


RATINGS

CREDIT RATING RATIONALE

FINANCIAL INSTITUTIONS – SRI LANKA
A wholly owned subsidiary of RAM Holdings Berhad

PEOPLE'S BANK – Initial Rating

Financial Institution
Ratings:

Long-term: AAA [Assigned]

Short-term: P1 [Assigned]

Rating Outlook:

Stable

Strengths:

- State ownership
- Systemic importance
- Extensive branch network

Weakness:

- High overheads
- High influx of NPLs

Principal Activity:

Commercial banking

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Summary

RAM Ratings Lanka has assigned long- and short-term ratings of AAA and P1 to People's Bank ("PB" or "the Bank"); the outlook on the long-term rating is stable. The ratings are premised on the Bank's state ownership and systemic importance as the country's second largest licensed commercial bank ("LCB"). In addition, the ratings are also supported by the Bank's extensive branch network.

Incorporated in 1961 under the People's Bank Act No 29 of 1961, PB is 92.27%-owned by the government and comes directly under the purview of the Ministry of Finance. PB is currently the second largest bank in the industry, accounting for 19.03% of the industry's assets as at end-December 2009. The two largest state banks (Bank of Ceylon and PB) take up the bulk of industry assets, 40.53% as at end-December 2009. Meanwhile, the Bank also operates the largest branch network in the domestic financial industry with a total of 670 branches as at end-December 2009. As a state-owned entity, PB's policies are broadly aligned with the government's macroeconomic objectives and the Bank plays a pivotal role in rural economic development; as such, state support is likely to be forthcoming if the need arises.

RAM Ratings Lanka notes that the Bank had experienced a high influx of non-performing-loans ("NPL") during FYE 31 December 2009 ("FY Dec 2009") in line with the weakened macro climate. As such, absolute NPLs spiked 12.23% year-on-year ("y-o-y") to LKR 20.04 billion as at end-FY Dec 2009. That said, despite its focus on the rural economy, which is perceived to be high risk, PB's gross non-performing loans ("NPL") ratio of 6.50% as at end-Dec 2009 was better than its industry peers. Further, we note that excluding several government related NPLs (which are not technically required to be classified as NPLs) the ratio amounted to 6.41% as at the same date. The Bank's gross NPL ratio had improved marginally to 6.39% as at end-September 2010. On a separate note, PB's investment portfolio is deemed to be low risk as it is dominated by government securities which had accounted for 99.34% of total investments as at end-FY Dec 2009.

Meanwhile, the Bank's performance is supported by its better-than-industry net interest margins ("NIM"); PB's NIM clocked in at 5.48% as at end-FY Dec 2009, wider than its industry peers. This is mainly due to the Bank's focus on the high-yielding pawning segment coupled with its low-cost deposit base. That said, we note PB's performance is hampered by its high overheads due to its branch network and inflated workforce; the Bank's cost-to-income ratio (excluding a one-off provision charge of LKR 3.18 billion) came to 66.41% as at end-FY Dec 2009, which was weaker than its peers.

With regards to funding, deposits dominate PB's funding structure with a 94.22% (or LKR 396.46 billion) share as at end-FY Dec 2009. The Bank's extensive branch network coupled with the credibility associated with state-

ownership had enabled the Bank to chart strong growth in its deposit base. Meanwhile, the bank's statutory liquid asset ratio clocked in at 25.10% as at end-September 2010, well above the regulatory minimum.

Moreover, PB's tier-1 and overall risk weighted capital adequacy ratios ("RWCAR") clocked in at 7.02% and 12.35% respectively as at end-September 2010. Given likely state support to the Bank, this level of capitalisation is deemed adequate. As such, we derive comfort from the state's continued financial support to the Bank; the state had injected LKR 6.0 billion into PB since 2005.

Corporate Profile

Second largest LCB

PB was established as a LCB over 48 years ago under the People's Bank Act No 29 of 1961; similar to other LCBs, it comes under the regulatory purview of the Central Bank of Sri Lanka ("CBSL"). The Bank was incorporated by the State with the primary objective of developing the cooperative movement in the country through rural banking and agricultural credit. PB is currently the second largest LCB in the country, accounting for 20.01% of total industry assets in an industry which is dominated by two state institutions (Bank of Ceylon and PB) which took up the lion's share of total assets (40.53%) as at end-Dec 2009. As such, the Bank has remained a vital component of the country's financial system and continues to be broadly aligned with the government's long-term strategic objectives.

Largest branch network

Meanwhile, the Bank's geographical reach is unmatched; it has a total of 670 branches as at end-Dec 2009, consisting of 329 banking outlets and 341 service centres. Further, PB is also among the largest state employers in the country with a total workforce of more than 8800 as at end-Dec 2009. Over the years, the Bank has also been a recipient of numerous accolades including the Sri Lanka Institute of Marketing ("SLIM") brand excellence awards' Brand of the year 2009 and Service Brand of the year 2009.

The Bank also operates two subsidiaries involved in leasing and travelling services, and has an associate stake of approximately 26% in People's Merchant Bank, a leasing company which recently acquired a registered finance company.

Ownership

Sovereign-owned

The Government of Sri Lanka held a 92.27% stake in the Bank as at end-Dec 2009, with the remainder held by cooperative societies. We believe state support will be forthcoming if required, thus affording the Bank financial flexibility. This is underscored by the Bank's systemic importance as the second largest LCB in the country, its significance as a state employer and its facilitating role in the government's long-term macroeconomic objectives.

Management & Strategies

Turnaround in 2001

Prior to 2001, the Bank had been accustomed to operating in a relatively less-competitive environment as state banks had dominated the financial industry. As such, inefficiencies and an inflated workforce had resulted in the Bank incurring losses during this period. The intensification of competitive pressures in the industry had necessitated a change in operations and increased efficiency. In 2001, several key individuals with private-sector banking experience were brought into the Bank, resulting in the Bank transforming itself into a more dynamic organisation. Since then, PB has posted a strong turnaround in performance in line with a significant improvement in systems and procedures. Currently, the Bank's management team is led by Chief Executive Officer ("CEO") Mr PV Pathirana; he is supported by a dynamic team of professionals with widespread experience in the banking sector.

Social role

As a state-owned Bank, PB's long-term strategies are aligned with the Government's macroeconomic objectives; as such, in addition to its profit-making motive the Bank also has the social role of promoting economic growth in rural areas. In this regard, PB acts as a conduit for channelling government funds to small and medium enterprises engaging in agriculture, dairy and fisheries initiatives.

Growth potential in North and East

Looking forward, PB intends to capitalise on the growth potential offered by the recently liberated north and east regions of the country. The management also sees strong growth prospects in pawning; given the low operational risk and granularity in this portfolio this is viewed positively. As such, the Bank will continue to focus on micro financing facilities to the rural segment and its pawning portfolio. That said, the management realises that the current technological infrastructure may be inadequate to support aggressive expansion and are taking necessary steps to rectify this.

Corporate Governance

Board appointed by Ministry

The Bank's 9-member board is appointed by the Ministry of Finance; PB's Board consists of individuals with widespread experience in varying disciplines of business and finance. The Board is led by Mr W Karunajeewa who has numerous years of industry experience and several Chairmanships/board memberships in key state institutions. All members are non-executive directors, thus ensuring independence. The board convened 18 times during FY Dec 2009.

The Board is further supported by the following sub-committees; the credit, human resource and remuneration, integrated risk management, nominations and audit committees.

Risk Management

Satisfactory risk assessment framework

Credit policies are formulated by the Bank's integrated risk-management, asset-liability and credit committees. Despite PB's social obligations as a sovereign-owned Bank, its credit-risk framework is considered to be satisfactory as reflected by its above-average asset quality. With regards to the credit approval procedure, branch managers have the authority to approve microfinancing facilities whereas larger loans are approved based on a hierarchy of committees. We note that all committees had met regularly during FY Dec 2009.

Internal rating for microfinancing

Further, the Bank is currently in the process of developing an internal rating model for the purpose of assessing credit risk, particularly in its microfinancing portfolio. Given the Bank’s focus on this segment and the limitations to obtaining formal information with regards to these loan categories, this move is viewed positively.

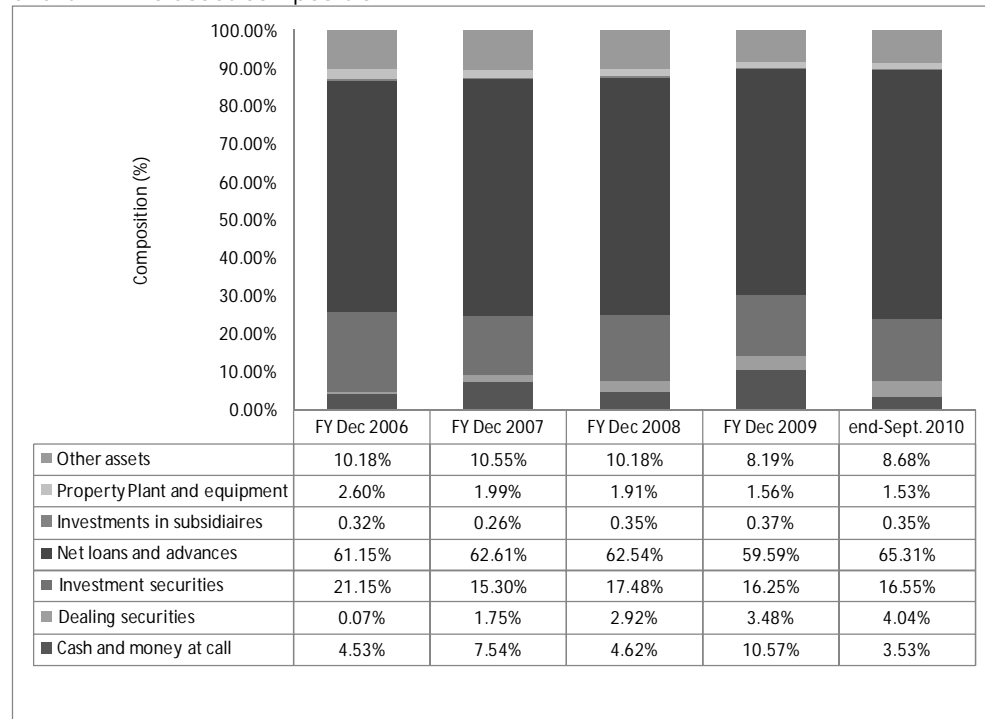
Asset Quality

Despite its rural focus, which is perceived to be high risk, PB’s gross NPL ratio was better than its peers. That said, we note that the Bank had witnessed a high influx of NPLs during FY Dec 2009, attributed primarily to the weakened economic climate. On a more positive note, we observe that the accretion of NPLs had slowed down during FY Dec 2010, in line with the easing economic conditions. Meanwhile, PB’s investment portfolio is deemed to be low risk as it is dominated by investments in government securities.

Tilt towards liquidity

Despite the weak economic fundamentals prevalent last year, PB’s asset base expanded at a relatively fast 19.79% y-o-y during FY Dec 2009, faster than its peers. This growth was driven primarily by the expansion in the Bank’s loan books and supported by increased investments in short-term money market instruments. Consequently, PB’s asset mix tilted towards a more liquid stance as at end-Dec 2009 (refer to Chart 1), although we note that the asset mix had reverted to its traditional composition by end-September 2010. As such, loan assets had continued to dominate the Bank’s asset base.

Chart 1: PB’s asset composition



Largest pawning portfolio

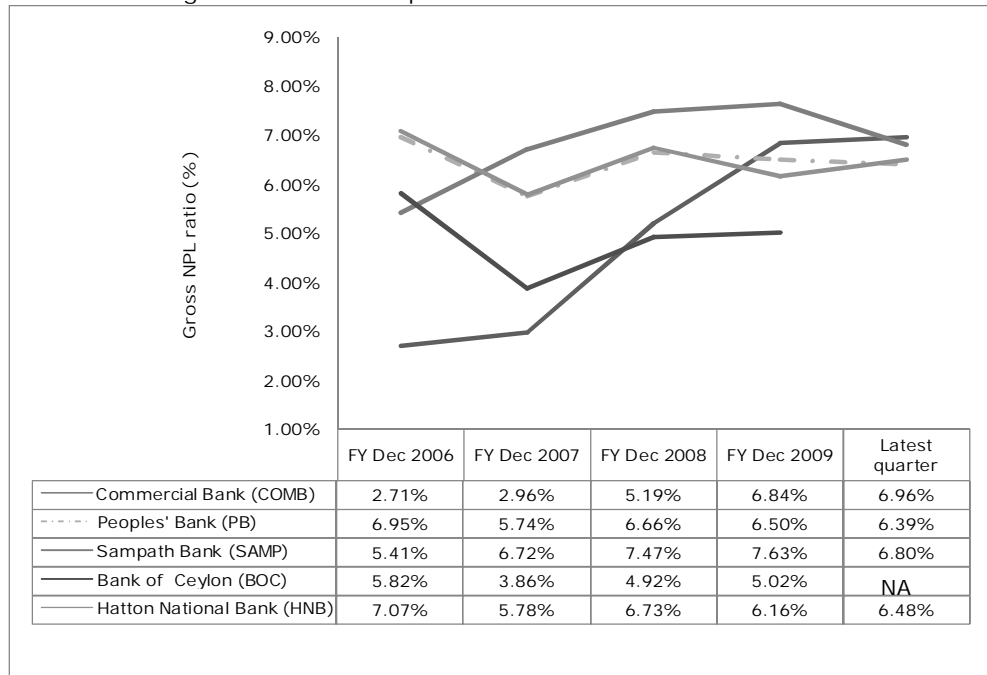
PB’s loan portfolio grew by 13.73% y-o-y during FY Dec 2009 (FY Dec 2008: +4.27%) to reach LKR 298.60 billion. Growth stemmed from the Bank’s pawning portfolio, which accounted for 32.61% (or LKR 97.53 billion) of its total loan portfolio as at end-FY Dec 2009. The Bank’s pawning portfolio is currently the largest in the industry, supported by its extensive branch network and established track record. Portfolio expansion during the year was also supported

High influx of NPLs

by overdraft facilities (+38.62% y-o-y) which had accounted for 23.79% of total loans as at end-FY Dec 2009. Meanwhile, we note that loans to state enterprises amounted to an increased 23.45% of total loans during fiscal 2009 (FY Dec 2008: 13.11%).

Although the Bank had traditionally suffered from a high level of NPLs, management efforts to rein in NPLs and strengthen recoveries had borne fruit up until FY Dec 2008. Nevertheless, we note that PB had witnessed a high influx of NPLs since 2008; as such, absolute NPLs had spiked 12.23% y-o-y (or LKR 2.18 billion) to LKR 20.04 billion during FY Dec 2009 attributed primarily to the non conducive economic environment. NPLs had increased by a further LKR 2.07 billion during the 9 months to end-September 2010 ("9M FY Mar 2010"); however, we note that the accretion of NPLs had slowed down in comparison to last year. Meanwhile, the Bank's gross NPL ratio had improved marginally to 6.39% as at end-September 2010 (end-FY Dec 2009: 6.50%), supported by the expansion of its loan base; this was better than most industry peers (refer to Chart 2). However, in line with the influx of NPLs, the Bank's credit cost ratio weakened marginally to 0.28% during end-September 2010 from 0.24% during FY Dec 2009. While we note that approximately 40% of the Bank's total NPLs stem from legacy contracts, our concerns hinge on the recent accretion of NPLs.

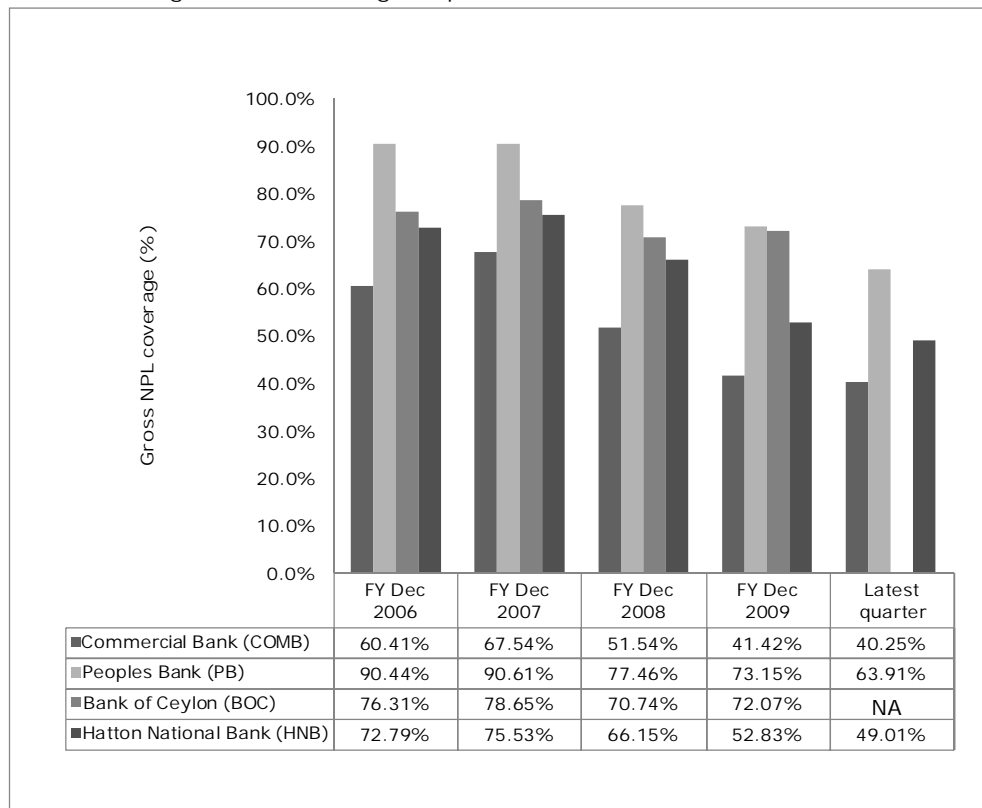
Chart 2: PB's gross NPL ratio vs peers



Provisioning – better than peers

On a related note, the Bank's gross NPL coverage ratio dipped from 73.15% as at end-Dec 2009 to 66.53% as at end-September 2010, although it continued to ranking above most industry peers (refer to Chart 3). In addition to the CBSL regulations, the Bank adopts additional provisioning measures such as general provisions on its pawning portfolio. This cautious approach is viewed positively.

Chart 3: PB's gross NPL coverage vs peers



Investments – dominated by government securities

On a separate note, PB's investment portfolio is viewed to be low-risk as it is largely dominated by government securities. Treasury bills and bonds accounted for 99.34% (or LKR 86.06 billion) of total investments as at end-FY Dec 2009, while the remainder was made up by equity and debt investments in other state-linked enterprises.

Performance

The Bank's NIM was stronger than the industry as a result of its high yielding pawning portfolio and low cost deposit base. That said, we note that PB's cost to income ratio is weaker than its peers, attributable mainly to an inflated workforce resulting from its role as a state employer.

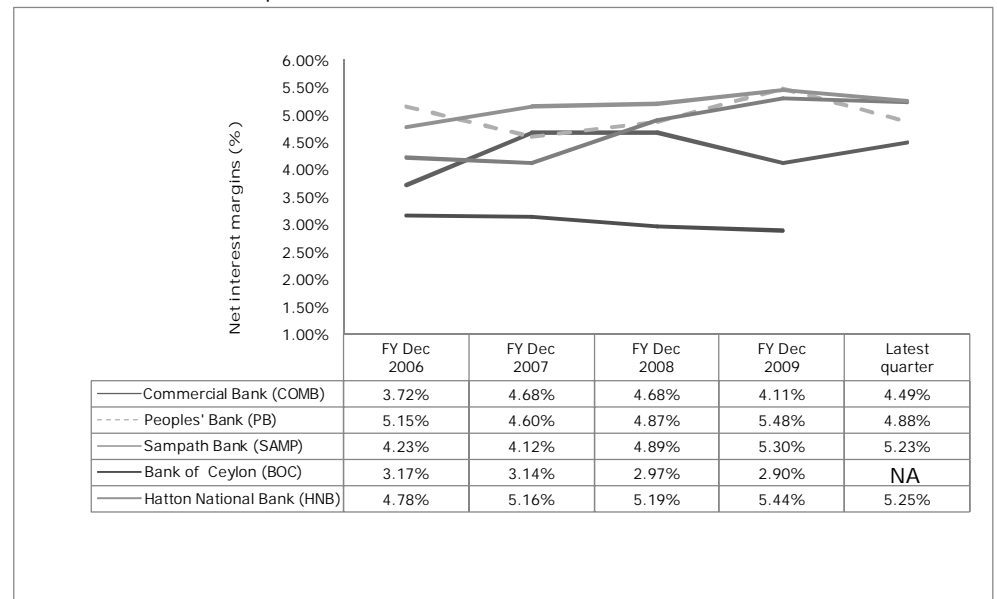
Better than industry NIM

The Bank's interest income grew at a relatively slower pace of 16.63% y-o-y during FY Dec 2009, mainly in view of declining interest rates during the same period. That said, gross income continued to be dominated by net interest income (80.58%) during FY Dec 2009. Meanwhile, PB's NIM clocked in at 5.48% as at end-Dec 2009, stronger than its industry peers (refer to Chart 4). The Bank's thicker margins are attributed primarily to its focus on the high-yielding pawning segment.

Gains made on treasury bills

High overhead cost base

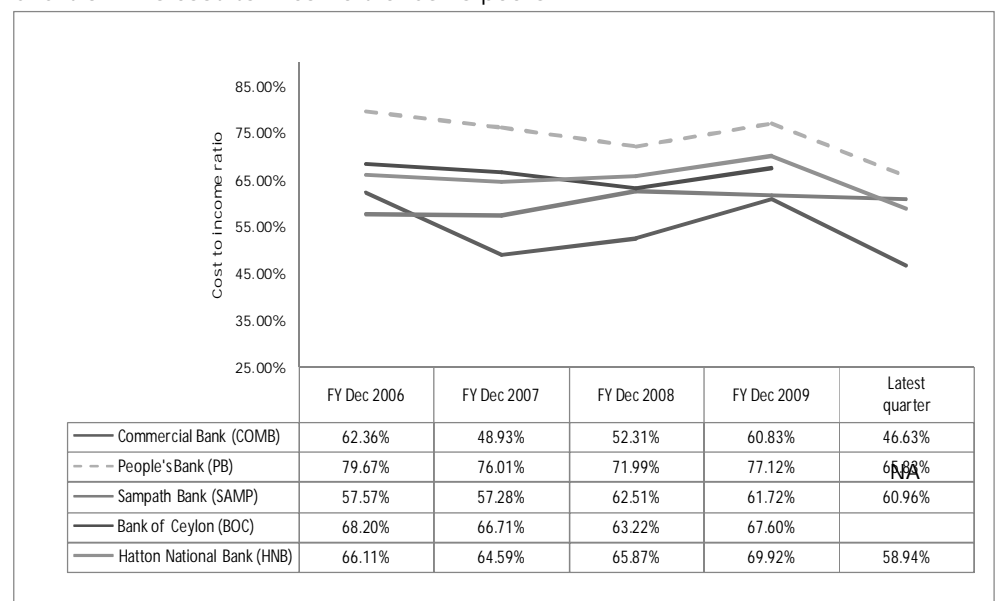
Chart 4: PB's NIM vs peers



Meanwhile, the Bank's non-interest income is dominated by fees and commissions which accounted for 55.68% during FY Dec 2009; this is viewed positively as fee and commission income is considered a recurring source. That said, during the same period, non-interest income growth of 18.27% y-o-y was driven by capital gains made on the treasury bill portfolio and foreign exchange gains.

Meanwhile, the Bank's overhead costs had traditionally been higher than its peers due to an inflated workforce in line with the Bank's social role as a state employer. Although trending downwards until 2008, we note that the Bank's cost to income ratio had deteriorated to 77.12% during FY Dec 2009 (FY Dec 2008: 71.99%) in view of a one-off provision charge amounting to LKR 3.18 billion on potential losses from a hedging contract. Excluding this charge, the Bank's cost-to-income ratio clocked in at 66.41% as at the same date, still higher than peers (refer to Chart 5)

Chart 5: PB's cost-to-income trends vs peers



Weaker-than-industry ROA

Strong growth in deposits

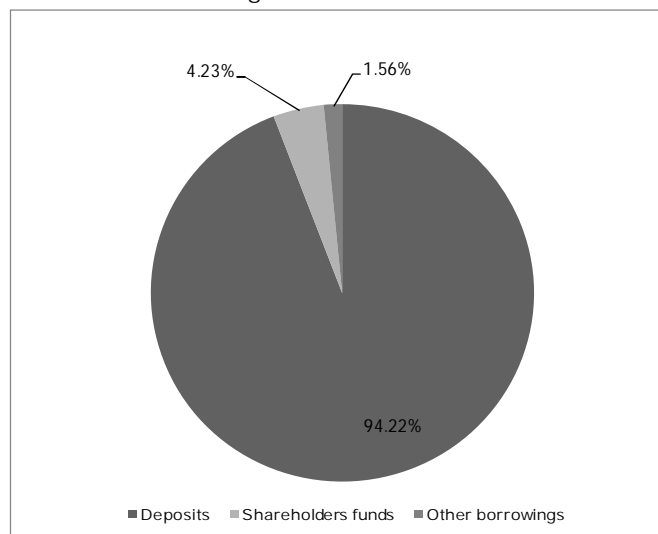
Influx of short-term deposits

Despite the heavy overheads during FY Dec 2009, the Bank's pre-tax profits grew by a moderate 7.27% y-o-y to LKR 6.08 billion, supported by thicker margins and capital gains made on the treasury bills portfolio. This had translated to an ROA of 1.39% as at end-Dec 2009, which was relatively weak compared to industry peers. That said, PB's return on assets ("ROA") had improved to 1.54% as at end-September 2010 supported by reduced interest expenses on the Bank's deposit base. Going forward, PB's performance is expected to ameliorate further, supported by the expansion of its loan books coupled with the Central Bank's easing of general provisioning requirements.

Funding & Liquidity

The Bank's funding structure is dominated by customer deposits, which accounted for 94.22% (or LKR 396.16 billion) of total funding as at end-Dec 2009 (refer to Chart 6). PB's deposit base had charted strong growth in recent years, supported by its extensive rural reach. Further, in line with the collapse of several private financial institutions during 2008, depositors had sought the security offered by state banks, resulting in a windfall of deposits to both PB and BOC. While the deposit base had traditionally tilted towards savings deposits, during 2009 fixed deposits accounted for a marginally higher 45.75% of total deposits while savings came in second with a 44.10% share. Current accounts and certificates of deposits made up the remaining portion.

Chart 6: PB's funding structure – FY Dec 2009



The Bank's statutory liquid asset ratio clocked in at 25.10% as at end-September 2010, comfortably above the regulatory minimum. Meanwhile, PB's loans-to-deposit ratio increased to 77.47% as at end-June 2010 (end-Dec 2009: 71.63%), marginally higher than industry peers as at the same date.

On a separate note, PB's asset liability maturity mismatch (ALMM) in the "less than 1 year" bucket widened from a negative gap of LKR 107.56 billion as at end-Dec 2008 to a negative gap of LKR 124.90 billion as at end-Dec 2009. This amounted to a 45.33% of interest earning assets as at the same date. The widening of the gap was primarily due to an influx of short-term fixed deposits during the reviewed period. Looking ahead, ALMM gaps are expected to ease, particularly in the short term as the Bank intends to aggressively pursue the expansion of its pawning portfolio.

Capital Adequacy

Deteriorated net NPL to shareholders funds

PB's tier-1 and overall RWCAR clocked in at 7.02% and 12.35% respectively as at end-September 2010, well above the regulatory minimums of 5% and 10%. That said, we note that the Bank's ratio on net NPL to shareholders funds at 50.62% as at end-September 2010 compared weaker than peers (FY Dec 2009: 41.63%). This has been despite state infusions of LKR 6.0 billion since 2005. Hence, although we note that capital infusions from the state are likely if the need arises, our concerns hinge on the timeliness of such infusions.

Industry Overview

Sri Lanka's gross domestic product ("GDP") expanded 7.1% in 1Q 2010, stronger than the previous corresponding period's 1.6%. The healthy expansion was supported by improving macroeconomic fundamentals, underpinned by the end of the country's 3-decade-long civil conflict and the recovery of the global economy.

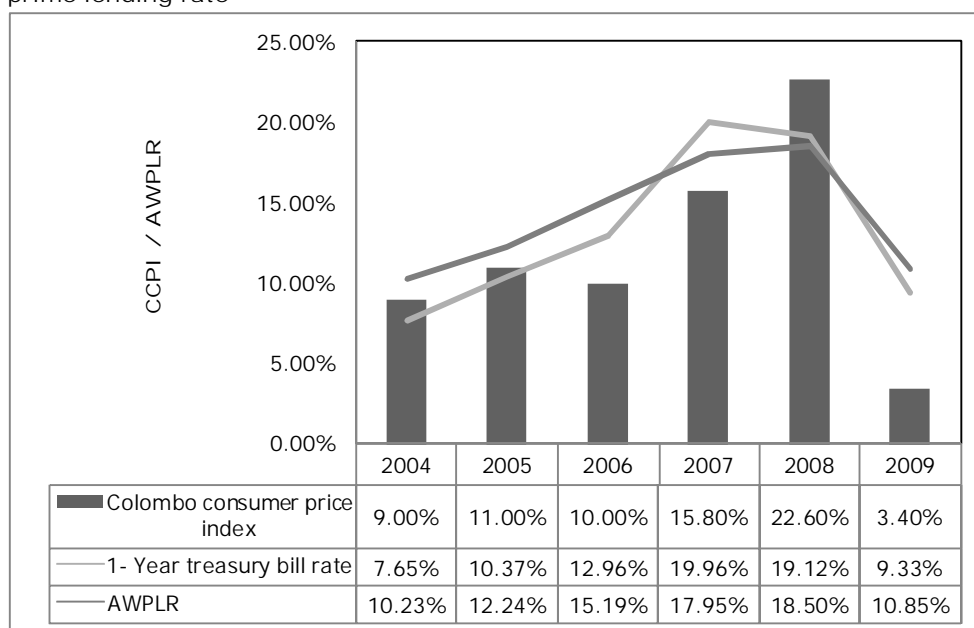
Concurrently, the performance of the nation's primary sectors had also improved (refer to Table 1). The agricultural industry had been buoyed by favourable weather conditions and a retracement in global commodity prices. At the same time, the industry and services sectors also enjoyed upticks in activity, driven by stronger internal and external demand. The "wholesale and retail trade" sub-segment within services, which contributed 22.3% of Sri Lanka's GDP in 1Q 2010, expanded 5.3% over the same period; this contrasted with a 2.5% contraction in 1Q 2009.

Table 1: Sectoral contributions to GDP

Sector	2Q 2009	2Q 2010
Agriculture, forestry and fishing	5.0%	5.1%
Industry	3.0%	9.2%
Services	1.2%	8.8%
Overall GDP growth	2.1%	8.5%

In the meantime, both inflation (as measured by the Colombo Consumer Price Index) and interest rates – which peaked in 2008 – have been easing since early 2009 (refer to Chart 7). The tapering rates are in line with the reversal of the Central Bank's tight monetary policy. While the current trend may not be sustainable given the country's budget deficit, RAM Ratings Lanka notes that interest rates will not be as lofty as the heights scaled in 2008. All said, we envisage the credit cycle to enter a more upbeat phase over the medium term.

Chart 7: Movements in the Colombo Consumer Price Index and average-weighted prime lending rate



One of the primary beneficiaries of the impending pick-up in economic performance would be LCBs. A critical component of the domestic economy, commercial banks accounted for 44.6% of the financial sector's assets as at end-December 2009. Although half of the industry's 22 financial institutions are foreign banks, the sector is dominated by locally incorporated entities. The 6 largest domestic banks accounted for 76.16% of the commercial-banking industry's assets as at the same date. At the same time, the 2 state banks, i.e. Bank of Ceylon and Peoples Bank, controlled 40.53% of the industry's assets.

The banking sector's gross loans, which have typically increased at a healthy double-digit clip, slowed their momentum to an estimated 6.6% in 2008 amid lofty interest rates. Having been pressured by both elevated interest rates and the intensifying armed civil conflict in the early part of the year, the overall industry's loan portfolio contracted 4.9% in 2009. Even though interest rates eased in mid-2009, loan growth was sluggish because of asset-quality issues. The industry's NPL ratio deteriorated to 8.0% as at end-December 2009 from 6.3% a year earlier. Concurrently, provisioning levels weakened as new NPLs that had accrued during the year required general provisions of only 1%. With loan growth curtailed, commercial banks had channelled funds to low-risk, higher-yielding government securities. Going forward, banks' loan books are envisaged to expand as the investment climate becomes more conducive.

In the meantime, tapering loan growth and a more lenient monetary stance have resulted in flushed liquidity for the banking system. However, this phenomenon is expected to dissipate over the medium term as commercial banks resume lending. At present, banks are establishing branches in erstwhile war-torn areas, to position themselves vis-a-vis garnering customer deposits.

Notably, commercial banks' profit performance has remained relatively unchanged since 2008. The ROA of the domestic banking sector clocked in at 2.0% as at end-December 2009, almost in line with the 2.1% recorded as at end-December 2008 (end-December 2007: 1.9%) (refer to Table 2). Commercial banks' profitability had been mainly shored up by more lucrative margins. On the other hand, their after-tax ROE had been crimped by taxes.

The overall capital adequacy of this sector improved slightly from 13.8% as at end-December 2008 to an estimated 14.2% a year later, as more risky loan assets were replaced by low-risk government securities. Although the current levels of capitalisation are deemed adequate, the rising delinquencies in 2009 and weaker provisioning had eroded the industry's capital buffer; its ratio on net NPLs to capital deteriorated from 17.0% as at end-December 2008 to an estimated 30.2% as at end-September 2009*.

Table 2: Selected financial-soundness indicators of the commercial-banking industry

	2008	2009*
Regulatory capital to risk-weighted assets	13.8%	14.2%
NPLs to gross loans	6.0%	7.6%
ROA (before tax)	2.1%	2.0%
ROE (after tax)	14.8%	14.4%
Interest margin	4.7%	4.7%
Cost-to-income ratio	79.0%	77.3%
Statutory liquidity ratio	25.7%	32.0%

Source: Central Bank of Sri Lanka

*Provisional

Relevant Central Bank Directions Applicable to Licensed Commercial Banks

<p><i>Capital adequacy</i></p>	<p>Every licensed specialised bank must maintain a minimum capital-adequacy ratio of 10% in relation to its risk-weighted assets, with core capital constituting not less than 5%, on both bank-only basis and consolidated basis; supplementary capital can make up the balance.</p> <p>Core capital means:</p> <ul style="list-style-type: none"> (a) permanent shareholders' equity; and (b) reserves created or increased by appropriation of retained earnings or other surpluses, including share premiums, retained profits, general reserves and legal reserves, excluding revaluation reserves and general provisions. <p>Supplementary capital means revaluation reserves, general provisions, hybrid capital instruments, minority interests arising from preference shares issued by subsidiaries, and approved subordinated debts.</p> <p>It is recommended that the basis of computation for capital-adequacy ratios, i.e. capital adequacy and the inclusion of non-banking and non-financial subsidiaries, be disclosed as a footnote.</p>
<p><i>Minimum capital requirements</i></p>	<p>All licensed specialised banks are required to maintain a minimum core capital of LKR 1.5 billion by end-2009. Furthermore, all licensed commercial banks are required to increase their capital as follows:</p> <ul style="list-style-type: none"> (a) LKR 3 billion by end-2011 (b) LKR 4 billion by end-2013 (c) LKR 5 billion by end-2015 <p>Moreover, capital requirements for a licensed specialised bank is required to increase to:</p> <ul style="list-style-type: none"> (a) LKR 2 billion by end-2011 (b) LKR 2.5 billion by end-2013 (c) LKR 3 billion by end-2015
<p><i>Liquid assets</i></p>	<p>Every licensed specialised bank must maintain minimum average monthly liquid assets of not less than 20% of its total liabilities excluding contingent liabilities, and liabilities to shareholders and CBSL. Liquid assets mean:</p> <ul style="list-style-type: none"> (a) Cash in hand (b) Balance in a current account in a licensed commercial bank (c) Balance in a deposit account in a licensed specialised bank or licensed commercial bank, provided such account has a maturity of not more than 1 year (d) Money at call in Sri Lanka (e) Treasury bills and securities issued or guaranteed by the Government of Sri Lanka, which have maturities of not more than 1 year. (f) Goods receipts (g) Import and export bills (h) Inland bills (i) Cash items in process of collection (j) Treasury bonds (k) Such other assets as may be determined by the Monetary Board
<p><i>Classification of non-performing loans and treatment of unearned interest</i></p>	<p>Loans and advances are classified as non-performing when the principal and/or the interest have been in arrears for 3 months or more.</p> <p>Any unpaid interest on loans and advances where interest has been in arrears for 3 months or more cannot be considered as income by a bank.</p>

<p><i>Classification of non-performing loans</i></p>	<p>Special-mention credit facilities</p> <ul style="list-style-type: none"> - Overdrafts: Exceeds the sanctioned limit for a continuous period of 90 days or more but less than 180 days - Credit facilities payable in monthly installments: 3 installments or more but less than 6 installments, principal and/or interest are due and unpaid. - Credit cards: The minimum payment is in arrears for 90 days or more but less than 120 days from the due date. - Other credit facilities: The payments are in arrears for 90 days or more but less than 180 days from the due date. <p>Sub standard credit accounts</p> <ul style="list-style-type: none"> - Overdrafts: Exceeds the sanctioned limit for a continuous period of 180 days or more but less than 360 days. - Credit facilities payable in monthly installments: 6 installments or more but less than 12 installments, principal and/or interest are due and unpaid. - Credit cards: The minimum payment is in arrears for 120 days or more but less than 180 days from the due date. - Other credit facilities: The payments are in arrears for 180 days or more but less than 360 days from the due date. <p>Doubtful credit facilities</p> <ul style="list-style-type: none"> - Overdrafts: Exceeds the sanctioned limit for a continuous period of 360 days or more but less than 540 days. - Credit facilities payable in monthly installments: 12 installments or more but less than 18 installments, principal and/or interest are due and unpaid. - Credit cards: The minimum payment is in arrears for 180 days or more but less than 240 days from the due date. - Other credit facilities: The payments are in arrears for 360 days or more but less than 540 days from the due date. <p>Loss credit facilities</p> <ul style="list-style-type: none"> - Overdrafts: Exceeds the sanctioned limit for a continuous period of 540 days or more. - Credit facilities payable in monthly installments: 18 installments or more principal and/or interest are due and unpaid. - Credit cards: The minimum payment is in arrears for 240 days or more. - Other credit facilities: The payments are in arrears for 540 days or more.
<p><i>Single-borrower limit</i></p>	<p>Granting of loans and advances is limited to 30% of the capital funds of the bank as at the end of its preceding financial year:</p> <p>(a) to any single company, public corporation, group of people or individual</p> <p>(b) in aggregate to</p> <ol style="list-style-type: none"> 1. an individual, their close relations or a company or firm in which they have substantial interest 2. a company and one or more of the following <ul style="list-style-type: none"> - its subsidiary - its holding company - its associate company - a subsidiary of its holding company, or - a company in which such company or its subsidiary, or its holding company, or a subsidiary of its holding company, has a substantial interest <p>If loans and advances granted to any customer referred to in (a) above or in aggregate to any customer belonging to (b) above exceeds 15% of the capital funds of the bank, such loans and advances granted in aggregate to all such customers should also not exceed 50% of the total loans and advances of the bank as at the end of the preceding financial year.</p>

Corporate Information

Date of Incorporation:	1961		
Commencement of Business:	1961		
Major Shareholders:	Government of Sri Lanka	92.27%	
	Co-operative societies	7.73%	
Directors:	Mr W Karunajeewa	Chairman	
	Mr AP Weerasinghe	Non-executive Director	
	Mr DJD Jayakody	Non-executive Director	
	Mrs LKP Sangakkara	Non-executive Director	
	Mr JP Amaratunge	Non-executive Director	
	Mrs DNWN Gammampila	Non-executive Director	
	Mr PAA Panditharathna	Non-executive Director	
	Miss MTIV Amarasekera	Non-executive Director	
	Mr MMPK Mayadunne	Non-executive Director	
Auditor:			
Listing:	Mr PV Pathirana	Chief Executive Officer	
	Mr N Vasantha Kumar	Senior DGM-Treasury	
	Mr Ahamed Sabry Ibrahim	Senior DGM-Risk and Compliance	
	Mr HS Dharmasiri	Senior DGM-Operations and retail banking	
Key Management:	Mr AM Chandrasagara	Senior DGM/Chief Internal Auditor	
	Mr Yohan Soza	Head of Finance	
Major Subsidiaries and Associates:	People's Leasing Company Ltd	100.0%	
	People's Travels (Pvt) Ltd	99.0%	
	People's Merchant Bank	26.1%	
Capital History:	Year	Remarks	Amount (LKR million)
	b/f		Cumulative Total (LKR million)
	2007		50.0
	2008		50.0
	2009		50.0

Financial Summary - Bank

	unaudited				
BALANCE SHEET (LKR million)	31-Dec-06	31-Dec-07	31-Dec-08	31-Dec-09	30-Sep-10
ASSETS					
Cash & Money At Call	15,331.99	28,708.95	18,380.37	50,332.58	39,533.97
Deposits & Placements With Financial Institution	0.00	0.00	0.00	0.00	0.00
Securities Purchased Under Resale Agreements	0.00	0.00	0.00	0.00	0.00
Securities					
Securities Held For Trading	241.91	6,663.16	11,618.90	16,550.62	423.50
Securities Available-For-Sale	6,606.84	12,100.10	12,051.31	17,421.62	25,894.11
Securities Held-To-Maturity	65,049.70	46,131.21	57,440.08	59,982.97	81,977.41
Gross Loans & Advances	221,620.41	251,802.50	262,550.11	298,602.33	345,866.58
Interest-Income-In-Suspense	591.43	427.95	406.77	683.85	0.00
General Loan Loss Reserves	720.15	1,071.66	1,723.21	2,203.27	2,494.19
Specific Loan Loss Reserves	13,171.03	12,009.79	11,794.08	11,954.96	12,215.17
Net Loans & Advances	207,137.79	238,293.10	248,626.05	283,760.25	331,157.22
Statutory Deposits With CBSL	21,567.14	23,606.12	18,905.80	22,717.03	31,849.40
Investments in Subsidiaries/Associates	1,075.45	975.45	1,375.45	1,775.45	1,725.45
Other Assets	13,184.63	16,544.08	21,546.91	16,274.89	13,361.34
Property, Plant & Equipment	8,359.48	7,561.37	7,602.90	7,410.09	8,327.13
TOTAL ASSETS	338,554.92	380,583.54	397,547.77	476,225.51	534,249.53
LIABILITIES					
Customer Deposits					
Demand	48,357.40	32,733.05	27,466.13	37,352.13	0.00
Savings	131,470.08	146,414.43	150,871.18	174,735.37	0.00
Fixed	90,119.68	121,808.73	146,152.01	184,002.80	451,335.23
Negotiable Instruments of Deposits	0.00	0.00	0.00	67.26	0.00
Interbank Deposits	0.00	0.00	0.00	0.00	0.00
Bills & Acceptances Payable	0.00	0.00	0.00	0.00	0.00
Securities Sold Under Repurchase Agreements	23,747.11	31,059.72	26,090.47	30,343.91	0.00
Other Borrowing	19,996.59	18,303.13	7,623.63	6,540.27	33,177.84
Subordinated Debt & Hybrid Capital	0.00	0.00	2,500.00	5,000.00	5,000.00
Other Liabilities	14,592.59	17,369.93	20,964.64	20,403.55	25,190.31
TOTAL LIABILITIES	328,283.46	367,688.98	381,668.05	458,445.29	514,703.37
Paid-up Capital	50.00	50.00	50.00	50.00	50.00
Minority Interest	0.00	0.00	0.00	0.00	0.00
Share Premium & Other Reserves	10,347.70	11,565.92	13,158.92	13,905.11	7,152.00
Statutory General Reserve	50.00	50.00	50.00	50.00	0.00
Retained Profits/(Accumulated Losses)	(176.23)	1,228.65	2,620.81	3,775.12	12,344.16
TOTAL SHAREHOLDERS' FUNDS	10,271.46	12,894.56	15,879.72	17,780.23	19,546.16
TOTAL LIABILITIES & SHAREHOLDERS' FUNDS	338,554.92	380,583.54	397,547.77	476,225.51	534,249.53
COMMITMENTS & CONTINGENCIES	0.00	0.00	0.00	0.00	0.00
TIER 1 CAPITAL	4,329.88	6,723.82	9,958.98	11,823.48	11,823.48
CAPITAL BASE	6,638.41	9,444.11	16,080.82	20,616.01	20,791.05

Financial Summary - Bank

INCOME STATEMENT (LKR million)	31-Dec-06	31-Dec-07	31-Dec-08	31-Dec-09	unaudited
					30-Sep-10 9 months
Interest Income	31,429.44	43,074.18	53,453.56	62,341.24	41,127.60
Less: Accretion Of Discount/(Amortisation Of Pr	0.00	0.00	0.00	0.00	0.00
Less: Net Interest Income Suspended	0.00	0.00	0.00	0.00	0.00
Less: Interest Expense	(15,622.10)	(26,541.98)	(34,491.77)	(38,414.58)	(22,623.94)
Net Interest Income	15,807.34	16,532.20	18,961.79	23,926.65	18,503.66
Non-Interest Income	3,068.87	4,169.29	4,874.33	5,764.97	3,692.24
Gross Income	18,876.20	20,701.49	23,836.12	29,691.63	22,195.90
Less: Personnel Expenses	(10,343.56)	(10,053.94)	(10,583.19)	(12,155.10)	(7,414.71)
Less: Other Operating Expenses	(4,694.62)	(5,681.61)	(6,576.00)	(10,744.46)	(8,000.46)
Less: Loan Loss Provisions	240.95	36.42	(1,013.20)	(716.38)	(960.92)
Less: Non-Recurring Items	0.00	0.00	0.00	0.00	0.00
Share of results of Associated Companies	0.00	0.00	0.00	0.00	0.00
Pre-Tax Profit/(Loss)	4,078.98	5,002.36	5,663.72	6,075.69	5,819.81
Less: Taxation	(921.90)	(2,628.48)	(2,958.87)	(2,755.50)	(2,777.00)
Net Profit/(Loss)	3,157.08	2,373.88	2,704.85	3,320.19	3,042.81
Less: Minority Interests	0.00	0.00	0.00	0.00	0.00
Less: Transfer To Statutory Reserves	0.00	0.00	0.00	0.00	0.00
Less: Transfer To Other Reserves	(27.16)	(49.32)	(93.00)	(746.19)	0.00
Less: Dividend	(1,098.33)	(919.69)	(1,219.69)	(1,419.69)	0.00
Post-Appropriation Profit/(Loss)	2,031.59	1,404.88	1,392.16	1,154.32	3,042.81

Financial Summary – Bank

	unaudited				
KEY FINANCIAL RATIOS (%)	31-Dec-06	31-Dec-07	31-Dec-08	31-Dec-09	30-Sep-10
PROFITABILITY					
Net Interest Margin	5.15%	4.60%	4.87%	5.48%	4.88%
Net Financing Margin	5.15%	4.60%	4.87%	5.48%	4.88%
Non-Interest Income Margin	1.00%	1.16%	1.25%	1.32%	0.97%
Cost To Income	79.67%	76.01%	71.99%	77.12%	69.45%
Cost Over Total Average Assets	4.90%	4.38%	4.41%	5.24%	4.07%
Return On Assets	1.33%	1.39%	1.46%	1.39%	1.54%
Return On Equity	57.10%	43.19%	39.37%	36.10%	41.58%
Dividend Payout	34.79%	38.74%	45.09%	42.76%	0.00%
ASSET QUALITY					
Gross NPLs Ratio	6.95%	5.74%	6.66%	6.50%	6.39%
Net NPLs Ratio	1.05%	1.01%	2.26%	2.59%	2.97%
3-months Past Due Ratio	6.95%	5.74%	6.66%	6.50%	6.39%
Net NPLs To Total Assets	0.65%	0.64%	1.42%	1.55%	1.85%
Specific Loan Loss Provisions For Current Pe	0.32%	0.35%	0.63%	0.58%	0.40%
Gross NPLs Coverage	90.44%	90.61%	77.46%	73.15%	66.53%
Loan Loss Reserve Coverage	6.28%	5.20%	5.16%	4.75%	4.25%
General Loan Loss Reserve Coverage	0.35%	0.45%	0.69%	0.77%	0.75%
LIQUIDITY & FUNDING					
Liquid Asset Ratio	7.10%	13.58%	11.75%	19.48%	13.61%
Interbank Deposits To Total Interest Bearing	0.00%	0.00%	0.00%	0.00%	0.00%
Customer Deposits To Total Interest Bearing	86.06%	85.91%	89.96%	90.44%	92.20%
Loans To Deposits Ratio	76.73%	79.18%	76.62%	71.63%	73.37%
Loans To Stable Funds Ratio	65.71%	66.98%	67.32%	63.22%	66.03%
CAPITAL ADEQUACY					
Shareholders' Funds To Total Assets	3.03%	3.39%	3.99%	3.73%	3.66%
Tier 1 Risk Weighted Capital Adequacy Ratic	3.67%	4.34%	6.48%	7.66%	7.02%
Overall Risk Weighted Capital Adequacy Rat	5.63%	6.10%	10.46%	13.35%	12.35%
Internal Rate Of Capital Generation	28.82%	12.55%	10.42%	14.15%	21.74%

Financial Summary - Bank

KEY FINANCIAL RATIOS	FORMULAE
PROFITABILITY	
Net Interest Margin	Net Interest Income / Average Total Assets
Net Financing Margin	(Net Interest Income + Net Finance Income From Islamic Banking Operations) / Average Total Assets
Non-Interest Income Margin	Non-Interest Income / Average Total Assets
Cost To Income	(Personnel & Other Operating Expenses) / Gross Income
Cost Over Total Average Assets	(Personnel & Other Operating Expenses) / Average Total Assets
Return On Assets	Pre-Tax Profit/(Loss) / Average Total Assets
Return On Equity	Pre-Tax Profit/(Loss) / Average Shareholders' Funds
Dividend Payout	Dividends / Net Profit/(Loss)
ASSET QUALITY	
Gross NPLs Ratio	(Total Non-Performing Loans - Interest-Income-In-Suspense) / (Gross Loans - Interest-Income-In-Suspense)
Net NPLs Ratio	(Total Non-Performing Loans - Specific Loan Loss Reserves - Interest-Income-In-Suspense) / (Gross Loans - Specific Loan Loss Reserves - Interest-Income-In-Suspense)
3-months Past Due Ratio	3-months Past Due Loans / (Gross Loans - Interest-Income-In-Suspense)
Specific Loan Loss Provisions For Current Period	Specific Loan Loss Provisions For The Period / Average Gross Loans
Gross NPLs Coverage	General & Specific Loan Loss Reserves (B/S) / (Total Non-Performing Loans - Interest-Income-In-Suspense)
Loan Loss Reserve Coverage	General & Specific Loan Loss Reserves (B/S) / (Gross Loans - Interest-Income-In-Suspense)
General Loan Loss Reserve Coverage	General Loan Loss Reserves / (Gross Loans - Specific Loan Loss Reserves - Interest-Income-In-Suspense)
Gross Loans	Gross Loans Include Loans Sold To CAGAMAS
LIQUIDITY & FUNDING	
Liquid Asset Ratio	Liquid Assets / Customer Deposits & Short-Term Funds
Loans To Deposits Ratio	Net Loans / Customer Deposits
Loans To Stable Funds Ratio	Net Loans / (Shareholders' Funds + Total Interest Bearing Funds + General Loan Loss Reserves - Interbank Funding - Property, Plant & Equipment - Investments in Subsidiaries/Associates)
Short-Term Funds	Interbank Deposits + Bills & Acceptances + Securities Sold Under Repos
Liquid Assets	Cash & Short-Term Funds + Securities Purchased Under Repos + Deposits & Placements With Financial Institutions + Quoted Securities (Excluding Securities Held-To-Maturity)
Total Interest Bearing Funds	Customer Deposits + Interbank + Bills & Acceptances + Securities Sold Under Repos + Borrowing + Supplementary Capital
CAPITAL ADEQUACY	
Internal Rate Of Capital Generation	(Net Profit/(Loss) + Extraordinary Income - Dividend + General Loan Loss Provision) / Average Shareholders' Funds

CREDIT RATING DEFINITIONS

(Financial Institution Ratings)

A Financial Institution Rating (“FIR”) is RAM Ratings Lanka’s current opinion on the overall capacity of a financial institution to meet its financial obligations. The opinion is not specific to any particular financial obligation, as it does not take in to account the expressed terms and conditions of any specific financial obligation.

LONG-TERM RATINGS

AAA	A financial institution rated AAA has a superior capacity to meet its financial obligations. This is the highest long-term FIR assigned by RAM Ratings.
AA	A financial institution rated AA has a strong capacity to meet its financial obligations. The financial institution is resilient against adverse changes in circumstances, economic conditions and/or operating environments.
A	A financial institution rated A has an adequate capacity to meet its financial obligations. The financial institution is more susceptible to adverse changes in circumstances, economic conditions and/or operating environments than those in higher-rated categories.
BBB	A financial institution rated BBB has a moderate capacity to meet its financial obligations. The financial institution is more likely to be weakened by adverse changes in circumstances, economic conditions and/or operating environments than those in higher-rated categories. This is the lowest investment-grade category.
BB	A financial institution rated BB has a weak capacity to meet its financial obligations. The financial institution is highly vulnerable to adverse changes in circumstances, economic conditions and/or operating environments.
B	A financial institution rated B has a very weak capacity to meet its financial obligations. The financial institution has a limited ability to withstand adverse changes in circumstances, economic conditions and/or operating environments.
C	A financial institution rated C has a high likelihood of defaulting on its financial obligations. The financial institution is highly dependent on favourable changes in circumstances, economic conditions and/or operating environments, the lack of which would likely result in it defaulting on its financial obligations.
D	A financial institution rated D is currently in default on either all or a substantial portion of its financial obligations, whether or not formally declared. The D rating may also reflect the filing of bankruptcy and/or other actions pertaining to the financial institution that could jeopardise the payment of the financial obligations.

For long-term ratings, RAM Ratings applies signs plus (+), flat or minus (-) in each category from AA to C. The sign plus (+) indicates that the financial institution ranks at the higher end of its generic rating category; the sign flat indicates a mid-ranking; and the sign minus (-) indicates that the financial institution ranks at the lower end of its generic rating category.

SHORT-TERM RATINGS

P1	A financial institution rated P1 has a strong capacity to meet its short-term financial obligations. This is the highest short-term FIR assigned by RAM Ratings.
P2	A financial institution rated P2 has an adequate capacity to meet its short-term financial obligations. The financial institution is more susceptible to the effect of deteriorating circumstances than those in the highest-rated category.
P3	A financial institution rated P3 has a moderate capacity to meet its short-term financial obligations. The financial institution is more likely to be weakened by the effects of deteriorating circumstances than those in the higher-rated category. This is the lowest investment-grade category.
NP	A financial institution rated NP has a doubtful capacity to meet its short-term financial obligations. The financial institution faces major uncertainties that could compromise its capacity for payment of financial obligations.
D	A financial institution rated D is currently in default on either all or he D rating may also reflect the filing of bankruptcy and/or other actions pertaining to the financial institution that could jeopardise the payment of the financial obligations.

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