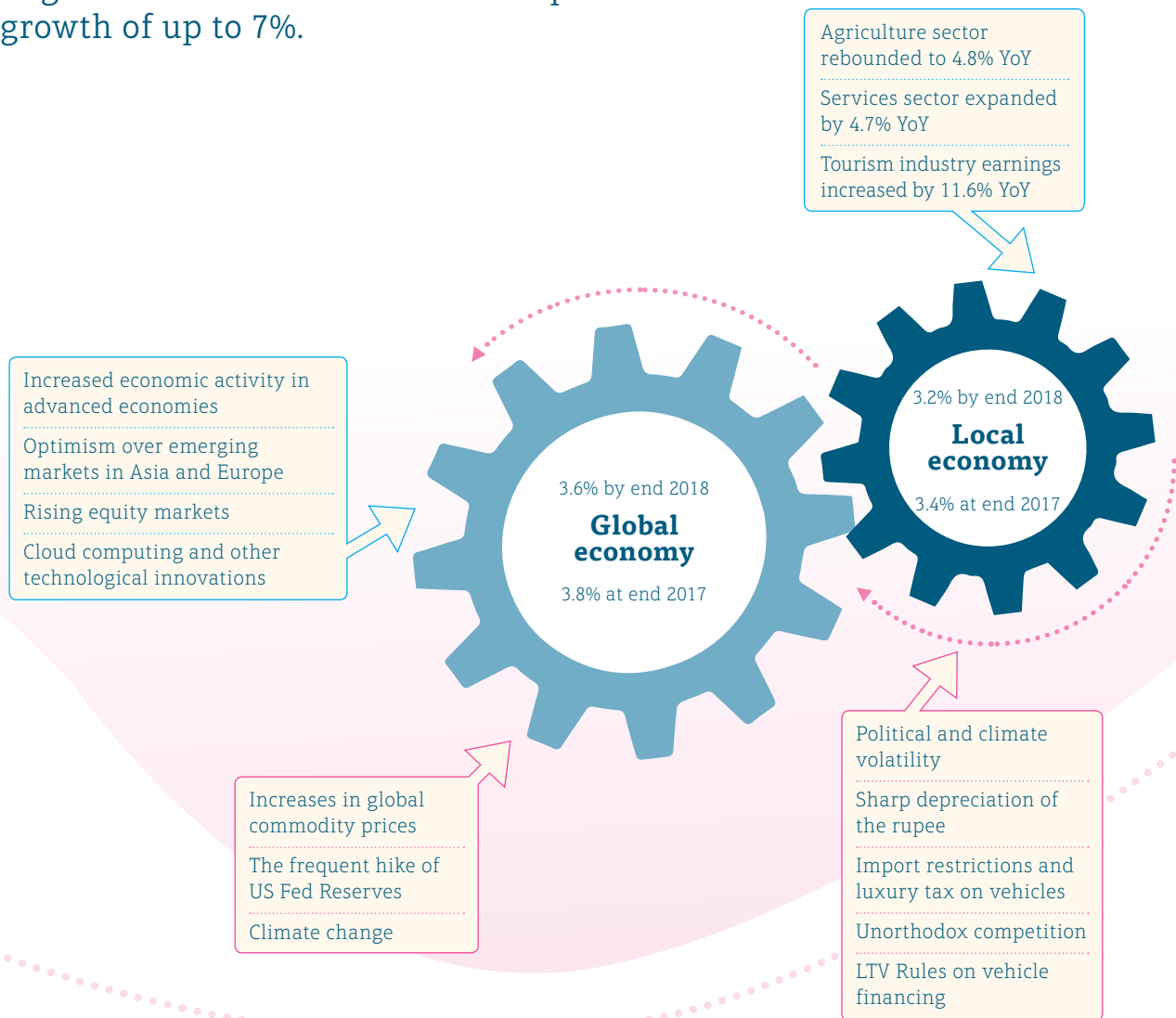


# Operating environment

Our growth, during the year under review, must be viewed in the context of global economic activity which impacted our local economy, which in turn impacted our business. Local GDP growth reached 3.2% by end 2018, below the IMF and ADB forecasts of 4.3% and 3.8% respectively, and comparatively lower than regional economies which have experienced GDP growth of up to 7%.



This figure illustrates both the forces that drove global and local growth (●) as well as those that stymied growth (●). For a complete list of risks and opportunities that affected our business please refer Risks and Opportunities Section on pages 64 and 65.

## Putting enterprise in context

## Operating environment

→ **Tough times**

Sri Lanka's trade deficit had widened to USD 10,343 million by 31 December 2018, an increase of 7.53% in comparison to 2017. This was a result of import expenditure growth of 5.97% outpacing export earnings growth of 4.66%. The exchange rate came under pressure from capital outflows, particularly from Government rupee securities, tightening conditions in the global markets, and speculation in the domestic market.

→ **World economic outlook projections**

Company	2019 (Forecast)	2018	2017
World Output	3.3	3.6	3.8
Advanced Economies	1.8	2.2	2.4
United States	2.3	2.9	2.2
Euro Area	1.3	1.8	2.4
Japan	1.0	0.8	1.9
United Kingdom	1.2	1.4	1.8
Emerging Market and Developing Economies	4.4	4.5	4.7
Russia	1.6	2.3	1.5
China	6.3	6.6	6.9
India	7.3	7.1	6.7
ASEAN-5	5.1	5.2	5.3

The US dollar continued to strengthen, resulting in funds outflow from the domestic financial market increasing pressure on Sri Lanka's exchange rate and foreign exchange reserves. Repercussions could well include the further depreciation of the rupee in 2019.

→ **Relieving the pressure**

Several short-term measures were taken in an attempt to relieve the pressure on the exchange rate, but even so the Sri Lankan Rupee depreciated by 19% against the US dollar in 2018, the sharpest drop in a decade. The rupee depreciation comes on top of tax increases, fuel hikes, multiple strikes, and weather-related problems, bookended by local government elections and a constitutional crisis. They all significantly impacted the business and financial activities of our target market.

Sri Lanka is reported to have USD 5.9 billion in external debt repayments in 2019, including an international sovereign bond of USD 1 billion which matured in January and was repaid.

Headline inflation in the country remained in low single digits while core inflation too remained restrained. The tight monetary policy remained throughout 2018 as well. Structural reforms such as the new Inland Revenue Act and the introduction of fuel pricing formula were introduced in line with the Government's Policy of revenue driven fiscal consolidation.

→ **Optimistic vibes**

On a more positive note, Sri Lanka also ascended 11 places to be ranked 100 among 190 countries in the World Bank's Ease of Doing Business Index. However, greater encouragement – for instance improved efficiency in the process for registering exporters – could also make it easier for SMEs to flourish and enter international markets.

While the terrorist attacks on 21 April 2019 have negatively impacted the country, Sri Lanka's ranking as the top tourist destination for 2019 by Lonely Planet, which may increase the country's chances of achieving tourist arrival targets and accelerate annual earnings from the industry. This could have a knock-on impact on the leasing sector with Micro business and SME owners being able to capitalise on this opportunity.

# Risks and opportunities

At People's Leasing, we are focused on being a responsible corporate citizen; one that devotes its energies and resources to operating a sustainable business. The focal point of our strategy is the creation of value: delivering value to stakeholders just as much as we derive value from them.

In this Report, we look at topics that have the most impact on our value creation process. We view value creation in the context of the constantly changing environment within which we operate and the needs and priorities of our stakeholders.

## → Materiality

To assess both internal and external matters of material importance, we conduct a rigorous materiality assessment. How material or important a topic is was assessed by its relevance to People's Leasing or our stakeholders and its significance. How significant it is was determined by the probability of occurrence and the magnitude of its impact.

## → Key impacts

The outcome of this study results in the corresponding environmental, social, and governance matters being identified and their impact on our operating environment being assessed. We use these findings to determine any risks and opportunities that may be of concern to the sustainable operations of the Company and our key stakeholder groups.

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## → Identifying and assessing

During the year under review, we analysed our external environment to identify matters arising from emerging trends and their relevance to key stakeholder groups. The following overarching trends were identified:

1. Funds outflows from developing and emerging market economies
2. The lack of structural reforms for increase in productivity
3. Need to contribute towards achieving SDGs
4. Increasing migration
5. Growing influence of digital marketing
6. Energy crisis and gradual shift to non-renewable energy
7. Growing ESG concerns in lending
8. Sluggish GDP and economic growth/challenges to future economic growth/increased cost of living
9. Political uncertainty and rising ethnic conflicts
10. Sharp depreciation of the rupee
11. Poor performance of the CSE
12. Promotion of tourism
13. Sri Lanka's downward slide on the global competitiveness index
14. Deteriorating asset quality of the financial sector
15. Frequent changes to local fiscal and monetary policies (increased borrowing costs, taxes)
16. Financial disintermediation
17. Unorthodox competition from fin-techs, tech giants and telcos
18. Growing role of technology
19. Cyber security/ATM card skimmers
20. Significant and mounting regulatory requirements
21. Investors growing interest on Company's future potential
22. Changing customer expectations
23. Competencies to adapt to changes in the market
24. Increasing emphasis on entrepreneurship
25. Strategic public-private partnerships
26. Vulnerability to natural disasters
27. Undermet and unmet societal priorities including poor investment on early childhood/education, healthcare, access to quality water and sanitation
28. Diminishing forest cover
29. Increased negative effects of global warming

Putting enterprise in context

# Risks and opportunities

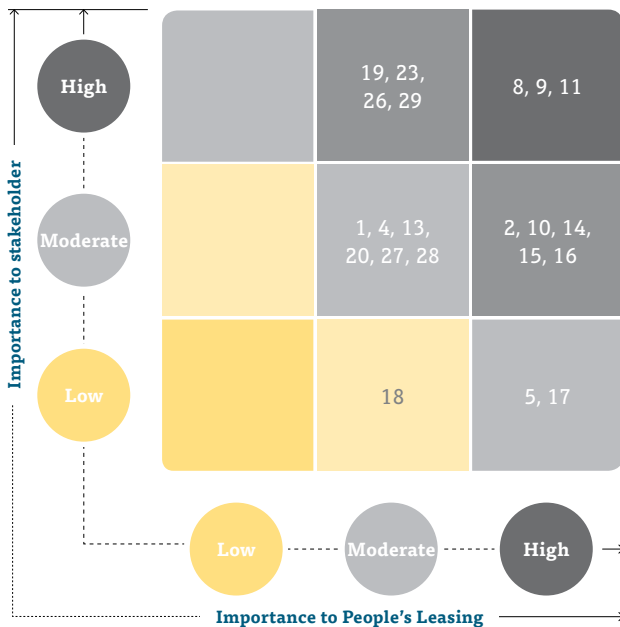
These trends were mapped as follows:

	Political	Economic	Social	Technological	Environment	Legal/ regulatory
Investors	9	3 11 12 13 14 16 21				20
Customers		1 8 10 15	7 22	5 18 19		
Employees			2 4 17	23		
Business partners		25				
Society			24 27			29
Environment					6 26 28	

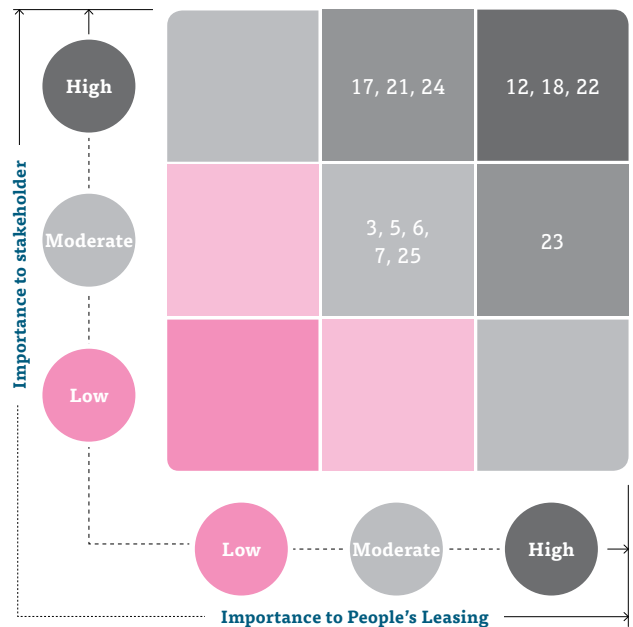
3 Relates to all stakeholders

The risks and opportunities arising from the trends were prioritised according to their relevance for our long-term strategy, competitive positions, and value drivers. After completing the analysis described previously, we mapped the above according to their impact on our stakeholders and the Company, categorising them as risks, opportunities or both, as portrayed in the matrices that follow.

## Risks



## Opportunities



We then formulated our strategic imperatives and strategies based on the outcomes of this analysis.