**PRESS RELEASE**

**Resolution of Non-performing loans**

11th February 2021

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The COVID-19 pandemic caused widespread disruptions resulting in economic hardships for both individuals and businesses. Disruptions of business operations, and partial or complete loss of employment and income pose difficulties in debt repayment and place added pressures on the financial health of individuals, businesses, and the economy as a whole. As an immediate response to mitigate the impact of COVID-19, the grant of interest payment support Kidu by His Majesty The King provided across-the-board relief to all borrowers including non-performing loan (NPL) clients. Additional monetary measures such as deferment of loan repayments and provision of working capital and short-term loans at concessional interest rates were rolled out to ensure that relief measures are adequate and inclusive.

While the prospects for a turn-around of pre COVID-19 NPLs may have further worsened as a result of the pandemic, added risks are foreseen in the form of new and increased NPLs. Considering the urgency of addressing the non-performing loans, a National High Level NPL Committee was established under the chairmanship of Hon'ble Finance Minister. Under the guidance of the Committee, a comprehensive NPL resolution framework has been put in place to provide relief to both borrowers and the financial institutions while providing opportunity for new credit supply in the economy.

The framework is driven by cluster based diagnostics and resolution of NPLs – the first phase review of 838 loan accounts amounting to Nu. 1.8 Billion has been completed. Important features of the resolution framework include the institution of:

1. The NPL Asset transfer framework where eligible NPLs will be temporarily parked for 3 years by the financial institutions with subsequent freezing of interest to provide relief to borrowers and decongest the books of the financial institutions for new credit flow in the economy.

2. Segregation of NPLs into viable and non-viable loans based on broad principles for identifying viable loans, where borrower may be facing temporary financial difficulties from loss or reduction in income, which can however be revived/rehabilitated. The process of rehabilitation will involve bilateral engagements between the borrower and the financial institution to jointly explore and implement corrective actions to revive the borrower's business or earning capacity.

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