

Financial Stability Fund – For the Three Months ended 31 December 2024

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Financial Stability Fund (“the Fund”) for the three months ended 31 December 2024 comprising the Statement of Financial Position as at 31 December 2024 and the Statement of Comprehensive Income, Statement of Changes in Equity and Cash Flow Statement for the three months then ended and notes to the financial statements, including material accounting policy information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and Finance Act No.38 of 1971. My comments and observations which I consider should be reported to parliament appear in this report.

In my opinion, the financial statements of the fund give a true and fair view of the financial position as at 31 December 2024, and of its financial performance and its cash flows for the three months then ended in accordance with Sri Lanka Accounting Standards.

Emphasis of Matter

Without qualifying my opinion, I draw attention to note 7 in the financial statements which indicate provision for corporate income tax will be made upon receipt of instructions from the Inland Revenue Department. The resolution of this matter may have significant impact on the financial statements. My opinion is not modified in respect of this matter.

1.2 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor’s Responsibilities for the Audit of the financial statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the fund’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the fund’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the fund is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements of the fund to be prepared.

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following:

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the fund, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the fund has complied with applicable written law, or other general or special directions issued by the governing body of the fund;
- Whether the fund has performed according to its powers, functions and duties; and

- Whether the resources of the fund had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

2. Financial Review

2.1 Financial Results

The operating result for the three months ended 31 December 2024 amounted to Profit of Rs.11,181,167. This profit primarily comprises interest income derived from investments in Repurchase Agreements, Treasury Bills, and Treasury Bonds.

2.2 Utilization of the Fund

According to Section 62 of the Central Bank of Sri Lanka (CBSL) Act, No.16 of 2023 and Section 03 of the Banking (Special Provision) Act, No. 17 of 2023(BSPA), CBSL assumes the role of the Resolution Authority for Licensed Financial Institutions (LFIs) in Sri Lanka. Under Section 15 of the BSPA, CBSL is required to establish a Financial Stability Fund (FSF) with the aim of achieving the objectives of resolution and to ensure the availability of funds for effective implementation of resolution measures of establishing a bridge bank, providing temporary financial assistance by the Government and capitalization of LFIs having systemic importance or impact by the Government. The FSF was established on 03 October 2024 with a nominal amount of Rs. 500 million allocated by the Ministry of Finance as a portion of the amount of Rs.1,000 million approved by the Cabinet of Ministers as the initial corpus of the fund, and was subsequently strengthened with the remaining amount of Rs. 500 million on 26 June 2025. It is noted that while this nominal amount is a positive initial step, it is not sufficient to meet the funding needs associated with the resolution of LFIs. Since its inception, no incidents requiring resolution support for LFIs having systemic importance or impact have been reported, and consequently, the FSF has not been utilized.