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Maldives Islamic Bank Pvt Ltd

(Incorporated in Republic of Maldives)

Company No: C-0255/2010

CORPORATE INFORMATION

BOARD OF DIRECTORS

Mr. Najmul Hassan (Chairman)

Mr. Mohamed Ahmed

Mr. Ahmed Khizer Khan

Mr. Mohammed Ataur Rahman Chowdhury

Mr. Mohammed Ali Alammari

Mrs. Juwairiya Saeed

Mr. Harith Bin Harun (Managing Director & CEO)

COMPANY SECRETARY

Mr. Hussain Ali Habeeb

REGISTERED OFFICE

H. Coconut Villa

Ameer Ahmed Magu, Male' 20030

Republic of Maldives

AUDITORS

KPMG

The Directors hereby submit their report together with the audited financial statements of the Bank for the financial year ended 31 December 2012.

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

	<u>MVR'000</u>	
	2012	2011
Profit before taxation	(15,102)	7,733
Taxation	(1,786)	(1,955)
Net profit (loss) after taxation	(16,888)	5,778

DIVIDENDS

The Directors do not recommend the payment of any dividend in respect of the financial year ended 31 December 2012.

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, and have satisfied themselves that there is no known bad financing to be written off and that adequate allowances had been made for any bad and doubtful financing assets that may occur.

At the date of this report, the Directors are not aware of any circumstances which would render the amount of the allowance for doubtful financing assets in the financial statements of the Bank, inadequate to any substantial extent.

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- resigned in 7th October 2012)
- Mr. Najmul Hassan (appointed w.e.f. 20th November 2012)
- Mr. Ahmed As-ad (resigned in 8th October 2012)
- Mr. Mohamed Ahmed (appointed w.e.f. 8th October 2012, pending MMA's approval)
- Mr. Ahmed Khizer Khan
- Mr. Basel A. Al-Hag-Issa (resigned in 6th June 2012)
- Mohammed Aatur Rahman Chowdhury (appointed w.e.f. 8th October 2012)
- Mr. Ahmed Abdul Khalid (resigned in 8th October 2012)
- Mohammed Ali Alammari (appointed w.e.f. 8th October 2012)
- Mrs. Juwairiya Saeed
- Mr. Harith Bin Harun (Managing Director & CEO)

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 2012 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 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.

i. Board of Directors Responsibility and Oversight

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.

The Management Committee, headed by the Managing Director & Chief Executive Officer, is responsible for the implementation of the strategies and internal control as well as monitoring the Bank's 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.

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	Total meetings attended
Mr. Khaled Mohammed Al-Aboodi (resigned in 7 th October 2012) <i>Chairman/ Non- Independent Non-Executive Director</i>	3/5
Mr. Najmul Hassan (appointed w.e.f. 20 th November 2012) <i>Chairman/ Non- Independent Non-Executive Director</i>	3/3
Mr. Ahmed As-ad (resigned in 8 th October 2012) <i>Non- Independent Non-Executive Director</i>	5/5
Mr. Mohamed Ahmed (w.e.f. 8 th October 2012 pending MMA's approval) <i>Non- Independent Non-Executive Director</i>	3/3
Mr. Ahmed Khizer Khan <i>Non- Independent Non-Executive Director</i>	8/8
Mr. Basel A. Al-Hag-Issa (resigned in 6 th June 2012) <i>Non- Independent Non-Executive Director</i>	1/3
Mohammed Aatur Rahman Chowdhury (appointed w.e.f. 8 th October 2012) <i>Non- Independent Non-Executive Director</i>	5/5
Mr. Ahmed Abdul Khalid (resigned in 8 th October 2012) <i>Non- Independent Non-Executive Director</i>	4/4
Mohammed Ali Alammari (appointed w.e.f. 8 th October 2012) <i>Non- Independent Non-Executive Director</i>	4/4
Mrs. Juwairiya Saeed <i>Independent Non-Executive Director</i>	7/8
Mr. Harith Bin Harun (Managing Director & CEO) <i>Non- Independent Non-Executive Director</i>	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.

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.
- 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 2012, a total of four (04) meetings were held. The Shari'ah Board comprises the following members and the details of attendance of each member at the Shari'ah Board meetings held during the financial year are as follows:

Member	Total Meetings Attended
Dr. Ejaz Ahmed Samadani	4/4
Mufti Mohammed Rizwe Bin Ibrahim	4/4
Sheikh Fayyadh Ali Manik	4/4

RATING BY EXTERNAL RATING AGENCIES

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

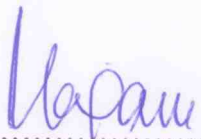
ZAKAT OBLIGATIONS

The Bank did not pay zakat on behalf of its depositors or shareholders during the financial year.

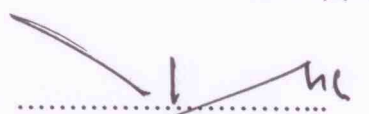
AUDITORS

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 08 April 2013.



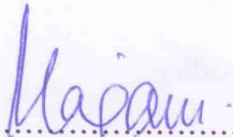
.....
Mr. Najmul Hassan
Chairman


.....
Mr. Harith Bin Harun
Managing Director & CEO

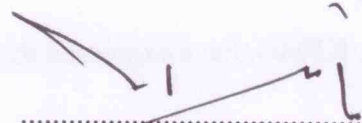
STATEMENT BY DIRECTORS

PURSUANT TO SECTION 46 (a) OF THE MALDIVES BANKING ACT (24/2010)

We, Najmul Hassan and Harith Bin Harun, two of the Directors of MALDIVES ISLAMIC BANK PVT LTD, state that, in the opinion of the Directors, the accompanying financial statements set out on pages 16 to 42 are drawn up so as to give a true and fair view of the state of affairs of the Bank as at 31 December 2012 and of the results and cash flows of the Bank in accordance with the International Financial Reporting Standards (IFRS).



.....
Najmul Hassan
Chairman



.....
Harith Bin Harun
Managing Director & CEO

Signed on behalf of the Board of Directors in accordance with their resolution dated 08 April 2012.

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 2012. We have also conducted our review to form an opinion as to whether the Bank's activities have 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 business activities were conducted in compliance with the principles of Shariah.

In our opinion:

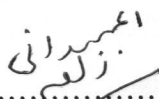
- A. The contracts, transactions and dealings relating to the Bank's activities during the year ended 31st December 2012 that we have reviewed were in compliance with Shariah to a ***satisfactory*** level.
- B. We have noted areas that require improvement in the mode of operation and documentation for certain financing transactions of the Bank such as *Murabaha*, *Ijarah*, *Istisna'a*, *Diminishing Musharaka* and fee based facilities such as *Wakalah Letter of Credit* and *Kafalah Bank Guarantee* that require rectification. We have provided guidelines to implement the required improvements; and
- C. On the management of the *Mudaraba Pool* (Liability side), we found that the allocation of profit and charging of losses relating to *Mudaraba* investment accounts conform overall to the policies and procedures approved by the Shariah Board and regarding margin account, we have given some ruling to achieve the required improvements.


Wallahu A'lam.

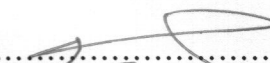
We beg Allah the Almighty to grant us all the success and straight-forwardness.

Wassalamualaikum Wa Rahmatullah Wa Barakatuh

28 March 2013


.....
Dr. Ejaz Ahmed Samadani
Chairman


.....
Mufthi M I M Rizwe
Member


.....
Shiekh Fayyadh Ali Manik
Member



KPMG
(Chartered Accountants)
2nd Floor, H. Mialani
Sosun Magu,
Male',
Republic of Maldives.

Tel : +960 3310 420
+960 3310 421
+960 3310 422
+960 3323 393
Fax : +960 3323 175
E-mail : kpmgm@kpmg.com

**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 2012, and the statements of comprehensive income, changes in equity and cash flows for the year then ended 31st December 2012 and notes, comprising a summary of significant accounting policies and other explanatory information set out in pages 20 to 42.

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 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 Bank 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

8th April 2013
Male'



KPMG in the Maldives is a Partnership registered in the Republic of Maldives, a foreign branch of KPMG, the Sri Lankan member firm of the KPMG network of independent member firms affiliated with KPMG International cooperative ("KPMG International"), a Swiss entity.

M.R. Mihular FCA
T.J.S. Rajakarier FCA
Ms. S.M.B. Jayasekara ACA
M.N.M. Shameel ACA
Principal - S.R.I. Perera ACMA, LLB, Attorney-at-Law.

~~Perera Perera FCA~~
W.W.J.C. Perera FCA
W.K.D.C. Abeyrathne ACA
M. N. M Shameel ACA

C.P. Jayatilake FCA
Ms. S. Joseph FCA
S.T.D.L. Perera FCA

MALDIVES ISLAMIC BANK PRIVATE LIMITED
(INCORPORATED IN THE REPUBLIC OF MALDIVES)
STATEMENT OF FINANCIAL POSITION

AS AT 31ST DECEMBER

	Note	2012 MVR	2011 MVR
ASSETS			
Cash and Balances with Other Banks	6	67,118,072	102,841,400
Balances with Maldives Monetary Authority	7	475,286,674	350,344,431
Net Receivables from Financing Activities	8	98,762,612	8,464,542
Investments in Placements	9	35,395,000	-
Investments in Ijarah Assets	10	3,456,646	-
Available for Sale Investment	11	7,900,000	8,000,000
Other Assets	12	3,307,169	1,227,471
Property, Plant and Equipment	13	9,863,450	7,500,678
Intangible Assets	14	8,664,638	9,329,441
Total Assets		<u>709,754,261</u>	<u>487,707,963</u>
LIABILITIES			
Customers' Accounts	15	567,898,803	331,021,336
Other Liabilities	16	2,986,347	2,615,115
Deferred Tax Liability	28.2	2,574,871	788,506
Total liabilities		<u>573,460,021</u>	<u>334,424,957</u>
EQUITY			
Share Capital	17	150,000,000	150,000,000
Fair Value Reserve	18	(100,000)	-
Statutory Reserve	19	2,889,019	2,889,019
(Accumulated Losses) / Retained Earnings		(16,494,779)	393,987
Total Equity		<u>136,294,240</u>	<u>153,283,006</u>
Total Liabilities and Equity		<u>709,754,261</u>	<u>487,707,963</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 pages 20 to 42. The Report of the Auditors is given in pages 15.

For and on behalf of the Board:

Name of the Director

...HARITH BIN HARUN...

...NAJMUL HASSAN...

Signature

(Handwritten signature in blue ink)

8th April 2013

**MALDIVES ISLAMIC BANK PRIVATE LIMITED
(INCORPORATED IN THE REPUBLIC OF MALDIVES)
STATEMENT OF COMPREHENSIVE INCOME**

FOR THE YEAR ENDED 31ST DECEMBER

	Note	2012 MVR	2011 MVR
Income from Financing	20	5,655,635	172,173
Profit Paid on Customer Accounts	21	<u>(1,717,638)</u>	<u>(969,669)</u>
Net Spread Earned on Financing Activities		3,937,997	(797,496)
Commission and Fees Income	22	10,557,327	5,919,772
Foreign Exchange Gain	23	731,922	23,549,808
Income from Investment in Shares and Securities	24	801,000	-
Total Operating Income		<u>16,028,246</u>	<u>28,672,084</u>
Personnel Costs	25	(12,618,526)	(9,432,431)
General and Administrative Expenses	26	(13,131,080)	(8,980,905)
Depreciation and Amortization	27	<u>(4,431,896)</u>	<u>(2,440,691)</u>
Total Operating Expenses		<u>(30,181,502)</u>	<u>(20,854,027)</u>
Profit/(Loss) before Provisions and Tax		(14,153,256)	7,818,057
Net Provision for Impairment on Financing Activities	8.1	<u>(949,145)</u>	<u>(85,504)</u>
(Loss) / Profit before Tax		(15,102,401)	7,732,553
Current Tax	28	-	(1,166,008)
Deferred Tax	28	(1,786,365)	(788,506)
(Loss) / Profit for the Year		<u>(16,888,766)</u>	<u>5,778,039</u>
Other Comprehensive Income			
Change in fair value of Investments Available-for-sale	18	(100,000)	-
Total comprehensive (loss) / Income for the Year		<u>(16,988,766)</u>	<u>5,778,039</u>
Basic (Loss) / Earnings Per Share	29	(113)	38.52

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 20 to 42. The Report of the Auditors is given in pages 15.

**MALDIVES ISLAMIC BANK PRIVATE LIMITED
(INCORPORATED IN THE REPUBLIC OF MALDIVES)
STATEMENT OF CHANGES IN EQUITY**

FOR THE YEAR ENDED 31ST DECEMBER 2012

	Share Capital	Statutory Reserve	Fair Value Reserve	(Accumulated Losses)/Retained Earnings	Total
	MVR	MVR	MVR	MVR	MVR
As at 1 st 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
Total Comprehensive Income for the Year	-	-	-	5,778,039	5,778,039
Transferred during the Year	-	2,889,019	-	(2,889,019)	-
As at 31 st December 2011	<u>150,000,000</u>	<u>2,889,019</u>	<u>-</u>	<u>393,987</u>	<u>153,283,006</u>
As at 1 st January 2012	150,000,000	2,889,019	-	393,987	153,283,006
Loss for the year	-	-	-	(16,888,766)	(16,888,766)
Change in fair value of investment available for sale (Note 18)	-	-	(100,000)	-	(100,000)
Total Comprehensive Income for the Year	-	-	(100,000)	(16,888,766)	(16,988,766)
As at 31 st December 2012	<u>150,000,000</u>	<u>2,889,019</u>	<u>(100,000)</u>	<u>(16,494,779)</u>	<u>136,294,240</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 pages 20 to 42. The Report of the Auditors is given in pages 15.

**MALDIVES ISLAMIC BANK PRIVATE LIMITED
(INCORPORATED IN THE REPUBLIC OF MALDIVES)
STATEMENT OF CASH FLOWS**

FOR THE YEAR ENDED 31ST DECEMBER

	Note	2012 MVR	2011 MVR
Cash flows from operating activities			
(Loss) / Profit before tax		(15,102,401)	7,732,553
<i>Adjustments for:</i>			
Depreciation and Amortization	27	4,431,896	2,440,691
Dividend Income	24	(801,000)	
Provision for Impairment net of Recoveries	8.1	949,145	85,504
Operating profit / loss before changes in Operating Assets and Liabilities		<u>(10,522,360)</u>	<u>10,258,748</u>
Change in Customers' Accounts		236,877,467	331,021,336
Change in Other Assets		(2,079,698)	(1,227,471)
Change in Other Liabilities		371,232	1,255,989
Change in Receivables from Financing Activities		(91,247,215)	(8,550,046)
Change in Investments in Ijara Assets		(3,666,741)	-
Change in Balances with Related Parties		-	(4,526,250)
Cash generated from operating activities		<u>129,732,685</u>	<u>328,232,306</u>
Cash flows from investing activities			
Acquisition of Property, Plant and Equipment	13	(4,851,925)	(5,713,583)
Acquisition of Intangible Asset	14	(1,067,845)	(9,200,475)
Acquiring of Available for Sale Investment	11	-	(8,000,000)
Dividend Income	24	801,000	-
Investment in Placements	9	(35,395,000)	-
Net Cash Used in investing activities		<u>(40,513,770)</u>	<u>(22,914,058)</u>
Cash flows from financing activities			
Issue of shares	17.2	-	124,500,000
Net Cash from financing activities		<u>-</u>	<u>124,500,000</u>
Net increase in cash and cash equivalents		89,218,915	429,818,248
Cash and cash equivalents at the beginning of the year		<u>453,185,831</u>	<u>23,367,583</u>
Cash and cash equivalents at the end of the year	6 & 7	<u>542,404,746</u>	<u>453,185,831</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 pages 20 to 42. The Report of the Auditors is given in pages 15.

**MALDIVES ISLAMIC BANK PRIVATE LIMITED
(INCORPORATED IN THE REPUBLIC OF MALDIVES)
NOTES TO THE FINANCIAL STATEMENTS**

3. SIGNIFICANT ACCOUNTING POLICIES

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 H.Coconut Villa, Ameer Ahamed Magu, Male’ 20030, Republic of Maldives.

The Bank provides full range of banking services based on Shari’a 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 that are measured at fair value.

(c) Functional and Presentation Currency

These returns are presented in Maldivian Rufiyaa, which is the Bank's functional currency, except as otherwise indicated, financial information presented in Maldivian Rufiyaa. All financial information presented in Maldivian Rufiyaa has been rounded to the nearest 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 to all period presented in these financial statements by the Bank.

**MALDIVES ISLAMIC BANK PRIVATE LIMITED
(INCORPORATED IN THE REPUBLIC OF MALDIVES)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 foreign currencies are translated to Maldivian Rufiyaa at the exchange rate ruling at the reporting date. Foreign exchange differences arising on translation are recognized in the profit or loss.

Non-monetary assets and liabilities, which are measured at historical cost, denominated in foreign currencies 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 foreign currencies are translated to Maldivian Rufiyaa at the exchange rates ruling at the dates the values were determined.

3.2 Income from Financing and Investment Activities

- Income on financing contracts of Murabaha is recognized on time apportionment basis using the decline installment method. When receivables from Murabaha become non-performing and where collectability is doubtful, income is suspended as per the instruction of Maldives Monetary Authority.
- Income on Istisna'a financing is recognized on time apportioned basis over the period and the profit rate is determined in advance upon agreement of all parties. When receivables from Istisna'a become non-performing and where collectability is doubtful, income is suspended as per the instruction of Maldives Monetary Authority.
- Ijarah income is recognized on time apportioned basis over the period and the profit rate is determined in advance upon agreement of all parties. When receivables from Ijarah become non-performing and where collectability is doubtful, income is suspended as per the instruction of Maldives Monetary Authority.
- Income on Mudaraba financing is recognized when the right to receive payment is established or distribution by the Mudarib. In case of losses in Mudaraba, the bank's share of losses is being deducted from its share of Mudarib capital. The bank's share as a Mudarib is accrued based on the terms and conditions of the related Mudaraba agreements.
- Income from short-term placements is recognized on a time-apportioned basis over the period of the contract using the effective profit rate method. The effective profit is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of a financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective profit rate is established on initial recognition of the financial asset and liability and is not revised subsequently.
- Placement fees for arranging a financing between a borrower and investor and other investment income are recognized on an accrual basis.
- Income from dividends is recognized when the right to receive the dividend is established.

**MALDIVES ISLAMIC BANK PRIVATE LIMITED
(INCORPORATED IN THE REPUBLIC OF MALDIVES)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 at the reporting date.

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 Instruments

(i) Recognition

The Bank initially recognizes receivables from financing activities, Mudaraba, debt securities issued and subordinated liabilities on the date at which they are originated. Regular way 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 are initially recognized on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

**MALDIVES ISLAMIC BANK PRIVATE LIMITED
(INCORPORATED IN THE REPUBLIC OF MALDIVES)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial Instruments (Continued)

(i) Recognition (Continued)

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.

(ii) De-recognition

The Bank de-recognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any installment in transferred financial assets that qualify for de- recognition that is created or retained by the Bank is recognised as a separate asset or liability in the statement of financial position.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not de-recognised. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and re-purchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is de-recognised if it meets the de- recognition criteria. An asset or liability is recognised for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The Bank de- recognises a financial liability when its contractual obligations are discharged or cancelled or expire.

(iii) Offsetting

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

Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a Bank of similar transactions such as in the Bank's trading activity.

**MALDIVES ISLAMIC BANK PRIVATE LIMITED
(INCORPORATED IN THE REPUBLIC OF MALDIVES)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial Instruments (Continued)

(iv) Fair value Measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

(v) Identification and Measurement of Impairment

The Bank follows requirements specified by Maldives Monetary Authority in identification and measurement of impairment of loans and advances on following basis.

General Loan Loss Provision Requirement

As per Prudential Regulations No. 05 – 2009 promulgated by Maldives Monetary Authority, a general loan loss provision not less than 1% based on performing advances and 5% on advances classified as “specially mentioned” is established.

(vi) 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, Istisna'a, Ijarah financing and other receivables.

(vii) Available-for-sale Financial Assets

The Bank's investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses on available-for sale equity instruments is recognized in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

(viii) Cash and Cash Equivalents

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

**MALDIVES ISLAMIC BANK PRIVATE LIMITED
(INCORPORATED IN THE REPUBLIC OF MALDIVES)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial Instruments (Continued)

(ix) Financial Liabilities (Non- dérivative)

The Bank initially recognizes subordinated liabilities on the date that they are originated. All other financial liabilities are recognized initially on the trade date at which the Bank becomes a party to the contractual provisions of the instrument. The Bank de-recognizes 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 customers' Accounts 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.

Customer Accounts comprise following products.

(a) Current Accounts

Current Account is a deposit account which offers customers a flexible and powerful way to manage their everyday finances. This type of account is based on the Sharia'a concept of Wadei'ah and doesn't earn any profit.

(b) Savings Accounts

Savings Account is a profit earning account which offers individuals a way to share in MIB profit distributions by investing their savings in a Sharia'a compliant manner.

The Bank invests deposited funds and shares the profits between the bank and the investor based on the bank's declared profit ratio at the end of each month following the concept of Mudarabah.

(c) General Investment Accounts

General Investment Account is a profit earning account which offers individuals a way to share in MIB profit distributions by investing their money in a Sharia'a compliant manner based on Mudarabah concept.

The Bank invests deposited funds and shares the profits between the bank and the investor based on the bank's declared profit rate at the end of each month and paid on maturity date.

(d) Margin Accounts

Margin accounts are usually security deposit accounts held by the bank on both Wakalah and Kafalah based financing arrangements provided by the bank. These accounts are currently structured as non-profit sharing accounts.

**MALDIVES ISLAMIC BANK PRIVATE LIMITED
(INCORPORATED IN THE REPUBLIC OF MALDIVES)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial Instruments (Continued)

(x) 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 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 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 recognized net within other income in profit or loss.

(ii) Subsequent Costs

The cost of replacing a part of an item of property or 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 the Bank and its cost can be measured reliably.

The carrying amount of the replaced part is de-recognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

(iii) Depreciation

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 and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

**MALDIVES ISLAMIC BANK PRIVATE LIMITED
(INCORPORATED IN THE REPUBLIC OF MALDIVES)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Property, Plant and Equipment (Continued)

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
Motor Vehicle	5 Years

Depreciation methods, useful lives and residual values are reassessed at the reporting date. Depreciation starts from the date on which the asset is available for use.

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 profit or loss 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	5 Years
Core Banking and Database software	7 Years

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 represents the object of the murabaha) and then resells this commodity to the Murabaha (beneficiary) after computing a margin of profit over cost. The sale price (cost plus the profit margin) is repaid in installments by the Murabaha over the agreed period.

**MALDIVES ISLAMIC BANK PRIVATE LIMITED
(INCORPORATED IN THE REPUBLIC OF MALDIVES)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Receivables and Balances from Financing Activities (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 we in advance, by installments or deferred to a specific future time. Istisna'a Contracts represent the disbursements made as of the reporting date against the assets acquired for istisna'a project plus income recognized, less repayment received.

3.8 Receivables and Balances from Financing Activities

Ijarah

Ijarah is an operating lease contract whereby the economic benefit of the leased assets is borne by the lessee over the lease period, the total receivable from Ijarah consists the net of historical cost after the deduction of Accumulated depreciation.

Shari'a Board

The Bank's activities are subject to the supervision of a Shari'a 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 recognized if the carrying amount of an asset or a cash generating unit exceeds its recoverable amount. Impairment losses, if any, are recognized in profit or loss.

In respect of other assets, impairment losses recognized 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 amortization, if no impairment loss had been recognized.

**MALDIVES ISLAMIC BANK PRIVATE LIMITED
(INCORPORATED IN THE REPUBLIC OF MALDIVES)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Impairment of Non-Financial Assets (continued)

3.10 Provisions

A provision is recognized 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 recognized 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 recognizes 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 expenses 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.

Expenses incurred for the purpose of acquiring, expanding or improving assets of a permanent nature by means of which to carry on the business or for the purpose of increasing the earning capacity of the Bank have been treated as capital expenses.

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.

**MALDIVES ISLAMIC BANK PRIVATE LIMITED
(INCORPORATED IN THE REPUBLIC OF MALDIVES)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. DETERMINATION OF FAIR VALUES (continued)

(vii) Receivables

The fair value of other receivables and from financing activities is estimated as the present value of future cash flows.

(ii) Asset Available for Sale

The fair value of investment in equity is determined with reference to their quoted closing bid price at the measurement date.

(iii) 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 YET ADOPTED

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1st January 2013, and have not been applied in preparing these financial statements.

MALDIVES ISLAMIC BANK PRIVATE LIMITED
(INCORPORATED IN THE REPUBLIC OF MALDIVES)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS AT 31ST DECEMBER 2012

6 CASH AND BALANCES WITH OTHER BANKS	2012	2011
	MVR	MVR
Cash in Hand (Note 6.1)	34,726,874	37,912,917
Balances with Other Banks (Note 6.2)	32,391,198	64,928,483
	<u>67,118,072</u>	<u>102,841,400</u>

6.1 CASH IN HAND	2012			2011		
	Foreign Currency	Exchange Rate	Carrying Amount	Foreign Currency	Exchange Rate	Carrying Amount
US Dollars in hand	1,687,191	15.395	25,974,305	1,728,519	15.395	26,610,550
EURO in Hand	22,356	19.946	445,903	153,875	20.252	3,116,307
SGD in Hand	-	-	-	76	-	757
MVR in Hand	-	-	8,306,666	-	-	8,185,303
Total Cash in Hand			<u>34,726,874</u>			<u>37,912,917</u>

6.2 BALANCE WITH OTHER BANKS	2012			2011		
	Foreign Currency	Exchange Rate	Carrying Amount	Foreign Currency	Exchange Rate	Carrying Amount
Habib Amercian Bank (US\$)	1,805,062	15.395	27,788,934	-	-	-
Commerz Bank (US\$)	277,749	15.395	4,275,938	3,572,400	15.395	54,997,103
Commerz Bank (EUR)	11,111	19.945	221,606	393,096	20.252	7,961,056
Bank of Maldives (US\$)	296	15.395	4,554	95,496	15.395	1,470,158
Bank of Maldives (MVR)	-	-	100,166	-	-	500,166
Total Balance with Other Banks			<u>32,391,198</u>			<u>64,928,483</u>

The bank has its notro accounts at both Habib American Bank and Commerz Bank. Both these accounts are operated to facilitate its foreign remittance activities and trade finance activities.

7 BALANCES WITH MALDIVES MONETARY AUTHORITY	2012	2011
	MVR	MVR
Minimum Reserve Requirement (MRR) (Note 7.1)	141,989,076	79,180,771
Balance in Excess of MRR with MMA (Note 7.2)	333,297,598	271,163,660
Total Balance with MMA	<u>475,286,674</u>	<u>350,344,431</u>

7.1 Minimum Reserve Requirement

As per the prevailing regulations of Maldives Monetary Authority (MMA), the Bank is required to maintain a reserve deposit based on 25% of the Customer's deposits with the Bank. As at the reporting date, average reserve deposit requirement is MRf 141,989,076/- (2011: 79,180,771/-). The Bank has maintained the minimum reserve requirement according to the regulations issued by the Maldives Monetary Authority (MMA).

7.2 Balance in Excess to Minimum Rserve Requirement

The balance in excess of MRR does not carry any return and those funds will be utilized for future financing activities of the Bank.

**MALDIVES ISLAMIC BANK PRIVATE LIMITED
(INCORPORATED IN THE REPUBLIC OF MALDIVES)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

AS AT 31ST DECEMBER 2012

8 RECEIVABLES FROM FINANCING ACTIVITIES

	2012 MVR	2011 MVR
Murabaha	62,562,083	8,091,853
Istisna'a	70,191,934	1,156,882
Total Receivables from Financing Activities	<u>132,754,017</u>	<u>9,248,735</u>
Less : Deferred Profit	<u>(32,956,756)</u>	<u>(698,689)</u>
	99,797,261	8,550,046
Less : Provision for Impairment(Note 8.1)	<u>(1,034,649)</u>	<u>(85,504)</u>
Net Receivables from Financing Activities	<u><u>98,762,612</u></u>	<u><u>8,464,542</u></u>

8.1 Movement in General Provision

As at 1 st January	85,504	-
Add: Provision made during the year	957,218	85,504
Less: Provision reversed during the year	<u>(8,073)</u>	<u>-</u>
As at 31 st December	<u>1,034,649</u>	<u>85,504</u>
Net movement in General Provision during the year	<u>949,145</u>	<u>85,504</u>

9 INVESTMENTS IN PLACEMENTS

	<u>Contract type</u>	<u>Country</u>	<u>Maturity</u>	<u>Indicative rate</u>	2012 MVR	2011 MVR
Burj Bank Limited, Pakistan	Mudharabah	Pakistan	6 months	2.2% p.a.	15,395,000	-
HDFC, Maldives	Wakalah	Maldives	1 year	8.5% p.a.	20,000,000	-
					<u>35,395,000</u>	<u>-</u>

10 INVESTMENTS IN IJARAH ASSETS

	2012 MVR	2011 MVR
Cost		
As at 1 st January	-	-
Additions during the year	<u>3,666,741</u>	<u>-</u>
As at 31 st December	<u>3,666,741</u>	<u>-</u>
Accumulated Depreciation		
As at 1 st January	-	-
Charged during the year	<u>210,095</u>	<u>-</u>
As at 31 st December	<u>210,095</u>	<u>-</u>
Net Carrying Value		
As at 31 st December 2012	<u><u>3,456,646</u></u>	<u><u>-</u></u>

MALDIVES ISLAMIC BANK PRIVATE LIMITED
(INCORPORATED IN THE REPUBLIC OF MALDIVES)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER 2012

11 AVAILABLE FOR SALE INVESTMENT	2012 MVR	2011 MVR
As at 1 st January	8,000,000	-
Additions during the year	-	8,000,000
Change in the Fair Value during the year	(100,000)	-
As at 31 st December	<u>7,900,000</u>	<u>8,000,000</u>

The fair value reserve represents the change in the fair value of investment in the quoted shares of Dhivehi Rajjeyge Gulhun Plc. The investment comprised of 100,000 shares with nominal value of MVR 2.5/- which were purchased at MVR 80/- per share. At the reporting date, the shares were valued at MVR79/- (2011: MVR 80/-).

12 OTHER ASSETS	2012 MVR	2011 MVR
Refundable Deposits (12.1)	851,139	765,853
Other Receivables	461,544	43,830
Prepayments (12.1)	802,196	417,788
Advance Payments against Murabaha	1,192,290	-
	<u>3,307,169</u>	<u>1,227,471</u>

12.1 The refundable deposits mainly comprised of the security deposits paid for the leasehold buildings including the deposit for the ATM kiosks. The prepayments are comprised of the IT related support and maintenance fees paid in advance.

13 PROPERTY, PLANT AND EQUIPMENT

	Leasehold Building MVR	Computer Equipment MVR	Furniture MVR	Office Equipment MVR	Total 2012 MVR	Total 2011 MVR
Cost						
As at 1 st January	1,997,805	4,475,922	456,260	1,874,790	8,804,777	1,560,466
Transferred from capital WIP	-	-	-	-	-	1,530,728
Additions during the year	743,715	803,736	290,875	2,950,126	4,788,452	5,713,583
As at 31 st December	<u>2,741,520</u>	<u>5,279,658</u>	<u>747,135</u>	<u>4,824,916</u>	<u>13,593,229</u>	<u>8,804,777</u>
Accumulated Depreciation						
As at 1 st January	331,250	667,273	71,865	233,711	1,304,099	-
Charge for the year	486,057	1,231,831	110,377	660,888	2,489,153	1,304,099
As at 31 st December	<u>817,307</u>	<u>1,899,104</u>	<u>182,242</u>	<u>894,599</u>	<u>3,793,252</u>	<u>1,304,099</u>
Net Carrying Value						
As at 31 st December 2012	<u>1,924,213</u>	<u>3,380,554</u>	<u>564,893</u>	<u>3,930,317</u>	9,799,977	
As at 31 st December 2011	<u>1,666,555</u>	<u>3,808,649</u>	<u>384,395</u>	<u>1,641,079</u>		7,500,678
Asset in Progress (Note 13.1)					63,473	-
	<u>9,863,450</u>	<u>7,500,678</u>				

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PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

13.1 Asset in Progress		2012 MVR	2011 MVR
As at 1 st January		-	1,530,728
Additions During the Year		63,473	-
Transferred to Property, Plant and Equipment		-	(1,530,728)
As at 31 st December		<u>63,473</u>	<u>-</u>

14 INTANGIBLE ASSETS	2012			2011		
	Core Banking & Database Softwares MVR	Other Computer Softwares MVR	Total Intangible Assets MVR	Core Banking & Database Softwares MVR	Other Computer Softwares MVR	Total Intangible Assets MVR
Cost						
As at 1 st January	9,225,285	1,240,748	10,466,033	1,265,558	-	1,265,558
Additions during the year	-	1,067,845	1,067,845	7,959,727	1,240,748	9,200,475
As at 31 st December	<u>9,225,285</u>	<u>2,308,593</u>	<u>11,533,878</u>	<u>9,225,285</u>	<u>1,240,748</u>	<u>10,466,033</u>
Accumulated Amortization						
As at 1 st January	(1,017,273)	(119,319)	(1,136,592)	-	-	-
Amortization during the year	(1,317,898)	(414,750)	(1,732,648)	(1,017,273)	(119,319)	(1,136,592)
As at 31 st December	<u>(2,335,171)</u>	<u>(534,069)</u>	<u>(2,869,240)</u>	<u>(1,017,273)</u>	<u>(119,319)</u>	<u>(1,136,592)</u>
Carrying Amount						
Net Carrying As at 31 st December	<u>6,890,114</u>	<u>1,774,524</u>	<u>8,664,638</u>	<u>8,208,012</u>	<u>1,121,429</u>	<u>9,329,441</u>

15 CUSTOMERS' ACCOUNTS		2012 MVR	2011 MVR
Current Accounts		283,247,339	179,725,623
Saving Accounts		213,565,703	107,011,562
General Investment Accounts		54,538,193	29,985,898
Margin Accounts		16,547,568	14,298,253
		<u>567,898,803</u>	<u>331,021,336</u>

16 OTHER LIABILITIES		2012 MVR	2011 MVR
Accrued Expenses		442,023	909,145
Banking Profit Tax Payable		-	1,166,008
Security Deposit		698,950	-
Return Payable to Investment Accountholders		254,555	-
Pension Payable		91,662	64,442
Payable to Suppliers		675,574	-
Finance Recovery Accounts from Customers		568,483	-
Cashiers' Cheque		106,310	-
Charity funds from financing		89,792	-
Other Liabilities		58,998	475,520
		<u>2,986,347</u>	<u>2,615,115</u>

17 SHARE CAPITAL

17.1 Authorized Share Capital

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

17.2 Issued and Fully Paid

Name of the Shareholder	Face value MVR	No. of shares	Amount MVR	%
ICD	1,000	127,500	127,500,000	85
Government of Maldives	1,000	22,500	22,500,000	15
Total		<u>150,000</u>	<u>150,000,000</u>	<u>100</u>

17.3 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 shareholders' meetings of the Bank.

No dividends have been declared by the board of directors of the Bank for the year ended 31st December 2012.

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18 FAIR VALUE RESERVE	2012 MVR	2011 MVR
As at 1 st January	-	-
Change in Fair Value of Investments Available for Sale	(100,000)	-
As at 31 st December	<u>(100,000)</u>	<u>-</u>

The fair value reserve represents the change in the fair value of investment in the quoted shares of Dhivehi Rajjeyge Gulhun Plc. The investment comprise of 100,000 shares with nominal value of MVR 2.5 per share which were purchased at MVR 80/- per share totalling MVR8,000,000. At the reporting date, the shares were valued at MVR 79/- (2011: MVR 80/-).

19 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. The bank may not reduce its capital and the reserve accumulated in the manner described in the act or in any other manner without the MMA's prior approval. The bank has not made any transfers to reserve due to the losses incurred during the year ended 31st December 2012. (2011: MVR 2,889,019/-).

20 INCOME FROM FINANCING ACTIVITIES	2012 MVR	2011 MVR
Income from Financing Activities		
Income from Murabaha	2,947,423	168,182
Income from Istisna'a	1,870,415	3,991
Income from Ijarah	837,797	-
	<u>5,655,635</u>	<u>172,173</u>

21 PROFIT PAID ON CUSTOMER ACCOUNTS	2012 MVR	2011 MVR
Return on General Investment Accounts	1,558,468	205,111
Return on Savings Accounts	159,170	764,558
	<u>1,717,638</u>	<u>969,669</u>

22 COMMISSION AND FEES INCOME	2012 MVR	2011 MVR
Fees and Commissions from Banking Services	289,349	160,417
Fees and Commissions from Trade Finance Services	1,161,635	647,180
Fees and Commissions from Remittance Services	8,057,937	4,384,416
Fees and Commissions from ATM Services	374,052	-
Fees and Commissions from Financing Processing	643,016	710,759
Other Fees and Commissions	31,338	17,000
	<u>10,557,327</u>	<u>5,919,772</u>

23 FOREIGN EXCHANGE GAIN	2012 MVR	2011 MVR
Foreign Exchange Gain	<u>731,922</u>	<u>23,549,808</u>

The Foreign Exchange Gain realised by Bank is from the exchange of foreign currencies. During the fiscal year 2011, the bank made a sum of MVR23,549,808 in foreign exchange gain due to conversion of the capital into local currency coupled with the devaluation of Maldivian Rufiyaa.

24 Income from Investment in Shares and Securities	2012 MVR	2011 MVR
	801,000	-
	<u>801,000</u>	<u>-</u>

The dividend income represents the dividend received during the year from investement in the quoted shares of Dhivehirajjeyge Gulhun Plc. The dividend was declared at MVR3.66 per share as final dividend and MVR4.35 per share as interim dividend for the year 2012/2013.

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25 PERSONNEL COSTS	2012	2011
	MVR	MVR
Salaries and Wages	10,078,567	7,717,894
Other Staff Expenses	2,539,959	1,714,537
	<u>12,618,526</u>	<u>9,432,431</u>
26 GENERAL AND ADMINISTRATIVE EXPENSES	2012	2011
	MVR	MVR
Rent and Accommodation Expenses	3,672,427	2,703,727
Legal and Professional Expenses	240,615	308,313
Marketing and Advertising Expenses	242,606	306,068
Communication Expenses	861,652	935,209
Technology Related Expenses	1,792,629	811,125
Electricity Expenses	928,585	504,637
Funds Transfer Expenses	625,635	370,117
Stationary Costs	563,322	473,171
Directors Salary and Board related Expenses	593,385	479,866
Training and Development Expenses	941,848	507,255
Premises Security and Insurance	686,262	403,140
Connectivity and Inspection Charges	947,329	192,542
Utility Expenses	293,488	217,829
Travelling Expenses	191,450	361,151
Sharia Board Related Expenses	399,892	194,650
Other Operating Expenses	149,955	212,105
	<u>13,131,080</u>	<u>8,980,905</u>
27 DEPRECIATION AND AMORTIZATION	2012	2011
	MVR	MVR
Depreciation on Property Plant and Equipment (Note 13)	2,489,153	1,304,099
Amortization on Intangible Assets (Note 14)	1,732,648	1,136,592
Depreciation on Ijara Asset (Note 10)	210,095	-
	<u>4,431,896</u>	<u>2,440,691</u>
28 TAX EXPENSE	2012	2011
	MVR	MVR
Income Tax for the year (Note 28.1)	-	1,166,008
Deferred Tax Liability Recognized during the Year (Note 28.2)	1,786,365	788,506
	<u>1,786,365</u>	<u>1,954,514</u>

Income tax is 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 Revenue Authority. However, no provision as current year tax has been recognized in the financial statements since the Bank has incurred a loss during the year.

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28 TAX EXPENSE (CONTINUED)

28.1 Reconciliation Between Accounting (Loss) / Profit and Taxable (Loss) / Income :

	2012	2011
	MVR	MVR
Accounting (Loss) / Profit before Tax	(15,102,401)	7,732,553
Aggregate Disallowable Items	5,170,946	2,526,195
Aggregate Allowable Items	(5,510,960)	(5,594,716)
Taxable (Loss) / Income for the year	<u>(15,442,415)</u>	<u>4,664,032</u>
Income Tax @ 25%	<u>-</u>	<u>1,166,008</u>

The aggregate disallowable items comprised of the General Provision of MVR 949,145/- and the Depreciation and Amortisation totalling MVR 4,221,801/-. The capital allowance of MVR 5,510,960/- is recorded as the aggregate allowable items.

28.2 Deferred Tax Liability

As at 1 st January	788,506	-
Recognized during the year	1,786,365	788,506
As at 31 st December	<u>2,574,871</u>	<u>788,506</u>

Deferred Tax liability is attributable to the following:

	31/12/2012		31/12/2011	
	Temporary Difference	Tax Effect	Temporary Difference	Tax Effect
	MVR	MVR	MVR	MVR
Property, Plant and Equipment	5,765,875	1,441,469	801,940	200,485
Intangible Assets	4,533,606	1,133,402	2,352,085	588,021
	<u>10,299,481</u>	<u>2,574,871</u>	<u>3,154,025</u>	<u>788,506</u>

29 BASIC (LOSS) / PROFIT EARNING PER SHARE

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

	2012	2011
(Loss) / Profit for the year - MVR	(16,888,766)	5,778,039
Weighted Average Number of Ordinary Shares outstanding during the year	150,000	150,000
Basic (Loss) / Earnings Per Share - MVR	<u>(113)</u>	<u>38.52</u>

30 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial Risk Management

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

- Credit risk
- Liquidity risk
- Market risk

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

The Board of Directors has overall responsibility for the establishment and oversight of the Bank'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 Bank to incur a financial loss. It arises principally from the Bank'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 Bank's exposure to credit risk is influenced mainly by the individual characteristics of each customer. There is no concentration of credit risk geographically.

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30 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(i) Credit Risk (Continued)

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

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

	Carrying Amount	
	31/12/2012	31/12/2011
	MVR	MVR
Gross Receivables from Financing Activities	99,797,261	8,550,046
Investment in Placements	35,395,000	-
	<u>135,192,261</u>	<u>8,550,046</u>

Impairment Losses

	31/12/2012		31/12/2011	
	Gross	Impairment	Gross	Impairment
	MVR	MVR	MVR	MVR

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

Standard (Pass)	General	1%	99,797,261	997,973	8,464,542	85,504
Special Mention	General	5%	-	-	-	-
Substandard	Specific	25%	-	-	-	-
Doubtful	Specific	50%	-	-	-	-
Loss	Specific	100%	-	-	-	-
			<u>99,797,261</u>	<u>997,973</u>	<u>8,464,542</u>	<u>85,504</u>

Impairment of Ijarah Assets

Standard (Pass)	General	1%	<u>3,666,741</u>	<u>36,676</u>	-	-
				<u>1,034,649</u>		<u>85,504</u>

The Bank monitors concentrations of credit risk by sector and by organisations. An analysis of concentrations of credit risk from financing activities at the reporting date is shown below:

	Financing Activities	
	2012	2011
Concentration by Industry;		
Consumer Goods	7,885,100	-
Tourism - New resort Development	639,459	1,438,294
Transport & Communications - Transport	22,932,584	3,092,539
Commerce - Wholesale and retail trade	15,628,018	2,020,777
Construction - Residential/Housing Loans	8,895,050	882,787
Construction - commercial building	4,388,950	1,030,144
Manufacturing - Printing & Publishing	996,181	-
Istisna'a Home Finance	31,857,172	-
Istisna'a Real Estate Development	9,206,836	-
	<u>102,429,350</u>	<u>8,464,542</u>
Concentration by Sector;		
Businesses	48,982,012	7,663,129
Individuals	<u>53,447,338</u>	<u>801,413</u>
	<u>102,429,350</u>	<u>8,464,542</u>

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30 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(ii) Liquidity Risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial assets. The Bank'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.

31st December 2012	Carrying Amount MVR	0-12 Months MVR	1-2 Years MVR	2-5 Years MVR	More than 5 years MVR
Assets					
Cash and Balances with Other Banks	67,118,072	67,118,072	-	-	-
Balances with MMA	475,286,674	475,286,674	-	-	-
Receivables from Financing Activities	98,762,612	42,232,000	1,355,000	18,353,000	36,822,612
Investment in Ijarah Assets	3,456,646	3,456,646	-	-	-
Investment in Placements	35,395,000	35,395,000	-	-	-
Other Assets	3,307,169	3,307,169	-	-	-
Available for Sale Investment	7,900,000	7,900,000	-	-	-
Property, Plant and Equipment	9,863,450	-	-	9,863,450	-
Intangible Assets	8,664,638	-	-	8,664,638	-
	<u>709,754,261</u>	<u>634,695,561</u>	<u>1,355,000</u>	<u>36,881,088</u>	<u>36,822,612</u>
Liabilities					
Other Liabilities	2,986,347	2,986,347	-	-	-
Customers' Accounts	567,898,803	549,074,000	397,000	18,427,803	-
Deferred Tax Liability	2,574,871	-	-	-	2,574,871
	<u>573,460,021</u>	<u>552,060,347</u>	<u>397,000</u>	<u>18,427,803</u>	<u>2,574,871</u>
Net Gap	<u>136,294,240</u>	<u>82,635,214</u>	<u>958,000</u>	<u>18,453,285</u>	<u>34,247,741</u>
31st December 2011					
	Carrying Amount MVR	0-12 Months MVR	1-2 Years MVR	2-5 Years MVR	More than 5 years MVR
Assets					
Cash and Balances with Other Banks	102,841,400	102,841,400	-	-	-
Balances with MMA	350,344,431	350,344,431	-	-	-
Receivables 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 Asset	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>
Liabilities					
Other Liabilities	2,615,115	2,615,115	-	-	-
Customers' Accounts	331,021,336	327,597,050	2,414,692	1,009,594	-
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>
Net Gap	<u>153,283,006</u>	<u>139,227,385</u>	<u>(976,398)</u>	<u>(1,009,594)</u>	<u>16,041,613</u>

(iii) Market risk

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

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30 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(iii) Market risk (Continued)

(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	
	31/12/2012 MVR	31/12/2011 MVR
Fixed Rate Instruments		
Financial Assets		
Receivables from Financing Activities	98,762,612	8,464,542
	<u>98,762,612</u>	<u>8,464,542</u>
Financial Liabilities		
Customers' Accounts	567,898,803	331,021,336
	<u>567,898,803</u>	<u>331,021,336</u>

(b) Profit Rate Sensitivity

31 st December 2012	Carrying Amount MVR	0-12 Months MVR	1-2 Years MVR	2-5 Years MVR	More than 5 Years MVR	Non rate Sensitive MVR	Total MVR
Assets							
Cash and Balances with Other Banks	67,118,072	-	-	-	-	67,118,072	67,118,072
Balances with MMA	475,286,674	-	-	-	-	475,286,674	475,286,674
Receivables from Financing Activities	98,762,612	42,232,000	1,355,000	18,353,000	40,279,258	-	-
Investment in Placements	35,395,000	35,395,000	-	-	-	-	35,395,000
	<u>676,562,358</u>	<u>77,627,000</u>	<u>1,355,000</u>	<u>18,353,000</u>	<u>40,279,258</u>	<u>542,404,746</u>	<u>577,799,746</u>
Liabilities							
Other Liabilities	2,986,347	-	-	-	-	2,986,347	2,986,347
Customers' Accounts	567,898,803	549,074,000	397,000	18,485,303	-	-	-
	<u>570,885,150</u>	<u>549,074,000</u>	<u>397,000</u>	<u>18,485,303</u>	<u>-</u>	<u>2,986,347</u>	<u>2,986,347</u>
Profit Rate Sensitivity Gap	<u>105,677,208</u>	<u>(471,447,000)</u>	<u>958,000</u>	<u>(132,303)</u>	<u>40,279,258</u>	<u>539,418,399</u>	<u>574,813,399</u>

31st December 2011

	Carrying Amount MVR	0-12 Months MVR	1-2 Years MVR	2-5 Years MVR	Non rate Sensitive MVR	Total MVR
Assets						
Cash and Balances with Other Banks	102,841,400	-	-	-	102,841,400	102,841,400
Balances with MMA	350,344,431	-	-	-	350,344,431	350,344,431
Receivables from Financing Activities	8,464,542	7,026,248	1,438,294	-	-	8,464,542
	<u>461,650,373</u>	<u>460,212,079</u>	<u>1,438,294</u>	<u>-</u>	<u>453,185,831</u>	<u>461,650,373</u>
Liabilities						
Other Liabilities	2,615,115	-	-	-	2,615,115	2,615,115
Customers' Accounts	331,021,336	327,597,050	2,414,692	1,009,594	-	331,021,336
	<u>333,636,451</u>	<u>327,597,050</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>128,013,922</u>	<u>132,615,029</u>	<u>(976,398)</u>	<u>(1,009,594)</u>	<u>#####</u>	<u>128,013,922</u>

(c) Sensitivity Analysis - Equity Price Risk

For investments classified as available for sale, a 1% decrease in the Maldives Stock Exchange would have decreased equity by MVR 100,000/-.

(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. In accordance with MMA's Prudential Regulations, the Net Open Position of the bank is to be maintained at 15% for single currency and 40% for all foreign currencies. As of 31st December 2012, the bank was within the 40% limit for all currencies and the single currency limit of 15% (USD 3% and EUR 0.34%)

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

	31/12/2012			31/12/2011		
	SGD	Euro	US\$	SGD	Euro	US\$
Cash and Balances with Other Banks	-	33,467	3,720,298	76	546,971	5,396,415
Murabaha Financing	-	-	1,734,278	-	-	357,870
Customers' Accounts	-	9,884	9,609,330	-	(46,683)	(7,283,680)
Margin Accounts	-	-	601,577	-	-	654,884
Net statement of financial position exposure	<u>-</u>	<u>43,351</u>	<u>15,665,483</u>	<u>76</u>	<u>500,288</u>	<u>(874,511)</u>

**MALDIVES ISLAMIC BANK PRIVATE LIMITED
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

AS AT 31ST DECEMBER 2012

30 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(iv) Exposure to currency risk (Continued)

Sensitivity Analysis

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

	2012		2011	
	Strengthening	Weakening	Strengthening	Weakening
SGD (10% Movement)	-	-	76	(76)
Euro (10% Movement)	8,626	(8,626)	1,013,920	(1,013,920)
US\$ (10% Movement)	2,415,618	(2,415,618)	5,313,930	(5,313,930)

	Average Rate		Reporting Date Spot Rate	
	2012	2011	2012	2011
	US\$ 1 : MRf	15.40	14.11	15.42
Euro 1 : MRf	19.95	20.25	19.95	20.25
SGD 1 : MRf	-	9.97	-	9.97

(v) Capital management

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

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

	31/12/2012 MVR	31/12/2011 MVR
Tier 1 ("Core") Capital		
Share Capital	150,000,000	150,000,000
Retained Earnings/ (Accumulated Losses)	393,987	(2,495,033)
Statutory Reserve	2,889,019	-
Total Tier 1 Capital	153,283,006	147,504,967
Tier 2 ("Supplementary") Capital		
Current Year-to-Date Profits/(Losses)	(16,988,766)	5,778,039
General Loan Loss Provisions (Limited to 1.25% of RWA)	1,034,649	85,504
Subtotal	(15,954,117)	5,863,543
Eligible Tier 2 Capital (Limited to 100% of Tier 1 Capital)	(15,954,117)	5,863,543
Total Tier 1 and Tier 2 Capital	137,328,889	153,368,510
Core Capital	153,283,006	147,504,967
Capital Base	137,328,889	153,368,510
Risk Weighted Assets	146,589,000	47,509,000
Tier 1 Risk Based Capital Ratio (Minimum 6%)	105%	310%
Total Risk Based Capital Ratio (Minimum 12%)	94%	323%

(Vi) Fair value versus carrying amount

As at 31st December 2012

	Loans and Receivables	Available for Sale	Other financial Liabilities	Total carrying amount	Fair value
Assets					
Cash and Balances with Other Banks	67,118,072	-	-	67,118,072	67,118,072
Balances with MMA	475,286,674	-	-	475,286,674	475,286,674
Receivables from Financing Activities	98,762,612	-	-	98,762,612	98,762,612
Investment in Placements	35,395,000	-	-	35,395,000	35,395,000
Available for Sale Investment	-	7,900,000	-	7,900,000	7,900,000
	676,562,358	7,900,000	-	684,462,358	684,462,358
Liabilities					
Customers' Accounts	-	-	567,898,803	567,898,803	567,898,803
Other Liabilities	-	-	2,986,347	2,986,347	2,986,347
	-	-	570,885,150	570,885,150	570,885,150

**MALDIVES ISLAMIC BANK PRIVATE LIMITED
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AS AT 31ST DECEMBER 2012

30 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(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
Assets					
Cash and Balances with Other Banks	102,841,400	-	-	102,841,400	102,841,400
Balances with MMA	350,344,431	-	-	350,344,431	350,344,431
Receivables 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>461,650,373</u>	<u>8,000,000</u>	<u>-</u>	<u>469,650,373</u>	<u>469,650,373</u>
Liabilities					
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>

(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.

	Level 1	Level 2	Level 3	Total
Financial Assets Classified as Available for Sale	7,900,000	-	-	7,900,000
	<u>7,900,000</u>	<u>-</u>	<u>-</u>	<u>7,900,000</u>

31 RELATED PARTY TRANSACTIONS

31.1 Transactions with Burj Bank Limited - Pakistan

Name of the Related Party	Relationship	Nature of the Transaction	Amount 2011 MVR	Amount 2012 MVR	Balance as at 31/12/2011 MVR	Balance as at 31/12/2012 MVR
Burj Bank Limited- Pakistan	Affiliated Bank	Mudharabah	-	15,395,000	-	15,395,000

The bank has invested USD 1.5 million (MVR 15.395 million) with the Burj Bank Limited, Pakistan, an Affiliated bank with MIB, under the concept of Mudharabah, with an indicative rate of 2.2% p.a. As at 31st December 2012, the balance amount in Maldivian Rufiyaa is MVR15,395,000.

31.2 Transactions with Key Management Personnel

The key management personnel are also the members of the Board of Directors. The Company has paid an amount of MVR. 2,447,724/- as emoluments to the key management personnel during the year ended 31st December 2012 (2011:2,287,621/-).

32 COMMITMENTS

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

33 CONTINGENT LIABILITIES

	2012 MVR	2011 MVR
Letter of Credits	19,240,381	13,613,495
Guarantees and Bonds	16,547,568	15,266,812
	<u>35,787,949</u>	<u>28,880,307</u>

34 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.

35 MANAGEMENT'S RESPONSIBILITY

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

36 COMPARATIVE FIGURES

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