

PRUDENTIAL REGULATION

**REGULATION ON ASSET CLASSIFICATION,
PROVISIONING AND SUSPENSION OF INTEREST**

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PART I: PRELIMINARY

- 1: Introduction** – This Regulation is issued pursuant to Section 66 of Law No. 24/2010 (Maldives Banking Act).
- 2: Title** – This Regulation shall be cited as "Regulation on Asset Classification, Provisioning and Suspension of Interest."
- 3: Application** – This Regulation applies to all Banks licensed under the Maldives Banking Act.
- 4: Commencement** – This Regulation shall come into effect on 25 August 2015.
- 5: Definitions** – The terms and expressions used in this Regulation shall, except where expressly defined below in this Regulation or where the context otherwise requires, have the same respective meaning as in the Maldives Banking Act (Law no. 24/2010):

(1) “**Act**” – means the Maldives Banking Act (Law no. 24/2010).

(2) “**bank**” – means a party holding a license or permit under the Act, to engage in the banking business; all or part of the banking activities listed in Section 25 of the Act.

(3) “**capitalized interest**” – means any accrued and uncollected interest which has been added to the principal amount of a loan at a payment date or at maturity; capitalized interest also includes unpaid interest which is refinanced or rolled-over into a new loan; for purposes of this regulation, capitalization of interest will not be permitted unless:

- (a) the borrower has the ability to repay the full debt (including principal and interest) in the normal course of business;
- (b) the capitalization of interest was anticipated at approval of the initial loan based on the borrower’s planned temporary lack of cash flow;
- (c) the debt is well-secured by the net realizable value of collateral security;
- (d) repayment, including all capitalized interest, is based on a reasonably ascertainable future event; and
- (e) the borrower can obtain funds from other sources at similar rates and terms.

For current accounts (overdrafts) and other loans or advances not having pre-established repayment programs or where interest is normally capitalized to the account, deposits to the account during a temporary period of diminished cash flow should be at least sufficient to cover accrued interest for the period.

(4) "**current market value**" – means that value determined by using valuation methods appropriate to the type of property being evaluated. For commercial and multi-use properties (combined residential/rental/commercial), current market value is the average of values determined using the (i) comparable sales approach, (ii) cost approach and (iii) income (discounted cash flows) approach; for residential property (mainly owner-occupied/non-rental) the value is the average of values determined by using the comparable sales and cost approaches. In the event that one of these valuation methods is not used for reasonable cause, the justification for excluding the method must be provided in the appraisal. The insured/insurable amount of property held as collateral is not acceptable as a substitute for current market value. The determination of current market value must be documented in writing, show assumptions, analyses and conclusions used, and be available for review by the MMA. As used herein, the term "current" means within a period of 36 months from the valuation date, for immovable properties; and 12 months from the valuation date, for movable properties.

(5) "**in the process of collection**" – means that collection of a debt is proceeding in due course in a timely manner either through:

- (a) legal action, including the enforcement of a judgment against the borrower; or
- (b) by collection efforts not involving legal action but which are reasonably expected to result in full repayment of the debt (including principal and all accrued interest) within 90 days, or in restoration of the debt to a current status through payment of all principal and interest which is due.

(6) "**loans**" or "**advances**" – means any direct or indirect advance of funds (including obligations as maker or endorser arising from discounting of commercial/business paper) which are made to a person on the basis of an obligation to repay the funds, or which is repayable from specific property pledged by or on behalf of a person.

(7) "**MMA**" – means the Maldives Monetary Authority established under the Law no. 6/81 (Maldives Monetary Authority Act).

(8) "**net realizable value**" – means that amount which a bank can reasonably expect to realize after discounting the value of collateral to current market value and deducting the reasonable and estimable costs of recovery and sale. Costs of recovery and sale typically include, but are not limited to: legal fees, appraisal costs, sales fees, insurance cover, maintenance, security, and any other expenses necessary to put the collateral in a saleable condition. Net realizable value must be documented in writing, show assumptions, analyses and conclusions, and be available for review by MMA.

(9) "**non-accrual**" – means that accrual of interest has been suspended and an asset has been placed on a cash basis for financial reporting purposes. Interest is no longer accrued on the books of the bank nor taken into income unless the borrower has paid the full amount of outstanding and unpaid interest in cash. Non-accrual assets include all assets which are non-performing unless an asset is both (i) well-secured and (ii) in the process of collection.

(10) **“non-performing”** – means that an asset is no longer generating income. For purposes of this regulation, the entire outstanding balance of an asset is considered “non-performing” when:

- (a) any portion of principal or interest is due and unpaid for 90 days or more; or
- (b) interest payments for 90 days or more have been capitalized, re-financed, or rolled-over into a new loan.

Current accounts (overdrafts) and other loans not having pre-established repayment programs are considered "non-performing" when any of the following conditions exist:

- (a) the debt exceeds the approved limit for 90 consecutive days or more;
- (b) the borrowing line has expired for 90 days or more;
- (c) interest is due and unpaid for 90 days or more; or
- (d) the account has been inactive for 90 days, or deposits have been insufficient to cover the interest that was capitalized during the period.

The entire principal balance outstanding (not just the sum of delinquent payments) is to be shown as “non-performing” for purposes of this regulation and when preparing and submitting financial returns to the MMA.

(11) **"provisions for loan losses"** – means a balance sheet account established through charges to 'provisions expense' in the income statement and against which uncollectible loans or portions thereof are written-off. Also referred to as "allowance for loan and lease losses." The account includes both “specific” and “general” provisions and is subtracted from gross loans for financial reporting purposes.

For purposes of this Regulation, provisions set aside for loans graded Substandard, Doubtful and Loss are considered "specific" provisions; provisions for loans graded Pass and Special Mention are considered “general” provisions.

(12) **“well-secured”** – means that a loan or advance is secured by:

- (a) collateral that can repay the full debt (principal plus accrued interest) through timely sale under an involuntary liquidation program; also, (i) proper legal documentation must be held, (ii) the collateral must have a "net realizable value" which covers principal, accrued interest, and costs of collection, and (iii) there can be no prior liens which prevent the bank from obtaining clear title; or
- (b) a guarantee from a financially responsible party where the beneficiary bank has performed proper financial analysis and determined that the guarantor is financially sound, well-capitalized, and able to honor the guaranty on demand; such guarantees must be (i) irrevocable and unconditional, (ii) payable on default of the borrower, and (iii) independently confirmed by the guarantor.

PART II: STATEMENT OF POLICY

- 1: Purpose** – The purpose of this regulation is to ensure that: (i) loans and advances are regularly evaluated using an objective grading system that is consistent with regulatory standards; (ii) the accounting treatment for accrued but uncollected interest on non-performing assets is consistent with international accounting standards and regulatory reporting requirements; and (iii) timely and appropriate provisions and write-offs are made to the loan loss provisions account in order to accurately reflect the condition and operations of the bank. It is also intended to promote well-reasoned, effective work-out plans for problem assets, and effective internal controls to manage the level of such assets.

- 2: Responsibility** – It is the responsibility of the board of directors of a bank to adopt a written loan policy and to establish a loan review process which accurately identifies risk, ensures the adequacy of provisions for loan losses, and properly reflects the condition and operations of the bank in required financial returns.

PART III: IMPLEMENTATION AND SPECIFIC REQUIREMENTS

- 1: Loan Review - (a) Frequency and reporting.** The board of directors shall cause a review to be made of the quality of its loan book on a regular basis, at least at the end of each calendar quarter. Reports of such reviews shall be made on a timely basis directly to the board of directors and shall include enough information for the board to identify problems and require bank officers to correct the problems in a timely manner.

Banks that have adopted policies and procedures for an internal loan review program, including the classification (grading) of loans and provisioning, that is different from the requirements of this standard, may continue to use their current system. However, for reporting purposes, banks must report loan classifications and provisions in accordance with the requirements, definitions and criteria as set forth in this Regulation.

(b) Objectives. The loan review function shall ensure that: (i) the loan portfolio and lending function conform to a sound, written lending policy which has been adopted and approved by the board of directors; (ii) executive management and the board of directors are adequately informed regarding portfolio risk; (iii) problem credits are promptly identified, classified, and placed on non-accrual in accordance with this regulation; (iv) fully adequate provisions are made to the loan loss provisions account; and v) write-offs of identified losses are taken in a timely manner.

(c) Committee. The loan review function shall be performed by a committee of not less than three persons, at least one of whom shall not be an executive director or a principal shareholder of the bank.

2: Suspension of Interest - (a) Transfer to non-accrual status. A loan or advance is to be placed on non-accrual if: (i) it is maintained on a cash basis due to deterioration in financial condition or paying ability of the borrower; (ii) full payment of principal and interest is not expected; or (iii) it is non-performing unless it is both well-secured and in the process of collection as defined in this regulation.

(b) Write-off of accrued interest. All interest which is accrued but not collected and still carried on the books shall be written-off by the end of the calendar quarter in which the loan is, or should have been, placed on non-accrual status, but in no event later than 90 days after being transferred to non-accrual status.

Interest which has already been taken into income and capitalized by increasing the principal amount of the loan or overdraft shall be reversed or written-off from the time the loan is, or should have been, placed in non-accrual status.

Interest which has accrued during the current calendar year shall be charged back against the current interest income account; interest accrued in prior calendar years shall be charged against the loan loss provisions account.

(c) Treatment of cash payments, and criteria for cash basis recognition of income. If a loan is on non-accrual and timely collection of full principal is in doubt, then any cash payments received shall be applied only to reduce principal. However, if the balance left on the books after a partial write-off of principal is considered fully collectible, then cash payments may be shown as interest income.

Where recognition of interest income on a cash basis is required or appropriate, the amount of income that may be shown is limited to the amount that would have been accrued on the book balance at the contractual rate. Any cash payments in excess of this amount (and not applied to the remaining book balance) shall be recorded as recoveries of prior write-offs until all such write-offs have been fully recovered.

In order to assert that a loan is fully recoverable, it must be supported by a current, properly-documented credit analysis, including evaluation of the borrower's historical repayment performance and any other relevant factors.

(d) Restoration to accrual status. A loan which is on non-accrual status may only be restored to accrual status when (i) no portion of principal or interest that is due remains unpaid (no arrears) and the bank expects full repayment of all remaining contractual principal and interest, or (ii) when the loan becomes both well-secured and in the process of collection.

For purposes of (i) above, the bank must have received repayment in cash of all delinquent principal and interest unless the loan has been formally restructured and qualifies for accrual status. Until a loan is restored to accrual status, cash payments received shall be handled as required in paragraph (c) above. In addition, if a restructured loan deteriorates and qualifies again for non-accrual status, then the loan must be returned to non-accrual status and treated accordingly.

(e) Treatment of multiple loans to one borrower. If a bank has multiple loans to a single borrower, and one loan meets the criteria for placing on non-accrual status, then the bank shall evaluate every other loan to that borrower and place other loans on non-accrual status if circumstances so require.

3: Classification of Assets – All loans and also other assets shall be classified using the classification grades and criteria provided below. Other classification grades may be used provided they can be correlated to the regulatory grades herein.

Significant departure from the primary repayment source normally will justify adverse classification even if a loan is otherwise current or supported by collateral value. Classification may also be justified if the original repayment terms were too liberal or if payment arrears have been cured by additional advances, modifying loan terms, restructuring or refinancing. Appendix A provides a loan classification matrix is for guidance in assigning classification grades.

The definitions herein for classification grades do not preclude assigning a more severe grade when a lower grade is justified based on the borrower's ability and willingness to repay. In cases where different grades may be assigned based on subjective criteria, the more conservative classification grade should be applied.

Finally, if a more severe grade is assigned to a loan or credit facility by examiners from the MMA during an on-site examination or at any other time, then the bank shall re-classify and maintain such loan or credit facility on its books at the assigned MMA grade until such time as a change to a different classification grade, either lower or higher, is warranted. Any change to a less severe classification grade shall be pre-approved in writing by the MMA.

(a) Pass, or Acceptable. Loans, or other assets, in this category are fully protected first by the current sound worth and repayment capacity of the obligor, secondly by collateral pledged, and are performing in accordance with contractual terms, and are expected to continue doing so.

(b) Special Mention. Loans, or other assets, in this category are currently protected and repayment is not yet jeopardized but exhibit potential weaknesses which, if not corrected, may weaken the asset or the bank's position at some future date. Such loans may be current or may be in payment arrears or past maturity but for periods of less than 90 days. Examples of credit weaknesses include, but are not limited to: inability to properly supervise due to an inadequate loan agreement; deteriorating condition or control of collateral; deteriorating economic conditions or adverse trends in the obligor's financial position which may, if not checked, jeopardize repayment capacity. Risk potential is greater than when the loan was originally granted; but this category should not be used as a compromise between Pass and Substandard.

Any asset which is in arrears 60 days or more but less than 90 days shall be classified as Special Mention, at a minimum.

(c) Substandard. Loans, or other assets, in this category are not adequately protected by the current sound worth and paying capacity of the obligor. The primary source(s) of repayment is not sufficient to service the debt, and the bank must look to secondary sources such as collateral, sale of fixed assets, refinancing, or additional capital injections for repayment. Substandard assets have well-defined weaknesses that jeopardize the orderly repayment of the debt. These assets may, or may not, be in arrears but carry more than a normal degree of risk due to the absence of current and satisfactory financial information or inadequate collateral documentation. There is also the distinct possibility that the bank will sustain some loss if the deficiencies are not corrected.

Any asset which is in arrears 90 days or more but less than 180 days shall be classified as Substandard, at a minimum.

Rescheduled/Restructured/Renegotiated loans shall continue to be classified Substandard unless (i) all interest in arrears is paid in cash at the time of renegotiation, and (ii) a sustained record of performance under a realistic repayment program has been maintained for at least six months. A sustained record means that all principal and interest payments are made according to the modified repayment schedule from the renegotiation date.

(d) Doubtful. Loans, or other assets, in this category have all the weaknesses inherent in Substandard assets plus the added characteristic that the assets are not well-secured. These weaknesses make collection in full, on the basis of currently existing facts, conditions, and value, highly questionable and improbable. The possibility of loss is high, but because of important and reasonably specific pending factors which may mitigate, the actual amount of loss cannot be fully determined. Pending factors may include a proposed merger, acquisition, or liquidation, a capital injection, perfecting liens on additional collateral, and refinancing plans. If pending events do not occur within 180 days and repayment must again be deferred pending further developments, a Loss classification is warranted.

Any asset which is in arrears 180 days or more but less than 360 days shall be classified as Doubtful, at a minimum, unless (i) the asset is well-secured, (ii) legal action has actually commenced, and (iii) the time needed to realize collateral does not exceed one year. Guarantees must be honoured within 90 days of call to preclude a Doubtful classification of the asset secured by such guarantee.

(e) Loss. Loans, or other assets, which are considered uncollectible or of such little value that their continuance as bankable assets are not warranted shall be classified Loss. Loss classification does not mean there is no recovery or salvage value; rather it is not practical or appropriate to defer writing off the asset even though partial recovery may be realized in the future. Losses shall be taken when identified as uncollectible and shall not remain on the books while pursuing long-term recovery efforts.

In some cases, a reduced carrying value for a distressed asset may require a partial write-down. Partial write-downs shall be made by a charge to the provision for loan losses account, and the remaining book value must be supported by tangible facts and reported in writing to the board of directors.

Any asset which is in arrears 360 days or more shall be classified as Loss. Guarantees must be honoured within 90 days of call to preclude a Loss classification of the asset secured by such guarantee. Any asset which is in arrears 720 days or more shall be written-off within 90 days. Write-off may be deferred only if the loan is: (i) well-secured; and (ii) legal action has commenced; and (iii) the time to realize collateral is less than one year.

Loans shall be written off by crediting "loans" and debiting the balance sheet account "provisions for loan losses". In no event should loan write-offs be taken directly to capital accounts or expensed in the income statement. (In the case of other assets, a credit should be made to the other asset account and a debit to "other operating expense".)

Loan write-offs shall include all interest that is accrued but unpaid. Current period interest which has accrued but is uncollected shall be reversed from the income account. Prior period accrued interest which has already been taken into income shall be written-off by crediting accrued interest and debiting the provisions for loan losses account. Ordinarily, loans classified as Loss and to be written off would have already been placed on non-accrual for interest with all accrued and unpaid interest reversed from income and credited to the "Interest in Suspense" account.

4: Treatment of Rescheduled / Restructured /Renegotiated Loans

- (a) A loan is considered restructured (or rescheduled, or renegotiated) when a bank grants concessions to a borrower because of a deterioration in the financial position of the borrower, or the inability of the borrower to meet the original repayment schedule. Such concessions include-
- new loan given to repay or replace existing loan;
 - roll-over of loan; or
 - modification of terms of the loan.
- (b) A bank shall document the basis for restructuring a loan including, at a minimum: (i) current financial and cash flow information; (ii) changes to borrower's operations; and (iii) additional security, if any, obtained.
- (c) If a loan is restructured and all overdue interest is paid by the borrower in cash at the time of restructuring, the restructured loan shall be classified Substandard. After payments have been made according to the restructured loan terms for a period of at least six months, the loan may be reclassified as appropriate, using the criteria in Part III paragraph (3), depending on the financial condition of the borrower and the ability to repay according to the restructured terms

If a loan is restructured but all overdue interest is not paid by the borrower in cash at the time of restructuring, the loan shall be classified according to the criteria in Part III paragraph (3). After payments have been made according to the restructured loan terms for a period of at least six months, the loan may then be reclassified using the criteria in Part III paragraph (3), depending on the financial condition of the borrower and the ability to repay according to the restructured terms

(d) If any portion of principal or interest of a restructured loan subsequently becomes 90 days or more in arrears, the entire loan shall be placed in non-accrual and remain so until all overdue principal and interest is brought current by payment in cash.

(e) Banking institutions must have in place policies approved by the board which define the circumstances and conditions under which a loan/financing may be rescheduled or restructured. The policies should address the controls to avoid 'ever-greening' of loans/financing, including situations where loans/financing may be rescheduled or restructured more than once, and provisioning policies with respect to such loans/financing.

5: Classification downgrades by MMA – If an asset is assigned by the MMA to a lower grade as a result of an on-site examination or otherwise, the bank shall (i) re-classify the asset on its books to the lower grade as assigned by the MMA, (ii) make provisions required for the grade, and (iii) maintain the asset at the lower grade until circumstances warrant a change, either higher or lower, to a different grade. Downgrades shall be made whenever circumstances require or if directed by the MMA; upgrades may only be made with prior written approval of the MMA.

6: Provisioning Requirements

(a) Provisions for loan losses. Each bank shall establish and maintain an account on the balance sheet entitled "provisions for loan losses" (alternately "allowance for loan losses") which account shall include both specific and general provisions. This provisions account shall be created by charges to provision expense in the income statement and shall be maintained at a level that is fully adequate at all times to absorb potential losses in the loan portfolio.

At the end of each calendar quarter, or more frequently if warranted, the board of directors shall cause management to evaluate the collectibility of all loans, including any accrued and unpaid interest, and shall require that appropriate entries be made to (i) accurately report earnings, and (ii) ensure that the provision for loan losses account is fully adequate to absorb potential losses. Management must maintain records to support their evaluations and shall make them available for inspection by examiners as requested.

The amount of provisions set aside for loans, whether evaluated individually or in a group or pool of similar loans, shall be determined by using the more conservative of (i) applicable International Accounting Standards (IAS) and disclosure requirements of International Financial Reporting Standards (IFRS), or (ii) the regulatory provisioning standards set forth in this regulation.

(b) Additions or reductions to provision for loan losses account. Additions to the provisions for loan losses account shall be made through charges to provision expense in the income statement. All loan write-offs shall be debited to the provision for loan losses account, and recoveries on loans previously written-off shall be credited to the same account. At no time shall any loan loss be written off (or recovery credited) directly to “current year profits” or “retained earnings” or to any other capital account.

(c) Specific Provisions for small loans. Banks may comply with the minimum specific provisioning requirements provided in (d) below for small loans classified as Substandard, Doubtful or Loss by pooling such loans according to classification grade and applying the minimum provisioning percentage to the aggregate total balances. The level of specific provisions for pooled loans shall be increased or decreased, as the case may be, not less than quarterly as the aggregate balances of the pools change.

For commercial banks, a small loan is a loan of MVR 50,000 or smaller.

(d) Treatment of Collateral. Collateral is a secondary source of repayment, and classification grades do not depend on the amount or quality of collateral pledged. Therefore, collateral is only used in determining the amount of provision for loans graded Doubtful or Loss. This is especially true where the validity, value and ability to realize collateral are questionable.

For loans graded Doubtful or Loss, the portion secured by the net realizable value of the security pledged against it may be subject to lower provisions as detailed in part (e) below; provided that the valuation of the security pledged is not older than 12 months for movable properties, and not older than 36 months for immovable properties, as defined under sub-paragraphs (4) and (8) of Part I paragraph (5) of this Regulation.

(e) Provisioning amounts. In determining the potential loss in specific loans, groups of loans, or in the aggregate loan portfolio, all relevant factors shall be considered including, but not limited to: current economic conditions, historical loss experience, delinquency trends, the effectiveness of the bank’s lending policies and collection procedures, and the timeliness and accuracy of its loan review function.

The following minimum provisioning amounts are to be maintained:

	Asset classification or grading	Provisioning if loan is classified based on arrears / objective factors		Provisioning if loan is classified based on subjective factors
		Secured ¹ portion of credit	Unsecured ¹ portion of credit	
i)	“Pass” or “Acceptable”	0.5%	0.5%	
ii)	“Special Mention”	3%	3%	3%
iii)	“Substandard”	20%	20%	A range of 10 to 20% based on severity of weakness or risk
iv)	“Doubtful”	25%	50%	50%
v)	“Loss” (360-719 days if based on arrears)	50%	100%	100%
vi)	“Loss” (720 or more days if based on arrears)	100%	100%	

Any loan, or portion thereof, which is, or should be, classified “Loss” and requiring 100% provisions, shall be written-off not later than 90 days after 100% provisioning is required.

If a home country regulator requires a higher provisioning amount than is required by the MMA, then the higher amount of the home country regulator shall be maintained and reflected on the books of the foreign bank or branch operating in Maldives.

If reliable data suggests that loss potential is higher and that larger provisions are warranted, or if applicable IAS or IFRS rules require a higher level of provisions, then the higher provisions shall be maintained. If a bank demonstrates to the satisfaction of the MMA that historical loss experience justifies lower provisions for specific types of loans, then the MMA may allow the lower provisions.

The above percentages shall be applied against the gross loan balance for all loans regardless if the loan is analysed on an individual basis or as part of a pool of loans. Suspended interest, if any, shall be deducted first.¹

(f) Exemption from provisioning requirement. The following are exempt from the provisioning requirements set forth in this Regulation:

^{1/} The “secured” portion of the loan is the amount covered by the net realizable value of the security pledged against it; the valuation not being older than 12 months for movable properties, and not older than 36 months for immovable properties. The “Unsecured” portion of the credit facility is the amount not covered thus by the net realizable value of the security pledged.

- (i) Any loan, or portion thereof, that is secured by cash, by a segregated deposit in the lending bank, by a security issued by Government, or an unconditional and irrevocable obligation or guarantee by Government to repay both principal and interest.
 - (ii) With MMA's approval, any loan or portion thereof, that is secured by an unconditional and irrevocable guarantee by a credit guarantee scheme.
 - (iii) With MMA's approval, any loan that is made from funds obtained under a scheme where the repayment by the bank to the scheme is contingent on the loan funds being repaid by the borrower to the bank (i.e., bank is liable to repay to the scheme only the funds it receives from borrower as loan repayment).
- (g) MMA Examiner review.** Each bank shall maintain records supporting the adequacy of the provisions for loan losses account. Such records shall be available for MMA review to assess the bank's loss estimation procedures, the quality of information on which estimates are based, and the adequacy of loan loss provisions. Upon review by MMA, higher levels of provisions may be deemed necessary for individual loans or groups of loans. In such cases, the bank will be advised that higher provisions are required, the amount, and the basis for such higher amount. If provisions are inadequate by more than $\pm 5\%$, adjusting entries will be required.

7: Reporting Requirements. Each bank shall submit to the MMA such returns as the MMA may require and in the form and frequency as the MMA may prescribe.

8: Power to temporarily extend deadline for compliance. The Board of Directors of the MMA has the power to grant flexibility for a reasonable period in cases where the MMA determines that there is valid reason for temporary non-compliance to any requirement under this regulation.

PART IV: CORRECTIVE MEASURES

1: Remedial measures and sanctions – If a bank, its administrators, or any other person associated with the bank violates any provision of this regulation, or fails to comply with the instructions and reporting requirements in this regulation, the MMA may take any one or more of the corrective measures or impose any administrative penalties as provided in the Act. Such measures and penalties may include, any or all of the following –

- (a) Issue a warning to the bank;
- (b) Enter into an informal agreement with the bank for correcting violations and any unsafe and unsound practices and conditions;

- (c) Issue an order to the bank requiring it to cease and desist from particular actions and further to take affirmative actions to correct violations and any unsafe and unsound practices and conditions;
- (d) Require the board of directors to inject additional capital funds;
- (e) Restrict the scope of activities of the bank including imposing limitations on any foreign exchange activities, granting of credit, making of investments, acceptance of deposits, borrowing of money, or other activities as the MMA may deem appropriate;
- (f) Suspend access to the credit facilities of the MMA;
- (g) Require the suspension or removal of any directors or executive officers;
- (h) Appoint an advisor or a conservator;
- (i) Impose an administrative penalty on the bank or any of its directors, executive officers or managers; or
- (j) Hold personally liable and seek restitution from, as the law allows, any directors, executive officers or major shareholders of the bank; or
- (k) Suspend or revoke the bank's license.

Questions relating to this regulation should be addressed to the Head of Financial Stability, of the Maldives Monetary Authority.

A combined assessment of financial condition and repayment history of a borrower should be used as an aid to arrive at an initial classification grade for a loan. Adjustments to the initial grade should then be made based on mitigating circumstances. The Loan Classification Matrix below provides criteria for assigning a preliminary classification grade.

LOAN CLASSIFICATION MATRIX			
Repayment History			
Financial Condition	<i>Strong</i>	<i>Fair</i>	<i>Unsatisfactory</i>
<i>Strong</i>	Pass	Special Mention	Substandard
<i>Satisfactory</i>	Special Mention	Substandard	Substandard
<i>Fair</i>	Substandard	Substandard	Doubtful
<i>Marginal</i>	Substandard	Doubtful	Loss
<i>Unsatisfactory</i>	Doubtful	Loss	Loss

Definitions: The definitions below are used in the Matrix above.

FINANCIAL CONDITION	
Strong.....	Borrower’s financial condition is of highest quality based on detailed, current financial statements; normal indicators of financial health indicate borrower is readily able to repay both principal and interest according to original terms of loan agreement.
Satisfactory.....	Borrower is financially stable but various aspects exist regarding the financial condition of the borrower that are less than first-rate, though generally minor in nature.
Fair.....	Borrower is financially stable but various unsatisfactory aspects exist regarding the financial condition of the borrower, some of which may be significant.
Marginal.....	Borrower is not financially stable and unsatisfactory aspects which are significant exist regarding the financial condition of the borrower.
Unsatisfactory.....	Borrower’s financial condition is highly unsatisfactory; liquidation or formal insolvency proceedings have begun or likely will commence shortly.

REPAYMENT HISTORY

Strong.....	Interest and principal are current (i.e., no arrears) and there is no evidence that the current loan balance includes any capitalized amounts of either principal or interest from previous loan roll-overs. A grace period of no more than 7 days may be allowed before payments are considered in arrears to allow for administrative errors on the part of borrower or the bank.
Fair.....	Interest or principal has historically been in arrears for more than 7 days but less than 30 days, or there is evidence of interest or principal capitalization.
Unsatisfactory.....	Interest or principal has been in arrears for more than 30 days, or there is evidence of equivalent rescheduling of payments or capitalization of interest.

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