Maldives Islamic Bank

ANNUAL REPORT 2016

FOR FINANCIAL YEAR ENDED
31ST DECEMBER 2016

Content

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. Shimad Ibrahim

Mr.Ahmed Khizer Khan

Mr. Mohammed Ataur Rahman Chowdhury

Mrs.Fathimath Shafeega

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

Ernst & Young

The Directors hereby submit their report together with the audited financial statements of the Bank for the financial year ended 31 December 2016.

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

	MVR'000	
	2016	**2015**
Profit before Tax	60,036	32,850
Income Tax	(15,422)	(7,958)
Net profit after Tax	44,614	24,891

DIVIDENDS

The Directors do not recommend the payment of any dividend in respect of the financial year ended 31 December 2016.

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

On 24 November 2016 the Boards of Directors of the bank resolved the transfer of 5% (9,000 shares) out of the issued share capital of the bank, owned by ICD, to the Amana Takaful Maldives Plc at a consideration of MVR 2,467.20 per share. Additionally, on 7 February 2017, the directors have resolved to transfer additional 10% (18,000 shares) out of the issued share capital of the bank, owned by ICD, to the Government of the Maldives at a consideration of MVR2,821.57 per share. Both the transfers were effected on 4 April 2017. However, this has no effect, which may require to adjust the financial statements as at 31 December 2016.

Subsequent to this change, the new shareholding structure of the bank is as follows.

Name	**% of Shareholdings**	**Number of shares**	**Value of shares (MVR)**
ICD	70%	126,000	126,000,000
Government of Maldives	25%	45,000	45,000,000
Amana Takaful Maldives Plc	5%	9,000	9,000,000

There were no other 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 (Chairman)
- Mr. Shimad Ibrahim
- Mr. Ahmed Khizer Khan
- Mr. Mohammed Ataur Rahman Chowdhury
- Ms. Fathimath Shafeega
- Mr. Harith Bin Harun (Managing Director & CEO)

RESPONSIBILITY STATEMENT BY BOARD OF DIRECTORS

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

It is the responsibility of the Directors to ensure that the financial reporting of the Bank present a true and fair view of the state of affairs of the Bank as at 31 December 2016 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, eight (08) Board meetings were held. All Directors reviewed Board papers or reports providing updates on operational, financial and corporate developments prior to the Board meetings. These papers and reports are circulated prior to the meeting to enable the Directors to obtain further explanations and having sufficient time to deliberate on the issues and make decisions during the meeting.

Board Composition

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

Directors	**Total meetings attended**
Mr. Najmul Hassan *Chairman/ Non- Independent Non-Executive Director*	8/8
Mr. Shimad Ibrahim *Non- Independent Non-Executive Director*	8/8
Mr. Ahmed Khizer Khan *Non- Independent Non-Executive Director*	5/8
Mr. Mohammed Ataur Rahman Chowdhury *Non- Independent Non-Executive Director*	8/8
Mrs. Fathimath Shafeega *Independent Non-Executive Director*	8/8
Mr. Harith Bin Harun (Managing Director & CEO) *Non- Independent Executive Director*	8/8

Mr. Hussain Ali Habeeb is the Secretary of the Board.

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 Board Audit Committee ("BAC") 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 BAC also ensures that the procedures and framework in relation to identifying, measuring, monitoring and controlling internal controls are operating effectively.

The BAC 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 BAC.

The current members of the BAC are:

1. Mrs. Fathimath Shafeega (Chairperson)
2. Mr. Mohammed Ataur Rahman Chowdhury
3. Mr. Shimad Ibrahim

The Internal Auditor is the Secretary of the BAC.

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 is comprised of Head of Operations, Head of Finance and Accounts, Head of Business and Head of Technology Department. The committee 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. Mr. Hussain Ali Habeeb is the secretary of the MC.

Financing and Investment Committee

The Financing and Investment Committee ("FIC") is made up of five members, namely, the Managing Director & CEO who is also the chairman, Head of Operations, Head of Finance and Accounts, Head of Business and Head of Risk Management Unit. The FIC 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 through Board Risk Management Committee. The FIC also monitors the status of non-performing financing assets and reviews financing policy in response to developments in the market. Ms. Mariyam Najaa is the secretary of the FIC.

Shari'ah Board

The Shari'ah Board ("SB") 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 2016, a total of four (04) meetings were held. The Shari'ah Board comprises the following members and the details of attendance of each member at the Shari'ah Board meetings held during the financial year are as follows:

Member	Total Meetings Attended
Dr. Ejaz Ahmed Samadani (Chairman)	4/4
Mufti Mohammed Rizwe Bin Ibrahim	4/4
Dr. Ibrahim Zakariyya Moosa	4/4

The Head of Sharia Unit is the Secretary of the SB.

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 Board is recommending Ernst & Young to engage/continue as external auditor of the bank for the financial year ending 31 December 2017.

Signed on behalf of the Board of Directors in accordance with their resolution dated 23 April 2017

Mr. Najmul Hassan
Chairman

Mr. Harith Bin Harun
Managing Director & CEO

بسم الله الرحمن الرحيم

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 Shariah Review and Shariah Audit Report prepared by the Shariah Unit, based on the Shariah Review and Shariah Audit conducted during the year on the transactions and contracts relating to Islamic banking business provided by Maldives Islamic Bank Pvt. Ltd. ("the Bank") during the year ended 31st December 2016, to form an opinion whether, the Bank's Islamic banking business has complied with Shariah and also with the specific resolutions, rulings and guidelines issued by us and other relevant authorities. The Bank's management is responsible for ensuring that the Bank's Islamic banking business is in accordance with Islamic Shariah. 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 the Review and Audit report of the Internal Shariah Unit of the Bank. Internal Shariah Unit has reviewed different types of transaction and the relevant documentation and procedures adopted by the Bank. Internal Shariah Unit has planned and performed reviews and audits to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Bank's business activities were conducted in compliance with the principles of Shariah.

In our opinion:

A. The contracts, transactions and dealings relating to the Bank's activities during the year ended 31st December 2016 that we have reviewed were generally in compliance with Shariah.

B. We have noted areas that require improvement in the mode of operation and documentation for certain financing transactions of the Bank that require rectification are highlighted in the annual Shariah audit report and we have provided guidelines to implement the required improvements.

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

D. During the audit period an amount of MVR 385,534 (Maldivian Rufiyaa, Three Hundred and Eighty five Thousand and five hundred and Thirty Four) has been transferred into the charity account due to delay in payments.

Based on the strength and capacity of the Internal Shariah Unit and policies guidelines for the Shariah compliance issued at the Bank, we are of the opinion that an effective mechanism is in place to ensure Shariah compliance in overall operation of the Bank.

May Allah Subhanahu Wa Ta'alah bless us with the best tawfeeq to accomplish His cherished tasks, make us successful in this world and in the life hereafter and forgive our mistakes.

Wallahu A'lam.
Wassalamualaikum Wa Rahmatullah Wa Barakatuh

9 March 2017

....	....	....
Dr. Ejaz Ahmed Samadani	Mufthi M I M Rizwe	Dr. Ibrahim Zakariyya Moosa
Chairman	Member	Member

Building a better
working world

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Reg. No: C-192/95

AHF/DP

Independent Auditor's Report
To the Shareholders of Maldives Islamic Bank Private Limited

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Maldives Islamic Bank Private Limited ("Bank"), which comprise the statement of financial position as at December 31 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the banking institutions in Maldives.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

This report is made solely to the company's members, as a body, in accordance with section 71 of the Companies Act No. 10 of 1996. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. Therefore, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs as adopted by the banking institutions in Maldives, 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. In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

(Continued)

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Ernst & Young

23 April 2017
Male'

Maldives Islamic Bank Private Limited
STATEMENT OF FINANCIAL POSITION
As at 31 December 2016

	Note	2016 MVR	2015 MVR
ASSETS			
Cash and balances with other banks	6	181,630,423	120,841,792
Balances with Maldives Monetary Authority	7	663,077,913	602,824,173
Available for sale investment	8	8,100,000	8,200,000
Investments held to maturity	9	853,580,526	496,721,766
Net receivables from financing activities	10	816,374,548	485,263,590
Property, plant and equipment	11	14,637,943	12,661,695
Intangible assets	12	6,959,789	9,209,335
Other assets	13	84,173,575	52,800,047
Total assets		**2,628,534,717**	**1,788,522,398**
LIABILITIES			
Customers' accounts	14	2,337,412,436	1,561,182,364
Other liabilities	15	19,476,447	7,460,284
Current tax liability	27.2	15,322,498	8,151,481
Deferred tax liability	27.3	2,382,140	2,326,476
Total liabilities		**2,374,593,521**	**1,579,120,605**
EQUITY			
Share capital	16	180,000,000	180,000,000
Statutory reserve	17	46,624,998	24,317,796
Fair value reserve	8.1	75,000	150,000
Retained earnings		27,241,198	4,933,997
Total equity		**253,941,196**	**209,401,793**
Total liabilities and equity		**2,628,534,717**	**1,788,522,398**
Net Asset Value Per Share	28.2	1,410.78	1,163.34

The Board of Directors is responsible for the preparation and presentation of these financial statements.

Signed for and on behalf of the Board by,

Mr. Najmul Hassan
Chairman

Mr. Harith Bin Harun
Managing Director & CEO

The accounting policies and notes on pages 19 to 56 form an integral part of the financial statements.

23 April 2017
Male'

Maldives Islamic Bank Private Limited
STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2016

	Note	2016 MVR	2015 MVR
Income from financing activities	**18**	75,921,177	50,159,976
Profit paid on customer accounts	**19**	(16,371,100)	(10,667,844)
Net profit earned from financing activities		**59,550,077**	**39,492,132**
Commission and fee income	**20**	17,859,873	13,348,496
Commission and fee expense	**21**	(659,422)	(510,006)
Net commission and fee income		**17,200,451**	**12,838,490**
Foreign exchange gain	**21**	538,350	982,344
Income from available for sale investments	**22**	1,061,000	956,000
Income from held to maturity investments	**23**	55,115,323	37,765,856
Total operating income		**133,465,201**	**92,034,822**
Personnel costs	**24**	(36,400,127)	(29,490,225)
General and administrative expenses	**25**	(28,660,011)	(21,605,779)
Depreciation and amortisation	**26**	(7,223,544)	(7,160,852)
Total operating expenses excluding impairment provision		**(72,283,682)**	**(58,256,856)**
Profit before provisions and tax		**61,181,519**	**33,777,965**
Net provision for impairment losses	**9,10**	(1,145,121)	(928,403)
Profit before tax		**60,036,398**	**32,849,563**
Income tax	**27**	(15,421,995)	(7,958,084)
Profit for the year		**44,614,403**	**24,891,479**
Other comprehensive income			
Change in fair value of available for sale investment	**8**	(100,000)	1,200,000
Income tax effect		25,000	(300,000)
Other comprehensive income to be reclassified to profit or loss in subsequent periods, net of tax		**(75,000)**	**900,000**
Total comprehensive income for the year		**44,539,403**	**25,791,479**
Basic and Diluted Earnings Per Share	**28.1**	248	138

The accounting policies and notes on pages 19 to 56 form an integral part of the financial statements.

Maldives Islamic Bank Private Limited
STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2016

	Share capital MVR	Statutory reserve MVR	Fair value reserve MVR	Retained earnings/ (losses) MVR	Total MVR
As at 1 January 2015	**180,000,000**	**11,872,056**	**(750,000)**	**(7,511,742)**	**183,610,314**
Profit for the year	-	-	-	24,891,479	24,891,479
Other comprehensive income	-	-	900,000	-	900,000
Issuance of shares	-	-	-	-	-
Transferred to statutory reserve (Note 17)	-	12,445,740	-	(12,445,740)	-
As at 31 December 2015	**180,000,000**	**24,317,796**	**150,000**	**4,933,997**	**209,401,793**
Profit for the year	-	-	-	44,614,403	44,614,403
Other comprehensive income	-	-	(75,000)	-	(75,000)
Transferred to statutory reserve (Note 17)	-	22,307,202	-	(22,307,202)	-
As at 31 December 2016	**180,000,000**	**46,624,998**	**75,000**	**27,241,198**	**253,941,196**

The accounting policies and notes on pages 19 to 56 form an integral part of the financial statements.

Maldives Islamic Bank Private Limited
STATEMENT OF CASH FLOWS
Year ended 31 December 2016

	Note	2016 MVR	2015 MVR
Cash flows from operating activities			
Profit before tax		60,036,398	32,849,563
Adjustments for:			
Depreciation and amortisation	**26**	7,223,544	7,160,852
Net provision for impairment losses	**9, 10**	1,145,121	978,403
Operating loss before changes in operating activities		**68,405,063**	**40,988,818**
Change in customers' accounts	**14**	776,230,072	439,404,075
Change in other assets	**13**	(31,373,528)	(24,673,142)
Change in other liabilities	**15**	12,016,163	(119,531)
Change in receivables from financing activities	**10**	(332,256,079)	(118,319,189)
Cash generated from operating activities		**493,021,691**	**337,281,031**
Tax paid	**27.2**	(8,170,314)	(5,233,764)
Net cash generated from operating activities		**484,851,377**	**332,047,266**
Cash flows from investing activities			
Acquisition of property, plant and equipment	**11**	(6,511,687)	(4,268,935)
Acquisition of intangible assets	**12**	(438,559)	(2,990,968)
Investment in held to maturity investments		(438,145,323)	(174,242,324)
Proceeds from held to maturity investments		81,286,563	130,000,000
Net cash used in investing activities		**(363,809,006)**	**(51,502,227)**
Net increase in cash and cash equivalents		121,042,371	280,545,040
Cash and cash equivalents at 31 December	**6, 7**	**844,708,336**	**723,665,965**

Figures in brackets indicate deductions. The comparative figures have been reclassified to align with current year's classification.

The accounting policies and notes on pages 19 to 56 form an integral part of the financial statements.

1. REPORTING ENTITY

Maldives Islamic Bank Private Limited (the "Bank") is incorporated and domiciled in the Republic of Maldives since 1st April 2010 as a private limited liability Company and presently governed under the Companies' Act No.10 of 1996 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 2nd August 2010 to conduct Islamic banking business in the Maldives and obtained certificate of approval to commence operations on 6 March 2011. The registered office of the Bank is at Coconut Villa, Ameer Ahmed 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

i. Statement of compliance

The financial statement of the Bank, which comprise the Statement of Financial Position, Consolidated Statement of Comprehensive Income, Statement of Other Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flow and Notes to the Financial Statements have been prepared and presented in accordance with International Financial Reporting Standards (IFRS) and interpretations of International Financial Reporting Interpretations Committee (IFRIC), with the exceptions of the requirements of IAS 39 - Financial Instruments : Recognition and Measurement with regard to the loan (financing) loss provisioning as modified by Prudential Regulation No.168 – 2015R on "Asset classification, provisioning and suspension of interest" issued by Maldives Monetary Authority.

ii. Approval of financial statements by directors

The Financial Statements of the Bank for the year ended 31 December 2016 were authorized for issue by the Board of Directors (together referred to as the "Board") in accordance with the resolution of the Board on 23 April 2017.

iii. Basis of measurements

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

iv. 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 are presented in Maldivian Rufiyaa. All financial information presented in Maldivian Rufiyaa has been rounded to the nearest Rufiyaa.

v. Comparative information

The comparative information is re-classified wherever necessary to conform to the current year's presentation.

vi. Significant accounting judgments, estimates and assumptions

The preparation of the financial statements in conformity with IFRSs adopted by MMA requires the 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 past/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.

a) Going concern

The Board made an assessment of the Bank's ability to continue as a going concern and are satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the Board is not aware of any material uncertainties that may cast significant doubt upon the

Bank's ability to continue as a going concern and it does not intend either to liquidate or to cease operations of the Bank. Therefore, the Financial Statements continue to be prepared on the Going Concern basis.

b) Useful life time of property, plant and equipment and intangible assets

The Bank reviews the residual values, useful lives and methods of depreciation/amortisation of property, plant and equipment/ intangible assets at each reporting date. Judgment of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

c) Commitments and contingencies

All discernible risks are accounted for in determining the amount of all known liabilities. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognized in the Statement of Financial Position but are disclosed unless they are remote.

3. SIGNIFICANT ACCOUNTING POLICIES

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

a) 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. For financial reporting, the bank uses the mid-rate between the selling and buying rate for foreign currencies prevailing at the reporting date. Foreign exchange differences arising on translation are recognized in the Statement of Comprehensive Income.

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.

b) 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.
- 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 are 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 income for arranging a financing between a financier 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.

c) 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, LC 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 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.

d) Income tax

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognized in Statement of Comprehensive Income.

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.

e) Financial instruments

(i) Recognition and initial measurement

The Bank initially recognizes receivables from financing activities, Mudaraba, issued and subordinated liabilities on the date at which they are originated. Regular purchases and sales of financial assets are recognized on the trade date at which the Bank commits to purchase or sell the asset.

All other financial assets and liabilities 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 Statement of Comprehensive Income) transaction costs that are directly attributable to its acquisition or issue.

(ii) De-recognition

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

In case if 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.

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 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.

(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.

Murabahah Financing

Murabahah Financing consists of the cost and the profit margin of the Bank which resulted from Murabahah (Sale) transactions and are stated net of deferred profit and provision for impairment.

Murabahah is a cost plus Sale Contract where the Bank purchases the subject matter requested by the Customer and sell it to the Customer with a profit. Under the Murabahah Contract, Bank is liable to disclose the details of the cost including the direct expenses to the Customer at the time of sale. The sale price may be paid in lump sum or in installments over the agreed period.

Istisna'a Financing

Istisna'a is a sale contract between the ultimate buyer (Customer) and the seller (Bank), whereby the Bank, based on an order of the Customer, undertakes to construct/produce/ manufacture or otherwise acquire the subject matter of the contract, according to the agreed specification and deliver it to the Customer for an agreed price on an agreed date. The method of settlement may be agreed in advance, by installments or deferred to a specific future time. Istisna'a Contracts represent the disbursements made either in advance, progressive as agreed in the contract against the subject matter constructed/produced/ manufactured/acquired for istisna'a project, plus income (Profit) recognized, less payment received from the Customer as installments.

Diminishing musharaka Financing

Diminishing musharakah is a form of partnership where both parties enter into a Musharah (partnership) contract to jointly acquire an Asset. Subsequently, under a separate sale contract, which may be secured under a unilateral undertaking to purchase by the Customer, one party (Customer) buys the equity share (ownership units) of the other party (Bank) gradually at cost price until the title to the asset is completely transferred to the Customer. During the tenure of the facility, the ownership units of the Bank will be leased out to the Customer and the income of the Bank will be collected in the form of rentals.

Education Financing

Education Financing is a facility provided by the Bank, under the concept of Ijarat-ul-Askhas (Service Ijarah). It is a type of Ijarah (Leasing) contract in which the underlying usufruct (manfa'ah) could be in a form of work, effort, expertise, etc.

The Bank will provide the educational service (service Ijarah) to the customer after the Bank purchases the educational placement from the educational institutions. The service payment by the Customer is made on monthly basis on an agreed tenure.

(viii) 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.

(ix) Held to maturity investments

If the Bank has the positive intent and ability to hold debt securities (financing arrangements) to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortized cost using the effective Profit rate method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Bank from classifying investment securities as held-to-maturity for the current and the following two financial year.

(x) Identification and measurement of impairment

The Bank measures and recognizes the provision for loan and advances (financing) based on guidelines given by Maldives Monetary Authority.

Specific loan (financing) loss provision requirement
Specific provision for impairment of loans (financing) 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 (financing) exposure as per the requirements established by Maldives Monetary Authority as follows;

Period outstanding	Classification	Provision Made
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 (financing) balance (less profit in suspense) without issuing any allowance for collateral value.

However, As per MMA circular Ref: 98 – CBSS/2012/39, effective from 6 June 2012 and expiring on 5 June 2015, a temporary leeway is applicable for the requirements of specific provisioning as follows;

Period outstanding	Classification	Unsecured portion of debt	Secured portion of debt
More than 180 days and up to 359 days	Doubtful	50%	25%
More than 360 days and up to 719 days	Loss	100%	50%
More than 720 days and up to 1079 days	Loss	100%	75%
More than 1080 days	Loss	100%	100%

With effect from 25 August 2015, specific loan (financing) loss provision is made on the basis of continuous review of all advances to customers, in accordance with the Prudential Regulation No. 168-2015R on Asset Classification, Provisioning and Suspension of Interest issued by MMA on aged classification of advances as follows:

Period outstanding	Classification	Minimum provision as per MMA regulation	
		Provision made for unsecured portion of debt	Provision made for secured portion of debt
More than 90 days and up to 179 days	Substandard	20%	20%
More than 180 days and up to 359 days	Doubtful	50%	25%

More than 360 days and up to 719 days	Loss	100%	50%
More than 720 days	Loss	100%	100%

General loan (financing) loss provision requirement
A general provision on the total unimpaired loan (financing) portfolio is established to conservatively cover any unforeseen losses in the lending (financing) 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 (financing) loss provision not less than 1% based on performing advances and 5% on advances classified as “special mention” is established.

With effect from 25 August 2015, as per Prudential Regulations No. 168-2015R promulgated by the Maldives Monetary Authority, a general loan (financing) loss provision not less than 0.5% based on performing advances and 3% on advances classified as “special mention” 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 (financing) repayment), the previously recognized impairment loss is reversed by adjusting the allowance account. Amounts recovered from fully impaired loans and advances (financing) are recognized as income on a cash basis.

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 ‘loss event’) and that loss 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 Statement of Comprehensive Income is removed from other comprehensive income and recognized in the Statement of Comprehensive Income.

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.

(xi) Financial Liabilities (Non- derivative)

Customer Accounts comprise following products.

a) Current accounts

Current Account is a deposit account which offers customers a flexible way to manage their everyday banking needs. This type of account is based on the Sharia'a concept of Qard and does not earn any profit.

Salient features:

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

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 calculates the profits between the bank and the customer based on the bank's declared profit sharing ratio 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 on 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

e) 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.

f) 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 Statement of Comprehensive Income.

(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 Statement of Comprehensive Income as incurred.

(iii) De-recognition

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from de recognition of an item of property, plant and equipment is included in the Statement of Comprehensive Income when the item is derecognized.

When replacement costs are recognized in the carrying amount of an item of property, plant and equipment, the remaining carrying amount of the replaced part is de recognized. Major inspection costs are capitalized. At each such capitalization, the remaining carrying amount of the previous cost of inspections is de recognized.

(iv) Depreciation

Depreciation is recognized in Statement of Comprehensive Income on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this reflects most closely 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	Over lease period
Motor Vehicles	5 Years
Vault door	10 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.

g) 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 Statement of Comprehensive Income when incurred.

(iii) De-recognition of intangible assets

The carrying amount of an item of intangible asset is derecognized on disposal or when no future economic benefits are expected from its use. The gain or loss arising from de-recognition of an item of intangible asset is included in the Statement of Comprehensive Income when the item is derecognized.

(iv) Amortization

Amortization is charged to the Statement of Comprehensive Income on a straight line basis over the estimated useful lives of assets unless such lives are indefinite. The estimated useful lives estimated by the Bank are as follows:

Computer Software	5 Years
Core Banking and Database software	7 Years

h) 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 Statement of Comprehensive Income.

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.

i) 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.

j) Employee Benefits

(i) 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 benefits 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.

(ii) Retirement Pension Scheme

The Bank has enrolled its employees in the Retirement Pension Scheme with effect from 1 May 2011 based on the Regulation on Maldives Retirement Pension Scheme published by the Government of Maldives. The Bank deducts 7% from each employee’s pensionable wages on behalf of the employees between 16 and 65 years and makes payment to Maldives Pension Administration Office (MPAO). The Bank contributes to the Retirement Pension Scheme at the rate of 7% on pensionable wages.

Obligations for contributions to retirement pension scheme are recognized in the Statement of Comprehensive Income.

k) 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.

l) Earnings per share

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

4. DETERMINATION OF FAIR VALUES

A number of the Bank’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 receivable from financing activities and other receivables is estimated as the present value of future cash flows.

(ii) Asset Available for Sale

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

(iii) Financial liabilities (Non-derivative)

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

(iv) Held to Maturity Investments

The fair value of held to maturity investment is estimated as the present value of future cash flows, discounted at the market rate of Profit rate at the reporting date. This fair value is determined for disclosure purposes.

5. NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

New accounting standards became effective during the year

The following International Accounting Standards have been issued by the International Accounting Setting Board (IASB) which is not yet effective as at 31 December 2016.

IFRS 13 - Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted.

The Bank did not have any material impact from the implementation of IFRS 13. Necessary disclosures required by the new Standard have been included in the Notes to the Financial Statements.

Standards Issued but not yet Effective at the Reporting Date

The following International Accounting Standards have been issued by the International Accounting Setting Board (IASB) which is not yet effective as at 31 December 2016.

IFRS 15 - Revenue from Contracts with Customers

The objective of this Standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.

IFRS 15 will become effective on 01 January 2017. The impact of the implementation of the above Standard has not been quantified yet.

IFRS 9 - Financial Instruments

This standard will replace IAS 39 - Financial Instruments, Recognition and Measurement. The improvements introduced by IFRS 9 include a logical model for classification and measurement, a single, forward-looking ‘Expected Loss’ impairment model and a substantially-reformed approach to hedge accounting. IFRS 9 will become effective on 01 January 2018 and contains the following phases.

Phase 1: Classification and Measurement
Classification determines how financial assets and financial liabilities are accounted for in the financial statements and, in particular, how they are measured on an ongoing basis. IFRS 9 introduces a logical approach for the classification of financial assets driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule-based requirements that are complex and difficult to apply.

Phase 2: Impairment
IFRS 9 introduces a new, expected loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and it lowers the threshold for recognition of full lifetime expected losses.

Phase 3: Hedge Accounting
IFRS 9 introduces a substantially-reformed model for hedge accounting with enhanced disclosures about risk management activity. The new model represents a substantial overhaul of hedge accounting that aligns the accounting treatment with risk management activities, enabling entities to better reflect these activities in their financial statements. In addition, as a result of these changes, users of the financial statements will be provided with better information about risk management and the effect of hedge accounting on the financial statements. The impact on the implementation of the above Standard has not been quantified yet.

6 CASH AND CASH EQUIVALENTS

	2016 MVR	2015 MVR
Cash in hand (Note 6.1)	64,905,830	39,011,138
Balances with other banks (Note 6.2)	116,724,593	81,830,654
	181,630,423	**120,841,792**

6.1 Cash in hand

	As at 31 December 2016			As at 31 December 2015		
	Foreign Currency	Exchange Rate	Carrying Amount	Foreign Currency	Exchange Rate	Carrying Amount
USD	946,129	15.395	14,565,656	782,005	15.395	12,038,967
EUR	-	16.759	-	235	16.759	3,938
MVR	-	-	50,340,174	-	-	26,968,233
Total			**64,905,830**			**39,011,138**

6.2 Balances with other banks

	As at 31 December 2016			As at 31 December 2015		
	Foreign Currency	Exchange Rate	Carrying Amount	Foreign Currency	Exchange Rate	Carrying Amount
HBL (USD)	6,471,986	15.395	99,636,220	4,535,879	15.395	69,829,862
Commerz (EUR)	-	16.759	-	40,790	16.759	683,587
BML (USD)	336,307	15.395	5,177,440	528,324	15.395	8,133,548
BML (MVR)	-	-	11,374,774	-	-	3,183,657
SBI (USD)	5,861	15.395	90,230	-	-	-
SBI (MVR)	-	-	445,929	-	-	-
Total			**116,724,593**			**81,830,654**

The Bank has its nostro accounts at both Habib American Bank - New York (HBL) and Commerz Bank - Frankfurt (Commerz). Both these accounts are operated to facilitate its foreign remittance activities and trade finance activities.

7 BALANCES WITH MALDIVES MONETARY AUTHORITY

	2016 MVR	2015 MVR
Minimum reserve requirement (MRR) **(Note 7.1)**	225,817,865	153,172,936
Balance in excess of MRR with MMA **(Note 7.2)**	437,260,048	449,651,237
Total	**663,077,913**	**602,824,173**

7.1 Minimum reserve requirement ("MRR")

As per the regulations of the Maldives Monetary Authority (the "MMA"), the Bank is required to maintain a reserve deposit based on 10% of 14 days average of the Customers' deposits with the Bank excluding interbank deposits of other banks in Maldives and letter of credit margin deposits. Accordingly, the Bank has to maintain 10% of customers deposit as Minimum Reserve Requirement. The Bank has maintained the minimum reserve requirement according to the regulations issued by the MMA. These deposits are not available for the Bank’s day-to-day operations.

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 utilised for operational, future financing and investment activities of the Bank.

8 AVAILABLE FOR SALE INVESTMENT

	2016 MVR	2015 MVR
At the beginning of the year	8,200,000	7,000,000
Change in the fair value during the year	(100,000)	1,200,000
At the end of the year	**8,100,000**	**8,200,000**

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 81/- each (2015: MVR 82/-).

8.1 Fair value reserve

	2016	2015
At the beginning of the year	150,000	(750,000)
Other comprehensive income	(75,000)	900,000
At the end of the year	**75,000**	**150,000**

9 INVESTMENTS HELD TO MATURITY

	Contract type	Country	Maturity	Indicative Rate	2016 MVR	2015 MVR
HDFC, Maldives	Wakalah	Maldives	1 year	7% - 8.5%	30,604,932	30,876,756
ICD Money Market	Musharakah	Malaysia	On demand	4.54% p.a.	26,812,276	25,897,817
Treasury bills	Mudharabah/Murabaha	Maldives	95 Days	5.5% p.a.	796,313,318	440,097,193
					853,730,526	**496,871,766**
Less :						
General provision on placement with HDFC as per MMA requirement					(150,000)	(150,000)
Net Investment in Placements					**853,580,526**	**496,721,766**

9.1 The placement with HDFC Amna (Islamic window) consists of a principal amounting MVR 30,000,000. and profits accrued as at reporting date

10 NET RECEIVABLES FROM FINANCING ACTIVITIES

	2016 MVR	2015 MVR
Education Financing	241,452	-
Murabaha	418,461,357	216,068,731
Istisna'a	250,930,629	178,973,255
Diminishing Musharaka	155,207,806	97,469,316
Total gross receivables from financing activities	**824,841,244**	**492,511,303**
Less :		
Specific financing loss provision (Note 10.1)	(3,919,578)	(4,319,609)
General financing loss provision (Note 10.2)	(4,060,998)	(2,515,846)
Profit in suspense	(486,120)	(412,258)
	(8,466,696)	**(7,247,713)**
Net receivables from financing activities	**816,374,548**	**485,263,590**

10.1 Movement in specific financing loss provision

	2016	2015
At the beginning of the year	4,319,609	2,324,166
Add: Provision made during the year	6,767,840	6,462,760
Less: Provision reversed during the year	(7,167,871)	(4,467,317)
At the end of the year (Note 30 - c)	**3,919,578**	**4,319,609**

10.2 Movement in General Provision

	2016	2015
At the beginning of the year	2,515,846	3,532,887
Add: Provision made during the year	3,067,885	3,636,633
Less: Provision reversed during the year	(1,522,733)	(4,653,674)
At the end of the year (Note 30 - c)	**4,060,998**	**2,515,846**

10.3 Profit in suspense

In accordance with Prudential Regulation No. 2015/R-168, Regulation on Asset Classification, Provisioning and Suspension of Interest(Profit), Banks have to place financing facilities under the non-accrual status once a facility become non-performing unless the facility is well-secured and in the process of collection.

11 PROPERTY, PLANT AND EQUIPMENT

11.1 Gross carrying amount

	As at 01 Jan 2016 MVR	Additions MVR	Disposals MVR	As at 31 Dec 2016 MVR
Leasehold building	6,005,086	1,559,985	-	7,565,071
Computer equipment	11,921,003	3,216,427	-	15,137,430
Furniture	1,739,703	673,226	-	2,412,929
Office equipment	6,220,928	2,064,617	-	8,285,545
Total gross carrying amount	**25,886,720**	**7,514,255**	**-**	**33,400,975**

11.2 Capital work in progress

	As at 01 Jan 2016 MVR	Incurred during the year MVR	Transfers during the year MVR	As at 31 Dec 2016 MVR
Leasehold building	199,337	1,137,339	(1,276,691)	59,985
Computer equipment	850,086	2,016,041	(1,545,729)	1,320,398
Furniture	96,136	55,889	(152,025)	-
Office equipment	1,324,945	294,684	(1,532,077)	87,552
	2,470,503	**3,503,953**	**(4,506,522)**	**1,467,935**

11.3 Depreciation

	Acc. Dep As at 01 Jan 2016 MVR	Charged for the year MVR	Released for the year MVR	Acc. Dep As at 31 Dec 2016 MVR
Leasehold building	3,132,025	839,561	-	3,971,586
Computer equipment	7,414,376	2,181,053	-	9,595,429
Furniture	956,904	364,127	-	1,321,031
Office equipment	4,192,223	1,150,698	-	5,342,921
Total accumulated depreciation	**15,695,528**	**4,535,439**	**-**	**20,230,967**
Net book value	**12,661,695**			**14,637,943**

11.4 During the financial year, the Bank acquired property, plant and equipment to the aggregate value of MVR 6,511,687/- (2015 - MVR 4,268,935/-). Cash payments amounting to MVR 6,511,687/-(2015 - MVR 4,268,935/-) were made during the year for the acquisition of property, plant and equipment.

11.5 Property, plant and equipment include fully depreciated assets having a gross carrying amounts of MVR 10,031,665/- (2015 – MVR 6,941,336/-)

11.6 Gross carrying amount

	As at 01 Jan 2015 MVR	Additions MVR	Disposals MVR	As at 31 Dec 2015 MVR
Leasehold building	5,899,260	105,826	-	6,005,086
Computer equipment	10,084,323	1,836,680	-	11,921,003
Furniture	1,415,516	324,187	-	1,739,703
Office equipment	5,671,713	549,215	-	6,220,928
Total gross carrying amount	**23,070,812**	**2,815,908**	**-**	**25,886,720**

11 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

11.7 Capital work in progress	As at 01 Jan 2015 MVR	Incurred during the year MVR	Transfers during the year MVR	As at 31 Dec 2015 MVR
Leasehold building	-	305,163	(105,826)	199,337
Computer equipment	50,668	1,481,840	(682,423)	850,085
Furniture	-	115,636	(19,500)	96,136.00
Office equipment	966,807	731,840	(373,702)	1,324,945
	1,017,475	**2,634,479**	**(1,181,451)**	**2,470,503**

11.8

Depreciation	Acc. Dep As at 01 Jan 2015 MVR	Charged for the year MVR	Released for the year MVR	Acc. Dep As at 31 Dec 2015 MVR
Leasehold building	2,158,230	973,795	-	3,132,025
Computer equipment	5,316,668	2,097,708	-	7,414,376
Furniture	648,451	308,453	-	956,904
Office equipment	3,014,193	1,178,030	-	4,192,223
Total depreciation	**11,137,542**	**4,557,986**	**-**	**15,695,528**
11.9 Net book value	**12,950,745**			**12,661,695**

11.10 During the financial year, the Bank acquired property, plant and equipment to the aggregate value of MVR - 4,268,935/- (2014 - MVR 8,364,362/-). Cash payments amounting to MVR - 4,268,935/-(2014 - MVR 8,364,362/-) were made during the year for the acquisition of property, plant and equipment.

11.11 Property, plant and equipment include fully depreciated assets having a gross carrying amounts of MVR 6,941,336/- (2014 – MVR 2,135,197/-)

12 INTANGIBLE ASSETS

12.1 Gross carrying amount	As at 01 Jan 2016 MVR	Additions MVR	Disposals MVR	As at 31 Dec 2016 MVR
At cost				
Core banking and database software	14,515,665	623,497	-	15,139,162
Other computer software	3,104,125	138,897	-	3,243,022
Total gross carrying amount	**17,619,790**	**762,394**	**-**	**18,382,184**

12.2 Software work in progress	As at 01 Jan 2016 MVR	Incurred during the year MVR	Transfers during the year MVR	As at 31 Dec 2016 MVR
At cost				
Core banking and database software	392,573	-	(392,573)	-
Other computer software	462,908	541,226	(472,488)	531,646
Total gross carrying amount	**855,481**	**541,226**	**(865,061)**	**531,646**

12.3 Accumulated amortisation	Acc. Amort. As at 01 Jan 2016 MVR	Additions for the year MVR	Disposals for the year MVR	Acc. Amort. As at 31 Dec 2016 MVR
Core banking and database software	7,127,063	2,175,379	-	9,302,442
Other computer software	2,138,873	512,726		2,651,599
Total Accumulated amortisation	**9,265,936**	**2,688,105**	**-**	**11,954,041**
Net book value	**9,209,335**			**6,959,789**

12 INTANGIBLE ASSETS (CONTINUED)

12.4 During the financial year, the Bank acquired intangible assets to the aggregate value of MVR 438,559/- (2015 - MVR 2,990,968/-). Cash payments amounting to MVR 438,559/- (2015 - MVR 2,990,968/-) were made during the year for the acquisition of intangible assets.

12.5 Intangible assets include fully amortised assets having a gross carrying amounts of MVR 1,240,748/- (2015 - MVR 156,506/-).

12.6 Gross carrying amount	**As at 01 Jan 2015 MVR**	**Additions MVR**	**Disposals MVR**	**As at 31 Dec 2015 MVR**
At cost				
Core banking and database software	10,608,557	3,907,108	-	14,515,665
Other computer software	3,092,624	11,501	-	3,104,125
Total gross carrying amount	**13,701,181**	**3,918,609**	**-**	**17,619,790**

12.7 Software work in progress	**As at 01 Jan 2015 MVR**	**Incurred during the year MVR**	**Transfers during the year MVR**	**As at 31 Dec 2015 MVR**
At cost				
Core banking and database software	-	392,573	-	392,573
Other computer software	1,783,123	2,586,894	(3,907,108)	462,908
Total gross carrying amount	**1,783,123**	**2,979,467**	**(3,907,108)**	**855,481**

12.8 Accumulated amortisation	**Acc. Amort. As at 01 Jan 2015 MVR**	**Additions MVR**	**Disposals MVR**	**Acc. Amort. As at 31 Dec 2015 MVR**
Core banking and database software	5,142,724	1,984,339	-	7,127,063
Other computer software	1,520,346	618,527		2,138,873
Total Accumulated amortisation	**6,663,070**	**2,602,866**	**-**	**9,265,936**
Net book value	**8,821,234**			**9,209,335**

12.9 During the financial year, the Bank acquired property, plant and equipment to the aggregate value of MVR - 2,990,968/- (2014 - MVR 3,846,716/-). Cash payments amounting to MVR - 2,990,968/-(2014 - MVR 3,846,716/-) were made during the year for the acquisition of property, plant and equipment.

12.10 Property, plant and equipment include fully depreciated assets having a gross carrying amounts of MVR 156,506/- (2014 – Nil)

13 OTHER ASSETS	**2016 MVR**	**2015 MVR**
Refundable deposits (Note 13.1)	1,180,750	1,026,550
Prepayments (Note 13.2)	3,034,742	2,228,795
Advance payments against financing Assets (Note 13.3)	75,920,614	48,251,092
Other receivables	676,506	1,293,609
Goods in transit (Note 13.4)	3,360,963	-
	84,173,575	**52,800,047**

13.1 The refundable deposits mainly comprised of the security deposits paid for the leasehold buildings including the visa fees for foreign employees.

13.2 The prepayments are comprised of the IT related support, maintenance fees and takaful paid in advance.

13.3 The advance payments against financing assets comprised of the advance payments made to suppliers for the procurement of goods under finance facilities.

13.4 Goods in transit includes goods purchased by the bank for the purpose of selling on Murabaha basis.

14 CUSTOMERS' ACCOUNTS

	2016 MVR	2015 MVR
Current accounts	988,477,603	728,251,615
Saving accounts	752,413,836	638,574,753
General investment accounts	517,287,215	164,902,996
Margin accounts (Note 14.1)	79,233,782	29,453,001
	2,337,412,436	**1,561,182,364**

14.1 Margin accounts include an amount of MVR 1,997,580 (2015: MVR 2,097,010) contributed by customers to acquire the assets financed under diminishing musharaka.

15 OTHER LIABILITIES

	2016 MVR	2015 MVR
Accrued expenses	893,241	1,592,312
Pension payable	254,354	198,021
Payable to suppliers	4,582,730	1,231,742
Prepaid Income	3,713,481	-
Cashiers cheque	8,954,934	2,248,530
Charity funds from financing	385,534	635,807
Retention on Istisna'a projects	431,440	729,265
Deferred income	-	816,880
Other liabilities	260,733	7,727
	19,476,447	**7,460,284**

16 SHARE CAPITAL

Authorised share capital		
1,000,000 ordinary shares of MVR 1,000/- each	**1,000,000,000**	**1,000,000,000**
Issued and fully paid up share capital		
180,000 ordinary shares of MVR 1,000/- each (2015 - 180,000 shares)	**180,000,000**	**180,000,000**

16.1 Islamic Corporation for the Development of the Private Sector and the Government of Maldives have subscribed 85% and 15% respectively for the Banks's issued and fully paid share capital as at 31 December 2016. 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 December 2016 (2015 : Nil).

16.2 Issued and Fully Paid Up Share Capital

	2016			2015		
Name of the Shareholders	**No. of shares**	**Value of shares MVR'000**	**%**	**No. of shares**	**Value of shares MVR'000**	**%**
Islamic Corporation for the Development of the Private Sector	153,000	153,000	85%	153,000	153,000	85%
The Government of Maldives	27,000	27,000	15%	27,000	27,000	15%
Total	180,000	180,000	100%	180,000	180,000	100%

17 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 MVR 22,307,202/- during the year ended 31 December 2016 (2015: MVR 12,445,740/-).

18 INCOME FROM FINANCING ACTIVITIES

	2016 MVR	2015 MVR
Income from Financing Activities		
Income from Education Financing	1,452	-
Income from Murabaha	39,360,354	22,215,901
Income from Istisna'a	23,671,467	19,123,084
Income from Diminishing Musharaka	12,887,904	8,820,991
Net Income	**75,921,177**	**50,159,976**

19 PROFIT PAID ON CUSTOMER ACCOUNTS

	2016 MVR	2015 MVR
General Investment Accounts	9,435,630	4,890,327
Savings Accounts	6,935,470	5,777,517
	16,371,100	**10,667,844**

20 NET COMMISSION AND FEE INCOME

	2016 MVR	2015 MVR
Commission and fee income		
Banking services	626,917	522,100
Trade finance services	3,114,037	1,435,268
Remittances	10,743,212	9,520,779
ATM, POS, Faisa Net and Gateway services	3,104,948	1,823,817
Other fees and commissions income	270,759	46,532
Total	**17,859,873**	**13,348,496**
Commission and fee expense		
Fund transfer expenses	(659,422)	(510,006)
Total	(659,422)	(510,006)
Net commission and fee income	**17,200,451**	**12,838,490**

21 FOREIGN EXCHANGE GAIN

	2016 MVR	2015 MVR
Foreign Exchange Gain	**538,350**	**982,344**

Foreign exchange gain represent income received from buying and selling of foreign currency.

22 INCOME FROM AVAILABLE FOR SALE INVESTMENT

	2016 MVR	2015 MVR
Dividend received (Note 22.1)	**1,061,000**	**956,000**

22.1 The dividend income represents the dividend received during the year from investment in the quoted shares of Dhivehi Raajjeyge Gulhun Plc amounting 100,000 ordinary shares. The dividend was received at MVR 5.92 per share as interim dividend of 2016 & MVR 4.69 per share as final dividend for the year ending 31 December 2015. (2015: Interim of MVR4.84 for 2015 and final of MVR4.72 for 2014)

23 INCOME FROM HELD TO MATURITY INVESTMENTS

	2016 MVR	2015 MVR
Wakala / Musharakah Placement Income	3,322,482	3,507,069
Islamic Treasury bill Income (Mudharabah/Murabaha)	51,792,841	34,258,786
	55,115,323	**37,765,856**

24 PERSONNEL COSTS

	2016 MVR	2015 MVR
Salaries and wages	26,287,800	21,274,794
Contribution to defined contribution plans	1,384,845	1,040,960
Housing Allowance	3,664,464	3,239,725
Annual and Ramadhan Bonus	2,493,554	1,808,013
Training and development	658,792	777,508
Medical Insurance	713,716	595,585
Uniforms	320,197	302,469
Other staff expenses	876,759	451,170
	36,400,127	**29,490,225**

25 GENERAL AND ADMINISTRATIVE EXPENSES

	2016 MVR	2015 MVR
Rent	7,308,207	5,620,781
Technology related expenses	3,994,188	4,610,367
Electricity expenses	2,084,018	1,691,170
Premises security and insurance	1,739,471	1,138,334
Connectivity and internet charges	1,903,258	1,493,253
Financing related Expenses	1,106,298	1,210,370
Stationary costs	1,626,369	876,893
Legal and professional expenses	766,502	372,253
Travelling expenses	1,134,088	742,373
Directors allowance and board related expenses	1,109,262	727,159
Marketing and advertising expenses	1,677,931	798,402
Sharia board related expenses	418,476	533,691
Utility expenses	717,843	477,061
Communication expenses	466,219	397,736
Maintenance	867,208	313,916
Charitable donations	31,089	185,610
Other operating expenses	1,709,584	416,409
	28,660,011	**21,605,779**

26 DEPRECIATION AND AMORTISATION

	2016 MVR	2015 MVR
Depreciation on property plant and equipment (Note 11.3)	4,535,439	4,557,985
Amortisation on intangible assets (Note 12.2)	2,688,105	2,602,866
	7,223,544	**7,160,852**

27 INCOME TAX

	2016 MVR	2015 MVR
Current tax (Note 27.1)	15,322,498	8,151,481
Under provision for previous year's current tax	18,833	-
Deferred tax (Note 27.3)	80,664	(193,397)
Income tax expense reported in the statement of comprehensive income	**15,421,995**	**7,958,084**

27.1 Current tax

The bank is liable to pay income tax (at the rate of 25%) in accordance with the Bank Profit Tax regulations issued in September 1999 by the Department of Inland Revenue. A reconciliation between taxable profit and the accounting profit is as follows.

	2016 MVR	2015 MVR
Accounting profit before tax	60,036,398	32,849,563
Add: Aggregate disallowable items	8,399,754	6,143,812
Less: Aggregate allowable items	(7,146,159)	(6,387,452)
Taxable income for the year	61,289,993	32,605,923
Income tax @ 25%	**15,322,498**	**8,151,481**

27.2 Current tax liability

	2016 MVR	2015 MVR
At the beginning of the year	8,151,481	5,233,764
Current tax	15,322,498	8,151,481
Over / (Under) provision for previous years	18,833	-
Tax paid during the year	(8,170,314)	(5,233,764)
At the end of the year	**15,322,498**	**8,151,481**

27.3 Deferred tax

The following table shows deferred tax recorded on the statement of financial position and changes recorded in the statement of comprehensive income and other comprehensive income net of tax.

	Property, plant and equipment MVR	Intangible assets MVR	Changes in fair value of available for sale Inv MVR	Total MVR
31 December 2016				
Deferred tax (asset)/ liability	1,203,721	1,153,419	25,000	**2,382,140**
Statement of comprehensive income	190,640	(109,976)	-	**80,664**
Other comprehensive income	-	-	- 25,000	- **25,000**
31 December 2015				
Deferred tax (asset)/ liability	1,013,081	1,263,395	50,000	**2,326,476**
Statement of comprehensive income	(49,839)	(143,558)	-	**(193,397)**
Other comprehensive income	-	-	300,000	**300,000**

28 BASIC EARNINGS PER SHARE

28.1 The calculation of basic and diluted earnings per share is based on profit for the year attributable to the ordinary shareholders and weighted average number of ordinary shares outstanding during the year and is calculated as follows:

	2016	2015
Profit attributable to ordinary shareholders (in MVR)	44,614,403	24,891,479
Weighted average number of ordinary shares	180,000	180,000
Basic Earnings Per Share - MVR	247.86	138.29

	2016	2015
28.2 Net Assets Per Share - MVR	1,410.78	1,163.34

29 CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

31 December 2016	Note	Held-to-maturity	Advances and receivables	Available-for-sale	Other financial liabilities	Total carrying amount
Cash and balances with other banks	6	-	181,630,423	-	-	181,630,423
Balances with Maldives Monetary Authority	7	-	663,077,913	-	-	663,077,913
Available for sale investment: equity shares	8	-	-	8,100,000	-	8,100,000
Investments held to maturity	9	853,580,526	-	-	-	853,580,526
Net receivables from financing activities	10	-	816,374,548	-	-	816,374,548
Other assets	13	-	77,777,870	-	-	77,777,870
Total Financial Assets		**853,580,526**	**1,738,860,754**	**8,100,000**	**-**	**2,600,541,280**
Customers' Accounts	14	-	-	-	2,337,412,436	2,337,412,436
Other Liabilities	15	-	-	-	18,583,206	18,583,206
Total Financial Liabilities		**-**	**-**	**-**	**2,355,995,642**	**2,355,995,642**

31 December 2015	Note	Held-to-maturity	Advance and receivables	Available-for-sale	Other amortised cost	Total carrying amount
Cash and balances with other banks	6	-	120,841,792	-	-	120,841,792
Balances with Maldives Monetary Authority	7	-	602,824,173	-	-	602,824,173
Available for sale investment: equity shares	8	-	-	8,200,000	-	8,200,000
Investments held to maturity	9	496,721,766	-	-	-	496,721,766
Net receivables from financing activities	10	-	485,263,590	-	-	485,263,590
Other assets	13	-	50,571,252	-	-	50,571,252
Total Financial Assets		**496,721,766**	**1,259,500,805**	**8,200,000**	**-**	**1,764,422,570**
Customers' Accounts	14	-	-	-	1,561,182,364	1,561,182,364
Other Liabilities	15	-	-	-	5,051,092	5,051,092
Total Financial Liabilities		**-**	**-**	**-**	**1,566,233,456**	**1,566,233,456**

30 FINANCIAL RISK MANAGEMENT

The Bank has exposure to the following risks from its use of financial instruments:
- Credit risk
- Liquidity risk
- Market risk
- Operational risk

This note presents information about the Bank’s objectives, policies and processes for measuring and managing risk.

The Bank's board of directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The board of directors has established the Risk Management Unit (RMU), which is responsible for developing and monitoring risk management policies.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Bank's activities. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee oversees how management monitors compliance with the Bank's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

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

30.1 Credit Risk

‘Credit risk’ is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank’s financings to customers and Deposits and placements with other banks, and investment in securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

The market risk in respect of changes in value in trading assets arising from changes in market prices applied to securities and specific assets included in trading assets is managed as a component of market risk.

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.

Settlement risk

The Bank’s activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk’ is the risk of loss due to the failure of an entity to honor its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions, the Bank mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval/limit monitoring process described earlier. Acceptance of settlement risk on free-settlement trades requires transaction-specific or counterparty-specific approvals from RMU.

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

The Bank's credit risk management framework

The board of directors has delegated responsibility for the oversight of credit risk to its Board Risk Management Committee (BRMC). A separate Risk Management department, reporting to the board of directors, is responsible for managing the Bank’s credit risk, including the following.

• Formulating Credit policies in accordance with the Financing Manual approved by the Board and in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.

• Establishing the authorization structure for the approval and renewal of credit facilities. Authorization limits are allocated to. Financing & Investment Committee (FIC) of the Management. Larger facilities require approval by the board of directors as appropriate.

• Reviewing and assessing credit risk: FIC of the Management assesses all credit exposures within its designated limits while exposures are assessed by BRMC in excess of designated limits, before facilities are committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.

• Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances "financing" , financial guarantees and similar exposures), and by issuer, credit rating band, market liquidity and country (for investment securities).

• Developing and maintaining risk grading system to categorize exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of twelve grades reflecting varying degrees of risk of default. The responsibility for setting risk grades lies with the Business department while its validation and regular reviews is the responsibility of the RMU.

• Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports on the credit quality of local portfolios are provided to FIC, which may require appropriate corrective action to be taken.

• Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

The business unit is required to implement Bank’s credit policies and procedures and is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios.

Regular audits of business units and RMU's processes are undertaken by internal Audit.

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.

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

	Carrying Amount	
	2016	**2015**
	MVR	**MVR**
Cash and balances with other banks	181,630,423	120,841,792
Available for sale investments	8,100,000	8,200,000
Net receivables from financing activities	816,374,548	485,263,590
Held to maturity investments	853,580,526	496,721,766
Other assets	77,777,870	50,571,252
	1,937,463,367	**1,161,598,397**

Receivables from Financing Activities	**2016**	**2015**
Receivables from Financing Activities are summarised as follows;	**MVR**	**MVR**
Neither past due nor impaired	749,019,340	474,371,251
Past due but not impaired	67,895,858	8,704,472
Impaired	7,926,046	9,435,580
Total	824,841,244	492,511,303
Less: Provision for Impairment	(7,980,576)	(6,835,456)
Less: Profit in Suspense	(486,120)	(412,258)
Net receivables from financing activities	**816,374,548**	**485,263,590**

a) Receivable from financing activities neither past due nor impaired

Currently, the Bank classify the total loans (financing) and advances into standard and non-performing. The standard assets are further divided into standard and other loan (financing) especially mentioned with no further grading for standard Loans (financing). However, the Bank does an in-depth credit risk assessment on qualitative and quantitative basis before granting a facility. Exposure to each obligor or group of related obligors are again reviewed on a scheduled basis.

(i) In evaluating credit risks the Bank considers qualitative criteria pertinent to the Obligor, including management depth and reputation, the obligor's past track record, its business risks, the industry, operating environment and conditions that the obligor operates in. The Bank looks for quality, stability and sustainability of performance. In quantitative assessment, the Bank analyses the obligor's historical and projected financial statements, where pertinent. In this respect, the Bank focuses on the profitability of the business, the efficiency in the employment of its assets, and its financial leverage to assess its liquidity and cash-flow positions and hence its ability to meet its financial commitments.

(ii) To manage and mitigate risk of loss in the event of default, the Bank looks first at the protection accorded by the obliger's net assets to the Bank's exposure to the company. Where appropriate, the Bank will examine the quality, liquidity and hence the realisable value of its principal operating assets such as account receivables, inventory and capital assets. In establishing financial protection for the Bank's exposure, the Bank may take security in such assets by way of mortgages, pledges, assignments and the like. In addition the Bank may also take additional collaterals offered by the company's principals or other third party to ensure adequate protection with a margin. Taking collateral is a prevalent practice in the local financing environment as additional practical and prudential measures of mitigating against potential loss at default. Main reasons for doing so are due to

(a) the general lack of confidence in the reliability of financial statements provided, particularly unaudited and/or stale ones, and

(b) ensure that assets are not secured to other creditors to the Bank's detriment.

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Receivable from financing activities past due but not impaired

Receivable from financing activities less than 90 days past due are not considered as impaired, unless other information is available to indicate the contrary.

c) Receivable from financing activities impaired

The individually impaired receivables from financing activities before taking into the consideration of the cash flows from collateral held is MVR. 7,926,046/- (2015: MVR. 9,435,579/-).

	2016	2015
Non-performing assets by past due period	**MVR**	**MVR**
Substandard	4,510,000	2,998,071
Doubtful	773,755	2,240,578
Loss	2,642,291	4,196,930
	7,926,046	9,435,579
Receivables from financing activities net of profit in suspense		
Neither past due nor impaired	749,019,340	474,371,251
Past due but not impaired	67,895,858	8,704,472
Impaired	7,439,926	9,023,322
Total	824,355,124	492,099,045

Impairment losses

The impaired provision shown in the statement of financial position at the reporting date is derived from each of the five groups described below. The table below shows the bank's receivables from financing activities net of profit in suspense and associated impairment provision for each of the group.

	2016		2015	
	Gross MVR	Impairment MVR	Gross MVR	Impairment MVR
Receivables from Financing Activities				
Financing towards Government of Maldives	24,135,324	-	24,135,324	-
Standard (Pass)	791,056,387	4,023,880	449,823,670	2,254,712
Special Mention Accounts	1,237,367	37,121	8,704,472	261,134
Total performing	**816,429,078**	**4,061,001**	**482,663,466**	**2,515,846**
Substandard	4,510,000	902,000	2,998,071	599,614
Doubtful	773,755	386,878	2,240,578	1,120,289
Loss	2,619,106	2,619,106	1,002,481	1,002,481
Loss (360-719 days) - secured portion	23,185	11,593	3,194,449	1,597,225
Total Non-performing	**7,926,046**	**3,919,576**	**9,435,579**	**4,319,609**
	824,355,124	**7,980,577**	**492,099,045**	**6,835,455**
Provisions made on placements				
Investment in Placements **(HDFC)**	30,000,000	150,000	30,000,000	150,000

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

	Financing activities	
Concentration by Industry;	**2016**	**2015**
Consumer goods	136,613,006	35,128,190
Transport and communications - transport	49,775,179	95,672,091
Commerce - wholesale and retail trade	115,922,483	59,963,964
Construction - residential/ housing financing	378,627,060	254,525,913
Construction - commercial building	26,006,111	1,378,027
Istisna'a home finance	33,760,435	32,325,027
Electricity, lighting and power	45,304,883	-
Water, waterworks and supply	10,956,504	4,473,268
Fishing	19,408,887	9,044,823
Total	**816,374,548**	**492,511,303**
Concentration by Sector;		
Businesses	539,361,727	284,764,596
Individuals	277,012,821	207,746,707
Total	**816,374,548**	**492,511,303**

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

30.2 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.

Management of Liquidity Risk

The Bank’s board of directors sets the Bank’s strategy for managing liquidity risk. Board has approved the liquidity policy for the Bank whereby responsibility for oversight of the implementation of this policy is delegated to Management Committee (MC). MC oversees Bank’s liquidity policies and procedures implementation. Treasury function manages the Bank’s liquidity position on a day-to-day basis and reviews daily reports covering the liquidity position of the Bank~~.~~ A summary report, including any exceptions and remedial action taken, is submitted regularly to MC.

The Bank’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank’s reputation. The key elements of the Bank’s liquidity strategy are as follows.

- Maintaining a diversified funding base consisting of customer deposits (both retail and corporate) and wholesale market deposits and maintaining contingency facilities. encumbered and so not available as potential collateral for obtaining funding.
- Carrying a portfolio of highly liquid assets, diversified by currency and maturity.
- Monitoring liquidity ratios, maturity mismatches, behavioral characteristics of the Bank's financial assets and financial liabilities, and the extent to which the Bank's assets are encumbered and so not available as potential collateral for obtaining funding.
- Carrying out stress testing of the Bank's liquidity position.

Treasury function receives information from other business units regarding the liquidity profile of their financial assets and financial liabilities and details of other projected cash flows arising from projected future business. Treasury function then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans (financing) and advances to banks and facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

Regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. The scenarios are developed taking into account both Bank-specific events (e.g. a rating downgrade) and market-related events (e.g. prolonged market illiquidity, reduced fungibility of currencies, natural disasters or other catastrophes).

b) Exposure to Liquidity Risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose, ‘net liquid assets’ includes cash and cash equivalents and investment-grade debt securities for which there is an active and liquid market less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month. Details of the reported Bank ratio of net liquid assets to deposits from customers at the reporting date and during the reporting period were as follows.

	2016 MVR	2015 MVR
At 31 December	37%	47%
Average for the period	41%	49%
Maximum for the period	51%	58%
Minimum for the period	30%	42%

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Maturity analysis for financial assets and financial - Liabilities

31 December 2016	Carrying Amount MVR	0-12 Months MVR	1-2 Years MVR	2-5 Years MVR	More than 5 years MVR
Assets					
Cash and balances with other banks	181,630,423	181,630,423	-	-	-
Balances with Maldives Monetary Authority	663,077,913	663,077,913	-	-	-
Available for sale investment	8,100,000	8,100,000	-	-	-
Investments held to maturity	853,580,526	853,580,526		-	-
Net receivables from financing activities	816,374,548	247,200,777	128,755,701	236,008,870	212,875,896
Other Assets	77,777,870	77,777,870	-	-	-
	2,600,541,280	**2,031,367,509**	**128,755,701**	**236,008,870**	**212,875,896**
Liabilities					
Customers' accounts	2,337,412,436	2,302,601,215	31,206,855	3,604,366	-
Other liabilities	18,583,206	18,583,206	-	-	-
	2,355,995,642	**2,321,184,421**	**31,206,855**	**3,604,366**	**-**
Net Gap	**244,545,638**	**(289,816,912)**	**97,548,846**	**232,404,504**	**212,875,896**

31 December 2015	Carrying Amount MVR	0-12 Months MVR	1-2 Years MVR	2-5 Years MVR	More than 5 years MVR
Assets					
Cash and balances with other banks	120,841,792	120,841,792	-	-	-
Balances with Maldives Monetary Authority	602,824,173	602,824,173	-	-	-
Available for sale investment	8,200,000	8,200,000	-	-	-
Investments held to maturity	496,721,766	496,721,766	-	-	-
Net receivables from financing activities	485,263,590	144,555,569	78,255,260	129,330,332	140,370,140
Other Assets	50,571,252	50,571,252	-	-	-
	1,764,422,570	**1,423,714,551**	**78,255,260**	**129,330,332**	**140,370,140**
Liabilities					
Customers' accounts	1,561,182,364	1,551,484,013	2,049,972	7,648,379	-
Other liabilities	5,051,092	5,051,092	-	-	-
	1,566,233,456	**1,556,535,105**	**2,049,972**	**7,648,379**	**-**
Net Gap	**198,189,114**	**(132,820,554)**	**76,205,288**	**121,681,953**	**140,370,140**

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Liquidity Reserves	**Carrying amount**	
	2016 MVR	**2015 MVR**
Cash and Balances with Other Banks	181,630,423	120,841,792
Balances with Maldives Monetary Authority	663,077,913	602,824,173
	844,708,336	723,665,965

30.3 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.

Management of market risk

Board has approved Market Risk policy defining parameters for each type of risk in aggregate and for portfolios. MC is set-up with authority to implement these policies and monitor limits on day-to-day basis with market liquidity being a primary factor in determining the level of exposures set for trading portfolios within the defined parameters.

The Bank employs a range of tools to monitor and limit market risk exposures. These are discussed below.

Exposure to market risk - Non-trading

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market profit rates. profit rate risk is managed principally through monitoring profit rate gaps and by having pre-approved limits for repricing bands. MC is the monitoring body for compliance with these limits and is assisted by Treasury function in its day-to-day monitoring activities.

Equity price risk is subject to regular monitoring by MC, but is not currently significant in relation to the overall results and financial position of the Bank.

The Bank monitors any concentration risk in relation to any individual foreign currency or in regard to the translation of foreign currency transactions and monetary assets and liabilities into the functional currency of the Bank in accordance with the Foreign Exchange Exposure Limits (FEEL) and Net Open Position (NOP) thresholds stipulated by Maldives Monetary Authority.

(a) Profit rate risk

At the reporting date, the Bank's profit rate-bearing financial instruments were:

	Carrying amount	
	2016	**2015**
Fixed rate instruments	**MVR**	**MVR**
Financial assets		
Net receivables from financing activities	816,374,548	485,263,590
Financial liabilities		
Customers' accounts	1,269,701,051	803,477,749
Variable rate instruments		
Financial assets		
Investment held to maturity	853,580,526	496,721,766

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Profit rate sensitivity

31 December 2016	Carrying Amount MVR	0-12 Months MVR	1-2 Years MVR	2-5 Years MVR	More than 5 Years MVR	Total Sensitive MVR	Non rate Sensitive MVR
Assets							
Cash and balances with other banks	181,630,423	-	-	-	-	-	181,630,423
Balances with Maldives Monetary Authority	663,077,913	-	-	-	-	-	663,077,913
Receivables from financing assets	816,374,548	247,200,777	128,755,701	236,008,870	212,875,896	824,841,244	-
Held to maturity investments	853,580,526	853,580,526	-	-	-	853,580,526	-
	2,514,663,410	1,100,781,303	128,755,701	236,008,870	212,875,896	1,678,421,770	844,708,336
Liabilities							
Customers' accounts	2,337,412,436	1,234,889,830	31,206,855	3,604,366	-	1,269,701,051	1,067,711,385
Other liabilities	18,583,206	-	-	-	-	-	18,583,206
	2,355,995,642	1,234,889,830	31,206,855	3,604,366	-	1,269,701,051	1,086,294,591
Profit rate sensitivity gap	158,667,768	(134,108,527)	97,548,846	232,404,504	212,875,896	408,720,719	(241,586,255)

31 December 2015	Carrying Amount MVR	0-12 Months MVR	1-2 Years MVR	2-5 Years MVR	More than 5 Years MVR	Total Sensitive MVR	Non rate Sensitive MVR
Assets							
Cash and balances with other banks	120,841,792	-	-	-	-	-	120,841,792
Balances with Maldives Monetary Authority	602,824,173	-	-	-	-	-	602,824,173
Receivables from financing assets	485,263,590	144,555,569	78,255,260	129,330,332	140,370,140	492,511,301	-
Held to maturity investments	496,721,766	496,721,766	-	-	-	496,721,766	-
	1,705,651,320	641,277,335	78,255,260	129,330,332	140,370,140	989,233,067	723,665,965
Liabilities							
Customers' accounts	1,561,182,364	793,779,398	2,049,972	7,648,379	-	803,477,749	757,704,616
Other liabilities	5,051,092	-	-	-	-	-	5,051,092
	1,566,233,456	793,779,398	2,049,972	7,648,379	-	803,477,749	762,755,707
Profit rate sensitivity gap	139,417,864	(152,502,063)	76,205,288	121,681,953	140,370,140	185,755,318	(39,089,743)

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Sensitivity Analysis - Equity Price Risk

For investments classified as available for sale, a 1% decrease in the prices of Maldives Stock Exchange would have decreased equity by MVR 81,000/-. Available for sale investment as at 31 December 2016 is MVR 8,100,000/-.

(d) 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.

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

	2016		2015	
	Euro	**US$**	**Euro**	**US$**
Cash and balances with other banks	-	7,760,283	235	5,846,208
Balances with Maldives Monetary Authority	-	15,335,576	-	15,187,162
Held to maturity investments	-	1,741,622	-	1,682,223
Receivables from financing activities	-	17,662,925	-	8,025,511
Other assets	-	221,050	173	161,935
Customers' accounts	-	(41,406,327)	-	(30,211,368)
Other liabilities	-	(20,531)	-	(66,696)
Net statement of financial position exposure	**-**	**1,294,598**	**408**	**624,975**

Sensitivity analysis

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

	2016		2015	
	MVR Strengthening	**MVR Weakening**	**MVR Strengthening**	**MVR Weakening**
Euro (1% Movement)	-	-	(68)	68
US$ (1% Movement)	(199,303)	199,303	(96,215)	96,215

The following significant exchange rate applied during the period:

	Average Rate		Reporting Date Spot Rate	
	2016	**2015**	**2016**	**2015**
US$ 1 : MVR	15.395	15.395	15.395	15.395
Euro 1 : MVR	16.759	16.759	16.759	16.759

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

30.4 Operational risk

Operational risk' is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and innovation. In all cases, Bank policy requires compliance with all applicable legal and regulatory requirements.

The board of directors has delegated responsibility for operational risk to Bank's Management Committee, which is responsible for the development and implementation of controls to address operational risk. This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Requirements for the reporting of operational losses and proposed remedial action;
- Development of contingency plans;
- Training and professional development;
- Ethical and business standards; and
- Risk mitigation, including insurance where this is cost effective.

Compliance with Bank's standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are submitted to the Audit Committee and senior management of the Bank.

31 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 Bank's regulatory capital consists of the sum of the following elements;

	2016 MVR	2015 MVR
Tier 1 ("Core") Capital		
Share Capital	180,000,000	180,000,000
Retained earnings (shown as previous year amount as MMA requirement)	4,933,997	(7,511,742)
Statutory reserve (shown as previous year amount as MMA requirement)	24,317,796	11,872,056
Total Tier 1 Capital	**209,251,793**	**184,360,314**
Tier 2 ("Supplementary") Capital		
Current Year-to-Date Profit	44,614,403	24,891,479
General Provisions (Limited to 1.25% of RWA)	4,210,998	2,665,846
Subtotal	**48,825,401**	**27,557,325**
Eligible Tier 2 Capital (Limited to 100% of Tier 1 Capital)	**48,825,401**	**27,557,325**
Total Tier 1 and Tier 2 Capital	**258,077,194**	**211,917,639**
Core Capital (Tier 1 Capital)	209,251,793	184,360,314
Capital Base (Tier 1 and Tier 2 Capital)	258,077,194	211,917,639
Risk Weighted Assets	1,252,090,750	832,098,424
Tier 1 Risk Based Capital Ratio (Minimum 6%)	17%	22%
Total Risk Based Capital Ratio (Minimum 12%)	21%	25%

The Bank's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain the future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Bank has complied with all externally imposed capital requirements.

Capital Allocation

Management uses regulatory capital ratios to monitor its capital base. The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily on regulatory capital requirements, but in some cases the regulatory requirements do not fully reflect the varying degree of risk associated with different activities. In such cases, the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum amount required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation by Risk Management Unit (RMU) , and is subject to review by the Board Risk Management Committee (BRMC).

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated to particular operations or activities, it is not the sole basis used for decision making. Account is also taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with longer-term strategic objectives of the Bank. The Bank's policies in respect of capital management and allocation are reviewed regularly by the board of directors.

32 FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Valuation Models

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

(b) Valuation Framework

The Bank has an established control framework with respect to the measurement of fair values. This framework includes a Product Control function, which is independent of front office management and reports to the Head of Finance, and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls include:

• Verification of observable pricing;

• Re-performance of model valuations;

• A review and approval process for new models and changes to models involving both Product Control and Bank Market Risk;

• Quarterly calibration and back-testing of models against observed market transactions;

• Analysis and investigation of significant daily valuation movements; and

• Review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared with the previous month, by a committee of senior Product Control and Bank Market Risk personnel.

When third party information, such as broker quotes or pricing services, is used to measure fair value, Product Control assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS. This includes:

• Verifying that the broker or pricing service is approved by the Bank for use in pricing the relevant type of financial instrument;

• Understanding how the fair value has been arrived at, the extent to which it represents actual market transactions and whether it represents a quoted price in an active market for an identical instrument;

• When prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement; and

• If a number of quotes for the same financial instrument have been obtained, then how fair value has been determined using those quotes.

Significant valuation issues are reported to the Audit Committee.

32 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value hierarchy

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position. The fair values include any deferred differences between the transaction price and the fair value on initial recognition when the fair value is based on a valuation technique that uses unobservable inputs.

Measured at fair value	**Level 1 MVR**	**Level 2 MVR**	**Level 3 MVR**	**Total MVR**
31 December 2016				
Available for sale investments	8,100,000	-	-	8,100,000
31 December 2015				
Available for sale investments	8,200,000	-	-	8,200,000

Not measured at fair value	**Level 1**	**Level 2**	**Level 3**	**Total**
31 December 2016	**MVR**	**MVR**	**MVR**	**MVR**
Assets				
Cash and balances with other banks	-	181,630,423	-	181,630,423
Balances with Maldives Monetary Authority	-	663,077,913	-	663,077,913
Investments held to maturity	-	853,580,526	-	853,580,526
Receivables from financing activities	-	816,374,548	-	816,374,548
Other Assets	-	-	77,777,870	77,777,870
Liabilities				
Customers' Accounts	-	2,337,412,436	-	2,337,412,436
Other Liabilities	-	-	18,583,206	18,583,206
31 December 2015				
Assets				
Cash and balances with other banks	-	120,841,792	-	120,841,792
Balances with Maldives Monetary Authority	-	602,824,173	-	602,824,173
Investments held to maturity	-	496,721,766	-	496,721,766
Receivables from financing activities	-	485,263,590	-	485,263,590
Other Assets	-	-	50,571,252	50,571,252
Liabilities				
Customers' Accounts	-	1,561,182,364	-	1,561,182,364
Other Liabilities	-	-	5,051,092	5,051,092

33 RELATED PARTY TRANSACTIONS

33.1

Name of the Related Party	Relationship	Nature of the Transaction		Amount 2016 MVR	Amount 2015 MVR
ICD Money Market Fund LLP	Affiliated Bank	Musharakah	Principal investment	24,632,000	24,632,000
			Additional Investments	-	-
			Accumulated Profits	2,180,276	1,265,817
				26,812,276	**25,897,817**
Government of Maldives	Shareholder	Istisna'a	Opening	24,135,324	25,097,270
			Profit for the period	2,106,280	2,448,800
			Settlement	(3,720,144)	(3,410,746)
				22,521,460	**24,135,324**

33.2 Collectively, but not individually, significant transactions.

The Government of Maldives holds 15% of the shareholding of the Bank. The Bank has transactions with entities directly or indirectly controlled by the Government of Maldives through its authorities, agencies, affiliations and other organizations, collectively referred to as government entities. The Bank has transactions with other government related entities including but not limited to Investments and deposits.

33.3 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 3,813,852/- as emoluments to the key management personnel during the year ended 31 December 2016 (2015: MVR 2,753,434/-).

34 COMMITMENTS

	2016 MVR	2015 MVR
(i) Financial commitments		
Letter of Credits	18,871,492	5,477,313
Guarantees and Bonds	83,053,540	110,882,933
Bill Collection Acceptance	26,827,144	25,161,921
	128,752,176	**141,522,167**
(ii) Financing commitments		
Undrawn Financing facilities	**228,103,273**	**193,443,830**

35 OPERATING LEASE COMMITMENTS

As at 31 December, the future minimum lease payments under operating lease rent were payable as follows

	2016 MVR	2015 MVR
Less than one year	7,942,969	4,711,994
Between one and five years	16,129,750	12,849,717
More than five years	428,000	403,419
	24,500,719	**17,965,130**

36 CONTINGENT LIABILITIES

There were no contingent liabilities which require disclosure at the date of reporting.

37 EVENTS AFTER THE REPORTING DATE

On 24 November 2016 the Boards of Directors of the bank approved a transfer of 5% (9,000 shares) out of issued share capital of the bank, owned by ICD, to the Amana Takaful Maldives Plc at a consideration of MVR 2,467.20 per share. Additionally, on 7 February 2017, the directors have resolved to transfer additional 10% (18,000 shares) out of the issued share capital of the bank, owned by ICD, to the Government of the Maldives at a consideration of MVR2,821.57 per share. Both the transfers were effected on 4 April 2017. However, this has no effect, which may require to adjust the financial statements as at 31 December 2016. There were no other material events subsequent to the reporting date that require disclosure or adjustments to the financial statements.