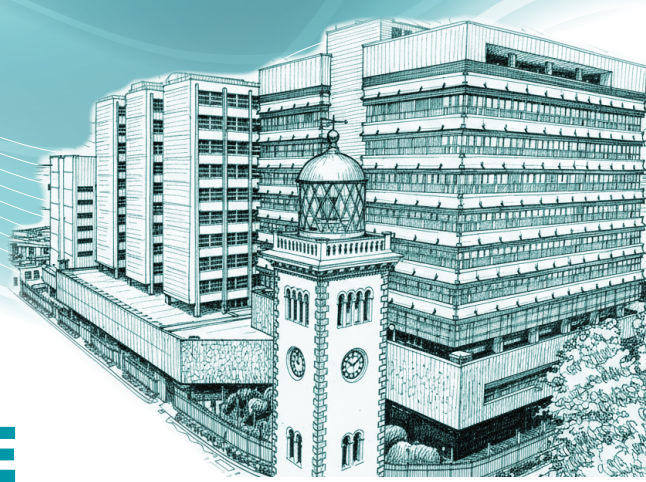


## Chapter 2

# CONDITION OF THE FINANCIAL SYSTEM



### Summary

The performance of the financial sector continued to improve in 2025 amidst strengthened domestic macroeconomic conditions and prudential policy measures. The asset base of the banking sector increased considerably, particularly due to the expansion of loans and receivables supported by the accommodative monetary policy stance and favourable macroeconomic conditions. Along with the rapid expansion in loans and receivables, the stage 3 loans ratio of the banking sector gradually declined during 2025. However, the stage 3 loans ratio of the banking sector remained at an elevated level as of end 2025 compared to pre-crisis levels. Moreover, the profitability of the banking sector improved during 2025 due to increases in both Net Interest Income (NII) and non-interest income. Meanwhile, both liquidity and capital buffers of the sector continued to remain well above minimum statutory requirements, albeit with a decline compared to the previous year, mainly due to the high credit expansion during 2025. The performance of the Finance Companies (FCs) sector also witnessed a significant expansion during 2025, particularly due to the rapid growth in the loans and advances portfolio. This significant credit expansion was predominantly supported by the growth in vehicle and gold backed loans. Amidst this high credit expansion, the stage 3 loans ratio of the FCs sector declined during 2025. Although deposits continued to be the main funding source of the FCs sector, a significant increase in borrowings was witnessed during the year. Profitability of the FCs sector improved significantly while both liquidity and capital buffers continued to remain well above the minimum regulatory requirements. Meanwhile, the insurance sector continued to record an expansion during 2025, as reflected by the increase in gross written premiums and total assets. However, the profitability and capital position of the sector witnessed a decline in 2025. In terms of financial markets, the equity market experienced a robust expansion driven by domestic investors during 2025. This was reflected by the increase in market capitalisation and the notable rise in price indices, despite the secondary market continuing to record a net foreign outflow. Meanwhile, yields in the government securities market remained broadly stable after a steady decline in early 2025, amid rising foreign investor demand, particularly for Treasury bonds. Moreover, liquidity conditions remained at surplus levels in the domestic money market mainly due to substantial foreign exchange purchases by the Central Bank while the domestic interbank foreign exchange market recorded a notable improvement in activity during 2025. Amid these developments, the payment landscape continued to transform in 2025, marked by a steady move away from traditional instruments towards digital payment methods. Further, the Central Bank took measures to improve financial inclusion and financial

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consumer protection in the country, and to implement legal reforms within the financial sector. Moreover, the Central Bank engaged in anti-money laundering, countering the financing of terrorism and countering proliferation financing activities, deposit insurance and resolution initiatives, and sustainable finance activities during the year. However, going forward, close monitoring of financial sector developments is warranted, particularly in terms of the lagged impact of adverse weather conditions that occurred during the latter part of 2025, as well as rising global uncertainties stemming from the war in the Middle East, which pose potential risks to domestic macrofinancial conditions.

Table 2.1  
Total Assets of the Financial System (a)

	2024 (b)		2025 (c)	
	Rs. bn	Share (%)	Rs. bn	Share (%)
<b>Banking Sector</b>	<b>26,022.9</b>	<b>72.6</b>	<b>29,220.6</b>	<b>71.4</b>
Central Bank	3,876.1	10.8	4,298.5	10.5
Licensed Commercial Banks (LCBs)	19,790.9	55.2	22,447.9	54.8
Licensed Specialised Banks (LSBs)	2,355.9	6.6	2,474.2	6.0
<b>Other Deposit Taking Financial Institutions</b>	<b>2,245.6</b>	<b>6.3</b>	<b>3,066.9</b>	<b>7.5</b>
Finance Companies (FCs)	1,928.4	5.4	2,776.7	6.8
Co-operative Rural Banks (d)	301.1	0.8	269.5	0.7
Licensed Microfinance Companies (LMFCs)	14.8	0.0	19.2	0.0
Thrift and Credit Co-operative Societies	1.3	0.0	1.5	0.0
<b>Specialised Financial Institutions</b>	<b>908.7</b>	<b>2.5</b>	<b>1,004.4</b>	<b>2.5</b>
Specialised Leasing Companies (SLCs)	1.3	0.0	1.1	0.0
Primary Dealers	297.2	0.8	338.5	0.8
Stock Brokers	44.9	0.1	48.1	0.1
Unit Trusts / Unit Trust Management Companies	554.2	1.5	599.3	1.5
Market Intermediaries (e)	11.1	0.0	17.4	0.0
<b>Contractual Savings Institutions</b>	<b>6,673.6</b>	<b>18.6</b>	<b>7,635.5</b>	<b>18.7</b>
Insurance Companies	1,223.0	3.4	1,432.2	3.5
Employees' Provident Fund	4,420.2	12.3	4,993.4	12.2
Employees' Trust Fund	586.1	1.6	670.5	1.6
Approved Pension and Provident Funds	339.2	0.9	433.3	1.1
Public Service Provident Fund	105.0	0.3	106.1	0.3
<b>Total</b>	<b>35,850.9</b>	<b>100.0</b>	<b>40,927.4</b>	<b>100.0</b>

(a) Due to the non-availability of data, Venture Capital Companies are not included in this table

(b) Revised

(c) Provisional

(d) Due to unavailability of data, asset base of Co-operative Rural Banks as at end 2025 was taken to be same as the asset base as at end 2025 Q3

(e) Excluding Licensed Banks, Licensed Finance Companies and Specialized 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  
EPF Department, Central Bank of Sri Lanka  
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 expand its asset base in 2025, supported by the accommodative monetary policy stance and improving macroeconomic conditions, while the sector demonstrated resilience by maintaining liquidity and capital buffers well above the regulatory requirements.

The banking sector (excluding the Central Bank)

dominated the financial sector, accounting for 60.8% of total assets by end 2025. The sector comprised 30 licensed banks, i.e., 24 Licensed Commercial Banks (LCBs), including 11 branches of foreign banks, and 6 Licensed Specialised Banks (LSBs). Further, the banking sector continued to promote financial intermediation and inclusion by expanding the banking network and improving banking services. In 2025, 21 bank branches and 158 ATMs were established, while 21 bank

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

Category	End 2024 (a)	End 2025 (b)
<b>Licensed Commercial Banks (LCBs)</b>		
<b>I. Total No. of LCBs</b>	<b>24</b>	<b>24</b>
Domestic Banks	13	13
Foreign Banks	11	11
<b>II. Total No. of LCB Banking Outlets</b>	<b>6,907</b>	<b>7,262</b>
Branches (c)	2,936	2,931
Domestic Banks	2,895	2,890
Foreign Banks	41	41
Student Savings Units	3,971	4,331
<b>III. Automated Teller Machines</b>	<b>6,781</b>	<b>6,908</b>
<b>Licensed Specialised Banks (LSBs)</b>		
<b>I. Total No. of LSBs</b>	<b>6</b>	<b>6</b>
National Level Savings Banks	1	1
Housing Finance Institutions	2	2
Other LSBs	3	3
<b>II. Total No. of LSB Banking Outlets</b>	<b>706</b>	<b>711</b>
Branches (c)	706	711
National Level Savings Banks	268	274
Housing Finance Institutions	64	64
Other LSBs	374	373
<b>III. Automated Teller Machines</b>	<b>504</b>	<b>504</b>
<b>Total No. of Bank Branches and Other Outlets</b>	<b>7,613</b>	<b>7,973</b>
<b>Total No. of Automated Teller Machines</b>	<b>7,285</b>	<b>7,412</b>

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

Source: Central Bank of Sri Lanka

branches and 31 ATMs were closed. Accordingly, the total number of banking outlets and ATMs stood at 7,973 and 7,412, respectively, as of end 2025.

**Total assets of the banking sector expanded primarily due to the significant increase in loans and receivables during 2025.** The sector's assets increased by Rs. 2,775.3 bn during the year and reached Rs. 24,922.1 bn, recording a y-o-y growth of 12.5% at end 2025 compared to 8.6% at end 2024. Loans and receivables, the primary contributor to this asset expansion, recorded a significant y-o-y growth of 21.4% at end 2025, compared to 4.1% at end 2024. Out of the total loan portfolio, 64.5% of loans were concentrated on five economic sectors, namely, consumption, construction, wholesale and retail trade, manufacturing, and financial services. This significant increase in loans and receivables impacted investments of the banking sector, as they declined to 3.1% y-o-y at end 2025 from 24.5% y-o-y at end 2024.

Table 2.3  
Composition of Assets and Liabilities of the  
Banking Sector

Item	2024 (a)		2025 (b)		Change (%)	
	Rs. bn	Share (%)	Rs. bn	Share (%)	2024	2025
<b>Assets</b>						
Loans & Receivables	11,476.7	51.8	13,933.2	55.9	4.1	21.4
Investments	9,089.8	41.0	9,369.6	37.6	24.5	3.1
Others (c)	1,580.3	7.1	1,619.3	6.5	(23.8)	2.5
<b>Liabilities</b>						
Deposits	17,969.3	81.1	19,927.4	80.0	8.1	10.9
Borrowings	1,292.9	5.8	1,678.2	6.7	(7.5)	29.8
Capital Funds	2,054.1	9.3	2,374.0	9.5	16.3	15.6
Others	830.5	3.7	942.5	3.8	38.2	13.5
<b>Total Assets/Liabilities</b>	<b>22,146.8</b>	<b>100.0</b>	<b>24,922.1</b>	<b>100.0</b>	<b>8.6</b>	<b>12.5</b>

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

Source: Central Bank of Sri Lanka

Deposits continued to be the main source of funding in the banking sector, representing 80.0% of total liabilities and capital as of end 2025, followed by equity capital and borrowings, which accounted for 9.5% and 6.7%, respectively. Total deposits increased by Rs. 1,958.1 bn during 2025 to Rs. 19,927.4 bn, and the increase in time deposits contributed 45.2% to the overall increase in total deposits, while savings deposits contributed to 37.8%. By end 2025, time deposits accounted for 65.4% of total deposits, while the savings and demand deposits accounted for 26.3% and 6.8%, respectively. As a result of the considerable growth in savings and demand deposits, the Current and Savings Account (CASA) ratio increased from 31.2% at end

Table 2.4  
Composition of Deposits of the Banking Sector

Item	2024 (a)		2025 (b)		Change (%)	
	Rs. bn	Share (%)	Rs. bn	Share (%)	2024	2025
Demand Deposits	1,109.5	6.2	1,347.6	6.8	2.5	21.5
Savings Deposits	4,502.7	25.1	5,243.6	26.3	4.9	16.5
Time Deposits	12,155.8	67.6	13,041.6	65.4	10.0	7.3
Other Deposits	201.3	1.1	294.6	1.5	(4.0)	46.4
<b>Total Deposits</b>	<b>17,969.3</b>	<b>100.0</b>	<b>19,927.4</b>	<b>100.0</b>	<b>8.1</b>	<b>10.9</b>

(a) Revised  
(b) Provisional

Source: Central Bank of Sri Lanka

2024 to 33.1% at end 2025. Furthermore, total borrowings of the banking sector increased by Rs. 385.3 bn during the year, recording a notable y-o-y growth of 29.8% at end 2025, compared to a contraction of 7.5% at end 2024. This increase was mainly attributed to rupee borrowings, which increased by Rs. 378.1 bn and reported a growth of 35.7% y-o-y, while foreign currency borrowings decreased by USD 21.9 mn, recording a contraction of 2.7% y-o-y at end 2025.

**Off-balance sheet exposures grew notably in 2025, partly driven by the acceleration in trade-related activities following the relaxation of import restrictions.** Accordingly, off-balance sheet exposures increased by Rs. 1,127.6 bn during 2025, recording a notable y-o-y growth of 21.3%, compared to an increase of Rs. 175.5 bn and a y-o-y growth of 3.4% in 2024. Significant increases were observed in undrawn credit lines by Rs. 369.8 bn, foreign exchange related off-balance sheet purchases by Rs. 353.4 bn, documentary credit by Rs. 189.0 bn, foreign exchange related off-balance sheet sales by Rs. 149.5 bn, guarantees and bonds by Rs. 112.6 bn, and acceptances by Rs. 25.8 bn during 2025.

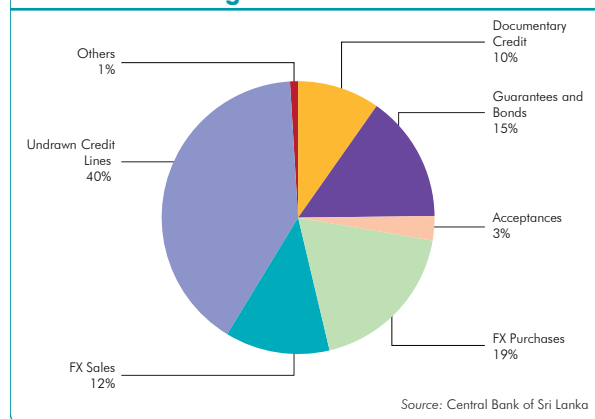
**The stage 3 loans ratio of the banking sector declined during 2025, primarily due to the significant expansion of credit, together**

**with a slight decline in stage 3 loans.**

Accordingly, the stage 3 loans ratio (including the undrawn amounts) of the banking sector decreased from 12.3% at end 2024 to 9.7% at end 2025. In addition to the significant increase in total loans by Rs. 2,456.5 bn, a slight decrease in stage 3 loans (including the undrawn amounts) by Rs. 56.9 bn also contributed to this decline in the stage 3 loans ratio during the year, indicating the impact of improved macroeconomic conditions on credit quality. However, the stage 3 loans ratio of the banking sector remained elevated at end 2025 compared to the pre-crisis level. Further, the stage 3 impairment coverage ratio of the banking sector increased to 58.3% at end 2025, up from 54.1% at end 2024. Nevertheless, challenges in the banking sector include maintaining credit quality due to possible delays in recoveries and meeting higher impairment requirements arising from the impact of Cyclone Ditwah, as well as potential risks stemming from the war in the Middle East.

**Liquidity of the banking sector, as indicated by the Liquidity Coverage Ratios (LCRs) and the Net Stable Funding Ratio (NSFR), declined during 2025 as a consequence of the high credit expansion, albeit remaining comfortably above the minimum regulatory requirements.** The rupee LCR of the sector decreased to 283.3% at end 2025 from 349.9% at end 2024. Meanwhile, all currency LCR, which is an indicator of the overall liquidity of the sector, also declined to 249.7% at end 2025 compared to 313.8% at end 2024. Nevertheless, both ratios stood well above the minimum regulatory requirement of 100%, indicating that banks possessed adequate High Quality Liquid Assets (HQLA) to meet their short term liquidity needs. In addition, the NSFR, which requires banks to maintain sufficient stable funding sources, stood at 154.1% at end 2025 compared to 164.8% at end 2024, which was also well above the minimum regulatory threshold of 100%.

**Figure 2.1**  
**Off-Balance Sheet Exposures of the Banking Sector at end 2025**



## BOX 03

## Banking Sector Consolidation for Promoting Resilience and Stability in the Banking Sector

## Background

The banking sector in Sri Lanka, which consists of 24 licensed commercial banks and 6 licensed specialised banks with an asset base of nearly Rs. 25 trillion as at end of 2025, dominates the financial system, holding the largest share of the total assets (61%) in the financial system. At present, only 5 licensed banks (LBs) have been designated as Domestic Systemically Important Banks (D-SIBs) in Sri Lanka based on size, interconnectedness, substitutability, and complexity. At the same time, several LBs in Sri Lanka continue to remain relatively small in terms of assets size and capital base. This structural limitation constrains their capacity to absorb financial shocks and to withstand periods of economic stress with resilience. In this context, the presence of larger banks with stronger balance sheets, diversified portfolios, and robust governance and risk management frameworks has become increasingly important. Such institutions would enhance the overall resilience of the banking sector by mitigating the risk of spillovers to the real economy. Moreover, this would also facilitate a stronger presence in Sri Lanka's banking sector in international markets, while further reinforcing public confidence.

Regional Experience on Consolidation of the Financial Sector<sup>1</sup>

Drawing on the Asian experience, several countries in the region have undertaken banking sector consolidation as a measure to strengthen their financial systems and support sustained economic growth. For instance, India has pursued consolidation through a series of bank mergers aimed at enhancing efficiency, improving profitability, and strengthening the global competitiveness of its Banks, while contributing to strengthening the national economy. Accordingly,

government-led consolidation efforts in India have reduced the number of public sector banks from 27 in 2017 to 12 by 2020, thereby enabling the larger public sector banks to evolve into stronger, more resilient and more competitive institutions. Nepal Rastra Bank also introduced a merger policy in 2011 resulting in reducing the number of financial institutions in Nepal. Singapore implemented banking sector consolidation in the early 2000's alongside a banking sector liberalization programme. This process reduced 6 local banking Groups into 3 main local banking Groups (i.e., DBS Bank Ltd., Oversea-Chinese Banking Corporation Ltd. and United Overseas Bank Ltd.). It led to a more consolidated banking landscape that remains at present, thereby strengthening the banks' capabilities, building efficient management teams, and enhancing overall operational efficiency and effectiveness. A similar consolidation programme was undertaken by Malaysia in 1997 to streamline its financial sector. By 1998, the number of finance companies was reduced from 39 to 8, and all finance companies eventually merged with commercial banks. By 2000, 50 out of 54 banking institutions in Malaysia were consolidated into 10 banking Groups. Moving on, similar financial sector consolidation efforts have been observed across several other Asian countries including Thailand, South Korea, Indonesia and Philippines particularly in the aftermath of the Asian Financial Crisis.

Sri Lanka has also had its own experience with financial sector consolidation, undertaking a programme in 2014 led jointly by the Central Bank and the Government, as announced in the Government Budget for 2014. The programme primarily targeted non-bank financial institutions, and despite several successful mergers, it was subsequently placed on hold pending further review. However, during 2015, DFCC Bank merged with DFCC Vardhana Bank to form DFCC Bank PLC, while MBSL Savings Bank Ltd., Merchant Bank of Sri Lanka PLC and MCSL Finance Services Ltd. amalgamated to form a Licensed Finance Company, namely, Merchant Bank of Sri Lanka & Finance PLC which is a

<sup>1</sup> Sources:

- Annual Report of Central Bank of Sri Lanka, 2014 and 2015.
- Deepthi, C. A., Sindhu, K. P. & John, B. M., 2024. Public Sector Bank Mergers in India since 2020. *Journal of Visual and Performing Arts*, 5(1), pp. 3510-3515. Available at [https://www.researchgate.net/publication/395982482\\_PUBLIC\\_SECTOR\\_BANK\\_MERGERS\\_IN\\_INDIA\\_SINCE\\_2020](https://www.researchgate.net/publication/395982482_PUBLIC_SECTOR_BANK_MERGERS_IN_INDIA_SINCE_2020)
- Nepal Rastra Bank, 2022. Optimal number of banks and financial institutions in Nepal. Available at <https://www.nrb.org.np/contents/uploads/2022/04/Optimal-Number-of-Banks-and-Financial-Institutions-in-Nepal.pdf>
- Speech by Siriwardana, C. J. P., former Assistant Governor of the Central Bank of Sri Lanka on Financial Sector Consolidation – Why and How? at the Central Bank of Sri Lanka 64th anniversary oration, September 2014. Available at <https://www.bis.org/review/r141103g.pdf>

subsidiary of the Bank of Ceylon. Further in 2019, Lankaputhra Development Bank Ltd. was merged with Pradeshiya Sanwardena Bank.

### Fragmented Nature of the Banking Sector in Sri Lanka

The current structure of the banking sector of Sri Lanka remains highly fragmented. The 6 largest banks account for nearly 75% of the total banking industry assets, while the remaining 24 banks compete for the residual of 25% market share (Table B 3.1).

Accordingly, the fragmented nature of the sector constrains the ability of most LBs to effectively cater to financial consumer needs and contribute to broader economic growth, due to operating inefficiencies, resource constraints, lapses in information technology systems and limited market share. This increases the need for large banks with stronger balance sheets, governance and risk management frameworks to enhance the overall resilience of the banking sector to withstand both internal and external shocks which potentially transmit vulnerabilities across the financial system.

### Measures implemented during the year 2025

The Governing Board granted its approval to issue the Framework for Banking Sector Consolidation to LBs in October 2025. Accordingly, the Central Bank via letter dated 12.12.2025 informed locally incorporated small sized banks regarding the bi-annual evaluation based on a scoring system. Afterwards, the Central Bank issued the Framework for Banking Sector Consolidation to LBs on 23.01.2026, directing LBs to pursue appropriate

strategies for banking sector consolidation to ensure the safety and soundness of the banking sector in Sri Lanka. The salient features of the Framework issued to LBs are given below.

- Locally incorporated small sized LBs will be evaluated bi-annually based on a scoring system that consists of self-assessment and a regulatory assessment. Quantitative and qualitative criteria have been specified for the self-assessment conducted by LBs such as capital, profitability, assets quality, liquidity and concentration as quantitative criteria and catering to underserved customer segments, business model sustainability, adequacy and effectiveness of Management Information Systems as qualitative criteria. Further, management of risk, adequacy of resources and regulatory and macro-economic environment of LBs are considered for the regulatory assessment.
- In this regard, the Central Bank, among other measures, will implement necessary actions to direct mandatory consolidation for LBs which persistently score less than a pre-determined threshold as per the scoring system.
- Furthermore, the Framework provides LBs to pursue consolidation strategies proportionate to the asset size of each bank and provides broader guidance on consolidation including, obtaining approval of the Board of Directors and Shareholders, seeking the approval of the Central Bank, addressing the potential concerns relating to human resource management, safeguarding depositors and fair market conduct, among others.

Table B 3.1  
Composition of the Banking Sector as of 31.12.2025

Category	Assets Size	Number of Banks	Market Share
Large Banks	Above Rs. 3 Tn	3	50.0%
	Rs. 2 Tn – Rs. 3 Tn	1	9.6%
	Rs. 1 Tn – Rs. 2 Tn	2	15.3%
Medium Banks	Rs. 400 Bn – Rs. 1 Tn	5	16.3%
Small Banks	Rs. 200 Bn – Rs. 400 Bn	4	5.0%
	Rs. 100 Bn – Rs. 200 Bn	2	1.3%
	Below Rs. 100 Bn	13	2.5%
<b>Total</b>		<b>30</b>	<b>100%</b>

- This aims to enable expansion through mergers and acquisitions, alongside fortifying governance and risk management strategies, advancing technological capabilities, fostering innovation and improving access to capital, with a view to strengthening the resilience and stability of LBs.

Recently, CBSL facilitated the transfer of the retail business portfolio of a bank incorporated outside Sri Lanka to a domestic private bank. Further, the Government of Sri Lanka has approved restructuring of 2 state owned, small specialised banks and CBSL will facilitate such initiatives with a view to strengthening the soundness of the banking sector in Sri Lanka.

### Expected benefits of the banking sector consolidation

The strategies encouraged under the Framework for Banking Sector Consolidation are expected to facilitate the absorption of small sized local LBs, particularly those facing challenges related to capital, business model sustainability and operational efficiency, by larger and stronger banks. However, the Framework does not encourage further expansion of large banks via consolidating two or more large banks.

Accordingly, it is expected to establish well-capitalised banks with sufficient buffers and sound risk management mechanisms capable of absorbing unexpected losses and potential threats, thereby strengthening the overall resilience of the banking sector.

Furthermore, banking sector consolidation is expected to support efficient financial intermediation, by enhancing cost efficiency of LBs and contributing to lower interest margins through greater economies of scale. It is also expected to promote strategic investments in technology driven/ digitalised financial services which enable the banking sector to better serve the unserved and underserved markets. In addition, consolidation would support the expansion of financial products and services while improving operational efficiency across the banking sector.

### Role of the Central Bank in implementing the Consolidation and Way Forward

The Central Bank will evaluate the proposals for consolidation and other information provided by the respective LBs from a regulatory perspective and grant necessary approvals in terms of the Banking Act No. 30 of 1988 (as amended). Besides this, the Central Bank will facilitate the banking sector consolidation efforts by providing certain regulatory guidance, where appropriate.

Accordingly, it is expected that banking sector consolidation will facilitate financially and operationally sound banks, thereby strengthening the resilience and stability in the banking sector while supporting inclusive and sustainable growth of the economy.



**As indicated by an increase in the interest rate sensitivity ratio, the banking sector's exposure to interest rate risk moderated marginally at end 2025 compared to a year ago.** Accordingly, the interest rate sensitivity ratio (defined as interest-bearing assets as a share of interest-bearing liabilities with maturities of less than 12 months) increased to 84.9% at end 2025 from 84.3% at end 2024. Furthermore, the sector's exposure to equity investments remained minimal throughout 2025. The net foreign currency exposure of the banking sector increased to a long position of USD 1,529.3 mn at end 2025, compared to a

long position of USD 1,198.1 mn at end 2024, reflecting a larger increase in off-balance sheet positions relative to the decline in on-balance sheet positions over the same period.

### Profits of the banking sector increased during 2025, supported by higher Net Interest Income (NII) as well as non-interest income.

Interest income of the sector increased by 1.9%, while the interest expenses decreased by 5.2%, resulting in an increase in NII by 12.4% during 2025. Meanwhile, non-interest income recorded an increase of Rs. 204.0 bn in 2025 compared to 2024, mainly due to

Table 2.5  
Profit of the Banking Sector

Item	2024 (a)		2025 (b)	
	Amount (Rs.bn)	As a % of Avg. Assets	Amount (Rs.bn)	As a % of Avg. Assets
<b>Net Interest Income</b>	<b>909.6</b>	<b>4.4</b>	<b>1,022.5</b>	<b>4.3</b>
Interest Income	2,245.6	10.7	2,288.8	9.6
Interest Expenses	1,335.9	6.4	1,266.3	5.3
<b>Non-Interest Income</b>	<b>71.0</b>	<b>0.3</b>	<b>275.0</b>	<b>1.2</b>
Net Fee & Commission Income	144.0	0.7	169.1	0.7
<b>Non-Interest Expenses</b>	<b>444.5</b>	<b>2.1</b>	<b>493.4</b>	<b>2.1</b>
Staff Cost	241.3	1.2	265.7	1.1
Impairment for Loans & Other Losses	(156.4)	(0.7)	59.9	0.3
<b>Profit Before Tax (Before VAT, NBT, Other Taxes on Financial Services and Corporate Tax)</b>	<b>692.6</b>	<b>3.3</b>	<b>744.4</b>	<b>3.1</b>
VAT, NBT and Other Taxes on Financial Services	150.6	0.7	161.2	0.7
Corporate Tax	217.8	1.0	214.4	0.9
<b>Profit After Tax</b>	<b>324.2</b>	<b>1.6</b>	<b>368.8</b>	<b>1.5</b>

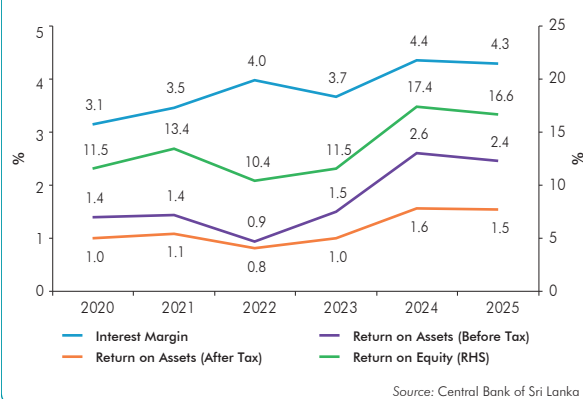
(a) Revised  
(b) Provisional

Source: Central Bank of Sri Lanka

the sector posting a marginal gain from the derecognition of financial assets in 2025, compared to a significant loss reported in the previous year which resulted from the restructuring of International Sovereign Bonds (ISBs). In addition, increases in net fee-based income, net gains from trading, and net other operating income by Rs. 25.1 bn, Rs. 22.3 bn, and Rs. 34.1 bn, respectively, also contributed to the expansion in non-interest income during the year. Furthermore, non-interest expenses increased by Rs. 48.9 bn, largely due to the increase in staff costs by Rs. 24.4 bn, while impairment for loans and other losses increased by Rs. 216.3 bn during 2025. Accordingly, the sector reported a Profit Before Tax (PBT) of Rs. 583.2 bn in 2025, based on regulatory reporting (unaudited), representing an increase of Rs. 41.2 bn compared to the previous year. Moreover, Profit After Tax (PAT) of the banking sector increased to Rs. 368.8 bn in 2025 from Rs. 324.2 bn in 2024, recording a y-o-y growth of 13.7%.

**Profitability ratios of the banking sector declined marginally at end 2025 compared to end 2024, indicating a moderation in**

Figure 2.2  
Profitability Indicators of the Banking Sector



**profit growth.** Return on Assets (ROA) before tax marginally decreased from 2.6% at end 2024 to 2.4% at end 2025, while Return on Equity (ROE) decreased from 17.4% to 16.6% during the same reference period. Further, the Net Interest Margin (NIM) of the banking sector also decreased marginally from 4.4% at end 2024 to 4.3% at end 2025. Moreover, efficiency of the sector increased, as indicated by the decline in the efficiency ratio from 45.3% at end 2024 to 38.0% at end 2025, mainly due to the increase in NII and non-interest income.

**The banking sector continued to comply with the regulatory capital adequacy requirements during 2025.** The Total Capital Adequacy Ratio (CAR) and Tier 1 CAR of the sector declined to 17.9% and 14.6%, respectively, at end 2025, compared to 20.3%

Figure 2.3  
Capital Adequacy of the Banking Sector

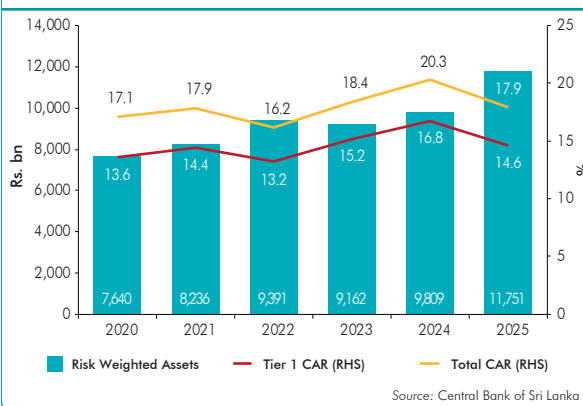


Table 2.6  
Composition of Regulatory Capital of the Banking Sector

Item	Rs. bn		Composition (%)	
	2024 (a)	2025 (b)	2024 (a)	2025 (b)
<b>Tier 1: Capital</b>	<b>1,640.5</b>	<b>1,717.0</b>	<b>100.0</b>	<b>100.0</b>
Share Capital	416.2	422.7	25.4	24.6
Statutory Reserve Funds	100.6	101.3	6.1	5.9
Retained Profits	812.4	914.7	49.5	53.3
General and Other Reserves	372.7	373.0	22.7	21.7
Others	83.8	78.6	5.1	4.6
Regulatory Adjustments	(145.2)	(173.4)	(8.9)	(10.0)
<b>Tier 2: Capital</b>	<b>345.6</b>	<b>387.4</b>	<b>100.0</b>	<b>100.0</b>
Revaluation Reserves	52.6	52.9	15.2	13.7
Subordinated Term Debt	196.8	217.7	56.9	56.2
General Provisions and Other	97.9	118.9	28.3	30.7
Regulatory Adjustments	(1.7)	(2.2)	(0.5)	(0.6)
<b>Total Regulatory Capital Base</b>	<b>1,986.2</b>	<b>2,104.3</b>		

(a) Revised  
(b) Provisional

Source: Central Bank of Sri Lanka

and 16.7%, respectively, at end 2024, primarily due to the increase in Risk Weighted Assets (RWA) driven by the significant credit expansion during the year. Meanwhile, banks raised high-quality capital to absorb the potential losses emanating from challenging business conditions during 2025. Accordingly, banks increased Tier 1 capital mainly through an increase in retained profits by Rs. 102.3 bn during 2025. In addition, banks increased capital during 2025 through rights issues and the issuance of certain Tier 2 instruments. Consequently, regulatory capital of the banking sector reported a growth of 6.0% during the year, of which Tier 1 capital accounted for 64.7% of the increase. Further, the end-year audited regulatory capital figures are expected to improve further with the inclusion of audited retained profits.

## 2.2 Non-Bank Financial Institutions Sector

### Finance Companies

The Finance Companies (FCs) sector continued its growth momentum, recording a significant credit expansion during 2025, while remaining resilient with adequate capital and liquidity buffers throughout the

year. The sector recorded a notable growth in terms of total assets and loans and advances. Further, the reduction of the stage 3 loans ratio of the FCs sector was mainly due to the significant credit expansion together with a reduction in stage 3 loans. By end 2025, the sector comprised 32 FCs<sup>1</sup> and accounted for 6.8% of total financial sector assets. There were 1,998 branches, of which 1,333 branches (66.7%) were located outside the Western Province, reflecting the sector's broad regional outreach. The revised framework for Phase II of the Masterplan for Consolidation of FCs, aimed at fostering a more resilient FCs sector with an execution period of three years, was initiated with effect from 31 March 2025.

**The asset base of the FCs sector grew by 44.0% y-o-y at end 2025, compared to a 13.7% y-o-y growth at end 2024.** The asset growth was mainly driven by the significant expansion of the loans and advances portfolio, which accounted for 80.2% of the total assets of the sector. The loans and advances portfolio of the sector increased by 56.0% y-o-y at end 2025 compared to a 22.6% y-o-y growth at end 2024. Finance leases and vehicle loans continued to dominate the loans and advances portfolio of the

<sup>1</sup> 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 15.12.2023).

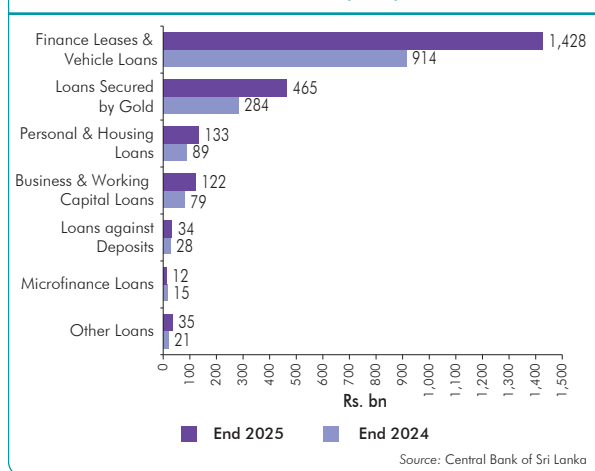
Table 2.7  
Composition of Assets and Liabilities of the FCs Sector

Item	2024 (a)		2025 (b)		Change (%)	
	Rs. bn	Share (%)	Rs. bn	Share (%)	2024	2025
<b>Assets</b>						
Loans & Advances (Net)	1,428.3	74.1	2,227.9	80.2	22.6	56.0
Investments	352.2	18.3	375.0	13.5	(8.7)	6.5
Others (c)	147.9	7.7	173.8	6.3	2.0	17.5
<b>Liabilities</b>						
Deposits	1,056.4	54.8	1,265.2	45.6	13.0	19.8
Borrowings	305.4	15.8	849.3	30.6	15.3	178.1
Capital Funds	468.2	24.3	531.0	19.1	13.6	13.4
Others	98.4	5.1	131.3	4.7	17.7	33.4
<b>Total Assets/Liabilities</b>	<b>1,928.4</b>	<b>100.0</b>	<b>2,776.7</b>	<b>100.0</b>	<b>13.7</b>	<b>44.0</b>

(a) Revised  
(b) Provisional  
(c) Mainly consists cash and bank balances, fixed assets and right of use assets

Source: Central Bank of Sri Lanka

Figure 2.4  
Total Loans and Advances (Net) - Product-wise



sector and accounted for 64.1% of total loans and advances, followed by loans secured by gold representing 20.9% of total loans and advances at end 2025. Finance leases and vehicle loans, and loans secured by gold recorded a y-o-y growth of 56.3% and 64.1%, respectively, at end 2025. The investment portfolio of the sector increased by 6.5% at end 2025, compared to the contraction of 8.7% recorded at end 2024, on a y-o-y basis.

**Public deposits continued to dominate as the main source of funding for the FCs sector accounting for 45.6%, followed by borrowings at 30.6%.** Total deposits of the sector grew by 19.8% y-o-y at end 2025 compared to a 13.0% y-o-y growth at end 2024. Meanwhile, borrowings of the sector increased significantly during 2025, recording a notable growth of 178.1% y-o-y at end 2025. Borrowings of the sector were mainly driven by term loans and securitisation loans, which accounted for 81.0% of the total borrowings as of end 2025.

**The gross stage 3 loans ratio decreased to 6.1% at end 2025 from 11.5% reported at end 2024.** Further, the net stage 3 loans ratio also declined to 3.2% at end 2025 from 6.5% reported at end 2024. Meanwhile, the sector reported an impairment coverage ratio of 47.8% for stage 3 loans at end 2025 compared to 43.4% at end 2024.

The sector maintained liquidity well above the minimum regulatory requirement throughout 2025. The overall regulatory liquid assets available in the sector were Rs. 226.4 bn by end 2025, against the stipulated minimum requirement of Rs. 152.0 bn, recording a liquidity surplus of Rs. 74.3 bn by end 2025, compared to the liquidity surplus of Rs. 105.1 bn recorded by end 2024.

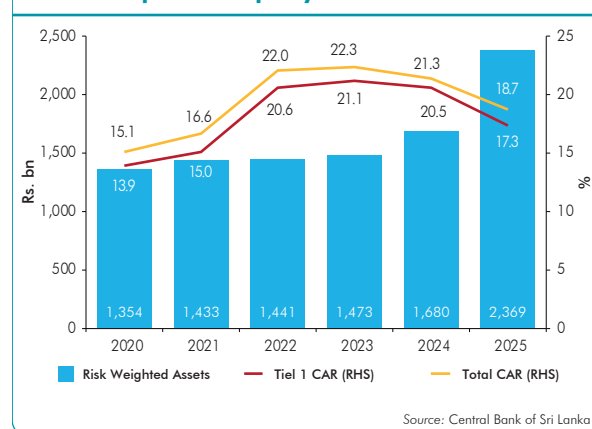
**The sector's PAT indicated a notable growth of 49.9%, rising from Rs. 59.0 bn in 2024 to Rs. 88.5 bn in 2025, driven by the significant increase in NII and reversal of impairment.**

The increase in profitability was reflected in the growth of ROA and ROE to 6.7% and 17.5%, respectively, in 2025, compared to 6.0% and 13.3%, respectively, in 2024. The efficiency ratio declined to 46.3% in 2025 from 51.1% in 2024, indicating an improvement in operational efficiency of the sector.

**The capital base of the sector increased by Rs. 84.0 bn during 2025 and reached Rs. 442.4 bn by end 2025, recording a growth of 23.4% at end 2025.** One FC<sup>2</sup> was non-compliant with the minimum core capital requirement and/or capital adequacy requirements during the year. The sector's Tier 1 CAR and total CAR declined to 17.3% and 18.7%, respectively,

<sup>2</sup> Resolution actions have been initiated against this FC, which has been continuously violating/contravening provisions of the Finance Business Act, and an administrator has been appointed. This FC accounted for only 0.2% of the total assets of the sector at end 2025.

Figure 2.5  
Capital Adequacy of the FCs Sector



at end 2025, compared to that of 20.5% and 21.3%, respectively, at end 2024, mainly due to increased lending activities leading to increased RWA.

## Primary Dealer Companies

**By end 2025, there were five<sup>3</sup> stand-alone Primary Dealer Companies (PDCs) active in the government securities market as Primary Dealers (PDs) in addition to the five Licensed Commercial Banks appointed as PDs.** Total assets of PDCs recorded a y-o-y growth of 13.9% and reached Rs. 338.5 bn at end 2025, compared to a 9.7% growth at end 2024. The total investment portfolio of government securities recorded a y-o-y growth of 11.6% and reached Rs. 309.9 bn by end 2025, compared to a 5.7% growth by end 2024.

**PDCs reported a PAT of Rs. 8.2 bn in 2025, indicating a notable decline from Rs. 13.7 bn in 2024.** This reduction in profitability was primarily driven by a decrease in trading gains, along with higher revaluation losses on financial assets held for trading, which are measured at fair value through profit and loss. Additionally, ROA and ROE of PDCs decreased to 4.0% and 17.8%, respectively, by end 2025 from 8.4% and 32.8%, respectively, at end 2024.

**The total equity capital of PDCs decreased by 5.2% y-o-y at end 2025, due to the decline in retained earnings and reached Rs. 41.4 bn, compared to 2.9% y-o-y contraction at end 2024.** Further, the risk-weighted CAR of the PDCs declined to 16.8% by end 2025, compared to 18.7% by end 2024. However, this ratio remained well above the minimum requirement of 10%, and all PDCs maintained core capital above the regulatory minimum requirement.

<sup>3</sup> Excluding Entrust Securities PLC (participation in government securities at primary auction has been restrained w.e.f. 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 w.e.f. 05 January 2026).

**The participation of PDCs in primary auctions for Treasury bills and Treasury bonds showed a volatile performance in terms of successful bids during 2025.** Secondary market transactions in government securities (in terms of value) of PDCs decreased by 25.1% y-o-y, falling to Rs.14,074.3 bn in 2025. Repurchase and reverse repurchase transactions accounted for 73.8% of secondary market transactions during 2025. Further, secondary market outright purchases marginally increased by 1.9% while outright sales decreased by 35.2% during 2025, compared to 2024.

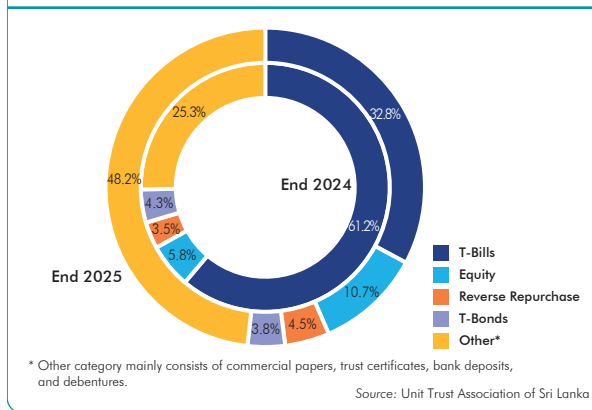
## Licensed Microfinance Companies

**The Licensed Microfinance Companies (LMFCs) sector consisted of four companies and reported a y-o-y growth of 29.8% in its asset base, reaching Rs. 19.2 bn by end 2025.** Micro loans, which accounted for 69.3% of total assets, indicated a growth of 22.8% and reached Rs. 13.3 bn by end 2025 compared to Rs. 10.8 bn at end 2024. The total deposit base of the sector expanded from Rs. 1.1 bn at end 2024 to Rs. 1.7 bn at end 2025, recording a growth of 51.7% during 2025. The core capital level of the sector was at Rs. 4.0 bn by end 2025, and all LMFCs were in compliance with the minimum prudential regulations on core capital.

## Unit Trusts

**The Unit Trusts (UTs) sector recorded a moderate growth in 2025 with an increase in assets under management.** The number of UTs in operation increased to 95 at end 2025 from 90 reported at end 2024, while the number of UT management companies remained unchanged at 16 at end 2025 compared to end 2024. The number of units issued increased to 17,432 mn at end 2025, compared to 15,859 mn reported at end 2024. Moreover, the total number of unit holders increased to 144,093 at end 2025 from 114,898 at end 2024. Total assets of the UTs increased by 7.5% to Rs. 588.5 bn at end 2025 compared to Rs. 547.4 bn reported at end 2024.

Figure 2.6  
Investment Composition of Unit Trusts



Money market funds and income funds accounted for most of the UT funds, jointly representing 80.3% of the industry at end 2025. The share of investments in government securities<sup>4</sup> by UTs as a percentage of total investments significantly declined to 41.1% at end 2025 from 68.9% reported at end 2024. In addition, investments in equity as a share of UTs' total investments surged to 10.7% at end 2025 compared to 5.8% reported at end 2024, while other investments as a share of total investments increased significantly to 48.2% at end 2025 compared to 25.3% reported at end 2024.

## Insurance Sector<sup>5</sup>

**The insurance sector expanded in 2025, supported by the strong growth in Gross Written Premiums (GWP) and assets, although the profitability of the sector contracted.** The sector comprised 15 companies which operated as long term insurance companies and 14 companies which operated as general insurance companies. In addition, 83 insurance brokering companies were in operation at end 2025.

**The insurance sector recorded a significant growth in GWP during 2025 compared to 2024.** During the year, GWP in the long term and general insurance subsectors grew by 23.5% and

13.1%, respectively. Meanwhile, assets of the long term insurance subsector grew by 14.6% y-o-y, whilst the assets of the general insurance subsector also increased by 25.5% y-o-y by end 2025, compared to the contraction witnessed in 2024. Accordingly, total assets of the insurance sector grew by 17.1% y-o-y by end 2025.

**PBT of the general and long term insurance subsectors contracted by 9.9% and 0.6%, respectively, during 2025.** Accordingly, ROA of both long term insurance and general insurance subsectors deteriorated to 3.3% and 6.4%, respectively, by end 2025 compared to 3.7% and 7.8%, respectively, at end 2024. At the same time, claims of the long term and general insurance subsectors increased by 25.1% and 9.6%, respectively, at end 2025 compared to the previous year. Insurance claims arising from Cyclone Ditwah appear substantial in the general insurance subsector, with non-motor claims accounting for the majority of the total claims value.

**As of end 2025, although the capital adequacy of long term and general insurance subsectors declined, they remained above the minimum requirement.** Accordingly, CAR of the long term and general insurance subsectors declined to 327.0% and 230.6%, respectively, at end 2025, from 338.0% and 322.0%, respectively, by end 2024. Furthermore, capital to total assets of long term and general insurance subsectors decreased to 0.18 and 0.37, respectively, at end 2025, compared to 0.19 and 0.44, respectively, at end 2024.

## Employees' Provident Fund

**The Employees' Provident Fund (EPF/Fund), which represents 80.5% of the total assets of the superannuation sector<sup>6</sup>, continued to expand further in 2025 with the historically highest net member contributions and investment income.** Accordingly, the net worth of the Fund increased by 13.0% to

<sup>4</sup> Government securities include Treasury bills, Treasury bonds, and reverse repurchase.

<sup>5</sup> This section excludes the reinsurance business of the National Insurance Trust Fund (NITF). Further, the data presented in this section on the insurance sector are unaudited.

<sup>6</sup> Superannuation sector includes the Employees' Provident Fund, Employees' Trust Fund, Public Service Provident Fund, and other Approved Pension and Provident Funds.

Rs. 4,942.9 bn by end 2025, compared to Rs. 4,375.7 bn recorded at end 2024. Simultaneously, the total liability to the members also increased by 13.1% during this period. Total member contributions received for the year 2025 increased by 15.6% to Rs. 270.8 bn, while the total amount of refunds disbursed to the members and their legal heirs decreased by 6.4% to Rs. 176.0 bn. Accordingly, net member contributions of the Fund increased to Rs. 94.8 bn in 2025 from Rs. 46.3 bn recorded in 2024.

**The total investment income of the Fund amounted to Rs. 552.7 bn in 2025, recording an increase of 7.6% from Rs. 513.8 bn recorded in 2024.** Interest income remained the predominant source of income of the Fund, growing by 11.4% to Rs. 506.9 bn in 2025 from Rs. 455.1 bn in 2024. The robust performance observed in the Colombo Stock Exchange (CSE) also contributed to the growth in investment income through higher fair value gains and dividend income. The Fund maintained an operating expenses-to-gross income ratio of 0.6% in 2025. The tax expenditure of the Fund increased to Rs. 69.5 bn due to higher investment income in 2025. Further, the Governing Board of the Central Bank approved an interest rate of 10.75% on member balances for 2025.<sup>7</sup>

<sup>7</sup> This approval is subject to the receipt of concurrence from the Hon. Minister in charge of the subject of Labour and the Hon. Minister in charge of the subject of Finance.

**Table 2.8**  
**Five-year Performance Summary of EPF**

Item	2021	2022	2023	2024	2025 (a)
Net Worth of the Fund (Rs. bn)	3,166.1	3,459.9	3,886.7	4,375.7	4,942.9
Total Liability to the Members (Rs. bn)	3,066.9	3,380.6	3,817.9	4,289.5	4,852.6
Total Contributions (Rs. bn)	165.7	194.6	210.6	234.4	270.8
Total Refunds (Rs. bn)	118.2	163.0	215.9	188.1	176.0
Net Contribution (Rs. bn)	47.5	31.6	(5.3)	46.3	94.8
Interest Rate on Member Balance (%)	9.00	9.00	13.00	11.00	10.75
Total Number of Member Accounts (mn)	20.3	21.0	21.5	22.2	22.2
Contributing Number of Member Accounts (mn)	2.5	2.7	2.6	2.9	2.9

(a) Provisional

Source: EPF Department, Central Bank of Sri Lanka

## Employees' Trust Fund

**The asset base of the Employees' Trust Fund (ETF) increased by 14.4% on a y-o-y basis to Rs. 670.5 bn at end 2025.** Investments of the ETF increased by 10.2% to Rs. 640.3 bn by end 2025. Out of these investments, 95.5% was invested in government securities, which grew by 11.0% y-o-y and reached Rs. 611.3 bn at end 2025. ETF managed to earn a return on investment of 10.1% on its member balances in 2025. Out of 17.7 mn member accounts of the ETF, only 2.5 mn accounts were active at end 2025. The number of employers contributing to the Fund increased to 84,491 at end 2025 from 80,008 at end 2024. The total member balance of the ETF increased by 3.2% y-o-y and reached Rs. 582.5 bn at end 2025. The total contributions of the ETF increased by 15.6% y-o-y and reached Rs. 48.5 bn, while total superannuation benefits paid to members decreased by 9.4% y-o-y and reached Rs. 30.3 bn during 2025.

## Other Superannuation Funds

**The Public Service Provident Fund (PSPF), which accounted for 1.7% of the superannuation sector assets, continued to expand in 2025.** The total assets of the Fund grew marginally by 1.0% y-o-y and reached Rs. 106.1 bn at end 2025. The number of active members of the Fund was 269,138 at end 2025, compared to 272,575 reported at end 2024. Meanwhile, total investments of the Fund decreased by 32.3% to Rs. 76.8 bn at end 2025, compared to Rs. 113.4 bn recorded at the end of the previous year. The PSPF invested 63.2% of its investments in government securities, while the rate of return on total member balances was 9.00% in 2025.

**Approved Pension and Provident Funds (APPFs) accounted for 7.0% of the superannuation sector assets at end 2025.** The number of members covered by APPFs was estimated to be 104,710 at end 2025. In

addition, the total assets of the funds increased to Rs. 433.3 bn at end 2025, while total investment also increased to Rs. 308.5 bn at the end of the same period.

## 2.3 Performance of Financial Markets

### Domestic Money Market

**Overall liquidity position in the domestic money market remained in surplus throughout 2025, primarily supported by substantial foreign exchange purchases by the Central Bank.** However, despite the overall surplus liquidity in the domestic money market, liquidity distribution remained asymmetric among market participants. The Central Bank did not intervene in the domestic money market to provide additional liquidity through Open Market Operations (OMOs), except for a few instances in January 2025. The interest rate structure in the money market broadly remained low in 2025, reflecting the accommodative monetary policy stance of the Central Bank. In terms of short term market interest rates, both the Average Weighted Call Money Rate (AWCMR) and Average Weighted Repo Rate (AWRR) remained broadly aligned with the Overnight Policy Rate (OPR) until mid-July 2025. However, money market interest rates gradually picked up in the subsequent months due to asymmetries in liquidity distribution. As at end 2025, AWCMR and AWRR stood at 8.04% and 8.06%, respectively, although there has been some easing thereafter. In terms of money market activity, both the call money and repo markets reported higher activity with increased transaction volumes.

### Domestic Foreign Exchange Market

**The domestic interbank foreign exchange market experienced a notable improvement in activity during 2025, reflecting strengthened market confidence and increased participation compared to 2024.** Accordingly, trading volumes in the domestic

interbank foreign exchange market increased by 20.2% to USD 19.6 bn in 2025, compared to USD 16.3 bn recorded in 2024. Amid these developments, under the flexible exchange rate regime, the Central Bank intervened in the domestic foreign exchange market to curtail excessive exchange rate volatility while also supporting the build up of official foreign reserves. Accordingly, during 2025, the Central Bank absorbed USD 2,100.4 mn on a value-date basis, while supplying USD 108.0 mn to the market, resulting in net purchases of USD 1,992.4 mn on a value-date basis. These net foreign exchange purchases, together with swap transactions, contributed to the strengthening of foreign reserves during the year.

### Government Securities Market

**Primary market yields on Treasury bills and Treasury bonds declined steadily in the early part of 2025 and remained broadly stable thereafter.** Favourable macroeconomic conditions, strong fiscal performance, and the maintenance of fiscal buffer funds contributed to stable yields at auctions. Investor demand remained robust throughout 2025, despite strong private sector credit growth. In addition, primary market issuances of Treasury bills and Treasury bonds declined during 2025, amounting to Rs 7.7 tn, compared to Rs 10.5 tn in 2024. Accordingly, in line with the reduction in issuances, total outstanding Treasury bills contracted from Rs 4.1 tn at end 2024 to Rs 3.1 tn at end 2025. However, outstanding Treasury bonds increased from Rs 14.1 tn at end 2024 to Rs 15.6 tn by end 2025, thereby resulting in an extension of the maturity profile of outstanding government securities.

**In line with the movements in the primary market, the secondary market yield curve shifted downwards by end 2025 compared to end 2024, amid lower trading volumes.** In addition, the spread between the 10-year and 91-day maturities widened to 309 bps by end

2025 from 285 bps at end 2024. Meanwhile, secondary market activity declined during the second half of 2025. Accordingly, the average Turnover ratio<sup>8</sup> fell from 37.2% in 2024 to 26.6% in 2025, driven by reduced trading observed in the second half of the year. Daily average trading volume in the secondary market for government securities, marked a decline from Rs. 26.9 bn in 2024 to Rs. 20.9 bn in 2025.

### Foreign investor demand for Treasury bills and bonds improved during 2025.

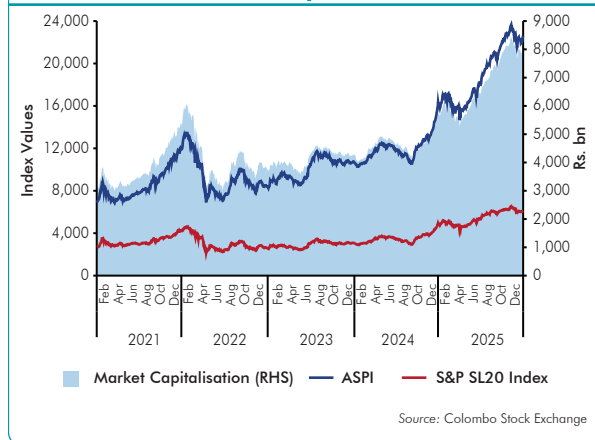
Accordingly, a net foreign inflow of USD 247.9 mn was recorded in 2025, compared to the net foreign outflow of USD 178.9 mn recorded in 2024. Moreover, most of the foreign inflows were tilted towards Treasury bonds as yields remained stable. However, by end 2025, foreign holdings remained at 0.8% out of the total Treasury bills and bonds holdings.

## Equity Market

**During 2025, the equity market sustained an upward trajectory, characterised by significant capital appreciation and positive movements in market price indices.** Building upon the momentum established in late 2024, a substantial expansion in market turnover was observed in 2025, reflecting heightened investor activity and sustained liquidity. As of 31 December 2025, the All Share Price Index (ASPI) and the Standard & Poor's Sri Lanka 20 (S&P SL20) index of the CSE recorded annual growth of 41.9% and 26.6%, respectively. This growth was primarily driven by the contribution of domestic investors, supported by improved investor sentiment, positive domestic macrofinancial developments and improved corporate financial performance amid the accommodative monetary policy stance. The ASPI recorded month-on-month gains during

<sup>8</sup> 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**  
**Movement of Stock Market Price Indices and Market Capitalisation**

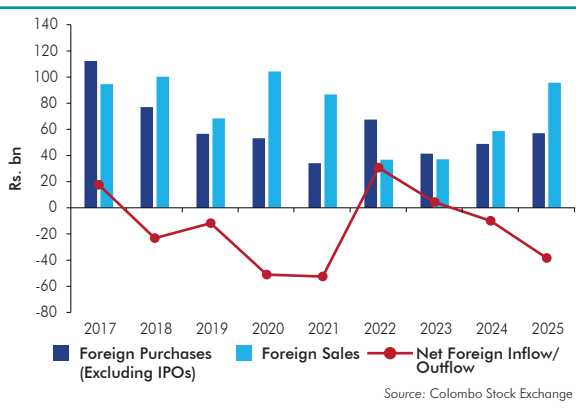


seven months of the year, outperforming the S&P SL20 index in five of those months, reflecting the contribution of mid and small-capitalised entities rather than large established firms. This divergence indicates a distinct investor preference for broader market constituents over the top tier companies represented in the S&P SL20. Notwithstanding the overall growth, the indices experienced intermittent declines during March and April, mainly due to the challenging global economic outlook and heightened geopolitical volatility following U.S. tariff policy announcements. A further decline observed since November could be partly attributed to uncertainties arising from the impact of Cyclone Ditwah. Market capitalisation increased by 41.7% and stood at Rs. 8,068.6 bn at end 2025 compared to Rs. 5,695.6 bn at end 2024. Meanwhile, the CSE recorded an average daily turnover of Rs. 5,179.2 mn in share trading during 2025, representing a significant increase compared to Rs. 2,240.2 mn recorded in 2024. Further, the average number of daily transactions increased to 31,483 trades from 14,684 trades in 2024, primarily due to heightened market engagement during the review period.

**Despite the noticeable improvement in market performance in terms of indices and turnover, the CSE continued to experience**



Figure 2.8  
Foreign Participation at CSE (Secondary Market)



**a net foreign outflow in the secondary share market in 2025.** Accordingly, the CSE recorded a total net foreign outflow of Rs. 38.5 bn, which amounts to approximately USD 127.7 mn in the secondary market in addition to the net foreign outflow of Rs. 9.9 bn, approximately equivalent to USD 32.6 mn recorded in 2024. Foreign inflows to the primary market also remained subdued amounting to Rs. 1.6 bn, which was approximately equivalent to USD 5.4 mn compared to Rs. 20.3 bn, approximately equivalent to USD 65.5 mn recorded in 2024.

**Reflecting the positive outlook among investors in terms of the equity market's future potential, key market valuation indicators continued to expand in 2025.** By end 2025, the Price-to-Book Value (PBV) stood at 1.4, compared to 1.2 at end 2024. In addition, Price Earnings Ratio (PER) of the market increased to 10.7 by end 2025, from 8.9 at end 2024. Meanwhile, the equity market raised Rs. 7.5 bn through two Initial Public Offerings (IPOs) during the year, compared to Rs. 2.8 bn raised through four IPOs in 2024.

## Corporate Debt Securities Market

**Commercial Paper (CP) issuances recorded an increase in 2025 compared to 2024.**

During 2025, Rs. 5.4 bn was raised through CPs compared to Rs. 3.1 bn raised in 2024. Interest

rates on CPs ranged between 11.00% and 12.20% during 2025 compared to the range of 12.00% to 13.75% reported in the previous year.

**Corporate debenture market activity strengthened in 2025 compared to 2024, driven by increased issuances and trading volumes amid favourable interest rate conditions and renewed investor appetite.**

During 2024, 28 corporate debenture securities were issued by nine companies on the CSE through 12 debenture issuances raising Rs. 94.8 bn of debt capital. In contrast, 21 companies listed on the CSE collectively raised Rs. 128.2 bn through 24 debenture issuances, issuing 59 securities, recording a significant increase in 2025, compared to the previous year. Debentures with both fixed and floating interest rates were issued through IPOs in 2025 with interest rates ranging from 9.75% to 13.15% compared to the range of 12.00% to 15.25% in the previous year.

## 2.4 Financial Inclusion

**During 2025, the Central Bank continued to advance financial inclusion initiatives under the National Financial Inclusion Strategy (NFIS) while initiating preparatory work for Phase II of the strategy.** As a key deliverable under the Financial Literacy Roadmap (2024-2028), the Financial Literacy Curriculum was developed and launched to guide the design and delivery of financial literacy programmes nationwide. This included the development of two financial literacy video series, aimed at enhancing public awareness and engagement. A major milestone during the year was the launch of Financial Literacy Month 2025 during September-October under the theme "Fin Lit Expo-2025", which facilitated the strengthening of financial awareness across the country. In addition, the Central Bank, with the support of its Regional Offices, conducted over 635 financial literacy programmes, reaching approximately 70,000 participants islandwide. The Credit Counselling Centre (CCC), operating under the



oversight of the Central Bank in collaboration with the Sri Lanka Banks’ Association (SLBA), continued to primarily assist non-performing Micro, Small and Medium Sized Enterprises (MSMEs). The CCC successfully resolved around 75% of the 1,257 inquiries received in 2025 through structured mediation and guidance on loan rescheduling and restructuring. Further, the Central Bank secured technical and financial assistance from the Alliance for Financial Inclusion (AFI) to undertake an end-of-term evaluation of NFIS Phase I, conduct a national Financial Inclusion Survey and provide support for the formulation of NFIS Phase II during 2026.

## 2.5 Financial Infrastructure

### Payment and Settlement Systems

**Usage of digital payments showed a marked growth during 2025, with a sustained shift from traditional payment instruments to digital payment methods.** This transition was driven by the Central Bank’s policy measures to increase digital payment usage and by initiatives aimed at ensuring the availability of a safe, efficient and reliable national payment system.

**Large value digital payments grew with the increasing reliance on the Real Time Gross Settlement (RTGS) System, “LankaRTGS”, for real time large value payments.** The corporates in particular were seen utilising

LankaRTGS for their large value transactions, in place of cheque payments. The continued increase in customer transactions by 12% in 2025, compared to 10% in 2024, indicates a growing reliance on the RTGS system by customers for executing real time large value payments. In addition, financial institutions and businesses benefited from LankaRTGS, operated by the Central Bank, through its compliance with the ISO 20022 messaging standard, which enables rich data exchange and interoperability.

**Retail digital payments also recorded a significant growth during 2025.** The fast payment system<sup>9</sup> (Common Electronic Fund Transfer Switch - CEFTS) operated by LankaPay (Pvt) Limited (LPPL) contributed to this growth momentum. CEFTS accounted for 55% of the total value of retail payments in 2025, compared to 50% in 2024. This growth was supported by the increased use of online fund transfers by the public and corporates, particularly for tax and customs duty payments, as well as the expansion of digital payments to government institutions through GovPay, launched in February 2025.

**Steps were taken during the year to strengthen the regional integration of the national payment infrastructure.** LPPL was granted approval to establish a linkage with AliPay Singapore E-commerce Private

<sup>9</sup> Fast payment system also referred to as Instant payment system, transfers funds in real time between customers.

**Figure 2.9**  
**Volumes and Values of Large Value Transactions**

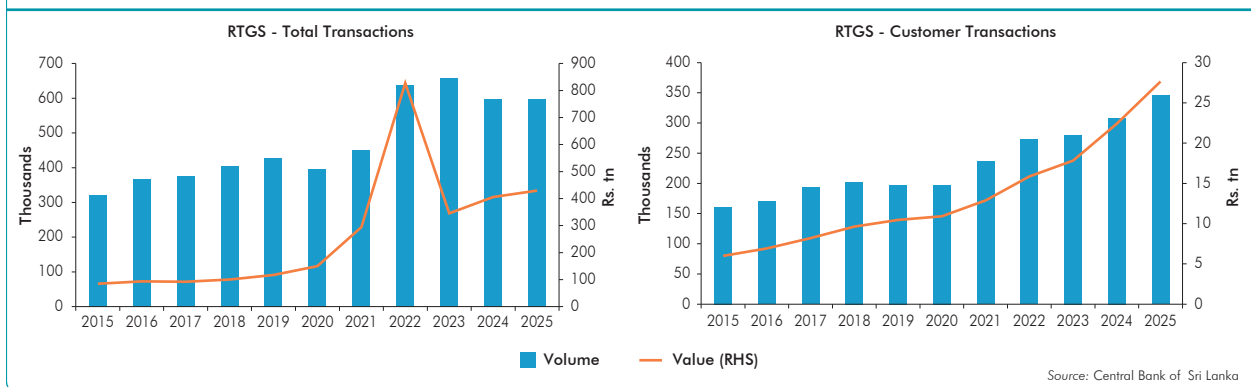
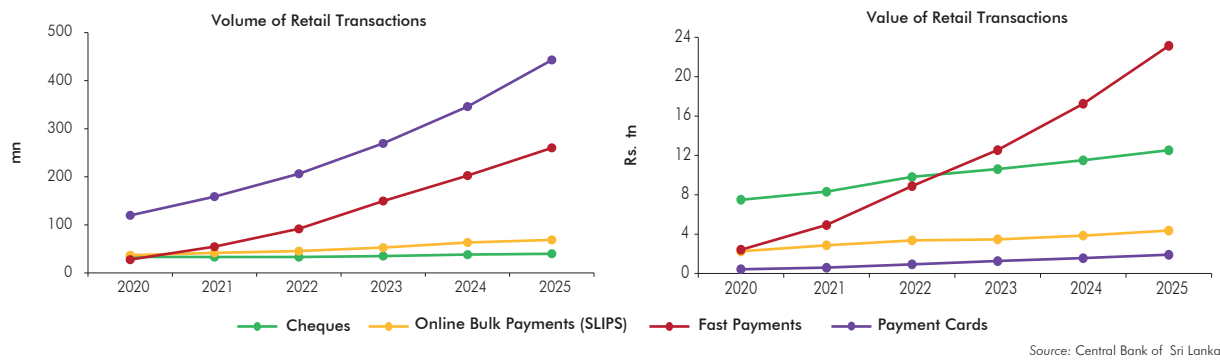


Figure 2.10  
Volumes and Values of Retail Transactions



Limited, enabling tourists to make payments at LANKAQR (the national Quick Response code specification for digital payments) enabled merchants using AliPay+ supported applications. LANKAQR transactions made by tourists using India Unified Payments Interface (UPI) enabled apps, China UnionPay enabled apps and AliPay+ enabled apps increased by 69% in value terms to Rs. 713 mn and by 185% in volume terms to 41,481 transactions during 2025 compared to the previous year. The National Payment System Roadmap for 2026-2027 was launched by the National Payments Council (NPC), to facilitate a secure, efficient, inclusive and globally connected national payment system promoting a less-cash economy.

### Anti-Money Laundering, Countering the Financing of Terrorism and Countering Proliferation Financing

The Financial Intelligence Unit (FIU) continued to operate in line with international Anti-Money Laundering, Countering the Financing of Terrorism, Countering Proliferation Financing (AML/CFT/CPF) standards to strengthen the integrity and resilience of the financial sector. The FIU discharged its statutory responsibilities under the Financial Transactions Reporting Act, No. 06 of 2006 (FTRA) by

conducting operational and strategic analysis and disseminating actionable financial intelligence to Law Enforcement Agencies (LEAs) and Regulatory Authorities (RAs). In addition, the FIU undertook AML/CFT/CPF supervisory and regulatory activities to ensure compliance by Financial Institutions (FIs) and Designated Non-Financial Businesses and Professions (DNFBPs), while initiating the implementation of a phased-out AML/CFT/CPF supervisory framework for Virtual Assets (VAs) and Virtual Asset Service Providers (VASPs). During 2025, the FIU received 4,024 Suspicious Transaction Reports (STRs) from Reporting Institutions (RIs) and 169 complaints from the public, while 580 information requests were received from LEAs to facilitate investigations. The goAML system, the core platform used by the FIU for receiving and analysing transactions, was further strengthened with enhanced data validation mechanisms to improve the quality, accuracy, and integrity of submitted reports, while Gem and Jewellery Dealers, Real Estate Agents, and Casinos were onboarded to the goAML testing environment to facilitate the submission of STRs. Further, the FIU reinforced its AML/CFT/CPF supervisory and enforcement framework by conducting AML/CFT/CPF examinations across FIs and examinations covering DNFBPs, including casinos, real estate agents, dealers in precious metals and stones, legal professionals, accountants, and trust and company service providers. Based on the findings of these

examinations, administrative monetary penalties amounting to Rs. 24.6 million were imposed on FIs and DNFBPs for identified AML/CFT/CPF non-compliances. The FIU continued to focus on coordinating Sri Lanka's third Mutual Evaluation by leading national preparations, monitoring stakeholder action plans, and facilitating submissions and engagements with the assessors.

## Legal Reforms Related to the Financial Sector

**The Central Bank continued to engage in necessary legal reforms during 2025 to strengthen the stability of the country's financial system.** Accordingly, the Central Bank continued drafting amendments to the Finance Business Act, No. 42 of 2011 and Foreign Exchange Act, No. 12 of 2017, while drafting a new Payment and Settlement Systems Act. In addition, the Central Bank assisted in drafting and providing observations on several other laws relating to the financial sector initiated by external entities, including Colombo Port City Economic Commission (Amendment) Act, No. 01 of 2026, the Rescue, Rehabilitation and Insolvency (Corporate and Personal) Bill, the Public Commercial Enterprises Bill (SoE Act), and the National Statistics Bill. Further, the Central Bank continued to provide observations in drafting the Microfinance and Credit Regulatory Authority Act, No. 09 of 2026 aimed at developing a new regulatory framework for money lending and microfinance business of the country.

## Financial Consumer Protection

**During 2025, the Central Bank continued to strengthen the Financial Consumer Protection (FCP) framework through a range of policy and supervisory initiatives aimed at reinforcing responsible market behaviour and safeguarding financial consumer rights.** The Central Bank intensified its market conduct oversight through full-scope market conduct

examinations and thematic reviews to assess compliance of regulated institutions with FCP requirements, including responsible market conduct and competition, fair and equitable treatment of consumers, complaint handling and redress, protection of consumer financial information, and transparency and disclosure. These supervisory engagements identified deficiencies in oversight at the senior management level, gaps in operationalisation of the institutional frameworks, weaknesses in disclosure practices and complaint handling mechanisms, and broader conduct-related risks, highlighting the need to further strengthen supervisory intensity. Accordingly, the Central Bank decided to introduce structured off-site market conduct surveillance from 2026 to enhance early risk detection, facilitate proactive supervisory engagement, and support a more data-driven supervisory approach. During the year, the Central Bank also undertook measures to streamline its financial consumer complaint handling framework. Improved accessibility and public awareness of the Bank's redress mechanism were observed through the notable increase in complaints received, reflecting both growing public confidence in the regulatory dispute resolution framework and heightened awareness of consumer rights. The Central Bank also plans to modernise its complaint management system in 2026 through technology-enabled solutions to improve efficiency in complaint resolution and strengthen data-driven policy and supervisory decision-making. In addition, the Central Bank expanded its consumer protection advocacy initiatives, which included the conduct of a nationwide "Anti-Pyramid Week" and financial consumer awareness programmes across the island to enhance financial literacy and educate the public on financial risks and fraudulent financial schemes.

## Deposit Insurance and Resolution Authority

**The Central Bank continued to operationalise and strengthen the resolution framework established under the Banking (Special**

## 2

**Provisions) Act, No. 17 of 2023 (BSPA) during 2025.** A key milestone was the initiation of resolution measures under the BSPA through the appointment of an Administrator to a small FC in terms of Section 18 of the Act. This marked the first use of statutory resolution powers under the new framework to ensure the continuity of critical functions, safeguard depositor interests, and stabilise operations. The Central Bank also continued to operationalise the provisions of the BSPA in its capacity as the Administrator of the Sri Lanka Deposit Insurance Scheme (SLDIS). In this regard, the Central Bank conducted its nationwide Public Awareness Survey to assess the level of public awareness and understanding of SLDIS, which will support the development of a long-term public awareness strategy to enhance depositor confidence.

**Engagements under the Financial Sector Safety Net Strengthening Project (FSSNP) also continued during 2025.** During the year, the International Development Association (IDA) of the World Bank disbursed a further USD 30 mn, in addition to the USD 100 mn disbursed by end 2024. With effect from June 2025, these funds were invested in foreign currency securities in accordance with the approved Investment Policy Statement. As of end 2025, SLDIS held foreign currency-denominated assets amounting to USD 134.4 mn. Further, the Sri Lanka Deposit Insurance Fund (SLDIF) stood at Rs. 160.9 bn, while the Other Comprehensive Income Reserves amounted to Rs. 12.4 bn.

**Measures were also taken to strengthen the operational framework for compensation payments to depositors.** During 2025, technological modernisation of the compensation payment framework was prioritised to ensure fast and accurate disbursement of compensation payments.

Accordingly, the Depositor Wise Data Collection System, originally implemented for FCs, was gradually extended to Licensed Banks. In parallel, the Central Bank collaborated with key stakeholders to standardise the recording of Unique Identification Numbers (UINs) across deposit accounts while continuing compensation payments to depositors of licence cancelled FCs.

## 2.6 Sustainable Finance

**The Central Bank strengthened its sustainable finance initiatives in 2025 with the launch of the Sustainable Finance Roadmap 2.0 (RM 2.0).** To support effective implementation of RM 2.0, the Central Bank, in collaboration with financial sector stakeholders, established a dedicated governance structure comprising a Stakeholder Committee and three specialised working groups. This institutional framework is intended to facilitate coordinated action, enhance stakeholder engagement, and ensure systematic monitoring of progress. In line with the objectives of RM 2.0, financial institutions are expected to develop financial products that support sustainable investments, integrate Environmental, Social and Governance (ESG) considerations into their risk management frameworks, and enhance transparency in sustainability-related disclosures. These measures will contribute to aligning financial sector practices with national sustainability priorities and evolving global best practices. Meanwhile, the sustainable lending portfolio of the banking sector as reported by the banks accounted for around 2.0% of total gross lending by end 2025. This indicates the current level of penetration of sustainable finance within the banking sector and underscore the need for continued efforts to scale up sustainable lending activities across the financial system.