THE MAURITIUS COMMERCIAL BANK (MALDIVES) LIMITED

Financial Statements – 31 December 2012

Independent auditor's report

To the Shareholders and Board of Directors of The Mauritius Commercial Bank (Maldives) Limited

1 We have audited the accompanying financial statements of The Mauritius Commercial Bank (Maldives) Limited which comprise the balance sheet as of 31 December 2012 and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

2 Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standard (IFRS), which have been modified in relation to the requirements of IAS 39 Financial Instruments: Recognition and Measurement in respect of loan loss provisioning, IFRS 7 Financial Instruments : Disclosures in respect of credit risk grading, as described in Note 2.1 to the financial statements, and with the requirements of the Companies Act, No. 10/96, of the Republic of Maldives and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

3 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 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 the auditor's 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, the auditor considers internal control relevant to the entity'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 entity'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.

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Resident Partner Jatindra Bhattray, ACA

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

Opinion

4 In forming our opinion, we have considered the adequacy of the disclosure made in Note 2.1 to the financial statements, in relation to the modifications made on the requirements of IAS 39 Financial Instruments: Recognition and Measurement in respect of loan loss provisioning and IFRS 7 Financial Instruments: Disclosures in respect of credit risk grading, in preparing the accompanying financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of The Mauritius Commercial Bank (Maldives) Limited as of 31 December 2012 and of its financial performance and its cash flows for the year then ended in accordance with,

(a) International Financial Reporting Standards (IFRS), except complying with the requirements of:

- IAS 39 Financial Instruments: Recognition and Measurement in respect of loan loss provisioning which is expected to be in line with the Maldives Monetary Authority (MMA) Prudential Regulation No. 05 – 2009, "Assets, Classification, Provisioning and Suspension of Interest" and temporary leeway as mentioned in MMA circular no: CN-CBSS/2012/5; and
- IFRS 7 Financial Instruments – Disclosures in respect of credit risk grading which is in accordance with circular No: CN – CBSS/2009/05 "Credit Risk Grading and Provisioning Requirements" issued by Maldives Monetary Authority (MMA).

(b) The requirements of the Companies Act No. 10/96 of the Republic of Maldives.

Report on Other Regulatory Requirements

The exposures of 2 corporate borrowers exceeded the limits set by the Maldives Monetary Authority in its Regulation No. 02 - 2009 "Single Borrower and Larger Exposures Limits" by MVR 41,624,833 and MVR 7,384,945 respectively.

6 May 2013
MALE'

PricewaterhouseCoopers
CHARTERED ACCOUNTANTS
Registration No: A0001

Balance sheets

(All amounts in Maldivian Rufiyaa in thousands)	Notes	As at 31 December 2012	2011	2010
ASSETS				
Cash in hand and balance with other banks	5	71,686	40,349	61,950
Balances with Maldives Monetary Authority	6	338,833	274,668	90,028
Investments in treasury bills	7	265,264	78,351	48,629
Loans and advances	8	643,379	606,306	385,414
Other assets	9	39,749	14,456	5,455
Intangible assets	10	368	1,412	2,469
Furniture, fittings and office equipment	11	10,325	2,803	2,659
Total assets		1,369,604	1,018,345	596,604
LIABILITIES				
Deposits from non-bank customers	12	956,884	636,740	279,152
Borrowings	13	138,330	154,100	134,400
Deferred tax liabilities		482	-	-
Bank profit tax liabilities	23	14,938	13,836	6,932
Other liabilities and deferred income	15	11,779	4,727	1,378
Total liabilities		1,122,413	809,403	421,862
SHAREHOLDERS' EQUITY				
Share capital	16	150,000	150,000	150,000
Statutory reserve		48,393	29,268	12,168
Retained earnings		48,798	29,674	12,574
Total shareholders' equity		247,191	208,942	174,742
Total equity and liabilities		1,369,604	1,018,345	596,604
Commitments and contingencies	17	71,472	83,493	39,801

Moossa Mohammad
Managing Director

Raoul Gufflet
Director

The notes on pages 7 to 39 are an integral part of these financial statements.

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Income statement

(All amounts in Maldivian Rufiyaa in thousands)	Notes	Year ended 31 December 2012	2011	2010
Interest income	18	89,397	62,253	34,653
Interest expense	19	(19,432)	(12,343)	(8,388)
Net interest income		69,965	49,910	26,265
Fee and commission income	20	45,472	26,934	17,597
Fees and commission expenses	21	(23,063)	(11,472)	(5,915)
Net fees and commission income		22,409	15,462	11,682
Profit arising from dealing in foreign currencies		4,060	6,832	1,779
Operating income		96,434	72,204	39,726
Operating expenses				
Staff cost	22	(7,409)	(4,714)	(3,472)
Depreciation	11	(1,694)	(881)	(781)
Provision for loan losses	8 (iv)	(8,995)	(3,454)	(1,424)
Amortisation of intangible assets	10	(1,059)	(1,057)	(1,056)
Other operating expenses	22	(23,155)	(14,115)	(5,514)
		(42,312)	(24,221)	(12,247)
Net profit before tax		54,122	47,983	27,479
Bank profit tax expense	23	(15,873)	(13,782)	(6,932)
Net profit for the year		38,249	34,201	20,547

The notes on pages 7 to 39 are an integral part of these financial statements.

Statement of changes in equity

(All amounts in Maldivian Rufiyaa in thousands)

	Notes	Share capital	Statutory and assigned capital reserves	Retained earnings	Total
Balance at 1 January 2010		150,000	1,894	2,301	154,195
Net profit for the year		-	-	20,547	20,547
Transfer to statutory reserve		-	10,274	(10,274)	-
Balance at 31 December 2010		150,000	12,168	12,574	174,742
Balance at 1 January 2011		150,000	12,168	12,574	174,742
Net profit for the year		-	-	34,200	34,200
Transfer to statutory reserve		-	17,100	(17,100)	-
Balance at 31 December 2011		150,000	29,268	29,674	208,942
Balance at 1 January 2012		150,000	29,268	29,674	208,942
Net profit for the year		-	-	38,249	38,249
Transfer to statutory reserve		-	19,125	(19,125)	-
Balance at 31 December 2012		150,000	48,393	48,798	247,191

The notes on pages 7 to 39 are an integral part of these financial statements.

Cash flow statement

(All amounts in Maldivian Rufiyaa in thousands)		Year ended 31 December		
	Notes	2012	2011	2010
Cash flows used in operating activities				
Profit before tax		54,122	47,983	27,479
Increase in balance with MMA		(64,165)	(184,640)	(7,690)
Changes in other assets		(25,293)	(9,001)	(2,739)
Bank profit tax paid for the previous year		(13,835)	(6,878)	(2,413)
Changes in other liabilities		7,052	3,349	339
Increase in provisions for loan loss		8,995	3,926	1,424
Tax credit received from MIRA		(453)		
Depreciation and amortization		2,753	1,937	1,837
Loss on disposal of fixed assets		183	43	6
Cash flows (used in) generated from operating profits before changes in operating assets and liabilities		(30,641)	(143,281)	18,243
Changes in operating assets and liabilities				
Net increase in deposits		320,144	357,588	25,551
Net increase in loans and advances		(46,068)	(224,818)	(142,393)
(Increase)/ decrease in investment in treasury bills		(186,913)	(29,722)	35,607
Net cash generated from/(used in) operating activities		87,163	103,048	(81,235)
Cash flows from investing activities				
Purchase of office equipment		(9,415)	(1,068)	(175)
Net cash used in investing activities		(9,415)	(1,068)	(175)
Cash flows from financing activities				
Proceeds from interest bearing loans		(15,770)	19,700	70,400
Net cash (used in)/ generated from financing activities		(15,770)	19,700	70,400
Net increase in cash and cash equivalents		31,337	(21,601)	7,233
Cash and cash equivalents at beginning of year		40,349	61,950	54,717
Cash and cash equivalents at end of year	5	71,686	40,349	61,950

The notes on pages 7 to 39 are an integral part of these financial statements.

Notes to the financial statements

1 General information

The Mauritius Commercial Bank Limited is a public company incorporated by Royal Charter in 1838 and registered as a limited liability company on 18 August 1955. Its registered office is situated at 9-15, Sir William Newton Street, Port Louis, Mauritius.

The Mauritius Commercial Bank Limited commenced its operations in the Republic of Maldives by incorporating a subsidiary company known as The Mauritius Commercial Bank (Maldives) Private Limited ('the Bank'). The principal place of business was located at H.Sifa Building, Boduthakurufaanu Magu, Male', Republic of Maldives at the end of the reporting period.

The Bank is engaged in the business of corporate, retail baking and other financial services including trade finance.

2 Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), with the modification of the requirements of IAS 39 - Financial Instrument : Recognition and measurement in respect of loan loss provisioning and modification of the requirement of IFRS 7- Financial instruments on disclosures in respect of credit risk grading by prudential regulation No.05 - 2009 on " Asset classification, provisioning and suspension of interest" issued by Maldives Monetary Authority (MMA). The financial statements have been prepared under the historical cost convention whereby the transactions are recorded at the values prevailing on the dates when the assets were acquired, the liabilities were incurred or the capital obtained.

2.2 New accounting standards issued but not effective as at the balance sheet date

The International Accounting Standards Board has issued the new standards given below, which become effective for annual periods beginning on or after 1 July 2012. Accordingly these standards have not been applied in preparing these financial statements as they are not effective for the year ended 31 December 2012.

- *IAS 1 (Amendment), Presentation of Financial Statements (effective from 1 July 2012)*
- *IAS 19 (Amendment), Employee Benefits (effective from 1 January 2013)*
- *IAS 32 (Amendment), Financial Instruments: Presentation (effective from 1 January 2014)*

Notes to the financial statements (continued)

2.2 Basis of preparation (continued)

- *IFRS 7 (Amendment), Financial Instruments: Disclosures (effective from 1 January 2013)*
- *IFRS 9, Financial Instruments (effective from 1 January 2015)*
- *IFRS 10, Consolidated Financial Statements (effective from 1 January 2013)*
- *IFRS 11, Joint Arrangements (effective from 1 January 2013)*
- *IFRS 12, Disclosure of Interests in Other Entities (effective from 1 January 2013)*
- *IFRS 13, Fair Value Measurement (effective from 1 January 2013)*

2.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). These financial statements are presented in Maldivian Rufiyaa, which is the Bank's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2.4 Financial assets

The Bank classifies its financial assets in the following categories: loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its financial assets at initial recognition.

(a) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the Bank intends to sell immediately or in the short term, which are classified as held for trading, (b) those that the Bank upon initial recognition designates as available for sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate the loan including any transaction costs – and carried subsequently with accrued interest. Loans and receivables are reported in the balance sheet as loans and advances to customers. Interest on loans is included in the income statement and is reported as ‘Interest and similar income’. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the income statement as ‘Provision for bad and doubtful debts’.

Notes to the financial statements (continued)

2.4 Financial assets

(b) Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity, other than: (a) those that the Bank upon initial recognition designates as at fair value through profit or loss; (b) those that the Bank designates as available for sale; and (c) those that meet the definition of loans and receivables.

These are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method. Interest on held-to-maturity investments is included in the income statement and reported as 'Interest and similar income'. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the investment and recognised in the income statement as 'Net gains/(losses) on investment securities'. Held-to-maturity investments only include treasury bills.

(c) Available-for-sale financial assets

Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

2.5 Financial liabilities

Deposits from customers and borrowings

Financial liabilities of the Bank include deposits from customers, long term debts and other liabilities. Savings deposits are carried with accrued interest. Long term borrowings are carried after deduction of principals repayment from initial borrowings. Interest accrued on fixed deposits and long term debts are included under other liabilities. Financial liabilities are derecognised when extinguished.

2.6 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. This is not the case with the assets and liabilities presented gross in the balance sheet.

Notes to the financial statements (continued)

2.7 Interest income and expenses

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading, are recognised within 'interest income' and 'interest expense' in the income statement on accrual basis by applying the agreed interest rate. However, interest income is suspended when loans become doubtful of collection, such as when overdue by more than 90 days. Such income is excluded from interest income until received.

2.8 Fee and commission income

The income mainly comprise fees receivable from customers for guarantees and other services provided by the Bank, and fees for foreign and domestic payment tariff. Such income is recognised as revenue as the services are provided.

Income on the endorsement of bills of exchange is recognised only when the bill is received and either issued or endorsed, and the payment under the particular instrument has been effected.

2.9 Impairment of financial assets

(a) Loans and advances

All loans and advances are recognised when the cash is advanced to borrowers.

A specific credit risk provision for loan impairment is established to provide for management's estimate of credit losses as soon as the recovery of an exposure is identified as doubtful.

Provision for loan impairment is made on the basis of continuous review of all advances to customers, in accordance with the prudential regulation No.05 - 2009 on Asset classification, provisioning and suspension of interest and the circular no: CN-CBSS/2012/5 issued by MMA based on aged classification of advances as follows:

Period outstanding	**Classification**	**Provision made fore secured portion of debt**	**Provision made for unsecured portion of debt**
0 - 59 days	Pass	1%	1%
60 - 89 days	Especially mentioned	5 %	5%
More than 90 days and upto 179 days	Substandard	25%	25%
More than 180 days and upto 359 days	Doubtful	25%	50%
More than 360 days and upto 719 days	Loss	50%	100%
More than 720 days and upto 1079 days	Loss	75%	100%
More than 1080 days	Loss	100%	100%

Notes to the financial statements (continued)

2.9 Impairment of financial assets

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

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 recognised (such as the debtor regularising loan repayment), the previously recognised impairment loss is reversed by adjusting the allowance account. Amounts recovered from fully impaired loans and advances are recognised as income on a cash basis.

(b) Renegotiated loans

A renegotiated loan includes sanction of any new loan to repay or replace any loan/(s) that is overdue, rescheduled, rolled-over, or otherwise modified because of deterioration in the borrower’s financial condition or an inability to repay the loan according to the original terms. The Bank documents the basis for restructuring a loan including, at a minimum: (i) current financial condition and cash flow information; (ii) changes to borrower's operations; and (iii) additional security obtained.

If a loan is renegotiated and all overdue interest is paid by the borrower in cash at the time of renegotiation, the renegotiated loan is classified as Sub-standard. If a loan is renegotiated but all overdue interest is not paid by the borrower in cash at the time of renegotiation, the loan is classified according to paragraph 3 of Part III in prudential regulation No.05 - 2009 on Asset classification, provisioning and suspension of interest issued by MMA.

A renegotiated loan is upgraded to performing category only after the payments made according to the restructured loan terms for a period of at least six months and satisfactory performance of the loan during such period. If any portion of principal or interest of a renegotiated loan subsequently becomes past due 90 days or more, the entire loan is placed in non-accrual and remain so until all overdue principal and interest is brought current by payment in cash.

2.10 Furniture, electronic and office equipments

All furniture, electronic and office equipments are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

Notes to the financial statements (continued)

2.10 Furniture, electronic and office equipments (continued)

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Furniture and fittings	15 years
Computer equipment	5 years
Office equipment	10 years

The charge for the depreciation commences from the date on which the asset is put to use.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount, if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in other operating income or other operating expenses, as the case may be, in the income statement.

2.11 Intangible assets

Intangible assets comprise separately identifiable intangible items. Computer software licences and other intangible assets are considered as intangible assets, are recognised at cost. Intangible assets with a definite useful life are amortized using the straight-line method over their estimated useful economic life. Intangible assets with an indefinite useful life are not amortised. Generally, the identified intangible assets of the Bank have a definite useful life. At each date of the balance sheet , intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits. If such indications exist, the intangible assets are analysed to assess whether their carrying amount is fully recoverable. An impairment loss is recognized if the carrying amount exceeds the recoverable amount.

2.12 Operating leases

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the equipment and establishment expenses in the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Notes to the financial statements (continued)

2.13 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition, including cash, amounts due from other banks.

2.14 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

2.15 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at the amount guaranteed on the date the guarantee was given. Subsequent to initial recognition, the bank's liabilities under such guarantees are measured at the initial measurement, less the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date.

Any increase in the liability relating to guarantees is taken to the income statement under other operating expenses.

2.16 Employee benefits

(a) Staff Provident Fund

The Bank operates a Staff Provident Fund. All the local employees of the Bank who have subscribed to the fund are the members of this Fund to which the Bank contributes 5%. This contribution is recognised as employee benefit expense when they are due.

(b) Retirement Pension Scheme

Bank has enrolled the Maldivian employees in the Retirement Pension Scheme with effect from 1 May 2011 based on the Regulation on Maldives Retirement Pension Scheme published by Government of Maldives and deduct 7% from the employee's pensionable wages on behalf of the employees of age between 16 and 65 years to the pension office. Bank's contribution to the retirement pension scheme is at the rate of 7% on pensionable wages of the employees. Obligations for contributions to retirement pension scheme is recognised as an employee benefit expense in the income statement.

Notes to the financial statements (continued)

2.17 Deferred Bank profit taxes

Deferred Bank profit tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred Bank profit tax.

The principal temporary differences arise from depreciation of Furniture and equipment and provision on impairment of loans.

2.18 Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

3 Financial risk management

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

3.1 Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances. There is also credit risk in off-balance sheet financial instruments, such as loan commitments.

Notes to the financial statements (continued)

3.1 Credit risk (continued)

Exposure to credit risks arises from lending, sales and trading. Lending exposures are typically represented by the principal amount of on balance sheet financial instruments. Financial guarantees and standby letters of credit, which represent undertakings that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans even though they are of contingent nature. Documentary and commercial letters of credit, which are undertakings by the Bank on behalf of a customer, are usually collateralised by the underlying shipments of goods to which they relate and therefore exhibit different risk characteristics from direct borrowing. Commitments to extend credit include unused portions of loan commitments, guarantees or letters of credit. The majority of unused commitments are contingent upon customers observing or meeting certain credit terms and conditions.

3.1.1 Credit risk measurement

The credit risk management of the exposures is conducted through credit granting process which includes the assessment of the creditworthiness and the establishment of appropriate credit limits. Credit approvers have the responsibility to ensure that credits are properly assessed and classified. Individual Bank staff also assume the responsibility to ensure all crucial information is included in the application for the purpose of analysis and approval. The analysis supporting the credit approval decision takes into account both financial and non-financial factors that affect the going concern of the borrowers and also incorporate an evaluation of the collateral offered. This evaluation ensures that;

· A lending has identifiable source of repayment
· Establishing suitable exposure limits for borrowers based on financial strength
· Avoid excessive single industry/group exposures

Notes to the financial statements (continued)

3.1.2 Risk limit control and mitigation policies

The Bank manages, limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups, and to industries. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.

The exposure to any one borrower is further restricted by sub-limits covering on- and off-balance sheet exposures. Actual exposures against limits are monitored daily. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below.

(a) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over leasehold rights of resorts islands and residential properties
- Charges over business assets such as premises, office equipments, and inventory and accounts receivable;
- Charges over vehicles, boats, dhonies and related equipments

Medium term loans, overdrafts and revolving trade credit facilities are generally secured. In addition, in order to minimise the credit loss the Bank will, as far as practicable, seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

(b) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required.

Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank upto a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Notes to the financial statements (continued)

3.1.2 Risk limit control and mitigation policies

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards and since generally these exposures are secured against adequate collateral. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

3.1.3 Impairment and provisioning policies

Impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the balance sheet date based on objective evidence of impairment (see Note 2.9).

The impairment provision shown in the balance sheet at year-end is derived from each of the five groups described in note 2.9. The table below shows the percentage of the Bank's on balance sheet items relating to loans and advances and the associated impairment provision for each of the Group:

	2012		2011	
Group	**Loans & advances %**	**Impairment provision %**	**Loans & advances %**	**Impairment provision %**
Pass	94.6%	1%	98.7%	1.0%
Especially mentioned	0.7%	5%	0.1%	5.0%
Substandard	2.9%	25%	1.1%	25.0%
Doubtful	1.0%	36%	-	-
Loss	0.7%	63%	-	-
	100%		**100%**	

The Bank's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at balance-sheet date on a case-by-case basis, and are applied to all individually significant accounts.

Notes to the financial statements (continued)

3.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements

The maximum exposure to credit risk is limited to the amounts on the balance sheet as well as commitments to extend credit, without taking into account the fair value of any collateral. The table below shows the maximum exposure to credit risk for the components of the balance sheet:

(Amount in MVR '000)

	2012	2011	2010
Balances with holding company	50,696	23,097	43,603
Balances with Maldives Monetary Authority	338,833	274,668	90,028
Investments in treasury bills	265,264	78,351	48,629
Loans and advances to customers	643,379	606,306	385,414
Total on the balance sheet	1,298,172	982,422	567,674
Contingent liabilities and commitments	71,472	83,493	39,801
Total credit exposure as 31 December	1,369,644	1,065,915	6,155,101

47% of the total maximum exposure is derived from loans and advances to customers (2011: 57%).

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both its loan and advances portfolio and based on the following:

- Mortgage loans, which represents the biggest group in the portfolio, are backed
- 95.3% of the loans and advances portfolio are considered to be neither past due nor impaired;
- The Bank has introduced a more stringent selection process upon granting loans and advances.

3.1.5 Loans and advances

Loans and advances are summarised as follows:

(Amount in MVR '000)

	2012	2011	2010
Neither past due nor impaired	626,208	606,434	389,307
Past due but not impaired	4,411	841	-
Impaired	31,197	6,850	-
Gross	661,816	614,125	389,307
Less: allowance for impairment	(16,814)	(7,819)	(3,893)
Less : Interest in suspense	(1,623)	-	-
Net	643,379	606,306	385,414

Further information of the impairment allowance for loans and advances to customers is provided in Notes 8.

Notes to the financial statements (continued)

3.1.5 Loans and advances

(a) Loans neither past due nor impaired

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

(i) In evaluating credit risks the Bank considers qualitative criteria pertinent to the borrower, including management depth and reputation, the borrower's past track record, its business risks, the industry, operating environment and conditions that the borrower operates in. The Bank looks for quality, stability and sustainability of performance. In quantitative assessment, the Bank analyses the borrower'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 borrower'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 a security interest 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 lending 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) Loans and advances past due but not impaired

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary.

(c) Loans and advances impaired

Non-performing assets by past due period	(Amount in MVR '000)		
	2012	**2011**	**2010**
Substandard	19,308	6,850	-
Doubtful	6,929	-	-
Loss	4,960	-	-
	31,197	6,850	-

3.1.6 Concentration of risks of financial assets with credit risk exposure

(a) Geographical sectors

Currently, the Bank's lending activities are limited to Republic of Maldives.

(b) Industry sectors

The following table lists the Bank's main credit exposure at their carrying amounts, as categorised by the industry sectors of our counterparties.

	(Amount in MVR '000)		
	2012	**2011**	**2010**
Agriculture	9,225	8,874	6,659
Manufacturing	36,198	17,261	8,015
Tourism	174,242	231,312	108,905
Transport	107,962	91,579	85,172
Construction	95,586	28,371	63,249
Traders	203,661	162,366	97,268
Personal	3,323	8,355	2,728
Others	31,621	66,007	17,311
Grand total	661,816	614,125	389,307

3.2 Market risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Bank does not have a trading portfolio and quoted equity investments. Therefore the Bank is not open to any equity price risk.

Non-trading portfolios primarily arise from the interest rate management of the entity's retail and commercial banking assets and liabilities.

Notes to the financial statements (continued)

3.2 Market risk (continued)

The market risks arising from non-trading activities are discussed in the Bank's Assets and Liabilities Management Committee.

3.2.1 Foreign exchange risk

All the transactions in MCB, other than the transactions in local currency, Maldivian Rufiyaa (MVR), are carried out mainly in United States Dollars (USD). Upto April 2011, the exchange rate was fixed and from April 2011, the exchange rate has been maintained within 20% cap and floor of the base rate. Therefore, the Bank is not susceptible to any major currency fluctuation risk. Nevertheless, generally, the Bank does not engage in large scale transactions on speculative basis on its own other than to cover an underlying customer transaction or to cover a currency funding gap.

However, the exposure to the risk associated with changes on foreign exchange rates as a result of holding open positions caused by a gap between the assets and liabilities in a particular currency or combination of currencies, is controlled through a combination of foreign exchange position limits and transactions limits. These exposures are monitored on a daily basis. Further, timely recognition of market losses through mark to market and exchange revaluation mechanisms are also in place by the system.

3.2.1 Foreign exchange risk (continued)

As at 31 December 2012	EURO	USD	GBP	MUR	MVR	OTHERS	Total
in MVR '000							
Assets							
Cash and short term liquid assets	3,026	191,525	2,583	48	474,786	3,815	675,783
Loans and Advances	-	383,306	-	-	260,074	-	643,379
Other Assets	919	33,974	-	-	15,549	-	50,442
Total Assets	3,945	608,805	2,583	48	750,408	3,815	1,369,604
Liabilities							
Deposits	7,307	458,911	2,523	-	488,143	-	956,884
Other Liabilities	3	140,659	46	-	24,821	-	165,529
Total Liabilities	7,310	599,570	2,569	-	512,964	-	1,122,413
Net on-balance sheet financial position	(3,365)	9,235	14	48	237,444	3,815	247,191
Commitments	-	61,442	221	-	7,848	1,961	71,472

As at 31 December 2011	EURO	USD	GBP	MUR	MVR	OTHERS	Total
in MVR '000							
Assets							
Cash and short term liquid assets	2,572	135,939	2,595	205	251,497	561	393,368
Loans and Advances	-	395,443	-	-	210,863	-	606,306
Other Assets	97	12,884	-	-	5,690	-	18,671
Total Assets	2,669	544,265	2,595	205	468,050	561	1,018,345
Liabilities							
Deposits	7,298	349,622	1,776	-	278,044	-	636,740
Other Liabilities	-	155,903	-	-	16,760	-	172,663
Total Liabilities	7,298	505,525	1,776	-	294,804	-	809,403
Net on-balance sheet financial position	(4,629)	38,740	819	205	173,247	561	208,942
Commitments	1,968	68,342	-	-	-	13,183	83,493

As at 31 December 2010	EURO	USD	GBP	MUR	MVR	OTHERS	Total
in MVR '000							
Total Assets	1,614	327,384	1,097	40	265,394	1,075	596,604
Total liabilities	1,695	317,722	14	-	102,431	-	421,862
Total interest repricing	**(81)**	**9,662**	**1,083**	**40**	**162,963**	**1,075**	**174,742**

Notes to the financial statements (continued)

3.2.2 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise.

The extent of the interest rate risk depends on the value and period of the maturity mismatch between interest bearing assets and liabilities and the ability and speed of the Bank in re-pricing them. The Bank regularly reviews these gaps to ensure that they are within acceptable norms. The Bank regularly monitors the market behaviour and products are appropriately re-priced when necessary.

The Bank does not carry a trading portfolio nor generally invest in stocks or shares other than Government treasury bills, for which investments are generally less than 6 months and held to maturity. Therefore, the Bank is not open to any price fluctuation risks.

MMA regulations on minimum reserve require the commercial banks to maintain a reserve of 25% of demand and time liabilities (excluding interbank liabilities and margin deposits). For the purpose of foreign currency minimum reserve requirement, the Bank is required to maintain 3% of the reserve requirement in local currency. These deposits are not available for bank's day to day operation. Reserve deposits carry interests at rate of 1% and 0.01% per annum on the Rufiyaa and Dollar deposits respectively.

The table below summarises the Bank’s exposure to interest rate risks. It includes the Bank’s financial instruments at carrying amounts, categorised by the earlier of contractual reprising or maturity dates.

Notes to the financial statements

3.2.2 Interest rate risk

As at 31 December 2012	Up to 3 Monthes	3-6 Months	6-12 Months	1-3 Years	Over 3 Years	Non- Interest Bearing	Total
in MVR '000							
Assets							
Cash and Balances with Banks	226,838	57,791	18,636	-	262,367	110,151	675,783
Loans and Advances	473,526	23,311	32,049	55,584	77,345	-	661,816
Other Assets	-	-	-	-	-	50,442	50,442
Total	**700,364**	**81,102**	**50,685**	**55,584**	**339,712**	**160,593**	**1,388,041**
Less allowances for credit impairment							**(16,814)**
Interest in suspense							**(1,623)**
Total assets							**1,369,604**
in MVR '000							
Liabilities							
Deposits from customers	319,608	101,990	124,333	-	42,418	368,535	956,884
Other Liabilities	92,220	46,110	-	-	-	27,199	165,529
Total Financial Liabilities	**411,828**	**148,100**	**124,333**	**-**	**42,418**	**395,734**	**1,122,413**
Total interest repricing gap	**288,536**	**(66,998)**	**(73,648)**	**55,584**	**297,294**	**(235,141)**	**265,628**

As at 31 December 2011	Up to 3 Monthes	3-6 Months	6-12 Months	1-3 Years	Over 3 Years	Non- Interest Bearing	Total
in MVR '000							
Assets							
Cash and Balances with Banks	203,029	19,336	-	-	123,928	47,075	393,368
Loans and Advances	399,911	40,737	69,505	41,003	62,969	-	614,125
Other Assets	-	-	-	-	-	18,671	18,671
Total	**602,940**	**60,073**	**69,505**	**41,003**	**186,897**	**65,746**	**1,026,164**
Less allowances for credit impairment							**(7,819)**
Total assets							**1,018,345**
in MVR '000							
Liabilities							
Deposits from customers	225,229	-	99,192	1,541	36,114	274,664	636,740
Other Liabilities	154,100	-	-	-	-	18,563	172,663
Total Financial Liabilities	**379,329**	**-**	**99,192**	**1,541**	**36,114**	**293,227**	**809,403**
Total interest repricing gap	**223,611**	**60,073**	**(29,687)**	**39,462**	**150,783**	**(227,481)**	**216,761**

As at 31 December 2010	Up to 3 Monthes	3-6 Months	6-12 Months	1-3 Years	Over 3 Years	Non- Interest Bearing	Total
in MVR '000							
Total Assets	293,720	1,278	62,348	36,278	125,480	77,500	596,604
Total liabilities	224,320	30,279	3,131	-	12,920	151,212	421,862
Total interest repricing gap	**69,400**	**(29,001)**	**59,217**	**36,278**	**112,560**	**(73,712)**	**174,742**

Notes to the financial statements (continued)

3.2.2 Interest rate risk (continued)

Additionally, the Bank is confident that it has sufficient interest margins to absorb any adverse impacts due to interest fluctuations on unmatched positions. Further, the Bank retains the option to revise the interest rates on all Rufiyaa loans per terms of sanction. For foreign currency loans, wherever the interest rate is set with a mark up over the floating bench mark LIBOR, the Bank has set floor rates to mitigate its interest rate risk.

3.3 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

3.3.1 Liquidity risk management process

The Bank’s liquidity management process, as carried out within the Bank and monitored by a separate team in Bank Treasury, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The Bank maintains an active presence in global money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring balance sheet liquidity ratios against internal requirements; and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

Maturity analysis of Bank's assets and liabilities is as follows;

Notes to the financial statements

3.3.1 Liquidity risk (continued)

As at 31 December 2012 in MVR '000	Up to 1 Month	1-3 Months	3-6 Months	6-12 Months	1-3 Years	Over 3 Years	Non-maturity items	Total
Assets								
Cash and short term liquid assets	239,203	97,786	57,791	18,636	-	-	262,367	675,783
Loans and Advances	453,986	19,541	23,311	32,049	55,584	77,345	-	661,816
Other Assets	37,488	1,269	751	242	-	-	10,692	50,442
Total Financial Assets	**730,677**	**118,596**	**81,853**	**50,927**	**55,584**	**77,345**	**273,061**	**1,388,041**
Less: Provision for loan losses	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(16,814)**
Less: Interest in suspense								**(1,623)**
Total Assets after provisions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,369,604**

in MVR '000	Up to 1 Month	1-3 Months	3-6 Months	6-12 Months	1-3 Years	Over 3 Years	Non-maturity items	Total
Liabilities								
Deposits from customers	640,333	90,228	101,990	124,333	-	-	-	956,884
Other Liabilities	148,862	818	14,240	1,127	-	-	482	165,529
Total Financial Liabilities	**789,195**	**91,046**	**116,230**	**125,460**	**-**	**-**	**482**	**1,122,413**
Total liquidity gap	**(58,518)**	**27,550**	**(34,377)**	**(74,533)**	**55,584**	**77,345**	**272,579**	**265,628**

As at 31 December 2011 in MVR '000	Up to 1 Month	1-3 Months	3-6 Months	6-12 Months	1-3 Years	Over 3 Years	Non-maturity items	Total
Assets								
Cash and short term liquid assets	354,366	19,666	19,336	-	-	-	-	393,368
Loans and Advances	377,891	22,020	40,737	69,505	41,003	62,969	-	614,125
Other Assets	-	-	-	-	-	-	18,671	18,671
Total Financial Assets	**732,257**	**41,686**	**60,073**	**69,505**	**41,003**	**62,969**	**18,671**	**1,026,164**
Less: Provision for loan losses	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(7,819)**
Total Assets after provisions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,018,345**

in MVR '000	Up to 1 Month	1-3 Months	3-6 Months	6-12 Months	1-3 Years	Over 3 Years	Non-maturity items	Total
Liabilities								
Deposits from customers	429,239	103,625	-	99,192	1,541	-	3,143	636,740
Other Liabilities	156,528	509	-	14,323	8	-	1,295	172,663
Total Financial Liabilities	**585,767**	**104,134**	**-**	**113,515**	**1,549**	**-**	**4,438**	**809,403**
Total liquidity gap	**146,490**	**(62,448)**	**60,073**	**(44,010)**	**39,454**	**62,969**	**14,233**	**216,761**

As at 31 December 2010 in MVR '000	Up to 1 Month	1-3 Months	3-6 Months	6-12 Months	1-3 Years	Over 3 Years	Non-maturity items	Total
Total Assets	105,785	87,202	9,017	232,234	50,354	38,447	73,564	596,603
Total liabilities	292,806	88,443	30,530	10,081	-	-	2	421,862
Total liquidity gap	**(187,021)**	**(1,241)**	**(21,513)**	**222,153**	**50,354**	**38,447**	**73,562**	**174,741**

Notes to the financial statements (continued)

3.3.1 Liquidity risk management process

The Bank also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

The Bank maintains a statutory deposit with the MMA equal to 25% of the customer deposits.

3.3.2 Funding approach

Sources of liquidity are regularly reviewed by the Management to maintain a wide diversification by currency, geography, provider, product and term.

3.3.3 Off-balance sheet items

Loan commitments, financial guarantees which are based on the earliest contractual maturity date and other financial facilities, are all fall within next one year.

(a) Loan commitments

The dates of the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities (Note 17), are summarised in the table below.

(b) Financial guarantees and other financial facilities

Financial guarantees (Note 17), are also included below based on the earliest contractual maturity date.

	Total
At 31 December 2012	(Amount in MVR '000)
Loan commitments	4,881
Guarantees, acceptances and other financial facilities	66,591
Total	71,472

Notes to the financial statements (continued)

3.3.3 Off-balance sheet items (continued)

	Total
At 31 December 2011	(Amount in MVR '000)
Loan commitments	13,064
Guarantees, acceptances and other financial facilities	70,429
Total	83,493

3.4 Fair value of financial assets and liabilities

There is no material difference between the carrying amounts and fair values of the financial assets and liabilities presented on the Bank's balance sheet due to following reasons;

(i) Due from other banks

Due from other banks represents working balances and overnight inter-bank money market placements which are at carrying amount.

(ii) Loans and advances to customers

Based on management's review, there is no difference between current interest rates charged to the Bank's performing customers and current interest rates prevailing in the market, taking the customers risk profile (i.e.; business risk, project risk, gearing, collateral offered, tenor, grace period, etc.) into consideration.

Non performing loans and advances are stated at net of provisions for impairment.

(iii) Due to customers and borrowings

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, are the amount repayable on demand. Bank's fixed interest-bearing deposits and borrowings bear the current market interest rates based on similar maturities.

3.5 Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

• To comply with the capital requirements set by the regulators of the banking markets where the entities within the Bank operate;
• To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
• To maintain a strong capital base to support the development of its business.

Notes to the financial statements (continued)

3.5 Capital management (continued)

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines developed by the Basel I Committee, as implemented by the Maldives Monetary Authority (the Authority), for supervisory purposes. The required information is filed with the Authority on a monthly basis.

The Authority requires each bank or banking group to: (a) hold the minimum level of the regulatory capital of MVR 150 million , and (b) maintain a ratio of total regulatory capital to the risk-weighted asset (the 'Basel ratio') at or above the internationally agreed minimum of 12%.

The Bank's regulatory capital as managed by its management is divided into two tiers:

• Tier 1 capital: share capital, retained earnings and reserves created by appropriations of retained earnings.; and

• Tier 2 capital: Current year earnings, general provision and qualifying subordinated loan capital.

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarises the composition of regulatory capital and the ratios of the Bank for the years ended 31 December. During those two years, the Bank complied with all of the externally imposed capital requirements to which they are subject to;

	(Amount in MVR '000)	
Tier 1 Capital	**2012**	**2011**
Share capital	150,000	150,000
Statutory reserves	48,393	29,268
Total qualifying Tier 1 Capital	198,393	179,268

Notes to the financial statements (continued)

3.5 Capital management (continued)

Tier 2 Capital		
Current earnings	48,798	29,674
General provision	6,262	6,324
Total qualifying Tier 2 Capital	55,060	35,998
Total regulatory capital	253,453	215,266
Risk-weighted Assets		
On-balance sheet	681,955	613,648
Off-balance sheet	25,039	23,115
Total risk-weighted assets	706,994	636,763
Basel ratio	**35.85%**	**33.81%**

The increase in the regulatory capital in the year of 2012 is mainly due to profit earned during the year.

4 Critical accounting estimates and judgments

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment at least on a yearly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any observable data indicating that there is an impairment of loans and advances. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a Bank.

Management uses fixed percentage prescribed by Maldives Monetary Authority to make provision for impaired loans and advances.

Notes to the financial statements continued

(All amounts in Maldivian Rufiyaa in thousands)

5 Cash and cash equivalents

	2012	2011	2010
Cash in hand	10,429	7,864	11,275
Foreign currency notes and coins in hand	10,561	9,388	7,072
Balance with holding company	50,696	23,097	43,603
	71,686	40,349	61,950

6 Balances with Maldives Monetary Authority (MMA)

	2012	2011	2010
Balances with MMA	338,833	274,668	90,028

Mandatory reserve deposits with MMA :

MMA regulations on minimum reserve require the commercial banks to maintain a reserve of 25% of demand and time liabilities (excluding interbank liabilities) and margin deposits. For the purpose of foreign currency minimum reserve requirement, the Bank is required to maintain 3% of the reserve requirement in local currency. These deposits are not available for bank's day to day operation.

Reserve deposits carry interests at rate of 1% and 0.01% per annum on the Rufiyaa and Dollar deposits respectively.

7 Investment in treasury bills

	2012	2011	2010
Government of Maldives treasury bills with remaining term to maturity up to 3 months	268,707	80,000	49,000
Less : Unearned interest income	(3,443)	(1,649)	(371)
	265,264	78,351	48,629

8 Loans and advances to customers

		2012	2011	2010
(i)	Retail customers:			
	Mortgage loans	18,944	27,752	89,503
	Other retail loans	82,621	55,445	17,887
		101,565	83,197	107,390
	Corporate customers	560,251	530,028	281,917
	Government	-	900	-
	Gross loans before allowances for credit impairment	661,816	614,125	389,307
	Less : Allowances for credit impairment	(16,814)	(7,819)	(3,893)
	Less : Interest in suspense	(1,623)	-	-
		643,379	606,306	385,414

Notes to the financial statements continued

(All amounts in Maldivian Rufiyaa in thousands)

8 Loans and advances to customers (continued)

(ii) Pass or acceptable	626,208	606,434	389,307
Special mention	4,411	841	-
Substandard	19,308	6,850	-
Doubtful	6,929	-	-
Loss	4,960	-	-
	661,816	614,125	389,307

(iii) Remaining term to maturity			
Up to 3 months	473,526	399,910	52,236
Over 3 months and up to 6 months	23,311	40,737	31,163
Over 6 months and up to 12 months	32,049	69,505	216,209
Over 1 year and up to 5 years	117,109	103,973	82,944
Over 5 years	15,820	-	9,755
	661,816	614,125	392,307

(iv) Allowances for credit impairment			
At 1 January	7,819	3,893	2,469
Provision for credit impairment for the year	8,995	3,454	1,424
Effects of exchange movements	-	472	-
At 31 December	16,814	7,819	3,893

(v) Allowances for credit impairment by industry sectors

	2012		**2011**	**2010**
	Gross loans	Total provision	Total provision	Total provision
Agriculture	9,225	92	89	67
Manufacturing	36,198	362	173	80
Tourism	174,242	9,547	2,313	1,089
Transport	107,962	1,604	916	852
Construction	95,586	956	284	632
Traders	203,661	3,345	3,019	973
Personal	3,323	33	84	27
Others	31,621	875	941	173
	661,816	16,814	7,819	3,893

Notes to the financial statements continued

(All amounts in Maldivian Rufiyaa in thousands)

8 Loans and advances to customers (continued)

(vi) Credit concentration of risk by industry sectors

Total credit facilities including guarantees, acceptances and other similar commitments extended by the Bank to any one customer or group of closely-related customers for amounts aggregating more than 15% of its capital base, classified by industry sectors.

	2012	2011	2010
Tourism	45,403	46,201	38,112
Transport	79,643	76,805	76,805
Traders	48,299	47,008	47,008
	173,345	170,014	161,925

9 Other assets

	2012	2011	2010
Credit card receivables	33,166	8,838	3,891
Accrued interest receivable	4,556	1,204	930
Other receivables and prepayments	2,027	4,414	634
	39,749	14,456	5,455

10 Intangible assets

	2012	2011	2010
Cost			
Balance at beginning of the year	5,281	5,281	5,281
Additions during the year	15	-	-
Balance at end of the year	5,296	5,281	5,281
Accumulated amortisation			
Balance at beginning of the year	3,869	2,812	1,756
Amortisation for the year	1,059	1,057	1,056
Balance at end of the year	4,928	3,869	2,812
Net book value	368	1,412	2,469

Notes to the financial statements continued

(All amounts in Maldivian Rufiyaa in thousands)

11 Furniture, fittings and office equipment

	Computer and other equipment	Other fixed assets	Total
Cost of equipments			
Balance at beginning of the year	5,068	459	5,527
Additions during the year	6,676	2,724	9,400
Disposals during the year	(202)	(84)	(286)
Balance at end of the year	11,542	3,099	14,641
Accumulated depreciation			
Balance at beginning of the year	2,622	103	2,725
Depreciation for the year	1,525	169	1,694
Depreciation on disposals	(88)	(15)	(103)
Balance at end of the year	4,059	257	4,316
Net book value at end of the year 2012	7,483	2,842	10,325
Net book value at end of the year 2011	2,446	357	2,803
Net book value at end of the year 2010	2,279	380	2,659

12 Deposits from customers

	2012	2011	2010
(i) Retail customers			
Demand deposits	51,605	46,626	38,697
Saving deposits	26,371	20,045	7,077
Time deposits with remaining term to maturity :			
Up to 3 months and up to 6 months	6,780	14,798	3,599
Over 3 months and up to 6 months	29,955	-	1,943
Over 6 months and up to 1 year	46,186	46,248	-
Over 1 year and up to 5 years	-	1,541	-
Total time deposits	82,921	62,587	5,542
Total retail customers deposits	160,896	129,258	51,316

Notes to the financial statements continued

(All amounts in Maldivian Rufiyaa in thousands)

12 Deposits from customers (continued)

(ii) Corporate customers			
Demand deposits	312,757	224,107	97,490
Saving deposits	15	197	106
Time deposits with remaining term to maturity:			
Up to 3 months and up to 6 months	222,600	210,432	60,000
Over 3 months and up to 6 months	162,262	-	28,337
Over 6 months and up to 1 year	78,148	52,945	3,131
Over 1 year and up to 5 years	-	-	-
Total time deposits	463,010	263,377	91,468
Total corporate customers deposits	775,783	487,681	189,064
(iii) Government entities			
Demand deposits	4,174	3,930	6,714
Saving deposits	16,032	15,871	5,738
Time deposits with remaining term to maturity:			
Up to 3 months	-	-	26,320
	20,206	19,801	38,772
Total deposits (i + ii + iii)	956,884	636,740	279,152

13 Borrowings

	2012	2011	2010
The Mauritius Commercial Bank Limited	138,330	154,100	134,400

The Company has obtained one month money market borrowings from the Mauritius Commercial Bank Limited. The details of the facilities are as follows:

Amount (USD)	Interest rate
3,000,000	3.211%
3,000,000	3.212%
3,000,000	3.310%

Notes to the financial statements continued

(All amounts in Maldivian Rufiyaa in thousands)

14 Deferred bank profit tax

Deferred bank profit taxes are calculated on all temporary differences under the liability method using an effective tax rate of 25%.

The movement on the deferred tax account is as follows :

	2012	2011
At the beginning of the year	-	-
Decelerated tax depreciation	(482)	-
At end of the year	(482)	-

The deferred tax charge in the income statement represent the following temporary difference:

	2012	2011
Decelerated tax depreciation	(482)	-
	(482)	-

15 Other liabilities and deferred income

	2012	2011	2010
Impersonal and other accounts	5,184	1,661	654
Accrued interest payable	5,066	1,786	724
Deferred income	1,529	1,280	-
	11,779	4,727	1,378

16 Share capital

	2012	2011	2010
Issued and fully paid shares			
150,000 ordinary shares of MVR 1,000	150,000	150,000	150,000

As per the Prudential Regulation No. 1/2009 of Maldives Monetary Authority, the Bank is required to have minimum assigned capital of MVR 150 million. The assigned capital has been converted into 150,000 ordinary shares each amounting to MVR 1,000.

17 Commitments and contingent liabilities

	2012	2011	2010
(i) Instruments			
Guarantees on account of customers	22,800	14,669	474
Letter of credit and other obligations	43,791	55,760	29,290
	66,591	70,429	29,764

Notes to the financial statements continued

(All amounts in Maldivian Rufiyaa in thousands)

17 Commitments and contingent liabilities (continued)

	2012	2011	2010
(ii) Commitments			
Undrawn credit facilities	4,881	13,064	10,037
	71,472	83,493	39,801

18 Interest income

	2012	2011	2010
Interest income			
Loans and advances to banks	182	163	33
Loans and advances to customers	73,043	57,053	28,375
Placements with other banks	2,048	2,331	544
Held to maturity investments	14,124	2,706	5,701
	89,397	62,253	34,653

19 Interest expenses

	2012	2011	2010
Deposits from customers	16,381	7,257	4,389
Other borrowed funds	3,051	5,086	3,999
	19,432	12,343	8,388

20 Fee and commission income

	2012	2011	2010
Corporate banking fee	18,502	12,047	8,485
Guarantees	346	314	244
Card related fees	22,885	11,804	6,903
Trade finance fees	3,739	2,769	1,965
	45,472	26,934	17,597

21 Fee and commission expenses

Credit card expenses	22,379	11,030	5,643
Others	684	442	272
	23,063	11,472	5,915

22 Operating expenses

	2012	2011	2010
(i) Salaries and bonus	(3,977)	(3,085)	(2,364)
Other allowances	(3,432)	(1,629)	(1,108)
	(7,409)	(4,714)	(3,472)

Notes to the financial statements continued

(All amounts in Maldivian Rufiyaa in thousands)

22 Operating expenses (continued)

(ii) Other operating expenses

Software licensing and information technology cost	(955)	(645)	(606)
Other overhead expenses	(22,200)	(13,470)	(4,908)
	(23,155)	(14,115)	(5,514)

23 Bank profit tax

Bank profit tax has been calculated @ 25% on the taxable income for the year end in accordance with the Bank Profit Tax Regulation no. 2/99 of 1999. The tax on Bank's profit tax differ from the theoretical amount that would arise using the basic tax rate as follows:

		2012	2011	2010
Profit before tax		54,122	47,983	27,479
Add:	General loan loss provision	412	1,811	1,424
	Depreciation charge for the year	2,753	1,937	1,838
	Donations	62	-	7
	Management fee	6,527	4,369	-
	Accounting loss on disposal of assets	183	-	-
Less:	Capital allowances	(2,411)	(757)	(2,833)
	Balancing allowances	(85)	-	-
Taxable profit		61,563	55,343	27,915
Bank profit tax on taxable profit @ 25%		15,391	13,836	6,979
(Over) / under provisions related to previous year		-	(53)	(47)
Current tax		15,391	13,783	6,932
Deferred tax liabilities (Note 14)		482	-	-
		15,873	13,783	6,932
Current tax liabilities		15,391	13,836	6,979
Withholding tax and Foreign Investment Annual fee refunded by MIRA		(453)	-	-
		14,938	13,836	6,979

Notes to the financial statements continued

(All amounts in Maldivian Rufiyaa in thousands)

24 Related Party disclosure

The Mauritius Commercial Bank Limited holds 99.99% in the paid up share capital of the company and is treated as the holding company. The transactions with the holding company is as follows:

(i) Borrowings: Refer Note 13

(ii) Balance with holding company: Refer Note 5

(iii) During the year, the bank paid a management fees amounting to MVR 6,527,683 to the holding company.

(iv) Card operations and other overseas transactions are managed by the holding company.

(v) Remuneration paid to Directors are amounting to MVR 1,045,094 for the year.

25 Post balance sheet events

No events have occurred since the balance sheet date, which would require adjustments to, or disclosure in the financial statements.