



CENTRAL BANK OF SRI LANKA

17 April 2025

BANKING ACT DIRECTIONS

No. 02 of 2025

DOMESTIC SYSTEMICALLY IMPORTANT BANKS

The Central Bank of Sri Lanka hereby issues the following Directions to licensed commercial banks and licensed specialised banks in Sri Lanka (hereinafter referred to as licensed banks), introducing Higher Loss Absorbency requirements (HLA) as capital surcharge on Domestic Systemically Important Banks (hereinafter referred to as “D-SIBs”) as designated under the Central Bank of Sri Lanka Act, No. 16 of 2023, with a view of mitigating or eliminating identified systemic risks and thereby ensuring the soundness of the banking system.

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|--------------------------------------|---|
| 1. Empowerment under the Banking Act | 1.1 In terms of Sections 46(1) and 76J(1) of the Banking Act, No. 30 of 1988 (as amended), in order to ensure the soundness of the banking system, the Central Bank of Sri Lanka is empowered to issue Directions to all or any licensed bank, regarding the manner in which any aspect of the business of such bank or banks is to be conducted considering the asset size, scale, diversity and complexity of operations of such banks. |
| | 1.2 In terms of the provisions of Sections 19(7)(a) and 76G(7) of the Banking Act, every licensed bank shall at all times maintain a Capital Adequacy Ratio as may be determined by the Central Bank of Sri Lanka. |
| 2. Scope of Application | 2.1 These Directions shall be applicable to all licensed banks. |
| 3. Capital Surcharge on D-SIBs | 3.1 D-SIBs shall, at all times, maintain the minimum capital surcharge as provided for in Direction 3.2. |



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- 3.2 The minimum capital surcharge on D-SIBs is in Table 1 below:

Table 1: Minimum Capital Surcharge on D-SIBs

Bucket	HLA Requirement (Common Equity Tier 1 (CET 1) as a % of Risk-Weighted Assets)
3	2.0
2	1.5
1	1.0

- 3.3 The capital surcharge on D-SIBs shall be met with CET 1 as defined in the Banking Act Directions No. 01 of 2016 of Capital Requirements under Basel III.
4. Consequences of Breaching the Capital Surcharge on D-SIBs
- 4.1 Where a D-SIB fails to meet the capital surcharge given in Direction 3.2, such bank shall agree on a capital remediation plan to ensure compliance with such requirement over a defined time frame. Until returned to compliance, such D-SIB shall be subject to restrictions on distributions including payment of dividend, and such other restrictions as may be imposed by the Central Bank of Sri Lanka, from time to time.
- 4.2 For a licensed bank designated as a D-SIB for the first time under the Directions issued by the Central Bank of Sri Lanka, or a D-SIB that progresses to a bucket requiring a higher HLA requirement, a time frame of 12 months from such designation or progression, as the case may be, will be permitted to meet the aforesaid additional HLA requirement. In the event such bank fails to meet the HLA requirement within the time frame of 12 months, restrictions explained in Direction 4.1 will be applied.



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- 4.3 Where a D-SIB progresses to a bucket resulting in a lower HLA requirement, the Central Bank of Sri Lanka may, based on supervisory judgement, decide on a timeline within which such bank shall be released from its previous HLA requirement.
5. Disclosure Requirement 5.1 At the end of each financial year, licensed banks with a Leverage Ratio exposure measure that exceeds Rs. 500 billion shall comply with the disclosure requirements in Annex I hereto.
6. Effective Date 6.1 These Directions shall be effective from 17 April 2025.
7. Revocation of Previous Directions 7.1 The following Directions are hereby revoked:
(i) Banking Act Directions No. 12 of 2019 on Domestic Systemically Important Banks; and
(ii) Banking Act Directions No. 10 of 2019 on Framework for Dealing with Domestic Systemically Important Banks.

A handwritten signature in blue ink, appearing to read "Nandalal Weerasinghe".

Dr. P Nandalal Weerasinghe

Chairperson of the Governing Board and Governor of the Central Bank of Sri Lanka

Annex I

D-SIBs Assessment – High Level Indicators

- a) Report audited data as at 31 December each year, unless otherwise specified.
- b) Locally incorporated banks - report consolidated basis.
- c) Foreign bank branches - solo basis.
- d) Financial Institution definition is in accordance with the Banking Act Direction No. 01 of 2016 of Capital Requirement under Basel III.

General Information	
Name of the Bank	
Rs. million	
Size	
Indicator 1 – Total Exposures	
Interconnectedness	
Indicator 2 – Intra-Financial System Assets	
a. Funds deposited with or lent to other financial institutions (including unused portion of committed lines extended)	
(i) Funds deposited	
(ii) Lending	
b. Holdings of securities issued by other financial institutions	
c. Net positive current exposure of securities financing transactions (SFTs) with other financial institutions	
d. Over-the-counter (OTC) derivatives with other financial institutions that have a net positive mark to market value	
Indicator 3 – Intra-Financial System Liabilities	
a. Funds deposited by or borrowed from other financial institutions (including unused portion of committed lines obtained)	
(i) Funds deposited	
(ii) Borrowings	
b. Net negative current exposure of securities financing transactions (SFTs) with other financial institutions	
c. Over-the-counter (OTC) derivatives with other financial institutions that have a net negative mark to market value	
Indicator 4 – Securities Outstanding	
Substitutability / Financial Institution Infrastructure	
Indicator 5 – Payments made in the Reporting Year (excluding intragroup payments)	
Indicator 6 – Gross Loans and Receivables to Non-bank Customers (excluding Government)	
Indicator 7 – Deposits of Non-bank Customers (excluding Government)	
Complexity	
Indicator 8 – Notional Amount of Over-the-Counter (OTC) Derivatives	
Indicator 9 – Cross-Jurisdictional Claims (excluding derivatives and intragroup claims)	
Indicator 10 – Cross-Jurisdictional Liabilities (excluding derivatives and intragroup liabilities)	
Indicator 11 – Trading and Available for Sale (AFS) Securities	

Guide to fill the required information

Indicator	Guide
1	Report the total exposure measure used for the Leverage Ratio.
2a	Report all funds deposited with or lent to other financial institutions (other financial institutions throughout this return are financial institutions outside of the consolidated reporting group). Deposits include placements. Lending should include all forms of term/revolving lending, overdraft, and other extensions of credit to financial institutions.
2b	Report all holdings of securities issued by other financial institutions. This includes debentures, trust certificates, trading and non-trading shares.
2c	<p>This item should include the following:</p> <ul style="list-style-type: none"> (a) Net positive reverse repurchase agreement exposure, where the value of the cash provided exceeds the fair value of the securities received; (b) Net positive repurchase agreement exposure, where the fair value of the securities provided exceeds the value of the cash received; (c) Net positive securities lending exposure, where the fair value of securities lent exceeds the value of cash collateral received (or the fair value of non-cash collateral received); and (d) Net positive securities borrowing exposure, where the value of cash collateral provided (or the fair value of non-cash collateral provided) exceeds the fair value of securities borrowed.
2d	Report the sum of "net positive fair value" and "the potential future exposure" for OTC derivatives with other financial institutions that have a net positive mark to market value. Netting is valid if the criteria in the Direction No. 12 of 2018 on Leverage Ratio under Basel III is met. Only netting sets with a positive value should be reported here. Netting sets where the net result is negative should be reported in item 3c below.
3a	Report any funds deposited by or borrowed from other financial institutions that are accounted for as payables. Do not include any liability arising from 4 below.
3b	<p>This item should include the following:</p> <ul style="list-style-type: none"> (a) Net negative reverse repurchase agreement exposure, where the fair value of securities received exceeds the value of the cash provided; (b) Net negative repurchase agreement exposure, where the value of the cash received exceeds the fair value of the securities provided; (c) Net negative securities lending exposure, where the value of cash collateral received (or the fair value of non-cash collateral received) exceeds the fair value of securities lent; and (d) Net negative securities borrowing exposure, where the fair value of securities borrowed exceeds the value of cash collateral provided (or the fair value of non-cash collateral provided).
3c	Report the sum of "net negative fair value" and "the potential future exposure" for OTC derivatives with other financial institutions that have a net negative mark to market value. Netting is valid if the criteria in the Direction No. 12 of 2018 on Leverage Ratio under Basel III is met. Only netting sets with a negative value should be reported here. Netting sets where the net result is positive should be reported in item 2d above.
4	Report the value of all outstanding securities that were issued by, or on behalf of, the reporting entity. Accordingly, securities should be reported regardless of whether or not they are held by other financial institutions. Exclude the shares issued.
5	Payments should be reported regardless of purpose, location, or settlement method done during the reporting period. This includes RTGS gross payments, foreign currency payments, ATM withdrawals, credit/debit card payments, cheque payments, internet banking, and mobile banking payments. Only include outgoing payments (i.e., exclude payments received). Do not include intragroup transactions.
6	Gross loans and receivables extended to customers. Do not include loans and receivables granted to other licensed banks and the Government.
7	Deposits accepted from customers. Do not include deposits made by other licensed banks and the Government.
8	Report the notional amount outstanding of OTC derivative positions.
9	Report the sum of cross-jurisdictional claims. Do not include local claims in foreign currency. Exclude derivatives and intragroup claims.
10	Report the sum of cross-jurisdictional liabilities. Do not include local liabilities in foreign currency. Exclude derivatives and intragroup liabilities.
11	Report financial assets which are recognised under fair value through other comprehensive income and fair value through profit or loss. This includes but not limited to debt instruments, equity instruments and derivative instruments.