Maldives Islamic Bank

ANNUAL REPORT 2018

FOR FINANCIAL YEAR ENDED
31ST DECEMBER 2018

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. Mohamed Azad

Mr. Mohammed Ataur Rahman Chowdhury

Mr.Nasser Mohammed Al-Thekair

Mr. Osman Kassim

Mrs. Fathimath Shafeega

CHIEF EXECUTIVE OFFICER

Mr. A. E. A Muhaimen

COMPANY SECRETARY

Mr. Hussain Ali Habeeb

REGISTERED ADDRESS

H. Medhuziyaaraiydhoshuge

Medhuziyaaraiy Magu, Male' 20097

Republic of Maldives

BUSINESS ADDRESS

(same as the registered address)

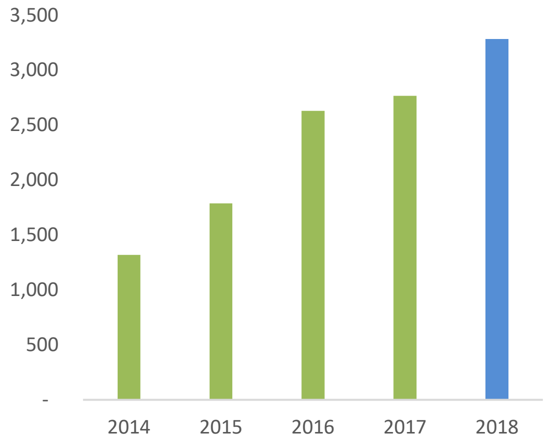
AUDITORS

KPMG

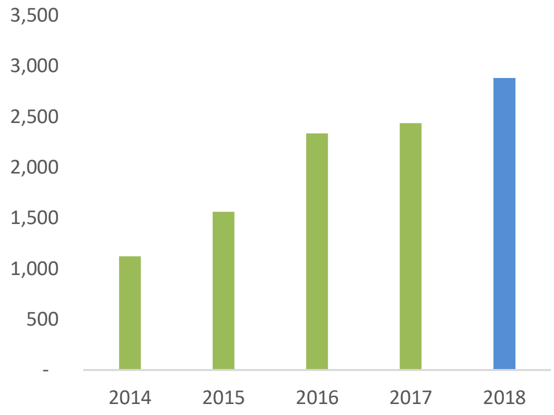
KEY FINANCIAL HIGHLIGHTS

	2014	2015	2016	2017	2018	Change (MVR)	Change (%)
Operating Results for the Year - MVR Millions							
Total Financing & Investment Income	62	89	132	150	186	36	24%
Net Income from Financing & Investment	56	78	116	129	154	25	19%
Total Operating Expenses	48	58	72	84	95	11	13%
Profit before Tax	20	33	60	54	73	19	35%
Tax Expenses	6	8	15	14	20	6	43%
Profit after Tax	14	25	45	40	53	13	33%
Assets and Liabilities - MVR Millions							
Financing Assets	368	485	816	1,172	1,529	357	30%
Total Assets	1,320	1,789	2,629	2,768	3,282	514	19%
Customers' Deposits	1,122	1,561	2,337	2,438	2,882	444	18%
Total Liabilities	1,137	1,579	2,375	2,470	2,941	471	19%
Total Equity	184	209	254	298	341	43	14%
Financing Assets to Deposit Ratio	0.33	0.31	0.35	0.48	0.53		
Profitability - %							
Net Financing Margin	12.02	11.59	11.53	11.06	10.57		
Return on Assets	1.20	1.60	2.02	1.48	1.74		
Return on Equity (After Tax)	8.26	12.67	19.26	14.52	16.45		
Gross Non-Performing Advance Ratio	1.68	1.92	0.96	4.24	2.50		
Net Non-Performing Advance Ratio	1.70	1.94	0.97	4.31	2.53		
Investor Information - MVR							
Net Asset Value per Share	1,020	1,163	1,411	1,655	1,894		
Earnings per Share (MVR) - Post Tax (MVR)	77	138	248	223	292		
Capital Adequacy Ratios - %							
Tier 1 Risk Based Capital Ratio (Minimum 6%)	28	22	17	16	14		
Total Risk Based Capital Ratio (Minimum 12%)	31	25	21	18	17		

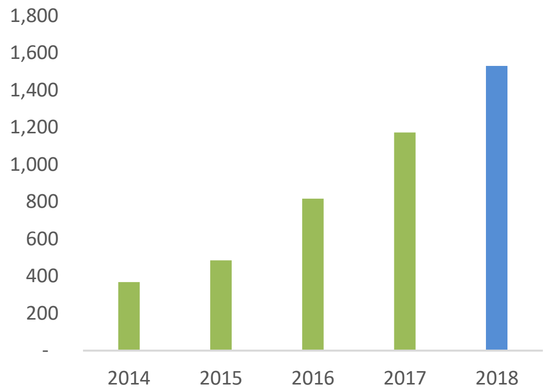
Total Assets (MVR Millions)



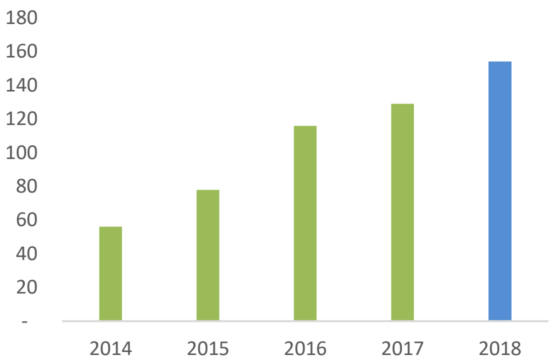
Customers' Deposits (MVR Millions)



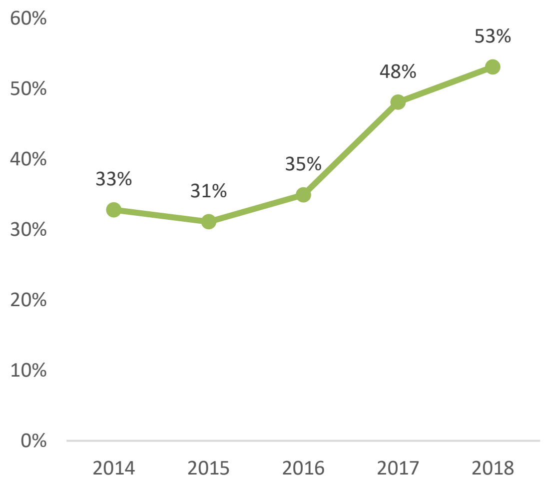
Financing Assets (MVR Millions)



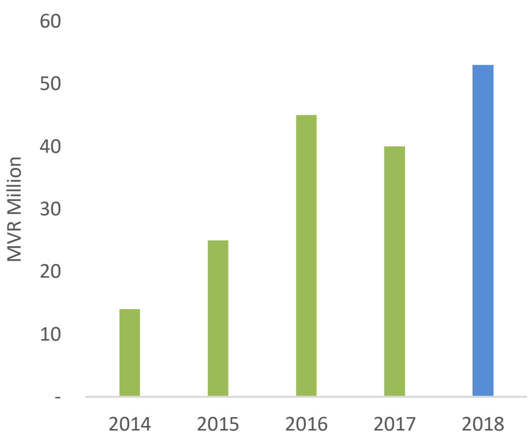
Net Income from Financing & Investment (MVR Millions)



Financing Assets to Deposit Ratio



Profit after Tax (MVR Millions)



The Directors hereby submit their report together with the audited financial statements of the Bank for the financial year ended 31 December 2018.

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

	2018 (MVR '000)	2017 (MVR '000)
Profit before Tax	72,802	53,990
Income Tax	(20,252)	(13,936)
Net profit after Tax	52,550	40,054

DIVIDENDS

The issued and paid up share capital as at 31 December 2018 amounted to MVR 180,000,000 divided into 180,000 shares of MVR 1,000 each. The board has recommended a dividend of MVR 15,300,000 for 2018 which equates to MVR 85 per share.

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.

IMPAIRMENT OF FINANCING ASSETS

Before the financial statements of the Bank were made out, the Directors took reasonable steps to ascertain that actions had been taken in relation to the writing off of bad financing assets and the making of allowances for doubtful financing assets if any, and have satisfied themselves that there is no known bad financing to be written off and that adequate allowances had been made for any bad and doubtful financing assets that may occur.

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

CURRENT ASSETS

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

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

VALUATION METHODS

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

CONTINGENT AND OTHER LIABILITIES

At the date of this report there does not exist:

(a) any charge on the assets of the Bank which has arisen since the end of the financial year which secures the liabilities of any other person; or

(b) any contingent liability in respect of the Bank that has arisen since the end of the financial year.

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

CHANGE OF CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

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

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

SUBSEQUENT EVENTS

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

DIRECTORS

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

- Mr. Najmul Hassan (Chairman)
- Mr. Mohamed Azad
- Mr. Mohammed Ataur Rahman Chowdhury
- Mr. Harith Harun (term ended on 6th December 2018)
- Mr. Osman Kassim
- Ms. Fathimath Shafeega
- Mr. Nasser Mohammed Al-Thekair (with effect from 11th March 2019)

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 2018 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, ten (10) Board meetings were held. All Directors reviewed Board papers or reports providing updates on operational, financial and corporate developments prior to the Board meetings. These papers and reports are circulated prior to the meeting to enable the Directors to obtain further explanations and having sufficient time to deliberate on the issues and make decisions during the meeting.

Board Balance

As at the reporting date, the Board has five (5) members, comprising four Non-Independent Non-Executive Directors (including the Chairman) and one Independent Non-Executive Director. 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 during the year by each Director are as follows:

Directors	**Total meetings attended**
Mr. Najmul Hassan *Chairman/ Non- Independent Non-Executive Director*	10/10
Mr. Mohamed Azad *Non- Independent Non-Executive Director*	10/10
Mr. Osman Kassim *Non- Independent Non-Executive Director*	7/10
Mr. Mohammed Ataur Rahman Chowdhury *Non- Independent Non-Executive Director*	10/10
Mrs. Fathimath Shafeega *Independent Non-Executive Director*	10/10
Mr. Harith Bin Harun *(Managing Director & CEO)* *(Resigned as Managing Director & CEO on 31st March 2018 and from the Board as Non- Independent Non-Executive Director on 6th December 2018)*	9/9

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 minimum of two directors appointed by the Board from amongst its members. The current members of BRMC are:

1. Mr. Osman Kassim (Chairman)
2. Mr. Najmul Hassan
3. Nasser Mohammed Al-Thekair (with effect from 11th March 2019)

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. Mohamed Azad

The Head of Internal Audit 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, Chief Operating Officer, Chief Financial Officer, Head of Business, Head of Operations Department, Head of Technology Department, Head of Human Resources Department and Head of Business Support 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. Abdulla Mamdhooh is the secretary of the MC.

Financing and Investment Committee

The Financing and Investment Committee ("FIC") is made up of six members, namely, the Managing Director & CEO who is also the chairman, Chief Operating Officer, Chief Financial Officer, Head of Business, Head of Business Support and Head of Risk Management & Compliance 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. Aminath Lubna 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 2018, 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

Ms. Basma Nizar 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 KPMG to engage/continue as external auditor of the bank for the financial year ending 31st December 2019

Signed on behalf of the Board of Directors in accordance with their resolution dated 26th March 2019

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Mr. Najmul Hassan	Mr. Mohamed Azad
Chairman	Director

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 2018, 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 includes 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 2018 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 2,497,675.16 (Maldivian Rufiyaa, Two million four hundred ninety seven thousand six hundred seventy five and sixteen.) has been transferred into the charity account mainly 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

14 February 2019

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

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

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

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

Opinion

We have audited the accompanying financial statements of Maldives Islamic Bank Private Limited (the "Bank"), which comprise the statement of financial position as at 31st December 2018, the statements of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, comprising a summary of significant accounting policies and other explanatory information set out in pages 21 to 99.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31st December 2018 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. IT Systems and Controls Impacting the Financial Reporting

Risk Description	Our Response
The Bank's businesses utilise a large number of complex, interdependent Information Technology systems ("IT Systems") to process and record a high volume of transactions and the financial accounting and reporting processes are highly dependent on the automated controls. Controls over access and changes to IT systems, data logics are critical to the recording of financial information and calculation of the Bank's profit on the financing activities, deferred profit over the	Our audit procedures included: - Testing of key controls, assisted by our own IT specialists including, assessing and challenging the design and operating effectiveness of IT controls over the applications, operating systems and databases that are relevant to financial reporting.

Key Audit Matters (Continued)

1. IT Systems and Control Impacting the Financial Reporting (Continued)

Risk Description	Our Response
financing transactions and determining the profit distribution for the deposits of the Bank. Further, the accounts records are recognized using the interfaces between the sub modules and the Bank's accounting systems. Accordingly, risks exist over the IT control environment, including automated accounting procedures and controls over preventing unauthorized access to the IT systems and data which would result in materially misstated accounting records. The IT systems and controls, as they impact the financial recording and reporting of transactions, is a key audit matter and our audit approach relies extensively on automated controls and therefore on the effectiveness of controls over IT systems. Our audit approach could significantly differ depending on the effective operation of the Bank's IT controls. KPMG IT specialists were involved throughout the engagement as a core part of our audit team.	- Testing the access rights given to staff by checking them to approved records, and inspecting the reports over the granting and removal of access rights and testing preventative controls designed to enforce segregation of duties between users within particular systems. - Assessing the automated controls within business processes and the reliability of relevant reports used as part of a manual control. This includes challenging the integrity of system interfaces, the completeness and accuracy of data feeds, automated calculations and specific input controls. - Where control deficiencies were identified, we tested remediation activities performed by management and compensating controls in place and assessed where necessary to mitigate any residual risk.

2. Allowance for Impairment on receivables from Financing Facilities and transition impact with the adoption of IFRS 9– Financial Instruments

(Refer to the accounting policy 3.1 for the transition disclosures provided for the adoption of IFRS 9).

Risk Description	Our Response
On 1st January 2018, a new accounting standard for financial instruments (IFRS 9) became effective, which introduced impairment based on expected credit losses ("ECL"), rather than the impairment previously applied as per the guidelines issued by Maldives Monetary Authority ("MMA"). This has resulted in developing new models which are reliant of large volumes of data as well as number of significant estimates at adoption including the impact of multiple economic scenarios. Given this is a new and complex accounting standard which requires considerable judgment on determining the classification and measurement on the financial instruments and to	As IFRS 9 was adopted at the start of the year, we performed audit procedures on the opening balances to gain assurance on the transition from guidelines issued by MMA. This included evaluating the accounting interpretations for compliance with IFRS 9 and testing the adjustments and disclosures made on transition. - Assessing the design, implementation and operating effectiveness of key controls including key IT controls over the transition adjustments and impairment of net receivables from financing activities assisted by our own IRM team.

Key Audit Matters (Continued)

2. Allowance for Impairment on receivables from Financing Facilities and transition impact with the adoption of IFRS 9 – Financial Instruments (Continued)

Risk Description	Our Response
estimate ECL provision against the financial instruments, we considered the transition impact of the IFRS 09 as a key audit matter. Due to the adoption of IFRS 9 as at 1st January 2018, an adjustment of MVR 4,641,006/- was recognized relating to the impairment on net receivables from financing activities. As at 31st December 2018, the Bank reported total gross receivables from financing activities of MVR 1,547.13 million and expected credit loss provisions of MVR 17.89 million. Key judgements and estimates in respect of the timing and measurement of ECL include: - Judgments over the grouping of financing facilities based on the similar risk characteristics. - Allocation of assets to stage 1, 2, or 3 using criteria in accordance with the accounting standard; - Accounting interpretations and modelling assumptions used to build the models that calculate the ECL; - Completeness and accuracy of data used to calculate the ECL; - Inputs and assumptions used to estimate the impact of multiple economic scenarios; - Completeness and valuation of post model adjustments; - Measurements of individually assessed provisions including the assessment of multiple scenarios; and - Accuracy and adequacy of the financial statement disclosures.	- Evaluating the management process over identifying contracts to be assessed, evaluation of the inputs, assumptions and adjustments to the ECL and transition approach whether transition gives rise to any specific fraud risks. - Assessing the ECL provision levels by stage to determine if they were reasonable considering the Bank's portfolio, risk profile, credit risk management practices and the macroeconomic environment. We considered trends in the economy and industries to which the Bank is exposed. - Challenging the criteria used to allocate an asset to stage 1, 2 or 3 in accordance with IFRS 9; this included peer benchmarking to assess staging levels. We tested assets in stage 1, 2 and 3 to verify that they were allocated to the appropriate stage. - Challenging the key assumption and evaluating the reasonableness of the key judgments used by the management and estimates used in determining the transition adjustments and ECL impairment allowance as at 31st December 2018 with the assistance of the internal IFRS 9 specialist. This included assessing the appropriateness of model design and formulas used and recalculating the Probability of Default, Loss Given Default and Exposure at Default for a sample of models. - Assessing the completeness, accuracy and relevance of data used in the transition adjustments as at 1st January 2018 and ECL calculation as at 31st December 2018. - With the support of our internal IFRS 9 specialists, we assessed the base case, best case, worst case and alternative economic scenarios, including challenging probability weights. We assessed whether forecasted macroeconomic variables were appropriate, such as GDP growth rate and inflation rate. We challenged the correlation and impact of the macroeconomic factors to the ECL including how non-linearity was captured.

Key Audit Matters (Continued)

2. Allowance for Impairment on receivables from Financing Facilities and transition impact with the adoption of IFRS 9 – Financial Instruments (Continued)

Risk Description	Our Response
	- Assessing the completeness and appropriateness of the assessment of required post model adjustments. - With the support of our IFRS 9 specialist, we recalculated a sample of individually assessed provisions including comparing to alternative scenarios and challenging probability weights assigned. - Assessing appropriateness of the accounting policies based on the requirements of IFRS 9 and the adequacy and appropriateness of disclosures for compliance with the accounting standards including disclosure of transition.

Other Matters

1. Comparative Balances

The financial statements of the Bank for the year ended 31st December 2017 were audited by another auditor who expressed an unqualified opinion on those financial statements on 21st March 2018.

2. Reporting Framework of the Financial Statements

The Bank has prepared these financial statements for the year ended 31st December 2018 in accordance with the International Financial Reporting Standards ("IFRSs") whereas prior to 1st January 2018, the Bank had prepared its financial statements in accordance with IFRSs as adopted by MMA. The difference between the financial reporting frameworks is solely relating to the impairment of the financing facilities as the Bank earlier recognized the provision for impairment of its financing facilities based on guidelines provided by the Maldives Monetary Authority.

Responsibilities of the Management and Those Charge with Governance for the Financial Statements

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

Responsibilities of the Management and Those Charge with Governance for the Financial Statements (Continued)

In preparing these financial statements, the Management is responsible for assessing the Bank'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 the Management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's Financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether these 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 these 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 Bank's internal control.

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

- Conclude on the appropriateness of the Board'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 Bank'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 Bank 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.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG.

Chartered Accountants

Male'
26th March 2019

MALDIVES ISLAMIC BANK PRIVATE LIMITED
STATEMENT OF FINANCIAL POSITION

AS AT 31ST DECEMBER	Note	31/12/2018 MVR	31/12/2017 MVR
ASSETS			
Cash and Balances with Other Banks	6	227,117,732	209,665,651
Balances with Maldives Monetary Authority	7	582,613,740	648,870,979
Investments in Equity Securities	8	53,500,000	52,200,000
Investments in Other Financial Instruments	9	794,561,076	602,128,659
Net Receivables from Financing Activities	10	1,529,242,312	1,172,009,592
Property and Equipment	11	32,256,046	19,882,933
Intangible Assets	12	5,734,391	4,785,145
Other Assets	13	57,118,271	58,558,688
Total Assets		3,282,143,568	2,768,101,647
LIABILITIES			
Customers' Accounts	14	2,881,644,904	2,437,825,734
Provisions	15	926,129	-
Other Liabilities	16	34,130,313	14,861,845
Current Tax Liability	30.2	20,097,055	13,728,923
Deferred Tax Liability	30.3	4,344,673	3,839,650
Total Liabilities		2,941,143,074	2,470,256,152
EQUITY			
Share Capital	17	180,000,000	180,000,000
Statutory Reserve	19	92,927,381	66,652,148
Non Distributable Capital Reserve	20	7,708,794	-
Fair Value Reserve	8.3	4,875,000	3,925,000
Retained Earnings		55,489,319	47,268,347
Total Equity		341,000,494	297,845,495
Total Liabilities and Equity		3,282,143,568	2,768,101,647
Commitments	37	360,035,935	469,305,047
Net Asset Value Per Share	31.2	1,894	1,655

The financial statements are to be read in conjunction with the related notes which form an integral part of the financial statements of the Bank set out on pages 11 to 85. The Report of the Independent Auditors is given on pages 1 to 6.

These financial statements were approved by the Board of Directors and signed on its behalf by:

Mr. Najmul Hassan	Mr. A. E. A Muhaimen	Mrs. Fathimath Shafeega
Chairman	Chief Executive Officer	Director

26th March 2019
Male'

MALDIVES ISLAMIC BANK PRIVATE LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31ST DECEMBER 2018

	Note	2018 MVR	2017 MVR
Income from Financing Activities using the Effective Profit Method	**21.1**	144,671,427	111,375,422
Profit Paid on Customer Accounts	**21.2**	(32,053,172)	(21,314,584)
Net Profit Earned from Financing Activities	**21**	**112,618,255**	**90,060,838**
Fee and Commission Income	**22.1**	21,646,884	18,806,488
Fee and Commission Expense	**22.2**	(699,749)	(581,783)
Net Fee and Commission Income	**22**	**20,947,135**	**18,224,705**
Foreign Exchange Gain	**23**	35,270	149,001
Income from Investments in Equity Securities	**24**	5,341,000	1,441,000
Net Income from Other Financial Instruments Mandatorily Measured at FVTPL	**25**	34,017,876	-
Income from Investments Measured at Amortized Cost	**26**	1,630,629	37,462,191
Total Operating Income		**174,590,165**	**147,337,735**
Loss on Fair Valuation of Financial Instruments Mandatorily Measured at FVTPL	**9.4**	(2,869,496)	-
Net Impairment Losses on Financial Assets	**10.2, 10.5**	(4,241,584)	(9,189,044)
Personnel Expenses	**27**	(52,031,930)	(46,304,568)
General and Administrative Expenses	**28**	(34,794,894)	(30,125,520)
Depreciation and Amortization	**29**	(7,849,718)	(7,727,871)
Total Operating Expenses Including Impairment Provision		**(101,787,622)**	**(93,347,003)**
Profit before Tax		**72,802,543**	**53,990,732**
Income Tax	**30**	(20,252,078)	(13,936,433)
Profit for the Year		**52,550,465**	**40,054,299**
Other Comprehensive Income			
Items that will not be Reclassified to Profit or Loss			
Movement in Fair Value Reserve (Equity Instruments):			
Net Change in Fair Value - Equity Investment at FVOCI	**8.3**	1,300,000	-
Related Tax	**30.3**	(350,000)	-
		950,000	-
Items that are or may be Reclassified Subsequently to Profit or Loss			
Movement in Fair Value Reserve (Equity Instruments):			
Net Change in Fair Value - Available-for-Sale Financial Assets		-	5,100,000
Related Tax		-	(1,250,000)
		-	**3,850,000**
Total Other Comprehensive Income, Net of Tax		**950,000**	**3,850,000**
Total Comprehensive Income		**53,500,465**	**43,904,299**
Basic and Diluted Earnings Per Share	**31**	**291.95**	**222.52**

Figures in brackets indicate deductions

The financial statements are to be read in conjunction with the related notes which form an integral part of the financial statements of the Bank set out on pages 25 to 99. The Report of the Independent Auditors is given on pages 15 to 20.

MALDIVES ISLAMIC BANK PRIVATE LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31ST DECEMBER 2018

	Share Capital	**Non Distributable Capital Reserve**	**Statutory Reserve**	**Fair Value Reserve**	**Retained Earnings**	**Total**
	MVR	**MVR**	**MVR**	**MVR**	**MVR**	**MVR**
As at 01st January 2017	180,000,000	-	46,624,998	75,000	27,241,198	253,941,196
Profit for the Year	-	-	-	-	40,054,299	40,054,299
Other Comprehensive Income						
Fair Value Reserve (Available-for-Sale Financial Assets)	-	-	-	5,100,000	-	5,100,000
Recognition of deferred tax impact on fair value change in Available for Sale Investment	-	-	-	(1,250,000)	-	(1,250,000)
Total Comprehensive Income	-	-	-	3,850,000	40,054,299	43,904,299
Transferred to Statutory Reserve **(Note 19)**	-	-	20,027,150	-	(20,027,150)	-
As at 31st December 2017	180,000,000	-	66,652,148	3,925,000	47,268,347	297,845,495
Adjustment on initial application of IFRS 9 as at 01st January 2018 **(Note 3.1.4)**	-	-	-	-	4,054,534	4,054,534
Restated Balance as at 01st January 2018	180,000,000	-	66,652,148	3,925,000	51,322,881	301,900,029
Profit for the Year	-	-	-	-	52,550,465	52,550,465
Other Comprehensive Income						
Equity Instruments at FVOCI - Change in Fair Value	-	-	-	1,300,000	-	1,300,000
Recognition of deferred tax impact on fair value change	-	-	-	(350,000)	-	(350,000)
Total Comprehensive Income	-	-	-	950,000	52,550,465	53,500,465
Transferred to Statutory Reserve **(Note 19)**	-	-	26,275,233	-	(26,275,233)	-
Recognition of Non-Distributable Capital Reserve **(Note 20)**	-	7,708,794	-	-	(7,708,794)	-
Transaction with Owners of the Bank						
Dividends **(Note 17.3)**	-	-	-	-	(14,400,000)	(14,400,000)
As at 31st December 2018	180,000,000	7,708,794	92,927,381	4,875,000	55,489,319	341,000,494

Figures in brackets indicate deductions.

The financial statements are to be read in conjunction with the related notes which form an integral part of the financial statements of the Bank set out on pages 25 to 99. The Report of the Independent Auditor's is given on pages 15 to 20.

MALDIVES ISLAMIC BANK PRIVATE LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31ST DECEMBER

	Note	2018 MVR	2017 MVR
Cash Flows from Operating Activities			
Profit before Tax		72,802,543	53,990,732
Adjustments for:			
Depreciation and Amortization	**29**	7,849,718	7,727,871
Net Impairment Loss on Financial Assets	**10.2, 10.5**	4,241,584	9,189,044
Dividend Income on Equity Securities	**24**	(5,341,000)	-
Income from Investment in Other Financial Instruments Mandatorily Measured at FVTPL	**25**	(34,017,876)	-
Fair Value Loss on Investment in Other Financial Instruments Mandatorily Measured at FVTPL	**9.4**	2,869,496	-
Income from Investment in Other Financial Instruments Measured at Amortized Cost	**26**	(1,630,629)	-
		46,773,836	70,907,647
Changes in;			
Customers' Accounts		443,819,170	100,413,298
Other Assets		1,440,417	25,614,887
Other Liabilities		9,188,468	(4,614,602)
Receivables From Financing Activities		(356,643,642)	(364,824,088)
Cash Generated from/ (Used in) Operations		144,578,249	(172,502,858)
Dividends Received	**24**	5,341,000	-
Tax Paid	**30.2**	(13,728,922)	(15,322,498)
Net Cash from / (Used in) Operating Activities		136,190,327	(187,825,356)
Cash Flows from Investing Activities			
Acquisition of Property and Equipment	**11**	(18,572,647)	(10,404,223)
Acquisition of Intangible Assets	**12**	(2,599,430)	(393,994)
Investment in Assets Measured at Amortized Cost		(57,467,707)	(221,528,460)
Proceeds from Investments Measured at Amortized Cost		28,733,854	472,980,327
Income from Investments Measured at Amortized Cost		1,594,193	-
Investment in Assets Mandatorily Measured at FVTPL		(216,945,586)	-
Proceeds from Matured Investments Mandatorily Measured at FVTPL		50,000,000	-
Income from Investments Mandatorily Measured at FVTPL		34,581,838	-
Investment Made in Minimum Reserve Requirement in MMA		(50,118,316)	-
Acquisition of Equity Investments	**8**	-	(39,000,000)
Net Cash (Used in)/ from Investing Activities		(230,793,801)	201,653,650
Cash Flows from Financing Activities			
Dividends Paid		(4,320,000)	-
Net Cash Used in Financing Activities		(4,320,000)	-
Net (Decrease)/ Increase in Cash and Cash Equivalents		(98,923,474)	13,828,294
Cash and Cash Equivalents at beginning of the Year		623,132,430	609,304,136
Cash and Cash Equivalents at end of the Year	**6**	524,208,956	623,132,430

Figures in brackets indicate deductions.

The financial statements are to be read in conjunction with the related notes which form an integral part of the financial statements of the Bank set out on pages 25 to 99. The Report of the Independent Auditors is given on pages 15 to 20.

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 Medhuziyaaraiydhoshuge, 20097 Medhuziyaaraiy Magu, Male' City, 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, Statement of Comprehensive Income and 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 ("IFRSs").

This is the first set of Bank's financial statements in which IFRS 9 – Financial Instruments and IFRS 15 - Revenue from contracts with customers have been applied. Changes to the significant accounting policies are described in Note 3.1 and Note 3.2.

ii. Approval of financial statements by directors

The Financial Statements of the Bank for the year ended 31st December 2018 were authorized for issue by the Board of Directors (together referred to as the "Board") in accordance with the resolution of the Board on 26th March 2019.

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.

Items	Measurement Basis
Financial Instruments mandatorily measured at FVTPL (applicable from 1st January 2018)	Fair Value
Financial Assets designated at FVOCI (applicable from 1st January 2018)	Fair Value
Available-for-sale Financial Assets (applicable before 1st January 2018)	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 unless otherwise indicated.

2. BASIS OF PREPARATION (CONTINUED)

v. Significant accounting judgments, estimates and assumptions

The preparation of the financial statements in conformity with IFRSs 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.

(a) Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements is included in the following notes.

- Applicable to 2018 only

Note 3.10 (ii) and Note 3.1.5 - classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and profit on the principal amount outstanding.

Note 33 (i) (c) – establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward looking information into the measurement of Expected Credit Loss (“ECL”) and selection and approval of models used to measure ECL.

(b) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainty that have a significant risk of resulting in a material adjustment in the year ended 31st December 2018 is included in the following notes.

- Applicable to the financial year ended 31st December 2018 only.

Note 33 (i) (c) - impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information.

- Applicable to the financial year ended 31st December 2018 and 31st December 2017.

Note 3.10 (vi) - impairment of financial instruments: key assumptions used in estimating recoverable cash flows.

vi. Going concern

The Board has 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.

2. BASIS OF PREPARATION

vii. 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.

viii. 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 have been applied consistently to all periods presented except for the changes highlighted below due to the adoption of IFRS 9 – financial instruments and IFRS 15 - Revenue from contracts with customers in these financial statements by the Bank.

The Bank has adopted IFRS 9 – financial instruments and IFRS 15 - Revenue from contracts with customers.

A number of other new standards are also effective from 1st January 2018, but they do not have a material effect on the Bank's financial statements.

Due to the transition method chosen by the Bank in applying IFRS 9, comparative information throughout theses financial statements has not generally been restated to reflect its requirements.

The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Bank. Accordingly, the impact on the comparative information is limited to new disclosure requirements.

The effect of initially applying these standards is mainly attributed to the following:

- A decrease in impairment losses recognised on financial assets (see Note 3.1.5);
- Additional disclosures related to IFRS 9.
- Additional disclosures related to IFRS 15.

3.1 IFRS 9 - Financial instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As a result of the adoption of IFRS 9, the Bank has adopted consequential amendments to IAS 1 Presentation of Financial Statements, which require separate presentation in the statement of profit or loss and OCI of profit revenue calculated using the effective profit method.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 IFRS 9 Financial instruments (Continued)

Additionally, the Bank has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018, but have not been applied to the comparative information.

The key changes to the Bank's accounting policies resulting from its adoption of IFRS 9 are summarised below. The full impact of adopting the standard is set out in Note 3.1.5.

3.1.1 Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the previous IAS 39 categories of held-to-maturity, Financing receivable and available-for-sale. For an explanation of how the Bank classifies financial assets under IFRS 9, see Note 3.10 (ii).

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- The remaining amount of change in the fair value is presented in profit or loss.

For an explanation of how the Bank classifies financial liabilities under IFRS 9, see Note 3.10 (ii).

3.1.2 Impairment of financial assets.

IFRS 9 replaces the “Incurred Loss” model in IAS 39 with an “Expected Credit Loss” model. The new impairment model also applies to certain finance commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Bank applies the impairment requirements of IFRS 9, see Note 3.10 (vii).

3.1.3 Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- Comparative periods have not been restated." Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1st January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1.3 Transition (Continued)

The Company used the exemption not to restate comparative periods but considering that the amendments made by IFRS 9 to IAS 1 introduced the requirement to present 'profit income calculated using the effective profit rate· as a separate line item in the statement of profit or loss and OCI and changed the description of the line item from 'income from financing activities' reported in 2017 to 'income from financing activities calculated using the effective profit method'.

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

    i. The determination of the business model within which a financial asset is held.
    ii. The designation of certain investments in equity instruments not held for trading as at FVOCI.

For more information and details on the changes and implications resulting from the adoption of IFRS 9, see Note 3.1.5.

3.1.4 Impact of Adopting IFRS 9 -"Financial Instruments"

The impact of this change in accounting policy as at 1st January 2018 has been to increase retained earnings by MVR. 4,054,534/-.

3.1.5 Classification of Financial Assets and Financial Liabilities on the date of initial application of IFRS 9 -"Financial Instruments"

The following table shows the original measurement categories under IAS 39 -"Financial Instruments: Recognition and Measurement" and the new measurement categories under IFRS 9 -"Financial Instruments" along with their carrying amounts for each class of the Bank's financial assets and financial liabilities as at 1st January 2018.

Financial Assets	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount as at 31st December 2017 under IAS 39	New carrying amount under IFRS 9 as at 1st January 2018
			MVR	MVR
Quoted Equity investments	Available-for-sale investment	Designated at FVOCI	52,200,000	52,200,000
Deposits with licensed commercial banks	Loans and Receivables	Financial Asset measured at amortized cost	102,875,368	102,875,368
Net Receivable from Financing Activities	Loans and Receivables	Financial Asset measured at amortized cost	1,172,009,592	1,176,650,598

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 IFRS 9 Financial instruments (Continued)

3.1.5 Classification of Financial Assets and Financial Liabilities on the date of initial application of IFRS 9 -"Financial Instruments (Continued)

Financial Assets	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 as at 31st December 2017	New carrying amount under IFRS 9 as at 1st January 2018
			MVR	MVR
Cash and Balances with Other Banks	Loans and Receivables	Financial Asset measured at amortized cost	209,665,651	209,665,651
Balances with Maldives Monetary Authority	Loans and Receivables	Financial Asset measured at amortized cost	648,870,979	648,870,979
ICD Money Market Investment	Held to Maturity	FVTPL (Mandatorily)	27,758,217	27,758,217
Wakalah Placements	Held to Maturity	FVTPL (Mandatorily)	30,283,497	30,283,497
Mudharabah/ Murabaha placements with selected customers	Held to Maturity	FVTPL (Mandatorily)	544,236,945	544,386,945
Other Assets	Loans and Receivables	Financial Asset measured at amortized cost	50,806,319	50,806,319

Financial Liabilities	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 as at 31st December 2017	New carrying amount under IFRS 9 as at 1st January 2018
			MVR	MVR
Customer's Accounts	Amortized cost	Amortized cost	2,437,825,734	2,437,825,734
Other liabilities	Amortized cost	Amortized cost	14,861,845	14,861,845

The Bank's accounting policies on the classification of financial instruments under IFRS 9 -"Financial Instruments" are set out in Note 3.10 (ii). The application of these policies resulted in the reclassifications set out in the table above and explained below.

Certain financing receivable to customers are classified under IFRS 9 as mandatorily measured at FVTPL because the contractual cash flows of these securities are not SPPI on the principal outstanding. Before the adoption of IFRS 9, these financing receivable to customers were recognized at amortized cost. However, there had not been any change to the carrying value of the instruments as the instruments are short term in nature.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 IFRS 9 Financial instruments (Continued)

3.1.5 Classification of Financial Assets and Financial Liabilities on the date of initial application of IFRS 9 -"Financial Instruments" (Continued)

Bank's investment on ICD money market instrument is classified under IFRS 9 as mandatorily measured at FVTPL because the contractual cash flows of these securities are not SPPI on the principal outstanding. Before the adoption of IFRS 9, these investment on ICD were recognized at amortized cost under held to maturity classification.

Certain equity investments held by the Bank for strategic purposes have been designated under IFRS 9 as at FVOCI. Before the adoption of IFRS 9, these securities were classified under Available-for-sale investments.

The following table reconciles the carrying amounts of financial assets under IAS 39-"Financial Instruments: Recognition and Measurement", to the carrying amounts under IFRS 9 -"Financial Instruments", on transition to IFRS 9 -"Financial Instruments", on 1st January 2018.

Financial Instrument	IAS 39 carrying amount as at 31st December 2017	Re-classification	Re-measurement	IFRS 9 carrying amount as at 1st January 2018
FVOCI – Equity				
Equity investments				
Balance	52,200,000			
From Available-for – Sale to FVOCI		-	-	
Balance				52,200,000
Financial assets at Amortised Cost				
Balances with MMA				
Brought forward: Loans and receivables	648,870,979	-	-	
Carried forward: Amortised cost				648,870,979
Cash and Balances with Other Banks				
Balance - Loans and receivables	209,665,651	-	-	
Carried forward: Amortised cost				209,665,651

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 IFRS 9 Financial instruments (Continued)

3.1.5 Classification of Financial Assets and Financial Liabilities on the date of initial application of IFRS 9 -"Financial Instruments" (Continued)

Financial Instrument	IAS 39 carrying amount as at 31st December 2017	Reclassification	Re-measurement	IFRS 9 carrying amount as at 1st January 2018
Receivables from financing activities to customers				
Brought forward: Financing receivable	1,172,009,592			
Re-measurement		-	4,641,006	
Carried forward: amortised cost				1,176,650,598
Mandatorily at FVTPL				
Opening Balance at Held to Maturity				
Re-classification From Investments at Held to Maturity	602,128,659			
Re-measurement		-	150,000	
Closing Balance				602,278,659

In respect of the financial liabilities, there were no classification or measurement impact from the adoption of IFRS 09 from 1st January 2018.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 IFRS 9 Financial instruments (Continued)

3.1.5 Classification of Financial Assets and Financial Liabilities on the date of initial application of IFRS 9 –"Financial Instruments" (Continued)

The following table summarises the impact of transition to IFRS 9 on the opening balance of the retained earnings. There is no impact on other components of equity.

	Impact of adopting IFRS 9 as at 1st January 2018
Retained Earnings	**MVR**
Closing balance under IAS 39 (31st December 2017)	47,268,347
Recognition of expected credit losses under IFRS 9 (including financing commitments)	4,054,534
Opening balance under IFRS 9 (1st January 2018)	51,322,881

The following table reconciles:

- The closing impairment allowance for financial assets in accordance with IAS 39 and provisions for financing commitments and financial guarantee contracts in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets as at 31st December 2017; to
- The opening ECL allowance determined in accordance with IFRS 9 as at 1st January 2018.

	31st December 2017 (IAS39/ IAS 37)	**Re-classification**	**Re-measurement**	**1st January 2018 (IFRS 9)**
	MVR	**MVR**	**MVR**	**MVR**
Financing receivables and held to maturity securities under IAS 39/ financial assets at amortised cost under IFRS 9 (includes cash and cash equivalents, financing to customers).	18,285,143	-	(4,641,006)	13,644,137
Held to Maturity Investments	150,000	-	(150,000)	-
Financing commitments	-	-	736,472	736,472
Total	18,435,143	-	(4,054,534)	14,380,609

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 IFRS 15 - Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaced IAS 18 Revenue, IAS 11 Construction and related interpretations.

The Bank has adopted IFRS 15 using the cumulative effect method, with effect of initially applying this standard recognized at the initial date of application (1st January 2018). Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18. The timing or amount of the Bank's fee and commission income from contracts with customers was not impacted by the adoption of IFRS 15. The impact of IFRS 15 was limited to the new disclosure requirements (see Note 22).

3.2.1 Impact on the adoption of IFRS 15 as at 1st January 2018

There was no material impact on the financial statements by adopting IFRS 15 as at 1st January 2018. Further there is no significant impact on adoption of the IFRS 15 for the amounts recognized in these financial statements.

3.2.2 Key Changes to the Accounting Policies on the Adoption of IFRS 15

Under IFRS 15, revenue is recognized when a customer obtains control of the goods or services. Determination of the timing of the transfer of control at a point or over time requires judgements. The details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Company's various goods and services are set out below.

Type of product /service	New revenue/ Cost recognition criteria	Change from previous accounting policy
Fee and Commission Income	The Bank has adopted IFRS 15 for the recognition of Fee and Commission income over the time of the provision of service depending on the material basis.	There is no significant difference in the accounting policy from the previous accounting policy.

3.3 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.

Foreign currency differences arising on translation are generally recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Income from Financing and Investment Activities

3.4.1 Policy Applicable from 1st January 2018

3.4.1.1 Effective Profit Rate

Profit income and expense are recognised in profit or loss using the effective profit method. The 'effective profit rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- The gross carrying amount of the financial asset ; or
- The amortised cost of the financial liability.

When calculating the effective profit rate for financial instruments other than credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective profit rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective profit rate includes transaction costs and fees and points paid or received that are an integral part of the effective profit rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

3.4.1.2 Amortised Cost and Gross Carrying Amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective profit method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1st January 2018).

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

3.4.1.3 Calculation of Profit Income and Expense

The effective profit rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating profit income and expense, the effective profit rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability. The effective profit rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of profit.

However, for financial assets that have become credit-impaired subsequent to initial recognition, profit income is calculated by applying the effective profit rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of profit income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, profit income is calculated by applying the credit-adjusted effective profit rate to the amortised cost of the asset. The calculation of profit income does not revert to a gross basis, even if the credit risk of the asset improves.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Income from Financing and Investment Activities (Continued)

3.4.1 Policy Applicable from 1st January 2018 (Continued)

3.4.1.3 Calculation of Profit Income and Expense (Continued)

The bank recognizes its Income from financing and investment activities as follows;

- 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.

- 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.

For information on when financial assets are credit-impaired, see Note 3.10 (vi).

3.4.1.4 Presentation

Profit income calculated using the effective profit method presented in the statement of profit or loss includes:

- Profit on financial assets and financial liabilities measured at amortised cost.

Profit income and expense on other financial assets and financial liabilities mandatorily measured at FVTPL are presented in net income from other financial instruments at FVTPL (see Note 3.6).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Income from Financing and Investment Activities (Continued)

3.4.2 Policy Applicable before 1st January 2018

3.4.2.1 Effective Profit Rate

Profit income and expense were recognised in profit or loss using the effective profit method. The effective profit rate was the rate that exactly discounted the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or. where appropriate. a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective profit rate. The Bank estimated future cash flows considering all contractual terms of the financial instrument. But not future credit losses.

The calculation of the effective profit rate included transaction costs and fees and points paid or received that were an integral part of the effective profit rate. Transaction costs included incremental costs that were directly attributable to the acquisition or issue of a financial asset or financial liability.

3.4.2.2 Calculation of Profit Income and Expense

The bank recognized its Income from financing and investment activities as follows;

- 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Income from Financing and Investment Activities (Continued)

3.4.2 Policy Applicable before 1st January 2018 (Continued)

3.4.2.3 Presentation

Profit income presented in the statement of Comprehensive Income included:

- Profit on financial assets and financial liabilities measured at amortised cost.

Profit income and expense on other financial assets Held to Maturity were presented in Income from Investment Measured at Amortized Cost.

3.5 Fees and Commission

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

Other fee and commission income - including account servicing fees, LC commission is recognised as the related services are performed.

A contract with a customer that results in a recognised financial instrument in the Bank's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

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

Revenue recognition before to 1st January 2018

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.

3.6 Net Income from Other Financial Instruments mandatorily measured at FVTPL

Net income from other financial instruments at FVTPL relates to financing receivable provided to the customers where the SPPI criteria fails in initial measurement of financial instruments. The line item includes fair value changes, Profit and income of the placement for the period.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Dividend Income

Dividend income is recognised when the right to receive income is established. Usually, this is the ex-dividend date for quoted equity securities. Dividend income are presented in the profit or loss.

From 1st January 2018, dividends on equity instruments designated as at FVOCI that clearly represent a recovery of part of the cost of the investment are presented in OCI.

3.8 Leases

Bank acting as a lessee - Operating leases

Assets held under other leases are classified as operating leases and are not recognised in the Bank's statement of financial position.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

3.9 Income Tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in OCI.

3.9.1 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 and any adjustment to the tax payable or receivable 1n respect of previous years.

3.9.2 Deferred Tax

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Financial Instruments

(i) Recognition and Initial Measurement

The Bank initially recognizes receivables from financing activities, Customers' Accounts, on the date at which they are originated.

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 at FVTPL) transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

Classification - Policy Applicable from 1st January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit (“SPPI”) on the principal amount outstanding.

Financial assets measured at amortized cost comprise receivables from Murabaha, Istisna’a, Diminishing Musharaka, Balances with MMA, Cash in hand and balances with banks.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. Accordingly, the Bank has irrevocably elected to present subsequent changes in fair value in OCI.

Financial assets designated at FVOCI comprise Bank’s investments in Equity shares.

All other financial assets are classified as measured at FVTPL.

Financial assets mandatorily measured at FVTPL comprise Bank’s money market placements and some Wakala and Mudharabah/ Murabaha placements which are not SPPI on the principal outstanding.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Financial Instruments (Continued)

(ii) Classification (Continued)

Business Model Assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual profit revenue, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;

- How the performance of the portfolio is evaluated and reported to the Bank's management;

- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

- How managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Assessment Whether Contractual Cash Flows are Solely Payments of Principal and Profit

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Profit' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and profit, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, The Bank considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- Features that modify consideration of the time value of money- e.g. periodical reset of profit rates.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Financial Instruments (Continued)

(ii) Classification (Continued)

Assessment Whether Contractual Cash Flows are Solely Payments of Principal and Profit (Continued)

The Bank holds a portfolio of long-term fixed rate financing for which the Bank has the option to propose to revise the profit rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the finance at par without penalty. The Bank has determined that the contractual cash flows of these financing are solely payments of principal and profit because the option varies the profit rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Classification - Policy Applicable before 1st January 2018

The Bank classified its financial assets into one of the following categories:

(a) Financing receivable
(b) Held to maturity
(c) Available-for-sale

The Bank classifies its financial liabilities, other than financial guarantees and finance commitments, as measured at amortised cost.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

(iii) De-Recognition

Financial Assets

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.

On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset de-recognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

From 1st January 2018 any cumulative gain/ loss recognised in OCI in respect of equity investment securities designated at FVOCI is not recognised in profit or loss on de-recognition of such securities, as explained in Note 3.13.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Financial Instruments (Continued)

(iii) De-Recognition (Continued)

Financial Assets (Continued)

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.

Financial Liabilities

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

(iv) 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.

(v) Fair Value Measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or. in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Financial Instruments (Continued)

(v) Fair Value Measurement (Continued)

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the Bank determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value. Adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(vi) Impairment

Policy Applicable from 1st January 2018

The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

• Financial assets that are debt instruments;
• Financial guarantee contracts issued; and
• Finance commitments issued.

No impairment loss is recognised on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- Other financial instruments on which credit risk has not increased significantly since their initial recognition (see Note 34 (i) (c).

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 inancial Instruments (Continued)

vi. Impairment (Continued)

Policy Applicable from 1st January 2018 (Continued)

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);

- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;

- Undrawn financecommitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and

- Financial guarantee contracts, letter of credits and bills and acceptance: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Credit-Impaired Financial Assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired (referred to as ‘stage 3 financial assets’). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a finance or advance by the Bank on terms that the Bank would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial re-organisation; or
- The disappearance of an active market for a security because of financial difficulties.

A financing facility that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a financing facilities provided to the customers that are overdue for 90 days or more is considered credit impaired.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Financial Instruments (Continued)

vi. Impairment (Continued)

Policy Applicable from 1st January 2018 (Continued)

Credit-Impaired Financial Assets (Continued)

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the statement financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;

- Finance commitments, financial guarantee contracts, letter of credits and bills and acceptance: generally, as a provision;

- Where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the finance commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and

Write-off

Financing and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of Comprehensive Income.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Financial Instruments (Continued)

(vi) Impairment (Continued)

Policy Applicable from 1st January 2018 (Continued)

Non-Integral Financial Guarantee Contracts

The Bank assesses whether a financial guarantee contract held is an integral element of a financial asset that is accounted for as a component of that instrument or is a contract that is accounted for separately. The factors that the Bank considers when making this assessment include whether:

- The guarantee is implicitly part of the contractual terms of the debt instrument;
- The guarantee is required by laws and regulations that govern the contract of the debt instrument;
- The guarantee is entered into at the same time as and in contemplation of the debt instrument; and
- The guarantee is given by the parent of the borrower or another company within the borrower's Group.

If the Bank determines that the guarantee is an integral element of the financial asset, then any premium payable in connection with the initial recognition of the financial asset is treated as a transaction cost of acquiring it. The Bank considers the effect of the protection when measuring the fair value of the debt instrument and when measuring ECL.

If the Bank determines that the guarantee is not an integral element of the debt instrument, then it recognises an asset representing any prepayment of guarantee premium and a right to compensation for credit losses. A prepaid premium asset is recognised only if the guaranteed exposure neither is credit-impaired nor has undergone a significant increase in credit risk when the guarantee is acquired. These assets are recognised in 'other assets'. The Bank presents gains or losses on a compensation right in profit or loss in the line item 'impairment losses on financial instruments'.

Policy applicable before 1st January 2018

Identification and Measurement of Impairment

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

Specific financing Loss Provision Requirement

Specific provision for impairment of financing is recognized in accordance with Prudential Regulations No. 05 – 2009 promulgated by Maldives Monetary Authority and provisions shall be made against all classified financing receivable 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%

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Financial Instruments (Continued)

(vi) Impairment (Continued)

Policy Applicable before 1st January 2018 (Continued)

Specific financing Loss Provision Requirement (Continued)

Provisions above are calculated against the gross 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 6th June 2012 and expiring on 5th 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 25th August 2015, specific 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 Profit 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%

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Financial Instruments (Continued)

(vi) Impairment (Continued)

Policy Applicable before 1st January 2018 (Continued)

General financing Loss Provision Requirement

A general provision on the total unimpaired 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 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 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 financing repayment), the previously recognized impairment loss is reversed by adjusting the allowance account. Amounts recovered from fully impaired financing receivable 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Financial Instruments (Continued)

(vi) Impairment (Continued)

Policy Applicable before 1st January 2018 (Continued)

Impairment of Available-for-Sale Investment (Continued)

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.

3.11 Cash and Cash Equivalents

"Cash and cash equivalents" include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3.12 Receivable from Financing Activities

Policy Applicable from 1st January 2018

'Net Receivables from Financing Activities' caption in the statement of financial position include:

- Financing receivable measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective profit method;

'Investments in Other Financial Instruments' caption in the statement of financial position include the financing receivable provided to customers in which:

- Financing receivable mandatorily measured at FVTPL; these are measured at fair value with changes recognised immediately in profit or loss;

The Bank has the following 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 Receivable from Financing Activities (Continued)

Policy Applicable from 1st January 2018 (Continued)

(a) 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, the 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.

(b) 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.

(c) 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.

(d) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 Receivable from Financing Activities (Continued)

Policy Applicable before 1st January 2018

Financing receivable 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, Education Financing, Investment in Placements and other Receivables.

3.13 Investment in Securities

Policy applicable from 1st January 2018

The investment in equity securities' caption in the statement of financial position includes:

- Equity investment securities designated as at FVOCI.

The Bank elects to present in OCI changes in the fair value of the Bank's investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

Policy applicable before 1st January 2018

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Investment in Securities (Continued)

Policy applicable before 1st January 2018

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.

3.14 Deposits and other financial liabilities (Non- derivative)

Deposits are the Bank's main source of debt funding

Deposits are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective profit method,

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.14 Deposits and other financial liabilities (Non- derivative) (Continued)

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 and 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

3.15 Financial Guarantees and Finance Commitments

"Financial guarantees" are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. 'Finance commitments' are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a finance at a below-market profit rate are initially measured at fair value. Subsequently, they are measured as follows:

- From 1st January 2018: at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15; and

- Before 1st January 2018: at the higher of the amount representing the initial fair value amortised over the life of the guarantee or the commitment and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 Financial Guarantees and Finance Commitments (Continued)

The Bank has issued no finance commitment that are measured at FVTPL.

For other finance commitments:

- From 1st January 2018: the Bank recognises loss allowance;
- Before 1st January 2018: the Bank recognises a provision in accordance with IAS 37 if the contract was considered to be onerous.

Liabilities arising from financial guarantees and finance commitments are included within provisions.

3.16 Share Capital

Ordinary Shares

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

3.17 Property and Equipment

(a) 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.

(b) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.17 Property and Equipment (Continued)

(c) 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.

(d) 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	20 Years or over lease period whichever is lower
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.

3.18 Intangible Assets

(a) Recognition and Measurement

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

Expenditure on internally developed software is recognised as an asset when the bank is able to demonstrate, that the product is technically feasible, its intention and ability to complete the development and use the software in a manner that will generate future economic benefits and that it can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software, and are amortised over its useful life. Internally develop software is stated at capitalised cost less accumulated amortisation and any accumulated impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.18 Intangible Assets (Continued)

(b) 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.

(c) 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.

(d) 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

3.19 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.20 Provisions

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

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

3.21 Employee Benefits

(a) Short-Term Benefits

Short-term employee benefit obligations of the Bank are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash 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.

(b) 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.

3.22 Operating Expenses

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

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

3.23 Earnings per share

The Bank presents basic and diluted EPS data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss that is attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. The basic and diluted EPS are same.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.24 Segment reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to transactions with any of the Bank's other components, whose operating results are regularly reviewed by the Bank's chief operating decision maker ("CODM") to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Bank's Management Committee (being the CODM) include items that are directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets. Head office expenses and tax assets and liabilities.

3.25 Dividend Payable

Final dividend payable is recognized at the time the dividend recommended and declared by the Board is approved by the shareholders. Interim dividend payable is recognized when the Board approves such dividend in accordance with the Companies Act No 10 of 1996 and Maldives Banking Act No 24 of 2010.

Dividends for the year that are declared after the reporting date are disclosed in the financial statements as an event after the reporting period, if applicable.

4. NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

A number of new standards are effective for annual periods beginning after 1st January 2018 and earlier application is permitted; however, the Bank has not early adopted the new or amended standards in preparing these financial statements.

Of those standards that are not yet effective. IFRS 16 is expected to have a material impact on the Bank's financial statements in the period of initial application.

(a) IFRS 16 Leases

The Bank is required to adopt IFRS 16 Leases from 1st January 2019. The Bank is still in the process of assessing the estimated impact.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard - i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, *IFRIC 4 Determining whether an Arrangement contains a Lease. SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.*

4. NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS (CONTINUED)

(a) IFRS 16 Leases (Continued)

(i) Leases in which the Bank is a lessee

The Bank has completed an initial assessment of the potential impact on its financial statements but has not yet completed its detailed assessment. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions. The development of the Bank's lease portfolio, the Bank's assessment of whether it will exercise any lease renewal options and the extent to which the Bank chooses to use practical expedients and recognition exemptions.

The Bank will recognise new assets and liabilities for its operating leases facilities. The nature of expenses related to those leases will now change because IFRS 16 replaces the straight line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Bank recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

(ii) Transition

The Bank plans to apply IFRS 16 initially on 1st January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1st January 2019, with no restatement of comparative information.

The Bank plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1st January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

(b) Other Standards

The following amended standards and interpretations are not expected to have a significant impact on the Bank's financial statements.

Title	Description	Effective date
IFRIC 23	Uncertainty over Income Tax Treatments	Annual period beginning on or after 1st January 2019.
Annual Improvements to IFRS standards 2015-2017	Miscellaneous improvements to the IFRSs Amendments to IFRSs 3 & 11, IASs 12 & 23)	Annual period beginning on or after 1st January 2019.

5 OPERATING SEGMENT

(a) Basis for segmentation

The Bank has the following three strategic divisions, which are reportable segments. These divisions offer different products and services, and are managed separately based on the Bank's management and internal reporting structure.

Reportable segments	Operations
Corporate Banking	Receivable from financing activities, deposits and other transactions and balances with corporate customers and retails customers.
ATM Card and Electronic Banking	Issuing card and managing POS, ATM, Internet Banking services & mobile banking services
Treasury	Funding and centralised risk management activities through borrowings, investing in securities and investing in liquid assets such as short term placements and government debt securities

The Bank's Management Committee reviews internal management reports from each division at least monthly.

(b) Information about reportable segments

Information related to each reportable segment is set out below. Segment profit before tax, as included in internal management reports reviewed by the Bank's Management Committee, is used to measure performance because management believes that this information is the most relevant in evaluating the results of the respective segments relative to other entities that operate within the same industries.

	Corporate and Retail Banking	Card and Electronic Banking	Treasury	Unallocated	Total
31st December 2018	**MVR**	**MVR**	**MVR**	**MVR**	**MVR**
Net Profit Earned from Financing Activities	112,618,255	-	35,648,505	-	148,266,760
Net Fee and Commission Income	16,991,578	3,955,557	-	-	20,947,135
Other Operating Income	35,270	-	5,341,000	-	5,376,270
Total Operating Income	129,645,103	3,955,557	40,989,505	-	174,590,165
Impairment Expenses	(4,241,584)	-	-	-	(4,241,584)
Operating Expenses	(29,570,460)	(2,488,229)	(3,124,046)	(62,363,303)	(97,546,038)
Profit Before Tax	95,833,059	1,467,328	37,865,459	(62,363,303)	72,802,543
Income Tax	-	-	-	(20,252,078)	(20,252,078)
Profit for the Year	95,833,059	1,467,328	37,865,459	(82,615,381)	52,550,465
Total Assets	2,338,973,786	7,030,941	848,061,076	88,077,765	3,282,143,568
Total Liabilities	2,893,910,779	-	-	47,232,295	2,941,143,074
31st December 2017					
Net Profit Earned from Financing Activities	90,060,838	-	37,462,191	-	127,523,029
Net Fee and Commission Income	14,557,363	3,667,342	-	-	18,224,705
Other Operating Income	149,001	-	1,441,000	-	1,590,001
Total Operating Income	104,767,202	3,667,342	38,903,191	-	147,337,735
Impairment Expenses	(9,189,044)	-	-	-	(9,189,044)
Total Operating Expenses	(25,826,601)	(2,251,154)	(181,494)	(55,898,710)	(84,157,959)
Profit Before Tax	94,935,134	3,667,342	38,903,191	(83,514,935)	53,990,732
Income Tax	-	-	-	(13,936,433)	(13,936,433)
Profit for the Year	94,935,134	3,667,342	38,903,191	(97,451,368)	40,054,299
Total Assets	2,032,776,967	4,127,558	654,328,659	76,868,463	2,768,101,647
Total Liabilities	2,443,495,257	4,109	-	26,756,786	2,470,256,152

6 CASH AND BALANCES WITH OTHER BANKS

	31/12/2018 MVR	31/12/2017 MVR
Cash in Hand **(Note 6.1)**	100,637,874	106,790,283
Balances with Other Banks **(Note 6.2)**	126,479,858	102,875,368
	227,117,732	209,665,651

6.1 Cash in Hand

	As at 31st December 2018			As at 31st December 2017		
	Foreign Currency	Exchange Rate	Carrying Amount	Foreign Currency	Exchange Rate	Carrying Amount
USD	1,065,202	15.395	16,398,785	1,570,557	15.395	24,178,725
MVR	-	-	84,239,089	-	-	82,611,558
Total			100,637,874			106,790,283

6.2 Balances with Other Banks

	As at 31st December 2018			As at 31st December 2017		
	Foreign Currency	Exchange Rate	Carrying Amount MVR	Foreign Currency	Exchange Rate	Carrying Amount MVR
HAB (USD)	6,433,808	15.395	99,048,478	4,033,837	15.395	62,100,917
AB Bank (USD)	964	15.395	14,840	-	-	-
BML (USD)	596,924	15.395	9,189,639	622,662	15.395	9,585,876
BML (MVR)	-	-	16,469,611	-	-	30,006,164
SBI (USD)	40,211	15.395	619,048	211	15.395	3,248
SBI (MVR)	-	-	1,138,242	-	-	1,179,163
Total			126,479,858			102,875,368

The Bank has its Nostro Account at Habib American Bank - New York (HAB). This account is used to facilitate its foreign remittance and trade finance activities.

	31/12/2018 MVR	31/12/2017 MVR
Cash and Balances with Banks as per the Statement of Financial Position	227,117,732	209,665,651
Add: Balance with MMA in excess of Minimum Reserve Requirement	297,091,224	413,466,779
Cash and Cash Equivalents as per the Cash Flow Statement	524,208,956	623,132,430

7 BALANCES WITH MALDIVES MONETARY AUTHORITY

	31/12/2018 MVR	31/12/2017 MVR
Minimum Reserve Requirement (MRR) **(Note 7.1)**	285,522,516	235,404,200
Balance in Excess of MRR with MMA **(Note 7.2)**	297,091,224	413,466,779
Total	582,613,740	648,870,979

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

8 INVESTMENTS IN EQUITY SECURITIES

	31/12/2018 MVR	31/12/2017 MVR
Investment Securities Designated at FVOCI - Equity Investments **(Note 8.1)**	53,500,000	-
Available-for-Sale Investment Securities **(Note 8.2)**	-	52,200,000
	53,500,000	52,200,000

8.1 Investment Securities Designated at FVOCI - Equity Investments

As at 01st January 2018, the Bank designated certain investments shown in the following table as equity securities at FVOCI. In 2017, these investments were classified as available-for-sale and measured at fair value. The FVOCI designation was made because the investments are expected to be held for the long-term for strategic purposes.

	Fair Value as at 31st December 2018 MVR	Dividend Income Recognized for the Year MVR
Investment in Equity Shares - Ooredoo Maldives PLC	45,500,000	4,160,000
Investment in Equity Shares - Dhivehi Rajjeyge Gulhun PLC	8,000,000	1,181,000
	53,500,000	5,341,000

	Ooredoo Maldives PLC MVR	Dhivehi Raajjeyge Gulhun PLC MVR	Total MVR
As at 01st January 2018	44,200,000	8,000,000	52,200,000
Change in Fair Value during the Year	1,300,000	-	1,300,000
As at 31st December 2018	45,500,000	8,000,000	53,500,000

Equity Investment Securities Designated at FVOCI are the investment made in quoted shares of Dhivehi Rajjeyge Gulhun PLC ("Dhiraagu") and Ooredoo Maldives PLC ("Ooredoo"). The investment in Dhiraagu 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 80/- each (2017: MVR 80/-). The investment in Ooredoo comprised of 1,300,000 shares with nominal value of MVR 1/- which were purchased at MVR 30/- per share. As at the reporting date, the shares were valued at MVR 35/- each (2017: MVR 34/-).

None of these strategic investments was disposed of during 2018, and there were no transfers of any cumulative gain or loss within equity relating to these investments. The change in fair value on these investments was MVR 1,300,000/- in 2018 (2017: MVR 5,100,000/-)

8.2 Available-For-Sale Investment Securities

	31/12/2018 MVR	31/12/2017 MVR
As at 01st January	-	8,100,000
Additions during the Year	-	39,000,000
Change in Fair Value during the Year	-	5,100,000
At the end of the Year	-	52,200,000

8.3 Fair Value Reserve

	31/12/2018 MVR	31/12/2017 MVR
As at 01st January	3,925,000	75,000
Other Comprehensive Income	1,300,000	5,100,000
Recognition of Deferred Tax Impact	(350,000)	(1,250,000)
At the end of the Year	4,875,000	3,925,000

9 INVESTMENTS IN OTHER FINANCIAL INSTRUMENTS

	31/12/2018 MVR	31/12/2017 MVR
Investments Mandatorily Measured at FVTPL **(Note 9.1)**	765,790,786	-
Investments Measured at Amortized Cost **(Note 9.2)**	28,770,290	-
Investments Measured at Held to Maturity **(Note 9.1)**	-	602,128,659
	794,561,076	602,128,659

9 INVESTMENTS IN OTHER FINANCIAL INSTRUMENTS (CONTINUED)

9.1 Investments in Other Financial Instruments Mandatorily Measured at FVTPL

Investments in other financial instruments represents wakalah, Musharaka and Mudharabah placements where the return is linked to the profit of the borrower. Since this criteria doesn't meet the requirement of SPPI as per the "IFRS 09 - Financial Instruments", these financial instruments are reclassified as FVTPL. These investments have been classified as Held to Maturity as at 31st December 2017.

	Invested Currency	Contract Type	Country	Maturity	Indicative Rate	31/12/2018 MVR	31/12/2017 MVR
HDFC, Maldives **(Note 9.3)**	MVR	Wakalah	Maldives	1 Year	7% - 8.5%	30,617,534	30,283,497
Treasury Bills	MVR	Mudharabah	Maldives	91 Days	5.5% - 8%	709,202,983	544,236,945
ICD Money Market **(Note 9.4)**	USD	Musharakah	Malaysia	On Demand	4.54%	25,970,269	27,758,217
						765,790,786	602,278,659
Less :							
General Provision on Placement with HDFC as per MMA Requirement						-	(150,000)
Net Investment in Placements						765,790,786	602,128,659

9.2 Investments in Other Financial Instruments Measured at Amortized Cost

	Invested Currency	Contract Type	Country	Maturity	Indicative Rate	31/12/2018 MVR	31/12/2017 MVR
Treasury Bills	MVR	Murabaha	Maldives	1 Year	5.5%	28,770,290	-

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

9.4 Fair Value Loss on Other Financial Instruments Mandatorily Measured at FVTPL

	31/12/2018 MVR	31/12/2017 MVR
Opening Balance	27,758,217	27,758,217
Profit Accrued during the Year	1,081,548	-
Less: Fair Value Loss Recognized during the Year	(2,869,496)	-
Balance at the end of the Year	25,970,269	27,758,217

10 NET RECEIVABLES FROM FINANCING ACTIVITIES

	31/12/2018 MVR	31/12/2017 MVR
Receivables from Financing Activities Measured at Amortized Cost **(Note 10.1)**	1,547,134,020	1,190,294,735
Less: Impairment Loss Allowance **(Note 10.2)**	(17,891,708)	(18,285,143)
Net Receivable from Financing Activities	1,529,242,312	1,172,009,592

10.1 Receivables from Financing Activities Measured at Amortized Cost

Education Financing	2,539,850	1,236,238
Murabaha	625,562,011	588,894,823
Istisna'a	395,670,789	327,122,016
Diminishing Musharaka	523,361,370	273,041,658
Total Gross Receivables from Financing Activities	1,547,134,020	1,190,294,735
Less: Impairment Loss Allowance		
Specific Financing Loss Provision	(7,532,031)	(11,353,625)
General Financing Loss Provision	(10,359,677)	(5,815,995)
Impairment Loss Allowance	(17,891,708)	(17,169,620)
Profit in Suspense	-	(1,115,523)
	(17,891,708)	(18,285,143)
Net Receivables from Financing Activities	1,529,242,312	1,172,009,592

10 NET RECEIVABLES FROM FINANCING ACTIVITIES (CONTINUED)

10.2 Impairment Loss Allowance Previously Recognized

	31/12/2017 MVR
Opening Balance	7,980,576
Provision Made during the Year	9,189,044
Closing Balance	17,169,620

10.3 Movement in Impairment Allowance with Adoption of IFRS 09

	31/12/2018 MVR
Opening Balance	18,285,143
Opening Adjustment to Impairment Provision due to the Adoption of IFRS 09 over the Financing Assets	(4,641,006)
Opening Impairment Provision as per IFRS 09	13,644,137
Transfer of Profit in Suspense	195,644
Impairment Expenses Recognized during the Year for on Balance Sheet Exposure	4,051,927
	17,891,708

10.4 Receivables from Financing Activities Measured at Amortized Cost

	31/12/2018			31/12/2017		
	Gross Carrying Amount	ECL Allowance	Net Carrying Amount	Gross Amount	Impairment Allowance	Carrying Amount
	MVR	MVR	MVR	MVR	MVR	MVR
Education Financing	2,539,850	54,406	2,485,444	1,236,238	6,174	1,230,064
Murabaha	625,562,011	17,098,427	608,463,584	588,894,823	11,838,805	577,056,018
Istisna'a	395,670,789	554,196	395,116,593	327,122,016	3,220,413	323,901,603
Diminishing Musharaka	523,361,370	184,679	523,176,691	273,041,658	2,104,228	270,937,430
Total Collective Provision	1,547,134,020	17,891,708	1,529,242,312	1,190,294,735	17,169,620	1,173,125,115
Less: Profit in Suspense	-	-	-	-	-	(1,115,523)
Net Financing	1,547,134,020	17,891,708	1,529,242,312	1,190,294,735	17,169,620	1,172,009,592

10.5 Net Impairment Loss on Financial Assets

	31/12/2018 MVR
Impairment Expenses Recognized during the Year for on Balance Sheet Exposure **(Note 10.3)**	4,051,927
Impairment Expenses Recognized during the Year for off Balance Sheet Exposure **(Note 15)**	189,657
	4,241,584

11 PROPERTY AND EQUIPMENT

11.1 Gross Carrying amount

Gross Carrying amount	As at 01/01/2018 MVR	Additions MVR	Disposals MVR	As at 31/12/2018 MVR
Leasehold Building	11,875,479	843,154	-	12,718,633
Computer Equipment	18,459,953	1,482,675	-	19,942,628
Furniture	3,445,521	275,080	-	3,720,601
Office Equipment	10,193,909	5,030,959	-	15,224,868
Total Gross Carrying Amount	43,974,862	7,631,868	-	51,606,730

11.2 Capital Work in Progress

Capital Work in Progress	As at 01/01/2018 MVR	Incurred During the Year MVR	` During the Year MVR	As at 31/12/2018 MVR
Leasehold Building	227,820	2,538,345	(7,200)	2,758,965
Computer Equipment	562,378	6,899,333	(207,930)	7,253,781
Furniture	-	1,131,624	-	1,131,624
Office Equipment	508,073	1,139,283	(552,676)	1,094,680
	1,298,271	11,708,585	(767,806)	12,239,050

Capital work in progress represents the amount incurred by the Bank for the new head office, which is under development at H. Medhuziyaaraidhoshuge, Male' Republic of Maldives.

11.3 Accumulated Depreciation

Accumulated Depreciation	As at 01/01/2018 MVR	Charge for the Year MVR	Released for the Year MVR	As at 31/12/2018 MVR
Leasehold Building	4,836,067	1,047,031	-	5,883,098
Computer Equipment	12,371,443	2,898,144	-	15,269,587
Furniture	1,796,264	530,208	-	2,326,472
Office Equipment	6,386,426	1,724,151	-	8,110,577
Total Accumulated Depreciation	25,390,200	6,199,534	-	31,589,734
Net Book Value	**19,882,933**			**32,256,046**

11.4 Gross Carrying Amount

Gross Carrying Amount	As at 01/01/2017 MVR	Additions MVR	Disposals MVR	As at 31/12/2017 MVR
Leasehold Building	7,565,071	4,310,408	-	11,875,479
Computer Equipment	15,137,430	3,322,523	-	18,459,953
Furniture	2,412,929	1,032,592	-	3,445,521
Office Equipment	8,285,545	1,908,364	-	10,193,909
Total Gross Carrying Amount	33,400,975	10,573,887	-	43,974,862

11 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

11.5 Capital Work in Progress

	As at 01/01/2017 MVR	Additions MVR	Transfers During the Year MVR	As at 31/12/2017 MVR
Leasehold Building	57,876	169,944	-	227,820
Computer Equipment	774,791	165,685	(378,098)	562,378
Office Equipment	635,268	42,164	(169,359)	508,073
	1,467,935	377,793	(547,457)	1,298,271

11.6 Accumulated Depreciation

	As at 01/01/2017 MVR	Charged for the Year MVR	Released for the Year MVR	As at 31/12/2017 MVR
Leasehold Building	3,971,586	864,481	-	4,836,067
Computer Equipment	9,595,429	2,776,014	-	12,371,443
Furniture	1,321,031	475,233	-	1,796,264
Office Equipment	5,342,921	1,043,505	-	6,386,426
Total Accumulated Depreciation	20,230,967	5,159,233	-	25,390,200
Net Book Value	**14,637,943**			**19,882,933**

12 INTANGIBLE ASSETS

12.1 Gross Carrying Amount

	As at 01/01/2018 MVR	Additions MVR	Disposals MVR	As at 31/12/2018 MVR
Core Banking and Database Software	15,872,902	2,309,250	-	18,182,152
Other Computer Software	3,434,922	41,128	-	3,476,050
Total Gross Carrying Amount	19,307,824	2,350,378	-	21,658,202

12.2 Software Work in Progress

	As at 01/01/2018 MVR	Incurred During the Year MVR	Transfers During the Year MVR	As at 31/12/2018 MVR
Core Banking and Database Software	-	249,052	-	249,052
	-	249,052	-	249,052

Software work in progress represents, advance payments made by the bank to acquire core banking and database software (SWIFT platform).

12.3 Accumulated Amortization

	As at 01/01/2018 MVR	Charged for the Year MVR	Disposals for the Year MVR	As at 31/12/2018 MVR
Core Banking and Database Software	11,603,076	1,434,603	-	13,037,679
Other Computer Software	2,919,603	215,581	-	3,135,184
Total Accumulated Amortization	14,522,679	1,650,184	-	16,172,863
Net Book Value	**4,785,145**			**5,734,391**

12 INTANGIBLE ASSETS (CONTINUED)

12.4 Gross Carrying Amount

	As at 01/01/2017 MVR	Additions MVR	Disposals MVR	As at 31/12/2017 MVR
Core Banking and Database Software	15,139,162	733,740	-	15,872,902
Other Computer Software	3,296,025	138,897	-	3,434,922
Total Gross Carrying Amount	18,435,187	872,637	-	19,307,824

12.5 Software Work in Progress

	As at 01/01/2017 MVR	Incurred During the Year MVR	Transfers During the Year MVR	As at 31/12/2017 MVR
Core Banking and Database Software	531,646	71,236	(602,882)	-
	531,646	71,236	(602,882)	-

12.6 Accumulated Amortization

	As at 01/01/2017 MVR	Charged for the Year MVR	Disposals for the Year MVR	As at 31/12/2017 MVR
Core Banking and Database Software	9,302,442	2,300,634	-	11,603,076
Other Computer Software	2,651,599	268,004	-	2,919,603
Total Accumulated Amortization	11,954,041	2,568,638	-	14,522,679
Net Book Value	**7,012,792**			**4,785,145**

13 OTHER ASSETS

	31/12/2018 MVR	31/12/2017 MVR
Refundable Deposits	1,833,338	1,319,757
Prepayments **(Note 13.1)**	7,365,049	5,521,624
Advance Payments Against Financing Assets **(Note 13.2)**	42,997,702	48,008,936
Other Receivables	889,130	1,477,626
Goods in Transit **(Note 13.3)**	4,033,052	2,230,745
	57,118,271	58,558,688

13.1 Prepayments include MVR 5,293,483/- paid as advance lease rental for the assets under construction. (2017: MVR 2,801,991/-)

13.2 Advance payments against financing assets comprise of advance payments made to suppliers for procurement of goods under Trade Finance facilities.

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

14 CUSTOMERS' ACCOUNTS

	31/12/2018 MVR	31/12/2017 MVR
Current Accounts	988,525,685	935,315,906
Saving Accounts	993,169,619	806,824,043
General Investment Accounts	873,529,859	611,902,050
Margin Accounts	26,419,741	83,783,735
	2,881,644,904	2,437,825,734

15 PROVISIONS

	31/12/2018 MVR	31/12/2017 MVR
Opening Provision on Undrawn Credit Facilities due to Adoption of IFRS 09	736,472	-
Provision Made During the Year - Undrawn Credit Facilities	189,657	-
Closing Balance	926,129	-

15.1 The Bank requires to recognize an impairment provision on undrawn credit facilities with the adoption of IFRS 09. The above represents the ECL provision recognized by the Bank for undrawn credit facilities.

16 OTHER LIABILITIES

	31/12/2018 MVR	31/12/2017 MVR
Accrued Expenses	2,917,820	2,523,431
Pension Payable	364,831	317,121
Payable to Suppliers	7,221,244	3,101,138
Prepaid Income	-	2,289,158
Cashiers Cheque	2,998,539	1,512,867
Charity Funds from Financing	2,024,562	1,185,876
Retention on Istisna'a Projects	431,440	431,440
Dividend Payable	10,080,000	-
Other Liabilities	8,091,877	3,500,814
	34,130,313	14,861,845

17 SHARE CAPITAL

	31/12/2018 MVR	31/12/2017 MVR
Authorized 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 (2017 - 180,000 Shares)	180,000,000	180,000,000

17 SHARE CAPITAL (CONTINUED)

17.1 Islamic Corporation for the Development of the Private Sector (ICD), The Government of Maldives, and Amana Takaful Maldives PLC have subscribed 70%, 25% and 5% respectively for the Bank's issued and fully paid share capital as at 31st December 2018. 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. A dividend of MVR 80/- per share has been declared by the Board of Directors for the year ended 31st December 2018 (2017 : Nil).

17.2 Issued and Fully Paid Up Share Capital

	31/12/2018			31/12/2017		
Name of the Shareholders	**No. of Shares**	**Value of Shares MVR '000'**	**%**	**No. of shares**	**Value of Shares MVR '000'**	**%**
ICD	126,000	126,000	70%	126,000	126,000	70%
The Government of Maldives	45,000	45,000	25%	45,000	45,000	25%
Amana Takaful Maldives PLC	9,000	9,000	5%	9,000	9,000	5%
Total	180,000	180,000	100%	180,000	180,000	100%

17.3 The Bank has declared MVR 14,400,000/- (31st December 2017: Nil) during the year ended 31st December 2018 as dividends.

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

18 FAIR VALUE RESERVE

The fair value reserve comprises the cumulative net change in the fair value of investment securities measured at FVOCI net of tax (Before 1st January 2018, cumulative net change in the fair value of available-for-sale financial assets net of tax).

19 STATUTORY RESERVE

According to the Maldives Banking Act No 24/2010, the 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 Maldives Monetary Authority's ("MMA") prior approval. The Bank has transferred MVR 26,275,233/- during the year ended 31st December 2018 (2017: MVR 20,027,150/-).

20 NON-DISTRIBUTABLE CAPITAL RESERVE

According to the Maldives Monetary Authority ("MMA") guideline on financing receivable loss provisioning (CN-BSD/2017/8), the Bank has created a separate reserve to record the difference in impairment amounts provided between IFRS provision (IFRS 9 -"Financial Instruments") and impairment provision made in accordance with MMA guidelines (MMA Prudential Regulation 2015/R-168: Regulation on Asset Classification, Provisioning and Suspense

Provision for impairment as per MMA guidelines was higher than the ECL provision, in accordance with IFRS 09 an additional amount of MVR 7,708,794/- has been transferred to Non-distributable Capital Reserve as at 31st December 2018.

	31/12/2018 MVR
Impairment Provision as per MMA Prudential Regulation as at 31st December 2018	26,526,631
Impairment Provision as per IFRS 09 as at 31st December 2018 **(Note 10.1 and Note 15)**	18,817,837
Non-distributable Capital Reserve as at 31st December 2018	7,708,794

21 NET PROFIT EARNED FROM FINANCING ACTIVITIES

	2018 MVR	2017 MVR
Income from Financing Activities **(Note 21.1)**	144,671,427	111,375,422
Profit Paid on Customer Accounts **(Note 21.2)**	(32,053,172)	(21,314,584)
Net Profit Earn from Financing Activities	112,618,255	90,060,838

21.1 Income from Financing Activities - Measured at Amortized Cost

	2018 MVR	2017 MVR
Income from Education Financing	267,693	70,876
Income from Murabaha	69,538,132	59,607,718
Income from Istisna'a	38,293,296	31,870,173
Income from Diminishing Musharaka	36,572,306	19,826,655
Total Income from Finance Activities Using the Effective Profit Method	144,671,427	111,375,422

21.2 Profit Paid on Customer Accounts - Measured at Amortized Cost

	2018 MVR	2017 MVR
General Investment Accounts	23,739,493	14,497,505
Savings Accounts	8,313,679	6,817,079
Total Profit Paid on Customer Accounts	32,053,172	21,314,584

22 NET FEE AND COMMISSION INCOME

	2018 MVR	2017 MVR
Fee and Commission Income **(Note 22.1)**	21,646,884	18,806,488
Fee and Commission Expense **(Note 22.2)**	(699,749)	(581,783)
Net Fee And Commission Income	20,947,135	18,224,705

22.1 Disaggregation of Fee and Commission Income

In the following table, Fee and Commission Income from contracts with customers in the scope of IFRS 15 is disaggregated by major type of services. The table also includes a reconciliation of the disaggregated Fee and Commission Income with the Bank's reportable segments.

	Corporate and Retail Banking		ATM Card and Electronic Banking		Total	
	2018 MVR	2017 MVR	2018 MVR	2017 MVR	2018 MVR	2017 MVR
Banking Services	1,987,297	1,177,169	-	-	1,987,297	1,177,169
Trade Finance Services	2,647,181	2,004,145	-	-	2,647,181	2,004,145
Remittances	13,011,188	11,746,190	-	-	13,011,188	11,746,190
ATM, POS, Faisa Net and Gateway services	-	-	3,955,557	3,667,342	3,955,557	3,667,342
Other Fees and Commissions Income	45,661	211,642	-	-	45,661	211,642
Total Fee and commission income from contracts with customers	17,691,327	15,139,146	3,955,557	3,667,342	21,646,884	18,806,488

22.2 Fee and Commission Expense

Fund Transfer Expenses	699,749	581,783	-	-	699,749	581,783
	699,749	581,783	-	-	699,749	581,783

23 FOREIGN EXCHANGE GAIN

	2018 MVR	2017 MVR
Foreign Exchange Gain	35,270	149,001

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

24 INCOME FROM INVESTMENTS IN EQUITY SECURITIES

	2018 MVR	2017 MVR
Dividend Income from Investment Measured at FVOCI	5,341,000	-
Dividend Income from Investment Measured at AFS	-	1,441,000
	5,341,000	1,441,000

The dividend income represents the dividend received during the year from investments in the quoted shares of Dhivehi Raajjeyge Gulhun PLC ("Dhiraagu") and Ooredoo Maldives PLC ("Ooredoo"). The dividend income includes, for Dhiraagu, MVR 5.96/- per share as interim dividend for 2018 and MVR 5.85/- per share as final dividend for 2017 (2017: Interim of MVR 5.96/- for 2017 and final of MVR 8.45/- for 2016), for Oordoo, MVR 3.20/- per share as the final dividend for 2017.

25 NET INCOME FROM FINANCIAL INSTRUMENTS MANDATORILY MEASURED AT FVTPL

	2018 MVR	2017 MVR
Wakala/ Musharakah Placement Income	2,760,794	-
Mudharabah/ Murabaha Income Mandatorily Measured at FVTPL	30,463,496	-
Income from the ICD Money Market Investment	793,586	-
	34,017,876	-

26 INCOME FROM INVESTMENT MEASURED AT AMORTIZED COST

	2018 MVR	2017 MVR
Wakala/ Musharakah Placement Income	-	3,882,111
Mudharabah/ Murabaha Facilities	1,630,629	33,580,080
	1,630,629	37,462,191

27 PERSONNEL EXPENSES

	2018 MVR	2017 MVR
Salaries and Wages	35,527,951	31,832,163
Contribution to Defined Contribution Plans	2,085,167	1,755,108
Housing Allowance	5,282,419	4,507,521
Executive Allowance	216,000	162,000
Annual and Ramadhan Bonus	5,304,181	4,351,594
Training and Development	1,137,517	938,979
Medical Insurance	1,225,554	1,049,291
Uniforms	375,526	766,131
Other Staff Expenses	877,615	941,781
	52,031,930	46,304,568

28 GENERAL AND ADMINISTRATIVE EXPENSES

	2018 MVR	2017 MVR
Rent Expense	10,585,487	9,104,284
Technology Related Expenses	5,241,925	4,303,862
Electricity Expenses	2,805,480	2,734,999
Premises Security and Insurance	2,252,160	1,914,392
Connectivity and Internet Charges	2,682,811	2,048,726
Financing Related Expenses	188,777	643,024
Stationary Costs	1,863,272	1,991,598
Legal and Professional Expenses	1,602,949	1,063,572
Travelling Expenses	663,846	676,459
Directors Allowance and Board Related Expenses	1,354,480	795,497
Marketing and Advertising Expenses	2,285,873	1,723,299
Sharia Board Related Expenses	406,414	419,450
Utility Expenses	916,829	845,578
Communication Expenses	707,474	644,551
Maintenance Expense	499,189	738,507
Other Operating Expenses	737,928	477,722
	34,794,894	30,125,520

29 DEPRECIATION AND AMORTISATION

	2018 MVR	2017 MVR
Depreciation on Property and Equipment	6,199,534	5,159,233
Amortisation on Intangible Assets	1,650,184	2,568,638
	7,849,718	7,727,871

30 INCOME TAX

	2018 MVR	2017 MVR
A. Amounts Recognised in Profit or Loss		
Current Tax **(Note 30.1)**	18,943,626	13,728,923
Additional Tax Expense Recognized due to Adoption of IFRS 09	1,153,429	-
Deferred Tax Liability **(Note 30.3)**	155,023	207,510
	20,252,078	13,936,433
B. Amounts Recognised in Other Comprehensive Income		
Items that will not be reclassified to profit or loss;		
Deferred Tax Liability on Movement in Fair Value Reserve (Equity Instruments) **(Note 30.3)**	350,000	1,250,000

30.1 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 Maldives Inland Revenue Authority. A reconciliation between taxable profit and the accounting profit is as follows.

	2018 MVR	2017 MVR
Accounting Profit before Tax	72,802,543	53,990,732
Add: Aggregate Disallowable Items	12,091,302	16,916,915
Less: Aggregate Allowable Items	(9,119,339)	(15,991,956)
Taxable Income for the Year	75,774,506	54,915,691
Income Tax @ 25%	18,943,626	13,728,923

30 INCOME TAX (CONTINUED)

30.2 Current Tax Liability

	31/12/2018 MVR	31/12/2017 MVR
Opening Balance	13,728,923	15,322,498
Recognition of Additional Tax Expense due to the Adoption of IFRS 09	1,153,429	-
Current Tax for the Year	18,943,626	13,728,923
Tax Paid during the Year	(13,728,923)	(15,322,498)
Closing Balance	20,097,055	13,728,923

30.3 Deferred Tax Liability

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 and Equipment MVR	Intangible Assets MVR	Changes in Fair Value of FVOCI/ AFS Investments (Recognized in OCI) MVR	Total MVR
31st December 2018				
Deferred Tax Liability	1,817,205	902,468	1,625,000	4,344,673
Recognized in Profit or Loss	231,035	(76,012)	-	155,023
Other Comprehensive Income	-	-	350,000	350,000
31st December 2017				
Deferred Tax Liability	1,586,170	978,480	1,275,000	3,839,650
Recognized in Profit or Loss	382,449	(174,939)	-	207,510
Other Comprehensive Income	-	-	1,250,000	1,250,000

31 BASIC AND DILUTED EARNINGS PER SHARE

31.1 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 as at reporting date. Basic earnings per share is calculated as follows:

	2018 MVR	2017 MVR
Profit Attributable to Ordinary Shareholders (in MVR)	52,550,465	40,054,299
Weighted Average Number of Ordinary Shares	180,000	180,000
Basic and Diluted Earnings Per Share - MVR	291.95	222.52

31.2 Net Assets Per Share - MVR	1894.45	1,654.70

32 CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The following table provides a reconciliation between line items in the statement of financial position and categories of financial instruments.

31st December 2018	Note	Mandatorily at FVTPL	Designated at FVOCI - Equity Instruments	Amortized Cost	Total Carrying Amount
		MVR	MVR	MVR	MVR
Cash and Balances with Other Banks	**6**	-	-	227,117,732	227,117,732
Balances with Maldives Monetary Authority	**7**	-	-	582,613,740	582,613,740
Investments in Equity Securities	**8**	-	53,500,000	-	53,500,000
Investments in Other Financial Instruments	**9**	765,790,786	-	28,770,290	794,561,076
Net Receivables from Financing Activities	**10**	-	-	1,529,242,312	1,529,242,312
Other Assets	**13**	-	-	45,720,170	45,720,170
Total Financial Assets		765,790,786	53,500,000	2,413,464,244	3,232,755,030
Customers' Accounts	**14**	-	-	2,881,644,904	2,881,644,904
Other Liabilities	**16**	-	-	31,212,493	31,212,493
Total Financial Liabilities		**-**	**-**	2,912,857,397	2,912,857,397

31st December 2017	Note	Held-to-Maturity	Loans and Receivables	Available-for-Sale	Other Amortized Cost	Total Carrying Amount
		MVR	MVR	MVR	MVR	MVR
Cash and Balances with Other Banks	**6**	-	209,665,651	-	-	209,665,651
Balances with Maldives Monetary Authority	**7**	-	648,870,979	-	-	648,870,979
Available for Sale Investment: Equity Shares	**8**	-	-	52,200,000	-	52,200,000
Investments Held to Maturity	**9**	602,128,659	-	-	-	602,128,659
Net Receivables from Financing Activities	**10**	-	1,172,009,592	-	-	1,172,009,592
Other Assets	**13**	-	50,806,319	-	-	50,806,319
Total Financial Assets		602,128,659	2,081,352,541	52,200,000	-	2,735,681,200
Customers' Accounts	**14**	-	-	-	2,437,825,734	2,437,825,734
Other Liabilities	**16**	-	-	-	12,338,414	12,338,414
Total Financial Liabilities		-	-	-	2,450,164,148	2,450,164,148

33 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 and Compliance Unit (RMCU), which is responsible for developing and monitoring risk management policies.

The Bank's risk management policies are established to identify and analyze 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.

(i) 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 financing 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 RMCU.

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit Risk (Continued)

Management of Credit Risk

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 financing receivable 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 RMCU.

• 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 RMCU'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.

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit Risk (Continued)

(a) i. Credit Quality Analysis

The following table sets out information about the credit quality of financial assets measured at amortized cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For financing commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

	31/12/2018				31/12/2107
Receivable from Financing Activities Measured at Amortized Cost	**Stage 1 MVR**	**Stage 2 MVR**	**Stage 3 MVR**	**Total MVR**	**Total MVR**
Grade 1 - Low Risk (0 Days)	1,257,616,321	-	-	1,257,616,321	879,751,683
Grade 2 - Low Risk (1 - 30 Days)	128,216,116	-	-	128,216,116	152,541,294
Grade 3 - Fair Risk (31 - 60 Days)	-	112,841,454	-	112,841,454	110,145,123
Grade 4 - Fair Risk (61 - 89 Days)	-	9,799,226	-	9,799,226	10,222,991
Grade 5 - Default (Over 90 Days)	-	-	38,660,903	38,660,903	37,633,644
	1,385,832,437	122,640,680	38,660,903	1,547,134,020	1,190,294,735
Loss Allowance	(3,592,205)	(4,477,313)	(9,822,190)	(17,891,708)	(13,644,137)
Carrying Amount	1,382,240,232	118,163,367	28,838,713	1,529,242,312	1,176,650,598
Receivable from Financing Activities Measured at Amortized Cost - Gross Carrying Amount					
Current	1,257,616,321	-	-	1,257,616,321	878,928,333
Overdue < 30 Days	128,216,116	-	-	128,216,116	172,858,396
Overdue > 30 Days	-	122,640,680	38,660,903	161,301,583	138,508,006
Total	1,385,832,437	122,640,680	38,660,903	1,547,134,020	1,190,294,735
Financing Commitments					
Grades 1-4: Low-Fair Risk	284,713,010	3,929,848	-	288,642,858	354,247,493
Loss Allowance	(926,129)	-	-	(926,129)	(736,472)
Carrying Amount (Provision)	283,786,881	3,929,848	-	287,716,729	353,511,021

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit Risk (Continued)

(a) ii. Cash and Cash Equivalents

The Bank held cash and cash equivalents of MVR 524,208,956/- as at 31st December 2018 (31st December 2017 - MVR 623,132,430/-). The cash and cash equivalents are held with central banks and financial institution counterparties which have got minimum credit risk exposure.

(b) i. Collateral Held and Other Credit Enhancement

Type of credit exposure	Note	Percentage of Exposure that is Subject to Collateral Requirements 31/12/2018	Percentage of Exposure that is Subject to Collateral Requirements 31/12/2017	Principal Type of Collateral Held
Receivable from Financing Activities				
Education Financing		0%	0%	None
Murabaha		54%	68%	Land and property
Istisna'a		100%	100%	Land and property
Diminishing Musharaka		100%	100%	Land and property

ii. Finance-to-Value Ratio

The table below stratify credit exposure from finance and receivables to customers by range of finance-to-Value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the finance or the amount committed for finance commitments to the value of the collateral. The Value of the collateral for residential mortgage finance is based on the collateral value at origination updated to reflect the current market values. For credit-impaired finance the value of collateral is based on the most recent appraisals.

LTV Ratio	31/12/2018 MVR	31/12/2017 MVR
Less than 50%	461,091,053	448,565,319
51% - 70%	300,265,391	163,617,233
71% - 90%	263,920,550	283,621,710
91% - 100%	228,879,279	102,354,712
No Collateral	292,977,747	192,135,761
Total	1,547,134,020	1,190,294,735
Credit-impaired Financing		
Less than 50%	3,849,863	21,398,732
51% - 70%	3,505,206	449,152
More than 70%	26,932,164	26,354,644
No Collateral	9,621,325	4,262,758
	43,908,558	52,465,286

As at 31st December 2018, the Bank did not hold any financial instruments for which no loss allowance is recognized because of collateral.

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit Risk (Continued)

(b) ii. Finance-to-Value Ratio (Continued)

Receiveble from Financing Activities given to Corporate Customers

As at 31st December 2018, the net carrying amount of credit impaired financing activities to corporate customers amounted to MVR 25,144,152/- (2017: MVR 35,061,496) and the value of identifiable collateral (mainly land and property) held against those financing activities amounted to MVR 26.5 million (2017: MVR 148.7 million). For each financing, the value of disclosed collateral is capped at the nominal amount of the finance that it is held against.

Receivable from Financing Activities Mandatorily measured at FVTPL

As at 31st December 2018, the maximum exposure to credit risk of financing activities to customers measured at FVTPL was their carrying amount of MVR 765.8 million. The Bank has minimized the credit risk exposure of all of these financing activities by obtaining sovereign guarantee except for the investment made in HDFC.

(c) Amounts Arising from Expected Credit Loss ("ECL")

Inputs, assumptions and techniques used for estimating impairment

i. Significant Increase in Credit Risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank historical experience and expert credit assessment, credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Bank uses below criteria for determining whether there has been a significant increase in credit risk:

- quantitative test based on movement in PD;
- qualitative indicators; and
- a backstop of 30 days past due.

ii. Generating the term structure of Probability of Default (PD)

Date past due has taken as the primary input into determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analyzed by type of product and borrower.

The Bank employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

For all financing portfolios except for Trade Finance Murabaha, a Transition Matrix based on days past due is used. For the Trade Finance Murabaha portfolio, since the above methods did not provide a statistically significant output, flow rate analysis is used.

This analysis includes the identification and calibration of relationship between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of the certain other factors (e. g. forbearance experience) on the risk of default. For forward looking adjustments, credit index approach and Vasicek single factor models are used.

Using variety of external actual and forecasted information, the Bank formulates a "Base Case" view of the future direction of relevant economic variables (mainly GDP Growth with lag effect of theses variable) as well as representative range (Best Case and Worst Case) of other possible forecast scenarios. The Bank then uses the forecasts to adjust its estimates of PDs.

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit Risk (Continued)

(c) Amounts Arising from Expected Credit Loss ("ECL") (Continued)

iii. Determining whether credit risk has increased significantly

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is equal or more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. When contractual terms of a financing have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews.

iv. Definition of default

The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held);

- the borrower is more than 90 days past due on any material credit obligation to the Bank. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or

- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Bank considers indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

The definition of default largely aligns with that applied by the bank for regulatory capital purposes.

v. Incorporation of Forward-looking Information

The Bank incorporates forward-looking information into its measurement of ECL.

The Bank formulates three economic scenarios 1.a base case, which is the median scenario assigned a 68% probability of occurring, and two less likely scenarios, one upside and one downside, each assigned a 11% and 21% of probability of occurring respectively. External information considered includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Bank operates, supranational organisations International Monetary Fund.

Periodically, the Bank carries out stress testing of more extreme shocks to calibrate its determination of the upside and downside representative scenarios. A comprehensive review is performed at least annually on the design of the scenarios the Bank's internal team.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macroeconomic variables and credit risk and credit losses.

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit Risk (Continued)

(c) Amounts Arising from Expected Credit Loss ("ECL") (Continued)

v. Incorporation of Forward-looking Information (Continued)

The economic scenarios used as at 31st December 2018 included the following key indicators for Maldives for the years ending 31st December 2019 to 2023.

		2019	2020	2021	2022	2023
GDP Growth Rate	Base	5.0%	5.5%	5.5%	5.5%	5.4%
	Upside	6.0%	6.5%	6.5%	6.5%	6.4%
	Downside	4.0%	4.5%	4.5%	4.5%	4.4%
Inflation Rate	Base	2.7%	2.3%	2.5%	2.5%	2.3%
	Upside	3.4%	3.0%	3.1%	3.2%	3.0%
	Downside	2.0%	1.6%	1.8%	1.9%	1.7%

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 4 years.

vi. Modified Financial Assets

The contractual terms of a finance may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing finance whose terms have been modified may be derecognised and the renegotiated Financing recognised as a new loan at finance value.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly by analysing both qualitative and based on the delinquency status before the modification of terms of the contract.

The Bank renegotiates financing to customers in financial difficulties (referred to as "forbearance activities") to maximize collection opportunities and minimize the risk of default.

The revised terms usually include extending the maturity, changing the timing of profit payments and amending the terms of financing covenants.

For financial assets modified as part of the Bank's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect profit and principal and the Bank's previous experience of similar forbearance action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioral indicators.

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit Risk (Continued)

(c) Amounts Arising from Expected Credit Loss ("ECL") (Continued)

vii. Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

Probability of default (PD)
Loss given default (LGD)
Exposure at default (EAD)

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

Probability of default (PD)

PD estimates are estimates at a certain date, which are calculated based on statistical models, and assessed using various categories based on homogenous characteristics of exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties.

The methodology of estimating PDs is discussed above under the heading 'Generating the term structure of PD'.

Loss Given Default (LGD)

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim and recovery costs of any collateral that is integral to the financial asset. For financings secured by retail property, LTV ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate financing, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective profit rate as the discounting factor.

Exposure at Default (EAD)

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. For financing commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk. even if, for risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a financing commitment or guarantee.

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit Risk (Continued)

(c) Amounts Arising from Expected Credit Loss ("ECL") (Continued)

vii. Measurement of ECL (Continued)

Exposure at Default (EAD) (Continued)

However. for retail trade Murabah facilities that include both a financing and an undrawn commitment component, the Bank measures ECL over a period longer than the maximum contractual period if the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Bank can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management. but only when the Bank becomes aware of an increase in credit risk at the facility level.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type
- collateral type
- remaining term to maturity

The groupings are subject to regular review to ensure that exposures within a particular Bank remain appropriately homogeneous.

viii. Loss Allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instruments.

	31/12/2018			
	Stage 1 MVR	Stage 2 MVR	Stage 3 MVR	Total MVR
Receivable from Financing Activities Measured at amortized cost and undrawn financing facilities.				
Balance as at 1st January	3,970,039	1,871,223	8,539,347	14,380,609
Transfer to Stage 1	(2,411,833)	1,907,296	504,537	-
Transfer to Stage 2	29,122	(414,520)	385,398	-
Transfer to Stage 3	1,177	5,145	(6,322)	-
Net remeasurement of loss allowance	913,998	(655,067)	(133,175)	125,756
New financial assets originated	2,015,632	1,763,433	532,407	4,311,472
Balance as at 31st December 2018	4,518,135	4,477,510	9,822,192	18,817,837

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit Risk (Continued)

(c) Amounts Arising from Expected Credit Loss ("ECL") (Continued)

(c) viii. Loss Allowance (Continued)

Credit-Impaired Financial Assets (2017: Impaired Financial Assets)

The following table sets out a reconciliation of changes in the net carrying amount of credit impaired (2017: impaired) financing and advances to customers.

	31/12/2018 MVR
Credit-Impaired (2017: Impaired) financing and Advances to Customers as at 01st January	43,925,940
Change in Allowance for Impairment	(1,282,844)
Classified as Credit-Impaired (2017: Impaired) during the period)	12,738,828
Transferred to not credit-impaired (2017: impaired) during the period)	(21,295,556)
Credit-impaired (2017: impaired) financing and advances to customers as at 31st December 2018	34,086,368

(c) ix. Impairment of Financial Instruments - Comparative Information under MMA Guidelines

Receivable from finance activities	31/12/2017 MVR
Neither past due nor impaired	837,770,403
Past due but not impaired	302,010,313
Impaired	50,514,019
Total	1,190,294,735
Less: Provision for Impairment	(17,169,620)
Less: Profit in Suspense	(1,115,523)
Net receivables from financing activities	1,172,009,592

Receivable from financing activities neither past due nor impaired

The Bank classified the total financing and advances into standard and non-performing. The standard assets are further divided into standard and other financing especially mentioned with no further grading for standard 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.

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit Risk (Continued)

(c) Amounts Arising from Expected Credit Loss ("ECL") (Continued)

(c) ix. Impaired Financial Instruments - Comparative Information under MMA Guidelines (Continued)

Receivable from financing activities neither past due nor impaired (Continued)

(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 obligor'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 Bank’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.

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.

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 as follows.

	31/12/2017
Non-performing assets by past due period	MVR
Substandard	46,739,948
Doubtful	2,992,572
Loss	781,500
	50,514,020
Receivables from financing activities net of profit in suspense	
Neither past due nor impaired	837,770,403
Past due but not impaired	302,010,313
Impaired	49,398,496
Total	1,189,179,212

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit Risk (Continued)

(c) Amounts Arising from Expected Credit Loss ("ECL") (Continued)

(c) ix. Impaired Financial Instruments - Comparative Information under MMA Guidelines (Continued)

Receivable from financing activities neither past due nor impaired (Continued)

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.

	31/12/2017	
Receivable from Financing Activities	**Gross**	**Impairment**
Financing towards Government of Maldives	21,074,531	-
Standard (Pass)	1,110,802,643	5,612,354
Special Mention Accounts	6,788,018	203,641
Total performing	1,138,665,192	5,815,995
Substandard	46,739,948	9,347,990
Doubtful	1,903,973	951,986
Doubtful - Secured portion	1,088,599	272,149
Loss	781,500	781,500
Total Non-performing	50,514,020	11,353,625
	1,189,179,212	17,169,620

V. Concentration of Credit Risk

Bank reviews the on regular basis its concentration of credit granted in each of the products offered. The diversification was made to ensure that an acceptable level of risk in line with the risk appetite of the Bank is maintained. The diversification decision was made at the ALCO, where it sets targets and present strategies to the Management and optimising the diversification. The product development team of the Bank is advised on the strategic decisions taken in diversification of the portfolio to align their product development activities accordingly.

The Bank monitors concentration of credit risk by industry and by whether the customer is a business customer or an individual customer. An analysis of concentrations of credit risk from financing and advances to customers and financing commitments and financial guarantees issued are shown below.

	Receivable from Financing Activities		**Finance Commitments and Financial Guarantees Issued**	
Balances Net of Impairment	**31/12/2018**	**31/12/2017**	**31/12/2018**	**31/12/2017**
Concentration by Industry	**MVR**	**MVR**	**MVR**	**MVR**
Consumer Goods	310,014,457	226,651,225	-	-
Transport and Communications	85,032,315	100,149,241	11,478,785	12,659,012
Commerce - Wholesale and Retail Trade	110,759,017	114,335,871	159,133,745	121,761,951
Construction - Residential Financing	923,171,794	619,961,150	178,958,475	294,076,481
Construction - Commercial Building Financing	23,832,345	34,622,980	-	11,114
Electricity, Lighting and Power	28,948,478	38,601,068	-	1,739,096
Tourism	37,545,553	30,997,839	-	4,471,133
Water, Waterworks and Supply	-	833,526	-	27,542,852
Fishing	27,830,061	24,141,835	10,464,929	7,043,408
Other	-	-	-	-
Total	1,547,134,020	1,190,294,735	360,035,934	469,305,047
Concentration by Sector				
Business	310,460,289	793,408,471	204,357,516	211,056,294
Individual	1,236,673,731	396,886,264	155,678,418	258,248,753
Total	1,547,134,020	1,190,294,735	360,035,934	469,305,047

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(ii) Liquidity Risk

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

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 the implementation of the Bank’s liquidity policies and procedures. Treasury department manages the Bank’s liquidity position on a day-to-day basis and reviews daily reports assessing 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 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 department 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 department then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, 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 performed under a various of scenarios to assess 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).

(a) 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.

	31/12/2018	31/12/2017
As at the Reporting Date	28.35%	40.22%
Average for the period	32.22%	39.04%
Maximum for the period	38.80%	49.43%
Minimum for the period	26.29%	27.85%

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(ii) Liquidity Risk (Continued)

(b) Maturity analysis for financial liabilities and financial assets

The amounts shown in the maturity analysis below have been compiled by applying discounted cash flows which exclude future applicable profits. for the Issued financial guarantee contracts, and unrecognised finance commitments, Earliest possible contractual maturity has been considered. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called. Some estimated maturities will be vary due to changes in contractual cash flows such as early repayment option of financing. As a part of the management of liquidity risk arising from financial liabilities, the Bank holds liquid assets comprising cash and cash equivalents and balances with Maldives Monetary Authority.

The following tables set out the remaining contractual maturities of the Bank's financial liabilities and financial assets.

As at 31st December 2018	Carrying Amount	0-12 Months	1-2 Years	2-5 Years	More than Five Years
Financial Assets by Type - Non Derivative	**MVR**	**MVR**	**MVR**	**MVR**	**MVR**
Cash and Balances with Other Banks	227,117,732	227,117,732	-	-	-
Balances with Maldives Monetary Authority	582,613,740	297,091,224	-	-	285,522,516
Investments in Equity Securities	53,500,000	-	-	-	53,500,000
Investments in Other Financial Instruments	794,561,076	794,561,076	-	-	-
Net Receivables from Financing Activities	1,529,242,312	343,002,377	244,742,969	377,009,402	564,487,564
Other Assets	45,720,170	45,720,170	-	-	-
	3,232,755,030	1,707,492,579	244,742,969	377,009,402	903,510,080
Financial Liability by Type - Non Derivative					
Deposits from Customers	2,881,644,904	2,584,318,479	220,601,959	76,724,466	-
Other Liabilities	31,212,493	31,212,493	-	-	-
	2,912,857,397	2,615,530,972	220,601,959	76,724,466	-
Net Gap	319,897,633	(908,038,393)	24,141,010	300,284,936	903,510,080

As at 31st December 2017	Carrying Amount	0-12 Months	1-2 Years	2-5 Years	More than Five Years
Financial Assets by Type - Non Derivative	**MVR**	**MVR**	**MVR**	**MVR**	**MVR**
Cash and Balances with Other Banks	209,665,651	209,665,651	-	-	-
Balances with Maldives Monetary Authority	648,870,979	413,466,779	-	-	235,404,200
Available for Sale Investment	52,200,000	52,200,000	-	-	-
Investments Held to Maturity	602,128,659	602,128,659	-	-	-
Net Receivables from Financing Activities	1,172,009,592	319,634,253	188,652,501	336,534,605	327,188,233
Other Assets	50,806,319	50,806,319	-	-	-
	2,735,681,200	1,647,901,661	188,652,501	336,534,605	562,592,433
Financial Liability by Type - Non Derivative					
Deposits from customers	2,437,825,734	2,189,680,298	244,300,870	3,844,566	-
Other Liabilities	12,338,414	12,338,414	-	-	-
	2,450,164,148	2,202,018,712	244,300,870	3,844,566	-
Net Gap	285,517,052	(554,117,051)	(55,648,369)	332,690,039	562,592,433

(c) Liquidity reserves

The following table sets out the components of the Bank's liquidity reserves. The carrying value of the balances equals the fair value of such balances.

	31/12/2018	31/12/2017
	MVR	**MVR**
Balances with Maldives Monetary Authority	582,613,740	648,870,979
Balances with Other Banks	126,479,858	102,875,368
Other Cash and Cash Equivalents	100,637,874	106,790,283
Total liquidity reserves	809,731,472	858,536,630

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(iii) Market Risk

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

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 portfolios

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

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) Exposure to Market Risk

The following table sets out the allocation of assets and liabilities subject to market risk.

	Carrying Amount	
	31/12/2018	**31/12/2017**
Assets subject to market risk	**MVR**	**MVR**
Cash and Cash Equivalents	16,398,785	24,178,725
Receivable from Financing Activities	1,021,232,800	916,016,839
Investment in Equity Securities	53,500,000	52,200,000
Investment in Money Market Securities and Other Investments	765,790,786	602,128,659
	1,856,922,371	1,594,524,223
Liabilities subject to market risk		
Deposits	1,866,699,478	1,418,726,093
	1,866,699,478	1,418,726,093

(b) Exposure to Profit Rate Risk - Non-trading Portfolios

profit rate risk exists in profit-bearing assets, due to the possibility of a change in the asset's value resulting from the variability of profit rates. Since profit rate risk management has become imperative, the Bank takes proactive measures to manage the exposure by forecasting the rate fluctuations.

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

Fixed Rate Instruments	**31/12/2018**	**31/12/2017**
Financial Assets	**MVR**	**MVR**
Net Receivables from Financing Activities	1,529,242,312	1,172,009,592
Investments Measured at Amortized Cost	28,770,290	-
	1,558,012,602	1,172,009,592
Financial Liabilities		
Customers' Accounts	1,866,699,478	1,418,726,093
Variable Rate Instruments		
Financial Assets		
Investments Mandatorily Measured at FVTPL	765,790,786	-
Investment Held to Maturity	-	602,128,659

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(iii) Market Risk (Continued)

(c) Profit Rate Sensitivity

The following is a summary of the Bank's profit rate gap position on non-trading portfolios.

31st December 2018	Carrying Amount	0 - 12 Months	1 - 2 Years	2 - 5 Years	More than 5 Years	Total Sensitive	Non Rate Sensitive
Assets	MVR	MVR	MVR	MVR	MVR	MVR	MVR
Cash and Balances with Other Banks	227,117,732	-	-	-	-	-	227,117,732
Balances with Maldives Monetary Authority	582,613,740	-	-	-	-	-	582,613,740
Net Receivables from Financing Activities	1,529,242,312	343,002,377	244,742,969	377,009,402	564,487,564	1,529,242,312	-
Investments in Other Financial Instruments	794,561,076	794,561,076	-	-	-	794,561,076	-
	3,133,534,860	1,137,563,453	244,742,969	377,009,402	564,487,564	2,323,803,388	809,731,472
Liabilities							
Customer's Liabilities	2,881,644,904	1,569,373,053	220,601,959	76,724,466	-	1,866,699,478	1,014,945,426
Other Liabilities	31,212,493	-	-	-	-	-	31,212,493
	2,912,857,397	1,569,373,053	220,601,959	76,724,466	-	1,866,699,478	1,046,157,919
Profit Rate Sensitive Gap	220,677,463	(431,809,600)	24,141,010	300,284,936	564,487,564	457,103,910	(236,426,447)

31st December 2017	Carrying Amount	0 - 12 Months	1 - 2 Years	2 - 5 Years	More than 5 Years	Total Sensitive	Non Rate Sensitive
Assets	MVR	MVR	MVR	MVR	MVR	MVR	MVR
Cash and Balances with Other Banks	209,665,651	-	-	-	-	-	209,665,651
Balances with Maldives Monetary Authority	648,870,979	-	-	-	-	-	648,870,979
Net Receivables from Financing Activities	1,172,009,592	319,634,253	188,652,501	336,534,605	327,188,233	1,172,009,592	-
Financial Assets Measured at Amortized Cost	602,128,659	602,128,659	-	-	-	602,128,659	-
	2,632,674,881	921,762,912	188,652,501	336,534,605	327,188,233	1,774,138,251	858,536,630
Liabilities							
Customer's Liabilities	2,437,825,734	1,170,580,657	244,300,870	3,844,566	-	1,418,726,093	1,019,099,641
Other Liabilities	12,338,414	-	-	-	-	-	12,338,414
	2,450,164,148	1,170,580,657	244,300,870	3,844,566	-	1,418,726,093	1,031,438,055
Profit Rate Sensitive Gap	182,510,733	(248,817,745)	(55,648,369)	332,690,039	327,188,233	355,412,158	(172,901,425)

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(iii) Market Risk (Continued)

(d) Exposure to Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to change in foreign exchange rates and arises from financial instrument denominated in foreign currency. In accordance with MMA's prudential regulations, the foreign exchange risk exposure in any single currency, shall not exceed 25% of a bank’s capital base for a long position, and 15% of a bank’s capital base for a short position. The overall foreign currency exposure (short and long currency positions) for all currencies and on-balance sheet and off-balance sheet combined, using spot mid-rates and the shorthand method shall not exceed 40% of a bank’s capital base.

(d) i. Exposure to Currency Risk - Non-trading Portfolios

The Bank's exposure to foreign currency risk is as follows based on notional amount.

	31/12/2018	31/12/2017
	US$	US$
Cash and Balances with Other Banks	8,137,109	6,227,266
Balances with Maldives Monetary Authority	22,075,262	9,814,693
Investments Mandatorily Measured at FVTPL	15,700,219	-
Held to Maturity Investments	-	1,803,067
Receivables from Financing Activities	15,967,590	19,216,813
Other Assets	2,805,093	4,801,179
Customers' Accounts	(60,562,010)	(38,007,422)
Other Liabilities	(3,431,188)	(107,113)
Net Statement of Financial Position Exposure	692,075	3,748,483

The following significant exchange rates were applied during the year:

	Average Rate		Reporting Date Spot Rate	
	Year Ended 31/12/2018	Year Ended 31/12/2017	31/12/2018	31/12/2017
1 US$: Maldivian Rufiyaa	15.395	15.395	15.395	15.395

In respect of the monetary assets and liabilities denominated in US Dollar, the Bank has a limited currency risk exposure on such balances since the Maldivian Rufiyaa is pegged to the US Dollar within a band to fluctuate within ± 20% of the mid-point of exchange rate.

(e) Exposure to Equity Price Risk

Equity price risks arises as a result of fluctuations in market prices of individual equities

For equity investments designated as FVOCI equity investments, a 10% decrease in the prices of Maldives Stock Exchange would have decreased equity and Investments measured at FVOCI as at 31st December 2018 by MVR 5,350,000/-.

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(iv) 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.

34 CAPITAL MANAGEMENT

(a) Regulatory Capital Adequacy

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.

Maldives Monetary Authority has allowed the Bank to recognize the full impact on the adoption of the impairment requirements under IFRS 9 and has requested that the banks may recognize the additional impairment provision under its equity when Regulatory impairment provision exceeds the impairment provision calculate under the requirements of IFRS 9.

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

	31/12/2018 MVR	31/12/2017 MVR
Tier 1 ("Core") Capital		
Share Capital	180,000,000	180,000,000
Retained Earnings (Shown as Previous Year Amount as MMA Requirement)	36,922,881	27,241,198
Statutory Reserve (Shown as Previous Year Amount as MMA Requirement)	66,652,148	46,624,998
Total Tier 1 Capital	283,575,029	253,866,196
Tier 2 ("Supplementary") Capital		
Current Year-to-Date Profit	52,550,465	40,054,299
Valuation Adjustment on Equity Securities (Discounted by 55%)	2,193,750	1,766,250
General Provisions (Limited to 1.25% of RWA)	10,359,677	5,965,995
Sub Total	65,103,892	47,786,544
Eligible Tier 2 Capital (Limited to 100% of Tier 1 Capital)	65,103,892	47,786,544
Total Tier 1 and Tier 2 Capital	348,678,921	301,652,740
Core Capital (Tier 1 Capital)	283,575,029	253,866,196
Capital Base (Tier 1 and Tier 2 Capital)	348,678,921	301,652,740
Risk Weighted Assets	2,030,814,364	1,632,209,799
Tier 1 Risk Based Capital Ratio (Minimum 6%)	14.0%	15.6%
Total Risk Based Capital Ratio (Minimum 12%)	17.2%	18.5%

The risk-weighted assets have been calculated by multiplying the value of each category of asset using the risk weight specified by the Maldives Monetary Authority.

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 externally imposed capital requirements.

D. ii. 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 and Compliance Unit (RMCU) , 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.

35 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.

Valuation techniques include discounted cash flow models. Assumptions and inputs used in valuation techniques include risk-free and benchmark profit rates, credit spreads and other premiums used in estimating discount rates.

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.

The Bank uses widely recognised valuation models to determine the fair value of common and simple financial instruments, such as profit rate, that use only observable market data and require little management judgment and estimation. Observable prices or model inputs are usually available in the market for listed equity securities. The availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

(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.

The bank uses widely recognised valuation models to determine the fair value of common and simple financial instruments. The availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. The Bank uses observable market prices and inputs to determine the value investment securities designated at FVOCI.

35 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair Value Hierarchy - Financial Instruments Measured at Fair Value

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 categorized. The amounts are based on the values recognized 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
31st December 2018				
Wakala - HDFC Mandatorily Measured at FVTPL	-	-	30,617,534	30,617,534
Investments Mandatorily Measured at FVTPL	-	-	709,202,983	709,202,983
Investments				
Equity Investments Measured at FVOCI	53,500,000	-	-	53,500,000
Money Market Investment - ICD Mandatorily Measured at FVTPL	-	25,970,269	-	25,970,269
	53,500,000	25,970,269	739,820,517	819,290,786
31st December 2017				
Available for Sale Investments	52,200,000	-	-	52,200,000

(d) Level 3 Fair Value Measurements

(d) i. Reconciliation

Except for one instrument, all the other financial instruments which needs to measure mandatorily at fair value has got profit reset option to the bank for each 3 months and accordingly, the maximum fair value exposure would be for the next 3 months variation of the profit rate as the instruments are backed with the Sovereign guarantees. Further, the remaining maturity of the remaining financial instrument is 07 months and since the counterparty is a reputed financial institution, there had not been any significant fair value adjustment through that instrument and accordingly, it has been concluded that the carrying value of the instrument provides a fair approximation of the fair value.

Total gains or losses for the year in the above table are presented in the OCI as follows.

	Equity Investments
Total gains and losses recognized in OCI:	
Fair value reserve (equity instruments) - net change in fair value (Excluding Tax)	(1,300,000)

(d) ii. Unobservable Inputs Used in Measuring Fair Value - Level 3

The Bank has determined the profit rates in order to determine fair value of the instrument as the inputs used as at 31st December 2018 in measuring financial instruments categorized as Level 3 in the fair value hierarchy.

(d) iii. The Effect of Unobservable Inputs on Fair Value Measurement

Although the Bank believes that its estimates of fair value are appropriate. the use of different methodologies or assumptions could lead to different measurements of fair value. However, as the bank only has done the fair valuation of the financing provided to customers which are in short term nature with minor impact of the fair valuation (due to the fact that those facilities are largely provided for 3 months period where the profit would be reset in each 3 months if required and one facility only with a total period of 1 year, there is no such fair value impact of those instruments and the change of methods or assumptions would not result in any major change to those fair values.

35 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(e) Financial Instruments not Measured at Fair Value

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized.

	Level 1	Level 2	Level 3	Total Fair Values	Total Carrying Amount
31st December 2018	**MVR**	**MVR**	**MVR**	**MVR**	**MVR**
Assets					
Cash and Balances with Other Banks	-	-	227,117,732	227,117,732	227,117,732
Balances with Maldives Monetary Authority	-	-	582,613,740	582,613,740	582,613,740
Receivables from Financing Activities	-	-	1,543,316,855	1,543,316,855	1,529,242,312
Investments in Other Financial Instruments Measured at Amortized Cost	-	-	28,883,841	28,883,841	28,770,290
Other Assets	-	-	45,720,170	45,720,170	45,720,170
	-	-	2,427,652,338	2,427,652,338	2,413,464,244
Liabilities					
Customers' Accounts	-	-	2,881,644,904	2,881,644,904	2,881,644,904
Other Liabilities	-	-	31,212,493	31,212,493	31,212,493
	-	-	2,912,857,397	2,912,857,397	2,912,857,397

	Level 1	Level 2	Level 3	Total Fair Values	Total Carrying Amount
31st December 2017	**MVR**	**MVR**	**MVR**	**MVR**	**MVR**
Assets					
Cash and Balances with Other Banks	-	-	209,665,651	209,665,651	209,665,651
Balances with Maldives Monetary Authority	-	-	648,870,979	648,870,979	648,870,979
Investments Held to Maturity	-	-	602,128,659	602,128,659	602,128,659
Receivables from Financing Activities	-	-	1,197,624,245	1,197,624,245	1,197,624,245
Other Assets	-	-	50,806,319	50,806,319	50,806,319
	-	-	2,709,095,853	2,709,095,853	2,709,095,853
Liabilities					
Customers' Accounts	-	-	2,437,825,734	2,437,825,734	2,437,825,734
Other Liabilities	-	-	12,338,414	12,338,414	12,338,414
	-	-	2,450,164,148	2,450,164,148	2,450,164,148

Where they are available, the fair value of financing is based on observable market transactions. Where observable market transactions are not available, fair value is estimated using valuation models, such as discounted cash flow techniques.

To improve the accuracy of the valuation estimate for retail and smaller commercial financings, homogeneous financings are grouped into portfolios with similar characteristics such as vintage, LTV ratios. the quality of collateral, product and borrower type, prepayment and delinquency rates, and default probability.

The fair value of deposits from customers is estimated using discounted cash flow techniques. applying the rates that are offered for deposits of similar maturities and terms. The fair value of deposits payable on demand is the amount payable at the reporting date.

36 RELATED PARTY TRANSACTIONS

36.1

Name of the Related Party	Relationship	Product	Nature of the Transaction	Amount 31/12/2018 MVR	Amount 31/12/2017 MVR
ICD Money Market Fund LLP	Affiliated Bank	Musharakah	Principal Investment	24,632,000	24,632,000
			Accumulated Profits	4,207,765	3,126,217
			Impairment Loss	(2,869,496)	-
				25,970,269	27,758,217
Government of Maldives	Shareholder	Istisna'a	Opening Balance	21,074,531	22,521,460
			Profit for the period	1,979,542	2,152,888
			Settlement	(3,995,119)	(3,599,817)
				19,058,954	21,074,531
Amana Takaful Maldives PLC	Shareholder	Deposit	Opening Balance	19,424,279	33,216,649
			Transactions during the year	15,224,042	(13,792,370)
				34,648,321	19,424,279

36.2 Collectively, but not Individually, Significant Transactions.

The Government of Maldives holds 25% 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, financing and deposits.

36.3 Transactions with Key Management Personnel

The aggregate values of transactions and outstanding balances related to key management personnel were as follows.

	Transaction Values for the		Maximum Balance for the		Balance Outstanding as at	
	Year Ended 31/12/2018 MVR	Year Ended 31/12/2017 MVR	Year Ended 31/12/2018 MVR	Year Ended 31/12/2017 MVR	31/12/2018 MVR	31/12/2017 MVR
Mortgage Financing and Other Secured financing	1,980,000	-	3,250,643	1,312,543	3,185,616	1,282,357
Other Financing	135,532	169,029	271,332	250,789	174,950	192,580
Deposits Received	3,249,187	5,708,544	1,429,218	871,341	187,751	401,905
	5,364,719	5,877,573	4,951,193	2,434,673	3,548,317	1,876,842

Profit rates charged on balances outstanding from related parties are a quarter of the rates that would be charged in an arm's length transaction. The profit charged on balances outstanding from related parties amounted to MVR 156,458/- (2017: MVR 151,013/-). The profit paid on balances outstanding to related parties amounted to MVR 762/- (2017: 642/-). The mortgages and secured financing granted are secured over property of the respective borrowers. Other balances are not secured and no guarantees have been obtained.

No impairment losses have been recorded against balances outstanding during the period with key management personnel, and no specific allowance has been made for impairment losses on balances with key management personnel and their immediate relatives at the reporting date.

The key management personnel are the members of the Board of Directors and Executive Committee members. The Company has paid an amount of MVR 3,106,083/- as emoluments to the key management personnel during the year ended 31st December 2018 (year ended 31th December 2017: MVR 5,313,013/-).

37 COMMITMENTS

	31/12/2018 MVR	31/12/2017 MVR
(i) Financial Commitments		
Letter of Credits	44,085,529	10,878,259
Guarantees and Bonds	17,653,236	77,835,615
Bill Collection Acceptance	9,654,312	26,343,680
	71,393,077	115,057,554
(ii) Financing Commitments		
Undrawn Financing Facilities	288,642,858	354,247,493
Total	360,035,935	469,305,047

38 OPERATING LEASE COMMITMENTS

The bank leases number of branches and office premises under operating leases, as at 31st December 2018 and 31st December 2017, the future minimum lease payments under operating lease rent were payable as follows.

	31/12/2018 MVR	31/12/2017 MVR
Less than One Year	14,255,994	9,466,343
Between One and Five Years	47,737,672	33,534,334
More than Five Years	75,370,200	53,610,990
	137,363,866	96,611,667

39 CAPITAL COMMITMENTS

During the year, the Bank has entered into several agreements with suppliers for the completion of interior works and supply of IT equipment to the new head office. As at 31st December 2018, the capital commitments of the Bank is MVR 9,122,322/- (Year ended 31st December 2017 - Nil).

40 EVENTS AFTER THE REPORTING DATE

Subsequent to the reporting date, the Board of Directors of the Bank has approved to list the Bank in Maldives Stock Exchange as a Quoted Public Bank which is subject to the approval of the shareholders of the Bank.

41 COMPARATIVE FIGURES

Comparative figures have not been restated as a result of adoption of IFRS 09 and IFRS 15.

42 PARENT COMPANY

The Parent of the Bank is Islamic Corporation for the Development of the Private Sector (ICD).

43 DIRECTOR'S RESPONSIBILITY

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