



Maldives Pension Administration Office

ANNUAL REPORT 2012



The Board of Directors of the Maldives Pension Administration Office (MPAO) presents its Annual Report of the MPAO and Pension Fund together with the Independent Auditor's Report, Financial Statements and notes for the year ended 31st December 2012.



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Our Aspirations



Vision

Achieving excellence in pension services and financial stability for a secure future

Mission

Manage Pension fund in the best interest of the members through secure and diversified investments.

We endeavor to:

- Provide automated customer driven services
- Mainstream pension knowledge
- Facilitate innovation in pension products and services

Core Values

Professionalism: Integrity, confidentiality and objectivity

Communication: Precise, concise, shared information and clarity

Innovation: Simplicity, cutting edge technology and creativity

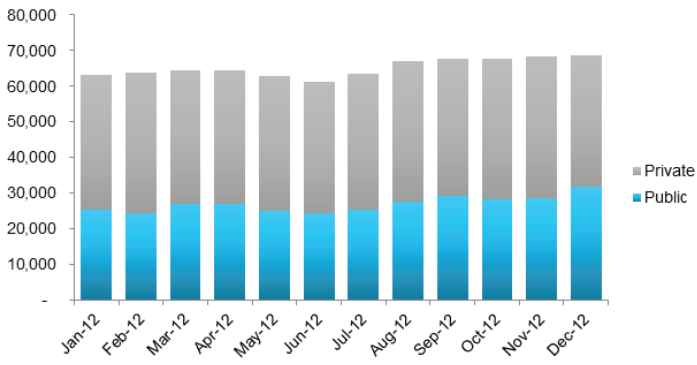
Work Ethics: Team work, respect and learning culture

Accountability: Responsibility, honesty, transparency and risk consciousness

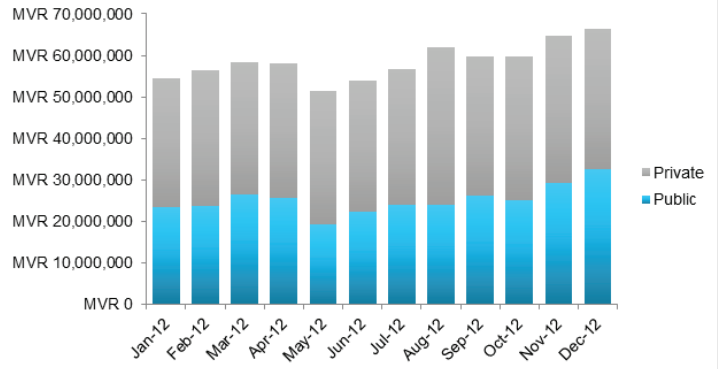
Financial Operational Highlights



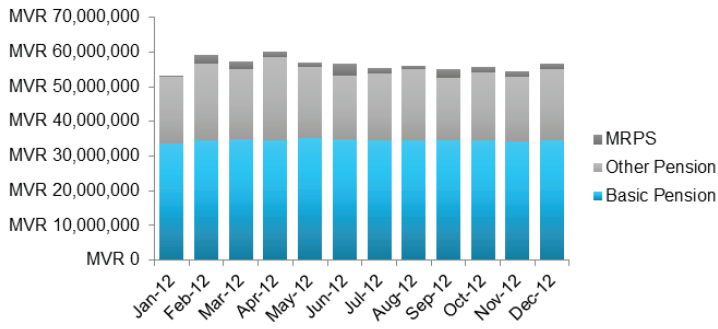
Employees of 2012



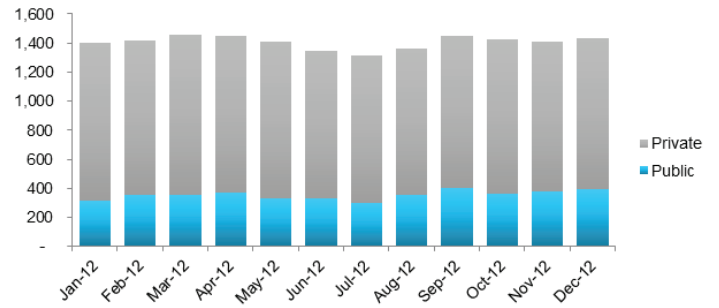
Contribution Collected in 2012



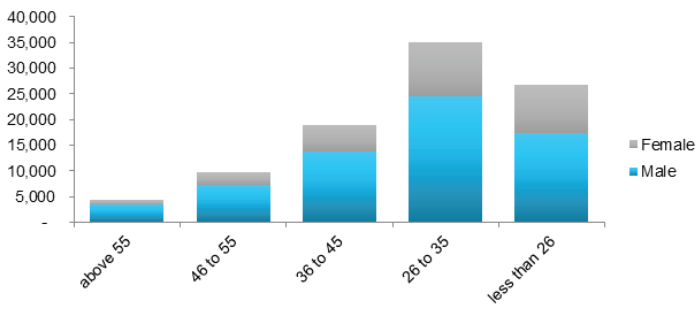
Payouts disbursed in 2012



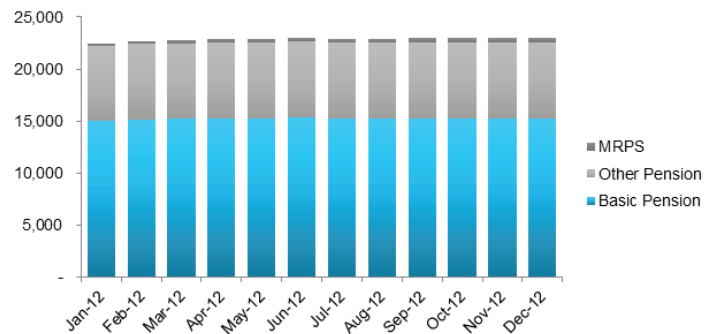
Employees of 2012



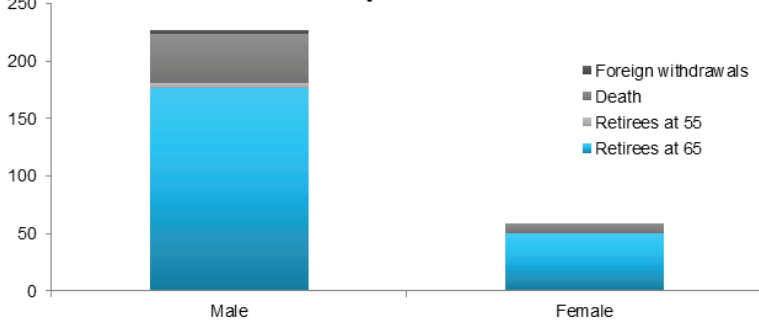
RSA Members



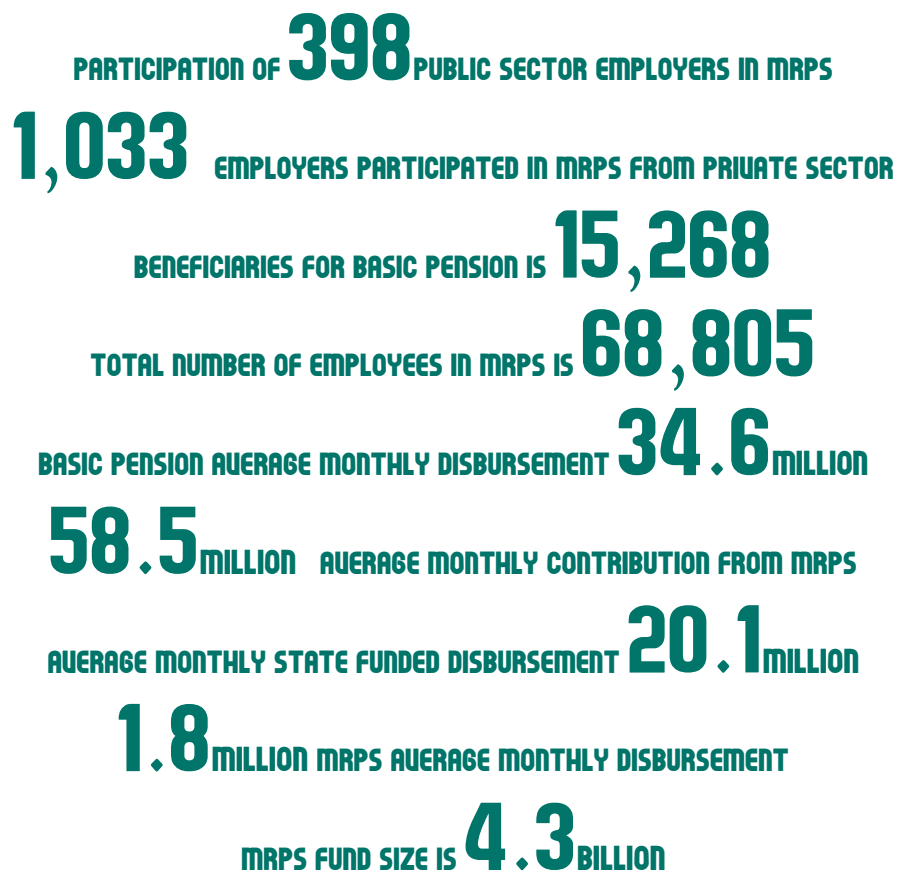
Beneficiaries of 2012



MRPS Payouts of 2012



All monetary values are in MVR



Annual Review



Chairman Statement



Iyaz Waheed | Chairman

On behalf of Board of Directors of Maldives Pension Administration Office (MPAO), it gives me great pleasure in presenting the Annual Report for the financial year ended 31st December 2012.

The fiscal year ended 31st December 2012 was another year that MPAO made significant progress in the implementation of the Maldives Pension Act (8/2009) and the relevant regulations.

For the past three years our prime focus has been to strengthen institutional capacity of MPAO by formulating policies and procedures to establish and introduce the pension schemes and gain public acceptance to the new system. With the implementation of Maldives Retirement Pension Scheme (MRPS) to both public and private sector completed by 2011, our priority has now shifted to enhancing public confidence in the established pension system.

Board of Directors was focused on supporting this strategy and operations of MPAO and is pleased with the clear progress in its strategic fronts. Particularly, the most notable achievements of 2012 include actions to maximize employer compliance to the Pension

Act and regulations and the development of credible and efficient institutional arrangements for internal controls.

Board believes that strengthening good governance practices is fundamental part of maintaining the public confidence in MPAO operations. At the core of our good governance practices is to remain transparent by disclosing pertinent information to the public in a timely manner. Equally as important is to establish a sound structure to determine, manage and monitor the risks faced by MPAO and the pension scheme. In this respect, systematic internal audits were carried out in 2012.

Finally, I would like to express my heartfelt appreciation for the generous support provided by Government Ministries and agencies, state institutions, financial institutions, employers and other stakeholders in this implementation. I also extend this thanks to the contributions provided by World Bank Pension Project. I look forward to our continued partnership in the years ahead. I also recognize that core of our success was the result of the hard work and dedication of MPAO staff team and the strong leadership provided by the Chief Executive Officer and the Senior Management. Their strong commitment to the development of MPAO is impressive and on behalf of the Board, I thank them. I wish to extend this thanks to the support given by my fellow Directors during the year ended 2012. I would also like to acknowledge and thank for the contributions of the Chairperson and Directors who completed their tenure in 2012. I also extend a warm welcome the new Directors that joined in 2012.

Looking ahead for 2013, as we pursue the vision and mission of MPAO, the Board is confident with the strategic direction chosen. The integration of the systems, processes and procedures has set out clear strategies across the business units. The Board recognizes the challenges to the new pension system in the current environment, but is confident, with the dedication and commitment of the excellent management team leading MPAO; we will be able to accomplish our goals.

2nd December 2013

Chief Executive Officer's Statement



Mohamed Hussain Maniku | Chief Executive Officer

The year ended 2012 marked another continued year of good developments for MPAO in an operating environment that was challenging in some areas. I am pleased to update on the progress MPAO have made on each of its strategic objectives.

With the implementation of Maldives Retirement Pension Scheme (MRPS) for both the public and private sector as stipulated in Pension Act by 2012, MPAO's focus changed from attending to logistical arrangements required to bring in employers and employees into MRPS to educating MRPS members and employers on their rights and obligations under the Pension Act. This was accomplished through targeted public awareness programmes that included door to door visit campaign covering private sector businesses and pension educational sessions conducted for identified niche groups. To capture a wider audience, TV, radio and printed media were also used. In these efforts, MRPS members were encouraged to view their Retirement Savings Account (RSA), which not only ensured employees accountability in fulfilling their obligations, but also made employers aware of their responsibility to collect and pay pension contributions in a timely manner.

At this crucial point in protecting the rights of the scheme members, necessary steps were undertaken to strengthen the enforcement function to ensure compliance to the Pension Act and relevant regulations. To that end, a decisive step was taking legal action against employers who had arrears of unpaid contributions by filing the first case in Civil Court. Despite the many challenges, planned

and ad-hoc inspections were also carried out during the year.

In the investment front, MPAO continued to work closely with financial industry stakeholders to develop the appetite for pension fund investment. In this regard, discussions were held to explore the opportunities to diversify the investment base. Additionally, as part of this effort, the flagship platform "Maldives Finance Forum", launched in 2012, provided much needed dialogue between the policy makers and financial industry players regarding the opportunities of the pension fund and its relevance to the financial, social and economic development of the country. The forum will continue to use its platform to further these efforts in 2013.

In the institutional development front, Asset Management function was reorganized by segregating from the existing model for better internal control within the Divisions and MPAO operations at large. In parallel to the restructuring of operations, in 2012, MPAO also devoted its resources to continue the development of the Pension Management software. The roll out of the software was delayed due to many challenges, but every effort was made to complete the system.

During the year 2012, much was achieved with the engagement and participation of our key stakeholders, particularly, Government agencies and Ministries, financial institutions and employers. On behalf of MPAO, I thank them for their continued support throughout the year. I also extend MPAO's gratitude to the immense contributions provided by the World Bank through the Pension and Social Protection Administration Project in the success of this operation. A special thanks also goes to the Chairman and Board members for their guidance and for entrusting me to continue to lead MPAO.

In closing, the year 2012 represented good progress in achievement of organizational strategic priorities, where we expanded the membership base, strengthened the internal controls, developed credible institutional arrangements and remained focused on providing the best returns of the fund to members. At the core of this success remains a dedicated and strong team and I thank their commitment and tremendous effort in accelerating MPAO forward. Looking ahead, in many ways we are beginning in our strategic fronts, there is much work that needs to be done. We believe together with our stakeholders, we will continue to work in the betterment of socio economic wellbeing of this country.

2nd December 2013

Directors Report



MPAO at a Glance

About MPAO



MPAO is an independent legal entity, established on 13th May 2009 pursuant to the Maldives Pension Act (8/2009).

MPAO's mandate, as set out in the Pension Act is as follows:

Administer Maldives Retirement Pension Scheme (MRPS),

- Pay state funded Old age Basic Pension (BP)
- Manage pension funds
- Establish standards, rules and guidelines related to the schemes
- Create public awareness and educate scheme participants

Profile of Pension Schemes

Under the Pension Act, MPAO administers two pension schemes, namely Maldives Retirement Pension Scheme (MRPS) and Old-age Basic Pension Scheme (BP). The primary objective of MRPS is to ensure individuals save during employment to cater for their livelihood in retirement and ultimately creating financial independence.

MRPS is a defined contributory pension scheme funded from contributions from both employees and employers. Presently, the Pension Act mandates a contribution of 14% of the pensionable wage, comprising of a minimum of 7% each from the employee and the employer. The Act however allows the employer to make the employee's 7% contribution (or part thereof) on its own. The Act further allows voluntary contributions from both employees and employers over and above the 7% floor rate. Contributions to the scheme stops at the pensionable age of 65 and pensioner may start to drawdown on the pension plan at this age.

On the other hand, BP is designed to provide financial security for individuals who had no access to employment based income prior to retirement age. BP scheme is a lifelong inflation indexed pension benefit, fully funded by the State Budget provided to all Maldivian Citizens who have reached the age of 65, subject to meeting the eligibility criteria of the scheme

In addition to this, under an MOU with Ministry of Finance and Treasury MPAO was established as the central agency for the disbursement of various state funded pensions effective from April 2011.

Operational Review

Stakeholder Relations Review

Public awareness and educational programs



During the year 2012, various public awareness programs were conducted both in Male' and Atolls for employers and employees to educate and increase their knowledge on MRPS. As part of the campaign for 2012, 40 information sessions were conducted in Male', where total 2,802 persons participated.

In addition MPAO also organized public lectures targeted to mass audience. Total 13 lectures were held in atolls where 616 persons participated.

Specific target group awareness sessions were also conducted in schools and colleges, where such 18 sessions were held at 15 schools in Male' and a total of 1,693 students and 111 teachers participated. Moreover, around 2,500 MPAO corporate calendar containing promotional messages on pension schemes was also distributed to employers.

Employer trainings



For support in MRPS participation and ensure compliance to Pension Act and regulations by employers, training sessions were conducted both in Male' and atolls. A total of 43 training sessions were conducted and 74 persons were trained. Training materials were also made available through MPAO website.

Workshop



As part of the efforts to educate the public on Pensions, MPAO organized the "Workshop on Employer Compliance with Pension Act and Regulation-an audit perspective" on 13th August 2012 at MPAO. The aim of this workshop was to create awareness among the accounting and auditing community on the issue of compliance with Maldives Pension Act and subsequent regulations. Around 20 accounting and auditing professionals participated in this workshop.

Door to Door Campaign



A "door-to-door campaign" was organized from 23rd June to 14th July 2012 to communicate MRPS information and encourage registrations in the pension scheme. The campaign targeted visits around 714 businesses and companies located at 15 blocks in various areas of Male' City. During the visits, non-compliant employers were identified and registrations of employers were facilitated.

Media



In 2012, general mass media tools such as print, radio and TV were used to educate and create awareness of the pension schemes. As part of long term awareness campaign one TV advertisement was aired to the public which contained promotional messages on pension and savings. For mass audience communications, MPAO's Public Relations staff appeared in 19 TV shows and participated in 20 radio programs which include 13 shows organized by MPAO. The pension themes selected for these shows centered on pension fund and investment related issues. In addition, MPAO also conducted 4 media briefings sessions during the year.

Printed promotional materials used include posters and banners. In this regard, posters with pension themes were displayed at prominent locations in Male' and at selected Island Councils. The themes focused to provide messages for employees to be proactive in seeking their pension rights under the Pension Act.

Events – Maldives Finance Forum 2012



MPAO launched the first of its kind "Maldives Finance Forum" in 2012 with a thematic focus on Fostering Long Term Economic and Social Development. The purpose of this annual event is to provide a nationally acclaimed platform to bring together industry experts, business leaders, institutional managers and professionals of diverse experience to deliberate and share views to bring to the fore financial market development issues and its relevance to the pension and social protection.

The event was held on 13th May 2012 at Bandos Island Resort and around 130 participants attended the event representing national and global experts from financial, political, academic and social sectors.

The forum had a lineup of distinguished speakers and panelists for interaction and information interchange among professionals.

Among the distinguished speakers and panelists were Dr. Fazeel Najeeb, MMA Governor, Don Yeo, Deputy Chief Executive

Officer, Policy & Corporate Development, Central Provident Fund Board, Singapore, Ahmed Mohamed, Hon. Minister of Economic Development, Maldives and Dr. Susan Thomas, Assistant Professor at the Indira Gandhi Institute for Development Research, Bombay.

Pension Photo Exhibition



In connection with the photo contest held in 2011, a photo exhibition was held at the National Art Gallery from 16th to 17th January 2012. The top 50 photos selected were displayed and more than 390 people visited the gallery. The selected photos were used in other promotional materials such as MPAO website, desk calendar and other printed materials.

Customer Care Service



In order to streamline the customer care service, in 2012, MPAO introduced a mechanism whereby customers can submit complaints and grievances via a uniform "Complaints Form". This enabled better categorization of complaints and grievances and to design appropriate responses. This service augmented the current complaint and grievance submission system via phone, walk-in and website.

Compliance and Enforcement

The Compliance and Enforcement business process addresses the need for taking measures to protect the rights of the employees and ensures employers are held accountable and aware of their responsibilities.

i. On-site Inspections

The important part of compliance is carrying out on-site inspections to validate that all employees are covered and employers pay contributions correctly. MPAO select employers for on-site inspections based on two approaches; namely planned and complaints based. Planned inspections include employers selected based on previous years compliant level. On the other hand, complaint based inspection consists of inspections carried out in response to complaints received to MPAO. The summary details of the inspection visits for the year are as follows.

	Public	Private	Total
Planned Inspection	18	23	41
Complaint based inspection	0	4	4
TOTAL:			45

ii. Legal action

As contributory pension scheme was new to Maldives, initially employers were given the time and flexibility in regularizing pension contributions as per Pension Act and Regulations. However, during 2012 a procedure for taking action against non-compliant employers were formulated and implemented. In conformity with this procedure, by the end of the year 2012, one case was filed with the Civil Court against employer that failed to pay outstanding pension contributions.

Legislative and Regulatory Developments

		First introduced	Last amended
Act	Maldives Pension Act	13 May 2009	24 April 2011
Regulations	Basic Pension Regulation	09 February 2010	
	Regulation on Maldives Retirement Pension Scheme	14 February 2010	
	Benefits Regulation	02 August 2010	
	Regulation on foreign employees	13 February 2012	
	Regulation on Pensionable Wage	1 May 2012	
	Regulation on Voluntary Participation	25 July 2011	
Procedures	Procedure for taking action against non-compliant employer was published in both Dhivehi and English	25 September 2012	

Office Administration

MPAO's management is responsible for daily operations and administration functions under the leadership of Chief Executive Officer (CEO). CEO is fully accountable to the Board and ensures that the policies and strategies adopted by the Board are implemented.

At the onset of 2012, MPAO's organizational structure was composed of 3 divisions. The divisions included Stakeholder Relations Division, Operations Division and Finance and Administration Division. However, effective from 15th April 2012, with widening scope of the Finance and Administration Division and for segregation of duties, the combined functions were split into 2 divisions, namely Corporate Affairs and Asset Management Divisions. Hence, the reorganized structure is supported by 4 Divisions and 11 Departments. Apart from this, World Bank funded Pension and Social Protection Administration Project's Administration staff worked in the MPAO's office premises.

Corporate Affairs Division

With this reorganization, the administrative functions reside with the Corporate Affairs Division that includes administration of MPAO budget, procurement management, facility management, human resource management, pension Benefits disbursement, and legal affairs and board secretariat.

Asset Management Division

The mandate of the Asset Management Division includes managing all investment related activities of Pension fund including daily fund valuation and unit price determination. Additionally, the Division also ensures proper record keeping, reporting to regulators on MRPS and liaise with industry stakeholders in relation to investment fund management.

Stakeholder Relations Division

The Stakeholder Relations Division is comprised of Media and Public Relations Department and Clients Relations Department. Media and Public relations Department administers public awareness programmes and is responsible for educating the scheme participants on pension schemes and communicating with the public. Client Relations Department facilitates service delivery to scheme participants, other clients and customers.

Operations Division

The Operations Division consists of Collection and Payout Department (CPD), Operational Compliance Department (OCD) and IT Department. CPD is responsible for day to day pension scheme administration matters that include registration of employers, enrollment of employees and collection of pension contributions from employers on behalf of employees and ensure that pension benefits are paid at retirement. OCD ensures employers comply with the Pension Act by carrying out planned and ad-hoc inspections and taking appropriate action against non-compliant employers. IT department is responsible for the aspects of IT hardware and software, security, data processing and storage.

Pension and Social Protection Administration Project

The Pension and Social Protection Administration Project (PSPAP) is funded by the World Bank. The objective of PSPAP is to support the establishment of a new pension authority and strengthening capacity in order to effectively implement a new pension system and to provide a platform for additional social protection programs. The Project was approved on May 12, 2009 and became effective on October 22, 2009.

The components of the Project are policy and capacity building in pensions and creating awareness, and developing a framework and supporting disability, health insurance, financing part of the government recognition bond of pension accrued rights pay-outs and strengthening Public Accounting System

Under the pension project in addition to local staff, it also engages international consultants from time to time. In 2012, Mr. Peter Ratcliffe (Business Process Expert), Mr. Jeremy Gadbury (Investment Expert) and Mr. Kelvin Prisk (Annuity expert) worked as consultants for the project.

Training and Development



MPAO continued to invest in training and development of staff, to ensure that staff has the requisite skills and knowledge to carry out their duties effectively. In this respect, total 13 staffs participated in local training programmes and 08 staffs participated in overseas programmes. The participated programmes were in the areas of IT, Asset management, financial and other office environment skills.

Financing of Maldives Pension Administration Office

MPAO operations are financed by administration fee levied on MRPS and Government budget appropriations. The total income from MRPS administration fee is MVR 12,392,557, while a total of MVR 14,012,421 were received as government appropriations resulting in an aggregate income of MVR 26,404,978. The total expenditure for 2012 stood at MVR 13,752,218. Over 80% of expenditure was incurred towards salaries and custodian fees.

Investment Review

The MRPS consists of four portfolios; the Investment Portfolio, the Sharia Portfolio, the Conservative Portfolio, and the Recognition Bond Portfolio. Recognition Bonds are issued by the Government of Maldives and accrues interest at a rate agreed between MPAO and Ministry of Finance and Treasury.

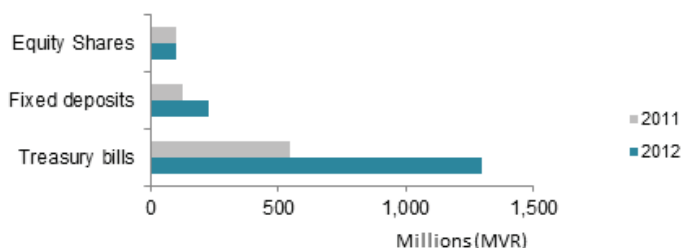
During the year 2012 the earnings of the other three portfolios are as follows;

	Portfolio Returns
Investment Portfolio	7%
Sharia Portfolio	0.27%
Conservative Portfolio	5%

Portfolio returns are calculated based on the fund prices

Asset Classes

Pension fund asset classes include Treasury Bills, Fixed Deposits and investments in Equities. In 2012, the investments in Treasury Bills accounts for MVR 1.2 billion, which is an increase of 138% from last year. The Fixed Deposits stood at MVR 226 million, representing a 83% increase from last year. The Equity investments consist of Dhiraagu shares amounting to MVR.100 million.



Composition of Investments 2012 and 2011

The domestic inflation continued to be high during first quarter of 2012 and started to decline from May onwards. The year-end inflation rate was 5.4%¹ signaling a normalization of inflation rates with the dissipation of 2011 Rufiyaa devaluation effect

MRPS generated MVR 713 million as contribution in 2012, which is an increase of 18% from previous year.

The investment earnings stood at MVR250 million, (comprising MVR 10 million as dividend income and MVR 240 million as income from T-bills and Fixed Deposits) in 2012 compared to MVR115m in 2011. The net assets grew to MVR4 billion in 2012

¹ Source: Maldives Monetary Authority (MMA)

Objectives and Strategies

The objective of MRPS is to maximize the value of pension contributions and provide reasonable pension benefits commensurate with the cost of living. To this end, MPAO, as the asset manager of the MRPS, follows an investment strategy which is prudent and sustainable by carefully investing in range of investment products.

Portfolio	Objectives
MRPS Investment Portfolio	Generally grow in line with the Maldivian Economy and at higher rate than domestic inflations
MRPS Sharia Portfolio	To achieve positive returns through investing in Sharia Compliant assets
MRPS Conservative Portfolio	To preserve capital and achieve investment returns comparable to those available from bank deposits

Specific objectives of MRPS portfolios

During the year 2012, shares were added to the investment portfolio as a new asset class to the existing portfolio mix of T-bills and Fixed Deposits. Deliberations were made with prospective issuer of Bonds and the Board is hopeful for the introduction of this new asset class next year.

Market Review

Globally financial markets remained volatile in 2012 as a result of slowing growth in most emerging markets and European Sovereign Debt Crisis. The volatility moderated starting from the next half of the year with better performance in US and China as well as due to the optimism towards the expected responses from European Central Bank.

The Maldivian economic growth slowed down during the year to 3.4% (in real terms) during 2012, mostly due to decline in tourist arrivals from European markets. However, the increase in tourist arrivals from China contributed to offset the decline in European markets. The public finances continued to worsen and the estimated fiscal deficit for 2012 was 13% of GDP².

The Fisheries sector, construction and distribution sector performed well during the year 2012, with Fisheries sector achieving the higher growth due to improvements in fish catch, increase in exports and favorable international tuna prices.

Overall lending in the banking sector declined although the performance of banks improved during the year 2012. The non-performing loan ratio, a major debacle in banking sector performance, remained at 21% in 2012³.

^{2,3} Source: Maldives Monetary Authority (MMA)

The Equity Market

Taking into consideration the macroeconomic challenges, MPAO's continued the prudent investment approach with the prospect of venturing into equities and bonds. The Board is aware of the challenges posed by the equity market at this point and looks forward to any opportunity for diversification into equity market, thereby increasing the chances of better real returns.

During the year two newly listed companies commenced trading at Maldives Stock Exchange. The index fell to 149.7 at year end from 157.4 at the beginning of the year. The index rose starting from early July and sustained the growth until early September. Since then, the stock market failed to keep the momentum. However, trading improved significantly from 14,035 to 215,829 shares in 2012, 98% of the growth attributable to the new shares especially that of Amana Takaful Plc.

Listed company performance improved in 2012. MTCC's earnings per share in 2012 increased to MVR 96 per share while it stood at MVR -33 per share during the year 2011 and paid out MVR15 per share as dividends.

Dhiraagu also maintained its earning, however, the earning per share declined to MVR8.35 per share in 2012 compared to equivalent figure of MVR10.19 in 2011. The dividend paid out was MVR9.05 per share in 2012. Number of shares traded account of 1195 and the share prices recorded a low of MVR 79 and high of MVR 93

STO improved earnings and earnings per share stood at MVR140 in 2012 and dividend per share stood at MVR75, registering a growth of 8% and 4%, respectively. The number of shares traded was 331 and prices recorded a high of MVR450 and low of MVR350.

Year 2012 was another exceptional year for the Bank of Maldives, in terms of financial performance and achievements. From a net loss position in 2011, BML's earning per share stood at MVR69.58 in 2012 and achieved operating profit growth of 52.7%. The stock prices remained very volatile and recorded a high of MVR 225 and low of MVR 70 and there were 276 shares traded during the year.

MTDC traded 3011 shares when the share price remained constant at MVR100 throughout the year. MTDC made a loss as per the quarterly reports during the year 2012.

The Money Market

The yield in money market increased during the year, especially due to high yields from the T-bills. MPAO increased its investments in T-bills and has been the non-bank majority investor in T-bills. The outstanding T-bills value at year end was MVR 6.4 billion. The MPAO's investments in T-bills account for MVR1.3 billion, registering an increase of MVR 700 million from last year. MPAO is cognizant of the exposure and continuously monitors the macroeconomic indicators and the public finances in order to take preemptive actions that may be necessary to mitigate any outcome that may negatively affect the members. Yield of T-bills for all maturities were above 7%, with that of 365 days having a yield of 7.86%. MMA's policy rate remained at 7%. The lending rate for private sector stood at 10.51% in 2012.

The local currency fixed deposit rates (2-3 years) remained at 3.8% in 2012 compared to 4.10% the previous year. MPAO increased its investments in fixed deposits to MVR102 million. MPAO was able to earn 4.25% from its fixed deposit investments.

The Board continued to engage with the prospective good quality SOEs for emergence of equity and debt instruments so that the current concentration on the money market can be prudently diversified away into equities and bonds, which historically have generated above inflation returns.

Risk Management

With the establishment of the institution and expansion of the membership base of MRPS, there are number of challenges and risks posed in carrying out the operation. The MPAO Board places importance in the assessment of risks facing the institution and MRPS. Particularly, it focuses on the value of mainstreaming risk management and internal control systems within its business process.

As part of the risk management initiative, the board expanded the terms of reference of the Board's audit committee to oversee risk management processes and controls.

Risks are also identified in the course of the statutory audits, where the external audits carried out reviews the effectiveness of the controls put in place in financial and operational areas.

MPAO also carried out special internal audits by engaging independent internal auditors to get an independent review of MPAO and the internal control processes.

The audit findings in terms of internal controls and risk areas are reported to Audit and risk Management Committee, where the recommendations are followed by management to strengthen the business processes.

Moreover, annual inspections carried out by the supervisory authority (CMDA) use a risk based approach and assist MPAO in overall risk management and strengthening internal controls and procedures.

Corporate Governance

Board of Director's and Governance

The Board of Directors

Maldives Pension Act (8/2009) provides that the MPAO is an independent institution and is overseen by Board of Directors. The Board meets regularly throughout the year to consider developments in terms of MPAO strategy and long term objectives and to review operational and business performance. In particular, Board deals with matters reserved to the Board for decision-making, such as strategic planning, policy making, investment approval and budget expenditure.

Governance

Approach to governance emanates from MPAO's core values. Core values express and define the way MPAO shall conduct its business. They show the culture MPAO strives to foster within the institution. In addition, the processes and structures adopted by the Board define the division of responsibilities and allow the establishment of mechanisms for accountability.


In this regard, an important focus of MPAO work is to remain transparent within the restrictions of the Pension Act, by giving high priority to publicize the information as per MPAO's statutory requirements. This enables the scheme participants and other stakeholders to make a fair assessment of MPAO performance. MPAO strictly adheres to the accounting standards and other procedures provided under the regulatory bodies.

In the role of managing pension fund assets in accordance with the Pensions Act, investments are governed by the Statement of Investment Principles which defines investments that are appropriate to meet the objectives of scheme. The governance of the fund is further strengthened by third party supervision of Capital Market Development Authority (CMDA) and through the oversight responsibilities of the custodian.

In addition to this, the Board has in place rules of procedures to govern the activities of the Board.

Board composition

In accordance to the Pension Act, the current board structure comprises of eight members, representing both Public and Private Sector. The composition of the Board is as follows.

	Board member	Term
	Iyaz Waheed (Chairperson) Group Manager Finance & Human Resources Universal Enterprises	20th August 2009 to 19th August 2011 Reappointed on 20th August 2011 for 3 years term Appointed as Chairperson on 20th August 2012
	Athifa Ali (Chairperson) Head of International, Regional and Regulatory Dhiraagu	20th August 2009 to 19th August 2012
	Mariyam Visam Director General Capital Market Development Authority	20th August 2009 – 19th August 2012 Reappointed 20th August 2012 for 3 years term
	Mujuthaba Jaleel Head of Internal Audit Department Maldives Ports Limited	Appointed on 20th August 2011 for 3 years term
	Mohamed Inaz Public Accounts Executive Ministry of Finance and Treasury	Appointed on 3rd January 2012
	Fareeha Shareef Managing Director FJS Consulting Pvt. Ltd	20th August 2009 to 19th August 2012 Reappointed 20th August 2012 for 3 years term
	Fathmath Sahudha Assistant Director National Social Protection Agency (NSPA)	Appointed on 26th January 2012
	Mohamed Fizan Partner Shah, Hussain & Co. Barristers and Attorneys	Appointed on 20th August 2012 for 3 years term
	Ibrahim Ahmed Nasir Consultant	Appointed on 20th August 2012 for 3 years term
	Dheena Moosa Director Sealink Pvt.Ltd	20th August 2009 – 19th August 2012

Board Appointments

The Board is appointed by the President. The Chairperson and the four private sector representatives are selected by the Selection Committee formed jointly by the Civil Service Commission, Ministry of Finance and Treasury, and the Ministry responsible for social security which currently is the Ministry of Health and Family. All candidates for Board membership are scrutinized by the Capital Market Development Authority (CMDA) for regulatory compliance before the appointment among selected candidates. The term of each appointed Member is for three years. Members of the Board may be reappointed.

Board and Board committee meetings attendance

During the year 2012, the Board met 14 times, The Board meetings' attendance is as follows:

	Meetings eligible to attend	Meetings attended
Athifa Ali	9	8
Fareeha Shareef	14	11
Mariyam Visam	14	14
Dheena Moosa	9	7
Iyaz Waheed	14	14
Mariyam Shafeeg	7	2
Saamee Ageel	3	0
Mujthaba Jaleel	14	12
Mohamed Inaz	11	10
Fathmath Sahudha	7	5
Mohamed Fizan	5	5
Ibrahim Ahmed Nasir	5	5

Board Committees

The Board delegates specific responsibilities to Board committees, notably, the Audit and Risk Management Committee and the Investment Committee. Detailed reports of both the committees are provided in the annual report.

Board Succession

The year 2012 marked major changes in the Board membership. MPAO Board's first Chairperson Ms. Athifa Ali left in August after serving for 3 years with the completion of her tenure. Additionally, Board member Ms. Dheena Moosa also left in 2012 with end of her term. On behalf of all the current and former Board Directors we would like to thank Ms. Athifa for her leadership as the first Chairperson of MPAO Board and Ms. Dheena for her contributions to MPAO. We also welcome the new Board Chairperson and the four new Directors, 2 public and 2 private, who joined the Board in 2012.

Initiatives for Board effectiveness

In their oversight role, the Board is composed of diverse skillsets, experience and qualification to implement the functions of the Board. In addition to this, to assist in performance of their governance duties, in 2012, MPAO initiated the "new board member induction program" for new Board directors. The program includes sessions on governance concepts and procedures, director's roles and responsibilities, legal and compliance issues and regulators roles. It also covers sessions on the details of the Board committees directors shall join and contribute. In addition, Board's learning was also ensured through external exposure conferences and seminars and other necessary trainings. In 2012, CMDA as regulator of MPAO also carried out a Board review to assess the performance of Board.

Investment committee report

Introduction

Pursuant to section 9 of Maldives Pension Act, the Investment Committee is responsible for the formulation of the Statement of Investment Principles. In addition, the Investment Committee ensures that the MRPS assets are invested prudently and in the best interest of MRPS members, with due regard to the returns, risks and liquidity of the investments.

Committee composition

The Investment Committee comprise of three members, with a permanent membership of the Board member representing Ministry of Finance and Treasury. The other members are Board members representing the Private Sector. The Chair of the committee is appointed on bi-annual basis. During the year, Fareeha Shareef and lyaz Waheed Chaired the Committee.

Responsibilities

The Investment Committee formulates the Statement of Investment Principles (SOIP), which includes the investment objectives, investment strategy and the governance process with regards to the investment regime of pension assets. The policies determined by the Investment Committee are executed after endorsement of the Board of MPAO.

Further, the Investment Committee is also responsible for the provision of advice to the board on the appointment of asset managers, investment advisors and custodians. The Investment Committee also makes recommendations to the Board on investments.

The SOIP defines, in broad terms, the manner in which the requirements of the Pension Act shall be fulfilled, instruments in which the Pension Assets may be invested, the performance benchmarks that the MPAO board expects to achieve from the investment of the Pension Assets, the major risks involved in investing the pension assets and strategies to manage these risks, the investment methods and expected yields, and the procedures to be followed in relation to decisions on investments.

Committee Meetings

The Investment Committee held 6 meetings in 2012 fiscal year.

	Meetings eligible to attend	Meetings attended
Fareeha Shareef	6	6
lyaz Waheed*	2	2
Mohamed Inaz	5	5
Mohamed Fizan	4	4

*Appointed as Board Chairman on 20th August 2012

Committee Activity Review

During the year important discussions were held and deliberated by the investment committee on various topics of interest having implications on current and future investment regimes of the pension assets.

Investment Committee is grateful for the contributions made by the Mr. Jeremy Gadbury, Investment Expert.

Policy decisions

A baseline research paper on the development of an annuity product was prepared with the help of annuity expert, Mr. Kelvin Prisk. The paper explored the legal and market structure and compared annuities and current phased-withdrawal of pension benefits in terms of cost and feasibility. The recommendation was that under the present legal and market structure annuities would not result in better outcomes for the pensioners and that current phased-withdrawal would be more appropriate. Taking into consideration the expert's view, the Investment Committee made a decision to recommend to the Board to revisit the topic in three years' time or when circumstances change to invalidate the basic premise of the research.

The Investment Committee also formulated the valuation policy of investments and sought feedback from the external auditors, and the Custodian on this matter. Another matter of discussion was the appropriateness of making investments in the Custodian Bank.

Furthermore, the investment committee deliberated on the practice of bidding for T-bills then in place, taking into consideration the rapid acceleration of the T-bill interest rates. Two alternative approaches were presented; historical highest rate (the present practice), and average of spot and forward rate. Because of the uncertainties surrounding the forward rate it was decided that the practice then in place is to remain and conduct additional research on the issue in question.

Long term investment decision

Discussions were held on the long-term investment strategy and a decision was made to actively monitor the macro-economic variables and produce research-based technical papers on this topic. In order to strengthen the compliance and improve the integrity of the investment process, a decision was made to compile and update the consolidated investment rules on a timely fashion, and review the CFA code for adoption in 2013.

There was also revision to the asset allocation guidelines, which included the change of minimum interest rate on bonds and exposure limits. Further, revisions were made to certain clauses of the Custodian agreement to accommodate certain practical issue in the course of business.

Revision of Administration fee

The Investment Committee revisited the administration fee and made a decision to recommend to the Board to levy the management fee on all active portfolios and maintain the fee at 1% per annum, calculated on the accumulated member balance on a monthly basis and review the rate on an annual basis. This decision was taken considering the costs of administering the MRPS such as the custodian fees, audit fees and any other expenses that may arise in the future relating to securities settlement.

Other investment decisions

In terms of due diligence, the Investment Committee was briefed on the change of ownership of Dhiraagu and possible implications on the value of the company and consequently the impact on share price. MRPS has MVR 100,000,000 invested in Dhiraagu equity, the only equity investment of MRPS by 2012. In addition, the deliberations were made on the HDFC Bond Issue.

Audit and risk management committee report

Introduction

In 14th July 2010 MPAO Board established Audit Committee. Although it was not a statutory requirement, the Board established Audit Committee primarily for the purpose of assisting the Board to oversee financial reporting and internal controls of MPAO.

On 30th January 2012, the responsibilities of the committee were broadened to include risk management function under its mandate and as such the committee's name was changed as "Audit and Risk Management Committee (ARMC)". During the year 2012, the executive management of MPAO reported to ARMC on a regular basis on issues related to audit and matters related to risk, accounting and financial reporting.

Committee composition

ARMC is comprised of four Board members; one of them is a financial expert in conformity with best practices. During the committee meeting 15/2012 held on 17th October 2012, MPAO Board member, Mr. Mujuthaba Jaleel was appointed as the Chairperson of the committee. By the end of the year 2012, members of the committee were Mujuthaba Jaleel (Chairperson), Ibrahim Ahmed Nasir (member), Mohamed Inaz (member) and Fathmath Sahudha (member).

Responsibilities

ARMC is entrusted with the responsibility of overseeing functions in relation to external audit process both the conduct and outcome. ARMC is also responsible to report to the Board in relation to approving the terms of engagement and scope of work of external auditor. Additionally, ARMC is required to oversee internal audit process, systems of internal control and risk management to ensure integrity of financial reporting.

Committee Meetings

ARMC held 5 meetings in 2012 fiscal year.

	Meetings eligible to attend	Meetings attended
Fareeha Shareef*	3	3
Dheena Moosa	2	2
Mujuthaba Jaleel	5	5
Mohamed Inaz**	2	2
Fathmath Sahudha	3	1
Ibrahim Ahmed Nasir	2	2

*Discontinued as the representative member of investment committee in 2012

**Appointed as the new member representing investment committee in place of Fareeha Shareef

2012 Committee Activity Review

During the year 2012, with regard to internal audit, ARMC reviewed Internal Audit Charter and recommended for adoption by the Board. ARMC also reviewed the process followed to engage an independent internal auditor under the new Internal Audit Charter and recommended an Internal Auditor to the Board to undertake internal audit of Maldives Retirement Pension scheme and MPAO.

With regard to external audit, ARMC reviewed the audit scope and the process followed to engage an external auditor and recommended an external auditor for appointment by the Board. During the year 2012, ARMC also met with the external auditor to discuss issues pertaining to draft audited financial accounts for the year ended 31st December 2011.

ARMC also received updates on internal control responsibilities. Additionally, ARMC reviewed the draft 2011 Annual Report and recommended it for Board's approval. ARMC also discussed matters in relation to risk management plan and recommended implementation of the risk management function within MPAO. Other review activities carried out by ARMC include reviewing 2012 expenditure and operational performance of MPAO, and reviewing MPAO's forecasted budget for 2013 prior to being submitted to MPAO Board.

Outlook

Going forward, 2013 will be a defining year for MPAO. The planned initiatives for development of the institution will start to take shape through a structured 5 year strategic plan. Planned actions to undertake are as follows.

- Seek new investment opportunities to add new asset classes to our investment portfolio for better investment return and as a measure to mitigate risk.
- Encourage policy makers to develop a strong foundation for conducive investment environment
- Undertake programs to harmonize MPAO's systems and processes across the organization
- Provide web based real time RSA information access for MRPS members
- Make arrangements with key stakeholders to build a trusting and mutually beneficial relationship
- To expand the membership base of MRPS, discussions will be initiated with the Government to put in place necessary policies for the participation of the self-employed in the scheme.
- Implement risk management strategies
- Implement new frameworks to strengthen the governance of the scheme
- Work jointly with key stakeholders to mainstream pension concepts and financial literacy in general

Financial Reports



**MALDIVES PENSION ADMINISTRATION OFFICE
(FORMED UNDER THE MALDIVES PENSION ACT NO. 8 OF 2009)**

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31ST DECEMBER 2012**

**MALDIVES PENSION ADMINISTRATION OFFICE
(FORMED UNDER THE MALDIVES PENSION ACT NO 8 OF 2009)**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31ST DECEMBER 2012



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Independent Auditors' Report To the Board of Directors of Maldives Pension Administration Office

We have audited the accompanying financial statements of Maldives Pension Administration Office ("MPAO"), which comprises the statement of financial position as at 31st December 2012, and the statement of income and expenditure, changes in accumulated funds and cash flows for the period then ended and related notes exhibited in pages 3 to 16.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 our 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, we consider internal control relevant to MPAO'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 MPAO's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of MPAO as at 31st December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Chartered Accountants

2nd December 2013
Male'

**MALDIVES PENSION ADMINISTRATION OFFICE
(FORMED UNDER THE MALDIVES PENSION ACT NO. 8 OF 2009)
STATEMENT OF INCOME AND EXPENDITURE**

FOR THE YEAR ENDED 31ST DECEMBER

	Note	2012 MRf	2011 MRf
Income			
Grants Received	6	14,012,421	28,581,864
Management Fee	7	12,392,557	4,041,100
Total Income		<u>26,404,978</u>	<u>32,622,964</u>
Expenditure			
Salaries and allowances	8	7,610,457	6,482,491
Stationery and Office Requisites		137,273	386,706
Other Administrative Supplies		63,907	1,246,925
Communication		495,901	528,384
Publication and Announcement		127,965	1,027,866
Carriage and Conveyance		61,559	117,639
Travel, Training and Seminars		894,514	645,585
Professional Services Fees		95,500	92,745
Maintenance and Repair		47,318	428,450
Bank Charges and Custodian Fees	9	3,372,978	549,935
Depreciation	10	844,846	340,159
Total Expenditure		<u>13,752,218</u>	<u>11,846,885</u>
Net Income over expenses for the year		<u>12,652,760</u>	<u>20,776,079</u>

The financial statements are to be read in conjunction with the related notes, which form an integral part of the financial statements of the MPAO set out on pages 7 to 16. The Report of the Independent Auditors is given in page 1.

**MALDIVES PENSION ADMINISTRATION OFFICE
(FORMED UNDER THE MALDIVES PENSION ACT NO. 8 OF 2009)
STATEMENT OF FINANCIAL POSITION**

AS AT 31ST DECEMBER

	Note	2012 MRf	2011 MRf
ASSETS			
Non-Current Assets			
Property, Plant and Equipment	10	2,276,000	2,514,693
Intangible Assets	11	5,828,760	5,088,600
Total Non-Current Assets		<u>8,104,760</u>	<u>7,603,293</u>
Current Assets			
Prepayment and Other Receivables	12	16,964,605	4,581,263
Cash and Cash Equivalents	13	4,970,484	10,772,967
Total Current Assets		<u>21,935,089</u>	<u>15,354,230</u>
Total Assets		<u><u>30,039,849</u></u>	<u><u>22,957,523</u></u>
ACCUMULATED FUNDS AND LIABILITIES			
Accumulated Funds			
Accumulated Funds		<u>26,607,437</u>	<u>22,120,122</u>
Total Accumulated Funds Surplus		<u>26,607,437</u>	<u>22,120,122</u>
Current Liabilities			
Accrued Expenses and Other Payables	13	<u>3,432,412</u>	<u>837,401</u>
Total Current Liabilities		<u>3,432,412</u>	<u>837,401</u>
Total Accumulated Funds and Liabilities		<u><u>30,039,849</u></u>	<u><u>22,957,523</u></u>

The financial statements are to be read in conjunction with the related notes, which form an integral part of the financial statements of the MPAO set out on pages 7 to 16. The Report of the Independent Auditors is given in page 1.

These financial statements were approved by the board of directors and signed on its behalf by;

Name of the Director

..... IYAZ WAHEED - Chairperson

..... MUJUTHABA JALEEL - Chairperson Audit
Committee

..... MOHAMED HUSSAIN MANIKU - Chief Executive
Officer .

Signature

2nd December 2013

**MALDIVES PENSION ADMINISTRATION OFFICE
(FORMED UNDER THE MALDIVES PENSION ACT NO. 8 OF 2009)
STATEMENT OF CHANGES IN ACCUMILATED FUNDS**

FOR THE PERIOD ENDED 31ST DECEMBER 2012

	<u>Accumulated Funds MRf</u>
Balance as at 1st January 2011	11,530,269
Net Income over Expenditure for the year	20,776,079
Refund the Previous year excess funds	(10,186,226)
Balance as at 31st December 2011	<u>22,120,122</u>
Balance as at 1st January 2012	22,120,122
Net Income over Expenditure for the year	12,652,760
Refund the Previous year excess funds	(8,165,445)
Balance as at 31st December 2012	<u>26,607,437</u>

Figures in bracket indicate deductions.

The financial statements are to be read in conjunction with the related notes, which form an integral part of the financial statements of the MPAO set out on pages 7 to 16. The Report of the Independent Auditors is given in page 1.

**MALDIVES PENSION ADMINISTRATION OFFICE
(FORMED UNDER THE MALDIVES PENSION ACT NO. 8 OF 2009)
STATEMENT OF CASH FLOWS**

FOR THE YEAR ENDED 31ST DECEMBER

	Note	2012 MRf	2011 MRf
Cash Flows From Operating Activities			
Income Over Expenditure for the year		12,652,760	20,776,079
<i>Adjustments for</i>			
Depreciation for the Year	10	844,846	340,159
Operating Surplus before Work in Capital Changes		<u>13,497,606</u>	<u>21,116,238</u>
<i>Working capital change</i>			
Change in Prepayment and Other Receivables		(12,383,342)	(4,070,536)
Changes in Payables		<u>2,595,011</u>	<u>(96,261)</u>
Net Cash from Operating Activities		<u>3,709,275</u>	<u>16,949,441</u>
Cash Flows from Investment Activities			
Acquisition of Property, Plant and Equipment	10	(606,153)	(1,966,511)
Acquisition of Intangible Assets	11	<u>(740,160)</u>	<u>(5,088,600)</u>
Net Cash Used in Investment Activities		<u>(1,346,313)</u>	<u>(7,055,111)</u>
Cash Flows from Financing Activities			
Refund the Previous year excess funds		<u>(8,165,445)</u>	<u>(10,186,226)</u>
Net Cash Used in Financing Activities		<u>(8,165,445)</u>	<u>(10,186,226)</u>
Net decrease in Cash and Cash Equivalents		(5,802,483)	(291,896)
Cash and Cash Equivalents at Beginning of the Year		<u>10,772,967</u>	<u>11,064,863</u>
Cash and Cash Equivalents at End of the Year	13	<u>4,970,484</u>	<u>10,772,967</u>

Figures in bracket indicate deductions.

The financial statements are to be read in conjunction with the related notes, which form an integral part of the financial statements of the MPAO set out on pages 7 to 16. The Report of the Independent Auditors is given in page 1.

**MALDIVES PENSION ADMINISTRATION OFFICE
(FORMED UNDER THE MALDIVES PENSION ACT NO. 8 OF 2009)
NOTES TO THE FINANCIAL STATEMENTS**

1. REPORTING ENTITY

Maldives Pension Administration Office (“MPAO”) was formed on 13th May 2009 under Maldives Pension Act No 8/2009. The registered office is located at Ameene Magu, Republic of Maldives. MPAO is an independent legal entity with perpetual succession and with a separate seal under the Act.

The principal activities of MPAO are;

- Administering the Pension Schemes established under the Act.
- Providing the Maldives Retirement Pension.
- Formulating regulations, standards and guidelines to operate the schemes established under the Act.
- Paying Maldives Old-Age Basic Pensions established under the Act.
- Conducting public awareness programmes on the pension schemes established under the Act.
- Taking measures considered necessary by the Pension Office in order to discharge its functions under the Act.

2 BASIS OF PREPARATION

(a) Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

(b) Basis of Measurement

The financial statements have been prepared on the historical cost basis.

(c) Functional and Presentation Currency

These financial statements are presented in Maldivian Rufiyaa, which is MPAO’s functional currency. All financial information presented in Maldivian Rufiyaa has been rounded to the nearest Rufiyaa.

(d) Use of Estimates and Judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in MPAO’s financial statements is included in the respective notes.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the relevant notes.

**MALDIVES PENSION ADMINISTRATION OFFICE
(FORMED UNDER THE MALDIVES PENSION ACT NO. 8 OF 2009)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by MPAO.

3.1 Foreign Currency Transactions

Transactions in currencies other than Maldivian Rufiyaa are translated to Maldivian Rufiyaa at the exchange rate ruling at the date of transaction. Monetary assets and liabilities denominated in currencies other than Maldivian Rufiyaa are translated to Maldivian Rufiyaa at the exchange rate ruling at the balance sheet date. Foreign exchange differences arising on translation are recognized in the income and expenditure statement.

Non-monetary assets and liabilities, which are measured at historical cost, denominated in currencies other than Maldivian Rufiyaa, are translated to Maldivian Rufiyaa at the exchange rates ruling at the dates of transactions. Non-monetary assets and liabilities, which are stated at fair value, denominated in currencies other than Maldivian Rufiyaa, are translated to Maldivian Rufiyaa at the exchange rates ruling at the dates the values were determined.

3.2 Financial Instruments

(i) Financial Assets (Non-derivative)

MPAO initially recognizes receivables and deposits on the date that they are originated.

MPAO derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by MPAO is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, MPAO has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

MPAO has the following financial assets (non-derivative):

- Receivables
- Cash and Cash Equivalent

Receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Receivables comprise management fee receivables and other receivable.

**MALDIVES PENSION ADMINISTRATION OFFICE
(FORMED UNDER THE MALDIVES PENSION ACT NO. 8 OF 2009)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial Instruments (Continued)

(i) Financial Assets (Non-derivative) (Continued)

Cash and cash equivalents comprise cash in hand and balance with banks.

(ii) Financial Liabilities (Non-derivative)

MPAO recognizes financial liabilities (including liabilities designated at fair value through profit or loss) on the trade date at which MPAO becomes a party to the contractual provisions of the instrument. MPAO derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, MPAO has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

MPAO has other payables as non-derivative financial liabilities. This financial liability is recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

3.3 Property, Plant and Equipment

(i) Recognition and Measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within other income in profit or loss.

**MALDIVES PENSION ADMINISTRATION OFFICE
(FORMED UNDER THE MALDIVES PENSION ACT NO. 8 OF 2009)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Property, Plant and Equipment (Continued)

(ii) Subsequent Costs

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to MPAO, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that MPAO will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

Computers and communication equipment	3-5 years
Office equipment	3-5 years
Furniture and fittings	3 years

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate. The charge for the depreciation commences from the month on which the property, plant and equipments are ready for use.

3.4 Impairment

(i) Financial Assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

MPAO considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

**MALDIVES PENSION ADMINISTRATION OFFICE
(FORMED UNDER THE MALDIVES PENSION ACT NO. 8 OF 2009)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Impairment (Continued)

(i) Financial Assets (including receivables) (Continued)

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognized in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

(ii) Non-financial Assets

The carrying amounts of the Society's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

3.5 Provisions

A provision is recognized if, as a result of a past event, MPAO has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

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3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Income

Government and other grants are recognized only to the extent of the amount received. Income derived from Management fees has been recognized on accrual basis.

3.7 Events Occurring After the Reporting Date

The materiality of the events occurring after the balance sheet date has been considered and appropriate adjustments and provisions have been made in the financial statements wherever necessary.

4. DETERMINATION OF FAIR VALUES

A number of MPAO's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Receivables

The fair value of other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

(ii) Financial liabilities (Non-derivative)

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

5. NEW STANDARDS AND INTERPRATATIONS NOT YET ADOPTED

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1st January 2012. None of these is expected to have a significant effect on the financial statements MPAO.

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FOR THE YEAR ENDED 31ST DECEMBER 2012

6 GRANTS RECEIVED	2012	2011
	MRf	MRf
Grants Received from the Government	14,012,421	23,493,264
Grants Received from Pension and Social Administration Project (Note 10)	-	5,088,600
Total Grant Received	<u>14,012,421</u>	<u>28,581,864</u>
7 MANAGEMENT FEE	2012	2011
	MRf	MRf
Management fee	<u>12,392,557</u>	<u>4,041,100</u>
Management Fee Income is the income recognized for managing the assets of Maldives Retirement Pension Scheme (MRPS). Management fee has been accounted for on accrual basis based on the daily asset value of the MRPS Fund at the rate of 1% per annum.		
8 SALARIES AND ALLOWANCES	2012	2011
	MRf	MRf
Directors' Remuneration	910,000	978,210
Retirement Contribution Obligations	414,106	304,885
Employee Insurance	70,127	100,694
Salaries and Wages	6,216,224	5,098,702
	<u>7,610,457</u>	<u>6,482,491</u>
9 BANK CHARGES AND CUSTODIAN FEES	2012	2011
	MRf	MRf
Bank Charges	60,563	46,510
Custodian Fees (Note 9.1)	3,312,415	503,425
	<u>3,372,978</u>	<u>549,935</u>

9.1 MPAO is paying custodian fees to Bank of Maldives based on the total investment standing of Maldives Retirement Pension Scheme as at 31st December 2012.

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AS AT 31ST DECEMBER 2012

10 PROPERTY, PLANT AND EQUIPMENT

	Computer and Communication Equipment MRF	Furniture and Fittings MRF	Office Equipment MRF	Total 2011 MRF	Total 2010 MRF
Cost					
Opening Balance	1,959,521	734,108	318,307	3,011,936	1,045,425
Additions during the year	566,027	8,798	31,328	606,153	1,966,511
Closing Balance	2,525,548	742,906	349,635	3,618,089	3,011,936
Accumulated Depreciation					
Opening Balance	238,097	140,605	118,541	497,243	157,084
Charge for the year	556,247	235,151	53,448	844,846	340,159
Closing Balance	794,344	375,756	171,989	1,342,089	497,243
Net Carrying Value					
As at 31st December 2012	1,731,204	367,150	177,646	2,276,000	
As at 31st December 2011	2,984,856	1,021,773	134,416		4,141,045

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AS AT 31ST DECEMBER 2012

11 INTANGIBLE ASSETS	2012	2011
	MRf	MRf
Intangible Assets Work in Progress		
Balance as at 1st January	5,088,600	-
Additions during the year	740,160	5,088,600
Balance as at 31st December	<u>5,828,760</u>	<u>5,088,600</u>

- 11.1** As per the agreement signed between the Government of Maldives and Karvy Computershare Private Limited on 30th September 2010, Maldives Pension Administration office has contracted Karvy Computershare Private Limited to supply, customization Installation implementation of off-the- shelf pension system called "Karvy System". Intangible Assets Work in Progress represent the cost incurred by Maldives Pension and Social Protection Administration Project on behalf of Maldives Pension Administration Office up to 31st December 2011 to develop this system. The same amount has been recognized as a grant received from Maldives Pension and Social Protection Administration Project to Maldives Pension Administration Office during the year ended 31st December 2011.

In addition to the amount incurred by Maldives Pension and Social Protection Administration Project, MPAO also incurred some amount to develop the system during year 2012.

12 PREPAYMENT & OTHER RECEIVABLES	2012	2011
	MRf	MRf
Asset Management fee Receivables	16,902,498	4,509,941
Prepayments	62,107	71,322
	<u>16,964,605</u>	<u>4,581,263</u>

13 CASH AND CASH EQUIVALENTS	2012	2011
	MRf	MRf
Cash at Bank	4,966,900	10,767,539
Cash in Hand	3,584	5,428
	<u>4,970,484</u>	<u>10,772,967</u>

14 ACCRUED EXPENSES AND OTHER PAYABLES	2012	2011
	MRf	MRf
Accrued Expenses	3,417,284	586,213
Other Payables	15,128	251,188
	<u>3,432,412</u>	<u>837,401</u>

15 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(i) Overview

The MPAO has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the MPAO's exposure to each of the above risks, MPAO's objectives, policies and processes for measuring and managing risk, and MPAO's management of capital. Further, quantitative disclosures are included throughout these MPAO's financial statements.

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AS AT 31ST DECEMBER 2012

15 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(ii) Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the MPAO's risk management framework.

(iii) Credit risk

Credit risk is the risk of financial loss to MPAO if a debtor fails to meet its contractual obligations, and arises principally from MPAO's receivables from Maldives Retirement Pension Scheme.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying Amount	
	2012	2011
	MRf	MRf
Other Receivables	16,902,498	4,509,941
Balances with Banks	4,966,900	10,767,539
	<u>21,869,398</u>	<u>15,277,480</u>

Impairment Losses

	2012		2011	
	Gross	Impairment	Gross	Impairment
	MRf	MRf	MRf	MRf
The aging of other receivables at the reporting date was:				
Not Past Due				
Past Due 120-365 days	7,648,102	-	2,593,983	-
More than one year	9,124,472	-	1,915,973	-
	<u>16,772,574</u>	<u>-</u>	<u>4,509,956</u>	<u>-</u>

(iv) Liquidity risk

Liquidity risk is the risk that MPAO will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. MPAO's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to MPAO's reputation.

31st December 2012	Carrying Amount	0-6 Months
	MRf	MRf
Financial Liabilities (Non- Derivative)		
Accrued Expenses and Other Payables	3,432,412	3,432,412
	<u>3,432,412</u>	<u>3,432,412</u>

31st December 2011	Carrying Amount	0-6 Months
	MRf	MRf
Financial Liabilities (Non- Derivative)		
Accrued Expenses and Other Payables	837,401	837,401
	<u>837,401</u>	<u>837,401</u>

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AS AT 31ST DECEMBER 2012

15 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(v) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect MPAO's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

16 CAPITAL COMMITMENTS

There were no material capital commitments approved or contracted as at the date of the financial position.

17 CONTINGENT LIABILITIES

There were no contingent liabilities which require adjustments to / or disclosure in the financial statements as at the date of the financial position.

18 EVENTS AFTER REPORTING DATE

No circumstances have arisen since date of the financial position which require adjustments to / or disclosure in the financial statements.

19 COMPARATIVE INFORMATION

Comparative information of the financial statements have been reclassified whenever necessary to confirm with the current year's presentation.

20 RELATED PARTY TRANSACTIONS

20.1 Transactions with Key Management Personnel

The Board of Directors of MPAO are members of the key management personnel. The Company has paid an amount of MRf. 910,000/- as emoluments to the key management personnel during the year ended 31st December 2012 (2011 : MRf. 978,210/-).