

Financial Review

Financial Performance and Accountability

The Central Bank of Sri Lanka (CBSL) is established and governed by the Central Bank of Sri Lanka Act, No. 16 of 2023 (CBA), which defines its mandate, powers, governance framework, and financial reporting responsibilities. The Bank serves as the apex monetary authority of Sri Lanka and is entrusted with the formulation and implementation of monetary policy, the regulation and supervision of the financial system, the oversight of payment and settlement systems, the management of foreign exchange operations, and the issuance of currency.

In terms of the CBA, the primary objective of the Bank is to achieve and maintain domestic price stability, while its other core objective is to secure financial system stability. Accordingly, the performance of the Bank is assessed based on the effective formulation and implementation of policies aimed at accomplishing these statutory objectives, rather than on the basis of profitability. This characteristic distinguishes CBSL from other public sector institutions, given its unique capacity to generate accounting profits through monetary operations. An excessive focus on profitability could therefore create incentives that are inconsistent with the Bank's mandate of safeguarding price and financial system stability. Accordingly, any surplus or deficit reported in the financial statements arises as a consequence of policy decisions and operational activities, particularly those relating to monetary policy implementation, exchange rate and reserve management, liquidity operations, and currency issuance. The financial performance reflected in the Annual Financial Statements should therefore be interpreted within the broader context of CBSL's statutory objectives and public policy responsibilities.

Part XVI (Sections 92 to 99) of the CBA sets out the financial provisions applicable to CBSL,

including requirements relating to the maintenance of accounts and the preparation, submission, and publication of the Annual Financial Statements. In terms of Section 101 of the CBA, the accounts of CBSL are audited by the Auditor-General, and the Auditor-General's opinion is published together with the Annual Financial Statements. Further, in accordance with Section 103(4)(d) of the CBA, the Audit Committee is entrusted with reviewing the Annual Financial Statements in consultation with the auditors.

Accordingly, the Bank's Annual Financial Statements for the year ended 31 December 2025 have been prepared, reviewed, and audited in full compliance with the relevant provisions of the CBA and International Financial Reporting Standards.

Financial Review

Statement of Financial Position

The financial year 2025 witnessed a considerable improvement in the overall financial position of CBSL compared to 2024.

Composition of Assets

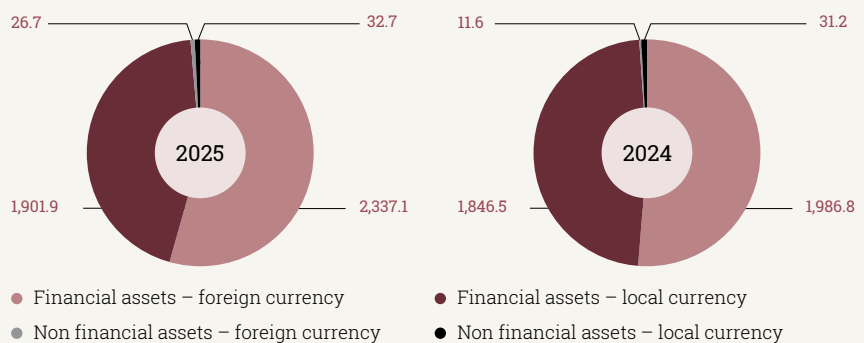
Total assets increased by Rs. 422.4 Bn. (10.9%), mainly driven by a rise in foreign currency assets amounting to Rs. 365.4 Bn. and an increase in local currency assets of Rs. 57.0 Bn.

The increase in foreign currency assets was primarily driven by the rise in CBSL's foreign reserve position to USD 6.1 Bn. from USD 5.6 Bn. in 2024, together with the depreciation of the LKR from Rs. 292.58 to Rs. 309.99 at end 2025 compared to the previous year-end. The growth in foreign reserves was reflected in higher investments in Fixed Income Securities (FIS), as well as increases in fixed deposits, repo investments, and cash balances.

The increase in local currency assets was mainly due to the increased Treasury bond holdings by Rs. 86.0 Bn. at market values, reflecting marked-to-market (MTM) gains from lower Treasury bond yields prevailed at the year end. This increase was partly offset by Rs. 25.1 Bn. decline in net Treasury bill and bond reverse repo balance reflecting adjustments to market liquidity conditions, as well as reductions of Rs. 16.0 Bn. in receivables from the Treasury and other Ministries and Rs. 4.2 Bn. in loans to other institutions following the settlement of loans under the Saubhagya Scheme.

Composition of Total Assets (Rs. Bn.)

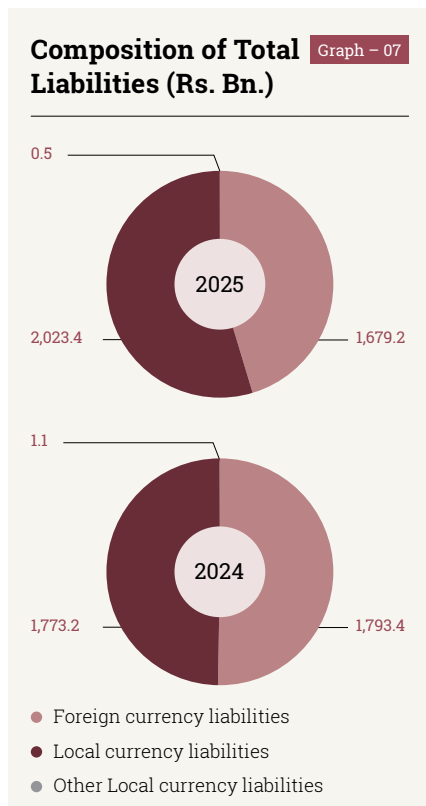
Graph - 06



Financial Review

Composition of Liabilities

Total liabilities increased by Rs. 135.4 Bn. during the year, mainly due to a rise in local currency liabilities by Rs. 249.6 Bn. and a net decrease in foreign currency liabilities by Rs. 114.2 Bn.



The increase in local currency liabilities mainly stemmed from the expansion of the currency in circulation by Rs. 210.2 Bn. and an increase in balances with Commercial Banks and Other Financial Institutions amounting to Rs. 46.7 Bn., in line with domestic market liquidity conditions. However, this was partly offset by a decline in Standing Deposit Facility (SDF) balances by Rs. 18.0 Bn. as a result of liquidity adjustments in the domestic money market at the end of the year.

The net decrease in foreign currency liabilities was primarily due to a Rs. 254.0 Bn. reduction in the Reserve Bank of India (RBI) Special Swap liability consequent to the monthly principal repayments and related interest payments during the year. This decline was partly offset by Rs. 87.2 Bn. increase in the liabilities to Government of Sri Lanka (GOSL) for Dollar balances held in CBSL Accounts, a Rs. 11.6 Bn. rise in the liability to Deposit Insurance Fund for the balances maintained in Dollar terms in CBSL accounts, an increase of Rs. 27.6 Bn. in the LKR equivalent of the swap facility with the People's Bank of China (PBoC) Swap liability owing to LKR depreciation against the CNY rate and a Rs. 18.3 Bn. rise in IMF-related liabilities due to the depreciation of the LKR against SDR during 2025, despite a reduction in IMF liabilities in SDR terms.

Total Equity

Overall, total equity improved in 2025 compared with the previous year by Rs 287.0 Bn., contributed by the current year's profit of Rs 193.1 Bn., higher market valuation gains on Treasury bonds classified as Fair Value through Other Comprehensive Income (FVOCI – Rs 87.7 Bn.), actuarial gains and statutory adjustments in line with the CBA.

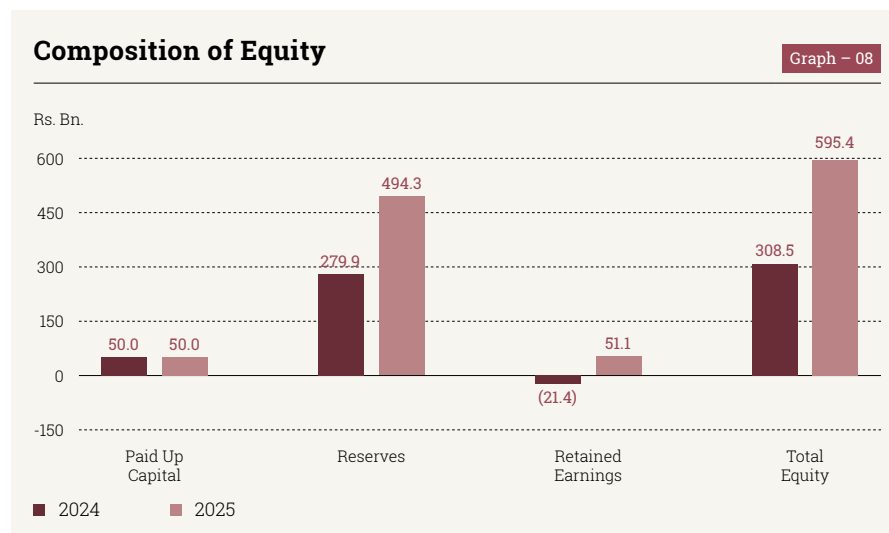
The transfers in terms of Section 95 of the CBA, for unrealised exchange and price revaluations have been incorporated.

Section 97 of the CBA stipulates that, if CBSL's audited annual Financial Statements reflect that the value of its assets fell below the sum of its monetary liabilities and paid-up capital, a capital restoration requirement would be triggered. The monetary liabilities include currency in circulation and deposits held by licensed commercial banks and Government agencies in CBSL. Accordingly, for the year ended 31 December 2025, CBSL's assets exceeded its monetary liabilities and paid-up capital by a healthy margin of Rs. 2,452.0 Bn.

Income Statement

Income, Expenses and Net Profit/(Loss)

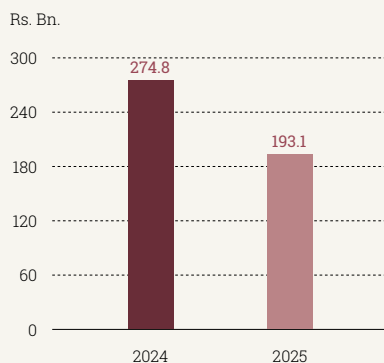
Compared with the net profit of Rs. 274.8 Bn. in 2024, CBSL reported a net profit of Rs. 193.1 Bn. in 2025, primarily reflecting a substantial decrease in total income from both local and foreign currency sources than the corresponding reduction in total expenses during the same period.



Financial Review

Net Profit/(loss) after Tax

Graph - 09

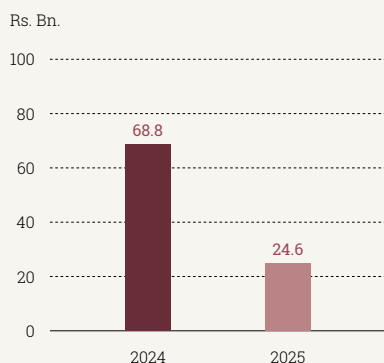


During the period under review, net income from foreign currency assets declined by Rs. 44.2 Bn. This decline was despite an increase in foreign interest income of Rs. 5.8 Bn. and a reduction in foreign interest expenses amounting to Rs. 36.3 Bn. However, these gains were outweighed by the reduction in foreign exchange revaluation gains by Rs. 18.7 Bn.

The overall decline in net profits was further exacerbated by a significant reduction in net income from local currency financial assets, which fell by Rs. 38.3 Bn.

Net Income from Foreign Currency Assets

Graph - 10



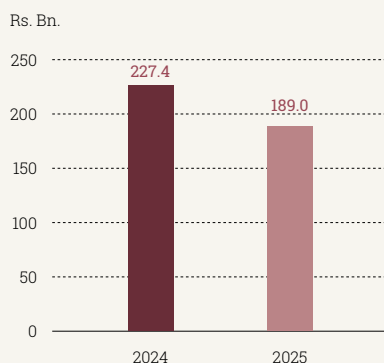
Profits available for distribution

In arriving at the distributable earnings, adjustments were made to recover the negative opening retained earnings. In terms of Section 95(2) of the CBA, unrealised gains arising from price revaluations and exchange revaluations are excluded from net profit after tax and allocated to the respective unrealised revaluation reserve accounts. The distribution of the remaining profits is carried out in accordance with Section 96, including transfer to special reserves, and to the general reserve to maintain minimum six per cent from the sum of paid up capital and general reserve of the total monetary liabilities and the balance to be paid to the Consolidated Fund after recovering the GOSL obligation to the CBSL in rupee terms.

Accordingly, the profit available to be credited to the Consolidated Fund amounted to Rs. 44.9 Bn. and a sum of Rs. 41.9 Bn. was credited to the Consolidated Fund after recovering the outstanding obligations from the GOSL to CBSL.

Net Income from Local Currency Financial Asset

Graph - 11



The opinion of the Auditor General on the Financial Statements, together with the Audited Financial Statements audited, is presented below.