



**GOVERNING BOARD
CENTRAL BANK OF SRI LANKA**

16 February 2026 BANKING (SPECIAL PROVISIONS) ACT DIRECTIONS No. 01 of 2026

RECOVERY PLANS FOR FINANCE COMPANIES

- 1. Legal provisions** In terms of the powers conferred by Sections 9 and 10 of the Banking (Special Provisions) Act, No. 17 of 2023 (hereinafter referred to as BSPA) and the Order made under Section 57 of BSPA on 16.04.2025, the Central Bank of Sri Lanka hereby issues these Directions on the requirement of preparing Recovery Plans (RPs) for Finance Companies licensed under the Finance Business Act, No.42 of 2011.
- 2. Objectives of the directions** These directions ensure that FCs prepare, maintain and execute effective and comprehensive RPs by proactively identifying and addressing the financial impacts of severe stress events, thereby safeguarding the stability and continuity of FCs operations, while preventing failure or resolution.
- 3. Applicability**
 - 3.1 These directions apply to all FCs and outline the key elements of a robust RP to be prepared by FCs in terms of the requirements of Section 9 of BSPA, considering the nature, scale, structure, complexity and interconnectedness to other institutions of FC.
 - 3.2 These directions shall be effective from 31.12.2026.
- 4. Recovery plan**
 - 4.1 FC shall prepare and have in place an RP that outlines the measures to be taken by FC in the event of a deterioration of its financial position. In the preparation of an RP, an FC shall take into consideration, financial and macroeconomic crisis scenarios relevant to the specific characteristics of FC, systemic events, crisis scenarios specific to such FC and other individual entities of the FC's group, as a whole.
 - 4.2 FC shall review, test and update its RP at least annually/as required in the event of any changes which may cause



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significant impact on the RP or at the request of CBSL.

4.3 FC shall ensure that RP integrates with FC's risk appetite statement and risk management framework. RP shall be complementary and closely aligned with FC's Contingency Funding Plans (CFP), Business Continuity Plan (BCP) and Internal Capital Adequacy Assessment Process. However, RP shall remain distinct from CFP and BCP, and address more severe stress events that could threaten FC's viability.

4.4 RP shall, at a minimum, consists of the following components:

- (a) Executive summary;
- (b) Strategic analysis;
- (c) Governance structure and oversight;
- (d) Recovery trigger indicators;
- (e) Recovery options; and
- (f) Communication strategy.

4.5 **Executive summary**

The executive summary shall provide a summary of key elements of RP enabling the stakeholders to quickly understand and assess FC's recovery capacity under severe stress events. This section shall highlight recovery triggers, key recovery options and governance structure, in brief.

4.6 **Strategic analysis**

The strategic analysis shall provide in-depth information about the scope of RP, considering the FC's nature, scale, structure, strategy, business model, financial situation, risk profile and interconnectedness. It shall be comprised of the following components:



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- (a) **Business model and core business lines:** An overview of FC's main activities, including the business lines that are critical to FC.
- (b) **Group structure:** Description of FC's group structure and a comprehensive overview of all related entities (e.g.: subsidiaries, associates, joint ventures, affiliates). This analysis shall also identify intra-group financial dependencies that are critical for business continuity and recovery.
- (c) **Critical functions and critical shared services:** Critical functions and critical shared services of FC shall be clearly identified and defined. RP shall outline how continuity of these functions and/or services will be ensured during recovery or resolution processes. The analysis shall also identify reliance on external service providers or outsourcing arrangements that are critical to FC's operations.
- (d) **General Recovery Capacity:** A detailed assessment of the overall recovery capacity of the FC, with sufficient justification for such assessment.

4.7 Governance structure and oversight

- (a) FC shall establish a sound governance structure arrangement to oversee and manage RP process.
- (b) The Board of Directors (BoD) shall be responsible for approving RP and overseeing its implementation.
- (c) The roles and responsibilities of BoD, senior management and relevant business units shall be clearly defined and documented.



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- (d) BoD shall designate a Key Responsible Person (KRP) to lead RP process and ensure that sufficient resources are allocated to support the process.
- (e) The designated KRP shall ensure that well defined process and management information system are established to monitor the overall recovery situations. KRP shall provide regular updates to BoD on material developments relating to RP, including the status of recovery trigger indicators, any breaches of recovery thresholds, activation of RP, and progress on the implementation of recovery options.

4.8 Recovery trigger indicators

FC shall establish recovery trigger indicators in RP that set out clearly defined criteria, thresholds and procedures to ensure timely implementation of recovery actions.

- (a) Identified quantitative and qualitative trigger indicators shall be based on size, complexity and nature of FC's business model, operations, inherent risk drivers and strategy.
- (b) Such trigger indicators shall be reliable, forward looking and appropriate for close and timely monitoring of evolving stress events.
- (c) In addition to such trigger indicators, early warning indicators shall be used to detect emerging vulnerabilities or adverse trends at an early stage for proactive monitoring.
- (d) FC shall consider a set of potential trigger indicators, including the indicators specified in Table 1, Annexure I, taking into account the requirements outlined in



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Directions 4.8 (a) to (c).

4.9 Recovery options

(a) RP shall identify a range of credible and flexible recovery options available to FC to deal with shocks to capital, liquidity, or other aspects, that may be affected by entity-specific stress events, market-wide stress events, or a combination of both. Such options shall be developed in consideration of macroeconomic and financial crisis scenarios, including environmental impacts and cyber security threats, relevant to such FC and the group as a whole. When developing the recovery options, FC shall consider at a minimum the following:

- i. The anticipated impact on capital, liquidity and any other area.
- ii. The expected timeframe and resources required for implementation.
- iii. Potential impediments to implementation, including deficiencies in resources.
- iv. The mechanisms and measures for:
 - a. the conservation or reconstitution of the funds.
 - b. ensuring that FC has access to emergency financing sources, including assessment of available collateral and intra group liquidity transfer.
 - c. ensuring that FC continues its critical activities and fulfills its financial obligations as they fall due.
 - d. reducing leverage risk.



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- e. restructuring debts.
 - f. maintaining continuous access to financial markets and financial market infrastructures.
 - g. facilitating timely sale of assets or businesses divestments.
 - h. facilitating recapitalization.
 - v. Details on estimated costs of implementation.
 - vi. Other management actions aimed at restoring the financial soundness and anticipated outcomes of such actions.
 - vii. Preparatory measures adopted or intended with respect to each recovery option.
- (b) When preparing an RP, FC shall not rely on the access to any extraordinary public financial support, in any manner.
- (c) Recovery options of FC shall be capable of being executed within a reasonable timeframe and subject to robust assessment of their feasibility, sustainability and viability including the consequences of such actions.
- (d) FC shall consider a set of applicable recovery options, including the options set out in Table 2, Annexure I, that take into account the requirements specified in Directions 4.9 (a) to (c).

4.10 Communication strategy

FC shall establish a communication strategy within RP to manage both internal and external communications during the recovery process. The communication strategy shall include communication plans for each recovery option and outline the timing, channels and external disclosures.



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**5. Regulatory
submission**

- 5.1 (a) FC shall formulate and maintain RP complying with the requirements given in these directions and Section 9 of BSPA.
- (b) FC shall submit such RP to Department of Supervision of Non-Bank Financial Institutions (DSNBFI) and Deposit Insurance and Resolution Department (DIRD) promptly, if and when required by DSNBFI/ DIRD.
- 5.2 Where DSNBFI considers that RP of an FC contains major deficiencies or faces obstacles to its effective implementation, DSNBFI shall notify such deficiencies or the obstacles to such FC and, BoD of FC shall be responsible to rectify these deficiencies or obstacles.
- 5.3 Where DSNBFI is of the opinion that an FC, which has submitted a revised RP as required by DSNBFI, has not identified the changes that are required, or has not incorporated adequate actions to address the deficiencies or obstacles of such RP, DSNBFI may initiate regulatory actions in terms of Sections 9(9) and 9(10) of BSPA.

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

Table 1: List of proposed indicators to design Recovery Triggers/ Thresholds^(a)

Category	Indicator
Company specific Indicators	
Capital indicators: To identify any significant actual and/ or potential deterioration in the quantity and quality of capital that affects the going concern/sustainability.	<ul style="list-style-type: none"> i. Minimum core capital requirement ii. Minimum Tier I capital ratio iii. Total capital ratio
Liquidity indicators: To identify actual and/ or potential deterioration of the capacity of FC to meet its current and foreseen liquidity and funding needs.	<ul style="list-style-type: none"> i. Minimum liquid assets requirement
Profitability indicators: To capture any FC's income-related aspect that could lead to a rapid deterioration in FC's financial position through lowered profitability impacting on the capital of FC.	<ul style="list-style-type: none"> i. Return on assets
Asset quality indicators: To indicate deterioration in asset quality that could lead to the point at which the FC shall consider taking an action described in the recovery plan.	<ul style="list-style-type: none"> i. Net non-performing advances (stage 03 loans net of stage 03 impairment) to total advances
External indicators	
Market based indicators: To capture the assessment of market participants that could potentially lead to disruptions in access to funding, reinsurance, and capital markets.	<ul style="list-style-type: none"> i. External rating

(a) FCs are required to define the applicable thresholds that triggers recovery options

Table 2 : List of proposed Recovery Options to be considered by FCs^(a)

Category	Options
Raising capital	<ul style="list-style-type: none">i. Share capital through existing/prospective shareholdersii. Tier 2 capital increase
Disposal of asset	<ul style="list-style-type: none">i. Investments in equity including subsidiaries/associatesii. Propertiesiii. Part of the businessiv. Other illiquid assets
Liquidity management	<ul style="list-style-type: none">i. Internal liquidity support from the parent institutionii. Internal liquidity support from affiliated (non-parent) institutioniii. Utilization of existing linesiv. Liquidation of collaterals in the event of defaults by the borrowers
Cost savings/ retention of earnings	<ul style="list-style-type: none">i. Reduction of remuneration of directors and staff costsii. Cease business expansion and curtail non-essential expensesiii. Restriction of payments of dividends
Mergers	<ul style="list-style-type: none">i. Merge with another entity regulated by CBSL

(a) FCs are required to identify and document the applicable recovery options in detail, when preparing the recovery plan.