



Maldives Islamic Bank

# ***ANNUAL REPORT***

for the financial year ended 31st December 2011





The Prophet Muhammad (peace be upon him) was asked what type of earning was best, and he replied: " A man's work with his hands and every (lawful) business transaction."  
--- Al-Tirmidhi, Hadith 846.





# *Annual Report*

*For the financial year ended  
31st December 2011*

## OUR VISION

“To be recognized as the leader and preferred partner in Shariah banking and an active player in the promotion and development of Islamic banking in Maldives.”

## OUR MISSION

“To serve as a trusted provider of Islamic financial products and services in Maldives.”





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# CORPORATE INFORMATION

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## BACKGROUND

In October 2009, Islamic Corporation for the Development of the Private Sector (ICD) signed a Shareholders Agreement with the Government of Maldives represented by the Ministry of Finance & Treasury to initiate the establishment of Maldives Islamic Bank Pvt Ltd (MIB). This was followed by the incorporation of MIB on 1st April 2010 and the submission of a formal application for a banking license to the MMA. MIB received the banking licence to conduct Islamic banking business from the MMA on 2nd August 2010.

## SHAREHOLDING

MIB is a collaboration between ICD which holds 85% share and the Government of Maldives represented by the Ministry of Finance and Treasury, owning the balance 15%. The total share capital of the bank currently stands at MVR.150 million.

## OFFICIAL LAUNCHING

On 7th March 2011, the bank was officially launched by H.E. President Mohamed Nasheed in the presence of officials from the government and private sectors.

## STRATEGIC OBJECTIVES

MIB aims to provide an alternative to the public and businesses who wish to avail themselves to banking transactions and dealings in strict compliance to Islamic banking principles.

MIB shall participate actively in the development and promotion of an Islamic economic and financial system in the Maldives to run parallel with the existing conventional system as its contribution to the betterment of the economic well-being of the ummah generally.

## BOARD OF DIRECTORS

Mr. Khaled Mohammed Al-Aboodi (Chairman)

Mr. Ahmed As-ad

Mr. Ahmed Khizer Khan

Mr. Basel A. Al-Hag-Issa

Mr. Ahmed Bin Abdul Khalid

Mr. Mohamed Amir (resigned in February 2011)

Mrs. Juwairiya Saeed (appointed w.e.f. May 2011)

Mr. Harith Bin Harun (Managing Director & CEO)

## COMPANY SECRETARY

Mr. Ahmed Firas

## REGISTERED OFFICE

Ministry of Finance & Treasury

Ameenee Magu, Male' 20378

Republic of Maldives

## AUDITORS

KPMG





Opening Ceremony  
7th March 2011

Opening ceremony was held and officiated by H.E. President Mohamed Nasheed in the presence of officials from the government and private business sector.



13th December 2011  
"Best New Bank" Award  
to Maldives Islamic Bank  
by CPI Financial, Dubai - The leading publisher  
of financial magazines in the Middle East.



# CHAIRMAN'S STATEMENT



By the grace of Allah s.w.t., Maldives Islamic Bank ("MIB") was officially launched on 7<sup>th</sup> March 2011. The launching of MIB brought to an end the long and challenging pursuit of the people of the Maldives for access to Islamic financial service in the country. This milestone was achieved through the hardwork and determination of various stakeholders involved in this project whose sole aim is to offer the people of this 100%-Muslim nation the opportunity to be part of the fast-growing Islamic banking community worldwide.

Being the very first Islamic bank in the country, MIB embarked on this challenging journey with a mission to offer viable and credible Shariah-compliant banking service to the public who are desirous of carrying out their financial transactions in conformity with Islamic values and principles. Despite the many challenges it faced, I am pleased to note that MIB managed to establish a sound foothold in the market in its first year of operation. Within a relatively short period of 10 months since it commenced operation, the bank was able to mobilize deposits amounting to MVR 316 million from all sectors of the economy - individuals, local businesses and corporates- and closed the year with total assets of MVR 487 million. The bank has gradually deployed the funds towards providing Shariah-compliant financing to its customers under the concept of Istisna, Murabahah and Ijarah. I wish to highlight, however, that a significant portion of the deposits has to be placed in a non-earning account with the Maldives Monetary Authority due to the absence of Shariah-compliant money market and capital market instruments locally to invest in. Finding a viable and acceptable avenue to invest our surplus funds is one of the biggest challenges we face, not only for generating income but equally important for liquidity management.

The strong reception and continued support we have been receiving since we started operation just over a year ago is a positive indication of the viability of Islamic banking in the Maldives as an alternative to the long-established conventional banking system. It certainly augurs well for the prospects of Islamic banking in the country.

I wish to caution that despite this initial success, the road ahead without doubt is full of challenges. In order to sustain our growth and to widen the reach of our services to the wider community and work towards achieving the Bank's vision to be recognized as a market leader and an active contributor to the betterment of the economic well-being of

the community, the bank would have to prepare itself to tackle these challenges with patience and determination. The bank's priority going forward is to lay a strong foundation for its future growth and sustainability - by investing in areas of development of its human resources and infrastructure capacity; strengthening its financial footing; establishing an impeccable Shariah compliance credibility, and to continuously engage in and raise awareness of the public in the areas of Islamic banking and finance.

As we have seen in countries where Islamic finance has flourished, the development of an Islamic financial infrastructure is essential in order to promote the growth of Islamic finance in the country. In this respect, the legal and regulatory framework governing the operation of Islamic financial institutions need to be developed and codified up to the best international standards to facilitate the introduction of innovative financial instruments that meet the local demand. Further, the introduction of Shariah-compliant marketable securities including sukuk, both sovereign and private, needs to be accelerated.

In closing, I would like to express my gratitude to the Ministry of Finance and Treasury and the Maldives Monetary Authority for their continuous support to the Bank and for their commitment towards establishing a comprehensive and viable framework to foster the growth of the Islamic finance industry in the country. I would also like to thank fellow directors and members of the Shariah Board for their contribution. Last but not least, I wish to thank the Bank's staff for their hard work throughout our first year of operations and for their unrelenting mission in establishing the first Islamic bank in Maldives and to maintain our market position as the fastest growing bank in the Maldives.

We pray to Allah (s.w.t) to grant us steadfastness in our deeds and to enable us to continue in our mission to develop a comprehensive Islamic financial system as a platform for future development of the country and the ummah as a whole.

Thank you.

**Khaled Mohammed Al-Aboodi**  
Chairman

# STATEMENT BY DIRECTORS

## DIRECTORS' REPORT

for the financial year ended 31 December 2011

The Directors hereby submit their report together with the audited financial statements of the Bank for the financial year ended 31 December 2011.

### PRINCIPAL ACTIVITIES

The principal activities of the Bank are Islamic banking business and the provision of related financial services. There were no significant changes in these activities during the financial year.

### FINANCIAL RESULTS

	2011 MVR '000	2010 MVR '000
Profit before taxation	7,733	(2,495)
Taxation	(1,955)	-
Net profit (loss) after taxation	5,788	(2,495)

### DIVIDENDS

The Directors do not recommend the payment of any dividend in respect of the financial year ended 31st December 2011.

### RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year other than those disclosed in the financial statements.

### BAD AND DOUBTFUL FINANCING ASSETS

Before the financial statements of the Bank were made out, the Directors took reasonable steps to ascertain that actions had been taken in relation to the writing off of bad financing assets and the making of allowances for doubtful financing assets if any. At the date of the report, the Directors have satisfied themselves that there is no known bad financing asset and that they are not aware of any circumstances which would render any specific allowance for doubtful financing assets be made on the financing assets in the period.

# STATEMENT BY DIRECTORS

Directors' Report for the financial year ended 31 December 2011

## CURRENT ASSETS

Before the financial statements of the Bank were made out, the Directors took reasonable steps to ascertain that any current assets, other than financing assets, which were unlikely to be realised in the ordinary course of business, their values as shown in the accounting records of the Bank have been written down to their estimated realisable value.

At the date of this report, the Directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the Bank misleading.

## VALUATION METHODS

At the date of this report, the Directors are not aware of any circumstances which have arisen which render adherence to the existing methods of valuation of assets or liabilities in the Bank's accounts misleading or inappropriate.

## CONTINGENT AND OTHER LIABILITIES

At the date of this report there does not exist:

- a) any charge on the assets of the Bank which has arisen since the end of the financial year which secures the liabilities of any other person; or
- b) any contingent liability in respect of the Bank that has arisen since the end of the financial year.

No contingent or other liability of the Bank has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial period which, in the opinion of the Directors, will or may substantially affect the ability of the Bank to meet its obligations as and when they fall due.

## CHANGE OF CIRCUMSTANCES

At the date of this report, the Directors are not aware of any circumstances, not otherwise dealt with in this report or the financial statements of the Bank that would render any amount stated in the financial statements misleading.

## ITEMS OF AN UNUSUAL NATURE

The results of the operations of the Bank during the financial year were not, in the opinion of the Directors, substantially affected by any item, transaction or event of a material and unusual

nature.

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect substantially the results of the operations of the Bank for the current financial year in which this report is made.

## SUBSEQUENT EVENTS

There were no material events subsequent to the reporting date that require disclosure or adjustments to the financial statements.

## DIRECTORS

The Directors of the Bank who have held office during the period since the date of the last report are:

- Mr. Khaled Mohammed Al-Aboodi (Chairman)
- Mr. Ahmed As-ad
- Mr. Ahmed Khizer Khan
- Mr. Basel A. Al-Hag-Issa
- Mr. Ahmed Abdul Khalid
- Mr. Mohamed Amir (resigned in February 2011)
- Mrs. Juwairiya Saeed (appointed w.e.f. May 2011)
- Mr. Harith Bin Harun (Managing Director & CEO)

# STATEMENT BY DIRECTORS

Directors' Report for the financial year ended 31 December 2011

## RESPONSIBILITY STATEMENT BY BOARD OF DIRECTORS

In the course of preparing the annual financial statements of the Bank, the Directors are collectively responsible in ensuring that these financial statements are drawn up in accordance with International Financial Reporting Standards.

It is the responsibility of the Directors to ensure that the financial reporting of the Bank present a true and fair view of the state of affairs of the Bank as at 31 December 2011 and of the financial results and cash flows of the Bank for the financial year then ended.

The financial statements are prepared on the going concern basis and the Directors have ensured that proper accounting records are kept, applied the appropriate accounting policies on a consistent basis and made accounting estimates that are reasonable and fair so as to enable the preparation of the financial statements of the Bank with reasonable accuracy.

The Directors have also taken the necessary steps to ensure that appropriate systems are in place for the assets of the Bank to be properly safeguarded for the prevention and detection of fraud and other irregularities. The systems, by their nature, can only provide reasonable and not absolute assurance against material misstatements, whether due to fraud or error.

## DIRECTORS' BENEFITS

Neither at the end of the financial period, nor at any time during the financial year, did there subsist any arrangement to which the Bank is a party with the object or objects of enabling Directors of the Bank to acquire benefits by means of the acquisition of shares in, or debenture of, the Bank or any other corporate body.

Since the date of incorporation, no Director of the Bank has received or become entitled to receive a benefit (other than the fees and other emoluments) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which he or she is a member or with a company in which he or she has a substantial financial interest.

## CORPORATE GOVERNANCE

The Board of Directors is committed to ensure the highest standards of corporate governance throughout the organisation with the objectives of

safeguarding the interests of all stakeholders and enhancing the shareholders' value and financial performance of the Bank. The Board considers that it has applied the Best Practices throughout the financial year.

## The Board of Directors

The direction and control of the Bank rest firmly with the Board as it effectively assumes the overall responsibility for corporate governance, strategic direction, formulation of policies and overseeing the investments and operations of the Bank. The Board exercises independent oversight on the management and bears the overall accountability for the performance of the Bank and compliance with the principle of good governance.

There is a clear division of responsibility between the Chairman and the Chief Executive Officer to ensure that there is a balance of power and authority. The Board is responsible for reviewing and approving the longer-term strategic plans of the Bank as well as the business strategies. It is also responsible for identifying the principal risks and implementation of appropriate systems to manage those risks as well as reviewing the adequacy and integrity of the Bank's internal control systems, management information systems, including systems for compliance with applicable laws, regulations and guidelines.

Whilst the Management Committee, headed by the Chief Executive Officer, is responsible for the implementation of the strategies and internal control as well as monitoring performance, the Committee is also a forum to deliberate issues pertaining to the Bank's business, strategic initiatives, risk management, manpower development, supporting technology platform and business processes.

## The Board Meetings

Throughout the financial year, eight (08) Board meetings were held. All Directors reviewed Board papers or reports providing updates on operational, financial and corporate developments prior to the Board meetings. These papers and reports are circulated prior to the meeting to enable the Directors to obtain further explanations and having sufficient time to deliberate on the issues and make decisions during the meeting.

# STATEMENT BY DIRECTORS

Directors' Report for the financial year ended 31 December 2011

## Board Balance

Currently the Board has seven members, comprising five Non-Independent Non-Executive Directors (including the Chairman), one Independent Non-Executive Director and one Non-Independent Executive Director/Chief Executive Officer. The Board of Directors' meetings are presided by Non-Independent Non-Executive Chairman whose role is clearly separated from the role of Chief Executive Officer. The composition of the Board and the number of meetings attended by each Director are as follows:

Directors	Attendance
Mr. Khaled Mohammed Al-Aboodi Chairman/ Non- Independent Non-Executive Director	5/8
Mr. Ahmed As-ad Non- Independent Non-Executive Director	8/8
Mr. Ahmed Khizer Khan Non- Independent Non-Executive Director	8/8
Mr. Basel A. Al-Hag-Issa Non- Independent Non-Executive Director	6/8
Mr. Ahmed Abdul Khalid Non- Independent Non-Executive Director	6/8
Mr. Mohamed Amir (resigned in February 2011) Non-Independent Non-Executive Director	1/1
Mrs. Juwairiya Saeed (appointed w.e.f. May 2011) Independent Non-Executive Director	6/6
Mr. Harith Bin Harun Non-Independent Executive Director & CEO	8/8

## Audit and Risk Committee

The main function of Audit and Risk Committee is to assist the Board in its supervisory role in the management of risk and assessing controls in the Bank. It has responsibility for approving and reviewing the overall risk strategy, internal controls and policies of the Bank.

The Audit and Risk Committee was established to provide oversight and management of all risks in the Bank. The Committee also ensures that the procedures and framework in relation to identifying, measuring, monitoring and controlling risk are operating effectively.

The members of the Audit and Risk Committee are as follows:

Mrs. Juwairiya Saeed ( Chairperson)

Mr. Ahmed Bin Abdul Khalid

Mr. Basel A. Al-Hag-Issa

## Relationship with the Auditors

The Bank has established appropriate relationship with external auditors in conducting the audit function of the Bank.

## Internal Controls

The Board acknowledges its overall responsibility for maintaining a sound system of internal control to safeguard shareholders' investments, Bank's assets, and the need to review the adequacy and integrity of those systems regularly.

## Management Reports

Before each Board meeting, Directors are provided with a complete set of Board papers itemised in the agenda for Board's review/approval and/or notation. The Board monitors the Bank's performance by reviewing the monthly Management Report, which provides a comprehensive review and analysis of the Bank's operations and financial issues.

Procedures are in place for Directors to seek independent professional advice at the Bank's expense in order to fulfil their duties and specific

responsibilities.

## Management Committee

The Management Committee comprising senior management staff of the Bank is a forum to discuss and resolve operational and management issues. The Committee is vested by the Board with the authority to approve financing applications and operational matters up to a certain limit, beyond which the subject matter has to be referred to the appropriate authority at Board level for direction and approval based on the recommendations of the Management Committee.

All Management Committee members are expected to participate and engage themselves actively in deliberating issues put before the Committee. The scope of the Management Committee broadly includes;

- a) To review, deliberate, resolve operational issues.



# STATEMENT BY DIRECTORS

Directors' Report for the financial year ended 31 December 2011

- b) To discuss strategic and business issues.
- c) To address urgent and imperative issues
- d) To consider and approve applications for financing within its approving authority.
- e) To deliberate and decide on all aspects of asset and liability management.

## Shari'ah Board

The Shari'ah Board was formed in compliance with Section 13 of the Islamic Banking Regulation, 2011 issued by the Maldives Monetary Authority.

The principal duties and responsibility of the Shari'ah Board are as follows:

- ⇒ To advise the Board of Directors on Shari'ah matters in order to ensure that the business operations of the Bank comply with the Shari'ah principles at all times;
- ⇒ To endorse and validate relevant documentations of the Bank's products to ensure that the products comply with Shari'ah principles

During the financial year ended 31 December 2011, a total of three (03 ) meetings were held. The Shari'ah Board comprises the following members and the details of attendance of each member at

Member	Attendance
Mufti Muhammad Taqi Usmani (via proxy)	2/3
Dr. Ejaz Ahmed Samadani (appointed w.e.f. December 2011)	1/1
Mufti Mohammed Rizwe Bin Ibrahim	3/3
Sheikh Fayyadh Ali Manik	3/3

the Shari'ah Board meetings held during the financial year are as follows:

## RATING BY EXTERNAL RATING AGENCIES

The Bank was not rated by any external rating agencies during the financial year.

## ZAKAT OBLIGATIONS

Zakat shall be paid in the manner as determined by the shareholders of the bank.

## AUDITORS

The auditors, KPMG have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors in accordance with their resolution dated 26 April 2012

Ahmed As-sad  
Director

Harith Bin Harun  
Managing Director & CEO

# SHARIAH BOARD'S ANNUAL REPORT

To the Shareholders of Maldives Islamic Bank Pvt. Ltd.

Assalamualaikum Wa Rahmatullah Wa Barakatuh

We, the Shariah Board members of the Bank, have reviewed the transactions and contracts relating to Islamic banking activities conducted by Maldives Islamic Bank Pvt. Ltd. ("the Bank") during the period ended 31st December 2011. We have also conducted our review to form an opinion as to whether the Bank's activities has complied with Shariah and with the specific resolutions, rulings and guidelines issued by the Shariah Board and other relevant authorities. The Bank's management is responsible for ensuring that the Bank's activities are carried out in a Shariah Compliant manner. It is our responsibility to form an independent opinion, based on our review of the operations of the Bank, and to report to the Shareholders of the Bank.

Our review included examining, on a test basis, each type of transaction and the relevant documentation and procedures adopted by the Bank. We have planned and performed our review so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Bank's activities business were conducted in compliance with the principles of Shariah.

In our opinion:

The contracts, transactions and dealings relating to the Bank's activities during the year ended 31st December 2011 that we have reviewed were in compliance with the Shariah to a satisfactory level.

We have noted areas that require improvement in the mode of operation for certain financing transactions of the Bank such as Murabahah, as well as some irregularities in Ijarah, Kafalah and Istisna' documentation that require rectification. We have provided guidelines to implement the required improvements; and


On the management of the Mudharabah Pool (Liability side), we found that the allocation of profit and charging of losses relating to Mudharabah investment accounts conform overall to the policies and procedures approved by the Shariah Board.

Wallahu A'lam.

We beg Allah the Almighty to grant us all the success and straight-forwardness.

Wassalamualaikum Wa Rahmatullah Wa Barakatuh

16 April 2012



Dr. Ejaz Ahmed Samadani



Mufthi M I M Rizwe



Shiekh Fayyadh Ali Manik

# INDEPENDENT AUDITORS' REPORT

To the Shareholders of  
Maldives Islamic Bank Private Limited

We have audited the accompanying financial statements of Maldives Islamic Bank Private Limited ("the Bank"), which comprise the statement of financial position as at 31st December 2011, and the statements of comprehensive income, changes in equity and cash flows for the year then ended 31st December 2011 and notes, comprising a summary a summary of significant accounting policies and other explanatory information set out in the pages 25 to 48.

## Management's Responsibility for the Financial Statements

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

## Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on 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 the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31st December 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Chartered Accountants

26<sup>th</sup> April 2012  
Male'

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(Chartered Accountants)  
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# Financial Statements & Notes

# STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR/PERIOD ENDED 31ST DECEMBER

	Note	2011 MRf (365 Days)	2010 MRf (275 Days)
Income from Financing Activities	6	172,173	-
Commission and Fee Income	7	5,919,772	-
Foreign Exchange Income	8	23,549,808	-
<b>Total Income</b>		<b>29,641,753</b>	<b>-</b>
Personnel Costs	9	(9,432,431)	(1,764,385)
General and Administrative Expenses	10	(8,980,905)	(730,648)
Depreciation and Amortization	20 & 21	(2,440,691)	-
Provision for Impairment	11	(85,504)	-
Hiba to the Customers	12	(969,669)	-
<b>Total Expenses</b>		<b>(21,909,200)</b>	<b>(2,495,033)</b>
<b>Profit / (Loss) before tax</b>		<b>7,732,553</b>	<b>(2,495,033)</b>
Tax Expense	13	(1,954,514)	-
<b>Profit / (Loss) for the Year/Period</b>		<b>5,778,039</b>	<b>(2,495,033)</b>
<b>Basic Earnings/(Loss) Per Share</b>	14	<b>38.52</b>	<b>(97.84)</b>

Figures in brackets 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 Bank set out on pages 25 to 48. The Report of the Auditors is given in page 16.

# STATEMENT OF FINANCIAL POSITION

AS AT 31ST DECEMBER	Note	2011 MRf	2010 MRf
<b>ASSETS</b>			
Cash and Cash Equivalents	15	102,841,400	23,367,583
Balances with Maldives Monetary Authority	16	350,344,431	-
Due from Financing Activities	17	8,464,542	-
Available for Sale Investment	18	8,000,000	-
Other Assets	19	1,227,471	-
Property, Plant and Equipment	20	7,500,678	3,091,194
Intangible Assets	21	9,329,441	1,265,558
Total Assets		<u>487,707,963</u>	<u>27,724,335</u>
<b>LIABILITIES</b>			
Amounts due to Related Party	22	-	4,526,250
Deposits	23	331,021,336	-
Other Liabilities	24	2,615,115	193,118
Deferred Tax Liability	13.2	788,506	-
Total liabilities		<u>334,424,957</u>	<u>4,719,368</u>
<b>EQUITY</b>			
Share Capital	25	150,000,000	25,500,000
Statutory Reserve	26	2,889,019	-
Retained Earnings / (Accumulated Losses)		393,987	(2,495,033)
Total Equity		<u>153,283,006</u>	<u>23,004,967</u>
<b>Total Equity and Liabilities</b>		<u>487,707,963</u>	<u>27,724,335</u>

Figures in brackets 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 Bank set out on page 25 to 48. The Report of the Auditors is given in page 16.

Signed on behalf of the Board of Directors

Ahmed As-sad  
Director

Harith Bin Harun  
Managing Director & CEO

# STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR/PERIOD ENDED 31ST DECEMBER

	Share Capital	Statutory Reserve	(Accumulated Losses) / Retained Earnings	Total
	MRf	MRf	MRf	MRf
As at 1st January 2010	-	-	-	-
Issue of shares	25,500,000	-	-	25,500,000
Loss for the Period	-	-	(2,495,033)	(2,495,033)
<b>As at 31st December 2010</b>	<b><u>25,500,000</u></b>	<b><u>-</u></b>	<b><u>(2,495,033)</u></b>	<b><u>23,004,967</u></b>
As at 1st January 2011	25,500,000	-	(2,495,033)	23,004,967
Issue of shares	124,500,000	-	-	124,500,000
Profit for the year	-	-	5,778,039	5,778,039
Transferred during the Year	-	2,889,019	(2,889,019)	-
<b>As at 31st December 2011</b>	<b><u>150,000,000</u></b>	<b><u>2,889,019</u></b>	<b><u>393,987</u></b>	<b><u>153,283,006</u></b>

Figures in brackets 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 Bank set out on page 25 to 48. The Report of the Auditors is given in page 16.



# STATEMENT OF CASHFLOWS

FOR THE YEAR/PERIOD ENDED 31ST DECEMBER

	Note	2011 MRf (365 Days)	2010 MRf (275 Days)
<b>Cash flows from operating activities</b>			
Profit before tax		7,732,553	(2,495,033)
<b>Adjustments for:</b>			
Depreciation and Amortization	20 & 21	2,440,691	-
Provision for Impairments	11	85,504	-
Operating profit before changes in Operating Assets and Liabilities		10,258,748	(2,495,033)
Increase in Customers' Account		331,021,336	-
Increase in Other Assets		(1,227,471)	-
Increase in Other Liabilities		1,255,989	193,118
Changes in Due from Financing Activities		(8,550,046)	-
Changes in Balances with Related Parties		(4,526,250)	4,526,250
<b>Cash generated from operating activities</b>		<b>328,232,306</b>	<b>2,224,335</b>
<b>Cash flows from investing activities</b>			
Acquisition of Property, Plant and Equipment	20	(5,713,583)	(3,091,194)
Acquisition of Intangible Assets	21	(9,200,475)	(1,265,558)
Investment in Shares	18	(8,000,000)	-
<b>Net Cash generated from investing activities</b>		<b>(22,914,058)</b>	<b>(4,356,752)</b>
<b>Cash flows from financing activities</b>			
Issue of shares	25	124,500,000	25,500,000
<b>Net Cash generated from financing activities</b>		<b>124,500,000</b>	<b>25,500,000</b>
<b>Net increase in cash and cash equivalents</b>		<b>429,818,248</b>	<b>23,367,583</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>23,367,583</b>	<b>-</b>
<b>Cash and cash equivalents at the end of the year</b>	15 & 16	<b>453,185,831</b>	<b>23,367,583</b>

Figures in brackets 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 Bank set out on page 25 to 48 The Report of the Auditors is given in page 16.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Reporting entity

Maldives Islamic Bank Private Limited (the “Bank”) is incorporated and domiciled in the Republic of Maldives since 1st April 2010 as a private limited liability company and presently governed under the Companies Act No.10 of 1996. The Bank received the banking license under the Maldives Monetary Authority Act No. 6 of 1981 on 2nd August 2010 to conduct Islamic banking business in the Maldives and obtained certificate of approval to commence operations on 6th March 2011. The registered office of the Bank is at Ministry of Finance and Treasury, Ameenee Magu, Male’ 20378, Republic of Maldives.

The bank commenced operations on 8th March 2011. It provides full range of banking services based on Shari’ah principles including accepting deposits, granting of financing facilities and other ancillary services.

## 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 Measurements

The financial statements have been prepared on the historical cost basis except for financial instruments at fair value through profit or loss that are measured at fair value.

### (c) Functional and Presentation Currency

These financial statements are presented in Maldivian Rufiyaa, which is the Bank’s functional currency. Except as otherwise indicated, financial information is presented in Maldivian Rufiyaa.

### (d) Use of Estimates and Judgments

The preparation of the financial statements in conformity with IFRSs requires management to make judgments, 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 estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statement are described wherever necessary.

## 3. Significant accounting policies

The accounting policies set out below have been applied consistently during the year/period presented in these financial statements.

### 3.1 Foreign Currency Transactions

#### (i) Transactions and Balances

Transactions in foreign currencies are translated into the functional currency of the Branch at the spot exchange rate at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective profit rate and payments during the period, and the amortized cost in foreign currency translated at the spot exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss. Non-

# NOTES TO THE FINANCIAL STATEMENTS

## 3. Significant Accounting Policies – continued

monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

### 3.2 Income from Murabaha and Istisna'a

Income on financing contracts of Murabaha and Istisna'a are recognised following accrual basis using the reducing balance method. When receivable from financing activities become non-performing and where collectability is doubtful, income is suspended as per the instructions of Maldives Monetary Authority.

### 3.3 Fees and Commission

Fees and commission income and expense that are integral to the profit rate on a financial asset or liability are included in the measurement of the profit rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognized as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognized on a straight-line basis over the commitment period.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

### 3.4 Tax Expense

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognized in profit or loss.

#### Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

#### Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the tax rate enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

### 3.5 Financial Assets and Financial Liabilities

#### (i) Recognition

The Bank initially recognizes advances and deposits and subordinated liabilities on the date at which they are originated. Regular purchases and sales of financial assets are recognized on the trade date at which the Bank commits to purchase or sell the asset.

All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognized on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

# NOTES TO THE FINANCIAL STATEMENTS

## 3. Significant Accounting Policies – continued

### (ii) Classification

The Bank's classifications of financial assets include receivables and cash and cash equivalents.

#### Receivables

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 profit rate, less any impairment losses.

Receivables comprise receivables from Murabaha and Istisna'a financing.

#### Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand and balances with MMA and other banks.

#### Financial Liabilities (Non-derivative)

The Bank initially recognizes subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade date at which the Bank becomes a party to the contractual provisions of the instrument. The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled or expired.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank 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.

The Bank has non-derivative financial liabilities such as deposits and other payables. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost.

#### Share Capital

##### Ordinary Shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity.

### 3.6 Property, Plant and Equipment

#### (i) Recognition and Measurement

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

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, 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 capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and are recognised net within other income in profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS

## 3. Significant Accounting Policies – continued

### (ii) Subsequent Costs

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

### (iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the property and equipment are as follows:

Office Equipment	5 Years
Computer Equipment	4 Years
Furniture	5 Years
Leasehold Building	5 Years

Depreciation methods, useful lives and residual values are reassessed at the reporting date. A full month's depreciation is provided in the month of intended use while, no depreciation is provided in the month of disposal.

## 3.7 Intangible Asset

### (i) Recognition and Measurement

Intangible assets that are acquired by the Bank are stated at cost less accumulated amortization and impairment losses.

### (ii) Subsequent Expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in profit or loss when incurred.

### (iii) Amortization

Amortization is charged to the income statement on a straight line basis over the estimated useful lives of assets unless such lives are indefinite. The estimated useful lives are as follows:

Computer Software	Over 5 Years
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## 3.8 Receivables and Balances from Financing Activities

Receivables and balances from financing activities are stated at their gross principle amounts less amounts received on account of these transactions, provision for impairment and deferred profit relating to future years.

### Murabaha Receivables

Murabaha receivables consist mainly of deferred sales transaction agreements (Murabaha) and are stated net of deferred profit and provision for impairment.

The Bank arranges a murabaha transaction by buying a commodity (which represent the object of the murabaha) and then resells this commodity to the Murabeh (beneficiary) after computing a margin of profit over cost. The sale price (cost plus the profit margin) is repaid in installments by the Murabeh over the agreed period.

# NOTES TO THE FINANCIAL STATEMENTS

## 3. Significant Accounting Policies – continued

### Istisna'a

Istisna'a is a sale contract between the ultimate buyer (al-mustasni') and the seller (al-sani'), whereby the seller based on an order from the ultimate buyer undertakes to have manufactured or otherwise acquired the subject matter of the contract (al-masnoo') according to specification and sell it to the ultimate buyer for an agreed upon price and method of settlement whether that be in advance, by installments or deferred to a specific future time.

### Shari'ah Board

The Bank's activities are subject to the supervision of a Shari'ah board consisting of three members appointed by board of directors.

### 3.9 Impairment of Non Financial Assets

The carrying amounts of the Bank's non-financial assets and deferred tax 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.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset or a cash generating unit exceeds its recoverable amount. Impairment losses, if any, are recognised in profit or loss.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. 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 amortisation, if no impairment loss had been recognised.

### 3.10 Provisions

A provision is recognised if, as a result of a past event, the Bank 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 pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract.

### 3.11 Employee Benefits

#### (a) Short-Term Benefits

Short-term employee benefit obligations of the Bank are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

### 3.12 Operating Expenses

All operating expenditures incurred in the running of the Bank and in maintaining the capital assets in a state of efficiency has been charged to the revenue in arriving at profits or loss for the period.

Expenditure incurred for the purpose of acquiring, expending or improving assets of a permanent nature

# NOTES TO THE FINANCIAL STATEMENTS

by means of which to carry on the business or for the purpose of increasing the earning capacity of the Bank has been treated as capital expenditure.

Gains or losses of a revenue nature on the disposal of property and equipment, if any, have been accounted for in the profit or loss.

#### **4. Determination of Fair Values**

A number of the Company'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.

##### **Receivables**

The fair value other receivables is estimated as the present value of future cash flows.

##### **Financial Liabilities (Non-derivative)**

Fair value, which is determined for disclosure purposes, is calculated based on the present value of cash flows.

#### **5. New standards and interpretations not adopted**

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1st January 2012, and have not been applied in preparing these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR/PERIOD ENDED 31ST DECEMBER

<b>6</b>	<b>NET INCOME FROM FINANCING ACTIVITIES</b>	<b>2011</b>	<b>2010</b>
		<b>MRf</b>	<b>MRf</b>
		<b>(365 Days)</b>	<b>(275 Days)</b>
	Income from Financing Activities		
	Murabaha	168,182	-
	Istisna'a	<u>3,991</u>	<u>-</u>
		<u>172,173</u>	<u>-</u>
<b>7</b>	<b>COMMISSION AND FEE INCOME</b>	<b>2011</b>	<b>2010</b>
		<b>MRf</b>	<b>MRf</b>
		<b>(365 Days)</b>	<b>(275 Days)</b>
	Financing Processing Fee	710,759	-
	Commission from Funds Transfer	4,374,072	-
	Guarantees Processing Fee	441,224	-
	Other Income	<u>393,717</u>	<u>-</u>
		<u>5,919,772</u>	<u>-</u>
<b>8</b>	<b>FOREIGN EXCHANGE INCOME</b>	<b>2011</b>	<b>2010</b>
		<b>MRf</b>	<b>MRf</b>
		<b>(365 Days)</b>	<b>(275 Days)</b>
	Foreign Exchange Gain	<u>23,549,808</u>	<u>-</u>
		<u>23,549,808</u>	<u>-</u>
<b>9</b>	<b>PERSONNEL COSTS</b>	<b>2011</b>	<b>2010</b>
		<b>MRf</b>	<b>MRf</b>
		<b>(365 Days)</b>	<b>(275 Days)</b>
	Salaries and Wages	7,717,894	1,764,385
	Other Staff Expenses	<u>1,714,537</u>	<u>-</u>
		<u>9,432,431</u>	<u>1,764,385</u>



# NOTES TO THE FINANCIAL STATEMENTS

10 GENERAL AND ADMINISTRATIVE EXPENSES	2011	2010
	MRf	MRf
	(365 Days)	(275 Days)
Rent Expenses	2,601,507	446,250
Legal and Professional Expenses	308,313	127,500
Marketing and Advertising Expenses	342,323	-
Communication Expenses	896,981	-
Technology Related Expenses	811,125	-
Electricity	504,637	10,041
Funds Transfer Expenses	370,117	-
Stationery Cost	473,171	-
Security and Maintenance Expenses	792,258	-
Training and Development Expenses	542,407	-
Shari'a Board related Expenses	194,650	-
Board related Expenses	479,866	-
Travel and Accomodation	451,386	-
Other Operating Expenses	<u>212,164</u>	<u>146,857</u>
	<u>8,980,905</u>	<u>730,648</u>
11 PROVISION FOR IMPAIRMENT	2011	2010
	MRf	MRf
Murabaha	78,498	-
Istisna'a	<u>7,006</u>	<u>-</u>
	<u>85,504</u>	<u>-</u>
12 HIBA TO CUSTOMERS	2011	2010
	MRf	MRf
Hiba Expenses for General Investment Accounts	205,111	-
Hiba Expenses on Savings Accounts	<u>764,558</u>	<u>-</u>
	<u>969,669</u>	<u>-</u>

# NOTES TO THE FINANCIAL STATEMENTS

13 TAX EXPENSE	2011	2010
	MRf	MRf
Income Tax for the year ( Note 13.1)	1,166,008	-
Deferred Tax Expense (Note 13.2)	<u>788,506</u>	<u>-</u>
	<u>1,954,514</u>	<u>-</u>

Income tax has been computed at the rate of 25% on the taxable income for the year in accordance with the bank profit tax regulations issued in September 1999 by the Maldives Inland

13.1 Reconciliation Between Accounting Profit and Taxable Income :	2011	2010
	MRf	MRf
Accounting profit before Tax	7,732,553	-
Aggregate Disallowable Items	2,526,195	-
Aggregate Allowable Items	<u>(5,594,716)</u>	<u>-</u>
Taxable Income for the year	<u>4,664,032</u>	<u>-</u>
Income Tax @ 25%	<u>1,166,008</u>	<u>-</u>

## 13.2 Deferred Tax Liability

Opening balance	-	-
Recognized for the year	788,506	-
Closing balance	788,506	-

## 13.3 Deferred Tax liability is attributable to the following;

	31/12/2011		31/12/2010	
	Temporary Difference	Tax Effect	Temporary Difference	Tax Effect
	MRf	MRf	MRf	MRf
Property, Plant and Equipment	801,940	200,485	-	-
Intangible Assets	<u>2,352,085</u>	<u>588,021</u>	<u>-</u>	<u>-</u>
	<u>3,154,025</u>	<u>788,506</u>	<u>-</u>	<u>-</u>

# NOTES TO THE FINANCIAL STATEMENTS

## 14 BASIC EARNING / (LOSS) PER SHARE

The calculation of basic earning/(loss) per share is based on profit/(loss) for the year/period attributable to the ordinary shareholders and weighted average number of ordinary shares outstanding during the year/period and calculated as follows:

	2011	2010
Profit/(Loss) for the year/period - MRf	5,778,039	(2,495,033)
Weighted Average Number of Ordinary Shares outstanding during the year/period	150,000	25,500
Basic Earnings/(Loss) Per Share - MRf	<u>38.52</u>	<u>(97.84)</u>

## 15 CASH AND BALANCES WITH OTHER BANKS

	2011 MRf	2010 MRf
Cash in Hand	37,912,917	23,367,583
Balances with Other Banks	<u>64,928,483</u>	<u>-</u>
	<u>102,841,400</u>	<u>23,367,583</u>

## 16 BALANCES WITH MALDIVES MONETARY AUTHORITY

	2011 MRf	2010 MRf
Minimum Reserve Requirement (MRR)	79,180,771	-
Operating Balance	<u>271,163,660</u>	<u>-</u>
Total	<u>350,344,431</u>	<u>-</u>

As per the Maldives Monetary Authority's directive, banks are required to maintain a Minimum Reserve Requirement (MRR) with the Authority calculated based on 25% of Customers Deposits. For the whole of the financial year, the Bank had complied with this requirement.

## 17 DUE FROM FINANCING ACTIVITIES

	2011 MRf	2010 MRf
Murabaha	8,091,853	-
Istisna'a	<u>1,156,882</u>	<u>-</u>
Total Due from Financing Activities	9,248,735	-
Less : Deferred Profit	<u>(698,689)</u>	<u>-</u>
	8,550,046	-
Less : Provision for Impairment	<u>(85,504)</u>	<u>-</u>
Net Due from Financing Activities	<u>8,464,542</u>	<u>-</u>

- 17.1 The bank has made 1% general provision for balances due from financing activities according to the regulations issued by the Maldives Monetary Authority (MMA).

# NOTES TO THE FINANCIAL STATEMENTS

<b>18</b>	<b>AVAILABLE FOR SALE INVESTMENT</b>	<b>2011</b>	<b>2010</b>
		<b>MRf</b>	<b>MRf</b>
	Dhivehi Rajjeyge Gulhun PLC		
	Opening Balance	-	-
	Additions during the year	8,000,000	-
	Change in the Fair Value during the year	-	-
	Closing Balance	<u>8,000,000</u>	<u>-</u>
<b>19</b>	<b>OTHER ASSETS</b>	<b>2011</b>	<b>2010</b>
		<b>MRf</b>	<b>MRf</b>
	Refundable Deposits	765,853	-
	Other Receivables	43,830	-
	Prepayments	<u>417,788</u>	<u>-</u>
		<u>1,227,471</u>	<u>-</u>

# NOTES TO THE FINANCIAL STATEMENTS

## 20 PROPERTY, PLANT AND EQUIPMENT

	Leasehold Building MRf	Computer Equipment MRf	Furniture MRf	Office Equipment MRf	Total 2011 MRf	Total 2010 MRf
<b>Cost</b>						
Opening Balance	-	149,156	223,623	1,187,687	1,560,466	-
Transferred from capital WIP	1,530,728	-	-	-	1,530,728	-
Additions during the year/period	<u>467,077</u>	<u>4,326,766</u>	<u>232,637</u>	<u>687,103</u>	<u>5,713,583</u>	<u>1,560,466</u>
As at 31st December	<u>1,997,805</u>	<u>4,475,922</u>	<u>456,260</u>	<u>1,874,790</u>	<u>8,804,777</u>	<u>1,560,466</u>
<b>Depreciation</b>						
Opening Balance	-	-	-	-	-	-
Charge for the year/period	<u>331,250</u>	<u>667,273</u>	<u>71,865</u>	<u>233,711</u>	<u>1,304,099</u>	-
As at 31st December	<u>331,250</u>	<u>667,273</u>	<u>71,865</u>	<u>233,711</u>	<u>1,304,099</u>	-
<b>Net Carrying Value</b>						
As at 31st December 2011	<u>1,666,555</u>	<u>3,808,649</u>	<u>384,395</u>	<u>1,641,079</u>	<u>7,500,678</u>	<u>                    </u>
As at 31st December 2010	<u>-</u>	<u>149,156</u>	<u>223,623</u>	<u>1,187,687</u>	<u>                    </u>	<u>1,560,466</u>
Capital Work in Progress (Note 20.1)					-	1,530,728
					<u>7,500,678</u>	<u>3,091,194</u>

### 20.1 Capital Work in Progress

Opening Balance	1,530,728	1,530,728
Transferred to Property, Plant and Equipment	<u>(1,530,728)</u>	<u>-</u>
Balance as at 31st December	<u>-</u>	<u>1,530,728</u>

# NOTES TO THE FINANCIAL STATEMENTS

21	INTANGIBLE ASSETS	2011	2010
		MRf	MRf
	Cost		
	Opening Balance	1,265,558	-
	Additions during the year/period	<u>9,200,475</u>	<u>1,265,558</u>
	Balance as at 31st December	<u>10,466,033</u>	<u>1,265,558</u>
	Amortization		
	Opening Balance	-	-
	Amortization during the year/period	1,136,592	-
	Balance as at 31st December	1,136,592	-
	Carrying Amount		
	Net Carrying As at 31st December	<u>9,329,441</u>	<u>1,265,558</u>
	The amount paid by the Bank to acquire the Computer softwares, which are not integral part of hardwares, have been recognized as intangible assets.		
22	AMOUNT DUE TO RELATED PARTY	2011	2010
		MRf	MRf
	Advance from Islamic Corporation for the Development of the Private Sector (ICD)	<u>-</u>	<u>4,526,250</u>
		<u>-</u>	<u>4,526,250</u>
23	DEPOSITS	2011	2010
		MRf	MRf
	Current Accounts	179,725,623	-
	Saving Accounts	107,011,562	-
	General Investment Accounts	29,985,898	-
	Margin Accounts	<u>14,298,253</u>	<u>-</u>
		<u>331,021,336</u>	<u>-</u>

# NOTES TO THE FINANCIAL STATEMENTS

24	OTHER LIABILITIES	2011 MRf	2010 MRf
	Accrued Expenses	909,145	193,118
	Banking Profit Tax Payable	1,166,008	-
	Others	<u>539,962</u>	<u>-</u>
		<u>2,615,115</u>	<u>193,118</u>

## 25 SHARE CAPITAL

### 25.1 Authorized Share Capital

The authorized share capital comprises 1,000,000,000 ordinary shares of MRf 1,000/- each.

### 25.2 Issued and Fully Paid

Issued share capital comprises of 150,000 (2010:25,500) ordinary shares of MRf. 1,000 each.

### 25.3 Dividend and Voting Rights

The holders of the ordinary shares are entitled to dividends as declared from time to time and are entitled to one vote per share at the meetings of the Bank.

No dividends have been declared by the board of directors of the Bank for the year ended 31st December 2011.

# NOTES TO THE FINANCIAL STATEMENTS

## 26 STATUTORY RESERVE

According to Maldives Banking Act No 24/2010 a bank shall allocate, after taxes, at least 50% of its net distributable profits for the formation of a capital reserve until the reserve totals 50% of its paid-up capital. Once the reserve reaches 50% of the bank's paid-up capital, the allocation shall not be less than 25% of the bank's net distributable profit until the reserve totals an amount equal to the bank's paid-up capital. A bank may not reduce its capital and the reserve accumulated in the manner described in this section or in any other manner without the MMA's prior approval. Bank has transferred MRf 2,889,019/- (2010: Nil) to the statutory reserve for the year ended 31st December 2011.

## 27 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

### Financial Risk Management

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

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

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

### (i) Credit Risk

Credit risk is the risk that a customer or counterparty to a financial asset will fail to meet its contractual obligations and cause the Company to incur a financial loss. It arises principally from the Company's due from financing activities, balances with banks and financial institutions.

For risk management purpose, credit risk on financing investments is managed independently, and reported as a component of market risk exposure.

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. There is no concentration of credit risk geographically.



# NOTES TO THE FINANCIAL STATEMENTS

The Company's credit risk management framework includes:

- ⇒ Establishment of authorisation structure and limits for the approval and renewal of financing activities
- ⇒ Reviewing and assessing credit exposures in accordance with authorisation structure and limits, prior to facilities being committed to customers. Renewals and reviews of financing activities are subject to the same review process;
- ⇒ Diversification of financing and investment activities;
- ⇒ Reviewing compliance, on an ongoing basis, with agreed exposure limits relating to counterparties, industries and countries and reviewing limits in accordance with risk management strategy and market trends.

In addition, the Company manages the credit exposure by obtaining security where appropriate and limiting the duration of exposure. In certain cases, the Company may also close out transactions or assign them to other counterparties to mitigate credit risk.

## Exposure to Credit Risk

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

	<u>Carrying Amount</u>	
	<u>31/12/2011</u>	<u>30/12/2010</u>
	<u>MRf.</u>	<u>MRf.</u>
Due from Financing Activities	8,464,542	-
Balances with MMA and other Banks	<u>415,272,914</u>	-
	<u>423,737,456</u>	-

Impairment Losses	<u>31/12/2011</u>		<u>31/12/2010</u>	
	Gross MRf.	Impairment MRf.	Gross MRf.	Impairment MRf.

The aging of Due from financing activities at the reporting date was:

Standard (Pass)	8,464,542	-	-	-
Special Mention	-	-	-	-
Substandard	-	-	-	-
Doubtful	-	-	-	-
Loss	<u>-</u>	-	-	-
	<u>8,464,542</u>	-	-	-

# NOTES TO THE FINANCIAL STATEMENTS

## (ii) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial assets. The Company's management reviews the asset and liability position of the Bank on regular basis to ensure that there is no mismatch of assets and liabilities.

# NOTES TO THE FINANCIAL STATEMENTS

31st December 2011	Carrying Amount MRf.	0-12 Months MRf.	1-2 Years MRf.	2-5 Years MRf.	More than 5 years MRf.
<b>Assets</b>					
Cash and Cash Equivalents	102,841,400	102,841,400	-	-	-
Balances with Maldives Monetary Authority	350,344,431	350,344,431	-	-	-
Due from Financing Activities	8,464,542	7,026,248	1,438,294	-	-
Other Assets	1,227,471	1,227,471	-	-	-
Available for Sale Investment	8,000,000	8,000,000	-	-	-
Property, Plant and Equipment	7,500,678	-	-	-	7,500,678
Intangible Assets	9,329,441	-	-	-	9,329,441
	<u>487,707,963</u>	<u>469,439,550</u>	<u>1,438,294</u>	<u>-</u>	<u>16,830,119</u>
<b>Liabilities</b>					
Other Liabilities	2,615,115	2,615,115	-	-	-
Deposits	331,021,336	327,597,050	2,414,692	1,009,594	-
Amounts Due to Related Parties	-	-	-	-	-
Deferred Tax Liability	788,506	-	-	-	788,506
	<u>334,424,957</u>	<u>330,212,165</u>	<u>2,414,692</u>	<u>1,009,594</u>	<u>788,506</u>
<b>Net Gap</b>	<u>153,283,006</u>	<u>139,227,385</u>	<u>(976,398)</u>	<u>(1,009,594)</u>	<u>16,041,613</u>
<b>31st December 2010</b>					
	Carrying Amount MRf.	0-12 Months MRf.	1-2 Years MRf.	2-5 Years MRf.	More than 5 years MRf.
<b>Assets</b>					
Cash and balances with MMA and Other Banks	23,367,583	23,367,583	-	-	-
Due from Financing Activities	-	-	-	-	-
Other Assets	-	-	-	-	-
Property, Plant and Equipment	3,091,194	-	-	-	3,091,194
Intangible Assets	1,265,558	-	-	-	1,265,558
	<u>27,724,335</u>	<u>23,367,583</u>	<u>-</u>	<u>-</u>	<u>4,356,752</u>
<b>Liabilities</b>					
Other Liabilities	193,118	193,118	-	-	-
Deposits	-	-	-	-	-
Amounts Due to Related Parties	4,526,250	4,526,250	-	-	-
	<u>4,719,368</u>	<u>4,719,368</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net Gap</b>	<u>23,004,967</u>	<u>18,648,215</u>	<u>-</u>	<u>-</u>	<u>4,356,752</u>

# NOTES TO THE FINANCIAL STATEMENTS

## (iii) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and profit rates will affect the Company'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 optimizing the return.

## (a) Profit Rate Risk

### Profile

At the reporting date, the profit rate profile of the Bank's profit rate-bearing financial instruments was:

	Carrying Amount	
	31/12/2011	31/12/2010
	MRf.	MRf.
<b>Fixed Rate Instruments</b>		
<b>Financial Assets</b>		
Due from Financing Activities		-
Balances with Other Banks	8,464,542	-
	<u>64,928,483</u>	<u>-</u>
	<u>73,393,025</u>	<u>-</u>
<b>Financial Liabilities</b>		
Deposits	331,021,336	-
	<u>331,021,336</u>	<u>-</u>

## (b) Profit Rate Sensitivity

31st December 2011	Carrying Amount	0-12 Months	1-2 Years	2-5 Years	Non rate Sensitive	Total
	MRf.	MRf.	MRf.	MRf.		
<b>Assets</b>						
Cash and Cash Equivalents	102,841,400	102,841,400	-	-	102,841,400	102,841,400
Balances with Maldives Monetary Authority	350,344,431	350,344,431	-	-	350,344,431	350,344,431
Due from Financing Activities	<u>8,464,542</u>	<u>7,026,248</u>	<u>1,438,294</u>	<u>-</u>	<u>-</u>	<u>8,464,542</u>
	<u>461,650,372</u>	<u>460,212,078</u>	<u>1,438,294</u>	<u>-</u>	<u>453,185,830</u>	<u>461,650,372</u>

# NOTES TO THE FINANCIAL STATEMENTS

## Liabilities

Other Liabilities	2,615,115	2,615,115	-	-	2,615,115	2,615,115
Deposits	<u>331,021,336</u>	<u>327,597,050</u>	<u>2,414,692</u>	<u>1,009,594</u>	<u>-</u>	<u>331,021,336</u>
	<u>333,636,451</u>	<u>330,212,165</u>	<u>2,414,692</u>	<u>1,009,594</u>	<u>2,615,115</u>	<u>333,636,451</u>
Profit Rate Sensitivity Gap	<u>128,013,921</u>	<u>129,999,913</u>	<u>(976,398)</u>	<u>(1,009,594)</u>	<u>450,570,715</u>	<u>128,013,921</u>

## 31st December 2010

	Carrying Amount MRf.	0-12 Months MRf.	1-2 Years MRf.	2-5 Years MRf.	Non rate Sensitive	Total
<b>Assets</b>						
Cash and Cash Equivalents	23,367,583	23,367,583	-	-	23,367,583	23,367,583
Balances with Maldives Monetary Authority	-	-	-	-	-	-
Due from Financing Activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>23,367,583</u>	<u>23,367,583</u>	<u>-</u>	<u>-</u>	<u>23,367,583</u>	<u>23,367,583</u>
<b>Liabilities</b>						
Other Liabilities	1,265,558	1,265,558	-	-	1,265,558	1,265,558
Deposits	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>1,265,558</u>	<u>1,265,558</u>	<u>-</u>	<u>-</u>	<u>1,265,558</u>	<u>1,265,558</u>
Profit Rate Sensitivity Gap	<u>22,102,025</u>	<u>22,102,025</u>	<u>-</u>	<u>-</u>	<u>22,102,025</u>	<u>22,102,025</u>

### ( c ) Sensitivity Analysis - Equity Price Risk

For investments classified as available for sale, a 2% increase in the Maldives Stock Exchange would have increased equity by MRf 160,000/-.

### (iv) Exposure to currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instrument denominated in a foreign currency. The Board of directors has set limits on positions by currency in line with Maldives Monetary Authority's Prudential Regulation on Foreign Currency Exposure Limits No. 11-2009.

As at 31.12.2011, the Bank's "overall" foreign exchange risk exposure stood at 27% which is within the prudential limit of 40%. The "single" currency foreign exchange risk exposure, which principally was in USD, exceeded the 15% prudential limit by 5%. The excess has since been rectified.

# NOTES TO THE FINANCIAL STATEMENTS

The Company's exposure to foreign currency risk is as follows based on notional amounts:

	31/12/2011			31/12/2010
	SGD	Euro	US\$	US\$
Cash and Cash Equivalents				
	64	551,206	9,717,054	-
Murabaha Financing	-	-	357,870	-
Deposits	-	(46,683)	(7,283,680)	-
Bank Overdrafts				
Margin Accounts	-	-	654,884	-
Net statement of financial position exposure	<u>64</u>	<u>504,523</u>	<u>3,446,128</u>	<u>-</u>

## Sensitivity Analysis

A strengthening (weakening) of the MRf, as indicated below, against the USD, Euro and SGD as at 31st December would have increased (decreased) profit or loss by the amounts shown below.

	2011		2010	
	Strength- ening	Weakening	Strength- ening	Weakening
SGD (10% Movement)	76	(76)	-	-
Euro (10% Movement)	1,013,920	(1,013,920)	-	-
US\$ (10% Movement)	5,313,930	(5,313,930)	-	-
	Average Rate		Reporting Date	
	2011	2010	2011	2010
US\$ 1 : MRf	14.11	12.85	15.42	12.85

## (v) Capital management

The Regulator of the Bank, Maldives Monetary Authority, sets and monitors capital requirements for the Branch. In implementing current capital ratio requirements, Maldives Monetary Authority requires the Bank to maintain prescribed minimum ratios.

The Company's debt to adjusted capital ratio at the end of the reporting period was as follows:

	31/12/2011	31/12/2010
	MRf.	MRf.
Core Capital	147,504,967	-
Capital Base	153,368,543	-
Risk Weighted Assets	47,509,000	-
Core Capital Ratio (Minimum 6%)	<u>32%</u>	<u>-</u>

# NOTES TO THE FINANCIAL STATEMENTS

## (vi) Fair value versus carrying amount

As at 31st December 2011	Loans and Receivables	Available for Sale	Other financial Liabilities	Total carrying amount	Fair value
<b>Assets</b>					
Cash and Cash Equivalents	102,841,400	-	-	102,841,400	102,841,400
Balances with Maldives Monetary Authority	350,344,431	-	-	350,344,431	350,344,431
Due from Financing Activities	8,464,542	-	-	8,464,542	8,464,542
Available for Sale Investment	-	8,000,000	-	8,000,000	8,000,000
	<u>461,650,372</u>	<u>8,000,000</u>	<u>-</u>	<u>469,650,372</u>	<u>469,650,372</u>
<b>Liabilities</b>					
Amounts due to Related Party	-	-	-	-	-
Customers' Accounts	-	-	331,021,336	331,021,336	331,021,336
Other Liabilities	-	-	2,615,115	2,615,115	2,615,115
	<u>-</u>	<u>-</u>	<u>333,636,451</u>	<u>333,636,451</u>	<u>333,636,451</u>
<b>As at 31st December 2010</b>					
	Loans and Receivables	Available for Sale	Other financial Liabilities	Total carrying amount	Fair value
<b>Assets</b>					
Cash and Cash Equivalents	23,367,583	-	-	23,367,583	23,367,583
Balances with Maldives Monetary Authority	-	-	-	-	-
Due from Financing Activities	-	-	-	-	-
Available for Sale Investment	-	-	-	-	-
	<u>23,367,583</u>	<u>-</u>	<u>-</u>	<u>23,367,583</u>	<u>23,367,583</u>
<b>Liabilities</b>					
Amounts due to Related Party	-	-	4,526,250	4,526,250	4,526,250
Customers' Accounts	-	-	-	-	-
Other Liabilities	-	-	193,118	193,118	193,118
	<u>-</u>	<u>-</u>	<u>4,719,368</u>	<u>4,719,368</u>	<u>4,719,368</u>
	<u>-</u>	<u>-</u>	<u>9,438,736</u>	<u>9,438,736</u>	<u>9,438,736</u>

# NOTES TO THE FINANCIAL STATEMENTS

## (vii) Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial Assets Classified as Available for Sale	8,000,000	-	-
	<u>8,000,000</u>	<u>-</u>	<u>-</u>

## 28 COMMITMENTS

There were no material capital commitments approved or contracted as at the reporting date.

## 29 CONTINGENT LIABILITIES

	2011 MRf	2010 MRf
Letter of Credits	13,613,495	-
Guarantees and Bonds	<u>15,266,812</u>	<u>-</u>
	<u>28,880,307</u>	<u>-</u>

## 30 RELATED PARTY TRANSACTIONS

Name of the Related Party	Relationship	Nature of the Transaction	Amount MRf.	Balance as at 31/12/2011 MRf.	Balance as at 31/12/2010 MRf.
Islamic Corporation for the Development of the Private Sector (ICD)	Shareholder	Advance Received	4,526,250	-	4,526,250

There were no related party transactions taken place during the year 2011.



# NOTES TO THE FINANCIAL STATEMENTS

## **30.1 TRANSACTION WITH DIRECTORS AND KEY MANAGEMENT PERSONNEL**

The Company has paid MRF 2,257,125/- as emoluments to the Directors and key management personnel during the period ended 31<sup>st</sup> December 2011.

## **31 EVENTS AFTER THE REPORTING DATE**

There are no events after the reporting date other than matters described above which require adjustments to/or disclosure in the financial statements.

## **32 MANAGEMENT'S RESPONSIBILITY**

The management of the Company is responsible for the preparation and presentation of these financial statements.

## **33 COMPARATIVE FIGURES**

Comparative figures have been reclassified wherever appropriate to confirm with the current year presentation.







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