

GUIDELINES ON OPENING OF NEW BANKS IN SRI LANKA



BANK SUPERVISION DEPARTMENT
CENTRAL BANK OF SRI LANKA

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Guidelines on Opening of New Banks in Sri Lanka

1 Introduction

- 1.1 **Purpose:** These ‘Guidelines on Opening of New Banks in Sri Lanka’ intend to provide general information on the economy, the banking industry of the country, the regulatory framework applicable to banks and guidance to the prospective applicants on the procedure for obtaining a licence to carry on banking business in Sri Lanka.
- 1.2 **Applicability of the guidelines:** These guidelines are applicable with regard to the applications made to the Central Bank of Sri Lanka (CBSL) to establish licensed commercial banks (LCBs) and licensed specialised banks (LSBs), either as locally incorporated banks or as branches of banks incorporated outside Sri Lanka (commonly referred to as branches of foreign banks) and representative offices. These guidelines intend to provide guidance for prospective applicants and are not binding in nature.
- 1.3 **Applicable laws:** These Guidelines shall be read together with the Banking Act No. 30 of 1988, the Monetary Law Act No. 58 of 1949 and the Companies Act No. 7 of 2007, as amended from time to time, and the Directions, Circulars and other regulations issued by CBSL from time to time. The amendments to the Banking Act as of date are by Acts No. 39 of 1990, No. 33 of 1995, No. 2 of 2005, No. 15 of 2006 and No. 46 of 2006. The Banking Act, Directions, Circulars and other regulations can be downloaded from the CBSL web site www.cbsl.gov.lk.
- 1.4 **Correspondence:** All correspondence relating to such applications should be addressed to:

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No. 30, Janadhipathi Mawatha
Colombo 1
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2 An Overview of the Economy, Capital Market and the Banking Industry

- The Island of Sri Lanka, strategically located on the major shipping routes of South Asia, has a population of approximately 21 million. The real GDP growth is around 4.5% - 5% in the recent past, even amidst numerous global and domestic challenges (Economic and Social Statistics of Sri Lanka; [Click Here](#)).
- Industry and services related activities show a growing trend in recent years according to the Central Bank Annual Report (CBAR) and The World Bank - Global Economic Prospects for the years of 2016/2017. ([Click Here](#)).
- The per capita income of the country in 2017 is around USD 4,000. The annual key economic and social indicators could be viewed in the latest Annual Report published by the Central Bank which could be found in the official website of Central Bank of Sri Lanka ([Click Here](#)).
- The banking sector continued to expand during the recent years while exhibiting resilience amidst challenging market conditions both globally and domestically.
- The economy is dominated by the services and industries sectors, with financial services being a key performing sub sector. The financial sector is also recognised as one of the fastest growing sectors of the economy.
- The country has implemented various development projects to upgrade the sea, air, road, power and telecom industries of the country to provide infrastructure to facilitate long term investments.
- Sri Lanka has a sound, modern banking system that dominates the financial system with an asset base of over Rs. 10 trillion and accounting for around 60% per cent of the total assets in the financial system. The structure of the financial system during the past few years, is given in Table 1. The latest information on the financial system and the performance of the banking sector are available in the Chapter 8 of CBAR.
- The banking sector consists of 33 banks, out of which 26 are LCBs (2 state banks, 11 domestic private banks and 13 foreign banks) and 7 are LSBs (6 state banks and 1 private bank). The main distinctions between the activities of LCBs and LSBs are that only LCBs are permitted to provide current account facilities (cheques and overdraft facilities) and LSBs are permitted to carry out only limited foreign exchange transactions.

Table 1- Total Assets of the Financial System

Item	2014		2015		2016	
	Rs. bn	Share (%)	Rs. bn	Share (%)	Rs. bn	Share (%)
Central Bank of Sri Lanka	1,471	12.2	1,426	10.3	1,529	9.9
Banking Sector	6,971	58.1	8,077	58.5	9,046	58.8
Licensed Commercial Banks	5,884	49.0	6,974	50.5	7,843	51.0
Licensed Specialised Banks	1,087	9.1	1,103	8.0	1,203	7.8
Other Deposit Taking Financial Institutions	857	7.1	1,044	7.6	1,247	8.1
Licensed Finance Companies	743	6.2	915	6.6	1,112	7.2
Co-operative Rural Banks	103	0.8	117	0.9	122	0.8
Thrift and Credit Co-Op. Societies	11	0.1	11	0.1	12	0.1
Specialised Financial Institutions	441	3.7	558	4.0	523	3.4
Specialised Leasing Companies	72	0.6	81	0.6	100	0.6
Primary Dealers	195	1.6	283	2.0	264	1.7
Stock Broking Companies	11	0.1	10	0.1	10	0.1
Unit Trusts/Unit Trust Management Companies	127	1.1	134	1.0	107	0.7
Venture Capital Companies	7	0.1	8	0.1	11	0.1
Market Intermediaries	29	0.2	42	0.3	30.8	0.2
Contractual Savings Institutions	2,275	18.9	2,711	19.6	3,040	19.8
Insurance Companies	414	3.4	454	3.3	503	3.3
Employees' Provident Fund	1,487	12.4	1,665	12.0	1,842	12
Employees' Trust Fund	199	1.7	223	1.6	249	1.6
Approved Private Provident Funds	134	1.1	323	2.3	399	2.6
Public Service Provident Fund	41	0.3	46	0.3	48	0.3
Total	12,015	100.0	13,817	100.0	15,386	100.0

Source: Central Bank of Sri Lanka

- Profitability of the banking sector has remained at a fairly stable level, as reflected by the Return on Assets (ROA) and Return on Equity (ROE) ratios of banks. The key prudential indicators, viz, Capital Adequacy Ratio (CAR) and Statutory Liquid Assets Ratio (SLAR) were well above the regulatory minimum requirement during the recent years.
- The number of banking outlets and the Automated Teller Machines (ATMs) operated by the banking sector were around 7000 and 4000, respectively, whereas the banking density (branches only) per 100,000 persons was 17 during the recent years (latest information available in Chapter 8 of CBAR).

- With the continued expansion in economic activities, Sri Lanka's banking sector has also shown a growth during the recent past.

Table 2 - Banking Sector Highlights

Item	2009	2010	2011	2012	2013	2014	2015	2016	2017 Provisional
Assets Rs. bn	3,013	3,551	4,252	5,098	5,941	6,972	8,077	9,046	10,293
Gross Advances Rs. bn	1,596	1,975	2,601	3,149	3,427	3,895	4,715	5,540	6,431
Deposits Rs. bn	2,232	2,586	3,073	3,625	4,170	4,686	5,403	6,296	7,399
Capital Funds Rs. bn	243	295	371	436	490	569	637	707	867
Key Financial Performance Indicators									
Capital Adequacy Ratio %	16.1	16.2	16.0	16.3	17.6	16.6	15.4	15.6	15.2
Gross Non-performing Ratio %	8.5	5.4	3.8	3.7	5.6	4.2	3.2	2.6	2.8
Statutory Liquid Assets Ratio %	39.2	36.6	32.4	31.3	37.7	39.5	33.9	30	31.3
Return on Assets (Before Tax) (ROA) %	1.8	2.7	2.4	2.4	1.9	2.0	1.9	1.9	2.0
Return on Equity (ROE) %	11.8	22.0	19.8	20.3	16.0	16.6	16.2	17.3	17.6

Source: Central Bank of Sri Lanka

3 Licensing Procedure

3.1 Applicable provisions of the Banking Act No. 30 of 1988 (as amended)

- In terms of Sections 2 and 76A to 76D of the Banking Act, the business of an LCB or an LSB, respectively, can be carried out only under the authority of a licence issued by the Monetary Board, with the approval of the Minister concerned. The licensing procedure is contained in Sections 3 to 5 of the Banking Act
- In terms of section 12(1) (d) of the Banking Act, prior approval of the Monetary Board of the Central Bank of Sri Lanka with the concurrence of the Hon. Minister is required for the opening a Representative Office in Sri Lanka.

3.2 Format of the application

An application for a licence shall be made in writing to the Monetary Board of CBSL, specimens are given in Annex I and Annex II.

3.3 Documents/information to be submitted with the application

- In the case of a company to be formed for the purpose of carrying on banking business
 - a certified copy of the draft Articles of Association of the company to be formed or the draft Constitution or any relevant/similar document of such company; and
 - a statement containing the names, addresses, occupations and qualifications of the persons proposed as directors, and if a chief executive officer (CEO) has been identified, details of such officer.

- (ii) In the case of a company formed before the date of the application and which intends to commence banking business -
 - a) a certified copy of the Articles of Association of such company or the Constitution or any relevant/similar document of such company together with the proposed amendments, if any; to such documents;
 - b) a statement containing the names, addresses, occupations and qualifications of the current directors and any directors proposed to be nominated or appointed, and of the CEO of such company;
 - c) a copy of the audited financial statements of the company for the preceding three years; and
 - d) a certified copy of the Certificate of Incorporation of the company.
- (iii) In the case of an application by a bank incorporated outside Sri Lanka, the following documents will be required in addition to the duly completed application.
 - a) a written undertaking, supported by a resolution passed by the Board of Directors, stating that the company or body of corporate shall, on demand by CBSL, provide such funds as may be necessary to cover all obligations and liabilities incurred by the branch in carrying on banking business in Sri Lanka; and
 - b) a certificate from the regulatory authority of the country in which the bank is incorporated stating that permission has been granted for the bank to establish a branch in Sri Lanka.
- (iv) A feasibility report supported by at least a five-year business plan relating to the establishment of the proposed bank should be submitted along with the application.
- (v) The Director of Bank Supervision may, where deemed necessary, require the applicant to furnish such other documents, information or other particulars, subsequent to the receipt of the application.

3.4 Issue of a Letter of Provisional Approval

- (i) After consideration of the documents submitted, and other investigations, if the Monetary Board is satisfied that the application may be approved in principle, the Board may issue a Letter of Provisional Approval. This will be valid for the period stated in such letter, which shall not exceed a period of twelve months. During this period, the applicant should take all necessary preliminary measures specified therein. The issue of a Letter of Provisional Approval does not bind the Monetary Board to issue a licence.
- (ii) A company in respect of which a Letter of Provisional Approval has been issued should not commence banking business before the issue of a licence. Every advertisement,

prospectus, notice etc. issued prior to the issue of the licence should specify that it is a provisional approval and has not yet been issued a licence to carry on banking business.

3.5 Issue of a Licence

- (i) An applicant upon complying with the conditions specified in the Letter of Provisional Approval may make a request to CBSL to issue the licence.
- (ii) The Monetary Board being satisfied that a licence may be issued to an applicant to carry on banking business, may, with the approval of the Minister, issue a licence to such applicant.
- (iii) A licensed bank should commence business within nine months of the issue of the banking licence.

4 Evaluation Criteria

4.1 Evaluation Process

- (a) The Monetary Board, based on the policy considerations and the legal requirements as detailed in 4.2 below, evaluates the merits of each application to open a new bank on a case-by-case basis.
- (b) The Monetary Board is required to satisfy itself as to the suitability of the applicant having regard to the interests of the national economy, including the banking needs of Sri Lanka. For this purpose, the applicant should satisfy the Board in particular on the following:
 - validity and acceptability of documents/information submitted;
 - financial status and history of the company;
 - financial standing, experience and suitability of the directors, CEO and other senior officers;
 - the adequacy of the capital of the company and the ability to raise adequate capital;
 - ability to cover all obligations and liabilities incurred in the conduct of business and to comply with the provisions of the Banking Act; and
 - compliance with the provisions of the Banking Act in relation to the application.

4.2 The Policy Considerations Adopted by CBSL

(i) Potential for a New Bank

CBSL should satisfy itself that there is potential for a new bank to operate viably. A proper assessment of the potential is considered to be important so as to ensure that the establishment of new banks will not pose a threat to the stability of the existing licensed

banks and the financial system. The possible impact of establishing new banks on existing banks, particularly the implications on costs, savings, profitability and staffing, and on the financial system are given due consideration.

(ii) Contribution/Benefits to the Economy

- a) Consideration is given to the specific benefits such as innovative banking facilities, new technology, creation of employment opportunities, new financial instruments, extension of services to the unbanked or under-banked areas etc. that would accrue to the country. CBSL should satisfy itself that the proposed bank would be in a position to provide some value addition to the financial system of the country by offering enhanced financial services.
- b) Priority will be given to service enhancing proposals which address the present needs in the banking industry, rather than to those proposals which intend to share the existing banking business. As such, if CBSL satisfies itself that the proposed bank is capable of fulfilling the gaps/needs in the sectors/areas which have been identified below, the application may be given favourable consideration:
 - The small and medium enterprise sector
 - Micro finance
 - Agricultural finance
 - Housing finance
 - Infrastructure lending
 - Asset reconstruction/management and business recovery
 - Corporate debt restructuring
 - Forward market development
 - Enhancement of worker remittances
 - Digital banking
 - Personal banking
 - Bank-assurance
 - Off- shore Banking Business
 - Green Financing
 - Any other attempts to introduce innovative financial products/services, which are advantageous to the Sri Lankan banking.

(iii) Promoters of the Bank

In the case of locally incorporated banks, CBSL should satisfy itself with regard to the integrity of the promoters of the bank and their acceptability to the business community, in relation to their financial standing, association with and interests in

business undertakings, and their background in finance related business. At least some of the promoters should have experience in finance related business, in particular commercial/specialised banking.

(iv) Proposed Board of Directors

In the case of locally incorporated banks, the promoters are expected to provide information on the financial standing, experience and suitability of the members of the first Board of Directors. In addition, the proposed Board of Directors should comply with the ‘fit and proper’ criteria for the appointment of Directors as indicated under Section 42 of the Banking Act ([Click Here](#)) and requirements under the Directions on Corporate Governance ([Click Here](#)).

(v) Initial Capital

- (a) The existence of strong banks that are resilient to internal and external shocks is important in promoting a robust and stable financial system. Accordingly, the following minimum capital requirements are applicable to new banks to place them on a sound financial footing, to provide adequate protection to depositors and to encourage the entry and growth of strong, competitive banks in Sri Lanka.

Table 3 – Minimum Initial Capital Requirement for Banks

Type of Bank	Rs. billion
Domestically incorporated licensed commercial banks	20
Branches of foreign banks	10
Licensed specialised banks	7.5

- (b) The Monetary Board should satisfy itself with the ability of the promoters to raise the requisite initial capital as well as the capacity to raise any future capital requirements, subject to any restrictions on ownership limits.

(vi) Competence of the Chief Executive Officer (CEO) and Other Senior Officers

- (a) The promoters should satisfy the Monetary Board of the suitability of CEO and such other officers of the company performing executive functions. As such, prior to the issuance of licence, the curriculum vitae of the officers designated in key managerial positions in the proposed bank are examined to check whether they possess the requisite experience and qualifications to carry on the affairs of the bank in a viable manner.
- (b) Promoters are requested to refrain from employing persons who hold positions of strategic importance in existing banks, as recruitment of such persons would

be detrimental to the smooth functioning of those banks. The presence of competent management staff who could be expected to carry on the business of the bank in compliance with statutory and prudential requirements, is an important criterion in evaluating an application for the establishment of a new bank.

- (c) In addition, CEO and other senior officials should comply with the ‘fit and proper’ criteria for the appointment of CEO, Secretary and such other officers performing executive functions in the bank as indicated under Sections 43 and 44 of the Banking Act: ([Click Here](#)).

(vii) Employment of Expatriate Staff:

Foreign banks should limit the employment of expatriate staff to the maximum number of expatriate officers permitted in terms of the Guidelines on Employment of Expatriate Staff in Banks. Further, locally incorporated banks may be permitted on a case-by-case basis taking into consideration the needs of the banks, with special attention on employing foreign experts in the fields of risk management, International Accounting Standards, risk modelling and data warehouse, structuring of derivative products and corporate governance.

(viii) Business Projections

The feasibility study should clearly indicate the bank’s business model and be supported with a comprehensive five-year business plan, along with the basis for any projections. These projections are examined, inter alia, by comparing them with the present and expected future performance of existing licensed banks to ascertain whether the forecasts are realistic and feasible.

(ix) Training Facilities

A comprehensive Training Plan should be available indicating the specific training needs of each category of employee and the training facilities that will be provided to each category.

(x) Risk Management Systems

The promoters should satisfy the Monetary Board on their ability to operate the proposed bank with sound risk management systems and processes commensurate with the size and complexity of its business operations.

(xi) Additional Criteria with respect to Branches of Foreign Banks

In addition to the above, the Guidelines at Annex IV will be adopted in processing applications to establish branches of foreign banks.

4.3 Requirements of the Banking Act to Incorporate/Establish Banks or Representative Offices in Sri Lanka

(a) Requirements for Locally Incorporated Banks

- (i) It should be a Public Company registered under the Companies Act, No. 7 of 2007.
- (ii) The Articles of Association of the Company should set out the “carrying on of banking business” as defined in the Banking Act, as a primary object.
- (iii) The Articles of Association should not provide for forms of business other than those specified in Schedule II or Schedule IV to the Banking Act to be carried on by the Company depending on whether the application is for an LCB or LSB, respectively ([Click Here](#)).
- (iv) The capital of the company should not be less than the minimum capital required by CBSL from time to time for new banks entering the market in Sri Lanka ([Click Here](#)).
- (v) Share ownership limits: At present the share ownership limit is 10% of the issued share capital carrying voting rights in a licensed bank, in the following instances.
 - (a) A company, incorporated body or individual (15% in the case of share ownership in a LSB).
 - (b) Company, together with its subsidiaries, its holding company etc
 - (c) Individual, together with his close relations and companies in which he has a substantial interestFurther, the share holding can be increased to 15% with the Monetary Board approval on case by case basis.
- (vi) The directors of the company should not be subject to any disqualification in terms of Section 42 and Section 76 of the Banking Act and the Banking Act Directions No. 11 and 12 of 2007 on Corporate Governance for Licensed Commercial Banks and Licensed Specialised Banks, respectively, and any amendments there to. ([Click Here](#))
- (vii) The Secretary of the proposed bank should fulfil the requirements of Section 43 of the Banking Act, ([Click Here](#)).
- (viii) CEO and the other officers performing executive functions of the proposed bank as determined in the Banking Act Determination, should be fit and proper persons to hold such positions as specified in Section 44 and Section 76 of the Banking Act. ([Click Here](#)).

(b) Requirements for Establishment of Branches of Foreign Banks

- (i) The parent bank should be a body incorporated outside Sri Lanka or formed in pursuance of any statute of a foreign country, royal charter or patent.
- (ii) The branch of the bank should have an assigned capital of not less than the minimum capital required by CBSL from time to time. This sum has to be assigned to the branch by its Head Office.
- (iii) In addition to the assigned capital, the Head Office of a foreign bank, which proposes to establish a branch in Sri Lanka, may be required to remit to Sri Lanka a sum of money as determined by the Monetary Board with the approval of the Minister, in case additional capital is required.
- (iv) CEO and the other senior officers of the proposed bank should be fit and proper persons to hold such positions, as specified in Section 44 of the Banking Act ([Click Here](#))

(c) Requirements for Setting up a Representative Office in Sri Lanka

- (i) In case of setting up a Representative Office in Sri Lanka, the following documents will be required together with the duly completed application (Annex III).
 - Specific request letter from the parent bank to open a Representative Office in Sri Lanka addressed to the Director of Bank Supervision.
 - Certified copy of the Board approval (certified copy of the board minute extract) to open a Representative Office in Sri Lanka.
 - Feasibility report along with brief history, business profile and the global presence of the parent bank.
 - Annual audited financial statements for the last three years.
 - Certificate of Incorporation/Certificate of Corporate Existence of the parent bank.
 - Details of the board of directors and key management personnel of the parent bank.
 - Current business activities of the parent bank conducted in the South Asian region.
 - Activities to be carried out by the proposed Representative Office and the future expansion plans, if any.
 - Reporting line of the proposed Representative Office in Sri Lanka to the regional offices.
 - Number of staff (local and expatriates) to be allocated to the proposed Representative Office including the Country Head.

- (ii) After receiving the required approval, the relevant party can take necessary steps to register the company as an "Overseas Company" in terms of the Companies Act No. 7 of 2007.

4.4 Annual Licence Fee

Licensed banks shall pay an annual licence fee. The fees applicable for 2018, based on the total assets of such bank as at end of the previous year are as set out in the Table 4 below:

Table 4 – Annual Licence Fee - 2018

Total assets as at end of the previous year Rs. Bn.	Licence fee Rs. Mn.
Above 750	30.0
Above 500 to 750	25.0
Above 200 to 500	22.0
Above 125 to 200	16.5
Above 75 to 125	11.0
25 to 75	5.5
Less than 25	2.2

5 Main Prudential Requirements for Licensed Banks

- 5.1 All LCBs and LSBs should comply with the Directions, Circulars and Guidelines issued by CBSL from time to time in terms of the provisions of the Banking Act and other relevant statutes ([Click Here](#)). All prudential requirements are equally applicable to locally incorporated banks and branches of foreign banks, unless specifically stated.
- 5.2 All licensed banks are required to comply with the following prudential and regulatory requirements.

(a) Capital Adequacy – Basel III Requirement:

- (i) Banking Act Directions No. 01 of 2016 was issued requiring licensed banks to maintain the minimum capital ratios and buffers in respect of total risk weighted assets commencing 01 July 2017, under Basel III ([Click Here](#))

Table 5 – Banks with Assets Less than Rs. 500 billion

Components of Capital	01.07.2017	01.01.2018	01.01.2019
Common Equity Tier I including Capital Conservation Buffer	5.75%	6.375%	7.00%
Total Tier I including Capital Conservation Buffer	7.25%	7.875%	8.50%
Total Capital Ratio including Capital Conservation Buffer	11.25%	11.875%	12.50%

Table 6 – Banks with Assets of Rs. 500 billion and Above

Components of Capital	01.07.2017	01.01.2018	01.01.2019
Common Equity Tier I including Capital Conservation Buffer and Capital Surcharge on Domestic Systemically Important banks	6.25%	7.375%	8.50%
Total Tier I including Capital Conservation Buffer and Capital Surcharge on Domestic Systemically Important banks	7.75%	8.875%	10.00%
Total Capital Ratio including Capital Conservation Buffer and Capital Surcharge on Domestic Systemically Important banks	11.75%	12.875%	14.00%

- (ii) The Direction has been issued along with the Regulatory Framework on Supervisory Review Process as a set of guidelines to develop and maintain an Internal Capital Adequacy Assessment Process (ICAAP) in the licensed banks.

(b) Liquidity:

- (i) Currently, LCBs are required to maintain Statutory Liquid Assets (SLAR) of an amount not less than 20% of total liabilities, less liabilities to the Central Bank and to the shareholders, in respect of the Domestic Banking Unit in Rupees and in respect of the Offshore Banking Unit in US dollars, on a daily basis. Every LSB should maintain liquid assets of at a daily minimum average not less than 20% of its total monthly deposit liabilities (Determinations dated 24.12.2002, 20.05.2004, 15.10.2012 and Directions dated 21.01.2003 and 08.10.2003)
- (ii) The CBSL has adopted the Basel III Liquidity Coverage Ratio (LCR) effective from April 2015 as per the Banking Act Directions No. 01 of 2015 dated 31.03.2015, ([Click Here](#)) and accordingly, the licensed banks are required to maintain an LCR of 90% from January 2018 and 100% from January 2019

onwards. Further, the Net Stable Funding Ratio (NSFR) will be adopted in Q3 of 2018.

(c) Leverage:

Banking Act Directions on the Leverage ratio will be issued in 2018.

(d) Maximum Amount of Accommodation: Subject to a few exceptions, the applicable limits in terms of the Banking Act Directions No. 7 and 8 of 2017, are as follows: -

- (i) A single customer – 30% of the bank's capital base
- (ii) An individual, his close relations and companies in which he has substantial interest – 33% of the bank's capital base.
- (iii) A company and its related parties – 33% to 40% of the bank's capital base depending on the banks' CAR and the credit ratings of the bank and the customer.

(e) Maintenance of Statutory Reserve Requirement (SRR): The proportion of rupee deposit liabilities that licensed commercial banks are required to maintain as a deposit with the Central Bank, subject to an allowance for vault cash balances of more than two per cent (2%) but not exceeding four per cent (4%) of deposit liability, which could be deducted from the requirement.

(f) Corporate Governance: Direction Nos. 11 & 12 of 2007 on corporate governance for LCBs and LSBs, respectively, and the subsequent amendments are applicable. The main aspects covered are: the broad responsibilities of the board of directors; the board's composition; criteria to assess the fitness and propriety of directors; management functions delegated by the board; separation of the duties of the Chairman and the CEO; board appointed committees; and disclosure of financial statements.

(g) Mandatory Lending: All licensed banks are required to ensure that at least 10% of their lending is directed to the agriculture sector. For this purpose, agriculture is defined as cultivation, processing and purchasing of tea, rubber, coconut, paddy, minor export crops, livestock and dairy farming, fisheries, minor food crops, horticulture, forestry and bee keeping etc. as well as processing of products for value addition for export purposes (Circular No.: 02/04/008/0002/003, dated 30.04.2013 and the amendments).

- (h) Lending to Other Sectors and Enhancing Banking Services:** A Circular (Circular No. 01 of 2017, dated 01.02.2017) was issued in line with and the national policy approved in the Budget 2017 requesting that licensed banks may;
- i) Lend to identified sectors, as a percentage of total lending as follows: Small and Medium Enterprises 10%, Exports 10%, Tourism activities 10%, Agriculture 10%, Youth 5% and Women 5%.
 - ii) Enhancing Banking Services: Such as, the credit granted by Bank branches for business development in the respective area may be at least 15 percent of deposits mobilized by each branch within the same area (Establishment of Branches).
- (i) Establishment of Bank Branches:** All licenced banks should obtain the prior approval of the Monetary Board to carry on their business in any place. Moreover, all licensed banks are required to establish a minimum of two branches outside the Western Province for each new branch established in the Western Province (Circular dated 26.05.2008 on Establishment of Bank Branches and the Circular No: 02/04/002/0015/002 dated 15.04.2015 ([Click Here](#)))
- (j) Employment of Expatriate Staff:** The maximum number of expatriate officers permitted (Circular No. Ref. No.: 02/01/00/ 0002/001 dated 31.12.2007 on Guidelines for Employment of Expatriate Staff in Banks), inter-alia, are as follows:
- (i) For foreign banks
 - 3 for banks whose staff strength is less than 75
 - 5 for banks with staff strength of 75 to 400
 - 10 for banks with staff strength of more than 400
 - (ii) For locally incorporated banks

Permitted on a case-by-case basis taking into consideration the needs of the banks, with special attention on employing foreign experts in the fields of risk management, International Accounting Standards, risk modelling and data warehouse, structuring of derivative products and corporate governance.

(k) Anti-Money Laundering and Countering Financing of Terrorism

(AML/CFT): Sri Lanka's AML and CFT regime requires licensed banks to;

- (i) Appoint a Compliance Officer who shall be responsible for ensuring the Institution's compliance with the requirements FTRA,
- (ii) establish and maintain procedures and systems to implement the customer identification and due diligence requirements, record keeping and retention requirements, suspicious transactions and terrorist financing monitoring requirements and regulatory reporting requirements,
- (iii) ensure its officers and employees are aware of the laws relating to money laundering and financing of terrorism, train its officers, employees and agents to recognize suspicious transaction and screen all persons before hiring them as employees,
- (iv) establish an audit function to test its procedures and systems for the compliance with the provisions of relevant Acts;

In this regard, licensed banks are required to comply with:

- (i) Conventions on the Suppression of Terrorist Financing Act No 25 of 2005 (CSTFA) as amended by Act No 41 of 2011 and Act No 03 of 2013
- (ii) Prevention of Money Laundering Act No 05 of 2006 (PMLA) as amended by Act No 40 of 2011
- (iii) Financial Transactions Reporting Act No. 06 of 2006 (FTRA).

(l) Display of Interest Rates, Exchange Rates, Service Charges, Fees and Commissions:

In accordance with the Circular No. 02 of 2017 issued on 26 May 2017, licensed banks may offer or charge interest rates on credit products as per their policies, commencing 01 July 2017. However, all licensed banks are required to display and publish their interest rates/penal interest rates per annum (with the basis of calculation, whereas the penal interest, if any, shall be charged only for the amount in arrears during the overdue period.) on credit products, deposits & advances, per annum, and buying and selling rates for foreign currencies as well as the fees charged from customers for fund transfers for the information of the general public and shall be updated regularly to reflect the current rates in all of their banking outlets and on their respective websites.

- (m) Risk Management Relating to Foreign Exchange Business:** Licensed Banks are required to adhere to the Banking Act Direction No. 3 of 2009 on Risk Management Relating to Foreign Exchange Business of LCBs and Direction No. 1 of 2012 on Foreign Exchange Trading Activities of Licensed Commercial Banks in Sri Lanka. The main aspects covered are: Foreign exchange risk management policy, responsibilities of the board and senior management and all other staff involved, risk monitoring and control, framework of limits, risk measurement and reporting, stress testing, valuation of foreign currency positions, internal controls and independent audit, criteria to assess the fitness and propriety of persons engaged in foreign exchange business, introduction of new products, services and activities, contingency planning, market practices and procedures to be followed, ethics, standards of conduct to be followed and practices and the knowledge levels that need to be maintained and sanctions on non-compliance.
- (n) Disclosure of Financial Statements:** All licensed banks are required to publish their financial statements in the press on a quarterly basis (Circular No.: 02/04/003/0401/001 dated 21.02.2006, Circular No.: 02/04/003/0401/001 dated 30.09.2005 which the paragraph No. 4 is replaced by the Circular No.: 02/17/900/001/04 issued on 11.02.2013, Circular No.: 02/04/003/0401/001 dated 26.01.2006 and Circular No.: 02/17/900/0001/04), as well as the audited financial statements in accordance with the format prescribed by CBSL (Circular No.: 02/17/900/0001/04 dated 11.02.2013). The banks shall adopt Sri Lanka Financial Reporting Standards (SLFRS) 9 and all disclosure of financial statements should be in line with these Standards.
- (o) Regulatory Framework on Valuation of Immovable Property:** Licensed banks were required to adopt appropriate prudent policies and procedures approved by the Bank's Board on valuation of immovable properties including the eligibility criteria for Valuers.
- (p) Information Security Management of Licensed Banks:** Considering the rising trend in the automation of banking services and associated IT risks, licensed banks were required to comply with the Baseline Information Security Standard ([Click Here](#)) based on ISO 27000 series of international standards from 01 July 2015 onwards and are requested to submit the reports on Cyber Security Events (CSE) to Central Bank, with effect from 25 January 2016 ([Click Here](#)).

- (q) **Sri Lanka Deposit Insurance and Liquidity Support Scheme:** All licensed banks were required to join the Sri Lanka Deposit Insurance and Liquidity Support Scheme with effect from 1 October 2010 (Direction No. 05 of 2010, dated 27.09.2010 on Insurance of Deposit Liabilities). All deposits, excluding deposits of member banks and finance companies, government of Sri Lanka, shareholders, directors, key management personnel, other related parties, deposits held as collateral against any accommodation granted and deposits falling within the meaning of abandoned property in terms of the Banking Act, will be considered as eligible deposits under the Scheme. The premium levied on eligible deposits will range from 0.10 % to 0.15% per annum and will be paid quarterly (Circular No.: 01/2014 dated 01.01.2014, ([Click Here](#))). In the event the licence or registration of a member institution is suspended or cancelled by the Monetary Board, depositors will be compensated up to a maximum of Rs. 600,000 per depositor per institute and depositors will be entitled to such benefits from 1 January 2018.
- (r) **Customer Charter:** Direction No.8 of 2011 on Customer Charter of Licensed Banks was effective from 5 October 2011. The ‘Customer Charter of Licensed Banks’, specifying rights and obligations of licensed banks and customers, has been issued as a Directive mandating a ‘Code of Conduct’ in banking operations.
- (s) **Foreign Currency Borrowings by Licensed Banks:** The Monetary Board introduced Banking Act Direction No. 07 of 2017 dated 12.12.2017, declaring a policy framework for foreign currency borrowings of licensed banks. These were introduced to address the high dependence on foreign currency borrowings, the resulting exposure of licensed banks to foreign exchange risk, minimising the pressure on the reserves and exchange rate of the country arising from large borrowings in foreign currency ([Click Here](#)).
- (t) **Financial Derivative Transactions:** In accordance with the Banking Act Directions No. 6 of 2017, licensed commercial banks, which intend to engage in financial derivative transactions shall notify its interest, prior to the commencement of the initial transaction, to the Director of Bank Supervision (DBS) with a copy to the Director of International Operations Department of the Central Bank of Sri Lanka. Licensed specialised banks shall obtain the written approval of DBS to engage in each derivative specified in the Direction. ([Click Here](#))

- (u) **Keeping up-to-date with the Regulations, Directions, Rules, Guidelines, Circulars and Operating Instructions issued by Central Bank:** All licensed banks are required to keep up-to-date with the regulations, directions, rules, guidelines, circulars and operating instructions issued by Central Bank of Sri Lanka which can be accessed through the web-link: ([Click Here](#))

**APPLICATION FOR A LICENCE IN TERMS OF SECTION 3 OF THE BANKING ACT FOR THE
BANKS TO BE INCORPORATED LOCALLY**

1. Details (name, financial standing, occupation, qualification and experience etc.) of the promoters of the proposed bank:
2. Name of the proposed bank:
3. The address of registered office (existing or proposed):
4. In the case of an existing company, the date of incorporation and a brief history of its business venture:
5. The objectives of establishing a bank in Sri Lanka and the contribution/benefits to the country:
6. Type of business for which licence is required:
(eg. LCB or LSB and in domestic banking, off-shore banking or both)
7. Amount of capital:
8. The nature of shareholding and list of major shareholders with their subscriptions and sources of such funding:
9. Name of CEO:
(Please attach curriculum vitae)
10. Names of other Key Management Personnel (KMPs) :
(Please attach curriculum vitae)
11. Staffing of the proposed bank:
(numbers, positions, organizational chart etc.)
12. Training facilities for officers:
(eg. local, foreign)
13. Technological status of the proposed bank:
(eg. extent of computerization)
14. Projections for the first 3 to 5 years:
(a) Deposits :
(b) Lending :
(c) Profit/Loss :
15. Plans for Branch Expansion in the first 3 years:

16. Risk management systems and processes:
17. Governance structure:
18. Any other information which may be considered relevant to this application:

I, the undersigned, certify that the information and documents submitted herein are complete and true to the best of my knowledge and belief (the application should be signed by a person duly authorized by the Board of Directors and a certified copy of such authority should be enclosed with the application).

Date:

Signature of Authorized Person
(Affix Official Seal)

Documents to be attached to the application

1. In the case of a company to be formed for the purpose of carrying on banking business-
 - (i) a copy of the draft Articles of Association of the company to be formed or the draft Constitution or any other document associated with the formation of such company; and
 - (ii) a statement containing the names, addresses, occupations and qualifications of the persons proposed as directors, and if a CEO has been identified, details of such officer.
2. In the case of a company formed before the date of the application and which intends to commence banking business-
 - (i) a certified copy of the Articles of Association of such company or the Constitution or any other document associated with the formation of the company together with the proposed amendments, if any;
 - (ii) a statement containing the names, addresses, occupations and qualifications of the directors and any directors proposed to be appointed and of CEO of such company;
 - (iii) a copy of the audited balance sheet and profit and loss account of the company for the preceding three years;
 - (iv) a certified copy of the Certificate of Incorporation of the company
3. A feasibility report relating to the establishment of the proposed bank should be submitted with the application.
4. A certified copy of the Board resolution authorising to sign and submit this application on behalf of the Board.

**APPLICATION FOR A LICENCE IN TERMS OF SECTION 3 OF THE BANKING ACT
FOR BANKS INCORPORATED OUTSIDE SRI LANKA TO ESTABLISH
A BANK IN SRI LANKA**

1. Name of Bank :
2. Address of Head Office :
3. Date and place of incorporation of Head Office :
(Describe briefly the history of the Bank including any take-over or amalgamations with other banks, credit rating, activities including areas of specialization, branches, representative offices in other countries, subsidiaries and their business activities)
4. Names of Directors and a list of companies or other business undertakings in which the Directors have an interest and the nature of such interest :
5. List of shareholders holding more than 10 per cent of the issued shares of the Bank:
6. The Bank's ranking in terms of capital, deposits and total assets in home country/region/globally:
7. The objectives of establishing a bank in Sri Lanka and the contribution/benefits to the country:
8. Type of business for which licence is required :
(eg. domestic banking, off-shore banking or both)
9. Amount of initial capital to be brought into Sri Lanka :
10. Name of the CEO to be posted to Sri Lanka :
(Please attach curriculum vitae and approval of the home country supervisor)
11. Names of Key Management Personnel (KMPs) :
(Please attach curriculum vitae)
12. Training facilities for officers :
(in Sri Lanka or abroad)
13. Staffing of the proposed branch :
(numbers, positions and total strength indicating number of expatriate personnel, organizational chart)
14. Are customer deposits insured in the home country? If so by whom?
15. Technological status of the proposed branch :
(eg. extent of computerization)
16. Projections for the first three to five years :
 - (i) Deposits :
 - (ii) Lending :
 - (iii) Profit/Loss :
17. Plans for branch expansion in the first three years (if any):
18. Risk management systems and processes:

19. Governance structure:

20. Any other information which may be considered relevant to this application:

I, the undersigned, certify that the information and documents submitted herein are complete and true to the best of my knowledge and belief (the application should be signed by a person duly authorized by the Board of Directors and a certified copy of such authority should be enclosed with the application).

Date:

Signature of Authorized Person
(Affix Official Seal)

Documents to be attached to the Application

1. A certified copy of the Certificate of Incorporation.
2. A certified copy of the Articles of Association.
3. Copies of the audited financial statements and Annual Reports for the last three years.
4. A certified copy of a resolution passed by the Board of Directors of the Bank authorising the establishment of a branch in Sri Lanka.
5. A certificate issued by the relevant monetary authority of the country stating that permission has been granted to establish a branch in Sri Lanka.
6. A written undertaking supported by a resolution passed by the Board of Directors, stating that the company or body corporate shall, on demand by the Central Bank of Sri Lanka, provide such funds as may be necessary to cover all obligations and liabilities incurred by the branch in carrying on banking business in Sri Lanka.
7. A feasibility study on establishing a branch in Sri Lanka.
8. A certified copy of the Board resolution authorising to sign and submit this application on behalf of the Board.
9. Any other particulars or documents that may be required by the Monetary Board.

APPLICATION FOR AN APPROVAL IN TERMS OF SECTION 12 OF THE BANKING ACT FOR THE ESTABLISHMENT OF A REPRESENTATIVE OFFICE OF A BANK INCORPORATED OUTSIDE SRI LANKA

1. Name of Bank :
2. Address of Head Office :
3. Names of Directors and a list of companies or other business undertakings in which the Directors have an interest and the nature of such interest :
4. List of shareholders holding more than 10 per cent of the issued shares of the Bank:
5. The Bank's ranking in terms of capital, deposits and total assets in home country/region/globally:
6. Date and place of incorporation of the Office :
7. (Describe briefly the history of the Bank including any take-over or amalgamations with other banks, credit rating, activities including areas of specialization, branches, representative offices in other countries, subsidiaries and their business activities, current business activities of the parent bank conducted in the South Asian region)
8. The objectives of establishing a bank in Sri Lanka and the contribution/benefits to the country:
9. Activities to be carried out by the proposed Representative Office and the future expansion plans, if any.
10. Name of the Chief Representative Officer (CRO) to be posted to Sri Lanka :
(Please attach curriculum vitae and approval of the home country supervisor)
11. Staffing of the proposed branch :
Number of staff (local and expatriates) to be allocated to the proposed Representative Office including the Country Head (positions and total strength indicating number of expatriate personnel and organizational chart)
12. Reporting line of the proposed Representative Office in Sri Lanka to the regional offices.
13. Any other information which may be considered relevant to this application.

I, the undersigned, certify that the information and documents submitted herein are complete and true to the best of my knowledge and belief (the application should be signed by a person duly authorized by the Board of Directors and a certified copy of such authority should be enclosed with the application).

Date:

Signature of Authorized Person
(Affix Official Seal)

Documents to be attached to the Application

1. Specific request letter from the parent bank to open a Representative Office in Sri Lanka addressed to the Director of Bank Supervision.
2. Certified copy of the Board approval (certified copy of the board minute extract) to open a Representative Office in Sri Lanka.
3. Feasibility report along with brief history, business profile and the global presence of the parent bank.
4. Annual audited financial statements for the last three years.
5. Certificate of Incorporation/Certificate of Corporate Existence of the parent bank.
6. Details of the board of directors and key management personnel of the parent bank.
7. A certified copy of the Board resolution authorising to sign and submit this application on behalf of the Board.

**GUIDELINES FOR PROCESSING APPLICATIONS TO ESTABLISH NEW
BRANCHES OF FOREIGN BANKS**

- (a) In addition to the Basel Minimum Standards as set out above, CBSL would take into account the following factors:
- (i) The financial capacity and ability of the parent bank to establish an overseas presence, including the implications on its capital adequacy and liquidity.
 - (ii) The managerial capacity of the parent bank to ensure that the activities of the overseas establishment are conducted in a prudent and reputable manner.
 - (iii) The other countries where the bank has established branches/offices, including the nature of the supervisory arrangements and whether there are any secrecy constraints which would inhibit effective consolidated supervision.
 - (iv) The track record, international standing, reputation and financial soundness of the applicant and its parent institutions/major shareholders. The bank should be one with a high ranking among banks in terms of assets, capital strength and soundness in the home country and in the world/region. The reason for this is that a larger bank is perhaps more likely to have reached the stage at which an overseas presence can be justified and supported on business grounds. Determination of the ranking of the bank in the home country could be based on information supplied by the bank's supervisory authority in that country. Determination of the ranking in the region could be based on ranking lists prepared and published by reputable organisations. The global reputation of the applicant bank may also be measured by its international presence e.g. number of branches with full banking authority outside the home country.
- (b) There should not be any adverse reports or information with regard to personnel comprising the management of the Head Office of the bank.
- (c) The bank should be widely owned and listed in a stock exchange authorised by the Government of the home country (except in the case of State owned banks.)

- (d) Consideration could be given as to whether any banks from the home country of the applicant bank are already represented in Sri Lanka and whether the home country would permit a Sri Lankan bank to be established in that country.
- (e) Consideration could be given as to whether the home country of the applicant foreign bank would promote financial assistance to and investments in Sri Lanka as well as promote trade between Sri Lanka and that country.