Annual Report

and Financial Statements

2008

Maldives Monetary Authority

بسم الله الرحمن الرحيم

ANNUAL REPORT

and Financial Statements

2008

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CONTENTS

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 2008, which includes a copy of the Financial Statements for the year ended 31st December 2008, audited by the Government Auditors.

Yours sincerely,

Fazeel Najeeb

Governor

H.E. Mohamed Nasheed,

President of the Republic of Maldives,

Office of the President,

Malé.

LIST OF ACRONYMS

ADB	Asian Development Bank
ACH	Automated Clearing House
AML	Anti-Money Laundering
BML	Bank of Maldives Plc
BPSD	Banking and Payments Settlement Division
CD	Corporate Division
CDs	Certificate of Deposits
CFT	Countering Financial Terrorism
CGAP	Consultative Group to Assist the Poor
CPI	Consumer Price Index
EFTPOS	Electronic Funds Transfer Point of Sale
ERSD	Economic Research and Statistics Division
FSD	Financial Sector Division
GDP	Gross Domestic Product
HBL	Habib Bank Limited
HRD	Human Resources Division
HSBC	Hong Kong and Shanghai Banking Corporation Limited
ICD	Islamic Corporation for the Development of the Private Sector
IDB	Islamic Development Bank
IFC	International Finance Corporation
IFU	Islamic Finance Unit
IFSB	Islamic Financial Services Board
IMF	International Monetary Fund
ITD	Information Technology Division
MCB	Mauritius Commercial Bank
MFLC	Maldives Finance Leasing Company Pvt. Ltd.
MIB	Maldives Islamic Bank
MMA	Maldives Monetary Authority
MOFT	Ministry of Finance and Treasury
MRR	Minimum Reserve Requirement
NBFIs	Non-Bank Financial Institutions
NFA	Net Foreign Assets
PNFE	Public Non-Financial Enterprises
Rf	Rufiyaa
RTGS	Real Time Gross Settlement
SBI	State Bank of India
SOEs	State Owned Enterprises
STO	State Trading Organisation Plc.
T-Bills	Treasury Bills

PREFACE

This report presents the financial statements of the MMA as required by the MMA Act (1981) and also presents an overview of the domestic economy during 2008. The section on economic review, which was previously a part of this report, covering developments in the domestic economy and the overview of events in the global economy is now presented in a separate publication titled *Annual Economic Review.*

OVERVIEW OF THE ECONOMY IN 2008

The Maldivian economy continued to expand although growth decelerated to 5.8 percent in 2008 from 7.2 percent in 2007, largely due to the slowdown in the tourism sector (which accounts for around one-third of GDP) in the latter half of the year.

Compared to a remarkable performance of double digit growth in 2007 the **tourism sector** registered a slowdown in 2008 owing to the reduction in tourist arrivals from the major markets due to the global financial and economic crisis. As such, the total number of tourist arrivals which totaled 683 thousand in 2008 registered a growth of just 1 percent during the year compared with a growth of 12 percent in 2007. Nonetheless, the annual growth in tourist bednights stood somewhat higher than arrivals growth – at 3 percent (10 percent in 2007) – owing to the increase in average length of a tourist visit. With regard to the capacity of the industry, with the opening of an additional 3 resorts during the year, the bed capacity of the industry increased by 9 percent to a total of 19,081 beds in 2008. As a result, the capacity utilization fell to 78 percent from 83 percent in 2007.

The **fisheries sector** experienced a reduction in both total fish catch and the volume of fish exports during 2008. However, due to favourable global tuna prices during the year, there was an increase in total fish export earnings. Total fish landings declined further by 17 percent in 2008 from 141 thousand metric tonnes in 2007 to 116 thousand metric tonnes, partly influenced by the high cost of fuel while environmental conditions such as higher than average surface water temperatures have also been blamed for the sustained low catch. As such, the volume of fish exports (excluding live fish) also declined in 2008; from 66 thousand metric tonnes in 2007 to 63 thousand metric tonnes in 2008, which is a 4 percent decline over the year. However, fish export earnings recorded a growth of 18 percent (or US$18.2 million) with total earnings of US$120.7 million.

The **construction sector** continued to remain robust in 2008 owing to the increase in developmental activities by the tourism sector as well as public sector infrastructure development projects. As a result, the value added to the sector rose by 16 percent during the year. The construction sector's performance, as measured through the share of commercial bank's credit to the sector, registered a twelve month growth of 54 percent at the end of 2008 compared to an annual growth of 107 percent in 2007. As for construction related imports, the total value of imports of construction materials increased by 13 percent from US$172.3 million in 2007 to US$194.9 million in 2008, compared to 42 percent annual growth in 2007.

The **rate of inflation**, as measured by the 12 month moving average of consumer price index (CPI) for Male', surged to 12.0 percent in 2008 from 6.8 percent in 2007 and 2.7 percent in 2006. Inflation excluding the volatile fish prices rose to 12.2 percent from 4.9 percent in 2007. Domestic price pressures during the year were influenced by both cost-push factors such as import prices and by demand-pull factors such as the high deficit of the government financed by the MMA and the rapid wage growth in the public sector. Given the openness of the economy (around 87 percent of goods in the domestic consumption basket are imported), the surge in global food prices and record high global oil prices earlier during the year contributed significantly to the growth in CPI in 2008. At the same time, the large budget deficit which was for the most part financed through monetization, contributed increasingly to the rapid growth in money supply and hence accelerated the growth in CPI during 2008.

On the **fiscal front**, despite a moderate improvement in total revenue during the year, the budget deficit widened from 5 percent of GDP in 2007 to 13 percent of GDP in 2008 due to the substantial increase in government expenditure (63 percent of GDP). Total revenue and grants grew by 2 percent in 2008 over 2007, with total revenue increasing by 10 percent. Major sources of government revenue during the year included import duty (34 percent of total revenue), tourism bed tax (8 percent), and lease rent from tourist resorts (21 percent). Total expenditure rose by 20 percent to Rf10.3 billion in 2008, out of which 80 percent was spent on current expenditure. As regards the financing of the budget deficit, 70 percent of the deficit was domestically financed—mostly through monetization—while the rest was from external sources.

In the **monetary sector**, total domestic credit of the banking system, after registering a growth of 45 percent in 2007, increased by 43 percent in 2008. The net foreign assets (NFA) of the banking system further declined in 2008 with the progressive accumulation of the foreign liabilities of the commercial banks, which however showed signs of reversing the trend towards the end of 2008, as foreign liabilities declined due to partial settlement of loans taken by the foreign commercial banks mainly from their head offices. The decline in foreign liabilities was also attributed to the tight credit availability during the year owing to the current global financial crisis. Meanwhile, the NFA of the MMA, which grew by 34 percent in 2007, registered a decline of 22 percent at the end of 2008. Total liquidity of the banking system showed a similar increment as in 2007 (24 percent). During the period, a substantial growth of narrow money was recorded from a growth of 19 percent in 2007 to 38 percent in 2008. Meanwhile, there was a decline in growth of quasi money from 28 percent in 2007 to 12 percent in 2008, followed by a slow growth of foreign currency deposits within the banking system.

As for **balance of payments** developments, despite the increase in fish exports, the trade deficit widened further in 2008, leading to a substantial worsening of the current account deficit during the year. Rapid growth in imports driven by high oil prices and the construction boom coupled with the slow growth in tourism receipts caused the worsening of the current account deficit to 47 percent of GDP (42 percent of GDP in 2007). In 2008, the net services surplus declined by 6 percent compared to 2007 due to the slow growth in tourist arrivals. Meanwhile, the transfers account registered a relatively high deficit of US$52.2 million in 2008 compared to a deficit of about US$13.7 million in 2007. This was largely due to the decline in tsunami related foreign grants, owing to the completion of many tsunami related projects, and due to the increase in expatriate workers who remits a large part of their earnings.

The net financial account continued to maintain a surplus in 2008, supported by private capital inflows for the new investments in the tourism sector. Reflecting the marked deterioration in the current account deficit during the year, the overall balance of payments recorded a deficit of US$ 67.8 million in 2008 compared to a surplus US$76.9 million in 2007. As a result, the gross international reserves depleted significantly during 2008, which remained at 2.1 months in terms of imports cover at the end of December 2008. A large part of the decline in reserves was owed to the increased fuel imports bill as the price of oil in world markets escalated in July 2008.

Total **external debt** stock (disbursed and outstanding), which has been growing rapidly since 2005, reached US$969.2 million at the end of 2008. As a ratio to GDP, total external debt reached 77 percent compared to an average of 38 percent during 1997-2004. Public external debt stock (disbursed and outstanding), registered a 12 percent growth annually to reach US$471.7 million at the end of 2008. As a ratio to GDP, public external debt stood at 37 percent, down from around 40 percent in the past five years. Public sector debt service climbed to US$49.5 million at the end of 2008 from US$39.7 million at the end of 2007 while the public sector debt service ratio (as a percentage of exports of goods and services) remained at 5 percent in 2008. With regard to foreign liabilities of commercial banks, it has been growing rapidly since 2004 (from 3 percent of GDP in 2004 to 40 percent in 2008) and reached US$497.5 million by the end of 2008 as foreign owned commercial banks continue to borrow from their headquarters abroad to cater for the huge credit demand in the domestic economy.

With regard to the **exchange rate**, Maldives continued to maintain a pegged exchange rate regime with a fixed peg to the U.S dollar; however, a liquidity shortage in the foreign exchange market became prevalent during the last quarter of the year. The Rufiyaa has been pegged to the U.S dollar at a buying rate Rf12.75 and a selling rate of Rf12.85 since the 9 percent devaluation in 2001. Considering the movements of Rufiyaa against other major foreign currencies, with the exception of the Japanese yen, it depreciated against the currencies of major trading partners such as the euro, pound sterling, Singapore dollar, Indian rupee and the Sri Lankan rupee in 2008, as the value of U.S dollar weakened against these countries during the year.

OVERVIEW OF THE MALDIVES MONETARY AUTHORITY

The Maldives Monetary Authority (MMA) was set up on 1st 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 5th 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 MMA Governor.

Board of Directors

The highest policymaking body of the MMA is the Board of Directors who is responsible for the policies and affairs of the Authority. With the new amendments, the Board consists of following representatives:-

1. Governor
Mr. Abdullah Jihad
(from 06 July 2007 to 15 July 2008)

Mr. Fazeel Najeeb
(appointed on 25 Oct 2008)

2. Deputy Governor
Ms. Aishath Zahira
(appointed on 01 July 2008)

3. Senior Executive Director/Financial Sector Division
Mr. Abdul Ghafoor Abdul Latheef
(appointed on 06 July 2008)

4. Ministry of Finance & Treasury
Mr. Ismail Shafeeq
(appointed on 06 July 2008)

5. Ministry of Economic Development
Mr. Ahmed Ifthikhar
(appointed on 06 July 2008)

6. Private Sector
Mr. Ibrahim Shafeeq
(appointed on 06 July 2008)

7. Private Sector
Mr. Ahmed Nazeer
(appointed on 06 July 2008)

The Organisation in 2008

Executive Management

With the resignation of Mr. Abdulla Jihad on 15th July 2008 as the Governor of MMA, Mr. Fazeel Najeeb was appointed as the Governor on 22nd October 2008. Ms. Aishath Zahira, Senior Executive Director of Banking and Payments Settlement Division was appointed as the Deputy Governor on 1st July 2008.

Organisational Structure and Functions

The ***Banking Payments and Settlements Division*** (BPSD) consists of the Foreign Exchange, Banking, Public Debt, Treasury Management, and Currency Sections. The Foreign Exchange and Treasury Management Sections 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 government debt.

The ***Financial Sector Division*** (FSD) consists of the Credit and Bank Supervision, Non-Bank Financial Institution Supervision, Credit Bureau, Financial Intelligence and Financial Education Sections. The duties of the Credit and Bank Supervision Section include issuing licenses for commercial banks to operate in the Maldives, monitoring activities of commercial banks to ensure their compliance to the rules and regulations of the MMA, and assessing the financial health and performance of commercial 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. An Islamic Finance Unit was established on 24th February 2008 and Dr. Abdulla Shiham Hassan was appointed as the Advisor.

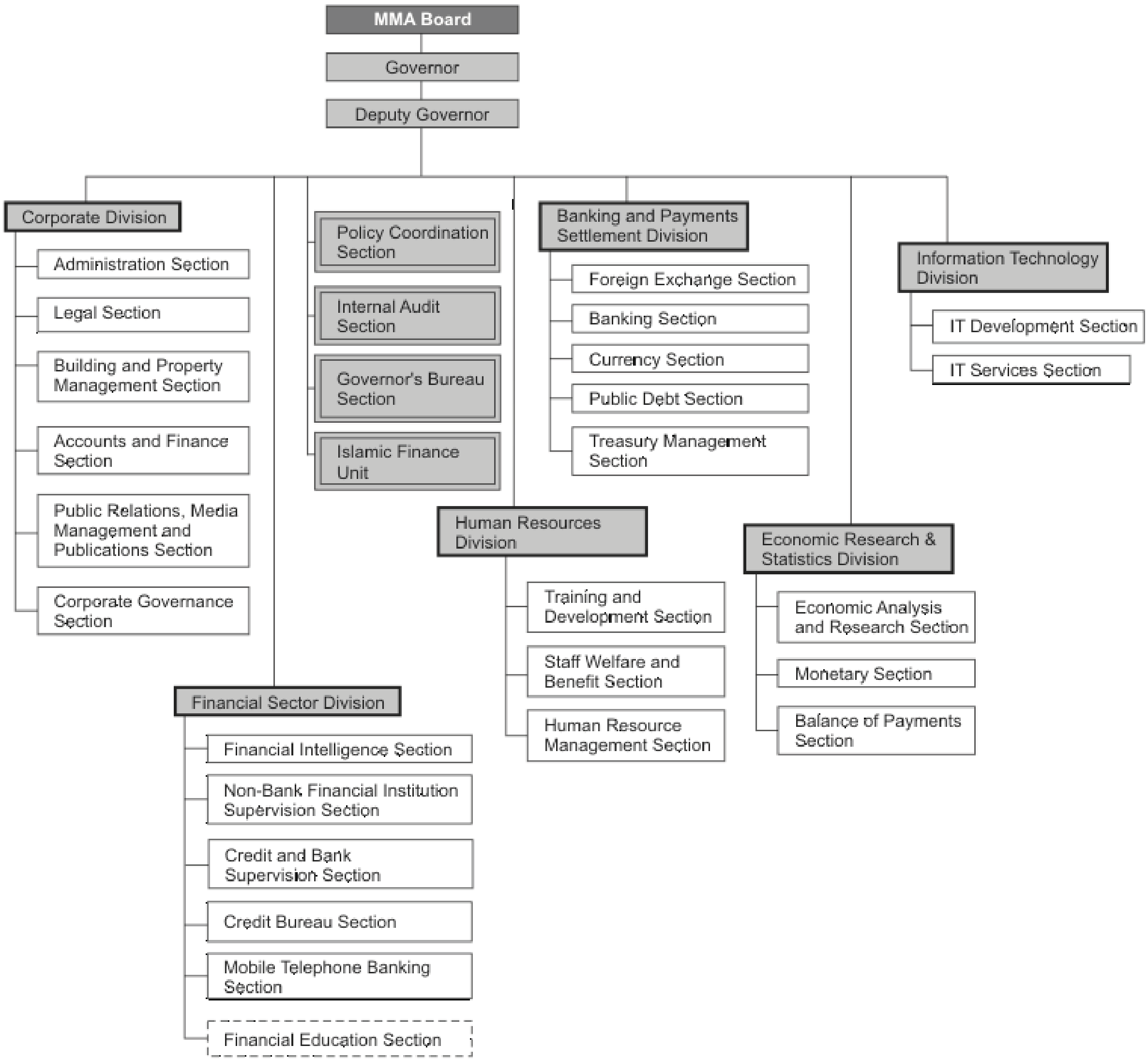
The ***Economic Research and Statistics Division*** (ERSD) is the research wing of the MMA. The ERSD has three sections: the Monetary Section, the Balance of Payments Section and the Economic Analysis and Research Section. The Monetary section compiles monetary and financial statistics according to international standards; produces weekly liquidity forecasts and undertake analysis and research on monetary issues and monetary policy. The Balance of Payments section is responsible for the compilation of the balance of payments and international investment position of the country, according to international standards; undertake research and analysis on balance of payments and other key issues relating to the external sector; and provide annual balance of payments projections. The Economic Analysis and Research Section monitor and analyses domestic and international economic developments. In addition, this section disseminates data and information through various publications such as the Annual Report, Quarterly Economic Bulletin, Monthly Macroeconomic Brief and Monthly Statistics; and also works to broaden the understanding of economic knowledge of MMA staff and the general public, especially secondary and tertiary school students, in the areas of money and banking, macroeconomics, and international economics. The section also has the responsibility to liaise with the International Monetary Fund and carry out activities related to SAARCFINANCE.

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. Corporate Division compromises 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 CHART



SENIOR OFFICIALS
(as at end December 2008)

Mr. Fazeel Najeeb
Governor

Ms. Aishath Zahira
Deputy Governor

Mr. Abdul Ghafoor Abdul Latheef
Senior Executive Director - Financial Sector Division

Ms. Neeza Imad
Executive Director - Human Resources Division

Mr. Abdul Hameed Mohamed
Executive Director - Economic Research and Statistics Division

Ms. Mariyam Hussain Didi
Executive Director - Corporate Division

Dr. Abdullah Shiham Hassan
Advisor

ADMINISTRATION AND OPERATIONS

Board Meetings

During the year ending 31 December 2008, the MMA's Board of Directors held nine meetings during which nineteen resolutions were passed on the following matters:

• Rules and Regulations of the MMA's Board of Directors.

• Approval of MMA's Annual Accounts of 2007.

• Granting of license for the establishment of a branch of Mauritius Commercial Bank (M.C.B) in the Maldives.

• Approval to provide the service of life insurance was given to the Allied Insurance Company of the Maldives.

• Granting of license to the Travel Bureau department of the Maldives Transport and Contracting Company to provide money transfer service.

• Granting of license to Universal Travel Services Private Limited to provide money transfer service under the name of "Cylinco Fast Transfer".

• Granting of license to Villa Travels and Tours Private Limited to provide money transfer service.

• Provisional Budget of the MMA for 2008.

• Issuance of a short-term loan to the government as per the agreement made between the MMA and the Ministry of Finance and Treasury on granting loans to the government.

• Granting of permission for the existing money transfer service providers to extend this service from their additional business outlets.

• Approval to grant short term loans (maturity period up to 90 days) to commercial banks and other financial institutions operating in the Maldives and rediscounting.

• Granting a credit facility to the Bank of Maldives

• Issuing a short-term loan of Rf203 million to the government of Maldives.

• Budget of the MMA for 2009.

• Adjustment to interest rate on US dollar Minimum Reserves of commercial banks held at MMA.

• Extension of temporary permit given to insurance businesses under the insurance industry regulation.

• Approval of MMA's Annual Report 2007.

Key Operational Developments

Developments of Banking Sector

• Under the licence acquired in November 2007, Mauritius Commercial Bank Ltd. (MCB) commenced its operations on 4th May 2008.

• Under the licence obtained on 7th October 2007, State Bank of India's Hithadhoo branch commenced its operations in Seenu Hithadhoo on 28th August 2008.

• The draft Banking Act was filed with the Law Commission and was tabled to be presented to the Parliament during 2009.

Mobile Banking Development

In 2008, MMA's Mobile Phone Banking Project Unit carried out work towards the implementation of the Mobile Phone Banking Project. The project consists of 4 components, namely, a Real Time Gross Settlement (RTGS), an Automated Clearing House (ACH) and a Mobile Phone Banking system supported by an Electronic Funds Transfer Point of Sale (EFTPOS) Switch.

This project's primary objective is "financial inclusion" aimed at "banking the unbanked" in the hardest to reach geographical locations across the country. With the reduced cost of delivery of services using existing telecommunication infrastructure which will dramatically reduce the cost of financial transactions, these services promote saving and help increase the standard of living of the poor. In addition, the project will contribute to considerable development of the banking infrastructure of Maldives.

This project is funded by a Loan from the World Bank, and a Grant from Consultative Group to Assist the Poor (CGAP).

The following are the main operational developments of this project in the year 2008.

- The Project Agreement between Maldives Monetary Authority and World Bank was signed on 23rd June 2008. Financing Agreement of US $7.7 million was signed between World Bank and the Ministry of Finance and Treasury (MOFT) on the same date. The MOFT on-lent the proceeds of the loan under a Subsidiary Loan Agreement that was signed on 3rd August 2008. The effectiveness of the Credit was declared by the World Bank on 26th September 2008.

- The technical design of this project was prepared in early 2008, by a consultant funded by the Consultative Group to Assist the Poor (CGAP).

- In order to procure the systems required under this project, an international tender in compliance with the World Bank's procurement policy was placed on 14th May 2008. The World Bank's two-stage procurement process for complex information system was used to procure the systems for the project. A technical consultant was hired under World Bank funding to coordinate the procurement process. Stage I bids were received on 6th August 2008. After the technical evaluations of the bids were completed, the short-listed parties were invited to submit stage II proposals on 31st December 2008.

- A regulatory framework consisting of the following regulations were drafted and developed by a group of experts funded by the CGAP. The draft regulations were presented to MMA in December 2008.

- National Payment System Regulation

- Financial Consumer Protection Regulation

- Risk based Anti-Money Laundering(AML)/ Countering Financial Terrorism (CFT) for Mobile Payments Regulation

- Maldives cheque presentment Regulation

These regulations will be subject to further review and vetting by the MMA and stakeholders before they are issued in time for the systems to go live.

- A Joint Implementation Support Mission from the World Bank and CGAP visited Male' from 8-12 June 2008. The Mission had discussions with MMA's project team, all the banks in the Maldives, telecommunication service providers and related government authorities/agencies regarding the project.

- On 27th November 2008, MMA signed Memorandums of Understandings of coorperation with Habib Bank Limited and Wataniya Telcom Maldives to implement the project.

- On 2nd December 2008 MMA signed similar Memorandums of Understandings with Bank of Ceylon and Dhiraagu.

Financial Education and Public Awareness

During the year information sessions were given on the functions of MMA and the macroeconomic overview of the economy to different Secondary Schools of Male' and the atolls. These sessions were organised by the ERSD.

Establishment of a Credit Information Bureau in the Maldives

The establishment of a credit information bureau reached the final stage of selecting a vendor/ technical partner who is capable of delivering a scalable and modular credit reporting system in line with the market needs of the Maldives. In this regard, 'Advance action on procurement' was published on the MMA website and on the websites of the Asian Development Bank (ADB) and the International Finance Corporation (IFC). Request for proposals were issued to the short-listed firms amongst the Expressions of Interest received.

Since the procurement of this project involves a two stage bidding process, technical proposals were opened first and evaluated by the MMA Evaluation Committee (in close consultation with the technical partner – IFC) and have been endorsed by the ADB. During December 2008, financial proposals were opened.

Apart from the MMA, this project is funded by the ADB (through a loan extended to the Government of Maldives). The maximum budget for the project is US$1 million where, ADB would be lending US$590 thousand on procurement of equipment and consultancy services required for the implementation of this credit information registry. The project is in the final stages of signing the loan and relevant project agreements.

Development of the MMA Building

The construction of a nine -storey building of MMA at Majeedhee Building, Boduthakurufaanu Magu, which began in 2004, was about ninety percent completed as at end December 2008.

All Divisions of MMA except for the Banking and Payments Settlement Division (BPSD) were transferred to Majeedhee Building on 21st December 2008. It was decided that banking services provided by BPSD will be transferred during January 2009 in order to ensure provision of uninterrupted services to the public since this service plays a vital role in the operations of MMA.

Developments of Non-Bank Financial Institutions

During the year 2008, several initiatives were undertaken by Non-Bank Financial Institutions (NBFI) section of the MMA to create a more enabling environment for the NBFIs in the Maldives

Establishment of a Supervisory Regime for Insurance Sector

Under the assistance from the World Bank's FIRST initiative, MMA initiated a project to establish a supervisory regime for the insurance sector. This is a comprehensive project which includes drafting an Insurance Act, other subsidiary regulations and standard templates and procedures for collecting reporting returns. The first mission under the project took place during May 2008. The mission consists of an insurance expert provided by FIRST initiative. During this mission, the first draft of the proposed Insurance Act was produced. This draft was made after consultation between the expert, the MMA and other stake holders of the industry.

Licenses granted

Two additional parties were granted license to conduct money transfer business in the Maldives. As such, Universal Travel Services Private limited was granted license on 30th April 2008 to conduct money transfer business as an agent of Cylinco fast money transfer while MTCC Travel bureau was granted license on 25th February 2008 to conduct money business service as an agent of Money Gram International.

Islamic Finance Unit

In 2008, an Islamic Finance Unit (IFU) was established in the MMA to facilitate the setting up of the Maldives Islamic Bank (MIB). This project was initiated with grant assistance of US$4 million from the Islamic Corporation for the Development of the Private Sector (ICD) as investment equity. In order to identify a competent technical partner for MIB the MMA and ICD made study tours to Bahrain and Dubai. Also during the year, the Executive Committee of Board of Directors of ICD agreed to the new shareholding structure of MIB with the government of Maldives and ICD each holding 40 percent and the technical partner to hold 20 percent. Moreover, a review of the feasibility to set up an Islamic bank in Maldives was conducted on behalf of ICD by KPMG after meeting all relevant stakeholders in Maldives. With MMA's request the Islamic Development Bank (IDB) agreed to provide TA on setting up the MIB and pledged US$200-300 thousand. Work was also carried out to identify staff training needs and to identify consultants for developing a regulatory and supervisory framework for Islamic banking in Maldives.

MMA was granted full membership of Islamic Financial Services Board (IFSB) by the Governing Council at the Sixth General Assembly held in Jeddah, Saudi Arabia.

Human Resource Management and Development

Human Resource Division continued to carry out its functions to develop and sustain the organization's human capital with the existing human resource policies and procedures.

At the end of 2008, there were a total of 120 staff employed (109 active staff, 7 staff on paid study leave and 4 staff on study leave sponsored by MMA). During the year, 26 staff were recruited and 9 staff resigned or left from the organization.

All staff related expenses were well within the budget. Medical insurance of all staff was raised to include additional benefits. Two staff became eligible for pension after the enactment of MMA act on 5th April 2007 and was given pension during the year.

Initiatives on staff development on areas with skills gap continued during the year. MMA awarded 4 scholarships to long serving employees to pursue their education in overseas universities. Additionally, 3 active staff were sponsored to pursue their diploma or professional studies in local training institutions. Furthermore, 40 staff attended short trainings, seminars, and workshops held overseas.

Technical Assistance

During the year 2008, technical assistance (TA) was provided by the International Monetary Fund (IMF) on the following areas:

- TA aimed at developing the research capacity of the ERSD of MMA. Mr. David Mayes and Mr. Eugen Redulescu, visited Malé from October 20th to November 7th, 2008 to prepare a comprehensive diagnostic assement of the project.

- TA on commercial bank supervision, by Mr. Richard Nun. Mr. Nun's first visit of 2008 was from 4th to 28th August 2008. During the visit Mr. Nun mainly provided assistance in revising the prudential regulations drafted in 2005, and drafting of some new regulations. Mr. Nun also assisted in finalizing the report of the on-site examination of HSBC which was carried out during mid 2007. Mr. Nun made a second visit from 19th October to 15th November 2008, and an on-site examination of Bank of Maldives Plc was conducted during the visit.

Missions

IMF Article IV Consultation Mission

The annual consultation mission from the IMF visited the Maldives from June 18-30, 2008. The mission held discussions with officials from the government, SOEs, commercial banks, and the private sector regarding macroeconomic developments for 2007-2008 and the outlook for the medium term.

بسم الله الرحمن الرحيم

Corruption affects EVERYONE

AUDITOR GENERAL'S OFFICE
Malé, Republic of Maldives

Dated: 30th April 2009

AUDITOR GENERAL'S REPORT
TO THE BOARD OF
MALDIVES MONETARY AUTHORITY (MMA)

Introduction

I have audited the financial statements of Maldives Monetary Authority for the year ended 31st December 2008, which comprises of Income Statement, Balance Sheet, Cash flows Statement and related notes.

Respective Responsibilities of Management and Auditor General

The Management of Maldives Monetary Authority is responsible for preparing and presenting the Financial Statements. My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing.

I report to you my opinion as to whether the financial statements give a true and fair view.

Basis of Opinion

The audit was conducted in accordance with the International Auditing Standards. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes assessment of significant estimates and judgments made by the Management in the preparation of financial statements, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

Opinion

In my opinion, the financial statements present fairly in all material respects, the financial position of the Maldives Monetary Authority as at 31st December 2008 and the results of its operations for the year then ended, and comply with the Maldives Monetary Authority Act 1981, except for the impact for following:

i. **GOVERNMENT BORROWINGS FROM MMA:** The government's total borrowings from the Authority, as at 31st December 2008, amounted to RF 3.337 billion comprising of :-

Ways and Means Advance	Rf 2.203 Billion
Loan facilities	0.510
Deficit Finance for December 2008	0.623
Total	Rf 3.337 Billion

The total government borrowing is 49.4% of total assets of the Authority as at balance sheet date. The comparative figure for the preceding year stood at 29.6% of the total assets, which shows that borrowing has increased by 20% during the fiscal year 2008.

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ii. **REVALUATION RESERVE:** As per article 28(4) of MMA Act (1981), the Authority is required to pay as dividend to the government one fifth of the balance of the Revaluation Reserve account at the balance date. This arises from annual revaluation of its foreign currency assets and liabilities and most of these are unrealized gains and losses credited to Revaluation Reserve account.

This requirement does not help to strengthen the Authority's Balance Sheet and as such I recommend that (i) an amendment be brought to MMA Act to remove this requirement, and (ii) until such an amendment could be brought and effected, negotiate with the government to recover, and retain in this account, all future dividends from the Revaluation Reserve.

iii. **LIQUIDATION OF BCCI:** Most of the work relating to the liquidation of the Bank of Commerce and Credit (BCCI) Male' branch, which closed in July 1991, has been undertaken in 1998 including the return of depositors' funds. However, there are BCCI loans recovered amounting to Rf 8,656,294 still remaining on the books of MMA, and liquidation costs incurred by MMA have not yet been claimed from BCCI funds. Also there are 18 long outstanding loans in different stages of legal recovery proceedings.

Therefore, I recommend that (i) collections on MMA's books be returned to the government after deducting all liquidation costs, or absorb this as income of MMA with concurrence from the government; (ii) consider writing off the funds receivable from the remaining 18 outstanding loans; and (iii) conclude the liquidation of BCCI in 2010. This was first recommended in audit report of 2007.

iv. **TREASURY LOAN:** This is borrowings of RF 120,000,000 made by government for the capital injections of state owned enterprises (SOE's) before the formation of MMA under its Act in 1981. It was transferred to treasury loan account which earns no interest to MMA. Thus there were no serious efforts made to recover the loan from Government except for the repayment of 20 million rufiyaa in 2007.

Therefore, I recommend that enter into agreement with government to recover balance of RF 100,000,000 of loan over an acceptable period of time.

v. **RETAINED PROFITS:** MMA Act (1981) requires all profits, after appropriation to General Reserves, to be paid as dividend to the government and allows a maximum of 200% of authorized capital to be accumulated in the General Reserve account. The maximum allowed to be retained based on the current authorized capital, amounting to RF 8,000,000, is already retained in the form of General Reserves. However, at the end of the year, RF 142,900,300 is withheld in Retained Earnings, which is a contravention of the MMA Act.

Therefore, to strengthen MMA's Balance Sheet, I recommend that RF 142,900,300 in the Retained Earnings account be transferred to a Special Reserve with the approval of the government.

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Ibrahim Naeem
Auditor General

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MALDIVES MONETARY AUTHORITY
BALANCE SHEET
AS AT 31ST DECEMBER 2008

	NOTE	2008 Rufiyaa	2007 Rufiyaa
ASSETS			
Foreign Currency Financial Assets	1		
Foreign currency held in Male' - Cash	1.1	13,008,592	6,961,259
Foreign currency held abroad on deposit	1.2	3,027,895,222	3,901,083,084
IMF Related Assets	1.3	7,921,533	7,315,213
Total Foreign Currency Financial Assets		3,048,825,347	3,915,359,556
Local Currency Financial Assets	2		
MMA Holdings of Govt. Treasury Bills	2.1	-	6,000,000
Government Debt	2.2	3,337,561,489	2,497,251,226
Subscription to International Agencies	2.3	222,355,049	241,011,487
Total Local Currency Financial Assets		3,559,916,538	2,744,262,713
Total Financial Assets		**6,608,741,885**	**6,659,622,269**
Other Assets	3		
Gold & Silver	3.1	18,711,952	13,640,412
Sundry Assets	3.2	35,349,344	23,626,853
Fixed Assets	3.3	93,935,744	52,857,597
Total Other Assets		**147,997,040**	**90,124,862**
Total Assets		6,756,738,925	6,749,747,131
LIABILIITIES AND EQUITY			
Foreign Currency Financial Liabilities	4		
International Financial Institutions	4.1	202,307,599	220,948,553
IMF Related Liabilities	4.2	5,604,792	5,683,470
Commercial Bank Reserves	4.3	1,559,163,996	1,467,036,178
Demand Liabilities	4.4	61,504,437	68,555,368
Loans from Foreign Institutions	4.5	50,857,041	79,586,803
Total Foreign Currency Financial Liabilities		1,879,437,865	1,841,810,372
Local Currency Financial Liabilities	5		
Commercial Bank Reserves	5.1	1,959,114,029	1,447,318,587
Demand Liabilities	5.2	612,683,818	1,437,414,972
Commercial Banks Assigned Capital	5.3	91,183,751	76,183,751
Total Local Currency Financial Liabilities		2,662,981,598	2,960,917,310
Total Financial Liabilities		4,542,419,463	4,802,727,682
Other Liabilities	6		
Currency in Circulation	6.1	1,762,192,030	1,322,280,108
Miscellaneous Liabilities	6.2	246,399,407	427,291,664
Total Other Liabilities		2,008,591,437	1,749,571,772
Total Liabilities		**6,551,010,900**	**6,552,299,454**
Equity	7		
Capital	7.1	1,000,000	1,000,000
Reserves	7.2	204,728,025	196,447,677
Total Equity		**205,728,025**	**197,447,677**
Total Liabilities and Equity		6,756,738,925	6,749,747,131

These financial statements were approved by the Board on 30th April 2009 and signed on their behalf by:

Aishath Zahira
Deputy Governor

Ismail Shafeeq
Board member

MALDIVES MONETARY AUTHORITY
INCOME STATEMENT
YEAR ENDED 31ST DECEMBER 2008

	2008 Rufiyaa	2007 Rufiyaa
OPERATING INCOME		
Income from Foreign Currency Financial Assets		
Interest Income	63,225,181	154,308,210
Interest Expense	12,727,560	11,421,937
Net Income from Foreign Currency Financial Assets	50,497,621	142,886,273
Income from Local Currency Financial Assets		
Interest Income	122,676,257	106,268,660
Interest Expense	9,767,304	7,539,371
Net Income from Local Currency Financial Assets	112,908,953	98,729,289
Other Income	42,268,575	27,299,988
Total Net Operating Income	**205,675,149**	**268,915,550**
OPERATING EXPENSES		
Administrative Expense	32,085,625	17,438,475
Security printing and minting	7,022,415	16,776,143
Depreciation	629,567	491,821
Other Expense	3,091,422	4,591,645
Total Operating Expenses	**42,829,029**	**39,298,084**
Net Profit for the Year	**162,846,120**	**229,617,466**

MALDIVES MONETARY AUTHORITY

Notes to the Financial Statements

As at 31st December 2008

ACCOUNTING POLICIES

The Maldives Monetary Authority (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.

BASIS OF PREPARATION

The financial statements have been prepared under the historical cost convention. A summary of the most important accounting policies, which have been applied consistently, are set out below.

Reporting Format

These financial statements present assets and liabilities and their associated income and expenses by differentiating between foreign and local currency activities.

Statement of Compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) where it does not conflict with the Maldives Monetary Authority Act 1981.

Currency of Presentation

Financial statements are expressed in Maldivian Rufiyaa and are presented in rounded figures.

Translation of Foreign Currency

Assets and liabilities in foreign currency are translated at the rate of exchange prevailing at the end of the month in which the transaction took place. All exchange gains and losses, both realised and unrealised, are taken to the Revaluation Reserve in accordance with Article 28(2) of the Act and are not included in the computation of the annual profits or losses of the Authority.

Financial Assets and Liabilities

The Bank presents financial assets and liabilities, and the associated income and expense streams, by distinguishing between foreign and local currency operations.

Foreign currency operations are mainly from the foreign currency deposits held with overseas banks. Local currency operations arise mainly from the government borrowings in terms of loans, overdrafts and budget deficit financing.

Gold and Silver Bullion

Gold and Silver bullion is stated at fair value and can be used to trade during the normal course of business. All exchange gains and losses, both realised and unrealised, are taken to the Revaluation Reserve in accordance with Article 28(2) of the Act and are not included in the computation of the annual profits or losses of the Authority.

MALDIVES MONETARY AUTHORITY

International Monetary Fund (IMF) Related Balances.

In accordance with Article 22(j) of the Act the Authority may act as fiscal agent of the government in its dealings with international financial institutions and undertake financial agency work for the government. In compliance with the Act, on the formation of the Authority, Special Drawing Right's were transferred from the Government Accounts to the Authority and hence the Authority acts as an agent to the Government of the Maldives.

The Authority records the IMF quota as an asset and the amount payable to the IMF for the quota is recorded as a liability. The interest earned due to excess of SDR holdings than the allocation of SDR, and the interest paid on the shortfall of holdings than the allocation are recognized in the Income Statement. All other charges and interest pertaining to the balances with IMF are also recorded in the Income Statement.

Cash and Cash Equivalents

Cash and cash equivalents comprise of cash held at foreign banks and foreign currency held at the Authority. As the sole statutory authority, the Authority issues currency to the public in accordance with Article 14(1) of the Act.

Government Debt

Government Debt represents the government borrowings in terms of loans, overdrafts and Government budget deficit financing under the Article 22(h) of the Act

Property, Plant and Equipment

Property, plant and equipment is stated at purchase cost less depreciation. Since construction of the building have not been completed all cost associated with the building have been accounted under Work-in-Progress. Therefore, except for the land and building, depreciation is calculated based on the straight-line method over the expected useful life of the assets. Depreciation begins when the asset is available for use. The annual depreciation rates used for this purpose are:

Furniture and Fittings	20.00 %
Machinery and Equipment	20.00 %
Computers	33.30 %

Plant and Equipment are de-recognized upon disposal and any profits or losses on disposal are included in the Income Statement in the year the assets are de-recognized.

Receivables

Receivables are carried at expected realizable value after making due allowance for doubtful debts.

Income and Expenses

Income and expenses are recorded in the Income statement under accrual basis of accounting whereby, revenue is recorded when it is earned or if revenue is realized or realizable. And the expenses are recognized in the period in which related revenue is recognized as in matching concept.

Comparative Information

The reporting format for the year 2008 has been changed. Therefore, the comparative figure of 2007 has been changed accordingly.

APPENDIX

Commercial Banks Operating in Maldives

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

Monetary Measures and Prudential Regulations in effect during 2007

Interest Rates

Banks are required to inform the changes in interest rates to the Credit and Bank Supervision Section of the MMA before the close of business on the date on which such new rates become effective. Banks are also required to display interest rates in a prominent location in the public hall of the bank.

With effect from 24 June 1995, 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.

With effect from 24 June 1995, banks are permitted to set the interest rates chargeable on loans and advances denominated in rufiyaa provided that the rate does not exceed 20 percent per annum.

With effect from 15 August 2001, banks are free to determine interest rates on rufiyaa deposits.

Minimum Reserve Requirement (MRR)

With effect from 1st June 2006, the Minimum Reserve Requirement (MRR) for commercial banks was reduced from 30 percent to 25 percent of the average rufiyaa and foreign currency demand and time liabilities, excluding inter bank liabilities and L/C margin deposits. Balances of the minimum reserve local currency deposits in excess of 15 percent bear an interest rate of 2.5 percent per annum. With effect from 30 December 2008, foreign currency deposits in excess of 15 percent of the minimum reserve bear an interest of 0.25 percent per annum. The reserve requirement for rufiyaa has to be met in the form of rufiyaa deposits, while for foreign currency, US dollar deposits are required.

Treasury Bills

With effect from 10th September 2006, MMA started issuing Treasury Bills (T-Bills) as issuing and paying agent for the government, whereby commercial banks operating in the Maldives and public enterprises may purchase such T-Bills. T-Bills are issued at standard maturities of 28 days and 91 days. From 1st January 2007 to 22nd July 2007 MMA has been issuing T-Bills at 5 percent and 5.25 percent for 28 days and 91 days respectively. However, as of 23 July 2007 MMA has been issuing T-Bills at 6 percent for 28 days and 6.25 percent for 91 days. The T-Bills are denominated in rufiyaa, sold at a discount to par and carry no coupon. With the introduction of the T-Bills, the Certificate of Deposits (CDs) has been temporary halted.

Repurchase Facility

With effect from 23rd November 2006 MMA introduced a Repurchase Facility (the Repo) to replace the "Lombard Facility" to provide short-term rufiyaa liquidity to commercial banks operating in the Maldives that are unable to access funds on the inter-bank market. Repos are available for terms of one to seven days and the Repo rate is set at a margin above the one month Treasury bill rate so as to provide sufficient incentive for banks to look first to the interbank market before seeking recourse to the MMA for funds.

Rediscount Facility

With effect from 23rd November 2006 MMA introduced Rediscount Facility to develop the secondary market in T-bills and such will provide a facility to repurchase Treasury bills from all eligible holders of T- bills. It is hoped that over time, market participants will establish an active presence in the T-bill market, thus reducing the need for this facility with MMA and eventually allowing for its removal. The discount rate is set at a margin above the T-bill rate so as to provide sufficient incentive for banks to look first to the interbank market before seeking recourse to MMA for funds.

Foreign Exchange

With effect from 1 July 1985 all commercial banks operating in the Maldives are required to adhere to the foreign currency buying and selling rates published by MMA.

With effect from 12 October 1985, all taxes, rents and related fines due from foreigners (excluding expatriates serving the Government who are paid in rufiyaa), tourist hotels and guesthouses, are required to be paid in foreign currencies accepted by the MMA.

With effect from 19 July 2000, MMA discontinued the foreign exchange purchases and sales services of the Post Office Exchange. Commercial banks were requested to provide foreign exchange purchases and sales service (including the purchase and / or collection of miscellaneous foreign currency notes and other instruments) and cater to the public demand in a cooperative and sustainable manner.

In pursuing a more market based system for foreign exchange transactions in the Maldives, effective from 2nd October 2005, the MMA discontinued publishing the exchange rates for foreign currencies except for the US Dollar. This was then replaced by a system in which all commercial banks were required to publish their own exchange rates except for the US dollar, effective from this date.

Prudential Requirements

With effect from 20 September 1986, all commercial banks operating in the Maldives 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.

With effect from 25 April 1996, banks are required to follow the MMA's classification criteria in accordance with a uniform credit risk grading system or loan asset classification matrix and charge a loan loss provision against all classified loans and advances as per regulations established by the MMA. With effect from 31 December 1996, banks are required to obtain MMA's approval on all payments and profit repatriation to their head offices overseas.

With effect from 3 December 1996, banks are required to use a standard format of financial statements outlined by the MMA, and to exhibit the annual financial statements in a conspicuous place within the place of business of the bank.

With effect from 23 March 1997, the Reserve Account and the Clearing Account of commercial banks with the MMA have been consolidated and the computation of the MRR has been changed to a weekly average basis.

With effect from 30 April 1997, banks are required to report their net foreign currency position to MMA on a daily basis.

With effect from 1 January 1998 all commercial banks are required to maintain a minimum level of paid-up capital that is not less than rufiyaa 30 million. Branches of foreign banks operating in Maldives will meet a similar minimum capital requirement through the assignment or allocation of equity capital into their Maldives operations from the home country office. Half of the minimum required capital has to be deposited with MMA as "capital deposit" bearing interest at 1.5 percent per annum. In addition, all commercial banks have to maintain, at all times, a capital adequacy ratio not less than 8 percent of risk-weighted assets.

With effect from 29 October 1997 banks are requested to submit a report on the classification of loans and advances on a quarterly basis.

With effect from January 1998, all banks are required to complete the form "Computation of Risk Weighted Assets" and submit it to the MMA on a quarterly basis.

With effect from 10 December 2000, banks are required to submit details of foreign currency sales on a daily (next day) basis.

With effect from 20 December 2000, banks are required to submit their credit position on a daily basis.

With effect from 1 January 2001, banks are required to seek MMA's approval to appoint new CEO/ GM for their banks.

Further, with effect from 17 June 2008, all banks are required to seek MMA's approval before the appointment of any expatriate staff for any post in the banks for their operations in Maldives.

With effect from 5 July 2001, banks are required to submit on a daily basis their total outstanding loans and advances and on a weekly basis, the breakdown loan portfolio by major economic groups. They are also required to submit their interest rates, commissions and fees on a weekly basis.

With effect from 7th March 2006 all 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 guidelines, 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.

Taxation

Pursuant to Law 9/85 of 27 June 1985, all commercial banks operating in the Maldives are required to pay a profit tax of 25 percent.

Annual Report
and Financial Statements
2008

Maldives Monetary Authority