**Credit Circular No 2020/19**

**7th July 2020**

**CREDIT FACILITIES SECURED BY PERSONAL GUARANTEES**

1. It has been decided to control our exposure to credit facilities sought against the security of personal guarantees in view of the fact that in case of default we have to make loan loss provision **even up to 100 per cent** of the amount outstanding depending on the Non- Performing status of the loan account.
2. Please note that for the purpose of computing the amount outstanding net of security for specific loan loss provisioning personal guarantees has no value. and even performing facilities granted against personal guarantees are also recognized for impairment of losses on forward looking basis which means that impairment loss is recognized before the occurrence of any credit event.
3. In terms of Direction No 4 of 2006 of the Central Bank of Sri Lanka, we have to maintain the aggregate of **unsecured accommodations** granted to and outstanding at any point of time from all borrowers within 5 % of the capital funds of our company as shown in the last audited balance sheet *(Please also refer credit Circular No 2020/10 dated 1st July 2020. Paragraph 7 in this regard)*
4. Examiners of the Central Bank of Sri Lanka has stated in their report that we have exceeded the above stated, current regulatory limit of Rs 66.6 Mn based on our last audited balance sheet and has requested us fall in line with the regulatory requirements without any delay and confirm compliance to them
5. Therefore, Branch Managers are requested to curtail granting credit facilities against personal guarantees and consider such application received from the following only as appropriate,
   1. **Employees in the state sector,** (Central & Local Government) and those in Government Corporations where the employer irrevocably agrees to remit the loan installment to a Savings account with us to recover the monthly Installment / rental. The borrower to authorize us to recover the installment from the relevant savings account
   2. **Employees in private sector** (Prime and Reputed business establishment) where the employer irrevocably agrees to remit the loan installment to a Savings account with us to recover the monthly Installment / rental. The borrower to authorize us to recover the installment from the relevant savings account
   3. **High net worth reputed Businessmen / Entrepreneurs / Individuals** who are credit worthy with disposable income to meet the installments /rental (Minimum debt service cover to be over two times) Such customer should provide documentary evidence in proof of their income preferable through their tax particulars for the last three years of assessment and quarterly tax payments as appropriate and such other reliable documents
   4. **Customers who have settled** in full the credit facilities granted to them as per the repayment programme and maintained a mutually beneficial relationship with us during the tenor of the settled facility.
   5. Obtaining Loan Protection Insurance Policy Mandatory
   6. **Period 36 to 48 months’** subject to the period been adjusted to settle advance on or before reaching the age of 60 years

Please ensure compliance with the above requirements with immediate effect.

For any clarification please contact the either the Senior Deputy General Manager or Manager Credit or the undersigned

**CEO / EXECUTIVE DIRECTOR**