



REGULATIONS FOR BANKS AND FINANCIAL INSTITUTIONS

Maldives Monetary Authority
Malé

Regulations for Banks and Financial Institutions

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CONTENTS

Introductory	01
Acceptance of Regulations	01
Licenses	02
Financial Requirements and Limitations.....	04
Audit, Information and Inspection	13

MALDIVES MONETARY AUTHORITY

Regulations for Bank and Financial Institutions

INTRODUCTORY

These Regulations are made by the Board under the authority of Art. 36 read with Art. 29 to 34 of the MMA Act 1981 and shall come into effect on the July 1 , 1988.

ACCEPTANCE OF REGULATIONS

Every bank and financial institution in Maldives shall deposit with the Authority a signed copy of the following in token of acceptance of these Regulations.

“This is to confirm that as a condition for holding licence issued by the MMA under Art. 29 (1) of the _____ MMA _____ Law, the.....

(name of bank / financial institution.)

agrees to abide by the MMA Regulations for Banks and Financial Institutions as amended from time to time and such rules, orders, directions or guidelines as may be issued by the Authority.

Licenses

1. In accordance with the Article 29 Section (1) of Maldives Monetary Authority Act 1981 , a local financial institution shall not do business in Maldives or abroad , nor shall a foreign financial institution do business in Maldives, without a license granted by the Authority authorising the licensee to do such business. The license shall indicate the type of banking business licensee is authorised to do.
 - (1) (a) Any person who, at the effective date of this Regulation was doing banking business in Maldives and who already has obtained license from the Authority shall, within 90 days of that date, furnish the information required under Section 2(1) of this Regulation.
 - (b) A financial institution holding a license shall be subject to this Regulation.
2. (1) In order to obtain a license as a financial institution, an applicant shall apply in writing to the Authority and submit the following:
 - (a) an authenticated copy of the instrument under which the institution is organised;
 - (b) the address of its head office, and the name and address of every member of the board, and of its principal officers;
 - (c) such financial data as the Authority may require, which may be different for local and foreign financial institutions;
 - (d) full particulars of the business it proposes to do;

- (e) the location of the principal and other places of business in Maldives where it proposes to do business; and
 - (f) such additional information as the Authority may require.
- (2) The application and every document submitted in accordance with subsection (1) of this Section shall be signed by the members of the board of the applicant, or by any principal legally authorised to do so .
- (3) (a) In considering an application for a license, the Authority shall investigate the validity of the documents submitted, the financial status and history of the applicant, the character and experience of its management, the adequacy of its capital structure, the convenience and needs of the community it intends to serve, the operations it intends to do, and the earning prospects afforded by the area primarily to be served.
- (b) A financial institution shall not be granted a license under this section unless it fulfils the requirements specified in Section 4 (1) (a)(i) of this Regulation if it is a bank, or in Section 4 (1) (b) (i) of this Regulation if it is a credit institution. Those institutions to which licenses have already been granted prior to this Regulation shall fulfil the requirements specified in section 4 (1) (a) (i) of this Regulation, failing which the license may be revoked.
- (4) Within ninety days after the receipt of an application, or within 6 months after the receipt of any additional information required, the Authority shall (i) grant a licenses or (ii) inform the applicant that it refuses to grant a license, stating the grounds upon which the

refusal is based; provided that if the Governor certifies to the Authority that granting a license would not be in public interest of Maldives, no other reason for refusal need be given.

- (5) In granting a license, the Authority may impose conditions to be satisfied by the licensee in respect of the matters set forth in subsection 3 (a) of this Section. In the case of a foreign financial institution, without limiting the generality of the foregoing, the Authority shall require as a condition for the commencement of operations that there be filed with it:
 - (a) a duly executed instrument in writing appointing the Authority the agent of the institution upon whom all process, in any proceeding against it on a cause of action arising out of a transaction with its places of business in Maldives, may be served with the same force and effect as if it were organised in Maldives and had been lawfully served with process therein; and
 - (b) a written certificate of designation, which may be changed from time to time, specifying the name and address of the officer, agent , or other person in Maldives:
 - (i) to whom all process shall be forwarded by the Authority ; or
 - (ii) upon whom any process not served upon the Authority under subsection 5 (a) of this section may be served.

Financial Requirements and Limitations

3. (1) (a) Every financial institution shall maintain unimpaired capital, either paid-up if it is an incorporated local financial institution, or assigned, if it is a foreign financial institution, at least equal to the minimum amount specified either in Section 4 (1)(a)(i) or in Section 4(1)(b)(i) of this Regulation, as the case may be.
 - (b) For the purpose of computing the minimum required capital of a financial institution when such amount is prescribed in reference to liabilities, both capital and liabilities shall be of such kinds and computed in such manner as the Authority shall prescribe by regulation
- (2) (a) Every financial institution shall maintain a Reserve Account and, before any dividend is declared or any profit is transferred to the head office or elsewhere, shall transfer to the Account out of the net profits of each year after due provision has been made for taxation, a sum equal to not less than what is specified either in section 4 (1)(a)(ii) or in section 4(1)(b)(ii) of this Regulation, as the case may be.
 - (b) The Authority shall, from time to time, prescribe by regulation the method of computing the amount and form of the Reserve Account.
 - (c) The Reserve Account shall neither be reduced nor impaired;
Provided that the Authority shall permit a reduction when a transfer is made for the purpose of increasing the capital and provided further that the Authority shall permit an impairment of the Reserve Account when it is the only means of preventing an impairment of the capital, subject to

the decision of the Authority regarding the period during which the deficiency must be repaired.

4. (1) The following requirements shall apply in respect of a financial institution:

(a) Operating as a bank:

(i) All commercial banks shall maintain a minimum level of paid up capital, which is not less than RF. 30 million. Branches of foreign banks operating in the Maldives will meet similar minimum capital requirements through the assignment of allocation of equity capital into it's Maldives operation from the home country office. In addition, all commercial banks shall, at all times, maintain Capital Adequacy Ratio not less than 8 percent of risk-weighted assets.

(ii) there shall be transferred at the end of each financial year to its Reserve Account a sum equal to:

(A) not less than twenty five percent of its net profits until the balance in the Reserve Account is equal to one half the amount of its minimum required capital; or

(B) not less than fifteen percent of its net profits whenever the balance in the Reserve Account is equal to more than one half but less than the whole amount of minimum required capital;

(b) operating as a credit institution:

- (i) the minimum required capital shall be not less than the amount prescribed by the Authority by regulation in respect of the class of institutions to which the financial institution belongs; and
 - (ii) there shall be transferred each year to its Reserve Account a sum equal to not less than twenty-five percent of its net profits until the balance in the Reserve Account is equal to the amount of the minimum required capital.
 - (2) When the minimum required capital of a financial institution, as computed on the basis of its liabilities to the public, exceeds the amount of capital, the financial institution may, provisionally and subject to the approval of the Authority for such period as it may prescribe, include in computation of its capital any unimpaired balance in its Reserve Account in excess of the minimum required amounts that have been transferred to the Account under subsections (1)(a)(ii) or (1)(b)(ii) of this Section, as the case may be.
5. In making the calculations necessary to ascertain that a financial institution has complied with the requirements of Section 4 of this Regulation, allowance shall be made to the satisfaction of the Authority and of the auditor of the financial institution for the following items:
- (1) depreciation of assets and bad or doubtful debts (to be calculated at least once in each financial year);
 - (2) operating and accumulated losses, including accumulated depreciation and bad debts not yet written off;

- (3) preliminary expenses, representing expenses relating to organisation or extension or the purchase of business or goodwill, and including underwriting commission;
 - (4) such other items as the Authority may prescribe by regulation.
6. (1) Every bank, and every other financial institution to which this section has been made applicable by the Authority by regulation, doing banking business in Maldives, shall maintain not less than an amount of liquid assets as may from time to time be prescribed by the Authority through publication and written notice to each financial institution. In prescribing the amount the Authority may differentiate between classes of banks and credit institutions on a uniform basis. The amount shall be expressed as a percentage of the aggregate demand and time deposits and other liabilities of each financial institution specified for this purpose by the Authority Provided that this percentage shall not be less than ten percent; And provided further, that the Authority may specify a period during which surpluses and deficiencies in liquid assets may be averaged. For the purpose of this Section, the Authority may by regulation permit advances granted to a financial institution by any other financial institution or by an overseas branch or office of the same institution to be excluded from the computation of that institution's demand and time deposits and other liabilities.
- (2) Notices issued under this Section shall come into effect on the date specified, which shall be not earlier than twenty- one days after the issue date. The distribution of amounts between the classes of liquid assets enumerated in subsection (3) of this Section shall be made at the discretion of each financial institution: provided that the Authority may prescribe that up to

fifty per cent of the demand and time deposits and other liabilities of each financial institution shall be held in the form of assets set forth in subsection 3 (d) of this Section.

- (3) For the purpose of this section, "liquid assets" shall consist of freely transferable assets free from any charge or lien whatsoever consisting of the following:
- (a) notes and coins which are legal tender in Maldives;
 - (b) balances at the Authority except the required reserve and marginal required reserve established under Section 31 of the Maldives Monetary Authority Act 1981.
 - (c) net balance at financial institutions in Maldives and money at call in Maldives; **provided that if such balances are negative they will be subtracted from liquid assets;**
 - (d) treasury bills and other securities issued by the Government and maturing within 186 days;
 - (e) bills of exchange and promissory notes eligible for rediscount by the Authority, and warehouse warrants or their equivalent securing possessions of goods against which the Authority may grant advances, within the limits fixed by the Authority and in accordance with the Authority's evaluation;
 - (f) net balances at financial institutions including the offices and branches of a financial institution in such monetary areas as the Authority may approve for the purpose of this Section; **provided that the Authority may prescribe by regulation for the treatment to be accorded the balance or any portion thereof in respect of the head office of a**

financial institution or any other financial institution organised abroad; And provided further that if such balances are negative, they will be subtracted from liquid assets.

- (g) money at call in monetary areas approved by the Authority under paragraph (f) of this subsection, bills of exchange bearing at least two good signatures drawn on and payable at any place in the approved monetary areas, and treasury bills issued by the Government of a country in any such approved monetary areas and maturing within 186 days.
- (4) A financial institution shall be held to be in violation of this Section if:
- (a) it fails to furnish within a reasonable time any information required by the Authority to satisfy itself that the financial institution is observing the requirements of this section; or
 - (b) it allows its holding of liquid assets to be less than the amount which is from time to time prescribed by the Authority; or
 - (c) during the period of any such deficiency of liquid assets the financial institution grants or permits increases in its outstanding advances, whether by loans or overdrafts, or investments portfolio.
- (5) Any financial institution which allows its holding of liquid assets to be less than the amount which is from time to time prescribed by the Authority under this section, may be ordered by the Authority to pay a charge at an annual rate not exceeding by ten percentage points the highest rate fixed at the time by the Authority

pursuant to Section 32 of the Maldives Monetary Authority Act 1981 for any of its operations on the amount of the deficiency for so long as the failure continues . The charge shall be payable to the Authority on the date prescribed by the Authority and may be recovered by deduction from any balance of the financial institution with the Authority.

7. The assets in Maldives of every financial institution shall not be less in value than an amount representing such ratio in respect of its average demand and time deposits and other liabilities specified by the Authority payable in Maldives as may be prescribed by regulation of the Authority from time to time. The average demand and time liabilities shall be determined on a monthly basis.
8. No financial institution shall declare, credit or pay any dividend or make any other transfer from profits whenever such payment or transfer would result in an impairment of the capital or of the minimum required balance in its Reserve Account.
9. (1) No financial institution shall, directly or indirectly, except with the approval of the Authority, on such terms and conditions as the Monetary Authority may prescribe:
 - (a) grant to any person any advances or credit facilities or make any guarantee so that the total value of the advances, credit facilities and guarantees in respect of the person is at any time more than fifteen percent of the aggregate amount of the financial institution's unimpaired capital and the unimpaired balance in its Reserve Account; Provided that the limitation upon the foregoing transactions shall not apply if the transactions:

- (i) are upon, or with respect to, drafts or bills of exchange drawn in good faith against actually existing assets, or upon banker's acceptances or bills of exchange of the kinds and maturities authorised by regulation of the Authority, or upon commercial business paper actually owned by the person discounting or selling the paper with or to the financial institution and endorsed without limitation or guaranteed by such persons; or
 - (ii) are secured by collateral that has an ascertainable market value, and is fully covered by insurance, or otherwise having a value as collateral as found in good faith to be acceptable by an officer of the financial institution, of at least twenty percent more than the amount of the obligations secured thereby; or
 - (iii) represent loans to, or guaranteed by, Government, its institutions, agencies and local government bodies;
- (b) grant any advance or other extensions or guarantees of credit against the security of its own shares;
- (c) grant or permit to be outstanding advances or other extensions or guarantees of credit, unless they have been approved by a majority of the members of its board and have been notified in advance to the Authority,
- (i) to the member of its board, whether such advances, extensions or guarantees of credit are obtained by them jointly or severally;

- (ii) to any person in which it or any one or more of the members of its board has any interest as a director, partner, manager, agent or member or otherwise;
- (iii) to any person who has the power to vote more than ten per cent of any class of voting securities of the financial institution;
- (iv) to any person serving as an auditor under Section 10 of this Regulation or as an examiner under Section 11 of this Regulation;
- (v) to any person, whose relation to another financial institution in which a correspondent account is maintained, is within any of the categories described by (i) to (iv):
Provided that any such advances, extensions or guarantees of credit shall be made on substantially the same terms, including interest rates and collateral, as those prevailing for comparable transactions with other persons;
- (d) grant or permit to be outstanding to its officers and employees unsecured advances or other unsecured extensions or guarantees of credit, which in aggregate amount for any one officer or employee exceed the annual remuneration of such officer or employee;
- (e) engage in trade, except insofar as may be temporarily necessary in the conduct of its business or in the course of the satisfaction of debts due to it or as agent for the purchase and sale of stock on account of its customers;

- (f) purchase, acquire or lease real property except as may be necessary for the purpose of conducting its business as a financial institution, including provision for future expansion and housing its officers or employees; provided that:
 - (i) in respect of any real property held or leased by a financial institution prior to the commencement of this Regulation for purpose other than those referred to herein, a financial institution shall be allowed a period of five years in which to comply with this paragraph; and
 - (ii) a financial institution may accept security for a debt on any real or other property and in default of repayment may acquire the property through foreclosure proceedings in accordance with the applicable law, to be disposed of as soon as possible thereafter.
- (2) In the application of the limitations of the subsections (1)(a) and (c) of the Section, if the Authority determines that the interests of a group of two or more persons are so inter-related that they should be considered as a unit, the indebtedness of, and accommodation to, that group shall be combined and deemed to be in respect of a single person; Provided that a financial institution shall not be in violation of subsection (1)(a) or (c) of this Section solely by reason of the fact that the combined indebtedness and accommodation exceeds the limitation at the time of the determination, but the financial institution shall dispose of the indebtedness and terminate the accommodation of the group in excess of the limitation within the period prescribed by the Authority.

- (3) Any financial institution which, prior to the commencement of this Regulation, entered into a transaction incompatible with paragraphs (a) through (e) of the subsection (1) of this Section shall, within three months after the effective date of this provision, submit a statement thereof to the Authority and shall liquidate the transaction within the period prescribed by the Authority.

Audit, Information and Inspection

- 10.(1) Every financial institution shall appoint annually an auditor, who shall be a professionally qualified person satisfactory to the Authority and who shall make a report to the shareholders of the institution if it is incorporated, to the owners if it is another local financial institution, and to the head office abroad if it is a foreign financial institution, upon the annual balance sheet and accounts, and in every such report he shall state whether in his opinion the balance sheet and the profit and loss account are true and fair and properly drawn up, whether they exhibit a correct statement of the institution's affairs, and, if the auditor has called for explanation or information from the officers or agents of the institution, whether such is satisfactory.
- (2) In the case of a local financial institution the report of the auditor shall be read together with the report of the Board of Directors of the institution at the annual meeting of shareholders or other owners of the institution; in the case of a foreign financial institution the report shall be transmitted to the head office. A copy of the report shall be sent to the Authority.

- (3) If a financial institution fails to appoint an auditor satisfactory to the Authority, the Authority shall have the power to appoint an auditor. The remuneration of the auditor, whether appointed by the institution or by the Authority, shall be paid by the institution and, in the case of an auditor appointed by the Authority, shall be determined by the Authority in accordance with prevailing rates for such services in Maldives.
 - (4) No person having an interest in the financial institution otherwise than as a depositor and no director, officer, employee, or agent of a financial institution shall be eligible for appointment as auditor for the institution. Any person appointed as auditor who shall, after his appointment, acquire any interest or become director, officer, employee or agent of the institution shall cease his functions forthwith.
- 11.(1) The Authority shall cause an examination to be made of a financial institution or any of its affiliates in Maldives whenever in its judgement an examination is necessary or expedient in order to determine that the institution or affiliate is in a sound financial condition and that the requirements of law have been complied with in the conduct of its business.
 - (2) All expenses of, and incidental to, an examination shall be paid by the Authority.
 - (3) The Authority shall cause an examination to be made of the business of a moneychanger whenever in its judgement an examination is necessary or expedient in order to determine that the business is conducted in accordance with the applicable regulations.
- 12.(1) A financial institution or affiliate shall produce for the inspection of an examiner appointed by the Authority,

within the time specified by the examiner, all books, minutes, accounts, cash, securities, documents, and vouchers relating to its business in Maldives as may reasonably be required by the examiner within time specified by the examiner.

- (2) A money changer shall producer for inspection by the Authority the items and information specified by the Authority by regulation.
- (3) The refusal by a financial institution or affiliate or money changer to submit the books, minutes, accounts, cash, securities, documents, vouchers or other information required by the Authority, shall be evidence of a contravention for which the defaulting institution or affiliate, or both, or the money changer, as the case may be, shall be liable to pay a charge to the Authority in an amount not exceeding ten thousand Rufiyaa for every day during which the contravention continues. If any information supplied or item produced is false in any material particular, the institution or affiliate or both, or the foreign exchange dealer, as the case may be, shall be guilty of an offense and shall be liable upon conviction in a court of law to a fine not exceeding one hundred thousand Rufiyaa.

13.If in the opinion of the Authority an examination authorised under Section11(1) of this Regulation that the financial institution concerned is conducting its business in an unlawful or unsound manner or that its capital or Reserve Account is impaired or it is otherwise in an unsound condition, the Authority may:

- (a) require that such institution forthwith take such measures as the Authority may consider necessary to rectify the matter; and

- (b) with approval of the Governor:
 - (i) appoint a qualified person to advise the institution on the steps to be taken to rectify the matter, and shall fix his remuneration which shall be paid by the institution; or
 - (ii) suspend the license under this Regulation for a period not exceeding six months
- 14. The Authority may from time to time call for any information which it may require for the purpose of this Regulation from any financial institution about its operations, and those of its affiliates, in Maldives or from a local financial institution about its operation and those of its affiliates abroad.
- 15. The Authority may require financial institutions to furnish it periodically with a statement of (i) all credits granted to customers in excess of a sum to be prescribed by regulation and the extent of their utilisation and (ii) the acceptance of any collateral, with full particulars, during the period. The Authority may communicate to the financial institutions which have notified a credit or an application for credit in the name of a customer the overall amounts of credits opened and utilised by him and collateral given by him during the period.
- 16. At the request of a financial institution, the Authority may, at its discretion, extend from time to time any period within which the financial institution is obliged to furnish any document or information under this Regulation.

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