CENTRAL BANK OF SRI LANKA

28 August 2026 **BANKING ACT DETERMINATION** **No. 01 of 2026**

APPROVED SECURITIES FOR ACCOMMODATION GRANTED TO RELATED PARTIES OF LICENSED BANKS

The Central Bank of Sri Lanka (CBSL), with a view to mitigating potential conflicts of interest and preventing the extension of more favourable treatment to related parties of licensed commercial banks and licensed specialised banks (hereinafter referred to as licensed banks), and thereby ensuring the safety and soundness of the banking sector, by virtue of the powers conferred by Sections 47(3),(4), (5), (6) and (11B), and 76K of the Banking Act No. 30 of 1988, as amended, hereby issues this Determination on Approved Securities for Accommodation Granted to Related Parties of Licensed Banks.

1. Effective Date

1.1 Licensed banks shall implement this Determination with effect from 01.09.2026.

2. Related Parties

2.1 The "related parties" of licensed banks for the purpose of this Determination, are as follows:

(a) a director of a licensed bank;

(b) close relations of such director;

(c) a concern in which a director of a licensed bank has a substantial interest, being an interest acquired either before or after the appointment as a director of such licensed bank;

(d) a concern in which a close relation of a director of a licensed bank has a substantial interest;

(e) a chief executive officer or an officer performing executive functions of a licensed bank in respect of any accommodation granted other than accommodation granted to such officer under a scheme applicable to the employees of such licensed bank;

(f) a shareholder of a licensed bank having material interest, whether individual or a concern;

(g) a subsidiary or an associate company of the licensed bank;

(h) a holding company of the licensed bank including its subsidiaries, excluding the parent bank and subsidiaries of a bank incorporated outside Sri Lanka;

(i) a director of a subsidiary or an associate company of the licensed bank;

(j) a director of a holding company of the licensed bank and its subsidiaries;

(k) a close relation of a person specified in Determinations 2.1 (e) and (f) above;

(l) a concern, whose director or partner is a director of such bank;

(m) a concern in which a material shareholder of a licensed bank has substantial interest; and

(n) a concern in which a close relation of an individual material shareholder has substantial interest.

3. Approved Securities in respect of Accommodation granted to Related Parties

3.1 The Central Bank of Sri Lanka has approved the following securities to be obtained by a licensed bank in granting accommodation to related parties of such bank referred to in Determination 2.1 above as the case may be:

(a) Guarantees, provided that the accommodation granted would not exceed 100 per cent of the Guarantee;

(i) Sri Lanka Government Guarantees provided that such Guarantees are reported as liabilities in the financial statements of the Government of Sri Lanka (GOSL)

(ii) Bank Guarantees

(iii) Guarantees of international financial institutions such as World Bank (WB), International Monetary Fund (IMF), International Finance Corporation (IFC), Asian Development Bank (ADB), United States Agency for International Development (USAID)

(iv) In the case of licensed bank providing accommodation to Ministries and Departments of GOSL and State-Owned Enterprises (SOEs), such accommodation may be granted with a letter of undertaking or any other instrument issued by the General Treasury to the respective licensed bank and the borrower, provided that:

- such instruments shall provide applicable assurance on the availability of adequate provisions in the approved budget of GOSL to finance the liabilities committed under accommodation granted to the borrower and timely release of funds at the settlement of the facility;
- such instruments shall be disclosed in detail as commitments in the financial statements of GOSL.

(b) Government or Central Bank Securities provided that the accommodation granted would not exceed 90 per cent of the face value or market value, whichever is lower of such securities;

(c) Cash deposits in any licensed bank (including deposits of third parties in the lending bank subject to obtaining consent of such party) held under lien to the order of the lending bank provided that the accommodation granted would not exceed 90 per cent of such cash deposits;

(d) Gold provided that the accommodation granted would not exceed 70 per cent of the market value of such gold;

(e) Immovable property held on freehold basis and on which a primary mortgage has been taken by the lending bank

provided that the accommodation granted would not exceed 80 per cent of the forced sale value of such property;

(f) Immovable property held on freehold basis and on which a secondary mortgage has been taken by a lending bank, subject to a primary mortgage also being obtained by the same bank provided that the total accommodation granted on the primary mortgage and the secondary mortgage does not exceed 80 per cent of the forced sale value of such property;

(g) Immovable property held on leasehold basis provided that,

(i) the lease has been granted by a statutory body;

(ii) the unexpired period of the lease to be at least 10 years more than the tenor of the accommodation;

(iii) there is no prohibition on the mortgage of the leasehold rights contained in the Deed of Lease, or if the Deed of Lease requires the prior approval of the Lessor for the mortgage of the leasehold rights such approval has been obtained from the Lessor;

(iv) a primary mortgage has been taken on the leasehold rights by the lending bank; and

(v) accommodation granted does not exceed 60 per cent of the forced sale value of such leasehold property.

(h) Mortgage over vehicles provided that the accommodation granted shall not exceed the applicable loan to value ratios in terms of the applicable laws and regulations on Loan to Value Ratios for Credit Facilities granted in respect of Motor Vehicles, for the time being in force;

(i) Shares of Public Companies quoted on the Colombo Stock Exchange provided that the accommodation granted would not exceed 50 per cent of the market value of such shares

and provided further that the licensed bank shall assess the market value of such shares on a semi-annual basis;

(j) Unsubordinated Corporate Debentures of a third-party concern having an issuer rating between AAA and BBB- issued by an acceptable credit rating agency provided that the accommodation granted would not exceed 50 per cent of the market value of such debentures;

(k) Life Insurance Policies issued in Sri Lanka and assigned to the lending bank provided that the accommodation granted would not exceed 75 per cent of the surrender value of such policy;

(l) Mortgage Stock in-Trade provided that the accommodation granted would not exceed 30 per cent of the market value of such stock-in-trade;

(m) Pledge of non-perishable goods of commercial nature which are readily marketable, excluding all manufactured foods and other items with a limited shelf life provided that the accommodation granted would not exceed 40 per cent of the market value of such goods;

(n) Lease-backed trust certificates/lease receivables provided that –

(i) the total accommodation granted on the lease-backed trust certificate/lease receivables shall not exceed 50 per cent of the value of such lease-backed trust certificates/lease receivables;

(ii) the total accommodation granted on the lease-backed trust certificate/lease receivables shall not exceed 50 per cent of the aggregate amount of the total outstanding accommodation granted to the individual company;

(iii) lease-backed trust certificate/lease receivables shall be based on unencumbered (performing) lease portfolio;

(iv) lease-backed trust certificates/lease receivables shall be mortgaged to the lending bank; and

(v) the lending bank should be a registered establishment under the Finance Leasing Act No. 56 of 2000.

(o) Corporate Guarantees of a third-party concern, with an External Credit Rating of BBB- and above, issued by an acceptable credit rating agency, provided that the guarantee covers 100 per cent of accommodation.

(p) Mortgage over Machinery provided that –

(i) the accommodation granted would not exceed 50 per cent of the value of the machinery, measured based on a valid external valuation report, obtained within 6 months immediately preceding the date of granting such accommodation, and in compliance with a Board approved internal valuation policy; and,

(ii) licensed banks shall review such valuation reports in a timely manner in terms of Board approved internal valuation policies.

3.2 A concern which becomes a related party of the licensed bank only due to director or partner of such concern being a director of such licensed bank: Accommodation may be granted with the Loan Agreement between the borrower and the licensed bank provided that a specific condition is included in such loan agreement that the borrower undertakes to provide approved securities as specified in Determination 3.1 above, in the event of a deterioration of the credit quality depicting a significant increase in credit risk to the licensed bank, within 90 calendar days. Deterioration of credit quality shall mean downgrading of the

borrower to Stage 3 in terms of the Banking Act Directions No. 13 of 2021 on "Classification, Recognition and Measurement of Credit Facilities in Licensed Banks".

4. Interpretations

4.1 For the purpose of this Determination:

(a) Acceptable credit rating agency shall mean a credit rating agency that has been recognized as an acceptable External Credit Assessment Institution by the Central Bank of Sri Lanka for the purpose of Banking Act Directions No. 01 of 2016 on "Capital Requirements under Basel III for Licensed Commercial Banks and Licensed Specialised Banks" and other related regulatory requirements pertaining to licensed banks, as amended.

(b) Forced sale value shall be determined on a valid valuation report as specified in the Banking Act Directions issued by the Central Bank of Sri Lanka from time to time, on "Regulatory Framework on Valuation of Immovable Properties of Licensed Banks".

5. Regulatory Submissions

5.1 Licensed banks shall submit the details of related party transactions to the Director of Bank Supervision in line with this Determination as at the end of each quarter commencing 30.09.2026, within one month from the quarter ended through the web-based FinNet returns, BSD-QF-06-RPC and BSD-QF-06-RPI.

6. Revocation

6.1 The following Determinations are hereby revoked with effect from 01.09.2026:

(a) Banking Act Determination No. 04 of 2024 dated 01.10.2024 on Approved Securities for Accommodation Granted to Related Parties of Licensed Banks.

(b) Banking Act Determination No. 01 of 2025 dated 17.07.2025 on Amendments to the Banking Act Determination No. 04 of 2024 on Approved Securities for Accommodation Granted to Related Parties of Licensed Banks.

Dr. P Nandalal Weerasinghe
Chairman of the Governing Board and
Governor of the Central Bank of Sri Lanka