Deshamanya Professor W D Lakshman
GOVERNOR
Central Bank of Sri Lanka
30, Janadhipathi Mawatha, Colombo 1, Sri Lanka

27 March 2020

To All Chief Executive Officers of Licensed Commercial Banks and Licensed Specialised Banks

Dear Chief Executive Officers

Extraordinary Regulatory Measures taken by the Central Bank of Sri Lanka to Provide Flexibility to Licensed Banks to Support Businesses and Individuals Affected by the Outbreak of Coronavirus Disease (COVID-19)

The Monetary Board of the Central Bank of Sri Lanka after assessing the safety and soundness of the banking sector, decided to introduce extraordinary regulatory measures to be implemented by licensed commercial banks and licensed specialised banks (hereinafter referred to as licensed banks) considering the imminent need to provide flexibility to licensed banks to support businesses and individuals affected by the outbreak of COVID-19, in this exceptional situation.

Accordingly, the extraordinary regulatory measures approved by the Monetary Board are set out below to provide further space for licensed banks to assist the affected parties on an urgent basis. The details of these Extraordinary Measures are annexed.

1. Permit Domestic Systemically Important Banks (D-SIBs) and non D-SIBs to draw-down their Capital Conservation Buffers by 100 bps and 50 bps out of the total of 250 bps, respectively.
2. Allow classification of non-performing loans and recovery of foreign currency loans:
   (a) Permit licensed banks to provide additional 60-day period to settle loans and advances which are becoming past due during March 2020 and permit licensed banks to not to consider such facilities as past due facilities until the end 60-day concessionary period with respect to borrowers who are not entitled to any other concessions.
   (b) Allow licensed banks to consider all changes made to payment terms and loan contracts from 16.03.2020 to 30.06.2020, due to challenges faced by customers amidst COVID-19 outbreak as modifications to loans and advances instead of

P O. Box 590 Colombo | TEL.: (9411) 2477477 (9411) 2477577 | FAX: (9411) 2477677 | E-MAIL : governor@cbsl.lk

restructuring of loans and advances for classification of loans & advances and the computation of impairment.

(c) Withdraw the requirement to classify all credit facilities extended to a borrower as non-performing when the aggregate amount of all outstanding non-performing loans granted to such borrower exceed 30% of total credit facilities.

(d) Permit converting and recovery of loans in foreign currency to Rupee denominated loans, where necessary, subject to banks ensuring that borrowers do not get an undue advantage at the cost of country's foreign reserves or cause pressure on the exchange rate and maintaining proper documentations.

3. Defer the enhancement of capital by licensed banks, which are yet to meet the minimum capital requirement of end 2020, until end 2022. Such banks will need to restrict cash dividend distribution to 25 per cent of distributable profits in respect of financial Years 2019 and 2020 to preserve and build up capital.
4. Reset the timelines for rectification of supervisory concerns/findings, if necessary, prioritizing on the severity/importance of the concerns raised for rectification. Banks which are required to meet timelines to address supervisory concerns/findings during the period up to 30 May 2020, shall be granted a further period of 3 months.
5. Extend the reporting period for submission of statutory returns to the Bank Supervision Department by two weeks and publication of quarterly financial statements by one month until further notice. Depending on the circumstances, the Director Bank Supervision may permit further extensions.

Licensed banks, however, should refrain from using the release of capital on any capital related relaxations granted, to distribute dividends or declare bonuses to its management and staff or avail of any other similar action. Accordingly, all licensed banks are requested to avail these relaxations in the best interest of supporting their customers and the economy at large, the benefits of which would, in return, accrue to the banking sector to remain resilient.

Licensed banks are advised to diligently monitor their risk profile and resources in these times of stress, while the Central Bank will continue to closely monitor the liquidity and capital positions of licensed banks and any early warnings of stress to ensure safety and soundness of the banking sector.

Yours sincerely,

WD Lakshman

Prof. W D Lakshman
Chairman of Monetary Board and
Governor of the Central Bank of Sri Lanka

Annex

EXTRAORDINARY REGULATORY MEASURES TAKEN BY THE CENTRAL BANK OF SRI LANKA TO PROVIDE FLEXIBILITY TO LICENSED BANKS TO SUPPORT COVID-19 AFFECTED BUSINESSES AND INDIVIDUALS

At present, the banking sector in Sri Lanka as a whole is operating with healthy capital and liquidity buffers reflecting resilience and stability. Since 2017, the banks have built-up capital which can be utilized in times of stress. As at end 2019, total Capital Adequacy Ratio of the banking sector stood at 16.5 per cent, which is well above the regulatory minimum of 13.5 / 14.0 per cent and 12.5 per cent applicable for domestic systemically important banks (D-SIBs) and non D-SIBs, respectively. At present, the capital buffers in excess of the Capital Conservation Buffer (CCB) in the banking sector amounts to around Rs. 200 bn, whilst the CCB amounts to Rs. 170bn. These buffers can be drawn down and can be leveraged up to 8 to 10 times during times of stress.

Overall liquidity position of banks has been healthy and the Liquidity Coverage Ratio (LCR) of the banking sector as at end 2019 was 212.8 per cent where the regulatory minimum is 100 per cent. The buffers maintained in excess of the required LCR were comfortably high indicating that banks had high quality liquid assets to meet the next 30 day outflows.

The subsequent reduction in policy interest rates and statutory reserve requirement has enabled banks to strengthen its liquidity position. Further, the Central Bank of Sri Lanka (CBSL) has already announced that it will ensure the availability of adequate liquidity in the market in order to facilitate smooth operations amidst the COVID-19 outbreak.

In the meantime, CBSL will closely monitor the liquidity position of banks, due to the potential changes to their liquidity risk profile considering the already announced debt moratoriums and other measures.

Accordingly, the Monetary Board has decided to introduce the following extraordinary measures to provide further space for banks to assist COVID-19 affected businesses and individuals on an urgent basis.

1. RELEASE OF CAPITAL CONSERVATION BUFFER

As an immediate measure, D-SIBs and non-D-SIBs are permitted to draw-down their CCBs by 100 bps and 50 bps out of the total of 250 bps, respectively. This amounts to around Rs.50 bn enabling banks to expand their lending capacity by nearly Rs. 400 bn to facilitate smooth credit flows to the economy and COVID-19 affected borrowers to sustain their businesses in the immediate future.

CBSL will re-assess the impact of COVID-19 on bank's capital and will release further CCB, if required.

2. RELAXATIONS ON CLASSIFICATION OF LOANS & ADVANCES AND RECOVERY OF FOREIGN CURRENCY LOANS

As of end February 2020, the total banking sector loans and advances were around Rs. 8 Trillion and total non-performing loans and advances (NPLs) accounted to Rs. 435 Bn. It is observed that during the first two months of 2020, new NPLs close to Rs. 50 Bn have emerged in the banking sector. However, considering prevailing extraordinary circumstances the Monetary Board has decided to grant following measures in respect of classification of loans & advances and recovery of foreign currency loans to provide further space for banks to assist COVID-19 affected businesses and individuals.

In circumstances where recovery of loans in foreign currency is remote, the banks are permitted, as a last resort, to convert such loans to Sri Lanka Rupee denominated loans, where necessary, and recover them in Rupees. However, banks shall ensure that borrowers do not get an undue advantage at the cost of country's foreign reserves or cause pressure on the exchange rate. Further, licensed banks shall maintain necessary documents in this regard. Further instructions on this regard will be issued to banks by Director, Department of Foreign Exchange.

The requirement to classify all credit facilities extended to a borrower as non-performing when the aggregate amount of all outstanding non-performing loans exceeding 30% of the total credit facilities extended will cease to apply with immediate effect.

With respect to borrowers who are not entitled to any other concessions, licensed banks are permitted to provide additional 60 days period to settle loans and advances which are becoming past due during March 2020. Such facilities should not be considered as past due facilities until the end 60 day concession period.

Banks shall consider all changes made to payment terms and loan contracts from 16.03.2020 to 30.06.2020, due to challenges faced by customers amidst COVID-19 outbreak as modifications to loans and advances instead of restructuring of loans and advances for the purpose of classification of loans & advances and computing impairment.

Further, CBSL is in the process of finalizing a Credit Support Scheme to COVID-19 affected customers through a debt moratorium and working capital facility at concessionary rates of interest, consequent to the decisions taken by the Cabinet of Ministers. CBSL has already issued initial instructions to banks to implement these decisions.

3. DEFERING THE ENHANCEMENT OF MINIMUM CAPITAL REQUIREMENT

CBSL in its efforts to strengthen the capital position of banks and with a view to encouraging banks to maintain scale to operate in an effective and meaningful manner, in 2017, enhanced the minimum capital requirement of licensed commercial banks and licensed specialised banks by end 2020 to Rs. 20 bn and Rs.7.5 bn, respectively. In this regard, the banks which were in the process of infusing capital or planning mergers had submitted their capital plans to the Central Bank.

The requirement to meet higher levels of capital by the banks, which are yet to meet the requirement, is deferred until end 2022, considering the potential challenges ahead of raising capital and strategizing for mergers.

All banks, however, should refrain from using the release of capital on any capital related relaxations granted, to distribute dividends or declare bonuses to its management and staff or avail of any other similar action.

4. EXTENTION OF DEADLINES TO ADDRESS SUPERVISORY CONCERNS

The process of addressing supervisory concerns communicated through the Letters of Findings of the Statutory Examinations and other correspondence are in progress in banks. However, considering the disruptions to smooth operations of banking business and with the change of priorities due to the exceptional circumstances, meeting timelines set by CBSL and the Banks may be challenging. **For this purpose, banks are permitted to reset the timelines if necessary, prioritizing them on the basis of severity/importance. In the case of banks which are required to meet timelines to address**

supervisory concerns/findings during the period up to 30 May 2020, such banks are granted a further period of 3 months for rectification of supervisory concerns/findings.

5. FACILITATING APPLICATION OF ACCOUNTING STANDARDS

CBSL is in discussion with CA Sri Lanka (CASL) on any facilitation for banks on the application of SLFRS 9, considering the extraordinary circumstances arising from COVID-19 outbreak. **Both CBSL and CASL will closely monitor the developments locally and internationally and take appropriate measures to address any concerns arising from the current situation.**

6. EXTENSION OF TIMELINES FOR SUBMISSION AND PUBLICATION OF STATUTORY RETURNS & FINANCIAL STATEMENTS

Timely submission of Key Statutory Returns and publication of financial statements will be challenging during these exceptional times. Therefore, **the reporting period for submission of statutory returns to the Bank Supervision Department will be extended by two weeks and publication of quarterly financial statements will be extended by one month until further notice.** However, depending on the circumstances the period may be further extended.

CBSL will continue to closely monitor the liquidity and the capital position of banks and any early warnings of stress, to ensure safety and soundness of the banking sector.

All licensed banks are requested to avail these relaxations in the best interest of supporting their customers and the economy at large, benefits of which would in return accrue to the banking sector to remain resilient.