



# Annual Report

## And Financial Statements

### 2010



**Maldives Monetary Authority**

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# LETTER OF TRANSMITTAL

## **MALDIVES MONETARY AUTHORITY**

Malé, Republic of Maldives

Dear Mr. President,

In accordance with Article 35 (2) of Maldives Monetary Authority Act (1981), I have the honour to submit the Annual Report of the Maldives Monetary Authority for 2010, which includes a copy of the Financial Statements for the year ended 31st December 2010, audited by the External Auditor, Ernst & Young.

Yours sincerely,



Fazeel Najeeb  
Governor

H.E. Mohamed Nasheed,  
President of the Republic of Maldives,  
Office of the President,  
Malé.

# PREFACE

This report presents the financial statements of the MMA as required by the MMA Act (1981). In addition, it presents an overview of the domestic economy during the year. All analyses are based on information relating to the year 2010, received from relevant government authorities, financial sector agencies, public enterprises and other private sector sources, as at end of February 2011. The views expressed in this Report, however, are those of this Authority and do not necessarily represent those of the source of data. We thank all those who have contributed to the publication of this report including the provision of the information contained herein.



# LIST OF ACRONYMS

ACU	Asian Clearing Union
ADB	Asian Development Bank
AFI	Alliance for Financial Inclusion
BML	Bank of Maldives Plc
CGAP	Consultative Group to Assist the Poor
CD	Corporate Division
CFTC	Commonwealth Fund for Technical Cooperation
CPI	Consumer Price Index
DRF	Domestic Research Fund
ERSD	Economic Research and Statistics Division
FIRST	The Financial Sector Reform and Strengthening
FOB	Free On Board
GDP	Gross Domestic Product
HBL	Habib Bank Limited
HRD	Human Resource Division
HDFC	Housing Development Finance Corporation PLC.
HSBC	Hong Kong and Shanghai Banking Corporation Limited
ITD	Information Technology Division
IMF	International Monetary Fund
MFLC	Maldives Finance Leasing Company Pvt. Ltd.
MO	Reserve Money or Monetary Base
MMA	Maldives Monetary Authority
MCB	Mauritius Commercial Bank
MPC	Monetary Policy Committee
MPS	Monetary Policy Section
MPRD	Monetary Policy and Research Division
MOFAMR	Ministry of Fisheries, Agriculture and Marine Resources
MOFT	Ministry of Finance and Treasury
MPBP	Mobile Phone Banking Project
MOTCA	Ministry of Tourism and Civil Aviation
DNP	Department of National Planning
MRR	Minimum Reserve Requirement
PLC	Public Limited Company
PNFE	Public Non-Financial Enterprises
RF	Rufiyaa
RPS	Research and Publications Section
SBI	State Bank of India
SME	Small and Medium Enterprises
STELCO	State Electric Company Limited

SAARC	South Asian Association for Regional Cooperation
SOEs	State Owned Enterprises
STO	State Trading Organisation Plc
TBills	Treasury Bills
TBonds	Treasury Bonds
OMOs	Open Market Operations



# OVERVIEW OF THE ECONOMY IN 2010

The Maldivian economy bounced back strongly during 2010, underpinned by the robust recovery of the tourism sector. After having contracted by 2.3 percent in 2009 as a result of the economy being acutely affected by the global downturn, real GDP is estimated to have grown by 4.8 percent during 2010.

The **tourism sector**, the key pillar of the Maldivian economy constituting 28.7 per cent of GDP and 93 percent of services receipts of the balance of payments recorded a substantial growth of 14.4 percent in 2010 following a decline of 5.2 percent in 2009 due to the sharp decline in tourist arrivals owing to the global recession.

The year 2010 marked another new record level in tourist arrivals, recording 791.9 thousand by the end of the year. This represented a growth of 21 percent from 2009, reflecting the revival in external demand. Despite Europe being the major tourism generating market to Maldives (which on average accounted for 71 percent of total tourist arrivals in the last five years), the recovery of the sector during the year was led by buoyant arrivals from China which registered a growth of 96 percent while arrivals from Europe increased by 9 percent.

Although the **fisheries sectors'** contribution to GDP has become less significant at just 3.2 percent of GDP, the sector still remains

As an important industry to the Maldivian economy as it is the second main generator of foreign exchange earnings with fish and fish

products accounting for 95 per cent of domestic exports. In addition, the sector also continues to be an important source of livelihood and employment for a vast number of people living in the outer islands.

The fisheries sector remains to be affected by low levels of fish catch since 2006 and fish catch which totalled 87.7 thousand metric tonnes declined by a further 24 percent during 2010. Owing to the decline in fish catch, the volume of fish exports (excluding live fish) which totalled 33.4 thousand metric tonnes, registered an annual decline of 16 percent in 2010 while the decline in fish export earnings was somewhat moderate, at 5 percent, reflecting the strengthened world tuna prices and totalled US\$68.3 million in 2010.

**Construction sector** was hard hit by the global financial crisis and contracted by 29.2 percent in 2009 due to drying up of external financial inflows to the large scale tourism resort developments projects. Nonetheless, with the revival of financial inflows to the tourism projects and due to resuming of public sector infrastructure projects, the construction sector is estimated to have expanded by 2.6 percent in 2010.

## ***Inflation***

Consumer price inflation (as measured by annual percentage change in the 12-month moving average of Consumer price Index (CPI for Male'), which fell to a low of 3.8 percent in March 2009, started picking up since April 2010 and accelerated to 6.2 percent at the end of December 2010, mainly as a result of the hike in global commodity prices since mid-2010. Other

measures of inflation such as CPI excluding the volatile fish prices stood at 6.1 percent, while CPI excluding all food prices stood at 5.5 percent. During the year inflation was mostly driven by higher food prices which rose by 7.5 percent compared to a 0.5 percent increase in 2009. Meanwhile, accommodation costs stood as the second main contributor to inflation reflecting the high demand for rental housing in Male'.

### ***Monetary Policy and Developments in Monetary Aggregates***

Maldives Monetary Authority (MMA) maintained the tight monetary policy stance adopted in August 2009, in order to absorb excess liquidity in the banking system and thereby stem reserve losses to support the exchange rate peg with the U.S dollar. As a result reserve money recorded an annual decline of 1 percent in 2010 after a 14 percent growth in preceding year. Meanwhile, broad money growth accelerated led by the increase in net foreign assets of both MMA and commercial banks. Credit to private sector continued to remain stagnant, although, net credit to government increased thus increasing the total domestic credit.

### ***Fiscal Developments***

The revised government budget estimates of November 2010 showed that despite a lower than budgeted revenue outturn, the overall budget deficit for 2010 is estimated to be better than the initial projections.

This was mainly due to a decline in expenditure reflecting delayed implementation of some of the fiscal adjustment measures proposed under the budget. Hence, the fiscal deficit is estimated to have declined to 16 percent of GDP in 2010 from 31 percent of GDP in 2009. In 2010, total

revenue (excluding grants) increased by 15 percent, which however was 11 percent lower than what was initially projected for the year, as the new revenue measures envisaged in the 2010 budget – such as the goods and services tax on the tourism sector and the business profit tax – did not materialize during the year.

The increase in revenue was led by higher non-tax revenue driven by transfers from state owned enterprises and resort lease rent. Tax revenue grew in 2010 with the recovery of domestic economic activity while the major sources of tax revenue for the year were import duty and tourism bed tax. Total expenditure (excluding net lending) which was initially projected at 59 percent of GDP declined by 11 percent in 2010 to 53 percent of GDP sustained by the continuation of public sector wage cuts implemented in October 2009 and also reflected the slow progress in public employment restructuring. In 2010, 94 percent of the deficit is estimated to have been financed domestically, mainly through the sale of Treasury Bills (T-Bills) and Treasury Bonds (T-Bonds) while the rest was financed through external borrowing.

### ***Balance of payments and gross international reserves***

The revised balance of payments estimates of November 2010 showed that the current deficit is estimated to have increased to US\$462.7 million (31 percent of GDP) in 2010 due to the worsening of trade deficit which will more than offset the increase in services surplus.

With the increase in imports reflecting the recovery of domestic demand and import prices, coupled with the decline in domestic exports, the trade deficit is estimated to widen by US\$115.8 million in 2010. In the meantime, with the recovery of tourism receipts the

services surplus is estimated to increase by US\$88.9 million in 2010. Reflecting the improved global financial conditions, net financial inflows are estimated to register an improvement of 6 percent in 2010 as a result of the increase in foreign direct investment inflows. Gross international reserves continued to be on a declining trend, despite temporary boosts provided by external financing inflows. Gross reserves which had remained on a steady downward trend since May 2010 increased to US\$349.9 million (3.8 months of imports) at the end of December 2010 from US\$265.2 million in October 2010, reflecting the airport privatization proceeds received in November 2010.

### ***External Debt***

Data on the external private debt stock of the country are limited only to government and government guaranteed borrowings and external debt of the commercial banks. External debt stock of the country increased to US\$943.3 million (45 percent of GDP) at the end of 2010 while public and publicly guaranteed (medium and long term) debt outstanding and disbursed rose to US\$607.3 million (29 percent of GDP). The commercial banks' borrowings declined by 16 percent, to record US\$336.0 million at the end of 2010.

Public sector external debt consists of loans from both official and private creditors. As in the past the bulk (84 per cent) of the public external debt comprised of loans from official creditors (both bilateral and multilateral sources), mostly on concessional terms.

# AN OVERVIEW OF THE MALDIVES MONETARY AUTHORITY

The Maldives Monetary Authority (MMA) was set up on 1<sup>st</sup> July 1981 under the MMA Act of 1981. The statutory purposes of the MMA under the Act are: to issue currency and regulate the availability and international value of the Maldivian rufiyaa; to provide advisory services to the government on banking and monetary matters; to supervise and regulate banking so as to promote a sound financial structure; and 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 the Maldives.

A second amendment to MMA Act (1981) has been passed by the Majlis and ratified by the President on 5<sup>th</sup> April 2007. The new amendment of the Act provides for the autonomy of the MMA by separating the positions of the Finance Minister and the Governor of MMA

## ***Board of Directors***

The highest policymaking body of the MMA is MMA Board of Directors who is responsible for the policies and affairs of the MMA. With the new amendments brought to the MMA Act on 5<sup>th</sup> April 2007, a new Board of Directors was appointed on following dates.

- 1. Governor**  
Mr. Fazeel Najeeb  
(Appointed on 25<sup>th</sup> October 2008)
- 2. Deputy Governor**  
Ms. Aishath Zahira  
(Appointed on 1<sup>st</sup> July 2008)
- 3. Senior Advisor to the Governor**  
Mr. Abdul Ghafoor Abdul Latheef  
(Appointed on 6<sup>th</sup> July 2008)
- 4. Ministry of Finance and Treasury**  
Mr. Ismail Shafeeq  
(Appointed on 6<sup>th</sup> July 2008)
- 5. Private Sector**  
Mr. Ibrahim Shafeeq  
(Appointed on 6<sup>th</sup> July 2008)
- 6. Private Sector**  
Mr. Ahmed Nazeer  
(Appointed on 6<sup>th</sup> July 2008)

# The Organization in 2010

## ***Organisational Structure and Functions***

**The Banking and Payments Settlements Division (BPSD)** consists of the Foreign Exchange Section, Banking Section, Currency Section, Public Debt Section and Treasury Management Sections. The Foreign Exchange Section deal with all matters relating to foreign currency transactions by the MMA and the management of the country's foreign reserves.

The Banking Section, in addition to maintaining the accounts of Government offices and commercial banks, acts as a clearinghouse for the commercial banks operating in the Maldives.

The Currency Section is responsible for printing and minting of currency notes and coins, issuing commemorative coins, maintaining the records of currency in circulation and in stock and releasing new notes and coins into circulation.

The Public Debt Section is responsible for securitising, monitoring and managing domestic government debt.

**The Financial Sector Division (FSD)** consists of the Credit and Bank Supervision Section, Non-Bank Financial Institution Supervision Section, Credit Information Bureau, Financial Intelligence Unit and Financial Education Section.

The duties of the Credit and Bank Supervision Section include issuing licenses for banks to operate in the Maldives, monitoring activities of banks to ensure their compliance to the rules and regulations of the MMA, and assessing the financial health and performance of banks.

The Non-Bank Financial Institutions Supervision Section is responsible for licensing, regulating and supervising insurance companies, leasing companies and other non-bank financial institutions to ensure their smooth functioning.

Financial Intelligence Unit is established to oversee the Anti-Money Laundering and to Combat Financing of Terrorism (AML/CFT) activities in the Maldives under a directive from the President's Office in 2002. The FIU acts as the leading agency to coordinate the country's effort in the fight against money laundering and financing of terrorism.

Credit Information Bureau was established under the Banking Act and governed by a credit information bureau regulation is the nation's first credit information bureau which collects, compiles and collates customer information scattered among the institutes where they hold credit to. The main objective of the bureau is to aid the member institutes in making more informed credit decisions. The bureau repository shall serve the purpose as a one stop centre for information and as a decision support system for the financial institutes performing in the Maldivian market.

The **Monetary Policy and Research Division** (MPRD) consist of the Monetary Policy Section (MPS), the Statistics Section (SS) and the Research and Publications Section (RPS). The MPS formulates proposals regarding monetary policy conduct and instruments; and provides analysis and comments on topics that impact monetary conditions in the Maldivian economy and monetary policy. In addition to this, the MPS provides the secretariat function of the Monetary Policy Committee (MPC) and contributes to bank publications section.

The RPS provides analysis on domestic and international economic developments, carries out business surveys, coordinates the bank's publications, and carries out research on wider topics, requested or approved by the management and manages on behalf of MMA, the Domestic Research Fund. The section also has the responsibility to liaise with the IMF and carry out activities related to SAARCFINANCE and also works to broaden the understanding of economic knowledge of the general public, especially secondary and tertiary school students.

The Statistics Section compiles monetary and financial statistics; and balance of payments statistics according to international standards; disseminates statistics, provide annual balance of payments projections; provides database management and advises the governmental entities on the need for new or improved coverage of statistical data.

**Corporate Division** (CD) is mainly responsible for the general administration of the Authority. The division provides managerial support for the continuity of its daily operations without any disruptions. CD consists of six sections: Legal Section, Administrative Section, Building and Property Management Section, Public Relations, Media and Publications Section, Accounts and

Finance Section and Corporate Governance Section.

Legal Section manages all legal issues arising from external and internal matters and provides legal guidance on contracts and project negotiations.

Administrative Section provides managerial support for events and activities, which takes place within MMA.

The maintenance of MMA's assets and premises and provision of security services is undertaken by the Building and Property Management Section.

Accounts and Finance Section handles accounts of payments of expenses, planning of budget and deals with other financial matters. Apart from these, this section is responsible for procuring of goods in close co-ordination with the relevant sections.

All media related activities, management of the publications of MMA together with public relation activities such as providing protocol service for visiting foreign delegation is undertaken by the Public Relations, Media and Publications Section.

The Corporate Governance Section deals with setting standards of corporate governance code that are to be implemented and to provide information, monitor and review such records as and when required.

The **Information Technology Division** (ITD) is responsible for the IT needs of the Authority. The Division consists of the IT Development Section, which plans the direction and development of IT applications in MMA, and the IT Services Section, which provides IT support services and deals with the delivery of IT services in the organisation.

**Human Resources Division (HRD)** deals with staff matters of the organisation. The Division formulates and implements human resource management and development policies, conducts tasks related to employment, which includes attracting talents for the organization, managing and retaining talents through a performance appraisal system and a competitive remuneration package as well as developing talents through need-based training and development programmes.

The work of the Division is undertaken by three sections: Human Resource Management Section; Training and Development Section; and Staff Welfare and Benefits Section.

The Human Resource Management Section deals with matters related to staff recruitment, selection, leave, attendance, grievances, performance management, record keeping and other related matters in managing staff.

Training and Development Section is responsible for training staff to update existing knowledge and skills and gain new competencies in the required fields. For this, the section arranges short term and long term training, seminars, conferences and workshops.

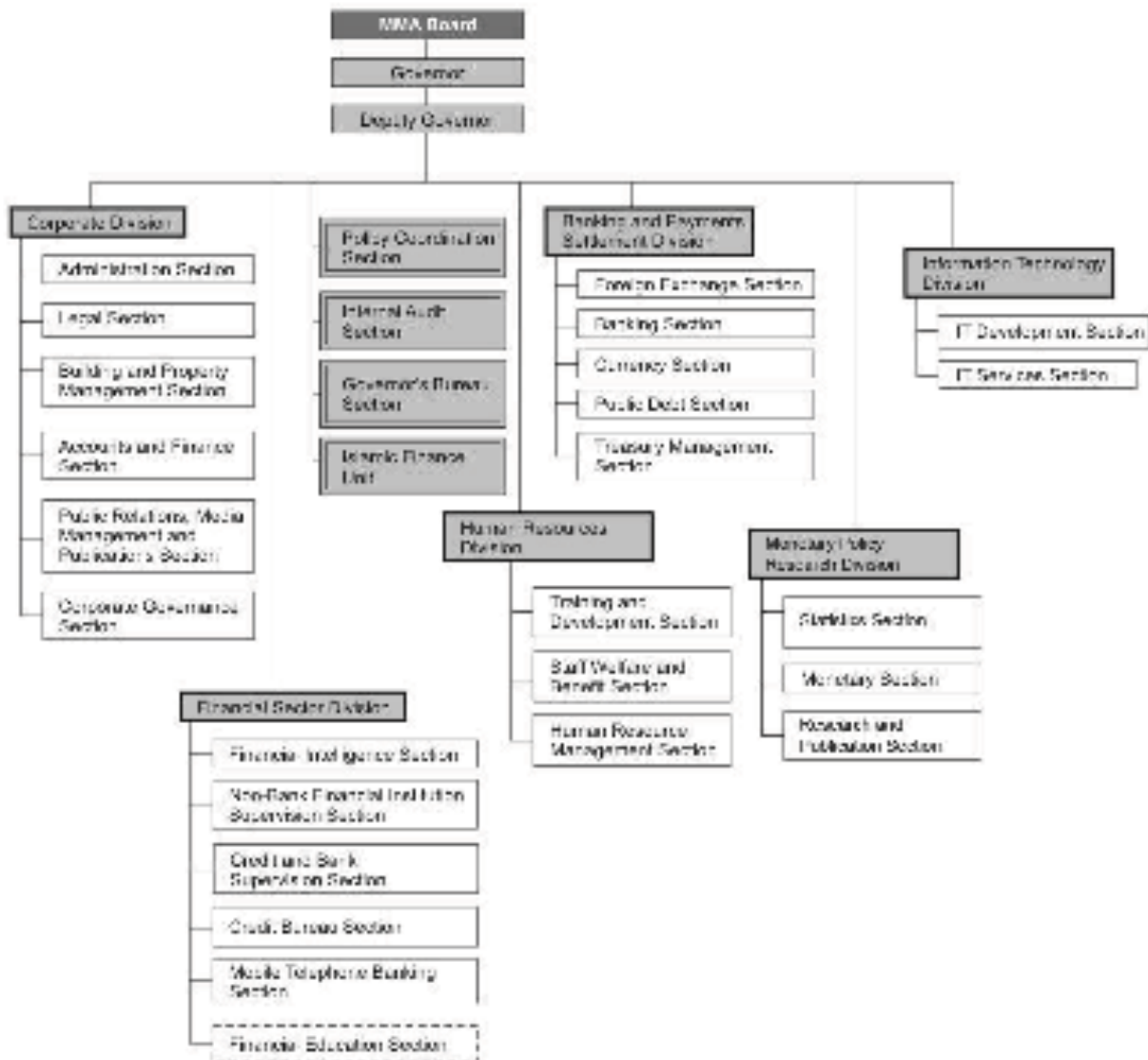
In addition, induction training, staff in-house trainings and section specific specialized trainings will be organised and conducted if requested.

Staff Welfare and Benefits Section deals with development and management of staff pension scheme, health scheme welfare scheme and staff payroll.





# ORGANIZATIONAL STRUCTURE





# SENIOR OFFICIALS

**As at 31<sup>st</sup> December 2010**

Mr. Fazeel Najeeb  
*Governor*

Ms. Aishath Zahira  
*Deputy Governor*

Mr. Abdul Ghafoor Abdul Latheef  
*Senior Advisor to the Governor*

Ms. Neeza Imad  
*Executive Director – Human Resource Division*

Mr. Abdul Hameed Mohamed  
*Executive Director – Monetary Policy and Research Division*

Ms. Mariyam Hussain Didi  
*Executive Director – Corporate Division*

Ms. Mariyam Najeela  
*Senior Manager- Financial Sector Division*

# ADMINISTRATION AND OPERATIONS

## Board Meetings

During the year 2010, the MMA's Board of Directors held 14 meetings during which 20 resolutions were passed.

## Key Operational Developments

### **MMA Training Institute (MMA- TI)**

The MMA-TI is a full fledged training institute, established on 24<sup>th</sup> of February 2010 and serves as the training institute of MMA. The Vision and Mission is as follows.

#### ***Vision***

To become the key enabler for learning and knowledge management while enhancing the Authority's performance and attaining the image of a responsible central bank.

#### ***Mission***

To drive learning and knowledge management culture within the Authority, and contribute development of the financial sector.

#### ***Objectives***

The primary objective of MMA-TI is to enhance the capacities and capabilities of the staff of the Authority, extend the training opportunities to financial sector, potential prospectors, educate and provide sector specific information to public, media and policy makers.

### **Courses held in the year 2010**

- Introduction to Islamic Finance and IFSB standards and Supervisory Review Process
- Maldives Financial Sector Review Dissemination 1<sup>st</sup> June 2010.
- Cash Handling - 5-7<sup>th</sup> July 2010.
- Islamic Banking- 30<sup>th</sup> March 2010.
- Monetary Policy Effects and Challenges-9<sup>th</sup> May 2010.
- Financial Sector Crisis-10<sup>th</sup> May 2010.
- Global Credit Bureaus-20<sup>th</sup> May 2010.
- Leadership Training -6<sup>th</sup> - 19th Dec 2010.

### **Maldives Monetary Authority Training Institute's Library**

The Institute's newly established library is housed on the 7<sup>th</sup> floor of Maldives Monetary Authority premises. The library is equipped with a large collection of resources comprising of books, magazines, newspapers, e-books, audio books, online videos, audio tapes, video tapes, CD's and photo albums. A computerized cataloging system has been set up to provide access to the entire library's collection via online for use, by staff of Maldives Monetary Authority and Financial Sector for their day-to-day operations and other knowledge requirements.

The resources mainly consist of statistical reports of different organizations, economics text books, and magazines. Discussions are underway to affiliate the Institute's library with the Maldives National Library in order to broaden the institute's data base.

It can be noted that the Training Institute's Library is home to a number of very rare and old books that are handled with utmost care and emphasis has been placed to enhance library's facilities.

### ***Developments of the Financial Intelligence Unit (FIU)***

#### 1- IMF Assessment of Maldives on AML/CFT

As part of the Asia-Pacific Group on Money Laundering (APG), Maldives is undergoing Mutual Evaluation on Financial Action Taskforce (FATF) 40 Recommendations on Money Laundering and 9 special Recommendation on Combating the Financing of Terrorism in 2010. This Assessment is conducted by the assessment team appointed by the IMF. The works undertaken in 2010 for the assessment are as below:

- Completing the Detailed Assessment Questionnaire (DAQ) provided by the IMF Assessment Team.
- On December 24, 2010, the Maldivian authorities provided comments to the DAR 1 and are expecting the second Detailed Assessment Report 2 (DAR 2) in January 2011.
- On December 28, 2010, the Maldivian authorities provided the IMF Assessment Team

the laws and regulations published in the Government Gazette after the on-site visit of the Assessment Team.

#### 2- Laws and Regulations

The draft bill on Anti-Money Laundering and Combating Financing of Terrorism was sent to the Attorney General's Office in June 2010 to table it in the Parliament. Further, the regulation on Financial Transaction Reporting Regulation was finalised by MMA and preparations were undertaken to send it to the MMA Board approval.

#### 3- AML/CFT Steering Committee Activities

The AML/CFT Steering Committee met 4 times in 2010 to discuss various issues on AML/CFT as well as the IMF Assessment of Maldives were discussed in these meetings.

#### 4- On-Site Inspection

FIU accompanied with the on-site inspection team of CBSS and inspected a bank on AML/CFT compliance to the AML/CFT Circular No. CN-CBS/2006/05 (dated 22 February 2006).

#### 5- AML/CFT Guidelines to the Financial Institutions

Since there are various AML/CFT obligations imposed by Section 38 of Maldives Banking Act 2010 and the Financial Transaction Reporting Regulation that is planned to be issued in 2011, the FIU drafted a guidance document on AML/CFT compliance to be issued to the financial sector. It is expected that this document will be issued to the financial sector in the first few months of 2011.

#### 6- FIU Database

FIU worked on establishing a database to store information the FIU receives from various financial institutions as well as other relevant information it receives from various sources.

#### 7- 2011 Financial Sector Training on AML/CFT

Because of the various AML/CFT obligations imposed by Section 38 of the Maldives banking Act 2010 and the Financial Transaction Reporting Regulation that is planned to be issued in 2011, it is scheduled to train the reporting entities (banks and other financial institutions) on AML/CFT compliance. Major works undertaken in this regard include preparing training materials, training methodologies and logistical arrangements.

#### **Developments of the Banking Sector**

The Prudential regulation on Foreign Currency Exposure Limits came into effect on 12<sup>th</sup> January 2010.

A full scope on-site examination of Bank of Ceylon was conducted during July-September 2010.

A banking license was issued on 2<sup>nd</sup> August 2010 to Maldives Islamic Bank Pvt Ltd to conduct Islamic banking business in the Maldives. Under this license the bank shall commence operation within 180 calendar days from the date of the license. Maldives Islamic Bank Pvt Ltd is a locally incorporated company, owned by Islamic Corporation for the Development of the Private Sector (ICD) and Government of Maldives.

The Mauritius Commercial Bank Limited Male' branch which operated in the Maldives since 2008 was converted to a subsidiary bank of Mauritius Commercial Bank Ltd and was locally incorporated on 8<sup>th</sup> September 2010. The banking license issued to Mauritius Commercial Bank Ltd was transferred to The Mauritius Commercial Bank Maldives Pvt. Ltd. on 29<sup>th</sup> September 2010.

The MMA's Board established a Shariah Council to oversee Shariah aspects of Islamic banking and finance in the Maldives on 17<sup>th</sup> October 2010.

The Maldives Banking Act came into effect on 12<sup>th</sup> December 2010.

#### **Developments of the Mobile Phone Banking Project Unit (MPBPU)**

The Mobile Phone Banking Project, also known as Maldives Interoperable Payments System (MIPS) provides an opportunity for Maldives to lead the world in wide-spread access to sophisticated integrated payments tools. The system is unique in the level of interoperability it provides: all licensed banks in the Maldives, and both mobile network operators, are participants in the project to ensure that the benefits of the system are enjoyed as widely as possible, and as cheaply as possible through dynamic competition.

The implementation work of Mobile Phone Banking Project continued in 2010. Significant progress was made on the four key components being implemented under this project: the Real Time Gross Settlement system (RTGS), Automated Clearing House (ACH), Electronic

Fund Transfer Switch (EFT Switch) and the Mobile Payment System (MPS).

A key objective of the project is to make banking accessible to all citizens of Maldives; despite the difficult geography Of the 192 inhabited islands only 18 islands have the presence of a bank branch. For people who do not live within the vicinity of Male' it is very difficult and expensive to receive banking services.

The project is also aimed at modernizing and automating MMA operations by establishing interbank settlement and a fully interoperable payment system to increase efficiency in payments and settlement systems in Maldives.

The funding for the project is via a \$7.7 Million loan from the World Bank and a grant from Consultative Group to Assist the Poor (CGAP).

**The project's Initial Report (IR)** which sets out the framework for successful implementation of MIPS and identifies the work that needs to be done by Montran's project team was signed off during April 2010. **Delivery of system hardware and software** were completed during June 2010. **Installation of application software**, RTGS, ACH, EFT Switch and MPS took place end of June 2010. **Installation of hardware** took place during the last six months of 2010. User Acceptance Testing for RTGS, ACH was commenced during 2010

Disaster recovery site has been established as Iskandaru Koshi (Police Building) and connection to disaster recovery site has been established. In addition, connection to the banks, MNOs and MoFT is in place.

Technical project manager and a legal consultant were hired for the project during the year.

System trainings sessions and seminars were held for all the operational staffs and system administrative staffs from MMA and banks during the year. Further, RTGS and ACH operational staffs took part in study tours to neighbouring countries (Sri Lanka and Malaysia) for learning other similar systems and their operational procedures.

The brand name "KEESAA" was finalised and "KEESAA" logo was designed for MPS during the year 2010. In addition, procurement process for "KEESAA" marketing activities was started. The pricing structure for "KEESAA" was proposed to the Banks and Mobile Network Operators (MNOs) as well.

Building the agent network for providing "KEESAA" service was started during the year. A great response was received when the request for the interested parties to apply for KEESAA agents were published in the media. Furthermore, awareness and information regarding KEESAA and KEESAA agents were provided to the public via the local television and radio channels.

Payment System Regulations (RTGS & ACH) and Financial Transaction Regulation were completed and ready for submission to the Board of Directors during the year. The drafting work of Consumer Protection Regulation was completed based on industry and Ministry of Economic Development's comments.

RTGS system rules were circulated to the banks for comments and ACH system rules were drafted during the year.

Policy Steering Committee and Advisory Committee meetings were held on a quarterly basis and issues were discussed and guidance was provided.

Supervision missions from the World Bank and the CGAP visited MMA in April and October in the year 2010. During these missions the World Bank and CGAP assessed the work of the project and advised the Project team and MMA management on implementation aspects of the project.

### **Improvements to Statistics**

In order to improve the coverage of balance of payments statistics work on the following surveys were undertaken:

#### ***Survey on Expenditure of Maldivians Travelling Abroad***

Survey on Expenditure of Maldivians Travelling Abroad was carried out during 1-7 October 2010. The main purpose of the survey is to obtain information on expenditure of Maldivians while abroad on different purposes.

#### ***Workers' Remittance Survey***

A survey on Workers' Remittance was carried out on 24<sup>th</sup> December, 2010. The main purpose of the survey is to obtain the amount of money remitted by the expatriates working in Maldives to their home country.

#### ***Maldives Visitor Survey 2010***

A tourist profile and opinion survey which is to be jointly conducted by MMA and Ministry of Tourism was planned during December 2010.

### **A. Monetary Policy Committee (MPC) Meetings**

In 2010, 7 meetings were held by the MPC to discuss various issues related to monetary policy conduct and were held on the following dates.

1. 03 February 2010
2. 09 February 2010
3. 04 March 2010
4. 10 March 2010
5. 29 April 2010
6. 29 July 2010
7. 29 December 2010

- The 7<sup>th</sup> meeting was continued on 30<sup>th</sup> December 2010

### **Changes in the Monetary Policy Framework**

#### ***Introduction of Overnight Deposit Facility***

MMA introduced the Overnight Deposit Facility to the commercial banks on 23<sup>rd</sup> March 2010, whereby banks can place their excess funds at MMA overnight. This facility carries the lowest rate in the system and is below the deposit rates offered in the banking system. The Deposit rate on 23<sup>rd</sup> March 2010 was at 1.5 percent per annum.

#### ***Open Market Operations (OMO)***

Since 27<sup>th</sup> August 2009, MMA continued to conduct OMOs with the aim of injecting or mopping-up excess liquidity in the banking sector to support the monetary policy objectives. In 2010, MMA conducted weekly Reverse Repos with the commercial banks to mop-up the excess liquidity generated from years of monetization of fiscal deficit.



- The OMO auction and settlement days were changed on 15<sup>th</sup> March 2010 to Monday and Thursday respectively, whereas previously auction took place on Thursday and settlement on Sunday.

#### ***Commencement of Treasury Bill Auction***

An auction system for Treasury Bills (T-Bills) was introduced on December 28, 2009 to develop the government securities market. Since then, a market rate has been established and it has paved way to raise funds in a more competitive environment to meet the operational needs of the government at the lowest possible cost.

#### ***Introduction of Six Month Treasury Bills***

To widen the range of securities offered to the investors, a 6 month (182 day) T-Bills was introduced on July 5, 2010. This has enabled the government to raise funds for a longer period and opened a longer term investment opportunity to the investors.

#### ***Replacement of Repurchase Facility and Discontinuation of Rediscount Facility***

The Repurchase Facility which was introduced on 23<sup>rd</sup> November 2006 was replaced by an 'Overnight Lombard Facility' on May 04, 2010 under the Monetary Operations of MMA to provide short-term rufiyaa liquidity to commercial banks which

are unable to access funds in the inter-bank market.

Under the Rediscount facility (which was also introduced on 23<sup>rd</sup> November 2006), MMA was obliged to purchase Government Securities from the requesting commercial bank which had a negative impact on the monetary policy and the effect on the current fiscal policy of the Government. Therefore, the introduction of the 'Overnight Lombard Facility' eliminated the need for the Rediscount Facility and so it was discontinued as of that date.

#### ***Issuance of Second Tranche of Government US Dollar Bonds***

The Government US dollar T-Bond of 100 million was introduced on 23<sup>rd</sup> November, 2009 to overcome the economic stagnation and US Dollar shortages in Maldives. Out of the assigned US Dollar 100 million T-Bond to the State Bank of India, Male' branch, the first tranche of USD 50 million Bond was issued on 3<sup>rd</sup> December, 2009. The second and final tranche of USD 50 million T-Bonds was issued on 25<sup>th</sup> February, 2010. The T-Bonds have a 2 year maturity and bears a quarterly coupon interest.

Regular coupon payment was made throughout the year for both tranches.

### ***Government Rufiyaa Bonds Held By Maldives Monetary Authority***

To improve the management of government cash flow and to strengthen the MMA balance sheet, the accumulated debt of government at the MMA amounting to Rf. 4,089 million was converted to Government Rufiyaa Bonds in two tranches. The first tranche of Rf. 1,587 Bonds were issued on August 17, 2009 and the second tranche of Rf. 2,502 Bonds were issued on September 30, 2009. They are semi annual coupon bearing Bonds of 1 to 15 years maturity.

The 1 year Bond of Rf. 283 million was matured on September 30, 2010 and has been fully paid by the government.

Accordingly, regular coupon payment has been made by the Government through out the year for both tranches.

### ***Credit Information Bureau Project***

As part of MMA's on-going effort to modernise the financial sector, in the year 2007 MMA started work to establish a Credit Information Bureau in association with International Finance Corporation (IFC).

In the year 2009, a financial aid (a loan) was awarded to Maldives Monetary Authority for the establishment of a credit information bureau. In the same year a consultancy contract was awarded to Dun and Bradstreet, to provide the consultancy services required for the implementation of a credit information Bureau.

The work was divided in to the following stages

1- Identification of the market

2-Data collection and analysis

3-Formulation of the required input file formats

4-Training the financial institutions to collect data to stipulated formats

5-Building up a competent bureau team

6-Development of the system

7-Formulation of the required legal framework

8-Signing a Membership agreement

9-Finetuning the system with the data from the financial institutions

10-Inauguration of the system

Having had completed all the phases for the project, the credit information bureau will be launched on February 2011.

### ***Developments of Non-Bank Financial Institutions (NBFIs)***

In order to encourage a healthy and sustainable growth and to support a sense of security and to maintain confidence in the insurance industry, minimum capital requirement for all insurance companies were increased to Rf10 million and a security deposit of Rf2 million was introduced to all insurance companies for each type of insurance business the company engages in, through the introduction of "Guideline on Prudential Requirements for Insurance Undertakings 2010".

License application fee and an annual fee were introduced for all insurance businesses on 4<sup>th</sup> March 2010 through the “Guideline on Application Fees for Insurance Businesses 2010” and “Guideline on Annual Fees for Insurance Businesses 2010”.

A criterion was set to evaluate the licensing and registration procedure of insurance Agents through, “Guidelines for the Administration of Insurance Agents – 2010”. A total of six insurance Agents were licensed under the Guideline during the year.

A financial sector review, conducted by the World Bank was completed and disseminated to key stakeholders during 2010. This review conducted under the Maldives Financial Sector Development Project will serve as the analytical and diagnostic information for the subsequent preparation of a financial sector strategy including the Financial Sector Master Plan.

Based on the feedback and inputs received, the WB consultants will soon start the second phase of the project which includes formulating a financial sector master plan. The initial Draft report on this phase of the project was received during the year 2010.

#### ***Licenses granted***

- Permanent licenses were issued to Amana Takaful Maldives Pvt Ltd and Ceylinco Insurance Company Pvt Ltd on

4<sup>th</sup> March 2010 to write general insurance in the Maldives. Both the companies were conducting insurance business in the Maldives through a local agent until then.

- Permanent license to Allied Insurance Company of the Maldives Private Limited was issued on 29<sup>th</sup> April 2010 to write general insurance business in the Country. Prior to this, Allied Insurance Company of the Maldives Private Limited was operating under a transitional license issued under Insurance Industry Regulation 2004. Alongside, a temporary license issued to Allied Insurance Company of the Maldives Private Limited to write life insurance business was extended to three years on 16<sup>th</sup> August 2010.

## **Human Resource Management and Development**

Human Resource Division (HRD) continued to comply with the human resource management policies and is responsible for managing and retaining staff as well as developing them through training.

### ***Recruitment***

At the end of 2010, the number of staff at MMA totalled 141, comprising 119 active staff and 22 staff on study leave. During the year, 21 staff was recruited and 11 staff left the organisation.

### ***Training & Development***

44 staff attended 74 training programs during the year. Long term scholarships were awarded to four staff to pursue postgraduate studies in overseas universities. Two staff was sponsored under the Employee Assistance Program (EAP) to pursue Diploma level studies from local institutions.

### ***Remunerations and Benefits***

MMA provides a competitive remuneration package compared to the other institutions in the financial sector in order to attract and retain the best human capital. Medical insurance and pension scheme was also continued throughout the year. A formal performance appraisal system was re-implemented after 2007 and an annual appraisal of all staff was conducted during the year.

### **Membership**

#### ***Alliance for Financial Inclusion***

MMA became a member of Alliance for Financial Inclusion (AFI) on January 2010.

AFI is the first global knowledge-sharing network designed exclusively for financial inclusion policymakers from developing countries.

The goal of AFI is to support developing country knowledge exchange on financial inclusion policy that will enable an extra 50 million people living under the poverty line to have access to basic financial services by 2012. By becoming a member of the AFI, it will enable MMA to:

- Access to AFI Policy Champions, other members of the policy makers' network and AFI strategic partners, including research institutions, technical assistance providers, industry leaders and donors.
- Access to research and other information on successful financial inclusion policy solutions
- Eligibility to apply for short-and long-term grants to test and develop policy solutions.
- Opportunity to participate in the AFI Annual Global Policy Forum, global and regional policy seminars, and working group, trainings and exchange activities.

### ***Asian Clearing Union***

Maldives Monetary Authority became a member of the Asian Clearing Union (ACU) during its 38<sup>th</sup> meeting of the board of directors held in Colombo, Sri Lanka from 16 to 17 June 2009. Following the membership, MMA commenced operations in the ACU mechanism effective 1<sup>st</sup> January 2010. The first transaction of the ACU was carried out on 05<sup>th</sup> of May 2010. A total of 30 transactions were carried out through the mechanism during the year, out of which 29 transactions were made on request from commercial banks for funding their ACU Dollar accounts with commercial banks in India and Sri Lanka.

## Technical Assistance

The IMF advisor on Bank Supervision, Mr. Richard Walter Nun had two visits during 2010. The first visit was in January 2010 and the second visit in March /April 2010.

## Missions

### IMF SBA and ESF Review Missions

#### ***First review mission***

An IMF staff mission visited the Maldives from Feb 10-23, 2010 to review the performance of the Programme under the SBA and ESF. The mission held discussions with the President, the Minister of Finance and Treasury, the Governor of MMA, senior officials, members of Parliament from the two main political parties, representatives of the commercial banks, private sector and donor community.

The Executive Board of the IMF completed the first review of Maldives' economic performance under SBA and ESF on March 26, 2010. Upon the completion of this review a disbursement of an amount equivalent to SDR 5.125 million (about US\$7.76 million), bringing total disbursements under the arrangements to SDR 10.25 million (about US\$15.5 million).

#### ***Second review mission***

The IMF mission for the second review of the Programme visited Male' from 4-18 May, 2010 and held discussions with the President, the Minister of Finance and Treasury, the Governor of MMA, senior officials, members of the Public Finance Committee of the Parliament, representatives of the commercial banks, private sector and donor community. However, this review was not completed due to significant fiscal slippages that made it highly likely that fiscal Performance Criteria (PC) targets agreed for September and December 2010 will not be met.

### IMF 2010 Article IV Consultation Mission

The annual consultation mission from the IMF visited the Maldives from Oct 25-Nov 8, 2010. The mission held discussions with the President, the Minister of Finance and Treasury, the Governor of MMA, senior officials, members of the Public Finance Committee of the Parliament, representatives of the commercial banks, private sector and donor community regarding macroeconomic developments and policies for 2010-2011 and the outlook for the medium term. The mission also continued discussions with respect to the implementation of policies agreed under the IMF Stand-By Arrangement (SBA) and the arrangement under Exogenous Shocks Facility (ESF).

### Technical Assistance missions

An IMF technical assistance (TA) mission visited Maldives, during December 1–14, 2010. The main purpose of the mission was to provide technical assistance to MMA in the area of crisis preparedness and management, bank restructuring and monetary operations.

# **APPENDICES**

## **Appendix 1**

# **FINANCIAL STATEMENTS**

**Audit Report**

**Balance Sheet**

**Income Statement**

**Notes to the Financial Statements**

**MALDIVES MONETARY AUTHORITY**  
**AUDITORS' REPORT AND FINANCIAL STATEMENTS**  
**31 DECEMBER 2010**



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AHF/SF/SS

**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 ("Authority"), which comprise the statement of financial position as at 31 December 2010, 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditor's responsibility**

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

**Basis for qualified opinion**

1. We were unable to carry out alternative audit procedures in respect of contingent liabilities and commitments as the Authority does not maintain a process to identify commitments and contingencies. In the absence of such a process, we have not been able to perform alternative audit procedures that provide sufficient and appropriate audit evidence whether contingent liabilities and commitments are fairly stated.

**Basis for qualified opinion (continued)**



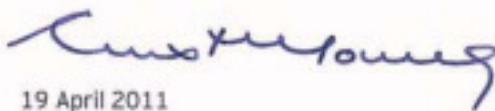
**Basis for qualified opinion (continued)**

2. The Authority has provided an amount of Rf. 27,666,906/- as at the reporting date as its liability towards the employee benefits, using the provisions of Maldives Pension Act of 8/2009, by charging whole of such amount to the income statement during the year. However, in the past pension liability has not been accounted for using an actuarial technique in accordance with International Accounting Standard 19: Employee Benefits. In the absence of a reliable estimate of the amount of benefits using an actuarial technique that employees have earned in return for their services in the current and future periods, we were unable to determine whether any adjustments to these amounts were necessary.
3. The confirmation of balances we received from IMF in connection with the IMF related assets and liabilities as at 31 December 2010 reflects an amount of Rf. 158,606,737/- as IMF Quota, which is not recorded in these financial statements, and value of promissory notes issued to IMF amounting to Rf. 308,407, 537/- is reflected under subscriptions to international agencies. However, these amounts should have been accounted as IMF related assets, and reconciled to the IMF securities account balance of Rf. 281,400,696/- which is reflected under IMF related liabilities. The difference of Rf. 27,006,841/- between value of promissory notes and IMF securities resulting from erroneous accounting of revaluation adjustments in the past which has not been corrected in these financial statements.

Further, these financial statements reflect an amount of Rf. 160,217,340/- as IMF related liabilities which has not been confirmed by the IMF.

**Qualified opinion**

In our opinion, except for the possible effects of the matters described in the basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Authority as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



19 April 2011  
Malé



Maldives Monetary Authority  
**STATEMENT OF FINANCIAL POSITION**  
As at 31 December 2010

Assets	Note	2010 Rf	2009 Rf
<b>Foreign currency financial assets</b>			
Cash and balances with banks	4	4,300,307,685	3,153,517,873
IMF related assets	5	149,131,589	155,494,708
Subscriptions to international agencies	6	689,775	689,775
Other receivables		32,478	11,912
<b>Total foreign currency financial assets</b>		<b>4,450,161,527</b>	<b>3,309,714,268</b>
<b>Local currency financial assets</b>			
Subscriptions to international agencies	6	316,671,867	245,366,759
Interest and other receivables	7	9,114	-
Loans to government institutions	8	25,916,667	29,593,113
Investment in Held-to-Maturity instruments:			
Government bonds	9	3,894,418,373	4,182,304,581
<b>Total local currency financial assets</b>		<b>4,237,016,021</b>	<b>4,457,264,453</b>
<b>Total financial assets</b>		<b>8,687,177,548</b>	<b>7,766,978,721</b>
<b>Local currency non-financial assets</b>			
Gold and silver assets	10	29,884,097	23,378,814
Inventories	11	40,732,590	46,852,040
Property, plant and equipment	12	85,755,676	102,031,639
Intangible assets	13	73,698,980	21,289,812
Other assets		1,896,966	785,913
<b>Total local currency non-financial assets</b>		<b>231,968,309</b>	<b>194,338,218</b>
<b>Total assets</b>		<b>8,919,145,857</b>	<b>7,961,316,939</b>



**Maldives Monetary Authority**  
**STATEMENT OF FINANCIAL POSITION**

As at 31 December 2010

	Note	2010 Rf	2009 Rf
<b>Liabilities and equity</b>			
<b>Foreign currency financial liabilities</b>			
Balances of commercial banks	14	2,069,465,932	1,646,714,525
Balances of government and government institutions	15	255,506,651	120,985,956
Payable to Asian Clearing Union	16	54,196,877	-
IMF related liabilities	17	637,704,397	482,542,771
Interest bearing loans	18	61,102,229	33,601,955
Deposits of international financial institutions		689,775	689,775
Other liabilities	19	19,147,791	23,445,584
<b>Total foreign currency financial liabilities</b>		<b>3,097,813,652</b>	<b>2,307,980,566</b>
<b>Local currency financial liabilities</b>			
Balances of commercial banks	14	2,512,161,237	2,661,831,476
Balances of government and government institutions	15	870,313,376	664,279,244
Securities sold under agreement to repurchase	20	92,000,000	10,000,000
Pension and other employment benefit payable	21	34,053,100	-
Balances of insurance companies	22	10,000,000	-
Deposits of international financial institutions	23	9,441,527	9,634,527
Other liabilities	19	63,254,074	67,746,754
<b>Total local currency financial liabilities</b>		<b>3,591,223,314</b>	<b>3,413,492,001</b>
<b>Total financial liabilities</b>		<b>6,689,036,966</b>	<b>5,721,472,567</b>
<b>Other liabilities</b>			
Currency in circulation	24	1,871,135,780	1,799,721,536
Deferred grants	25	9,205,254	7,462,919
		1,880,341,034	1,807,184,455
<b>Total liabilities</b>		<b>8,569,378,000</b>	<b>7,528,657,022</b>
<b>Equity</b>			
Capital	26	50,000,000	1,000,000
Reserve		299,767,857	431,659,917
<b>Total equity</b>		<b>349,767,857</b>	<b>432,659,917</b>
<b>Total liabilities and equity</b>		<b>8,919,145,857</b>	<b>7,961,316,939</b>

The Board of Directors of the Maldives Monetary Authority authorised these financial statements for issue on 19 April 2011. Signed for and on behalf of the Board by,

  
 Fazeel Najeeb - Governor

  
 Ibrahim Shafeeq - Director

The accounting policies and notes on pages 9 through 54 form an integral part of the financial statements.



# Maldives Monetary Authority

## INCOME STATEMENT

Year ended 31 December 2009

	Note	2010 Rf	2009 Rf
<b>Operating income</b>			
<b>Foreign currency income and expenses</b>	27		
Interest income on foreign currency financial assets		6,618,875	7,183,299
Interest expense on foreign currency financial liabilities		(3,627,082)	(2,628,223)
<b>Net foreign currency income</b>		<u>2,991,793</u>	<u>4,555,076</u>
<b>Local currency income and expenses</b>	28		
Interest income on local currency financial assets		313,394,665	246,988,865
Interest expenses on local currency financial liabilities		(30,794,311)	(13,408,027)
<b>Net local currency income</b>		<u>282,600,354</u>	<u>233,580,838</u>
Other income	29	15,130,270	14,699,256
Net foreign exchange revaluation gain	30	34,097,513	30,065,998
		<u>49,227,783</u>	<u>44,765,254</u>
<b>Total net operating income</b>		<u>334,819,930</u>	<u>282,901,168</u>
<b>Operating expenses</b>			
Personnel expenses	31	63,321,990	25,965,012
Administration expenses	32	20,464,068	20,899,633
Depreciation and amortisation		17,263,954	16,809,353
<b>Total operating expenses</b>		<u>101,050,012</u>	<u>63,673,997</u>
<b>Net profit for the year</b>		<u>233,769,918</u>	<u>219,227,171</u>





Maldives Monetary Authority

STATEMENT OF MOVEMENTS IN EQUITY

As at 31 December 2010

	Contributed capital Rf	General reserve Rf	Foreign asset revaluation reserve Rf	Retained earnings Rf	Total Rf
<b>As at 1 January 2009</b>	1,000,000	8,000,000	53,827,725	309,763,397	372,591,122
Profit re-appropriation to the government (Note 33)	-	-	-	(146,746,121)	(146,746,121)
Profit for the year	-	-	-	219,227,171	219,227,171
Transfers to FARR (Note 26)	-	-	8,233,551	(8,233,551)	-
1/5th of FARR payable to government	-	-	(12,412,255)	-	(12,412,255)
<b>As at 31 December 2009</b>	<b>1,000,000</b>	<b>8,000,000</b>	<b>49,649,021</b>	<b>374,010,896</b>	<b>432,659,917</b>
<b>As at 1 January 2010</b>	1,000,000	8,000,000	49,649,020	374,010,897	432,659,917
Transfers to capital (Note 26)	49,000,000	-	-	(49,000,000)	-
Profit re-appropriation to the government (Note 33)	-	-	-	(304,893,919)	(304,893,919)
Profit for the year	-	-	-	233,769,918	233,769,918
Transfers to FARR (Note 26)	-	-	9,191,275	(9,191,275)	-
1/5th of FARR payable to government	-	-	(11,768,059)	-	(11,768,059)
<b>As at 31 December 2010</b>	<b>50,000,000</b>	<b>8,000,000</b>	<b>47,072,236</b>	<b>244,695,621</b>	<b>349,767,857</b>



ERNST & YOUNG

Chartered Accountants

Malé, Maldives

December 2010



**Maldives Monetary Authority**  
**STATEMENT OF CASH FLOWS**  
Year ended 31 December 2010

	<b>2010</b> <b>Rf</b>	<b>2009</b> <b>Rf</b>
<b>Operating cash flows from income and expenses</b>		
<b>Sources of income</b>		
Interest income received	5,934,864	4,092,971
Gain on sale of US Dollars	4,106,416	4,482,210
Miscellaneous income	469,857	221,732
	<b>10,511,137</b>	<b>8,796,913</b>
<b>Disbursement for expenses</b>		
Staff related costs	(27,850,094)	(25,948,236)
Cash paid to other expenses	(7,186,756)	(6,484,127)
Printing and minting notes and coins	(3,171,036)	(28,588,727)
Training, development and payments relating to meetings	(3,149,420)	(3,212,285)
Miscellaneous expenditures	(2,293,893)	(190,328)
Bank charges paid	(254,112)	(168,544)
Expatriate salary and other expenses	(14,100)	(410,087)
	<b>(43,919,411)</b>	<b>(65,002,334)</b>
<b>Net operating cash flows from income and expenses</b>	<b>(33,408,274)</b>	<b>(56,205,421)</b>
<b>Net cash flows from operating assets and liabilities</b>		
<b>Sources</b>		
Net receipts relating to government current accounts	1,137,153,987	54,595,315
Collections related to BCCI	-	12,000
	<b>1,137,153,987</b>	<b>54,607,315</b>
<b>Disbursement</b>		
Payments to commercial banks current accounts	(261,611,242)	(99,432,694)
Net US Dollar payments on government current accounts	(5,322,407)	(2,485,180)
	<b>(266,933,649)</b>	<b>(101,917,874)</b>
<b>Net cash flow from operating activities</b>	<b>870,220,338</b>	<b>(47,310,559)</b>
<b>Net cash flows from operating activities</b>	<b>836,812,065</b>	<b>(103,515,980)</b>
<b>Cash flow from investing activities</b>		
Investment in development projects	(53,937,360)	(10,942,574)
Investment in fixed assets and payments for work in progress	(8,147,315)	(15,728,838)
	<b>(62,084,675)</b>	<b>(26,671,413)</b>



Maldives Monetary Authority

STATEMENT OF CASH FLOWS (Continued)

Year ended 31 December 2010

	Note	2010 Rf	2009 Rf
<b>Cash flow from financing activities</b>			
Financial institutions transactions		44,930,902	85,391,553
Net currency issues to circulation	34	71,414,244	47,838,829
Receipts from IMF facilities		98,464,615	99,424,800
Proceeds from securities sold under repurchase agreement		82,000,000	10,000,000
Net receipts on ACU transactions		54,187,500	-
Proceeds from Interest bearing loans		28,086,210	29,325,000
Proceeds from deferred grant		1,823,339	3,208,099
Repayment of emergency assistance facility		(10,061,081)	(40,370,767)
		<u>370,845,729</u>	<u>234,817,514</u>
<b>Net increase in cash and cash equivalents</b>		<b>1,145,573,119</b>	<b>104,630,121</b>
Exchange rate effect on cash and cash equivalents		1,196,341	7,995,058
Cash and cash equivalents at the beginning of the year		3,152,844,266	3,040,219,087
<b>Cash and cash equivalent at 31 December</b>	35	<u><b>4,299,613,726</b></u>	<u><b>3,152,844,266</b></u>



ERNST & YOUNG

Chartered Accountants 8

Malé, Maldives

Company Reg. 193/95

## 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 2010 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 2010 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. Amendments resulting from improvements to IFRS to the following standards did not have any impact on the accounting policies, financial position or performance of the Authority.

- IFRS 2 Share-Based Payment: Group Cash-settle Share-based Payment transactions effective from 1 January 2010.
- IFRS 3 Business Combinations (revised) IAS 27 Consolidated and Separate Financial Statements (Amended) effective from 1 July 2009, including consequential amendments to IFRS 2, IFRS 5, IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39.





- IAS 39 Financial Instruments: Recognition and Measurement-Eligible hedge items effective from 1 July 2009.
- IFRIC 17 Distribution of non-cash assets to owners effective from 1 July 2009.

**Improvements to IFRS's**

- Issued in May 2008
  - IFRS 5 Non-Current Assets Held for sale and discontinued operations effective from 1 January 2010.
- Issued in April 2009
  - IFRS 2 Share Base Payment
  - IAS 1 Presentation of Financial Statements
  - IAS 17 Leases
  - IAS 38 Intangible Assets
  - IFRIC 9 Reassessments of embedded derivatives

**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.

**IAS 24 Related Party Disclosures (Amendment)** - The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its applications. The revised standard introduces partial exemptions of disclosure requirements for government - related entities. The Authority does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government – related entities or for the entire standard.

**IAS 32 Financial instruments: Presentation - Classification of Right Issues** - The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues and certain options or warrants as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non – derivative equity instruments , or to acquire a fixed number of the entities own equity instruments for a fixed amount in any currency. This amendment will have no impact on the Authority.

**IFRS 9 Financial instrument: Classification and Measurement** - IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the board will address impairment and hedge accounting. The completion of this project is expected in mid 2011. The adoption of the first phase of IFRS 9 will primarily have an effect on the classification and measurement of the Authority's financial assets. The Authority is currently assessing the impact of adopting IFRS 9, however, the impact of adoption depends on the assets held by the Authority at the date of adoption and it is not practical to quantify the effect.

**IFRIC 14 Prepayment of a Minimum Funding Requirement (Amendment)** - The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011. With retrospective application the amendment provides guidance on assessing the recoverable amount of a net-pension



asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.

**IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments** - IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case this cannot be reliably measured, they are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the bank.

#### Improvements to IFRSs (Issued in May 2010)

The IASB issued improvements to IFRS's, and omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual period on or after either 1 July 2010 or 1 January 2011. The amendments are listed below.

- IFRS 3 Business Combinations.
- IFRS 7 Financial Instruments : Disclosures
- IAS 1 Presentation of Financial Statements
- IAS 27 Consolidated and Separate financial Statements
- IFRIC 13 Customer Loyalty Programmes

The Authority, however, expects no significant impact from the adoption of the amendments on its financial position or performance.

### 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.

#### 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, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Authority makes judgments about the borrower's financial situation and the net realisable value of collateral. 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 have been assessed individually to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects 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:

	2010 December Rf	2009 December Rf
1 Australian Dollar	12.8749	11.3576
1 Euro	16.7411	18.2430
1 Singapore Dollar	9.8258	9.0683
1 Special Drawing Rights (SDR)	19.5387	20.0088
1 Sterling Pound	19.6335	20.2510
1 United States Dollar	12.75	12.75

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.

**Financial assets and liabilities**

The Authority presents financial assets and liabilities, and the associated income and expense streams, by distinguishing between foreign currency and local currency activities. Foreign currency activities mainly arise from the Authority's foreign reserves management function. Local currency activities mainly reflect the assets and liabilities associated with monetary policy implementation, issuing currency and banking activities.

The separate reporting of these activities is considered to provide a better presentation of the Authority's financial position, financial performance and risk profile. The Authority considers that the combined reporting of foreign and local currency activities would weaken the informational value of the financial statements.

All financial assets are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment. Subsequent measurement bases after initial recognition are described below. All regular way purchases and sales of financial assets are recognised on the trade date respectively. Regular way purchases or sales are 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.

**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.

#### **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 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 bonds**

The Authority's investment portfolio consists of 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.

#### **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.

#### **Impairment of financial assets**

The Authority assesses at each reporting date whether a financial asset is impaired.

#### **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.

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.

#### **Foreign currency term liabilities**

Foreign currency term liabilities are subsequently reported at the amortised cost of the liabilities. Changes in the value of these liabilities are recognised as an increase or decrease in the value of the term liabilities in the statement of financial position. Gains and losses arising from changes in value of foreign currency term liabilities are recognised immediately as expenses in the income statement. Where the liability is still owed, the gain or loss is reported as (gain) / loss from unrealised price revaluation. Where the gain or loss has been realised (through repayment of the liability) this is reported as (gains) / losses realised from price changes.

#### **Financial guarantees**

Financial guarantees are initially recognised in the financial statements at fair value, in other payables, at fair value. Subsequent to initial recognition, the Authority's liability under each guarantee is measured at the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

#### **Other financial assets and liabilities**

Local and foreign currency cash, deposits and short-term advances are recognised on trade date.

#### **Other assets and liabilities**

#### **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:

Buildings on freehold land	30 years
Machinery and equipment	5 years
Furniture and fittings	5 years
Motor vehicles	5 years
Computer equipment	3 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.

#### Intangible assets

The Authority's intangible assets include the value of Maldives Interoperable Payment System and Maldives Credit Information Bureau projects which are 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. The following are not components of the cost of an internally generated intangible asset and charged to income statement as and when they are incurred selling, administrative and other general overhead expenditure 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.

#### Receivables

Receivables are carried at expected realisable value after making due allowance for doubtful debts, based on objective evidence.

Other sundry assets are carried at expected realisable values.





#### **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.

#### **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.

#### **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.

#### **Income tax**

There is no income tax imposed on the Authority by the government as at 31 December 2010.

#### **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

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.

## 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.
- 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.



	2010 Rf	2009 Rf
<b>4 CASH AND BALANCES WITH BANKS</b>		
Foreign currency cash in hand	6,137,069	10,796,224
Balances with other central banks	3,815,941	3,370,185
Balances with other foreign banks	23,129,187	10,675,541
<i>Money at overnight placements</i>		
with other central banks (Note 4.1)	4,234,275,000	3,102,075,000
with other foreign banks (Note 4.2)	30,600,000	24,225,000
Investment in fixed deposits with foreign banks (4.3)	2,350,488	2,375,923
	<b>4,300,307,685</b>	<b>3,153,517,873</b>

**4.1 Federal Reserve Bank of New York**

The Authority has invested USD 332,100,000/- (2009: USD 243,300,000/-) in an overnight repurchase agreement with the Federal Reserve Bank of New York at an interest rate of 0.2% per annum (2009: 0%).

**4.2 JPMorgan Chase New York**

The Authority has invested USD 2,400,000/- (2009: USD 1,900,000/-) in an overnight repurchase agreement with the JPMorgan Chase New York at an interest rate of 0.1% per annum (2009: 0.1%).

**4.3 Investment in fixed deposits with foreign banks**

Details of the fixed deposit investments are as follows:

Bank	Amounts in Rf.	Maturity date	Interest rate
a) Bank of India: Singapore	693,959	9 June 2011	1.55%
b) Bank of India: Singapore	25,054	31 January 2011	0%
c) Habib Bank Limited: London	1,631,475	31 January 2011	0.35%

	2010 Rf	2009 Rf
<b>5 IMF RELATED ASSETS</b>		
Holding of Special Drawing Rights (Note 5.1)	149,024,478	155,394,884
Interest receivables	107,111	99,824
	<b>149,131,589</b>	<b>155,494,708</b>

**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.



**Maldives Monetary Authority**  
**NOTES TO THE FINANCIAL STATEMENTS**

As at 31 December 2010

**5 IMF RELATED ASSETS (Continued)**

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

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.

**6 SUBSCRIPTIONS TO INTERNATIONAL AGENCIES**

	<b>2010</b>	<b>2009</b>
	<b>Rf</b>	<b>Rf</b>
<i>MOFT promissory notes issued</i>		
<i>Foreign currency</i>		
Multilateral Investment Guarantee Agency	689,775	689,775
<i>Local currency</i>		
International Monetary Fund	308,407,537	237,102,429
International Bank for Reconstruction and Development	8,264,330	8,264,330
	<b>316,671,867</b>	<b>245,366,759</b>
	<b>317,361,642</b>	<b>246,056,534</b>

- 6.1** The Authority is designated as the depository of the International Monetary Fund (IMF), International Bank for Reconstruction and Development (IBRD) 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.

	<b>2010</b>	<b>2009</b>
	<b>Rf</b>	<b>Rf</b>
<b>7 INTEREST AND OTHER RECEIVABLES</b>		
Other receivables	5,205,951	5,196,837
Less: Allowance for doubtful receivables	(5,196,837)	(5,196,837)
	<b>9,114</b>	<b>-</b>





**Maldives Monetary Authority**  
**NOTES TO THE FINANCIAL STATEMENTS**

As at 31 December 2010

	2010 Rf	2009 Rf
<b>8 LOANS TO GOVERNMENT INSTITUTIONS</b>		
Ministry of Finance and Treasury: MIFCO Loan	<u>25,916,667</u>	<u>29,593,113</u>

**8.1 Ministry of Finance and Treasury: MIFCO Loan**

A loan amounting to Rf. 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 is payable over a period of ten years at an interest rate of 6% per annum. Principal repayments of the loan commenced in May 2004 and has to be repaid in full by April 2014.

	2010 Rf	2009 Rf
<b>Balance as at 1 January</b>	<b>29,593,113</b>	<b>33,173,333</b>
Accrued interest	1,445,341	1,818,541
Repayments: Principle and interest	(5,121,787)	(5,398,761)
<b>Balance as at 31 December</b>	<b><u>25,916,667</u></b>	<b><u>29,593,113</u></b>
Receivable within one year	11,403,334	6,219,996
Receivable after one year	14,513,333	23,373,117

	2010 Rf	2009 Rf
<b>9 INVESTMENT IN GOVERNMENT BOND</b>		
<b>Balance as at 1 January</b>	<b>4,182,304,581</b>	<b>-</b>
Investments during the year	-	4,089,000,000
Interest receivable on government bonds	88,418,373	93,304,581
<i>Settlements made during the year</i>		
Interest settlements made during the year	(93,304,581)	-
Principal settlements made during the year	(283,000,000)	-
<b>Balance as at 31 December</b>	<b><u>3,894,418,373</u></b>	<b><u>4,182,304,581</u></b>

**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 MOFT.

On 16 August 2009 and 30 September 2009, both the Authority and the MOFT have agreed to convert the outstanding principal amounts of the loans and advances, which was amounted to Rf. 4,089,000,000/- in total, into Government bonds. The Authority uses these Government bonds as collateral to conduct the open market operations. On 30 September 2010 MOFT made the first principal repayment of Rf. 283,000,000/-.



**Maldives Monetary Authority**  
**NOTES TO THE FINANCIAL STATEMENTS**

As at 31 December 2010

<b>9 INVESTMENT IN GOVERNMENT BOND (Continued)</b>	<b>2010 Rf</b>	<b>2009 Rf</b>
<b>9.2 Remaining term to maturity</b>		
Within one year	317,000,000	283,000,000
Two to five years	1,268,000,000	1,268,000,000
Six to ten years	1,587,000,000	1,587,000,000
More than ten years	634,000,000	951,000,000
	<b>3,806,000,000</b>	<b>4,089,000,000</b>
<b>10 GOLD AND SILVER ASSETS</b>	<b>2010 Rf</b>	<b>2009 Rf</b>
Gold at fair value (Note 10.1)	29,812,925	23,307,642
Silver at cost	71,172	71,172
	<b>29,884,097</b>	<b>23,378,814</b>
<b>10.1</b> Section 21 (2) of the MMA Act of 1981 which specifies the composition of the external reserve indicates that gold may be held by the Authority as part of reserve. Hence, as at 31 December 2010 the Authority holds Rf. 29,812,925/- (2009: Rf. 23,307,642/-) in gold as part of its reserves. Gold is fair valued and the gains or losses are transferred to the income statement.		
<b>11 INVENTORIES</b>	<b>2010 Rf</b>	<b>2009 Rf</b>
Notes for circulation	28,237,138	31,774,980
Coins for circulation	11,405,990	10,688,872
Commemorative coins	1,089,462	1,228,427
Coins in transit	-	3,159,761
Total inventories at cost	<b>40,732,590</b>	<b>46,852,040</b>



# Maldives Monetary Authority

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2010

### 12 PROPERTY, PLANT AND EQUIPMENT

12.1	Gross carrying amounts at cost	Freehold land Rf	Buildings on freehold land Rf	Machinery and equipment Rf	Furniture and fittings Rf	Motor vehicles Rf	Computer equipment Rf	2010 Total Rf	2009 Total Rf
	Balance as at 1 January	1,000,000	37,638,702	63,543,501	17,611,998	405,250	2,702,094	122,901,545	98,207,381
	Additions during the year	-	85,500	325,520	135,869	-	556,334	1,101,223	24,941,088
	Disposal / transfers during the year	-	-	-	(832,377)	-	-	(832,377)	(246,924)
	Value of depreciable assets	1,000,000	37,724,202	63,869,021	16,913,490	405,250	3,258,428	123,170,391	122,901,545
12.2	Depreciation								
	Balance as at 1 January	-	1,253,822	12,952,879	4,366,549	27,519	2,269,137	20,869,906	4,271,638
	Charge for the year	-	1,255,803	12,532,313	3,156,205	81,004	405,018	17,430,343	16,809,352
	Disposal / transfers during the year	-	-	-	(166,389)	-	-	(166,389)	(211,084)
	Accumulated depreciation	-	2,509,625	25,485,192	7,356,365	108,523	2,674,155	38,133,860	20,869,906
12.3	Assets in transit	-	-	-	-	551,595	167,550	719,145	-
12.4	Net book value	1,000,000	35,214,577	38,383,829	9,557,125	848,322	751,823	85,755,676	102,031,639

12.5 As at 31 December 2010 property, plant and equipment includes fully depreciated assets having a gross carrying amounts of Rf. 3,801,511/- (2009: Rf. 3,732,186/-).

12.6 During the financial year the Authority acquired property, plant and equipment to the aggregate value of Rf. 1,101,223/- (2009: Rf. 4,992,113/-).





Maldives Monetary Authority  
NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2010

13 INTANGIBLE ASSETS	2010 Rf	2009 Rf
<b>Development projects under work in progress</b>		
<i>Maldives Credit Information Bureau (Note 13.1)</i>		
Balance as at 1 January	5,019,252	-
Cost incurred during the year	6,250,072	5,019,252
Balance as at 31 December	11,269,324	5,019,252
<i>Maldives Interoperable Payment System (Note 13.2)</i>		
Balance as at 1 January	16,270,560	-
Cost incurred during the year	46,159,096	16,270,560
Balance as at 31 December	62,429,656	16,270,560
	<b>73,698,980</b>	<b>21,289,812</b>

13.1 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. The project is partially funded by MOFT loan as per Asian Development Bank's "capacity building for public-private partnership" program. Development of MCIB commenced on 19 November 2009 and become fully operational on 7 February 2011.

13.2 The Authority is developing the Maldives Interoperable Payment System (MIPS) at a total estimated cost of USD 10.45 million/-. Montran Corporation acts as a principal project developer along with other consultants appointed by the Authority in the development of the project. The above balances represent the cost incurred on the project as at the respective reporting dates. The project is partially funded by MOFT loan under the sponsorship of International Development Association.

13.3 Details of finance charges capitalised is as follows:

	2010 Rf	2009 Rf
Maldives Credit Information Bureau	16,596	-
Maldives Interoperable Payment System	395,148	25,206



Maldives Monetary Authority  
NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2010

14	BALANCES OF COMMERCIAL BANKS	2010 Rf	2009 Rf
	<i>Foreign currency balances of commercial banks:</i>		
	Related parties	657,013,460	579,834,808
	Others	1,412,452,472	1,066,879,717
		<u>2,069,465,932</u>	<u>1,646,714,525</u>
	<i>Local currency balances of commercial banks:</i>		
	Related parties	1,046,568,603	1,658,942,549
	Others	1,051,592,634	972,888,927
	Overnight placement deposits	399,000,000	-
	Assigned capital deposits	15,000,000	30,000,000
		<u>2,512,161,237</u>	<u>2,661,831,476</u>
	<b>Total balances with commercial banks</b>	<u><b>4,581,627,169</b></u>	<u><b>4,308,546,001</b></u>

- 14.1 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.

15 BALANCES OF GOVERNMENT AND GOVERNMENT INSTITUTIONS

Related parties	2010 Rf	2009 Rf
<i>Foreign currency deposits:</i>		
MOFT and government institutions	255,498,105	120,951,724
Public enterprises	8,546	34,232
	<u>255,506,651</u>	<u>120,985,956</u>
<i>Local currency deposits:</i>		
MOFT and government institutions	860,530,590	628,961,622
Public enterprises	9,782,786	35,317,622
	<u>870,313,376</u>	<u>664,279,244</u>
<b>Total balances with government and government institutions</b>	<u><b>1,125,820,027</b></u>	<u><b>785,265,200</b></u>



Maldives Monetary Authority  
NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2010

16	PAYABLE TO ASIAN CLEARING UNION	2010 Rf	2009 Rf
	Payable as at the end of the year	54,187,500	-
	Accrued interest	9,377	-
		<u>54,196,877</u>	<u>-</u>

- 16.1 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. 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 0.01% to 0.27% in 2010. Above balance represents the amounts due to ACU as at the reporting date.



**Maldives Monetary Authority**  
**NOTES TO THE FINANCIAL STATEMENTS**

As at 31 December 2010

<b>17 IMF RELATED LIABILITIES</b>	<b>2010 Rf</b>	<b>2009 Rf</b>
IMF Securities Account (Note 17.1)	281,400,696	210,095,588
IMF No. 1 Account (Note 17.2)	5,752,059	5,752,059
IMF No. 2 Account (Note 17.3)	5,715	5,657
Allocation of Special Drawing Rights (Note 17.4)	150,274,252	153,889,842
Emergency Assistance Facility (Note 17.5)	-	10,254,525
Stand-By Agreement (Note 17.6)	160,217,340	82,036,080
Exogenous Shock Facility (Note 17.7)	40,054,335	20,509,020
	<b>637,704,397</b>	<b>482,542,771</b>

**17.1 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.

	<b>2010 Rf</b>	<b>2009 Rf</b>
<b>Balance as at 1 January</b>	<b>210,095,588</b>	<b>185,638,102</b>
Promissory notes issued during the year	81,130,871	78,606,103
Promissory notes redeemed during the year	(9,825,763)	(54,148,617)
<b>Balance as at 31 December</b>	<b>281,400,696</b>	<b>210,095,588</b>

**17.2 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.

**17.3 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.





Maldives Monetary Authority  
NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2010

**17 IMF RELATED LIABILITIES (Continued)**

**17.4 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.

**17.5 Emergency Assistance Facility for Maldives (BOP Support Loan)**

The IMF provides emergency assistance to member countries hit by natural disasters to help them meet immediate balance of payments financing needs, and maintain or restore macro economic stability. The IMF has granted SDR 4.1 million (approximately USD 6.3 million) as emergency assistance for natural disasters to the Maldives on 8 March 2005.

In line with the IMF's Executive Board's decision to subsidize emergency assistance for PRGF-eligible countries hit by natural disaster, the rate of charge on the assistance has been subsidized to 0.5% per annum subject to resource availability. The final instalment of this facility has been settled during the year.

**17.6 Stand-By Arrangement**

The Stand-By Arrangement (SBA) is designed to help countries address short-term balance of payments problems. Program targets are designed to address these problems and disbursements are made conditional on achieving these targets ('conditionality'). SBA's may be provided on a precautionary basis, where countries choose not to draw upon approved amounts but retain the option to do so if conditions deteriorate, both within the normal access limits and in cases of exceptional access. The IMF approved a 36 month SBA for Maldives amounting to SDR 49.2 million (600% of quota) on 4 December 2009. The financing is designed to help smoothen the country's adjustment to the fallout from the global crisis and support the government's policy change program.

First disbursement amounting to SDR 4.1 million under the SBA was received on 4 December 2009 and on 25 March 2010 the Authority received the second disbursement amounting to SDR 4.1 million upon completion of IMF review. However, three subsequent disbursements to be received during 2010 were not received as a result of non compliance with certain IMF conditions and delays in completing IMF second review.



**ERNST & YOUNG**

Chartered Accountants  
Malé, Maldives 28

Company Reg. 123/05

Maldives Monetary Authority  
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As at 31 December 2010

**17 IMF RELATED LIABILITIES (Continued)**

**17.7 Exogenous Shock Facility**

The IMF provides Exogenous Shock Facility (ESF) to its member countries which are affected by 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 1.02

**17.8** The following table shows the interest bearing facilities, from IMF, outstanding at the respective reporting dates.

Current	Interest rate	Maturity date	2010 Rf	2009 Rf
Emergency Assistance Facility	0.50%	8 March 2010	-	10,254,525
<b>Non-current</b>				
Stand-By Arrangement	0.50%	31 March 2015	160,217,340	82,036,080
Exogenous Shock Facility	0.50%	1 April 2020	40,054,335	20,509,020
			<b>200,271,675</b>	<b>102,545,100</b>
<b>Total interest bearing facilities from IMF</b>			<b>200,271,675</b>	<b>112,799,625</b>



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**18 INTEREST BEARING LOANS**

from Ministry of Finance and Treasury

	<b>MIPS</b>	<b>MCIB</b>	<b>Total</b>	<b>Total</b>
	<b>Rf</b>	<b>Rf</b>	<b>2010</b>	<b>2009</b>
			<b>Rf</b>	<b>Rf</b>
<b>Balance as at 1 January</b>	<b>33,601,955</b>	<b>-</b>	<b>33,601,955</b>	<b>3,825,000</b>
Received during the year	24,346,125	3,740,085	28,086,210	29,325,000
Effects of exchange rates	(634,106)	48,170	(585,936)	451,955
<b>Balance as at 31 December</b>	<b>57,313,974</b>	<b>3,788,255</b>	<b>61,102,229</b>	<b>33,601,955</b>

- 18.1** 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 SDR 2,933,357/- from the above loan.

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/-

- 18.2** 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 193,885/- from this loan.

**19 OTHER LIABILITIES**

**19.1 Foreign currency other liabilities**

	<b>2010</b>	<b>2009</b>
	<b>Rf</b>	<b>Rf</b>
Accounts payable	5,215,544	10,139,986
Accrued charges	506,297	152,989
Bank of Credit and Commerce International (BCCI)	12,491,584	12,491,584
Commercial banks human resource development deposits	661,025	661,025
Other deposits	273,341	-
	<b>19,147,791</b>	<b>23,445,584</b>





**Maldives Monetary Authority**  
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As at 31 December 2010

<b>19 OTHER LIABILITIES</b>	<b>2010 Rf</b>	<b>2009 Rf</b>
<b>19.2 Local currency other liabilities</b>		
1/5th of FARR payable to government	37,637,245	25,869,186
Sundry creditors	10,310,000	10,310,000
Accounts payable	6,778,259	16,433,722
Commercial banks human resource development deposits	4,548,325	4,836,092
Bank of Credit and Commerce International (BCCI)	2,046,748	2,046,748
Research fund	750,000	300,000
Accrued charges	879,587	532,650
Sundry payables	158,900	-
Payables to government departments	76,274	7,356,468
MMA human resource development deposits	68,736	61,888
	<b>63,254,074</b>	<b>67,746,754</b>
	<b>2010 Rf</b>	<b>2009 Rf</b>
<b>20 SECURITIES SOLD UNDER AGREEMENT TO REPURCHASE</b>		
MMA Repo facilities	92,000,000	10,000,000

The above balance represents the seven days maturity repurchases transaction done with Habib Bank Limited - Male' Branch and Bank of Ceylon - Male' Branch as at the respective reporting dates under the Open Market Operations. Details of the instruments are as follows:

<i>Bank</i>	<i>Amounts Rf.</i>	<i>Maturity date</i>	<i>Interest rate</i>
<b>31 December 2010</b>			
a) Bank of Ceylon - Male' Branch	50,000,000	4 January 2011	4.45%
b) Habib Bank Limited - Male' Branch	10,000,000	4 January 2011	4.40%
c) Habib Bank Limited - Male' Branch	12,000,000	4 January 2011	4.45%
d) Habib Bank Limited - Male' Branch	20,000,000	4 January 2011	4.50%
<b>31 December 2009</b>			
a) Habib Bank Limited - Male' Branch	5,000,000	3 January 2010	4.65%
b) Habib Bank Limited - Male' Branch	5,000,000	3 January 2010	4.70%



Maldives Monetary Authority  
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As at 31 December 2010

21	PENSION AND OTHER EMPLOYMENT BENEFIT PAYABLE	2010 Rf	2009 Rf
	<b>Current</b>		
	Accrued rights payables (Note 21.1)	27,666,906	-
	<b>Non-current</b>		
	<i>Pre- Maldives Pension Act 8/2009 Pensions</i> (Note 21.2)		
	Opening balances	-	-
	Present value of pension obligation	6,386,194	-
		6,386,194	-
	<b>Balance as at 31 December</b>	<b>34,053,100</b>	<b>-</b>

**21.1 Accrued rights payable**

As per the Maldives Pension Act 8/2009, employees who were in employment with the Authority as on 13 May 2009 are eligible to receive accrued rights for the total service period from the date of employment. These amounts are payable in to the respective employee's pension accounts maintained with the Maldives Pension Administration Office.

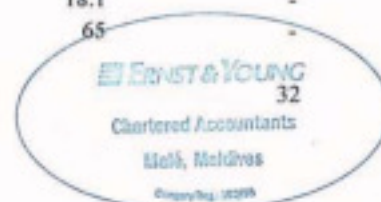
**21.2 Pre- Maldives Pension Act 8/2009 Pensions**

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 year) 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.

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

	2010 Rf	2009 Rf
Nominal value of the benefit obligation	10,450,483	-
Present value of the benefit obligation	6,386,194	-
Unrecognised interest component	4,064,289	-
Discount rate: 182 day Treasury bill rates	5.50%	-
Number of employees in the scheme	11	8
Average remaining years of service	18.1	-
Retirement age	65	-



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	2010 Rf	2009 Rf
<b>22 BALANCES OF INSURANCE COMPANIES</b>		
Related parties	4,000,000	-
Others	6,000,000	-
	<b>10,000,000</b>	<b>-</b>

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.

**23 DEPOSITS OF INTERNATIONAL FINANCIAL INSTITUTIONS**

	2010 Rf	2009 Rf
International Development Association	272,534	272,534
International Bank for Reconstruction and Development	8,746,442	8,939,442
Asian Development Bank	250,107	250,107
Multilateral Investment Guarantee Agency	172,444	172,444
	<b>9,441,527</b>	<b>9,634,527</b>

- 23.1** 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.





**24 CURRENCY IN CIRCULATION**

The Authority, as the sole currency issuing authority in the 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;

<b>24.1 Net currency in circulation</b>	<b>2010 Rf</b>	<b>2009 Rf</b>
<b>Denomination</b>		
<b>Coins:</b>		
1 Laari	34,625	34,068
2 Laari	49,682	49,680
5 Laari	286,067	282,306
10 Laari	443,237	435,517
25 Laari	1,392,692	1,315,983
50 Laari	3,494,550	3,289,039
1 Rufiyaa	14,538,032	13,216,683
2 Rufiyaa	15,407,080	13,782,506
Damaged coins	(2,455)	(2,455)
	<b>35,643,510</b>	<b>32,403,327</b>
<b>Notes:</b>		
2 Rufiyaa	1,630,360	1,631,384
5 Rufiyaa	15,454,880	15,039,155
10 Rufiyaa	23,371,770	24,040,180
20 Rufiyaa	19,637,960	14,734,240
50 Rufiyaa	30,138,500	28,902,550
100 Rufiyaa	175,611,800	193,416,200
500 Rufiyaa	1,569,647,000	1,489,554,500
	<b>1,835,492,270</b>	<b>1,767,318,209</b>
	<b>1,871,135,780</b>	<b>1,799,721,536</b>

- 24.2** Currency in circulation is reduced by the Authority's holding of Rufiyaa coins and notes outstanding amounting to Rf. 229,568,582/- and Rf. 160,521,524/- as at 31 December 2010 and 2009, respectively.



# Maldives Monetary Authority

## NOTES TO THE FINANCIAL STATEMENTS

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### 25 DEFERRED GRANTS

25.1 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. Deferred revenue will be amortised over the period that matches with the depreciation policy of such assets.

25.2 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.

25.3 Changes in deferred grant are summarized in the following schedule:

	2010 Rf	2009 Rf
Deferred grant, as at the beginning of year	7,462,919	3,877,089
Grants received during the year	1,823,339	3,613,349
Adjustments to grants - Motor vehicle amortisation	(81,004)	(27,519)
<b>Balance as at 31 December</b>	<b>9,205,254</b>	<b>7,462,919</b>

### 26 EQUITY AND RESERVES

#### 26.1 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 Rf. 49 million. Subsequently the Authority's authorised and contributed capital has been increased to Rf. 50 million by transferring Rf. 49 million from retained earnings.

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

#### 26.2 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, until such time as 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.



Maldives Monetary Authority  
NOTES TO THE FINANCIAL STATEMENTS

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As at 31 December 2010

**26 EQUITY AND RESERVES (Continued)**

**26.3 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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Malé, Maldives

Company Reg: 102756

Maldives Monetary Authority  
**NOTES TO THE FINANCIAL STATEMENTS**  
As at 31 December 2010

	2010 Rf	2009 Rf
<b>27 FOREIGN CURRENCY INCOME AND EXPENSES</b>		
<b>27.1 Interest income on foreign currency financial assets</b>		
Interest on overnight placements	5,975,783	4,111,604
Receipts on SDR holdings	515,360	262,928
Interest on reserve deposits	127,732	2,035,444
Interest on loans to banks	-	773,323
	<u>6,618,875</u>	<u>7,183,299</u>
<b>27.2 Interest expense on foreign currency financial liabilities</b>		
Charges on Stand-By Agreement	2,379,486	914,600
Interest on reserve deposits	783,811	1,110,123
Charges on SDR allocations	439,106	149,854
Interest on Emergency Assistance Facility	22,572	448,024
Charges on Exogenous Shock Facility	2,107	5,622
	<u>3,627,082</u>	<u>2,628,223</u>
<b>28 LOCAL CURRENCY INCOME AND EXPENSES</b>		
<b>28.1 Interest income on local currency financial assets</b>		
Interest on government bonds	308,359,792	93,304,581
Interest on ways and means advances	3,354,966	121,459,394
Interest on loans to government	1,445,341	31,665,427
Interest on loans to commercial banks	203,836	288,859
Interest on reserve deposits	30,730	14,531
Discounts on treasury bills	-	256,073
	<u>313,394,665</u>	<u>246,988,865</u>
<b>28.2 Interest expenses on local currency financial liabilities</b>		
Interest on reserve deposits	15,375,218	12,680,789
Interest on open market operations	10,990,122	159,614
Interest on overnight deposit facility	4,397,630	-
Interest on security deposits of insurance companies	31,341	-
Interest on assigned capital deposits	-	567,624
	<u>30,794,311</u>	<u>13,408,027</u>





**Maldives Monetary Authority**  
**NOTES TO THE FINANCIAL STATEMENTS**

As at 31 December 2010

	2010 Rf	2009 Rf
<b>29 OTHER INCOME</b>		
Commissions received	10,094,356	9,853,694
Bank charges received	3,417,549	3,442,068
Annual license fees from financial institutions	552,600	377,625
Miscellaneous earnings	1,065,765	1,025,869
	<u>15,130,270</u>	<u>14,699,256</u>
<b>30 NET FOREIGN EXCHANGE REVALUATION GAIN</b>		
Gain on sale of US Dollars	24,906,238	21,832,447
Difference on foreign asset revaluations	9,191,275	8,233,551
	<u>34,097,513</u>	<u>30,065,998</u>
<b>31 PERSONNEL EXPENSES</b>		
Salaries and wages	28,138,785	25,504,501
Pension and other employment benefit expenses	34,053,100	-
Defined contribution costs	703,747	-
Remuneration to the board members	426,358	460,511
	<u>63,321,990</u>	<u>25,965,012</u>
<b>32 ADMINISTRATION EXPENSES</b>		
Cost of issuing notes and coins	5,999,851	6,240,303
Staff training expenses	3,203,975	2,291,789
Utility charges	2,826,957	2,260,145
Telecommunications charges	1,978,921	1,093,880
Stationary and other office expenses	1,850,182	3,147,241
Software license cost	1,021,961	-
Training, development and payments relating to meetings	827,512	1,106,767
Memberships and subscriptions	706,439	655,256
Expenses on projects under development	357,946	111,995
Repairs and maintenance	458,597	395,785
Audit fees	391,283	412,736
Allowance for doubtful receivables	-	1,917,658
Other administrative expenses	840,444	1,266,078
	<u>20,464,068</u>	<u>20,899,633</u>



**Maldives Monetary Authority**  
**NOTES TO THE FINANCIAL STATEMENTS**

As at 31 December 2010

**33 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 Rf. 304,893,919/- to the government in respect of accumulated profits upto the period ended 31 December 2009. This includes Rf. 210,993,619/- relating to profit for the year 2009 and Rf. 93,900,300/- relating to accumulated retained profits till the year ended 2009.

**34 NET ISSUES / (WITHDRAWALS) OF CIRCULATION CURRENCY ON GOVERNMENT AND FINANCIAL INSTITUTION TRANSACTIONS**

	<b>2010</b> <b>Rf</b>	<b>2009</b> <b>Rf</b>
Net receipts from government institutions current accounts	527,642,736	383,421,773
Others	417,576	67,531
Payment relating to government institutions current accounts	(109,163,916)	(276,659,135)
Disbursements on commercial bank current accounts	(490,310,640)	(154,668,998)
<b>Net currency issues to circulation</b>	<b>(71,414,244)</b>	<b>(47,838,829)</b>

**35 CASH AND CASH EQUIVALENTS IN THE STATEMENT OF CASH FLOWS**

	<b>2010</b> <b>Rf</b>	<b>2009</b> <b>Rf</b>
Foreign currency cash in hand	6,137,069	10,796,224
Balances with foreign banks	26,945,128	14,045,726
Money at overnight placements	4,264,875,000	3,126,300,000
Investment in fixed deposits		
: with maturities of 3 months or less	1,656,529	1,702,316
	<b>4,299,613,726</b>	<b>3,152,844,266</b>

**36 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 2010 the Authority's authorised and paid up capital was Rf. 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.





**Maldives Monetary Authority**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**37 CONCENTRATIONS OF FUNDING**

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

As at 31 December 2010	2010 Total Rf	Government of Maldives Rf	Commercial banks Rf	Supranational financial institutions Rf	Others Rf
<b>Foreign currency financial liabilities</b>					
Balances of commercial banks	2,069,465,932	-	2,069,465,932	-	-
Balances of government and government institutions	255,506,651	255,506,651	-	-	-
Payable to Asian Clearing Union	54,196,877	-	-	54,196,877	-
IMF related liabilities	637,704,397	-	-	637,704,397	-
Interest bearing loans	61,102,229	61,102,229	-	-	-
Deposits of international financial institutions	689,775	-	-	689,775	-
Other liabilities	19,147,791	-	661,025	-	18,486,766
<b>Total foreign currency financial liabilities</b>	<b>3,097,813,652</b>	<b>316,608,880</b>	<b>2,070,126,957</b>	<b>692,591,049</b>	<b>18,486,766</b>
<b>Local currency financial liabilities</b>					
Balances of commercial banks	2,512,161,237	-	2,512,161,237	-	-
Balances of government and government institutions	870,313,376	870,313,376	-	-	-
Securities sold under agreement to repurchase	92,000,000	-	92,000,000	-	-
Pension and other employment benefit payables	34,053,100	-	-	-	34,053,100
Balances of insurance companies	10,000,000	-	-	-	10,000,000
Deposits of international financial institutions	9,441,527	-	-	9,441,527	-
Other liabilities	63,254,074	48,168,081	5,005,997	-	10,079,996
<b>Total local currency financial liabilities</b>	<b>3,591,223,314</b>	<b>918,481,457</b>	<b>2,609,167,234</b>	<b>9,441,527</b>	<b>54,133,096</b>
<b>Total financial liabilities</b>	<b>6,689,036,966</b>	<b>1,235,090,337</b>	<b>4,679,294,191</b>	<b>702,032,576</b>	<b>72,619,862</b>
<b>Other liabilities</b>					
Currency in circulation	1,871,135,780	-	-	-	1,871,135,780
Deferred grant	9,205,254	-	-	-	9,205,254
	<b>1,880,341,034</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,880,341,034</b>
<b>Total Liabilities</b>	<b>8,569,378,000</b>	<b>1,235,090,337</b>	<b>4,679,294,191</b>	<b>702,032,576</b>	<b>74,500,896</b>

Chartered Accountants 40  
Malé, Maldives  
Employing: 103/06



# Maldives Monetary Authority

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2010

### 37 CONCENTRATIONS OF FUNDING (Continued)

Comparative figures as at 31 December 2009 are as follows;

As at 31 December 2009

#### Foreign currency financial liabilities

Balances of commercial banks	1,646,714,525	-	-	-
Balances of government and government institutions	120,985,956	120,985,956	-	-
IMF related liabilities	482,542,771	-	-	482,542,771
Interest bearing loans	33,601,955	33,601,955	-	-
Deposits of international financial institutions	689,775	-	-	689,775
Other liabilities	23,445,584	-	661,025	-
<b>Total foreign currency financial liabilities</b>	<b>2,307,980,566</b>	<b>154,587,911</b>	<b>1,647,375,550</b>	<b>483,232,546</b>

#### Total foreign currency financial liabilities

#### Local currency financial liabilities

Balances of commercial banks	2,661,831,476	-	2,661,831,476	-
Balances of government and government institutions	664,279,244	664,279,244	-	-
Securities sold under agreement to repurchase	10,000,000	-	10,000,000	-
Deposits of international financial institutions	9,634,527	-	-	9,634,527
Other liabilities	67,746,754	43,535,654	5,045,706	-
<b>Total local currency financial liabilities</b>	<b>3,413,492,001</b>	<b>707,814,898</b>	<b>2,676,877,182</b>	<b>19,165,394</b>

#### Total local currency financial liabilities

#### Total financial liabilities

#### Other liabilities

Currency in circulation	1,799,721,536	-	-	-
Deferred grant	7,462,919	-	-	-
<b>Total liabilities</b>	<b>1,807,184,455</b>	<b>-</b>	<b>-</b>	<b>1,807,184,455</b>

#### Total liabilities

	5,721,472,567	862,402,809	4,324,252,732	492,867,073	41,949,953
	7,528,657,022	862,402,809	4,324,252,732	492,867,073	1,849,134,408

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Maldives

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### 38 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.

#### 38.1 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.

	2010 Rf	2009 Rf
United States of America	4,275,274,868	3,135,944,742
Maldives	4,237,705,796	4,457,954,228
Supranational financial institutions	149,131,589	155,494,708
Germany	14,021,355	3,820,456
Great Britain	1,814,957	1,862,279
Australia	1,574,500	61,118
Singapore	1,517,415	1,044,965
<b>Total financial assets (except foreign cash in hand)</b>	<b>8,681,040,480</b>	<b>7,756,182,497</b>





Maldives Monetary Authority  
NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2010

**38 RISK MANAGEMENT (Continued)**

**38.2 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.

**38.3 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.

**38.4 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, due to the existing USD peg system, in highly accredited financial institutions.

**38.5 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.

	2010 Rf	2009 Rf
Potential loss of interest income	4,594,777	3,307,571



**Maldives Monetary Authority**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**38.5 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 %	2010 Total Rf	Less than 6 Months Rf	Less than 12 Months Rf	Less than 2 Years Rf	Less than 5 Years Rf	More than 5 Years Rf	No fixed maturity Rf
<b>Interest sensitive foreign currency financial assets</b>								
Cash and balances with banks	0.20%	4,293,169,834	4,293,169,834	-	-	-	-	-
IMF related assets	0.32%	149,024,478	149,024,478	-	-	-	-	-
<b>Total interest sensitive foreign currency financial assets</b>		<b>4,442,194,312</b>	<b>4,442,194,312</b>	-	-	-	-	-
<b>Non-interest sensitive foreign currency financial assets</b>								
Cash and cash equivalents		7,137,851	7,137,851	-	-	-	-	-
IMF related assets		107,111	107,111	-	-	-	-	-
Subscriptions to international agencies		689,775	-	-	-	-	-	689,775
Interest and other receivables		32,478	32,478	-	-	-	-	-
<b>Total non-interest sensitive foreign currency financial assets</b>		<b>7,967,215</b>	<b>7,277,440</b>	-	-	-	-	<b>689,775</b>
<b>Total foreign currency financial assets</b>		<b>4,450,161,527</b>	<b>4,449,471,752</b>	-	-	-	-	<b>689,775</b>
<b>Interest sensitive foreign currency financial liabilities</b>								
Payables to Asian Clearing Union	0.20%	54,196,877	54,196,877	-	-	-	-	-
<b>Total interest sensitive foreign currency financial liabilities</b>		<b>54,196,877</b>	<b>54,196,877</b>	-	-	-	-	-
<b>Non-interest sensitive foreign currency financial liabilities</b>								
Balances of commercial banks	0.05%	2,069,465,932	2,069,465,932	-	-	-	-	-
Interest bearing loans	1.67%	61,102,229	-	-	-	-	61,102,229	-
IMF related liabilities		637,704,397	150,274,252	-	-	-	200,271,675	287,158,470
Balances of government and government institutions		255,506,651	255,506,651	-	-	-	-	-
Other liabilities		19,147,791	5,721,841	-	-	-	-	13,425,950
Deposits by international financial institutions		689,775	-	-	-	-	-	689,775
<b>Total non-interest sensitive foreign currency financial liabilities</b>		<b>3,043,616,775</b>	<b>2,480,968,676</b>	-	-	-	<b>261,373,994</b>	<b>301,274,195</b>
<b>Total foreign currency financial liabilities</b>		<b>3,097,813,652</b>	<b>2,535,165,553</b>	-	-	-	<b>261,373,994</b>	<b>301,274,195</b>
<b>Foreign currency interest rate sensitivity gap</b>		<b>4,387,997,435</b>	<b>4,387,997,435</b>	-	-	-	-	-





Maldives Monetary Authority

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2010

38.5 Interest rate risk (Continued)

Local currency interest rate sensitivity gap

Total interest sensitive local currency financial assets

Non-interest sensitive local currency financial assets

Subscriptions to international agencies  
Interest and other receivables  
Loans to government institutions  
Investment in Held-to-Maturity instruments: Government bonds  
Total non-interest sensitive local currency financial assets

Total local currency financial assets

Interest sensitive local currency financial liabilities

Securities sold under agreement to repurchase  
Pension and other employment benefit payables  
Total interest sensitive local currency financial liabilities

Non-interest sensitive local currency financial liabilities

Balances of commercial banks  
Balances of government and government institutions  
Pension and other employment benefit payables  
Balances of insurance companies  
Deposits by international financial institutions  
Other liabilities  
Total non-interest sensitive local currency financial liabilities

Total local currency financial liabilities

Local currency interest rate sensitivity gap

Weighted Ave. Int. Rate %	2010 Total Rf	Less than 6 Months Rf	Less than 12 Months Rf	Less than 2 Years Rf	Less than 5 Years Rf	More than 5 Years Rf	No fixed maturity Rf
	316,671,867	-	-	-	-	-	-
	9,114	9,114	-	-	-	-	316,671,867
6%	25,916,667	8,293,333	3,110,000	6,220,000	8,293,333	-	-
7.72%	3,894,418,373	88,418,373	317,000,000	317,000,000	1,268,000,000	1,904,000,000	-
	4,237,016,021	96,720,820	320,110,000	323,220,000	1,276,293,333	1,904,000,000	316,671,867
	4,237,016,021	96,720,820	320,110,000	323,220,000	1,276,293,333	1,904,000,000	316,671,867
4.45%	92,000,000	92,000,000	-	-	-	-	-
5.50%	6,386,194	473,399	251,919	477,572	1,288,458	3,894,846	-
	98,386,194	92,473,399	251,919	477,572	1,288,458	3,894,846	-
1.00%	2,512,161,237	-	-	-	-	-	-
	870,313,376	870,313,376	-	-	-	-	-
	27,666,906	27,666,906	-	-	-	-	-
	10,000,000	-	-	-	-	-	10,000,000
	9,441,527	-	-	-	-	-	9,441,527
	63,254,074	7,893,030	4,617,061	-	-	-	50,743,993
	3,492,837,120	995,873,302	4,617,061	-	-	-	70,185,520
	3,591,223,314	998,346,701	4,868,980	477,572	1,288,458	3,894,846	70,185,520
	(98,386,194)	(92,473,399)	(251,919)	(477,572)	(1,288,458)	(3,894,846)	-



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NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2010

38.5 Interest rate risk (Continued)

Comparative figures as at 31 December 2009 were as follows.

Foreign currency interest rate sensitivity gap:

	Weighted Ave. Int. Rate %	2009 Total Rf	Less than 6 Months Rf	Less than 12 Months Rf	Less than 2 Years Rf	Less than 5 Years Rf	More than 5 Years Rf	No fixed maturity Rf
<b>Interest sensitive foreign currency financial assets</b>								
Cash and balances with banks	0.013%	3,142,176,314	3,142,176,314	-	-	-	-	-
IMF related assets	0.23%	155,394,884	155,394,884	-	-	-	-	-
<b>Total interest sensitive foreign currency financial assets</b>		<b>3,297,571,198</b>	<b>3,297,571,198</b>	-	-	-	-	-
<b>Non-interest sensitive foreign currency financial assets</b>								
Cash and cash equivalents		11,341,559	11,341,559	-	-	-	-	-
IMF related assets		99,824	99,824	-	-	-	-	-
Subscriptions to international agencies		689,775	-	-	-	-	-	689,775
Interest and other receivables		11,912	11,912	-	-	-	-	-
<b>Total non-interest sensitive foreign currency financial assets</b>		<b>12,143,070</b>	<b>11,453,295</b>	-	-	-	-	<b>689,775</b>
<b>Total foreign currency financial assets</b>		<b>3,309,714,268</b>	<b>3,309,024,493</b>	-	-	-	-	<b>689,775</b>

Interest sensitive foreign currency financial liabilities

Payables to Asian Clearing Union	0.20%	-	-	-	-	-	-	-
<b>Interest sensitive foreign currency financial liabilities</b>		-	-	-	-	-	-	-
<b>Non-interest sensitive foreign currency financial liabilities</b>								
Balances of commercial banks	0.20%	1,646,714,525	1,646,714,525	-	-	-	-	-
Balances of government and government institutions		120,985,956	120,985,956	-	-	-	-	-
IMF related liabilities		482,542,771	164,144,367	-	102,545,100	-	215,833,304	-
Interest bearing loans	1.67%	33,601,955	-	-	-	33,601,955	-	-
Other liabilities		23,445,584	10,292,975	-	-	-	13,152,609	-
Deposits by international financial institutions		689,775	-	-	-	-	689,775	-
<b>Total non-interest sensitive foreign currency financial liabilities</b>		<b>2,307,980,566</b>	<b>1,942,137,823</b>	-	<b>102,545,100</b>	<b>33,601,955</b>	<b>229,695,688</b>	-
<b>Total foreign currency financial liabilities</b>		<b>2,307,980,566</b>	<b>1,942,137,823</b>	-	<b>102,545,100</b>	<b>33,601,955</b>	<b>229,695,688</b>	-
<b>Foreign currency interest rate sensitivity gap</b>		<b>3,297,571,198</b>	<b>3,297,571,198</b>	-	-	-	-	-



Maldives Monetary Authority  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**38.5 Interest rate risk (Continued)**

Local currency interest rate sensitivity gap	Weighted Ave. Int. Rate %	2010 Total Rf	Less than 6 Months Rf	Less than 12 Months Rf	Less than 2 Years Rf	Less than 5 Years Rf	More than 5 Years Rf	No fixed maturity Rf
Total interest sensitive local currency financial assets								
Non-interest sensitive local currency financial assets								
Subscriptions to international agencies		245,366,759	-	-	-	-	-	245,366,759
Loans to government institutions	6%	29,593,113	3,109,998	3,109,998	11,403,333	11,969,784	-	-
Investment in Held-to-Maturity instruments: Government bonds	7.65%	4,182,304,581	93,304,581	283,000,000	317,600,000	1,902,000,000	1,587,000,000	-
Total non-interest sensitive local currency financial assets		4,457,264,453	96,414,579	286,109,998	328,403,333	1,913,969,784	1,587,000,000	245,366,759
Total local currency financial assets								
		4,457,264,453	96,414,579	286,109,998	328,403,333	1,913,969,784	1,587,000,000	245,366,759
Interest sensitive local currency financial liabilities								
Securities sold under agreement to repurchase	4.39%	10,000,000	10,000,000	-	-	-	-	-
Total interest sensitive local currency financial liabilities		10,000,000	10,000,000	-	-	-	-	-
Non-interest sensitive local currency financial liabilities								
Balances of commercial banks	2.50%	2,661,831,476	2,631,831,476	-	-	-	-	30,000,000
Balances of government and government institutions		664,279,244	664,279,244	-	-	-	-	-
Deposits by international financial institutions		9,634,527	-	-	-	-	-	9,634,527
Other liabilities		67,746,754	24,322,840	4,897,980	-	-	-	38,525,934
Total non-interest sensitive local currency financial liabilities		3,403,492,001	3,320,433,560	4,897,980	-	-	-	78,160,461
Total local currency financial liabilities								
		3,413,492,001	3,330,433,560	4,897,980	-	-	-	78,160,461
Local currency interest rate sensitivity gap								
		(10,000,000)	(10,000,000)	-	-	-	-	-



**ERNST & YOUNG**

Chartered Accountants  
Maldives



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**38.6 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 2010 the Authority's net exposure to major currencies was as follows.

As at 31 December 2010	US Dollars Rf	Euro Rf	Singapore Dollars Rf	Currency of Denomination				Australian Dollars Rf	Other Currencies Rf	Total Rf
	Rf	Rf	Rf	Rf	Rf	Rf	Rf	Rf	Rf	Rf
<b>Foreign currency financial assets</b>										
Cash and cash equivalents	4,282,237,965	14,021,355	792,247	1,684,333	-	-	1,571,786	-	4,300,307,685	
IMF related assets	-	-	-	-	149,131,589	-	-	-	149,131,589	
Subscription to international agencies	689,775	-	-	-	-	-	-	-	689,775	
Interest and other receivables	29,764	-	-	-	-	-	2,714	-	32,478	
<b>Total foreign currency financial assets</b>	<b>4,282,957,504</b>	<b>14,021,355</b>	<b>792,247</b>	<b>1,684,333</b>	<b>149,131,589</b>	<b>-</b>	<b>1,574,500</b>	<b>-</b>	<b>4,450,161,528</b>	
Proportion	96.2%	0.3%	0.0%	0.0%	3.4%	-	0.0%	0.0%	100.0%	
<b>Foreign currency financial liabilities</b>										
Deposits by commercial banks	2,069,465,932	-	-	-	-	-	-	-	2,069,465,932	
Balances due to government entities	255,506,651	-	-	-	-	-	-	-	255,506,651	
Payable to Asian Clearing Union	54,196,877	-	-	-	-	-	-	-	54,196,877	
IMF related liabilities	-	-	-	-	637,704,397	-	-	-	637,704,397	
Interest bearing loans	-	-	-	-	61,102,229	-	-	-	61,102,229	
Deposits by international financial institutions	689,775	-	-	-	-	-	-	-	689,775	
Others	18,687,735	-	-	-	459,785	-	271	-	19,147,791	
<b>Total foreign currency financial liabilities</b>	<b>2,398,546,970</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>699,266,411</b>	<b>-</b>	<b>271</b>	<b>-</b>	<b>3,097,813,652</b>	
Proportion	77.4%	0.0%	0.0%	0.0%	22.6%	-	0.0%	0.0%	100.0%	
<b>Net foreign currency exposure</b>	<b>1,884,410,534</b>	<b>14,021,355</b>	<b>792,247</b>	<b>1,684,333</b>	<b>(550,134,822)</b>	<b>-</b>	<b>1,574,229</b>	<b>-</b>	<b>1,352,347,875</b>	





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38.6 Foreign currency risk (Continued)

As at 31 December 2009 the Authority's net exposure to major currencies was as follows.

As at 31 December 2009	US Dollars Rf	Euro Rf	Currency of Denomination				Australian Dollars Rf	Other Currencies Rf	Total Rf
			Singapore Dollars Rf	Sterling Pound Rf	SDR Rf				
<b>Foreign currency financial assets</b>									
Cash and cash equivalents	3,147,570,948	3,820,456	334,373	1,731,336	-	60,760	-	-	3,153,517,873
IMF related assets	-	-	-	-	155,494,708	-	-	-	155,494,708
Subscriptions to international agencies	689,775	-	-	-	-	-	-	-	689,775
Interest and other receivables	11,554	-	-	-	-	358	-	-	11,912
<b>Total foreign currency financial assets</b>	<b>3,148,272,277</b>	<b>3,820,456</b>	<b>334,373</b>	<b>1,731,336</b>	<b>155,494,708</b>	<b>61,118</b>	<b>-</b>	<b>-</b>	<b>3,309,714,268</b>
Proportion	95.1%	0.1%	0.0%	0.1%	4.7%	0.0%	0.0%	0.0%	100.0%
<b>Foreign currency financial liabilities</b>									
Deposits by commercial banks	1,646,714,525	-	-	-	-	-	-	-	1,646,714,525
Balances due to government entities	120,985,956	-	-	-	-	-	-	-	120,985,956
IMF related liabilities	-	-	-	-	482,542,771	-	-	-	482,542,771
Interest bearing loans	-	-	-	-	33,601,955	-	-	-	33,601,955
Deposits by international financial institutions	689,775	-	-	-	-	-	-	-	689,775
Others	23,348,362	-	-	-	97,203	19	-	-	23,445,584
<b>Total foreign currency financial liabilities</b>	<b>1,791,738,618</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>516,241,929</b>	<b>19</b>	<b>-</b>	<b>-</b>	<b>2,307,980,566</b>
Proportion	77.6%	0.0%	0.0%	0.0%	22.4%	0.0%	0.0%	0.0%	100.0%
<b>Net foreign currency exposure</b>	<b>1,356,533,659</b>	<b>3,820,456</b>	<b>334,373</b>	<b>1,731,336</b>	<b>(360,747,221)</b>	<b>61,099</b>	<b>-</b>	<b>-</b>	<b>1,001,733,702</b>

38.7 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.

38.7 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	2010 Rf	%	2009 Rf	%
<b>Cash and balances with banks</b>					
Federal Reserve Bank - USA*	AAA	4,238,114,465	95.4%	3,105,445,185	94.1%
Balances with other banks	A-1+	39,527,151	0.9%	30,895,046	0.9%
	A-1	14,021,355	0.3%	3,820,456	0.1%
	BBB-	725,168	0.0%	710,593	0.0%
	NR	1,814,957	0.0%	1,862,279	0.1%
		<u>4,294,203,096</u>		<u>3,142,733,559</u>	
<b>Other foreign currency financial assets</b>					
Supranational financial institutions	NR	149,131,589	3.4%	155,494,708	4.7%
Government of Maldives	NR	689,775	0.0%	689,775	0.02%
<b>Total foreign currency financial assets</b>		<u>4,444,024,460</u>	<u>100%</u>	<u>3,298,918,042</u>	<u>100%</u>
<b>Local currency financial assets</b>					
Government of Maldives	NR	4,237,016,021	100%	4,457,264,453	100%
<b>Total financial assets</b>		<u>8,681,040,481</u>		<u>7,756,182,495</u>	

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

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.

Government of Maldives and government institutions	4,237,705,796	4,457,954,228
Other foreign central banks	4,238,114,465	3,105,445,185
Supranational financial institutions	149,131,589	155,494,708
Foreign banks and financial institutions	56,088,631	37,288,374
<b>Total financial assets</b>	<u>8,681,040,481</u>	<u>7,756,182,495</u>

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**39 RELATED PARTIES TRANSACTION DISCLOSURES**

**39.1 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:

	<b>2010</b>	<b>2009</b>
	<b>Rf</b>	<b>Rf</b>
Profit re-appropriation to the government (Note 33)	304,893,919	146,746,121
Surplus payable to government	11,768,059	12,412,255
Temporary advances made to the Government (Note 39.1 (b))	171,080,316	-
Gross foreign exchange transactions during the year		
- Sales	3,048,035,548	702,487,727
- Purchases	4,543,937,844	341,296,000
Loans given to Bank of Maldives Plc	465,000,000	165,750,000

- 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. Any advances provided to the under this Agreement should not exceed Rf. 100 million and any remaining balances must be repaid in full by the end of the year.

- 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.

	<b>2010</b>	<b>2009</b>
	<b>Rf</b>	<b>Rf</b>
Interest income earned from related parties	313,160,098	246,974,334
Loans received from Ministry of Finance and Treasury	28,086,210	29,325,000
Finance charges paid	267,182	25,206
Charges and commissions earned from related parties	13,190,861	12,933,293
Gross value of goods and services obtained	4,934,269	3,645,035

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

	<b>2010</b>	<b>2009</b>
	<b>Rf</b>	<b>Rf</b>
Advances to Government as at 31 December (Note 8)	25,916,667	29,593,113
Government Securities Held to Maturity (Note 9)	3,894,418,373	4,182,304,581
	<b>3,920,335,040</b>	<b>4,211,897,694</b>
Government deposits with the Authority	1,116,028,695	749,913,346
State Owned Enterprises deposits with the Authority	9,791,332	35,351,854
Security deposits held by insurance companies (Note 22)	4,000,000	-
	<b>1,129,820,027</b>	<b>785,265,200</b>





# Maldives Monetary Authority

## NOTES TO THE FINANCIAL STATEMENTS

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### 39 RELATED PARTIES TRANSACTION DISCLOSURES (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 14 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. During the year 2010 the Authority provided credit to Bank of Maldives under the overnight Lombard Facility in July 2010.
- 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 22).  
  
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 39.1 (c)).
- j) The Authority did not provide any guarantee over any of the borrowings of a related parties in the years ending 31 December 2009 and 2010.

### 39.2 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:

	2010 Rf	2009 Rf
Compensation to the key management personnel	2,201,793	2,221,933





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**40 FINANCIAL INSTRUMENTS**

**40.1 Fair value of financial instruments**

The fair value of a financial instruments is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms-length transaction. When a financial instrument is traded in an organised and liquid market that is able to absorb a significant transaction without moving the price against the trader and the quoted market values represent the

**Investment in fixed deposits**

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

**Reverse-Repurchase Agreements**

The reported value of repurchase and reverse-repurchase agreements is considered to approximate their fair value due to the short term nature of the agreements. The carrying value of Maldives Government Securities sold under agreements to repurchase as at 31 December 2010 was Rf. 92 million (2009: Rf. 10 million).

**Currency in circulation**

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

**41 COMPARATIVE INFORMATION**

Where changes have been made in presentation of disclosure for the current year, comparative figures have been restated. Changes to the statement of financial position as summarised as follows;

**41.1 Other assets**

As reported previously:		<b>2009</b>
<b>Other assets</b>		<b>Rf</b>
Development projects		21,289,812
Advances, prepayments and other assets		2,014,340
		<u>23,304,152</u>
Current presentation:	<b>2010</b>	<b>2009</b>
<b>Local currency non-financial assets</b>	<b>Rf</b>	<b>Rf</b>
Intangible assets	73,698,980	21,289,812
Inventories of commemorative coins	1,089,462	1,228,427
Other assets	1,896,966	785,913

a) The development projects are identified as intangible assets under work in progress as per IAS 38 Intangible Assets in the current year financial statements and the comparative information has been adjusted to confirm with current year presentation.

b) Inventories of commemorative coins, which was included under other assets during last financial year has been classified under inventories during the year. Accordingly the comparative information has been adjusted to confirm with current year presentation.



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**42 CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS**

**42.1 Guarantees**

Under Section 22 (I) the Authority has power to give guarantee for the repayment of government loans. However, the Authority has not provided any guarantees as at 31 December 2010.

**42.2 Fiduciary activities**

Under Section 22 of MMA Act the Authority carries out fiduciary activities such as holding government funds and working as a fiscal agent for the government in its dealings with International Financial Institutions. However, the Authority does not expect any liabilities to arise from such activities.

**42.3 Legal claims**

There are no ongoing legal proceedings against the Authority as of 31 December 2010.

**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. This is in consideration with the counter guarantee that the Ministry of Finance and Treasury on behalf of the Government of the Republic of Maldives undertakes to pay the Authority the Rufiyaa counterpart funds for the aforesaid payments.

Except for the above mentioned the Authority does not have any significant financial commitments.

**43 EVENTS OCCURRING SUBSEQUENT TO REPORTING DATE**

- 43.1** 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 Rf. 12.85 per USD, effective from 11 April 2011. Values of the Authority's monetary assets and liabilities which are denominated in foreign currencies may change during the year 2011 as a result of these currency movements.

There have been no material events, other than that discussed in note 43.1 above, occurring after the reporting date that require adjustments to or disclosure in the financial statements.





## Appendix 2

### Commercial Banks Operating in Maldives

Bank established	Date
State Bank of India	04 February 1974
Habib Bank Limited	11 April 1976
Bank of Ceylon	07 May 1981
Bank of Maldives plc	11 November 1982
Hong Kong and Shanghai Banking Corporation Ltd	11 March 2002
Mauritius Commercial Bank Maldives Private Limited	04 May 2008.

### Monetary Measures and Prudential Regulations in effect during 2010

#### Interest Rates

Commercial banks are free to determine the annual rates of interest chargeable on loans and advances and the annual interest payable on deposits denominated in US dollars. Interest rates on loans and advances in Rufiyaa are not to exceed 20 percent per annum.

Banks are free to determine interest rates on Rufiyaa deposits.

### Minimum Reserve Requirement (MRR)

#### Maintenance period

With effect from 14<sup>th</sup> March 2010, the MRR maintenance period was revised to start on every Thursday and end on the following Wednesday. Prior to this revision the MRR maintenance period was from every Sunday to the following Saturday.

#### Reserve remuneration

With effect from 13<sup>th</sup> May 2010, remuneration of MRR was revised to include the entire MRR balance at the rates as follows: - The entire local currency MRR balance is remunerated at 1 percent per annum and the entire US dollar MRR balance is remunerated at 0.05 percent per annum.

Prior to this revision the remuneration of MRR was: - Balances of the MRR local currency deposits in excess of 15 percent was paid an interest rate of 2.5 percent per annum and balances of the MRR foreign currency deposits in excess of 15 percent were remunerated at the average interest paid for a week by the Federal Reserve Bank of New York to MMA's investments in the Federal Reserve on a one week delay basis.

#### Penalty for shortfalls

With effect from 13<sup>th</sup> March 2010 for failure to meet the minimum reserve requirement within the set period, a penalty of 18 percent per annum is charged on the shortfall amount.



Additionally the MRR balance in the following period must be increased by the shortfall amount of the previous period. Prior to this change an interest charge of 2 percent in addition to the highest prevailing commercial interest rate was charged on the shortfall amount.

### **Prudential Requirements**

Banks are required to include in their loan agreements, the provision that re-payments are to be made in the currency in which a loan is disbursed.

Banks are required to obtain MMA's approval before payment of any dividends and repatriation of profit to head offices abroad.

Banks and institutions involved in money transfer activities were required to

- (1) Formulate and adopt written policies and procedures against money laundering and combating the financing of terrorism
- (2) Provide adequate training to the staff for effective prevention, detection and control of possible money laundering activities and combating the financing of terrorism
- (3) Install proper recordkeeping systems for accurate identification of all customers wishing to open accounts or make transactions whether directly or through proxy and the sources of their funds, and identifying unusual and suspicious transactions,

(4) Maintain customer information systematically for future reference should the need arise

(5) Appoint a "Compliance Officer", who shall be responsible for monitoring and ensuring compliance with the policies and procedures in respect of MMA guideline, and

(6) Report to this Authority, all suspicious transactions that indicate possible money laundering or attempts to conceal the true identity of customers or ownership of assets.

### ***Prudential Regulations***

Capital Adequacy - Banks operating in the Maldives are required to maintain an unimpaired paid up capital of Rf 150 million and to meet the capital ratios as stated in the regulation.

Single Borrower Limits - Limits: Single person 15% of capital base, corporate groups 40% of capital base, Total Large exposures 500% of capital base. Banks are subject to the limits and provisions on single borrower and large exposures provided in the regulation.

Loans to Related Persons - Limits: Single related person 15% of capital base, Aggregate limit to all related persons 50% of capital base. Banks are required to adhere to the limits and other provisions on loans to related persons of the bank as set in the regulation.

Transactions with related persons - Banks are required to conduct transactions with related parties of the bank at "arms length" and to follow the provisions stated under the regulation.

Asset Classification and Provisioning - Criteria for asset classification and the provisioning was revised and banks are to adhere to the new classifications, provisioning against loans, and other provisions as under the regulation.

Inter Bank exposures - Banks are required to meet the limitations and provisions as set under the regulation.

External Audits - Banks are required to meet the provisions in employing external auditors as set under the regulation.

Publication and Disclosure - Banks are required to submit to MMA and publish branch only and consolidated audited annual financial statements as per the standards set in the regulation.

Fit and Proper Requirements - Banks are required to meet minimum requirements and standards in ensuring that the banks' board of directors, executive officers and shareholders are fit and proper as set in the regulation.

Corporate Governance - Banks are required to meet the requirements and standards as set in the regulation to ensure good corporate governance in the banks' operations.

Foreign Currency Exposure Limits - Banks are required to maintain overall exposure limits of the foreign currency as well as single currency limits at 40% and 15% respectively, as a percentage of total capital base. Banks are free to set and manage their own intra-day exposure limits at prudent levels.