

1. Financial Statements

1.1 Opinion

The audit of the financial statements of National Credit Guarantee Institution Limited (the “Company”) for the year 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 statement of cash flows for the year 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. My comments and observations which I consider should be report to Parliament appear in this report.

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

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 Audit Scope 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 determine 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 Company'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 intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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

1.4 Audit Scope

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 Company'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 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 Company'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 Company 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 Company, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company;
- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company 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 Result

The operating result of the year under review amounted to a profit of Rs. 621.75 million and the corresponding loss in the preceding year amounted to Rs. 1.43 million. Therefore an improvement amounting to Rs. 623.18 of the financial result was observed. The reason for the improvement is Investment Income received from interest earned on government securities, REPOs, and fixed deposits amounting Rs. 903.6 million during the year under review.

3. Execution of Principle Activities of the Company

According to the Articles of Association, the primary objectives of the Company are (a) to carry on the business of issuing credit guarantees to support credit facilities granted to Micro, Small and Medium Enterprises (MSMEs) by participant shareholders, with the overarching aim of improving MSMEs' access to finance, and (b) to engage in any other business or activity necessary to fulfill this objective.

Although the company was incorporated in February 2023, funding from the Asian Development Bank (ADB) through the Government of Sri Lanka (GOSL) and 13 Shareholder Financial Institutions (SFIs) was received only on 06 June 2024, i.e., 16 months after incorporation, due to the need to complete several preliminary requirements such as execution of agreements, development of operational policies and manuals, and management of the initial share issues. Recruitment of staff commenced in August 2024 with the appointment of the Chief Executive Officer, followed by further recruitments with approvals from the Cabinet of Ministers and the Elections Commissioner. During this period, three officers from the Ministry of Finance were seconded to facilitate preliminary operations. By November 2024, policies covering HR, Risk, Guarantee Administration, Investment, Audit, and IT had been finalized and approved by the Board, and participation agreements with all 13 SFIs were executed. Consequently, operational readiness was achieved, and the first guarantee was issued on 20 January 2025, within six months of recruiting the first permanent staff. Preliminary expenses of Rs. 1.43 million were incurred in 2023, mainly for seconded staff salaries, directors' emoluments, and statutory charges, while in 2024, the company earned investment income of Rs. 903.6 million against staff and administrative costs of Rs. 16 million. As at 31 August 2025, NCGIL had issued 458 guarantees amounting to Rs. 1,669 million, with a target of 1,800 guarantees valued at Rs. 4,200 million for the year 2025.