



Maldives Islamic Bank

# ***ANNUAL REPORT***

for the financial year ended 31 December 2013

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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 Aatur Rahman Chowdhury

Mr. Mohammed Ali Al Ammari

Mrs. Juwairiya Saeed

Mr. Harith Bin Harun (Managing Director & CEO)

#### **COMPANY SECRETARY**

Mr. Hussain Ali Habeeb

#### **REGISTERED ADDRESS**

H. Coconut Villa

Ameer Ahmed Magu, Male' 20030

Republic of Maldives

#### **BUSINESS ADDRESS**

(same as the registered address)

#### **AUDITORS**

KPMG

The Directors hereby submit their report together with the audited financial statements of the Bank for the financial year ended 31 December 2013.

### **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>	
	<b>2013</b>	<b>2012</b>
Profit before Tax	3,848	(15,102)
Income Tax	190	(1,786)
Net profit (loss) after Tax	4,038	(16,888)

### **DIVIDENDS**

The Directors do not recommend the payment of any dividend in respect of the financial year ended 31 December 2013.

### **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. Najmul Hassan
- Mr. Mohamed Ahmed
- Mr. Ahmed Khizer Khan
- Mr. Mohammed Aatur Rahman Chowdhury
- Mr. Mohammed Ali Al Ammari
- Mrs. Juwairiya Saeed
- Mr. Harith Bin Harun (Managing Director & CEO)

*Note:* On 21<sup>st</sup> January 2014, the government appointed Mr. Shimad Ibrahim to replace Mr. Mohamed Ahmed as its representative on the Board. Mr. Shimad's appointment has been cleared by the Maldives Monetary Authority and approved by the shareholders' meeting on 26<sup>th</sup> March 2014.

## **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 2013 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.

### **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.

#### **Board Meetings**

Throughout the financial year, seven (07) 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:

<b>Directors</b>	<b>Total meetings attended</b>
Mr. Najmul Hassan <i>Chairman/ Non- Independent Non-Executive Director</i>	7/7
Mr. Mohamed Ahmed <i>Non- Independent Non-Executive Director</i>	7/7
Mr. Ahmed Khizer Khan <i>Non- Independent Non-Executive Director</i>	5/7
Mr. Mohammed Aatur Rahman Chowdhury <i>Non- Independent Non-Executive Director</i>	7/7
Mr. Mohammed Ali Al Ammari <i>Non- Independent Non-Executive Director</i>	6/7
Mrs. Juwairiya Saeed <i>Independent Non-Executive Director</i>	7/7
Mr. Harith Bin Harun (Managing Director & CEO) <i>Non- Independent Executive Director</i>	7/7

### **Board Risk Management Committee**

Board Risk Management Committee ("BRMC") carries the function of ensuring continuous oversight of the risks embedded in the Bank's operations and assists the Board in determining the strategic direction of the Bank by providing them the risk perspective. The BRMC is composed of maximum of three directors appointed by the Board from amongst its members.

The current members of BRMC are:

1. Mr. Ahmed Khizer Khan (Chairman)
2. Mr. Najmul Hassan

The Head of Risk Management Unit is the secretary of the BRMC.

### **Board Audit Committee**

The main function of the Audit Committee (“AC”) is to assist the Board in its supervisory role in the management of internal controls in the Bank. It has responsibility for reviewing internal controls and policies of the Bank. The Committee also ensures that the procedures and framework in relation to identifying, measuring, monitoring and controlling internal controls are operating effectively.

The AC comprises not less than three (3) members appointed by the Board from among the members of the Board, but excluding the Chairman of the Board and the Managing Director who shall not be members of the AC.

The current members of the AC are:

1. Mrs. Juwairiya Saeed (Chairperson)
2. Mr. Mohammed Aatur Rahman Chowdhury
3. Mr. Mohammed Ali Al Ammari

The Internal Auditor acts as the secretary of the AC.

### **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 (“MC”) is responsible for the implementation of the strategies and internal control as well as monitoring the Bank’s performance. The MC, headed by the Managing Director & Chief Executive Officer and comprise senior management staff of the Bank, meets on a weekly basis to discuss and resolve issues related to day-to-day operations, and to develop, execute and monitor the progress of strategies and action plans to achieve the set targets.

### **Credit Committee**

The Credit Committee (“CC”) is made up of four members, namely, the Managing Director & CEO who is also the chairman, Head of Operations, Head of Finance and Accounts and Head of Financing. The CC is vested by the Board with the authority to approve financing proposals up to a certain limit, beyond which the proposals are to be referred to the Board for consideration. The CC also monitors the status of non-performing financing assets and reviews financing policy in response to developments in the market.

### **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 2013, 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:

<b>Member</b>	<b>Total Meetings Attended</b>
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 23<sup>rd</sup> April 2014.

  
.....

Mr. Najmul Hassan  
Chairman

  
.....

Mr. 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 31<sup>st</sup> December 2013. 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:***


- A. The contracts, transactions and dealings relating to the Bank's activities during the year ended 31<sup>st</sup> December 2013 that we have reviewed were in compliance with the Shariah to a ***satisfactory*** level.
- B. We have noted area that requires improvement in the mode of operation and documentation for certain financing transactions (asset side) of the Bank such as *Murabaha, Ijarah, and Diminishing Musharakah* that requires rectifications. Regarding *Istisna'a*, we have observed some important areas need keen interest of the management and we have provided guidelines to implement the required improvements; and
- C. On the management of the *Mudharaba Pool* (Liability side), we found that the allocation of profit and charging of losses to *Mudharaba* investment accounts conform overall to the policies and procedures approved by the Shariah Board.
- D. During the period an amount of MVR 487,564 was transferred to the charity account while last year this amount was MVR89,792. Hence altogether, a total of MVR 577,356 is to be payable to charity.

*Wallahu A'lam.*

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

*Wassalamualaikum Wa Rahmatullah Wa Barakatuh*

20 March 2014

  
.....  
Dr. Ejaz Ahmed Samadani

  
.....  
Mufthi M I M Rizwe

  
.....  
Shiekh Fayyadh Ali Manik



KPMG  
(Chartered Accountants)  
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**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 31<sup>st</sup> December 2013, and the statements of comprehensive income, changes in equity and cash flows for the year then ended 31<sup>st</sup> December 2013 and notes, comprising a summary of significant accounting policies and other explanatory information set out in pages 15 to 44.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards (IFRSs), which have been modified and adopted by the Maldives Monetary Authority ("MMA") in relation to the requirements of International Accounting Standard – 39 ("IAS 39") Financial Instrument Recognition and Measurement, on loan loss provision and to International Financial Reporting Standards - 7 ("IFRS 7") Financial Instruments Disclosure, on Credit Risk Grading. ("IFRS Adopted by the Maldives Monetary Authority") as described in note 2(a) to the financial statements, 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 Company'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 Company'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 31<sup>st</sup> December 2013 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards adopted by the Maldives Monetary Authority.

**Chartered Accountants**

28<sup>th</sup> April 2014  
Male'

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

**AS AT 31ST DECEMBER**

	Note	2013 MVR	2012 MVR
<b>ASSETS</b>			
Cash and Balances with Other Banks	6	51,899,245	67,118,072
Balances with Maldives Monetary Authority	7	366,536,015	475,286,674
Net Receivables from Financing Activities	8	248,279,003	98,799,279
Net Investments in Placements	9	279,800,000	35,395,000
Net Investments in Ijarah Assets	10	11,216,663	3,419,979
Available for Sale Investment	11	6,000,000	7,900,000
Other Assets	12	32,591,346	3,307,169
Property, Plant and Equipment	13	8,767,666	9,863,450
Intangible Assets	14	6,978,360	8,664,638
<b>Total Assets</b>		<u>1,012,068,298</u>	<u>709,754,261</u>
<b>LIABILITIES</b>			
Customers' Accounts	15	840,161,098	567,898,803
Other Liabilities	16	16,958,409	2,986,347
Deferred Tax Liability	27.2	1,515,863	2,574,871
<b>Total liabilities</b>		<u>858,635,370</u>	<u>573,460,021</u>
<b>EQUITY</b>			
Share Capital	17	165,000,000	150,000,000
Fair Value Reserve		(2,000,000)	(100,000)
Statutory Reserve	18	4,908,363	2,889,019
Accumulated Losses		(14,475,435)	(16,494,779)
<b>Total Equity</b>		<u>153,432,928</u>	<u>136,294,240</u>
<b>Total Liabilities and Equity</b>		<u>1,012,068,298</u>	<u>709,754,261</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 19 to 44. The Report of the Independent Auditors is given in pages 1 and 2.

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

**Name of the Director**  
 Najmul Hassan .....  
 Harith Bin Harun .....

**Signature**  


23rd April 2014

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

**FOR THE YEAR ENDED 31ST DECEMBER**

	<b>Note</b>	<b>2013 MVR</b>	<b>2012 MVR</b>
Income from Financing and Ijarah Assets	<b>19</b>	24,053,654	5,655,635
Profit Paid on Customer Accounts	<b>20</b>	(4,299,965)	(1,717,638)
<b>Net Spread Earned on Financing Activities</b>		<u>19,753,689</u>	<u>3,937,997</u>
Commission and Fee Income	<b>21</b>	14,447,316	10,557,327
Foreign Exchange Gain	<b>22</b>	663,280	731,922
Income from Investment in Shares, Securities and Placements	<b>23</b>	12,310,744	801,000
<b>Total Operating Income</b>		<u>47,175,029</u>	<u>16,028,246</u>
Personnel Costs	<b>24</b>	(17,262,252)	(12,618,526)
General and Administrative Expenses	<b>25</b>	(14,582,931)	(13,131,080)
Depreciation and Amortization	<b>26</b>	(9,400,143)	(4,431,896)
<b>Total Operating Expenses</b>		<u>(41,245,326)</u>	<u>(30,181,502)</u>
<b>Profit / (Loss) before Provisions and Tax</b>		5,929,703	(14,153,256)
Net Provision for Impairment Losses	<b>8,9&amp;10</b>	(2,081,324)	(949,145)
<b>Profit / (Loss) before Tax</b>		<u>3,848,379</u>	<u>(15,102,401)</u>
Income Tax Expense	<b>27</b>	190,309	(1,786,365)
<b>Profit / (Loss) for the Year</b>		<u>4,038,688</u>	<u>(16,888,766)</u>
<b>Other Comprehensive Income</b>			
Change in fair value of Investments Available-for-sale	<b>11</b>	(1,900,000)	(100,000)
<b>Total comprehensive Income / (loss) for the Year</b>		<u>2,138,688</u>	<u>(16,988,766)</u>
<b>Basic and Diluted Earnings / (Loss) Per Share</b>	<b>28</b>	26	(113)

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 19 to 44. The Report of the Independent Auditors is given in page 1.



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

**FOR THE YEAR ENDED 31ST DECEMBER 2013**

	<b>Share Capital</b>	<b>Statutory Reserve</b>	<b>Fair Value Reserve</b>	<b>(Accumulated Losses)/Retained Earnings</b>	<b>Total</b>
	<b>MVR</b>	<b>MVR</b>	<b>MVR</b>	<b>MVR</b>	<b>MVR</b>
Balance as at 1 <sup>st</sup> January 2012	150,000,000	2,889,019	-	393,987	153,283,006
<b>Total comprehensive income for the year</b>					
Loss for the year	-	-	-	(16,888,766)	(16,888,766)
Other comprehensive income	-	-	(100,000)	-	(100,000)
<b>Total comprehensive income for the year</b>	-	-	(100,000)	(16,888,766)	(16,988,766)
<b>Balance as at 31<sup>st</sup> December 2012</b>	<b>150,000,000</b>	<b>2,889,019</b>	<b>(100,000)</b>	<b>(16,494,779)</b>	<b>136,294,240</b>
Balance as at 1 <sup>st</sup> January 2013	150,000,000	2,889,019	(100,000)	(16,494,779)	136,294,240
<b>Total comprehensive income for the year</b>					
Profit for the year	-	-	-	4,038,688	4,038,688
Other comprehensive income	-	-	(1,900,000)	-	(1,900,000)
<b>Total comprehensive income for the year</b>	-	-	(1,900,000)	4,038,688	2,138,688
<b>Transactions with equity holders directly recognized in equity</b>					
Issue of shares during the year	15,000,000	-	-	-	15,000,000
<b>Total contribution by equity holders</b>	<b>15,000,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>15,000,000</b>
Profit Transferred to statutory reserve ( <b>Note 18</b> )	-	2,019,344	-	(2,019,344)	-
<b>Balance as at 31<sup>st</sup> December 2013</b>	<b>165,000,000</b>	<b>4,908,363</b>	<b>(2,000,000)</b>	<b>(14,475,435)</b>	<b>153,432,928</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 19 to 44. The Report of the Independent Auditors is given in page 1.

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

**FOR THE YEAR ENDED 31ST DECEMBER**

	Note	2013 MVR	2012 MVR
<b>Cash flows from operating activities</b>			
Profit / (Loss) before tax		3,848,379	(15,102,401)
<i>Adjustments for:</i>			
Depreciation and Amortization	<b>26</b>	9,400,143	4,431,896
Dividend Income	<b>23</b>	(494,000)	(801,000)
Provision for Impairment Losses (Net)	<b>8,9&amp;10</b>	2,081,324	949,145
<b>Operating profit / (loss) before changes in Operating Assets and Liabilities</b>		<u>14,835,846</u>	<u>(10,522,360)</u>
Change in Customers' Accounts		272,262,295	236,877,467
Change in Other Assets		(29,284,177)	(2,079,698)
Change in Other Liabilities		13,103,363	371,232
Change in Receivables from Financing Activities		(151,175,530)	(91,247,215)
Investments in Ijarah Assets		(12,429,350)	(3,666,741)
<b>Cash generated from operating activities</b>		<u>107,312,447</u>	<u>129,732,685</u>
<b>Cash flows from investing activities</b>			
Acquisition of Property, Plant and Equipment	<b>13</b>	(2,067,223)	(4,851,925)
Acquisition of Intangible Asset	<b>14</b>	(103,710)	(1,067,845)
Dividend Income Received	<b>23</b>	494,000	801,000
Investment in Placements		(260,000,000)	(35,395,000)
Cash Received from matured investment in Placements		15,395,000	-
<b>Net Cash Used in investing activities</b>		<u>(246,281,933)</u>	<u>(40,513,770)</u>
<b>Cash flows from financing activities</b>			
Issuance of shares		15,000,000	-
<b>Net Cash from financing activities</b>		<u>15,000,000</u>	<u>-</u>
<b>Net (decrease) / increase in cash and cash equivalents</b>		(123,969,486)	89,218,915
<b>Cash and cash equivalents at the beginning of the year</b>		542,404,746	453,185,831
<b>Cash and cash equivalents at the end of the year</b>	<b>6 &amp; 7</b>	<u>418,435,260</u>	<u>542,404,746</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 19 to 44. The Report of the Independent Auditors is given in page 1.

**MALDIVES ISLAMIC BANK PRIVATE LIMITED  
(INCORPORATED IN THE REPUBLIC OF MALDIVES)  
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 1<sup>st</sup> April 2010 as a private limited liability Company and presently governed under the Companies’ Act No.10 of 1996 and Maldives Banking Act No 24 of 2010. The Bank received the banking license under the Maldives Monetary Authority Act No. 6 of 1981 on 2<sup>nd</sup> August 2010 to conduct Islamic banking business in the Maldives and obtained certificate of approval to commence operations on 6<sup>th</sup> 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) with the modification required by the Maldives Monetary Authority (the “MMA”) in relation to the requirements in International Accounting Standard – 39 (“IAS 39”) Financial Instrument Recognition and Measurement, on loan loss provision and to International Financial Reporting Standards - 7 (“IFRS 7”) Financial Instruments Disclosure, on Credit Risk Grading. (“IFRS Adopted by the Maldives Monetary Authority”)

In accordance with the Circular No. CN-CBSS/2009/5 issued by the MMA, banks operating in the Maldives are exempted from applying IAS 39 or IFRS 7 in respect of credit risk grading and loan loss provisioning. Accordingly, provision for impairment loss on loans and advances has been recognized and measured in accordance with the MMA guidelines disclosed in note 3.5 (viii) to the financial statements.

**(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 financial statements 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 adopted by MMA 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 recognized 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 recognized in the financial statement are described wherever necessary.

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

**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.

**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.
- 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.
- Ijarah income is recognized on time apportioned basis over the period and the profit rate is determined in advance upon agreement of all parties.
- Income from Diminishing Musharaka is recognized on Bank's Share of Investment over the period based on the profit rate determined in advance upon agreement of all parties.
- 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 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.
- When receivables from financing assets become non-performing and where collectability is doubtful, income is suspended as per the guidelines of Maldives Monetary Authority.
- 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, sales commission and placement fees are recognized as the related services are performed. When a financing commitment is not expected to result in the draw-down of a financing facility, the related financing 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 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 and Initial measurement**

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.

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.

**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)**

**(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 recognized as a separate asset or liability in the statement of financial position.

The Bank enters into transactions whereby it transfers assets recognized 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-recognized.

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 recognize 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-recognized if it meets the de-recognition criteria. An asset or liability is recognized 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-recognizes a financial liability when its contractual obligations are discharged or cancelled or expired.

**(iii) Offsetting**

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 set off the recognized amounts and it intends either to settle on a net basis or to realize 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.

**(iv) Amortized cost Measurement**

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective profit rate method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

**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)**

**(v) 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.

**(vi) Cash and Cash Equivalents**

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

**(vii) 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, Diminishing Musharaka, , Investment in Placements and other Receivables.

**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.

***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.

**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)**

**(vii) Receivables (Continued)**

***Diminishing Musharaka***

Diminishing Musharakah is a form of partnership where one party (Client) buys the equity share of the other party (Bank) gradually until the title to the equity is completely transferred to the client. The asset will be acquired under a Musharakah contract and the buying and selling of the equity between the parties take place under a separate sale contract which may be secured under a unilateral undertaking to purchase by the Client.

**(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) Identification and Measurement of Impairment**

The Company recognize and measure the provision for loan and advances based on guidelines given by Maldives Monetary Authority.

***Specific Loan Loss Provision requirement***

Specific provision for impairment of loans is recognized in accordance with Prudential Regulations No. 05 – 2009 promulgated by Maldives Monetary Authority and provisions shall be made against all classified loans and advances exposure as per the requirements established by Maldives Monetary Authority as follows;

<b>Period outstanding</b>	<b>Classification</b>	<b>Provision Made</b>
More than 90 days and up to 179 days	Substandard	25%
More than 180 days and up to 359 days	Doubtful	50%
More than 360 days	Loss	100%

Provisions above are calculated against the gross loan balance (less profit in suspense) without any allowance for collateral value.

***General Loan Loss Provision Requirement***

A general provision on the total unimpaired loan portfolio is established to conservatively cover any unforeseen losses in the lending portfolio at the reporting date, but which have not been specifically identified as such.

As per Prudential Regulations No. 05 – 2009 promulgated by the 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.

***De-recognition of Impairment Provision***

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as the debtor regularizing loan repayment), the previously recognized impairment loss is reversed by adjusting the allowance account. Amounts recovered from fully impaired loans and advances are recognized as income on a cash basis.



**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)**

**(viii) Identification and Measurement of Impairment (Continued)**

***Impairment of Available-for-Sale Investment***

At each reporting date an assessment is made whether there is any objective evidence of impairment in the value of Available-for-sale Financial Assets. Impairment losses are recognized if and only if there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of financial asset (a 'lost event') and that lost event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably measured.

The Bank treats available for sale investments as impaired when there has been a significant and prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is significant or prolonged requires considerable judgment. The Bank determines "significant" generally as 20% or more and 'prolonged' greater than six months. In addition, the Bank evaluates other features, including normal volatility in share price and volume of share trading.

If the available-for-sale financial asset is impaired, the difference between the financial asset's acquisition cost (net of any principle repayment and amortization) and the current fair value, less any previous impairment loss recognized in profit or loss is removed from other comprehensive income and recognized in the profit or loss.

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

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.

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 way to manage their everyday financing. This type of account is based on the Sharia'a concept of Wadei'ah and does not earn any profit.

**Salient features:**

- Non- profit sharing
- Flexible banking and personal services
- No Minimum deposit amount
- Cheque book is provided

**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- derivative) (Continued)**

**(b) Savings Accounts**

Savings Account is a profit earning account which offers customer 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 customer based on the bank's declared profit ratio at the end of each month following the concept of Mudaraba.

**Salient features:**

- Profit sharing
- Minimum deposit amount for individuals MVR. 200 or USD 20
- Profit distributions every six months

**(c) General Investment Accounts**

General Investment Account is a profit earning account which offers customer a way to share in Bank's profit distributions by investing their money in a Sharia'a compliant manner based on Mudaraba concept.

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

**Salient features:**

- Profit sharing
- Profit distribution at maturity
- Flexible investment periods from 3, 6, 9 & 12 months to 2, 3 and up to 5 years
- Minimum deposit amount for customers MVR. 5,000 or USD 500

**(d) Margin Accounts**

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

The Bank maintains margin accounts for the following services:

- Trade Murabahah
- Wakalah LC
- Shipping Guarantees
- Performance Guarantees
- Bid Guarantees financing

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

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.6 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.

**3.7 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.

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 Vehicles	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.

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

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.8 Investment in Ijarah Assets**

Ijarah is a lease contract whereby the economic benefit of the leased assets is enjoyed by the lessee over the lease period. The Bank has not recognized the Investment in Ijarah assets as a financial asset in accordance with IAS 17 and recognized the Ijarah assets as tangible assets as it is required under Shari'ah principles to recognize those assets as tangible assets owned by the Bank.

Net investment in Ijarah consists the net of historical cost after the deduction of accumulated depreciation. Depreciation is recognized in profit or loss on a straight-line basis over the lease period specified in Ijarah contracts.

**3.9 Intangible Assets**

**(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

**3.10 Impairment of Non-Financial Assets**

The carrying amounts of the Bank's non-financial assets other than 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)**

**3.11 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.

**3.12 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.

**3.13 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 income 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.

**3.14 Earnings per share**

Basic and diluted earnings per share has been calculated and presented by the company voluntarily in accordance with the International Accounting Standard 33 "Earning Per Share".

**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.

**(i) Receivables**

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

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

**4. DETERMINATION OF FAIR VALUES (CONTINUED)**

**(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, AMENDMENTS AND INTERPRETATIONS**

**5.1 New standards, amendments, amendments to standards and interpretations that are not yet effective for the year ended 31<sup>st</sup> December 2013 and not yet adopted**

A number of new standards, amendments to standards and interpretations have been issued that are not yet effective for the year ended 31<sup>st</sup> December 2013 and have not been applied in preparing these financial statements.

<b>Title</b>	<b>Effective Date</b>	<b>Description</b>	<b>Expected adoption date and impact on the Company</b>
IFRS 9 Financial Instruments	1 <sup>st</sup> January 2018	This IFRS requires that entity classifies its financial assets as subsequently measured at either amortized cost or fair value depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.	The Company will not early adopt this standard.  The Bank is yet to determine the impact.
IAS 32 Financial Instruments	1 <sup>st</sup> January 2014	The standard amends IAS 32 Financial Instruments: Presentation to provide clarifications on the application of the offsetting rules.	The Company will adopt this standard from 1 <sup>st</sup> January 2014.  No significant impact.

**5.2 New standards, amendments and interpretations**

The following new standards and amendments came in to effect for annual period beginning on or after 1<sup>st</sup> January 2013 have been applied by the Bank in preparation of these financial statements.

IAS 1- Financial statements presentation (Amendment) regarding other comprehensive income.

IFRS 7- Financial instruments: Disclosures (Amendment) on asset and liability offsetting.

IFRS 13- Fair value measurement.

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

**AS AT 31ST DECEMBER 2013**

<b>6 CASH AND BALANCES WITH OTHER BANKS</b>	<b>2013</b>	<b>2012</b>
	<b>MVR</b>	<b>MVR</b>
Cash in Hand (Note 6.1)	29,604,104	34,726,874
Balances with Other Banks (Note 6.2)	22,295,141	32,391,198
	<u>51,899,245</u>	<u>67,118,072</u>

<b>6.1 CASH IN HAND</b>	<b>2013</b>			<b>2012</b>		
	<b>Foreign Currency</b>	<b>Exchange Rate</b>	<b>Carrying Amount</b>	<b>Foreign Currency</b>	<b>Exchange Rate</b>	<b>Carrying Amount</b>
US Dollars in hand	628,018	15.395	9,668,337	1,687,191	15.395	25,974,305
EURO in Hand	705	20.944	14,766	22,356	19.946	445,903
MVR in Hand	-	-	19,921,001	-	-	8,306,666
Total Cash in Hand			<u>29,604,104</u>			<u>34,726,874</u>

<b>6.2 BALANCES WITH OTHER BANKS</b>	<b>2013</b>			<b>2012</b>		
	<b>Foreign Currency</b>	<b>Exchange Rate</b>	<b>Carrying Amount</b>	<b>Foreign Currency</b>	<b>Exchange Rate</b>	<b>Carrying Amount</b>
Habib American Bank (US\$)	1,330,250	15.395	20,479,205	1,805,062	15.395	27,788,934
Commerz Bank (US\$)	-	-	-	277,749	15.395	4,275,938
Commerz Bank (EUR)	81,703	20.944	1,711,216	11,111	19.945	221,606
Bank of Maldives (US\$)	296	15.395	4,554	296	15.395	4,554
Bank of Maldives (MVR)	-	-	100,166	-	-	100,166
Total Balances with Other Banks			<u>22,295,141</u>			<u>32,391,198</u>

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

<b>7 BALANCES WITH MALDIVES MONETARY AUTHORITY</b>	<b>2013</b>	<b>2012</b>
	<b>MVR</b>	<b>MVR</b>
Minimum Reserve Requirement (MRR) (Note 7.1)	205,636,694	141,989,076
Balance in Excess of MRR with MMA (Note 7.2)	160,899,321	333,297,598
Total Balance with MMA	<u>366,536,015</u>	<u>475,286,674</u>

**7.1 Minimum Reserve Requirement**

As per the prevailing regulations of the Maldives Monetary Authority (the "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 205,636,694/- (2012: 141,989,076/-). The Bank has maintained the minimum reserve requirement according to the regulations issued by the MMA.

**7.2 Balance in Excess to Minimum Reserve Requirement**

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

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**8 NET RECEIVABLES FROM FINANCING ACTIVITIES**

	<b>2013</b>	<b>2012</b>
	<b>MVR</b>	<b>MVR</b>
Murabaha	104,046,483	62,562,083
Istisna'a	214,024,874	70,191,934
Diminishing Musharaka	27,606,701	-
Total Receivables from Financing Activities	<u>345,678,058</u>	<u>132,754,017</u>
Less : Deferred Profit	<u>(94,661,634)</u>	<u>(32,956,756)</u>
	251,016,424	99,797,261
<b>Less :</b>		
Specific Financing Loss Provision (Note 8.1)	(402,765)	-
General Financing Loss Provision (Note 8.2)	(2,291,023)	(997,982)
Profit in Suspense	(43,633)	-
<b>Net Receivables from Financing Activities</b>	<u><u>248,279,003</u></u>	<u><u>98,799,279</u></u>

**8.1 Movement in Specific Financing Loss Provision**

As at 1 <sup>st</sup> January	-	-
Add: Provision made during the year	402,765	-
As at 31 <sup>st</sup> December	<u>402,765</u>	<u>-</u>
Net movement in Specific Provision during the year	<u>402,765</u>	<u>-</u>

**8.2 Movement in General Provision**

As at 1 <sup>st</sup> January	997,982	85,504
Add: Provision made during the year	1,339,947	920,551
Less: Provision reversed during the year	(46,906)	(8,073)
As at 31 <sup>st</sup> December	<u>2,291,023</u>	<u>997,982</u>
Net movement in General Provision during the year	<u>1,293,041</u>	<u>912,478</u>

**9 NET INVESTMENTS IN PLACEMENTS**

	<u>Contract</u>	<u>Country</u>	<u>Maturity</u>	<u>Indicative</u>	<u>2013</u>	<u>2012</u>
	<u>type</u>			<u>rate</u>	<u>MVR</u>	<u>MVR</u>
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	20,000,000
MOFT, Maldives	Wakalah	Maldives	1 year	7.5% p.a.	110,000,000	-
Islamic Treasury Bills	Mudharabah	Maldives	95 Days	7.5% p.a.	150,000,000	-
					<u>280,000,000</u>	<u>35,395,000</u>
<b>Less :</b>						
General Provision on Placement with HDFC as per MMA requirement					(200,000)	-
<b>Net Investment in Placements</b>					<u><u>279,800,000</u></u>	<u><u>35,395,000</u></u>



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<b>10 NET INVESTMENTS IN IJARAH ASSETS</b>	<b>2013</b>	<b>2012</b>
	<b>MVR</b>	<b>MVR</b>
<b>Cost</b>		
As at 1 <sup>st</sup> January	3,666,741	-
Additions during the year	12,429,350	3,666,741
As at 31 <sup>st</sup> December	<u>16,096,091</u>	<u>3,666,741</u>
<b>Accumulated Depreciation</b>		
As at 1 <sup>st</sup> January	210,095	-
Charged during the year	4,447,148	210,095
As at 31 <sup>st</sup> December	<u>4,657,243</u>	<u>210,095</u>
<b>Net Carrying Value</b>		
As at 31 <sup>st</sup> December	<u>11,438,848</u>	<u>3,456,646</u>
<b>Less :</b>		
Specific Impairment Provision ( <b>Note 10.1</b> )	(46,492)	-
General Impairment Provision ( <b>Note 10.2</b> )	(175,693)	(36,667)
<b>Net Investment in Ijarah Assets</b>	<u>11,216,663</u>	<u>3,419,979</u>
<b>10.1 Movement in Specific Impairment Provision</b>		
As at 1 <sup>st</sup> January	-	-
Add: Provision made during the year	46,492	-
As at 31 <sup>st</sup> December	<u>46,492</u>	<u>-</u>
Net movement in Specific Impairment Provision during the year	<u>46,492</u>	<u>-</u>
<b>10.2 Movement in General Impairment Provision</b>		
As at 1 <sup>st</sup> January	36,667	-
Add: Provision made during the year	139,026	36,667
As at 31 <sup>st</sup> December	<u>175,693</u>	<u>36,667</u>
Net movement in General Impairment Provision during the year	<u>139,026</u>	<u>36,667</u>
<b>11 AVAILABLE FOR SALE INVESTMENT</b>	<b>2013</b>	<b>2012</b>
	<b>MVR</b>	<b>MVR</b>
As at 1 <sup>st</sup> January	7,900,000	8,000,000
Change in the Fair Value during the year	(1,900,000)	(100,000)
As at 31 <sup>st</sup> December	<u>6,000,000</u>	<u>7,900,000</u>

Available for sale investment represents the 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. As at the reporting date, the shares were valued at MVR 60/- each (2012: MVR 79/-).

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<b>12 OTHER ASSETS</b>	<b>2013</b>	<b>2012</b>
	<b>MVR</b>	<b>MVR</b>
Refundable Deposits (Note 12.1)	862,939	851,139
Accrued Income	5,060,424	91,241
Prepayments (Note 12.1)	1,144,725	802,196
Advance Payments against Financing Assets (Note 12.2)	21,835,159	1,192,290
LC Murabaha Goods in transit	3,275,562	-
Other Receivables	412,537	370,303
	<u>32,591,346</u>	<u>3,307,169</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.

**12.2** The advance payments against financing assets comprised of the advance payments made to suppliers for the procurement of goods under Trade Murabaha facilities.

**13 PROPERTY, PLANT AND EQUIPMENT**

	<u>Leasehold</u>	<u>Computer</u>	<u>Furniture</u>	<u>Office</u>	<u>Total</u>	<u>Total</u>
	<u>Building</u>	<u>Equipment</u>		<u>Equipment</u>	<u>2013</u>	<u>2012</u>
	<u>MVR</u>	<u>MVR</u>	<u>MVR</u>	<u>MVR</u>	<u>MVR</u>	<u>MVR</u>
<b>Cost</b>						
As at 1 <sup>st</sup> January	2,741,520	5,343,131	747,135	4,824,916	13,656,702	8,804,777
Additions during the year	-	836,765	364,156	294,796	1,495,717	4,851,925
As at 31 <sup>st</sup> December	<u>2,741,520</u>	<u>6,179,896</u>	<u>1,111,291</u>	<u>5,119,712</u>	<u>15,152,419</u>	<u>13,656,702</u>
<b>Accumulated Depreciation</b>						
As at 1 <sup>st</sup> January	817,307	1,899,104	182,242	894,599	3,793,252	1,304,099
Charge for the year	548,304	1,434,941	196,814	982,948	3,163,007	2,489,153
As at 31 <sup>st</sup> December	<u>1,365,611</u>	<u>3,334,045</u>	<u>379,056</u>	<u>1,877,547</u>	<u>6,956,259</u>	<u>3,793,252</u>
<b>Net Carrying Value</b>						
As at 31 <sup>st</sup> December 2013	<u>1,375,909</u>	<u>2,845,851</u>	<u>732,235</u>	<u>3,242,165</u>	8,196,160	
As at 31 <sup>st</sup> December 2012	<u>1,924,213</u>	<u>3,444,027</u>	<u>564,893</u>	<u>3,930,317</u>		9,863,450
Assets in Progress (Note 13.1)					571,506	-
					<u>8,767,666</u>	<u>9,863,450</u>

**13.1 Assets in Progress**

Additions During the Year	571,506	-
As at 31 <sup>st</sup> December	<u>571,506</u>	<u>-</u>

**13.2** The Bank has purchase assets for new branch to be opened in Addu. Some of the assets which were not ready for the intended use as at reporting date have been classified as assets in progress.

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**14 INTANGIBLE ASSETS**

	2013			2012		
	Core Banking & Database MVR	Other Computer Softwares MVR	Total Intangible Assets MVR	Core Banking & Database MVR	Other Computer Softwares MVR	Total Intangible Assets MVR
<b>Cost</b>						
As at 1 <sup>st</sup> January	9,225,285	2,308,593	11,533,878	9,225,285	1,240,748	10,466,033
Additions during the year	-	103,710	103,710	-	1,067,845	1,067,845
As at 31 <sup>st</sup> December	9,225,285	2,412,303	11,637,588	9,225,285	2,308,593	11,533,878
<b>Accumulated Amortization</b>						
As at 1 <sup>st</sup> January	2,335,171	534,069	2,869,240	1,017,273	119,319	1,136,592
Amortization during the year	1,317,898	472,090	1,789,988	1,317,898	414,750	1,732,648
As at 31 <sup>st</sup> December	3,653,069	1,006,159	4,659,228	2,335,171	534,069	2,869,240
<b>Carrying Amount</b>						
As at 31 <sup>st</sup> December	5,572,216	1,406,144	6,978,360	6,890,114	1,774,524	8,664,638

**15 CUSTOMERS' ACCOUNTS**

	2013 MVR	2012 MVR
Current Accounts	397,045,243	283,247,339
Saving Accounts	359,498,462	213,565,703
General Investment Accounts	66,003,072	54,538,193
Margin Accounts	17,614,321	16,547,568
	840,161,098	567,898,803

**16 OTHER LIABILITIES**

	2013 MVR	2012 MVR
Accrued Expenses	502,309	442,023
Banking Profit Tax Payable	868,699	-
Security Deposit	4,136,985	698,950
Return Payable to Investment Account holders	719,801	254,555
Pension Payable	129,064	91,662
Payable to Suppliers	3,277,560	675,574
Finance Recovery Accounts from Customers	1,960,989	568,483
Cashiers' Cheque	474,022	106,310
Charity funds from financing	577,356	89,792
Retention on Istisna'a projects	2,379,904	-
Deferred income on Ijarah Assets	1,640,098	-
Other Liabilities	291,622	58,998
	16,958,409	2,986,347

**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 Share Capital**

Name of the Shareholder	2013		2012	
	No. of shares	%	No. of shares	%
Islamic Corporation for the Development of the Private Sector	140,250	85%	127,500	85%
Government of Maldives	24,750	15%	22,500	15%
<b>Total</b>	165,000	100%	150,000	100%

**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 for the year ended 31<sup>st</sup> December 2013 (2012 : Nil).

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**18 STATUTORY RESERVE**

According to the 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 transferred MRf. 2,019,344/- during the year ended 31st December 2013 (2012: Nil).

**19 INCOME FROM FINANCING AND IJARAH ASSETS**

	<b>2013</b>	<b>2012</b>
	<b>MVR</b>	<b>MVR</b>
Income from Murabaha	7,615,724	2,947,423
Income from Istisna'a	9,639,399	1,870,415
Income from Ijarah	5,019,967	837,797
Income from Diminishing Musharaka	1,822,197	-
	<u>24,097,287</u>	<u>5,655,635</u>
Profit in suspense as per MMA requirement	(43,633)	-
<b>Net Income</b>	<u>24,053,654</u>	<u>5,655,635</u>

**20 PROFIT PAID ON CUSTOMER ACCOUNTS**

	<b>2013</b>	<b>2012</b>
	<b>MVR</b>	<b>MVR</b>
Profit paid on General Investment Accounts	1,685,842	1,558,468
Profit paid on Savings Accounts	2,614,123	159,170
	<u>4,299,965</u>	<u>1,717,638</u>

**21 COMMISSION AND FEE INCOME**

	<b>2013</b>	<b>2012</b>
	<b>MVR</b>	<b>MVR</b>
Fees and Commissions from Banking Services	403,277	289,349
Fees and Commissions from Trade Finance Services	2,479,157	1,161,635
Fees and Commissions from Remittance Services	10,349,119	8,057,937
Fees and Commissions from ATM and POS Services	1,160,324	374,052
Fees and Commissions from Financing Processing	19,000	643,016
Other Fees and Commissions Income	36,439	31,338
	<u>14,447,316</u>	<u>10,557,327</u>

**22 FOREIGN EXCHANGE GAIN**

	<b>2013</b>	<b>2012</b>
	<b>MVR</b>	<b>MVR</b>
Foreign Exchange Gain	<u>663,280</u>	<u>731,922</u>

**23 INCOME FROM INVESTMENT IN SHARES, SECURITIES AND PLACEMENT**

	<b>2013</b>	<b>2012</b>
	<b>MVR</b>	<b>MVR</b>
Dividend from Available for sale Investment	494,000	801,000
Wakala Placement Income	10,152,360	-
Islamic Treasury bill Income	1,664,384	-
	<u>12,310,744</u>	<u>801,000</u>

The dividend income represents the dividend received during the year from investment in the quoted shares of Dhivehirajjeyge Gulhun Plc. The dividend was declared at MVR 4.94 per share as dividend for the year 2013.

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<b>24 PERSONNEL COSTS</b>	<b>2013</b>	<b>2012</b>
	<b>MVR</b>	<b>MVR</b>
Salaries and Wages	13,878,877	10,078,567
Other Staff Expenses	3,383,375	2,539,959
	<u>17,262,252</u>	<u>12,618,526</u>
<b>25 GENERAL AND ADMINISTRATIVE EXPENSES</b>	<b>2013</b>	<b>2012</b>
	<b>MVR</b>	<b>MVR</b>
Rent and Accommodation Expenses	4,151,341	3,672,427
Legal and Professional Expenses	101,504	240,615
Marketing and Advertising Expenses	456,964	242,606
Communication Expenses	717,833	861,652
Technology Related Expenses	1,992,743	1,792,629
Electricity Expenses	1,172,248	928,585
Funds Transfer Expenses	621,956	625,635
Stationary Costs	743,854	563,322
Directors allowance and Board related Expenses	440,906	593,385
Training and Development Expenses	462,611	941,848
Premises Security and Insurance	1,111,048	686,262
Connectivity and Internet Charges	1,270,222	947,329
Utility Expenses	248,066	293,488
Travelling Expenses	330,442	191,450
Sharia Board Related Expenses	400,044	399,892
Other Operating Expenses	361,149	149,955
	<u>14,582,931</u>	<u>13,131,080</u>
<b>26 DEPRECIATION AND AMORTIZATION</b>	<b>2013</b>	<b>2012</b>
	<b>MVR</b>	<b>MVR</b>
Depreciation on Property Plant and Equipment ( <b>Note 13</b> )	3,163,007	2,489,153
Amortization on Intangible Assets ( <b>Note 14</b> )	1,789,988	1,732,648
Depreciation on Ijarah Assets ( <b>Note 10</b> )	4,447,148	210,095
	<u>9,400,143</u>	<u>4,431,896</u>
<b>27 INCOME TAX EXPENSE</b>	<b>2013</b>	<b>2012</b>
	<b>MVR</b>	<b>MVR</b>
Income Tax for the year ( <b>Note 27.1</b> )	868,699	-
Deferred Tax Liability (derecognized) / recognized during the Year ( <b>Note 27.2</b> )	(1,059,008)	1,786,365
	<u>(190,309)</u>	<u>1,786,365</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.

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**27 INCOME TAX EXPENSE (CONTINUED)**

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

	<b>2013</b>	<b>2012</b>
	<b>MVR</b>	<b>MVR</b>
Accounting Profit / (Loss) before Tax	3,848,379	(15,102,401)
Aggregate Disallowable Items	7,034,319	5,170,946
Aggregate Allowable Items	<u>(7,407,903)</u>	<u>(5,510,960)</u>
Taxable Income / (Loss) for the year	<u>3,474,795</u>	<u>(15,442,415)</u>
Income Tax @ 25%	<u>868,699</u>	<u>-</u>

The aggregate disallowable items comprise of the Provision for impairment on financing activities (**Note 8,9&10**) of MVR 2,081,324/- and the depreciation and amortization (**Note 13&14**) amounting to MVR 4,952,995/-. The capital allowance of MVR 7,407,903/- is recorded as the aggregate allowable items.

**27.2 Deferred Tax Liability**

As at 1 <sup>st</sup> January	2,574,871	788,506
(Derecognized) / Recognized during the year	<u>(1,059,008)</u>	<u>1,786,365</u>
As at 31 <sup>st</sup> December	<u>1,515,863</u>	<u>2,574,871</u>

	<b>31/12/2013</b>		<b>31/12/2012</b>	
	<b>Temporary Difference</b>	<b>Tax Effect</b>	<b>Temporary Difference</b>	<b>Tax Effect</b>
	<b>MVR</b>	<b>MVR</b>	<b>MVR</b>	<b>MVR</b>
Property, Plant and Equipment	1,953,419	488,355	5,765,875	1,441,469
Intangible Assets	<u>4,110,034</u>	<u>1,027,508</u>	<u>4,533,606</u>	<u>1,133,402</u>
	<u>6,063,453</u>	<u>1,515,863</u>	<u>10,299,481</u>	<u>2,574,871</u>

**28 BASIC AND DILUTED EARNINGS / (LOSS) PER SHARE**

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

	<b>2013</b>	<b>2012</b>
Profit / (Loss) for the year - MVR	4,038,688	(16,888,766)
Weighted Average Number of Ordinary Shares outstanding during the year	156,250	150,000
Basic Earnings / (Loss) Per Share - MVR	<u>26</u>	<u>(113)</u>

**29 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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**29 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

**(i) Credit Risk (Continued)**

**The Bank's credit risk management framework includes:**

Establishment of authorization structure and limits for the approval and renewal of financing activities.

Reviewing and assessing credit exposures in accordance with authorization 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:

	<b>Carrying Amount</b>	
	<b>31/12/2013</b>	<b>31/12/2012</b>
	<b>MVR</b>	<b>MVR</b>
Gross Receivables from Financing Activities	251,016,424	99,797,261
Gross Investments in Ijarah Assets	16,096,091	3,666,741
Investment in Placements	280,000,000	35,395,000
	<u>547,112,515</u>	<u>138,859,002</u>

**Impairment Losses**

	<b>31/12/2013</b>		<b>31/12/2012</b>	
	<b>Gross MVR</b>	<b>Impairment MVR</b>	<b>Gross MVR</b>	<b>Impairment MVR</b>
The grading of Due from financing activities and investment in placements at the reporting date was:				
<b>Receivables from Financing Activities and Investment in Ijara'h Asset (Note 8 &amp; 10)</b>				
Financing towards Government of Maldives	0%	20,910,567	-	-
Standard (Pass)	General 1%	244,181,566	2,441,816	103,464,900
Special Mention	General 5%	498,010	24,901	-
Substandard	Specific 25%	1,160,452	290,113	-
Doubtful	Specific 50%	318,287	159,144	-
Loss	Specific 100%	-	-	-
Profit in suspense		43,633	-	-
		<u>267,112,515</u>	<u>2,915,973</u>	<u>103,464,900</u>
Investment in Placements (Note 9)		<u>280,000,000</u>	<u>200,000</u>	<u>35,395,000</u>
				<u>-</u>

The Bank monitors concentrations of credit risk by sector and by Industry organizations. An analysis of concentrations of credit risk from financing activities and investment in Ijarah assets at the reporting date is shown below:

	<b>Financing Activities</b>	
	<b>2013</b>	<b>2012</b>
<b>Concentration by Industry;</b>		
Consumer Goods	33,897,270	11,628,869
Tourism - New resort Development	-	645,921
Transport and Communications - Transport	12,066,660	19,499,944
Commerce - Wholesale and retail trade	41,148,329	15,785,972
Construction - Residential/Housing Loans	121,269,260	8,984,903
Construction - commercial building	1,174,608	4,433,338
Manufacturing - Printing & Publishing	534,311	1,006,259
Istisna'a Home Finance	35,782,760	32,178,962
Water, Waterworks and Supply	8,056,583	-
Istisna'a Real Estate Development	13,182,734	9,299,834
Total	<u>267,112,515</u>	<u>103,464,002</u>
<b>Concentration by Sector;</b>		
Businesses	154,452,204	49,431,642
Individuals	112,660,311	54,032,360
Total	<u>267,112,515</u>	<u>103,464,002</u>

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**29 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.

<b>31<sup>st</sup> December 2013</b>	<b>Carrying Amount MVR</b>	<b>0-12 Months MVR</b>	<b>1-2 Years MVR</b>	<b>2-5 Years MVR</b>	<b>More than 5 years MVR</b>
<b>Assets</b>					
Cash and Balances with Other Banks	51,899,245	51,899,245	-	-	-
Balances with MMA	366,536,015	366,536,015	-	-	-
Net Receivables from Financing Activities	248,279,003	59,093,941	1,664,517	27,262,084	160,258,461
Net Investment in Placements	279,800,000	279,800,000	-	-	-
Other Assets	32,591,346	32,591,346	-	-	-
Available for Sale Investment	6,000,000	6,000,000	-	-	-
	<u>985,105,609</u>	<u>795,920,547</u>	<u>1,664,517</u>	<u>27,262,084</u>	<u>160,258,461</u>
<b>Liabilities</b>					
Other Liabilities	16,958,409	16,958,409	-	-	-
Customers' Accounts	840,161,098	830,126,762	2,986,394	7,047,942	-
	<u>857,119,507</u>	<u>847,085,171</u>	<u>2,986,394</u>	<u>7,047,942</u>	<u>-</u>
<b>Net Gap</b>	<u>127,986,102</u>	<u>(51,164,624)</u>	<u>(1,321,877)</u>	<u>20,214,142</u>	<u>160,258,461</u>
<b>31<sup>st</sup> December 2012</b>					
	<b>Carrying Amount MVR</b>	<b>0-12 Months MVR</b>	<b>1-2 Years MVR</b>	<b>2-5 Years MVR</b>	<b>More than 5 years MVR</b>
<b>Assets</b>					
Cash and Balances with Other Banks	67,118,072	67,118,072	-	-	-
Balances with MMA	475,286,674	475,286,674	-	-	-
Net Receivables from Financing Activities	98,799,279	42,232,000	1,355,000	18,353,000	36,822,612
Net 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	-	-	-
	<u>687,806,194</u>	<u>631,238,915</u>	<u>1,355,000</u>	<u>18,353,000</u>	<u>36,822,612</u>
<b>Liabilities</b>					
Other Liabilities	2,986,347	2,986,347	-	-	-
Customers' Accounts	567,898,803	549,074,000	397,000	18,427,803	-
	<u>570,885,150</u>	<u>552,060,347</u>	<u>397,000</u>	<u>18,427,803</u>	<u>-</u>
<b>Net Gap</b>	<u>116,921,044</u>	<u>79,178,568</u>	<u>958,000</u>	<u>(74,803)</u>	<u>36,822,612</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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**29 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:

	<b>Carrying Amount</b>	
	<b>31/12/2013</b>	<b>31/12/2012</b>
	<b>MVR</b>	<b>MVR</b>
<b>Fixed Rate Instruments</b>		
<b>Financial Assets</b>		
Receivables from Financing Activities	248,279,003	98,799,279
<b>Financial Liabilities</b>		
Customers' Accounts	425,501,534	268,103,896
<b>Variable Rate Instruments</b>		
<b>Financial Assets</b>		
Investment in Placements	279,800,000	35,395,000

**(b) Profit Rate Sensitivity**

<b>31<sup>st</sup> December 2013</b>	<b>Carrying</b>	<b>0-12</b>	<b>1-2</b>	<b>2-5</b>	<b>More than</b>	<b>Total</b>	<b>Non rate</b>
	<b>Amount</b>	<b>Months</b>	<b>Years</b>	<b>Years</b>	<b>5 Years</b>	<b>Sensitive</b>	<b>Sensitive</b>
	<b>MVR</b>	<b>MVR</b>	<b>MVR</b>	<b>MVR</b>	<b>MVR</b>	<b>MVR</b>	<b>MVR</b>
<b>Assets</b>							
Cash and Balances with Other Banks	51,899,245	-	-	-	-	-	51,899,245
Balances with MMA	366,536,015	-	-	-	-	-	366,536,015
Net Receivables from Financing Assets	248,279,003	59,093,941	1,664,517	27,262,084	160,258,461	248,279,003	-
Net Investment in Placements	279,800,000	279,800,000	-	-	-	279,800,000	-
	946,514,263	338,893,941	1,664,517	27,262,084	160,258,461	528,079,003	418,435,260
<b>Liabilities</b>							
Other Liabilities	16,958,409	-	-	-	-	-	16,958,409
Customers' Accounts	840,161,098	415,467,198	2,986,394	7,047,942	-	425,501,534	414,659,564
	857,119,507	415,467,198	2,986,394	7,047,942	-	425,501,534	431,617,973
Profit Rate Sensitivity Gap	89,394,756	(76,573,257)	(1,321,877)	20,214,142	160,258,461	102,577,469	(13,182,713)
<b>31<sup>st</sup> December 2012</b>							
	<b>Carrying</b>	<b>0-12</b>	<b>1-2</b>	<b>2-5</b>	<b>More than</b>	<b>Total</b>	<b>Non rate</b>
	<b>Amount</b>	<b>Months</b>	<b>Years</b>	<b>Years</b>	<b>5 Years</b>	<b>Sensitive</b>	<b>Sensitive</b>
	<b>MVR</b>	<b>MVR</b>	<b>MVR</b>	<b>MVR</b>	<b>MVR</b>	<b>MVR</b>	<b>MVR</b>
<b>Assets</b>							
Cash and Balances with Other Banks	67,118,072	-	-	-	-	-	67,118,072
Balances with MMA	475,286,674	-	-	-	-	-	475,286,674
Net Receivables from Financing Assets	98,762,612	42,232,000	1,355,000	18,353,000	36,822,612	98,762,612	-
Net Investment in Placements	35,395,000	35,395,000	-	-	-	35,395,000	-
	676,562,358	77,627,000	1,355,000	18,353,000	36,822,612	134,157,612	542,404,746
<b>Liabilities</b>							
Other Liabilities	2,986,347	-	-	-	-	-	2,986,347
Customers' Accounts	567,898,803	249,279,093	397,000	18,427,803	-	268,103,896	299,794,907
	570,885,150	249,279,093	397,000	18,427,803	-	268,103,896	302,781,254
Profit Rate Sensitivity Gap	105,677,208	(171,652,093)	958,000	(74,803)	36,822,612	(133,946,284)	239,623,492

**(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 60,000/-. Available for sale investment as at 31st December 2013 is MVR 6,000,000/- (Note 11)

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**29 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

**(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 31<sup>st</sup> December 2013, the bank was within the 40% limit for all currencies and the single currency limit of 15% (USD 13.55% and EUR 1.13%)

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

	<b>31/12/2013</b>			
	<b>Euro</b>	<b>US\$</b>	<b>MVR</b>	<b>Total (MVR)</b>
Cash and Balances with Other Banks ( <b>Note 6</b> )	82,408	1,958,564	20,021,167	51,899,245
Balances with MMA ( <b>Note 7</b> )	-	10,102,375	211,009,956	366,536,015
Murabaha Financing ( <b>Note 8</b> )	-	3,775,055	45,929,511	104,046,483
Customers' Accounts ( <b>Note 15</b> )	-	(15,653,600)	(599,173,926)	(840,161,098)
Net statement of financial position exposure	<u>82,408</u>	<u>182,394</u>	<u>(322,213,292)</u>	<u>(317,679,355)</u>

	<b>31/12/2012</b>			
	<b>Euro</b>	<b>US\$</b>	<b>MVR</b>	<b>Total (MVR)</b>
Cash and Balances with Other Banks ( <b>Note 6</b> )	33,467	3,770,298	8,406,832	67,118,072
Balances with MMA ( <b>Note 7</b> )	-	4,140,283	411,547,024	475,286,674
Murabaha Financing ( <b>Note 8</b> )	-	1,734,278	35,862,868	62,562,083
Customers' Accounts ( <b>Note 15</b> )	(9,884)	(10,210,907)	(410,504,753)	(567,898,803)
Net statement of financial position exposure	<u>23,583</u>	<u>(566,048)</u>	<u>45,311,971</u>	<u>37,068,025</u>

**Sensitivity Analysis**

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

	<b>2013</b>		<b>2012</b>	
	<b>Strengthening</b>	<b>Weakening</b>	<b>Strengthening</b>	<b>Weakening</b>
Euro (1% Movement)	17,260	(17,260)	4,704	(4,704)
US\$ (1% Movement)	28,080	(28,080)	(87,143)	87,143

The following significant exchange rate applied during the period:

	<b>Average Rate</b>		<b>Reporting Date Spot Rate</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
US\$ 1 : MRf	15.40	15.40	15.40	15.40
Euro 1 : MRf	20.35	19.95	20.94	19.95

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**29 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

**(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 capital adequacy at the end of the reporting period was as follows:

	<b>31/12/2013</b>	<b>31/12/2012</b>
	<b>MVR</b>	<b>MVR</b>
<b>Tier 1 ("Core") Capital</b>		
Share Capital	165,000,000	150,000,000
Opening (Accumulated Losses) / Retained Earnings	(16,494,779)	393,987
Statutory Reserve	2,889,019	2,889,019
<b>Total Tier 1 Capital</b>	<b>151,394,240</b>	<b>153,283,006</b>
<b>Tier 2 ("Supplementary") Capital</b>		
Current Year-to-Date Profit /(Losses)	4,038,688	(16,988,766)
General Provisions (Limited to 1.25% of RWA)	2,666,716	1,034,649
<b>Subtotal</b>	<b>6,705,404</b>	<b>(15,954,117)</b>
<b>Eligible Tier 2 Capital (Limited to 100% of Tier 1 Capital)</b>	<b>6,705,404</b>	<b>(15,954,117)</b>
<b>Total Tier 1 and Tier 2 Capital</b>	<b>158,099,644</b>	<b>137,328,889</b>
Core Capital	151,394,240	153,283,006
Capital Base	158,099,644	137,328,889
Risk Weighted Assets	496,434,840	146,589,000
Tier 1 Risk Based Capital Ratio ( Minimum 6%)	30%	105%
Total Risk Based Capital Ratio (Minimum 12%)	32%	94%

**(vi) Fair value versus carrying amount**

<b>As at 31<sup>st</sup> December 2013</b>	<b>Financial</b>	<b>Financial</b>	<b>Total carrying</b>	<b>Fair value</b>
	<b>Assets</b>	<b>Liabilities</b>	<b>Amount</b>	<b>MVR</b>
	<b>MVR</b>	<b>MVR</b>	<b>MVR</b>	<b>MVR</b>
<b>Assets</b>				
Cash and Balances with Other Banks	51,899,245	-	51,899,245	51,899,245
Balances with MMA	366,536,015	-	366,536,015	366,536,015
Receivables from Financing Activities	248,279,003	-	248,279,003	248,279,003
Investment in Placements	279,800,000	-	279,800,000	279,800,000
Available for Sale Investment	6,000,000	-	6,000,000	6,000,000
	<b>952,514,263</b>	<b>-</b>	<b>952,514,263</b>	<b>952,514,263</b>
<b>Liabilities</b>				
Customers' Accounts	-	840,161,098	840,161,098	840,161,098
Other Liabilities	-	16,958,409	16,958,409	16,958,409
	<b>-</b>	<b>857,119,507</b>	<b>857,119,507</b>	<b>857,119,507</b>

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**29 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

**(vi) Fair value versus carrying amount**

<b>As at 31<sup>st</sup> December 2012</b>	<b>Financial Assets MVR</b>	<b>Financial Liabilities MVR</b>	<b>Total carrying Amount MVR</b>	<b>Fair value MVR</b>
<b>Assets</b>				
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
	35,395,000	-	35,395,000	35,395,000
Available for Sale Investment	7,900,000	-	7,900,000	7,900,000
	<u>684,462,358</u>	<u>-</u>	<u>684,462,358</u>	<u>684,462,358</u>
<b>Liabilities</b>				
Customers' Accounts	-	567,898,803	567,898,803	567,898,803
Other Liabilities	-	2,986,347	2,986,347	2,986,347
	<u>-</u>	<u>570,885,150</u>	<u>570,885,150</u>	<u>570,885,150</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.

	<b>Level 1 MVR</b>	<b>Level 2 MVR</b>	<b>Level 3 MVR</b>	<b>Total MVR</b>
<b>31<sup>st</sup> December 2013</b>				
Financial Assets Classified as Available for Sale	<u>6,000,000</u>	<u>-</u>	<u>-</u>	<u>6,000,000</u>
<b>31<sup>st</sup> December 2012</b>				
Financial Assets Classified as Available for Sale	<u>7,900,000</u>	<u>-</u>	<u>-</u>	<u>7,900,000</u>

**30 RELATED PARTY TRANSACTIONS**

<b>Name of the Related Party</b>	<b>Relationship</b>	<b>Nature of the Transaction</b>	<b>Amount 2013 MVR</b>	<b>Amount 2012 MVR</b>	<b>Balance as at 31/12/2013 MVR</b>	<b>Balance as at 31/12/2012 MVR</b>
Burj Bank Limited- Pakistan	Affiliated Bank	Mudharabah Settlements	- (15,395,000)	15,395,000	-	15,395,000

The bank has invested USD 1 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 31<sup>st</sup> December 2012, the balance amount in Maldivian Rufiyaa is MVR15,395,000. This investment was matured during the year 2013.

**30.1 Transactions with Key Management Personnel**

The key management personnel are the members of the Board of Directors. The Company has paid an amount of MVR. 2,433,931/- as emoluments to the key management personnel during the year ended 31<sup>st</sup> December 2013 (2012: MVR 2,447,724/-).

**31 COMMITMENTS**

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

**32 CONTINGENT LIABILITIES**

	<b>2013 MVR</b>	<b>2012 MVR</b>
Letter of Credits	22,932,718	19,240,381
Guarantees and Bonds	17,976,301	16,547,568
Bill Collection Acceptance	1,491,588	-
	<u>42,400,607</u>	<u>35,787,949</u>

**33 EVENTS AFTER THE REPORTING DATE**

There are no events after the reporting date which require adjustments to/or disclosure in the financial statements.

**34 MANAGEMENT'S RESPONSIBILITY**

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

**35 COMPARATIVE FIGURES**

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