



We consolidated
yesterday with plans
to diversify and
differentiate tomorrow.

Building a legend

Staying true to our Mission

Chief Executive Officer's review

Maintaining a competitive advantage in the markets within which we operate is becoming increasingly challenging given the saturation of new and traditional players in the field. We lead the NBFI sector but must compete for market share with diverse challengers, from banks to fin techs. Despite this, and other mitigating circumstances outlined by the Chairman, People's Leasing was able to record a strong performance during the year under review, and here I present a vignette of this collaborative accomplishment.

→ **Shaping the future today**

In my last Review I mentioned that due to unprecedented changes in our operating environment, the future is shaping today. While this remains true, we must also strive to anticipate and meet the challenges of the future today. If we wait to do so tomorrow, it will be too late. Following the implementation of a restructure that saw the streamlining of four key divisions – Risk Management, Recoveries, Operations, and Marketing – we focused on consolidation in the short term, but differentiation and diversification in the medium to long term. At People's Leasing our past growth has been aggressive and our margins have been under pressure. During this year of consolidation, we focused on a measured growth.

To distinguish our offering, we also focused on the true needs of our customers. No longer are they satisfied to simply take what the market offers. Increasingly tech-savvy, our customers are consumers in a global market influenced by players including formidable giants and smart start-ups from Amazon and eBay to AirBnB and Ripple. Our customers now expect their local service providers to be as nimble and attentive to their needs – being where they are, when they want us. For us, differentiation and diversification were a big step forward in meeting this need.

→ **Focusing on dedicated, customer service**

Using our in-depth understanding of the customer we began by focusing on the economic life cycle – the business and lifestyle milestones of a customer's journey. For instance, we launched deposit products, including for children, which allow customers to save a targeted amount for a specific event in their lives. Our variable rate loans and leases for individuals and businesses – which opened the door for customers to enjoy the benefits of lower interest rates and the possibility of varying repayments – are showing great success. Our gold loan product, which was launched the previous year to provide quick relief for customers with urgent financial problems, was rolled out across five branches. We will be rolling this product out across 40 more branches in the near future. These and other products yet in the pipeline are designed to help us offer solutions to pressing customer needs.

We will continue working towards improving our accessibility, not just through our extensive network of brick-and-mortar touch points, but also using virtual touchpoints through our website and social media interactions. In response to customer feedback we will also continue to upgrade more service centres in strategic locations to fully fledged branches.

Beyond the diversification of our products and reach within Sri Lanka, I am pleased to report that our expansion into Bangladesh continues to show promise. Despite stiff competition in that market, we have broken even and our products, especially products such as leasing, term loans, and working capital loans, differentiate us from the rest.

Innovation will continue to be a key focus in our pursuit of operational efficiency, just as much as greater customer convenience and service will remain central in our efforts to augment our value proposition and exceed expectations.

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→ — Achieving organisational service excellence

While focusing on consolidation, we also turned our attention to greater operational efficiency, streamlined processes, and the cleaning up of our balance sheet. To ensure that our people work in an environment that is conducive to reaching the required milestones in our journey towards success, we have also invested in the latest in customer relationship management tools and continue to explore new technology in order to improve customer convenience and increase operational efficiency.

Diversification also means the exploration of previously untapped customer segments. Capturing these markets means being able to understand and meet new customer needs, which in turn depends greatly on the experience, skills, and dedication of our people. The restructure of our Company has provided us with a clear map of the expertise we require to reach these new segments. Training and development is already underway to ensure that we equip our people with the required knowledge and skills. New positions will be filled internally but where new expertise is required we will also be hiring externally.

Changing hearts and minds in order to reach our destination is easier thanks to the dedication of our people. Their attitude and quality of service is another differentiator that has cemented our place as a leader in the NBFi sector.

→ — Maintaining a sustainable, competitive advantage

All our endeavours towards achieving a competitive advantage have been reinforced by responsible stewardship. Good governance and strong risk management practices are central to our work and essential to our industry, and for this reason they are aspects of the business that we take very seriously.

The recognition we have received for the year under review is testament to the success and sustainability of our operations, the strength of our brand, and our commitment to innovation. Among others, these included the number one ranked non-banking financial services brand by Brand Finance PLC, ranking among the ten best corporate citizens of the country for the sixth time, ranking 13 in Business Today's Top 30 Listed Companies, receiving the Gold Award for "CSR Project of the Year" at the IFFSA Awards 2018, the Silver Award for the Islamic Leasing Company of the Year at the SLIBFI Awards 2018, and local and international recognition for our Annual Report 2017/18.

Beyond the way we run our business, we also implemented a range of sustainability initiatives for the benefit of customers, the community and the environment. They are centred on entrepreneurship development; early childhood/education development; road safety; empowerment of local communities and conservation of environment. As a result of our commitment to these corporate social responsibility initiatives, we invested Rs. 122.23 million through 155 initiatives across the island during the year, with the active participation of our employees who contributed over 6,693 volunteer hours.

Delivering value to all our key stakeholder groups ensures that our impact on the economy, society, and environment remains positive, making us a truly sustainable entity which is economically viable, socially accountable, and environmentally responsible.

Building a legend**Staying true to our Mission****→ Continuing the legacy**

Despite the difficulties that put the entire financial sector under pressure, People's Leasing recorded its highest ever profit after tax of Rs. 4,416.12 million, reflecting a growth of 2.48% over 2017/18. Reported profit was achieved against a backdrop of increased impairment charges and the newly imposed Debt Repayment Levy of Rs. 436.97 million which was not initially budgeted for by the Company. Loans and advances grew by 8.23% and deposits by 26.67%. Net interest margin improved to 9.70% from 8.38% over the previous year. This enabled us to grow our net interest income by 24.46% to Rs. 15,190.20 million accounting for 88.89% of the total operating income. Growth in income coupled with careful management of operating expenses saw the cost-to-income ratio substantially improve to 37.81% from 39.73%.

While our non-performing advances (NPA) ratio is well below the industry average of 7.7%, the increase in gross NPA ratio to 3.91% was due to the slowdown of the economy as a whole and caused the impairment charge for the year to increase to Rs. 1,954.88 million from Rs. 1,429.97 million the previous year. Included within this impairment charge is Rs. 348.79 million which was additionally made as a prudent measure for the Company's investment in the associate, People's Merchant Finance PLC.

The Company's return on assets improved to 3.95% during the year under review compared to 3.71% in the previous year. However, due to growth in equity being higher than the growth in profit after tax, our profitability in terms of ROE decreased marginally to 15.88% compared to the previous year, but remained ahead of the industry average of 12.1%. Notably, our deposit base grew to Rs. 88.37 billion, with the savings base surpassing Rs. 5 billion. Reflecting strong stability and adequate leeway for future business expansion, People's Leasing maintained capital adequacy ratios at 14.36% and 15.20% for Tier 1 capital and total capital respectively well ahead of the regulatory minimum requirements of 6% and 10%.

At the fiscal year's end, People's Leasing and the Group had a strong asset base of Rs. 172.54 billion and Rs. 185.93 billion respectively.

→ Future aspirations

To ensure that we are fit for the future we continue to explore areas such as process automation and digitalisation which have the potential to significantly improve business and provide our people with the capacity to exceed customer expectations. To maintain our leadership position in the market we will also look to strengthen relationships with business partners – increasing presence in vehicle dealerships, implementing new strategic tie-ups with selected suppliers, opening new branches in key locations, and rolling out existing products to new markets. Reinforcing our competent, engaged, and motivated team will continue to be a focus. We will also concentrate on maintaining an optimal mix while focusing on strengthening equity.

→ Appreciating invaluable contributions

My sincere thanks to the Chairman and the Board of Directors for their guidance, our customers for their loyalty and trust in us, our suppliers for their contribution, investors and strategic partners for their continued conviction, and officials of the Central Bank of Sri Lanka and the Department of Supervision of Non-Bank Financial Institutions for their support and regulatory guidance.

Staying true to our Mission means adapting to the changing environment with resilience and fortitude, as we forge ahead, building a legacy for future generations.



A S Ibrahim
Chief Executive Officer

13 June 2019