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இலங்கை மத்திய வங்கி
CENTRAL BANK OF SRI LANKA

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வங்கியல்லா நிதியியல் நிறுவனங்களின் மேற்பார்வைத் திணைக்களம்
DEPARTMENT OF SUPERVISION OF NON-BANK FINANCIAL INSTITUTIONS

අංක 30, ජනාධිපති මාවත, කොළඹ 01, ශ්‍රී ලංකාව
இல. 30, சனாதிபதி மாவத்தை, கொழும்பு - 01, இலங்கை
No. 30, Janadhpathi Mawatha, Colombo 01, Sri Lanka

Ref: 24/10/001/0019/005

31st January 2023

Chief Executive Officers
Licensed Finance Companies

Dear Sir/Madam

Guideline on Declaration of Dividends or Repatriation of Profits

We enclose herewith the Guideline on Declaration of Dividends or Repatriation of Profits, applicable to all licensed finance companies, which will be effective from 01.02.2023.

Hereby, you are requested to communicate the attached guideline to all the relevant officers and comply with the requirements as specified in the guideline.

Yours faithfully,

(Mrs.) R M C H K Jayasinghe
Director

Encl: The Guideline on Declaration of Dividends or Repatriation of Profits

GUIDELINE ON DECLARATION OF DIVIDENDS OR REPATRIATION OF PROFITS

1. Objective of the Guidelines

- 1.1. Licensed Finance Companies (LFCs) shall strike a balance between return to the shareholders and retaining funds to absorb losses, and for future business growth, in deciding to declare dividends or repatriate profits. This guideline is issued as a measure to strengthen resilience and capacity of LFCs to absorb economic shocks that could arise in the time of uncertainty and continue to support credit needs of customers, by maintaining sufficient capital.

2. Applicability

- 2.1. This guideline will be applicable to all LFCs, for the Financial Years (FY) starting on or after 01.04.2022.

3. Prior Approval

- 3.1. Approval of the Director, Department of Supervision of Non-Bank Financial Institutions (DSNBFI) shall be obtained prior to declaration of interim/final dividends or repatriation of profits.
- 3.2. LFCs are required to meet the minimum criteria/conditions as stated in Section 4 of this Guideline, at the time of making a request to the Director, DSNBFI for declaration of dividends or repatriation of profits. The Director, DSNBFI will evaluate the requests on a case-by-case basis based on these minimum criteria/conditions and in addition any other specific factors affecting the financial condition of the LFC and/or overall financial system stability.

4. Minimum Criteria/Conditions to be Fulfilled

- 4.1. For the proposed dividend payments, LFCs are required to;
 - a. Ensure that the proposed dividend declarations are in accordance with the LFC's dividend policy approved by its Board of Directors (BODs).
 - b. Submit the following computations carried out for the preceding calendar month prior to announcement of the proposed dividends:
 - i) Prudential ratios stated in the Finance Companies (Liquid Assets) Direction No.04 of 2013, or as amended, after adjusting for the proposed dividends. LFCs should be in compliant with the minimum requirements of this Direction after adjusting for the proposed dividends.
 - ii) Prudential ratios stated in the Finance Business Act Direction No.03 of 2018 on Capital Adequacy Requirements (CAR), or as amended, after adjusting for the proposed

- dividends. LFCs should be in compliant with the minimum requirements of this Direction after adjusting for the proposed dividends.
- iii) Core capital as stated in the Finance Business Act Direction No.02 of 2017 on Minimum Core Capital, or as amended, after adjusting for the proposed dividends. LFCs should be in compliant with the minimum requirements of this Direction after adjusting for the proposed dividends.
 - c. Perform stress tests on liquidity, earnings and capital adequacy taking into consideration the material risks (in view of scenarios/events leading to increased default risk, credit concentration risk, market risk, liquidity risk, operational risk, etc.) that the LFCs are exposed to in line with the dynamics of macroeconomic conditions and projected business plans for the next three years and submit the results together with supporting assumptions and workings. The stress test results should satisfy the minimum requirements of the Directions stated in 4.1.b after adjusting for the proposed dividends.
 - d. Ensure that the reconciliations and computations stated in 4.1.a. to c. are approved by the BODs and the Board Audit Committee of the respective LFC.
 - e. Submit a statement of solvency of the respective LFC obtained from the external auditors.

5. Revocation of Previous Guideline

- 5.1. The Guideline No.01 of 2013 on ‘Adoption of Sri Lanka Accounting Standards (LKAS) 32, 39 and Sri Lanka Financial Reporting Standards (SLFRS) 7 by Licensed Finance Companies and Specialised Leasing Companies hereinafter referred to as Non-Bank Financial Institutions (NBFIs)’, is hereby revoked.