

Annual Report 2008



...together building the dreams...



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About Us

Housing Development Finance Corporation has emerged to serve a major need in the country with the increasingly large number of people are going in for home loans. This was driven mainly by increased affordability of home loans, relatively low interest rates and longer repayment period. Housing Development Finance Corporation only specializes in the provision of housing objectives. HDFC provides finance for corporations and individuals for the construction of buildings, renovation and extensions.

HDFC was incorporated on January 28, 2004 with technical assistance from the World Bank. All shares were held by the government of Maldives as at December 31, 2008.

HDFC opened its doors for business in April 2004. Finance was raised by issuing Corporate Bonds locally for state owned enterprises and commercial banks. The company raised Rufiyaa 303.8 million in total and has redeemed all except for the bond raised from the Provident Fund. The balance outstanding at the year end stood at Rufiyaa 57 million.

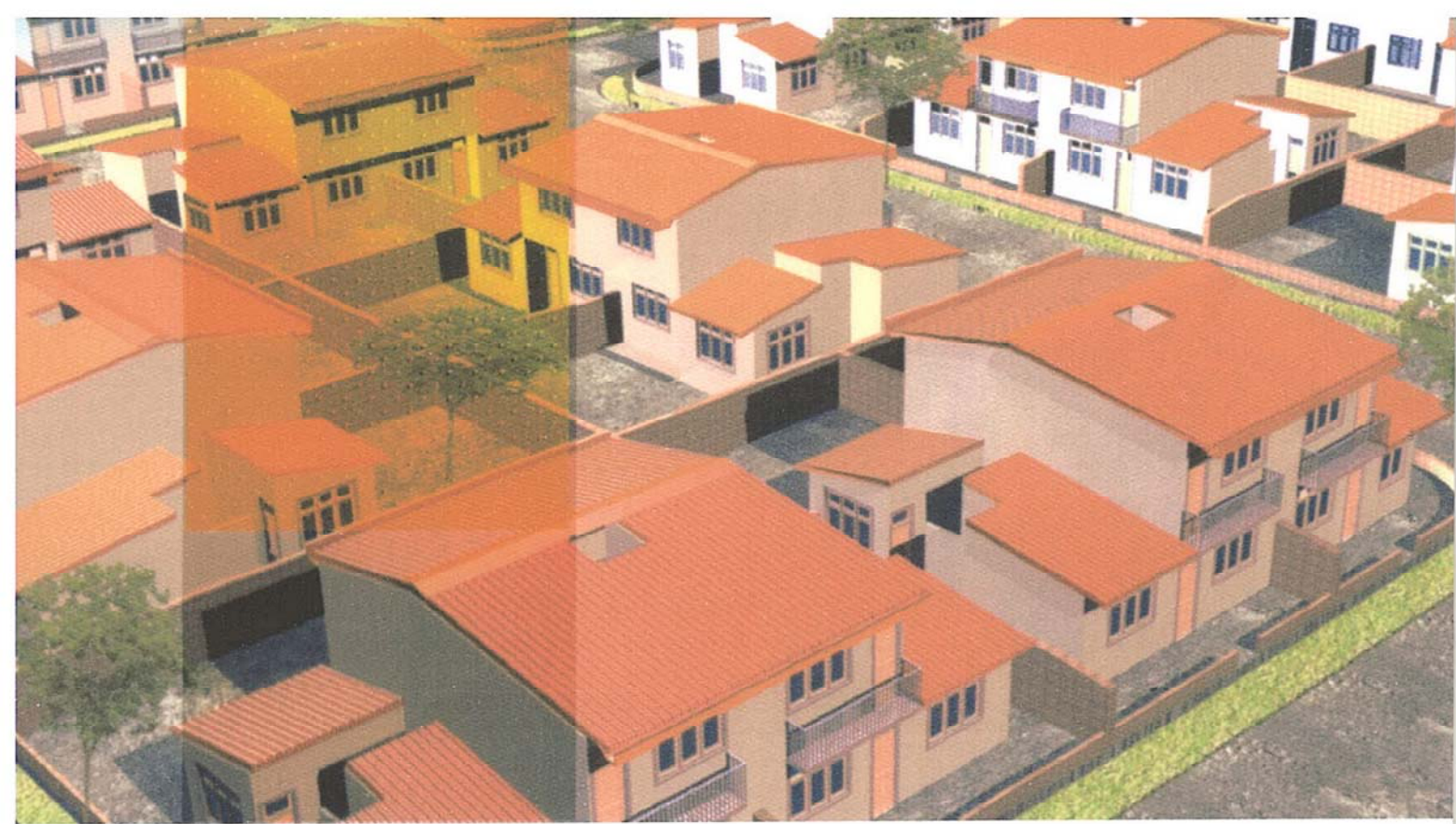
HDFC develops and implements housing programs which seek to achieve the Government's policy objectives to meet the housing need of low and middle income earners.

HDFC's loan portfolio amounted Rufiyaa 211,000,000/-. Number of loans stood at 500 . 61 loans were pre-paid amounting to Rufiyaa 28.5 million by December 31, 2008.

HDFC Home loans have covered all the atolls except Vaavu Atoll, where no applications were received.

From 2005 plans were underway to privatize the company. In that effort the government agreed to privatize the company by selling 51 percent of the company's share to international investors.

This plan was realized on 23 July 2008 by signing Share holder Agreement between the Government of Maldives and the three investors, Asian Development Bank (ADB) International Finance Corporation (IFC) and Housing Development Finance Corporation Investments Limited . The equity participation comprised of Government of Maldives holding 49 percent, Asian Development Bank holding 18 percent, International Finance Corporation holding 18 percent and HDFC Investments Limited holding 15 percent respectively. Total equity from the parties shall be 25 million Dollars and initial injection of capital will be 12.5 million Dollars. As the year ended equity was only received from the Government of Maldives. The total injected by the GOM stood at 10 million Dollars.



Vision

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 complete satisfaction of all stakeholders.

Corporate Information

Company Details

- Name: Housing Development Finance Corporation Plc
- Registered Date: 9th February 2004
- Registration No: C-107/2006
- Registered Address: Ministry of Finance and Treasury
Ameenee Magu, Male' Republic of Maldives
- Company Secretary: Mr. Adam Athif

Board of Directors

Mr. Ibrahim Naeem
(Chairman)(Resigned)
Mr. Hamid Yoosuf
Mr. Mohamed Shahudy
Ms. Fathimath Muaza
Ms. Raheema Saleem

Audit Committee

1.Ms. Fathimath Muaza
2.Ms. Raheema Saleem

Nomination and Remuneration Committee

1.Mr. Hamid Yoosuf
2.Mr. Mohamed Shahudy

	No. of Shares	@ Rf.100/-	%
Government	10,000	1,000,000	99.91
Private Placement	9	900	0.09
Total	10,009	1,000,900	100
Authorized Capital	3,212,500	321,250,000	
Paid-up Capital		1,000,900	

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

Ernst and Young
1st Floor, G. Soasanee,
Radhdbebai Magu,
Male', Maldives

Contact Details

Telephone : (960)3338810, (960)3315897
Fax : (960) 33315138
E-mail : info@hdfc.com.mv
Website : hdfc.com.mv



Directors Report

The Directors have pleasure in presenting the Annual Report on the business and operations of your Company together with the Audited Statement of Accounts for the year ended 31 December 2008.

Share Capital

On 7th February 2008, the Company's Share Capital was increased to 321,250,000/- divided into 321,250 shares of Rufiyaa 100. Issued and Paid- Up Capital is Rufiyaa 1,000,900 divided into 10,009 shares of Rufiyaa 100 each.

Social Housing Scheme Funded by the Government

Acceptable standard of housing is not affordable for low-income earners unless affordable home loans under "Social Housing" is made available.

With the sharp in-migration due to tsunami, general population increased in many large islands, which included the capital Male. There was severe pressure placed on housing. At the same time the real number of dwellings for social housing has increased, and the average cost in the market to construct and the rental rates increased by more than 40 percent within the past 4 years.

In response to the urgent demand, the Government provided a budget of 70 Million Rufiyaa to build homes for those who are in need. Two Schemes were introduced in April 2008. Total applications received were 758 amounting to Rf. 157, 861,384. while 332 were approved amounting to Rf. 66, 051, 153.

Scheme One:

This scheme was focused to 52 islands outside greater Male'. However, applications were received from 39 islands only. The maximum loan amount per applicant is Rf. 200,000/- Total 647 applications were received from 39 islands.

Scheme Two:

This scheme was focused to the greater Male' (Male', Hulhumale, Villingili). The maximum loan amount under this category per applicant is Rf. 300,000/- Total 111 applications were received from Male', Hulhumale', and Villingili.

All 758 applicants were interviewed and screened. Total 332 applications were approved amounting Rf. 66,051,153 from both the categories.

Dividend

The 2007 AGM approved that no dividend be paid for the year 2008.

Human Resources Management and Training

HDFC has taken all effort to enhance productivity, reduce employee turn over, and help the organization to increase performance and business bottom line. As a result the Company took a number of initiatives to strengthen human resources management during the year. In-house training programs were launched during the year to improve staff skills. In addition, the Company also continued to sponsor its employees for various programs. In January 2008 the salary structure was revised. New benefits, such as provident fund, health insurance were introduced in addition to a staff loan scheme. The workforce in the beginning of 2008 was 13 and by the end of the year the number stood at 16.

The company's policy is one of equal opportunity in selection, training and career development and promotion of employees regardless of gender, bearing in mind the respective aptitudes and abilities of the applicant concerned.

Consultation with staff or their heads of department has continued at all levels with the aim of ensuring that views are taken into account when decisions are made that are likely to effect their interests and that all staffs are aware of the financial and economic performance of the company as a whole.

Communications with all staff continues through the company's intra net and daily divisional morning meetings, and monthly all staff meetings.



Employment, Promotions and Resignations

On first of January 2008, Mr. Mohamed Fathy, the Internal Auditor was promoted and transferred to IT Department as IT Manager, Ms. Aishath Rasheeda, Credit Officer was promoted as Credit Manager of the Credit Department and Mr. Adam Athif, Administrative Officer was promoted as Manager Administration.

In addition Credit Officers (trainees) Mr. Nahid Idrees was promoted to Credit Officer (Gr-1) Mr. Ahmed Anwar was promoted as Recovery Officer (Gr1). Assistant Administrative Officer Mr. Umar Ibrahim was promoted to Administrative Officer (Gr1). Accounts Assistant, Mr. Mohamed Hamdhan Fahmy was promoted to the post of Internal Audit. Assistant Administrative Officer Ms. Aminath Shiyara was promoted to the post of Assistant Administrative Officer (Gr-1)

Mr. Ibrahim Didi was employed as Heads of Accounts since the accountant Mr. A.K Reddy left the organization, and Mr. Ibrahim Shaugee was employed as Accounts Assistant(Gr-3)

Internship Training

Mr. Mohamed Hamdhan Fahmy (Internal Auditor Gr 1) underwent Internship Training on Internal Audit at Ernst & Young, Male, from March to May 2008.

International Seminars, Meetings and Forums

Hon. Ibrahim Naeem (Auditor General) Ms. Raheema Saleem (Managing Director) attended a meeting held at Islamic Development Bank / Jeddah, Saudi Arabia to discuss an Islamic Bond. The meeting was held on April 17, to April 20, 2008.

Dr. Anil Dilruk Priyanka Baddevithana (Managing Director) and Ms. Raheema Saleem (Advisor) met with the Reserve Bank of India, Mumbai Deputy Governor Mr. V. Leeladar on November 10, 2008. On the same day and on the following day they met Mr. Arun Sharma, Mr. Subrata Dutta Gupta and Ms. Charu, Suri from IFC. These meetings were held at IFC Mumbai Office located Raheja Towers.

Ms. Raheema Saleem (Advisor) attended a Regional Forum on Asset, Liability and Risk Management organized by the Asian Development Bank, held in Bangkok from 25- 29 of November 2008.



Appreciation and Acknowledgement

The Directors take this opportunity to thank the share holders and investors and regulatory authorities for their support and advice. The Directors would also like to express their gratitude for the unstinted support and guidance given by Hon. Ibrahim Naeem, Auditor General, (Former Chairman of HDFC) who has served HDFC for more than 4 years. In addition the Directors also like to express their sincere thanks to and appreciation to all the valuable customers. The Directors express their gratitude and appreciation for the dedication by the staff for their commendable teamwork, exemplary professionalism and enthusiastic contribution for the success during the year.

We beg Allah the Almighty to grant us all the success and straight forwardness. Wasalam Aliakium Wa Rahmat Allah Wa Barakatuh.

On Behalf of the Board of Directors

Director.....

External Auditor

Statutory auditors, Ernst and Young, Male' shall retire at the conclusion of the forthcoming Annual General Meeting (AGM). A resolution to appoint a new auditing firm will be proposed at the Annual General Meeting as per Corporate Governance Code.

Board Performance

The meetings of the Board of Directors are held at the Corporations office. Meetings are generally scheduled to Tuesday, 3rd week of the month at 1 pm.

The Board met five times of which one sitting was Annual General Meeting. In addition one Extra Ordinary Meeting was held and One Special Resolution was passed. Three normal resolutions, one Special Resolution, Four Directors' written Resolutions and two Share holders written Resolutions were passed during the year 2009.

Director's Responsibility

The company law requires the directors to prepare financial statement for each financial year which give a true and fair view of the state of affairs of the company and its financial statements. The Board of Directors state that:-

- Suitable accounting policies have been selected and applied consistently;
- Estimates made are reasonable and prudent ;
- Applicable Accounting Standards have been followed, subject to any material deviations disclosed and explained in the financial statements;
- The Financial Accounts have been prepared on going concern basis;
- Proper and sufficient care is taken to ensure that maintenance of adequate accounting records and safe guarding the company's assets.



Defining Moments in 2008

07-February 2008	Registered the enhancement of the authorized Share Capital from Rufiyaa 10,000,000/- to Rufiyaa 321,250,000/- with ROC along with the increase to total share amount from 100,000 shares to 3,212,500
19- February 2008	4th Annual General Meeting
21- April 2008	Signed a Management Contract and Business Services agreement between Ministry of Housing and Urban Development (MHUD) and HDFC Plc.
23- April 2008	Started selling application forms for MHUD Housing Loan Scheme 2008 (Category 1 and 2)
12- May 2008	Signed a Memorandum of Understanding between Housing Development Finance Corporation Plc (M) And International Finance Corporation on Capacity Building
30- June 2008	Closed accepting of application forms for MHUD Housing Scheme (Categories 1, and 2)
23 -July 2008	Foreign Investment Agreement was signed between the international investors and the Government of Maldives.
23-July 2008	Signed the Shareholders, Put Option, and Subscription Agreement among GoM, ADB, IFC and HDFC Investments Ltd.
23-July 2008	Term Facility Agreement and Mortgage Agreement were signed between Housing Development Finance Corporation and Asian Development Bank
03-August 2008	Change of Office Premises to H. Mialani 4th Floor
23-August 2008	Signed an Agreement with Housing Development Corporation (HDC) on accepting secondary mortgages for applications under the MHUD Social Housing Loan Scheme 2008
05-September 2008	Appointment of new expatriate Managing Director
21-November 2008	Signed the Technical Services Agreement between HDFC (M) and HDFC Investment Ltd.
04-December 2008	Signed Performance Based Grant Agreement between HDFC (M) and IFC



Realities on the ground

Housing Crisis

We claim that we are in the midst of an “affordable housing shortage” or even worse, an “affordable housing crisis”. The underlying concern is that too many households live in too small units or pay “unaffordable” rents. This is the crisis in Maldives. We examined three of the most likely causes. Firstly, low income lead households to spend most of their income on basic necessities, like housing, utilities and food. Secondly, high cost of construction force the owners to recover the costs and maximize profits which lead to exorbitant rents. Lastly, market demand in Male’, Hulhumale’ and Villingili is greater than the supply.

Demographic Trends

The rising expectations of the middle and high income groups have resulted in an unprecedented rate of increase in the number of house holds over the years. Increased longevity, increased divorce rates, changing pattern of home ownership preference among young adults are largely contributing to the growth in the number of households and to their changing composition. In addition, the population growth which stand today at 5.56% p.a. contributed on additional burden to housing.

As we are all aware, the current economic environment is challenging, while persistent sluggishness has dampened the business confidence. The rapid increase in imported commodities used in building has raised the cost of constructions to an alarming rate. There are obviously many such constraints at present, with rising demand for cement, river sand, steel and iron rods.

Need For Capital Restructuring

The current funding structure of HDFC places a lot of limitations on the company.

- Asset to value is crucial when it comes to outer islands.
- Loan tenure and funding structure have a substantial mismatch. Funds were raised from the local market for 1 year and the tenor for the borrowers are for (10 -20 years).

However, the privatization and increased in capital will only cater to accommodate the backlog held by the company since 2005. HDFC’s prime focus is to develop Hulhumale’ as only 10 percent of the reclaimed landmass is utilized. The future solution for housing lies in Hulhumale’



Way forward

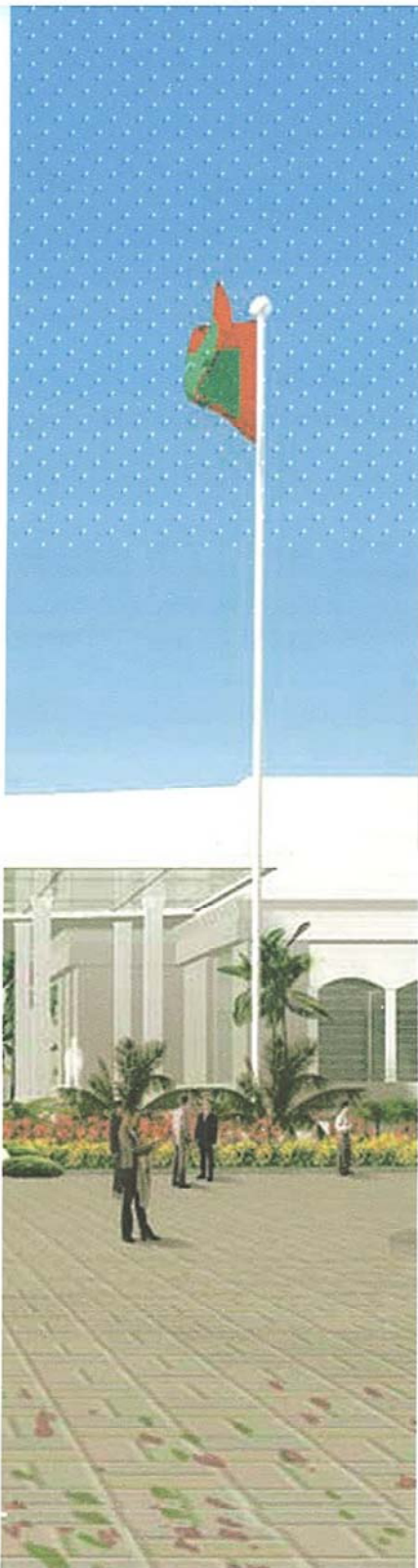
HDFC Plc was registered as a public company on the February 9, 2006. The shareholders' agreement for privatization between the GOM, ADB, IFC, and HDFC-India was signed on July 23, 2008. The initiative to restructure the capital and restart the business of HDFC Plc became effective on February 10, 2009 with the first equity disbursement by the International Shareholders whose commitment also comprises of a multi-lateral loan component by IFC and ADB. HDFC-India with thirty years experience in mortgage finance is the technical partner of HDFC Plc and IFC is playing the advisory role while assisting with a matching grant for the Technical Assistance Program. The structure of new shareholding is 49% by the GOM with the balance 51% being shared as 18%, 18%, and 15% by IFC, ADB, and HDFC-I respectively.

Having re-structured its capital and with new lines of long-term credit HDFC PLC- Maldives (HDFC-M) will re-enter the market for mortgage loans for housing needs of individuals and families. HDFC Maldives will be unique as the only specialized housing finance institution offering long repayment terms in a market where the demand has grown at a pace outstripping the supply of matching funds.

The privatization of Housing Development Finance Corporation Plc, Maldives (HDFC-M) has transformed the institution to face the future as a commercially viable, private sector led company that can grow and develop more effective solutions to the urgent housing problems of Maldives. Special emphasis is placed on development of Hulhumale as a modern and sustainable community by providing housing development finance to match the pace of development.

The total incremental housing stock that Male and Hulhumale can accommodate is estimated to be around 12,000. Current situation finds around 45% of Male's population living on rent with the potential of owning homes on mortgage in Hulhumale. HDFC-M's business plan envisages servicing around 4,500 mortgage home loans within the next 10 years. The past performance (2004) shows that HDFC-M can easily win a market share of 50% from the mortgage market.

The government's concept of improving the infrastructure in focus islands is also a positive trend. It will assist sustainable growth in home ownership based on mortgage security over properties that will appreciate in value to maintain a positive equity scenario. This is very important as a market characteristic, especially in the light of the current financial crisis in the US and UK economies.



HDFC-M had been at the forefront of housing loan market with cost leadership at its inception in 2004 offering low-cost mortgage loans with repayment periods up to twenty years. However, the Government of Maldives is currently addressing social housing issues through HDFC Plc. and available multilateral lines of credit from International Agencies will be utilized to finance the demand for housing from the middle and wider income segments to ensure commercial viability and sustained growth of the organization. In addition to this homegrown long-term savings deposits targeting the future housing needs of minors will also form part of the sourcing of long-term funds.

There will be an Initial Public Offering of 15% through a listing in the Maldives Stock Exchange within one year of privatization. This will see the GOM holding 40% with the three International Shareholders having 15% each from the balance of share stock. Extending this public ownership to broad-base HDFC Plc with alternate Islamic asset classes in an expanding Islamic Finance Industry is envisaged as the way forward to develop matching funds that are needed for the future housing demand in Maldives. The nature of our construction based growth lends itself to formulate Shari'ah compliant financial instruments and HDFC Plc intends making use of this opportunity to sustain an uninterrupted stream of affordable and matching finance to serve the growing market. These are the major driving forces in the strategic thrust of the business with competitive products and operational excellence in delivering value to customers.

These new initiatives and renewed thinking have brought us to the correct path towards realizing our vision to provide decent and affordable homes in a safe and healthy environment, and to work towards uplifting the standards of living for all Maldivians by becoming a National Development Bank.



HOUSING DEVELOPMENT FINANCE CORPORATION PLC

AUDITORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2008

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
HOUSING DEVELOPMENT FINANCE CORPORATION PLC**

We have audited the accompanying financial statements of Housing Development Finance Corporation PLC which comprise the balance sheet as at 31 December 2008 and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

This report is made solely to the company's members, as a body, in accordance with section 71 of the Companies Act No. 10 of 1996. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. Therefore, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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. 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 for 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

In our opinion, the financial statements give a true and fair view of the financial position of the company as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.


22nd January 2009
Male'

HOUSING DEVELOPMENT FINANCE CORPORATION PLC
 INCOME STATEMENT
 Year ended 31 December 2008

	Note	2008 Rf	2007 Rf
INCOME	3	<u>21,012,606</u>	<u>20,316,242</u>
Interest income	3.1	15,836,803	18,355,255
Interest expenses	4	<u>4,385,947</u>	<u>4,103,528</u>
NET INTEREST INCOME		11,450,856	14,251,727
Other income	5	5,175,803	1,960,987
NET INCOME		<u>16,626,659</u>	<u>16,212,714</u>
OPERATING EXPENSES			
Personnel costs	6.1	2,108,093	725,178
Premises, equipment and establishment expenses		776,453	485,549
Loan impairment losses and provisions	7	1,674,529	105,004
Other overhead expenses		1,614,575	812,235
TOTAL OPERATING EXPENSES		<u>6,173,650</u>	<u>2,127,966</u>
PROFIT FOR THE YEAR		<u>10,453,009</u>	<u>14,084,748</u>
Earnings per share (in Rf)	8	1,044	1,407

The accounting policies and notes on pages 06 to 17 form an integral part of the Financial Statements.

22nd January 2009
 Male'



HOUSING DEVELOPMENT FINANCE CORPORATION PLC
BALANCE SHEET
As at 31 December 2008

	Note	2008 Rf	2007 Rf
ASSETS			
Cash and short term funds	9	14,869,368	43,798,804
Housing loans	10	154,683,698	176,485,526
Interest receivable	11	1,004,793	1,319,162
Financial investments - held to maturity	12	130,000,000	-
Other assets	14	425,285	525,992
Form inventories		5,491	71,079
Assets held for sale	15	13,641	-
Property, plant & equipment	16	1,568,769	336,426
TOTAL ASSETS		302,571,045	222,536,989
LIABILITIES & EQUITY			
Borrowings	17	57,000,000	57,000,000
Liabilities	18	80,258,741	139,177,694
TOTAL LIABILITIES		137,258,741	196,177,694
EQUITY			
Share capital	19	1,000,900	1,000,900
Advance for shares		128,500,000	-
Retained earnings		15,811,404	25,358,395
Reserve	20	20,000,000	-
TOTAL EQUITY		165,312,304	26,359,295
TOTAL LIABILITIES & EQUITY		302,571,045	222,536,989

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.

Name of the Director

Signature

1) Rakeenna Saleem



2) FATHMAH MUAZA





The accounting policies and notes on pages 06 to 17 form an integral part of the Financial Statements.

22nd January 2009
Male'



HOUSING DEVELOPMENT FINANCE CORPORATION PLC
 STATEMENT OF CHANGES IN EQUITY
 Year ended 31 December 2008

	Share capital	Advance for share capital	Retained earnings	General reserve	Staff education reserve	Total
	Rf (Note 19)	Rf (Note 18.1)	Rf	Rf (Note 20)	Rf (Note 20)	Rf
	-	-	-	-	-	-
As at 01 January 2007	1,000,900	-	11,274,547	-	-	12,275,447
Dividends	-	-	(900)	-	-	(900)
Profit for the year	-	-	14,084,748	-	-	14,084,748
As at 31 December 2007	<u>1,000,900</u>	<u>-</u>	<u>25,358,395</u>	<u>-</u>	<u>-</u>	<u>26,359,295</u>
As at 01 January 2008	1,000,900	-	25,358,395	-	-	26,359,295
Transferred to general reserve	-	-	(15,000,000)	15,000,000	-	-
Transferred to staff education reserve	-	-	(5,000,000)	-	5,000,000	-
Cash introduced	-	128,500,000	-	-	-	128,500,000
Profit for the year	-	-	10,453,009	-	-	10,453,009
As at 31 December 2008	<u>1,000,900</u>	<u>128,500,000</u>	<u>15,811,404</u>	<u>15,000,000</u>	<u>5,000,000</u>	<u>165,312,304</u>

The accounting policies and notes on pages 06 to 17 form an integral part of the Financial Statements.

22nd January 2009
 Male'



HOUSING DEVELOPMENT FINANCE CORPORATION PLC
 CASH FLOW STATEMENT
 Year ended 31 December 2008

	2008 Rf	2007 Rf
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received	16,115,817	18,325,335
Other income received	5,144,611	1,775,981
Interest paid	(6,905,044)	(4,053,085)
Personnel costs paid	(2,108,093)	(725,178)
General expenses paid	(2,203,552)	(1,188,679)
Operating profit before changes in operating assets	<u>10,043,739</u>	<u>14,134,374</u>
Increase in form inventories	65,588	6,440
Decrease/(Increase) net movement in other assets	100,707	(525,992)
Increase in loans and advances to customers	20,193,846	21,787,270
Net cash from/ (used in) operating activities	<u>30,403,880</u>	<u>35,402,092</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in fixed deposit	(130,000,000)	-
Acquisition of property, plant & equipment	(1,433,460)	(19,828)
Net cash used in investing activities	<u>(131,433,460)</u>	<u>(19,828)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase/(Decrease) in other liabilities	72,100,144	126,459,861
Repayment of borrowings	-	(125,825,000)
Net cash from financing activities	<u>72,100,144</u>	<u>634,861</u>
Net (decrease)/increase in cash & cash equivalents	(28,929,436)	36,017,125
Cash & cash equivalents at the beginning of the year	43,798,804	7,781,679
Cash & cash equivalents at the end of the year (Note 9)	<u><u>14,869,368</u></u>	<u><u>43,798,804</u></u>

The accounting policies and notes on pages 06 to 17 form an integral part of the Financial Statements.

22nd January 2009
 Male'



1. CORPORATE INFORMATION

1.1 General

Housing Development Finance Corporation Plc is a Public Listed company, incorporated and domiciled in Republic of Maldives. The Company has been incorporated as a fully government owned corporation pursuant to Executive Decree No 2004/10 in accordance with the section 95 of Companies Act of Republic of Maldives (Law No 10/1996).

The registered office of the Company is located at, Ministry of Finance and Treasury, Ameenee Magu Male', Republic of Maldives.

1.2 Principal Activities and Nature of Operations

During the year, the principal activity of the Company was granting housing loans for residential and commercial purposes and managing a fund granted by Ministry of Housing and Urban Development for the purpose of granting the housing loans under a soft loan schemes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

The Balance sheet, Statements of income, Cash flows and Changes in equity, together with Accounting Policies and Notes, ("Financial statements") of the company, comply with the International Financial Reporting Standards (IFRS/IAS) issued by the International Accounting Standards Board (IASB) and Interpretations issued by the Standing Interpretations Committee (SIC).

These financial statements presented in Maldivian Rufiyaa have been prepared on a historical cost basis.

2.2 Foreign Currency Translation

The financial statements are presented in Rufiyaa, which is the company's functional and presentational currency.

Transactions in foreign currencies are initially recorded in the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency at the middle rate of exchange ruling at the balance sheet date. All differences are taken to "other income" or "other expenses" in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Any Non-monetary items measured at fair value in a foreign currency are translated at the functional currency using the middle rate of exchange ruling at the date when the fair value was determined.

2.3 Financial Assets - initial recognition and subsequent measurement

Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place are recognised on the trade date, i.e. the date that the Company commits to purchase or sell the asset.

(Contd...)



2.3 Financial Assets - initial recognition and subsequent measurement (Contd...)

Initial recognition of financial instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

Held to maturity investments

Held-to-maturity financial investments are those which carry fixed or determinable payments and have fixed maturities and which the Company has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment.

Loans to customers

Loans to customers are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as "Financial assets held for trading", designated as "Financial investments - available-for-sale". After initial measurement, amounts due from banks and loans and advances to customers are subsequently measured at amortised cost using the effective interest rate method, less allowance impairment.

- 2.4 Cash, short term funds and held to maturity financial investments include an amount of Rf 72,099,922/- due to Ministry of Housing & Urban Development received on account loan managed by Housing Development Finance Corporation Plc. on behalf of Ministry of Housing & Urban Development.

2.5 Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit or loss.

2.6 Impairment of financial assets

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganizations and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate to default.



2.7 Loans to Customers

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at mortised cost using the effective interest method. Gains and losses are recognised in income when the Loans and Advances are derecognized or impaired, as well as through the amortization process.

2.8 Provisions for loan losses

Provision for possible loan losses are made on the basis of a continuous review of all loans to customers, it is the management's policy of to ascertain the reliable value of loans found to be doubtful, and unsecured amount in period in full.

2.9 Cash and Cash Equivalents

Cash and cash equivalents are defined as cash in hand, demand deposits and short-term highly liquid investments, readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand and deposits in banks net of outstanding Bank overdrafts.

Cash flow statement is prepared in "direct method".

2.10 Property, Plant and Equipment

Property Plant and equipment is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of such plant and equipment when that cost is incurred if the recognition criteria are met. The cost of the self-constructed assets includes the cost of materials, direct labor cost and appropriate proportion of production overheads. The cost of Property, Plant and Equipment acquired by the company includes cost of acquisition together with any incidental expenses incurred in bringing the assets to its working condition for the intended use. When a major inspection of plant and machinery is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are met.

Depreciation on Property Plant and Equipment of the Company is charged on a straight-line basis to write off the cost over the estimated useful life of the assets as follows:

Office Equipment	8 Years
Computer Equipment	5 Years
Furniture and Fixtures	5 Years
Vehicle	4 Years
Other Assets	3 Years
Lease hold improvements	10 Years

2.11 Investments

Investments are stated at cost. The cost of the investment is the cost of acquisition.

2.12 Inventories

Inventories are valued at cost, after making due allowances for obsolete and slow moving items. The cost of each category of inventory is determined at actual cost on FIFO basis.



2.13 Liabilities

Liabilities classified as current liabilities in the Balance Sheet are those, which fall due for payment on demand or within one year from the Balance Sheet date. Non Current Liabilities are those balances, which fall due for payment after one year from the Balance Sheet.

All known liabilities have been accounted for in preparing the Financial Statements.

2.14 Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently stated at amortized cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings.

When borrowings are repurchased or settled before maturity, any difference between the amount repaid and the carrying amount is recognised immediately in the income statement.

Borrowing Costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

2.15 Revenue and Expenditure Recognition

2.15.1 Revenue Recognition

a) Interest Income

Interest income is recognised on an accrual basis. Interest ceases to be accrued when the recovery of interest or principal is in arrears for three (3) months. Interest on non-performing loans and advances is accounted for on a cash basis.

Interest on non-performing loans and advances is credited to the "Interest in Suspense account" which is netted in the Balance Sheet against the relevant loans and advances balance.

b) Interest income on investments is recognised on an accrual basis.

c) Other income is recognised on accrual basis.

Net gains and losses of a revenue nature on the disposal of Property, Plant & Equipment and other non current assets including investments have been accounted for in the Income Statement, having deducted from proceeds on disposal, the carrying amount of the assets and related selling expenses. Gains and losses arising from incidental activities to main revenue generating activities and those arising from a group of similar transactions which are not material, are aggregated, reported and presented on a net basis.

2.15.2 Expenditure Recognition

a) All expenditure incurred in running of the business and in maintaining the Property, Plant & Equipment in a state of efficiency has been charged to revenue in arriving at the profit for the year.

b) Interest expenses are recognized on an accrual basis.



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	2008 Rf	2007 Rf
3 INCOME		
3.1 Interest income	15,836,803	18,355,255
Other income	5,175,803	1,960,987
	<u>21,012,606</u>	<u>20,316,242</u>
4 INTEREST EXPENSES		
Bond interest	3,477,512	3,934,789
Equated monthly instalment deposits interest	185,622	168,739
Interest on loans	722,813	-
	<u>4,385,947</u>	<u>4,103,528</u>
5 OTHER INCOME		
Interest from treasury bills	4,108,693	1,333,881
Sale of application forms	230,250	12,300
Penalty interest	122,135	72,857
Bank interest	658,225	538,897
Other	11,851	3,052
Processing fee income	30,222	-
Management fee	6,117	-
Insurance commission	5,014	-
Fines from staff	3,296	-
	<u>5,175,803</u>	<u>1,960,987</u>
6 PROFIT FOR THE YEAR		
Stated after charging,		
Audit fees	63,608	57,825
Restructuring expenses	315,752	449,101
Communication	93,379	64,985
Directors' remuneration	59,000	69,000
Personnel costs	(6.1) 2,108,093	725,178
	<u>2,108,093</u>	<u>725,178</u>
6.1 Personnel costs		
Salaries and allowances	1,927,529	718,578
Housing and living allowances	145,487	6,600
Staff medical insurances	35,077	-
	<u>2,108,093</u>	<u>725,178</u>

The number of employees of the company as at the end of each financial year was as follows:

	2008 Number	2007 Number
Number of employees	<u>16</u>	<u>13</u>



7 LOAN LOSSES PROVISION

As at 31 December 2008, housing loan and advances at nominal value Rf 1,779,533 (2007: Rf 105,000) were impaired and fully provided for movements in the provision for impairment of housing loan and advances were as follows:

	2008 Rf	2007 Rf
At 1 January	105,004	-
Charge for the year	1,674,529	105,004
At 31 December	<u>1,779,533</u>	<u>105,004</u>

8 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit/(loss) for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. The weighted average number of ordinary shares outstanding during the year and the previous year are adjusted for events that have changed the number of ordinary shares outstanding, without a corresponding change in the resources such as a bonus issue.

The following reflects the income and share data used in the basic earnings per share

	2008 Rf	2007 Rf
Amount used as the Numerator:		
Profit for the year	<u>10,453,009</u>	<u>14,084,748</u>
Number of Ordinary Shares used as Denominator:	Number	Number
Weighted average number of ordinary shares in issue applicable to basic earnings per share	<u>10,009</u>	<u>10,009</u>

9 CASH AND SHORT TERM FUNDS

	2008 Rf	2007 Rf
Local currency in hand	3,000	1,326
Balances with local banks	9,943,083	4,988,863
Short term investments (Investment in government treasury)	4,923,285	38,808,615
	<u>14,869,368</u>	<u>43,798,804</u>

Above treasury bills carry an interest rate of 6.25% per annum and the period of the same is 91 days from 24 November 2008 to 24 February 2009.

10 HOUSING LOANS AND ADVANCES

Building development loans	156,463,231	176,590,530
Less: Loan loss provisions	(1,779,533)	(105,004)
	<u>154,683,698</u>	<u>176,485,526</u>

11 INTEREST RECEIVABLE

Loan interest receivable	855,142	1,134,156
Treasury bill interest receivable	31,192	185,006
Fixed deposits interest receivables	118,459	
	<u>1,004,793</u>	<u>1,319,162</u>

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	2008 Rf	2007 Rf
12 FINANCIAL INVESTMENTS - HELD TO MATURITY		
Fixed deposit - FD No. 007225	80,000,000	-
Fixed deposit - FD No. 007236	20,000,000	
Fixed deposit - FD No. 007237	30,000,000	
	<u>130,000,000</u>	<u>-</u>
12.1 The company has invested in fixed deposits at Bank of Maldives Plc for a period of thirty days. The above deposits carry an interest rate of 6.125%.		
13 Cash, short term funds and held to maturity financial investments include an amount of Rf 72,099,922/- due to Ministry of Housing & Urban Development (MHUD) received on account of loan managed by Housing Development Finance Corporation Plc (HDFC) on behalf of MHUD.		
14 OTHER ASSETS		
Rent deposits and rent advances	50,000	300,000
Advance paid for software	324,020	223,262
Other assets	51,265	2,730
	<u>425,285</u>	<u>525,992</u>
15 ASSETS HELD FOR SALE		
Office equipment	10,279	-
Computer equipment	1,559	-
Furniture and fixtures	1,683	-
Other assets	120	-
	<u>13,641</u>	<u>-</u>

Net carrying amount of above fixed assets has been transferred to assets held for sale during the year.



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16 PROPERTY, PLANT & EQUIPMENT

16.1 Gross carrying amounts	Balance as at 01.01.2008 Rf	Additions during the year Rf	Trfd.to assets held for sale Rf	Balance as at 31.12.2008 Rf
At cost				
Office equipment	207,296	143,880	22,275	328,901
Computer equipment	265,188	244,275	12,040	497,423
Furniture and fixtures	128,529	190,875	11,995	307,409
Motor vehicles	32,500	-	-	32,500
Other assets	720	593	720	593
Leasehold improvement	-	853,837	-	853,837
Total value of depreciable assets	634,233	1,433,460	47,030	2,020,663

16.2 Depreciation	Balance as at 01.01.2008 Rf	Charge for the year Rf	Transfer / Disposal Rf	Balance as at 31.12.2008 Rf
Office equipment	68,543	28,813	11,996	85,360
Computer equipment	135,416	74,718	10,481	199,653
Furniture and fixtures	77,118	40,118	10,312	106,924
Motor vehicle	16,250	8,125	-	24,375
Other assets	480	169	600	49
Leasehold improvement	-	35,533	-	35,533
Total Depreciation	297,807	187,476	33,389	451,894

16.3 Net book value

At cost	<u>336,426</u>	<u>1,568,769</u>
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17 BORROWINGS (BONDS)

	Balance as at 01.01.2008 Rf	Loans Obtained Rf	Loan Repayments Rf	Balance as at 31.12.2008 Rf
Ministry of Finance and Treasury	<u>57,000,000</u>	-	-	<u>57,000,000</u>

17.1 Above bond have been issued for the purpose of financing long term housing loans with an interest spread less than the rates at which HDFC lends to its customers. The Ministry of Finance and Treasury of Maldives has issued a "government guarantee" in relation to the above bond to ensure performance of all obligations stipulated in the Prospectus.

17.2 All the borrowings shown in the above note will be due in one year from the Balance Sheet date and they carry a coupon interest rate of 5% per annum till 25 October 2008 and 26 October onwards that would 6.25% per annum.



HOUSING DEVELOPMENT FINANCE CORPORATION PLC
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	2008 Rf	2007 Rf
18 LIABILITIES		
Interest payable	1,080,430	3,599,527
Advance from Ministry of Finance and Treasury (18.1)	-	128,500,000
Ministry of Housing & Urban Development (18.2)	72,099,922	-
Employee provident fund	117,549	-
Equal Monthly Instalments deposits	6,087,314	6,487,736
Customers' deposits	546,976	387,604
Accruals and other payables	85,764	87,987
Amounts received from customers in advance	240,786	114,840
	<u>80,258,741</u>	<u>139,177,694</u>

18.1 Advance from Ministry of Finance and Treasury

As at 01 January	128,500,000	-
Cash introduced	-	128,500,000
Transferred to advance for shares account	(128,500,000)	-
As at 31 December	<u>-</u>	<u>128,500,000</u>

Ministry of Finance and Treasury of Maldives has advanced Rf 128,500,000/- to Housing Development Finance Corporation Plc. on 11 January 2007. It is envisaged that the Ministry together with other equity partners will take up the increased share capital of the Company. However, as at the balance sheet date the composition of company's share capital structure has not been finalised.

18.2 Ministry of Housing & Urban Development

The company has entered into an agreement with the Ministry of Housing and Urban Development to manage the above fund for the purpose of granting housing soft loan to the society.

19 SHARE CAPITAL

19.1 The authorised share capital comprises 100,000 Ordinary Shares at a par value of Rf. 100/- each.

	2008 Rf	2007 Rf
19.2 Issued and fully paid		
Number of employees (10,000 Ordinary shares of Rf 100/- each)	1,000,900	1,000,000
Issued during the year (9 Ordinary shares of Rf 100/- each)	-	900
Balance as at 31 December	<u>1,000,900</u>	<u>1,000,900</u>

Voting Power and Dividends

The holders of Ordinary Shares confer their rights to receive dividends as declared from time to time and are entitled to one vote per share at a meeting of the Company.



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20 RESERVE	Addition during the year Rf	Balance as at 31.12.2008 Rf
General reserve	15,000,000	15,000,000
Staff education reserve	5,000,000	5,000,000
	<u>20,000,000</u>	<u>20,000,000</u>

20.1 The above reserves were created based on the decision taken by the board of directors.

21 CONTINGENCIES

The company has contingent liability for a loan commitment fee to Asian Development Bank amounting Rf 213,828/-

22 CAPITAL COMMITMENTS

The company has no significant capital commitment as at 31 December 2008.

	2008 Rf	2007 Rf
Approved but not provided for	-	600,000

23 RELATED PARTY DISCLOSURES

Directors of the company have been paid Rf 59,000/- as Directors' fees and emoluments during the year ended 31 December 2008.

24 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's principal financial instruments comprise of bank loans (bonds) and cash. The main purpose of these financial instruments is to raise finance for the Company's operations. Further, the Company's main financial asset is housing loans and advances given to its customers.

The main risks arising from the Company's financial instruments are foreign currency risk, liquidity risk, credit risk and interest rate risk. The policies for managing each of these risks are summarised below.

24.1 Foreign currency risk

The Company has transactional currency exposures. Such exposure arises from borrowings and cash receipts by an operating unit in currencies other than the unit's functional currency.

24.2 Liquidity risk

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of borrowings. As part of its overall prudent liquidity management, the Company maintains sufficient level of cash or cash convertible investments to meet its working capital requirement.



24.3 Credit risk

The Company lends only to creditworthy third parties who have the loan repayment capacity. It is the Company's policy that all the customers who wish to borrow from the Company are subject to credit evaluation procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to loan loss is not significant.

Further, the loan applicant should provide unambiguous and straight forward security arrangements under which if the security is to be foreclosed, it could be achieved without any difficulties. The security of a loan should be at least 125% of the value of the loan amount granted to the applicant.

24.4 Interest rate risk

The HDFC does not carry a trading portfolio or does not generally invest in stocks or shares other than Government treasury bills, short term matured fixed deposits, for which investment are generally less than three months and held to maturity. Therefore the HDFC is not open to any price fluctuation risks.

25 FINANCIAL INSTRUMENTS

All the borrowings shown in the note no 13 are falling due in one year from the Balance Sheet date and they are carrying a coupon interest rate of 5% per annum till 25 October 2008 and 26 October onwards that would 6.25% per annum.

26 RISK MANAGEMENT

26.1 The table below presents an analysis of rating of loans to customers for the company by internal rating designation at 31 December 2008

<u>Internal Ratings 2008</u>	<u>Loans to customer Rf</u>	<u>Percentage of total loan</u>
A+	109,407,793	72%
A	1,411,378	1%
A-	26,639,585	17%
B+	1,565,147	1%
B	4,030,883	3%
C	9,509,832	6%
	<u>152,564,618</u>	<u>100%</u>

26.2 Repossessed collateral

When required the company will take possession of collaterals it holds as securities and will dispose them as soon as practicable, with the proceeds used to reduce the outstanding indebtedness.



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27 POST BALANCE SHEET EVENTS

- 27.1 The authorised share capital of the company has been increased to Rf 321,250,000/- on 14 January 2009.
- 27.2 The amount of Rf 130,000,000 stated as financial investments, is about 43% of the total assets of HDFC as at the date of the financial statements. The Auditor General's report on Bank of Maldives PLC released on 18th January 2009, draws attention to the state of liquidity position of the bank, stating that unless a significant amount of cash is infused into the bank immediately, the bank's day to day operations may be affected. However, The Maldives Monetary Authority in its press release of 24th January 2009 has assured all the customers and shareholders of Bank of Maldives that all necessary steps will be taken to maintain the stability of the bank.

