



## CENTRAL BANK OF SRI LANKA

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### GUIDELINES FOR THE ESTABLISHMENT OF BUSINESS REVIVAL UNITS IN LICENSED BANKS

Challenging macroeconomic circumstances have led to disrupting the income generating activities of businesses adversely impacting the ability of borrowers to duly repay their obligations and thereby impairing the recovery process of licensed commercial banks and licensed specialised banks (hereinafter referred to as licensed banks). Therefore, with a view to facilitating the sustainable economic revival of businesses affected by the extraordinary macroeconomic circumstances and to improve asset quality of licensed banks, the Central Bank of Sri Lanka hereby issues broad guidelines to further strengthen the existing Post COVID-19 Revival Units of licensed banks and reformulate such units as Business Revival Units with an enhanced scope.

- 1. Objective**
  - 1.1 The purpose of Business Revival Units is to identify and assist performing and non-performing borrowers of licensed banks who are facing challenges or may face potential financial [and/or business] difficulties inter-alia due to a reduction of income, cash flows or sales, reduction or impairment of business operations or the temporary closure of business emanating from the extraordinary macroeconomic circumstances. The Unit aims to revive businesses that are facing actual or potential financial difficulties but are fundamentally viable, with a view to providing benefits to such borrowers, leading to the revival of such businesses, enhancement of economic activities and contributing to the development of the national economy.
  
- 2. Governance Framework and Resources**
  - 2.1 The Board of Directors, Chief Executive Officer (CEO) and the respective Key Management Personnel (KMP) are responsible for ensuring that the licensed bank has robust



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business revival and rehabilitation policies and procedures, including an effective system of internal controls, to manage business revival in accordance with these guidelines.

- 2.2 Licensed banks shall formulate a revival and rehabilitation policy for borrowers who are facing actual or potential financial difficulties but are fundamentally viable. Such policy shall be approved by the Board of Directors for a locally incorporated licensed bank and by the regional/global head office for a licensed bank incorporated outside Sri Lanka.
- 2.3 These policies need to be reviewed and updated, at least annually.
- 2.4 The Revival and Rehabilitation Policy shall inter alia include the following at a minimum:
  - (i) Mandate for establishment of the Business Revival Unit
  - (ii) Its scope of activities including deliverables
  - (iii) Revival mechanism for borrowers
  - (iv) Eligibility Criteria for a loan transfer from the Loan Origination Unit to the Business Revival Unit and vice versa
  - (v) Quantitative and / or qualitative triggers for a loan transfer, including days-past-due and the time period (in days) during which this transfer shall take place from the Loan Origination Unit to the Business Revival Unit
  - (vi) Internal methodology for determining the financial viability of borrowers including an economic and financial analysis of the borrower, analysis of the borrower's business plans, cash flow projections,



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- current and expected overall level of indebtedness and solvency assessment
- (vii) Time period for how long a loan can stay in the Business Revival Unit before being transferred to the Credit Enforcement Unit in the case of unsuccessful revival or to the Loan Origination Unit in the case of successful revivals
- (viii) Operational criteria for a Corporate Workout Framework and the Framework Agreement for Corporate Workout as provided for in Section 5 below.
- 2.5 The Business Revival Unit shall monitor the repayment behaviour and the financial condition of the borrower, who is subject to revival, on an ongoing basis.
- 2.6 Transfer of revived business loans from the Business Revival Unit to the Loan Origination Unit shall not be affected in less than one year.
- 2.7 The Business Revival Unit shall be organizationally separate from Loan Origination Units. The Unit shall not report to the same management level committee as the Loan Origination Units.
- 2.8 The Business Revival Unit shall be headed by a KMP of the licensed bank with sufficient authority and seniority to ensure effective and efficient oversight of the Unit and expeditious implementation of revival and rehabilitation activities.
- 2.9 The Business Revival Unit shall be adequately staffed and possess sufficient expertise and authority and be provided with all other resources such as financial, human resources, and information technology as needed.



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- 2.10 The Business Revival Unit shall work together in a coordinated manner with other relevant departments of the bank including the Risk Management and Legal Units, among others. When loans are transferred between Loan Origination and Business Revival Units, or between the Business Revival and the Credit Enforcement Units, licensed banks shall ensure an orderly handover of cases, including a full transfer of relevant loan documentation and relevant information.
- 2.11 The Business Revival Unit shall be provided with unfettered access to the bank's loan documentation and management information systems in order to function effectively.
- 2.12 Licensed banks may consider establishment of Business Revival Units at large branches / regional offices of banks as appropriate in the case of licensed banks with more than 50 bank branches considering the effectiveness of the operations. Other licensed banks shall have the Unit established centrally.
- 2.13 Licensed banks shall report the performance of Business Revival Unit/s to an appropriate Board Sub-Committee on a quarterly basis.

### **3. Eligibility Criteria for Selection of Borrowers**

- 3.1 At a minimum, the following criteria need to be met, in order to consider as an eligible borrower under the Business Revival Unit:
  - 3.1.1 Fundamental Viability
    - (i) The Unit shall consider borrowers who are fundamentally viable. Borrowers that do not meet the viability criteria, i.e., non-viable borrowers shall not be transferred to the Business Revival Unit. The viability assessment shall, to the extent possible, be based on the audited financial



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statements for the three preceding financial years and include at a minimum the analysis of the following financial indicators:

- (a) Operating income, *gross profit, profit before interest and tax*
  - (b) Financial cost, *interest coverage ratio, interest cost to total borrowings*
  - (c) Profitability, *return on equity, return on assets*
  - (d) Leverage, *debt to equity, assets to equity*
  - (e) Sufficiency of liquidity and cash flows, *to assess the adequacy cash flows to service the forthcoming debt obligations and to meet working capital requirements, such as current ratio, quick-assets ratio*
  - (f) Maturity profile of the liabilities of the borrower
  - (g) Other quantitative and qualitative information to assess the fundamental viability of the business.
- (ii) In the absence of audited financial statements owing to justifiable reasons, licensed banks may use appropriate and credible sources of information at the discretion of the bank.
- (iii) Licensed banks shall prescribe threshold values on the above indicators distinguishing fundamentally viable businesses from non-viable businesses. Threshold values may be adjusted in light of any special considerations concerning a specific industry or sector. Where threshold values have already been satisfied, qualitative factors relating to the borrower may be taken into account in determining whether the borrower is viable or not viable.



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- (iv) Licensed banks are encouraged to disclose these methodologies in their Annual Report or any other published reports as part of risk and non-performing loan management disclosures.

### 3.1.2 Borrower Co-operation

- (i) Licensed banks shall consider only the cooperative borrowers for revival. Therefore, licensed banks shall ensure that the borrower is cooperative, before considering for revival.
- (ii) Non-cooperative borrowers are identified based on one of the following, at a minimum:
- (a) The borrower has defaulted in meeting its payment/repayment obligations to the licensed bank even when the borrower has the financial capacity to honour its obligations.
- (b) The borrower has defaulted or has a potential to default due to a diversion of funds where the borrowed funds have not been utilized for the specific purposes for which the finance was availed of.
- (c) The borrower has defaulted in meeting its payment/repayment obligations to the licensed bank and has also disposed of or removed the movable fixed assets or immovable property pledged by him for the purpose of securing such loans without the consent of the licensed bank.
- (d) The borrower does not submit periodical financial statements for the assessment of its financial and operational viability.



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- (e) The borrower is not responsive to the enquiries (electronic, postal, invitations to meetings, etc.) of the licensed bank or has not acted in good faith during the course of the restructuring negotiations.
- (f) The borrower does not allow the licensed bank to review/assess the state of assets pledged as collateral against the loan.
- (g) Any other relevant qualitative and quantitative factors, including the behaviour of the distressed borrower in prior restructurings, including in cases involving other licensed banks.

#### **4. Revival Mechanisms**

4.1 The Business Revival Unit shall use financial and/ or operational restructuring tools and techniques or any combination thereof to revive distressed but viable businesses.

These tools and techniques include:

##### 4.1.1 Financial Restructuring

- (i) The tools and techniques for financial restructuring include debt forgiveness, debt rescheduling (including grace periods for the payment of principal and interest), adjustment of interest rates, maturity extensions, and provision of new financing, including interim financing and exit financing, etc. These tools and techniques may be combined as appropriate.
- (ii) Licensed banks shall adopt the following assessments, when deciding to provide restructuring measures including the following at a minimum:



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- (a) Borrower's debt servicing capacity based on the borrower's overall indebtedness, including debts owed to other creditors, viz., financial and non-financial creditors, including tax authorities
  - (b) Aggregate debt service obligations
  - (c) Borrower's economic interests
  - (d) Reports of the Credit Information Bureau of Sri Lanka (CRIB)
  - (e) Assessments based on other external sources, as necessary.
- (iii) The revised repayment plan for borrowers considered for restructuring shall be based on a full assessment of the borrower's cash flow available for debt servicing, and analysis of financial statements and projected cash flows.

### 4.1.2 Operational Restructuring

- (i) The Business Revival Unit may in addition consider proposing operational restructuring of the business of the borrowers, i.e., fundamental changes in the business's operations or assets to restore commercial viability, including but not limited to developing a new business plan/strategy, and enhancing operational efficiency and profitability of such businesses, improving cash management systems, reviewing pricing strategy, and reviewing customer retention and/or acquisition strategies.

4.2 The Unit may also conduct awareness programs on rehabilitation initiatives, procedures and methodologies to relevant stakeholders, viz., branches and business units of the





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bank, borrowers and provide credit counselling and business advisory services, in reaching out to potential investors.

### **5. Framework for Corporate Workouts**

- 5.1 Licensed banks may establish a framework for corporate workouts namely “Corporate Workout Framework” to address the financial and/or business distress faced by corporate borrowers who have obtained credit facilities from more than one licensed bank, without court intervention. Workouts are a potential means of achieving financial and operational restructuring as described in subsections 4.1.1 and 4.1.2. For this purpose, a corporate is defined as a business with an annual turnover above Rs. 1 bn, as per the latest available audited financial statements or cumulative outstanding credit facilities granted by licensed banks are equal to or more than Rs. 250 mn.
- 5.2 Any Workouts conducted under the Corporate Workout Framework shall be a voluntary, consensual process involving the corporate borrower and the licensed banks without court intervention. It shall, if successful, result in a restructuring plan between the corporate borrower and licensed banks setting forth the terms of the agreed upon restructuring.
- 5.3 The Corporate Workout shall be conducted in accordance with the provisions of this section and through a “Framework Agreement for Corporate Workout” between and among licensed banks that have exposures to a given corporate borrower.



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- 5.4 Performing credit facilities of corporate borrowers that are facing actual or potential financial and/or business distress and non-performing credit facilities of corporate borrowers may be eligible to be restructured under the Corporate Workout Framework subject to a positive outcome at the viability assessment.
- 5.5 Licensed banks may adopt a collaborative approach to develop a model for Framework Agreement for Corporate Workout that shall govern negotiations of a workout agreement between the licensed banks and any given corporate borrower that seeks to avail the Corporate Workout Framework.
- 5.6 Individual banks may become a party to a Framework Agreement for Corporate Workout on a voluntary basis. The Corporate Workout Framework shall set forth the parameters for the process of negotiating a workout solution between licensed banks and a corporate borrower. The Framework Agreement for Corporate Workout shall, at a minimum, include provisions addressing, inter alia, the following:
- (i) A specified standstill period
  - (ii) Confidentiality
  - (iii) Information sharing
  - (iv) Procedures for developing a restructuring plan
  - (v) Methods for handling disputes arising in the course of conducting the workout
- 5.7 A corporate borrower on a voluntary basis, may apply to have a workout conducted in accordance with the



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- Framework Agreement for Corporate Workout; provided, however, that the standstill afforded to any such borrower, pursuant to the terms of Framework Agreement for Corporate Workout, may be terminated if the borrower breaches any of the covenants set forth in its application.
- 5.8 The corporate borrower and the licensed banks may agree on a Corporate Workout on a voluntary basis along with the terms of any restructuring agreement negotiated in this regard.
- 6. Accounting Considerations and Regulatory Reporting**
- 6.1 Licensed banks shall apply relevant Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka and prudential Directions & regulations issued by the Central Bank of Sri Lanka for accounting and regulatory reporting of credit facilities considered under the Business Revival Unit.
- 7. Reporting to the Credit Information Bureau of Sri Lanka**
- 7.1 Licensed banks, in consultation with CRIB, may develop an appropriate reporting modality to report credit facilities transferred to the Business Revival Unit.
- 8. Credit Facilities granted under Re-finance or Interest Subsidy Schemes**
- 8.1 Licensed banks are required to seek necessary instructions from the relevant agencies, if credit facilities granted under various refinance or interest subsidy or guarantee schemes are to be transferred to the Business Revival Unit.
- 9. Recovery Action for Default after**
- 9.1 Licensed banks may adopt suitable recovery and/or enforcement actions against borrowers who have failed to



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| <b>Unsuccessful Revival</b>      | adhere to the terms and conditions agreed for revival and rehabilitation under the Business Revival Unit as per the bank's internal guidelines and policies.   |
| <b>10. Implementation</b>        | <p>10.1 Licensed banks are required to make necessary arrangements to establish Business Revival Units within forty-five days from the date of this Circular.</p> <p>10.2 Licensed banks that have already established Revival Units, may expand the scope of activities of these Units to be in line with the requirements of this Circular within thirty days from the date of this Circular.</p> <p>10.3 Licensed banks which do not have non-performing business loans as at the date of this Circular and potential stressed borrowers in the foreseeable future, may not be required to establish a Business Revival Unit. However, such licensed banks are required to closely monitor the performance and the quality of the credit portfolio and adopt measures in line with the provisions of this Circular if and when the need arises.</p> <p>10.4 The scope of this Circular focusses on the loans granted for business purposes and which are currently under stress or potential stress. Licensed banks are advised to take appropriate measures with respect to loans granted for non-business purposes, which are currently under stress or potential stress.</p> |
| <b>11. Reporting Requirement</b> | <p>11.1 Licensed banks shall report the progress of revival and rehabilitation proposals availed to the bank's borrowers as at the end of each quarter, within 15 working days, commencing 30 September 2024, in the format given in Annex I.</p>  |



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- 11.2 Licensed banks are required to make necessary arrangements to disclose to customers on the establishment of Business Revival Unit, including the objectives, scope, functions, activities, through their respective websites and public media.
- 12. Revocation** 12.1 Circular No. 01 of 2022 dated 24.03.2022 on Guidelines on Establishment of Post COVID-19 Revival Units in Licensed Banks is hereby revoked.
- 13. Effective Date** 13.1 Licensed banks are required to fully comply with the requirements of this Circular by 01 July 2024.

A handwritten signature in black ink, appearing to read 'T M J Y P'.

**Mrs. T M J Y P Fernando**  
*Chief Executive Officer / Senior Deputy Governor  
of the Central Bank of Sri Lanka*

Report on Borrowers Facilitated Under Business Revival Unit (BRU) as at (Reporting Date) .....

All Amounts in Rs. 000's

Name of the Bank:

Total Number of Facilities Under BRU:

Serial No.	Details of the Existing Facilities									Revival Mechanism					Post Monitoring Mechanism	Has the facility been classified under Revival Status as per Credit Information Bureau (Yes / No)	Other Remarks
	Loan Identification No.	Type of Business (Micro / Small / Medium / Corporate)	Sector (a)	Date Transferred to BRU dd/mm/yyyy	Status of the Facility (Performing / Non-Performing (Stage 2/3))	Total Principal Amount Outstanding as at the Date Transferred to BRU	Total Overdue Interest Amount Outstanding as at the Date Transferred to BRU	Details of Collaterals (Type)	Details of Collaterals (Value as per Latest Valuation)	Revival Mechanism (Rescheduled / Restructured / New Loan / Mix/ Other (Specify))	Details of Key Financial and/or Non-financial Strategies for Revival	Effective Date of Revival Mechanism (Rescheduled / Restructured / New Loan / Mix/Other) dd/mm/yyyy	Details of Additional Credit Facilities Granted	Other Measures Taken (if any)	Status of the Rescheduled / Restructured / New Loan / Mix/ Other (Performing / Non-Performing (Stage 2/3)) as at Reporting Date		
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(a) Sectors to be mentioned as per the sector-wise FinNet Return, specify sub-sectors, if applicable.