

Letter of Support



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நிதி, திட்டமிடல் அமைச்சு
MINISTRY OF FINANCE AND PLANNING

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Your No. }

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திகதி } 31.03.2008
Date }

Chairman
People's Bank
Head Office
Colombo 02

Dear Sir,

LETTER OF SUPPORT FOR PEOPLE'S BANK

We refer to the financial position of People's Bank as at 31st December 2007, which indicates deficiency of capital funds of Rs 4.2 Bn in respect of the capital requirement as per Central Bank of Sri Lanka Regulations.

It is noted that the Bank has succeeded in achieving consistent profitability and has recorded a net profit before tax and after loan loss provisions for the year ended 31st December 2007 of Rs 5 Bn.

Further, the Bank has also been able to improve its positive net worth position of Rs 10.3 Bn reported as at 31st December 2006 to Rs 13.2 Bn as at 31st December 2007.

In the interest of the Bank and its continuity of operations which is integral to the economy of the country, we undertake to support the Bank as follows:

1. To allow the Bank to derive the benefits of the long-term Government Bonds over the full tenure of the tranche of 30 years, without any amendment to the terms of conditions underlying this transaction. The present agreement in respect of interest payment for bonds and the redeeming of bonds will continue.
2. To continue to support the efforts of the Bank and not curtail or intervene in the day-to-day operations thus granting autonomy and independence to enable the Bank to achieve a commercial focus.
3. To provide financial support if necessary to the extent not exceeding the amount required to make good the deficiency in capital funds as at 31st December 2007, which is required by the Central Bank of Sri Lanka based on Bank's risk weighted assets as at 31st December 2007.



4. The Board of Directors on its part, should fully implement the Development Plan for 2004 to 2007, as approved by the Cabinet Ministers of the Government of Sri Lanka and comply with the Memorandum of Understanding of 31st December 2004, between the Government, the Strategic Enterprise Management Agency and People's Bank.

In addition, the Board of Directors is required to ensure that the Bank achieves the annual financial goals and targets which are an integral part of the Agreement between the Asian Development Bank (ADB) and the Government of Sri Lanka by which means the Government will infuse capital into the Bank during said Development Plan period.

In this context the fourth tranche of capital of Rs 1,500 Mn will be infused by the Government during 2008 as per the Agreement with the ADB, the Ministry of Finance and People's Bank being achieved by the Bank as well as the Bank successfully implementing and meeting the Key Performance Objectives for Capital Injection contained in its Development Plan.

5. The Board of Directors of the Bank will be required to co-operate closely with the Ministry of Finance of the Government of Sri Lanka, to ensure that all specified action steps that are an integral part of the Asian Development Bank/Government of Sri Lanka Loan Agreement are implemented on a timely basis, to ensure in turn that People's Bank's longer-term financial stability, success and Capital Funds adequacy are achieved.

Yours faithfully,



Lalith R. de Silva
Deputy Secretary to the Treasury
For Secretary to the Treasury

