

# Annual Report 2012



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



Housing Development  
Finance Corporation Plc.

Housing Development Finance Corporation Plc.

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

Tel: 3338810 / 3315896 / 3315897, Email: admin@hdfc.com.mv

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

# Contents

Highlights .....	04
Company Profile .....	07
Corporate Information .....	09
Shareholders Information .....	09
Chairman's Message .....	12
Managing Directors' Report .....	13
Profile of the Board of Directors .....	20
Profile of the Senior Management Team .....	24
Corporate Governance .....	26
Corporate Social Responsibility .....	36
Auditors' Report & Audited Financial Statements .....	41

# Highlights

**MVR 57.9 Million**

Operational profit 2012

**52%**

Year on year increase in operational profit in 2012

**33%**

Loan portfolio growth in 2012

**MVR 1.2 Billion**

Housing finance injected by HDFC as at end December 2012

**6,000**

Approximate number of customers who participated in HDFC's growth under the pooled application process

## Affordable & sustainable financial solutions

HDFC's transformation into a Public Private Partnership in 2008 was carefully designed to create a stable housing finance solution that is both affordable and sustainable.

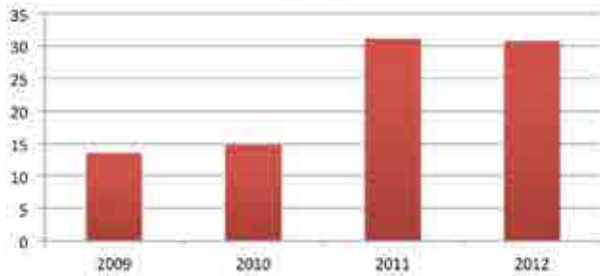
## Embracing responsible finance

HDFC embraces responsible finance with its principles of client protection.

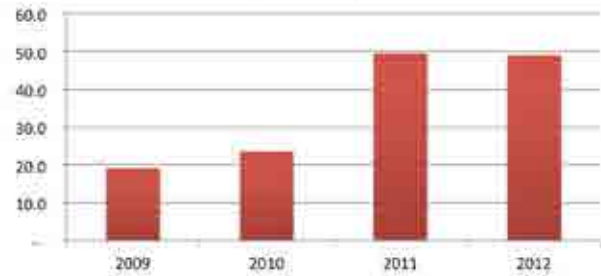
## Serving the housing needs of the people nationwide

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

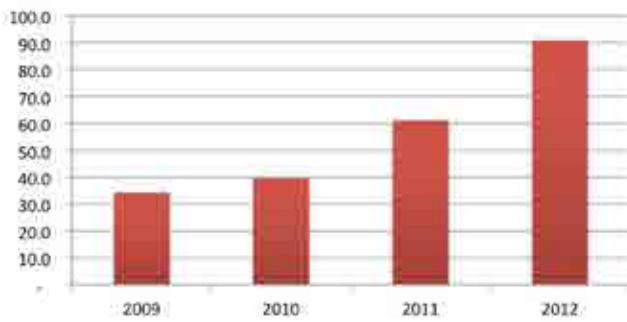
**Earnings per share**  
(MVR)



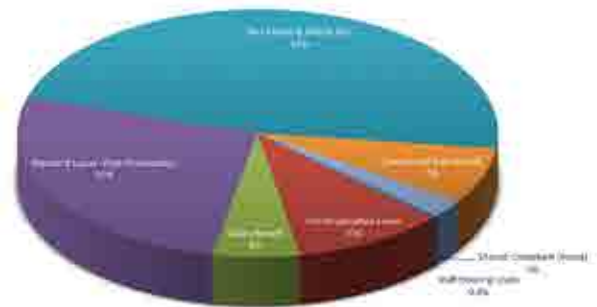
**Net Profit**  
(MVR millions)



**Gross Revenue**  
(MVR millions)

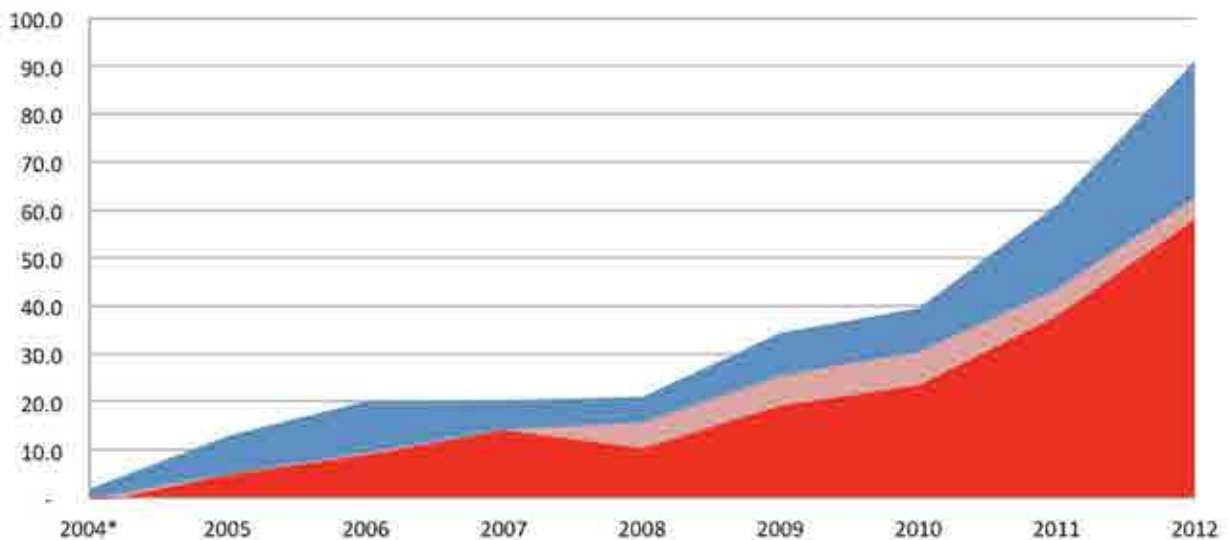


**Loan Portfolio**



**Growth**  
(MVR millions)

■ Gross income   ■ Net interest income   ■ Operating profit/(loss)



# Highlights of 2012

- Opening of Addu Centre
- Introduction of Single Premium Insurance
- Launching of HDFC Islamic Wing – Amna
- Establishment of Sharia Committee
- Obtained a double AA rating for HDFC Fixed Income Bond
- Signed an Agreement with the Government of Maldives on HDFL Scheme
- Signed a Wakala Agreement with MIB for MVR 20M
- Signed an MOU with Maldives Police Service and HDC on the Construction, development & financing of Maldives Police Service Hulhumale’ Condominium
- Attained International Gold Star for Quality Award, in recognition of outstanding commitment for quality and excellence
- Held an art competition for Addu City Children to coincide with the opening of Addu Centre



Annual Report 2012

Housing Development Finance Corporation

# Company Profile



# Company Profile

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.

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

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 Ltd of 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, 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 MVR 1 billion. The demand for home loans continue at a rate of growth that outstrips the supply of matching funds, and long-term bonds denominated in MVR is seen as the way forward to create sustainable housing finance in the Maldives.

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



## Corporate Information

<b>Company Registration Number</b>	C-107/2006
<b>Place of incorporation</b>	Male', Republic of Maldives
<b>Head office:</b>	Housing Development Finance Corporation Plc. 4th Floor, H. Mialani, Sosun Magu, Male', Republic of Maldives Tel: 3338810, Fax: 3315138, Email: info@hdfc.com.mv, Website: www.hdfc.com.mv
<b>Managing Director:</b>	Dr. A. D. Priyanka Baddevithana
<b>Chief Financial Officer:</b>	Mr. Ali Shareef
<b>Chief Technology Officer:</b>	Mr. Mohamed Shaafiee
<b>Company Secretary:</b>	Mr. Adam Athif
<b>Auditors:</b>	PricewaterhouseCoopers
<b>Legal Counsel:</b>	Mazlan & Murad Law Associates

## Board of Directors

### Nominated Directors

1. Mr. Ismail Ali Manik	Government of Maldives	Chairman
2. Ms. Fareeha Shareef	Government of Maldives	Director
3. Ms. Renu Sud Karnad	HDFC Investments Ltd. (India)	Director
4. Mr. Sanjaya Gupta	Asian Development Bank	Director
5. Mr. Subrata Dutta Gupta	International Finance Corporation	Director

### Alternate Directors

6. Mr. Hamid Sodique	Government of Maldives, Alternate Director
7. Mr. Conrad D'Souza	HDFC Investments Ltd. (India), Alternate Director
8. Ms. Christine Engstrom	Asian Development Bank, Alternate Director

Annual Report 2012

Housing Development Finance Corporation

HDFC has strived to reach  
greater heights of excellence with  
each passing year, and 2012  
was no exception

# Chairman's Message



**Mr. Ismail Ali Manik**  
Chairman

HDFC is an important partner in the process of delivering solutions for the housing needs of the population. Over the course of past few years, the Government of Maldives has sought our technical expertise and advice when formulating national housing policies. As the only specialized housing finance institution in the country, we will continue to assist the national development efforts in the housing sector. With the democratic transition in 2008, we now have a very informed voting public that continues to demand performance on the delivery of public goods. Housing deficit especially in the Male City is an issue of interest to all stakeholders concerned about the socio-economic development of the country. HFDC's leadership roles undertaken to providing Housing Loans for incomplete housing construction projects in Male', and the Island Outreach program illustrate our commitment to addressing the national housing deficit.

HDFC's strategic planning for the future depends on the quality of macroeconomic data related to the housing sector, and in 2012, HDFC established a Business Development Unit to drive the Island Outreach program and a National Data-base to profile the housing sector of the Maldives. In the national accounts, the construction sector growth in 2012 stood at 16 percent and for 2013 it is expected to remain strong. Overall growth rate of the economy is expected to remain robust for the medium with the emergence of a firm resolve by the legislature and the executive to reign in on public finances through legislative mechanisms such as fiscal responsibility laws. The country's macroeconomic fundamentals remain sound for the medium term and the demand for housing continues to grow with the same momentum seen in the past four year. HDFC is doing its part in the development of the country and serving a vital the need of the people of Maldives.

I wish to acknowledge the dedication and commitment of the staff of HDFC in delivering yet another very good year of performance. We consider our human resource to be the biggest asset in achieving excellent results, and our investment in training and development has paid rich dividends with the organization reporting a near zero rate of staff attrition in 2012. I thank my co-Directors for their support and cooperation towards good governance with the aim of making HDFC an organization, which the Maldives can truly feel proud of. I also wish to take this opportunity to record the board's sincere appreciation for the immense contribution made by the IFC's nominee Director, Mr. Subrata Dutta Gupta who served a four-year term that ended on December 31, 2012.

The Chairmanship of our organization is unique as the shareholders' agreement dictates a periodic rotation among the nominee directors. Therefore, while I thank the outgoing Chairman of 2012, Mr. Sanjaya Gupta for a job well done, I consider it a privilege to serve as HDFC's Chairman for the year 2013.

# Managing Director's Report



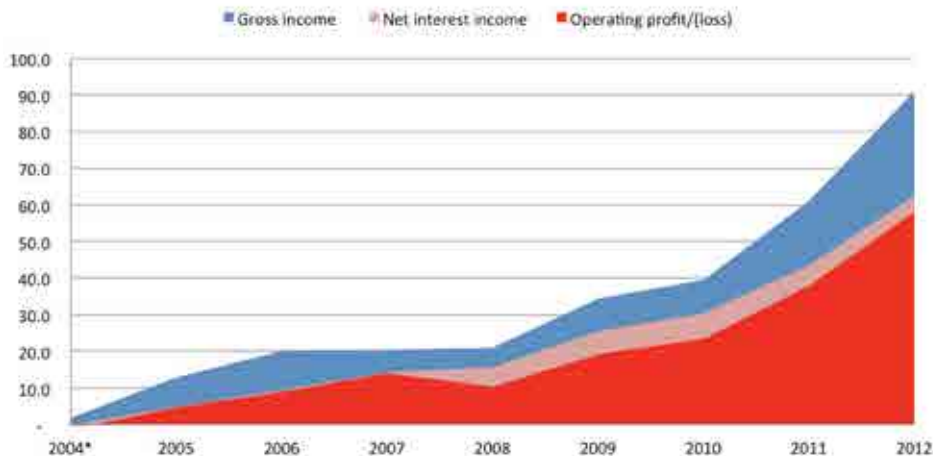
I am pleased to present this ninth Annual Report of the Housing Development Finance Corporation Plc. of the Maldives (HDFC), which is also the fourth Annual Report since privatization in 2008. Since its establishment by the Maldives Monetary Authority in 2004, HDFC has played an unmatched role in the life of the nation by helping Maldivians live their dream of having a decent home in a safe and healthy environment. It is the only specialized housing financial institution in the Maldives for mortgage home loans, the majority shareholding of which, upon privatization, was taken up by international investors comprising International Finance Corporation (IFC) of the World Bank Group, Asian Development Bank (ADB) and HDFC Investments Ltd. of India.

The nine-year financial landscape shows that HDFC has grown with each passing year to reach stability and sustainability.

Year	2004 (9 months)	2005	2006	2007	2008	2009	2010	2011	2012
Gross income	1.8	12.8	20.0	20.3	21.0	34.3	39.6	61.1	90.9
Net interest income	(0.2)	4.9	9.3	14.3	15.6	25.5	30.4	43.6	62.4
Operating profit/(loss)	(1.3)	4.6	8.9	14.1	10.4	19.1	23.5	38.0	57.9

### Growth

(MVR millions)



HDFC's transformation into a Public Private Partnership in 2008 was carefully designed to create a stable housing finance solution that is both affordable and sustainable. Moving to a new phase by embracing responsible finance with its principles of client protection, HDFC has not only served the housing needs in the Male' region, but has made great strides towards giving access to finance to tens of thousands who live in the far-flung atolls with its Island Outreach Programme.

The performance of the year under review surpassed the key performance indicator benchmarks set at the beginning of the period despite the country situation in 2012, and the obstacles HDFC had to face during a period viewed by the international investors as the most volatile and turbulent one in the history of the Maldives. HDFC was able to record an impressive growth in the operational profit of MVR 57.9 million for the year ended 2012, which was a 52% increase over 2011 with an year-over-year loan portfolio growth of 33%.



HDFC has strived to reach greater heights of excellence with each passing year, and 2012 was no exception. Therefore, it would be remiss not to mention the commitment and passion of one of the finest teams of professionals I have been privileged to work with, right across the board, from HDFC's Chairman and Board of Directors who have set effective policies and charted a course to take the organization from strength to strength, and its management and staff who have made it possible for us to record yet another landmark year of growth and sustainability in 2012. We thank our valuable customers whose commitment to performance of their financial obligations has established a sound credit culture as the bedrock of HDFC's success thus far. They have given much needed investor confidence to expand operations in order to offer access to finance and financial inclusion to many Maldivians living in the remote atolls to the north and the south of the Male' region.



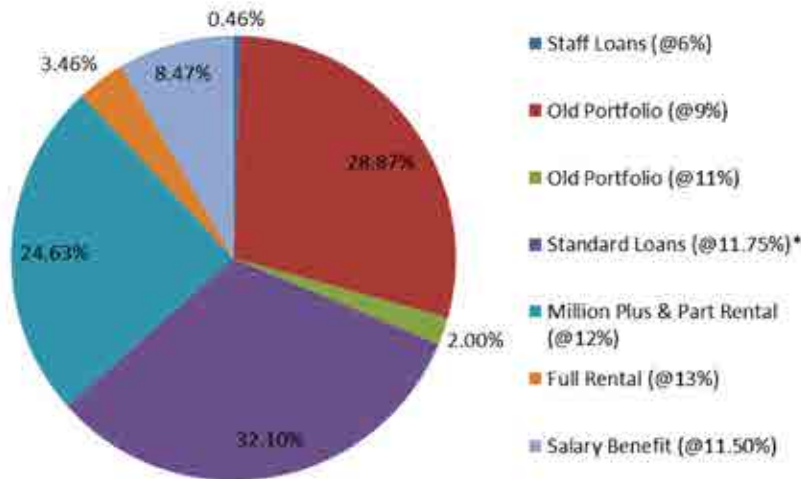
We take this opportunity to express our sincere gratitude to our regulators, the Maldives Monetary Authority led by its Governor Dr. Fazil Najeeb, and the respective teams that have assisted HDFC by their supervision to achieve continuous improvement in policies and processes towards the development of a robust organization, built to last. We also appreciate the government and private agencies who have been our partners and well-wishers, especially the housing ministry and the finance ministry, and their respective ministers, and the CEO and management of Capital Market Development Authority for the active interest they have taken in furthering HDFC's cause of providing homegrown solutions in housing finance to the masses in an affordable and a sustainable manner.



## Lending Operations and the Social Impact

HDFC's inclusive business model has developed a range of products and services that involve the cottage industries in the value chain as suppliers of building material such as compressed cement blocks and carpentry work carried out at an island level to reduce the cost of construction. The total number of beneficiaries at the bottom of the pyramid exceeds 10,000 during the 9-year existence of HDFC. A comprehensive range of products and services have been innovated to serve the customers better. Effective counselling service and CRM have helped in achieving best-fit product development through customer feedback.

Total loans approved and disbursed under various product categories serve to profile HDFC's direct contribution to the housing finance market. Since its inception, total housing finance injected to the market stood at MVR 1.2 billion as at the year ended on December 31, 2012. Approximately 6,000 customers under the pooled application process participated in HDFC's growth. As at the year end, the total outstanding capital stood at MVR 800 million profiled as below:



## Country Report on Housing and Housing Finance

Having re-structured its capital in February 2009, and with new lines of long-term credit, HDFC has re-entered the market for mortgage loans for housing needs of individuals and families. HDFC is able to offer long repayment terms in a market where the demand has grown at a pace outstripping the supply of matching funds. The privatization has transformed the institution to face the future as a commercially viable, private sector-led company that can grow and develop effective solutions to the urgent housing problems of the Maldives.

The Maldives consist of approximately 1,200 islands covering an area of 90,000 sq. km. of the Indian Ocean, set in an Exclusive Economic Zone (EEZ) covering 859,000sq km. The island nation has 196 administrative islands designated for habitation, in addition to which over 100 islands are allocated as resort properties and 35 islands designated for industry and agriculture.

Maldives is home to approximately 350,000 citizens living in a dispersed manner with only thirteen islands outside of Male' region recording a population of more than 5000 inhabitants. This presents a formidable challenge to a housing finance institution which intends to operate at a national level due to the diverse needs of the population that is thinly spread in some regions, with the exception of the post-tsunami phenomenon of concentration through in-migration, where the stress of housing is felt the most in the Male' Atoll.

The nation's capital Malé, with around 2.5 sq. km. of total land area, has over one third of the entire population, while approximately seventy percent of the rest of the inhabited islands have less than 1000 inhabitants. Maldives has a relatively young population with almost forty percent under 15 years of age and around three percent over 65 years of age. This demographic profile translates to a growth in demand for housing in the foreseeable future as the young population matures to full-fledged participation in the economy. With regard to human development trends, the country ranks high among the Asia-Pacific countries.



In order to provide a sustainable solution to the limitation of suitable land to develop much needed housing stock in the Male' Atoll, land reclamation in a viable manner began at the turn of the century with the Hulhumale project spearheaded by state-owned Hulhumale Development Corporation (renamed as Housing Development Corporation or HDC in 2009). Another recent project under the umbrella of Global Projects Development Company (GPD) to reclaim the Gulhi Falhu reef-basin has also met with a degree of success. There is special emphasis on developing these two projects to provide modern and sustainable communities. Here the challenge would be to provide housing development finance to match the rapid pace of development as Hulhumale is scheduled for a second phase of reclamation in 2013.

The government's concept of developing focus islands that will create a demand for housing is also a positive trend. It will assist sustainable development of home ownership based on mortgage financing of properties that would appreciate in value to maintain a positive equity scenario. The underlying real estate value and market value of homes being developed from HDFC mortgage loans is a highly significant factor as a market characteristic, especially in the light of the 2008 financial crisis faced by the developed economies of the world, where subprime home lending and a property bubble that burst had contributed to a financial meltdown.

The statistics of households according to UNFPA (United Nations' Population Fund-2008 survey updated for 2012) are as follows:

Households :	
Male'	15,000
Atolls	33,000
Total	48,000

Therefore, the density in Malé is around eight members per household with 60,000 people per sq. km., which is one of the highest in the world. In the outer atolls, this

figure is reduced to around six. However, it is the constraints on buildable land that has made Male' one of the most densely populated capital cities. A desirable family size per unit of four would lead to an additional housing requirement for the Male Atoll estimated at present to be 10,000 units, which can be absorbed by the combined infrastructure of Hulhumale and Gulhi Falhu developments. Therefore, HDFC's solution for financing sustainable housing development in the Maldives is linked to the strategies of the Housing Development Corporation (HDC) of Hulhumale, and GPD of Gulhi Falhu. Their Joint Venture Partnerships with a number of international property developers should yield approximately 2000 units of housing per annum and, with an additional role as a social landlord in Hulhumale', the HDC has shown their commitment to addressing the housing problem facing the Male' Atoll.

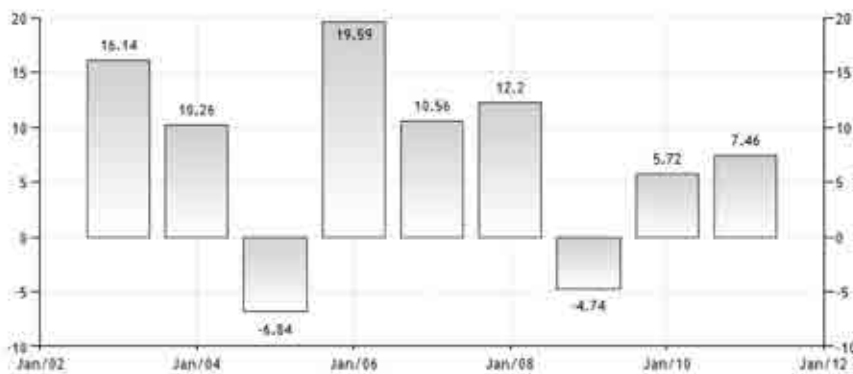
## Maldives' Economic Landscape

The national housing policy for outer atolls is one that is linked with the GOM's economic development policy. Typical of an island nation, development in Maldives is also constrained by the absence of land based mineral resources. There is limited scope for expansion of the agriculture sector. Certain areas possess vulnerability to natural disasters and environmental hazards. The major industries driving the Maldivian economy are fisheries and tourism with the supporting industries of transport, construction, boat-building, fish processing and finance. Tourism, fishing and transport are the major sources of foreign exchange earnings and government revenue, and which together directly account for about 60 percent of gross domestic product. In terms of employment, these three sectors along with construction industry account for more than 50% of total employment. A large expatriate workforce plays a key role in the development of the Maldivian economy. Their needs of accommodation have created a vibrant market for rental income from foreign employment categories that include teachers, accountants, medical personnel and other business and technical professions including civil construction and infrastructure development.

The Government's support for the development process is seen from the large number of employees in the public sector, which accounts for approximately one third of the working population. The public sector consists of the government and state owned enterprises (SOEs) covering a wide range of activities including fuel supply, banking, air and sea transport, international shipping, communications and the provision of electricity and utilities, fisheries operations, tourism and importing and distributing a large share of essential foodstuff.

The Maldives' narrow financial sector is dominated by the banking sector, which consists of one locally owned commercial bank, BML, the recently established Maldives Islamic Bank, MIB, branches of three Asian commercial banks, SBI, Habib, MCB, and a branch of a global bank, HSBC. Non-bank financial institutions, known as OFIs (Other Financial Institutions) include players in the general insurance market, Maldives' Finance Leasing Company, (MFLC), and the only housing finance institution, HDFC. MMA is the primary source of domestic financing for the Government's fiscal operations. The commercial banks mobilize savings and provide credit and foreign exchange to the private sector. Currently work is underway to promote the Maldives Stock Exchange for raising much needed capital for economic development. Capital Market Development Authority (CMDA) facilitates trading arrangements. There is limited secondary market trading activity with shares of the Bank of Maldives (BML), and two other state owned public companies, namely the Maldives Transport and Contracting Company (MTCC) and the State Trading Organization (STO), playing the lead role out of the six listed entities. The recently passed Securities Act paves the way for the establishment of a formal capital market, with HDFC taking the lead by issuing the first ever rated bond to be listed in the Maldives Securities Exchange in February 2013.

The open economy of the Maldives has a narrow export base with high dependence on imports for most of its economic activities. Imports have averaged around 61% of the GDP in recent years, while domestic exports, consisting primarily of fish and fish products have ranged between 11-15% of the GDP. Net surplus on services and transfers has averaged around 34% of the GDP. Service receipts come from tourism and related activities. There is a significant outflow of transfers from the economy owing to the large expatriate workforce. Medium and long-term debt flows and inflows of capital for direct investments dominate the capital account of the balance of payments. There is no exchange control legislation in the Maldives. Foreign direct investment in the country needs prior approval of the government and a negotiated annual royalty is payable. There are no restrictions on transferring of profits.



Source: World Bank Report 2012 (Aggregates are based on constant 2000 U.S. dollars.)

The construction sector continued to remain robust in 2012, with 8% growth during the year. According to a World Bank report published in 2012, Maldives' economy has recovered from the debacle of 2009 where the GDP had contracted by 4.74% (negative) to achieve 7.46% growth by the end of 2011 as depicted below:

GDP growth in 2012 was limited to 3.4% despite coming close to the anticipated performance from tourism and construction sector during the year. This may be attributed to a reality check on the recovery efforts after the 2009 negative GDP, which cast a long shadow into the future impacting the structure of the national debt and budget deficit. The European debacle reflected in the global economic and financial conditions in 2012 would impact on the Maldives tourism, but the continued success of reaching across the globe for all-year-round tourism and innovation to capture new market segments are positive signs for future growth. Maldives is proactively seeking other avenues of GDP growth from a diversified field of economic activity, and it signals a future that would reduce Maldives' over-dependence on tourism.

## Acknowledgements

The privatized HDFC Maldives has completed 4 years of growth to lay a firm foundation of sustainable development to address the housing needs of the Maldives. To help achieve the aspirations of the people, there is an urgent requirement to upgrade substandard housing and build up a new housing stock in this emerging economy. In building capacity of HDFC to meet these challenges, the greatest asset at our disposal is the commitment and professionalism of all our employees towards realizing the mission and vision of HDFC Maldives. I am immensely grateful to our dedicated staff for their valuable contribution.

Our valued customers are essentially the citizens of Maldives, and the *raison d'être* and the core of HDFC's continued motivation to improve their lives through access to affordable housing finance so that they can live in decent homes, in safe and healthy environments. We thank them for forging a lifelong relationship with an institution they can call their own.

We appreciate the enabling and regulatory environment created by the Maldives Monetary Authority, Ministry of Finance, Ministry of Housing, Male' City Council, Economic Ministry, Judiciary and all other government agencies, as well as the officials of international shareholders and investors who monitor and mentor our progress.

In my personal capacity, as the Managing Director, I would like to place on record my profound appreciation to all the stakeholders, especially our staff, shareholders, customers, chairman and the board of directors for their support and cooperation extended to me. The outgoing Chairman of 2012, Mr. Sanjaya Gupta has been a tower of strength in concluding a successful year. He was ably supported by his fellow directors Ms. Renu Sud Karnad, Mr. Subrata Data Gupta, Mr. Ismail Ali Manik, Ms. Fareeha Shareef, and alternate directors Mr. Conrad De Souza, Ms. Christine Engstrom, and Mr. Hamid Sodique. We also welcome the appointment of Mr. Ismail Ali Manik as chairman for 2013.

We extend our very sincere gratitude to the outgoing director and IFC nominee Mr. Subrata Dutta Gupta for completing a three and a half year directorship of HDFC that came to an end on December 31, 2012. He has left an indelible mark as a pioneer of the privatized HDFC's progress, and will always be remembered for his yeomen service towards the success of the early years following privatization. We wish him well in all future endeavors.

We also thank our legal counsel Mazlan and Murad Law Associates as well as PWC Maldives for their professional input, and our Consultant on Islamic Finance, Ms. Aishath Muneeza, for her passion and dedication to establishing an Islamic Finance Window at HDFC.

No National Housing Finance Institution could hope to grow and sustain a sound loan portfolio that adds value to the lives of the people it serves without the participation of sound investment partners. In this regard, we thank the IFC, ADB, FMO of Netherlands, the country's very own Bank of Maldives, Allied Insurance Company of Maldives, Maldives Post Ltd., and Amana Takaful (Maldives) PLC for their support in making 2012 a successful year for HDFC. Going forward, a great deal is expected of HDFC's partnership with national and international players to usher an era of model living for Maldivians in decent homes in an environment as clean, green, and breathtaking as the ocean paradise that defines the Maldives.

# Profiles of the Board of Directors

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

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

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

## Board composition

### Nominated Directors

1. Mr. Ismail Ali Manik	Government of Maldives	Chairman
2. Ms. Fareeha Shareef	Government of Maldives	Director
3. Ms. Renu Sud Karnad	HDFC Investments Ltd. (India)	Director
4. Mr. Sanjaya Gupta	Asian Development Bank	Director
5. Mr. Subrata Dutta Gupta	International Finance Corporation	Director

### Alternate Directors

6. Mr. Hamid Sodique	Government of Maldives	Alternate Director
7. Mr. Conrad D'Souza	HDFC Investments Ltd. (India)	Alternate Director
8. Ms. Christine Engstrom	Asian Development Bank	Alternate Director

### Managing Director

Dr. A. D. Priyanka Baddevithana – Managing Director

\*In compliance with ROC, only the Managing Director holds a qualifying share in the stock of HDFC. The Chairman and Board Directors function in a non-executive capacity.

## Profile of HDFC Plc's Board



**Mr. Ismail Ali Manik** has represented the Government of Maldives, since the inception of the privatization of HDFC Plc. in 2009. He has over 11 years of experience in Public Finance in the Government Sector and has acted as a Consultant to World Bank. He started his Professional career in Ministry of Finance and Treasury and worked on fiscal policy, national budget preparation and public expenditure management issues and is now providing advisory services to the President's Office.

Mr Manik holds a Master Degree in Public Administration from Columbia University, Program in Economic Policy Management, in addition is a Bachelor of Economics, University of Adelaide, Australia. Further he has participated at various international seminars and workshops conducted by World Bank, IMF, Summer Institute for the Preservation of Study of History of Economics, Columbia University and Centre for Central Banking Studies, Bank of England.



**Ms. Fareeha Shareef**, representing the Government of Maldives, has been a member of the Board since privatization of HDFC Plc in 2009. She has over seven years of experience in the financial and business advisory services. She has declared holding of 200 shares of the Bank of Maldives, and also sitting board member of the Maldives Pension Administration Office.

Ms. Shareef is the CEO of FJS Consulting Pvt. Ltd, a leading management consultancy firm based in the Maldives. She has worked with major organizations including State Trading Organization Plc., Maldives National Shipping Limited, Maldives Tourism Development Corporation, Housing Development Corporation Ltd, Bank of Maldives Plc. and developmental agencies including UNDP, FAO, IFAD, WHO, World Bank and Asian Development Bank. She has worked in KPMG Ford Rhodes Thornton and Co, Sri Lanka as an Advisor in the Risk Advisory Section of the firm. She has also worked at Public Enterprises Monitoring and Evaluation Board of Ministry of Finance.

She holds a Masters Degree in Management Studies (Accounting) from the University of Waikato, Hamilton, New Zealand in addition to a Bachelor's Degree in Commerce & a Bachelor of Commerce and Management (Accounting & Finance) from Lincoln University, Christchurch, New Zealand. She is a member of Association of Chartered Certified Accountants (UK), Institute of Internal Auditors (USA), Certified Practising Accountants of Maldives (CPA Maldives) and a Provisional Member of New Zealand Institute of Chartered Accountants (NZ).



**Ms Renu Sud Karnad**, (Director of HDFC Investments Ltd., India), has been a member of the Board from the inception of the privatization of HDFC Plc in 2009 She is the Joint Managing Director at Housing Development Finance Corp. Ltd. in India, and Home Loan Services India Private Limited.

Ms. Karnad joined HDFC Investments Ltd., India in 1978 and has been its Executive Director since 2000. Ms. Karnad has been Director of ICI India Limited since August, 2003, HDFC Bank Ltd. since July, 2002 and Motor Industries Co. Ltd. since April, 2007. She serves as Director of HDFC Asset Management Co. Ltd., Indraprastha Medical Corp. Ltd., Gruh Finance Ltd., HDFC Realty Ltd., Ascendas Limited, Credit Information Bureau (India) Ltd. (CIBIL), Feedback Ventures Ltd., HDFC Chubb General Insurance Ltd., and Mother Dairy Fruits & Vegetables Limited. She is a Member of the Board of Advisors at Swiss Technology Venture Capital Fund.

Ms. Karnad also holds Pravin Fellowship from Woodrow Wilson School of International Affairs, Princeton, NJ. She is a Law Graduate and also holds a Masters degree in Economics from Delhi University. Over the years, Ms. Karnad has had to her credit, numerous awards and accolades. She was featured in Business Today magazine's list of "Most Powerful Women in Indian Business" many years, and was among the list of "25 top non-banking women in finance" by U.S. Banker magazine in 2008 and was chosen as the "Best Woman Corporate Leader" by Business & Economy magazine for the year 2007-2008. She was felicitated at the "Women Achievers Award – 2007" by the FICCI Ladies Organization. In 2006, Wall Street Journal Asia adjudged her among the "Top Ten Powerful Women in Asia".



**Mr. Subrata Dutta Gupta**, 57, is a nominee Board Member representing IFC from the inception of the privatization of HDFC Plc. in 2009. He does not hold any shares in any company in the Maldives that has a conflict of interest with HDFC Plc. He has over 35 years of experience in various related areas of Finance including Mortgage Finance and General Management.

Mr. Gupta started his financial professional career with the Bengal Chamber of Commerce & Industry as Assistant Secretary and then worked as a Consultant [Economic Investigation] & Area of Management [Sikkim] in West Bengal Consultancy Organization Ltd. He then worked as a Regional Manager on Classic Financial Services & Enterprises Ltd. He also took up the responsibilities as Senior Vice President of SREI International Finance Ltd, before assuming the role of Managing Director in Zuari Leasing & Finance Corporation Ltd. His final post before taking over the role Senior Housing Finance Specialist at the International Finance Corporation was the Managing Director's post at the Birla Home Finance Ltd [Indo German Joint Venture] Mr. Gupta's management experience includes being a Board Member of Companies of K.K Birla Group including Committees on Strategic Planning and HR. Leader of Group for evaluation of proposal to enter life and general insurance business. He worked as Advisor to a large German Insurance Company on their proposed entry to India. Acquisitions, Finance & Consulting for a US\$ 700 Million Mortgage Company and US Software Company with annual revenue of US\$38 Million. He is also engaged in Overseas Loans and Equity for acquisitions in agri-business and mortgages.

Mr. Gupta holds a Master Degree in Economics from Delhi School of Economics, specializing in International Finance & Econometrics.



**Mr. Sanjaya Gupta**, (Asian Development Bank) has served as a member of the Board since March 2010. As a senior professional with more than 24 years of work experience, he has coordinated with international financial institutions (IFC, ADB, and KFW), and with various central and state Government departments to augment the Indian real estate/ retail mortgage space.

Mr. Gupta started his professional career at HDFC Ltd., as a Management Trainee – since then he moved into various critical positions, such as Business Head for Middle East, Deputy General Manager at HDFC Ltd. etc. He also was the Vice President –Business Head Mortgage Operations for ABN AMRO NV. He was the Chief Executive Officer & Managing Director for American International Group Inc. He has also co-promoted a housing Finance company, for the urban poor in India – India Shelter Finance Corporation Ltd. – a first of its type company in the country.

Mr. Gupta holds an MBA from the University of Lucknow and is a B.Com Graduate. Completed his High School from St. Joseph's College Nainital and is a Certified Project Manager by Perot Systems Project Management Institute. In addition he is also a Certified Housing Finance Trainer by Centre of Housing Finance – a JV, USAID and HDFC Ltd. He is also a Fellow of the Royal Institute of Chartered Surveyors - UK.

## Alternate Directors



**Mr. Hamid Sodique**, is an alternate Board Member representing the Government of Maldives since May 2012. He has over 15 years of experience in Consultation work and Project and Management area and was a member of the Maldives Pension Administration Office and served in the Investment Committee of the Board until August 2011.

Mr. Sodique started his Professional career in the Maldives Monetary Authority in 2006 and since then has worked at prominent positions in well know Organization such as UNESCO, SAARC, AAA and is currently working at a private consulting firm. He has executed many national and international projects on business management, strategic planning, Entrepreneurship Skills Training and Mentoring. Mr. Sodique holds a Master Degree in Business Administration from the University of Adelaide, Australia in addition to a Bachelor's Degree in Business Administration from University of Brunei Darussalam.



**Mr. Conrad D'Souza**, is an Alternate Board Member for HDFC Investments Ltd. India since the inception of the privatization of HDFC Plc. in 2009. He has 27 years of experience in the field of Housing Finance. He joined Housing Development Finance Corporation Limited – India in 1984 and is currently Senior General Manager – Management Services and Investor Relations. His responsibilities include corporate planning and budgeting, corporate finance and investor relations. He was earlier the Treasurer of HDFC-India and his responsibilities included resource mobilization both domestic and international and asset liability management.

Mr. D'Souza has also worked earlier in Operations and Management Services at HDFC-India. He has been a consultant in housing finance to USAID/UNDP and IFC (Washington) and has undertaken assignments in Asia, Africa and Eastern Europe. He is a member of the National Stock Exchange of India Limited's Committee on Currency Derivatives and is also a governing council member the Association of Finance Professionals of India. Mr. D'Souza has a Master's Degree in Commerce, a Master's Degree in Business Administration and is Senior Executive Program (SEP) graduate of the London Business School.



**Ms. Christine A. Engstrom**, is an alternate Board Member representing the Asian Development Bank (ADB) since the inception of the privatization of HDFC Plc in 2009. As a Principal Investment Specialist at the ADB with more than 18 years of work experience, Ms. Engstrom is currently the Unit Head of Financial Institutions at ADB where she heads a team providing debt, equity and guarantees to financial institutions in Asia.

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

## Managing Director



**Dr. A. D. P. Baddevithana**, is the Managing Director. He counts more than 30 years of experience, with 20 years in senior management positions in Housing Finance, Banking, and Business Administration in the UK, Sri Lanka, and Maldives.

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

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

## Profile of members of the senior management team



**Mr. Ali Shareef**  
Chief Financial Officer

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

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



**Mr. Mohamed Shaafiee**  
Chief Technology Officer

Mr. Mohamed Shaafiee joined HDFC Plc., in July 2012. He started his career as Interim Chief Information Officer at Makmal Komersial Holdings Sdn. Bhd., Malaysia, in March 2000, during which time he lectured at APIIT College and provided consultancy to the partner start-up Cyanix Computers. He has worked with a number of reputable local firms in top-level management capacity, including Wataniya Telecom Maldives and Focus Computers Pvt Ltd. Clients who have benefited from his consultancy services over the past decade include Maldives Police Service, Crown Company Pvt Ltd, Attorney General's Office and Damas Company Pvt Ltd. Prior to joining HDFC he was working for the President's Office, Maldives, as their Head of IT, with a stint at the 17th SAARC Summit as the Project Director for IT assigned by the Government of Maldives. He holds a Master's degree in Software Engineering from Staffordshire in addition to a Bachelor's of Science degree in Computing. One of the outstanding achievements in his area of interest is the development of a non-von-Neumann Programming Language, Symlah, which is one the first Turing-complete programming language developed by a Maldivian.



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

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



**Mr Adam Athif**  
Company Secretary,  
Senior Manager Ad-  
ministration and HRD

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



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

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



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

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

Annual Report 2012

Housing Development Finance Corporation

# Corporate Governance

# Corporate Governance



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

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

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

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

## General Principles

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

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

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

## Responsibilities of the Board

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

## Board Membership and Composition



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

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



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

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

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

## Role of the Chairperson

The Chairman to the Board of Directors is appointed on rotation. The current Chairman is Mr. Ismail Ali Maniku who was elected to the post on December 2012. Prior to that Mr. Sanjaya Gupta served as the Chairman of the Board from 2011 to 2012.

## Board Meetings

The Board meets at least once every three months to discuss pending matters and performance of the Company. During the year 2012 5 meetings of the Board of Directors were held. In addition to the Board Meetings, the following meetings of the Board Committees were held during the year.

- Five meetings of the Board of Directors
- One meeting of the Audit Committee
- Two meetings of the Nominations and Remunerations Committee

The Board of Directors passed a total of 21 resolutions of the board during the year 2012.

## General Meetings

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

## Board Committees

The Board has also constituted the following Committees

- Audit Committee
- Nominations and Remunerations Committee

### Audit Committee

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

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

### Nominations and Remunerations Committee

The Nominations and Remunerations Committee consists of 02 Directors appointed by the Government of Maldives and the Managing Directors. The Nominations and the Remunerations Committee comprised of the following members.

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

## Shariah Committee

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



**Assoc. Professor Dr Rusni Hassan:** Rusni Hassan is an Associate Professor at the Ahmad Ibrahim Kulliyah of Laws (AIKOL), International Islamic University Malaysia (IIUM). She graduated with LLB (Honours) and LLB (Shariah) (First Class), Master of Comparative Laws (MCL) and Ph.D. in Law. Her area of specialization includes Islamic Banking, Finance and Islamic Documentations, Islamic Capital Market, Takaful and Islamic Law of Transactions. She is a Board Member and PhD Selection Committee at IIUM Institute of Islamic Banking and Finance. Presently she is a member of Shariah Advisory Council of Central Bank of Malaysia (Bank Negara Malaysia). She was a member of Shariah Committee for HSBC Amanah Malaysia, HSBC Amanah (Takaful) Malaysia and a registered Shariah Unit Trust Advisor with the Securities Commission. She has presented numerous research papers on Islamic finance in national and international conferences and she has also written books of Islamic finance related subjects. She is the co-author of the winning essay of the worldwide Islamic finance essay competition organized in Kuala Lumpur Islamic Finance forum (KLIFF) of 2010 for research: "Take It or Leave It! The Iniquitous Islamic Banking Documents" and has won a gold medal and a silver medal in IIUM Research Invention and Innovation Exhibition 2012 for her research on Islamic banking and finance.

**Dr Ibrahim Zakariyya Moosa:** Dr Ibrahim Zakariyya Moosa holds a PhD in Fiqh and Usulul Fiqh and a M.A in Islamic Revealed Knowledge from International Islamic University Malaysia. He obtained his Bachelors Degree in Islamic Shari'ah from Islamic University of Medina, Saudi Arabia. Currently he is the Rector of College of Islamic Studies. He also served as a Parliament Member for nine years (from 1989 to 1999); was a Member of the Special Majlis for thirteen years (from 1990 to 2004); was a Member, Supreme council of Islamic Affairs. (from 1995 to 2004); and also was a Member of Quran translation committee (from 1995 to 2004). He has attended seminars and published articles on different matters related to Shari'ah.

**Ms. Aishath Muneeza:** Aishath Muneeza is the Head of Islamic Finance of Capital Market Development Authority of Maldives and the also the chairperson of the Capital Market Shari'ah Advisory Committee. She has presented numerous research papers on Islamic banking and finance related matters in national and international conferences held in different parts of the world including Malaysia, Brunei, India, Australia, UK, Dubai, Oman and France. She gives consultancy on Islamic banking and Finance. She has published academic books and papers on Islamic banking and Finance. She is the co-author of the winning essay of the worldwide Islamic finance essay competition organized in Kuala Lumpur Islamic Finance forum (KLIFF) of 2010. She has won a gold medal and a silver medal in IIUM Research Invention and Innovation Exhibition 2012. She holds an LL.B degree and a LL.M (banking) from International Islamic University Malaysia and is an Attorney in Maldives. She is a member of the Institute of Islamic Banking & Insurance in UK and also an associate fellow of the World Business Institute in Australia.

## Declaration of interests

All Directors are required to disclose any matters which may lead to or be perceived as conflict of interest in compliance with the Company's code of conduct and the CMDA's code of governance.

## Information rights

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

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

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

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

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

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

## Safeguarding the social and operational environment

The company is bound by the Shareholders Agreement to comply with its comprehensive Safeguard policies.

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

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

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

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

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

## Affirmative Covenants

The Company adheres to the following covenants:

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

## Compliance with HDFC's Environmental and Social Management System



### HDFC's Environment and social policy statement

HDFC shall act to ensure the right of everyone to live in a safe, clean, healthy and aesthetically appealing environment in order to further the cause of sustainable economic, cultural and social development of Maldives thus contributing to the protection of regional and global environment.

HDFC is committed to ensuring that its operations will be environmentally and socially sound and acceptable, thus minimizing exposure to environmental, social and/or financial risks. In this regard, the Company has established and effectively operates an environmental and social management system (ESMS).

The ESMS is established as a tool to ensure that the environmental and social policy will be efficiently and effectively implemented by the business unit dealing with loan financing processes.

The Company prepares and submits to ADB, annual environmental and social compliance monitoring reports after the close of each financial year.



## Processing and Assessment

a) loan applications are processed and approved for projects in which;

- Identified environmental and social impacts during construction and mitigating measures have been taken into consideration;
- Environmental and social aspects have been designed, implemented, and completed in accordance and compliance with relevant national and local laws and regulations land uses, zoning and building codes.
- HDFC-M has ensured that the following guiding principles are adhered to in the implementation of its environmental and social policy:
- Avoid any construction on intensively inhabited land or on ecologically sensitive areas, e.g. cultural heritage sites, protected area, wetland, mangrove, estuarine, buffer zone of protected area, and special area for protecting biodiversity
- Comply with required national and local environmental and social laws and regulations on pollution prevention, hazardous waste management, land uses and zoning regulations and building codes integrated in the planning and design activities.

b) Where potential adverse environmental and/or social impacts are expected, the measures to prevent those from occurring are preferred to measures seeking minimization, mitigation or compensation

- Ensure that any lands obtained for the financed activities have no pending issues with former occupants relating to acquisition, compensation and resettlement
- Comply with environmental and social monitoring and reporting requirements agreed between bank/financial institution and borrower
- Audit environmental and social management compliance during construction and operation of facilities, and correct instances of noncompliance and partial compliance
- Audit Occupational Health and Safety compliance during construction of facilities, and correct instances of noncompliance and partial compliance
- Report on corporate environmental and social performance
- Ensure transparency in and commitment to continuous improvement of the ESMS



Annual Report 2012

Housing Development Finance Corporation

# Corporate Social Responsibility

# Corporate Social Responsibility

## CSR Target Area

## CSR Activities

### People and Society



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

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

An in-depth market analysis was carried out to identify the social performance matrix to serve the low-income population in the outer islands. HDFC integrated social performance management approaches such as respectful collection practices, and high ethical standards in the treatment of customers with a comprehensive complaints handling process to serve them more effectively by including customer feedback for appropriate product design and delivery. Another important element was to formalize operational guidelines and monitor key policies related to customer protection, environmental standards and social performance data, including the rural outreach.

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

Responsible Financial Inclusion Strategy sets out the following Strategic Objectives-

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

## CSR Target Area

## CSR Activities

### Access to Finance

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

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

### Principles and Practice of Client Protection at HDFC PLC.



- **Appropriate product design and delivery**  
Products and delivery channels are designed giving primacy to client characteristics.
- **Prevention of over-indebtedness**  
We take great care in all phases of our credit process to determine that clients have the capacity to repay without becoming over-indebted.
- **Transparency**  
We communicate clear, sufficient and timely information in a manner and language clients can understand so that clients can make informed decisions. The need for transparent information on pricing, terms and conditions of products is highlighted in our counseling service extended at every step of the process.
- **Responsible pricing**  
Pricing, terms and conditions are set in a way that is affordable to clients while allowing our operations to be sustainable with positive real returns on housing finance.
- **Fair and respectful treatment of clients**  
We always treat our clients fairly and respectfully without compromise or discrimination. We have zero tolerance of any malpractices or corruption as well as aggressive or abusive treatment of clients by staff, particularly during the loan processing and debt collection processes.
- **Privacy of client data**  
The privacy of individual client data is respected at all times in accordance with the laws and regulations of the Maldives. Such data will only be used for the purposes specified at the time the information is collected or as permitted by law, unless otherwise agreed with the client.
- **Mechanisms for complaint resolution**  
We provide one of the most comprehensive and effective mechanisms for complaints and problem resolution for our clients and will use the mechanism in a timely and responsive manner, both to resolve individual problems and to improve our products and services.

## CSR Target Area

## CSR Activities

### Employee welfare

- Staff training and development (locally and internationally)  
HDFC considers its staff as the greatest asset, and the most valuable investment that would serve to achieve the vision and mission of our organization. Based on this tenet, we invest in training and developing our staff in order to build capacity for the future growth and sustainability of our organization.

Developing Maldivian professionals to assume greater responsibility in business planning and decision-making in the financial sector is a national objective, and we subscribe to this notion by developing a career path and job design that encourages greater participation in corporate affairs of the organization

Staff Medical Insurance is a welfare aspect that we are proud of, having negotiated one of the best policies available in the Maldives with Amana Takaful Insurance Company of Maldives.



- Staff loans  
As a responsible corporate citizen, HDFC takes pride in giving solutions in housing finance to those with capacity to enter into a transactional relationship that would fulfill mutual objectives. In our customer-centric philosophy, the internal customer, namely the staff of HDFC takes pride of place, and giving a comprehensive and affordable staff Home Loan Scheme as well as other financial facilities for training and development as well as emergency needs of our staff are in place, and we are exploring new avenues to add value to the lives of our staff on a continuous basis.

### Community participation



- Culture and customs of Maldives is rooted in Islam and it was a privilege for HDFC to be a conduit in promoting Islamic Finance by opening the Islamic Window, HDFC Amna and transacting the first ever Islamic Home Mortgage in the Maldives as well as organizing a seminar to promote Islamic Finance in the Maldives under the name of 'Dawn of Islamic Finance in the Maldives' with the assistance of our Shariah Committee.
- A milestone in our Outreach Program was setting up the Addu Centre to take our services to the doorstep of thousands of people in the region. To coincide with the occasion of opening the Addu Centre, we organized Addu City School Children's art competition under the theme 'My Dream Home'. All the schools and school children from inclusive age-categories participated winning many meaningful prizes both individually, and for the development of school facilities.
- We encourage our staff to participate in community social events, and Dhiraagu Road Race 2012 was one such event.

### Environmental protection and Conservation

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

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

(b) Review and evaluate any environmental clearances and/or applicable national and local government permits/clearances issued by environmental authorities such as land use and zoning clearances, and permits covering sanitation, electrical and mechanical operations, occupancy, etc.

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

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

Annual Report 2012

Housing Development Finance Corporation

# Auditors' Report & Audited Financial Statements

**HOUSING DEVELOPMENT FINANCE CORPORATION PLC**

**Financial Statements 31 December 2012**





### **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 2012 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, 3<sup>rd</sup> Floor, Roshanee Magu, Malé, Republic of Maldives*  
Tel: +960 3318342, 3336046, Fax: +960 3314601, [www.pwc.com/lk](http://www.pwc.com/lk)

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

Resident Partner Jatindra Bhatray 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 2012 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.

27 March 2013

MALE'

*Priscilla Waterhouse Cooper*  
CHARTERED ACCOUNTANTS

## HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2012

**Balance sheet**

(all amounts in Maldivian Rufiyaa)

	Notes	As at 31 December	
		2012	2011
<b>ASSETS</b>			
Cash and short term funds	17	7,164,471	54,138,657
Housing loans	18	757,301,442	568,357,301
Interest receivable	21	1,466,758	1,812,070
Property, plant and equipment	22	2,124,308	2,118,436
Intangible assets	23	405,787	529,146
Deferred business profit tax assets	24	9,510	23,388
Derivative financial instruments	25	25,561,485	34,344,460
Other assets	26	3,646,023	3,580,124
<b>Total assets</b>		<b>797,679,784</b>	<b>664,903,582</b>
<b>LIABILITIES</b>			
Deposits from customers	27	33,898,647	29,300,776
Borrowings	28	349,504,448	266,066,830
Current tax liabilities		5,239,252	3,141,326
Other liabilities	29	48,461,511	38,851,274
<b>Total liabilities</b>		<b>437,103,858</b>	<b>337,360,206</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	30	159,375,000	159,375,000
Advance for shares		51,407,100	51,407,100
Retained earnings		132,336,760	98,365,801
Reserves	31	17,457,066	18,395,475
<b>Total shareholders' equity</b>		<b>360,575,926</b>	<b>327,543,376</b>
<b>Total equity and liabilities</b>		<b>797,679,784</b>	<b>664,903,582</b>
Commitments and contingencies	32, 33	218,397,034	423,978,000

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

  
.....  
Managing Director



  
.....  
Director

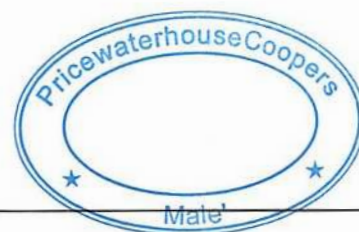
The notes on pages 7 to 41 are an integral part of these financial statements.



**HOUSING DEVELOPMENT FINANCE CORPORATION PLC****31 December 2012****Income statement**

	Notes	Year ended 31 December	
		2012	2011
(all amounts in Maldivian Rufiyaa)			
<b>Gross income</b>	5	90,908,249	61,064,293
Interest income and similar income	6	80,747,248	53,355,741
Interest expense and similar charges	6	(18,379,664)	(9,766,120)
<b>Net interest income</b>		62,367,584	43,589,621
Fee income	7	8,968,003	7,092,794
Other income	8	1,192,998	615,758
<b>Operating income</b>		72,528,585	51,298,173
<b>Less : Operating expenses</b>			
Staff costs	9	(7,134,144)	(5,058,991)
Premises, equipment and establishment expenses	10	(1,788,614)	(1,525,667)
Provision for bad and doubtful debts	11	(1,929,661)	(2,336,068)
Other operating expenses	12	(3,811,022)	(4,372,948)
<b>Operating profit for the year</b>		57,865,144	38,004,500
Finance gain	13	14,000	14,598,146
<b>Net profit for the year before tax</b>		57,879,144	52,602,646
Taxation	14	(8,909,094)	(3,117,938)
<b>Net profit after tax</b>		48,970,050	49,484,708
Earnings per share - basic	16	30.73	31.05

The notes on pages 7 to 41 are an integral part of these financial statements.



## HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2012

## 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
<b>Balance at 1 January 2010</b>		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
<b>Balance at 31 December 2010</b>		159,375,000	51,407,100	58,989,732	15,000,000	4,443,081	289,214,913
<b>Balance at 1 January 2011</b>		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	15	-	-	(11,156,244)	-	-	(11,156,244)
Profit for the year		-	-	49,484,708	-	-	49,484,708
<b>Balance at 31 December 2011</b>		159,375,000	51,407,100	98,365,801	15,000,000	3,395,475	327,543,376
<b>Balance at 1 January 2012</b>		159,375,000	51,407,100	98,365,801	15,000,000	3,395,475	327,543,376
Transferred from staff education reserve	31	-	-	938,409	-	(938,409)	-
Dividend for the year 2011	15	-	-	(15,937,500)	-	-	(15,937,500)
Profit for the year		-	-	48,970,050	-	-	48,970,050
<b>Balance at 31 December 2012</b>		159,375,000	51,407,100	132,336,760	15,000,000	2,457,066	360,575,926

The notes on pages 7 to 41 are an integral part of these financial statements.



**HOUSING DEVELOPMENT FINANCE CORPORATION PLC****31 December 2012****Cash flow statement**

(all amounts in Maldivian Rufiyaa)

	Notes	Year ended 31 December	
		2012	2011
<b>Cash flows from operating activities</b>			
Interest received		81,092,560	53,159,134
Other income received		10,161,001	7,708,552
Interest paid		(16,663,733)	(8,319,447)
Personnel cost paid		(7,134,144)	(5,058,991)
Foreign exchange gain realised		8,796,975	8,056,588
Other operating expenses paid		(4,688,271)	(5,270,506)
Cash flows from operating profits before changes in operating assets and liabilities	34	71,564,388	50,275,330
Business profit tax paid		(6,797,290)	-
Cash flows from operating profits before changes in operating assets and liabilities		64,767,098	50,275,330
<b>Changes in operating assets and liabilities:</b>			
Increase in net movements in other assets		(65,899)	(1,430,499)
Increase in loans and advances to customers		(190,873,802)	(286,063,680)
Increase in deposits from customers		4,597,871	9,757,340
Increase in other liabilities		7,732,451	6,696,638
Cash used in changes in operating assets and liabilities		(178,609,379)	(271,040,201)
Net cash used in operating activities		(113,842,281)	(220,764,871)
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	22	(578,491)	(953,705)
Purchase of intangible asset	23	(53,701)	(387,908)
Net cash used in investing activities		(632,192)	(1,341,613)
<b>Cash flows from financing activities</b>			
Proceeds from borrowed funds		106,260,000	115,650,000
Repayments of borrowed funds		(58,847,004)	(25,441,072)
Dividend paid to Company's shareholders		(15,937,331)	(11,156,244)
Repayments of corporate bonds		-	(260,000)
Net cash generated from financing activities		31,475,665	78,792,684
<b>Net decrease in cash and cash equivalents</b>		<b>(82,998,808)</b>	<b>(143,313,800)</b>
Cash and cash equivalents at beginning of the year		54,138,657	197,452,457
<b>Cash and cash equivalents at end of the year</b>	17	<b>(28,860,151)</b>	<b>54,138,657</b>

The notes on pages 7 to 41 are an integral part of these financial statements.



6

**HOUSING DEVELOPMENT FINANCE CORPORATION PLC**

31 December 2012

**Notes to the financial statements****1 General information**

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

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

**2 Summary of significant accounting policies**

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

**2.1 Basis of preparation**

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

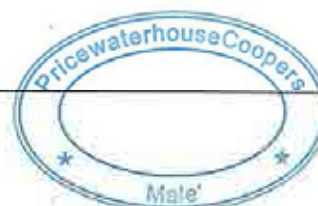
**2.2 New accounting standards issued but not effective as at the balance sheet date***(a) New and amended standard adopted by the Company*

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that would be expected to have a material impact on the Company. The new standard and amendment effective for the first time for period on or after 1 January 2012 is IAS 12 (Amendment), Income Taxes.

*(b) New standards and interpretations not yet adopted*

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 July 2012, and have not been applied in preparing these financial statements. A summary of new accounting standards are set out below:

- IAS 1 (Amendment), Presentation of Financial Statements (effective from 1 July 2012)
- IAS 19 (Amendment), Employee Benefits (effective from 1 January 2013)
- IAS 32 (Amendment), Financial Instruments: Presentation (effective from 1 January 2014)
- IFRS 7 (Amendment), Financial Instruments: Disclosures (effective from 1 January 2013)
- IFRS 9, Financial Instruments (effective from 1 January 2015)
- IFRS 10, Consolidated Financial Statements (effective from 1 January 2013)
- IFRS 11, Joint Arrangements (effective from 1 January 2013)
- IFRS 12, Disclosure of Interests in Other Entities (effective from 1 January 2013)
- IFRS 13, Fair Value Measurement (effective from 1 January 2013)



**HOUSING DEVELOPMENT FINANCE CORPORATION PLC****31 December 2012****Notes to the financial statements (continued)****2.3 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.

**2.4 Financial assets**

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

*(a) Loans and receivables*

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

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

*(b) Held-to-maturity financial assets*

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

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



**HOUSING DEVELOPMENT FINANCE CORPORATION PLC**

31 December 2012

**Notes to the financial statements (continued)****2.5 Offsetting financial instruments**

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

**2.6 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.

**2.7 Other income**

Other income is recognised on accrual basis.

**2.8 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.

**2.9 Impairment of financial assets***(a) Loans and advances*

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

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

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

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

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

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



**HOUSING DEVELOPMENT FINANCE CORPORATION PLC**

31 December 2012

**Notes to the financial statements (continued)****2.9 Impairment of financial assets (continued)**

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

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

A general provision 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.

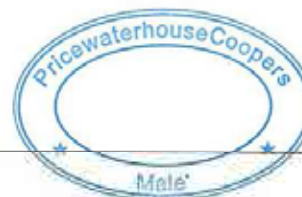
*(b) Renegotiated loans*

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.

**2.10 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.



**HOUSING DEVELOPMENT FINANCE CORPORATION PLC**

31 December 2012

**Notes to the financial statements (continued)****2.10 Property, plant and equipment (continued)**

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

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

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

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

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

**2.11 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.

**2.12 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.



**HOUSING DEVELOPMENT FINANCE CORPORATION PLC**

31 December 2012

**Notes to the financial statements (continued)****2.13 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.

**2.14 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.

**2.15 Provisions**

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

**2.16 Employee benefits**

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

**2.17 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.

**2.18 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.



**HOUSING DEVELOPMENT FINANCE CORPORATION PLC**

31 December 2012

**Notes to the financial statements (continued)****2.19 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.

**2.20 Current and deferred business profit tax**

The tax expenses for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity.

The current business profit tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax computation with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

The provisions for business profit tax is based on the elements of income and expenditure as reported in the Financial Statements and computed in accordance with the provisions of the Business Profit Tax Act.

The Company is liable to business profit tax at rate of 15%, if the taxable profit of the year exceeds MRf 500,000, with effect from 18 July 2011.

Deferred business profit tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However deferred business profit tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred business profit tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred business profit tax asset is realised or the deferred business profit tax liability is settled.

Deferred business profit tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary difference can be utilised.

Deferred business profit tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred business profit tax assets and liabilities relate to business profit tax levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

**2.21 Comparatives**

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



**HOUSING DEVELOPMENT FINANCE CORPORATION PLC**

31 December 2012

**Notes to the financial statements (continued)****3 Financial risk management**

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

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

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

**3.1 Credit risk**

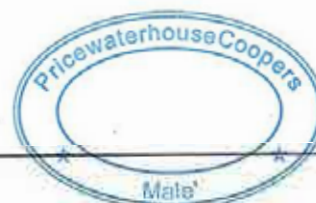
The Company takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for HDFC by failing to discharge an obligation. Credit risk is the most important risk for HDFC's business; management therefore carefully manages its exposure to credit risk. Credit exposures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

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

A credit Committee comprising the Managing Director, Advisor to Managing Director, Manager Administration, Credit and Head of Accounts meets regularly to discuss credit proposals in line with credit policies. The credit Committee also reviews non-performing assets, documentation and other credit related issues.

**3.1.1 Risk limit control and mitigation policies**

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



**HOUSING DEVELOPMENT FINANCE CORPORATION PLC**

31 December 2012

**Notes to the financial statements (continued)****3.1.1 Risk limit control and mitigation policies**

Some other specific control and mitigation measures are outlined below.

*(a) Collateral*

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

*(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 2.9).

**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 2012 and 31 December 2011, 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.
- 96% of the loans and advances portfolio are considered to be neither past due nor impaired (31 December 2011: 69%);

**3.1.4 Loans and advances**

Loans and advances are summarised as follows:

	(Amount in MRF'000)	
	31 December 2012	31 December 2011
Neither past due nor impaired	735,198,008	397,996,708
Past due but not impaired	21,838,785	172,497,553
Impaired	11,001,253	7,922,185
Gross	768,038,046	578,416,446
Less: allowance for impairment	(10,736,603)	(10,059,145)
Net	757,301,443	568,357,301



15

## HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2012

## Notes to the financial statements (continued)

## 3.1.4 Loans and advances

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

During the year ended 31 December 2012, HDFC's total value of loans and advances increased by 33% (2011 : 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.

## (a) Loans neither past due nor impaired

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

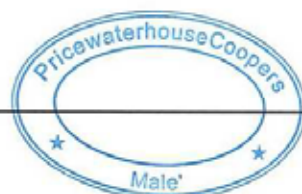
Internal Ratings	Basis for grading (B/A)	31 December 2012		31 December 2011	
		Loans to customers	Percentage of total loans	Loans to customers	Percentage of total loans
		MRF		MRF	
A+	0.2%	606,176,385	82%	338,102,445	85%
A	0.2%to 0.5%	2,008,187	0%	3,335,519	1%
A-	0.5% to 1%	5,432,886	1%	11,248,422	3%
B+	1% to 1.5%	22,695,376	3%	8,348,466	2%
B	1.5% to 2%	29,143,292	4%	11,187,932	3%
C	above 2%	69,741,882	9%	25,773,924	6%
		<u>735,198,008</u>	<u>100%</u>	<u>397,996,708</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:

31 December 2012	(Amount in MRF'000)			
	Housing loan			
	Male'	Hulhumale'	Outer atoll	Total
Past due 30-60 days	2,407	1,284	2,285	5,976
Past due 60-90 days	5,426	5,365	2,998	13,789
Total	<u>7,833</u>	<u>6,649</u>	<u>5,283</u>	<u>19,765</u>
31 December 2011	Male'	Hulhumale'	Outer atoll	Total
Past due 30-60 days	10,406	4,450	2,185	17,041
Past due 60-90 days	571	-	1,145	1,716
Total	<u>10,977</u>	<u>4,450</u>	<u>3,330</u>	<u>18,757</u>

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



**HOUSING DEVELOPMENT FINANCE CORPORATION PLC**

31 December 2012

**Notes to the financial statements (continued)****3.1.4 Loans and advances (continued)****(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 11,001,253 (as compared to on 31 December 2011 when impaired loans and advances to customers were MRF 7,922,185).

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

31 December 2012	(Amount in MRF'000)			Total
	Housing loan			
	Male' Hulhumale'	Outer atoll		
Individually impaired loans	6,876	1,481	2,644	11,001
Total	6,876	1,481	2,644	11,001
<b>31 December 2011</b>	<b>Male' Hulhumale'</b>	<b>Outer atoll</b>		<b>Total</b>
Individually impaired loans	3,993	-	3,929	7,922
Total	3,993	-	3,929	7,922

**(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 2012 there was no renegotiation.

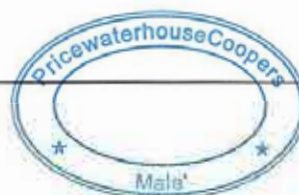
**3.1.5 Concentration of risks of financial assets with credit risk exposure****(a) Geographical sectors**

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 2012	31 December 2011
Residential	722,055,565	542,221,474
Islamic Mortgages	18,113,250	-
Commercial	27,869,230	36,194,972
Grand total	768,038,045	578,416,446



**HOUSING DEVELOPMENT FINANCE CORPORATION PLC**

31 December 2012

**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).

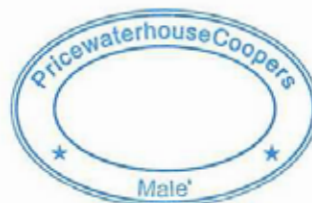
**3.2.1 Foreign exchange risk**

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 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\$ 7 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\$ 16,420,222, against which the amounts of US\$ to be purchased from STO PLC is US\$ 19,658,603.



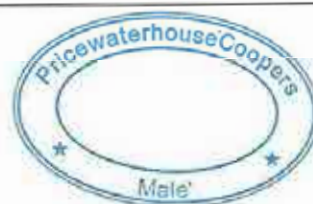
## HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2012

## 3.2.1 Foreign exchange risk (continued)

As at 31 December 2012 in MRF'000	MRF	US\$	Total
<b>Assets</b>			
Cash and balances with Banks	5,124	2,040	7,164
Treasury Bills	-	-	-
Housing loans	757,301	-	757,301
Derivative financial instruments	-	25,561	25,561
Other assets	7,653	-	7,653
<b>Total assets</b>	<b>770,078</b>	<b>27,601</b>	<b>797,679</b>
<b>Liabilities</b>			
Deposits	33,899	-	33,899
Borrowings	96,304	253,200	349,504
Other	53,701	-	53,701
<b>Total</b>	<b>183,904</b>	<b>253,200</b>	<b>437,104</b>
<b>Net on-balance sheet financial position</b>	<b>586,174</b>	<b>(225,599)</b>	<b>360,575</b>
<b>Commitments</b>	<b>(214,982)</b>	<b>303,136</b>	<b>88,154</b>
<b>Net</b>	<b>371,192</b>	<b>77,537</b>	<b>448,729</b>
<b>As at 31 December 2011 in MRF'000</b>			
<b>Assets</b>			
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
<b>Total assets</b>	<b>615,655</b>	<b>49,290</b>	<b>664,945</b>
<b>Liabilities</b>			
Deposits	29,301	-	29,301
Borrowings	280	265,787	266,067
Other	42,099	-	42,099
<b>Total</b>	<b>71,680</b>	<b>265,787</b>	<b>337,467</b>
<b>Net on-balance sheet financial position</b>	<b>543,975</b>	<b>(216,497)</b>	<b>327,478</b>
<b>Commitments</b>	<b>(420,028)</b>	<b>379,892</b>	<b>(40,136)</b>
<b>Net</b>	<b>123,947</b>	<b>163,395</b>	<b>287,342</b>

19



## HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2012

## Notes to the financial statements (continued)

## 3.2.2 Interest rate risk

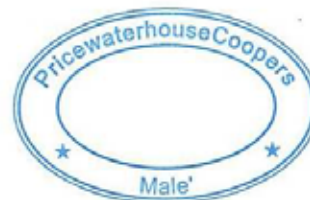
Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. HDFC 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 2012	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non- interest bearing	Total
in MRF'000							
<b>Assets</b>							
Cash and balances with banks	4,701	-	-	-	-	2,463	7,164
Loans and advances	4,085	8,286	59,224	190,535	495,171	-	757,301
Derivative financial instruments	737	1,693	6,554	16,577	-	-	25,561
Other assets	-	-	-	-	-	7,653	7,653
<b>Total financial assets</b>	<b>9,523</b>	<b>9,979</b>	<b>65,778</b>	<b>207,112</b>	<b>495,171</b>	<b>10,116</b>	<b>797,679</b>
<b>Liabilities</b>							
Deposits from customers	-	-	-	-	31,101	2,798	33,899
Borrowings	12,164	30,513	112,194	167,648	26,985	-	349,504
Other liabilities	-	-	-	-	35,084	18,617	53,701
<b>Total financial liabilities</b>	<b>12,164</b>	<b>30,513</b>	<b>112,194</b>	<b>167,648</b>	<b>93,170</b>	<b>21,415</b>	<b>437,104</b>
<b>Total interest repricing gap</b>	<b>(2,641)</b>	<b>(20,534)</b>	<b>(46,416)</b>	<b>39,464</b>	<b>402,001</b>	<b>(11,299)</b>	<b>360,575</b>



## HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2012

## Notes to the financial statements (continued)

## 3.2.2 Interest rate risk (continued)

As at 31 December 2011	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non- interest bearing	Total
in MYR'000							
<b>Assets</b>							
Cash and balances with banks	51,618	-	-	-	-	2,521	54,139
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
<b>Total financial assets</b>	<b>57,087</b>	<b>8,647</b>	<b>36,771</b>	<b>187,529</b>	<b>366,097</b>	<b>8,814</b>	<b>664,945</b>
<b>Liabilities</b>							
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
<b>Total financial liabilities</b>	<b>12,165</b>	<b>10,513</b>	<b>39,316</b>	<b>189,872</b>	<b>46,750</b>	<b>38,851</b>	<b>337,467</b>
<b>Total interest repricing gap</b>	<b>44,922</b>	<b>(1,866)</b>	<b>(2,545)</b>	<b>(2,343)</b>	<b>319,347</b>	<b>(30,037)</b>	<b>327,478</b>

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



**HOUSING DEVELOPMENT FINANCE CORPORATION PLC****31 December 2012****Notes to the financial statements (continued)****3.3.1 Liquidity risk management process (continued)**

- Managing the concentration and profile of debt maturities.

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

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

**3.3.2 Funding approach**

Sources of liquidity are regularly reviewed by the ALCO.

**3.3.3 Non-derivative cash flows**

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

in MRF'000						
As at 31 December 2012	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
In MRF'000						
<b>Liabilities</b>						
Deposits	-	-	2,798	-	34,989	37,787
Borrowings	13,952	32,881	123,804	186,850	28,879	386,366
Other Liabilities	-	-	-	-	62,311	62,311
<b>Total liabilities</b>	<b>13,952</b>	<b>32,881</b>	<b>126,602</b>	<b>186,850</b>	<b>126,179</b>	<b>486,464</b>
In MRF'000						
<b>Assets</b>						
Cash and balances with other banks	7,226	-	-	-	-	7,226
Loans and advances	11,506	23,013	103,488	488,075	818,584	1,444,666
Derivative financial instruments	737	1,693	6,554	16,577	-	25,561
Other assets	-	-	-	-	7,653	7,653
<b>Total assets</b>	<b>19,469</b>	<b>24,706</b>	<b>110,042</b>	<b>504,652</b>	<b>826,237</b>	<b>1,485,106</b>
<b>Net</b>	<b>5,517</b>	<b>(8,175)</b>	<b>(16,560)</b>	<b>317,802</b>	<b>700,058</b>	<b>998,642</b>



## HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2012

## Notes to the financial statements (continued)

## 3.3.3 Non-derivative cash flows (continued)

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						
<b>Liabilities</b>						
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
<b>Total liabilities</b>	<b>13,202</b>	<b>12,452</b>	<b>47,176</b>	<b>214,684</b>	<b>90,990</b>	<b>378,504</b>
In MRf'000						
<b>Assets</b>						
Cash and balances other banks	54,247	-	-	-	-	54,247
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
<b>Total assets</b>	<b>65,214</b>	<b>19,551</b>	<b>84,290</b>	<b>393,521</b>	<b>571,198</b>	<b>1,133,774</b>
<b>Net</b>	<b>52,012</b>	<b>7,099</b>	<b>37,114</b>	<b>178,837</b>	<b>480,208</b>	<b>755,270</b>

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

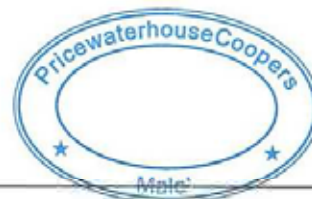
HDFC's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

- 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.



**HOUSING DEVELOPMENT FINANCE CORPORATION PLC**

31 December 2012

**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 2012. HDFC complied with all of the externally imposed capital requirements to which they are subjected.

	31 December 2012	31 December 2011
<b>Capital</b>		
Share Capital	159,375,000	159,375,000
Advance for shares	51,407,100	51,407,100
Retained earnings	132,336,760	98,365,801
Reserves	17,457,066	18,395,475
<b>Total qualifying Capital</b>	<u>360,575,926</u>	<u>327,543,376</u>
<b>Total capital</b>	<u>360,575,926</u>	<u>327,543,376</u>
<b>Risk-weighted assets</b>		
On-balance sheet	399,781,867	319,333,437
<b>Total risk-weighted assets</b>	<u>399,781,867</u>	<u>319,333,437</u>
<b>Basel ratio</b>	90%	103%

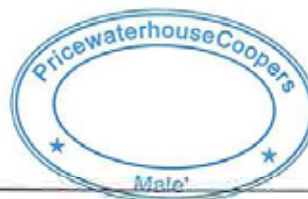
The increase of the regulatory capital for the year ended 31 December 2012 is mainly due to the contribution of the current-period profit. The increase of the risk-weighted assets reflects the expansion of the loan portfolio in the year.

**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.



**HOUSING DEVELOPMENT FINANCE CORPORATION PLC**31 December 2012

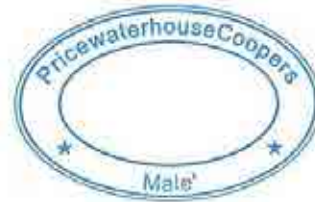
---

**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 2012****Notes to the financial statements continued**

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

**5 Gross income**

	2012	2011
Interest income	80,747,248	53,355,741
Fee income (Note 7)	8,968,003	7,092,794
Other income (Note 8)	1,192,998	615,758
	<u>90,908,249</u>	<u>61,064,293</u>

**6 Net interest income**

	2012	2011
<b>Interest income</b>		
Housing loans	80,310,387	48,393,257
Revenue from amna assets	47,955	-
Treasury bills / other deposits with bank	388,906	4,962,484
	<u>80,747,248</u>	<u>53,355,741</u>
<b>Interest expense</b>		
Customer deposits	806,359	332,465
Borrowed funds	16,281,109	9,414,661
Interest on bond	1,292,197	18,994
	<u>18,379,664</u>	<u>9,766,120</u>
Net interest income	<u>62,367,584</u>	<u>43,589,621</u>

**7 Fee income**

	2012	2011
SWAP commitment fees	6,529,279	2,875,277
Management fees	838,523	883,034
Housing loan processing fees	1,600,200	3,334,483
	<u>8,968,003</u>	<u>7,092,794</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 2012****Notes to the financial statements continued**

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

**8 Other income**

	<b>2012</b>	<b>2011</b>
Sale of application forms	29,679	43,659
Penalty interest	1,123,165	442,903
Insurance commissions	40,155	129,196
	<u>1,192,998</u>	<u>615,758</u>

**9 Staff costs**

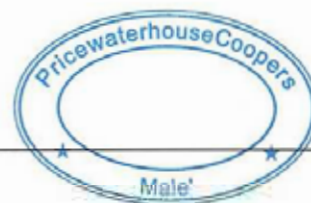
	<b>2012</b>	<b>2011</b>
Salaries and allowances	4,590,963	3,267,404
Housing and living allowance	1,747,002	1,374,566
Staff medical insurance	95,122	56,075
Contribution to employees pension fund	227,900	133,406
Bonus	473,157	227,540
	<u>7,134,144</u>	<u>5,058,991</u>

**10 Premises, equipment and establishment expenses**

	<b>2012</b>	<b>2011</b>
Depreciation (Note 22)	572,619	422,802
Amortization (Note 23)	177,060	195,403
Operating lease rentals - property	655,000	600,000
Water and electricity	383,935	307,462
	<u>1,788,614</u>	<u>1,525,667</u>

**11 Provision for bad and doubtful debts**

	<b>2012</b>	<b>2011</b>
Specific provision for loans and advances	(33,902)	2,054,558
General provision for loans and advances	1,963,563	281,510
	<u>1,929,661</u>	<u>2,336,068</u>



**HOUSING DEVELOPMENT FINANCE CORPORATION PLC****31 December 2012****Notes to the financial statements continued**

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

**12 Other operating expenses**

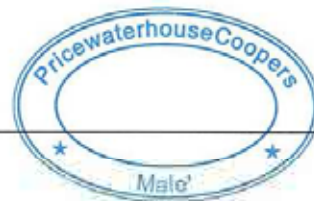
	<b>2012</b>	<b>2011</b>
Directors' remuneration	67,000	34,000
Auditors' remuneration	231,504	112,440
Restructuring expenses	9,215	69,132
Communication expenses	117,356	82,971
Marketing expenses	59,640	290,980
Travelling expenses	205,426	33,718
Board meeting expenses	568,666	412,216
Legal expenses	222,048	556,217
Training expenses	1,213,227	1,806,671
Printing and stationary expenses	133,365	117,080
Insurance	52,972	35,632
Amna expenses	176,721	-
Bank charges	376,682	197,040
Others	377,200	624,851
	<u>3,811,022</u>	<u>4,372,948</u>

**13 Finance gain - net**

	<b>2012</b>	<b>2011</b>
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	14,000	8,056,588
	<u>14,000</u>	<u>14,598,146</u>

**14 Taxation**

	<b>2012</b>	<b>2011</b>
Current tax	8,895,216	3,141,326
Deferred tax	13,878	(23,388)
Business profit tax expense	<u>8,909,094</u>	<u>3,117,938</u>



**HOUSING DEVELOPMENT FINANCE CORPORATION PLC****31 December 2012****Notes to the financial statements continued**

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

**14 Taxation (continued)**

Reconciliations between business profit tax expenses and the accounting profit :

	<b>2012</b>	<b>2011</b>
<b>Profit before tax</b>	57,879,144	52,602,646
Less : Profits and income earned on or before the commencement of the Act	-	(30,862,143)
Profits and income earned after the commencement of the Act	57,879,144	21,740,503
Add: Non-deductible expenses	4,596,507	655,345
Adjusted net profit for the period	62,475,651	22,395,848
Less: Deductible expenses	(2,674,210)	(1,224,916)
Taxable profit	59,801,441	21,170,932
Tax allowance	(500,000)	(228,767)
Taxable profit after tax allowance	59,301,441	20,942,165
<b>Business profit tax charge (15%)</b>	<b>8,895,216</b>	<b>3,141,326</b>

**15 Dividends**

Dividends payable are not accounted for until they have been ratified at the Annual General Meeting. During the year, a dividend in respect of 2011, of MRf 10 per share (2011 : MRf 7 per share), amounting to MRf 15,937,500 (2011 : MRf 11,156,244), was approved by the shareholders at the Annual General Meeting. These financial statements reflect this dividend payable, which had been accounted for under shareholders' equity as an appropriation of retained earnings for 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.

	<b>2012</b>	<b>2011</b>
Net profit attributable to shareholders	48,970,050	49,484,708
Weighted average number of ordinary shares in issue	1,593,750	1,593,750
Basic earnings per share	30.73	31.05



**HOUSING DEVELOPMENT FINANCE CORPORATION PLC****31 December 2012****Notes to the financial statements continued**

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

**17 Cash and short term funds**

	2012	2011
Cash in hand	7,500	4,500
Saving account balances with other banks	6,864,588	51,617,428
Current account balances with other banks	292,383	2,516,729
	<u>7,164,471</u>	<u>54,138,657</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:

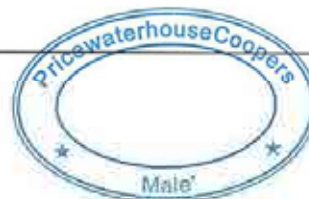
	2012	2011
Cash and bank balances funds	7,164,471	54,138,657
Bank overdraft (Note 28)	(36,024,622)	-
	<u>(28,860,151)</u>	<u>54,138,657</u>

**18 Housing loans**

	2012	2011
Housing loans	740,168,815	578,416,446
Housing loans to related parties (Note 35)	27,869,230	42,437,600
	<u>768,038,045</u>	<u>578,416,446</u>
Less: Provision for impairment	(10,736,603)	(10,059,145)
Net housing loans	<u>757,301,442</u>	<u>568,357,301</u>

**Movement in provision for impairment are as follows:**

	2012	2011
<b>(i) Specific provision</b>		
Opening balance	3,930,580	1,876,023
Reversal/(provision) made during the year	(33,902)	2,054,558
Loans written off during the year	(1,252,203)	-
Closing balance	<u>2,644,475</u>	<u>3,930,580</u>



30

**HOUSING DEVELOPMENT FINANCE CORPORATION PLC****31 December 2012****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	6,128,565	5,847,055
Provision made during the year	1,963,563	281,510
Closing balance	8,092,128	6,128,565
<b>Total</b>	<b>10,736,603</b>	<b>10,059,145</b>

**19 Movement in interest in suspense**

	2012	2011
Opening balance	558,572	473,235
Amount recognised during the year	108,989	85,337
Closing balance	667,561	558,572

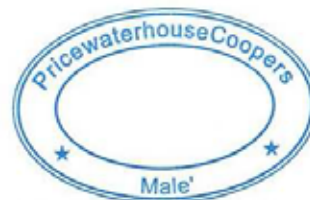
**20 Assets quality**

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

	2012	2011
Housing loans	11,001,253	7,922,185

**21 Interest receivable**

	2012	2011
Loan interest receivable	1,466,758	1,812,070
	1,466,758	1,812,070



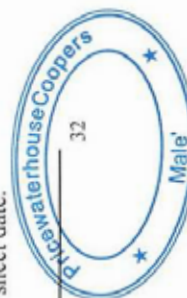
**HOUSING DEVELOPMENT FINANCE CORPORATION PLC**  
31 December 2012

**22 Property, plant and equipment**

	Office equipment	Computer equipment	Furniture and fixtures	Motor vehicles	Other assets	Leasehold improvements	Total
<b>At 1 January 2011</b>							
Cost	396,595	910,161	351,774	32,500	1,350	854,537	2,546,917
Accumulated depreciation	(178,991)	(355,080)	(185,539)	(32,500)	(886)	(206,388)	(959,384)
Net book amount	217,604	555,081	166,235	-	464	648,149	1,587,533
<b>Year ended 31 December 2011</b>							
Opening net book amount	217,604	555,081	166,235	-	464	648,149	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	181,389	1,201,885	163,904	-	8,562	562,695	2,118,436
<b>At 31 December 2011</b>							
Cost	412,450	1,788,044	402,536	32,500	10,555	854,537	3,500,622
Accumulated depreciation	(231,061)	(586,159)	(238,632)	(32,500)	(1,993)	(291,842)	(1,382,186)
Net book amount	181,389	1,201,885	163,904	-	8,562	562,695	2,118,436
<b>Year ended 31 December 2012</b>							
Opening net book amount	181,389	1,201,885	163,904	-	8,562	562,695	2,118,436
Additions	160,660	147,545	118,138	-	3,541	148,607	578,491
Depreciation charge (Note 10)	(48,433)	(322,801)	(78,073)	-	(3,611)	(119,701)	(572,619)
Balance as at 31 December 2012	293,616	1,026,629	203,969	-	8,492	591,601	2,124,308
<b>At 31 December 2012</b>							
Cost	573,110	1,935,589	520,674	32,500	14,096	1,003,144	4,079,113
Accumulated depreciation	(279,494)	(908,960)	(316,705)	(32,500)	(5,604)	(411,543)	(1,954,805)
Net book amount	293,616	1,026,629	203,969	-	8,492	591,601	2,124,308

a) The Company operates business from the premises owned by third parties for which MRF 655,000 (2011: MRF 600,000) were paid as rent during the year.

b) Property, plant and equipment aggregating to MRF 516,972 (2011: MRF 365,892) were fully depreciated as at the balance sheet date.



**HOUSING DEVELOPMENT FINANCE CORPORATION PLC****31 December 2012****Notes to the financial statements continued**

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

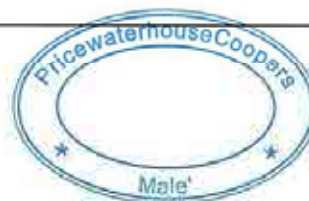
**23 Intangible assets**

	Software costs	Total
<b>At 31 December 2010</b>		
Cost	543,040	543,040
Accumulated amortisation	-	-
	<u>543,040</u>	<u>543,040</u>
<b>Year ended 31 December 2011</b>		
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>
<b>At 31 December 2011</b>		
Cost	667,570	667,570
Accumulated amortisation	(138,424)	(138,424)
Net book amount	<u>529,146</u>	<u>529,146</u>
<b>Year ended 31 December 2012</b>		
Opening net book amount	529,146	529,146
Additions	53,701	53,701
Amortisation charge (Note 10)	(177,060)	(177,060)
Closing net book amount	<u>405,787</u>	<u>405,787</u>
<b>At 31 December 2012</b>		
Cost	721,271	721,271
Accumulated amortisation	(315,484)	(315,484)
Net book amount	<u>405,787</u>	<u>405,787</u>

**24 Deferred business profit tax assets**

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

	2012	2011
At 1 January	23,388	-
(Decelerated)/accelerated tax depreciation (Note 14)	(13,878)	23,388
At 31 December	<u>9,510</u>	<u>23,388</u>



33

**HOUSING DEVELOPMENT FINANCE CORPORATION PLC****31 December 2012****Notes to the financial statements continued**

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

**25 Derivative financial instruments**

	<b>2012</b>	<b>2011</b>
	<b>Assets</b>	<b>Assets</b>
Forward foreign exchange contracts		
Currency - SWAP	25,561,485	34,344,460
<b>Total</b>	<u>25,561,485</u>	<u>34,344,460</u>

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**

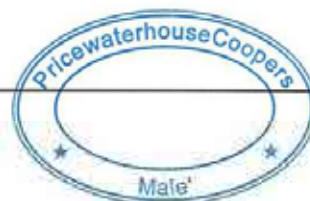
	<b>2012</b>	<b>2011</b>
Deposits and prepayments	2,334,544	1,642,611
Inventories of stationery	17,222	27,139
Other debtors	1,294,257	1,910,374
	<u>3,646,023</u>	<u>3,580,124</u>

**27 Deposits from customers**

	<b>2012</b>	<b>2011</b>
Equated monthly installment deposits	31,100,313	23,619,961
Borrowers equity deposits	2,798,334	5,680,815
	<u>33,898,647</u>	<u>29,300,776</u>
Current	33,898,647	29,300,776
Non-current	-	-

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

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



**HOUSING DEVELOPMENT FINANCE CORPORATION PLC****31 December 2012****Notes to the financial statements continued**

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

**28 Borrowings**

	2012	2011
Bank overdraft (Note 17)	36,024,622	-
International Finance Corporation (IFC) (Note 35)	85,152,667	109,482,000
Asian Development Bank (ADB) (Note 35)	73,599,659	94,624,830
Corporate Bonds	40,280,000	280,000
Netherlands Development Finance Company (FMO)	94,447,500	61,680,000
Wakala facility from Maldives Islamic Bank	20,000,000	-
	349,504,448	266,066,830
Current	118,847,003	64,629,503
Non-current	230,657,445	201,437,327
	349,504,448	266,066,830

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 commenced after 24 months from the first disbursement date (February 10, 2009). The term loan from IFC is repayable in 10 half yearly installments commenced from July 15, 2011 and ending on January 15, 2016. The term loan from FMO is repayable in 16 half yearly installments commenced 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 amounting MRF 280,000 with a maturity period of 5 years, carrying interest of 6% per annum.

During the year, HDFC issued bonds twice amounting MRF 20,000,000 and MRF 20,000,000 with a maturity period of 1 year, carrying interest of 7.50% and 8.4% per annum respectively.

During the year, HDFC has obtained a loan of MRF 20,000,000 on 29 November 2012 from Maldives Islamic Bank private limited at an interest rate of 11.5% p.a with a maturity period of 1 year, for granting home financing facilities in accordance with the rules and principles of Shariah.



**HOUSING DEVELOPMENT FINANCE CORPORATION PLC****31 December 2012****Notes to the financial statements continued**

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

**28 Borrowings (continued)**

The bank overdraft facility from Bank of Maldives PLC, of MRf. 40,000,000, carries an interest rate of 8.50% and is repayable before 31 March 2013 or upon receipt of the undrawn balance (not less than US\$ 3,000,000), whichever is earlier. It is secured by way of a lien, to the bank, over the existing undrawn balance of the term facility agreement between the Netherlands Development Finance Company (FMO) and HDFC, dated 16 December 2010.

**Maturity of borrowings**

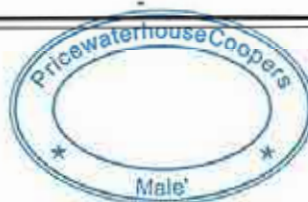
	2012	2011
Not later than 1 year	118,847,003	53,064,503
Later than 1 year and not later than 5 years	203,672,445	189,872,327
Over 5 years	26,985,000	23,130,000
	<u>349,504,448</u>	<u>266,066,830</u>
Borrowings at floating rates with a fixed spread	253,199,826	265,786,830
Borrowings at fixed rates	96,304,622	280,000
	<u>349,504,448</u>	<u>266,066,830</u>

The carrying amounts of HDFC's borrowings as at 31 December 2012, excluding corporate bonds, wakala facility loan and bank overdraft are fully denominated in United States Dollars.

HDFC has undrawn borrowing facilities to the extent of US\$ 3 million as at the balance sheet date.

**29 Liabilities**

	2012	2011
Interest payable	6,524,692	4,808,761
Ministry of Housing and Urban Development Fund	35,084,500	30,536,974
Accruals and other payables	292,849	130,994
Amounts received from customers in advance	2,920,574	1,425,293
Other liabilities	3,638,896	1,949,253
	<u>48,461,511</u>	<u>38,851,274</u>
Current	48,461,511	38,851,274
Non-current	-	-



36

**HOUSING DEVELOPMENT FINANCE CORPORATION PLC****31 December 2012****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. HDFC is paid management fees 1.75% per annum on the outstanding balance of the loan at the end of every month. Undisbursed fund carries interest of 2.5% per annum. The movements in the development fund are given below:

	For the period 21 April 2008 to 31 December 2012	Year ended 31 December 2012	Year ended 31 December 2011
Opening balance	-	30,536,974	26,026,385
Amount received	75,000,000	-	-
Loan repayments by customers	6,460,756	2,483,575	2,632,266
Add: interest accrued on loans	8,577,572	2,355,181	2,519,633
EMI deposits/EMI received in advance	796,866	127,159	194,473
Interest payable on undisbursed funds	1,185,086	820,818	364,268
Interest receivable from customers	(644,790)	(400,684)	21,040
Less: accrued management fees	(3,061,680)	(838,523)	(811,430)
Less: loans disbursed	(53,229,310)	-	(409,661)
	<u>35,084,500</u>	<u>35,084,500</u>	<u>30,536,974</u>

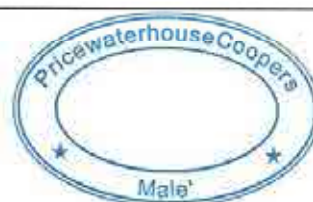
**30 Ordinary shares**

	Number of shares	Ordinary shares
At 31 December 2011	1,593,750	159,375,000
At 31 December 2012	<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 (2011: 3,187,500) with a par value of MRf 100 (2011: MRf 100) per share. As at 31 December 2012, 1,593,750 shares were issued, which were fully paid.

**31 Reserves**

	2012	2011
General reserve	15,000,000	15,000,000
Staff education reserve	2,457,066	3,395,475
Total reserves at end of the year	<u>17,457,066</u>	<u>18,395,475</u>



37

**HOUSING DEVELOPMENT FINANCE CORPORATION PLC****31 December 2012****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:

	2012	2011
<b>General reserve</b>		
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>
<b>Staff education reserve</b>		
At beginning of the year	3,395,475	4,443,081
Transfer to retained earning on utilisation	(938,409)	(1,047,606)
At end of the year	<u>2,457,066</u>	<u>3,395,475</u>
<b>Total reserves</b>		
At beginning of the year	18,395,475	19,443,081
Transfer from net profit	-	-
Transfer to retained earning on utilisation	(938,409)	(1,047,606)
At end of the year	<u>17,457,066</u>	<u>18,395,475</u>

**32 Contingencies***(a) Contingent liabilities and commitments*

	2012	2011
Loan commitments	<u>214,982,034</u>	<u>420,028,000</u>

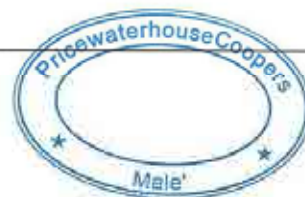
There were no other material contingent liabilities recognized at the balance sheet date.

*(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 2012****Notes to the financial statements continued**

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

**33 Commitments (continued)***(b) Operating lease commitments*

	<b>2012</b>	<b>2011</b>
Not later than 1 year	660,000	600,000
Later than 1 year and not later than 5 years	2,405,000	2,400,000
Later than 5 years	350,000	950,000
	<u>3,415,000</u>	<u>3,950,000</u>

**34 Cash generated from operations**

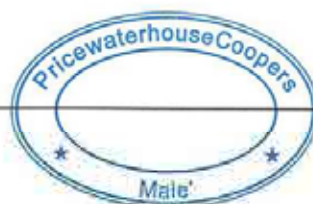
Reconciliation of net profit to cash generated from operations:

	<b>2012</b>	<b>2011</b>
Profit before tax	57,879,144	52,602,646
Adjustments for :		
Depreciation (Note 10)	572,619	422,802
Amortization (Note 10)	177,060	195,403
Loss on impairment of intangible assets	-	206,400
Provision for bad and doubtful debts (Note 11)	1,929,661	2,336,068
Realised/(unrealised) foreign exchange gain	8,782,975	(6,541,558)
Increase in accrued expenses	1,877,617	1,250,176
Decrease/(increase) in interest receivable	345,312	(196,607)
Cash generated from operations	<u>71,564,388</u>	<u>50,275,330</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 2012****Notes to the financial statements continued**

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

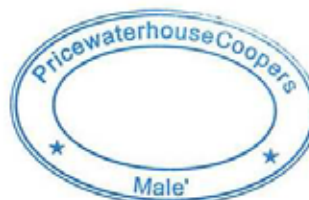
**35 Related party transactions (continued)**

	31 December 2012	31 December 2011
<b>(i) Loans from related parties</b>		
Beginning of the year	207,053,886	150,291,244
Loan received during the year	-	53,970,000
Loan repaid during the year	(45,354,503)	(25,441,073)
Interest charged	6,824,328	6,515,676
Commitment fees charged	154,200	141,921
Interest paid	(7,130,454)	(5,976,548)
Commitment fees paid	(161,695)	(250,236)
Loans outstanding at the end of the year	161,385,762	179,250,984
Increase in borrowings due to devaluation of MRF against US\$	-	27,802,902
	<u>161,385,762</u>	<u>207,053,886</u>
Principal outstanding (Note 28)	<u>158,752,326</u>	<u>204,106,830</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 commenced after 24 months from the first disbursement date ( February 10, 2009). The term loan from IFC is repayable in 10 half yearly installments commenced 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.



**HOUSING DEVELOPMENT FINANCE CORPORATION PLC****31 December 2012****Notes to the financial statements continued**

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

**35 Related party transactions (continued)****(ii) Key management compensation**

	31 December 2012	31 December 2011
Salaries and other short term benefits	1,917,167	1,705,703

**(iii) Year-end balances arising from loans to related parties :**

	31 December 2012	31 December 2011
Housing Development Corporation	22,902,566	36,968,230
Hulumale' Development Unit	4,966,664	5,469,370
Balance at the end ( Note 18)	27,869,230	42,437,600

The above parties are fully owned Government entities. The loans carry interest @ 11.75% and 9% per annum respectively. The loans were granted under the arm's length transaction in the normal course of business.

**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.





Housing Development  
Finance Corporation Plc.

Housing Development Finance Corporation Plc.  
H. Mialani, 4th Floor, Sosun Magu, Male', Maldives  
Tel: 3338810 / 3315896 / 3315897, Email: admin@hdfc.com.mv

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