

Annual Report and Financial Statements 2012



Maldives
Monetary
Authority



Board of Directors and Senior Officials

Board of Directors

[Dr Fazeel Najeeb](#) - Governor and Chairman

[Ms Aishath Zahira](#) - Deputy Governor

[Mr Abdul Ghafoor Abdul Latheef](#) - Senior Advisor to the Governor

[Mr Ismail Shafeeq](#) - Ministry of Finance and Treasury

[Mr Ibrahim Shafeeg](#) - Private Sector

[Mr Ahmed Nazeer](#) - Private Sector

Senior Officials of MMA as at 31 December 2012



Dr. Faqeeh Najeeb
Governor and Chairman



Ms. Aishath Zahira
Deputy Governor



Mr. Abdul Ghafoor Abdul Latheef
Senior Advisor to the Governor



Ms. Mariyam Hussain Didi
Executive Director
Financial Controls Division



Ms. Neeza Imad
Executive Director
Insurance Division and
Human Resource Division



Dr. Azeema Adam
Executive Director
Monetary Policy and
Research Division



Mr. Abdul Hameed Mohamed
Executive Director
Governor's Office



Ms. Mariyam Najeela
Senior Manager
Banking Supervision
Division



Ms. Idham Hussain
Senior Manager
Statistics Division



Ms. Aishath Nadhiya
Senior Manager
Banking and Payments
Settlement Division



Mr. Shawn Rasheed
Senior Manager
Technology Services
Division



Mr. Ahmed Asif
Advisor
General Services
Division

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List of Acronyms and Abbreviations

ACH	Automated Clearing House
AML/CFT	Anti-Money Laundering and to Combat Financing of Terrorism
APG	Asia-Pacific Group on Money Laundering
BoP	Balance of Payments
CAD	Current Account Deficit
CGAP	Consultative Group to Assist the Poor
EFT	Electronic Fund Transfer
FIU	Financial Intelligence Unit
GDP	Gross Domestic Product
G-GST	General Goods and Services Tax
T-GST	Goods and Services Tax on Tourism
IMF	International Monetary Fund
MIPS	Maldives Interoperable Payment System
MMA	Maldives Monetary Authority
MPS	Mobile Payments System
MRTGS	Maldives Real-Time Gross Settlement System
MRR	Minimum Reserve Requirement
NFA	Net Foreign Assets
ODF	Overnight Deposit Facility
OMOs	Open Market Operations
MVR	Maldivian Rufiyaa
RTGS	Real-Time Gross Settlement System
SAARC	South Asian Association for Regional Cooperation
MCS	Maldives Customs Service
DNP	Department of National Planning
MoTAC	Ministry of Tourism, Arts and Culture

Letter of Transmittal

MALDIVES MONETARY AUTHORITY

Malé, Republic of Maldives

Dear Excellency,

In accordance with Article 35(2) of Maldives Monetary Authority Act (1981), I herewith submit the Annual Report of the Maldives Monetary Authority for the year 2012 which includes a copy of the Financial Statements for the year ended 31 December 2012 audited by the External Auditors, Ernst & Young.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Fazeel Najeeb', with a long horizontal stroke extending to the right.

Fazeel Najeeb (PhD)

Governor and Chairman

HE Dr Mohamed Waheed Hassan Manik,
President of the Republic of Maldives,
President's Office,
Malé.

Statement by the Governor



Presented herewith is the Annual Report of the Maldives Monetary Authority for the year 2012. In accordance with section 35(2) of the MMA Act 1981, this report covers the activities and developments of the Authority for the year 2012, and includes the audited financial statements for the year. In addition, it also highlights the key macroeconomic and financial sector developments in the country during the year.

As was the case in the last several years, 2012 was also a challenging year for the economy of the Maldives. The tourism sector, which is the mainstay of the country's economy, performed less than expected. Although tourist arrivals into the country increased, thanks to a robust growth in the Chinese market, bed-nights in fact fell, mainly due to a decline in tourist arrivals from Europe. At the same time, the country's fiscal conditions

continued to deteriorate, and the financial sector experienced setbacks connected with deterioration in asset quality and a decline in private sector credit. The government's domestic debt escalated and the balance of payments worsened.

The economic situation required the government to take bold steps to increase revenue, cut down current expenditure, reduce debt, and increase foreign exchange earnings. Indeed the government took several measures to address some of these issues.

However, these did not go far enough, and there were significant policy and implementation slippages.

MMA strives to maintain price stability in the country and uses the pegged exchange rate regime to achieve this objective.

However, the heavy fiscal dominance in the economy and the unsustainable spending by the government continued to compromise the effectiveness of the monetary policy during the year.

Like in the previous several years, MMA remained vigilant of the developments and performance of the financial sector in the aftermath of the global financial crisis and the macroeconomic imbalances in the domestic economy.

Effective regulation and supervision of the financial sector remained a high priority of the MMA. The implementation of the Prudential Regulations introduced in 2009/2010 and the Banking Act enacted in December 2010 were given special emphasis.

Providing a modern, secure and an efficient payment system conducive to economic growth and financial stability in the country is an important part of MMA's commitment to modernizing the country's financial sector. To this end, a Real Time Gross Settlement System (RTGS) and Automated Clearing House (ACH), which facilitate a more efficient transfer and settlement of interbank payments, were introduced in the year.

As part of an ongoing restructuring of the bank to pursue its statutory objectives more professionally and efficiently, a new organizational structure was adopted in early 2012. Under the new structure, the functions of the organisation are grouped under four main areas: (1) monetary policy, research and statistics; (2) financial stability; (3) banking operations; and (4) corporate services.

Work on an Enterprise Resource Planning project continued throughout 2012. The project is aimed at centralising and automating the accounting system, systemising the maintenance of human resources records and the procurement process of MMA.

With the philosophy that the most valuable assets of the organization are its human resources, a high priority is given to the development of skills and enhancement of professional capacity and productivity of the staff. To this end a range of in-house, local and overseas training and study programs were made available to the staff. The MMA Training Institute (MMA TI), established on 24 February 2010 to provide training to MMA and financial sector as well as to create and increase awareness on monetary and financial matters, conducted several training programs to enhance the functional and professional capacity of the staff of the MMA as well as the financial institutions in the country.

In order to increase transparency and the accountability of MMA, and to improve the institution's ability to provide information to the public in a timely fashion, a corporate communications strategy was introduced in April 2012. An important aspect of the strategy was to increase the outreach to the younger, as well as the increasingly technology savvy population of the country, through the use of social media such as YouTube, Facebook and Twitter. Further, MMA also started publishing a monthly economic review in Dhivehi, to provide economic information to a wider audience.

I express my deep appreciation and gratitude to the Board of Directors for their policy direction and guidance. In addition, I extend my sincere thanks to

the dedicated staff members of MMA for their commitment to pursuing the statutory objectives of the bank. I am confident that with their professionalism, experience, and expertise – and with effective coordination between fiscal and monetary policies – we would be able to overcome the current difficulties and embark upon a more stable macroeconomic trajectory.



Fazeel Najeeb (PhD)
Governor and Chairman

1. Macroeconomic Review

1.1 Overview of macroeconomic developments in 2012



Following a growth rate of 7 per cent in the preceding two years, real GDP growth slowed down to 3.4 per cent during 2012. This was largely due to the substantial slowdown in the tourism sector, reflecting the weak economic conditions in Europe, which is the main tourism market of the Maldives. Despite the sluggish performance of the tourism sector, the construction, fishing and the manufacturing sectors stood buoyant and thus contributed positively to GDP growth.

The tourism sector, which directly accounts for roughly one-third of GDP, grew by a mere 0.7 per cent during 2012 as opposed to the initial estimate of 7.5 per cent. This marked slowdown

was driven by depressed tourist arrivals from Europe owing to weak economic conditions in the main European source markets, although it was partly offset by robust growth in Chinese tourists. The travel advisories issued by various governments against travelling to the Maldives following the political unrest in the country earlier during the year also had an impact on the tourist arrivals into the country during the period. According to tourism statistics, total tourist arrivals grew by a modest 3 per cent in 2012 compared to a growth of 18 per cent in the previous year. Despite the growth in tourist arrivals, tourist bed nights registered a decline during 2012 owing to the decline in average stay, which lowered the average room occupancy to 70 per cent from 73 per cent in 2011.

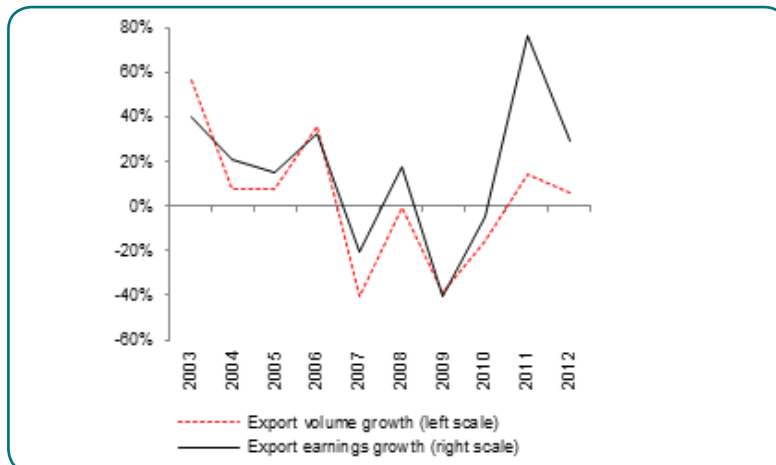
GDP growth rate by selected sectors, 2003-2012
Source: DNP



Tourist arrivals and growth, 2003-2012

Source: MoTAC

Looking at other major production sectors of the economy, after declining for five consecutive years, primary fishing activities registered a turnaround and expanded by 9.7 per cent in 2012. The improvement in fishing activities also provided a boost to fish exports and fisheries related manufacturing activities.



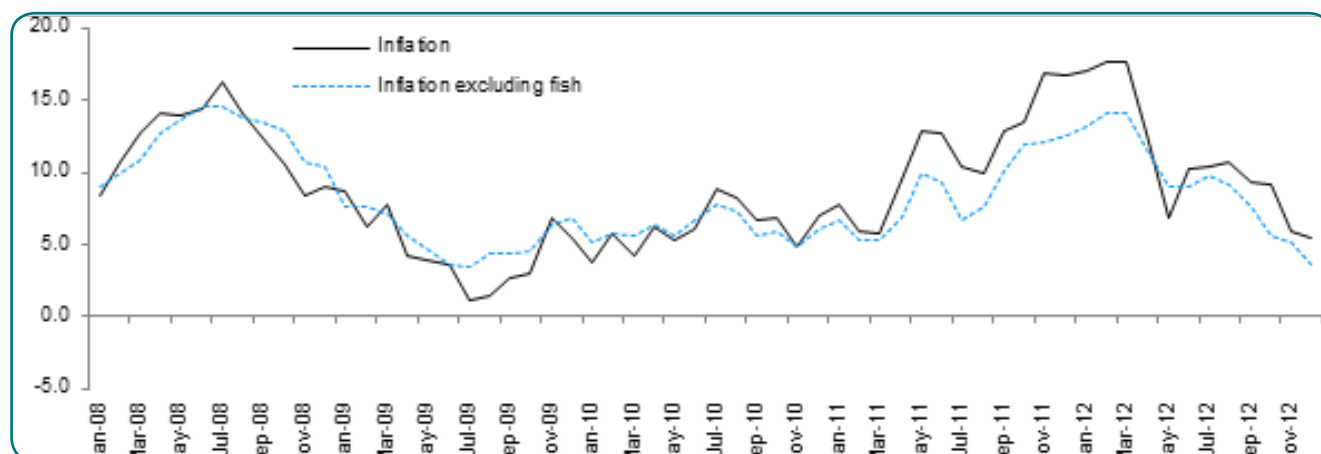
Fish export volume and earning, 2003-2012

Source: MCS

During the year, fish exports grew by 6 per cent while fish export earnings recorded a much higher growth of 29 per cent supported by high tuna prices in the global market. Meanwhile, manufacturing output further strengthened in 2012 and grew by 17.5 per cent driven by increased fish processing activities.

As for the construction output, after suffering a severe downturn in 2009 following the global financial crisis, the construction sector appears to have recovered well expanding by 19 per cent in 2011 and a further 16 per cent during 2012. The robust growth of construction sector continues to be largely driven by buoyancy in construction of new resorts and public sector infrastructure projects.

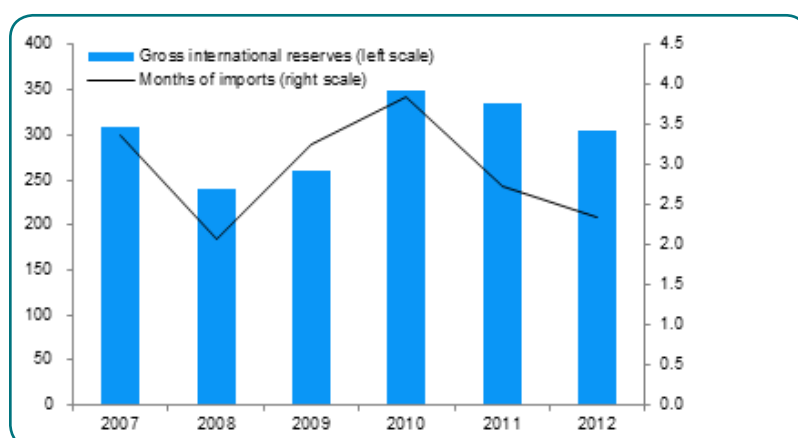
Regarding the price situation, after remaining elevated in the first half of 2012, the rate of inflation, as measured by the annual percentage change in the consumer price index (CPI) for Male', fell to 5.4 per cent at the end year. The fall in inflation reflects the waning of the one-off impact of devaluation of the rufiyaa in April 2011 and the introduction of general goods and services tax (G-GST) in October 2011 and the subsequent rate increase in January 2012. Meanwhile, external sources of inflation remained muted during the year reflecting subdued growth in global commodity prices.



Inflation, 2008-2012

Source: DNP

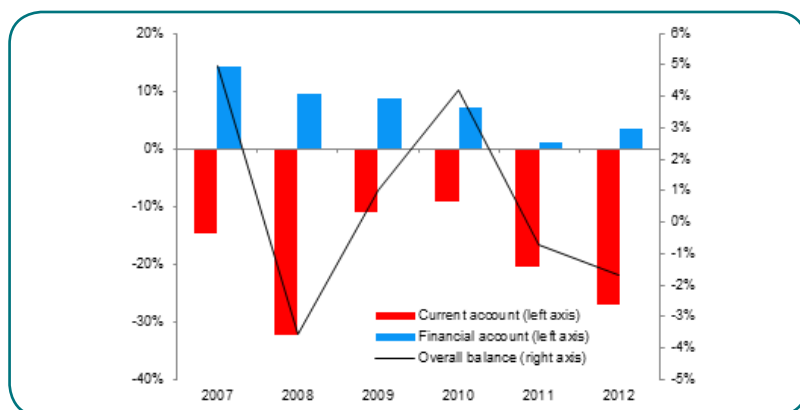
With regard to the developments in the monetary policy front, the Maldives Monetary Authority (MMA) continued to mop up excess liquidity in the system created due to the loose fiscal policy. However, the international reserves declined due to the worsening of the external position of the economy. The policy indicative rate remained unchanged at 7 per cent throughout the year. As for developments in monetary aggregates, broad money growth slowed down to 5 per cent in 2012 from double digit growths in the past several years. The growth in broad money during the year was mainly contributed by the rise in net foreign assets of the banking system, brought about by the on-going accumulation of foreign assets by the commercial banks whilst repaying their overseas borrowings. On the other hand, the net domestic assets of the banking system recorded a decline during the year owing to the reduced credit to private sector which reflects the slow economic growth and deterioration in asset quality of the domestic banking system.



BoP and Gross
International
Reserves,
2007 – 2012 (in
millions of US dollars)

Source: MCS, MMA

On the fiscal front, according to the revised budget estimates of November 2012 the fiscal deficit widened to 13 per cent of GDP in 2012 from 8 per cent of GDP in 2011. This was mainly due to a larger increase in government expenditure (including net lending) concurrent with a small decline in government revenue (including grants). Despite the less than 1 per cent decline in total government revenue, tax revenues rose significantly during the year. This was due to favourable receipts from goods and services tax on tourism (T-GST), business profit tax (BPT) and



*Balance of Payments,
2007 – 2012 (in per
cent of GDP)*

Source: MMA

general goods and services tax (G-GST) stemming from the increase in T-GST and G-GST rates in January 2012 and the full implementation of the BPT later in the year. On the spending side, total government expenditure (including net lending) rose by 15 per cent owing to a sizable increase in social welfare contributions associated with spending on Aasandha, the medical insurance scheme initiated by the government, in January 2012. With the increase in fiscal deficit, total public debt has risen from 74 per cent of GDP in 2011 to 79 per cent of GDP in 2012 amounting to MVR 27,122.9 million. Almost half of the public debt is borrowed from domestic sources, mainly through the issuance of T-Bills.

As for developments in the external sector, the current account deficit worsened to 27 per cent of GDP in 2012 from 21 per cent of GDP in 2011 due to the widening of the trade deficit coupled with a smaller decline in the services account surplus and the transfers account deficit. The worsening of trade deficit reflects the substantial increase in imports although exports also rose during

the year. Meanwhile, with the improved global financial conditions, foreign direct investment inflows improved during the year which increased the net financial inflows. However, gross international reserves continued to be on a downward trend, despite some temporary increases, and fell to US\$ 304.6 million at the end of 2012.

With regard to the exchange rate, the Maldivian rufiyaa remains pegged to the US dollar between a band of 20 per cent on either side of a central parity of MVR 12.85 per US dollar (i.e. between MVR10.28 and MVR15.4). Since the adoption of the exchange rate band in 11 April 2011, the rufiyaa has moved to the upper end of this band due to the persisting foreign exchange pressures in the economy. As such, at the end of 2012 the MMA reference rate stood at MVR 15.37 per US dollar. With regard to the bilateral exchange rates, the rufiyaa depreciated against the Singapore dollar, the Sterling pound and the euro at the end of 2012, reflecting the weakening of the US dollar against these currencies. However, the rufiyaa appreciated against the Japanese yen, the Sri Lankan rupee and the Indian rupee.

1.2 Outlook for 2013

Real GDP growth is projected to improve in 2013 after slowing down in 2012.

According to projections made in November 2012 by the Department of National Planning, growth is expected to increase slightly from 3.4 per cent in 2012 to 4.3 per cent in 2013. The impetus for growth is expected to come from a more favourable outlook for the tourism sector, which is based on two main assumptions. One is that there will be more aggressive tourism marketing this year, which will attract more tourists to the country.

The second assumption is that external conditions will improve; more specifically, the macroeconomic situation in the main European markets will recover in 2013. However, downside risks to growth have increased since the projections were made, and there is now renewed uncertainty about the euro-zone crisis, which has clouded the growth prospects for Europe. According to the forecast released by the IMF in January this year, euro area output is now projected to contract by 0.3 per cent in 2013, instead of the 0.5 per cent growth projected in October last year.

The outlook for inflation is moderate compared to that of 2012. A number of one-off factors, such as the rufiyaa devaluation and the introduction of the G-GST, kept the headline inflation at elevated levels for most of last year. As price pressures from these factors wane, and since global commodity prices are

projected to grow only moderately during 2013, the rate of inflation is expected to remain at around 6 per cent in 2013, or close to the level achieved at the end of last year. However, there are also upside risks to inflation emanating from global factors. The political situation in the Middle East is still very fluid and could escalate quickly, potentially triggering sharp increases in oil prices in the global market. Further, while global commodity prices are expected to be moderate, unpredictable weather patterns could lead to soaring prices, given that global food commodity stocks are already at low levels.

Fiscal consolidation and reducing external imbalances continues to be the biggest macroeconomic challenge faced by the Maldivian economy. The 2013 budget passed by the Majlis envisages an ambitious reduction in the fiscal deficit to 3.6 per cent of GDP in 2013 from 12.6 per cent in 2012, to be achieved through both revenue increases and expenditure reductions. Most of the increase in revenue is to be achieved from the implementation of new revenue measures, equivalent to 5 per cent of GDP. A number of savings are also planned from the expenditure side through improved targeting of subsidies and welfare contributions. This is expected to generate savings amounting to 4 per cent of GDP. However, unless appropriate policy measures are taken early in the year, these savings may not materialise. The financing of

the fiscal deficit is planned mostly from the issuance of T-bills domestically. However, the uncertainty surrounding the expenditure cuts means that financing pressures are likely to emerge towards the end of the year. Public debt, which has already reached over 70 per cent of GDP, is expected to remain high in 2013, increasing concerns over the sustainability of debt.

The CAD is expected to remain high in 2013 as well. Despite buoyant receipts from the tourism sector, CAD is expected to remain at 28 per cent of GDP, same as in 2012, reflecting the growing trade deficit. The latter is due to the strong import demand fuelled by both the growth in tourism as well as the large increase in government expenditure. During 2013, the CAD is expected to be financed both from FDI inflows and external borrowings. The high CAD and recent repayments of debt has put pressure on gross international reserves which is expected to fall to 1.3 months of imports or US\$ 291.4 million at the end of 2013.

2. Monetary policy

2.1 Monetary Policy framework

The monetary policy is aimed at achieving price stability and maintaining an adequate level of external reserves using the exchange rate peg with the US dollar as an intermediate target. In order to control the money supply, MMA targets monetary base as the operating target. Hence, MMA continued its monetary operation in order to achieve its targets on the reserve money using the monetary policy tools. The main monetary policy instruments currently in use are the Minimum Reserve Requirement (MRR), Open Market Operations (OMO), and MMA standing facilities, which consist of the Overnight Deposit Facility (ODF), and the Overnight Lombard Facility (OLF). The rates and conditions on these instruments remained unchanged during the year. The foreign exchange swap facility was re-introduced in the middle of 2012 with some modifications to its terms and conditions. The facility was available to all the commercial banks, but none of the banks utilised it during the year.

The MRR remained unchanged since the lowering of the rate to 25 per cent in 1 June 2006. The reserve requirement for local currency has to be met in the form of rufiyaa deposits, while for foreign currency, US dollar deposits are required.

However, since 19 May 2011, banks are required to maintain 3 per cent out of 25 per cent of the foreign currency MRR in rufiyaa deposits in order to relieve the dollar shortage in the market.

An indicative monetary policy rate at 7 per cent per annum was introduced on 29 May 2011 to signal the tight monetary policy stance to the market. This policy rate is currently within the interest rate corridor of 0.25 per cent per annum of ODF and 16 per cent per annum of OLF. With the introduction of the indicative rate, the weighted average interest rate of Reverse Repo started increasing and reached 7 per cent by the end of first quarter 2012.

As per MMA Act, the Board of Directors of the MMA is the highest decision making body of the Authority and is responsible for taking key decisions on all matters relating to monetary policy. The Monetary Policy Committee (MPC) recommends necessary policy changes to the MMA board for approval.

2.2 Monetary developments

As for the monetary developments during the year, reserve money (M0) and broad money (M2) both registered annual increases at the end of 2012, although at a slower pace compared to 2011. The

expansion in M0 can be attributed to the growth in the NDA of the MMA, while the annual growth in M2 was largely driven by the improvements in the net foreign assets (NFA) of the commercial banks.

The MMA continued its monetary operations by conducting its weekly OMOs and ODF to clear excess liquidity in the banking system. During 2012, the average investment in reverse repos (liquidity absorption) increased substantially, whereas investment in ODF dropped significantly, leading to an overall drop in the average amount of liquidity absorbed via monetary operations.

The NFA of the banking system showed a marked increase in 2012, due to the improvements in the NFA of the commercial banks. The net liability position of the commercial banks evolved to a net asset position in December 2012 for the first time since July 2005. This was predominantly due to the accumulation of foreign assets and a decrease in foreign liabilities by repaying a sizable portion of the banks' outstanding borrowings from abroad. However, the expansion in the NFA of the banking system was partially offset by the decline in the NFA of the MMA.

A further analysis of the components of M0 showed annual increments in both commercial banks' deposits and currency in circulation at the end of 2012, although at a slower pace relative to 2011. The total money supply measured

by M2 expanded at a lower rate in 2012 than in 2011. The annual growth rate in M2 was 5per cent in 2012 compared to 20per cent in the previous year. Further, the substantial rise in M2 at the end of 2011 partly reflected the depreciation impact following the introduction of the exchange rate band for rufiyaa in April 2011. However, the effects of depreciation dissipated during 2012, leading to a comparatively lower growth rate for M2 in 2012 when compared to that of 2011.

The slowdown in the growth rate of M2 during 2012 can be attributed to the sluggish growth in quasi money and narrow money, particularly during the last half of 2012. Accordingly, quasi money, which accounts for nearly 58per cent of M2, expanded on average by 10per cent in 2012 compared to the robust growth of 41per cent in 2011. This was a result of a deceleration in foreign currency deposits (which constitute 85 per cent of quasi money), partly due to the mild performance in the tourism sector during the year, coupled with the effects of the rufiyaa devaluation in the previous year, as mentioned above. Additionally, the average growth in narrow money dropped to 3per cent in 2012 from 12per cent for the previous year. This mild expansion in narrow money was brought about by the increase in currency outside depository corporations and the rufiyaa transferable deposits. The moderate growth in narrow money in 2012 largely reflects the slowdown in domestic economic activities during the year.

As regards the private sector credit developments, loans and advances to the sector declined by 7 per cent on average during the year, as opposed to the 7 per cent growth in 2011. This negative growth in private sector credit reflects slow economic growth and the increase in the number of non-performing loans (NPLs) of banks. The commercial banks were seen to invest in less risky assets such as government T-bills and securities issued by the MMA. As for the sector-wise distribution of loans to the private sector, the tourism sector continues to hold the largest share of total outstanding private sector loans at 58 per cent. However, loans to the tourism sector declined by 8 per cent during 2012 after recording a growth of 5 per cent in the previous year, although the latter figure partly reflected the rupee devaluation in 2011. Loans to the fisheries sector recorded a significant decline of 29 per cent, while loans to the transport sector declined by 22 per cent. However, loans extended to the commerce and construction sectors grew marginally, by 1 per cent and 2 per cent, respectively.

The MMA indicative policy rate remained unchanged at 7 per cent throughout 2012. Meanwhile, the weighted average interest rate (WAIR) on reverse repo reached 7 per cent at the end of the first quarter of 2012. However T-bill rates showed significant increases during 2012, with T-bill rates for the three maturity periods, 28 days, 91 days and 182 days, increasing by 90 bps, 94 bps and 88 bps, respectively. During August 2012, T-bills

for a new maturity period of 364 days were introduced, with their initial rate at 7.34 per cent, increasing to 7.86 per cent by the end of 2012. This increase in T-bill rates can be attributed to the increasing government financing requirements to support the widening budget deficit.

The WAIR on loans to the private sector showed increases in both local and foreign currency loans during 2012. The interest rates on loans extended to the private sector denominated in national currency rose by 34 bps to 10.51 per cent, while private sector loans denominated in foreign currency increased by 26 bps to 8.68 per cent.

With regard to interest rates on deposits, the annual WAIR for both national currency and foreign currency denominated savings deposits remained unchanged at 2.25 per cent and 2.22 per cent, respectively, during 2012. Meanwhile, rates on time deposits (with a maturity of two to three years) declined for both national and foreign currency deposits, by 30 bps to 3.80 per cent and 51 bps to 4.49 per cent, respectively. Rates for national currency transferable deposits edged up slightly to 2.24 per cent while rates for foreign currency denominated deposits fell by 15 bps to 1.59 per cent at the end of the year.

3. Financial Stability



*Bimonthly meeting
are held with bankers
to discuss the issues
in their industry*

3.1 Framework for Financial Stability

Maintaining financial stability is one of the core objectives of the MMA. Although there is no easy or uniform definition of financial stability, it can be viewed as a condition where the financial system has the capability to efficiently allocate funds, and withstand shocks that could disrupt the functioning of the financial system and economic growth. Financial stability is important in order to maintain trust in the financial system, which helps to prevent destabilising incidents such as bank runs. In order to ensure and sustain financial stability of the Maldives financial system, MMA regulates and supervises the banks and non-bank financial institutions. This is necessary to identify the possible sources of risk, areas of vulnerability and take necessary measures to safeguard the health and

efficient functioning of these institutions.

The financial system consists of financial institutions; financial markets and financial infrastructure payment and securities settlement systems; and credit information registries. In the Maldives, the main players in the financial system are the commercial banks, of which three are locally incorporated, and four are branches of foreign banks. Non-bank financial institutions include a finance leasing company, a housing finance company, and seven money remittance companies. The insurance industry consists of three insurance companies and one branch office of a foreign company, five brokers and seven agents. The MMA is responsible for regulating and supervising these institutions. The MMA also houses the payment system and the credit information bureau. The other important component in the financial system, the securities market, is regulated by the Capital Market Development Authority (CMDA).

The banking sector is governed by the provisions of the Banking Act (2010) and eleven prudential regulations formulated under this Act. The main objectives of the Banking Act and the regulations are to set out banking policies and to ensure that the banking system operates in

accordance with such policies in order to achieve the following:

- Maintain stability and public confidence in the system
- Protect depositors' and creditors' rights'
- Manage systemic risk
- Prevent financial crime
- Foster competition in the Maldivian banking system and to ensure that the system is response to the public's needs for banking services and able to contribute to the country's economic growth.

To facilitate the specific regulation needs of Islamic banking, the 'Islamic Banking Regulation' of 2011 sets out specific requirements governing the licensing, financial, prudential and supervisory matters relating to Islamic banking business in the Maldives.

The 'Insurance Industry Regulation' assigns supervisory responsibility for the regulating and supervising the sector to the MMA. In addition to the Regulation, there are various guidelines for insurance undertakings, agents and brokers.

The 'Regulations for Finance Leasing Companies and Finance Leasing Transaction' provides for the licensing and regulation of companies engaged in finance leasing in the Maldives and sets out the rights and duties of parties to finance lease agreements and matters connected therewith or incidental thereto.

A guideline on consumer protection regarding electronic fund transfer establishes rights, liabilities and responsibilities of customers and financial initiations relating to electronic fund transfers.

The Maldives Credit Information Bureau is governed by a 'Credit Information Regulation' (2010), while the members are expected to sign and abide by a code of conduct and membership agreement. In addition to the seven banks, two non-bank financial institutions are already its members. It is planned that in future, members would include telecoms, utilities and insurance companies as well as other smaller non-financial institutions that offer goods and services on credit to consumers. The credit information registry will pave the way for more confident and informed credit decision making, which would contribute towards stronger financial institutions and hence, stability of the financial system.

Payment systems are a major constituent of the financial infrastructure of a country. The efficient functioning of the payment systems enable transactions to be completed fast and efficiently, thus contributing to overall economic performance. Any failure of the systems could lead to systemic crisis and transmit financial shocks to the financial system as a whole.

In the Maldives, the Real Time Gross Settlement (RTGS) system and ACH,

implemented under the MIPS project enable the efficient transfer and settlement of interbank payments. RTGS system settles large value and urgent interbank transactions in real time on gross basis, thus reducing risk in payment systems and allowing banks to manage their liquidity effectively. RTGS system commenced its live operations on 10 April 2011.

ACH is a session based clearing system for cheques, direct debits and direct credits. This system clears low value high volume of transactions sent in batches and submits it for settlement in RTGS system. MMA took a phased approach in implementing ACH, by introducing direct credits first and then cheque truncation followed by direct debits. The direct credits component of ACH was implemented on 02 February 2012. MMA is now in the process of implementing cheque truncation and direct debits. The RTGS system and ACH are operated under the Payment System Regulation adopted under the Banking Act. Payment Systems Law has been drafted and is currently under review.

As per the provisions of Maldives Banking Act and the Financial Transaction Reporting (FTR) Regulation issued under the Maldives Banking Act, banks and financial institutions regulated and supervised by the MMA are required to report suspicious transactions and cash transactions above a certain threshold to the Financial Intelligence Unit (FIU).

The FIU conducts on-site and off-site inspection of financial institutions to observe the level of compliance to the FTR Regulation. The FIU also gives trainings to the financial institutions on anti-money laundering and combating the financing of terrorism (AML and CFT) issues and on compliance to the FTR Regulation. In addition to receiving, analysing and dissemination of transaction reports, the FIU checks the financial institutions' compliance to the Maldives Financial Transaction Reporting Regulation. On behalf of MMA, the FIU is leading the country's effort to establish an effective AML and CFT framework which involves coordinating with other key authorities (including investigative, law enforcement authorities as well as relevant government ministries and departments, other regulatory and supervisory authorities). As such in close collaboration with these relevant authorities, ministries and department, a coordination committee for AML and CFT has been established. This committee is led by the FIU.

3.2 Financial Sector Developments

Banking Industry

The main area of concern is credit risk as indicated by the high level of poor quality loans, while this risk is mitigated to a large extent by a correspondingly high level of loan loss provisions. The total assets of the banking industry, which had been on an increasing trend over

the past couple of years, declined by 1 per cent at the end of 2012, mainly due to the decline in both net loans (gross loans net of provisions) and investment in government securities. The increase in loan loss provisioning and the writing-off of the major non-performing loans (NPLs), coupled with the stagnant lending activities of the banks due to high NPLs, led to a decline in net loans during the year.

The NPL ratio stood at more or less the same level throughout 2012, at 21 per cent, while NPL ratio was 19 per cent in 2011. The writing-off of large NPLs and the loan recovery efforts of banks caused the growth rate of NPLs to decline during the year. Improvements in credit standards for new loans and the strengthening of credit underwriting and administration also contributed to the reduction in NPLs.

The banking sector's net income before tax was MVR 952.3 million in 2012, which was almost the same as for the previous year. In contrast, the net income after tax declined by 3 per cent during the year, compared to a growth of 33 per cent a year ago, with the increase in taxation,. The overall decline in profitability owed to the increase in specific provisioning due to weak performance of some assets, coupled with a decline in the lending activities of the banks.

In 2012, the capital strength of the sector

appeared adequate and improved over the year. At the end of the year, the capital of the sector showed an increase of 17 per cent as compared to a 3 per cent growth in 2011. This increase in capital significantly improved the industry's capacity to absorb risk. Further, the risk-based capital ratios of the banking industry remained well above the required minimum levels throughout the year.

Insurance Industry

Insurance penetration is the share of domestic premium value as a percentage of GDP, and insurance density shows per capita spending on insurance premiums. Insurance penetration in the Maldives was 1 per cent in 2012, while insurance density was around MVR 931.4. The high growth of Gross Written Premium (GWP) in recent years indicates that the public is becoming more aware of the insurance industry and insurance policies available locally. GWP grew from MVR 324 million in 2011 to MVR 391.3 million in 2012. This reflects a growth of 21 per cent. The compulsory motor insurance scheme introduced by the Ministry of Transport played a significant role in this increase.

The retention ratio is the portion of risk that is retained by the local insurance companies after considering reinsurance. The retention ratio remained slightly higher than the trend in 2010 and 2011, mainly due to the introduction of corporate health policies. However,

in 2012, with the introduction of the national healthcare scheme by the government the number of health policies issued during the year declined significantly, in turn diminishing the retention ratio by 15 percentage points. In 2011 and 2012, net claim payments totalled MVR 132 million and MVR 99 million respectively. This is a decline of 25 per cent compared to the relative figure of 2011. Meanwhile, claims paid as a percentage of gross premiums stood at 25 per cent in 2012, compared to 41 per cent in 2011. The increase in GWP in conjunction with the decline in claims paid meant that the insurance industry experienced a promising year in terms of profit. In addition, income generated from administering third party schemes also contributed to the increase in profits in 2012. Hence, the profitability of the industry more than doubled from MVR 32 million in 2011 to MVR 84 million in 2012. This is an increase of more than 150 per cent suggesting. It is important to highlight that the profit figure of 2012 does include the income generated from administering third-party schemes.

Non-Bank Financial Services Industries

Finance Companies: The total assets of the finance companies continued to grow and further increased by 3 per cent at the end of December 2012. The rise in total assets was mainly due to the increase in loans and advances (90 per cent of total assets) of the companies. As such, the

loans and advances increased by 13 per cent, while provisioning declined by 3 per cent during the year.

Money Remittance Companies: Due to the large expatriate workforce in the country, the economy's outward remittances are relatively high, while inward remittances are considerably low. Outward remittances totalled US\$ 88.4 million, while inward remittances totalled US\$ 2.9 million during 2012.

4. Overview of the Maldives Monetary Authority

The Maldives Monetary Authority is the central bank of the Maldives. It was established on 1 July 1981, under the MMA Act, with the following key objectives:

- To issue currency, and to determine the international value of the Maldivian Rufiyaa;
- To advise the government on banking and monetary matters;
- To supervise and regulate banking to promote a sound financial system; and
- To promote the stability of the Maldivian currency and do facilitate sustainable economic growth.



The new building of the MMA opened in January 2009

Until 2007, the Minister of Finance and Treasury also held the position of ex-officio Governor of the MMA. As modern central banking requires autonomy in central bank activities, an amendment was made to the MMA Act. This amendment, which was ratified on 5 April 2007, granted the MMA with policy autonomy from the Government, and provided for the first time an independent governor for the MMA.

4.1 Board of Directors

The Board of Directors is the highest policymaking body of the MMA. The Board approves key policies concerning monetary policy, corporate policies, and sets strategic direction to the organisation in maintaining price stability in the country. The Governor and Deputy Governor of the MMA are appointed by the President with the consent of the People's Majlis. The rest of the directors are appointed by the President with the recommendation of the Governor.



The Shariah Council oversees the establishment of Islamic finance in Maldives

4.2 Shari'ah Council

Shari'ah Council is responsible for establishing a framework that will harmonise Shari'ah interpretations in accordance with Islamic law, and strengthen the regulatory and supervisory oversight of the Islamic banking and finance industry. Accordingly

the Shari'ah Council is also responsible for validating all Islamic banking and finance operations to ensure their compatibility with the Shari'ah principles. During 2012, the Shari'ah Council deliberated on issues the Shari'ah compatibility of certain Takaful operations; newly proposed product structures; and a proposal to establish an Islamic window. Discussions were also held on the possibility of introducing instruments that can be used to facilitate proper liquidity management of Islamic financial institutions.

4.3 Audit Committee

The Audit Committee is a subcommittee of the Board of Directors and comprises of 3 non-executive members. The purpose of the Committee is to assist the Board in monitoring and assessing the effectiveness of:

- The integrity of the financial statements of the MMA;
- The MMA's external auditor's qualifications and independence;
- The performance of the MMA's internal audit function and external auditors;
- Internal controls over financial reporting; and
- The compliance by the MMA with legal and regulatory requirements.

4.4 Internal Audit

Internal Audit assists the Management and various committee members of

the MMA to meet their objectives and to discharge their responsibilities by providing an independent appraisal of the adequacy and effectiveness of the controls set up by the management to assist the operations at MMA. The controls subject to evaluation encompass the following:

- Compliance with laws, regulations, MMA directives and controls;
- The effectiveness of operations;
- The reliability and integrity of financial and operational information;
- Safeguarding of assets; and
- The information systems environment.

4.5 Organisational Structure and Key Functions

A new organisational structure was adopted in 2012 to reflect the changing needs and work of the organisation, and to transform and modernize the activities of the Authority. The functions of the Authority are grouped under four main areas: (1) Monetary Policy, Research and Statistics; (2) Financial Stability; (3) Banking Operations; and (4) Corporate Services. The structure also includes the Governor's Office; seven special units; an Audit Committee; and the Sharia'ah Council. The current organisation structure of the MMA is shown in Figure 1. (centrefold) and the key functions of the MMA are described below.

Area 1: Monetary Policy and Research & Statistics

This area includes Monetary Policy and Research Division and Statistics Division.

The Monetary Policy and Research

Division (MPRD) comprises of three sections: the Monetary Policy Section, Modelling and Forecasting Section and the Economic Research and Analysis Section. The Division is mainly responsible for providing technical advice on the formulations and orientation of monetary policy to the Monetary Policy Committee (MPC), and periodically reviewing monetary policy instruments and monetary developments, proposing changes to the monetary policy framework. The Division is also responsible for conducting economic research, and publication of economic reports. Their work also includes conducting research on monetary and financial sector issues and prepare monetary and liquidity projections to conduct monetary policy and also make short-term macroeconomic projections. They also conduct quarterly business surveys to obtain a set of current and forward looking indicators that assist in monetary policy decision making along with business fora, to strengthen the relationship between business community and MMA. They also conduct awareness programmes on the financial sector and the macroeconomy among the public, banks and other stakeholders.

The **Statistics Division** is functionally divided into 3 sections, namely: Monetary and Financial Statistics Section, Balance of Payments Section and Statistical Information Systems Section. These sections compile the monetary and financial statistics, and the Balance of Payments statistics as per the guidelines provided by the International Monetary Fund (IMF) and works on improving the coverage of statistics in these areas as well as data collection and conducting surveys. The division is also responsible for the administration and development of the statistical database. In addition, the Statistics Division also disseminate timely statistics to Government, policy makers, and other users in line with the best statistical practices and standards.

Area 2: Financial Stability

This area includes Banking Supervision Division, Non-Bank Financial Institution Supervision Division and Insurance Division.

The Banking Supervision Division (BSD) consists of the Banking Supervision Section (BSS) and Bank Licensing and Regulation Section (BLRS). These sections monitor activities of banks to ensure their compliance to the Maldives Banking Act 24/2010, rules and regulations set by MMA and to assess the financial health and performance of banks, in order to ensure stability of the financial system and to instil confidence in the

system within the public. They are also responsible for licensing new banks and issuing permits to banks to engage in other activities under the provisions of the Banking Act. They also issue regulations and guidelines for banks, in order to strength the regulatory framework.

The Non-Bank Financial Institutions Supervision Division is divided into Licensing, Regulation and Development Section and Non-Bank Supervision Section. They are responsible for licensing, regulating and supervising all financial institutions (except banks and insurance companies) and finance companies that fall under the purview of MMA's supervisory jurisdiction, to ensure their smooth functioning. The main types of Non-Bank Financial Institutions that are supervised by MMA are: finance companies, money transfer companies and credit card operators.

The Insurance Division comprises of Insurance Supervision Section, Insurance Inspection Section and Insurance Policy, Regulation and Development Section. These sections analyse and evaluate the financial strength of currently operating insurance companies, along with the licensing and drafting regulations. They also conduct onsite examinations of insurance companies and intermediaries.

Area 3: Banking Operations

This area includes Banking and Payments Division and Reserve Management and Market Operations Division.

The **Banking and Payment Division** consist of the Payment and Settlement Systems Section, Currency and Numismatic Section and Banking Operations Section. Responsibilities of these sections include maintaining the government accounts and settling the accounts of the commercial banks and conducting and managing the clearing house for the commercial banks operating in the Maldives, printing and minting of banknotes and coins, issuing commemorative coins, maintaining the inventory of banknotes and coins, issuing new banknotes and coins into circulation and the sale of currency to numismatic collectors. In addition, they ensure safety, soundness and efficiency of the payment systems by administering the operation of the daily business cycle of the Maldives Real Time Gross Settlement System (RTGS) and ACH, managing any backup and/or fall back situations that may arise, and managing participants and users of systems.

The **Reserve Management and Market Operations Division** ensure that the financial system is developed efficiently through a well-functioning money market and foreign exchange market. This Division is divided into three sections; Reserve Management Section,



Market Analysis Section and Market Operations Section. They are responsible for handling the day-to-day management of MMA's reserves and ensure that the transactions are certified, approved, recorded and settled according to the set policies and benchmarks. In addition, the section forecasts autonomous factors affecting reserves and undertake market studies to monitor the activities in the market, whilst monitoring and analysing international developments namely the exchange rates, interest rates and commodity prices in the international market. This Division is responsible to inject and mop up excess liquidity in the banking sector to support the monetary policy, by controlling the expansion in the monetary aggregates and supporting the exchange rate peg and creating a genuine money market, as well as increasing the role of the interest rate.

Banking Services at MMA provide a range of services to financial institutions and the general public

Area 4: Corporate Services

This area includes Financial Controls Division, Human Resource Division, Technology Services Division and General Services Division.

Financial Controls Division comprises of three sections; Financial and Management Reporting Section, Corporate Accounts Section and Foreign Accounts Section. They ensure that all financial transactions are recorded in compliance with international accounting standards and other relevant policies and procedures and prepare financial reports accurately and accordingly with the International Financial Reporting Standards and other relevant regulations. They also work on preparation of other management information reports to assist the management in making their policy decisions. This Division makes budgetary payments in according to the MMA Act. Furthermore, the Fixed Asset Registry of MMA is also maintained by this Division, in addition to the accounts the general incomes received to the Authority. The Division also records and processes all foreign currency transactions and payments through the SWIFT system.

Human Resource Division comprises of three sections, Human Resource Development Section, Human Resource Services Section and MMA training Institute and Library. The main objective of the Human Resource Division is to recruit and retain a healthy and

motivated pool of staff with the skills and professionalism needed to support the current and future requirements of the MMA. This Division also develops and implements a holistic staff development and training policy, whilst addressing the training needs for MMA and to the financial industry.

The **Technology Services Division (TSD)** is responsible for the IT needs of the Authority. The Division provides support services and deals with the delivery of IT services in the organisation. The section is also responsible to protect the Authority's information assets and also planning, monitoring and maintenance of the IT infrastructure development and planning the direction, development and deployment of technology solutions and applications in MMA.

The **General Services Division** accomplishes the functions of administration, procurement services for its operations, maintenance and management of building and property to ensure continuity in provision of support service for the business needs of the organisation without disruptions to its operations. The Division also provides security services to safeguard the organisation's assets to create a safe working environment.

Governor's Office

The Governor's Office undertakes the functions of the Secretariat to the

Board and Governor; Media Relations and Public Affairs; International and Foreign Relations and management of on-going projects. Governor's Office is responsible for Governor and Deputy Governor's meetings and appointments, and also undertakes the secretarial functions of the MMA Board. In addition, all international relations with respect to international financial institutions, central banking institutions and foreign central banks are also carried out by the Governor's Office. Given the importance of information sharing and transparency of the work of the MMA, the Media Relations and Public Affairs Section functioned under the Governor's Office, to streamline communications and publicity of the organisation. Work at this section include: advertising MMA's publications; publishing news about MMA's meetings and events; running awareness programmes for the general public and specific groups; and handling all media communications of the Governor and Deputy Governor.

Units

Financial Intelligence Unit (FIU) acts as the national centre designated for receiving, analysing and disseminating information related to suspected money laundering and financing of terrorism. It is the intention of the FIU to establish a financial environment free from money laundering, financing of terrorism activities and major financial crimes and frauds, in the country.

Financial Consumer Unit receives and handles complaints from the customers of the financial institutions in the Maldives. The Unit also provides consumer education and information about financial services, responds to queries from the public on financial services and products in general, reviews and researches the products and services offered by the financial institutions and assists the Authority in identifying such issues that require immediate attention.

Public Debt Unit is responsible for securitising, monitoring and managing domestic government debt under "Agency Agreement for Cash and Domestic Debt Management". Hence MMA acts as the agent of the government in handling domestic debt.

Islamic Finance Unit is responsible for developing an effective and conducive Islamic financial framework, Shari'ah compliance procedures for Islamic financial institutions, liaising with Islamic standard setting bodies and international Islamic financial organisations. The unit also advises the management of MMA on Shari'ah issues relating to Islamic finance and undertakes the secretariat function of the MMA Shari'ah Council.

The **Risk Unit** is responsible for allocating to the Enterprise Risk Unit which includes: developing and implementing a risk management framework, providing strategic advice, raising awareness and supporting a risk aware culture, studying



The Extended Management Committee is a forum for constructive dialogue between the Senior Officials and Middle - Management

the causes of risk, keeping track of emerging risks, acting as a source of good practice, and undertaking the secretariat functions for the Risk Management Executive Committee.

The **Legal Unit** provides legal support and advice to the Governor and management, and deals with the legal aspects of the MMA's entire range of operations to develop and implement MMA policies.

5. Key administrative and operational activities

5.1 Staff Recruitment, Development and Training

MMA provides an excellent working environment for staff, with a competitive remuneration package inclusive of a medical insurance and a pension scheme, to attract and retain the best human capital. At the end of year 2012, the total number of staff at MMA was 163. While total female employment in the organisation stood at 52 per cent, the male-to-female ratio in the senior management was 1:1.8.

The ethical and fair standards maintained for its employees and the efforts made to uphold the credibility of the MMA has helped the organisation to attract high-quality graduates, who now form 70 per cent of the professional and technical jobs in the organisation.

In recognition of the dedicated and much valued service to the MMA, the Authority introduced the annual Long Service Awards in 2012 for those who have worked 20 years or more with the MMA. These awards were given during the event held to mark the 31st Anniversary of MMA. Nineteen staff received this award and they were:

1. Ms. Nareema Ali
2. Mr. Mohamed Thaufeeq
3. Mr. Ahmed Anwar
4. Ms. Fathimath Waheeda
5. Mr. Ibrahim Naseer
6. Ms. Zulfa Abdul RAhman
7. Mr. Abdul Ghafoor Abdul Latheef
8. Ms. Najmunnisa
9. Mr. Mohamed Ibrahim
10. Ms. Shafeeqa Hussain
11. Mr. Ahmed Waheed
12. Ms. Hawwa Naseera
13. Ms. Aishath Zahira
14. Ms. Aminath Rasheeda
15. Ms. Mariyam Hussain Didi
16. Ms. Fathimath Jawza
17. Mr. Mohamed Hashim
18. Ms. Soodha
19. Ms. Fathimath Zuhaira

As part of the emphasis given to staff motivation, MMA has empowered more staff to work as leaders by forming Extended Management Committee (EMC) which consists of 42 Section Heads. In addition to this, to foster a friendly environment among co-workers and to promote collaboration and team spirit, MMA introduced a new award, 'Ijthimaaee Award', an award given to the staff who is committed to create a sense of belonging, affection and respect within the staff members.



*Mohamed Ibrahim,
a member of staff,
receiving the Long
Service Award
at MMA's 31st
Anniversary function*

MMA has always placed a high priority to develop the functional and professional capacity of its staff in order to maintain excellence and quality in the work and services provided by the organisation. During the year 110 staff undertook 70 training and skill development programs. Of this, 99 staff completed various custom designed in-house courses conducted by the MMA Training Institute. An induction program for 6 new employees were also held during the year to familiarise them with the business process and procedures of the MMA and to support, welcome and recognize employees as they start the new job in MMA. Thirty Nine staff attended 50 different seminars and workshops held by foreign central banks and international training institutions. In addition, 9 staff attended short-term seminar/workshops organised by different local institutions in the country. To gain greater understanding of specific work processes of central banks, 4 officials from MMA visited the Central Bank of Sri Lanka to enhance knowledge on their liquidity management system.

MMA also awards scholarships every year to the staff to pursue academic and professional qualifications from universities abroad. In this regard, under MMA Human Resource Development Program, 2 employees were selected for post-graduate studies in the United Kingdom. In addition, 5 other employees were sponsored under the Employee Assistance Program (EAP) to pursue tertiary education in the Maldives.

MMA Training Institute

The MMA Training Institute (MMA TI) was established in February 2010 to enhance the capacities and capabilities of the staff of the MMA and to extend the training opportunities needed for the development of the financial sector. The MMA TI offers a broad range of programs to address the needs of the MMA and the other financial institutions in the country.

During the year 2012, the MMA TI conducted 7 workshops/seminars. 212 participants from 14 financial institutions in the country took part in these programs. In addition to these, MMA TI also held several lectures and presentations on various economic and financial sector issues. Majority of the facilitators and speakers at these programs were technical experts on their areas from well-known international organisations and foreign central banks.



Following are the workshops/seminars and lectures that were organised by the MMA Training Institutions during 2012:

1. Training course on Islamic banking products: Shari'ah and operational aspects
2. Workshop on Strategic Implementation Planning
3. Seminar on Monetary Policy in times of Crisis
4. Seminar on Islamic Money Market Instruments and Islamic Liquidity Operations
5. Customised Business Communications Skills Training
6. Training course on Dhivehi language (in association with Dhivehi Bahuge Academy)
7. Workshop on Economic and Financial Issues for Media Personnel
8. Evening Lecture – Underlying Shariah Principles of Islamic Finance Contract
9. Evening Lecture – World Economic Outlook
10. Evening Lecture - Contemporary Development in the Management of Risk in Financial Crime
11. Evening Lecture – Introduction to Islamic Finance
12. Monthly lunch time seminar series – various topics

Participants of the Customised Business Communications Skills Programme organised in association with the British Council

5.2 Currency operations

The MMA is the sole issuer of the Maldivian currency and is responsible for ensuring that the demands for currency are met adequately. In addition, MMA safeguards the integrity and the quality of the currency used in the country, and ensures that only genuine and fit notes and coins are in circulation. At the end of 2012, currency in circulation was MVR 2.5 billion, which is an increase of 17 per

cent compared to MVR 2.1 billion at the end of 2011. In 2012, no currency notes were printed as the MMA had adequate stock of all denominations of rufiyaa. However, to replenish the stock of coins, 1 rufiyaa, 50 laari and 25 laari coins were minted during the year. Further, 10 laari and 5 laari coins were also minted with a change to their shape – from a scalloped shape to a round shape. These new coins were introduced into circulation on 14th July 2012.

During the year in collaboration with the MMA, the World Coin Association of Germany issued commemorative coins of rufiyaa to mark two international sporting events. The first one was a silver coin titled “2014 FIFA World Cup Brazil” to commemorate the FIFA World Cup 2014 to be held in Brazil. The second coin, also in silver, was titled “Olympic Games 2016- Beach Volley” to commemorate the Olympic Games to be held in Rio de Janeiro, Brazil.

To keep consistent with the international

Commemorative Coin for FIFA World Cup 2014 Brazil



Reverse



Obverse

Commemorative Coin for Olympic Games 2016 - Beach Volley



Reverse



Obverse

currency codes, on the 1st of July 2012, MMA announced the official currency code to be MVR instead of the previously used Rf code.

5.3 Key regulatory and supervisory activities

Issuance and Revocation of License

Insurance brokers licenses were issued to two parties to operate in the Maldives on 20 March 2012 and 5 November 2012, respectively.

License was issued to a party to operate as an individual insurance agent of Amana Takaful (Maldives) Plc. on 26 June 2012.

The license issued to a party to operate as a corporate agent of Allied Insurance Company of the Maldives was revoked under section 54(f) of Guidelines for the Administration of Agents (2010) for non-compliance.

Licenses issued to two private individuals to operate as individual agents were revoked under section 54(e) of Guidelines for the Administration of Agents (2010) on 31st July 2012, following the termination of the Agency Agreement between the Insurer and the Agent.

Regulatory Activities

- Regulatory action was taken against a firm for non-compliance to the insurance regulation of the MMA.
- The FIU conducted an on-site examination of two commercial banks during the year to check their compliance with the Maldives Financial Transaction Reporting Regulations (2011), which is designed to monitor any AML/CFT activities in the financial sector.
- FIU received two suspicious transaction reports (STR) from the financial institutions in 2012. These were examined and it was found that the first STR did not require any further investigations. The second STR required further examination and it was forwarded to the relevant authorities for further investigations.

5.4 Legislative activities

Amendment to the Prudential Regulation on Asset Classification, Provisioning and Suspension of Interest

The prudential regulation on Asset Classification, Provisioning and Suspension of interest (Regulation no. 5/2009) issued in June 2009, was revised during the year 2012. The amendments include changing the criteria for Bank Guarantees to be classified as Doubtful Asset. Under the amendments, any Guarantee which is not honoured within 30 days of call would be classified as Doubtful Asset. The amendments also include granting power to the board of directors of the MMA to temporarily extend deadline for compliance to the regulation. The amendments came into effect on 6 June 2012.

Bill on First Amendment to the Banking Act (Law no. 24/2010)

Bill on the First Amendment to the Banking Act was submitted to and tabled in the People's Majlis on 24 October 2012. The drafted amendments include:

- changing the time period to process applications for a banking licence from 3 months to 5 months
- removing the specific limits on credit exposures (i.e. previously specified as not to exceed 15 per cent of capital to a single party, 40 per cent of capital

to a corporate group, and aggregate of all large exposures to not exceed 500 per cent of capital) and granting powers to the Maldives Monetary Authority (MMA) to prescribe limits on credit exposure by a regulation.

Mortgage and Security Interest Bill

A bill on mortgage and security interest was submitted to the Economic Committee of the People's Majlis. This bill provides for creation of securities interest in movable property, registration of securities interests, creation of mortgage over immovable property, enforcement securities interests and mortgages, appointment of receivers, and for other related purposes in relation to securities interest and mortgage. The bill was submitted to the People's Majlis on 11 October 2012.

Prohibition and Prevention of Money Laundering and Financing of Terrorism Bill

The bill on prohibition and prevention of money laundering and financing of terrorism was further reviewed during the year, in line with the revised standards of the Financial Action Task Force. The revised bill was sent to Attorney General's Office on 26th September 2012 for submitting to the People's Majlis. This bill provides for the prohibition and prevention of money laundering and financing of terrorism, procedures related thereto, and the establishment

of a Financial Intelligence Unit in the Maldives.

Extension of the validity of the regulations for insurance industry and finance leasing companies

The validity period for the Insurance Industry Regulations and the Regulations for Finance Leasing Companies and Finance Leasing Transactions, issued under the Law no. 6/2008, was extended until April 2013.

Insurance Bill

The draft bill on insurance was sent to Attorney General's Office on 6 February 2012. The draft bill was shared with all the operating insurers, brokers, agents and was also published on the Authority's website for public comments.

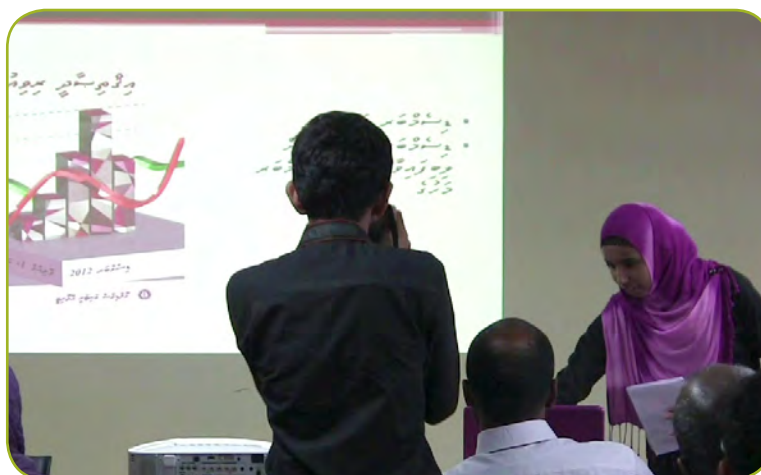
6. Key Organisational Developments

6.1 Adoption of a communication strategy

A formal communications policy of the Maldives Monetary Authority was introduced with the commencement of work at the Media Relations and Public Affairs Unit in April 2012. For the first time in the history of MMA, social media accounts were open for YouTube, Facebook and Twitter, to widen the audience reach of the general public. The communications policy of the MMA aims to minimise misinformation, increase efficiency and timeliness of the organization's communications.

6.2 Publishing of 'Iqthisaadhee Review'

The Monetary Policy and Research Division published a new monthly publication named 'Iqthisaadhee Review' during the year. This is the first economic publication of the MMA in Dhivehi. This publication provides a brief commentary on the macroeconomic developments during the previous month. The first issue of the 'Iqthisaadhee Review' was published in December 2012.



6.3 Launching of Lunch-time Seminar Series

A series of seminar sessions was introduced as 'Lunch-time Seminar Series' during 2012. The purpose of the seminar sessions are to share information with the staff of MMA and other invitees about research papers and studies on macroeconomic and other financial sector issues.

Iqthisaadhee
Review launching
ceremony

6.4 Formulation of a Customer Charter

In order to safeguard the rights of customers and improve public confidence in the banking system, MMA formulated a "Customer Charter" in 2012. The Charter sets key standards of banking practices that can be expected by customers when conducting transactions with banks, and provides guidance to banks for adopting

a 'Code of Conduct' for customer service and protection. The Charter also defines a set of customer obligations towards banks.

6.5 Adopting a Terms of Reference for the AML/CFT Steering Committee

The AML/CFT National Coordination Committee, which is a national level inter-agency committee, established for the formulation and the implementation of the AML/CFT policies, formalised and adopted a terms of reference (TOR) for the committee on 12th July 2012. The discussions on establishing this Committee, together with adoption of a Terms of Reference for the Committee started in 2008. During these discussions, the participating agencies agreed on establishing this Committee. The agencies also agreed to keep working on finalising the TOR due to concerns with any overlapping that may arise because of the new constitution of Maldives.

6.6 Survey of Maldivians Travelling Abroad

As part of coverage improvement of balance of payments statistics, Survey on Maldivians Travelling Abroad 2012 was conducted at the arrival hall of Ibrahim Nasir International Airport (INIA) from December 21-27, 2012.

6.7 Submission of Mutual Evaluation Reports

As part of the Asia-Pacific Group on Money Laundering (APG) membership obligations, Maldives has undergone Mutual Evaluation on Financial Action Taskforce (FATF) 40 Recommendations on Money Laundering and nine Special Recommendations on Combating the Financing of Terrorism in 2010. The Mutual Evaluation was conducted by an IMF assessment team and the assessment report was adopted in the APG Annual Meeting held in India on July 2011. The report is now published on the IMF and APG websites.

Based on the recommendations in the report, Maldives was required to submit three Mutual Evaluations follow-up progress reports to the APG. The first progress report was submitted to the APG on 31 October 2011 and the second and the third progress reports were submitted on 31 January 2012 and 31 May 2012, respectively. These progress reports highlight the progress Maldives has made in addressing the actions recommended in the assessment report.

Despite the progress made by the Maldives, based on the progress reports submitted, the APG Secretariat decided to keep Maldives under the APG's enhanced follow-up process and required the authorities to submit a comprehensive progress report by 31 January 2014.

6.8 On-going Development Projects

Maldives Interoperable Payments Systems (MIPS) project

The key objective of this project was to enhance access to finance and banking services to all the citizens of the Maldives. The MIPS project consists of implementing a Real Time Gross Settlement System (RTGS), an ACH, an Electronic Fund Transfer (EFT) Switch and a Mobile Payment System (MPS). This project was funded from a loan from the World Bank through the International Development Association (IDA) and a grant from the Consultative Group to Assist the Poor (CGAP). RTGS commenced live operations on 10 April 2011 and ACH went live with Direct Credits on 2 February 2012.

Credit Information Bureau project

Until the beginning of February 2011 there has been no identified formal mechanism in the Republic of the Maldives for credit providers to share information on the past performance of their borrowers. As a result, lenders have been forced to resort to informal data sharing, in order to reduce information asymmetry when making credit decisions. Therefore, to improve the access to finance for underserved business segments, and to further develop and improve the efficiency of the financial sector, MMA initiated a project to

establish a credit information registry for the Maldives. This project was financed by the Asian Development Bank. The work on the project began in 2009 and in 2011, the Credit Information Registry of the Maldives named as Credit Information Bureau (CIB) was set up. Although CIB's scope of service extends to the utilities and telecommunication sector, the lack of adequate legal framework and difficulty in obtaining information in the required format has limited the credit information repository to currently operate only within the financial sector governed by the Authority. The repository covers data from 9 financial institutions, inclusive of a leasing company and housing development corporation. It contains information on credit facilities from the 9 member institutes.

As the credit information repository is highly dependent of 'error free' data submission by member institutes, onsite visits and workshops are regularly conducted by the CIB technical team to its member institutes. During the year a total of 13 onsite training sessions were conducted for the member institutes on retrieval of reports from the system, data submission and error correction. However, the lack of dependency by financial institutes on credit reports while extending credit, and non-adherence by some members to the timely submission of data remains as the key challenges for fully operationalising the system.



*Lunch-time
seminar series
promotes
interactive
discussions on
various topics*

The second part of the CIB project is the establishment of a Central Movable Asset Registry and during the year feasibility study and a legal analysis was conducted by two individual international consultants. They also drafted the necessary STR legislations namely, the Movable and Immovable Property Secured Transactions Bill, which have been now incorporated in the mortgage bill and is in the parliament.



*MMA TV brings news
and events related to
MMA on YouTube*

Enterprise Resource Planning (ERP) project

The work on implementing an Enterprise Resource Planning (ERP) solution at MMA started in 2012. The aim of the project was to reengineer the accounting function of the organisation to facilitate efficient recording of MMA's financial transaction in order to generate timely financial and management information reports. This will centralise and automate the accounting system, systemise the maintenance of human resources records and the procurement process of MMA. In July 2012, an implementer of the system was selected and work began in September. By the end of the year 2012, the project plan was finalized with the Go-Live of the system set for May 2013, and completed the information gathering sessions on MMA's business processes to design the required solutions.

7. International Relations

MMA continues to work closely with other central banks and supervisory authorities to promote cross-border supervision of financial institutions, to foster a safe and sound financial system in the Maldives, and to share expertise and best practices. Further, MMA maintains close collaborations with international financial institutions and development agencies.

7.1 Signing of international Memorandums of Understanding

As of December 2012, MMA has signed three Memorandums of Understanding (MoUs), with the most recent being the one with the Labuan Financial Services Authority (Labuan FSA) of Malaysia on 2 October 2012. This arrangement will enable MMA to learn from the experience of Labuan FSA to develop the financial sector of the Maldives.

MMA also has a MoU with the Bank of Mauritius, which was signed on the 19 December 2011. This laid the groundwork for providing a formal basis of cooperation, and includes exchanging information, assisting in investigations, taking enforcement actions, and applying prudential standards in regulating and supervising the financial institutions. The MoU between the Central Bank of



United Arab Emirates and MMA that was signed on 21 December 2010, agreed to foster a closer relationship through the cooperation in regulatory issues as well as in supervision of banks and other financial institutions operating in both countries. It also enables the exchange of supervisory information between the two countries, in line with the Bank for International Settlements Home-Host information sharing.

*Delegates of the 16th
SAARCFINANCE
Coordinators'
Meeting*

7.2 Meetings and Conferences hosted by the MMA

SAARCFINANCE Meetings

The Chair of the SAARCFINANCE was transferred from Royal Monetary Authority of Bhutan to the Maldives Monetary Authority on 25 September 2011 at the 23rd SAARCFINANCE Group

Meeting held in Washington DC, USA. Accordingly, MMA hosted the 15th SAARCFINANCE Coordinators Meeting in Male' Maldives from 12-13 March 2012. The 24th SAARCFINANCE Governors Meeting was held in Pokhara, Nepal on 16 May 2012. It was chaired by the Governor and Chairman of MMA and was attended by all member countries of SAARC.

The 16th SAARCFINANCE Coordinators Meeting was held in Bandos Island Resort and Spa from 2-3 September 2012. All member countries of SAARC except Afghanistan attended the meeting.

The 25th SAARCFINANCE Governors' Meeting was held in Tokyo in October 2012 concurrent with the IMF/WB Annual Meetings of 2012 was attended by all member countries of SAARC except Afghanistan.

7.3 Visits by teams from international institutions

IMF Article IV Consultation Mission

The Article IV Consultation mission from the IMF visited the Maldives from 30 October to 13 November, 2012. The mission held discussions with the President, Minister of Finance and Treasury, the Governor of MMA, other senior officials of MMA and the government, Public Finance Committee of the Parliament, representatives of the commercial banks, private sector,

and donor community, regarding macroeconomic developments and policies and the outlook for the medium term.

IMF Technical Assistance on Bank Supervision

The IMF assigned a Bank Supervision advisor as a resident advisor, who completed his one year term during 30 April 2012. During his visit he assisted Bank Supervision staff in conducting on-site supervisions of commercial banks, revised bank's reporting formats, resolved issues on banks' compliance with prudential regulation and revised off-site surveillance reports. Another visit by an IMF team of three members made a visit to Maldives from 30 October 2012 to 12 November 2012. The purpose of the mission was to improve the risk-based supervision, Capital Adequacy and enforcement framework relating to the Banking Industry .

8. Fiscal Agency Function

MMA acts as an agent to the Government for the issuance and management of government securities. The major developments and activities in government securities market are highlighted below.

8.1 Treasury Bills Market:

One of the major developments in Treasury bills (TBills) market was the introduction of one year (364 days) MVR TBills on 12 August 2012. The purpose was to lengthen the maturity profile of the domestic debt and provide long term investment opportunities for the investors. In addition, to widen the investor base and diversify the TBills market, it was opened to private companies on 22 August 2012, as it was previously limited to Commercial Banks, State Owned Enterprises and their subsidiaries. Moreover, private placements in USD and MVR TBills were also introduced to all eligible participants.

TBills operation continued in 2012 to raise finance required for the government. A summary of TBills holdings is shown in Table 1.

Table 1. shows that TBills outstanding increased by 38 per cent since 2011. When compared to 2011, it is observed that investors have shifted their

preference from long term TBills to short term. This can be seen from the 107 per cent increase in 28 day TBills and the reduction of 91 and 182 day TBills by 37 per cent and 70 per cent respectively.

8.2 Treasury Bonds Market:

A US\$ 100 million Treasury Bond (TBonds) matured in 2012. Of this, a second tranche of US\$ 50 million matured in early 2012 and was rolled-over for one more year. The first tranche matured on 3 December 2012 was repaid.

(millions of rufiyaa)	2011	2012	y/y (2012 / 2011)	
			chg	%chg
Treasury Bills				
Outstanding by Security				
28 days	1,241.5	2,571.1	1,329.6	107% ▲
91 days	1,640.0	1,029.8	(610.2)	-37% ▼
182 days	1,803.0	533.5	(1,269.5)	-70% ▼
364 days	-	2,316.2	2,316.2	na
Total Outstanding	4,684.5	6,450.6	1,766.1	38% ▲

Table 1. TBills
outstanding by
maturity
Source: MMA

9. Financial Statements

9.1 Auditor's Report

Balance Sheet

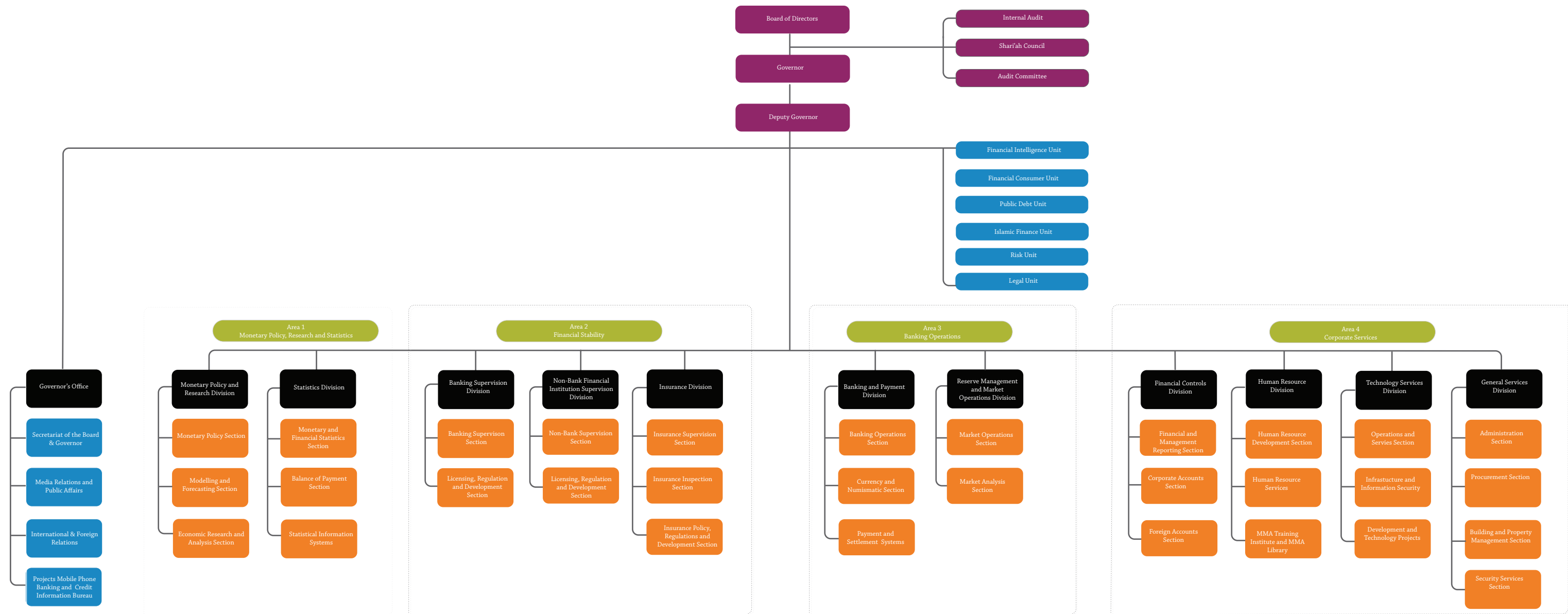
Income Statement

Notes to the Financial Statements

Annexes

A.1: Audited Financial Statements





MALDIVES MONETARY AUTHORITY
AUDITORS' REPORT AND FINANCIAL STATEMENTS
31 DECEMBER 2012

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**Independent Auditors' Report
To the Board of Directors of the Maldives Monetary Authority****Report on the financial statements**

We have audited the accompanying financial statements of Maldives Monetary Authority (the "Authority"), which comprise the statement of financial position as at 31 December 2012, and the income statement, statement of movements in equity and statement cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

In our opinion the financial statements present fairly, in all material respects, the financial position of the Authority as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



24 April 2013
Malé

Maldives Monetary Authority

STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

Assets	Note	2012 MVR	2011 MVR
Foreign currency financial assets			
Cash and balances with banks	4	4,470,229,741	4,948,687,093
IMF related assets	5	399,467,849	403,463,086
Subscriptions to international agencies	6	831,517	833,681
Other receivables		7,406	9,664
Total foreign currency financial assets		4,870,536,513	5,352,993,524
Local currency financial assets			
Subscriptions to international agencies	6	8,509,716	8,468,155
Interest and other receivables	7	2,593,119	-
Loans to the Government	8	331,391,576	26,441,246
Investment in Government Bonds	9	3,806,000,000	3,806,000,000
Interest Receivable on Government Bonds	10	86,069,446	88,241,200
Investment in Government Treasury Bills	11	779,603,355	-
Total local currency financial assets		5,014,167,212	3,929,150,601
Total financial assets		9,884,703,725	9,282,144,125
Local currency non-financial assets			
Gold and silver assets	12	40,061,282	39,618,586
Inventories	13	71,367,444	33,182,702
Property, plant and equipment	14	57,888,904	74,607,114
Intangible assets	15	44,865,150	41,643,422
Prepayments and advances		2,844,414	2,646,654
Total local currency non-financial assets		217,027,194	191,698,478
Total assets		10,101,730,919	9,473,842,603



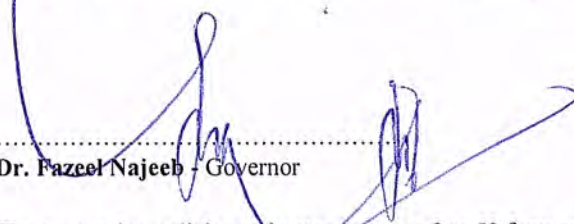
Maldives Monetary Authority

STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Note	2012 MVR	2011 MVR
Liabilities and equity			
Foreign currency financial liabilities			
Balances of commercial banks	16	2,455,909,127	2,364,657,089
Balances of government and government institutions	17	119,568,295	121,964,410
Payable to Asian Clearing Union	18	12,562,384	7,705,144
IMF related liabilities	19	613,498,935	616,489,717
Interest bearing loans	20	125,605,495	107,756,674
Deposits of international financial institutions		831,517	833,681
Other liabilities	21	17,815,876	18,429,451
Total foreign currency financial liabilities		3,345,791,629	3,237,836,166
Local currency financial liabilities			
Balances of commercial banks	16	3,441,763,734	3,009,536,058
Balances of government and government institutions	17	21,442,863	207,012,909
Balances of insurance companies	24	10,000,000	10,000,000
Deposits of international financial institutions	25	10,901,775	9,452,352
Other liabilities	22	217,363,812	160,478,335
Total local currency financial liabilities		3,701,472,184	3,396,479,654
Total financial liabilities		7,047,263,813	6,634,315,820
Other liabilities			
Currency in circulation	26	2,475,540,003	2,196,674,027
Deferred grants	27	4,441,733	10,459,728
Pension and other employment benefits payable	23	4,874,507	5,343,545
		2,484,856,243	2,212,477,300
Total liabilities		9,532,120,056	8,846,793,120
Equity			
Capital	28	50,000,000	50,000,000
Reserve		519,610,863	577,049,483
Total equity		569,610,863	627,049,483
Total liabilities and equity		10,101,730,919	9,473,842,603

The Board of Directors of the Maldives Monetary Authority authorised these financial statements for issue on 24 April 2013 Signed for and on behalf of the Board by,


Dr. Fazeel Najeeb - Governor


Ahmed Nazeer - Director

The accounting policies and notes on pages 9 to 52 form an integral part of the financial statements.



Maldives Monetary Authority

INCOME STATEMENT

As at 31 December 2012

	Note	2012 MVR	2011 MVR
Operating income			
Foreign currency income and expenses	29		
Interest income on foreign currency financial assets		7,609,723	3,893,545
Interest expense on foreign currency financial liabilities		(4,570,767)	(5,390,247)
Net foreign currency income		3,038,956	(1,496,702)
Local currency income and expenses	30		
Interest income on local currency financial assets		308,975,626	298,656,798
Interest expenses on local currency financial liabilities		(35,585,406)	(38,669,386)
Net local currency income		273,390,220	259,987,412
Other income	31	19,638,890	15,774,703
Net foreign exchange revaluation gain		17,725,915	328,431,857
		37,364,805	344,206,560
Total net operating income		313,793,982	602,697,270
Operating expenses			
Personnel expenses	32	37,242,468	32,534,987
Administration expenses	33	37,253,132	35,204,623
Depreciation, amortisation and impairment		33,533,822	57,162,554
Total operating expenses		108,029,423	124,902,164
Net profit for the year		205,764,559	477,795,106



Maldives Monetary Authority

STATEMENT OF MOVEMENTS IN EQUITY

As at 31 December 2012

	Contributed capital MVR	General reserve MVR	Foreign asset revaluation reserve MVR	Retained earnings MVR	Total MVR
As at 1 January 2010	1,000,000	8,000,000	49,649,021	368,593,617	427,242,638
Transfers to capital	49,000,000	-	-	(49,000,000)	-
Profit re-appropriation to the Government	-	-	-	(304,893,919)	(304,893,919)
Retrospective restatement of errors	-	-	-	(7,233,193)	(7,233,193)
Profit for the year	-	-	-	233,769,918	233,769,918
Transfers to FARR (Note 28)	-	-	9,191,275	(9,191,275)	-
1/5th of FARR payable to the Government	-	-	(11,768,059)	-	(11,768,059)
As at 31 December 2010	50,000,000	8,000,000	47,072,237	232,045,148	337,117,385
As at 1 January 2011	50,000,000	8,000,000	47,072,237	232,045,148	337,117,385
Transfers to General Reserve Account	-	92,000,000	-	(92,000,000)	-
Profit re-appropriation to the Government	-	-	-	(132,578,640)	(132,578,640)
IMF quota related adjustments for 2009 and 2010 corrected in 2011	-	-	-	12,650,472	12,650,472
Profit for the year	-	-	-	477,795,106	477,795,106
Transfers to FARR (Note 28)	-	-	292,601,961	(292,601,961)	-
1/5th of FARR payable to the Government	-	-	(67,934,840)	-	(67,934,840)
As at 31 December 2011	50,000,000	100,000,000	271,739,358	205,310,125	627,049,483



Maldives Monetary Authority

STATEMENT OF MOVEMENTS IN EQUITY

As at 31 December 2012

	Contributed capital MVR	General reserve MVR	Foreign asset revaluation reserve MVR	Retained earnings MVR	Total MVR
As at 1 January 2012	50,000,000	100,000,000	271,739,358	205,310,125	627,049,483
Profit re-appropriation to the Government (Note 34)	-	-	-	(205,310,125)	(205,310,125)
Profit for the year	-	-	-	205,764,559	205,764,559
Transfers to FARR (Note 28)	-	-	17,725,915	(17,725,915)	-
1/5th of FARR payable to the Government	-	-	(57,893,055)	-	(57,893,055)
As at 31 December 2012	50,000,000	100,000,000	231,572,218	188,038,644	569,610,863



ERNST & YOUNG

Chartered Accountants

Malé, Maldives

Company Reg: 102705

Maldives Monetary Authority
STATEMENT OF CASH FLOWS
As at 31 December 2012

	Note	2012 MVR	2011 MVR
Cash flows from operating activities			
Sources:			
Interest received- foreign currency		7,611,520	4,065,840
Interest received - local currency		358,550,906	298,313,239
Fees, commission and other miscellaneous income received		13,533,838	15,718,042
Realised foreign exchange profits		-	35,829,897
		<u>379,696,263</u>	<u>353,927,018</u>
Disbursements:			
Interest paid - foreign currency		(2,899,170)	(5,390,247)
Interest paid - local currency		(35,585,406)	(38,669,387)
Payments to employees		(37,711,506)	(61,244,541)
Payments to suppliers and fees/commission paid		(79,032,339)	(24,051,548)
		<u>(155,228,420)</u>	<u>(129,355,723)</u>
Net cash flow from operating activities	35	<u>224,467,843</u>	<u>224,571,295</u>
Cash Flows from Investing Activities			
Sources:			
Net increase / (decrease) in currency deposits		(12,555)	(157,960)
Net increase / (decrease) in deposits from financial institutions		523,479,715	792,565,977
Net increase / (decrease) in deposits from the Government		(169,209,495)	(1,357,124,341)
Net increase / (decrease) in other liabilities		<u>1,251,455</u>	<u>(193,000)</u>
		<u>355,509,120</u>	<u>(564,909,323)</u>
Disbursements:			
Net (increase)/ decrease in assets held with IMF		2,022,387	(24,495,052)
Net (increase) / decrease in loans and advances to the Government		(1,134,550,330)	-
Expenditure on development projects		(15,179,997)	(33,201,378)
Purchase of property plant & equipment		(4,869,508)	(2,455,043)
Profit paid to the the Government		(205,310,123)	(132,578,640)
		<u>(1,357,887,569)</u>	<u>(192,730,113)</u>
Net cash flow from investing activities		<u>(1,002,378,449)</u>	<u>(757,639,436)</u>



Maldives Monetary Authority
STATEMENT OF CASH FLOWS
As at 31 December 2012

	Note	2012 MVR	2011 MVR
Cash flows from financing activities			
Sources:			
Issue of currency in circulation		278,865,976	325,538,247
Net increase / (decrease) in ACU payables		4,876,377	(49,109,042)
Net increase / (decrease) in securities issued		-	(92,000,000)
Net increase / (decrease) in interest bearing loans		18,180,586	44,560,245
Net increase / (decrease) in liabilities with IMF		7,392	34,074,126
Net increase / (decrease) in grant from CGAP		-	1,335,479
Net cash flow from financing activities		301,930,332	264,399,055
Net increase / (decrease) in cash and cash equivalents		(475,980,274)	(268,669,086)
Exchange rate effect on cash and cash equivalents		(2,489,632)	916,890,534
Cash and cash equivalents as at the beginning of the year		4,947,835,174	4,299,613,726
Closing cash and cash equivalents as at 31 December 2012	36	4,469,365,268	4,947,835,174



1. REPORTING ENTITY AND STATUTORY BASE

These are the financial statements of the Maldives Monetary Authority (the Authority); the institution established under the Maldives Monetary Authority Act (MMA Act) of 1981 of the Republic of Maldives. The Authority is domiciled in the Republic of Maldives and is situated at Majeedhee Building, Male', Republic of Maldives.

The Authority was established in 1981 and is responsible:-

- (a) To issue currency and regulate the availability, and international value of the Maldivian Rufiyaa;
- (b) To provide advisory services to the Government on Banking and monetary matters;
- (c) To supervise and regulate banking so as to promote a sound financial structure; and
- (d) To promote in the country and outside the country the stability of Maldivian currency and foster financial conditions conducive to the orderly and balanced economic development of Maldives.

These financial statements for the year ended 31 December 2012 were authorised for issue by the Board of Directors of the Authority in accordance with the article 35 of MMA Act.

2. ACCOUNTING POLICIES

Basis of preparation

The financial statements are prepared on the historical cost basis, except for certain assets and liabilities that have been measured at fair value as identified in specific accounting policies below.

Reporting format

The Authority presents financial assets and financial liabilities, and their associated income and expense streams, by distinguishing between foreign currency and local currency activities. In the statement of financial position assets and liabilities are presented broadly in order of liquidity within such distinguished category. The Authority considers that this reporting approach provide appropriate reporting of the Authority's activities.

Currency of presentation

The financial statements are presented in Maldivian Rufiyaa, unless otherwise stated, and are rounded to the nearest Rufiyaa.

Statement of compliance

These financial statements of the Authority for the year ended 31 December 2012 have been prepared in accordance with International Financial Reporting Standard (IFRS).

2.1 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The accounting policies adopted are consistent with those used in the previous financial year.

2.2 STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS THAT ARE NOT YET EFFECTIVE

Standards issued but not yet effective up to the date of issuance of the Authority's financial statements are listed below. This listing is of standards and interpretation issued, which the Authority reasonably expects to be applicable at a future date. The Authority intends to adopt those standards when they become effective, and currently their impact is not reasonably known or estimated.



2.2 STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS THAT ARE NOT YET EFFECTIVE (CONTINUED)

IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Authority's financial position or performance and will become effective for annual periods beginning on or after 1 January 2013.

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASB's work though the adoption date is subject to the recently issued Exposure Draft on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address impairment and hedge accounting.

IFRS 13 – Fair Value measurement

The standard becomes effective for annual periods beginning on or after 1 January 2013. IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to measure the fair value of financial and non-financial assets and liabilities when required or permitted by IFRS. There are also additional disclosure requirements.

Adoption of the standard is not expected to have a material impact on the financial position or performance of the Authority.

In addition to the above, following standards have also been and will be effective from 01 January 2013.

IAS 1 - Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

2.3 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. In the process of applying the accounting policies, the Authority has made the following judgments, which have the most significant effect on the amounts recognized in the financial statements.

Fair Value of Financial Instruments

Where the fair values of financial assets and financial liabilities recorded in the Statement of Financial Position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgment is required to establish fair values. The judgments include considerations of liquidity and inputs such as discount rates.



2.3 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (Continued)

Impairment losses on loans and advances

The Authority reviews its individually significant loans and advances at each Statement of Financial-position date to assess whether an impairment loss should be recorded in the income statement. In particular, management's judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually (and found not to be impaired) are assessed together with all individually insignificant loans and advances in groups of assets with similar risk characteristics. This is to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident.

Pensions and other post employment benefit plans

The cost of defined benefit plans is determined using an internal valuation. This valuation involves making assumptions about discount rates, rate of compensation and future pension increases/decreases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Assumptions used are disclosed separately in the notes to the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Foreign currency translation

The Authority's functional and presentation currency is Maldivian Rufiyaa. Transactions in foreign currencies are initially recorded in the functional currency ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. All differences are taken to the income statement. For the purposes of retranslation the following Maldivian Rufiyaa exchange rates for major currencies were used:

	2012 December	2011 December
	MVR	MVR
1 Australian Dollar	15.9423	15.6606
1 Euro	20.3119	20.1385
1 Singapore Dollar	12.5675	11.8758
1 Special Drawing Rights (SDR)	23.6532	23.7685
1 Sterling Pound	24.8504	24.1385
1 United States Dollar	15.3700	15.4100

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using exchange rates at the dates of initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. In accordance with the Chapter 3, Section 13 of MMA Act 1981, on 10 April 2011, The President of The Republic of Maldives in consultation with the Board of Directors of MMA has announced that the exchange rate of Maldivian Rufiyaa against USD is permitted to fluctuate within a $\pm 20\%$ band of MVR 12.85 per USD, effective from 11 April 2011. From 11th April 2011, MMA has started calculating realized gains on foreign currency transactions. The methodology used is the average cost methodology.



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Instruments – Initial Recognition and Subsequent measurement

Financial Assets within the scope of IAS 39 are classified as Loans and Receivables, Held-to-Maturity Investments, Available-for-Sale Financial Assets as appropriate. The Authority determines the classification of its Financial Assets at initial recognition.

Date of Recognition

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that The Authority becomes a party to the contractual provisions of the instrument. This includes 'regular way trades': 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.

Initial Measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

Available-for-sale financial investments

Available-for-sale investments include equity and debt securities. Equity investments classified as available-for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value.

Held to Maturity Financial Assets

Held to maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities, which The Authority has the intention and ability to hold to maturity. After initial measurement, held to maturity financial assets are subsequently measured at amortised cost using the Effective Interest Rate (EIR) less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in 'Interest Income' in the Income Statement.

If The Authority were to sell or reclassify more than an insignificant amount of held to maturity assets before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available for sale. Furthermore, The Authority would be prohibited from classifying any financial asset as held to maturity during the following two years under IAS 39.



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans and Advances to the Government

‘Loans and advances to the Government’ include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

After initial measurement, ‘Loans and Advances to the Government’ are subsequently measured at amortised cost using the Effective Interest Rate, less allowance for impairment. Amortised cost is calculated by taking into account any fees and costs that are an integral part of the EIR. The amortisation is included in ‘interest income’ in the income statement. The losses arising from impairment are recognised in the Income Statement in ‘Impairment Charge’.

International Monetary Fund (IMF) related balances

In accordance with Article 22(j) of the MMA Act, the Authority may act as fiscal agent of the government in its dealings with International Financial Institutions transacts with the International Financial Institutions and undertake financial agency work for the government. In compliance with the MMA Act, the accounts with International Monetary Fund (IMF) in which records all transactions with the IMF have been included in these financial statements on that basis.

The cumulative allocation of SDR’s by the IMF is treated as a liability. Exchange gains and losses arising on revaluation of IMF assets and liabilities at the exchange rate applying as at the reporting date as published by the IMF are recognised in the income statement.

All other charges and interest pertaining to balances with the IMF are recorded immediately in the income statement.

Cash and cash equivalents

Cash and cash equivalents comprise cash at foreign banks and financial institutions and short-term deposits.

As a part of local currency activities the Authority generates certain income and incurs expenses, which do not involve in movement of cash. Those activities result in certain assets and liabilities and mainly comprise of the transactions with Government and transactions with domestic banks and financial institutions. Transactions with Government include the banking transaction to the government and governmental institutions. The results of these transactions are reflected as mere book entries in the records of the Authority.

As the sole statutory authority, the Authority issues currency to the public in line with MMA Act. Currency issued by the Authority represents a claim on the Authority in favour of the holder. This is a liability on the part of the Authority while it is an item of cash in the hands of the holder. Movement in circulation currency is included as part of financing activities in line with prevailing industry practices among those central banks which present statement of cash flows.

The Authority through the cash/pay order process disburses cash in the form of notes and coins or cheques drawn on the Authority, to various drawers including suppliers and employees for goods and services obtained, which is either added to the currency in circulation liability or deposits by banks and financial institutions. Such forms of utilisation of currency for the purposes of the Authority’s payments form part of cash outflows of the Authority.



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Repurchase and reverse-repurchase transactions

Securities sold under agreements to repurchase continue to be recorded as assets in the statement of financial position. The obligation to repurchase (securities sold under agreements to repurchase) is disclosed as a liability. The difference between the sale and repurchase price in repurchase transactions and the purchase price and sale price in reverse-repurchase transactions represents an expense and income respectively and is recognised in the income statement.

Securities held under reverse-repurchase agreements are recorded as an asset in the statement of financial position (securities purchased under agreements to re-sell). Both repurchase and reverse-repurchase transactions are reported at the transaction value inclusive of any accrued income or expense.

Investment portfolio

Government of Maldives treasury bonds

The Authority's investment portfolio consists of treasury bonds purchased from Government of Maldives. The portfolio is recorded in the statement of financial position at amortised cost since they represent loans provided to the Government.

Government of Maldives treasury bills

This investment portfolio consist treasury bills purchased from Government of Maldives. Under article 22 (h) of the MMA Act, the Authority has purchased MVR T-Bills to meet the budget financing of the Government of Maldives.

Advances to government

Advances to Government represents direct provisional advances made to Government of Maldives under Section 22 (h) of the MMA Act, as amended.

Loans to other institutions

Loans granted to other institutions are recognised and carried at the original granted amount less an allowance for any uncollectible amounts. An allowance for doubtful debts (for loan impairment) is established if there is objective evidence that the Authority will not be able to collect all amounts due. The amount of the allowance is the difference between the carrying amount and the estimated recoverable amount. Bad debts are written off when identified.

Securities lending

Transfer of securities to counter parties under lending transactions is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, 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 (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognised in the income statement.



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Assets carried at amortised cost (Continued)**

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, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Other assets**Gold**

Section 21 (2) of the MMA Act which specifies the composition of external reserve indicates that gold may be held by the Authority as part of this reserves. Hence, Authority holds gold as part of its external reserves. As this gold is part of the external reserve and not used as a commodity which is traded during the normal course of business, (hence, not a financial instrument as per the definition in IAS) gold is fair valued and the gains or losses are transferred to the income statement. Prior to appropriation of profits, the unrealised gains or losses from gold are transferred to the foreign asset revaluation reserve.

Inventories

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the price at which inventories can be sold in the ordinary course of the business less the estimated cost of completion and the estimated cost necessary to make the sale.

The value of each category of Inventory is determined on First in First out basis.

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 property, plant and equipment when that cost is incurred if the recognition criteria are met.

Except for the freehold land, depreciation is calculated on a straight-line method over the following estimated useful lives:

Class of asset	Useful life
Buildings on freehold land	30 years
Machinery and equipment	5 years
Furniture and fittings	5 years
Motor vehicles	5 years
Computer equipment	3 years
RTGS Software	7 years
Credit Information Bureau Software	5 years
Automated Clearing House	7 years

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. The asset's residual values, useful life and methods are reviewed, and adjusted if appropriate, regularly.



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets

The Authority's intangible assets include the Maldives Credit Information Bureau and the Maldives Real Time Gross Settlement System which went live in 2011 and the Automated Clearing House which went live during the year 2012. In addition to this, value of Maldives Interoperable Payment System is also classified under development as at the reporting date. Costs of these intangible assets are recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Authority.

The cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management.

In particular these costs include costs of materials and services used or consumed in generating the intangible asset; costs of employee benefits (as defined in IAS 19) arising from the generation of the intangible asset; fees to register a legal right; amortization of patents and licenses, if any, that are used to generate the intangible asset and finance charges as defined by IAS 23 Borrowing Costs. Selling, administrative and other general overhead expenditure are not components of the cost of an internally generated intangible asset and are charged to income statement as and when they are incurred unless this expenditure can be directly attributed to preparing the asset for use. Identified inefficiencies and initial operating losses incurred before the asset achieves planned performance are also treated the same as the above.

Impairment of Financial Assets

The Authority assesses at each reporting 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 have 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; the probability that they will enter bankruptcy or other financial re-organisation; default or delinquency in interest or principal payments; and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Impairment of non-financial assets

The Authority assesses at each reporting date if events or changes in circumstances indicate that the carrying value may be impaired, whether there is an indication that a non-financial asset may be impaired. If any such indication exists, the Authority makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, and other available fair value indicators.

For assets an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Authority estimates the asset's or CGU's recoverable amount.



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets (Continued)

Previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Income Statement. Impairment losses relating to goodwill are not reversed in future periods.

Other liabilities

Provisions

Provisions are recognised when the Authority has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Authority expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Defined contribution plans

Employees are eligible for Maldives Pension Office Contributions in line with Maldives Pension Act of 8/2009. The bank contributes 7% of employees' gross emoluments to Maldives Pension Office Contributions which is a separately administered defined contribution plan. Accrued rights payable for the past service to those employees in employment with the Authority has been accounted separately in these financial statements as per the provisions of Maldives Pension Act of 8/2009.

Currency in circulation

Currency issued by the Authority represents a claim on the Authority in favour of the holder. The liability for currency in circulation is recorded at face value in the statement of financial position.

The fair value of currency in circulation is considered to be its face value as reported in the financial statements.

Grants

Grants recognised at their fair value (where there is a reasonable assurance that the grant will be received and all attaching conditions, if any, will be complied with) are shown under other liabilities. When the grant relates to an expense item it is recognised in the income statement over the periods necessary to match them to the expenses it is intended to compensate on a systematic basis. Where the grant relates to an asset, the fair value is credited to a deferred government grant account and is released to the income statement over the expected useful life of the relevant asset on a systematic basis consistent with the depreciation policy of the related asset.

Current Tax

In accordance to the section 15 (a) (1) of the Business Profit Tax act of Maldives Inland Revenue Authority (MIRA), Provisions of the Business Profit Tax Act are not applicable to Maldives Monetary Authority.



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Authority and the revenue can be reliably measured. Expenses are recognised in the income statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant and equipment in a state of efficiency has been charged to income in arriving at the result for the year.

The following specific recognition criteria must also be met before revenue and expenses are recognised:

Interest income and expenses

Interest income and expense are recognised in the income statement for all interest bearing instruments on an accrual basis using the effective yield method based on the actual purchase price unless collectability is in doubt. Interest income includes coupons earned on fixed income investments and securities and accrued discount and premium on treasury bills and other discounted instruments. Interest income is suspended when loans become doubtful of collection. Such income is excluded from interest income until received.

Miscellaneous

Miscellaneous income and expenses are recognised on an accrual basis.

Net gains and losses of a revenue nature on the disposal of property, plant and equipment 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 the main revenue generating activities and those are not material, are aggregated, reported and presented on a net basis.

Contingent liabilities and commitments including off balance sheet items

All guarantees of indebtedness, forward foreign exchange transactions and other commitments, which represents off balance sheet items are shown under respective headings recognised as off balance sheet items. Where applicable, such amounts are measured at best estimates.

Cash Flow Statement

The Statement of Cash Flow has been prepared by using the 'Direct Method' in accordance with IAS 7 on Statement of Cash Flows, whereby gross cash receipts and gross cash payments of operating activities, financing activities and investing activities have been recognized. Cash and cash equivalents comprise mainly cash balances, money at overnight placements and highly liquid investments of which original maturity of 3 months or less.

3.1 Nature and extent of activities

The Board of the Authority is vested with the powers to carry out the functions of the Authority and are responsible for the management, operations and administration of the Authority.

The functions of the Authority as per Article 22 of MMA Act are given below:

- i) Open accounts and accept deposits from, the Government its agencies and public entities, banks and other financial institutions in Maldives.



ERNST & YOUNG

Chartered Accountants

Malé, Maldives

Company Reg. - 192/95

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1 Nature and extent of activities (Continued)

- ii) Act as correspondent, banker, agent or depository for any monetary authority, central bank or international financial institution;
- iii) Open and maintain accounts with such banks or other depositories and appoint them as correspondents or agents of the Authority in or outside Maldives as may be necessary;
- iv) Buy, sell or deal in gold coins, bullion or foreign exchange;
- v) Buy, sell, invest, or deal in treasury bills and other securities issued or guaranteed by foreign governments or international financial institutions;
- vi) Buy, sell, invest, or deal in treasury bills and other securities issued or guaranteed by the Government;
- vii) Make loans, advances and rediscounts to banks and other financial institutions in Maldives for periods not exceeding ninety days on terms and conditions which the Board may prescribe;
- viii) Make temporary advances to the Government as may be agreed;
- ix) Make advances to the Government on terms and conditions to be agreed upon in respect of subscriptions and other payments relating to the membership of the Maldives in any international financial institution, the participation of the Maldives in any account thereof, and any transactions and operations undertaken in connection therewith;
- x) Act as fiscal agency of the Government in its dealings with international financial institutions and undertake other financial agency work for the Government;
- xi) Borrow money for the purpose of the business of the Authority, and may give securities for monies so borrowed as provided by law with the approval of the President of the Republic and,
- xii) Guarantee the repayment of government loans and the service charge thereof.
- xiii) In conjunction with the banks, organize and manage a Clearing House.

The activities carried out in order to achieve its objective of economic, price and financial system stability with a view to encouraging and promoting the development of the productive resources of the Maldives can be broadly segregated into foreign currency and local currency activities. Results of these activities are taken to mean operating activities in the context of the income statement

Foreign currency activities

Foreign currency activities result mainly from the Authority's holdings of foreign currency assets under its foreign reserves management function. The foreign reserves portfolio comprises foreign currency assets held for investment and settlement purposes.

The foreign currency assets are held in various currencies. The majority of foreign currency assets are denominated in United States Dollars, Euros and Sterling Pounds.

Local currency activities

Local currency activities largely involves the Authority offsetting the daily net flows to or from government or market by advancing funds to or withdrawing funds from the banking system. With regard to this liquidity management is undertaken through weekly open market operations. In addition to this the Authority's budgetary expenses are also included in local currency activities.



Maldives Monetary Authority
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4 CASH AND BALANCES WITH BANKS	2012 MVR	2011 MVR
Foreign currency cash in hand	15,937,376	5,921,427
Balances with other central banks	5,117,556	4,370,468
Balances with other foreign banks	25,790,549	27,416,239
<i>Money at overnight placements</i>		
with other central banks (Note 4.1)	4,386,598,000	4,874,183,000
with other foreign banks (Note 4.2)	33,814,000	33,902,000
Investment in fixed deposits with foreign banks (4.3)	2,972,260	2,893,959
	4,470,229,741	4,948,687,093

4.1 Federal Reserve Bank of New York

The Authority invested USD 285,400,000/- (2011: USD 316,300,000/-) in an overnight repurchase agreement with the Federal Reserve Bank of New York at an interest rate of 0.17% per annum (2011: 0.01%).

4.2 JPMorgan Chase New York

The Authority invested USD 2,200,000/- (2011: USD 2,200,000/-) in an overnight repurchase agreement with the JPMorgan Chase New York at an interest rate of 0.05% per annum (2011: 0.05%).

4.3 Investment in fixed deposits with foreign banks

Details of the fixed deposit investments are as follows;

<i>Bank</i>	<i>Amounts in MVR</i>	<i>Maturity date</i>	<i>Interest rate</i>
a) Bank of India: Singapore	864,474	11 June 2013	1.50%
b) Bank of India: Singapore	28,281	31 January 2013	0%
c) Habib Bank Limited: London	2,079,505	31 January 2013	0.35%

5 IMF RELATED ASSETS	2012 MVR	2011 MVR
Holding of Special Drawing Rights (Note 5.1)	162,912,456	165,713,816
IMF Quota (Note 5.2)	236,532,000	237,685,000
Interest receivables	23,393	64,270
	399,467,849	403,463,086

5.1 Holding of Special Drawing Rights

The Special Drawing Right (SDR) is an international reserve asset, created by the IMF to supplement its member countries' official reserves. Its value is based on a basket of four key international currencies, and SDR's can be exchanged for freely usable currencies.



5 IMF RELATED ASSETS (Continued)

5.1 Holding of Special Drawing Rights (SDR) (Continued)

Holding of SDR's is potentially a claim on freely usable currencies of IMF members, in that holders of SDR's can exchange their currencies for SDR's. The SDR's value as a reserve asset derives from the commitments of members to hold and accept SDR's, and to honour various obligations connected with the operation of the SDR system. The IMF ensures that the SDR's claim on freely usable currencies is being honoured in two ways: by designating IMF members with a strong external position to purchase SDR's from members with weak external positions, and through the arrangement of voluntary exchanges between participating members in a managed market. The amount shown above represents the total holdings of SDR's by the Authority as at the respective reporting dates.

5.2 IMF Quota

The International Monetary Fund (IMF) is an international organization of 187 member countries. It was established to promote international monetary cooperation, exchange stability, and orderly exchange arrangements; to foster economic growth and high levels of employment; and to provide temporary financial assistance to countries to help ease balance of payments adjustment. Quotas (capital subscriptions) are the primary source of IMF resources. The IMF receives its resources from its member countries. Each country's subscription, or quota, is determined broadly on the basis of the economic size of the country, and taking into account quotas of similar countries. Upon joining the IMF, a country must pay 25 percent of its quota in widely accepted foreign currencies or SDRs, and the remaining 75 percent in its own currency.

Subscriptions: A member's subscription to IMF resources is equal to its quota and determines the maximum amount of financial resources the member is obliged to provide to the IMF. A member must pay its subscription in full: up to 25 percent must be paid in reserve assets specified by the IMF (SDRs or usable currencies), and the rest in the member's own currency.

The quota defines a member's voting power in IMF decisions. Each IMF member has 250 basic votes plus one additional vote for each SDR 0.1 Mn of quota. The amount of financing a member can obtain from the IMF (Access limits) is based on its quota. Under Stand-By and Extended Arrangements, for instance, a member can currently borrow up to 200 percent of its quota annually and 600 percent cumulatively. Access may be higher in exceptional circumstances and to meet specific problems.

The Republic of the Maldives has been a member of the IMF since 1978. The Maldives Monetary Authority acts as both the fiscal agent and the depository for the IMF. As fiscal agent the Monetary Authority is authorised to carry out all operations and transactions with the Fund. As depository the Monetary Authority maintains the Fund's currency holdings and ensures that the assets and liabilities of Fund membership are properly reflected in its accounts and presented in its financial statements. The Quota of the Maldives is its membership subscription.

The subscription is granted mainly by the issue of promissory notes in favour of the IMF and partly by foreign currency payments by the Government of the Maldives. As at 31 December 2012 the IMF Quota of Maldives is SDR 10 million.



Maldives Monetary Authority
NOTES TO THE FINANCIAL STATEMENTS
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6 SUBSCRIPTIONS TO INTERNATIONAL AGENCIES	2012 MVR	2011 MVR
<i>MOFT promissory notes issued</i>		
<i>Foreign currency</i>		
Multilateral Investment Guarantee Agency	831,517	833,681
<i>Local currency</i>		
International Bank for Reconstruction and Development	8,264,330	8,264,330
Asian Development Bank securities	245,386	203,825
	8,509,716	8,468,155
	9,341,233	9,301,836

6.1 The Authority is designated as the depository of the International Bank for Reconstruction and Development (IBRD), Asian Development Bank and Multilateral Investment Guarantee Agency (MIGA) for the Republic of Maldives. The above balances represent the promissory notes issued by Ministry of Finance and Treasury (MOFT) to the said institutions for membership subscriptions and related purposes. These promissory notes are non-negotiable and non-interest bearing notes payable to the above institutions on demand.

7 INTEREST AND OTHER RECEIVABLES	2012 MVR	2011 MVR
Other receivables	6,646,131	4,053,012
Less: Allowance for doubtful receivables	(4,053,012)	(4,053,012)
	2,593,119	-

8 LOANS TO GOVERNMENT INSTITUTIONS	2012 MVR	2011 MVR
Ministry of Finance and Treasury: MIFCO Loan	-	26,441,246
Overdraw of Public Bank Account	331,391,576	-
	331,391,576	26,441,246

8.1 Ministry of Finance and Treasury: MIFCO Loan

A loan amounting to MVR. 62,200,000/- has been given to Maldives Industrial Fisheries Company Limited to meet their working capital requirements through 1999 to 2001. This loan was transferred to MOFT in 2004 and was payable over a period of ten years at an interest rate of 6% per annum. This loan was fully repaid on 25 March 2012.

8.2 Ministry of Finance and Treasury: Overdraw of Public Bank Account

Under article 22 (h) of the MMA Act, the Authority has granted short term advances to meet the budget financing of the Government of Maldives and was settled on 15 January 2013.

9 INVESTMENT IN GOVERNMENT BONDS	2012 MVR	2011 MVR
Balance as at 1 January	3,806,000,000	3,806,000,000
Settlements made during the year	(634,000,000)	-
Amount rolled over during the year	634,000,000	-
Balance as at 31 December	3,806,000,000	3,806,000,000

9.1 Investment in government bonds

Under article 22 (h) of the MMA Act, the Authority has granted loans and advances in the form of Ways and Means account advances and loans and advances to meet the budget financing of the Government of Maldives.

On 16 August 2009 and 30 September 2009, both the Authority and the Government of Maldives agreed to convert the outstanding principal amounts of the loans and advances, which amounted to MVR. 4,089,000,000/- in total, into Government bonds. On 24 April 2012, the Authority agreed with the Government to rollover two bonds of MVR 317 million each for a period of 1 year. These two bonds were redeemed in April 2013.



Maldives Monetary Authority
NOTES TO THE FINANCIAL STATEMENTS
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9 INVESTMENT IN GOVERNMENT BONDS (CONTINUED)

	2012	2011
	MVR	MVR
9.2 Remaining term to maturity		
Within one year	951,000,000	634,000,000
Two to five years	1,268,000,000	1,268,000,000
Six to ten years	1,270,000,000	1,270,000,000
More than ten years	317,000,000	634,000,000
	3,806,000,000	3,806,000,000

10 INTEREST RECEIVABLE ON GOVERNMENT BOND

	2012	2011
	MVR	MVR
Balance as at 1 January	88,241,200	88,418,373
Interest accrued during the year	162,449,076	88,241,200
Interest settlements made during the year	(164,620,830)	(88,418,373)
Balance as at 31 December	86,069,446	88,241,200

11 INVESTMENT IN GOVERNMENT TREASURY BILLS

	2012	2011
	MVR	MVR
Government T-Bills	829,600,000	-
T-Bills Deferred Discount	(49,996,645)	-
	779,603,355	-

11.1 Purchase of Government T-Bills

Under article 22 (h) of the MMA Act, the Authority has purchased MVR Treasury Bills of Government of Maldives on 6 December 2012 at an interest rate of 7% and the maturity date is 2 December 2013.

On 25th February 2013 Authority purchased Treasury bill with a face value of MVR 198.4 million at a discount rate of 7%

On 1st April 2013 Authority purchased Treasury bill with a face value of MVR 634 million at a discount rate of 7%

	2012	2011
	MVR	MVR
12 GOLD AND SILVER ASSETS		
Gold at fair value (Note 12.1)	39,990,110	39,547,414
Silver at cost	71,172	71,172
	40,061,282	39,618,586

12.1 The Authority holds gold as part of its reserves. Gold is fair valued and the gains or losses are recognised in the income statement.

	2012	2011
	MVR	MVR
13 INVENTORIES		
Notes for circulation	22,510,734	25,802,124
Coins for circulation	11,194,737	6,341,084
Commemorative coins	1,019,770	1,039,494
Coins held abroad in storage (Note 13.1)	36,642,203	-
Total inventories at cost	71,367,444	33,182,702

13.1 MVR 36,642,203/- is the cost incurred to mint the coins held abroad at the Minting Company. These coins had been minted during 2012 and would be brought in due course.



Maldives Monetary Authority

NOTES TO THE FINANCIAL STATEMENTS

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14 PROPERTY, PLANT AND EQUIPMENT

14.1	Gross carrying amounts at cost	Freehold land MVR	Buildings on freehold land MVR	Machinery and equipment MVR	Furniture and fittings MVR	Motor vehicles MVR	Computer equipment MVR	2012 Total MVR	2011 Total MVR
	Balance as at 1 January	1,000,000	34,867,369	63,807,044	17,862,408	967,985	13,554,382	132,059,188	123,170,391
	Additions during the year	-	-	2,225,395	646,278	51,251	1,460,393	4,383,316	12,723,465
	Reclassification from other asset categories	-	-	-	-	-	-	-	3,902,511
	Removals due to reclassification	-	-	-	-	-	-	-	(6,614,085)
	Disposal / transfers during the year	-	-	-	-	-	-	-	(1,123,094)
	Value of depreciable assets	1,000,000	34,867,369	66,032,439	18,508,686	1,019,236	15,014,775	136,442,504	132,059,188
14.2	Depreciation								
	Balance as at 1 January	-	3,472,804	37,464,790	10,968,997	250,619	5,294,864	57,452,074	38,133,860
	Charge for the year	-	1,164,682	12,898,019	3,481,511	200,807	3,842,699	21,587,717	20,033,089
	Reclassification from other asset categories	-	-	-	-	-	-	-	1,951,214
	Removals due to reclassification	-	-	-	-	-	-	-	(2,102,668)
	Disposal / transfers during the year	-	-	-	-	-	-	-	(563,421)
	Accumulated depreciation	-	4,637,486	50,362,809	14,450,508	451,426	9,137,563	79,039,791	57,452,074
14.3	Assets in transit	-	-	468,569	17,623	-	-	486,191	-
14.4	Net book value	1,000,000	30,229,883	16,138,199	4,075,801	567,810	5,877,212	57,888,904	74,607,114

14.5 As at 31 December 2012 property, plant and equipment includes fully depreciated assets having a gross carrying amounts of MVR 4,444,094/- (2011 : MVR 4,270,290/-).

14.6 During the financial year the Authority acquired property, plant and equipment to the aggregate value of MVR. 4,383,316/- (2011: MVR. 12,723,465/-).



ERNST & YOUNG

Chartered Accountants²⁴

Malé, Maldives

Company Reg.: 152/95

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2012

15	INTANGIBLE ASSETS	Maldives Credit Information Bureau MVR	Maldives Real Time Gross Settlement System MVR	Automated Clearing House MVR	2012 Total MVR	2011 Total MVR
15.1	Gross carrying amounts at cost					
	Balance as at 1 January	8,935,357	16,417,554	-	25,352,911	11,269,324
	Cost incurred during the year	-	-	-	-	1,551,495
	Supporting and training costs	-	-	-	-	(1,952,976)
	Transferred during the year	-	2,467,508	22,288,946	24,756,454	16,417,554
	Less: Computer hardware	-	-	-	-	(1,932,486)
	Total value of depreciable assets	8,935,357	18,885,062	22,288,946	50,109,365	25,352,911
15.2	Amortisations					
	Balance as at 1 January	1,618,506	1,707,888	-	3,326,394	-
	Charge for the year	1,806,016	2,533,155	2,735,673	7,074,843	3,326,394
	Accumulated depreciation	3,424,522	4,241,043	2,735,673	10,401,237	3,326,394
15.3	Net book value	5,510,835	14,644,019	19,553,274	39,708,128	22,026,517

15.4 On 22 October 2009 the Authority has entered into an agreement with Dun & Bradstreet (Asia Pacific) Pte Ltd to develop Maldives Credit Information Bureau (MCIB) for a total cost of USD 977,800/-. The above balances represent the cost incurred on the project as at the respective reporting dates. Development of MCIB commenced on 19 November 2009 and the asset become operational on 7 February 2011.

15.5 Maldives Real Time Gross Settlement System which is one of the components of Maldives Interoperable Payment Systems (MIPS) became operational on 10 April 2011. The above balances represent the cost incurred and the amortization charges as at the respective reporting dates. The amount transferred during the year are the amounts outstanding for which invoices are not received during the year

15.6 Automated Clearing House which is one of the components of Maldives Interoperable Payment Systems (MIPS) became operational on 2 February 2012. The above balances represent the cost incurred as at 31 December 2012.

15.7	Development projects under work in progress	2012 MVR	2011 MVR
15.7.1	<i>Maldives Interoperable Payment System</i>		
	Balance as at 1 January	19,616,905	62,429,656
	Cost incurred during the year	10,763,811	15,176,119
	Transfers/adjustments	(25,509,454)	(24,034,345)
	Impairment Losses	(4,871,262)	(33,954,525)
	Balance as at 31 December	-	19,616,905

The Authority carried out implementing of the Maldives Interoperable Payment System (MIPS) at a total estimated cost of USD 10.45 million/-. The above balances represent the cost incurred on the project as at the respective reporting dates. The project was partially funded by MOFT loan under the sponsorship of International Development Association.

15.7.2	<i>MMA ERP System</i>	2012 MVR	2011 MVR
	Cost incurred during the year	5,157,023	-

The Authority is developing an ERP System (Enterprise Resource Planning System) in order to centralise the accounting systems of the Authority. The above balances represent the cost incurred on the project as at the respective reporting dates. The project is fully funded from the Authority's annual budget.

15.8	Details of finance charges capitalised for MIPS is as follows:	2012 MVR	2011 MVR
	Maldives Credit Information Bureau	-	31,935
	Maldives Interoperable Payment System	-	684,591



16	BALANCES OF COMMERCIAL BANKS	2012 MVR	2011 MVR
	<i>Foreign currency balances:</i>		
	Related parties	617,526,149	604,489,138
	Others	1,838,382,978	1,760,167,951
		<u>2,455,909,127</u>	<u>2,364,657,089</u>
	<i>Local currency balances:</i>		
	Related parties	1,497,580,825	1,458,631,641
	Others	1,752,182,909	1,470,904,417
	Overnight placement deposits	192,000,000	80,000,000
		<u>3,441,763,734</u>	<u>3,009,536,058</u>
	Total balances of commercial banks	<u>5,897,672,861</u>	<u>5,374,193,147</u>

- 16.1 As per the section 4(c) of the MMA Act, the Authority is acting as the regulator of the commercial banks operating in the Maldives. In carrying out this duty the Authority open accounts for and accept deposits to facilitate interbank transfers and monitor minimum reserve requirements imposed on the commercial banks.

17 BALANCES OF GOVERNMENT AND GOVERNMENT INSTITUTIONS

Related parties	2012 MVR	2011 MVR
<i>Foreign currency deposits:</i>		
MOFT and government institutions	119,568,295	121,954,080
Public enterprises	-	10,330
	<u>119,568,295</u>	<u>121,964,410</u>
<i>Local currency deposits:</i>		
MOFT and government institutions	20,798,350	147,328,188
Public enterprises	644,512	59,684,721
	<u>21,442,863</u>	<u>207,012,909</u>
Total balances of government and government institutions	<u>141,011,158</u>	<u>328,977,319</u>

18	PAYABLE TO ASIAN CLEARING UNION	2012 MVR	2011 MVR
	Payable as at the end of the year	12,558,827	7,704,974
	Accrued interest	3,557	170
		<u>12,562,384</u>	<u>7,705,144</u>

- 18.1 The Asian Clearing Union (ACU) was established in 1974 under the auspices of the Economic and Social Commission for Asia and the Pacific as a mechanism for settlement of payments among participating countries' Central Banks and the Maldives became a member of ACU in June 2009. The other participants are Bangladesh, the Islamic Republic of Iran, Nepal, Pakistan, India, Bhutan, Myanmar and Sri Lanka. This is a clearing facility to settle, on a multilateral basis, payments for current international transactions among territories of participants. Net position as at end of each month is settled or received, after two-month credit period.

The rate of interest applicable for a settlement period will be the closing rate on the first working day of the last week of the previous calendar month offered by the Bank for International Settlements (BIS) for one month US dollar and Euro deposits. Interest on ACU Dollar transactions were between 0% to 0.17% in 2012. Above balance represents the amounts due to ACU as at the reporting date.



Maldives Monetary Authority
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As at As at 31 December 2012

19 IMF RELATED LIABILITIES	2012 MVR	2011 MVR
IMF Securities Account (Note 19.1)	377,499,115	379,339,484
IMF No. 1 Account (Note 19.2)	5,584,482	5,611,695
IMF No. 2 Account (Note 19.3)	6,962	7,012
Allocation of Special Drawing Rights (Note 19.4)	181,919,316	182,806,101
Exogenous Shock Facility (Note 19.5)	48,489,060	48,725,425
	613,498,935	616,489,717

19.1 IMF Securities Account

The Authority maintains the IMF securities account on the statement of financial position and includes non-negotiable, non-interest bearing securities issued by the MOFT in favour of the IMF, which are payable on demand. These securities are issued for 75% of the quota liability payable in Maldivian Rufiyaa, for use of IMF credit facilities such as Emergency Assistance Facility and Stand-By Agreement etc, and for the revaluations made by the IMF every year as of 30 April. The IMF accounts were last revalued in 30th December 2012 by IMF, the valuation adjustment of IMF No.1 Account was also adjusted from the securities account as per IMF and MOFT instruction.

During March 2013, MMA repaid the first instalment of SDR 512,500.00 for the total disbursement of SDR8.2m received under the IMF Standby Arrangement

	2012 MVR	2011 MVR
Balance as at 1 January	379,339,484	281,400,696
Promissory notes issued during the year	-	107,427,323
Exchange rate effect on IMF Securities account	(1,840,369)	(9,488,535)
Balance as at 31 December	377,499,115	379,339,484

19.2 IMF No. 1 Account

The No. 1 Account is used for IMF transactions and operations, including subscription payments, purchases, repurchases, repayment of borrowing, and sales in Maldivian Rufiyaa.

19.3 IMF No. 2 Account

The No. 2 Account is used for the IMF's administrative expenditures and receipts (for example, receipts from sales of IMF publications) in the member's currency and within its territory. Small out-of-pocket expenses, such as telecommunication charges, may be debited to this account on a quarterly basis.

19.4 Allocation of Special Drawing Rights

The SDR is an international reserve asset, created by the IMF to supplement its member countries' official reserves. Its value is based on a basket of four key international currencies, and SDR's can be exchanged for freely usable currencies. The amount shown above represents the total allocation of SDR's to the Authority as at the respective reporting dates.



19 IMF RELATED LIABILITIES (Continued)

19.5 Exogenous Shock Facility

The IMF provides Exogenous Shock Facility (ESF) to its member countries which are affected by an event that has a significant negative impact on the economy and that is beyond the control of the government. The ESF has two components:

A rapid-access component under which a country can access fairly quickly, up to 50 percent of its quota for each exogenous shock, with resources normally being provided in a single disbursement. This component can be used on a stand-alone basis or as a first step towards higher access.

A high-access component with access up to 150 percent of quota for each arrangement in normal circumstances. Resources are provided in phased disbursements based on reviews, and programs are one-to-two years in length. The IMF approved a 24 month arrangement under ESF for Maldives amounting to SDR 8.2 million (100% of quota) on 4 December 2009.

First disbursement amounting to SDR 1.025 million under the ESF was received on 4 December 2009 and on 25 March 2010 the Authority received the second disbursement amounting to SDR 1.025 million upon completion of IMF review.

The following table shows the details of Exogenous Shock Facility Loan:

	Interest rate	Maturity date	2012 MVR	2011 MVR
Non-current				
Exogenous Shock Facility	0.50%	1 April 2020	48,489,060	48,725,425



20 INTEREST BEARING LOANS

from Ministry of Finance and Treasury

	MIPS	MCIB	Total	Total
	MVR	MVR	2012	2011
			MVR	MVR
Balance as at 1 January	98,004,552	9,752,122	107,756,674	61,102,229
Received during the year	18,461,676	-	18,461,676	34,278,081
Effects of exchange rates	(565,548)	(47,307)	(612,855)	12,376,364
Balance as at 31 December	<u>115,900,680</u>	<u>9,704,815</u>	<u>125,605,495</u>	<u>107,756,674</u>

- 20.1 The MOFT provided a loan to the Authority for an amount equal to SDR 4,900,000/- to undertake the Maldives Interoperable Payment System (MIPS) project on 3 August 2008. As at the reporting date the Authority has withdrawn the full amount of SDR 4,900,000/-.

Total loan amount	SDR 4,900,000	
Interest rate	0.75%	
Repayment	From 15/09/2018 to 15/03/2028	SDR 49,000/-
	From 15/09/2028 to 15/03/2048	SDR 98,000/-

- 20.2 On 23 July 2009 the MOFT and the Authority have entered into a subsidiary loan agreement to fund the Maldives Credit Information Bureau (MCIB) project for total loan amounting to SDR 439,000/-.

The loan has to be repaid in 48 equal semi annual instalments. The first instalment being payable on 15 November 2016 and the last instalment fall due on 15 May 2040. The Authority has to pay interest charge at the rate of 1% per annum during the grace period and 1.5% per annum thereafter on the amount withdrawn. As at the reporting date the Authority has withdrawn SDR 410,296/- from this loan.

	2012	2011
	MVR	MVR
21 OTHER LIABILITIES		
21.1 Foreign currency other liabilities		
Accounts payable	1,243,470	1,740,883
Accrued charges	418,295	492,417
Bank of Credit and Commerce International (BCCI)	15,058,482	15,097,671
Commercial banks human resource development deposits	796,859	798,933
Other deposits	298,771	299,547
	<u>17,815,876</u>	<u>18,429,451</u>



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22	OTHER LIABILITIES	2012 MVR	2011 MVR
22.1	Local currency other liabilities		
	Government Contribution to IMF Quota (Note 22.2)	33,381,644	33,381,644
	1/5th of FARR payable to Government	163,465,140	105,572,085
	Sundry creditors	10,310,000	10,310,000
	Accounts payable	1,593,165	2,226,115
	Commercial banks human resource development deposits	4,551,357	4,548,325
	Bank of Credit and Commerce International (BCCI)	2,528,341	2,046,748
	Accrued charges	1,534,167	2,323,069
	MMA human resource development deposits	-	70,349
		217,363,812	160,478,335

22.2 Government Contribution to IMF Quota
As at 31 December 2011, Ministry of Finance and Treasury has made three payments towards the IMF Quota. This balance represents the foreign currency portion of quota payments made by Ministry of Finance and Treasury for the 1992, 1999 and 2011 quota increments.

23	PENSION AND OTHER EMPLOYMENT BENEFITS PAYABLE	2012 MVR	2011 MVR
	<i>Pre- Maldives Pension Act 8/2009 Pensions</i> (Note 23.1)		
	Opening balances	5,343,545	6,386,194
	Less: Pension Payouts during the year	(531,550)	-
	Add: Rewinding of interest	62,512	-
	Less: Reduction in present value of pension obligation	-	(1,042,649)
	Present value of pension obligation	4,874,507	5,343,545
	Balance as at 31 December	4,874,507	5,343,545

23.1 Pre- Maldives Pension Act 8/2009 Pensions
The Authority provides defined benefit plans ("Pre- Maldives Pension Act 8/2009 Pensions") for those employees who have completed 20 years service and opted to continue to receive such benefits. This is a frozen calculation, where the pension payment amount was determined based on the salary received by the employee at the date of completing 20 years service. Pre- Maldives Pension Act 8/2009 Pension was worked out as follows:

- An employee who became eligible (by working in public sector for 20 years) to pension arrangement in between 5 April 2007 and 10 October 2007 receive a "Pre-New Pension Act Pension" calculated at 1/2 month's salary at the eligibility point until they reach age of 65.
- All employees who became eligible after 10 October 2007 up until 31 July 2010 will receive a pension calculated at 1/3 of monthly salary at the eligibility point until they reach age of 65.



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23 PENSION AND OTHER EMPLOYMENT BENEFITS PAYABLE (CONTINUED)

23.1 Pre- Maldives Pension Act 8/2009 Pensions (continued)

c) The principal assumptions used in determining employee benefit obligations for Pre- Maldives Pension Act 8/2009 Pensions plan are shown below:

	2012 MVR	2011 MVR
Nominal value of the benefit obligation	9,165,903	9,697,453
Present value of the benefit obligation	4,874,507	5,343,545
Unrecognised interest component	4,291,396	4,353,908
Discount rate: 182 day Treasury bill rates	N/A	6.97%
Discount rate: 364 day Treasury bill rates	7.86%	N/A
Number of employees in the scheme	11	11
Average remaining years of service	16.11	17.11
Retirement age	65	65

24 BALANCES OF INSURANCE COMPANIES	2012 MVR	2011 MVR
Related parties	4,000,000	4,000,000
Others	6,000,000	6,000,000
	<u>10,000,000</u>	<u>10,000,000</u>

The above balances represent the statutory deposits of the insurance companies operating in the Maldives. These deposits carry interest at the rate of 1% per annum.



25	DEPOSITS OF INTERNATIONAL FINANCIAL INSTITUTIONS	2012 MVR	2011 MVR
	International Development Association	303,574	272,534
	International Bank for Reconstruction and Development	9,726,439	8,553,442
	Asian Development Bank	699,318	453,932
	Multilateral Investment Guarantee Agency	172,444	172,444
		<u>10,901,775</u>	<u>9,452,352</u>

25.1 The Authority is designated as the depository of the International Development Association (IDA), International Bank for Reconstruction and Development (IBRD), Asian Development Bank and Multilateral Investment Guarantee Agency (MIGA) for the Republic of Maldives. The above balances represent the amounts collected on behalf of these supranational institutions for various purposes as at the respective reporting dates.

26 CURRENCY IN CIRCULATION

The Authority, as the sole currency issuing Authority in the Republic of Maldives continue to perform the function of issuing legal tender currency. The amount of currency issued by the Authority and in circulation as at respective reporting dates, are as follows;

26.1	Net currency in circulation	2012 MVR	2011 MVR
	Coins:		
	1 Laari	46,771	40,487
	2 Laari	49,682	49,682
	5 Laari	353,047	316,641
	10 Laari	488,480	451,833
	25 Laari	1,985,057	1,610,802
	50 Laari	4,684,471	3,993,229
	1 Rufiyaa	18,294,961	16,609,100
	2 Rufiyaa	21,077,376	18,342,348
	Damaged coins	(2,455)	(2,455)
		<u>46,977,389</u>	<u>41,411,667</u>
	Notes:		
	2 Rufiyaa	1,628,544	1,630,140
	5 Rufiyaa	17,747,830	16,817,190
	10 Rufiyaa	25,667,200	24,797,760
	20 Rufiyaa	26,914,040	24,386,820
	50 Rufiyaa	36,330,800	34,517,550
	100 Rufiyaa	189,487,200	181,208,900
	500 Rufiyaa	2,130,787,000	1,871,904,000
		<u>2,428,562,614</u>	<u>2,155,262,360</u>
		<u>2,475,540,003</u>	<u>2,196,674,027</u>

26.2 Currency in circulation is increased by the Authority's holding of Rufiyaa coins and notes outstanding amounting to MVR.140,114,519/- and MVR.316,480,985/- as at 31 December 2012 and 2011, respectively. These amounts are deducted from the total currency in circulation to arrive the above amounts.



27 DEFERRED GRANTS

27.1 The Authority has undertaken the Maldives Interoperable Payment System project. Consultative Group to Assist the Poor (CGAP) has granted USD 698,708/- for the project and the Authority recognises the assets acquired for the project with the corresponding credit recognised as deferred revenue. During the year 2011 unutilized grant amount of USD 33,944/- was returned to CGAP. The remaining balance has been converted to Rufiyaa and is apportioned to the cost of the 4 components of MIPS. As SWITCH and MPS are impaired fully, the grant value apportioned to these two components are fully charged to the income statement. Grant Value apportioned to ACH and RTGS are deferred over the useful life of each component and charged to income statement on a monthly basis.

27.2 The Authority has received a motor vehicle as a gift from the MOFT. The motor vehicle has been recognised as an asset in the books and the corresponding credit recognised as deferred revenue and will be amortised over the period that matches with the depreciation policy of motor vehicle.

27.3 Changes in deferred grant are summarized in the following schedule:	2012 MVR	2011 MVR
Deferred grant, as at the beginning of year	10,459,728	9,205,254
Exchange rate effect	-	1,858,562
Grants received during the year	-	-
Grants reimbursed to CGAP	-	(523,084)
Adjustments to grants - CGAP grant amortisation	(5,936,768)	-
Adjustments to grants - Motor vehicle amortisation	(81,226)	(81,004)
Balance as at 31 December	4,441,733	10,459,728

28 EQUITY AND RESERVES

28.1 Capital

The Capital account represents the capital of the Authority in accordance with Chapter V, Section 25 of the MMA Act.

On 19 January 2010, The President's Office authorised the increase in Authority's authorised capital by MVR 49 million. Subsequently the Authority's authorised and contributed capital has been increased to MVR 50 million by transferring MVR 49 million from retained earnings.

In addition to the retained earnings, reserves comprise the following;

28.2 General reserve

The general reserve is established in accordance with Chapter V, Section 27 of the MMA Act. As per the provisions of the Act, the Authority could allocate 50% of the net profit of the Authority, to General Reserve account until the General Reserve is equal to the authorised capital of the Authority, after which the Authority could allocate 25% of its net profit to the General Reserve account until the General Reserve is equal to twice of the authorised capital.



28 EQUITY AND RESERVES (Continued)

28.3 Foreign asset revaluation reserve

The Authority established Foreign Asset Revaluation Reserve (FARR) in accordance with Chapter V, section 28 of the MMA Act. According to the Act the gains and losses arising from any change in the valuation of the Authority's assets or liabilities in gold, foreign currencies or other units of account, as a result of alterations of the external value of the Rufiyaa, or of any change in the values, parities, or exchange rates in respect of such assets in relation to the Rufiyaa shall be credited to FARR. As per the provisions of the MMA Act neither the gains nor the losses from change in valuation of foreign currency assets and liabilities of the Authority should be included in the computation of profit or loss.



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	2012 MVR	2011 MVR
29 FOREIGN CURRENCY INCOME AND EXPENSES		
29.1 Interest income on foreign currency financial assets		
Interest on overnight placements	7,318,670	3,027,121
Receipts on SDR holdings	286,613	861,026
Interest on reserve deposits	4,440	5,398
	<u>7,609,723</u>	<u>3,893,545</u>
29.2 Interest expense on foreign currency financial liabilities		
Charges on Stand-By Agreement	4,176,053	3,832,218
Interest on reserve deposits	202,138	815,287
Charges on SDR allocations	192,575	742,742
	<u>4,570,767</u>	<u>5,390,247</u>
30 LOCAL CURRENCY INCOME AND EXPENSES		
30.1 Interest income on local currency financial assets		
Interest on Government Bonds	295,072,106	293,683,327
Interest on ways and means advances	4,315,678	3,195,678
Interest on loans to government	140,290	1,596,720
Interest received on Overdrawn balance of Public Bank Account	5,727,564	-
Interest on reserve deposits	-	181,073
Discounts on treasury bills	3,719,988	-
	<u>308,975,626</u>	<u>298,656,798</u>
30.2 Interest expenses on local currency financial liabilities		
Interest on reserve deposits	19,839,266	20,417,215
Interest on open market operations	14,965,474	13,367,882
Interest on overnight deposit facility	680,671	4,811,417
Interest on security deposits of insurance companies	99,995	99,995
Interest on assigned capital deposits	-	(27,123)
	<u>35,585,406</u>	<u>38,669,386</u>



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31 OTHER INCOME	2012 MVR	2011 MVR
Commissions received	9,635,305	11,277,661
Bank charges received	745,388	1,761,142
Annual license fees from financial institutions	640,400	604,400
Miscellaneous earnings	8,617,797	2,131,500
	<u>19,638,890</u>	<u>15,774,703</u>
32 PERSONNEL EXPENSES	2012 MVR	2011 MVR
Salaries and wages	34,486,292	30,327,464
Pension and other employment benefit expenses	62,512	(377,319)
Defined contribution costs	1,871,170	1,798,231
Remuneration to the board members	822,494	786,611
	<u>37,242,468</u>	<u>32,534,987</u>
33 ADMINISTRATION EXPENSES	2012 MVR	2011 MVR
Cost of issuing notes and coins	8,671,763	11,842,903
Staff training expenses	6,682,624	4,336,511
Utility charges	4,234,799	3,994,129
Telecommunications charges	2,546,897	2,652,344
Stationary and other office expenses	1,177,362	1,058,619
Payments relating to meetings	72,039	21,705
Memberships and subscriptions	1,766,631	1,304,888
Expenses on projects under development	3,787,646	4,593,402
Repairs and maintenance	4,560,244	1,800,094
Audit fees	566,685	547,482
Other administrative expenses	3,186,444	3,052,546
	<u>37,253,132</u>	<u>35,204,623</u>



34 PROFIT RE-APPROPRIATION TO THE GOVERNMENT

Under section 27(2) of the MMA Act, as amended, the Authority's net profit, as determined in accordance with the Act, is paid to the government after making necessary appropriations to provision and reserves under sections 26 and 27(1) respectively. During the year the Authority transferred MVR. 205,310,125/- to the Government in respect of accumulated profits upto the year ended 31 December 2011.

35 RECONCILIATION OF NET PROFIT WITH OPERATING CASH FLOWS

	2012 MVR	2011 MVR
Reported profit	205,764,559	477,795,106
Add / (subtract) non-cash items		
Depreciation, amortisation and impairment	33,533,822	57,162,554
Unrealised losses/ (gains) on gold	(442,695)	(9,734,489)
Unrealised losses / (gains) on foreign exchange	(17,283,219)	(282,867,472)
Add / (subtract) movements in other working capital items		
(Increase) / decrease in interest receivable	49,577,076	(171,263)
(Increase) / decrease in other income	(6,105,053)	(56,662)
Increase / (decrease) in interest payable	1,671,597	-
Increase / (decrease) in other payable	(42,248,245)	(17,556,479)
Net Cash Flow from Operating Activities	224,467,843	224,571,295

36 CASH AND CASH EQUIVALENTS IN THE STATEMENT OF CASH FLOWS

	2012 MVR	2011 MVR
Foreign currency cash in hand	15,937,377	5,921,427
Balances with foreign banks	30,908,105	31,786,707
Money at overnight placements	4,420,412,000	4,908,085,000
Investment in fixed deposits	-	-
: with maturities of 3 months or less	2,107,786	2,042,040
	4,469,365,268	4,947,835,174



37 CAPITAL MANAGEMENT

The Authority's objectives when managing capital, which is broader than the 'equity' on the face of the statement of financial position are;

- to comply with the capital requirements outlined in section 25 of the MMA Act; and
- to safeguard the Authority's ability to continue as a going concern so that it can continue to provide central banking facilities for the Maldives;

Capital adequacy and the use of statutory capital are monitored by the Authority's management in accordance with the guidelines established by the MMA Act. As at 31 December 2012 the Authority's authorised and paid up capital was MVR 50 million. Authorised capital may be increased from time to time by such amounts as may be proposed by the Board and approved by the President of the Maldives.



ERNST & YOUNG

Chartered Accountants

Malé, Maldives

Company Reg. 192/95

Maldives Monetary Authority
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38 CONCENTRATIONS OF FUNDING

The Authority's end-of-year significant concentrations of funding were as follows.

As at 31 December 2012	2012 Total MVR	Government of Maldives MVR	Commercial banks MVR	Supranational financial institutions MVR	Others MVR
Foreign currency financial liabilities					
Balances of commercial banks	2,455,909,127	-	2,455,909,127	-	-
Balances of government and government institutions	119,568,295	119,568,295	-	-	-
Payable to Asian Clearing Union	12,562,384	-	-	12,562,384	-
IMF related liabilities	613,498,935	-	-	613,498,935	-
Interest bearing loans	125,605,495	125,605,495	-	-	-
Deposits of international financial institutions	831,517	-	-	831,517	-
Other liabilities	17,815,876	-	796,859	-	17,019,017
Total foreign currency financial liabilities	3,345,791,629	245,173,790	2,456,705,986	626,892,836	17,019,017
Local currency financial liabilities					
Balances of commercial banks	3,441,763,734	-	3,441,763,734	-	-
Balances of government and government institutions	21,442,863	21,442,863	-	-	-
Balances of insurance companies	10,000,000	-	-	-	10,000,000
Deposits of international financial institutions	10,901,775	-	-	10,901,775	-
Other liabilities	217,363,812	115,882,085	5,562,319	-	95,919,408
Total local currency financial liabilities	3,701,472,184	137,324,948	3,447,326,053	10,901,775	105,919,408
Total financial liabilities	7,047,263,813.00	382,498,738.00	5,904,032,038.73	637,794,611.00	122,938,425.27
Other liabilities					
Currency in circulation	2,475,540,003	-	-	-	2,475,540,003
Deferred grant	4,441,733	-	-	-	4,441,733
Pension and other employment benefit payables	4,874,507	-	-	-	4,874,507
	2,479,981,736	-	-	-	2,479,981,736
Total Liabilities	9,527,245,549.00	382,498,738	5,904,032,039	637,794,611	2,602,920,161



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38 CONCENTRATIONS OF FUNDING (Continued)

Comparative figures as at 31 December 2011 are as follows;

As at 31 December 2011

	2011 Total MVR	Government of Maldives MVR	Commercial banks MVR	Supranational financial institutions MVR	Others MVR
Foreign currency financial liabilities					
Balances of commercial banks	2,364,657,089	-	2,364,657,089	-	-
Balances of government and government institutions	121,964,410	121,964,410	-	-	-
Payable to Asian Clearing Union	7,705,144	-	-	7,705,144	-
IMF related liabilities	616,489,717	-	-	616,489,717	-
Interest bearing loans	107,756,674	107,756,674	-	-	-
Deposits of international financial institutions	833,681	-	-	833,681	-
Other liabilities	18,429,451	-	798,933	-	17,630,518
Total foreign currency financial liabilities	3,237,836,166	229,721,084	2,365,456,022	625,028,542	17,630,518
Local currency financial liabilities					
Balances of commercial banks	3,009,536,058	-	3,009,536,058	-	-
Balances of government and government institutions	207,012,909	207,012,909	-	-	-
Securities sold under agreement to repurchase	-	-	-	-	-
Balances of insurance companies	10,000,000	-	-	-	10,000,000
Deposits of international financial institutions	9,452,352	-	-	9,452,352	-
Other liabilities	160,478,335	115,882,085	5,562,319	-	39,033,931
Total local currency financial liabilities	3,396,479,654	322,894,994	3,015,098,377	9,452,352	49,033,931
Total financial liabilities	6,634,315,820	552,616,078	5,380,554,399	634,480,894	66,664,449
Other liabilities					
Currency in circulation	2,196,674,027	-	-	-	2,196,674,027
Deferred grant	10,459,728	-	-	-	10,459,728
Pension and other employment benefit payables	5,343,545	-	-	-	5,343,545
	2,212,477,300	-	-	-	2,212,477,300
Total liabilities	8,846,793,120	552,616,078	5,380,554,399	634,480,894	2,279,141,749



39 RISK MANAGEMENT

Maldives Monetary Authority as the Banker of the Government ensures that its reserves are safeguarded. To this effect, the Authority issues currency, regulates the availability of the Maldivian Rufiyaa and promotes its stability, licenses, supervises and regulates institutions in the financial sector, formulates and implements monetary policy, and advises the Government on issues relating to the economy and financial system in order to foster an environment conducive to the orderly and balanced economic development of the Maldives.

The Authority's principal financial liabilities comprise of amounts payable to commercial banks, government, public entities and international financial institutions while foreign currency cash and cash equivalents, treasury bonds and IMF related assets are its main financial assets. The Authority does not enter into derivative transactions. However the Authority is exposed to a variety of financial and non-financial risks when performing its functions such as;

- Country risk
- Market risk
- Liquidity risk
- Operational risk
- Interest rate risk
- Foreign currency risk
- Credit risk

Financial risk is normally any risk associated with any form of financing. Risk is probability of unfavourable condition if actual returns are less than expected return.

39.1 Country risk

The foreign reserve invested overseas is exposed to the country credit risk due to political, economic and financial events in the country of investment. Country risk includes the possibility of nationalization or expropriation of assets, government repudiation of external indebtedness, changes in exchange control policies and currency depreciation or devaluation. Majority of the Authority's foreign reserve investments are in economically advanced and politically stable countries to limit the exposure to country risk.

The Authority's end-of-year significant concentrations of credit exposure by geographical area (based on the entity's country of ownership) are as follows.

	2012 MVR	2011 MVR
United States of America	4,433,072,678	4,920,461,286
Maldives	5,014,998,729	3,929,984,282
Supranational financial institutions	399,467,849	403,463,102
Germany	17,560,146	17,410,701
Great Britain	2,303,490	2,235,314
Australia	19,160	1,375,913
Singapore	1,344,297	1,292,100
Total financial assets (except foreign cash in hand)	9,868,766,349	9,276,222,698



39 RISK MANAGEMENT (Continued)

39.2 Operational risk

Operational risk is the result of inadequate controls or failed processes such as human fraud and system errors and as a result of external events. The Authority has in place a number of operational controls to minimise the financial and reputational damage against such risks. These include;

1. Segregation of duties which assist in better control by avoiding potential outright fraud or collusion among staff.
2. Preparation of monthly reconciliations of accounts.
3. Maintaining processes relating to data integrity and backup system.
4. Protecting the physical assets against theft and fire by the surveillance of security and fire alarm systems.

39.3 Liquidity risk

Liquidity risk is the risk arising from the inability to sell a financial asset at close to its fair value at short notice due to inadequate market depth or market disruptions. To manage liquidity risk the majority of foreign reserves are invested in overnight repurchase agreements of the Federal Reserve Bank of New York.

39.4 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices and includes currency and interest rate risks.

1. Currency risk is the risk of loss on foreign assets and liabilities arising from changes in foreign exchange rates.
2. Interest rate risk is the risk of loss arising from changes in market interest rates.

Market risks are mitigated through investing the majority of foreign reserves in US Dollar denominated assets, in highly accredited financial institutions.

39.5 Interest rate risk

Interest rate risk is the risk of loss arising from the changes in market interest rates.

a) Interest rate sensitivity

The interest rate sensitivity analysis measures the potential loss due to a drop in interest rate by 10 basis points for interest bearing assets and increase in interest by 10 basis points for interest bearing liabilities. Impact to the income statement is given below.

	2012 MVR	2011 MVR
Potential loss of interest income	4,633,945	5,120,874

The figure was erroneously calculated for 2011, hence the correct figure for 2011 has been shown in this years' Financial Statements.



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39.5 Interest rate risk (Continued)

b) Assets and liabilities will mature or re-price within the following periods.

Foreign currency interest rate sensitivity gap:	Weighted Ave. Int. Rate %	2012 Total MVR	Less than 6 Months MVR	Less than 12 Months MVR	Less than 2 Years MVR	Less than 5 Years MVR	More than 5 Years MVR	No fixed maturity MVR
Interest sensitive foreign currency financial assets								
Cash and balances with banks	0.17%	4,453,595,870	4,453,595,870	-	-	-	-	-
IMF related assets	0.03%	162,912,456	162,912,456	-	-	-	-	-
Total interest sensitive foreign currency financial assets		4,616,508,325	4,616,508,325	-	-	-	-	-
Non-interest sensitive foreign currency financial assets								
Cash and cash equivalents		16,633,872	16,633,872	-	-	-	-	-
IMF related assets		236,555,393	236,555,393	-	-	-	-	-
Subscriptions to international agencies		831,517	-	-	-	-	-	831,517
Interest and other receivables		7,406	7,406	-	-	-	-	-
Total non-interest sensitive foreign currency financial assets		254,028,188	253,196,671	-	-	-	-	831,517
Total foreign currency financial assets		4,870,536,513	4,869,704,996	-	-	-	-	831,517
Interest sensitive foreign currency financial liabilities								
Payables to Asian Clearing Union	0.17%	12,562,384	12,562,384	-	-	-	-	-
Total interest sensitive foreign currency financial liabilities		12,562,384	12,562,384	-	-	-	-	-
Non-interest sensitive foreign currency financial liabilities								
Balances of commercial banks	0.01%	2,455,909,127	2,455,909,127	-	-	-	-	-
Interest bearing loans	1.67%	125,605,495	-	-	-	-	125,605,495	-
IMF related liabilities		613,498,935	-	-	-	-	-	613,498,935
Balances of government and government institutions		119,568,295	119,568,295	-	-	-	-	-
Other liabilities		17,815,876	1,619,724	-	-	-	-	16,196,152
Deposits by international financial institutions		831,517	-	-	-	-	-	831,517
Total non-interest sensitive foreign currency financial liabilities		3,333,229,246	2,577,097,146	-	-	-	125,605,495	630,526,604
Total foreign currency financial liabilities		3,345,791,629	2,589,659,530	-	-	-	125,605,495	630,526,604
Foreign currency interest rate sensitivity gap		4,603,945,942	4,603,945,942	-	-	-	-	-



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39.5 Interest rate risk (Continued)

Local currency interest rate sensitivity gap:		Weighted Ave. Int. Rate %	2012 Total MVR	Less than 6 Months MVR	Less than 12 Months MVR	Less than 2 Years MVR	Less than 5 Years MVR	More than 5 Years MVR	No fixed maturity MVR
Total interest sensitive local currency financial assets									
Non-interest sensitive local currency financial assets									
Subscriptions to international agencies			8,509,716	-	-	-	-	-	8,509,716
Interest and other receivables			2,593,119	-	-	-	-	-	-
Loans to government institutions	8.87%		331,391,576	331,391,576	-	-	-	-	-
Investment in Government bonds	7.72%		3,806,000,000	-	634,000,000	-	1,268,000,000	1,904,000,000	-
Interest Receivable on Government bonds			86,069,446	-	86,069,446	-	-	-	-
Investment in Government Treasury Bills	7.00%		779,603,355	-	779,603,355	-	-	-	-
Total non-interest sensitive local currency financial assets			5,014,167,212	331,391,576	1,499,672,801	-	1,268,000,000	1,904,000,000	8,509,716
Total local currency financial assets			5,014,167,212	331,391,576	1,499,672,801	-	1,268,000,000	1,904,000,000	8,509,716
Interest sensitive local currency financial liabilities									
Pension and other employment benefit payables	7.86%		4,874,507	-	492,815	880,509	756,855	2,744,328	-
Total interest sensitive local currency financial liabilities			4,874,507	-	492,815	880,509	756,855	2,744,328	-
Non-interest sensitive local currency financial liabilities									
Balances of commercial banks	1.00%		3,441,763,734	3,441,763,734	-	-	-	-	-
Balances of government and government institutions			21,442,863	21,442,863	-	-	-	-	-
Balances of insurance companies			10,000,000	10,000,000	-	-	-	-	-
Deposits by international financial institutions			10,901,775	10,901,775	-	-	-	-	-
Other liabilities			217,363,812	217,363,812	-	-	-	-	-
Total non-interest sensitive local currency financial liabilities			3,701,472,184	3,701,472,184	-	-	-	-	-
Total local currency financial liabilities			3,706,346,691	3,701,472,184	492,815	880,509	756,855	2,744,328	-
Local currency interest rate sensitivity gap			(4,874,507)	-	(492,815)	(880,509)	(756,855)	(2,744,328)	-



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39.5 Interest rate risk (Continued)

Comparative figures as at 31 December 2011 were as follows.

Foreign currency interest rate sensitivity gap:	Weighted Ave. Int. Rate %	2011 Total MVR	Less than 6 Months MVR	Less than 12 Months MVR	Less than 2 Years MVR	Less than 5 Years MVR	More than 5 Years MVR	No fixed maturity MVR
Interest sensitive foreign currency financial assets								
Cash and balances with banks	0.01%	4,942,111,255	4,942,111,255	-	-	-	-	-
IMF related assets	0.11%	165,713,816	165,713,816	-	-	-	-	-
Total interest sensitive foreign currency financial assets		5,107,825,071	5,107,825,071	-	-	-	-	-
Non-interest sensitive foreign currency financial assets								
Cash and cash equivalents		6,575,838	6,575,838	-	-	-	-	-
IMF related assets		237,749,270	237,749,270	-	-	-	-	-
The Board of Directors of the Maldives Monetary Authority authorised interest and other receivables		833,681	-	-	-	-	-	833,681
Total non-interest sensitive foreign currency financial assets		245,168,453	244,334,772	-	-	-	-	833,681
Total foreign currency financial assets		5,352,993,524	5,352,159,843	-	-	-	-	833,681
Interest sensitive foreign currency financial liabilities								
Payables to Asian Clearing Union	0.02%	7,705,144	7,705,144	-	-	-	-	-
Total interest sensitive foreign currency financial liabilities		7,705,144	7,705,144	-	-	-	-	-
Non-interest sensitive foreign currency financial liabilities								
Balances of commercial banks	0.05%	2,364,657,089	2,364,657,089	-	-	-	-	-
Interest bearing loans	1.67%	107,756,674	-	-	-	-	107,756,674	-
IMF related liabilities		-	-	-	-	-	-	-
Balances of government and government institutions		121,964,410	121,964,410	-	-	-	-	-
Other liabilities		18,429,451	2,233,299	-	-	-	-	16,196,152
Deposits by international financial institutions		833,681	-	-	-	-	-	833,681
Total non-interest sensitive foreign currency financial liabilities		2,613,641,305	2,488,854,798	-	-	-	107,756,674	17,029,833
Total foreign currency financial liabilities		2,621,346,449	2,496,559,942	-	-	-	107,756,674	17,029,833
Foreign currency interest rate sensitivity gap		5,100,119,927	5,100,119,927	-	-	-	-	-



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39.5 Interest rate risk (Continued)

Local currency interest rate sensitivity gap	Weighted Ave. Int. Rate %	2011 Total MVR	Less than 6 Months MVR	Less than 12 Months MVR	Less than 2 Years MVR	Less than 5 Years MVR	More than 5 Years MVR	No fixed maturity MVR
Total interest sensitive local currency financial assets		-	-	-	-	-	-	-
Non-interest sensitive local currency financial assets								
Subscriptions to international agencies		8,468,155	-	-	-	-	-	8,468,155
Interest and other receivables		-	-	-	-	-	-	-
Loans to government institutions	6.00%	26,441,246	26,441,246	-	-	-	-	-
Investment in Held-to-Maturity instruments: Government bonds	7.72%	3,806,000,000	-	634,000,000	-	1,268,000,000	1,904,000,000	-
Interest Receivable on Government bonds		88,241,200	-	88,241,200	-	-	-	-
Total non-interest sensitive local currency financial assets		3,929,150,601	26,441,246	722,241,200	-	1,268,000,000	1,904,000,000	8,468,155
Total local currency financial assets		3,929,150,601	26,441,246	722,241,200	-	1,268,000,000	1,904,000,000	8,468,155
Interest sensitive local currency financial liabilities								
Securities sold under agreement to repurchase		-	-	-	-	-	-	-
Pension and other employment benefit payables	6.97%	5,343,545	-	496,915	898,805	785,492	3,162,333	-
Total interest sensitive local currency financial liabilities		5,343,545	-	496,915	898,805	785,492	3,162,333	-
Non-interest sensitive local currency financial liabilities								
Balances of commercial banks	1.00%	3,009,536,058	3,009,536,058	-	-	-	-	-
Balances of government and government institutions		207,012,909	207,012,909	-	-	-	-	-
Balances of insurance companies		10,000,000	10,000,000	-	-	-	-	-
Deposits by international financial institutions		9,452,352	9,452,352	-	-	-	-	-
Other liabilities		160,478,335	160,478,335	-	-	-	-	-
Total non-interest sensitive local currency financial liabilities		3,396,479,654	3,396,479,654	-	-	-	-	-
Total local currency financial liabilities		3,401,823,199	3,396,479,654	496,915	898,805	785,492	3,162,333	-
Local currency interest rate sensitivity gap		(5,343,545)	-	(496,915)	(898,805)	(785,492)	(3,162,333)	-



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39.6 Foreign currency risk

Effective management of foreign exchange risk is vital to maintain the Authority's credibility. If foreign reserve risk is managed properly and effectively it will strengthen public confidence in the monetary policy. Foreign exchange reserves risk management concerns balancing many objectives and issues, from broad macro-economic policy objectives, such as monetary policy and foreign exchange management. Foreign currency activities result mainly from the Authority's holding of foreign currency assets which are managed by the Foreign Exchange Section of the Authority. Volatility of the foreign exchange markets may expose the Authority to exchange rate risk.

Net exposure to foreign currencies

As at 31 December 2012 the Authority's net exposure to major currencies was as follows.

As at 31 December 2012	Currency of Denomination							Total MVR
	US Dollars MVR	Euro MVR	Singapore Dollars MVR	Sterling Pound MVR	SDR MVR	Australian Dollars MVR	Other Currencies MVR	
Foreign currency financial assets								
Cash and cash equivalents	4,450,059,796	17,560,146	444,230	2,146,408	-	19,160	-	4,470,229,741
IMF related assets	-	-	-	-	399,467,849	-	-	399,467,849
Subscription to international agencies	-	-	-	-	-	-	831,517	831,517
Interest and other receivables	7,406	-	-	-	-	-	-	7,406
Total foreign currency financial assets	4,450,067,202	17,560,146	444,230	2,146,408	399,467,849	19,160	831,517	4,870,536,513
Proportion	91.37%	0.36%	0.00%	0.04%	8.20%	0.00%	0.01%	100.0%
Foreign currency financial liabilities								
Deposits by commercial banks	2,455,909,127	-	-	-	-	-	-	2,455,909,127
Balances due to government entities	119,568,295	-	-	-	-	-	-	119,568,295
Payable to Asian Clearing Union	12,562,384	-	-	-	-	-	-	12,562,384
IMF related liabilities	-	-	-	-	613,498,935	-	-	613,498,935
Interest bearing loans	-	-	-	-	154,411,119	-	-	125,605,495
Deposits by international financial institutions	833,681	-	-	-	-	-	-	831,517
Others	17,795,133	-	-	-	20,744	-	-	17,815,876
Total foreign currency financial liabilities	2,606,668,619	-	-	-	767,930,798	-	-	3,345,791,629
Proportion	77.91%	0.00%	0.00%	0.00%	22.95%	0.00%	0.00%	100.0%
Net foreign currency exposure	1,843,398,583	17,560,146	444,230	2,146,408	(368,462,949)	19,160	831,517	1,524,744,884



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39.6 Foreign currency risk (Continued)

As at 31 December 2011 the Authority's net exposure to major currencies was as follows.

As at 31 December 2011	Currency of Denomination							Other Currencies MVR	Total MVR
	US Dollars MVR	Euro MVR	Singapore Dollars MVR	Sterling Pound MVR	SDR MVR	Australian Dollars MVR			
Foreign currency financial assets									
Cash and cash equivalents	4,927,419,923	17,410,701	402,732	2,077,824	-	1,375,913	-	-	4,948,687,093
IMF related assets	-	-	-	-	403,463,086	-	-	-	403,463,086
Subscription to international agencies	-	-	-	-	-	-	-	833,681	833,681
Interest and other receivables	9,664	-	-	-	-	-	-	-	9,664
Total foreign currency financial assets	4,927,429,587	17,410,701	402,732	2,077,824	403,463,086	1,375,913	833,681	833,681	5,352,993,524
Proportion	92.05%	0.33%	0.01%	0.04%	7.54%	0.03%	0.02%	0.02%	100.0%
Foreign currency financial liabilities									
Deposits by commercial banks	2,364,657,089	-	-	-	-	-	-	-	2,364,657,089
Balances due to government entities	121,964,410	-	-	-	-	-	-	-	121,964,410
Payable to Asian Clearing Union	7,705,144	-	-	-	-	-	-	-	7,705,144
IMF related liabilities	-	-	-	-	616,489,717	-	-	-	616,489,717
Interest bearing loans	-	-	-	-	107,756,674	-	-	-	107,756,674
Deposits by international financial institutions	689,775	-	-	-	-	-	-	-	833,681
Others	18,373,690	-	-	-	55,761	-	-	-	18,429,451
Total foreign currency financial liabilities	2,513,390,108	-	-	-	724,302,152	-	-	-	3,237,836,166
Proportion	77.63%	0.00%	0.00%	0.00%	22.37%	0.00%	0.00%	0.00%	100.0%
Net foreign currency exposure	2,414,039,479	17,410,701	402,732	2,077,824	(320,839,066)	1,375,913	833,681	833,681	2,115,157,358

39.7 Credit risk

Credit risk is the possibility that the counter party will not fulfil its contractual obligation, resulting in a financial loss. To manage the credit risk the Authority determines and evaluate the credit limits to banks and to the government. The Authority has discontinued loans to government and public entities during 2009. Loans and advances granted until August 2009 were converted into government bonds and are used as collateral for conducting open market operations. Furthermore, advances provided to commercial banks are backed by government securities.



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39.7 Credit risk (Continued)

a) Credit exposure by credit rating

The following table presents the credit ratings of respective financial assets or issuers (except foreign cash in hand), based on the ratings of Standard and Poor's, Fitch Ratings and Moody's ratings. Under Standard & Poor's ratings and Fitch Ratings, AAA is the highest quality rating possible and indicates the lowest expectations of credit risk. It is assigned only in the case of exceptionally strong capacity for timely payment of financial commitment. AA is very high quality grade, indicating very low expectation of credit risk, and A is an upper medium grade, indicating a low expectation of credit risk; BBB is the lowest investment grade rating, indicating that there is currently a low expectation of credit risk and exhibits adequate protection. Para meters, ratings lower than AAA can modified by + or - signs to indicate relative standing within the major categories. NR indicates the financial instruments have no ratings.

	Credit rating	2012 MVR	%	2011 MVR	%
Cash and balances with banks					
Federal Reserve Bank - USA *	AA+	4,391,715,556	90.47%	4,878,554,822	91.24%
Balances with other banks	Aa1	31,456	0.00%	1,375,913	0.03%
	Aaa	41,789,056	0.86%	42,309,195	0.83%
	A	17,560,146	0.36%	17,410,701	0.33%
	BBB+	66,903	0.00%	64,986	0.00%
	BBB-	900,066	0.01%	889,368	0.02%
	B3	2,236,587	0.05%	2,170,329	0.04%
		4,454,299,771		4,942,775,314	
Other foreign currency financial assets					
Supranational financial institutions	NR	399,467,849	8.23%	403,463,102	7.55%
Government of Maldives	NR	831,517	0.01%	833,681	0.02%
Total foreign currency financial assets		4,854,599,137	100%	5,347,072,097	100%
Local currency financial assets					
Government of Maldives	NR	5,014,998,729	100%	3,929,150,601	100%
Total financial assets		9,869,597,866		9,276,222,698	

* Federal Reserve Bank, USA do not have credit ratings, and therefore the country ratings of United States of America as per Standard & Poor's is applied.

b) Concentrations of credit exposure

The Authority's end-of-year significant concentrations of credit exposure (except foreign cash in hand) by Institution type are as follows.

	2012 MVR	2011 MVR
Government of Maldives and government institutions	5,015,253,859	3,929,984,282
Other foreign central banks	4,391,715,556	4,878,554,822
Supranational financial institutions	399,467,849	403,463,102
Foreign banks and financial institutions	62,584,215	64,220,492
Total financial assets	9,869,021,479	9,276,222,698



40 RELATED PARTIES TRANSACTION DISCLOSURES

40.1 Transactions with state and state controlled entities

- a) In the normal course of its operations, the Authority enters into transactions with related parties. Related parties include the Republic of Maldives (State: as the ultimate owner of the Authority), various government departments and state owned entities. Particulars of transactions, and arrangements entered into by the Authority with the State and State controlled entities are as follows:

	2012 MVR	2011 MVR
Profit re-appropriation to the Government (Note 34)	205,310,125	132,578,640
Surplus payable to government	57,893,055	67,934,840
Temporary advances made to the Government (Note:b)	331,391,576	161,331,250
Gross foreign exchange transactions during the year		
- Sales	4,596,831,495	224,231,368
- Purchases	5,903,955,185	327,245,427

- b) Under article 22 (h) of MMA Act the Authority may make short term loans to the government to finance the budget expenditure. As such the Ministry of Finance and Treasury and the Authority entered into an Agency Agreement on 30 September 2009.

- c) Through the operations the Authority earns interest, charges and commission from the services provided to the government and other governmental entities, which are included as part of the income statement and thus paid out as dividend to the government.

	2012 MVR	2011 MVR
Interest income earned from related parties	308,975,626	298,475,725
Loans received from Ministry of Finance and Treasury	18,461,676	34,278,081
Finance charges paid	373,050	466,840
Charges and commissions earned from related parties	10,054,925	1,701,550
Gross value of goods and services obtained	7,681,281	5,965,379

- d) The aggregate balances outstanding on deposits and amounts due from government and governmental entities, as at 31 December are given below.

	2012 MVR	2011 MVR
Advances to Government as at 31 December (Note 8)	331,391,576	26,441,246
Investment in Government bonds (Note 9 and 10)	3,892,069,446	3,894,241,200
Investment in Government Treasury bills (Note 11)	779,603,355	-
	<u>5,003,064,377</u>	<u>3,920,682,446</u>
Government deposits with the Authority	140,366,645	269,282,268
State Owned Enterprises deposits with the Authority	644,512	59,695,051
Security deposits held by insurance companies (Note 24)	4,000,000	4,000,000
	<u>145,011,158</u>	<u>332,977,319</u>



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As at 31 December 2012

40 RELATED PARTIES TRANSACTION DISCLOSURES (Continued)

40.1 Transactions with state and state controlled entities (Continued)

- e) The Authority performs the functions of implementing its monetary policy mainly through open market operations and enforcing Statutory Reserve Requirement under article 31 of MMA Act. Further, the Authority act as the banker to both commercial banks and government institutions. Government of Maldives as a related party has a significant shareholding in Bank of Maldives Plc. Please refer Note 15 for the gross outstanding balances as at 31 December.
- f) Empowered by the article 4(c) of the MMA Act, the Financial Sector Division of the Authority carries out the regulatory and supervisory functions of the banks licensed by the Authority. The Bank of Maldives Plc which had been funded by the government and having a significant influence, falls under the supervision of this division.
- g) The Non-bank Financial Institutions Supervision Section of the Authority carries out its regulatory and supervisory functions in respect of Non-banking Financial Institutions. Accordingly, the following related entities are under the supervision of the Authority (Note 24).

Allied Insurance Company of the Maldives
Housing Development Finance Corporation Plc
- h) As per article 22(f) of MMA Act, the Authority is vested with the function of public debt management. Accordingly, as the agent of the government, the Public Debt Section (PDS) of the Authority issues securities to the domestic market to meet the budgetary requirements and to ensure that financing needs of the government and its payment obligations are met.
- i) The Authority, in carrying out the normal operations, enters into transactions to obtain various goods and services with government entities or entities in which government has significant influence or control (Note 40.1 (c)).
- j) The Authority did not provide any guarantee over any of the borrowings of a related parties during the year ending 31 December 2012

40.2 Transactions with key managerial personnel (present and former)

Key Managerial Personnel of the Authority are the members of the Board that includes Governor, Deputy Governor (The Authority restricts such members' positions as director, officer, employee or shareholder of any banking institution.) and other members of the Board. Particulars of transactions with key managerial personnel were as follows:

	2012	2011
	MVR	MVR
Compensation to the key management personnel	2,880,382	2,829,216

41 FINANCIAL INSTRUMENTS

Investment in fixed deposits

The carrying values of deposits are considered to approximate their fair value as they are payable on demand.



42 CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

42.1 Guarantees

Under Section 22 (l) the Authority has the power to give guarantees for the repayment of Government loans. However, the Authority has not provided any guarantees as at 31 December 2012. This has been further confirmed by the MOFT.

42.2 Fiduciary activities

Under Section 22 of MMA Act, the Authority carries out fiduciary activities such as acting as custodian of Government funds and functioning as a fiscal agent for the Government in its dealings with International Financial Institutions. Notwithstanding, the Authority does not expect a liabilities or commitments to arise from such activities.

42.3 Legal claims

There are no ongoing legal proceedings against the Authority as of 31 December 2012.

42.4 Commitments

On request of the Ministry of Finance and Treasury with reference to the loan agreements signed between the Government of the Republic of Maldives and the Islamic Development Bank, the Authority undertakes to provide the foreign exchange required to repay the loans inclusive of service fees at such times as repayment instalments and service fees fall due. In consideration the Ministry of Finance and Treasury on behalf of the Government of the Republic of Maldives has counter guaranteed to pay the Authority the equivalent Rufiyaa for the aforesaid payments.

43 EVENTS OCCURRING SUBSEQUENT TO REPORTING DATE

There have been no material events occurring after the reporting date that require adjustments to or disclosure in the financial statements.

