

**SMB FINANCE PLC
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2025**



KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
Colombo 00300, Sri Lanka.

Tel +94 - 11 542 6426
Fax +94 - 11 244 5872
+94 - 11 244 6058
Internet www.kpmg.com/lk

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"), which comprise the statement of financial position as at December 31, 2025, 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 give a true and fair view of the financial position of the Company as at December 31, 2025, and of its financial performance and its 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 Company 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

C.P. Jayatilake FCA
Ms. S. Joseph FCA
R.M.D.B. Rajapakse FCA
M.N.M. Shameel FCA
Ms. P.M.K. Sumanasekara FCA

T.J.S. Rajakarier FCA
W.K.D.C. Abeyrathne FCA
Ms. B.K.D.T.N. Rodrigo FCA
Ms. C.T.K.N. Perera ACA
R. G. H. Raddella ACA,

W.W.J.C. Perera FCA
G.A.U. Karunaratne FCA
R.H. Rajan FCA
A.M.R.P. Aliahakoon ACA

Principals: S.R.I. Perera FCMA (UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA, Ms. F.R. Ziyad FCMA (UK), FCIT, K. Somasundaram ACMA (UK), Ms. D. Corea Dharmaratne



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 5.2.5.1 and 19” 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 19 to these financial statements, the Company has recorded financial assets at amortized cost against loans and receivables to customers amounting to Rs. 2,311,705,071/- as at 31 December 2025. High degree of complexity and judgment are involved in estimating ECL of Rs. 450,210,067/- against loans and receivables to customers as at the reporting date.</p> <p>The Company 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 Company 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 Company’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 Company’s ECL models used to measure ECL allowances.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> • 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; • Challenging the key assumptions in the ECL models, including staging PD and LGD and evaluating the reasonableness of Management’s key judgments and estimates; • 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; • Testing IT System Controls which record loan days past due, and non performing loan classification; • Recalculating the ECL on sample basis, by using the key assumptions used in the models, such as PD and LGD; • 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; • Assessing the completeness of additional allowance overlays by checking the consistency of risks we identified in the loan and lease portfolios against the Company’s assessment; • Working with our Financial Risk Management (FRM) specialists, and evaluating and challenging the key assumptions in the components of the Company’s post-model adjustments to the ECL allowance balance; • Assessing the adequacy of disclosures made in the financial statements in compliance with relevant accounting standards requirements.



02. Valuation of Investment Property

Refer to the accounting policies in the Financial Statements: Investment Property, “Note 5.3.5 and 22”.

Risk Description	Our Response
<p>As at 31 December 2025, the Company’s Investment Properties carried at fair value amount to Rs. 997 Mn. Further, the fair value gain recognized in the statement of profit or loss for the year, amounted to Rs. 117 Mn.</p> <p>The Company 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"> • Assessing the objectivity, independence, competence and qualifications of the external valuer; • 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; • 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; • 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.

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 will 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's 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 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 Company'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 Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 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 auditor's report is 2599.

CHARTERED ACCOUNTANTS

Colombo, Sri Lanka

31/03/2026

SMB Finance PLC
Statement of Profit or Loss and Other Comprehensive Income

Rs.				
For the year ended December 31,	Note	2025	2024	
Interest income	7	625,632,230	513,030,192	
Interest expenses	8	(217,903,059)	(164,598,531)	
Net interest income		407,729,171	348,431,661	
Fee and commission income	9	9,780,523	6,805,088	
Net interest, fee and commission income		417,509,694	355,236,749	
Other operating income (Net)	10	44,694,094	18,114,218	
Changes in fair value of investment property	22	116,601,258	74,170,450	
Total operating income		578,805,046	447,521,417	
Allowance for expected credit loss - Reversal	11	91,004,658	113,668,178	
Net operating income		669,809,704	561,189,595	
Personnel expenses	12	(205,215,459)	(157,316,338)	
Other expenses	13	(178,615,868)	(144,361,651)	
Operating profit before taxes on financial services		285,978,377	259,511,606	
Taxes on financial services	14	(72,474,163)	(61,632,960)	
Profit after taxes on financial services		213,504,214	197,878,646	
Share of profit of associate company	21.2	-	1,864,471	
Profit before income tax		213,504,214	199,743,117	
Income tax expense	15	(53,574,511)	(48,772,466)	
Profit for the year		159,929,703	150,970,651	
Basic earnings per share	16	0.02	0.02	
Diluted earnings per share	16.1	0.02	0.02	
Other Comprehensive Income				
Items that will not be reclassified to profit or loss				
Actuarial gain / (loss) on defined benefit plans	31.1	636,926	(3,967,753)	
Deferred tax charge on actuarial gain	26.1	(191,078)	-	
Equity investments at FVOCI – Net change in fair value	20.2	8,082,524	3,979,724	
Other comprehensive income for the year (Net of taxes)		8,528,372	11,971	
Total comprehensive income for the year		168,458,075	150,982,622	

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	2025	2024
Assets			
Cash and cash equivalents	17	42,465,580	44,436,726
Placements with banks	18	3,020,384,995	2,924,467,192
Financial assets at amortised cost - Loans and receivables to customers	19	2,311,705,071	1,782,535,495
Financial investments	20	170,530,307	120,351,765
Assets held for sale	21	-	41,699,000
Investment properties	22	996,750,000	708,050,000
Property, plant & equipment	23	67,744,690	59,654,628
Right-of-use assets	24.1	58,577,248	73,151,295
Intangible assets	25	264,127,391	268,246,256
Deferred tax assets	26	-	-
Other assets	27	78,317,146	80,152,769
Total assets		7,010,602,428	6,102,745,126
Liabilities			
Due to financial institutions	28	2,578,834,690	1,927,174,171
Financial liabilities at amortised cost - Deposits due to customers	29	268,393,940	166,816,577
Financial liabilities at amortised cost - Due to other customers	30	140,318,295	135,837,341
Retirement benefit obligations	31	28,310,377	21,786,312
Lease liabilities	24.2	55,018,753	63,547,836
Deferred tax liabilities	26	1,953,673	-
Other liabilities	32	131,573,636	149,841,900
Total liabilities		3,204,403,364	2,465,004,137
Equity			
Stated capital	33	3,062,681,524	3,062,681,524
Statutory reserve fund	34	63,272,414	55,275,929
Fair value reserve	35	76,607,071	68,524,547
Retained earnings	36	603,638,055	451,258,989
Total equity		3,806,199,064	3,637,740,989
Total equity and liabilities		7,010,602,428	6,102,745,126

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.


.....
Sachini Wijesinghe ACA, ACMA(UK), ACCA(UK)
Financial Controller


.....
Supul Wijesinghe FCA, FCMA(UK), FCCA(UK)
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,


.....
Shahan Wijeratne
Director


.....
Lolitha Abeysinghe
Director

Colombo
March 30, 2026

SMB Finance PLC
Statement of Changes in Equity

Rs.	Stated Capital		Statutory	Fair Value	Retained	Total Equity
	Ordinary Voting	Ordinary Non-	Reserve Fund	Reserve	Earnings	
	Shares	Voting Shares				
Balance as at January 1, 2024	2,555,958,860	506,722,664	47,727,396	64,544,823	311,804,624	3,486,758,367
Profit for the year	-	-	-	-	150,970,651	150,970,651
Other comprehensive income (Net of tax)	-	-	-	3,979,724	(3,967,753)	11,971
Total comprehensive income for the year	-	-	-	3,979,724	147,002,898	150,982,622
Transfers to statutory reserve fund	-	-	7,548,533	-	(7,548,533)	-
Dividend paid	-	-	-	-	-	-
Total transactions with equity holders	-	-	7,548,533	-	(7,548,533)	-
Balance as at December 31, 2024	2,555,958,860	506,722,664	55,275,929	68,524,547	451,258,989	3,637,740,989
Balance as at January 1, 2025	2,555,958,860	506,722,664	55,275,929	68,524,547	451,258,989	3,637,740,989
Profit for the year	-	-	-	-	159,929,703	159,929,703
Other comprehensive income (Net of tax)	-	-	-	8,082,524	445,848	8,528,372
Total comprehensive income for the year	-	-	-	8,082,524	160,375,551	168,458,075
Transfers to statutory reserve fund	-	-	7,996,485	-	(7,996,485)	-
Dividend paid	-	-	-	-	-	-
Total transactions with equity holders	-	-	7,996,485	-	(7,996,485)	-
Balance as at December 31, 2025	2,555,958,860	506,722,664	63,272,414	76,607,071	603,638,055	3,806,199,064

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,	Note	2025	2024
Interest receipts		643,340,182	537,844,016
Interest payments		(209,983,413)	(201,765,612)
Fees and commission receipts		69,553,186	12,326,572
Cash payments to employees and suppliers		(299,361,475)	(229,714,507)
Profit before changes in operating assets		203,548,481	122,674,011
Loans and receivables		(504,311,811)	(211,124,028)
Other assets		(18,539,139)	(33,256,470)
Other liabilities		(20,661,465)	(19,550,100)
Cash used in operating activities		(339,963,934)	(141,256,587)
Tax paid		(106,006,359)	(65,412,836)
Gratuity paid	31.1	(93,750)	(962,500)
Net cash used in operating activities		(446,064,043)	(207,631,923)
Cash flow from investing activities			
Net investment in financial investments		7,252,370	(60,000,000)
Purchase of property, plant & equipment & intangible assets	23,25	(31,926,584)	(34,343,412)
Proceeds from disposal of investment properties	22	4,500,000	60,372,050
Purchase of investment properties	22	(175,848,742)	(63,059,000)
Dividend received	10	1,906,648	739,180
Proceeds from disposals of subsidiary company		-	2,000,000
Proceeds from disposals of associate company		10,000,000	-
Investment in fixed deposits		(115,074,675)	-
Net cash used in investing activities		(299,190,983)	(94,291,182)
Cash flow from financing activities			
Borrowings obtained from financial institutions	28	-	560,000,000
Repayment of borrowings from financial institutions	28	(1,222,815,500)	(608,721,500)
Net investment in time deposits and savings deposits		96,301,084	164,249,366
Net withdrawal in public borrowings		(12,000)	(20,000)
Advance payment on lease acquisition		(14,875,000)	(12,375,000)
Lease liability payments		(22,711,311)	(19,044,408)
Net cash (used in) / generated from financing activities		(1,164,112,727)	80,104,916
Net decrease in cash and cash equivalents		(1,909,367,752)	(221,818,189)
Cash and cash equivalents at the beginning of the year		(273,906,358)	(52,088,169)
Cash and cash equivalents at the end of the year		(2,183,274,110)	(273,906,358)
Reconciliation of cash and cash equivalents			
Cash and cash equivalents	17	42,465,580	44,436,726
Repo investment with banks	18	353,095,000	384,166,000
		395,560,580	428,602,726
Bank overdraft	28	(2,578,834,690)	(702,509,084)
Cash and cash equivalents at the end of the year		(2,183,274,110)	(273,906,358)

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

Figures in brackets indicate deductions.

SMB FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

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 Licensed Finance Company registered 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 3, Sri Lanka.

1.2 Principal Activities and Nature of Operations

Company - SMB Finance PLC

The principal business activity is providing finance leases, loans and gold loans and accepting time deposits and saving deposits.

1.3 Ultimate Beneficial Owner

The company’s ultimate beneficial owner as at December 31, 2025 is Mr. H.R.S. Wijeratne.

1.4 Number of Employees

The staff strength of the Company as at December 31, 2025 is 76 (2024 - 64).

2. Basis of Accounting

2.1. Statement of Compliance

The Financial Statements of the Company have been prepared in accordance with the Sri Lanka Accounting Standards (the “Accounting Standards”), as issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka). The Accounting Standards comprise:

- Sri Lanka Financial Reporting Standards (“SLFRS”);
- Sri Lanka Accounting Standards (“LKAS”);
- Statements of Recommended Practices (SoRPs);
- Statement of Alternate Treatment (SoATs) and
- Financial Reporting Guidelines issued by the CA Sri Lanka.

The Accounting Standards along with FAQs issued are available at the website of CA Sri Lanka www.casrilanka.com.

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 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.

SMB FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

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 Company for the year under review.
- B). A Statement of Financial Position (SOFP) providing the information on the financial position of 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 Company.
- D). A Statement of Cash Flows providing the information to the users, on the ability of the Company to generate cash and cash equivalents and utilization 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 Company for the year ended December 31, 2025 were approved and authorised for issue in accordance with the resolution of the Board of Directors on March 30, 2026.

2.4. Basis of Measurement

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

Item	Basis of Measurement	Note No.
Quoted equity investments measured at fair value through profit or loss (FVTPL)	Fair value	20.1.1
Unquoted equity investments measured at fair value through other comprehensive income (FVTOCI)	Fair value	20.2.1
Investment Property	Fair value	22
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.	31

SMB FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

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

2.7. Presentation of Financial Statements

The assets and liabilities of the Company presented in the Statement of Financial Position are Companied 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 43 (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. 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.

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.

2.10. 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 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.

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 is 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. Classification of financial assets and liabilities

As per SLFRS 9, the Material Accounting Policies of the Company provide 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 5.3.2.

3.1.2. Determination of impairment losses relating to financial assets

Establishing the criteria for determining whether credit risk on the financial asset has increased 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 5.2.5.

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 Company measures fair value using the fair value hierarchy that

SMB FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

reflects the significance of inputs used in making measurements. Methodologies used for valuation of financial instruments and fair value hierarchy are stated in Note 37.3 and 37.4 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 Company reviews its individually 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 Company'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 Lifetime expected credit loss (LTECL) basis;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of an 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 Company'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 Company estimates the asset's recoverable amount. An impairment loss is recognised if the carrying amount of an asset exceeds

SMB FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

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 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 Company 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 5.3.7.

3.2.5. Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences, to the extent that it is probable that future taxable profit will be available. 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 26.

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 31.

3.2.7. Provisions for liabilities, commitments and contingencies

The Company 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 financial statements are described in Note 3.1 to Note 3.2.

SMB FINANCE PLC
NOTES TO THE FINANCIAL STATEMENTS

4. Changes in Material Accounting Policies

The Company does not have changes in material accounting policies in the current annual reporting period.

5. Material Accounting Policies

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

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

Summary of Material Accounting Policies	Policy Note No
Financial assets and liabilities	5.1.1
Fair value measurement	5.1.2
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
Loans and receivables	5.3.2
Financial investments	5.3.3
Assets held for sale	5.3.4
Investment property	5.3.5
Property, plant and equipment	5.3.6
Right of use assets and lease liabilities	5.3.7
Intangible assets	5.3.8
Other assets	5.3.9
Due to financial institutions	5.3.10
Deposits due to customers	5.3.11
Due to other customers	5.3.12
Retirement benefit obligations	5.3.13
Other liabilities	5.3.14
Statutory reserve	5.3.15
Fair value reserve	5.3.16
Statement of cash flows	5.4.1
Events that occurred after the reporting date	5.5.1

SMB FINANCE PLC
NOTES TO THE FINANCIAL STATEMENTS

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 Company 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 Company 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 are added to the initial carrying amount of the asset or liability.

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 Company 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 depends 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:

- 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:

SMB FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

- 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 Company 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 Company 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 Company 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 Company'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 Company'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.

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 Company 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

SMB FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

cash flows such that it would not meet this condition. In making the assessment, the Company considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company'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 Company 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 Company changes its business model for managing financial assets.

5.1.1.4. Derecognition

A. Financial Assets

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

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 Company retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Company 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 Company 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.

SMB FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

In certain transactions, the Company 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 Company securities 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 Company 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 Company 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 Company 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 Company 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 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 Company 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.

5.1.2. 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

SMB FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non- performance risk.

When available, the Company 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 Company 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 Company 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.

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 Company 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 Company 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 Company 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 Company 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,

SMB FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

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 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 Company 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 Company'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

SMB FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

estimation of the appropriate risk-adjusted discount rate, and different assumptions and inputs would yield different results.

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 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 Company 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 Company 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 Company 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

SMB FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

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 Company'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 Company's right to receive the dividend is established.

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

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 Company 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 Company 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 Company 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 Company determines that no provision is required under individual impairment, such financial assets are then collectively assessed for any impairment 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)

SMB FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

Segmentation

- Lease – Machinery
- Lease – Other
- Loan – Other
- Loan – QC
- Gold Loan

The Company 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 19 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 Company 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 Company 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 EAD.

■ EAD – The exposure at default represents the expected exposure in the event of a default. The Company 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 Company 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 Company 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 Company 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 Company’s historical experience and informed credit assessment and including forward-looking information.

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

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

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

SMB FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

- the financial asset is equal or more than 90 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 Company 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 Company expects to receive).

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

Credit-impaired financial assets

At each reporting date, the Company 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 90 days past due;
- the restructuring of a loan or advance by the Company on terms that the Company 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.

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 Company

SMB FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

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 Company's procedures for recovery of amounts due. The amount of write-off is described under Note 11 in the financial statements.

Other financial assets measured at amortised cost

The Company 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 Company 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 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 Company 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.

5.2.5.3. Repo investment with banks

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.

5.2.6. 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.

SMB FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

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 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, 2025 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, 2025 is calculated at the rate of 30% (2024 - 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.

SMB FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

Deferred tax assets are recognised for all deductible temporary differences, 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.

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 Company 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 Company 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 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.

5.3.2. 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.

SMB FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

The Company 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 Company 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 amortised cost. 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.

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.

The Company 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 Company records an allowance for LTECL. Refer Note 19.1 for a description on how the Company 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 Company recognises an allowance for LTECL, with probability of default at 100%.

The key assumptions, judgements and estimates adopted by the Company 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 Company considers reasonable and supportable

SMB FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Company'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 Company 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 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 the borrower. The Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews.

Definition of Default

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

- The borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- The borrower is past due equal more than 90 days on any material credit obligation to the Company.

In determination of default the Company largely aligns with the regulatory definition of default which is 90 days and above. In assessing whether a borrower is in default, the Company 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 Company; 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 Company reviews its individually significant loans and advances above a predefined threshold at each reporting date. The Company 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.

SMB FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

- Frequent changes in the senior management of an institutional customer.
- When the customer is deceased/ insolvent.
- When the Company is unable to contact or find the customer.
- 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 Company calculates ECL either on a collective or an individual basis.

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 Company 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 Company'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.

5.3.3. Financial Investments

Financial investment consists of investments in quoted and unquoted shares and investments in promissory notes. Quoted equity securities classified as financial assets measured at FVTPL. For unquoted equity investments Company has irrevocably elect to present subsequent changes in FVOCI.

Unquoted Equity Investments at FVOCI

Upon initial recognition, the Company 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.

Investments in Promissory notes

After initial recognition, promissory notes are measured at amortised cost using the Effective Interest Rate (EIR) method.

SMB FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

5.3.4. 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.

The Company classifies non-current assets as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable, and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification. The detail of asset held for sale described under Note 21 in the financial statements.

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 Company is allocated first to goodwill, then to the remaining assets and liabilities on a pro-rate basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, investment property, which continue to be measured in accordance with the Company'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.

5.3.5. 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 Company are stated at market value less provision for Impairment.

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 at each reporting period.

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.

5.3.6. 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 Company 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 & Company 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 Company 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 & Company and the renovation replaces an identifiable part of the asset. Major renovations are depreciated during the remaining useful life of the related asset.

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;

SMB FINANCE PLC
NOTES TO THE FINANCIAL STATEMENTS

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.

5.3.7. Right - of - use Assets and Lease Liabilities

At inception of a contract, the Company 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 Company uses the definition of a lease in SLFRS 16.

As a lessee

At commencement or on modification of a contract that contains a lease component, the Company 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 Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company 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.

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 Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company 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 Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company 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 asset leased.

SMB FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

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 Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company 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 Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company 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.

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".

5.3.8. Intangible Assets

The intangible assets include the value of computer software developed in-house 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 Company and the cost of the asset can be measured reliably, in accordance with Sri Lanka Accounting Standard 38 – "Intangible Assets". Software acquired by the Company is stated at cost less accumulated amortisation and accumulated impairment losses. Expenditure on internally developed software is recognised as an asset when the Company 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

SMB FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

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 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.

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;

Class of Asset	% Per Annum	Period
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.

5.3.9. Other Assets

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

5.3.10. 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.

SMB FINANCE PLC
NOTES TO THE FINANCIAL STATEMENTS

5.3.11. Deposits Due to Customers

These represents Time Deposits and Savings Deposits. Deposits are measured at their amortised cost using the effective interest method. Interest Expense is recognized in the statement of profit or loss based on the effective interest rate method.

5.3.12. 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.

5.3.13. Retirement Benefit Obligations

The Company 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 Company 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 Company recognises the total actuarial gains and losses that arise in calculating the Company'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.

5.3.14. Other Liabilities

A provision is recognised if, as a result of past event, the Company 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.

5.3.15. 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.

5.3.16. 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 35.

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

SMB FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

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 39 where necessary.

5.5.2. Capital Commitments

During 2025, the Company did not enter into any contract that will give rise to capital expenses in the future.

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 Company have been disclosed in the Note 41 to the financial statements. However, based on the available information and the available information and the available legal advice, the Company do not expect the outcome of any action to have any material effect on the financial position of the Company.

5.5.4. Operating segments

The Company's segmental reporting is based on 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 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 Company.

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.

SMB FINANCE PLC
NOTES TO THE FINANCIAL STATEMENTS

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 Company'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 Company are located mainly in Sri Lanka. Consequently, the economic environment in which the Company operates is not subject to risks and rewards that are significantly different on a geographical basis. Hence, disclosure by geographical region is not provided.

Operating Segment	Category of Information	Details
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"> • Interest income • Service fee income & commission income
Loans	Nature of product	Loan facilities to acquire movable and immovable properties and personal loans except gold loans
	Classification of product	Land, motor cars, personal loans
	Revenue derived from	<ul style="list-style-type: none"> • Interest income • Service fee income
Gold Loan	Nature of product	Short-term secured lending facilities granted against the pledge of gold articles
	Classification of product	Gold loans
	Revenue derived from	<ul style="list-style-type: none"> • Interest income
Treasury	Nature of product	Investing activities
	Classification of product	Placements with banks, REPO investment
	Revenue derived from	<ul style="list-style-type: none"> • Investment income and fair value gains and losses on investments

Details of 5.5.4. Operating Segments are given in Note 44.

5.5.5. Maturity Analysis

SMB FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

The Company has disclosed an analysis of assets and liabilities into relevant maturity baskets based on the remaining period 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 42.3.3.

6. Accounting Standards Issued But Not Yet Effective

A number of new accounting standards and amendments to accounting standards are effective for annual periods beginning on or after 1 January 2026 and earlier application is permitted. Other than part of the amendments described in A. below, the Company has not early adopted any other new or amended accounting standards in preparing these financial statements.

A. Classification and Measurement of Financial Instruments (Amendments to SLFRS 9 and SLFRS 7)

The requirements will be effective for annual reporting periods beginning on or after 1 January 2026, with early application permitted, and are related to:

- recognition and derecognition, including accounting for settlement of financial liabilities using an electronic payments system; and
- assessing contractual cash flow characteristics of financial assets, including those with sustainability-linked features.

The Company is currently in the process of assessing the application of Section B4.1 of SLFRS 9, which relate to assessing contractual cash flows, and associated disclosure requirements in SLFRS 7. The Company is in the process of assessing the impact of the rest of the amendments.

B. SLFRS 18 – Presentation and Disclosures in Financial Statements

SLFRS 18 will replace LKAS 1 *Presentation of Financial Statements* and is applicable for annual reporting periods beginning on or after 1 January 2027. The standard introduces revised presentation and disclosure requirements as outlined below:

- Entities are required to classify all income and expenses into five categories within the statement of profit or loss, namely: operating, investing, financing, discontinued operations, and income tax. Additionally, entities must present a newly defined operating profit subtotal. The overall net profit of the entity remains unchanged.
- Management-defined performance measures (MPMs) are required to be disclosed in a single note within the financial statements.
- The standard provides enhanced guidance on the aggregation and grouping of information presented in the financial statements.

Furthermore, entities must use the operating profit subtotal as the starting point when presenting operating cash flows under the indirect method in the statement of cash flows.

The Company is currently in the process of assessing the impact of SLFRS 18, particularly in relation to the structure of the statement of profit or loss, the presentation of cash flows, and the additional disclosures required for MPMs. The assessment also includes evaluating changes in how information is aggregated and presented, including items that are presently classified under 'other'.

SMB FINANCE PLC
NOTES TO THE FINANCIAL STATEMENTS

C. SLFRS S1 General requirements for disclosure of sustainability related financial information and SLFRS S2 Climate-related disclosures

- SLFRS S1 General Requirements for Disclosure of Sustainability related Financial Information requires an entity to disclose information about its sustainability-related risks and opportunities that is useful to primary users of general-purpose financial reports in making decisions relating to providing resources to the entity.
- SLFRS S2 Climate-related Disclosures is to requires an entity to disclose information about its climate related risks and opportunities that is useful to primary users of general-purpose financial reports in making decisions relating to providing resources to the entity.
- These standards will become effective for the listed companies in the main board of Colombo Stock Exchange from January 1, 2026.

SMB Finance PLC
Notes to the Financial Statements

Income

Rs.			
For the year ended December 31,	Note	2025	2024
Interest income	7	625,632,230	513,030,192
Fee and commission income	9	9,780,523	6,805,088
Other operating income (Net)	10	44,694,094	18,114,218
		680,106,847	537,949,498

7 Interest Income

Rs.			
For the year ended December 31,		2025	2024
Interest income on lease rental receivables		118,424,788	100,557,374
Interest income on loans and advances		134,033,195	77,040,464
Interest income on gold loan advances		149,831,797	89,192,848
Interest income on placements with banks		215,434,363	238,507,912
Interest income on financial investments		1,650,918	-
Interest income on investments with government securities		6,028,574	7,661,970
Income from investment in money market		228,595	69,624
Total interest income		625,632,230	513,030,192

- 7.1** Interest income on lease rental receivables, loans and advances, gold loan advances and investments with government securities, where interest is accrued by applying the EIR to the gross carrying amount of the financial asset.

8 Interest Expenses

Rs.			
For the year ended December 31,		2025	2024
Due to banks		183,864,289	150,496,305
Due to other customers		27,387,211	10,118,684
Interest on leased liability		6,651,559	3,983,542
Total interest expenses		217,903,059	164,598,531
Net interest income		407,729,171	348,431,661

9 Net Fee and Commission Income

Rs.			
For the year ended December 31,		2025	2024
Fee and commission income		9,780,523	6,805,088
		9,780,523	6,805,088

10 Other Operating Income

Rs.			
For the year ended December 31,	Note	2025	2024
Provision reversals of Ceylinco Automobiles Limited		17,600,000	-
Writ collection income		9,727,160	14,336,443
Sundry income		6,437,415	150,000
Recovery of loans and lease written off in prior years		6,468,767	278,813
Dividend income		1,906,648	739,180
Service charges		1,532,750	596,050
Disposal gain on sale of investment properties		750,000	-
Disposal profit of sale of fixed assets		221,967	-
Fair value gain on financial investment	20.4	49,387	13,732
Profit on sale of subsidiary		-	2,000,000
		44,694,094	18,114,218

11 Allowance for Expected Credit Loss - (Reversal) / Charge

Rs.			
For the year ended December 31,	Note	2025	2024
Allowance for expected credit loss for loans and advances	19.5	(231,947,819)	(68,154,330)
Unwinding interest adjustment		(13,776,650)	(28,897,138)
Allowance for expected credit loss for placements with banks	18.1	(933,219)	(22,301)
Write-offs and disposal loss	11.1	182,884,131	4,703,084
Net gain on consent motion settlement		(27,231,101)	(21,297,493)
		(91,004,658)	(113,668,178)

SMB Finance PLC
Notes to the Financial Statements

- 11.1** During the year, the Company written-off certain loans and advances where recovery was deemed not probable after undertaking all feasible recovery actions.

These exposures were subject to legal enforcement procedures, including initiation of legal proceedings and collateral realization. However, based on the outcome of such actions and an assessment of the borrowers' financial position, management concluded that there was no reasonable expectation of further recovery, and accordingly, the balances were written off against the related loss allowance in line with SLFRS 9 - Financial Instruments.

12 Personnel Expenses

Rs.

For the year ended December 31,	Note	2025	2024
Salaries and bonus		136,004,252	100,234,136
Defined contribution plan costs - EPF		14,788,865	11,338,626
Defined contribution plan costs - ETF		3,697,216	2,834,657
Defined benefit plan cost	31.1	7,254,741	5,136,106
Staff medical and insurance expense		12,491,392	9,779,548
Vehicle allowances and running expenses		19,015,768	19,763,917
Sales incentives		5,149,889	2,683,500
Travelling allowances		1,250,167	1,439,417
Others		5,563,169	4,106,431
		205,215,459	157,316,338

13 Other Expenses

Rs.

For the year ended December 31,	Note	2025	2024
Auditors' remuneration - Audit related services		2,493,697	2,034,813
- Non audit services		3,768,536	640,488
Depreciation and amortisation		71,590,324	54,635,400
Legal expenses		6,523,931	5,118,074
Directors' emoluments		15,465,000	5,980,000
Premises and equipment cost		57,851,649	42,153,330
Disposal loss on sale of investment properties		-	6,043,000
Impairment loss on recognition of assets held for sale	21.1	-	2,782,424
Professional fees		4,726,545	2,399,230
Subscription for CBSL		2,004,000	2,004,000
Travelling and taxi fare fee		2,108,018	2,175,261
Crop insurance levy		1,797,169	1,316,005
Advertising expenses		1,318,415	641,233
Sales promotion		1,808,748	2,712,206
Others		7,159,836	13,726,187
		178,615,868	144,361,651

14 Taxes on Financial Services

Rs.

For the year ended December 31,	2025	2024
Value added tax on financial services	61,099,056	52,755,308
Social security contribution levy (SSCL)	11,375,107	8,877,652
	72,474,163	61,632,960

15 Income tax

Rs.

For the year ended December 31,	Note	2025	2024
Income tax claim on profits	15.1	40,367,668	46,017,219
Underprovision in respect of previous years		11,444,248	2,755,247
Provision for deferred tax	26	1,762,595	-
		53,574,511	48,772,466

SMB Finance PLC
Notes to the Financial Statements

15.1 Reconciliation of Accounting Profit and the Income Tax Expense

Rs.

For the year ended December 31,	2025	2024
Profit before income tax	213,504,214	199,743,117
Share of profit of associate company	-	(1,864,471)
Aggregate disallowed expenses	123,651,067	103,393,345
Aggregate allowable expenses	(84,459,950)	(71,531,949)
Capital portion of lease receivable	-	573,776
Aggregate exempt / allowable income	(119,529,260)	(76,923,087)
Profit from the business	133,166,071	153,390,731
Gain from the investment realisation	1,392,819	-
Taxable profit	134,558,890	153,390,731
Tax on taxable profit @ 30%	40,367,667	46,017,219
Income tax expense	40,367,668	46,017,219

Capital Allowances for Intangible Assets

Within the framework of capital allowances, the Act adopts a different treatment for intangible assets compared to tangible assets.

15.2 Reconciliation of Effective Tax Rate

A reconciliation between the tax expense and the product of accounting profit multiplied by the applicable tax rate for the year ended December 31, 2025 is given below;

Rs.

For the year ended December 31,	2025	2024
Accounting profit before income tax	213,504,214	199,743,117
Income tax expense at the average statutory income tax rate @ 30%	64,051,264	59,922,935
Tax effect of disallowable expenses	37,095,320	31,018,004
Tax effect of allowable expenses	(25,337,985)	(21,459,585)
Capital portion of lease receivable	-	172,133
Tax effect of aggregate exempt / allowable income	(35,858,778)	(23,636,267)
Tax on investment realisation @ 30%	417,846	-
Income tax expense for the year	40,367,668	46,017,219
Effective tax rate	18.91%	23.04%

Income tax provision for the year ended December 31, 2025 of SMB Finance PLC has been calculated at 30% (2024 - 30%) on its taxable profit in terms of Inland Revenue Act No. 24 of 2017, and amendments thereto, including any amendments legislated by Inland Revenue (Amendment) Act No. 45 of 2022.

15.3 Treatment of Impairment Charges

As per Part I : Sec. (I) of the Gazette notification issued on October 25, 2022 under sub section (2) and (3) of Section 66 of the Inland revenue Act, No. 24 of 2017, the impairment charges of Stage 3 credit facilities classified as per Sri Lanka Accounting Standards (SLFRS 9) have been considered as an allowable deduction (after adjusting for specifications given under section 1 of schedule 1 of the said Gazette notification).

16 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,	2025	2024
Profit attributable to equity holders of the Company (Rs.)	159,929,703	150,970,651
No. of ordinary shares outstanding during the year	9,551,978,760	9,551,978,760
Basic earnings per share (Rs.)	0.02	0.02

16.1 Diluted Earnings Per Share

There were no potentially dilutive ordinary shares as at December 31, 2025 and there have been no transactions involving ordinary shares or potential ordinary shares as at the reporting date which would require restatement of earnings per share.

Therefore, diluted earnings per share is the same as basic earnings per share shown above.

SMB Finance PLC
Notes to the Financial Statements

17 Cash and Cash Equivalents

Rs.	Note	2025	2024
As at December 31,			
Cash in hand		26,223,883	30,734,609
Balances with banks		16,241,697	13,702,117
Cash and cash equivalents in the statement of financial position		42,465,580	44,436,726
Repo investment with banks	18	353,095,000	384,166,000
Bank overdrafts	28	(2,578,834,690)	(702,509,084)
Cash and cash equivalents in the statement of cash flow		(2,183,274,110)	(273,906,358)

18 Placements with Banks

Rs.	Note	2025	2024
As at December 31,			
Fixed deposits with banks		2,667,491,263	2,541,435,679
REPO investment with banks - Overnight		353,095,000	384,166,000
Gross placements with banks		3,020,586,263	2,925,601,679
Allowance for expected credit loss provision	18.1	(201,268)	(1,134,487)
Net placements with banks		3,020,384,995	2,924,467,192

18.1 Movement in Impairment During the Year - Placements with Banks

Rs.	2025	2024
Balance as at January 1,	1,134,487	1,156,788
Reversal to the income statement	(933,219)	(22,301)
Balance as at December 31,	201,268	1,134,487

19 Financial Assets at Amortised Cost - Loans and Receivables to Customers

19.1 Stage-wise Analysis of Loans and Receivables to Customers

Rs.	2025	2024
As at December 31,		
Gross loans and receivables to customers		
Stage 1	1,956,882,042	1,475,834,374
Stage 2	280,949,944	168,664,602
Stage 3	524,083,152	820,194,405
	2,761,915,138	2,464,693,381
Provision for impairment		
Stage 1	(82,006,708)	(128,226,295)
Stage 2	(49,122,379)	(30,371,671)
Stage 3	(319,080,980)	(523,559,920)
	(450,210,067)	(682,157,886)
Net loans and receivables to customers	2,311,705,071	1,782,535,495

19.1.1 Loans

Rs.	2025	2024
As at December 31,		
Gross loan receivables		
Stage 1	619,587,415	530,622,815
Stage 2	43,428,627	54,685,438
Stage 3	443,737,700	563,140,488
	1,106,753,742	1,148,448,741
Provision for impairment		
Stage 1	(44,984,201)	(83,566,498)
Stage 2	(34,828,191)	(14,246,123)
Stage 3	(255,566,594)	(304,671,131)
	(335,378,986)	(402,483,752)
Net loan receivables	771,374,756	745,964,989

SMB Finance PLC
Notes to the Financial Statements

19.1.2 Leases

Rs.	2025	2024
As at December 31,		
Gross lease receivables		
Stage 1	525,134,030	514,911,516
Stage 2	148,398,811	57,362,176
Stage 3	66,720,018	235,084,978
	740,252,859	807,358,670
Provision for impairment		
Stage 1	(21,558,950)	(44,096,638)
Stage 2	(13,316,303)	(15,610,145)
Stage 3	(63,340,018)	(216,682,383)
	(98,215,271)	(276,389,166)
Net lease receivables	642,037,588	530,969,504

19.1.3 Gold loan advance receivables

Rs.	2025	2024
As at December 31,		
Gold loan advance receivables		
Stage 1	812,160,597	430,300,043
Stage 2	89,122,506	56,616,988
Stage 3	13,625,434	21,968,939
	914,908,537	508,885,970
Provision for impairment		
Stage 1	(15,463,557)	(563,159)
Stage 2	(977,885)	(515,403)
Stage 3	(174,368)	(2,206,406)
	(16,615,810)	(3,284,968)
Net gold loan advance receivables	898,292,727	505,601,002

19.2 Product-wise Analysis of Gross Loans and Receivables

Rs.	2025	2024
As at December 31,		
Lease rental receivables	740,252,859	807,358,670
Personal loans	173,160,750	95,710,168
Term loans	756,715,098	825,543,860
Easy payment loans	-	4,442,968
Other loans	176,877,894	222,751,745
Gold loan advance receivables	914,908,537	508,885,970
	2,761,915,138	2,464,693,381

The significant increase in gross loans and receivables from 2024 to 2025 is primarily attributable to the gold loan advances receivables. This growth in gold loan advance receivables is mainly due to higher disbursements in gold loans during the year 2025, including those generated through new branches of the Company.

19.3 Sector-wise Analysis of Gross Loans and Receivables

Rs.	2025	2024
As at December 31,		
Industry	176,314,102	357,829,439
Agriculture	82,360,991	181,877,284
Trade	79,123,260	177,725,844
Transport	507,171,614	335,414,132
Construction	403,183,026	455,141,100
Services	377,682,670	386,695,432
Personal	1,060,378,628	557,917,852
Others	75,700,847	12,092,298
	2,761,915,138	2,464,693,381

SMB Finance PLC
Notes to the Financial Statements

19.4 Gross Lease Receivables

19.4.1 Gross lease receivables within one year

Rs.

As at December 31,	2025	2024
Total lease within one year from reporting date	483,364,656	547,059,697
Unearned lease income	(322,860,566)	(264,603,687)
Balance as at December 31,	160,504,090	282,456,010

19.4.2 Gross lease receivables after one year and five years

Rs.

As at December 31,	2025	2024
Total lease receivables after one year from reporting date	1,151,868,841	1,024,960,658
Unearned lease income	(572,120,072)	(529,853,182)
Balance as at December 31,	579,748,769	495,107,476

19.4.3 Gross lease receivables after five years

Rs.

As at December 31,	2025	2024
Total lease receivables after five years from reporting date	-	38,111,582
Unearned lease income	-	(8,316,398)
Balance as at December 31,	-	29,795,184
Total gross lease receivables	740,252,859	807,358,670

19.5 Movement in Stage-wise Impairment Provision During the Year - Loans and Receivables to Customers

Rs.

	2025	2024
Stage 1		
Balance as at January 1,	128,226,295	113,255,362
(Reversal) / Charge to the income statement	(46,219,587)	14,970,933
Balance as at December 31,	82,006,708	128,226,295
Stage 2		
Balance as at January 1,	30,371,671	50,712,740
Charge / (Reversal) to the income statement	18,750,708	(20,341,069)
Balance as at December 31,	49,122,379	30,371,671
Stage 3		
Balance as at January 1,	523,559,920	586,344,114
Reversal to the income statement	(204,478,940)	(62,784,194)
Balance as at December 31,	319,080,980	523,559,920
Total net impairment for the year	(231,947,819)	(68,154,330)

SMB Finance PLC
Notes to the Financial Statements

20 Financial Investments

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

Rs.

As at December 31,

	Note	2025	2024
Fair value through profit or loss (FVTPL)	20.1	92,417	43,030
Fair value through other comprehensive income (FVTOCI)	20.2	145,991,259	120,308,735
Financial investment at amortised cost (AC)	20.3	24,446,631	-
Total financial investments		170,530,307	120,351,765

The following table compares the fair value/ cost of the financial investments to their carrying values;

Rs.

As at December 31,

	Note	2025		2024	
		Carrying Value	Fair Value/ Cost	Carrying Value	Fair Value
Fair value through profit or loss (FVTPL)	20.1	92,417	92,417	43,030	43,030
Fair value through other comprehensive income (FVTOCI)	20.2	145,991,259	145,991,259	120,308,735	120,308,735
Financial investment at amortised cost (AC)	20.3	24,446,631	24,446,631	-	-
Total financial investments		170,530,307	170,530,307	120,351,765	120,351,765

20.1 Fair Value Through Profit or Loss (FVTPL)

20.1.1 Quoted Shares held by SMB Finance PLC

As at December 31,

	No. of shares	2025		No. of shares	2024	
		Carrying Value Rs.	Fair Value Rs.		Carrying Value Rs.	Fair Value Rs.
Banking, Finance & Insurance						
The Finance Co. PLC	97	-	-	97	-	-
Manufacturing						
Blue Diamond Jewelry Worldwide PLC	778,280	-	-	778,280	-	-
Metal Recyclers Colombo PLC	-	-	-	69	-	-
ACL Cables PLC	792	71,122	71,122	264	31,284	31,284
		71,122	71,122		31,284	31,284
Land & Property						
Seylan Developments PLC	-	-	-	43	-	-
Other						
John Keells Holdings PLC	100	2,170	2,170	100	226	226
Richard Pieris and Company PLC	450	19,125	19,125	450	11,520	11,520
		21,295	21,295		11,746	11,746
Total carrying amount		92,417	92,417		43,030	43,030

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. 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 “Other operating income” when the right to receive the payment had been established.

20.1.2 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.

20.2 Fair Value Through Other Comprehensive Income (FVTOCI)

20.2.1 Unquoted Shares held by SMB Finance PLC
As at December 31,

	No. of Shares	2025		No. of Shares	2024	
		Cost	Carrying Value / Fair Value		Cost	Carrying Value / Fair Value
		Rs.	Rs.		Rs.	Rs.
Ceylinco Sports Complex Ltd	300,000	3,000,000	-	300,000	3,000,000	-
The Standard Credit Finance Limited (Formerly known as 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	-
MBSL Savings Bank Ltd (Formerly known as Ceylinco Savings Bank Ltd)	4,245	11,896,000	-	1,189,600	11,896,000	-
Ceylinco Coloured Stone (Pvt) Ltd	500,000	5,000,000	-	500,000	5,000,000	-
K Seeds Investment (Pvt) Ltd (Formerly known as Openarc Global Solutions (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	-
Nestor Properties Ltd (Formerly known as SMB Real Estate Ltd)	61,739	30,282,196	-	61,739	30,282,196	-
Nestor Stock Brokers (Pvt) Ltd (Formerly known as SMB Securities (Pvt) Ltd)	5,000,000	50,000,000	128,381,259	5,000,000	50,000,000	120,298,735
Credit Information Bureau of Sri Lanka	100	10,000	10,000	100	10,000	10,000
Ceylinco Automobiles Ltd (20.2.1.1)	1,760,000	17,600,000	17,600,000	-	-	-
Total carrying amount			145,991,259			120,308,735

* The investment in Seraka Investment Ltd 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 2025 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

20.2.1.1 Unquoted Shares held by SMB Finance PLC

Rs.	2025	2024
As at December 31,	Cost	Cost
Ceylinco Automobiles Ltd.	17,600,000	-
Carrying amount	17,600,000	-

On December 18, 2025, Ceylinco Automobile Limited (CAL) issued 1,760,000 non-voting shares to SMB Finance PLC following the conversion of its invested debentures in CAL representing an investment of Rs. 17,600,000.

20.2.2 Unquoted Debentures held by SMB Finance PLC

Rs.	2025	2024
As at December 31,	Cost	Cost
Ceylinco Automobiles Ltd.	-	17,600,000
Provision for impairment	-	(17,600,000)
Carrying amount	-	-

20.3 Financial Investment at Amortised Cost (AC)

Promissory Notes held by SMB Finance PLC

Rs.	2025	2024
As at December 31,	Cost	Cost
Corporate Capital Market Limited	24,446,631	-
Carrying amount	24,446,631	-

SMB Finance PLC
Notes to the Financial Statements

20.4 Movement of Financial Investments

Rs.	Fair value through profit or loss (FVTPL)	Fair value through other comprehensive income (FVTOCI)	Financial investment at amortised cost (AC)
As at January 1, 2024	29,298	116,329,011	-
Fair value loss recorded in the statement of profit or loss	13,732	-	-
Fair value gain recorded in the other comprehensive income	-	3,979,724	-
As at December 31, 2024	43,030	120,308,735	-
As at January 1, 2025	43,030	120,308,735	-
Additions	-	17,600,000	31,699,000
Receipts during the year	-	-	(8,903,287)
Interest income	-	-	1,650,918
Fair value gain recorded in the statement of profit or loss	49,387	-	-
Fair value gain recorded in the other comprehensive income	-	8,082,524	-
As at December 31, 2025	92,417	145,991,259	24,446,631

20.5 Disclosure of Financial Risk

The Company's exposure to credit, currency and interest rate risks related to investments are disclosed in Note 42.

20.6 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

21 Assets held for sale

21.1 Associate Company

Rs.	Principal Activity	Holding	2025		Holding	2024	
			No. of Shares	Carrying Value		No. of Shares	Carrying Value
	Kenanga Investment Corporation Ltd		-	-	48.99%	4,900,000	44,481,424
	Provision for impairment			-			(2,782,424)
	Balance as at December 31,			-			41,699,000

The Company sold its investment in Kenanga Investment Corporation Ltd on March 25, 2025 at a consideration of Rs. 41,699,000 to Corporate Capital Market Limited through a Share Sale and Purchase Agreement. Accordingly, the Company received Rs. 10,000,000 in cash and Rs. 31,699,000 worth of promissory notes as financial investments.

21.2 Share of Profit of Associate Company

Rs.

For the year ended December 31,

	2025	2024
Share of (loss) / profit after tax	-	1,939,155
Adjustment	-	(74,685)
	-	1,864,471

22 Investment Properties

Rs.

	2025	2024
Balance as at January 1,	708,050,000	637,235,600
Addition during the year	175,848,742	63,059,000
Sale of investment property	(4,500,000)	(60,372,050)
Fair value gain recognised in profit or loss	116,601,258	74,170,450
Disposal gain / (loss) recognised in profit or loss	750,000	(6,043,000)
Balance as at December 31,	996,750,000	708,050,000

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

SMB Finance PLC
Notes to the Financial Statements

22.1 Property Location
As at December 31,

	Extent (Perches)	2025		2024	
		Cost	Market Value	Cost	Market Value
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
No. 10, De Alwis Avenue, Mount Lavinia	42.30	131,975	232,500	131,975	211,500
No. 212, Wewa Road, Pirlvena Junction, Boralesgamuwa	40.27	108,159	157,000	108,159	115,300
No. 60, Old Road, Hanwella	31.15	87,359	107,500	87,359	106,300
Vindya Gardens, Giriulla Road, Badalgama	376.50	40,559	63,500	40,559	58,500
Kaduwela, Malabe	118.97	32,700	150,000	32,700	150,000
39B, Godawa, Kaburupitiya	67.60	15,500	18,300	15,500	17,000
Gurullawala, Ahangama	111.22	10,919	13,850	10,919	13,000
Reality Plaza, Colombo Road, Ja Ela	685 sq.ft	10,487	13,250	10,487	14,250
Hikgodda - Diganahena Road, Diyalape, Akuressa	62.00	7,000	8,700	7,000	7,750
Kingsgate, Thalghawatta Road, Horahena Road, Hokandara, Malabe	8.38	6,700	8,400	6,700	7,500
Kuruduwattha Road, Angunawala, Peradeniya	12.00	3,743	4,300	3,743	4,000
Imaduwa Road, Gonnagahahena, Ahangama	21.00	1,204	3,150	1,204	2,950
Weligampitiya, Ja- Ela	15.00	20,799	35,300	-	-
Kirulapone, Nugegodda	33.20	153,982	181,000	-	-
		631,086	996,750	456,305	708,050

SMB Finance PLC
Notes to the Financial Statements

22.2 Valuation of Investment Properties

Property Location	Extent (Perches)	Market Value (Rs.000')	Date of valuation	Name of the Valuer and Qualification
No. 10, De Alwis Avenue, Mount Lavinia	42.30	232,500	December 08, 2025	D. Jayawardana - Incorporated Valuer
Kaduwela, Malabe	118.97	150,000	December 22,2025	P. B Fonseka - Incorporated Valuer
No. 212, Wewa Road, Privena Junction, Boralesgamuwa	40.27	157,000	December 10,2025	D. Jayawardana - Incorporated Valuer
No. 60, Old Road, Hanwella	31.15	107,500	December 10,2025	D. Jayawardana - Incorporated Valuer
Vindya Gardens, Giriulla Road, Badalgama	376.50	63,500	December 08,2025	D. Jayawardana - Incorporated Valuer
39B, Godawa, Kaburupitiya	67.60	18,300	December 08,2025	D. Jayawardana - Incorporated Valuer
Reality Plaza, Colombo Road, Ja Ela	685 sq.ft	13,250	December 10,2025	D. Jayawardana - Incorporated Valuer
Gurullawala, Ahangama	111.22	13,850	December 08,2025	D. Jayawardana - Incorporated Valuer
Hikgoda - Diganahena Foad, Diyalape, Akuressa	62.00	8,700	December 08,2025	D. Jayawardana - Incorporated Valuer
Kingsgate, Thalagahawatta Road, Horahena Road, Hokandara, Malabe	8.38	8,400	December 08,2025	D. Jayawardana - Incorporated Valuer
Kuruduwattha Road, Angunawala, Peradeniya	12.00	4,300	December 08, 2025	D. Jayawardana - Incorporated Valuer
Imaduwa Road, Gonnapahena, Ahangama	21.00	3,150	December 08,2025	D. Jayawardana - Incorporated Valuer
Welligampitiya, Ja- Ela	15.00	35,300	December 10,2025	D. Jayawardana - Incorporated Valuer
Kirulapone, Nugegoda	33.20	181,000	December 10,2025	D. Jayawardana - Incorporated Valuer
		996,750		

The Company carries investment properties at fair value. Market valuations of the above investment properties were carried out as stated in above disclosure No. 22.2, by Messrs. P.B Fonseka and D. Jayawardana who are independent qualified valuers not connected with the Company.

22.3 Fair Values Hierarchy of Investment properties

Rs.000'

As at December 31,

	2025			Total	2024
	Level 1	Level 2	Level 3		Total
Investment properties	-	-	996,750	996,750	708,050
	-	-	996,750	996,750	708,050

22.4 Acquisition of Investment Properties During the Year 2025

The Company acquired below investment properties during the year 2025.

Nature of the Property

Land & Building
Land & Building

Property

Welligampitiya, Ja- Ela
Kirulapone, Nugegoda

22.5 Assumptions Used for Property Valuations

Description	Valuation techniques	Significant unobservable inputs	Sensitivity of the input
Land	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 price per perch was higher / (lower).
Land and building	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 and building value in compare to the market price per perch and square feet respectively. The valuer has used a range of prices for respective lands and buildings based on adjusted fair value taking into account other valuation considerations.	The estimated fair value would increase / (decrease), if price per perch was higher / (lower). The estimated fair value would increase / (decrease), if price per square feet 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.	For lands - 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. For buildings - Market price per square feet. The valuer has used a range of prices for respective buildings based on adjusted fair value taking into account other valuation considerations.	The estimated fair value would increase / (decrease) if; » Market value per perch was higher / (lower) » Market value per square feet was higher / (lower)

SMB Finance PLC
Notes to the Financial Statements

23 Property, Plant and Equipment

Reconciliation of the carrying amount of property, plant and equipment as at December 31, 2025

Rs.	Computer Equipment	Office Equipment	Furniture & Fittings	Motor Vehicles	2025 Total
Cost					
As at January 1, 2025	54,459,694	49,250,281	40,553,346	2,519,838	146,783,159
Additions during the year	4,382,042	18,530,731	7,718,751	-	30,631,524
Disposals during the year	(745,655)	(715,796)	(531,440)	-	(1,992,891)
As at December 31, 2025	58,096,081	67,065,216	47,740,657	2,519,838	175,421,792
Accumulated Depreciation					
As at January 1, 2025	38,059,134	21,635,339	25,859,538	1,574,520	87,128,531
Charge for the year	5,794,736	10,827,206	5,594,596	306,589	22,523,127
Disposals	(745,655)	(697,462)	(531,439)	-	(1,974,556)
As at December 31, 2025	43,108,215	31,765,083	30,922,695	1,881,109	107,677,102
Net book value as at December 31, 2025	14,987,867	35,300,133	16,817,962	638,730	67,744,690

Reconciliation of the carrying amount of property, plant and equipment as at December 31, 2024

Rs.	Computer Equipment	Office Equipment	Furniture & Fittings	Motor Vehicles	2024 Total
Cost					
As at January 1, 2024	47,460,180	36,908,139	34,678,475	2,519,838	121,566,632
Additions during the year	6,999,514	12,342,142	5,874,871	-	25,216,527
As at December 31, 2024	54,459,694	49,250,281	40,553,346	2,519,838	146,783,159
Accumulated Depreciation					
As at January 1, 2024	33,296,293	15,008,765	21,654,927	1,267,932	71,227,917
Charge for the year	4,762,841	6,626,574	4,204,611	306,588	15,900,614
As at December 31, 2024	38,059,134	21,635,339	25,859,538	1,574,520	87,128,531
Net book value as at December 31, 2024	16,400,560	27,614,942	14,693,808	945,318	59,654,628

SMB Finance PLC
Notes to the Financial Statements

23.1 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.30,631,524 (2024 - Rs.25,216,527).

23.2 Capitalisation of Borrowing Cost

There were no capitalised borrowing costs relating to the acquisition of property, plant and equipment during the year (2024 - Nil).

23.3 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;

Rs.

As at December 31,

Computer equipment	29,664,975	30,208,479
Office equipment	10,875,863	11,312,199
Furniture & fittings	19,976,816	18,682,106
Motor vehicles	986,892	986,892
	61,504,546	61,189,676

23.4 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.

23.5 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.

23.6 The Restriction of Property, Plant and Equipment

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

23.7 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 (2024 - Nil).

23.8 Temporarily Idle Property, Plant and Equipment

There were no property, plant and equipment of the Company idle as at December 31, 2025 and December 31, 2024.

SMB Finance PLC
Notes to the Financial Statements

24 Right-of-use Assets and Lease Liabilities

24.1 Movement of Right-of-use Assets During the Year

Rs.	2025	2024
Right-of-use asset		
Balance as at January 1,	173,393,355	100,206,565
Additions and improvements during the year	29,057,227	73,186,790
Balance as at December 31,	202,450,582	173,393,355
Accumulated depreciation		
Balance as at January 1,	100,242,060	66,050,547
Charge during the year	43,631,274	34,191,513
Balance as at December 31,	143,873,334	100,242,060
Carrying value		
Balance as at December 31,	58,577,248	73,151,295

24.2 Movement of Lease Liabilities During the Year

Rs.	2025	2024
Lease liabilities		
Balance as at January 1,	63,547,836	21,780,454
Additions and improvements during the year	29,057,228	60,811,790
Accretion of interest during the year	6,651,559	3,983,542
Payments during the year	(44,237,870)	(23,027,950)
Balance as at December 31,	55,018,753	63,547,836

24.3 Amounts Recognised in Statement of Profit or Loss

24.3.1 Leases under SLFRS 16

Rs.	2025	2024
For the year ended December 31,		
Depreciation of right-of-use assets	43,631,274	34,191,513
Interest on lease liabilities	6,651,559	3,983,542
	50,282,833	38,175,055

24.4 Amounts recognised in Statement of Cash Flows

Rs.	2025	2024
For the year ended December 31,		
Cash outflow for lease liabilities	(44,237,870)	(23,027,950)
Total cash outflow for leases	(44,237,870)	(23,027,950)

24.5 Maturity analysis – Contractual Undiscounted Cash Flows

Rs.	2025	2024
For the year ended December 31,		
Less than one year	21,051,507	17,655,370
Between one and five years	43,931,521	61,815,528
Total undiscounted cash flows	64,983,028	79,470,898

SMB Finance PLC
Notes to the Financial Statements

25 Intangible Assets

Rs.	2025	2024
Cost		
As at January 1,	264,122,082	237,342,458
Additions during the year	-	26,779,624
As at December 31,	264,122,082	264,122,082
Accumulated amortisation		
As at January 1,	6,959,826	2,416,555
Charge for the year	5,435,925	4,543,271
As at December 31,	12,395,751	6,959,826
Carrying Value as at December 31,	251,726,331	257,162,256
Capital work in progress		
As at January 1,	11,084,000	28,736,737
Incurred during the year	1,317,060	9,126,887
Capitalised during the year	-	(26,779,624)
As at December 31,	12,401,060	11,084,000
Carrying value as at December 31,	264,127,391	268,246,256

- 25.1** According to LKAS 38, the Company has not amortised 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 amortised.

As at reporting date, the Company has assessed its finance license for impairment and no impairment indications have been identified.

During the year addition under capital working progress includes an advance paid to acquire new computer software program for gold loan product.

SMB Finance PLC
Notes to the Financial Statements

26 Deferred Tax (Liabilities) / Assets

The Company has recognised deferred tax liabilities on deductible temporary differences only up to the extent that they offset taxable temporary differences.

Rs.

Movement in Deferred Tax (Liabilities) / Assets

Balance as at January 1,	2025	2024
	30,924,821	52,324,329
Charge for the year	(32,878,494)	(21,399,508)
Balance as at December 31,	(1,953,673)	30,924,821

26.1 Deferred Tax Liabilities Charged To

Statement of profit or loss	2025	2024
	1,762,595	-
Statement of other comprehensive income	191,078	-
	1,953,674	-

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

Rs.

As at December 31,

	2025		2024	
	Temporary difference	Tax effect	Temporary difference	Tax effect
On property, plant & equipment and intangible assets	(56,394,065)	(16,918,220)	(44,221,122)	(13,266,337)
On retirement benefit obligation	28,310,377	8,493,113	21,786,312	6,535,894
Fair value gain on investment property	(116,601,258)	(34,980,378)	(74,170,450)	(22,251,135)
Disallowable amount for bad debt provision	141,731,198	42,519,360	209,291,452	62,787,436
On right-of-use assets	(58,577,248)	(17,573,174)	(73,151,294)	(21,945,388)
On lease liabilities	55,018,753	16,505,626	63,547,836	19,064,351
	(6,512,242)	(1,953,673)	103,082,734	30,924,821

The deferred tax has been calculated at the rate of 30% (2024 - 30%).

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.

27 Other Assets

Rs.

As at December 31,

	Note	2025	2024
Deposits & prepayments		35,605,743	40,143,449
Receivables from Golden Key Hospitals Limited	27.1	36,841,467	36,841,467
NBT receivable		704,395	704,395
Stamp duty receivable		-	2,463,458
Bank guarantee		4,833,300	-
Other assets		332,241	-
		78,317,146	80,152,769

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

28 Due to Financial Institutions

Rs.

As at December 31,

	Note	2025	2024
Bank borrowings	28.1	-	1,224,665,087
Bank overdraft		2,578,834,690	702,509,084
		2,578,834,690	1,927,174,171

28.1 Reconciliation of Movement of Bank Borrowings

Rs.

Balance as at January 1,	2025	2024
	1,224,665,087	1,274,943,315
Addition during the year	-	560,000,000
Capital payments during the year	(1,222,815,500)	(608,721,500)
Interest (payments) / payable during the year	(1,849,587)	(1,556,728)
Balance as at December 31,	-	1,224,665,087

SMB Finance PLC
Notes to the Financial Statements

29 Financial Liabilities at Amortised Cost - Deposits due to Customers

Rs.

As at December 31,

	2025	2024
Time deposits	236,431,228	135,144,134
Saving deposits	31,962,712	31,672,443
Balance as at December 31,	268,393,940	166,816,577

30 Financial liabilities at amortised cost - Due to other customers

Rs.

As at December 31,

	Note	2025	2024
Promissory notes		131,175,567	126,694,613
Debentures	30.1	9,142,728	9,142,728
Balance as at December 31,		140,318,295	135,837,341

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

SMB Finance PLC
Notes to the Financial Statements

31 Retirement Benefit Obligations

Rs.	Note	2025	2024
As at December 31,			
Provision for retirement benefit obligations	31.1	28,310,377	21,786,312
Balance as at December 31,		28,310,377	21,786,312

31.1 Movement of Provision for Retirement Benefit Obligation

Rs.	Note	2025	2024
As at December 31,			
Balance as at January 1,		21,786,312	13,644,953
Provision for the year	31.2	7,254,741	5,136,106
Actuarial (gain) / loss during the year		(636,926)	3,967,753
Payments during the year		(93,750)	(962,500)
Balance as at December 31,		28,310,377	21,786,312

31.2 Provision for the Year

Rs.	2025	2024
For the year ended December 31,		
Current service costs	4,988,170	3,788,005
Interest costs	2,266,571	1,348,101
	7,254,741	5,136,106

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

	2025	2024
Salary increment rate	10%	10%
Discount rate	11.00%	11.00%
Retirement age	60 - 75 Years	60 - 75 Years
Staff turnover factor	12.6%	23%
Weighted average duration of RBO	15.81	18.46

The defined benefits obligation is calculated annually by formula method using Projected Unit Credit Method (PUC) as recommended by LKAS-19, "employee benefits". Actuarial gains and losses in the period in which they occur have been recognised in the Other Comprehensive income (OCI). The assumptions based on which the results of actuarial valuation was determined, are included in notes to the financial statements. Gratuity liability was computed from the first year of service for all employees in conformity with Sri Lanka Accounting Standards 19- "Employee Benefits". However, under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of five years of continual service. The Company is liable to pay gratuity in terms of the relevant statute.

The Characteristics of this plan includes the followings;

- 01.This is contribution - based plan.
- 02.There is no any minimum funding requirements.
- 03.There is no any effect of the regulatory framework on the plan.

In absence of a deep market in long term bonds in Sri Lanka, a long -term interest rate of 11% p.a (2024-11% p.a) has been used to discount future retirement benefit liabilities considering the weighted average duration of RBO. 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.

SMB Finance PLC
Notes to the Financial Statements

31.3 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 / (decrease)	Employment benefits obligation increase / (decrease) in the liability
Increase in discount rate (1%)	1,518,480	(1,518,480)
Decrease in discount rate (1%)	(1,623,923)	1,623,923
Increase in salary increment rate (1%)	(1,623,923)	1,623,923
Decrease in salary increment rate (1%)	1,545,408	(1,545,408)

31.4 Maturity Analysis of Retirement Benefit Obligations

Rs.	2025	2024
As at December 31,		
Within the next 12 month	75,000	80,000
Between 1-2 years	294,324	-
Between 3-5 years	1,399,715	312,229
Between 6-10 years	7,464,774	5,430,383
Beyond 10 years	19,076,564	15,963,700
Balance as at December 31,	28,310,377	21,786,312

SMB Finance PLC
Notes to the Financial Statements

32 Other Liabilities

Rs.	2025	2024
Balance as at December 31,		
Accrued expenses	26,049,055	20,424,268
Unearned income on legal settlement	46,019,849	68,341,523
Un-identified deposits	1,604,287	6,615,610
Sundry creditors	6,791,020	5,504,522
Consent motion advances	993,640	1,138,640
Lease termination	-	3,600,000
SSCL payable	6,014,961	3,950,750
VAT on financial services payable	22,309,774	15,085,008
Capital gain tax payable	417,846	2,478,459
Deposit insurance liabilities	33,224	20,852
Crop insurance levy payable	922,419	744,953
Income tax payable	12,157,661	19,017,608
Stamp duty payable	3,162,681	-
Other liabilities	5,097,219	2,919,707
Balance as at December 31,	131,573,636	149,841,900

32.1 Unearned income on legal settlement includes unrealised gain recorded when creating a consent motion loan against a credit facility through a legal settlement. This unrealised gain will get realised when the customer repays.

33 Stated Capital

Rs.	2025	2024
Balance as at December 31,		
Ordinary voting shares	2,555,958,860	2,555,958,860
Ordinary non voting shares	506,722,664	506,722,664
Balance as at December 31,	3,062,681,524	3,062,681,524

33.1 Reconciliation of Number of Shares

	No. of shares	
	2025	2024
Ordinary Voting Shares		
As at January 1,	6,470,375,048	6,470,375,048
Issue of shares	-	-
As at December 31,	6,470,375,048	6,470,375,048
Ordinary Non Voting Shares		
As at January 1,	3,081,603,712	3,081,603,712
Issue of shares	-	-
As at December 31,	3,081,603,712	3,081,603,712
Total	9,551,978,760	9,551,978,760

33.2 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

33.3 Regulatory Capital

	2025		2024	
	Actual	Required	Actual	Required
Tier 1 capital ratio (%)	81.05%	8.50	89.38	8.50
Total capital ratio (%)	80.40%	12.50	88.02	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.

34 Statutory Reserve Fund

	2025	2024
Rs.		
Balance as at December 31,		
Balance as at January 1,	55,275,929	47,727,396
Transfer made during the year	7,996,485	7,548,533
	63,272,414	55,275,929

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.

35 Fair Value Reserve

	2025	2024
Rs.		
Balance as at December 31,		
Balance as at January 1,	68,524,547	64,544,823
Net fair value gain on remeasuring financial investments	8,082,524	3,979,724
	76,607,071	68,524,547

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

36 Retained Earnings

	2025	2024
Rs.		
Balance as at January 1,	451,258,989	311,804,624
Profit for the year	159,929,703	150,970,651
Other comprehensive income (Net of tax)	445,848	(3,967,753)
Transfers to statutory reserve fund	(7,996,485)	(7,548,533)
Balance as at December 31,	603,638,055	451,258,989

Retained earnings represent the reserve available for distribution.

SMB Finance PLC
Notes to the Financial Statements

37 Classification of Financial Instruments

37.1 Assets

As at December 31, Rs.'000	2025			Total
	Financial instruments recognised through profit or loss (FVTPL)	Financial instruments at amortised cost (AC)	Financial instruments at fair value through other comprehensive income (FVTOCI)	
Financial assets				
Cash and cash equivalents	-	42,466	-	42,466
Placements with banks	-	3,020,385	-	3,020,385
Financial assets at amortised cost - Loans and receivables to customers	-	2,311,705	-	2,311,705
Fair value through profit or loss (FVTPL)	92	-	-	92
Fair value through other comprehensive income (FVTOCI)	-	-	145,991	145,991
Financial investment at amortized cost	-	24,447	-	24,447
Total financial assets	92	5,399,002	145,991	5,545,086

As at December 31, Rs.'000	2024			Total
	Financial instruments recognised through profit or loss (FVTPL)	Financial instruments at amortised cost (AC)	Financial instruments at fair value through other comprehensive income (FVTOCI)	
Financial assets				
Cash and cash equivalents	-	44,437	-	44,437
Placements with banks	-	2,924,467	-	2,924,467
Financial assets at amortised cost - Loans and receivables to customers	-	1,782,535	-	1,782,535
Fair value through profit or loss (FVTPL)	43	-	-	43
Fair value through other comprehensive income (FVTOCI)	-	-	120,309	120,309
Total financial assets	43	4,751,439	120,309	4,871,791

SMB Finance PLC
Notes to the Financial Statements

37.2 Liabilities

As at December 31, Rs.'000	2025			Total
	Financial instruments recognised through profit or loss (FVTPL)	Financial instruments at amortised cost (AC)	Financial instruments at fair value through other comprehensive income (FVTOCI)	
Financial Liabilities				
Due to financial institutions	-	2,578,835	-	2,578,835
Financial liabilities at amortised cost - Deposits due to customers	-	268,394	-	268,394
Financial liabilities at amortised cost - Due to other customers	-	140,318	-	140,318
Lease liabilities	-	55,019	-	55,019
	-	3,042,566	-	3,042,566
Non Financial Liabilities				
Retirement benefit obligations	-	28,310	-	28,310
Deferred tax liabilities	-	1,954	-	1,954
Other liabilities	-	131,573	-	131,573
	-	161,837	-	161,837
Total liabilities	-	3,204,403	-	3,204,403
As at December 31, Rs.'000	2024			Total
	Financial instruments recognised through profit or loss (FVTPL)	Financial instruments at amortised cost (AC)	Financial instruments at fair value through other comprehensive income (FVTOCI)	
Financial Liabilities				
Due to financial institutions	-	1,927,174	-	1,927,174
Financial liabilities at amortised cost - Due to other customers	-	166,817	-	166,817
Financial liabilities at amortised cost - Due to other customers	-	135,837	-	135,837
Lease liabilities	-	63,548	-	63,548
	-	2,293,376	-	2,293,376
Non Financial Liabilities				
Retirement benefit obligations	-	21,786	-	21,786
Other liabilities	-	149,842	-	149,842
	-	171,628	-	171,628
Total liabilities	-	2,465,004	-	2,465,004

37.3 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 Debt Securities

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.

f) 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

37.4 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.

As at December 31,	2025				2024
Rs.'000	Level 1	Level 2	Level 3	Total	Total
Fair value through profit or loss (FVTPL)	92	-	-	92	43
Fair value through other comprehensive income (FVTOCI)	-	-	145,991	145,991	120,309
Financial investment at amortised cost	-	-	24,447	24,447	-
Total financial investment	92	-	170,438	170,530	120,352

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.

37.5 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

As at December 31,	2025				2024
Rs.'000	Level 1	Level 2	Level 3	Total	Total
Cash and cash equivalents	-	-	-	42,466	44,437
Placements with banks	-	-	-	3,020,385	2,924,467
Financial assets at amortised cost - Loans and receivables to customers	-	-	-	2,311,705	1,782,535
	-	-	-	5,374,556	4,751,439

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

SMB Finance PLC
Notes to the Financial Statements

37.6 Financial Liabilities

**As at December 31,
Rs.'000**

	2025		2024	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Due to financial institutions	2,578,835	2,578,835	1,927,174	1,927,174
Financial liabilities at amortised cost - Deposits due to customers	268,394	268,394	166,817	166,817
Financial liabilities at amortised cost - Due to other customers	140,318	140,318	135,837	135,837
Lease liabilities	55,019	55,019	63,548	63,548
	3,042,566	3,042,566	2,293,376	2,293,376

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 categorised 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.

37.7 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.20.2.1

The following table shows 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)	Net asset value method	Adjusted net assets per share Rs. 25.68	The estimated fair value would increase/ (decrease) if the net asset value per share were higher / (lower)

SMB Finance PLC
Notes to the Financial Statements

38 Commitments and Contingencies

38.1 Capital Commitment

There are no capital commitments as at December 31, 2025.

38.2 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.

39 Events After the Reporting Date

No circumstances have been arisen since the statement of financial position date that require adjustments to, or disclosure in the financial statements.

40 Related Party Disclosures

40.1 Transactions with Related Parties

Rs.	Relationship	Nature of the related transaction	2025			2024		
			Received/ Receivable/ (Payable/ Paid)	Total outstanding as at December 31, 2025	Aggregate value of related party transaction as a percentage of gross revenue for the year ended December 31, 2025	Received/ Receivable/ (Payable/ Paid)	Total outstanding as at December 31, 2024	Aggregate value of related party transaction as a percentage of gross revenue for the year ended December 31, 2024
Transactions with Associates								
	Kenanga Investment Corporation Ltd	-	-	-	-	-	-	0.00%
Transactions with other Related Companies								
	Grayline Cargo Terminals (Pvt) Ltd	Mr. H. R. S. Wijeratne - Chairman	Finance Lease 1,970,750	-	0.00%	1,376,710	1,970,750	0.37%
			Term Loan 2,088,343	-	0.00%	3,389	2,088,343	0.39%
	Grayline Container Terminals (Pvt) Ltd	Mr. H. R. S. Wijeratne - Chairman	Finance Lease 1,393,484	-	0.00%	9,922	1,393,484	0.26%
			Term Loan 227,997	-	0.00%	94,911	227,997	0.04%
	Print Xcel (Pvt) Ltd	Mr. H. R. S. Wijeratne - Chairman (Ultimate Beneficial Owner)	Finance Leases 120,201,396	205,255,024	30.18%	7,749,697	85,053,628	15.81%

Transactions, Arrangements and Agreements involving KMP and their Close Family Members (CFMs)

Rs.

Details of Financial Dealing

Time Deposits

Related personnels and CFMs of Directors and KMPs

Total outstanding as at December 31, 2025	Total outstanding as at December 31, 2024
37,601,697	17,482,045

A number of these entities and personnels have been transacted with the Company during the year. The terms and conditions of the transactions with key management personnels and their related parties were no more favorable than those available, or which might reasonably expected to be available, on similar transactions to non-key management personnel of related entities or persons on an arm's length basis at commercial rates as per the Sri Lanka Accounting Standard – LKAS 24 "Related Party Disclosures".

SMB Finance PLC
Notes to the Financial Statements

40.2 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.

40.2.1 Remuneration to Key Management Personnel

(a) Remuneration to Board of Directors

Rs.

For the year ended December 31,

	2025	2024
Short - term employees benefits	15,465,000	5,980,000
Post employment benefits	-	-
	15,465,000	5,980,000

(b) Remuneration to Corporate Management

Rs.

For the year ended December 31,

	2025	2024
Short - term employees benefits	68,791,280	47,120,085
Post employment benefits	2,541,590	1,870,926
Total	71,332,870	48,991,011

41 Litigation Against the Company

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. The Company has established 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 Company's financial position. As at the reporting date, the Company 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 favor of the Company and the process will probably take over three years. Accordingly no provision has been made in these financial statement.

42 Financial Risk Management

42.1 Introduction and Overview

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

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

42.2 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 Integrated Risk Management Framework for the Company has been established.

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

42.3 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. Reviewing liquidity management strategies and cash flow forecasts to ensure adequate liquidity buffers. Reviewing liquidity risk stress test results to assess the adequacy of liquidity reserves under stressed scenarios.

42.3.1 Liquidity Risk and Funding Management

In the context of a financial institution, liquidity risk arises primarily from mismatches in the maturity profile of assets and liabilities. Liquidity risk for a financial institution can take two forms; market liquidity risk and fund liquidity risk. Market liquidity risk is the inability to easily exit a position. A company has low market liquidity risk, if assets can be liquidated without excessive price movements. Fund liquidity risk is the inability of a company to continue financing assets at an acceptable borrowing rate. Fund liquidity risk typically arises when creditors withdraw their loans or change the terms on which they are granted, making them no longer profitable. Fund liquidity risk will increase if the Company's credit quality is deteriorating or at least its financial conditions are deteriorating.

Managing Liquidity Risk

The Company'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. Monitoring liquidity risk, reporting and analysing, making proposals, setting limits and guidelines, formulating and implementing plans relating to liquidity risk management. The treasury and liquidity policies and compliance thereunder are reviewed and approved by the ALCO. ALCO is primarily responsible for effectively managing assets and liabilities to minimise maturity mismatches and thereby managing the liquidity risk of the Company. The Committee meets regularly and takes all policy decisions to manage funding activities, the maturity of assets and liabilities and investments, while meeting regulatory requirements and maintaining liquidity at healthy levels.

The Company's primary objective in managing liquidity risk is to ensure adequate funding for its businesses throughout market cycles, including period of financial stress. To achieve this objective, the Company regularly monitors its liquidity position and maintains an adequate buffer of liquid assets. Monitoring maturity mismatches of assets and liabilities and cash flow forecasting under normal and stressed scenarios are two key tools used in the liquidity risk management process. All statutory and prudential liquidity ratios are monitored against stress testing. The Company has regularly taken prudent steps to increase its liquidity buffers to assess the effectiveness of liquidity management and has maintained a strong excess liquidity position throughout the year under review. The Company is comfortable with its existing liquid asset buffer. The Company maintains access to diversified funding sources to meet unexpected liquidity needs.

SMB Finance PLC
Notes to the Financial Statements

42.3.2 Exposure to Liquidity Risk

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

	December 31, 2025	December 31, 2024
Liquid Asset Ratio (LAR)		
As at December 31,	1333.95%	2218.80%
Average for the year	1056.88%	2102.77%
Maximum for the year	1542.95%	2495.57%
Minimum for the year	589.55%	1280.47%

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, 2025	December 31, 2024
Required minimum amount of liquid assets	42,469,369	31,848,900
Daily average liquid assets	566,520,369	706,664,000
Excess liquidity	524,051,000	674,815,100

42.3.3 Maturity Analysis as at December 31, 2025

42.3.3.1 Rs.'000

The table below summarises the maturity profile of the undiscounted cash flows of the Company's Financial assets and liabilities as at 31 December 2025.

	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Total
Interest Earning Assets						
Cash and cash equivalents (Interest earning bank balances)	14,089	-	-	-	-	14,089
Placements with banks	1,088,704	1,378,203	-	200,383	353,095	3,020,385
Financial assets at amortised cost - Loans and receivables to customers	597,499	280,032	822,873	168,996	442,305	2,311,705
Financial investments	2,512	7,833	14,102	-	146,083	170,530
	1,702,804	1,666,068	836,975	369,379	941,483	5,516,709
Non Interest Earning Assets						
Cash and cash equivalents (Other than interest earning bank balances)	28,377	-	-	-	-	28,377
Investment properties	-	-	-	-	996,750	996,750
Property, plant & equipment	-	-	-	67,745	-	67,745
Right-of-use assets	7,286	15,647	27,206	8,438	-	58,577
Intangible assets	-	-	-	-	264,127	264,127
Other assets	-	7,107	1,960	24,000	45,250	78,317
	35,663	22,754	29,166	100,183	1,306,128	1,493,893
Total assets	1,738,467	1,688,822	866,141	469,562	2,247,611	7,010,602

SMB Finance PLC
Notes to the Financial Statements

Interest Bearing Liabilities						
Due to financial institutions	2,578,835	-	-	-	-	2,578,835
Financial liabilities at amortised cost - Deposits due to customers	75,784	134,293	17,708	8,646	31,963	268,394
Financial liabilities at amortised cost - Due to other customers	-	-	-	140,318	-	140,318
Lease liabilities	7,707	13,344	30,949	12,983	-	64,983
	2,662,326	147,637	48,657	161,947	31,963	3,052,530
Non Interest Bearing Liabilities						
Retirement benefit obligations	-	75	-	1,400	26,836	28,310
Deferred tax liabilities	-	1,954	-	-	-	1,954
Other liabilities	53,600	26,049	-	-	51,925	131,574
	53,600	28,078	-	1,400	78,760	161,838
Equity						
Shareholders' funds	-	-	-	-	3,806,199	3,806,199
					3,806,199	3,806,199
Total liabilities & equity	2,715,926	175,715	48,657	163,346	3,916,922	7,020,566

42.4 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.

42.4.1 Management of Credit Risk

Board Credit Committee has oversight responsibility for the 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. Credit approvals for disbursements and renewal of credit facilities are based on the Board approved Delegated Authority Limits. Larger credit facilities require approval by the Board Credit Committee as appropriate. Risk Management Division (RMD) is a separate vertical independent division from other business units, established to assess the overall risk of the Company. Establishing the credit approval structure with delegated authority limits for the approval and renewal of credit facilities. Other responsibilities of RMD include formulating credit risk policies and guidelines in consultation with the Credit Division covering collateral requirements, risk grading reviews and reporting risk dashboards to the Integrated Risk Management Committee, setting the risk appetite for exposures to counterparties, geographies and industries (for loans and advances and similar exposures), and by issuer, credit rating band, market liquidity and country (for investment securities), providing advice, guidance and specialist skills to business units to promote best practice throughout the Company in the management of credit risk, identification of elevated risk industries and the adequacy of any overlay adjustment made outside the ECL model, as part of model adjustments to address the potential implications of the prevailing economic conditions and conducting identification of potential risky borrowers meetings. Each business unit is required to implement Company's credit policies and guidelines, with credit approval authorities delegated from the Board of Directors. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios. Regular audits of business units and credit processes are undertaken by 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 and is an important part of the risk assessment of customers.

SMB Finance PLC
Notes to the Financial Statements

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.

42.4.1.1 Collateral wise analysis of individual significant impaired loan and receivables to customers

Collateral and Other Credit Enhancement

The Company holds collateral and other credit enhancements against certain types of its credit exposures. The following table sets out the principal types of collateral held against different types of financial assets. For each loan, the value of disclosed collateral is capped at the amount of the loan it is held against.

Revaluation of immovable properties obtained as collaterals against any accommodation granted are assessed based on the requirements in Direction No 04 of 2018 on 'Valuation of Immovable Properties' and subsequent amendments thereto issued by the Central Bank of Sri Lanka (CBSL). The assessment of immovable properties is carried out by independent professional valuers as required by the said direction issued by the CBSL.

The Company incorporates the effect of collateral in measuring expected credit losses by adjusting the loss given default (LGD) estimates. Collateral includes cash deposits, real estate, vehicles, and guarantees. The recoverable value of collateral is capped at the gross carrying amount of the loan and advances. Collateral is regularly revalued, and only legally enforceable, readily liquidated collateral is considered when reducing ECLs. For unsecured exposures, no collateral value is applied in the ECL computation.

As at December 31,

	2025		2024	
	Gross loan and advance receivables	Security	Gross loan and advance receivables	Security
Stage 1				
Cash collateral	4,191,901	4,191,901	353,236	353,236
Property, plant and machinery	1,111,800,825	1,111,800,825	1,007,381,961	1,007,381,961
Gold and precious metals	812,160,597	812,160,597	430,300,043	430,300,043
Personal / corporate guarantee	28,728,719	28,728,719	37,799,136	37,799,136
Stage 2				
Property, plant and machinery	190,930,838	190,930,838	107,922,625	107,922,625
Gold and precious metals	89,122,506	89,122,506	56,616,988	56,616,988
Personal / corporate guarantee	896,600	896,600	4,124,988	4,124,988

SMB Finance PLC
Notes to the Financial Statements

Stage 3				
Property, plant and machinery	418,814,103	418,814,103	645,934,832	645,934,832
Unsecured	2,200,000	-	3,625,549	-
Gold and precious metals	13,625,434	13,625,434	21,968,939	21,968,939
Personal / corporate guarantee	89,443,615	89,443,615	148,665,084	148,665,084
	2,761,915,138	2,759,715,138	2,464,693,381	2,461,067,832

42.4.2 Credit Quality Analysis

The tables below sets out information about the credit quality of financial assets held by Company 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.					
As at December 31, 2025					
Cash and cash equivalents	42,465,580	-	-	-	42,465,580
Placements with banks	3,020,384,995	-	-	-	3,020,384,995
Financial assets at amortised cost - Loans and receivables to customers	1,874,875,334	231,827,565	205,002,172	-	2,311,705,071
Financial investments	170,530,307	-	-	-	170,530,307
Investment properties	-	-	-	996,750,000	996,750,000
Property, plant & equipment	-	-	-	67,744,690	67,744,690
Right-of-use assets	-	-	-	58,577,248	58,577,248
Intangible assets	-	-	-	264,127,391	264,127,391
Other assets	-	-	-	78,317,146	78,317,146
Total assets	5,108,256,216	231,827,565	205,002,172	1,465,516,475	7,010,602,428

SMB Finance PLC
Notes to the Financial Statements

As at December 31, 2024					
Cash and cash equivalents	44,436,726	-	-	-	44,436,726
Placements with banks	2,924,467,192	-	-	-	2,924,467,192
Financial assets at amortised cost - Loans and receivables to customers	1,347,608,079	138,292,931	296,634,485	-	1,782,535,495
Financial investments	120,351,765	-	-	-	120,351,765
Investments in associate	-	-	-	-	-
Investments in subsidiary	41,699,000	-	-	-	41,699,000
Investment properties	-	-	-	708,050,000	708,050,000
Property, plant & equipment	-	-	-	59,654,628	59,654,628
Right-of-use assets	-	-	-	73,151,295	73,151,295
Intangible assets	-	-	-	268,246,256	268,246,256
Other assets	-	-	-	80,152,769	80,152,769
Total assets	4,478,562,762	138,292,931	296,634,485	1,189,254,948	6,102,745,126

42.4.3 Credit Quality Analysis of Placements with Banks

The following table sets out the credit quality of placements with banks. The analysis is based on ratings of Fitch Ratings Lanka Ltd and Lanka Rating Agency.

Rs.

As at December 31,

Rated AA- to AA+

Rated A- to A+

Rated BBB+ and below

	2025	2024
Rated AA- to AA+	1,837,330,373	1,752,028,097
Rated A- to A+	200,436,986	200,421,918
Rated BBB+ and below	982,818,904	973,151,664
	3,020,586,263	2,925,601,679

Credit Quality Analysis of Cash at Banks

The following table sets out the credit quality of cash at banks. The analysis is based on ratings of Fitch Ratings Lanka Ltd and Lanka Rating Agency.

Rs.

As at December 31,

Rated AA- to AA+

Rated A- to A+

Rated BBB+ and below

	2025	2024
Rated AA- to AA+	2,728,593	13,157,343
Rated A- to A+	59,343	489,403
Rated BBB+ and below	13,453,761	55,372
	16,241,697	13,702,118

42.4.4 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, 2025.

SMB Finance PLC
Notes to the Financial Statements

42.4.5 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)

Weightages assigned for each scenario for the year 2025 is given below;

Scenario	Weightage
Normal scenario	50.00%
Best case scenario	10.00%
Worst case scenario	40.00%

As at December 31, 2025, 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.

42.4.6 Movements in Allowance for Expected Credit Losses (Stage Transition)

Rs.000

As at December 31, 2025

	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	128,226,295	30,371,671	523,559,920	682,157,886
Changes due to loans and receivables recognised in opening balance that have:				
Transferred from 12 months ECL	(93,297,814)	20,228,412	(296,105,815)	
Transferred from lifetime ECL not credit - impaired	(13,906,497)	(1,854,186)	7,797,241	
Transferred from lifetime ECL credit - impaired	103,310	(4,351,374)	40,921,221	
Net remeasurement of loss allowance	60,881,415	4,727,856	42,908,412	(231,947,819)
Balance as at the end of the year	82,006,709	49,122,380	319,080,979	450,210,067

SMB Finance PLC
Notes to the Financial Statements

42.4.7 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 the statement of profit or loss were as follows;

Rs.

For the year ended December 31,

Allowance for expected credit loss for loans and advances
 Allowance for expected credit loss for placement with banks

	2025	2024
	(231,947,819)	(68,154,330)
	(933,219)	(22,301)
	(232,881,039)	(68,176,631)

42.5 Operational Risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's 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's 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 the Company's standards is supported by a program of periodic reviews undertaken by Internal Auditors. The results of internal audit reviews are discussed with the management and reports to the Audit Committee and to the Board.

42.6 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.

42.6.1 Exposure to Interest Rate Risk

42.6.1.(a) The interest rate profile of the Company's interest bearing financial instruments is as follows;

Rs.

As at December 31,

Financial assets

Placements with banks

Financial assets at amortised cost - Loans and receivables to customers

	2025	2024
	3,020,384,995	2,924,467,192
	2,311,705,071	1,782,535,495
	5,332,090,066	4,707,002,687

Financial liabilities

Due to financial institutions

Financial liabilities at amortised cost - Deposits due to customers

Financial liabilities at amortised cost - Due to other customers

	2,578,834,690	1,927,174,171
	268,393,940	166,816,576
	140,318,295	135,837,341
	2,987,546,925	2,229,828,088

SMB Finance PLC
Notes to the Financial Statements

42.6.1 (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.

Loan Portfolio

Interest rate shock	-2%	-1%	1%	2%
Interest income change	(29,212,335)	(14,606,167)	14,606,167	29,212,335
Effect on loan interest income	-10.29%	-5.15%	5.15%	10.29%

Lease Portfolio

Interest rate shock	-2%	-1%	1%	2%
Interest income change	(11,730,071)	(5,865,035)	5,865,035	11,730,071
Effect on lease interest income	-9.91%	-4.95%	4.95%	9.91%

Total Portfolio

Interest rate shock	-2%	-1%	1%	2%
Interest income change	(40,942,406)	(20,471,203)	20,471,203	40,942,406
Effect on interest income	-10.18%	-5.09%	5.09%	10.18%

Interest Expenses

Interest rate shock	-2%	-1%	1%	2%
Interest expenses change	(47,821,645)	(23,910,822)	23,910,822	47,821,645
Effect on interest expenses	-21.95%	-10.97%	10.97%	21.95%

SMB Finance PLC
Notes to the Financial Statements

42.6.2 Exposure to Market Risk

42.6.2.1 Management of Market Risk

The Company separates its exposure to market risk between trading and non - trading portfolio. Trading portfolio includes financial assets and liabilities that are managed on a fair value basis. Non-trading portfolio is managed in accordance with the purpose and strategic benefits of such investments, rather than purely on fair value basis.

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, 2025

	Carrying amount Rs.	Market risk measure	
		Trading Rs.	Non-trading Rs.
Assets subject to market risk			
Cash and cash equivalents	42,465,580	-	42,465,580
Placements with banks	3,020,384,995	-	3,020,384,995
Financial assets at amortised cost - Loans and receivables to customers	2,311,705,071	-	2,311,705,071
Financial investments	170,530,307	170,530,307	-
Total assets subject to market risk	5,545,085,954	170,530,307	5,374,555,646
Liabilities subject to market risk			
Due to financial institutions	2,578,834,690	-	2,578,834,690
Financial liabilities at amortised cost - Deposits due to customers	268,393,940	-	268,393,940
Financial liabilities at amortised cost - Due to other customers	140,318,295	-	140,318,295
Total liabilities subject to market risk	2,987,546,925	-	2,987,546,925

As at December 31, 2024

	Carrying amount	Market risk measure	
		Trading Rs.	Non-trading Rs.
Assets subject to market risk			
Cash and cash equivalents	44,436,726	-	44,436,726
Placements with banks	2,924,467,192	-	2,924,467,192
Financial assets at amortised cost - Loans and receivables to customers	1,782,535,495	-	1,782,535,495
Financial investments	120,351,765	120,351,765	-
Total assets subject to market risk	4,871,791,178	120,351,765	4,751,439,413
Liabilities subject to market risk			
Due to financial institutions	1,927,174,171	-	1,927,174,171
Financial liabilities at amortised cost - Deposits due to customers	166,816,576	-	166,816,576
Financial liabilities at amortised cost - Due to other customers	135,837,341	-	135,837,341
Total liabilities subject to market risk	2,229,828,088	-	2,229,828,088

SMB Finance PLC
Notes to the Financial Statements

42.6.3 Exposure to Equity Price Risk

Equity price risks arises as a result of fluctuations in market prices of individual equities and management conducts 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,	2025	Shock Levels	2025		2024		Impact on net assets	Impact on net assets
			Impact on profit	Impact on OCI	Impact on profit	Impact on OCI		
			Rs.	Rs.	Rs.	Rs.		
Fair value through profit or loss (FVTPL)	146,083,676	10% shock (Increase)	8,317	13,139,213	13,147,531	3,873	10,827,786	10,831,659
Fair value through other comprehensive income (FVTOCI)		10% shock (Decrease)	(8,317)	(13,139,213)	(13,147,531)	(3,873)	(10,827,786)	(10,831,659)

42.6.4 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,	2025	2024	Total net weight of gold loan articles (In grams)	Market price per gram Rs.	Total market value Rs.	Gold loan receivable amount Rs.	Value excess Rs.						
								2025	35,708	37,681	1,345,513,839	914,908,537	430,605,301
								2024	28,407	22,720	645,407,431	508,885,970	136,521,461

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	2025		2024	
		Impact on market value	Impact on value excess	Impact on market value	Impact on value excess
		Rs.	Rs.	Rs.	Rs.
	10% shock (Increase)	134,551,384	134,551,384	64,540,743	64,540,743
	10% shock (Decrease)	(134,551,384)	(134,551,384)	(64,540,743)	(64,540,743)

SMB Finance PLC
Notes to the Financial Statements

43 Current / Non Current Analysis

Rs.'000

As at December 31,

	Within 12 months	2025 After 12 months	Total	Within 12 months	2024 After 12 months	Total
Company						
Assets						
Cash and cash equivalents	42,466	-	42,466	44,437	-	44,437
Placements with banks	2,466,907	553,478	3,020,385	2,375,301	549,166	2,924,467
Financial assets at amortised cost - Loans and receivables to customers	877,531	1,434,174	2,311,705	600,794	1,181,741	1,782,535
Financial investments	10,345	160,185	170,530	-	120,352	120,352
Assets held for sale	-	-	-	41,699	-	41,699
Investment properties	-	996,750	996,750	-	708,050	708,050
Property, plant & equipment	-	67,745	67,745	-	59,655	59,655
Right-of-use assets	22,933	35,644	58,577	20,875	18,085	38,960
Intangible assets	-	264,127	264,127	-	272,830	272,830
Other assets	7,107	71,210	78,317	-	80,153	80,153
Total assets	3,427,289	3,583,314	7,010,602	3,083,106	2,990,032	6,073,137
Liabilities						
Due to financial institutions	2,578,835	-	2,578,835	1,037,443	889,731	1,927,174
Financial liabilities at amortised cost - Deposits due to customers	210,077	58,317	268,394	133,506	33,310	166,816
Financial liabilities at amortised cost - Due to other customers	-	140,318	140,318	-	135,837	135,837
Retirement benefit obligations	75	28,235	28,310	-	21,786	21,786
Lease liabilities	21,051	33,968	55,019	11,738	93,577	105,315
Deferred tax liabilities	1,954	-	1,954	-	-	-
Other liabilities	79,649	51,925	131,574	69,854	79,989	149,843
Total liabilities	2,891,640	312,762	3,204,403	1,252,541	1,254,231	2,506,772

SMB Finance PLC
Notes to the Financial Statements

44 Segment Reporting

Rs. '000

Business Segments	Loans		Leasing		Gold Loan		Treasury		Unallocated		Total	
	2025	2024	2025	2024	2025	2024	2025	2024	2025	2024	2025	2024
For the year ended December 31,												
Revenue from external customers;												
Interest income	134,033	77,040	118,425	100,557	149,832	89,193	223,342	246,240	-	-	625,632	513,030
Fee & commission income	4,535	4,448	5,246	2,357	-	-	-	-	-	-	9,781	6,805
Other operating income (Net)	10,592	14,336	6,355	429	-	-	1,907	739	25,840	2,610	44,694	18,114
Changes in fair value of Investment Property	-	-	-	-	-	-	-	-	116,601	74,170	116,601	74,170
Total revenue from external customers	149,160	95,824	130,026	103,343	149,832	89,193	225,249	246,979	142,441	76,780	796,708	612,119
Segment result	107,740	144,704	93,919	80,825	108,225	69,759	162,700	193,165	102,887	60,051	575,472	478,746
Allowance for expected credit loss for loans and advances -												
Reversal / (Charges)	45,263	109,168	58,739	119	(13,930)	4,359	933	22	-	-	91,005	113,668
Depreciation charged for the year	(13,403)	(8,553)	(11,684)	(9,224)	(13,464)	(7,961)	(20,240)	(22,044)	(12,799)	(6,853)	(71,590)	(54,635)
Interest expense	(40,796)	(25,767)	(35,563)	(27,789)	(40,980)	(23,984)	(61,607)	(66,412)	(38,957)	(20,646)	(217,903)	(164,599)
Operating profit	53,541	40,625	46,673	43,814	53,782	37,814	80,853	104,708	51,129	32,551	285,978	259,512
Taxes on financial services	(13,569)	(9,648)	(11,828)	(10,405)	(13,630)	(8,981)	(20,490)	(24,868)	(12,957)	(7,731)	(72,474)	(61,633)
Share of profit of associate company	-	-	-	-	-	-	-	-	-	1,864	-	1,864
Income tax expense	(10,030)	(7,635)	(8,744)	(8,234)	(10,075)	(7,107)	(15,147)	(19,679)	(9,578)	(6,118)	(53,575)	(48,772)
Other comprehensive income	1,597	2	1,392	2	1,604	2	2,411	5	1,525	2	8,528	12
Total comprehensive income for the year	31,539	23,344	27,493	25,176	31,681	21,728	47,627	60,166	30,118	20,569	168,458	150,983
As at December 31,	2025	2024	2025	2024	2025	2024	2025	2024	2025	2024	2025	2024
Segment assets	771,375	745,965	642,038	530,970	898,293	505,601	3,062,851	2,968,904	1,636,047	1,351,306	7,010,602	6,102,745
Segment liabilities	599,931	385,885	522,972	416,161	602,632	359,180	905,964	994,584	572,905	309,194	3,204,403	2,465,004
For the year ended December 31,	2025	2024	2025	2024	2025	2024	2025	2024	2025	2024	2025	2024
Cash flow from operating activities	(83,512)	(32,504)	(72,800)	(35,054)	(83,888)	(30,254)	(126,113)	(83,776)	(79,750)	(26,044)	(446,064)	(207,632)
Cash flow from investing activities	(56,015)	(14,761)	(48,829)	(15,919)	(56,267)	(13,739)	(84,589)	(38,045)	(53,491)	(11,827)	(299,191)	(94,291)
Cash flow from financing activities	(217,946)	12,540	(189,988)	13,524	(218,927)	11,672	(329,123)	32,321	(208,128)	10,048	(1,164,113)	80,105

SMB Finance PLC
Notes to the Financial Statements

44.1 Operating Segments in Segmental Reporting

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 and the Company's segmental reporting is based on the following operating segments;

Loans

This segment includes loan products other than gold loans offered to the customers

Leasing

This segment includes leasing products offered to the customers

Gold loans

This segment includes gold loan 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

Rs.'000	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
For the year ended December 31,										
Operating Results										
Revenue	796,708	612,120	825,805	551,275	295,485	180,162	283,931	265,975	315,263	256,012
Interest expenses	(217,903)	(164,599)	(308,880)	(134,737)	(51,819)	(59,755)	(77,119)	(63,339)	(69,181)	(40,311)
Operating expenses & provision	(292,827)	(188,010)	(301,546)	(309,437)	(177,276)	(190,069)	(190,787)	(97,132)	(185,165)	(118,584)
Operating profit / (loss) before taxes on financial services	285,978	259,512	215,379	107,101	66,390	(69,662)	16,025	105,504	60,917	97,116
Taxes	(126,049)	(110,405)	(95,517)	(15,512)	(13,111)	(3,099)	(9,439)	(19,762)	(23,668)	(20,420)
Impairment provision for subsidiary company	-	-	-	(12,750)	-	-	-	-	-	-
Share of profit of associate company	-	1,864	40	744	152	2,307	2,079	-	-	-
Profit / (Loss) for the year	159,930	150,971	119,901	79,582	53,431	(70,455)	8,665	85,742	37,249	76,696
Total comprehensive income / (expense)	168,458	150,983	130,806	104,136	76,177	(82,088)	19,491	95,746	37,196	77,952

As at December 31,

Assets

Cash and cash equivalents and placement with banks	3,062,851	2,968,904	2,659,270	2,456,778	2,497,005	438,471	172,010	177,985	162,378	146,551
Loans and receivables	2,311,705	1,782,535	1,471,314	1,855,368	1,115,518	1,070,958	1,204,255	1,332,771	1,268,457	1,319,828
Financial investments	170,530	120,352	116,358	104,249	82,077	60,657	72,249	61,798	52,719	7,578
Investments in associate	-	-	42,617	42,577	41,833	41,682	39,375	37,296	37,275	101,452
Assets held for sale	-	41,699	-	-	-	-	-	-	-	-
Investments in subsidiaries	-	-	-	-	12,750	12,750	12,750	12,750	12,750	12,750
Investment properties	996,750	708,050	637,236	385,728	142,778	96,225	96,225	33,310	33,310	33,310
Property plant & equipment	67,745	59,655	50,339	19,963	7,306	12,180	12,838	14,726	19,417	20,224
Right-of-use assets	58,577	73,151	34,156	16,070	23,266	35,904	30,037	-	-	-
Intangible assets	264,127	268,246	263,663	245,092	5,615	5,928	5,042	3,111	1,495	3,258
Other assets	78,317	80,153	55,235	61,401	67,796	48,688	52,937	54,262	59,040	6,015
	7,010,602	6,102,745	5,330,188	5,187,226	3,995,944	1,823,443	1,697,718	1,728,009	1,646,842	1,650,965

Liabilities & Shareholders' Fund

Borrowings	2,987,547	2,229,828	1,678,634	1,695,007	648,550	717,306	528,779	638,669	413,820	453,434
Retirement benefit obligations	28,310	21,786	13,645	8,961	7,545	7,890	7,581	11,753	12,183	11,948
Lease liabilities	55,019	63,548	21,780	14,880	15,649	21,108	21,402	-	-	-
Deferred tax liabilities	1,954	-	-	-	-	-	-	-	-	-
Other liabilities	131,574	149,842	129,371	112,426	72,384	39,871	20,599	40,636	47,253	49,194
Shareholders' funds	3,806,199	3,637,741	3,486,758	3,355,952	3,251,816	1,037,268	1,119,357	1,036,951	1,173,586	1,136,390
	7,010,602	6,102,745	5,330,188	5,187,226	3,995,944	1,823,443	1,697,718	1,728,009	1,646,842	1,650,965

Ratios

Income growth / (degrowth) (%)	30	(26)	50	206	64	(37)	7	(16)	23	29
Property, plant & equipment to shareholders' fund (%)	1.78	1.64	1.44	0.59	0.22	1.17	1.15	1.42	1.65	1.78
Total asset to shareholders' fund (Times)	1.84	1.68	1.53	1.55	1.23	1.76	1.52	1.67	1.40	1.45
Net assets per share (Rs.)	0.40	0.38	0.37	0.35	0.34	0.57	0.62	0.57	0.65	0.63
Basic earning / (loss) per share (Rs.)	0.02	0.02	0.01	0.01	0.01	-0.04	0.00	0.05	0.02	0.04