MALDIVES MONETARY AUTHORITY

PRUDENTIAL REGULATION
No. 05-2009

ASSET CLASSIFICATION, PROVISIONING AND SUSPENSION OF INTEREST

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PART I: PRELIMINARY

1: **Short Title** – Asset classification and provisioning.

2: **Authorization** – The Maldives Monetary Authority (MMA) is authorized to issue regulations under Art. 36 read with Art. 29-34 of the MMA Act 1981 (MMA Act) in relation to prudential matters to be complied with by all banks and deposit-taking institutions (collectively 'banks'), or other persons as the regulation may specify.

3: **Application** – All banks and deposit-taking institutions licensed by the MMA to conduct banking business in the Maldives.

4: **Definitions** – Terms used within this regulation are as defined in the Act, as defined below, or as reasonably implied by contextual usage:

(1) **"bank"** – means all banks and deposit-taking institutions licensed by the MMA to conduct banking business in the Maldives.

(2) **"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.

(3) **"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. 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 12 months.

(4) **"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.

(5) **"loans and 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.

(6) **"net realizable value"** – means that amount which a bank can reasonably expect to realize after discounting the value of collateral to current market conditions 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.

(7) **"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 (as defined below) unless an asset is both (i) well-secured and (ii) in the process of collection.

(8) **"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 Bank.

(9) **"past due" or "overdue"** – means any asset for which:

(a) any portion of principal or interest is due and unpaid for 30 days or more; or
(b) interest payments equal to 30 days interest or more have been capitalized, refinanced, or rolled-over.

Current accounts (overdrafts) and other loans and advances not having pre-established repayment programs are considered "past due" when any of the conditions below exist:

(a) the debt exceeds the approved limit for 30 consecutive days or more;
(b) the borrowing line has expired for 30 days or more;
(c) interest is due and unpaid for 30 days or more; or
(d) the account has been inactive for 30 days, or deposits have been insufficient to cover the interest capitalized during the period.

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

(10) **"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 standard, 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.

(11) **“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** – This standard is intended 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: **Scope** – This standard applies to all loans and advances reflected on a bank’s balance sheet or reflected as off-balance sheet items.

3: **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 standard.

(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-back 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 is past due 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.

<u>Any asset which is past due 60 days or more but less than 90 days shall be classified as Special Mention, at a minimum</u>.

(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 past due 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.

<u>Any asset which is past due 90 days or more but less than 180 days shall be classified as Substandard, at a minimum</u>.

Renegotiated loans shall continue to be classified Substandard unless (i) all past due interest 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.

<u>Any asset which is past due 180 days or more but less than 360 days shall be classified as Doubtful, at a minimum, unless</u> (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 honored within 90 days of call to preclude a Doubtful classification.

(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 past due 360 days or more shall be classified Loss and written-off at the end of the current calendar quarter but not later than 90 days after first being identified as Loss. However, write-off may be deferred but 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. Guarantees must be honored within 90 days of being called to preclude Loss classification.

Loans classified Loss 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 Restructured Loans.** (a) A restructured loan includes any new loan to repay or replace any loan/s that is overdue, rescheduled, rolled-over, or otherwise modified because of deterioration in the borrower's financial condition or an inability to repay the loan according to the original terms.

(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 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 using the criteria above.

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 above. 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 above.

(d) If any portion of principal or interest of a restructured loan subsequently becomes past due 90 days or more, 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.

5: **Classification downgrades by MMA –** If an asset is assigned a lower graded 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 (ii) 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 Rf 50,000 or smaller. For leasing or finance companies, a small loan is a loan of Rf 25,000 or smaller.

(d) 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:

i)	for loans graded **"Pass"** or **"Acceptable"**	1% - General
ii)	for loans graded **"Special Mention"**	5% - General
iii)	for loans graded **"Substandard"**	25% - Specific
iv)	for loans graded **"Doubtful"**	50% - Specific
v)	for loans graded **"Loss"**	100% - Specific

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 graded Pass, Special Mention and Substandard regardless if the loan is analyzed on an individual basis or as part of a pool of loans. For loans graded Doubtful or Loss, the provisioning percentage shall be applied to the net exposure after subtracting the "net realisable value" of collateral security. Collateral shall be treated in accordance with paragraph (e) below. In all cases, suspended interest, if any, shall be deducted first.

In no event shall the provision amount be less than the amount required if the loan is graded in the next higher classification category. Thus, a loan graded Doubtful may not have a provision amount less than 25% of the gross loan balance.

Any loan, or portion thereof, that is secured by cash, by a segregated deposit in the lending bank, by a security issued by Govt., or an unconditional and irrevocable obligation or guaranty by Govt. to repay both principal and interest, is exempt from the provisioning amounts.

Any loan, or portion thereof, which is, or should be, classified "Loss" may be fully provisioned when the classification is, or should have been, assigned and shall be written-off at the end of the current calendar quarter but not later than 90 days after being classified Loss.

(e) 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 net realizable value of collateral shall be deducted from the loan balance before applying the provisioning percentages. In the case of real property collateral, the net realizable value may be deducted only if transferability of title is certain and an active market for the property exists. An "active market" means that a willing buyer and willing seller exist and a sale can reasonably be achieved within a period not exceeding one year.

In no event shall provisions for a loan classified Doubtful or Loss be less than the amount of provisions required if the loan were subject to the next higher classification level. For example, provisions for a loan classified Doubtful must be at least 25% of the gross loan balance (i.e. the provision amount required if classified Substandard.)

(f) 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 ±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.

PART IV: CORRECTIVE MEASURES

1: **Remedial measures and sanctions** – If a bank, its directors or managers violate any provision of this regulation in a willful, negligent or flagrant manner which results, or threatens to result, in an unsafe or unsound condition of the bank or that threatens the interests of depositors, creditors or the general public, or if the bank, its directors or managers fail 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 MMA Act. Such measures and penalties may include, but are not limited to, any or all 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 & 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) Suspend or require the removal of any directors, executive officers or managers;
(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.

1: **Effective date** – This regulation shall come into effect on 18th May 2009.

2: **Supersedence** – This regulation supersedes and replaces MMA Circular No: GM-8/96 Policy on Non-accrual of Interest, and Circular No: 9/96 Credit Risk Grading System and Loss Provision Requirements (April 25, 1996). This regulation will remain in effect until superseded or replaced. In case of conflicting provisions or interpretations between this regulation and any earlier circular or regulation, this regulation shall take precedence.

Questions relating to this regulation should be addressed to the Senior Executive Director, Financial Sector Division, Maldives Monetary Authority.

LOAN CLASSIFICATION (RATING) MATRIX APPENDIX A

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	***Strong***	***Fair***	***Unsatisfactory***
Strong	Pass	Special Mention	Substandard
Satisfactory	Special Mention	Substandard	Substandard
Fair	Substandard	Substandard	Doubtful
Marginal	Substandard	Doubtful	Loss
Unsatisfactory	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., not past due) 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 past due to allow for administrative errors on the part of borrower or the bank.
Fair	Interest or principal has historically been past due 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 past due for more than 30 days, or there is evidence of equivalent rescheduling of payments or capitalization of interest.