

# Annual report of the Board of Directors on the affairs of the Company

Annual report of the Board of Directors on the affairs of the Company is presented as required by Section 168 of the Companies Act No. 07 of 2007, and also provides information required by Finance Business Act No. 42 of 2011 and Directions issued thereunder, the Code of Best Practice on Corporate Governance issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the Listing Rules of the Colombo Stock Exchange.

## 1 — General

The Board of Directors of People's Leasing & Finance PLC has pleasure in presenting the Integrated Annual Report to the shareholders, together with the Audited Financial Statements and the Audited Consolidated Financial Statements for the year ended 31 March 2019 of the Company and the Group and the Auditor's Report on these Financial Statements conforming to all statutory requirements. This Report was approved by the Board of Directors on 13 June 2019.

## 2 — Nature of the business

[Section 168 (1) (a)]  
Companies Act No. 07 of 2007

The nature of the business of the Company and its subsidiaries together with any change thereof during the accounting period.

## 2.1 Vision, mission and corporate conduct

The Company's Vision and Mission are provided on page 12 of this Annual Report. In achieving the Vision and Mission, all Directors and employees conduct their activities to the highest level of ethical standards and integrity, as set out in the Company's Code of Business Conduct and Ethics.

## 2.2 Principal business activities

The Company's principal business activities comprise providing finance leases, term loans, Islamic finance, margin trading, factoring, gold loans, issuing debt instruments, and mobilising public deposits. The Company had six subsidiaries as at 31 March 2019 and the nature of business activities of these subsidiaries are described in Subsidiary Information on our online HTML report. The Company or its subsidiaries has not engaged in any activity, which contravenes any law or regulation during the year under review.

## 2.3 Changes to the Group structure

Pursuant to the private placement by Sterling Capital Investment (Private) Limited on 29 March 2019, the ownership of People's Merchant Finance PLC was diluted in April 2019 and is no longer considered as an associate of People's Leasing & Finance PLC.

## 2.4 Branch network

The total branch network of the Company as at 31 March 2019 comprised 103 fully fledged branches and 101 service centres.

## 2.5 Review of operations

An overall assessment of the Company's financial position and performance during the year 2018/19, with comments on financial results and special events that took place is contained in the Chairman's Message on pages 18 to 19, the Chief Executive Officer's review on pages 20 to 23, and the Seeing enterprise in action on pages 78 to 151 of this Annual Report. These reports form an integral part of the Annual report of the Board of Directors on the affairs of the Company. Segment wise contribution to Group revenue, results, assets, and liabilities is disclosed in Notes to the Financial Statements on pages 338 to 339 of this Annual Report.

## 2.6 Future outlook

The Company's outlook based on the challenges, opportunities and developments in the global market as well as in the Sri Lankan market is set out in the putting enterprise in context section on pages 62 to 65 of this Annual Report.

## 3 — Financial statements

[Section 168 (1) (b) & (2)]

Completed and signed Financial Statements of the Company and the Group for the accounting period completed.

The Financial Statements of the Company and the Group duly certified by the Chief Financial Officer and the Chief Executive Officer with the approval of the Chairman and the Deputy Chairman, which have been prepared in accordance with the Sri Lanka Accounting Standards laid down by CA Sri Lanka and in compliance with the requirements of Companies Act No. 07 of 2007, appear on pages 221 to 369 of this Annual Report.

## 3.1 Directors' responsibility for financial reporting

In terms of Sections 150 (1), 151, 152, and 153 (1) and (2) of the Companies Act No. 07 of 2007, the Board of Directors of the Company and Group are responsible for the preparation of the Financial Statement of the Company and the Group, which reflect a true and fair view of the financial position and performance of the Company and Group. In this regard, the Board of Directors wish to confirm that the Statement of profit or loss, Statement of financial position, Statement of changes in equity, and Statement of cash flows have been prepared in conformity with the requirements of the SLFRSs and LKASs as mandated by the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and the Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011 and

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Directions issued thereunder, and the Code of Best Practices on Corporate Governance issued by CA Sri Lanka.

The "Statement of Directors' Responsibility for Financial Reporting" provided on page 213 forms an integral part of this Report.

## 3.2 Financial results and appropriations

### Interest income

The total interest income of the Company and the Group was Rs. 30,836.30 million (Rs. 26,704.64 million in 2017/18) and Rs. 32,234.34 million (Rs. 27,582.05 million in 2017/18) respectively for the year ended 31 March 2019. A more descriptive analysis of the interest income is given in Note 6.1 to the Financial Statements on page 244.

### Performance and appropriations

The Company and the Group recorded a net profit of Rs. 4,416.12 million and Rs. 5,011.27 million respectively for the financial year 2018/19 (Rs. 4,309.33 million and Rs. 5,017.71 million in 2017/18). This represents an increase in the net profit of the Company by 2.48%. However, the Group net profit decreased by 0.13% compared to the previous year.

Details of the Company's performance and appropriation of profit are tabulated as follows:

Company	2018/19 Rs. million	2017/18 Rs. million
Profit before income tax	6,585.26	5,769.67
Income tax expense	(2,169.14)	(1,460.34)
Profit for the year	4,416.12	4,309.33
Profit brought forward from previous year	11,502.16	9,400.08
Restatement of opening balances	(755.90)	-
Profit available for appropriation	15,162.38	13,709.41
<b>Appropriations</b>		
Dividend paid for previous/current year	(1,974.83)	(1,974.83)
Other comprehensive income	(4.94)	(16.95)
Transfers to reserves	(220.81)	(215.47)
Transfers from reserves	400.00	-
Total appropriations	(1,800.58)	(2,207.25)
Unappropriated profit carried forward	13,361.80	11,502.16

### Provision of taxation

As per the Finance Act No. 35 of 2018 certified on 1 November 2018, the Government has introduced a Debt Repayment Levy with effect from 1 October 2018 to 31 December 2021 at the rate of 7% on the value addition attributable to the supply of financial services.

This had a negative impact over the margins of the banks and NBFIs. This impacted the overall profitability of the Company. Although this had a partial impact for the financial year 2018/19, the full impact over profitability can be expected in the coming years.

The income tax rate applicable on the profits earned during the year was 28% (28% in 2017/18). Rate of VAT on financial services was at 15% for the period under consideration (15% in 2017/18). Accordingly, the current year income tax expense of the Company is Rs. 2,169.14 million and a comprehensive note on income tax expense and deferred tax asset/liability of the Company and the Group is disclosed in Notes 17 and 42 respectively to the Financial Statements.

### Property, plant and equipment and intangible assets

The total capital expenditure incurred on property, plant and equipment (including capital work in progress) of the Company and the Group in the year ended 31 March 2019 amounted to Rs. 147.67 million and Rs. 257.37 million respectively (Rs. 170.35 million and Rs. 412.26 million in 2017/18).

The Directors confirm that there were no other significant changes in the Company's or its subsidiaries' fixed assets, and market value of land has no substantial difference with the book value as disclosed in Note 32.4.

In the year ended 31 March 2019 the Company and the Group invested Rs. 8.62 million and Rs. 12.19 million respectively to acquire intangible assets. (In 2017/18, invested Rs. 36.75 million and Rs. 145.30 million respectively to acquire intangible assets).

The details of property, plant and equipment and intangible assets are presented in Notes 32 and 33 on pages 303 to 309 to the financial statements.

### Freehold land and building

Extents, locations, and valuations of the Entity's land holding are detailed in Note 32.4 on page 307 of this Annual Report and the net book value of freehold land and buildings owned by the Company and the Group as at 31 March 2019 as included in the Financial Statements was Rs. 564.78 million and Rs. 2,956.61 million respectively.

### Investments

Details of investments held by the Company are disclosed in Notes 23, 24, 27 and 28 on pages 269 to 273 and 294 to 297 to the financial statements.

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## Equity

### Stated capital

The stated capital of the Company and the Group as at 31 March 2019 amounted to Rs. 13,236.07 million, which remained unchanged compared to last financial year.

### Reserves

The total reserves of the Company and the Group as at 31 March 2019 stood at Rs. 15,367.28 million and Rs. 17,476.37 million respectively. During the financial year under review, Rs. 220.81 million was transferred from retained earnings to the reserves. Information on the movement of reserves is given in the "Statement of changes in equity" on pages 224 to 225 and in Notes 45 to 47 to the financial statements.

### Debt capital

During the financial year 2018/19, the Company issued 60 million senior, unsecured, redeemable, rated debentures with a par value of Rs. 100/- each. These were listed on the Main Board of the CSE on 27 April 2018. The details of Debt Capital are given in Note 38 and a more comprehensive analysis of the Company's debentures is set out in Note 38.2 to the financial statements.

### Capital adequacy

Tier 1 Capital Ratio and Total Capital Ratio of the Company computed as per the new capital adequacy requirements of CBSL stood at 14.36% and 15.20% respectively, as at 31 March 2019. The information on minimum capital requirement is given on page 177 of this Annual Report.

## 4 – External auditor

[Section 168 (1) (c) (i) & (j)]

Above sections define Auditors' Report on Financial Statements of the Company and the Group with separate disclosure on amounts payable by the Company and its subsidiaries to the Auditor as audit fees and fees for other services rendered during the accounting period & Auditors' relationship or any interest with the Company and its subsidiaries.

### 4.1 Auditor and their independence

Messrs Ernst & Young, Chartered Accountants served as the Company's Auditor during the year under review. Based on the declaration made by Messrs Ernst & Young and as far as the Directors are aware, the Auditor does not have any relationship or interest in the Company or its subsidiaries other than to the extent disclosed in this paragraph.

### 4.2 Auditor's report

The Report of the Auditor on the Financial Statements of the Company and its Group is given on pages 217 to 219.

### 4.3 Auditor's remuneration

Messrs Ernst & Young, Chartered Accountants were paid following sums by the Company for audit and related services as well as for non-audit services including tax related services:

### 4.4 Appointment of auditor

According to Section 55 of the National Audit Act No. 19 of 2018, People's Leasing & Finance PLC falls under the definition of "auditee entity" and the Auditor General or any person authorised by the Auditor General shall carry out the audit of the Company for the ensuing financial year.

## 5 – Accounting policies and changes during the year

[Section 168 (1) (d)]

Any changes made to the Accounting Policies during the year under review

An alternative format has been used in presenting Accounting Policies to minimise the disclosure overload and clutter in the Financial Statements. These Financial Statements comply with the requirements of the Sri Lanka Accounting Standards – LKAS 1 on "Presentation of Financial Statements" and with Section 168 (1) (d) of the Companies Act No. 07 of 2007.

The significant accounting policies together with the Notes adopted in the preparation of the Financial Statements are given on pages 227 to 369. The significant changes to Accounting Policies adopted if any, in the preparation of the Financial Statements are given in Note 3.3 on pages 232 and 233.

Fees	Company		Group	
	2018/19 Rs. million	2017/18 Rs. million	2018/19 Rs. million	2017/18 Rs. million
Audit and related services	7.46	6.99	12.57	10.69
Non-audit services	5.73	4.35	6.71	6.67

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## 6 – Board of Directors

### [Section 168 (1) (e), (f), (h)]

Above sections define particulars of the entries in the Interest Registers of the Company and its subsidiaries during the accounting period, Remuneration and other benefits paid to the Directors of the Company and its subsidiaries during the accounting period and Information on Directorate of the Company and its subsidiaries during and at the end of the accounting period.

### 6.1 Profiles

Names of the members of the Board of Directors together with their profiles including skills and experience are set out on pages 26 to 28 of this Report.

### 6.2 Appraisal of Board performance

The method used to appraise the performance of the Board of Directors is presented in the "Corporate governance" section on pages 48 and 49.

### 6.3 Other directorships/ significant positions of Directors

Information of the other directorships/ significant positions of the present Directors of the Company is given on pages 27 and 28.

### 6.4 Resignations and appointments

Mr R M Jayasena retired from the office of Independent, Non-Executive Director on 17 June 2018 and Dr Ali Asgar Shabbir Gulamhusein resigned from the office of Independent, Non-Executive Director on 16 October 2018.

Dr K D Gunawardena and Mr N W A M U K K E Weerasinghe were appointed as Non-Executive, Independent Directors on 9 October 2018 to strengthen the Board balance.

Mrs Kottegoda Gedara Lakmini Dilrukshi Kottegoda was appointed as the Company Secretary of People's Leasing with effect from 30 July 2018 in place of Mr Rohan Pathirage.

### 6.5 Directors' remuneration

Directors' fees and emoluments paid by the Company and the Group as for year ended 31 March 2019 was Rs. 9.69 million and Rs. 18.63 million respectively. Comparative figures are given in Note 15 to the Financial Statements.

### 6.6 Interests register/ Directors' interest in transactions

In compliance with the Companies Act No. 07 of 2007, the Company maintains an interests register, which is available for inspection. The Directors of the Company have made general declarations of their interests in transactions of the Company as per Section 192 (2) of the Companies Act No. 07 of 2007. Details of the transactions disclosed therein are given on pages 340 to 344 under related party transactions. Furthermore, the Chairman, the Board of Directors and the Chief Executive Officer of the Company have made general declarations that there is no financial, business, family or other material/relevant relationship(s) between themselves as required to be disclosed by the Finance Companies (Corporate Governance) Direction No. 03 of 2008 amended thereon.

### 6.7 Directors' interest in shares

The Directors have disclosed to the Board of their shareholding in the Company and any acquisitions or disposals thereof in compliance with Section 200 of the Companies Act No. 07 of 2007. The Directors' individual shareholdings along with the Chief Executive Officer's individual shareholding in the Company are given in the section titled "Investor relations" on pages 372 to 380 of this Annual Report.

### 6.8 Meetings

The details of Board meetings and Board subcommittee meetings are presented in the Corporate governance report on pages 46 to 48 of this Annual Report.

## 7 – Share information

Significant shareholder information along with substantial shareholder details and other share related information is presented in detail under the title "Investor Relations" on pages 372 to 380 of this Annual Report.

### 7.1 Equitable treatment to shareholders

The Company has at all times ensured that all shareholders are treated equitably.

### 7.2 Dividends on ordinary shares

An interim dividend of Rs. 0.75 per share was paid on 11 January 2019 to the ordinary shareholders and the Directors recommended a final dividend of Rs. 0.50 per share for the year ended 31 March 2019. This will be paid in the form of a scrip dividend. Further, in compliance with the Company's Articles of Association, this dividend is to be approved by the shareholders at the Annual General Meeting to be held on 31 July 2019.

The Board of Directors ensured that the Company would meet the requirement of the solvency test in terms of Section 56 (3) of the Companies Act No. 07 of 2007 and the Listing Rules of the CSE, immediately after the payment of the said interim dividend and would ensure the compliance with the solvency test after the said final dividend as well. As required by Section 56 (2), the Board of Directors has obtained a certificate from the Auditor on the Statement of Solvency in respect of each dividend payment conforming to the above statutory provision.

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## 8 — Donations and CSR

[Section 168 (1) (g)]

Total amount of donations made by the Company during the accounting period.

During the financial year 2018/19, the Company made donations by way of corporate social responsibility activities amounting to Rs. 122.23 million compared to Rs. 101.53 million in 2017/18, in terms of the resolution passed at the last Annual General Meeting. The Company's Corporate Social Responsibility Department handles the Corporate Social Responsibility ("CSR") initiatives and activities. The CSR initiatives of the Company are presented in the sections titled Embodying Responsible Stewardship of Value Creation Activities on pages 130 to 145.

## 9 — Corporate governance

[Code of best practice D.6, D.6.1, D.2, D.1.4]

The Board of Directors is committed to develop the corporate governance principles of the Company and has adopted a Corporate Governance Charter including the procedures and processes governing the different participants in the Company – such as the Board, Managers, Shareholders and other Stakeholders to ensure that the highest principles of corporate governance is maintained across the Organisation.

In adopting the aforesaid Corporate Governance Charter, the Board has ensured that the Company is in compliance with the recommendations of the Code of Best Practices on Corporate Governance issued by CA Sri Lanka, the Listing Rules of the Colombo Stock Exchange (CSE) and the Finance Companies (Corporate Governance) Directions No. 03 of 2008 and amendment thereon.

The Directors declare that

1. The Company has not engaged in any activity, which contravenes laws and regulations.
2. The Company has made all endeavours to ensure the equitable treatment of shareholders.
3. The business is a going concern.

4. Effectiveness and successful adherence of internal controls and risk management is practiced by the Company. The measures taken in this regard are set out in the Corporate Governance Report on pages 37 to 53 of this Annual Report.
5. To the best of their knowledge, there has not been any violation of the Code of Business Conduct and Ethics of the Company.

## 9.1 Board subcommittees

Board Audit Committee, Integrated Risk Management Committee, Remuneration and Nomination Committee, and Related Party Transactions Review Committee function as Board subcommittees with Directors who possess the requisite qualifications and experience. The composition of the said committees is set out on pages 45 and 46 of this Annual Report.

## 9.2 Compliance with laws and regulations

To the best of knowledge and belief of the Directors, the Company and the Group have not engaged in any activity contravening any laws and regulations.

## 9.3 Statutory payments

To the best of their knowledge and belief, the Directors are satisfied that all statutory payments due to the Government, other regulatory institutions and in relation to the employees have been timely made.

## 9.4 Environmental protection

The Directors confirm that to the best of their knowledge the Company and the Group, have not engaged in any activity, which causes detriment to the environment.

## 9.5 ESG reporting

Environmental, social and governance considerations can affect a company's ability to execute its business strategy and create value. The Company's annual report contains sufficient information on the recognition, management, measurement and reporting on ESG risks and opportunities as set out on page 52.

## 10 — Acknowledgement

[Section 168 (1) (k)]

Acknowledgement of the contents of this report/ signatures on behalf of the Board by two Directors and the Secretary of the Company.

The Board of Directors has acknowledged the contents of this Annual Report as disclosed on page 59.

## 11 — Stakeholder management and integrated reporting

The Company has taken several measures to manage its valued stakeholders including customers, employees, investors, business partners, community and environment in carrying out its value creation process. Aspects of economy, environment and social impacts have also been addressed adequately in the reporting process. Reports are presented under Strengthening Stakeholder Relationships on pages 66 to 69 of this Annual Report. Further, details on how we engage with our stakeholders can be found in our HTML Report.

## 12 — Outstanding litigation

In the opinion of the Directors formed in consultation with the Company's lawyers, litigation currently pending against the Company will not have any material impact on the reported financial results or future operations of the Company. Details of litigation pending against the Company are given in Note 52 to the Financial Statements on pages 332 and 333.

## 13 — Human resources

The Company has adopted an absolutely non-discriminatory employment policy which respects individuals and provides career opportunities irrespective of the gender, race, or religion.

As at 31 March 2019, 2,329 persons were in employment (2,085 persons as at 31 March 2018) with the Company.

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## 14 – Internet of things and cybersecurity

[Code of best practice G.1, G.2, G.3]

The Board confirms that, the Company has appointed a Chief Information Security Officer (CISO) with sufficient expertise and authority, and allocate regular and adequate time on the Board meetings agenda for discussion about cyber risk management. Related information is set out in Corporate Governance section on page 53.

## 15 – Events after the reporting period

Details of events after the reporting period are disclosed in Note 60 page 369 to the Financial Statements.

## 16 – Compliance with requirements on the content of the Annual Report in Rule 7.6 of the Listing Rules

Rule reference	Information required to be disclosed	Status of compliance	Page reference
7.6 (i)	Names of persons who were directors of the Company during the financial year	✓	26-28
7.6 (ii)	Principal activities of the Company and its subsidiaries during the year	✓	54 and 227
7.6 (iii)	Information on 20 largest shareholders at the end of the year	✓	378
7.6 (iv)	The public holding percentage	✓	378
7.6 (v)	Directors' and Chief Executive Officer's holding in shares	✓	379
7.6 (vi)	Information pertaining to material foreseeable risk factors	✓	152-169
7.6 (vii)	Details of material issues pertaining to employees and industrial relations	✓	112-123
7.6 (viii)	Information on buildings/land holdings and investment properties as at the end of the year	✓	307
7.6 (ix)	Number of shares representing the stated capital as at the end of the year	✓	377
7.6 (x)	A distribution schedule of the number of holders in each class of equity securities and related information	✓	377
7.6 (xi)	Ratios and market price information on equity, debt, change in credit rating	✓	89, 376, 380
7.6 (xii)	Significant changes in the Company's or Subsidiaries' fixed assets	✓	304-306
7.6 (xiii)	Details of funds raised through a public issue, Rights Issue and a Private Placement during the year	✓	380
7.6 (xiv)	Information in respect of Employee Share Ownership or Stock Option schemes	✓	Not applicable
7.6 (xv)	Disclosure pertaining to Corporate Governance practice in terms of Rules 7.10.0, 7.10.5 c and 7.10.6 c of Section 7 of the Listing Rules	✓	190
7.6 (xvi)	Related party transactions exceeding 10% of the Equity or 5% of the total assets of the entity	✓	58

## 17 – Going concern

[Code of best practice D1.4]

After reviewing the Company's business plans, the Board of Directors has a reasonable expectation that the Company possesses adequate resources to continue in operation for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Financial Statements.

## 18 – Annual General Meeting

The 23rd Annual General Meeting will be held at the People's Bank Staff Training College Auditorium 11th Floor, People's Leasing building, No. 7, Havelock Road, Colombo 5 on the 31 July 2019 at 3.30pm.

Notice of the Meeting relating to the 23rd Annual General Meeting is provided on page 394 of this Annual Report.

By order of the Board of Directors,



**M P Amirthanayagam**  
Deputy Chairman



**Hemasiri Fernando**  
Chairman



**Lakmini Kottegoda**  
Company Secretary

13 June 2019