



**CENTRAL BANK OF SRI LANKA
BANKING ACT DIRECTIONS**

25 March 2024

No. 01 of 2024

LARGE EXPOSURES OF LICENSED BANKS

The Central Bank Sri Lanka, having considered the possible adverse implications to the financial system stability due to large exposures of licensed commercial banks and licensed specialised banks (hereinafter referred to as licensed banks) hereby issues these Directions on large exposures of licensed banks with a view to mitigating the potential credit concentration risks in order to ensure safety and soundness and preserve public confidence in the banking sector. The Central Bank of Sri Lanka is empowered by the Central Bank of Sri Lanka Act, No. 16 of 2023 to issue exposure caps as a macroprudential instrument to mitigate or eliminate identified systemic risks.

1. Empowerment
 - 1.1 In terms of Section 46(1) of the Banking Act, No. 30 of 1988, as amended, to ensure the soundness of the banking system, the Central Bank is empowered to issue Directions to all licensed commercial banks, regarding the manner in which any aspect of the business of such bank or banks is to be conducted.
 - 1.2 In terms of Section 76J(1) of the Banking Act, No. 30 of 1988, as amended, the Central Bank is empowered to issue Directions to licensed specialised banks or to any category of licensed specialised banks, regarding the manner in which any aspect of the business of such banks is to be conducted.
2. Scope
 - 2.1 These Directions shall be applicable to every licensed bank incorporated in Sri Lanka and every licensed bank incorporated or established outside Sri Lanka.

3. Effective Date of Compliance
- 3.1 Licensed banks shall implement these Directions on a standalone basis commencing 01.01.2026.
- 3.2 Licensed banks shall implement these Directions on consolidated basis commencing 01.01.2030.
4. Applicability
- 4.1 Limits on large exposures are applicable to any single company, public corporation, firm, association of persons, or an individual; or
- 4.2 in aggregate to:
- (i) an individual, his close relations or to a company or firm in which he or his close relations have a substantial interest: or,
- (ii) a group of connected borrowers if at least one of the following criteria is satisfied:
- (a) Control relationship: A company and one or more of the following:
- a. its subsidiaries;
- b. its holding company;
- c. its associate companies;
- d. a subsidiary of its holding company;
- e. a company in which such company or its subsidiary, or its holding company, or a subsidiary of its holding company, has a substantial interest;
- f. an individual having a substantial interest in such company and the close relations of such individual; or,
- g. any other company, in which such company having direct or indirect control, that may satisfy one or more of the following criteria:
- i. control over the voting rights of another company, pursuant to a voting agreement with other shareholders;

ii. frequent interchange of key management personnel among such company and another company; or,

iii. significant influence by such company on another company as identified through the consolidated financial statements of such companies as per applicable Sri Lanka accounting standards.

(b) Economic Interdependence: Licensed banks shall assess the economic interdependencies for all instances where the total exposure to a borrower exceeds 10% of Tier 1 capital. In establishing connectedness based on economic interdependence, licensed banks shall consider, at a minimum, the following criteria:

a. where 50 per cent or more of one borrower's income/turnover per annum is derived from transactions with another borrower; or,

b. where 50 per cent or more of one borrower's production input per annum is obtained from another borrower; or,

c. where one borrower has fully guaranteed the exposure of another borrower.

5. Large Exposure 5.1 Large exposures shall mean those exposures of a licensed bank to an individual borrower or a group of connected borrowers, which is equal to or in excess of 10 per cent of the Tier 1 capital.

6. Maximum Limit on Large Exposures 6.1 Maximum limit on large exposures of a licensed bank to an individual borrower or to a group of connected borrowers referred to in Directions 4.1 and 4.2, respectively, shall not exceed 25 per cent of the licensed bank's Tier 1 capital at all times.

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| 7. Aggregate Limit of Large Exposures | 7.1 | The sum total of the large exposures as at any given date to any category of borrowers referred to in Directions 4.1 and 4.2, shall not exceed 55 per cent of the total exposures of the licensed bank to all borrowers as at the end of the immediately preceding quarter. |
| 8. Exclusions of Exposures from Maximum Limits given in Directions 6 and 7 | 8.1 | Rupee denominated securities issued by the Government of Sri Lanka. |
| | 8.2 | Rupee denominated securities issued by the Central Bank of Sri Lanka. |
| | 8.3 | Both Rupee and foreign currency denominated exposures secured against the following collaterals: <ul style="list-style-type: none"> (i) cash; (ii) gold, subject to a loan to value ratio of equal to or less than 70%; (iii) guarantees issued by a Multilateral Agency, such as World Bank, Asian Development Bank, International Financial Corporation, International Development Association or any other Agency acceptable to the Governing Board of the Central Bank of Sri Lanka; (iv) guarantees including counter guarantees issued by a bank incorporated within or outside Sri Lanka other than the bank taking the exposure, subject to the following: <ul style="list-style-type: none"> (a) The amount of exposure that shall be excluded from the computation of large exposures being 80 per cent in the event the credit rating of the bank that provides the guarantee is in the rank of AAA to AA- or equivalent, or 50 per cent in the event the bank's credit rating is in the rank of A+ to A- or equivalent. (b) The total exposures backed by guarantees considered for exclusion shall not exceed 100% of Tier 1 capital base. |

- 8.4 Rupee denominated exposures secured against the following collaterals, provided that such collateral is pledged for at least until the maturity of the exposure:
- (i) Rupee denominated securities issued by the Government of Sri Lanka or the Central Bank of Sri Lanka;
 - (ii) Rupee denominated treasury guarantees, or any other Rupee denominated guarantees issued by the Government of Sri Lanka that are reported as liabilities in the financial statements of the Government of Sri Lanka.
- 8.5 Balances maintained in NOSTRO current accounts held with other financial institutions for operational purposes such as clearing and cash management excluding any balances accumulated due to customer driven activities.
- 8.6 Exposures deducted from the Tier 1 capital in terms of Banking Act Directions No. 01 of 2016 on Capital Requirements under Basel III for Licensed Commercial Banks and Licensed Specialised Banks.
- 8.7 Intraday and overnight interbank exposures, except for the revolving overnight placements.
- 8.8 Exposures to qualifying central counterparties (QCCPs) related to clearing activities.
- 8.9 Exposure of a licensed bank incorporated outside Sri Lanka if such exposures are funded directly through funds raised from its Head Office and/or any branch/regional office of such bank operating outside Sri Lanka.

9. Review of Exposures

- 9.1 Licensed banks shall comply with these Directions within one year in instances where the exposure to a borrower is required to be revised due to a reduction in the applicable exposure limit.

9.2 In the event a merger or an acquisition between institutional borrowers results in existing exposures exceeding the applicable maximum limits, the licensed banks shall reduce such exposures to be within the applicable maximum limits before the expiry of 3 years on a staggered basis as approved by the Board of Directors, from the date of such merger or acquisition.

10. Governance
Framework for
Monitoring Large
Exposures

10.1 The Board of Directors shall commence implementing measures from the date of issuance of these Directions to ensure availability of a strong governance framework for monitoring of large exposures, as follows:

- (i) establish necessary policies, procedures, processes, systems and internal controls to ensure compliance with these Directions;
- (ii) ascertain a comprehensive bank-wide view of significant sources of concentration risk taking into consideration the on-balance sheet and off-balance sheet exposures;
- (iii) establish internal concentration thresholds, reflecting the bank's risk appetite, risk profile and capital strength which shall be regularly communicated to and understood by relevant staff; and,
- (iv) conduct effective oversight, review and monitoring of all large exposures and to regularly report any concerns to the Board of Directors.

10.2 Licensed banks shall maintain adequate documentation to demonstrate the basis of determining the connected groups of borrowers due to control relationship and/or economic interdependence at all circumstances.

10.3 Licensed banks shall conduct periodic internal reviews on compliance with these Directions at least on a quarterly basis.

10.4 Licensed banks shall implement necessary measures to communicate the salient requirements of these Directions to the existing/prospective borrowers.

11. Transitional
Arrangement for
Existing Borrowers

11.1 In the event the exposures to any category of existing borrowers referred to in Directions 4.1 and 4.2 as at 01.01.2026, exceed the maximum limit specified in Direction 6, licensed banks shall comply on a staggered basis in line with the transitional arrangement in Table 1, subject to Directions 11.2 to 11.3.

Table 1: Transitional Arrangement for Complying with Maximum Limit on Large Exposures

Exposure as at 01.01.2026 as a % of Audited Tier 1 Capital	Exposure as a % of Latest Audited Tier 1 Capital during the Transitional Period		
	31.12.2026	31.12.2027	31.12.2028
26% - 50%	45%	35%	25%
51% - 75%	65%	50%	25%
76% and above	85%	60%	25%

11.2 Licensed banks may grant new working capital facilities to borrowers with excess exposures on a case-by-case basis, in a prudent manner, until 01.01.2026, based on suitable repayment arrangements to ensure compliance with the transitional arrangement given in Table 1.

11.3 Licensed banks shall reduce all credit facilities granted based on national priorities and/or national interest and for direct funding of local infrastructure projects, with the approval of the Central Bank of Sri Lanka in terms of the Banking Act Directions No. 07 & No. 08 of 2007 on Maximum Amount of Accommodation of Licensed Commercial Banks and

Licensed Specialised Banks in line with the transitional arrangement given in Table 1.

12. Other Requirements
- 12.1 Licensed banks shall gradually reduce the exposures to Public Corporations to meet the maximum limit specified in Direction 6 with respect to the aggregate exposures to all Public Corporations by 31.12.2030. The transitional arrangement to be followed in this regard will be informed to the respective licensed banks.
- 12.2 Licensed banks incorporated outside Sri Lanka may consider subsidiaries within the own banking group as separate entities for the purpose of these Directions until 31.12.2030 and shall consider all subsidiaries as a part of the own banking group from 01.01.2031 for the purpose of these Directions.
- 12.3 These Directions shall not be applied to the government instruments and exposures which are subject to sovereign debt restructuring and to the new instruments/exposures that will be generated consequent to the sovereign debt restructuring process. Applicability of these Directions to such instruments and exposures will be informed upon finalising the debt restructuring terms and conditions.
13. Non-Compliance with Directions
- 13.1 The Central Bank of Sri Lanka shall implement appropriate regulatory actions in accordance with the Banking Act against licensed banks failing to comply with the transitional arrangement in Table 1, in the case of non-compliance of the licensed banks with the maximum limit specified in Direction 6.
- 13.2 Licensed banks shall not increase the exposures to any category of borrowers referred to in Directions 4.1 and 4.2 that exceed the maximum limit specified in Direction 6 on or after 01.01.2026.
- 13.3 Licensed banks shall risk weight the excess exposures at 1,250% for capital adequacy computations in the event the

exposures to any category of borrowers referred to in Directions 4.1 and 4.2, exceed the maximum limit specified in Direction 6 on or after 01.01.2029, until such excesses are regularised. Such licensed banks may be subject to any other regulatory action in accordance with the Banking Act, as determined by the Central Bank of Sri Lanka.

14. Regulatory
Submissions

14.1 Licensed banks shall submit:

- (i) details of large exposures to the Director of Bank Supervision in line with these Directions, as at end of each quarter commencing 30.09.2024, within one month in the reporting format as largely set out in Annex I.
- (ii) the measures taken to comply with these Directions as at end of each quarter until the effective date of these Directions.

15. Revocation of
Previous Directions

15.1 The following Directions are hereby revoked with effect from 01.01.2026.

- (i) Banking Act Directions No. 07 of 2007 dated 01.11.2007 on Maximum Amount of Accommodation.
- (ii) Banking Act Directions No. 08 of 2007 dated 01.11.2007 on Maximum Amount of Accommodation.
- (iii) Banking Act Directions No. 02 of 2014 dated 26.06.2014 on Amendment to Banking Act Directions No. 07 of 2007 on Maximum Amount of Accommodation.
- (iv) Banking Act Directions No. 03 of 2014 dated 26.06.2014 on Amendment to Banking Act Directions No. 08 of 2007 on Maximum Amount of Accommodation.

16. Interpretations

- 16.1 Public corporation shall mean any corporation, board or other body which was or is established by or under any written law other than the Companies Act, with funds or capital wholly or partly provided by the Government.
- 16.2 Exposure shall mean any accommodation, i.e., any on-balance sheet and off-balance sheet facility including but not limited to loans, overdrafts, advances or any commitment to grant loans, and all debt and equity investments, excluding equity investments in financial subsidiaries.
- 16.3 Accommodation shall mean any on-balance sheet and off-balance sheet facility including but not limited to loans, overdrafts, advances or any commitment to grant loans.
- 16.4 Off-balance sheet exposure shall mean the total of the exposure limits prevailing at any given time or the outstanding amount, whichever is higher, computed using the credit conversion factors applicable to such exposures in terms of Banking Act Direction No. 01 of 2016 on Capital Requirements under Basel III for Licensed Commercial Banks and Licensed Specialised Banks.
- 16.5 Value of exposure shall mean the total of the exposure limits prevailing at any given time or the outstanding amount, whichever is higher. In the case of fully drawn term loans, the outstanding value shall be reckoned as the amount of exposure.
- 16.6 Substantial interest shall be within the meaning of Section 86 of the Banking Act, No. 30 of 1988, as amended.
- 16.7 Significant influence shall mean the power to participate in management, financial and operating policy decisions.
- 16.8 Tier 1 capital shall mean the Tier 1 capital before adjustments, reported in the latest computation of the Total Capital Ratio in terms of Banking Act Direction No. 01 of 2016 on Capital Requirements under Basel III for Licensed Commercial Banks and Licensed Specialised Banks, as at

the end of the preceding financial year or immediately preceding quarter, subject to certification by the external auditor. In the event of losses subsequent to the audit certification, such losses shall be deducted from Tier 1 capital for the purpose of these Directions.

16.9 Government of Sri Lanka shall mean the Government of Sri Lanka, Ministries, Government Departments and Local and Provincial Government Bodies.

16.10 A qualifying central counterparty shall mean a legal person who engages in clearing and settlement of transactions.

16.11 Board of Directors in the case of licensed banks incorporated outside Sri Lanka shall mean the Head Office or the Regional Office of such licensed bank that supervises the respective branch or a management committee, for which the powers on overseeing the management have been delegated by such Head Office or the Regional Office, as the case may be, to act as the Board of Directors of such branch.



Dr. P Nandimal Weerasinghe

*Chairman of the Governing Board and
Governor of the Central Bank of Sri Lanka*

