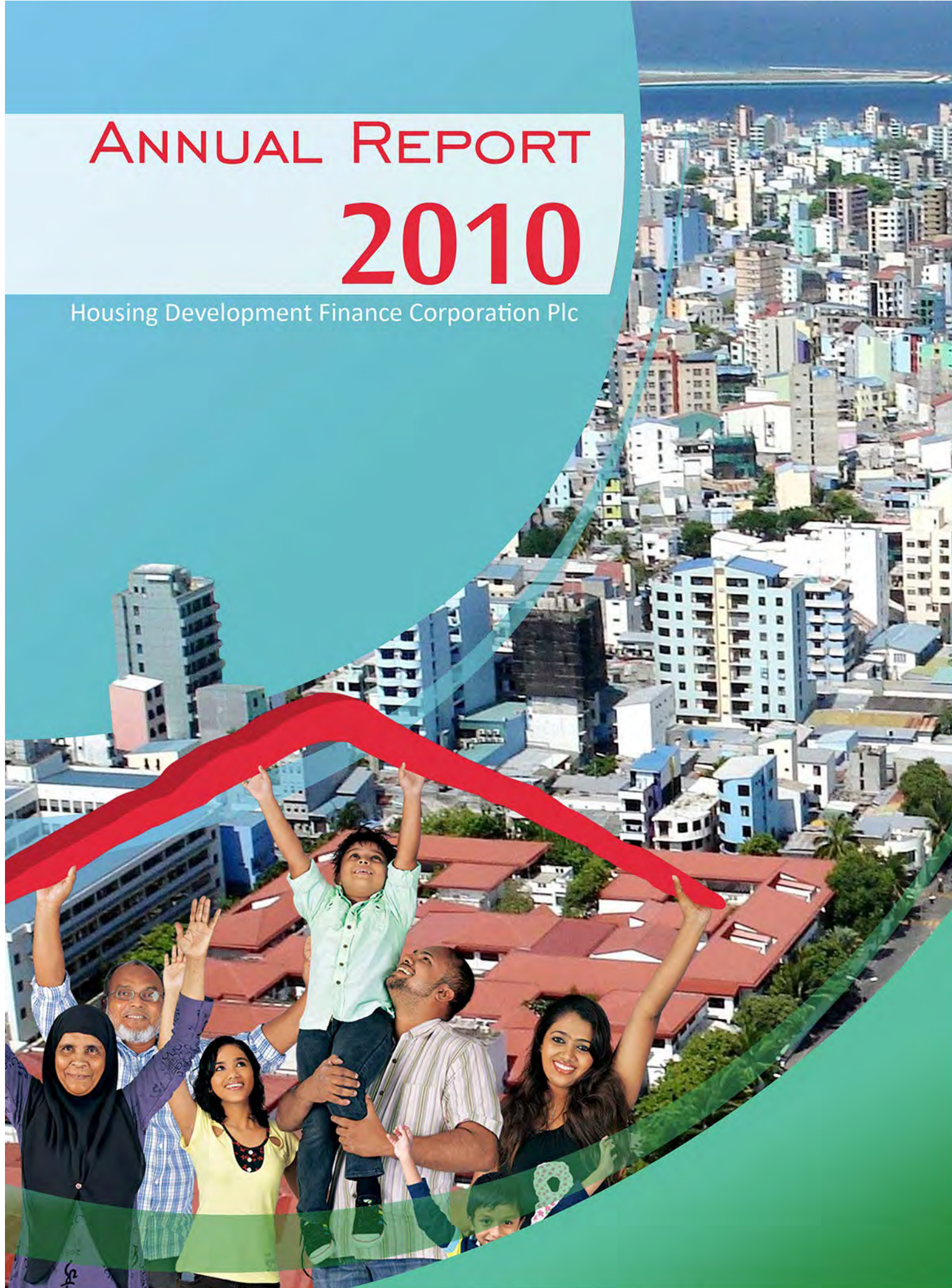


ANNUAL REPORT 2010

Housing Development Finance Corporation Plc



LIVE YOUR DREAM, TODAY

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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.

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.

OUR VALUES are team centric with a culture of investment in the development and growth of each and every member of our team. We value and recognize that a balanced team is the greatest resource in creating synergies to give the best to our raison d'être, Maldivian citizens who are in need of financial strength to uplift their living standards. Professionalism in a spirit of teamwork, diligence, honesty, and integrity with a commitment to excellence are the values we apply to our thinking while executing the duties and responsibilities at every level as a model corporate citizen.

OUR 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



CORPORATE INFORMATION

HDFC Plc. (HDFC) was incorporated in the Maldives on January 28, 2004 by a Presidential Decree under the Companies Act, Law No: 10/96. The operations commenced on March 29, 2004. HDFC was established with technical assistance from the World Bank, and was privatized in July 2008 with 51% joint foreign shareholding by the International Finance Corporation (IFC) of the World Bank Group, Asian Development Bank (ADB), and HDFC Investments Ltd. of India. The Government of Maldives retained 49%. The foreign investment, comprising equity and multilateral loan from IFC and ADB, transformed HDFC into a commercially sustainable, private sector led company.

The total issued and paid up share capital upon privatization of HDFC was MRF. 159,375,000 with ADB and IFC investing 18% each and HDFC Investments Ltd. India, 15% to make up the 51% international shareholding. IFC and ADB have also provided senior term loans of \$7.5 million each. HDFC India, with over 30 years of expertise in mortgage financing is providing technical assistance to HDFC as its Technical Partner under the IFC Performances Based Grants Initiative with the commencement of business as a privatized entity with a new capital structure in February 2009.

HDFC Plc. had been at the forefront of housing loan market with cost leadership at its inception in 2004 offering low-cost mortgage loans with repayment periods up to twenty years. However, the Government of Maldives is currently addressing social housing issues through HDFC Plc. and available multilateral lines of credit from International Agencies will be utilized to finance the demand for housing from the lower middle to wider income segments to ensure commercial viability and sustainable growth of the organization.

BOARD OF DIRECTORS

Ms. Renu Sud Karnad - HDFC India- Chairperson 2009
Mr. Subrata Dutta Gupta - IFC -Chairman 2010
Mr. Sanjaya Gupta- ADB - Chairman 2011
Mr. Ismail Ali Manik - GOM
Ms. Raheema Saleem - GOM

ALTERNATE DIRECTORS

Mr. Conrad D'Souza - HDFC India
Ms. Christine Engstrom - ADB
Ms. Fareeha Shareef - GOM
Ms. Fathmath Muaza - GOM

MANAGING DIRECTOR

Dr. A. D. Priyanka Baddevithana

COMPANY SECRETARY

Mr. Adam Athif

AUDIT COMMITTEE

Mr. Conrad D'Souza – Alternate Director- HDFC Ltd. India
Mr. Ismail Ali Manik – Director -GOM
Mr. Sanjaya Gupta – Director- ADB

SENIOR MANAGEMENT

Dr. A. D. P. Baddevithana - Managing Director
Ms. Raheema Saleem - Advisor
Mr. Ibrahim Didi - Head of Accounts
Mr. Mohamed Fathy - Manager - IT
Mrs. Aishath Rasheeda - Manager - Credit
Mr. Adam Athif - Manager – Administration and HRD

LEGAL COUNSEL

Mazlan & Murad Law Associates
1st Floor G. Swan Lane, Dharmavantha Magu
Male', 20-04, Maldives

BANKERS

Bank of Maldives Plc.
State Bank of India- Male' Branch

AUDITORS

PricewaterhouseCoopers
H. Thandiraimaage, 3rd Floor
Roashanee Magu, Male'
Maldives

CONTACT INFORMATION

HDFC Plc.

H. Mialani, 4th Floor
Sosun Magu, Male' Maldives

Telephone : + (960) 3338810, 3315897

E-mail : info@hdfc.com.mv

Website: www.hdfc.com.mv



MANAGING DIRECTOR'S REPORT

We are pleased to present the annual report of HDFC Plc. with the audited accounts for the year ended December 31, 2010.

Extracts from the audited financials for year ended December 31, 2010.

FINANCIAL RESULTS

For the year ended 31st December

	2010 MRF	2009 MRF	% Change
Interest and Similar Income	35,967,436	30,496,234	18%
Housing Loans	24,731,180	15,592,032	59%
Other Interest Income	11,236,283	14,904,202	-25%
Interest and Similar Expenses	5,585,778	5,002,853	12%
Net Interest Income	30,381,685	25,493,381	19%
Net Fees and Commission Income	1,365,723	909,284	50%
Net Trading Income	73,204	20,250	262%
Other Operating Income	2,188,576	2,889,663	-24%
Operating Income	34,009,188	29,312,578	16%
Operating Expenses	10,482,635	10,217,523	03%
Staff cost	4,135,388	3,431,454	21%
Premises, equipment and establishment	1,036,920	987,668	05%
Impaired loss on loans and advances	2,589,842	3,353,503	-23%
Restructuring expenses	68,278	253,386	-73%
Other administrative expenses	2,652,207	2,191,512	21%
Net Profit	23,526,553	19,095,055	23%
Net Profit in US \$	1,830,860	1,485,996	

PERFORMANCE HIGHLIGHTS

- Profit of Rs. 23.5M (Growth of 23% over 2009)
- Loan Portfolio Growth 67% from 2009 / NPL 0.8% as at the end of December 2010
- Weighted Average Yield on Loans 10.9%
- Weighted Average Cost of Funds 7% (with 10% allotted to capital)
- Average Return on Short Term Investments 5.1% (TB 5.25 – 6%, FD – 5.5%, SV. 3.5%)
- Cost to Income Ratio 31%, Opex. to Gross Income 26%
- Debt to Equity Ratio 87%, Return on Equity 10.7%

BALANCE SHEET

As at 31st December 2011

		2010		2009	% Change
	US\$	MRF	US\$	MRF	
Assets					
Cash and short term funds	15,365,950	197,452,457	18,972,528	243,796,986	-19%
Housing loans	22,150,170	284,629,689	13,294,316	170,831,962	67%
Interest receivable	125,717	1,615,461	115,263	1,481,129	09%
Property, plant & equipment	123,543	1,587,533	117,641	1,511,690	05%
Intangible assets	42,260	543,040	-	-	00%
Other assets	167,286	2,149,625	56,436	725,203	196%
Total assets	37,974,926	487,977,805	32,556,184	418,346,970	17%
Liabilities					
Deposits from customers	1,520,890	19,543,435	1,131,714	14,542,522	34%
Borrowings	11,542,023	148,315,000	8,000,000	102,800,000	44%
Other liabilities	2,405,016	30,904,459	2,748,318	35,315,889	-12%
Total liabilities	15,467,929	198,762,894	11,880,032	152,658,411	30%
SHAREHOLDERS' EQUITY					
Share Capital	12,402,724	159,375,000	12,402,724	159,375,000	00%
Advance for shares	4,000,553	51,407,100	4,000,553	51,407,100	00%
Retained earnings	4,590,641	58,989,731	2,716,456	34,906,459	69%
Reserves	1,513,080	19,443,081	1,556,420	20,000,000	-03%
Total shareholders' equity	22,506,997	289,214,912	20,676,152	265,688,559	09%
Total equity and liabilities	37,974,926	487,977,805	32,556,184	418,346,970	17%
Contingent commitments			31.12.2010	21.12.2009	
Loans approved pending disbursement			360,996,000	5,881,266	

POST BALANCE SHEET EVENTS

Declaration of Dividend for 2010: At the AGM on March 30, 2011, dividend of 7.0% at a payout ratio 47.4% was declared for the year ended December 31, 2010 for the first time since privatization of HDFC Plc

The financial results for the year ended December 31, 2010 recorded a profit of MRF 23,526,553, which is 23% growth from 2009. Most importantly, the housing loan portfolio has grown by 67% in this second year of operations since privatization.



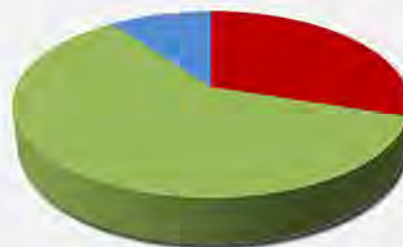
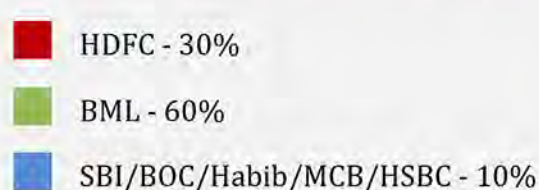
The year 2010 witnessed both local and international housing developers entering the Maldives' market with a high level of confidence as HDFC made available end-user mortgage finance for people to buy completed dwelling units. Purchase of completed dwelling units is a new paradigm in the Maldives where the usual housing solution was to build on shared land allocated for the family many generations ago. The Contingent Commitments for Home Loans of MRF 361 at the end of 2010 under HDFC's pre-approval mechanism of developer-led housing construction is indicative of the vibrancy created in the market by HDFC for the supply of new housing units. These housing projects were at various stages of work-in-progress with completion envisaged in 2010. The new housing stock has targeted the estimated backlog of homes for more than ten thousand families (over 15% of the total population) in the Maldives.

Many international and local companies made full use of HDFC's innovative pre-approval mechanism to provide much needed end-user home finance. The estimate of a housing backlog in the greater Male' region, which recorded one of the highest population densities in the world was primarily instrumental in privatization of HDFC in 2008, and by the time HDFC re-commenced operations in 2009, an emerging market for housing finance in the provincial islands for approximately 7,000 housing units had become apparent. This development was pursuant to the Government of Maldives' (GOM) policy to decentralize the administration and economic development through a democratic council framework.

While council elections were held in February 2011, HDFC was proactive in identifying eleven islands in six atolls in October 2010 where the Board of Directors resolved to extend home mortgage lending to outer islands. Following the Board decision, HDFC launched its Island Outreach Home Loan Program, and as a result, 126 families from outer Atolls were availed of a total of MRF 6 million in Home Loans during the last quarter of 2010. The Advisory services extended by IFC's Global Financial Markets Division in the Washington DC, and the agent appointed by them, EDA Rural Systems (Pvt.) Ltd. of India have added great impetus to HDFC's efforts to extend housing finance to the under-served low income segments through this outreach program. The GOM has put in place, a devolved structure of administration with 19 Atoll Councils for 188 islands with each island having an island council office. Male' and Addu were given City Councils in recognition of their states as the two main urban and commercial hubs of the Maldives. We anticipate the outer Island Council economies to grow in line with the new investments strategized under the government's policy of promoting Public Private Partnership (PPP) as the engine of growth for the Maldivian economy. Therefore, of HDFC's total volume of MRF 178 million new Home Loan disbursements targeted for the year 2011, we anticipate MRF 36 million (20%) to come from the Home Loan Outreach Program.

HDFC's competition in terms of the market share in 2010 came from the six commercial banks that are operating in the Maldives. Among them, the biggest players in the market for mortgage home loans are the Bank of Maldives (BML), the State Bank of India and the Bank of Ceylon. The total mortgage home loan market was estimated at approximately MRF 1,000 million as at the end of 2010, of which the BML had the major market share with 60%, while HDFC had 30%. A seventh player, having received a banking license from the Maldives Monetary Authority, commenced its operations in March 2011 under the name of 'Maldives Islamic Bank (MIB)'.

HOUSING FINANCE MARKET-SHARE



In December 2010, HDFC launched a major marketing campaign to create public awareness on the differentiated products targeting all the potential segments of consumers in the market for home loans. During 2010, HDFC home loans became more affordable with the extension of the loan tenor from 10 years to 15 years and establishment of the lowest rate of 11.5% for the salary deduction product in the price differentiated model under the segmented and targeted marketing strategy adopted by HDFC. Therefore, by the end of 2011, the third year of privatized HDFC's operations, HDFC is positioned to target a market share of 50%. The HDFC's year on year loan portfolio growth of 67% in 2010 marked a customer retention rate of 98% with a lower default rate of 1%, being an improvement from the NPL ratio of 1.5% that prevailed upon privatization in 2008.

MODEL OF PUBLIC-PRIVATE-PARTNERSHIP (PPP)

Privatization of HDFC was one of the first successful models of PPP to be concluded by the Government of Maldives. The foreign investment agreements that were drawn in July 2008 became effective in February 2009, and HDFC has received immense cooperation and unstinted support from the Ministry of Housing and the Ministry of Finance, representing the GOM's shareholding of 49%. Our supervisory body, the Maldives Monetary Authority (MMA) too has been supportive of HDFC's mission. The fruition of MMA's long-awaited Credit Information Bureau, which was supported by the IFC and the World Bank, has given HDFC greater impetus to manage credit risk in the Maldives' financial environment that is growing in complexity since opening its doors to private sector investments in construction, transport, and tourism from international and local players. The Maldives Credit Information Bureau commenced its operations in February 2011, and in order to benefit from its services, HDFC became a fully-fledged founder member as mandated by the MMA. Affordable housing to decongest one of the highest population densities recorded for any metropolis is the major challenge faced by the HDFC Plc. of Maldives. The capital city of Male' records a population density of more than 60,000 per square kilometer. Since privatization, HDFC has catalyzed a vibrant housing program on the reclaimed 2 sq. km. land mass of Hulhumale' adjacent to Male'. Hulhumale' already houses around 4,000 families and has

the potential for another 6,000 units of housing. The upcoming 'Eye of Maldives' project in the similarly reclaimed island of Gulhi Falhu is envisaged to add a further 2,500 units of housing under the program to decongest Male'.

NEEDS ASSESSMENT ON SUSTAINABLE DEMAND FOR HOUSING

Compared to many of the far-flung atolls, Male' Atoll has an impressive record of safety from natural calamities such as tsunami, earthquake and other vagaries of changing global weather conditions. The capital city Male' has the most developed and reliable infrastructure for public utilities, transport, health, education, and trade. However, on the down side, it has prompted heavy in-migration after the 2004 tsunami, stretching the infrastructure of the capital city to its limits. Today, the Male' Atoll is the home to more than one third of the total population of the Maldives. This in turn has placed severe stresses on the infrastructure needs of a sustainable human development, and housing became the most crucial factor for maintaining a quality of life fitting a nation that has one of the best marketable locations in the world for travel and tourism. These two sectors that form the backbone of the Maldivian economy have shown impressive recovery in 2010 from the downturn experienced following 2008 global financial meltdown.

Human Rights Commission of the Maldives (HRCM) reported in 2010 that a severe problem of a crisis proportion exists in the capital city with almost 85 per cent of the families living in substandard accommodation, and technically deemed as homeless. HRCM recorded that around 12,000 families in Male' are in need of improved conditions of housing as they were forced to share accommodation with other families or were housed in temporary accommodation. The HRCM focus group found that, on average, five to six people share a single room in the city, demonstrating the extent to which overcrowding has become a serious issue. While there are significant consequences for people's health, privacy, and safety, the report also points to the fact that such overcrowding, is among the key causes of rising social problems. Therefore, lack of adequate and affordable housing is one of the most pressing problems facing the people living in Male'. Although the per-capita income level ranks high in the region, the disparity in the levels of income has created a social housing need in the low-income category, which is more than 40 per cent of the population. GOM's 10,000 Housing program of has set holistic development targets based on a strategy that segments the 19 Atolls into seven provinces.



ENVIRONMENTAL BENEFITS AND SUSTAINABLE HOUSING

The country's capital city Male is home to more than one third of the total population of the Maldives with a population density of over 60,000 per sq. km., which is one of the highest in the world. There are instances where ten families would own 1,000 sq. ft. of land, and the only possibility of housing is through vertical development of ten apartments of 1,000 sq. ft. each. Part of the solution to the congestion in Male' lies in developing the outer islands from which in-migration to Male' continues due to the lack of decent homes in a safe and healthy environment in those islands. GOM has plans for providing an infrastructure to the outer islands suitable for such housing development.

The other part of the problem is creating affordability for home loans in a disposable-income-depressed market, HDFC has innovated solutions to creating affordability of a home loan by pooling of the extended family income to repay the home loan. This extended co-application model, made possible by the provisions in the land law governing land inheritance, and family law on land inheritance unique to the Maldives, has created affordability for mortgage finance in this needy shared land ownership category. With equitable policies on land distribution supported by strong extended family social system and the government's commitment to share HDFC's mission to provide innovative home loans, the problem continues to ease, graduating from the crisis proportion in Male' as stated by HRCM, to one of a managed solution.



The HDFC's outreach program recognizes the need to strike a balance between the demand for housing and fair value of mortgage security, which dependent on market demand and economic development in the outer regions of the Maldives. Comprising 1,190 islands, of which 198 are inhabited, Maldives has a population of 350,000. Focusing on the housing needs of Male', Greater Male' and Provincial Islands, HDFC considers the following facts:

- Critical mass to drive demand and value of housing
- Property value for mortgage security
- Level of public and private investments, and
- Margin of safety as regards natural calamities, which includes the degree of land elevation above the sea level, especially where reclamation are being carried out.



Guided by the above criteria, HDFC pursues its mission of promoting housing finance in order to create decent home ownership a safe and sustainable environment for the Maldivians. For the outreach program, HDFC has identified 11 islands on the basis of having more than 5000 inhabitants per island with major public and private investment initiatives impacting the 6 atolls where these islands are located. This mission is supported by the GOM's policies on land reclamation and investment in infrastructure under a system of city and atoll councils that focuses

resources according to the critical mass. HDFC promotes housing on such focus islands, designed for the creation of affordable and sustainable neighborhoods under reclamation programs such as Hulhumale' adjoining the Male' International Airport, and newly reclaimed Gulhi Falhu, (Eye of Maldives), conforming to global standards of environmental conservation.



HDFC's affordable home loans to the end user encouraged the Thai Property Development Company, Pruksa, which has introduced energy efficient and environmental friendly cutting-edge construction methods using 'engineered form work for in situ home fabrication to Hulhumale' where 2400 dwelling units will be completed by 2013. The first phase of 160 units is in progress where the first 40 have been completed for HDFC end user finance in 2011



Compliance with international environmental impact guidelines is mandated for credit decisions of HDFC in providing housing development finance in Male', Greater Male' and provincial islands in the outreach program. Since 90% of the housing finance in the Maldives goes into construction of new homes with a further 5% on renovation, strict adherence to planning and building code is monitored through specialized technical inspections carried out in-house by HDFC employees at every step of the construction process. In such manner, HDFC has structured the loan drawdown steps to cover each stage of construction, with a maximum of one-year capital repayment holiday to complete the project.

As part of its credit evaluation process, HDFC vets the building contractors and construction methods for improved environment friendly practices.

Tata Housing of India has entered Male' for its maiden international property development project in the form of a joint-venture company under the name Apex Realty where Tata holds 65% shares. The Maldives Government has allocated four plots on a 50-year lease on the condition that 80 per cent of the 350 apartments constructed should be earmarked for sale at agreed rates by the Maldives Government, while it will be allowed to sell the rest (70 apartments) in the open market. The project commenced in June 2011, and envisages completion within two years.

SOCIAL BENEFITS

HDFC also manages a GOM Urban Development Housing fund for smaller social loans under a Grant Fund of MRF 75 million targeted at low-income families. By the end of 2010, more than 280 families had benefitted from social housing loans covering all the atolls.

In 2010 HDFC was able to engage a qualified quantity surveyor to monitor pre and post-approval inspections and to vet the BOQs to give technical advice to our customers in a bid to eliminate overpricing of projects by contractors, which was evidenced in the past. The construction cost estimates for basic housing in the Male' City is approximately MRF. 700 (US\$ 46) per sq. ft. This will rise to MRF 1,300 (US\$ 85) for high-end finishes. Home insurance cover has been introduced to all loans, with a special low group premium of 0.15% annually based on the property value. Credit life insurance was introduced for the first time in the Maldives in 2010.

INNOVATION

HDFC deploys a prudential and systematic approach to developing a viable mortgage lending program where due emphasis is placed on the social goal of serving middle-income and low-income families by creating greater affordability as we go into the future. Key innovations to support such a program of action in keeping with our mission are listed below:es in 2010.

- **Pooling applicants for an extended family home loan** (this is the 'social empowerment' leading to financial strength referred to in HDFC mission statement) where multiple home units are developed from a single housing loan, which is shared between the related family members who have a legal right to inherit shared ownership of the property. This usually translates to 4 or more active co-applicants for the average home loan, giving active income support to strengthen the repayment capacity to service the loan effectively. The 'passive' applicants in the co-applicants' group are only included if they have the legal right of inheritance to the property that necessitates their consent for the loan application. This family based, pooled approach, fits the social structure and values of the Maldives enabling parents, siblings and their families to combine their earnings to obtain a home loan.
- **Longest loan tenor in the Maldives** – (repayment period extended to 15 years): The longest term to repay the loan available in the Maldives, achieving the objective of affordability for all income segments.
- **The flexibility** in the terms that vary according to the need and usage of property rentals to repay the loan. Own equity needed for the project is also established according to the level of owner occupied element of the project. Branded loan products such as HDFC Standard Loan, Million-Plus, Renovate, Part-Rental and Full-Rental achieve the segmented, targeted and positioned approach to marketing. Renting of up to one third of the living space is allowed under the owner-occupier category, and if more space is to be rented out (whether for business use or for residential use), the lending rates, and owner's equity requirements are enhanced. Step-up mortgage loans were introduced to enhance affordability.
- **Salary Benefit Loan**- Introduction of the lowest loan rate for the salary deduction category of employees in approved organizations.

- **Counseling Service and Pre-Sale Approvals-** HDFC has introduced a home-loan counseling service to:
 - a) create greater awareness of our mission and goals and engage in a constructive rapport with customers to improve and create a better fit between their expectation and our offer
 - b) to assess customer aspirations and develop products and features to help them realize their dream of better conditions of housing through an HDFC home loan.
 - c) pro-actively link counseling to different product options, including savings for owners' equity in the pre-sale housing programs of HDFC approved property developers.
- **Promoting High Quality Construction at Affordable Cost-** Supporting developers with marketing and pre-sale of dwellings constructed using new construction methods that are approved and acclaimed for being environmentally friendly such as "Form Work" and "Steel Structure" to deliver better quality at lower cost through cutting edge technology.
- **Credit Protection-** Introduction of Credit (Mortgage) protection insurance policies to the market for the first time with the partnership of state-owned Allied Insurance Company.
- **Single Premium Protection-** HDFC, in partnership with the only state owned Maldivian Insurance company, Allied Insurance, has pioneered a single Property insurance premium to cover pre and post construction stages of each property under mortgage. Property insurance, mandated in line with HDFC's mission to create greater awareness on the importance of sustainability of housing development in a safe and healthy environment that has to be shared by all stakeholders.

SUMMATION AND THE WAY FORWARD

Since recommencing operations in 2009, HDFC has disbursed more than USD 15 million by the end of 2010 using multilateral funding from IFC and ADB. In the past two years HDFC has sanctioned loan applications exceeding one thousand in number, for more than six thousand families who were in severe need of housing where each pooled loan had two to twelve beneficiaries. There have been a number of social housing projects supported by HDFC home finance that includes four hundred social housing flats constructed in Hulhumale' by the state owned Housing Development Corporation (HDC) and we will continue to support them.

The Thai-based Pruksa Development Company initiated a project for 2400 houses in the affordable category to be developed over three years on the strength of Maldives having HDFC as a specialized mortgage finance institution to offer affordable end-user finance. Pruksa being the first, a number of local and international property developers of repute such as Tata housing of India have initiated housing construction under the 10,000 housing program of the Government of Maldives, based on the strategy of Public-Private-Partnership. Under a GOM guaranteed scheme, loans to complete the construction already commenced for housing in the socially and economically mobile segments in Male' are being considered within risk exposure management levels of 80% of loan to value and average of 40% of income to installment, where the income may consider discounted future rentals from extra living space that is created.

The GOM housing program has identified 91 provincial islands for 6975 out of 10000 housing units in the estimated backlog where the balance 3025 will be coming from greater Male'. The GOM program has captured the 11 provincial islands already identified by HDFC for its outreach program. However, the way forward with regard to the balance 80 islands would depend on satisfying the fair value criterion on property value for mortgage purposes. The GOM's economic development policy has a zonal structure with certain focus islands targeted for investment under PPP. This is of great significance when we decide on areas in the National Housing Program where HDFC could make an effective contribution. The Target Zones for economic development based on the provincial structure is depicted below:



PROVINCE	NO. OF ISLANDS TARGETED FOR HOUSING BY GOM
Upper North Province	15
North Province	18
North Central Province	13
Central Province	10
South Central Province	14
Upper South Province	14
South Province	07
TOTAL	91

HOUSING UNITS TO BE DEVELOPED PER PROVINCE

Upper North Province	1,000
North Province	1,000
North Central Province	975
Central Province	1,000
South Central Province	1,000
Upper South Province	1,000
South Province	1,000
TOTAL	6,975

Developing a Social Performance Strategy for HDFC- Maldives and monitoring its implementation is one of the goals established by IFC's Performance Based Grant Initiative for Access to Finance PBGI-A2F) program that commenced in 2009. EDA Rural Systems Pvt. Ltd. of India was assigned by IFC in the task of developing a social performance strategy for HDFC and facilitating implementation by end December 2011. IFC's objectives for its PBGI are to:

- Expand financial services to underserved segments
- Signal to the private sector to go down-market to contribute towards reduction of poverty
- Provide incentives to FIs to go beyond traditional zones of comfort
- Widening range of products – features and services: placing customer at the center
- Contribute to the learning agenda in social performance

In accordance with the social performance plan, and with the assistance of the Ministry of Housing, HDFC has been able to identify the islands and estimate the demand for housing to formulate an effective Island Outreach Program. The new loan portfolio reflected the progress since the Island Outreach Program began in October 2010 with 12% of the total new loans coming from outer islands as follows: Male'- 24%; Hulhumale'- 64%, Outer Islands- 12%

The demand from outer islands comes mainly from low-income households. The Island economies are sustained by industries related to agriculture, tourism, fishing and fish processing, shipping, boat building, coconut processing, garments, woven mats, rope, handicrafts, coral and sand mining. 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 average per capita GDP is USD 6,900, in the outer islands this figure goes down to USD 2,525. Given that it is an indicator of the standard of living, the need to create affordable housing has become a national priority. In this regard, Engineered Metal Forming technology has yielded 20% savings on the standard cost of USD 65/ sq. ft. Introduction of 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.

APPRECIATIONS

I wish to record my sincere and deep appreciation to all the staff of HDFC for producing excellent results in 2010. Each one has performed his or her duties and responsibilities with a high level of commitment and diligence to function as an effective team to drive the highest value addition to our raison d'être, the customer who is aspiring for better conditions of housing. The HDFC team has been mindful of the needs of all the stakeholders, and demonstrated sustainability by adding another year of profitability and growth, which are the two factors that benchmark success and progress of an organization. All staff members have made full use of the technical assistance program we have with HDFC India under the IFC Performance Based Grant Advisory Services Project (PBGAS). As a consequence, the staff attrition rate has declined dramatically from 48% in 2008 (prior to privatization) to 30% in 2009 and 10% in 2010.

I am very grateful to our Board of Directors and its Chairperson for the first three quarters of 2010, Ms. Renu Sud Karnad, and the Chairman from the fourth quarter, Mr. Subrata Dutta Gupta for their unstinted support, commitment and exemplary leadership to guide HDFC with proactive policy initiatives, and constructive feedback to suggestions and ideas presented to them by the management and staff at all levels of HDFC. They possess the highest caliber of professionalism needed for excellence in corporate governance, and have opened many windows of opportunity for the HDFC to grow, and go from strength to strength.

The management and staff of HDFC join me in recording our appreciation of the support and cooperation extended to our mission by all the shareholders represented by the members of corporate management, specialists and executives of IFC, ADB and HDFC Investments Ltd. India, and the GOM's Ministers, State Ministers, Deputy Ministers and the senior staff, especially of the Ministry of Finance, and the Ministry of Housing. The international shareholders, IFC, ADB and HDFC Investments of India were represented by their respective head office and regional executives. All shareholders' representatives have been extremely supportive of our mission.

We thank our regulator, the Maldives Monetary Authority, its Governor and the Executive Staff for the close cooperation extended to us. We also thank our legal counsel Mazlan and Murad for their valuable services. While thanking all property developers such as HDC, Pruksha, Tata, and Platinum Holdings, we also thank the STO for partnering with us on risk management strategies and the property insurance agents, namely Alliance Insurance, Amana, and SLIC, and other professional bodies who assisted HDFC with service sustainability and credibility. In this regard, we wish to make special mention of our Auditors since 2009, Price Waterhouse Coopers who have provided a valuable service in accordance with the International Standards of Auditing.

We are most grateful for the support received from IFC's Performance Based Grant Initiative for Access to Finance monitored by IFC's Global Financial Markets Division in the Washington DC, and the agent appointed by them, EDA Rural Systems (Pvt.) Ltd. of India. We are also grateful to our Technical Partners, HDFC India with the team headed by Mr. Conrad D'Souza for providing all the support we need for building capacity since privatization in 2008.

I wish to thank FMO of Netherlands for undertaking an extensive due diligence process which culminated with the signing of agreements in December 2010 to provide the next round of funding for the HDFC once the IFC and ADB multilateral funding sources have been fully utilized. The successful outcome of FMO's long and meticulous due diligence process, and the confidence reposed in the HDFC for their first ever investment in the Maldives is a vindication of why we should be grateful to the Board Directors and all other stakeholders of HDFC as mentioned above.

Our biggest appreciation goes to our customers who have taken a highly deliberated decision to begin and sustain a long and constructive relationship with the HDFC to fulfill their housing objectives, which in the Maldives, has become a number one priority. Since our customers are at the core of our mission, we constantly strive to deliver greater value with diligence, courtesy, and due sensitivity. With very few exceptions, the contribution our customers have made towards our maintaining an outstanding credit culture with a low default ratio has encouraged many international and local funding agents to partner with HDFC. Therefore, we are most grateful to our customers' for fulfilling their financial obligations in a vitally important sector of the national economy, while the financial services industry is still recovering from the global meltdown experienced since 2008. The vibrant customer base has given HDFC Plc. of Maldives the opportunity to say 'Live your dream, today' to many more Maldivian citizens who need to make their dream homes, a reality.



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. It is concerned with the organization's policy direction and 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:

- i) Creation of value (through entrepreneurship, innovation, and development)
- ii) Implementation of effective control systems commensurate to the risks involved
- iii) Accountability and transparency

Corporate governance refers to internal disciplines or systems, which govern the relationships among the 'key players' or entities that are instrumental in the performance of the organization.

GENERAL PRINCIPLES

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

- Conduct all affairs adhering to the highest standards of ethics, transparency, accountability, honesty and integrity.
- Provide accurate, fair, timely, full and meaningful disclosures in the periodic reports to be filed by HDFC with the stakeholders and regulatory agencies.
- 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.
- Prevent the misuse or misapplication of HDFC's assets and resources.
- 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. HDFC is also bound by Capital Market Development Authority's Corporate Code on Corporate Governance. However, 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.

HDFC has implemented Corporate Governance as stipulated by the Article II of the shareholders agreement of July 2008 in the following manner:

1. Board Composition.

- (a) The number of Directors comprising the Board shall not be more than seven (7). Each Initial Shareholder holding Shares or Share Equivalents representing at least five per cent (5%) of all Shares then outstanding on an as-converted basis shall have the right to nominate one (1) Director and one (1) Alternate Director who shall be elected to the Board, except for the Sponsor who shall have the right to nominate two (2) Directors who shall be elected to the Board. The Managing Director will have a seat on the Board without any voting right. Within the earlier of (i) one year from the date of this Agreement; or (ii) the occurrence of an IPO, the Initial Shareholders shall elect to the Board one (1) Independent Director and one (1) Alternate Independent Director. The Alternate Directors shall be invited to, and may be present at, any Board meeting provided that an Alternate Director shall only be allowed to vote while acting in the absence of the Director who appointed him/her.
- (b) The Board shall constitute such Committees (the "Committees") as required by Applicable Law or as the Board sees fit, including an audit committee (the "Audit Committee") which shall be comprised 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.

HDFC Audit Committee:

Mr. Conrad D'Souza -- Alternate Director- HDFC Ltd. India

Mr. Ismail Ali Manik – Director -GOM

Mr. Sanjaya Gupta – Director- ADB

2. Exercise of Rights.

The Initial Shareholders agree to vote their Shares and to take all other action as may be reasonably necessary to ensure compliance with and to fully and effectually implement the provisions of the Shareholders Agreement.

In exercise of their rights, the shareholders have elected to the board, one director each, and with the exception of IFC, an alternate director each. The details of these appointments are given in the preceding section on Corporate Information.

3. Removal/Resignation of Directors/Alternate Directors.

Any Initial Shareholder may require the removal of the Director or Alternate Director or, in the case of the Sponsor, Directors or Alternate Directors, nominated by any of them at any time and shall be entitled, subject to Section 2.01 (Board Composition), to nominate another Person as its Director or Alternate Director in place of any such Director or Alternate Director so removed, and the other Initial Shareholders shall exercise their rights in such manner so as to cause the election of that Director or Alternate Director as aforesaid. In the event of the resignation, retirement or vacation of office of a Director or Alternate Director appointed by any Initial Shareholder, such Initial Shareholder shall be entitled, subject to Section 2.01 (Board Composition), to nominate another person as its Director or Alternate Director in place of such Director or Alternate Director and each of the other Initial Shareholders shall exercise their rights in such manner so as to cause such election.

During 2010 ADB nominated Mr. Sanjaya Gupta as the replacement for Mr. Ajay Sagar, which was approved at the AGM of March 2010. The other nominee and alternate delegates remained as they were appointed upon commencement of the new shareholding structure on February 10, 2009.

4. Chairman

The Board shall appoint one of the Directors as Chairman of the Board (the "Chairman"). The Chairman shall be appointed for periods of six (6) months, in rotation, and shall preside at all meetings of the Board or any Committees where he is a member, and at all General Meetings. The Chairman shall not have a casting or second vote at any meeting of the Board or any committee in the event of an equality of votes.

The board resolved that the Chairman could hold office up to one year with a review every six months. The chair in 2009 was held by Director Renu Sud Karnad, nominee of HDFC Investments Ltd. India, in 2010 by Mr. Subrata Dutta Gupta of IFC, and handed over to Mr. Sanjaya Gupta, nominee Director of ADB in 2011.

5. Meetings of the Board

- (a) The Board shall meet at least once every two months subject to an annual schedule (Board resolved to change the annual schedule to meet once every three months), with confirmation of the date of the next Board meeting made at the previous Board meeting. Meetings of the Board shall be in Male, Republic of Maldives or at such other place as may be reasonably determined by the Board of Directors.
- (b) Written notice of each meeting of the Board or a committee shall be given to each Director and the alternate, if any, at the address notified from time to time by such Director and the alternate, at least fifteen (15) days in advance of such meeting, unless otherwise agreed in writing by such Director or the alternate.
- (c) An agenda setting out in detail the items of business proposed to be transacted at a meeting of the Board or committee together with necessary information and supporting documents shall be circulated to each of the Directors and their respective alternates at least fifteen (15) days prior to the date of the relevant meeting.

- (d) The Company shall indemnify its Directors to the maximum extent permitted under Applicable Law. The reasonable costs incurred by a non-employee Director in attending a meeting of the Board or committee or a General Meeting (including the reasonable costs of travel and attendance of the Directors appointed by the International Investors) shall be reimbursed by the Company.

The record of board meetings held in 2010 was as follows:

29 January 2010 - HDFC - Regional Office, The Capital Court, Olaf Palme Marg,
New Delhi, India
28 March 2010 - HDFC Head of Office, Male, Maldives
04 July 2010 - HDFC Head of Office, Male, Maldives
29 September 2010 - HDFC Head Office, Ramon House, 169, Backbay Reclamation,
HT Parekh Marg, Mumbai, India
23 December 2010 - HDFC Head of Office, Male, Maldives

6. Quorum at Board Meetings

- (a) The quorum for a meeting of the Board, duly convened and held, shall be a majority of the Directors, which majority shall include at least two (2) Directors appointed by the International Investors. Subject to (b) below, all actions taken by the Board shall require the approval of a majority of the Directors present at the relevant Board meeting.
- (b) In the absence of a valid quorum at a meeting of the Board, duly convened, the meeting shall be adjourned to the same time and place not earlier than ten (10) days but no later than twenty-one (21) days thereafter as the Chairman may determine. The quorum requirements as set out in Section 2.06(a) above shall also be applicable at such adjourned meeting of the Board.
- (c) Any Director shall be entitled to participate in a meeting of the Board in which he or she is not physically present, by telephone or video conference or similar electronic means which allows all the Directors to communicate simultaneously and the Chairman of such meeting shall record such Director's observations in the minutes of such meeting.

All meetings were held with full quorum.

7. Resolution by Circulation or Written Consent

No resolution shall be deemed to have been duly passed by the Board or a committee by circulation or written consent, unless the resolution has been circulated in draft, together with the information required to make a fully-informed good faith decision with respect to such resolution and appropriate documents required to evidence passage of such resolution, if any, to all Directors or to all members of the committee, and to all other Directors or members at their usual address, and has been unanimously approved in writing by such of them as are entitled to vote on the resolution.

Any such resolution may consist of several documents in like form, each signed by one (1) or more of the Directors. The expression "in writing" and "signed" includes approval by telex, cable, and telegram, wireless or facsimile transmission.

During 2010, there were seven Directors' Written Resolutions passed in accordance with this rule.

8. General Meetings

- (a) Not less than thirty (30) days prior written notice of all General Meetings shall be given to the shareholders of the Company at their respective addresses notified by them to the Company in writing.
- (b) An agenda setting out the business proposed to be transacted at a General Meeting shall be circulated by the Company to each shareholder at least fifteen (15) days prior to the date of the General Meeting. No business shall be transacted at any General Meeting duly convened and held other than that specified in the notice without the prior consent of shareholders holding a majority of the Shares then outstanding.
- (c) The Board shall provide the Company's previous Financial Year's audited financial statements to all shareholders at least thirty (30) days before the AGM is held to approve and adopt such audited financial statements.
- (d) The quorum for a General Meeting shall be shareholders holding a majority of the Shares then outstanding. Subject to Section 9 (a) below, all actions taken at a General Meeting shall require the approval of the Initial Shareholders holding a majority of the Shares then outstanding.
- (e) In the absence of a valid quorum at a General Meeting, duly convened and held, the meeting shall be adjourned to the same time or place not earlier than ten (10) days but no later than twenty-one (21) days thereafter as the Chairman may determine.

The AGM was held duly on March 28, 2010

9. Supermajority Matters

- (a) The Company shall not take the following decisions and actions without the affirmative vote of all Initial Shareholders, provided that after the occurrence of an IPO, the following decisions and actions shall require the affirmative vote of the Initial Shareholders holding at least seventy-five per cent (75%) of the Shares then outstanding:
 - (i) Amend or repeal in any manner the Charter of the Company or any Key Subsidiary;
 - (ii) Change the designations, powers, rights, preferences or privileges, or the qualifications, limitations or restrictions of the Shares or Share Equivalents;
 - (iii) Create, authorize or issue any Shares, Share Equivalents or other equity security (other than as required by the Subscription Agreement or this Agreement);
 - (iv) Authorize or undertake any Trade Sale or Liquidation Event, or any public offering of Shares or Share Equivalents of the Company or any Key Subsidiary;
 - (v) Authorize or undertake any reduction of capital or any redemption or buyback of Shares or Share Equivalents;
 - (vi) De-register or de-list the Company, or any of its listed shares or Share Equivalents;
 - (vii) Change the primary business of the Company or commence a new line of business not contemplated in the Charter;
 - (viii) Change the composition of the Board or the number of Directors;
 - (ix) Appoint or remove the Independent Director;
 - (x) Approve any lending operation below market pricing;
 - (xi) (A) Enter into any agreement, arrangement or transaction with any Related Party of the Company or the Sponsor, or
(B) any agreement that is not on an arm's length basis including, the Technical Services Agreement and any secondment agreements with HDFC Investments Ltd; or
 - (xii) Any decision or action set forth in paragraph (b) of this point 9 submitted to the General Meeting by the Board.

(b) The following decisions and actions shall not be taken and/or implemented by the Company or, where applicable, any of its Key Subsidiaries, whether by the Board or any Committee thereof at any meeting of the Board or a Committee thereof or by resolution by circulation with respect to any of the following matters, without the approval of all the Directors appointed by the Initial Shareholders:

- (i) create, authorize or issue any Shares, Share Equivalents or other equity security (other than as required by the Subscription Agreement or this Agreement);
- (ii) enter into any strategic alliance, joint venture or acquisition or undertaking, compromises or settlements with creditors and investors;
- (iii) enter into any agreement, arrangement or transaction with any Related Party of the Company or the Sponsor, the Managing Director or any Key Employees;
- (iv) approve or amend the annual Business Plan or the Company's dividend policy;
- (v) change the composition of the Board or modify the terms of appointment of the Directors;
- (vi) appoint, remove or replace the Auditors and internal auditors or change the Financial Year of the Company;
- (vii) determine of the remuneration of Key Employees and profit sharing scheme for employees of the Company;
- (viii) determine the accounting policies of the Company and any changes thereto;
- (ix) determine the timing and the terms of a Company Offering;
- (x) purchase or sell Shares, debentures, bonds in other companies or businesses;
- (xi) relocate the main office of the Company or Operations outside the Country;
- (xii) issue any guarantee or indemnity to any third party exceeding such limits as the Board may determine from time to time;
- (xiii) enter or amend any existing collaboration/business agreements of any kind (other than agreements in the ordinary course of business involving an amount up to two hundred fifty thousand Dollars (\$250,000) equivalent);
- (xiv) approve the annual accounts of the Company or its Key Subsidiaries;
- (xv) establish any Committee or sub-committee of the Board; decide their composition, the delegation of powers to such Committee or subcommittee and any changes thereto;
- (xvi) form a Subsidiary or acquire or invest in one or more corporations, partnerships, associations or other business organizations or similar Persons; or
- (xvii) directly or indirectly declare, authorize or make any Distribution on any Shares or Share Equivalents (or shares or share equivalents of any Key Subsidiary)] inconsistent with a dividend policy previously approved by the Board of Directors.

(c) The designation or removal of the Managing Director shall be approved by a simple majority of the Directors, which majority shall include at least two (2) Directors nominated by the International Investors.

The Managing Director was granted a further two year period of extension commencing September 2010 in exercise of the powers vested in the board by 9.c above.

10.Information Rights

(a) The Company shall furnish to the Initial Shareholders the following information:

- (i) Within ninety (90) days after the end of each Financial Year, annual financial statements (a balance sheet as of the end of such Financial Year and the related statements of income, stockholders' equity and cash flows for the Financial Year then ended) for the Company on a consolidated basis and for each of its Key Subsidiaries, audited in

- accordance with the Accounting Standards and certified by the Auditors, along with a consolidating statement prepared by the Auditors, and a copy of all management letters delivered by the Auditor;
- (ii) Within forty-five (45) days after the end of each quarter of each Financial Year, quarterly financial statements (a balance sheet as of the end of such quarter and the related statements of income, stockholders' equity and cash flows for the quarter then ended) for the Company on a consolidated basis and for each of its Key Subsidiaries, prepared in accordance with the Accounting Standards;
 - (iii) No later than forty-five (45) days before commencement of each Financial Year, the proposed annual Business Plan;
 - (iv) A copy of the letter from the Company to the Auditors, in the form of Schedule 1, irrevocably authorizing the Auditors (whose fees and expenses shall be for the account of the Company) to communicate directly with any of the Initial Shareholders at any time regarding the Company's financial statements (both audited and unaudited), accounts and operations; and
 - (v) A copy of a similar letter sent by the Company to any new Auditors no later than thirty (30) days after any change in Auditors;
- (b) Following the IPO, the Initial Shareholders may, by notice to the Company, elect not to receive any of the information described in Section 10 (a). In this case, the Company shall provide each of the Initial Shareholders with copies of all information publicly disclosed and/or filed, so long as such information complies with the rules and regulations of any securities exchange or automated quotation system on which the securities are listed and any Applicable Law.
- (c) The Company shall promptly provide to each Initial Shareholder such information as any Initial Shareholder from time to time requests with regard to any material developments in or affecting the Company's business.
- (d) Upon any Initial Shareholder's request, and with reasonable prior notice to the Company, the Company shall permit representatives of such Initial Shareholder or the CAO (in the case of IFC), during normal office hours, to:
- (i) visit any of the sites and premises where the business of the Company or its Subsidiaries is conducted;
 - (ii) inspect any of the sites, facilities, plants and equipment of the Company or its Subsidiaries;
 - (iii) have access to the books of account and all records of the Company and its Subsidiaries; and
 - (iv) 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 Initial Shareholder seeks information; provided that (i) no such reasonable prior notice shall be necessary if special circumstances so require and (ii) in the case of the CAO, such access shall be for the purpose of carrying out the CAO's Role.

All compliance issues under this code were dispensed effectively.

11. Policy Covenants.

(a) Environmental. The Company and its Key Subsidiaries shall, and the Sponsor hereby agrees to cause the Company and its Key Subsidiaries to:

- (i) comply with the Safeguards Policies;
- (ii) periodically review the form of the annual monitoring report and advise ADB as to whether revision of the form is necessary or appropriate in light of changes to the Operations, or in light of environmental or social risks identified by the Environmental Management System; and revise the form of the annual monitoring report as agreed with ADB;
- (iii) use 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;
- (iv) within ninety (90) days after the end of each Financial Year, deliver to ADB an annual monitoring report, in form satisfactory to ADB, consistent with the requirements of this Agreement confirming compliance the social and environmental covenants of this Agreement or, as the case may be, identifying any non-compliance or failure, and the actions being taken to remedy any such deficiency; and
- (v) within three (3) days after its occurrence, notify ADB of any social, labor, health and safety, security or environmental incident, accident or circumstance having, or which could reasonably be expected to have, any material impact on the implementation or operation of the Operations in compliance with the Safeguard Policies or a Material Adverse Effect, specifying in each case the nature of the incident, accident, or circumstance and the impact or effect arising or likely to arise therefrom, and the measures the Company is taking or plans to take to address them and to prevent any future similar event; and keep ADB informed of the on-going implementation of those measures.

(b) Sanctionable Practices. Each of the parties to the Agreement (other than the International Investors) agreed that no party shall engage in (and no party hereto shall authorize or permit any Affiliate or any other Person acting on its behalf to engage in) with respect to any transaction contemplated by this Agreement or the Company's business and operations, any Sanctionable Practice. Each of the parties to this Agreement (other than the International Investors) further covenants that should any of the ADB or IFC notify the Company or the Sponsor of its concern that there has been a violation of the provisions of this paragraph, the Company and the Sponsor shall cooperate in good faith with it and its representatives in determining whether such a violation has occurred, and shall respond promptly and in reasonable detail to any notice from ADB or IFC, and shall furnish documentary support for such response upon ADB's or IFC's request.

(c) AML/CFT Covenants. The Company shall and the Sponsor agrees to cause the Company to institute, maintain and comply 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 correspondent and private banking standards, including the standards promulgated by the Basel Committee on Banking Supervision and the Wolfsberg Standards, for the purpose of:

- (i) Preventing the Company or any of its respective Affiliates 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 shall not conduct business or enter into any transaction with, or transmit any funds through a Shell Bank; and
- (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.
- (d) AML/CFT Reporting Requirements. The Company shall and the Sponsor agrees to cause the Company to provide to each International Investor with the following:
- (i) A management letter and any other communication from its auditors commenting, inter alia, on the adequacy of the Company's financial control procedures, policies and controls for anti-money laundering and combating the financing of terrorism, accounting systems and management information system;
 - (ii) the annual report prepared by the AML Officer for the Company's senior management concerning anti-money laundering, combating the financing of terrorism and the AML/CFT Program and related matters; and
 - (iii) promptly upon becoming aware of (A) any litigation, administrative, regulatory or criminal investigations or proceedings before any Authority or arbitral body which has or may reasonably be expected to have a Material Adverse Effect, (B) any litigation, administrative, regulatory or criminal investigations or proceedings or freezing of assets by any Authority involving the Company or its employees with regard to Money Laundering or Financing of Terrorism, or (C) any violation of the provisions of paragraph (b) or (c) above, notify each of the International Investors by facsimile of that event specifying the nature of the action, litigation, investigation or proceedings and the steps the Company is taking or proposes to take with respect thereto.
- (e) Insurance. The Company shall obtain and maintain a directors and officer liability insurance for each of the Directors appointed by the International Investors.

12. Affirmative Covenants.

The Company covenants and agrees to:

- (a) Undertake its business activities and investments, and cause each of its Subsidiaries to undertake their business, activities and investments, in compliance with Applicable Law;
- (b) Obtain and maintain all applicable regulatory authorizations and otherwise stay in compliance with Applicable Law;
- (c) Maintain adequate accounting, management, financial control, compliance and risk management systems;
- (d) Create an Audit Committee, which shall report directly to the Board of Directors;
- (e) Conduct its business in accordance with the Business Plan;
- (f) Not register any transfer of shares in contravention of the provisions of this Agreement or its Charter;
- (g) Not engage in activities set out in the Prohibited Investment Activities List attached hereto as Annex C;
- (h) Maintain appropriate insurance with financially sound and reputable insurers for losses and/or damages that may occur with respect to its property and business;
- (i) provide each of the Initial Shareholders with full and equal access to its books and records and cooperate, and cause its employees to cooperate, with any Initial Shareholder desiring to undertake an inspection/audit of the Company; and

- (j) Abide by best practices based on the recommendations of HDFC India as the technical partner and which practices HDFC India may audit as appropriate.

13. Issuance of Capital Stock.

During the term of this Agreement, the Company shall not issue any Shares or Share Equivalents to any Person (except if such issuance is made through an IPO) unless such Person agrees to become a party to this Agreement by executing a counterpart signature page to this Agreement.

14. Sponsor (GOM) Non-Compete Covenant.

The Sponsor covenants and agrees not to invest, directly or indirectly, in any housing finance company in the Country for a period of five (5) years from the date of execution of this Agreement.



PRODUCTS

HDFC SALARY BENEFIT

Home Loan with repayment deducted at the source of income (salary) offered to the staff of organizations selected by HDFC based on their potential to sustain and grow in the Maldives. Only members of staff who have consented to EMI salary deduction payment through their employer will qualify. The selected organizations must agree with HDFC to comply with such requests from their staff.

Monthly Deduction at Source - MDAS (selected employer and employee, who is our customer, must agree to this process prior to the loan approval.

Must have a minimum of one co-applicant who has a legal connection to the property, by inheritance / marriage (40% of the people's income considered for EMI), or with an independent guarantor acceptable to HDFC.



HDFC STANDARD & MILLION PLUS

HDFC Standard Loan

Standard Home loan approval is below Rf. 1 million with less than one third of the developed area given on rent and two thirds or more occupied by owners/s and co-owners/s. It not issue any Shares or Share Equivalents to any Person (except if such issuance is made through an IPO) unless such Person agrees to become a party to this Agreement by executing a counterpart signature page to this Agreement.

HDFC Million Plus Loan

Standard Home loan approval is below Rf. 1 million with less than one third of the developed area given on rent and two thirds or more occupied by owners/s and co-owners/s.

Must have a minimum of one co-applicant who has a legal connection to the property, by inheritance/marriage, or with an independent guarantor acceptable to HDFC.



HDFC RENT OPTIONS

Home Loan where more than one third of the built area of the property is intended for, or already rented out. HDFC RENT OPTION loans have two categories of PART-RENTAL and FULL RENTAL differentiated by the rate.

Must have a minimum of one co-applicant who has a legal connection to the property, by inheritance/marriage, or

with an independent guarantor acceptable to HDFC.

HDFC RENOVATE

Home loan approval is below Rf. 1 milliHome Loan for improvement to the home under the following descriptions:

1. Painting of exterior and interior of the home.
2. Repair or installation of pantry cupboards, kitchen fixtures and fittings, sanitary fittings and construction or renovation to facilitate provision or upgrading of essential amenities
3. Essential repairs to upgrade the home (water proofing, roof repairs, plumbing and electrical works.
4. Additional room on the same floor, additional toilet, and extra room on the terrace.

Must have a minimum of one co-applicant who has a legal connection to the property, by inheritance/marriage, or with an independent guarantor acceptable to HDFC.





Housing Development Finance Corporation Plc

Financial Statements - 31 DECEMBER 2010

HOUSING DEVELOPMENT FINANCE CORPORATION PLC

Financial statements – 31 DECEMBER 2010



Independent auditor's report

To the Shareholders and Board of Directors of Housing Development Finance Corporation Plc

1 We have audited the accompanying financial statements of Housing Development Finance Corporation Plc which comprise the balance sheet as of 31 December 2010 and the related statements of income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

2 Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Companies Act No. 10/96, of the Republic of Maldives. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

3 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 whether the financial statements are free of material misstatement.

4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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, the auditor considers internal control relevant to the entity'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 entity'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.

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Partners Y. Kanagasabai FCA, D.T.S.H. Mudalige FCA, C.S. Manoharan ACA, N.R. Gunasekera FCA, Ms. S. Perera ACA

PricewaterhouseCoopers is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.

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

Opinion

5 In our opinion, the accompanying financial statements give a true and fair view of the financial position of Housing Development Finance Corporation Plc as of 31 December 2010 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and with the requirements of the Companies Act No. 10/96, of the Republic of Maldives.

30 March 2011
MALE'

Pilewaterhuelofan
CHARTERED ACCOUNTANTS

HOUSING DEVELOPMENT FINANCE CORPORATION PLC

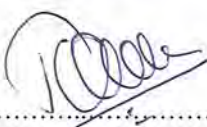
31 December 2010

Balance sheet

(all amounts in Maldivian Rufiyaa)

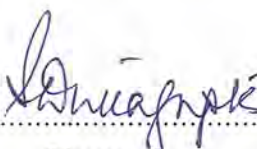
(all amounts in Maldivian Rufiyaa)		As at 31 December	
	Notes	2010	2009
ASSETS			
Cash and short term funds	14	197,452,457	243,796,986
Housing loans	15	284,629,689	170,831,962
Interest receivable	18	1,615,461	1,481,129
Property, plant and equipment	19	1,587,533	1,511,690
Intangible assets	20	543,040	-
Other assets	21	2,149,625	725,203
Total assets		487,977,805	418,346,970
LIABILITIES			
Deposits from customers	22	19,543,435	14,542,522
Borrowings	23	148,315,000	102,800,000
Other liabilities	24	30,904,459	35,315,889
Total liabilities		198,762,894	152,658,411
SHAREHOLDERS' EQUITY			
Share capital	25	159,375,000	159,375,000
Advance for shares		51,407,100	51,407,100
Retained earnings		58,989,731	34,906,459
Reserves	26	19,443,081	20,000,000
Total shareholders' equity		289,214,912	265,688,559
Total equity and liabilities		487,977,805	418,346,970
Commitments and contingencies	27	365,546,000	90,781,266

These financial statements were approved by the management on 30 March 2011...and signed on their behalf by:



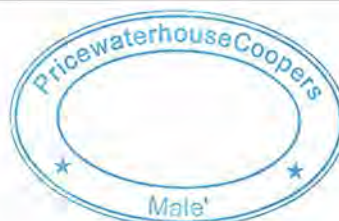
Managing Director





Director

The notes on pages 7 to 36 are an integral part of these financial statements.

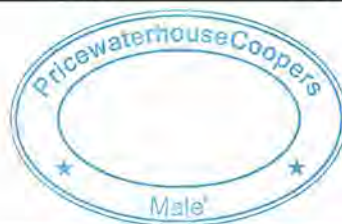


HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2010

Income statement

		Year ended 31 December	
		2010	2009
(all amounts in Maldivian Rufiyaa)	Notes		
Gross income	5	39,594,966	34,315,431
Interest income and similar income	6	35,967,463	30,496,234
Interest expense and similar charges	6	(5,585,778)	(5,002,853)
Net interest income		30,381,685	25,493,381
Fee income	7	3,310,642	2,337,167
Other income	8	316,861	1,482,030
Operating income		34,009,188	29,312,578
Less : Operating expenses			
Staff costs	9	(4,135,388)	(3,431,454)
Premises, equipment and establishment expenses	10	(1,036,920)	(987,668)
Provision for bad and doubtful debts	11	(2,590,042)	(3,353,503)
Other operating expenses	12	(2,720,486)	(2,444,898)
Net profit for the year		23,526,353	19,095,055
Earnings per share - basic	13	14.76	13.45



The notes on pages 7 to 36 are an integral part of these financial statements.

HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2010

Statement of changes in equity

(all amounts in Maldivian Rufiyaa)

	Notes	Share capital	Advance for share capital	Retained earnings	General reserve	Staff education reserve	Total
Balance at 1 January 2009		1,000,900	128,500,000	15,811,404	15,000,000	5,000,000	165,312,304
Shares issued from advance	25	77,092,900	(77,092,900)	-	-	-	-
Proceeds from shares issued	25	81,281,200	-	-	-	-	81,281,200
Net profit		-	-	19,095,055	-	-	19,095,055
Balance at 31 December 2009		159,375,000	51,407,100	34,906,459	15,000,000	5,000,000	265,688,559
Balance at 1 January 2010		159,375,000	51,407,100	34,906,459	15,000,000	5,000,000	265,688,559
Transferred from staff education reserve				556,919		(556,919)	
Profit for the year		-	-	23,526,353	-	-	23,526,353
Balance at 31 December 2010		159,375,000	51,407,100	58,989,731	15,000,000	4,443,081	289,214,912



The notes on pages 7 to 36 are an integral part of these financial statements.

HOUSING DEVELOPMENT FINANCE CORPORATION PLC**31 December 2010****Cash flow statement**

(all amounts in Maldivian Rufiyaa)

		Year ended 31 December	
	Notes	2010	2009
Cash flows from operating activities			
Interest received		35,833,131	30,019,898
Other income received		3,627,503	3,819,197
Interest paid		(4,897,172)	(3,956,776)
Personnel cost paid		(4,345,724)	(3,317,666)
Other operating expenses paid		(2,793,970)	(2,704,801)
Cash flows from operating profits before changes in operating assets and liabilities	29	27,423,767	23,859,852
Changes in operating assets and liabilities:			
Increase in net movements in other assets		(1,424,422)	(294,427)
Increase in loans and advances to customers		(116,387,769)	(19,501,767)
Increase in deposits from customers		5,000,913	8,455,208
Decrease in other liabilities		(5,578,460)	(40,475,161)
Cash used in changes in operating assets and liabilities		(118,389,738)	(51,816,147)
Net cash used in operating activities		(90,965,971)	(27,956,295)
Cash flows from investing activities			
Purchase of property, plant and equipment	19	(350,518)	(211,969)
Purchase of intangible asset		(543,040)	
Proceeds from sale of property, plant and equipment		-	14,682
Net cash used in investing activities		(893,558)	(197,287)
Cash flows from financing activities			
Proceeds from share issue		-	81,281,200
Proceeds from borrowed funds		45,515,000	102,800,000
Repayments of borrowed funds		-	(57,000,000)
Net cash generated from financing activities		45,515,000	127,081,200
Net (decrease) / increase in cash and cash equivalents		(46,344,529)	98,927,618
Cash and cash equivalents at beginning of the year		243,796,986	144,869,368
Cash and cash equivalents at end of the year	14	197,452,457	243,796,986

The notes on pages 7 to 36 are an integral part of these financial statements.



Notes to the financial statements

1 General information

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

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

2 Summary of significant accounting policies

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

2.1 Basis of preparation

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

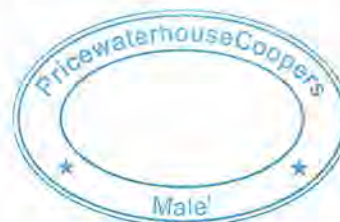
2.2 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. The foreign currency balances are translated at year-end exchange rates unless hedged by forward foreign exchange contracts, in which case the rates specified in such forward contracts are used.



Notes to the financial statements (continued)

2.3 Financial assets

HDFC classifies its financial assets in the following categories: loans and receivables and held-to-maturity investments. Management determines the classification of its investments at initial recognition.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the entity intends to sell immediately or in the short term, which are classified as held for trading, (b) those that the entity upon initial recognition designates as available for sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate the loan including any transaction costs – and carried subsequently with accrued interest. Loans and receivables are reported in the balance sheet as loans and advances to customers. Interest on loans is included in the income statement and is reported as 'Interest and similar income'. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the income statement as 'Provision for bad and doubtful debts'.

(b) Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the HDFC's management has the positive intention and ability to hold to maturity. If the HDFC was to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available for sale.

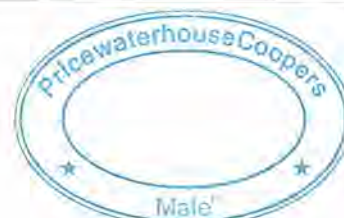
Treasury bills are initially recognised at discounted cost and fixed deposits are recognized at investment value. Interest on held-to-maturity investments is included in the income statement and reported as 'Interest and similar income'. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the investment and recognised in the income statement as 'Net gains/(losses) on investment securities'. Interest accrued on treasury bills and fixed deposits are included under interest receivables.

2.4 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.5 Interest income and expenses

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading, are recognised within 'interest income' and 'interest expense' in the income statement on accrual basis by applying the agreed interest rate. However, interest income is suspended when loans become doubtful of collection, such as when overdue by more than 90 days. Such income is excluded from interest income until received.



Notes to the financial statements (continued)

2.6 Other income

Other income is recognised on accrual basis.

2.7 Grants

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

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

2.8 Impairment of financial assets

(a) Loans and advances

All loans and advances are recognised when the cash is advanced to borrowers.

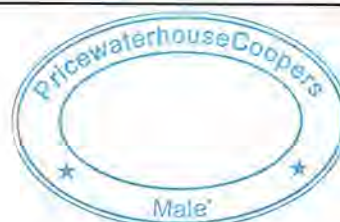
A specific credit risk provision for loan impairment is established to provide for management's estimate of credit losses as soon as the recovery of an exposure is identified as doubtful.

HDFC assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that HDFC uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Downgrading below investment grade level.

Loans, where interest or principal repayment is past due for 90 days or more HDFC identifies those loans as non-performing loans.



Notes to the financial statements (continued)**2.8 Impairment of financial assets (continued)**

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. HDFC also calculates the provision for impairment of loans in accordance with the prudential regulation No 05-2009 of Maldives Monetary Authority on Assets classification, provisioning and suspension of interest, and if a higher provision is required compared to IFRS, such higher provision is made.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

A general provision of 2% on the total unimpaired loan portfolio is established to conservatively cover any unforeseen losses in the lending portfolio at the balance sheet date, but which have not been specifically identified as such.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as the debtor regularising loan repayment), the previously recognised impairment loss is reversed by adjusting the allowance account. Amounts recovered from fully impaired loans and advances are recognised as income on a cash basis.

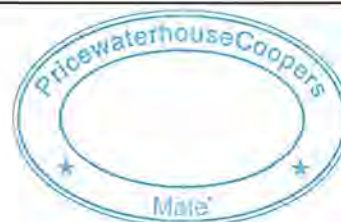
(b) Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated.

2.9 Property, plant and equipment

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

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



Notes to the financial statements (continued)

2.9 Property, plant and equipment (continued)

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

Office equipment	-	8 years
Computer hardware and software	-	5 years
Furniture and equipment	-	5 years
Motor vehicles	-	4 years
Other assets	-	3 years
Leasehold improvements	-	10 years

The charge for the depreciation commences from the date on which the asset is put to use.

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

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

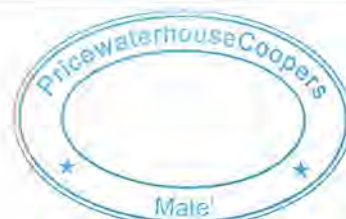
2.10 Intangible assets

Costs associated with software are capitalised and amortised using the straight-line method over estimated useful life of four years. The carrying amount of intangible asset is reviewed annually and adjusted for permanent impairment where it is considered necessary.

2.11 Operating leases

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

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



Notes to the financial statements (continued)

2.12 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition, including cash, amounts due from other banks, certificate of deposits and treasury bills.

2.13 Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

2.14 Employee benefits

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

2.15 Financial liabilities

Deposits from customers and borrowings

Financial liabilities of HDFC include deposits from customers, long term debts and other liabilities. Long term borrowings are carried after deduction of principal repayment from initial borrowings. Interest accrued on deposits and long term debts are included under other liabilities. Financial liabilities are derecognised when extinguished.

2.16 Share capital

Dividends on ordinary shares

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

2.17 Fiduciary activities

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

2.18 Comparatives

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



Notes to the financial statements (continued)

3 Financial risk management

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

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

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

3.1 Credit risk

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

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

A credit Committee comprising the Managing Director, 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.

3.1.1 Risk limit control and mitigation policies

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



Notes to the financial statements (continued)

3.1.1 Risk limit control and mitigation policies (continued)

Some other specific control and mitigation measures are outlined below.

(a) Collateral

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

(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.

3.1.2 Impairment and provisioning policies

Impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the balance sheet date based on objective evidence of impairment (see Note 2.8).

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

Maximum exposure before collateral equals to the net carrying value of all the assets in the Balance sheet except cash and bank balances representing a worse case scenario of credit risk exposure to HDFC at 31 December 2010 and 31 December 2009, 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.
- 68% of the loans and advances portfolio are considered to be neither past due nor impaired (31 December 2009: 42%);

3.1.4 Loans and advances

Loans and advances are summarised as follows:

	(Amount in MRf '000)	
	31 December 2010	31 December 2009
Neither past due nor impaired	200,042,800	73,905,086
Past due but not impaired	88,498,563	98,915,188
Impaired	3,811,404	3,144,724
Gross	292,352,767	175,964,998
Less: allowance for impairment	(7,723,078)	(5,133,036)
Net	284,629,689	170,831,962



HOUSING DEVELOPMENT FINANCE CORPORATION PLC
31 DECEMBER 2010

Notes to the financial statements (continued)

3.1.4 Loans and advances (continued)

Further information of the impairment allowance for loans and advances to customers is provided in Notes 15.

During the year to 31 December 2010, HDFC's total loans and advances outstanding increased by 66% as a result of the new disbursement of the housing loans. In order to minimise the potential increase of credit risk exposure, the HDFC focused more on lending house construction loans providing collateral and strong repayment capacity from employment, other business and rental income.

(a) Loans neither past due nor impaired

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

Internal Ratings	Basis for grading (B/A)	2010		2009	
		Loans to customers	Percentage of total loans	Loans to customers	Percentage of total loans
		MRf		MRf	
A+	0.2%	159,288,426	80%	51,352,261	69%
A	0.2% to 0.5%	3,474,121	2%	5,216,406	7%
A-	0.5% to 1%	9,064,324	5%	8,643,805	12%
B+	1% to 1.5%	8,163,813	4%	2,547,583	3%
B	1.5% to 2%	4,917,921	2%	653,866	1%
C	above 2%	15,134,195	8%	5,491,165	7%
		<u>200,042,800</u>	<u>100%</u>	<u>73,905,086</u>	<u>100%</u>

(b) Loans and advances past due but not impaired

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

	(Amount in MRf '000)			
	Housing loan			
31 December 2010	Male'	Hulhumale'	Outer atoll	Total
Past due 30-60 days	1,867,455	-	908,606	2,776,061
Past due 60-90 days	419,616	-	138,447	558,063
Total	<u>2,287,072</u>	<u>-</u>	<u>1,047,053</u>	<u>3,334,124</u>
31 December 2009	Male'	Hulhumale'	Outer atoll	Total
Past due 30-60 days	7,191,220	-	2,596,118	9,787,338
Past due 60-90 days	745,366	-	408,852	1,154,218
Total	<u>7,936,586</u>	<u>-</u>	<u>3,004,970</u>	<u>10,941,556</u>



Notes to the financial statements (continued)

3.1.4 Loans and advances (continued)

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

(c) Loans and advances individually impaired

The individually impaired loans and advances to customers before taking into consideration the cashflows from collateral held is MRf 3,811,404.15 (as compared to 2009 when impaired loans and advances to customers were MRf 3,144,724).

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

	Housing loan		
	Male' Hulhumale'	Outer atoll	Total
31 December 2010			
Individually impaired loans	1,935,382	-	1,876,022
Total	1,935,382	-	1,876,022
31 December 2009			
Individually impaired loans	1,560,406	-	1,584,317
Total	1,560,406	-	1,584,317

(d) Housing loans renegotiated

Restructuring activities include extended payment arrangements, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. During the year ended 31 December 2010 there was no renegotiation.

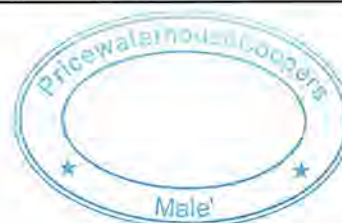
3.1.5 Concentration of risks of financial assets with credit risk exposure

(a) Geographical sectors

HDFC's lending activities are limited to Maldives.

(b) Sectors

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



HOUSING DEVELOPMENT FINANCE CORPORATION PLC
31 DECEMBER 2010

Notes to the financial statements (continued)

3.1.5 Concentration of risks of financial assets with credit risk exposure

	31 December 2010	31 December 2009
Residential	249,915,166	170,310,591
Commercial	42,437,601	5,654,407
Grand Total	<u>292,352,767</u>	<u>175,964,998</u>

3.2 Market risk

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

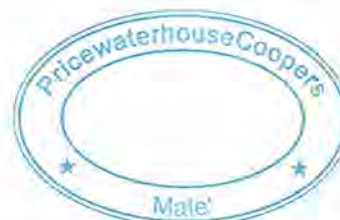
Non-trading portfolios primarily arise from the interest rate management of HDFC's housing and cost of funds.

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

3.2.1 Foreign exchange risk

All the transactions in HDFC, other than the transactions in local currency, Maldivian Rufiya (MRF), are carried out mainly in United States Dollars (USD) for which exchange rate is fixed. Therefore HDFC is not susceptible to any major currency fluctuation risk. Nevertheless, generally, the HDFC does not engage in large scale transactions on speculative basis on its own other than to cover a currency funding and repayment gap.

HDFC has borrowed US\$ 11.5 million from Asian Development Bank (ADB) and International Finance Corporation (IFC). The proceeds were sold to State Trading Organisation Plc (STO) for equivalent Rufiyaa at 1 US\$ = 12.85 MRF. HDFC has entered into a SWAP agreement with STO by which STO will sell equal amount of US\$ to honour the US\$ requirement of HDFC. By virtue of the SWAP agreement, HDFC will be able to service the US\$ loans obtained from ADB and IFC.

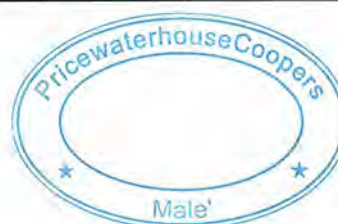


HOUSING DEVELOPMENT FINANCE CORPORATION PLC

30 June 2010

3.2.1 Foreign exchange risk (continued)

As at 31 December 2010 in MRF'000	MRf	USD	Total
Assets			
Cash and balances with Banks	5,920	12,689	18,609
Treasury Bills	178,843	-	178,843
Housing loans	284,630	-	284,630
Other assets	5,896		5,896
Total assets	475,289	12,689	487,978
Liabilities			
Deposits	19,543	-	19,543
Borrowings	540	147,775	148,315
Other	30,904	-	30,904
Total	50,987	147,775	198,762
Net on-balance sheet financial position	424,302	(135,086)	289,216
Commitments	(360,996)	147,775	(213,221)
Net	63,306	12,689	75,995
As at 31 December 2009 in MRF'000	MRf	USD	Total
Assets			
Cash and balances with Banks	235,712	3,162	238,874
Treasury Bills	4,923	-	4,923
Housing loans	170,831	-	170,831
Other assets	3,718		3,718
Total assets	415,184	3,162	418,346
Liabilities			
Deposits	14,543	-	14,543
Borrowings	-	102,800	102,800
Other	35,316	-	35,316
Total	49,859	102,800	152,659
Net on-balance sheet financial position	365,325	(99,638)	265,687
Commitments	(85,881)	102,800	16,919
Net	279,444	3,162	282,606



Notes to the financial statements (continued)

3.2.2 Interest rate risk

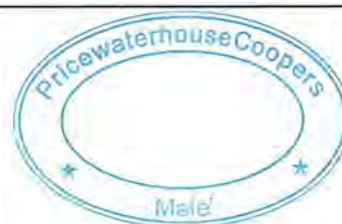
Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. HDFC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

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

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

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 2010	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
in MRf'000							
Assets							
Cash and balances with banks	6,007	12,207	-	-	-	395	18,609
Treasury bills	69,313	109,530	-	-	-	-	178,843
Loans and advances	2,229	4,259	19,932	119,955	138,255	-	284,630
Other assets	-	-	-	-	-	5,896	5,896
Total financial assets	77,549	125,996	19,932	119,955	138,255	6,291	487,978
Liabilities							
Deposits from customers	-	-	-	-	19,543	-	19,543
Borrowings	-	9,300	13,900	111,204	13,911	-	148,315
Other liabilities	-	-	-	-	-	30,904	30,904
Total financial liabilities		9,300	13,900	111,204	33,454	30,904	198,762
Total interest repricing gap	77,549	116,696	6,032	8,751	104,801	(24,613)	289,216



HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 DECEMBER 2010

Notes to the financial statements (continued)

3.2.2 Interest rate risk (continued)

As at 31 December 2009	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non- interest bearing	Total
in MRf '000							
Assets							
Cash and Balances with Banks	232,800	-	-	-	-	6,074	238,874
Treasury Bills	-	4,923	-	-	-	-	4,923
Loans and Advances	968	1,869	8,633	53,302	106,059	-	170,831
Other Assets	-	-	-	-	-	3,718	3,718
Total Financial	233,768	6,792	8,633	53,302	106,059	9,792	418,346
Liabilities							
Deposits	-	-	-	-	14,543	-	14,543
Borrowings	-	-	-	73,358	29,442	-	102,800
Other liabilities	-	-	-	-	-	35,315	35,315
Total Financial Liabilities	-	-	-	73,358	43,985	35,315	152,658
Total interest repricing gap	233,768	6,792	8,633	(20,056)	62,074	(25,523)	265,688

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

3.3 Liquidity risk

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

3.3.1 Liquidity risk management process

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

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



Notes to the financial statements (continued)

3.3.1 Liquidity risk management process

- 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.

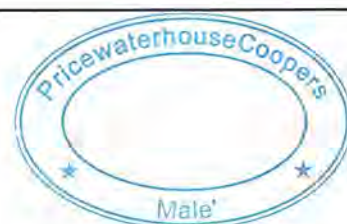
3.3.2 Funding approach

Sources of liquidity are regularly reviewed by the ALCO.

3.3.3 Non-derivative cash flows

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

As at 31 December 2010	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
In MRF '000						
Liabilities						
Deposits	-	-	-	-	22,292	22,292
Borrowings	497	9,390	18,135	121,757	14,084	163,863
Other Liabilities	-	-	-	-	30,904	30,904
Total liabilities	497	9,390	18,135	121,757	67,280	217,059
In MRF '000						
Assets						
Cash and balances other banks	6,402	12,207	-	-	-	18,609
Treasury bills	-	179,780	-	-	-	179,780
Loans and advances	4,893	9,537	42,863	210,786	222,571	490,650
Other assets	-	-	-	-	5,896	5,896
Total assets	11,295	201,524	42,863	210,786	228,467	694,935
Net	10,798	192,134	24,728	89,029	161,187	477,876



HOUSING DEVELOPMENT FINANCE CORPORATION PLC
31 DECEMBER 2010

Notes to the financial statements (continued)

3.3.3 Non-derivative cash flows (continued)

As at 31 December 2009	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
In MRf'000						
Deposits	-	-	-	-	16,155	16,155
Borrowings	1,157	1,220	2,235	75,723	41,293	121,628
Other Liabilities	-	-	-	-	40,449	40,449
Total liabilities	1,157	1,220	2,235	75,723	97,897	178,232
In MRf'000						
Assets						
Cash and balances other banks	194,531	45,707	-	-	-	240,238
Treasury bills	-	5,000	-	-	-	5,000
Loans and advances	2,131	3,994	17,797	89,723	124,706	238,351
Other assets	-	-	-	-	3,718	-
Total aAssets	196,662	54,701	17,797	89,723	128,424	487,307
Net	195,505	53,481	15,562	14,000	30,527	309,075

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

3.4 Capital management

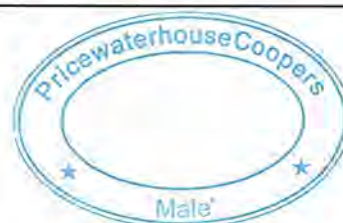
HDFC's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

- 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.



Notes to the financial statements (continued)

3.4 Capital management (continued)

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 2010. HDFC complied with all of the externally imposed capital requirements to which they are subjected.

	in MRf '000	
	31 December 2010	31 December 2009
Capital		
Share Capital	159,375,000	159,375,000
Advance for shares	51,407,100	51,407,100
Retained earnings	58,989,731	34,906,459
Reserves	19,443,081	20,000,000
Total qualifying Capital	289,214,912	265,688,559
Total capital	289,214,912	265,688,559
Risk-weighted assets		
On-balance sheet	150,158,361	135,936,709
Total risk-weighted assets	150,158,361	135,936,709
Basel ratio	192%	195%

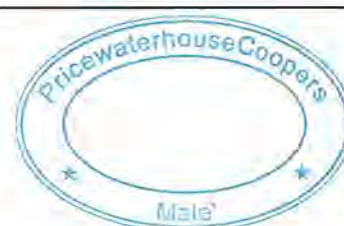
The increase of the regulatory capital in the year ended 31st December 2010 is mainly due to the contribution of the current-year profit. The increase of the risk-weighted assets reflects the expansion of the loan portfolio in the year.

4 Critical accounting estimates and judgments

HDFC makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment losses on loans and advances

HDFC reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, HDFC makes judgments as to whether there is any observable data indicating that there is an impairment of loans. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers.



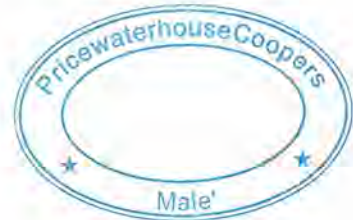
Notes to the financial statements (continued)

4 Critical accounting estimates and judgments

Management uses following assumptions to make provision for impaired loans and advances.

(i) It takes 2 years to execute the mortgaged house and realise the proceeds.

(ii) Initial cost incurred to construct the house property is taken as the fair market value of the building mortgaged. In management's view since the rental index in Male' and Hulhumale' is maintaining an upward trend, at the minimum the mortgaged securitys' values will be initial costs incurred to construct those mortgaged house properties. Taking into consideration the market conditions, the securities' values in islands other than Male' and greater Male' have been considered as zero on a prudential basis.



HOUSING DEVELOPMENT FINANCE CORPORATION PLC**31 December 2010****Notes to the financial statements continued**

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

5 Gross income

	2010	2009
Interest income	35,967,463	30,496,234
Fee income	3,310,642	2,337,167
Other income (Note 8)	316,861	1,482,030
	<u>39,594,966</u>	<u>34,315,431</u>

6 Net interest income

	2010	2009
Interest income		
Housing loans	24,731,180	15,592,032
Treasury bills / other deposits with bank	11,236,283	14,904,202
	<u>35,967,463</u>	<u>30,496,234</u>
Interest expense		
Customer deposits	215,478	135,880
Borrowed funds	5,356,896	3,957,934
Interest on bond	13,404	909,039
	<u>5,585,778</u>	<u>5,002,853</u>
Net interest income	<u>30,381,685</u>	<u>25,493,381</u>

7 Fee income

	2010	2009
SWAP commitment fees	1,976,129	1,433,992
Management fees	891,354	489,687
Housing loan processing fees	443,159	413,488
	<u>3,310,642</u>	<u>2,337,167</u>

SWAP commitment fees represent 1% commitment fees per annum computed on a daily basis on the outstanding US\$ balance committed to be sold back by State Trading Organisation Plc.

8 Other income

	2010	2009
Sale of application forms	73,204	20,250
Penalty interest	173,745	214,607
Grant received from IFC	38,702	603,950
Foreign exchange gain	-	637,114
Insurance commissions	31,210	6,109
	<u>316,861</u>	<u>1,482,030</u>



HOUSING DEVELOPMENT FINANCE CORPORATION PLC**31 December 2010****Notes to the financial statements continued**

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

9 Staff costs

	2010	2009
Salaries and allowances	3,252,183	2,755,060
Housing and living allowance	693,362	566,249
Staff medical insurance	73,296	48,440
Contribution to employees provident fund	116,547	61,705
	<u>4,135,388</u>	<u>3,431,454</u>

10 Premises, equipment and establishment expenses

	2010	2009
Depreciation (Note 19)	274,329	268,007
Operating lease rentals		
- property	600,000	600,000
Water and electricity	162,591	119,661
	<u>1,036,920</u>	<u>987,668</u>

11 Provision for bad and doubtful debts

	2010	2009
Specific provision for loans and advances	262,287	(165,797)
General provision for loans and advances	2,327,755	3,519,300
	<u>2,590,042</u>	<u>3,353,503</u>

12 Other operating expenses

	2010	2009
Directors fees	56,000	50,000
Auditors' remuneration	112,440	80,307
Restructuring expenses	68,278	253,386
Communication expenses	59,035	59,566
Tax on sale of securities (Land & Building)	-	54,770
Marketing expenses	174,463	-
Travelling expenses	245,536	390,037
Board meeting expenses	497,007	54,072
Loan appraisal fees	345,900	-
Legal expenses	204,895	69,440
Training expenses	600,247	795,107
Printing and stationary expenses	69,787	62,579
Insurance	53,306	71,438
Others	233,591	504,196
	<u>2,720,486</u>	<u>2,444,898</u>



HOUSING DEVELOPMENT FINANCE CORPORATION PLC**31 December 2010****Notes to the financial statements continued**

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

13 Earnings per share

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

	2010	2009
Net profit attributable to shareholders	23,526,353	19,095,055
Weighted average number of ordinary shares in issue	1,593,750	1,419,713
Basic earnings per share	14.76	13.45

14 Cash and short term funds

	31 December 2010	31 December 2009
Short term deposits with bank	12,207,500	225,000,000
Cash in hand	4,500	4,500
Saving account balances with other banks	4,286,402	7,799,796
Current account balances with other banks	2,110,885	6,069,405
Treasury bills	178,843,170	4,923,285
	<u>197,452,457</u>	<u>243,796,986</u>

Treasury bills are with Maldives Monetary Authority for a period of 90 days and carry interest at 5.50% per annum.

Savings deposit with Bank of Maldives carry interest at 3.5 % per annum.

Short term deposits are with Bank of Maldives for a period of 30 days and carry interest at 5.50% per annum.

For the purposes of cash flow statement, cash and cash equivalents comprise the following balances with 3 months or less maturity:

	31 December 2010	31 December 2009
Cash and bank balances funds	18,609,287	238,873,701
Treasury bills	178,843,170	4,923,285
	<u>197,452,457</u>	<u>243,796,986</u>

15 Housing loans

	31 December 2010	31 December 2009
Housing loans	292,352,767	175,964,998
	<u>292,352,767</u>	<u>175,964,998</u>
Less: Provision for impairment	(7,723,078)	(5,133,036)
Net housing loans	<u>284,629,689</u>	<u>170,831,962</u>



HOUSING DEVELOPMENT FINANCE CORPORATION PLC**31 December 2010****Notes to the financial statements continued**

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

15 Housing loans (continued)**(a) Movement in provision for impairment are as follows:**

	31 December 2010	31 December 2009
(i) Specific provision		
Opening balance	1,613,736	1,779,533
Provision made during the year	262,287	(165,797)
Closing balance	1,876,023	1,613,736
(ii) General provision		
Opening balance	3,519,300	-
Provision made during the year	2,327,755	3,519,300
Closing balance	5,847,055	3,519,300
Total	7,723,078	5,133,036

16 Movement in interest in suspense

	31 December 2010	31 December 2009
Opening balance	296,613	331,960
Amount (recognised)/ suspended during the year	176,622	(35,347)
Closing balance	473,235	296,613

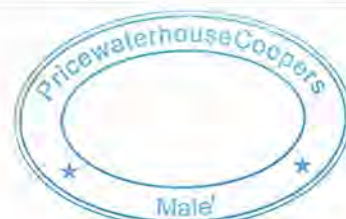
17 Assets quality

Non performing assets included in housing loan on which interest is not being accrued are as follows:

	31 December 2010	31 December 2009
Housing loans	3,811,404	3,144,724

18 Interest receivable

	31 December 2010	31 December 2009
Loan interest receivable	648,835	733,923
Treasury bill interest receivable	936,926	32,035
Fixed deposits interest receivables	29,700	715,171
	1,615,461	1,481,129



HOUSING DEVELOPMENT FINANCE CORPORATION PLC
31 December 2010

19 Property, plant and equipment

	Office equipment	Computer equipment	Furniture and fixtures	Motor vehicles	Other assets	Leasehold improvements	Total
At 1 January 2009							
Cost	340,897	507,904	317,721	32,500	1,193	853,837	2,054,052
Accumulated depreciation	(97,356)	(210,134)	(117,236)	(24,375)	(649)	(35,533)	(485,283)
Net book amount	243,541	297,770	200,485	8,125	544	818,304	1,568,769
Year ended 31 December 2009							
Opening net book amount	243,541	297,770	200,485	8,125	544	818,304	1,568,769
Additions	45,294	121,355	43,270	-	1,350	700	211,969
Disposals	-	-	(1,041)	-	-	-	(1,041)
Depreciation charge (Note 10)	(45,459)	(77,821)	(52,697)	(6,093)	(535)	(85,402)	(268,007)
Balance as at 31 December 2009	243,376	341,304	190,017	2,032	1,359	733,602	1,511,690
At 1 January 2010							
Cost	386,191	629,259	359,950	32,500	2,543	854,537	2,264,980
Accumulated depreciation	(142,815)	(287,955)	(169,933)	(30,468)	(1,184)	(120,935)	(753,290)
Net book amount	243,376	341,304	190,017	2,032	1,359	733,602	1,511,690
Year ended 31 December 2010							
Opening net book amount	243,376	341,304	190,017	2,032	1,359	733,602	1,511,690
Additions	22,400	303,584	24,534	-	-	-	350,518
Disposals	-	-	-	-	(346)	-	(346)
Depreciation charge (Note 10)	(48,172)	(89,805)	(48,317)	(2,032)	(549)	(85,454)	(274,329)
Balance as at 31 December 2010	217,604	555,083	166,234	-	464	648,148	1,587,533
At 31 December 2010							
Cost	408,591	932,843	384,484	32,500	2,197	854,537	2,615,152
Accumulated depreciation	(190,987)	(377,760)	(218,250)	(32,500)	(1,733)	(206,389)	(1,027,619)
Net book amount	217,604	555,083	166,234	-	464	648,148	1,587,533

The value of fully depreciated assets as at the balance sheet date amounted to MRf 297,397 (2009: MRf 297,397).



HOUSING DEVELOPMENT FINANCE CORPORATION PLC**31 December 2010****Notes to the financial statements continued**

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

20 Intangible assets

	Software costs	Total
Year ended 31 December 2010		
Opening net book amount	-	-
Additions	543,040	543,040
Closing net book amount	543,040	543,040
At 31 December 2010		
Cost	543,040	543,040
Accumulated depreciation	-	-
Net book amount	543,040	543,040

21 Other assets

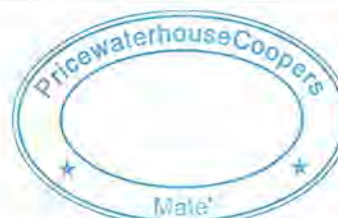
	31 December 2010	31 December 2009
Deposits and prepayments	1,910,343	702,569
Inventories of stationery	5,927	5,616
Other debtors	233,355	17,018
	2,149,625	725,203

22 Deposits from customers

	31 December 2010	31 December 2009
Equated monthly installment deposits	10,997,400	7,728,671
Borrowers equity deposits	8,546,035	6,813,851
	19,543,435	14,542,522
Current	19,543,435	14,542,522
Non-current	-	-

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

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



HOUSING DEVELOPMENT FINANCE CORPORATION PLC**31 December 2010****Notes to the financial statements continued**

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

23 Borrowings

	31 December 2010	31 December 2009
International Finance Corporation (IFC) (Note 29)	51,400,000	51,400,000
Asian Development Bank (ADB) (Note 29)	96,375,000	51,400,000
Corporate Bonds	540,000	-
	<u>148,315,000</u>	<u>102,800,000</u>
Current	23,200,975	-
Non-current	<u>125,114,025</u>	<u>102,800,000</u>

The borrowings from IFC and ADB carry interest at LIBOR +3 basis points and LIBOR +3.3 basis points, respectively. The term loan from ADB is repayable in 11 half yearly installments commencing after 24 months from the first disbursement date (February 10, 2009). The term loan from IFC is repayable in 10 half yearly installments commencing from July 15, 2011 and ending on January 15, 2016.

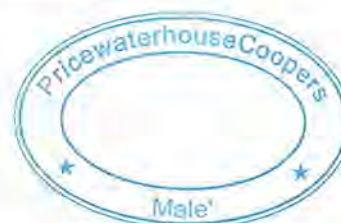
The IFC loan is secured by a first ranking mortgage on HDFC's mortgage portfolio and a charge over the account in the Maldives into which proceeds of the loan was disbursed and from which housing loans were disbursed.

The ADB loan is secured by all rights of HDFC under any security obtained by the HDFC pursuant to the mortgage loans given by HDFC from the funds disbursed under the ADB loan.

During the year HDFC issued bonds with a maturity period of 6 months carrying interest of 6% per annum.

Maturity of borrowings

	31 December 2010	31 December 2009
Not later than 1 year	23,200,975	-
Later than 1 year and not later than 5 years	111,203,900	73,358,080
Over 5 years	13,910,125	29,441,920
	<u>148,315,000</u>	<u>102,800,000</u>
Borrowings at floating rates with a fixed spread	147,775,000	102,800,000
Borrowings at fixed rates	540,000	-
	<u>148,315,000</u>	<u>102,800,000</u>



HOUSING DEVELOPMENT FINANCE CORPORATION PLC**31 December 2010****Notes to the financial statements continued**

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

23 Borrowings (continued)

The carrying amounts of HDFC's borrowings as at 31 December 2010 are fully denominated in United States Dollars.

HDFC has undrawn borrowing facilities to the extent of US\$ 13.5 million as at the balance sheet date.

24 Liabilities

	31 December 2010	31 December 2009
Interest payable	3,362,089	2,673,483
Ministry of Housing and Urban Development Fund	26,026,385	31,865,547
Employee provident fund	21,001	231,337
Accruals and other payables	306,489	54,201
Amounts received from customers in advance	260,702	-
Other liabilities	927,793	491,321
	30,904,459	35,315,889
Current	30,904,459	35,315,889
Non-current	-	-

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. The movements in the development fund are given below:

	For the period 21 April 2008 to 31 December 2010	Year ended 31 December 2010	Year ended 31 December 2009
Opening balance	-	31,865,547	72,099,922
Amount received	75,000,000	-	-
Loan repayments by customers	1,344,915	1,344,915	-
Add: interest accrued on loans	3,702,758	2,265,786	1,427,928
EMI deposits/EMI received in advance	475,234	42,649	358,144
Interest receivable from customers	(265,146)	(265,146)	-
Less: accrued management fees	(1,411,727)	(915,923)	(489,687)
Less: loans disbursed	(52,819,649)	(8,311,443)	(41,530,760)
	26,026,385	26,026,385	31,865,547



HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2010

Notes to the financial statements continued

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

25 Ordinary shares

	Number of shares	Ordinary shares
At 31 December 2008	10,009	1,000,900
Shares issued		
- Of the advance received earlier	770,929	77,092,900
- Proceeds received during the year	812,812	81,281,200
At 31 December 2009	1,593,750	159,375,000
At 31 December 2010	1,593,750	159,375,000

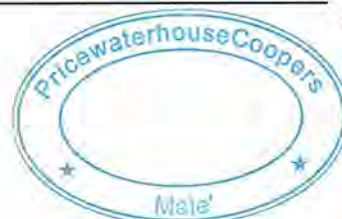
The total authorized number of ordinary shares at the year-end was 3,187,500 (2009: 3,187,500) with a par value of MRf 100 (2009: MRf 100) per share. As at 31 December 2010, 1,593,750 shares were issued, which were fully paid.

26 Reserves

	31 December 2010	31 December 2009
General reserve	15,000,000	15,000,000
Staff education reserve	5,000,000	5,000,000
Total reserves at end of the year	20,000,000	20,000,000

Movement in reserves were as follows:

	31 December 2010	31 December 2009
General reserve		
At beginning of the year	15,000,000	15,000,000
Transfer from net profit	-	-
At end of the year	15,000,000	15,000,000
Staff education reserve		
At beginning of the year	5,000,000	5,000,000
Transfer from net profit	-	-
At end of the year	5,000,000	5,000,000
Total reserves		
At beginning of the year	20,000,000	20,000,000
Transfer from net profit	-	-
Transfer to retained earning on utilisation	(556,919)	-
At end of the year	19,443,081	20,000,000



HOUSING DEVELOPMENT FINANCE CORPORATION PLC**31 December 2010****Notes to the financial statements continued**

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

27 Contingencies*(a) Contingent liabilities and commitments*

	31 December 2010	31 December 2009
Loan commitments	360,996,000	85,881,266

There were no other material contingent liabilities recognized at the balance sheet date.

(b) Contingent assets

There were no material contingent assets recognized at the balance sheet date.

28 Commitments*(a) Capital commitments*

Capital expenditure contracted before the end of the reporting period but not yet incurred is MRf 77,100 (2009: Nil).

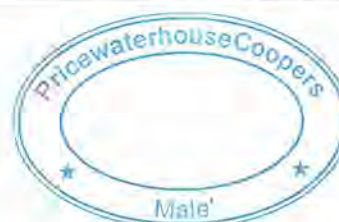
(b) Operating lease commitments

	31 December 2010	31 December 2009
Not later than 1 year	600,000	600,000
Later than 1 year and not later than 5 years	2,400,000	2,400,000
Later than 5 years	1,550,000	1,900,000
	<u>4,550,000</u>	<u>4,900,000</u>

29 Cash generated from operations

Reconciliation of net profit to cash generated from operations:

	31 December 2010	31 December 2009
Profit before tax	23,526,353	19,095,055
Adjustments for :		
Depreciation (Note 10)	274,329	268,007
Loss on disposal of assets	346	-
Provision for bad and doubtful debts (Note 11)	2,590,042	3,353,503
Increase in accrued expenses	1,167,030	1,619,623
Increase in interest receivable	(134,332)	(476,336)
Cash generated from operations	<u>27,423,767</u>	<u>23,859,852</u>



HOUSING DEVELOPMENT FINANCE CORPORATION PLC**31 December 2010****Notes to the financial statements continued**

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

30 Related party transactions

Share capital of HDFC is held by the following shareholders:

Government of Maldives	-	49%
International Finance Corporation	-	18%
Asian Development Bank	-	18%
HDFC Investment Private Limited	-	15%

	Year ended 31 December 2010	Year ended 31 December 2009
Loans from related parties		
Beginning of the year	104,817,066	57,000,000
Loan received during the year	44,975,000	102,800,000
Loan repaid during the year	-	(57,000,000)
Interest charged	4,754,389	1,821,550
Commitment fees charged	469,560	195,516
Interest paid	(4,294,385)	-
Commitment fees paid	(430,386)	-
Loans outstanding at the end of the year	- 150,291,244	104,817,066
Principal outstanding (Note	147,775,000	102,800,000

The borrowings from IFC and ADB carry interest at LIBOR +3 basis point and LIBOR +3.3 basis point respectively. The term loan from ADB is repayable in 11 half yearly instalments commencing after 24 months from the first disbursement date (February 10, 2009). The term loan from IFC is repayable in 10 half yearly installments commencing from July 15, 2011 and ending on January 15, 2016.

IFC loan is secured by a first ranking mortgage on HDFC's mortgage portfolio and a charge over the account in the Maldives into which proceeds of the loan was disbursed and from which housing loans were disbursed.

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HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2010

Notes to the financial statements continued

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

30 Related party transactions (continued)

During the year HDFC has paid an amount of MRf 977,127 as a technical assistance charge to HDFC India for the employee training.

	Year ended 31 December 2010	Year ended 31 December 2009
Key management compensation		
Salaries and other short term benefits	<u>1,750,687</u>	<u>1,552,900</u>

31 Post balance sheet events

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





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