STATE BANK OF INDIA MALDIVES

AUDITOR'S REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2021

STATE BANK OF INDIA – MALDIVES
FOR THE YEAR ENDED 31ST DECEMBER 2021

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NJ/KA/VS

Independent auditor's report
To the Management of State Bank of India Maldives

Report on the audit of the financial statements

Opinion

We have audited the financial statements of State Bank of India Maldives, which comprise the statement of financial position as at 31 December 2021, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2021 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Other matter

The financial statements of State Bank of India Maldives for the year ended December 31, 2020, were audited by another auditor expressed an unmodified opinion on those financial statements on 29 April 2021

Responsibilities of the management for the financial statements

Management is responsible for the preparation of financial statements that gives true and fair view in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the financial statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank’s internal control.

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

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

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

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

27 April 2022
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STATE BANK OF INDIA – MALDIVES
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31ST DECEMBER	Note	2021 MVR	2020 MVR
Interest Income Calculated using the Effective Interest Method		763,222,063	599,914,576
Interest Expense		(281,105,415)	(122,924,702)
Net Interest Income	**4**	482,116,648	476,989,874
Fee and Commission Income		45,110,703	48,979,095
Fee and Commission Expense		(49,923)	(58,258)
Net Fee and Commission Income	**5**	45,060,780	48,920,837
Net Foreign Exchange Income	**6**	85,158,708	66,292,166
Other Income	**7**	134,527,272	6,575,894
		219,685,980	72,868,060
Operating Income		746,863,408	598,778,771
Impairment charged on Financial Instruments	**8**	(21,057,987)	(109,853,721)
Net Operating Income		725,805,421	488,925,050
Personnel Expenses	**9**	(48,993,017)	(44,194,425)
Depreciation	**10**	(15,609,005)	(15,686,126)
Other Operating Expenses	**11**	(27,456,728)	(29,027,875)
Total Operating Expenses		(92,058,750)	(88,908,426)
Profit before Tax		633,746,671	400,016,624
Income Tax Expense	**12**	(165,025,277)	(121,434,740)
Profit for the Year		468,721,394	278,581,884
Other Comprehensive Income			
Item that are or may be reclassified subsequent to profit or loss			
Movement in hedging reserve: Cash flow hedges- effective portion of changes in fair value		12,854,727	338,152,460
Related tax		(3,213,682)	(84,538,115)
Total Comprehensive Income		478,362,439	532,196,229

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 7 to 62. The Report of the Independent Auditors is given on pages 1and 2.

STATE BANK OF INDIA – MALDIVES
STATEMENT OF FINANCIAL POSITION

AS AT 31ST DECEMBER	Note	2021 MVR	2020 MVR
Assets			
Cash and Cash Equivalents	**13**	1,814,792,555	778,537,943
Balances with Maldives Monetary Authority	**14**	781,023,122	685,174,649
Investment Securities	**15**	7,536,926,678	7,432,288,818
Derivative Asset held for Risk management	**16**	343,679,623	332,215,355
Loans and Advances to Customers	**17**	5,106,857,064	5,498,526,307
Property, Plant and Equipment	**18**	25,357,982	7,756,855
Right-of-Use Assets	**19**	65,078,547	74,433,160
Deferred Tax Asset	**12.2**	98,636,906	102,170,665
Other Assets	**20**	2,440,004	20,351,658
Total Assets		15,774,792,481	14,931,455,410
Liabilities			
Deposits from Customers	**21**	5,732,137,816	5,543,757,529
Other Borrowing	**22**	5,183,105,635	4,729,413,219
Lease Liability	**23**	72,354,168	79,721,579
Tax Liability	**24**	99,532,785	62,713,695
Other Liabilities	**25**	47,185,089	44,543,536
Provisions	**26**	496,535	1,287,838
Total Liabilities		11,134,812,028	10,461,437,396
Equity			
Assigned Capital	**27**	150,000,000	150,000,000
Statutory Reserve	**28**	150,000,000	150,000,000
Non-distributable Capital Reserve	**29**	903,784,214	906,649,155
Capital Support Fund	**30**	640,000,000	640,000,000
Hedging Reserve	**16**	263,255,390	253,614,345
Retained Earnings		2,532,940,849	2,369,754,514
Total Equity Attributable to Equity Holders of the Bank		4,639,980,453	4,470,018,014
Total Equity and Liabilities		15,774,792,481	14,931,455,410
Contingent Liabilities and Commitments	**31**	718,847,182	392,835,252

Figures in brackets indicate deductions

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The Management is responsible for the preparation and presentation of these Financial Statements.
The financial statements were approved by the Management and signed on its behalf of;

STATE BANK OF INDIA – MALDIVES
STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31ST DECEMBER 2021

	Assigned Capital MVR	Statutory Reserve MVR	Non-distributable Capital Reserve MVR	Capital Support Fund MVR	Hedging Reserve MVR	Retained Earnings MVR	Total Equity MVR
Balance as at 1st January 2020	150,000,000	150,000,000	843,580,270	640,000,000	-	2,154,735,228	3,938,315,498
Profit for the Year	-	-	-	-	-	278,581,884	278,581,884
Other comprehensive income							
Hedging reserve Cash flow hedge - effective portion of changes in fair value	-	-	-	-	338,152,460	-	338,152,460
Tax on other comprehensive income					(84,538,115)		(84,538,115)
Total comprehensive income					253,614,345	278,581,884	532,196,229
Transferred from Non-distributable Capital Reserve **(Refer Note 28)**	-	-	63,068,885	-	-	(63,068,885)	-
Related tax on Non distributable capital reserve	-	-	-	-	-	(493,713)	(493,713)
Balance as at 31st December 2021	150,000,000	150,000,000	906,649,155	640,000,000	253,614,345	2,369,754,514	4,470,018,014
Profit for the Year						468,721,394	468,721,394
Hedging reserve Cash flow hedge - effective portion of changes in fair value	-	-	-	-	12,854,727	-	12,854,727
Tax on other comprehensive income					(3,213,682)		
Total comprehensive income					9,641,045	468,721,394	478,362,439
Transferred from Non-distributable Capital Reserve **(Refer Note 28)**	-	-	(2,864,941)	-	-	2,864,941	-
Related tax on Non-distributable Capital Reserve **(Refer Note 12.2)**	-	-	-	-	-	-	-
Transactions with owners of the Bank							
Distributions made during the Year	-	-	-	-	-	(308,400,000)	(308,400,000)
Balance as at 31st December 2021	150,000,000	150,000,000	903,784,214	640,000,000	263,255,390	2,532,940,849	4,639,980,453

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 7 to 62. The Report of the Independent Auditors is given on pages 1and 2.

STATE BANK OF INDIA – MALDIVES
STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31ST DECEMBER	Note	2021 MVR	2020 MVR
Cash Flows from Operating Activities			
Profit before Tax		633,746,671	400,016,624
Adjustments for,			
Interest expense on lease liability	**4**	3,674,390	4,068,505
Depreciation of Property, Plant and Equipment	**18**	4,276,825	3,680,395
Depreciation of right-of-use assets	**19**	11,326,820	12,005,731
Gain on disposal of fixed assets		105,479	(3,663,867)
Impact on derecognition of lease liability		-	(65,197)
Derivative asset held for risk management		24,868,535	5,937,105
Net Impairment Loss on Financial Assets	**8**	21,057,987	109,853,721
Operating Profit before Working Capital Changes		699,056,707	531,833,017
Changes In:			
Loans and Advances to Customers		388,042,264	(389,614,691)
Reserve Deposit at Maldives Monetary Authority		14,196,116	283,086,705
Other Assets		17,911,654	(8,096,782)
Deposits from Customers		188,380,287	(150,212,470)
Other Borrowing		453,692,416	3,955,008,858
Other Liabilities		1,850,249	(427,462)
Cash generated from Operating Activities		1,763,129,693	4,221,577,175
Interst income received		3,572,425	4,444,048
Interest paid		(3,674,390)	(4,068,505)
Income Tax Paid	**24**	(127,886,110)	(188,263,465)
Net Cash generated from Operating Activities		1,635,141,618	4,033,689,253
Cash Flow from Investing Activities			
Acquisition of Property, Plant and Equipment	**18**	(21,983,433)	(3,744,165)
Purchase of Investment Securities	**15**	(3,872,931,928)	(11,342,196,511)
Proceeds from Maturity of Investment Securities	**15**	3,726,209,536	7,521,053,625
Repayment of lease	**23**	(8,044,338)	(8,018,024)
Net Cash used in Investing Activities		(176,750,163)	(3,832,905,075)
Cash Flow from Financing Activities			
Distributions made during the Year	**26.1**	(308,400,000)	-
Net Cash used in Financing Activities		(308,400,000)	-
Net Decrease in Cash and Cash Equivalents		1,149,991,455	200,784,178
Cash and Cash Equivalents at the beginning of the Year		1,038,538,970	837,754,792
Cash and Cash Equivalents at end of the Year	**32**	2,188,530,425	1,038,538,970

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 7 to 62. The Report of the Independent Auditors is given on pages 1and 2.

STATE BANK OF INDIA – MALDIVES
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2021

1. REPORTING ENTITY

1.1 Corporate Information

State Bank of India - Maldives (the "Bank") received the banking license from the Maldives Monetary Authority in the Republic of Maldives. Bank has started operations on 04th February 1974. These financial statements include the financial position and performance of four branches, Male, Hithadhoo Hulhumale and Maamigili

The principal place of the Bank is at Boduthakurufaanu Magu, Male', Republic of Maldives. The staff strength of the Bank as at 31st December 2021 was 91**.**

1.2 Principal Business Activities and Nature of Operations

The Bank is engaged in providing a comprehensive range of financial services encompassing accepting deposits, retail banking, trade financing, corporate and retail credit, development banking, internet banking, mobile banking, money remittance facilities, dealing in Government Securities and treasury-related products and salary remittance package services, in the Republic of Maldives.

2. BASIS OF PREPARATION

2.1 Statement of Compliance

The financial statements of the Bank, which comprise the Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Notes to the Financial Statements have been prepared and presented in accordance with International Financial Reporting Standards ("IFRSs").

These financial statements, except for information on cash flows have been prepared following the accrual basis of accounting.

2.2 Basis of Measurement

The financial statements have been prepared on the historical cost basis.

2.3 Going Concern Basis of Accounting

The Management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the Management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the Financial Statements of the Bank continue to be prepared on a going concern basis.

2. BASIS OF PREPARATION (CONTINUED)

2.4 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.

2.5 Presentation of Financial Statements

The assets and liabilities of the Bank presented in the Statement of Financial Position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. No adjustments have been made for inflationary factors affecting the Financial Statements.

2.6 Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position, only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or to realize the assets and settle the liabilities simultaneously. Income and expenses are not offset in the Profit or Loss, unless required or permitted by an Accounting Standard or Interpretation (issued by the International Financial Reporting Interpretations Committee and Standard Interpretation Committee) and as specially disclosed in the Accounting Policies of the Bank.

2.7 Materiality and Aggregation

Each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or function are presented separately, unless they are immaterial as permitted by the International Accounting Standard – IAS 1 on ‘Presentation of Financial Statements’.

2.8 Rounding

The amounts in the Financial Statements have been rounded-off to the nearest Maldivian Rufiyaa, except where otherwise indicated as permitted by the International Accounting Standard – IAS 1 on ‘Presentation of Financial Statements’.

2.9 Use of Judgements and Estimates

The preparation of the financial statements in conformity with IFRSs and IASs adopted the management has made judgements, estimates and assumptions which 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 prospectively.

The most significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are described wherever necessary.

2. BASIS OF PREPARATION (CONTINUED)

2.9 Use of Judgments and Estimates (Continued)

i.) Judgments

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

Note 3.2 (ii) - classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

Note 3.2 (ix) – establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward looking information into the measurement of Expected Credit Loss (“ECL”) and selection and approval of models used to measure ECL.

ii.) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainty that have a significant risk of resulting in a material adjustment for the year ended 31st December 2021 are included in the following notes.

Note 3.2 (ix) - Impairment of financial instruments

Determining inputs into the ECL measurement model, including incorporation of forward-looking information.

In estimating collectively assessed ECL, the Bank makes judgements and assumptions in relation to:

- the selection of an estimation technique or modelling methodology, noting that the modelling of the Bank’s ECL estimates are complex; and
- the selection of inputs for those models, and the interdependencies between those inputs.

The following summarises the key judgements and assumptions used by the Bank in relation to the ECL model inputs, the interdependencies between those inputs, and highlights the significant changes during the current year.

- Determining when a Significant Increase in Credit Risk (SICR) has occurred

In the measurement of ECL, judgement is involved in setting the rules and trigger points to determine whether there has been a SICR since initial recognition of a loan, which would result in the financial asset moving from ‘Stage 1’ to ‘Stage 2’. This is a key area of judgement since transition from Stage 1 to Stage 2 increases the ECL from an allowance based on the probability of default in the next 12 months, to an allowance for lifetime expected credit losses.

2. BASIS OF PREPARATION (CONTINUED)

2.9 Use of Judgments and Estimates (Continued)

ii.) Assumptions and estimation uncertainties (Continued)

In response to the impacts of COVID-19, various moratorium/ debt concessionary schemes have been offered to eligible customers. The Bank does not consider that when a customer is first provided assistance it automatically results in a Significant Increase in Credit Risk (SICR) and a consequent impact on ECL when assessing provisions. Subsequent to take-up, assessments have been carried out based on the discussions with the customers on the future business cashflows, financial position, the sectors in which the businesses operate, and ability to recommence loan repayments at the end of the moratorium/ debt concessionary period to conclude whether there is SICR.

- Measuring both 12- month and lifetime credit losses

The probability of default (PD), loss given default (LGD) and exposure at default (EAD) credit risk parameters used in determining ECL are point-intime measures reflecting the relevant forward looking information determined by management. Judgement is involved in determining which forward-looking information variables are relevant for particular lending portfolios and for determining each portfolio's point-in-time sensitivity.

Note 3.6 - impairment losses on non-financial assets

The Bank assesses whether there are any indicators of impairment for an asset or a Cash-Generating Unit (CGU) at each Reporting date or more frequently, if events or changes in circumstances necessitate to do so. This requires the estimation of the 'Value in use' of such individual assets or the CGUs. Estimating 'Value in use' requires the Management to make an estimate of the expected future cash flows from the asset or the CGU and also to select a suitable discount rate in order to calculate the present value of the relevant cash flows. This valuation requires the Bank to make estimates about expected future cash flows and discount rates and hence, they are subject to uncertainty.

Note 3.5 - Useful Lifetime of the Property, Plant & Equipment

The Bank reviews the residual values, useful lives and methods of depreciation of Property, Plant & Equipment at each Reporting date. Judgement of the Management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

Note 3.8 and 3.9 - Provisions for Liabilities, Commitments and Contingencies

The Bank receives legal claims in the normal course of business. Management has made judgements as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depend on the due processes in respective legal jurisdictions.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies have been consistently applied by the Company and are consistent with those used in the previous year. Further, comparative information is reclassified wherever necessary to comply with the current year presentation.

3.1 Changes in significant accounting policies

3.1.1 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform (Phase 1) – ("IBOR reform")

IBOR reforms Phase 1

IASB issued amendments to IFRS 9, IAS 39 and IFRS 7 due to IBOR reform (Phase 1). A summary of Phase 1 amendments are as follows:

- Highly Probable Requirement: According to IFRS 9 and IAS 39, when a forecast transaction is designated as a hedged item, that transaction must be highly probable to occur. By the Phase 1 amendments, when determining whether a forecast transaction is highly probable, an entity shall assume that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the reform.
- Prospective assessments: A hedging relationship qualifies for hedge accounting only if there is an economic relationship between the hedged item and the hedging instrument (described in IFRS 9) or the hedge is expected to be highly effective in achieving off-setting (described in IAS 39). An entity must demonstrate such prospective assessments on a regular basis. By the Phase 1 amendments, when performing prospective assessments, an entity shall assume that the interest rate benchmark on which the hedged item, hedged risk and/or hedging instrument are based is not altered as a result of the IBOR reform.
- IAS 39 retrospective assessment: To apply hedge accounting under IAS 39, an entity must demonstrate that the actual results of the hedge are within a range of 80% - 125%. This requirement is commonly known as the 'IAS 39 retrospective assessment'. By the Phase 1 amendments, an entity is not required to undertake the IAS 39 retrospective assessment for hedging relationships directly affected by the reform. However, the entity must comply with all other IAS 39 hedge accounting requirements, including the prospective assessment.
- Separately identifiable risk components: While there are some differences between IFRS 9 and IAS 39 regarding designation of risk components, both Standards require a risk component (or a portion) to be separately identifiable to be eligible for hedge accounting. An entity may designate an item in its entirety or a component of an item as a hedged item in a hedging relationship. IFRS 9 and IAS 39 require the component to be separately identifiable to qualify as a hedged item. By the Phase 1 amendments, for hedges of non-contractually specified benchmark component of interest rate risk, an entity shall apply the separately identifiable requirement only at the inception of such hedging relationships.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Changes in significant accounting policies (Continued)

3.1.1 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform (Phase 1) – ("IBOR reform")

IBOR reform Phase 2

In addition to Phase 1 amendments, IASB also issued amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 due to IBOR Reform. The Phase 2 amendments provide temporary reliefs which address the financial reporting effects when an IBOR is replaced with an alternative nearly RFR. The amendments include the following practical expedients.

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest.
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued.
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

The effective date of both IBOR reform Phase 1 and Phase 2 amendments is for annual reporting periods beginning on or after 1 January 2021

3.2 Standard issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

3.2.1 IFRS 9 Financial Instruments –Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to IFRS standard process, the IASB issued an amendment to IFRS 9. The Amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.

These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other behalf. And entity applies the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Bank will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual period in which it will first apply the amendment and does not expect this will result in a material impact on its financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Standard issued but not yet effective (Continued)

3.2.2 Definition of Accounting Estimates - Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the Bank.

3.2.3 Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures. The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary. The Bank is currently assessing the impact of the amendments to determine the impact they will have on the Bank's accounting policy disclosures.

3.3 Foreign Currency Transactions

Transactions in currencies other than Maldivian Rufiyaa are translated to Maldivian Rufiyaa at the exchange rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated to Maldivian Rufiyaa at the exchange rate ruling at the reporting date. 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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Financial Instruments

(i) Date of Recognition

The Bank initially recognizes loans and advances, deposits and other liabilities, etc. on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognized on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

(ii) Classification

On initial recognition, a financial asset is classified as measured at:
(a) Amortised cost
(b) FVOCI or FVTPL.

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

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (“SPPI”).

Business Model Assessment

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

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Bank's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Financial Instruments (Continued)

(ii) Classification (Continued)

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

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

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument.

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

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

The Bank has mainly included the following financial assets;

Loans and Advances

Loans and advances caption in the statement of financial position include:

- Loans and advances measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

Investment Securities

Investment securities caption in the statement of financial position include:

- Investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

For debt securities measured at FVOCI, gains and losses recognized in OCI, except for following, which are recognized in profit or loss in the same manner as for financial assets measured at amortised cost;

- Interest income using effective interest method
- ECL and reversals; and
- Foreign exchange gains or losses.

Gains or loss on equity instruments are never reclassified to profit or losses and no impairment is recognized in the profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Financial Instruments (Continued)

(iii) Classification and Subsequent Measurement of Financial Liabilities

The Bank classifies financial liabilities into one of the following categories:

(a) Financial liabilities at fair value through profit or loss.

(b) Financial Liabilities at amortized cost.

(a) Financial Liabilities at Amortized Cost

Financial instruments issued by the Bank that are not designated at fair value through profit or loss are classified as liabilities under 'Deposits from Customers', or 'Other liabilities' as appropriate, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial recognition, such financial liabilities are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

The EIR amortization is included in 'Interest expenses' in the profit or loss. Gains and losses too are recognized in the Statement of Comprehensive Income when the liabilities are derecognized as well as through the EIR amortization process.

(iv) Reclassification of Financial Assets and Liabilities

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

(v) De-recognition of Financial Assets and Liabilities

(a) Financial Assets

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Financial Instruments (Continued)

(v) De-recognition of Financial Assets and Liabilities (Continued)

(a) Financial Assets (Continued)

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

In certain transactions, the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is de-recognized if it meets the de- recognition criteria. An asset or liability is recognized for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing. The Bank de-recognizes a financial liability when its contractual obligations are discharged or cancelled or expired.

(b) Financial Liabilities

The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled or expired.

(vi) Offsetting Financial Instruments

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

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

(vii) 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 interest rate method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

(viii) 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)

3.4 Financial Instruments (Continued)

(viii) Fair Value Measurement (Continued)

The Bank measures the fair value using following fair value hierarchy which reflects the significance of the inputs used in making the measurement. An analysis of fair value measurement of financial and non-financial assets and liabilities are provided below.

Level – 1

Inputs that are unadjusted quoted market prices in an active market for identical instruments.

When available, the Bank measures the fair value of an instrument using active quoted prices or dealer price quotations, without any deduction for transaction costs. A market is regarded as active if transactions for asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level – 2

Inputs other than quoted prices included within level that are observable either directly (i.e as prices) or indirectly (i.e derived from prices).This instruments valued using:

(a.) Quoted market in active markets for similar instruments.
(b.) Quoted prices for identical or similar instruments in markets that are considered to be less active, or
(c.) Other valuation techniques in which almost 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 techniques includes inputs not based on observable data and the unobservable inputs have significant effect on the instrument's value.

Valuation techniques include net present value and discounted cash flow models comparison with similar instruments for which observable market prices exist, option pricing models and other valuation models.

Methodologies and assumptions used to determine fair value of financial instruments which are not already recorded at fair value in the Statement of Financial Position are as follows.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Financial Instruments (Continued)

(ix) Impairment

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

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

No impairment loss is recognised on equity investments.

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

Other financial instruments on which credit risk has not increased significantly since their initial recognition.

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

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

Measurement of ECL

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

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Credit-Impaired Financial Assets

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Financial Instruments (Continued)

(ix) Impairment (Continued)

Credit-Impaired Financial Assets

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

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

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

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

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- Loan commitments and financial guarantee contracts: generally, as a provision;
- Where a financial instrument includes both a drawn and undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component. The Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from gross current amount of the drawn component. Any excess of the loan loss allowance over the gross carrying amount is presented as a provision.

Write-off

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

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss.

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

Non-Integral Financial Guarantee Contracts

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Financial Instruments (Continued)

(ix) Impairment (Continued)

Non-Integral Financial Guarantee Contracts (Continued)

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

(x) Cash and Cash Equivalents

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

(xi) Derivatives held for risk management purposes and hedge accounting

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. All derivatives are measured at fair value in the statement of financial position.

Policy applicable generally to hedging relationships

On initial designation of the hedge, the Bank formally documents the relationship between the hedging instrument and hedged item, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Bank makes an assessment, both on inception of the hedging relationship and on an ongoing basis, of whether the hedging instrument is expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item during the period for which the hedge is designated. For a cash flow hedge of a forecast transaction, the Bank makes an assessment of whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in OCI and presented in the hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in the hedging reserve is reclassified from OCI to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the statement of profit or loss and OCI.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. If the hedged cash flows are no longer expected to occur, then the Bank immediately reclassifies the amount in the hedging reserve from OCI to profit or loss. For terminated hedging relationships, if the hedged cash flows are still expected to occur, then the amount accumulated in the hedging reserve is not reclassified until the hedged cash flows affect profit or loss; if the hedged cash flows are expected to affect profit or loss in multiple reporting periods, then the Bank reclassifies the amount in the hedging reserve from OCI to profit or loss on a straight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Assigned Capital

According to the Maldives Banking Act No 24/2010 the Bank required to maintain minimum capital of MVR 150Mn for Commercial Banks operated in Republic of Maldives.

3.6 Leases

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset. The Bank uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into (or changed) on or after 1st January 2019.

i.) Bank acting as a lessee

At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative stand-alone price. However. For leases of branches and office premises the Bank has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, and the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

The Bank determines its incremental borrowing rate by analyzing its cost of funding and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Leases (Continued)

i.) Bank acting as a lessee

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in rental value. If there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank presents right-of-use assets and lease liability in the separate line item of the statement of financial position.

Short-term leases and leases of low-value assets

The Bank has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including leases of IT equipment. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

3.7 Property, Plant and Equipment.

(i) Recognition and Measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is 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, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant 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, plant and 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 derecognized. The costs of the day-to-day servicing of property, plant 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 recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Bank will obtain ownership by the end of the lease term.

Leased hold Improvements	Over 10 Years
Furniture and Fittings	Over 03, 04 and 10 Years
Computer Equipment	Over 03 Years
Motor Vehicles	Over 10 Years
Office Equipment	Over 03, 04 and 10 Years

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate. Depreciation is calculated from the date that they are ready for use.

3.8 Impairment of Non-financial Assets

At each Reporting date, the Bank reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or CGUs.

The 'recoverable amount' of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 'Value in use' is based on the estimated future cash flows, 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 or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss. They are allocated to reduce the carrying amounts of the other assets in the CGU on a pro-rata basis.

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.

3.9 Employee Benefits

(i) Short-term Employee Benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid 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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Employee Benefits (Continued)

(ii) Defined Contribution Plans

All Maldivian employees of the Bank are members of the retirement pension scheme established in the Maldives. Both employer and employee contribute 7% each respectively to this scheme of such employees' pensionable wage. Employers' obligation for contribution to pension scheme is recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

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.

3.11 Contingent Liabilities and Commitments

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot readily measured as defined in International Accounting Standard – IAS 37 on Provisions, Contingent Liabilities and Contingent Assets.

In the normal course of business, the Bank makes various irrecoverable commitments and incurs certain liabilities with legal recourse to its customers. Even though these obligations may not recognize the date of the Statement of Financial Position, they do contain credit risk and are therefore form part of the overall risk profile of the Bank.

3.12 Interest Income and Expense

i. Effective interest rate

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 Interest Income and Expense (Continued)

ii. Amortised Cost and Gross Carrying Amount

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

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

iii. Calculation of Interest Income and Expense

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

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

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

iv. Presentation

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

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

Interest expenses presented in the statement of profit or loss includes:

- Financial liabilities measured at amortised cost.

3.13 Fees and Commission Income and Expense

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

Fees and commission income, including account servicing fees, trade and remittance fees, placement related services fees, guarantees related services fees and deposits related services fees, are recognized as the related services are performed. Other fees and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.14 Tax Expense

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

Current Tax

Current tax is the expected tax payable on the taxable income 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.

A deferred tax asset is recognized for unused tax losses, tax credits deductible temporary difference to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it no longer probable that the related tax benefits will be provided.

3.15 Operating Expense

All expenses incurred in the running of the business and in maintaining the capital assets in a state of efficiency has been charged to the revenue in arriving at profit or loss for the year. Expenditure 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 business has been treated as capital expenses.

3.16 Statement of the Cash Flows

The Statement of Cash Flows has been prepared by using the ‘Indirect Method’ of preparing cash flows in accordance with the International Accounting Standard – IAS 7 on ‘Statement of Cash Flows’. Cash and cash equivalents comprise of short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

4 NET INTEREST INCOME

	2021 MVR	2020 MVR
Interest income calculated using effective interest method		
Interest Income on Investments **(Note 4.1)**	417,626,702	236,701,766
Interest Income on Loans and Advances to Customers	345,595,361	363,212,810
	763,222,063	599,914,576
Interest Expense		
Deposits from Banks and Customers	(35,174,006)	(36,656,369)
Interest on Interest Bearing Borrowing	(104,976,081)	(45,494,064)
Interest on Lease Liabilities	(3,674,390)	(4,068,505)
Interest expense on derivatives	(137,280,938)	(36,705,764)
	(281,105,415)	(122,924,702)
Net Interest Income	482,116,648	476,989,874

4.1 Interest Income on Investments

Government Securities **(Note 4.1.1)**	294,668,821	193,963,333
Overnight Deposits Facilities	4,608,493	4,307,055
Corporate Bond	4,081,977	4,245,198
Placement with SBI - Bahrain	404,075	2,240,152
Interest income Derivatives	112,412,403	30,768,659
Other Investments	1,450,933	1,177,369
	417,626,702	236,701,766

4.1.1 Interest Income from Government Securities

Treasury Bills - USD	100,048,254	99,362,948
Treasury Bills - MVR	59,903,571	57,894,621
Investment in Government Bond - USD	134,716,996	36,705,764
	294,668,821	193,963,333

5 NET FEES AND COMMISSION INCOME

	2021 MVR	2020 MVR
Fee and Commission Income		
Commission on Loan Processing Fees, Letter of Credit and Guarantees	16,572,199	23,431,833
Commission from ATM Transactions	2,352,596	2,599,675
Commission from Remittances	7,518,256	3,226,330
Income from Postage and Telegraph	638,513	5,499,152
Commission from RTGS	771,001	3,139,383
Commission from Currency Handling	3,736,149	1,175,213
Commission from Minimum Account Balances	6,461,274	7,182,484
Accounts Closure Charges	123,581	121,199
Others	6,937,134	2,603,826
Total Fees and Commission Income	45,110,703	48,979,095
Fees and Commission Expense		
Interbank Transaction Fees	(49,923)	(58,258)
Total Fee and Commission Expense	(49,923)	(58,258)
Net Fee and Commission Income	45,060,780	48,920,837

6 NET FOREIGN EXCHANGE INCOME

	2021 MVR	2020 MVR
Net Trading Income	85,158,708	66,292,166
	85,158,708	66,292,166

7 OTHER INCOME

	2021 MVR	2020 MVR
Recoveries of amounts previously written off	133,231,992	2,846,830
Gain on disposal of fixed assets	-	3,663,867
Net gain arising from derecognition of lease liability	-	65,197
Rent concessions	1,295,280	-
	134,527,272	6,575,894

8 IMPAIRMENT LOSSES ON FINANCIAL INSTRUMENTS

	2021 MVR	2020 MVR
Impairment charges on cash and placement with Banks **(Note 13.4)**	3,692,254	-
Impairment (reversed)/ charged on Loans and Advances to Customers **(Note 17.3 and 17.4)**	3,626,979	33,311,128
Impairment charged on Investment Securities **(Note 15.2)**	14,530,057	78,716,124
Impairment charged/ (reversed) on Undrawn Credit Facilities **(Note 26)**	(791,303)	(2,173,531)
	21,057,987	109,853,721

9 PERSONNEL EXPENSES

	2021 MVR	2020 MVR
Salaries and Allowances	36,676,107	32,418,468
Staff Bonus	5,850,840	4,325,891
Accommodation	1,220,785	1,580,014
Travelling and Medical Expense	1,597,002	1,244,537
Other Personnel Cost	2,169,922	1,004,874
Staff Welfare	142,350	1,548,600
Provident Fund Contribution	1,336,011	2,072,041
	48,993,017	44,194,425

9.1 Provident Fund Contribution

The Bank contributes 3% (2019: 3%) for the Maldivian staff and 10% (2019:10%) for the Indian based staff to the provident fund based on their last basic salary. Indian member's contribution is transferred to the State Bank of India - Kolkata Branch monthly.

10 DEPRECIATION

	2021 MVR	2020 MVR
Depreciation of Property Plant and Equipment **(Note 17)**	4,282,185	3,680,395
Depreciation of Right-of-Use Asset **(Note 18)**	11,326,820	12,005,731
	15,609,005	15,686,126

11 OTHER OPERATING EXPENSES

	2021 MVR	2020 MVR
Professional Fees	2,027,743	2,079,361
Management Fees	6,438,822	2,209,052
Premises, Equipment and Establishment Expenses	301,221	1,553,040
Repair and Maintenance	1,717,173	5,410,729
Master Card and Other Charges	1,230,394	1,327,029
Operating Overheads	15,741,375	16,448,664
	27,456,728	29,027,875

12 INCOME TAX EXPENSE

	2021 MVR	2020 MVR
Income Tax Expense **(Note 12.1)**	164,705,200	126,524,570
Reversal of Deferred Tax Asset **(Note 12.2)**	320,077	(5,089,830)
	165,025,277	121,434,740

12 INCOME TAX EXPENSE (CONTINUED)

12.1 Reconciliation between Accounting Profit and Taxable Profit

		2021 MVR	2020 MVR
Accounting Profit before Tax		633,746,671	400,016,624
Adjustments for:			
Add:	Depreciation	4,276,825	3,680,395
	Management fees	6,438,822	2,209,052
	Individual assessment provision	(31,563,406)	26,641,007
	Collective assessment provision	36,440,177	8,229,423
	Employee welfare expenses	142,350	120,450
	Pension expense	2,602,075	2,072,041
	Balancing Charge	-	4,355,429
	Impairment charged/ (reversed) on investment securities	14,530,057	78,716,124
	Impairment charged/ (reversed) on undrawn credit Facilities	(791,303)	(2,173,531)
	Impairment charges on cash and placement with Banks	3,692,254	-
	Loss on disposal of non current assets	105,479	-
		669,620,001	523,867,014
Less:	Capital allowances	(3,944,446)	(1,719,958)
	Balancing allowance	(98,425)	(1,635,890)
	Allowable head office expenses	(6,438,822)	(2,209,052)
	Employee welfare expenses allowed	(142,350)	(120,450)
	Pension contribution to MPRS	(1,266,064)	(1,228,114)
	Unrealised accounting gains in relation to non-current assets and liabilities	-	(65,197)
	Gain on disposal of non-current assets not subject to capital gain tax	-	(3,663,867)
	Specific loan loss provision recovered for which deductions were not allowed previously	(409,034)	(1,974,853)
	Specific loan loss provision	466,225	(3,785,443)
	Other amounts deductible	1,033,715	(1,365,909)
Taxable Income		658,820,799	506,098,281

	2021 MVR	2020 MVR
Income Tax @ 25%	164,705,200	126,524,570

In accordance with the provisions of the Bank Profit Tax Act of 1985, relevant regulations and subsequent amendments, the Bank is liable for Bank Profit Tax at the rate of 25% on its taxable profit.

12.2 Deferred Tax Asset

	2021 MVR	2020 MVR
Balance as at 1st January	102,170,665	182,112,663
Charge / (reversal) of deferred tax asset against the profit or loss	(320,077)	5,089,830
Reversal of deferred tax asset against the equity	-	(493,713)
Deferred tax impact on Other Comprehensive Income	(3,213,682)	(84,538,115)
Balance as at 31st December	98,636,906	102,170,665

12.3 Deferred Tax Asset is attributable to the following;

	2021		2020	
	Temporary Difference MVR	Tax Effect MVR	Temporary Difference MVR	Tax Effect MVR
Loan loss provisioning	744,105,560	186,026,390	745,814,340	186,453,585
Property, Plant and Equipment	1,449,250	362,313	1,020,780	255,195
Hedging reserve	(351,007,187)	(87,751,797)	(338,152,460)	(84,538,115)
	744,105,560	98,636,906	408,682,660	102,170,665

13	CASH AND CASH EQUIVALENTS	2021 MVR	2020 MVR
	Cash in Hand	87,130,500	178,538,866
	Balances with other SBI Branches **(Note 13.1)**	160,693,185	195,510,580
	Balances with Other Banks **(Note 13.2)**	108,547,354	96,288,497
	Placements with Other SBI Branches **(Note 13.3)**	1,462,113,770	308,200,000
	Less: Provision for impairment **(Note 13.4)**	(3,692,254)	-
		1,814,792,555	778,537,943

13.1	Balances with Other SBI Branches		
	State Bank of India - Sydney	1,096,438	993,754
	State Bank of India -Melbourne	73,598	-
	State Bank of India - Frankfurt	968,675	1,435,042
	State Bank of India - London	262,677	375,333
	State Bank of India - Chennai	909,972	1,739,233
	State Bank of India - Singapore	767,088	461,738
	State Bank of India - Mumbai	54,544,582	35,842,780
	State Bank of India - New York	100,902,058	153,918,488
	Asian Clearing Union (ACU) A/C, SBI - Colombo	1,168,097	744,212
		160,693,185	195,510,580

13.2	Balances with Other Banks		
	Bank of Maldives PLC	9,915,124	18,084,264
	Australian New Zealand Banking Corporation	-	223,173
	Bank of America	35,093,286	51,864,896
	DBNY Nostro A/C	63,538,944	1,299,802
	Hatton National Bank	-	24,816,362
		108,547,354	96,288,497

13.3	Placements with Other SBI Branches		
	State Bank of India - Bahrain	1,462,113,770	308,200,000
		1,462,113,770	308,200,000

13.4	Movement in provision for impairment during the year	2021 MVR	2020 MVR
	Balance as at January 1,	-	-
	Charge to the Income Statement	3,692,254	-
	Balance as at December 31,	3,692,254	-

14	BALANCES WITH MALDIVES MONETARY AUTHORITY	2021 MVR	2020 MVR
	Statutory Balance with Maldives Monetary Authority **(Note 14.1)**	410,977,506	425,173,622
	Overnight Deposits at Maldives Monetary Authority **(Note 14.2)**	370,045,616	260,001,027
		781,023,122	685,174,649

14.1 Statutory Balance with Maldives Monetary Authority

As per the regulations of Maldives Monetary Authority ("MMA"), the Branch is required to maintain a reserve deposit of 10% of the Branch's average demand and time liabilities of the respective currency, excluding interbank liabilities and Letter of Credit margin deposits. With regard to the interest on reserves, the Rufiyaa Minimum Reserve Requirement ("MRR") balances are remunerated at 1% per annum and US dollar MRR balances are remunerated at 0.01% per annum. These deposits are not available for the Branch's day to day operations.

14 BALANCES WITH MALDIVES MONETARY AUTHORITY (CONTINUED)

14.2 Overnight Deposits at Maldives Monetary Authority

The investment in overnight deposit at the Maldives Monetary Authority is stated at amortized cost as at the reporting date.

15 INVESTMENT SECURITIES

	2021 MVR	2020 MVR
Investment Securities measured at Amortized Cost	7,536,926,678	7,432,288,818

15.1 The bank has invested in Corporate Bond in State Trading Organization PLC and Treasury Bills which it is carrying interest rates between 4.23% - 5.25% with different maturity periods.

Investment in Corporate Bond	49,962,152	76,629,363
Investment in Government Bond	3,847,500,000	3,852,500,000
Investments in Government Securities - Treasury Bills	3,709,558,972	3,557,890,218
Interest Receivable on government securities	37,136,929	37,970,555
Impairment Loss on Investment Securities **(Note 15.2)**	(107,231,375)	(92,701,318)
	7,536,926,678	7,432,288,818

Investments in Treasury Bills at Face Value - MVR	1,470,000,000	1,320,000,000
Investments in Treasury Bills at Face Value -USD	2,308,500,000	2,269,329,257
Discount received in securities	(68,941,028)	(31,439,038)
Investments in Treasury Bills at Amortized Cost	3,709,558,972	3,557,890,219

15.2 Impairment Loss on Investment Securities

	2021 MVR	2020 MVR
Balance as at 1st January	92,701,318	13,985,194
Provision made/ (reversed) during the Year	14,530,057	78,716,124
Balance as at 31st December	107,231,375	92,701,318

15.3 On 23rd September 2020, the Bank has invested 10 years at 3.5% coupon rate which is issued by Government of Maldives

16 DERIVATIVE ASSETS HELD FOR RISK MANAGEMENT

	2021 MVR	2020 MVR
Derivative Financial Asset	343,679,623	332,215,355

16.1 Risk exposure - Interest rate

	2021	
	Assets	Liabilities
Designated in cash flow hedges	368,921,119	36,705,764

Details of derivatives designated as hedging instruments in qualifying hedging relationships are provided below. The Bank uses derivatives to manage its exposure to interest rate and credit risks. The instruments used principally include interest rate swaps.

16.2 Hedge accounting

i. Cash flow hedges of interest rate risk

The Bank uses pay fixed/receive floating interest rate swaps to hedge the interest rate risks in respect of the benchmark interest rate (mainly US dollar LIBOR).

16 DERIVATIVE ASSETS HELD FOR RISK MANAGEMENT (CONTINUED)

16.2 Hedge accounting (Continued)

i. Cash flow hedges of interest rate risk (Continued)

The Bank hedges interest rate risk to the extent of benchmark interest rate exposure on its floating-rate borrowing to mitigate variability in its cash flows. Hedge accounting is applied where economic hedging relationships meet the hedge accounting criteria.

The Bank determines the amount of the exposure to which it applies hedge accounting by assessing the potential impact of changes in interest rates on the future cash flows from its floating-rate borrowing denominated in foreign currencies. This assessment is performed using analytical techniques, such as cash flow sensitivity analysis.

The Bank determines whether an economic relationship exists between the cash flows of the hedged item and hedging instrument based on an evaluation of the qualitative characteristics of these items and the hedged risk that is supported by quantitative analysis. The Bank considers whether the critical terms of the hedged item and hedging instrument closely align when assessing the presence of an economic relationship. The Bank evaluates whether the cash flows of the hedged item and the hedging instrument respond similarly to the hedged risk. The Bank further supports this qualitative assessment by using a cummulative 'Dollar offset' method to assess whether the hedging instrument is expected to be and has been highly effective in offsetting changes in the present value of the hedged item.

The Bank assesses hedge effectiveness using the hypothetical derivative method, which creates a derivative instrument to serve as a proxy for the hedged transaction. The terms of the hypothetical derivative match the critical terms of the hedged item and it has a fair value of zero at inception. The hypothetical derivative and the actual derivative are regressed to establish the statistical significance of the hedging relationship. The Bank assesses whether the derivative designated in each hedging relationship is expected to be and has been highly effective in offsetting changes in cash flows of the hedged item (prospectively and retrospectively) using a cummulative 'Dollar offset' method.

The hedge effectiveness test shall be done at the inception of the hedge and at each reporting date by scenario analysis

In these hedging relationships, the main sources of ineffectiveness are:

- the effect of the counterparty and the Bank’s own credit risk on the fair value of the swap, which is not reflected in the fair value of the hedged item attributable to the change in interest rate and foreign currency;
- differences in maturities or timing of cash flows of the swap and the borrowing; and
- uncertainties arising from LIBOR rate.

There were no other sources of ineffectiveness in these hedging relationships.

As at 31st December 2021, the Bank held the following instruments to hedge exposures to changes in interest rates and foreign currency.

Interest rate risk ***Interest rate swaps***	**2021** **USD**	**2020** **USD**
Nominal Amount Maturity at Year 10	250,000,000	250,000,000
Average Fixed Rate	3.50%	3.50%

Cash flow hedges

There were no ineffectiveness identified as at 31st December 2021 based on the qualitative and quantitative assessment.

	2021			
	Changes in fair value used for calculating hedge ineffectiveness **MVR**	Changes in the value of the hedging instrument recognized in OCI **MVR**	Hedge ineffectiveness recognized in profit or loss **MVR**	Tax on other comprehensive income **MVR**
Derivative Financial Asset	-	12,854,727	-	-

17 LOAN AND ADVANCES TO CUSTOMERS

	2021 MVR	2020 MVR
Overdrafts	1,356,465,217	1,712,239,761
Loans and Advances	3,869,503,612	3,864,530,493
Staff Loans	1,924,593	39,165,432
	5,227,893,422	5,615,935,686
Provision for Impairment of Loss Allowance - Individual Assessment **(Note 17.3)**	(54,654,563)	(87,467,761)
Provision for Impairment of Loss Allowance - Collective Assessment **(Note 17.4)**	(66,381,795)	(29,941,618)
Loans and Advance to Customers measured at Amortized cost	5,106,857,064	5,498,526,307

17.1 By Currency

	2021 MVR	2020 MVR
United States Dollars (USD)	4,046,411,082	4,434,453,346
Maldivian Rufiyaa (MVR)	1,181,482,340	1,181,482,340
	5,227,893,422	5,615,935,686

By Industry

	2021 MVR	2020 MVR
Tourism	2,945,046,744	2,787,440,660
Trading	538,179,813	581,002,762
Education	10,359,592	11,351,748
Fishery	58,736,753	61,213,339
Non Banking Finance Companies	85,510,000	107,115,457
Aviation	288,957,737	288,453,725
Commercial Real Estate	350,867,347	355,578,148
Transport	39,025,129	37,606,326
Construction	23,424,150	24,829,500
Others	887,786,157	1,361,344,022
	5,227,893,422	5,615,935,686

17.2 The Government of India ("GOI") has granted budgetary assistance and trade credit facility to the Government of Maldives ("GOM"). The Bank acts for and on behalf of the GOI to facilitate fund transfers to the GOM and subsequent repayments by the GOM. The details of the aforementioned facilities are as follows.

As of the Reporting Date	**Amounts in USD million**	**Amounts in MVR million**
Facility granted by GOI	29	446
Availed by GOM	27	415
Unveiled by GOM	2	31

Since the Bank is acting as a facilitator to the above transactions, the related balances are maintained as off balance sheet items in the Bank's books of accounts for administrative purposes. However, the balance unveiled by the GOM has been reflected in the deposits from customers under note 20 to these financial statements.

17 LOAN AND ADVANCES TO CUSTOMERS (CONTINUED)

17.3 Provision for Impairment of Loss Allowance - Individual Assessment

	2021 MVR	2020 MVR
Balance as at 1st January	87,467,761	62,386,056
Provision (reversed)/ made during the Year	(32,813,198)	28,132,057
Recoveries made during the Year	-	(3,050,352)
Balance as at 31st December	54,654,563	87,467,761

17.4 Provision for Impairment of Loss Allowance - Collective Assessment

	2021 MVR	2020 MVR
Balance as at 1st January	29,941,618	21,712,195
Provision (reversed)/ made during the Year	36,440,177	8,229,423
Balance as at 31st December	66,381,795	29,941,618

18 PROPERTY, PLANT AND EQUIPMENT

Cost	**Balance as at 1-Jan-21 MVR**	**Additions MVR**	**Disposal MVR**	**As at 31-Dec-21 MVR**
Leasehold Improvements	4,119,212	2,211,632	-	6,330,844
Furniture and Fittings	5,113,009	3,245,600	(107,815)	8,250,794
Computer Equipments	7,504,838	3,265,434	-	10,770,272
Motor Vehicles	1,454,890	-	-	1,454,890
Office Equipments	2,743,928	13,260,767	-	16,004,695
Total Assets	20,935,877	21,983,433	(107,815)	42,811,494
Accumulated Depreciation	**As at 1-Jan-21 MVR**	**Charge for the Year MVR**	**Charge for the Year MVR**	**As at 31-Dec-21 MVR**
Leasehold Improvements	1,254,812	508,698	-	1,763,510
Furniture and Fittings	3,783,531	492,894	(2,336)	4,274,089
Computer Equipments	6,070,898	1,192,214	-	7,263,112
Motor Vehicles	639,720	104,680	-	744,400
Office Equipments	1,430,061	1,978,339	-	3,408,400
Total Depreciation	13,179,022	4,276,825	(2,336)	17,453,512
Net Carrying Values	7,756,855			25,357,982

19 RIGHT- OF- USE ASSET

Right-of-use assets related to leased properties that do not meet the definition of investment property are presented as right-of-use asset.

	2021 MVR	2020 MVR
Cost		
Balance as at 1st January	93,496,349	93,407,137
Additions during the year	1,972,207	10,702,108
Cancellation during the year	-	(3,132,121)
Adjustments due to the concession on leases	-	(7,480,775)
Balance as at 31st December	95,468,556	93,496,349

		2021	2020
19	**RIGHT- OF- USE ASSET (CONTINUED)**	**MVR**	**MVR**
	Accumulated depreciation		
	Balance as at 1st January	19,063,189	8,049,355
	Depreciation charge during the year	11,326,820	12,005,731
	Cancellation during the year	-	(991,897)
	Balance as at 31st December	30,390,009	19,063,189
	Net carrying value	65,078,547	74,433,160

		2021	2020
20	**OTHER ASSETS**	**MVR**	**MVR**
	Deposits and Prepayments	2,440,004	11,293,154
	Insurance Claim Receivables	-	9,058,504
		2,440,004	20,351,658

		2021	2020
21	**DEPOSITS FROM CUSTOMERS**	**MVR**	**MVR**
	Current Accounts **(Note 20.1)**	2,483,565,748	2,369,856,465
	Saving Deposits **(Note 20.1)**	1,959,362,483	1,836,122,169
	Time Deposits **(Note 20.2)**	1,289,209,585	1,337,778,895
		5,732,137,816	5,543,757,529
21.1	**Payable on Demand**		
	Retail Customers	2,592,842,859	2,159,278,574
	Corporate Customers	3,099,533,135	1,993,823,813
	Other	39,761,821	52,876,247
		5,732,137,816	4,205,978,634
21.2	**Term Deposits**		
	Retail Customers	466,169,904	468,242,905
	Corporate Customers	823,039,681	869,535,990
		1,289,209,585	1,337,778,895
	Total Deposits from Customers	7,021,347,400	5,543,757,529
21.3	**By Currency**		
	United States Dollars (USD)	3,862,273,539	3,851,058,233
	Maldivian Rufiyaa (MVR)	1,860,688,458	1,683,061,418
	Euro (EUR)	9,175,818	9,637,878
		7,021,347,400	5,543,757,529

		2021	2021
22	**OTHER BORROWING**	**MVR**	**MVR**
	Placement of SBI- Bahrain	4,644,417,499	3,883,320,000
	Placement of Emirates-NBD	538,688,136	846,093,219
		5,183,105,635	4,729,413,219

	Starting Date	Maturity Date	Interest Rate	Amount (USD)
SBI - Bahrain	22/09/2020	23/09/2030	6M LIBOR +2.41	250,000,000
SBI - Bahrain	22/12/2021	03/01/2022	0.10%	50,000,000
Emirates NBD	15/12/2021	15/03/2022	0.20%	25,000,000
Emirates NBD	29/12/2021	31/01/2022	0.10%	10,000,000

23 LEASE LIABILITY

	2021 MVR	2020 MVR
Balance as at 1st January	79,721,579	86,723,691
Additions during the year	1,972,207	10,702,108
Cancellation during the year	-	(2,205,421)
Adjustment due to rent concession on leases	(1,295,280)	(7,480,775)
Interest on lease liability	3,674,390	4,068,505
Payment made during the year	(11,718,728)	(12,086,529)
Balance as at 31st December	72,354,168	79,721,579
Non - Current Liabilities	65,003,381	72,363,229
Current Liabilities	7,350,787	7,358,350

23.1 Leases under IFRS 16

	2021	2020
Interest on Lease Liabilities	3,674,390	4,068,505
Expenses relating to short-term leases	301,221	1,117,377
	3,975,611	12,544,232

23.2 Amounts recognised in statement of cash flows

		2021 MVR	2020 MVR
Repayment of lease	Interest	3,674,390	4,068,505
	Capital	8,044,338	8,018,024
		11,718,728	12,086,529

23.3 Extension Options

Agreement Name	Incremental borrowing rate	Lease start date	Lease end date	Renewal Option	Renewal Option in years
Feydhoo ATM Land Agreement	5.50%	1-Jul-17	30-Jun-27	Yes	10 Years
HDC Agreement	5.00%	1-Oct-17	30-Sep-22	Yes	5 Years
Hithadoo Lease agreement	5.50%	1-Jun-18	31-May-28	No	-
Mamigili Branch	5.50%	1-Dec-18	30-Nov-28	Yes	10 Years
Mamigili Agreement	4.00%	1-Jun-18	31-May-21	No	-
Residence - SVP(CR2)	3.50%	26-Jan-19	25-Jan-23	Yes	2 Years
Residence - SVP(A&C)	4.50%	15-Oct-19	15-Oct-23	No	-
Residence - COO	4.50%	15-Oct-19	15-Oct-23	No	-
CEO residence	3.00%	23-Aug-20	22-Aug-22	No	-
Record Room Agreement	5.00%	1-Jun-17	1-Jun-22	Yes	5 Years
Messenger Accomodation	4.00%	1-Jun-19	31-May-22	No	-
Residence - VP(T&CA)	5.00%	12-Nov-15	31-Oct-20	No	-
Residence - SVP(CR1)	5.00%	20-Oct-16	30-Sep-21	No	-
Residence - AVP(A&RM)	5.00%	15-Jul-17	31-Aug-22	No	-
Residence - AVP(Sys)	4.00%	15-Jan-19	14-Jan-22	No	-
Residence - VP(CR3)	4.50%	1-Dec-18	30-Nov-22	No	-
Residence - AVP(CR2)	4.50%	1-Dec-18	30-Nov-22	No	-
Residence - AVP(CR&NPA)	4.50%	1-Dec-18	30-Nov-22	No	-
Residence - AVP(CR1)	4.50%	1-Dec-18	30-Nov-22	No	-
Main Branch	5.00%	1-Sep-19	31-Aug-24	Yes	5 Years
ADK ATM Room	5.00%	1-Sep-19	31-Aug-24	Yes	5 Years
IGMH ATM Room	5.00%	1-Sep-19	31-Aug-24	No	-

23.4 Some property leases contain extension options exercisable by the Bank up to the same period which was rented before the end of the non-cancellable contract period. Where practicable, the Bank seeks to include extension options in new leases to provided operational flexibility. The extension options held are exercisable only by the Bank and not by the lessors. The Bank assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Branch reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

24 TAX LIABILITY

	2021 MVR	2020 MVR
Balance as at 1st January	62,713,695	124,452,590
Add: Provision for the Year **(Note 12)**	164,705,200	126,524,570
Less: Payment during the Year	(127,886,110)	(188,263,465)
Balance as at 31th December	99,532,785	62,713,695

25 OTHER LIABILITIES

	2021 MVR	2020 MVR
Margin and Other	30,001,029	28,399,254
Sundry Deposit	4,243,542	1,433,435
Sundry Creditors	8,483,401	7,453,605
Demand Drafts	175,295	175,623
Balances with Other Banks **(Note 25.1)**	173,232	-
Balances with Other Branches **(Note 25.2)**	-	7,081,619
Accrued Management fee	4,108,590	-
	47,185,089	44,543,536

25.1 Balances with Other Banks

Hatton National Bank PLC - Colombo	173,232	-
	173,232	-

25.2 Balances with Other Branches

State Bank of India - Chennai	-	7,081,619
	-	7,081,619

26 PROVISIONS

	2021 MVR	2020 MVR
Balance as at 1st January	1,287,838	3,461,369
Provision (charged)/ reversed During the Year - Undrawn Credit Facilities	(791,303)	(2,173,531)
Balance as at 31th December	496,535	1,287,838

27 ASSIGNED CAPITAL

According to the Maldives Banking Act No. 24/2010, the minimum required capital for commercial banks operated in the Republic of Maldives is MVR. 150 million (2020: MVR. 150 million).

27.1 Distribution

The Management of the Bank has repatriated of MVR 308,400,000 /- (2020: Nil) during the year.

28 STATUTORY RESERVE

According to the Maldives Banking Act No 24/2010 / Prudential Regulation on Capital Adequacy (2015/R-166) issued by the Maldives Monetary Authority ("MMA"), the Bank shall allocate, after taxes, at least 50% of its net distributable profits for the formation of a capital reserve until the reserve totals 50% of its minimum required unimpaired paid-up capital or assigned capital. Once the reserve reaches 50% of the Bank's minimum required unimpaired paid-up capital or assigned 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 minimum required unimpaired paid-up capital or assigned capital. The Bank may not reduce its capital and the reserve accumulated in the manner described in the Act / Prudential Regulation or in any other manner without prior approval of the MMA.

29 NON-DISTRIBUTABLE CAPITAL RESERVE

According to the Maldives Monetary Authority ("MMA") guideline on loan loss provisioning (CN-BSD/2017/8), The Bank has created separate reserve to record the difference in impairment amounts provided between IFRS provision base (IFRS 9 -"Financial Instruments") and MMA provision base (MMA Prudential Regulation 2015/R-168: Regulation on Asset Classification, Provisioning and Suspense of Interest).

29 NON-DISTRIBUTABLE CAPITAL RESERVE (CONTINUED)

29.1 Movement in Provision for Impairment Loss Allowance

	MMA MVR	IFRS MVR	Non-distributable Capital Reserve MVR
As at 31st December 2019	928,050,312	84,098,251	843,580,270
Impairment charge for the year	96,380,013	33,311,128	63,068,885
As at 31st December 2020	1,024,430,325	117,409,379	906,649,155
Impairment charge for the year	(6,491,920)	3,626,979	(2,864,941)
As at 31st December 2021	1,017,938,405	121,036,358	903,784,214

29.2 Movement in Provision for Impairment as per MMA Prudential Regulation Guidelines

	2021 MVR	2020 MVR
Specific Provision		
As at 1st January	892,230,325	890,004,185
Provision made during the Year	1,249,792	3,785,443
Exchange loss	(1,033,715)	1,556,122
Recoveries made during the Year	(1,715,997)	(3,115,425)
As at 31st December	890,730,405	892,230,325

29.2 Movement in Provision for Impairment as per MMA Prudential Regulation Guidelines (Continued)

	2021 MVR	2020 MVR
General Provision		
As at 1st January	132,200,000	38,046,127
Provision recognized/(reversed) during the Year	(4,992,000)	94,153,873
As at 31st December	127,208,000	132,200,000
Total	1,017,938,405	1,024,430,325

30 CAPITAL SUPPORT FUND

Capital support fund reserve has been created for funds received from head office (IBG) to develop and expand the business in the Maldives operation.

31 CONTINGENT LIABILITES AND COMMITMENTS

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be readily measured as defined in the International Accounting Standard - IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'.

In the normal course of business, the Bank makes various irrevocable commitments and incurs certain contingent liabilities with legal recourse to its customers. Even though these obligations may not recognized on the date of the Statement of Financial Position, they do contain credit risk and are therefore form part of the overall risk profile of the Bank.

Contingencies	2021 MVR	2020 MVR
Documentary Credits	107,782,759	85,132,445
Guarantees and Bonds	255,633,644	70,004,405
	363,416,403	155,136,850

Commitments	2021 MVR	2020 MVR
Commitments on Loans	101,032,207	232,196,381
Commitments on Overdrafts	254,398,572	5,502,021
	355,430,779	237,698,402
Total Commitments and Contingencies	718,847,182	392,835,252

31 CONTINGENT LIABILITES AND COMMITMENTS (CONTINUED)

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. The risk involved is essentially the same as the credit risk involved in extending loan facilities to customers and therefore these transactions are subject to the same credit organization, portfolio maintenance and collateral requirements for customers applying for loans. As the facilities may expire without being drawn upon, the notional amounts do not necessarily reflect future cash requirements. The credit risk of these facilities may be less than the notional amount, but as it cannot be accurately determined, the credit risk has been taken to the contracted or notional amount.

These commitments and contingent liabilities have off balance-sheet credit risk because only organization fees and accruals for probable losses are recognized in the statement of financial position until the commitments are fulfilled or expire. Many of the contingent liabilities and commitments will expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash flows.

31.1 Capital Commitments

There were no capital commitments which require adjustments to/or disclosure

32 ANALYSIS OF CASH AND CASH EQUIVALENTS FOR CASH FLOWS

	2021 MVR	2020 MVR
Cash in Hand **(Note 13)**	87,130,500	178,538,866
Balances with Other SBI Branches **(Note 13)**	160,693,185	195,510,580
Balances with Other Banks **(Note 13)**	108,547,354	96,288,497
Placements with Other SBI Branches **(Note 13)**	1,462,113,770	308,200,000
Overnight Deposits at Maldives Monetary Authority **(Note 14)**	370,045,616	260,001,027
	2,188,530,425	1,038,538,970

33 LITIGATIONS AND CLAIMS AGAINST THE BANK

Litigation is common occurrence in the banking industry due to the nature of the business undertaken. The Bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. At the reporting date the Bank had not unresolved legal claims as such no provision for claims has been made in these Financial Statements.

34 RELATED PARTY DISCLOSURES

The Bank has carried out transactions in the ordinary course of business on an arm's length basis at commercial rates with parties who are defined as Related parties as per the International Accounting Standard - IAS 24 ' Related Party Disclosures'.

34.1 Head Office

State Bank of India.

34.2 Key Management Personnel (KMPs)

Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank. Such Key Management Persons include Chief Executive Officer/ Country Head, Deputy Chief Executive Officer and Corporate Management of the Bank.

33.2.1 Compensation of Key Management Personnel (KMPs)

For the year ended 31st December	2021 MVR	2020 MVR
Short-term Employee Benefits	4,917,343	4,637,660
	4,917,343	4,637,660

34 Transactions with Key Management Personnel (KMPs)

For the year ended 31 December	2021 MVR	2020 MVR
a. Items in Profit or Loss		
Interest Income	59,948	667,076
Interest Expense	73,326	66,129

As at 31st December	2021 MVR	2020 MVR
b. Items in Statement of Financial Position		
Loans and Advances	9,786,386	11,220,689
Deposits from Customers	5,670,151	5,536,602

34.3 Transactions with Related Entities

	Head Office		SBI - Bahrain	
For the year ended 31st December	2021 MVR	2020 MVR	2021 MVR	2020 MVR
a. Items in Income Statement				
Interest income	112,412,403	30,768,659	2,240,152	1,266,558
Interest expenses	137,280,938	36,705,764	104,838,689	5,345,618
b. Items in Statement of Financial Position				
Placements			1,462,113,770	369,120,000
Deposits			5,183,105,635	774,404,361
Interest Receivable	30,078,686	30,768,659		
Interest Payable	37,406,250	36,705,764		

35 FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT

35.1 Classifications of Financial Assets and Liabilities

The following table provides a reconciliation between the line items in the Statement of Financial Position and categories of financial assets and financial liabilities of the Bank.

As at 31st December 2021	Note	Mandatorily FVTPL MVR	Financial Assets at Amortised Cost MVR	Other Financial Liabilities MVR	Total MVR
Financial Assets					
Cash and Cash Equivalents	**13**	-	1,814,792,555	-	1,814,792,555
Balances with Maldives Monetary Authority	**14**	-	781,023,122	-	781,023,122
Investment Securities (Gross)	**15**	-	7,644,158,053	-	7,644,158,053
Derivative Asset Held for Risk Management	**16**	343,679,623	-	-	343,679,623
Loans and Advances to Customers (Gross)	**17**	-	5,227,893,422	-	5,227,893,422
Total Financial Assets		343,679,623	15,467,867,152	-	15,811,546,775
Financial Liabilities					
Deposits from Customers	**21**	-	-	5,732,137,816	5,732,137,816
Other Borrowing	**22**	-	-	5,183,105,635	5,183,105,635
Lease Liability	**23**	-	-	72,354,168	72,354,168
Other Liabilities	**25**	-	-	47,681,624	47,681,624
Total Financial Liabilities		-	-	11,035,279,243	11,035,279,243

35 FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

35.1 Classifications of Financial Assets and Liabilities

As at 31st December 2020	Note	Mandatorily FVTPL	Financial Assets at Amortised Cost	Other Financial Liabilities	Total
		MVR	MVR	MVR	MVR
Financial Assets					
Cash and Cash Equivalents	**13**	-	778,537,943	-	778,537,943
Balances with Maldives Monetary Authority	**14**	-	685,174,649	-	685,174,649
Investment Securities (Gross)	**15**	-	7,524,990,136	-	7,524,990,136
Derivative Asset Held for Risk Management	**16**	332,215,355	-	-	332,215,355
Loans and Advances to Customers (Gross)	**17**	-	5,615,935,686	-	5,615,935,686
Total Financial Assets		332,215,355	14,604,638,414	-	14,936,853,769
Financial Liabilities					
Deposits from Customers	**21**	-	-	5,543,757,529	5,543,757,529
Other Borrowing	**21**	-	-	4,729,413,219	4,729,413,219
Lease Liability	**22**	-	-	79,721,579	79,721,579
Other Liabilities	**25**	-	-	44,543,536	44,543,536
Total Financial Liabilities		-	-	10,397,435,863	10,397,435,863

35.2 Measurement of Fair Values

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.

As at 31st December 2021	**Level 2**	**Total**
Derivative Assets Held for Risk Management	343,679,623	332,215,355

35.2.1 Financial Instruments Not measured at Fair Value and Fair Value Hierarchy

The fair value information for financial assets and financial liabilities not measured at fair value has not been disclosed if the carrying amounts are reasonable approximation of fair values. For financial assets and liabilities with short term maturities or with short term re-pricing intervals, it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings deposits which do not have a specific maturity.

35 FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

35.2 Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities presented according to when they are expected to be recovered or settled. Trading assets and liabilities including derivatives have been classified to mature and/or be repaid within 12 months, regardless of the actual contractual maturities of the products. With regard to loans and advances to customers, the Bank uses the same basis of expected repayment behaviour that was used for estimating the EIR. Issued debt reflects the contractual coupon amortisation.

	As at 31 December 2021			As at 31 December 2020		
Assets	**within 12 months MVR. 000**	**After 12 months MVR. 000**	**Total MVR. 000**	**within 12 months MVR. 000**	**After 12 months MVR. 000**	**Total MVR. 000**
Cash and Cash Equivalents	1,814,793	-	1,814,793	778,538	-	778,538
Balances with Maldives Monetary Authority	781,023	-	781,023	685,175	-	685,175
Loans and Advances to Customers	54,553	5,173,340	5,227,893	2,130,171	3,485,764	5,615,935
Derivative Assets Held for Risk Management	- 1,337			- 1,443	327,180	325,737
Investment Securities	3,746,696	3,897,462	7,644,158	3,559,312	3,965,678	7,524,990
Property, Plant and Equipment	283	25,075	25,358	86	7,670	7,756
Right-of-Use assets	15,520	47,944	63,464	15,520	58,913	74,433
Deferred Tax Asset	-	102,919	102,919	-	102,171	102,171
Other Assets	2,440	-	2,440	20,352	-	20,352
Total Assets	**6,413,971**	**9,246,740**	**15,660,711**	**7,187,711**	**7,947,376**	**15,135,087**
Liabilities						
Deposits from Customers	2,506,102	3,037,655	5,543,758	2,506,469	3,037,655	5,544,124
Other Borrowing	852,845	3,876,568	4,729,413	852,845	3,876,568	4,729,413
Tax Liability	99,533	-	99,533	62,714	-	62,714
Other Liabilities	44,544	-	44,544	44,544	-	44,544
Lease Liability	12,708	67,014	79,722	12,888	67,014	79,902
Provisions	497	-	497	1,288		1,288
Total Liabilities	**3,516,228**	**6,981,238**	**10,497,465**	**3,480,748**	**6,981,237**	**10,461,985**
Net	**2,897,743**	**2,265,503**	**5,163,246**	**3,706,963**	**966,139**	**4,673,102**

35.3 Financial Risk Management

Introduction and Overview

As a financial intermediary, the Bank is exposed to various types of risks including credit, market, liquidity and operational risks which are inherent in the Bank's activities. Managing these risks is critical for the sustainability of the Bank and plays a pivotal role in all activities of the Bank. Risk Management function strives to identify potential risks in advance, analyze them and take precautionary steps to mitigate the impact of risk whilst optimizing through risk adjusted returns within the risk appetite of the Bank.

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

*Credit Risk *Market Risk
*Liquidity Risk *Operational Risk

Risk Management Framework

The overall responsibility and oversight of the risk management framework of the Bank is vested with the Country Head and Chief Excecutive Officer (CH & CEO) with the consultation of head office.

The risk management policies spell out the risk appetite of the Bank and has incorporated risk exposure limits and controls to monitor adherence to the limits in force. These policies and systems are reviewed regularly to reflect the changing market conditions and the products and services offered.

The Bank strives to inculcate a risk management culture through continuous training, work ethics and standards.

35.3.1 Credit Risk

The financial loss resulting from a borrower or counterparty to a financial instrument failing or delaying to meet its contractual obligations is referred to as credit risk. It arises principally from loans and receivables to banks and other customers and investments in debt securities. In addition to the credit risk from direct funding exposure i.e., On-Balance Sheet exposure, indirect liabilities such as performance Bond, Guarantees etc. also would expose the Bank to credit risk.

Foreign Office Credit Committee (FOCC)

FOCC constitute two committees Foreign Office Credit Committee (FOCC -VI) and FOCC -V. The primary responsibility FOCC is assist its oversight function, vice versa understanding the different types of risks faced by the Bank, assessing the adequacy of the risk control measures taken by the Management to avoid, mitigate or transfer such risks and the arrangements made by the Management to test the effectiveness of such controls.

i.) Credit Quality Analysis

The table below sets out information about maximum exposure to credit risk (including Off-Balance Sheet Exposure) broken down by risk ratings and related provision for impairment by the Bank against those assets. The risk rating of the bank is calculated based on the Directions stemming from Basel II accord.

In addition, the Bank has in place, a comprehensive internal risk rating system in compliance with Basel II Guidelines, which is capable of representing diverse risk factors through a single point indicator and predicting the probability of default based on borrower and transaction specific criteria.

Concentration of credit risk indicates the relative sensitivity of bank's performance to developments affecting a particular industry. The branch seeks to reduce individual counter party credit risk whenever necessary. Loans are secured by acceptable forms of collateral.

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

	Carrying Amount	
	2021	**2020**
	MVR	**MVR**
Cash and Cash Equivalents	1,814,792,555	778,537,943
Balances with Maldives Monetary Authority	781,023,122	685,174,649
Investment Securities (Gross)	7,644,158,053	7,524,990,136
Derivative Assets Held for Risk Management	343,679,623	332,215,355
Loans and Advances to Customers (Gross)	5,227,893,422	5,615,935,686
	15,811,546,775	14,936,853,769

35 FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

35.3 Financial Risk Management (Continued)

35.3.1 Credit Risk (Continued)

i.) Credit Quality Analysis (Continued)

The following table shows an analysis of counterparty credit exposures arising from derivative transactions. Derivative transactions of the Bank are generally fully collateralised by cash.

For the year ended 31st December 2021

	Total		Counter Party	
	Notional Amount USD	**Fair Value MVR**	**Notional Amount USD**	**Fair Value MVR**
Derivative Financial Assets	22,331,360	343,679,623	22,331,360	343,679,623

The Following table sets out information about the credit quality of financial assets measured at amortized cost. Unless specially indicated, for financial assets, the amount of the table represent carrying amount.

	2021			
As at 31st December	**Stage 1 MVR**	**Stage 2 MVR**	**Stage 3 MVR**	**Total MVR**
Loans and advances to customers at amortized cost				
- Pass or Acceptable	4,484,942,429	-	-	-
- Loss	-	-	890,730,406	-
	4,484,942,429	-	890,730,406	5,227,893,422
Loss allowance	(18,347,622)	(3,364,573)	-	(121,036,358)
Carrying Amount	4,466,594,807	(3,364,573)	890,730,406	5,106,857,064
Investment Securities at amortized cost				
- Pass or Acceptable	87,099,081	-	-	87,099,081
	87,099,081	-	-	87,099,081
Loss allowance	(107,231,375)	-	-	(107,231,375)
Carrying Amount	(20,132,294)	-	-	(20,132,294)

	2020			
As at 31st December	**Stage 1 MVR**	**Stage 2 MVR**	**Stage 3 MVR**	**Total MVR**
Loans and advances to customers at amortized cost				
- Pass or Acceptable	847,049,089	11,224,155	-	858,273,244
- Special Mention	3,809,662,501	53,343,827	-	3,863,006,328
- Substandard	-	-	2,351,994	2,351,994
- Loss	-	-	892,304,120	892,304,120
	4,656,711,590	64,567,982	894,656,114	5,615,935,686
Loss allowance	(28,013,300)	(894,863)	(88,501,216)	(117,409,379)
Carrying Amount	4,628,698,290	63,673,119	806,154,898	5,498,526,307
Investment Securities at amortized cost				
- Pass or Acceptable	7,524,990,136	-	-	7,524,990,136
	7,524,990,136	-	-	7,524,990,136
Loss allowance	(92,701,318)	-	-	(92,701,318)
Carrying Amount	7,432,288,818	-	-	7,432,288,818

Investment Securities at amortized cost

The following information set out the credit quality of investment securities. The analysis has been based on the 'Fitch' rating.

As at 31st December	**2021 MVR**	**2020 MVR**
Corporate Bonds and Government Securities		
Rated B-	7,644,158,053	7,432,288,818

35 FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

35.3 Financial Risk Management (Continued)

35.3.1 Credit Risk (Continued)

i.) Credit Quality Analysis (Continued)

Cash and Cash Equivalents

The Bank held cash and cash equivalents of MVR. 1,814,792,555 /- as at 31st December 2021 (31st December 2020 - MVR 778,537,944 /-). The cash and cash equivalents are held with MMA that are rated at B, based on the "Fitch" ratings.

ii.) Collateral Held and Other Credit Enhancement

The Bank holds the collateral and other credit enhancements against certain of its credit exposures. The following table sets out the principal types of collateral held against different types of financial assets.

Type of credit exposure	**Percentage of exposure that is subject to collateral requirements**		**Principal type of collateral held**
As at 31st December	**2021**	**2020**	
Loans and advances to customers			
Overdrafts	100%	100%	Cash, deposits, government guarantees and commercial properties
Loans and Advances	100%	100%	Cash, deposits and commercial & residential properties
Staff Loans	100%	100%	Cash, deposits and commercial properties
Investment Securities	100%	100%	Government guarantees and Corporate guarantees

Residential Mortgage Lending

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

As at 31st December	**2021 MVR**	**2020 MVR**
LTV Ratio		
91% - 100%	607,779,541	698,276,440
Total	607,779,541	698,276,440
Credit-impaired loans		
More than 70%	28,487,582	30,948,874
	28,487,582	30,948,874

Loans and Advances to corporate customers

The general creditworthiness of the corporate customers tends to be most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Bank generally requests that corporate borrowers provide it.

The Bank does not routinely update the value of the collateral held against all loans to corporate customers. Valuation of the collateral is updated when the loan is put on a watch list and loans is monitored so closely. For credit-impaired loans, the Bank obtains appraisals of collateral because it provides input into determined credit-risk actions.

As at 31st December 2021, the net carrying amount of credit-impaired loans and advances to corporate customers amounted to MVR 864 Mn (2020: MVR 864 Mn) and value of identifiable collateral (mainly commercial properties) held against those loans and advances amounted to MVR 1250 Mn (2020: MVR 1250 Mn). For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against.

35 FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

35.3 Financial Risk Management (Continued)

35.3.1 Credit Risk (Continued)

ii.) Collateral Held and Other Credit Enhancement (Continued)

The following table shows the maximum exposure to credit risk by class of financial asset. It also shows the total fair value of collateral, any surplus collateral (the extent to which the fair value of collateral held is greater than the exposure to which it relates), and the net exposure to credit risk.

	Maximum Exposure to Credit Risk	Fair value of collateral and credit enhancements held				Total Collateral
31st December 2021		Cash/ Deposits	Government Guarantees	Corporate Guarantees	Property	
Financial Assets	"000" MVR	"000" MVR	"000" MVR	"000" MVR	"000" MVR	"000" MVR
Cash and Cash Equivalents	1,818,485	-	-	-	-	-
Balances with Maldives Monetary Authority	781,023	-	-	-	-	-
Loans and Advances to Customers						-
Overdrafts	1,356,465	469,029	199,550	-	5,617,236	6,285,815
Loans and Advances	3,869,504	57,302	-	-	11,603,119	11,660,421
Staff Loans	1,925	11,190	-	-	107,610	118,800
	5,227,893	537,521	199,550	-	17,327,965	18,065,036
Investment Securities measured at Amortized Cost	7,644,158	-	3,504,021	102,135	-	11,250,314
Total	15,471,559	537,521	3,703,571	102,135	17,327,965	29,315,350
31st December 2020						
Financial Assets						
Cash and Cash Equivalents	778,538	-	-	-	-	-
Balances with Maldives Monetary Authority	685,175	-	-	-	-	-
Derivative Assets Held for Risk Management	332,215	332,215	-	-	-	-
Loans and Advances to Customers						-
Overdrafts	1,712,240	1,126,089	184,200	-	8,549,159	9,859,448
Loans and Advances	3,864,530	405	869	-	13,264,961	13,266,235
Staff Loans	39,165	3,648	-	-	67,730	71,378
	5,278,563	521,765	137,680	-	19,710,887	23,197,061
Investment Securities measured at Amortized Cost	7,524,990	-	7,448,361	76,629	-	7,524,990
Total	14,267,265	521,765	7,586,041	76,629	19,710,887	30,722,051

35 FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

35.3 Financial Risk Management (Continued)

35.3.1 Credit Risk (Continued)

iii.) Amounts Arising from Expected Credit Loss ("ECL")

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in **Note 3.3 (x)**

Significant Increase in Credit Risk

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

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

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure

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

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

Generating the term structure of Probability of Default (PD)

Date past due has taken as the primary input into determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analyzed by type of product and borrower. For some portfolios, information gathered from external credit agencies is also used.

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

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

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

35 FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

35.3 Financial Risk Management (Continued)

35.3.1 Credit Risk (Continued)

iii.) Amounts Arising from Expected Credit Loss ("ECL") (Continued)

Determining whether credit risk has increased significantly

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

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

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

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

Definition of default

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

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

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

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

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

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

Input into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.
The definition of default largely aligns with that applied by the bank for regulatory capital purposes.

Incorporation of Forward-looking Information

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

The Bank formulates three economic scenarios 1.a base case, which is the median scenario assigned a 60% probability of occurring, and two less likely scenarios, one upside and one downside, each assigned a 20% and 20% of probability of occurring respectively. External information considered includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Bank operates, supranational organizations International Monetary Fund.

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

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

35 FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

35.3 Financial Risk Management (Continued)

35.3.1 Credit Risk (Continued)

iii.) Amounts Arising from Expected Credit Loss ("ECL") (Continued)

Incorporation of Forward-looking Information (Continued)

The economic scenarios used as at 31st December 2021 included the following key indicator for Maldives for the years ending 31st December 2022 to 2026.

		2022	2023	2024	2025	2026
GDP Growth Rate	Base	7.00%	6.65%	6.35%	6.09%	6.69%
	Upside	9.31%	10.23%	11.20%	12.21%	15.21%
	Downside	5.64%	4.64%	3.81%	3.12%	2.81%
Inflation	Base	2.28%	2.29%	2.30%	2.31%	2.30%
	Upside	2.24%	2.22%	2.20%	2.18%	2.14%
	Downside	2.33%	2.37%	2.42%	2.46%	2.48%
Unemployment	Base	6.29%	6.29%	6.30%	6.30%	6.30%
	Upside	6.27%	6.26%	6.25%	6.24%	6.22%
	Downside	6.32%	6.34%	6.36%	6.38%	6.39%

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 4 years (Source : www.imf.org/external/pubs/ft/weo/2021/02/weodata/index.aspx).

The economic scenarios used as at 31st December 2020 included the following key indicator for Maldives for the years ending 31st December 2021 to 2025.

		2021	2022	2023	2024	2025
GDP Growth Rate	Base	18.87%	13.38%	12.63%	6.34%	5.57%
	Upside	32.11%	28.11%	27.36%	21.07%	20.30%
	Downside	2.64%	-1.36%	-2.10%	-8.40%	-9.16%
Inflation	Base	3.11%	2.14%	2.02%	2.02%	2.02%
	Upside	1.77%	0.81%	0.68%	0.68%	0.68%
	Downside	4.44%	3.48%	3.35%	3.35%	3.35%
Unemployment	Base	7.80%	6.30%	6.30%	6.30%	6.30%
	Upside	7.42%	5.92%	5.92%	5.92%	5.92%
	Downside	8.18%	6.68%	6.68%	6.68%	6.68%

Measurement of ECL

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

Probability of default (PD)

Loss given default (LGD)

Exposure at default (EAD)

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

Probability of default (PD)

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

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

35 FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

35.3 Financial Risk Management (Continued)

35.3.1 Credit Risk (Continued)

iii.) Amounts Arising from Expected Credit Loss ("ECL") (Continued)

Measurement of ECL (Continued)

Loss Given Default (LGD)

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

Exposure at Default (EAD)

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

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

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

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

- instrument type
- industry and:
- remaining term to maturity

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

Loss Allowance

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

	2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers at amortized cost - Corporate	**MVR**	**MVR**	**MVR**	**MVR**
Balance as at 1st January	27,093,348	894,863	86,752,525	114,740,736
Transfer to Stage 1	894,863	(894,863)	-	-
Net remeasurement of loss allowance	(26,958,627)	-	29,957,916	2,999,289
New financial assets originated	857,140	-	-	857,140
Recoveries made during the Year	(1,715,997)	-	-	(1,715,997)
Balance as at 31st December	170,727	-	116,710,441	116,881,168
Loans and advances to customers at amortized cost -				
Balance as at 1st January	919,951	-	1,748,690	2,668,641
Net remeasurement of loss allowance	(3,801,698)	-	2,360,569	(1,441,129)
New financial assets originated	2,927,678	-	-	2,927,678
Balance as at 31st December	45,931	-	4,109,259	4,155,190

35 FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

35.3 Financial Risk Management (Continued)

35.3.1 Credit Risk (Continued)

iii.) Amounts Arising from Expected Credit Loss ("ECL") (Continued)

Loss Allowance (Continued)

	2020			
	Stage 1 MVR	Stage 2 MVR	Stage 3 MVR	Total MVR
Loans and advances to customers at amortized cost - Corporate				
Balance as at 1st January	17,764,692	3,364,570	61,765,828	82,895,090
Transfer to Stage 1	631,281	(631,281)	-	-
Net remeasurement of loss allowance	8,549,172	(677,295)	24,986,697	32,858,574
New financial assets originated	1,907,529	-	-	1,907,529
Recoveries made during the Year	(1,759,326)	(1,161,131)	-	(2,920,457)
Balance as at 31st December	27,093,348	894,863	86,752,525	114,740,736
Loans and advances to customers at amortized cost - Retail				
Balance as at 1st January	582,933	-	620,228	1,203,161
Net remeasurement of loss allowance	320,668	-	1,128,462	1,449,130
New financial assets originated	16,350	-	-	16,350
Recoveries made during the Year	(129,895)	-	-	(129,895)
Balance as at 31st December	919,951	-	1,748,690	2,668,641

	2021 Stage 1 MVR	2020 Stage 1 MVR
Placement with other banks		
Balance as at 1st January	-	-
Net remeasurement of loss allowance	3,692,254	-
Balance as at 31st December	3,692,254	-
Investment Securities		
Balance as at 1st January	92,701,318	13,985,194
Net remeasurement of loss allowance	14,530,057	78,716,124
Balance as at 31st December	107,231,375	92,701,318
Loan commitments, financial guarantee contracts and undrawns facilities		
Balance as at 1st January	1,287,838	3,461,369
Net remeasurement of loss allowance	(791,303)	(2,173,531)
Balance as at 31st December	496,535	1,287,838

Credit-Impaired Financial Assets

The following table sets out a reconciliation of changes in the net carrying amount of credit impaired.

	2021 MVR	2020 MVR
Credit-Impaired Loans and Advances to Customers as at 01st January	806,154,898	831,609,742
Change in Allowance for Impairment	62,386,056	(25,081,705)
Classified as Credit-Impaired	6,662,883	2,351,994
Transferred to not credit-impaired	15,526,569	(2,725,133)
Credit-impaired Loans and Advances to customers as at 31st December	890,730,406	806,154,898

STATE BANK OF INDIA – MALDIVES
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2021

35 FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

35.3 Financial Risk Management (Continued)

35.3.1 Credit Risk (Continued)

ii.) Credit exposure movement

The following tables show reconciliations from the opening to closing balance of the gross carrying amounts by class of financial instrument.

	2021			
	Stage 1 MVR	Stage 2 MVR	Stage 3 MVR	Total MVR
Cash and cash equivalents at gross carring amount				
Balance as at 1st January	778,537,943	-	-	778,537,943
Transfer to Stage 1	-	-	-	-
New assets originated or purchased	1,039,946,866	-	-	1,039,946,866
Financial assets derecognised or repaid (excluding write-offs)	-	-	-	-
Balance as at 31st December	**1,818,484,809**	**-**	**-**	**1,818,484,809**
Investment Securities				
Balance as at 1st January	7,524,990,136	-	-	7,524,990,136
Transfer to Stage 1	-	-	-	-
New assets originated or purchased	119,167,917	-	-	119,167,917
Financial assets derecognised or repaid (excluding	-	-	-	-
Balance as at 31st December	**581,379,105**	**-**	**28,487,582**	**7,644,158,053**
Loans and advances to customers at gross carring amount - Corporate				
Balance as at 1st January	3,678,082,546	64,567,982	863,399,040	4,606,049,568
Transfer to Stage 1	64,567,982	(64,567,982)	-	-
Net remeasurement of loss allowance	-	-	-	-
New financial assets originated	2,162,532	-	-	2,162,532
Recoveries made during the Year	(283,225,855)	-	(1,156,217)	(284,382,072)
Balance as at 31st December	3,461,587,205	-	862,242,823	4,323,830,028
Loans and advances to customers at gross carring amount - Retail				
Balance as at 1st January	969,381,394	-	28,596,880	997,978,274
Net remeasurement of loss allowance	-	-	(109,298)	(109,298)
New financial assets originated	372,188	-	-	372,188
Recoveries made during the Year	(388,374,477)	-	-	(388,374,477)
Balance as at 31st December	581,379,105	-	28,487,582	998,241,164
Contingent liabilities and commitments at gross carring amount				
Balance as at 1st January	70,004,405	-	-	70,004,405
Transfer to Stage 1	-	-	-	-
New assets originated or purchased	-	-	-	-
Financial assets derecognised or repaid (excluding write-offs)	185,629,239	-	-	-
Balance as at 31st December	255,633,644	-	-	70,004,405

35 FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

35.3 Financial Risk Management (Continued)

35.3.1 Credit Risk (Continued)

ii.) Credit exposure movement

The following tables show reconciliations from the opening to closing balance of the gross carrying amounts by class of financial instrument.

	2020			
	Stage 1 MVR	**Stage 2 MVR**	**Stage 3 MVR**	**Total MVR**
Cash and cash equivalents at gross carring amount				
Balance as at 1st January	607,701,642	-	-	607,701,642
Transfer to Stage 1	-	-	-	-
New assets originated or purchased	170,836,301	-	-	170,836,301
Financial assets derecognised or repaid (excluding write-offs)	-	-	-	-
Balance as at 31st December	**778,537,943**	-	-	**778,537,943**
Investment Securities				
Balance as at 1st January	3,708,291,299	-	-	3,708,291,299
Transfer to Stage 1	-	-	-	-
New assets originated or purchased	(3,126,912,194)	-	-	(3,126,912,194)
Financial assets derecognised or repaid (excluding	-	-	-	-
Balance as at 31st December	**581,379,105**	-	-	**581,379,105**
Loans and advances to customers at gross carring amount - Corporate				
Balance as at 1st January	4,346,300,044	52,631,829	840,225,758	5,239,157,631
Transfer to Stage 1	(11,936,153)	11,936,153	-	-
Net remeasurement of loss allowance	(129,382,134)	-	23,173,282	(106,208,852)
New financial assets originated	857,140	-	-	857,140
Recoveries made during the Year	(527,756,351)	-	-	(527,756,351)
Balance as at 31st December	3,678,082,546	64,567,982	863,399,040	4,606,049,568
Loans and advances to customers at gross carring amount - Retail				
Balance as at 1st January	827,389,122	-	20,353,351	847,742,473
Net remeasurement of loss allowance	-	-	8,243,529	8,243,529
New financial assets originated	141,992,272	-	-	141,992,272
Balance as at 31st December	969,381,394	-	28,596,880	997,978,274
Contingent liabilities and commitments at gross carring amount				
Balance as at 1st January	148,734,891	-	-	148,734,891
Transfer to Stage 1	-	-	-	-
New assets originated or purchased	-	-	-	-
Financial assets derecognised or repaid (excluding write-offs)	(78,730,486)	-	-	(78,730,486)
Balance as at 31st December	70,004,405	-	-	70,004,405

35 FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

35.3 Financial Risk Management (Continued)

35.3.1 Credit Risk (Continued)

v). Concentrations of Credit Risk

By setting various concentration limits under different criteria within the established risk appetite framework (i.e., single borrower/ group, counter party etc.), the Bank ensures that an acceptable level of risk diversification is maintained on an ongoing basis. These limits are continuously monitored and periodically reviewed by the Board Credit Committee.

(a) Industry-wise Distribution

The maximum exposure to credit risk to the components of financial assets in the Statement of Financial Position as at 31st December, broken down by industry sector of financial assets is given below:

As at 31st December 2021	Financial Services "000" MVR	Government "000" MVR	Real-estate "000" MVR	Tourism "000" MVR	Aviation "000" MVR	Food processing "000" MVR	Trading and Fishing "000" MVR	Construction "000" MVR	Shipping & Business Services "000" MVR	Other Services "000" MVR	Total "000" MVR
Cash and Cash Equivalents	1,814,793	-	-	-	-	-	-	-	-	-	1,814,793
Balances with Maldives Monetary Authority	-	781,023	-	-	-	-	-	-	-	-	781,023
Loans and Advances to Customers	85,510	35,733	607,777	2,945,047	288,958	58,737	502,448	23,424	-	680,259	5,227,893
Investment Securities	-	7,644,158	-	-	-	-	-	-	-	-	7,644,158
Total	1,900,303	8,460,914	607,777	2,945,047	288,958	58,737	502,448	23,424	-	680,259	15,467,867

As at 31st December 2020	Financial Services "000" MVR	Government "000" MVR	Real-estate "000" MVR	Tourism "000" MVR	Aviation "000" MVR	Food processing "000" MVR	Trading and Fishing "000" MVR	Construction "000" MVR	Shipping & Business Services "000" MVR	Other Services "000" MVR	Total "000" MVR
Cash and Cash Equivalents	778,538	-	-	-	-	-	-	-	-	-	778,538
Balances with Maldives Monetary Authority	-	685,175	-	-	-	-	-	-	-	-	685,175
Derivative Assets Held for Risk Manageme	332,215	-	-	-	-	-	-	-	-	-	332,215
Loans and Advances to Customers	107,115	91,388	758,276	3,031,270	293,872	61,214	784,752	8,176	-	479,873	5,615,936
Investment Securities	-	7,524,990	-	-	-	-	-	-	-	-	7,524,990
Total	1,217,868	8,301,553	758,276	3,031,270	293,872	61,214	784,752	8,176	-	479,873	14,936,854

35 FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

35.3 Financial Risk Management (Continued)

35.3.1 Credit Risk (Continued)

Analysis of inputs to the ECL model under multiple economic scenarios

The following tables outline the impact of multiple scenarios on the allowance. This table shows both the contribution to total ECL of each probability weighted scenario in addition to the total incremental effect on ECL of applying multiple economic scenarios compared to the ECL that would have resulted from applying a 100% weighting to the base case scenario

	As at 31st December 2021						*As at 31st December 2020*					
	Placement with other banks "000" MVR	**Investment securities "000" MVR**	**Coperate Lending "000" MVR**	**Retail Lending "000" MVR**	**Guarantees and Bonds "000" MVR**	**Total**	**Placement with other banks "000" MVR**	**Investment securities "000" MVR**	**Coperate Lending "000" MVR**	**Retail Lending "000" MVR**	**Guarantees and Bonds "000" MVR**	**Total "000" MVR**
Gross exposure	1,818,485	7,644,158	########	609,867	255,634	**14,651,973**	778,538	7,524,990	3,742,651	969,381	70,004	**13,085,564**
ECL												
Best case	2,462	71,488	77,921	2,770	331	**154,971**	-	61,801	76,494	1,779	859	**140,932**
Base case	3,692	107,231	116,881	4,155	497	**232,457**	-	92,701	114,741	2,669	1,288	**211,399**
Worst case	4,923	142,975	155,842	5,540	662	**309,942**	-	123,602	152,988	3,558	1,717	**281,865**

35 FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

35.3 Financial Risk Management (Continued)

35.3.2 Liquidity Risk

As at 31st December 2021	Total MVR. 000	Overnight MVR. 000	Up to 3 Months MVR. 000	3 to 6 Months MVR. 000	6 to 12 Months MVR. 000	1 to 3 Years MVR. 000	Over 3 Years MVR. 000	Non Interest Bearing
Assets								
Financial Assets								
Cash and Cash Equivalents	-	1,727,662	-	-	-	-	-	87,131
Balances with Maldives Monetary Authority	-	781,023	-	-	-	-	-	-
Loans and Advances to Customers	5,227,893	-	1,861	3,487	49,205	472,262	4,701,079	-
Derivative Assets Held for Risk Management	343,680	-	(452)	(231)	(654)	(567)	341,776	-
Investment Securities	7,644,158	-	1,026,180	1,180,437	1,540,079	49,962	3,847,500	-
Non-financial Assets								
Property, Plant and Equipment	25,358	-	-	151	132	8,128	16,947	-
Right-of-Use assets	65,079	-	3,880	3,880	7,760	31,041	16,903	-
Deferred Tax Asset	98,637	-	-	-	-	-	102,919	-
Other Assets	2,440	-	2,440	-	-	-	-	-
Less: Impairment Loss	(231,960)	-	-	-	-	-	-	-
Total Assets	13,175,285	2,508,685	1,033,909	1,187,724	1,596,522	560,825	9,027,124	87,131
Liabilities								
Financial Liabilities								
Deposits from Customers	5,732,138	13,536	651,301	780,991	1,060,274	1,304,543	1,733,112	-
Other Borrowing	5,183,106	-	852,845	-	-	-	3,876,568	-
Tax Liability	99,533	-	99,533	-	-	-	-	-
Other Liabilities	47,185	7,082	37,286	-	176	-	-	-
Lease Liability	72,354	-	3,177	3,177	6,353.75	25,415	41,599	-
Non-financial Liabilities								
Provisions	497	-	497	-	-	-	-	-
Equity								
Assigned Capital	150,000	-	-	-	-	-	150,000	-
Statutory Reserve	150,000	-	-	-	-	-	150,000	-
Capital Support Fund	640,000	-	-	-	-	-	640,000	-
Non-distributable Capital Reserve	903,784	-	-	-	-	-	903,784	-
Reserve on Derivative Financial Assets	263,255	-	-	-	-	-	263,255	-
Retained Earnings	2,532,941	-	-	-	-	-	2,532,941	-
Total Liabilities and Equity	15,774,792	20,618	1,644,638	784,168	1,066,803	1,329,958	10,291,260	-
Total interest sensitivity gap	(2,599,508)	2,488,067	(610,729)	403,556	529,718	(769,133)	(1,264,136)	87,131
Financial Gurantee	363,416	33,395	143,655	167,500	18,866			

35 FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

35.3 Financial Risk Management (Continued)

35.3.2 Liquidity Risk (Continued)

As at 31st December 2020	Total MVR. 000	Overnight MVR. 000	Up to 3 Months MVR. 000	3 to 6 Months MVR. 000	6 to 12 Months MVR. 000	1 to 3 Years MVR. 000	Over 3 Years MVR. 000	Non Interest Bearing
Assets								
Financial Assets								
Cash and Cash Equivalents	778,538	599,999	-	-	-	-	-	178,539
Balances with Maldives Monetary Authority	685,175	685,175	-	-	-	-	-	-
Loans and Advances to Customers	5,615,936	-	224,302	1,191,764	714,105	189,444	3,296,320	-
Derivative Assets Held for Risk Management	332,215	-	(322)	(407)	(714)	(1,796)	328,976	-
Investment Securities	7,524,990	-	860,965	1,164,082	1,534,265	-	3,965,678	-
Non-financial Assets								-
Property, Plant and Equipment	7,757	-	-	46	40	2,486	5,184	-
Right-of-Use asset	74,433	-	3,880	3,880	7,760	31,041	27,872	-
Deferred Tax Asset	102,171	-	-	-	-	-	102,171	-
Other Assets	20,352	-	9,058	11,294	-	-	-	-
Less: Impairment Loss	(210,111)	-	-	-	-	-	-	-
Total Assets	14,931,456	1,285,174	1,097,883	2,370,659	2,255,456	221,175	7,726,201	178,539
Liabilities								
Financial Liabilities								
Deposits from Customers	5,543,758	13,903	651,301	780,991	1,060,274	1,304,543	1,733,112	-
Other Borrowings	4,729,413	-	852,845	-	-	-	3,876,568	-
Tax Liability	62,714	-	62,714	-	-	- -	-	-
Other Liabilities	44,544	7,082	37,286	-	176	-	-	-
Lease Liabilities	79,722	-	3,177	3,177	6,534	25,415	41,599	-
Non-financial Liabilities								
Provision	1,288	-	1,288	-	-	-	-	-
Equity								
Assigned Capital	150,000	-	-	-	-	-	150,000	-
Statutory Reserve	150,000	-	-	-	-	-	150,000	-
Capital Support Fund	640,000	-	-	-	-	-	640,000	-
Non-distributable Capital Reserve	906,649	-	-	-	-	-	906,649	-
Hedging reserve	253,614	-	-	-	-	-	253,614	-
Retained Earnings	2,369,755	-	-	-	-	-	2,369,755	-
Total Liabilities and Equity	14,931,457	20,985	1,608,611	784,168	1,066,984	1,329,958	10,121,297	-
Total interest sensitivity gap	- 1	1,264,189	(510,728)	1,586,491	1,188,472	(1,108,783)	(2,395,096)	178,539
Financial Gurantee	155,137	22,310	43,655	67,500	21,672	-	-	-

35 FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

35.3 Financial Risk Management (Continued)

35.3.2 Liquidity Risk (Continued)

Liquidity risk is the Bank's inability to meet On or Off-Balance Sheet contractual and contingent financial obligations, as they fall due without incurring unacceptable losses. The principal objective in liquidity risk management is to assess the need for funds to meet such obligations and to ensure the availability of adequate funding to fulfil those needs at the appropriate time, under both normal and stressed conditions.

Therefore, the Bank continuously analyses and monitors its liquidity profile, maintains adequate levels of high quality liquid assets, ensures access to diverse funding sources and has contingency funding agreements with peer banks to meet any unforeseen liquidity requirements. Exposures and ratios against tolerance limits as well as stressed scenarios are regularly monitored in order to identify the Bank's liquidity position and potential funding

Assets and Liability Management Committee (ALCO)

ALCO chaired by the Chief Executive Officer, has representatives from Treasury, Credit, Operations, Risk and Finance Departments. The Committee meets yearly or more frequently to monitor and manage the assets and liabilities of the Bank and also the overall liquidity position to keep the Bank's liquidity at healthy levels, whilst satisfying the regulatory requirements.

Exposure to Liquidity Risk

The key measure used by the Bank for managing liquidity risk is the ratio of liquid assets to total liabilities excluding shareholders' funds. For this purpose, 'liquid assets' include cash and cash equivalents, placements with banks. Details of the reported ratio of liquid assets to external liabilities of the Bank.

	2021 (%)	2020 (%)
As at 31st December	20%	10%

35.3.3 Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and profit rates will affect the branch'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

i). Exposure to Interest Rate Risk – Sensitivity Analysis (Rate Shocks)

The possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments gives rise to interest rate risk. The Bank's policy is to continuously monitor portfolios.

The tables below analyze the Bank's interest rate risk exposure on financial assets and financial liabilities.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and financial liabilities to various interest rate scenarios.

35 FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

35.3 Financial Risk Management (Continued)

35.3.3 Market Risk (Continued)

i). Exposure to Interest Rate Risk – Sensitivity Analysis (Rate Shocks) (Continued)

The following table demonstrates the sensitivity of the Bank's profit or loss as at reporting date to a reasonable possible change in interest rates, with all other variables held constant.

Sensitivity of Projected Net Interest Income

	2021		2020	
Net Interest Income	100 bp Parallel Increase MVR	100 bp Parallel Decrease MVR	100 bp Parallel Increase MVR	100 bp Parallel Decrease MVR
	48,211,665	(48,211,665)	47,698,987	(47,698,987)

ii). Exposure to Currency Risk.

Currency risk is the risk that the values of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instrument denominated in a foreign currency. The management has set limits on positions by currency. Positions are closely monitored by the management.

	Assets 2021 MVR	Liabilities 2021 MVR	Assets 2020 MVR	Liabilities 2020 MVR
United States Dollars	12,564,958,057	10,740,159,655	7,829,566,344	7,411,545,909
Sterling Pounds	712,362	-	102,857	-
Euro	7,556,496	9,175,818	5,512,582	15,518,049
Singapore Dollars	767,088	-	156,772	-
Indian Rupees	23,032,213	-	12,433,008	-
Australian Dollars	1,174,484	-	1,382,476	-
	12,598,200,700	10,749,335,473	7,849,154,039	7,427,063,958

A strengthening (weakening) of the MVR, as indicated below, against the foreign currencies as at 31st December would have increased (decreased) profit or loss by the amounts shown below:

	2021		2020	
	Strengthening MVR	Weakening MVR	Strengthening MVR	Weakening MVR
US$ (10% Movement)	182,479,840	(182,479,840)	41,802,044	(41,802,044)
GBP(10% Movement)	71,236	(71,236)	10,286	(10,286)
Euro (10% Movement)	(161,932)	161,932	(1,000,547)	1,000,547
SGD (10% Movement)	76,709	(76,709)	15,677	(15,677)
INR (10% Movement)	2,303,221	(2,303,221)	1,243,301	(1,243,301)
AUD (10% Movement)	117,448	(117,448)	138,248	(138,248)

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

35 FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

35.3 Financial Risk Management (Continued)

35.3.4 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk events which include legal and regulatory implications could lead to financial and reputation losses to the Bank.

The Operational Risk Management Framework of the Bank has been defined under the Board approved Operational Risk Management Policy. Operational risk is managed by establishing an appropriate internal control system that requires a mechanism for segregation of related responsibilities within the Bank, and a detailed testing and verification of the Bank's overall operational systems through bi-annual Risk Control Self-Assessment exercise, comprehensive Internal and External Audits and achieving a full harmony between internal and external systems.

35.3.5 Capital Management

The Branch's objectives when managing capital, which is a broader concept than the 'equity' on the face of statement of financial position are:

• To comply with the capital requirements set by the regulators of the Banking markets where the entities within the Branch operate;
• To safeguard the Branch'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.

Capital adequacy and the use of regulatory capital are monitored daily by the Branch's management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the Maldives Monetary Authority (MMA), for supervisory purposes. The required information is filed with the MMA on a weekly/ 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 an agreed minimum of 12%.

Risk-weighted Assets	**2021 MVR "000"**	**2020 MVR "000"**
On-balance Sheet	4,671,827	3,650,269
Off-balance Sheet	613,871	324,729
Total Risk-weighted Assets	5,285,698	3,650,269
Total Risk-based Capital Ratio	**63%**	**81%**

35.3.6 Regulatory Capital

The Branch'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 loan loss 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 Branch for the years ended 31 December.

35 FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

35.3 Financial Risk Management (Continued)

35.3.6 Regulatory Capital (Continued)

	2021 MVR "000"	2020 MVR "000"
Tier 1 capital		
Assigned Capital	150,000	150,000
Statutory Reserve	150,000	150,000
Capital Support Fund	640,000	640,000
Retained Earnings	2,000,745	1,837,558
Nostro Funds Accounts - SBI Head Office and Branches	-	-7,082
Less: Future Income Tax Benefit	(98,637)	(102,171)
Total Qualifying Tier 1 Capital	2,842,108	2,668,305
Tier 2 capital		
Current Earnings	478,362	532,196
General Provision	-	29,942
Total Qualifying Tier 2 Capital	478,362	391,801
Total Regulatory Capital	3,320,470	3,046,525

36 COMPARATIVE FIGURES

Comparative figures of the financial statements have been reclassified to conform with current year's classifications, whenever necessary.

37 EVENTS AFTER THE REPORTING DATE

Except for the above, no circumstances have arisen since the reporting date which require adjustments to/ or disclosure in the financial statements.

38 MANAGEMENT RESPONSIBILITY

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