

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Sri Lanka Deposit Insurance Scheme (“Scheme”) 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 the National Audit Act, No.19 of 2018, Finance Act No. 38 of 1971 and Section 54(2) of the Banking (Special Provisions) Act, No. 17 of 2023. My comments and observations which I consider should be reported to Parliament appear in this report.

In my opinion, the financial statements of the Scheme 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 year then ended in accordance with the 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 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 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 Scheme’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 Scheme or to cease operations, or has no realistic alternative but to do so.

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

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

1.4 Auditor's Responsibility 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 scepticism 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 Scheme'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 Scheme'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 Scheme 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 Scheme, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Scheme has complied with applicable written law, or other general or special directions issued by the governing body of the Scheme;
- Whether the Scheme has performed according to its powers, functions and duties; and
- Whether the resources of the Scheme had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Non- Compliance with Tax Regulations

Audit Observation	Management Comment	Recommendation
The letters issued by the Inland Revenue Department (IRD) dated 08 March 2023 and 10 November 2023, in response to the appeal submitted by the Scheme, stated that in terms of Section 2(c) of the Social Security Contribution Levy (SSCL) Act, No. 25 of 2022, the Scheme is liable to pay SSCL at the rate of 2.5 per cent on 100 per cent of the value addition attributable to financial services, calculated by applying the attributable method. However, it was observed that the Scheme had not agreed to the payment of SSCL, and no final agreement had been reached with the IRD regarding the Scheme's liability. Accordingly, no payment of SSCL had been made by the Scheme since the enforcement of the Act.	Following correspondence with the IRD regarding the applicability of SSCL, SLDIS engaged a private firm to prepare a written submission challenging the IRD's clarification issued on 17 January 2025, and an objection was submitted on 19 May 2025. At a meeting held on 23 June 2025, the IRD emphasized the need for a policy decision from the Ministry of Finance (MoF) to recognize SLDIS as an exempt entity and suggested pursuing a retrospective legislative amendment, advising not to make any SSCL payments until a decision was made. Subsequently, at a meeting held on 04 August 2025 with the Secretary to the Treasury, it was agreed that SLDIS would be granted an exemption from SSCL through a retrospective amendment to the Act, consistent with previous exemptions granted from VAT and NBT on financial services.	The Scheme should ensure continuous follow-up with the Ministry of Finance and the IRD to expedite the finalization of the proposed retrospective legislative amendment granting exemption from SSCL.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 26.6 billion and the corresponding profit in the preceding year amounted to Rs. 24.1 billion. Therefore, an improvement amounting to Rs.2.5 billion of the financial result was observed. The main reason for the improvement is the increase of Interest Income from Financial Instruments during the year under review.

3. Operational Review

3.1 Loans to Member Institutions (MIs)

Audit Observation	Management Comment	Recommendation
In terms of Section 8.1(ii) of the Sri Lanka Deposit Insurance Scheme Regulations No. 1 of 2010 {and Section 8.1(ii) of the Sri Lanka Deposit Insurance Scheme Regulations No. 2 of 2021, which remained effective until 14 November 2023}, secured advances or loans may be granted to any Member Institution (MI) in the event of a severe liquidity crisis. Accordingly, a loan of Rs. 6 billion has been granted to a MI on 15 December 2014. As at 31 December 2024, recoveries amounting to Rs.261.46 million had been received from the liquidator against the securitized lease and hire purchase portfolio, while the receivable balance of the loan stood at Rs. 1,229 million. The license issued to the said MI to conduct finance business had been cancelled with effect from 22 May 2020 by the Monetary Board of the Central Bank of Sri Lanka. A full impairment provision of Rs. 1,229 million had been recognized in the financial statements up to 31 December 2024 in respect of this loan. A liquidator was appointed by the Court handling the Winding Up Proceedings on 21 March 2023, and the Scheme submitted a claim as a secured	The Banking (Special Provisions) Act No. 17 of 2023 (BSPA) came into operation from 15.11.2023 and Sri Lanka Deposit Insurance Scheme (SLDIS) Direction No. 01 of 2023 was issued under the BSPA, repealing Sri Lanka Deposit Insurance and Liquidity Support Scheme (SLDILSS) Regulations No. 02 of 2021. Secured advances or loans to any MI in the instance of a severe liquidity crisis are no longer facilitated under the BSPA. So far during the year 2025, Rs. 30.07 million has been received from the liquidator out of the security of the securitized lease and hire purchase portfolio. In addition, Rs. 391,881.01 was received from the liquidator on 16.09.2025 as the full and final settlement of the claim of Rs.391,881.01 for penalty receivable submitted against the said MI. Further, as a secured creditor, SLDIS would be able to recover the balance of the claimed amount on its loan receivable through the appointed liquidator from the security of the head office property of the said MI, which was mortgaged to SLDIS in 2019	The Sri Lanka Deposit Insurance Scheme should closely monitor the liquidation process and take necessary action to ensure maximum recovery of the outstanding loan balance from the available securities.

creditor for the outstanding loan as at the date of commencement of the winding up (16 February 2021) on 14 August 2023. The settlement of winding up proceeds was in progress as at the end of the year under review.

as additional collateral.

3.2 Identified Losses

Audit Observation

A sum of Rs.137.18 million had been invested on 01 April 2015 in Reverse Repurchase Agreement matured on 31 March 2016 for a sum of Rs 147.05 million with a particular primary dealer by the Scheme. The primary dealer had withdrawn the underlying securities of the above investment without substituting any security with respect to withdrawn securities. Accordingly, an impairment allowance amounting to Rs.144.25 million for the above investment had been made in the financial statements of the Scheme on 31 December 2015. This primary dealer was directed to refrain from participating in government securities primary auctions with effect from 24 July 2017. As per the financial statements and operations of the Central Bank of Sri Lanka for the year 2023, a creditor winding up was field by one of the unsecured investors of this Company and the winding up order was given by the court on 17 June 2022. However, the winding up case (CHC 83/2021/CO) is still pending before the courts due to other legal proceedings.

Management Comment

As stated in the letter dated 02.06.2025 sent by the liquidator of the said primary dealer for the purpose of finalizing the claims, the liquidator is in the process of finalizing the claims received against the company under liquidation and will be filing a report to the Winding Up Court. In line with the liquidator's request, SLDIS submitted an amended claim on 12.06.2025, incorporating the applicable legal interest accrued up to 01.11.2021, being the date of filing of the winding-up petition.

Recommendation

The Sri Lanka Deposit Insurance Scheme should actively pursue its claim with the liquidator and closely follow the winding-up proceedings to safeguard its interests and maximize recovery of the impaired investment.

3.3 Payment made out of the Fund

Audit Observation	Management Comment	Recommendation
In terms of the Sri Lanka Deposit Insurance Scheme Regulations, compensation becomes payable in the event of a suspension or cancellation of a license by the Monetary Board on or after 01 January 2012 (effective until 14 November 2023). Accordingly, the licenses of seven member institutions were cancelled or suspended during the years 2018, 2019, 2020, and 2023. As announced in the press release issued by the Central Bank of Sri Lanka on 19 March 2021, the Monetary Board increased the maximum compensation payable under the Scheme from Rs. 600,000 to Rs. 1,100,000 to provide additional relief to depositors of financial institutions regulated by the Central Bank in the event of license cancellation or suspension. Based on the information made available, total compensation payable to depositors of the seven affected finance companies amounted to Rs. 35,276.28 million, of which Rs. 31,364.33 million, representing 88.9 per cent, had been paid out of the Fund of the Scheme as at 30 September 2025, with overall payment progress as at 31 December 2023 being 88 per cent. The settlement progress by year of license cancellation was 80.2 per cent in 2018 (Rs. 3,318.46 million out of Rs. 4,133.21 million), 90.2 per cent in 2019 (Rs. 1,074.31 million out of Rs. 1,190.74 million), 90.2 per cent in 2020 (Rs. 26,970.51 million out of Rs. 29,893.72 million), and 1.7 per cent in 2023 (Rs. 1.05 million out of Rs. 58.61 million).	In terms of Section 44(4) of the BSPA, a depositor of insured deposits is entitled to receive compensation under subsection (1) if a duly completed claim is submitted within six years from the date of cancellation of the license of the MI. However, depositors of MIs whose licenses were cancelled or suspended before 06.08.2021, must submit their claims within four years from the date of such cancellation or suspension. Accordingly, compensation payments for depositors of six finance companies whose licenses were cancelled or suspended during 2018–2020 were discontinued as of 31.12.2024. Compensation payments to the finance company whose license was cancelled in 2023 will continue until 2029, with a total of Rs. 1.42 million paid to its depositors as of 30.09.2025.	The Scheme should ensure timely follow-up and monitoring of pending compensation claims, particularly for the 2023 license cancellation, to facilitate full settlement to eligible depositors in accordance with the BSPA timelines.

3.4 Preserving financial system stability

Audit Observation	Management Comment	Recommendation
In terms of the Banking (Special Provisions) Act, No. 17 of 2023 and the Operating Instructions No. 01 of 2024 on ‘Mandatory Recording of the Unique Identification Numbers of Depositors by Licensed Banks and Licensed Finance Companies’ issued by the Central Bank of Sri Lanka, the Deposit Insurance and Resolution Department is required to strengthen depositor protection and enhance public awareness of financial sector safety-net measures. However, it was observed that the planned initiatives during the year 2024 namely, (i) measuring and enhancing public awareness of financial sector safety-net measures, and (ii) implementing the Depositor-Wise Data Collection System (DWDCS) under a Unique Identification Number (UIN) as a preliminary step towards introducing SupTech solutions had not been completed as at the end of the review period, thereby limiting the Department’s ability to achieve the Performance-Based Criteria (PBCs) under the Financial Sector Safety Net Program (FSSNP), reducing the effectiveness of depositor protection mechanisms, and constraining supervisory efficiency. Further, as stipulated in the Financing Agreement of the Financial Sector Safety Net Strengthening Project, the Central Bank of Sri Lanka was required to conduct the first nationwide representative survey to measure public awareness of the Sri Lanka Deposit Insurance Scheme, based on a methodology acceptable to the Association, within one year	DIRD currently has Excel-based solutions in place for executing compensation payouts and monitoring premium contributions under SLDIS. To operationalize the DWDCS, test runs were conducted with 10 Licensed Finance Companies (LFCs) in early 2024, followed by the issuance of revised validation guidelines in April 2024 and a full rollout to all 32 LFCs by the end of Q2 2024. The system was then extended to Small Licensed Banks, where some institutions encountered technical difficulties; DIRD is coordinating with the respective banks and the ITD to resolve these issues. Meanwhile, under the FSSNP, DIRD has initiated the procurement of an IT consultant to carry out a gap analysis of existing IT infrastructure, including DWDCS, and to recommend either modifications or the establishment of a new comprehensive MIS. The FSSNP became operational on 03 April 2024. As part of its activities, DIRD initiated the procurement of a consultancy firm to conduct a nationwide Public Awareness Survey. Following a complex procurement process in line with World Bank and National Procurement Guidelines, a contract was signed on 16 May 2025. Although the survey was originally scheduled for completion by 03 October 2025, delays arose due to rigorous	The Deposit Insurance and Resolution Department should expedite the implementation of the Depositor-Wise Data Collection System, the nationwide Public Awareness Survey, and the long-term public awareness strategy to ensure timely achievement of Performance-Based Criteria under the FSSNP and to strengthen depositor protection and supervisory effectiveness.

(on or before 31 December 2024), and the Governing Board was required to approve a long-term public awareness strategy to increase awareness of the Scheme among the general population, including women and those in low-income households and rural areas, within two years (by 31 December 2025). Nevertheless, as at 31 August 2025, the progress of conducting the nationwide representative survey and approving the long-term public awareness strategy stood at only 45 per cent and 20 per cent, respectively, and no directions had been issued to member institutions to take action to enhance public awareness.

reviews by the Deliverable Review Committee and the World Bank's Review Team. Consequently, the contract was extended to 09 December 2025, and the consultancy firm is currently conducting the field survey in line with revised targets.

In addition, the procurement of a Public Awareness Strategy Consultant was initiated in mid-July 2025 following the WB Mid-Year Review Mission. Since no qualified EOIs were received, the TOR was revised, and the REOI was republished on 30 September 2025.

3.5 Premium to be levied on insured deposits

Audit Observation

According to the Section 7 of the Banking (Special Provision) Act Direction No. 01 of 2023 dated 15 November 2023, Licensed Banks that maintained a Capital Adequacy Ratio of 14 percent or above at the end of the immediately preceding financial year as per its audited accounts as accepted by the Director of Bank supervision, should be payable a premium of 0.10 percent per annum and all other Licensed banks should be payable a premium of 0.125 percent per annum. However, Licensed Finance Companies should be payable a premium of 0.15 percent per annum on monthly basis, calculated on total amount of all eligible deposit, inclusive of any interest accrued, as at end of the month, irrespective of capital adequacy ratio of each Licensed Finance Company. According to the information made

Management Comment

In line with World Bank procurement procedures and the procurement plan of the FSSNP, DIRD has engaged the services of an experienced International Deposit Insurance Advisor (DIA) for a period of one year, commencing on 01 July 2025. The objective of this engagement is to support the achievement of the Project's goals, particularly in strengthening the Financial Sector Safety Net with a focus on enhancing the institutional capacity of SLDIS. As stipulated under Performance-Based Condition 04, a risk-based premium (RBP) methodology is being developed in collaboration with the relevant regulatory departments, i.e., the Bank Supervision Department (BSD) and the Department of Supervision of Non-Bank

Recommendation

The Central Bank of Sri Lanka should expedite the approval and implementation of a risk-based premium methodology to ensure equitable premium charges and the effective build-up of deposit insurance reserves.

available, it was observed that capital adequacy ratio of selected Licensed Finance Companies are ranged from 4.85 per cent to 95.66 per cent. Accordingly, it may be necessary to reconsider the premium to be levied from those companies on appropriate basis. According to the performance based conditions stated in the Financing Agreement of the Financial Sector Safety Net Strengthening Project, Governing Board of the Central Bank of Sri Lanka requires to approve a methodology for adjustments to the premium rate payable by member institutions in a manner that ensures the build-up and maintenance of the deposit insurance reserves and issue the necessary directions to adjust the premium rates according to such methodology.

As per the Project Biannual Monitoring Report progress of the above performance based condition was just 25 per cent as at 31 August 2025.

Financial Institutions (DSNBFI). Accordingly, discussions are ongoing, drawing upon inputs from the supervisory departments and existing DIRD data, with the guidance and technical support of the DIA. The aim is to introduce the RBP model for MIs by second half of the 2026.