

Board Paper No . 2024/680/04/A

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**FOREIGN CURRENCY BORROWINGS
(FCBS)
POLICY AND PROCEDURES
MANUAL**

Version II

Owner- Finance Department

Approval -Board of Directors

Date of Approval- 5th April 2024

**Policy and Procedures Manual
Foreign Currency Borrowings (FCBs)**

1. INTRODUCTION

This Manual is based on Direction No 04 of 2021 dated 9th April 2021 issued by the Central Bank of Sri Lanka (CBSL) on the subject Foreign Currency Borrowings (FCBs) by Licensed Finance Companies. The purpose of the direction was to stabilize any unwarranted macro-economic and financial sector volatilities in the country created by the foreign funding exposures of Licensed Finance Companies (LFCs) sector by providing a risk management framework for LFCs on the exposures to foreign currency borrowings. The manual will facilitate the establishment of prudent foreign exchange risk management policies and procedures when resorting to FCBs by our company in the future.

2. CRITERIA FOR COMPUTATION OF LIMITS ON FCBS

The Maximum outstanding amount of FCBs of the company at a particular time shall be determined as percentage of its total assets, and dealt with as follows; -

| Level | Criteria | Limit as a Percentage of total Assets | Approvals Required |
|-------|--|---------------------------------------|--|
| 1 | Comply with the prudential requirements such as direction on minimum capital adequacy ratios, minimum core capital and liquid assets | 10 % | Notify the Director prior to and after borrowing |
| 2 | <ol style="list-style-type: none">1. Meet Criteria on Level 1 above2. Minimum capital conservation buffer of 1% in addition to the minimum capital adequacy requirement and3. Availability of a publishable credit rating of investment grade (BBB-) and above | Over 10 – 15 % | Prior approval of the Director |
| 3 | <ol style="list-style-type: none">1. Meet Criteria in level 2 above2. Such Borrowings shall be unsecured and subordinated to the claims of Depositors and3. Utilize such borrowings solely to lend/invest for the purpose of Exports, Imports Substitutions, Government development projects, generating foreign income4. Any other sector deemed to be priority sector as determined by the Monetary Board | Over 15 – 20 % | Prior approval of the Monetary Board |

4. APPROVAL

FCBs shall be approved by the Board of Directors of the Company after evaluation the rationale cost benefits analysis of borrowings and availability of adequate risk management and oversee the implementation of the terms and conditions stipulated herein.

5. TENURE

FCBs shall be with a maturity of 2 years or over

6. OTHER REQUIREMENTS FOR APPROVAL OR WHEN NOTIFYING FCBS ON THE LEVELS SPECIFIED IN SECTION 2 ABOVE

a) Level One

Submit the approval granted by the Board of Directors of our company, term sheet and other relevant details of the prospective foreign currency borrowings to the Director prior to obtaining the facility, and notify the details and the bank confirmation of the foreign currency borrowing to the Director within 3 working days after obtaining the borrowing.

b) Level 2

Obtain the prior written approval of the Director by submitting the approval granted by the Board of Directors of our company term sheet and other relevant details of the prospective foreign currency borrowing

c) Level 3

Obtain the prior written approval of the Monetary Board by submitting the approval granted by the Board of Directors of our company, term sheet and other relevant details of the prospective foreign currency borrowing.

7. LOAN DISBURSEMENT

Foreign currency borrowings approved by either the Director or the Monetary Board, as the case may be, shall be obtained within 3 months from the date of such approval.

8. TERMS AND CONDITIONS

- i. Foreign currency borrowings by LFCs shall comply with the applicable provisions of the Foreign Exchange Act, No. 12 of 2017 and directions/regulations issued thereunder.**
- ii. Shall use the foreign currency borrowings strictly for the purpose(s) given in the loan agreement with the counterparty.**
- iii. shall hedge the foreign exchange risk of the foreign currency loan proceeds by using currency SWAPS with the Central Bank of Sri Lanka (CBSL) through Licensed Commercial Banks as per the prevailing guidelines for SWAP arrangements with the CBSL.**
- iv. Shall appropriately hedge the foreign exchange risk on the interest payment by using appropriate market derivative products and manage the interest rate risk arising from such foreign currency borrowings.**

- v. The total borrowing cost including interest rate, hedging cost and all related costs of the borrowing shall be less than the interest rates ceiling stipulated for debt instruments given in the Maximum Interest Rates on Deposits and Debt Instruments Direction or any amendment thereto.

9. INTERPRITATIONS

'Foreign currency' shall mean any designated foreign currency.

'Director' shall mean Director of the Department of Supervision of Non- Bank Financial Institutions of the Central Bank of Sri Lanka.

“Total asset” shall be the amount as per the latest annual audited financial statements or interim financial as certified by the external Auditor of our company.

10. UPDATION OF THE MANUAL

This manual shall be updated to meet the requirements in the directions issued by CBSL in the future as appropriate with the due approval of the Board of Directors.

11. RECOMMENDATION

The Manual is recommended for adoption, for prudent exchange risk management resulting from Foreign currency borrowings by the company, whilst complying with Section 4.2 in Direction No 4 of 2021, of CBSL.

Recommended to the Board of Directors to approve this Manual for Adoption

**Assistant General Manager
(Finance & Strategic Planning)**

CEO/ Executive Director

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