



Mr. W. KARUNAJEEVA : : CHAIRMAN



Mr. D. P. KUMARAGE : : CHIEF EXECUTIVE OFFICER

People's Leasing Company Limited

Corporate Profile

Incorporated by People's Bank Act. No. 29 of 1961 and licensed under the Banking Act No.30 of 1988 as a commercial bank. The registered Head Office is situated at No.75, Sir Chittampalam A Gardiner Mawatha, Colombo 02 in Sri Lanka. 92.3 percent of share capital is owned by the Government of Sri Lanka and the balance 7.7 percent is owned by Co-operative Societies. This leading State Bank has a wider reach across the country with 327 Branch network and 311 service centres.

People's Leasing which is wholly (100 percent) owned by People's Bank is also the flagship subsidiary of Bank. The core business portfolio of People's Leasing is finance leasing, hire-purchase, operating leasing, Islamic Finances and granting of term loans. People's Leasing is also a "Specialised Leasing Company".

People's Leasing commenced commercial operations in May 1997 and became the market leader in the leasing sector in the financial year 2002/03 and retained the supremacy for the last seven years consecutively. Our out reach to country side is well dispersed with 23 branches and 64 window offices. Our principal place of business is in Colombo. We have grown substantially and diversified

as a group with the acquisition/incorporation of the following wholly owned subsidiary companies.

- People's Leasing Property Development Ltd.
- People's Leasing Fleet Management Ltd.
- People's Insurance Ltd.
- People's Leasing Finance PLC (Listed Company having 97% stake)



Directors of People's Leasing Company Ltd.

- Mr. W. Karunajeewa, Attorney-at-Law is the Chairman of People's Bank and the Group Chairman of People's Leasing Group.
- Mr. D J D Jayakody Director of People's Bank, People's Leasing Fleet Management Ltd., People's Leasing Property Development Ltd. and People's Leasing Finance PLC.
- Mr. Wajira S Bandara is a Director of People's Bank Main Board and People's Insurance Ltd.
- Mr. N Vasanthakumar, Senior Deputy General Manager of People's Bank .
- Mr. Kapila Ariyaratne, Senior Deputy General Manager of People's Bank.
- Mr. M T M Shuaib, Deputy General Manager of People's Bank .
(All are Non-Executive and nominee Directors)

Chief Executive Officer /General Manager

Mr. D.P. Kumara is the CEO/GM of People's Leasing Co. Ltd., Managing Director of the People's Leasing Group of Companies, Director of SANASA Development Bank, Director of Financial Ombudsman Sri Lanka (Guarantee) Limited (FOSL) and Non-Executive Director of Ashok Leyland PLC. Also he is the Vice President of the Asian Leasing and Finance Association.

GROWTH STRATEGIES

People's Leasing pursued a unique business model of opening window offices at selected branch premises of People's Bank to exploit the Bank's customer base to increase sales with least cost. So far, People's Leasing has opened 64 new service delivering channels. This business proposition has created synergies to both parties in a win-win manner. People's Leasing could easily spread its wings regionally in order to expand its reach at the periphery to serve the SME sector better in a visible manner.

Credit Rating by Fitch Ratings Lanka Ltd.

On the strength of company's sound credit policy, our company has been rated A- by Fitch Ratings Lanka (Pvt) Ltd.

FUTURE OUTLOOK

People's Leasing Company has firmly established itself as a driving force and leader within the leasing industry. Thus 2010 has been aptly branded "A year of Transformation from Crisis to Growth and Prosperity".

The company's primary objective of profits maximisation and thereby creating wealth will now be coupled with accelerated growth for the group as a whole, with a special emphasis on People's Leasing Finance PLC and People's Insurance Ltd. With the penetrative network of 23 branches, 64 window offices, a team of nearly 600 and four subsidiaries, People's Leasing is now poised to enter a new era of leasing as a group equipped with the ideal combination of competencies, strengths and image.

The future lies in creating and re-branding People's Leasing Group, by harnessing the positives created by People's Leasing which include a strong brand, penetrative presence, large customer base and excellence in customer service, to leverage on existing synergies.

Cross-selling will be encouraged, as will the promotion of a one-stop-shop concept that houses People's Leasing Company, People's Leasing Finance and People's Insurance in one location. PLC's very own head-office building in Borella to be opened in early 2011, it is the first project instituted by the group's Property Development subsidiary.

While the "Service Beyond Excellence" premise is the long-term relationship binder at People's Leasing Co. and its undisputed leadership position didn't come about by accident. People's Leasing has already envisioned beyond 2010, and into the future. Its strategies, plans and philosophy are visionary and they lie on a bed of opportunities that are fused into the company's core values of economic viability, environmental responsibility and social accountability which is why the People's Leasing Group is destined to join the ranks of the most formidable conglomerate in this country.

OTHER ACCOLADES

- Retained Gold Award in the leasing sector consecutively for the second year in the Best Annual Report Competition conducted by the Institute of Chartered Accountants of Sri Lanka.
- As per LMD a leading voice of business, People's Leasing is ranked 9th position in the list among the top 20 State Owned Enterprises in Sri Lanka.

PEOPLE'S LEASING RETAINS SUPREMACY

Glimpse of Milestone Achievements

- Incorporated in August 1995 as a fully owned subsidiary of People's Bank, initially to extend leasing facilities to the customers of People's Bank.
- Commenced commercial operations in May 1996 with 3 employees. Today the number is increased to 560 to handle operations in Head Office, City Office at Union Place and 22 branch offices. Also we operate 60 Window Offices at the premises of People's Bank Branch Offices.
- There are 78 finance leasing establishments including People's Leasing (PLC) registered with central Bank in terms of Finance Leasing Act. Also, PLC is one of the 20 specialised leasing companies operating in Sri Lanka.
- PLC deals mainly with the product portfolio of Finance Leases, Hire-purchases, operating leases and a host of loan other facilities.
- Within a short period of 6 years, PLC became the Market Leader in the leasing industry in terms of the annual volume of disbursements in the year 2002/2003 for the first time.
- We are proud to place on record that PLC retained the Market Leadership slot for seven consecutive years up to in 2008/2009. Expected to retain the supremacy for the 8th consecutive year (2009/10) as well with a market share of ver



20% despite down-turn economic conditions prevailing in the country.

- PLC total customer base (presently 41,000) is comprised mainly of the SME sector/individuals.
- Poised to be a formidable force in the Sri Lanka Leasing Industry.
- Having released over 9,000 Omni buses on leasing /HP terms, PLC emerged as the market leader in providing facilities to the bus passenger transport sector.
- PLC posted pre-tax profit of Rs.1.0 Billion mark in the last financial year (2008/2009) with a growth path of 35% after providing for General Provision of Rs. 437 Million in a prudential manner. Turnover was also improved by 55% over the previous year.
- Presently, business contribution of regional branch net-work is 62%. Expected to achieve 75% in the future.

- The gross receivable portfolio also increased from Rs.11.3 billion in the previous year(2003/04) to Rs.15 billion mark at end of March 2005 with a growth path of 33%. The gross receivable portfolio at the end of December 2005 stood at Rs.19 billion.
- Recovery profile is very strong. Average rate of recovery is 94% with a non-performing portfolio of below 5% which is the lowest in the industry.
- Adopted the most stringent and financially prudent provisioning policy among the peer groups in the leasing industry.
- Biggest user of the Indian Credit Line – 2001 for importing buses from India.
- PLC is the only specialised leasing company with a perfectly matched asset/liability maturity structure and with the highest total asset base of Rs.14 Billion.
- Paid gross ordinary share dividends of Rs.168 Million and Rs.35 Million on account of scrip dividends to People's Bank from 1998 to 2005.
- Technologically advanced computer network system is in operation to serve our customer better. All branches are linked to Head Office on-line/ real-time basis and backed by a Business Continuity Plan.
- Worthy corporate social responsibilities (CSR) are being under-taken as a responsible corporate citizen by contributing a substantial part of our resources towards triple bottom line ie, equity, society and environment.
- Recently commenced providing Shareeah law/practice compliant Islamic financial services.
- The CEO Mr.D.P Kumarage was elected as the current Chairman, Leasing Association of Sri Lanka. Also, he is a Director of Asian Leasing and Finance Association representing Sri Lanka/PLC in the Apex Asian regional outfit.
- Our passion is to make PLC the leasing destination in Sri Lanka.



LEASING INDUSTRY IN SRI LANKA

CURRENT MARKET - OVERVIEW

Leasing which commenced in the early 80's with two specialised leasing companies has grown significantly over the years. At present there are 74 institutions, engaged in leasing. Among them are 21 specialised leasing companies, 34 finance companies, 11 commercial banks, and 8 specialised banks. The severe competition among lessors has resulted in the erosion of margins and accommodation of risk at the expense of quality. This strategy is now causing concerns among the industry participants due to increased incidence of arrears and non performing leases and also reduced operating profits. The apex body incorporated to take care of the leasing industry is "Leasing Association of Sri Lanka" which is having membership of 60 members.

GROWTH OF THE INDUSTRY

In 2007/08 the value of leases booked was around Rs. 70.9 Billion (US\$ 650,000,000). As a percentage of GDP it was around 2.3%. The average of growth in the value of leases written over the past five years up to 2007/08 approximately 30%. The year 2008/09 recorded only Rs.58.1 billion with a negative growth of 18% over the previous year due to on-going financial crisis.

The industry remains mainly centered around, commercial and passenger vehicles. Around 95% of the leases are for vehicles. Leasing companies have not been aggressive in promoting equipment leases mainly due to the lack of an established secondary market, and the difficulties in the recovery of leased assets (in the event of default) combined with delays in court procedure.

During the post conflict time, leasing companies have been actively promoting leases in rural areas particularly in North and East which were untapped hereto. This is one of the main reasons for the growth in volumes in the latter part of 2009.

CONSTRAINTS AND OPPORTUNITIES

Even though the industry grew up to 2007/08, there has been a drastic decline in the value of leases written in 2008/09 due to the shift to hire purchase. Over 50% of the leases are for used vehicles on which the lessor does not get an input credit for VAT at the time of purchasing the asset. However, the entire lease rental is liable for VAT (15% prior to 1st January 2009 and 12% thereafter). Hire purchase and loan installments are not liable for VAT. Hence a hire purchase/loan installment is significantly lower than a lease rental. Due to this disparity, there is a significant shift of lease business to hire purchase. It is expected that lease volumes would come down by around 50% due to

By **Mr. D P KUMARAGE**

Chief Executive Officer/GM People's Leasing Co. Ltd.

Managing Director of People's Leasing Group

LEASING INDUSTRY PERSPECTIVE AT A GLANCE	30.09.2009	30.09.2008
Share of finance lease portfolio :		
Specialised Leasing Cos.	26%	31%
Registered Finance Co.	30%	24%
Banks		44% 45%
Specialised Leasing Companies (SLC's) (Nos.)	21	21
Asset wise market share of four big players (Over Rs. 5 Billion)	75%	76%
PROFITABILITY /QUALITY OF PORTFOLIO		
Net interest income increased due to low cost of borrowings	Rs.5.6 billion	Rs.5.0 billion
Non performing ratio	7.5%	4.6%
Non Performing portfolio	Rs.80.0 billion	Rs.95.0 billion

this. Also due to the revised customs duty structure on imported vehicles, especially those running on diesel, new vehicle sales remained depressed.

A similar issue is faced in the leasing of agricultural machinery. In recognising the importance of the agriculture sector to the economy and the livelihoods the government has exempted the import and supply of agricultural equipment from VAT. However the lease rental payable on a lease for agricultural machinery is liable for VAT. This results in increasing the cost of leasing compared to a hire purchase/loan facility. Even though numerous representations have been made in this regard the anomaly has not been addressed as yet.

Capital allowances for plant and machinery is claimable over a period of eight years. (12.5% per annum) low rate of capital allowances on plant and machinery is a deterrent to investment and also financing of plant and machinery through leasing. Lease rentals falling due in an year of assessment is considered income in the hands of the lessor. Such rentals include capital and interest. The lessor is allowed to claim capital allowances as an expense. As most equipment leases are for tenors of four to five years (lessors do not enter into longer term leases due to credit risks, risk of obsolescence, interest rate risk, lack of matching long term funds etc.) the capital recovery considered to be income is higher than the capital allowances claimable as an expense (spread over an eight year term). Due to this reason the lessor has to pay higher taxes initially on income, which he never received.

Sri Lanka went through a relatively low interest rate regime from 2002 – 2006. During the past three years the interest rates have kept increasing. Most leasing



companies were exposed to interest rate risk due to long term debt instruments. The drastic increase in borrowing rates has caused a serious problem to the industry up to June 2009. However, the dominant players managed to attract funds on variable rates of interest mainly on the strength of their investor confidence and their financial stability.

The effects of the global recession had its effects on the Sri Lankan economy. The export industries were experiencing a reduction in orders. Foreign remittance from the Middle East which is the main source of foreign exchange for the country has also declined. Due to the slowing down in economic activity the banks have restricted lending to leasing companies. Hereto most leasing companies (specially specialised leasing companies) were heavily reliant on bank funding. At the direction given by the Central bank of Sri Lanka the interest regime (deposit and lending rates) was relaxed from June 2009. The cost of borrowing is gradually being reduced to promote the private sector credit economy.

Many leasing companies see an opportunity to move into leasing of plant and equipment and also agricultural machinery. The industry is trying to convince the regulators and other policy makers to address the concerns it has with regard to fiscal policy and the legal process.

FINANCIAL SYSTEM AND STABILITY POLICIES FOR 2010 AND BEYOND

The main thrust of the policies will be to cater to the increasing demand for diversified financial services. The economy is expected to grow more than 5% in 2010 due to the end of the civil conflict and the gradual recovery of global economy. Annual inflation is projected to be around 5-6%. The new programme of re-building the Northern and Eastern provinces has touched farmer families, fishermen/families and entrepreneurs alike. New laws will be introduced to regulate and supervise micro-finance institutions. Implementation of Credit Guarantee Scheme for SMEs by Central Bank and mandatory Deposit Insurance arrangements are in the agenda. ■

The Market Leader in Leasing





PEOPLE'S LEASING CO. LTD.

The People's Friendly Lease

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A fully owned subsidiary of People's Bank