Maldives Islamic Bank

ANNUAL REPORT

for the financial year ended 31st December 2014

Content

Maldives Islamic Bank Pvt Ltd

(Incorporated in Republic of Maldives)

Company No: C-0255/2010

CORPORATE INFORMATION

BOARD OF DIRECTORS

Mr. Najmul Hassan (Chairman)

Mr. Shimad Ibrahim

Mr.Ahmed Khizer Khan

Mr. Mohammed Ataur Rahman Chowdhury

Mr. Mohammed Ali Al Ammari

Mrs.Juwairiya Saeed

Mr. Harith Bin Harun (Managing Director & CEO)

COMPANY SECRETARY

Mr. Hussain Ali Habeeb

REGISTERED ADDRESS

H. Coconut Villa

Ameer Ahmed Magu, Male’ 20030

Republic of Maldives

BUSINESS ADDRESS

(same as the registered address)

AUDITORS

KPMG

The Directors hereby submit their report together with the audited financial statements of the Bank for the financial year ended 31 December 2014.

PRINCIPAL ACTIVITIES

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

FINANCIAL RESULTS

	MVR'000	
	2014	**2013**
Profit before Tax	20,115	3,848
Income Tax	(6,188)	190
Net profit (loss) after Tax	13,927	4,038

DIVIDENDS

The Directors do not recommend the payment of any dividend in respect of the financial year ended 31 December 2014.

RESERVES AND PROVISIONS

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

BAD AND DOUBTFUL FINANCING ASSETS

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

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

CURRENT ASSETS

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

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

VALUATION METHODS

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

CONTINGENT AND OTHER LIABILITIES

At the date of this report there does not exist:

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

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

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

CHANGE OF CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

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

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

SUBSEQUENT EVENTS

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

DIRECTORS

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

- Mr. Najmul Hassan
- Mr. Shimad Ibrahim
- Mr. Ahmed Khizer Khan
- Mr. Mohammed Ataur Rahman Chowdhury
- Mr. Mohammed Ali Al Ammari
- Mrs. Juwairiya Saeed
- Mr. Harith Bin Harun (Managing Director & CEO)

RESPONSIBILITY STATEMENT BY BOARD OF DIRECTORS

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

It is the responsibility of the Directors to ensure that the financial reporting of the Bank present a true and fair view of the state of affairs of the Bank as at 31 December 2014 and of the financial results and cash flows of the Bank for the financial year then ended.

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

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

DIRECTORS' BENEFITS

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

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

CORPORATE GOVERNANCE

The Board of Directors is committed to ensure the highest standards of corporate governance throughout the organisation with the objectives of safeguarding the interests of all stakeholders and enhancing the shareholders' value and financial performance of the Bank. The Board considers that it has applied the Best Practices throughout the financial year.

Board of Directors Responsibility and Oversight

The Board of Directors

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

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

Board Meetings

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

Board Balance

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

Directors	**Total meetings attended**
Mr. Najmul Hassan *Chairman/ Non- Independent Non-Executive Director*	8/8
Mr. Shimad Ibrahim *Non- Independent Non-Executive Director*	8/8
Mr. Ahmed Khizer Khan *Non- Independent Non-Executive Director*	7/8
Mr. Mohammed Ataur Rahman Chowdhury *Non- Independent Non-Executive Director*	8/8
Mr. Mohammed Ali Al Ammari *Non- Independent Non-Executive Director*	7/8
Mrs. Juwairiya Saeed *Independent Non-Executive Director*	7/8
Mr. Harith Bin Harun (Managing Director & CEO) *Non- Independent Non-Executive Director*	8/8

Board Risk Management Committee

Board Risk Management Committee ("BRMC") carries the function of ensuring continuous oversight of the risks embedded in the Bank's operations and assists the Board in determining the strategic direction of the Bank by providing them the risk perspective.

The BRMC is composed of maximum of three directors appointed by the Board from amongst its members.

The current members of BRMC are:

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

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

Board Audit Committee

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

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

The current members of the AC are:

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

The Internal Auditor acts as the secretary of the AC.

Relationship with the Auditors

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

Internal Controls

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

Management Reports

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

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

Management Committee

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

Finance and Investment Committee

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

Shari'ah Board

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

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

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

During the financial year ended 31 December 2014, a total of four (04) meetings were held. The Shari'ah Board comprises the following members and the details of attendance of each member at the Shari'ah Board meetings held during the financial year are as follows:

Member	**Total Meetings Attended**
Dr. Ejaz Ahmed Samadani	4/4
Mufti Mohammed Rizwe Bin Ibrahim	4/4
Sheikh Fayyadh Ali Manik (resigned w.e.f. 9th September 2014)	4/4
Dr. Ibrahim Zakariyya Moosa (appointed w.e.f. 10th September 2014)	1/4

RATING BY EXTERNAL RATING AGENCIES

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

ZAKAT OBLIGATIONS

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

AUDITORS

In accordance with MMA Prudential Regulation No. 07-2009, the term of engagement of an auditor is limited to four (4) years. In this regard, KPMG has served as the Bank's auditor for four years as of this date and hence is not eligible for reappointment. The Board is recommending that Ernst & Young be appointed as auditor for the financial year ending 31st December 2015.

Signed on behalf of the Board of Directors in accordance with their resolution dated 29th April 2015.

………………………………	………………………………
Mr. Najmul Hassan	Mr. Harith Bin Harun
Chairman	Managing Director & CEO

بسم الله الرحمن الرحيم

Shariah Board's Annual Report

To the Shareholders of Maldives Islamic Bank Pvt. Ltd.

Assalamualaikum Wa Rahmatullah Wa Barakatuh

We, the Shariah Board members of the Bank, have reviewed the Audit Report prepared by the Internal Shariah Unit based on the audit conducted during the year on the transactions and contracts relating to banking activities conducted by Maldives Islamic Bank Pvt. Ltd. ("the Bank") during the period ended 31st December 2014. We have also conducted our review to form an opinion as to whether the Bank's activities have complied with Shariah and with the specific resolutions, rulings and guidelines issued by the Shariah Board and other relevant authorities. The internal Shariah Unit and Bank's management is responsible for ensuring that the Bank's activities are carried out in a Shariah compliant manner. It is our responsibility to form an independent opinion, based on our review of the operations of the Bank, and to report to the Shareholders of the Bank.

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

In our opinion:

A. The contracts, transactions and dealings relating to the Bank's activities during the year ended 31st December 2014 that we have reviewed were in compliance with Shariah to a ***satisfactory*** level.

B. We have noted areas that require improvement in the mode of operation and documentation for certain financing transactions of the Bank such as *Murabaha*, *Istisna'a*, *Diminishing Musharaka* and the *Ijarah* facilities converted to *Bai Mu'ajjal* that require rectification. We have provided guidelines to implement the required improvements; and

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

D. During the audit period an amount of *MVR 1,031,154* has been transferred in the charity Account.

E. We advised the management to conduct public awareness programs and training program for staff to make the business more efficient and while following the guidelines of Shariah.

Wallahu A'lam.

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

Wassalamualaikum Wa Rahmatullah Wa Barakatuh

05 March 2015

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

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 2014, and the statements of comprehensive income, changes in equity and cash flows for the year then ended 31st December 2014 and notes, comprising a summary of significant accounting policies and other explanatory information set out in pages 19 to 50.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards (IFRSs), modified and adopted by the Maldives Monetary Authority ("MMA") in relation to the requirements of International Accounting Standard – 39 ("IAS 39") Financial Instruments Recognition and Measurement, on loan loss provision and of International Financial Reporting Standard - 7 ("IFRS 7') Financial Instruments: Disclosures, on Credit Risk Grading. ("IFRSs Adopted by the Maldives Monetary Authority") as described in note 2(a) to the financial statements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31st December 2014 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards adopted by the Maldives Monetary Authority.

Basis of Accounting

Without modifying our opinion, we draw attention to Note 2 (a) to the financial statements, which describes the Basis of Accounting. The financial statements are prepared to assist to the Company to meet the requirements of the shareholders and the Maldives Monetary Authority.

KPMG

Chartered Accountants
29th April 2015
Male'

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

AS AT 31ST DECEMBER	Note	2014 MVR	2013 MVR
ASSETS			
Cash and Balances with Other Banks	6	151,805,831	51,899,245
Balances with Maldives Monetary Authority	7	291,315,094	366,536,015
Available for Sale Investment	8	7,000,000	6,000,000
Investments Held to Maturity	9	452,479,442	284,275,000
Net Receivables from Financing Activities	10	367,922,804	253,983,116
Property, Plant and Equipment	11	12,950,745	8,767,666
Intangible Assets	12	7,038,111	6,978,360
Other Assets	13	29,910,028	27,530,922
Total Assets		1,320,422,055	1,005,970,324
LIABILITIES			
Customers' Accounts	14	1,121,778,289	840,880,899
Current Tax Liability		5,233,764	868,699
Deferred Tax Liability	26.2	2,469,873	1,515,863
Other Liabilities	15	7,579,815	9,271,935
Total liabilities		1,137,061,741	852,537,396
EQUITY			
Share Capital	16	180,000,000	165,000,000
Statutory Reserve	17	11,872,056	4,908,363
Fair Value Reserve		(1,000,000)	(2,000,000)
Accumulated Losses		(7,511,742)	(14,475,435)
Total Equity		183,360,314	153,432,928
Total Liabilities and Equity		1,320,422,055	1,005,970,324

Figures in brackets indicate deductions.

The financial statements are to be read in conjunction with the related notes which form an integral part of the financial statements of the Bank set out on pages 19 to 50. The Report of the Independent Auditors is given in pages 13 and 14.

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

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

29th April 2015

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

FOR THE YEAR ENDED 31ST DECEMBER	Note	2014 MVR	2013 MVR
Income from Financing Assets	18	37,900,837	19,606,506
Profit Paid on Customer Accounts	19	(5,861,042)	(4,299,965)
Net Spread Earned on Financing Activities		32,039,795	15,306,541
Commission and Fee Income	20	14,044,124	14,447,316
Commission and Fee Expense	20	(652,741)	(621,956)
Net Commission and Fee Income		13,391,383	13,825,360
Foreign Exchange Gain	21	748,330	663,280
Income from Available for sale and Held to Maturity Investments	22	24,449,311	12,310,744
Total Operating Income		70,628,819	42,105,925
Personnel Costs	23	(22,131,860)	(17,262,252)
General and Administrative Expenses	24	(19,255,594)	(13,960,975)
Depreciation and Amortization	25	(6,185,125)	(4,952,995)
Total Operating Expenses		(47,572,579)	(36,176,222)
Profit before Provisions and Tax		23,056,240	5,929,703
Net Provision for Impairment Losses	9&10	(2,941,080)	(2,081,324)
Profit before Tax		20,115,160	3,848,379
Income Tax Expense	26	(6,187,774)	190,309
Profit for the Year		13,927,386	4,038,688
Other Comprehensive Income			
Change in fair value of Investments Available-for-sale	8	1,000,000	(1,900,000)
Total comprehensive Income for the Year		14,927,386	2,138,688
Basic and Diluted Earnings Per Share	27	78	26

Figures in brackets indicate deductions.

The financial statements are to be read in conjunction with the related notes which form an integral part of the financial statements of the Bank set out on pages 19 to 50. The Report of the Independent Auditors is given in pages 13 and 14.

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

FOR THE YEAR ENDED 31ST DECEMBER 2014

	Share Capital MVR	Statutory Reserve MVR	Fair Value Reserve MVR	Accumulated Losses MVR	Total MVR
Balance as at 1st January 2013	150,000,000	2,889,019	(100,000)	(16,494,779)	136,294,240
Total comprehensive income for the year					
Profit for the year	-	-	-	4,038,688	4,038,688
Other comprehensive income	-	-	(1,900,000)	-	(1,900,000)
Total comprehensive income for the year	-	-	(1,900,000)	4,038,688	2,138,688
Transactions with equity holders directly recognized in equity					
Issue of shares during the year **(Note 16.2)**	15,000,000	-	-	-	15,000,000
Total contribution by equity holders	15,000,000	-	-	-	15,000,000
Profit Transferred to statutory reserve **(Note 17)**	-	2,019,344	-	(2,019,344)	-
Balance as at 31st December 2013	165,000,000	4,908,363	(2,000,000)	(14,475,435)	153,432,928
Balance as at 1st January 2014	165,000,000	4,908,363	(2,000,000)	(14,475,435)	153,432,928
Total comprehensive income for the year					
Profit for the year	-	-	-	13,927,386	13,927,386
Other comprehensive income	-	-	1,000,000	-	1,000,000
Total comprehensive income for the year	-	-	1,000,000	13,927,386	14,927,386
Transactions with equity holders directly recognized in equity					
Issue of shares during the year **(Note 16.2)**	15,000,000	-	-	-	15,000,000
Total contribution by equity holders	15,000,000	-	-	-	15,000,000
Profit Transferred to statutory reserve **(Note 17)**	-	6,963,693	-	(6,963,693)	-
Balance as at 31st December 2014	180,000,000	11,872,056	(1,000,000)	(7,511,742)	183,360,314

Figures in brackets indicate deductions.

The financial statements are to be read in conjunction with the related notes which form an integral part of the financial statements of the Bank set out on pages 19 to 50. The Report of the Independent Auditors is given in pages 13 and 14.

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

FOR THE YEAR ENDED 31ST DECEMBER	Note	2014 MVR	2013 MVR
Cash flows from operating activities			
Profit before tax		20,115,160	3,848,379
Adjustments for:			
Depreciation and Amortization	**25**	6,185,125	4,952,995
Income from Financing assets	**18**	(37,900,837)	(19,606,506)
Return on deposit accounts	**19**	5,861,042	4,299,965
Income from Held to maturity Investments	**22**	(23,426,311)	(11,816,744)
Dividend Income	**22**	(1,023,000)	(494,000)
Net Provision for Impairment Losses	**9&10**	2,941,080	2,081,324
Operating Loss before changes in Operating Assets and Liabilities		(27,247,741)	(16,734,587)
Change in Customers' Accounts		280,525,489	272,262,295
Change in Other Assets		(2,379,106)	(24,314,994)
Change in Other Liabilities		(1,692,120)	7,619,069
Change in Receivables from Financing Activities		(112,905,443)	(154,139,853)
Cash generated from operating activities		136,301,079	84,691,930
Tax paid		(868,699)	-
Dividend Received		1,023,000	494,000
Profit paid to deposit holders		(5,489,141)	(3,834,719)
Income Received from Held to Maturity investments		19,853,869	7,341,743
Income Received from Financing Assets		33,925,512	19,113,493
Net Cash generated from operating activities		184,745,620	107,806,447
Cash flows from investing activities			
Acquisition of Property, Plant and Equipment	**11**	(8,364,362)	(2,067,223)
Acquisition of Intangible Assets	**12**	(2,063,593)	(103,710)
Investment in Held to maturity investments		(294,632,000)	(260,000,000)
Cash Received from Held to Maturity investments		130,000,000	15,395,000
Net Cash Used in investing activities		(175,059,955)	(246,775,933)
Cash flows from financing activities			
Proceeds from issue of shares	**16.2**	15,000,000	15,000,000
Net Cash from financing activities		15,000,000	15,000,000
Net increase/(decrease) in cash and cash equivalents		24,685,665	(123,969,486)
Cash and cash equivalents at the beginning of the year		418,435,260	542,404,746
Cash and cash equivalents at the end of the year	**6 & 7**	443,120,925	418,435,260

Figures in brackets indicate deductions.

The financial statements are to be read in conjunction with the related notes which form an integral part of the financial statements of the Bank set out on pages 19 to 50. The Report of the Independent Auditors is given in pages 13 and 14.

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 6th March 2011. The registered office of the Bank is at H.Coconut Villa, Ameer Ahamed Magu, Male' 20030, Republic of Maldives.

The Bank provides full range of banking services based on Shari'a principles including accepting deposits, granting of financing facilities and other ancillary services.

2. BASIS OF PREPARATION

(a) Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) with the modification required by the Maldives Monetary Authority (the "MMA") in relation to the requirements in International Accounting Standard – 39 ("IAS 39") Financial Instruments Recognition and Measurement, on loan loss provision and to International Financial Reporting Standard - 7 ("IFRS 7') Financial Instruments: Disclosures, on Credit Risk Grading. ("IFRSs Adopted by the Maldives Monetary Authority")

In accordance with the Circular No. CN – CBSS/2009/5 issued by the MMA, banks operating in the Maldives are exempted from applying IAS 39 or IFRS 7 in respect of credit risk grading and loan loss provisioning. Further, as per the circular no. 98 – CBSS/2012/39 temporary leeway has been provided to the banks in respect of the provisioning. Accordingly, provision for impairment loss on loans and advances (financing) has been recognized and measured in accordance with the MMA guidelines disclosed in note 3.5 (viii) to the financial statements.

(b) Basis of Measurements

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

(c) Functional and Presentation Currency

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

(d) Use of Estimates and Judgments

The preparation of the financial statements in conformity with IFRSs adopted by MMA requires the management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any past/future periods affected.

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Foreign Currency Transactions

Transactions in currencies other than Maldivian Rufiyaa are translated to Maldivian Rufiyaa at the exchange rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated to Maldivian Rufiyaa at the exchange rate ruling at the reporting date. Foreign exchange differences arising on translation are recognized in the profit or loss.

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

3.2 Income from Financing and Investment Activities

- Income on financing contracts of Murabaha is recognized on time apportionment basis using the decline installment method.
- Income on Istisna'a financing is recognized on time apportioned basis over the period and the profit rate is determined in advance upon agreement of all parties.
- 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)

3.3 Fees and Commission

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

Other fees and commission income, including account servicing fees, 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.

3.4 Tax Expense

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

Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted at the reporting date.

Deferred tax

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

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

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

3.5 Financial Instruments

(i) Recognition and Initial measurement

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

All other financial assets and liabilities are initially recognized on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial Instruments (Continued)

(ii) De-recognition

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

In case if the Bank enters into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not de-recognized.

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

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

(iii) Offsetting

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

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

(iv) Amortized cost Measurement

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

(v) Fair value Measurement

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial Instruments (Continued)

(vi) Cash and Cash Equivalents

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

(vii) Receivables

Receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition receivables are measured at amortized cost using the effective profit rate, less any impairment losses.

Receivables comprise receivables from Murabaha, Istisna'a, Diminishing Musharaka, Investment in Placements and other Receivables.

Receivables and Balances from Financing Activities

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

Murabaha Receivables

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

The Bank arranges a Murabaha transaction by buying a commodity (which represents the object of the Murabaha) and then sells this commodity to the Murabeha (beneficiary) after computing a margin of profit over cost which is disclosed to the buyer. The sale price (cost plus the profit margin) is paid in installments by the Murabeha over the agreed period.

Istisna'a

Istisna'a is a sale contract between the ultimate buyer (al-mustasni') and the seller (al-sani'), whereby the seller based on an order from the ultimate buyer undertakes to have manufactured or otherwise acquired the subject matter of the contract (al-masnoo') according to specification and sell it to the ultimate buyer for an agreed upon price and method of settlement we as agreed in advance, by installments or deferred to a specific future time. Istisna'a Contracts represent the disbursements made as of the reporting date against the assets acquired or manufactured or built for istisna'a project plus income recognized, less payments received as installments.

Diminishing Musharaka

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial Instruments (Continued)

(vii) Receivables (Continued)

(vii) Available-for-sale Financial Assets

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

(viii) 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.

(ix) Identification and Measurement of Impairment

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

Specific Loan (financing) Loss Provision requirement

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial Instruments (Continued)

(ix) Identification and Measurement of Impairment (Continued)

General Loan (financing) Loss Provision Requirement

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

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

De-recognition of Impairment Provision

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

Impairment of Available-for-Sale Investment

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

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

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

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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial Instruments (Continued)

(x) Financial Liabilities (Non- derivative)

Customer Accounts comprise following products.

(a) Current Accounts

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

Salient features:

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

(b) Savings Accounts

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

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

Salient features:

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

(c) General Investment Accounts

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

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

Salient features:

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial Instruments (Continued)

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

(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

3.6 Share Capital

Ordinary Shares

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

3.7 Property, Plant and Equipment

(i) Recognition and Measurement

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

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

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

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

(ii) Subsequent Costs

The cost of replacing a part of an item of property or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Property, Plant and Equipment (Continued)

(iii) Depreciation

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

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

Office Equipment	5 Years
Computer Equipment	4 Years
Furniture	5 Years
Leasehold Building	Over lease period
Motor Vehicles	5 Years

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.

3.8 Intangible Assets

(i) Recognition and Measurement

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

(ii) Subsequent Expenditure

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

(iii) Amortization

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

Computer Software	5 Years
Core Banking and Database software	7 Years

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Impairment of Non-Financial Assets

The carrying amounts of the Bank's non-financial assets other than deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

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

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

In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

3.10 Provisions

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

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

3.11 Employee Benefits

(a) Short-Term Benefits

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

3.12 Operating Expenses

All operating expenses incurred in the running of the Bank and in maintaining the capital assets in a state of efficiency has been charged to the 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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Earnings per share

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

4. DETERMINATION OF FAIR VALUES

A number of the Bank's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities.

Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Receivables

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

(ii) Asset Available for Sale

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

(iii) Financial liabilities (Non-derivative)

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

(iv) Held to Maturity Investments

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

5. NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

New and Amended Standards and Interpretations effective and adopted by the Bank from 1st January 2014.

Title	Effective Date	Description	Impact on the Bank
Amendments to IAS 32	1st January 2014	These amendments provide classification on the application of the offsetting of financial assets and financial liabilities	The Bank adopted in 2014.These improvements did not have material impact on the Bank

5. NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS (CONTINUED)

New and Amended Standards and Interpretations effective and adopted by the Bank from 1st January 2014. (Continued)

Title	Effective Date	Description	Impact on the Bank
Amendments to IAS 36	1st January 2014	The amendment reduce the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less cost of disposal.	The Bank adopted in 2014.These improvements did not have a material impact on the Bank.
Annual improvements to IFRS 2010-2012 and 2011-2013 cycles	1st January 2014	The improvements to IFRS contain miscellaneous necessary improvements.	The Bank adopted in 2014.These improvements did not have a material impact on the Bank.

New and Amended Standards and Interpretations not yet effective and not adopted by the Bank.

Title	Effective Date	Description	Expected adoption date and impact on the Bank
IFRS 9 Financial Instruments	Annual period beginning on or after 1st January 2018	This IFRS requires that entity classifies its financial assets as subsequently measured at either amortised cost or fair value depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.	The Bank will not early adopt this standard.
IFRS 15 Revenue from Contract with customers	Annual period beginning on or after 1st January 2017	IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs.	The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 15

AS AT 31ST DECEMBER 2014

6 CASH AND BALANCES WITH OTHER BANKS

	2014 MVR	2013 MVR
Cash in Hand **(Note 6.1)**	44,540,973	29,604,104
Balances with Other Banks **(Note 6.2)**	107,264,858	22,295,141
	151,805,831	51,899,245

6.1 CASH IN HAND

	2014			2013		
	Foreign Currency	Exchange Rate	Carrying Amount	Foreign Currency	Exchange Rate	Carrying Amount
US Dollars in hand	1,251,264	15.395	19,263,209	628,018	15.395	9,668,337
EURO in Hand	235	18.943	4,452	705	20.944	14,766
MVR in Hand	-	-	25,273,312	-	-	19,921,001
Total Cash in Hand			44,540,973			29,604,104

6.2 BALANCES WITH OTHER BANKS

	2014			2013		
	Foreign Currency	Exchange Rate	Carrying Amount	Foreign Currency	Exchange Rate	Carrying Amount
Habib American Bank (US$)	6,572,731	15.395	101,187,195	1,330,250	15.395	20,479,205
Commerz Bank (EUR)	33,503	18.943	634,637	81,703	20.944	1,711,216
Bank of Maldives (US$)	197,505	15.395	3,040,585	296	15.395	4,554
Bank of Maldives (MVR)	-	-	2,402,441	-	-	100,166
Total Balances with Other Banks			107,264,858			22,295,141

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

7 BALANCES WITH MALDIVES MONETARY AUTHORITY

	2014 MVR	2013 MVR
Minimum Reserve Requirement (MRR) **(Note 7.1)**	218,429,997	205,636,694
Balance in Excess of MRR with MMA **(Note 7.2)**	72,885,097	160,899,321
Total Balance with MMA	291,315,094	366,536,015

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 25% of the Customers' deposits with the Bank. However, as per circular no: CN-BSD/2014/01 dated 6th February 2014, the Bank is required to maintain a reserve deposit based on 20% of the Customer's deposit with the Bank. As at the reporting date, average reserve deposit requirement is MRf 218,210,093/- (2013: 205,636,694/-). The Bank has maintained the minimum reserve requirement according to the regulations issued by the MMA.

7.2 Balance in Excess to Minimum Reserve Requirement

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

AS AT 31ST DECEMBER 2014

8 AVAILABLE FOR SALE INVESTMENT

	2014 MVR	2013 MVR
As at 1st January	6,000,000	7,900,000
Change in the Fair Value during the year	1,000,000	(1,900,000)
As at 31st December	7,000,000	6,000,000

Available for sale investment represents the investment in the quoted shares of Dhivehi Rajjeyge Gulhun Plc. The investment comprised of 100,000 shares with nominal value of MVR 2.5/- which were purchased at MVR 80/- per share. As at the reporting date, the shares were valued at MVR 70/- each (2013: MVR 60/-).

9 INVESTMENTS HELD TO MATURITY

	Contract type	Country	Maturity	Indicative Rate	2014 MVR	2013 MVR
HDFC, Maldives	Wakalah	Maldives	1 year	8.5% p.a.	20,364,357	20,425,000
MOFT, Maldives	Wakalah	Maldives	1 year	7.5% p.a.	31,268,761	112,385,616
ICD Money Market Fund LLP	Mudharabah	Malaysia	On demand	4.54% p.a.	25,090,163	-
Treasury Bills (MMA)	Mudharabah	Maldives	95 Days	7.5% p.a.	375,956,161	151,664,384
					452,679,442	284,475,000
Less :						
General Provision on Placement with HDFC as per MMA requirement					(200,000)	(200,000)
Net Investment in Placements					452,479,442	284,275,000

10 NET RECEIVABLES FROM FINANCING ACTIVITIES

	2014 MVR	2013 MVR
Murabaha	131,507,193	104,851,908
Istisna'a	167,918,614	124,532,796
Diminishing Musharaka	74,565,127	27,558,018
Total Receivables from Financing Activities	373,990,934	256,942,722
Less :		
Specific Financing Loss Provision **(Note 10.1)**	(2,324,166)	(449,257)
General Financing Loss Provision **(Note 10.2)**	(3,532,887)	(2,466,716)
Profit in Suspense	(211,077)	(43,633)
Net Receivables from Financing Activities	367,922,804	253,983,116

10.1 Movement in Specific Financing Loss Provision

	2014 MVR	2013 MVR
As at 1st January	449,257	-
Add: Provision made during the year	1,874,909	449,257
As at 31st December	2,324,166	449,257

10.2 Movement in General Provision

	2014 MVR	2013 MVR
As at 1st January	2,466,716	1,034,649
Add: Provision made during the year	1,066,171	1,432,067
As at 31st December	3,532,887	2,466,716

AS AT 31ST DECEMBER 2014

11 PROPERTY, PLANT AND EQUIPMENT

	Leasehold Building MVR	Computer Equipment MVR	Furniture MVR	Office Equipment MVR	Total 2014 MVR	Total 2013 MVR
Cost						
As at 1st January	2,741,520	6,179,896	1,111,291	5,119,712	15,152,419	13,656,702
Additions during the year	3,157,740	3,446,230	199,704	543,213	7,346,887	1,495,717
Transferred from assets in progress	-	458,197	104,521	8,788	571,506	-
As at 31st December	5,899,260	10,084,323	1,415,516	5,671,713	23,070,812	15,152,419
Accumulated Depreciation						
As at 1st January	1,365,611	3,334,045	379,056	1,877,547	6,956,259	3,793,252
Charge for the year	792,619	1,982,623	269,395	1,136,646	4,181,283	3,163,007
As at 31st December	2,158,230	5,316,668	648,451	3,014,193	11,137,542	6,956,259
Net Carrying Value						
As at 31st December 2014	3,741,030	4,767,655	767,065	2,657,520	11,933,270	
As at 31st December 2013	1,375,909	2,845,851	732,235	3,242,165		8,196,160
Assets in Progress **(Note 11.1)**					1,017,475	571,506
					12,950,745	8,767,666

11.1 Assets in Progress

	2014	2013
As at 1st January	571,506	-
Additions During the Year	1,017,475	571,506
Capitalized during the year	(571,506)	-
As at 31st December	1,017,475	571,506

11.2 Some of the assets which were purchased during the year, but not ready for the intended use as at reporting date have been classified as assets in progress.

12 INTANGIBLE ASSETS

	2014			2013		
	Core Banking & Database Software MVR	Other Computer Software MVR	Total MVR	Core Banking & Database Software MVR	Other Computer Software MVR	Total MVR
Cost						
As at 1st January	9,225,285	2,412,303	11,637,588	9,225,285	2,308,593	11,533,878
Additions during the year	1,383,272	680,321	2,063,593	-	103,710	103,710
As at 31st December	10,608,557	3,092,624	13,701,181	9,225,285	2,412,303	11,637,588
Accumulated Amortization						
As at 1st January	3,653,069	1,006,159	4,659,228	2,335,171	534,069	2,869,240
Amortization during the year	1,489,655	514,187	2,003,842	1,317,898	472,090	1,789,988
As at 31st December	5,142,724	1,520,346	6,663,070	3,653,069	1,006,159	4,659,228
Carrying Amount						
As at 31st December	5,465,833	1,572,278	7,038,111	5,572,216	1,406,144	6,978,360

AS AT 31ST DECEMBER 2014

13 OTHER ASSETS

	2014 MVR	2013 MVR
Refundable Deposits **(Note 13.1)**	924,250	862,939
Prepayments **(Note 13.2)**	1,697,481	1,144,725
Advance Payments against Financing Assets **(Note 13.3)**	26,442,404	21,835,159
LC Murabaha Goods in transit	-	3,275,562
Other Receivables	845,893	412,537
	29,910,028	27,530,922

13.1 The refundable deposits mainly comprised of the security deposits paid for the leasehold buildings including the deposit for the ATM kiosks.

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

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

14 CUSTOMERS' ACCOUNTS

	2014 MVR	2013 MVR
Current Accounts	473,875,981	397,045,243
Saving Accounts	492,168,608	359,523,835
General Investment Accounts	126,105,395	66,697,500
Margin Accounts	29,628,305	17,614,321
	1,121,778,289	840,880,899

15 OTHER LIABILITIES

	2014 MVR	2013 MVR
Accrued Expenses	695,305	502,309
Pension Payable	148,192	129,064
Payable to Suppliers	93,379	3,277,560
Cashiers Cheque	792,815	474,022
Charity funds from financing	1,031,154	577,356
Retention on Istisna'a projects	4,076,394	2,379,904
Deferred income	646,405	1,640,098
Other Liabilities	96,171	291,622
	7,579,815	9,271,935

16 SHARE CAPITAL

16.1 Authorized Share Capital

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

16.2 Issued and Fully Paid Share Capital

Name of the Shareholders	2014 No. of shares	2014 Value of Shares	2014 %	2013 No. of shares	2013 Value of Shares	2013 %
Islamic Corporation for the Development of the Private Sector	153,000	153,000,000	85%	140,250	140,250,000	85%
The Government of Maldives	27,000	27,000,000	15%	24,750	24,750,000	15%
Total	180,000	180,000,000	100%	165,000	165,000,000	100%

During the year, the Bank has issued 15,000 (2013: 15,000) ordinary shares of MVR 1,000/- each for which the shareholders have fully subsribed.

16.3 Dividend and Voting Rights

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

No dividends have been declared by the board of directors for the year ended 31st December 2014 (2013 : Nil).

AS AT 31ST DECEMBER 2014

17 STATUTORY RESERVE

According to the Maldives Banking Act No 24/2010, a bank shall allocate, after taxes, at least 50% of its net distributable profits for the formation of a capital reserve until the reserve totals 50% of its paid-up capital. Once the reserve reaches 50% of the Bank’s paid-up capital, the allocation shall not be less than 25% of the Bank’s net distributable profit until the reserve totals an amount equal to the bank’s paid-up capital. The Bank may not reduce its capital and the reserve accumulated in the manner described in the act or in any other manner without the MMA’s prior approval. The Bank has transferred MRf. 6,963,693/- during the year ended 31st December 2014 (2013: MRf. 2,019,344/-).

18 INCOME FROM FINANCING ASSETS

	2014 MVR	2013 MVR
Income from Murabaha	15,383,281	8,188,543
Income from Istisna'a	17,168,268	9,639,399
Income from Diminishing Musharaka	5,560,365	1,822,197
	38,111,914	19,650,139
Profit in suspense as per MMA requirement	(211,077)	(43,633)
Net Income	37,900,837	19,606,506

19 PROFIT PAID ON CUSTOMER ACCOUNTS

	2014 MVR	2013 MVR
Profit paid on General Investment Accounts	2,288,032	1,685,842
Profit paid on Savings Accounts	3,573,010	2,614,123
	5,861,042	4,299,965

20 NET COMMISSION AND FEE INCOME

	2014 MVR	2013 MVR
Commission and Fee income		
Fees and Commissions from Banking Services	563,673	403,277
Fees and Commissions from Trade Finance Services	1,250,918	2,479,157
Fees and Commissions from Remittance Services	10,939,456	10,349,119
Fees and Commissions from ATM and POS Services	1,253,843	1,160,324
Fees and Commissions from Financing Processing	-	19,000
Other Fees and Commissions Income	36,234	36,439
Total Commission and Fee income	14,044,124	14,447,316
Commission and Fee Expense		
Fund Transfer Expenses	(652,741)	(621,956)
Total Commission and Fee Expense	(652,741)	(621,956)
Net Commission and Fee Income	13,391,383	13,825,360

21 FOREIGN EXCHANGE GAIN

	2014 MVR	2013 MVR
Foreign Exchange Gain	748,330	663,280

FOR THE YEAR ENDED 31ST DECEMBER 2014

22 INCOME FROM AVAILABLE FOR SALE AND HELD TO MATURITY INVESTMENTS

	2014 MVR	2013 MVR
Dividend from Available for sale Investment **(Note 22.1)**	1,023,000	494,000
Wakala Placement Income	5,573,787	10,152,360
Islamic Treasury bill Income	17,852,524	1,664,384
	24,449,311	12,310,744

22.1 The dividend income represents the dividend received during the year from investment in the quoted shares of Dhivehi Raajjeyge Gulhun Plc. The dividend was declared at MVR 4.5 per share as interim dividend & MVR 5.73 per share as final dividend for the year 2014.

23 PERSONNEL COSTS

	2014 MVR	2013 MVR
Salaries and Wages	16,938,156	13,878,877
Contribution to Defined contribution plans	863,376	696,418
Other Staff Expenses	4,330,328	2,686,957
	22,131,860	17,262,252

24 GENERAL AND ADMINISTRATIVE EXPENSES

	2014 MVR	2013 MVR
Rent	5,033,064	4,118,545
Legal and Professional Expenses	228,853	101,504
Marketing and Advertising Expenses	908,890	456,964
Communication Expenses	1,013,197	717,833
Technology Related Expenses	2,132,122	1,992,743
Electricity Expenses	1,499,378	1,172,248
Stationary Costs	757,202	743,854
Directors allowance and Board related Expenses	850,346	440,906
Training and Development Expenses	310,754	462,611
Premises Security and Insurance	2,099,035	1,111,048
Connectivity and Internet Charges	1,546,193	1,270,222
Utility Expenses	394,091	248,066
Travelling Expenses	803,678	363,238
Sharia Board Related Expenses	373,869	400,044
Charitable Donations	132,681	-
Other Operating Expenses	1,172,241	361,149
	19,255,594	13,960,975

25 DEPRECIATION AND AMORTIZATION

	2014 MVR	2013 MVR
Depreciation on Property Plant and Equipment **(Note 11)**	4,181,283	3,163,007
Amortization on Intangible Assets **(Note 12)**	2,003,842	1,789,988
	6,185,125	4,952,995

FOR THE YEAR ENDED 31ST DECEMBER 2014

26 INCOME TAX EXPENSE

	2014 MVR	2013 MVR
Income Tax for the year **(Note 26.1)**	5,346,078	868,699
Over provision of Tax for previous year	(112,314)	-
Deferred Tax Liability recognized / (derecognized) for the Year **(Note 26.2)**	954,010	(1,059,008)
	6,187,774	(190,309)

Income tax is computed at the rate of 25% on the taxable income for the year in accordance with the Bank Profit Tax regulations issued in September 1999 by the Maldives Inland Revenue Authority.

26.1 Reconciliation Between Accounting Profit and Taxable Income :

	2014 MVR	2013 MVR
Accounting Profit before Tax	20,115,160	3,848,379
Aggregate Disallowable Items	7,251,296	7,034,319
Aggregate Allowable Items	(5,982,145)	(7,407,903)
Taxable Income for the year	21,384,311	3,474,795
Income Tax @ 25%	5,346,078	868,699

26.2 Deferred Tax Liability

	2014	2013
As at 1st January	1,515,863	2,574,871
Recognized / (Derecognized) during the year	954,010	(1,059,008)
As at 31st December	2,469,873	1,515,863

Deferred Tax liability is attributable to the following;

	31/12/2014		31/12/2013	
	Temporary Difference MVR	Tax Effect MVR	Temporary Difference MVR	Tax Effect MVR
Property, Plant and Equipment	4,251,682	1,062,920	1,953,419	488,355
Intangible Assets	5,627,812	1,406,953	4,110,034	1,027,508
	9,879,494	2,469,873	6,063,453	1,515,863

27 BASIC AND DILUTED EARNINGS PER SHARE

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

	2014	2013
Profit for the year - MVR	13,927,386	4,038,688
Weighted Average Number of Ordinary Shares as at year end	177,450	156,250
Basic Earnings Per Share - MVR	78	26

AS AT 31ST DECEMBER 2014

28 CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

31st December 2014	Note	Held-to-maturity	Loans and Receivables	Available-for-sale	Other amortised cost	Total carrying amount
Cash and Balances with Other Banks	6	-	151,805,831	-	-	151,805,831
Balances with Maldives Monetary Authority	7	-	291,315,094	-	-	291,315,094
Available for Sale Investment: Equity Shares	8	-	-	7,000,000	-	7,000,000
Investments Held to Maturity	9	452,679,442	-	-	-	452,679,442
Receivables from Financing Activities	10	-	373,990,934	-	-	373,990,934
Other Assets	13	-	1,770,143	-	-	1,770,143
Total Assets		452,679,442	818,882,002	7,000,000	-	1,278,561,444
Customers' Accounts	14	-	-	-	1,121,778,289	1,121,778,289
Other Liabilities	15	-	-	-	6,238,105	6,238,105
Total Liabilities		-	-	-	1,128,016,394	1,128,016,394

31st December 2013	Note	Held-to-maturity	Loans and Receivables	Available-for-sale	Other amortised cost	Total carrying amount
Cash and Balances with Other Banks	6	-	51,899,245	-	-	51,899,245
Balances with Maldives Monetary Authority	7	-	366,536,015	-	-	366,536,015
Available for Sale Investment: Equity Shares	8	-	-	6,000,000	-	6,000,000
Investments Held to Maturity	9	284,475,000	-	-	-	284,475,000
Receivables from Financing Activities	10	-	256,942,722	-	-	256,942,722
Other Assets	14	-	1,275,476	-	-	1,275,476
Total Assets		284,475,000	676,653,458	6,000,000	-	967,128,458
Customers' Accounts	15	-	-	-	840,880,899	840,880,899
Other Liabilities	16	-	-	-	7,129,528	7,129,528
Total Liabilities		-	-	-	848,010,427	848,010,427

29 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial Risk Management

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

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

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

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

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

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

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

(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 financings to customers and Deposits and placements with other banks, and investment in securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

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

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

Settlement risk

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

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

The Bank's credit risk management framework

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

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

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

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

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

29 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(i) Credit Risk (Continued)

The Bank's credit risk management framework (Continued)

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

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

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

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

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

Diversification of financing and investment activities;

Reviewing compliance, on an ongoing basis, with agreed exposure limits relating to counterparties, industries and countries and reviewing limits in accordance with risk management strategy and market trends.

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

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

	Carrying Amount	
	31/12/2014	**31/12/2013**
	MVR	**MVR**
Cash and Balances with Other Banks	151,805,831	51,899,245
Available for Sale Investments	7,000,000	6,000,000
Gross Receivables from Financing Activities	373,990,934	256,942,722
Held to Maturity Investments	452,679,442	284,475,000
Other Assets	1,770,143	1,275,476
	987,246,350	616,688,534

Receivables from Financing Activities

Receivables from Financing Activities are summarised as follows;

	31/12/2014	**31/12/2013**
	MVR	**MVR**
Neither past due nor impaired	364,586,128	254,922,340
Past due but not impaired	2,922,575	498,010
Impaired	6,482,230	1,522,372
Total	373,990,934	256,942,722
Less: Provision for Impairment	(5,857,053)	(2,915,973)
Less: Profit in Suspense	(211,077)	(43,633)
Net	367,922,804	253,983,116

a) Receivable from financing activities Neither past due nor impaired

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

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

(ii) To manage and mitigate risk of loss in the event of default, the Bank looks first at the protection accorded by the obliger's net assets to the Bank's exposure to the company. Where appropriate, the Bank will examine the quality, liquidity and hence the realisable value of its principal operating assets such as account receivables, inventory and capital assets. In establishing financial protection for the Bank's exposure, the Bank may take security in such assets by way of mortgages, pledges, assignments and the like. In addition the Bank may also take additional collaterals offered by the company's principals or other third party to ensure adequate protection with a margin. Taking collateral is a prevalent practice in the local financing environment as additional practical and prudential measures of mitigating against potential loss at default. Main reasons for doing so are due to (a) the general lack of confidence in the reliability of financial statements provided, particularly unaudited and/or stale ones, and (b) ensure that assets are not secured to other creditors to the Bank's detriment.

b) Receivable from financing activities past due but not impaired

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

AS AT 31ST DECEMBER 2014

29 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(i) Credit Risk (Continued)

Receivables from Financing Activities (Continued)

c) Receivable from financing activities impaired

The individually impaired receivables from financing activities before taking into the consideration of the cash flows from collateral held is MRf. 6,482,231/- (2013: MRf. 1,522,372/-).

Non-performing assets by past due period	**31/12/2014**	**31/12/2013**
	MVR	**MVR**
Substandard	3,515,829	1,197,201
Doubtful	312,272	325,171
Loss	2,654,129	-
	6,482,231	1,522,372

Receivables from Financing Activities net of profit in suspense	**31/12/2014**	**31/12/2013**
	MVR	**MVR**
Neither past due nor impaired	364,586,128	254,922,340
Past due but not impaired	2,922,575	498,010
Impaired	6,271,153	1,478,739
Total	373,779,857	256,899,089

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.

	31/12/2014		**31/12/2013**	
	Gross MVR	**Impairment MVR**	**Gross MVR**	**Impairment MVR**
Receivables from Financing Activities				
Financing towards Government of Maldives	25,910,322	-	20,910,567	-
Standard (Pass)	338,675,806	3,386,758	234,011,773	2,441,816
Special Mention	2,922,575	146,129	498,010	24,901
Substandard	3,407,959	851,989	1,160,452	290,113
Doubtful	286,334	143,167	318,287	159,144
Loss	143,486	143,486	-	-
Loss (360-719 days) - secured potion	2,433,375	1,185,524	-	-
	373,779,857	5,857,053	256,899,089	2,915,973
Provisions made on placements				
Investment in Placements **(HDFC)**	20,000,000	200,000	20,000,000	200,000

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

	Financing Activities	
Concentration by Industry;	**31/12/2014**	**31/12/2013**
Consumer Goods	30,101,531	32,870,562
Transport and Communications - Transport	34,240,424	7,649,575
Commerce - Wholesale and retail trade	52,570,661	41,148,329
Construction - Residential/Housing Loans	202,393,618	121,220,576
Construction - commercial building	845,620	1,174,608
Manufacturing - Printing & Publishing	79,963	534,311
Istisna'a Home Finance	38,455,434	31,105,444
Water, Waterworks and Supply	12,574,692	8,056,583
Istisna'a Real Estate Development	-	13,182,734
Fishing	2,728,991	-
Total	373,990,934	256,942,722
Concentration by Sector;		
Businesses	215,997,921	154,452,204
Individuals	157,993,012	102,490,518
Total	373,990,934	256,942,722

29 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(ii) Liquidity Risk

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

a) Management of Liquidity Risk

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

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

• Maintaining a diversified funding base consisting of customer deposits (both retail and corporate) and wholesale market deposits an maintaining contingency facilities.

• 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 th extent to which the Bank's assets are encumbered and so not available as potential collateral for obtaining funding.

• Carrying out stress testing of the Bank's liquidity position.

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

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

b) Exposure to Liquidity Risk

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

	2014 MVR	2013 MVR
At 31st December	41%	51%
Average for the period	49%	67%
Maximum for the period	59%	98%
Minimum for the period	41%	49%

c) Maturity Analysis for Financial assets and financial Liabilities

31st December 2014	Carrying Amount MVR	0-12 Months MVR	1-2 Years MVR	2-5 Years MVR	More than 5 years MVR
Assets					
Cash and Balances with Other Banks	151,805,831	151,805,831	-	-	-
Balances with MMA	291,315,094	291,315,094	-	-	-
Available for Sale Investment	7,000,000	7,000,000	-	-	-
Held to Maturity Investments	452,679,442	452,679,442	-	-	-
Net Receivables from Financing Activities	373,990,934	112,582,968	44,720,128	85,651,600	131,036,238
Other Assets	1,770,143	1,770,143	-	-	-
	1,278,561,444	1,017,153,478	44,720,128	85,651,600	131,036,238
Liabilities					
Customers' Accounts	1,121,778,289	1,110,670,331	6,513,804	4,594,154	-
Other Liabilities	6,238,105	6,238,105	-	-	-
	1,128,016,394	1,116,908,436	6,513,804	4,594,154	-
Net Gap	150,545,050	(99,754,958)	38,206,325	81,057,446	131,036,238

29 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(ii) Liquidity Risk (Continued)

c) Maturity Analysis for Financial assets and financial Liabilities (Continued)

31st December 2013	Carrying Amount MVR	0-12 Months MVR	1-2 Years MVR	2-5 Years MVR	More than 5 years MVR
Assets					
Cash and Balances with Other Banks	51,899,245	51,899,245	-	-	-
Balances with MMA	366,536,015	366,536,015	-	-	-
Available for Sale Investment	6,000,000	6,000,000	-	-	-
Held to Maturity Investments	284,475,000	284,475,000	-	-	-
Net Receivables from Financing Activities	256,942,722	61,168,696	6,767,942	28,747,623	160,258,461
Other Assets	1,275,476	1,275,476	-	-	-
	967,128,458	771,354,432	6,767,942	28,747,623	160,258,461
Liabilities					
Customers' Accounts	840,880,899	830,846,563	2,986,394	7,047,942	-
Other Liabilities	7,129,528	7,129,528	-	-	-
	848,010,427	837,976,091	2,986,394	7,047,942	-
Net Gap	119,118,031	(66,621,659)	3,781,548	21,699,681	160,258,461

c) Liquidity Reserves

	Carrying Amount 31/12/2014 MVR	Carrying Amount 31/12/2013 MVR
Cash and Balances with Other Banks	151,805,831	51,899,245
Balances with Maldives Monetary Authority	291,315,094	366,536,015
	443,120,925	418,435,260

(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 activities.

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

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

AS AT 31ST DECEMBER 2014

29 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(iii) Market risk (Continued)

(a) Profit Rate Risk

Profile

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

	Carrying Amount	
	31/12/2014	**31/12/2013**
Fixed Rate Instruments	**MVR**	**MVR**
Financial Assets		
Receivables from Financing Activities	373,990,934	256,942,722
Financial Liabilities		
Customers' Accounts	618,274,003	426,221,335
Variable Rate Instruments		
Financial Assets		
Investment Held to Maturity	452,679,442	284,475,000

(b) Profit Rate Sensitivity

31st December 2014	**Carrying Amount MVR**	**0-12 Months MVR**	**1-2 Years MVR**	**2-5 Years MVR**	**More than 5 Years MVR**	**Total Sensitive MVR**	**Non rate Sensitive MVR**
Assets							
Cash and Balances with Other Banks	151,805,831	-	-	-	-	-	151,805,831
Balances with MMA	291,315,094	-	-	-	-	-	291,315,094
Receivables from Financing Assets	373,990,934	112,582,968	44,720,128	85,651,600	131,036,238	373,990,935	-
Held to Maturity Investments	452,679,442	452,679,442	-	-	-	452,679,442	-
	1,269,791,301	565,262,410	44,720,128	85,651,600	131,036,238	826,670,377	443,120,925
Liabilities							
Customers' Accounts	1,121,778,289	607,166,045	6,513,804	4,594,154	-	618,274,003	503,504,286
Other Liabilities	6,238,105	-	-	-	-	-	6,238,105
	1,128,016,394	607,166,045	6,513,804	4,594,154	-	618,274,003	509,742,391
Profit Rate Sensitivity Gap	141,774,907	(41,903,635)	38,206,325	81,057,446	131,036,238	208,396,374	(66,621,466)

31st December 2013	**Carrying Amount MVR**	**0-12 Months MVR**	**1-2 Years MVR**	**2-5 Years MVR**	**More than 5 Years MVR**	**Total Sensitive MVR**	**Non rate Sensitive MVR**
Assets							
Cash and Balances with Other Banks	51,899,245	-	-	-	-	-	51,899,245
Balances with MMA	366,536,015	-	-	-	-	-	366,536,015
Receivables from Financing Assets	256,942,722	67,266,670	6,767,942	28,747,623	160,258,461	263,040,696	-
Held to Maturity Investments	284,475,000	284,475,000	-	-	-	284,475,000	-
	959,852,982	351,741,670	6,767,942	28,747,623	160,258,461	547,515,696	418,435,260
Liabilities							
Customers' Accounts	840,880,899	416,186,999	2,986,394	7,047,942	-	426,221,335	414,659,564
Other Liabilities	7,129,528	-	-	-	-	-	7,129,528
	848,010,427	416,186,999	2,986,394	7,047,942	-	426,221,335	421,789,092
Profit Rate Sensitivity Gap	111,842,555	(64,445,329)	3,781,548	21,699,681	160,258,461	121,294,361	(3,353,832)

(c) Sensitivity Analysis - Equity Price Risk

For investments classified as available for sale, a 1% decrease in the prices of Maldives Stock Exchange would have decreased equity by MVR 70,000/-. Available for sale investment as at 31st December 2014 is MVR 7,000,000/-.

29 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(iii) Market risk (Continued)

(d) Exposure to currency risk

Currency risk is the risk that the value of a financial instument will fluctuate due to changes in foreign exchange rates and arises from financial instrument denominated in a foreign currency. In accordance with MMA's Prudential Regulations, the Net Open Position of the bank is to be maintained at 15% for single currency and 40% for all foreign currencies.

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

	31/12/2014		31/12/2013	
	Euro	**US$**	**Euro**	**US$**
Cash and Balances with Other Banks	33,738	8,021,500	82,408	1,958,564
Balances with MMA	-	5,770,350	-	10,102,375
Held to Maturity Investments	-	1,629,761	-	-
Receivables from Financing Assets	-	3,954,189	-	3,811,941
Other Assets	153	83,284	-	73,879
Customers' Accounts	-	(20,752,490)	-	(15,662,100)
Other Liabilities	-	(28,600)	-	(10,856)
Net statement of financial position exposure	33,891	(1,322,006)	82,408	273,803

Sensitivity Analysis

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

	31/12/2014		31/12/2013	
	MVR Strengthening	**MVR Weakening**	**MVR Strengthening**	**MVR Weakening**
Euro (1% Movement)	(6,420)	6,420	(17,260)	17,260
US$ (1% Movement)	203,523	(203,523)	(57,346)	57,346

The following significant exchange rate applied during the period:

	Average Rate		Reporting Date Spot Rate	
	2014	**2013**	**2014**	**2013**
US$ 1 : MRf	15.395	15.395	15.395	15.395
Euro 1 : MRf	19.943	20.354	18.943	20.944

(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 behavior. 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.

AS AT 31ST DECEMBER 2014

29 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(iv) Operational Risk (Continued)

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.

(v) Capital management

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

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

	31/12/2014 MVR	31/12/2013 MVR
Tier 1 ("Core") Capital		
Share Capital	180,000,000	165,000,000
Opening Accumulated Losses	(14,475,435)	(16,494,779)
Statutory Reserve	4,908,363	2,889,019
Total Tier 1 Capital	**170,432,928**	**151,394,240**
Tier 2 ("Supplementary") Capital		
Current Year-to-Date Profit	13,927,386	4,038,688
General Provisions (Limited to 1.25% of RWA)	3,732,887	2,666,716
Subtotal	**17,660,273**	**6,705,404**
Eligible Tier 2 Capital (Limited to 100% of Tier 1 Capital)	**17,660,273**	**6,705,404**
Total Tier 1 and Tier 2 Capital	**188,093,201**	**158,099,644**
Core Capital	170,432,928	151,394,240
Capital Base	188,093,201	158,099,644
Risk Weighted Assets	607,877,702	496,434,840
Tier 1 Risk Based Capital Ratio (Minimum 6%)	28%	30%
Total Risk Based Capital Ratio (Minimum 12%)	31%	32%

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

The Bank has complied with all externally imposed capital requirements.

Capital Allocation

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

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

30 FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Valuation Models

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

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

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

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

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

(b) Valuation Framework

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

• Verification of observable pricing;
• Re-performance of model valuations;
• A review and approval process for new models and changes to models involving both Product Control and Bank Market Risk;

• Quarterly calibration and back-testing of models against observed market transactions;
• Analysis and investigation of significant daily valuation movements; and
• Review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared with the previous month, by a committee of senior Product Control and Bank Market Risk personnel.

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

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

• Understanding how the fair value has been arrived at, the extent to which it represents actual market transactions and whether it represents a quoted price in an active market for an identical instrument;
• When prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement; and
• If a number of quotes for the same financial instrument have been obtained, then how fair value has been determined using those quotes.

Significant valuation issues are reported to the Audit Committee.

(c) Financial Instruments measured at Fair Value - Fair Value hierachy

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

AS AT 31ST DECEMBER 2014

30 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Financial Instruments measured at Fair Value - Fair Value hierachy (Continued)

	Level 1 MVR	Level 2 MVR	Level 3 MVR	Total MVR
31st December 2014				
Available for sale investments	7,000,000	-	-	7,000,000
	7,000,000	-	-	7,000,000
31st December 2013				
Available for sale investments	6,000,000	-	-	6,000,000
	6,000,000	-	-	6,000,000

(d) Financial Instruments not measured at Fair Value

	Level 1 MVR	Level 2 MVR	Level 3 MVR	Total Fair Value MVR	Total Carrying Amount MVR
31st December 2014					
Assets					
Cash and Balances with Other Banks	-	151,805,831	-	-	151,805,831
Balances with Maldives Monetary Authority	-	291,315,094	-	-	291,315,094
Investments Held to Maturity	-	452,679,442	-	-	452,679,442
Receivables from Financing Activities	-	373,990,934	-	-	373,990,934
Other Assets	-	-	1,770,143	-	1,770,143
Liabilities					
Customers' Accounts	-	1,121,778,289	-	-	1,121,778,289
Other Liabilities	-	-	6,238,105	-	6,238,105

	Level 1 MVR	Level 2 MVR	Level 3 MVR	Total Fair Value MVR	Total Carrying Amount MVR
31st December 2013					
Assets					
Cash and Balances with Other Banks	-	51,899,245	-	-	51,899,245
Balances with Maldives Monetary Authority	-	366,536,015	-	-	366,536,015
Investments Held to Maturity	-	284,475,000	-	-	284,475,000
Receivables from Financing Activities	-	256,942,722	-	-	256,942,722
Other Assets	-	-	1,275,476	-	1,275,476
Liabilities					
Customers' Accounts	-	840,880,899	-	-	840,880,899
Other Liabilities	-	-	7,129,528	-	7,129,528

31 RELATED PARTY TRANSACTIONS

31.1

Name of the Related Party	Relationship	Nature of the Transaction	Amount 2014 MVR	Amount 2013 MVR	Balance as at 31/12/2014 MVR	Balance as at 31/12/2013 MVR
Burj Bank Limited- Pakistan	Affiliated Bank	Mudharabah Settlements	-	(15,395,000)	-	-
ICD Money Market Fund LLP	Affiliated Bank	Mudharabah Investments	24,632,000	-	25,090,163	-
		Profit Receivable	458,163			
Government of Maldives	Shareholder	Investment	3,686,138	19,803,357	25,910,322	20,910,567
		Profit for the period	2,443,876	1,107,210		
		Receipts	(1,130,259)			
Ministry of Finance and Treasury	Government Ministry	Investment	-	110,000,000	31,268,761	112,385,616
		Profit for the period	2,987,198	8,009,698		
		Receipts	(84,104,053)	(5,624,082)		

31 RELATED PARTY TRANSACTIONS (CONTINUED)

31.2 Collectively, but not individually, significant transactions.

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

31.3 Transactions with Key Management Personnel

The key management personnel are the members of the Board of Directors. The Company has paid an amount of MVR. 2,703,837/- as emoluments to the key management personnel during the year ended 31st December 2014 (2013: MVR 2,433,931/-).

32 COMMITMENTS

	31/12/2014 MVR	31/12/2013 MVR
(i) Financial Commitments		
Letter of Credits	13,007,561	22,932,718
Guarantees and Bonds	64,660,644	17,976,301
Bill Collection Acceptance	9,224,705	1,491,588
	86,892,910	42,400,607
(ii) Loan Commitments		
Undrawn Financing facilities	122,786,788	124,638,135

33 OPERATING LEASE COMMITMENTS

At 31st December, the future minimum lease payments under operating lease rent were payable as follows.

	31/12/2014 MVR	31/12/2013 MVR
Less than one year	4,657,269	3,705,408
Between one and five years	2,940,527	3,780,449
More than five years	571,419	739,419
	8,169,215	8,225,276

34 CONTINGENT LIABILITIES

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

35 EVENTS AFTER THE REPORTING DATE

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

36 DIRECTORS' RESPONSIBILITY

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

37 COMPARATIVE FIGURES

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