



**CENTRAL BANK OF SRI LANKA
BANK SUPERVISION DEPARTMENT**

30 September 2021

CIRCULAR

No. 11 of 2021

**SUPPLEMENTARY CIRCULAR TO BANKING ACT DIRECTIONS ON
CLASSIFICATION, RECOGNITION AND MEASUREMENT OF CREDIT
FACILITIES AND OTHER FINANCIAL ASSETS IN LICENSED BANKS**

The Central Bank of Sri Lanka, subsequent to the issuance of new Banking Act Directions No. 13 and 14 of 2021 on Classification, Recognition and Measurement of Credit Facilities and Classification, Recognition and Measurement of Financial Assets Other than Credit Facilities in Licensed Banks, respectively, hereby issues this Circular to licensed banks, to be effective from 01 January 2022, with a view to establishing consistent practices on the adoption of Sri Lanka Accounting Standards – SLFRS 9: Financial Instruments by licensed banks amidst COVID-19 outbreak.

- (1) Licensed banks, with the approval of the Board of Directors, shall include clear guidelines on staging of loans and advances for impairment purposes in the related policies, amidst the extraordinary circumstances caused by the COVID-19 outbreak.
- (2) In the case where direct temporary restrictions on economic activities are/were in place due to COVID-19 outbreak, licensed banks may continue to exercise prudent judgment, on case-by-case basis, to determine whether to classify credit facilities as Stage 3 facilities or not:
 - (a) considering the borrower's inability to revive the business and generate sufficient cash flows to repay the exposure once the restrictions on economic activities are removed; and
 - (b) if a facility has been restructured more than twice due to adverse economic consequences of the COVID-19 outbreak and/or the Easter Sunday Attack.
- (3) Licensed banks may consult CA Sri Lanka and Auditors in order to obtain further guidance in respect of computing Probability of Default for exposures denominated in foreign currencies issued by the sovereigns.
- (4) These instructions shall also be applicable to all credit facilities considered under concessions provided as per the Circulars issued by the Central Bank of Sri Lanka from time to time for COVID-19 affected Businesses and Individuals, including the Tourism sector.

- (5) Circular No. 09 of 2020 issued on 28 October 2020 as Amendments to Circular No. 04 of 2018 on Guidelines to Licensed Banks on the Adoption of Sri Lanka Accounting Standards – SLFRS 9: Financial Instruments will be revoked from 01 January 2022.



Director of Bank Supervision