

Sri Lanka  
Full Rating Report

People's Bank (Sri Lanka)

Ratings

<b>National</b>	
Long-Term Rating	AA-(lka)
Individual Rating	D/E
Support Rating	4
<b>Sovereign Risk</b>	
Foreign-Currency Long-Term IDR	B+
Local-Currency Long-Term IDR	B+

Outlooks

National Long-Term Rating	Positive
Sovereign Foreign-Currency Long-Term IDR	Positive
Sovereign Local-Currency Long-Term IDR	Positive

Financial Data

People's Bank (Sri Lanka)		
	30 Jun 10	31 Dec 09
	unaudited	audited
Total assets (USDm)	4,685.1	4,380.6
Total assets (LKRm)	531,855.5	501,069.8
Total equity (LKRm) <sup>a</sup>	24,264.4	22,220.6
Net income (LKRm) <sup>a</sup>	2,806.4	4,173.8
ROA (%) <sup>b</sup>	1.09	0.91
ROE (%) <sup>b</sup>	24.15	20.03
Equity to assets (%)	4.56	4.43

<sup>a</sup> Includes minority interest  
<sup>b</sup> Annualised

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Related Research

Applicable Criteria

- *Global Financial Institutions Rating Criteria (August 2010)*

Other Research

- *Impact of Directed Reduction in Interest Rates on Sri Lankan Banking Sector (February 2010)*

Disclaimer

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Rating Rationale

- Fitch Ratings has upgraded People's Bank (Sri Lanka)'s (PB) National Long-Term Rating to 'AA-(lka)' from 'A(lka)', and revised the Outlook to Positive from Stable. The action reflects the agency's view of the bank's increased importance to the state in terms of its role in supporting a greater focus on economic development following the cessation of the civil war, aided by PB's presence throughout Sri Lanka. Fitch also recognises that the bank has provided for the liability arising from oil derivative contracts which was an overhang on its capital position, and PB's continued maintenance of healthy capital adequacy ratios (CARs) in the face of strong growth. The ratings also reflect PB's systemic importance as the second-largest bank in Sri Lanka, its state ownership, and strong franchise.
- PB's loan book grew by 14.2% in 2009, driven mostly by lending to state-owned enterprises (SOEs). This was in contrast with the contraction across the banking sector. Loans to the state sector (government of Sri Lanka and SOEs) represented 21% of total loans at end-2009 (end-2008: 12%). Predominant exposure remains in the consumer/retail segment (67% of loans at end-2009), and includes pawning advances (gold-backed loans) where PB continues to be the market leader. Loan growth is likely to remain robust (15.2% in H110).
- PB's asset quality came under stress in 2009 and H110, with an increase in NPLs. The gross NPL ratio rose to 6.7% at H110 from 6.5% at end-2009, while solvency (as measured by the net NPL/equity ratio) declined to 41% from 32%. Asset quality should improve, in line with the macroeconomic environment.
- PB made a provision of LKR3.18bn in 2009 against its exposure to oil derivative contracts entered into with Ceylon Petroleum Corporation (CPC). However, pre-provision ROA increased to 3.5% (2008: 2.8%), due mostly to wider net interest margins (NIMs). Core and total CARs of 8.4% and 13.3%, respectively, were reported at H110. The equity/asset ratio of 4.6% is considered low in view of PB's scale of operations and systemic importance.

Support

- Fitch considers the likelihood of state support to be high, given PB's importance as one of the main bankers to the state, its state ownership, and the impact that its failure as the second-largest bank in Sri Lanka could have on the financial system. However, the probability of timely support in a systemic crisis is limited.

What Could Trigger an Upgrade?

- An upgrade of PB's National Long-Term Rating could arise from the potential improvement in the sovereign profile, as indicated by the Positive Outlook on Sri Lanka's Long-Term IDR, and the consequent increased capacity of the government to provide support to the bank in view of its high systemic importance and importance to the government.

Profile

PB accounted for 15.8% of banking system assets at end-2009). The bank is 92%-owned by the Government of Sri Lanka.

- Sri Lanka's second-largest licensed commercial bank
- Market leader in pawning

**Table 1: Market Share**

(As of end-2009)	PB	BOC	CB
LCB assets (%)	19	22	13
LCB loans (%)	22	20	13
LCB deposits (%)	21	22	13

BOC - Bank of Ceylon, CB - Commercial Bank of Ceylon Plc  
 Source: PB, BOC, CB, Central Bank of Sri Lanka, Fitch

## Profile

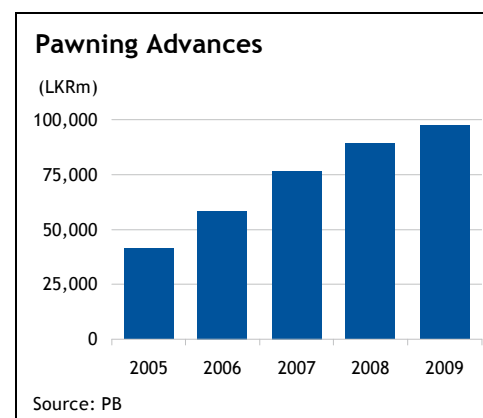
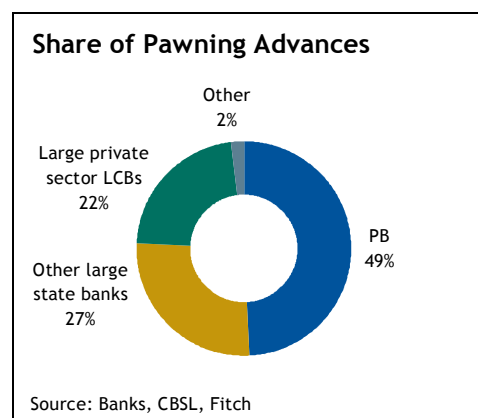
PB was established under an Act of Parliament in 1961 to develop the co-operative movement of Sri Lanka and enhance rural banking. The bank is 92.27%-state-owned and 7.73% by co-operative societies. The board comprises nine non-executive members appointed by the Minister of Finance as per the People's Bank Act.

PB accounted for 15.8% of Sri Lanka's banking system assets at end-2009. The bank has a broad national footprint, with 329 branches and 341 outlets at end-2009, which has fostered a stable deposit base.

Loans to the state sector comprised 14% of assets at end-2009 (end-2008: 8.3%). PB also has exposure to government securities comprising 18.6% of assets, in the form of treasury bills and bonds (13.7%), US dollar-denominated Sri Lanka development bonds (3.3%), and government restructuring bonds (1.6%).

PB remains the market leader in pawning advances (gold-backed loans), which accounted for 29% of loans at end-2009. While private sector banks have aggressively moved into pawning in recent years, PB still retains its dominant market share, accounting for 49% of banking sector pawning advances at end-2009 (end-2008: 53%).

Pawning advances usually carry a maturity of one year, are zero risk-weighted in calculating capital adequacy, and afford relatively high yields. Pawning advances granted by PB are used mostly for working capital finance in sectors such as agriculture and fisheries.



PB's equity was severely depleted in 1999 as a result of a LKR6.7bn provision against NPLs. The state as shareholder did not initially infuse fresh capital, but instead provided a written undertaking in the form of a Letter of Comfort to provide financial support to the extent that the bank meets the minimum regulatory CAR of 10%. Substantially improved operating results since then enabled PB to record a positive equity position in 2004.

A recapitalisation programme backed by a conditional credit line from the Asian Development Bank (ADB, 'AAA'/Stable) – which was to be implemented in four stages by 2008 – brought in capital of LKR2.0bn in 2005. However, in 2006, the government was compelled to fund the second tranche of LKR1.0bn on its own, since it did not meet the financial sector reforms and other conditions stipulated by the ADB. Thereafter, the Ministry of Finance and Planning (MOF) committed itself to an independent capital injection plan, and contributed two instalments of LKR1.5bn each in 2007 and 2008 which helped the bank achieve the minimum CARs by end-2008.

The PB group includes two fully-owned subsidiaries. One is People's Leasing Company Ltd (PLC, 'A(lka)'/Stable), which is Sri Lanka's second-largest specialised

**Table 2: Capital Infusions and Dividends**

	Capital infusions	Dividends (special levy)
2005	2,000	150
2006	1,000	600
2007	1,500	700
2008	1,500	1,000

Source: PB, Fitch

leasing company (SLC) and carries out most of the leasing business for the group. In 2009, PLC acquired 97% of Seylan Merchant Leasing PLC (renamed as People's Leasing Finance PLC ('BBB-(lka)'/Stable)), a registered finance company (RFC), which belonged to the distressed Ceylinco group of companies and incorporated a wholly-owned subsidiary engaged in the provision of general insurance. PLC was also appointed as the managing agent of another distressed RFC by the Central Bank of Sri Lanka.

In the same year, PB's 39%-held associate, People's Merchant Bank PLC (PMB, 'BB+(lka)'/Negative), a small SLC, acquired the business operations and selected assets and liabilities of ABC Credit Card company Ltd, an unregulated company that issued credit cards and accepted deposits (renamed as PMB Credit Card Company Ltd), and a small RFC, Silverreen Finance Company Ltd (renamed as People's Merchant Finance Company Limited). PB's subsidiaries and associates represented 8.7% of group assets at end-2009.

PB was exposed to a significant liability under oil derivative contracts entered into with CPC following the ruling of the Supreme Court of Sri Lanka in November 2008 suspending payments due from CPC to five banks (including PB). In 2009, the bank made a provision of LKR3.18bn against its exposure under these contracts.

- PB experienced strong loan growth compared with the sector
- Pre-provision ROA supported by wide NIMs

### Performance

Most Sri Lankan banks have experienced a contraction in loans on account of decreased credit demand reflected in negative private sector credit growth. However, PB's loan book grew by 14.2% in 2009, driven predominantly by lending to SOEs. Consequently, loans accounted for about 65% of assets at end-2009 compared with 56% for the sector. PB continued to maintain strong loan growth of 15.2% in H110, exceeding its target for 2010, although management indicates that the pace of loan growth will be managed within the constraints of capital adequacy.

Historically, PB's profitability has been constrained by high operating costs despite wide NIMs. Profitability in terms of ROA increased to 0.9% in 2009 from 0.8% in 2008 due to a reduction in effective taxes (65% of pre-tax profit in 2008; 62% in 2009).

ROA at the pre-provisioning level increased to 3.5% in 2009 from 2.8% in 2008, primarily due to wider NIMs. The contribution from the leasing segment to PB's consolidated net income remained substantial at 26% of net income in 2009 (2008: 24%). ROA improved to 1.1% in H110 on account of lower operating and provisioning costs. Profitability could improve should better operating efficiency continue – as well as through expected reductions in credit costs.

### Net Interest Revenue

Net interest income increased by 27% in 2009 to LKR27bn, supported by high loan growth and wider NIMs of 6.6% in 2009 (5.9% in 2008). PB's yields have historically been higher than that of the sector, buoyed by high exposure to relatively high-yielding products.

In October 2009, the government issued a directive instructing state banks to reduce interest rates offered on loans to certain specified sectors. While PB's NIMs came down to 6.3% (annualised) in H110, this was cushioned to a large extent by the reduction in the cost of funds through the downward revision of deposit rates. Continued high exposure to higher-yielding products and segments is expected to moderate the impact of increased competition on NIMs as the level of lending rises in the banking sector as a whole.

### Non-Interest Revenue

Non-interest revenue increased by 21% in 2009, driven by increased income from the recoveries and provision reversals (20% of non-interest income), capital gains on the government securities portfolio (10%), and increased foreign exchange income

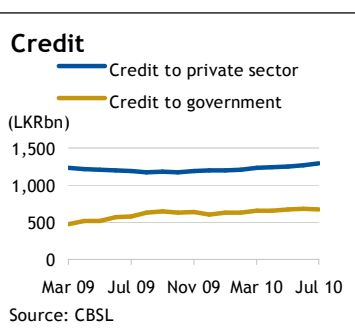


Table 3: Key Indicators for PB and Peers

(LKRm)	PB		BOC (AA(lka)/Positive)		CB (AA(lka)/Stable)		HNB (AA-(lka)/Stable)		Sampath (AA-(lka)/Positive)	
	H110	2009	H110	2009	H110	2009	H110	2009	H110	2009
Total assets	531,855	501,070	606,769	547,421	338,172	322,545	295,179	287,511	171,940	158,002
Loans and advances	373,044	323,769	350,053	283,298	179,843	176,742	175,768	172,800	104,990	98,914
Deposits	423,174	396,228	434,889	411,460	242,241	234,731	216,369	213,819	139,689	125,974
Borrowings	54,734	58,139	124,855	87,849	51,648	44,848	22,931	20,651	11,865	12,352
Equity	24,264	22,221	27,793	27,534	30,114	28,721	27,179	26,374	13,483	12,612
Net income	2,806	4,174	2,410	3,300	2,313	4,192	1,870	4,483	1,344	2,072
(%)										
Net interest margin	6.3	6.6	3.5	3.4	4.8	4.5	5.9	6.1	5.8	5.8
Return on assets	1.1	0.9	0.9	0.6	1.4	1.4	1.3	1.7	1.6	1.4
Cost/income	49.7	53.6	56.9	64.1	46.4	45.7	61.4	56.9	48.4	45.9
Operating costs/average assets	3.4	4.0	3.0	3.3	2.8	3.0	4.6	4.4	3.7	3.7
Tier 1 CAR	8.4	8.9	10.9	12.0	11.6	11.9	10.1	10.9	11.1	10.6
Equity/assets	4.6	4.4	4.6	5.0	8.9	8.9	9.4	9.3	7.9	8.0
Net NPL/equity	40.9	32.1	29.9	26.4	28.6	28.6	24.9	22.8	17.7	26.0
Loan loss reserves/NPLs	53.4	60.7	47.4	52.1	27.6	28.5	37.4	40.6	65.1	54.8
NPL/gross loans	6.7	6.5	5.0	5.7	7.0	6.9	6.6	6.2	6.9	7.8

BOC - Bank of Ceylon, CB- Commercial Bank of Ceylon PLC, HNB - Hatton National Bank PLC, Sampath - Sampath Bank PLC  
Source: Published financials, Fitch

(16%). However, the main source of non-interest income has been fee and commission income which accounted for 45% of non-interest income in 2009. Fitch expects non-interest income to increase with increased trade activity in an improving macro environment.

### Operating Expenses

PB's cost structure remained high in 2009, reflected in a cost/income ratio of 53.6% (57.5% in 2008) and operating costs/average assets of 4% (3.8% in 2008). Operating costs (excluding provisions) increased by 17% in 2009, led by higher personnel costs – due largely to the revision of salaries in line with the three-year collective agreement with employee unions.

Personnel expenses are PB's largest operational expense, and accounted for 69% of total operating expenses in 2009. The bank has a defined-benefit pension scheme for permanent employees who joined before 1996; pensionable staff accounted for 66% of total staff in the permanent cadre at end-2009. The latest actuarial valuation carried in January 2009 indicated a surplus of LKR3.7bn in the pension fund on a discontinuance basis.

PB's contribution to the pension fund accounted for 14% of personnel costs and 10% of total costs in 2009. The bank also plans to initiate a new pension scheme for permanent employees who joined the bank from 1996 – subject to the necessary approvals and the finalisation of other details pertaining to the administration of the fund.

The reduction in the number of permanent staff through natural attrition (given their age profile together with the increased employment of contract and outsourced staff) is expected to contribute to the reduction of operating costs. PB's cost/income ratio and operating costs/average assets improved to 49.7% and 3.4%, respectively, in H110.

### Risk Management

The board is responsible for setting PB's risk management policies. The bank segregated risk management as a function in 2007 and appointed a Senior Deputy General Manager to head it.

- Predominant exposure remains in the consumer/retail segment, and includes significant exposure to pawning
- Decline in asset quality and solvency

### Credit Risk

The credit policy of PB is formulated and reviewed by the Board Executive Credit Committee, and credit approval is structured according to hierarchical delegated authority limits. The bank has an independent credit controller to strengthen evaluation as well as monitoring. PB recently introduced a watch list for early identification of potential delinquencies

### Loan Book Development

PB's exposure remains predominantly to the consumer/retail segment, which accounted for about two thirds of the loan book at end-2009. Pawning advances comprised 43% of this exposure (and 29% of loans). Management indicates the pawning portfolio is highly granular, and that a general provision (of about 0.5%) is maintained on the pawning portfolio.

The majority of pawning advances are used for working capital, with a limited proportion used for consumption. Leasing (vehicle finance) carried out largely through subsidiary PLC comprised 17% of the consumer/retail exposure (and 11% of loans), and housing a further 11% (7% of loans).

Loans to the state sector increased to 21% at end-2009 from 12% at end-2008, driven largely by growth in lending to SOEs. PB's exposure to the corporate segment accounted for 12%.

Credit concentrations remained high, reflecting exposure to state sector entities including a key SOE. Fitch takes comfort from the availability of Treasury guarantees against some of these exposures, and minimal credit risk in theory.

Sector concentration was in agriculture and fishing, which accounted for 26% at end-2009 and which are identified as growth sectors in the post-war economy. Indeed, the underlying purpose of the majority of pawning advances is for agriculture and fisheries. Construction accounted for a further 20%, although the majority of this exposure is for housing.

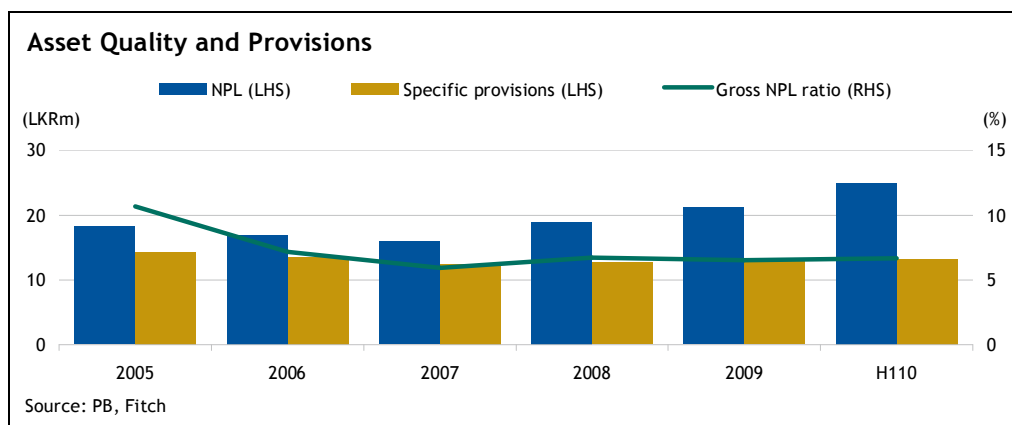
### Non-Performing Loans

A deterioration in asset quality was experienced by the banking sector in 2008 and 2009. PB's NPLs increased by 11.5% in 2009, although its gross NPL ratio decreased to 6.5% from 6.7% at end-2008, due to the increase in the loan base. Corporates accounted for a major share of total NPLs, and drove the deterioration in asset quality in 2009 with the gross NPL ratio on the non-state lending increasing from 7.5% at end-2008 to 8.2%. PB's gross NPL ratio increased to 6.7% at H110 as NPLs continued to rise. However, asset quality is expected to improve in Q310 on account of an improving economic environment.

**Table 4: Classification of NPLs**

(%)	End-2008	End-2009	H110
Special mention	15	18	19
Sub-standard	8	14	15
Doubtful	4	5	5
Loss	72	63	61
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: PB, Fitch



The age profile of NPLs indicates an increase in the proportion of NPLs in the special mention<sup>1</sup> category, while a substantial proportion of NPLs remained in the loss category<sup>2</sup>. Loss category NPLs include hard-core NPLs acquired prior to 2001, which in turn includes the largest NPL which accounted for 14% of total NPLs and has been almost fully provided for. About 7% of total NPLs had been restructured at end-2009.

Specific provision coverage of NPLs decreased to 53.4% at H110 from 60.7% at end-2009 and 66.4% at end-2008, due to the availability of collateral and an increase in special mention NPLs which do not require provisioning. While collateral is available, largely in the form of property mortgages, realisation of collateral is usually a tedious process. General provisions are expected to gradually reduce due to the revision in the Central Bank of Sri Lanka requirement from 1% of performing loans and special mention NPLs to 0.5% in 2012.

PB's solvency, as indicated by the net NPL/equity ratio, deteriorated to 41% at H110 from 32% at end-2009 and 28% at end-2008. While net NPL/equity is weaker than that of the large 'AA(lka)'-rated LCB peers, the ratio is expected to improve with an anticipated improvement in asset quality.

### Market Risk

PB's market risk exposure is managed by its treasury, based on the parameters set by the ALCO. PB is in the process of implementing a new treasury management system, to enhance the management of market risk.

Interest rate risk arising from structural maturity mismatches is mitigated to a large extent as the majority of the loan book (with the exception of leases and pawning) is contracted at floating rates, while PB also reserves the right to reprice certain loans contracted at fixed rates. Rate-sensitive assets covered 69% of rate-sensitive liabilities carrying a residual maturity of under one year at end-2009. While 92% of deposits had a residual maturity of up to 12 months, the bank's deposit base is relatively stable and subject to a high rate of renewal. Government securities held to maturity (HTM) accounted for 78% of the total government securities portfolio at

<sup>1</sup> Credit facilities are defined as special mention when three installments or more, but less than six installments of principal and/or interest, are due and unpaid (in the case of facilities repayable in monthly installments)

<sup>2</sup> Credit facilities are defined as loss when 18 installments or more of principal and/or interest are due and unpaid (in the case of facilities repayable in monthly installments)

H110, while the weighted average duration of government securities held for trading was 3.09 at H110.

Foreign currency risk exposure is managed through internal limits and regulatory limits on the aggregate foreign currency net open position. PB's foreign currency-denominated loans are matched by foreign currency deposits, with a foreign currency loans/deposits ratio of 41% at end-2009.

The bank is exposed to gold price fluctuations on account of its substantial pawning portfolio. To limit the risk of erosion in the value of collateral through a decline in gold prices, an LTV ratio of 77% on average is maintained on pawning advances. Furthermore, PB regularly monitors gold prices as well as the interest rates and LTVs of competitors.

### Operational Risk

PB has put in place an operational risk management unit in 2008, which comes under the purview of the Senior Deputy General Manager Risk and Compliance who has focussed on strengthening processes and controls. The operational risk management unit collects loss events reported by branches and other functional departments on a monthly basis, which is maintained in a database and used to identify trends.

PB's core banking system interconnects 216 of its 329 branches and 245 of its 341 service centres. A target of March 2011 has been set to interconnect all branches and service centres through the core banking system, thereby improving the availability of information to support risk management.

The bank's internal audit department, which reports to the audit committee, carries out audits of branches at least once every two years.

PB allocated capital for operational risk under the basic indicator approach of Basel II, although management states that the loss experience on account of operational risk is considerably lower.

- Proportion of demand and savings deposits has decreased
- Capital adequacy ratios remain above the minimum

### Funding, Liquidity and Capital

Deposits are the predominant source of funding for PB, accounting for 79% of funding at end-2009. Deposit mobilisation has been supported by the bank's resilient retail franchise and extensive branch network. PB recorded deposit growth of 6.8% in H110 and strong deposit growth of 22% in 2009 reflecting high depositor confidence amidst liquidity stress faced by some deposit-taking institutions.

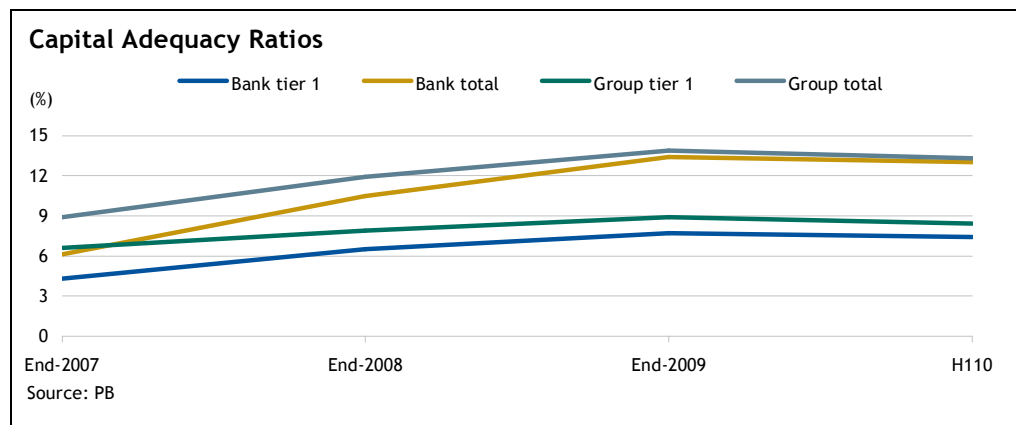
Fitch notes that the proportion of demand and savings deposits to total deposits has been gradually declining, and constituted 53.4% of deposits at end-2009 against 66.6% at end-2006, but remained above 44% for the LCB sector. Deposits remained diversified – the 20 largest deposits accounted for 10% of total deposits at end-2009.

**Table 5: Funding Profile**

Total funding (%)	End-2007	End-2008	End-2009	H110
Deposits	75.8	77.5	79.1	79.6
Demand	8.2	6.5	7.3	6.2
Savings	36.9	36.2	34.9	34.9
Time	29.9	34.4	36.3	37.7
Other	0.8	0.4	0.5	0.7
Borrowings	15.3	12.2	11.6	10.3
Other	4.9	5.6	4.9	5.6
Equity	4.0	4.7	4.4	4.6
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: PB, Fitch

PB's liquidity position in terms of the statutory liquidity ratios in both domestic and foreign currencies remained above the required minimum throughout 2009. Due to PB's strong loan expansion, loans/deposits remained relatively high at 82% at end-2009 compared with 77% for the sector.



Since achieving the minimum core CAR at the bank level at end-2008, PB continued to sustain core and total CARs at the bank and group level above the required regulatory minimum 5% and 10% throughout 2009. Reported core and total CARs were 8.4% and 13.3%, respectively, at June 2010 and 8.9% and 14% at end-2009.

Tier II capital was boosted by a further issuance of subordinated debentures of LKR2.5bn in Q409 (the bank issued subordinated debentures of LKR2.5bn in Q408 as well). The debentures issued in 2008 and 2009 have maturities of eight years, and hence the total amount issued would be considered as Tier II capital in computing CARs until the four years preceding the maturity of the debentures, during which the amount considered as Tier II capital would be subject to a progressive discount according to CBSL guidelines.

The equity/assets ratio of 4.6% at H110 and 4.4% at end-2009 (4.7% at end-2008) remained below 7% for the large 'AA(lka)-rated LCB peers. Fitch considers this level of absolute capitalisation to be low in view of the bank's scale of operations and systemic importance. Internal capital generation is expected to remain constrained by dividends in the form of a special levy which was maintained at 29% of net income in 2009.

## Balance Sheet Analysis

### People's Bank

	30-Jun-10				31-Dec-09		31-Dec-08		31-Dec-07	
	Year End USDm	LKRm	As % of Assets	Average LKRm	Year End LKRm	As % of Assets	Year End LKRm	As % of Assets	Year End LKRm	As % of Assets
<b>A. LOANS</b>										
1. Customer Loans	3291.85	373,689.73	70.26	343,609.65	313,529.58	62.57	273,172.24	65.56	258,520.00	65.20
2. Other Loans	0.00	0.00	0.00	5,480.34	10,960.68	2.19	11,033.24	2.65	11,145.69	2.81
3. (Loan Loss Reserves)	153.18	17,389.49	3.27	16,983.16	16,576.83	3.31	15,838.59	3.80	15,301.81	3.86
4. (Interest in Suspense)	5.69	645.72	0.12	683.31	720.89	0.14	648.84	0.16	520.71	0.13
<b>TOTAL A</b>	<b>3132.98</b>	<b>355,654.51</b>	<b>66.87</b>	<b>331,423.52</b>	<b>307,192.54</b>	<b>61.31</b>	<b>267,718.05</b>	<b>64.25</b>	<b>253,843.17</b>	<b>64.02</b>
<b>B. OTHER EARNING ASSETS</b>		0.00			0.00		0.00		0.00	
1. Deposits with Banks	182.74	20,744.62	3.90	30,570.22	40,395.83	8.06	6,344.05	1.52	16,294.43	4.11
2. Treasury Bills	787.38	89,382.73	16.81	91,382.55	93,382.36	18.64	80,821.27	19.40	63,987.00	16.14
3. Other Securities	13.50	1,532.72	0.29	766.36	0.00	0.00	0.00	0.00	500.00	0.13
4. Equity Investments	5.02	569.96	0.11	722.37	874.78	0.17	596.80	0.14	703.32	0.18
<b>TOTAL B</b>	<b>988.64</b>	<b>112,230.02</b>	<b>21.10</b>	<b>123,441.49</b>	<b>134,652.97</b>	<b>26.87</b>	<b>87,762.12</b>	<b>21.06</b>	<b>81,484.75</b>	<b>20.55</b>
<b>C. TOTAL EARNING ASSETS (A+B)</b>	<b>4121.62</b>	<b>467,884.53</b>	<b>87.97</b>	<b>454,865.02</b>	<b>441,845.51</b>	<b>88.18</b>	<b>355,480.17</b>	<b>85.31</b>	<b>335,327.93</b>	<b>84.57</b>
<b>D. FIXED ASSETS</b>	<b>77.56</b>	<b>8,804.22</b>	<b>1.66</b>	<b>8,487.28</b>	<b>8,170.34</b>	<b>1.63</b>	<b>8,192.85</b>	<b>1.97</b>	<b>7,864.93</b>	<b>1.98</b>
<b>E. NON-EARNING ASSETS</b>		0.00			0.00		0.00		0.00	
1. Cash and Due from Banks	88.14	10,006.04	1.88	10,499.24	10,992.43	2.19	12,099.99	2.90	12,496.57	3.15
2. Statutory Deposit with Central Bank	227.38	25,811.92	4.85	24,264.48	22,717.03	4.53	18,905.80	4.54	23,606.12	5.95
3. Other	170.44	19,348.75	3.64	18,346.63	17,344.50	3.46	21,994.94	5.28	17,222.78	4.34
<b>TOTAL E</b>	<b>485.97</b>	<b>55,166.71</b>	<b>10.37</b>	<b>53,110.34</b>	<b>51,053.97</b>	<b>10.19</b>	<b>53,000.73</b>	<b>12.72</b>	<b>53,325.47</b>	<b>13.45</b>
<b>F. TOTAL ASSETS</b>	<b>4685.14</b>	<b>531,855.46</b>	<b>100.00</b>	<b>516,462.64</b>	<b>501,069.82</b>	<b>100.00</b>	<b>416,673.75</b>	<b>100.00</b>	<b>396,518.33</b>	<b>100.00</b>
<b>G. CUSTOMER AND SHORT TERM FUNDING</b>		0.00			0.00		0.00		0.00	
1. Demand Deposits	292.59	33,215.21	6.25	34,977.83	36,740.45	7.33	27,019.74	6.48	32,370.15	8.16
2. Savings Deposits	1633.82	185,470.53	34.87	180,167.35	174,864.16	34.90	150,871.18	36.21	146,414.43	36.93
3. Time Deposits	1767.48	200,643.99	37.73	191,261.58	181,879.17	36.30	143,324.52	34.40	118,662.30	29.93
4. Other	33.86	3,843.97	0.72	3,293.99	2,744.01	0.55	1,818.91	0.44	3,136.63	0.79
<b>TOTAL G</b>	<b>3727.76</b>	<b>423,173.70</b>	<b>79.57</b>	<b>409,700.75</b>	<b>396,227.80</b>	<b>79.08</b>	<b>323,034.35</b>	<b>77.53</b>	<b>300,583.50</b>	<b>75.81</b>
<b>H. OTHER FUNDING</b>		0.00			0.00		0.00		0.00	
1. Borrowings	430.44	48,863.94	9.19	50,878.53	52,893.12	10.56	48,194.84	11.57	60,636.12	15.29
2. Subordinated Debt	51.71	5,870.53	1.10	5,558.03	5,245.53	1.05	2,815.00	0.68	110.00	0.03
3. Hybrid Capital	0.00	0.00	0.00	-	0.00	0.00	0.00	0.00	0.00	0.00
<b>TOTAL H</b>	<b>482.16</b>	<b>54,734.47</b>	<b>10.29</b>	<b>56,436.56</b>	<b>58,138.65</b>	<b>11.60</b>	<b>51,009.84</b>	<b>12.24</b>	<b>60,746.12</b>	<b>15.32</b>
<b>I. OTHER (Non-int. bearing)</b>	<b>261.48</b>	<b>29,682.88</b>	<b>5.58</b>	<b>27,082.82</b>	<b>24,482.76</b>	<b>4.89</b>	<b>23,169.50</b>	<b>5.56</b>	<b>19,436.43</b>	<b>4.90</b>
<b>J. TOTAL LIABILITIES</b>	<b>4471.39</b>	<b>507,591.05</b>	<b>95.44</b>	<b>493,220.12</b>	<b>478,849.20</b>	<b>95.57</b>	<b>397,213.68</b>	<b>95.33</b>	<b>380,766.05</b>	<b>96.03</b>
<b>K. EQUITY</b>	<b>213.69</b>	<b>24,257.81</b>	<b>4.56</b>	<b>23,236.11</b>	<b>22,214.41</b>	<b>4.43</b>	<b>19,459.88</b>	<b>4.67</b>	<b>15,752.11</b>	<b>3.97</b>
<b>L. MINORITY INTEREST</b>	<b>0.06</b>	<b>6.60</b>	<b>0.00</b>	<b>6.41</b>	<b>6.22</b>	<b>0.00</b>	<b>0.19</b>	<b>0.00</b>	<b>0.17</b>	<b>0.00</b>
<b>M. TOTAL LIABILITIES &amp; EQUITY</b>	<b>4685.14</b>	<b>531,855.46</b>	<b>100.00</b>	<b>516,462.64</b>	<b>501,069.82</b>	<b>100.00</b>	<b>416,673.75</b>	<b>100.00</b>	<b>396,518.33</b>	<b>100.00</b>
	USD1 = LKR	113.5197			USD1 = LKR	114.384	USD1 = LKR	113.520	USD1 = LKR	108.72

## Income Statement Analysis

### People's Bank

	30-Jun-10		31-Dec-09		31-Dec-08		31-Dec-07	
	Income	As % of	Income	As % of	Income	As % of	Income	As % of
	Expenses	Total AV	Expenses	Total AV	Expenses	Total AV	Expenses	Total AV
	LKRm	Earning Assets	LKRm	arning Assets	LKRm	arning Assets	LKRm	arning Assets
1. Interest Income	31,327.64	13.77	68,859.58	17.27	58,855.06	17.04	46,904.71	14.74
2. Interest Expense	16,468.45	7.24	41,710.95	10.46	37,459.78	10.85	28,541.88	8.97
3. NET INTEREST REVENUE	14,859.19	6.53	27,148.62	6.81	21,395.28	6.19	18,362.83	5.77
4. Forex Income	683.62	0.30	1,120.82	0.28	818.40	0.24	648.99	0.20
5. Other Operating Income	1,937.43	0.85	5,799.63	1.45	4,890.98	1.42	4,798.22	1.51
6. TOTAL INCOME	17,480.25	7.69	34,069.08	8.55	27,104.65	7.85	23,810.04	7.48
7. Provision for Loan Losses	1,418.01	0.62	2,049.05	0.51	1,723.99	0.50	1,157.35	0.36
8. Provision Others	147.85	0.07	2,747.45	0.69	13.41	0.00	(18.01)	(0.01)
9. Personnel Expenses	5,171.52	2.27	12,567.34	3.15	10,932.30	3.17	10,259.93	3.22
10. Other Non Int. Expenses	3,518.39	1.55	5,687.61	1.43	4,645.97	1.35	3,955.42	1.24
11. TOTAL EXPENSES	10,255.77	4.51	23,051.45	5.78	17,315.66	5.01	15,354.69	4.82
12. OPERATING PROFIT	7,224.48	3.18	11,017.63	2.76	9,789.00	2.83	8,455.35	2.66
13. Associate Co	1.49	0.00	(1.52)	(0.00)	17.98	0.01	17.20	0.01
14. PRE-TAX PROFIT	7,225.97	3.18	11,016.10	2.76	9,806.98	2.84	8,472.55	2.66
15. Taxes	4,419.54	1.94	6,842.30	1.72	6,379.48	1.85	4,966.75	1.56
16. Minority Interest	0.39	0.00	(0.41)	(0.00)	0.04	0.00	0.05	0.00
17. NET PROFIT	2,806.05	1.23	4,174.22	1.05	3,427.46	0.99	3,505.75	1.10

## Ratio Analysis

### People's Bank

	30-Jun-10	30-Dec-09	31-Dec-08	31-Dec-07
<b>I. PROFITABILITY LEVEL</b>				
1. Net Interest Margin	6.31	6.56	5.94	5.51
2. Pre-tax Profit/Total Assets (av.)	2.80	2.40	2.41	2.26
3. Net Income/Equity (av.)	24.15	20.03	19.47	25.27
4. Net Income/Total Assets (av.)	1.09	0.91	0.84	0.94
5. Total Non-Int. Expense (excl.prov.)/ Net Int. Rev. + Other Operating Income	49.71	53.58	57.47	59.70
6. Net Int. Inc. / Opp. Income	85.01	79.69	78.94	77.12
7. Non Int. Inc./ Opp. Income	14.99	20.31	21.06	22.88
8. Net Interest Rev./Total Assets (av.)	5.75	5.92	5.26	4.90
<b>II. CAPITAL ADEQUACY (year end)</b>				
1. Equity/Total Assets	4.56	4.43	4.67	3.97
2. Equity/Loans	6.50	6.86	6.86	5.85
3. Capital/Risks - Tier 1	8.40	8.90	7.90	6.60
4. Capital/Risks - Total	13.30	13.90	11.90	8.94
5. Net NPLs/Equity	40.59	32.12	28.13	18.25
<b>III. LIQUIDITY (year end)</b>				
1. Liquid Assets/Customer & Short Term Funding	27.13	33.12	27.00	26.29
2. Loans/Customer & Short Term Funding	84.36	78.19	83.14	82.92
<b>IV. ASSET QUALITY</b>				
1. Loan Loss Provisions/Loans (av.)	0.81	0.67	0.62	0.46
2. Loan Loss Reserves/Loans	4.66	5.12	5.59	5.69
3. Specific Loan Loss Reserves/NPLs	53.59	60.66	66.44	78.66
4. Loan Loss Reserves/NPLs	70.10	78.24	83.34	96.39
5. Non Performing Loans/Gross Loans	6.65	6.54	6.70	5.90

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