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Maldives: Technical Assistance Report-Financial Soundness Indicators Mission

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TECHNICAL ASSISTANCE REPORT—FINANCIAL SOUNDNESS INDICATORS STATISTICS MISSION

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TECHNICAL ASSISTANCE REPORT

MALDIVES

Financial Soundness Indicators Mission

(March 12–21, 2023)

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MEMBERS/PARTNERS (EDITABLE TEXT/AREA)

Maldives

Contents

Abbreviations and Acronyms

APD	IMF's Asia and Pacific Department
CDM	Concentration and distribution measures
CIB	Credit Information Bureau
CMDA	Capital Market Development Authority
DL	Domestic location basis
DTs	Deposit takers
FAS	Financial Access Survey
FSIs	Financial soundness indicators
2019 FSIs Guide	2019 Financial Soundness Indicators Compilation Guide
FAS	Financial access survey
FSIC	FSI – institutional coverage template
FSI-SR	Sectoral financial statements and memorandum series template
FSM	Financial Soundness Indicators Metadata
FVOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit and loss
FX	Foreign exchange
HHs	Households
IASs	International Accounting Standards
ICs	Insurance corporations
IFRSs	International Financial Reporting Standards
IMF	International Monetary Fund
LCR	Liquidity coverage ratio
MBS	Maldives Bureau of Statistics
MFS	Monetary and financial statistics
MMA	Maldives Monetary Authority
MMFs	Money market funds
MPAO	Maldives Pension Administration Office
MRPS	Maldives Retirement Pension Scheme
MVR	Maldivian Rufiyaa
NFCs	Nonfinancial corporations
NPLs	Nonperforming loans
NSFR	Net stable funding ratio
OCI	Other comprehensive income
OFCs	Other financial corporations
PFs	Pension funds
ROA	Return on assets
ROE	Return on equity
RWAs	Risk weighted assets
STA	IMF's Statistics Department
TA	Technical assistance

Preface

In response to a request from the Maldives Monetary Authority (MMA), a technical assistance mission from the Statistics Department (STA) was conducted during March 12–21, 2023, to assist the Maldives Monetary Authority (MMA) in compiling FSIs based on international standards as set out in the IMF's 2019 FSIs Compilation Guide (*2019 FSIs Guide*).

The mission held an introductory meeting, and a wrap-up meeting on key findings and recommendations with Mr. Ali Hashim, Governor. The mission also met Mr. Ahmed Imad, Deputy Governor; Ms. Idham Hussain, Assistant Governor; Ms. Mariyam Shifa, Assistant Governor; and other executives and staff from the MMA.

From the Capital Market Development Authority (CMDA), the mission met Fatimath Abdulla Kamaaluddheen, Deputy CEO and Abdullah Zakariyya, Director General. In addition, the mission met Aishath Hassan, Chief Statistician; and Sajida Ahmed, Statistician from the Maldives Bureau of Statistics (MBS).

The mission would like to thank the Maldivian authorities and the MMA staff for their excellent cooperation during the course of the mission.[1]

[1] The list of officials met during the mission is in Annex I.

Summary of Mission Outcomes and Priority Recommendations

At the request of the Maldives Monetary Authoriy (MMA), and with the support of the International Monetary Fund's (IMF's) Asia and Pacific Department (APD), a financial soundness indicators (FSIs) technical assistance (TA) mission visited Male, Maldives, during March 12–21, 2023. Ms. Allkurti, Senior Economist in IMF's Statistics Department's (STA)'s Financial Institutions Division, participated remotely in this mission. The mission (i) reviewed source data, institutional coverage, and underlying accounting and regulatory frameworks used in the compilation of FSIs for DTs with a view to increasing reporting periodicity to monthly; (ii) assisted the MMA in mapping source data for the other financial corporations (OFCs) to new reporting templates in line with the *2019 FSIs Guide*; (iii) checked data availability to compile FSIs for nonfinancial corporations (NFCs) and households; (iv) updated FSIs metadata; and (v) agreed on a workplan to compile and report new FSIs to STA. The *2019 FSIs Guide* updates the methodological guidance on the concepts and definitions, data sources, and methods for the compilation and dissemination of FSIs. It includes new and updated indicators, including new FSIs on three OFCs subsectors (money market funds, insurance companies and pension funds).

This was the first STA mission focusing on FSIs for Maldives. The MMA currently compiles and timely reports to STA 14 core and nine additional FSIs related to deposit takers (DTs), and two additional FSIs on real estate markets. This mission assisted the MMA build technical capacity on the implementation of the *2019 FSIs Guide* recommendations on the current set of FSIs and expand FSIs coverage.

Currently the MMA compiles the FSIs for DTs using domestic location (DL) basis. The DTs sector comprise eight DTs with two domestically controlled, and six foreign controlled banks. For the insurance sector, the coverage includes five nonlife insurance corporations (NLICs). There are three non-MMF investment funds, one PF, and three other OFCs operating in Maldives.

The mission, in collaboration with the staff of the MMA, updated the existing bridge tables to compile FSIs for DTs and developed new ones for ICs, OFCs and households for reporting to STA. The mission helped the MMA compile FSIs on the size of the OFCs (including insurance corporations (ICs), pension fund (PF), and OFCs-other). In addition, the bridge tables covered the mapping of income and expense statement, balance sheet and memorandum/supervisory series for DTs and ICs to the new FSI templates. The mission compiled one additional FSI on households. This mission also assisted the MMA to fill-in in the institutional coverage (FSIC) and metadata (FSM) report forms.

The mission found that source data for compiling FSIs for DTs, and ICs are broadly adequate and generally meet the criteria established by the *2019 FSIs Guide* for publication on the FSIs data portal. The commercial banks operating in Maldives have already adopted the International Financial Reporting Standard 9 (IFRS 9). The capital adequacy ratios of banks followed mainly the Basel I framework. The definitions of nonperforming loans (NPLs) and liquid assets are reviewed during the mission and recommendations are provided to update the definitions in line with the *2019 FSIs Guide* and IFRS 9.

The mission identified areas for improvements in terms of data collection and methodological framework. These include remapping accrued interest receivable and payables to their respective financial instruments and institutional sectors; realigning the definition of customer deposits with the *2019 FSIs Guide*; updating the nonperforming loans coverage in line with the *2019 FSIs Guide* definition; updating the reporting templates of DTs to reflect the adoption of IFRS 9; and developing reporting instructions for ICs reporting.

The mission also recommends the publication of the new metadata and institutional coverage report forms (FSM and FSIC) accompanying the publication of FSIs. The contents of new Tables 2 and 3 of the metadata were broadly discussed and agreed with the staff of the MMA and are consistent with the requirements of the *2019 FSIs Guide*. The publication of the metadata would provide needed information on the structure of banking sector and the accounting and regulatory frameworks underpinning the production of the FSIs compared to the methodology of the *2019 FSIs Guide*.

A timeframe for reporting new FSIs to STA was also discussed and agreed on with the authorities. The authorities will start reporting updated and new FSIs data for DTs, ICs and OFCs using the bridge tables developed during the mission and finalize the contents of metadata and FSIC report forms by July 31, 2023, for review by STA before their final publication in the IMF's FSIs data portal by August 31, 2023.

To support progress in the compilation of FSIs in line with the *2019 FSIs Guide* and the dissemination of the data, the mission has prepared a detailed action plan. The priority recommendations are summarized in Table 1 below. Further details on the other recommendations and the related actions/milestones can be found in Detailed Technical Assessment and Recommendations and Detailed Action Plan.

Table 1. Priority Recommendations

Target Date	Priority Recommendations	Responsible Institutions
7/31/2023	*Finalize and report to STA for review the new FSI sectoral financial statements (FSI-SR template) with monthly data for DTs and quarterly data for ICs and OFCs beginning from September 2015, the new FSI institutional coverage (FSIC template) with annual data starting from 2015, and the new FSI metadata (FSM template).*	*MMA*
8/31/2023	*Start regular reporting to STA, for disseminating on the IMF's FSI data portal, of the new FSI-SR template with data beginning from September 2015, and the new FSIC template with annual data starting from 2015. Also report the new FSM template and update it as necessary.*	*MMA*

I. Detailed Technical Assessment and Recommendations

A. Action Plan

1. **The Action Plan below includes steps to accomplish milestones as well as the target completion dates.** Actions are prioritized as high (H), medium (M), low (L), and priority recommendations (PR) identified.

Priority	Action/Milestone	Target Completion Date
Outcome: A new data set has been compiled and disseminated internally and/or to the public		
PR	*Finalize and report to STA for review the new FSI sectoral financial statements (FSI-SR template) with monthly data for DTs and quarterly data for ICs and OFCs beginning from September 2015, the new FSI institutional coverage (FSIC template) with annual data starting from 2015, and the new FSI metadata (FSM template).*	*7/31/2023*
PR	*Start regular reporting to STA, for disseminating on the IMF's FSI data portal, of the new FSI-SR template with monthly and quarterly data beginning from September 2015, and the new FSIC template with annual data starting from 2015. Also report the new FSM template and update as necessary.*	*8/31/2023*
Outcome: Improved data and metadata accessibility		
H	*Document discrepancies related to the regulatory and supervisory framework in comparison to the Basel I framework and any methodological deviations from* 2019 FSIs Guide *in the metadata.*	*7/31/2023*
M	*Report the Herfindahl Index*	*7/31/2023*
M	*Collect data on OCI in line with the IFRS 9 implementation.*	*3/31/2024*
H	*Report the MRPS's total assets under 5.4 OFC-PF template until complete data on the financial statements and memorandum series on the pension fund are available to the MMA.*	*7/31/2023*
H	*The MMA and the CMDA collaborate to close the data gaps on non-MMF investment funds, financial auxiliaries and PFs.*	*3/31/2024*
H	*Sign a memorandum of understanding with the MBS on data sharing with respect to NFCs and households for the purposes of FSIs compilation.*	*12/31/2023*
H	*Expand the set of FSIs beyond financial sector with the indicators for NFCs and HHs.*	*12/31/2024*

Priority	Action/Milestone	Target Completion Date
Outcome: Improved periodicity, timeliness, and consistency of data		
H	*Compile FSIs using the mapping provided in the workbook developed by the mission*	*7/31/2023*
H	*Update the definition of NPLs in the Regulation on Asset Classification, Provisioning and Suspension of Interest to broaden the coverage in line with the* 2019 FSIs Guide *definition.*	*3/31/2024*
H	*Align reporting instructions with the implementation of the IFRS 9 asset classification and measurement requirements.*	*3/31/2024*
M	*Collect additional data to identify residential and commercial real estate loans in line with the* 2019 FSIs Guide *definitions.*	*3/31/2024*
M	*Develop detailed reporting instructions for ICs report forms to reduce the possibility of misreporting.*	*12/31/2023*
M	*Collect additional data to identify property for own use and property for investment under nonfinancial assets for ICs in line with the* 2019 FSIs Guide *definitions.*	*12/31/2023*
M	*Ensure consistency and accuracy of the reporting of reinsurance claims for ICs.*	*12/31/2023*
M	*In coordination with other relevant authorities, develop residential real estate price index to compile the core FSI on residential real estate prices.*	*7/31/2024*

B. Background

2. **Financial soundness indicators (FSIs) are indicators of the current health of a country's financial sector and of its corporate and household counterparts.** In this regard, the *2019 FSIs Guide* recommends compiling and disseminating 17 core and 12 additional FSIs for deposit takers (DTs), one core FSI on residential real estate prices, and 23 additional FSIs for other sectors. The IMF's FSIs data portal disseminates FSIs data and metadata for 148 countries. The data portal acts as a hub where users have a point of easy access to FSIs that comply with accepted methodological standards, promoting cross-country comparability.

3. **This was the first FSIs TA mission to Maldives.** Prior to the mission, the MMA has been compiling and reporting to STA quarterly FSIs for DTs for publication in the FSI data portal. The current FSIs were developed by the staff of the MMA with the knowledge acquired during their participation at the regional FSIs courses and workshops. The MMA also benefited from several TA missions on Monetary and Financial Statistics (MFS) to enhance updating the reporting framework to compile MFS.

4. The MMA also reports other financial sector data to STA. The MFS reporting covers the central bank, other depository corporations and OFCs using the STA's standardized report forms. The MMA also reports financial inclusion data in the context of IMF's Financial Access Survey (FAS). The MMA is a timely reporter of MFS and FAS data.

C. Overview of the Financial System in Maldives

5. The MMA is the central bank of the Maldives and the main regulator of the financial sector. The MMA supervises the commercial banks, insurance corporations (ICs), and other credit intermediaries. The Maldives Monetary Act of 1981 sets out the functions, responsibilities, and powers of the MMA.

6. The financial system of Maldives is diverse. It includes the central bank, deposit taking commercial banks, ICs, a PF, non-MMF investment funds, financial auxiliaries, and other financial intermediaries (housing development finance company, finance and leasing company and development finance company). As of December 2022, DTs had 88.5 billion MVR in total assets comprising 76.8 percent of financial sector assets (excluding the MMA). The pension fund and the insurance companies represent 17 percent and 2.4 percent of the financial system respectively. An overview of the structure of the entire financial sector is presented in Annex II.

7. Islamic financial institutions are growing in the recent years. The Maldives Islamic Bank operates in accordance with Islamic banking principles. The Bank of Maldives also provides Islamic banking services through Islamic window. Similarly, Amana Takaful company provides Islamic insurance activities and Allied Insurance Company provides Islamic insurance activities through Ayady Takaful – Islamic window. Also, Amna HDFC provides Islamic housing finance.

8. The Capital Market Development Authority (CMDA) established under the Maldives Securities Act No 2/2006 for developing and regulating the capital market in the Maldives. The CMDA has statutory powers to license securities market intermediaries including brokers, dealers, investment advisers, asset managers, custodians, credit rating agencies as well as stock exchanges and central depositories. The CMDA also has the mandate for supervision of the Maldives Retirement Pension Scheme (MRPS) under the Maldives Pension Act 8/2009.

9. The MMA implements a deposit insurance system where individual and corporate deposits at DTs are covered up to 30 thousand MVR. The MMA also houses a Credit Information Bureau (CIB) to develop and improve the efficiency of the financial sector. The CIB collects, compiles and collates customer information which is disbursed among the member institutions in the form of Credit Information Reports. CIB operates as a one-stop shop for repository of credit information.

D. Institutional Coverage and Consolidation Basis

10. FSIs for Maldives are compiled using a "domestic location" (DL) basis. The DL basis, defined in the *2019 FSIs Guide*, includes both domestic and foreign controlled, domestically incorporated DTs and domestic foreign bank branches. Since resident DTs operating in Maldives do not have resident or nonresident financial subsidiaries, there is no consolidation to be performed, and DL basis is appropriate for reporting.

11. The *2019 FSIs Guide* recommends including DTs in distress when they hold significant positions and to compile FSIs both including and excluding these DTs. There were no banks in liquidation during the FSIs coverage period as discussed in this report.

E. Accounting and Regulatory Frameworks Underlying the FSIs Data

12. All commercial banks have already adopted IFRS 9. Maldives Banking Act No 3/2015 requires banks to apply accounting rules in conformity with the International Accounting Standards (IAS). In accordance with IFRS-9, financial instruments should be valued at amortized cost, fair value through other comprehensive income (FVOIC) and fair value through profit and loss (FVTPL). However, reporting forms implemented by the MMA, specifically with regards to fair valuation approaches (FVOIC and FVTPL), are not fully in line with the IFRS 9 reporting.[2]

- Debt securities are categorized in the books of the reporting DTs as either "Trading" or "Other Than Trading."
- Debt securities held for "Other Than Trading" are to be reported at amortized cost.
- Investments that do not have readily determinable fair values are reported under Miscellaneous items.
- Shares categorized as "Other Than Trading" are reported at cost.
- Net unrealized gains (losses) on securities categorized as "Trading" and fair value gains and losses on derivatives are excluded from income and expense statement reporting.

13. A significant portion of debt securities held by the commercial banks are valued at amortized cost since they are held to maturity to collect interest and principal payments. This limits the impact of these differences on the reported financial statements.

14. The regulatory framework for compiling the capital adequacy ratios of banks follows Basel I Capital Accord. The MMA implemented certain adjustments to the Basel-I framework that has significant effect on the compiled FSIs as discussed below. The components of regulatory capital and risk-weighted assets (RWAs) are defined in the MMA's Regulation on Capital Adequacy. The deviations from the Basel framework and implementation practices for the foreign bank branches should be documented in the metadata.

- Tier 1 capital comprises permanent shareholders' equity, disclosed reserves and minority interests in the equity of consolidated subsidiaries.
- Tier 2 capital consists of year-to-date earnings (or losses), undisclosed reserves, asset revaluation reserves, general loan loss provisions (limited to 1.25 percent of risk-weighted assets), subordinated term debt (limited to 50 percent of Tier 1 capital), and hybrid debt-equity capital instruments.
- Total regulatory capital is the sum of the Tier 1 and Tier 2 capital (net of deductions).
- For branches of foreign banks assigned capital is taken into account as Tier 1 capital and net amounts due from head office and branches are excluded from capital.

[2] Deposit takers report a small share of their debt securities as "trading", however, currently there is no local secondary market for securities and MMA's repo facility is no longer active.

- Total RWAs are calculated in line with Basel I framework for credit risk with the following adjustments.
  - Foreign currency claims on Government of the Maldives are assigned a zero percent risk weight, as opposed to a 100 percent risk weight under Basel I[3]. Claims on banks are 20 percent risk weighted, without considering the maturity. Loans secured by residential property are assigned a 100 percent risk weight (50 percent risk weight under Basel I framework).
- Capital adequacy framework does not require capital for market risk and operational risk.

15. **The Basel regulatory framework is applied uniformly to all commercial banks, including Islamic banks.** The MMA requires DTs to maintain a 6 percent Tier 1 capital and 12 percent total regulatory capital (as opposed to 8 percent total regulatory capital requirement under the Basel-I framework).

16. **The MMA has not yet implemented the definition of capital component of Basel III (i.e., common equity Tier 1 capital definition), liquidity standards (liquidity coverage ratio (LCR) and net stable funding ratio (NSFR)), and Basel III leverage ratio (i.e., total exposure measure).** Accordingly, it was not possible to compile the following core FSIs: (i) Common equity Tier 1 capital to risk weighted assets; (ii) liquidity coverage ratio (LCR); (iii) net stable funding ratio (NSFR); and (iv) Basel III leverage ratio. The MMA plans to implement the LCR and NSFR liquidity standards by the end of the year.[4]

17. **The national definition of nonperforming loans (NPLs) is not fully in line with the *2019 FSIs Guide*.** The Regulation on Asset Classification, Provisioning and Suspension of Interest (No. 2015/R-168 - RACLLP) defines NPLs when (i) any portion of principal or interest is due and unpaid for 90 days or more; or (ii) interest payments for 90 days or more have been capitalized, refinanced, or rolled-over into a new loan. The FSIs Guide, however, in addition to the criteria above, requires loans to be categorized as NPL when evidence exists to reclassify them as nonperforming even in the absence of a 90 days past due payment. In accordance with the RACLLP, loans are classified as *nonstandard* when one or more contractual payments of interest or principal are past due for 90 days or more, or certain qualitative/subjective criteria are met.[5] Nonstandard loans must be classified in accordance with the "Substandard", "Doubtful" and "Loss" categories. Minimum specific provisioning requirements for "Substandard", "Doubtful" and "Loss" categories differ based on loan type, and currency (Table 2). The mission, for the purposes of compiling FSIs, considered substandard, doubtful and loss categories as NPLs. This definition has a broader coverage in comparison to the MMA's NPL definition as it considers both the qualitative and quantitative criteria.[6]

18. **The DTs started implementing IFRS 9 for the financial reporting purposes**. The Article 6 of the RACLLP requires banks to set aside higher provisions for the respective categories when the IFRS 9 provisioning requirements are higher. The MMA, however, has not started data collection dedicated to IFRS 9 implementation. Following the implementation of the IFRS 9 framework, DTs already set aside

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[3] As of December 2022, around one-third of the securities investments of the DTs constitute foreign exchange (FX) denominated debt securities issued by the Government of the Maldives, with the ratio varying significantly across DTs.

[4] Any major deviation from the Basel framework should be reported in the FSIs metadata.

[5] For qualitative/subjective criteria see the Regulations on assets classification and loan loss provisioning.

[6] The MMA implemented forbearance measures to mitigate the negative impact of the COVID-19 pandemic on the economy and macroeconomic stability starting in March 2020. These measures included reduced minimum reserve requirements and provisioning requirements, and moratorium for borrowers adversely affected by the pandemic. These forbearance measures were likely to affect FSIs such as nonperforming loans (NPLs), and profitability ratios during the implementation period.

specific provisions for impaired assets (under substandard, doubtful and loss categories). The mission identified inconsistencies in the reporting of these specific provisions in the Schedule #4 on the Distribution of Loans & Advances by Arrears (i.e., in certain cases provisioning amounts exceeding loan amounts). The MMA should start to collect data to closely monitor provisions set aside for the IFRS 9 implementation.

Table 2. Loans Classification and Minimum Provisioning Requirements

	Secured portion	Unsecured portion	Provisioning if loan is classified based on subjective factors
Pass	0.5%	0.5%	
Special Mention	3%	3%	3%
Substandard	20%	20%	10–20%
Doubtful	25%	50%	50%
Loss – < 720 days past due	50%	100%	100%
Loss – >= 720 days past due	100%	100%	

Source: MMA

19. **The treatment of accrued interests on national definition of NPLs are in line with the *2019 FSIs Guide*.** The MMA requires loans to be placed on non-accrual status when classified as NPLs. However, due to narrow definition of NPLs, substandard loans based on subjective criteria may still continue to accrue interest, as they are not covered under the MMA's NPL definition.

Recommendations

- Document discrepancies related to the regulatory and supervisory framework in comparison to the Basel I framework *and any methodological deviations from 2019 FSIs Guide in the metadata*.
- Update the definition of NPLs in the Regulation on Asset Classification, Provisioning and Suspension of Interest to broaden the coverage in line with the *2019 FSIs Guide* definition.
- Align reporting instructions with the IFRS 9 asset classification and measurement requirements.

F. Source Data

20. **Source data for DTs and ICs are broadly adequate to compile the FSIs.** For NFCs and households (HHs), however, the MMA does not collect data directly from the corresponding sectors.[7] The source data to compile FSIs for DTs and ICs cover income and expense statements, the balance sheets and memorandum series that are collected from the regulated entities on a monthly basis, with the exception of income and expense statements for ICs which are quarterly. Supervisory data for DTs and other financial intermediaries are collected and compiled by the Banks and Other Financial Institutions Division while the supervisory data for ICs are collected and compiled by the Insurance Division.

[7] The mission discussed in detail the possible data sources to compile FSIs for NFCs and HHs.

21. The MMA provides the banks with comprehensive reporting instructions. Reporting templates for DTs cover other supervisory series such as capital adequacy, asset quality, loans by sectors, maturity gap and net open positions in FX. However, the reporting instructions for ICs are not readily available, increasing the risk of misreporting and inconsistency in implementation across ICs. The work is ongoing on the preparation of reporting instructions for the ICs reporting templates.

22. The supervisory reporting practices to the MMA are timely. The report forms for DTs, ICs, PF and other financial intermediaries are reported to the MMA within 10 days after the end of the period.

Recommendations

- Develop detailed reporting instructions for ICs report forms to reduce the possibility of misreporting.

G. Compilation Framework

23. Currently the staff of MMA compiles FSIs using automated Python programming language codes to aggregate the data from the call reports. The codes should be revisited based on the mapping suggested by the mission to reflect the changes to the *2019 FSIs Guide* methodology.

24. The mission worked with the staff of the MMA to compile core and additional FSIs for the financial sector. The mission worked with the MMA staff to update bridge tables to compile the core and additional FSIs for DTs in line with the *2019 FSIs Guide* methodology. The mission also assisted the MMA staff to develop new bridge tables to compile the additional FSIs for ICs, two FSIs on the size of the OFCs sector, and one additional FSI for households. This process involved mapping source data to tables 5.1 DT, 5.3 ICs, 5.3.2 ICs – nonlife insurance corporations, 5.6 HHs - households, and 5.7 OFCs of the FSI-SRs template and deriving the FSIs from the underlying data in FSD sheet. The bridge tables show where each item in the income and expense statement, balance sheet and memorandum series are classified, serving as a useful reference for compilers. The compilation spreadsheets, including the bridge tables for DTs and ICs were provided to the MMA. The use of the bridge tables will facilitate the automation for the compilation of the FSIs for DTs, ICs, OFCs, and HHs.

25. The mission worked with the MMA on the mapping of monthly reporting templates for DTs and expanded the list of the FSIs that are reported to STA beyond DTs. The list of new FSIs compiled comprise one additional FSI for DTs (spread between reference lending and deposit rates), two additional FSIs on the size of the OFCs sector (with additional disaggregation for the insurance, pension fund, and OFCs other subsectors), three additional FSIs for the ICs, and one additional FSI on HHs. The FSIs for DTs are to be compiled and reported to STA on a monthly basis, and the ICs, OFCs and HHs on a quarterly basis.

26. There are certain differences between the existing FSIs compiled by the MMA and those developed during the mission. The FSIs compiled by the mission are based on the recommended compilation methodologies of the *2019 FSIs Guide.* The differences between the existing FSIs compiled by the MMA with the FSIs compiled during the missions are explained in Annex IV.

Deposit takers

Sectoral financial statements

27. The mission assisted the MMA staff to update the bridge tables to compile FSIs for DTs. The income and expense statement data aggregated by the MMA accumulates the flows from the beginning of the year until the end of the reporting period as recommended by the *2019 FSIs Guide*. Compared to the current framework, a number of adjustments are made in the income and expense statement and sectoral balance sheet (see Annex V). The bridge tables developed during the mission include these reclassifications.

28. The mapping of noninterest income lines was revised. Fees and commissions receivable and gains and losses on financial instruments data are identified using the reporting instructions. The mapping needs to be revisited once the reporting instructions are updated to reflect the implementation of the IFRS 9 framework.

29. Consistent with the approach adopted by *2019 FSIs Guide,* the mission reclassified extraordinary profits/losses to other income/expenses respectively. The *2019 FSIs Guide* follows IAS1 which no longer allows the reporting of extraordinary items in the presentation of profit or loss.

30. The *2019 FSIs Guide* recommends that countries report OCI as an additional line item in their income and expense statements. The OCI consists mainly of revenues, expenses, gains, and losses that are excluded from net income on the income statement as well as unrealized gains and losses on financial instruments that are categorized under FVOCI. The MMA currently does not collect data on OCI as recommended by the *2019 FSIs Guide*.

31. The mission clarified the annualization of net income before tax and the averaging of total assets and capital and reserves in the computation of return on assets (ROA) and return on equity (ROE). The *2019 FSIs Guide* recommends using net profit before tax for the calculation of the ROA and net income after tax for ROE. Accordingly, ROA is calculated using the annualized net income before tax divided by average total assets, while ROE is calculated using the annualized net income after tax divided by total equity. The preferred methods for annualization and averaging of monthly data were explained to the staff of the MMA as follows:

- Annualizing net income before/after tax reported on a cumulative basis:

$$ANI_m = \frac{12 * NI_m}{m}$$

  where ANI is the annualized net income (before/after tax), NI is the net income (before/after tax), and m is the month of reporting.

- Averaging total assets and capital:

$$ATA_{y,m} = \frac{TA_{y-1,12} + \sum_{j=1, m\le 12}^{m} TA_{y,j}}{m+1}$$

where ATA is the average total assets, TA is the total assets, m is the month and y is the year of reporting. The same formula applies to the averaging of capital.

32. **In line with the *2019 FSIs Guide,* accrued interest receivable and payable were mapped to corresponding financial instruments in the assets and liabilities.** Before the mission, the MMA reported accrued interest receivable under other financial assets and accrued interest payable under other liabilities. Source data on accrued interest receivable/payables were sufficiently granular to allow for their proper reclassifications. The mission also identified and discussed with MMA staff inconsistencies in the reporting of the accrued interest data that needs to be further investigated.

33. **The mission mapped deposits with domestic and foreign banks on the asset side of the balance sheet to interbank loans.** This is in line with the recommendation of the *2019 FSIs Guide,* which states claims of one DT on another are excluded from deposits and are instead recorded as interbank loans. This update has an important effect on the presentation of the balance sheet and certain FSIs, including the NPL ratio.

34. **The specific provisions that are side aside based on subjective factors were moved from *general and other provisions* to *specific provisions* on the asset side as a contra item.** These specific provisions are the ones set aside for the loans categorized as substandard, doubtful, or loss based on the qualitative criteria (either following the MMA supervision or excess provisions through the implementation of the IFRS 9 framework).

35. **The mapping for customer deposits was revised.** The *2019 FSIs Guide* defines customer deposits as all deposits placed by residents or nonresidents, except those placed by (resident or nonresident) financial corporations, central governments, or central banks. Consistent with the definition of customer deposits in the *FSIs Guide*, deposits from the other financial corporations, and central and local government were excluded from customer deposits and mapped to other currency and deposits.

Memorandum and Supervisory Series

36. **The national definition of large exposures is not fully in line with the *2019 FSIs Guide.*** Large exposures are defined in the *Regulation on Single Borrower and Large Exposures Limits* No 2015/R150. The aforementioned regulation defines large exposures as any exposure to a single borrower, a group of related borrowers, or to a borrowing group; which in total, equals or exceeds 10% of a bank's total regulatory capital. The *2019 FSIs Guide*, on the other hand, in line with the Basel Committee on Banking Supervision's standard on *Supervisory framework for measuring and controlling large exposures*, defines large exposures based on DT's Tier 1 capital. The divergence in the definition, and the exposures exempted, which reduces the amount of reported large exposures, as opposed to the *2019 FSIs Guide* should be disclosed in the metadata.

37. **The MMAs approach for compiling the net open position in foreign exchange is broadly in line with the *2019 FSIs Guide* methodology.** The *2019 FSIs Guide* recommends the net open position in foreign exchange to be calculated by adding the absolute value of the open position in gold to the largest of the short or long open position in foreign currencies. The aggregation methodology across currencies follows the shorthand method explained in paragraph 7.83 of the *2019 FSIs Guide*. The

MMA's methodology is in line with the shorthand method and includes on balance sheet and off-balance sheet positions but the net open position in gold is not included in the calculation. The mission confirmed with the MMA staff that banks do not carry gold positions. The MMA allows banks to establish structural positions and deduct such positions from the open position calculation for USD. Currently two banks implement this approach.[8]

38. The liquid assets figures were updated in line with the *2019 FSIs Guide* definition of liquid assets. The updated definition include cash, balances at depository institutions, and debt securities with a remaining maturity of 3-months or less. The MMA excludes required reserves (both in MVR and USD). While the FSIs Guide allows all securities that are traded in liquid markets to be included in the definition of liquid assets, considering the illiquidity of the secondary market, the mission advised including only the portion of securities with a remaining maturity of 3-months or less (using the maturity gap schedule). Going forward, the MMA could consider updating the definition if the liquidity in the secondary market for securities improves significantly. Short-term liabilities comprise all liabilities maturing within three months based on the maturity gap schedule.

39. The FSI on spread between reference lending and deposit rates was compiled during the mission. The reference lending and deposits rates were recalculated using average lending and deposit rates of the commercial banks. The Islamic bank's data are excluded from the calculations. The weighted average lending rate is based on loans issued to private nonfinancial corporations and households.

40. The *2019 FSIs Guide* defines loan concentration by economic activity (a new FSI) as the ratio of DTs' lending to the largest three economic activities, as a proportion of their total gross loans to nonfinancial corporations (NFCs). The *2019 FSIs Guide* suggests using the UN International Standard Industrial Classification of All Economic Activities, Rev 4 (ISIC Rev.4) at its highest level of aggregation to classify loans by sectors. The MMA reporting template on distribution of loans and advances by economic sector (Schedule #2) allows data collection on sectoral distribution of loans but is not following the ISIC Rev 4 classification. This report form provides data on nine different sectors of the economy including Agriculture, Fishing, Manufacturing, Construction, Real Estate, Tourism, Commerce, Transport and Communication, Electricity, Gas, Water and Sanitary Services. Further alignment of the sector classifications with ISIC Rev4 would ensure consistency with *2019 FSIs Guide*. In the meantime, the *2019 FSIs Guide* requires national sectoral classification approach to be documented in the metadata, when different from ISIC 4. As of the mission date, Tourism, Commerce, Transport and Communication sectors constitute the three largest exposures.

41. The mission compiled the new credit growth to private sector FSI. Credit to private sector data provided by the MMA is consistent with the *2019 FSIs Guide as* they include gross loans extended by DTs to the nonfinancial private sector (private nonfinancial corporations, HHs and NPISHs) and debt securities exposures issued by private nonfinancial corporations.

***42.* The MMA's reporting templates do not allow broad coverage of residential real estate loans and commercial real estate loans.** The *2019 FSIs Guide* defines residential real estate loans as

[8] Any positions which DTs have deliberately taken in order to hedge partially or totally against the adverse effect of the exchange rate on their capital ratios (structural positions) may be excluded from the calculation of net open currency positions. See Comprehensive Basel-II standard Para 718(xxxvii) for the treatment of structural positions and Para 718(xL) for the method for measuring the foreign exchange risk.

loans that are collateralized by residential real estate, and commercial real estate loans as loans that are collateralized by commercial real estate, loans to construction companies, or loans to companies active in the development of real estate. The MMA collects residential real estate loans based on loans where the primary purpose is housing. Therefore, identification of all loans that are collateralized by residential real estate was not possible. Similarly, commercial real estate loans where proceeds were used for purposes other than the purchase of the property, or construction, or refurbishment of improvements are excluded from the reporting line but categorized under appropriate sectors according to the actual use of the loan proceeds. In line with the *2019 FSIs Guide* definition, construction loans are added to the mapping for the commercial real estate loans. The MMA should collect additional data to compile residential and commercial real estate loans data series fully in line with the *2019 FSIs Guide* methodology.

43. **The MMA does not collect data that would allow compilation of the FSI on geographic distribution of loans.** To identify the geographical distribution of loans, claims are attributed to economies based on the residency of the entity on which DTs have claims. The suggested regional grouping of countries is provided in Annex 8.2 of the *FSIs Guide* which is based on the regional classification provided in the IMF's World Economic Outlook (WEO). The MMA should consider collecting data on geographical distribution of loans if operations of the DTs incorporated in Maldives expand abroad.

Recommendations

- Collect data on OCI in line with the IFRS 9 implementation.
- Collect additional data to identify residential and commercial real estate loans in line with the *2019 FSIs Guide* definitions.

Insurance corporations

44. **In collaboration with the staff of the MMA, the mission developed a bridge table that automatically generates the FSIs for ICs for reporting to STA on a quarterly basis.** The ICs cover five NLICs, where only one offers both life and non-life insurance. The insurance laws and regulations require the ICs to produce separate sets of financial statements for their life and non-life operations. However, as there are no LICs and the size of the life insurance activities of the NLIC is negligible, the mission agreed with the MMA staff not to report separate FSIs for LICs. The MMA will monitor the size of the life insurance activities and will start reporting the LIC template (Table 5.3.1) if these activities become significant in size. For the purpose of constructing the bridge table, the income and expense statements and sectoral balance sheets of NLICs were mapped to Table 5.3.2 OFC_NLIC of the FSIs-SRs. Further improvement in collection of disaggregated data on components of income and expenses would improve their current classifications although this does not have direct effect on the FSIs compiled.

45. **The classifications of financial instruments and economic sectors are broadly adequate to compile the sectoral balance sheet for ICs.** To ensure consistency with the *2019 FSIs Guide*, the mission classified accrued interest receivables and payables to their respective financial instruments and sectors, effective from September 2015. Source data on accrued interest receivable/payables are sufficiently granular to allow for their proper classifications. Nonfinancial assets include both property for own use and also property held for investment purposes, generally real estate. The current balance sheet form does not allow for proper disaggregation of nonfinancial assets for property for own use and property for investment, as recommended in the *2019 FSIs Guide*. The MMA is in the process of reviewing the current reporting forms, therefore, inclusion of additional lines on property use will increase harmonization with the suggested balance sheet structure in the *2019 FSIs Guide.*

46. The income and expense statements for ICs are not available monthly, which necessitated quarterly reporting of ICs indicators. The MMA collects monthly balance sheets from ICs for compilation of monetary statistics and quarterly balance sheets and income and expense statements for supervision purposes. The quarterly balance sheet data collected for supervision purposes provides additional data on reinsurance recoverable and reinsurance claims. The data quality, however, needs improvement. The NLICs report reinsurance recoverable and reinsurance claims interchangeably, making it difficult to analyze the detailed time series. Detailed reporting instructions on the reporting of the income statement and balance sheet will increase the quality of the data.

47. The mission assisted the MMA staff to compile the new FSIs for ICs for reporting to STA on a quarterly basis, covering all three indicators relevant for NLICs:

- Shareholder equity to total invested assets: There are presently no agreed international standards to measure capital adequacy for ICs. This additional FSI provides a proxy to measure capital adequacy and leverage for ICs. This FSI is calculated by taking capital and reserves as numerator while the denominator is the sum of ICs' holdings of currency and deposits, loans, debt securities, equity and investment fund shares, other financial assets, financial derivatives and nonfinancial assets held for investment purposes.
- Return on equity (ROE): ROE measures the efficiency of the ICs to generate profits to absorb potential losses and new equity capital to sustain their core insurance business. It is calculated by using annualized net profit after tax divided by average capital and reserves of ICs. Annualization and averaging approach are the same for the DTs.
- Combined ratio: This ratio measures the profitability in a given year's insurance underwriting, calculated as the sum of net incurred losses and underwriting expenses divided by net earned premiums, expressed as a percentage. For nonlife insurers operating in a healthy market, this ratio should be less than 100 percent, indicating profitable underwriting.

Recommendations

- Collect additional data to identify property for own use and property for investment under nonfinancial assets for ICs in line with the *2019 FSIs Guide* definitions.
- Ensure consistency and accuracy of the reporting of reinsurance claims for ICs.

Pension funds

48. The Maldives Retirement Pension Scheme (MRPS) is classified as OFCs in the financial corporations' survey in IFS's publication. The MRPS is a defined-contribution scheme implemented under the Maldives Pension Act 2009. The MRPS assets are administered by the Maldives Pension Administration Office (MPAO). While set up as a social security fund, MPAO has its own revenues and does not depend on budget grants for its expenditures. There are no privately owned pensions funds operating in Maldives.

49. The MMA collects monthly balance sheet data from the MRPS, but income and expense statement data are not readily available. Source data on financial instruments and economic sectors are broadly adequate to compile the sectoral balance sheet (5.4 OFC_PF template) for the MRPS. Pending further collaboration between the MMA and the CMDA, MRPS's total assets was used to in the reporting templates to produce a comprehensive coverage of the financial sector for the compilation of the OFCs indicators (OFCs assets to financial system assets and OFCs assets to GDP).

Recommendations

- Report the MRPS's total assets under 5.4 OFC-PF template until complete data on the financial statements and memorandum series on the pension fund become available to the MMA.

Other Financial Corporations

50. The mission compiled two additional FSIs on the size of the OFCs sector in Maldives for reporting to STA on a quarterly basis. The two additional FSIs are: (a) OFCs' financial assets to total financial system assets and (b) OFCs' financial assets to gross domestic product (GDP), also disaggregated for ICs and PFs. There are no MMFs operating in Maldives. Total financial system assets comprise the total assets of DTs (Table 5.1), ICs (Table 5.3), PF (Table 5.4) and the remaining OFCs-subsectors (Table 5.7 line ii.iv). GDP figures are derived from the IMF's WEO database.

51. The MMA will work with the CMDA to close the data gaps with regards to non-MMF investment funds, financial auxiliaries and the pension fund. Currently, the MMA do not receive periodic financial information from the CMDA for the operations of these institutions, limiting the possibility of presenting a full picture of the financial sector. The MMA and the CMDA signed a memorandum of understanding (MoU) in 2014 to promote the integrity and financial soundness of licensed entities. While the MoU does not specifically cover data sharing practices for MFS and FSIs, the mission advised that the scope can be broadened for these purposes. The mission discussed with the MMA staff how the reporting would be updated once the data sharing practices are established.

Recommendation

- The MMA and the CMDA collaborate to close the data gaps on non-MMF investment funds, financial auxiliaries and PFs.

Nonfinancial Corporations and Households

52. The data available to the MMA does not allow compilation of complete sectoral financial statements and memorandum items for the NFCs and households sectors. The MMA has data on financial sectors' exposure to the NFCs and households. This information covers a significant part of the NFCs debt (excluding external debt) and most of the households' debt. The mission suggested the compilation of debt to GDP indicator for households to be sourced from monetary statistics and data source to be explained in the metadata. The mission provided the mapping in the bridge tables.

53. The mission discussed a roadmap for the collection of underlying source data for NFCs. The mission met staff from the Maldives Bureau of Statistics (MBS) and noted availability of certain components of income and expense statement and balance sheet information for NFCs to the MBS. The MBS staff collect these data from the Maldives Inland Revenue Authority (MIRA)'s tax statements. The mission investigated the data collection through MIRA's tax statements and noted that MIRA's data could respond to the data needs for NFCs' income and expense statement and balance sheet mapping. For the effective allocation of resources and to prevent duplication of work, the mission recommended a memorandum of understanding to be signed between the MBS and the MMA and start collecting the data necessary for the compilation of FSIs. The mission also noted that a list of state-owned entities with their annual and quarterly financial statement is published on the MoF website. The MMA is encouraged to collaborate with MoF to collect data on public nonfinancial corporations.

Recommendations

- Sign a memorandum of understanding with the MBS on data sharing with respect to NFCs and households for the purposes of FSIs compilation.
- Expand the set of FSIs beyond financial sector with the indicators for NFCs and HHs.

Real Estate Markets

54. **Residential and commercial real estate prices are not readily available.** The MMA staff started monitoring housing market developments, focusing on the rental market at this initial stage. The mission discussed with MMA staff the importance of developing residential and commercial real estate prices considering the interlinkages between the financial sector and real estate markets. The MMA staff highlighted the need for further work to develop residential real estate prices for Maldives. Commercial real estate prices are not available. Monitoring commercial real estate prices could be important as commercial real estate constitutes collateral for the tourism loans during the development phase, which has a significant share in the DTs loan book.

Recommendation

- In coordination with other relevant authorities, develop residential real estate price index to compile the core FSI on residential real estate prices.

H. FSIs Data and Metadata Reporting

55. The mission highlighted the need to complement the FSIs data with the corresponding metadata. Metadata reporting is important for interpreting the FSIs and to allow for cross-country comparisons. The metadata should contain information on the content and coverage of the FSIs, as well as the underlying accounting conventions, other national guidelines, and any deviations from the recommendations of the FSIs Guide. The metadata should be updated whenever changes are observed, for instance, when there are changes to the accounting (i.e., implementation of the IFRS-9) and regulatory frameworks (i.e., Basel-III implementation) or to the call report instructions underlying the FSIs source data.

56. The understanding of the calculation of key underlying series is important for better interpretation of FSIs. Although the *2019 FSIs Guide* provides guidance on the calculation of the underlying FSIs series, the calculation of some data series used by national compilers may not always be fully in line with the *2019 FSIs Guide* due to a variety of reasons, including issues in source data. Furthermore, there might be some adjustments to the underlying series for the FSIs calculation. The mission prepared the FSIs metadata Excel files for reporting to STA together with the FSIs data for posting on the IMF's FSIs data portal.

57. The mission discussed with MMA officials the Concentration and Distribution Measures (CDMs). The CDMs are a set of indicators introduced by the *2019 FSIs Guide* and provide both a concentration measure (the Herfindahl Index), and key moments of the distributions of FSIs for DTs.[9] The FSIs Guide requires at least 28 deposit takers to be included in the calculations for reporting weighted quartiles to the IMF. Currently, the number of institutions in the DTs sector does not satisfy this criterion. The MMA staff calculated the Herfindahl Index during the mission and will report the indicator under the CDM sheet.

58. The MMA aims to regularly report the sectoral FSIs for DTs to STA with monthly frequency, to be posted on the IMF's FSIs data portal. As discussed earlier, the MMA can compile and report 14 core and 10 additional FSIs for DTs as well as two additional FSIs on the size of OFCs, 3 FSIs for ICs, one FSI for households and two additional FSI on real estate markets. FSIs for ICs, OFCs and households are available on a quarterly basis. Underlying data available at the MMA for the calculation of FSIs start from September 2015. The mission provided a comprehensive workbook that provides mapping of the MMA data to the FSI-SR template. The mission also introduced to the MMA officials the new institutional coverage template (FSIC template) with information on the (i) number of the reporting DTs and their branches, split by ownership, and their respective total assets; (ii) number of the ICs, split by ownership and their respective total assets; and (iii) number of other OFCs split by ownership, and their respective total assets. The FSIC template should also be reported to the IMF for dissemination.

Recommendations

- Compile FSIs using the mapping provided in the workbook developed by the mission.
- Report the Herfindahl Index.
- Finalize and report to STA for review the new FSI sectoral financial statements (FSI-SR template) with monthly data for DTs and quarterly data for ICs, OFCs beginning from September 2015, the new FSI institutional coverage (FSIC template) with annual data starting from 2015, and the new FSI metadata (FSM template).
- Start regular reporting to STA, for disseminating on the IMF's FSI data portal, of the new FSI-SR template with monthly and quarterly data beginning from September 2015, and the new FSIC template with annual data starting from 2015. Also report the new FSM template and update as necessary.

I. Resources, Training, and Technical Cooperation

59. The mission recommended that MMA staff seek to attend regional and HQ training courses on financial sector statistics. During the mission, presentations were delivered to MMA staff covering the *2019 FSIs Guide,* the reporting templates, IFRS 9 standard, FSIs for OFCs, NFCs, HHs and real estate markets. STA has in the past regularly delivered courses on both MFS and FSIs at IMF headquarters (each course once every two years), and regional trainings are also scheduled. After the

[9] Distribution measures are computed for seven key FSIs, namely Tier 1 Capital to Risk-Weighted Assets, NPLs to Gross Loans, NPLs Net of Provisions to Capital, Provisions to NPLs, Return on Assets, Return on Equity, and Tier 1 Capital to Total Assets. Aggregation for the DTs sector is obtained by using either by the denominator of the respective FSIs or by the total assets as weights, and include quartiles, standard deviation, skewness, and kurtosis.

COVID-19 pandemic, STA has started delivering remote courses. Details can be found on the webpage of the IMF's Institute for Capacity Development (ICD).

Recommendation

- Participate in IMF training courses on FSIs to improve methodological knowledge and skills in the compilation and interpretation of FSIs.

60. The MMA requested a follow up mission once there is some progress with the implementation of the recommendations. A follow up mission could; (i) review the updated DTs and ICs templates and instructions, (ii) update the mapping for ICs and develop mapping for PFs , and (iii) further help the MMA with regards to developing additional FSIs for NFCs and HHs.

J. Other Issues

61. The mission also discussed Financial Access Survey (FAS) and MFS reporting. The MMA is encouraged to improve FAS data with regards to Small and Medium-sized Enterprises (SMEs). Also, inconsistencies identified in the historical gender disaggregated data are discussed during the mission. The MMA also reports MFS to STA for the central bank, other depository corporations, and other financial corporations using the STA's standardized report forms. The MMA is a timely reporter of MFS and FAS data. The classification of prepayments of ICs for the purposes of MFS reporting was discussed and clarified in accordance with the MFS Manual. The MMA staff will review the mapping so that only prepayments related to reinsurance (i.e., with insurance corporations and nonresident ICs as counterparts), are classified as technical reserve assets in the 4SR. All other prepayments should be reported as other accounts receivable with corresponding sectors. The mission also reiterated the importance of updating the 4SR reporting with non-MMF investment funds and financial auxiliaries identified during the mission.

Annex 1. Officials Met During the Mission

Maldives Monetary Authority	
Name	**Job Title**
Ali Hashim	Governor
Ahmed Imad	Deputy Governor
Idham Hussain	Assistant Governor, Area 1 - Monetary Policy, Research and Statistics
Mariyam Shifa	Assistant Governor, Area 2 - Financial Stability
Mariyam Najeela	Senior Executive Director, Area 2 - Financial Stability
Hamida Shakeela	Executive Director, Banks & Other Financial Institutions Division | Area 2
Mansoor Zubair	Executive Director, Statistics Division | Area 1
Fathimath Faisha	Senior Manager, Statistical Information System Section | Statistics Division | Area 1
Ahamed Saruvash Hameed	Senior Manager, On-site Supervision Section | Banks & Other Financial Institutions Division | Area 2
Mohamed Amdhan	Senior Manager, Balance of Payments Section | Statistics Division | Area 1
Mariyam Jailam Mujuthaba	Deputy Manager, Insurance Supervision Section | Insurance Division | Area 2
Hawwa Yusra	Deputy Manager, Insurance Supervision Section | Insurance Division | Area 2
Mariyam Azmath	Senior Economist - Statistician, Monetary and Financial Statistics Section | Statistics Division | Area 1
Ibrahim Sameeu	Deputy Manager, Monetary and Financial Statistics Section | Statistics Division | Area 1
Hashma Ahmed	Assistant Manager, Banks Off-site Supervision Section | Banks & Other Financial Institutions Division | Area 2
Fathmath Jeena	Assistant Manager, Monetary and Financial Statistics Section | Statistics Division | Area 1
Mohamed Imthinan Saudulla	Senior Research Analyst, Economic Research Section | Research Division | Area 1
Maldives Bureau of Statistics	
Aishath Hassan	Chief Statistician
Sajida Ahmed	Statistician, National Accounts & Economic Statistics | Maldives Bureau of Statistics
Capital Market Development Authority	
Fatimath Abdula Kamaaluddheen	Deputy CEO
Abdullah Zakariyya	Director General, Pension Supervision Department | Capital Market Development Authority

Annex 2. The Financial Sector in Maldives

The DTs sector dominate the financial system of Maldives. Total assets of the DTs are about 88.55 billion MVR as of December 2022 (Annex II. Table 1):

- Commercial banks are licensed by the MMA to carry out commercial banking operations. At end-December 2022, there are eight licensed commercial banks in Maldives. Among the commercial banks two are domestically controlled, two foreign controlled and four are foreign bank branches. There is one Islamic bank operating in Maldives and one bank offers Islamic banking products through an Islamic window.
- The OFCs sector includes insurance companies (ICs), a pension fund, three non MMF investment funds, three other financial intermediaries (one housing development company, one finance and leasing company and one SME development finance company), and financial auxiliaries.
- The ICs subsector comprises five nonlife insurance companies. Asset size of these companies are small in size adding up to 2.78 billion MVR at the end of 2022.
- Maldives Pension Administration Office operates as a public OFC, constituting 73 percent of the OFCs sector.
- Three non MMF investment funds are recently licensed.
- Several financial auxiliaries operate in Maldives. These include Maldives Stock Exchange, Maldives Security Depository and dealers.

Annex Table 2.1. The Financial Sector in Maldives – December 2022

Sector	Asset size (MVR billions)	Number of institutions	Share in total assets (% of subsector)	Share is financial sector assets (excl. MMA)	Total asset to GDP
Maldives Monetary Authority	**26.07**				**28.7%**
Deposit taking corporations	**88.55**	**8**		**76.8%**	**97.4%**
Commercial Banks	88.55	8	100.0%	76.8%	97.4%
Domestically controlled	50.77	2	57.3%	44.0%	55.8%
-o/w government owned	44.36	1	50.1%	38.5%	48.8%
Foreign controlled	7.15	2	8.1%	6.2%	7.9%
Branches of foreign banks	30.64	4	34.6%	26.6%	33.7%
Other Financial Corporation	**26.80**			**23.2%**	**29.5%**
Non-MMF investment funds	NA	3*			
Insurance	2.78	5	10.4%	2.4%	3.1%
o/w nonlife insurance	2.78	5**	10.4%	2.4%	3.1%
Pension funds	19.60	1	73.1%	17.0%	21.6%
Other Financial Intermediaries	4.42	3	16.5%	3.8%	4.9%
Financial auxiliaries	NA***				

Source: MMA, IMF staff calculations.
Notes:
*Non-MMF investment funds are recently licensed and have not yet started financial operations.
**One insurance company offers both life and non-life insurance. Size of the life insurance activities are small.
***Data on the size and number of institutions were not available to the MMA during the mission.

Annex 3. Maldives: Financial Soundness Indicators

	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22
Core FSIs					
Regulatory capital to risk-weighted assets	44.7	46.4	46.3	46.9	50.9
Tier 1 capital to risk-weighted assets	36.0	39.0	41.0	36.4	40.8
Nonperforming loans net of provisions to capital	9.5	9.3	21.0	15.1	8.1
Leverage ratio - Tier-1 capital to assets	19.5	20.9	19.3	15.9	17.9
Nonperforming loans to total gross loans	11.6	11.6	18.8	12.6	9.4
Loan concentration by economic activity	86.6	86.8	87.0	88.1	86.2
Provisions to nonperforming loans	64.9	65.1	51.7	52.0	60.3
Return on assets	5.7	4.6	2.5	5.8	5.1
Return on equity	15.9	13.3	7.5	19.8	17.2
Interest margin to gross income	64.2	65.0	71.6	58.1	62.1
Noninterest expenses to gross income	30.5	31.8	31.8	28.8	31.6
Liquid assets to total assets	24.2	20.0	27.0	31.2	27.7
Liquid assets to short-term liabilities	38.1	31.9	43.7	48.0	43.7
Net open position in foreign exchange to capital - total	9.1	6.4	9.2	6.1	6.0
Additional FSIs					
Large exposures to capital	86.6	60.7	70.2	68.2	49.5
Gross asset position in financial derivatives to capital	-	-	2.3	2.1	0.9
Gross liability position in financial derivatives to capital	-	-	-	-	-
Trading income to total income	4.5	4.1	3.6	3.1	3.7
Personnel expenses to noninterest expenses	36.5	34.9	37.2	34.5	31.1
Spread between reference lending and deposit rates (base points)	872.8	855.5	840.2	817.7	864.6
Customer deposits to total (noninterbank) loans	121.6	123.7	128.5	155.7	155.4
Foreign-currency-denominated loans to total loans	54.3	54.0	51.5	58.5	55.1
Foreign-currency-denominated liabilities to total liabilities	54.5	56.4	55.2	54.5	54.7

	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22
Credit growth to private sector	11.3	7.5	9.6	3.6	4.3
Other financial corporations					
OFCs' assets to total financial assets: total OFCs	23.5	23.8	22.3	20.8	21.6
OFCs' assets to total financial assets: Money Market funds	-	-	-	-	-
OFCs' assets to total financial assets: Insurance Corporations	2.2	2.2	2.2	2.2	2.5
OFCs' assets to total financial assets: Pension Funds	19.2	19.8	18.6	17.3	18.0
OFCs' assets to gross domestic product: OFCs	18.2	19.4	32.4	26.1	25.9
OFCs' assets to gross domestic product: Money Market funds	-	-	-	-	-
OFCs' assets to gross domestic product: Insurance Corporations	1.7	1.8	3.1	2.8	3.0
OFCs' assets to gross domestic product: Pension Funds	15.0	16.1	27.1	21.8	21.6
Insurance corporations					
Shareholder equity to total invested assets (Nonlife insurance only)	43.5	45.5	50.0	44.9	45.3
Combined ratio (Nonlife insurance only)	63.3	76.6	62.9	47.4	96.3
Return on equity (Nonlife insurance only)	23.7	25.3	20.8	15.8	17.4
Households					
Household debt to gross domestic product	14.1	14.9	24.0	17.7	16.6
Real estate markets					
Residential real estate loans to total gross loans	21.5	20.8	21.1	17.3	17.2
Commercial real estate loans to total gross loans	2.5	2.8	2.9	2.1	2.8

Source: TA mission.

Annex 4. Comparison of FSIs Before and After the Technical Assistance

The mission recommended the following amendments to align FSIs with the *2019 FSI Guide* (Annex IV. Table 1). The recommended amendments include both improvements discussed in this report, as well as the incorporation of amendments brought by the *2019 FSIs Guide*. While most changes were implemented during the mission and will not require further work, those changes requiring a longer timeframe for implementation are bolded in the table and spelled out as individual recommendations in this report.

Annex Table 4.1 Maldives: Recommended Amendments to FSIs

Indicator	Recommendation
Deposit takers	
Total Capital to RWA / Tier 1 Capital to RWA	Explain deviations from the Basel-I framework in metadata.
NPLs net of provisions to capital	Use regulatory capital as the denominator. Identify NPLs based on subjective and quantitative criteria. Identify NPLs as loans for which specific provisions are set aside.
NPLs to total loans	Align the definition of total loans with the *2019 FSIs Guide* definition. Include accrued interest for performing loans. Identify NPLs as loans for which specific provisions are set aside.
Loan concentration by economic activity	Use MMA's sectoral classification and explain the discrepancies from the ISIC Rev 4 in the metadata.
Return on Assets (ROA)	Use net income before tax in the numerator. Aggregate the numerator as indicated in the report. Average the denominator as indicated in the report.
Return on Equity (ROE)	Use net income after tax in the numerator. Aggregate the numerator as indicated in the report. Average the denominator as indicated in the report.
Liquid assets to total assets	Update total assets as discussed in the report. Use the liquid assets definition provided in the report.
Net open position in foreign exchange to capital	Report the compilation approach in the metadata (i.e., Basel-II shorthand method).
Tier-1 Capital to Assets	Use total assets as the denominator until Basel-III total exposure measure is implemented.
Large exposures to capital	Report in the metadata total regulatory capital is used for the identification of large exposures.

Indicator	Recommendation
Deposit takers	
Gross asset/liability position in derivatives to capital	No change.
Spread between reference lending and deposit rates (basis points)	Report the methodology in the metadata.
Customer deposits to total non-interbank loans	Exclude resident and resident deposits placed by financial institutions, central government and central bank.
Residential real estate loans to total loans	Report all loans collateralized by residential real estate (**to be implemented**).
Commercial real estate loans to total loans	Report all loans collateralized by commercial real estate as well as loans to construction companies and loans to companies active in the development of real estate (**to be implemented**).
Foreign-currency-denominated loans to total loans	Align the definition of total loans with the *2019 FSIs Guide* definition. Incorporate accrued interest on foreign currency loans.
Residential real estate prices	Develop residential real estate price index.
Liquidity coverage ratio/Net stable funding ratio	Start reporting FSIs following implementation by the end of 2023.
Credit growth to private sector	Include gross loans extended by DTs to the nonfinancial private sector and debt securities exposures issued by private nonfinancial corporations.
Insurance corporations	
Shareholder equity to total invested assets	Collect additional data to identify property for own use and property for investment under nonfinancial assets for ICs (**to be implemented**).
Combined ratio (Nonlife insurance only)	Develop detailed reporting instructions and validation checks for ICs report forms to reduce the possibility of misreporting (**to be implemented**).
Return on equity (Nonlife insurance only)	Develop detailed reporting instructions and validation checks for ICs report forms to reduce the possibility of misreporting. (**to be implemented**).
Households	
Household debt to gross domestic product	Collect data on loans to households from other sectors as well (government, external sector or NFCs) and include them in the mapping. (**to be implemented**).

The data and methodological revisions covered in the report have resulted in changes to some FSIs. The mission recommended to the MMA to update the calculation of FSIs in line with the *2019 FSIs Guide*. Annex IV. Table 2 covers the FSIs before and after the mission.

Annex Table 4.2 Maldives: Comparison of FSIs Before and After the TA Mission – December 2022

Core FSIs	**Before the mission**	**After the mission**
Regulatory capital to risk-weighted assets	50.9	50.9
Tier 1 capital to risk-weighted assets	40.8	40.8
Nonperforming loans net of provisions to capital	0.2	8.1
Leverage ratio - Tier-1 capital to assets	17.8	17.9
Nonperforming loans to total gross loans	5.9	9.4
Loan concentration by economic activity	86.5	86.2
Provisions to nonperforming loans	97.7	60.3
Return on assets	5.0	5.1
Return on equity	17.2	17.2
Interest margin to gross income	62.1	62.1
Noninterest expenses to gross income	31.6	31.6
Liquid assets to total assets	45.2	27.7
Liquid assets to short-term liabilities	71.8	43.7
Net open position in foreign exchange to capital - total	6.0	6.0
Additional FSIs		
Large exposures to capital	49.5	49.5
Gross asset position in financial derivatives to capital	0.9	0.9
Gross liability position in financial derivatives to capital	-	-
Trading income to total income	3.7	3.7
Personnel expenses to noninterest expenses	31.1	31.1
Spread between reference lending and deposit rates (base points)		864.6
Customer deposits to total (noninterbank) loans	166.8	155.4
Foreign-currency-denominated loans to total loans	45.0	55.1
Foreign-currency-denominated liabilities to total liabilities	54.6	54.7
Credit growth to private sector	4.5	4.3
Other financial corporations		
OFCs' assets to total financial assets: total OFCs		21.6
OFCs' assets to total financial assets: Money Market funds		-

Core FSIs	Before the mission	After the mission
OFCs' assets to total financial assets: Insurance Corporations		2.5
OFCs' assets to total financial assets: Pension Funds		18.0
OFCs' assets to gross domestic product: OFCs		25.9
OFCs' assets to gross domestic product: Money Market funds		-
OFCs' assets to gross domestic product: Insurance Corporations		3.0
OFCs' assets to gross domestic product: Pension Funds		21.6
Insurance corporations		
Shareholder equity to total invested assets (Nonlife insurance only)		45.3
Combined ratio (Nonlife insurance only)		96.3
Return on equity (Nonlife insurance only)		17.4
Households		
Household debt to gross domestic product		16.6
Real estate markets		
Residential real estate loans to total gross loans	5.3	17.2
Commercial real estate loans to total gross loans	0.4	2.8

Source: TA mission.

Annex 5. Updates to the Bridge Table

Updates to the bridge table to compile FSIs for DTs in line with the *2019 FSIs Guide* are covered in the Annex Table below.

Annex Table 5.1. Updates to the Bridge Table

Income and Expense Statement	
1	Fees and commissions receivable are identified from the reporting templates and removed f**rom** other income
2	Mapping of gains and losses on financial instruments are updated in line with the *2019 FSIs Guide* methodology.
3	Extraordinary profit/losses reclassified to other income/expenses from extraordinary profits/losses
Balance Sheet	
4	Accrued interest receivables are reclassified from other financial assets to their corresponding respective financial instruments and sectors.
5	Accrued interest payable reclassified from other liabilities to their corresponding respective financial instruments and sectors.
6	Interbank deposits are mapped to interbank loans as suggested by the *2019 FSIs Guide*.
7	Specific provisions set aside for loans with less than 90 days past due are reclassified under the “ii. Specific provisions” line.
8	All deposits placed by resident or nonresident other financial corporations, central governments, and central banks are excluded from customer deposits and mapped to other currency and deposits.
9	Repurchase agreements on the liabilities side are mapped to loans or currency and deposits in line with the *2019 FSIs Guide* methodology.

Annex 6. FSIs Coverage and Metadata

The mission discussed with the MMA officials the FSIs Institutional Coverage (FSIC) and FSIs metadata (FSM) forms. These forms are disseminated together with FSIs data to facilitate data interpretation. The FSIC forms are compiled as of the end of each calendar year and aim to collect the number of institutions (DTs, ICs, OFCs) and their total assets, broken down by type, government vs. private control, and domestic vs foreign control. The MMA will compile this information for every calendar year for which the FSIs are compiled and submit to the IMF. The FSM forms include tables, which present information about FSIs and their compilation, such as data definitions, data consolidation, regulatory and accounting rules adopted by the reporting banks. The mission provided the MMA staff with FSM templates filled-in based on the information that was made available to the mission.

In Maldives, only commercial banks meet the definition of DTs. FSIs for DTs are compiled using a "domestic location" (DL) basis. DL is appropriate as the banks in Maldives. The DL basis, defined in the *2019 FSIs Guide*, has no cross sector or cross border dimensions. The DL basis includes both domestic and foreign controlled, domestically incorporated DTs and domestic foreign bank branches. The intra-group adjustments, as recommended in the *2019 FSI Guide*, are not needed as DTs do not have l subsidiaries (financial and nonfinancial) domestic and abroad.

DTs follow a Basel I framework for the compilation of capital adequacy ratio with certain adjustments. Foreign currency claims on Government of the Maldives are assigned a zero percent risk weight, as opposed to a 100% risk weight under Basel I. Claims on banks are 20% risk weighted, without considering the maturity. Loans secured by residential property are assigned a 100% risk weight (50% risk weight under Basel I framework). The framework is applied uniformly to all banks including Islamic banks. The MMA implements a 12 percent minimum capital adequacy ratio. Capital charges for market and operational risks are not yet incorporated into the regulatory framework.

International Accounting Standards are adopted by commercial banks for their financial reporting. Regulatory reporting, on the other hand, has not yet incorporated changes necessary for the implementation of the IFRS-9.

The aggregated balance sheet and income statement of DTs, which are used as source data, are considered in general adequate for compiling FSIs. Accrued interest receivable and payable are mapped to respective corresponding financial instruments and sectors.

The following information are useful to the FSIs compilers and users:

- Loans are defined as nonperforming using the 90-days past due criterion. NPL definition for the purposes of FSIs compilation also includes other loans that are classified as substandard, doubtful and loss based on qualitative criteria. Certain forbearance measures have been put in place during the Covid-19 pandemic. These are explained in the report and in the FSM template.
- Large exposures are defined as those that exceed 10 percent of the total regulatory capital.
- Liquid assets include cash, balances at depository institutions, and debt securities with a remaining maturity of 3-months or less.
- Net income before tax is used to calculate return on assets and net income after tax is used to calculate return on equity. Income and expense statement data are reported on cumulative basis starting from the beginning of the calendar year. The annualization and averaging methodology suggested by the *2019 FSIs Guide* is implemented for the compilation of profitability indicators.
- Net open position in foreign exchange series exclude structural position.
- Basel-III total exposure measure for the compilation of the leverage ratio is not available.
- Liquidity coverage ratio, net stable funding ratio, and Basel-III definition of regulatory capital have not been implemented.
- Loan concentration by economic activity follows a domestic classification (i.e., not following ISIC 4 classification). Details are provided in the metadata.