



Annual Report 2009



Dhi Home Finance



Annual Report 2009

& Financial Statements
for the year ended December 31, 2009



Housing Development Finance Corporation PLC
Male' Maldives



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Vission

Our vision is to provide decent and affordable homes in a safe and healthy environment, and work towards uplifting the standards of living for all Maldivians by becoming a National Development Bank.

Mission

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

Corporate Information

Company Details

- Name: Housing Development Finance Corporation Plc
H. Mialani , 4th Floor, Sosun Magu, Male', Republic of Maldives
- Incorporated Date: January 28, 2004
- Company Registered as a Plc: 9th February, 2006
- Registration No: C-107/2006
- Registered Address: H. Mialani , 4th Floor, Sosun Maugu,
Male', Republic of Maldives
- Company Managing Director: Dr. Anil Dilruk Priyanka Baddevithana
- Company Secretary: Mr. Adam Athif

Board of directors

1. Mr. Ismail Ali Manik - Director/GOM
2. Ms. Fathmath Muaza - Alt Director/GOM
3. Ms. Raheema Saleem -Director /GOM
4. Ms. Fareeha Shareef -Alt. Director/GOM
5. Mr. Ajay Sagar-Director/ADB
6. Ms. Christine Engstrom-Alt. Director/ADB
7. Mr. Subrata Dutta Gupta - Director/IFC
8. Ms. Renu Sud Karnad - Director/HDFC-I
9. Mr. Conrad D'Souza - Alt. Director/HDFC-I

Audit Committee

1. Mr. Conrad D'Souza- *Act. Director/HDFC-I*
2. Mr. Ajay Sagar - *Director ADB*
3. Mr. Ismail Ali Manik --*Director (GOM)*

Senior Management

1. Dr. A.D.P. Baddevithana - *Managing Director*
2. Ms. Raheema Saleem - *Advisor*
3. Mr. Mohamed Fathy - *IT Manager*
4. Ms. Aishath Rasheeda - *Credit Manager*
5. Mr. Adam Athif - *Manager Administration*
6. Mr. Ibahim Didi - *Head of Accounts*

Lawyers

Mazlan & Murad Law Associates
1st Floor, G. Swan Lake, Dharumavantha magu
Male', 20-04, Maldives

Bankers

Bank of Maldives Plc
State Bank of india , Male'

Auditors

PricewaterhouseCoopers
P.O. Box 21-24
H. Thandiraimaage , 3rd Floor
Roashanee Magu, Male'
Maldives

Contact details

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Website : hdfc.com.mv

Director's Report

We are pleased to present the first annual report after privatization of HDFC Plc. with the audited accounts for the year ended December 31, 2009.

Financial Results

	For the year ended December 31, 2009	For the year ended December 31, 2008
	MRF	MRF
INTEREST AND SIMILAR INCOME	30,496,234	19,945,496
Housing Loans	15,592,032	15,836,803
Other Interest Income	14,904,202	4,108,693
INTEREST AND SIMILAR EXPENSES	5,002,853	4,385,947
NET INTEREST INCOME	25,493,381	15,559,549
NET FEES AND COMMISSION INCOME	909,284	41,353
NET TRADING INCOME	20,250	230,250
OTHER OPERATING INCOME;	2,889,663	795,507
OPERATING INCOME	29,312,578	16,626,659
OPERATING EXPENSES		
Staff Cost	3,481,454	2,108,093
Premises, equipment and establishment	937,688	717,453
Impaired loss on loans and advances	3,353,503	1,674,529
Restructuring expenses	253,386	315,752
Other Administration expenses	2,191,512	1,357,823
	10,217,523	6,173,650
NET PROFIT	<u>19,095,055</u>	<u>10,453,009</u>

The performance of the year under review, 2009, does not lend itself to a comparison with 2008 since there had been a moratorium on HDFC's core business of granting home loans from 2005 to the end of 2008. The financial results for the year records a profit of MRf. 19,095,055 (USD 1.49 million). This has enhanced the balance sheet profile of retained earnings and reserves of MRf. 35,811,404 as at the end of 2008 to MRf. 54,906,459 which is an increase of 53.3%.

Lending Operations

Loan approvals during the year came from two separate processes, but with a common objective of sustainable development of homes. The processes followed the two different paths arising out of the sources of funding. The social housing needs were addressed by the Government's assignment of HDFC in mid-2008 to manage a Social Housing Development Fund on a rotational basis for a management fee. While most of the appraisal work was concluded by the end of 2008, disbursements began in 2009. The funds were allocated to all the atolls in the Maldives according to a strict qualifying criteria set by the Government of Maldives and response was extremely encouraging:

- This subsidized social housing loan programme disbursed at 5% p.a. repayable over twenty-years was made possible by a revolving fund of MRF 75 million provided by the government of Maldives (GOM). This loan portfolio is managed separately for a fee by the HDFC by granting credit according to strict low-income criteria laid down by the Ministry of Housing whose officials sit in a joint committee chaired by the HDFC. Therefore, the loan portfolio remains off-balance sheet, with financials containing the fee and investment income on the management of the revolving fund. This fund is strictly designated for future lending. During the year 2009, MRF 57 million was approved.

The privatized operations that began in March 2009 with mainstream housing loans out of the multilateral IFC and ADB lines of credit was targeting Hulhumale', Villingili and Male' where the housing needs were felt most. While emerging as a multi-party democracy with a presidential and parliamentary election, the global economic crisis also had its impact on the Maldivian economy, which is heavily dependent on tourism. The financial uncertainties that prevailed in the global financial markets had their impact on the Maldives as well. This coupled with the slow pace of development in the enabling legal environment needed for title registration of reclaimed land in Hulhumale' resulted in complete paralysis of much anticipated demand for housing loans. This situation prevailed beyond the end of 2009, and there remains a substantial backlog of customers from the HDFC's prime target market.

- Under HDFC's regular loan scheme, MRF 106 million was approved for the year ended 2009, after the moratorium was lifted and the loan processing commenced in March 2009 following privatization.



Country Report

Maldives is home to approximately 300,000 Maldivians living in 200 islands. This presents a formidable challenge to a housing finance institution due to the diverse needs of the population that are changing with post-tsunami phenomenon of in-migration where the stress is felt the most in the Male' Atoll.

Housing Development Finance Corporation (HDFC) Plc. is the only specialized housing financial institution in the Maldives for mortgage home loans. Established by the Government of Maldives (GOM) in 2004 and privatized in 2009, HDFC's main shareholders are the GOM, International Finance Corporation (IFC) of the World Bank, Asian Development Bank (ADB) and HDFC-India.

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 up to fifteen years 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 Maldivians.

Taking Male' Atoll, there is special emphasis on developing Hulhumale' into a modern and sustainable community by providing housing development finance to match its pace of development. The government's concept of developing focus islands that will create centralized 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 market value of homes developed from HDFC mortgage loans is hugely important as a market characteristic, especially in the light of the financial crisis faced by developed economies of the world.

The Maldives consist of approximately 1,200 islands covering an area of 90,000 sq kms of the Indian Ocean, set in an Exclusive Economic Zone (EEZ) covering 859,000 sq. kms. The island nation has a population of approximately 300,000 in the 196 administrative islands. There are 88 resort islands and 34 industrial and specialized islands. The nation's capital Malé, with around 2.5 sq kms of total land area, is home to over one third of the entire population, while approximately seventy percent of the rest of the 196 inhabited islands have less than 1,000 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. With regard to human development trends, the country ranks high among the Asia-Pacific countries.

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

Number of Households

Male	14,107
Atolls	32,087
Republic	46,194

The above statistics make the population density in Malé to be around eight members per household, while in outer atolls there is a reduction of this figure to around six. However, it is the constraints on buildable land that has made Male' one of the most densely populated capital cities of the world. A desirable family size per unit of four would lead to an estimated additional housing requirement for the Male Atoll of 9,000 units, which Hulhumale development has the infrastructure to absorb. 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. With a Joint Venture Partnership with Preuksa of Thailand in February 2010 to develop 2,400 units of housing, and their role as social landlords to 488 flats in Hulhumale, the Housing Development Corporation of Hulhumale has shown their commitment to addressing the housing problem facing Male.

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 the Maldives is also constrained by the absence of land based mineral resources. There is limited scope for expansion of the agriculture sector. Certain areas possess vulnerability to natural disasters and environmental hazards. The major industries driving the Maldivian economy are fisheries and tourism. They are the major sources of foreign exchange and government revenue, and together directly account for about 40 percent of the gross domestic product. In terms of employment, these two sectors alone account for more than one third of total employment. A 70,000 strong expatriate workforce plays a key role in the development of the Maldivian economy. Their needs of accommodation have created a vibrant market for rental income from foreign employment categories that include teachers, accountants, medical personnel, financial services 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 banking activities, air and sea transport, international shipping, communications and the provision of electricity, fisheries, tourism and importing and distributing a large share of essential food and oil products. With change of government in October 2008, there has been a move towards privatization with an intention to downscale provision of services by SOEs.

In the absence of income and corporate tax, Government revenue consists 48 percent from import duty and tourism tax with the balance coming from public enterprise profit transfers. Of the former, import duties account for 64 percent, and tourism tax for 28 percent. Maldives uses import duties as its main source of tax revenue. At present, ad valorem tariffs are levied on the c.i.f. value of imports while export duty is levied only on ambergris at 50 percent. It is likely that the import duty structure will be rationalized and plans are afoot to introduce a corporate profit tax within the next few years.

On the government expenditure side, social services account for approximately 41 percent of the total expenditure, and economic services account for 16 percent. While the Government has concentrated on providing basic socio-economic services, the private sector has played a key role in the development of tourism, distribution, trade, transport and fisheries among other activities. External donor assistance has been significant coming from bilateral, multi-lateral government aid, and from foreign NGOs. These external resources were responsible for 70 percent of the total development expenditure with a high grant component attached to them.

The Maldives' narrow financial sector is dominated by the banking sector, which consists of one locally owned commercial bank, branches of three, South Asian partly state-owned commercial banks and a branch of an international bank, the HSBC. Non-banking financial institutions include specialized housing finance institution, HDFC Plc., one state owned and three foreign insurance companies, and a leasing finance company, MFLC. 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 are limited secondary market trading activities 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). The recently passed Securities Act paves the way for the establishment of a formal capital market.

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

The World Fact-book 2010 estimates the following economic profile of the Maldives over a three year period ending 2009:

GDP (purchasing power parity): USD 1.674 billion (2009), USD 1.744 billion (2008), USD 1.648 billion (2007)

GDP (official exchange rate): USD 807.5 million (2009)

GDP - real growth rate: -4% (2009), 5.8% (2008), 7.2% (2007)

GDP - per capita: USD 4,200 (2009), USD 4,500 (2008), USD 4,500 (2007)

The construction sector continued to remain robust in 2009 building on value addition of around 16-20 during the year. The latest GDP assessment released by Department of National Planning states that the GDP had contracted by 2.6 percent in 2009. This was in contrast to a decline of 1.8 percent projected earlier. Despite a better than anticipated performance from the tourism and construction sector during the year, the downward revision mainly reflects the much poorer than expected performance of the fisheries sector and a partial reversal of wage increases of the government sector in the fourth quarter of the year. However, the projection of real output in 2010 is a growth forecast at 2.1 percent as historically trends in tourism and construction related activities have reflected the global economic and financial conditions

Acknowledgements

As privatized HDFC Maldives has completed an eventful year of challenges that will lay a firm foundation for sustainable growth in the future to address the need to upgrade substandard housing and develop new habitats in a growing economy. In building our business, the greatest asset at our disposal is the commitment and professionalism of all our employees towards realizing the mission and vision of HDFC Maldives. We are immensely grateful to our dedicated staff for their invaluable contribution.

Our valued customers, who are essentially Maldivian, are the reason that we exist. Their continued confidence, despite a four-year moratorium on lending, has inspired us. We thank them for building life-long relations with an institution that they can call their own.

The directors greatly appreciate the enabling and regulatory environment created by the Maldives Monetary Authority, Ministry of Finance, Ministry of Housing, Male' Municipality, Economic Ministry, Judiciary and all other government agencies, and officials of international shareholders.

To all other stakeholders, we are grateful to you for being part of a national solution to one of the most burning issues of easing human congestion in an emerging economy.

Managing Director's Acknowledgements

Personally in my capacity as the Managing Director, and on behalf of the management and staff of HDFC Plc., I would like to place on record our profound appreciation to all our Stakeholders, namely, the Shareholders, Customers, Chairperson and the Board Directors, for their unstinted support and commitment. In cognizance of global acknowledgement of the year, 2009 as one of the most difficult and challenging periods in the history of financial services industry, the invaluable commitment and contribution of the international Directors is especially praiseworthy. We realize that they had to strike a fine balance between their commitments to the organizations at home, which depend on their leadership, while meeting the demands made by HDFC Maldives for their direction and guidance as a fledgling organization.

The board of directors comprising Chairperson Ms. Renu Sud Karnad, Directors Mr. Subrata Data Gupta, Mr. Ajay Sagar, Mr. Ismail Ali Manik, Ms. Raheema Saleem, and Alternate Directors Mr. Conrad De Souza, Ms. Christine Engstrom, Ms. Fareeha Shareef, and Ms. Fathmath Muaza have immensely contributed to lay a solid foundation in the first year after privatization. They have established sound policy directives for good governance, with best solutions to meet customer demands effectively. I acknowledge the support and cooperation extended by all the staff members of HDFC Maldives who have understood the value of a shared vision for achieving goals as a team in building a strong balance sheet with loans that perform effectively. I have been fortunate in having the founder Managing Director of HDFC Plc., Ms. Raheema Saleem as the Advisor, as well as the role she plays as a

Director on behalf of the Government of Maldives. She was able to contribute much to my orientation during the immediate pre-privatization and post-privatization period. My deep appreciation also goes to the other three members of who joined HDFC in its founding year, Ms. Aishath Rasheeda, Mr. Mohammed Fathy, and Mr. Adam Athif who have stood the test of time by completing the landmark of five years and earned their privilege to be the only beneficiaries of the higher education fund established prior to privatization. Together, we extend our sincere appreciation to the former Chairman who founded HDFC Plc., the incumbent Auditor General Hon. Ibrahim Naeem for his visionary leadership in setting up the only specialized housing finance institution in the Maldives, and taking it to a greater height of sustainability by embarking upon its privatization with international shareholders.



We also appreciate the important guidance and regulatory functions carried out by various authorities including the Maldives Monetary Authority, Ministry of Housing, Transport and Environment, Ministry of Finance, Economic Ministry, and the Male' Municipality. We are also grateful to the international experts, monitors and other professional staff of the IFC, ADB and our Technical Partner HDFC India with its team of technical consultants under the leadership of Mr. Conrad De Souza.

No National Housing Finance Institution could ever hope to sustain a sound loan portfolio that adds value to the human habitat of the nation without the participation of a vibrant and effective National Developer. In this regard, Housing Development Corporation (HDC) based in Hulhumale' is the springboard to home development of the nation. A great deal is expected of HDFC's partnership with HDC to usher an era of model living for all Maldivians in a green, safe and healthy environment. Looking to the future, we hope that the year 2010 will become the renaissance year for the Maldivian dream where houses shall become homes with an environment as clean, green, and breathtaking as the ocean that sustains the Maldivian life.

Audit Report & Financial Statements

for the year ended December 31, 2009

Independent auditor's report

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

1 We have audited the accompanying financial statements of Housing Development Finance Corporation Plc which comprise the balance sheet as of 31 December 2009 and the related statements of income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

5 In our opinion, the accompanying financial statements give a true and fair view of the financial position of Housing Development Finance Corporation Plc as of 31 December 2009 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.

25 FEBRUARY 2010
MALE'

Anil Kumar
CHARTERED ACCOUNTANTS

HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2009

Balance sheet

(all amounts in Maldivian Rufiyaa)

	Notes	As at 31 December	
		2009	2008
ASSETS			
Cash and short term funds	14	243,796,986	144,869,368
Housing loans	15	170,831,962	154,683,698
Interest receivable	18	1,481,129	1,004,793
Inventories		5,616	5,491
Property, plant and equipment	19	1,511,690	1,568,769
Assets held for sale		-	13,641
Other assets	20	719,587	425,285
Total assets		418,346,970	302,571,045
LIABILITIES			
Deposits from customers	21	14,542,522	6,087,314
Borrowings	22	102,800,000	57,000,000
Other liabilities	23	35,315,889	74,171,427
Total liabilities		152,658,411	137,258,741
SHAREHOLDERS' EQUITY			
Share capital	24	159,375,000	1,000,900
Advance for shares		51,407,100	128,500,000
Retained earnings		34,906,459	15,811,404
Reserves	25	20,000,000	20,000,000
Total shareholders' equity		265,688,559	165,312,304
Total equity and liabilities		418,346,970	302,571,045
Commitments and contingencies	26	85,881,266	9,860,844

These financial statements were approved by the management on 25.02.2010 and signed on their behalf by:



 Managing Director





 Director

The notes on pages 7 to 34 are an integral part of these financial statements.



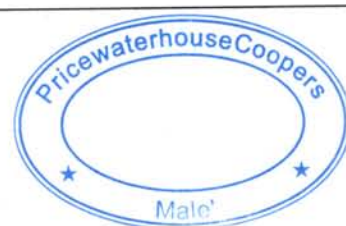
HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2009

Income statement

	Notes	Year ended 31 December	
		2009	2008
(all amounts in Maldivian Rufiyaa)			
Gross income	5	34,315,431	21,012,606
Interest income and similar income	6	30,496,234	19,945,496
Interest expense and similar charges	6	(5,002,853)	(4,385,947)
Net interest income		25,493,381	15,559,549
Fee income	7	2,337,167	36,339
Other income	8	1,482,030	1,030,771
Operating income		29,312,578	16,626,659
Less : Operating expenses			
Staff costs	9	(3,431,454)	(2,108,093)
Premises, equipment and establishment expenses	10	(987,668)	(717,453)
Provision for bad and doubtful debts	11	(3,353,503)	(1,674,529)
Other operating expenses	12	(2,444,898)	(1,673,575)
Net profit for the year		19,095,055	10,453,009
Earnings per share - basic	13	13.45	1,044

The notes on pages 7 to 34 are an integral part of these financial statements.



HOUSING DEVELOPMENT FINANCE CORPORATION PLC

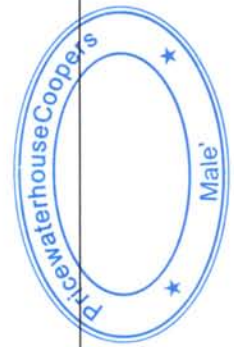
31 December 2009

Statement of changes in equity

(all amounts in Maldivian Rufiyaa)

	Notes	Share capital	Advance for share capital	Retained earnings	General reserve	Staff education reserve	Total
Balance at 1 January 2007		1,000,900	-	11,274,547	-	-	12,275,447
Dividends		-	-	(900)	-	-	(900)
Profit for the year		-	-	14,084,748	-	-	14,084,748
Balance at 31 December 2007		1,000,900	-	25,358,395	-	-	26,359,295
Balance at 1 January 2008		1,000,900	-	25,358,395	-	-	26,359,295
Transfer to general reserve	25	-	-	(15,000,000)	15,000,000	-	-
Transfer to staff education reserve	25	-	-	(5,000,000)	-	5,000,000	-
Proceeds from shares		-	128,500,000	-	-	-	128,500,000
Net profit		-	-	10,453,009	-	-	10,453,009
Balance at 31 December 2008		1,000,900	128,500,000	15,811,404	15,000,000	5,000,000	165,312,304
Balance at 1 January 2009		1,000,900	128,500,000	15,811,404	15,000,000	5,000,000	165,312,304
Shares issued from advance	24	77,092,900	(77,092,900)	-	-	-	-
Proceeds from shares issued	24	81,281,200	-	-	-	-	81,281,200
Net profit		-	-	19,095,055	-	-	19,095,055
Balance at 31 December 2009		159,375,000	51,407,100	34,906,459	15,000,000	5,000,000	265,688,559

The notes on pages 7 to 34 are an integral part of these financial statements.



HOUSING DEVELOPMENT FINANCE CORPORATION PLC

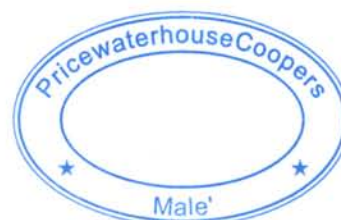
31 December 2009

Cash flow statement

(all amounts in Maldivian Rufiyaa)

	Notes	Year ended 31 December	
		2009	2008
Cash flows from operating activities			
Interest received		30,019,898	16,115,817
Other income received		3,819,197	5,144,611
Interest paid		(3,842,988)	(6,905,044)
Personnel cost paid		(3,431,454)	(2,108,093)
Other operating expenses paid		(3,164,559)	(2,203,552)
Cash flows from operating profits before changes in operating assets and liabilities	28	23,400,094	10,043,739
Changes in operating assets and liabilities:			
Decrease/ (increase) in inventories		(125)	65,588
Decrease/ (increase) net movements in other assets		(294,302)	100,707
Decrease in loans and advances to customers		(19,501,767)	20,193,846
Increase/ (decrease) in other liabilities		(31,560,195)	72,100,144
Cash flows from changes in operating assets and liabilities		(51,356,389)	92,460,285
Net cash (used in) / generated from operating activities		(27,956,295)	102,504,024
Cash flows from investing activities			
Purchase of property, plant and equipment	19	(211,969)	(1,433,460)
Proceeds from sale of property, plant and equipment		14,682	-
Net cash used in investing activities		(197,287)	(1,433,460)
Cash flows from financing activities			
Proceeds from share issue		81,281,200	-
Proceeds from borrowed funds		102,800,000	-
Repayments of borrowed funds		(57,000,000)	-
Net cash generated from financing activities		127,081,200	-
Net increase in cash and cash equivalents		98,927,618	101,070,564
Cash and cash equivalents at beginning of the year		144,869,368	43,798,804
Cash and cash equivalents at end of the year	14	243,796,986	144,869,368

The notes on pages 7 to 34 are an integral part of these financial statements.



Notes to the financial statements

1 General information

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

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

2 Summary of significant accounting policies

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

2.1 Basis of preparation

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

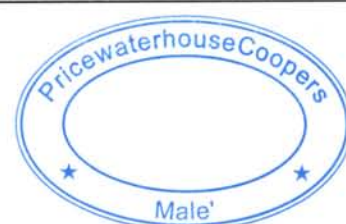
2.2 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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



Notes to the financial statements (continued)

2.3 Financial assets

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

(a) Loans and receivables

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

(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 HDFC was to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available for sale.

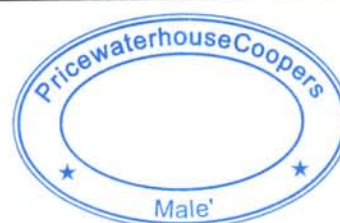
2.4 Offsetting financial instruments

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

2.5 Interest income and expenses

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in the income statement using the effective interest method. 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.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the company estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.



Notes to the financial statements (continued)

2.6 Other income

Other income is recognised on an accrual basis.

2.7 Grants

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

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

2.8 Impairment of financial assets

(a) Loans and advances

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

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

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

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

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example, equity ratio, net income
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings; and
- Deterioration in the value of collateral.

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



Notes to the financial statements (continued)

2.8 Impairment of financial assets (continued)

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement.

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

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

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

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

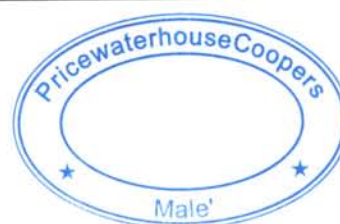
(b) Renegotiated loans

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

2.9 Property, plant and equipment

All property, plant and equipment are 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 HDFC and the cost of the item can be measured reliably. All other repairs and maintenance are charged to other operating expenses during the financial year in which they are incurred.



Notes to the financial statements (continued)

2.9 Property, plant and equipment (continued)

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

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

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

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

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

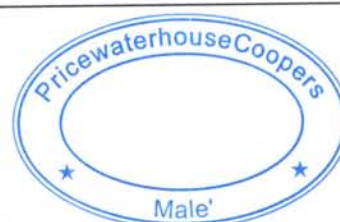
2.10 Operating leases

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

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

2.11 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.



Notes to the financial statements (continued)

2.12 Provisions

Provisions are recognized when HDFC has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

2.13 Employee benefits

The Company operates a Staff Provident Fund. All the employees of HDFC are members of this Fund to which the HDFC contributes 5% of employees' monthly basic salary. This contribution is recognised as employee benefit expense when they are due.

2.14 Share capital

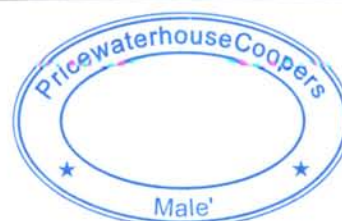
Dividends on ordinary shares are recognised in equity in the period in which they are approved by the HDFC's shareholders.

2.15 Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. However, comparative figures were not supported by an audit report.

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.



Notes to the financial statements (continued)

3 Financial risk management (continued)

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 cooperation with 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

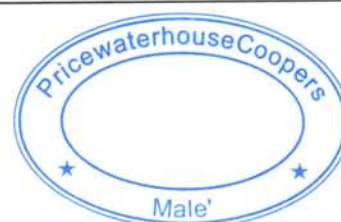
The Company takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss to HDFC by failing to discharge an obligation. Credit risk is the most important risk for HDFC's business. Management therefore carefully manages its exposure to credit risk. Credit exposures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

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

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

3.1.1 Risk limit control and mitigation policies

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



Notes to the financial statements (continued)

3.1.1 Risk limit control and mitigation policies (continued)

Some other specific control and mitigation measures are outlined below.

(a) Collateral

HDFC employs a range of policies and practices to mitigate credit risk. The most common practice of these is the taking of security for the housing loans. The company implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for housing loans are mortgages over housing units that are 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 less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards and since generally these exposures are secured against adequate collateral. HDFC monitors the term to maturity of credit commitments.

3.1.2 Impairment and provisioning policies

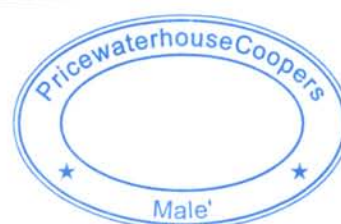
Impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the balance sheet date based on objective evidence of impairment (see Note 2.8).

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

Maximum exposure before collateral equals 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 2009 and 31 December 2008, 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 HDFC resulting from its loan portfolio and based on the following:

- All housing loans are backed by collateral.
- 42% of the loans and advances portfolio are classified as neither past due nor impaired (as compared to 31 December 2008 when 28% of the loans and advances portfolio were neither past due nor impaired).



Notes to the financial statements (continued)

3.1.4 Loans and advances

Loans and advances are summarised as follows:

	(Amount in MRf)	
	31 December 2009	31 December 2008
Neither past due nor impaired	73,905,086	44,324,537
Past due but not impaired (b)	98,915,188	108,966,006
Impaired (c)	3,144,724	3,172,688
Gross	175,964,998	156,463,231
Less: allowance for impairment	(5,133,036)	(1,779,533)
Net	170,831,962	154,683,698

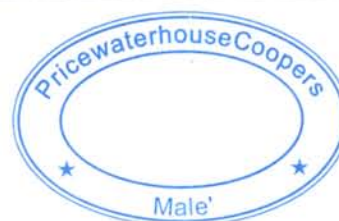
Further information of the impairment allowance for loans and advances to customers is provided in Note 15.

During the year ending on 31 December 2009, HDFC's total loans and advances outstanding increased by 12.46% as a result of the disbursements of new housing loans. In order to minimise the potential increase of credit risk exposure, HDFC focused more on lending house construction loans. Collateral was provided and strong repayment capacity from employment, and other business and rental income was ensured.

(a) Loans and advances not impaired

Currently, HDFC maintains an internal credit rating system for loans and advances not impaired as follows:

Internal ratings	2009		2008	
	Loans to customers Mrf.	Percentage of total loans	Loans to customers Mrf.	Percentage of total loans
A +	112,207,212	65%	109,407,793	72%
A	30,174,924	17%	1,411,378	1%
A -	11,463,318	7%	26,639,585	17%
B +	7,134,536	4%	1,565,147	1%
B	3,990,042	2%	4,030,883	3%
C	7,850,242	5%	9,509,832	6%
	172,820,274	100%	152,564,618	100%



HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2009

Notes to the financial statements (continued)

3.1.4 Loans and advances (continued)

(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 2009	Housing Loans (Amount in MRF)			Total
	Male'	Hulhumale'	Outer atoll	
Past due 30-60 days	7,191,220	-	2,596,118	9,787,338
Past due 60-90 days	745,366	-	408,852	1,154,218
Total	7,936,586	-	3,004,970	10,941,556

31 December 2008	Housing Loans (Amount in MRF)			Total
	Male'	Hulhumale'	Outer atoll	
Past due 30-60 days	11,468,669	-	3,851,939	15,320,608
Past due 60-90 days	-	-	-	-
Total	11,468,669	-	3,851,939	15,320,608

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

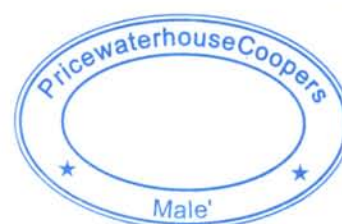
(c) Loans and advances individually impaired

The individually impaired loans and advances to customers before taking into consideration the cashflows from collateral held is MRF 3,144,724 (as compared to 2008 when impaired loans and advances to customers were MRF 3,172,688).

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

31 December 2009	Housing Loans			Total
	Male'	Hulhumale'	Outer atoll	
Individually impaired	1,560,406	-	1,584,317	3,144,723
Total	1,560,406	-	1,584,317	3,144,723

31 December 2008	Housing Loans			Total
	Male'	Hulhumale'	Outer atoll	
Individually impaired	1,241,769	-	1,930,919	3,172,688
Total	1,241,769	-	1,930,919	3,172,688



Notes to the financial statements (continued)

3.1.4 Loans and advances (continued)

(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 2009 there was no restructuring.

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 counterparties.

	31 December 2009	31 December 2008
Residential	170,310,591	150,639,657
Commercial	5,654,407	5,823,574
Grand Total	<u>175,964,998</u>	<u>156,463,231</u>

3.2 Market risk

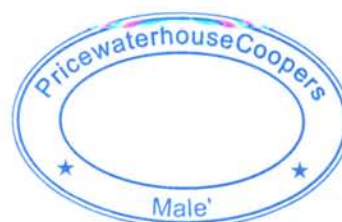
HDFC takes on exposure to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate and currency, all of which are exposed to general and specific market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

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

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

3.2.1 Foreign exchange risk

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



HOUSING DEVELOPMENT FINANCE CORPORATION PLC

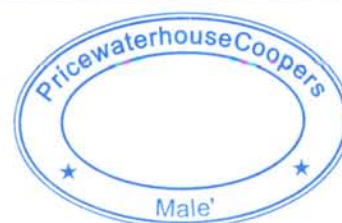
31 December 2009

Notes to the financial statements (continued)

3.2.1 Foreign exchange risk (continued)

HDFC has borrowed US\$ 8 million from the Asian Development Bank (ADB) and the International Finance Corporation (IFC). The proceeds were sold to State Trading Organisation Plc (STO) for equivalent Rufiyaa at 1 US\$ = 12.85 MRf. HDFC has entered into a SWAP agreement with STO by which STO will sell an equal amount of US\$ to honour the US\$ requirement of HDFC. By virtue of the SWAP agreement, HDFC will be able to service the US\$ loans obtained from ADB and IFC.

As at 31 December 2009	MRF	USD	Total
in MRF '000			
Assets			
Cash and Balances with Banks	235,712	3,162	238,874
Treasury Bills	4,923	-	4,923
Housing Loans	175,965	-	175,965
Other Assets	3,718	-	3,718
Total Assets	420,318	3,162	423,480
Liabilities			
Deposits	14,543	-	14,543
Borrowings	-	102,800	102,800
Other	40,449	-	40,449
Total	54,992	102,800	157,792
Net on-balance sheet financial position	365,326	(99,638)	265,688
Commitments	(85,881)	102,800	16,919
Net	279,445	3,162	282,607
As at 31 December	MRF	USD	Total
in MRF '000			
Total Assets	302,254	317	302,571
Total	137,259	-	137,259
Net on-balance sheet financial position	164,995	317	165,312
Commitments	-	-	-



31 December 2009

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.

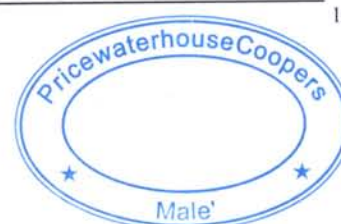
The extent of the interest rate risk depends on the value and period of the maturity mismatch between interest bearing assets and liabilities and the ability and speed of HDFC in re-pricing them. ALCO regularly reviews these gaps to ensure that they are within acceptable norms. HDFC regularly monitors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

HDFC does not carry a trading portfolio and 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 2009	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Non- Interest Bearing	Total
in MRF '000							
Assets							
Cash and Balances with Banks	232,800	-	-	-	-	6,074	238,874
Treasury Bills	-	4,923	-	-	-	-	4,923
Loans and Advances	968	1,869	8,633	53,302	111,193	-	175,965
Other Assets	-	-	-	-	-	3,718	3,718
Total Financial Assets	233,768	6,792	8,633	53,302	111,193	9,792	423,480
Liabilities							
Deposits from customers	-	-	-	-	14,543	-	14,543
Borrowings	-	-	-	73,358	29,442	-	102,800
Other Liabilities	-	-	-	-	-	40,449	40,449
Total Financial Liabilities	-	-	-	73,358	43,985	40,449	157,792
Total interest repricing gap	233,768	6,792	8,633	(20,056)	67,208	(30,657)	265,688

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Notes to the financial statements (continued)

3.2.2 Interest rate risk (continued)

As at 31 December 2008 in MRF '000	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Non- Interest Bearing	Total
Total Assets	145,325	1,198	10,063	52,563	91,756	3,445	304,350
Total	-	-	57,000	-	-	82,038	139,038
Total interest repricing gap	145,325	1,198	(46,937)	52,563	91,756	(78,593)	165,312

Additionally, HDFC is confident that it has sufficient interest margins to absorb any adverse impact due to interest fluctuations on any unmatched positions. Further, HDFC has the option of changing the interest rate 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 fulfill 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:

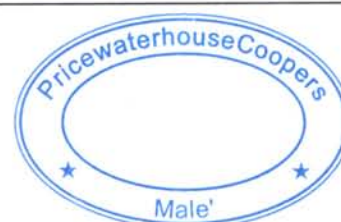
- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements be met. This includes replenishment of funds as they mature or are borrowed by customers;
- Maintaining a portfolio of deposits with bank and treasury bills that can easily be liquidated protection against any unforeseen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

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.



31 December 2009

Notes to the financial statements (continued)

3.3.3 Non-derivative cash flows

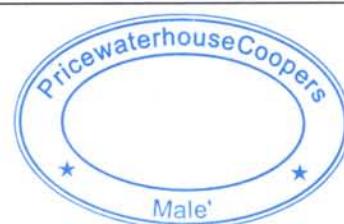
The table below presents the cash flows payable by HDFC under non-derivative financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas HDFC manages the inherent liquidity risk based on expected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

As at 31 December	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
In MRF '000						
Liabilities						
Deposits	-	-	-	-	16,155	16,155
Borrowings	1,157	1,220	2,235	75,723	41,293	121,628
Other	-	-	-	-	40,449	40,449
Total	1,157	1,220	2,235	75,723	97,897	178,232
In MRF '000						
Assets						
Cash and balances other banks	194,531	45,707	-	-	-	240,238
Treasury bills	-	5,000	-	-	-	5,000
Loans and advances	2,131	3,994	17,797	89,723	124,706	238,351
Other assets	-	-	-	-	3,718	-
Total Assets	196,662	54,701	17,797	89,723	128,424	487,307
Net	195,505	53,481	15,562	14,000	30,527	309,075
In MRF '000						
As at 31 December 2008	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
In MRF '000						
Total Assets	142,369	9,108	19,290	96,550	137,897	405,214
Total	-	58,989	-	-	82,038	141,027
Net	142,369	(49,881)	19,290	96,550	55,859	264,187

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:



Notes to the financial statements (continued)

3.4 Capital management (continued)

- To comply with the capital requirements set by the lenders;
- To safeguard its 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.

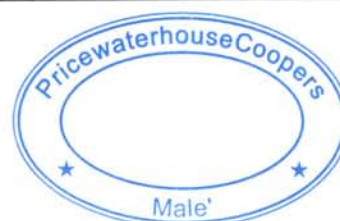
ADB and IFC require HDFC to maintain a ratio of total capital to risk-weighted assets (the 'Basel ratio') at or above 10%.

HDFC's capital as managed by its management comprises of share capital, retained earnings and reserves created by appropriations of retained earnings and current year earnings.

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of and reflecting an estimate of credit, market and other risks associated with each asset and counterparty and 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 2009. HDFC complied with all of the externally imposed capital requirements to which it is subject.

	(Amount in MRf)	
	31 December 2009	31 December 2008
Capital		
Share Capital	159,375,000	1,000,900
Advance for shares	51,407,100	128,500,000
Retained Earnings	34,906,459	15,811,404
Reserves	20,000,000	20,000,000
Total qualifying Capital	265,688,559	165,312,304
Total capital	265,688,559	165,312,304
Risk-weighted Assets		
On-balance sheet	135,936,709	107,795,514
Off-balance sheet	-	-
Total risk-weighted assets	135,936,709	107,795,514
Basel ratio	195%	153%



Notes to the financial statements (continued)

3.4 Capital management (continued)

The increase of the regulatory capital in the year ended 31 December 2009 is mainly due to the issuance of new shares during the year and the contribution of the current year's profit. The increase of the risk-weighted assets reflects the expansion of the cash and short term funds in the year.

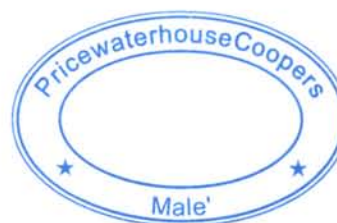
4 Critical accounting estimates and judgments

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.

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.

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

- (i) It takes 2 years to execute a mortgaged house and realise proceeds; and
- (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 securities' values will be the initial costs incurred to construct those mortgaged house properties.



HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2009

Notes to the financial statements continued

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

5 Gross income

	2009	2008
Interest income	30,496,234	19,945,496
Fee income	2,337,167	36,339
Other income (Note 8)	1,482,030	1,030,771
	34,315,431	21,012,606

6 Net interest income

	2009	2008
Interest income		
Housing loans	15,592,032	15,836,803
Treasury Bills / other deposits with Bank	14,904,202	4,108,693
	30,496,234	19,945,496

Interest expense

Customer deposits	135,880	185,622
Borrowed funds	3,957,934	722,813
Interest on bond	909,039	3,477,512
	5,002,853	4,385,947
Net interest income	25,493,381	15,559,549

7 Fee income

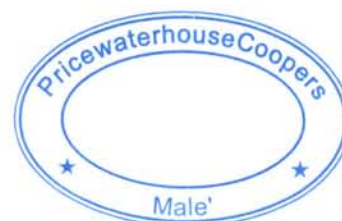
	2009	2008
SWAP commitment fees	1,433,992	-
Management fees	489,687	6,117
Housing loan processing fees	413,488	30,222
	2,337,167	36,339

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

8 Other income

	2009	2008
Sale of application forms	20,250	230,250
Penalty interest	214,607	122,135
Grant received from IFC	603,950	-
Foreign exchange gain	637,114	-
Insurance Commissions	6,109	5,014
Others	-	673,372
	1,482,030	1,030,771

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HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2009

Notes to the financial statements continued

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

9 Staff costs

	2009	2008
Salaries and allowances	2,755,060	1,927,529
Housing and living allowance	566,249	145,487
Staff medical insurance	48,440	35,077
Contribution to employees provident fund	61,705	-
	<u>3,431,454</u>	<u>2,108,093</u>

10 Premises, equipment and establishment expenses

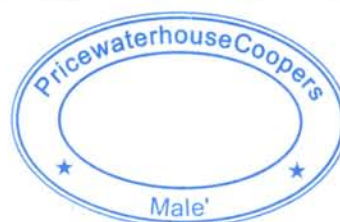
	2009	2008
Depreciation (Note 19)	268,007	187,476
Operating lease rentals		
- property	600,000	433,300
Water and electricity	119,661	96,677
	<u>987,668</u>	<u>717,453</u>

11 Provision for bad and doubtful debts

	2009	2008
Specific provision for loans and advances	(165,797)	1,674,529
General provision for loans and advances	3,519,300	-
	<u>3,353,503</u>	<u>1,674,529</u>

12 Other operating expenses

	2009	2008
Directors fees	50,000	59,000
Auditors' remuneration	80,307	63,608
Restructuring expenses	253,386	315,752
Tax on sale of securities (Land & Building)	54,770	-
Communication	59,566	93,379
Travelling expenses	390,037	60,525
Board meeting expenses	54,072	-
Legal expenses	69,440	68,391
Training expenses	795,107	194,573
Printing and stationary expenses	62,579	59,254
Insurance	71,438	20,586
Others	504,196	738,507
	<u>2,444,898</u>	<u>1,673,575</u>



HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2009

Notes to the financial statements continued

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

13 Earnings per share

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

	2009	2008
Net profit attributable to shareholders	19,095,055	10,453,009
Weighted average number of ordinary shares in issue	1,419,713	10,009
Basic earnings per share	13.45	1,044.36

14 Cash and short term funds

	31 December 2009	31 December 2008
Short term deposits with bank	225,000,000	130,000,000
Cash in hand	4,500	3,000
Saving account balances with other banks	7,799,796	9,943,083
Current account balances with other banks	6,069,405	-
Treasury bills	4,923,285	4,923,285
	<u>243,796,986</u>	<u>144,869,368</u>

Treasury bills are with Maldives Monetary Authority for a period of 90 days and carry interest at 6.25% per annum.

Short term deposits are with Bank of Maldives for a period of 30 days and carry interest at 6.125% per annum.

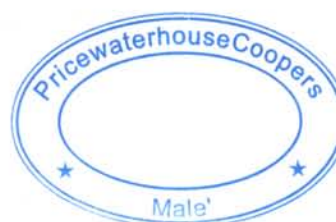
For the purposes of cash flow statement, cash and cash equivalents comprise the following balances with 3 months or less maturity:

	31 December 2009	31 December 2008
Cash and bank balances funds	238,873,701	139,946,083
Treasury bills	4,923,285	4,923,285
	<u>243,796,986</u>	<u>144,869,368</u>

15 Housing loans

	31 December 2009	31 December 2008
Housing loans	175,964,998	156,463,231
	<u>175,964,998</u>	<u>156,463,231</u>
Less: Provision for impairment	(5,133,036)	(1,779,533)
Net housing loans	<u>170,831,962</u>	<u>154,683,698</u>

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HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2009

Notes to the financial statements continued

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

15 Housing loans (continued)

(a) Movement in provision for impairment are as follows:

	31 December 2009	31 December 2008
(i) Specific provision		
Opening balance	1,779,533	105,004
Provision made during the year	(165,797)	1,674,529
Closing balance	1,613,736	1,779,533
(ii) General provision		
Opening balance	-	-
Provision made during the year	3,519,300	-
Closing balance	3,519,300	-
Total	5,133,036	1,779,533

16 Movement in interest in suspense

	31 December 2009	31 December 2008
Opening balance	331,960	-
Amount (recognised)/ suspended during the year	(35,347)	331,960
Closing balance	296,613	331,960

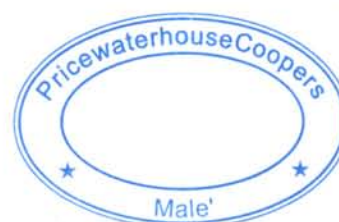
17 Assets quality

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

	31 December 2009	31 December 2008
Housing loans	3,144,724	3,172,688

18 Interest receivable

	31 December 2009	31 December 2008
Loan interest receivable	733,923	855,142
Treasury bill interest receivable	32,035	31,192
Fixed deposits interest receivables	715,171	118,459
	1,481,129	1,004,793

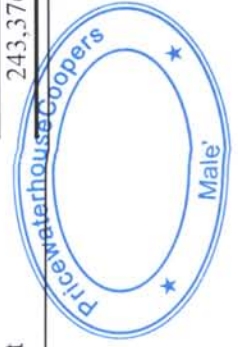


HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2009

19 Property, plant and equipment

	Office equipment	Computer equipment	Furniture and fixtures	Motor vehicles	Other assets	Leasehold improvements	Total
At 1 January 2008							
Cost	207,296	265,188	128,529	32,500	720	-	634,233
Accumulated depreciation	(68,543)	(135,416)	(77,118)	(16,250)	(480)	-	(297,807)
Net book amount	138,753	129,772	51,411	16,250	240	-	336,426
Year ended 31 December 2008							
Opening net book amount	138,753	129,772	51,411	16,250	240	-	336,426
Additions	143,880	244,275	190,875	-	593	853,837	1,433,460
Disposals	(10,279)	(1,559)	(1,683)	-	(120)	-	(13,641)
Depreciation charge	(28,813)	(74,718)	(40,118)	(8,125)	(169)	(35,533)	(187,476)
Balance at end of the year	243,541	297,770	200,485	8,125	544	818,304	1,568,769
At 31 December 2008							
Cost	340,897	507,904	317,721	32,500	1,193	853,837	2,054,052
Accumulated depreciation	(97,356)	(210,134)	(117,236)	(24,375)	(649)	(35,533)	(485,283)
Net book amount	243,541	297,770	200,485	8,125	544	818,304	1,568,769
Year ended 31 December 2009							
Opening net book amount	243,541	297,770	200,485	8,125	544	818,304	1,568,769
Additions	45,294	121,355	43,270	-	1,350	700	211,969
Disposals	-	-	(1,041)	-	-	-	(1,041)
Depreciation charge (Note 10)	(45,459)	(77,821)	(52,697)	(6,093)	(535)	(85,402)	(268,007)
Balance as at 31 December 2009	243,376	341,304	190,017	2,032	1,359	733,602	1,511,690
At 31 December 2009							
Cost	386,191	629,259	359,950	32,500	2,543	854,537	2,264,980
Accumulated depreciation	(142,815)	(287,955)	(169,933)	(30,468)	(1,184)	(120,935)	(753,290)
Net book amount	243,376	341,304	190,017	2,032	1,359	733,602	1,511,690



HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2009

Notes to the financial statements continued

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

20 Other assets

	31 December 2009	31 December 2008
Deposits and prepayments	702,569	374,020
Other debtors	17,018	51,265
	<u>719,587</u>	<u>425,285</u>

21 Deposits from customers

	31 December 2009	31 December 2008
Equated monthly installment deposits	7,728,671	6,087,314
Borrowers equity deposits	6,813,851	-
	<u>14,542,522</u>	<u>6,087,314</u>
Current	14,542,522	6,087,314
Non-current	-	-

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

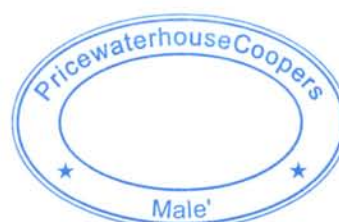
Equated monthly installment deposits carry fixed interest rates at 2.5 % per annum.

22 Borrowings

	31 December 2009	31 December 2008
International Finance Corporation (IFC) (Note 29)	51,400,000	-
Asian Development Bank (ADB) (Note 29)	51,400,000	-
Ministry of Finance and Treasury (Note 29)	-	57,000,000
	<u>102,800,000</u>	<u>57,000,000</u>
Current	-	57,000,000
Non-current	102,800,000	-

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

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



HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2009

Notes to the financial statements continued

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

22 Borrowings (continued)

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.

Maturity of borrowings

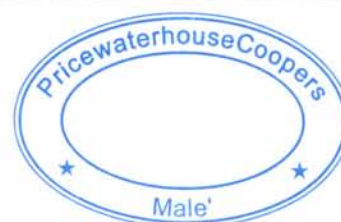
	31 December 2009	31 December 2008
Not later than 1 year	-	57,000,000
Later than 1 year and not later than 5 years	73,358,080	-
Over 5 years	29,441,920	-
	<u>102,800,000</u>	<u>57,000,000</u>
Borrowings at floating rates with a fixed spread	102,800,000	-
Borrowings at fixed rates	-	57,000,000
	<u>102,800,000</u>	<u>57,000,000</u>

The carrying amounts of HDFC's borrowings as at 31 December 2009 are fully denominated in United States Dollars.

HDFC has undrawn borrowing facilities to the extent of US\$ 7 million as at the balance sheet date.

23 Liabilities

	31 December 2009	31 December 2008
Interest payable	2,673,483	1,627,406
Ministry of Housing and Urban Development Fund	31,865,547	72,099,922
Employee provident fund	231,337	117,549
Accruals and other payables	54,201	85,764
Amounts received from customers in advance	-	240,786
Other liabilities	491,321	-
	<u>35,315,889</u>	<u>74,171,427</u>
Current	35,315,889	74,171,427
Non-current	-	-



HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2009

Notes to the financial statements continued

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

23 Liabilities (continued)

Ministry of Housing and Urban Development fund

HDFC manages and administers loan schemes under which HDFC, as a custodian receives funds from the Ministry of Housing and Urban Development (MHUD) and disburses such funds to beneficiaries. The movements in the development fund are given below:

	Year ended 31 December 2009	Year ended 31 December 2008
Opening balance	72,099,922	-
Amount received during the year	-	75,000,000
Add: Interest accrued on loans during the year	1,427,928	9,044
Deposits	358,144	74,441
Less: Accrued management fees	(489,687)	(6,117)
Less: Loans disbursed during the year	(41,530,760)	(2,977,446)
	<u>31,865,547</u>	<u>72,099,922</u>

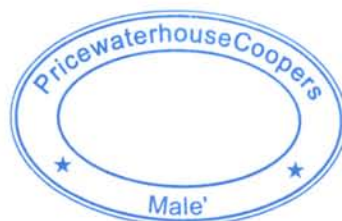
24 Ordinary shares

	Number of shares	Ordinary shares
At 31 December 2007	10,009	1,000,900
At 31 December 2008	10,009	1,000,900
Shares issued		
- Of the advance received earlier	770,929	77,092,900
- Proceeds received during the year	812,812	81,281,200
At 31 December 2009	<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 (2008:100,000) with a par value of Mrf 100 (2008: Rf 100) per share. As at 31 December 2009, 1,593,750 shares were issued, which were fully paid.

25 Reserves

	31 December 2009	31 December 2008
General reserve	15,000,000	15,000,000
Staff education reserve	5,000,000	5,000,000
Total reserves at end of the year	<u>20,000,000</u>	<u>20,000,000</u>



HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2009

Notes to the financial statements continued

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

25 Reserves (continued)

Movement in reserves were as follows:

	31 December 2009	31 December 2008
General reserve		
At beginning of the year	15,000,000	-
Transfer from net profit	-	15,000,000
At end of the year	<u>15,000,000</u>	<u>15,000,000</u>
Staff education reserve		
At beginning of the year	5,000,000	-
Transfer from net profit	-	5,000,000
At end of the year	<u>5,000,000</u>	<u>5,000,000</u>
Total reserves		
At beginning of the year	20,000,000	-
Transfer from net profit	-	20,000,000
At end of the year	<u>20,000,000</u>	<u>20,000,000</u>

26 Contingencies

(a) Contingent liabilities and commitments

	31 December 2009	31 December 2008
Loan commitments	<u>85,881,266</u>	<u>9,860,844</u>

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

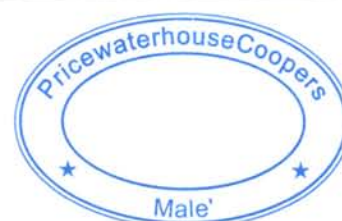
(b) Contingent assets

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

27 Commitments

(a) Capital commitments

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



HOUSING DEVELOPMENT FINANCE CORPORATION PLC

31 December 2009

Notes to the financial statements continued

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

27 Commitments (continued)

(b) Operating lease commitments

	31 December 2009	31 December 2008
Not later than 1	600,000	600,000
Later than 1 year and not later than 5	2,400,000	2,400,000
Later than 5 years	1,900,000	2,500,000
	<u>4,900,000</u>	<u>5,500,000</u>

28 Cash generated from operations

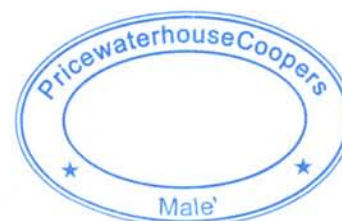
Reconciliation of net profit to cash generated from operations:

	31 December 2009	31 December 2008
Profit before tax	19,095,055	10,453,009
Adjustments for :		
Depreciation (Note 10)	268,007	187,476
Provision for bad and doubtful debts (Note 11)	3,353,503	1,674,529
Increase / (decrease) in accrued expenses	1,159,865	(2,519,097)
(Increase) / decrease in interest receivable	(476,336)	247,822
Cash generated from operations	<u>23,400,094</u>	<u>10,043,739</u>

29 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 2009

Notes to the financial statements continued

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

29 Related party transactions (continued)

	Year ended 31 December 2009	Year ended 31 December 2008
Loans from related parties		
Beginning of the year	57,000,000	57,000,000
Loan received during the year	102,800,000	-
Loan repaid during the year	(57,000,000)	-
Interest charged	1,821,550	-
Commitment fees charged	195,516	-
Loans outstanding at the end of the year	<u>104,817,066</u>	<u>57,000,000</u>
Principal outstanding (Note 22)	<u>102,800,000</u>	<u>57,000,000</u>

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

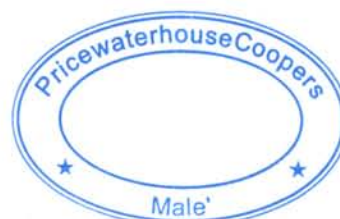
IFC loan is secured by a first ranking mortgage on HDFC's mortgage portfolio and a charge over the account in the Maldives into which proceeds of the loan was disbursed and from which housing loans were disbursed.

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

	Year ended 31 December 2009	Year ended 31 December 2008
Key management compensation		
Salaries and other short term benefits	<u>1,552,900</u>	<u>608,400</u>

30 Post balance sheet events

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



Annual Report 2009
& Financial Statements
for the year ended December 31, 2009



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