of one million tourists ahead of the year end, in November 2013 itself. The tourism sector grew by 15% in 2013 over the previous year. The other major sector -- fisheries, which was depressed in 2012, showed signs of improvement in 2013. The construction sector, which also recorded a prolonged poor performance from the beginning of 2012 to the third quarter of 2013, revived in the last quarter of 2013. This was due to increased imports of wood, metal, cement and other construction materials. The construction sector was also boosted with a strong growth in bank credit, particularly in the last of quarter of 2013.

Inflation in the Maldives reached a record high in 2012, spiking to 17%. However, inflation declined to 10% by mid-2013 and decelerated further in the last quarter. According to the December 2013 Economic Bulletin published by the Maldives Monetary Authority, the main area of concern in the banking sector was the high level of non-performing loans (NPLs). Although an improved position compared to the previous year, the banking sector recorded an NPL ratio of 16.7% in December 2013. It is evident that although the mortgage loan sector (where HDFC is a prominent player) functions outside the direct risk environment as compared to mainstream banking operations, the fallout of a bad credit culture could have an adverse impact on the entire financial sector in terms of long-term growth and sustainability.

In the uncertain environment, HDFC consciously decided to adopt a cautious approach towards lending in 2013. While this strategy helped protect the asset quality of the company, it resulted in a moderate growth of 10% in its housing loan portfolio.

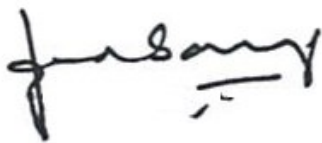
The capital city, Male' is congested, with a population density of over 60,000 per square kilometer. Hence, HDFC's mission to provide decent and affordable homes in a safe and healthy environment and uplifting the living standards becomes even more important to the overall national development of the Maldives. Our endeavor to build an organization based on sound understanding of our customers' expectations has made HDFC a truly customer-centric institution that Maldivians can be proud of.

Growing prudently over the years to ensure long-term sustainability has been one of our greatest strengths. Mortgage penetration in the Maldives is extremely low, hence the potential to grow in a sustainable manner is immense as the demand for housing will always remain robust.

We have risen to the challenge of raising resources, both domestic and international through a combination of local currency bonds, multilateral funding facilities and senior loans. HDFC launched the first-ever listed bond on the Maldives Stock Exchange. The bond was rated 'AA' by CARE Ratings Maldives, the only rating agency operating in the Maldives. With an Islamic finance window opening in 2012, HDFC has expanded its operations by launching the first Islamic bond (Sukuk), which is also listed on the Maldives Stock Exchange.

As a member of IFC's community of practitioners of 'Responsible Finance' based on the principles of client protection, HDFC is constantly raising the bar on customer service and focuses strongly on developing proactive credit risk management strategies. Responding to customers' expectations is at the heart of innovation of products and services that help fulfill HDFC's mission.

The journey over the last decade has been a rewarding experience, despite all the challenges. There have been many who have made significant contributions towards the overall growth of this company. On behalf of the Board of Directors, I would like to extend my deepest appreciation to the management and staff of HDFC as we celebrate our 10th Anniversary -- a landmark for both, the organization and the country. I also take this opportunity to place on record my sincere appreciation for the support extended by the Maldives Monetary Authority, other regulatory and government bodies, auditors, customers, bankers, consultants, legal counsel and all other stakeholders.



Conrad D'Souza



## Company Overview

Housing Development Finance Corporation (HDFC) Limited was incorporated as a state owned enterprise on 28 January 2004 by a Presidential Decree under the Companies Act, Law No: 10/96. The commercial operations commenced on March 29, 2004. HDFC was established with technical assistance from the World Bank, and initially all shares were held by the Government of Maldives (GOM). HDFC Plc. was registered as a public company on the 9th of February 2006.

The HDFC Plc. was privatized with the signing of a shareholders' agreement for privatization between the GOM, IFC, ADB and HDFC-Investments Ltd.-India on July 23, 2008. This Public Private Partnership has a joint foreign investment in 51% shares by International Finance Corporation (IFC) of the World Bank Group, Asian Development Bank (ADB) and HDFC Investments Ltd of India. The structure of the shareholding in the privatized HDFC Plc. is as follows:

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

The July 2008 initiative to restructure the capital and recommence the business of HDFC Plc. became effective on February 10, 2009 with the first equity disbursement by the International Shareholders. IFC and ADB's commitment extended to a multilateral funding facility with seven-year tenure. HDFC Ltd of India, with over thirty years of experience in mortgage finance, is the technical partner of HDFC Plc.

Having restructured its capital, and with new lines of long-term credit, Housing Development Finance Corporation Plc., Maldives (HDFC) re-entered the market for mortgage loans for housing needs of individuals and families. HDFC is unique as the only specialized housing finance institution in the Maldives. With six commercial banks operating in the mortgage housing loan market, HDFC's competitive long repayment terms and income-pooled home loans enabled the achievement of a 30% market share by the end of 2010 when the industry loan portfolio stood at Rf. 1 billion. The demand for home loans continue at a rate of growth that outstrips the supply of matching funds, and long-term bonds denominated in MVR is seen as the way forward to create sustainable housing finance in the Maldives.

The GOM's policy of improving the infrastructure in focus islands to facilitate economic development through zonal investment opportunities for Public, Private, Partnership (PPP) ventures is viewed as a positive factor in going forward with the development of housing finance. Such an approach would assist sustainable growth in home ownership based on mortgage security over properties that will appreciate in value to satisfy the fair value criterion in debt provisioning and managing credit risk. This is very important as a market characteristic, especially in the light of the financial crisis faced by developed economies of the world.



## HDFC AMNA



HDFC Amna is the Islamic window of HDFC created by the Board of Directors to offer Islamic home financing facilities to the customers in an affordable manner. HDFC Amna is being operated as a separate department of HDFC under the existing license of HDFC and is neither a separate company nor a subsidiary. HDFC Amna was launched in the second quarter of 2012.

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 on a morally financed manner. It would also allow HDFC to create portfolio diversification in a cost-effective manner.

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

- 1- Complete Segregation of Funds
- 2- Shari'ah Supervisory Board (Shari'ah Committee)
- 3- Products fully based on Islamic Concepts including the contracts
- 4- Management in accordance with Islamic principles

The long term vision of HDFC is to convert HDFC Amna to a full-fledged company offering Islamic financing facilities.

## Corporate Information

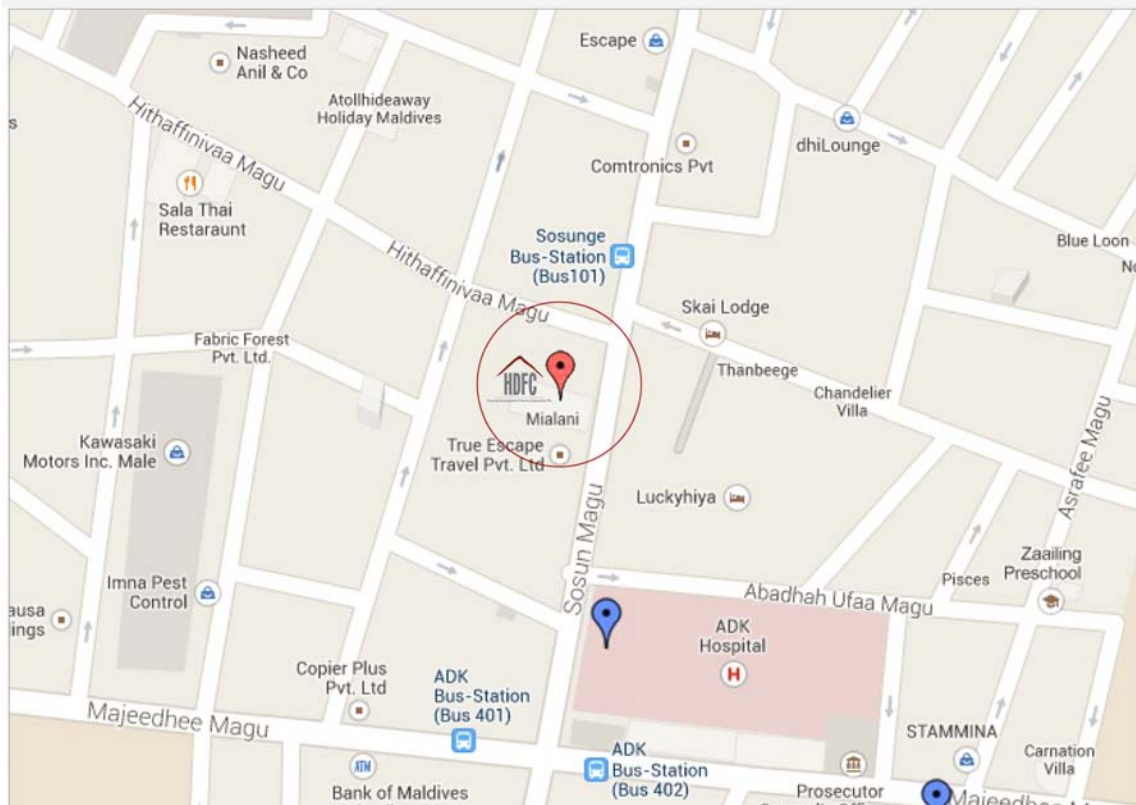
Company Registration Number: C-107/2006  
Place of incorporation: Male', Republic of Maldives

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: Dr. A. D. Priyanka Baddevithana  
Company Secretary: Mr. Adam Athif

Auditors: KPMG  
Legal Counsel: Mazlan & Murad Law Associates



## Board of Directors

The Board of Directors comprise of five nominees from the shareholders; the Government of Maldives, HDFC Investments Ltd. (India), the Asian Development Bank and the International Finance Corporation. Each of the Shareholders are represented by one Nominee Director with the exception of the Government of Maldives which has two Nominee Directors in the Board.

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

The Chairman to the Board of Directors is appointed on rotation, and with a non-voting Managing Director responsible for policy implementation and on-going operations. All Directors possess a wide range of talents, skills and experience with proven track records in the field of housing finance and business administration.

### Nominated Directors

- |   |                                   |
|---|-----------------------------------|
| 1- Mr. Hussain Suhail<br>Non-Executive & Independent Director   | Government of Maldives            |
| 2- Mr. Mohamed Shifau<br>Non-Executive & Independent Director   | Government of Maldives            |
| 3- Ms. Renu Sud Karnad<br>Non- Executive & Independent Director | HDFC Investments Ltd (India)      |
| 4- Mr. Sanjaya Gupta<br>Non-Executive & Independent Director    | Asian Development Bank            |
| 5- Mr. Russell de Mel<br>Non-Executive & Independent Director   | International Finance Corporation |

### Alternate Directors

- |   |                        |
|---|------------------------|
| 6. Mr. Hamid Sodique<br>Non-Executive & Independent Director              | Government of Maldives |
| 7. Mr. Conrad D'Souza<br>Non-Executive & Independent Director<br>Chairman | HDFC Investments Ltd   |
| 8. Ms. Christine Engstrom<br>Non-Executive & Independent Director         | Asian Development Bank |

## Profile of HDFC Plc's Board



Ms. Renu Sud Karnad

Managing Director of HDFC, India. She holds a Master's degree in Economics from the University of Delhi and is a graduate in law from the University of Mumbai. She is a Parvin Fellow – Woodrow Wilson School of International Affairs, Princeton University, U.S.A. Ms. Karnad joined the Corporation in 1978 and was appointed as the Executive Director of the Corporation in 2000 and was re-designated as the Joint Managing Director of the Corporation in October 2007. She has been appointed as the Managing Director of the Corporation for a period of 5 years, with effect from January 1, 2010. She has been re-appointed as the Managing Director of the Corporation for a period of 5 years, with effect from January 1, 2015, subject to the approval of the shareholders at the ensuing Annual General Meeting.

Ms. Karnad is the chairperson of Credila Financial Services Private Limited and HDFC Property Ventures Limited and a director of ABB Limited, Akzo Nobel India Limited, Bosch Limited, Credit Information Bureau (India) Limited, EIH Limited, GRUH Finance Limited, HDFC Asset Management Company Limited, HDFC Bank Limited, HDFC ERGO General Insurance Company Limited, HDFC Standard Life Insurance Company Limited and Indraprastha Medical Corporation Limited. Ms. Karnad is also a director of H T Parekh Foundation.

Ms. Karnad is the Chairperson of Audit Committee of Akzo Nobel India Limited, Bosch Limited and Credit Information Bureau (India) Limited and a member of Audit Committee of HDFC ERGO General Insurance Company Limited and a member of Investors' Grievance Committee of Bosch Limited.

She has declared that she 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.



Mr. Sanjaya Gupta

Mr. Sanjaya Gupta, holds a Post Graduate Degree in Business Management. He is also a Fellow of the Royal Institution of Chartered Surveyors.

His professional career started with HDFC Ltd. in 1987 as a management trainee. He worked there for 16 years in various geographies at a variety of strategic and functional positions. His last assignment with HDFC was as the Head of Business Development & Distribution.

Thereafter he worked with ABN AMRO Bank NV as India Business Head, Retail Mortgages and later got elevated as the Mortgage Operations Head for North America and other geographies. His last assignment before PNBHFL was with United Guarantee (AIG Inc.) as the Country Head for India, a joint venture of NHB, ABD and IFC Washington DC.

Throughout his career spanning over 25 years, he has significantly contributed to mortgages and allied risk management products. He has a distinction of establishing international housing finance branch operations for HDFC Ltd., which is also the industry's first. He is often consulted by the policy makers on key changes in the sector.

He has declared that 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.

Mr. Russell de Mel, having been with NDB for over 30 years, retired as the Bank's Director /Chief Executive Officer in August 2013. Prior to his appointment as CEO he served as Vice President – Head of the Corporate Banking Group and as Vice President – Head of Group Risk Management.

During the initial phase of his career at NDB he held many key positions in the field of Project and Infrastructure Finance. Over the last few decades he had been actively associated with some of the key commercial projects NDB partnered with both local and foreign investors. He also played a leading role in the privatization of the plantation sector. As Head of Group Risk Management he was instrumental in realigning the risk management function within the NDB Group. He was also a director on several Boards of the NDB Group companies until his retirement from NDB.

As CEO of NDB, Mr. de Mel led many new initiatives, some being, the MOU with DBS Bank, Singapore, amalgamation of Retail & SME banking into Branch Banking, greater focus on SME, Project & Infrastructure Financing, Livelihood Development Programmes & rapid branch expansion, & positioning the NDB Group as a Knowledge Hub, with focus on Advisory Services. These won NDB Group many accolades from International Magazines. Mr de Mel was also awarded a Lifetime accolade by the International Finance Magazine, UK, for his outstanding contribution to the Banking Sector.

Mr. de Mel is a Fellow of the Chartered Institute of Management Accountants, UK (FCMA), a Chartered Global Management Accountant (CGMA) & a Fellow of the Institute of Certified Management Accountants (FCMA), Srilanka.

He has declared that 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.



Mr. Russell de Mel



Mr. Hussain Suhail

Mr. Hussain Suhail, is a Board Member for HDFC appointed by the Government of Republic Maldives effective 08th January 2014. He is currently the Head of Human Resources of Island Aviation Services Ltd, the National Carrier of Maldives. He has more than 10 years of experience in the field of Human Resources Management. His responsibilities includes leading Human Resources practices and objectives that will provide an employee-oriented, high performance culture that emphasizes empowerment, quality, productivity and standards, goal attainment, and the recruitment and ongoing development of a superior workforce for the company. Prior to appointment as Head of Human Resources he was Acting as Head of Human Resources Department and was responsible for the day to day activities of Human Resources of the Company. Mr. Suhail is also a member of the Executive Committee of Island Aviation Services Ltd.

Mr. Suhail also has worked at the Department of External Resources which dealt with the coordination of donor assistant for Human Resources development of Maldives.

Mr. Suhail has a Bachelor's Degree in Business Management.

He has declared that 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.



Mr. Mohamed Shifau

Mohamed Shifau, has recently been appointed as the Board Member of HDFC representing the government of Maldives. At present he is working at the Maldives Gas as the Head of sales and also heads Fahi enterprises, a family enterprise that owns retail operations in Male' and Hulhumale' area.

Right after completing his secondary education he got the opportunity to work in the tourism industry as the Manger of Mayaafushi resort. For two years he was charged with the day to day operations of the resort and dealt with the employees and guests. In 1991, he joined the telecommunications company, Dhiraagu; starting from Assistant product manager, supervisor at cybercafé and outlet supervisor, he worked at Dhiraagu until 2005 when he left in pursuit of a degree in the field of Business Marketing. After returning home he rejoined Dhiraagu and played an active role in the launch of various products at Dhiraagu. In the year 2009 he left Dhiraagu in order to further run and develop his family retail business, Fahi enterprises. He is also the shareholder of Five P Ltd., a company with various businesses with Dhiraagu, logistics and travel operations.

He has declared that 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. He is a co-applicant to a HDFC Housing Loan.

## Alternate Directors

Conrad D'Souza, has a Master's Degree in Commerce, a Master's Degree in Business Administration and is a Senior Executive Program (SEP) graduate of the London Business School. He joined HDFC in 1984. He is currently Member of Executive Management and his responsibilities include corporate planning and budgeting, corporate finance and investor relations. He is also a Member of the Asset Liability Committee (ALCO). He was earlier the Treasurer of HDFC and his responsibilities included resource mobilisation both domestic and international and asset liability management. Mr. D'Souza has also worked earlier in Operations and Management Services at HDFC and was also Regional Manager - Maharashtra. He has been a consultant to USAID / UNDP and IFC (Washington) and has undertaken assignments in Asia, Africa and Eastern Europe. He has also been a speaker at various international seminars on housing finance.

He has declared that 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.



Mr. Conrad D'Souza

Ms. Christine A. Engstrom, is an alternate Board Member representing the Asian Development Bank (ADB) since the inception of the privatization of HDFC Plc in 2009. As the Director of ADB's Private Sector Operations Department's Financial Institutions Division, Ms. Engstrom heads a team providing debt, equity and guarantees to financial institutions in emerging Asia.

Ms. Engstrom has approximately 20 years of financial sector experience. She started her career at the International Finance Corporation in Washington, D.C., working in the Asia Department before moving to the Overseas Private Investment Corporation, in Washington, D.C. as Senior Investment Officer. Ms. Engstrom was employed at Fannie Mae from 2001 to 2006 as Deal Structuring Manager in Single Family Mortgages before assuming the post of Senior Transaction Manager in Fannie Mae's Capital Markets group. She is currently based in Manila. Ms. Engstrom holds an MBA from Georgetown University as well as M.A, International Affairs from University of Virginia in addition to B.A. in Political Science from the University of Washington.

She has declared that she 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. Christine A. Engstrom



Mr. Hamid Sodique

Mr. Hamid Sodique, is an alternate Board Member representing the Government of Maldives since May 2012. He has over 15 years of experience in management consulting, private sector development and socio-economic research, and was a Board Member of the Maldives Pension Administration Office and served in the Investment Committee of the Board until August 2011.

Mr. Sodique started his Professional career in the Maldives Monetary Authority in 2006 and since then has worked with various government departments, private sector organizations and international development agencies, and is currently the Chief Executive Officer of FJS Consulting Pvt Ltd. He has executed many national and international projects on business management, strategic planning, entrepreneurship development and capacity building. Mr. Sodique holds a Master's Degree in Business Administration from the University of Adelaide, Australia in addition to a Bachelor's Degree in Business Administration from University of Brunei Darussalam.

He has declared that 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 other than the ones stated below:

Bank of Maldives Plc. – 1480 shares  
State Trading Organization Plc. – 145 shares

## Managing Director



Dr. A. D. P. Baddevithana

Dr. A. D. P. Baddevithana counts more than 35 years of experience, with 25 years in top management positions in Housing Finance, Banking and Business Administration in the UK, Sri Lanka, and Maldives.

Prior to taking up the position of Managing Director of HDFC PLC in the Maldives in September 2008 he served the HDFC Bank of Sri Lanka as its Deputy General Manager, Heading Credit, Operations and Marketing over a period of six years. He began his career in 1977 as a management trainee with the Peter Robinson Group in the UK, and his employment record includes Kensington and Westminster District Finance Office, the Housing Corporation of England and Wales, Clerical Medical Investment Ltd. of the Halifax Group UK, and in Sri Lanka in 1997 as the founder General Manager of the first private sector building society known today as the Nations Building Society, a position he held until he joined the HDFC Bank of Sri Lanka in 2002.

He is a Life Member of the Association of Professional Bankers of Sri Lanka, a Certified Professional Marketer of the Asia Pacific Marketing Federation, Fellow of the Sri Lanka Institute of Marketing, and holds academic qualifications of PhD, MBA, MA and BA. He has attended many international seminars and conferences in the UK, USA, Germany, Singapore, India, Malaysia and Indonesia covering banking, corporate governance, housing finance and Islamic Finance. He has been a key resource person and adviser to a number of state, international and private sector organizations that include HACAS of the UK, the Commonwealth Institute, Asian Development Bank, World Bank and the Central Bank of Sri Lanka, and has served as an accredited resource person for programs of the Institute of Chartered Bankers of the UK.

He holds a qualifying share at HDFC Maldives and does not hold any share in any other company of the Maldives that has or will be perceived as a conflict of interest with HDFC Plc.

## Profile of Members of the Management Team



### **Mr. Ali Shareef** - Chief Financial Officer (CFO)

Mr. Ali Shareef, joined HDFC Plc in October 2012. He has over 11 years of experience in Finance in the Government Sector and has acted as a Consultant to local firms. He started his Professional career in the Public Enterprises Monitoring and Evaluation Board at the Ministry of Finance and Treasury and worked on due diligence of SOE's, Financial reviews of PE's, advice PE's on budgets, business plans & Policies.

Mr. Shareef holds a BA (Hons) Accounting from University of Hertfordshire, UK/ through Inti College Malaysia and is an Affiliate Member of the Association of Chartered Certified Accountants of the UK since 2008. He served as Technical Advisor to the Minister in the Public Enterprises Monitoring and Evaluation Board, Ministry of Finance and Treasury prior to joining HDFC Plc.

He has declared that 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.

### **Mr. Abdulla Musthafa** - Chief Technology Officer (CTO)

Mr. Abdulla Musthafa, joined HDFC Plc., in February 2014. He started his carrier as assistant engineer at Dhivehi Raajjeyge Gulhun Plc (Dhiraagu) a Telecom Company in Maldives, in the year 2009. He worked in its IIP (internet and IP solutions) department. Later he joined Maldives Monetary Authority aka Maldives Central Bank, to work on its Credit Information Bureau Project funded by International Finance Corporation (IFC), ADB (Asia Development Bank) and Government of Maldives. He has also worked in senior management level in different local and international agencies such as Maldives Stock Exchange and UNICEF Maldives. He Holds a Master's Degree in Information Technology from Open University Malaysia and a Bachelor's degree in Computer Applications from Bangalore University India. He is an achiever of Special Government Award for top Academic Achievements abroad in the year 2005.

He has declared that 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.

### **Mr. Ibrahim Didi** - Deputy General Manager and Head of Accounts

Mr. Ibrahim Didi, joined the HDFC Plc. in June 2008. He began his career in the Ministry of Planning in August 1998, and his service record includes reputed organisation such as Island Aviation Service Ltd. and Wataniya Telecom Maldives Pvt Ltd., where he was the Finance Operations Manager for three years prior to joining HDFC Plc. He is a passed finalist of the Managerial Level of CIMA. He attended many local and international seminars and workshops on Business Administration, Banking and Islamic Finance.

In addition he played a fundamental role in the formation and development of HDFC Islamic Wing (AMNA) and was actively involved in all stages of the first ever SUKUK issued in the Maldives and the first ever listed Conventional Bond in the Maldives

He has declared that 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.

### **Mr Adam Athif** - Company Secretary, Senior Manager Administration and HRD

Mr Adam Athif, joined HDFC Plc. in December 2004. Mr Athif started his career in the Government of Maldives in 1990 as a Secretary since then he has worked his way up the ladder and has worked in areas related to Administration and Human Resources in the Private Sector as well as the Government. He holds a Diploma in Business Administration and is well versed with local Housing Market having attended various workshops in relation to Housing Finance.

He has declared that 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.

### **Mr. Mohamed Fathy** - Senior Manager - IT

Mr. Mohamed Fathy, joined the HDFC Plc. in March 2004 as part of the initial team and holds one share in the company. Mr. Fathy began his career 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. While at HDFC he has headed the Internal Audit Division as well as the IT Division, in addition to numerous contributions provided in the development internal controls and systems, he holds Bachelor of Commerce from Banglore University of India and M.Sc. in IT Management from Asia Pacific University (A.P.U), Malaysia.

He has declared that he does not hold any share in any company in Maldives that has a or will be perceived as 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

Ms. Aishath Rasheeda, joined the HDFC Plc. in March 2004 as part of the initial team and holds one share. She does not hold any shares in any company in Maldives that has a conflict of interest with HDFC Plc. Ms. Rasheeda began her career with the Maldives Monetary Authority in July 1990, and counts continuous 14 years of experience at the Central Bank, which made her a founder staff member as Manager Credit of HDFC Plc. in 2004. She has completed her Masters of Business Administration (MBA) from Cardiff Metropolitan University, UK and has attended many national and international training programs, workshops, and seminars related to both conventional and Islamic Housing Finance.

She has declared that she 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.

**Mr. Mohamed Shafeeq** - Senior Manager- Business Development & CRM

Mr. Mohamed Shafeeq, joined HDFC Plc. In July 2009. He began his career in 1997 with Society for Health Education (SHE), a reputed nation-wide non-profit non-government organization in the Maldives, and was promoted as its Finance Director in 2008. He holds a Master in Business Administration (MBA) from the University of Ballarat, Australia in addition to a BA (Hons) Accounting and Finance awarded by University of East London, UK. He is also a member of Association of Chartered Certified Accountants (ACCA), and also a senior member of Certified Practising Accountants of Maldives (CPA Maldives) He attended many local and international seminars and workshops on Business Administration, Marketing, Banking and Finance.

He has declared that 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. Aminath Barrath** – Manager & Shari’ah Compliance Officer – HDFC AMNA

Ms. Aminath Barrath, joined HDFC Plc in July 2009 as a Credit Officer. She holds a BAcc (Hons) from International Islamic University Malaysia (IIUM). She has attended many national and international training programs, workshops, and seminars related to both conventional and Islamic Housing Finance.

Currently she is pursuing Part II of Chartered Islamic Finance Professional (CIFF) program through INCEIF, Malaysia.

She has declared that she 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.

**Mr. Aushan Latheef** – Manager Credit & AML Officer

Mr. Aushan Latheef, is a graduate from University of Hertfordshire UK, with Honours in Business Administration. He started his career in 2007 for one of the prime advertising firms in the Maldives known as Business Image Group followed by Dhiraagu - the leading telecom operator in the Maldives (then an affiliate of Cable and Wireless UK); as a Manager and an Executive in sales, marketing and public relations divisions. He then formed his own enterprise Qnox Holdings Pvt Ltd which was stationed in Singapore.

Mr. Aushan joined HDFC Plc as a Credit Officer on September 4, 2011. His exposure, skills and knowledge allowed him the career advancement to Manager Credit only two and half years of service. With the entrusted responsibility, he has to work at multiple capacities ranging from the Reporting Officer, Secretary to Shari’ah Committee to Anti-Money Laundering Officer.

He has declared that 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.

# HDFC Corporate Social Responsibility

HDFC Maldives' Corporate Social Responsibility (CSR) framework is very much based on the Quadruple Bottom Line of Planet, People, Purpose and Profit model, focuses on creation of long-term value for the stakeholders. HDFC believes that the business must go hand in hand with a sense of responsibility towards all stakeholders including employees and the society.

HDFC is committed to being a socially responsible corporate and its CSR framework is governed by a formal policy. Besides, the Company encourages its employees also actively participate in the community based activities for the better.

## HDFC Plc CSR framework

### People

Contribute to the society while engaging with stakeholders and employees

HDFC Maldives' Inclusive Business Model is based on responsible financial inclusion strategy incorporating emerging best practices from the microfinance industry such as complete transparency of pricing, terms and conditions of all financial products and product differentiation to benefit customers who are from low-to-middle-income segments of society, also constrained by asymmetries in financial knowledge, power and influence.

Product design for inclusion began by defining market segments, maintaining a middle to low income orientation and augmenting such methods as Flexible Installment Plans (FLIP), Step-Up Repayment Facility (SURF), and savings related loan products for the self-employed and prudential norms on fixed obligations to income ratios (FOIR) to eliminate over-indebtedness. An in-depth market analysis was carried out to identify the social performance matrix to serve the low-income population in the outer islands. HDFC integrated social performance management approaches such as respectful collection practices, and high ethical standards in the treatment of customers with a comprehensive complaints handling process to serve them more effectively by including customer feedback for appropriate product design and delivery. Another important element was to formalize operational guidelines and monitor key policies related to customer protection, environmental standards and social performance data, including the rural outreach. The monitoring of compliance and implementation of key policies is carried out at all operational levels, including front office reception staff, loan appraisal by credit officers, loan approvals by credit committee, accounts, internal audit and human resources. The financial inclusion business plan, with environmental and housing quality standards including low cost housing has been executed with special MIS support for oversight. Process management using critical path to deliver timely solutions to HDFC customers has assisted in the development of a zero default tolerant business culture.

## Purpose and Profit

Contribute to society, improve lives through activities aligned to our core line of business

### Responsible Financial Inclusion Strategy sets out the following Strategic Objectives-

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

### Access to Finance

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

- Expand financial services to underserved segments by developing a range of financial services available to low-income populations innovating products tailored to the needs of low-income customers.
- Going down-market with a clear strategy to manage risk through principles of customer protection.
- Provide incentives and motivation for staff to go beyond traditional financial service to innovate access to finance.
- Widening the range of products, features and services based on a customer-centric approach.
- Contribute to the learning agenda in social performance and improving customers' financial literacy.

## Planet

Manage Business in a way so as to address environmental issues

### Environmental protection and Conservation

As a low-lying nation only a few metres above the sea level at the highest point, a low carbon footprint is important to the Maldives. Over the years, the staff of HDFC has become habitually concerned for green practices at the work-place that involves the most environment-friendly lighting, air-conditioning, paper and other material usage in the day-to-day life of the office. In order to extend such practices to those who are developing their homes through HDFC Finance, we have the following processes in place:

(a) An environmental and social screening and assessment system identifies and assesses the environmental and social impacts and issues (including technical and environmental liability and risk), and financial implications related to environmental and social issues using a Rapid Environmental and Social Assessment Checklist to aid decision-making.

(b) Review and evaluate any environmental clearances and/or applicable national and local government permits/clearances issued by environmental authorities such as land use and zon-

ing clearances, and permits covering sanitation, electrical and mechanical operations, occupancy, etc.

(c) Conduct environmental and social audits to quantify the extent of environmental and social problems associated with mortgage lending, and identify necessary mitigation measures. For example, soil and surface water contamination from domestic sewage and solid wastes. Another important aspect is resettlement where involuntary processes are prohibited for funding.

(d) Assess adequacy of the environmental and social management plan (ESMP). The document agreed between the customer and HDFC-M identifies environmental and social impacts and measures to mitigate, which would provide the basis for environmental and social monitoring.

## Community participation

- Culture and customs of Maldives is rooted in Islam and it was a privilege for HDFC to be a conduit in promoting Islamic Finance by opening the Islamic Window, HDFC Amna and the year 2013 first ever Islamic Bond, Sukuk introduced to Maldives by HDFC Amna. Sukuk was constructed such a way that even low income earner could participate, and information dissemination programs conducted through mass media to promote Islamic finance.
- We promote and encourage community participation in religious events. Therefore we have sponsored refreshments for all the Revival nights of the Holy month of Ramadan, program organized by Ministry of Islamic Affairs
- We encourage our staff to participate in community social events, and Falah pre-school fund raising was one such event.

# Directors' Report

It is with much pleasure we present this Tenth Annual Report on the business and operations of HDFC PLC together with the audited accounts for the Financial Year ended December 31, 2013.

## Financial overview

Year 2013 has been another successful year for HDFC with the company posting a profit before tax of MVR 59,860,643. Although the growth in profitability remained marginal compared to MVR 57,879,147 recorded in 2012, given the macro environment and the sociopolitical situation that prevailed in the Maldives during 2013, HDFC had to check its growth targets during a landmark year for the nascent democracy of the Maldives.

	2012	2013
Total Income	90.9	106.7
Total Expenditure	32.5	46.2
Profit before Depreciation and Tax	58.5	60.5
Less Depreciation	0.6	0.6
Profit before Tax	57.9	59.9
Provision for Taxation	8.9	8.9
Profit after Taxation	49.0	50.9

*(In MVR Millions)*

The trend that is seen since privatization in 2008 offers comfort for the long-term sustainability of the organization.

Year	2004*	2005	2006	2007	2008	2009	2010	2011	2012	2013
Gross income	1.8	12.8	20.0	20.3	21.0	34.3	39.6	61.1	90.9	106.7
Net interest income.	(0.2)	4.9	9.3	14.3	15.6	25.5	30.4	43.6	62.4	66.4
Operating profit/(loss)	(1.3)	4.6	8.9	14.1	10.4	19.1	23.5	38.0	57.9	59.9
Net profit/(loss)	(1.3)	4.6	8.9	14.1	10.4	19.1	23.5	49.5	49.0	50.9

*\*(9 months)*

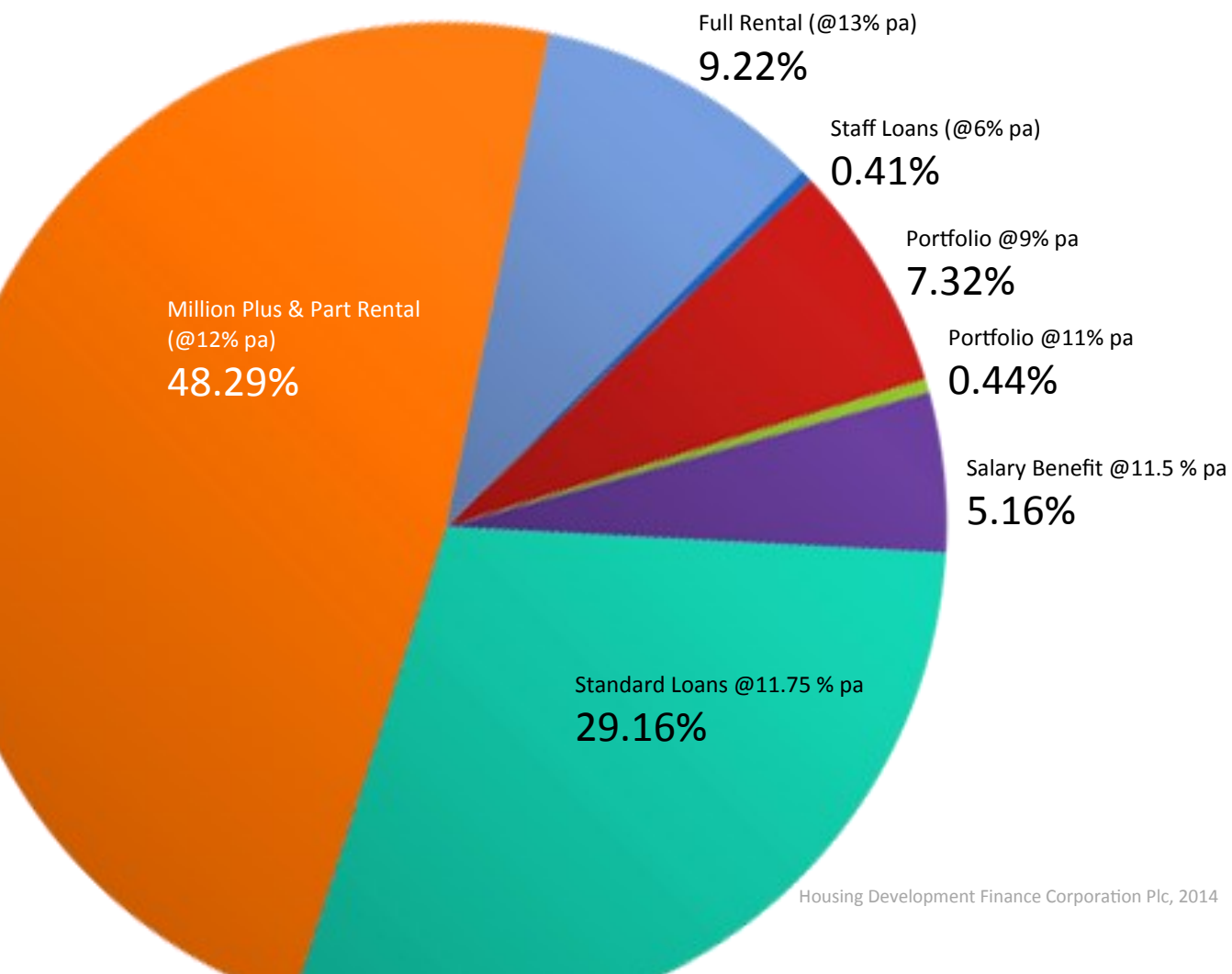
## Dividend

Your Directors have recommended a 10% dividend for 2013 with a payout ratio of 31% in keeping with the Dividends Policy of HDFC.

## Business Overview

Although HDFC does not chase market share, its practice of responsible finance and principles of client protection has made HDFC to become the market leader for housing finance from 2012. HDFC, being the only institution specializing in housing finance in the Maldives continued to offer innovative financial solutions to improve lives of the citizens of Maldives. Since its inception, HDFC has helped create an average of around 4200 housing units throughout the country. Over 80% of the loan portfolio includes loans with full or part owner-occupied housing component with the rest being for full rental purposes. HDFC has innovated a comprehensive range of products and services that are customer centric, and introduction of effective counselling service through an efficiently managed CRM Department has helped with the objective of achieving the best-fit product development to meet growing customer expectations.

Through its different product categories, HDFC has injected more than MVR 1 billion to the housing market since its incorporation in 2004. It has served more than 6000 customers under the pooled application process. As at 31st December 2013, the total portfolio of HDFC stood at MVR 853 million as profiled below:



Over the years HDFC has not only served the housing needs in the Male' region, but has made great strides to provide access to finance to tens of thousands who live in the far-flung atolls with its Island Outreach Programme.



HDFC has been on a continuous growth curve for the last 10 years. HDFC's loan portfolio has grown from MVR 156 million at the end of 2008, which was the pre-privatization portfolio, to MVR 853 by the end of 2013. This is a remarkable growth with an average of over 50% year-on-year. The gross revenue of HDFC has tripled over the last 5-year period while the profit has increased by over 150% since 2009, which was the first year of privatization.

The total loan portfolio of HDFC had a growth of only 11% during the year 2013. There has been a general slowdown in the housing market due to the economic and political conditions that prevailed in the Maldives during the year 2013. The severe shortage of construction-aggregate and steep increase in the cost of building material led to a slowdown in construction of new housing units as well as those projects that had commenced on progressive mortgage loan disbursements.

Year-on-year growth of gross revenue for 2013 was 17%. Islamic products based on profit sharing, which were introduced in December 2012, with a portfolio of MVR 28 million as at the end of 2013, earned a net income of MVR 0.9 million. Commission & Fee based income has gone down from 11% of the gross income in 2012 to 8% of the gross income in 2013. This was mainly due to comparatively slower growth in the loan portfolio in 2013.

The net Interest income increased by 4% compared to the previous year. However, with an adverse macro-economic conditions that impacted on local currency borrowings, the interest expenses for the year 2013 had increased by 68% over the previous year. Total borrowings have increased in 2013 with a MVR 150 million senior loan from HSBC, and the first ever listing of a rated (CARE International Rating of AA) Bond on the Maldives Stock Exchange in 2013 generating MVR 52 million. The average cost of borrowing has gone up from 6% to 7% with the new local currency borrowings. Although local currency borrowings came at a higher cost due to the macro-economic situation driving treasury-bill rate over 10% p.a., the development of the Maldives' Capital Market and elimination of long-term FOREX risk endemic in multilateral funding are good enough reasons to adopt such a strategy going forward.

Operating expenses for the year was MVR 15.6 million, which is 22% higher than 2012. Salaries and allowances have increased by 29% compared to the last year with four new staff joining the team. An increment of 10% to the cost of living allowance in addition to annual salary increments have contributed to the increase in staff cost. HDFC had 30 members of staff as at the end of 2013.

#### Profit attribution matrix

Year	Begin	End	Average	PBT	Per Employee
2008	13	15	14	10,453,009	746,643
2009	15	18	17	19,095,005	1,123,235
2010	18	19	19	23,526,354	1,238,229
2011	19	25	22	49,484,708	2,249,305
2012	25	30	28	57,879,147	2,067,112
2013	30	30	30	59,860,643	1,995,354

In addition to the staff cost, there was also a significant increase in marketing related expenses with the introduction of the conventional Bond and the Sukuk Issuance, which were launched in the first and the last quarter of 2013 respectively.

## New Initiatives & Milestones

Although 2013 has shown a marginal improvement in the financial bottom-line, HDFC achieved remarkable milestones in terms of introducing new products to develop much needed long-term savings and investment culture in the Maldives with a 5-Year Conventional Bond and a 10-Year Islamic Bond, Sukuk. The first ever Sukuk in the Maldives attracted 500 individual investors to part with their funds for 10 years. This is a remarkable achievement given the poor savings culture prevailing in the Maldives.

HDFC has always been supportive of Government initiatives in keeping with the national housing policy. Having entered into an Agency Agreement to act for the Government under the Islamic Financing concept of BAI' BI-AL-TAQSIIT, HDFC is the Government's partner in delivering housing units developed through PPP projects in the past to the end user.

## Risk Management

HDFC has been compliant with the regulatory requirements as well as other requirements that are mandated by the multilateral lenders submitting a quarterly compliance report in addition to the management accounts with a monthly submission to Maldives Monetary Authority as mandated by the regulator.

Capital adequacy and the use of regulatory capital are monitored on a continuous basis by HDFC's management using the guidelines developed by Basel II Committee. HDFC had managed to maintain its capital adequacy ratio in the range of 35-40% during the year 2013. The ratio is well above the minimum requirement of the multilateral lenders, as well as that of the MMA. Although high, given the long-term lending operations of HDFC, capital adequacy has helped HDFC comply with Maturity Matching requirement in risk management.

HDFC gives special consideration to managing the credit risk. Credit risk is the most important risk for HDFC's business operations, and therefore, credit policies are formulated to fulfill the requirements under prudential due-diligence to establish customers' creditworthiness, and a robust credit sanctioning policy by the credit committee and Board of Directors with limits of authority imposed for processing applications to ensure that credit risk is managed professionally.

Liquidity risk is the other major risk faced by HDFC. Liquidity management through weekly meeting of Assets & Liabilities 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. HDFC has been in compliance with the liquidity cover requirement throughout 2013. HDFC has also established a policy to retain a minimum level as cash & cash equivalents to ensure that there are no liquidity shortages for ongoing lending operation.

# Business Outlook for 2014



HDFC will continue to provide affordable and complete solutions to all its customers who are essentially Citizens of Maldives. HDFC's vision is to uplift the quality of living for all who need its services in home finance. HDFC will continue to innovative products in response to the changing market dynamics. In addition to the lending products, HDFC will also continue with its endeavor to encourage savings in the local market with new investment-oriented products in both conventional and Islamic compliant modes. Growth of HDFC AMNA, and enhancement of the Islamic Window's operation in line with the increasing demand for Islamic Finance in the country will also be a priority of HDFC during the year 2014.

## 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, 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 since the balance sheet date which would require adjustments to, or disclosure, in the financial statements.

## Change in Directorship

During the period under review Mr. Subrata Dutta-Gupta's term as IFC Nominee Director came to an end in January 2013. The Directors wish to place on record their appreciation of the immense contribution Mr. Dutta-Gupta made during his tenure from March 2009 to January 2012, also serving as Chairman on rotation for one year.

Pursuant to his appointment to the position of Secretary to the Ministry of Finance, the Government of Maldives' Nominee Director Mr. Ismail Ali Manik had to step down in August 2013. He too has been serving the Board from March 2009, and was in the eighth month as the Chairman on rotation at the time of stepping down. The Directors extend their appreciation to his yeoman service, which added the much needed country perspective to the Board deliberations.

## Auditors

KPMG has been the statutory auditors for 2013 and are eligible for re-appointment at the AGM.

Recommendation for Appointment and Remuneration are decided by the audit committee of the Board and recommended at the AGM.

## Acknowledgement

The Directors wish to place on record their appreciation to the management and staff of HDFC for their diligence and team spirit with commitment and loyalty, sharing HDFC's vision and mission to improving lives, which has helped the company achieve growth and sustainability. The directors also appreciate the support extended by the Maldives Monetary Authority, other regulatory and government bodies, company's auditors, customers, bankers, consultants, legal counsel and shareholders.



Hussain Suhail  
Director  
Government of Maldives



Mohmaed Shifau  
Director  
Government of Maldives



## Corporate Governance

The essence of corporate governance at HDFC Plc. is the relationship between the board of directors, management and the shareholders to act in the best interest of the all the stakeholders. Corporate Governance ensures that companies are directed and managed at Board and management level in a fair and transparent manner.

HDFC's corporate governance is planned and implemented at the Board level and led by the Board. It provides guidance on how the objectives of the company are set and achieved, how risk is monitored and assessed, and how performance is optimized. Corporate governance provides the organization's policy direction and ensures its implementation in a fair and transparent manner by the board of directors, the management and the staff of HDFC.

The code of corporate governance provides guidance on how to set the objectives of the company for optimum performance while managing and monitoring the risks in order to achieve:

1. Creation of value (through entrepreneurship, innovation, and development)
2. Implementation of effective control systems commensurate to the risks involved
3. Accountability and transparency

## General Principles

The policy requires that the directors and management comply with the following general principles:

1. Conduct all affairs adhering to the highest standards of ethics, transparency, accountability, honesty and integrity.
2. Provide accurate, fair, timely, full and meaningful disclosures in the periodic reports to be filed by HDFC with the stakeholders and regulatory agencies.
3. Timely disclosure of conflicts and potential conflicts of interest that the directors or management may have in the discharge of their duties and responsibilities on corporate governance.
4. Prevent the misuse or misapplication of HDFC's assets and resources.
5. Comply with applicable laws, rules and regulations.

The Capital Market Development Authority (CMDA), which was established in 2006, is the prime mover of promoting corporate governance in the Maldives. Although HDFC is bound by Capital Market Development Authority's Corporate Code on Corporate Governance the benchmarks established by the shareholders' agreement upon privatization of HDFC are far reaching and cover all the essential features of the Maldives' approach to corporate governance. CMDA has a vision and framework that recognizes the shareholders' rights and ownership functions, the role of stakeholders, disclosure and transparency standards and critical duties and responsibilities of the Board.

## Board Membership and Composition

The Board of Directors comprises of five nominees from the shareholders; the Government of Maldives, HDFC Investments Ltd., (India), the Asian Development Bank and the International Finance Corporation. Each of the shareholders are represented by one nominee with the exception of the Government of Maldives which has two nominees in the Board.

The shareholders also have the right to nominate Alternative Directors who may participate in the Board Meetings but can only exercise the right to vote in the absence of the Nominee representing the shareholder.

A non-voting Managing Director responsible for policy implementation and on-going operations also has a seat in the Board.

All directors possess a wide range of talents, skills and experience with proven track records in the field of housing finance and business administration.

The Shareholders' Agreement of HDFC facilitates the election of an Independent Director upon the occurrence of public offering of shares of the Company.

## 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 management of the Company to the Managing Director.

## Role of the Chairperson

The Chairman to the Board of Directors is appointed on rotation. The current Chairman is Mr. Conrad De' Souza, he was appointed at the Board of Directors Meeting held on January 11, 2014 and will continue to hold office until end of 2014.

## General Meetings

The Annual General Meeting of Shareholders requires a quorum comprising of shareholders holding a majority of shares of the Company. The financial statements of the previous year is approved and adopted at the Annual General Meeting. The Annual General Meeting of 2012 was held on 26<sup>th</sup> May 2012.

## Board Meetings

The Board meets at least once every three months to discuss pending matters and performance of the Company. During the year 2013, 4 meetings of the Board of Directors were held.

Directors	No. of Meeting	No. of Meetings Attended
<u>Non—Executive &amp; Independent Directors</u>		
• <b>Mr. Ismail Ali Manik</b> Government of Maldives	3	3
• <b>Ms. Fareeha Shareef</b> Government of Maldives	4	4
• <b>Mr. Conrad D'Souza</b> HDFC Investments Ltd (India)	4	4
• <b>Mr. Sanjaya Gupta</b> Asian Development Bank	4	4
• <b>Mr. Hamid Sodique</b> Government of Maldives	1	1
<u>Managing Director</u>		
• <b>Dr.A.D.Priyanka Baddevithana</b>	4	4

## Board Committees

The Board has also constituted the following Committees

- Audit Committee
- Nominations and Remunerations Committee

02 Audit Committee and 03 Nominations and Remuneration Committee Meetings were held in 2013.

### Audit Committee

The Audit Committee comprises of at least by two (2) of the three (3) Directors appointed by the International Investors Any financial audit of the Company shall be approved by the Audit Committee. The Audit Committee comprises of the following members of the Board.

Mr. Conrad D'Souza	-	Chairman
Mr. Russell de Mel	-	Member
Mr. Sanjaya Gupta	-	Member
Mr. Hussain Suhail	-	Member

### Nominations and Remunerations Committee

The Nominations and Remunerations Committee consists of 02 Directors appointed by the Government of Maldives along with the Managing Director and Senior Manager- Administration and Human Resource Development. The Nominations and the Remunerations Committee comprises of the following members.

Dr. A.D. Priyanka Baddevithana	-	Chairman
Mr. Hussain Suhail	-	Member
Mr. Mohamed Shifau	-	Member
Mr. Adam Athif	-	Senior. Manager – Admin & HRD

### Shari'ah Committee

The HDFC Amna Department is managed and systematized to ensure proper Shari'ah governance mechanisms both within the department and among its stakeholders. A Shari'ah Committee consisting of three members has been established to advise the Board of Directors of HDFC on Shari'ah related matters. The members of the Shari'ah Committee.

Dr Ibrahim Zakariyya Moosa	-	Chairman
Assoc. Professor Dr Rusni Hassan	-	Member
Dr. Aishath Muneeza	-	Member

## 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 the CMDA's code of governance.

## Information Rights

The Company furnishes the following information to its Shareholders as stipulated in its Shareholders Agreement;

- Annual financial statements within ninety (90) days after the end of each Financial Year, and the related statements of income, stockholders' equity and cash flows for the Financial Year, audited in accordance with the Accounting Standards and certified by the Auditors.
- Within forty-five (45) days after the end of each quarter of each Financial Year, quarterly financial statements
- No later than forty-five (45) days before commencement of each Financial Year, the proposed annual Business Plan;

The Company also provides to each Shareholder such information as any Shareholder from time to time requests with regard to any material developments in or affecting the Company's business.

Upon request, the Company permits representatives of Shareholder or the CAO (in the case of IFC), during normal office hours, to:

- visit any of the sites and premises where the business of the Company or its Subsidiaries is conducted;
- inspect any of the sites, facilities, plants and equipment of the Company or its Subsidiaries;
- have access to the books of account and all records of the Company and its Subsidiaries; and
- have access to those employees, agents, contractors and subcontractors of the Company and its Subsidiaries who have or may have knowledge of matters with respect to which such Shareholders seeks information, as stipulated in the Shareholders Agreement.

*All compliance issues under this code were dispensed effectively.*

## Safeguarding the social and operational environment

The company is bound by the Shareholders 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 each Financial Year, an annual monitoring report is delivered to ADB, consistent with the requirements of the Shareholders' Agreement, confirming compliance 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 any such deficiency.

## Sanctionable Practices

All Shareholders other than the International Investors have pledged that neither they nor their affiliates shall engage in any transaction contemplated by the Shareholders' Agreement.

## Anti-money laundering and combating the financing of terrorism

The Company complies with internal procedures and controls satisfactory to the International Investors, and following national law and best international banking standards, including the standards promulgated by the Basel Committee on Banking Supervision and the Wolfs-berg Standards, for the purpose of:

- i) Preventing the Company from being used for Money Laundering, the Financing of Terrorism, fraud, or other corrupt or illegal purposes or practices;
- ii) Ensuring that
  - (A) any financial institution with which the Company conducts business or enters into any transaction, or through which the Company transmits any funds, does not have correspondent banking relationships with any Shell Bank; and
  - (B) that the Company does not conduct business or enter into any transaction with, or transmit any funds through a Shell Bank;
- iii) Ensuring that the Company will not enter into any transaction with, or for the benefit of, any individuals or institutions named on lists of sanctioned persons promulgated by the United Nations Security Council or its committees resolutions in connection with money laundering or anti-terrorism matters.

## Affirmative Covenants

The Company adheres to the following covenants:

1. Undertake its business activities and investments in compliance with Applicable Law;
2. Obtain and maintain all applicable regulatory authorizations and otherwise stay in compliance with Applicable Law;
3. Maintain adequate accounting, management, financial control, compliance and risk management systems;
4. Create an Audit Committee, which shall report directly to the Board of Directors;
5. Conduct its business in accordance with the Business Plan;
6. Not register any transfer of shares in contravention of the provisions of the Company's Shareholder's Agreement or its Charter;
7. Not engage in activities set out in the Prohibited Investment Activities List
8. Maintain appropriate insurance with financially sound and reputable insurers for losses and/or damages that may occur with respect to its property and business;
9. Abide by best practices based on the recommendations of HDFC India as the technical partner and which practices HDFC India may audit as appropriate.

# Audit Committee Report

The Audit 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, consisting of 3 non-executive directors from amongst the Board of Directors.

## Objectives of the Committee

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

1. Review the effectiveness of HDFC's internal risk controls and risk management systems;
2. 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;
3. 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;
4. Engagement of internal and external auditors, and review of both the internal and external audit functions;
5. Evaluate the independence and effectiveness of the work of the external auditors; and
6. Ensure that compliance requirement are adhered to and are being reported on a timely manner.

Audit committee shall have the mandate to investigate any matter within its terms of reference, and shall have full discretion to invite any director or executive officer to attend its meetings, and can utilize reasonable resources to enable it to discharge its functions properly.

There were 02 meetings of the Audit Committee held in 2013. Matters arising out of the Audit Committee were also discussed across the Board. Membership and attendance detail are as follows,

Directors	No. of Meeting	No. of Meetings Attended
• <b>Mr. Conrad D'Souza</b> Chairman	2	2
• <b>Mr. Sanjaya Gupta</b> Member	2	2
• <b>Mr. Ismail Ali Manik</b> Member	1	1

The committee in general deliberated on the following:

- Reviewed the Annual Audited Accounts of 2012
- Reviewed the Interim Audited Accounts of 2013
- Reviewed the Quarterly Internal Audit Reports
- Reviewed the Quarterly Financials
- Reviewed the Quarterly Compliance Reports
- Reviewed the Appointment of External Auditors for 2013
- Reviewed the Appointment of Internal Auditors for 2013
- Approved the Budget for 2013

With the re-appointments of Directors by individual Shareholders the Audit Committee has been re-constituted as follows

Non—Executive & Independent Directors

- **Mr. Conrad D'Souza** (Chairman)  
HDFC Investments Ltd (India)
- **Mr. Russel De Mel**  
International Finance Corporation (IFC)
- **Mr. Sanjaya Gupta**  
Asian Development Bank (ADB)
- **Mr. Hussain Suhail**  
Government of Maldives

## External Audit

KPMG (Chartered Accountants) was appointed as the Company's External Auditors for 2013.

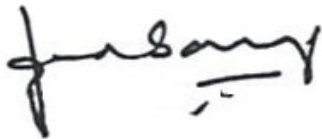
## Internal Audit

During the year 2013 an internal audit function was outsourced, the function was extended to PricewaterhouseCoopers. The Scope of the function was broadly defined in two parts. One was to form the Accounting and Financial component while the other was to be concentrated on the operations of the company.

The Audit was conducted on quarterly basis all through year with emphasis on different operational components being addressed every quarter while compliance and financial component addressed at every quarter end.

The audit focus was concentrated on the following areas:

- Accounting and Finance Reporting
- Treasury Operations
- Fixed Asset Management
- Compliance
- Housing Loans
- IT Audit
- Administration
- Human Resource Management



Conrad D'Souza  
Chairman of the Audit Committee

# Nomination and Remuneration Committee Report

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, consisting of 2 non-executive directors and Executive Director. Even though under the CGA Code of CMDA, the committee should comprise of all Non-Executive Directors, HDFC has opted to include Managing Director due to following factors:

1. Managing Directors' appointment, performance appraisal and remuneration is not carried out by N and R Committee. According to the shareholders' agreement they must be carried out by the board where at least two on the three international directors would form the majority for a decision to carry. Therefore, no conflict of interest is observed as the objectives are focused on capacity building.
2. Under the mandate provided by the Shareholders Agreement and Articles of Association, the Committee does not have the right to appoint or remove Directors to the Board.

## Objectives of the Committee

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

- a) Set and review Staff Salaries
- b) Review of the Organizational Structure
- c) Endorse HR Policies
- d) Adopt best HR Practices for training, retention and development of staff
- e) Set and recommend new staff benefit schemes to the Board.
- f) Identify and shortlist suitable candidates to be recruited to the senior level positions.

## Composition and Frequency of Meetings

There were 03 meetings of the Nomination and Remuneration Committee held in 2013, the events of such meetings are briefed to the Board of Directors regularly as a practice under Good Corporate Governance.

Membership and attendance detail are as follows:

Directors	No. of Meeting	No. of Meetings Attended
<u>Non—Executive &amp; Independent Directors</u>		
<ul style="list-style-type: none"> <li>• <b>Mr. Ismail Ali Manik</b> Government of Maldives</li> </ul>	2	2
<ul style="list-style-type: none"> <li>• <b>Ms. Fareeha Shareef</b> Government of Maldives</li> </ul>	3	3
<ul style="list-style-type: none"> <li>• <b>Mr. Ashraf Rasheed</b> Government of Maldives</li> </ul>	1	1
<u>Managing Director</u>		
<ul style="list-style-type: none"> <li>• <b>Dr.A.D.Priyanka Baddevithana</b> Chairman of the Committee</li> </ul>	3	3

With the re-appointments of Directors by individual Shareholders the Nomination and Remuneration Committee has been reconstituted as follows:

<u>Non—Executive &amp; Independent Directors</u>		
<ul style="list-style-type: none"> <li>• <b>Mr.Hussain Shuhail</b> Government of Maldives</li> </ul>		
<ul style="list-style-type: none"> <li>• <b>Mr. Mohamed Shifau</b> Government of Maldives</li> </ul>		
<u>Managing Director</u>		
<ul style="list-style-type: none"> <li>• <b>Dr.A.D.Priyanka Baddevithana</b> Chairman of the Committee</li> </ul>		
<u>Management Personnel</u>		
<ul style="list-style-type: none"> <li>• <b>Mr. Adam Athif</b> Snr.Manager—Admin &amp; HRD</li> </ul>		

For the period ended December 31, 2013, total aggregate compensation to the Board of Directors, was approximately MVR 44,969. Stocks do not form part of the remuneration package offered to the Board of Directors and HDFC does not practice a monthly remuneration of its Board Directors, where reimbursement of travel and a Per Diem for meetings away from base take place. A sitting fee that has been approved by the Board of Directors is paid on attendance.

Aggregate compensation of the entire key management personnel for the period ended 31st December 2013 was approximately MVR 5,506,525.

Due to the sensitivity of disclosing individual compensation of the Board of Directors and Key Management Personnel, the R and N Committee would only disclose the aggregate compensation data.

Each of the Directors and Key Management Personnel has fully disclosed any conflicts of interest between his or her duties to HDFC as stated in their individual profiles.

## Board Evaluation

Under the Articles of Association and Shareholders agreement, the right to appoint and remove Board Members is solely vested with the Shareholders. Individual evaluation of the Directors so appointed is carried out annually by the Shareholders themselves.

Summary of the key activities the committee undertook during the period is listed:

- Evaluation of CFO.
- Established a policy to Sponsor relevant Professional Membership Fee of Key Employees.
- Deliberated on COO Positioning.
- Established a local travel policy.
- Deliberated and proposed 10% annual increase to the Cost of Living Allowance.
- Creation of the post of Secretary of Shari'ah Committee and fixing of remuneration and selection of a suitable candidate.
- Appointment and fixing of remuneration package of Compliance Officer (AML) in order to meet the Maldives Financial Transaction Reporting Regulation 2011 Chapter V Section 22 (c)
- Deliberated on the establishment of No-Pay-Leave Policy.
- Deliberation on special cases forwarded by HR Department.



A.D. Priyanka Baddevithana

Chairman of the Nomination & Remuneration Committee

# Report of the Shari'ah Committee

The Shariah 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-Shariah compliant.

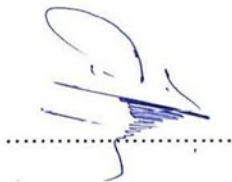
The Shariah Committee adheres to the Shariah opinions of Shariah Advisory Council of Maldives Monetary Authority (MMA) and its relevant directives.

The duties and responsibilities of Shariah 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.

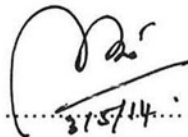
The role of the Shariah Committee in monitoring the financing activities of HDFC Amna is as follows:

- i. To advise the Board of Directors on Shariah Matters
- ii. To endorse Shariah compliance manuals
- iii. To endorse and validate relevant documents
- iv. To provide written Shariah 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 Shariah 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 2013, to the best of our knowledge have been conducted in conformity with the Shariah principles.



Dr. Ibrahim Zakariyya  
(Chairperson)



Dr. Rusni Binti Hassan  
(Member)



Dr. Aishath Muneeza  
(Member)

# Managing Director's Report

Housing Development Finance Corporation PLC of Maldives (HDFC) is celebrating its 10th anniversary in 2014, relishing the unique position as the only specialized housing development finance institution in the Maldives. However, as far as the housing finance market is concerned, there are many players such as the Bank of Maldives PLC, with a majority state ownership, and many branches international commercial banks such as the State Bank of India and Bank of Ceylon who have been operating in the Maldives for a much longer period than HDFC. These institutions enjoyed the largest share of the Housing Mortgage market until recent times. However, since privatization in 2008, HDFC India came in as a Technical Partner and with further assistance from IFC Financial Advisory; HDFC pioneered Responsible Finance in the Maldives with Principles of Client Protection, achieving a 30% market share by the end of 2010 and over 50% by 2013. The Balance Sheet value as at 31.12.2013 was MVR 973.5 million (USD 63 million), which is a growth of 22% from 2012. In a year that had many socioeconomic stresses due to political instability, 2013 saw the gross loan portfolio grow by only 10% to end the year at MVR 853.8 million. HDFC was able to record a gross profit of MVR 59.2 million (3.8 million USD) for 2013 with a marginal increase over the previous year's gross profit of MVR 57.8 million, mainly due to the increasing cost of funds due to macro-economic factors.

On the positive side, 2013 saw further consolidation of HDFC's long-term fund base with HSBC and Bank of Maldives extending senior loan facilities to meet the high rate of growth in demand for housing development finance. Translating our vision into action to develop the capital market in the Maldives, and also as a homespun solution to improving people's lives, HDFC became the first Company in the Maldives to list a 5-year local currency bond in the Maldives' Stock Exchange (MSE) in January 2013. The total subscription was MVR 50 million (USD 3.24 million) for this first ever listed bond. Given the dependency on multilateral USD funding and the FOREX risk in servicing such loans, local currency bonds and local currency senior loans such as the ones extended by HSBC and Bank of Maldives in 2013 will go a long way towards improving the Company's risk profile and creating a sustainable housing finance solution in the Maldives.

Opening the Islamic Finance Window, branded as 'HDFC AMNA', in 2012 was a significant milestone, and a sensible one as 100% of HDFC's target group possesses an Islamic value system. To fund Shari'ah products, HDFC AMNA launched the first ever Sukuk (Islamic Bond) in the Maldives on October 1, 2013.

## Largest Share in Housing Mortgage Market

2010 ..... 30%

2013 ..... **50%**

## First ever listed Bond in the Maldives Stock Exchange

Also listed in the MSE, the Sukuk called for public participation in a long-term (10 years) investment plan that gives Sukuk Holders an opportunity to share in the profitability and growth of the Islamic Wing of the organization. The results were extremely encouraging with participation of approximately 500 individual investors in a country which has one of the lowest (GNS Indicator of -8.112% of the GDP for 2013) Gross National Savings (GNS) indicators according to the World Bank's Economic Watch-list. In terms of the value of Sukuk investment vis-à-vis institutional investors, the individuals subscribed 15% of the total subscription of MVR 22.5 million (USD 1.5 million).

Opening the Islamic Finance Window, branded as 'HDFC AMNA', in 2012 was a significant milestone, and a sensible one as 100% of HDFC's target group possesses an Islamic value system. To fund Shari'ah products, HDFC AMNA launched the first ever Sukuk (Islamic Bond) in the Maldives on October 1, 2013. Also listed in the MSE, the Sukuk called for public participation in a long-term (10 years) investment plan that gives Sukuk Holders an opportunity to share in the profitability and growth of the Islamic Wing of the organization. The results were extremely encouraging with participation of approximately 500 individual investors in a country which has one of the lowest (GNS Indicator of -8.112% of the GDP for 2013) Gross National Savings (GNS) indicators according to the World Bank's Economic Watch-list. In terms of the value of Sukuk investment vis-à-vis institutional investors, the individuals subscribed 15% of the total subscription of MVR 22.5 million (USD 1.5 million).



# Achievements of a decade

## 2004- 2014



The biggest economic challenge faced by the Government of Maldives (GOM) is the geographic dispersion of its population, and the call for development of a nation consisting of 190 inhabited islands (out of a total of 1,200 islands) dispersed over 90,000 sq. km. The GOM's policy of improving the infrastructure in focus islands to facilitate economic development through zonal investment opportunities is viewed as a positive factor for the development of housing finance. The backlog of housing recorded as 10,000 in 2008 has been reduced by 50% within the last five years with HDFC spearheading housing development since privatization in July 2008. A focused approach to investment in infrastructure by sectors, both public and private, has assisted the sustainable growth of home ownership with the value of properties mortgaged recording an increase in the market price of land, especially in Male' and Greater Male' Region , Which has improved the asset quality and risk profile of the loan portfolio of HDFC. This is very important as a market characteristic, especially in the light of Maldives falling under the World Bank's definition of a Frontier Market, also known as an Emerging Market with potential to grow. HDFC's success since privatization appears to have given an impetus for other commercial banks to launch aggressive home loan marketing and advertising campaigns in the housing mortgage market of the Maldives, especially from the beginning of 2013.

HDFC's inclusive business model has developed a range of products and services that involve cottage industries in the value chain as suppliers of building material such as compressed cement blocks and carpentry work carried out at an island level to reduce the cost of construction by restricting importation at high cost. Therefore, total number of beneficiaries at the base of the pyramid exceeded 10,000 during HDFC's ten-year existence. A comprehensive range of products and services have been innovated to serve our customers better. Effective counselling service and Customer Relationship Management functions through an efficient Customer Care Department headed by a very senior business development manager have helped the achievement of the best-fit-product-development using customer feedback proactively. In an E-Savvy nation with a 100% mobile penetration, and over 70% internet penetration, it is envisaged that HDFC will be having a highly responsive and interactive CRM function to be the heart of the organization before the end of 2014.

Total loans approved and disbursed under various product categories serve to profile HDFC's direct contribution to the housing development in the Maldives. Since its inception, total housing finance infused to the market stood at MVR 1.2 billion as at the year ended on December 31, 2013. Approximately 6,000 customers had benefitted from the pooled application process innovated by HDFC. Over the ten year period, more than 10,000 people have been estimated as 'value-chain participants' of HDFC's growth.

## Going Beyond Responsible Finance

Maldives has a total population of 395,000 according to recent estimates, and with the number of families estimated to be approximately 90,000 at the end by the Human Rights Commission of the Maldives (HRCM), the housing shortage has affected approximately 20% of the people, and special vulnerability is seen in the post-2004 tsunami in-migrant population of Male'. Therefore, land reclamation in Greater Male' region (Kaafu Atoll), and affiliated housing development projects have become a priority for HDFC.

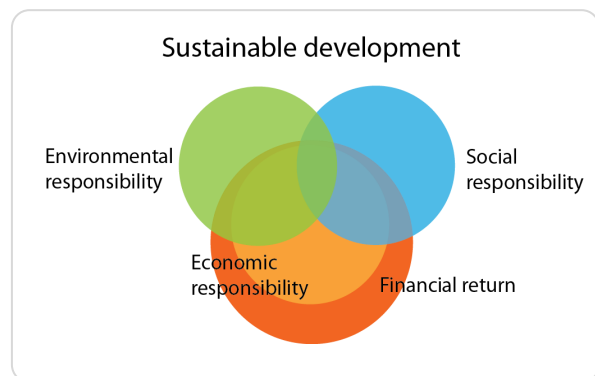
The Main income sources of Housing Finance Customers are tourism and related industries, fishing and fish processing, transport, agriculture and construction. From HDFC's Credit Risk MIS, it was seen that the sources of income for the repayment of loans came from the following distribution of segments:

Private sector	26%
Self-employed	12%
Enterprise/ Rental	29%
Public sector	33%

As a benefit accruing from IFC's Performance Based Grant Initiative (PBGI), which gave HDFC the social performance strategy as its 'Purpose', a fourth P was added to the triple bottom line of Planet, People and Profit in the business model followed by HDFC.

Therefore, since privatization in 2008, HDFC has begun the development of a Quadruple Bottom Line for sustainable development that goes beyond responsible finance to offer an economic gain to its customers through a housing loan or an Islamic Financial Solution. How this works is through an approval given for the partial use of the property developed for housing, which would also be designed with an enterprise solution in mind, to either rent or operate as own business premises to generate extra income for the family. Since HDFC's mission is to offer financial and social strength to the people of the Maldives, HDFC's sustainable development is based on the four pillars of responsibility that fulfill its Quadruple Bottom Line to meet expectations of all stakeholders.

HDFC's Vision is to provide decent and affordable homes in a safe and healthy environment, and be the leader in uplifting the living standards of Maldivian Citizens who need financial strength to add value to their lives. In order to achieve this, we shall continue with our mission to innovate products and services that offer financial and social strength to all customers in a professional and profitable manner to the complete satisfaction of all stakeholders by delivering the Quadruple Bottom Line of Planet, People, Purpose and Profit as depicted by the Sustainable Development Matrix below:



## Strategizing for Social Performance

Financial Inclusion by going down market to hitherto unbanked, yet bankable markets, and serving low income segments with appropriately designed products that are affordable and sustainable have been the core elements of a strategy aimed at achieving a high level of social performance. The outreach program of HDFC is aligned with the objective of adding value at the base of the pyramid to improve lives. Initiating this program in 2011, HDFC conducted a market scan to identify islands that could offer fair value in properties to be mortgaged as collateral, and sustainability of fair value, which is one of the cornerstones of responsible housing finance. Primary data on demographic and economic aspects in different regions was collected and supporting information was compiled and analyzed for all 7 provinces comprising 20 Administrative Atolls in the process of selecting islands where mortgage home finance facilities could be offered. It is understood that a rural outreach program has endemic issues of market value in sparsely populated islands, and therefore only those islands with a critical mass that is needed to sustain a viable mortgage portfolio were considered in the Outreach Program. However, in order to fulfill the housing aspirations of the Maldivian population that would otherwise be left behind, a government guaranteed program with a grant fund that would keep social housing loans off-balance sheet was conceived jointly with the Ministry of Housing. This revolving social housing fund that commenced in 2009 will go into the next cycle in 2014 with disbursements to be made under an Istisna model (Islamic Home Construction Facility).

The government's policy of developing island centers (Focus Islands) by encouraging public and private investment has created a greater demand for housing from a underserved segment and HDFC views this as a positive trend supporting its Outreach Program that was approved by the board in 2011. The government policy has assisted sustainable development of home ownership based on mortgage financing of properties that would appreciate in value to maintain and improve the loan cover proposition in mortgage lending. The underlying real estate value of homes being developed from HDFC mortgage loans is extremely important to as a market characteristic, especially in the light of the financial crisis faced by developed economies of the world.

The Maldives consist of approximately 1,200 islands covering an area of 90,000 sq. km. of the Indian Ocean, set in an Exclusive Economic Zone (EEZ) covering 859,000 sq. km. The island nation has a population of approximately 395,000 at the end of 2013 according to the latest World Bank's estimates. There are 190 administrative islands with additional 88 resort islands and 34 industrial and other islands. The nation's capital Malé, with around 2.5 sq. km. of total land area, is home to over one third of the entire population, while approximately seventy percent of the inhabited islands have less than 1000 inhabitants. Maldives has a relatively young population with 45% under the age of 25 years, and only 4% percent is over 65 years of age according to the population statistics of the World Bank.

With regard to human development trends, the country ranks high among other Asia-Pacific countries. The statistics of households according to UNFPA (United Nations' Population Fund) are:

Male ' 14,107 , Atolls 32,087, National 46,194

Therefore, the density in Malé is around eight members per household and in outer atolls this figure is reduced to around six. However, it is the constraint of buildable land that has made Male’ one of the most densely populated capital cities of the world. To ease the congestion in Male’, developing the reclaimed landmass of 188 hectares connected to the Hulhulle’ Island that hosts the International Airport is the most ambitious urban development project undertaken by the government in the history of the Maldives.



A desirable family size per unit of four would record the estimated additional housing requirement for the Male Atoll as 9,000 units, which Hulhumale development has the infrastructure to absorb. Therefore, HDFC’s solution for financing sustainable housing development in the Maldives is aligned with the National Housing Development Policy, which is also linked with the strategies of the government’s housing construction arm, the Housing Development Corporation (HDC) of Hulhumale. A number of HDC’s Joint Venture Partnerships and GTG initiatives have developed more than 4,200 housing units in Hulhumale with 1,950 flats, 78 row houses, 71 condominium units, and 298 buildings with an average of 7 dwelling units per building with a further 230 similar buildings in various stages of work-in-progress as at the end of 2013. HDC also acts as a social landlord to the 1,950 units where the customers can own the property under an installment plan. Therefore, with many housing developments in some of the focus islands as well, HDC has shown a commitment to address the housing problem facing the Maldives.



As a spinoff of the Hulhumale’ development, there is a growing market for commerce, education, health, recreation, tourism, fisheries and light industries adding vibrancy to the Maldives’ socioeconomic landscape. HDFC, which commenced its operations in tandem with the first voluntary settlement of people in Hulhumalé in 2004, has provided housing development finance to match its pace of development, which has been on schedule reaching 50% of the critical mass by the end of 2013.

A desirable family size per unit of four would record the estimated additional housing requirement for the Male Atoll as 9,000 units, which Hulhumale development has the infrastructure to absorb. Therefore, HDFC's solution for financing sustainable housing development in the Maldives is aligned with the National Housing Development Policy, which is also linked with the strategies of the government's housing construction arm, the Housing Development Corporation (HDC) of Hulhumale. A number of HDC's Joint Venture Partnerships and GTG initiatives have developed more than 4,200 housing units in Hulhumale with 1,950 flats, 78 row houses, 71 condominium units, and 298 buildings with an average of 7 dwelling units per building with a further 230 similar buildings in various stages of work-in-progress as at the end of 2013. HDC also acts as a social landlord to the 1,950 units where the customers can own the property under an instalment plan. Therefore, with many housing developments in some of the focus islands as well, HDC has shown a commitment to address the housing problem facing the Maldives.

A further solution to the human congestion in Male', which is measured as 60,000 people per square kilometer, has been offered by the Global Projects Development Company (GPD) of the UK. GPD has initiated the reclamation of a coral reef close to Male' for the establishment of a new city branded as the Global Green City of Maldives. Following a model of affordable living in a gated community that would benefit from THE neighborhood synergies of a new purpose-built and eco-designed city, GPD's venture has become part of HDFC's Social Performance Strategy from the beginning of the project three years ago.

As the concept drawing below depicts, Global Green City will become home to thousands of families currently living in congested Male' City as well as the people of rural islands that are lacking in infrastructure.



Augmenting the

low-income segment in the rural demography, the urban low-income population in Male and Hulhumale also came under the first phase of HDFC's Social Housing Loan scheme sponsored by the Government of Maldives. It is the effective performance of the social housing program that provided the ground work and social argument for the thrust that followed with the offer of regular mortgage financing through an Outreach Program, which commenced in 2011.

## Impact of the Country Situation on the National Housing Policy

The national housing policy for outer atolls is one that is linked to the GOM's national economic development policy. Typical of an island nation, development in the Maldives is also constrained by the absence of land based mineral resources. There is limited scope for expansion of the agriculture sector. Certain areas possess vulnerability to natural disasters and environmental hazards. The major industries driving the Maldivian economy are fisheries and tourism. They are the major avenues of foreign exchange earnings and government revenue, which together directly account for approximately 40 percent of the GDP. In terms of employment, these two sectors alone account for more than one third of total employment. A 70,000 strong expatriate workforce plays a key role in the development of the Maldivian economy. Their need of accommodation have created a vibrant market for rental income from professional employment categories that include teachers, accountants, medical personnel and other tourism, shipping, aviation and transport-related businesses as well as technical professionals engaged in work involving civil construction and infrastructure development. Maldives possesses the world's largest fleet of sea planes for a single nation.

There are many positive signals from November 2013 under a new government following the election of a new President focused on building sound macro fundamentals through a balanced approach to economic development.

The parliamentary election in March 2014 has resulted in consolidation of the new government's agenda, and the resurgence of a government-led affordable housing program executed through HDFC, which was highly successful in 2009 could be an indication of the new government's commitment to a sustainable social performance strategy to augment the regular home finance solutions offered by HDFC.

The Maldives' narrow financial services industry is dominated by the banking sector, which consists of one locally owned commercial bank, branches of three South Asian partly state-owned commercial banks and a branch of an independent global bank, which is the HSBC. Non-banking financial institutions include players in the general insurance market, a finance leasing Company (MFLC), and a specialized housing finance institution, HDFC PLC. The Maldives Monetary Authority (MMA) is the primary source of domestic financing for the Government's fiscal operations. The commercial banks provide credit and foreign exchange to the private sector.

The Government's support for the public sector-led development process is seen from the large number of employees in public enterprises, which together with the Civil Service accounts for approximately one third of the working population. The public sector consists of the government and state-owned enterprises (SOEs) covering a wide range of activities including banking, air and sea transport, international shipping, communication and the provision of electricity, fisheries, tourism and importing and distributing a large share of essential food and oil products.

Currently work is underway to promote the Maldives Stock Exchange as a conduit for raising much needed capital for economic development, while the Capital Market Development Authority (CMDA) facilitates trading arrangements. There are limited secondary market trading activities, which mainly concern the shares of the Bank of Maldives (BML), and two other state owned public companies, namely the Maldives Transport and Contracting Company (MTCC) and the State Trading Organization (STO). The Securities Act passed in parliament recently paves the way to establishing a formal capital market.

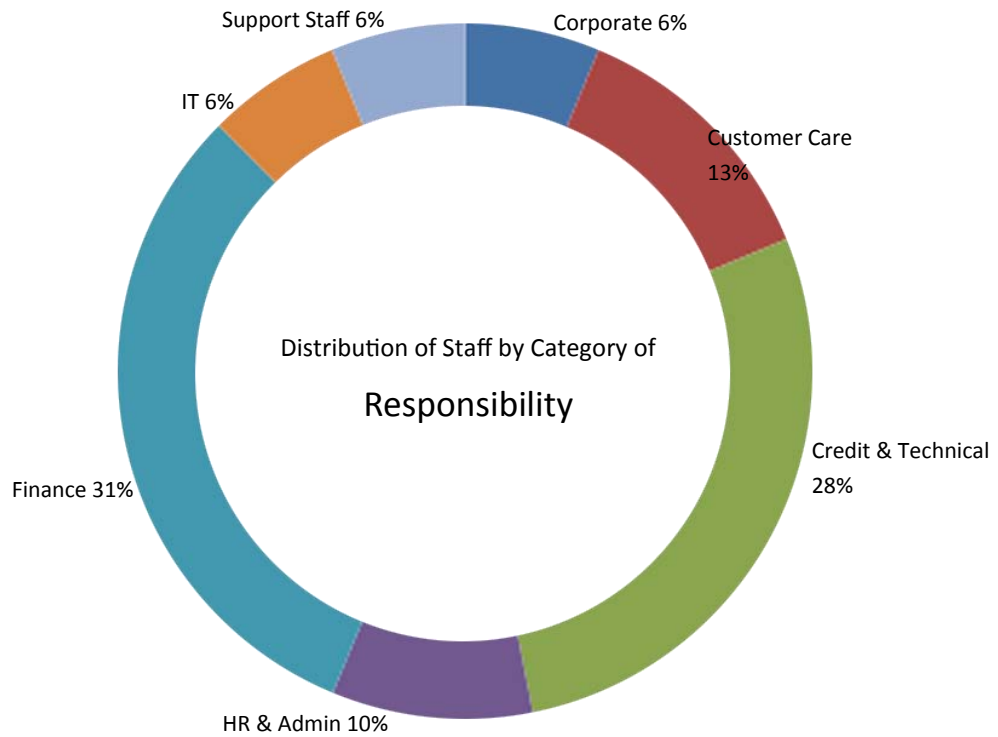
Open economy of the Maldives has a narrow export base with high dependence on imports for most of its economic activities. Imports have averaged around 61 percent of the GDP in recent years, while domestic exports, consisting primarily of fish and fish products have ranged between 11-15 percent of the GDP. Net surplus on services and transfers has averaged around 34 percent of the GDP. Service receipts come from tourism and related activities. There is a significant outflow of transfers from the economy owing to the large expatriate workforce. Medium and long-term debt flows and inflows of capital for direct investments dominate the capital account of the balance of payments.

There is no exchange control legislation in the Maldives. Foreign direct investment in the country needs prior approval of the government and a negotiated annual royalty is payable. There are no restrictions on transferring of profits.

The construction sector continued to remain robust during 2013 representing around 20% of the GDP. Despite a better than anticipated performance from the tourism and construction sector during the year, there was a downward revision of the GDP due to 2013 being a Presidential election year, which also recorded a much poorer than expected performance from the fisheries sector. However, with the global economic crisis turning the corner, the projection of real output in 2014 is a growth forecast as the historically trends in tourism and construction related activities have reflected the global economic and financial conditions.

## Human Resource Development

While the Top Management crafted and executed strategies to deliver increasing value to customers, helping them realize the dream of living in a decent home in safety and security of a healthy environment, focusing on the Company's most important asset -its People - the Human Resource Development Program since 2008 expanded the organization's capacity to build long-term success.

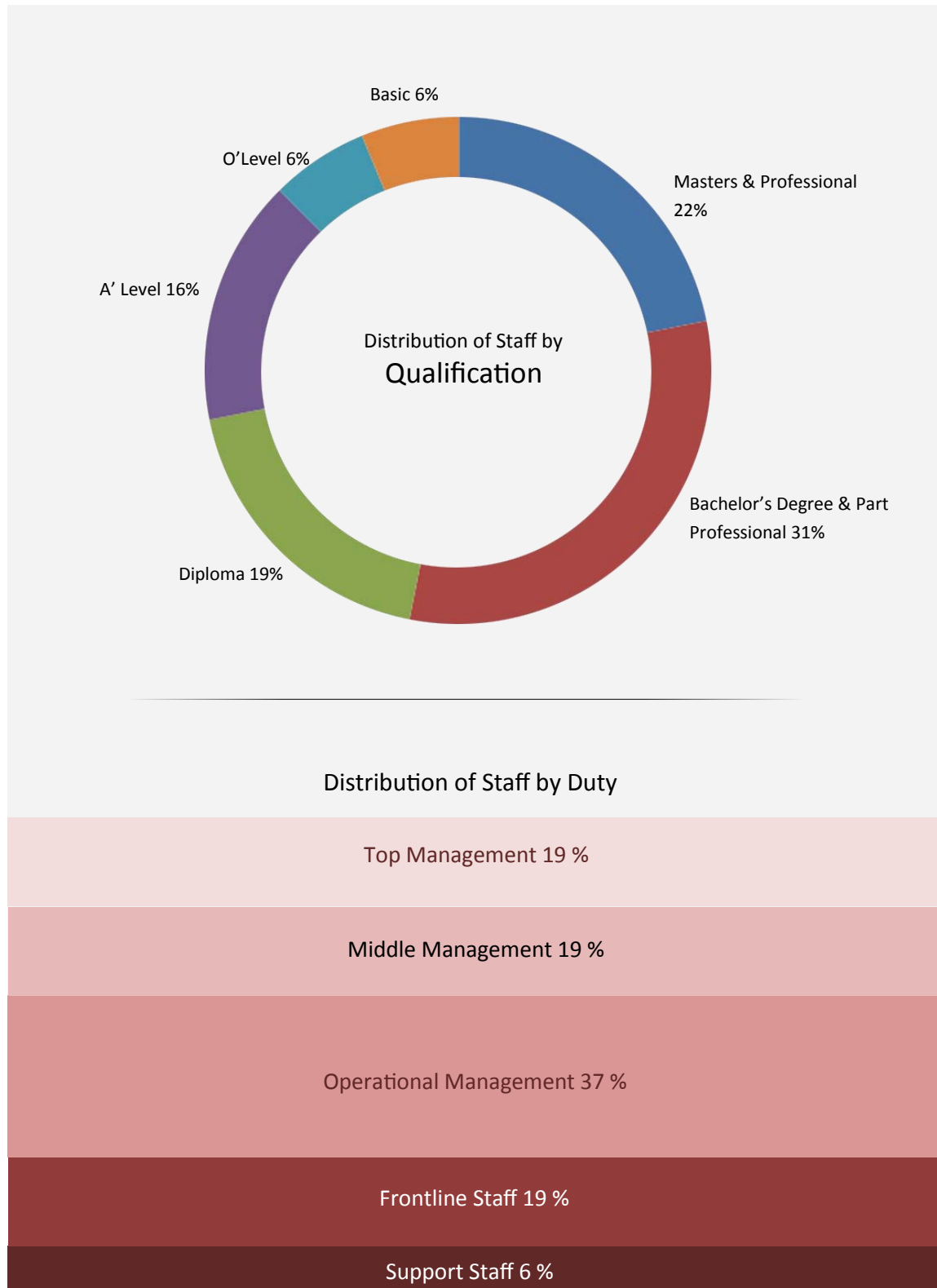


The Staff Attrition Rate, which was as high as 60% in 2008, was reduced to 11% by the end of 2013. The Maldivian marketplace for financial services has become increasingly competitive over the past five years, and maintaining a strategic advantage needed a strong corporate culture that can synergize and establish principles and practices to deliver exceptional customer service. The value of an enterprise is determined by the way in which the organization would address challenge of gaining a market share through customer retention and capitalizing on emerging opportunities.

HDFC's Human Resource policies are designed with a view to select, cultivate and retain top talent with a meaningful career path.

All personnel are expected to develop into change agents who can strengthen client relationships, and ensure sustainability through long-term performance of excellence as a growing and leading professional establishment in the financial services industry of the Maldives.

Developing secure long-term growth and profitability of the organization entails creating innovative services, leading in expansion, and capitalizing on the next business cycle by adapting to current market trends, while anticipating future business needs. These being the terms of reference, the strength and diversity of HDFC's human resource as at December 31, 2013 is profiled below:



## Going forward ...

The Island economy of the Maldives is sustained by industries related to tourism, fishing and fish processing, boat building, agriculture, coconut processing, garments, woven mats, rope, handicrafts, coral and sand mining, transport and shipping. According to Economic Ministry statistics, these outer island economies account for 23% of the GDP while the economic activities of Greater Male' account for 77% of the GDP. While the national average per capita GDP is USD 6,900, this figure goes down to USD 2,525 in the outer islands. This is a variable of almost 37% that gives an indication of income disparity in the economic segments of society. Given that it is an indicator of the standard of living, the need to create decent and affordable housing has become a national priority.

In this regard, HDFC has been looking at the possibility of encouraging innovative building technology, with the first initiative coming from a Thai Property Developer, Pruksa began a program to develop housing units in Hulhumale using Engineered Metal Forming Technology, which yielded 20% savings on the standard conventional cost of USD 65/ sq. ft.

HDFC has also researched and found that if a developer can introduce building technology using HFW (High Frequency Welded) Light Gauged Steel H-Beam and ALC (Autoclaved Lightweight Concrete) Panel & Blocks have yielded 50% economies over the standard cost with a tag of USD 33/ sq. ft.

There are many self-employed and low-income segments that have not saved up to the level of 20% of housing project cost. HDFC has designed a pre-sale/construction model where they are given an opportunity to have credit screening with a 10% down payment of equity with approval to save with the HDFC for the balance 10% during the housing construction phase once credit approval is given. Around 5% of current applications fall into this category and with the growth of the Island Outreach Program, this will become an enabler to many low income families to have better housing.

The Government of Maldives, under the new Presidential term that began in November 2013, has collaborated with HDFC to offer an Islamic facility to low income segments outside of Male' and Greater Male' commencing April 2014. It is hoped that this would be an annual program that would see approximately MVR 100 million being injected to the social housing program to meet the demand for decent homes in far-flung islands. Newly reclaimed Hulhumale' and Gulhi Falhu island's plan to release approximately 5000 housing units over the next three years where the end-users will need mortgage funding for HDFC.

## Accolades

### Achievement Awards



---

FT/IFC Achievement in Basic Needs Financing – 2011

FT/IFC Sustainable Investment - 2012

Business Initiative Direction (BID) Goldstar Quality Award 2012

FT/IFC Achievement in Inclusive Business - 2013

European Society for Quality Research-ESQR Quality Achievement Award 2013

# Appreciation

HDFC's biggest investment and the greatest asset is the staff cadre that gives the organization its character and spirit. They are the body, heart and soul of HDFC that drive a service value system that improves lives of the people who dream to achieve their fundamental right to live and own a decent home in a safe and healthy environment in one of the most beautiful countries of the world, much admired for its unique seascape and the people living the island life. I consider it a great privilege to be leading a team of very intelligent and diligent employees whose shared vision and mission have enabled them to personally grow and prosper in synchrony with the organization. Therefore, first and foremost, I wish to express my sincere appreciation to all the staff of HDFC for giving their heart and soul to nurture the character of our organization. The synergy they have generated has made it possible for HDFC to achieve what many companies in the Maldives would view as the impossible, and I am extremely proud of my team HDFC.

Our customers are the lifeblood of the organization and adding value to their lives is HDFC's *raison d'être*. The organization defines itself by the quality of service perceived by our customers, and their valuable interaction has helped HDFC develop its CRM model of responsible finance based on principles of client protection. We sincerely appreciate their goodwill and loyalty that has made HDFC what it is today.

The Chairpersons and the Board of Directors of HDFC over the years, represented decades of experience and proven track records in steering some of the largest and most successful organizations in the region. They have been the beacons of guiding light in the 10-year long journey of HDFC. Therefore, from the founder Chairman and Board of Directors, to the incumbent Corporate Management team, the Company owes a debt of gratitude as it emerges unscathed from many challenges and obstacles that stood in the way on this journey of a decade. To all other stakeholders, especially the shareholders represented by the GOM, IFC, ADB and HDFC of India, HDFC is grateful for the confidence reposed in the organization. The international investors have watched patiently, the development of a nascent democracy that coincided with the growth of HDFC since privatization in 2008.

With successful Presidential elections at the end of 2013, the country is in a better position than ever to assure international stakeholders of an effective investment environment based on sound macro-economic fundamentals. In this regard we appreciate the valuable contribution made to the growth of HDFC by the GOM represented by Ministers and Ministries of Finance and Treasury, Housing and

Infrastructure, and Ministry of Economic Development, all of whom have played a meaningful role in driving the national housing policy.

Among other notable stakeholders, we extend our appreciation to the regulator of Financial Services Sector, the Maldives Monetary Authority along with the Capital Market Development Authority, Maldives Stock Exchange, Maldives Securities Depository and Maldives Post Ltd. for their facilitation of listing and distribution of HDFC's bonds. To our statutory auditors, internal auditors, legal counsel, Islamic Finance Consultant, the Shari'ah Committee, advertising agents and all other business partners, our sincere gratitude for their professionalism of the highest caliber that has helped HDFC reach greater heights. To all other institutions, both local and overseas, who have partnered us by providing senior facilities, housing construction, insurance, Local and City Councils and government institutions who offer quality assurance in housing development, building codes and regulatory services to our customers, we say a big thank you. All of you have innovated and inspired a new skyline to this unique nation, the Maldives, while sharing our privilege to improve the lives of its people by fulfilling the fundamental right to live in a decent home.

# Audit Report 2013

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

**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
31ST DECEMBER 2013**

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

**For the year ended 31st December 2013**

<b>CONTENTS</b>	<b>Page</b>
Independent Auditors' Report	1-2
<b>Financial Statements</b>	
Statement of Comprehensive Income	3
Statement of Financial Position	4
Statement of Changes in Equity	5
Statement of Cash Flows	6
Notes to the Financial Statements	6-36



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 : kpmgmv@kpmg.com

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

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 2013, and the Statements 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 3 to 36.

### **Management's responsibility for the financial statements**

Management 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 management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinion**

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31<sup>st</sup> December 2013 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



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

**Other Matter**

The financial statements of the Company for the year ended 31<sup>st</sup> December 2012 were audited by another auditor, whose report dated 27<sup>th</sup> March 2013, expressed an unmodified opinion on those financial statements.

A handwritten signature in black ink that reads 'KPMG'.

**Chartered Accountants**

14<sup>th</sup> April 2014  
Male'

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

**FOR THE YEAR ENDED 31ST DECEMBER**

	<b>Note</b>	<b>2013</b> <b>MRf.</b>	<b>2012</b> <b>MRf.</b>
Interest income		96,366,027	80,808,282
Interest expense		(30,677,041)	(18,277,198)
<b>Net interest income</b>	<b>6</b>	<u>65,688,986</u>	<u>62,531,084</u>
Net income /(Cost) on Shari'ah products	<b>7</b>	853,881	(54,511)
Fee income	<b>8</b>	8,062,982	8,968,002
Other income	<b>9</b>	1,382,099	1,206,999
<b>Operating income</b>		<u>75,987,948</u>	<u>72,651,574</u>
Provision for Impairment loss on loans and advances	<b>17.1</b>	(217,807)	(2,038,650)
Personnel expenses	<b>10</b>	(9,269,110)	(7,134,144)
Other operating expenses	<b>11</b>	(6,640,388)	(5,599,633)
<b>Profit before tax</b>		59,860,643	57,879,147
Tax expense	<b>12</b>	(8,928,696)	(8,909,094)
<b>Profit for the year</b>		<u><u>50,931,947</u></u>	<u><u>48,970,053</u></u>
<b>Basic and Diluted Earnings per share</b>	<b>13</b>	<b>31.96</b>	<b>30.73</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 7 to 36. The Report of the Independent Auditors is given on pages 1 and 2.

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

AS AT 31ST DECEMBER

	Note	2013 MRf.	2012 MRf.
<b>ASSETS</b>			
Cash and cash equivalents	14	58,675,598	7,164,471
Financial Assets Held to Maturity	15	44,094,274	-
Derivative Asset	16	18,249,470	25,561,485
Loans and advances to customers	17	842,238,237	758,783,300
Property, plant and equipment	18	1,678,378	2,124,307
Intangible assets	19	218,865	405,790
Deferred tax asset	12.2	65,508	9,510
Other assets	20	8,315,072	3,630,924
<b>Total assets</b>		<b>973,535,402</b>	<b>797,679,787</b>
<b>LIABILITIES</b>			
Deposits from customers	21	39,726,419	35,763,149
Borrowings	22	466,870,029	317,315,116
Bank Overdraft	14	-	36,024,622
Other liabilities	23	71,368,578	48,000,971
<b>Total liabilities</b>		<b>577,965,026</b>	<b>437,103,858</b>
<b>EQUITY</b>			
Share capital	24	159,375,000	159,375,000
Advance for Share Capital	24	51,407,100	51,407,100
General Reserve	25	15,000,000	15,000,000
Staff Education Reserve	25	2,122,626	2,457,066
Retained earnings		167,665,650	132,336,763
<b>Total equity</b>		<b>395,570,376</b>	<b>360,575,929</b>
<b>Total liabilities and equity</b>		<b>973,535,402</b>	<b>797,679,787</b>

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 7 to 36. The Report of the Independent Auditors is given on pages 1 and 2.

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

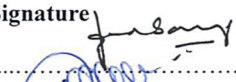

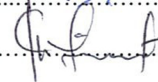
**Name of the Director**

Conrad De' Souza/Chairman .....

A.D. Priyanka Baddevithana/Managing Director .....

Ali Shareef/Chief Financial Officer .....

**Signature**

.....  
  
.....  
  
.....  
  
.....

14th April 2014



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

**FOR THE YEAR ENDED 31TH DECEMBER 2013**

	<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</b>
	<b>MRf.</b>	<b>MRf.</b>	<b>MRf.</b>	<b>MRf.</b>	<b>MRf.</b>	<b>MRf.</b>
As at 1st January 2012	159,375,000	51,407,100	15,000,000	3,395,475	98,365,801	327,543,376
<b>Total Comprehensive Income</b>						
Profit for the year	-	-	-	-	48,970,053	48,970,053
	-	-	-	-	48,970,053	48,970,053
<b>Transactions with owners, recorded directly in equity</b>						
Dividend Paid (Note 24.3)	-	-	-	-	(15,937,500)	(15,937,500)
Transferred during the year	-	-	-	(938,409)	938,409	-
	-	-	-	(938,409)	(14,999,091)	(15,937,500)
As at 31 <sup>st</sup> December 2012	<u>159,375,000</u>	<u>51,407,100</u>	<u>15,000,000</u>	<u>2,457,066</u>	<u>132,336,763</u>	<u>360,575,929</u>
As at 1 <sup>st</sup> January 2013	159,375,000	51,407,100	15,000,000	2,457,066	132,336,763	360,575,929
<b>Total Comprehensive Income</b>						
Profit for the year	-	-	-	-	50,931,947	50,931,947
	-	-	-	-	50,931,947	50,931,947
<b>Transactions with owners, recorded directly in equity</b>						
Dividend Paid (Note 24.3)	-	-	-	-	(15,937,500)	(15,937,500)
Transferred during the year	-	-	-	(334,440)	334,440	-
	-	-	-	-	(15,937,500)	(15,937,500)
As at 31st December 2013	<u>159,375,000</u>	<u>51,407,100</u>	<u>15,000,000</u>	<u>2,122,626</u>	<u>167,665,650</u>	<u>395,570,376</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 7 to 36. The Report of the Independent Auditors is given on pages 1 and 2.

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

**FOR THE YEAR ENDED**

	<b>Note</b>	<b>2013 Mrf.</b>	<b>2012 Mrf.</b>
<b>Cash Flow from Operating Activities</b>			
Profit before tax		59,860,643	57,879,147
<i>Adjustments for:</i>			
Depreciation	<b>18</b>	614,301	572,619
Provision for impairment on loan and advances	<b>17.1</b>	217,807	2,038,650
Amortization of intangible assets	<b>19</b>	186,925	177,057
Net interest Income	<b>6</b>	(65,688,986)	(62,531,084)
<b>Operating cash flow before working capital changes</b>		<u>(4,809,310)</u>	<u>(1,863,611)</u>
<b>Working Capital Changes</b>			
Change in loans and advances to customers		(83,672,744)	(190,652,579)
Change in other assets		(4,684,148)	(50,800)
Change in other liabilities		28,169,987	9,610,137
Change in deposits from customers		3,963,270	4,597,873
Change in derivatives held for risk management		7,312,015	8,782,975
<b>Cash used in Operations</b>		<u>(53,720,930)</u>	<u>(169,576,006)</u>
Interest received	<b>6</b>	96,664,514	80,808,282
Interest paid	<b>6</b>	(30,677,041)	(18,277,198)
Income tax paid		(14,134,468)	(6,797,290)
<b>Net Cash used in Operating Activities</b>		<u>(1,867,925)</u>	<u>(113,842,212)</u>
<b>Cash Flow from Investing Activities</b>			
Acquisition of property and equipment	<b>18</b>	(168,372)	(578,491)
Acquisition of intangible asset	<b>19</b>	-	(53,701)
Payments for purchase of investments		(43,805,874)	-
<b>Net Cash used in Investing Activities</b>		<u>(43,974,246)</u>	<u>(632,192)</u>
<b>Cash Flow from Financing Activities</b>			
Repayments of borrowing during the year	<b>22</b>	(122,711,270)	(58,847,004)
Borrowings during the year	<b>22</b>	272,026,590	106,260,000
Dividend paid	<b>24.3</b>	(15,937,400)	(15,937,400)
<b>Net Cash from in Financing Activities</b>		<u>133,377,920</u>	<u>31,475,596</u>
<b>Net increase / (decrease) in cash and cash equivalents</b>		87,535,749	(82,998,808)
Cash and cash equivalents at the beginning of the year		(28,860,151)	54,138,657
<b>Cash and cash equivalents at end of the year</b>	<b>14</b>	<u><u>58,675,598</u></u>	<u><u>(28,860,151)</u></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 7 to 36. The Report of the Independent Auditors is given on pages 1 and 2.

**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 whereby the transactions are recorded at the values prevailing on the dates when the assets were acquired, the liabilities were incurred or the capital obtained.

**(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.

**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.

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

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

**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  
(INCORPORATED IN THE REPUBLIC OF MALDIVES)  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

**3.4 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 assets 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.

**3.5 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  
(INCORPORATED IN THE REPUBLIC OF MALDIVES)  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

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

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

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. If all or substantially all risks and rewards are retained, 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 and 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.

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

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

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

**(vii) Measurement of Impairment**

**(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 flow 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.

**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 recognised.

**(b) 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  
(INCORPORATED IN THE REPUBLIC OF MALDIVES)  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

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

**(viii) 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.

**3.6 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.

For the purpose of Cash flows, cash and cash equivalents is shown net off bank overdraft.

**3.7 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.

**3.8 Held-To-Maturity**

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Authority 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 Authority 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 Authority has collected substantially all of the asset's original principal.
- Sales or reclassifications attributable to non-recurring isolated events beyond the Authority's control that could not have been reasonably anticipated.

**3.9 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  
(INCORPORATED IN THE REPUBLIC OF MALDIVES)  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

**3.10 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.

**(i) 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.

**(ii) 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	8 years
Communication Equipments	3 years

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

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

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

**3.11 Intangible Asset**

**(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
-------------------	-------------

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

**3.12 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.

**3.13 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.

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

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

**3.14 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.

**3.15 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.

**3.16 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  
(INCORPORATED IN THE REPUBLIC OF MALDIVES)  
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) Receivables**

The fair value of other receivables and receivable from financing activities is estimated as the present value of future cash flows.

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

Fair value, which is determined for disclosure purposes, is calculated based on the present value of cash flows.

**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 2014 and have not been applied in preparing these financial statements. Those which may be relevant to the Authority are set out below.

<b>Title</b>	<b>Effective Date</b>	<b>Description</b>	<b>Expected adoption date and impact on the Company</b>
IFRS 9 "Financial Instruments"	Annual periods beginning on or after 1 <sup>st</sup> January 2018.	This IFRS requires that entity classifies its financial assets as subsequently measured at either amortized cost or fair value depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.	The Company will not early adopt this standard.  The adoption of this standard is not expected to have a significant impact on the Company's assets and liabilities.
IAS 32 "Financial Instruments: Presentation"	Annual periods beginning on or after 1 <sup>st</sup> January 2014.	Amendments to this IFRS clarify the offsetting criteria by explaining when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement.	The Company will not early adopt new amendment to this standard.  The adoption of this standard is not expected to have a significant impact on the Company's assets and liabilities.

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

**FOR THE YEAR ENDED 31ST DECEMBER 2013**

<b>6 NET INTEREST INCOME</b>	<b>2013</b>	<b>2012</b>
	<b>MRf.</b>	<b>MRf.</b>
<b>Interest income</b>		
Housing Loans	91,157,588	80,419,376
Treasury Bill and other Bank Deposits	5,208,439	388,906
<b>Total interest income</b>	<u>96,366,027</u>	<u>80,808,282</u>
<b>Interest expense</b>		
Deposits from Customers	796,577	703,893
Borrowings	23,991,455	16,281,108
Bonds	5,889,009	1,292,197
<b>Total interest expense</b>	<u>30,677,041</u>	<u>18,277,198</u>
<b>Net interest income</b>	<u>65,688,986</u>	<u>62,531,084</u>
<b>7 NET INCOME / (COST) ON SHARI'AH PRODUCTS</b>	<b>2013</b>	<b>2012</b>
	<b>MRf.</b>	<b>MRf.</b>
Revenue from Amna Assets	2,973,463	47,955
Amna Investor's Profit Share	(2,119,582)	(102,466)
	<u>853,881</u>	<u>(54,511)</u>
<b>8 FEE INCOME</b>	<b>2013</b>	<b>2012</b>
	<b>MRf.</b>	<b>MRf.</b>
SWAP Commitment fees ( <b>Note 8.1</b> )	5,719,709	6,529,279
Housing Loan Processing Fee ( <b>Note 8.2</b> )	1,556,438	1,600,200
Management Fee ( <b>Note 8.3</b> )	786,835	838,523
	<u>8,062,982</u>	<u>8,968,002</u>
<b>8.1 SWAP Commitment fees</b>		
SWAP commitment fees are computed on a daily basis on the outstanding USD 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.		
<b>8.2 Housing Loan Processing Fee</b>		
Housing Loan Processing Fee is computed based on the approved loan value at the rate of 1% subject to a maximum amount of MRf. 50,000/-.		
<b>8.3 Management Fee</b>		
Management Fee is computed based on the outstanding of Ministry of Housing and Urban Development fund as at end of the each month at the rate of 1.75% p.a.		
<b>9 OTHER INCOME</b>	<b>2013</b>	<b>2012</b>
	<b>MRf.</b>	<b>MRf.</b>
Penalty fee income on late payments	870,000	1,137,165
Income from issuing application forms	10,239	29,679
Collection Agent Fee - Amna	16,900	40,155
Fair value gain on interest rate SWAP	484,960	-
	<u>1,382,099</u>	<u>1,206,999</u>

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

**FOR THE YEAR ENDED 31ST DECEMBER 2013**

<b>10 PERSONNEL EXPENSES</b>	<b>2013</b>	<b>2012</b>
	<b>MRf.</b>	<b>MRf.</b>
Salaries	5,861,120	4,590,963
Allowances & Bonus	3,076,838	2,220,159
Staff Insurance	74,200	95,122
Provident Fund Contribution	256,952	227,900
	<u>9,269,110</u>	<u>7,134,144</u>
<b>11 OTHER OPERATING EXPENSES</b>	<b>2013</b>	<b>2012</b>
	<b>MRf.</b>	<b>MRf.</b>
Professional Fees	582,128	483,552
Premises, equipment and establishment Expenses	1,105,762	1,038,935
Board Remuneration and Meeting Expenses	548,535	626,414
Advertising and Marketing Expenses	874,186	60,177
Operating Expenses	2,728,551	2,640,879
Depreciation	614,301	572,619
Amortization	186,925	177,057
	<u>6,640,388</u>	<u>5,599,633</u>
<b>12 TAX EXPENSE</b>	<b>2013</b>	<b>2012</b>
	<b>MRf.</b>	<b>MRf.</b>
Current tax expense (Note 12.1)	8,984,694	8,895,216
Deferred tax asset (Note 12.2)	(55,998)	13,878
	<u>8,928,696</u>	<u>8,909,094</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 profits at the rate of 15%.

<b>12.1 Reconciliation Between Accounting Profit and Taxable Profit :</b>	<b>2013</b>	<b>2012</b>
	<b>MRf.</b>	<b>MRf.</b>
Profit Before Tax	59,860,643	57,879,147
Aggregate Disallowable Items	4,468,265	4,596,507
Aggregate Allowable Items	(3,930,950)	(2,674,210)
	<u>60,397,958</u>	<u>59,801,444</u>
Tax Free Allowance	(500,000)	(500,000)
Taxable Income	<u>59,897,958</u>	<u>59,301,444</u>
Income Tax @ 15%	<u>8,984,694</u>	<u>8,895,216</u>

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

**FOR THE YEAR ENDED 31ST DECEMBER 2013**

**12 TAX EXPENSE (CONTINUED)**

<b>12.2 Deferred Tax Asset</b>	<b>2013 MRf.</b>	<b>2012 MRf.</b>
Opening Balance	9,510	23,388
Origination / (reversal) for the year	55,998	(13,878)
Closing Balance	<u>65,508</u>	<u>9,510</u>

**12.3 Deferred Tax Asset**

Deferred tax asset has been recognized in respect of the following item:

	<u>31/12/2013</u>		<u>31/12/2012</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	<u>436,720</u>	<u>65,508</u>	<u>63,400</u>	<u>9,510</u>

**13 BASIC AND DILUTED EARNING 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 period.

	<b>2013</b>	<b>2012</b>
Net profit attributable to shareholders (MRf.)	50,931,947	48,970,053
weighted average number of ordinary shares in issue	1,593,750	1,593,750
Basic and Diluted Earnings per shares (MRf.)	<u>31.96</u>	<u>30.73</u>

**14 CASH AND CASH EQUIVALENTS**

	<b>31/12/2013 MRf.</b>	<b>31/12/2012 MRf.</b>
Cash in hand	7,500	7,500
Cash in Transit	241,286	-
Account Balances with Other Banks	<u>58,426,812</u>	<u>7,156,971</u>
	<u>58,675,598</u>	<u>7,164,471</u>
Bank Overdraft	<u>-</u>	<u>(36,024,622)</u>
Cash and cash equivalents for the purpose of cash flows	<u>58,675,598</u>	<u>(28,860,151)</u>

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

**FOR THE YEAR ENDED 31ST DECEMBER 2013**

<b>15 FINANCIAL ASSETS HELD TO MATURITY</b>	<b>31/12/2013</b>	<b>31/12/2012</b>
	<b>MRf.</b>	<b>MRf.</b>
Fixed deposits (Note : 15.1)	4,510,357	-
Investments in Treasury bills (Note : 15.2)	39,583,917	-
	<u>44,094,274</u>	<u>-</u>

**15.1** Fixed Deposit at Bank of Maldives will mature on 3rd April 2014 and carries an interest rate of 3.25% per annum.

**15.2** Treasury Bills will mature on 14th January 2014 and 4th March 2014 and carry an interest rate of 9.7% & 10.5% per annum.

<b>16 DERIVATIVE ASSET</b>	<b>2013</b>	<b>2012</b>
	<b>MRf.</b>	<b>MRf.</b>
As at 1st January	25,561,485	34,344,460
Fair value gain recognized during the year	484,960	-
Fair value realized during the year	(7,796,975)	(8,782,975)
As at 31st December	<u>18,249,470</u>	<u>25,561,485</u>

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

At each subsequent period 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>31/12/2013</b>	<b>31/12/2012</b>
	<b>MRf.</b>	<b>MRf.</b>
Housing Loans	825,813,865	752,059,115
Amna Assets	28,046,343	18,128,349
	<u>853,860,208</u>	<u>770,187,464</u>
Less: Collective impairment provision (Note 17.1)	(11,621,971)	(11,404,164)
	<u>842,238,237</u>	<u>758,783,300</u>

<b>17.1 Collective impairment provision</b>	<b>2013</b>	<b>2012</b>
	<b>MRf.</b>	<b>MRf.</b>
Opening Balance	11,404,164	10,617,717
Provision for the year	217,807	2,038,650
Less: Write off during the year	-	(1,252,203)
Closing Balance	<u>11,621,971</u>	<u>11,404,164</u>

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

**FOR THE YEAR ENDED 31ST DECEMBER 2013**

**18 PROPERTY, PLANT AND EQUIPMENT**

	<b>Office Equipment MRf.</b>	<b>Computer Equipment MRf.</b>	<b>Furniture and Fixtures MRf.</b>	<b>Motor Vehicles MRf.</b>	<b>Communication Equipment MRf.</b>	<b>Leasehold Improvements MRf.</b>	<b>Total 2013 MRf.</b>	<b>Total 2012 MRf.</b>
<b>Cost</b>								
As at 1st January	573,110	1,935,589	520,674	32,500	14,096	1,003,144	4,079,113	3,500,622
Addition during the year	26,797	76,878	64,697	-	-	-	168,372	578,491
As at 31st December	599,907	2,012,467	585,371	32,500	14,096	1,003,144	4,247,485	4,079,113
<b>Accumulated Depreciation</b>								
As at 1st January	279,494	908,960	316,705	32,500	5,604	411,543	1,954,806	1,382,187
Charge for the year	72,370	367,632	94,343	-	4,389	75,567	614,301	572,619
As at 31st December	351,864	1,276,592	411,048	32,500	9,993	487,110	2,569,107	1,954,806
<b>Net Carrying Value</b>								
As at 31st December 2013	248,043	735,875	174,323	-	4,103	516,034	1,678,378	
As at 31st December 2012	293,616	1,026,629	203,969	-	8,492	591,601		2,124,307

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

**FOR THE YEAR ENDED 31ST DECEMBER 2013**

<b>19 INTANGIBLE ASSETS</b>	<b>31/12/2013</b>	<b>31/12/2012</b>
	<b>MRf.</b>	<b>MRf.</b>
<b>Cost</b>		
As at 1st of January	736,370	682,669
Additions during the year	-	53,701
As at 31st December	<u>736,370</u>	<u>736,370</u>
<b>Accumulated Amortization</b>		
As at 1st of January	330,580	153,523
Amortization during the year	186,925	177,057
As at 31st December	<u>517,505</u>	<u>330,580</u>
<b>Net Book Value</b>	<u>218,865</u>	<u>405,790</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>31/12/2013</b>	<b>31/12/2012</b>
	<b>MRf.</b>	<b>MRf.</b>
Account receivable	1,025,517	1,073,094
Prepayments	7,124,747	2,390,744
Advances to Staff	164,808	149,864
Inventories - Stationary	-	17,222
	<u>8,315,072</u>	<u>3,630,924</u>
<b>21 DEPOSITS FROM CUSTOMERS</b>	<b>31/12/2013</b>	<b>31/12/2012</b>
	<b>MRf.</b>	<b>MRf.</b>
Monthly installment deposits (21.1)	36,226,731	32,964,815
Borrowers deposits	3,499,688	2,798,334
	<u>39,726,419</u>	<u>35,763,149</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.

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

**FOR THE YEAR ENDED 31ST DECEMBER 2013**

<b>22 BORROWINGS</b>	<b>31/12/2013</b>	<b>31/12/2012</b>
	<b>MRf.</b>	<b>MRf.</b>
Opening Balance	313,582,292	266,066,830
Borrowings during the year	272,026,590	106,260,000
Repayments during the year	(122,711,270)	(58,847,004)
Interest payable	3,972,417	3,835,290
Closing Balance	<u>466,870,029</u>	<u>317,315,116</u>
<b>22.1 Sources of funds</b>		
International Finance Corporation (Note 22.3)	61,801,034	86,634,891
Asian Development Bank (Note 22.4)	53,340,748	74,730,937
Netherlands Development Finance Company (Note 22.5)	128,728,413	95,566,822
Corporate Bond (Note 22.6)	47,876,277	40,280,000
Wakala facilities (Note 22.7)	30,586,887	20,102,466
Term Loan from HSBC (Note 22.8)	135,128,157	-
Term Loan from BML (Note 22.9)	9,408,513	-
	<u>466,870,029</u>	<u>317,315,116</u>
<b>22.2 Maturity analysis of borrowings</b>		
Payable within one year	139,194,802	122,682,603
Payable after one year	327,675,227	194,632,513
	<u>466,870,029</u>	<u>317,315,116</u>

**22.3 International Finance Corporation (IFC)**

The borrowings from IFC carry interest at LIBOR +3%. The loan is repayable in 10 half yearly installments commencing from 15th July 2011 and ending on 15th January 2016. The IFC 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.

**22.4 Asian Development Bank (ADB)**

The borrowings from ADB carry interest at LIBOR +3.3%. The loan from ADB is repayable in 11 half yearly installments commencing after 24 months from the first disbursement date (10th February 2009). The ADB 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 ADB loan.

**22.5 Netherlands Development Finance Company (NDFC)**

The borrowings from NDFC carry interest at LIBOR + 4.25%. The term loan from NDFC is repayable in 16 half yearly installments commencing from 15th April 2012 and ending on 15th April 2019. The NDFC 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 NDFC loan.

**22.6 Corporate Bond**

During 2010, HDFC renewed bonds amounting to MRf. 280,000 with a maturity period of 5 years, carrying interest of 6% per annum. During 2012, HDFC issued bonds twice amounting to MRf. 20,000,000 and MRf. 20,000,000 with a maturity period of 1 year, carrying interest of 7.5% and 8.4% per annum respectively. During 2013 HDFC issued bonds amounting to MRf. 51,970,000/- carrying an interest of 7.5% per annum.

**22.7 Wakala facilities**

During 2012, HDFC has obtained a loan of MRf 20,000,000 from Maldives Islamic Bank private limited at an interest rate of 11.5% p.a with a maturity period of 1 year and during the year 2013, HDFC has obtained a loan of MRf 10,000,000 from Amana Takaful Maldives PLC at an interest rate of 11.5% p.a for granting home financing facilities in accordance with the rules and principles of Shariah.

**22.8 Term Loan from HSBC**

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 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 guarantee from the Government of Maldives.

**22.9 Loan from BML**

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 direct lending to people who carry out housing projects in Maldives. The loan carries interest at rate of 8.5% p.a and is repayable in monthly installments commencing from the 1st disbursement and end in 2018.

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

**FOR THE YEAR ENDED 31ST DECEMBER 2013**

<b>23 OTHER LIABILITIES</b>	<b>31/12/2013</b>	<b>31/12/2012</b>
	<b>MRf.</b>	<b>MRf.</b>
Ministry of Housing and Urban Development Fund (Note 23.1)	40,569,162	35,153,299
MHI Social Housing Fund	114,575	-
Subscription Receipts	21,390,500	-
Amounts received from customers in advance	2,133,477	2,920,573
Tax Payable	89,478	5,239,252
Dividends Payable	269	169
Insurance Premium	4,903,626	3,498,884
Employees Pension Contribution	71,851	68,692
Accruals and other Liabilities	2,095,640	1,120,102
	<u>71,368,578</u>	<u>48,000,971</u>

**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.

**24 SHARE CAPITAL**

**24.1 Authorized**

The authorized share capital comprises of 3,187,500 Ordinary Shares (2012: 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 (2012: 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.

The board of directors of the Company has paid a dividend of MRf. 15,937,500/- (Dividend per share MRf. 10/-) during the year ended 31st December 2013 (2012 : MRf. 15,937,500/-) (Dividend per share MRf. 10/-)

**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 11 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.

**25 RESERVES**

**25.1 General Reserve**

General reserve balance 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.

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

**FOR THE YEAR ENDED 31ST DECEMBER 2013**

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

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

A credit Committee comprising the Managing Director, Advisor to Managing Director, Manager Administration, Credit and Head of Accounts 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.

## 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 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. Further 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 31 December 2013 and 31 December 2012, 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.
- 88% of the loans and advances portfolio are considered to be neither past due nor impaired (31 December 2012: 96%);

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

	31/12/2013	31/12/2012
	MRf.	MRf.
Neither past due or nor impaired	755,194,811	735,198,008
Past due but not impaired	81,214,574	23,418,821
Impaired	17,450,823	11,570,635
Gross	<u>853,860,208</u>	<u>770,187,464</u>
Less: provision for impairment	(11,621,971)	(11,404,164)
Net	<u><u>842,238,237</u></u>	<u><u>758,783,300</u></u>

During the year ended 31 December 2013, the Company's total value of loans and advances increased by 10.86% 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 construction loans providing collateral and strong repayment capacity from employment, other business and rental income.

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

**FOR THE YEAR ENDED 31ST DECEMBER 2013**

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

**26.4 Impairment and provisioning policies (continued)**

*(a) Loans neither past due nor impaired*

Currently HDFC does maintain an internal credit rating system for loans neither past due or impaired. Internal rating is calculated by taking total receipts for the period (A) and total late penalty for the period (B), 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-Dec-13		31-Dec-12	
		Loans to customers MRf.	Percentage of total loans MRf.	Loans to customers MRf.	Percentage of total loans MRf.
A+	0.2%	705,873,654	93.47%	606,176,385	82%
A	0.2% to 0.5%	3,994,042	0.53%	2,008,187	0%
A-	0.5% to 1%	18,768,422	2.49%	5,432,886	1%
B+	1% to 1.5%	7,562,350	1.00%	22,695,376	3%
B	1.5% to 2%	3,276,778	0.43%	29,143,292	4%
C	above 2%	15,719,565	2.08%	69,741,882	9%
		<b>755,194,811</b>	<b>100%</b>	<b>735,198,008</b>	<b>100%</b>

*(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:

31 December 2013 (MRf. '000)	Male'	Hulhumale'	Outer atoll	Total
Past due 30-60 days	49,802	15,908	11,178	76,888
Past due 60-90 days	-	2,170	2,156	4,326
Total	<b>49,802</b>	<b>18,078</b>	<b>13,334</b>	<b>81,214</b>
31 December 2012 (MRf. '000)	Male'	Hulhumale'	Outer atoll	Total
Past due 30-60 days	4,687	1,858	2,686	9,231
Past due 60-90 days	5,668	5,506	3,014	14,188
Total	<b>10,355</b>	<b>7,364</b>	<b>5,700</b>	<b>23,419</b>

*(c) Loans and advances impaired*

The impaired loans and advances to customers before taking into consideration the cash flows from collateral held is MRf. 17,450,823/- (as compared to on 31 December 2012 when impaired loans and advances to customers were MRf. 11,001,253/-).

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

31 December 2013 (MRf. '000)	Male'	Hulhumale'	Outer atoll	Total
Impaired loans	<b>9,153</b>	<b>4,444</b>	<b>3,853</b>	<b>17,450</b>
31 December 2012 (MRf. '000)	Male'	Hulhumale'	Outer atoll	Total
Impaired loans	<b>7,255</b>	<b>1,532</b>	<b>2,783</b>	<b>11,570</b>

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

**FOR THE YEAR ENDED 31ST DECEMBER 2013**

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

**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.

	<b>31/12/2013</b>	<b>31/12/2012</b>
	<b>Mrf.</b>	<b>MRf.</b>
Residential	806,474,674	724,204,984
Islamic Mortgages	28,046,342	18,113,250
Commercial	19,339,192	27,869,230
Grand total	<u>853,860,208</u>	<u>770,187,464</u>

**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).

**26.7 Foreign exchange risk**

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

HDFC has borrowed US\$ 7.5 million from Asian Development Bank (ADB) and US\$ 4 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\$ = 12.85 MVR. 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 MVR to honour the US\$ requirement of HDFC.

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

**FOR THE YEAR ENDED 31ST DECEMBER 2013**

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

**26.7 Foreign exchange risk (continued)**

HDFC has also borrowed US\$ 3.5 million from International Finance Corporation (IFC) and US\$ 7 million from Netherlands Development Finance Company (NDFC). The proceeds from these were sold to State Trading Organisation PLC (STO) for equivalent Rufiyaa at 1 US\$ = 15.42 MVR. HDFC has entered into two SWAP agreements with STO by which STO will sell equal amount of US\$ to honour the US\$ requirement of HDFC at the rate of 1 US\$ = 15.42 MVR.

By virtue of the SWAP agreement, HDFC will be able to service the US\$ loans obtained from ADB, IFC and FMO. As at the reporting date, the outstanding balance in borrowings, with regard to the money provided for this SWAP agreement, amounts to US\$ 15,603,956/-, against which the amounts of US\$ to be purchased from STO PLC is US\$ 17,715,953/-

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

	<b>31/12/2013</b>	<b>31/12/2012</b>
	<b>US\$</b>	<b>US\$</b>
<b>Assets</b>		
Cash and balances with Banks	763,084	132,296
Derivative financial instruments	1,183,494	1,657,684
<b>Total assets</b>	<b><u>1,946,577</u></b>	<b><u>1,789,980</u></b>
<b>Liabilities</b>		
Borrowings	15,603,956	16,420,233
<b>Total Liabilities</b>	<b><u>15,603,956</u></b>	<b><u>16,420,233</u></b>
<b>Net on-balance sheet financial position</b>	<b><u>(13,657,379)</u></b>	<b><u>(14,630,254)</u></b>
<b>Commitments</b>	<b><u>17,715,953</u></b>	<b><u>19,658,625</u></b>
<b>Net</b>	<b><u>4,058,574</u></b>	<b><u>5,028,371</u></b>

**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 arise.

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

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

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

**FOR THE YEAR ENDED 31ST DECEMBER 2013**

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

**26.8 Interest rate risk (continued)**

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

*As at 31 December 2013 (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 banks	30,268	-	-	-	-	28,408	58,676
Financial assets held to Maturity	19,931	19,653	4,510	-	-	-	44,094
Loans and advances	4,826	10,343	43,079	213,579	570,411	-	842,238
Derivative financial instruments	3,553	-	3,553	11,143	-	-	18,249
Other assets	-	-	-	-	-	10,278	10,278
<b>Total financial assets</b>	<b>58,578</b>	<b>29,996</b>	<b>51,142</b>	<b>224,722</b>	<b>570,411</b>	<b>38,686</b>	<b>973,535</b>
<b>Liabilities</b>							
Deposits from customers	-	-	-	-	33,570	3,500	37,070
Borrowings	13,415	32,556	88,456	306,187	21,488	-	462,102
Other liabilities	-	-	-	-	40,505	38,339	78,844
Total financial liabilities	<b>13,415</b>	<b>32,556</b>	<b>88,456</b>	<b>306,187</b>	<b>95,563</b>	<b>41,839</b>	<b>578,016</b>
<b>Total interest repricing gap</b>	<b>45,163</b>	<b>(2,560)</b>	<b>(37,314)</b>	<b>(81,465)</b>	<b>474,848</b>	<b>(3,153)</b>	<b>395,519</b>

*As at 31 December 2012 (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 banks	4,701	-	-	-	-	2,463	7,164
Loans and advances	4,085	8,286	59,224	190,535	495,171	-	757,301
Derivative Asset	737	1,693	6,554	16,577	-	-	25,561
Other assets	-	-	-	-	-	7,653	7,653
<b>Total financial assets</b>	<b>9,523</b>	<b>9,979</b>	<b>65,778</b>	<b>207,112</b>	<b>495,171</b>	<b>10,116</b>	<b>797,679</b>
<b>Liabilities</b>							
Deposits from customers	-	-	-	-	31,101	2,798	33,899
Borrowings	12,164	30,513	112,194	167,648	26,985	-	349,504
Other liabilities	-	-	-	-	35,084	18,617	53,701
Total financial liabilities	<b>12,164</b>	<b>30,513</b>	<b>112,194</b>	<b>167,648</b>	<b>93,170</b>	<b>21,415</b>	<b>437,104</b>
<b>Total interest repricing gap</b>	<b>(2,641)</b>	<b>(20,534)</b>	<b>(46,416)</b>	<b>39,464</b>	<b>402,001</b>	<b>(11,299)</b>	<b>360,575</b>

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

**FOR THE YEAR ENDED 31ST DECEMBER 2013**

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

**26.8 Interest rate risk (continued)**

<b>Exposure to interest rate risk – Loans and advances</b>	<b>31/12/2013</b>	<b>31/12/2012</b>
<i>Sensitivity analysis of net interest income</i>	<b>1% Change</b>	<b>1% Change</b>
	<b>MRf.</b>	<b>MRf.</b>
Average for the year	<u>8,422,382</u>	<u>7,587,833</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 periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

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

***Funding approach***

Sources of liquidity are regularly reviewed by the ALCO.

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

**FOR THE YEAR ENDED 31ST DECEMBER 2013**

**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 31 December 2013 (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	37,070	(41,481)	(3,500)	-	-	-	(37,981)
Borrowings	462,102	(538,079)	(14,479)	(48,518)	(104,051)	(348,982)	(22,049)
Other Liabilities	78,844	(84,167)	-	-	-	-	(84,167)
<b>Total liabilities</b>	<b>578,016</b>	<b>(663,727)</b>	<b>(17,979)</b>	<b>(48,518)</b>	<b>(104,051)</b>	<b>(348,982)</b>	<b>(144,197)</b>
<b>Assets</b>							
<i>Non-derivative assets</i>							
Cash and balances with other banks	58,676	58,676	58,676	-	-	-	-
Financial assets held to Maturity	44,094	44,620	20,000	20,000	4,620	-	-
Loans and advances	842,238	1,453,348	11,743	24,045	102,575	473,359	841,626
Derivative Asset	18,249	18,249	3,553	-	3,553	11,143	-
Other assets	10,278	12,949	-	-	-	-	12,949
<b>Total assets</b>	<b>973,535</b>	<b>1,587,842</b>	<b>93,972</b>	<b>44,045</b>	<b>110,748</b>	<b>484,502</b>	<b>854,575</b>
<b>Net</b>		<b>924,115</b>	<b>75,993</b>	<b>(4,473)</b>	<b>6,697</b>	<b>135,520</b>	<b>710,378</b>
<b>As at 31 December 2012 (MRf '000)</b>							
	<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	33,899	(37,787)	-	-	(2,798)	-	(34,989)
Borrowings	349,504	(386,366)	(13,952)	(32,881)	(123,804)	(186,850)	(28,879)
Other Liabilities	53,701	(62,311)	-	-	-	-	(62,311)
<b>Total liabilities</b>	<b>437,104</b>	<b>(486,464)</b>	<b>(13,952)</b>	<b>(32,881)</b>	<b>(126,602)</b>	<b>(186,850)</b>	<b>(126,179)</b>
<b>Assets</b>							
<i>Non-derivative assets</i>							
Cash and balances with other banks	7,164	7,226	7,226	-	-	-	-
Treasury bills	-	-	-	-	-	-	-
Loans and advances	757,301	1,444,666	11,506	23,013	103,488	488,075	818,584
Derivative Finance Instruments	25,561	25,561	737	1,693	6,554	16,577	-
Other assets	7,653	7,653	-	-	-	-	7,653
<b>Total assets</b>	<b>797,679</b>	<b>1,485,106</b>	<b>19,469</b>	<b>24,706</b>	<b>110,042</b>	<b>504,652</b>	<b>826,237</b>
<b>Net</b>		<b>998,642</b>	<b>5,517</b>	<b>(8,175)</b>	<b>(16,560)</b>	<b>317,802</b>	<b>700,058</b>

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

**FOR THE YEAR ENDED 31ST DECEMBER 2013**

**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 31 December 2013. HDFC complied with all of the externally imposed capital requirements to which they are subjected.

	<b>31/12/2013</b>	<b>31/12/2012</b>
	<b>MRf '000</b>	<b>MRf '000</b>
<b>Capital</b>		
Share Capital	159,375,000	159,375,000
Advance for shares	51,407,100	51,407,100
Retained earnings	167,665,650	132,336,760
Reserves	17,122,626	17,457,066
<b>Total qualifying Capital</b>	<b>395,570,376</b>	<b>360,575,926</b>
<b>Total capital</b>	<b>395,570,376</b>	<b>360,575,926</b>
<b>Risk-weighted assets</b>		
On-balance sheet	450,295,598	399,781,867
<b>Total risk-weighted assets</b>	<b>450,295,598</b>	<b>399,781,867</b>
<b>Basel ratio</b>	<b>88%</b>	<b>90%</b>

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

**FOR THE YEAR ENDED 31ST DECEMBER 2013**

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

**26.11 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:

	<b>31/12/2013 Carrying Amount Mrf.</b>	<b>31/12/2013 Fair Value Mrf.</b>	<b>31/12/2012 Carrying Amount Mrf.</b>	<b>31/12/2012 Fair Value Mrf.</b>
<b>Assets Carried at Fair Value</b>				
Derivative Asset	18,249,470	18,249,470	25,561,485	25,561,485
<b>Assets Carried at Amortized Cost</b>				
Cash and cash equivalents	58,675,598	58,675,598	7,164,471	7,164,471
Financial Assets Held to Maturity	44,094,274	44,094,274	-	-
Loans and advances to customers	842,238,237	842,238,237	758,783,300	758,783,300
	<u>945,008,109</u>	<u>945,008,109</u>	<u>765,947,771</u>	<u>765,947,771</u>
<b>Liabilities Carried at Amortized Cost</b>				
Deposits from customers	39,726,419	39,726,419	35,763,149	35,763,149
Borrowings	466,870,029	466,870,029	317,315,116	317,315,116
Bank Overdraft	-	-	36,024,622	36,024,622
	<u>506,596,448</u>	<u>506,596,448</u>	<u>389,102,887</u>	<u>389,102,887</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) Deposit from customer 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.
- e) Bank Overdraft - The carrying amount of bank overdrafts approximates fair value due to the relatively short maturity of the financial instruments.

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

**FOR THE YEAR ENDED 31ST DECEMBER 2013**

**27 RELATED PARTY TRANSACTIONS**

Name of Related Party	Relationship	Nature of Transactions	Amount	Amount	Balance due from/(to)	Balance due from/(to)
			2013 Mrf.	2012 Mrf.	As at 31/12/2013 Mrf.	As at 31/12/2012 Mrf.
Asian Development Bank	Shareholder (18%)	Loan				
		Repayments	21,025,170	10,512,585	(52,574,489)	(73,599,659)
		Interest Paid	2,703,753	1,740,585	-	-
		Dividend Paid	2,868,750	2,868,750	-	-
		Payments	3,084	1,842,721		
Government of Maldives	Shareholder (49%)	Dividend Paid	7,809,280	7,809,280	-	-
International Finance Corporation	Shareholder (18%)	Loan	24,329,334	12,164,667	(60,823,333)	(85,152,667)
		Repayments				
		Interest Paid	3,051,683	1,869,471	-	-
		Dividend Paid	2,868,750	2,868,750	-	-
		Payments	28,022	1,882,610	-	-
HDFC Limited	Shareholder (15%)	Dividend Paid	2,390,620	2,390,620	-	-
		Payments	56,314	-	-	-

**27.1 Transactions with Key Management Personnel**

The Board of Directors of the Company are the members of the key management personnel. The Company has paid MRF.46,000/- (2012 : MRF.40,000/-) as emoluments to the key management personnel during the year ended 31st December 2013.

**28 EVENTS AFTER THE REPORTING DATE**

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

**29 MANAGERMENTS' RESPONSIBILITIES**

The management of the Branch 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, whenever necessary.

**31 COMMITMENTS**

	31/12/2013 Mrf.	31/12/2012 Mrf.
<b>31.1 Undrawn/partly drawn facilities of contracted loans and advances</b>	<u>124,761,872</u>	<u>218,397,034</u>
<b>31.2 Operating lease commitment</b>		
	<b>31/12/2013 Mrf.</b>	<b>31/12/2012 Mrf.</b>
Not later than 1 year	660,000	660,000
Later than 1 year and not later than 5 years	2,095,000	2,405,000
Later than 5 years	-	350,000
	<u>2,755,000</u>	<u>3,415,000</u>

**32 CONTINGENT LIABILITIES**

The Company has terminated the employment contract of an employee during the period. Subsequently, the employee has filed a case against the Company at Employment Tribunal and employment Tribunal has worded to reinstate the person with all benefits and reward. The company has appealed the case at High Court and High Court has worded provide fair compensation without reinstating. Further, the company is contemplating under the direction of the board of director to file the case at supreme court for compensation. The Management is confident that this case will be settled in favour of the Company.

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

**FOR THE YEAR ENDED 31ST DECEMBER 2013**

**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**

Loans and advances and its corresponding interest income based on geographical location is as follows;

Interest Income	<b>2013</b> <b>MRf.</b>	<b>2012</b> <b>MRf.</b>
Male	62,760,345	54,993,874
Hulhumale	21,498,611	16,915,830
Other Atolls	6,898,632	8,509,672
	<u>91,157,588</u>	<u>80,419,376</u>
Loans and Advances	<b>31/12/2013</b> <b>MRf.</b>	<b>31/12/2012</b> <b>MRf.</b>
Male	575,162,757	532,413,307
Hulhumale	174,092,983	144,611,290
Other Atolls	76,558,125	75,034,518
	<u>825,813,865</u>	<u>752,059,115</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.





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