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இலங்கை மத்திய வங்கி
CENTRAL BANK OF SRI LANKA

Communications Department

30, Janadhipathi Mawatha, Colombo 01, Sri Lanka.

Tel: 2477424, 2477423, 2477311

Fax: 2346257, 2477739

E-mail: dcommunications@cbsl.lk, communications@cbsl.lk

Web: www.cbsl.gov.lk

Press Release

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Licensed Banks Adopt Basel III Capital Standards to Strengthen Resilience

Commencing 01 July 2017, licensed banks in Sri Lanka will adopt minimum capital standards based on the Direction issued by the Central Bank of Sri Lanka in late 2016. This Direction is in line with the Basel III guidelines issued by the Bank for International Settlements (BIS) related to capital, leverage and liquidity in order to strengthen resilience of banks.

Strengthening the Quantity and Quality of Capital in Banks

Basel III capital standards endeavour to strengthen the quantity and quality of capital in banks through the introduction of capital buffers in addition to the minimum capital requirement as follows:

- Capital conservation buffer which is required to be built during good times to be drawn down in a stressed situation
- Countercyclical capital buffers to curb excessive credit growth and asset bubbles in the financial system
- Capital buffer for systemically important banks (SIBs) to avoid a systemic risk

Higher capital requirements for Licensed Banks

Licensed banks will meet the increased Basel III minimum capital requirements against risk weighted assets on a staggered basis in line with the international timeline for full implementation by 01 January 2019 as follows:

- 6 licensed banks identified as domestic systemically important banks with assets of Rs.500 billion and above, accounting for 71% of the banking sector assets will need to enhance their capital from the current 10% to 14%.
- All other licensed banks with assets less than Rs.500 billion from the current 10% to 12.5%.

Implementation and Readiness of the Banking Sector

In 2015, the banks implemented the Liquidity Coverage Ratio in terms of the Banking Act Direction issued under the Basel III Liquidity Standards.

Capital planning processes of banks have been further strengthened to enable banks to be compliant with the stringent rules under Basel III.

- Large state banks and private sector banks in Sri Lanka have been augmenting capital through the infusion of fresh capital and retention of profits.
- It is intended that small state owned banks will be consolidated to further strengthen their capital positions and to grow their balance sheets.
- The Central Bank of Sri Lanka is assessing the Internal Capital Adequacy Assessments compiled by banks reflecting the capital position, risk management and business expansion over the medium term and will continue to monitor the implementation of the Basel III standards in banks.
- Licensed banks in Sri Lanka will meet the requirements of 01 July 2017 and going forward banks are expected to further enhance their capital. This is expected to boost the ability of the banking sector to attract funds for expansion at a reduced risk premia benefitting the economy of Sri Lanka.

Way Forward

The Central Bank of Sri Lanka envisages issuing guidelines to banks on Basel III: Leverage Ratio and Net Stable Funding Ratio standards in line with the international timelines.