

**SMB FINANCE PLC**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED**  
**31 DECEMBER 2023**



KPMG  
(Chartered Accountants)  
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## INDEPENDENT AUDITOR'S REPORT

### TO THE SHAREHOLDERS OF SMB FINANCE PLC

#### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of SMB Finance PLC (“the Company”), and the consolidated financial statements of the Company and its subsidiary (“the Group”) which comprise the statement of financial position as at 31 December 2023, and the statement of profit or loss and other 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 policies and other explanatory information.

In our opinion, the accompanying financial statements of the Company and the Group give a true and fair view of the financial position of the Company and the Group as of December 31, 2023, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### Basis for Opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for professional Accountants issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the company financial statements and the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the company financial statements and the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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**01.Allowance for Expected credit losses of loans and receivables to customers**

Refer to the accounting policies in the Financial Statements: Impairment of Loans and Receivables to Customers, “Note 5.3.3 and 20” to the Financial Statements: Significant Accounting Judgments and Estimates, “Note 3.2.2” to the Financial Statements.

Risk Description	Our Response
<p>As disclosed in Note 20 to these financial statements, the Group has recorded financial assets at amortized cost against loans and receivables to customers amounting to Rs. 1,471,314,074/- as at 31 December 2023. High degree of complexity and judgment are involved in estimating ECL of Rs.750,312,216/- against loans and receivables to customers as at the reporting date.</p> <p>The Group uses the Expected Credit Loss (ECL) model to calculate the loss allowance in accordance with SLFRS 9 – Financial Instruments (SLFRS 9). These models are reliant on data and a number of estimates including the impact of multiple economic scenarios and other assumptions such as defining a significant increase in credit risk (SICR). There are also a number of key assumptions made by the Group in applying the requirements of SLFRS 9 to the models including the identification of loss stage, forward looking probability of default (PD), loss given default (LGD), macroeconomic scenarios used and the post-model adjustments including their weighting and judgments over the use of data inputs required.</p> <p>Additional subjectivity and judgement have been introduced into the Group’s measurement of ECL due to the heightened uncertainty associated with the impact of the economic outlook on customers, increasing our audit effort thereon,</p> <p>Accordingly, allowance for expected credit losses is a key audit matter due to the significance of the loans and receivables balance to the financial statements and the inherent complexity of the Group’s ECL models used to measure ECL allowances.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>• Assessing the methodology inherent within the impairment models against the requirements of SLFRS 9, specially taking into consideration the prevailing uncertain volatile macro-economic environment;</li> <li>• Challenging the key assumptions in the ECL models, including staging PD and LGD and evaluating the reasonableness of Management’s key judgments and estimates;</li> <li>• Testing the accuracy and completeness of the data inputs to the systems and ECL models and challenging the economic information used within, and weightings applied to, forward looking scenarios;</li> <li>• Testing IT System Controls which record loan days past due, and non performing loan classification.</li> <li>• Recalculating the ECL on sample basis, by using the key assumptions used in the models, such as PD and LGD;</li> <li>• Evaluating the completeness of customers/facilities assessed individually based on the criteria set for the same and checking the accuracy of the provision for impairment for such identified individually significant exposures.</li> <li>• Assessing the completeness of additional allowance overlays by checking the consistency of risks we identified in the loan and lease portfolios against the Group’s assessment;</li> <li>• Working with our Financial Risk Management (FRM) specialists, and evaluating and challenging the key assumptions in the components of the Group’s post-model adjustments to the ECL allowance balance.</li> <li>• Assessing the adequacy of disclosures made in the financial statements in compliance with relevant accounting standards requirements.</li> </ul>



**02. Valuation of Investment Property**

Refer to the accounting policies in the Financial Statements: Investment Property, “Note 5.3.9 and 25”.

Risk Description	Our Response
<p>As at 31 December 2023, the Group’s Investment Properties carried at fair value amount to Rs. 637.24 Mn. Further, the fair value gain recognized in the statement of profit or loss for the year, amounted to Rs. 38.37 Mn.</p> <p>The Group has engaged an independent external professional valuer with appropriate expertise in valuing properties, to determine the fair value of investment property in accordance with recognized industry standards.</p> <p>Estimating the fair value is a complex process which involves a significant degree of judgement and estimates in respect of price per perch of the land, capitalization rates, value per square feet, fair market rental and diversity of locations and nature of the land and buildings and investment properties.</p> <p>We identified this as a key audit matter because of the significant judgments and estimations in the selection of appropriate valuation methodology to be used and in estimating the key assumptions applied. These key assumptions include market comparable used, taking into consideration for difference such as location, size and tenure. A change in the key assumptions will have an impact on the valuation.</p>	<p>Our audit procedures included,</p> <ul style="list-style-type: none"> <li>• Assessing the objectivity, independence, competence and qualifications of the external valuer.</li> <li>• Assessing the key assumptions applied and conclusion made by the external valuer in deriving the fair value of the properties and comparing the same with evidence of current market values and consultation with internal valuation specialist.</li> <li>• Inquiring how valuers had assessed the impact of the prevailing uncertain and volatile macro-economic environment to assess whether that it was appropriately considered in the measurement in valuing properties to determine the fair value of the investment property.</li> <li>• Assessing the adequacy of the disclosures in the financial statements, including the description and appropriateness of the inherent degree of subjectivity and key assumptions in the estimates.</li> </ul>

**Other Information**

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor’s report thereon. The annual report is expected to be made available to us after the date of this auditor’s report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.



## **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 Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

## **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are 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 our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs 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 SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We 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 our 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 and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or related safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

#### **Report on Other Legal and Regulatory Requirements**

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditors' report is 2599.

**CHARTERED ACCOUNTANTS**

Colombo, Sri Lanka

28/03/2024

## SMB Finance PLC

### Statement of Profit or Loss and Other Comprehensive Income

Rs.		Company		Group	
For the year ended December 31,	Note	2023	2022	2023	2022
<b>Continuing operations</b>					
Interest income	7	775,505,794	483,655,939	775,505,794	483,655,939
Interest expenses	8	(308,880,252)	(134,737,070)	(308,880,252)	(134,737,070)
<b>Net interest income</b>		<b>466,625,542</b>	<b>348,918,869</b>	<b>466,625,542</b>	<b>348,918,869</b>
Fee and commission income	9	4,054,971	9,905,419	4,054,971	9,905,419
<b>Net interest, fee and commission income</b>		<b>470,680,513</b>	<b>358,824,288</b>	<b>470,680,513</b>	<b>358,824,288</b>
Other operating income (Net)	10	7,873,868	13,063,673	7,873,868	13,063,673
Changes in fair value of investment property	25	38,370,600	44,649,600	38,370,600	44,649,600
<b>Total operating income</b>		<b>516,924,981</b>	<b>416,537,561</b>	<b>516,924,981</b>	<b>416,537,561</b>
Allowance for expected credit loss - Charge	11	(89,062,346)	(163,659,095)	(89,062,346)	(163,659,095)
<b>Net operating income</b>		<b>427,862,635</b>	<b>252,878,466</b>	<b>427,862,635</b>	<b>252,878,466</b>
Personnel expenses	12	(111,474,529)	(76,812,014)	(111,474,529)	(76,812,014)
Other expenses	13	(101,009,315)	(68,965,862)	(101,009,315)	(68,965,862)
Impairment on held for sale assets	24.2	-	-	(6,786,534)	-
<b>Operating profit before taxes on financial services</b>		<b>215,378,791</b>	<b>107,100,590</b>	<b>208,592,257</b>	<b>107,100,590</b>
Taxes on financial services	14	(53,663,399)	(18,985,049)	(53,663,399)	(18,985,049)
<b>Profit after taxes on financial services</b>		<b>161,715,392</b>	<b>88,115,541</b>	<b>154,928,858</b>	<b>88,115,541</b>
Impairment provision for subsidiary company	23	-	(12,750,000)	-	-
Share of profit of associate company	22.3	39,922	743,655	39,922	743,655
<b>Profit before income tax</b>		<b>161,755,314</b>	<b>76,109,196</b>	<b>154,968,780</b>	<b>88,859,196</b>
Income tax (expense) / reversals	15	(41,853,966)	3,473,036	(41,853,966)	3,473,036
<b>Profit from continuing operations</b>		<b>119,901,348</b>	<b>79,582,232</b>	<b>113,114,815</b>	<b>92,332,232</b>
<b>Discontinued operation</b>					
Loss from discontinued operation, net of tax	16	-	-	(8,801,419)	(35,395,956)
<b>Profit for the period</b>		<b>119,901,348</b>	<b>79,582,232</b>	<b>104,313,395</b>	<b>56,936,276</b>
<b>Profit attributable to :</b>					
Owners of the Company		119,901,348	79,582,232	108,626,971	74,280,295
Non - controlling interest	40	-	-	(4,313,575)	(17,344,019)
<b>Profit for the year</b>		<b>119,901,348</b>	<b>79,582,232</b>	<b>104,313,395</b>	<b>56,936,276</b>
Basic earnings per share	17	0.01	0.01	0.01	0.01
Diluted earnings per share	17.1	-	-	-	-

The notes annexed form an integral part of these financial statements.

Figures in brackets indicate deductions.

## SMB Finance PLC

### Statement of Profit or Loss and Other Comprehensive Income (Contd.)

Rs. For the year ended December 31,	Note	Company		Group	
		2023	2022	2023	2022
<b>Profit for the year</b>		<b>119,901,348</b>	<b>79,582,232</b>	<b>104,313,395</b>	<b>56,936,276</b>
<b>Other Comprehensive Income</b>					
<b>Items that will not be reclassified to profit or loss</b>					
Actuarial (loss) / gain on defined benefit plans	34.1	(1,174,999)	1,680,945	(1,174,999)	5,242,300
Equity investments at FVOCI – Net change in fair value	21.2	12,079,558	22,872,981	12,079,558	22,872,981
Net tax on other comprehensive income		-	-	-	(1,068,406)
<b>Other comprehensive income for the year (Net of taxes)</b>		<b>10,904,559</b>	<b>24,553,926</b>	<b>10,904,559</b>	<b>27,046,875</b>
<b>Total comprehensive income for the year</b>		<b>130,805,907</b>	<b>104,136,158</b>	<b>115,217,954</b>	<b>83,983,151</b>
<b>Total comprehensive income attributable to:</b>					
Owners of the Company		130,805,907	104,136,158	119,530,650	100,105,625
Non - controlling interest		-	-	(4,312,695)	(16,122,474)
<b>Total comprehensive income for the year</b>		<b>130,805,907</b>	<b>104,136,158</b>	<b>115,217,954</b>	<b>83,983,151</b>

The notes annexed form an integral part of these financial statements.  
Figures in brackets indicate deductions.

## SMB Finance PLC Statement of Financial Position

Rs. As at December 31,	Note	Company		Group	
		2023	2022	2023	2022
<b>Assets</b>					
Cash and cash equivalents	18	90,670,044	55,302,042	90,670,044	55,494,870
Placements with banks	19	2,568,600,407	2,401,475,573	2,568,600,407	2,401,507,742
Financial assets at amortised cost - Loans and receivables to customers	20	1,471,314,074	1,855,368,149	1,471,314,074	1,855,368,149
Financial investments	21	116,358,309	104,249,453	116,358,309	114,789,453
Investments in associate	22	42,616,953	42,577,031	42,616,953	42,577,031
Investments in subsidiary	23	-	-	-	-
Assets held for sale	24	-	-	4,916,220	-
Investment properties	25	637,235,600	385,728,000	637,235,600	402,928,000
Property, plant & equipment	26	50,338,715	19,963,487	50,338,715	22,405,148
Right-of-use assets	27.1	34,156,018	16,070,409	34,156,018	16,070,405
Intangible assets	28	263,662,640	245,092,403	263,662,640	245,092,403
Deferred tax assets	29	-	-	-	1,202,705
Other assets	30	55,234,742	61,399,660	55,234,746	67,922,473
<b>Total assets</b>		<b>5,330,187,502</b>	<b>5,187,226,207</b>	<b>5,335,103,726</b>	<b>5,225,358,379</b>
<b>Liabilities</b>					
Due to financial institutions	31	1,504,597,528	1,568,220,236	1,504,597,528	1,568,507,907
Financial Liabilities at Amortised Cost - Deposits due to customers	32	42,736,120	-	42,736,120	-
Financial Liabilities at Amortised Cost - Due to other customers	33	131,298,785	126,786,485	131,298,785	126,786,485
Retirement benefit obligations	34	13,644,953	8,961,310	13,644,953	23,159,659
Lease liabilities	27.2	21,780,454	14,880,212	21,780,454	14,880,212
Other liabilities	35	129,371,295	112,425,504	131,792,065	118,982,132
Liabilities directly associated with assets held for sale	24.2	-	-	993,883	-
<b>Total liabilities</b>		<b>1,843,429,135</b>	<b>1,831,273,747</b>	<b>1,846,843,788</b>	<b>1,852,316,395</b>
<b>Equity</b>					
Stated capital	36	3,062,681,524	3,062,681,524	3,062,681,524	3,062,681,524
Statutory reserves	37	47,727,396	41,732,329	47,727,396	41,732,329
Fair value reserve	38	64,544,823	52,465,265	64,544,823	52,465,265
Retained earnings	39	311,804,624	199,073,342	309,114,578	207,657,674
<b>Total equity attributable to equity holders of the Company</b>		<b>3,486,758,367</b>	<b>3,355,952,460</b>	<b>3,488,068,321</b>	<b>3,364,536,792</b>
Non - controlling interests	40	-	-	4,191,616	8,505,192
<b>Total equity</b>		<b>3,486,758,367</b>	<b>3,355,952,460</b>	<b>3,488,259,938</b>	<b>3,373,041,984</b>
<b>Total equity and liabilities</b>		<b>5,330,187,502</b>	<b>5,187,226,207</b>	<b>5,335,103,726</b>	<b>5,225,358,379</b>

The notes annexed form an integral part of these financial statements.  
Figures in brackets indicate deductions.

It is certified that the financial statements have been prepared and presented in compliance with the requirements of the Companies Act No. 7 of 2007.

  
Menaka Silva  
Head of Finance

  
Supul Wijesinghe  
Chief Executive Officer

The Board of Directors are responsible for the preparation and presentation of these financial statements.  
Approved and signed on behalf of the Board by,

  
Shardha Sosa  
Director

  
Saadi Wadood  
Director

Colombo  
March 28, 2024

## SMB Finance PLC Statement of Changes in Equity - Company

Rs.	Stated Capital		Statutory Reserve Fund	Fair Value Reserve	Retained Earnings	Total Equity
	Ordinary Voting Shares	Ordinary Non-Voting Shares				
<b>Balance as at January 1, 2022</b>	<b>2,555,958,860</b>	<b>506,722,664</b>	<b>37,753,217</b>	<b>29,592,284</b>	<b>121,789,277</b>	<b>3,251,816,302</b>
Profit for the year	-	-	-	-	79,582,232	79,582,232
Other comprehensive income (Net of tax)	-	-	-	22,872,981	1,680,945	24,553,926
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>22,872,981</b>	<b>81,263,177</b>	<b>104,136,158</b>
Transfers to statutory reserve	-	-	3,979,112	-	(3,979,112)	-
Dividend paid	-	-	-	-	-	-
<b>Total transactions with equity holders</b>	<b>-</b>	<b>-</b>	<b>3,979,112</b>	<b>-</b>	<b>(3,979,112)</b>	<b>-</b>
<b>Balance as at December 31, 2022</b>	<b>2,555,958,860</b>	<b>506,722,664</b>	<b>41,732,329</b>	<b>52,465,265</b>	<b>199,073,342</b>	<b>3,355,952,460</b>
<b>Balance as at January 1, 2023</b>	<b>2,555,958,860</b>	<b>506,722,664</b>	<b>41,732,329</b>	<b>52,465,265</b>	<b>199,073,342</b>	<b>3,355,952,460</b>
Profit for the year	-	-	-	-	119,901,348	119,901,348
Other comprehensive income (Net of tax)	-	-	-	12,079,558	(1,174,999)	10,904,559
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12,079,558</b>	<b>118,726,349</b>	<b>130,805,907</b>
Transfers to statutory reserve	-	-	5,995,067	-	(5,995,067)	-
Dividend paid	-	-	-	-	-	-
<b>Total transactions with equity holders</b>	<b>-</b>	<b>-</b>	<b>5,995,067</b>	<b>-</b>	<b>(5,995,067)</b>	<b>-</b>
<b>Balance as at December 31, 2023</b>	<b>2,555,958,860</b>	<b>506,722,664</b>	<b>47,727,396</b>	<b>64,544,823</b>	<b>311,804,624</b>	<b>3,486,758,367</b>

The notes annexed form an integral part of these financial statements.  
Figures in brackets indicate deductions.

## SMB Finance PLC Statement of Changes in Equity - Group

Rs.	Attributable to the Equity holders of the parent					Total	Non - Controlling Interest	Total Equity
	Stated Capital Ordinary Voting Shares	Ordinary Non- Voting Shares	Statutory Reserve Fund	Fair value Reserve	Retained Earnings			
<b>Balance as at January 1, 2022</b>	2,555,958,860	506,722,664	37,753,217	29,592,284	134,404,142	3,264,431,167	24,627,666	3,289,058,833
Profit for the year	-	-	-	-	74,280,295	74,280,295	(17,344,019)	56,936,276
Other comprehensive income (Net of tax)	-	-	-	22,872,981	2,952,349	25,825,330	1,221,545	27,046,875
<b>Total comprehensive income for the year</b>	-	-	-	22,872,981	77,232,644	100,105,625	(16,122,474)	83,983,151
Transfers to statutory reserve	-	-	3,979,112	-	(3,979,112)	-	-	-
Dividend paid	-	-	-	-	-	-	-	-
<b>Total transactions with equity holders</b>	-	-	3,979,112	-	(3,979,112)	-	-	-
<b>Balance as at December 31, 2022</b>	2,555,958,860	506,722,664	41,732,329	52,465,265	207,657,674	3,364,536,792	8,505,192	3,373,041,984
<b>Balance as at January 1, 2023</b>	2,555,958,860	506,722,664	41,732,329	52,465,265	207,657,674	3,364,536,792	8,505,192	3,373,041,984
Profit / (Loss) for the year	-	-	-	-	108,626,971	108,626,971	(4,313,575)	104,313,395
Other comprehensive income (Net of tax)	-	-	-	12,079,558	(1,174,999)	10,904,559	-	10,904,559
<b>Total comprehensive income for the year</b>	-	-	-	12,079,558	107,451,972	119,531,530	(4,313,575)	115,217,954
Transfers to statutory reserve	-	-	5,995,067	-	(5,995,067)	-	-	-
Dividend paid	-	-	-	-	-	-	-	-
<b>Total transactions with equity holders</b>	-	-	5,995,067	-	(5,995,067)	-	-	-
<b>Balance as at December 31, 2023</b>	2,555,958,860	506,722,664	47,727,396	64,544,823	309,114,578	3,484,068,321	4,191,616	3,488,259,938

The notes annexed form an integral part of these financial statements.  
Figures in brackets indicate deductions.

## SMB Finance PLC Statement of Cash Flows

Rs. For the year ended December 31,	Company		Group	
	2023	2022	2023	2022
Interest receipts	832,636,111	444,287,612	832,793,006	275,662,980
Interest payments	(304,167,540)	(120,426,505)	(304,167,540)	(120,461,616)
Fees and commission receipts	3,866,918	9,437,175	5,070,586	198,618,923
Cash payments to employees and suppliers	(181,028,248)	(127,501,115)	(180,993,825)	(176,089,350)
<b>Profit before changes in operating assets</b>	<b>351,307,242</b>	<b>205,797,167</b>	<b>352,702,227</b>	<b>177,730,937</b>
Loans and receivables	274,516,296	(875,754,225)	274,516,296	(875,754,225)
Other assets	(21,005,337)	(9,494,293)	(14,482,548)	(3,039,428)
Other liabilities	3,829,466	43,615,477	3,829,478	43,697,040
<b>Cash generated from / (used in) operating activities</b>	<b>608,647,666</b>	<b>(635,835,874)</b>	<b>616,565,453</b>	<b>(657,365,677)</b>
Tax paid	(61,957,318)	(12,097,436)	(61,957,318)	(12,097,436)
Gratuity paid	-	-	(14,411,649)	(1,828,750)
<b>Net cash generated from / (used in) operating activities</b>	<b>546,690,348</b>	<b>(647,933,310)</b>	<b>540,196,486</b>	<b>(671,291,864)</b>
<b>Cash flow from investing activities</b>				
(Increase) / Decrease in placement with banks	(110,000,000)	-	(110,000,000)	15,302,675
Net of acquisition and disposal of shares	-	-	-	5,683,744
Purchase of property, plant & equipment & intangible assets	26,28 (48,945,465)	(256,834,069)	(59,014,854)	(256,912,969)
Purchase of Investment properties	(213,137,000)	(198,300,400)	(195,937,000)	(198,300,400)
Dividend received	10 647,905	740,279	647,905	796,137
<b>Net cash used in investing activities</b>	<b>(371,434,560)</b>	<b>(454,394,190)</b>	<b>(364,303,949)</b>	<b>(433,430,812)</b>
<b>Cash flow from financing activities</b>				
Borrowings obtained from financial institutions	31 -	1,300,000,000	-	1,300,000,000
Repayment of borrowings from financial institutions	31 (287,188,385)	(267,548,898)	(287,188,385)	(267,548,898)
Increase in time deposits and savings deposits	41,528,048	-	41,528,048	-
Decrease in public borrowings	(26,000)	(14,000)	(26,000)	(14,000)
Advance payment on lease acquisition	(20,335,009)	-	(20,335,009)	-
Lease liability payment	27.2 (15,021,900)	(8,634,200)	(15,021,900)	(9,722,700)
<b>Net cash (used in) /generated from financing activities</b>	<b>(281,043,246)</b>	<b>1,023,802,902</b>	<b>(281,043,246)</b>	<b>1,022,714,402</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(105,787,457)</b>	<b>(78,524,598)</b>	<b>(105,150,709)</b>	<b>(82,008,274)</b>
Cash and cash equivalents at the beginning of the year	53,699,288	132,223,886	53,636,614	135,644,888
<b>Cash and cash equivalents at the end of the year</b>	<b>(52,088,169)</b>	<b>53,699,288</b>	<b>(51,514,095)</b>	<b>53,636,614</b>
<b>Reconciliation of cash and cash equivalents</b>				
Cash and cash equivalents	18 90,670,044	55,302,042	91,203,717	55,494,870
Repo investment with banks	19 86,896,000	501,000	86,936,401	533,169
		<b>177,566,044</b>	<b>55,803,042</b>	<b>56,028,039</b>
Bank overdraft	31 (229,654,213)	(2,103,754)	(229,654,213)	(2,391,425)
<b>Cash and cash equivalents at the end of the year</b>	<b>(52,088,169)</b>	<b>53,699,288</b>	<b>(51,514,095)</b>	<b>53,636,614</b>

The notes annexed form an integral part of these financial statements.  
Figures in brackets indicate deductions.

**SMB FINANCE PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**1. Corporate Information**

**1.1 Reporting Entity**

SMB Finance PLC (the 'Company'), is a Public Limited Liability Company incorporated on September 3, 1992 and domiciled in Sri Lanka. It is a specialized Finance company under the Finance Business Act No 42 of 2011. The Company has a primary listing on the Colombo Stock Exchange since 1993. The Company was re-registered under the Companies Act No. 07 of 2007.

The registered office and the principal place of business of the Company is located at No 282/1, CBS Building, Galle Road, Colombo 03, Sri Lanka.

**1.2 Consolidated Financial Statements**

The consolidated financial statements of the Group for the year ended December 31, 2023 comprise of SMB Finance PLC (Parent Company), its subsidiary (together referred to as the 'Group') and the Group's interest in its associate company.

**1.3 Number of Employees**

The staff strength of the Company as at December 31, 2022 is 51 (2022 – 47).

**1.4 Principal Activities and Nature of Operations**

**Company – SMB Finance PLC**

The principal business activity is providing Finance Leases, Loans and Pawning.

**Subsidiary – SMB Money Brokers (Pvt) Ltd**

The principal business activity is money brokering activities

**Associate – Kenanga Investment Corporation Ltd**

The principal business activity is investment banking and providing advisory services.

The percentage of ownership is as follows;

<b>Shareholdings in Subsidiary and Associate</b>	<b>Holding Percentage</b>
SMB Money Brokers (Pvt)Ltd	50.99%
Kenanga Investment Corporation Ltd	48.99%

There were no significant changes in the nature of the principal activities of the Company and the Group during the financial year under review.

**SMB FINANCE PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**

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## **2. Basis of Accounting**

### **2.1. Statement of Compliance**

The consolidated financial statements of the Group and the separate financial statements of the Company as at December 31, 2023 and for the year then ended, have been prepared and presented in accordance with the Sri Lanka Accounting Standards (SLFRSs and LKASs), laid down by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and in compliance with the requirements of the Companies Act No 7 of 2007, the Finance Business Act No 42 of 2011 and amendments thereto and provide appropriate disclosures as required by the Listing Rules of the Colombo Stock Exchange. These Financial Statements, except for information on cash flows have been prepared following the accrual basis of accounting. These SLFRSs and LKASs are available at [www.casrilanka.com](http://www.casrilanka.com).

The Company did not adopt any inappropriate accounting treatments, which are not in compliance with the requirements of the SLFRSs and LKASs, regulations governing the preparation and presentation of the financial statements. Details of the Company's material accounting policies followed during the year are given in Notes 4 to 5.

### **2.2. Responsibility for Financial Statements**

The Board of Directors of the Company is responsible for the preparation and presentation of the financial statements of the Group and the Company as per the provisions of the Companies Act No. 7 of 2007 and Sri Lanka Accounting Standards.

The Board of Directors acknowledges their responsibility for financial statements as set out in the Annual Report of the Board of Directors, Statement of Directors' Responsibility and the certification on the Statement of Financial Position.

These financial statements include the following components:

- A). A Statement of Profit or Loss and Other Comprehensive Income providing the information on the financial performance of the Group and the Company for the year under review.
- B). A Statement of Financial Position (SOFP) providing the information on the financial position of the Group and the Company as at the year end.
- C). A Statement of Changes in Equity depicting all changes in shareholders' funds during the year under review of the Group and the Company.
- D). A Statement of Cash Flows providing the information to the users, on the ability of the Group and the Company to generate cash and cash equivalents and utilisation of those cash flows.
- E). Notes to the Financial Statements comprising Material Accounting Policies and other explanatory information.

### **2.3. Approval of Financial Statements by the Board of Directors**

The financial statements of the Group and the Company for the year ended December 31, 2023 (including comparatives for 2022), were approved and authorised for issue in accordance with the resolution of the Board of Directors on March 28, 2024.

**SMB FINANCE PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**2.4. Basis of Measurement**

The financial statements of the Company and the Group have been prepared on the historical cost basis except for the following material items stated in the statement of financial position.

<b>Item</b>	<b>Basis of Measurement</b>	<b>Note No</b>
Financial assets measured at fair value through profit or loss (FVTPL)	Fair value	21.1
Quoted equity investments measured at fair value through profit or loss (FVTPL)	Fair value	21.1.1
Unquoted equity investments measured at fair value through other comprehensive income (FVTOCI)	Fair value	21.2
Investment Property	Fair Value	25
Defined benefit obligation	Liability is recognised at the present value of the defined benefit obligation, plus unrecognized actuarial gains, less unrecognized past service cost and unrecognized actuarial losses.	34

**2.5. Going Concern Basis of Accounting**

In preparing these financial statements, the management has assessed the existing and anticipated effect of country's extraordinary macroeconomic circumstances on the Group and the appropriateness of the use of the going concern basis of preparation of financial statements. The company has been evaluating the resilience of its businesses, considering a wide range of factors such as expected revenue streams, profitability, cost management initiatives implemented by the Group, changes in working capital, management of capital expenditure, debt repayments, cash reserves and available sources of financing including unutilised facilities and in order to be able to continue business under current global economic conditions.

Furthermore, Management do not see any material uncertainties that may cast significant doubt upon the ability to continue as a going concern and they do not intend either to liquidate or to cease operations of the Company. Therefore, the directors are satisfied that the Financial Statements continue to be prepared on going concern basis.

**2.6. Functional and Presentation Currency**

The consolidated financial statements are presented in Sri Lankan Rupees (Rs.), which is the Group's and Company's functional and presentation currency. There was no change in the Group's presentation and functional currency during the year under review.

## **SMB FINANCE PLC**

### **NOTES TO THE FINANCIAL STATEMENTS**

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#### **2.7. Presentation of Financial Statements**

The assets and liabilities of the Company and the Group presented in the Statement of Financial Position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. An analysis on recovery or settlement within 12 months after the reporting date (Current) and after more than 12 months from the Reporting date (Non-current) is presented in Note 48 (Current/Non-current Analysis). No adjustments have been made for inflationary factors affecting the financial statements.

#### **2.8. Rounding**

The amounts in the financial statements are presented in absolute values for the financial statements to be more understandable. However, in certain notes to the financial statements, figures have been rounded-off to the nearest Rupees thousands for better presentation as permitted by the Sri Lanka Accounting Standard LKAS 01 - Presentation of Financial Statements.

#### **2.9. Offsetting**

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously. Income and expenses are not offset in the consolidated statement of profit or loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

#### **2.10. Materiality and Aggregation**

Each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or function are presented separately, unless they are immaterial.

Notes to the Financial Statements are presented in a systematic manner which ensures the understandability and comparability of Financial Statements of the Company and the Group.

Understandability of the Financial Statements is not compromised by obscuring material information with immaterial information or by aggregating material items that have different natures or functions.

#### **2.11. Comparative Information**

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period in the financial statements in order to enhance the understanding of the current period's financial statements and to enhance the inter period comparability.

### **3. Use of Significant Accounting Judgements, Assumptions and Estimates**

In preparing the financial statements of the Company and the Group in conformity with SLFRSs and LKASs, the management has made judgements, estimates and assumptions which affect the application of Accounting Policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Accounting judgements, estimates and underlying assumptions are reviewed on an ongoing basis.

## **SMB FINANCE PLC**

### **NOTES TO THE FINANCIAL STATEMENTS**

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Revisions to accounting estimates are recognised prospectively. Significant areas of critical accounting judgements, assumptions and estimation uncertainty, in applying accounting policies that have most significant effects on the amounts recognised in the financial statements of the Company and the Group are as follows.

#### **3.1. Significant Accounting Judgements**

Information about accounting judgements made in applying accounting policies that have the most significant effects on the amounts recognised in these financial statements are included in Notes 3.1.1 to 3.1.2 below.

##### **3.1.1. Determination of control over investees**

Management applies its judgement to determine whether the control indicators set out in Note 5.1.3.2 and 5.1.3.4 indicates that the Company controls the investees.

##### **3.1.2. Classification of financial assets and liabilities**

As per SLFRS 9, the Material Accounting Policies of the Company provides scope for financial assets to be classified and subsequently measured into different categories, namely, at Amortised Cost, Fair Value through Other Comprehensive Income (FVOCI) and Fair Value Through Profit or Loss (FVTPL) based on the criteria given in Note 5.3.3.

##### **3.1.3. Determination of impairment losses relating to financial assets**

Establishing the criteria for determining whether credit risk on the financial asset has increases significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of Expected Credit Loss (ECL) and selection and approval of models used to measure ECL set out in the Note 3.2.2.

#### **3.2. Assumptions and Estimation Uncertainties**

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustments are included in Notes 3.2.1 to 3.2.7 below.

##### **3.2.1. Fair Value of financial instruments**

The fair values of financial assets and financial liabilities recognised on the Statement of Financial Position, for which there is no observable market price are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish their fair values. The Group measures fair value using the fair value hierarchy that reflects the significance of inputs used in making measurements. Methodologies used for valuation of financial instruments and fair value hierarchy are stated in Note 41.5 and 41.6 respectively.

##### **3.2.2. Impairment losses on financial assets**

The measurement of impairment losses both under SLFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses. Accordingly, the Group reviews its individually

## SMB FINANCE PLC

### NOTES TO THE FINANCIAL STATEMENTS

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significant loans and advances at each reporting date to assess whether an impairment loss should be provided in the statement of profit or loss.

In particular, the Management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and hence actual results may differ, resulting in future changes to the impairment allowance made. The individual impairment provision applies to financial assets evaluated individually for impairment and is based on management's best estimate of the present value of the future cash flows that are expected to be received. In estimating these cash flows, Management makes judgements about a borrower's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable.

A collective impairment provision is established for:

- Groups of homogeneous loans and leases that are not considered individually significant; and
- Groups of assets that are individually significant but that were not found to be individually impaired.

As per SLFRS 9, the Company's Expected Credit Loss (ECL) calculations are outputs of a complex model with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL model that are considered accounting judgements and estimates include:

- The Group's criteria for qualitatively assessing whether there has been a significant increase in credit risk and if so allowances for financial assets measured on a Life time expected credit loss (LTECL) basis;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of a ECL model, including the various statistical formulas and the choice of inputs;
- Determination of associations between macro-economic inputs and the effect on Probability of Default (PDs), Exposure At Default (EAD) and Loss Given Default (LGD).

#### **3.2.3. Impairment of non- financial assets**

The carrying amounts of the Group's non- financial assets, other than investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is an indication that an asset may be impaired. If any indication exists, the Group estimates the asset's recoverable amount. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. An asset's recoverable amount is the higher of an asset's or cash- generating unit's fair value less costs to sell and its value in use. Where the carrying amount of an asset or cash -generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model

## **SMB FINANCE PLC**

### **NOTES TO THE FINANCIAL STATEMENTS**

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is used. These calculations are corroborated by valuation multiples, quoted share price for publicly traded subsidiaries or other available fair value indicators. For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised, the reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation/ amortisation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognised in profit or loss.

#### **3.2.4. Useful lifetime of the property, plant and equipment**

The Company reviews the residual values, useful lives and methods of depreciation of property, plant and equipment at each reporting date. Judgement of the Management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty. Refer Note 5.3.10.

#### **3.2.5. Deferred tax assets**

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available and can be utilised against such tax losses. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies. Refer Note 29.

#### **3.2.6. Defined benefit obligation**

The cost of the defined benefit obligation is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. This includes making assumptions about discount rates, future salary increments, retirement age. Due to the long-term nature of such obligation, these estimates are subjected to significant uncertainty. All assumptions are reviewed at each reporting date. Refer Note 34.

#### **3.2.7. Provisions for liabilities, commitments and contingencies**

The Group receives legal claims in the normal course of business. Management has made judgements as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depend on the due processes in respective legal jurisdictions.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies other than those stated above that have significant effects on the amounts recognised in the consolidated financial statements are described in Notes 5.1.3.

#### 4. Changes in Material Accounting Policies

##### 4.1 Deferred tax related to assets and liabilities arising from a single transaction

The Group has adopted *Deferred Tax related to Assets and Liabilities arising from a Single Transaction (amendments to IAS 12)* from 1 January 2023. The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences – e.g. leases and decommissioning liabilities. For leases and decommissioning liabilities, an entity is required to recognize the associated deferred tax assets and liabilities from the beginning of the earliest comparative period presented, with any cumulative effect recognized as an adjustment to retained earnings or other components of equity at the date. For all other transactions, an entity applies the amendments to transactions that occur on or after the beginning of the earliest presented.

The Group previously accounted for deferred tax on leases and decommissioning liabilities by applying the “integrally linked” approach, resulting in a similar outcome as under the amendments, except that the deferred tax asset or liability was recognized on a net basis. Following the amendments, the Group has recognized a separate deferred tax liability in relation to its lease liabilities and a deferred tax liability in relation to its right-of-use assets. However, there was no impact on the statement of financial position because the balances qualify for offset under paragraph 74 of IAS 12. There was also no impact on the opening retained earnings as at 1 January 2022 as a result of the change. The key impact of the Group relates to disclosure of the deferred tax assets and liabilities recognized.

##### 4.2 Material accounting policy information

The Group also adopted Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) from 1 January 2023. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed in the financial statements.

The amendments require the disclosure of ‘material’ rather than ‘significant’, accounting policies. The amendments also provide guidance on the application of materiality to disclosure of accounting policies, assisting entities to provide useful, entity specific accounting policy information that users need to understand other information in the financial statements.

Management reviewed the accounting policies and made updates to the information disclosed in Note 05 Material accounting policies (2022: Significant accounting policies) in certain instances in line with the amendments.

#### 5. Material Accounting Policies

The Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements, except if mentioned otherwise.

**SMB FINANCE PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**

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In addition, the Group adopted Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statements 2) from 1 January 2023. The amendments require the disclosure of ‘material’, rather than ‘significant’, accounting policies. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed in Note 05 in certain instances.

Certain comparative amounts in the statement of profit or loss and have been reclassified or represented, as result of an operation discontinued during the current year. And for better presentation and to be comparable with those of the current year, in order to maintain the consistency with the group presentation. Refer Note 47.

Set out below is an index of the material accounting policies, the details of which are available on the pages that follow.

<b>Summary of Material Accounting Policies</b>	<b>Policy Note No</b>
Financial assets and liabilities	5.1.1
Fair value measurement	5.1.2
Consolidated financial statements	5.1.3
Revenue	5.2.1
Net interest income	5.2.2
Fee and commission income	5.2.3
Other operating income	5.2.4
Expected credit losses on financial assets	5.2.5
Personnel expenses	5.2.6
Other expenses	5.2.7
Value added tax (VAT) on financial services	5.2.8
Social security contribution levy (SSCL) on financial services	5.2.9
Income tax	5.2.10
Earnings per share	5.2.11
Dividends per share	5.2.12
Cash and cash equivalents	5.3.1
Placements with banks	5.3.2
Loans and receivables	5.3.3
Financial investments	5.3.4
Investment in associate	5.3.5
Investment in subsidiary	5.3.6
Assets held for sale	5.3.7
Discontinued operation	5.3.8
Investment property	5.3.9
Property, plant and equipment	5.3.10
Right of use assets and lease liabilities	5.3.11
Intangible assets	5.3.12
Other assets	5.3.13
Due to financial institutions	5.3.14

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Due to other customers	5.3.15
Retirement benefit obligations	5.3.16
Other liabilities	5.3.17
Statutory reserve	5.3.18
Fair value reserve	5.3.19
Statement of cash flows	5.4.1
Events that occurred after the reporting date	5.5.1
Commitments and contingencies	5.5.2/5.5.3
Operating segments	5.5.4
Maturity analysis	5.5.5

**5.1. Material Accounting Policies – General**

**5.1.1. Financial Assets and Liabilities**

**5.1.1.1. Recognition and initial measurement**

The Group initially recognizes loans and receivables, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognized on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus transaction costs. For an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

**Day 1 profit or loss**

When the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on valuation technique whose variables include only data from observable markets the Group recognises the difference between transaction price and fair value in interest income and respective expenses. In case where fair value is determined using data which is not observable, the difference between the transaction price and model value is recognized in the Statement of Profit or Loss when the input becomes observable or when the instrument is derecognized.

The Day 1 loss arising in the case of loans granted to employees at concessionary rates under uniform applicable schemes is deferred and amortized using effective interest rates over the remaining service period of the employees or tenure of the loan whichever is shorter. The subsequent measurement of financial assets depend on their classification.

**5.1.1.2. Classification**

**A. Financial Assets**

On initial recognition, a financial asset is classified as measured at amortised cost, FVOCI or FVTPL. A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

## SMB FINANCE PLC

### NOTES TO THE FINANCIAL STATEMENTS

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- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting; Contractual cash flows and selling financial assets; and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified and measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

#### **Business model assessment**

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The information considered includes the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets.

- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

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#### **Assessment whether contractual cash flows are solely payments of principal and interest**

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

#### **B. Financial liabilities**

The Group classifies its financial liabilities other than loan commitments, as measured at amortised cost or FVTPL.

##### **5.1.1.3. Reclassifications**

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

##### **5.1.1.4. Derecognition**

#### **A. Financial Assets**

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in

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transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and-repurchase transactions, because the Group retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The Group securitises various loans and advances to customers and investment securities, which generally result in the sale of these assets to unconsolidated securitisation vehicles and in the Group transferring substantially all of the risks and rewards of ownership. The securitisation vehicles in turn issue securities to investors. Interests in the securitised financial assets are generally retained in the form of senior or subordinated tranches, interest-only strips or other residual interests (retained interests). Retained interests are recognised as investment securities and carried at FVOCI. Gains or losses on securitisation are recorded in other revenue.

#### **B. Financial Liabilities**

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

##### **5.1.1.5. Modifications of financial assets and financial liabilities**

#### **A. Financial assets**

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised, and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried

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out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the pre- modification interest rate.

#### **B. Financial liabilities**

The Group derecognises a financial liability when its terms are modified, and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

##### **5.1.1.6. Offsetting**

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under SLFRS standards, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

##### **5.1.2. Fair Value Measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non- performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability takes place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received.

If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

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If an asset or a liability measured at fair value has a bid price and an ask price, then the Company measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid. The Group recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

#### Valuation Models

Financial instruments are measured on an ongoing basis either at fair value or at amortised cost. The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

**Level 1:** Inputs that are quoted market prices (unadjusted) in active markets for identical instruments. The Group measures the fair value of an instrument using active quoted prices or dealer price quotations (assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price), without any deduction for transaction costs. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis,

**Level 2:** Inputs other than quoted prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using:

- quoted market prices in active markets for similar instruments;
- quoted prices for identical or similar instruments in markets that are considered less than active; or
- other valuation techniques in which all significant inputs are directly or indirectly observable from market data

**Level 3:** Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist and other valuation models. Assumptions

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and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premier used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Group uses widely recognised valuation models for determining the fair value of common and simple financial instruments. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Model inputs and values are calibrated against historical data and published forecasts and, where possible, against current or recent observed transactions in different instruments and against broker quotes. This calibration process is inherently subjective, and it yields ranges of possible inputs and estimates of fair value and management uses judgement to select the most appropriate point in the range.

The Group's methodology for valuing these asset-backed securities uses a discounted cash flow technique that takes into account the probability of default and loss severity by considering the original underwriting criteria, vintage borrower attributes, LTV ratios, expected house price movements and expected prepayment rates. These features are used to estimate expected cash flows, which are then allocated using the "waterfall" applicable to the security and discounted at a risk-adjusted rate. The discounted cash flow technique is often used by market participants to price asset-backed securities. However, this technique-is subject to inherent limitations, such as estimation of the appropriate risk-adjusted discount rate, and different assumptions and inputs would yield different results.

#### **5.1.3. Consolidated Financial Statements**

##### **5.1.3.1. Basis of consolidation**

The Group's financial statements comprise of, consolidated financial Statements of the Company and its subsidiary in terms of the Sri Lanka Accounting Standard – SLFRS 10 on "Consolidated Financial Statements" (SLFRS 10) and the proportionate share of the profit or loss and net assets of its associate in terms of the Sri Lanka Accounting Standard – LKAS 28 on "Investments in Associates and Joint Ventures" (LKAS 28). The financial statements of the Company's subsidiary and associate are prepared for a common financial year which ends on December 31 using consistent accounting policies.

##### **5.1.3.2. Subsidiary**

Subsidiary is an entity that is controlled by the Group. Subsidiary is fully consolidated from the date on which control is transferred to the Company and continue to be consolidated until the date when such control ceases. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Investment details of the subsidiary within the Group are provided in Note 23 to the financial statements.

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When the Company loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity related to the subsidiary. Any resulting gain or loss arising on the loss of control is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost. Subsequently, it is accounted for as an associate or as a financial investment depending on the level of influence retained.

There are no significant restrictions on the ability of the subsidiary to transfer funds to the parent (the Company) in the form of cash dividend or repayment of loans and advances. The subsidiary of the Company has been incorporated in Sri Lanka.

#### **5.1.3.3. Non-controlling interests**

Non-controlling interests (NCI) represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Company. NCI are presented separately in the consolidated statement of profit or loss and other comprehensive income and within equity in the consolidated statement of financial position but separate from parent shareholders' equity.

Any losses applicable to the non- controlling interests are allocated against the interests of the NCI even if this results in a deficit balance. Acquisitions of non- controlling interests are accounted for using the parent entity extension method, whereby the difference between the consideration and the fair value of the share of the net assets acquired is recognised as equity.

#### **5.1.3.4. Associate**

Associate is an entity in which the Company has significant influence, but not control over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20% and 50% of the voting power of the other entity unless it can be clearly demonstrated that despite having more than 20% hold in an entity, the Company has no significant influence over the entity evidenced by any one or more of the following.

- No representation on the Board of the entity
- No participation in policy making process or dividend distribution process of the entity
- No participation in budget preparation or other key operational aspects of the entity
- No transactions with the entity in the financial year
- No interchange management personnel
- Management accounts of the entity is not shared with the Company

Investment in associate is accounted for using the equity method and is recognised initially at cost, in terms of Sri Lanka Accounting Standards – LKAS 28 on “Investments in Associates and Joint Ventures”. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized but is subjected to impairment test. The Company's investments include goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Company's share of the income and expenses and equity movements of the associate after adjustments to align the accounting policies with those of the group from the date that significant influence effectively commences until the date that significant influence ceases.

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Accordingly, under the equity method, investments in associate is carried at cost plus post-acquisition changes in the Company's share of net assets of the associate and is reported as a separate line item in the statement of financial position. The statement of profit or loss reflects the Company's share of the results of operations of the associate. Any change in OCI of the associate is presented as part of the group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the group recognises its share of any changes, when applicable, in equity through OCI. Unrealised gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in associate.

When the Company's share of losses exceeds its interest in the associate, the carrying amount of that interest, is reduced to nil and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the associate. If the associate subsequently reports profits, the Company resumes recognising its share of those profits only after its share of the profits equal the share of losses not recognised previously.

The Company discontinues the use of the equity method from the date that it ceases to have significant influence over an associate and accounts for such investments in accordance with the Sri Lanka Accounting Standard – SLFRS 9 on “Financial Instruments”. Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

After application of the equity method, the Company determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Company determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and recognises the loss as “Share of profit of Associate” in the statement of profit or loss.

Investment details of the Associate within the Group are provided in Note 22 in the financial statements.

#### **5.1.3.5. Transactions eliminated on consolidation**

All intra-group balances, transactions and any unrealised income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

#### **5.1.4. Material Gains or Losses, Provisional Values or Error Corrections**

There were no material gains or losses, provisional values or error corrections recognised during the year in respect of business combinations that took place in previous periods.

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**5.2. Material Accounting Policies – Recognition of Income and Expense**

**5.2.1. Revenue**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the Group and the revenue can be reliably measured. Income from early settlement and overdue rentals have been accounted for on a cash basis.

**5.2.2. Net Interest Income**

For all financial instruments measured at amortised cost, interest income or expense is recorded using the Effective Interest Rate (EIR). EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest and similar income' for financial assets and 'Interest and similar expense' for financial liabilities. However, for a reclassified financial asset for which the Company subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of ensuring the impairment loss.

**5.2.3. Fee and Commission Income**

Fees and commission that are integral to the effective interest rate on financial asset or liability are included in the effective interest rate of respective asset or liability. Fees and commission income, including commission, service fees are recognised as the related services are performed.

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories;

- Fee income earned from services that are provided over a certain period of time.
- Fees earned for the provision of services over a period of time are accrued over that period.

**Fee income from providing transaction services**

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the documents and inspection of vehicle are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

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**5.2.4. Other Operating Income**

**5.2.4.1. Gain or losses on disposal of property, plant and equipment**

Gains/losses from sale of property, plant and equipment is recognised in the period in which the sale occurs and is classified as other income/expense.

**5.2.4.2. Dividend income**

Dividend income is recognised when the Group's right to receive the payment is established, which is generally when the shareholders approve the dividend income from equity investments at FVTPL is recognised in the Statement of Profit or Loss on an accrual basis when the Group's right to receive the dividend is established.

**5.2.4.3. Income from government securities and securities purchased under resale agreements**

Discounts/ premium on treasury bonds are amortised over the period to reflect a constant periodic rate of return. The coupon interest on treasury bonds is recognised on an accrual basis. The interest income on securities purchased under resale agreements is recognised in the income statement of profit or loss on an accrual basis over the period of the agreement.

**5.2.4.4. Recovery of bad and doubtful debts written off**

Recovery of amounts written off as bad and doubtful debts is recognised on cash basis.

**5.2.5. Expected Credit Losses on Financial Assets**

The Group recognises loss allowance using Expected Credit Losses (ECL) on loans and receivables to customers and other financial assets measured at amortised cost model using dual measurement approach which the loss allowance is measured as either 12-month expected credit losses or lifetime expected credit losses.

The Group recognises loss allowances for ECL on loans and receivables other financial assets measured at amortised cost. Accordingly, this note covers expected loss allowances for;

- Loans and receivables from customers
- Placements with banks

**5.2.5.1. Loans and receivables from customers**

For loans and advances above a predefined threshold, the Group individually assesses for significant increase in credit risk. If a particular loan is credit impaired, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. If the Group determines that no provision is required under individual impairment, such financial assets are then collectively assessed for any impairments along with the remaining portfolio.

Segmentation of the portfolio is done based on homogeneous characteristics. However, segmentation needs to be done to the extent for which representative sample data is available to estimate PD using transition matrix. (Need to combine where sample size is not adequate)

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#### Segmentation

- Lease – Machinery
- Lease – Other
- Loan – Other
- Loan – QC Pawning

The Group computes ECL using three main components; a probability of default (PD), a loss given default (LGD), and the exposure at default (EAD) under the collective assessment. These parameters are generally derived from internally developed statistical models and historical data are then adjusted to reflect forward- looking information.

■ PD – The probability of default represents the likelihood of a borrower defaulting on its financial obligation (as per “definition of default and credit impaired” on Material Accounting Policy Balance Sheet Note 20 below) either over the next 12 months (12mPD) or over the remaining lifetime (Lifetime PD) of the obligation. PD estimates are estimates at a certain date and days past due is the primary input into the determination of the term structure of PD for exposures. Days past due are determined by counting the number of days since the due date. The Group employs statistical models to analyse the data collected and generates estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

■ LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. The Group estimates LGD parameters based on historical recovery rates of claims against defaulted counterparties. They are calculated on a discounted cash flow basis using EIR as the discounting factor. LGD is usually expressed as a percentage of the EAD.

■ EAD – The exposure at default represents the expected exposure in the event of a default. The Group estimates EAD, taking into account the repayment of principal and interest from the reporting date to the default event together with any expected drawdowns of committed facilities. To calculate EAD for a Stage 1 loan, the Group assesses the possible default events within 12 months. For all other loans EAD is considered for default events over the lifetime of the financial instrument.

The Group measures loss allowances using both lifetime ECL and 12-month ECL. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group’s historical experience and informed credit assessment and including forward looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is equal more than 30 days past due.

The Group considers a financial asset to be in default when:

■ The borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or

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- the financial asset is equal or more than 120 days past due.

12-month ECL are the portion of ECL that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECL is the maximum contractual period over which the Group is exposed to credit risk.

#### **Measurement of ECL**

ECL are a probability weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

ECL are discounted at the effective interest rate of the financial asset.

#### **Credit-impaired financial assets**

At each reporting date, the Group assesses whether financial assets carried at amortised are credit impaired. A financial asset is “credit-impaired” when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 120 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise.
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

#### **Restructured financial assets**

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

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#### **Write-off**

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

#### **Other financial assets measured at amortised cost**

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- Debt investment securities that are determined to have low credit risk at the reporting date; and
- Other financial instruments on which credit risk has not increased significantly since their initial recognition

The Group considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of "investment grade". This policy is applicable to deposits with licensed commercial banks measured at amortised cost.

#### **5.2.5.2.Placements with banks**

Deposits with licensed commercial banks comprises the fixed deposits with licensed commercial banks which are measured initially at fair value plus transaction costs and subsequently measured at amortised cost using EIR. The Group recognises loss allowances for ECL on assets subsequently measured at amortised cost. The Group measures loss allowance at an amount equal to lifetime ECL, except financial investments that are determined to have low credit risk at the reporting date.

#### **5.2.6.Personnel expenses**

Personnel expenses include salaries and bonus, terminal benefit charges and other employee related expenses. The provision for bonus is recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made on the amount of the obligation.

#### **5.2.7.Other expenses**

All the expenditure incurred in the running of the business and in maintaining the property, plant and equipment in a state of efficiency, has been charged to the statement of profit or loss in arriving at the profit for the year under other expenses.

#### **5.2.8. Value Added Tax (VAT) on financial services**

VAT on financial services is calculated in accordance with the Value Added Tax (VAT) Act No. 14 of 2002 and subsequent amendments thereto. The base for the computation is the accounting profit before VAT and income tax adjusted for economic depreciation and benefits paid to employees

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including cash benefits, non- cash benefits and provisions relating to terminal benefits. VAT on financial services rate applied during the financial year ended December 31, 2023 was 18%.

#### 5.2.9. Social Security Contribution Levy (SSCL)

Social Security Contribution Levy shall be paid by any person carrying on the business of supplying of financial services, on the liable turnover specified in the second schedule of the Social Security Contribution Levy Act No. 25 of 2022, at the rate of 2.5% with effect from 1 October 2022. SSCL is payable on 100% of the value addition attributable to financial services. The value addition attributable to financial services shall be computed for the payment of SSCL on the business of supplying financial services by applying the attributable method referred to in Chapter IIIA of the Value Added Tax Act No. 14 of 2002.

#### 5.2.10. Income Tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the Statement of Profit or Loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current and deferred tax assets and liabilities are offset only to the extent that they relate to income taxes imposed by the same taxation authority, there is a legal right and intention to settle on a net basis and it is allowed under the tax law of the relevant jurisdiction.

##### Current Tax

Current tax is the expected tax payable on the taxable income for the year. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date and any adjustment to tax payable in respect of previous years. Accordingly, provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 24 of 2017 and the amendments thereto at the rates specified below. Income tax on profit from operations for the year ended December 31, 2023 is calculated at the rate of 30% (2022 – 24% in the first 09 months and next 03 months at 30%).

##### Deferred Tax

Deferred taxation is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax base of assets and liabilities, which is the amount attributed to those assets and liabilities for tax purposes. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

## SMB FINANCE PLC

### NOTES TO THE FINANCIAL STATEMENTS

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Deferred tax assets are recognised for all deductible temporary differences, carry of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

#### **5.2.11. Earnings Per Share (EPS)**

The Group computes basic and diluted EPS for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period as per the requirements of the Sri Lanka Accounting Standard LKAS 33 – “Earnings per Share”.

Diluted EPS is computed by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

#### **5.2.12. Dividend Per Share**

Provision for final dividend is recognised at the time the dividend is recommended and declared by the Board of Directors and approved by the shareholders. However interim cash dividend is recognised when the Board approves such dividend in accordance with Companies Act No. 07 of 2007.

### **5.3. Material Accounting Policies – Recognition of Assets and Liabilities**

#### **5.3.1. Cash and Cash Equivalents**

Cash and cash equivalents include cash in hand and balances with banks which are subject to an insignificant risk of changes in their fair value and are used by the Group in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position. Bank overdraft that are repayable on demand and form an integral part of the Company’s cash resources and it is only included as a component of cash equivalents for the purpose of the Cash Flow Statements.

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#### 5.3.2. Placements with Banks

Deposits with licensed commercial banks comprise of fixed deposits with licensed commercial banks and securities purchased under agreements to re-sell.

Fixed deposits with licensed commercial banks are measured initially at fair value plus transaction costs and subsequently measured at amortised cost using EIR. Amortised cost is calculated by taking into account any discount or premium on acquisition and other fees and cost that are an integral part of EIR. The Group recognises loss allowances for ECL on assets subsequently measured at amortised cost. Company measures loss allowance at an amount equal to lifetime ECL, except financial investments that are determined to have low credit risk at the reporting date.

Securities purchased under agreements to re-sell at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position reflecting the transaction's economic substance as a loan by the Company. The difference between the purchase and resale prices is accrued over the life of the agreement using the EIR and recorded in other operating income.

#### 5.3.3. Loans and Receivables

“Loans and advances to customers” are assets that are held within a business model whose objective is to hold the assets in order to collect contractual cash flows and the contractual terms of the assets give rise on specific dates to cash flows that are solely payment of principal and interest on the principal outstanding.

The Group initially recognises loans and advances to customers on the date on which they are originated. The classification of financial instruments at initial recognition depends on their cash flow characteristics and the business model for managing the instruments. The Group classifies all of its financial assets based on the business model for managing the assets and the assets' contractual terms measured at either;

- Amortised cost
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit or loss (FVTPL)

The subsequent measurement of financial assets depends on their classification.

All financial assets other than those classified at amortised cost or FVOCI are classified as measured at fair value through profit or loss (FVTPL). Accordingly, loans and receivables from customers are measured at FVTPL. Financial assets designated at fair value through profit or loss are recorded in the statement of financial position at fair value.

There were no significant changes in the gross carrying amount of the financial assets at amortised cost – loans and receivables to other customers which contributed to significant changes in the loss allowance during the year under review.

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The Company had granted debt moratorium to its lease and loan customers in compliance with the circulars issued by the Central Bank of Sri Lanka to provide relief measures to COVID - 19 affected businesses and individuals.

When providing debt moratoriums for lease facilities, the Company recognized the moratorium interest in financial statements as a charge and recorded in financial statements accordingly to SLFRS 16 – “Leases”.

Through the debt moratoriums granted for loan facilities were updated in the loan system as a charge, the Company recorded the interest impact of the debt moratorium in the 2023 financial statements and provided for allowance for expected credit losses in 2023 in compliance with SLFRS 9 – “Financial Instruments”.

The Group records an allowance for expected credit losses for loans and other credit facilities to customers measured at amortised cost. SLFRS 9 outlines a “three-stage” model for impairment based on changes in credit quality since initial recognition.

- **Stage 1:** A financial asset that is not originally credit-impaired on initial recognition is classified in Stage 1. Financial instruments in Stage 1 have their ECL measured at an amount equal to the proportion of lifetime expected credit losses (LTECL) that result from default events possible within next 12 months (12M ECL).
- **Stage 2:** If a significant increase in credit risk (SICR) since origination is identified, it is moved to Stage 2 and the Group records an allowance for LTECL. Refer Note 20 for a description on how the Group determines when a significant increase in credit risk has occurred.
- **Stage 3:** If a financial asset is credit impaired, it is moved to Stage 3 and the Group recognises an allowance for LTECL, with probability of default at 100%.

The key assumptions, judgements and estimates adopted by the Group in addressing the requirements of SLFRS 9 is given below.

#### **Significant increase in credit risk**

The assessment of whether credit risk on a financial asset has increased significantly will be one of the critical judgements used in expected credit loss model prescribed in SLFRS 9 – “Financial Instruments”. When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group’s historical experience and expert credit assessment and including forward looking information. The criteria for determining whether credit risk has increased significantly vary by portfolio and include qualitative factors, including a backstop based on delinquency.

The Group considers an exposure to have significantly increased credit risk when contractual payments of a customer are more than 30 days past due rebutting the presumption in the SLFRS 9 permitted in accordance with the provisions of SLFRS 9. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to

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the borrower. The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews.

#### **Definition of Default**

The Group considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- The borrower is past due equal more than 120 days on any material credit obligation to the Group.

In determination of default the Group largely aligns with the regulatory definition of default which is 120 days and above. In assessing whether a borrower is in default, the Group considers indicators that are:

- Qualitative – e.g., breaches of covenant;
- Quantitative – e.g., overdue status and non-payment on another obligation of the same issuer to the Group; and
- Based on data developed internally and obtained from external sources

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

In assessing whether a borrower is in default, the Group reviews its individually significant loans and advances above a predefined threshold at each reporting date. The Group considers non performing credit facilities/customers with one or more of the following indicators and assessed accordingly in ECL computations.

- When reasonable and supportable forecasts of future economic conditions directly affect the performance of the customer.
- When there is a significant change in the geographical locations or natural catastrophes that directly impact the performance of the customer.
- When the value of collateral is significantly reduced and/or realisability of collateral is doubtful.
- When a customer is subject to litigation, that significantly affects the performance of the credit facility.
- Frequent changes in the senior management of an institutional customer.
- When the customer is deceased/ insolvent.
- When the Group is unable to contact or find the customer.

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- A fall of 50% or more in the turnover and/or profit before tax of the customer when compared to the previous year.

#### **Expected Credit Loss (ECL)**

The Group calculates ECL either on a collective or an individual basis. Those financial assets for which, the Group determines that no provision is required under individual impairment are then collectively assessed for ECL.

For the purpose of ECL calculation on collective basis, financial assets are grouped on the basis of similar risk characteristics. Loans and advances to other customers are grouped into homogeneous portfolios, based on a combination of product characteristics.

#### **Collateral valuation**

The Group seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as real estate, gold, repossessed vehicles and repossessed machinery. When computing the ECL for individually significant loans, the discounted value of respective collateral is taken into consideration. The Group's policy is to carry collaterals repossessed at fair value at the repossession date and such assets will be disposed at the earliest possible opportunity.

#### **5.3.4. Financial Investments**

Financial investments consist of investments in quoted and non-quoted shares. Quoted equity securities classified under available-for-Sale investments as per LKAS - 39 "Financial Instruments". Recognition and Measurement has been reclassified to financial assets measured at FVTPL. For unquoted equity investments Group has irrevocably elect to present subsequent changes in FVOCI.

#### **Unquoted Equity Investments at FVOCI**

Upon initial recognition, the Group elected to classify irrevocably some all unquoted equity investments held for strategic purpose, as equity instruments at FVOCI when they meet the definition of Equity under SLFRS 9 "Financial Instruments" and are not held for trading. Gains and losses on these equity instruments are never recycled to profit or loss instead directly transferred to retained earnings at the time of derecognition. Dividends are recognized in profit or loss as other operating income when the right of the payment has been established. Equity instruments at FVOCI are not subject to an impairment assessment and comprise quoted and unquoted shares that had been previously classified as available for sale under LKAS 39.

#### **5.3.5. Investment in Associate**

Investment in associate is accounted for at cost in the Group's financial statements and under the equity method in the consolidated financial statements. Under the equity method, the investment in associate is initially accounted at cost and the carrying amount is adjusted for post-acquisition changes in the Group's share of net assets of the associate, less any impairment in the Group's net investment in associate. Refer Note 22.

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#### 5.3.6. Investment in Subsidiary

Investments in subsidiary is stated at cost, net of any impairment losses which are charged to the statement of profit or loss in the Group's financial statements. Refer Note 23.

#### 5.3.7. Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property or biological assets, which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held-for-sale or held-for-distribution and subsequent gains and losses on remeasurement are recognized in profit or loss.

Once classified as held-for-sale, intangible assets and property, plant and equipment are no longer amortised or depreciated, and any equity-accounted investee is no longer equity accounted.

#### 5.3.8. Discontinued Operation

A discontinued operation is a component of a Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which;

- represents a separate major line of business or geographic area of operations.
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographic area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

When an operation is classified as a discontinued operation, the comparative statement of profit or loss and OCI is re-presented as if the operation had been discontinued from the start of the comparative year.

#### 5.3.9. Investment Property

Investment property is a property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment Properties of the Group are stated at market value less provision for Impairment.

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External and independent valuers, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the investment property every 3 years. In financial periods within that period, the fair value is determined by the board of directors.

The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably.

### **5.3.10. Property, Plant and Equipment**

#### **Basis of Recognition**

Property, plant and equipment are tangible items that are held for servicing, or for administrative purposes, and are expected to be used during more than one year. Property, plant and equipment is recognised if it is probable that future economic benefits associated with the asset will flow to the Group and cost of the asset can be measured reliably.

#### **Basis of Measurement**

An item of property, plant and equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and cost incurred subsequently to add to or replace a part of it. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring at the site on which they are located and capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as a part of computer equipment. When parts of an item of property, plant & equipment have different useful lives, they are accounted for as separate items (Major components) of property, plant and equipment. The Company & Group apply the cost model to property, plant and equipment and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses.

#### **Subsequent Costs**

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The cost of day to day servicing of property, plant and equipment are charged to the profit or loss as incurred.

#### **Repairs & Maintenance**

Repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the assets when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing assets will flow to the Company & Group and the renovation replaces an identifiable part of the asset. Major renovations are depreciated during the remaining useful life of the related asset.

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#### Derecognition

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (Calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other operating income' in the statement of profit or loss in the year the asset is derecognized.

#### Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this method most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives are as follows;

Class of Asset	% Per Annum	Period
Motor Vehicles	20%	5 Years
Computer hardware	20%	5 Years
Office equipment	20%	5 Years
Furniture and fittings	20%	5 Years

The depreciation rates are determined separately for each significant part of an item of property, plant and equipment and commence to depreciate when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or the date that the asset is derecognised. Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

#### 5.3.11. Right - of - use Assets and Lease Liabilities

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in SLFRS 16.

This policy is applied to contracts entered into, on or after January 1, 2019.

##### As a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non- lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

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The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

#### **Short-term leases and leases of low-value assets**

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

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#### **Presentation**

As per SLFRS 16 Right-of-use assets are either presented separately from other assets on the balance sheet or disclosed separately in the notes. Similarly, lease liabilities are either presented separately from other liabilities on the balance sheet or disclosed separately in the notes.

The Company has elected to present Right-of-use assets separately from other assets on the statement of financial position. Similarly, lease liabilities are presented separately from other liabilities on the statement of financial position.

Depreciation expense and interest expense cannot be combined in the statement of profit or loss. In the cash flow statement, principal payments on the lease liability are presented within financing activities; interest payments are presented based on an accounting policy election in accordance with LKAS 7 “Statement of Cash Flows”.

#### **5.3.12. Intangible Assets**

The intangible assets include the value of computer software developed inhouse in partnership with a vendor.

#### **Basis of Recognition**

An intangible asset is recognised if it is probable that future economic benefits that are attributable to the asset will flow to the Group and the cost of the asset can be measured reliably, in accordance with Sri Lanka Accounting Standard 38 – “Intangible Assets”. Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses. Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

#### **Subsequent Expenditure**

Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

#### **Useful economic lives, amortisation and impairment**

The useful economic lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and they are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category consistent with the function of the intangible asset.

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Amortisation is calculated using the straight- line method to write down the cost of intangible assets to their residual values over their estimated useful economic lives at the rates as specified below;

<b>Class of Asset</b>	<b>% Per Annum</b>	<b>Period</b>
Computer software	20%	5 years

The unamortised balances of intangible assets with finite lives are reviewed for impairment whenever there is an indication for impairment and recognised in profit or loss to the extent that they are no longer probable of being recovered from the expected future benefits.

**Derecognition**

Intangible assets are derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (Calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the profit or loss in the year the asset is derecognised.

**5.3.13. Other Assets**

Other assets mainly comprise of refundable deposits, prepayments, performance bank guarantee, receivable from escrow agreement and other advances carried at historical cost.

**5.3.14. Due to Financial Institutions**

This represents loans and overdraft facilities from licensed commercial banks. These facilities are initially recognised at fair value net of transaction cost. Subsequent to initial recognition, borrowings are measured at their amortised cost using the effective interest method. Amortised cost is computed by taking into account any discount or premium identified at initial recognition which are an integral part of EIR. Interest paid/payable on these borrowings are recognised in Profit or Loss.

**5.3.15. Due to Other Customers**

These represents the funds borrowed in the form of debentures and promissory Notes. Interest Expense is recognized in the statement of profit or loss based on the effective interest rate method.

**5.3.16. Retirement Benefit Obligations**

The Group measures the present value of the promised retirement benefits for gratuity, which is a defined benefit plan using the 'Projected Unit Credit method' (PUC) as required by the Sri Lanka Accounting Standard LKAS 19 – "Employee Benefits". The Group continues to use an internally developed method to measure retirement benefit liability. This is stated under other liabilities in the statement of financial position.

The Group recognises the total actuarial gains and losses that arise in calculating the Group's obligation in respect of the plan in other comprehensive income during the period in which it occurs. The gratuity liability is not externally funded.

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#### **5.3.17. Other Liabilities**

A provision is recognised if, as a result of past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Other liabilities mainly comprise accrued expenses, supplier payables, insurance payable, consent motion advance, EPF/ETF/PAYE payables, etc.

#### **5.3.18. Statutory Reserve**

Statutory Reserve Fund has been created during the year 2006 in accordance with the Finance Leasing (Amendment) Act No 24 of 2005. Statutory reserve fund is a capital reserve which contains profits transferred as required by Department of Supervision of Non Bank Financial Institutions of Central Bank of Sri Lanka, under the Finance Companies (Capital Funds) Direction No. 01 of 2003. Accordingly, 5% of the net profit for the period is transferred to the statutory reserve fund.

#### **5.3.19. Fair Value Reserve**

“Fair value reserve” comprises the cumulative net change in fair value of financial assets measured at fair value through other comprehensive income. Refer Note 38.

### **5.4. Material Accounting Policies – Statement of Cash Flows**

#### **5.4.1. Statement of Cash Flows**

The Statement of Cash Flow has been prepared by using the ‘Direct Method’ of preparing cash flows in accordance with the Sri Lanka Accounting Standard LKAS 7 – “Statement of Cash Flows”, whereby operating activities, investing activities and financing activities are separately recognised.

Cash and cash equivalents comprise of cash in hand and cash at bank. Cash and cash equivalents as referred to in the statement of cash flow are comprised of those items as explained in the Note given in the statement of cash flow.

### **5.5. Material Accounting Policies – Other**

#### **5.5.1. Events after the reporting period**

Events after the reporting period are those events, favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. In this regard, all material and important events that occurred after the reporting period have been considered and appropriate disclosures are made in Note 43 where necessary.

#### **5.5.2. Capital Commitments**

During 2023, the Company did not enter into any contract that will give rise to capital expenses in the future.

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**5.5.3. Contingent liabilities**

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events on present obligations where the transfer of economic benefit is not probable or can't be reliably measured.

Summary cases against the Group have been disclosed in the Note 42.

to the financial statements. However, based on the available information and the available information and the available legal advice, the Group do not expect the outcome of any action to have any material effect on the financial position of the group.

**5.5.4. Operating segments**

The Group's segmental reporting is based on operating segments.

A segment is a distinguishable component of the Group that is engaged in providing products and services. (Business segment, which is subject to risks and rewards that are different from those of other segments).

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The accounting policies adopted for segment reporting are those accounting policies adopted for preparing the financial statements of the group. Inter-segment transfers are accounted for at competitive fair market prices charged to intercompany counterparts for similar services. Such services are eliminated on consolidation.

All operating results are reviewed regularly by the Chief Executive Officer (CEO) to make decisions regarding resources to be allocated to the segments and to assess its performance, and for which discrete finance information is available. Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on reasonable basis.

For management purposes, the Company is organised into business units based on their products and services.

No operating segments have been aggregated to form the reportable operating segments.

Segment performance is evaluated based on profit or loss which, in certain respects, is measured differently from statement of profit or loss in the financial statements.

The Group's stated capital and retained earnings are managed on a company basis and are not allocated to individual operating segments.

Inter-segment pricing is determined on an arm's length basis. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment and intangible assets other than goodwill. The activities of the Group are located mainly in Sri Lanka. Consequently, the economic environment in which the Group operates is not subject to risks and rewards that are significantly different on a geographical basis. Hence, disclosure by geographical region is not provided.

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<b>Operating Segment</b>	<b>Category of Information</b>	<b>Details</b>
Leasing	Nature of product	Leasing facilities to acquire movable properties
	Classification of product	Motor cars, busses, trucks, machinery
	Revenue derived from	<ul style="list-style-type: none"> <li>• Interest income</li> <li>• Service fee income &amp; commission income</li> </ul>
Loans	Nature of product	Loan facilities to acquire movable and immovable properties and personal loans
	Classification of product	Land, motor cars, personal loans
	Revenue derived from	<ul style="list-style-type: none"> <li>• Interest income</li> <li>• Service fee income</li> </ul>
Treasury	Nature of product	Investing activities
	Classification of product	Placement with banks, REPOS, Treasury bonds
	Revenue derived from	<ul style="list-style-type: none"> <li>• Investment income and fair value gains and losses on investments</li> </ul>
Money Brokering	Nature of product	Money brokering activities
	Classification of product	Call money, FOREX, Treasury bills, treasury bonds
	Revenue derived from	<ul style="list-style-type: none"> <li>• Commission income</li> <li>• Investment income and fair value gains losses on investments</li> </ul>

Details of the 5.5.4. Operating Segments are given in Note 49.

**5.5.5. Maturity Analysis**

The Company has disclosed an analysis of assets and liabilities into relevant maturity baskets based on the remaining period as at the reporting date to the contractual maturity date. Remaining contractual period to maturity as at the date of statement of financial position of the assets, liabilities and share holders' funds are given in Note 46.3.3.

**6. New Accounting Standards Issued but not yet effective**

**6.1 New and Amended Standards and Interpretations**

The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) has issued several new accounting standards and amendments/improvements to existing standards. These new standards are set to become effective in the coming years. Early application of these standards is allowed, but the Group has not early adopted any of the new or amended standards in the preparation of these financial statements.

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i). Classification of liabilities as current or non-current (Amendments to LKAS 1).

Amendments to LKAS 1 alter the classification of liabilities like convertible debt and introduce new disclosure requirements for liabilities subject to covenants will become effective from 01 January 2024.

ii). Lease liability in a sale and leased back (Amendment to SLFRS 16).

The amendments specifically affect seller lessee accounting in sale and leaseback transactions that qualify as a sale under SLFRS 15, especially those involving variable lease payments not based on an index or rate. They modify how a seller-lessee accounts for these leasebacks, preventing recognition of gains on retained rights of use due to lease term modifications or changes, which previously could occur when variable payments not defined as 'lease payments' were excluded. This standard will become effective from 01 January 2024.

iii). Supplier Finance Arrangements (Amendments to LKAS 7 and SLFRS 7).

iv). Lack of Exchangeability (Amendments to LKAS 21).

These new and amended accounting standards are not expected to have a significant impact on the Group's financial statements.

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**Notes to the Financial Statements**

**Income**

Rs.	Note	Company		Group	
		2023	2022	2023	2022
<b>For the year ended December 31,</b>					
Interest income	7	775,505,794	483,655,939	775,505,794	483,655,939
Fee and commission income	9	4,054,971	9,905,419	4,054,971	9,905,419
Other operating income	10	7,873,868	13,063,673	7,873,868	13,063,673
		<b>787,434,633</b>	<b>506,625,031</b>	<b>787,434,633</b>	<b>506,625,030</b>

**7 Interest Income**

Rs.	Company		Group	
	2023	2022	2023	2022
<b>For the year ended December 31,</b>				
Lease rental receivable		124,887,349	124,887,349	102,069,130
Loans and advances		131,421,710	131,421,710	132,937,200
Gold loans advances		124,630,082	54,354,905	124,630,082
Interest income on placements with banks		392,668,512	193,449,806	392,668,512
Investment with government securities		1,898,141	844,898	1,898,141
<b>Total interest income</b>		<b>775,505,794</b>	<b>483,655,939</b>	<b>775,505,794</b>

**8 Interest Expenses**

Rs.	Company		Group	
	2023	2022	2023	2022
<b>For the year ended December 31,</b>				
Due to banks		299,499,493	299,499,493	127,813,402
Due to other customers		6,429,636	6,429,636	4,528,771
SLFRS 16 – Incremental borrowing cost		2,951,123	2,394,897	2,951,123
<b>Total interest expenses</b>		<b>308,880,252</b>	<b>134,737,070</b>	<b>308,880,252</b>
<b>Net interest income</b>		<b>466,625,542</b>	<b>348,918,869</b>	<b>466,625,542</b>

**9 Net Fee and Commission Income**

Rs.	Company		Group	
	2023	2022	2023	2022
<b>For the year ended December 31,</b>				
Fee and commission income		4,054,971	4,054,971	9,905,419
<b>Net fee and commission income</b>		<b>4,054,971</b>	<b>4,054,971</b>	<b>9,905,419</b>

**10 Other Operating Income**

Rs.	Note	Company		Group	
		2023	2022	2023	2022
<b>For the year ended December 31,</b>					
Write collection Income		4,386,700	88,836	4,386,700	88,836
Service charges		48,500	452,330	48,500	452,330
Recovery of loans and lease written off in prior years		611,370	515,394	611,370	515,394
Dividend income		647,905	740,279	647,905	740,279
Profit on gold loan auction		411,922	260,120	411,922	260,120
Fair value gain on financial investment	21.1	29,298	-	29,298	-
Sundry income		338,164	11,006,714	338,164	11,006,714
Lease modification gain		1,400,009	-	1,400,009	-
		<b>7,873,868</b>	<b>13,063,673</b>	<b>7,873,868</b>	<b>13,063,673</b>

**11 Allowance for Expected Credit Loss -Charge**

Rs.	Note	Company		Group	
		2023	2022	2023	2022
<b>For the year ended December 31,</b>					
Allowance for expected credit loss for loans and advances	20.5	113,447,135	171,244,848	113,447,135	171,244,848
Unwinding interest adjustment		(16,201,301)	(6,992,480)	(16,201,301)	(6,992,480)
Allowance for expected credit loss for placement with banks		(326,550)	1,264,847	(326,550)	1,264,847
Write-offs and disposal (gain) / losses		(7,856,938)	(1,858,120)	(7,856,938)	(1,858,120)
		<b>89,062,346</b>	<b>163,659,095</b>	<b>89,062,346</b>	<b>163,659,095</b>

**12 Personnel Expenses**

Rs.	Company		Group	
	2023	2022	2023	2022
<b>For the year ended December 31,</b>				
Salaries and bonus		70,016,335	70,016,335	51,312,555
Defined contribution plan costs - EPF		7,562,210	7,562,210	5,681,399
Defined contribution plan costs - ETF		1,890,553	1,420,350	1,890,553
Defined benefit plan cost		3,508,644	3,097,687	3,508,644
Others		28,496,787	15,300,023	28,496,787
		<b>111,474,529</b>	<b>76,812,014</b>	<b>111,474,529</b>

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**13 Other Expenses**

Rs.	Company		Group	
	2023	2022	2023	2022
<b>For the year ended December 31,</b>				
Auditors' remuneration - Audit related services	1,542,256	1,560,464	1,542,256	1,560,464
- Non audit services	2,329,296	2,182,041	2,329,296	2,182,041
Depreciation and amortisation	32,668,417	17,364,741	32,668,417	17,364,741
Legal expenses	3,068,791	3,770,044	3,068,791	3,770,044
Directors' emoluments	5,445,000	4,905,000	5,445,000	4,905,000
Premises and equipment cost	35,650,444	20,987,406	35,650,444	20,987,406
Others	20,305,111	18,196,166	20,305,111	18,196,166
	<b>101,009,315</b>	<b>68,965,862</b>	<b>101,009,315</b>	<b>68,965,862</b>

**14 Taxes on Financial Services**

Rs.	Company		Group	
	2023	2022	2023	2022
<b>For the year ended December 31,</b>				
Value added tax on financial services	50,489,691	15,598,412	50,489,691	15,598,412
Social security contribution levy (SSCL)	3,173,708	3,386,637	3,173,708	3,386,637
	<b>53,663,399</b>	<b>18,985,049</b>	<b>53,663,399</b>	<b>18,985,049</b>

**15 Income tax**

Rs.	Note	Company		Group	
		2023	2022	2023	2022
<b>For the year ended December 31,</b>					
Income tax claim on profits	15.1	31,688,524	(6,129,285)	31,688,524	(6,129,285)
Provision for the year		10,165,441	2,656,249	10,165,441	2,656,249
		<b>41,853,966</b>	<b>(3,473,036)</b>	<b>41,853,966</b>	<b>(3,473,036)</b>

**15.1 Reconciliation of Accounting Profit and the Income Tax Expense**

Rs.	Note	Company		Group	
		2023	2022	2023	2022
<b>For the year ended December 31,</b>					
Profit before income tax		161,755,314	76,109,196	154,968,780	53,730,290
Share of profit of associate company		(39,922)	(743,655)	(39,922)	(743,655)
Aggregate disallowed expenses		179,515,134	215,183,804	179,515,134	206,882,702
Aggregate allowable expenses		(197,081,756)	(279,957,303)	(197,081,756)	(283,331,497)
Capital portion of lease receivable		527,172	6,997,344	527,172	6,997,344
Aggregate exempt / allowable income		(39,047,798)	(45,905,273)	(39,047,798)	(44,404,768)
<b>Profit / (loss) from the business</b>		<b>105,628,144</b>	<b>(28,315,888)</b>	<b>98,841,610</b>	<b>(60,869,585)</b>
Profit / (loss) from other source of income		-	2,336,587	-	(3,880,247)
Dividend income		540	740,000	540	740,000
Tax loss incurred / (claimed) during the year	15.3	-	-	-	-
<b>Taxable profit / (loss)</b>		<b>105,628,684</b>	<b>(25,239,301)</b>	<b>98,842,150</b>	<b>(64,009,832)</b>
Tax on business income @ 24%		-	(6,235,033)	-	(6,235,033)
Tax on business income @ 30%		31,688,443	-	31,688,443	-
Tax on dividend income @ 14%		-	73,538	-	73,538
Tax on dividend income @ 15%		81	32,210	81	32,210
<b>Income tax expense / (claim)</b>		<b>31,688,524</b>	<b>(6,129,285)</b>	<b>31,688,524</b>	<b>(6,129,285)</b>

**Capital allowances for Intangible Assets**

Intangible Asset Capital Allowances, when it comes to capital allowances, the Act treats intangible assets different manner than it does tangible assets.

**15.2 Reconciliation of Effective Tax Rate**

A reconciliation between the tax expense and the product of accounting (loss) / profit multiplied by the applicable tax rate for the year ended December 31, 2023 is given below;

Rs.	Company		Group	
	2023	2022	2023	2022
<b>For the year ended December 31,</b>				
Accounting profit before income tax	161,755,314	76,109,196	154,968,780	53,730,290
Income tax expense at the average statutory income tax rate @ 30%	48,526,594	22,832,759	46,490,634	16,119,087
Tax effect of disallowable expenses	53,854,540	64,555,141	53,854,540	62,064,811
Tax effect of allowable expenses	(59,124,527)	(83,987,191)	(59,124,527)	(84,999,449)
Capital portion of lease receivable	158,152	2,099,203	158,152	2,099,203
Tax effect of aggregate exempt / allowable income	(11,726,316)	(13,994,679)	(11,726,316)	(13,544,527)
Tax effect of profit from other source of income	-	700,976	-	(1,164,074)
Tax effect of tax profit claimed during the year	-	-	-	-
Tax on dividend Income @ 14%	-	73,538	-	73,538
Tax on dividend Income @ 15%	81	32,210	81	32,210
<b>Income tax expense / (claim) for the year</b>	<b>31,688,524</b>	<b>(6,129,285)</b>	<b>31,688,524</b>	<b>(6,129,285)</b>
<b>Effective tax rate</b>	<b>19.59%</b>	<b>-8.05%</b>	<b>20.45%</b>	<b>-11.41%</b>

The income tax provision of the Company for 2023 is calculated based on the tax rates specified in the Inland Revenue Act No. 24 of 2017.

Income tax provision for the year ended December 31, 2023 of SMB Finance PLC has been calculated at 30% (2022-for First 09 Months 24% and for the next month 30%) on its taxable profit in terms of Inland Revenue Act No. 24 of 2017, and amendments thereto.

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**15.3 Accumulated Tax Losses**  
**Rs.**

	Company		Group	
	2023	2022	2023	2022
Balance as at January 1,	-	142,472,645	-	142,472,645
Adjustment in respect of prior years	-	(142,472,645)	-	(142,472,645)
<b>Balance as at December 31,</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

**16 Discontinued operations**

In June 2023, the board of directors of the company resolved to sell the ownership of its subsidiary (SMB Money Brokers (Private) Limited) and Management has taken necessary measures to negotiate with potential buyer and obtain required principal approvals from the regulators. Sale transaction is planning to execute in April 2024.

SMB Money Brokers (Private) Limited was not previously classified as held-for-sale as a discontinued operation. The comparative consolidated statement of profit or loss and OCI has been re-presented to show the discontinued operation separately from continuing operations.

	2023	2022
<b>A. Results of discontinued operation</b>		
Revenue	1,009,335	19,089,271
Other Operating Income	194,332	112,404
Net gain arising from changes in fair value of Investment Properties	-	2,300,000
Administrative Expenses	(8,959,277)	(56,474,411)
Promotional Expenses	-	(84,057)
Net(Loss)/ Profit on Financial Assets	-	(1,508,152)
<b>Operating Profit</b>	<b>(7,755,610)</b>	<b>(36,564,945)</b>
Net Finance Income	156,895	1,436,039
<b>Profit Before Tax</b>	<b>(7,598,715)</b>	<b>(35,128,906)</b>
Tax Expense	(1,202,704)	(267,050)
<b>Profit/(Loss) for the Year</b>	<b>(8,801,419)</b>	<b>(35,395,956)</b>

Basic earning (loss) per share (3.52) (14.16)

	2023	2022
<b>B. Cash flows from (used in) discontinued operation</b>		
Net cash used in operating activities	(18,293,094)	(24,826,397)
Net cash from investing activities	18,929,840	7,128,546
Net Cash used in Financing Activities	-	(1,088,500)
<b>Net Cash flows for the year</b>	<b>636,746</b>	<b>(18,786,351)</b>

**17 Earnings Per Share**

Basic earnings per share has been calculated by dividing the profit for the year attributable to equity holders of the Company by the number of ordinary shares, as per the requirements of the Sri Lanka Accounting Standard LKAS 33 - "Earnings per Share".

For the year ended December 31,	Company		Group	
	2023	2022	2023	2022
Profit attributable to equity holders of the Company (Rs.)	119,901,348	79,582,232	108,626,971	74,280,295
No. of ordinary shares outstanding during the year	9,551,978,760	9,551,978,760	9,551,978,760	9,551,978,760
<b>Basic earnings per share (Rs.)</b>	<b>0.01</b>	<b>0.01</b>	<b>0.01</b>	<b>0.01</b>

**17.1 Diluted Earnings Per Share**

There were no potentially dilutive ordinary shares as at December 31, 2023 and there have been no transactions involving ordinary shares or potential ordinary shares as at the reporting date which would require restatement of EPS.

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**Notes to the Financial Statements**

**18 Cash and Cash Equivalents**

Rs.	Note	Company		Group	
		2023	2022	2023	2022
<b>As at December 31,</b>					
Cash in hand		40,242,112	40,870,875	40,282,140	40,885,875
Balances with banks		50,427,932	14,431,167	50,921,577	14,608,995
Transferred to assets held for sale		-	-	(533,673)	-
<b>Cash and cash equivalents in the statement of financial position</b>		<b>90,670,044</b>	<b>55,302,042</b>	<b>90,670,044</b>	<b>55,494,870</b>
Repo investment with banks	19	86,896,000	501,000	86,896,000	533,169
Bank overdrafts repayable on demand and used for cash management purpose	31	(229,654,213)	(2,103,754)	(229,654,213)	(2,391,425)
<b>Cash and cash equivalents in the statement of cash flow</b>		<b>(52,088,169)</b>	<b>53,699,288</b>	<b>(52,088,169)</b>	<b>53,636,614</b>

**19 Placements with Banks**

Rs.	Note	Company		Group	
		2023	2022	2023	2022
<b>As at December 31,</b>					
Fixed deposits with banks		2,482,861,195	2,402,457,911	2,482,861,195	2,402,457,911
REPO investment with banks - Overnight		86,896,000	501,000	86,936,401	533,169
Transferred to assets held for sale		-	-	(40,401)	-
<b>Gross placements with banks</b>		<b>2,569,757,195</b>	<b>2,402,958,911</b>	<b>2,569,757,195</b>	<b>2,402,991,080</b>
Allowance for expected credit loss - (charge)	19.1	(1,156,788)	(1,483,338)	(1,156,788)	(1,483,338)
<b>Net placements with banks</b>		<b>2,568,600,407</b>	<b>2,401,475,573</b>	<b>2,568,600,407</b>	<b>2,401,507,742</b>

**19.1 Movement in Impairment During the Year - Company / Group**

Rs.	2023	2022
Balance as at January 1,	1,483,338	218,491
Charge to the income statement	(326,550)	1,264,847
<b>Balance as at December 31,</b>	<b>1,156,788</b>	<b>1,483,338</b>

**20 Financial Assets at Amortised Cost - Loans and Receivables to Customers**

**20.1 Stage-wise Analysis of Loans and Receivables**

Rs.	Company		Group	
	2023	2022	2023	2022
<b>As at December 31,</b>				
<b>Gross loans and receivables</b>				
Stage 1	1,213,562,791	1,593,971,826	1,213,562,791	1,593,971,826
Stage 2	198,771,956	285,176,896	198,771,956	285,176,896
Stage 3	809,291,543	613,084,508	809,291,543	613,084,508
	<b>2,221,626,290</b>	<b>2,492,233,230</b>	<b>2,221,626,290</b>	<b>2,492,233,230</b>
<b>Provision for impairment</b>				
Stage 1	(113,255,362)	(98,411,429)	(113,255,362)	(98,411,429)
Stage 2	(50,712,740)	(88,434,040)	(50,712,740)	(88,434,040)
Stage 3	(586,344,114)	(450,019,612)	(586,344,114)	(450,019,612)
	<b>(750,312,216)</b>	<b>(636,865,081)</b>	<b>(750,312,216)</b>	<b>(636,865,081)</b>
<b>Net loans and advances</b>	<b>1,471,314,074</b>	<b>1,855,368,149</b>	<b>1,471,314,074</b>	<b>1,855,368,149</b>

**20.1.1 Loans**

Rs.	Company		Group	
	2023	2022	2023	2022
<b>As at December 31,</b>				
<b>Gross loans receivables</b>				
Stage 1	455,480,713	645,034,758	455,480,713	645,034,758
Stage 2	64,787,283	181,961,895	64,787,283	181,961,895
Stage 3	526,116,351	322,315,147	526,116,351	322,315,147
	<b>1,046,384,347</b>	<b>1,149,311,800</b>	<b>1,046,384,347</b>	<b>1,149,311,800</b>
<b>Provision for impairment</b>				
Stage 1	(62,649,928)	(63,196,502)	(62,649,928)	(63,196,502)
Stage 2	(33,888,642)	(63,714,856)	(33,888,642)	(63,714,856)
Stage 3	(369,732,156)	(205,448,144)	(369,732,156)	(205,448,144)
	<b>(466,270,726)</b>	<b>(332,359,502)</b>	<b>(466,270,726)</b>	<b>(332,359,502)</b>
<b>Net loans receivable</b>	<b>580,113,621</b>	<b>816,952,298</b>	<b>580,113,621</b>	<b>816,952,298</b>

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20.1.2 Leases Rs.	Company		Group	
	2023	2022	2023	2022
<b>As at December 31,</b>				
<b>Gross lease receivables</b>				
Stage 1	479,025,963	565,456,453	479,025,963	565,456,453
Stage 2	56,041,429	79,473,261	56,041,429	79,473,261
Stage 3	218,246,407	281,771,152	218,246,407	281,771,152
	<b>753,313,799</b>	<b>926,700,866</b>	<b>753,313,799</b>	<b>926,700,866</b>
<b>Provision for impairment</b>				
Stage 1	(50,600,145)	(33,049,568)	(50,600,145)	(33,049,568)
Stage 2	(16,645,600)	(24,223,282)	(16,645,600)	(24,223,282)
Stage 3	(212,119,212)	(243,044,864)	(212,119,212)	(243,044,864)
	<b>(279,364,957)</b>	<b>(300,317,714)</b>	<b>(279,364,957)</b>	<b>(300,317,714)</b>
<b>Net lease receivable</b>	<b>473,948,842</b>	<b>626,383,152</b>	<b>473,948,842</b>	<b>626,383,152</b>

20.1.3 Gold loan Advances Receivable Rs.	Company		Group	
	2023	2022	2023	2022
<b>As at December 31,</b>				
<b>Gold loan advances receivables</b>				
Stage 1	279,056,115	383,480,615	279,056,115	383,480,615
Stage 2	77,943,244	23,741,740	77,943,244	23,741,740
Stage 3	64,928,785	8,998,209	64,928,785	8,998,209
	<b>421,928,144</b>	<b>416,220,564</b>	<b>421,928,144</b>	<b>416,220,564</b>
<b>Provision for impairment</b>				
Stage 1	(5,289)	(2,165,359)	(5,289)	(2,165,359)
Stage 2	(178,498)	(495,902)	(178,498)	(495,902)
Stage 3	(4,492,746)	(1,526,604)	(4,492,746)	(1,526,604)
	<b>(4,676,533)</b>	<b>(4,187,865)</b>	<b>(4,676,533)</b>	<b>(4,187,865)</b>
<b>Net gold loan receivables</b>	<b>417,251,611</b>	<b>412,032,699</b>	<b>417,251,611</b>	<b>412,032,699</b>

20.2 Product-wise Analysis of Loans and Receivables Rs.	Company		Group	
	2023	2022	2023	2022
<b>As at December 31,</b>				
Lease rental receivables	753,313,799	926,700,866	753,313,799	926,700,866
Personal loans	109,399,605	111,385,935	109,399,605	111,385,935
Term loans	610,959,405	770,328,507	610,959,405	770,328,507
Easy payment loans	5,656,279	9,091,129	5,656,279	9,091,129
Other loans	320,369,058	258,506,229	320,369,058	258,506,229
Gold loan advances	421,928,144	416,220,564	421,928,144	416,220,564
	<b>2,221,626,290</b>	<b>2,492,233,230</b>	<b>2,221,626,290</b>	<b>2,492,233,230</b>

20.3 Sector-wise Analysis of Loans and Receivables Rs.	Company		Group	
	2023	2022	2023	2022
<b>As at December 31,</b>				
Industry	349,019,617	178,057,212	349,019,617	178,057,212
Agriculture	220,794,246	242,555,845	220,794,246	242,555,845
Trade	190,727,908	182,471,640	190,727,908	182,471,640
Transport	360,129,592	536,603,685	360,129,592	536,603,685
Construction	86,192,782	128,021,371	86,192,782	128,021,371
Services	476,401,616	228,524,320	476,401,616	228,524,320
Personal	481,167,144	904,566,142	481,167,144	904,566,142
Others	57,193,385	91,433,015	57,193,385	91,433,015
	<b>2,221,626,290</b>	<b>2,492,233,230</b>	<b>2,221,626,290</b>	<b>2,492,233,230</b>

**SMB Finance PLC**  
**Notes to the Financial Statements**

**20.4 Gross Lease Rental Receivable**

**20.4.1 Gross lease rental receivable within one year**

Rs.	Company		Group	
	2023	2022	2023	2022
As at December 31,				
Total lease rentals within one year from reporting date	620,801,055	464,338,294	620,801,055	464,338,294
Unearned lease Income	(326,908,902)	(117,200,600)	(326,908,902)	(117,200,600)
<b>Balance as at December 31,</b>	<b>293,892,153</b>	<b>347,137,694</b>	<b>293,892,153</b>	<b>347,137,694</b>

**20.4.2 Gross lease rental receivable after one year and five years**

Rs.	Company		Group	
	2023	2022	2023	2022
As at December 31,				
Total lease rentals receivable after one year from reporting date	837,487,222	659,424,201	837,487,222	659,424,201
Unearned lease Income	(404,188,651)	(105,648,432)	(404,188,651)	(105,648,432)
<b>Balance as at December 31,</b>	<b>433,298,571</b>	<b>553,775,769</b>	<b>433,298,571</b>	<b>553,775,769</b>

**20.4.3 Gross lease rental receivable after five years**

Rs.	Company		Group	
	2023	2022	2023	2022
As at December 31,				
Total lease rentals receivable after five years from reporting date	33,799,751	25,897,358	33,799,751	25,897,358
Unearned lease Income	(7,676,676)	(109,955)	(7,676,676)	(109,955)
<b>Balance as at December 31,</b>	<b>26,123,075</b>	<b>25,787,403</b>	<b>26,123,075</b>	<b>25,787,403</b>
<b>Total lease rentals receivables</b>	<b>753,313,799</b>	<b>926,700,866</b>	<b>753,313,799</b>	<b>926,700,866</b>

**20.5 Movement in Individual and Collective Impairment During the Year - Company / Group**

Rs.	2023	2022
<b>Stage 1</b>		
Balance as at January 1,	98,411,429	58,717,513
Charge to the income statement	14,843,933	39,693,916
<b>Balance as at December 31,</b>	<b>113,255,362</b>	<b>98,411,429</b>
<b>Stage 2</b>		
Balance as at January 1,	88,434,040	58,608,709
Charge to the income statement	(37,721,300)	29,825,331
<b>Balance as at December 31,</b>	<b>50,712,740</b>	<b>88,434,040</b>
<b>Stage 3</b>		
Balance as at January 1,	450,019,612	348,294,011
Charge to the income statement	136,324,502	101,725,601
<b>Balance as at December 31,</b>	<b>586,344,114</b>	<b>450,019,612</b>
<b>Total net impairment charge for the year</b>	<b>113,447,135</b>	<b>171,244,848</b>

## SMB Finance PLC Notes to the Financial Statements

### 21

#### Financial Investments

The Company's financial investments are summarised by category as follows:

Rs.	As at December 31,	Company		Group	
		2023	2022	2023	2022
	Fair value through profit or loss (FVTPL)	29,298	-	29,298	-
	Fair value through other comprehensive Income (FVTOCI)	116,329,011	104,249,453	116,329,011	104,249,453
	Other financial assets	-	-	-	10,540,000
	<b>Total Financial Investments</b>	<b>116,358,309</b>	<b>104,249,453</b>	<b>116,358,309</b>	<b>114,789,453</b>

The following table compares the fair values of the financial investments to their carrying values:

Rs.	As at December 31,	Company		Group	
		2023	2022	2023	2022
	Fair value through profit or loss (FVTPL)	29,298	-	29,298	-
	Fair value through other comprehensive Income (FVTOCI)	116,329,011	104,249,453	116,329,011	104,249,453
	Other financial assets	-	-	10,540,000	10,540,000
	<b>Total financial investments</b>	<b>116,358,309</b>	<b>104,249,453</b>	<b>126,898,309</b>	<b>114,789,453</b>

#### 21.1 Fair Value Through Profit or Loss (FVTPL)

##### 21.1.1 Quoted Shares held by SMB Finance PLC

Rs.	As at December 31,	2023		2022	
		No. of shares	Carrying Value	No. of shares	Carrying Value
	<b>Banking, Finance &amp; Insurance</b>				
	The Finance Co. PLC	97	-	-	97

#### Manufacturing

	Blue Diamond Jewellery Worldwide PLC	778,280	-	778,280	-
	Metal Recyclers Colombo PLC	69	-	69	-
	ACL Cables PLC	264	18,163	18,163	-
		<b>18,163</b>	<b>18,163</b>	<b>18,163</b>	<b>-</b>

#### Land & Property

	Seylan Developments PLC	43	-	-	43
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#### Other

	John Keels holdings PLC	10	1,910	1,910	-
	Richard Pieris and Company PLC	450	9,225	9,225	-
		<b>11,135</b>	<b>11,135</b>	<b>11,135</b>	<b>-</b>
	<b>Total carrying amount</b>		<b>29,298</b>	<b>29,298</b>	<b>-</b>

## SMB Finance PLC

### Notes to the Financial Statements

Upon initial recognition, the Company elects to classify irrevocably some of its equity investments held for strategic purpose, as equity instruments at FVOCI when they meet the definition of equity under SLFRS 9 – “Financial Instruments” and are not FVTPL. Such classification is determined on an instrument-by-instrument basis. Gains and losses on these equity instruments are never recycled to profit or loss instead directly transferred to retained earnings at the time of derecognition. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established. Equity instruments at FVOCI are not subject to an impairment assessment. Unrealised gains and losses were recognised in Equity through OCI in the “Fair value reserve”. When these financial investments were disposed, the cumulative gain or loss previously recognised in fair value reserve transferred to retained earnings. Dividend earned while holding financial assets – FVOCI were recognised in the Income Statement as “Operating income” when the right to receive the payment had been established.

#### 21.1.1.2 Determination of Fair Value

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market prices.

#### 21.2 Fair Value Through Other Comprehensive Income (FVTOCI)

##### 21.2.1 Unquoted Shares held by SMB Finance PLC

As at December 31,

	2023		2022		
	No. of Shares	Cost	Carrying Value / Fair Value	No. of Shares	
				Cost	
				Carrying Value / Fair Value	
Ceylinco Sports Complex Ltd	300,000	3,000,000	-	300,000	3,000,000
Ceylinco Investment & Realty	100,000	1,000,000	-	100,000	1,000,000
Seraka Investment Ltd *	5,655,900	48,645,300	-	5,655,900	48,645,300
South Asian Travels	30,000	300,000	-	30,000	300,000
Ceylinco Savings Bank Ltd	1,189,600	11,896,000	-	1,189,600	11,896,000
Ceylinco Coloured Stone (Pvt) Ltd	500,000	5,000,000	-	500,000	5,000,000
Openarc Coloured Stone (Pvt) Ltd	45,000	450,000	-	45,000	450,000
Magpek Exports Ltd	125,000	5,000,000	-	125,000	5,000,000
Pugoda Textiles Mills Ltd	7,500	252,525	-	7,500	252,525
Nestor Properties Ltd (Formerly known as SMB Real Estate Ltd)	61,739	30,282,196	-	61,739	30,282,196
Nestor Stock Brokers (Private) Ltd (Formerly known as SMB Securities (Pvt) Limited)	5,000,000	50,000,000	116,319,011	5,000,000	50,000,000
Credit Information Bureau of Sri Lanka	100	10,000	10,000	-	-
<b>Total carrying amount</b>			<b>116,329,011</b>		<b>104,249,453</b>

\* The investment in Seraka Investment Limited is 10% non - cumulative non - redeemable preference shares.

The Company designated the investments shown above as equity securities at fair value through other comprehensive income because these equity securities represent investment that the Company intends to hold for the long term for strategic purpose.

No strategic investments were disposed of during the year 2023 and there were no transfers of any cumulative gain or loss within equity relating to these investments.

**SMB Finance PLC**

**Notes to the Financial Statements**

**21.2.2 Unquoted Debentures held by SMB Finance PLC**

**As at December 31,**

Rs.	2023	2022
Ceylinco Automobiles Ltd.	Cost	Cost
Provision for impairment	17,600,000	17,600,000
	(17,600,000)	(17,600,000)
<b>Carrying amount</b>	-	-
<b>Total carrying amount</b>	<b>116,329,011</b>	<b>104,249,453</b>

**21.3 Other Financial Assets**

**Rs.**

**As at December 31,**

	Group	2023	2022
Corporate Finance & Capital Market Limited (6% Non redeemable, Non participative preference shares)		10,540,000	10,540,000
Transferred to assets held for sale		(10,540,000)	-
<b>Total carrying amount</b>		<b>-</b>	<b>10,540,000</b>

**21.4 Movement of Financial Investment**

Rs.	Company	Group	Financial
	Fair Value Through Profit or Loss (FVTPL)	Fair Value Through Other Comprehensive Income (FVTOCI)	Instruments at amortised cost (AC)
As at January 1, 2022	700,452	81,376,472	81,376,472
Disposals	-	-	-
Fair value loss recorded in the statement of profit or loss	(700,452)	-	(5,683,744)
Fair value gain recorded in the other comprehensive income	-	22,872,981	(2,152,058)
Interest Income	-	-	22,872,981
<b>As at December 31, 2022</b>	<b>-</b>	<b>104,249,453</b>	<b>104,249,453</b>
As at January 1, 2023	-	104,249,453	104,249,453
Fair value gain recorded in the statement of profit or loss	29,298	-	29,298
Fair value gain recorded in the other comprehensive income	-	12,079,558	-
<b>As at December 31, 2023</b>	<b>29,298</b>	<b>116,329,011</b>	<b>116,329,011</b>

**21.5 Disclosure of Financial Risk**

The Company's exposure to credit, currency and interest rate risks related to investments are disclosed in Note 44.

**21.6 Financial Investments Pledged as a Security**

Financial investments are not pledged as a security as at the reporting date.

**SMB Finance PLC**  
Notes to the Financial Statements

**22 Investment in Associate**

**22.1 Associate Company**

Principal Activity	Holding	No. of Shares	2023		2022		Initial Cost Rs.
			No of Shares	Initial Cost Rs.	No. of Shares	Initial Cost Rs.	
Kenanga Investment Corporation Ltd	48.99%	4,900,000	4,900,000	49,000,000	48.99%	4,900,000	49,000,000

**22.2 Movement in Investment in Associate Company**

Rs.	Note	Company		Group	
		2023	2022	2023	2022
Balance as at January 1,		42,577,031	41,833,376	42,577,031	41,833,376
Share of profit/(loss) after tax	22.3	39,922	743,655	39,922	743,655
<b>Balance as at December 31,</b>		<b>42,616,953</b>	<b>42,577,031</b>	<b>42,616,953</b>	<b>42,577,031</b>

**22.3 Share of Profit of Associate Company**

Rs.	Company		Group	
	2023	2022	2023	2022
Share of profit/(loss) after tax	(251,806)	743,655	(251,806)	743,655
Adjustments	291,728	-	291,728	-
	<b>39,922</b>	<b>743,655</b>	<b>39,922</b>	<b>743,655</b>

**22.4 Summarised Financial Information of Associate Company**

**For the year ended / As at December 31,**

Rs.	Kenanga Investment Corporation Ltd	
	2023	2022
Revenue	7,433,368	9,430,325
Total comprehensive income for the year	(513,996)	1,517,976
Total assets	91,224,180	90,567,993
Total equity	86,991,128	86,909,637
Total liabilities	4,233,054	3,658,356

**23 Investment in Subsidiary**

**Rs.**

Principal Activity	Holding	2022		Carrying Value
		No. of Shares	No. of Shares	
SMB Money Brokers (Pvt) Ltd	50.99%	1,275,000	1,275,000	12,750,000
Provision for impairment				(12,750,000)
<b>Balance as at December 31,</b>				<b>-</b>

**SMB Finance PLC**  
**Notes to the Financial Statements**

**23.1** The company has fully provided for SMB Money Brokers (Pvt) Ltd due to continued losses and taking into account the country's current economic crisis as well as the disruptions experienced by traders in their day-to-day trading activities.

**23.2** SMB Finance PLC has made a 100% fully impairment provision for Rs. 12,750,000 (1,275,000 shares) in the year 2022 for the investment of SMB Money Brokers (Pvt) Ltd. During the financial year 2023, the Company classified an investment in SMB Money Brokers (Pvt) Ltd, a subsidiary of SMB Finance PLC, as Assets held for sale due to Non-current Assets Held for Sale and Discontinued Operations which occur when an entity commits to selling the controlling interest in a subsidiary.

**24 Assets held for sale**

Company	Principal Activity	Holding	No. of Shares	Carrying Value
SMB Money Brokers (Pvt) Ltd	Money market activities	50.99%	1,275,000	12,750,000
				(12,750,000)
<b>Balance as at December 31,</b>				

**24.1.1** SMB Finance PLC has entered into a conditional sale of its 50.99% shareholding with Corporate Finance and Capital Market Limited, which owns 49.01% of SMB Money Brokers (Pvt) Ltd. According to the sale and eventual transfer of ownership of a 50.99% stake are subject to due diligence and the satisfactory completion of certain prerequisite criteria.

**24.2 Disposal of Group held for sale**

**Group**

In June 2023, the Board of Directors decided to sell the ownership of shares of SMB Money Brokers (private) Limited. Accordingly investment is presented as a disposal group held for sale. Efforts to sell the disposal group have started and a sale is expected by April 2024. (Refer Note 43 Event After the Reporting Date)

**A. Assets and Liabilities of disposal group held for sale**

As at December 31, 2023, the disposal group was started at fair value less cost to sell and comprised the following assets and liabilities,

	2023		
	Initial Carrying Value	Impairment	Recoverable Value
Property, Plant & Equipment	588,680	358,991	229,689
Other Financial Assets	10,540,000	6,427,543	4,112,457
Cash and Cash Equivalents	574,074	-	574,074
<b>Assets held for sale</b>	<b>11,702,754</b>	<b>6,786,534</b>	<b>4,916,220</b>
Other Payables	993,883	-	993,883
<b>Liabilities held for sale</b>	<b>993,883</b>	<b>-</b>	<b>993,883</b>

**B. Cumulative income or expenses included in OCI**

There are no cumulative income or expenses included in OCI relating to the disposal group.

**25 Investment Properties**

**Rs.**

	Company		Group	
	2023	2022	2023	2022
Balance as at January 1,	385,728,000	142,778,000	402,928,000	157,678,000
Addition during the year	213,137,000	198,300,400	213,137,000	198,300,400
Fair value gain recognised in Profit or loss	38,370,600	44,649,600	38,370,600	46,949,600
<b>Balance as at December 31,</b>	<b>637,235,600</b>	<b>385,728,000</b>	<b>637,235,600</b>	<b>402,928,000</b>

**SMB Finance PLC**  
**Notes to the Financial Statements**

There is no rental income or expenses from the above investment properties.

**25.1 Property Location**  
**Rs. '000**

	Extent (Perches)	2023		2022		2023		2022	
		Cost	Market Value	Cost	Market Value	Cost	Market Value	Cost	Market Value
Kaduwela, Malabe	118.97	32,700	149,377	32,700	141,078	32,700	149,377	32,700	141,078
Ahangama, Dikkumbura	21.00	1,204	2,300	1,204	1,900	1,204	2,300	1,204	1,900
Kuruduwattha Road, Angunawala, Peradeniya	195.85	55,838	70,750	55,838	64,000	55,838	70,750	55,838	64,000
Liberty Place, Colombo Road, Ja-Ela	685 sq.ft	10,487	12,000	10,487	9,750	10,487	12,000	10,487	9,750
De Alwis Avenue, Mount Lavinia	42.30	131,975	190,000	131,975	169,000	131,975	190,000	131,975	169,000
Malabe	8.38	6,700	6,700	-	-	6,700	6,700	3,352	6,700
Ahangama	111.22	10,919	10,500	-	-	10,919	10,500	7,405	10,500
Boralasgamuwa	20.27	108,159	108,250	-	-	108,159	108,250	-	-
Colombo Road, Hanwella	31.15	87,359	87,359	-	-	87,359	87,359	-	-
		<b>445,341</b>	<b>637,236</b>	<b>232,204</b>	<b>385,728</b>	<b>445,341</b>	<b>637,236</b>	<b>242,961</b>	<b>402,928</b>

**25.2 Valuation of Investment Properties**  
**Property Location**

Property Location	Extent (Perches)	Market Value (Rs.)	Date of valuation	Name of the Valuer and Qualification
Kaduwela, Malabe	118.97	149,377	December 14, 2023	P.B Fonseka - Incorporated Valuer
Ahangama, Dikkumbura	21.00	2,300	December 08, 2023	D.Jayawardana - Incorporated Valuer
Kuruduwattha Road, Angunawala, Peradeniya	195.85	70,750	December 08, 2023	D.Jayawardana - Incorporated Valuer
Liberty Place, Colombo Road, Ja-Ela	685 sq.ft	12,000	December 08, 2023	D.Jayawardana - Incorporated Valuer
De Alwis Avenue, Mount Lavinia	42.30	190,000	December 08, 2023	D.Jayawardana - Incorporated Valuer
Thalgahawatta Road, Hokandara, Malabe	8.38	6,700	December 18, 2023	D.Jayawardana - Incorporated Valuer
Gurullawala, Ahangama	111.22	10,500	December 18, 2023	D.Jayawardana - Incorporated Valuer
Boralasgamuwa	20.27	108,250	December 28, 2023	H.W.I.G.A Weerakoon- Incorporated Valuer
Colombo Road, Hanwella	31.15	87,359	December 17, 2023	H.W.I.G.A Weerakoon- Incorporated Valuer
		<b>637,236</b>		

The Company carries investment properties at fair value. Market valuations of the above investment properties were carried out as stated in above disclosure No. 23.2, by Messrs.P.B Fonseka, D.Jayawardana and H.W.I.G.A Weerakoon who are independent qualified valuers not connected with the Company.

**25.3 The Company purchased below investment properties during the year 2023.**

Nature of the Property	Property
Bare Land	Thalgahawatta Road, Hokandara, Malabe
Bare Land	Gurullawala, Ahangama
Land & Building	No:212, Wawa Road, Boralasgamuwa
Land & Building	No: 60, Old Colombo Road, Hanwella

**SMB Finance PLC**  
**Notes to the Financial Statements**

**25.4 Assumptions used for property valuations.**

Description	Valuation techniques	Significant Unobservable inputs	Sensitivity of the input
<b>Land</b>	Market comparable method :- This method considers the selling price of a similar property within a reasonably recent period of time in determining the fair value of property being revalued. This involves evaluation of recent active market prices of similar assets, making appropriate adjustments for difference in size, nature, cost of development and location of the property.	The land value in compare to the Market price per perch. The valuer has used a range of prices for respective lands based on adjusted fair value taking into account other valuation considerations.	The estimated fair value would increase/ (decrease) if cost per perch was higher/(lower)
<b>Land and building</b>	Income method:- The net income generated by the property is used in conjunction with certain factors is used to calculate its fair value.	Estimate the monthly income if the building is rented out and take the gross annual income. The next reduce outgoing calculate net income from this gross annual income. This income is capitalized as a 6% to 25% and calculate the value of the property since these are commercial property.	The estimated fair value would increase/ (decrease) if Contractual rentals were higher/(lower) Occupancy rates were higher/(lower) Capitalization rate was (higher)/lower Repair and insurance was (higher)/lower Market value per perch was higher/(lower)

**Valuation of Investment Properties**

Valuation technique	Significant unobservable inputs	Sensitivity of the input to the fair value
Market comparable method – This method considers the selling price of a similar property within a reasonably recent period in determining the fair value of the property being revalued. This involves the evaluation of recent active market prices of similar assets, making appropriate adjustments for differences in size, nature, and location of the property.	Market price per perch. The valuer has used a range of prices for respective lands based on adjusted fair value taking into account other valuation considerations. The market price per perch ranges between Rs. 100,000 - Rs. 5,500,000 per perch.	The estimated fair value would increase / (decrease) if: » Cost per perch was higher /(lower); or » Market value per perch was higher / (lower)
Income method: - The net income generated by the property is used in conjunction with certain factors is used to calculate its fair value	Contractual rentals agreed on Occupancy rates 100% Capitalization rates 6% Repairs and insurance 25%.	Estimated fair value will increase / (decrease) if the market interest rate increases / (decreases)

**SMB Finance PLC**  
**Notes to the Financial Statements**

**26 Property, Plant and Equipment**

Company

Reconciliation of the carrying amount of property, plant and equipment as at December 31, 2023.

Rs.	Computer Equipment	Office Equipment	Furniture & Fittings	Motor Vehicles	2023 Total
<b>Cost</b>					
As at January 1,	45,529,341	12,740,948	20,747,496	986,892	80,004,677
Additions for the year	1,947,939	24,252,221	14,007,620	1,532,946	41,740,726
Write off	(17,100)	(85,030)	(76,641)	-	(178,771)
<b>As at December 31,</b>	<b>47,460,180</b>	<b>36,908,139</b>	<b>34,678,475</b>	<b>2,519,838</b>	<b>121,566,632</b>
<b>Accumulated Depreciation</b>					
As at January 1,	29,135,980	11,199,548	18,718,770	986,892	60,041,190
Charge for the year	4,177,413	3,894,247	3,012,798	281,040	11,365,498
Write off	(17,100)	(85,030)	(76,641)	-	(178,771)
<b>As at December 31,</b>	<b>33,296,293</b>	<b>15,008,766</b>	<b>21,654,927</b>	<b>1,267,932</b>	<b>71,227,917</b>
<b>Net book value as at December 31, 2023</b>	<b>14,163,887</b>	<b>21,899,373</b>	<b>13,023,548</b>	<b>1,251,906</b>	<b>50,338,715</b>

Reconciliation of the carrying amount of property, plant and equipment as at December 31, 2022.

Rs.	Computer Equipment	Office Equipment	Furniture & Fittings	Motor Vehicles	2022 Total
<b>Cost</b>					
As at January 1,	28,695,299	13,006,383	20,807,677	986,892	63,496,251
Additions for the year	17,181,850	9,400	5,250	-	17,196,500
Write off	(347,808)	(274,835)	(65,431)	-	(688,074)
<b>As at December 31,</b>	<b>45,529,341</b>	<b>12,740,948</b>	<b>20,747,496</b>	<b>986,892</b>	<b>80,004,677</b>
<b>Accumulated Depreciation</b>					
As at January 1,	26,771,259	10,657,299	17,774,930	986,892	56,190,380
Charge for the year	2,712,529	817,084	1,009,271	-	4,538,884
Write off	(347,808)	(274,835)	(65,431)	-	(688,074)
<b>As at December 31,</b>	<b>29,135,980</b>	<b>11,199,548</b>	<b>18,718,770</b>	<b>986,892</b>	<b>60,041,190</b>
<b>Net book value as at December 31, 2022</b>	<b>16,393,361</b>	<b>1,541,400</b>	<b>2,028,726</b>	<b>-</b>	<b>19,963,487</b>

**SMB Finance PLC**  
**Notes to the Financial Statements**

Group	Reconciliation of the carrying amount of property, plant and equipment as at December 31, 2023.				
Rs.	Computer Equipment	Office Equipment	Furniture & Fittings	Motor Vehicles	2023 Total
<b>Cost</b>					
As at January 1,	47,746,032	16,549,931	22,682,100	10,246,793	97,224,856
Additions for the year	1,947,939	24,252,221	14,007,620	1,532,946	41,740,726
Disposals	-	-	-	(9,259,900)	(9,259,900)
Write off	(17,100)	(85,030)	(76,641)	-	(178,771)
Transferred to Assets held for sale	(2,216,691)	(3,808,983)	(1,934,604)	-	(7,960,278)
<b>As at December 31,</b>	<b>47,460,180</b>	<b>36,908,139</b>	<b>34,678,475</b>	<b>2,519,839</b>	<b>121,566,633</b>

Group	Reconciliation of the carrying amount of property, plant and equipment as at December 31, 2022.				
Rs.	Computer Equipment	Office Equipment	Furniture & Fittings	Motor Vehicles	2022 Total
<b>Accumulated Depreciation</b>					
As at January 1,	30,557,038	14,895,446	20,653,378	8,713,846	74,819,708
Charge for the year	4,420,888	3,970,811	3,012,798	435,372	11,839,869
Disposals	-	-	-	(7,881,286)	(7,881,286)
Write off	(17,100)	(85,030)	(76,641)	-	(178,771)
Transferred to Assets held for sale	(1,664,534)	(3,772,461)	(1,934,607)	-	(7,371,602)
<b>As at December 31,</b>	<b>33,296,292</b>	<b>15,008,766</b>	<b>21,654,928</b>	<b>1,267,932</b>	<b>71,227,918</b>
<b>Net book value as at December 31, 2023</b>	<b>14,163,888</b>	<b>21,899,373</b>	<b>13,023,547</b>	<b>1,251,907</b>	<b>50,338,715</b>

Group	Reconciliation of the carrying amount of property, plant and equipment as at December 31, 2022.				
Rs.	Computer Equipment	Office Equipment	Furniture & Fittings	Motor Vehicles	2022 Total
<b>Cost</b>					
As at January 1,	30,833,090	16,815,366	22,742,281	10,246,793	80,637,530
Additions for the year	17,260,750	9,400	5,250	-	17,275,400
Disposals	-	-	-	-	-
Write off	(347,808)	(274,835)	(65,431)	-	(688,074)
<b>As at December 31,</b>	<b>47,746,032</b>	<b>16,549,931</b>	<b>22,682,100</b>	<b>10,246,793</b>	<b>97,224,856</b>

Group	Reconciliation of the carrying amount of property, plant and equipment as at December 31, 2022.				
Rs.	Computer Equipment	Office Equipment	Furniture & Fittings	Motor Vehicles	2022 Total
<b>Accumulated Depreciation</b>					
As at January 1,	27,916,970	14,243,158	19,704,995	6,861,865	68,726,988
Charge for the year	2,987,876	927,123	1,013,814	1,851,981	6,780,794
Disposals	-	-	-	-	-
Write off	(347,808)	(274,835)	(65,431)	-	(688,074)
<b>As at December 31,</b>	<b>30,557,038</b>	<b>14,895,446</b>	<b>20,653,378</b>	<b>8,713,846</b>	<b>74,819,708</b>
<b>Net book value as at December 31, 2022</b>	<b>17,188,994</b>	<b>1,654,485</b>	<b>2,028,722</b>	<b>1,532,947</b>	<b>22,405,148</b>

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**26.1 Acquisition of Property, Plant and Equipment During the Year**

During the financial year, the Company acquired property, plant and equipment to the aggregate value of Rs.41,740,726 (2022 - Rs.17,196,500) and the Group acquired property, plant and equipment to the aggregate value of Rs. 41,740,726 (2022 - Rs. 17,275,400)

**26.2 Capitalisation of Borrowing Cost**

There were no capitalised borrowing costs relating to the acquisition of property, plant and equipment during the year. (2022 - Nil)

**26.3 Fully Depreciated Property, Plant and Equipment in Use**

The initial cost of fully depreciated property, plant and equipment which are still in use as at the reporting date is as follows:

	2023	2022
<b>As at December 31,</b>		
Computer equipment	27,672,612	27,320,322
Office equipment	9,699,963	9,422,653
Furniture & fittings	16,306,371	16,282,662
Motor vehicles	986,892	986,892
	<b>54,665,838</b>	<b>54,012,529</b>

**26.4 Property, Plant and Equipment Pledged as a Security**

None of the property, plant and equipment have been pledged as securities as at the reporting date.

**26.5 Permanent Fall in Value of Property, Plant and Equipment**

There has been no permanent fall in the value of property, plant and equipment which requires an impairment provision in the financial statements.

**26.6 The Restriction of Property, Plant and Equipment**

There are no restrictions that existed on the title of the property, plant and equipment of the Group as at the reporting date.

**26.7 Compensation from Third Parties for Items of Property, Plant and Equipment**

There were no compensation received during the year from third parties for items of property, plant and equipment that were impaired, lost or given up (2022 - Nil).

**26.8 Temporarily Idle Property, Plant and Equipment**

There were no property, plant and equipment of the Company idle as at December 31, 2023 and December 31, 2022.

## 27 Right-of-use Assets and Lease Liabilities

### 27.1 Right-of-use Assets Movement During the Year

Rs.	Company		Group	
	2023	2022	2023	2022
<b>Right-of-use asset</b>				
Balance as at January 1,	60,900,537	55,430,096	66,786,952	61,316,511
Additions and improvements during the year	43,014,606	-	43,014,606	-
Modification	(3,708,578)	-	(3,708,578)	-
Remeasurement	-	5,470,441	-	5,470,441
<b>Balance as at December 31,</b>	<b>100,206,565</b>	<b>60,900,537</b>	<b>106,092,980</b>	<b>66,786,952</b>
<b>Accumulated depreciation</b>				
Balance as at January 1,	44,830,128	32,164,063	50,716,547	37,120,903
Charge during the year	21,220,419	12,666,065	21,220,419	13,595,644
<b>Balance as at December 31,</b>	<b>66,050,547</b>	<b>44,830,128</b>	<b>71,936,966</b>	<b>50,716,547</b>
<b>Carrying value</b>				
<b>Balance as at December 31,</b>	<b>34,156,018</b>	<b>16,070,409</b>	<b>34,156,018</b>	<b>16,070,405</b>

### 27.2 Lease Liabilities Movement During the Year

Rs.	Company		Group	
	2023	2022	2023	2022
<b>Lease liabilities</b>				
Balance as at January 1,	14,880,212	15,649,074	14,880,212	16,705,769
Additions and improvements during the year	24,079,607	-	24,079,607	-
Remeasurement	-	5,470,441	-	5,470,441
Modification	(5,108,588)	-	(5,108,588)	-
Accretion of interest during the year	2,951,123	2,394,897	2,951,123	2,426,702
Payments during the year	(15,021,900)	(8,634,200)	(15,021,900)	(9,722,700)
<b>Balance as at December 31,</b>	<b>21,780,454</b>	<b>14,880,212</b>	<b>21,780,454</b>	<b>14,880,212</b>

### 27.3 Amounts Recognised in Profit or Loss

#### 27.3.1 Leases under SLFRS 16

Rs.	Company		Group	
	2023	2022	2023	2022
<b>For the year ended December 31,</b>				
Depreciation of right-of-use assets	21,220,419	12,666,065	21,220,419	13,595,644
Interest on lease liabilities	2,951,123	2,394,897	2,951,123	2,426,702
	<b>24,171,542</b>	<b>15,060,962</b>	<b>24,171,542</b>	<b>16,022,346</b>

### 27.4 Amounts recognised in Statement of Cash Flows

Rs.	Company		Group	
	2023	2022	2023	2022
<b>For the year ended December 31,</b>				
Cash outflow for leases	(15,021,900)	(8,634,200)	(15,021,900)	(9,722,700)
<b>Total cash outflow for leases</b>	<b>(15,021,900)</b>	<b>(8,634,200)</b>	<b>(15,021,900)</b>	<b>(9,722,700)</b>

### 27.5 Maturity analysis – Contractual Undiscounted Cash Flows

Rs.	Company		Group	
	2023	2022	2023	2022
<b>For the year ended December 31,</b>				
Less than one year	10,249,200	7,367,700	10,249,200	7,367,700
Between one and five years	17,342,966	9,997,944	17,342,966	9,997,944
<b>Total undiscounted cash flows</b>	<b>27,592,166</b>	<b>17,365,644</b>	<b>27,592,166</b>	<b>17,365,644</b>

## 28 Intangible Assets

Rs.	Company		Group	
	2023	2022	2023	2022
<b>Cost</b>				
As at January 1,	237,342,458	2,304,888	239,699,624	4,662,054
Additions for the year	-	235,037,570	-	235,037,570
<b>As at December 31,</b>	<b>237,342,458</b>	<b>237,342,458</b>	<b>239,699,624</b>	<b>239,699,624</b>
<b>Accumulated Amortisation</b>				
As at January 1,	2,334,055	2,174,263	4,691,221	4,531,429
Charge for the year	82,500	159,792	82,500	159,792
<b>As at December 31,</b>	<b>2,416,555</b>	<b>2,334,055</b>	<b>4,773,721</b>	<b>4,691,221</b>
<b>Carrying Value as at December 31,</b>	<b>234,925,903</b>	<b>235,008,403</b>	<b>234,925,903</b>	<b>235,008,403</b>
<b>Capital Work in Progress</b>				
As at January 1,	10,084,000	5,484,000	10,084,000	5,484,000
Incurred during the year	18,652,737	4,600,000	18,652,737	4,600,000
<b>As at December 31,</b>	<b>28,736,737</b>	<b>10,084,000</b>	<b>28,736,737</b>	<b>10,084,000</b>
<b>Carrying Value as at December 31,</b>	<b>263,662,640</b>	<b>245,092,403</b>	<b>263,662,640</b>	<b>245,092,403</b>

28.1 According to LKAS 38, the Company has not amortized the finance license as it is an intangible asset with a perpetual life. If an intangible asset has a useful life but can be renewed, it is considered perpetual and is not amortized.

The during the year addition under capital working progress includes two computer software programs for the general ledger, loans, leases and deposits.

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**Notes to the Financial Statements**

**29 Deferred tax assets**

**Company**

Deferred tax assets have not been recognized in respect of deductible temporary differences because it is uncertain that future taxable profits will be available against which the Company can utilize the benefits.

Rs.

<b>Unrecognised Deferred Tax Asset</b>	<b>2023</b>	<b>2022</b>
Balance as at January 1,	51,258,351	85,302,262
Charge for the year	1,065,978	(34,043,911)
<b>Balance as at December 31,</b>	<b>52,324,329</b>	<b>51,258,351</b>

The above unrecognized deferred tax liability is attributable to the following;

Rs.	Temporary difference December 31, 2023	Tax effect December 31, 2023	Temporary difference December 31, 2022	Tax effect December 31, 2022
On property, plant & equipment and Intangible assets	(6,144,775)	(1,843,432)	(2,068,862)	(620,658)
On lease assets	773,716	(232,115)	(4,012,540)	(1,203,762)
On retirement benefit obligation	13,644,953	4,093,486	8,961,310	2,688,393
Fair value gain on investment property	(38,370,600)	(11,511,180)	(44,649,600)	(13,394,880)
Disallowable amount for bad debt provision	218,434,131	65,530,239	213,821,059	64,146,318
On right-of-use assets	(34,156,018)	(10,246,805)	(16,070,409)	(4,821,123)
On lease liabilities	21,780,454	6,534,136	14,880,212	4,464,063
	<b>175,961,861</b>	<b>52,324,329</b>	<b>170,861,169</b>	<b>51,258,351</b>

The deferred tax has been calculated at the rate of 30% (2022 - 30%).

**Group**

In respect of the sole subsidiary, SMB Money Brokers (Pvt) Limited, a deferred tax asset has been recognized in 2022, since the Management expected adequate taxable profit in the foreseeable future. However a deferred tax asset has not been recognized in 2023.

Rs.	Note	2023	2022
Balance as at January 1,		1,202,705	2,538,161
Reversals for the year	29.1	(1,202,705)	(1,335,456)
<b>Balance as at December 31,</b>		<b>-</b>	<b>1,202,705</b>

**29.1 (Charge) / Reversals for the year recognized in**

Rs.

	2023	2022
Statement of profit or loss	(1,202,705)	(267,050)
Other comprehensive income	-	(1,068,406)
<b>Balance as at December 31,</b>	<b>(1,202,705)</b>	<b>(1,335,456)</b>

**29.1.1 Deferred tax charge for the year due to change in tax rate and other temporary difference**

	2023	2022
Due to change in effective tax rate	-	240,542
Due to change in temporary difference	-	962,163
<b>Balance as at December 31,</b>	<b>-</b>	<b>1,202,705</b>

The above recognized deferred tax asset is attributable to the following;

Rs.	Temporary difference December 31, 2023	Tax Effect December 31, 2023	Temporary difference December 31, 2022	Tax Effect December 31, 2022
On property, plant & equipment	-	-	(250,713)	(250,713)
On retirement benefit obligation	-	-	14,198,350	14,198,350
Revaluation gain on investment property	-	-	(9,938,623)	(9,938,623)
	<b>-</b>	<b>-</b>	<b>4,009,014</b>	<b>4,009,014</b>

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Deferred tax is calculated using the tax rates that are expected to be applied to temporary differences when they reverse and is calculated using tax rates that are enacted or substantively enacted at the reporting date. The measurement of deferred tax reflects the tax consequences that would result from the way the Company expects to recover or settle the carrying amount of its assets and liabilities at the reporting date.

The company is recognized deferred tax assets for unused tax losses, unused tax credits, and deductible temporary differences that are likely to be used against future taxable profits are recorded as deferred tax assets. The reversal of relevant taxable temporary differences is calculated using future taxable profits. If taxable temporary differences are insufficient to fully recognize a deferred tax asset, based on business plans, future taxable profits adjusted to reverse existing temporary differences are considered. Deferred tax assets are reviewed at each reporting date and reduced to the extent that the relevant tax benefit is no longer likely to be realized. When the likelihood of future taxable profits increases, such deductions are reversed.

**30 Other Assets**

Rs.	Company		Group	
	2023	2022	2023	2022
<b>As at December 31,</b>				
Deposits & prepayments	9,736,146	14,946,836	9,736,146	16,799,203
Receivables from Golden key Hospitals Limited (Note 30.1)	36,841,467	36,841,467	36,841,467	36,841,467
Income tax receivable	2,849,968	8,906,962	2,849,968	10,042,908
NBT receivable	704,395	704,395	704,395	704,395
Stamp duty receivable	4,584,270	-	4,584,270	-
Other assets	518,496	-	518,500	3,534,500
	<b>55,234,742</b>	<b>61,399,660</b>	<b>55,234,746</b>	<b>67,922,473</b>

**30.1** SMB Finance PLC has a secondary mortgage bond for the property ("Golden Key Hospital") against the receivable balance from Golden Key Hospitals Limited.

**31 Due to Financial Institutions**

Rs.	Note	Company		Group	
		2023	2022	2023	2022
<b>As at December 31,</b>					
Bank borrowings	31.1	1,274,943,315	1,566,116,482	1,274,943,315	1,566,116,482
Bank overdraft		229,654,213	2,103,754	229,654,213	2,391,425
		<b>1,504,597,528</b>	<b>1,568,220,236</b>	<b>1,504,597,528</b>	<b>1,568,507,907</b>

**31.1 Reconciliation of movement of Bank Borrowings**

Rs.	Company		Group	
	2023	2022	2023	2022
Balance as at January 1,	1,566,116,482	526,274,284	1,566,116,482	526,274,284
Addition during the year	-	1,300,000,000	-	1,300,000,000
Capital payments during the year	(287,188,385)	(267,548,898)	(287,188,385)	(267,548,898)
Interest (payments)/payable during the year	(3,984,782)	7,391,096	(3,984,782)	7,391,096
Balance as at December 31,	<b>1,274,943,315</b>	<b>1,566,116,482</b>	<b>1,274,943,315</b>	<b>1,566,116,482</b>

## SMB Finance PLC Notes to the Financial Statements

### 31.2

#### Details of Funding Facilities - Bank Loans Details

The below table provides details of the bank loans of the Company.

Name of the bank	Granted Date	Maturity Date	Interest Rate	2023		2022	
				Amount Granted (Rs.)	Outstanding Amount (Rs.)	Amount Granted (Rs.)	Outstanding Amount (Rs.)
Sampath Bank - Loan 01	December 24, 2020	December 24, 2025	8.30% p.a	200,000,000	80,066,932	200,000,000	120,120,420
Sampath Bank - Loan 02	November 1, 2021	November 1, 2026	6.78% p.a	140,000,000	79,363,642	140,000,000	107,409,666
Sampath Bank - Loan 03	January 31, 2022	January 31, 2029	11.22% p.a	180,000,000	128,597,349	180,000,000	154,648,236
Sampath Bank - Loan 04	January 31, 2022	January 31, 2029	11.22% p.a	180,000,000	130,750,654	180,000,000	156,804,486
Sampath Bank - Loan 05	January 31, 2022	January 31, 2029	11.22% p.a	180,000,000	130,750,654	180,000,000	156,804,486
Sampath Bank - Loan 06	February 3, 2022	February 3, 2029	11.22% p.a	180,000,000	130,750,654	180,000,000	156,804,486
Sampath Bank - Loan 07	February 28, 2022	February 28, 2029	11.22% p.a	180,000,000	132,903,958	180,000,000	158,960,736
Seylan Bank - Loan 01	November 22, 2021	November 22, 2028	11.50% p.a	200,000,000	140,829,074	200,000,000	169,815,816
Seylan Bank - Loan 02	May 4, 2022	May 4, 2029	11.50% p.a	200,000,000	156,077,528	200,000,000	186,207,385
Seylan Bank - Loan 03	August 19, 2022	August 19, 2029	11.50% p.a	100,000,000	80,063,064	100,000,000	94,702,844
Seylan Bank - Loan 04	November 21, 2022	November 21, 2029	11.50% p.a	100,000,000	84,789,806	100,000,000	99,383,272
Indian Bank - Loan 05	February 19, 2020	February 28, 2023	28.10% p.a	80,000,000	-	80,000,000	4,454,649
				<b>1,920,000,000</b>	<b>1,274,943,315</b>	<b>1,920,000,000</b>	<b>1,566,116,482</b>

### 32

#### Financial Liabilities at Amortised Cost - Deposits due to Customers

Rs.	Company		Group	
	2023	2022	2023	2022
As at December 31,				
Time deposits	11,208,072	-	11,208,072	-
Saving deposits	31,528,048	-	31,528,048	-
<b>Balance as at December 31,</b>	<b>42,736,120</b>	<b>-</b>	<b>42,736,120</b>	<b>-</b>

### 33

#### Financial Liabilities at Amortised Cost - Due to other customers

Rs.	Note	Company		Group	
		2023	2022	2023	2022
As at December 31,					
Promissory notes		122,136,057	117,623,757	122,136,057	117,623,757
Debentures	33.1	9,162,728	9,162,728	9,162,728	9,162,728
<b>Balance as at December 31,</b>		<b>131,298,785</b>	<b>126,786,485</b>	<b>131,298,787</b>	<b>126,786,485</b>

### 33.1

There is no interest accrual as the debentures have already matured and the debentures were issued long ago by Seylan Merchant Bank.

**SMB Finance PLC**  
**Notes to the Financial Statements**

**34 Retirement Benefit Obligations**

Rs.	Note	Company		Group	
		2023	2022	2023	2022
As at December 31,					
Provision for retirement benefit obligations	34.1	13,644,953	8,961,310	13,644,953	23,159,659
<b>Balance as at December 31,</b>		<b>13,644,953</b>	<b>8,961,310</b>	<b>13,644,953</b>	<b>23,159,659</b>

**34.1 Provision for Retirement Benefit Obligation**

Rs.	Note	Company		Group	
		2023	2022	2023	2022
As at December 31,					
Balance as at January 1,		8,961,310	7,544,568	23,159,659	25,887,414
Provision for the year	34.2	3,508,644	3,097,687	3,721,944	4,343,295
Actuarial loss / (gain) during the year		1,174,999	(1,680,945)	1,174,999	(5,242,300)
Payments during the year		-	-	(14,411,649)	(1,828,750)
<b>Balance as at December 31,</b>		<b>13,644,953</b>	<b>8,961,310</b>	<b>13,644,953</b>	<b>23,159,659</b>

The following assumptions were used in valuing the retirement benefits obligation using internally developed method as required by Sri Lanka Accounting Standard LKAS 19 - "Employee Benefits".

**34.2 Provision for the year**

Rs.	Company		Group	
	2023	2022	2023	2022
For the year ended December 31,				
Current service costs	2,408,966	1,627,488	2,622,266	1,920,778
Interest costs	1,099,678	1,470,199	1,099,678	2,422,517
<b>Balance as at December 31,</b>	<b>3,508,644</b>	<b>3,097,687</b>	<b>3,721,944</b>	<b>4,343,295</b>

	2023	2022
Salary increment rate	10.00%	18%
Discount rate	12.90%	20.00%
Retirement age	60 Years	60 Years
Staff turnover factor	23.00%	4.50%
Weighted Average Duration of RBO	18.37	19.41

In order to match the characteristics of the premium liability and the resulting yield to maturity, discount rates are changed to transform coupon-bearing yields into zero coupon yields in accordance with the Institute of Chartered Accountants of Sri Lanka's rules. LKAS 19's valuation of employee benefit liabilities is done for this reason. Also, the compensation increment rate of 10% is deemed reasonable in line with the company's anticipated future salary increases, considering the state of the market and the rate of inflation.

**34.3 Sensitivity of Assumptions Used**

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the employment benefit liability measurement.

The sensitivity of the total comprehensive income and statement of financial position is the effect of the assumed changes in discount rate and salary increment rate on total comprehensive income and employment benefit obligation for the year.

Rs.	Sensitivity Effect on	
	Total Comprehensive Income Increase / (Reduction)	Employment Benefit Obligation Increase / (Reduction) in the Liability
<b>Company</b>		
Increase in discount rate (1%)	483,037	(484,351)
Decrease in discount rate (1%)	(501,466)	506,863
Increase in salary increment rate (1%)	(423,510)	515,742
Decrease in salary increment rate (1%)	411,694	(501,279)

**SMB Finance PLC**  
**Notes to the Financial Statements**

**35 Other Liabilities**

Rs.	Company		Group	
	2023	2022	2023	2022
<b>Balance as at December 31,</b>				
Accrued expenses	17,057,711	10,331,179	18,051,614	14,467,050
Unearn income on legal settlement	80,670,252	79,564,456	80,670,252	79,564,456
Un-identified deposits	8,002,676	4,428,448	8,002,676	4,428,448
Sundry creditors	5,084,478	4,907,205	5,084,478	4,907,205
Consent mortion advances	1,268,640	2,861,753	1,268,640	2,861,753
Lease termination	3,600,000	3,600,000	3,600,000	3,600,000
Stamp duty payable	1,530,730	1,514,097	1,530,730	1,514,097
SSCL payable	433,617	3,147,049	433,617	3,147,049
VAT on financial services payable	9,952,253	849,029	9,952,253	849,029
Deposit Insurance liabilities	5,341	-	5,341	-
Other liabilities	1,765,597	1,222,288	4,186,367	3,643,045
Transferred to Liabilities held for sale	-	-	(993,903)	-
<b>Balance as at December 31,</b>	<b>129,371,295</b>	<b>112,425,504</b>	<b>131,792,065</b>	<b>118,982,132</b>

**36 Stated Capital**

Rs.	Company		Group	
	2023	2022	2023	2022
<b>Balance as at December 31,</b>				
Ordinary voting shares	2,555,958,860	2,555,958,860	2,555,958,860	2,555,958,860
Ordinary non voting shares	506,722,664	506,722,664	506,722,664	506,722,664
<b>Balance as at December 31,</b>	<b>3,062,681,524</b>	<b>3,062,681,524</b>	<b>3,062,681,524</b>	<b>3,062,681,524</b>

**36.1 Reconciliation of Number of Shares - Company**

	No. of shares	
	2023	2022
<b>Ordinary Voting Shares</b>		
As at January 1,	6,470,375,048	6,470,375,048
Issue of shares	-	-
<b>As at December 31,</b>	<b>6,470,375,048</b>	<b>6,470,375,048</b>
<b>Ordinary Non Voting Shares</b>		
As at January 1,	3,081,603,712	3,081,603,712
Issue of shares	-	-
<b>As at December 31,</b>	<b>3,081,603,712</b>	<b>3,081,603,712</b>
<b>Total</b>	<b>9,551,978,760</b>	<b>9,551,978,760</b>

**36.2 Rights, preferences and restrictions of classes of capital**

The ordinary shares of the Company are quoted in the Colombo Stock Exchange. The holders of ordinary shares have the right to receive dividend as declared from time to time and are entitled to one vote per share at the Annual General Meeting of the Company.

**SMB Finance PLC**  
**Notes to the Financial Statements**

**36.3 Rights issue funds utilisation as at December 31, 2023**

Objective number	Objective as per circular	Amount allocated as per circular Rs.	Proposed date of utilisation as per circular	Amount allocated from proceeds Rs.	% of total proceeds	Amounts utilised Rs.	% of utilisation against allocation	Clarification if not fully utilised including where the funds are invested
01	To utilise for lending purpose	2,454,031,512	January 2022	2,143,617,410	87.35%	2,051,344,711	95.70%	Remaining funds are invested in bank fixed deposits.

The company has raised Rs.2,143,617,410 by issuing 5,278,608,276 number of voting shares at Rs.0.35 and 2,467,537,611 number of non voting shares at Rs.0.12 through the rights issue during the year 2021.

The purpose of this rights issue was to strengthen the core capital base of the Company in keeping with the Company's expansion plan and surpassing the new capital adequacy requirements as stipulated by the Central Bank of Sri Lanka for licensed finance companies. The proceeds of the issue will be utilised for the lending business of the Company.

**SMB Finance PLC**  
**Notes to the Financial Statements**

**36.4 Regulatory Capital - Company**

	2023		2022	
	Actual	Required	Actual	Required
Tier 1 capital ratio (%)	110.74%	8.50	81.08	8.50
Total capital ratio (%)	108.98%	12.50	79.72	12.50

Tier 1 capital ratio and total capital ratio of the Company computed as per the Finance Business Act Direction No.03 of 2018 capital adequacy requirements issued by the Central Bank of Sri Lanka with effect from July 1, 2018.

**37 Statutory Reserves Fund**

Rs.	Company		Group	
	2023	2022	2023	2022
<b>Balance as at December 31,</b>				
Balance as at January 1,	41,732,329	37,753,217	41,732,329	37,753,217
Transfer made during the year	5,995,067	3,979,112	5,995,067	3,979,112
	<b>47,727,396</b>	<b>41,732,329</b>	<b>47,727,396</b>	<b>41,732,329</b>

The statutory reserve fund is maintained by Finance Companies (Capital Funds) Direction No. 1 of 2003 as per Finance Companies Act (amended) issued to Registered Finance Companies. As per the said Direction, every Registered Finance Company shall maintain a reserve fund, out of the net profit for each year after provisions for taxation and bad and doubtful debts.

**38 Fair Value Reserve**

Rs.	Company		Group	
	2023	2022	2023	2022
<b>Balance as at December 31,</b>				
Balance as at January 1,	52,465,265	29,592,284	52,465,265	29,592,284
Net fair value gain on remeasuring financial investments	12,079,558	22,872,981	12,079,558	22,872,981
	<b>64,544,823</b>	<b>52,465,265</b>	<b>64,544,823</b>	<b>52,465,265</b>

This reserve includes accumulated net fair value gains / (losses) recognised on financial investments at fair value.

**39 Retained Earnings**

Rs.	Company		Group	
	2023	2022	2023	2022
Balance as at January 1,	199,073,342	121,789,277	207,657,674	134,404,142
Profit for the year	119,901,348	79,582,232	108,626,971	74,280,295
Other comprehensive income	(1,174,999)	1,680,945	(1,174,999)	2,952,348
Transfers to statutory reserve	(5,995,067)	(3,979,112)	(5,995,067)	(3,979,112)
<b>Balance as at December 31,</b>	<b>311,804,624</b>	<b>199,073,342</b>	<b>309,114,578</b>	<b>207,657,674</b>

Retained earnings represent the reserve available for distribution.

**40 Non- Controlling Interests**

Rs.	2023	2022
Balance as at the beginning of the year	8,505,192	24,627,666
Loss for the year	(4,313,575)	(17,344,019)
Other comprehensive income for the year	-	1,221,545
<b>Balance as at December 31,</b>	<b>4,191,616</b>	<b>8,505,192</b>

**40.1 Reconciliation of Non Controlling Interest (NCI) in Subsidiary  
As at December 31, / For the year ended December 31,**

	2023	2022
	Rs.	Rs.
NCI percentage (%)	49.01%	49.01%
Total assets	38,132,183	38,132,183
Total liabilities	18,621,892	18,621,892
Net assets	17,089,521	17,089,521
Carrying amount of NCI	4,191,616	8,505,192
Revenue	19,089,271	19,089,271
Loss after tax	(8,801,419)	(35,395,957)
Other comprehensive income	-	2,492,949
<b>Total comprehensive income allocated to NCI</b>	<b>(4,312,695)</b>	<b>(16,122,474)</b>

**SMB Finance PLC**  
**Notes to the Financial Statements**

**41 Classification of Financial Instruments**

**41.1 Assets- Company**

As at December 31,

Rs.'000

2023

	Financial instruments recognised through profit or loss (FVTPL)	Financial instruments at amortised cost (AC)	Financial instruments at fair value through other comprehensive income (FVTOCI)	Total
<b>Financial Assets</b>				
Cash and cash equivalents	-	90,670	-	90,670
Placements with banks	-	2,568,600	-	2,568,600
Financial assets at amortised cost-Loans and receivables to customers	-	1,471,314	-	1,471,314
Fair value through profit or loss (FVTPL)	29	-	-	29
Fair value through other comprehensive income (FVTOCI)	-	-	116,329	116,329
Other financial assets	-	-	-	-
<b>Total financial assets</b>	<b>29</b>	<b>4,130,584</b>	<b>116,329</b>	<b>4,246,942</b>

As at December 31,

Rs.'000

2022

	Financial instruments recognised through profit or loss (FVTPL)	Financial instruments at amortised cost (AC)	Financial instruments at fair value through other comprehensive income (FVTOCI)	Total
<b>Financial Assets</b>				
Cash and cash equivalents	-	55,302	-	55,302
Placements with banks	-	2,364,018	-	2,364,018
Financial assets at amortised cost-Loans and receivables to customers	-	1,855,368	-	1,855,368
Fair value through profit or loss (FVTPL)	-	-	-	-
Fair value through other comprehensive income (FVTOCI)	-	-	104,250	104,250
Other financial assets	-	37,458	-	37,458
<b>Total financial assets</b>	<b>-</b>	<b>4,312,146</b>	<b>104,250</b>	<b>4,416,396</b>

**SMB Finance PLC**  
**Notes to the Financial Statements**

**4.1.2 Liabilities - Company**

As at December 31,

Rs. '000

2023

	Financial instruments recognised through profit or loss (FVTPL)	Financial instruments at amortised cost (AC)	Financial instruments at fair value through other comprehensive income (FVTOCI)	Total
<b>Financial Liabilities</b>				
Due to financial institutions	-	1,504,598	-	1,504,598
Financial liabilities at amortised cost - Deposits due to customers	-	42,736	-	42,736
Financial Liabilities at Amortised Cost - Due to other customers	-	131,299	-	131,299
Lease liabilities	-	21,780	-	21,780
	-	<b>1,700,413</b>	-	<b>1,700,413</b>
<b>Non Financial Liabilities</b>				
Retirement benefit obligations	-	13,645	-	13,645
Other liabilities	-	129,371	-	129,371
	-	<b>143,016</b>	-	<b>143,016</b>
<b>Total liabilities</b>	-	<b>1,843,429</b>	-	<b>1,843,429</b>

As at December 31,

Rs. '000

2022

	Financial instruments recognised through profit or loss (FVTPL)	Financial instruments at amortised cost (AC)	Financial instruments at fair value through other comprehensive income (FVTOCI)	Total
<b>Financial Liabilities</b>				
Due to financial institutions	-	1,568,220	-	1,568,220
Due to other customers	-	126,786	-	126,786
Lease liabilities	-	14,880	-	14,880
	-	<b>1,709,886</b>	-	<b>1,709,886</b>
<b>Non Financial Liabilities</b>				
Retirement benefit obligations	-	8,961	-	8,961
Other liabilities	-	112,426	-	112,426
	-	<b>121,387</b>	-	<b>121,387</b>
<b>Total liabilities</b>	-	<b>1,831,273</b>	-	<b>1,831,273</b>

**SMB Finance PLC**  
**Notes to the Financial Statements**

**41.3 Assets - Group**

As at December 31,

Rs.'000

2023

	Financial instruments at amortised cost (AC)	Financial instruments at fair value through other comprehensive income (FVTOCI)	Others	Total
<b>Financial Assets</b>				
Cash and cash equivalents	90,670	-	-	90,670
Placements with banks	2,568,600	-	-	2,568,600
Financial assets at amortised cost-loans and receivables to customers	1,471,314	-	-	1,471,314
Fair value through profit or loss (FVTPL)	-	-	-	-
Fair value through other comprehensive income (FVTOCI)	29	116,330	-	116,359
<b>Total financial assets</b>	<b>4,130,613</b>	<b>116,330</b>	-	<b>4,246,943</b>

As at December 31,

Rs. '000

2022

	Financial instruments at amortised cost (AC)	Financial instruments at fair value through other comprehensive income (FVTOCI)	Others	Total
<b>Financial Assets</b>				
Cash and cash equivalents	55,495	-	-	55,495
Placements with banks	2,364,050	-	-	2,364,050
Financial assets at amortised cost-loans and receivables to customers	1,855,368	-	-	1,855,368
Fair value through profit or loss (FVTPL)	-	-	-	-
Fair value through other comprehensive income (FVTOCI)	-	104,250	-	104,250
Other financial Assets	47,998	-	-	47,998
<b>Total financial assets</b>	<b>4,322,911</b>	<b>104,250</b>	-	<b>4,427,161</b>

**SMB Finance PLC**  
**Notes to the Financial Statements**

**41.4 Liabilities - Group**

As at December 31,

Rs.'000

2023

	Financial instruments recognised through profit or loss (FVTPL)	Financial instruments at amortised cost (AC)	Financial instruments at fair value through other comprehensive income (FVTOCI)	Total
<b>Financial Liabilities</b>				
Due to financial institutions	-	1,504,598	-	1,504,598
Financial liabilities at amortised cost - Deposits due to customers	-	42,736	-	42,736
Financial liabilities at amortised Cost - Interest bearing borrowings	-	131,299	-	131,299
Lease liabilities	-	21,780	-	21,780
	-	<b>1,700,413</b>	-	<b>1,700,413</b>
<b>Non Financial Liabilities</b>				
Retirement benefit obligations	-	13,645	-	13,645
Other liabilities	-	131,792	-	131,792
Liabilities directly associated with assets held for sale	-	994	-	994
	-	<b>146,431</b>	-	<b>146,431</b>
<b>Total liabilities</b>	-	<b>1,846,844</b>	-	<b>1,846,844</b>

As at December 31,

Rs.'000

2022

	Financial instruments recognised through profit or loss (FVTPL)	Financial instruments at amortised cost (AC)	Financial instruments at fair value through other comprehensive income (FVTOCI)	Total
<b>Financial Liabilities</b>				
Due to financial institutions	-	1,568,508	-	1,568,508
Due to other customers	-	126,786	-	126,786
Lease liabilities	-	14,880	-	14,880
	-	<b>1,710,174</b>	-	<b>1,710,174</b>
<b>Non Financial Liabilities</b>				
Retirement benefit obligations	-	23,160	-	23,160
Other liabilities	-	118,982	-	118,982
	-	<b>142,142</b>	-	<b>142,142</b>
<b>Total liabilities</b>	-	<b>1,852,316</b>	-	<b>1,852,316</b>

**SMB Finance PLC**  
**Notes to the Financial Statements**

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**41.5 Determination of Fair Value**

**a) Methodologies and Assumptions Used to Determine Fair Value**

The methodology for fair value of the financial assets and liabilities and the analysis according to fair value hierarchy is provided in this note. The basis on which fair values have been arrived for various financial assets and liabilities are explained below.

**b) Assets for which Fair Value approximates Carrying Value**

For financial assets and financial liabilities that have a short-term maturity the carrying amounts approximate to their fair value.

**c) Fixed Rate Financial Investments - Government Securities**

The fair value of fixed rate government securities financial assets carried at amortised cost are estimated by using weekly market rate published by the Central Bank of Sri Lanka and other fixed rate investments were measured using comparing market interest rates when they were initially recognised with current market rates for similar financial instruments.

**d) Fixed Rate Financial Investments - Bank Deposits**

The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity.

**e) Fixed Rate Financial Investments - Unquoted and Quoted Debt Securities**

For quoted debt issued, the fair values are determined based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity and credit spreads.

**g) Other Receivable and Financial Liabilities**

The carrying value has been considered as the fair value due to uncertainty of the timing cash flows.

**SMB Finance PLC**  
**Notes to the Financial Statements**

**41.6 Determination of Fair Value and Fair Values Hierarchy of Financial Investments**

Please refer accounting policy Note 5.1.2 for more information regarding determination of fair value.

**Company**

As at December 31,

Rs.'000	2023			2022	
	Level 1	Level 2	Level 3	Total	Total
Fair value through profit or loss (FVTPL)	29	-	-	29	385,728
Fair value through other comprehensive income (FVTOCI)	-	-	116,329	116,329	104,249
<b>Total financial investment</b>	<b>29</b>	<b>-</b>	<b>116,329</b>	<b>116,358</b>	<b>489,977</b>
<b>Group</b>					
Fair value through profit or loss (FVTPL)	29	-	637,236	637,265	402,928
Fair value through other comprehensive income (FVTOCI)	-	-	116,329	116,329	104,249
Other financial assets	-	-	-	-	10,540
<b>Total financial investment</b>	<b>29</b>	<b>-</b>	<b>753,565</b>	<b>753,594</b>	<b>517,717</b>

The determination of fair values of financial assets and financial liabilities recorded on the Statement of Financial Position for which there is no observable market price are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish their fair values. The Company measures fair value using the fair value hierarchy that reflects the significance of input used in making measurements.

**41.7 Financial Instruments not Measured at Fair Value**

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized.

**Assets -Company**

As at December 31,

Rs.'000	2023			2022	
	Level 1	Level 2	Level 3	Total	Total
Cash and cash equivalents	-	-	-	90,670	55,302
Placements with banks	-	-	-	2,568,600	2,401,476
Financial assets at amortized cost - Loans and receivables to customers	-	-	-	1,471,314	1,855,368
<b>Total asset</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,130,584</b>	<b>4,312,146</b>

The Company has not disclosed the fair values for financial instruments such as cash and cash equivalents, placement with banks and loans and receivables to other customers, because their carrying amounts are a reasonable approximation of fair value.

**Assets - Group**

As at December 31,

Rs.'000	2023			2022	
	Level 1	Level 2	Level 3	Total	Total
Cash and cash equivalents	-	-	-	90,670	55,495
Placements with banks	-	-	-	2,568,600	2,364,050
Financial assets at amortized cost - Loans and receivables to customers	-	-	-	1,471,314	1,855,368
Other financial assets	-	-	-	-	47,998
<b>Total asset</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,130,585</b>	<b>4,322,911</b>

**41.8 Financial Liabilities - Company**

As at December 31,

Rs.'000

	2023		2022	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Due to financial institutions	1,504,598	1,504,598	1,568,220	1,568,220
Financial Liabilities at Amortised Cost - Deposits due to customers	42,736	42,736	-	-
Financial Liabilities at Amortised Cost - Due to other customers	131,299	131,299	126,786	126,786
Lease liabilities	21,780	21,780	14,880	14,880
	<b>1,700,413</b>	<b>1,700,413</b>	<b>1,709,886</b>	<b>1,709,886</b>
<b>Group</b>				
Due to financial institutions	1,504,598	1,504,598	1,568,508	1,568,508
Financial Liabilities at Amortised Cost - Deposits due to customers	42,736	42,736	-	-
Financial Liabilities at Amortised Cost - Due to other customers	131,299	131,299	126,786	126,786
Lease liabilities	21,780	21,780	14,880	14,880
	<b>1,700,413</b>	<b>1,700,413</b>	<b>1,710,174</b>	<b>1,710,174</b>

The fair values of financial liabilities similar to carrying amounts since those amounts are reasonable approximation of fair values. Thus, the fair-value hierarchy disclosure is not applicable. The fair value hierarchy gives the lowest priority to unobservable inputs (Level 3 inputs). The fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The observable input adjusted using an unobservable input and that adjustment results in a significantly higher or lower fair value measurement, the resulting measurement is categorised within Level 3 of the fair value hierarchy.

**41.9 Valuation techniques and Significant Unobservable Inputs**

Property valuations are inherently subjective as they are made on the basis of assumptions made by the valuer which may not prove to be accurate. For these reasons, we have classified the land valuations as Level 3 as defined by SLFRS 13.

Please refer Note No.24.4

The following table show the valuation techniques used in measuring Level 3 fair values for financial instruments in the statement of financial position, as well as the significant unobservable inputs used.

Assets	Valuation technique	Significant unobservable input	Inter relationship between key unobservable input and fair value measurement
Equity Securities (Other Investments)	Market comparison technique : The valuation model is based on market multiples derived from quoted prices of companies comparable to the investee, adjusted for the effect of the non-marketability of the equity securities, and the revenue and EBITDA of the investee. The estimate is adjusted for the net debt of the investee.	Adjusted Net Assets per Share Rs.23.26	The estimated fair value would increase/ (decrease) if the adjusted market multiple were higher (lower)

**SMB Finance PLC**  
**Notes to the Financial Statements**

**42 Commitments and Contingencies**

**42.1 Capital Commitment**

There are no capital commitments as at December 31, 2023

**42.2 Contingencies**

In the normal course of business, the Company makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

Except for above there are no material commitments and contingencies as at the reporting date.

**43 Event After the Reporting Date**

No circumstances have arisen since the statement of financial position date that require adjustments to, or disclosure in the financial, other than the item mentioned below.

The Board of SMB Finance PLC at its meeting held on 19th March 2024 decided to sell its holding of 1,275,000 shares in SMB Money Brokers (Private) Limited to Corporate Capital Markets Limited for a consideration of Rs. 2 Mn subject to obtaining of relevant regulatory approval from the Central Bank of Sri Lanka (CBSL).

**44 Related Party Disclosures**

**44.1 Transactions with Related Parties**

Rs.	Name of Director	Details of Financial Dealing	2023		2022		As a percentage of capital funds as at December 31, 2023
			Received/ Receivable (Payable/ Paid)	Total Outstanding as at December 31, 2023	Received/ Receivable (Payable/ Paid)	Total Outstanding as at December 31, 2022	
<b>Transactions with Associate</b>							
Kenanga Investment Corporation Ltd							
<b>Transactions with Subsidiary</b>							
SMB Money Brokers (Pvt) Ltd	Mr. T.M. Wijesinghe	Purchase of Motor vehicles	(1,532,946)	-	-	-	0.00%
	Mr. H.R.S.Wijeratne	Purchase of Investment properties	(17,200,000)	-	-	-	0.00%
	Mr.S.C Wijesinghe			-	-	-	-
<b>Transactions with other Related Companies</b>							
Grayline Cargo Terminals (Pvt) Ltd	Mr. H.R.S. Wijeratne	Finance Lease	751,093	3,347,460	1,201,065	4,098,553	0.00%
		Term Loan	1,681,097	5,427,215	2,627,363	7,108,311	0.00%
Grayline Container Terminals (Pvt) Ltd	Mr. H.R.S. Wijeratne	Finance Lease	541,294	2,385,644	768,181	2,926,938	0.00%
		Term Loan	65,920	322,908	58,278	388,828	0.00%
<b>Transactions with other Related personals</b>							
Mr.R.S Wijeratne	Son of Mr.H.R.S Wijeratne	Time Deposit	10,000,000	11,208,072	-	-	0.00%

A number of these entities transacted with the Company during the year. The terms and conditions of the transactions with key management personnel and their related parties were no more favorable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel of related entities on an arm's length basis.

**44.2 Transaction with Key Management Personnel**

As per the Sri Lanka Accounting Standard – (LKAS 24) – “Related Party Disclosures”, the KMPs include those who are having authority and responsibility for planning, directing and controlling the activities of the Company. Accordingly, the Board of Directors of the Company, and members of the Corporate Management of the Company have been classified as KMPs of the Company.

**44.2.1 Remuneration to Key Management Personnel**

**(a) Remuneration to Board of Directors**

Rs.	Company		Group	
	2023	2022	2023	2022
For the year ended December 31,				
Short-term employees benefits	5,445,000	4,905,000	5,445,000	6,850,025
<b>Total</b>	<b>5,445,000</b>	<b>4,905,000</b>	<b>5,445,000</b>	<b>6,850,025</b>

**(b) Remuneration to Corporate Management**

Rs.	Company		Group	
	2023	2022	2023	2022
For the year ended December 31,				
Short-term employees benefits	31,781,085	19,817,004	44,904,110	28,702,240
Post employment benefits	-	-	-	1,495,500
<b>Total</b>	<b>31,781,085</b>	<b>19,817,004</b>	<b>44,904,110</b>	<b>30,197,740</b>

**45 Litigation Against the Group**

Litigation is a common occurrence in the financial services industry due to the nature of the business undertaken. Provision for legal matters typically requires a higher degree of judgment. When matters are at an early stage, accounting judgments can be difficult because of the high degree of uncertainty involved. Group has established a formal controls and policies for managing legal claims. Once the professional advice has been obtained and the amount of loss reasonably estimated, the Company makes adjustments to the accounts for any adverse effect, if any, which the claim may have on the Group's financial position. As at the reporting date, Group had several unresolved legal claims pending judgment. However, the legal advisor of the Company is of the view that these cases will be resolved in favour of the Group and the process will probably take over three years. Accordingly no provision has been made in these financial statement.

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**46 Financial Risk Management**

**46.1 Introduction and Overview**

The Group has exposure to the following risks from financial instruments;

- i. Liquidity Risk
- ii. Credit Risk
- iii. Operational Risk
- iv. Market Risk

**46.2 Risk Management Framework**

The Board of Directors has overall responsibility for the establishment and overseeing of the Company's risk management framework. In discharging its governance responsibility, it operates through two key committees, the Risk Management Committee and the Audit Committee. The Risk Management Committee is in the process of setting a risk framework for the company with the assistance from a consulting firm.

The Audit Committee provides its assessment on the effectiveness of internal audit and external disclosure of accounting policies and financial reporting to the Board.

**46.3 Liquidity Risk**

Liquidity risk is the risk that arises when the Company encounters difficulty in meeting obligations associated with its financial liabilities that are to be settled by delivering cash or another financial asset.

**46.3.1 Management of Liquidity Risk**

The Group's approach to manage liquidity is to ensure that funds available are adequate to meet credit demands of its customers and to enable debt instruments to be repaid on demand or upon maturity as appropriate. The Finance Division is responsible for the management of liquidity risk and funding in accordance with the approved guidelines and risk limits. The treasury and liquidity policies and compliance thereunder are reviewed and approved by the ALCO.

**46.3.2 Exposure to Liquidity Risk**

The Company monitors the following liquidity ratios to assess funding requirements.

	December 31, 2023	December 31, 2022
<b>Liquid Asset Ratio (LAR)</b>		
As at December 31,	2574.38%	187.94%
Average for the year	3155.61%	502.92%
Maximum for the year	18674.46%	1359.30%
Minimum for the year	948.56%	178.51%

Liquid assets include cash and short term funds. The calculation is based on directions and guidelines issued by the Central Bank of Sri Lanka (CBSL).

**Minimum Liquidity Requirement**

As per the Direction 4 of 2012 of Central Bank of Sri Lanka, every finance company shall maintain minimum holding of liquid assets. The table below sets out the components of the Company's holding of liquid assets;

	December 31, 2023	December 31, 2022
Required minimum amount of liquid assets	18,979,399	12,889,024
Daily average liquid assets	488,601,606	2,422,403,895
Excess liquidity	469,622,208	2,409,514,871

**46.3.3 Maturity Analysis**

**46.3.3.1 Maturity Analysis - Company**

Rs.'000	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Total
<b>Interest Earning Assets</b>						
Cash and cash equivalents	90,670	-	-	-	-	90,670
Placements with banks	-	1,010,000	1,306,704	165,000	86,896	2,568,600
Financial assets at amortised cost - Loans and receivables to customers	381,596	89,826	540,895	160,029	298,968	1,471,314
Financial investments	-	-	-	-	116,358	116,358
	<b>472,266</b>	<b>1,099,826</b>	<b>1,847,599</b>	<b>325,029</b>	<b>502,222</b>	<b>4,246,943</b>
<b>Non Interest Earning Assets</b>						
Investment in associate	-	-	-	-	42,617	42,617
Investment in subsidiary	-	-	-	-	-	-
Investment properties	-	-	-	-	637,236	637,236
Property, plant & equipment	-	-	-	50,339	-	50,339
Right-of-use assets	4,661	8,497	13,000	7,997	-	34,155
Intangible assets	-	-	-	-	263,663	263,663
Other assets	-	3,716	-	-	52,019	55,735
	<b>4,661</b>	<b>11,713</b>	<b>13,000</b>	<b>58,336</b>	<b>995,535</b>	<b>1,083,245</b>
<b>Total assets</b>	<b>476,928</b>	<b>1,111,539</b>	<b>1,860,599</b>	<b>383,365</b>	<b>1,497,758</b>	<b>5,330,187</b>
<b>Interest Bearing Liabilities</b>						
Due to financial institutions	70,686	441,712	524,077	426,447	41,676	1,504,598
Financial Liabilities at Amortised Cost - Deposits due to customers	-	11,208	31,528	-	-	42,736
Financial Liabilities at Amortised Cost - Due to other customers	-	-	131,299	-	-	131,299
Lease liabilities	3,106	6,517	10,361	1,796	-	21,780
	<b>73,792</b>	<b>459,437</b>	<b>697,265</b>	<b>428,243</b>	<b>41,676</b>	<b>1,700,413</b>
<b>Non Interest Bearing Liabilities</b>						
Retirement benefit obligations	-	-	-	13,645	-	13,645
Other liabilities	39,951	-	-	-	89,420	129,371
	<b>39,951</b>	<b>-</b>	<b>-</b>	<b>13,645</b>	<b>89,420</b>	<b>143,016</b>
<b>Equity</b>						
Shareholders' funds	-	-	-	-	3,486,758	3,486,758
	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,486,758</b>	<b>3,486,758</b>
<b>Total liabilities &amp; equity</b>	<b>113,743</b>	<b>459,437</b>	<b>697,265</b>	<b>441,888</b>	<b>3,617,854</b>	<b>5,330,187</b>

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**46.3.3.2 Maturity Analysis - Group**  
**Rs.'000**

	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Total
<b>Interest Earning Assets</b>						
Cash and cash equivalents	90,670	-	-	-	-	90,670
Placements with banks	86,896	2,116,704	200,000	165,000	-	2,568,601
Financial assets at amortised cost - Loans and receivables to customers	381,596	89,826	540,895	160,029	298,968	1,471,314
<b>Financial investments</b>	-	79	-	-	116,329	116,358
	<b>559,163</b>	<b>2,206,560</b>	<b>740,895</b>	<b>325,029</b>	<b>415,297</b>	<b>4,246,943</b>
<b>Non Interest Earning Assets</b>						
Investment in associate	-	-	-	-	42,617	42,617
Assets held for sale	4,916	-	-	-	-	4,916
Investment properties	-	-	-	-	637,236	637,236
Property, plant & equipment	-	-	-	50,339	-	50,339
Right-of-use assets	4,661	8,497	13,000	7,997	-	34,156
Intangible asset	-	-	-	-	263,663	263,663
Deferred tax assets	-	-	-	-	-	-
<b>Other assets</b>	-	3,216	-	-	52,019	55,235
	<b>9,577</b>	<b>11,713</b>	<b>13,000</b>	<b>58,335</b>	<b>995,535</b>	<b>1,088,160</b>
<b>Total assets</b>	<b>568,741</b>	<b>2,218,272</b>	<b>753,895</b>	<b>383,364</b>	<b>1,410,832</b>	<b>5,335,104</b>
<b>Interest Bearing Liabilities</b>						
Due to financial institutions	70,686	441,712	524,077	426,447	41,676	1,504,598
Financial Liabilities at Amortised Cost - Deposits due to customers	-	11,208	31,528	-	-	42,736
Financial Liabilities at Amortised Cost - Due to other customers	-	-	131,299	-	-	131,299
Lease liabilities	3,106	6,517	10,360	1,796	-	21,780
	<b>73,792</b>	<b>459,437</b>	<b>697,265</b>	<b>428,243</b>	<b>41,676</b>	<b>1,700,414</b>
<b>Non Interest Bearing Liabilities</b>						
Retirement benefit obligations	-	-	-	13,645	-	13,645
Other liabilities	41,650	-	-	-	90,141	131,791
<b>Liabilities directly associated with assets held for sale</b>	<b>994</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>994</b>
	<b>42,644</b>	<b>-</b>	<b>-</b>	<b>13,645</b>	<b>90,141</b>	<b>146,430</b>
<b>Equity</b>						
Shareholders' funds	-	-	-	-	3,488,260	3,488,260
	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,488,260</b>	<b>3,488,260</b>
<b>Total liabilities &amp; equity</b>	<b>116,436</b>	<b>459,437</b>	<b>697,265</b>	<b>441,888</b>	<b>3,620,077</b>	<b>5,335,104</b>

**46.4 Credit Risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's loans and advances to customers and other companies, and investment in debt / equity securities. For risk management reporting purposes the Company considers and consolidates all elements of credit risk exposure.

**46.4.1 Management of Credit Risk**

Primarily the Credit Division manages the credit risk. There is a management credit Committee & a Board Credit Committee to review significant credit risks. The said committees are facilitated by regular audits undertaken by the internal auditors. The Company manages credit by focusing on following stages.

**a) Loan Origination**

The loan origination process comprises initial screening and credit appraisal. The evaluation focuses on the borrower's ability to meet its obligations in a timely manner. Efforts are made to ensure consistent standards are maintained in credit approval. Collateral and guarantees form an important part of the credit risk mitigation process. A suitable internal risk rating model is in place & is an important part of the risk assessment of customers.

**b) Loan Approval**

The Company has established clear guidelines for loan approvals / renewals by adopting a committee based approval structure, where all approval signatories carry equal responsibility for credit risk. Individual credit facilities beyond a minimum threshold require Board Credit Committee approval.

**c) Credit Administration and Disbursement**

Credit Division ensures efficient and effective customer support including disbursement and settlements.

**d) Recoveries**

Overdue loans are managed by the Recoveries Division with the support of the Legal Division. This unit is responsible for all aspects of an overdue facility, restructuring of the credit, monitoring the value of the applicable collateral and liquidation, scrutiny of legal documents and liaising with the customer until all recovery matters are finalised.

**e) Collateral**

The Company carries sensitivity tests to measure the values of portfolios in the event of extreme market movements on hypothetical scenarios. Management reviews the consequences of the stress tests and determine appropriate mitigating actions such as reducing exposures, reviewing and changing risk limits in order to mitigate the risk induced by potential stress. The change in weighted average interest rate of the company will have the following effects.

**46.4.1.e Collateral wise analysis of individual significant impaired loan and receivables to customers**

	2023		
	Security Value	Total Receivable	covered % through collateral
Secured by motor vehicles	8,320,000	24,218,592	34.35%
Secured by movable & immovable assets	245,221,250	191,333,763	128.16%
<b>Unsecured</b>		476,962,947	
	<b>253,541,250</b>	<b>692,515,302</b>	
<b>Individually significant unimpaired loans and leases</b>			
Watch list		198,771,956	
Others		1,330,339,032	
		<b>1,529,110,988</b>	
<b>Collateral wise analysis of individual significant unimpaired loan and leases</b>			
Secured by motor vehicles		3,527,983	
Secured by movable & immovable assets		9,814,977	
Pawning advances		421,928,145	
<b>Unsecured</b>		1,093,839,883	
		<b>1,529,110,988</b>	

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**46.4.2 Credit Quality Analysis**

The tables below sets out information about the credit quality of financial assets held by Group net of allowance for expected credit losses against those assets.

**Expected Credit Losses (ECL)**

As per SLFRS 9 - "Financial Instruments" the Company manages credit quality using a three stage approach.

Stage One : 12 months expected credit losses (ECL)

Stage Two : Life time expected credit losses (ECL) – Not credit impaired

Stage Three : Lifetime expected credit losses (ECL) – Credit impaired

Explanation of the terms: 12 months ECL, lifetime ECL included in Note 5.

Table below shows the classification of assets and liabilities based on the above-mentioned three stage model:

	12 months ECL	Life Time ECL- Not credit impaired	Life time ECL- Credit impaired	Unclassified	Total
Rs.					
<b>As at December 31, 2023</b>					
Cash and cash equivalents	90,670,044	-	-	-	90,670,044
Placements with banks	2,568,600,407	-	-	-	2,568,600,407
Financial assets at amortised cost - Loans and receivables to customers	1,100,307,429	148,059,217	222,947,428	-	1,471,314,074
Financial investments	116,358,309	-	-	-	116,358,309
Investments in associate	-	-	-	42,616,953	42,616,953
Investments in subsidiary	-	-	-	-	-
Investment properties	-	-	-	637,235,600	637,235,600
Property, plant & equipment	-	-	-	50,338,715	50,338,715
Right-of-use assets	-	-	-	34,156,018	34,156,018
Intangible assets	-	-	-	263,662,640	263,662,640
Other assets	-	-	-	55,234,742	55,234,742
<b>Total assets</b>	<b>3,875,936,189</b>	<b>148,059,217</b>	<b>222,947,428</b>	<b>1,083,244,668</b>	<b>5,330,187,502</b>
<b>As at December 31, 2022</b>					
Cash and cash equivalents	55,302,042	-	-	-	55,302,042
Placements with banks	2,401,475,573	-	-	-	2,401,475,573
Financial assets at amortised cost - Loans and receivables to customers	1,495,560,397	196,742,856	163,064,896	-	1,855,368,149
Financial investments	104,249,453	-	-	-	104,249,453
Investments in associate	-	-	-	42,577,031	42,577,031
Investments in subsidiary	-	-	-	-	-
Investment properties	-	-	-	385,728,000	385,728,000
Property, plant & equipment	-	-	-	19,963,487	19,963,487
Right-of-use assets	-	-	-	16,070,409	16,070,409
Intangible assets	-	-	-	245,092,403	245,092,403
Other assets	-	-	-	61,399,660	61,399,660
<b>Total assets</b>	<b>4,056,587,465</b>	<b>196,742,856</b>	<b>163,064,896</b>	<b>770,830,990</b>	<b>5,187,226,207</b>

**46.4.3 Credit quality analysis of Placements with Banks**

The following table sets out the credit quality of Placements with Banks. The analysis is based on Fitch and ICRA Lanka ratings.

	As at December 31, 2023 Rs	As at December 31, 2022 Rs
Rated A- to A+	2,056,766,647	2,202,958,911
Rated BBB + and below	512,990,548	200,000,000
	<b>2,569,757,195</b>	<b>2,402,958,911</b>

**Credit quality analysis of Cash at Banks**

The following table sets out the credit quality of Cash at Banks. The analysis is based on Fitch and ICRA Lanka ratings.

	As at December 31, 2023 Rs	As at December 31, 2022 Rs
Rated A- to A+	50,373,908	7,921,560
Rated BBB + and below	54,024	6,509,607
	<b>50,427,932</b>	<b>14,431,167</b>

**46.4.4 LTV Ratio Details**

Adequate precautions were taken to maintain exposures by maintaining LTV ratio at acceptable levels which was below 70% as of December 31, 2023.

**46.4.5 Incorporation of forward-looking information**

The Company has identified key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macroeconomic variables and credit risk and credit losses. The Economic variables used by the Company based on the statistical significance include the followings:

1. Unemployment rate
2. Interest rate
3. GDP Growth rate
4. Inflation rate
5. Base case scenario along with two other scenarios has been used (Best Case and Worst Case)

**Weight ages assigned for each scenario for the year 2023 is given below**

Scenario	Weightage
Normal Scenario	10.00%
Best case Scenario	10.00%
Worst case Scenario	80.00%

As at December 31, 2023, the base case assumptions have been updated to reflect the rapidly evolving situation with respect to current economic condition of the country by using the economic forecast. In addition to the base case forecast which reflects the negative economic consequences, greater weighting has been applied to the worst scenario given the Company's assessment of downside risks. The assigned probability weightings are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected.

Management temporary adjustments to the ECL allowance are used in circumstances where it is judged that the existing inputs, assumptions and model techniques do not capture all the risk factors relevant to the company's lending portfolios, Emerging local or global macroeconomic, microeconomic or political events, and natural disasters that are not incorporated into the current parameters, risk ratings, or forward-looking information are examples of such circumstances. The use of management temporary adjustments may impact the amount of ECL recognised.

**46.4.6 Movements in allowance for expected credit losses (Stage transition)**

Rs.000

As at December 31,2023

	Stage 1: 12 months ECL	Stage 2: life time ECL not credit- impaired	Stage 3: lifetime ECL credit- impaired	Total ECL
Balance as at the beginning of the year	98,411,429	88,434,040	450,019,612	636,865,081
<b>Changes due to loans and receivables recognised in opening balance that have:</b>				
Transferred from 12 months ECL	(2,308,657)	2,308,657		
Transferred from lifetime ECL not credit-impaired	10,739,409	(10,958,282)	218,873	
Transferred from lifetime ECL credit- impaired	6,274,950	7,445,157	(13,720,107)	
<u>Net remeasurement of loss allowance</u>	138,231	(36,516,832)	149,825,736	113,447,135
<b>Balance as at the end of the year</b>	<b>113,255,362</b>	<b>50,712,740</b>	<b>586,344,114</b>	<b>750,312,216</b>

**46.4.7** Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fail to meet its contractual obligations and arises principally from the company's receivables from customers and investments.

The carrying amount of financial assets represent the maximum credit exposure. Impairment losses on financial assets recognised in profit or loss were as follows.

Rs.	2023	2022
Allowance for expected credit loss for loans and advances	113,447,135	171,244,848
Allowance for expected credit loss for placement with banks	(326,550)	1,264,847
	<b>113,120,585</b>	<b>172,509,695</b>

**46.5 Operational Risks**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company involvement with financial instruments, including processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior.

The Company objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit.

This responsibility is supported by the development of overall Company standards for the management of operational risk in the following areas:

Compliance with Company standards is supported by a program of periodic reviews undertaken by Internal Audit. The results of internal audit reviews are discussed with the management & reports to the Audit Committee and to the board.

**46.6 Market Risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

**44.6.1 Exposure to Interest Rate Risk**

**44.6.1(a)**

The interest rate profile of the company's interest bearing financial instruments is as follows.

Rs.	2023	2022
<b>Financial assets</b>		
Placements with banks	2,568,600,407	2,401,475,573
Financial assets at amortised cost - Loans and receivables to customers	1,471,314,074	1,855,368,149
	<b>4,039,914,481</b>	<b>4,256,843,722</b>
<b>Financial liabilities</b>		
Due to financial institutions	1,504,597,528	1,568,220,236
Financial Liabilities at Amortised Cost - Deposits due to customers	42,736,120	-
	<b>1,547,333,648</b>	<b>1,568,220,236</b>

**46.6.1 (b) Sensitivity Analysis**

The Company carries sensitivity tests to measure the value of its portfolios in the event of extreme market movements on hypothetical scenarios. Management reviews the consequences of the stress tests and determines appropriate mitigating actions such as reducing exposures, reviewing and changing risk limits in order to mitigate the risks induced by potential stress. The change in weighted average interest rate of the Company will have the following effects.

<b>Loan Portfolio</b>				
Interest rate shock	-2%	-1%	1%	2%
Interest income change	(22,263,502)	(11,131,751)	11,131,751	22,263,502
<u>Effect on loan interest income</u>	<u>-8.69%</u>	<u>-4.35%</u>	<u>4.35%</u>	<u>8.69%</u>
<b>Lease Portfolio</b>				
Interest rate shock	-2%	-1%	1%	2%
Interest income change	(11,003,320)	(5,501,660)	5,501,660	11,003,320
<u>Effect on lease interest income</u>	<u>-8.81%</u>	<u>-4.41%</u>	<u>4.41%</u>	<u>8.81%</u>
<b>Total Portfolio</b>				
Interest rate shock	-2%	-1%	1%	2%
Interest income change	(33,266,822)	(16,633,411)	16,633,411	33,266,822
<u>Effect on interest income</u>	<u>-8.73%</u>	<u>-4.37%</u>	<u>4.37%</u>	<u>8.73%</u>
<b>Interest Expenses</b>				
Interest rate shock	-2%	-1%	1%	2%
Interest expenses change	(33,309,030)	(16,654,515)	16,654,515	33,309,030
<u>Effect on interest expenses</u>	<u>-10.78%</u>	<u>-5.39%</u>	<u>5.39%</u>	<u>10.78%</u>

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**46.6.2 Exposure to Market Risk**

**46.6.2.1** The table below sets out the allocation of Company's assets and liabilities subject to market risk between trading and non-trading assets.

As at December 31, 2023	Carrying amount	Market risk measure	
		Trading	Non-trading
	Rs.	Rs.	Rs.
<b>Assets Subject to Market Risk</b>			
Cash and cash equivalents	90,670,044	-	90,670,044
Placements with banks	2,568,600,407	-	2,568,600,407
Financial assets at amortised cost - Loans and receivables to customers	1,471,314,074	-	1,471,314,074
Financial investments	116,358,309	116,358,309	-
<b>Total assets subject to market risk</b>	<b>4,246,942,834</b>	<b>116,358,309</b>	<b>4,130,584,525</b>
<b>Liabilities Subject to Market Risk</b>			
Due to financial institutions	1,504,597,528	-	1,504,597,528
Financial Liabilities at Amortised Cost - Deposits due to customers	42,736,120	-	42,736,120
Financial Liabilities at Amortised Cost - Due to other customers	131,298,785	-	131,298,785
<b>Total liabilities subject to market risk</b>	<b>1,678,632,433</b>	<b>-</b>	<b>1,678,632,433</b>
<b>As at December 31, 2022</b>			
	Carrying amount	Market risk measure	
		Trading	Non-trading
	Rs.	Rs.	Rs.
<b>Assets Subject to Market Risk</b>			
Cash and cash equivalents	55,302,042	-	55,302,042
Placements with banks	2,401,475,573	-	2,401,475,573
Financial assets at amortised cost - Loans and receivables to customers	1,855,368,149	-	1,855,368,149
Financial investments	104,249,453	104,249,453	-
<b>Total assets subject to market risk</b>	<b>4,416,395,217</b>	<b>104,249,453</b>	<b>4,312,145,764</b>
<b>Liabilities Subject to Market Risk</b>			
Due to financial institutions	1,568,220,236	-	1,568,220,236
Financial Liabilities at Amortised Cost - Due to other customers	126,786,485	-	126,786,485
<b>Total liabilities subject to market risk</b>	<b>1,695,006,721</b>	<b>-</b>	<b>1,695,006,721</b>

**46.6.2.2** The table below sets out the allocation of Group's assets and liabilities subject to market risk between trading and non-trading assets.

As at December 31, 2023	Carrying amount	Market risk measure	
		Trading	Non-trading
	Rs.	Rs.	Rs.
<b>Assets Subject to Market Risk</b>			
Cash and cash equivalents	90,670,044	-	90,670,044
Placements with banks	2,568,600,407	-	2,568,600,407
Financial assets at amortised cost - Loans and receivables to customers	1,471,314,074	-	1,471,314,074
Financial investments	116,358,309	116,358,309	-
<b>Total assets subject to market risk</b>	<b>4,246,942,834</b>	<b>116,358,309</b>	<b>4,130,584,524</b>
<b>Liabilities Subject to Market Risk</b>			
Due to financial institutions	1,504,597,528	-	1,504,597,528
Financial Liabilities at Amortised Cost - Deposits due to customers	42,736,120	-	42,736,120
Financial Liabilities at Amortised Cost - Due to other customers	131,298,785	-	131,298,785
<b>Total liabilities subject to market risk</b>	<b>1,678,632,432</b>	<b>-</b>	<b>1,678,632,432</b>
<b>As at December 31, 2022</b>			
	Carrying amount	Market risk measure	
		Trading	Non-trading
	Rs.	Rs.	Rs.
<b>Assets Subject to Market Risk</b>			
Cash and cash equivalents	55,494,870	-	55,494,870
Placements with banks	2,401,507,742	-	2,364,049,831
Financial assets at amortised cost - Loans and receivables to customers	1,855,368,149	-	1,855,368,149
Financial investments	114,789,453	114,789,453	-
<b>Total assets subject to market risk</b>	<b>4,389,702,303</b>	<b>114,789,453</b>	<b>4,274,912,850</b>
<b>Liabilities Subject to Market Risk</b>			
Due to financial institutions	1,568,507,907	-	1,568,507,907
Financial Liabilities at Amortised Cost - Due to other customers	126,786,485	-	126,786,485
<b>Total liabilities subject to market risk</b>	<b>1,695,294,392</b>	<b>-</b>	<b>1,695,294,392</b>

**SMB Finance PLC**  
**Notes to the Financial Statements**

**46.6.3 Exposure to Equity Price Risk**

Equity price risks arises as a result of fluctuations in market prices of individual equities and management conduct mark-to-market calculation on monthly basis and on a need basis to identify the impact.

The following table exhibits the impact on financial performance and net assets due to a shock of 10% on equity price.

**Equity price sensitivity**

The management of equity price risk is done by monitoring various standard and non-standard equity price scenarios and analysis is given below;

As at December 31,	2023		Shock Levels		2023		2022	
			Impact on profit	Impact on OCI	Impact on net assets	Impact on profit	Impact on OCI	Impact on net assets
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Fair value through profit or loss (FVTPL)/ other comprehensive income (FVTOCI)	116,358,309	2,637	10,469,611	10,472,248	-	9,382,451	9,382,451	
		(2,637)	(10,469,611)	(10,472,248)	-	(9,382,451)	(9,382,451)	

**46.6.4 Exposure to Gold Price Risk**

Gold price risks arises as a result of fluctuations in market gold prices and Management conducts mark-to-market calculation on monthly basis and on a need basis to identify the impact.

**As at December 31,**

	Total net weight of pawning articles (In grams)	Market price per gram	Total market value	Gold loan receivable amount	Value excess
2023	29,918	19,567	585,399,594	421,928,144	163,471,449
2022	33,825	19,056	644,589,261	416,220,564	228,368,697

**Gold price sensitivity**

The following table exhibits the impact on market value of the gold stock held due to a shock of 10% on gold price:

**As at December 31,**

Shock Levels	2023		2022	
	Impact on market value	Impact on value excess	Impact on market value	Impact on value excess
	Rs.	Rs.	Rs.	Rs.
10% shock (Increase)	58,539,959	58,539,959	64,458,926	64,458,926
10% shock (Decrease)	(58,539,959)	(58,539,959)	(64,458,926)	(64,458,926)

**SMB Finance PLC**  
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**47 Comparative Information**

**Reclassification of comparative information**

The presentation and classification of the Financial Statements of the previous year are amended for better presentation and to be comparable with those of the current year, in order to maintain the consistency with the group presentation.

**Statement of profit or loss and other comprehensive income**

	Note	As previously reported	Reclassification	Current presentation
		Rs.	Rs.	Rs.
Interest income	(a)	289,361,235	194,294,704	483,655,939
Allowance for expected credit loss - Charge	(b)	(166,520,963)	2,861,868	(163,659,095)
Other operating income (Net)		210,220,245	(197,156,572)	13,063,673

(a) Interest income on placements with banks and Investment with government securities have been reclassified as Interest income

(b) Profit on consent motion loan settlement has been reclassified as write-offs and disposal gain/losses under the Allowance for expected credit loss - charge

**Statement of Financial Position**

	Note	As Previously Reported	Reclassification	Current Presentation
		Rs.	Rs.	Rs.
Placement with banks	(c)	2,364,017,662	37,457,911	2,401,475,573
Other assets		98,857,571	(37,457,911)	61,399,660

(c) Interest receivable on fixed deposits with banks has been reclassified as Placement with banks.

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**Notes to the Financial Statements**

**48 Current / Non Current Analysis**

<b>Company</b> <b>As at December 31,</b> <b>Rs.'000</b>	<b>Within 12</b> <b>Months</b>	<b>2023</b> <b>After 12</b> <b>Months</b>	<b>Total</b>	<b>Within 12</b> <b>Months</b>	<b>2022</b> <b>After 12</b> <b>Months</b>	<b>Total</b>
<b>Company</b>						
<b>Assets</b>						
Cash and cash equivalents	90,670	-	90,670	55,302	-	55,302
Placements with banks	1,393,600	1,175,000	2,568,600	1,999,018	365,000	2,364,018
Financial assets at amortised cost - Loans and receivables to customers	471,422	999,892	1,471,314	519,531	1,335,837	1,855,368
Financial investments	-	116,358	116,358	-	104,249	104,249
Investments in associate	-	42,617	42,617	-	42,577	42,577
Investments in subsidiary	-	-	-	-	-	-
Investment properties	-	637,236	637,236	-	385,728	385,728
Property, plant & equipment	-	50,339	50,339	351	19,612	19,963
Right-of-use assets	13,158	20,998	34,156	8,465	7,605	16,070
Intangible assets	-	263,663	263,663	131	244,961	245,092
Other assets	3,216	52,019	55,235	11,841	87,018	98,859
<b>Total assets</b>	<b>1,972,066</b>	<b>3,358,122</b>	<b>5,330,189</b>	<b>2,594,639</b>	<b>2,592,587</b>	<b>5,187,226</b>
<b>Liabilities</b>						
Due to financial institutions	512,398	992,199	1,504,597	296,683	1,271,537	1,568,220
Financial Liabilities at Amortised Cost - Deposits due to customers	11,208	31,528	42,736	-	-	-
Financial Liabilities at Amortised Cost - Due to other customers	-	131,299	131,299	126,786	-	126,786
Retirement benefit obligations	-	13,645	13,645	-	8,961	8,961
Lease liabilities	9,623	12,157	21,780	5,906	8,975	14,881
Other liabilities	39,951	89,420	129,371	23,944	88,482	112,426
<b>Total liabilities</b>	<b>573,180</b>	<b>1,270,248</b>	<b>1,843,428</b>	<b>453,319</b>	<b>1,377,955</b>	<b>1,831,274</b>
<b>Group</b>						
<b>Assets</b>						
Cash and cash equivalents	90,670	-	90,670	55,495	-	55,495
Placements with banks	2,203,602	365,000	2,568,602	1,999,051	365,000	2,364,051
Financial assets at amortised cost - Loans and receivables to customers	471,422	999,892	1,471,314	519,531	1,335,837	1,855,368
Financial investments	29	116,329	116,358	-	114,789	114,789
Investments in associate	-	42,617	42,617	-	42,577	42,577
Investments in subsidiary	-	-	-	-	-	-
Assets held for sale	4,916	-	4,916	-	-	-
Investment properties	-	637,236	637,236	-	402,928	402,928
Property, plant & equipment	-	50,339	50,339	351	22,054	22,405
Right-of-use assets	13,158	20,998	34,157	8,465	7,606	16,071
Intangible assets	-	263,663	263,663	-	245,092	245,092
Deferred tax assets	-	-	-	-	1,203	1,203
Other assets	3,216	52,018	55,234	18,363	87,016	105,379
<b>Total assets</b>	<b>2,787,013</b>	<b>2,548,090</b>	<b>5,335,104</b>	<b>2,601,256</b>	<b>2,624,102</b>	<b>5,225,358</b>
<b>Liabilities</b>						
Due to financial institutions	512,398	992,200	1,504,599	296,971	1,271,537	1,568,508
Financial Liabilities at Amortised Cost - Deposits due to customers	42,736	-	42,736	-	-	-
Financial Liabilities at Amortised Cost - Due to other customers	131,299	-	131,299	126,786	-	126,786
Retirement benefit obligations	-	13,645	13,645	-	23,160	23,160
Lease liabilities	9,623	12,157	21,780	5,906	8,975	14,881
Other liabilities	41,650	90,141	131,791	28,785	90,196	118,981
Liabilities directly associated with assets held for sale	994	-	994	-	-	-
<b>Total liabilities</b>	<b>738,700</b>	<b>1,108,143</b>	<b>1,846,844</b>	<b>458,448</b>	<b>1,393,868</b>	<b>1,852,316</b>

**SMB Finance PLC**  
**Notes to the Financial Statements**

**49 Segment Reporting -Company**

Business Segments	Loans		Leasing		Treasury		Unallocated		Total	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Revenue from external customers;										
Interest	131,422	132,937	124,887	102,069	394,567	194,295	124,630	54,355	775,506	483,656
Fee & commission	1,907	3,654	2,148	6,251	-	-	-	-	4,055	9,905
Other operating income	-	-	611	515	648	740	6,615	11,808	7,874	13,063
Changes in fair value of Investment Property	-	-	-	-	-	-	38,371	44,650	38,371	44,650
<b>Total revenue from external customers</b>	<b>133,329</b>	<b>136,591</b>	<b>127,646</b>	<b>108,835</b>	<b>395,215</b>	<b>195,035</b>	<b>169,616</b>	<b>110,813</b>	<b>825,805</b>	<b>551,274</b>
<b>Segment result</b>	<b>89,918</b>	<b>53,050</b>	<b>86,085</b>	<b>42,270</b>	<b>266,535</b>	<b>76,341</b>	<b>114,390</b>	<b>45,065</b>	<b>556,928</b>	<b>216,726</b>
Depreciation charged for the year	(5,274)	(4,303)	(5,050)	(3,428)	(15,634)	(6,143)	(6,710)	(3,491)	(32,668)	(17,365)
Interest expense	(49,870)	(33,384)	(47,744)	(26,600)	(147,824)	(47,669)	(63,442)	(27,084)	(308,881)	(134,737)
<b>Operating profit</b>	<b>34,774</b>	<b>26,537</b>	<b>33,291</b>	<b>21,144</b>	<b>103,076</b>	<b>37,891</b>	<b>44,238</b>	<b>21,529</b>	<b>215,379</b>	<b>107,101</b>
Taxes on financial services	-	-	-	-	-	-	(53,663)	(18,985)	(53,663)	(18,985)
Impairment provision for subsidiary company	-	-	-	-	-	-	-	(12,750)	-	(12,750)
Share of profit of associate company	-	-	-	-	-	-	40	744	40	744
Income tax expense	(6,757)	861	(6,469)	686	(20,031)	1,229	(8,597)	698	(41,854)	3,473
Other comprehensive income / expense	1,761	6,084	1,686	4,848	5,219	8,687	2,240	4,936	10,905	24,554
<b>Total comprehensive (expense) / income for the year</b>	<b>29,777</b>	<b>33,481</b>	<b>28,508</b>	<b>26,678</b>	<b>88,264</b>	<b>47,807</b>	<b>(15,743)</b>	<b>(3,829)</b>	<b>130,806</b>	<b>104,136</b>
<b>As at December 31,</b>										
Segment assets	<b>997,365</b>	<b>1,228,985</b>	<b>473,949</b>	<b>626,383</b>	<b>2,659,270</b>	<b>2,456,778</b>	<b>1,199,603</b>	<b>875,080</b>	<b>5,330,188</b>	<b>5,187,226</b>
Segment liabilities	<b>297,628</b>	<b>453,742</b>	<b>284,942</b>	<b>361,540</b>	<b>882,230</b>	<b>647,885</b>	<b>378,629</b>	<b>368,110</b>	<b>1,843,429</b>	<b>1,831,277</b>
<b>For the year ended December 31,</b>										
Cash flow from operating activities	88,265	(160,541)	84,503	(127,918)	261,636	(229,232)	112,287	(130,243)	546,690	(647,934)
Cash flow from investing activities	(59,969)	(112,587)	(57,413)	(89,709)	(177,761)	(160,760)	(76,291)	(91,339)	(371,435)	(454,395)
Cash flow from financing activities	(45,375)	253,672	(43,441)	202,124	(134,502)	362,211	(57,725)	205,798	(281,043)	1,023,805

**SMB Finance PLC**  
**Notes to the Financial Statements**

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**49.1 The Company's segmental reporting is based on the following operating segments**

A segment is a distinguishable component of the Company that is engaged in providing products and services. (Business segment, which is subject to risks and rewards that are different from those of other segment.)

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Management of the Company consider the operating results and condition of its business segments in their decision making process and performance evaluation. Types of products and services from which each operating segment derives its revenues described as follows:

**Loans**

This segment includes loan products offered to the customers

**Leasing**

This segment includes leasing products offered to the customers

**Treasury**

This segment includes treasury and other investment activities.

**Unallocated**

This segment includes all other business activities that Company engaged other than above segments.

## SMB Finance PLC Decade at a Glance - Company

Rs.'000	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
<b>Operating Results</b>										
Revenue	825,805	551,275	295,485	180,162	283,931	265,975	315,263	256,012	198,117	193,949
Interest expenses	(308,880)	(134,737)	(51,819)	(59,755)	(77,119)	(63,339)	(69,181)	(40,311)	(28,525)	(31,647)
Operating expenses & provision	(301,546)	(309,437)	(177,276)	(190,069)	(190,787)	(97,132)	(185,165)	(118,584)	(96,021)	(68,634)
<b>Operating profit before taxes on financial services</b>	<b>215,379</b>	<b>107,101</b>	<b>66,390</b>	<b>(69,662)</b>	<b>16,025</b>	<b>105,504</b>	<b>60,917</b>	<b>97,116</b>	<b>73,571</b>	<b>93,668</b>
Taxes	(95,517)	(15,512)	(13,111)	(3,099)	(9,439)	(19,762)	(23,668)	(20,420)	(15,363)	(14,663)
Impairment provision for subsidiary company	-	(12,750)	-	-	-	-	-	-	-	-
Share of profit of associate company	40	744	152	2,307	2,079	-	-	-	-	-
<b>Profit / (Loss) for the year</b>	<b>119,901</b>	<b>79,582</b>	<b>53,431</b>	<b>(70,455)</b>	<b>8,665</b>	<b>85,742</b>	<b>37,249</b>	<b>76,696</b>	<b>58,209</b>	<b>79,004</b>
<b>Total comprehensive (expense) / income</b>	<b>130,806</b>	<b>104,136</b>	<b>76,177</b>	<b>(82,088)</b>	<b>19,491</b>	<b>95,746</b>	<b>37,196</b>	<b>77,952</b>	<b>56,815</b>	<b>77,549</b>

### As at December 31, Assets

Cash and cash equivalents and placement with banks	2,659,270	2,456,778	2,497,005	438,471	172,010	177,985	162,378	146,551	183,526	145,052
Loans and receivables	1,471,314	1,855,368	1,115,518	1,070,958	1,204,255	1,332,771	1,268,457	1,319,828	1,053,788	923,890
Financial investments	116,358	104,249	82,077	60,657	72,249	61,798	52,719	7,578	7,291	7,712
Investments in associates	42,617	42,577	41,833	41,682	39,375	37,296	37,275	101,452	106,072	108,494
Investments in subsidiaries	-	-	12,750	12,750	12,750	12,750	12,750	12,750	12,750	11,791
Investment properties	637,236	385,728	142,778	96,225	96,225	33,310	33,310	33,310	33,730	33,730
Property plant & equipment	50,339	19,963	7,306	12,180	12,838	14,726	19,417	20,224	7,222	9,876
Right-of-use assets	34,156	16,070	23,266	35,904	30,037	-	-	-	-	-
Intangible assets	263,663	245,092	5,615	5,928	5,042	3,111	1,495	3,258	3,406	3,553
Other assets	55,236	61,400	67,795	48,688	52,937	54,262	59,040	6,015	6,009	18,156
<b>5,330,188</b>	<b>5,187,226</b>	<b>3,995,944</b>	<b>1,823,443</b>	<b>1,697,718</b>	<b>1,728,009</b>	<b>1,646,842</b>	<b>1,650,965</b>	<b>1,413,793</b>	<b>1,262,254</b>	

### Liabilities & Shareholders' Fund

Borrowings	1,678,632	1,695,007	648,550	717,306	528,779	638,669	413,820	453,434	281,983	198,285
Retirement benefit obligations	13,645	8,961	7,545	7,890	7,581	11,753	12,183	11,948	10,336	7,088
Lease liabilities	21,780	14,880	15,649	21,108	21,402	-	-	-	-	-
Other liabilities	129,371	112,427	72,384	39,871	20,599	40,636	47,253	49,194	26,920	19,142
Shareholders' funds	3,486,758	3,355,952	3,251,816	1,037,268	1,119,357	1,036,951	1,173,586	1,136,390	1,094,554	1,037,739
<b>5,330,188</b>	<b>5,187,226</b>	<b>3,995,944</b>	<b>1,823,443</b>	<b>1,697,718</b>	<b>1,728,009</b>	<b>1,646,842</b>	<b>1,650,965</b>	<b>1,413,793</b>	<b>1,262,254</b>	

### Ratios

Income growth / (degrowth) (%)	50	206	64	(37)	7	(16)	23	29	2	(4)
Property, plant & equipment to shareholders' fund (Times)	1.44	0.59	0.22	1.17	1.15	1.42	1.65	1.78	0.66	0.95
Total asset to shareholders' fund (Times)	1.53	1.55	1.23	1.76	1.52	1.67	1.40	1.45	1.29	1.22
Net assets per share (Rs.)	0.37	0.35	0.34	0.57	0.62	0.57	0.65	0.63	0.61	0.57
Basic earning / (loss) per share (Rs.)	0.01	0.01	0.01	-0.04	0.00	0.05	0.02	0.04	0.03	0.04