Chapter 2

CONDITIONS OF THE FINANCIAL SYSTEM

Summary

The overall performance of the financial sector continued to improve while some challenges remained during 2024. Banking sector stability was maintained with both capital and liquidity buffers being preserved above the regulatory thresholds, while maintaining compliance with prudential requirements. Amidst these developments, total assets of the banking sector grew during the year supported by the increase in investments along with the growth in loans and receivables. In terms of liabilities, deposits which constitute the largest source of funding for the banking sector, continued to record an expansion during 2024. Although the credit quality of the sector, in terms of the Non-Performing Loans (NPL) Ratio,[1] improved during the year, the NPL ratio still remained at an elevated level. Meanwhile, the banking sector profitability improved significantly during the year, particularly due to the increased net interest income and reversal of impairment charges resulting from the restructuring of International Sovereign Bonds (ISBs). The Finance Companies (FCs) sector also remained resilient during the period under review with adequate capital and liquidity buffers. The asset base of the FCs sector grew during 2024 mainly due to the considerable expansion in the loans and advances portfolio while investments in government securities recorded a significant decline. Moreover, the asset quality of the sector also reported a notable improvement amidst increased profitability during 2024. Meanwhile, Gross Written Premium (GWP) of both long term and general insurance subsectors reported an increase during 2024. Within the financial markets, the equity market recorded a noticeable improvement in market performance in terms of both indices and turnover, although a net foreign outflow was recorded in the secondary market. Meanwhile, liquidity conditions in the domestic money market improved, despite observing asymmetric distribution of liquidity across the banking sector during 2024. Despite intermittent increases, the government securities market witnessed a declining trend in primary market yields while secondary market yields also fell during the year. The financial infrastructure of the country continued to operate smoothly, facilitating stability of the financial sector. Within the payment infrastructure, adoption of digital payment methods continued to increase while integration of the national payment infrastructure with international payment networks also continued during 2024. Moreover, the Central Bank took measures aimed at implementing necessary legal reforms, improving financial inclusion and financial consumer protection, while engaging in anti-money laundering and countering the financing of terrorism activities, and deposit insurance and resolution initiatives to facilitate stability of the financial sector.

1 As indicated by the Stage 3 Loans Ratio

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Table 2.1: **Total Assets of the Financial System** (a)

	2023 (b)		2024 (c)	
	Rs. bn	Share (%)	Rs. bn	Share (%)
Banking Sector	24,599.9	73.9	26,051.8	72.7
Central Bank	4,205.4	12.6	3,876.1	10.8
Licensed Commercial Banks (LCBs)	18,110.1	54.4	19,815.0	55.3
Licensed Specialised Banks (LSBs)	2,284.4	6.9	2,360.7	6.6
Other Deposit Taking Financial Institutions	1,930.2	5.8	2,195.1	6.1
Finance Companies (FCs)	1,695.5	5.1	1,930.7	5.4
Co-operative Rural Banks (d)	222.1	0.7	248.3	0.7
Licensed Microfinance Companies (LMFCs)	11.7	...	14.8	...
Thrift and Credit Co-operative Societies	0.9	...	1.3	...
Specialised Financial Institutions	717.1	2.2	908.7	2.5
Specialised Leasing Companies (SLCs)	1.2	...	1.3	...
Primary Dealers	270.9	0.8	297.2	0.8
Stock Brokers	24.3	0.1	44.9	0.1
Unit Trusts / Unit Trust Management Companies	411.6	1.2	554.2	1.5
Market Intermediaries (e)	9.1	...	11.1	...
Contractual Savings Institutions	6,028.3	18.1	6,678.7	18.6
Insurance Companies	1,133.1	3.4	1,223.0	3.4
Employees' Provident Fund	3,927.7	11.8	4,420.2	12.3
Employees' Trust Fund	524.5	1.6	591.3	1.7
Approved Pension and Provident Funds	347.2	1.0	339.2	0.9
Public Service Provident Fund	95.8	0.3	105.0	0.3
Total	33,275.5	100.0	35,834.3	100.0

(a) Due to the non-availability of data Venture Capital Companies are not included in this Table.
(b) Revised
(c) Provisional
(d) Due to the unavailability of data, asset base of Co-operative Rural Banks as at end 2024 was taken to be the same as the asset base as at end 2024 Q3.
(e) Excluding Licensed Banks, Finance Companies and Specialised Leasing Companies, which are registered as Market Intermediaries.

Sources: Central Bank of Sri Lanka
Department of Co-operative Development
Department of Labour
Department of Pensions
Employees' Trust Fund Board
Insurance Regulatory Commission of Sri Lanka
SANASA Federation
Securities and Exchange Commission of Sri Lanka

2.1 Banking Sector

The banking sector continued to maintain stability by conserving capital and liquidity well above the regulatory minimum levels while maintaining compliance with the prudential requirements. The banking sector dominated the financial sector, accounting for 61.9% of its total assets at the end of 2024. It comprised 30 licensed banks, i.e., 24 Licensed Commercial Banks (LCBs) including 11 branches of foreign banks, and six Licensed Specialised Banks (LSBs) by the end of 2024. The sector continued to promote financial inclusion by growing the banking network and improving banking services. In 2024, 13 bank branches and 368 ATMs were established, while 10 bank branches and 24 ATMs were closed. Accordingly, the total number of banking outlets and ATMs increased to 7,613 and 7,286, respectively, by end 2024.

The banking sector continued to expand in terms of its asset base during 2024, mainly due to an increase in investments. The total asset base of the sector increased by Rs. 1,781.3 bn during the year and reached Rs. 22.2 tn at end 2024, recording a y-o-y growth of 8.7% at end 2024 compared to that of 5.0% at end 2023. Investments, which mainly contributed to the expansion of assets, increased by Rs. 1,783.8 bn during 2024 and recorded a y-o-y growth of 24.4% at end 2024 compared to 23.1% at end 2023. Furthermore, since June 2023, monetary policy stance has been eased through a series of policy rate cuts along with the significant increase of market liquidity, which

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Table 2.2: Distribution of Banks, Bank Branches and Other Banking Outlets

Category	End 2023 (a)	End 2024 (b)
Licensed Commercial Banks (LCBs)		
I. Total No. of LCBs	24	24
Domestic Banks	13	13
Foreign Banks	11	11
II. Total No. of LCB Banking Outlets	6,816	6,907
Branches (c)	2,934	2,936
Domestic Banks' Branches	2,889	2,895
Foreign Banks' Branches	45	41
Student Savings Units	3,882	3,971
III. Automated Teller Machines	6,439	6,782
Licensed Specialised Banks (LSBs)		
I. Total No. of LSBs	6	6
National Level Savings Banks	1	1
Housing Finance Institutions	2	2
Other LSBs	3	3
II. Total No. of LSB Banking Outlets	705	706
Branches (c)	705	706
National Level Savings Banks	267	268
Housing Finance Institutions	64	64
Other LSBs	374	374
III. Automated Teller Machines	503	504
Total No. of Bank Branches and Other Outlets	7,521	7,613
Total No. of Automated Teller Machines	6,942	7,286

(a) Revised
(b) Provisional
(c) All Banking Outlets excluding Student Savings Units.

Source: Central Bank of Sri Lanka

has reversed the declining trend in credit growth and moderated the deterioration in asset quality. Hence, the y-o-y growth in loans and receivables accelerated to 4.1% at end 2024 from the 2.6% contraction at end 2023.

Table 2.3: Composition of Assets and Liabilities of the Banking Sector

Item	2023 (a)		2024 (b)		Change (%)	
	Rs. bn	Share (%)	Rs. bn	Share (%)	2023	2024
Assets						
Loans & Receivables	11,020.8	54.0	11,473.7	51.7	-2.6	4.1
Investments	7,299.9	35.8	9,083.7	41.0	23.1	24.4
Others (c)	2,073.7	10.2	1,618.2	7.3	-4.5	-22.0
Liabilities						
Deposits	16,630.5	81.5	17,969.4	81.0	8.7	8.1
Borrowings	1,397.4	6.9	1,280.0	5.8	-25.3	-8.4
Capital Funds	1,765.5	8.7	2,043.2	9.2	10.5	15.7
Others	601.0	2.9	883.1	4.0	-7.3	46.9
Total Assets/Liabilities	20,394.4	100.0	22,175.7	100.0	5.0	8.7

(a) Revised
(b) Provisional
(c) Includes cash and bank balances, placements, reverse repurchase agreements and fixed assets.

Source: Central Bank of Sri Lanka

Table 2.4: Composition of Deposits of the Banking Sector

Item	2023 (a)		2024 (b)		Change (%)	
	Rs. bn	Share (%)	Rs. bn	Share (%)	2023	2024
Demand Deposits	1,082.5	6.5	1,109.6	6.2	1.7	2.5
Savings Deposits	4,292.5	25.8	4,502.6	25.1	15.8	4.9
Time Deposits	11,045.8	66.4	12,155.9	67.6	6.3	10.1
Other Deposits	209.7	1.3	201.2	1.1	58.1	-4.1
Total Deposits	16,630.5	100.0	17,969.4	100.0	8.7	8.1

(a) Revised
(b) Provisional

Source: Central Bank of Sri Lanka

Deposits continued to be the main source of funding in the banking sector which represented 81.0% of total liabilities and equity at end 2024, followed by equity and borrowings at 9.2% and 5.8%, respectively. Total deposits of the sector increased by Rs. 1,338.9 bn during 2024, of which the increase in time deposits contributed to 82.9% of the increase in total deposits. The share of time deposits accounted for 67.6%, while the savings and demand deposits accounted for 25.1% and 6.2%, respectively, of total deposits at end 2024. The Current and Savings Account (CASA) ratio marginally declined from 32.3% in 2023 to 31.2% in 2024. Total borrowings of the banking sector decreased by Rs. 117.4 bn in 2024, recording a contraction of 8.4%, compared to a decrease of Rs. 474.2 bn in 2023, which recorded a contraction of 25.3%. This decrease was mainly attributed to foreign currency borrowings which reported a contraction of 27.0% amounting to USD 281.8 mn, while rupee borrowings contracted by 0.2% amounting to Rs. 2.3 bn during 2024.

Off-balance sheet exposures increased by Rs. 196.6 bn during 2024 reporting a growth of 3.8%, compared to the increase of Rs. 496.0 bn during 2023 which recorded a growth of 10.7%. Significant increases were observed in undrawn credit lines, foreign exchange related off-balance sheet sales, acceptances, documentary credit and foreign

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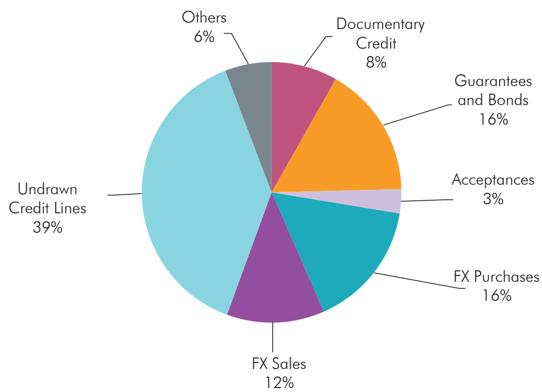
Figure 2.1: **Off-Balance Sheet Exposures of the Banking Sector at end 2024**



Source: Central Bank of Sri Lanka

exchange related off-balance sheet purchases at Rs. 107.0 bn, Rs. 83.9 bn, Rs. 43.2 bn, Rs. 30.5 bn and Rs. 8.0 bn, respectively, while guarantees and bonds reported a decrease of Rs. 84.3 bn during 2024.

The NPL Ratio of the banking sector as indicated by the Stage 3 Loans Ratio,[2] declined at end 2024 compared to end 2023, yet remained at an elevated level. NPL Ratio of the banking sector marginally declined to 12.3% at end 2024 compared to 12.8% at end 2023, indicating a slight improvement in credit quality during 2024. Credit quality improved primarily due to the expansion in credit and a slight contraction in NPLs at end 2024, indicating the impact of the improved macroeconomic conditions on the loan disbursements and repayments. Furthermore, the provisions for NPLs[2] grew by 10.1%, y-o-y, improving the Provision Coverage Ratio for NPLs to 54.1% at end 2024 compared to 49.0% at end 2023.

Liquidity of the banking sector, as indicated by the Liquidity Coverage Ratios (LCRs) and Net Stable Funding Ratio (NSFR), improved during 2024. The Rupee LCR of the sector increased to 349.9% at the end of 2024 from 340.9% at end 2023, indicating that banks possessed more than adequate rupee denominated High Quality Liquid Assets (HQLA) to meet their rupee liquidity needs. The increase in HQLA, which was predominantly prompted by an increase in holdings of rupee denominated government securities, contributed to the improvement in the Rupee LCR. Meanwhile, All Currency LCR, which is an indicator of overall liquidity of the sector, also improved to 313.8% at end 2024 compared to 288.4% at end 2023. In addition, NSFR, which requires banks to maintain sufficient stable funding sources, stood at 164.8% at end 2024, well above the minimum regulatory requirement of 100.0%.

Profitability of the banking sector significantly improved during the year mainly due to the increase in net interest income and reversal of impairment charges resulting from the restructuring of ISBs. Interest income of the banking sector decreased by 13.7%, while interest expenses decreased by 29.5% during 2024, resulting in an increase in net interest income by 28.2%. As a result, the net interest margin increased from 3.7% at the end of 2023 to 4.3% at the end of 2024. Non-interest expenses increased by Rs. 73.9 bn, largely due to the increase in staff costs by Rs. 54.5 bn,

Table 2.5: **Profit of the Banking Sector**

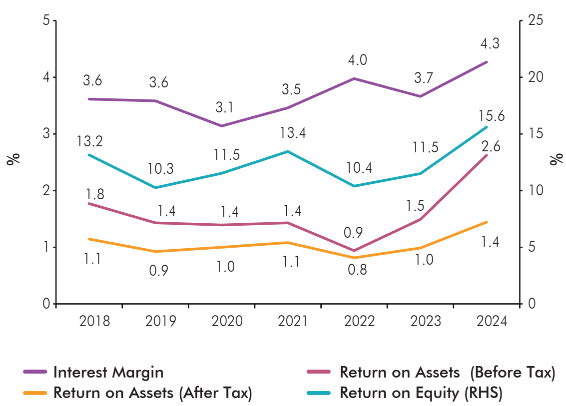
Item	2023 (a)		2024 (b)	
	Amount (Rs. bn)	As a % of Avg. Assets	Amount (Rs. bn)	As a % of Avg. Assets
Net Interest Income	714.6	3.7	916.0	4.3
Interest Income	2,610.2	13.4	2,252.0	10.5
Interest Expenses	1,895.6	9.7	1,336.0	6.2
Non-Interest Income	207.4	1.1	183.8	0.9
Net Fee & Commission Income	132.2	0.7	147.0	0.7
Non-Interest Expenses	373.4	1.9	447.3	2.1
Staff Cost	189.9	1.0	244.4	1.1
Impairment for Loans & Other Losses	171.6	0.9	-66.5	-0.3
Profit Before Tax (Before VAT, NBT and Other Taxes on Financial Services, and Corporate Tax)	377.0	1.9	719.0	3.4
VAT, NBT and Other Taxes on Financial Services	85.9	0.4	155.9	0.7
Corporate Tax	98.5	0.5	253.4	1.2
Profit After Tax	192.6	1.0	309.7	1.4

(a) Revised
(b) Provisional

Source: Central Bank of Sri Lanka

2 Including undrawn amounts.

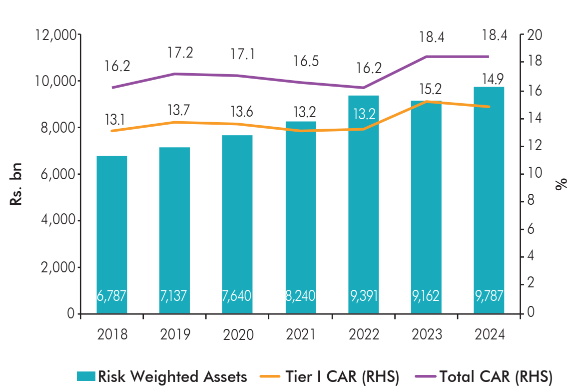
Figure 2.2: **Profitability of the Banking Sector**



Source: Central Bank of Sri Lanka

while impairment for loans and other losses decreased by Rs. 238.1 bn during 2024 mainly due to reversal of impairments related to ISBs. Banking sector taxes accounted for Rs. 409.3 bn, including VAT, NBT, other taxes on financial services and corporate tax for the financial year 2024 compared to Rs. 184.4 bn for 2023. The profit before corporate tax was Rs. 563.1 bn in 2024 as per the regulatory reporting, which was Rs. 272.0 bn higher than the previous year. Profit after tax of the banking sector was Rs. 309.7 bn during 2024 which recorded an increase of 60.8% compared to the previous year. The increase in profits was reflected in Return on Assets (ROA) – before tax, which increased from 1.5% at end 2023 to 2.6% at end 2024, while Return on Equity (ROE) – after tax increased from 11.5% in 2023 to 15.6% in 2024. Further, efficiency of the banking sector deteriorated marginally from 40.5% at end 2023 to 40.7% at end 2024, mainly due to the increase in operating expenses.

Figure 2.3: **Capital Adequacy of the Banking Sector**



Source: Central Bank of Sri Lanka

The banking sector was largely in compliance with the capital requirements during 2024. Banks were encouraged to raise high quality capital to absorb the potential losses from the risks emanating from challenging business conditions and to improve the resilience of the sector. As a result, banks increased Tier I capital through an increase in share capital by Rs. 30.3 bn during 2024. The regulatory capital of the banking sector reported a growth of 6.8% during the year, of which Tier I capital contributed 53.0% of the increase. Further, the year-end regulatory capital figures are likely to improve further with the retention of audited profits. Meanwhile, the total Capital Adequacy Ratio (CAR) remained at 18.4% at end 2024, while Tier I CAR slightly declined to 14.9% at end 2024 compared to 15.2% at end 2023.

Table 2.6: **Composition of Regulatory Capital of the Banking Sector**

Item	Rs. bn		Composition (%)	
	2023 (a)	2024 (b)	2023 (a)	2024 (b)
Tier I: Capital	**1,395.1**	**1,455.5**	**100.0**	**100.0**
Share Capital	385.8	**416.1**	27.7	**28.6**
Statutory Reserve Funds	87.7	**88.7**	6.3	**6.1**
Retained Profits	720.0	**710.5**	51.6	**48.8**
General and Other Reserves	332.3	**330.4**	23.8	**22.7**
Others	93.1	**70.8**	6.7	**4.9**
Regulatory Adjustments	-223.8	**-161.0**	-16.0	**-11.0**
Tier II: Capital	**291.9**	**345.4**	**100.0**	**100.0**
Revaluation Reserves	44.1	**52.6**	15.1	**15.2**
Subordinated Term Debt	147.9	**196.8**	50.7	**57.0**
General Provisions and Other	100.5	**97.4**	34.4	**28.2**
Regulatory Adjustments	-0.6	**-1.5**	-0.2	**-0.4**
Total Regulatory Capital Base	**1,687.0**	**1,800.9**		

(a) Revised
(b) Provisional

Source: Central Bank of Sri Lanka

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BOX 02
Recent Banking Sector Reforms to Strengthen Resilience

1. Background

Banks are the essence of the financial system and they play a vital role as the key financial intermediaries in driving economic growth and development of the country. The banking sector in Sri Lanka comprises 30 Licensed Banks (LBs) with an asset base of over Rs. 22 trillion as at end 2024. In response to the challenges posed by recent adverse macroeconomic conditions, the Central Bank of Sri Lanka implemented a series of financial sector reforms in addition to the measures to stabilise the macroeconomy. These strategies to enhance resilience in the banking sector were aimed at preventing a potential crisis, and mitigating contagion risks and spillover effects on the broader economy. Accordingly, despite the challenges evolving from adverse macroeconomic conditions, the Sri Lankan banking sector remained resilient.

2. Measures implemented by the Central Bank from 2022 to date

Crisis Preparedness Measures

As a key crisis preparedness measure, the existing framework on providing emergency loans and advances to banks with temporary liquidity distress was strengthened in order to prevent any adverse implications on financial system stability. Further, the Central Bank identified strengthening the resolution framework of LBs while strengthening the financial sector safety-net measures as an urgent priority under the crisis management framework. Accordingly, the Central Bank enacted the Banking (Special Provisions) Act No.17 of 2023, focusing mainly on resolution measures for banks and safeguarding the interest of depositors and other stakeholders. Further, in order to strengthen the financial sector safety net measures, necessary actions were initiated to establish the Financial Stability Fund and to improve the institutional arrangements and financial capacity of the Sri Lanka Deposit Insurance Scheme. Additionally, with a view to strengthening the policy coordination between the Central Bank and Ministry of Finance to focus on crisis preparedness and to minimise the impact of a financial crisis, the Financial Sector Crisis Management Committee was established under the Banking (Special Provisions) Act.

Enactment of the Banking (Amendment Act)

Following the gradual recovery of the economy, the Central Bank implemented several policy measures including the issuance of regulations and strengthening of the supervisory approach through intensified supervision to maintain the resilience of the banking sector. A pivotal initiative undertaken in 2024 to strengthen the banking sector was the enactment of the Banking (Amendment) Act No. 24 of 2024, which became effective from 15 June 2024, marking a significant milestone in strengthening the legal framework applicable to LBs. This Banking (Amendment) Act strengthened the provisions on several key areas, inter alia licensing requirements, criteria for shareholder suitability including information on ultimate beneficial ownership, corporate governance requirements, bank ownership, acquisitions, mergers and consolidation, proportionality, large exposures, related party transactions, offshore banking business, subsidiarization of foreign banks, requirements on accounts and audit.

Strengthening Regulatory Framework

The Central Bank issued several new regulations/guidelines to LBs to facilitate the implementation of the Banking (Amendment) Act. Accordingly, Revised Directions on large exposures of LBs were issued with a view to mitigating the credit concentration risk posed by the large corporate borrowers as well as State Owned Enterprises (SOEs) in the banking sector. The revised Directions include stringent prudential limits and strengthened criteria on determining interconnectedness between borrowers in line with international best practices. In this backdrop, large corporates and SOEs will be required to diversify their sources of funds and to restructure the balance sheets.

Furthermore, a Banking Act Determination was issued determining Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) as the statutory liquidity ratios for LBs, while discontinuing the maintenance of Statutory Liquid Assets Ratio (SLAR). In addition, several other regulations were also introduced to facilitate the implementation of the Banking (Amendment) Act, including the Banking Act Directions on Offshore Banking Business (OSBB) for licensed commercial banks, and Banking (Off-Shore Banking Business) Order designating foreign currencies for OSBB. Furthermore, Banking Act Directions and Determinations were issued on assessment of fitness and propriety of Directors, Chief Executive Officers (CEOs) and officers performing executive functions of LBs. Moreover, Regulations were issued specifying related parties of LBs, approved securities and limits in respect of accommodation granted to such related parties.

Asset Quality Review and Development of Bank Recapitalisation Strategy

The Central Bank completed the Asset Quality Review of 9 large banks and developed a Roadmap for the restructuring and recapitalization of such banks with the objective of ensuring strong and adequately capitalised LBs amidst the continuous macroeconomic challenges endured by the banking sector. Further, the Central Bank together with Ministry of Finance developed a banks' recapitalisation strategy that includes the size, timing, instruments, and terms and conditions for government recapitalisation of viable banks which are unable to close capital shortfalls from private sources. For this purpose, a budgetary allocation of Rs. 450 billion was made in 2024 Budget. However, the need to use such funds did not arise in 2024. As part of this strategy, the 9 banks submitted recapitalisation plans to the Central Bank and the assessment of such plans was completed. The progress of implementing these recapitalization plans is monitored by the Central Bank on an ongoing basis.

Strengthening Corporate Governance

Banking Act Directions were also issued to further strengthen corporate governance processes and practices of LBs, considering current market developments, international best practices, and evolving regulatory requirements. These Directions mainly focus on enhancing the composition and independence of the Board of Directors, emphasising the competency and professional integrity of Directors, CEOs, and Key Management Personnel (KMP), ensuring the effective functioning

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of Board sub-committees whilst improving risk oversight and control mechanisms including the oversight of related party transactions.

Establishment of Business Revival Units in LBs and Relief Measures

In order to facilitate revival of businesses affected by extraordinary macroeconomic circumstances and to improve assets quality of LBs, the Central Bank issued Guidelines on establishing Business Revival Units (BRUs) in March 2024. The purpose of BRUs is to identify and assist performing and non-performing borrowers of LBs who are facing financial and operational challenges or may face potential difficulties inter alia due to reduction of income, sales, cash flow disruptions, reduction or impairment of business operations or the temporary closure of business emanating from the extraordinary macroeconomic challenges. With the suspension of Parate Action coming to an end, the Central Bank continued its efforts to support economic sectors by outlining relief measures for Small and Medium Enterprises (SMEs) affected by the Easter Sunday attacks, the COVID-19 pandemic, and recent extraordinary macroeconomic conditions.

3. Policy Measures for 2025 and beyond

With a view to further strengthening the regulatory framework and to ensure safety and soundness of the banking system, several policy measures are expected to be implemented in 2025 and beyond.

The implementation of the recapitalisaton plans developed by nine large banks under the bank recapitalisation strategy would be monitored semi-annually, with ongoing oversight to ensure compliance with minimum capital requirements for all banks. Further, to ensure that the financial system comprises strong and resilient banks with adequate capital, a framework for market-driven consolidation of LBs is to be established and consolidation is expected to be facilitated on a case-by-case basis. The resilience of the financial system would also be strengthened through enhanced crisis management and resolution measures and the Central Bank would continue to coordinate and assist the functioning of the Financial Sector Crisis Management Committee on an ongoing basis.

The implementation of the Directions issued under the Banking (Amendment) Act covering areas such as large exposures, corporate governance, liquidity ratios, related party transactions, and offshore banking business will be monitored inter alia in 2025. In addition, existing Regulations will be reviewed in line with market developments and international best practices to ensure the regulatory framework is further strengthened. The effectiveness of risk-based supervision would be enhanced by improving the supervisory infrastructure and the continuous surveillance of banks would also be intensified. Additionally, the Central Bank will continue to further strengthen the conduct of risk-based Anti-Money Laundering and Countering the Financing of Terrorism examinations of banks in terms of the Financial Transactions Reporting Act.

In view of the above, the banking sector is expected to operate with sound financials, strong prudential ratios, and operational resilience to support the economic growth of the country.

2.2 Non-Bank Financial Institutions Sector

Finance Companies

The FCs sector recorded a significant expansion in 2024, whilst exhibiting resilience by maintaining capital and liquidity well above the regulatory minimum levels. The FCs sector grew in terms of loans and advances, deposits, and borrowings. Further, the asset quality of the sector improved as reflected by the reduction in NPL denoted by Stage 3 loans. The sector comprised 32 FCs[3] accounting for 5.4% of the total financial

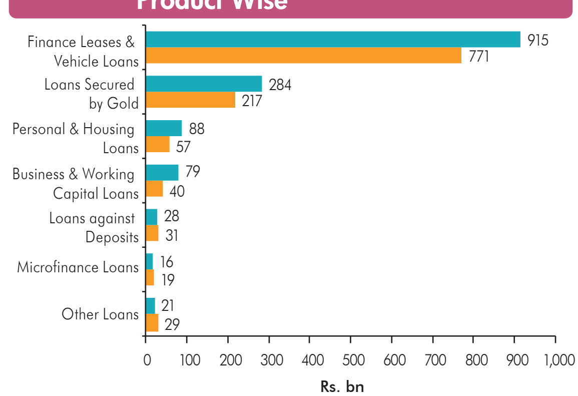
3 Excluding ETI Finance Limited (The Commercial High Court of Colombo ordered that the winding up of ETI Finance Limited be carried out subject to the Supervision of the Court on the 15th day of December 2023).

sector assets at end 2024. There were 1,908 branches, of which 1,265 branches were located outside the Western Province catering to the financial needs of many segments, thereby facilitating financial inclusion. In December 2024, the revised framework for the Phase II of the Masterplan for Consolidation of FCs sector was introduced aiming to develop a more resilient FCs sector in the medium to long term, that includes a three-year execution plan commencing 31 March 2025.[4]

The asset base of the sector increased by Rs. 235.2 bn in 2024 and reached Rs. 1,930.7 bn, reflecting a growth of 13.9% at end 2024, compared to a 5.7% growth at end 2023. The asset growth was mainly driven by the significant expansion of loans and advances portfolio. Net loans and advances accounted for 74.1% of the total assets of the sector. During 2024, loans and advances portfolio of the sector increased by Rs. 265.4 bn and reached Rs. 1,430.2 bn, indicating a growth of 22.8% at end 2024 compared to a 2.6% contraction in 2023. Finance leases and vehicle loans dominated the loans and advances portfolio of the sector and accounted for 64.0% of total loans and advances by end 2024, compared to that of 66.2% by end 2023, followed by loans secured by gold representing 19.8% of total loans and advances by end 2024, compared to that of 18.7% by end 2023. Finance leases and vehicle loans, and loans secured by gold recorded growths of 18.7% and 30.4%, respectively, in 2024. Financial assets in the form of debt and other financial instruments measured at amortised cost contracted by 39.9% in 2024 compared to the 71.1% growth in 2023 mainly due to the decrease in investments in government securities.

4 With the implementation of Master Plan, only one company remained in the Specialized Leasing Companies Sector by the end of 2024.

Figure 2.4: **Total Loans and Advances (Net) - Product Wise**



Source: Central Bank of Sri Lanka

Gross NPL Ratio of the FCs sector declined to 11.3% at end 2024 compared to 18.0% at end 2023, indicating an improvement in credit quality. Meanwhile, the sector reported an Impairment Coverage Ratio of 41.9% for NPL at end 2024 compared to 32.6% reported at end 2023. Accordingly, the net NPL Ratio improved to 6.6% by end 2024 from 12.1% at end 2023.

The FCs sector maintained liquidity well above the minimum required level during 2024. At end 2024, the overall regulatory liquid assets available in the sector was Rs. 220.9 bn, against the stipulated minimum requirement of Rs. 115.8 bn recording a liquidity surplus of Rs. 105.1 bn at end 2024, compared to Rs. 151.5 bn recorded at end 2023. Customer deposits continued to dominate the liabilities of the FCs sector accounting for 54.7%, followed by equity and borrowings at 24.3% and 15.8%, respectively, at end 2024. Deposits increased by Rs. 121.4 bn recording a growth of 13.0% during 2024, and reached Rs. 1,056.4 bn at end 2024. Meanwhile, borrowings grew by 15.3% during 2024, which was equivalent to an increase of Rs. 40.5 bn and reached Rs. 305.4 bn at end 2024.

The sector's Profit After Tax (PAT) increased by 20.9% from Rs. 49.4 bn in 2023 to Rs. 59.7 bn in 2024, mainly driven by the increase in net interest income. During 2024, the sector reported a net interest income of Rs. 191.8 bn and mainly contributed to the

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increased profits, recording a notable growth of 24.3% compared to the previous year. Furthermore, non-interest income amounted to Rs. 33.8 bn in 2024 which was a marginal growth of 1.4% compared to 2023. The increase in profitability was reflected in the rise of ROA and ROE to 6.1% and 13.5%, respectively, in 2024 compared to 5.2% and 12.7% in 2023. The efficiency of the sector improved as reflected by the decline in efficiency ratio from 52.8% in 2023 to 50.8% in 2024.

The capital base of FCs sector improved by Rs. 28.3 bn from Rs. 329.1 bn at end 2023 to Rs. 357.4 bn at end 2024, recording a growth of 8.6% during the year. Except two FCs,[5] all other FCs were in compliance with the minimum core capital requirement and/or capital adequacy requirements. The sector's core capital and total capital ratios marginally declined to 20.4% and 21.2%, respectively, at end 2024, compared to that of 21.1% and 22.3%, respectively, at end 2023, but remained well above the minimum regulatory requirement.

Primary Dealer Companies

By end 2024, there were 5 LCBs[6] and 5 Primary Dealer Companies (PDCs)[7] active in the government securities market as Primary Dealers. Total assets of PDCs increased by 9.7% to Rs. 297.2 bn in 2024, compared to Rs. 270.9 bn in 2023. The total investment portfolio of government securities by Primary Dealers amounted to Rs. 277.9 bn by end 2024, recording a y-o-y increase of 5.7% from Rs. 262.9 bn in 2023.

PDCs reported a PAT of Rs. 9.7 bn in 2024, indicating a significant decline from Rs. 30.4 bn of PAT reported in 2023. This drop in profitability was primarily driven by decrease in interest income and capital gains, along with higher revaluation losses on financial assets held for trading, which are measured at fair value through profit and loss. Furthermore, ROA and ROE of PDCs decreased to 7.9% and 30.9%, respectively, by end 2024 from 31.9% and 113.9%, respectively, in 2023.

The equity of PDCs marginally decreased by 2.3% mainly due to a decline in profits. The Risk Weighted CAR of PDCs remained well above the minimum requirement of 10.0% despite a marginal reduction in the ratio to 18.7% by end 2024 from 22.3% reported by end 2023.

The participation of PDCs in primary auctions for Treasury bills and Treasury bonds showed a mixed performance during 2024. Secondary market transactions in government securities (in terms of value) by PDCs decreased by 25.4% falling to Rs.18,639.9 bn in 2024, with repurchase transactions accounting for 72.9%. During 2024, outright purchases and sales decreased by 28.8% and 11.3%, respectively, compared to 2023.

Licensed Microfinance Companies

Licensed Microfinance Companies (LMFCs) sector consists of four companies and reported 27.0% growth in its asset base, reaching Rs. 14.8 bn by the end of 2024. Micro loans accounted for the largest share of total assets, amounting to Rs. 11.4 bn by end 2024 compared to Rs. 7.6 bn by end 2023, reflecting a growth of 49.9%. The total deposit base of the sector grew by 35.7% in 2024 from Rs. 828.9 mn in 2023 to Rs. 1,124.4 mn in 2024. The core capital level of the sector was Rs. 3.3 bn by end 2024, and all LMFCs were in compliance with the minimum prudential regulations on core capital.

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5 Such FCs represented 0.7% of the assets of FCs sector at end 2024. Regulatory restrictions such as deposit caps, lending caps, freezing of acceptance of new deposits and caps on granting new loans have been imposed on FCs which were non-compliant with the minimum core capital requirement and/or capital adequacy requirements.

6 Excluding Pan Asia Banking Corporation (participation in government securities at primary auctions was suspended with effect from 15 August 2017).

7 Excluding Entrust Securities PLC (participation in government securities at primary auctions has been restrained with effect from 24 July 2017. A creditor winding up was filed by one of the unsecured investors and on 17 June 2022 the winding up order was given by the courts. However, the winding up case is still pending before the courts due to other legal proceedings), and Perpetual Treasuries Ltd. (business was initially suspended on 06 July 2017 and extended for a further period of 06 months with effect from 05 January 2025).

Unit Trusts

Unit Trusts (UTs) sector continued to record a growth in 2024 with a significant increase in asset base. The number of UTs in operation increased to 90 at end 2024 from 84 reported at end 2023, while the number of UTs management companies remained unchanged at 16 at end 2024 compared to end 2023. However, the number of units issued significantly increased by 126.3% to 30,260 mn at end 2024, compared to 13,371 mn reported at end 2023. Moreover, the total number of unit holders increased to 114,898 at end 2024 from 93,450 at end 2023. Total assets of the UTs increased by 34.7% to Rs. 547.4 bn at end 2024 compared to Rs. 406.5 bn reported at end 2023. Money Market Funds and Income Funds accounted for the majority of the UTs funds, jointly representing 83.9% of the industry at end 2024. The share of investments in government securities by UTs as a percentage of total assets declined to 67.8% at end 2024 from 77.2% reported at end 2023. In addition, investment in equity as a share of UTs assets surged to 5.7% at the end of 2024 compared to 4.5% reported at the end of 2023.

Insurance Sector[8]

The insurance sector, which comprises long term and general insurance subsectors, showed mixed performance during 2024, despite the expansion of the total assets. The sector comprises of 15 companies which operated as long term insurance companies and 14 companies which operated as general insurance companies. In addition, 81 insurance brokering companies were in operation at end 2024.

The insurance sector recorded a growth in GWP during 2024 compared to 2023. During the year, GWP in the long term and general insurance subsectors recorded a y-o-y growth of 20.4% and 11.7%, respectively. Meanwhile, assets of the long term insurance subsector grew by 12.7%, y-o-y whilst the assets of general insurance contracted by 5.3%, y-o-y at end 2024. However, given the higher asset base of the long term insurance subsector, total insurance sector assets grew by 7.9%, y-o-y, in 2024.

Profit before tax of the long term insurance subsector grew by 6.2% in 2024 compared to 2023, while profit before tax of the general insurance subsector contracted by 2.4% during 2024. ROA of both long term insurance and general insurance subsectors deteriorated during 2024 compared to 2023. Further, claims of the long term and general insurance subsectors increased by 9.4% and 2.2%, respectively, at end 2024 compared to the previous year.

In 2024, the capital position of the general insurance subsector improved, while there was a decline in long term insurance subsector, though it remained above the minimum requirement. Accordingly, CAR of general insurance increased to 322.0% by end 2024 from 252.0% by end of 2023. In long term insurance, CAR declined to 338.1% at end 2024 from 358.3% at end 2023. However, Capital to Total Assets of long term and general insurance subsectors decreased to 0.19 and 0.44 at end 2024, compared to 0.22 and 0.51, respectively, at end 2023.

Employees' Provident Fund

The Employees' Provident Fund (EPF) continued to dominate the superannuation sector with 81.0% of the total assets of the sector at end 2024. The net worth of the EPF significantly increased by 12.6%, y-o-y, to Rs. 4,375.7 bn by end 2024 from Rs. 3,886.7 bn recorded by end 2023. This growth ofthe Fund is mainly attributed to the income generated through investments and the positive net contributions made in 2024. Simultaneously, the total liability to the members also increased by

8 This section excludes the reinsurance business of National Insurance Trust Fund (NITF)

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Table 2.7: **Five-year Performance Summary of EPF**

Item	2020	2021	2022	2023	2024 (a)
Net Worth of the Fund (Rs. bn)	2,824.3	3,166.1	3,459.9	3,886.7	**4,375.7**
Total Liability to the Members (Rs. bn)	2,767.8	3,066.9	3,380.6	3,817.9	**4,289.5**
Total Contributions (Rs. bn)	150.7	165.7	194.6	210.6	**234.4**
Total Refunds (Rs. bn)	109.7	118.2	163.0	215.9	**188.1**
Net Contribution (Rs. bn)	41.0	47.5	31.6	-5.3	**46.3**
Interest Rate on Member Balance (%)	9.00	9.00	9.00	13.00	**11.00**
Total Number of Member Accounts (mn)	19.8	20.3	20.4	21.5	**21.5**
Contributing Number of Member Accounts (mn)	2.6	2.5	2.7	2.6	**2.6**

(a) Provisional

Source: EPF Department, Central Bank of Sri Lanka

12.4% during this period. The total contributions received for the year 2024 increased by 11.3% to Rs. 234.4 bn, while the total amount of refunds disbursed to the members and their legal heirs decreased by 12.9% to Rs. 188.1 bn. The net contribution of the Fund was reported at a positive Rs. 46.3 bn in 2024, compared to a negative of Rs. 5.3 bn recorded in 2023.

The total investment income of the Fund amounted to Rs. 513.8 bn in 2024, registering a notable increase of 6.8% compared to Rs. 481.1 bn in 2023. Interest income continued to be the predominant source of income of the Fund, which grew by 2.9% to Rs. 455.1 bn in 2024 from Rs. 442.4 bn in 2023. The dividend income witnessed an increase of 82.9% to Rs. 5.5 bn in 2024, compared to Rs. 3.0 bn in 2023. The net fair value gain on listed equity investments for 2024 was recorded at Rs. 49.2 bn, compared to Rs. 23.8 bn in 2023. The Fund maintained the Operating Expenses to Gross Income Ratio at 0.6% in 2024. Nevertheless, the tax expenditure of the Fund increased to Rs. 64.1 bn due to the increased investment income during 2024. The Governing Board of the Central Bank has approved a payment of an interest rate of 11.00% on the member balances for 2024, subject to the concurrence of the Hon. Minister in charge of the subject of Labour and Hon. Minister in charge of the subject of Finance.

Employees' Trust Fund

The asset base of the Employees' Trust Fund (ETF) grew by 12.7% on a y-o-y basis to Rs. 591.3 bn at the end of 2024. Investments made by the ETF increased by 12.8% to Rs. 581.1 bn by end of 2024. Out of these investments, 94.7% was invested in government securities which grew by 14.7% and reached Rs. 550.5 bn at end 2024. ETF managed to earn a return on investment of 11.9% on its member balances in 2024. Out of 16.3 mn member accounts of the ETF, only 2.3 mn accounts were active at end 2024. The number of employers contributing to the fund increased to 80,008 at end 2024 from 74,927 at end 2023. The total member balance of the ETF increased by 11.9% and reached Rs. 564.3 bn at end 2024. The total contributions of the ETF increased by 12.9% and reached Rs. 42.0 bn, while total superannuation benefits paid to members decreased by 12.7% and reached Rs. 33.4 bn during 2024.

Other Superannuation Funds

The Public Service Provident Fund (PSPF), which accounted for 1.9% of the superannuation sector, increased in terms of assets and investments at the end of 2024. The total assets of the fund grew by 9.6% and reached Rs. 105.0 bn at the end of 2024. The number of active members of the fund was 272,575 at the end of 2024 compared to 272,630 reported at the end of 2023. Meanwhile, at end 2024, the total investments of the fund also increased by 10.7% to Rs. 113.4 bn. PSPF invested 41.7% of its investments in government securities, while other investments accounted for 58.3% at end 2024. The rate of return on member balances was 10.00% in 2024.

Approved Pension and Provident Funds (APPFs) accounted for 6.2% of the superannuation sector at end 2024. The number of members covered by APPFs was estimated to be 108,651 at end 2024. In addition, the total assets of the funds increased to Rs. 339.2 bn at end 2024, while total investments also increased to Rs. 263.9 bn at the end of the same period.

2.3 Performance of Financial Markets

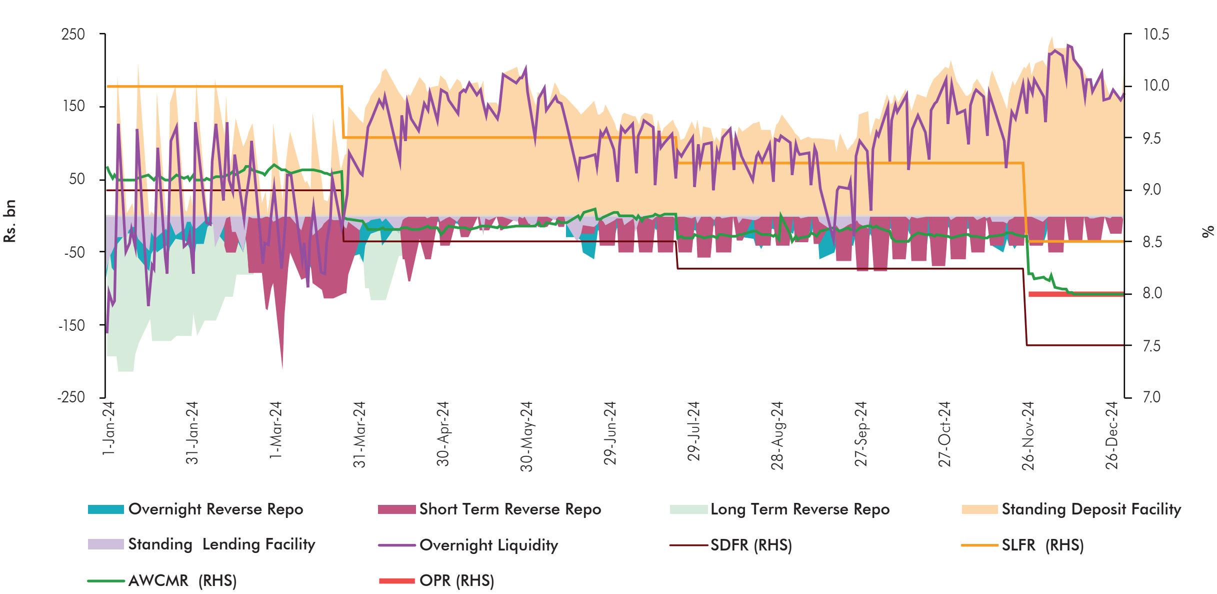
Developments in the Domestic Money Market

Liquidity in the domestic money market improved in 2024. Asymmetric distribution of liquidity across the banking system was observed in 2024 as well, with certain domestic private banks experiencing periodic liquidity deficits while state banks and most of the foreign banks recorded a notable liquidity surplus. Given the asymmetric distribution of liquidity, the Central Bank continued to intervene in the domestic money market through Open Market Operations (OMOs). However, with the improvements in market liquidity, particularly in the latter part of 2024, the Central Bank scaled down its market operations and conducted reverse repo auctions only on a need basis. The introduction of the Overnight Policy Rate (OPR) together with the policy rate reduction of around 50 bps and appropriate OMOs caused the Average Weighted Call Money Rate (AWCMR) to converge towards the OPR from 8.55% to 8.00% by end December 2024. Similarly, the Average Weighted Repo Rate (AWRR) also moved in line with the AWCMR and recorded 8.11% by end December 2024.

Domestic Foreign Exchange Market

Throughout the year, the Central Bank curtailed any excessive volatility through prudent intervention in the foreign exchange market on a need basis. This strategy has been supportive for the Central Bank to build up Gross Official Reserves (GOR) with a less volatile exchange rate. During 2024, the Central Bank absorbed USD 3,028.6 mn, while supplying USD 183.0 mn to the market. During the early part of the year, the Central Bank intervened by aggressively purchasing from the market to curtail intraday volatility and thereby abating the sharp appreciation pressures of the Sri Lanka rupee. By the end 2024, the annual net purchases recorded USD 2,845.6 mn, the highest ever annual net purchase by the Central

Figure 2.5: **OMOs, OPR, SDFR, SLFR and Behaviour of Money Market Interest Rates during 2024**



*Liquidity injection operations are on the negative side.

Source: Central Bank of Sri Lanka

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Bank, surpassing the Net International Reserves (NIR) target under the IMF-EFF programme by a significant margin. Meanwhile, liquidity in the domestic foreign exchange market remained stable. Further, trading volumes in the domestic foreign exchange inter-bank market in 2024 increased by 9.0% to USD 16.3 bn compared to USD 15.0 bn recorded in 2023.

Government Securities Market

Primary market yields of Treasury bills and bonds showed a decreasing trend in 2024 despite intermittent increases observed in certain periods. Accommodative monetary policy stance, lower inflation expectations, broad fiscal discipline coupled with the maintenance of a cash buffer and gradual dissipation of risk premia mainly contributed to the substantial decline in yields. Further, improved money market liquidity conditions and sustained demand for government securities also contributed to the downward trend in yields, which strengthened as uncertainties subsided, after the presidential election, following a brief period of upward movement observed during July to September 2024. As such, during 2024 the primary market yields of 91-day, 182-day and 364-day Treasury bills declined by 589 bps, 539 bps and 397 bps, respectively.

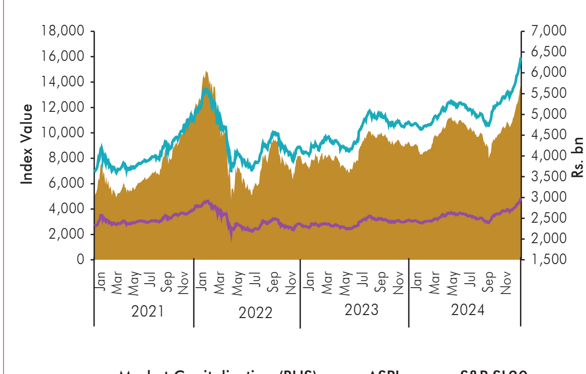
In line with the developments in the primary market, the secondary market yields of government securities also fell across maturities during 2024. In addition, the yield curve normalised to its regular shape during the year. However, the downward adjustment in the shorter end of the yield curve was higher compared to the longer maturities which resulted in higher term premia. Secondary market activities, when measured in terms of daily average trading volume, marked a marginal increase from Rs. 25.7 bn in 2023 to Rs. 27.0 bn in 2024. However, in terms of the monthly turnover ratio,[9] the market liquidity reduced as the average turnover ratio fell from 41.5% in 2023 to 37.2% in 2024 driven by the lower turnover during the months from August to October 2024.

Foreign investor demand for Treasury bills and bonds remained subdued up to September but increased towards the end 2024. Accordingly, in 2024 a net foreign outflow of USD 178.9 mn was recorded compared to the net foreign inflow of USD 210.0 mn recorded in 2023. However, net foreign inflows totalling USD 77.4 mn were recorded during the last quarter of 2024.

Equity Market

The equity market demonstrated a significant performance marked by notable movements in price indices during 2024, alongside a substantial increase in market turnover. As at 31 December 2024, the All Share Price Index (ASPI) and Standard & Poor's Sri Lanka 20 (S&P SL20) index of the Colombo Stock Exchange (CSE) recorded a year-to-date growth of 49.7% and 58.5%, respectively. During 2024, ASPI closely aligned with the movements of S&P SL20, underscoring the substantial contribution of major companies in driving the broader market trends. ASPI and S&P SL20 recorded significant growth rates of 34.5% and 40.8%,

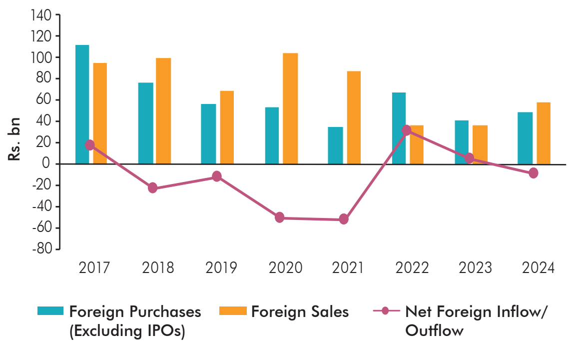
Figure 2.6: **Movement of Price Indices and Market Capitalisation**



Source: Colombo Stock Exchange

9 Turnover ratio is calculated by dividing the annualised secondary market turnover for the month by the outstanding securities at the end of the month.

Figure 2.7: **Foreign Participation at CSE (Secondary Market)**



Source: Colombo Stock Exchange

respectively, during the fourth quarter of 2024, driven mainly by domestic investor activities, compared to the modest year-to-date growth rates of 11.3% and 12.6% recorded up to the end of the third quarter of 2024. Further, market capitalisation increased by 34.1% and stood at Rs. 5,695.6 bn at end 2024 compared to Rs. 4,248.9 bn at end 2023. Meanwhile, CSE recorded an average daily turnover of Rs. 2,240.2 mn in share trading during 2024, which was a considerable increase compared to Rs. 1,696.2 mn recorded in 2023. However, the average number of daily transactions in the market slightly decreased to 14,684 trades from 14,972 trades in 2023, primarily due to the subdued market engagement of investors during the third quarter of 2024.

Despite the noticeable improvement in market performance in terms of indices and turnover, CSE experienced a net foreign outflow in the secondary share market. During 2024, CSE recorded a total net foreign outflow of Rs. 9.9 bn, which is approximately amounting to USD 32.6 mn in the secondary share market compared to an inflow of Rs. 4.3 bn, approximately USD 13.3 mn recorded in 2023. However, the equity market recorded an overall net foreign inflow by the end of the year owing to the increased inflows to the primary market which amounted to Rs. 20.3 bn, approximately USD 65.5 mn.

Reflecting the positive outlook among investors in terms of the growth potential of the equity market, Price to Book Value (PBV) exhibited a positive trend during 2024. At end December 2024, PBV stood at 1.2, up from 0.9 recorded at end December 2023. On the contrary, Price Earnings Ratio (PER) of the market stood at 8.9 by end December 2024, marking a decrease from 11.1 recorded at end December 2023. Meanwhile, the equity market raised Rs. 2.8 bn through four Initial Public Offerings (IPOs) during the year, compared to Rs. 0.8 bn raised in two IPOs during 2023.

Corporate Debt Securities Market

Commercial Paper (CP) issuances recorded an increase in 2024 compared to 2023, demonstrating robust performance during the year. During 2024, Rs. 3.1 bn was raised through CPs compared to Rs. 1.3 bn raised in 2023. The interest rates of CPs varied between 12.00% and 13.75% during 2024 compared to the range of 17.00% to 26.50% reported in the previous year.

Activities of the corporate debenture market recorded a significant increase during 2024 compared to 2023 due to increased investor attraction stemming from favourable economic conditions. During 2023, 15 IPOs of corporate debentures were issued by five banks in CSE which raised Rs. 34.6 bn of debt capital. In contrast, in 2024, nine companies in CSE collectively raised Rs. 94.8 bn through 28 debenture IPOs recording a significant increase compared to the previous year. Debentures with fixed interest rates were issued through IPOs in 2024 and the interest rates ranged from 12.00% to 15.25% compared to the range of 13.50% to 29.50% in the previous year.

2.4 Financial Inclusion

During 2024, the Central Bank intensified its initiatives to advance financial inclusion nationwide. Significant strides were made in advancing financial literacy and inclusion, building on the foundation laid by the National Financial Inclusion Strategy (NFIS) of 2021-2024, focusing on key pillars such as Digital Finance and Payments, MSME Finance, Consumer Protection, and Financial Literacy. In 2024, the Central Bank, in collaboration with its Regional Offices, conducted over 400 Financial Literacy programmes nationwide. The launch of the Financial Literacy Roadmap in May 2024 marks a key milestone in the journey toward a "Financially Literate Sri Lanka". As part of this initiative, the "Certified Trainer in Financial Literacy" programme will be introduced to enhance the standards of Financial Literacy Trainers nationwide and the "Financial Literacy Month" programme will debut in September 2025. The Credit Counselling Centre was re-established to assist individuals and MSMEs manage finances, reduce indebtedness, improve credit scores, and adopt sustainable financial behaviours, ultimately supporting financial sector stability.

2.5 Financial Infrastructure

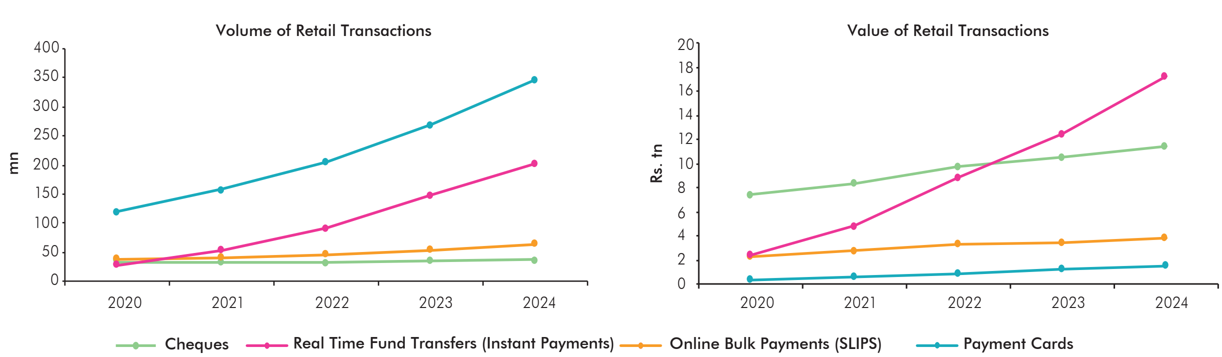
Payment and Settlement Systems

Payment and settlement systems of the country operated smoothly and efficiently without interruptions in 2024 with increased adoption of digital transactions. Further, adoption of both large value and retail digital payment methods continued to increase in comparison to manual payment instruments such as cheques. This growth enhanced the convenience and safety offered by digital payment methods. With a view to further increasing public confidence in using digital payment methods, the National Payments Council (NPC), the industry consultative committee on payment and settlement systems, took several measures during the year. One such key measure was to mandate verification of the mobile number when linking a current account or a savings account to a mobile payment application, with effect from 31 March 2025.

The higher level of digital payment adoption was also witnessed through the country's Instant Payment System[10] - Common Electronic Fund Transfer Switch (CEFTS) during 2024. Retail digital payments carried out through CEFTS, amounted to 50.0% of the value of total interbank retail payments, indicating a high level of use of CEFTS based payment channels for retail payments. CEFTS facilitates payment arrangements such as LankaPay Online Payment Platform (LPOPP) that enables the public to pay taxes, custom duties, etc. to government institutions; LANKAQR which facilitates payments to merchants using Quick Response (QR) codes; and JustPay, which facilitates payments through mobile applications by linking their

10 Instant Payment System also referred to as Fast Payments, transfers funds in real time between customers.

Figure 2.8: **Retail Transactions**



Source: Central Bank of Sri Lanka

current accounts or savings accounts from any financial institution to any JustPay enabled mobile application.

During the year, greater operational efficiency and better risk management capabilities were introduced through a new Real Time Gross Settlement (RTGS) System "LankaRTGS" which complies with ISO 20022 standard. Further, an increasing trend was seen in customers making large value payments through the RTGS system for their time-critical, large value payments, as reflected by the annual growth in both transaction volume and value terms by 10.1% and 25.7%, respectively.

During the year, several initiatives were taken to integrate the national payment infrastructure with international payment networks. The Central Bank granted approval to LankaPay (Pvt) Ltd (LankaPay), the retail payment network operator, to partner with UnionPay International (UnionPay), an international card scheme to issue a LankaPay/UnionPay co-branded card under the National Card Scheme (NCS). Accordingly, NCS cards can now be co-branded with JCB International or UnionPay to facilitate domestic transactions with local routing through LankaPay. The NCS aims to bring greater autonomy to the country's payment infrastructure and reduce the outflow of foreign exchange as service fees when making local payments. The Central Bank also approved NEPALPAY and WeChat Pay wallets to link with LANKAQR. These new linkages expand the reach already availed through LANKAQR's integration with India's Unified Payments Interface (UPI) and UnionPay of China, facilitating seamless payments for tourists using their own mobile applications to pay through LANKAQR in Sri Lanka. In addition, to mitigate any risks and losses arising from cyber scams, the Central Bank together with stakeholders of the payment industry, actively engaged in increasing public awareness on safe and secure ways of conducting their digital transactions.

Anti-Money Laundering and Countering the Financing of Terrorism

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The Financial Intelligence Unit (FIU) continued to function in line with the international Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) standards to strengthen the financial sector integrity and resilience. The FIU carried out its duties mandated by the Financial Transactions Reporting Act, No. 06 of 2006 (FTRA) by receiving and analysing suspicious transactions from reporting institutions and the general public, sharing intelligence with Law Enforcement Agencies (LEAs) and Regulatory Authorities (RAs), and enforcing AML/CFT compliance of Financial Institutions (FIs) and Designated Non-Financial Businesses and Professions (DNFBPs). In 2024, the FIU imposed an administrative monetary penalty to the aggregate of Rs. 8.75 mn against six FIs and one DNFBPs for identified AML/CFT non-compliance during its supervision examinations. Further, the AML/CFT framework in Sri Lanka is strengthened by the AML/CFT National Coordinating Committee (NCC), the national coordinating arm. The NCC chaired by the Governor, provides policy guidance and facilitates national level coordination among stakeholders in the implementation of AML/CFT framework. Additionally, the FIU continued to finalise amendments to the FTRA, the Convention on the Suppression of Terrorist Financing Act, No. 25 of 2005 and the Prevention of Money Laundering Act, No. 05 of 2006 during the year under review. The FIU also actively participated in the law drafting committees to review and propose amendments to new legislative proposals, including the Proceeds of Crime Bill, the Companies (Amendment)

Bill, the NGO Registration and Supervision Bill, and the Gambling Regulatory Authority Bill. Additionally, the FIU contributed to the Task Force working to establish a regulatory environment for the real estate sector.

Legal Reforms Related to the Financial Sector

The Central Bank continued to engage in necessary legal reforms to strengthen the stability of the financial system. Banking (Amendment) Act, No. 24 of 2024 was enacted to further strengthen and streamline the provisions of the existing Banking Act, No. 30 of 1988 and came into operation on 15 June 2024. Further, necessary assistance was provided to the Ministry of Finance by the Central Bank to finalise the Public Debt Management Act, No. 33 of 2024 and Public Financial Management Act, No. 44 of 2024, in addition to providing the necessary assistance in drafting the Microfinance and Credit Regulatory Authority Act and the Financial Assets Management Companies Act. Further, drafting amendments to the Finance Business Act, No. 42 of 2011; Finance Leasing Act, No. 56 of 2000; Payment and Settlement Systems Act, No. 28 of 2005 and Foreign Exchange Act, No. 12 of 2017 were also initiated in 2024.

Financial Consumer Protection

In 2024, the Central Bank implemented several key initiatives to enhance financial consumer protection. The comprehensive Financial Consumer Protection (FCP) Regulations No. 01 of 2023 issued by the Central Bank were fully enforced as of 09 August 2024. In alignment with this, the Central Bank initiated Market Conduct Supervision (MCS), launching its first full-scope, risk-based MCS during the second quarter of the year. Moreover, in the third quarter of 2024, the Central Bank conducted targeted, limited-scope on-site examinations focusing on critical areas such as high lending rates, excessive fees, charges, and commissions imposed by financial service providers.
To further strengthen financial consumer protection, a series of awareness programmes were held throughout the year, educating both financial consumers and service providers on their rights, responsibilities, and best practices. These initiatives, collectively contribute towards enhancing transparency, safeguarding consumer interests, and ensuring effective implementation of the FCP regulations while fostering a more consumer-oriented culture within the financial industry.

Deposit Insurance and Resolution Authority

The Central Bank took key initiatives to strengthen the resolution framework for Banks and FCs licensed by the Central Bank. Following the enactment of the Banking (Special Provisions) Act, No. 17 of 2023 (BSPA) in late 2023, the Central Bank focused on operationalising resolution mechanisms, including the development of a resolution policy, resolution triggers for licensed banks and data collection templates for licensed banks to support resolution planning. Additionally, the Financial Stability Fund was established with an initial allocation from the government to support resolution measures and reinforce financial sector resilience.

The Central Bank continued to operationalise the provisions of the BSPA, as the administrator of the Sri Lanka Deposit Insurance Scheme (SLDIS). The Central Bank entered into a Memorandum of Understanding (MOU) with the Ministry of Finance for a fiscal back-stop funding arrangement for the SLDIS to support financial system stability. Further, the Central Bank engaged with the Financial Sector Safety Net Strengthening Project (FSSNP), which aims at strengthening the financial and institutional capacity of SLDIS in line with the best international practices. Under FSSNP, loan agreements were signed between the International Development Association (IDA) of the World Bank, Ministry of Finance,[11] and the Central Bank. By December 2024 IDA disbursed USD 100.0 mn, which is maintained in a Ring-Fenced Dollar Account under SLDIS. Simultaneously, SLDIS is engaged in several policy-based improvements and institutional capacity building activities, which are also disbursement conditions of FSSNP. As of end 2024, SLDIS equity comprised Rs. 136.9 bn in the Sri Lanka Deposit Insurance Fund (SLDIF) and Rs. 11.8 bn in Other Comprehensive Income Reserves.

Moreover, the Central Bank also carried out activities in relation to compensation payments of licence cancelled financial institutions. The Central Bank has completed compensation payments to the depositors of three license cancelled and suspended FCs during 2024 with such payments of one FC still in progress. To enhance efficiency, the Depositor-Wise Data Collection System has been implemented across all FCs and is currently rolling out across licensed banks on a staggered basis. To ensure the effective implementation of this system, the Central Bank has issued operating instructions under the BSPA, mandating the recording of Unique Identification Numbers (UINs) for all depositors of banks and FCs licensed by the Central Bank.

2.6 Sustainable Finance

The Central Bank continued the sustainable financing initiatives during 2024 by implementing the Roadmap for Sustainable Finance in Sri Lanka. As five years have elapsed since the launching of the Sustainable Finance Roadmap in 2019, the Central Bank entered into a cooperation agreement with the International Finance Corporation (IFC) in May 2024 for receiving technical assistance to update the Sustainable Finance Roadmap for the next five years period. Under this agreement, the review process of the Sustainable Finance Roadmap 2.0 for the financial sector, which will expand the focus to the social aspect of sustainability, is at the final stage and is expected to be launched during the first half of 2025. During the year, Central Bank participated in an array of knowledge sharing and capacity building programmes aimed at enhancing exposure to sustainable financing and climate related financial risks both as resource persons and participants. The Central Bank being a member of the Sustainable Banking and Finance Network (SBFN), International Platform for Sustainable Finance (IPSF) and Alliance for Financial Inclusion (AFI) continued its international cooperation by participating in SBFN Global Progress Brief, Regular meetings of the IPSF and Inclusive Green Finance working group meetings of the AFI held during 2024, while making a representation at the SBFN Global meeting held in Rio-de-Janeiro, Brazil. Further, the Central Bank continued industry engagement by joining discussions on elevating sustainable finance in Sri Lanka especially collaborating with the corporate sector chambers and public policy think tanks during 2024.

11 At the time of signing agreements, the name of the Ministry was the Ministry of Finance, Economic Stabilisation & National Policies.

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