

ANNUAL REPORT
& FINANCIAL STATEMENTS

2011



Housing Development Finance Corporation Plc.



HOUSING DEVELOPMENT FINANCE CORPORATION PLC

(Incorporated in the Republic of Maldives, Company registration Number C-2009/021)

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

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Email: info@hdfc.com.mv

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

WE, AT HDFC Plc. MALDIVES BELIEVE THAT SAFE AND SECURE HOUSING IS THE NO.1 PRIORITY FOR THE PROGRESSIVE MALDIVIAN SOCIETY.

Our Vision

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

Our Mission

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

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 and transparency



HDFC PLC'S BOARD AND SENIOR MANAGEMENT

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

Nomination & Remuneration Committee

Mr. Ismail Ali Manik - Director –GOM
Ms. Fareeha Shareef - Alternate – Director
Dr. A.D. Priyanka Baddevithana – Managing Director

Senior Management

Dr. A. D. P. Baddevithana
Managing Director
Mr. Ibrahim Didi
Deputy General manager/Head of Accounts
Mrs. Aishath Rasheeda
Senior Manager - Credit
Mr. Adam Athif
Senior Manager – Administration and HRD
Mr. Mohamed Shafeeq
Manager Business Development



COMPANY OVERVIEW

- Housing Development Finance Corporation (HDFC) Limited was incorporated as a state owned enterprise on 28 January 2004 by a Presidential Decree under the Companies Act, Law No: 10/96. The commercial operations commenced on March 29, 2004. HDFC was established with technical assistance from the World Bank, and initially all shares were held by the Government of Maldives (GOM).
- HDFC Plc. was registered as a public company on the 9th of February 2006.
- The HDFC Plc. was privatized with the signing of a shareholders' agreement for privatization between the GOM, IFC, ADB and HDFC-Investments Ltd.-India on July 23, 2008. This Public Private Partnership has a joint foreign investment in 51% shares by International Finance Corporation (IFC) of the World Bank Group, Asian Development Bank (ADB) and HDFC Investments of India. The structure of the shareholding in the privatized HDFC Plc. is as follows:

Government of the Maldives	49%
International Finance Corporation	18%
Asian Development Bank	18%
HDFC Investments (India)	15%
- The July 2008 initiative to restructure the capital and recommence the business of HDFC Plc. became effective on February 10, 2009 with the first equity disbursement by the International Shareholders. IFC and ADB's commitment extended to a multi-lateral funding facility with seven-year tenure. HDFC-India, with over thirty years of experience in mortgage finance, is the technical partner of HDFC Plc. with assistance from IFC's Advisory Service Performance Based Grant (ASPBG).

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

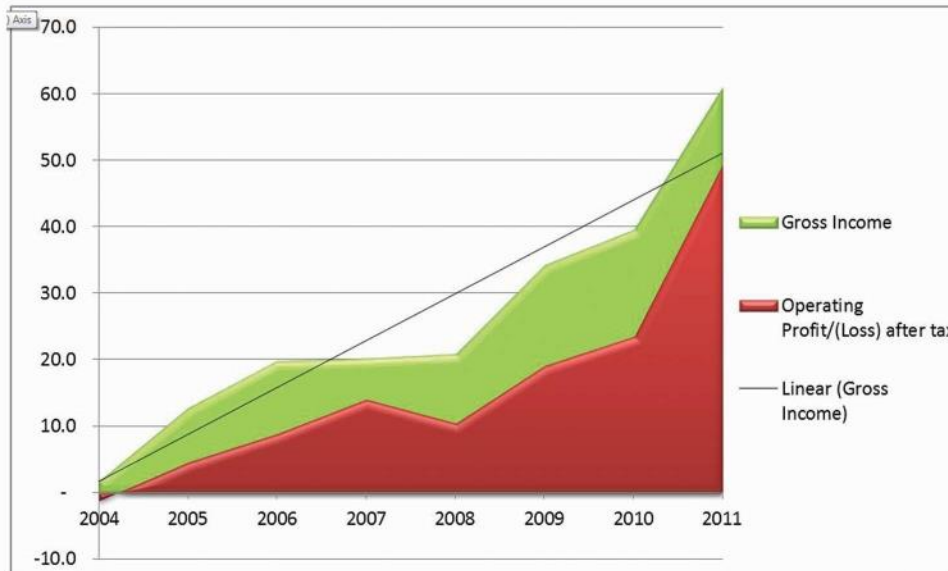
The GOM's policy of improving the infrastructure in focus islands to facilitate economic development through zonal investment opportunities for Public, Private, Partnership (PPP) ventures is viewed as a positive factor in going forward with the development of housing finance. Such an approach would assist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

Managing Director's Report

We are pleased to present the annual report 2011 of HDFC Plc. with extracts from Audited Accounts from 2004 (the inception) to 2011, while the full audited financial statements for the year ended December 31, 2011, complete with the auditor's report is given in the latter part of the annual report

Historical financial summary based on audited financials to the year ended December 2011

Year	2004	2005	2006	2007	2008	2009	2010	2011
All figures in MVR millions								
Gross Income	1.8	12.8	20.0	20.3	21.0	34.3	39.6	61.1
Net Interest Income	0.2	4.9	9.3	14.3	15.6	25.5	30.4	43.6
Net Op. Income	0.3	6.2	10.4	16.2	16.6	29.3	34.0	51.3
Operating Expenses	1.6	1.6	1.5	2.1	6.2	10.2	10.5	13.3
Profit after tax	1.27	4.6	8.9	14.1	10.5	19.1	23.5	49.5
EPS (MVR)	-	461.0	894.0	1407.0	1044.0	12.0	14.8	31.1
Operating Margin %	(72%)	39%	45%	69%	50%	56%	59%	57%
Non Int. Exp./ Incm %	89%	13%	8%	10%	29%	20%	20%	18%
Dividends Payout %	-	-	-	11%	-	-	47%	46%
ROE	-	106.3%	72.8%	53.4%	6.3%	7.2%	8.1%	15.1%



2011 Financial Results

Balance Sheet

(All amounts in Maldivian Rufiyaa)

	As at 31st December	
	2011	2010
ASSETS		
Cash and short term funds	54,138,657	197,452,457
Housing loans	568,357,301	284,629,689
Interest receivable	1,812,070	1,615,463
Property, plant and equipment	2,118,436	1,587,533
Intangible assets	529,146	543,040
Deferred income tax assets	23,388	-
Derivative financial instruments	34,344,460	-
Other assets	3,580,124	2,149,625
Total assets	664,903,582	487,977,807
LIABILITIES		
Deposits from customers	29,300,776	19,543,435
Borrowings	266,066,830	148,315,000
Current income tax liabilities	3,141,326	-
Other liabilities	38,851,274	30,904,459
Total liabilities	337,360,206	198,762,894
SHAREHOLDERS' EQUITY		
Share capital	159,375,000	159,375,000
Advance for shares	51,407,100	51,407,100
Retained earnings	98,365,801	58,989,732
Reserves	18,395,475	19,443,081
Total shareholders' equity	327,543,376	289,214,913
Total equity and liabilities	664,903,582	487,977,807
Commitments and Contingencies	423,978,000	365,546,000

The financial results for the year ended December 31, 2011 recorded a post-tax profit of MVR 49.5 million, which is 110% growth from 2010. Most importantly, the loan portfolio has grown by 97% year on year in this third year of operations since privatization in 2008. The year 2011 witnessed both local and international home developers entering the market with a higher level of confidence as HDFC made available end-user mortgage finance for their customers. The Contingent Commitments for Home Loans at the end of 2011 stood at MRF 423.9 (USD 28 million) HDFC's pre-approval mechanism for developer-led home construction. This is indicative of the vibrancy created in the market by HDFC for the supply of new housing units, which were at various stages of work-in-progress as at the year-end.

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 providing much needed end-user home finance.

In 2011, a major marketing campaign launched differentiated products targeting all the segments of consumers in the market for home loans. The new products were developed to capture the market characteristic, which in many cases included an income generating potential akin to micro-finance industry or SME component where each dwelling unit housed a commercial space used for enterprises such as trading, tailoring and other cottage industries. During 2011, HDFC extended the maximum loan tenor for all categories of loans to 15 years with the lowest rate being 11.5% for the salary deduction category that offers a 50 basis point premium as a differentiated product. Therefore, by the end of 2011, the third year of privatized HDFC's operations, HDFC was positioned to target a market share of 50%. The HDFC's loan portfolio growth of 67% in 2010 marked a customer retention rate of 98% with a lower default rate of 0.16%, being a phenomenal improvement from the NPL ratio of 1.5% that prevailed upon privatization in 2008. AGM of March 30, 2011, declared a dividend of 7.0% at 47.4% payout ratio for 2010 being the first since privatization of HDFC Maldives.

Focus of Housing Development Finance in the Maldives

The main focus of Housing Development Finance Corporation (HDFC) Plc. of Maldives is to offer sustainable and responsible finance, providing access to people in underserved markets to improve their living conditions. HDFC deploys a two-pronged social performance strategy to create sustainable financial inclusion. The first priority is to cater for the demand for homes in the Male'/Greater Male' region, where the capital city Male' recording one of the highest population densities in the world with 60,000 people per sq. km. There was an average of 12 people per household in 2007 when IFC was invited to initiate a solution to the human congestion that has reached a crisis proportion. Since the state owned HDFC established in 2004 was unable to create a sustainable home finance solution, IFC initiated privatization with a Public Private Partnership program to create long-term viability through capital restructuring and new lines of multilateral funding. In order to create of a safe and healthy environment for housing in the Maldives' urban center, HDFC is financing the development of housing in some reclaimed islands such as Hulhumale and Gulhi Falhu.



Secondly, there is growing demand for housing from outer islands stretching over the ocean territory of 90,000 sq. km. within the exclusive economic zone of 859,000 sq. km.



HDFC has developed an Island Outreach Program to identify islands that possess fair value of property and sustainable demand for housing in order to provide development finance. Twelve such Islands have been identified.

Approximately 30% of the loan portfolio will come to represent home finance extended to outer island population under this financial inclusion strategy. Of US\$ 25 million authorized capital, investment of US\$ 12.5 million was made by IFC, ADB & HDFC India (51% in total), and the GOM (49%) while IFC and ADB provided multilateral funding of US\$15 million between 2009 and 2010. FMO of Netherlands made a commitment in 2010 to invest US\$ 10 million for on lending. Total transaction value in lending operations for year 2011 was US\$ 25 million. IFC concluded its performance based grant advisory services project that helped HDFC build capacity to source international and domestic investments by establishing Social Performance Strategies based on principles of Responsible Finance. GOM provided a MVR 75 million revolving fund in 2008 for the social housing program.

To-date, more than 350 families have benefitted from HDFC-GOM Social Housing Program. In August 2011, the GOM signed an MOU with HDFC Plc. to provide a sovereign guarantee of MVR 500 million to fund incomplete buildings in the capital city Male', where there is a high demand for rentals in accommodation and business enterprises that would provide additional sources of income to service the home loan effectively. HDFC maintains an updated database on property rental values in the four wards that make up Male' and uses a 30% discounting factor when considering the rental component of the disposable income of applicants. Mortgage finance is made available to individuals and property developers for completion of construction that would provide primarily housing, but with an adaptation that goes beyond responsible micro-finance concepts to augment housing with a commercial or rental income generating potential where the location and design of the building permits clients to do so.

Greater emphasis is given to transactions that drive decongestion of the capital city, which has a population density causing stresses on the social and physical infrastructure that threatens the health and safety of its inhabitants. Under a program of social performance and responsible finance, an Island Outreach program to cater for communities spread over 90,000 sq. km. of ocean territory has attracted sixty percent of the investment for development in locations identified as safe and healthy environments untouched by natural disasters in the past. Such locations have successfully addressed the environmental concerns of rising sea levels when the 1200-island-nation was put to the test during the tsunami of 2004. The existence of a safe natural habitat that could benefit from our housing development finance efforts in more than one hundred and eighty islands in atolls protected by shallow continental shelves, coral reefs and sandbars was evident. In the atolls identified for development, there had not been any records of environment threats to life and property. However, while property insurance for the full tenure of the loan that would run to an average of fifteen years is mandatory for the mortgage transaction, HDFC has innovated optional credit life insurance for customers through the state-owned insurance company.



Key ESG Benefits

1. Environmental Benefits

The worst impact of human congestion is on children who depend on a safe and healthy environment for their mental and physical wellbeing. With more than 50% of the population under the age of 18, overcrowding in Male' recorded twelve members per household as by the Human Rights Commission of Maldives in 2010, is blamed for much of the social unrest and law and order issues facing its citizens.

The adverse impact of housing shortage is felt most by the female children. HDFC has developed products that have adapted microfinance techniques of creating avenues of rental and business income in addition to housing and pooling the income of family members to give greater financial strength to service the home loan.

The option to create additional space alongside housing for SME activities that would generate an extra income will be considered as a component of monthly disposable income, while assigning a percentage to manage credit risk by ensuring that exposure to irregular income does not compromise long-term repayment capacity of the customers.

Comprising 1,190 islands, of which 188 are inhabited, Maldives has a population of 350,000 dispersed over 90,000 sq. km. of sea territory. Focusing on the housing needs of Male', Greater Male' and Provincial Islands, HDFC considers the following facts:

- Critical mass
- Fair value of property for mortgage security
- Level of public and private investments in utilities and infrastructure
- Margin of safety as regards land elevation above the sea level

HDFC's mission to promote sustainable finance to create homes in a safe and healthy environment for the Maldivians is supported by government policies on investment in land under reclamation programs such as Hulhumale' and Eye of Maldives' where global standards of environmental conservation are met. Compliance with international environmental impact guidelines is mandated for HDFC's credit decisions on development of housing in Male' and outer islands.



HDFC policies have encouraged the Thai Property Development Company, Pruksa to introduce energy efficient and environmental friendly construction methods.

With only 5% resale market, 90% of development finance in the Maldives goes into construction of new homes with the balance 5% on renovation. Therefore, strict adherence to planning and building code is monitored through technical inspections at every step of the construction process. As part of its credit evaluation process, HDFC vets the building contractors and construction methods for improved environment friendly practices. The Environmental Impact Assessment Regulations 2007 of the Ministry of Environment, Energy and Water are used in environmental concept development and implementation. Housing is developed where there are no protected or sensitive areas of high risk, or environmentally significant habitats and wetlands. The housing development on existing reclaimed land is limited to specifically earmarked areas in the land use plan approved for Hulhumale' and Eye of Maldives projects that do not envisage any land use conflicts. The close proximity to lagoons requiring flood prevention is a key issue in the assessment of environmental suitability for human habitat. In this regard, a minimum clearance of 2 meters above the sea level is preferred with the addition of tetrapod barriers to mitigate possible tsunami impact in vulnerable areas that are identified. It is ensured that there are no floral or faunal species of any significance and the impacts on terrestrial biodiversity are negligible. The coastal environment near the project area is checked for the characteristic clear sandy bottomed lagoons where the marine community appears healthy with no records of recent flooding or storm surges.

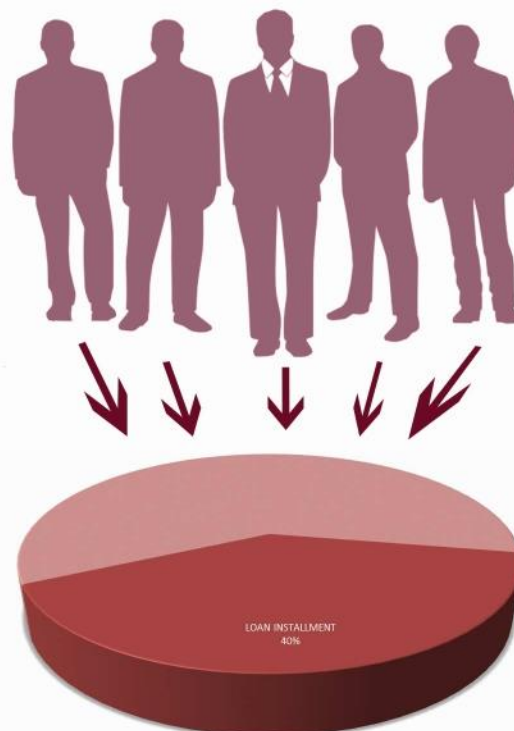


2. Social Benefits

Human Rights Commission of Maldives (HRCM) reported in 2010 that a severe problem of a crisis proportion exists in the capital city Male, with almost 85 per cent of the families living in substandard accommodation. HRCM recorded that around 12,000 families in Male are deemed technically homeless while needing improved conditions for 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, showing 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 such as gang warfare and drug abuse". Therefore, lack of adequate and affordable housing is one of the most pressing problems facing the people living in Male. While, recording an impressive per-capita income level of its people, the disparity in the levels of income has created a social housing need in the low-income category, which represents more than 40 per cent of the population of Male.

In a disposable-income-depressed market, HDFC has innovated solutions by creating affordability of a home loan through pooling of the family income when assessing the maximum of 40% 'Fixed Obligations to Income' Ratio for credit decisions. Joint applicants should have a legal right of abode in the property being developed or bought. This extended co-application model, made possible by land inheritance and family law unique to the Maldives, has created affordability of mortgage finance. With equitable policies on land distribution with a strong family support system, and enabling government policy on housing, the problem continues to ease, graduating from the crisis proportion stated by HRCM, to one of a managed solution. 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 10% of current applications fall into this category, and with the growth of the Island Outreach Program, this will become a facilitator to many low income families to have better housing.



3. Governance at HDFC Plc.

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.



HDFC's CHAIRMAN FOR 2011, MR. SANJAYA GUPTA AND MD DR. PRIYANKA BADDEVITHANA WITH OTHER INVITEES ON THE OPENING DAY OF THE SAARC SUMMIT IN ADDU CITY ON NOVEMBER 10, 2011

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) Conduct all affairs adhering to the highest standards of ethics, transparency, accountability, honesty and integrity.
- iv) Provide accurate, fair, timely, full and meaningful disclosures in the periodic reports filed by HDFC with the stakeholders and regulatory agencies.
- v) Timely disclosure of conflicts and potential conflicts of interest that the directors or management may have in the discharge of their responsibilities.
- vi) Prevent the misuse of misapplication of HDFC's assets and resources.

Innovation

Privatization of HDFC Maldives under a Public-Private-Partnership Model itself was an innovation in the South Asian region in 2008, and the first of its kind to be implemented by the Government of Maldives where the controlling interest in governance and majority shares were vested with the International shareholders. HDFC was the first pilot project to produce tangible results under IFC's Performance Based Grants Initiative for Access to Finance after its implementation period of 2009 to 2011. HDFC's adoption of responsible finance under a social performance strategy that targeted underserved segments with innovative financial products complemented IFC's vision for people to be given the opportunity to escape poverty and improve their lives. Product development is based on controlled growth differentiation, targeting and positioning to ensure that there will not be a 'one-size-fits-all' solution that has been the bane of micro-credit industry in the region. Providing financial solutions to the varied and dense population in the capital city Male called for innovative products such as 'Salary Benefit' Loan where 'pay as you earn' mode of deduction at source gave a benefit of 25 basis-points to the customer.



Years 2010 and 2011 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 Million as at the end of 2010 and MRF 424 as at the end of 2011 include loans sanctioned under HDFC's pre-approval mechanism for developer-led housing construction, which 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 2012. 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.

The 'Standard' housing loan that recognized limited capacity of customers to save, offers 80% funding for the project. A special product branded 'Million Plus' contained elements supportive of entrepreneurship to utilize space from their dwellings for trading or cottage industries to generate extra family income. The norm in the Maldives is to educate the younger generation abroad due to a lack of facilities within the country, and the planned multiple dwelling units for future family use could generate rental income to service loans until the younger members join the earning ranks. Therefore a 'Rent-Option' Mortgage product was innovated to support this progressive social phenomenon. Cognizing the need to repair and refurbish the aging stock of housing, a loan product with a shorter tenure and cap on borrowing was introduced, branded as 'Renovate' home loan. Cognizing the need to promote local savings and investment culture, HDFC was the first to launch bonds to the market that were listed in the Maldives Stock Exchange. In a market of 100% Muslim customers, it is good commercial sense to establish an Islamic Window, and HDFC established its Sharia Council to launch Islamic products. HDFC is a key contributor to the IFC-led project assisting the Maldives Monetary Authority to establish a credit information bureau to create a formal credit culture.

Acknowledgements

My very special appreciation goes to the Chairman and Board Directors for their unstinted support and cooperation extended to ensure both good governance and strategic planning at HDFC. Our regulator, the Maldives Monetary Authority, operating under the direction of the Governor and Executive Team, has added much value to our operations by establishing a Credit Information Bureau and many training program where the staff of HDFC has benefitted. The Non-Bank Supervision team of the MMA has monitored HDFC's progress monthly, and given valuable advice and guidance on a number of initiatives HDFC has taken to further the cause of housing development finance in the country.

The important Ministries and government agencies, we at HDFC need to interact in the execution of our day to day business have shared our passion to provide solutions to the housing problems faced by the people of the Maldives. Housing has been given a high priority in the public agenda, and keeping HDFC as part of the solution by government officials has created many opportunities for us to serve our target clients better.

Our international shareholders too have extended their fullest cooperation to take HDFC to greater heights by going beyond the call of duty of equity partners. IFC and ADB have assisted with multilateral funding and monitoring of financial performance, while HDFC India has given technical advice under a technical partnership that has yielded many positive outcomes for HDFC Maldives.

The staff members of HDFC have been extremely committed to the organization's mission, and have made an immense contribution with ideas and practices that have made HDFC a proactive and evolving entity innovating solutions that are best fits to customer demands. HDFC Team has created meaningful synergies that have contributed to a unique and productive culture that puts customer at the center of corporate existence.

Finally our core purpose or the reason for existence is to fulfill the needs of clients whose lives have improved from the services offered by HDFC. As an organization committed to sustainability, we appreciate and value above all, the client relationships that lead to higher standards of performance.



LAUNCH OF NEW PRODUCTS FOR 2011

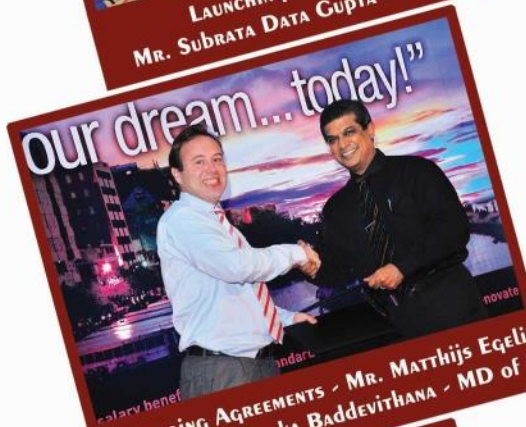
DHARUBAARUGE CONVENTION CENTER, MALE' ON DECEMBER 22, 2010



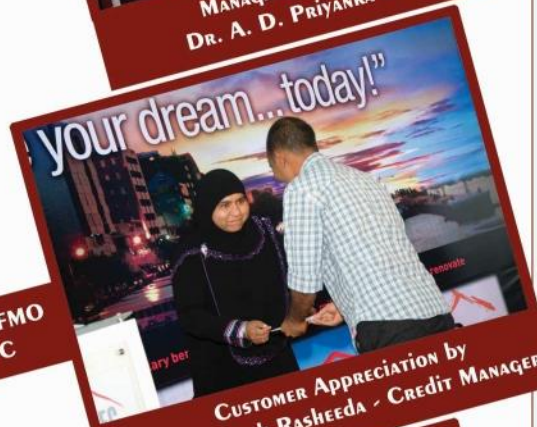
LAUNCHING THE MEDIA CAMPAIGN BY
MR. SUBRATA DATA GUPTA - DIRECTOR OF HDFC



MANAGING DIRECTOR OF HDFC
DR. A. D. PRIYANKA BADDEVITHANA



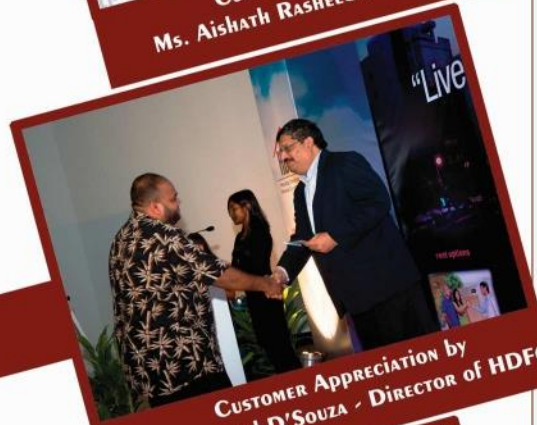
EXCHANGING AGREEMENTS - MR. MATTHIJS EGÉLIE OF FMO
& DR. PRIYANKA BADDEVITHANA - MD OF HDFC



CUSTOMER APPRECIATION BY
MS. AISHATH RASHEEDA - CREDIT MANAGER



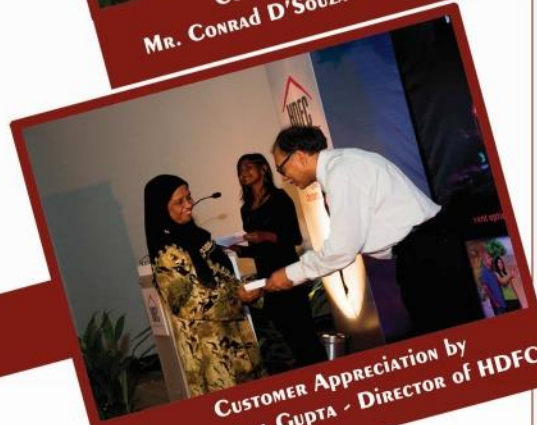
CUSTOMER APPRECIATION BY
MR. ISMAIL AL MANIK - DIRECTOR OF HDFC



CUSTOMER APPRECIATION BY
MR. CONRAD D'SOUZA - DIRECTOR OF HDFC

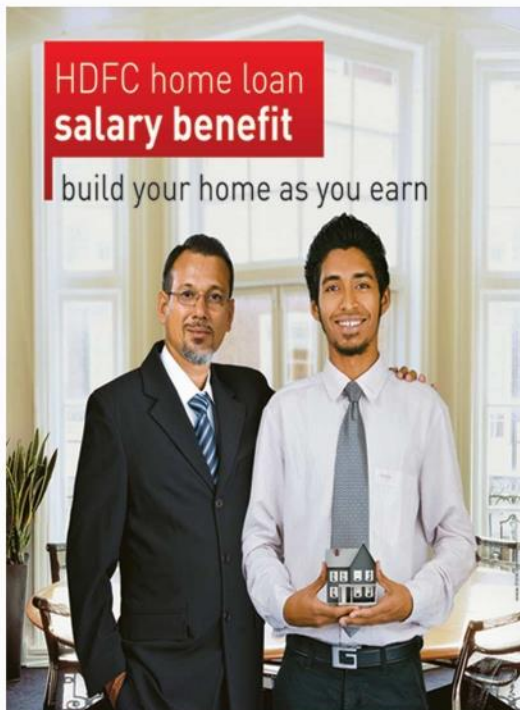


CUSTOMER APPRECIATION BY
MS. FAREEHA SHAREEF - DIRECTOR OF HDFC



CUSTOMER APPRECIATION BY
MR. SANJAYA GUPTA - DIRECTOR OF HDFC

Our 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

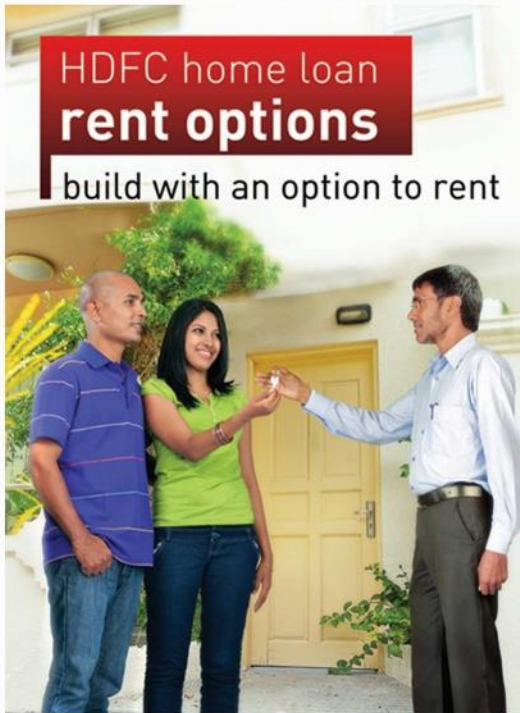
Standard Home loan approval is below Rf. 1 million with less than one third of the developed area given on rent and two thirds or more occupied by owners/s and co-owners/s.

HDFC Million Plus Loan

Million Plus Home Loan would consider the cost of each unit to be above one million, and any loan application beyond Rf. 1.5 million, if deemed satisfactory by the HDFC credit committee, will be recommended to the Board of Directors for final approval

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.

Our Products (continued)...



**HDFC home loan
rent options**
build with an option to rent

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 home loan
renovate**
renovate your home as you like

HDFC Renovate

Home Loan for improvement to the home under the following descriptions:

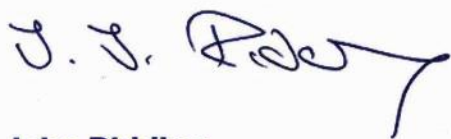
1. Painting of exterior and interior of the home.
2. Repair or installation of pantry cupboards, kitchen fixtures and fittings, sanitary fittings and construction or renovation to facilitate provision or upgrading of essential amenities
3. Essential repairs to upgrade the home (water proofing, roof repairs, 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.

SUSTAINABLE FINANCE AWARDS 2011

**FT/IFC
Sustainable Finance Awards 2011**

This is to confirm that
**Housing Development Finance
Corporation Maldives, Maldives**
successfully entered the
FT/IFC Sustainable Finance Awards 2011
in the
Achievement in Basic Needs Financing
category



John Ridding
CEO
Financial Times



Lars Thunell
Executive Vice President and CEO
IFC



HOUSING DEVELOPMENT FINANCE CORPORATION PLC

FINANCIAL STATEMENTS – 31 DECEMBER 2011



Independent auditor's report

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

We have audited the accompanying financial statements of Housing Development Finance Corporation Plc which comprise the balance sheet as of 31 December 2011 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

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

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.

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.

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

PricewaterhouseCoopers, H. Thandiraimage, 3rd Floor, Roshanee Magu, Malé, Republic of Maldives
Tel: +960 3318342, 3336046, Fax: +960 3314601, www.pwc.com/lk

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.

Opinion

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 2011 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.

19 APRIL 2012
MALE'


CHARTERED ACCOUNTANTS

HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2011

Balance sheet

(all amounts in Maldivian Rufiyaa)


	Notes	As at 31 December	
		2011	2010
ASSETS			
Cash and short term funds	17	54,138,657	197,452,457
Housing loans	18	568,357,301	284,629,689
Interest receivable	21	1,812,070	1,615,463
Property, plant and equipment	22	2,118,436	1,587,533
Intangible assets	23	529,146	543,040
Deferred income tax assets	24	23,388	-
Derivative financial instruments	25	34,344,460	-
Other assets	26	3,580,124	2,149,625
Total assets		664,903,582	487,977,807
LIABILITIES			
Deposits from customers	27	29,300,776	19,543,435
Borrowings	28	266,066,830	148,315,000
Current income tax liabilities	14	3,141,326	-
Other liabilities	29	38,851,274	30,904,459
Total liabilities		337,360,206	198,762,894
SHAREHOLDERS' EQUITY			
Share capital	30	159,375,000	159,375,000
Advance for shares		51,407,100	51,407,100
Retained earnings		98,365,801	58,989,732
Reserves	31	18,395,475	19,443,081
Total shareholders' equity		327,543,376	289,214,913
Total equity and liabilities		664,903,582	487,977,807
Commitments and contingencies	32 , 33	423,978,000	365,546,000

These financial statements were approved by the management on 14/04/2012 and signed on their behalf by:

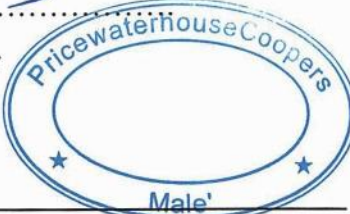


 Managing Director





 Director



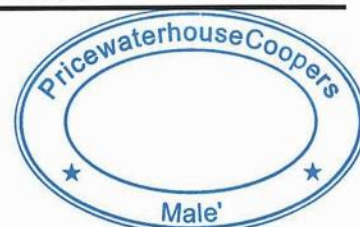
The notes on pages 7 to 39 are an integral part of these financial statements.

HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2011

Income statement

	Notes	Year ended 31 December	
		2011	2010
(all amounts in Maldivian Rufiyaa)			
Gross income	5	61,064,293	39,594,966
Interest income and similar income	6	53,355,741	35,967,463
Interest expense and similar charges	6	(9,766,120)	(5,585,778)
Net interest income		43,589,621	30,381,685
Fee income	7	7,092,794	3,310,642
Other income	8	615,758	316,861
Operating income		51,298,173	34,009,188
Less : Operating expenses			
Staff costs	9	(5,058,991)	(4,135,388)
Premises, equipment and establishment expenses	10	(1,525,667)	(1,036,920)
Provision for bad and doubtful debts	11	(2,336,068)	(2,590,042)
Other operating expenses	12	(4,372,948)	(2,720,485)
Operating profit for the year		38,004,500	23,526,354
Finance gain	13	14,598,146	-
Net profit for the year before tax		52,602,646	23,526,354
Taxation	14	(3,117,938)	-
Net profit after tax		49,484,708	23,526,354
Earnings per share - basic	16	31.05	14.76



The notes on pages 7 to 39 are an integral part of these financial statements.

HOUSING DEVELOPMENT FINANCE CORPORATION PLC

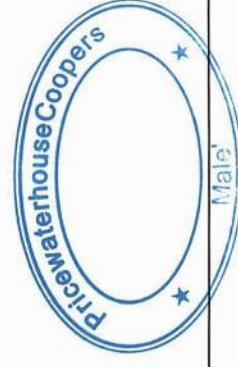
31 December 2011

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 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		-	-	23,526,354	-	-	23,526,354
Balance at 31 December 2010		159,375,000	51,407,100	58,989,732	15,000,000	4,443,081	289,214,913
Balance at 1 January 2011		159,375,000	51,407,100	58,989,732	15,000,000	4,443,081	289,214,913
Transferred from staff education reserve	31	-	-	1,047,606	-	(1,047,606)	-
Dividend for the year 2010		-	-	(11,156,244)	-	-	(11,156,244)
Profit for the year		-	-	49,484,708	-	-	49,484,708
Dividends paid		-	-	-	-	-	-
Balance at 31 December 2011		159,375,000	51,407,100	98,365,801	15,000,000	3,395,475	327,543,376

The notes on pages 7 to 39 are an integral part of these financial statements.



HOUSING DEVELOPMENT FINANCE CORPORATION PLC

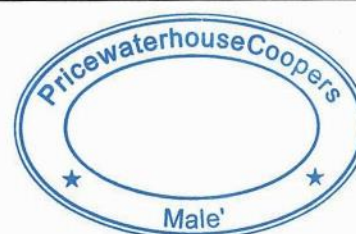
31 December 2011

Cash flow statement

(all amounts in Maldivian Rufiyaa)

	Notes	Year ended 31 December	
		2011	2010
Cash flows from operating activities			
Interest received		53,159,134	35,833,129
Other income received		7,708,552	3,627,503
Interest paid		(8,319,447)	(4,897,172)
Personnel cost paid		(5,058,991)	(4,345,724)
Foreign exchange gain realised		8,056,588	-
Other operating expenses paid		(5,270,506)	(2,793,970)
Cash flows from operating profits before changes in operating assets and liabilities	34	50,275,330	27,423,766
Changes in operating assets and liabilities:			
Increase in net movements in other assets		(1,430,499)	(1,424,422)
Increase in loans and advances to customers		(286,063,680)	(116,387,769)
Increase in deposits from customers		9,757,340	5,000,913
Increase in other liabilities		6,696,638	(5,578,460)
Cash used in changes in operating assets and liabilities		(271,040,201)	(118,389,738)
Net cash used in operating activities		(220,764,871)	(90,965,972)
Cash flows from investing activities			
Purchase of property, plant and equipment	22	(953,705)	(350,518)
Purchase of intangible asset		(387,908)	(543,040)
Net cash used in investing activities		(1,341,613)	(893,558)
Cash flows from financing activities			
Proceeds from borrowed funds		115,650,000	45,515,000
Repayments of borrowed funds		(25,441,072)	-
Dividend paid to Company's shareholders		(11,156,244)	-
Repayments of corporate bonds		(260,000)	-
Net cash generated from financing activities		78,792,684	45,515,000
Net (decrease) / increase in cash and cash equivalents		(143,313,800)	(46,344,529)
Cash and cash equivalents at beginning of the year		197,452,457	243,796,986
Cash and cash equivalents at end of the year	17	54,138,657	197,452,457

The notes on pages 7 to 39 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, as well as 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.

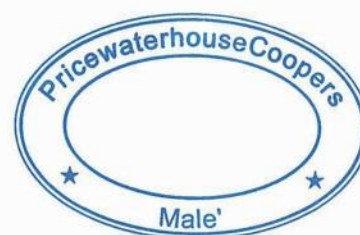
2.2 Foreign currency translation

(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, except when deferred in other comprehensive income as qualifying cash flow and qualifying net investment hedges.



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 income 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 income 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 receivable.

2.4 Offsetting financial instruments

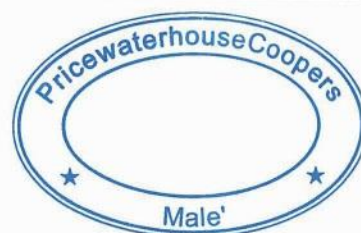
Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

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.

2.6 Other income

Other income is recognised on accrual basis.



Notes to the financial statements (continued)

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.

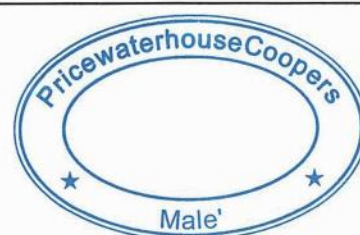
HDFC assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of 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.

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

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.



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

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 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.

The general provision is calculated, in accordance with the prudential regulations prescribed by the MMA, as follows:

- For loans where the instalment is overdue for less than 60 days, a provision of 1% is made,
- For loans where the instalment is overdue for between 60 and 90 days, a provision of 5% is made.

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

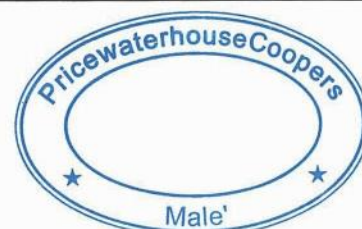
All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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.

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	- 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 month on which the asset is put to use.



Notes to the financial statements (continued)

2.9 Property, plant and equipment (continued)

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 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value.

The fair value of derivative instrument is disclosed in note 25.

2.12 Operating leases

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

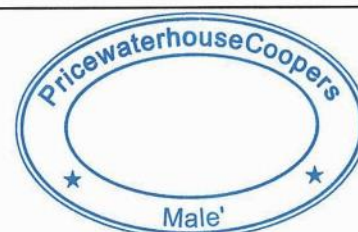
When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

2.13 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.

2.14 Provisions

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



Notes to the financial statements (continued)

2.15 Employee benefits

The Company contributes to the Maldives Retirement Pension Fund. All the employees of HDFC are 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.

2.16 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.

2.17 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.

2.18 Fiduciary activities

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

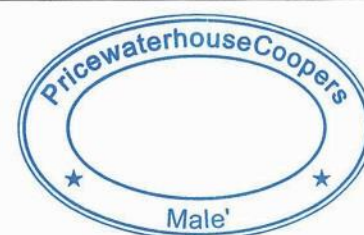
2.19 Comparatives

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

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.



Notes to the financial statements (continued)

3 Financial risk management (continued)

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, Manager Administration, Manager 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.

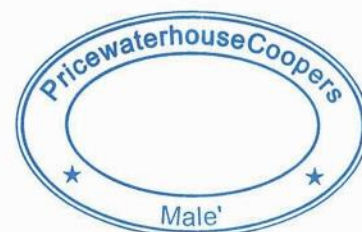
3.1.1 Risk limit control and mitigation policies

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.

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 the housing unit that is financed by HDFC.



Notes to the financial statements (continued)**3.1.1 Risk limit control and mitigation policies (continued)***(b) Credit-related commitments*

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

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 2011 and 31 December 2010, 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.
- 69% of the loans and advances portfolio are considered to be neither past due nor impaired (31 December 2010: 68%);

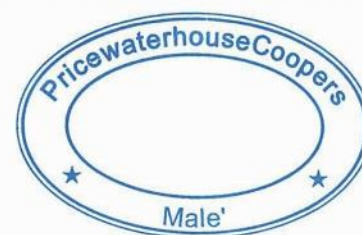
3.1.4 Loans and advances

Loans and advances are summarised as follows:

	(Amount in MRF'000)	
	31 December 2011	31 December 2010
Neither past due nor impaired	397,996,708	200,042,800
Past due but not impaired	172,497,553	88,498,563
Impaired	7,922,185	3,811,404
Gross	<u>578,416,446</u>	<u>292,352,767</u>
Less: allowance for impairment	<u>(10,059,145)</u>	<u>(7,723,078)</u>
Net	<u>568,357,301</u>	<u>284,629,689</u>

Further information of the impairment allowance for loans and advances to customers is provided in Notes 18.

During the year ended 31 December 2011, HDFC's total value of loans and advances increased by 98% as a result of new disbursement of the housing loans. In order to minimise the potential increase of credit risk exposure, the HDFC focused more on lending house construction loans providing collateral and strong repayment capacity from employment, other business and rental income.



Notes to the financial statements (continued)

3.1.4 Loans and advances (continued)

(a) Loans neither past due nor impaired

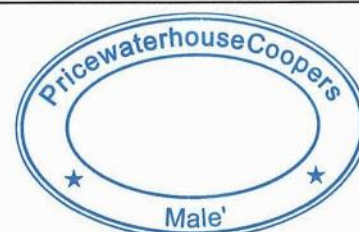
Currently HDFC does maintain an internal credit rating system for loans neither past due or impaired. Internal rating is calculated by taking total receipts for the period (A) and total late penalty for the period (B), an arriving at a percentage by dividing B by A. Percentages are graded as follows;

Internal Ratings	Basis for grading (B/A)	31 December 2011		31 December 2010	
		Loans to customers	Percentage of total loans	Loans to customers	Percentage of total loans
		MRf		MRf	
A+	0.2%	338,102,445	85%	159,288,426	80%
A	0.2%to 0.5%	3,335,519	1%	3,474,121	2%
A-	0.5% to 1%	11,248,422	3%	9,064,324	4%
B+	1% to 1.5%	8,348,466	2%	8,163,813	4%
B	1.5% to 2%	11,187,932	3%	4,917,921	2%
C	above 2%	25,773,924	6%	15,134,195	8%
		<u>397,996,708</u>	<u>100%</u>	<u>200,042,800</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			Total
	Male'	Hulhumale'	Outer atoll	
31 December 2011				
Past due 30-60 days	10,405,849	4,450,425	2,185,467	17,041,741
Past due 60-90 days	570,671	-	1,145,134	1,715,805
Total	<u>10,976,520</u>	<u>4,450,425</u>	<u>3,330,601</u>	<u>18,757,546</u>
31 December 2010				
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>



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 7,922,185 (as compared to on 31 December 2010 when impaired loans and advances to customers were MRf 3,811,404).

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

31 December 2011	Housing loan			Total
	Male' Hulhumale'	Outer atoll		
Individually impaired loans	3,992,955	-	3,929,230	7,922,185
Total	3,992,955	-	3,929,230	7,922,185
31 December 2010	Male' Hulhumale'	Outer atoll		Total
Individually impaired loans	1,935,382	-	1,876,022	3,811,404
Total	1,935,382	-	1,876,022	3,811,404

(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 2011, there was no renegotiation.

3.1.5 Concentration of risks of financial assets with credit risk exposure

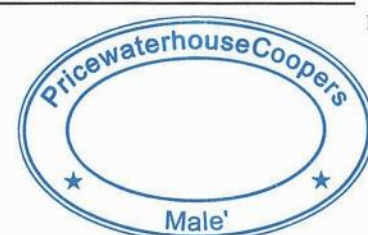
(a) Geographical sectors

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.

	31 December 2011	31 December 2010
Residential	542,221,474	249,915,166
Commercial	36,194,972	42,437,601
Grand total	578,416,446	292,352,767



Notes to the financial statements (continued)

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).

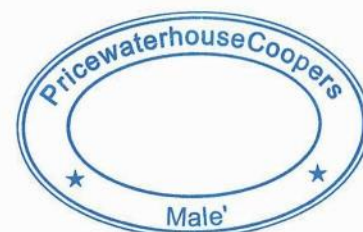
3.2.1 Foreign exchange risk

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

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

HDFC has also borrowed US\$ 3.5 million from International Finance Corporation (IFC) and US\$ 4 million from Netherlands Development Finance Company (FMO). The proceeds from these were sold to State Trading Organisation Plc (STO) for equivalent Rufiyaa at 1 US\$ = 15.42 MRf. HDFC has entered into two SWAP agreements with STO by which STO will sell equal amount of US\$ to honour the US\$ requirement of HDFC at the rate of 1 US\$ = 15.42 MRf.

By virtue of the SWAP agreement, HDFC will be able to service the US\$ loans obtained from ADB, IFC and FMO. As at the balance sheet date the outstanding balance in borrowings, with regard to the money provided for this SWAP agreement, amounts to US\$ 17,236,500, against which the amounts of US\$ to be purchased from STO Plc is US\$ 20,863,603.

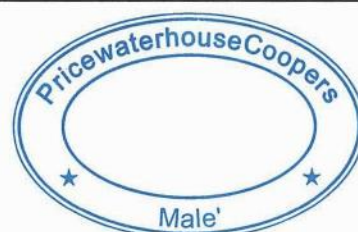


HOUSING DEVELOPMENT FINANCE CORPORATION PLC

Financial Statement - 31 December 2011

3.2.1 Foreign exchange risk (continued)

As at 31 December 2011 in MRf '000	MRf	USD	Total
Assets			
Cash and balances with Banks	39,193	14,946	54,139
Treasury Bills	-	-	-
Housing loans	568,357	-	568,357
Derivative financial instruments	-	34,344	34,344
Other assets	8,105	-	8,105
Total assets	615,655	49,290	664,945
Liabilities			
Deposits	29,301	-	29,301
Borrowings	280	265,787	266,067
Other	42,099	-	42,099
Total	71,680	265,787	337,467
Net on-balance sheet financial position	543,975	(216,497)	327,478
Commitments	(420,028)	379,892	(40,136)
Net	123,947	163,395	287,342
As at 31 December 2010 in MRf '000			
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	(365,623)	147,775	(217,848)
Net	58,679	12,689	71,368



Notes to the financial statements (continued)

3.2.2 Interest rate risk

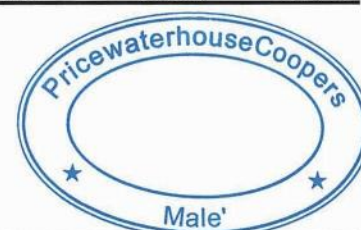
Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. HDFC 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 2011	Upto 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	51,618	-	-	-	-	2,521	54,139
Treasury bills	-	-	-	-	-	-	-
Loans and advances	3,269	6,447	30,559	161,985	366,097	-	568,357
Derivative financial instruments	2,200	2,200	4,400	25,544	-	-	34,344
Other assets	-	-	1,812	-	-	6,293	8,105
Total financial assets	57,087	8,647	36,771	187,529	366,097	8,814	664,945
Liabilities							
Deposits from customers	-	-	5,681	-	23,620	-	29,301
Borrowings	12,165	10,513	30,387	189,872	23,130	-	266,067
Other liabilities	-	-	3,248	-	-	38,851	42,099
Total financial liabilities	12,165	10,513	39,316	189,872	46,750	38,851	337,467
Total interest repricing gap	44,922	(1,866)	(2,545)	(2,343)	319,347	(30,037)	327,478



Notes to the financial statements (continued)

3.2.2 Interest rate risk

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	-	-	8,546	-	10,997	-	19,543
Borrowings	-	9,300	13,900	111,204	13,911	-	148,315
Other liabilities	-	-	-	-	-	30,904	30,904
Total financial liabilities	-	9,300	22,446	111,204	24,908	30,904	198,762
Total interest repricing gap	77,549	116,696	(2,514)	8,751	113,347	(24,613)	289,216

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.

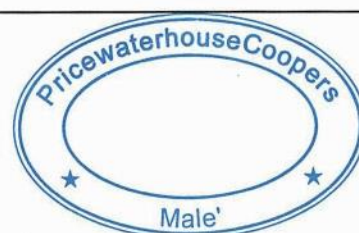
3.3 Liquidity risk

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
- Managing the concentration and profile of debt maturities.



Notes to the financial statements (continued)

3.3.1 Liquidity risk management process (continued)

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

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

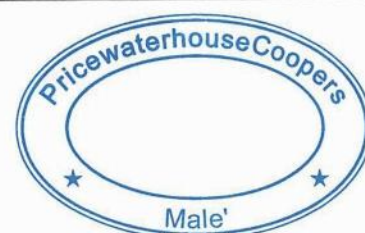
3.3.2 Funding approach

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 2011	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
In MRf '000						
Liabilities						
Deposits	-	-	5,681	-	26,724	32,405
Borrowings	13,202	12,452	38,247	214,684	25,415	304,000
Other Liabilities	-	-	3,248	-	38,851	42,099
Total liabilities	13,202	12,452	47,176	214,684	90,990	378,504
In MRf '000						
Assets						
Cash and balances with other banks	54,247	-	-	-	-	54,247
Treasury bills	-	-	-	-	-	-
Loans and advances	8,767	17,351	78,078	367,977	564,905	1,037,078
Derivative financial instruments	2,200	2,200	4,400	25,544	-	34,344
Other assets	-	-	1,812	-	6,293	8,105
Total assets	65,214	19,551	84,290	393,521	571,198	1,133,774
Net	52,012	7,099	37,114	178,837	480,208	755,270



Notes to the financial statements (continued)

3.3.3 Non-derivative cash flows (continued)

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	-	-	8,546	-	13,746	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	26,681	121,757	58,734	217,059
In MRF'000						
Assets						
Cash and balances with 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	16,182	89,029	169,733	477,876

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

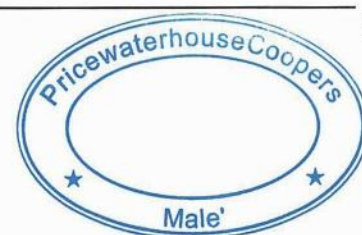
HDFC's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

- 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 2011. HDFC complied with all of the externally imposed capital requirements to which they are subjected.

	in MRF '000	
	31 December 2011	31 December 2010
Capital		
Share Capital	159,375,000	159,375,000
Advance for shares	51,407,100	51,407,100
Retained earnings	98,365,801	58,989,732
Reserves	18,395,475	19,443,081
Total qualifying Capital	<u>327,543,376</u>	<u>289,214,913</u>
Total capital	<u>327,543,376</u>	<u>289,214,913</u>
Risk-weighted assets		
On-balance sheet	319,333,437	150,507,266
Total risk-weighted assets	<u>319,333,437</u>	<u>150,507,266</u>
Basel ratio	103%	192%

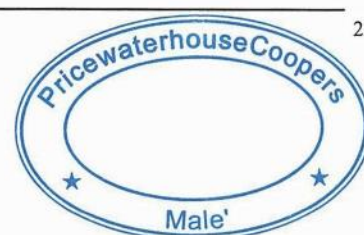
The increase of the regulatory capital for the year ended 31st December, 2011 is mainly due to the contribution of the current-period profit. The increase of the risk-weighted assets reflects the expansion of the loan portfolio in the year.

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.



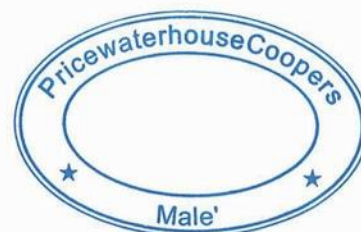
Notes to the financial statements (continued)

4 Critical accounting estimates and judgments (continued)

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 security values will be the initial costs incurred to construct those properties. Taking into consideration the market conditions, the values of securities in islands other than Male' and greater Male' have been considered as zero on a prudential basis.



HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2011

Notes to the financial statements continued

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

5 Gross income

	2011	2010
Interest income	53,355,741	35,967,463
Fee income	7,092,794	3,310,642
Other income (Note 8)	615,758	316,861
	<u>61,064,293</u>	<u>39,594,966</u>

6 Net interest income

	2011	2010
Interest income		
Housing loans	48,393,257	24,731,180
Treasury bills / other deposits with bank	4,962,484	11,236,283
	<u>53,355,741</u>	<u>35,967,463</u>
Interest expense		
Customer deposits	332,465	215,478
Borrowed funds	9,414,661	5,356,896
Interest on bond	18,994	13,404
	<u>9,766,120</u>	<u>5,585,778</u>
Net interest income	<u>43,589,621</u>	<u>30,381,685</u>

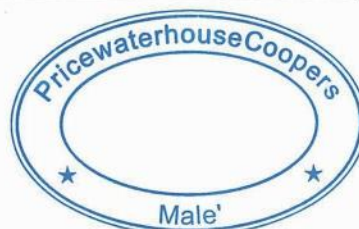
7 Fee income

	2011	2010
SWAP commitment fees	2,875,277	1,976,129
Management fees	883,034	891,354
Housing loan processing fees	3,334,483	443,159
	<u>7,092,794</u>	<u>3,310,642</u>

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

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

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



HOUSING DEVELOPMENT FINANCE CORPORATION PLC**31 December 2011****Notes to the financial statements continued**

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

8 Other income

	2011	2010
Sale of application forms	43,659	73,204
Penalty interest	442,903	173,745
Grant received from IFC	-	38,702
Insurance commissions	129,196	31,210
	<u>615,758</u>	<u>316,861</u>

9 Staff costs

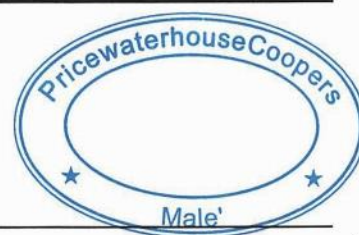
	2011	2010
Salaries and allowances	3,267,404	3,252,183
Housing and living allowance	1,374,566	693,362
Staff medical insurance	56,075	73,296
Contribution to employees pension fund	133,406	116,547
Bonus	227,540	-
	<u>5,058,991</u>	<u>4,135,388</u>

10 Premises, equipment and establishment expenses

	2011	2010
Depreciation (Note 22)	422,802	274,329
Amortization (Note 23)	195,403	-
Operating lease rentals		
- property	600,000	600,000
Water and electricity	307,462	162,591
	<u>1,525,667</u>	<u>1,036,920</u>

11 Provision for bad and doubtful debts

	2011	2010
Specific provision for loans and advances	2,054,558	262,287
General provision for loans and advances	281,510	2,327,755
	<u>2,336,068</u>	<u>2,590,042</u>



HOUSING DEVELOPMENT FINANCE CORPORATION PLC**31 December 2011****Notes to the financial statements continued**

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

12 Other operating expenses

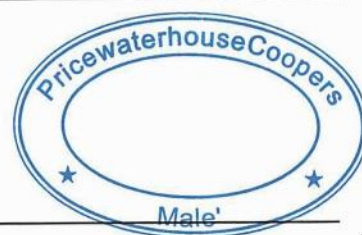
	2011	2010
Directors fees	34,000	56,000
Auditors' remuneration	112,440	112,440
Restructuring expenses	69,132	68,278
Communication expenses	82,971	59,035
Marketing expenses	290,980	174,463
Travelling expenses	33,718	245,536
Board meeting expenses	412,216	497,007
Loan appraisal fees	-	345,900
Legal expenses	556,217	204,895
Training expenses	1,806,671	600,247
Printing and stationary expenses	117,080	69,787
Insurance	35,632	53,306
Others	821,891	233,590
	<u>4,372,948</u>	<u>2,720,485</u>

13 Finance gain - net

	2011	2010
Fair value gain on currency swap contract	34,344,460	-
Fair value loss on translation of borrowing	(27,802,902)	-
Net - finance gain realised	6,541,558	-
Foreign exchange gain	8,056,588	637,114
	<u>14,598,146</u>	<u>-</u>

14 Taxation

	2011	2010
Current tax	3,141,326	-
Deferred tax	(23,388)	-
Income tax expense	<u>3,117,938</u>	<u>-</u>



Notes to the financial statements continued

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

14 Taxation (continued)

Reconciliations between income tax expenses and the accounting profit :

	2011	2010
Profit before tax	52,602,646	23,526,354
Less : Profits and income earned on or before 17 July 2011	(30,862,143)	(23,526,354)
Profits and income earned during 18 July to 31 December 2011 liable to income tax	21,740,503	-
Add: Non-deductible expenses	655,345	-
Adjusted net profit for the period	22,395,848	-
Less: Deductible expenses	(1,224,916)	-
Taxable profit	21,170,932	-
Tax allowance	(228,767)	-
Taxable profit after tax allowance	20,942,165	-
Income tax charge (15%)	3,141,326	-

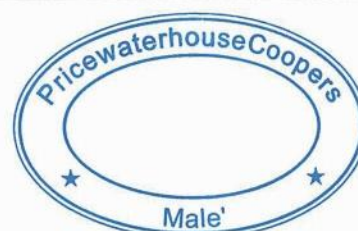
15 Dividends

Dividends payable are not accounted for until they have been ratified at the Annual General Meeting. On the Annual General Meeting held on 30 March 2011, a dividend in respect of 2010 of MRf 7 per share, amounting to MRf 11,156,244, was approved by the shareholders at the Annual General Meeting and paid during the year.

16 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.

	2011	2010
Net profit attributable to shareholders	49,484,708	23,526,354
Weighted average number of ordinary shares in issue	1,593,750	1,593,750
Basic earnings per share	31.05	14.76



HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2011

Notes to the financial statements continued

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

17 Cash and short term funds

	31 December 2011	31 December 2010
Short term deposits with bank	-	12,207,500
Cash in hand	4,500	4,500
Saving account balances with other banks	51,617,428	4,286,402
Current account balances with other banks	2,516,729	2,110,885
Treasury bills	-	178,843,170
	<u>54,138,657</u>	<u>197,452,457</u>

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

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

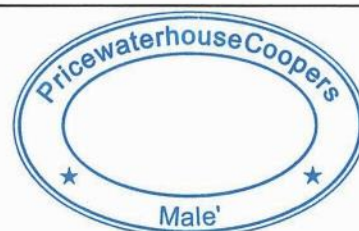
	31 December 2011	31 December 2010
Cash and bank balances funds	54,138,657	18,609,287
Treasury bills	-	178,843,170
	<u>54,138,657</u>	<u>197,452,457</u>

18 Housing loans

	31 December 2011	31 December 2010
Housing loans	578,416,446	292,352,767
	<u>578,416,446</u>	<u>292,352,767</u>
Less: Provision for impairment	(10,059,145)	(7,723,078)
Net housing loans	<u>568,357,301</u>	<u>284,629,689</u>

Movement in provision for impairment are as follows:

	31 December 2011	31 December 2010
(i) Specific provision		
Opening balance	1,876,023	1,613,736
Provision made during the year	2,054,558	262,287
Closing balance	<u>3,930,580</u>	<u>1,876,023</u>



31 December 2011

Notes to the financial statements continued

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

18 Housing loans (continued)

(ii) General provision

Opening balance	5,847,055	3,519,300
Provision made during the year	281,510	2,327,755
Closing balance	6,128,565	5,847,055
Total	10,059,145	7,723,078

19 Movement in interest in suspense

	31 December 2011	31 December 2010
Opening balance	473,235	296,613
Amount (recognised)/ suspended during the year	85,337	176,622
Closing balance	558,572	473,235

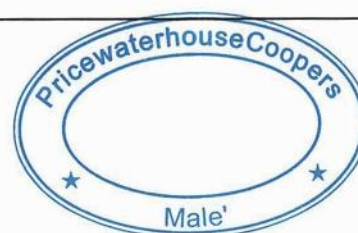
20 Assets quality

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

	31 December 2011	31 December 2010
Housing loans	7,922,185	3,811,404

21 Interest receivable

	31 December 2011	31 December 2010
Loan interest receivable	1,812,070	648,835
Treasury bill interest receivable	-	936,928
Fixed deposits interest receivables	-	29,700
	1,812,070	1,615,463

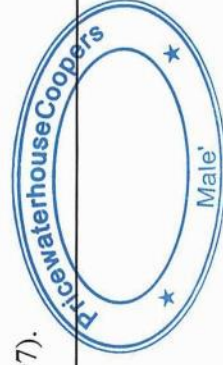


HOUSING DEVELOPMENT FINANCE CORPORATION PLC
31 December 2011

22 Property, plant and equipment

	Office equipment	Computer equipment	Furniture and fixtures	Motor vehicles	Other assets	Leasehold improvements	Total
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 1 January 2011							
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
Year ended 31 December 2011							
Opening net book amount	217,604	555,083	166,234	-	464	648,148	1,587,533
Additions	15,855	877,883	50,762	-	9,205	-	953,705
Depreciation charge (Note 10)	(52,069)	(231,079)	(53,093)	-	(1,107)	(85,454)	(422,802)
Balance as at 31 December 2011	181,390	1,201,887	163,903	-	8,562	562,694	2,118,436
At 31 December 2011							
Cost	424,446	1,810,726	435,246	32,500	11,402	854,537	3,568,857
Accumulated depreciation	(243,056)	(608,839)	(271,343)	(32,500)	(2,840)	(291,843)	(1,450,421)
Net book amount	181,390	1,201,887	163,903	-	8,562	562,694	2,118,436

The value of fully depreciated assets as at the balance sheet date amounted to MRf 418,202 (2010: MRf 297,397).



31 December 2011

Notes to the financial statements continued

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

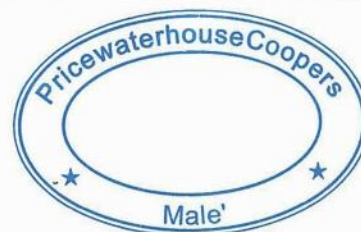
23 Intangible assets

	Software costs	Total
At 1 January 2010		
Cost	-	-
Accumulated amortisation	-	-
	<u>-</u>	<u>-</u>
Year ended 31 December 2010		
Opening net book amount	-	-
Additions	543,040	543,040
Amortisation charge (Note 10)	-	-
	<u>543,040</u>	<u>543,040</u>
At 31 December 2010		
Cost	543,040	543,040
Accumulated amortisation	-	-
	<u>543,040</u>	<u>543,040</u>
Year ended 31 December 2011		
Opening net book amount	543,040	543,040
Additions	387,908	387,908
Impairment	(206,400)	(206,400)
Amortisation charge (Note 10)	(195,403)	(195,403)
Closing net book amount	<u>529,146</u>	<u>529,146</u>
At 31 December 2011		
Cost	667,570	667,570
Accumulated amortisation	(138,424)	(138,424)
Net book amount	<u>529,146</u>	<u>529,146</u>

24 Deferred income tax assets

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

	2011	2010
At 1 January 2011	-	-
Accelerated tax depreciation (Note 14)	23,388	-
At 31 December 2011	<u>23,388</u>	<u>-</u>



HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2011

Notes to the financial statements continued

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

25 Derivative financial instruments

	31 December 2011	31 December 2010
	Assets	Assets
Forward foreign exchange contracts		
Currency - SWAP	34,344,460	-
Total	34,344,460	-

The fair value of the SWAP currency is determined by multiplying the MRF devaluation (15.42 - 12.85) with the outstanding US\$ commitment from State Trading Organisation PLC with regard to the Currency SWAP agreement signed on the 10th of February, 2009.

26 Other assets

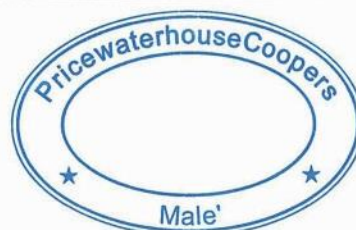
	31 December 2011	31 December 2010
Deposits and prepayments	1,642,611	1,910,343
Inventories of stationery	27,139	5,927
Other debtors	1,910,374	233,355
	3,580,124	2,149,625

27 Deposits from customers

	31 December 2011	31 December 2010
Equated monthly installment deposits	23,619,961	10,997,400
Borrowers equity deposits	5,680,815	8,546,035
	29,300,776	19,543,435
Current	29,300,776	19,543,435
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.



31 December 2011

Notes to the financial statements continued

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

28 Borrowings

	31 December 2011	31 December 2010
International Finance Corporation (IFC) (Note 35)	109,482,000	51,400,000
Asian Development Bank (ADB) (Note 35)	94,624,830	96,375,000
Corporate Bonds	280,000	540,000
Netherlands Development Finance Company (FMO)	61,680,000	-
	<u>266,066,830</u>	<u>148,315,000</u>
Current	64,629,503	23,200,975
Non-current	201,437,327	125,114,025

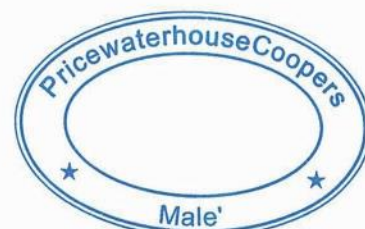
The borrowings from IFC, ADB and FMO carry interest at LIBOR +3 basis points, LIBOR +3.3 basis points, and LIBOR + 4.25% basis points respectively. The term loan from ADB is repayable in 11 half yearly installments commencing after 24 months from the first disbursement date (February 10, 2009). The term loan from IFC is repayable in 10 half yearly installments commencing from July 15, 2011 and ending on January 15, 2016. The term loan from FMO is repayable in 16 half yearly installments commencing from 15 April, 2012 and ending on 15 April, 2019.

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.

The FMO 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 FMO loan.

During the year 2010, HDFC renewed bonds with a maturity period of 5 years, carrying interest of 6% per annum.



HOUSING DEVELOPMENT FINANCE CORPORATION PLC**31 December 2011****Notes to the financial statements continued**

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

28 Borrowings (continued)**Maturity of borrowings**

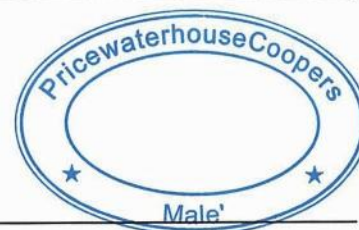
	31 December 2011	31 December 2010
Not later than 1 year	53,064,503	23,200,975
Later than 1 year and not later than 5 years	189,872,327	111,203,900
Over 5 years	23,130,000	13,910,125
	<u>266,066,830</u>	<u>148,315,000</u>
Borrowings at floating rates with a fixed spread	265,786,830	147,775,000
Borrowings at fixed rates	280,000	540,000
	<u>266,066,830</u>	<u>148,315,000</u>

The carrying amounts of HDFC's borrowings as at 31 December 2011, excluding corporate bonds, are fully denominated in United States Dollars.

HDFC has undrawn borrowing facilities to the extent of US\$ 6 million as at the balance sheet date.

29 Liabilities

	31 December 2011	31 December 2010
Interest payable	4,808,761	3,362,089
Ministry of Housing and Urban Development Fund	30,536,974	26,026,385
Accruals and other payables	130,994	327,490
Amounts received from customers in advance	1,425,293	260,702
Other liabilities	1,949,253	927,793
	<u>38,851,274</u>	<u>30,904,459</u>
Current	38,851,274	30,904,459
Non-current	-	-



Notes to the financial statements continued

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

29 Liabilities

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 2011	Year ended 31 December 2011	Year ended 31 December 2010
Opening balance	-	26,026,385	31,865,547
Amount received	75,000,000	-	-
Loan repayments by customers	3,977,181	2,632,266	1,344,915
Add: interest accrued on loans	6,222,391	2,519,633	2,265,786
EMI deposits/EMI received in advance	669,707	194,473	42,649
Interest payable on undisbursed funds	364,268	364,268	-
Interest receivable from customers	(244,106)	21,040	(265,146)
Less: accrued management fees	(2,223,157)	(811,430)	(915,923)
Less: loans disbursed	(53,229,310)	(409,661)	(8,311,443)
	<u>30,536,974</u>	<u>30,536,974</u>	<u>26,026,385</u>

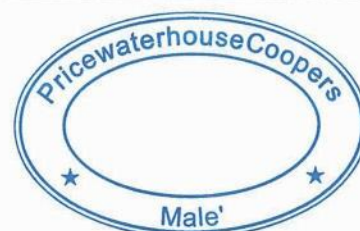
30 Ordinary shares

	Number of shares	Ordinary shares
At 31 December 2010	1,593,750	159,375,000
At 31 December 2011	<u>1,593,750</u>	<u>159,375,000</u>

The total authorized number of ordinary shares at the year-end was 3,187,500 (2010: 3,187,500) with a par value of MRf 100 (2010: MRf 100) per share. As at 31 December 2011, 1,593,750 shares were issued, which were fully paid.

31 Reserves

	31 December 2011	31 December 2010
General reserve	15,000,000	15,000,000
Staff education reserve	3,395,475	4,443,081
Total reserves at end of the year	<u>18,395,475</u>	<u>19,443,081</u>



HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2011

Notes to the financial statements continued

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

31 Reserves (continued)

Movement in reserves were as follows:

	31 December 2011	31 December 2010
General reserve		
At beginning of the year	15,000,000	15,000,000
Transfer from net profit	-	-
At end of the year	<u>15,000,000</u>	<u>15,000,000</u>
Staff education reserve		
At beginning of the year	4,443,081	5,000,000
Transfer from net profit	(1,047,606)	(556,919)
At end of the year	<u>3,395,475</u>	<u>4,443,081</u>
Total reserves		
At beginning of the year	19,443,081	20,000,000
Transfer from net profit	-	-
Transfer to retained earning on utilisation	(1,047,606)	(556,919)
At end of the year	<u>18,395,475</u>	<u>19,443,081</u>

32 Contingencies

(a) Contingent liabilities and commitments

	31 December 2011	31 December 2010
Loan commitments	<u>420,028,000</u>	<u>360,996,000</u>

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

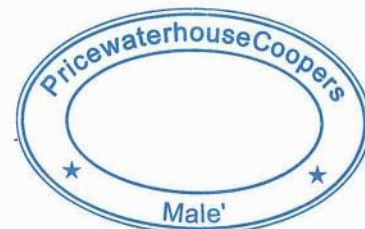
(b) Contingent assets

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

33 Commitments

(a) Capital commitments

There were no material capital commitments as at the balance sheet date.



HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2011

Notes to the financial statements continued

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

33 Commitments (continued)

(b) Operating lease commitments

	31 December 2011	31 December 2010
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	950,000	1,550,000
	<u>3,950,000</u>	<u>4,550,000</u>

34 Cash generated from operations

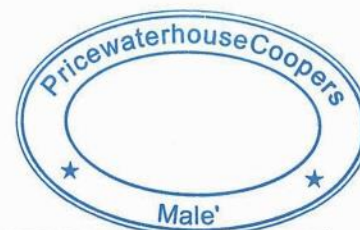
Reconciliation of net profit to cash generated from operations:

	31 December 2011	31 December 2010
Profit before tax	52,602,646	23,526,354
Adjustments for :		
Depreciation (Note 10)	422,802	274,329
Amortization (Note 10)	195,403	-
Loss on impairment of intangible assets	206,400	346
Provision for bad and doubtful debts (Note 11)	2,336,068	2,590,042
Unrealised foreign exchange gain	(6,541,558)	-
Increase in accrued expenses	1,250,176	1,167,030
(Increase) in interest receivable	(196,607)	(134,334)
Cash generated from operations	<u>50,275,330</u>	<u>27,423,766</u>

35 Related party transactions

Share capital of HDFC is held by the following shareholders:

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



HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2011

Notes to the financial statements continued

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

35 Related party transactions (continued)

	Year ended 31 December 2011	Year ended 31 December 2010
Loans from related parties		
Beginning of the year	150,291,244	104,817,066
Loan received during the year	53,970,000	44,975,000
Loan repaid during the year	(25,441,073)	-
Interest charged	6,515,676	4,754,389
Commitment fees charged	141,921	469,560
Interest paid	(5,976,548)	(4,294,385)
Commitment fees paid	(250,236)	(430,386)
Loans outstanding at the end of the year	179,250,984	150,291,244
Increase in borrowings due to devaluation of MRf against US\$	27,802,902	-
	<u>207,053,886</u>	<u>150,291,244</u>
Principal outstanding (Note 22)	<u>204,106,830</u>	<u>147,775,000</u>

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.

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 has paid an amount of MRf 700,501 (2010 : MRf 977,271) as a technical assistance charge to Housing Development Finance Corporation Ltd (India).

	Year ended 31 December 2011	Year ended 31 December 2010
Key management compensation		
Salaries and other short term benefits	1,705,703	1,750,687

36 Post balance sheet events

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

