CENTRAL BANK OF SRI LANKA

13 June 2024 **BANKING ACT DETERMINATION** **No. 01 of 2024**

STATUTORY LIQUIDITY RATIOS OF LICENSED BANKS

Issued under Sections 21(1) and 76(H) of the Banking Act, No. 30 of 1988, amended by the Banking (Amendment) Act, No. 24 of 2024

In terms of Sections 21(1) and 76H of the Banking Act, No. 30 of 1988, as amended, the Central Bank of Sri Lanka has determined that every licensed commercial bank and licensed specialised bank (hereinafter referred to as licensed banks) shall maintain Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) as the statutory liquidity ratios of such banks, at all times, in accordance with "Basel III: International Framework for Liquidity Risk Measurement, Standards and Monitoring", "Basel III: The Liquidity Coverage Ratio and Liquidity Risk Monitoring Tools" and "Basel III: The Net Stable Funding Ratio", issued hitherto by the Basel Committee on Banking Supervision.

1. Empowerment under the Banking Act

1.1 In terms of Section 21(1) of the Banking Act, No.30 of 1988, as amended, every licensed commercial bank (LCB) shall, at all times maintain liquid assets that are required to meet its liabilities as may, from time to time, be determined by the Central Bank and comply with the requirements on liquidity having regard to the developments in the regulatory requirements, and the Central Bank shall, as far as practicable, adopt international standards applicable on liquidity requirements of such LCB.

1.2 In terms of Section 76(H) of the Banking Act No.30 of 1988, as amended, the provisions of Section 21 of the Banking Act shall *mutatis mutandis* apply to a licensed specialised bank (LSB) as they apply to an LCB.

2. Minimum LCR and NSFR Requirements	2.1	Every licensed bank shall maintain, LCR of 100% as prescribed in Schedule I hereto, in respect of Rupee Liquidity Minimum Requirement for local currency operations and All Currency Liquidity Minimum Requirement for the overall operations, at all times.
	2.2	Every licensed bank shall maintain NSFR of 100%, as prescribed in Schedule II hereto, at all times.
3. Regulatory Reporting	3.1	Every licensed bank shall submit the following returns on a monthly basis, on or before the fifteenth day of the following month as per the formats and guidelines given in Appendices I to III to the Schedule I hereto, via the Web-based Off-site Surveillance System. (i) Return for LCR LKR (BSD-MF-19-R1 to BSD-MF-19-R4) (ii) Return for LCR All Currency (BSD-MF-19-A1 to BSD-MF-19-A4) (iii) Return on LCR by significant foreign currency
	3.2	Every licensed bank shall submit a return on NSFR on a quarterly basis, within one month after the end of each quarter, as per the formats and guidelines given in Appendices I and II to the Schedule II hereto, via Web-based Off-site Surveillance System (BSD-QF-32-1A, BSD-QF-32-2A, BSD-QF-32-3A and BSD-QF-32-3B).
	3.3	Every Licensed bank shall submit the return on early warning indicators on a daily basis, via the Web-based Off-site Surveillance System (BSD-DF-01-EW).

4. Liquidity Monitoring Tools

4.1 Every licensed bank shall monitor its liquidity position using the monitoring tools stated below and document processes for application of such tools. In addition, every licensed bank shall monitor the liquidity position relative to its size and the nature of the business operations.

(i) **Contractual Maturity Mismatch:** Develop a metric to identify contractual maturity mismatch profile, i.e., the gaps between the contractual inflows and outflows of liquidity for defined time bands to assess the potential liquidity needs.

(ii) **Concentration of Funding:** Develop a metric to mitigate the funding concentration risk that may arise from significant counterparties, products/instruments, currencies, etc.

(iii) **LCR by Significant Foreign Currency:** Develop a metric to monitor LCR in each significant currency on an ongoing basis in order to capture potential currency mismatches. For this purpose, significant currencies shall be determined internally based on the bank's volume of transactions in such currencies and its ability to raise funds in foreign currency markets.

(iv) **Available Unencumbered Assets:** Develop a metric to provide data on the volume and key characteristics of all available unencumbered assets which have the potential to be used as collateral for raising additional funding from the secondary market and/or central banks.

5. Discontinuation of requirements on Statutory Liquid Assets Ratio	5.1	All regulatory requirements relating to Statutory Liquid Assets Ratio by licensed banks are hereby discontinued.
6. Revocation	6.1	The following Directions are hereby revoked with effect from the appointed date of the Banking (Amendment) Act, No.24 of 2024. (i) Banking Act Directions No. 01 of 2015 on Liquidity Coverage Ratio under Basel III Liquidity Standards for Licensed Commercial Banks and Licensed Specialised Banks, dated 31.03.2015. (ii) Banking Act Directions No. 08 of 2018 on Net Stable Funding Ratio under Basel III Liquidity Standards for Licensed Commercial Banks and Licensed Specialised Banks, dated 21.11.2018. (iii) Banking Act Directions No. 09 of 2018 on Amendments to the Banking Act Directions on Liquidity Coverage Ratio Under Basel III Liquidity Standards for Licensed Commercial Banks and Licensed Specialised Banks, dated 21.11.2018.
	6.2	The discontinuation/revocation effected by 5.1 and 6.1 above shall not affect: (i) Any offence committed or any penalty or liability incurred under those Directions prior to the revocation; and (ii) Any action or proceeding pending or incomplete on the date of revocation, and such action, or proceeding may be carried on and completed as if

those instructions, Directions, Determinations, Circulars and Orders continue to be in force.

7. Effective Date

7.1 These Determinations shall be effective from the appointed date of the Banking (Amendment) Act, No 24 of 2024.

Dr. P Nandalal Weerasinghe
Chairman of the Governing Board and
Governor of the Central Bank of Sri Lanka

SCHEDULE I

BASEL III LIQUIDITY STANDARDS

ON LIQUIDITY COVERAGE RATIO

CONTENTS

1. INTRODUCTION

1.1 The global financial crisis that began in 2007 revealed that certain banks even with adequate capital levels experienced severe stress due to lack of prudent liquidity risk management practices and due to sudden evaporation of liquidity from the market resulting from withdrawals of credit lines by market participants.

1.2 The Basel Committee on Banking Supervision (BCBS) issued the Basel III rules on liquidity risk measurement, standards and monitoring on 16.12.2010. Two minimum standards, viz., the Liquidity Coverage Ratio and the Net Stable Funding Ratio, were prescribed by BCBS. In January 2013, the Basel Committee's oversight body, the Group of Central Bank Governors and Heads of Supervision (GHOS) endorsed the Basel III Liquidity Rule on LCR as the global minimum standard for liquidity risk.

1.3 LCR is expected to improve the banking sector's ability to absorb shocks arising from financial and economic stress, thus, reducing the risk of spillover from the financial sector to the real economy. LCR is one of the Basel Committee's key reforms to strengthen global liquidity regulations with the goal of promoting a more resilient banking sector.

1.4 Basel III Liquidity Standards mainly focus on internationally active banks. However, regulators have adopted these standards for other banks too with a view to further strengthening liquidity risk management, be in line with international best practices and facilitating entity rating, Sovereign rating and international fund-raising activities.

2. THE REGULATORY FRAMEWORK

2.1 Objective of LCR:

LCR intends to:

a) promote short-term resilience of the liquidity risk profile of banks ensuring that banks have adequate stock of unencumbered high-quality liquid assets that canbe converted easily and immediately into cash in secondary market to meet their liquidity needs for a period of 30 calendar days under a liquidity stress scenario; and

b) improve the ability of the banking sector to absorb shocks arising from financial and economic stress, whatever the source, thus reducing the risk of spillover from the financial sector to the real economy.

2.2 Scope of application

LCR framework shall be applicable to banks on a standalone ("Solo") basis including overseas operations through branches and for the banks incorporated in Sri Lanka, the scope will be extended to the consolidated ("Group") level.

2.3 LCR computation

The computation of LCR shall be based on the following formula.

$$LCR = \frac{\text{Stock of high-quality liquid assets}}{\text{Total net cash outflows over the next 30 calendar days}} * 100$$

2.4 Definition of High-Quality Liquid Assets (HQLA)

2.4.1. HQLA are assets that satisfy the following conditions:

a) can be easily and immediately converted into cash at little or no loss of value,

b) can be readily sold or used as collateral to obtain funds in a range of stress scenarios, and

c) are unencumbered, i.e., without legal, regulatory or operational impediments.

2.4.2. Characteristics of HQLA

In determining HQLA, banks shall consider the fundamental characteristics and market related characteristics of such assets.

a) **Fundamental characteristics**

i) **Low credit and market risk**: Assets that are less risky tend to have high liquidity. High credit standing of the issuer and a low degree of subordination increases an asset's liquidity. Low duration, low volatility, low inflation risk and denomination in a convertible currency with low foreign exchange risk enhance an asset's liquidity.

ii) **Ease and certainty of valuation**: An asset's liquidity increases if market participants are more likely to agree on its valuation. The pricing formula of a HQLA must be easy to calculate and should not depend on strong assumptions. The inputs into the pricing formula must also be publicly available. In practice, this should rule out the inclusion of most structured or exotic products.

iii) **Low correlation with risky assets**: The stock of HQLA should not be subject to highly correlated risk. For example, assets issued by financial institutions are more likely to be illiquid in times of liquidity stress in the banking sector.

iv) **Listed on a developed and recognised exchange market**: Being listed increases an asset's transparency.

b) **Market related characteristics**

i) **Active and sizable market**: The asset should have an active outright sale or repurchase agreement (repo) market at all times, i.e., a large number of market participants and a high trading volume. There should be historical evidence of market breadth such as price impact per unit of liquidity and market depth such as units of the asset that can be traded for a given price impact.

ii) **Presence of committed market makers**: Quotes should be available for buying and/or selling a high-quality liquid asset.

iii) **Low market concentration**: A diverse group of buyers and sellers in an asset's market increases the reliability of its liquidity.

iv) **Capital flight towards quality assets**: Historically, the market shouldhave shown tendencies to move into these types of assets in a systemic crisis.

2.5 Categories of HQLA

HQLA are categorised into two broad categories. Assets to be included in each category are those that the bank is holding on the first day of the stress period, irrespective of their residual maturity.

a) **Level 1 assets:** Include cash in hand, qualifying Central Bank reserves and qualifying marketable securities that attract a 0% risk weight under the Basel III Capital Adequacy Framework.

b) **Level 2 assets:** Include Level 2A assets and Level 2B assets up to a maximum of 40% of total HQLA.

i) **Level 2A assets:** Include qualifying investments in gilt unit trusts, subject to a 15% haircut.

ii) **Level 2B assets:** Include qualifying non- financial common equity shares, subject to a 50% haircut. Level 2B assets are limited to a maximum of 15% of total HQLA.

Assets to be included in each category with the applicable factors and limitations are indicated below.

Item	Factor
Stock of HQLA	
A. Level 1 assets	
• Cash in hand • Qualifying Central Bank balances and reserves in excess of the Statutory Reserves Ratio (SRR) • Qualifying marketable securities with a 0% risk weight	100%
B. Level 2 assets *(maximum of 40% of HQLA)*	
Level 2A assets	
• Qualifying marketable securities with a 20% risk weight • Qualifying investments in gilt unit trust backed by government of Sri Lanka securities	85%
Level 2B assets *(maximum of 15% of HQLA)*	
• Qualifying non-financial common equity shares	50%
Total value of stock of HQLA	

2.6 Total net cash outflows

2.6.1 Total net cash outflows are defined as the total expected cash outflows minus total expected cash inflows for the subsequent 30 calendar days. Total expected cash outflows are calculated by multiplying the outstanding balances of various categories or types of liabilities and off-balance sheet commitments by the rates at which they are expected to run off or be drawn down. Total expected cash inflows are calculated by multiplying the outstanding balances of various categories of contractual receivables by the rates at which they are expected to flow in up to an aggregate cap of 75% of the total expected cash outflows.

2.6.2 Banks shall not double count items, i.e., if an asset is included as part of the "stock of HQLA" (i.e. numerator), the associated cash inflows cannot be counted as "cash inflows" (i.e. part of the denominator).

2.7 Appendices

The Reporting formats for Rupee Liquidity Requirement (BSD-MF-19-RR) and All

Currency Liquidity Requirement (BSD-MF-19-AR) along with the Guidelines for calculation of LCR and Mapping of notations of the Credit Rating Agencies for classification of assets for LCR are given below.

2.7.1 Appendix I - Reporting formats for both Rupee Liquidity Requirement and All Currency Liquidity Requirement.

2.7.2 Appendix II - Guidelines for calculation of Liquidity Coverage ratio.

2.7.3 Appendix III - Mapping of notations of the Credit Rating Agencies for classification of assets for LCR.

Appendix I of Schedule I

Reporting Formats for Rupee Liquidity Requirement (BSD-MF-19-R1 to BSD-MF-19-R4)
Reporting Formats for All-Currency Liquidity Requirement (BSD-MF-19-A1 to BSD-MF-19-A4)
Monthly Financial Return (LKR'000)

Name of the Bank:

As at:

Part I - Calculation of LCR

Web-based Return Code	Item	Amount
19.1.1.0.0.0	Total Stock of HQLA = 19.2.0.0.0.0 of Part II	
19.1.2.0.0.0	Total Cash Outflows = 19.3.0.0.0.0 of Part III	
19.1.3.0.0.0	Total Cash Inflows = 19.4.0.0.0.0 of Part IV	
19.1.4.0.0.0	Net Cash Outflows = 19.1.2.0.0.0 - MIN(19.1.3.0.0.0, 75%*19.1.2.0.0.0)	
19.1.5.0.0.0	Liquidity Coverage Ratio,% = (19.1.1.0.0.0/19.1.4.0.0.0)*100	

Part II - Calculation of High-Quality Liquid Assets (HQLA)

Web-based Return Code	Asset	Amount	Factor	Weighted Amount
19.2.0.0.0.0	**Total stock of HQLA**			
19.2.1.0.0.0	**Total Adjusted Level 1 Assets**			
19.2.1.1.0.0	**Level 1 Assets**			
19.2.1.1.1.0	Cash in hand		100%	
19.2.1.1.2.0	Qualifying central bank balances and reserves in excess of Statutory Reserve Ratio		100%	
19.2.1.1.3.0	Qualifying marketable securities with a 0% risk weight			
19.2.1.1.3.1	Issued by sovereigns		100%	
19.2.1.1.3.2	Guaranteed by sovereigns		100%	
19.2.1.1.3.3	Issued or guaranteed by central banks		100%	
19.2.1.1.3.4	Issued or guaranteed by BIS, IMF, ECB and European Community or MDBs		100%	
19.2.1.2.0.0	**Adjustments**			
19.2.1.2.1.0	Add: Market value of level 1 securities pledged for secured funding		100%	
19.2.1.2.2.0	Add: Amounts extended through secured lending		100%	
19.2.1.2.3.0	Less: Market value of level 1 securities received for secured lending		100%	
19.2.1.2.4.0	Less: Amounts raised through secured funding		100%	
19.2.2.0.0.0	**Total Adjusted Level 2A Assets**			
19.2.2.1.0.0	**Level 2A Assets**			
19.2.2.1.1.0	Qualifying marketable securities with a 20% risk weight:			
19.2.2.1.1.1	Issued or guaranteed by sovereigns		85%	
19.2.2.1.1.2	Issued or guaranteed by central banks		85%	
19.2.2.1.1.3	Issued or guaranteed by Public Sector Enterprises		85%	
19.2.2.1.1.4	Issued or guaranteed by MDBs		85%	

19.2.2.1.2.0	Qualifying investments in gilt unit trust backed by Government of Sri Lanka (GOSL) securities		85%	
19.2.2.2.0.0	**Adjustments**			
19.2.2.2.1.0	Add: Market value of level 2A securities pledged for secured funding		85%	
19.2.2.2.2.0	Add: Amounts extended through secured lending		85%	
19.2.2.2.3.0	Less: Market value of level 2A securities received for secured lending		85%	
19.2.2.2.4.0	Less: Amounts raised through secured funding		85%	
19.2.3.0.0.0	**Total Adjusted Level 2B Assets**			
19.2.3.1.0.0	**Level 2B Assets**			
19.2.3.1.1.0	Qualifying non-financial common equity shares		50%	
19.2.3.2.0.0	**Adjustments**			
19.2.3.2.1.0	Add: Market value of level 2B securities pledged for secured funding		50%	
19.2.3.2.2.0	Add: Amounts extended through secured lending		50%	
19.2.3.2.3.0	Less: Market value of level 2B securities received for secured lending		50%	
19.2.3.2.4.0	Less: Amounts raised through secured funding		50%	

Part III - Calculation of Total Cash Outflows

Web-based Return Code	Item	Amount	Factor	Weighted Amount
19.3.0.0.0.0	**Total cash outflows**			
19.3.1.0.0.0	**Deposits**			
19.3.1.1.0.0	Demand, savings and term deposits (less than 30 days maturity)			
19.3.1.1.1.0	Retail customers		10%	
19.3.1.1.2.0	Small and medium enterprises		10%	
19.3.1.2.0.0	Term deposits with residual maturity greater than 30 days		0%	
19.3.2.0.0.0	**Unsecured wholesale funding**			
19.3.2.1.0.0	Operational deposits generated by clearing, custody and cash management activities		25%	
19.3.2.2.0.0	Cooperative banks in an institutional network (qualifying deposits with the centralised institution)		25%	
19.3.2.3.0.0	Non-financial corporates, sovereigns, central banks, MDBs and Public Sector Enterprises		40%	
19.3.2.4.0.0	Other legal entity customers		100%	
19.3.3.0.0.0	**Secured funding transactions**			
19.3.3.1.0.0	Backed by Level 1 assets		0%	
19.3.3.2.0.0	Backed by Level 2A assets		15%	
19.3.3.3.0.0	Backed by Level 2B assets		50%	
19.3.3.4.0.0	Backed by all other assets		100%	
19.3.4.0.0.0	**Undrawn portion of committed (irrevocable) facilities and other contingent funding obligations**			
19.3.4.1.0.0	Committed (irrevocable) credit & liquidity facilities			

19.3.4.1.1.0	Undrawn committed credit & liquidity facilities to retail and small and medium enterprises		5%	
19.3.4.1.2.0	Undrawn committed credit facilities to non-financial corporates, sovereigns, CBs, PSEs and MDBs		10%	
19.3.4.1.3.0	Undrawn committed liquidity facilities to non-financial corporates, sovereigns, CBs, PSEs and MDBs		30%	
19.3.4.1.4.0	Undrawn committed liquidity facilities to banks subject to prudential supervision		40%	
19.3.4.1.5.0	Undrawn committed credit facilities to other financial institutions		40%	
19.3.4.1.6.0	Undrawn committed liquidity facilities to other financial institutions		100%	
19.3.4.1.7.0	Undrawn committed credit & liquidity facilities to other legal entities		100%	
19.3.4.2.0.0	Other contingent funding obligations			
19.3.4.2.1.0	Unconditionally revocable "uncommitted" credit and liquidity facilities		0%	
19.3.4.2.2.0	Trade Finance related obligations (including guarantees and letters of credit)		5%	
19.3.4.2.3.0	Guarantees unrelated to trade finance obligations		0%	
19.3.4.2.4.0	Other contractual cash outflows		100%	
19.3.5.0.0.0	**Additional requirements**			
19.3.5.1.0.0	Net derivative cash outflows		100%	
19.3.5.2.0.0	Any other contractual cash outflows		100%	

Part IV - Calculation of Total Cash Inflows

Web-based Return Code	Item	Amount	Factor	Weighted Amount
19.4.0.0.0.0	**Total cash inflows**			
19.4.1.0.0.0	**Maturing secured lending transactions backed by the following collateral**			
19.4.1.1.0.0	Backed by Level 1 assets		0%	
19.4.1.2.0.0	Backed by Level 2A assets		15%	
19.4.1.3.0.0	Backed by Level 2B assets		50%	
19.4.1.4.0.0	Margin lending backed by non-Level 1 or non-Level 2 collateral		50%	
19.4.1.5.0.0	Backed by all other assets		100%	
19.4.2.0.0.0	**Committed facilities**			
19.4.2.1.0.0	Credit facilities		0%	
19.4.2.2.0.0	Liquidity facilities		0%	
19.4.2.3.0.0	Other contingent funding facilities		0%	
19.4.3.0.0.0	**Other inflows by counterparty which are maturing within 30 days**			
19.4.3.1.0.0	Retail and small and medium enterprises		50%	
19.4.3.2.0.0	Non-financial wholesale counterparties		50%	
19.4.3.3.0.0	Central Banks, Banks and Financial Institutions		100%	
19.4.4.0.0.0	**Operational deposits**		0%	
19.4.5.0.0.0	**Other cash inflows**			
19.4.5.1.0.0	Net derivative cash inflows		100%	
19.4.5.2.0.0	Other contractual cash inflows		50%	

Guidelines for Calculation of Liquidity Coverage Ratio

Web-based Return Code	Item
19.2.0.0.0.0	**Total stock of HQLA**
19.2.1.0.0.0	**Total Adjusted Level 1 Assets**
19.2.1.1.0.0	**Level 1 Assets**
19.2.1.1.1.0	**Cash in hand** All cash (coins and bank notes) held by the bank that is immediately available to meet obligations.
19.2.1.1.2.0	**Qualifying central bank balances and reserves in excess of Statutory Reserve Ratio (SRR)** Central Bank balances and reserves in excess of SRR maintained which can be drawn down in times of stress. The balance held at CBSL which represents part of the capital held in foreign currency should not be included, since it is part of capital.
19.2.1.1.3.0	**Qualifying marketable securities with a 0% risk weight and shall satisfy all of the following:**
(i)	Traded in large, deep and active repo or cash markets characterized by a low level of concentration;
(ii)	Have a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions;
(iii)	Not an obligation of a financial institution or any of its affiliated entities;
(iv)	At the mark to market value;
(v)	Excluding securities pledged for secured funding/ repo irrespective of the maturity;
(vi)	Including securities received for secured lending/ reverse repo maturing over 30 days.
19.2.1.1.3.1	**Issued by sovereigns** Government of Sri Lanka - rupee claims. Foreign Sovereigns - where the sovereign attracts an ExternalCredit Rating between AAA to AA-.
19.2.1.1.3.2	**Guaranteed by sovereigns** Government of Sri Lanka - rupee claims. Foreign Sovereigns - where the sovereign attracts an ExternalCredit Rating between AAA to AA-.
19.2.1.1.3.3	**Issued or guaranteed by central banks (CBs)** Central Bank of Sri Lanka - all claims. Foreign Central Banks - where the sovereign attracts an External Credit Rating between AAA to AA-.
19.2.1.1.3.4	**Issued or guaranteed by BIS, IMF, ECB and European Community or MDBs** Issued or guaranteed by Bank for International Settlements (BIS), the International Monetary Fund (IMF), the European Central Bank (ECB), European Community (EC) and the following eligible Multilateral Development Banks (MDBs)
*	The World Bank Group comprising of the International Bank for Reconstruction and Development (IBRD) and the International Finance Corporation (IFC)
*	The Asian Development Bank (ADB)
*	The African Development Bank (AFDB)
*	The European Bank for Reconstruction and Development (EBRD)
*	The Inter-American Development Bank (IADB)
*	The European Investment Bank (EIB)
*	The European Investment Fund (EIF)
*	The Nordic Investment Bank (NIB)
*	The Caribbean Development Bank (CDB)
*	The Islamic Development Bank (IDB)
*	The Council of Europe Development Bank (CEDB)
*	The International Finance Facility for Immunization (IFFIm)

19.2.1.2.0.0	**Adjustments**
19.2.1.2.1.0	**Add: Market value of level 1 securities pledged for secured funding** Market value of the Level 1 asset collateral extended on secured funding or repo transactions that mature within 30 days.
19.2.1.2.2.0	**Add: Amounts extended through secured lending** Amounts extended through secured lending or reverse repo transactions maturing within 30 days, in which the bank has extended cash and obtained collateral in the form of Level 1 (where collateral obtained not re-used).
19.2.1.2.3.0	**Less: Market value of level 1 securities received for secured lending** Market value of the Level 1 asset collateral (where collateral obtained not re-used) received on secured lending or reverse repo transactions maturing within 30 days, in which the bank has extended cash and obtained collateral in the form of Level 1.
19.2.1.2.4.0	**Less: Amounts raised through secured funding** Amounts raised through secured funding or repo transactions conducted that mature within 30 days and are backed by Level 1 assets.
19.2.2.0.0.0	**Total Adjusted Level 2A Assets**
19.2.2.1.0.0	**Level 2A Assets**
19.2.2.1.1.0	**Qualifying marketable securities with a 20% risk weight and shall satisfy all of the following conditions:**
(i)	Traded in large, deep and active repo or cash markets characterised by a low level of concentration;
(ii)	Have a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions (i.e. A maximum decline of price or increase in haircut not exceeding 10% over a 30-day period of significant liquidity stress);
(iii)	Not an obligation of a financial institution or any of its affiliated entities;
(iv)	At the mark to market value;
(v)	Excluding securities pledged for secured funding/ repo irrespective of the maturity;
(vi)	Including securities received for secured lending/ reverse repo maturing over 30 days.
19.2.2.1.1.1	**Issued or guaranteed by sovereigns** Government of Sri Lanka - foreign claims. Foreign Sovereigns - where the sovereign attracts an External Credit Rating between A+ to A-.
19.2.2.1.1.2	**Issued or guaranteed by CBs** Foreign Central Banks - where the sovereign attracts an External Credit Rating between A+ to A-.
19.2.2.1.1.3	**Issued or guaranteed by Public Sector Enterprises (PSEs)** Domestic and foreign PSEs - where PSE attracts an External Credit Rating between AAA to AA-.
19.2.2.1.1.4	**Issued or guaranteed by MDBs** MDBs other than MDBs listed above in 19.2.1.1.3.4 where MDB attracts an External Credit Rating between AAA to AA-.
19.2.2.1.2.0	**Qualifying investments in Gilt Unit Trust (GUT) backed by GOSL securities, subject to:**
(i)	GUTs should be open ended mutual funds;
(ii)	Underlying investment portfolio of GUTs should always be Sri Lanka Government Securities;
19.2.2.2.0.0	**Adjustments**
19.2.2.2.1.0	**Add: Market value of level 2A securities pledged for secured funding** Market value of the Level 2A asset collateral extended on secured funding or repo transactions that mature within 30 days.
19.2.2.2.2.0	**Add: Amounts extended through secured lending** Amounts extended through secured lending or reverse repo transactions maturing within 30 days, in which the bank has extended cash and obtained collateral in the form of Level 2A (where collateral obtained not re-used).

19.2.2.2.3.0	**Less: Market value of level 2A securities received for secured lending** Market value of the Level 2A asset collateral (where collateral obtained not re-used) received on secured lending or reverse repo transactions maturing within 30 days, in which the bank has extended cash and obtained collateral in the form of Level 2A.
19.2.2.2.4.0	**Less: Amounts raised through secured funding** Amounts raised through secured funding or repo transactions that mature within 30 days and are backed by Level 2A assets.
19.2.3.0.0.0	**Total Adjusted Level 2B Assets**
19.2.3.1.0.0	**Level 2B Assets**
19.2.3.1.1.0 (i) (ii) (iii) (iv) (v) (vi)	**Qualifying non-financial common equity shares that satisfy all of the following conditions:** Not issued by a financial institution or any of its affiliated entities; Traded at recognized stock exchange and centrally cleared; Traded in large, deep and active repo or cash markets characterised by a low level of concentration; Have a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions (i.e., maximum decline of share price or increase in haircut not exceeding 40% over a 30 day period of significant liquidity stress); Excluding securities pledged for secured funding/ repo irrespective of the maturity; Including securities received for secured lending/ reverse repo maturing over 30 days.
19.2.3.2.0.0	**Adjustments**
19.2.3.2.1.0	**Add: Market value of level 2B securities pledged for secured funding** Market value of the Level 2B asset collateral extended on secured funding or repo transactions that mature within 30 days.
19.2.3.2.2.0	**Add: Amounts extended through secured lending** Amounts extended through secured lending or reverse repo transactions maturing within 30 days, in which the bank has extended cash and obtained collateral in the form of Level 2B (where collateral obtained not re-used).
19.2.3.2.3.0	**Less: Market value of level 2B securities received for secured lending** Market value of the Level 2B asset collateral (where collateral obtained not re-used) received on secured lending or reverse repo transactions maturing within 30 days, in which the bank has extended cash and obtained collateral in the form of Level 2B.
19.2.3.2.4.0	**Less: Amounts raised through secured funding** Amount raised through secured funding or repo transactions that mature within 30 days and are backed by Level 2B assets
19.3.0.0.0.0	**Total cash outflows (Capital and accrued interest if any)**
19.3.1.0.0.0	**Deposits** (including dormant deposits, collateralised customer deposits against lending, margin deposits and insured deposits under the Sri Lanka Deposit Insurance Scheme)
19.3.1.1.0.0	**Demand, savings and term deposits (less than 30 days maturity)**
19.3.1.1.1.0	**Retail customers** Deposits placed with a bank by a natural person.
19.3.1.1.2.0	**Small and medium enterprises** Deposits placed with a bank by small and medium enterprises (SME). The total amount of deposits placed with the bank by an SME shall not exceed Rs. 250 million. Qualifying criteria to be classified as an SME are as follows: (i) The annual turnover of the SME shall not exceed Rs.1 billion at the time of obtaining the deposit/granting the facility; (ii) The annual turnover should be based on latest available audited financial statements or certified by a Chartered Accountant or an Approved Accountant acceptable to the Department of Inland

	Revenue. In the case of draft financial statements, the turnover certified by a Chartered Accountant or an Approved Accountant should be obtained within the year; (iii) The criterion (ii) above shall be applicable if the total amount of deposits placed with the bank by the SME or the total exposure (including off-balance sheet exposure) to the SME is greater than or equal to Rs. 50 million. Otherwise banks may adopt their own internal mechanism to verify the annual turnover of the SME.
19.3.1.2.0.0	**Term deposits with residual maturity greater than 30 days** Cash outflows related to retail term deposits with a residual maturity or withdrawal notice period of greater than 30 days will be excluded from total expected cash outflows if the depositor has no legal right to withdraw deposits within 30 days or if early withdrawal results in a significant penalty that is materially greater than the loss of interest. If a bank allows a depositor to withdraw such deposit without applying the corresponding penalty, or despite a clause that says depositor has no legal right to withdraw, the entire category should be treated as demand deposits regardless of the remaining maturity.
19.3.2.0.0.0	**Unsecured wholesale funding** Wholesale deposits and other general obligations that are raised from legal entities (incorporated companies excluding SME). Wholesale deposits also include dormant deposits, collateralised customer deposits against lending, margin deposits and insured deposits under the Sri Lanka Deposit Insurance and Liquidity Support Scheme. ln case of other general obligations, they shall not be collateralised by legal rights to specifically designated assets owned by the borrowing institution in the case of bankruptcy, insolvency, liquidation or resolution. Obligations related to derivative contracts are explicitly excluded from this definition.
19.3.2.1.0.0	**Operational deposits generated by clearing, custody and cash management activities** Financial and non-financial customer deposits placed with a bank, in order to facilitate their access and ability to use payment and settlement systems or make payments. These services must be provided under a legally binding agreement in addition to the account mandate to institutional customers (e.g. Vostro Accounts and collection accounts).
19.3.2.2.0.0	**Cooperative banks in an institutional network (qualifying deposits with the centralizedinstitution)** Group of legally autonomous banks with a statutory framework of cooperation with common strategic focus and brand where specific functions are performed by central institutions. (e.g., Samurdhi banks, rural banks, sanasa saving societies, cooperative societies).
19.3.2.3.0.0	**Non-financial Corporates, Sovereigns, CBs, MDBs and PSEs** All deposits and other extensions of unsecured funding from non-financial corporate customers, sovereigns, CBs, MDBs and PSEs not held specifically for operational purposes.
19.3.2.4.0.0	**Other legal entity customers** Deposits and other funding from other institutions (including banks, security firms, insurance companies, etc.), fiduciaries, beneficiaries, conduits and special purpose vehicles, affiliated entities of the bank and other entities that are not specifically held for operational purposes and not included in the prior categories.
19.3.3.0.0.0 19.3.3.1.0.0 19.3.3.2.0.0 19.3.3.3.0.0 19.3.3.4.0.0	**Secured Funding Transactions** **Backed by Level 1 assets** Amounts raised through secured funding or repo transactions not conducted with the bank's domestic central bank and that mature within 30 days and are backed by Level 1 assets. **Backed by Level 2A assets** Amounts raised through secured funding or repo transactions not conducted with the bank's domestic central bank and that mature within 30 days and are backed by Level 2A assets. **Backed by Level 2B assets** Amounts raised through secured funding or repo transactions not conducted with the bank's domestic central bank and that mature within 30 days and are backed by Level 2B assets. **Backed by all other assets** Amounts raised through secured funding or repo transactions not conducted with the bank's domestic central bank and that mature within 30 days and are backed by other assets (non-HQLA).

19.3.4.0.0.0	**Undrawn portion of committed (irrevocable) facilities and other contingent funding obligations**
19.3.4.1.0.0 19.3.4.1.1.0 19.3.4.1.2.0 19.3.4.1.3.0 19.3.4.1.4.0 19.3.4.1.5.0 19.3.4.1.6.0 19.3.4.1.7.0	**Committed (irrevocable) credit & liquidity facilities** **Undrawn committed credit & liquidity facilities to retail and small and medium enterprises** In the case of an SME, the maximum exposure (including off-balance sheet exposure) of the lending bank to the SME shall not exceed Rs. 250 million. Undrawn committed credit facilities to non-financial corporates, sovereigns, CBs, PSEs and MDBs Undrawn committed liquidity facilities to non-financial corporates, sovereigns, CBs, PSEs and MDBs Undrawn committed credit & liquidity facilities to banks subject to prudential supervision Undrawn committed credit facilities to other financial institutions Undrawn committed liquidity facilities to financial institutions Undrawn committed credit & liquidity facilities to other legal entities
19.3.4.2.0.0	**Other contingent funding obligations** Other contingent funding liabilities such as guarantees, Letter of Credit (LC), recoverable credit and liquidity facility.
19.3.4.2.1.0	**Unconditionally revocable "uncommitted" credit and liquidity facilities** Balances of undrawn credit and liquidity facilities where the bank has the right to unconditionally revoke the undrawn portion of these facilities (e.g., Overdraft and credit card undrawn portion).
19.3.4.2.2.0	**Trade Finance related obligations (including guarantees and letters of credit)** Trade finance instruments consist of trade-related (import - export related) obligations directly underpinned by the movement of goods or the provision of services.
19.3.4.2.3.0	**Guarantees unrelated to trade finance obligations** The outstanding amount of guarantees unrelated to trade finance obligations.
19.3.4.2.4.0	**Other contractual cash outflows** Any other contractual cash outflows within the next 30 calendar days should be captured in this standard, such as outflows to cover unsecured collateral borrowings, uncovered short positions, dividends or contractual interest payments as to what comprises the amounts included in this line.
19.3.5.0.0.0	**Additional requirements**
19.3.5.1.0.0	**Net derivative cash outflows** Banks should calculate, in accordance with their existing valuation methodologies, expected contractual derivative cash inflows and outflows. Cash flows may be calculated on a net basis (i.e., inflows can offset outflows) by counterparty. The sum of all net cash outflows should be reported here. The sum of all net cash inflows should be reported in net derivative cash inflows. Where derivative payments are collateralised by HQLA, cash outflows should be calculated net of any corresponding cash or collateral inflows that would result, all other things being equal, from contractual obligationsfor cash or collateral to be provided to the bank, if the bank is legally entitled and operationally capableto re-use the collateral in new cash raising transactions once the collateral is received. This is in line with the principle that banks should not double count liquidity inflows and outflows.
19.3.5.2.0.0	**Any other contractual cash outflows** Including any amount required to be installed in the central bank reserves within 30 days, any other contractual cash outflows.
19.4.0.0.0.0	**Total cash inflows**
19.4.1.0.0.0 19.4.1.1.0.0 19.4.1.2.0.0 19.4.1.3.0.0	**Maturing secured lending transactions backed by the following collateral** **Backed by Level 1 assets** Amounts extended through secured lending or reverse repo transactions maturing within 30 days, in which the bank has extended cash and obtained collateral in the form of Level 1 (where collateral obtained not re-used). **Backed by Level 2A Assets** Amounts extended through secured lending or reverse repo transactions maturing within 30 days, in which the bank has extended cash and obtained collateral in the form of Level 2A (where collateral obtained not re-used). **Backed by Level 2B Assets**

	Amounts extended through secured lending or reverse repo transactions maturing within 30 days, in which the bank has extended cash and obtained collateral in the form of Level 2B (where collateral obtained not re-used).
19.4.1.4.0.0	**Margin lending backed by non-Level 1 or non-Level 2 collateral** Amounts extended through collateralised loans extended to customers for the purpose of taking leveraged trading positions ("margin loans") made against non-HQLA collateral.
19.4.1.5.0.0	**Backed by all other assets** Amounts extended through such transactions (other than those reported in 19.4.1.4.0.0) in which the bank has obtained collateral in another form than Level 1 or Level 2 assets.
19.4.2.0.0.0	**Committed facilities** Committed credit, liquidity or other contingent funding facilities that the bank holds in otherinstitutions for its own purpose.
19.4.2.1.0.0	Credit facilities
19.4.2.2.0.0	Liquidity facilities
19.4.2.3.0.0	Other contingent funding facilities
19.4.3.0.0.0	**Other inflows by counterparty which are maturing within 30 days**
19.4.3.1.0.0	**Retail and small and medium enterprises** All payments (including interest payments and instalments) from retail customers and small and medium enterprises on performing facilities that is contractually due within the 30-day horizon. In the case of an SME, the maximum exposure (including off-balance sheet exposure) of the lending bank to the SME shall not exceed Rs. 250 million.
19.4.3.2.0.0	**Non-financial wholesale counterparties** All payments (including interest payments and installments) from non-financial wholesale counterparties on performing facilities that is contractually due within the 30-day horizon.
19.4.3.3.0.0	**Central Banks, Banks and Financial Institutions** All payments (including interest payments and installments) from central banks, banks and financial institutions on performing facilities that is contractually due within the 30-day horizon.
19.4.4.0.0.0	**Operational deposits** Deposits held at other financial institutions for operational purposes such as clearing, custody and cash management purposes. Also includes deposits held at centralised institution of network of co-operative banks. These services must be provided under a legally binding agreement to institutional customers (e.g., Nostro Accounts, collection accounts, cash items in process of collection).
19.4.5.0.0.0	**Other cash inflows**
19.4.5.1.0.0	**Net derivative cash inflows** Banks should calculate, in accordance with their existing valuation methodologies, expected contractual derivative cash inflows and outflows. Cash flows may be calculated on a net basis (i.e., inflows can offset outflows) by counterparty. The sum of all net cash inflows should be reported here. The sum of all net cash outflows should be reported in net derivative cash outflows. Where derivatives are collateralised by HQLA, cash inflows should be calculated net of any corresponding cash or contractual collateral outflows that would result, all other things being equal, from contractual obligations for cash or collateral to be posted by the bank, given these contractual obligations would reduce the stock of HQLA. This is in line with the principle that banks should not double count liquidity inflows and outflows.
19.4.5.2.0.0	**Other contractual cash inflows** Any other contractual cash inflows to be captured.

Appendix III of Schedule I

Mapping of Notations of the Credit Rating Agencies for classification of assets for LCR

Fitch Rating Lanka	**Lanka Rating Agency Limited**	**Standard and Poor's**	**Moody's**	**Fitch Ratings**	**Rating Scale for LCR**
AAA (lka)	AAA	AAA	Aaa	AAA	AAA
AA+ (lka)	AA+	AA+	Aa1	AA+	AA+
AA (like)	AA	AA	Aa2	AA	AA
AA- (lka)	AA-	AA-	Aa3	AA-	AA-
A+ (lka)	A+	A+	A1	A+	A+
A (lka)	A	A	A2	A	A
A- (lka)	A-	A-	A3	A-	A-
BBB+ (lka)	BBB+	BBB+	Baa1	BBB+	BBB+
BBB (lka)	BBB	BBB	Baa2	BBB	BBB
BBB- (lka)	BBB-	BBB-	Baa3	BBB-	BBB-
BB+ (lka)	BB+	BB+	Ba1	BB+	BB+
BB (lka)	BB	BB	Ba2	BB	BB
BB- (lka)	BB-	BB-	Ba3	BB-	BB-
B+ (lka)	B+	B+	B1	B+	B+
B (lka)	B	B	B2	B	B
B- (lka) & Lower	B- & Lower	B- & Lower	B3 & Lower	B- & Lower	B- & Lower

SCHEDULE II

BASEL III LIQUIDITY STANDARDS
ON NET STABLE FUNDING RATIO

BASEL III - NET STABLE FUNDING RATIO

1.0 Implementation of Net Stable Funding Ratio

1.1 Basel Committee on Banking Supervision (BCBS) publication in December 2010 on liquidity, “Basel III: International framework for liquidity risk measurement, standards and monitoring” introduced two minimum standards namely Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR).

1.2 The objective of NSFR is to reduce funding risk over a longer time horizon by requiring LBs to fund their activities with sufficiently stable sources of funding.

2.0 Net Stable Funding Ratio

2.1 NSFR is defined as the amount of available stable funding relative to the amount of required stable funding. The amount of available and required stable funding are calibrated to reflect the presumed degree of stability of liabilities and liquidity of assets. The computation of NSFR shall be based on the following formula.

$$\boxed{\text{NSFR} = \frac{\text{available amount of stable funding}}{\text{required amount of stable funding}} * 100}$$

2.2 **Available Stable Funding**

Available Stable Funding (ASF) is defined as the portion of capital and liabilities expected to be reliable over the time horizon of one year. ASF factors such as 100%, 90%, 50% and 0% are assigned according to presumed degree of stability of funding.

2.3 **Required Stable Funding**

Required Stable Funding (RSF) is a function of liquidity characteristics and residual maturities of various assets held and those of its off-balance sheet (OBS) exposures. RSF factors such as 0%, 5%, 10%, 15%, 50%, 65%, 85%, and 100% are assigned to different asset categories accordingly.

2.4 **Off-balance Sheet Exposures (OBS)**

Many potential OBS exposures do not require immediate funding but can lead to significant liquidity drain over a longer time horizon. NSFR assigns RSF factors to various OBS exposures in order to ensure that banks hold stable funding for the portion of OBS exposures that may be expected to require funding within any one-year horizon.

2.5 Definitions on various components including High Quality Liquid Assets of Level 1, Level 2A and Level 2B assets of NSFR mirror those outlined in Schedule I of this Banking Act Determination on Liquidity Coverage Ratio, unless otherwise specified.

2.6 Unencumbered assets under NSFR have the meaning of free of legal, regulatory, contractual or other restrictions on the ability of the bank to liquidate, sell, transfer or assign the asset.

2.7 **Encumbered Assets**

(a) Assets on the balance sheet that are encumbered for one year or more receive a 100% RSF factor.

(b) Assets encumbered for a period of between six months and less than one year that would, if unencumbered, receive an RSF factor lower than or equal to 50% receive a 50% RSF factor.

(c) Assets encumbered for a period of between six months and less than one year that would, if unencumbered, receive an RSF factor higher than 50% retain that higher RSF factor.

(d) Where assets have less than six months remaining in the encumbrance period, those assets may receive the same RSF factor as an equivalent asset that is unencumbered.

3.0 Reporting Formats

3.1 The reporting formats and instruction guidelines for computation of Net Stable Funding Ratio are given as follows:

Appendix I: Reporting Formats for Net Stable Funding Ratio

Appendix II: Guidelines for computation of Net Stable Funding Ratio

Appendix I of Schedule II

REPORTING FORMATS FOR THE NET STABLE FUNDING RATIO

Part I: Computation of NSFR

Web-based Return Code	Item	Amount Rs. '000
32.1.1.0.0.0	Total Available Stable Funding	
32.1.2.0.0.0	Required Stable Funding – On Balance Sheet Assets	
32.1.3.0.0.0	Required Stable Funding – Off -balance Sheet Items	
32.1.4.0.0.0	Total Required Stable Funding	
32.1.5.0.0.0	NSFR	

Part II: Total Available Stable Funding

Web-based Return Code	Item	Unweighted Amount	ASF Factor	Weighted Amount
32.2.0.0.0.0	**Total Available Stable Funding**			
32.2.1.0.0.0	**Liabilities and capital assigned a 100% ASF factor**			
32.2.1.1.0.0	Total regulatory capital before capital deductions (excluding Tier 2 instruments with residual maturity of less than one year)		100%	
32.2.1.2.0.0	Any other capital instrument with effective residual maturity of one year or more		100%	
32.2.1.3.0.0	Secured and unsecured borrowings and liabilities with effective residual maturities of one year or more			
32.2.1.3.1.0	Net deferred tax liabilities		100%	
32.2.1.3.2.0	Minority interest		100%	
32.2.1.3.3.0	Other liabilities		100%	
32.2.2.0.0.0	**Liabilities assigned a 90% ASF factor**			
32.2.2.1.0.0	Non-maturity deposits and term deposits with residual maturity of less than one year provided by retail customers and Small and Medium Enterprises (SME)		90%	
32.2.3.0.0.0	**Liabilities assigned a 50% ASF factor**			
32.2.3.1.0.0	Funding with residual maturity of less than one year provided by non-financial corporate customers		50%	
32.2.3.2.0.0	Operational deposits		50%	
32.2.3.3.0.0	Funding with residual maturity of less than one year from sovereigns, Public Sector Entities (PSEs), and Multilateral Development Banks (MDBs)		50%	
32.2.3.4.0.0	Other funding with residual maturity between six months and less than one year not included in the above categories, including funding provided by central banks and financial institutions			
32.2.3.4.1.0	Net deferred tax liabilities		50%	
32.2.3.4.2.0	Minority interest		50%	
32.2.3.4.3.0	Other liabilities		50%	

32.2.4.0.0.0	**Liabilities assigned a 0% ASF factor**			
32.2.4.1.0.0	All other liabilities and equity not included in the above categories including other funding with residual maturity of less than six months from central banks and financial institutions		0%	
32.2.4.2.0.0	Other liabilities without a stated maturity			
32.2.4.2.1.0	Net deferred tax liabilities		0%	
32.2.4.2.2.0	Minority interest		0%	
32.2.4.2.3.0	Other liabilities		0%	
32.2.4.3.0.0	NSFR derivative liabilities net of NSFR derivative assets (if NSFR derivative liabilities are greater than NSFR derivative assets)		0%	
32.2.4.4.0.0	“Trade date” payables arising from purchases of financial instruments, foreign currencies and commodities		0%	

Part III (a): Required Stable Funding – On Balance Sheet Assets

Web-based Return Code	Item	Unweighted Amount	RSF Factor	Weighted Amount
32.3.0.0.0.0	**Required Stable Funding – On Balance Sheet Assets**			
32.3.1.0.0.0	**Assets assigned a 0% RSF factor**			
32.3.1.1.0.0	Cash in hand		0%	
32.3.1.2.0.0	Central bank reserves (Statutory Reserve Ratio (SRR) including excess SRR)		0%	
32.3.1.3.0.0	All claims on central banks with residual maturities of less than six months		0%	
32.3.1.4.0.0	"Trade date" receivables arising from sales of financial instruments, foreign currencies and commodities		0%	
32.3.2.0.0.0	**Assets assigned a 5% RSF factor**			
32.3.2.1.0.0	Unencumbered Level 1 assets			
32.3.2.1.1.0	Qualifying marketable securities			
32.3.2.1.1.1	Issued by sovereigns		5%	
32.3.2.1.1.2	Guaranteed by sovereigns		5%	
32.3.2.1.1.3	Issued or guaranteed by central banks		5%	
32.3.2.1.1.4	Issued or guaranteed by BIS, IMF, ECB and EC or eligible MDBs		5%	
32.3.2.2.0.0	20% of derivative liabilities		5%	
32.3.3.0.0.0	**Assets assigned a 10% RSF factor**			
32.3.3.1.0.0	Unencumbered loans to financial institutions with residual maturities of less than six months		10%	
32.3.4.0.0.0	**Assets assigned a 15% RSF factor**			
32.3.4.1.0.0	Unencumbered Level 2A assets			
32.3.4.1.1.0	Qualifying marketable securities			
32.3.4.1.1.1	Issued or guaranteed by sovereigns		15%	
32.3.4.1.1.2	Issued or guaranteed by central banks		15%	
32.3.4.1.1.3	Issued or guaranteed by PSEs		15%	
32.3.4.1.1.4	Issued or guaranteed by MDBs		15%	
32.3.4.1.2.0	Qualifying non-financial corporate debt securities (including commercial paper and promissory notes) and covered bonds		15%	
32.3.4.1.3.0	Qualifying investments in gilt unit trust backed by Government of Sri Lanka (GOSL) securities		15%	

32.3.4.2.0.0	All other unencumbered loans to financial institutions with residual maturities of less than six months		15%	
32.3.5.0.0.0	**Assets assigned a 50% RSF factor**			
32.3.5.1.0.0	Unencumbered Level 2B assets			
32.3.5.1.1.0	Qualifying non-financial corporate debt securities (including commercial paper and promissory notes)		50%	
32.3.5.1.2.0	Qualifying non-financial common equity shares		50%	
32.3.5.1.3.0	Residential mortgage-backed securities (RMBS) with a credit rating of at least AA		50%	
32.3.5.2.0.0	HQLA encumbered for a period of six months or more and less than one year		50%	
32.3.5.3.0.0	Unencumbered loans to financial institutions and central banks with residual maturity between six months and less than one year		50%	
32.3.5.4.0.0	Deposits held at other financial institutions for operational purposes		50%	
32.3.5.5.0.0	All other non HQLA not included in the above categories with residual maturity of less than one year		50%	
32.3.6.0.0.0	**Assets assigned a 65% RSF factor**			
32.3.6.1.0.0	Qualifying unencumbered residential mortgages with a residual maturity of one year or more		65%	
32.3.6.2.0.0	Other qualifying unencumbered loans not included in the above categories, excluding loans to financial institutions, with a residual maturity of one year or more		65%	
32.3.7.0.0.0	**Assets assigned an 85% RSF factor**			
32.3.7.1.0.0	Cash, securities or other assets posted as initial margin for derivative contracts		85%	
32.3.7.2.0.0	Other unencumbered performing loans		85%	
32.3.7.3.0.0	Unencumbered securities that are not in default and do not qualify as HQLA		85%	
32.3.7.4.0.0	Physical traded commodities, including gold		85%	
32.3.8.0.0.0	**Assets assigned a 100% RSF factor**			
32.3.8.1.0.0	All assets that are encumbered for a period of one year or more		100%	

32.3.8.2.0.0	NSFR derivative assets net of NSFR derivative liabilities if NSFR derivative assets are greater than NSFR derivative liabilities		100%	
32.3.8.3.0.0	All other assets not included in above		100%	

Part III (b): Required Stable Funding – Off Balance Sheet Items

Web-based Return Code	Item	Unweighted Amount	RSF Factor	Weighted Amount
32.4.0.0.0.0	**Required Stable Funding – Off Balance Sheet Items**			
32.4.1.0.0.0	Irrevocable and conditionally revocable credit and liquidity facilities to any client		5%	
32.4.2.0.0.0	**Other contingent funding obligations including products and instruments**			
32.4.2.1.0.0	Unconditionally revocable credit and liquidity facilities		0%	
32.4.2.2.0.0	Trade finance related obligations including guarantees and letters of credit		5%	
32.4.2.3.0.0	Guarantees unrelated to trade finance obligations		0%	
32.4.3.0.0.0	**Non-contractual obligations**			
32.4.3.1.0.0	Potential requests for debt repurchases of the bank’s own debt or that of related conduits, securities investment vehicles and other such financing facilities		5%	
32.4.3.2.0.0	Structured products where customers anticipate ready marketability, such as adjustable rate notes and variable rate demand notes (VRDNs)		5%	
32.4.3.3.0.0	Managed funds that are marketed with the objective of maintaining a stable value		5%	
32.4.4.0.0.0	**Any other obligations**		5%	

Guidelines for Computation of NSFR Return

Web-based Return Code	Item
32.2.0.0.0.0	**Total Available Stable Funding**
32.2.1.0.0.0	**Liabilities and capital assigned a 100% ASF factor**
32.2.1.1.0.0	**Total regulatory capital before capital deductions (excluding Tier 2 instruments with residual maturity of less than one year)** Total amount of regulatory capital, before the application of capital deductions, as defined in the Banking Act Directions No. 01 of 2016 on Capital Requirements under Basel III excluding the value of Tier 2 instruments with residual maturity of less than one year.
32.2.1.2.0.0	**Any other capital instrument with effective residual maturity of one year or more** Total amount of any capital instrument not included above that has an effective residual maturity of one year or more, but excluding any instruments with explicit or embedded options that, if exercised, would reduce the expected maturity to less than one year. Value of Tier 2 instruments, with effective residual maturity of one year or more, that is not captured under 32.2.1.1.0.0 is eligible under this.
32.2.1.3.0.0	**Secured and unsecured borrowings and liabilities with effective residual maturities of one year or more** Total amount of secured and unsecured borrowings and liabilities (including term deposits) with effective residual maturities of one year or more. Cash flows falling below the one-year horizon but arising from liabilities with a final maturity greater than one year do not qualify for the 100% ASF factor. If a bank allows a depositor to withdraw a term deposit without applying a significant penalty that is materially greater than the loss of interest, or despite a clause that says depositor has no legal right to withdraw, the entire category should be treated as demand deposits regardless of the remaining maturity. Net deferred tax liabilities (if deferred tax liabilities are greater than deferred tax assets) should be treated according to the nearest possible date on which

	such liabilities could be realised; and minority interest, should be treated according to the term of the instrument, usually in perpetuity. Based on that these liabilities are assigned either a 100% ASF factor if the effective maturity is one year or greater under 32.2.1.3.0.0, 50% if the effective maturity is between six months and less than one year under 32.2.3.4.0.0 or 0% otherwise under 32.2.4.2.0.0.
32.2.2.0.0.0	**Liabilities assigned a 90% ASF factor**
32.2.2.1.0.0	**Non-maturity deposits and term deposits with residual maturity of less than one year provided by retail customers and SME** Non-maturity deposits and/or term deposits with residual maturity of less than one year provided by retail customers and SME. In the case of SME, the total amount of deposits placed with the bank by an SME shall not exceed Rs. 250 million. Qualifying criteria to be classified as an SME are as follows: (i) The annual turnover of the SME shall not exceed Rs. 1 billion at the time of obtaining the deposit/granting the facility; (ii) The annual turnover should be based on latest available audited financial statements or certified by a Chartered Accountant or an Approved Accountant acceptable to the Department of Inland Revenue. In the case of draft financial statements, the turnover certified by a Chartered Accountant or an Approved Accountant should be obtained within the year; (iii) The criterion (ii) above shall be applicable if the total amount of deposits placed with the bank by the SME or the total exposure (including off-balance sheet exposure) to the SME is greater than or equal to Rs. 50 million. Otherwise banks may adopt their own internal mechanism to verify the annual turnover of the SME.

32.2.3.0.0.0	**Liabilities assigned a 50% ASF factor**
32.2.3.1.0.0	**Funding with residual maturity of less than one year provided by non-financial corporate customers** Both secured and unsecured funding with a residual maturity of less than one year provided by non-financial corporate customers.
32.2.3.2.0.0	**Operational deposits** Financial and non-financial customer deposits placed with a bank, in order to facilitate their access and ability to use payment and settlement systems or make payments (e.g. Vostro accounts and collection accounts).
32.2.3.3.0.0	**Funding with residual maturity of less than one year from sovereigns, PSEs, and MDBs** Funding with residual maturity of less than one year provided by sovereigns, PSEs, and MDBs.
32.2.3.4.0.0	**Other funding with residual maturity between six months and less than one year not included in the above categories, including funding provided by central banks and financial institutions** Secured and unsecured other funding with residual maturity between six months and less than one year not included in the above categories, including funding provided by central banks and financial institutions. Refer Banking Act Directions No. 1 of 2016 of Capital Requirements under Basel III for indicative list of financial institutions. Net deferred tax liabilities and minority interest shall be treated as instructed in 32.2.1.3.0.0.
32.2.4.0.0.0	**Liabilities assigned a 0% ASF factor**
32.2.4.1.0.0	**All other liabilities and equity not included in the above categories including other funding with residual maturity of less than six months from central banks and financial institutions** Liabilities and equity categories not included in the above categories, including other funding with residual maturity of less than six months provided by central banks and financial institutions.

32.2.4.2.0.0	**Other liabilities without a stated maturity** This category may include short positions and open maturity positions. Net deferred tax liabilities and minority interest shall be treated as instructed in 32.2.1.3.0.0.
32.2.4.3.0.0	**NSFR derivative liabilities net of NSFR derivative assets (if NSFR derivative liabilities are greater than NSFR derivative assets)** NSFR derivative liabilities net of NSFR derivative assets, if NSFR derivative liabilities are greater than NSFR derivative assets. i.e. ASF = 0% * MAX ((NSFR derivative liabilities - NSFR derivative assets), 0). **Derivative liabilities are calculated based on the replacement cost for derivative contracts (obtained by marking to market), where the contract has a negative value. When an eligible bilateral netting (refer Banking Act Directions on Leverage Ratio under Basel III for Licensed Commercial Banks and Licensed Specialised Banks for eligibility criteria) contract is in place, the replacement cost for the set of derivative exposures covered by the contract will be the net replacement cost. In calculating NSFR derivative liabilities, collateral posted in the form of variation margin in connection with derivative contracts must be deducted from the negative replacement cost. NSFR derivative liabilities = (derivative labilities) – (total collateral posted as variation margin on derivative liabilities).
32.2.4.4.0.0	**"Trade date" payables arising from purchases of financial instruments, foreign currencies and commodities** "Trade date" payables arising from purchases of financial instruments, foreign currencies and commodities that (i) are expected to settle within the standard settlement cycle or period that is customary for the relevant exchange or type of transaction, or (ii) have failed to, but are still expected to settle.
32.3.0.0.0.0	**Required Stable Funding – On Balance Sheet Assets**
32.3.1.0.0.0	**Assets assigned a 0% RSF factor**
32.3.1.1.0.0	**Cash in hand** All cash (coins and bank notes) held by the bank that is immediately available to meet obligations.

32.3.1.2.0.0	**Central bank reserves (SRR including excess)** Central bank balances and reserves including excess of SRR. The balance held at central bank which represents part of the capital held in foreign currency should not be included, since it is part of capital.
32.3.1.3.0.0	**All claims on central banks with residual maturities of less than six months** All claims on central banks with residual maturities of less than six months.
32.3.1.4.0.0	**"Trade date" receivables arising from sales of financial instruments, foreign currencies and commodities** Trade date receivables arising from sales of financial instruments, foreign currencies and commodities that (i) are expected to settle within the standard settlement cycle or period that is customary for the relevant exchange or type of transaction, or (ii) have failed to, but are still expected to, settle.
32.3.2.0.0.0	**Assets assigned a 5% RSF factor**
32.3.2.1.0.0	**Unencumbered Level 1 assets**
32.3.2.1.1.0	**Qualifying marketable securities** Marketable securities with a 0% risk weight under the Banking Act Directions No. 01 of 2016 on Capital Requirements under Basel III and that shall satisfy the following:
(i)	Traded in large, deep and active repo or cash markets characterised by a low level of concentration;
(ii)	Have a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions;
(iii)	Not an obligation of a financial institution or any of its affiliated entities;
(iv)	At the mark to market value.
32.3.2.1.1.1	**Issued by sovereigns** Government of Sri Lanka - all rupee claims. Foreign Sovereigns - where the sovereign attracts an External Credit Rating between AAA to AA-. Refer Banking Act Directions No. 01 of 2016 on Capital Requirements under Basel III for mapping of notations of the credit rating agencies in Sri Lanka.

32.3.2.1.1.2	**Guaranteed by sovereigns** Government of Sri Lanka - all rupee claims. Foreign Sovereigns - where the sovereign attracts an External Credit Rating between AAA to AA-.
32.3.2.1.1.3	**Issued or guaranteed by central banks** Central Bank of Sri Lanka - all claims. Foreign Central Banks - where the sovereign attracts an External Credit Rating between AAA to AA-.
32.3.2.1.1.4	**Issued or guaranteed by BIS, IMF, ECB and EC or MDBs** Issued or guaranteed by Bank for International Settlements (BIS), the International Monetary Fund (IMF), the European Central Bank (ECB), European Community (EC) and the following eligible MDBs:
*	The World Bank Group comprising of the International Bank for Reconstruction and Development (IBRD) and the International Finance Corporation (IFC)
*	The Asian Development Bank (ADB)
*	The African Development Bank (AFDB)
*	The European Bank for Reconstruction and Development (EBRD)
*	The Inter-American Development Bank (IADB)
*	The European Investment Bank (EIB)
*	The European Investment Fund (EIF)
*	The Nordic Investment Bank (NIB)
*	The Caribbean Development Bank (CDB)
*	The Islamic Development Bank (IDB)
*	The Council of Europe Development Bank (CEDB)
*	The International Finance Facility for Immunization (IFFIm)
32.3.2.2.0.0	**20% of derivative liabilities** 20% of derivative liabilities (i.e. negative replacement cost amounts before deducting variation margin posted).

32.3.3.0.0.0	**Assets assigned a 10% RSF factor**
32.3.3.1.0.0	**Unencumbered loans to financial institutions with residual maturities of less than six months** Unencumbered loans to financial institutions with residual maturities of less than six months, where the loan is secured against Level 1 assets and where the bank has the ability to freely rehypothecate the received collateral for the life of the loan.
32.3.4.0.0.0	**Assets assigned a 15% RSF factor**
32.3.4.1.0.0	**Unencumbered Level 2A assets**
32.3.4.1.1.0	**Qualifying marketable securities** Marketable securities with a 20% risk weight under the Banking Act Directions No. 01 of 2016 on Capital Requirements under Basel III and that shall satisfy the following conditions:
(i)	Traded in large, deep and active repo or cash markets characterised by a low level of concentration;
(ii)	Have a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions (i.e. A maximum decline of price or increase in haircut not exceeding 10% over a 30-day period of significant liquidity stress);
(iii)	Not an obligation of a financial institution or any of its affiliated entities;
(iv)	At the mark to market value.
32.3.4.1.1.1	**Issued or guaranteed by sovereigns** Government of Sri Lanka – all foreign claims Foreign Sovereigns - where the sovereign attracts an External Credit Rating between A+ to A-.
32.3.4.1.1.2	**Issued or guaranteed by central banks** Foreign Central Banks - where the sovereign attracts an External Credit Rating between A+ to A-.
32.3.4.1.1.3	**Issued or guaranteed by PSEs** Domestic and foreign PSEs - where PSE attracts an External Credit Rating between AAA to AA-.

32.3.4.1.1.4	**Issued or guaranteed by MDBs** MDBs other than MDBs listed above in 32.3.2.1.1.4 where MDBs attracts an External Credit Rating between AAA to AA-.
32.3.4.1.2.0	**Qualifying non-financial corporate debt securities (including commercial paper and promissory notes) and covered bonds** Shall satisfy the following conditions:
(i)	Not issued by a financial institution or any of its affiliated entities;
(ii)	With an External Credit Rating of at least AA-;
(iii)	Traded in large, deep and active repo or cash markets characterised by a low level of concentration;
(iv)	Have a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions (i.e. A maximum decline of price or increase in haircut not exceeding 10% over a 30-day period of significant liquidity stress);
(v)	At mark to market value.
	In case of commercial paper and promissory notes:
(i)	The issuer should be a non-financial institution.
(ii)	All existing facilities obtained by the issuer from the investee bank should be "performing" in terms of the Banking Act Directions on Classification, Recognition and Measurement of Credit Facilities in Licensed Banks.
(iii)	Commercial Paper/Promissory Notes should be backed by an approved standby credit line supporting the issue to the full redemption value from another licensed bank.
32.3.4.1.3.0	**Qualifying investments in Gilt Unit Trust (GUT) backed by GOSL securities, subject to:**
(i)	GUTs should be open ended mutual funds
(ii)	Underlying investment portfolio of GUTs should always be Sri Lanka Government Securities

32.3.4.2.0.0	**All other unencumbered loans to financial institutions with residual maturities of less than six months** All other unencumbered loans to financial institutions with residual maturities of less than six months not included above in 32.3.3.1.0.0.
32.3.5.0.0.0	**Assets assigned a 50% RSF factor**
32.3.5.1.0.0	**Unencumbered Level 2B assets**
32.3.5.1.1.0	**Qualifying non-financial corporate debt securities (including commercial paper and promissory notes)** Shall satisfy the following conditions:
(i)	Not issued by a financial institution or any of its affiliated entities;
(ii)	With an External Credit Rating between A+ and BBB-;
(iii)	Traded in large, deep and active repo or cash markets characterised by a low level of concentration;
(iv)	Have a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions (i.e. A maximum decline of price or increase in haircut not exceeding 20% over a 30-day period of significant liquidity stress);
(v)	At mark to market value.
	In case of commercial paper and promissory notes:
(i)	The issuer should be a non-financial institution;
(ii)	All existing facilities obtained by the issuer from the investee bank should be "performing" in terms of the Banking Act Directions on Classification, Recognition and Measurement of Credit Facilities in Licensed Banks;
(iii)	Commercial Paper/Promissory Notes should be backed by an approved standby credit line, supporting the issue to the full redemption value from another licensed bank.

32.3.5.1.2.0	**Qualifying non-financial common equity shares**
	Shall satisfy the following conditions:
(i)	Not issued by a financial institution or any of its affiliated entities;
(ii)	Traded at recognised stock exchange and centrally cleared;
(iii)	Traded in large, deep and active repo or cash markets characterised by a low level of concentration;
(iv)	Have a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions (i.e., maximum decline of share price or increase in haircut not exceeding 40% over a 30-day period of significant liquidity stress).
32.3.5.1.3.0	**Residential mortgage backed securities (RMBS) with a credit rating of at least AA**
	Shall satisfy the following conditions:
(i)	Not issued by and the underlying assets have not been originated by the bank or any of its affiliated entities;
(ii)	An External Credit Rating of AA or higher;
(iii)	Traded in large, deep and active repo or cash markets characterised by a low level of concentration;
(iv)	Have a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions (i.e., A maximum decline of price or increase in haircut not exceeding 20% over a 30-day period of significant liquidity stress);
(v)	The underlying asset pool is restricted to residential mortgages and cannot contain structured products; the underlying mortgages are “full recourse’’ loans (i.e. in the case of foreclosure the mortgage owner remains liable for any shortfall in sales proceeds from the property) and have a maximum loan-to-value ratio (LTV) of 80% on average at issuance.
32.3.5.2.0.0	**HQLA encumbered for a period of six months or more and less than one year**
	Any HQLA that are encumbered for a period of between six months and less than one year.

32.3.5.3.0.0	**Unencumbered loans to financial institutions and central banks with residual maturity between six months and less than one year** Unencumbered loans to financial institutions and central banks with residual maturities between six months and less than one year.
32.3.5.4.0.0	**Deposits held at other financial institutions for operational purposes** Deposits placed in order to facilitate their access and ability to use payment and settlement systems or make payments (e.g. Nostro Accounts and collection accounts).
32.3.5.5.0.0	**All other non HQLA not included in the above categories with residual maturity of less than one year** Other non HQLA not included in the above categories that have a residual maturity of less than one year, including loans to non-financial corporate clients, loans to retail customers and SME, and loans to sovereigns and PSEs. In the case of an SME, the maximum exposure (including off balance sheet exposure) of the lending bank to the SME shall not exceed Rs. 250 million.
32.3.6.0.0.0	**Assets assigned a 65% RSF factor**
32.3.6.1.0.0	**Qualifying unencumbered residential mortgages with a residual maturity of one year or more** Unencumbered residential mortgages with a residual maturity of one year or more that would qualify for a 50% or lower risk weight according to the Banking Act Directions No. 01 of 2016 on Capital Requirements under Basel III.
32.3.6.2.0.0	**Other qualifying unencumbered loans not included in the above categories, excluding loans to financial institutions, with a residual maturity of one year or more** Other unencumbered loans not included in the above categories, excluding loans to financial institutions, with a residual maturity of one year or more that would qualify for a risk weight lower than 50% according to the Banking Act Directions No. 01 of 2016 on Capital Requirements under Basel III.

32.3.7.0.0.0	**Assets assigned an 85% RSF factor**
32.3.7.1.0.0	**Cash, securities or other assets posted as initial margin for derivative contracts** Cash, securities or other assets posted as initial margin for derivative contracts and cash or other assets provided to contribute to the default fund of a central counterparty (CCP).
32.3.7.2.0.0	**Other unencumbered performing loans** Other unencumbered performing loans with risk weight equal or greater than to 50% according to the Banking Act Directions No. 01 of 2016 on Capital Requirements under Basel III and having residual maturities of one year or more, excluding loans to financial institutions.
32.3.7.3.0.0	**Unencumbered securities that are not in default and do not qualify as HQLA** Unencumbered securities that are not in default and do not qualify as HQLA with a remaining maturity of one year or more and exchange-traded equities.
32.3.7.4.0.0	**Physical traded commodities, including gold** Physical traded commodities, including gold.
32.3.8.0.0.0	**Assets assigned a 100% RSF factor**
32.3.8.1.0.0	**All assets that are encumbered for a period of one year or more** All assets that are encumbered for a period of one year or more.
32.3.8.2.0.0	**NSFR derivative assets net of NSFR derivative liabilities, if NSFR derivative assets are greater than NSFR derivative liabilities** NSFR derivative assets net of NSFR derivative liabilities, if NSFR derivative assets are greater than NSFR derivative liabilities. **Derivative assets are calculated first based on the replacement cost for derivative contracts (obtained by marking to market) where the contract has a positive value. When an eligible bilateral netting (refer Banking Act Directions on Leverage Ratio under Basel III for Licensed Commercial Banks and Licensed Specialised Banks for eligibility criteria) contract is in place, the replacement cost for the set of derivative exposures covered by the contract will be the net replacement cost. In calculating NSFR derivative assets, collateral received in connection with derivative contracts may not offset the positive replacement cost amount, regardless of whether or not netting is permitted, unless it is received in the form of cash variation margin and meets the conditions as specified. (refer Banking Act Directions

	on Leverage Ratio under Basel III for Licensed Commercial Banks and Licensed Specialised Banks for conditions on cash variation).
32.3.8.3.0.0	**All other assets not included in above** All other assets not included in the above categories, including non-performing loans, loans to financial institutions with a residual maturity of one year or more, non-exchange-traded equities, fixed assets, items deducted from regulatory capital, retained interest, insurance assets, subsidiary interests and defaulted securities.
32.4.0.0.0.0	**Required Stable Funding – Off Balance Sheet Items**
32.4.1.0.0.0	**Irrevocable and conditionally revocable credit and liquidity facilities to any client** Balances of undrawn credit and liquidity facilities that are contractually irrevocable (committed) or conditionally revocable agreements to extend funds in future.
32.4.2.0.0.0	**Other contingent funding obligations, including products and instruments below**
32.4.2.1.0.0	**Unconditionally revocable credit and liquidity facilities** Balances of undrawn credit and liquidity facilities where the bank has the right to unconditionally revoke the undrawn portion of these facilities (e.g., overdraft and credit card undrawn portion).
32.4.2.2.0.0	**Trade finance-related obligations (including guarantees and letters of credit)** Trade finance instruments consist of trade-related (import - export related) obligations directly underpinned by the movement of goods or the provision of services. Report up to uncovered exposure if such facilities are backed by margin deposits.
32.4.2.3.0.0	**Guarantees unrelated to trade finance obligations** The outstanding amount of guarantees unrelated to trade finance obligations.
32.4.3.0.0.0	**Non-contractual obligations**
32.4.3.1.0.0	Potential requests for debt repurchases of the bank’s own debt or that of related conduits, securities investment vehicles and other such financing facilities.
32.4.3.2.0.0	Structured products where customers anticipate ready marketability, such as adjustable rate notes and variable rate demand notes (VRDNs).
32.4.3.3.0.0	Managed funds that are marketed with the objective of maintaining a stable value.
32.4.4.0.0.0	**Any other obligations** Other off-balance sheet exposures not covered above.