



**MONETARY BOARD  
CENTRAL BANK OF SRI LANKA**

**23 May 2022**

**BANKING ACT DIRECTIONS**

**No. 04 of 2022**

**REGULATORY REQUIREMENTS AMIDST PREVAILING EXTRAORDINARY  
MACROECONOMIC CONDITIONS**

As a measure to maintain adequate capital to meet any losses, the banking sector has over the years built-up capital to enable banks to operate in a sound and resilient manner. These buffers have stood well to absorb unexpected losses during challenging times and has also helped banks to mobilise long term funding at reduced levels of risk-premia as well as maintain its credit ratings.

However, after carefully considering the extraordinary circumstances caused by the current macroeconomic conditions, the Monetary Board hereby issues the following Directions to licensed commercial banks and licensed specialised banks (hereinafter referred to as licensed banks), subject to periodic review.

**1. Empowerment**

- 1.1 In terms of Section 46(1) of the Banking Act, in order to ensure the soundness of the banking system, the Monetary Board is empowered to issue Directions to all licensed commercial banks, regarding the manner in which any aspect of the business of such bank or banks is to be conducted.
- 1.2 In terms of Section 76J(1) of the Banking Act, the Monetary Board is empowered to give Directions to licensed specialised banks or to any category of licensed specialised banks, regarding the manner in which any aspect of the business of such banks is to be conducted.

**2. Capital  
Conservation  
Buffer (CCB)**

- 2.1 Licensed banks may drawdown the CCB, up to 2.5% subject to conditions stipulated in Direction No. 01 of 2016 on Capital Requirements under Basel III for licensed commercial banks and licensed specialized banks, which are specified below:
  - (i) The distributions will be subject to the following restrictions as specified in Table 01.





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**Table 01 - Minimum CCB Ratios**

<b>CCB Maintenance Ratio</b>	<b>Applicable Minimum Earnings Retention Ratio</b>
2.5 %	0%
> 1.875% - 2.5%	40%
> 1.25% - 1.875%	60%
> 0.625% - 1.25%	80%
0 % < - 0.625 %	100%

- (ii) Licensed banks shall consider this Direction as a prior approval of the Monetary Board to drawdown CCB and shall submit a Board approved capital augmentation plan on rebuilding the CCB within 03 years, to the Director of Bank Supervision within 21 days of drawing down the CCB.

**3. Computation of  
Risk Weighted  
Assets for  
Operational  
Risk under  
Capital  
Adequacy  
Requirements**

3.1 As stipulated under Banking Act Direction No.01 of 2016, licensed banks may move to The Standardised Approach (TSA) or The Alternative Standardised Approach (ASA) to compute risk weighted assets for Operational Risk, until 31.12.2023, by adopting a prudent documented procedure for mapping its current business activities to the appropriate business lines in accordance with Directions, subject to obtaining prior written approval of the Director of Bank Supervision.

**4. Staggering the  
Mark to Market  
Losses**

4.1 Licensed banks may stagger the overnight mark to market losses on Government Securities denominated in LKR, held at fair value arising from the changes in policy interest rates as announced in the Monetary Policy Review No-03 dated 08.04.2022, up to Q2 of 2024 as stipulated below for the purpose of computing the capital adequacy ratio, subject to the conditions stipulated in Directions 4.2 and 4.3 below:





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**Table 02 - Staggering of overnight Mark to Market loss for  
Computation of Capital Adequacy Ratio**

Cumulative percentage of Absorption		
Q2 2022	Q2 2023	Q2 2024
33.33 %	66.66%	100%

- 4.2 Licensed banks are required to submit an assessment of such loss to be staggered to the Director of Bank Supervision with a certification provided by external/internal auditors validating the amount.
- 4.3 If a licensed bank decides to stagger the above mark to market loss, such licensed banks shall not pay any dividends/repatriate any profits and shall refrain to the extent possible from incurring non-essential and capital expenditure until the entire mark to market loss on Government Securities is fully recognised in the capital adequacy computation.

**5. Treatment of  
Other  
Comprehensive  
Income (OCI)**

- 5.1 Licensed banks may include 100 percent of accumulated OCI gains which are reflected in the statement of changes in equity as per the latest available annual or interim audited financial statements, subject to complying with all other conditions stipulated in the Banking Act Directions No.01 of 2016.

**6. Liquidity  
Coverage Ratio  
(LCR) and Net  
Stable Funding  
Ratio (NSFR)**

- 6.1 Licensed banks are permitted to operate maintaining an LCR and NSFR at a minimum level of 90% up to 30.09.2022, as a short-term measure to adjust the liquidity profiles of licensed banks, with enhanced supervision and frequent reporting.





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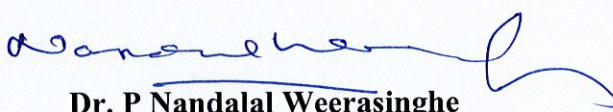
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**7. Minimum  
Capital  
Requirement**

- 7.1 The deadline for the enhancement of minimum capital requirement of licensed banks as stipulated in Banking Act Direction No. 05 of 2017 is extended up to 31.12.2023, for licensed banks which fail to meet the minimum capital requirement by 31.12.2022.
- 7.2 Such licensed banks shall submit their capital augmentation plan, including plans to consolidate or merge with suitable financial institutions, together with timelines to the Director of Bank Supervision by 31.12.2022 to meet the minimum requirements by 31.12.2023 and shall refrain from distribution of dividends/repatriation of profits until the minimum capital requirements are met.

**8. Submission of  
Internal Capital  
Adequacy  
Assessment  
Process  
(ICAAP)**

- 8.1 Licensed banks are granted time until 30.06.2022 to submit the ICAAP document for 2022.



**Dr. P Nandalal Weerasinghe**

*Chairman of the Monetary Board and  
Governor of the Central Bank of Sri Lanka*