BANK OF CEYLON - MALDIVES

AUDITOR'S REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2023

BANK OF CEYLON - MALDIVES
FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

CONTENTS

Ernst & Young
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DN/NJ/MK

Independent auditor's report
To the Management of Bank of Ceylon Maldives

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Bank of Ceylon Maldives ("the Bank"), which comprise the statement of financial position as at 31 December 2023, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2023 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 Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation of financial statements that give a 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.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

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.

Auditor's responsibilities for the audit of the financial statements (Continued)

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

dhunyaNizar

For and on behalf of Ernst & Young
Partner: Dhunya Nizar
Licensed Auditor: ICAM-IL-Z73

EY Ernst & Young
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Malé, Maldives
Reg. No.: 192/95

30 April 2024
Male'

BANK OF CEYLON - MALDIVES
STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2023

	Note	2023 MVR	2022 MVR
Interest Income	4.1	414,974,936	386,351,145
Interest Expense	4.2	(69,879,853)	(68,930,685)
Net Interest Income	4	345,095,083	317,420,460
Fee and Commission Income	5	67,364,257	69,595,005
Net Trading and Other Income	6	8,422,099	6,709,869
Total Operating Income		420,881,439	393,725,334
Net Impairment (charge) / Reversal on Financial Assets	7	(56,348,787)	27,930,596
Net Operating Income		364,532,652	421,655,930
Less: Expenses			
Personnel Expenses	8	(15,845,912)	(17,144,035)
Depreciation and Amortization	9	(5,384,467)	(5,467,280)
Other Expenses	10	(11,946,967)	(10,591,516)
Profit Before Tax		331,355,306	388,453,099
Income Tax Expense	11	(40,184,679)	(59,197,924)
Profit for the Year		291,170,627	329,255,175
Other Comprehensive Income for the Year		-	-
Total Comprehensive Income for the Year		291,170,627	329,255,175

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 65. The Report of the Independent Auditors is given on pages 1 and 2.

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BANK OF CEYLON - MALDIVES
STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2023	Note	2023 MVR	2022 MVR
Assets			
Cash and Cash Equivalents	12	168,712,743	488,658,047
Balances with Maldives Monetary Authority	13	415,811,487	252,595,654
Investments Securities	14	1,849,652,271	1,892,299,188
Loans and Advances to Customers	15	3,143,904,647	2,893,972,213
Property and Equipment	16	453,700	640,925
Right-of-use Asset	17	12,033,550	13,294,316
Deferred Tax Asset	11.2	180,444,831	143,556,270
Other Assets	18	614,296	344,210
Total Assets		5,771,627,525	5,685,360,823
Liabilities			
Deposits from Customers	19	3,529,248,684	3,670,107,906
Income Tax Liabilities	20	23,666,878	80,012,463
Lease Liability	21	12,805,162	13,825,281
Other Liabilities	22	13,390,545	12,359,549
Total Liabilities		3,579,111,269	3,776,305,199
Equity			
Assigned Capital	23	196,140,000	196,140,000
Statutory Reserve	24	150,000,000	150,000,000
Retained Earnings		1,846,376,256	1,562,915,624
Total Equity Attributable to Equity Holders of the Bank		2,192,516,256	1,909,055,624
Total Equity and Liabilities		5,771,627,525	5,685,360,823
Contingent Liabilities and Commitments	26	713,025,225	684,555,683

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 65. The Report of the Independent Auditors is given on pages 1 and 2.

The Management is responsible for these financial statements. Signed for and on behalf of the Management by;

....
S.H.M.M.P.Herath
Country Manager

....
Shamrooh Shareef
Deputy Country Manager

30 April 2024
Male'

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BANK OF CEYLON - MALDIVES
STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2023

	Assigned Capital MVR	Statutory Reserve MVR	Retained Earnings MVR	Total Equity MVR
Balance as at 1st January 2022	196,140,000	150,000,000	1,273,922,069	1,620,062,069
Total Comprehensive Income for the Year	-	-	329,255,175	329,255,175
Transactions with Head Office				
Distributions made during the Year **(Note 28.2)**	-	-	(40,261,620)	(40,261,620)
Balance as at 31st December 2022	196,140,000	150,000,000	1,562,915,629	1,909,055,624
Total Comprehensive Income for the Year	-	-	291,170,627	291,170,627
Transactions with Head Office				
Distributions made during the Year **(Note 28.2)**	-	-	(7,710,000)	(7,710,000)
Balance as at 31st December 2023	196,140,000	150,000,000	1,846,376,256	2,192,516,251

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 65. The Report of the Independent Auditors is given on pages 1 and 2.

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BANK OF CEYLON - MALDIVES
STATEMENT OF CASH FLOWS

	Note	2023 MVR	2022 MVR
Cash Flows from Operating Activities			
Profit Before Tax		331,355,306	388,453,099
Adjustments for:			
Net Interest Income	4	(345,095,083)	(317,420,460)
Interest Expense on Lease Liability	21	632,033	636,802
Depreciation of ROU Assets	17	5,090,875	4,991,232
Depreciation of Property and Equipment	16	293,593	476,048
Net Impairment Losses on Financial Assets	7	56,348,787	(27,930,596)
Adjustment on reassessment of ROU and lease liability	17	222,048	(1,031,732)
		48,847,559	48,174,393
Changes In:			
Balances with Maldives Monetary Authority		(163,215,833)	113,153,842
Loans and Advances to Customers		(313,303,798)	(616,189,218)
Other Assets		(270,084)	93,442
Other Liabilities		163,875	1,703,222
Deposits from Customers		(140,859,222)	202,121,184
		(617,485,062)	(299,117,528)
Interest Received		440,868,246	533,234,247
Interest Paid		(69,879,853)	(68,930,685)
Income Tax Paid	20	(133,418,825)	(45,839,351)
		237,569,568	418,464,211
Net Cash (Used in) / Generated From Operating Activities		(331,067,935)	167,521,076
Cash Flows from Investing Activities			
Net Investment in Securities		24,643,305	(60,568,642)
Acquisition of Property and Equipment	16	(106,367)	(418,410)
Net Cash From / (Used in) Investing Activities		24,536,938	(60,987,052)
Cash Flows from Financing Activities			
Payment of Lease Liabilities	21	(5,704,307)	(5,633,624)
Profit Remitted to Head Office	28.2	(7,710,000)	(40,261,620)
Net Cash Used in Financing Activities		(13,414,307)	(45,895,244)
Net (Decrease)/ Increase in Cash and Cash Equivalents		(319,945,304)	60,638,780
Cash and Cash Equivalents at the Beginning of the Year		488,658,047	428,019,267
Cash and Cash Equivalents as at the End of the Year	12	168,712,743	488,658,047

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 65. The Report of the Independent Auditors is given on pages 1 and 2.

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1. Corporate Information

1.1. Reporting entity

The Bank of Ceylon – Maldives ("the Bank") received the banking license under the Maldives Monetary Authority Act No. 6/81 of 1981 on 7th May 1981 in the Republic of Maldives. The principal place of business is situated at 12, Boduthakurufaanu Magu, Male', Republic of Maldives. The Bank is a branch of Bank of Ceylon, fully owned by the Government of Sri Lanka.

The commercial operations of the Bank commenced on 7th May 1981.

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, project financing, development 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 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 except for assets and liabilities which are stated at their fair value.

2.3. Going Concern Basis of Accounting

The Management has assessed 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.

2.4. 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 is presented in Maldivian Rufiyaa.

2. BASIS OF PREPARATION (CONTINUED)

2.5. 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 Statement of Comprehensive Income, 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.

2.6 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.

2.7 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, requires the management to make 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.

i.) Measurement of fair values

Several accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Bank has an established control framework with respect to the measurement of fair values. When measuring the fair value of an asset or a liability, the Bank uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follow.

2. BASIS OF PREPARATION (CONTINUED)

2.9 Use of Judgements and Estimates (Continued)

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (Unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Bank recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

ii.) Judgements

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

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 (vi) – 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.

iii.) 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 3.4 (viii) - Impairment of financial instruments

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

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2. BASIS OF PREPARATION (CONTINUED)

2.9 Use of Judgements and Estimates (Continued)

Note 3.9 - Impairment of 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 3.11 & 3.12- 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. SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION

The Accounting Policies have consistently been 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. 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.

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3. SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.2. Financial Assets and Liabilities

(i) Recognition and initial measurement

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. A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

On initial recognition, a financial asset is classified as measured at: amortized cost, FVOCI or FVTPL. A financial asset is measured at amortized 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").

A debt instrument is measured at FVOCI only 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 achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. All other financial assets are classified as measured at FVTPL.

Business Model Assessment

The Bank assesses 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. 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 realizing cash flows through the sale of the assets.
- How the performance of the portfolio is evaluated and reported to the Bank's management.

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3. SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.2. Financial Assets and Liabilities (Continued)

- 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 realized.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

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 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.

Reclassification

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

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3. SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.2. Financial Assets and Liabilities (Continued)

Financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost or FVTPL.

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximize recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (refer write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortized cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognizes the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred, and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortized over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

Financial liabilities

The Bank derecognizes a financial liability when its terms are modified, and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognized and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

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3. SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.2. Financial Assets and Liabilities (Continued)

If the modification of a financial liability is not accounted for as derecognition, then the amortized cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortized over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

(v) Fair value measurement

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

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

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

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

(VI) Impairment

Individual Assessment - Credit-Impaired Financial Assets

At each reporting date, the Bank assesses all financial assets carried at amortized cost and identifies the 'Individually Significant' loans and advances for impairment based on the materiality. Accordingly, loans and advances are considered as if they meet following criteria.

3. SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.2. Financial Assets and Liabilities (Continued)

- Loans and Advances of those customers with a total exposure of MVR. 4,818,750/- (Sri Lankan Rupees 100 Mn) and above

The exposure for this purpose is comprised of capital outstanding of all on-balance sheet loans and advances.

A financial asset upon this assessment is categorized as 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a 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-organization. or
- The disappearance of an active market for a security because of financial difficulties.

A loan that has been re-negotiated 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, financing facility provided to the customers that are overdue for 90 days or more is considered credit impaired.

Collective Assessment

Loans and advances which are not individually significant and loans and advances which are individually significant but not attract any impairment based on the individual assessment, are further assessed on collective basis for Expected Credit Loss (ECL).

The Bank recognizes 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.

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3. SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.2. Financial Assets and Liabilities (Continued)

Measurement of ECL

Significant increase in credit risk of loans and advances is measured based on the number of days past due, which is calculated from the contractual due date of the payment. Accordingly, the Bank does not rebut the presumption of 90 days as the default point as set out in IFRS 9 and staging is done for loans and advances as follows.

Days of Past Due	Staging
1 – 30 Days	Stage 1
31 – 60 Days 61 - 90 Days	Stage 2
Above 90	Stage 3

Probability of default ("PD") approach

Probability of default is the estimate of the likely hood of default over a given time horizon.

PDs are calculated for 12 months, and lifetime based on the increase in credit risk, which is assessed based on the days past due as follows.

12 Months PD

This is the estimated probability of default occurring within the next 12 months. The 12-month PD is applied for the "Current" and "1-30 days" buckets since there is no significant deterioration in Credit Risk. Financial instruments for which a 12-month ECL is recognized are referred to as 'Stage 1 financial instruments'.

The Bank uses the 12 months PD calculation for the loan portfolio on a total in the estimation of ECL for the undrawn loan Commitments

Lifetime PD

This is the estimated probability of default occurring over the remaining life of the financial instruments. The lifetime PD is applied for the 31-60 days and 61-90 days buckets since there is a significant deterioration in credit risk. Financial instruments for which a lifetime ECL is recognized but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

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3. SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.2. Financial Assets and Liabilities (Continued)

The PD for the Above 90 days' category is 100% since there is objective evidence of impairment.

Special factors /assumptions considered for PD models:

- PDs are calculated segment wise
- Moving average of immediate past five years' data is used for PD computation.
- Lognormal graph is used to extrapolate the PDs beyond 4 years
- PDs are in the increasing trend when moving with the lifetime of the loans and advances.
- Marginal PD approach is used to establish the increasing trend in PD where historical data does not give the expected results.

The Bank has determined to follow the above policy in calculating the PDs for the following segments,

☐ Loans and Advances to Customers. ☐ Overdrafts.

Loss Given Default ("LGD")

LGD is an estimate of the loss that is likely to be incurred when an exposure of default. The Bank has considered 45% as LGD for all facilities as per Basel Model (Basel II) guidelines.

Economic Factor Adjustment ("EFA")

The Bank incorporates forward looking information to the ECL computation that it brings the futuristic aspects to the impairment assessment by using the expected values of the multiple economic scenarios. The Bank uses both quantitative (such as inflation, interest rate, exchange rate and GDP growth rate) and qualitative factors (government policies and status of the banking industry) to arrive to the EFA.

Exposure at Default ("EAD")

EAD reflects the outstanding exposure at the reporting date and commitments that could be invoked before the date of any default.

EAD pertains to the amount outstanding with the customer at the time of likely default, includes:

☐ Drawn Amount

  - Amount utilized by the customer from the available credit lines as at the reporting date.
  - The outstanding future amounts are projected based on amortization assumptions.

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3. SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.2. Financial Assets and Liabilities (Continued)

- Undrawn Amount
  - Amount not utilized by the customer from the approved/available credit lines as at the reporting date.
  - Undrawn amounts are converted into most likely future exposure using a Credit Conversion Factor, for EAD computation

Following factors/assumptions considered when arriving to the EAD

- If the customer is in default category, it is concluded that no further drawdowns are allowed and EAD of such customer is the total outstanding amount of the facilities as at reporting date.
- It was assumed that customer defaults the facility (if it is not already defaulted as at reporting date) after 6 months from each reporting date.
- For revolving facilities such as Overdrafts that has an undrawn amount the credit conversion factor is considered as 100%, with the assumption that, at the point of default the customer has used the full facility, i.e., the undrawn amount at the point of default is zero (0).
- Facilities to the extent which are backed by cash or cash equivalent are eliminated from the EAD.

Presentation

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

- Financial assets measured at amortized 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 carrying 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.

3. SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.2. Financial Assets and Liabilities (Continued)

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

Non-Integral financial guarantee contracts

The Bank assess 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 us 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 instruments.
- the guarantee is required by laws and regulations that govern the contract of the debt instrument.
- the guarantee is entered at the same time as and in contemplation of the debt instruments; and
- the guarantee is given by the parent of the borrower or another Company within the borrower's group

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

3.3. 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 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.

(i) As a Lessee

At commencement or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component based on its relative stand-alone prices. However, for the leases of property the Bank has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Bank recognizes 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 the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

3. SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.3. Leases (Continued)

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Bank by the end of the lease term or the cost of the right-of-use asset reflects that the Bank will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements 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 obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased. Lease payments included in the measurement of the lease liability comprise the fixed payments, including in-substance fixed payments.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, 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 that do not meet the definition of investment property in 'Right of Use Assets' and lease liabilities in 'Lease Liability' in the statement of financial position.

3.4. 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.

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3. SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.4. Property, Plant and Equipment (Continued)

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 embedded 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.

(iii) Depreciation

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, 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.

Furniture and Fittings	Over 10 Years
Office Equipment	Over 03 - 05 Years
Computer Equipment	Over 02 - 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.

3.5. Intangible Assets

(i) Recognition and Measurement

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

(ii) Subsequent Expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

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3. SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.5. Intangible Assets (Continued)

(iii) Amortization of Intangible Asset

Amortization is charged to the Profit or Loss on a straight-line basis over the estimated useful lives of assets unless such lives are indefinite. The estimated useful lives are as follows:

Computer Software	Over 05 Years

3.6. 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.

3.7. 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 because of past service provided by the employee and the obligation can be estimated reliably.

(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.

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3. SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.8. Provisions

A provision is recognized if, because 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.

3.9. 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 be 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.

3.10. Interest Income and Expense

(i) Effective interest rate

Interest income and expenses are recognized in profit or loss using the effective interest rate 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 amortized 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 a financial liability.

3. SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.10. Interest Income and Expense (Continued)

(ii) Amortized Cost and Gross Carrying Amount

The 'amortized 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 amortization 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.

The 'gross carrying amount of a financial asset' is the amortized 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 amortized cost of the liability. The effective interest rate is revised because 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 after initial recognition, interest income is calculated by applying the effective interest rate to the amortized 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 amortized 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 Interest rate method presented in the statement of profit or loss includes:

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

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

- Financial liabilities measured at amortized cost.

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3. SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.11. Fees and Commission Income and Expense

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Bank recognizes revenue when it transfers control over a service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of Service	Nature and timing of performance obligations, including significant payment terms.	Revenue recognition
Retail and corporate Banking Services.	The Banking services are provided to retail and corporate customers, including account management, provision of overdraft facilities, foreign currency transactions and servicing fees. Fees for ongoing account management are charged to the customer's account monthly. The Bank sets the rates separately for retail and corporate Banking customers on an annual basis. Transaction based fees for interchange foreign currency transactions and overdrafts are charged to the customer's account when the transaction takes place. Servicing fees are charged monthly and are based on fixed rates reviewed annually by the Bank.	Revenue from account service and servicing fees is recognised over time as the services is provided. Revenue related to transactions is recognised at the point in time when the transaction is taken place.

3.12. Tax Expense

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss. The Bank has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore accounted for them under IAS 37 Provisions, Contingent Liabilities and Contingent Assets

Current Tax

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

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3. SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.12. Tax Expense (Continued)

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 assets 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.

3.13. 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.

3.14. 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.

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3. SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.15 Changes in material accounting policies

New and amended standards and interpretation.

The Bank applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2023 (unless otherwise stated). The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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

The amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements provide 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.

3.15.2 Definition of Accounting Estimates - Amendments to IAS 8

In February 2021, the Board issued amendments to IAS 8, in which it introduces a new 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.

3.15.3 International Tax Reform – Pillar Two Model Rules – Amendments to IAS 12

In May 2023, the Board issued amendments to IAS 12, which introduce a mandatory exception in IAS 12 from recognising and disclosing deferred tax assets and liabilities related to Pillar Two income taxes.

The amendments have had an impact on the Bank's disclosures of accounting policies, but not on the measurement, recognition or presentation of any items in the Bank's financial statements.

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3. SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.16 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.

3.16.1 Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020 and October 2022, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

• What is meant by a right to defer settlement

• That a right to defer must exist at the end of the reporting period

• That classification is unaffected by the likelihood that an entity will exercise its deferral right

• That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms

In addition, a requirement has been introduced to require disclosure when a liability arising from a loan agreement is classified as non-current and the entity's right to defer settlement is contingent on compliance with future covenants within twelve months.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must be applied retrospectively. The Bank is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

3.16.2 Supplier Finance Arrangements - Amendments to IAS 7 and IFRS 7

In May 2023, the IASB issued amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial instruments. Disclosures to clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk.

The amendments will be effective for annual reporting periods beginning on or after 1 January 2024. Early adoption is permitted but will need to be disclosed.

The amendments are not expected to have a material impact on the Bank's financial statements.

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3. SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

3.16 Standard issued but not yet effective

3.16.3 Lease Liability in a Sale and Leaseback – Amendments to IFRS 16

In September 2022, the Board issued Lease Liability in a Sale and Leaseback (Amendments to IFRS 16). The amendment to IFRS 16 Leases specifies the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognize any amount of the gain or loss that relates to the right of use it retains. Effective for annual periods beginning on or after 1 January 2024. The amendments are not expected to have a material impact on the Bank's financial statements.

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4	NET INTEREST INCOME	31/12/2023 MVR	31/12/2022 MVR
	Interest Income Calculated using Effective Interest Rate Method **(Note 4.1)**	414,974,936	386,351,145
	Less: Interest Expense **(Note 4.2)**	(69,879,853)	(68,930,685)
	Net Interest Income	345,095,083	317,420,460

4.1	Interest Income Calculated using Effective Interest Rate Method		
	Loans and Advances **(Note 4.1.1)**	327,102,679	295,899,239
	Investments Securities	87,872,257	90,451,906
	Interest Income Calculated using Effective Interest Rate Method	414,974,936	386,351,145

4.1.1	Interest Income from Loans and Advances		
	Term Loans and Advances	159,159,098	160,449,507
	Overdrafts	129,723,831	107,177,123
	Staff Loans	252,245	59,501
	Others	37,967,505	28,213,108
		327,102,679	295,899,239

4.2	Interest Expense	31/12/2023 MVR	31/12/2022 MVR
	Deposits from Customers **(Note 4.2.1)**	(69,879,853)	(68,930,685)
		(69,879,853)	(68,930,685)

4.2.1	Interest Expense on Deposits from Customers		
	Saving deposits	(9,080,343)	(9,875,440)
	Time deposits	(57,431,097)	(58,894,620)
	Others	(3,368,413)	(160,625)
		(69,879,853)	(68,930,685)

5	FEE AND COMMISSION INCOME	31/12/2023 MVR	31/12/2022 MVR
	Commission on letter of credit and bills	10,471,337	12,754,777
	Payment transactions	30,068,600	35,770,107
	Commission on guarantees	7,680,416	3,675,155
	SWIFT charges recovered	5,470,806	5,734,083
	Service charges on international visa cards	1,464,757	1,374,295
	Service charge on current accounts and savings accounts	3,583,131	3,567,242
	Other fee and commission	8,625,210	6,719,346
		67,364,257	69,595,005

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6 NET TRADING AND OTHER INCOME

	31/12/2023 MVR	31/12/2022 MVR
Net foreign exchange gains	7,434,797	4,767,468
Other income	987,302	1,942,401
	8,422,099	6,709,869

Net gains from trading comprise, gains less losses related to trading assets and liabilities and foreign exchange differences.

7 NET IMPAIRMENT (CHARGE)/ REVERSAL ON FINANCIAL ASSETS

	31/12/2023 MVR	31/12/2022 MVR
Impairment (charge)/ reversal on Loans and Receivables to Customers **(Note 15.2)**	(56,597,263)	25,305,551
Impairment (charge)/ reversal on Loan Commitments and Financial Guarantee contracts **(Note 22.1)**	(867,121)	3,740,642
Impairment reversal/ (charge) on investment securities **(Note 14.1)**	1,115,597	(1,115,597)
	(56,348,787)	27,930,596

8 PERSONNEL EXPENSES

	31/12/2023 MVR	31/12/2022 MVR
Salaries	12,913,715	14,124,716
Staff bonus	650,191	1,178,860
Expenses Relating to Defined Contribution Plans **(Note 8.1)**	822,161	776,110
Other personnel costs	1,459,845	1,064,349
	15,845,912	17,144,035

8.1 The Bank contributes 5% and Maldivian staff contributes 3% to the provident fund based on the staff basic salary and these funds are deposited in designated savings accounts (Provided Fund Account for each staff member). The interest is accrued at the prevailing savings account rate and the full amount can be withdrawn on retirement of the employee. In addition to that, the Bank contributes 7% to the Maldives pension fund for Maldivian staff based on their last basic salary.

9 DEPRECIATION AND AMORTIZATION

	31/12/2023 MVR	31/12/2022 MVR
Depreciation of property, plant and equipment	293,592	476,048
Depreciation of ROU Asset	5,090,875	4,991,232
	5,384,467	5,467,280

10 OTHER EXPENSES

	31/12/2023 MVR	31/12/2022 MVR
Professional fees	537,969	937,076
Audit fees and expenses	250,961	250,961
Non-audit fees and expenses	66,383	66,383
Postage and swift	3,594,730	1,399,909
Stationery and printing	730,436	850,076
Rent expenses	-	50,329
Utility expenses	241,934	249,088
Interest Expense on Lease Liability	632,033	636,802
Premises, equipment and establishment expenses	5,892,521	6,150,892
	11,946,967	10,591,516

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11 INCOME TAX EXPENSE

	31/12/2023 MVR	31/12/2022 MVR
Income Tax on Profit **(Note 11.1)**	77,073,240	106,804,858
Deferred Tax asset recognized during the Year **(Note 11.2)**	(36,888,561)	(47,606,934)
	40,184,679	59,197,924

11.1 Reconciliation of accounting profit to taxable income

	31/12/2023 MVR	31/12/2022 MVR
Accounting Profit Before Tax	331,355,306	388,453,099
Aggregate Disallowable Items	157,031,774	194,808,733
Aggregate Allowable Items	(180,094,120)	(156,042,399)
Taxable Income for the Year	308,292,960	427,219,433
Income Tax @ 25%	77,073,240	106,804,858

The Bank is liable to pay income tax (at the rate of 25%) in accordance with Income Tax Act 25/2019 issued by the Maldives Inland Revenue Authority.

11.2 Deferred Tax Asset

	31/12/2023 MVR	31/12/2022 MVR
Balance as at 1st January	143,556,270	95,949,336
Recognized during the Year	36,888,561	47,606,934
Balance as at 31st December	180,444,831	143,556,270

Deferred Tax Assets are attributable to the following;

	31/12/2023		31/12/2022	
	Temporary Difference MVR	Tax Effect MVR	Temporary Difference MVR	Tax Effect MVR
Property and Equipment	753,216	188,304	865,093	216,273
Provision for impairment Losses on Financial Assets	721,026,108	180,256,527	573,359,988	143,339,997
	721,779,324	180,444,831	574,225,081	143,556,270

12 CASH AND CASH EQUIVALENTS

	31/12/2023 MVR	31/12/2022 MVR
Cash in hand	73,714,548	64,949,231
Balances with Head Office and Other Branches **(Note 12.1)**	65,488,927	193,786,671
Balances with Other Banks **(Note 12.2)**	29,509,268	229,922,145
	168,712,743	488,658,047

12.1 Balances with Head Office and Other Branches

	31/12/2023 MVR	31/12/2022 MVR
Bank of Ceylon - London Branch	39,957,258	7,875,477
Bank of Ceylon - Colombo (FCBU)	11,566,655	181,463,016
Bank of Ceylon - Metropolitan Branch	5,604,720	2,158,620
Bank of Ceylon - Chennai Branch	8,360,294	2,289,558
	65,488,927	193,786,671

12 CASH AND CASH EQUIVALENTS (CONTINUED)

12.2 Balances with Other Banks

	31/12/2023 MVR	31/12/2022 MVR
Deutsche Bank Trust Company Americas	21,806,632	20,511,751
Overseas - Chinese Banking Company Limited	133,066	656,978
Habib American Bank - New York	7,569,570	208,753,416
	29,509,268	229,922,145

13 BALANCES WITH MALDIVES MONETARY AUTHORITY

	31/12/2023 MVR	31/12/2022 MVR
Statutory Balances with Maldives Monetary Authority (**Note 13.1**)	415,811,487	252,595,654

13.1 Minimum Reserve Requirement ("MRR")

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

14 INVESTMENT SECURITIES MEASURED AT AMORTISED COST

	31/12/2023 MVR	31/12/2022 MVR
Investments in Treasury Bills (Note 14.2)		
Face Value	1,860,000,000	1,902,560,000
Less: Unearned Interest on Treasury Bills	(10,347,729)	(20,152,574)
	1,849,652,271	1,882,407,426
Investments in Corporate Bonds (Note 14.3)		
Capital Outstanding	-	10,911,045
Interest Receivable	-	96,314
	-	11,007,359
Total Financial Investments	1,849,652,271	1,893,414,785
Provision for impairment (Note 14.1)	-	(1,115,597)
	1,849,652,271	1,892,299,188

14.1 Movement in provision for - investment securities

Balance as at January 1st	1,115,597	-
Charge to the Statement of Comprehensive Income	(1,115,597)	1,115,597
As at December 31st	-	1,115,597

14.2 Treasury Bills - Maldives

The Bank has invested in Treasury Bills issued by the Government of Maldives. As at 31 December 2023, the Bank held un-matured Treasury bills with a face value of MVR 1,860,000,000/- (As at 31 December 2022 : MVR 1,902,560,000/-) and interest amount of MVR 10,347,729/- (As at 31 December 2022: MVR 20,152,574/-). The investment in Treasury Bills Issued by the Government of Maldives is measured at amortized cost as at the reporting date.

14 INVESTMENT SECURITIES MEASURED AT AMORTISED COST (CONTINUED)

14.3 Investments in Corporate Bonds

On 31 August 2015, the Bank purchased corporate bonds denominated in United States Dollar issued by the State Trading Organization PLC. The bonds were issued for a tenure of 8 (eight) years, with a grace period of 2 (two) years and a repayment period of 6 (six) years, at the interest rate of 5.25% per annum. The repayment of corporate bonds commenced on 30 November 2017. During the year, Corporate bond was matured and the Bank has recognized an interest income until the maturity amounting to MVR 242,042/- (2022 : MVR 979,648/-) in the statement of comprehensive income.

15 LOANS AND ADVANCES TO CUSTOMERS

	31/12/2023 MVR	31/12/2022 MVR
Gross Loans and Advances to Customers **(Note 15.1)**	3,795,321,533	3,488,791,836
Less: Provision for Impairment Loss **(Note 15.2)**	(651,416,886)	(594,819,623)
Net Loans and Advances	3,143,904,647	2,893,972,213

15.1 Loans and Advances to Customers - Product wise Analysis

loans and advances	1,817,141,706	1,893,140,968
Overdrafts	1,615,605,047	1,265,004,354
Trust receipts	362,116,606	328,576,487
Bills of exchange	458,174	2,070,027
	3,795,321,533	3,488,791,836

15.2 Provision for Impairment Loss of Loans and Advances to Customers

Individual Impairment Provision		
As at 1st January	359,475,849	482,726,521
Impairment Losses for the year	23,346,847	(123,250,672)
As at 31st December	382,822,696	359,475,849
Collective Impairment Provision		
As at 1st January	235,343,774	137,398,653
Impairment Loss (reversed) / charged for the year	33,250,416	97,945,121
As at 31st December	268,594,190	235,343,774
Total Provision for Impairment Loss of Loans and Advances	651,416,886	594,819,623

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16 PROPERTY AND EQUIPMENT

	Furniture and Fittings MVR	Office Equipment MVR	Computer Equipment MVR	Total 31/12/2023 MVR	Total 31/12/2022 MVR
Cost					
As at 1st January	1,091,343	1,794,807	7,003,286	9,889,436	9,767,760
Additions during the Year	39,850	16,173	50,344	106,367	418,410
Reclassification	203,722	-	(203,722)	-	-
Disposal during the Year	(66,983)	(20,720)	(271,738)	(359,441)	(296,734)
As at 31st December	1,267,932	1,790,260	6,578,170	9,636,362	9,889,436
Accumulated Depreciation					
As at 1st January	926,122	1,426,048	6,896,341	9,248,511	9,069,197
Charge for the Year	77,904	89,852	125,837	293,593	476,048
Reclassification	-	180,759	(180,759)	-	-
Disposal during the Year	(66,983)	(20,720)	(271,738)	(359,441)	(296,734)
As at 31st December	937,043	1,675,939	6,569,681	9,182,662	9,248,511
Net Carrying Values					
Balance as at 31 December 2023	330,889	114,321	8,489	453,700	
Balance as at 31 December 2022	165,221	368,759	106,945		640,925

Property and equipment include fully depreciated assets having a gross carrying amount of MVR 8,736,015 /- as at 31 December 2023 (2022: MVR 7,853,434/-).

17 RIGHT-OF-USE ASSET

	31/12/2023 MVR	31/12/2022 MVR
Cost		
As at 1st January	28,678,059	27,634,731
Reassessment of ROU	3,830,108	(2,414,705)
Additions during the Year	-	3,458,034
As at 31st December	32,508,167	28,678,059
Accumulated Depreciation		
As at 1st January	15,383,743	14,293,749
Reassessment of ROU	-	(3,901,238)
Charge for the Year	5,090,875	4,991,232
As at 31st December	20,474,617	15,383,743
Net Carrying Value	12,033,550	13,294,316

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18 OTHER ASSETS

	31/12/2023 MVR	31/12/2022 MVR
Deposits and prepayments	491,616	269,568
Stationery stocks	94,780	74,642
	614,296	344,210

19 DEPOSITS FROM CUSTOMERS

	31/12/2023 MVR	31/12/2022 MVR
Local Currency Deposits		
Current account balances	416,609,682	342,236,053
Savings account balances	151,447,602	159,055,141
Fixed deposits	455,638,377	275,041,611
Margin account balances	11,154,737	5,948,734
	1,034,850,398	782,281,539
Foreign Currency Deposits		
Current account balances	938,775,985	1,022,973,159
Savings account balances	349,687,936	377,367,252
Fixed deposits	1,168,588,897	1,443,145,537
Margin account balances	37,345,468	44,340,419
	2,494,398,286	2,887,826,367
Total Deposits from Customers	3,529,248,684	3,670,107,906

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20 INCOME TAX LIABILITIES

	31/12/2023 MVR	31/12/2022 MVR
As at 1st January	80,012,463	19,046,956
Add: Provision for the Year (**Note 11.1**)	77,073,240	106,804,858
Less: Payments made during the Year	(133,418,825)	(45,839,351)
As at 31st December	23,666,878	80,012,463

21 LEASE LIABILITY

	31/12/2023 MVR	31/12/2022 MVR
As at 1st January	13,825,280	15,131,316
Reassessment of ROU	4,052,156	232,753
Addition during the Year	-	3,458,034
Interest Charge for the Year	632,033	636,802
Lease Rental Payments for the Year	(5,704,307)	(5,633,624)
As at 31st December	12,805,162	13,825,280

21.1 Maturity analysis of Lease liability

	31/12/2023 MVR	31/12/2022 MVR
Less than one year	5,229,135	4,750,412
Between one and five years	7,576,027	9,074,869
	12,805,162	13,825,280

21.2 Amount Recognized in Comprehensive Income

Interest on Lease Liability	632,033	636,802
Amortization of Right of Use asset	5,090,875	4,991,232
	5,722,908	5,628,034

22 OTHER LIABILITIES

Accrued expenses	5,778,384	5,058,777
Unclaimed balances	365,579	239,403
Pay order payables	-	154,200
Dormant nostro balances	10,946	9,696
Other liabilities and payables	3,269,196	3,798,154
Impairment provision on off-balance sheet exposures (**Note 22.1**)	3,966,440	3,099,319
	13,390,545	12,359,549

22.1 Impairment provision on off-balance sheet exposures

As at 1st January	3,099,319	6,839,961
Provision (reversed)/ made during the Year	867,121	(3,740,642)
As at 31st December	3,966,440	3,099,319

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23 ASSIGNED CAPITAL

According to the sections 12 and 13 of the Maldives Banking Act No. 24/2010, a foreign Bank operating in the Maldives and intends to conduct operations in the manner of section 25 of the Maldives Banking Act No. 24/2010 (Tier I Bank) shall require to maintain equity capital allocated to its operations in the Maldives in an amount equal to the minimum level of MVR 150,000,000/-. Accordingly, the Bank maintains equity capital allocated to its operations in the Maldives amounting to MVR 196,140,000/- (2022: MVR 196,140,000/-).

24 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.

The Bank has the statutory reserve amounting to MVR 150,000,000/- as at 31st December 2023 (2022: MVR 150,000,000/-) and that is an amount equal to the Bank's minimum required assigned capital of MVR 150,000,000/- as specified under sections 12 and 13 of the Maldives Banking act No. 24/2010.

25 CAPITAL RESERVE ON LOAN LOSS PROVISION

According to the Maldives Monetary Authority ("MMA") guideline on loan loss provisioning (CN-BSD/2017/8), the Bank has created a 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).

Movement in Provision for Impairment Loss of Loans and Advances to Customers

	MMA MVR	IFRS Provision MVR
As at 1st January 2022	599,795,077	620,125,174
Net Provision for impairment Loss	(269,461,586)	(25,305,551)
As at 31st December 2022	330,333,491	594,819,623
Net Provision for impairment Loss	42,972,531	56,597,263
As at 31st December 2023	373,306,022	651,416,886

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25 CAPITAL RESERVE ON LOAN LOSS PROVISION (CONTINUED)

Movement in Provision for Impairment Loss as per MMA Prudential Regulation Guidelines.

	31/12/2023 MVR	31/12/2022 MVR
Regulatory Specific Provision		
As at 1st January	308,493,457	314,132,435
Provision (reversed) / charged for the year	48,939,437	(5,638,978)
As at 31st December	357,432,893	308,493,457
Regulatory General Provision		
As at 1st January	21,840,035	33,829,006
Provision (reversed) / charged for the year	(5,966,906)	(11,988,971)
As at 31st December	15,873,129	21,840,035
Total	373,306,022	330,333,491

26 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 be recognized on the date of the Statement of Financial Position, they do contain credit risk and therefore form part of the overall risk profile of the Bank.

	31/12/2023 MVR	31/12/2022 MVR
Contingencies		
Letter of credit	222,403,610	205,808,736
Guarantees and bonds	294,460,513	165,033,636
Bills for collection	33,756,466	48,707,537
	550,620,589	419,549,909
Commitments		
Undrawn Commitments on Direct Advances	162,404,636	265,005,774
	162,404,636	265,005,774
Total Commitments and Contingencies	713,025,225	684,555,683

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27 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 in place for the management of legal claims. Once professional advice has been obtained and the loss is reasonably estimated, the management will make necessary adjustments in the books of accounts. At the reporting date the Bank did not have any significant unresolved legal claims as such no provision for any claims was made in these financial statements.

28 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'.

28.1 Key Management Personnel (KMPs) and their Close Family Members (CFMs)

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 the Corporate Management of the Bank. Close family members of an Individual are those family members who may be expected to influence, or to be influenced by, that individual in their dealings with the entity. They may include individual's domestic partner and children, children of the individual's domestic partner and dependents of the individual or the individual's domestic

28.1.1 Transactions with Key Management Personnel (KMPs) and their Close Family Members (CFMs)

For the year ended 31st December	2023 MVR	2022 MVR
Short-term Employee Benefits	1,224,562	1,210,319
Non-monetary Benefits	313,575	318,657
	1,538,137	1,528,976

28.2 Transactions with Related Entities

The Bank of Ceylon - Male' Branch has remitted an amount of MVR 7,710,000/- (US$ 500,000/-) as annual profit distribution to the Head office during the year ended 31st December 2023 (2022 : MVR 40,261,620/- (US$ 2,111,000/-)).

There were no other related party transactions other than the balances with other Branches of the Bank of Ceylon and with the Head Office.

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29 FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT

29.1 Classification of financial assets and liabilities as per IFRS 9 - "Financial instruments"

The table below 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 2023	*Note*	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Total
		MVR	MVR	MVR
Financial Assets				
Cash and Cash Equivalents	12	168,712,743	-	168.712,743
Balances with Maldives Monetary Authority	13	415,811,487	-	415,811,487
Investments Securities	14	1,849,652,271	-	1,849,652,271
Loans and Advances to Customers	15	3,143,904,647	-	3,143,904,647
Total Financial Assets		5,578,081,148	-	5,578,081,148
Financial Liabilities				
Deposits from Customers	19	-	3,529,248,684	3,529,248,684
Lease Liability	21	-	12,805,162	12,805,162
Other Liabilities			9,424,105	9,424,105
Total Financial Liabilities		-	3,551,477,951	3,551,477,951

As at 31st December 2022	*Note*	Financial assets measured at amortised cost	Financial liabilities measured at amortised cost	Total
		MVR	MVR	MVR
Financial Assets				
Cash and Cash Equivalents	12	488,658,047	-	488,658,047
Balances with Maldives Monetary Authority	13	252,595,654	-	252,595,654
Investments Securities	14	1,892,299,188	-	1,892,299,188
Loans and Advances to Customers	15	2,893,972,213	-	2,893,972,213
Total Financial Assets		5,527,525,102	-	5,527,525,102
Financial Liabilities				
Deposits from Customers	19	-	3,670,107,906	3,670,107,906
Lease Liability	21	-	13,825,281	13,825,281
Other Liabilities		-	9,260,230	9,260,230
Total Financial Liabilities		-	3,693,193,417	3,693,193,417

29.2 Measurement of Fair Values

29.2.1 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.

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

29.2.2 Determination of fair value and fair value hierarchy

The following table set out the fair values of financial assets and liabilities not measured at fair value and related fair value hierarchy used

As at 31 December 2023	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	-	168,712,743	-	168,712,743
Balances with Maldives Monetary Authority	-	415,811,487	-	415,811,487
Loans and advances to customers	-	-	3,143,904,647	3,143,904,647
Investments Securities	-	1,849,652,271	-	1,849,652,271
Other assets	-	-	614,296	614,296
Total financial assets	-	2,434,176,501	3,144,518,943	5,578,695,444
Financial liabilities				
Due to customers	-	-	3,529,248,684	3,529,248,684
Lease liability	-	12,805,162	-	12,805,162
Other liabilities	-	-	13,390,545	13,390,545
Total financial liabilities	-	12,805,162	3,542,639,229	3,555,444,391
As at 31 December 2022	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Cash and cash equivalents	-	488,658,047	-	488,658,047
Balances with Maldives Monetary Authority	-	252,595,654	-	252,595,654
Loans and advances to customers	-	-	2,893,972,213	2,893,972,213
Investments Securities	-	1,892,299,188	-	1,892,299,188
Other assets	-	-	344,210	344,210
Total financial assets	-	2,633,552,889	2,894,316,423	5,527,869,312
Financial liabilities				
Due to customers	-	-	3,670,107,906	3,670,107,906
Lease liability	-	13,825,281	-	13,825,281
Other liabilities	-	-	12,359,549	12,359,549
Total financial liabilities	-	13,825,281	3,682,467,455	3,696,292,736

30 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 are 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
*Liquidity Risk
*Market Risk
*Operational Risk

Risk Management Framework

The overall responsibility and oversight of the risk management framework of the Bank is vested with the Bank's Management.

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.

30.1 Credit Risk

Credit Risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other Banks, and investments in debt securities.

Head office has established a Credit Policy Department responsible for formulating policies for extending and monitoring of credit in line with the management's risk acceptance methodology. The department has formally issued these credit policies through Credit Policy Manual. Credit risk is monitored, reviewed and analyzed by appropriate officials inline with the guidelines contained in this manual. This risk is managed through counterparty and credit limits and also by obtaining adequate collaterals. Loans and advances to financial institutions are granted in accordance with limits assigned to each institution. Cross border risk is mitigated by employing exposure limits computed with reference to the country risk associated with such transactions and are updated on a regular basis.

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30 Financial Risk Management (Continued)

30.1 Credit Risk (Continued)

i.) Credit Quality Analysis

Maximum Exposure to Credit Risk by Risk Rating

The Bank obtains different types of collaterals from the counterparties as a credit risk litigant. The amount and the types of the collateral required depend on credit risk assessment of the counterparty. The acceptability of the collateral and valuation is determined based on the guidelines issued by the regulator and the Bank's policy. The main types of collateral obtained are:

- For commercial lending - charges over movable and immovable properties.
- For personal lending - mortgages over movable and immovable properties, cash & cash equivalents.
- For Government & State Owned Enterprises - Government guarantees.

The Bank monitors the market value of collateral and will request additional collateral in accordance with the underlying agreement. It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

	Loans and Advances to Customers		Cash and Cash Equivalents and Balances with MMA		Investments Securities at Amortized cost		Lending Commitments and Contingencies	
As at 31st December	2023 MVR	2022 MVR	2023 MVR	2022 MVR	2023 MVR	2022 MVR	2023 MVR	2022 MVR
Maximum Exposure to Credit								
Carrying Amount	3,143,904,647	2,893,972,213	584,524,230	741,253,701	1,849,652,271	1,892,299,188	-	-
Low Risk	976,325,963	977,511,126	584,524,230	741,253,701	1,849,652,271	1,882,407,426	-	-
Moderate Risk	706,261,419	1,160,375,361	-	-	-	11,007,359	-	-
High Risk	1,001,893,203	529,840,385	-	-	-	-	-	-
Unrated / Not Classified (***)	1,110,840,948	821,064,964						
Impairment Loss allowance	(651,416,886)	(594,819,623)	-	-	-	(1,115,597)	-	-
	3,143,904,647	2,893,972,213	584,524,230	741,253,701	1,849,652,271	1,892,299,188	-	-
Off- Balance Sheet (**)								
Contingencies								
High Risk	-	-	-	-	-	-	54,140,046	419,549,909
Lending Commitments								
Moderate Risk	-	-	-	-	-	-	496,480,544	265,005,774
	-	-	-	-	-	-	550,620,590	684,555,683

(***) Unrated / Not Classified balances include, Retail customers which are not rated and other interest adjustments for amortizations

(**) Amounts reported above include only lending commitments and contingencies disclosed in the Note 29 on 'Contingent Liabilities and Commitments'

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30 Financial Risk Management (Continued)

30.1 Credit Risk (Continued)

i.) Credit Quality Analysis (Continued)

Maximum Exposure to Credit Risk by Risk Rating (Continued)

The following table set out information about the credit quality of financial assets measured at amortized cost unless specially indicated, for the financial assets, the amounts in the table represent carrying amounts.

As at 31st December	2023			
	Stage 1 MVR	Stage 2 MVR	Stage 3 MVR	Total MVR
Loans and advances to customers				
- Pass or Acceptable	1,880,138,646	919,567,996	35,168,464	2,834,875,106
- Special Mention	78,847,814	241,208,917	71,133,588	391,190,320
- Substandard	-	18,714,275	35,854,479	54,568,755
- Doubtful	-	-	32,865,296	32,865,296
- Loss	-	-	481,822,056	481,822,056
	1,958,986,460	1,179,491,189	656,843,884	3,795,321,533
Loss allowance	(64,404,510)	(159,012,958)	(427,999,418)	(651,416,886)
Carrying Amount	1,894,581,950	1,020,478,231	228,844,466	3,143,904,647
Investments Securities				
- Pass or Acceptable	1,849,652,271	-	-	-
Loss allowance	-	-	-	-
Carrying Amount	1,849,652,271	-	-	-
Cash and cash equivalents (Balances with banks)				
- Pass or Acceptable	168,712,743	-	-	-
Carrying Amount	168,712,743	-	-	-

As at 31st December	2022			
	Stage 1 MVR	Stage 2 MVR	Stage 3 MVR	Total MVR
Loans and advances to customers				
- Pass or Acceptable	2,051,846,663	430,032,169	66,417,296	2,548,296,128
- Special Mention	-	367,412,515	150,644,179	518,056,694
- Substandard	-	2,956,075	19,786,051	22,742,126
- Doubtful	-	-	11,429,100	11,429,100
- Loss	-	-	388,267,788	388,267,788
	2,051,846,663	800,400,759	636,544,414	3,488,791,836
Loss allowance	(84,532,149)	(95,359,608)	(414,927,866)	(594,819,623)
Carrying Amount	1,967,314,514	705,041,151	221,616,548	2,893,972,213
Financial Investments				
- Pass or Acceptable	1,893,414,785	-	-	-
Loss allowance	(1,115,597)			
Carrying Amount	1,892,299,188	-	-	-
Cash and cash equivalents (Balances with banks)				
- Pass or Acceptable	488,658,047	-	-	-
Carrying Amount	488,658,047	-	-	-

30 Financial Risk Management (Continued)

30.1 Credit Risk (Continued)

i.) Credit Quality Analysis (Continued)

Maximum Exposure to Credit Risk by Risk Rating (Continued)

The following table sets out the credit quality of Financial Investments. The analysis has been based on the 'Fitch' rating.

As at 31st December	2023 MVR	2022 MVR
Treasury Bills (Face value)		
Rated B-	1,860,000,000	1,902,560,000
Corporate Bonds and Placements (Carrying amount)		
Rated BB+	-	11,007,359

Investment in Corporate Bonds and Placements are with State Trading Organization PLC (STO). STO is owned by the Government of Maldives. Accordingly, the Bank has assumed that the credit rating of the investments is a close approximation to that of the treasury bills.

Cash and Cash Equivalents

The Bank held cash and cash equivalents at other banks MVR 29,509,268/- as at 31st December 2023 (31st December 2022 - MVR 229,922,145/-). The cash and cash equivalents held with MMA 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	**2023**	**2022**	
Loans and advances			
Overdrafts	26%	23%	Cash securities
Personal Loans	68%	68%	Residential properties, Employee Provident Fund
Term Loans	59%	73%	Residential, Commercial and other propoerties
Trade Finance	4%	8%	Commercial Property and Cash
Staff Loan	31%	-	Residential, Commercial and other propoerties
Investment Securities	-	-	None

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30 Financial Risk Management (Continued)

30.1 Credit Risk (Continued)

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.

As at 31st December	2023	2022
LTV Ratio	MVR	MVR
Less than 50%	191,267,369	371,249,579
51% - 70%	22,540,781	187,207,669
71% - 90%	19,720,589	69,407,464
91% above	178,859,235	68,827,995
Total	412,387,975	696,692,707

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

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in **Note 3.2 (vi)**

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's 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

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

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.

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30 Financial Risk Management (Continued)

30.1 Credit Risk (Continued)

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

Generating the term structure of Probability of Default (PD)

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.

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.

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.

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 recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

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

Definition of default

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

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Bank. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

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

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Bank.

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 50% probability of occurring, best scenario 20% and worst scenario 30%. External information considered includes economic data and forecasts published by the governmental bodies and the monetary authorities in the countries where the Bank operates.

30 Financial Risk Management (Continued)

30.1 Credit Risk (Continued)

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

Incorporation of Forward-looking Information (Continued)

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 by the Bank's internal team.

The economic scenarios used as at 31st December 2023 included the following key indicators for Maldives for the years ending 31st December 2023 to 2028.

		2024	2025	2026	2027	2028
GDP Growth Rate	Base	7.75%	8.19%	9.12%	10.35%	10.27%
	Upside	11.10%	15.14%	20.49%	27.55%	31.79%
	Downside	5.68%	4.86%	4.14%	3.52%	2.67%
Interest Rate	Base	11.65%	11.62%	11.59%	11.55%	11.58%
	Upside	11.54%	11.44%	11.34%	11.25%	11.19%
	Downside	11.79%	11.84%	11.89%	11.93%	12.05%
Exchange Rate	Base	15.40	15.40	15.40	15.39	15.39
	Upside	15.41	15.42	15.42	15.42	15.42
	Downside	15.42	15.42	15.42	15.42	15.42
Inflation	Base	2.60%	2.58%	2.56%	2.55%	2.56%
	Upside	2.83%	2.77%	2.72%	2.66%	2.63%
	Downside	2.99%	3.02%	3.05%	3.08%	3.15%
Unemployment	Base	4.20%	4.19%	4.17%	4.16%	4.17%
	Upside	4.15%	4.11%	4.06%	4.02%	4.00%
	Downside	4.26%	4.28%	4.31%	4.33%	4.38%

* Data source : IMF

The economic scenarios used as at 31st December 2022 included the following key indicators for Maldives for the years ending 31st December 2022 to 2027.

		2023	2024	2025	2026	2027
GDP Growth Rate	Base	6.64%	7.02%	7.81%	8.85%	8.79%
	Upside	9.50%	12.95%	17.50%	23.51%	27.11%
	Downside	6.87%	5.32%	4.11%	3.17%	2.65%
Interest Rate	Base	11.67%	11.64%	11.61%	11.58%	11.60%
	Upside	11.59%	11.50%	11.40%	11.31%	11.25%
	Downside	11.84%	11.89%	11.93%	11.98%	12.09%
Exchange Rate	Base	15.41	15.42	15.42	15.42	15.42
	Upside	15.41	15.42	15.42	15.42	15.42
	Downside	15.42	15.42	15.42	15.42	15.42
Inflation	Base	2.60%	2.58%	2.57%	2.55%	2.57%
	Upside	2.55%	2.50%	2.45%	2.4%	2.4%
	Downside	2.67%	2.70%	2.72%	2.74%	2.80%
Unemployment	Base	6.08%	6.07%	6.06%	6.05%	6.06%
	Upside	5.97%	5.95%	5.92%	5.90%	5.88%
	Downside	6.04%	6.05%	6.06%	6.07%	6.10%

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30 Financial Risk Management (Continued)

30.1 Credit Risk (Continued)

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

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)

The Bank's policy is to estimate the PDs at a certain date, which are calculated based on statistical models, and assessed using various categories based on homogenous characteristics of exposures. This approach will be reviewed annually to use the most relevant data for calculation of PD values of the Bank.

The methodology of estimating PDs is discussed under the **Note 3.2**.

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. However, the Bank use the regulatory LGD for loans and advances (45%).

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.

Loss Allowance

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

Loans and advances to customers at amortized cost

	31/12/2023			
	Stage 1 MVR	**Stage 2** MVR	**Stage 3** MVR	**Total** MVR
As at 1st January	84,532,149	95,359,608	414,927,866	594,819,623
Provision of impairment loss (reversed) / charged	(20,127,639)	63,653,350	(5,225,074)	38,300,637
Impairment loss relating to unrecognized interest income	-	-	18,296,626	18,296,626
Written off during the year	-	-	-	-
As at 31st December	64,404,510	159,012,958	427,999,418	651,416,886

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30 Financial Risk Management (Continued)

30.1 Credit Risk (Continued)

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

Measurement of ECL (Continued)

Loss Allowance (Continued)

	31/12/2022			
	Stage 1 MVR	Stage 2 MVR	Stage 3 MVR	Total MVR
As at 1st January	52,851,534	42,622,727	524,650,914	620,125,174
Provision of impairment loss	31,680,615	52,736,881	(119,090,853)	(34,673,357)
Impairment loss relating to unrecognized interest income	-	-	9,367,806	9,367,806
Written off during the year	-	-	-	-
As at 31st December	84,532,149	95,359,608	414,927,866	594,819,623

Loan commitments, financial guarantee contracts and undrawns facilities

	31/12/2023 Stage 2 MVR	31/12/2022 Stage 2 MVR
As at 1st January	3,099,319	6,839,961
Provision of impairment loss	867,121	(3,740,642)
As at 31st December	3,966,440	3,099,319

Credit-Impaired Financial Assets

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

	2023 MVR	2022 MVR
Credit-Impaired Loans and Advances to Customers as at 1st January	359,475,849	482,726,521
Change in allowance for Impairment	23,346,847	(123,250,672)
Classified as Credit-Impaired during the period	-	-
Impairment loss relating to unrecognized interest income	-	-
Credit-impaired Loans and Advances to customers as at 31st December	382,822,696	359,475,849

iv.) Sensitivity of impairment provision on loans and advances to other customers

The Bank has estimated the impairment provision on loans and advances to other customers as at December 31, 2023, subject to various assumptions. The changes to such assumptions may lead to changes in the impairment provision recorded in the Statement of Financial Position.The following table demonstrates the sensitivity of the impairment provision of the Bank as at December 31, 2023 to a feasible change in PDs, LGDs and forward looking macro economic information.

	Sensitivity effect on Statement of Financial Position [Increase/(Decrease) in impairment provision]			
	Stage I	Stage II	Stage III	Total
PD 1% increase	7,876,696	3,234,261	-	11,678,596
PD 1% Decrease	(7,876,696)	(3,234,261)	-	(11,678,596)
LGD 5% Increase	5,990,475	7,922,696	2,992,130	17,330,388
LGD 5% Decrease	(5,990,475)	(7,922,696)	(2,992,130)	(17,330,388)
EFA 5% Increase	2,291,237	3,032,914	-	5,490,024
EFA 5% Decrease	(2,291,237)	(3,032,914)	-	(5,490,024)

30 Financial Risk Management (Continued)

30.1 Credit Risk (Continued)

iv.) Credit exposure movement

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

	2023			
	Gross Carrying amount	12-month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)
Loans and receivables to customers				
As at January 01, 2023	3,488,791,836	2,430,286,536	451,960,886	606,544,414
Transfer to Stage 1	-	357,623,750	(357,598,795)	(24,955)
Transfer to Stage 2	-	(604,873,852)	604,873,852	-
Transfer to Stage 3	-	(38,490,374)	(114,969,467)	153,459,841
New assets originated or purchased	695,983,756	405,354,709	278,325,535	12,303,513
Financial assets derecognised or repaid (excluding write-offs)	(389,454,059)	(293,284,822)	(83,640,192)	(12,529,046)
At December 31, 2023	**3,795,321,533**	**2,256,615,947**	**778,951,817**	**759,753,768**
Investment securities				
As at January 01, 2023	1,892,299,188	1,892,299,188	-	-
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
New assets originated or purchased	1,468,521,005	1,468,521,005	-	-
Financial assets derecognised or repaid (excluding write-offs)	(1,511,167,922)	(1,511,167,922)	-	-
At December 31, 2023	**1,849,652,271**	**1,849,652,271**	-	-
Contingent liabilities and commitments				
As at January 01, 2023	419,549,909	419,549,909	-	-
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
New assets originated or purchased	293,475,316	293,475,316	-	-
Financial assets derecognised or repaid (excluding write-offs)	-	-	-	-
At December 31, 2023	**713,025,225**	**713,025,225**	-	-

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30 Financial Risk Management (Continued)

30.1 Credit Risk (Continued)

iv.) Credit exposure movement

The following tables show reconciliations from the opening to closing balance of the total Expected Credit Loss by class of financial instrument.

	2023			
	Gross Carrying amount	12-month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)
Loans and receivables to customers				
As at January 01, 2023	594,819,623	84,532,149	95,359,608	414,927,866
Transfer to Stage 1	-	7,932,942	(7,930,493)	(2,449)
Transfer to Stage 2	-	(80,329,942)	82,424,884	(2,094,941)
Transfer to Stage 3	-	(4,517,663)	(3,757,217)	8,274,879
New assets originated or purchased	115,521,656	14,447,169	42,083,582	58,990,905
Financial assets derecognised or repaid (excluding write-offs)	(58,924,393)	42,339,856	(49,167,406)	(52,096,842)
At December 31, 2023	**651,416,886**	**64,404,510**	**159,012,958**	**427,999,418**
Investment securities				
As at January 01, 2023	1,115,597	1,115,597	-	-
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
New assets originated or purchased	-	-	-	-
Financial assets derecognised or repaid (excluding write-offs)	(1,115,597)	(1,115,597)	-	-
At December 31, 2023	-	-	-	-
Contingent liabilities and commitments				
As at January 01, 2023	3,099,319	3,099,319	-	-
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
New assets originated or purchased	867,121	867,121	-	-
Financial assets derecognised or repaid (excluding write-offs)	-	-	-	-
At December 31, 2023	**3,966,440**	**3,966,440**	-	-

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30 Financial Risk Management (Continued)

30.1 Credit Risk (Continued)

Concentrations of Credit Risk (Continued)

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 Credit Committee.

The maximum exposure to credit risk to the Bank's 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 2023	Tourism MVR	Construction MVR	Trading MVR	Other Services & Consumption MVR	Financial & Business Services MVR	Government MVR	Total MVR
Cash and Cash Equivalents	-	-	-	-	168,712,743	-	168,712,743
Balances with Maldives Monetary Authority	-	-	-	-	-	415,811,487	415,811,487
Investments Securities	-	-	-	-	-	1,849,652,271	1,849,652,271
Loans and Advances to Customers	1,312,354,011	407,054,771	1,555,734,340	424,776,570	95,401,842	-	3,795,321,533
Less: Impairment of Financial Assets	-	-	-	-	-	-	(651,416,886)
Total	1,312,354,011	407,054,771	1,555,734,340	424,776,570	264,114,585	2,265,463,758	5,578,081,148

As at 31st December 2022	Tourism MVR	Construction MVR	Trading MVR	Other Services & Consumption MVR	Financial & Business Services MVR	Government MVR	Total MVR
Cash and Cash Equivalents	-	-	-	-	488,658,047	-	488,658,047
Balances with Maldives Monetary Authority	-	-	-	-	-	252,595,654	252,595,654
Investments Securities	-	-	-	-	-	1,892,299,188	1,892,299,188
Loans and Advances to Customers	1,962,021,922	827,139,832	376,422,692	43,397,448	279,809,943	-	3,488,791,836
Less: Impairment of Financial Assets	-	-	-	-	-	-	(594,819,623)
Total	1,962,021,922	827,139,832	376,422,692	43,397,448	768,467,990	2,144,894,842	5,527,525,102

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30 Financial Risk Management (Continued)

30.2 Liquidity Risk

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 requirements.

Assets and Liability Management Committee (ALCO)

ALCO chaired by the Country Manager, has representatives from Treasury, Credit, Operations and Risk departments. The Committee meets weekly 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 and balances with Maldives Monetary Authority, placements with banks. Details of the reported ratio of liquid assets to external liabilities of the Bank are given below;

As at 31st December	2023 (%)	2022 (%)
Liquidity Asset Ratio	68%	70%

Liquidity Reserves

The table below sets out components of the Bank's liquidity reserves:

	31st December 2023		31st December 2022	
	Carrying Amount MVR	Fair Value MVR	Carrying Amount MVR	Fair Value MVR
Cash and Cash Equivalents	168,712,743	168,712,743	488,658,047	488,658,047
Balances with Maldives Monetary Authority	415,811,487	415,811,487	252,595,654	252,595,654
Financial Investments	1,849,652,271	1,849,652,271	1,892,299,188	1,892,299,188
Total Liquidity Reserves	2,434,176,501	2,434,176,501	2,633,552,889	2,633,552,889

The carrying amounts mentioned above approximates its fair values since they are short term in nature.

Financial Assets Available to Support Future Trading Funding

There are no liens or encumbrances on the Bank's liquidity reserves, all assets are available to support

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30 Financial Risk Management (Continued)

30.2 Liquidity Risk (Continued)

Maturity Analysis of Financial Assets and Financial Liabilities

(i) Remaining contractual period to maturity as at the date of Statement of Financial Position of the financial assets and the liabilities employed by the Bank is detailed below.

As at 31st December 2023	Carrying Amount MVR	Gross Nominal Cashflows MVR	Up to 3 Months MVR	3 to 12 Months MVR	1 to 3 Years MVR	3 to 5 Years MVR	More than 5 Years MVR
Financial Assets							
Cash and Cash Equivalents	168,712,743	168,712,743	168,712,743	-	-	-	-
Balances with Maldives Monetary Authority	415,811,487	415,811,487	415,811,487	-	-	-	-
Investments Securities	1,849,652,271	1,860,000,000	1,410,000,000	450,000,000	-	-	-
Loans and Advances to Customers *	3,143,904,647	3,795,321,533	2,522,136,395	120,100,612	297,812,589	427,316,149	427,955,789
	5,578,081,148	6,239,845,763	4,516,660,625	570,100,612	297,812,589	427,316,149	427,955,789
Financial Liabilities							
Deposits from Customers	3,529,248,684	3,529,248,684	2,534,235,763	760,977,050	183,241,872	50,794,000	-
Lease Liability	12,805,162	17,037,326	1,622,725	4,802,986	9,927,406	684,209	-
Other Liabilities	9,424,105	9,424,105	9,424,105	-	-	-	-
Total Non-interest Earning Assets	3,551,477,951	3,555,710,115	2,545,282,593	765,780,035	193,169,278	51,478,209	-
Net Gap	2,026,603,197	2,684,135,648	1,971,378,032	(195,679,424)	104,643,312	375,837,939	427,955,789

* Gross Nominal cash flows reflect carrying amount without future interest

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30 Financial Risk Management (Continued)

30.2 Liquidity Risk (Continued)

Maturity Analysis of Financial Assets and Financial Liabilities

(i) Remaining contractual period to maturity as at the date of Statement of Financial Position of the financial assets and the liabilities employed by the Bank is detailed below.

As at 31st December 2022	Carrying Amount MVR	Gross Nominal Cashflows MVR	Up to 3 Months MVR	3 to 12 Months MVR	1 to 3 Years MVR	3 to 5 Years MVR	More than 5 Years MVR
Financial Assets							
Cash and Cash Equivalents	488,658,047	488,658,047	488,658,047	-	-	-	-
Balances with Maldives Monetary Authority	252,595,654	252,595,654	252,595,654	-	-	-	-
Investments Securities	1,892,299,188	1,893,414,785	939,214,785	943,192,641	11,007,359	-	-
Loans and Advances to Customers *	2,893,972,213	3,488,791,836	2,048,168,252	104,550,197	437,676,247	192,637,657	705,757,483
	5,527,525,102	6,123,460,322	3,728,636,738	1,047,742,838	448,683,606	192,637,657	705,757,483
Financial Liabilities							
Deposits from Customers	3,670,107,906	3,700,046,234	2,516,419,689	1,109,004,600	61,091,967	13,529,979	-
Lease Liability	13,825,281	18,094,650	1,228,481	5,633,624	11,232,545	-	-
Other Liabilities	9,260,230	9,260,230	9,260,230	-	-	-	-
Total Non-interest Earning Assets	3,693,193,417	3,727,401,114	2,526,908,400	1,114,638,224	72,324,512	13,529,979	-
Net Gap	1,834,331,685	2,396,059,208	1,201,728,338	(66,895,386)	376,359,094	179,107,678	705,757,483

* Gross Nominal cash flows reflect carrying amount without future interest

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30.3 Liquidity Risk (Continued)

Maturity analysis of assets and liabilities (Continued)

The table below shows the assets and liabilities analysed according to when they are expected to be recovered or settled.

	2023			2022		
Assets	**Within 12 months**	**After 12 months**	**Total**	**Within 12 months**	**After 12 months**	**Total**
Cash and Cash Equivalents	168,712,743	-	168,712,743	488,658,047	-	488,658,047
Balances with Maldives Monetary Authority	415,811,487	-	415,811,487	252,595,654	-	252,595,654
Investments Securities	1,849,652,271	-	1,849,652,271	1,881,291,829	11,007,359	1,892,299,188
Loans and Advances to Customers	2,642,237,007	501,667,640	3,143,904,647	1,557,900,826	1,336,071,387	2,893,972,213
Property and Equipment	-	453,700	453,700	-	640,925	640,925
Right-of-use Asset	-	12,033,550	12,033,550	-	13,294,316	13,294,316
Deferred Tax Asset	-	180,444,831	180,444,831	-	143,556,270	143,556,270
Other Assets	614,296	-	614,296	344,210	-	344,210
Total assets	5,077,027,804	694,599,721	5,771,627,525	4,180,790,566	1,504,570,257	5,685,360,823
Liabilities						
Deposits from Customers	3,295,212,812	234,035,872	3,529,248,684	3,595,485,960	74,621,946	3,670,107,906
Income Tax Liabilities	23,666,878	-	23,666,878	80,012,463	-	80,012,463
Lease Liability	5,229,135	7,576,027	12,805,162	4,750,412	9,074,869	13,825,281
Other Liabilities	13,390,545	-	13,390,545	12,359,549	-	12,359,549
Total liabilities	3,337,499,370	241,611,899	3,579,111,269	3,692,608,384	83,696,815	3,776,305,199
Net assets/ (liabilities)	1,739,528,433	452,987,823	2,192,516,256	488,182,182	1,420,873,442	1,909,055,624
Commitments and contingencies	713,025,225	-	713,025,225	684,555,683	-	684,555,683

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30 Financial Risk Management (Continued)

30.3 Market Risk

Market risk is the risk of losses in, on or off-balance sheet positions arising out of movements in prices affecting foreign exchange exposures, interest rate instruments and equity/debt instruments.

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.

Interest rate gap position of the non-trading portfolio of the Bank is given below:

As at 31st December 2023	Up to 3 Months MVR	3 to 12 Months MVR	1 to 3 Years MVR	3 to 5 Years MVR	More than 5 Years MVR	Non-Sensitive MVR	Total as at 31/12/2023 MVR
Financial Assets							
Cash and Cash Equivalents	-	-	-	-	-	168,712,743	168,712,743
Balances with Maldives Monetary Authority	-	-	-	-	-	415,811,487	415,811,487
Investments Securities	1,399,652,271	450,000,000	-	-	-	-	1,849,652,271
Loans and Advances to Customers	2,522,136,395	120,100,612	297,812,589	427,316,149	427,955,789	-	3,795,321,533
Total Financial Assets	3,921,788,666	570,100,612	297,812,589	427,316,149	427,955,789	584,524,230	6,229,498,034
Financial Liabilities							
Deposits from Customers	2,534,235,763	760,977,050	183,241,872	50,794,000	-	-	3,529,248,684
Lease Liabilities	1,622,725	4,802,986	5,695,242	684,209	-	-	12,805,162
Total Financial Liabilities	2,535,858,488	765,780,035	188,937,114	51,478,209	-	-	3,542,053,846
Interest Rate Sensitivity Gap	1,385,930,178	(195,679,424)	108,875,475	375,837,939	427,955,789	584,524,230	2,687,444,188

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30 Financial Risk Management (Continued)

30.3 Market Risk (Continued)

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

Interest rate gap position of the non-trading portfolio of the Bank is given below:

As at 31st December 2022	Up to 3 Months MVR	3 to 12 Months MVR	1 to 3 Years MVR	3 to 5 Years MVR	More than 5 Years MVR	Non-Sensitive MVR	Total as at 31/12/2022 MVR
Financial Assets							
Cash and Cash Equivalents	-	-	-	-	-	488,658,047	488,658,047
Balances with Maldives Monetary Authority	-	-	-	-	252,595,654	-	252,595,654
Investments Securities	938,099,188	943,192,641	11,007,359	-	-	-	1,892,299,188
Loans and Advances to Customers	2,048,170,252	104,550,197	437,676,247	192,637,657	705,757,483	-	3,488,791,836
Total Financial Assets	2,986,269,440	1,047,742,838	448,683,606	192,637,657	958,353,137	488,658,047	6,122,344,725
Financial Liabilities							
Deposits from Customers	2,486,481,361	1,109,004,600	61,091,967	13,529,979	-	-	3,670,107,906
Lease Liabilities	1,228,481	5,633,624	6,963,176	-	-	-	13,825,281
Total Financial Liabilities	2,487,709,842	1,114,638,224	68,055,143	13,529,979	-	-	3,683,933,187
Interest Rate Sensitivity Gap	498,559,598	(66,895,386)	380,628,463	179,107,678	958,353,137	488,658,047	2,438,411,538

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30 Financial Risk Management (Continued)

30.3 Market Risk (Continued)

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

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.

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

	2023		2022	
Net Interest Income	100 bp Parallel Increase MVR	100 bp Parallel Decrease MVR	100 bp Parallel Increase MVR	100 bp Parallel Decrease MVR
	37,953,215	(37,953,215)	34,887,918	(34,887,918)

Exposure to Currency Risk

Currency risk arises as a result of fluctuations in the value of a financial instrument due to changes in foreign exchange rates. There are set limits on position by currency and these positions are monitored on a daily basis.

The table below indicates the currencies to which the Bank had significant exposures as at 31st December 2023 and 2022 and the exposure of the total capital funds:

Foreign Exchange Position as at 31st December 2023

Currency	Spot			Overall Exposure	
	Assets MVR	Liabilities MVR	Net Assets / (Liabilities) MVR	In respective Foreign Currency	MVR
United States Dollar	2,928,030,285	2,900,389,496	27,640,789	2,403,638	27,640,789
Great Britain Pound	1,198,915	-	1,198,915	61,187	1,198,915
Euro	36,432,974	50,333,975	(13,901,001)	(817,393)	(13,901,001)
Sri Lankan Rupee	5,604,720	10,946	5,593,774	118,715,880	5,593,774
Singapore Dollar	133,066	-	133,066	11,524	133,066
Total Exposure	2,971,399,960	2,950,734,417	20,665,543	120,374,836	20,665,543

Foreign Exchange Position as at 31st December 2022

Currency	Spot			Overall Exposure	
	Assets MVR	Liabilities MVR	Net Assets / (Liabilities) MVR	In respective Foreign Currency	MVR
United States Dollar	3,060,104,628	2,964,811,853	95,292,774	6,179,817	95,292,774
Great Britain Pound	1,427,299	-	1,427,299	77,026	1,427,299
Euro	10,576,824	5,061,727	5,515,097	336,492	5,515,097
Sri Lankan Rupee	2,158,620	9,696	2,148,924	53,723,101	2,148,924
Singapore Dollar	656,978	-	656,978	57,378	656,978
Total Exposure	3,074,924,349	2,969,883,276	105,041,073	60,373,814	105,041,073

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

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30 Financial Risk Management (Continued)

30.3 Market Risk (Continued)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. This represents exposures the Bank has due to changes in the values of current holdings and future cash flow positions denominated in currencies other than the local currency.

Foreign currency	Impact on statement of comprehensive income	
	2023	2022
Strengthening of US$ by 1%	(276,408)	(952,928)
Weakening of US$ by 1%	276,408	952,928
Strengthening of Euro by 1%	1,390,100	(551,510)
Strengthening of Euro by 1%	(1,390,100)	551,510
Strengthening of GBP by 1%	(11,989)	(14,273)
Weakening of GBP by 1%	11,989	14,273
Strengthening of LKR by 1%	(55,938)	(21,489)
Weakening of LKR by 1%	55,938	21,489
Strengthening of SGD by 1%	(1,331)	(6,570)
Weakening of SGD by 1%	1,331	6,570

30.4 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 by 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.

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31 Operating segments

Operating segment is a component of the Bank that engages in business activities from which it may earn revenue and incur expenses, including revenue and expenses that relate to transactions with any of the Bank's other components, whose operating results are reviewed regularly by the Management Team headed by the Country Manager/ Chief Operations Manager to make decisions about resources allocated to each segment and assess its performance and for which are discrete financial information is available.

The bank has two strategic divisions which are reportable segments, namely:
01 Retail and corporate banking
02 Dealing and treasury

The following table presents the income, profit, asset, and liability information on the Bank's strategic business divisions for the year ended December 31, 2023 and comparative figures for the year ended December 31, 2022.

	Retail and Corporate Banking		**Dealing & Treasury**		**Total**	
	2023 MVR	**2022 MVR**	**2023 MVR**	**2022 MVR**	**2023 MVR**	**2022 MVR**
Operating income						
Interest income (loan and advance)	327,102,679	295,899,239	87,872,257	90,451,906	414,974,936	386,351,145
Fee and commission income	67,364,257	69,595,005	-	-	67,364,257	69,595,005
Net gains/(losses) from trading	8,422,099	6,709,869	-	-	8,422,099	6,709,869
Gross income	**402,889,035**	**372,204,113**	**87,872,257**	**90,451,906**	**490,761,292**	**462,656,019**
Interest expenses	(69,879,853)	(68,930,685)			(69,879,853)	(68,930,685)
Fees and commission expense	-	-				
Impairment charges and other losses	(56,597,263)	(25,305,551)	248,476	(2,625,045)	(56,348,787)	(27,930,596)
Operating expenses	(11,946,967)	(10,591,516)	-	-	(11,946,967)	(10,591,516)
Unallocated operating expenses and amortization	(21,230,379)	(22,611,315)	-	-	(21,230,379)	(22,611,315)
Total expenses	**(159,654,462)**	**(127,439,067)**	**248,476**	**(2,625,045)**	**(159,405,986)**	**(130,064,112)**
Segment result	**243,234,573**	**244,765,046**	**88,120,733**	**87,826,861**	**331,355,306**	**332,591,907**
Profit from operations					331,355,306	332,591,907
Income tax expense					(40,184,679)	(59,197,924)
Profit / Total comprehensive income for the year					**291,170,627**	**273,393,983**

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31 Operating segments (Continued)

	Retail and Corporate Banking		Dealing & Treasury		Total	
	2023 MVR	2022 MVR	2023 MVR	2022 MVR	2023 MVR	2022 MVR
Other information						
Segment assets	3,143,904,647	2,893,972,213	1,849,652,271	1,892,299,188	4,993,556,918	4,786,271,401
Unallocated assets					778,070,607	899,089,422
Total assets	**3,143,904,647**	**2,893,972,213**	**1,849,652,271**	**1,892,299,188**	**5,771,627,525**	**5,685,360,823**
Segment liabilities	3,529,248,684	3,670,107,906			3,529,248,684	3,670,107,906
Unallocated liabilities					49,862,585	106,197,293
Total liabilities	3,529,248,684	3,670,107,906	-	-	3,579,111,269	3,776,305,199
Total equity					2,192,516,256	1,909,055,624
Total equity and liabilities	**3,529,248,684**	**3,670,107,906**	-	-	**5,771,627,525**	**5,685,360,823**
Information on cash flows						
Net cash flow from operating activities	(454,163,020)	(414,068,034)	(163,215,833)	113,153,842	(617,378,853)	(300,914,192)
Net cash flow used in investing activities	-	-	24,643,305	(60,568,642)	24,643,305	(60,568,642)
Net cash flow from financing activities	(7,710,000)	(40,261,620)	-	-	(7,710,000)	(40,261,620)
Unallocated cash flows					769,158,291	890,402,501
					168,712,743	**488,658,047**

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32 Capital Management

The Bank is required to manage its capital taking into account the need to meet the regulatory requirements as well as the current and future business needs, stakeholder expectations and available options for raising capital.

Regulatory Capital

Capital Adequacy Ratio (CAR) is calculated based on the "MMA Regulations on Capital Adequacy - 2015/R-166". These guidelines require the Bank to maintain a CAR of not less than 12% (Tier I & Tier II) and core capital not less than 6% (Tier I) in relation to total value of its risk-adjusted assets.

As at 31st December	2023 (%)	2022 (%)
Core Capital (Tier I)	56%	31%
Total Capital (Tier I & Tier II)	66%	40%

33 COMPARATIVE FIGURES

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

34 EVENTS AFTER THE REPORTING DATE

No circumstances have arisen since the reporting date which require adjustments to/ or disclosure in the financial statements.

35 MANAGEMENT'S RESPONSIBILITY

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