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Central Bank Issues Guidelines for the Establishment of Business Revival Units in Licensed Banks to Support Revival of Viable Businesses

The Central Bank of Sri Lanka issued broad guidelines to licensed banks on 28 March 2024, to further strengthen the functions of already established Post COVID-19 Revival Units and reformulate such units as **Business Revival Units (BRUs)**. The enhanced scope of proposed BRUs will facilitate sustainable revival of viable businesses affected by the extraordinary macroeconomic conditions and ensure the proper handling of the increased impaired assets of licensed banks. The Central Bank sought relevant stakeholder views including the banking industry and the Chamber of Commerce, when formulating these guidelines.

The challenging macroeconomic conditions prevailed during the recent years have led to disrupting the income generating activities of businesses, adversely impacting the ability of borrowers to duly repay their loans and thereby impairing the recovery process of licensed banks. Thus, the setting up of BRUs is considered imperative to assist both performing and non-performing borrowers of licensed banks whose businesses are fundamentally viable to revive.

The salient features of BRUs are as follows:

- a. Licensed banks are required to have **robust business revival and rehabilitation policies and procedures** to support revival of businesses.
- b. Large banks with more than 50 branches, may consider establishing **BRUs at large branches/regional offices of banks**, in order to support revival of businesses of affected borrowers more effectively and efficiently.
- c. **Fundamental viability** of a business is a key factor for the consideration of business revival by a licensed bank. In the viability assessment, both financial and non-financial indicators are taken into consideration.
- d. **Borrower's continuous cooperation** will be critical for the process of reviving a stressed business.

- e. The business can be revived through **both financial and operational restructuring tools and processes**. The selection of appropriate set of revival tools is subject to a mutual agreement of parties involving in the revival process.
- f. Corporate borrowers who have outstanding credit facilities at multiple banks may agree on a **“Corporate Workout Framework” on a voluntary and mutually agreeable basis, without the court intervention**, to address financial and/ or business distress faced by them. For this purpose, a “Corporate” is defined as a business with an annual turnover above Rs. 1 bn, as per the audited financial statements, or cumulative outstanding credit facilities granted by licensed banks are equal to or more than Rs. 250 mn.
- g. Licensed banks are required to establish BRUs **by mid-May 2024**, and be fully compliant with the requirements of the Circular **by 01 July 2024**.

The Central Bank of Sri Lanka requests both licensed banks and concerning borrowers to effectively collaborate to ensure viable businesses are revived in a sustainable manner to benefit the borrowers, resulting in enhanced economic activities and contribute to the development of the national economy.

Further details on BRUs can be obtained from the Circular No. 2 of 2024 on “Guidelines for the Establishment of Business Revival Units in Licensed Banks”, which can be accessed through the following link:

https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/laws/cdg/bsd_circular_no_2_of_2024_e.pdf