

People's Leasing & Finance PLC

(A Subsidiary of People's Bank)

Rated AA-(lka) by Fitch Ratings Lanka and Internationally rated B+/B by Standard & Poor's and B by Fitch Ratings International.

AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF PEOPLE'S LEASING & FINANCE PLC

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

OPINION

We have audited the Financial Statements of People's Leasing & Finance PLC ("The Company") and Consolidated Financial Statements of the Company and its subsidiaries ("Group"), which comprise the Statement of Financial Position as at 31 March 2019, and the Statement of Profit or Loss and Statement of Comprehensive Income, Statements of Changes in Equity and, Statement of Cash Flows for the year then ended and Notes to the Financial Statements, including a summary of significant accounting policies.

In our opinion, the accompanying Financial Statements of the Company and the Group give a true and fair view of the Financial Position of the Company and the Group as at 31 March 2019, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

BASIS FOR OPINION

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAUSs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Financial Statements section of our report. We are independent of the Group in accordance with the Code of Ethics 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. For each matter below, our description of how our audit addressed the matters provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the Financial Statements, The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying Financial Statements.

Key audit matter	How our audit addressed the key audit matter
<p>Allowance for impairment of loans & receivables including Company's transaction to SLFRS 9 :</p>	
<p>Our audit considered impairment for loans and receivables as a key audit matter. The materiality of the reported amounts for loans and receivables (and impairment thereof), the subjectivity associated with management's impairment estimation, complex manual calculations of impairment and transition to Sri Lanka Financial Reporting Standard-9; Financial Instruments (SLFR 9) underpinned our basis for considering it as a Key Audit Matter.</p> <p>As at 31 March 2019, loans receivables from (net of impairment) amounted to Rs.151,707,902 Million (Note 25 allowance for impairment of LKR 4,944,339 Million (Note 25.9). This collectively contributed 87.9% to the Company's total assets. The impact on transition to SLFRS 9 on the Company's Financial Statements has been quantified in the Note 4.1 to the Financial Statements.</p> <p>The allowance for impairment (both specific and collective) of these financial assets is estimated by management. Assumptions used by management in this/calculation are inherently judgemental. Note 59.2.7 the Financial Statements more fully describes the sensitivity of key assumptions.</p>	<p>To assess the reasonableness of the allowance for impairment, we carried out audit procedures (among others) to obtain sufficient and appropriate audit evidences, that included the following:</p> <ul style="list-style-type: none"> - We evaluated the design, effectiveness of key internal controls over estimation of impairment for loans and receivables, which included assessing the level of oversight, identifying occurrence of loss events, review and approval of impairment policies by the Board Audit Committee and management. - We test-checked the underlying calculations and data used in such calculations on a sample basis; - In addition to the above, focused procedures were performed as follows: <ul style="list-style-type: none"> • <i>For those individually assessed for impairment:</i> <p>We tested for a sample of loans and receivables where impairment indicators existed, reasonableness of management's forecasts of cash flows to historical patterns of customer repayment. Among other procedures, forecast cash flows arising from collateral (or other source(s) of expected recovery) were verified to source documents and validated the expected the recovery amount.</p> • <i>For those collectively assessed for impairment:</i> <ul style="list-style-type: none"> ✓ we tested the completeness of the underlying information used in the impairment calculations by agreeing details to the source documents and information in IT system and re-performing the calculations.

	<ul style="list-style-type: none"> ✓ we also considered reasonableness of macroeconomic and other factors used by management in their judgmental overlays, by comparing them with relevant publicly available data and information sources. - By using a set of audit procedures similar to those enumerated above, we validated the quantitative impact of the transition. <p>We assessed the adequacy of the related Financial Statement disclosures as set out in Note 25.</p>
--	---

OTHER INFORMATION INCLUDED IN THE 2018/19 ANNUAL REPORT

Other information consists of the information included in the Annual Report, other than the Financial Statements and our auditor's report thereon. Managements responsible for the other information.

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

In connection with our audit of the Financial Statements, our responsibility is to read the other information 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. if, based on the work we have performed we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 Standard and for such internal control as management determines is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

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 internal controls of the Company and the Group.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion, our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics 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, related safeguards.

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 2965.

13 June 2019

Colombo

Partners: W R H Fernando FCA FCMA, M P D Cooray FCA FCMA, R N de Saram ACA FCMA, Ms.N A De Silva FCA, Ms.Y A De Silva FCA, W K B S P Fernando FCA FCMA, K R M Fernando FCA ACMA Ms.L K H L Fonseka FCA, A P A Gunasekara FCA FCMA, A Herath FCA, D K Hulangamuwa FCA FCMA LLB (Lond), H M A Jayesinghe FCA FCMA, Ms. A A Ludowyke FCA FCMA, Ms. G G S Manathunga FCA, Ms. P V K N Sajeewani FCA, N M Sulaiman ACA ACMA, B E Wijesuriya FCA FCMA

Principal : T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited

STATEMENT OF PROFIT OR LOSS

For the year ended 31st March	Company			Group		
	2019 Rs. '000	2018 Rs. '000	Change %	2019 Rs. '000	2018 Rs. '000	Change %
Gross income	32,735,639	28,603,037	14.45	38,356,205	33,144,417	15.72
Interest income	30,836,300	26,704,635	15.47	32,234,340	27,582,045	16.87
Less: Interest expense	15,646,099	14,500,158	7.90	15,891,298	14,626,672	8.65
Net interest income	15,190,201	12,204,477	24.46	16,343,042	12,955,373	26.15
Net earned premium	-	-	-	4,728,573	4,053,270	16.66
Fee and commission income	1,508,952	1,378,361	9.47	1,004,297	819,727	22.52
Net gains/(losses) on financial assets - FVTPL/held-for-trading	(27,887)	18,987	(246.87)	(44,351)	59,910	(174.03)
Net gains/(losses) from derecognition of financial assets	-	-	-	-	-	-
Other operating income	418,274	501,054	(16.52)	433,346	629,465	(31.16)
Total operating income	17,089,540	14,102,879	21.18	22,464,907	18,517,745	21.32
Less: Impairment charges for loans and receivables and other losses	1,586,506	1,429,971	10.95	1,708,203	1,470,062	16.20
Impairment charges for investment in associate	348,794	-	100.00	152,572	-	100.00
Impairment charges for goodwill	19,580	-	100.00	19,580	-	100.00
Net operating income	15,134,660	12,672,908	19.43	20,584,552	17,047,683	20.75

Less: Expenses

Personnel expenses	3,438,167	2,974,253	15.60	4,166,618	3,391,640	22.85
Depreciation & Amortisation	179,607	192,506	(6.70)	302,360	294,235	2.76
Benefits, claims and underwriting expenditure	-	-	-	3,328,705	2,776,132	19.90
Other operating expenses	2,844,419	2,436,355	16.75	3,048,420	2,543,486	19.85
Total operating expenses	6,462,193	5,603,114	15.33	10,846,103	9,005,493	20.44
Operating profit before taxes on financial services	8,672,467	7,069,794	22.67	9,738,449	8,042,190	21.09
Less :Tax on financial services	2,087,210	1,300,122	60.54	2,117,910	1,326,916	59.61
Operating profit after Taxes on financial services	6,585,257	5,769,672	14.14	7,620,539	6,715,274	13.48
Share of profit/(loss) of an associate (net of tax)	-	-	-	(33,234)	(52,942)	37.23
Profit before income tax expense	6,585,257	5,769,672	14.14	7,587,305	6,662,332	13.88
Less : Income tax expense	2,169,136	1,460,342	48.54	2,576,037	1,644,619	56.63
Profit for the year	4,416,121	4,309,330	2.48	5,011,268	5,017,713	(0.13)
Profit attributable to						
Equity holders of the company	4,416,121	4,309,330	2.48	4,813,578	4,816,920	(0.07)
Non controlling interest	-	-	-	197,690	200,793	(1.55)
Profit for the year	4,416,121	4,309,330	2.48	5,011,268	5,017,713	(0.13)

Basic / Diluted earnings per ordinary share (Rs.)	2.80	2.73	2.56	3.05	3.05
Dividend per Ordinary share (Rs.)	1.25	1.25	-		

SELECTED PERFORMANCE INDICATORS

As at 31 st March	Company	
	As at 2019	As at 2018
Asset Quality (Rs. '000)		
Gross Non-Performing Advances	7,213,587	4,562,557
Gross Non-Performing Advances Ratio (%)	4.59	3.16
Net Non-Performing Advances Ratio (%)	2.70	1.85
Liquidity (Rs. '000)		
Required Minimum Amount of Liquid Assets	12,113,993	9,859,415
Available Amount of Liquid Assets	13,192,496	11,736,167
Required Minimum Amount of Government Securities	8,012,871	4,939,014
Available Amount of Government Securities	8,290,205	4,962,280
Capital Adequacy		
Core Capital (Tier1 Capital) - Rs.000	26,517,777	26,515,109
Total Capital Base - Rs.000	28,065,603	23,733,489
Tier 1 Capital Ratio (Minimum 6%) (%)	14.36	18.38
Total Capital Ratio (Minimum 10%) (%)	15.20	16.46
Capital Funds to Total Deposit Liabilities Ratio (Minimum 10%)	32.37	38.45

Profitability (<i>Annualized</i>)		
Interest Margin	9.70%	8.36%
Return on Average Assets (before Tax)	3.95%	3.70%
Return on Average Equity	15.88%	16.66%
Memorandum information		
Number of employees	2,329	2,085
Number of branches	103	103
Number of service centers	101	101
Number of pawning centers	-	-

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st March	Company			Group		
	2019 Rs. '000	2018 Rs. '000	Change %	2019 Rs. '000	2018 Rs. '000	Change %
Profit for the year	4,416,121	4,309,330	2.48	5,011,268	5,017,713	(0.13)
Other comprehensive income, net of tax						
<i>Items to be reclassified to profit or loss in subsequent years (net of tax):</i>						
Cash flow hedges						
Gains/(losses) on derivative financial investments	-	(879)	(100.00)	-	(879)	(100.00)
Net gains/(losses) arising from translating the Financial Statements of the foreign subsidiary	-	-	-	259,151	2,828	9,063.76
Financial assets - Available-for-sale						
Gains/(losses) on re-measuring	-	15,860	(100.00)	-	25,507	(100.00)
Net items to be reclassified to profit or loss in subsequent years	-	14,981	(100.00)	259,151	27,456	843.88
<i>Items not to be reclassified to profit or loss in subsequent years (net of tax):</i>						
Net actuarial gains/(losses) on defined benefit plans						
Actuarial gains and losses on retirement benefit obligation	(17,909)	(23,554)	(23.97)	(20,872)	(24,936)	(16.30)
Deferred tax effect on actuarial gains and losses	5,670	6,599	(14.08)	14,028	6,623	111.81

Financial assets - Fair value other comprehensive income
Gains/(losses) on re-measuring

(99,611) - (100.00) (100,290) - (100.00)

**Net items not to be reclassified to profit or loss in
subsequent years**

(111,850) (16,955) (559.69) (107,134) (18,313) (485.02)

Other comprehensive income for the year, net of tax

(111,850) (1,974) 5,566.16 **152,017** 9,143 1,562.66

Total comprehensive income for the year

4,304,271 4,307,356 (0.07) **5,163,285** 5,026,856 2.71

Attributable to:

Equity holders of the Company

4,304,271 4,307,356 (0.07) **5,164,025** 5,024,881 2.77

Non controlling interests

- - - (740) 1,975 (137.47)

Total comprehensive income for the year

4,304,271 4,307,356 (0.07) **5,163,285** 5,026,856 2.71

STATEMENT OF FINANCIAL POSITION

As at 31st March	Company			Group		
	2019 Rs. '000	2018 Rs. '000	Change %	2019 Rs. '000	2018 Rs. '000	Change %
Assets						
Cash and cash equivalents	3,294,055	4,412,683	(25.35)	4,310,595	4,765,518	(9.55)
Balances with banks & financial institutions	3,404,533	4,370,473	(22.10)	7,375,423	8,758,715	(15.79)
Financial assets -Fair value through profit or loss/ Held-for-trading	23,190	174,736	(86.73)	72,386	315,485	(77.06)
Loans and receivables	151,707,902	140,165,437	8.23	156,955,837	141,915,077	10.60
Insurance and reinsurance receivables	-	-	-	885,395	406,687	117.71
Financial assets - Fair Value other comprehensive income/ Available-for-sale	125,651	219,132	(42.66)	125,651	219,132	(42.66)
Debt Instrument at amortised cost/Held to maturity	8,002,625	4,889,641	63.66	9,091,945	6,013,963	51.18
Current tax receivables	-	89,849	(100.00)	-	89,849	(100.00)
Investments in subsidiaries	3,213,788	3,213,788	-	-	-	-
Investments in associate	237,633	586,427	(59.48)	237,633	423,439	(43.88)
Investment property	-	134,400	(100.00)	1,131,596	1,265,996	(10.62)
Property, plant and equipment	1,098,286	1,166,883	(5.88)	4,017,301	4,112,715	(2.32)
Goodwill and intangible assets	324,905	346,395	(6.20)	432,340	452,883	(4.54)
Leasehold property	84,065	87,131	(3.52)	84,065	87,131	(3.52)
Deferred tax assets	-	-	-	47,584	28,155	69.01
Other assets	1,024,644	833,619	22.92	1,164,884	1,301,155	(10.47)

Total assets	172,541,277	160,690,594	7.37	185,932,635	170,155,900	9.27
Liabilities						
Due to banks	27,273,933	39,921,789	(31.68)	30,475,326	41,834,394	(27.15)
Due to customers	88,368,656	69,763,219	26.67	88,923,196	69,377,794	28.17
Debt securities issued	21,275,031	15,783,502	34.79	21,134,040	15,783,502	33.90
Other financial liabilities	2,480,377	4,645,818	(46.61)	2,464,936	4,473,552	(44.90)
Insurance liabilities and reinsurance payable	-	-	-	4,880,873	4,054,586	20.38
Current tax liabilities	2,238,257	-	100.00	2,323,647	62,673	3,607.57
Deferred tax liabilities	837,179	2,275,868	(63.21)	1,141,973	2,338,807	(51.17)
Other liabilities	1,464,489	1,270,576	15.26	1,606,686	1,376,451	16.73
Total liabilities	143,937,922	133,660,772	7.69	152,950,677	139,301,759	9.80
Equity						
Stated Capital	13,236,073	13,236,073	-	13,236,073	13,236,073	-
Statutory reserve fund	2,058,219	1,837,413	12.02	2,070,667	1,837,413	12.69
Retained earnings	13,361,805	11,502,165	16.17	15,198,424	13,167,172	15.43
Other reserves	(52,742)	454,171	(111.61)	207,274	448,413	(53.78)
Total equity attributable to equity holders of the Company	28,603,355	27,029,822	5.82	30,712,438	28,689,071	7.05
Non -controlling interest	-	-	-	2,269,520	2,165,070	4.82
Total equity	28,603,355	27,029,822	5.82	32,981,958	30,854,141	6.90

Total liabilities and equity	172,541,277	160,690,594	7.37	185,932,635	170,155,900	9.27
Contingent liabilities and commitments	7,775,864	7,470,875	4.08	7,788,708	7,623,364	2.17
Net asset value per ordinary share (Rs.)	18.10	17.11	5.82	20.88	19.53	6.90

We certify that these Financial Statements have been prepared in compliance with the requirements of the Companies Act No. 07 of 2007.

(sgd.)

Sanjeewa Bandaranayake

Chief Financial Officer

(sgd.)

A.S. Ibrahim

Chief Executive Officer

The Board of Directors is responsible for these Financial Statements.

Approved and signed for and on behalf of the Board by;

(sgd.)

Hemasiri Fernando

Chairman

(sgd.)

M.P. Amirthanayagam

Deputy Chairman

13 June, 2019

Colombo