



**PEOPLE'S
BANK**
THE PULSE OF THE PEOPLE

Annual Report 2008



THE BANK AND THE PEOPLE...

SO CLOSELY LINKED THAT THEIR DREAMS...

THEIR PROGRESS... THEIR SUCCESS...

THEIR FUTURE ARE ONE WITH THE BANKS ENTERPRISE

OUR VISION

To be the Bank of the aspiring People of Sri Lanka: empowering People to become value creating, competitive and self-reliant.

OUR MISSION

FOR OUR CUSTOMERS

To take pride in providing an excellent service in the most caring, responsive and professional manner.

FOR OUR OWNERS

To generate benefits for the national economy whilst being independent and commercially viable.

FOR OUR EMPLOYEES

To create opportunities for our employees to benefit from their high performance by becoming value creating, skilled, self-confident and professional individuals who are also team players.

FOR OUR SOCIETY

To support empowerment and sustainable development by contributing to the upliftment of education, culture and environment island-wide.

OUR BUSINESS VALUES

We recognise that the primary reason for our existence is to create value for people of the nation.

In all our activities we exercise our duty with utmost care in the interest of our depositors.

We promote long-term ethical relationships with our customers through true and fair dealing.

We put our customers at the centre of everything, by minimising bureaucracy, demanding hands on management, quick decision making and implementation.

We empower staff and require them to be accountable.

We demand the highest standards of personal integrity at all levels, putting the Bank's interest ahead of individuals.

We create an environment of mutual respect and trust where employees can demonstrate their performance and achieve their full potential.

We develop our business by encouraging high performing teams that recognise and support the skills, commitment and links to the community of every employee.

We are committed to comply with the spirit and all laws and regulations, adhering to the highest standards of Corporate Governance, transparency, disclosure and ethical conduct.

We conduct ourselves as good citizens promoting the environment and sustainable development.

Being with people and for people has been the core driving force of People's Bank. We have traditionally looked for people to whom a bank and its products were remote, and set out to serve them, whilst at the same time serving others to whom banking was a given.

We realised that to be truly close to our customers from whatever sector they arose, we should this year portray some of our key products and services that really epitomised the Bank's intrinsic involvement in the lives of our customers.

We are therefore justifiably proud in offering well planned out products that make the dreams of the people come true... that contribute to their progress... that are closely involved in their productive future... and illustrate the manner in which we establish links with even the most remote of customers across the land.

There can be no better barometer of our achievement; in that through matching of product to customer needs and aspirations, the Peoples Bank is journeying closely with people empowering them to seek a brighter future for self and Nation.

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OPERATIONAL HIGHLIGHTS

The Chairman accepting the award for Service Brand of the Year.



The first transaction of Palm Top Banking was carried out at Manning Market in Pettah.



Opening of Sisu Udana Counter at Hingurakgoda Maha Vidyalaya - Children lighting the oil lamp.



FINANCIAL HIGHLIGHTS

Profit before Taxation Rs Mn

2004	2,463
2005	4,035
2006	4,079
2007	5,002
2008	5,664

Cost/Income Ratio %

2004	73.1
2005	72.7
2006	73.8
2007	68.7
2008	65.4

Loans & Advances (Gross) Rs Mn

2004	140,209
2005	157,738
2006	223,391
2007	253,370
2008	263,462

Value of Deposits Rs Mn

2004	185,643
2005	225,600
2006	269,947
2007	300,956
2008	324,489

2008 2007 %

Bottom Line Performance

Profit before Taxation (Rs Mn)	5,664	5,002	13.2
Capital in Hand (Rs Mn)	15,880	12,895	23.1

Productivity

Net Revenue	24,456	21,442	14.1
Cost/Income Ratio (%)	65.4	68.7	-
Head Count (Excluding Outsourced)	8,587	8,416	2.0
Profit per Employee (Rs '000)	315	282	11.7

Credit Management

Loans & Advances (Gross) (Rs Mn)	263,462	253,370	4.0
Non-Performing Loan (NPL) Value (Rs Mn)	17,857	14,865	20.1
NPL Ratio (%)	6.8	5.9	-
Provisions for NPLs (Rs Mn)	13,517	13,081	3.3
% of Provisions for NPLs	75.7	88.0	-

Customer Confidence

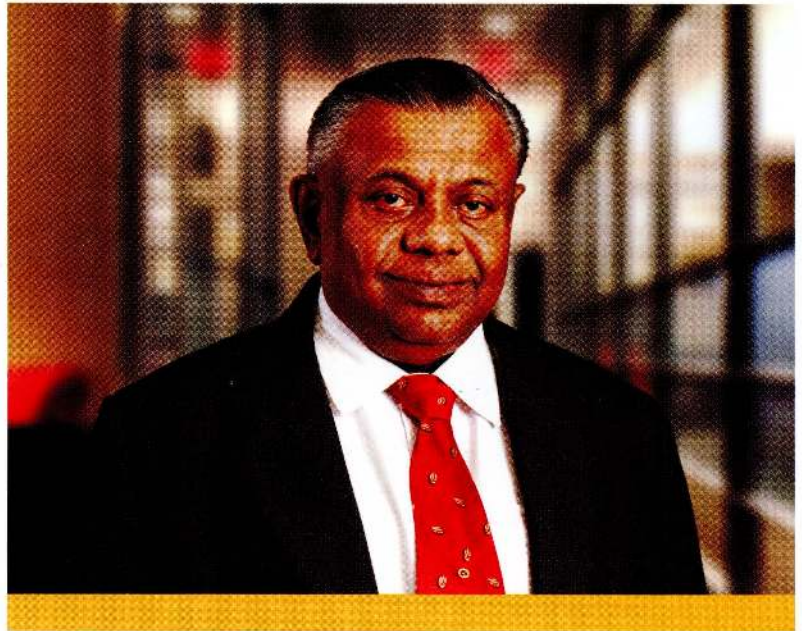
Value of Deposits (Rs Mn)	324,489	300,956	8.2
No. of Customers (Mn)	11.9	11.0	8.2

Key Performance Indicators

Return on Assets (%) - (Before Tax)	1.5	1.4	-
Return on Equity (%)	18.8	20.5	-
Capital Adequacy Ratio (%) (Basel II)	10.5	6.1	-
Non-Funded/Net Income (%)	22.5	22.9	-
Low Cost Deposits/Total Deposits (%)	55.1	59.5	-



CHAIRMAN'S MESSAGE



We have striven over the last few years to ensure that an environment of competitiveness is injected into our strategy and operations



We have just completed a turbulent year, a year that has seen considerable volatility, both locally and more so globally, with the entire financial services industry seeing a remarkable landscape transformation and pointing towards many lessons to be learned. The backdrop in which I present this Annual Report therefore is one that signals change - change in the way we think, act and do business, in the way our people have to interact with our stakeholders and in the way we have to lead the way to demarcate new dimensions in banking.

I believe that as a bank that truly has a knack of reading the pulse of the people accurately, we are able to continue powering Sri Lanka and her people towards prosperity. The prosperity we steer is one where sustained development is the key and innovation is the driver. Working on the core vision of sustaining the nation to fuel national development, I am indeed proud to head the People's Bank, which truly emulates the very philosophy of its name.

**ECONOMIC IMPACTS,
GLOBAL AND LOCAL**

The world began the year of 2008 reeling from the US subprime mortgage market collapse, high commodity prices and alarming fuel costs. Having to contend with numerous negative issues impacting the global economy, the world in general began cutting expenditure. The light at the end of the tunnel was that in the latter part of the year oil prices began decreasing

somewhat rapidly, giving nations some breathing space, even though, that time of elation was shortlived, as the one of the worst era in financial history reared its head. Mismanagement, bad governance and irresponsible lending saw an unprecedented collapse of global financial stalwarts, intensifying solvency concerns, triggering bankruptcies, forcing public intervention and badly shaking public confidence and markets.

Market liquidity contracted and there was heightening concerns about counter-party risks. The cost of US dollar funding surged globally with other money markets also severely strained. Investor risk appetite declined with pressures extending to emerging markets. The major structural shifts in the US financial sector intensified and broadened the deleveraging process, laying the groundwork for a further downsizing of the financial sector. In the US, a massive bailout package to stem the economy from going into recession was passed and in Europe, the impacts took a while longer but nevertheless displayed signs of a recession that would begin in 2009.

Asia felt the impacts albeit slower but nevertheless having seen the signs, implemented some stop-gap measures. Having already been through the Asian Financial crisis a few years ago, Asia sustained market access better than in earlier times, reflecting improvement in its policy frameworks and regulatory controls. Undoubtedly, growth did slow down

and for those countries with export markets predominantly with US and Europe, the impact would naturally permeate although we should see these countries display more resilience and able to weather the storm better.

Sri Lanka's track record in weathering financial crises has always been good. While we did feel a buffeting effect, we have been more insular and resilient compared to our Asian counterparts. Our growth rates have been consistent and in fact this year, despite the challenges felt including our main export earners tea, rubber and apparel facing temporary setbacks, posted 6.8% growth in GDP. Foreign remittances from our overseas employment segment continued to buoy Sri Lanka's foreign exchange reserves, while the Government's US dollar denominated sovereign bond issue also added the necessary impetus for the economy to move ahead.

There was a concerted effort by the Government to push for permanent peace in the North and East, which boosted confidence and visible progress in public investment programmes that have been mooted. By 2008, there were positive signs that Sri Lanka will be free of terrorism by around mid 2009 and the Government's rehabilitation and reconstruction programme in the North and East had already been mapped out and funds allocated. We see infinite opportunities in this part of the country, which has for long not been involved in Sri Lanka's mainstream economy and has immense potential for growth.



CHAIRMAN'S MESSAGE

A sectoral analysis of the country's performance records the agricultural industry displaying the highest growth contributing a significant 12.4% in the third quarter, the highest ever quarterly growth, although the final quarter did face some challenges due to the global commodity market sliding downwards. In the backdrop of the global meltdown, Sri Lanka's export sector did face considerable slowdown, however, emerged with a commendable performance in traditional and minor agricultural crop areas. The industrial sector battled low performance indicators, again combating prohibitive energy prices, increased market competition and decrease in global demand.

THE FINANCIAL SERVICES SECTOR

During the first half of 2008, the banking, insurance and real estate sector recorded a growth of 6.8% which was significantly lower than that of comparative 2007. A high inflationary and interest regime, coupled with a tightening monetary policy milieu also saw private sector credit expansion decelerate by almost half, from around 25% in the first half of 2007 to almost 13% in the corresponding period this year. The buoyant real estate sector of earlier years also saw a considerable slump, with the increased cost of borrowing impacting negatively on the development of this sector.

The Government did have to contend with an intensified battle in the North and East of the country which while requiring immense war expenditure, did reap in benefits of liberating most of the terrorist controlled areas. However, into this arena was the country's encounter with high inflation and spiralling energy costs, both of which added woes to the economy. The high inflation naturally reduced saving capacity as consumption spending rose cascading towards a decrease in mobilising deposits. Across the board, NPL ratios crept higher as borrowers found it more difficult to repay loans in this inflationary and high interest rates environment. Hence, lending expansion was curtailed by Banks with the entire banking industry not recording material growth in balance sheets.

The Central Bank of Sri Lanka however, did see the negative signs and initiated liquidity injections into the market through the reduction of the Statutory Reserve Requirement for commercial banks. However, Sri Lanka found it challenging to mobilise foreign borrowings due to the impacts of the global financial crisis, as limited funds available should be at high cost, compelling the Government to depend on domestic borrowings. The Central Bank in turn has taken steps to reduce inflation with the aim of decreasing it to a single digit by mid 2009 which yielded positive results as inflation reduced to 10.4% in January 2009, and further dropped to a remarkable 7.6% in February 2009.

FINANCIAL OVERVIEW

While the Chief Executive Officer/ General Manager's Review will give you a detailed analysis of the Bank's performance in 2008, let me touch on some of the salient points for the year.

We have striven over the last few years to ensure that an environment of competitiveness is injected into our strategy and operations. For almost five decades since our inception we always believed that we will journey with the people of this country. With the entire banking environment of Sri Lanka seeing a renaissance in ensuring that a customer's aspirations always come first, People's Bank too joined the fray introducing numerous initiatives and innovations to make the customer the focal point of our existence. We have hence been able to continue our consistent growth curve, even with intense competition from other commercial banks primarily due to understanding the psyche of the people of Sri Lanka, with a closely knit customer relationship, strengthened through the accessibility of our Bank in all corners of the country, a team that has ensured they 'walk the talk' and being able to match and sometimes exceed the innovations prevalent in the industry.

Hence the performance you see of People's Bank is noteworthy. Even in a challenging environment, we posted a profit before tax of Rs 5.6 Bn, a significant percentage increase of 13.2% from last year's figure of Rs 5 Bn, is reflecting a healthy increase of Rs 600 Mn. An increase in income is also shown, primarily driven by high average yields



on loans and advances and increased returns on Treasury Bills and Bonds. The Bank's asset portfolio saw a marginal increase almost touching the Rs 400 Bn mark this year compared to last year's Rs 380.6 Bn which is a 4.5% growth.

We contributed around Rs 7.4 Bn in way of taxes and levies to the Government compared to Rs 6.2 Bn in 2007. The Government of Sri Lanka did give the Bank a boost during 2008, injecting Rs 1.5 Bn to improve capital and reserves, which now stands at Rs 15.9 Bn, compared to last year's Rs 12.9 Bn.

This together with retained earnings and the first ever debenture issue helped People's Bank reach the stipulated Capital Adequacy Ratio (CAR) of 10%+. This is a noteworthy achievement as 2008 required the implementation of BASEL II, and with it came the operational risk element, inflating risk weighted assets.

IN SYNOPSIS

Having won the Service Brand of the Year for the first time and retaining the Banking and Financial Services Brand of the Year for the third consecutive year, I am extremely happy that People's Bank has proven without doubt that it is a Bank that remains assuredly with the people of Sri Lanka. Our flagship CSR project, People's Bank *Vishishtayo* which recognises and rewards high achieving youth, continued into its third year felicitating those students who will be

creditable future citizens of Sri Lanka. We commend not only academics, but also achievements in extracurricular activities, which we feel is a prerequisite for the development of holistic future citizens.

Our proactive work with our communities is island-wide. Identifying their needs, we take it upon ourselves to develop sustainable employment avenues, create learning cultures and spur total development. The emphasis we place on this permeates into the next generation too as we continue our work with students to create a savings culture, emphasising the importance of knowledge gain, respect for our elders and culture and instilling a patriotic feel for the country. These we impart through our winning team, a group of individuals who come together as a collective force to take the message of People's Bank that much further, with dynamism, commitment and determination. I also recognise the team spirit and immense pool of knowledge we have among our team and salute them for keeping People's Bank among the best banks in the country with their untiring effort.

In line with the Government's Ten-Year Vision embedded in the *Mahinda Chinthanaya*, People's Bank remains aligned to the development goals etched therein. Having already completed the Strategic Plan 2004 to 2008 successfully, we have formulated

our new Strategic Plan from 2009 to 2014. Using technology as a key driver and equipping our team with appropriate training and skills, the goals within this plan are ambitious but achievable. I do believe that People's Bank is now poised for a new journey ahead, a journey that will take us into a new vista.

Finally, I would like to thank the outgoing and new Secretary to the Treasury, my fellow Board Members, the retired and new CEO/GM together with Corporate and Executive Management, all our loyal staff members and employee Trade Unions who contributed immensely for the Bank's performance in year 2008. I also make a special mention about our valued customers for their trust kept in us. I look forward to their continuous support in 2009 and coming years.



W. Karunajeewa
Chairman

25th March 2009

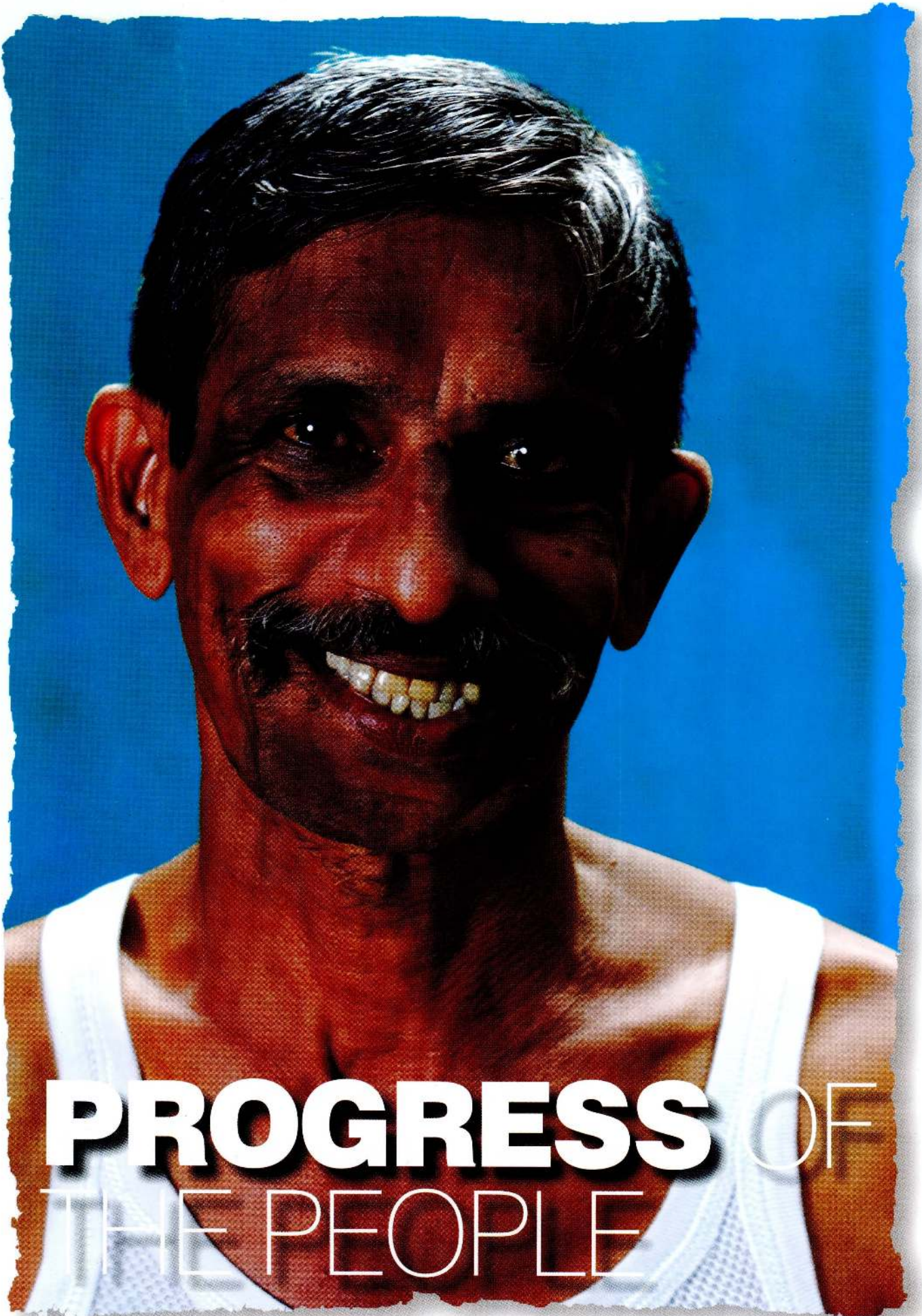




**THIS IS FINANCE WORKING
FOR UPLIFTMENT...**

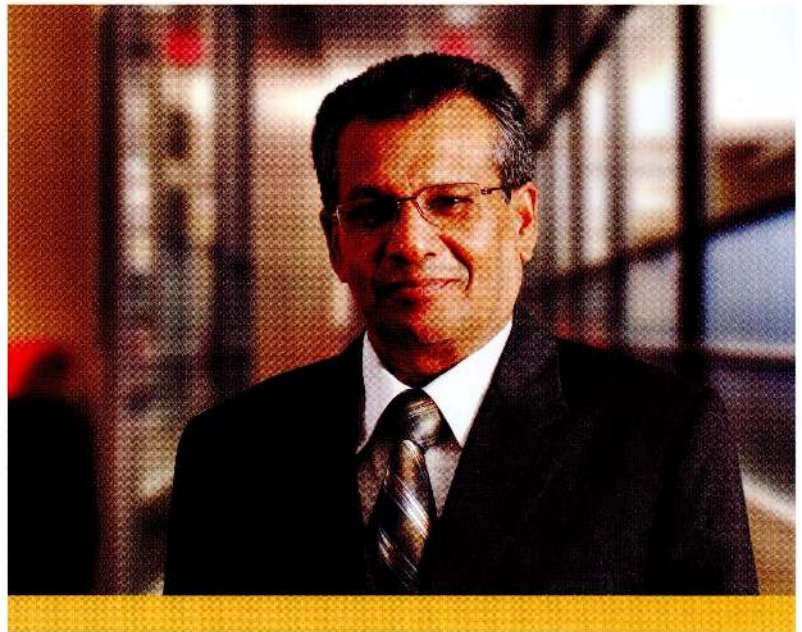
Aswenna from People's Bank... Uplifting the Rural Economy...

*to the farmer community across Sri Lanka,
our 'Aswenna' Savings Scheme offers a
range of benefits that are geared towards
uplifting their lives... in turn, their financial
well-being will contribute to their progress
and that of the Nation.*



PROGRESS OF THE PEOPLE

**CHIEF EXECUTIVE OFFICER/
GENERAL MANAGER'S REVIEW**



**Our ever increasing
portfolio of eleven million
customers made us the
prime choice for winning
the Banking and Financial
Services Brand for the third
consecutive time**



47 years - and we have etched our presence indelibly in the lives of Sri Lankan people, working on the philosophy of always looking at the big picture of overall development on a bottom-up approach. Our philosophy of development has continuously evolved on a sustainable platform and considering that even in challenging times, the Bank has ensured a consistent growth curve that emulates every stakeholder of People's Bank. I strongly believe that we are firmly journeying towards meeting the goals of our overall vision.

OVERVIEW

We have this year completed the second stage of our Strategic Plan which was implemented from 2004, meeting most of our targets and objectives successfully. However, Strategic Plans must be based on continuity especially in our country in which we see rapid transformation of the development landscape with the expectation of the entire country returning to normalcy by first part of 2009. We ingrained our vision further and mapped out an extension to this Strategic Plan until the year 2014 which we feel is prudent, given the transformations we are about to see and experience.

Undoubtedly, 2008 saw massive changes both globally and locally, some foreseen and most not foreseen. Given the global meltdown

experienced across the world, it became important for Sri Lanka too, insulated though we may seem, to take a more focused look at what goes on around us and extract lessons from the fallouts we observed. The country, while having to deal with high inflation, alarming energy costs and a challenging interest regime, also took on increasing expenditure on the battlefield, given the increased thrust on seeing an end to the war in north and east. All this did take its toll on the economy and monetary regulators too had their hands full. Meanwhile, we also observed mismanagement and bad practices resulting in the collapse of some financial institutions which unfortunately eroded public confidence in the financial services industry. Kudos goes out to the Central Bank for timely stepping into stem the tide, reassuring the public and placing the industry back on track.

However, the Government's ten-year plan embedded in the Mahinda Chinthanaya continues in focus and People's Bank too continues its role as a facilitator in those development initiatives. Conceptualised on the United Nations Millennium Development Goals, the Mahinda Chinthanaya's over arching platform is that of sustainable development that forms trusses for poverty alleviation, entrepreneurship, knowledge development and infrastructure progress. These shape the fundamentals for a progressive

nation, a nation which we at People's Bank want to power and drive.

FINANCIAL PERFORMANCE

You will be extremely proud that your Bank truly espouses the pulse of the people and has performed brilliantly this year, despite the challenging and intensely competitive environment we functioned in. We posted the highest-ever profit before taxation of Rs 5.6 Bn in our history, a definite growth of 13% from last year's Rs 5 Bn. We are doubly proud of ourselves because these impressive results were delivered in very trying market conditions where high inflation, volatile interest rates and an escalating war scenario in the north and east were challenges we had to deal with throughout the year. The results also reflect that the Bank has in place a prudent management strategy and an excellent team that drive this strategy to ensure continuous and consistent performance.

The Bank's total asset portfolio almost touched Rs 400 Bn compared to Rs 380.6 Bn last year. Our net interest income for 2008 is Rs 19 Bn, which is a 15% growth over the figure of 2007 mainly attributable to improved net interest margins driven by timely repricing of loans and advances and increased returns on Treasury bills and bonds. However, the positive features of this was somewhat offset by high borrowing



CHIEF EXECUTIVE OFFICER/ GENERAL MANAGER'S REVIEW

costs and preferential interest rates offered to certain lending categories. The overall loan book remained almost flat throughout the year due to our focus on qualitative rather than quantitative lending and a challenging deposit mobilisation environment all around.

Exchange gains and increased fee-based revenue saw our non-funded income portfolio grow by over 12% compared to 2007. There was also a concerted effort in our recoveries portfolio. Recovery of bad debts written-off and specific provision reversals reported a modest Rs. 620 Mn depicting a Rs 120 Mn decrease over 2007.

Overhead management was also emphasised throughout the year as we concentrated on growing and sustaining our top line numbers in a challenging environment. Hence, our expenses had to be managed better and more prudently. This we did according to our budgeted estimates, keeping our total overheads to Rs 17.1 Bn despite reflecting an increase of Rs 1.4 Bn over 2007. These increases were due to an incline in salaries, cost of living allowances and the launch of a Medical Expenses Fund to meet medical expenses of retirees. Our marketing, gift items and communication campaigns touched

Rs 640 Mn, but this is one item of expenditure we felt was required to ensure that our visibility, brand, product and service promotion remain at top of the mind recall. Contribution towards the Bank's Pension Fund was based on a certified Actuary Valuation, while overall increases in administrative expenses most inflationary driven were mitigated due to lower-than-anticipated depreciation for the year.

Our general provisioning requirements are on track and according to the stipulations of the Central Bank. The 1% general provisioning on performing loans must be met by March 2009 and we are confident of meeting this timeline. Total general provisioning, including that for pawning, amounted to Rs 651.5 Mn, compared to Rs 351.5 Mn for 2007. Specific provisions stood at Rs 968.4 Mn for 2008, compared to the 2007 figure of Rs 470.3 Mn.

Financial VAT liability however did take a large slice from our earnings increasing from Rs 2.17 Bn to Rs 2.64 Bn, heralding an even larger crunch as Financial VAT is not tax deductible.

We did gain a boost into our capital reserves with the Government of Sri Lanka injecting Rs 1.5 Bn, to increase the portfolio to Rs 15.9 Bn

from what was Rs 12.9 Bn in 2007. This was further augmented with the debenture issue of Rs 2.5 Bn, together with ploughed back earnings enabled the Bank to meet the much discussed Capital Adequacy Ratio of 10%+. This achievement is noteworthy as its BASEL II compliant.

DEPOSITS AND ADVANCES

One of our most significant movements in the year was the increase of Rs 8.6 Bn in our vital rupee savings balance, showcasing a 6.6% increase despite a high inflationary environment, high Fixed Deposit rates as well as intense competition from new entrants and other commercial banks in the country. Notably, our overall deposit base touched Rs 324.5 Bn this year, which is an increase of Rs 23.5 Bn over 2007 and a commendable 7.8% growth, in line with industry growth.

We registered a 4% growth in advances, with the Bank's loan book increasing by Rs 10 Bn over 2007 to stand at a total of Rs 263.4 Bn, with pawning being the main contributor. The pawning portfolio notched a growth of Rs 12.4 Bn over the year, denoting an exposure of 34% on total loans and advances. Working on the qualitative stance we had espoused from a few years ago, we were conservative in our lending



and given the credit squeeze in operation, did not record a material growth in overdrafts, foreign currency and commercial loans. Total exposure to State-Owned Enterprises (SOE) was managed at 13% of the total loan portfolio, with SOE loan balances closing at Rs 34.5 Bn, a decrease of Rs 4.5 Bn from last year.

However, given the challenging milieu we were working under, People's Bank like other financial service institutions, did see an increase of Non-performing loans (NPL's) with a Rs 2.9 Bn increase over 2007 balances.

POWERED BY THE PEOPLE FOR THE PEOPLE

The fact that we have remained true to our ideals of being the driver in people's development was once again proved true when the Bank won two People's Awards this year, etching the confidence and the standing we have with the people of Sri Lanka that much further. Our ever-increasing portfolio of eleven million customers made us the prime choice for winning the Service Brand of the Year for the first time and retaining the Banking and Financial Services Brand of the Year for the third consecutive year, proving beyond doubt that the Bank is a true partner to the people's



Service Brand of the year
2008



Banking & Financial Services
Brand of the year 2008

journey ahead, driven by a team of committed individuals who will drive our stakeholders towards unbridled prosperity.

In addition, we were also certified with an A+ brand rating with a brand value of Rs 7.8 Bn by Brand Finance, positioning us in the No. 1 position in the Brand Finance League Table of all Sri Lankan banks.

Into this equation of kudos and accolades, we continued our product development initiatives, which we believe is one of the fundamentals in continued value addition to the products and services we offer. People's Bank introduced a pre-generated PET Card which is presented to customers as soon as an account is opened. The pilot project was completed successfully at the Borella and Wattala branches and the new PET Card will be implemented country-wide by mid 2009.

With foreign remittances being a primary foreign exchange earner that supports the nation's treasury, we have always striven to ensure easy remittance processes to keep foreign exchange within official channels. This year, the Bank introduced a globally-accessible e-remittance service that would aid this official remittance process.

HUMAN RESOURCES AS THE DRIVER FOR PROGRESS

Our people continue to be the vital cog in the wheel of our success and the transformations seen within People's Bank are primarily due to their dedication, commitment and dynamism in keeping abreast of our vision and stridently charting the course ahead. Given the expansion plans we have embedded within this course, it is imperative that we infuse into our team the right people for the right job. Precision planning therefore is of vital importance.

883 Customer Service Assistants were recruited into our team this year to enhance our existing customer service standards and with the underlying philosophy of providing employment for the country's youth. We ensured that these new recruits were selected and placed from respective district closest to their residence.



CHIEF EXECUTIVE OFFICER/ GENERAL MANAGER'S REVIEW

In addition, the Human Resource (HR) manual was restructured as a guide to Human Resource personnel for decision-making that would improve the quality and productivity of the Bank. We also plan to introduce a performance evaluation scheme with negotiations between trade unions, team members and other stakeholders. The scheme is aimed at motivating our team to work towards a culture of meritocracy where the fundamentals of training and development, rewards and remunerations, job rotation and promotions to lead to higher productivity, efficiency and job satisfaction.

IT AS THE FUNDAMENTAL FOR FUTURE SUCCESS

IT continues to be a fundamental upon which our future course is chartered and numerous initiatives were introduced during the year to ensure that we remained on course. The Bank's first-ever Intranet was implemented this year, aimed at enhancing internal productivity, for better communication via circulars and notice boards, credit manuals and annual reports and moving towards a paperless environment.

Fifty ATMs were also added to our network this year bringing the total to 240. Customer centralisation was also begun branch-wise so that customer information could be utilised as a tool for better service initiatives, value addition and

strategic advantage over competition. Palm top banking was introduced in 2008 and the roll out of SMS and internet banking is planned by the first quarter of 2009.

PARTNERING THE COMMUNITY'S PROGRESS

Corporate Social Responsibility (CSR) continues to be integral to our existence and we undertook some primary projects during the year. With a view of promoting the country's cultural heritage and ideals for future generations the areas as well as in tourism development, as the official banker to Asia's largest cultural pageant, we contributed Rs 2.5 Mn towards the Esala Perahera. In similar vein, partnering the Civil Security Department under the aegis of the Archaeological Department, the Bank funded the refurbishing, reconstructing and maintenance of the grounds on which the revered Aukana Buddha statue is located in Anuradhapura. These examples are only two of many CSR projects taken on by People's Bank.

CHALLENGES TO BE MET AND THE YEAR AHEAD

While we remain on track where the 1% General Provisioning regulation imposed by the Central Bank is concerned, we are also mindful that BASEL II also came into effect from January 2008, together with the new Sri Lanka Accounting Standards (SLAS) 44 and 45 due to be imposed

by 2010. We remain cognisant of our responsibility in meeting the tenets embedded in these initiatives and the over arching facet that these infuse a better culture of compliance and monitoring, especially in the light of past financial incidences both within Sri Lanka and around the world. The new Corporate Governance Code brought in by the Central Bank has also been introduced at People's Bank and now operational, thereby implementing a stricter code of conduct for entities in Sri Lanka embodying more responsibilities for those heading the entities. We at People's Bank has worked hard to introduce this new Corporate Governance Code.

Working on the tenets of our five-year Strategic Plan for 2009-14 which has focused on strengths, weaknesses, challenges, threats and opportunities for our journey ahead, we will ensure that both our IT and Human Resources development will also be aligned in meeting the goals within the Plan. What is also significant is that the Strategic Plan clearly indicates a comprehensive journey that would support the Government's ten-year Mahinda Chinthanaya, which essentially is about a vision for sustainable development. We strongly believe that it is through sustainable development that the nation can move towards a clearly-defined path to prosperity.



CHIEF EXECUTIVE OFFICER/ GENERAL MANAGER'S REVIEW

I would like to thank the past and present Secretary to the Treasury, Ministry of Finance, Central Bank officials and Auditor General for the support given to the Bank. I also thank our Chairman and the Board of Directors for the guidance and encouragement extended towards me and the Bank's management team, which was a key strength behind achieving our 2008 results.

Finally my corporate and executive management team together with our loyal and committed workforce and employee trade unions have as always worked hard towards achieving our noteworthy results. I look forward to their unstinted support in 2009 and beyond.



P.V. Pathirana

*Chief Executive Officer/
General Manager*

25th March 2009



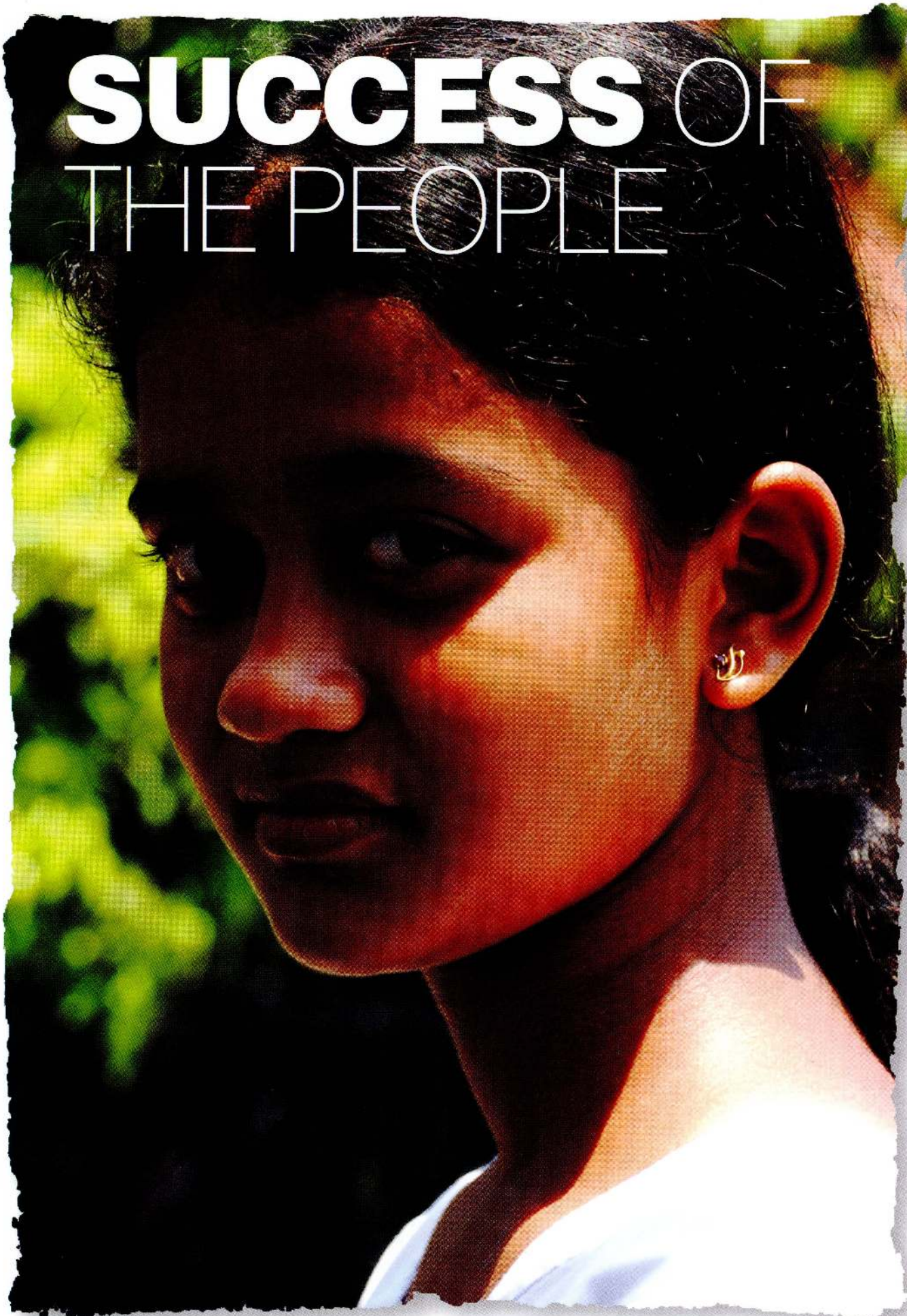


**WITH A FIRM FOCUS ON
A SUCCESSFUL FUTURE...**

People's Bank awards Scholarships to top A/L Achievers...

the 'YES Future Stars' savings scheme is designed for young people. Whilst inculcating the healthy habit of saving, it also invests resources in the education of the young... grooming them for success.

SUCCESS OF THE PEOPLE



BOARD OF DIRECTORS



Mr. W. Karunajeewa



Mr. Chandrasiri de Silva



Mr. Gunasoma Wickramasinghe

Mr. W. Karunajeewa

Mr. W. Karunajeewa, joined the Board of People's Bank in May 2007. He is also the Chairman of People's Leasing Company Ltd., a fully owned subsidiary of People's Bank.

He is an Attorney-at-Law and also holds a B.Com Degree.

Prior to his appointment as Chairman of People's Bank, he served as Chairman of the ETF Board from December 2005-May 2007 and also as the Chairman of Ceylon Fisheries Corporation from October 2000 to December 2001.

He has also held the position of Working Director at Ceylon Fisheries Corporation during the period July 1996-October 2005 and as Working Director of ETF Board during the period January 1995-June 1996.

Mr. Chandrasiri de Silva

Mr. Chandrasiri de Silva, an Attorney-at-Law joined the Board of People's Bank in January, 2006.

He counts over 19 years of active practice in the District Courts, Appeal Courts and Supreme Court.

Currently, he is the Chairman of People's Travels (Pvt) Ltd. and also he is in the directorate of People's Merchant Bank which are subsidiaries of the People's Bank. He is also a Director of the Centre for Monitoring of Free and Fair Elections and Democratic Rights.

He has completed Master of Laws Degree course conducted by University of Wales, UK in International Laws.

Mr. Gunasoma Wickremasinghe

Mr. Gunasoma Wickremasinghe an Attorney-at-Law was appointed to the Board of People's Bank in January 2006.

Mr. Wickramasinghe who holds an LLB degree counts over 25 years of practice as a Lawyer. He has served as the Chairman of Southern Province Provincial Council during the period 1995-1999.

Mr. R.A. Jayatissa

Mr. R.A. Jayatissa, an Economist, is the Senior Economic Policy Advisor to the Ministry of Finance and Planning. He has served as Director of Economic Research and Assistant Governor of the Central Bank of Sri Lanka. He

has also served as a staff member and later as a member of the Executive Board of the International Monetary Fund. During August, 2005 to November, 2008, he was Deputy Secretary to the Treasury and Senior Economic Policy Advisor to the Ministry of Finance and Planning. Mr. Jayatissa was appointed to the Board of People's Bank in January, 2006.

He holds a BA (Hons.) Degree in Economics (University of Sri Lanka), MA in Development Economics (Williams College) and MA in Political Economy (Boston University, USA).

He has wide experience in the fields of Banking and Finance, Macroeconomic and Public Sector Economic Policy Issues.

Mr. Thimira Rajapakse

Mr. Thimira Rajapakse was appointed to the Board of People's Bank in October, 2006.

He holds an MBA, Diploma in Business Studies (UK), Diploma in Management (UK) and AIPFM.

Presently, he is the Managing Director of Hansel Textile Lanka (Pvt) Ltd. and a Director of the Export Development Board.





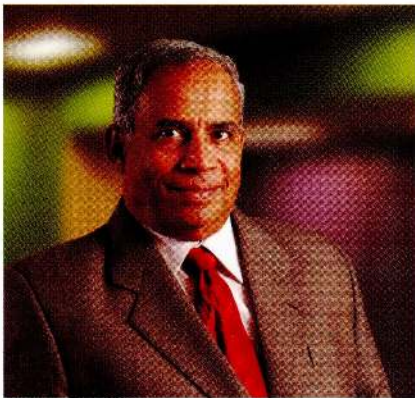
Mr. R.A. Jayatissa



Mr. Thimira Rajapakse



Mr. Anil Parakrama Weerasinghe



Mr. D.J.D. Jayakody



Dr. R.M.K. Ratnayake



Mr. Wajira Swarna Sri Bandara

Mr. Anil Parakrama Weerasinghe

Mr. Anil Parakrama Weerasinghe who holds a Degree in Textile Technology, was appointed to the Board of People's Bank in November, 2006.

He is a Director of J.P. Weerasinghe & Company Ltd. and Silicon Valley Software Solutions Ltd.

He has served on the Board of People's Bank during the period 1996-1999. He is a former Director of Export Development Board and Lanka Cement Company Ltd.

Mr. D.J.D. Jayakody

Mr. D.J.D. Jayakody was appointed to the Directorate of People's Bank in July, 2007. At present he is a Senior Lecturer at the Wayamba University of Sri Lanka in Kuliyaipitiya.

He has served in the Faculty of Management & Finance, Faculty of Graduate Studies of the University of Colombo as a Visiting Lecturer.

He holds a B.Sc. Special Degree in Public Administration and MBA awarded by the PIM of the University of Sri Jayawardenapura. He has gained senior management experience in

Accounting, Finance, Auditing, Human Resource, Quality and Productivity and Training. He has served in many capacities as Accountant, Chief Internal Auditor, Deputy General Manager and Additional General Manager.

He has served as a member of National Labour Advisory Council under the Ministry of Labour and as a Director of National Livestock Board. He was a Reserve Assistant Superintendent of Police and was in charge of Recruitments and Police Reserve Training Colleges.

He is a Fellow of the Institute of Public Finance and Development Accounts and a member of Institute of Management of Sri Lanka.

Dr. R.M.K. Ratnayake

Dr. R.M.K. Ratnayake who holds a Ph.D from the University of London was appointed to the People's Bank Directorate in June 2007.

Presently he is the Secretary of the Ministry/Trade, Marketing, Development, Co-operatives & Consumer Service.

In addition to the above, he holds the Chairmanship of e-Services Lanka Ltd. and

Directorships in Export Development Board, Sanasa Development Bank, Sri Lanka Institute of Information Technology, Lanka Industrial Estates Ltd. and National Wealth Corporation.

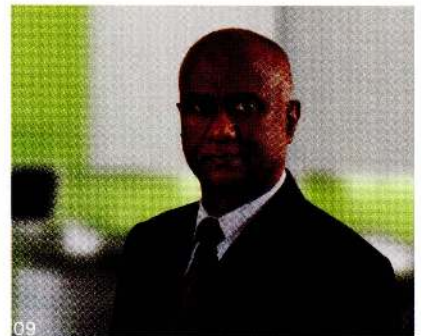
Mr. Wajira Swarna Sri Bandara

Mr. Wajira Swarna Sri Bandara, an Attorney-at-Law & Notary Public was appointed to the directorate of the People's Bank in August 2007.

He holds a BA (Hons.) Degree in Criminology and Criminal Justice and has served as a Director at Ceramics Corporation.



CORPORATE MANAGEMENT





CORPORATE MANAGEMENT

01. Mr. M. Wickremasinghe

*Ex-Chief Executive Officer/
General Manager*

Mr. Wickremasinghe is a BA (Hons.) Graduate and also a Bachelor of Philosophy (B.Phil.). He also holds a Merit Pass from the Management Development Programme conducted by the Postgraduate Institute of Management (PIM), University of Sri Jayawardenapura.

He has served as a Branch Manager and a Senior Manager in the International Division and has moved on to the position of Chief Executive Officer/General Manager after holding the positions of Deputy General Manager and Senior Deputy General Manager.

In his 35 years of service, he has served the Bank in the fields of Co-operative Development, Inspection, Organisation and Methods, Finance, Planning and Treasury and Branch Operations.

Mr. Wickremasinghe is a Board Member of Credit Information Bureau of Sri Lanka, Director, Governing Board of Institute of Bankers of Sri Lanka and Member of Lanka Financial Services Bureau. He is also a Council Member of the University of Colombo, Committee Member of the Financial Cluster of the National Council for Economic Development and a Director of the National Payment Council.

He was the 12th Chief Executive Officer/General Manager of the People's Bank, and retired on 18th January 2009

02. Mr. P.V. Pathirana

*Chief Executive Officer/
General Manager*

Mr. Pathirana has 37 years of experience at the People's Bank, is a B.Sc. (Business Administration) Graduate and a Fellow Member of the Institute of Bankers of Sri Lanka (FIBSL). He holds a Diploma in Bank Management from the Institute of Bankers of Sri Lanka. He has wide experience working from Branch Manager level to Senior Deputy General Manager level in different areas of the Bank, specialising in Micro Finance and Development Banking.

He took over as the CEO/GM of People's Bank on 19th January 2009.

03. Mr. Kapila Ariyaratne

*Senior Deputy General Manager
(Corporate and Institutional Banking,
Domestic and Development Credit)*

Mr. Ariyaratne who joined the People's Bank in March 2001 counts 24 years of experience in the fields of Customer Services, Trade Finance Operations, Corporate Banking and Credit Risk Management with leading international Banks. He holds a First Class Honours Degree (B.Sc.) and a Diploma in Business Administration.

He is also a Director of the People's Leasing Co. Ltd.

04. Mr. N. Vasantha Kumar

*Senior Deputy General Manager
(Treasury and International Business)*

Mr. Vasantha Kumar holds a Master's Degree in Business Administration and counts nearly 30 years of experience in Treasury

Management. He joined the People's Bank in March 2001, prior to which he served as Treasurer at ANZ Grindlays Bank, Colombo for many years.

Mr. Kumar has re-engineered the Bank's Treasury Unit from a relatively support oriented service unit to a frontline revenue-earning business segment and has significantly enhanced the technical expertise and service quality that is delivered by the treasury team.

He is the current President of the Association of Primary Dealers and former President of the Sri Lanka Forex Association.

Director at People's Leasing Co. Ltd. and People's Travels (Pvt) Ltd.

05. Mr. Ahamed Sabry Ibrahim

*Senior Deputy General Manager
(Risk Management)*

Mr. Ibrahim has over 25 years of banking experience, both locally and internationally, primarily in the areas of Corporate Banking, Treasury Management and Risk Management. He holds an Honors Degree (B.Sc.) from the University of Colombo and is a Fellow of the Chartered Institute of Bankers UK (FCIB).

06. Mrs. Kanthi Atukorale

Secretary to the Board of Directors

Mrs. Atukorale is an Attorney-at-Law with a Degree in Bachelor of Laws and has 31 years of experience in banking service. She has served as the Additional Chief Law Officer prior to her appointment as the Secretary to the Board of Directors.



She also held the office of Chief Law Officer in acting capacity during the period February 2006 to July 2008 in addition to her duties as the Secretary to the Board of Directors.

07. Mr. A.M. Chandrasagara
Chief Internal Auditor

Mr. Chandrasagara has 38 years of experience at People's Bank in the fields of General Banking, Accounting, Finance, Inspection and Internal Auditing. He is a Fellow of the Institute of Bankers (FIB) of Sri Lanka and an Associate Member of the Institute of Chartered Accountants (ACA) of Sri Lanka. He holds the Diploma in Information Systems Security, Control and Audit, conducted by the Institute of Chartered Accountants of Sri Lanka with the technical collaboration of the Institute of Chartered Accountants of India and a Diploma in Accountancy.

Presently, he is the Chairperson of the Committee of Internal Auditors of Banks appointed by the Sri Lanka Banks' Association (Guarantee) Ltd., to study fraudulent activities in banks and to suggest systems and procedures to minimise such frauds. He was a member of the Council of the Institute of Internal Auditors of Sri Lanka and was also a member of the Council of the Institute of Bankers of Sri Lanka.

08. Mr. H.S. Dharmasiri
Deputy General Manager (Human Resources)

Mr. Dharmasiri is a Graduate in Economics with First Class Honours and an Associate Member of the Institute of Bankers of Sri Lanka.

He has also obtained a Diploma in Bank Management from the Institute of Bankers of Sri Lanka.

He joined the Bank as a Management Trainee and his experience in the banking industry spans 33 years, during which time he has served in various capacities ranging from Branch Manager to his current position.

During this period he has participated in a number of training programmes conducted locally as well as overseas.

09. Mr. K.U. Pushpakumara
Deputy General Manager (Corporate and Institutional Banking)

Mr. Pushpakumara is in charge of the Corporate Banking Division and Offshore Unit. His career experience over three decades covers the areas of International Banking, Development Banking, Human Resource Management, Branch Business/Banking, Information Technology and Corporate and Institutional Banking at the levels of Branch Manager, Assistant Regional Manager, Regional Manager, Zonal Assistant General Manager, Acting Head of Information Technology and Deputy General Manager.

He serves as a Director of Lanka Clear (Pvt) Ltd., alternate Director of the Institute of Bankers in Sri Lanka (IBSL) and a Council Member of University of Moratuwa.

He is a member of the Chartered Management Institute - UK, the Institute of Management - SL, the Association of Professional Bankers of Sri Lanka, the Organisation of

Professional Associations and the prestigious TMC (The Management Club) of Corporate.

He obtained his first Degree BA (Hons.) in Mathematics from the University of Peradeniya in 1975 and worked at the University as an Assistant Lecturer in Mathematics and after a brief teaching career joined the People's Bank in 1977 as a Manager. He holds an MBA from the University of Colombo, Diploma in International Trade and has professional banking qualification AIB (Inter) - SL as well. His overseas exposure includes Development Banking, Financial Management, Bank Marketing, Branch Banking, Corporate Excellence etc., in India, Japan, Malaysia, Singapore, USA and UK.

10. Dr. S.L. Tilakasiri
Director Research

Dr Tilakasiri, heads the Research Division of the Bank and also overlooks Economic Review, a reputed socio-economic journal published by the Bank. Additionally, he functions as the Co-ordinator - Strategic Planning Unit and CEO/GM's Communication Unit.

He holds a BA (Hons.) and a MA from Sri Jayawardenepura University, a M.Sc. from University of Linkoping (Sweden) and a Ph.D. from University of Peradeniya. He also holds a Diploma in Comparative Production Systems (Norway), PG Diploma in Social Statistics and Certificate in Management Development Programme. He is a member of several professional/academic bodies.



Dr. Tilakasiri joined the People's Bank in 1977 as a Research Officer and counts more than three decades of research experience in the fields of banking, rural and agricultural financing and marketing of banking products/services. He has also gained wide exposure and hands-on research experience through his close involvement with Scandinavian and New-Zealand research teams particularly undertaking joint research programmes. Prior to joining the Bank he has served in the Ministry of Plan & Plan Implementation and in the academic staff of University of Sri Jayawardenepura.

11. Mr. M.T.M. Shuaib *Credit Controller*

Mr. Shuaib counts 29 years of service at the People's Bank. He joined the Bank in the capacity of a Finance Officer and has integrated to the banking functions and acquired wide knowledge in credit related activities. Prior to joining the Bank he has had several years of experience in Finance and Management in two large State Institutions. He is a Member of the Association of Accounting Technicians of Sri Lanka and possesses part qualification from the Chartered Institute of Management Accountants (CIMA) in UK. He has successfully completed a Management Development Programme conducted by the Postgraduate Institute of Management (PIM) of the University of Sri Jayawardenapura.

In addition to his duties as Credit Controller, he has recently been appointed Acting Deputy General Manager (Recoveries).

12. Mr. Deepal Abeysekera *Head of Marketing and Public Affairs*

Mr. Abeysekera joined the People's Bank in March 2001. To date he counts 26 years of solid experience in Strategic Business Development and Marketing of Financial Services. He has been responsible for setting up the Sales, Marketing and Strategic Business Development Operations in financial sector organisations, and has successfully led Corporate Brands to the top positions in their respective industries in Brand Value.

Mr. Abeysekera is a Chartered Marketer and a Fellow of the Chartered Institute of Marketing - UK, a member of the Chartered Management Institute (CMI) - UK and a Certified Member (CMA) of the Institute of Certified Management Accountants. He holds a Postgraduate Diploma in Marketing from the Chartered Institute of Marketing - UK and a MBA from the University of Southern Queensland, Australia. He has also followed the General Management Programme at the National University of Singapore.

He is currently a Member of the Market Interest Group for Financial Services of CIM - UK Sri Lanka Branch, a member of the Executive Committee of the Chartered Management Institute - UK Sri Lanka Branch and a Council Member of the Association of Professional Bankers. He was honoured as the Excellent Club President by Rotary - Sri Lanka during the Rotary Year 2007-2008.

13. Mr. Kumar Mayadunne *Head of Banking Services*

Mr. Mayadunne has over 35 years of banking experience specialising in Operations. Prior to joining People's Bank, he was attached to the Standard Chartered Bank, Colombo, where he held many Senior Management positions viz., Head of Operations, Treasurer, Head of Administration/ Compliance, Head of Personal Banking and Head of Trade Services. He holds a Diploma in Bank Management from the Institute of Bankers of Sri Lanka. He has also received extensive banking training and exposure in UK, United Arab Emirates, India, Singapore, Malaysia and Thailand.

14. Mr. Yohan Soza *Head of Finance*

Mr. Yohan Soza was appointed as the Head of Finance at People's Bank from May 2007. Yohan is a Member of the Institute of Chartered Accountants of Sri Lanka and counts more than 15 years of experience at Ernst & Young, Lanka Orix Factors Ltd. and Amba Research Lanka (Pvt) Ltd.

15. Mr. P. Rajapakse *Deputy General Manager (Branches and Personal Banking)*

Mr. P. Rajapakse joined the Bank in 1970 and counts for over 37 years of experience. He has wide experience in all aspects of Branch Banking from the rank of Branch Manager to Deputy General Manager. He possesses AIB and holds a Management Development Certificate with a Merit Pass awarded by the Postgraduate Institute of Management, University of Sri Jayawardenapura.



He has received extensive local and overseas training and exposure in Banking and Finance which includes Strategic Management, Risk Management, Project Lending, Corporate Credit etc.

He has contributed his knowledge and vast experience as a Trainer and a Lecturer to guide Branch Managers, Assistant Regional Managers, Regional Managers and other Staff in order to improve their service quality and self development.

Mr. P. Rajapakse is in charge of the branch network consisting 8 Zones, 24 Regions, 325 Branches and 323 Service Centres with a staff force of over 7,000; and also responsible for the innovative product development/product repackage through extensive market research which has become the key drive in Bank's deposit mobilisation amidst the unfavourable market conditions. His immense experience has contributed towards the effective management of Clearing and Cash divisions of the Bank.

16. Mrs. P.M. Dunuwille Koralege
Special Executive - Legal

Mrs. Preeni Manjula Dunuwille Koralege is an Attorney-at-Law and also holds a LLB Degree from the University of Colombo with 20 years of experience in active legal practice and Corporate Law and Banking.

She is also a qualified Company Secretary.

She commenced her career as a Professional Assistant at M/s. F.J. & G. de Saram, one of the oldest

Law Firms in Sri Lanka and worked there for 6 years. Thereafter, she joined the ABN Amro Bank and served for 8 years handling Legal, Recoveries, Credit Risk Management and Control. Subsequently she joined Confifi Group of Companies as the General Manager, Legal and Corporate and served for 3 years prior to joining People's Bank on 1st September, 2005.

17. Mrs. Summaiya Macan Markar
Chief Compliance Officer

Mrs. Summaiya Macan Makar passed the Attorneys-at-Law final examination in 1993 with First Class Honours and was placed second in the order of merit. She served her internship at the Supreme Court of Sri Lanka and apprenticeship at the Attorney General's Department. She served the National Development Bank of Sri Lanka between 1994 and September 2005 and was NDB's Manager Compliance at the time of joining People's Bank in September 2005.

Her main responsibilities include Regulatory and Financial Compliance, Anti Money Laundering Compliance, Corporate Governance, Conduct and Ethics at People's Bank.

18. Mr. Sarath Hendavitharana
Actg. Chief Law Officer

Mr. Sarath Hendavitharana counts 39 years of service at the People's Bank. He is an Attorney-at-Law and holds a Bachelor of Arts Degree as well as Bachelor of Laws Degree. He joined the People's Bank in 1970 and has gained experience in the fields of General Banking and Law.

His experience covers the areas of Banking Law, Credit Recoveries, Corporate Law, Labour Law and Land Redemption.

19. Dr. D.N.D. Ramanayake
Head of Information Technology

Dr. Ramanayake holds a B.Sc. (Hons.) Degree with Mathematics in addition to securing a M.Sc. in Computer Science and a Ph.D. in Engineering. He commenced his career as an Assistant Lecturer in Mathematics at the University of Sri Lanka, and to date continues to function as a Visiting Lecturer in Computer Science and Project Management. He is also a Council Member of the Faculty Board of the Faculty of Science, University of Peradeniya.

Prior to joining the People's Bank in March 2007, he worked as Head of IT with international banks such as Citibank and Standard Chartered Bank and as CIO of an international airline. He was considered for the position of Director of IT for the UN Headquarters in New York. He worked for the Commonwealth Government of Australia giving leadership to the team developing tax applications and implementing it in many States in Australia.



EXECUTIVE MANAGEMENT



- 01. **Mr. K.H.L. Chandrasiri** - Assistant General Manager
(PA to CEO/General Manager)
- 02. **Mr. W.K. Ariyasena** - Assistant General Manager
(Development Banking)
- 03. **Mr. W.D. Dayananda** - Assistant General Manager
(Overseas Customer Services)
- 04. **Dr. Nihal Ranjith Jayatilake** - Assistant General
Manager (Branches)

- 05. **Mr. H.D.J. Anthony** - Assistant General Manager
(Treasury)
- 06. **Mrs. M.S. Arsacularatne** - Deputy Head of Finance
- 07. **Mr. S.M. Maharroof** - Assistant General Manager
(Credit Control)
- 08. **Mr. C.W.W. Ratnayake** - Assistant General Manager
(Recoveries/CBD Recoveries)



09. Mr. L.B.N. Siripala - Assistant General Manager
(Internal Audit)

10. Mrs. G.P.R. Jayasinghe - Assistant General Manager
(Services)

11. Mrs. C. Werapitiya - Assistant General Manager
(Corporate and Institutional Banking)

12. Mr. S.U. Gunasekera - Building Engineer

13. Mr. Sobitha Weerasekera - Deputy Head of
Information Technology

14. Mr. Clive Fonseka - Deputy Head of Treasury

15. Mr. G. Piyasena - Assistant General Manager
(Payment and Cash Management)

16. Mr. A.W. Piyasiri - Assistant General Manager
(Personal Banking)

EXECUTIVE MANAGEMENT

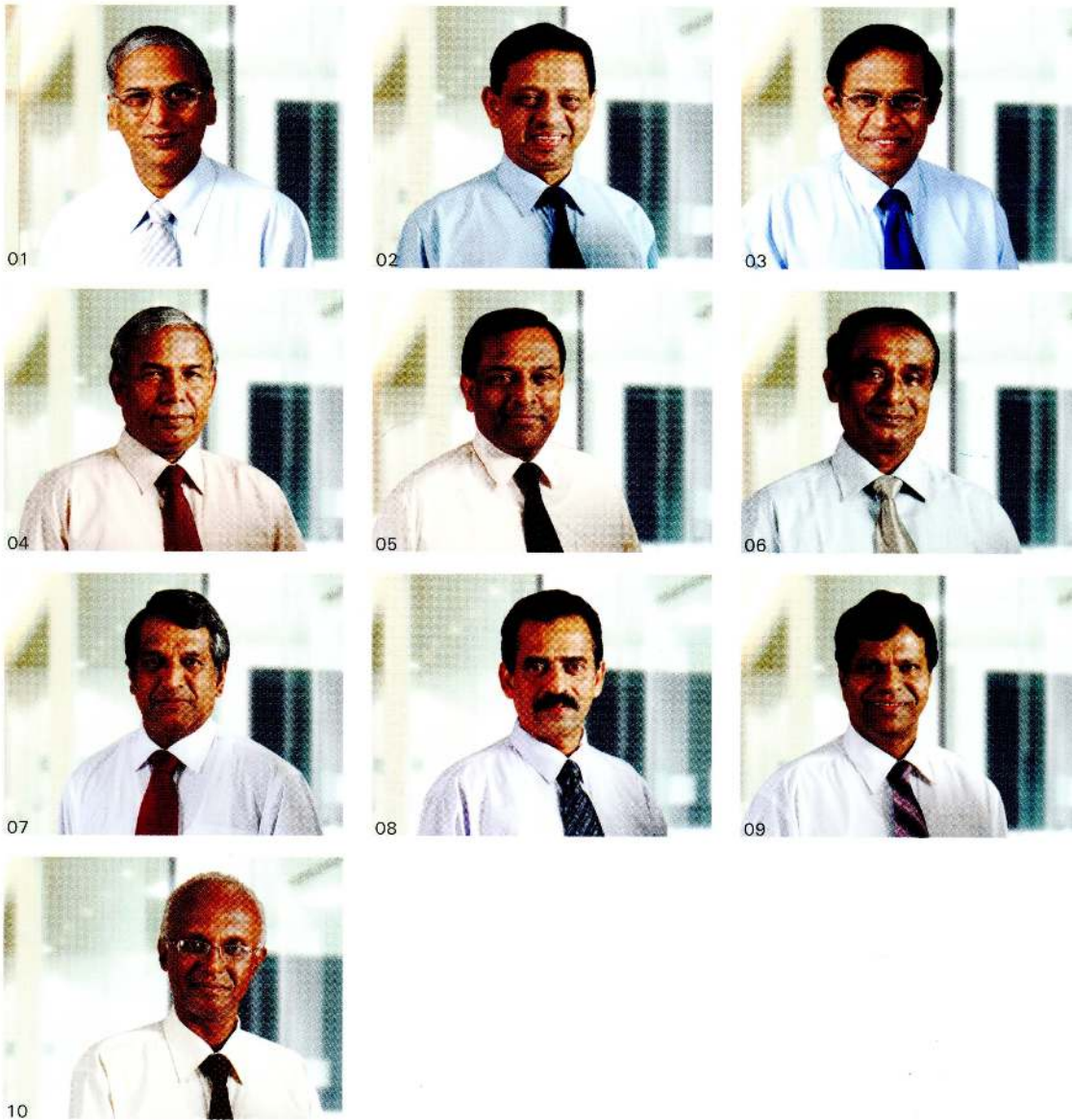


- 17. **Mr. O.K.H. Perera** - Assistant General Manager (Domestic Branch Audit)
- 18. **Mr. S. Wanniarachchi** - Assistant General Manager (Off-Shore Banking Unit)
- 19. **Mr. S.A.R.S. Samaraweera** - Assistant General Manager (Special Assets Unit)
- 20. **Mr. K.B. Rajapakse** - Assistant General Manager (Branch Credit)

- 21. **Mrs. S. Prathapasinghe** - Deputy Head of Finance Corporate and Institutional Banking
- 22. **Mr. G.B.R.P. Gunawardena** - Deputy Head of Finance Corporate and Institutional Banking
- 23. **Mrs. S.W.A.D.S. Kalyani** - Acting Assistant General Manager (Finance and Management Accounting)



ZONAL MANAGEMENT



01. Mr. K. Anandarajah - Zonal Assistant General Manager (Northern Zone)

02. Mr. W.M.S. Wijayasinghe - Zonal Assistant General Manager (Western Zone II)

03. Mr. T. Raghu - Zonal Assistant General Manager (Eastern Zone)

04. Mr. M.M. Premaratne - Zonal Assistant General Manager (Central Zone)

05. Mr. T.A. Ariyapala - Zonal Assistant General Manager (Western Zone I)

06. Mr. B. Sirisena - Zonal Assistant General Manager (Wayamba Zone)

07. Mr. P.M. Dharmapriya - Zonal Assistant General Manager (North Central Zone)

08. Mr. G.G.C. Ariyaratne - Zonal Assistant General Manager (Sabaragamuwa Zone)

09. Mr. A. Siripala - Zonal Assistant General Manager (Southern Zone)

10. Mr. D.D.P. Abeyasekara - Zonal Assistant General Manager (Uva Zone)

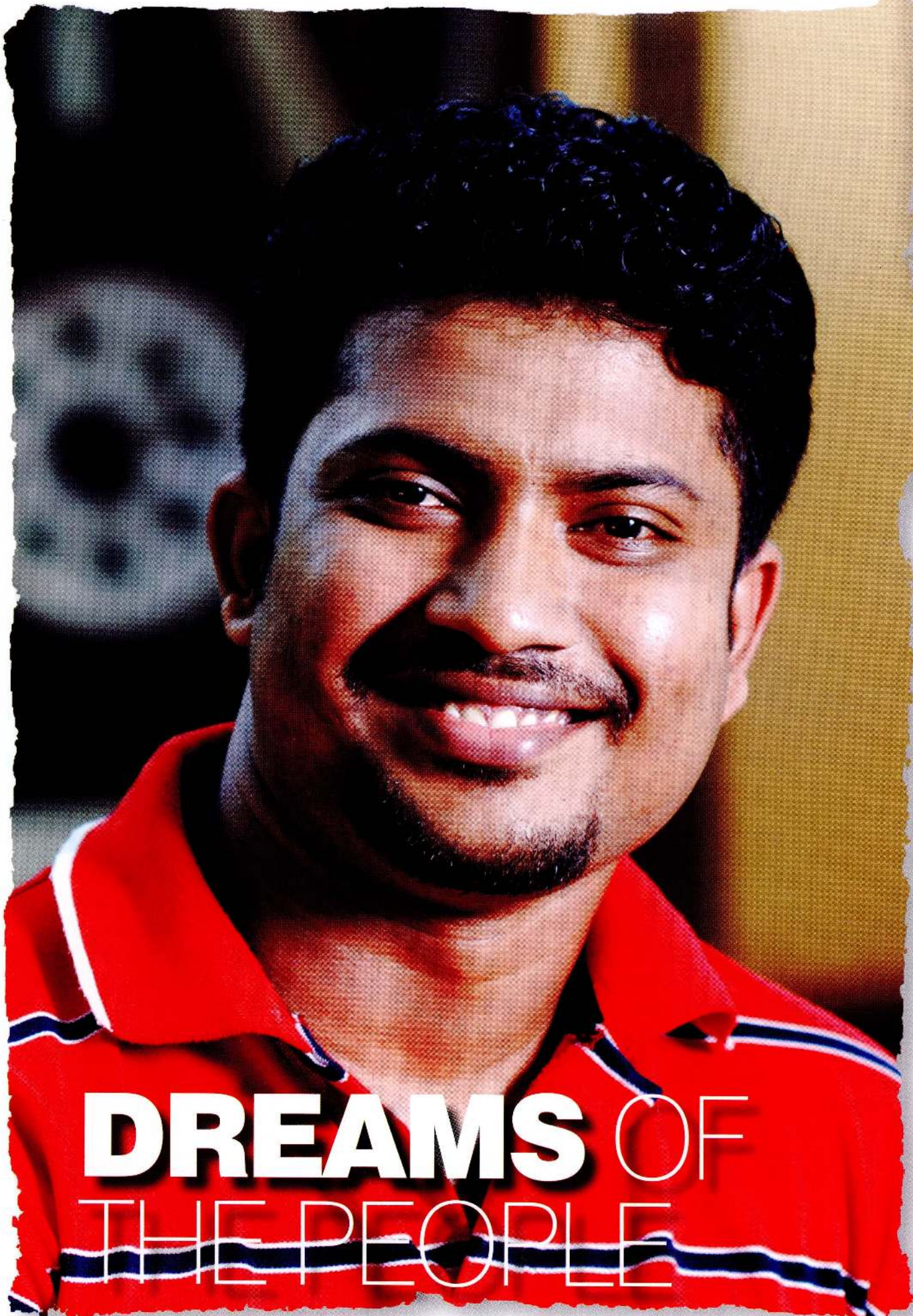




IT BEGAN AS A DREAM...

People's e-Remittance - the speedy and safe way to receive money from abroad

*today it makes dreams come true...
People's e-Remittance - the speedy
and safe way to receive money from
abroad. The technology of the day
puts money transfers 'up in the air'...
we mean via ether based instruction
methodology that takes just minutes...
from instruction to cash receipt.*



DREAMS OF THE PEOPLE

BUSINESS REVIEW

PERSONAL BANKING

Core Competencies

- Well established product portfolio to cater to customers across all age groups and socio-economic classes
- Successful product management mechanism leveraged by effective marketing strategies
- Innovating and developing products and services together with expertise of the marketing division, which also involves upgrading product features and benefits to match customer preference and market trends
- Ensuring product growth

Encompassing millions of customers who we nurture from the cradle to their twilight years, our personal banking portfolio comprises a diverse mix of products designed to partner our customers at every stage of their lives. Our product portfolio includes savings, personal credit, high interest deposits and current accounts, all serviced through our customer mission of providing excellent service in a caring, responsive and professional manner. Our partnership with our customers are meant to be long-term life long ones and we have always been sensitive in maintaining these relationships and being responsive and proactive to their needs.

This year, we interconnected 85 more branches to our total service delivery network of 328 totalling the entire interconnected branch and service centre network to 560. Number of ATMs have

increased to 240 with 50 more being added this year. These have strategically enhanced the Bank's product and service delivery points improving penetration, visibility and also branding. Customer service excellence continues to be a focal point, a facet which has permeated our outstation localities as well as encouraging and promoting long-term relationships with our customers.

Innovative customer services and new product developments including Internet banking, Palm Top banking and SMS banking remain pivotal to our strategic and operational criteria, increasing accessibility, penetration and in being a more comprehensive facet to the pragmatic style of banking we espouse. The development of a detailed MIS (Management Information System) will be added on to these features that we have already implemented, facilitating further impetus to our customer service excellence initiatives.

Our product portfolio begins at the start of life. **Isuru Udana**, our account for infants and **Sisu Udana** our most successful student oriented product encompassing over 1.9 Mn children has resulted in the mobilisation of a notable Rs 9 Bn by end of 2008. Both schemes are designed to reach beyond the conventional philosophy of banking, promoting the concept of creating better future citizens through the integration of social and cultural facets into a knowledge-gaining culture.

Our young executive and young entrepreneur product, **YES** enhances quality of life and is a stepping stone that spurs young leadership with financial mobility to map the future. **YES Future Stars** an extended brand to YES is targeted at 16 Plus age group who are preparing for the Advanced Level Examination.

Aimed specifically towards women, who are considered the silent imperative that buoys the economy of our country, **Vanitha Vasana** was launched many years ago to commemorate International Women's Day. This year too, the ceremony felicitated women for their pragmatism and unassuming leadership in decision making, prudent money managing and home making. This year's initiative mobilised a deposit growth of 3%

One of the most successful rewards programmes in the market today due to the value of gifts and rewards presented to customers daily, weekly, monthly and annually, '**Jaya Sri**' continues to gain more ground as one of our most successful promotional programmes. Riding on the Government's agricultural and agri-drive to make Sri Lanka sustainable in its food needs, we launched the **Harvest (Aswenna)** savings account last year and have seen considerable mobilisation of savings with this account. The product is designed for those with a seasonal income, where savings become a challenge but aids the creation of a nest egg and prudent money management.



We launched the **Kaptura** Savings Certificate and a **Five-Year Fixed Deposit** with rewards of higher returns, giving savers the security and stability of a Government owned bank.

Our overseas customer services continued adding to the product portfolio for our foreign exchange earners, adding two new foreign currency deposit products - **Doo Daru** **Ethera Isura** for children and a Special Foreign Investment Deposit Account (**SFIDA**) aimed at attracting foreign exchange into the country. A gift scheme for NRFC accounts opened before embarking on employment abroad was also introduced with the aim of encouraging expatriate workers to channel their earnings through formal banking channels.

Infusing further impetus into our remittance business which is a vital facet in sustaining the country's economy our **e-Remittance** money transfer system gathered further momentum this year, notching the highest growth in the Bank's history, aided ably by **People's e-Remittance**, the web based product we launched this year.

Our constant interaction with people from all walks of life spread across the length and breadth of the country enabled us to foresee and meet their financial aspirations and needs. Our pawning product **Swarna Pradeepa** offers discrete and reliable pawning facilities to all those in need of such specialised services. Built on this solid platform constructed

on understanding people's needs, through **Swarna Pradeepa**, we have been successful in creating a positive attitude towards the pawning product, which has seen our portfolio grow by 16% this year.

Realising the challenges faced by numerous segments of society to purchase personal needs from housing to household durables, vehicles to Mo-peds and also in funding child education and setting up professional private practice for teachers, health sector employees and professionals, our **Guru Setha**, **Suwa Sewana** and **PALS** have been a boon in granting credit facilities in the furtherance of their future plans.

Given that shelter for all is one of the United Nations Millennium Development Goals, the Bank too joins the fray in ensuring that shelter is accessible to all through **Jaya Nivasa**, a comprehensive housing loan scheme that offers reliable effective funding to make the dream of shelter a reality.

Further, given that most of this expatriate worker-portfolio comprises women whose economic status in Sri Lanka is at the lower income level, our comprehensive loan schemes enable them to utilise their hard earned income effectively, productively and securely. **Videshika** is a loan scheme that works in partnership with the Foreign Employment Bureau of Sri Lanka, offering to mitigate a migrant worker's pre-departure expenditure, assisting in housing and subsequent entrepreneurial ventures.



A Jana Jaya account can be opened with a minimum deposit of Rs 2,000/- with all subsequent deposits being Rs 200/- or more. Attractive interest rates, loan and leasing facilities and special offers for overseas travel are some of the many benefits of Jana Jaya savings accounts.



A savings scheme exclusively designed to understand the needs of today's women. A new account could be opened with a minimum of Rs 500/-. Comprehensive loan facilities are also made available for housing, self-employment, children's educational needs etc., allowing every woman to fulfil her dreams, and be a strength to them.



A savings scheme designed for infants (from birth to six years of age). A new account could be opened with Rs 100/-. Account holders will be entitled to attractive gifts such as mugs, school bags in addition to a bonus interest on the account balance. The Isuru Udana account will be automatically converted to a Sisu Udana account when the child starts schooling.



Overseas Customer Services

One of our most successful years, 2008 saw a marked increase of 21.56% in inward remittance business with the highest ever number of 898,649 inward SWIFT/Web/telegraphic transfers, an increase of 8.48% being remitted in the history of the Bank.

The entire portfolio of inward remittances notched an impressive Rs 68,688 Mn. The success is primarily attributed to the infusion of modern technology, marketing and product enhancements we introduced into this area of the business with the aim of fulfilling expectations and aspirations of the Sri Lankan expatriate diaspora.

One of the new initiatives launched this year, 'People's e-Remittance' - a web-based remittance product supported by the latest technology, facilitates transfers within minutes and aided the giant leap the Bank took in developing the remittance services. With customer convenience being a priority, remittances transfer immediately to our online branches, while an almost instant process also aids routing through non-automated branches and other banks via SLIPS, to ensure that transfers are processed efficiently and speedily.

Remittance Correspondent arrangements too have been expanded this year. We have established new remittance arrangements in Korea, Kingdom of Saudi Arabia (KSA) and Israel as well.

CORPORATE AND INSTITUTIONAL BANKING

Core Competencies

Well-Established Correspondent Bank net work of more than 300 spread in 105 countries to facilitate:

- Trade Finance transactions
- Specialised two units for Domestic and Offshore Banking in Trade Finance
- Experienced, qualified and dedicated staff members in handling Trade Finance activities
- Availability of diversified Trade Finance products
- Tailor-made Trade Finance solutions
- Patronage of the Government and Public Sector Institutions
- Computerised Advance Trade Finance System
- Efficient and Productive Customer Relationship Management concept in practice

A vital driver in enhancing business growth through specialised activities for corporates, the Corporate and Institutional Banking Division continues to service the corporate sector with dynamism and commitment, supported by decades of experience.

Trade Finance as well as the entire gamut of international banking functions pivot on service quality, modernisation through technology and sophisticated infrastructure facilities. Our primary customer portfolio includes vital industries that contribute to the nation's economy,

including apparel, agri-based products and commodity exporters whose relationship with the Bank goes back to inception.

The Corporate Banking Division contributes significantly towards national development, being a strident partner in infrastructure, agriculture, telecommunication, tourism and allied industries. Currently our infrastructure projects include road development, telecommunications, water and a number of construction projects in the North and East under the Nagenahira Udawa programme. Also supportive of the Government's numerous development projects, the Bank provides credit facilities for projects such as Gamata Karmantha, Maga Neguma, Api Wawamu Rata Hadamu and other agro-based business initiatives.

Identifying the significant role played by State Owned Enterprises (SOEs) in the macro vista of the country, People's Bank continues to aid SOEs to become efficient and effective enterprises, offering responsive and proactive solutions that would infuse productivity and efficiency to become a resourceful national entity. Facilities and services are offered to these SOEs at better rates to create a more conducive environment for their growth.

Given the high profile nature of the business enterprises we have under the umbrella of the Corporate Banking Division, upgrading



and enhancing our team's skill remain integral to our success. A programme was launched to expand trade finance activities to the branch network and a training programme implemented for branch members on trade finance skills. The initiative was meant to create opportunities for business in the branches, where import/export business could be facilitated conveniently rather than customers having to transact their business at the Corporate Banking Division itself. Further, eminent resource persons specialising in trade finance imparted their knowledge in advanced trade finance to our team, while local and overseas training programmes were identified for some of our team members to participate in.

DEVELOPMENT, SME BANKING AND MICRO FINANCE

Development Banking

Core Competencies

- Development of Agricultural, Agro-Livestock and Industrial sectors
- Financing of Viable Projects coming under above sectors
- Creation of employment opportunities
- Co-ordination with State Departments and Private Organisations whose support services could be made available for our borrowers
- Provision of support to enhance standards of productions of Bank borrowers
- Assist Co-operative Societies to establish Co-op City Projects sponsored by the Government
- Implementation of Mahinda Chinthanaya Programme to uplift the living standard of the people

Built on the vision of becoming a leader to advance the macro-economy of Sri Lanka through financial services, the People's Bank's development banking ethos is centred around revitalising agriculture, livestock and small and medium entrepreneurs to develop their industries and spur a renaissance in the co-operative movement. This would in turn enhance domestic production, create employment opportunities, develop the banking system, enhance skills and talents, empower various segments of society including women, utilise and optimise the use of untapped resources and uplift the rural economy overall. While the Bank did have three loan schemes in operation to assist those affected by the tsunami in 2004, the development loans used for funding various segments of development projects include the Krushi Nawodaya, Agro-Livestock, New Comprehensive Rural Credit Scheme, Kapruka, Tea Development Loan Scheme, Second Perennial Crops Loan Scheme and Self-Employment Promotion Initiative Loan Scheme.

Also, one of our most significant achievements has been the launch of the Pubudini Women's Entrepreneurship Development Workshops, the first of which was held in December in Tissamaharama for 410 women. The workshops are designed to empower women in low-income brackets and as an incentive, the Bank-gifted savings accounts with an initial deposit of Rs 100/- each to encourage savings, as loan facilities provided are dependent on the status of their accounts.

People's Bank



A minors' savings scheme for children six to eighteen years of age. An account could be opened with Rs 100/-. As the account grows, the child will be entitled to a range of attractive gifts. In addition, special cash bonuses will be awarded to account holders who pass the G.C.E. Ordinary Level and Advanced Level examinations with 'A' grade passes in the first sitting. The Sisu Udana account will be automatically converted to a YES account once the account holder turns eighteen years of age.



The People's Bank Ethera Isura NRFC account secures a higher interest on your foreign earnings. This account is also the fastest way to receive money from abroad through the 638 branches and saving centres of People's Bank.



The savings account designed specially for today's young executives who aspire to be independent. The minimum initial deposit is Rs 2,000/-. The Yes account provides attractive interest rates with special benefits to account holders, which include: *standing orders free of charge, loan and leasing facilities, *a free ATM card, as well as *a free credit card.



New Comprehensive Rural Credit Scheme (NCRCS)

This credit scheme funds farmers in the cultivation of paddy, subsidiary and commercial crops and seed material production and is also available for buyers who purchase agricultural produce under Forward Sales Contracts (Govi Sahanaya). The scope of the funding has now expanded to pineapple, sugar cane, ginger, honey production, floriculture and betel production as well as the purchasers of these products. It is pertinent to note that the recovery rate in these schemes are exceptionally high and hover between 95% to 100%.

The following projects were funded under NCRCS:

- 10,151 farmers in the border villages of Theirappane, Thalawa, Mahavilachchiya, Thambuttegama and Moneragala were granted Rs 370 Mn for the Yala and Maha seasons this year
- 179 chena cultivators in the underdeveloped village of Kiralpetiyawa in the Anuradhapura District were disbursed Rs 11.7 Mn to cultivate 699 acres with black gram
- Govi Sahanaya was introduced to aid Forward Sales Contracts, where farmers are cushioned from the risk of price fluctuations which adversely affect their income while ensuring a floor price for their produce
- A soya bean cultivation project which aids over 8,500 farmers harvesting nearly 12,000 acres of soya in the North-Central and Uva Provinces gained 4,912 loans amounting to Rs 150 Mn
- 137 pledge loans granted to paddy millers and paddy collectors to purchase paddy amounting to Rs 831 Mn in the Maha season of 2007/08 and 138 loans amounting to Rs 853 Mn in the Yala season of 2008.

Krusha Navodaya

Designed to cater to financial requirements through the provision of credit facilities to procure agricultural inputs at affordable prices in order to develop small farmers, this credit scheme launched by the Government has an allocation of Rs 3 Bn granted by the Government for disbursement by financial institutions. Loans amounting to Rs 716 Mn were granted to 9,026 beneficiaries under this scheme.

Agro-Livestock Loan Scheme

Exclusively created to uplift livestock development in Sri Lanka, the loan scheme aids the purchase of cattle, equipment and construction of cattle sheds, agro-based and agro-related processing industries, liquid milk processing and storage facilities. 556 beneficiaries were disbursed Rs 207.8 Mn during 2008 in Koslanda, Chenkalady, Narammala,

Hettipola, Bingiriya, Galgamuwa, Thanamalwila, Uhana and Chilaw branches.

Second Perennial Crop Development Loan Scheme

In addition to tea, coconut and rubber which are considered the main money spinning crops, domestic planters are veering towards other economic crops like pepper, cocoa, coffee, nutmeg, cinnamon, lime, orange, cashew, pineapple and floriculture. This loan scheme is designed to promote these lines of crops with a view of developing the entire agricultural industry of the country.

Tea Development Loan Scheme

With tea being the largest traditional foreign exchange in the country, we firmly believe it is a crop that has infinite possibilities. This scheme adds impetus to the idea and this year 113 planters and factory owners benefited from Rs 93 Mn disbursed through the scheme.

Kapraka Loan Scheme

Primarily for the development of the coconut cultivation, the scheme provides funding for planting, rehabilitation of plantations, inter-cropping and irrigation.



Self-Employment Promotion Loan Scheme

Developing inherent skills and talents and funding these to spur entrepreneurs and employability, this loan scheme has been made available to 38 technical colleges and 267 training centres under the Vocational Training Authority and 53 training centres under NAITA.

Reawakening the Co-operative Sector

With cost of living escalating and mainly affecting the middle and lower-income groups, People’s Bank took on the mantle handed to it by the Government in revitalising the co-operative sector. Co-op City shops were established, selling essential goods that had all taxation removed by the Government to be sold at concessionary prices. The funding for this initiative was granted by the Bank which included working capital, equipment, facilities and physical infrastructure amounting to Rs 305 Mn.

The Bank also appointed and trained regional/zonal officers in co-operative competencies to promote relationships and instill good management practices. In addition, Relationship Meetings were conducted at the Head Office of the Development Banking Sector between Co-operative Officials, Provincial Co-operative Commissioners and Assistant Commissioners, Directors, Branch Managers and Regional Staff.

MICRO FINANCE

Core Competencies

- Identification of the economically active entrepreneurs who are at the bottom of the income pyramid and uplift their living conditions through social mobilisation process
- Lending through ‘Linkage Banking’ to reach grass root level with assistance from the Community Based Organisations (CBOs)
- Continuous innovation in customer identification, introduction of new product to meet with market conditions of the micro finance nationally and internationally
- Introducing new technology to bring them to formal financial system by visiting their door step

Micro finance has become a crucial facet in rural economic and priority sector development around the world, especially in emerging economies where poverty continues to be a dogma from which, those countries aim to emerge from and is a primary feature in the United Nations Millennium Development Goals. With the year 2005 declared as the Year of Micro Finance, People’s Bank is now a strident partner with the Government in ensuring that through micro finance, there will be significant contribution towards the national economy, employment generation will ensure, resource use will be maximised and national production and productivity optimised.

People’s Bank



JAYA NIVASA

Housing Loans

The Jaya Nivasa Housing Loan helps you to build your dream home in convenience, providing flexible loan facilities to suit your needs with competitive interest rates. Loans could be obtained to purchase a land to build a house, to purchase a house, to build a house, or even to add an extension to or renovate a house. In addition, the loan scheme also grants a six-month grace period, a loan up to 75% of the value of the property, etc.



The Parinatha account is the Bank’s tailor-made product for the senior citizens of today. A range of attractive benefits specially designed for this segment could be enjoyed by either making a Parinatha fixed deposit or by opening a Parinatha savings account for Rs 500/- or above, with Parinatha life begins at 55.



The pawning scheme of People’s Bank provides you the best value for your gold for urgent cash requirements. The scheme, which is backed by a confidential and personalised service throughout the branch network, provides both safety and security to all pawned items.



BUSINESS REVIEW

The Bank thus has numerous initiatives to spur the concept of micro finance:

- The New People's Fast Loan Scheme for entrepreneurs who are commercially, technically and financially viable
- Poverty Alleviation Micro Finance Project - a revolving fund with refinancing by the Central Bank of Sri Lanka for strengthening and socially empowering low-income earning families
- Poverty Alleviation Small Enterprise Development Credit Scheme which is financed by the National Development Trust Fund aimed at the unemployed and those engaged in income generating self-employment projects
- Vidatha Credit Scheme, implemented with the Ministry of Science and Technology for enterprises that are commercially, technically and financially viable on being recommended by Vidatha Societies of the Vidatha Resource Centres
- Vanitha Navodaya Credit Scheme, coming under the United Nations Development Fund (UNDF) for Women which disburses working and social capital for women affected by natural disasters
- Direct and Individual Lending is provided to profitable micro enterprises
- Group Lending is availed by groups or societies involved in, income generating activities

- Gam Pubuduwa Programme, which was revived by the Bank in 2007, is now prevalent in five districts and has granted a total of 386 loans of Rs 19.51 Mn
- Bauddhaloka Punaruda Project, is for those engaged in income generating activities under the aegis of the All Ceylon Buddhist Congress who would give guarantees for those who cannot avail themselves of security. The programme has already completed projects in Colombo 10, Galle, Panadura, Kottawa, Pettah, Aranayake, Giriulla and Thanamalwila.

As micro finance lending has gathered momentum, so has micro savings, which must be conducted simultaneously in order to ensure that the low income segment targeted for micro finance inculcates the saving habits in order to obtain credit against it. Collective savings accounts and savings mobilisation among groups and community-based organisations are two initiatives that have been instituted to achieve this. In addition, given the target market we deal with and the fact that most have not been introduced to the formal banking process thus far, we aid the savings process by taking deposits on a daily basis and using the technology of palm top banking to take banking to their doorstep.

While funding is provided and savings encouraged, the Bank also takes on the additional responsibility

of skills development as we believe that this would be the fundamental in ensuring the sustainability of micro finance. Regional offices conduct training programmes for skills development including managing small enterprises, the importance of business registration and the production of quality goods and services. We have also facilitated a 'Micro Finance Desk', manned by a Micro Finance Specialist in most of our branches while also organising Entrepreneur Days at branch level in partnership with related Government and private sector organisations.

TREASURY

Core Competencies

- Market making in FX and Fixed Income Securities Trading
- Relationship building with corporate and retail clients
- Sound knowledge and awareness of local and foreign market conditions

Most certainly a very challenging year, 2008 saw volatility running high in the local securities and money markets as well as in the global foreign exchange and commodity markets. Due to lack of liquidity and rising interest, there was reduced activity in the Treasury Bond Secondary Market for most part of the year.

However, People's Bank continues etching its vision as a market leader in the foreign exchange inter-bank and corporate treasury markets,



exceeded a profit target to notch Rs 833 Mn, despite very challenging market conditions in the latter part of the year. In addition to one of the most dynamic Treasury Teams in the country whose competencies and constant skills and knowledge upgrading helps us to impart the above par service levels, we firmly believe the size and scope of our business also gave us the impetus to exceed our target. Our highly trained team, whose training and development is constructed on a more expansive platform of skills development is continually developed, besides being imbued into 'on the job' knowledge gain. In addition, our dealers were afforded specialised training in integrated treasury management, derivatives, BASEL II and fixed income securities.

Our extensive branch network coupled with the concerted relationship building efforts with retail and institutional clients have also been instrumental in the added momentum we have seen in our business portfolio. Regular Customer Awareness Programmes are conducted to appraise our customers of new developments and initiatives.

The country also had to grapple with sharply rising crude oil prices which resulted in a strain on Sri Lanka's foreign exchange reserves. To help mitigate the impending fallout, the Bank worked with one of our prime clients, the Ceylon Petroleum Corporation to structure a derivative product that would give protection against rising oil prices.

In continuing its strategy of liberalising financial markets, the Central Bank allowed the sale of Government Securities to foreign investors, an opportunity which we participated in to give us considerable income for the year.

SUPPORT SERVICES

Information Technology

Information Technology is the axis upon which we are able to truly be the 'People's Bank', keeping a pulse on the people's needs, wants and aspirations to ensure that we deliver our products, services and solutions efficiently, responsively and productively. Having worked on a revolutionary IT platform where IT becomes the key business driver, our IT strategy is to create a business responsive IT culture built on the springboard of an 'anytime anywhere service'.

We are driving towards the One Bank One System concept, which is not only a robust ICT platform to work on but also enables accessible information available at the click of a button to enable the Bank to offer its best in class service values to customers, permeates in turn towards revenue generation.

Running nearly 650 service outlets island-wide, we are proud to say that we have over 560 outlets now totally interconnected. Bringing in the positive features of the Core Banking System this feature has brought together with our own PABS (People's Automated Banking System). The process continued unabated, nearly the entire Bank, branches and service outlets were come under the Core Banking System umbrella. Also the



'Harvest' (Aswenna) is a special savings account which offers a range of benefits that will improve the quality of lives of the people who are engaged in agricultural and agri-related projects with seasonal incomes.



Yes Future Stars is a brand extension of the existing youth account which is called 'YES' and this will be targeted towards those who are about to leave school.



People's Bank is indeed a veritable foundation of wealth. Account holders who maintain monthly minimum balance of Rs 20,000/- or above in any of the People's Bank savings account or savings certificate (Branded and unbranded other than NRFC, RFC and fixed deposits) or minimum credit balance of Rs 10,000/- or more in current accounts, will be eligible to enter the draw and win fabulous prizes in our Monthly draw and the Year-end Super draw.



BUSINESS REVIEW

Operational and technical areas have been streamlined, where ensuring cost benefits and efficiencies that seep through the Bank.

Fifty more ATMs were added to the existing 190 network while ATM dispensers were also upgraded to dispense Rs 2,000/- notes. The Bank wishes to tie up with other ATM switches in terms of giving more access points to the customers in the near future.

In view of supporting and developing our own products the Bank has taken many initiatives to enhance the value of solutions produced by our IT team. In this exercise Bank was able to launch the pilot phase of the Palm Top Banking in the reporting year.

Also embarking on e-banking solutions our IT team has completed the initial stage of Internet Banking and SMS Banking which will boost our deliver channels.

With the rapid growth of globalisation and increasing customer needs and demands, today the biggest challenge is to prepare ICT platform to cater for tomorrows needs. Bank's IT team has taken keen steps to meet this requirement by way of establishing a robust cost effective integrated ICT solution with proper ICT governance which aligned with the Bank's future vision and mission.

Marketing & Promotions **'First Day, First Lesson'**

An innovative concept that cements our relationship with students as they begin their first day at school, People's Bank conducted a special program titled 'First Day - First Lesson' celebrating entry into Grade One in 2008. Under this programme, students entering Grade One were encouraged to open a new Sisu Udana account at People's Bank, with the Bank matching the initial deposit up to a maximum of Rs 500.

We firmly believe that the savings habit must be instilled at a very young age and this initiative helps students to realise the importance of the savings culture which will provide them a financially stable future, while also forming a crucial facet in developing the national economy.

Saving for the future with **'Birth of Freedom'**

Commemorating Sri Lanka's 60th Independence Day, People's Bank held a special programme titled 'Birth of Freedom' earmarking children born during this significant period as future leaders and the flag bearers for the progress of Sri Lanka. Under this scheme, held for the third successful year, all newborns, born between February 1st and 7th were awarded Isuru Udana gift certificates to the value of Rs 500 each, presented by the Chairman and members of the management and staff who visited the Maternity Hospitals island-wide.

The grand finale of Vanitha Vasana month

Vanitha Vasana month, which begins on March 08th, International Women's Day was concluded with a grand draw at all branches and at the Bank's main New Year celebrations held at ITN's 'Suriya Mangallaya 2008' in Meewanapalana, Horana. The draw was held under the patronage of Chief Guest Madam Kusum Wickremanayake, the Chairperson of the Seva Vanitha Movement and wife of the Prime Minister Hon. Rathnasiri Wickremanayake.

All Vanitha Vasana savings certificates obtained during the 'Vanitha Vasana Month' were entered in, to this grand draw with the winners given the opportunity of doubling the value of their certificates.

Bringing the Bank to you - Palm Top banking

Moving into an era of technology banking, People's Bank launched Palm Top banking, its latest service which literally brings banking to the doorstep of our customers. The first transaction was carried out at a ceremony held at the Manning Market in Pettah, one of the busiest markets in Sri Lanka, with the participation of many enthusiastic traders and the corporate management and staff of People's Bank.

Palm Top banking enables customers to open accounts, make deposits and withdrawals, apply for loans, make balance inquiries and even conduct reversals. Operated through palm top-



equipped People's Bank officers, this service will undoubtedly save people time and effort and help ease the pressures of hectic day-to-day lives.

Two top awards at People's Awards 2008

Etching ourselves once more as the undisputed leader among the people of Sri Lanka, People's Bank won the coveted 'Service Brand of the Year' award for the first time and the 'Banking and Financial Services Brand of the Year' award for the third consecutive year at the People's Awards - 2008. The awards ceremony organised by the Sri Lanka Institute of Marketing (SLIM) and world-renowned research agency Nielsen Company presents these awards on surveys conducted among the population of the country and hence gives a clear and unbiased opinion of the Bank's standing among the citizens of Sri Lanka.

Tops Brand Finance League Table 2008

People's Bank made significant inroads recently in its efforts at brand building by topping the Brand Finance Brand Rating certification with an 'A+' rating. This rating, along with its brand value of Rs 7.8 Bn, positions People's Bank at the top of all the Sri Lankan banks.

The Brand League table which is developed by Brand Finance and published annually by LMD is now in its fourth consecutive year and is a much looked forward to annual review of Sri Lanka's top 100 brands. This listing, which

has been further enhanced with an independent market research study, was published in April 2008. A brand certification provides assurance to the stakeholders of People's Bank, that the true potential of the brand is fully understood and will be a stepping stone to leveraging our strengths and adding value to business.

High Achieving A/Level students gain scholarship boost

Students who gain university entrance in a highly competitive academic environment deserve due praise and recognition, although most often financial constraints can pose challenges for them to pursue their academic talents. Based on the 'Yes Future Stars' savings account, an innovative product launched in December 2007 specifically aimed at 16 and 17-year old students, we added further impetus to the deposit drive by promoting the concept of scholarships for 100 high achieving GCE A/level students. While giving these scholars the accolades they richly deserve, the scholarship also assists them in alleviating some of the financial difficulties they encounter in pursuing their higher education and eventually their dreams.

12 students who were placed among the first three in the Mathematics, Science, Commerce and Arts streams in the GCE A/level examination held in 2007 were presented scholarships worth Rs 75,000/-, Rs 60,000/- and Rs 40,000/- respectively.

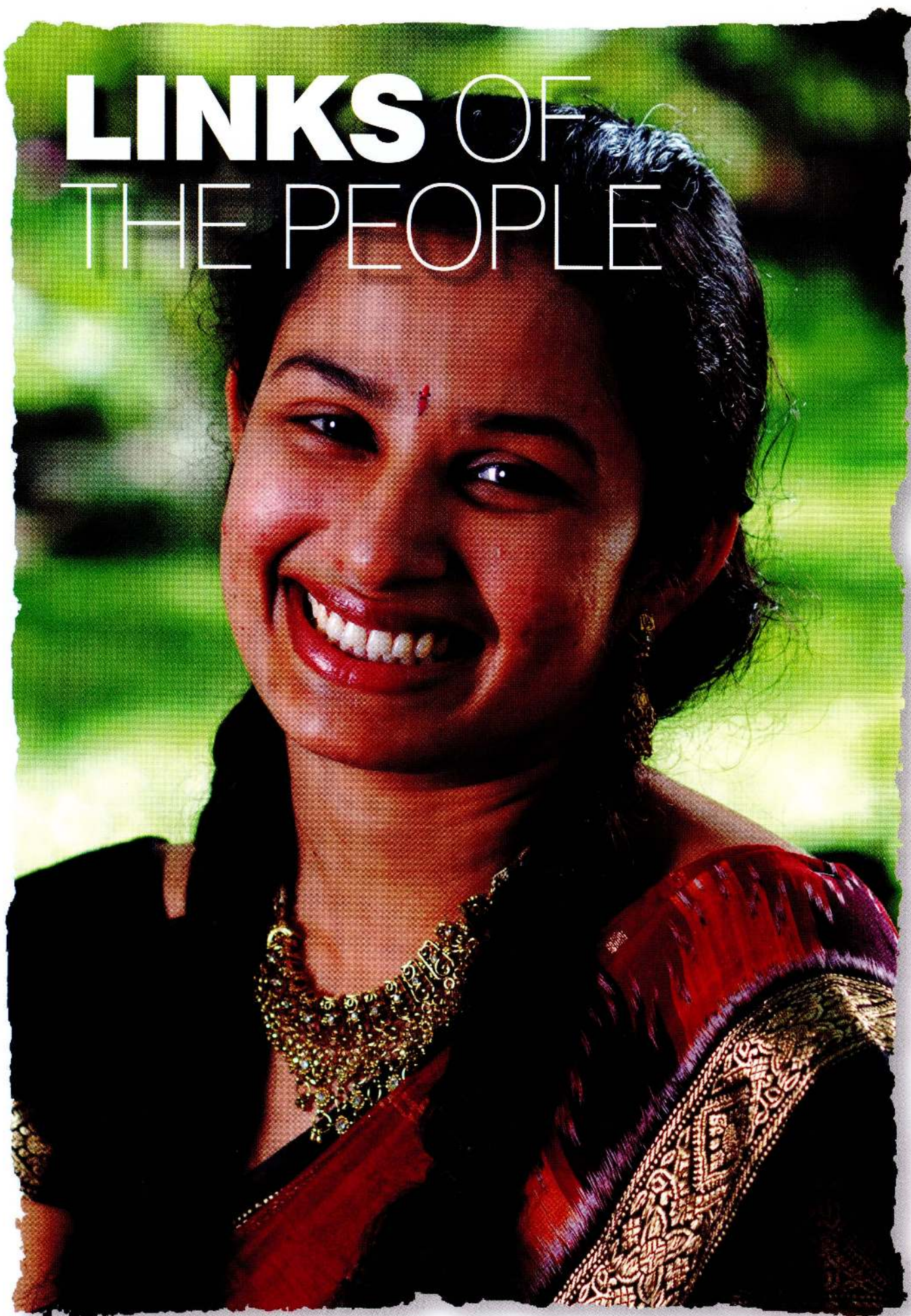


WE'RE PROUD TO FEATURE...

A Customer from Vavunikulam...

*the People's Bank's network today,
reaches the farthest regions of
Sri Lanka... often you'll see our sign
board in towns not served by other
financial institutions... we are proud to
be able to serve and uplift the lives of
Sri Lankans... wherever they may be.*

LINKS OF THE PEOPLE



FINANCIAL REVIEW

THE WORLD AND SRI LANKAN ECONOMIES IN 2008

The world in 2008 faced the reality of what economic experts have predicted will be the worst global recession since the 1930s. The onset was unexpected, taking businesses, policy makers and economists by surprise. Consumer confidence in most parts of the world declined visibly, causing a serious decline in manufacturing and international trade. Sri Lanka, which depends mainly on manufactured exports and inward remittances to maintain its current account, is unlikely to remain unaffected by this worldwide development. The severity and length of the world recession cannot yet be predicted, a fact that casts a shadow over business and economic forecasting and makes forward planning difficult for all players. This is particularly the case in the banking sector, where the financial crisis that triggered the downturn originated and which has seen many once-robust, highly reputed institutions collapse or enter state receivership.

In Sri Lanka, the full impact of the recession appears yet to be felt. High inflation in the first three quarters of 2008 and in the previous year had already reduced consumer confidence, with consequent falls in business receipts, although GDP continued to grow at around 6%. In the fourth quarter, declining international prices for commodities,

particularly oil, helped cool inflation and offset the effects of the global recession.

While military gains helped bolster public confidence, the war continued to take its toll on the national economy. Some relief was obtained for the garment industry through the extension of the GSP+ arrangement on import tariffs. The tea industry enjoyed high auction prices, an advantage to primary producers but less advantageous to exporters, whose margins were accordingly trimmed.

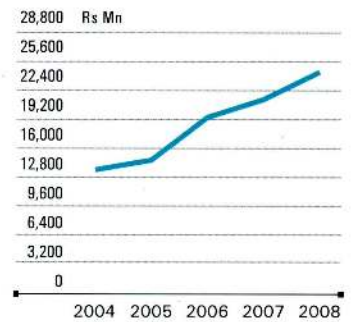
PERFORMANCE OF THE BANK IN 2008

People's Bank recorded a profit before tax of Rs 5.6 Bn in 2008 a growth of 13.2 % over 2007. Net interest income grew by Rs 2.5 Bn, a rise of 15% compared with the figure for 2007. Contributing to this were high average yields on loans and advances, together with increased returns on Treasury Bills and Bonds. These effects were somewhat offset by high borrowing costs, high overheads, provisioning and once again taxation.

Net Interest Income



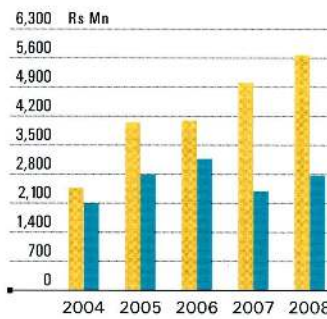
Total Net Revenue



Total Non-Funded Income



Profitability



- Profit Before Taxation
- Profit After Taxation

Analysis of Net Revenue

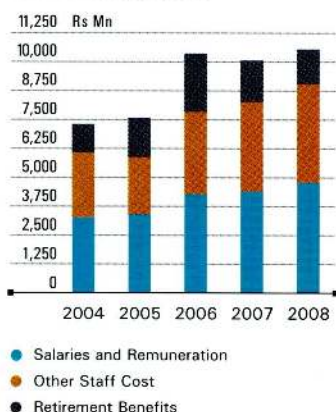


- Other Income
- Foreign Exchange Gain
- Capital Gain on Treasury Bills and Bonds
- Fees and Commission
- Net Interest Income



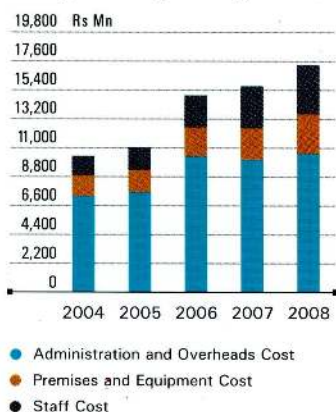
Based on the 2008 actuarial valuation compliant with Sri Lanka Accounting Standard No. 16, provision for the Bank's Pension Trust Fund was Rs 1.5 Bn, in contrast to the figure of Rs 1.7 Bn paid in 2007. As with the previous year's reduction, this was partly due to the Fund reaching maturity and partly due to enhanced returns from high-yielding investments.

Staff Related Cost



As might be expected in inflationary times, administration overheads increased by a total of Rs 1.4 Bn compared with 2007. However, overall increases in administrative expenses were within internally budgeted levels.

Analysis of Operating Costs



The above enabled the Bank to record a working profit of Rs 7.3 Bn, an improvement of Rs 1.6 Bn over the 2007 figure.

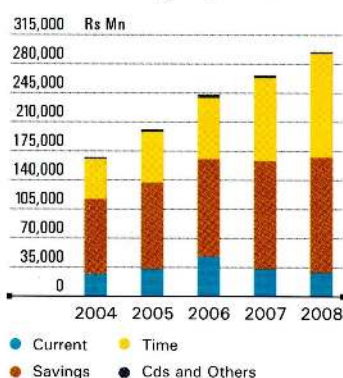
Provisioning, as required by the Central Bank, was increased for another successive year. The 1% general provision on performing loans is expected to be met on schedule by 31st March 2009. Total general provisions (inclusive of pawning) amounted to Rs 652 Mn, as against Rs 352 Mn in 2007. The Bank's specific provisions totalled Rs 968 Mn in 2008, compared to Rs 470 Mn in 2007.

DEPOSITS

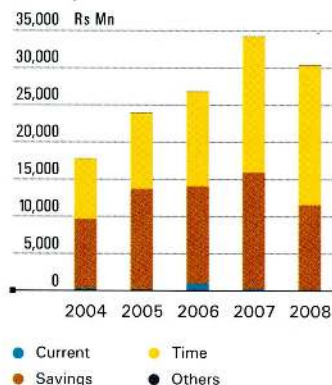
Current account balances for the year end under review showed a decrease of around Rs 5.2 Bn from the figure in December 2007. Overall, current account balances averaged at around Rs 30 Bn in the year under discussion.

The Bank's most important deposit indicator, its rupee savings balance recorded a Rs 8.6 Bn increase year-on-year. This represents a percentage growth of 6.6%, a credible figure in the face of high inflation, high market FD rates and competition both from new entrants and established commercial banks.

Local Currency Deposits

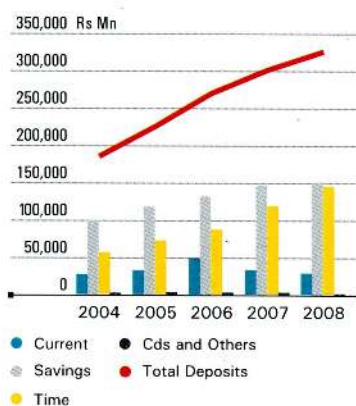


Foreign Currency Deposits



The overall deposit base stood at Rs 324.5 Bn as at 31st December 2008, a Rs 23.5 Bn or 7.8% year-on-year increase. The total growth in FDs was about Rs 25.7 Bn over 2007, reaching Rs 144.2 Bn. This was mainly required to meet funding shortfalls encountered due to organic loan growth (especially in pawning) and savings deposits not meeting growth expectations.

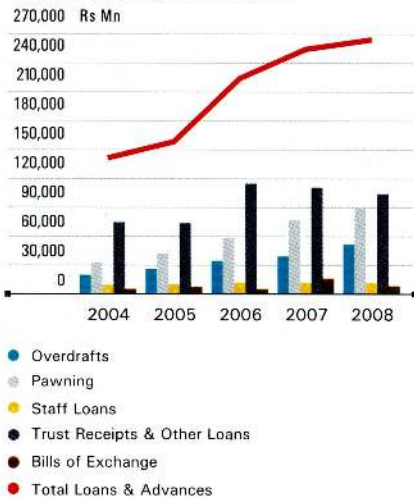
Analysis of Deposit Growth Trends and Product Mix



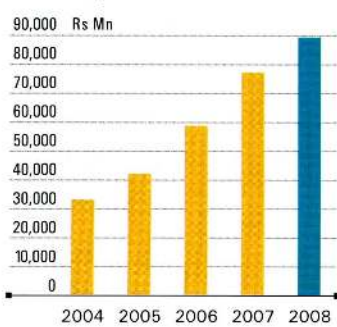
LOANS

The loan book increased by around Rs 10 Bn year-on-year. Total advances of Rs 263.5 Bn represent a modest 4.0% increase over the 2007 figure, about average for the industry. Again, as in 2007, the primary contributor to loan growth was pawning. This business grew by Rs 12.4 Bn over the year or roughly around Rs 1 Bn per month.

Total Loans and Advances



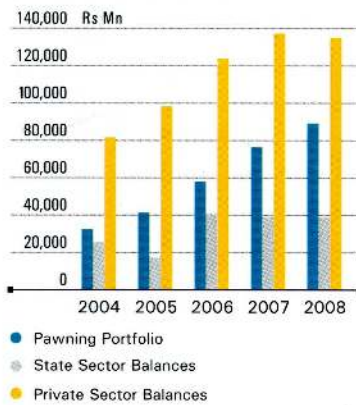
Pawning Advances



Due to the conservative stance taken on credit expansion during most of the year, the Bank did not record a material growth in overdrafts, foreign currency and other commercial loans. The total exposure to state-

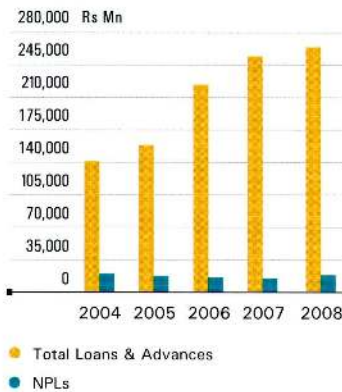
owned enterprises (SOE) as at the end of 2008 amounted to around 13% of all loans. The 2008 SOE loan balance closed the year at Rs 34.5 Bn, around Rs 4.5 Bn below the figure as at end 2007.

Trend of Annual Composition of Loans and Advances



The Bank's non-performing portfolio increased by Rs 2.9 Bn resulting in the non-performing loan (NPL) ratio expanding to 6.8% compared to 5.9% in the previous year.

Comparison of Non-Performing Loans Vs Total Loans & Advances

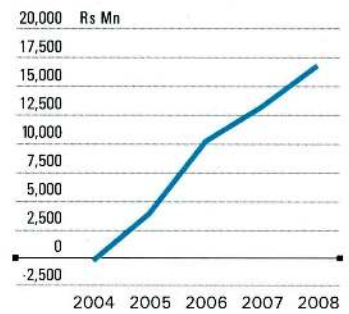


However, this ratio includes a hard core element handed down from pre 2000. These old loans are fully provided for depicting a healthy 75%+ NPL coverage ratio, i.e. above industry standards.

CAPITAL AND RESERVES

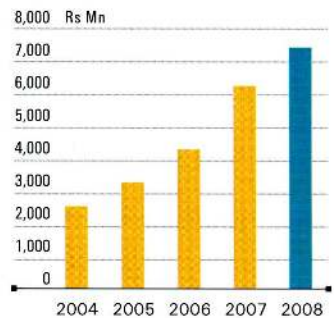
The Government of Sri Lanka injected capital to the amount of Rs 1.5 Bn into the Bank's coffers in the year under review. This, together with retained earnings of about Rs 1.5 Bn, should boost capital and reserves to Rs 15.9 Bn against Rs 12.9 Bn as at 31 December 2007.

Capital Funds



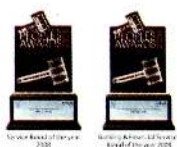
It is also pertinent to note that People's Bank contributed Rs 7.4 Bn by way of taxes and levies to the Government of Sri Lanka in 2008, against Rs 6.2 Bn in 2007.

Cash Contribution to Government of Sri Lanka



KEY PERFORMANCE INDICATORS

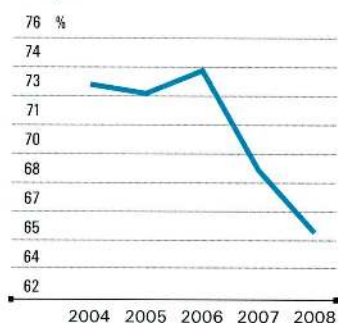
- In the year under review People's Bank increased the stipulated Capital Adequacy Ratio (CAR) to 10%+ under BASEL II, which requires a substantial increase in



risk weighted assets due to the inclusion of operational risk. Key drivers to this achievement are the Rs 1.5 Bn Capital Injection by Government of Sri Lanka and retained earnings of Rs 1.5 Bn as noted above and a Debenture Issue of Rs 2.5 Bn.

- The Bank's cost-to-income ratio was brought below the elusive 70% mark to 65% in 2008. This was mainly due to increases in net interest income and non-funded income and stringent management of expenses during the year. The ratio remains somewhat above average for the Sri Lankan banking industry; the reason being the high salaries-and-wages-related expenses and comparatively lower non-funded income.

Cost/Income Ratio



- Return on assets and return on risk-weighted assets recorded 0.7% and 1.8% in 2008 respectively.
- The net interest margin (NIM) was sustained at around 4.9% throughout 2008 compared to 4.6% the year before. The main reason for this improvement was the timely pricing and repricing of loans and advances resulting in high average yields. This NIM is comparable with margins

recorded by the country's leading commercial banks, which were required to absorb high overheads, provisions and taxes.

- The ratio of current and savings accounts to total deposits was 55%, lower than the past average of around 60%. This was mainly due to current and savings deposits not meeting target numbers and the rapid expansion of Fixed Deposits in the current year.
- The non-performing loans ratio was 6.8% compared to 5.9% in 2007.
- The ratio of non-funded to net income reached 22% at the year-end. Improved recovery of bad debts and capital gains were main contributors to this achievement. We will continue to focus on non-funded income going forward, enabling a healthy spread between funded and non-funded income, reducing exposure to interest rate risk.

PERFORMANCE OF SUBSIDIARIES AND ASSOCIATES

People's Leasing Company Ltd.

Despite the economic and financial shocks of 2008, People's Leasing enjoyed a profitable year, recording a profit after tax of around Rs 825 Mn. The Company continues to lead the leasing industry, now for the sixth consecutive year, and has increased its market share from 16% in 2007 to 24% for the 6 months ended, 30th September 2008 based on Leasing Association Statistics.

A total of 6,007 leases and 8,137 HP contracts were executed to the respective values of Rs 5,594 Mn and Rs 7,558 Mn. Loans amounted

to Rs 646 Mn; the NPL portfolio stood at 3.86%.

Earnings per share were Rs 17.40 against net assets per share of Rs 79.03.

The subsidiary paid dividends to the People's Bank of Rs 42.25 Mn (preference shares) and Rs 75 Mn (ordinary shares).

People's Travels (Pvt) Ltd.

2008 was a very challenging year for the travel industry. Ticket costs rose by 70-100% compared to previous years. Airlines separated the airfare and fuel tax components of ticket price and raised the tax ladder in order to retain more earnings from sales. Travel Agents were accordingly penalised and suffered further margin reductions as a result. The availability of seats also affected agents' margins. The leisure travel sector suffered severe short-term damage as a result of these actions.

A further blow was sustained when SriLankan Airlines, which offered our Company very competitive rates for direct pilgrim flights to Delhi, were compelled to increase these fares above what the pilgrim traffic could bear. People's Travels was compelled to switch its pilgrim custom to Indian Airlines, with the result that transit time for passengers greatly increased.

Despite these obstacles, People's Travels recorded an increase in air ticket sales income of 67% year-on-year, while special commission on ticket sales rose by 69%. Our investment strategies, too, paid off, with a 9% increase in returns over 2007. The overall profit rose by a satisfactory 9%.



FINANCIAL REVIEW

People's Merchant Bank PLC

People's Merchant Bank, an associate of People's Bank, is engaged in leasing and hire purchase, trade finance, corporate finance, short-term investment and real estate. People's Bank holds 39.2% stake in People's Merchant Bank.

Financial Performance

During the year under review, interest income increased by 29% from Rs 340 Mn to Rs 439 Mn in 2008. The main contributors were: finance lease income Rs 208 Mn (an increase of Rs 8 Mn or 4%), hire purchase income Rs 171 Mn (an increase of Rs 72 Mn or 73%) and trade finance income Rs 38 Mn (an increase of Rs 28 Mn or 277%).

Operating profit increased marginally to Rs 74 Mn, an increase of 3% in 2008. This is satisfactory considering the adverse economic conditions prevailing in the country and finance industry.

Operating expenses increased only by Rs 5.7 Mn to Rs 92 Mn, a 7% increase compared with the previous year. The expenses of setting up of a branch, recruiting new staff and a general rise in expenses contributed to this. There has been a considerable saving on operating expenses, compared with previous year's increase of Rs 10.6 Mn (14%).

Provision for bad and doubtful debts was Rs 24 Mn in 2008. The current economic situation has led to shortfalls in collections, resulting in higher provisions. Reasonable steps were taken to recover arrears. The quantum of these is satisfactory, given the quality of lending portfolio, and is on par with the industry.

People's Merchant Bank PLC -

Highlights	31st December 2008	31st December 2007
Gross Income (Rs Mn)	478	362
Operating Profit (Rs Mn)	74	72
Profit Before Tax (Rs Mn)	46	44
Profit After Tax (Rs Mn)	34	34
Total Assets (Rs Mn)	2,547	1,873
Return on Total Assets (%)	2.7	2.7
Profit per Employee (Rs '000)	573	653
EPS (Rs)	1.35	1.31

Net profit before tax increased marginally by Rs 2 Mn to Rs 46 Mn, an increase of 5% compared with the previous year. Total assets of the Company have increased by a healthy 36% to Rs 2,547 Mn.

Operating profit for the period ended December 2008 fell to 15% from the previous year's figure of 19%, due to the prevailing higher cost of funds.

Earning per share for the period ended 31 December 2008 were Rs 1.35, a 3% increase over 2007.

The borrowings-to-equity ratio was 4x at end of 2008 compared to 2.9x at end of 2007. On the basis of guidelines issued by the Central Bank, People's Merchant Bank is well placed to raise additional funds.

During the year ended 31st December 2008, 901 lease and hire purchase contracts, amounting to Rs 868 Mn were executed. This compares with 800 contracts executed in 2007 to a total value of Rs 700 Mn.

The year saw the commencement of new real estate projects in Thalahena, Malabe and Rajagiriya by the Bank's Real Estate division.

A new branch was opened in December, taking the total number to eight. Two more new branches are scheduled for opening within the next six months.

Customer and Community Relations

Over 90% of People's Merchant Bank clients return to do business with the Bank, despite attractive offers from our competitors. This is heartening evidence of customer loyalty and the effectiveness of our customer-retention strategies.

The Bank is fully aware of its responsibility towards its fellow Sri Lankans. It discharges this responsibility by assisting underprivileged children in areas where our branch offices are located. In the year under review, three schools in the Deraniyagala area received Bank's assistance.

The year saw People's Merchant Bank receive its eleventh consecutive Award for Reporting Excellence in the Annual Report Competition and a Bronze Award in the 'Financial Institutions' category of the competition.



HUMAN RESOURCES

Our People's personality provides to the identity of People's Bank. Over many years of development and growth of the Bank, our people have also mirrored this path, and today are truly the 'face' of the Bank.

Matching the varied talents, skills and personalities of people with those required and displayed by the Bank is what, in a broad sense, our Human Resource team endeavours to do.

From recruitment, through training, to job placement and the building of a Long-Term career, the People's Bank has always espoused an 'only the best will do' approach to nurturing and developing its human talent base.

Quite often, longevity - which in our case translates to 48 years of service as a truly people's bank - can challenge an institution to shed the 'archaic' and embrace the 'dynamic'. This is true in our case, as we strove to revitalise and change 'corporate mindsets' in charting for the Bank, a new course as a vibrant, dynamic and highly competitive Bank.

Thus, our HR planning takes into account the renewal of organisational structure and work

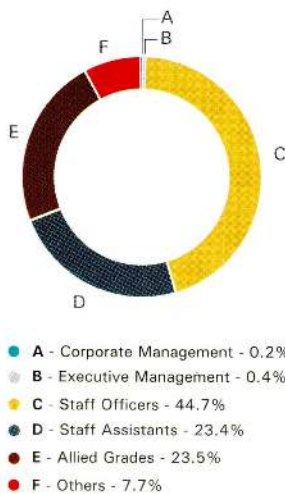
culture, reinforcing these with a performance oriented outlook, where the Bank and employees alike get a 'right fit' in terms of job expectations, job experience and career development, whilst achieving the objectives of the Bank.

OUR HUMAN RESOURCE BASE

Our staff strength as at year end 2008 stood at 8,587 compared with 8,416 in 2007.

The Bank recruited 883 Customer Service Assistants during 2008 - the largest recruitment by category. This is a revealing statistic that speaks of the Bank's commitment to move ever closer to the customer - become more than ever, a People's Bank.

Staff Profile



TRAINING AND SKILLS DEVELOPMENT

Our focus on training remained unwavering during the year in review. Our training budget grew by 26% from Rs 52.9 Mn in 2007, to Rs 66.8 Mn for 2008. This budget was invested in 465 training programmes, which reached 11,478 employees and spanned 16,173 training days.

We take great care in ensuring that whilst training is generally governed by a needs-based approach, we also look at it holistically, and endeavour to encourage staff at every level to participate in relevant programmes.

Emphasis was laid on Skills Development and honing Negotiating Skills, whilst Marketing and IT proficiency also figured largely this year.

Other features common to our training initiatives each year are the multi-lingual approach used to impart these programmes, plus the supplementing of in-house training with external expertise, both local and overseas.

The Bank Training College is our own in-house training facility which plays the lead role in disseminating our training curriculum.

Age Analysis as at 31st December 2008

Staff Group	56-60	51-55	46-50	41-45	36-40	35 & Below	Total
Corporate Management	9	3	2	1	2	-	17
Executive Management	22	1	6	3	1	-	33
Staff Officers	339	2,029	645	267	384	136	3,800
Staff Assistants	-	130	75	105	156	1,525	1,991
Allied Grades	34	513	179	195	147	929	1,997
Others	1	199	160	131	102	156	749
Total	405	2,875	1,067	702	792	2,746	8,587



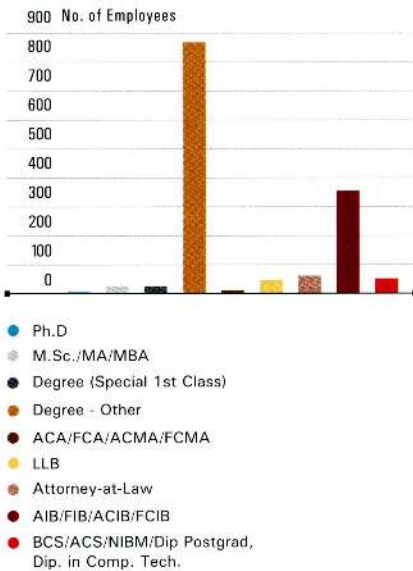
HUMAN RESOURCES

For the year in review, the following courses were conducted by the College:

- Management Development Programme
- Basic Credit Management Programme
- Risk Management Programme
- Training Programme on International Trade
- Awareness Programme on People's Bank's Disciplinary Code

The Bank continued to provide assistance through loan facilities in a sum of Rs 500,000/- for staff who wish to study for a postgraduate qualification. The loan is to be repaid on successful completion of the course of study.

Profile of Staff Qualification



CAREER PROGRESS

In the Bank's performance oriented culture, progress up the career ladder requires significant attainment of standards and targets in most job areas. This is healthy, and with competition also comes drive and motivation.

Thus promotions within the Bank are the result of careful evaluation.

During 2008, we developed new promotion schemes for staff, particularly in the non-banking streams of Finance, Audit, Supplies and Treasury. With this new scheme came streamlined grievance handling processes.

The Bank is also seeking to realign its traditional evaluation procedure with a new performance evaluation scheme and has instituted wide ranging dialogue across all employee groups, unions and other relevant bodies in a consensus seeking effort.

The advantages of the new scheme will be to generate greater motivation for the employee through a more comprehensive and inclusive process of evaluation, whilst there is potential for a significant increase in productivity as well.

COLLECTIVE NEGOTIATION, GRIEVANCE HANDLING...

The Bank is committed to addressing most issues related to its employees, in this context. In general, most of our employees are happy and contented. However there may be a few isolated cases where individual attention is quite sufficient to resolve the matters. Such incidents once reported, are handled case by case at the Head Office, Zonal Offices or Regional Offices.

Some issues are referred through the trade unions and with their assistance in the process of resolution, the Bank has invariably been able to offer acceptable remedies to the satisfaction of the aggrieved parties.

EMPLOYEE WELFARE

The well being and contentment of our people is absolutely essential for the proper functioning of the Bank, with desired levels of productivity and pro-activity. Thus the Bank is intrinsically involved not only in their work life, but also in a recreational/leisure sense.

Our Welfare Department is at the forefront of this aspect, supporting the staff voluntary organisations such as the Sports Club, Buddhist Society, Christian Guild and the Arts Circle in their programmes, often with financial inputs.



The Bank was also proud to recognise and felicitate 10 employees who have each served the institution for over 40 years. The celebratory event was held on the 28th August 2008 at the Staff Training College.

Our Annual Sports Meet was held at Koggala, Galle on 18th and 19th October 2008. Some 2000 employees from the Bank's islandwide network participated.

This department also administers the Bank's Holiday Homes throughout the country. All employees have access to these bungalows and are provided with grants to organise staff group excursions.

During 2008, 29 employees who reached the milestone of 25 years of service with the Bank were feted and received salutatory tokens of gold coins.

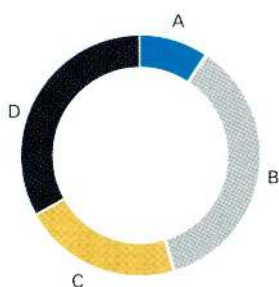
SAFETY AT WORK

The Bank has paid more attention this year, to all aspects of safety and the risks that could arise from the workplace and our organisational activities.

We regard this as a critical factor in the pursuance and enactment of good governance within the Bank.

As a matter of routine, the Bank conducts fire and emergency drills from time to time at all its premises, to ensure that optimum safety standards are in place for the safety and well being of all employees. Further, regular checks are made on the existing fire protection systems to keep them operating to full potential at all times.

Staff Service Analysis



- A - 31-40 Years - 9%
- B - 21-30 Years - 37%
- C - 11-20 Years - 21%
- D - 10 Years & Below - 33%





**PEOPLE'S BANK'S ISURU UDANA
SAVINGS ACCOUNTS**

**Link the love & concern
of parents or guardians**

*with the fruitful future of their little.
It begins working at birth and in its
continuance, inculcates the healthy
savings habit in children as they grow
to adulthood.*

FUTURE OF THE PEOPLE



CORPORATE SOCIAL RESPONSIBILITY

The People's Bank has a history of care for people and environment, firmly embedded in its psyche. We recognise our role within community and environment, which goes well beyond being the Bank of the people.

Over the years, we've channelled our resources into many areas of the life of the Nation, helping sectors of the community most in need of such help. We've made contributions to cultural and religious activities, to the sectors of health and education, and so much more.

During the year under review, the 47th Anniversary of the Bank was the celebratory spur for many of the projects which we will report upon in this chapter.

HEALTH

This year, the Bank initiated projects to repair 10 Provincial Hospitals and refurbish 2 wards at the Cancer Hospital, Maharagama.

Taking our initiative at the Cancer Hospital to illustrate the scope of our assistance, the Bank and its employees combined to raise the financial resources to repair and refurbish Wards 7 and 8, where work included attention to ceilings, water supply, toilets, furniture, masonry, electrical work and the supply of a wide variety of equipment.

Of a total budget of Rs 700,000, the Bank raised Rs 200,000 whilst staff and donors from the area raised the balance Rs 500,000.

In the process, our staff noted the parlous state of adjacent Wards 9 and 10 and the Bank is undertaking a similar exercise of refurbishment for them too.

Whilst financial resources went towards purchase of equipment and materials, the hands on work was accomplished by our staff.

Similarly, the Nuwara-Eliya Hospital, which is a key facilitator of surrounding rural hospitals in Udu Pussellawa, Kotmale, Hatton, Talawakelle, Lindula, Agarapatana and Walapane, was also found in need of refurbishment.

The Bank's Regional Head Office and several branches undertook the renovations, augmented by manpower from the Hospital.

EDUCATION

The importance of a literate and intelligent emerging generation, equipped to take on the mantle of leadership in the years ahead is well recognised by the Bank. We are honoured to be able to play our part in their development and progress.

During the year under review, the Bank put forth several initiatives in this regard.

Our Kuruwita branch undertook the renovation of the library at Kandangoda Vidyalaya. Here again, the Bank committed both financial and personnel resources in successfully completing the project.

Our Ratnapura Town Branch undertook to provide 2 name boards for Bambarakotuwa Navodya Vidyalaya.

The Bank also provided much needed equipment for the gymnasiums of Anamaduwa Central College and Kottagamuwa School.

The People's Bank sponsored the Olympiad Junior Competition conducted by the Department of Education to recognise students excelling in Mathematics and Science.

Another project which received our sponsorship was 'Sisu Udana Funday Times all-island essay competition' run by the Funday Times, Children's supplement of The Sunday Times newspaper, to coincide with International Children's Day, 2008.



Children from grades 2 to 9 were eligible to enter the competition and finalists were chosen from all 25 districts.

Our goal was to further the language and creative writing skills of students from all over the country.

ARTS, CULTURE AND RELIGION

The Bank maintains a healthy interest and involvement in supporting many projects that contribute to good values in society, particularly in the field of arts and culture and religion.

The 'Arts Festival - 2008' was an event organised by the Arts Circle of People's Bank and was held at the Elphinstone Theatre, Colombo. This event had several high points.

A CD titled 'Pembara Geetha' featuring the lyrics and songs of our own employees under the direction of well renowned Professor Sanath Nandasiri was released at the event.

The Bank's very own dance troupe performed with distinction at its inaugural showing.

Awards and certificates were bestowed on Bank employees and their children who emerged winners of our Literature Competition for the period 2007/08. Winning entries were compiled into a magazine, 'Kalahanda' and unveiled at the festival.

The Bank also took this opportunity to felicitate the 'greats' - Dr. Pandit Amaradeva, Dr. Premasiri Khemadasa, K. Jayatilleke and J.H. Jayawardene, who have all contributed immensely to the development of arts in Sri Lanka.

The Bank also sponsored a CD containing Sinhala, Pali Jayamangala Gatha & Narasiha Gatha sung by Visharada Nanda Malini which was launched at the BMICH, during the year in review. This CD will be distributed to temples island-wide and amongst the customers of the Bank.

The 100th episode of the teledrama series 'Paramitha' was telecast in April 2008. People's Bank was the main sponsor of the programme. Our involvement was influenced by the fact that this series plays a significant role in shaping beneficial artistic and literary taste amongst the generation of the future.

The Bank joined forces with the Department of Civil Security, the latter operating under the aegis of the Archaeological Department, to refurbish, beautify and provide for the maintenance of the grounds in which the sacred Aukana Buddha statue is situated. Ours is a contribution towards preserving and protecting a national treasure and a place of worship and tranquillity for the people well into the future.

The Bank made arrangements for the morning almsgiving (heel dana) to nearly 20,000 devotees who flocked to the Sri Maha Bodhiya on Poson Poya Day. This was the 22nd occasion on which this gesture was made by People's Bank.

A 'Bakthi Gee' programme was performed by the Bank's employees on the evening of the Poson Poya, at the Southern gateway of the historic Ruwanweliseya. This programme was organised by the Anuradhapura Arts Association of the Bank.

Furthermore, the Bank's Buddhist Society made several important donations to worthy causes, consisting of health aids, books, dry rations and plants and also was instrumental in constructing and gifting a house to a deserving family in Nochchiyagama.

The Bank's Christian Guild made an important and valuable donation of a Warm Air Hypothermia System to the Lady Ridgeway Children's Hospital, which significantly upgraded the hospital's capacity in the line of heart surgery.



MOMENTS IN TIME



Students who excelled in the G.C.E. Advanced Level Examination were awarded scholarships by the Bank.



Dance Troupe consisting of employees of the Bank performing at the Art Festival which was held at the Elphinston Theatre.



Mr. W. Karunajeewa, Chairman, People's Bank accepting the Brand Finance Brand Rating Certification Award with the top Brand Rating in Financial Services from Brand Finance Lanka.



The Bank celebrated Thaipongol at Kadireshan Kovil, Bambalapitiya.



The Bank sponsored 'Miyuru Kalpana' a musical concert which was organised by Sri Lanka Broadcasting Corporation to assist local artists.



In the year under review People's Bank provided loans to members of 'Gam Pubuduwa Micro Finance Development Programme'.



The Bank donating a wheelchair to a railway worker who was injured due to a railway accident.



CORPORATE GOVERNANCE

In the development of the Corporate Governance process at People's Bank, 2008 was a landmark year, which saw the publication in April of the Bank's *Code of Best Practice in Corporate Governance Version 1.1*. This was prepared in line with the Central Bank of Sri Lanka's mandatory code of Corporate Governance for licensed Commercial Banks issued in December 2007, The People's Bank Act No. 29 of 1961, The Banking Act of Sri Lanka and Internationally accepted Best Principles on Corporate Governance including the Basel Committee Paper. This book captures and formalises the definitions, relationships and systems by means of which the Bank monitors and manages the regularity, transparency and ethicality of its activities. Such measures are part and parcel of the responsibilities of a modern corporation, contributing to efficiency and productivity even as they build public trust and confidence.

It is worth noting afresh that an institution as large and closely integrated with the national economy as People's Bank, governance issues within the bank could easily have knock-on effects on the national economy. While this is obviously highly undesirable in itself, such issues would also have a grave effect on public confidence in the Bank's ability to manage its assets and liabilities, perhaps triggering a liquidity crisis. The management is keenly aware of these risks and responsibilities.

THE BOARD OF DIRECTORS

Our stakeholders - the Government and other shareholders, customers and employees and the general public - require that the Board of Directors, in their capacity as

agents of the owners, safeguard the interests of the Bank by rebuilding its capital base, ensuring sustainable profitability and enhancing stakeholder value. These imperatives permeate all our activities.

The Board of Directors, which bears full responsibility for good governance, consists of Directors appointed in terms of the People's Bank Act No. 29 of 1961. At present, the Board has nine Directors, it may have up to a maximum of ten. The quorum for any meeting of the Board is five. During the year under review, the Board met 21 times.

In making appointments to the Board, the best interests of the Bank are considered. In this context, the long-term viability of the institution is the main object. The Directors are individuals in good public standing who possess the experience, knowledge, expertise and judgement required to make positive contributions and sound judgements regarding the affairs of the Bank.

The Board is primarily responsible for setting the strategic focus of the Bank while facilitating and implementing responsible management by overseeing the business and related areas, in particular:

- drawing up the vision and mission statement of the Bank and ensuring its implementation;
- recruiting and developing a suitable General Manager and Corporate Management team;
- ensuring that the Bank keeps proper books of account of all its transactions and prepares Financial Statements that give a true and fair view of the state of affairs and of the profit or loss for the year.

- approving annual budgets and major capital expenditures;
- reviewing, managing and enhancing financial and non-financial performance while mandating appropriate measures to assure future profitability;
- undertaking periodic critical evaluations and analyses of the Bank's performance against set targets, goal and objectives within the strategic plan;
- ensuring strict adherence to achieving those set targets, goals and objectives;
- ensuring the maintenance and implementation of proper internal financial and other controls;
- ensuring full compliance with all pertinent laws and regulations;
- comprehending and quantifying the diverse risks faced by the Bank and ensuring that measures to minimise or eliminate them are in place and
- encouraging the establishment of good corporate governance throughout the institution.

BOARD INDEPENDENCE AND EFFECTIVENESS

Board decisions are based on recommendations made by the CEO/General Manager. No member of the Board has any executive responsibility within People's Bank. Thus the Board has the ability to operate objectively and independently, giving appropriate and necessary leadership, support and guidance to the management.

The Board obtains independent advice when necessary, particularly in areas where the Bank currently lacks the relevant expertise.



BOARD COMMITTEES

Board Audit Committee

This Committee considers People's Bank's financial reporting, the nature and scope of audit reviews and the effectiveness of the systems of internal control and compliance. It reviews all internal and external audit reports to ensure that appropriate internal controls, sound accounting policies and prudent financial reporting are facilitated, complied with and implemented effectively.

The Committee's responsibilities also include:

- ensuring that a suitable financial reporting system is operational to provide precise, apt and judicious information to management, regulatory authorities, shareholders and stakeholders;
- managing identified business risks, while ensuring the efficiency and effectiveness of internal controls;
- ensuring compliance with all relevant laws and bank policies in line with the Strategic Plan; and
- assessing the independence of the external auditor and monitoring the external audit.

The report of this Committee appears on page 71.

Board Executive Credit Committee

This Committee is responsible for formulating and periodically reviewing the credit policy of the Bank (see also the chapter on risk management). Proposals for credit facilities above the delegated limits are referred to this Committee for approval.

Board Executive IT Committee

The adoption and integration of appropriate information and communications technology has

been identified as fundamental to improving overall business efficiency. It was therefore considered appropriate to mandate a Board Committee on information technology to oversee this aspect of our operations. Its functions are:

- the drawing-up of a master 'IT roadmap' for the Bank,
- selection of the Bank's core banking technology,
- setting out the main IT resource requirements, and
- reviewing and evaluating progress to ensure effective implementation of information technology to derive appropriate benefits in line with bank objectives.

INTERNAL CONTROLS

The Bank adheres to transparency in all its activities. This is exemplified by its internal control procedures and compliance systems. The Board of Directors regularly reviews the adequacy and integrity of these.

A Board report on the Bank's internal control mechanisms confirms that the financial reporting system is well designed to provide reasonable assurance of reliability and that the preparation of Financial Statements for external purposes has been done in accordance with the relevant accounting principles and regulatory requirements. Appropriate controls ensure that no individual nor caucus dominates and that an appropriate balance of power and authority is maintained on the Board and in the separate roles of the Chairman and the CEO/GM.

RISK MANAGEMENT

People's Bank recognises the critical importance of sound risk management to its growth, stability and long-term

viability. Being one of Sri Lanka's largest banks, serving customers from all walks of life all over the country, it is vulnerable to the full gamut of credit, market, reputation and operational risks. Through a combination of structure, systems and processes, the Bank manages these in an integrated and systematic way.

A detailed risk management report begins on page 60, detailing the mechanisms in place to monitor and report compliance with regulatory, bank and other requirements.

COMPLIANCE

The Bank retains a dedicated Compliance Officer who ensures that all applicable laws and regulations are followed. This enables People's Bank to adapt to domestic and international changes in the compliance regime rapidly and effectively.

The existence of such a function also helps prevent any legal or regulatory transgression that might otherwise result in the Bank suffering sanctions and penalties. Thus the good name and reputation of the institution are more effectively preserved and its tangible assets better secured. The overall result is improved customer confidence and enhanced public stature for the Bank.

People's Bank follows the Basel Committee's recommendation on compliance risk and has a comprehensive anti-money laundering policy formulated by the Compliance Officer. The Bank adheres to directives and regulations issued by the Central Bank under the Banking Act and also to other relevant laws and conventions.



RISK MANAGEMENT

Banking involves exposure to a multitude of risks. To avoid or reduce their negative impact, they must be identified at the earliest possible stage and effectively managed.

Macroeconomic changes, technological developments, competition and changes in Government policies are among the principal risks faced by the People's Bank, which strives constantly to strike the perfect balance between customer and shareholder value on the one hand and sensible risk management on the other.

All banking activity involves the analysis, evaluation and the management of risk. A bank's capacity to attain and sustain profits, depend to a great extent on how well it can identify and manage these risks. This risk management process is subject to continuous development. It also aims at contributing to increased and sustainable profitability, thus achieving a lasting and durable increase in shareholder value.

RISK MANAGEMENT PROCESS

In order to achieve success, risk must be managed in a manner that ensures that all necessary measures are taken to minimise risk where possible. In order to enhance such risk management processes, the Bank took some new initiatives during the course of the year. Chief among these was the setting up of an integrated risk management function.

The Board of People's Bank approves the Bank's risk appetite through the Board Risk Management Committee. One of the main objectives of the Committee, is to have an integrated review throughout the Bank of the necessity to put in place a risk management profile, risk issues and necessary managerial action. The Committee also reviews the measures that have to be taken to gear the Bank to meet the stringent new requirements proposed in BASEL II.

The Board Executive Credit Committee consisting of Directors and members of the management team appointed by the Board of Directors, formulates the credit risk management policy, monitors credit risk and regularly reviews the effectiveness of the Bank's credit risk management policies. The Asset and Liability Committee (ALCO) comprising senior and corporate management appointed by the Board of Directors undertakes the same role with regard to other financial risks. The Bank's senior management formulates policies, procedures and controls to achieve the Bank's overall financial goals within the set risk appetite. The management has defined risk as being the volatility of future income and the economic value of our shareholders' funds that result from changing environmental and market conditions.

The Audit Department reviews and reports on the adequacy of controls and procedures on a systematic

basis. This ensures that an internal system is in place to constantly monitor potential risks and identify them early. This enables the Bank to take necessary measures to mitigate or prevent their impact on the operations of the Bank.

All staff are trained and encouraged to manage risks in their respective business activities. In an endeavour to further enhance knowledge and focus on risk management, the Bank formulates risk-based training programmes as part of its future improvement initiatives.

A STRATEGIC APPROACH TO RISK MANAGEMENT

People's Bank continues its strategic approach to risk management with a combined commitment to further enhance and strengthen the Bank's risk management capabilities, processes and procedures across all operations. This is particularly important in the context of past experience where historical problems relating to an immense portfolio of non-performing loan balances and the consequent result of capital erosion occurred.

The Bank's focus on resolving the capital deficit currently supported by a Letter of Comfort by the Ministry of Finance has been communicated to all levels within the management. In line with this, the Bank has developed a risk mitigation vision and strategy which focuses on



cushioning and protecting the required capital adequacy level from unacceptable losses or further erosion of the Bank's capital.

We continued to strengthen the comprehensive management framework that has been established in the Bank. This has created a solid base to work upon and marked the Bank's rejuvenation, leading to long-term financial success, growth and sustainable performance. The second strategic plan, begun in 2004, was completed in 2008.

ASSET AND LIABILITY MANAGEMENT

Asset and liability management, defined as the continuous process of balancing risk and return in structural positions, results from the role played by the Bank as an intermediary in financial markets. This specifically relates to a framework that involves developing a co-ordinated approach to the management of assets, liabilities and off-balance sheet items. It also involves mapping out a structured approach to positioning the balance sheet of the Bank, mapping out a structured approach to strategically manage all market-related risks of the Bank and providing a framework for senior management towards an effective strategic decision-making process.

ASSETS AND LIABILITY MANAGEMENT COMMITTEE (ALCO)

ALCO co-ordinates asset and liability management and carries out the following processes to achieve its objectives:

- protecting the Bank's required capital adequacy level from extraordinary losses;
- stabilising the earnings of the Bank by managing potential volatile positions;
- quantifying and developing mechanisms to further quantify the impact of risks;
- meeting regulatory reporting and capital management related requirements;
- articulating strategies for overall Balance Sheet management;
- formulating and executing business strategies;
- engaging in product development, pricing and promotional strategies; and
- developing processes to measure the risk-adjusted performance of the various business segments within the Bank.

The Bank has identified the necessity for risk management in the main areas of credit risk, liquidity risk, interest rate risk, market risk, operational risk and legal and reputation risk. To mitigate or nullify these risk areas, we have introduced strong risk management mechanisms, which permeate all

levels of the organisation. The primary objective of ALCO is to control the levels and volatility of income, while managing capital adequacy levels. To achieve this objective, ALCO focuses primarily on liquidity risk management, interest rate risk management and market risk management.

EXPOSURE TO RISK

The Bank is exposed to several risks. Its risk management policy is designed to identify and analyse credit risk, liquidity operational and market risk as well as other risks, setting suitable risk limits and continuously monitoring these risks and limits via appropriate information systems. Continuous modification, revision and adaptation of risk management policies and systems reflect changes in markets and products.

Risk	Impact
Legal Compliance Reputation	Minimal
Operational Market Liquidity	Moderate
Credit	High

CREDIT RISK

Credit risk is the risk of counterparties of the Bank failing to fulfil their agreed obligations and the pledged collateral is insufficient to cover the Bank's claim. Factors that contribute to this risk include market recession, high loan concentration and poor initial appraisal of credit proposals.



RISK MANAGEMENT

As a full-service commercial and development bank serving a wide range of clients, the Bank's exposure to credit risk is high.

The credit risk process involves an independent Credit Controller reporting to the Board Executive Credit Committee through the Senior DGM (Risk Management), thus providing a high-level centralised management of credit risk. Strategies are then initiated and designed to improve credit risk management. These strategies reflect the Bank's appetite for risk in consonance with capital restraints, level of profitability the Bank expects to achieve for incurring such risks and the imperative of improving the quality of our loan portfolio. Obtaining the approval of the management and the Board Executive Credit Committee for these strategies, the committee members then ensure that such strategies yield the desired results.

The Bank took several measures to manage risk during the course of the year, among them the following:

- Training in credit risk analysis to staff whose work covers credit risk management and credit evaluation. This enabled staff to develop their understanding of credit risk and the means by which to manage such risk.
- The establishment of individual limits of authority for initiating and approving credit, together with accountabilities for recovery of such credit led to better management of risks.
- A hierarchy of approvals to review potential risks at several levels, enabling large exposures to be reviewed at the highest levels.
- Portfolio management including sectoral and large exposure caps ensuring no undue concentrations of credit risk and maintenance of portfolio quality.
- Monitoring and post-disbursement reviews.
- A number of risk measurement systems were adopted by the Bank.
- Early identification of impairment and remedial action including adequate provisioning.
- Ensure that robust procedures and controls are in place for identifying and managing the credit risk inherent in products and activities at both individual credit and portfolio levels.
- Obtaining advance approval of the Board Executive Credit Committee before the introduction of any new products or activities.
- Constant post-sanction monitoring with MIS support from the computer system, accompanied by suitable corrective action.
- Clearly defining accountabilities and responsibilities covering every aspect of credit evaluation, approval, finalisation of securities, disbursement, collection, monitoring and recovery processes, ensuring that valued customers are assured of prompt and efficient service and the Bank's interests remain protected.

OPERATIONAL RISK

Operational risk is inherent to every organisation and covers a wide spectrum of issues. This risk arises from fraud, unauthorised activities, error, omission, inefficiency, systems failure or due to external events including man-made and natural disasters. The Bank's exposure to operational risk is moderate.

Operational risk cannot be completely eliminated but the Bank tries to minimise these through a set of procedures which includes the following:

- clearly-written procedures and controls that enable the Bank to manage this risk in a controls-based environment in which processes are documented, authorisation is independent and transactions are monitored;
- regular reconciliations;
- adequate segregation of duties in each area of operations, line management is responsible for establishing an effective and efficient operational control environment;
- periodic audits by Internal Audit under the guidance of the Board Audit Committee;
- contingency planning, including disaster-recovery plans for all the business units, daily back-ups of important data at all important business units, insurance against computer crime and 'banker's blanket' insurance; and
- insurance.



Future improvements in operational risk management will include a system for self-assessment of operational risks across the Bank.

MARKET RISKS

Market risks are risks that arise due to regular changes in the market. These translate into potential losses that may result from changes in market value of tradable assets due to adverse variances in interest rates, exchange rates, bond prices or stock prices. At People's Bank, we are very conscious of such potential losses and take various measures to mitigate them, including:

- providing training to ensure adequate skills are in place;
- imposing limits on exposures, gaps and losses;
- conducting regular valuations; and
- stress testing of positions.

The Assets and Liability Committee sets in place a framework of risk management measures designed to minimise the risk of unfavourable changes in market conditions which adversely effect the prices of our trading and investment portfolio of Government and other securities with strict limits on, exposure, holding period, maturities and maximum level of loss.

The Bank is currently taking further measures to strengthen market risk management.

LIQUIDITY RISK

Liquidity risk occurs when the Bank is unable to meet obligations that are due, owing to an inability to liquidate assets or obtain funding. This means that funding liquidity risk can be redefined as the risk to the Bank's earnings and capital adequacy arising from its inability to meet obligations that become due on a timely basis, without incurring unacceptable losses. The Bank is also taking steps to further develop the liquidity management process through the following measures:

- monitoring future cash flows to ensure requirements can be met and stress testing these positions;
- maintaining a pool of liquid assets;
- managing the advances to deposit ratio within set parameters;
- diversification of funding sources;
- ensuring availability of credit lines;
- actively matching funding horizons of liabilities to liquidity; and
- maintaining a stable retail deposit base.

LEGAL RISK

As a corporate entity and a commercial bank, People's Bank engages in a large number of legally-binding transactions and contracts with counterparties including customers, suppliers, service providers and employees. The risks associated with management of laws relating to the proper documentation,

execution and enforcement of these transactions and management of changes in the regulatory laws that can affect the Bank adversely can be classified as legal risk.

The Bank employs internal and external legal advisors to help in the management of this process. The other measures employed include:

- using standard documentation for routine transactions;
- implementing policies and procedures to ensure effective use of its internal and external counsel;
- keeping abreast of changes in laws relating to business of the Bank and other relevant areas and taking measures to adhere to them;
- keeping abreast of developments in regulatory laws; and
- ensuring that proper action is taken to comply with orders of courts, tribunals and authorities whenever necessary.

REPUTATION RISK

The reputation of a bank is its most valuable asset. A negative impact on reputation will have a disastrous impact on its financial performance and can affect its license to operate. We are aware of the need to manage and maintain our image and values by avoiding and preventing unfavourable episodes which if subject to public scrutiny would reflect badly on our reputation and status. The Bank has taken several

RISK MANAGEMENT

measures to preserve the confidence of shareholders, including:

- investing in brand;
- Corporate Social Responsibility activities to connect with the community and give back;
- code of conduct for all staff to ensure the highest ethical behaviour at all times; and
- training to enhance the performance of the workforce.

COMPLIANCE

Compliance risk is about ascertaining whether relevant policies, procedures and controls are in place to mitigate risk and verifying whether the Bank's operations are in compliance with relevant laws and regulations. A Chief Compliance Officer has been appointed to co-ordinate these efforts. The Bank has also made the following endeavours in this regard:

- submission of compliance status reports to the Central Bank of Sri Lanka and the Board of Directors;
- instilling a compliance culture across the Bank; and
- intensive training in KYC/anti-money laundering and CDD procedures.

IMPLEMENTATION OF BASEL II

The People's Bank is strongly committed to achieving full compliance with each of the progressive initiatives that have been and will continue to be initiated by the Central Bank of Sri Lanka (CBSL)

in relation to the implementation of the above in Sri Lanka. Preparatory arrangements were made to implement BASEL II in line with CBSL guidelines. People's Bank is also laying the foundation to move into the more advanced versions of BASEL II. These initiations include:

- training of selected staff in finance, credit, credit control, Treasury and Treasury Operations Divisions *inter alia*, on the requirements of BASEL II;
- the circulation of educational newsletters and materials to all staff of the Bank on risk management and BASEL II;
- selected staff being provided with local and overseas specialised training in risk management and BASEL II implications;
- commencing a process to procure a risk management and ALCO system and a credit scoring and evaluation system to facilitate compatibility with BASEL II requirements at the Bank.

The management of People's Bank is confident that the measures initiated on an on-going basis will facilitate the Bank's full compliance with all regulatory requirements relating in particular to all 'new aspects' underlying the BASEL II capital adequacy computation framework and related risk managements implications.



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DIRECTORS' REPORT

DIRECTORS

The Board of Directors of People's Bank consists of ten Directors, nominated by the Minister of Finance out of which two names were proposed by the Minister in Charge of Co-operatives under the provisions of People's Bank Act No. 29 of 1961 as amended. In the year 2008 there were nine Directors out of which one name was proposed by the Minister-in-charge of Co-operatives. The Board meets at least once a month and met 18 times in 2008. The Quorum for each meeting is five members. The Directors of the Bank during the year 2008 were as follows:

Name

Mr. W. Karunajeewa
Mr. H.K. Chandrasiri de Silva
Mr. Gunasoma Wickremasinghe
Mr. R.A. Jayatissa
Mr. Thimira Rajapaksa
Mr. Anil Parakrama Weerasinghe
Mr. D.J.D. Jayakody
Dr. R.M.K. Ratnayake
Mr. W. Swarna Sri Bandara

Directors' Attendance at the Board Meetings

Number of Meetings held during the year 2008 - 18

Name of the Director	No. of Meetings Attended
Mr. W. Karunajeewa	18
Mr. H.K. Chandrasiri de Silva	17
Mr. Gunasoma Wickremasinghe	18
Mr. R.A. Jayatissa	13
Mr. Thimira Rajapaksa	13
Mr. Anil Parakrama Weerasinghe	17
Mr. D.J.D. Jayakody	18
Dr. R.M.K. Ratnayake	8
Mr. W. Swarna Sri Bandara	18

SUBSIDIARIES AND ASSOCIATES

The following are the Subsidiaries/Associate Companies of the Bank:

[a] People's Leasing Co. Ltd.

Shareholding 100%

The principal activities of the Company are Financial Leasing, Operating Leasing, Hire Purchase, Asset Financing and Islamic Finance.

Directors' representation is as follows:

Mr. W. Karunajeewa - *Chairman*
Mr. D.J.D. Jayakody - *Director*
Mr. W. Swarna Sri Bandara - *Director*
(Appointed on 23.04.2008)
Mr. Kapila Ariyaratne - *Director*
Mr. N. Vasanthakumar - *Director*
Mr. M.T.M. Shuaib - *Credit Controller*

[b] People's Travels (Pvt) Ltd.

Shareholdings 99%

The principal activities of the Company - Air Ticketing and Organising of Tours.

Directors' representation is as follows:

Mr. Chandrasiri de Silva - *Chairman*
Mr. Thimira Rajapaksa - *Director*
(Appointed on 23.04.2008)
Mr. N. Vasanthakumar - *Director*

PEOPLE'S MERCHANT BANK LTD.

Shareholdings 39.2%

The principal activities of the Bank are Lease Financing, Trade Financing, Corporate Finance and related Advisory Services, Investment Banking and Real Estate Development.

Directors' representation is as follows:

Mr. Thimira Rajapaksa - *Chairman*
Mr. Chandrasiri de Silva - *Director* (Appointed on 23.04.2008)
Mr. Anil Parakrama Weerasinghe - *Director* (Appointed on 23.04.2008)
Mr. Kapila Ariyaratne - *Director* (Resigned on 30.04.2008)
Mr. Mohan Niyangoda - *Managing Director/CEO*

DIRECTORS' REPORT

Profit Appropriation for the Year 2008

	2008 Rs Bn	2007 Rs Bn
Profit before Taxation	5.6	5.0
Provision for Taxation	(2.9)	(2.6)
Net Profit after Taxation	2.7	2.4
Appropriation		
Special Levy to Treasury	(1.0)	(0.7)
Dividend paid to GOSL		
Restructuring Bonds	(0.2)	(0.2)
Profit after Appropriation	1.5	1.4

CORPORATE GOVERNANCE

The Bank has voluntarily adopted best practice provisions and have in place systems and procedures to ensure sound Corporate Governance.

A detailed Report is given on pages 58 to 59.

COMPLIANCE REPORTING

A separate Compliance Function Unit has been set up within the Bank. Monthly Compliance Reports certified by the CEO/GM and the Chief Compliance Officer are submitted to the Central Bank of Sri Lanka - Bi-Monthly Compliance Reports are also submitted to the Board. A Code of Conduct for Staff has been formulated and will be issued to all members of staff.

A detailed report is given on page 59.

Subcommittees of the Board as at 31st December 2008 are as follows:

BOARD AUDIT COMMITTEE

Mr. R.A. Jayatissa	- <i>Director (chaired the Committee)</i>
Mr. D.J.D. Jayakody	- <i>Director</i>
Mr. Anil Parakrama Weerasinghe	- <i>Director</i>

Main function of the Committee is identifying the operational risks faced by the Bank as preventing/minimising the effects of such risks and communicating and encouraging best practices and positive quality assurance throughout the Branch Network.

BOARD EXECUTIVE CREDIT COMMITTEE

Mr. W. Karunajeewa	- <i>Chairman</i>
Mr. Chandrasiri de Silva	- <i>Director</i>
Dr. R.M.K. Ratnayake	- <i>Director</i>
Mr. Asoka de Silva	- <i>CEO/General Manager (Retired on 25th April 2008)</i>
Mr. M. Wickremasinghe	- <i>CEO/General Manager (Appointed on 25th April 2008)</i>
Mr. Kapila Ariyaratne	- <i>SDGM (C & IB, D & DC)</i>
Mr. Sabry Ibrahim	- <i>SDGM (Risk Management)</i>
Mr. M.T.M. Shuaib	- <i>Credit Controller</i>

Main Functions are formulating and periodically reviewing the credit policy of the Bank. Authorising credit facilities over and above the delegated limits of specified categories.

BOARD IT COMMITTEE

Up to 31st March 2008

Mr. W. Karunajeewa	- <i>Chairman</i>
Mr. Chandrasiri De Silva	- <i>Director</i>
Mr. D.J.D. Jayakody	- <i>Director</i>
Mr. Asoka de Silva	- <i>Chief Executive Officer/General Manager</i>
Mr. M. Wickremasinghe	- <i>Chief Executive Officer/General Manager</i>

From 31st March 2008

Dr. R.M.K. Ratnayake	- <i>Director to Chair the Committee</i>
Mr. D.J.D. Jayakody	- <i>Director</i>
Mr. Thimira Rajapakse	- <i>Director</i>
Mr. M. Wickremasinghe	- <i>Chief Executive Officer/General Manager</i>

The quorum for a meeting is three members.

Main Functions of the Committee are to critically review major milestones, ensure that anticipated cost/benefit analysis is valid and give high level guidance to the Chief Executive Officer/General Manager and the IT Steering Committee.



BOARD HUMAN RESOURCE MANAGEMENT COMMITTEE

- Mr. W. Karunajeewa - *Chairman*
- Mr. Chandrasiri de Silva - *Director*
- Mr. D.J.D. Jayakody - *Director*
- Mr. Asoka de Silva - *CEO/GM (Retired on 25th April 2008)*
- Mr. M. Wickremasinghe - *CEO/GM (Appointed on 25th April 2008)*

Main functions of the Committee are to formulate policies and procedures in relation to Human Resource Management, Review and set in place the manning levels of the Bank according to business requirements, approve recruitment, employee benefits, specified extensions and Corporate Executive Management employment contracts.

BOARD RISK MANAGEMENT COMMITTEE

- Mr. R.A. Jayatissa - *Director (Chaired the Committee)*
- Mr. Chandrasiri de Silva - *Director*
- Mr. D.J.D. Jayakody - *Director*
- Mr. A.P. Weerasinghe - *Director*
- Mr. Asoka de Silva - *CEO/GM (Retired on 25th April 2008)*
- Mr. M. Wickremasinghe - *CEO/GM (Appointed on 25th April 2008)*

The Board Sub-Committee was set up to have an overview and input into the Bank-wide efforts relating to integrated Risk Management.

The Board Committee on Risk Management specifically views the summary of proceedings and issues arising out of ALCO reports and meetings, Credit Risk related issues and reports and the efforts of establishing an Operational Risk Management framework.

More details relating to the Bank's Risk Management is set out in a specific section dealing with the subject in this Report on pages 60 to 64.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Board of Directors of the Bank has responsibility for ensuring that the Bank keeps proper books of account of all the transactions and prepares Financial Statements that give a true and fair view of the state of affairs and of the profit/loss for the year.

Accordingly, the Board of Directors oversees the Managements' responsibilities for financial reporting through their regular meeting reviews and the Audit Committee. The Audit Committee Report is given on page 71.

The Board of Directors has instituted effective and comprehensive systems of Internal Control. This comprises Internal Checks, Internal Audit and the whole system of financial and other controls required to carry on business of banking in an orderly manner, safeguard its assets and secure as far as practicable the accuracy and reliability of the records. Directors consider that they adopted appropriate accounting policies on a consistent basis and supported by reasonable and prudent judgement and estimates in preparing the Financial Statements for the year 2008 exhibited on pages 74 to 113.

The Bank's Financial Statements for the year ended 31st December 2008 prepared and presented in this report are in conformity with the requirements of Sri Lanka Accounting Standards and the Banking Act No. 30 of 1988, the amendments thereto. The Financial Statements reflect a true and fair view of the state of affairs of the Bank and the Group as at that date.



Kanthi Atukorale

Secretary to the Board of Directors



AUDIT COMMITTEE REPORT

The Board Audit Committee (BAC) proceedings were based on the Charter and Terms of Reference adopted by the Board of Directors for the functioning of the Committee.

During 2008, BAC paid special attention to the following:

1. Further strengthening of the Risk-Based Internal Audit approach to identify various risks faced by the Bank and to ensure proper management of risks by placing special emphasis on the audit methodology for pre-audit risk assessment and audit planning.
2. Training of Audit Officers to equip them with the knowledge required to conduct Risk-Based Internal Audits, Information Systems Audits and audits in other specialised areas such as Treasury Operations, International Banking etc., providing them an opportunity to participate in programmes organised by the Bank's Staff Training College and other organisations.
3. Ensuring regular Follow-up of Audit findings by the Internal Audit Department until the deficiencies were rectified.
4. Assisting branches to improve their Audit Gradings/ Performance Standards.
5. Reviewing the financial reporting process in compliance with the financial reporting requirements under the Statute.
6. Examining the system of internal controls and management of business risks.
7. Reviewing the External and Internal Audit processes.
8. Reviewing the procedures in place for monitoring compliance with laws, regulations and in particular Central Bank guidelines and Basel II requirements.
9. Liaising with the Chief Internal Auditor and SDGMM/ DGMM/Heads of other functions to identify key accounting and control issues and resolve those with the primary objective of establishing an adequate control environment and ensuring presentation of Financial Statements that provide a true and fair view of the financial results of the Bank.

The Internal Audit functions were directed at identifying business risks i.e., credit risks, operational risks, market risks etc., faced by the Bank and preventing/mitigating the effects of such risks and communicating and encouraging best practices and positive quality assurance throughout the Branch Network.

The Board Audit Committee held eleven (11) meetings during the year to review the progress of Internal Audit functions, efficiency and effectiveness of controls to manage risks.

Internal Audit was also involved in reviewing of operations under the Core Banking System (Silverlake Integrated Banking System) to ensure the adequacy of controls. Similarly it was also involved in reviewing adequacy of controls in high risk areas such as Treasury Operations, Corporate and International Banking.

The Committee noted the strong commitment of the Internal Audit Department to make continued progress in improving efficiency and effectiveness of its functions. It completed 520 audit assignments, exceeding the target of 460 set for the year 2008. Significant improvements were noted in strengthening controls to contain losses by early detection and rectification of weaknesses in the systems through regular follow-ups.

The Board Audit Committee observed that 96% of branches audited had received satisfactory/average audit ratings in 2008, compared to the target of 94% set for the year in the Strategic Plan 2004-2008.

The BAC was pleased that the Bank was able to implement a recruitment & promotion scheme for Internal Audit Officers. Continued training and professional development programmes provided to Internal Audit Officers and the availability of a number of professionally qualified/experienced Audit Officers in the department also have contributed to improve the quality of Internal Audit function and performance ratings of branches.

We wish to place on record our appreciations of the valuable comments and observations made in the reports of the Auditor General.



R.A. Jayatissa
Chairman
Board Audit Committee

12th March 2009

REPORT OF THE AUDITOR GENERAL



විගණකාධිපති දෙපාර්තමේන්තුව கணக்காய்வாளர் தலைமை அறிபுதி திணைக்களம் AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය
எனது இல
My No. } EF/G/PB/S-17/2008

EF/G/PB/S-17/2008

ඔබේ අංකය
உமது இல
Your No. }

දිනය
திகதி
Date } 27 March 2009

The audit of the accompanying financial statements of People's Bank ('Bank') the consolidated financial statements of the Bank, and its Subsidiaries as at 31 December 2008, which comprise the Balance Sheet as at that date, and the Income Statements, Statements of Changes in Equity and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory notes (Nos. 1 to 38) to the financial statements was carried out under my direction in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. In carrying out this audit, I was assisted by a firm of Chartered Accountants in public practice. The financial statements of the Subsidiaries were audited by firms of Chartered Accountants in public practice appointed by the members of the respective Subsidiaries.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

SCOPE OF AUDIT AND BASIS OF OPINION

My responsibility is to express an opinion on these financial statements based on my audit. The audit was conducted in accordance with Sri Lanka Auditing Standards, which require that the audit shall be planned and performed to obtain reasonable assurance as to whether the financial statements are free from material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the said financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall presentation of financial statements. I have obtained all the information and explanations which to the best of my knowledge and belief were necessary for the purpose of my audit. I therefore believe that my audit provides a reasonable basis for my opinion.

OPINION

In my opinion, so far as appears from my examination, the Bank had maintained proper accounting records for the year ended 31 December 2008, and the financial statements give a true and fair view of the Bank's state of affairs as at 31 December 2008 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

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කොළඹ 07, ශ්‍රී ලංකාව

சுதந்திர சதுக்கம்,
கொழும்பு 07, இலங்கை

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ඉලෙක්ට්‍රොනික් තැපෑල
#- மெயில் } oaggov@slt.net.lk
E-mail. }



In my opinion, the consolidated financial statements, give a true and fair view of the state of affairs as at 31 December 2008 and the profit and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the Bank, and its subsidiaries dealt with thereby, so far as concerns the shareholders of the Bank.

EMPHASIS OF MATTER

Without qualifying my opinion I draw attention to Note 38 which explains that the Bank had entered into contractual arrangements with a related party and other parties. Based on an independent legal opinion mentioned in the said note, the Bank has not recorded liabilities to concerned parties and a corresponding amount as receivable from a Related Party at the Balance sheet date. The obligations arising from this matter cannot presently be determined. As such no provisions for any liability, that may result, have been recorded in these financial statements. This significant uncertainty, the resolution of which is dependent on future events, may affect the financial statements.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

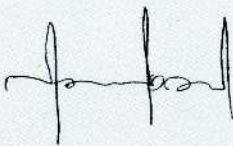
These financial statements had been presented the information required by the Banking Act, No. 30 of 1988.

EXEMPTION

The Bank has been exempted from the provisions of Part II of the Finance Act, No. 38 of 1971 by an Order of then Minister of Finance published in the Government Gazette No. 715 of 14 May 1992 by virtue of powers vested in him by Section (I) of the said Finance Act.

REPORT TO PARLIAMENT

My report to Parliament in pursuance of provisions in Article 154(6) of the Constitution will be tabled in due course.



S. Swarnajothi
Auditor General

INCOME STATEMENT

For the year ended 31st December		BANK			GROUP			
		Note	2008 Rs '000	2007 Rs '000	Change %	2008 Rs '000	2007 Rs '000	Change %
INCOME			58,948,110	47,984,048	22.8	64,344,746	52,132,233	23.4
Interest Income	1	53,453,556	43,074,181	24.1	58,635,370	46,685,022	25.6	
Interest Expenses	2	(34,491,766)	(26,541,983)	30.0	(37,240,092)	(28,322,191)	31.5	
NET INTEREST INCOME			18,961,790	16,532,198	14.7	21,395,278	18,362,831	16.5
Foreign Exchange Gain		818,399	648,988	26.1	818,399	648,988	26.1	
Fees and Commission Income		3,591,387	2,866,414	25.3	3,608,782	2,881,410	25.2	
Capital Gain on Treasury Bills and Bonds		110,988	86,774	27.9	110,988	86,774	27.9	
Other Income	3	973,780	1,307,691	(25.5)	1,171,207	1,830,039	(36.0)	
OPERATING INCOME			24,456,344	21,442,065	14.1	27,104,654	23,810,042	13.8
OPERATING EXPENSES		4						
Personnel Costs		9,068,398	8,269,992	9.7	9,417,503	8,475,987	11.1	
Provision for Staff Retirement Benefits	5	1,514,794	1,783,947	(15.1)	1,514,794	1,783,947	(15.1)	
Premises, Equipment and Establishment Expenses		2,964,156	2,462,360	20.4	3,044,659	2,606,658	16.8	
Fee and Commission Expenses		148,175	187,402	(20.9)	12,951	7,442	74.0	
Other Overhead Expenses		3,463,670	3,031,843	14.2	4,234,510	3,553,809	19.2	
		(17,159,193)	(15,735,544)	9.0	(18,224,417)	(16,427,843)	10.9	
Profit before Loan Loss Provision and Provision for Fall in Value of Dealing Securities/Others			7,297,151	5,706,521	27.9	8,880,237	7,382,199	20.3
Provision for Loan Losses	6	(1,620,025)	(821,861)	97.1	(1,723,988)	(1,257,040)	37.1	
Provision for Fall in Value of Dealing Securities/Others	7	(13,405)	18,014	174.4	(13,405)	18,014	174.4	
Provision for Tsunami Losses	8	-	99,687	(100.0)	-	99,687	(100.0)	
OPERATING PROFIT			5,663,721	5,002,361	13.2	7,142,844	6,242,860	14.4
Share of Associate Companies' Profit before Taxation		-	-	-	17,981	17,198	4.6	
PROFIT BEFORE TAXATION			5,663,721	5,002,361	13.2	7,160,825	6,260,058	14.4
Provision for Taxation	9	(2,958,873)	(2,628,478)	12.6	3,733,322	(2,754,262)	35.5	
PROFIT AFTER TAXATION			2,704,848	2,373,883	13.9	3,427,503	3,505,797	(2.2)
Less: Minority Interest		-	-	-	(44)	(50)	(11.9)	
PROFIT FOR THE YEAR			2,704,848	2,373,883	13.9	3,427,459	3,505,746	(2.2)
Earnings Per Share (Rs)								
Basic (Rs)	10.1	2,705	2,374	13.9	3,427	3,506	(2.2)	
Diluted (Rs)	10.2	19	21	(9.8)	24	31	(22.6)	

The Accounting Policies on pages 79 to 88 and Notes on pages 89 to 113 form an integral part of these Financial Statements.

BALANCE SHEET

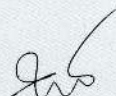
<i>As at 31st December</i>		BANK			GROUP		
Note	2008 Rs '000	2007 Rs '000	Change %	2008 Rs '000	2007 Rs '000	Change %	
ASSETS							
Cash and Short-Term Funds	11	18,380,371	28,708,951	(36.0)	18,444,041	28,791,004	(35.9)
Balance with the Central Bank	12	18,905,799	23,606,123	(19.9)	18,905,799	23,606,123	(19.9)
Government Treasury Bills and Treasury Bonds	13	61,548,268	45,168,999	36.3	61,548,268	45,168,999	36.3
Bills of Exchange	14.1	5,813,414	14,021,708	(58.5)	5,813,414	14,021,708	(58.5)
Loans and Advances	14.2	239,827,514	220,065,871	9.0	237,539,966	218,316,304	8.8
Leases	14.3	2,985,118	4,205,525	(29.0)	24,364,669	21,505,158	13.3
Other Assets	15	20,787,474	15,683,909	32.5	21,212,657	16,102,818	31.7
Deferred Tax	25.1	-	7,104	(100.0)	-	247,761	(100.0)
Dealing Securities	16	187,714	302,370	(37.9)	187,714	302,370	(37.9)
Investment Securities	17	12,051,312	12,100,096	(0.4)	12,101,322	12,150,106	(0.4)
Investments in Subsidiaries and Associate Companies	18	1,375,450	975,450	41.0	257,767	245,846	4.8
Government of Sri Lanka Restructuring Bonds	19	7,323,000	7,323,000	-	7,323,000	7,323,000	-
Property, Plant & Equipment	20	7,602,901	7,561,370	0.5	8,192,847	7,864,934	4.2
Prepaid Leases	21	467,300	506,357	(7.7)	467,300	506,357	(7.7)
Intangible Assets	22	292,138	346,707	(15.7)	314,984	365,844	(13.9)
TOTAL ASSETS		397,547,773	380,583,540	4.5	416,673,748	396,518,333	5.1
LIABILITIES							
Amounts due to Banks		348,559	300,071	16.2	349,072	300,075	16.3
Deposits from Customers	23	324,489,316	300,956,209	7.8	323,034,348	300,583,501	7.5
Borrowings from Banks and Others	24	33,365,540	49,062,771	(32.0)	47,845,763	60,336,047	(20.7)
Group Balance Payable		-	458	(100.0)	-	-	-
Taxation Payable		1,794,329	1,885,350	(4.8)	1,889,051	1,989,141	(5.0)
Deferred Liabilities	25	128,296	198,000	(35.2)	319,469	216,288	47.7
Other Liabilities	26	18,710,794	15,245,753	22.7	20,629,758	17,190,637	20.0
Retirement Benefit	27	331,217	40,363	720.6	331,217	40,363	720.6
Debentures	28	2,500,000	-	100.0	2,815,000	110,000	2,459.1
TOTAL LIABILITIES		381,668,051	367,688,976	3.8	397,213,678	380,766,052	4.3
FUNDS EMPLOYED							
Share Capital	29	49,998	49,998	-	49,998	49,998	-
Capital Pending Allotment	30	7,152,000	5,652,000	26.5	7,152,000	5,652,000	26.5
Reserves	31	8,677,724	7,192,566	20.6	12,257,881	10,050,112	22.0
		15,879,722	12,894,564	23.2	19,459,879	15,752,110	23.5
Minority Interest	32	-	-	-	191	170	12.4
TOTAL FUNDS EMPLOYED		15,879,722	12,894,564	23.2	19,460,070	15,752,280	23.5
TOTAL LIABILITIES & FUNDS EMPLOYED		397,547,773	380,583,540	4.5	416,673,748	396,518,333	5.1
COMMITMENTS AND CONTINGENCIES	33	138,988,771	74,221,674	87.3	138,988,771	74,221,674	87.3

The Accounting Policies on pages 79 to 88 and Notes on pages 89 to 113 form an integral part of these Financial Statements.

The Board of Directors is responsible for the preparation and presentation of these Financial Statements. These Financial Statements were approved by the Board of Directors and signed on their behalf.

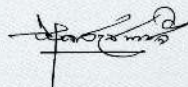


Y.A. Soza
Head of Finance



P.V. Pathirana
Chief Executive Officer/General Manager

24th March 2009
Colombo



W. Karunajeewa
Chairman



CASH FLOW STATEMENT

For the year ended 31st December	BANK		GROUP	
	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000
Cash Flows from Operating Activities				
Interest and Commission Receipts	54,507,416	44,673,808	59,831,325	48,627,792
Interest Payments	(33,162,198)	(25,833,702)	(35,887,445)	(27,634,719)
Recoveries of Loans Previously Written-Off	124,708	129,706	124,708	143,953
Cash Payments to Employees and Suppliers	(14,543,152)	(12,913,540)	(15,463,967)	(14,160,179)
Operating Profit before Changes in Operating Assets and Liabilities	6,926,774	6,056,272	8,604,621	6,976,847
(Increase)/Decrease in Operating Assets				
Deposits held for Regulatory or Monetary Control Purposes	4,700,324	(2,168,982)	4,700,324	(2,168,982)
Funds Advanced to Customers	(11,457,447)	(30,345,572)	(15,095,277)	(31,843,110)
Treasury Bills and Bonds	(16,165,997)	12,405,383	(16,165,997)	12,405,383
	(22,923,120)	(20,109,171)	(26,560,950)	(21,606,709)
Increase/(Decrease) in Operating Liabilities				
Deposit from Customers	23,615,948	31,085,227	22,533,687	30,840,148
Negotiable Certificate of Deposits	(82,841)	(76,180)	(82,841)	(76,180)
	23,533,107	31,009,047	22,450,846	30,763,968
Net Cash from Operating Activities before Income Tax	7,536,761	16,956,148	4,494,517	16,134,106
Income Taxes Paid	(2,999,494)	(1,348,343)	(3,380,718)	(1,853,903)
Retirement Benefit Paid during the Year	(1,421,940)	(2,461,829)	(1,421,940)	(2,461,829)
Net Cash from Operating Activities	3,115,327	13,145,976	(308,141)	11,818,374
Cash Flows from Investing Activities				
Investment in Subsidiary and Associates	(400,000)	100,000	6,060	(13,319)
Dividend Received	150,205	173,681	156,513	187,928
Proceed from Sales of Property, Plant & Equipment	182,730	11,828	196,669	15,981
Purchase of Property, Plant & Equipment	(1,056,159)	(822,448)	(1,489,814)	(943,736)
Investments Matured/(Additions)	47,750	(5,431,528)	47,750	(5,431,528)
Net Cash from/(used in) Investing Activities	(1,075,474)	(5,968,467)	(1,082,822)	(6,184,674)
Cash Flows from Financing Activities				
Capital Received from Government	1,500,000	1,500,000	1,500,000	1,500,000
Debentures	2,500,000	-	2,705,000	-
GOSL Bond Interest Paid	(219,690)	(219,690)	(219,690)	(219,690)
Special Levy paid to Treasury	(500,000)	(700,000)	(500,000)	(700,000)
Minority Interest Paid	-	-	(23)	37
Net Increase/(Decrease) in Borrowings	(15,697,231)	13,222,494	(12,490,284)	14,761,003
Net Cash from/(used in) Financing Activities	(12,416,921)	13,802,804	(9,004,997)	15,341,350
Net Increase/(Decrease) in Cash and Cash Equivalents	(10,377,068)	20,980,313	(10,395,960)	20,975,050
Cash and Cash Equivalents at the beginning of the Year	28,408,880	7,428,566	28,490,929	7,515,879
Cash and Cash Equivalents at the end of the Year	18,579,812	28,408,879	18,094,969	28,490,929
Cash and Short-Term Funds (Note 11)	18,380,371	28,708,951	18,444,041	28,791,004
Amounts due to Banks	(348,559)	(300,072)	(349,072)	(300,075)
Cash and Cash Equivalents reflected on Balance Sheet at the end of the Year	18,031,812	28,408,879	18,094,969	28,490,929



CASH FLOW STATEMENT

<i>For the year ended 31st December</i>	BANK		GROUP	
	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000
Reconciliation of Net Profit to Net Cash Flows from Operating Activities				
Net Profit before Taxation	5,663,721	5,002,362	7,160,825	6,260,058
Adjustment for Non-Cash Transactions				
Notional Tax Credit	(65,180)	-	(65,180)	-
Provision for Tsunami Losses	-	(99,687)	-	(99,687)
Associate Profit Adjustment	-	-	(17,981)	(17,198)
Capital Gains on Treasury Bills and Bonds	(110,988)	(86,774)	(110,988)	(86,774)
Net Accrued Interest	(3,120,585)	(2,139,297)	(3,257,127)	(2,299,091)
Retirement Benefit Provision	1,476,009	1,744,826	1,476,009	1,753,541
Translation Difference on FCBU	(818,399)	26,686	(818,399)	26,686
Provision for Interest on W&OP Fund	38,784	39,120	38,784	39,120
Depreciation	1,016,246	1,012,803	1,149,407	1,152,003
Profit on Disposal of Fixed Assets	(90,721)	(11,828)	(94,258)	(18,720)
Provision for Bad Debts	1,620,025	1,045,589	1,723,988	1,481,777
Provision for Gratuity	85,000	33,651	96,248	33,651
Loan Loss Provision Reversals	(495,520)	(1,882,018)	(503,590)	(1,883,028)
Investment Income	(150,205)	(173,682)	(156,513)	(187,928)
Provision for Diminution in Value of Shares/Others	115,690	(1,262)	115,690	(1,262)
Provision for falling Value of Investments				
Securities and Others	(102,284)	(16,752)	(102,284)	(16,752)
(Increase)/Decrease in Accounts Receivables	230,166	(665,051)	383,514	(965,823)
Increase/(Decrease) in Accounts Payables	1,635,015	2,227,586	1,586,476	1,806,274
Operating Profit before Changes in Operating Assets/Liabilities	6,926,774	6,056,272	8,604,621	6,976,847
(Increase)/Decrease in Operating Assets	(22,923,120)	(20,109,171)	(26,560,950)	(21,606,709)
Increase/(Decrease) in Operating Liabilities	23,533,107	31,009,047	22,450,846	30,763,968
Cash Generated from Operations	7,536,761	16,956,148	4,494,517	16,134,106
Income Tax Paid	(2,999,494)	(1,348,343)	(3,380,718)	(1,853,903)
Pension Fund Paid during the Year	(1,421,940)	(2,461,829)	(1,421,940)	(2,461,829)
Net Cash from/(used in) Operating Activities	3,115,327	13,145,976	(308,141)	11,818,374

The Accounting Policies on pages 79 to 88 and Notes on pages 89 to 113 form an integral part of these Financial Statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December 2008

	Share Capital Rs '000	Capital Pending Allotment Rs '000	Statutory Reserve Rs '000	Revaluation Reserve Rs '000	Capital Reserve Rs '000	Special Risk Reserve Rs '000	General Reserve Rs '000	Building Reserve Rs '000	Profit/ (Loss) Rs '000	Total Rs '000
BANK										
Balance as at 1st January 2007	49,998	4,152,000	49,998	5,610,494	5,663	246,451	1,000	1,000	(176,233)	9,940,371
Tranche 3 Capital (Note 30.4)	-	1,500,000	-	-	-	-	-	-	-	1,500,000
Revaluation Surplus	-	-	-	-	-	-	-	-	-	-
Transfer to Special Risk Reserve	-	-	-	-	-	49,315	-	-	(49,315)	-
Net Profit for the Year 2007	-	-	-	-	-	-	-	-	2,373,883	2,373,883
Dividend Paid to GOSL (Note 31.8)	-	-	-	-	-	-	-	-	(219,690)	(219,690)
Special Levy to Treasury (Note 31.9)	-	-	-	-	-	-	-	-	(700,000)	(700,000)
Balance as at 31st December 2007	49,998	5,652,000	49,998	5,610,494	5,663	295,766	1,000	1,000	1,228,645	12,894,564
Tranche 4 Capital (Note 30.4)	-	1,500,000	-	-	-	-	-	-	-	1,500,000
Revaluation Surplus	-	-	-	-	-	-	-	-	-	-
Transfer to Special Risk Reserve	-	-	-	-	-	92,995	-	-	(92,995)	-
Net Profit for the Year 2008	-	-	-	-	-	-	-	-	2,704,848	2,704,848
Dividend Paid to GOSL (Note 31.8)	-	-	-	-	-	-	-	-	(219,690)	(219,690)
Special Levy to Treasury (Note 31.9)	-	-	-	-	-	-	-	-	(1,000,000)	(1,000,000)
Balance as at 31st December 2008	49,998	7,152,000	49,998	5,610,494	5,663	388,761	1,000	1,000	2,620,808	15,879,722
GROUP										
Balance as at 1st January 2007	49,998	4,152,000	49,998	5,610,494	5,663	246,451	1,000	1,000	1,549,450	11,666,054
Tranche 3 Capital (Note 30.4)	-	1,500,000	-	-	-	-	-	-	-	1,500,000
Revaluation Surplus	-	-	-	-	-	-	-	-	-	-
Transfer to Special Risk Reserve	-	-	-	-	-	49,315	-	-	(49,315)	-
Net Profit for the Year 2007	-	-	-	-	-	-	-	-	3,505,746	3,505,746
Dividend Paid to GOSL (Note 31.8)	-	-	-	-	-	-	-	-	(219,690)	(219,690)
Special Levy to Treasury (Note 31.9)	-	-	-	-	-	-	-	-	(700,000)	(700,000)
Balance as at 31st December 2007	49,998	5,652,000	49,998	5,610,494	5,663	295,766	1,000	1,000	4,086,191	15,752,110
Tranche 4 Capital (Note 30.4)	-	1,500,000	-	-	-	-	-	-	-	1,500,000
Revaluation Surplus	-	-	-	-	-	-	-	-	-	-
Transfer to Special Risk Reserve	-	-	-	-	-	92,995	-	-	(92,995)	-
Net Profit for the Year 2008	-	-	-	-	-	-	-	-	3,427,459	3,427,459
Dividend Paid to GOSL (Note 31.8)	-	-	-	-	-	-	-	-	(219,690)	(219,690)
Special Levy to Treasury (Note 31.9)	-	-	-	-	-	-	-	-	(1,000,000)	(1,000,000)
Balance as at 31st December 2008	49,998	7,152,000	49,998	5,610,494	5,663	388,761	1,000	1,000	6,200,965	19,459,879



SIGNIFICANT ACCOUNTING POLICIES

1. CORPORATE INFORMATION

The People's Bank is a Government-owned Bank, established under People's Bank Act No. 29 of 1961 on 1st July 1961 and is domiciled in Sri Lanka. The Consolidated Financial Statements of the Bank for the year ended 31st December 2008 comprise the Bank, its Subsidiaries i.e., People's Leasing Co. Ltd. and People's Travels (Pvt) Ltd. and the sub subsidiaries of People's Leasing Fleet Management Ltd., People's Leasing Property Development Ltd. and its interest in Associate Companies i.e., People's Merchant Bank PLC.

The Consolidated Financial Statements were authorised for issue on 24th March 2009 by the Board of Directors.

2. PRINCIPAL ACTIVITIES

Bank

The Bank's business comprise of accepting deposits, granting Credit Facilities, Personal Banking, Development Banking, Pawnbroking, International Trade, Dealing in Government Securities, Leasing, Credit Card Operations and FCBU for Foreign Currency Banking.

Subsidiaries

The principal activities of People's Leasing Co. Ltd. are providing Leases, Hire Purchase Assets Financing and Islamic Financial Services. People's Travels (Pvt) Ltd., relate to arrangement of Tours and Air Ticketing.

Sub Subsidiaries

The principal activities of People's Leasing Fleet Management Ltd. providing operating leases and People's Leasing Property Management Ltd. providing property developments and constructions.

Associates

The principal activities of People's Merchant Bank Ltd., relate to Trade Finance, Leasing, Hire Purchase, Real Estate, Short-Term Investments and Corporate Finance Services.

3. ACCOUNTING POLICIES

3.1 Basis of Preparation

The Financial Statements of the Bank and the Group are prepared in Sri Lanka Rupees on a historical cost basis except for the Government Treasury

Bills & Bonds and dealing securities which are stated at valuation as explained in Note 4.5.4 and revaluation of certain freehold and leasehold premises. No adjustments have been made for inflationary factors.

3.2 Statement of Compliance

The Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles and the Sri Lanka Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka. These principles and standards used in the preparation of these Financial Statements have been applied consistently with the preceding year and appropriately improved in compliance with the Revised Accounting Standards.

The preparation and presentation of these Financial Statements are in compliance with the requirement of the Banking Act No. 30 of 1988 and amendments thereto.

3.3 Basis of Consolidation

3.3.1 Subsidiary Companies

The Subsidiary Companies are accounted in conformity with the Sri Lanka Accounting Standard No. 26 (Revised 2005) on Consolidated and Separate Financial Statements, which are those companies in which the Bank, directly or indirectly has an interest of more than one half of the voting rights or otherwise has power to exercise control over financial and operating policies, have been consolidated. Subsidiaries are consolidated from the date on which effective controls are transferred to the Bank and are no longer consolidated from the date of disposal. Accounting Policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Bank. The interest of the outside shareholders are disclosed separately under the heading 'Minority Interest'.

The Consolidated Financial Statements include the results, assets and liabilities of People's Bank and its subsidiaries up to the end of 31st December 2008. All subsidiaries have 31st March financial year ends. Accounts drawn up as at 31st December 2008 have been used in the consolidation. The Consolidated Income Statement reflects profits or losses relating to the subsidiaries for 12 months from 1st January 2008 to 31st December 2008.



SIGNIFICANT ACCOUNTING POLICIES

3.3.2 Associate Companies

Associates are those enterprises in which the Group has significant influence, but not control over the financial and operating policies.

Investments in associate companies are accounted for under the equity method, in conformity with the Sri Lanka Accounting Standard No. 27 (Revised 2005) on Investment in Associates. Whereby the Group's shares of profits/losses of the associate companies are included in the Consolidated Income Statement. The Group, share of post-acquisition retained profits/losses and reserves is aggregated with the cost of this investment in the Consolidated Balance Sheet.

3.3.3 Transactions Eliminated on Consolidation

All inter-company transactions, balances and unrealised surpluses and deficits on transactions between the Bank and subsidiary companies have been eliminated in preparing the Consolidated Financial Statements.

3.4 Significant Accounting Judgement, Estimates and Assumptions

In the process of applying the Bank's Accounting Policies, management is required to make judgements, apart from those involving estimations, which may have a significant effects on the amounts recognised in the Financial Statements. Further, the management is required to consider, key assumptions concerning the future and other key sources of estimations uncertainty at the Balance Sheet date, that have significant risk of causing a material adjustment to the carrying amount of asset and liabilities. The respective carrying amounts of assets and liabilities are given in the related Notes to the Financial Statements. The key items which involve these judgements, estimates and assumptions are discussed below.

3.4.1 Defined Benefit Plans

The cost of the defined benefit plans such as pension and gratuity are determined using actuarial valuation. The actuarial valuation is based on assumptions on discount rates, expected return on assets, future salary increases, mortality rates etc.

3.4.2 Impairment Losses on Loans and Advances

In addition to the provision made for possible loan losses based on the parameters and directives

for specific and general provision on Loans and Advances by the Central Bank of Sri Lanka, the Bank reviews its Loans and Advances portfolio at each recruiting date or more frequently, if events or changes in circumstances necessitate to assess whether further provision for impairment against exposures which, although not specifically identified as requiring specific provisions have a greater risk of default than when originally granted.

The judgement by the management is required in the estimation of these amounts and such estimations are based on assumptions about a number of factors such as any deterioration of country risk, industry and technological obsolescence, as well as identify structural weaknesses and deterioration in cash flows.

3.4.3 Impairment of Non-Financial Assets

The Group assess at each reporting date or more frequently if events or changes in circumstances indicate that the carrying value may be impaired, whether there is an indication that a non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required the Bank makes an estimate of the assets recoverable amount. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal Accounting Policies applied in the preparation of these Consolidated Financial Statements are set out below:

4.1 Foreign Currency Translation

The Consolidated Financial Statements are presented in Sri Lankan Rupees, which is the Bank's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the Financial Statements of each entity are measured using the functional currency.

4.1.1 Monetary assets and liabilities denominated in foreign currencies are translated using the rates of exchange ruling at the Balance Sheet date and transactions in foreign currencies during the year are converted at the rate ruling at the transaction date and foreign exchange differences resulting from



the translation and settlement of transactions, are recognised in the Income Statement in compliance with Sri Lanka Accounting Standard No. 21 on The Effects of Changes in Foreign Exchange Rates.

Non-monetary items measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the date of the initial transactions.

4.1.2 Foreign exchange commitments under forward purchases and sales contracts are stated at the contracted forward exchange rates and the other Off-Balance Sheet items at the exchange rates prevailing on transaction dates. Unrealised gains and losses are dealt with through the Income Statement.

4.1.3 Transaction of the Offshore Banking Centre have been recorded in accordance with the paragraph 4.1.1 above except for the application of the monthly average exchange rate in the Income Statement.

4.2 Taxation

4.2.1 Current Taxation

Current tax assets and liabilities consists of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current as well as prior years. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the Balance Sheet date. Accordingly, provision for taxation is made on the basis of the profit for the year as adjusted for taxation purpose in accordance with the provision of the Inland Revenue Act No. 10 of 2006 and the amendment there to, at the rates specified in Note No. 9 to Financial Statements.

4.2.2 Deferred Taxation

Deferred tax is provided using the liability method on temporary differences at the Balance Sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purpose. Deferred tax liabilities are recognised for all temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and at the time of transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible differences. Carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- Where deferred tax assets relating to the deductible temporary differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor the taxable profit or losses; and
- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognised only to the extent it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which temporary differences can be utilised.

The carrying amount of deferred tax asset is reviewed at each balance sheet date and reduced to the extent it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax asset are reassessed at each Balance Sheet date and are recognised to the extent that it is probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply in the year when the assets are realised or the liabilities are settled, based on tax rates and tax laws that have been enacted or substantially enacted at the Balance Sheet date.

SIGNIFICANT ACCOUNTING POLICIES

Deferred tax assets and liabilities are set off if a legally enforceable right exists to set off current tax asset against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

4.3 Offsetting

Financial assets and liabilities are Offset and the net amount reported in the Balance Sheet when there is a legally enforceable right to set-off the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liability simultaneously.

4.4 Events after the Balance Sheet Date

All material events arising Post-Balance Sheet date, if any and where necessary have been considered and appropriate adjustments and disclosures have been made in the Financial Statements.

4.5 Assets and Bases of their Valuation

4.5.1 Loans and Advances to Customers

Loans and Advances to Customers are stated in the Balance Sheet net of provision for possible loan losses and net of interest in suspense, which is not accrued to revenue.

4.5.1.1 Provision for Loan Losses

Provision for bad and doubtful loans is made on the basis of a continuous review of all loans and advances to customers. In determining the level of the provision required, management considers numerous factors including, but not limited to, composition of the loan portfolio, period outstanding, prior experience and stipulations of the Central Bank of Sri Lanka in relation to provisioning for doubtful debts. Specific provision is made for those loans that have been individually reviewed and identified as bad or doubtful in accordance with Sri Lanka Accounting Standard No. 23 - Revenue Recognition and Disclosure in the Financial Statements of Banks.

A general provision for loans and advances is made on the basis of 0.95% of performing and overdue loans and advances according to the Central Bank Guidelines. A general provision up to 1% on total performing and overdue loans and advances portfolio will be made on or before the end of first quarter, 2009.

The Bank has complied with the Standards and Guidelines that have been issued by the Central Bank of Sri Lanka in connection with the accounting and classification of non-performing advances and provision for possible losses that may arise from such advances.

4.5.1.2 The classification of these doubtful loans and advances together with the level of provisioning made is as follows:

Period Outstanding	Classification	Provisions made on Exposures Net of Realisable Value of Security (%)
	Sub-standard	
4 to 6 months	Credit Cards	25
6 to 12 months	Others	20
	Doubtful	
6 to 8 months	Credit Cards	50
12 to 18 months	Others	50
	Loss	
8 months and over	Credit Cards	100
18 months and over	Others	100

The discounted realisable value or the net realisable value of security as per the amended directions issued on 9th May 2008 by Central Bank of Sri Lanka under Sections 46 (1) and 46 (A) of the Banking Act No. 30 of 1988 as amended by Amendment Banking Act No. 33 of 1995 is considered in provisioning for advances.

4.5.1.3 Amended guidelines for discounting of immovable property is as follows:

Period in the Loss Section	% of Forced Sale Value of Immovable Property that can be considered as the Value of Security	
	Freehold Property	Leasehold Property
Less than 12 Months	75%	60%
12 - 24 Months	60%	50%
24 - 36 Months	50%	40%
36 - 48 Months	40%	30%
More than 48 Months	Property should be reviewed on a regular basis, and discounted further at the discretion of the management.	



SIGNIFICANT ACCOUNTING POLICIES

4.5.1.4 Where an Advance is in Loss Category of Immovable Freehold Property over 4 years, the Central Bank of Sri Lanka has given the discretion to determine the discount factor to the Board of Directors. Accordingly the Board has decided to discount the Forced Sale Value of immovable freehold property offered as security for Advances in the Loss category for more than four years, by 30%.

4.5.1.5 When a loan is uncollectible it is written-off against the related provision for loan losses and uncovered balances, if any, are charged against the Income Statement. Subsequent recoveries of loans are credited to the Income Statement against which such sums had been previously written-off.

4.5.2 Leases

Assets leased to customers which transfer substantially all the risks and rewards associated with ownership other than legal title are classified as finance leases. Lease rentals receivable are stated in the Balance Sheet net of provision for doubtful debts and net of interest in suspense, which is not accrued to revenue. The accounting for leases is in conformity with Sri Lanka Accounting Standard No. 19 (Revised 2005) on Leases.

4.5.2.1 Provision for Lease Receivable

Specific provision has been made in relation to identified bad and doubtful leases.

In addition, a general provision for possible losses on lease receivable is made at 0.95% of the total lease receivable, which would be gradually increased to 1% by 31st March 2009.

4.5.3 Credit Card Receivable

Amount receivable on credit cards is included in Loans and Advances to customers at the amount expected to be recovered.

Provision for Credit Card Receivable is made for balances outstanding for periods exceeding 4 months and beyond.

In addition, a general provision for possible losses on credit card receivable is made at 0.95% of the total Credit Card Receivable, which would be gradually increased to 1% by 31st March 2009.

4.5.4 Investments

4.5.4.1 Dealing Securities

Dealing Securities are initially recognised at cost and subsequently remeasured at market prices.

4.5.4.2 Investment in Government Securities held for Maturity and held for Sale

Investment in Government of Sri Lanka Treasury Bills and Bonds, other Government Securities and Central Bank Securities are purchased primarily with the intention of holding them to maturity and are stated at cost. Discount/Premium on purchase are amortised/accredited to income/expenditure on a pattern reflecting a constant periodic rate of return.

Securities purchased for trading purpose are marked to market based on current market rates.

Long-Term Treasury Bonds received in settlement of outstanding loans to CWE are treated as an Investment Security and are stated at cost.

Securities purchased under Resale Agreements are advances collateralised by purchase of Treasury Bills and Treasury Bonds from the public subject to an agreement to resell them at a predetermined price. The asset is recorded in respect of the consideration paid and interest accrued thereon

4.5.4.3 Other Investments Securities

Investments (other than Government Securities) that are held for long-term or until maturity are stated at cost. Provision is made for any diminution in value, other than for those which are temporary, determined on an individual basis for each investment.

4.5.4.4 Investments in Subsidiaries

Investments in Subsidiaries are stated at cost in the Bank's Financial Statements in accordance with Sri Lanka Accounting Standard No. 26 (Revised 2005) on Consolidated Financial Statements and Accounting for Investment in Subsidiaries.

4.5.4.5 Investments in Associates

Investments in Associates are accounted for under the cost method in the Bank's Financial Statements and under the equity method in the Consolidated Financial Statements in accordance with Sri Lanka Accounting Standard No. 27 (Revised 2005) on Accounting for Investments in Associates.

SIGNIFICANT ACCOUNTING POLICIES

4.5.5 Foreclosed Property

The immovable property acquired by foreclosure of collateral from defaulting customers, or which have devolved on the Bank's as part settlement of debt have not been accounted as an investment property or as part of the assets of the Bank in accordance with directions issued by the Central Bank of Sri Lanka.

4.5.6 Property, Plant & Equipment

4.5.6.1 Plant & Equipment is stated at cost, excluding the cost of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the plant & equipment when the cost is incurred, if the recognition criteria are met.

Land and Buildings are measured at fair value, less depreciation on buildings and impairment charged subsequent to the date of the revaluation.

Depreciation is calculated on straight line basis over the useful life of the assets.

Valuation are performed every 4 years to ensure that the fair value of a revalued assets does not differ materially from its carrying amount.

Any revaluation surplus is credited to the revaluation reserve included in the equity section of the Balance Sheet, except to the extent that it reverse a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss. A revaluation deficit is recognised in profit or loss except that deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve.

When each major inspection is performed, its cost is recognised in the carrying amount of the plant & equipment as a replacement if the recognition criteria are satisfied.

An item of Property, Plant & Equipment is derecognised upon disposal when no future economic benefits are expected from its use or disposal. Any gain or losses arising on derecognition of the asset is included in the Income Statement in the year the asset is derecognised.

The asset's residual values, useful life and methods of depreciation are reviewed, and adjusted if appropriate at each financial year end.

The rates of depreciation are given below:

Category of Asset	Period of Depreciation
Leasehold Building	over the period of lease
Freehold Buildings	2% p.a.
Furniture, Equipment & Machinery	20% p.a.
Freehold & Leasehold Motor Vehicles	25% p.a.
Core Banking & Software	20% p.a.
Prepaid Leases	over the period of lease

4.5.7 Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Following the initial recognition of the intangible asset, the cost model is applied requiring the assets to be carried at cost, less any accumulated amortisation and accumulated impairment losses.

The useful life of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assess for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with the finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible asset with finite life is recognised in the Income Statement.

The useful lives and the amortisation methods of intangible assets with finite life are as follows:

The Class of Intangible Assets	Useful Life	Amortisation Method
Core Banking and Software	4 Years	Straight line method



SIGNIFICANT ACCOUNTING POLICIES

Gain or losses arising from derecognition of an intangible assets are measured as the difference between the net disposal proceeds and the carrying amount of the asset are recognised in the Income Statement when the asset is derecognised.

4.5.8 Other Assets

All Other Assets are valued net of specific provision, where necessary, so as to reduce the carrying value of such assets to reflect their estimated realisable values.

4.5.9 Cash and Short-Term Funds

Cash and Short-Term Funds include cash in hand, balances with banks, placements with banks and money at call at short notice.

4.6 Liabilities and Provisions

4.6.1 Commitment & Contingencies

All discernible risks have been accounted for in determining the amount of other liabilities. The Bank's share of any contingencies and capital commitments of a subsidiary or an associate for which the Bank is also liable severally or otherwise has been included where necessary with appropriate disclosures.

4.6.2 Pension Scheme

4.6.2.1 The People's Bank Pension Scheme is a funded, non-contributory, defined retirement benefit scheme, operated for the payment of pensions to the members of its permanent staff who qualify for such payment.

4.6.2.2 Permanent staff who have joined the Bank prior to 1st January 1996 qualify to be members of this Pension Scheme.

4.6.2.3 The Bank has complied with Sri Lanka Accounting Standard No. 16 (Revised 2006) on Employee Benefit and Sri Lanka Accounting Standard No. 42 on Accounting and Reporting by Retirement Benefit Plans when accounting and reporting of Retirement Benefit Plans.

4.6.2.4 The Bank provides an annual contribution to the Pension Fund, based on actuarial valuation estimates on the required funding level that is needed to maintain the Pension Fund at or near a fully-funded state.

4.6.2.5 The actuarial valuation uses assumptions relating to actuarial estimates of life expectancy, future earnings income from investments of the Fund, retirement expectations of staff, inflation rate projections and estimations of annual wage rate increases.

4.6.2.6 The latest actuarial valuation was carried out as of 1st January 2008, by Piyal S. Gunatilleke FSA (USA), Member of the American Academy of Actuaries and Consulting Actuaries. The valuation has been carried out based on Projected Benefit Method recommended by Sri Lanka Accounting Standard No. 16 (Revised 2006) on Employee Benefits.

The result of the valuation indicate that assets of the Pension Fund exceeds the liability by Rs 5,286 Mn (according to the discontinuance basis).

4.6.2.7 The principal financial assumptions used in the valuation as at 31st December 2008 are as follows:

Interest Rate	14% p.a.
Increase in Cost of Living Allowances	10% p.a.
Basic Salary Increase for Grades I & II	10% p.a.
For other Grades	8% p.a.
Discount Rate	12% p.a.

The Bank provides a pension to retiring staff on the following basis:

Staff are eligible to draw a pension after 10 years of service and after reaching normal age of retirement of 55 years.

The quantum of pension paid is dependent on the length of service is as follows:

Length of Service	Quantum of Pension
(i) 10 to 20 Years	80% of last drawn salary.
(ii) 21 to 29 Years	80% plus 1% for each additional year in excess of 20 years of last drawn salary.
(iii) 30 Years and above	90% of last drawn salary.

4.6.2.8 A separate fund is maintained to meet future obligations of the Fund based on the recommendation of a qualified Actuary and managed by a Board of Trustees. Pension payments are made out of the funds of the Pension Fund, while annual contributions are made by the Bank to top-up the funding level of the Fund as explained above.

SIGNIFICANT ACCOUNTING POLICIES

The Accounts of the Pension Fund are maintained separately and are subject to annual audit by Independent External Auditors. The Statement of Accounts as well as the Auditor's Report are tabled and reviewed by the Board of Trustees. These Statements of Accounts and Auditor's Report are also submitted for review of the disclosure of the Bank, as the Bank has the obligation of ensuring that funding is made at optimum levels. Pension is payable monthly as long as the participant is alive.

4.6.2.9 A provision is recognised in the Balance Sheet when the Bank has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligations, in accordance with the Sri Lanka Accounting Standard No. 36 on Provisions, Contingent Liabilities and Contingent Assets.

4.6.3 Gratuity

The employees who joined the Bank on or after 1st January 1996 will be eligible for Gratuity under the Payment of Gratuity Act No. 12 of 1983, as they are not eligible to join the Pension Scheme described in 4.6.2.

Other employees whose services are terminated other than by retirement are eligible to receive the Terminal Gratuity under the Payment of Gratuity Act No. 12 of 1983 at the rate of one half of the Gross Salary applicable to the last month of the financial year in which the employment is terminated, for each year of continuous service, for those who have served in excess of 5 years.

The Bank makes a monthly provision towards such Gratuity Payment Liabilities and this value is reflected in the Balance Sheet of the Bank. Up to 31st December 2007, the Bank made a provision based on the gratuity formula. However, from 2008 onwards in line with revised Sri Lanka Accounting Standard No. 16 (Revised 2006) on Employee Benefits the provision is made based on actuary's valuation.

The subsidiary and Associate Companies of the Bank provide for Gratuity under the Payment of Gratuity Act No. 12 of 1983. Provision for gratuity has been made for employees who have

completed one year of service with the Companies, in accordance with Sri Lanka Accounting Standard No. 16 (Revised 2006) on Employee Benefits. These liabilities are not externally funded.

Post-1996 Pension Scheme

As approved by the Ministry of Finance the Bank plans to initiate a New Pension Scheme for permanent employees who joined the Bank post-1st January 1996.

The Bank has transferred Rs 198 Mn of the Gratuity Fund as initial start up or seed money for this New Pension Scheme.

Signing of a common Trust Deed, appointment of Trustees, monthly contributions to this Fund, fund management, disbursement of pensions and other details will be finalised in year 2009.

4.6.4 Defined Contribution Plans

Contributions to Defined Contribution Pension Plans are recognised as an expense in the Income Statement on monthly basis.

The Bank contributes to the following Schemes:

4.6.4.1 Provident Fund

The Bank and employees contribute 12% and 8% respectively of the employee's monthly gross salary (excluding overtime) to the Provident Fund. The Bank's Provident Fund is an approved fund under the Employees' Provident Fund Act.

4.6.4.2 Trust Fund

The Bank contributes 3% of the employee's monthly gross salary excluding overtime to the Employees' Trust Fund maintained by the Employees' Trust Fund Board.

4.6.5 Widows'/Widowers' and Orphans' Pension Scheme

A separate Fund is maintained by the Bank to meet the future obligations under the Scheme, based on the advice of a qualified actuary and a separate set of books of accounts maintained for record the movements of the Fund. Pension payments are charged against the Fund in respect of surviving Widows/Widowers and Orphans.



4.6.6 Securities Sold Under Repurchase Agreements

These are borrowing collateralised by sale of Treasury Bills and Treasury Bonds held by the Bank to the counterparty from whom the Bank borrowed, subject to an agreement to repurchase them at a predetermined price. Such securities remain on the Balance Sheet of the Bank and the liability is recorded in respect of the consideration received and interest accrued thereon.

4.6.7 Provision for Liabilities

A provision is recognised in the Balance Sheet when the Bank has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligations, in accordance with the Sri Lanka Accounting Standard No. 36 on Provisions, Contingent Liabilities and Contingent Assets.

4.7 Income Statement

4.7.1 Revenue Recognition

4.7.1.1 Interest Income from Customer Advances

In terms of provisions of the Sri Lanka Accounting Standard No. 23 on Revenue Recognition and Disclosures in the Financial Statements of Banks, interest income from advances is recognised on an accrual basis. Interest ceases to be taken into revenue when principal and/or interest on an advance is more than 90 days overdue and is classified as a non-performing loan.

Interest on advances that are classified as non-performing have been accounted for on a cash basis.

Interests falling due on non-performing advances have been credited to the Interest in Suspense Account. Interest accrued up to three months on such non-performing advances has been eliminated from interest income and transferred to Interest in Suspense.

4.7.1.2 Interest Income from Other Sources

Interest Income from Money Market Operations, Government Securities and other Investments are recognised on an accrual basis. Discounts on purchase are amortised to income on a constant yield basis over periods to maturity.

Income from all other interest bearing investments and interest coupons of Treasury Bonds are recognised on an accrual basis.

4.7.1.3 Fees and Commission Income

Fees and Commission Income are recognised on cash basis and comprise mainly of fees received from customers for guarantees and other services provided by the Bank, together with fees for foreign and domestic payment tariffs.

Income on the endorsement of Bills of Exchange is recognised only when the bill is received and either issued or endorsed and the payment under the particular instrument has been effected.

4.7.1.4 Dividend Income

Dividend Income is recognised on a cash basis.

4.7.1.5 Gains or Losses Arising from Sale of Securities

All realised Gains and Losses from the sale of equity shares, units and financial instruments, including Treasury Bills, sold prior to maturity, are accounted for in the Income Statement on the date on which the transaction takes place.

4.7.1.6 Recovery of Non-Performing Loans and Advances

Interest recovered from Non-Performing Loans and Advances is recognised as income on a cash basis.

4.7.1.7 Accounting for Lease Income

The Bank follows the finance lease method of Accounting for Lease Income as recommended by Sri Lanka Accounting Standard No. 19.

The excess of aggregate lease rentals receivables over the cost of the leased assets constitutes the total unearned lease income at the commencement of a lease. The unearned lease income is taken into income over the term of the lease commencing with the month in which the lease is executed in proportion to the declining receivable balance.

Gross earnings under finance leases in respect of lease rentals due, cease to be taken to revenue when they are in arrears for over three months. Thereafter, such income is recognised on cash basis.

SIGNIFICANT ACCOUNTING POLICIES

4.7.1.8 Other Income

Other Income is recognised on an accrual basis.

4.7.2 Interest and Other Expenses

Interest and Other Expenses payable are recognised on an accrual basis in the Income Statement, in accordance with the Sri Lanka Accounting Standard No. 23 on Revenue Recognition and Disclosures in the Financial Statements of Banks.

4.7.3 Off-Balance Sheet Transactions

The Bank enters into Off-Balance Sheet Transactions such as forward exchange contracts and currency SWAPS.

Unrealised gains and losses are dealt with through the Income Statement.

4.8 Segment Reporting

In accordance with the Sri Lanka Accounting Standard No. 28 on Relating to Segment Reporting, the Bank has presented required disclosures in respect of the Group business. These segments comprise of Merchant Banking, Leasing and Travels under the business segments. In addition, the Bank has also geographically divided operations between domestic and foreign currency banking under the geographical segments. Information relating to

the above is reflected in the Note No. 33 to the Accounts of the Bank.

4.9 Cash Flow Statement

The Cash Flow Statement has been prepared by using the 'Direct Method' of preparing cash flows in accordance with the Sri Lanka Accounting Standard No. 9 on Cash Flow Statements. Cash and Cash Equivalents comprise of cash balances and short-term funds with less than 90 days maturity and amounts due to Banks from the date of acquisition including cash and balances with Central Bank, Treasury Bills and other eligible Bills and amounts due from other Banks and Trading Securities have been included in the computation of this statement.

4.10 Comparative Values and Information

Comparative Values and Information which have been shown in the previous year have been reclassified to facilitate comparison against the current year's presentation and account classification.

4.11 Directors' Responsibility Statement

Directors are responsible for the preparation and presentation of the Financial Statements in accordance with Sri Lanka Accounting Standards.



NOTES TO THE FINANCIAL STATEMENTS

	BANK		GROUP	
	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000
1. INTEREST INCOME				
Loans and Advances	42,504,415	35,115,310	47,667,736	38,716,585
Treasury Bills and Treasury Bonds	8,019,963	5,463,734	8,019,963	5,463,734
Government of Sri Lanka Restructuring Bonds	878,760	878,760	878,760	878,760
Placement with Other Banks and Other Money Market Instruments	2,050,418	1,616,377	2,068,911	1,625,943
Total Interest Income	53,453,556	43,074,181	58,635,370	46,685,022
2. INTEREST EXPENSES				
Customer Deposits	26,924,496	20,096,930	26,894,873	20,095,742
Refinance and Bank Borrowings	7,564,814	6,436,667	10,342,763	8,218,063
Widow's & Orphan's Pension Fund	-	3,669	-	3,669
Others	2,456	4,717	2,456	4,717
Total Interest Expenses	34,491,766	26,541,983	37,240,092	28,322,191
3. OTHER INCOME				
Dividends from Investments				
Quoted	18,030	16,442	18,030	16,442
Unquoted	8,423	12,895	14,732	15,901
Subsidiaries and Associate Companies	123,752	144,345	4,522	12,857
Recovery of Bad Debts Written-Off and Provision Reversals	620,229	740,577	628,300	754,824
Other Operating Income	203,346	393,432	505,623	1,030,015
Total Other Income	973,780	1,307,691	1,171,207	1,830,039
4. OPERATING EXPENSES				
Operating Expenses include inter alia the following:				
Directors' Emoluments - Fees	2,497	1,999	3,193	2,354
Auditors' Remuneration	12,433	14,493	12,598	15,254
Depreciation of Property, Plant & Equipment (Note 20)	807,704	845,625	933,425	979,496
Amortisation of Prepaid Leases	39,058	20,850	39,058	20,850
Amortisation of Intangible Assets (Note 22)	169,267	146,328	176,707	151,657
VAT on Financial Services	2,639,484	2,166,243	2,646,154	2,212,488
Advertising and Public Relations	643,553	584,211	651,230	630,703
Expenses on Litigation	31,082	21,182	34,190	23,314
5. PROVISION FOR STAFF RETIREMENT BENEFITS				
5.1 Bank's Contribution to Defined Benefit Plans				
People's Bank Pension Trust Fund	1,476,009	1,744,827	1,476,009	1,744,827
People's Bank Widows'/Widowers' & Orphans' Pension Fund	38,785	39,120	38,785	39,120
Total Contribution for the Year	1,514,794	1,783,947	1,514,794	1,783,947

NOTES TO THE FINANCIAL STATEMENTS

5.2 The payment to Pension Fund constitutes of contributions from the Bank on behalf of the present members of the Fund.

The payment to W&OP Fund is a repayment of money which had been taken by the Pension Fund from W&OP Fund. This is a payment of Rs 326 Mn by 100 instalments which commenced in August 2004.

	BANK		GROUP	
	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000
6. PROVISION FOR LOAN LOSSES				
General Provision				
- Performing Loans	577,725	491,855	577,725	490,845
- Pawning Charged/(Reversal)	86,321	(223,728)	86,321	(223,728)
- Bills	(18,562)	66,835	(18,562)	66,835
- Leases	6,067	16,541	(247,595)	215,500
Specific Provisions				
- Leases	-	-	316,549	198,268
- Non-Performing Loans	871,040	402,550	912,116	441,511
- Credit Card	39,581	15,008	39,581	15,008
- Bills	57,853	52,800	57,853	52,800
Total Provision for Loan Losses	1,620,025	821,861	1,723,988	1,257,040
7. PROVISION FOR FALL IN VALUE OF DEALING SECURITIES AND OTHERS				
Fall/(Increase) in Value of Dealing Shares	114,656	-	114,656	-
Fall/(Increase) in Value of Investment	1,034	(1,262)	1,034	(1,262)
Fall/(Increase) in Value of Treasury Bonds	(26,144)	(15,698)	(26,144)	(15,698)
Fall/(Increase) in Value of Treasury Bills	(76,141)	(1,054)	(76,141)	(1,054)
Net Provision for (Gain)/Losses on Dealing Securities and Others	13,405	(18,014)	13,405	(18,014)
8. PROVISION FOR TSUNAMI LOSSES				
Balance b/f	-	100,692	-	100,692
Capital/Concessions Written-Off	-	(1,005)	-	(1,005)
(Charge)/Reversed to Income Statement	-	99,687	-	99,687

Provision has been made in the Financial Statements of 2004 for possible losses arising out of the tsunami disaster of 26th December 2004. These provisions were made on a best endeavour basis, by review of the Bank's exposure to customers affected by the disaster. The provision made also includes the possible impact of the Bank's concessions and interest waivers offered to the affected segments of the customer base. As at end of the last financial year an evaluation was carried out by Management on the necessity for retention of Provision for Loan Losses arising from the tsunami. Accordingly, a sum of Rs 212.6 Mn and Rs 99.7 Mn was considered as an over provision and transferred to the credit of the Income Statement in 2006 and 2007 respectively.

NOTES TO THE FINANCIAL STATEMENTS

	BANK		GROUP	
	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000
9. PROVISION FOR TAXATION				
9.1 Provision for Taxation is as follows:				
Bank				
Income Tax on Profits for the year	2,893,011	2,488,040	2,893,011	2,488,040
(Over)/Under Provision for Taxation in previous year	15,462	242,036	15,462	242,036
Transfer/(Reversal) to Deferred Taxation	50,400	(101,598)	50,400	(101,598)
	2,958,873	2,628,478	2,958,873	2,628,478
Subsidiary Companies				
People's Leasing Co. Ltd.	-	-	766,071	120,982
People's Travels (Pvt) Ltd.	-	-	2,318	923
Associate Company				
People's Merchant Bank	-	-	6,060	3,879
	2,958,873	2,628,478	3,733,322	2,754,262

Income Tax Liability has been computed based on Inland Revenue Act No. 10 of 2006. As the Bank's turnover for the year has exceeded Rs 30 Mn, the Bank is liable to pay Rs 60 Mn as Economic Service Charges and this payment has been set-off against the income tax liability that has been computed.

	BANK	
	2008 Rs '000	2007 Rs '000
9.2 Income Tax Reconciliation		
Profit before Tax	5,663,722	5,002,362
Add: Disallowable Expenses	6,229,832	5,051,319
Less: Tax Deductible Expenses	(3,627,734)	3,268,990
Assessable Income	8,265,820	6,784,691
Less: Qualifying Payments	-	-
Taxable Income	8,265,820	6,784,691
Income Tax at 35%	2,793,218	2,239,606
Income Tax at 20%	57,039	77,163
Deemed Dividend Tax	-	197,290
Social Responsibility Levy	42,754	25,140
Income Tax on Current year Profit	2,893,011	2,539,199
(Over)/Under Provision in Respect of Previous Year	15,462	242,036
Increase/(Decrease) in Current Year Profit	2,908,473	2,781,235
Deferred Tax Charged/(Credit)	50,400	(101,598)
Notional Tax Credit	-	(51,159)
Income Tax Expenses	2,958,873	2,628,478
Effective Tax Rate	52%	53%

NOTES TO THE FINANCIAL STATEMENTS

9.3 Income Tax has been provided on the Taxable Income at the following rates:

	2008 %	2007 %
Domestic Operation of the Bank	35	35
On-shore Banking Operations of the Off-shore Banking Unit	35	35
Off-shore Banking Operations of the Off-shore Banking Unit	20	20
People's Leasing Co. Ltd.	35	35
People's Travels (Pvt) Ltd.	15	15
People's Merchant Bank	35	35

9.4 Notional Tax Credit for Withholding Tax on Government Securities on Secondary Market Transactions

The Inland Revenue (Amendment) Act No. 10 of 2006, provides that a company which derives interest income from the secondary market transactions in Government Securities would be entitled to a notional tax credit (being one-ninth of the net interest income) provided such interest income forms part of the statutory income of the Company for that year of assessment.

10. EARNINGS PER SHARE

10.1 Basic Earnings Per Share

Basic Earnings Per Share has been calculated by dividing the Net Profit after Tax attributable to Ordinary Shareholders by the total number of shares in issue.

	BANK		GROUP	
	2008	2007	2008	2007
Number of Ordinary Shares of Rs 50/- in Issue (Thousands)	1,000	1,000	1,000	1,000
Net Profit after Tax (Rs Mn)	2,705	2,374	3,427	3,506
Earnings per Share (Rs)	2,705	2,374	3,427	3,506

10.2 Diluted Earnings Per Share

Diluted Earnings Per Share has been calculated on the basis of the total number of Ordinary Shares and Capital Pending Allotment.

	BANK		GROUP	
	2008	2007	2008	2007
Number of Ordinary Shares of Rs 50/- in Issue ('000)	1,000	1,000	1,000	1,000
Number of Ordinary Shares Pending Allotment (Note 30) ('000)	143,040	113,040	143,040	113,040
Total Shares in Issue and Pending Allotment ('000)	144,040	114,040	144,040	114,040
Diluted Earnings Per Share (Rs)	19	21	24	31

11. CASH AND SHORT-TERM FUNDS

	BANK		GROUP	
	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000
Cash in Hand and Balances with Banks	12,083,203	12,439,255	12,099,992	12,496,571
Money at Call and Short Notice	6,297,168	16,269,696	6,344,049	16,294,433
Total Cash and Short-Term Funds	18,380,371	28,708,951	18,444,041	28,791,004

Included under Money at Call and Short Notice is a lien of GBP 1.25 Mn and Euro 4.5 Mn at Commerzbank AG, Frankfurt.



NOTES TO THE FINANCIAL STATEMENTS

	BANK		GROUP	
	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000
12. BALANCE WITH THE CENTRAL BANK				
Current Account with Central Bank	18,905,799	23,606,123	18,905,799	23,606,123

The Balance with the Central Bank of Sri Lanka is the Statutory Cash Reserve. This is a non-interest bearing balance. The minimum cash reserve required to be maintained at the Central Bank of Sri Lanka, as at 31st December 2008 represented 7.75% of weekly average Rupee Deposit Liabilities. There is no requirement to maintain a Reserve in respect of Foreign Currency Deposits Liabilities of the Domestic Banking Unit and the Deposit Liabilities of the Offshore Banking Unit.

	BANK		GROUP	
	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000
13. GOVERNMENT TREASURY BILLS AND TREASURY BONDS				
Treasury Bills	2,189,360	4,775,391	2,189,360	4,775,391
Treasury Bonds	59,330,735	40,467,720	59,330,735	40,467,720
Less: Provision for Fall in Value	28,173	(74,112)	28,173	(74,112)
Total Government Treasury Bills and Bonds	61,548,268	45,168,999	61,548,268	45,168,999

13.1 Government Treasury Bills and Treasury Bonds

Gross Government Treasury Bills and Bonds held for Trading	11,403,013	6,434,898	11,403,013	6,434,898
Gain/(Loss) on Mark to Market Valuation	28,173	(74,112)	28,173	(74,112)
Net Government Treasury Bills and Bonds held for Trading	11,431,186	6,360,786	11,431,186	6,360,786
Government Treasury Bills and Bonds held to Maturity	50,117,082	38,808,213	50,117,082	38,808,213
Total	61,548,268	45,168,999	61,548,268	45,168,999

13.2 Assets Pledged

The following assets have been pledged as security for liabilities:

Nature of Liabilities	Nature of Assets			
	Government Treasury Bills	Government Treasury Bonds		
Secured against the REPO Instruments	493,270	956,089	493,270	956,089
	30,082,114	36,210,048	30,082,114	36,210,048
Total	30,575,384	37,166,137	30,575,384	37,166,137

The above disclosed amount signifies the carrying amount of assets pledged of Government Treasury Bills and Bonds as at 31st December 2008.

NOTES TO THE FINANCIAL STATEMENTS

	BANK		GROUP	
	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000
14. LOANS AND ADVANCES				
14.1 Bills of Exchange				
14.1.1 Bills of Exchange				
Export Bills	966,090	1,077,314	966,090	1,077,314
Import Bills	4,526,005	12,215,783	4,526,005	12,215,783
Local Bills	2,126,803	2,494,804	2,126,803	2,494,804
Gross Bills of Exchange	7,618,898	15,787,901	7,618,898	15,787,901
Less: Provision for Losses (Note 14.1.2)	(1,805,484)	(1,766,193)	(1,805,484)	(1,766,193)
Net Bills of Exchange	5,813,414	14,021,708	5,813,414	14,021,708
14.1.2 Provision for Doubtful Bills				
Opening Balance	1,766,193	1,646,558	1,766,193	1,646,558
General/Specific Provision during the year	39,291	119,635	39,291	119,635
Closing Balance	1,805,484	1,766,193	1,805,484	1,766,193
14.2 Loans and Advances				
14.2.1 Loans and Advances				
Overdrafts	51,331,889	38,571,507	49,738,569	36,842,545
Trust Receipts	3,861,323	4,507,508	3,861,323	4,507,508
Staff Loans	10,938,874	11,064,127	11,033,237	11,145,692
Other Loans	185,760,741	177,618,734	185,327,074	177,684,131
	251,892,827	231,761,876	249,960,203	230,179,876
Add:				
Interest Receivables on				
Non-Performing Advances	35,493,657	33,640,668	35,493,657	33,716,883
Gross Loans and Advances	287,386,484	265,402,544	285,453,860	263,896,759
Less:				
Interest in Suspense	(35,900,432)	(34,068,622)	(36,142,498)	(34,237,594)
	251,486,052	231,333,922	249,311,362	229,659,165
Less:				
Provision for Losses (Note 14.2.2)	(11,658,538)	(11,268,051)	(11,771,396)	(11,342,861)
Net Loans and Advances	239,827,514	220,065,871	237,539,966	218,316,304
14.2.2 Movement in the Provision for Loan Losses				
Specific				
Opening Balance	10,287,551	11,501,597	10,338,948	11,514,033
Translation Difference on FCBU	102,208	26,686	102,208	26,686
Provision during the Year	910,621	417,558	948,669	456,519
Amount Written-off against the				
Provision	(787,535)	(1,022,053)	(787,535)	(1,022,053)
Provision Reversal	(498,852)	(636,237)	(498,852)	(636,237)
Closing Balance	10,013,993	10,287,551	10,103,438	10,338,948

NOTES TO THE FINANCIAL STATEMENTS

	BANK		GROUP	
	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000
General				
Opening Balance	980,500	712,373	1,003,913	736,796
Provision during the Year				
- Pawning (Reversal)	86,321	(223,728)	86,321	(223,728)
- Performing Loans	577,724	491,855	577,724	491,855
Reversal of General Provision - Other Loans	-	-	-	(1,010)
Closing Balance	1,644,545	980,500	1,667,958	1,003,913
Total Loan Loss Provision	11,658,538	11,268,051	11,771,396	11,342,861
14.2.3.a Local Currency Loans and Advances				
Bills	7,175,399	5,246,310	7,175,399	5,246,310
Overdrafts	49,961,485	37,087,804	48,368,165	35,358,842
Trust Receipts	1,796,863	2,276,370	1,796,863	2,276,370
Leases	3,950,490	5,820,289	37,362,151	32,295,264
Other Loans	172,957,695	160,524,209	172,524,028	160,589,606
Staff Loans	10,938,874	11,064,127	11,033,237	11,145,692
Total Local Currency Loans and Advances	246,780,806	222,019,109	278,259,843	246,912,084
14.2.3.b Foreign Currency Loans and Advances				
Bills	443,499	10,541,591	443,499	10,541,591
Overdrafts	1,370,404	1,483,703	1,370,404	1,483,703
Trust Receipts	2,064,460	2,231,138	2,064,460	2,231,138
Other Loans	12,803,046	17,094,525	12,803,046	17,094,525
Total Foreign Currency Loans and Advances	16,681,409	31,350,957	16,681,409	31,350,957
Total Loans and Advances	263,462,215	253,370,066	294,941,252	278,263,041
14.3 Leases				
14.3.1 Lease Rentals Receivable within One Year				
Gross Lease Rentals Receivable within one year from Balance Sheet date	1,875,720	2,020,024	15,573,501	12,266,075
Unearned Lease Income	(463,089)	(721,518)	(5,178,781)	(3,906,467)
Initial Rentals Received	(43,944)	(32,654)	(96,881)	(62,242)
Provisions for Bad and Doubtful Debts	(53,264)	(32,263)	(2,261,711)	(227,501)
Net Lease Rentals Receivable within one year	1,315,423	1,233,589	8,036,128	8,069,865
14.3.2 Lease Rentals Receivable from One to Five Years				
Gross Lease Rentals Receivable from one to five years from Balance Sheet date	2,074,770	3,800,265	21,781,513	19,981,619
Unearned Lease Income	(225,853)	(617,085)	(4,379,241)	(3,907,478)
Initial Rentals Received	(179,222)	(196,310)	(1,075,079)	(689,855)
Provisions for Bad and Doubtful Debts	-	(14,934)	-	(1,965,256)
Net Lease Rentals Receivable from one to five years	1,669,695	2,971,936	16,327,193	13,419,030

NOTES TO THE FINANCIAL STATEMENTS

	BANK		GROUP	
	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000
14.3.3 Lease Rentals Receivable after Five Years				
Gross Lease Rentals Receivable after five years from Balance Sheet date	-	-	7,137	47,570
Unearned Lease Income	-	-	(97)	(328)
Initial Rentals Received	-	-	(5,692)	(30,979)
Provisions for Bad and Doubtful Debts	-	-	-	-
Net Lease Rentals Receivable after five years	-	-	1,348	16,263
Total Net Lease Rentals Receivable	2,985,118	4,205,525	24,364,669	21,505,158
14.4 Summary of Gross Loans and Advances				
Bill of Exchange	7,618,898	15,787,901	7,618,898	15,787,901
Loans and Advances	251,892,827	231,761,876	249,960,203	230,179,876
Leases	3,950,490	5,820,289	37,362,151	32,295,264
Total Gross Loans and Advances	263,462,215	253,370,066	294,941,252	278,263,041
14.5 Summary of Provision for Loan Losses				
Bills of Exchange - Specific	1,754,088	1,696,235	1,754,088	1,696,235
- General	51,396	69,958	51,396	69,958
Loans - Specific	10,013,993	10,287,551	10,103,438	10,338,948
- General	1,644,545	980,500	1,667,958	1,003,913
Leases - Specific	26,000	26,000	769,322	452,776
- General	27,264	21,197	1,492,387	1,739,982
Total Loan Loss Provision	13,517,286	13,081,441	15,838,589	15,301,812
14.6 Non-Performing Advances and Interest in Suspense on Non-Performing Advances				
Non-Performing Advances (Note 14.6.1)	17,856,920	14,865,291	19,003,822	15,875,668
Interest in Suspense on Non-Performing Advances	35,493,657	33,640,668	35,493,657	33,716,883
14.6.1 Non-Performing Loans and Advances				
Bills of Exchange	1,908,195	1,796,375	1,908,195	1,796,375
Loans and Advances	15,939,673	13,055,663	15,939,673	13,132,360
Leases	9,052	13,253	1,155,954	946,933
	17,856,920	14,865,291	19,003,822	15,875,668

NOTES TO THE FINANCIAL STATEMENTS

14.7 Sector wise Credit Exposure

	BANK		BANK		GROUP		GROUP	
	2008 Rs '000	Composition %	2007 Rs '000	Composition %	2008 Rs '000	Composition %	2007 Rs '000	Composition %
Agriculture & Fishing	3,307,287	1.3	5,048,933	2.0	4,441,861	1.5	5,760,814	2.1
Manufacturing	15,099,326	5.7	28,374,897	11.2	15,833,288	5.4	29,092,836	10.5
Tourism	4,495,899	1.7	3,733,609	1.5	4,564,568	1.5	3,835,627	1.4
Transport	1,731,382	0.7	374,736	0.1	9,435,345	3.2	6,364,569	2.3
Construction	63,107,901	24.0	66,903,264	26.4	64,512,950	21.9	68,056,682	24.5
Traders	40,937,011	15.5	34,818,391	13.7	47,708,765	16.2	40,177,131	14.4
New Economy	700	-	-	-	700	-	-	-
Financial and Business Services	4,763,624	1.8	5,372,181	2.1	4,763,624	1.6	5,372,181	1.9
Infrastructure	974,651	0.4	2,374,612	0.9	974,651	0.3	2,374,612	0.9
Other Services	36,171,584	13.7	26,402,221	10.4	49,540,200	16.8	36,997,148	13.3
Credit Card	906,969	0.3	809,564	0.3	906,969	0.3	809,564	0.3
Pawning*	89,288,244	33.9	76,896,825	30.3	89,288,244	30.3	76,896,825	27.6
Other	2,677,637	1.0	2,260,832	0.9	2,970,087	1.0	2,525,052	0.9
Total	263,462,215	100	253,370,066	100	294,941,252	100	278,263,041	100

* Mainly obtained for agriculture, fisheries and housing construction activities.

14.8 Government Guarantees

	2008 Rs Mn	2007 Rs Mn
Total Loans and Advances for which Government Guarantees have been received	9,245	13,857

The provision for bad and doubtful loans is arrived at after taking into account Treasury and Central Bank Guarantees against certain Loans and Advances. Many of the above Guarantees have an expiry date earlier than the expected or contracted term of the loan facility. The Bank expects these Guarantees to be renewed on a continuing basis as long as they are required.

	BANK		GROUP	
	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000
Other Assets and Prepayments	6,930,212	5,529,052	7,434,746	5,958,425
Interest Receivable & Accrued Other Income	14,074,272	10,309,107	14,008,412	10,309,107
Less: Provision for Losses against Other Assets	(217,010)	(154,250)	(230,501)	(164,714)
Total at year end Net of Provisions	20,787,474	15,683,909	21,212,657	16,102,818

15. OTHER ASSETS

NOTES TO THE FINANCIAL STATEMENTS

16. DEALING SECURITIES

16.1.a Dealing Securities - Bank

	No. of Share(s) Units	Cost 2008 Rs '000	Market Value as at 31.12.08 Rs '000	No. of Share(s) Units	Cost 2007 Rs '000	Market Value as at 31.12.07 Rs '000
Magpeck Ltd.	125,000	5,000	-	125,000	5,000	-
Overseas Reality (Ceylon) PLC	20,722,353	165,771	134,695	20,722,353	165,771	222,765
National Equity Fund	5,112,735	76,134	53,019	5,112,735	76,134	79,605
Total Value of the Dealing Securities		246,905	187,714		246,905	302,370

16.1.b Dealing Securities - Group

Magpeck Ltd.	125,000	5,000	-	125,000	5,000	-
Overseas Reality (Ceylon) PLC	20,722,353	165,771	134,695	20,722,353	165,771	222,765
National Equity Fund	5,112,735	76,134	53,019	5,112,735	76,134	79,605
Total Value of the Dealing Securities		246,905	187,714		246,905	302,370

16.2 The market value of the investments in quoted equity shares are based on the market value ruling as at the Balance Sheet date.

16.3 The market value of the investments in unit trusts is based on the Manager's buying price ruling as at the Balance Sheet date.

	BANK		GROUP	
	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000
17. OTHER INVESTMENT SECURITIES				
17.1 Long-Term Investments - Equities				
Unquoted Shares (Note 17.1.1, 17.1.2)	124,283	127,033	174,293	177,043
Less: Provision for Permanent Diminution in Value of Investment	(22,971)	(21,937)	(22,971)	(21,937)
Net Value of Long-Term Investment (Equities)	101,312	105,096	151,322	155,106
Long-Term Investments - Debt Securities				
Sri Lanka Development Bonds US\$	11,325,000	10,870,000	11,325,000	10,870,000
Long-Term Treasury Bonds (Note 17.2)	625,000	625,000	625,000	625,000
Redeemable Debentures	-	500,000	-	500,000
Investment Securitisation of Leases Receivable	-	-	-	-
Net Value of Long-Term Investment (Debt Securities)	11,950,000	11,995,000	11,950,000	11,995,000
Total Investment Securities	12,051,312	12,100,096	12,101,322	12,150,106

NOTES TO THE FINANCIAL STATEMENTS

17.1.1 Unquoted Shares - Bank

	No. of Share (s)	Directors' Valuation as at 31.12.08 Rs '000	Cost as at 31.12.08 Rs '000	Directors' Valuation as at 31.12.07 Rs '000	Cost as at 31.12.07 Rs '000
SriLankan Airlines Ltd.	1	-	-	-	-
Credit Information Bureau of Sri Lanka	22,400	2,240	2,240	2,240	2,240
District Corporate Union	135	-	-	-	-
Ruhunu Venture Capital Co. Ltd.	2,500,000	2,512	25,000	3,063	25,000
SWIFT	14	1,168	1,168	1,168	1,168
Rajarata Development Bank	1,200,000	12,000	12,000	12,000	12,000
Kandurata Development Bank	1,200,000	12,000	12,000	12,000	12,000
Ruhunu Development Bank	1,200,000	12,000	12,000	12,000	12,000
Sabaragamuwa Development Bank	1,200,000	12,000	12,000	12,000	12,000
Uva Development Bank	1,200,000	12,000	12,000	12,000	12,000
Wayamba Development Bank	1,320,000	12,000	12,000	12,000	12,000
Lanka Financial Services Bureau Ltd.	500,000	1,767	2,250	5,000	5,000
Fitch Rating Lanka Ltd.	62,500	625	625	625	625
Lanka Clear (Pvt) Ltd.	2,100,000	21,000	21,000	21,000	21,000
Total Value of Unquoted Investment		101,312	124,283	105,096	127,033

17.1.2 Unquoted Shares - Group

SriLankan Airlines Ltd.	1	-	-	-	-
Credit Information Bureau of Sri Lanka	22,500	2,250	2,250	2,250	2,250
District Corporate Union	135	-	-	-	-
Ruhunu Venture Capital Co. Ltd.	2,500,000	2,512	25,000	3,063	25,000
SWIFT	14	1,168	1,168	1,168	1,168
Rajarata Development Bank	1,200,000	12,000	12,000	12,000	12,000
Kandurata Development Bank	1,200,000	12,000	12,000	12,000	12,000
Ruhunu Development Bank	1,200,000	12,000	12,000	12,000	12,000
Sabaragamuwa Development Bank	1,200,000	12,000	12,000	12,000	12,000
Uva Development Bank	1,200,000	12,000	12,000	12,000	12,000
Wayamba Development Bank	1,320,000	12,000	12,000	12,000	12,000
Lanka Financial Services Bureau Ltd.	500,000	1,767	2,250	5,000	5,000
Fitch Rating Lanka Ltd.	62,500	625	625	625	625
Lanka Clear (Pvt) Ltd.	2,100,000	21,000	21,000	21,000	21,000
Sanasa Development Bank Ltd.	500,000	50,000	50,000	50,000	50,000
Total Value of Unquoted Investment		151,322	174,293	155,106	177,043

The carrying value of all unquoted investments is based on Board of Directors' valuations i.e. lower of cost or net asset value.

17.2 Long-Term Treasury Bonds

Long-Term Treasury Bonds represent Bonds issued during 2003 on account of Loans and Overdrafts granted by the Bank to Co-operative Wholesale Establishment (CWE) amounting to Rs 625 Mn. These Bonds have been issued as part of the restructuring process of the Co-operative Wholesale Establishment and its financial obligations. These Bonds are not negotiable and carry a zero coupon rate of interest. The maturity period of the Bonds is 13 years. However, these Bonds carry an interest payment scheme where by the CWE would make a semi-annual payment of interest at 3.6822% p.a. net of Withholding Tax.

NOTES TO THE FINANCIAL STATEMENTS

18. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATE COMPANIES

	BANK		GROUP	
	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000
Investment in Subsidiaries	1,219,950	819,950	-	-
Investment in Associates	155,500	155,500	257,767	245,846
Total Investment in Subsidiaries and Associates Companies	1,375,450	975,450	257,767	245,846

18.1 Investments in Subsidiaries

	Principal Activity	No. of Shares '000	Holding % as at 31.12.08	Cost	
				2008 Rs '000	2007 Rs '000
People's Travels (Pvt) Ltd.	Travel Agent	495	99	4,950	4,950
People's Leasing Co. Ltd.	Leasing				
- Ordinary Shares		50,000	100	465,000	465,000
- Preference Shares		75,000	100	750,000	350,000
Total Value of Investment at the year end				1,219,950	819,950

18.2 Investments in Associates

	Principal Activity	Holding % as at 31.12.08	BANK Cost		GROUP Cost	
			2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000
People's Merchant Bank PLC	Merchant Bank					
- Ordinary Shares		39.2	145,500	145,500	247,767	235,846
- Preference Shares			10,000	10,000	10,000	10,000
Smart Net Lanka (Pvt) Ltd. (Non-Operational)	-	37.3	25,000	25,000	25,000	25,000
			180,500	180,500	282,767	270,846
Less: Provision for Smart Net Lanka (Pvt) Ltd.			(25,000)	(25,000)	(25,000)	(25,000)
Total Value of Investment at the year end			155,500	155,500	257,767	245,846

19. GOVERNMENT OF SRI LANKA RESTRUCTURING BONDS

19.1 On April 1993, the Bank received restructuring Bonds amounting to Rs 10,541 Mn from the Government of Sri Lanka (GOSL) for the following purposes:

- | | | |
|-------|-----------------------|--|
| (i) | Rs 1,152.0 Mn | To achieve the capital adequacy requirement in accordance with CBSL guidelines. |
| (ii) | Rs 1,700.5 Mn | To write-off loans granted to Sri Lanka State Plantations Corporation and Paddy Marketing Board of Rs 1,467 Mn and Rs 233.5 Mn respectively. |
| (iii) | Rs 4,355.0 Mn | To finance pension liabilities. |
| (iv) | Rs 3,231.0 Mn | To provide for loan loss provision. |
| (v) | <u>Rs 102.5 Mn</u> | For loans to be transferred to RACA |
| | <u>Rs 10,541.0 Mn</u> | |

NOTES TO THE FINANCIAL STATEMENTS

19.2 The above value of Bonds granted by the GOSL effectively relates to accounting entries that were booked to clear the carrying value of advances granted under state direction, which were deemed as irrecoverable.

19.3 The agreement underlying the granting of these Bonds, stipulates the following:

- (a) A tenor of 30 years, where the Bonds could be redeemed through the recovery of any of the specific loan losses for which the Bonds were issued.

As at the date of this Balance Sheet, no recoveries have been made of those specific loan losses.

- (b) An interest rate of 12% p.a. would apply, with half-yearly payment of interest.

- (c) A value of 25% of income derived from (b) above would be refunded to the GOSL annually.

Thus, the effective net yield on these Bonds amount to 9% p.a.

19.4 As indicated in 19.1, a sum of Rs 4,355 Mn of this tranche of Bonds, was assigned to the Pension Fund (Rs 3,218 Mn) and to the W&OP Fund (Rs 1,137 Mn).

Accordingly, the carrying balance of Bonds reflected on the Balance Sheet does not include the value assigned to the Pension Fund, which is managed as an independent Trust Fund.

19.5 The financial implications of these Bonds in year 2008 are as follows:

- (a) A value of Rs 7,323 Mn is reflected on the Balance Sheet as a Long-Term Asset.

- (b) A value of Rs 879 Mn is received during the year as Income and is reflected under Interest Income.

- (c) A value of Rs 220 Mn is repaid to GOSL as a Dividend and is reflected under Appropriations in the Equity Statement.

20. PROPERTY, PLANT & EQUIPMENT

	Freehold Land and Buildings Rs '000	Leasehold Buildings Rs '000	Freehold Motor Vehicles Rs '000	Leasehold Motor Vehicles Rs '000	Furniture Equipment & Machinery Rs '000	Total 31.12.2008 Rs '000	Total 31.12.2007 Rs '000
Bank							
Cost or Valuation							
As at beginning of the year	5,432,054	893,518	164,836	204,495	6,589,832	13,284,735	12,657,015
Additions	271,854	53,308	11,776	69,880	399,145	805,963	630,187
Disposals	(92,233)	-	(8,980)	-	-	(101,213)	(2,467)
As at end of the year	5,611,675	946,826	167,632	274,375	6,988,977	13,989,485	13,284,736
Depreciation							
As at beginning of the year	149,954	273,360	155,205	168,010	5,045,473	5,792,002	4,948,845
Charge for the year (Note 4)	79,777	62,550	7,604	34,215	623,558	807,704	845,625
Disposals	(224)	-	(8,980)	-	-	(9,204)	(2,467)
As at end of the year	229,507	335,910	153,829	202,225	5,669,031	6,590,502	5,792,003
Net Book Value as at 31.12.2008	5,382,168	610,916	13,803	72,150	1,319,946	7,398,983	7,492,733
Capital Work-in-Progress, at Cost						200,542	57,555
Furniture, Equipment and Machinery at Store						3,376	11,082
						7,602,901	7,561,370
Net Book Value as at 31.12.2007	5,282,100	620,158	9,631	36,485	1,544,359		7,492,733

NOTES TO THE FINANCIAL STATEMENTS

	Freehold Land and Buildings Rs '000	Leasehold Buildings Rs '000	Freehold Motor Vehicles Rs '000	Leasehold Motor Vehicles Rs '000	Furniture Equipment & Machinery Rs '000	31.12.2008 Total Rs '000	31.12.2007 Total Rs '000
Group							
Cost or Valuation							
As at beginning of the year	5,475,527	898,129	425,291	298,815	6,767,401	13,865,163	13,154,690
Additions	510,496	59,372	96,814	91,536	470,251	1,228,469	757,792
Disposals	(92,233)	(406)	(46,202)	(3,014)	(244)	(142,099)	(47,318)
As at end of the year	5,893,790	957,095	475,903	387,337	7,237,408	14,951,533	13,865,164
Depreciation							
As at beginning of the year	150,780	279,165	273,960	197,014	5,167,948	6,068,867	5,129,893
Charge for the year (Note 4)	80,516	67,757	68,339	60,576	656,237	933,425	979,496
Disposals	(224)	(406)	(37,867)	(1,004)	(187)	(39,688)	(40,522)
As at end of the year	231,072	346,516	304,432	256,586	5,823,998	6,962,604	6,068,867
Net Book Value as at 31.12.2008	5,662,718	610,579	171,471	130,751	1,413,410	7,988,929	7,796,297
Capital Work-in-Progress, at Cost						200,542	57,555
Furniture, Equipment and Machinery at Store						3,376	11,082
						8,192,847	7,864,934
Net Book Value as at 31.12.2007	5,324,747	618,964	151,331	101,801	1,599,453		7,796,296

21. PREPAID LEASES

	BANK		GROUP	
	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000
Cost	700,864	700,863	700,864	700,863
Less: Accumulated Amortisation	(233,564)	(194,506)	(233,564)	(194,506)
Net Book Value	467,300	506,357	467,300	506,357

22. INTANGIBLE ASSETS

Computer Software					
Cost or Valuation					
As at beginning of the year		731,639	548,913	763,526	577,582
Acquired during the year		114,698	182,726	125,847	185,944
As at end of the year		846,337	731,639	889,373	763,526
Accumulated Amortisation					
As at beginning of the year		384,932	238,604	397,682	246,025
Amortisation for the year		169,267	146,328	176,707	151,657
As at end of the year		554,199	384,932	574,389	397,682
Net Book Value		292,138	346,707	314,984	365,844



NOTES TO THE FINANCIAL STATEMENTS

	BANK		GROUP	
	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000
23. DEPOSITS FROM CUSTOMERS				
Demand Deposits	27,466,126	32,733,053	27,019,739	32,370,145
Saving Deposits	150,871,182	146,414,425	150,871,182	146,414,425
Time Deposits	144,233,044	118,489,202	143,224,463	118,479,402
Certificates of Deposits	100,057	182,898	100,057	182,898
Other Deposits	1,818,907	3,136,631	1,818,907	3,136,631
Total Deposits as at end of the year	324,489,316	300,956,209	323,034,348	300,583,501
23. (a) Local Currency Deposits				
Demand Deposits	27,353,949	32,427,749	26,907,562	32,064,841
Saving Deposits	139,392,791	130,751,492	139,392,791	130,751,492
Time Deposits	124,403,611	100,225,798	123,395,030	100,215,998
Certificates of Deposits	100,057	182,898	100,057	182,898
Other Deposits	1,778,934	3,038,325	1,778,934	3,038,325
Total Local Currency Deposits	293,029,342	266,626,262	291,574,374	266,253,554
23. (b) Foreign Currency Deposits				
Demand Deposits	112,177	305,304	112,177	305,304
Saving Deposits	11,478,391	15,662,933	11,478,391	15,662,933
Time Deposits	19,829,433	18,263,404	19,829,433	18,263,404
Other Deposits	39,973	98,306	39,973	98,306
Total Foreign Currency Deposits	31,459,974	34,329,947	31,459,974	34,329,947
Total Deposits as at end of the year	324,489,316	300,956,209	323,034,348	300,583,501
24. BORROWINGS				
Refinance Borrowings:				
Central Bank of Sri Lanka	1,159,879	1,230,509	1,159,879	1,230,509
Government of Sri Lanka	-	-	144,722	147,486
Financial Institutions	954,309	1,051,662	954,309	1,051,662
Long-Term Borrowings				
Financial Institutions of Sri Lanka	477,710	793,375	6,799,161	6,751,201
Other Borrowings				
Call Money Borrowings	4,683,175	14,927,507	12,697,225	20,095,471
Treasury Bills/Bonds/Pro Notes Repurchases	26,090,467	31,059,717	26,090,467	31,059,717
Total Borrowings as at end of the year	33,365,540	49,062,771	47,845,763	60,336,047

NOTES TO THE FINANCIAL STATEMENTS

	BANK		GROUP	
	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000
25. DEFERRED LIABILITIES				
Deferred Tax (Note 25.1)	43,296	-	204,933	-
Provision for Gratuity (Note 25.2)	85,000	198,000	114,536	216,288
Balance as at end of the year	128,296	198,000	319,469	216,288

25.1 Deferred Tax Liabilities

	BANK 2008		GROUP 2008	
	Temporary Difference Rs '000	Tax Effect Rs '000	Temporary Difference Rs '000	Tax Effect Rs '000
As at beginning of the year	(20,296)	(7,104)	(707,889)	(247,761)
Amount Originating/(Reversing) during the year	144,000	50,400	1,293,411	452,694
As at end of the year	123,704	43,296	585,522	204,933

25.2 Provision for Gratuity

	BANK		GROUP	
	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000
Opening Balance	198,000	165,000	216,288	174,574
During the year Provision	86,685	33,652	97,933	42,366
During the year Payments	(1,685)	(652)	(1,685)	(652)
Transferred to Post 1996 employees pension fund	(198,000)	-	(198,000)	-
Closing Balance	85,000	198,000	114,536	216,288

26. OTHER LIABILITIES

Cheques sent for Collection	3,829,184	3,431,077	3,829,184	3,431,077
Pay Orders and Drafts	2,534,770	1,081,760	2,534,770	1,081,760
Accrued Interest & Other Expenses	10,034,642	8,705,074	9,897,951	8,705,074
Other Liabilities	2,312,198	2,027,842	4,367,853	3,972,726
Total Other Liabilities as at end of the year	18,710,794	15,245,753	20,629,758	17,190,637

27. RETIREMENT BENEFIT

Pensioner's Medical Fund	135,000	-	135,000	-
Widows' and Orphans' Pension Fund	(1,783)	40,363	(1,783)	40,363
Post 1996 Employees Pension Fund	198,000	-	198,000	-
Total Pension Liabilities	331,217	40,363	331,217	40,363



NOTES TO THE FINANCIAL STATEMENTS

27.1 Movement in Widows'/Widowers' and Orphans' Fund

	2008 Rs '000	2007 Rs '000
Opening Balance in Bank	40,363	14,252
Contributions to the Fund	88,909	94,334
Interest Income Earned	721,819	594,840
Payments during the year	(195,358)	(180,001)
Tax Payment	(386)	(988)
Transferred to Fixed Deposit	(657,130)	(482,075)
Closing Balance in Bank's Books	(1,783)	40,363

27.2 The Fund has been established in January 1965, for the payment of a pension to the widows of former employees and retired employees of the Bank who are contributors to the Fund. The Fund is approved and is not open to new entrants from 1st January 1996. The members of the fund contribute at the rate of 5% of their basic salary and certain allowances. The assets of the W&OP Fund are managed by the Board of Management of the Fund.

27.3 The transfer of the W&OP balance to fixed deposits, during the year, reflects management's decision to maintain funds belonging to the W&OP as an independent deposit, in the name of the Bank's W&OP Fund.

28. DEBENTURES

The Bank has issued two million five hundred thousand (2,500,000) unsecured subordinated redeemable debentures 2008/2016 of the aggregate value of Rupees two thousand five hundred million at a par value of one thousand Rupees each at the rate of 16% p.a. (payable biannually) to People's Bank Pension Trust Fund on 30th December 2008.

29. SHARE CAPITAL

29.1 Movement of Share Capital

	BANK		GROUP	
	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000
Authorised				
20,000,000 Ordinary Shares of Rs 50/- each	1,000,000	1,000,000	1,000,000	1,000,000
Issued & Fully Paid				
999,960 Ordinary Shares of Rs 50/- each	49,998	49,998	49,998	49,998

All issued 1 Mn shares are fully paid except for 40 shares for which calls have been made, but remain unpaid.

29.2 Principal Shareholders of the Bank are as follows:

	2008 %	2007 %
Government of Sri Lanka	92.27	92.27
Co-operative Societies	7.73	7.73
	100.00	100.00



NOTES TO THE FINANCIAL STATEMENTS

30. CAPITAL PENDING ALLOTMENT

30.1 Movement of Funds Relating to Capital Pending Allotment

	2008 Rs '000	2007 Rs '000
Opening Balance	5,652,000	4,152,000
Capital Received during the Year	1,500,000	1,500,000
Closing Balance as at end of the Year	7,152,000	5,652,000

30.2 Out of the Rs 8,738 Mn contributed by the Government of Sri Lanka as capital, on 15th April 1993 Rs 1,152 Mn and 1st, 2nd, 3rd & 4th Tranche Capital amounting to Rs 6,000 Mn received from Government was set aside for the purpose of introducing additional Share Capital of 143,040,000 shares of Rs 50/- each to the Bank. Hence, shares to this value are pending allotment until the authorised Share Capital of the Bank is increased.

30.3 The increase requires an amendment to the People's Bank Act and it is yet to be finalised.

30.4 In keeping in line with Terms of the Agreement signed between the Ministry of Finance of the Government of Sri Lanka, the Asian Development Bank (ADB) and People's Bank on the 17th December 2004, the 1st Tranche of Capital Infusion by the Government of Sri Lanka through ADB was made in December 2005.

This investment was based on the conditions of People's Bank achieving pre-set performance targets and key performance indicators successfully. The 2nd Tranche of Capital Infusion of Rs 1 Bn and 3rd Tranche of Rs 1.5 Bn was made in December 2006 and December 2007 respectively by the Government of Sri Lanka. Subsequently, the 4th Tranche of Capital Infusion of Rs 1.5 Bn was made in December 2008.

31. RESERVES

31.1 Movement in Reserves

	Statutory Reserve Rs '000	Revaluation Reserve Rs '000	Capital Reserve Rs '000	Special Risk Reserve Rs '000	General Reserve Rs '000	Building Reserve Rs '000	Profit/ (Loss) Rs '000	Total 2008 Rs '000	Total 2007 Rs '000
Bank									
Balance at beginning of Year	49,998	5,610,494	5,663	295,766	1,000	1,000	1,228,645	7,192,566	5,738,373
Profit for the Year	-	-	-	-	-	-	2,704,848	2,704,848	2,373,883
Transfer to Special Risk Reserve	-	-	-	92,995	-	-	(92,995)	-	-
Dividend Paid to GOSL (Note 31.8)	-	-	-	-	-	-	(219,690)	(219,690)	(219,690)
Special Levy to Treasury (Note 31.9)	-	-	-	-	-	-	(1,000,000)	(1,000,000)	(700,000)
Balance as at end of the Year	49,998	5,610,494	5,663	388,761	1,000	1,000	2,620,808	8,677,724	7,192,566
Notes	(31.2)	(31.3)	(31.4)	(31.5)	(31.6)	(31.7)			
Group									
Balance at beginning of Year	49,998	5,610,493	5,663	295,766	1,000	1,000	4,086,192	10,050,112	7,464,055
Profit for the Year	-	-	-	-	-	-	3,427,459	3,427,459	3,505,746
Transfer to Special Risk Reserve	-	-	-	92,995	-	-	(92,995)	-	-
Dividend Paid to GOSL (Note 31.8)	-	-	-	-	-	-	(219,690)	(219,690)	(219,690)
Special Levy to Treasury (Note 31.9)	-	-	-	-	-	-	(1,000,000)	(1,000,000)	(700,000)
Balance as at end of the Year	49,998	5,610,493	5,663	388,761	1,000	1,000	6,200,966	12,257,881	10,050,112
Notes	(31.2)	(31.3)	(31.4)	(31.5)	(31.6)	(31.7)			



NOTES TO THE FINANCIAL STATEMENTS

31.2 Permanent Reserve (Statutory Reserve Fund)

The Permanent Reserve is maintained as required by the Banking Act No. 30 of 1988 whereby the Bank must, out of net profit after taxation but before any dividend is declared, transfer to the Permanent Reserve a sum equivalent to not less than 5% of the Bank's paid up capital until the Permanent Reserve is equal to 50% of the paid up capital and not less than 2% until the Permanent Reserve equals the paid up capital. No transfer to the Permanent Reserve was made this year as it has already reached the required level.

No new transfers have been made to the Permanent Reserve, as the balance now equals the existing Issued Share Capital balance.

31.3 Revaluation Reserve

This reserve has been created on revaluation of assets of the Bank as per Board approval in compliance with Section 19 (7) of the Banking Act No. 30 of 1988.

31.4 Capital Reserve

This reserve has been created in 1987 and increased in 1998 and no charge has been made there onwards.

31.5 Special Risk Reserve

In terms of Central Bank directives, 25% of the profit has been transferred to Special Risk Reserve in order to promote the safety soundness and the stability of the Primary Dealer System and to build up Primary Dealer Capital Base.

31.6 General Reserve

This reserve has been created under Section 22 (2) of the People's Bank Act No. 29 of 1961. This balance was Rs 1 Mn. The General Reserve represents accumulated unallocated retained Profits & Losses which are available for distribution.

31.7 Building Reserve

This reserve has been created under Section 19 of the People's Bank Act No. 29 of 1961.

31.8 Dividend Paid to GOSL

According to the Agreement between the Government of Sri Lanka and the People's Bank, it is required to pay back 25% of the Restructuring Bond interest to the General Treasury as a Dividend Payment. Further details relating to this expense is reflected in Note No. 19 of these Financial Statements.

31.9 Special Levy to Treasury

This is a dividend paid to the consolidated fund of the Government of Sri Lanka as determined by them. The amount payable for 2008 has been determined at Rs 1,000 Mn.

NOTES TO THE FINANCIAL STATEMENTS

32. MINORITY INTEREST

	BANK		GROUP	
	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000
Balance at beginning of Year	-	-	170	133
Share of Net Profit/(Loss) for the Year	-	-	44	50
Dividend Payments during the Year	-	-	(23)	(13)
Balance at end of Year	-	-	191	170

33. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank makes various commitments and incurs contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

33.1 These Commitments are Quantified Below:

	BANK		GROUP	
	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000
Commitments				
Non-Disbursed Loans	57,826	108,945	57,826	108,945
Non-Disbursed Overdrafts	11,547,636	6,908,852	11,547,636	6,908,852
	11,605,462	7,017,797	11,605,462	7,017,797
Contingent Liabilities				
Acceptances	56,907,727	13,347,944	56,907,727	13,347,944
Documentary Credit	50,250,306	35,220,422	50,250,306	35,220,422
Guarantees	18,105,551	15,791,378	18,105,551	15,791,378
	125,263,584	64,359,744	125,263,584	64,359,744
Forward Exchange Contracts	2,119,725	2,844,133	2,119,725	2,844,133
Total Commitments and Contingencies	138,988,771	74,221,674	138,988,771	74,221,674

33.2 Capital Commitments

33.2.1 Core Banking Project

The Core Banking Project will involve a capital commitment of US\$ 10 Mn commencing from 2003. Management has decided to capitalise Rs 821.5 Mn (US\$ 7.25 Mn) up to 2008.

33.2.2 Other Capital Commitments

The following indicates the contractual amounts of the Group's Off-Balance Sheet financial instruments that commits it to extend credit to customers

	BANK		GROUP	
	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000
Approved and Contracted for	337,294	186,766	337,294	186,766
Approved but not Contracted for	168,640	170,621	168,640	170,621
	505,934	357,387	505,934	357,387

NOTES TO THE FINANCIAL STATEMENTS

33.3 Litigation

In the normal course of business, the Bank is involved in various types of litigation, including litigation with borrowers who are in default under terms of their loan agreements. In certain circumstances, borrowers have asserted or threatened counter claims defenses. The Bank is also contesting certain Labour Tribunal cases. In the opinion of management, based on its assessment and consultation with outside counsel, litigation which is currently pending against the Bank and the Group will not have a material impact on the financial condition or future operations of the Bank and the Group as a whole. The total value of litigation against the Bank amounts to approximately Rs 7.91 Bn.

33.4 Foreign Currency Exposure

The Bank's net Foreign Currency exposure as at 31st December 2008 amounted to US\$ 1,231,634. Value as at 31st December 2007 was US\$ 1,337,211.

34. BANK - MATURITY PROFILE OF ASSETS & LIABILITIES (Rs '000)

	Up to 3 M	3-12 M	1-3 Years	3-5 Years	Over 5 Years	Provisions	Total
Assets							
Interest Earning Assets							
Short-Term Funds	9,185,347	-	-	-	-	-	9,185,347
Treasury Bills/REPO Agreements	539,002	1,650,358	-	-	-	28,173	2,217,533
Treasury Bonds	3,345,480	9,686,299	28,813,170	17,485,786	-	-	59,330,735
Bills of Exchange	7,618,898	-	-	-	-	(1,805,484)	5,813,414
Loans & Advances	37,327,080	134,560,568	43,110,182	19,686,632	16,801,588	(11,658,538)	239,827,514
GOSL Bonds	-	-	-	-	7,323,000	-	7,323,000
Leases	77,458	1,161,875	1,799,049	-	-	(53,264)	2,985,118
Total Interest Earning Assets	58,093,267	147,059,100	73,722,401	37,172,418	24,124,588	(13,489,113)	326,682,661
Non-Interest Earnings Assets							
Cash	9,195,024	-	-	-	-	-	9,195,024
Balance with Central Bank	18,905,799	-	-	-	-	-	18,905,799
Dealing Securities	187,714	-	-	-	-	-	187,714
Unquoted Bond/Shares	11,449,283	-	-	-	625,000	(22,971)	12,051,312
Subsidiaries	-	-	-	-	1,219,950	-	1,219,950
Associates	-	-	-	-	155,500	-	155,500
Other Assets	7,461,558	13,542,926	-	-	-	(217,010)	20,787,474
Property, Plant & Equipment	-	-	-	-	7,602,901	-	7,602,901
Prepaid Leases	-	-	-	-	467,300	-	467,300
Intangible Assets	-	-	-	-	292,138	-	292,138
Total Non-Interest Earning Assets	47,199,378	13,542,926	-	-	10,362,789	(239,981)	70,865,112
Total Assets	105,292,645	160,602,026	73,722,401	37,172,418	34,487,377	(13,729,094)	397,547,773
Liabilities							
Deposits	108,659,294	159,523,830	39,457,037	16,849,155	-	-	324,489,316
Amount due to Banks	348,559	-	-	-	-	-	348,559
Borrowings - Money Markets	4,683,175	-	-	-	-	-	4,683,175
Borrowings - REPO Agreements	13,579,633	11,399,042	1,111,792	-	-	-	26,090,467
Borrowings - Refinance/Others	2,591,898	-	-	-	-	-	2,591,898
Retirement Benefit	331,217	-	-	-	-	-	331,217
Debentures	-	-	-	-	2,500,000	-	2,500,000
Total Interest Bearing Liabilities	130,193,776	170,922,872	40,568,829	16,849,155	2,500,000	-	361,034,632
Total Non-Interest Bearing Liabilities	8,649,585	11,983,834	-	-	-	-	20,633,419
Shareholders' Fund	-	-	-	-	15,879,722	-	15,879,722
Total Liabilities	138,843,361	182,906,706	40,568,829	16,849,155	18,379,722	-	397,547,773
Net Liquidity Gap	(33,550,716)	(22,304,680)	33,153,572	20,323,263	16,107,655	(13,729,094)	

NOTES TO THE FINANCIAL STATEMENTS

35. FINANCIAL REPORTING BY SEGMENTS

	Banking		Leasing		Travels		Consolidated	
	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000
Interest	52,508,947	42,103,416	-	-	-	-	52,508,947	42,103,416
Exchange	818,399	648,988	-	-	-	-	818,399	648,988
Leasing	616,022	791,548	5,510,401	3,790,058	-	-	6,126,423	4,581,606
Share Trading/Dividend	30,975	42,194	-	-	-	-	30,975	42,194
Commissions and Fees	3,591,387	2,866,414	-	-	17,395	14,996	3,608,782	2,881,410
Other	925,448	1,220,783	325,213	653,182	559	654	1,251,220	1,874,619
Total Revenue from								
External Customers	58,491,178	47,673,343	5,835,614	4,443,240	17,954	15,650	64,344,746	52,132,233
Inter-Segment Revenue	456,932	310,705	227,636	180,453	3,525	3,207	688,093	494,365
Total Revenue	58,948,110	47,984,048	6,063,250	4,623,693	21,479	18,857	65,032,839	52,626,598
Segment Result	5,663,721	5,002,361	1,591,909	1,366,093	6,444	5,894	7,142,844	6,242,860
Income from Associates	-	-	-	-	-	-	17,981	17,198
Income Tax Expenses	(2,958,873)	(2,628,478)	(766,071)	(120,982)	(2,318)	(923)	(3,733,322)	(2,754,262)
Minority Interest	-	-	-	-	-	-	(44)	(50)
Net Profit for the Year	2,704,848	2,373,883	825,838	1,245,111	4,126	4,971	3,427,459	3,505,746
Segment Assets	397,392,273	380,428,040	25,412,626	19,294,002	31,746	25,836	416,415,981	396,272,486
Investment in Associates	155,500	155,500	-	-	-	-	257,767	245,846
Total Assets	397,547,773	380,583,540	25,412,626	19,294,002	31,746	25,836	416,673,748	396,518,333
Segment Liabilities	381,668,051	367,688,976	20,733,777	15,723,743	12,564	8,776	397,213,678	380,766,052
Total Liabilities	397,547,773	380,583,540	25,412,626	19,294,002	31,746	25,836	416,673,748	396,518,333

35.1 Geographical Segmentation

	BANK	
	2008 Rs '000	2007 Rs '000
Assets		
Domestic Banking Unit	381,609,982	358,675,571
Foreign Currency Banking Unit	15,937,791	34,304,759
Gross Income		
Domestic Banking Unit	57,630,720	46,600,652
Foreign Currency Banking Unit	1,317,390	1,843,263
Profit before Tax		
Domestic Banking Unit	5,378,526	4,616,544
Foreign Currency Banking Unit	285,195	385,817
Profit after Tax		
Domestic Banking Unit	2,419,653	1,988,066
Foreign Currency Banking Unit	285,195	385,817



NOTES TO THE FINANCIAL STATEMENTS

36. RELATED PARTY DISCLOSURES

36.1 Transactions with Key Management Personnel of the Bank

Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank. Such Key Management Persons include members of the Board of Directors of the Bank and their close family members.

36.1.1 Compensation of Key Management Personnel of the Bank

	2008 Rs '000	2007 Rs '000
Short-Term Employee Benefits	2,497	1,999
Post-Employment Pension	-	-
Termination Benefits	-	-
Share-Based Payments	-	-

36.1.2 Transactions with Key Management Persons

The following table provides the outstanding balance and the corresponding interest, which have been entered into with key management personnel of the Bank during the year.

	Balance as at the Year end		Income during the Year	
	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000
Residential Mortgages	-	-	-	-
Credit Cards	292	1,219	139	108
Guarantees	-	-	-	-

36.2 Transactions with Subsidiary Companies

The following table provides the outstanding balance of Loans & Advances and other Credit Facilities and Deposits and the corresponding interest during the year of the Subsidiary Companies:

	Balance as at the Year end		Income/Expense during the Year	
	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000
People's Leasing Co. Ltd.				
Loans & Advances	3,413,775	2,265,219	328,587	179,217
Off-Balance Sheet Accommodations	-	-	-	-
Deposits	1,418,607	367,681	28,620	493
Other Receivables (Lease Rentals, Building Rentals, etc.)	247,586	289,964	9,115	7,095
Other Payables (Agency Commission, Hiring Rentals, Lease Rentals, etc.)	136,690	86,720	199,017	224,565
People's Travels (Pvt) Ltd.				
Loans & Advances	-	1,464	-	-
Off-Balance Sheet Accommodations	11,250	6,250	195	76
Deposits	8,065	5,027	602	695



NOTES TO THE FINANCIAL STATEMENTS

36.3 Transactions with Associate Companies

The following table provides the outstanding balance of Loans & Advances and other Credit Facilities and Deposits and the corresponding interest during the year of the Associate Company:

	Balance as at the Year end		Income/Expense during the Year	
	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000
People's Merchant Bank Ltd.				
Loans & Advances	289,904	203,306	34,181	22,470
Off-Balance Sheet Accommodations	-	-	-	-
Deposits	-	-	-	-

36.4 Transactions with GOSL and SOEs

36.4.1 GOSL and SOE Loans and Advances

	2008					2007				
	Overdrafts	Loans and Advances	Bills	Total	Income	Overdrafts	Loans and Advances	Bills	Total	Income
Sri Lanka Government	20,275,079	1,772,497	1,897,306	23,944,881	2,688,644	11,694,461	1,644,023	487,056	13,825,540	2,400,160
Local Government Bodies	895,728	-	10,382	906,110	168,046	1,152,357	-	11,226	1,163,583	86,821
Provincial Councils	-	44,646	-	44,646	5,840	-	33,614	-	33,614	5,240
Government Corporations	4,228,861	4,834,554	570,649	9,634,065	1,899,547	3,314,527	10,802,396	9,877,384	23,994,306	1,872,885
Total	25,399,668	6,651,697	2,478,336	34,529,701	4,762,078	16,161,345	12,480,033	10,375,666	39,017,043	4,365,107

36.4.2 GOSL and SOE Deposits

	2008					2007				
	Demand	Savings	Balance Time	Total	Expenses	Demand	Savings	Balance Time	Total	Expenses
Sri Lanka Government	5,980,306	323,911	1,921,821	8,226,038	301,925	8,772,028	390,371	1,364,887	10,527,286	187,276
Local Government Bodies	717,093	23,218	489,158	1,229,469	126,720	965,688	25,101	629,732	1,620,522	143,514
Provincial Councils	1,365,452	-	2,911	1,368,363	6,086	2,137,862	-	228	2,138,090	8,310
Government Corporations	3,372,049	1,039,791	13,332,189	17,744,029	503,804	3,769,324	4,779,954	8,344,521	16,893,799	344,516
Total	11,434,901	1,386,920	15,746,079	28,567,900	938,535	15,644,901	5,195,426	10,339,369	31,179,696	683,616

36.5 Transactions with Pension Trust Fund

	2008 Rs '000	2007 Rs '000
Contribution during the Year	1,476,009	1,744,827

37. POST-BALANCE SHEET EVENTS

Subsequent to the date of the Balance Sheet, no circumstances have arisen which would require adjustment to or disclosure in the Financial Statements.

38. HEDGING TRANSACTIONS

The Bank entered into two agreements with Ceylon Petroleum Corporation (CPC) with a back to back cover from Commercial Bank PLC, Colombo and Commerzbank AG, Frankfurt (counterparties) for hedging transactions. Subsequent to the unprecedented reduction in world oil prices, Supreme Court proceedings and the pending inquiry by Central Bank of Sri Lanka (CBSL) the Bank has not received dues from CPC for months of November and December 2008 on the said hedging transactions.

As per legal opinion sought from an independent panel of lawyers headed by a President's Counsel, the Bank has not accounted for these amounts as payables.

The matter has been referred to a special ministerial committee and the outcome is yet to be determined.



NOTES TO THE FINANCIAL STATEMENTS

39. COMPARATIVE INFORMATION

The presentation and classification of following items in these Financial Statements are amended to ensure comparability with the current year.

39.1 As Reported Previously

	BANK Rs '000	2007 GROUP Rs '000
Property, Plant & Equipment	8,153,573	8,457,136
Prepaid Leases	245,245	245,245
Reserves	(7,523,656)	(10,381,202)
Current Presentation		
Property, Plant & Equipment	7,561,370	7,864,934
Prepaid Leases	506,357	506,357
Reserves	(7,192,566)	(10,050,112)

In line with the revised Accounting Standards, property, plant & equipment was reclassified as property, plant & equipment, prepaid leases & intangible assets.

39.2 As Reported Previously

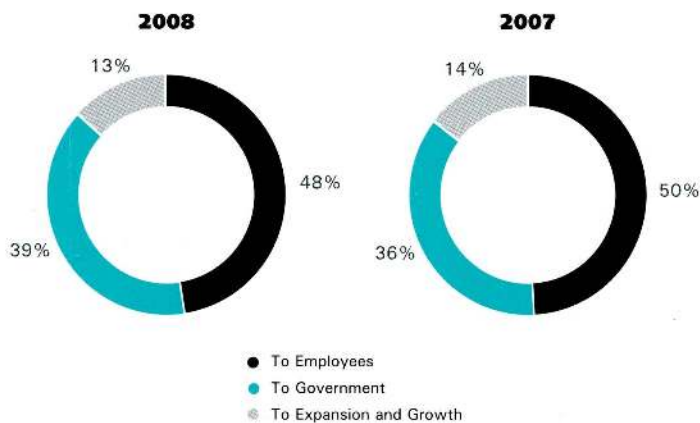
	BANK Rs '000	2007 GROUP Rs '000
Bills of Exchange	14,878,338	14,878,338
Loans and Advances	219,209,241	217,459,674
Current Presentation		
Bills of Exchange	14,021,708	14,021,708
Loans and Advances	220,065,871	218,316,304
As Reported Previously		
Bills of Exchange - Specific	839,605	839,605
- General	69,958	69,958
Loans - Specific	11,144,181	11,195,578
- General	980,500	1,003,913
Lease - Specific	26,000	452,776
- General	21,197	1,739,982
	13,081,441	15,301,812
Current Presentation		
Bills of Exchange - Specific	1,696,235	1,696,235
- General	69,958	69,958
Loans - Specific	10,287,551	10,338,948
- General	980,500	1,003,913
Lease - Specific	26,000	452,776
- General	21,197	1,739,982
	13,081,441	15,301,812

Specific provision for loan losses amounting to Rs 856 Mn has been reclassified as specific provision for Bills of Exchange.

VALUE ADDED STATEMENT

<i>For the year ended 31st December</i>	2008 Rs '000	%	2007 Rs '000	%
Value Added				
Income Earned by Providing Banking Services	54,271,955		43,723,169	
Cost of Services	(38,583,209)		(30,163,152)	
Value Added by Banking Services	15,688,746		13,560,017	
Non-Banking Income	4,676,155		4,260,879	
Provision for Bad Debts	(1,620,025)		(821,861)	
Provision for Tsunami Losses	-		99,687	
	18,744,876		17,098,722	
Value Allocated to Employees				
Salaries, Wages and Other Benefits	8,895,182	47.5	8,405,683	49.2
To Government				
Dividend Paid to GOSL	219,690	1.2	219,690	1.3
Special Levy to Treasury	1,000,000	5.3	700,000	4.1
PAYE Tax	224,730	1.2	289,101	1.7
Income Tax	2,958,873	15.8	2,628,478	15.4
VAT	2,890,825	15.4	2,342,428	13.7
Other Indirect Taxes	54,390	0.3	46,346	0.3
To Expansion and Growth				
Retained Income	1,485,158	7.9	1,454,193	8.5
Depreciation/Amortisation	1,016,029	5.4	1,012,803	5.9
	18,744,876	100.0	17,098,722	100.0

Contribution to Value Added



CAPITAL ADEQUACY (Under Basel II)

COMPUTATION OF RISK-WEIGHTED ASSETS

As at 31st December	Balance		Risk Weight %	Risk-Weighted Balance	
	2008 Rs '000	2007 Rs '000		2008 Rs '000	2007 Rs '000
Assets					
Claims on Government of Sri Lanka and Central Bank of Sri Lanka	87,831,737	84,150,537	0	-	-
Claims on Foreign Sovereigns and their Central Banks	264,439	-	0-150	264,439	-
Claims on Public Sector Entities (PSEs)	40,214,164	20,301,222	20-150	10,324,351	13,418,552
Claims on Official Entities and Multilateral Development Banks (MDBs)	-	-	0-150	-	-
Claims on Banks	11,962,654	20,065,088	20-150	7,809,174	10,499,090
Claims on Financial Institutions	5,192,021	3,371,597	20-150	3,379,009	2,105,976
Claims on Corporates	57,770,950	88,624,342	20-150	28,550,324	41,642,690
Retail Claims	30,882,354	30,065,944	75-100	23,161,766	22,549,458
Claims Secured by Residential Property	34,042,950	39,101,264	50-100	17,021,475	19,550,632
Claims Secured by Commercial Real Estate	-	-	100	-	-
Non-Performing Assets (NPAs)	5,364,208	3,236,196	50-150	6,934,829	3,924,294
Cash Items	11,670,356	11,042,151	0-20	428,391	479,454
Property, Plant & Equipment	9,027,737	8,745,526	100	9,027,737	8,745,526
Other Assets	12,195,461	7,304,152	100	12,195,461	7,304,152
Total	306,419,032	316,008,019		119,096,956	130,219,822

	Balance		Credit Conversion Factor %	Credit Equivalent	
	2008 Rs '000	2007 Rs '000		2008 Rs '000	2007 Rs '000
Instruments					
Direct Credit Substitutes	4,256,249	4,165,507	100	4,256,249	4,165,507
Transaction-Related Contingencies	4,552,908	10,337,274	50	2,276,454	5,168,637
Short-Term Self-Liquidating Trade-Related Contingencies	47,146,165	49,848,561	20	9,429,233	9,969,712
Sale and Repurchase Agreements and Assets					
Sale with Recourse where the Credit Risk remains with the Bank	-	-	100	-	-
Obligations under an On-Going Underwriting Agreement	-	-	50	-	-
Other Commitments with an Original Maturity of up to one year or which can be unconditionally cancelled at any time	13,012,520	5,986,924	0	-	-
Commitments with an Original Maturity up to One Year	-	-	20	-	-
Other Commitments with an Original Maturity of over One Year	-	-	50	-	-
Foreign Exchange Contracts	-	-	0-5	-	-
Interest Rate Contracts	5,424,185	2,844,133	0-3	27,121	14,221
Total	74,392,027	73,182,399		15,989,057	19,318,077

CAPITAL ADEQUACY (Under Basel II)

As at 31st December

	2008 Rs '000	2007 Rs '000
COMPUTATION OF CAPITAL		
Tier I: Core Capital		
Paid-Up Ordinary Shares/Common Stock/Assigned Capital	7,201,998	5,701,998
Statutory Reserve Fund	49,998	49,998
Published Retained Profits	2,620,808	1,228,645
General and Other Reserves	396,424	303,429
Deductions - Tier I		
50% of Investments in Unconsolidated Banking and Financial Subsidiary Companies	232,500	232,500
50% Investments in the Capital of Other Banks and Financial Institutions	77,750	327,750
Total Eligible Core Capital (Tier I)	9,958,979	6,723,821
Tier II: Supplementary Capital		
Revaluation Reserves (as approved by Central Bank of Sri Lanka)	2,208,884	2,208,884
General Provisions	1,723,205	1,071,655
Approved Subordinated Term Debt	2,500,000	-
Deductions - Tier II		
50% of Investments in Unconsolidated Banking and Financial Subsidiary Companies	232,500	232,500
50% Investments in the Capital of Other Banks and Financial Institutions	77,750	327,750
Total Eligible Supplementary Capital (Tier II)	6,121,839	2,720,289
Total Capital Base	16,080,818	9,444,110

COMPUTATION OF RATIOS

Total Risk-Weighted Assets for Credit Risk	119,096,956	130,219,822
Total Risk-Weighted Assets for Market Risk	2,119,037	1,170,823
Total Risk-Weighted Assets for Operational Risk	32,527,528	23,438,592
Total Risk-Weighted Assets (RWA)	153,743,521	154,829,237

Core Capital Ratio - Tier I (Minimum Requirement 5%)

$\frac{\text{Core Capital}}{\text{Total Risk-Weighted Assets}} \times 100$	6.5%	4.3%
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Total Capital Ratio (Minimum Requirement 10%)

$\frac{\text{Total Capital Base}}{\text{Total Risk-Weighted Assets}} \times 100$	10.5%	6.1%
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INCOME STATEMENT US\$

For the year ended 31st December	Bank			Group		
	2008 US\$ '000	2007 US\$ '000	Change %	2008 US\$ '000	2007 US\$ '000	Change %
Income	520,513	441,436	17.9	568,166	479,597	18.5
Interest Income	471,996	396,267	19.1	517,752	429,485	20.6
Interest Expenses	(304,563)	(244,176)	24.7	(328,831)	(260,554)	26.2
Net Interest Income	167,433	152,090	10.1	188,921	168,931	11.8
Foreign Exchange Gain	7,226	5,970	21.0	7,226	5,970	21.0
Fees and Commission	31,712	26,370	20.3	31,866	26,508	20.2
Capital Gain on Treasury Bills and Bonds	980	798	22.8	980	798	22.8
Other Income	8,598	12,030	(28.5)	10,342	16,836	(38.6)
Total Income	215,950	197,259	9.5	239,335	219,044	9.3
Operating Expenses						
Personnel Costs	80,074	76,081	5.2	83,157	77,976	6.6
Provision for Staff Retirement Benefits	13,376	16,412	(18.5)	13,376	16,412	(18.5)
Premises, Equipment and Establishment Expenses	26,174	22,653	15.5	26,884	23,980	12.1
Fee and Commission Expenses	1,308	1,724	(24.1)	114	68	67.0
Other Overhead Expenses	30,584	27,892	9.7	37,391	32,694	14.4
	(151,516)	(144,761)	4.7	(160,922)	(151,130)	6.5
Profit Before Loan Losses, Provisions and						
Provision for Fall in Value of Dealing Securities/Others	64,434	52,498	22.7	78,413	67,914	15.5
Less: Provision for Loan Losses/Write-Off	(14,305)	(7,561)	89.2	(15,223)	(11,564)	31.6
Provision for Fall in Value of Dealing Securities/Others	(118)	166	171.4	(118)	166	171.4
Provision for Tsunami Losses	-	917	(100.0)	-	917	(100.0)
Operating Profit	50,011	46,020	8.7	63,071	57,432	9.8
Share of Associate Companies' Profit/Loss						
Before Taxation	-	-	-	159	158	0.4
Profit Before Taxation	50,011	46,020	8.7	63,230	57,590	9.8
Provision for Taxation	(26,127)	(24,181)	8.0	(32,965)	(25,338)	30.1
Profit After Taxation	23,884	21,839	9.4	30,265	32,252	(6.2)
Less: Minority Interest	-	-	-	-	(0.5)	(15.4)
Profit for the Year	23,884	21,839	9.4	30,265	32,252	(6.2)

Exchange Rate: 1 US\$ was Rs 113.25 as at 31.12.2008 (Rs 108.70 as at 31.12.2007).

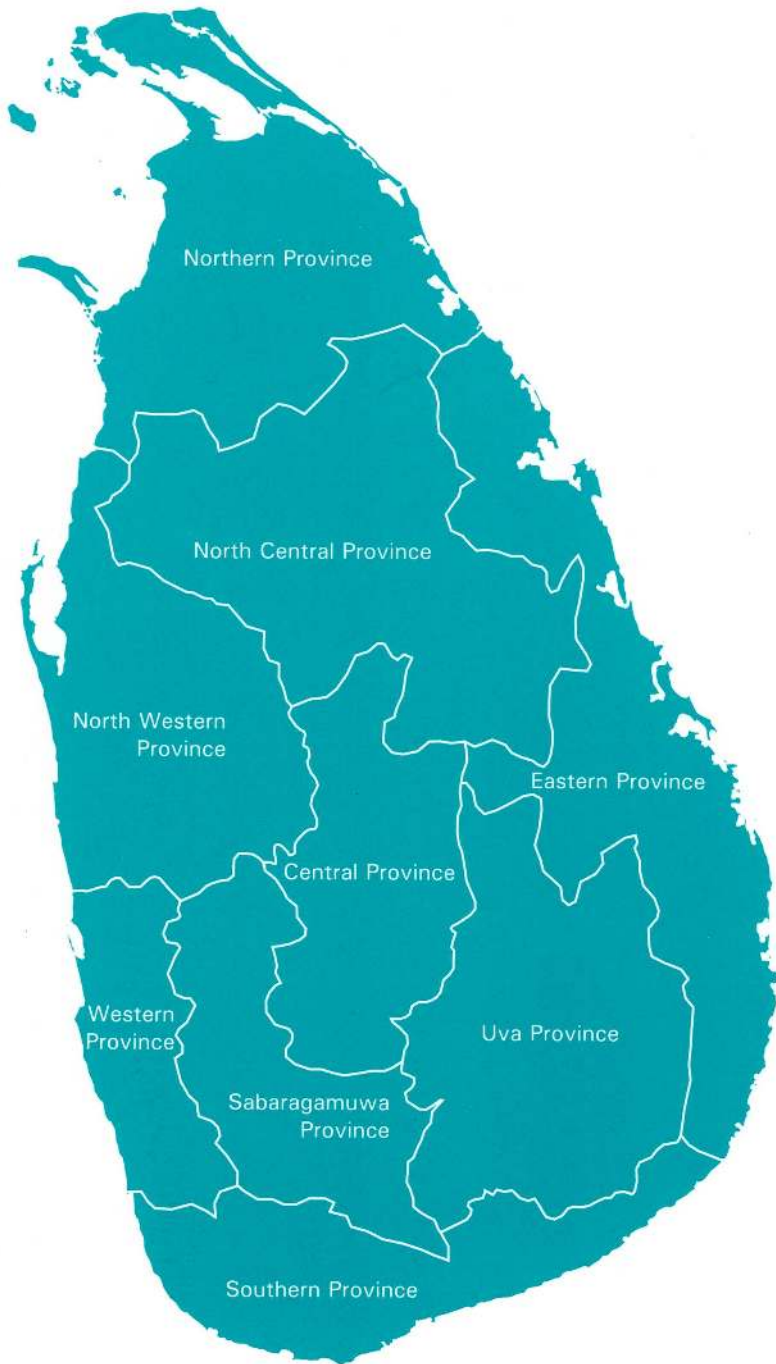
BALANCE SHEET US\$

As at 31st December	Bank			Group		
	2008 US\$ '000	2007 US\$ '000	Growth %	2008 US\$ '000	2007 US\$ '000	Growth %
Assets						
Cash and Short-Term Funds	162,299	264,112	(38.5)	162,861	264,867	(38.5)
Balance with the Central Bank	166,939	217,168	(23.1)	166,939	217,168	(23.1)
Government Treasury Bills and Treasury Bonds	543,473	415,538	30.8	543,473	415,538	30.8
Bills of Exchange	51,333	128,995	(60.2)	51,333	128,995	(60.2)
Loans and Advances	2,117,682	2,024,525	4.6	2,097,483	2,008,430	4.4
Leases	26,359	38,689	(31.9)	215,141	197,840	8.7
Other Assets	183,554	144,286	27.2	187,308	148,140	26.4
Deferred Tax	-	65	(100.0)	-	2,279	(100.0)
Dealing Securities	1,658	2,782	(40.4)	1,658	2,782	(40.4)
Investment Securities	106,413	111,316	(4.4)	106,855	111,777	(4.4)
Investment in Subsidiaries and Associate Companies	12,145	8,974	35.3	2,276	2,262	0.6
Government of Sri Lanka Restructuring Bonds	64,662	67,369	(4.0)	64,662	67,369	(4.0)
Property, Plant and Equipment	67,134	69,562	(3.5)	72,343	72,355	-
Prepaid Leases	4,126	4,658	(11.4)	4,126	4,658	(11.4)
Intangible Assets	2,580	3,190	(19.1)	2,781	3,366	(17.4)
Total Assets	3,510,356	3,501,229	0.3	3,679,238	3,647,823	0.9
Liabilities						
Amounts due to Banks	3,078	2,761	11.5	3,082	2,761	11.7
Deposits from Customers	2,865,248	2,768,686	3.5	2,852,400	2,765,258	3.2
Borrowings from Banks and Others	294,618	451,359	(34.7)	422,479	555,069	(23.9)
Group Balance Payable	-	4	(100)	-	-	-
Taxation Payable	15,844	17,345	8.7	16,680	18,299	(8.8)
Deferred Taxation	1,133	1,822	(37.8)	2,821	1,990	41.8
Other Liabilities	165,217	140,255	17.8	182,161	158,148	15.2
Retirement Benefit	2,925	371	687.6	2,925	371	687.6
Debentures	22,075	-	100.0	24,857	1,012	2,356.2
Total Liabilities	3,370,137	3,382,603	(0.4)	3,507,406	3,502,908	0.1
Funds Employed						
Share Capital	441	460	(4.0)	441	460	(4.0)
Capital Pending Allotment	63,152	51,996	21.5	63,152	51,996	21.5
Reserves	76,631	66,169	(15.8)	108,237	92,457	17.1
	140,218	118,625	18.2	171,831	144,914	18.6
Minority Interest	-	-	-	2	2	-
Total Funds Employed	140,218	118,625	18.2	171,833	144,915	18.6
Total Liabilities and Funds Employed	3,510,356	3,501,229	0.3	3,679,238	3,647,823	0.9
Commitments and Contingencies	1,227,274	682,812	79.7	1,227,274	682,812	79.7

Exchange Rate: 1 US\$ was Rs 113.25 as at 31.12.2008 (Rs 108.70 as at 31.12.2007).



BRANCH NETWORK



Code

CENTRAL PROVINCE

KANDY

Akurana	153
Alawathugoda	294
Ankumbura	183
Davulagala	206
Deltota	257
Galagedera	114
Gampola	018
Hasalaka	140
Kadugannawa	159
Kandy	003
Katugastota	089
Menikhinna	157
Nawalapitiya	053
Panwila	211
Peradeniya	057
Pilimalalawa	256
Pussellawa	274
Senkadagala	158
Teldeniya	112
Wattegama	074

MATALE

Dambulla	138
Galewela	115
Matale	002
Naula	146
Pallepola	241
Rattota	128
Ukuwela	201
Wilgamuwa	122

NUWARA-ELIYA

Ginigathhena	302
Hatton	186
Hanguranketha	022
Maskeliya	178
Nildandahinna	127
Nuwara-Eliya	134
Pundaluoya	173
Ragala	036
Talawakelle	038
Udupussellawa	292



BRANCH NETWORK

EASTERN PROVINCE

AMPARA

Addalachchenai	228
Akkaraipattu	063
Ampara	015
Kalmunai	023
Karaitivu	223
Mahaoya	181
Nintavur	296
Pothuvil	164
Sammanthurai	064
Sainthamaruthu	338
Thirukkowil	224
Uhana	189

BATTICALOA

Batticaloa	075
Batticaloa Town	113
Chenkalady	227
Eravur	123
Kaluwanchikudy	190
Kattankudy	065
Kallar	339
Valachchenai	102

TRINCOMALEE

Kantale	090
Kinniya	094
Muttur	095
Serunuwara	233
Trincomalee	066
Trincomalee Town	255

NORTHERN PROVINCE

JAFFNA

Atchchuvely	107
Chankanai	108
Chawakachcheri	110
Chunnakam	109
Jaffna Kannathidy	284
Jaffna Main Street	104
Jaffna Stanley Road	030
Jaffna University	162
Kankesanthurai	031
Kayts	105
Nelliady	106
Point Pedro	285
Velvettithurai	141

WANNI

Paranthan	111
Kilinochchi	048
Mankulam	165
Mannar	044
Mullaitivu	020
Murunkan	166
Vavuniya	040

NORTH CENTRAL PROVINCE

ANURADHAPURA

Anuradhapura	008
A'pura/Nuwarawewa	220
Eppawala	170
Galenbindunuwewa	177
Galkiriyagama	301
Galnewa	179
Horowpathana	218
Kahatagasdigiliya	051
Kebithigollewa	150
Kekirawa	042
Medawachchiya	096
Migalewa	246
Nochchiyagama	171
Padawiya	043
Talawa	315
Tambuttegama	219

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Aralaganwila	253
Bakamuna	242
Dehiathakandiya	330
Habarana	203
Hingurakgoda	006
Medirigiriya	231
Polonnaruwa	005
Polonnaruwa Town	232
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NORTH WESTERN PROVINCE

PUTTALAM

Anamaduwa	267
Chilaw	024
Dankotuwa	291
Kalpitiya	125
Madampe	215
Mahawewa	303
Marawila	322
Nattandiya	083
Puttalam	009
Wennappuwa	076

KURUNEGALA

Alawwa	149
Bingiriya	172
Ku/Ethugalpura	334
Galgamuwa	184
Giriulla	092
Hettipola	144
Ibbagamuwa	207
Kobeigane	281
Kuliyapitiya	028
Kurunegala	012
Ku/Maliyadeva	226
Maho	052
Makandura	137

Mawathagama	199
Narammala	082
Nikaweratiya	124
Polgahawela	059
Pothuhera	280
Ridigama	193
Wariyapola	163

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KEGALLE

Aranayake	248
Bulathkohupitiya	252
Dehiowita	293
Deraniyagala	180
Galigamuwa	185
Gonagaldeniya	238
Hemmathagama	221
Kegalle	027
Kegalle Bazaar	299
Mawanella	069
Rambukkana	101
Ruwanwella	081
Thulhiriya	270
Warakapola	054
Yatiantota	047

RATNAPURA

Balangoda	017
Eheliyagoda	085
Embilipitiya	045
Godakawela	245
Kahawatta	155
Kalawana	235
Kaltota	289
Kiriella	266
Kuruwita	263
Nivithigala	192
Pelmadulla	160
Rakwana	129
Ratnapura	088
Ratnapura Town	317
Udawalawa	295

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GALLE

Ahangama	188
Ambalangoda	035
Baddegama	087
Balapitiya	154
Batapola	234
Elpitiya	073
Galle Fort	013
Galle Main Street	169
Hikkaduwa	136
Imaduwa	247
Koggala	329
Thalgaswala	272



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	Code
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Ambalantota	072
Angunakolapelessa	205
Beliatta	244
Hambantota	007
Kudawella	288
Middeniya	265
Suriyawewa	264
Tangalle	067
Thissamaharama	061
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MATARA

Akuressa	117
Deniyaya	132
Devinuwara	243
Dickwella	135
Gandara	307
Hakmana	130
Kamburupitiya	133
Matara Dharmapala Mawatha	152
Matara Uyanwatta	032
Morawaka	060
Urubokka	271
Walasgala	304
Weligama	077

UVA PROVINCE

BADULLA

Badulla	010
Badulla Muthiyangana	269
Bandarawela	037
Boralanda	209
Diyatalawa	151
Girandurukotte	268
Haldummulla	195
Hali-Ela	225
Haputale	216
Kandaketiya	250
Keppetipola	240
Koslanda	260
Lunugala	251
Mahiyangana	058
Passara	116
Uva-Paranagama	156
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MONERAGALA

Bibile	011
Buttala	147
Kataragama	168
Medagama	258
Moneragala	068
Tanamalwila	230
Wellawaya	062

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KALUTARA

Aluthgama	084
Baduraliya	283
Bandaragama	121
Beruwala	311
Bulathsinhala	161
Horana	041
Ingiriya	300
Kalutara	039
Maggona	282
Matugama	070
Neboda	249
Panadura	148
Panadura Town	321
Pelawatta	261
Wadduwa	262

WESTERN ZONE - I

COLOMBO NORTH

Dam Street	297
Dematagoda	071
Duke Street	001
Grandpass	126
Central Road	298
Kehelwatta	259
Kotahena	308
Malwatta Road	312
Midcity	176
First City	046
Mutwal	214
Olcott Mawatha	275
Pettah	139
Sri Sangaraja Mawatha	056
Sea Street	277

COLOMBO SOUTH

Bambalapitiya	310
Borella	078
Borella Town	320
Headquarters	204
Kirulapone	319
Kollupitiya	
Co-op.House	210
Liberty Plaza	309
Lucky Plaza	331
Majestic City	200
Maradana	236
Narahenpita	119
Hyde Park Corner	025
Queen's Branch	033
Suduwella	143
Thimbirigasyaya	086
Town Hall	167
Union Place	014
Wellawatta	145

WESTERN ZONE - II

COLOMBO OUTER

Avissawella	029
Battaramulla	208
Dehiwala	019
Dehiwala Galle Road	337
Gangodawila	097
Hanwella	229
Homagama	049
Kaduwela	196
Katubedda	313
Kesbewa	327
Kolonnawa	194
Kotikawatta	098
Kottawa	328
Maharagama	306
Moratumulla	290
Moratuwa	091
Mount Lavinia	336
Nugegoda	174
Nugegoda City	335
Piliyandala	103
Pitakotte	279
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Delgoda	118
Gampaha	026
Ganemulla	332
Ja-Ela	239
Kadawatha	273
Kandana	175
Katunayake	276
Kelaniya	055
Kiribathgoda	237
Kirindiwela	202
Kochchikade	142
Mahara	217
Malwana	191
Marandagahamula	100
Mirigama	198
Minuwangoda	021
Negombo	034
Nittambuwa	278
Pamunugama	318
Pugoda	093
Ragama	316
Seeduwa	324
Veyangoda	079
Wattala	222
Yakkala	333



SERVICE CENTRES

AMPARA

1. Maruthamunai
2. Eragama
3. Sammanthurai
4. Oluvil
5. Padiyathalawa
6. Central Camp
7. Alayadiwembu
8. Oluvil Campus Premises
9. Gonagolla
10. Sammanthurai Applied Science Faculty
11. Villiniyady Town/ Sammanthurai

ANURADHAPURA

1. Anuradhapura
2. Mihintale
3. Maradankadawala
4. Saliyawewa
5. Padavi Sri Pura
6. Nachchadoowa
7. Rajanganaya
8. Vilachchiya - Pemaduwa
9. Rambewa
10. Thirappane
11. Queens Junction
12. Bulnewa
13. Gomarankadawala

BADULLA

1. Badulla
2. Bandarawela
3. Ballaketuwa
4. Bogahakumbura
5. Attampitiya
6. Meegahakivula
7. Welimada Town
8. Lunuwatthe
9. Madolseema
10. Demodara
11. Badulla - Welekade
12. Badulla - Pahala Weediya
13. Bandarawela Commercial Centre
14. Uva Provincial Council Premises
15. Nawa Medagama

BATTICALOA

1. Oddamavadi
2. Ariyampathi
3. Mandur
4. Iruthayapuram
5. Sithandi

CHILAW

1. Arachchikattuwa
2. Bolawatta
3. Lunuwila
4. Kottaramulla
5. Norochcholei
6. Madurankuliya
7. Thoduwawa
8. Andigama
9. Welipennagahamulla
10. Narawila
11. Udappuwa
12. Ulhitiyawa
13. Mundalama
14. Fische. Bank - Chilaw

WESTERN ZONE I

1. Grandpass
2. Nagalagam Street
3. Maligawatta
4. Dematagoda
5. Jampata Street
6. Suduwella
7. Havelock Town
8. Wekanda
9. Mutuwella
10. St. Joseph's Street
11. Mihindu Mawatha
12. Slave Island
13. Colombo Campus Premises
14. Hultsdorf Courts Premises
15. Registrar of Motor Vehicles Premises
16. Central Bank Premises
17. Colombo Harbour Premises
18. Treasury Unit - Ministry of Finance
19. Lotteries Board Head Office Premises
20. Bloemendhal Road
21. Colombo Medical College Premises

WESTERN ZONE II

1. Delkanda
2. Kahatuduwa
3. Embuldeniya
4. Talawathugoda
5. Gothatuwa
6. Athurugiriya
7. Hanwella Town
8. Padukka
9. Boralesgamuwa
10. Soyzapura
11. Pannipitiya (Moraketiya)
12. Kosgama
13. Rawathawatta
14. Puwakaramba
15. Nawala Campus Premises
16. Attidiya
17. Kohuwala
18. Katukurunda
19. Godagama
20. Nedimala
21. Nugegoda Old Kesbewa Road
22. Mattegoda
23. Nawagamuwuwa
24. Kahahena
25. Homagama City
26. Ethulkotte
27. Army Headquarters
28. Welikada Plaza
29. Mulleriyawa New Town
30. Piliyandala City
31. Meegoda
32. Malabe
33. Palali Army Camp
34. Sri Jayawardenapura University Premises
35. Dehiwala/ Mount Lavinia MC Premises
36. Wellampitiya
37. Thalpathpitiya
38. Talduwa
39. Pamunuwa
40. Hokandara
41. Sri Lanka Foreign Employment Bureau Premises



GALLE

1. Kaluwella
2. Gintota
3. Karapitiya
4. Yakkalamulla
5. Pitigala
6. Neluwa
7. Karadeniya
8. Ratgama
9. Wanchawala
10. Nagoda
11. Ambalangoda
Main Street
12. Watugedera
13. Gonapeenuwala
14. Pinnaduwa
15. Kurundugahahathakma
16. Kosgoda
17. Galle Town Service Unit
18. Meetiyagoda

GAMPAHA

1. Divulapitiya
2. Thihariya
3. Sinharamulla
4. Kirillawala
5. Pasyala
6. Urapola
7. Weliwariya
8. Mahabage
9. Mawaramandiya
10. Weligampitiya
11. Dehiyagatha Junction
12. Demanhandiya
13. Mudungoda
14. Gampaha Ja-ela Road
15. Peliyagoda - (Pattiyahandiya)
16. Dompe
17. Watupitiwala
18. Enderamulla
19. Naiwala
20. Wattala Oliyamulla
21. Welipillewa
22. Katana
23. Negombo Main Street
24. Fishe. Bank - Negombo
25. Evariwatta
26. Kotadeniyawa
27. Raddolugama
28. Welisara - Economic Centre

29. Udugampola
30. Batuwatta
31. Madama Junction (Ekala)

HAMBANTOTA

1. Weeraketiya
2. Ranna
3. Weeravila
4. Katuwana
5. Lunugamwehera

JAFFNA

1. Manipai
2. Thirunelvely
3. Urumpirai
4. Mallakam
5. Kodikamam
6. Inuvil
7. Pandatherippu

KALUTARA

1. Agalawatta
2. Dargatown
3. Kalutara Central Jun.
4. Panadura Keselwatta
5. Kalutara North
6. Moronthuduwa
7. Moragahahena
8. Alubomulla
9. Millaniya
10. Modarawila
11. Gonapola
12. Beruwala Fisheries
Harbour Premises
13. Kalutara, Nagoda
Hospital Junction

KANDY

1. Talatuoya
2. Digana
3. Medamahanuwara
4. Kolongoda
5. Geliyaya
6. Gampola
7. Kurunduwatta
8. Muruthalawa
9. Hedeniya
10. Poojapitiya
11. Hataraliyadda
12. Udu Dumbara
13. Marassana

14. Galaha
15. Ambathanna
16. Mahaiyawa
17. Welamboda
18. Madawala
19. Kandy Court Premises
20. Peradeniya
Campus Premises
21. Huluganga
22. Pottapitiya
23. Kundasale

KEGALLE

1. Morontota
2. Mawanella
3. Kotiyakumbura
4. Galapitamada
5. Dewalagama
6. Horagasmankada
7. Kitulgala
8. Nelundeniya
9. Algama
10. Karawanella

KURUNEGALA

1. Katupotha
2. Polpitiyagama
3. Melsiripura
4. Paragahadeniya
5. Ambanpola
6. Kumbukgete
7. Dambadeniya
8. Pannala
9. Godawela
10. Piduruwella
11. Dummalasooriya
12. Panagamuwala
13. Boraluwewa
14. Bihalpola
15. Kandanegedera
16. Nagollagama
17. Nikaweratiya
18. Weerapokuna
19. Dodangaslanda
20. Boyawalana
21. Bandarakoswatta
22. Hiripitiya
23. Udubaddawa
24. Maspotha
25. Kurunegala Govt.
Hospital - Premises
26. Mahagirilla



SERVICE CENTRES

MATALE

1. Matale Trinco Street
2. Laggala - Pallegama
3. Inamaluwa (Sigiriya)
4. Dewahuwa
5. Yatawatta
6. Gongawala
7. Warakamura
8. Madawala Ulpotha
9. Madatugama
10. Kaikawala
11. Lanka Porcelain Unit

MATARA

1. Kotuwegoda
2. Pitabeddara
3. Makandura
4. Yatiyana
5. Deiyandara
6. Telijjawila
7. Mirissa
8. Kottegoda
9. Walgama
10. Mawarala
11. Ruhunu University Unit
12. Pallegama
13. Kekanadura
14. Central Bus Stand - Matara
15. Kirinda Puhulwella

MONERAGALA

1. Badalkumbura
2. Moneragala
3. Okkampitiya
4. Dambagalla

NUWARA-ELIYA

1. Bogawantalawa
2. Kotagala
3. Ragala
4. Agarapatana
5. Kandapola
6. Talawakelle
7. Watawala
8. Dickoya
9. Upcott
10. Walapane

11. Nanuoya
12. Thawalantenna
13. Hapugastalawa
14. Padiya Pellele
15. Hewaheta
16. Rikillagaskada

RATNAPURA

1. Eheliyagoda
2. Pallebedda
3. Padalangala
4. Ayagama
5. Karawita
6. Opanayake
7. Weligepola
8. Kolonna
9. Pambahinna
10. Ratnapura New Town
11. Sevanagala Sugar Factory Premises
12. Wewelwatte

POLONNARUWA

1. Diyabeduma
2. Lankapura
3. Kaduruwela
4. Tambala
5. Diyasenpura
6. Sevanapitiya

TRINCOMALEE

1. Trincomalee - Central Road
2. Palaoothu
3. Mullipothanai
4. Uppuveli (Nilaveli)



WORLDWIDE PARTNERS



Europe

ABN AMRO Bank NV Amsterdam
Banca Nazionale del Lavoro SpA, (BNL) Rome
Unicredit Bank Austria AG, Vienna
Bank of Ceylon, London
Bank of Cyprus Public Company Ltd., Nicosia
Barclays Bank PLC, London
BHF Bank Aktiengesellschaft, Frankfurt am Main
BNP Paribas SA, Paris
Commerzbank AG, Frankfurt am Main
Credit Suisse, Zurich
Danske Bank A/S, Copenhagen
Deutsche Bank AG, Frankfurt am Main
Dresdner Bank AG Frankfurt am Main
HSBC Bank Plc, London
ING Bank NV, Amsterdam
ING Belgium SA/NV, Brussels
Intesa Sanpaolo SpA, Milano
Lloyds TSB Bank plc, London
Natixis, Paris
National Westminster Bank Plc, London
Nordea Bank Norge ASA, Oslo
Rabobank Nederland, Utrecht
Skandinaviska Enskilda Banken AB (Publ), Stockholm
Sparkasse Koelnbonn, Koeln
Svenska Handelsbanken AB (Publ), Stockholm
UBAE S.P.A, Italy
UBS AG, Zurich
UniCredito Italiano SpA, Milan
WestLB AG, Dusseldorf

North America

ABN AMRO Bank, New York
Bank of Montreal, Montreal
Bank of Nova Scotia, Canada
Canadian Imperial Bank of Commerce, Toronto
Citibank NA, New York
Deutsche Bank Trust Company Americas, New York
HSBC Bank USA NA, New York
JP Morgan Chase Bank NA, New York
Masreq Bank PSC, New York
Standard Chartered Bank, New York
Wachovia Bank NA, USA

Africa

Nedbank Limited, Johannesburg
ABSA Bank Ltd., Johannesburg

Asia

ABN AMRO Bank NV, Chennai
American Express Bank Ltd., Tokyo
Axis Bank Ltd., Mumbai
Bank of Ceylon, Chennai
Bank of China, China
Bank of Tokyo Mitsubishi UFJ Ltd., Tokyo
DBS Bank Ltd., Singapore
Habib Bank Ltd., Karachi
HSBC Bank, Hong Kong
ICICI Bank Ltd., Mumbai
MCB Bank Limited, Karachi
Mizuho Corporate Bank Ltd., Tokyo
Myanmar Foreign Trade Bank, Yangon
Nepal Bank Ltd., Katmandu
Oversea-Chinese Banking Corp. Ltd., Hongkong
Oversea-Chinese Banking Corp. Ltd., Kuala Lumpur
Oversea-Chinese Banking Corp. Ltd., Singapore
Rupali Bank Ltd, Dhaka
Pubali Bank Ltd, Dhaka
Standard Chartered Bank (Pakistan) Ltd., Karachi
State Bank of India, Chennai
Sumitomo Mitsui Banking Corporation, Tokyo

Oceania

ANZ Banking Corporation Group Ltd., Melbourne
ANZ Banking Corporation Group Ltd., Wellington
National Australia Bank Ltd., Melbourne

Middle East

BankMuscat SAOG, Ruwi
Commercial Bank of Dubai PSC, Dubai
MashreqBank PSC, Dubai
National Bank of Abu Dhabi, Abu Dhabi
National Bank of Oman SAOG, Muscat
UBAE S.P.A, Dubai



DECADES AT A GLANCE

1961

People's Bank was inaugurated on 1st July 1961. The first branch was opened at Duke Street, Colombo. During the year, eight more branches were opened in Polonnaruwa, Hingurakgoda, Hambantota, Anuradhapura, Puttalam, Matale and Kandy in addition to the Foreign Branch in Colombo. The total number of employees stood at 169.

1962

The Head Office was relocated to Ratnam's Building in Union Place, Colombo 2 and 17 more branches were opened.

1963

The Bank commenced its pawning services.

1964

The Co-operative Rural Banking Scheme was inaugurated.

1965

Some departments of the Bank were relocated to the GCSU building in Sir Chittampalam A. Gardiner Mawatha, Colombo 2. The total number of branches increased to 48, this included new branches in Horana, Kekirawa, Padaviya, Mannar, Embilipitiya, Kahatagasdigiya, Ragala and Talawakelle.

1967

The bank commenced a new Agriculture Credit Scheme becoming the pioneer lender to the small farm sector.

1970

The 'Athamaru' Loan Scheme was introduced to finance economic activities of the informal sector. The Investment Savings Scheme, a Credit linked Saving Scheme was launched to attract regular savers.

1971

The Bank's hundredth branch was opened at Marandagamula.

1973

A Regionalisation Programme commenced to decentralise the administration and speed up customer service. A comprehensive Rural Credit Scheme was launched to provide both production and consumption credit facilities. The Bank initiated the 'ganu-denu' practice, identifying itself with the traditions of the Sinhala & Tamil New Year and encouraging customers to transact with the Bank at the auspicious time.

1975

An aggressive branch expansion programme brought our total branch count to 158.

1977

Our two hundredth branch opened at Kollupitiya. The Head Office was relocated to a building in Fort. The total number of employees reached 5,000. The first Fisheries bank was opened at Korlawella.

1981

Our branch network increased to 290 branches. The Extended Minor Savings Scheme was launched.

1982

The three hundredth branch of the Bank opened at Ingiriya. The total number of employees reached 10,000.

1984

The People's Merchant Bank, a subsidiary of the Bank, was established. Our branch at Slave Island was merged with the International Division and the Fort Foreign Branch.

1986

The process of computerisation began at our Central Head Office and selected City branches and a Black Light System was introduced. Customer turn-around time was thereby significantly reduced.

1987

Our Headquarters Branch became the Bank's first fully automated branch. A Special Loan Scheme for rural electrification was implemented in collaboration with the CEB.

1989

The Bank introduced a new Inland Bill Scheme for lending to the rural sector and for financing agricultural activities. The Bank participated in a loan scheme sponsored by the Ministry of Labour to provide for housing against assignment of EPF balances. A scheme was launched in association with the Sri Lanka Foreign Employment Bureau to provide loans for job seekers abroad. The Bank participated in a loan scheme launched by REPIA to provide credit to those affected by civil unrest in 1983. A Janasaviya associated loan scheme was



introduced during the year. The Bank also commenced the issue of Negotiable Savings Certificates during the year.

1990

An Endowment Savings Deposit Scheme was introduced. The People's Visa Card was introduced in association with Visa International and 24 branches were fully computerised.

1991

The first ATM was installed at our Headquarters Branch. The Bank was a co-sponsor of the first Unit Trust established in the country viz. 'NAMAL'.

1992

People's Venture Investment Co. (Pvt) Ltd., a subsidiary of the Bank was formed. The Bank supported the Government's 200 garment factory programme. 'People's Automated Banking System' (PABS) a banking application developed in-house, commenced live operations.

1993

The 330 Bank branches were operating throughout the country and 35 main branches were fully automated. 'Vanitha Vasana', a savings scheme for women was introduced.

1994

Eight new ATMs were installed and 160 branches were computerised under the automation programme.

1995

'Gurusettha', a new deposit mobilisation and loan scheme catering to government teachers

was launched with the co-operation of the Ministry of Education.

1996

'Suwa Sevana', a credit package for Government sector health personnel was launched. 'Sisu Udana', a new deposit scheme for school children was introduced. The Bank participated in two ADB funded credit schemes - the Tea Small Holdings Development Project and the Perennial Crops Development Project. A Rural Banking Innovation Project was initiated with the collaboration of German Technical Co-operation to provide technical, financial and training assistance for branch operations and to introduce innovative products. The Bank's fully owned subsidiaries, People's Leasing Co. (PA) Ltd. and People's Travels (Pvt) Ltd. commenced operations. Zonal offices were opened to strengthen decentralised administration and to facilitate better customer service.

1997

The 'Surathura' Loan Scheme was launched to assist self-employment projects. The Bank extended its credit facilities to small and medium scale enterprises and industries under the NDB funded Small and Medium Enterprises Assistance Project (SMEAP).

1998

The total number of ATMs increased to 36 serving over 125,000 PET cardholders. 175 branches were fully automated and the number of pawning centres increased to 188. A special credit cum deposit scheme known as 'Videshika' was introduced in collaboration with the Sri Lanka Foreign Employment Bureau to assist migrant workers. A Business Process

Re-Engineering Programme was launched internally, with a view to redesigning main branches and to promote the activities of customer service teams.

1999

The Bank launched 'Isuru Udana', a deposit scheme that encourages parents and guardians to save for the benefit of their young charges.

2000

The 'Jana Jaya', savings cum loan scheme was launched. The newly introduced 'Jaya Sri' draw offered attractive prizes for depositors. The ATM network expanded to 74 machines throughout the country. The Central ATM Switch was introduced to connect the PABS branches and the ATM.

2001

The Bank's Corporate Management Team was strengthened by the recruitment of certain Heads of Division from the private banking sector. Restructuring of the Bank was initiated through the launch of a Strategic Plan. A New Annual Business Planning Process was implemented, to link with the Bank's Strategic Plan. The total number of ATM machines grew to 90. The Bank launched a staff Performance Incentive Scheme for Teams.

2002

The number of PABS automated branches increased to 218 and 119 branches were connected to the Central ATM Switch. A treasury automation package was implemented. New funds transfer pricing and new business segment profit measurement systems were introduced. Significant upgrading made to the quality of Management Information Reporting.



DECADES AT A GLANCE

2003

The Young Executive Saver's (YES) Account was launched. 'Deepavali' celebrations were held at all branches to identify with traditional customs of our large Hindu customer base. The Bank signed up with Silver lake System SDV BUD Malaysia to install a state-of-the-art core banking package and Trade Services Solutions which will initially be operational in 60 selected branches including Head Office. The Housing Loan product was repackaged and re-launched under the 'Jaya Nivasa' name. The new Savings Scheme titled 'Visrama Suvaya' was launched for the pensioners.

2004

The second phase of the restructuring plan for 2004-2008 launched and approved by the Government of Sri Lanka was based on the recapitalisation support of ADB. The Bank obtained the first ever public rating of BBB+ from Fitch Ratings Lanka and recorded a positive capital value for the first time since 1998 amplifying the turn around of the Bank. The Core Banking project was implemented successfully. Innovative Ratasalli prize scheme launched to attract inward remittances of foreign currency into Sri Lanka.

2005

The 15th Chairman of the Bank Dr. P.A. Kiriwandeniya assumed duties at the beginning of December 2005. This was followed immediately thereafter with a receipt of Rs 2 Bn as the first tranche of Equity Capital investment in the Bank by the Government of Sri Lanka in keeping with the agreement signed between the Government, ADB

and People's Bank. The Max Super deposit scheme was launched and the Core Banking project was further extended across the branch network. The Bank also was the major intermediary in bringing Government granted financial assistance for the rebuilding of lives, homes and businesses affected by the Tsunami of December 2004.

2006

The Bank obtained an A-rating from Fitch Ratings Lanka Ltd. indicating progress from its earlier Rating level. The on-line access to AMEX account was facilitated enabling efficient customer service by granting immediate credit on account of incoming remittances.

People's Bank was awarded the POP Award for 2006 in the Banking and Financial Services Sector by the Sri Lanka Institute of Marketing. 'The first lesson in school' was launched to inculcate savings habit among new students entering year 1 classes where the initial deposit was matched one-to-one up to a maximum of Rs 500/-. 'Nidahase Upatha' rewarded new life by giving Rs 500/- to all babies born in the first week of February. The second tranche of capital of Rs 1 Bn was received from the Government of Sri Lanka.

2007

The 16th Chairman of the Bank Mr. W. Karunajeewa assumed duties in May 2007. The rating level of A - from Fitch Ratings was maintained during the year. The Government of Sri Lanka injected the third capital tranche of Rs 1.5 Bn into People's Bank. People's Bank won the People's Award for the Banking & Financial Services Brand of the

Year for the second consecutive year. To mark its 46th Anniversary celebrations the Bank carried out a hospital development project in all parts of the country. The Bank surpassed the Rs 300 Bn mark in total deposits during the year 2007.

2008

Mr. M. Wickremasinghe assumed office as the 12th CEO/General Manager of the Bank. People's Bank won the People's Award for the third consecutive year in the Banking and Financial sector and the coveted 'Service Brand of the Year' award for the first time by the Sri Lanka Institute of Marketing. Bringing the anywhere anytime banking to its customers, the bank launched its latest service offer of Palm Top Banking to its customers.

The Government of Sri Lanka released the forth capital tranche of Rs 1.5 Bn. The Bank reached the Capital Adequacy Level of 10.5% by the end of the year. Further, the Bank's first Debenture issue of Rs 2.5 Bn was made in the year.

A notable advancement in the Bank's remittance service with the introduction of 'People's e-Remittance', a web-based remittance product supported by latest technology to remit money from overseas within minutes. Two new foreign currency deposit products were launched, viz., 'Doo Daru Ethern Isura' a foreign currency deposit product for children and 'Special Foreign Investment Deposit Account' [SFIDA].

The highest recorded profit before tax of Rs 5.6 Bn was a significant achievement in 2008.



TEN YEAR PERFORMANCE REVIEW

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<i>(Sri Lanka Rs Mn)</i>										
Capital & Reserves										
Issued Share Capital	50	50	50	50	50	50	50	50	50	50
Reserves	(4,685)	(6,524)	(6,216)	(3,351)	(1,460)	(84)	3,967	10,221	12,845	15,830
Total	(4,635)	(6,474)	(6,166)	(3,301)	(1,410)	(34)	4,017	10,271	12,895	15,880
Current Liabilities										
Customer Deposits	104,688	115,007	127,543	141,835	157,310	185,643	225,600	269,947	300,956	324,489
Borrowing from Banks and Others	12,405	39,744	28,369	24,003	29,027	24,925	29,134	35,840	49,063	33,714
Other Liabilities	14,458	18,677	17,851	19,391	15,797	13,514	16,512	22,496	17,670	20,965
Debentures	-	-	-	-	-	-	-	-	-	2,500
Total Liabilities	131,551	173,428	173,763	185,229	202,134	224,082	271,246	328,283	367,689	381,668
Total Liabilities	126,916	166,954	167,597	181,927	200,724	224,048	275,262	338,555	380,584	397,548
Non-Current Assets										
Property, Plant & Equipment	2,945	2,930	2,834	4,488	4,530	4,756	4,862	8,359	8,414	8,362
Investments	23,066	32,079	25,636	33,773	43,792	31,978	50,583	62,682	61,095	80,109
Current Assets										
Cash & Short-Term Funds	25,260	35,147	24,818	36,259	40,290	55,386	65,592	47,191	57,090	39,663
Bills of Exchange (Net)	3,805	5,894	20,413	5,317	3,762	4,109	6,381	4,066	14,022	5,813
Advances (Net)	63,139	81,193	85,729	95,814	97,310	118,368	136,116	203,072	220,066	242,813
Other Assets	8,701	9,711	8,167	6,277	11,040	9,451	11,727	13,185	16,283	20,787
Total Assets	100,905	131,945	139,127	143,667	152,402	187,314	219,817	267,514	311,075	309,077
Total Assets	126,916	166,954	167,597	181,927	200,724	224,048	275,262	338,555	380,584	397,548
Commitments & Contingencies	19,051	26,365	26,726	23,350	32,072	30,060	45,177	39,450	74,222	138,989
Operations										
Gross Earnings	14,262	18,450	25,198	23,976	23,105	22,601	27,202	35,131	47,984	58,948
Total Overheads	5,459	8,160	8,867	8,235	9,123	10,362	11,070	15,038	15,736	17,159
Profit before Taxation	(6,671)	(1,268)	880	1,360	2,127	2,463	4,035	4,079	5,002	5,664
Provision for Taxation	98	-	-	(218)	-	377	1,263	922	2,628	2,959
Profit after Taxation	(6,573)	(1,268)	880	1,578	2,127	2,086	2,772	3,157	2,374	2,705
Performance Indicators										
No. of Employees	11,623	11,577	11,401	10,834	10,145	9,592	9,531	9,645	8,416	8,587
Per Employee										
<i>(Sri Lanka Rs '000)</i>										
Deposits	9,007	9,934	11,187	13,092	15,506	19,354	23,670	27,988	35,760	37,788
Advances	5,432	7,013	7,519	8,844	9,592	12,340	14,281	21,055	26,546	28,277
Gross Earnings	1,227	1,594	2,210	2,213	2,277	2,356	2,854	3,642	5,702	6,865
Profit after Tax	(566)	(110)	77	146	210	217	291	327	282	315
Per Share										
<i>(Sri Lanka Rs '000)</i>										
Profit after Taxation	(6,573)	(1,268)	880	1,578	2,127	2,086	2,772	3,157	2,374	2,705
Total Assets	126,916	166,954	167,597	181,927	200,724	224,048	275,262	338,555	380,584	397,548
Net Worth	(4,635)	(6,474)	(6,166)	(3,301)	(1,410)	(34)	4,017	10,271	12,895	15,880
Return on Assets (Before Tax)	(5.4)	(0.9)	0.5	0.8	1.1	1.2	1.6	1.3	1.4	1.5
Return on Assets (%) (After Tax)	(5.3)	(0.9)	0.5	0.9	1.1	1.0	1.1	1.0	0.7	0.7
Return on Equity (%)	2,319.1	22.8	(13.9)	(33.3)	(90.3)	(289.0)	139.2	44.2	20.5	18.8
Cost/Income%	146.0	102.8	89.2	79.7	70.2	73.1	72.7	73.8	68.7	65.4
Non-Performing Loan %	22.2	18.9	20.9	19.6	18.2	14.1	11.0	7.1	5.9	6.8
Non-Performing Loan Coverage %	72.3	76.9	61.0	65.8	78.1	83.0	83.9	87.1	88.0	75.7
Capital Adequacy Ratio %	-	(11.3)	(10.5)	(9.2)	(4.5)	(2.3)	1.9	5.6	6.9	10.5

GLOSSARY OF FINANCIAL TERMS

ACCRUAL BASIS

Recognition of the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalents.

ASSOCIATE COMPANY

A company other than a subsidiary in which a holding company has a participating interest and exercise a significant influence over its operating and financial policies.

BILL DISCOUNTED

A promissory note or bill of exchange that has been purchased for less than face value, the difference representing interest on the unexpired term of the bill. At maturity the holder collects the face value of the bill for its own account.

BILL OF EXCHANGE

A signed, written, unconditional order addressed by one person (the drawer) directing another person (the drawee) to pay a specified sum of money to the order of a third person (the payee). The terms bill of exchange and draft are often used interchangeably.

CALL DEPOSITS OR CALL MONEY

Deposits or funds lent out which are repayable on demand.

CAPITAL ADEQUACY

The ability of a bank to meet the needs of their depositors and other creditors in terms of available funds. As per requirement of Bank for International Settlements (SIBS) and Central Bank of Sri Lanka, Local Banks should maintain a stipulated minimum capital.

*Tier I Capital (Core Capital)

Core Capital includes selected items of capital funds. Major core capital items are share capital, share premium, statutory reserve funds, retained profits, general reserves, surpluses/losses after tax arising from the sale of fixed and long-term investments.

*Tier II Capital (Supplementary Capital)

Supplementary Capital includes, approved revaluation reserves, general provisions, hybrid (debt/equity) capital items and approved subordinated term debts.

CASH EQUIVALENTS

Short-term highly liquid investments that are readily convertible to known amounts of cash and which subject to an insignificant risk of changes in value.

CERTIFICATE OF DEPOSIT (CD)

A certificate issued by a bank against funds deposited with it that specifies the rate of interest payable and the date when the deposit will be repaid to the bearer. CDs are often negotiable.

COMMERCIAL PAPER

Unsecured short-term promissory notes issued by banks and credit worthy corporate borrowers.

COMMITMENTS

Credit facilities approved but not yet utilised by the clients as at the Balance Sheet date.

CONTINGENCIES

A condition or situation, the ultimate outcome of which, gain or loss, will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

CORPORATE GOVERNANCE

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

CORRESPONDENT BANK

A bank that acts as an agent for another bank. The correspondent bank will generally provide a wide variety of banking services on behalf of the other bank in the region in which the correspondent bank is located.

COST INCOME RATIO

Operating expenses as a percentage of net income.

COUNTERPARTY

The other party (including a bank) with whom a deal is made or closed.

COUNTRY RISK

The credit risk associated with lending to borrowers within a particular country, sometimes taken to include sovereign risk.

CROSS RATE

The calculated foreign exchange rate from two separate quotations involving the same currency.

CURRENCY SWAP

A current exchange of principle amounts in two currencies combined with an agreement to re-exchange the currencies at a later date and to make interest payments, until the re-exchange, on the currency received.



DISINTERMEDIATION

The term often used to describe borrowers raising funds directly from the capital markets rather than from the banking sector. This is usually only undertaken by borrowers with the strongest credit ratings.

DOCUMENTARY BILL

A bill of exchange that is accompanied by various documents, such as a bill of lading, an invoice and an insurance policy.

DOCUMENTARY CREDIT

A letter of credit that stipulates the documents that must be produced in order for payment to be made.

DRAFT

A term generally synonymous with bill of exchange but sometimes used specifically in the context of inter-bank bills. A banker's draft is a draft, payable on demand, drawn by or on behalf of a bank.

FIXED CHARGE

A charge on specific property, usually freehold or leasehold property, or plant and machinery, given under a legal mortgage.

FLOATING CHARGE

A charge, taken by a lender to secure an advance upon property, such as stock, debtors, or cash, that permits the company to continue using and disposing of those assets in connection with its ordinary business. Such a charge becomes fixed in the event of the company's default.

FORWARD CONTRACT

A contract that commits two parties to an exchange at a specific future date under terms set out at the contract date.

FORWARD RATE

The price of currency with a maturity beyond the spot date. Forward rates may be either the same in price as spot rates or different. In the first case, the forward is flat. In the second case, the price is either higher, at a premium, or lower, at a discount.

FORWARD RATE AGREEMENT (FRA)

An agreement to exchange payments at a specified future date based on the difference between a particular interest rate index (e.g. LIBOR) and an agreed fixed rate.

HEDGING

A methodology used to cover against risk of unfavourable price movements (interest rates, prices, commodities etc.)

INDEMNITY

An agreement whereby a person agrees to bear any loss that is suffered by a party to a contract to which he himself is not a party. The person giving the indemnity assumes primary liability, unlike a guarantor who assumes secondary liability.

INTEREST MARGIN

Net interest income expressed as a percentage of interest earning assets.

LETTER OF CREDIT (LC)

A document issued by a bank, requesting another bank or banks to advance money to a third person, up to a certain amount, in accordance with the terms and conditions set out in the document.

MARK TO MARKET

The policy to periodically revaluing positions up or down to their current market or fair value.

MORTGAGE

A lien on real property used to secure a borrowing.

NEGOTIABLE INSTRUMENT

A security or other financial instrument which can be freely sold to a third party (i.e. 'negotiated'). Bank notes, bearer bonds, bills of exchange and cheques are normally negotiable instruments.

NET INTEREST MARGIN

Interest income as a percentage of Average Interest Earning Assets.

NON-PERFORMING LOAN

A loan where principal or interest payments are not being made on the due dates, or where the borrower is failing to meet some other term or condition of the loan. Non-performing loans are frequently allocated non-accrual status.

NOSTRO ACCOUNT

A foreign currency current account maintained with another bank, usually but not necessarily a foreign correspondent bank. At the other bank, the deposit is called a nostro account.

OFF-BALANCE SHEET TRANSACTIONS

Transactions not recognised as assets or liabilities in the Balance Sheet but which give rise to contingencies and commitments.

POSITION

The netted total commitments in a given currency or interest rate. A position can be either flat or square (no exposure), long (more currency bought than sold overbought) or shot (more currency sold than bought oversold).



GLOSSARY OF FINANCIAL TERMS

PRIME RATE

The interest rate which a bank charges its most credit worthy corporate customers.

PROMISSORY NOTE

An unconditional promise in writing made by one person to another, signed by the promisor, engaging to pay on demand or at fixed or determinable future time a fixed sum to, or to the order of, a specified person, or to bearer.

RELATED PARTIES

Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

REPO

Jargon for sale and repurchase agreement.

RESERVE ASSETS

Assets of a financial institution which form part of its reserve requirements with the Central Bank.

REVERSE REPO

The opposite of a repo, i.e. a purchase and resale agreement.

REVOLVING CREDIT

A line of credit that has terms permitting successive drawings and payments at the borrower's discretion. The funds available to the borrower are replenished by any repayments of principal.

SECURITISATION

This involves the transfer of a block of income producing assets to a vehicle company that finances the purchase through the issue of debt (usually notes or commercial paper).

SEGMENTAL ANALYSIS

Analysis of financial information by segments of an enterprise specifically, the different geographical areas in which it operates.

SEGMENT REPORTING

Segment reporting indicates the contribution to the revenue derived from business segments such as banking operations, leasing operations, stock broking & securities dealings, property and insurance.

SETTLEMENT DATE

The date on which a securities transaction is completed by actual exchange of securities for cash.

SHORT POSITION

An excess of liabilities (and/or forward sale contracts) over assets (and/or forward purchase contracts). A dealer's position when the net of purchases and sales leaves a net sold or oversold position.

SUBSIDIARY COMPANY

A subsidiary is an enterprise that is controlled by another enterprise (known as the parent).

SUSPENSE ACCOUNT

An account used to record items temporarily which are held subject to clarification and transfer to the appropriate account.

SYNDICATED LOAN

A loan arrangement in which a number of banks, in a form of joint venture, provide funds which they would individually be unwilling or unable to provide. Syndications are used for customers whose scale of financing is too great for any single bank to accommodate without distorting its loan portfolio.

TIME DEPOSIT

An interest bearing deposit account which is subject to withdrawal only after a fixed term.

TREASURY BOND (T-BOND)

A long-dated security issued by the Central Bank of Sri Lanka. T-Bonds carry a coupon rate of interest.

VALUE ADDED

Value added is the wealth created by providing banking services less the cost of providing such services. The value added is allocated among the employees, the providers of capital to Government by way of taxes and retained for expansion and growth. Value at Risk (VAR).

A risk management methodology that estimates the potential loss arising from adverse movement in market interest or exchange rates over a defined holding period.

VOSTRO ACCOUNT

A local currency current account maintained with a bank by another bank (compare with nostro account).

YIELD CURVE

A graph showing market interest rates as a function of maturity. Normally, the yield curve is upward sloping: interest rates increase with the term of the instrument.



CORPORATE INFORMATION

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NAME OF THE BANK

People's Bank

LEGAL STATUS

A Licensed Commercial Bank under the Banking
Act No. 30 of 1988 incorporated
as a Commercial Bank by People's Bank
Act No. 29 of 1961.

HEAD OFFICE (REGISTERED OFFICE)

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**PEOPLE'S
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