



**CENTRAL BANK OF SRI LANKA
BANK SUPERVISION DEPARTMENT**

22 June 2022

BANKING ACT DIRECTIONS

No. 05 of 2022

SUSTAINABLE FINANCE ACTIVITIES OF LICENSED BANKS

The Central Bank of Sri Lanka (CBSL), having considered the importance of committing to achieving the Sustainable Development Goals of United Nations and the need to transit towards a green, inclusive, and balanced economy in Sri Lanka, published the Road Map for Sustainable Finance in Sri Lanka in 2019. The Road Map provides a broader direction to financial regulators and financial institutions to effectively manage environmental, social and governance (ESG) risks associated with projects they finance and promote assistance to businesses that are greener, climate-friendly, and socially inclusive.

The Road Map, required to establish a classification and measurement system for sustainable activities, i.e., a taxonomy, for Green Finance activities in Sri Lanka with the support of all stakeholders. The Sri Lanka Green Finance Taxonomy was published by CBSL on 06 May 2022.

Considering the national importance of promoting sustainable financing initiatives and the need for providing a governance and risk management framework for licensed banks in respect of sustainable finance activities, the Monetary Board hereby issues the following Directions on Sustainable Finance activities in licensed commercial banks and licensed specialised banks, hereinafter referred to as licensed banks, with a view to facilitating a sustainable economy and promoting the sustainable finance practices of licensed banks, in line with Sustainable Finance Road Map of CBSL.

- 1. Empowerment**
- 1.1 In terms of Section 46(1) of the Banking Act, in order to ensure the soundness of the banking system, the Monetary Board is empowered to issue Directions to all licensed commercial banks, regarding the manner in which any aspect of the business of such banks is to be conducted.
 - 1.2 In terms of Section 76J (1) of the Banking Act, the Monetary Board is empowered to give 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.



**CENTRAL BANK OF SRI LANKA
BANK SUPERVISION DEPARTMENT**

22 June 2022

BANKING ACT DIRECTIONS

No. 05 of 2022

- | | |
|---|---|
| 2. Applicability | 2.1 These Directions shall be applicable to all licensed banks. |
| 3. Sustainable Finance Initiatives | <p>3.1 Licensed banks shall identify and develop appropriate guidelines to conduct its business activities in a sustainable manner.</p> <p>3.2 Licensed banks shall develop innovative financial solutions to support sustainable initiatives.</p> <p>3.3 Licensed banks shall consider raising funds via instruments such as green/sustainable bonds and allocate such funding to invest in/fund sustainable activities.</p> |
| 4. Identified Priority Sectors | 4.1 The following sectors/activities are identified as priority sectors to provide sustainable lending facilities by licensed banks: |

Identified Sectors	Prioritized Sub Sectors
Agriculture, forestry and logging	Sustainable agriculture, forestry development
Manufacturing	Energy saving machinery/equipment
Electric power generation, transmission and distribution	Renewable energy projects
Transportation and storage	All forms of sustainable transport and storage
Water supply, sewerage and waste management	Water supply/management projects, Waste management projects
Construction	Green construction projects
Sustainable Tourism and recreation	All sustainable tourism and recreational activities
Other Sectors	Gas, steam and air conditioning supply, Financial Services, Information and communications technology, Sustainable Women Empowerment initiatives etc.



**CENTRAL BANK OF SRI LANKA
BANK SUPERVISION DEPARTMENT**

22 June 2022

BANKING ACT DIRECTIONS

No. 05 of 2022

- 4.2 Licensed banks shall consider the applicable environmental/climate adaptation and mitigation aspects, social impact, regulations, certifications, and relevant external and internal guidelines on sustainable activities granting funding to above priority sectors and reporting above information.
- 4.3 Licensed banks shall ensure the compliance with the requirements of the Sri Lanka Green Finance Taxonomy when identifying the above priority sectors and activities.

**5. Governance
Framework for
Sustainable
Finance
Initiatives**

- 5.1 Board of Directors (BOD) and senior management shall ensure effective and efficient overseeing of the Sustainable Finance activities and a BOD approved policy at a minimum shall include the following:
- (a) clear roles and responsibilities of BOD and senior management on overseeing of the bank's environmental and social risks and sustainable business activities;
 - (b) identify main risks for the licensed bank on environmental aspects and green and climate financing activities;
 - (c) ensuring that sustainable financing activities and identified environmental risks are addressed in the bank's overall risk management framework;
 - (d) policies and processes to assess, monitor, review and report such risks;
 - (e) parameters and metrics for measuring the progress of sustainable finance initiatives; and
 - (f) appropriate internal controls to be in place.
- 5.2 The Chief Executive Officer and relevant Key Management Personnel of licensed banks under the guidance provided by BOD shall ensure:



**CENTRAL BANK OF SRI LANKA
BANK SUPERVISION DEPARTMENT**

22 June 2022

BANKING ACT DIRECTIONS

No. 05 of 2022

- (a) policies, tools, metrics, operational procedures and controls implemented by the bank in respect of sustainable finance are reviewed and updated regularly (at least annually) and integrated with other relevant policies and procedures of the bank;
- (b) adequate resources, skills and expertise are allocated to the management of sustainable finance activities;
- (c) clear articulation of the roles and responsibilities of business units and functions in managing risks associated with sustainable finance; and
- (d) BOD is informed in a timely manner on material issues, relating to sustainable financing and business practices.

**6. Risk
Management**

- 6.1 Licensed banks shall identify and evaluate the risks stemming from associated climate, environmental and other green financing activities considering the nature, scale, complexity, and interconnectedness of its operations and assess the magnitude and materiality of such risks.
- 6.2 Licensed banks shall incorporate ESG risk management to the entire decision-making processes, including environmental and social policies, risk assessment, environmental and social covenants.
- 6.3 All material risks, defined in Direction 6.1 above, shall be considered in the Pillar II assessment under Capital requirements for the licensed banks.
- 6.4 Licensed banks shall identify how risks identified in Direction 6.1 will affect its business model and assess the potential impact on the bank.



**CENTRAL BANK OF SRI LANKA
BANK SUPERVISION DEPARTMENT**

22 June 2022

BANKING ACT DIRECTIONS

No. 05 of 2022

-
- 6.5 Licensed banks shall implement effective risk management practices and internal controls to mitigate risks in Direction 6.1 above.
- 6.6 Licensed banks may conduct scenario analysis and stress testing to assess the impact of potential/alternative climate related risks and green financing activities.
- 7. Capacity Building and Innovation**
- 7.1 Licensed banks are expected to build capacity on Sustainable Finance activities going forward providing adequate training to staff members.
- 7.2 Licensed banks are expected to develop and provide new innovative sustainable finance solutions to customers.
- 7.3 Licensed banks shall develop expertise in environmental stress testing and scenario analysis, whilst obtaining appropriate external expertise on environment and climate related risk aspects.
- 8. Disclosures and Reporting**
- 8.1 Licensed banks shall disclose the following information related to sustainable finance practices in their annual reports:
- (a) An overview on bank's sustainable finance policies and activities;
 - (b) Identified sustainable finance related risks and associated mitigation measures; and
 - (c) A statement on banks approach towards sustainable finance activities and way forward.
- 8.2 Licensed banks are encouraged to disclose environmental and social impact generated from business activities using internationally recognized reporting frameworks, such as Global Reporting Initiative (GRI) and recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).



**CENTRAL BANK OF SRI LANKA
BANK SUPERVISION DEPARTMENT**

22 June 2022

BANKING ACT DIRECTIONS

No. 05 of 2022

- 8.3 Licensed banks shall submit the information required as per Annex I to the Bank Supervision Department within 30 days from the end of each quarter.

A handwritten signature in blue ink, which appears to read 'Nandalal Weerasinghe', is written over a horizontal line.

Dr. P Nandalal Weerasinghe

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



**CENTRAL BANK OF SRI LANKA
BANK SUPERVISION DEPARTMENT**

22 June 2022

BANKING ACT DIRECTIONS

No. 05 of 2022

Annex I

Quarterly Statement on Sustainable Financing Activities of Licensed Banks

As at

Name of the Licensed Bank -

	Sector	Sub Sector (Identify as defined in Sri Lanka Green Finance Taxonomy for applicable facilities)	No. of Credit Facilities	Value of Outstanding Credit Facilities as at Q... XX	No of New Credit Facilities granted during Q.... XX	Value of the new Credit Facilities granted during Q... XX
1	Agriculture, Forestry and Logging	Sustainable Agriculture				
		Forestry and Logging				
		Other Sustainable Activities				
2	Manufacturing	Energy saving machinery/equipment				
		Other Sustainable Manufacturing				
3	Electric power generation, transmission and distribution	Renewable energy projects				
		Other Sustainable Activities				
4	Transportation and storage	All forms of sustainable Transportation and storage				
5	Water supply, sewerage and waste management	Water supply/management projects				
		Waste management projects				
		Other Sustainable Activities				
6	Construction	Green construction projects				
		Other Sustainable Activities				
7	Sustainable tourism and recreation	All sustainable tourism and recreation activities				
8	Other Sectors	Gas, steam and air conditioning supply				
		Financial Services				
		Information and communications technology				
		Sustainable Women empowerment initiatives, if not covered under any other area				
		Other Sustainable Lending (Please Specify)				
		Total				

Email to Bank Supervision Department, Database – bsddb@cbsl.lk, within 30 days from the end of each quarter