

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 2018

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF PEOPLE'S LEASING & FINANCE PLC

REPORT ON THE AUDIT OF THE 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 ("the Group"), which comprise the Statement of Financial Position as at 31 March 2018, 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 2018, 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	
Allowance for impairment of loans and receivables	How our audit addressed the key audit matter
<p>As at 31 March 2018, loans and receivables net of impairment amounted to 142,712,576 (Rs.'000).This contributed 83% to the Group's total assets.</p> <p>The allowance for impairment (both individual and collective) of these financial assets is estimated by management. The estimation involves a complex calculation. Assumptions used by management in this calculation are inherently judgmental. Note 23.3 to the Financial Statements more fully describes the assumptions to which this estimate is most sensitive.</p> <p>We considered the estimation of allowance for impairment as a key audit matter due to sensitivity of reported results (on financial performance) to this allowance and the inherent uncertainty involved in its estimation.</p>	<p>To assess the reasonableness of the allowance for impairment our audit procedure (among others) included the following:</p> <ul style="list-style-type: none"> - We understood & evaluated the key internal controls over estimation of the allowance for impairment including those over identifying occurrence of loss events; - We test-checked the underlying calculations and data used in such calculations; - in addition to the above, focused procedures were performed as follows: <ul style="list-style-type: none"> • Allowance for individual impairment: <p>For a sample of loans & receivables, management's forecasts of cash flows were test- checked to historical patterns of customer repayment. Among other procedures, forecast cash flows arising from collateral and other sources of expected recovery were verified to source documents;</p> • Allowance for collective impairment: <p>For loss rates used by management, we assessed the appropriateness of the loss emergence period Including consistency with historical loss experience; assumptions on effects arising from macroeconomic factors were compared to published data;</p> - We assessed the adequacy of the related Financial Statement disclosures as set out in Notes 23.3 and 23.4.

OTHER INFORMATION INCLUDED IN THE 2017/18 ANNUAL REPORT

Other information consists of the information included in the Annual Report, other than the Financial Statements and our auditor's report thereon. Management is 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 the 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 others 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.

17 May 2018

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 FCMA 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		
	2018 Rs. '000	2017 Rs. '000	Change %	2018 Rs. '000	2017 Rs. '000	Change %
Gross income	28,569,534	23,859,038	19.74	33,110,914	27,732,754	19.39
Interest income	26,704,635	22,041,263	21.16	27,582,045	22,784,273	21.06
Less: Interest expenses	14,500,158	11,829,601	22.58	14,626,672	11,819,756	23.75
Net interest income	12,204,477	10,211,662	19.52	12,955,373	10,964,517	18.16
Net earned premium	-	-	-	4,053,270	3,694,027	9.72
Fee and commission income	1,182,573	1,133,735	4.31	685,836	621,711	10.31
Net gains/(losses) on financial assets - held-for-trading	18,987	8,257	129.95	59,910	43,869	36.57
Other operating income	663,339	675,783	(1.84)	729,853	588,874	23.94
Total operating income	14,069,376	12,029,437	16.96	18,484,242	15,912,998	16.16
Less: Impairment charges for loans and receivables and other losses	1,592,256	215,765	637.96	1,632,347	282,819	477.17
Net operating income	12,477,120	11,813,672	5.62	16,851,895	15,630,179	7.82
Less:						
Personnel expenses	2,574,976	2,556,242	0.73	2,992,363	2,971,179	0.71
Depreciation and amortisation	192,506	186,993	2.95	294,235	276,408	6.45
Benefits, claims and underwriting expenditure	-	-	-	2,776,132	2,583,812	7.44

Other operating expenses	2,639,844	2,670,768	(1.16)	2,746,975	2,696,254	1.88
Total operating expenses	5,407,326	5,414,003	(0.12)	8,809,705	8,527,653	3.31
Operating profit before Value Added Tax (VAT) and Nation Building Tax (NBT) on financial services	7,069,794	6,399,669	10.47	8,042,190	7,102,526	13.23
Less :VAT & NBT on financial services	1,300,122	923,775	40.74	1,326,916	944,418	40.50
Operating profit after VAT & NBT on financial services	5,769,672	5,475,894	5.36	6,715,274	6,158,108	9.05
Share of profit/(loss) of an associate (net of tax)	-	-	-	(52,942)	(73,875)	28.34
Profit before income tax expense	5,769,672	5,475,894	5.36	6,662,332	6,084,233	9.50
Less : Income tax expense	1,460,342	1,466,640	(0.43)	1,644,619	1,642,617	0.12
Profit for the year	4,309,330	4,009,254	7.48	5,017,713	4,441,616	12.97
Profit attributable to						
Equity holders of the company	4,309,330	4,009,254	7.48	4,816,920	4,255,132	13.20
Non controlling interest	-	-	-	200,793	186,484	7.67
Profit for the year	4,309,330	4,009,254	7.48	5,017,713	4,441,616	12.97
Basic earnings per ordinary share (Rs.)				3.05	2.69	13.38
Dividend per ordinary share (Rs.)	1.25	1.25	-			

SELECTED PERFORMANCE INDICATORS

	Company	
	As at 2018	As at 2017
Regulatory Capital Adequacy		
Core Capital (Tier1 Capital) - Rs. '000	26,515,109	24,231,162
Total Capital Base - Rs. '000	23,733,489	22,581,118
Core Capital to Risk Weighted Assets Ratio (Minimum 5%) (%)	18.38	17.56
Total Capital to Risk Weighted Assets Ratio (Minimum 10%) (%)	16.46	16.37
Capital Funds to Total Deposit Liabilities Ratio (Minimum 10%) (%)	38.45	54.87
Asset Quality (Quality of Loan Portfolio)		
Gross Non-Performing Advances - Rs. '000	4,562,557	1,883,616
Gross Non-Performing Advances Ratio (%)	3.16	1.39
Net- Non-Performing Advances Ratio (%)	1.85	0.91
Profitability (Annualized)		
Interest Margin (%)	8.36	7.89

Return on Average Assets (before Tax) (%)	3.70	3.99
Return on Average Equity (after tax) (%)	16.66	16.89
Regulatory Liquidity - Rs. '000		
Required Minimum Amount of Liquid Assets	9,859,415	7,780,950
Available Amount of Liquid Assets	11,736,167	8,418,503
Required Minimum Amount of Government Securities	4,939,014	3,856,800
Available Amount of Government Securities	4,962,280	5,392,651
Memorandum information		
Number of employees	2,085	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	2018 Rs. '000	Company 2017 Rs. '000	Change %	2018 Rs. '000	Group 2017 Rs. '000	Change %
Profit for the year	4,309,330	4,009,254	7.48	5,017,713	4,441,616	12.97
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)	879	(200.00)	(879)	879	(200.00)
Net gains/(losses) arising from translating the Financial Statements of the foreign subsidiary	-	-	-	2,828	-	100.00
Financial assets - Available-for-sale						
Net fair value gains/(losses) on remeasuring	15,860	(93,771)	116.91	25,507	(89,497)	128.50
Net items to be reclassified to profit or loss in subsequent years	14,981	(92,892)	116.13	27,456	(88,618)	130.98
<i>Items not to be reclassified to profit or loss in subsequent years (net of tax):</i>						
Actuarial gains and losses on retirement benefit obligation	(23,554)	(22,380)	(5.25)	(24,936)	(25,157)	0.88
Deferred tax effect on actuarial losses	6,599	6,270	5.25	6,623	6,493	2.00

Net items not to be reclassified to profit or loss in subsequent years	(16,955)	(16,110)	(5.25)	(18,313)	(18,664)	1.88
Other comprehensive income for the year, net of tax	(1,974)	(109,002)	98.19	9,143	(107,282)	108.52
Total comprehensive income for the year	4,307,356	3,900,252	10.44	5,026,856	4,334,334	15.98
Attributable to:						
Equity holders of the Company	4,307,356	3,900,252	10.44	5,024,881	4,333,892	15.94
Non controlling interests	-	-	-	1,975	442	346.83
Total comprehensive income for the year	4,307,356	3,900,252	10.44	5,026,856	4,334,334	15.98

STATEMENT OF FINANCIAL POSITION

As at 31st March	Company			Group		
	2018 Rs. '000	2017 Rs. '000	Change %	2018 Rs. '000	2017 Rs. '000	Change %
Assets						
Cash and cash equivalents	4,414,083	5,591,170	(21.05)	4,766,920	6,379,909	(25.28)
Balances with banks & financial institutions	4,370,473	2,089,989	109.11	8,758,715	3,789,047	131.16
Financial assets - Held-for-trading	174,736	201,215	(13.16)	315,485	529,301	(40.40)
Loans and receivables	140,962,936	134,054,702	5.15	142,712,576	135,469,783	5.35
Insurance and reinsurance receivables	-	-	-	406,687	267,523	52.02
Financial assets - Available-for-sale	219,132	275,703	(20.52)	1,343,454	1,094,569	22.74
Financial assets - Held-to-maturity	4,889,641	2,968,042	64.74	4,889,641	2,968,042	64.74
Current tax receivables	89,849	-	100.00	89,849	-	100.00
Investments in subsidiaries	3,213,788	2,075,000	54.88	-	-	-
Investments in associate	586,427	586,427	-	423,439	476,382	(11.11)
Investment property	134,400	100,800	33.33	1,265,996	-	100.00
Property, plant and equipment	1,166,883	1,254,744	(7.00)	4,112,715	5,015,558	(18.00)
Goodwill and intangible assets	346,395	320,183	8.19	452,883	320,411	41.34
Leasehold property	87,131	90,197	(3.40)	87,131	90,197	(3.40)
Deferred tax assets	-	-	-	28,155	26,234	7.32

Other assets	832,219	848,591	(1.93)	1,299,753	936,441	38.80
Total assets	161,488,093	150,456,763	7.33	170,953,399	157,363,397	8.64
Liabilities						
Due to banks	29,423,568	35,584,408	(17.31)	31,336,173	37,085,398	(15.50)
Due to customers	69,763,219	44,722,552	55.99	69,377,794	44,465,568	56.03
Debt securities issued	26,281,723	38,673,277	(32.04)	26,281,723	38,569,262	(31.86)
Other financial liabilities	4,645,818	2,725,166	70.48	4,473,552	2,563,187	74.53
Derivative financial instruments	-	8,363	(100.00)	-	8,363	(100.00)
Insurance liabilities and reinsurance payable	-	-	-	4,054,586	3,537,110	14.63
Current tax liabilities	-	289,978	(100.00)	62,673	337,291	(81.42)
Deferred tax liabilities	2,275,868	1,923,171	18.34	2,338,807	1,975,528	18.39
Other liabilities	2,068,075	1,832,555	12.85	2,173,950	1,896,911	14.60
Total liabilities	134,458,271	125,759,470	6.92	140,099,258	130,438,618	7.41
Equity						
Capital	13,236,073	13,236,073	-	13,236,073	13,236,073	-
Statutory reserve fund	1,837,413	1,621,946	13.28	1,837,413	1,621,946	13.28
Retained earnings	11,502,165	9,400,084	22.36	13,167,172	10,560,834	24.68
Other reserves	454,171	439,190	3.41	448,413	420,957	6.52

Total equity attributable to equity holders of the company	27,029,822	24,697,293	9.44	28,689,071	25,839,810	11.03
Non -controlling interest	-	-	-	2,165,070	1,084,969	99.55
Total equity	27,029,822	24,697,293	9.44	30,854,141	26,924,779	14.59
Total liabilities and equity	161,488,093	150,456,763	7.33	170,953,399	157,363,397	8.64
Contingent liabilities and commitments	7,470,875	6,439,978	16.01	7,623,364	6,715,524	13.52
Net asset value per ordinary share (Rs.)	17.11	15.63	9.46	18.16	16.36	11.03

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 the these Financial Statements.

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

(sgd.)
Hemasiri Fernando
 Chairman

(sgd.)
M.P. Amirthanayagam
 Deputy Chairman

17 May, 2018
 Colombo