



Lanka Rating Agency

Rating Report

SMB Finance PLC

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Rating History

Dissemination Date	Long Term Rating	Outlook	Action	Rating Watch
01-Jul-2025	BB	Stable	Maintain	-
19-Mar-2024	BB	Stable	Initial	-

Rating Rationale and Key Rating Drivers

SMB Finance PLC (“SMBF” or “the Company”), established in 1992, is engaged in providing finance leases, mortgage loans, and gold-backed loans, in addition to accepting public deposits. SMBF obtained its license to operate as a licensed finance company in December 2022. Prior to this, the Company operated as a specialized leasing company and underwent various ownership changes. The Company’s credit rating incorporates its small scale of operations, modest profitability, and very high non-performing loans (NPLs). Meanwhile, the Company maintains a healthy liquidity position and strong capitalization. As of FY25, SMBF represented ~0.29% of the Licensed Finance Companies (LFC) sector’s total asset base and just ~0.22% share in sector profitability, consistent with the prior year.

The Company’s lending portfolio comprises both recent disbursements and legacy loans carried forward from its former sponsorship of Seylan Merchant Bank. The weak asset quality remains a concern as gross NPL ratio stands at ~31.8% as at 3MCY25, well above the industry average. The Company maintains high provisions against these NPLs. The growth in advances portfolio was around 26% despite a small base. The investment portfolio of the Company comprises placements with banks at relatively lower net yields. Net interest income grew to LKR~104mn in 3MCY25 from LKR~90mn in 3MCY24 (CY24: LKR~348mn). The Company’s core interest spread grew to ~9.4% in 3MCY25 from the 3MCY24 level of 8.8% (CY24: ~9.3%). The profit after tax improved slightly to LKR~24mn in 3MCY25, compared to LKR~15mn in 3MCY24 (CY24: LKR~151mn) mainly on the back of reversal of certain provisioning due to improved recovery actions on NPLs.

SMBF’s main source of funding remained bank borrowings as deposit base stood at only LKR~214mn showing limited franchise value of the Company. LKR~137mn has been funded through long-standing debt instruments such as promissory notes and debentures. SMBF’s liquidity position, as measured by liquid assets to funding, remains very strong as SMBF has majority of these funds deposited in banks. SMBF’s capital adequacy ratio stood at ~90.8% against the regulatory minimum of 12.5% as a result of having a strong capital base coupled with a low risk-weighted asset base for both credit and operational risks. SMBF has taken certain initiatives to strengthen its risk management framework to supplement its growth plans. The Company intends to mobilize deposits to the tune of LKR 1bn and also increase its gold loan portfolio.

The rating is dependent on SMBF’s ability to achieve profitable growth while improving its asset quality and implement a viable, long-term growth model. Meanwhile, improving spread and diversifying funding base is critical. Deterioration in capitalization and liquidity parameters would have negative rating impact. Establishing strong systems and controls to ensure sustainability is important.

Disclosure

Name of Rated Entity	SMB Finance PLC
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Non-Banking Financial Institution Rating(Jul-24)
Related Research	Sector Study Leasing & Finance Companies(Feb-25)
Rating Analysts	Richmond Reginald richmond@lra.com.lk +94 114 500099



Leasing & Finance Companies

Lanka Rating Agency

Profile

Structure SMB Finance PLC ("SMBF" or "the Company") is a public limited liability company which was established in 1992. It was listed in the Colombo Stock Exchange ("CSE") in 1993. SMBF was re-registered under the Companies Act No. 07 of 2007 and is authorized to carry out finance leasing under the Finance Leasing Act No. 56 of 2000. In December 2022, SMBF received the finance business license under the Finance Business Act 42 of 2011 to accept public deposits.

Background The Company operated as Seylan Merchant Bank PLC up until 2010. Following the Ceylinco Group crisis, Seylan Bank divested its majority shareholding and subsequently the Company was renamed as SMB Leasing PLC to focus on its core products leasing and loans out of non-deposit funds. In December 2022, it became a licensed finance company ("LFC") and was renamed as SMB Finance PLC. SMBF disposed of a subsidiary named SMB Money Brokers (Pvt) Ltd in 2024 and the Company also sold a 48.99% equity interest in an associate company (Kenanga Investment Corporation Ltd) in March 2025.

Operations The principal activities of SMBF include granting finance leases, mortgage loans, gold loans and accepting deposits.

Ownership

Ownership Structure The largest shareholder of SMBF is Mr. H R S Wijeratne. SMBF has both voting and non-voting shares. Around 68% of the shares of SMBF are voting shares, while ~32% are non-voting shares. SMBF had a rights issue in CY21 to strengthen their capital base.

Stability The majority shareholding by Mr. Wijeratne gives SMBF stability as compared to the past. The ownership structure is expected to remain stable in the medium to long term.

Business Acumen Mr. Wijeratne is a businessman who has large international investments in different industries such as real estate, cargo, energy, and entertainment. He holds directorships in many corporates including Rank Container Terminals Ltd and Rank Entertainment Holding (Pvt) Ltd.

Financial Strength Mr. Wijeratne first invested in SMBF in 2011. He obtained majority shareholding of 64% through the rights issue in 2021. He has not provided any financial guarantees to SMBF.

Governance

Board Structure The BOD consists of seven Directors, six of whom are Non-Executive Directors (NEDs). Out of the six NEDs, three are Independent NEDs. The Chairman, Mr. Ravi Wijeratne, is a Non-Independent NED, while the CEO is also part of the board. Since the Chairman is not an INED, SMBF has appointed Mr. A. T. S. Sosa as a Senior INED as per the Finance Business Act Direction No.05 of 2021.

Members' Profile The Chairman is an accountant by profession. He is also the Chairman and MD of Rank Holdings and Rank Group of Companies, with investments in property, logistics, hydropower and wind energy, solid waste management and entertainment.

Board Effectiveness The BOD has seven sub-committees, namely, i) Board Audit Committee ii) Integrated Risk Management Committee iii) Human Resources and Remuneration Committee, iv) Related Party Transaction Review Committee, v) Nomination and Governance Committee, vi) Legal Sub Committee, vii) IT Steering Committee. The BAC is headed by Mr. Sosa who has over 27 years of experience and is an Associate Member of CIMA – UK, Fellow Member of CMA Sri Lanka and a Member of the British Computer Society.

Financial Transparency KPMG, the external auditor, issued an unqualified audit opinion pertaining to the financial statements as at CY24.

Management

Organizational Structure The CEO of SMBF looks after eleven divisions. The compliance and risk management divisions report directly to the IRMC, while internal auditors report to the BAC.

Management Team The management team is headed by the CEO, Mr. Supul Wijesinghe, who has over 24 years of experience. He is well versed in audit, risk management, financial management and business transformations.

Effectiveness SMBF has formed four management committees, namely, i) Asset and Liability Committee ("ALCO"), ii) Credit Committee, iii) Information Security Committee ("ISC") and iv) Corporate Management Committee. These committees assist SMBF to run its operations effectively.

MIS SMBF has implemented a comprehensive suite of software solutions to enhance operational efficiency, data security, and business continuity and is in the process of migrating from the legacy hardware and core business software to a new cost-effective integrated system, a new cloud-based backup system and more disaster recovery options. SMBF is not exploring digital lending and other such initiatives currently.

Risk Management Framework The internal audit function is outsourced to Deloitte Associates. SMBF has implemented a board approved integrated risk management policy.

Business Risk

Industry Dynamics At present, there are 33 LFCs in Sri Lanka, out of which 27 are listed. The profitability of the sector grew by ~34.0% to LKR~69.0bn in FY25 from LKR~51.5bn in FY24. The net interest income in FY25 amounted to LKR~200.3bn (FY24: LKR~165.5bn). The total asset base of the LFC sector stood at LKR~2,090bn as at FY25 (FY24: LKR~1,761bn). There was a significant improvement in credit quality as the Gross NPL ratio as at FY25 dropped favourably to ~8.3% from ~14.7% in FY24. This was due to growth in advances and better recovery.

Relative Position SMBF represented ~0.29% of the LFC sector's asset base in FY25 and just ~0.22% share in sector profitability.

Revenues SMBF's net interest income grew ~15% to LKR~104mn in 3MCY25 from LKR~90mn in 3MCY24. A ~17% growth in gross interest income was witnessed with a ~21% growth in interest expenses. The Core spread rose to ~9.4% in 3MCY25 from ~8.8% in 3MCY24. The advances yield grew to ~15.4% in 3MCY25 from ~11.7% in 3MCY24 (CY24: ~10.8%).

Performance The profit after tax (PAT) of SMBF improved to LKR~24mn in 3MCY25 in comparison to LKR~15mn in 3MCY24 (CY24: LKR~151mn). Personnel expenses rose by ~37% to LKR~49mn in 3MCY25 from LKR~36mn in 3MCY24 (CY24: LKR~157mn). Reversal in provisioning grew significantly to LKR~24mn in 3MCY25 from LKR~0.2mn in 3MCY24 (CY24: LKR~114mn) in line with the reduction in NPL rates. However, the NPL rate of SMBF is still significantly above industry NPL rates.

Sustainability SMBF opened four new branches in 2024. Going forward, SMBF will be focusing on high-net-worth individuals and gold loans. Similarly, SMBF intends to focus on high-end vehicle leasing rather than commercial vehicles. It is important to have a sustainable strategy for long-term viability of SMBF in the highly competitive leasing industry. SMBF, with its relatively limited franchise value and presence faces challenges in this regard.

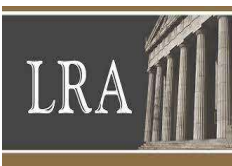
Financial Risk

Credit Risk The top 10 advances to total advances ratio remains very high, exposing SMBF to concentration risk. The NPL ratio of SMBF has been considerably high in comparison to the industry average. The gross NPL ratio as at 3MCY25 dropped to ~31.8% from ~36.1% as at 3MCY24 (CY24: ~33.1%) but still remains above industry NPL levels as mentioned above. This possesses significant risk for SMBF. Effective management of NPLs remains imperative. The management is focusing on this to improve asset quality. SMBF maintains high provisions against the NPLs in their portfolio.

Market Risk SMBF has invested primarily in a portfolio of fixed deposits amounting to LKR~2,775mn as at 3MCY25, up from LKR~2,570mn as at 3MCY24 (CY24: LKR~2,924mn).

Liquidity And Funding The deposit portfolio remains very limited at LKR~214mn in 3MCY25, although it expanded from the 3MCY24 figure of LKR~43mn (CY24: LKR~167mn). Borrowings from banks and financial institutions constitute ~80.1% of funding resulting in higher cost of funding. Diversifying the funding base is imperative.

Capitalization The Capital Adequacy Ratio (CAR) of SMBF amounted to ~90.8% in 3MCY25 (CY24: ~88.0%) as SMBF has strong capitalization in terms of a strong capital base and relatively low risk-weighted asset base.



Lanka Rating Agency

SMB Finance PLC
Listed Public Limited

A BALANCE SHEET

	Mar-25	Dec-24	Mar-24	Dec-23	Dec-22
	3M	12M	3M	12M	12M
1 Total Finance-net	1,734	1,650	1,347	1,424	1,893
2 Investments	881	828	796	796	533
3 Other Earning Assets	2,775	2,924	2,570	2,569	2,401
4 Non-Earning Assets	595	567	480	494	398
5 Non-Performing Finances-net	23	133	45	47	(38)
Total Assets	6,009	6,103	5,239	5,330	5,187
6 Funding	2,207	2,293	1,452	1,700	1,710
7 Other Liabilities	141	172	285	142	121
Total Liabilities	2,348	2,465	1,737	1,843	1,831
Equity	3,662	3,638	3,502	3,487	3,356

B INCOME STATEMENT

1 Mark Up Earned	151	513	129	776	484
2 Mark Up Expensed	(47)	(165)	(39)	(309)	(135)
3 Non Mark Up Income	6	101	3	50	71
Total Income	110	449	93	517	420
4 Non-Mark Up Expenses	(93)	(302)	(71)	(212)	(146)
5 Provisions/Write offs/Reversals	24	114	0	(89)	(179)
Pre-Tax Profit	41	261	22	216	95
6 Taxes on Financial Services	(14)	(62)	(1)	(54)	(19)
Profit Before Income Taxes	27	200	21	162	76
7 Income Taxes	(4)	(49)	(5)	(42)	3
Profit After Tax	24	151	15	120	80

C RATIO ANALYSIS

1 PERFORMANCE

a Non-Mark Up Expenses / Total Income	84.1%	67.1%	76.6%	41.1%	34.7%
b ROE	2.6%	4.2%	1.8%	3.5%	2.4%

2 CREDIT RISK

a Gross Finances (Total Finance-net + Non-Performing Advances + Non-Performing Debt Instruments) / Funding	110.2%	107.5%	144.8%	130.7%	145.8%
b Accumulated Provisions / Non-Performing Advances	96.6%	83.7%	94.0%	94.0%	106.3%

3 FUNDING & LIQUIDITY

a Liquid Assets / Funding	135.4%	134.7%	187.9%	162.5%	149.8%
b Borrowings from Banks and Other Financial Institutions / Funding	80.1%	84.0%	95.0%	88.5%	91.7%

4 MARKET RISK

a Investments / Equity	24.1%	22.8%	22.7%	22.8%	15.9%
b (Equity Investments + Related Party) / Equity	4.2%	3.3%	4.5%	4.2%	4.4%

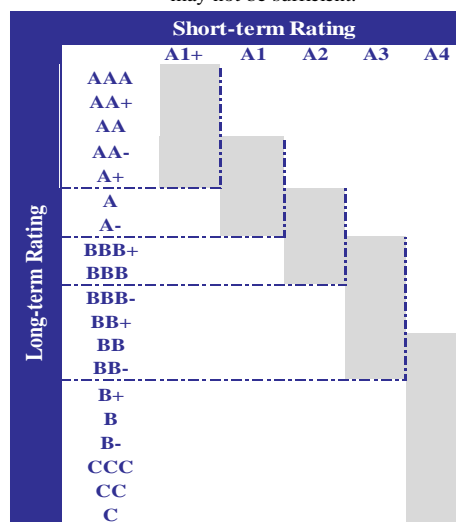
5 CAPITALIZATION

a Equity / Total Assets (D+E+F)	60.9%	59.6%	66.8%	65.4%	64.7%
b Capital formation rate (Profit After Tax - Cash Dividend) / Equity	2.6%	4.3%	1.8%	3.6%	2.4%

Credit Rating

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating		Short-term Rating	
Scale	Definition	Scale	Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
AA+		A1	A strong capacity for timely repayment.
AA	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
AA-		A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A+		A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.
A	High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.		
A-			
BBB+			
BBB	Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.		
BBB-			
BB+	Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.		
BB			
BB-			
B+			
B	High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.		
B-			
CCC	Very high credit risk. Substantial credit risk “CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.		
CC			
C			
D	Obligations are currently in default.		



*The correlation shown is indicative and, in certain cases, may not hold.

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. ‘Stable’ outlook means a rating is not likely to change. ‘Positive’ means it may be raised. ‘Negative’ means it may be lowered. Where the trends have conflicting elements, the outlook may be described as ‘Developing’.	Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.	Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.	Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults, or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.	Harmonization A change in rating due to revision in applicable methodology or underlying scale.
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Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

a) Broker Entity Rating	e) Holding Company Rating
b) Corporate Rating	f) Independent Power Producer Rating
c) Debt Instrument Rating	g) Microfinance Institution Rating
d) Financial Institution Rating	h) Non-Banking Finance Companies Rating

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Regulatory and Supplementary Disclosure

(Rules applicable to Credit Rating Agencies, No. 19 of 2021 - issued on 15th March 2022)

Rating Team Statements

(1) Credit Rating Agency means a body corporate engaged in the business of assessing and evaluating the credit-worthiness of any issuer or a specific issue of securities. <https://www.sec.gov.lk/credit-rating-agency/>

Conflict of Interest

(2) i. LRA will disclose to the Commission all other business activities it is engaged in at the time of applying for its licence and inform the Commission in writing prior to engaging in any other business activity after obtaining a licence from the Commission. (Section 34 – Rules applicable to Credit Rating Agencies)

(2) ii. LRA will not engage in any other business which in the view of the Commission creates a conflict of interest unless prior written approval of the Commission is obtained. (Section 35 – Rules applicable to Credit Rating Agencies)

(2) iii. In the conduct of any such other business activity, the LRA will ensure that proper processes are in place to have a clear demarcation of the different functions pertaining to such businesses. (Section 36 – Rules applicable to Credit Rating Agencies)

Restrictions

(3) (i) LRA will not be outsource any part of its work, which has a direct bearing on the function of rating. (Section 24 – Rules applicable to Credit Rating Agencies)

(3) (ii) LRA will enter into a written agreement with the party to whom any work is outsourced. Such agreement contains an undertaking from the party to whom any work is outsourced that they shall comply with the laws, rules, and directives that the LRA is bound to follow. (Section 25 – Rules applicable to Credit Rating Agencies)

(4) The LRA will not appoint any individual as a member of the rating committee who:

(a) has a business development function of the Credit Rating Agency; or

(b) who initiates or participates in discussions regarding fees or payments with any Client of the LRA. (Section 28 – Rules applicable to Credit Rating Agencies)

Conduct of Business

(5) Prior to the commencement of a rating or during such process the LRA will not promise, assure or guarantee to a Client that a particular rating will be assigned. (Section 39 – Rules applicable to Credit Rating Agencies)

(6) LRA performs a rigorous and formal periodic review of all its methodologies. Such methodologies will be made available to the Commission for perusal, upon request. (Section 41 – Rules applicable to Credit Rating Agencies)

Independence & Conflict of interest

(7) LRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on LRA's opinions or other analytical processes. In all instances, LRA is committed to preserving the objectivity, integrity, and independence of its ratings.

(8) LRA will not engage in any other business which in the view of the Commission creates a conflict of interest unless prior written approval of the Commission is obtained. (Section 35 – Rules applicable to Credit Rating Agencies)

(9) LRA will structure its rating teams and processes to promote continuity, consistency and avoid bias in the rating process. (Section 47 – Rules applicable to Credit Rating Agencies)

Monitoring and review

(10) For purposes of transparency the LRA will publish sufficient information about an entity/security rated, frequency of default and whether a rating grade assigned has changed over time. The definitions and computation methods for the default rates stated in the default studies shall also be disclosed. (Section 44 – Rules applicable to Credit Rating Agencies)

LRA maintain the following records pertaining to Clients:

(a) all internal records to support its credit rating opinions;

(b) all particulars relating to Clients at its office which shall include the name and registered address and contact numbers of such Client, names and addresses of their directors as at the date of rating, its issued share capital and the nature of business; and

(c) a written record of all complaints received from Clients and action taken thereon by the LRA. (Section 48 – Rules applicable to Credit Rating Agencies)

(11) LRA maintains confidentiality of all non-public information entrusted to it by Clients at all times including such Client's identity and transactions carried out for such Client unless and to the extent such disclosure is required by law, or unless authorised by the Client to disclose such information. (Section 50 – Rules applicable to Credit Rating Agencies)

(12) LRA does not destroy, conceal or alter any records, property or books relating to the business of the Credit Rating Agency which are in its possession or under its control with the intention of defeating, preventing, delaying or obstructing the carrying out of any examination (Section 53 – Rules applicable to Credit Rating Agencies)

Probability of Default

(13) LRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e., probability).

Proprietary Information

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