



**MONETARY BOARD
CENTRAL BANK OF SRI LANKA**

27 October, 2016

MICROFINANCE ACT DIRECTIONS

NO. 07 OF 2016

REGULATORY FRAMEWORK FOR ACCOMMODATIONS

Issued under Section 11 of the Microfinance Act, No. 6 of 2016

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| 1. Maximum Amount of Accommodation (MAA) to customer | 1.1 The Licensed Microfinance Company (LMFC) shall not grant accommodation in respect of the following customers in excess of the limits stipulated in Direction 1.2, based on its core capital as per the latest audited financial statements, subject to Direction 3:

(a) To any single company, public corporation, firm, association of persons or an individual [excluding Community Based Organisations (CBO)]; or

(b) In the aggregate to (excluding CBO)–

i) an individual, his close relations or to a company or firm in which he has a substantial interest;

ii) a company and one or more of the following:–

a) its subsidiaries;

b) its parent company;

c) its associate company;

d) its joint ventures;

e) a subsidiary of its parent company; or

f) a company in which such company or its subsidiary, or its parent company, or a subsidiary of its parent company, has a substantial interest.

(c) To a CBO |
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1.2

Level	Core capital in Rs. Mn	MAA relates to customers referred to in Direction 1.1(a) In Rs.	MAA relates to customers referred to in Direction 1.1(b) In Rs.	MAA relates to customers referred to in Direction 1.1(c) In Rs.
I	Over Rs 100 mn and less than Rs.200 mn	500,000	600,000	1,000,000
II	Over Rs.200 mn and less than Rs.300 mn	600,000	750,000	1,500,000
III	Over Rs.300 mn	750,000	1,000,000	2,000,000

2. Aggregate limit

2.1 **For LMFCs with a core capital of less than Rs. 300 mn;**

In the case of accommodations granted as at any given date to any category of customers referred to in Direction 1 above in excess of Rupees Three Hundred Thousand (Rs.300,000/-), the sum total of the outstanding amount of accommodation granted to such customers shall not exceed forty percent (40%) of the total outstanding amount of accommodation granted by LMFC to all customers excluding the Government of Sri Lanka as at the end of the immediately preceding month.

For LMFCs with a core capital of over Rs. 300 mn;

In the case of accommodations granted as at any given date to any category of customers referred to in Direction 1 above in excess of Rupees Five Hundred Thousand (Rs.500,000/-), the sum total of the outstanding amount of accommodation granted to such customers shall not exceed forty percent (40%) of the total outstanding amount of accommodation granted by LMFC to all customers excluding the Government of Sri Lanka as at the end of the immediately preceding month.

3. Exclusions of Accommodations from maximum limits 3.1 Accommodation granted against the security of cash, gold, Government Securities, Central Bank Securities, Treasury Guarantees, and Central Bank Guarantees shall be excluded, when computing MAA under the Direction 1.
4. Accommodation to related parties 4.1 No LMFC shall grant any accommodation to the following of such LMFC:
- a) Any directors
 - b) Any directors of the parent company
 - c) Chief Executive Officer/General Manager
 - d) Close relations of (a), (b) and (c) above
 - e) A shareholder who has 10 percent or more of the voting rights
5. Classification of credit exposures 5.1 Every LMFC shall adopt a credit risk grading system or categorization based on repayment patterns, i.e., delinquency status which must appropriately reflect the risks associated with credit facilities granted by the LMFC. Minimum guideline for such categorization of impaired facilities of customers based on the delinquency patterns are given at Annexure 1, Table 1.
- 5.2 LMFCs shall quantify provisions, as per the credit facilities categorised in accordance with Direction 5.1, on the amount outstanding net of realisable security value and interest suspended in the event of such interest being debited to the credit facility as per the following.

Categories of Non-performing Credit Facilities	Minimum Specific Provisioning Requirement
Substandard	25%
Doubtful	50%
Loss	100%

6. Regulatory Reporting 6.1 Every LMFC shall submit a quarterly return to the Director/Department of Supervision of Microfinance Institutions (D/DSMI) within 15 days from the end of each quarter in accordance with the format given in Annexure I, Table 2 and 3.
7. Steps to secure compliance with Directions 7.1 Where the Monetary Board has determined that a LMFC has contravened Direction 1, and the determination of such contravention has been conveyed to LMFC, such LMFC shall not pay dividends or repatriate profits until the contravention is rectified and such rectification is confirmed by D/DSMI.

8. Interpretations
- 8.1 *CBO* shall be a registered legal entity and be able to legally accept loans as per its statute such as its Memorandum of Association/Articles of Association, Constitution or By-Laws. The following conditions have to be fulfilled in order to be considered as a CBO;
- i. A tri-party Memorandum of Understanding between the LMFC, CBO and any organization which the CBO operates with should be signed with regard to the loan repayments.
 - ii. The CBO should have a Board resolution with regard to borrowing money from the LMFC
 - iii. The bank statements, audited financial statements and corporate governance have to be assessed in deciding to grant loans to a CBO.
 - iv. The individual's loans repayment capacity to be assessed by the LMFC and the CBO separately.
- 8.2 *Close relation* in relation to an individual means spouse and dependent child of such individual. Dependent child shall have the same meaning assigned to the term in the Finance Business Act, No. 42 of 2011.
- 8.3 *Substantial interest* means holding of beneficial interest by another company or an individual or his close relation whether singly or taken together, exceeding ten percent of the stated capital. In relation to a firm the beneficial interest held is applicable to an individual or his close relation of such firm.
- 8.4 "*Parent*", "*Subsidiary*", "*Associate*" and "*Joint Ventures*", as defined in the Sri Lanka Accounting Standards.
- 8.5 *Accommodations* shall mean credit exposure and investment exposure as specified below:
- a) Credit exposure shall include all on-balance sheet accommodations and off-balance sheet accommodations.
 - i) On-balance sheet credit exposure shall mean term loans, pledge loans, revolving loans, hire purchase loans, leasing facilities, pawning advances and reverse repurchase agreements against debt securities and other instruments of a similar nature.
 - ii) Off-balance sheet credit exposure shall mean a commitment to accept contingent liabilities, including guarantees and bonds

- b) Investments exposure shall include all financial investments excluding investments in government securities.
- 8.6 *Amount of accommodations* shall be the total of on-balance sheet accommodations and off-balance sheet accommodations as specified below:
- a) Amount of on-balance sheet accommodations: The amount of on-balance sheet accommodations shall mean the total of the accommodation limits prevailing at any given date or the total outstanding amount of all accommodations, whichever is higher. In the case of fully drawn term loans, the outstanding amount of accommodations shall be reckoned as the amount of accommodations.
 - b) Amount of off-balance sheet accommodations: The amount of off-balance sheet accommodations shall mean the total of the accommodation limits prevailing at any given time or the outstanding amount of accommodations, whichever is higher.
- 8.7 Outstanding amount of accommodations shall be the carrying value as per the financial statements of the both on-balance sheet and off-balance sheet accommodations.

Indrajit Coomaraswamy
Chairman of the Monetary Board
Governor of the Central Bank of Sri Lanka

Table I

Criteria for Risk Grading – Further categorisation of impaired credit exposures

Classification Type of credit exposure	Special Mention	Substandard	Doubtful	Loss
Credit exposures repayable in daily/weekly/bi-weekly basis, i.e., any repayment base less than one month.	The payment is in arrears for more than 30 days from the loan due date or more but less than 60 days from the due date.	The payment is in arrears for more than 60 days from the loan due date or more but less than 90 days from the due date.	The payment is in arrears for more than 90 days from the loan due date or more but less than 120 days from the due date.	The payment is in arrears for more than 120 days or more from the loan due date.
Credit exposures repayable in monthly installments, i.e., either interest or capital repayable in monthly installments.	3 installments or more but less than 6 installments, principal and/or interest are due and unpaid.	6 installments or more but less than 12 installments, principal and/or interest are due and unpaid.	12 installments or more but less than 18 installments, principal and/or interest are due and unpaid.	18 installments or more principal and/or interest are due and unpaid.
Credit exposures repayable in quarterly or half yearly or yearly installments.	The payments are in arrears for more than 30 days but less than 60 days from the due date.	The payments are in arrears for 60 days or more but less than 120 days from the due date.	The payments are in arrears for 120 days or more but less than 180 days from the due date.	The payments are in arrears for 180 days or more
Credit exposures repayable in one installment at the end of a specified period or on a due date (bullet payments).	The payments are in arrears for more than 30 days but less than 60 days from the due date.	The payments are in arrears for 60 days or more but less than 120 days from the due date.	The payments are in arrears for 120 days or more but less than 180 days from the due date.	The payments are in arrears for 180 days or more

Table 2
Top 20 Accommodation¹ as at dd/mm/yy

In Rs.

Name of the Customer/group	Loan Ref. No.	Facility Type	Limit	Outstanding	Type of Collateral	Remarks

Table 3
Other Information as at dd/mm/yy

In Rs.

Reference	Description	On-balance sheet	Off-balance sheet	Total
(a)	Total number of loan customers			
(b)	Total outstanding value of the accommodation			
(c)	Total number of customers/group that exceeds Rs.300,000/-			
(d)	Total carrying value of the customers/group that exceed Rs.300,000/-			
(e)	(d) as a % of (b)			

¹Based on amount outstanding

