

Notes to the Financial Statements

	BANK		GROUP	
	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000
[1] Interest Income				
Loans and Advances	35,115,310	23,249,174	38,716,585	26,182,244
Treasury Bills and Treasury Bonds	5,463,734	4,896,404	5,463,734	4,896,404
Government of Sri Lanka Restructuring Bonds	878,760	1,993,335	878,760	1,993,335
Placement with Other Banks and Other Money Market Instruments	1,616,377	1,290,523	1,625,943	1,304,035
Total Interest Income	43,074,181	31,429,436	46,685,022	34,376,018
[2] Interest Expenses				
Customer Deposits	20,096,930	12,197,977	20,095,742	12,187,806
Refinance and Bank Borrowings	6,436,667	3,420,097	8,218,063	4,647,021
Widow's & Orphan's Pension Fund	3,669	1,295	3,669	1,295
Others	4,717	2,731	4,717	2,731
Total Interest Expenses	26,541,983	15,622,100	28,322,191	16,838,853
[3] Other Income				
Dividends from Investments				
Quoted	16,442	10,225	16,442	10,225
Unquoted	12,895	6,635	15,901	6,635
Subsidiaries and Associate Companies	144,345	150,603	12,857	9,365
Recovery of Bad Debts Written-Off	740,577	632,671	754,824	632,671
Other Operating Income	393,432	62,392	1,030,015	399,407
Total Other Income	1,307,691	862,526	1,830,039	1,058,303
[4] Operating Expenses				
Operating Expenses include inter alia the following:				
Directors' Emoluments - Fees	1,999	1,302	2,354	1,641
Auditor's Remuneration	14,493	12,933	15,254	13,286
Depreciation of Property, Plant & Equipment (Note 21)	845,625	862,393	979,496	935,139
Amortisation of Prepayment Leases	20,850	20,850	20,850	20,850
Amortisation of Intangible Assets (Note 21.3)	146,328	109,783	151,657	111,878
VAT on Financial Services	2,166,243	1,916,731	2,212,488	1,916,731
Advertising and Public Relations	584,211	481,202	630,703	532,264
Expenses on Litigation	21,182	21,170	23,314	22,454
[5] Provision for Staff Retirement Benefits				
5.1 Bank's Contribution to Defined Benefit Plans				
People's Bank Pension Trust Fund	1,744,827	2,475,000	1,744,827	2,475,000
People's Bank Widow's/Widower's & Orphan's Pension Fund	39,120	39,120	39,120	39,120
Total Contribution for the Year	1,783,947	2,514,120	1,783,947	2,514,120

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 into Pension Fund from W&OP Fund. This is a payment of 326 Mn by 100 installments commencing August 2004.



Notes to the Financial Statements

	BANK		GROUP	
	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000
[6] Provision for Loan Losses				
General Provision				
- Performing Loans	491,855	128,521	490,845	128,521
- Pawning (Reversal)	(223,728)	171,368	(223,728)	171,368
- Bills	66,835	3,123	66,835	3,123
- Leases	16,541	4,656	215,500	348,758
Specific Provision				
- Leases	-	-	198,268	119,933
- Non-Performing Loans	455,350	248,958	494,311	248,958
- Credit Card	15,008	8,760	15,008	8,760
Provision for Loan Losses	821,861	565,386	1,257,040	1,029,421
[7] Provision for Fall in Value of Dealing Securities and Others				
Fall/(Increase) in Value of Dealing Shares	-	(3,278)	-	(3,278)
Fall/(Increase) in Value of Investment	(1,262)	15,781	(1,262)	15,781
Fall in Value of Treasury Bonds	(15,698)	(6,779)	(15,698)	(6,779)
Fall in Value of Treasury Bills	(1,054)	33,212	(1,054)	33,212
Net Provision for (Gain)/Losses on Dealing Securities and Others	(18,014)	38,936	(18,014)	38,936
[8] Provision for Tsunami Losses				
Balance b/f	100,692	321,392	100,692	321,392
Tsunami Disaster Relief	-	-	-	-
Capital/Concessions Written-Off	(1,005)	(8,100)	(1,005)	(8,100)
Balance Retained on Balance Sheet in Lieu of Possible Losses	-	(100,692)	-	(100,692)
(Charge)/Reversed to Income Statement	99,687	212,600	99,687	212,600

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 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 current 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 & 2007 respectively.



[9] Taxation

9.1 Provision for Taxation is as follows:

	BANK		GROUP	
	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000
Bank				
Income Tax on Profits for the year	2,488,040	1,031,025	2,488,040	1,031,025
(Over)/Under Provision for Taxation in previous year	242,036	(203,619)	242,036	(203,619)
Transfer/(Reversal) to Deferred Taxation	(101,598)	94,494	(101,598)	94,494
	<u>2,628,478</u>	<u>921,900</u>	<u>2,628,478</u>	<u>921,900</u>
Subsidiary Companies				
People's Leasing Co. Ltd.	-	-	120,982	277,216
People's Travels (Pvt) Ltd.	-	-	923	684
Associate Company				
People's Merchant Bank	-	-	3,879	2,924
	<u>2,628,478</u>	<u>921,900</u>	<u>2,754,262</u>	<u>1,202,724</u>

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	
	2007 Rs '000	2006 Rs '000
9.2 Income Tax Reconciliation		
Profit before Tax	5,002,362	4,078,979
Add: Disallowable Expenses	5,051,319	4,207,754
Less: Tax Deductible Expenses	3,268,990	5,489,566
Assessable Income	<u>6,784,691</u>	<u>2,797,167</u>
Less: Qualifying Payments	-	-
Taxable Income	<u>6,784,691</u>	<u>2,797,167</u>
Income Tax at 35%	2,239,606	888,266
Income Tax at 20%	77,163	51,853
Deemed Dividend Tax	197,290	78,302
Social Responsibility Levy	25,140	12,604
Income Tax on Current year Profit	<u>2,539,199</u>	<u>1,031,025</u>
(Over)/Under Provision in Respect of Previous Year	242,036	(203,619)
Increase/(Decrease) in Current Year Profit	<u>2,781,235</u>	<u>827,406</u>
Deferred Tax Charged/(Credit)	(101,598)	94,494
Notional Tax Credit	(51,159)	-
Income Tax Expenses	<u>2,628,478</u>	<u>921,900</u>
Effective Tax Rate	53%	29%



Notes to the Financial Statements

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

	2007 %	2006 %
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 PLC	35	35

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

The Inland Revenue (Amendment) Act No. 19 of 2003, provides that a company which derives interest income from the secondary market transactions in Government Securities (on or after 1st April 2002) 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.

Accordingly, the net interest income earned by the Bank from the secondary market transactions in Government Securities for the year, has been grossed up in the Financial Statements and the resulting notional tax credit amounts to Rs 51.16 Mn (Rs 187.12 Mn in 2006).

[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	
	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000
Number of Ordinary Shares of Rs 50/- in Issue (Thousands)	1,000	1,000	1,000	1,000
Net Profit after Tax (Rs Mn)	2,374	3,157	3,506	3,805
Earnings per Share (Rs)	2,374	3,157	3,506	3,805

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	
	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000
Number of Ordinary Shares of Rs 50/- in Issue (Thousands)	1,000	1,000	1,000	1,000
Number of Ordinary Shares Pending Allotment (Note 28) (Thousands)	113,040	83,040	113,040	83,040
Total Shares in Issue and Pending Allotment	114,040	84,040	114,040	84,040
Diluted Earnings Per Share (Rs)	21	38	31	45

[11] Cash and Short-Term Funds

Cash in Hand and Balances with Banks	12,439,255	7,887,780	12,496,571	7,948,593
Money at Call and Short Notice	16,269,696	7,444,213	16,294,433	7,470,713
Total Cash and Short-Term Funds	28,708,951	15,331,993	28,791,004	15,419,306



	BANK		GROUP	
	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000
[12] Balance with the Central Bank				
Current Account with Central Bank	23,606,123	21,567,140	23,606,123	21,567,140

The Balance with the Central Bank comprises of the Statutory Cash Reserve. This is non-interest bearing balance. The minimum cash reserve required to be maintained at the Central Bank of Sri Lanka, as at 31st December 2007 represented 10% of weekly average Rupee Deposits 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 Off-shore Banking Unit.

[13] Government Treasury Bills and Treasury Bonds

	BANK		GROUP	
	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000
Treasury Bills	4,775,391	10,292,184	4,775,391	10,292,184
Treasury Bonds	40,467,720	47,525,378	40,467,720	47,525,378
Less: Provision for Fall in Value	(74,112)	(90,864)	(74,112)	(90,864)
Total Government Treasury Bills and Bonds	45,168,999	57,726,698	45,168,999	57,726,698

[14] Loans and Advances

14.1 Bills of Exchange

14.1.1 Bills of Exchange

Export Bills	1,077,314	813,735	1,077,314	813,735
Import Bills	12,215,783	2,002,503	12,215,783	2,002,503
Local Bills	2,494,804	2,092,461	2,494,804	2,092,461
Gross Bills of Exchange	15,787,901	4,908,699	15,787,901	4,908,699
Less: Provision for Losses (Note 14.1.2)	(909,563)	(842,728)	(909,563)	(842,728)
Net Bills of Exchange	14,878,338	4,065,971	14,878,338	4,065,971

14.1.2 Provision for Doubtful Bills

Opening Balance	842,728	839,605	842,728	839,605
General Provision during the year	66,835	3,123	66,835	3,123
Closing Balance	909,563	842,728	909,563	842,728

14.2 Loans and Advances

14.2.1 Loans and Advances

Overdrafts	38,571,507	34,459,240	36,842,545	34,316,396
Trust Receipts	4,507,508	4,965,430	4,507,508	4,965,430
Staff Loans	11,064,127	10,553,117	11,145,692	10,624,656
Other Loans	177,618,734	162,064,127	177,684,131	161,629,096
	231,761,876	212,041,914	230,179,876	211,535,578
Add:				
Interest Receivables on NP Advances	33,640,668	29,871,178	33,716,883	29,941,934
Gross Loans and Advances	265,402,544	241,913,092	263,896,759	241,477,512
Less:				
Interest in Suspense	(34,068,622)	(30,462,611)	(34,237,594)	(30,583,765)
	231,333,922	211,450,481	229,659,165	210,893,747
Less:				
Provision for Losses (Note 14.2.2)	(12,124,681)	(13,017,800)	(12,199,491)	(13,054,659)
Net Loans and Advances	219,209,241	198,432,681	217,459,674	197,839,088



Notes to the Financial Statements

	BANK		GROUP	
	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000
14.2.2 Movement in the Provision for Loan Losses				
Specific				
Opening Balance	12,305,427	13,329,441	12,317,863	13,329,441
Translation Difference on FCBU	26,686	116,892	26,686	116,892
Provision during the year	470,358	257,719	509,319	270,155
Amount Written-off against the Provision	(1,022,053)	(859,547)	(1,022,053)	(859,547)
Provision Reversal	(636,237)	(539,078)	(636,237)	(539,078)
Closing Balance	11,144,181	12,305,427	11,195,578	12,317,863
General				
Opening Balance	712,373	412,484	736,796	416,604
Provision during the year				
- Pawning (Reversal)	(223,728)	171,368	(223,728)	171,368
- Performing Loans	491,855	128,521	491,855	128,521
- Other Loans	-	-	(1,010)	20,303
Closing Balance	980,500	712,373	1,003,913	736,796
Total Loan Loss Provision	12,124,681	13,017,800	12,199,491	13,054,659
14.2.3.a Local Currency Loans and Advances				
Bills	5,246,310	4,577,528	5,246,310	4,577,528
Overdrafts	37,087,804	33,492,410	35,358,842	33,349,566
Trust Receipts	2,276,370	2,930,580	2,276,370	2,930,580
Leases	5,820,289	6,440,111	32,295,264	28,108,196
Other Loans	160,524,209	139,218,733	160,589,606	138,783,702
Staff Loans	11,064,127	10,553,117	11,145,692	10,624,656
Total Local Currency Loans and Advances	222,019,109	197,212,479	246,912,084	218,374,228
14.2.3.b Foreign Currency Loans and Advances				
Bills	10,541,591	331,171	10,541,591	331,171
Overdrafts	1,483,703	966,830	1,483,703	966,830
Trust Receipts	2,231,138	2,034,850	2,231,138	2,034,850
Other Loans	17,094,525	22,845,394	17,094,525	22,845,394
Total Foreign Currency Loans and Advances	31,350,957	26,178,245	31,350,957	26,178,245
Total Loans and Advances	253,370,066	223,390,724	278,263,041	244,552,473



	BANK		GROUP	
	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000
14.3 Leases				
14.3.1 Lease Rentals Receivable within One Year				
Gross Lease Rentals Receivable within one year from Balance Sheet date	2,020,024	1,552,897	12,266,075	9,369,684
Unearned Lease Income	(721,518)	(696,689)	(3,906,467)	(3,122,641)
Initial Rentals Received	(32,654)	-	(62,242)	(51,446)
Provisions for Bad and Doubtful Debts	(32,263)	(6,000)	(227,501)	(650,739)
Net Lease Rentals Receivable within one year	1,233,589	850,208	8,069,865	5,544,858
14.3.2 Lease Rentals Receivable from One to Five Years				
Gross Lease Rentals Receivable from one to five years from Balance Sheet date	3,800,265	4,879,145	19,981,619	18,726,197
Unearned Lease Income	(617,085)	(1,073,074)	(3,907,478)	(3,343,207)
Initial Rentals Received	(196,310)	(334)	(689,855)	(87,586)
Provisions for Bad and Doubtful Debts	(14,934)	(24,656)	(1,965,256)	(1,127,922)
Net Lease Rentals Receivable from one to five years	2,971,936	3,781,081	13,419,030	14,167,482
14.3.3 Lease Rentals Receivable after Five Years				
Gross Lease Rentals Receivable after five years from Balance Sheet date	-	8,069	47,570	12,315
Unearned Lease Income	-	(221)	(328)	(242)
Initial Rentals Received	-	-	(30,979)	(3,649)
Provisions for Bad and Doubtful Debts	-	-	-	(328)
Net Lease Rentals Receivable after five years	-	7,848	16,263	8,096
Total Net Lease Rentals Receivable	4,205,525	4,639,137	21,505,158	19,720,436
14.4 Summary of Gross Loans and Advances				
Bill of Exchange	15,787,901	4,908,699	15,787,901	4,908,699
Loans and Advances	231,761,876	212,041,914	230,179,876	211,535,578
Leases	5,820,289	6,440,111	32,295,264	28,108,196
Total Gross Loans and Advances	253,370,066	223,390,724	278,263,041	244,552,473
14.5 Summary of Provision for Loan Losses				
Bills of Exchange - Specific	839,605	839,605	839,605	839,605
- General	69,958	3,123	69,958	3,123
Loans - Specific	11,144,181	12,305,427	11,195,578	12,317,863
- General	980,500	712,373	1,003,913	736,796
Leases - Specific	26,000	26,000	452,776	295,970
- General	21,197	4,656	1,739,982	1,483,019
Total Loan Loss Provision	13,081,441	13,891,184	15,301,812	15,676,376



Notes to the Financial Statements

	BANK		GROUP	
	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000
14.6 Summary of Interest in Suspense in Loans and Advances				
Loans and Advances	34,068,622	30,462,611	34,237,594	30,583,765
Non-Performing Advances and Interest in Suspense on Non-Performing Advances				
Non-Performing Advances (Note 14.6.1)	14,865,291	15,950,977	15,875,668	16,943,357
Interest in Suspense on Non-Performing Advances	33,640,668	29,871,178	33,716,883	29,941,934
14.6.1 Non-Performing Advances				
Bills of Exchange	1,796,375	1,786,458	1,796,375	1,786,458
Loans and Advances	13,055,663	14,144,568	13,132,360	14,144,568
Leases	13,253	19,951	946,933	1,012,331
	14,865,291	15,950,977	15,875,668	16,943,357

14.7 Analysis of Loans and Advances by Sector

	BANK				GROUP			
	2007 Rs '000	%	2006 Rs '000	%	2007 Rs '000	%	2006 Rs '000	%
Exports	12,309,721	4.9	11,801,995	5.3	12,309,721	4.4	11,801,995	4.8
Tourism and Allied	1,020,641	0.4	1,161,532	0.5	1,112,337	0.4	1,295,272	0.5
Industries	9,355,305	3.7	10,510,483	4.7	9,963,802	3.6	11,210,519	4.6
Agriculture & Fishing	5,100,869	2.0	7,284,972	3.3	5,716,483	2.1	7,856,306	3.2
Commercial Trading	28,260,406	11.2	26,427,951	11.8	34,186,555	12.3	30,741,508	12.6
Imports	24,688,877	9.7	9,002,515	4.0	24,688,877	8.9	9,002,515	3.7
Consumption	63,289,898	25.0	51,009,823	22.8	63,289,898	22.7	51,009,823	20.9
Housing and Construction	65,174,641	25.7	64,562,103	28.9	66,257,460	23.8	65,417,464	26.8
Financial and Services	14,560,128	5.7	16,773,745	7.5	30,640,707	11.0	30,461,989	12.5
Others	29,609,579	11.7	24,855,605	11.1	30,097,202	10.8	25,755,082	10.5
Total	253,370,066	100	223,390,724	100	278,263,041	100	244,552,473	100

14.8 Government Guarantees

	2007 Rs Mn	2006 Rs Mn
Total Loans and Advances for which Government Guarantees have been received	13,857	9,213
	13,857	9,213

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	
	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000
[15] Group Balance Receivable				
Due from Subsidiaries	-	65,000	-	-
[16] Other Assets				
Other Assets and Prepayments	5,529,052	5,285,970	5,958,425	5,454,853
Interest Receivable & Accrued Other Income	10,309,107	7,507,158	10,309,107	7,507,158
Less: Provision for Losses against Other Assets	(154,250)	(249,903)	(164,714)	(249,903)
Total at year end Net of Provisions	15,683,909	12,543,225	16,102,818	12,712,108
[17] Dealing Securities				
Dealing Securities (Note 17.1)	302,370	246,905	302,370	246,905
Less: Provision for Fall in Value	-	(5,000)	-	(5,000)
Dealing Securities at Market Value	302,370	241,905	302,370	241,905

17.1. (a) Dealing Securities - Bank

	No. of Share(s) Units	Cost 2007 Rs '000	Market Value as at 31.12.07 Rs '000	No. of Share(s) Units	Cost 2006 Rs '000	Market Value as at 31.12.06 Rs '000
	Magpeck Ltd.	125,000	5,000	-	125,000	5,000
Overseas Realty (Ceylon) PLC	20,722,353	165,771	222,765	20,721,352	165,771	279,738
National Equity Fund	5,112,735	76,134	79,605	5,112,735	76,134	81,957
Total Value of the Dealing Securities		246,905	302,370		246,905	361,695

17.1. (b) Dealing Securities-Group

Magpeck Ltd.	125,000	5,000	-	125,000	5,000	-
Overseas Realty (Ceylon) PLC	20,722,353	165,771	222,765	20,721,352	165,771	279,738
National Equity Fund	5,112,735	76,134	79,605	5,112,735	76,134	81,957
Total Value of the Dealing Securities		246,905	302,370		246,905	361,695

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

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



Notes to the Financial Statements

	BANK		GROUP	
	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000
[18] Other Investment Securities				
18.1 Long-Term Investments - Equities				
Unquoted Shares (Note 18.1.1)	127,033	122,033	177,043	172,043
Less: Provision for Permanent Diminution in Value of Investment	(21,937)	(23,199)	(21,937)	(23,199)
Net Value of Long-Term Investment (Equities)	105,096	98,834	155,106	148,844
Long-term Investments - Debt Securities				
Sri Lanka Development Bonds US\$	10,870,000	5,375,000	10,870,000	5,375,000
Long-Term Treasury Bonds (Note 18.2)	625,000	625,000	625,000	625,000
Redeemable Debentures (Note 18.3)	500,000	500,000	500,000	500,000
Investment Securitisation of Leases Receivable	-	8,007	-	8,007
Net Value of Long-Term Investment (Debt Securities)	11,995,000	6,508,007	11,995,000	6,508,007
Total Investment Securities	12,100,096	6,606,841	12,150,106	6,656,851

18.1.1 Unquoted Shares - Bank

	No. of Share (s)	Directors' Valuation as at 31.12.07 Rs '000	Cost as at 31.12.07 Rs '000	Directors' Valuation as at 31.12.06 Rs '000	Cost as at 31.12.06 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	3,063	25,000	2,969	25,000
SWIFT	14	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	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		105,096	127,033	98,834	122,033



	No. of Share (s)	Directors' Valuation as at 31.12.07 Rs '000	Cost as at 31.12.07 Rs '000	Directors' Valuation as at 31.12.06 Rs '000	Cost as at 31.12.06 Rs '000
18.1.2 Unquoted Shares - Group					
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	3,063	25,000	2,969	25,000
SWIFT	14	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	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
Credit Information Bureau	100	10	10	10	10
Sanasa Development Bank Ltd.	500,000	50,000	50,000	50,000	50,000
Total Value of Unquoted Investment		155,106	177,043	148,844	172,043

The market value of all unquoted investments is based on Board of Directors' valuations.

18.2 Long-Term Treasury Bonds - Rs 625 Mn

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.

18.3 Redeemable Debentures

The Bank has invested in 500,000 (Rs 500 Mn) Unsecured, Subordinated, Redeemable 5 years Debentures of Rs 1,000/- each, issued by Commercial Bank of Ceylon Ltd. in 2003. This has a floating interest rate equivalent to the 3 months Treasury Bill Rate plus 2% per annum. These Debentures will be redeemed on 12.05.2008.

[19] Investments in Subsidiaries and Associate Companies

	BANK		GROUP	
	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000
Investment in Subsidiaries	819,950	919,950	-	-
Investment in Associates	155,500	155,500	245,846	232,527
Total Investment in Subsidiaries and Associates Companies	975,450	1,075,450	245,846	232,527



Notes to the Financial Statements

19.1 Investments in Subsidiaries

Subsidiary	Principal Activity	No. of Shares '000	Holding as at 31.12.07 %	Cost	
				2007 Rs '000	2006 Rs '000
People's Travels (Pvt) Ltd.	Travel Agent	495	99	4,950	4,950
People's Leasing Co. Ltd.					
- Ordinary Shares	Leasing	50,000	100	465,000	465,000
- Preference Shares		35,000	100	350,000	450,000
Total Value of Investment at the year end				819,950	919,950

19.2 Investments in Associates

Subsidiary	Principal Activity	Holding as at 31.12.07 %	BANK Cost		GROUP Cost	
			2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000
People's Merchant Bank PLC	Merchant Bank	39.2	155,500	155,500	245,846	232,527
Smart Net Lanka (Pvt) Ltd.	Non-Operational	37.3	25,000	25,000	25,000	25,000
			180,500	180,500	270,846	257,527
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	245,846	232,527

[20] Government of Sri Lanka Restructuring Bonds

20.1 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) | Rs 102.5 Mn | For loans to be transferred to RACA |
| <u>Rs 10,541.0 Mn</u> | | |

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

20.3 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.



20.4 As indicated in 20.1, 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.

20.5 The financial implications of these Bonds in year 2007 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 re-paid to GOSL as a Dividend and is reflected under Appropriations in the Equity Statement.

[21] Property, Plant & Equipment

	Freehold Land and Buildings Rs '000	Leasehold Land and Buildings Rs '000	Motor Vehicles Rs '000	Furniture Equipment & Machinery Rs '000	31.12.2007 Total Rs '000	31.12.2006 Total Rs '000
Bank						
Cost or Valuation						
As at beginning of the year	5,380,868	1,529,764	352,320	6,061,104	13,324,055	8,867,441
Additions	51,186	30,794	19,479	528,728	630,187	1,624,188
Revaluation Surplus (Note 21.1)	-	-	-	-	-	2,847,881
Disposals	-	-	(2,467)	-	(2,467)	(15,454)
As at end of the year	5,432,054	1,560,558	369,332	6,589,832	13,951,776	13,324,056
Depreciation						
As at beginning of the year	66,649	248,040	304,278	4,404,715	5,023,682	4,515,059
Charge for the year (Note 4)	83,305	100,157	21,405	640,758	845,625	862,393
Transferred to Revaluation Reserve	-	-	-	-	-	(348,296)
Disposals	-	-	(2,467)	-	(2,467)	(5,474)
As at end of the year	149,954	348,197	323,216	5,045,473	5,866,840	5,023,682
Net Book Value at 31.12.2007	5,282,100	1,212,361	46,116	1,544,359	8,084,936	8,300,374
Capital Work-in-Progress, at Cost					57,555	33,044
Furniture, Equipment and Machinery at Store					11,082	26,058
					8,153,573	8,359,476
Net Book Value as at 31.12.2006	5,314,219	1,281,724	48,042	1,656,389		8,300,373

21.1 The Bank has carried out a valuation of all its land & buildings except certain properties in some areas of the Northern and Eastern Provinces which are inaccessible. The Valuation was by the Chief Government Valuer and competent qualified valuers on the Bank's Panel of Valuers. The valuers specifically adopted the 'Contractors' Method'.



Notes to the Financial Statements

	Freehold Land and Buildings Rs '000	Leasehold Land and Buildings Rs '000	Motor Vehicles Rs '000	Furniture Equipment & Machinery Rs '000	31.12.2007 Total Rs '000	31.12.2006 Total Rs '000
Group						
Cost or Valuation						
As at beginning of the year	5,402,717	1,531,988	668,070	6,218,953	13,821,728	9,271,943
Additions	72,810	33,180	103,090	548,712	757,792	1,790,519
Revaluation Surplus	-	-	-	-	-	2,847,881
Disposals	-	-	(47,054)	(264)	(47,318)	(88,613)
As at end of the year	5,475,527	1,565,169	724,106	6,767,401	14,532,203	13,821,730
Depreciation						
As at beginning of the year	67,475	248,685	391,086	4,497,484	5,204,730	4,692,001
Charge for the year (Note 4)	83,305	105,317	120,159	670,715	979,496	935,139
Transferred to Revaluation Reserve	-	-	-	-	-	(348,296)
Disposals	-	-	(40,271)	(251)	(40,522)	(74,114)
As at end of the year	150,780	354,002	470,974	5,167,948	6,143,704	5,204,730
Net Book Value at 31.12.2007	5,324,747	1,211,167	253,132	1,599,453	8,388,499	8,617,000
Capital Work-in-Progress, at Cost					57,555	33,044
Furniture Equipment and Machinery at Store					11,082	26,058
					8,457,136	8,676,102
Net Book Value as at 31.12.2006	5,335,242	1,283,303	276,984	1,721,469		8,616,998

21.2 Prepaid Leases

	BANK		GROUP	
	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000
<i>As at 31st December</i>				
Cost	276,520	276,520	276,520	276,520
Less: Accumulated Amortisation	31,275	10,425	31,275	10,425
Net Book Value	245,245	266,095	245,245	266,095

21.3 Intangible Assets

Computer Software

Cost or Valuation

As at beginning of the year	548,913	351,384	577,582	363,469
Acquired during the year	182,726	197,529	185,944	214,113
Disposals during the year	-	-	-	-
As at end of the year	731,639	548,913	763,526	577,582

Accumulated Amortisation

As at beginning of the year	238,604	128,821	246,025	134,147
Amortisation for the year	146,328	109,783	151,657	111,878
Disposals during the year	-	-	-	-
As at end of the year	384,932	238,604	397,682	246,025
Net Book Value	346,707	310,309	365,844	331,557



	BANK		GROUP	
	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000
[22] Deposits from Customers				
Demand Deposits	32,733,053	48,357,395	32,370,145	48,239,565
Saving Deposits	146,414,425	131,470,084	146,414,425	131,470,084
Time Deposits	118,489,202	86,674,568	118,479,402	86,664,768
Certificates of Deposits	182,898	259,078	182,898	259,078
Other Deposits	3,136,631	3,186,038	3,136,631	3,186,038
Total Deposits as at end of the year	300,956,209	269,947,163	300,583,501	269,819,533
22. (a) Local Currency Deposits				
Demand Deposits	32,427,749	47,408,006	32,064,841	47,290,176
Saving Deposits	130,751,492	118,336,162	130,751,492	118,336,162
Time Deposits	100,225,798	73,921,784	100,215,998	73,911,984
Certificates of Deposits	182,898	259,078	182,898	259,078
Other Deposits	3,038,325	3,151,739	3,038,325	3,151,739
Total Local Currency Deposits	266,626,262	243,076,769	266,253,554	242,949,139
22. (b) Foreign Currency Deposits				
Demand Deposits	305,304	949,389	305,304	949,389
Saving Deposits	15,662,933	13,133,922	15,662,933	13,133,922
Time Deposits	18,263,404	12,752,784	18,263,404	12,752,784
Other Deposits	98,306	34,299	98,306	34,299
Total Foreign Currency Deposits	34,329,947	26,870,394	34,329,947	26,870,394
Total Deposits as at end of the year	300,956,209	269,947,163	300,583,501	269,819,533
[23] Borrowings				
Refinance Borrowings:				
Central Bank of Sri Lanka	1,230,509	1,296,760	1,230,509	1,296,760
Government of Sri Lanka	-	-	147,486	148,579
Financial Institutions	1,051,662	1,093,989	1,051,662	1,093,989
Long-Term Borrowings				
Financial Institutions of Sri Lanka	793,375	1,144,913	6,751,201	7,585,504
Other Borrowings				
Call Money Borrowings	14,927,507	8,557,500	20,095,471	11,813,897
Treasury Bills/Bonds/Pro Notes Repurchases	31,059,717	23,747,114	31,059,717	23,747,114
Total Borrowings as at end of the year	49,062,771	35,840,276	60,336,047	45,685,843



Notes to the Financial Statements

	BANK		GROUP	
	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000
[24] Deferred Liabilities				
Deferred Tax (Note 24.1)	-	94,494	-	156,205
Provision for Gratuity (Note 24.2)	198,000	165,000	216,288	174,574
Balance as at end of the year	198,000	259,494	216,288	330,779

24.1 Deferred Tax Assets

	BANK 2007		GROUP 2007	
	Temporary Difference Rs '000	Tax Effect Rs '000	Temporary Difference Rs '000	Tax Effect Rs '000
As at beginning of the year	(269,984)	(94,494)	(446,300)	(156,205)
Amount Originating/(Reversing) during the year	290,280	101,598	1,154,189	403,966
As at end of the year	20,296	7,104	707,889	247,761

24.2 Provision for Gratuity

	BANK		GROUP	
	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000
Opening Balance	165,000	97,000	174,574	103,157
During the year Provision	33,652	68,000	42,366	71,417
During the year Payments	(652)	-	(652)	-
Closing Balance	198,000	165,000	216,288	174,574

[25] Other Liabilities

Cheques sent for Collection	3,431,077	1,104,229	3,431,077	1,104,229
Pay Orders and Drafts	1,081,760	1,286,676	1,081,760	1,286,676
Accrued Interest & Other Expenses	8,705,074	7,792,634	8,705,074	7,792,634
Other Liabilities	2,027,842	3,585,587	3,972,726	6,117,605
Total Other Liabilities as at end of the year	15,245,753	13,769,126	17,190,637	16,301,144

[26] Retirement Benefit - Widow's and Orphan's Fund

26.1 Movement in Widow's and Orphan's Fund

	2007 Rs '000	2006 Rs '000
Opening Balance in Bank	14,252	89,565
Contribution to the Fund	94,334	96,852
Interest Income Earned	594,840	514,677
Payment during the year	(180,001)	(147,463)
Tax Payment	(988)	-
Transferred to Fixed Deposit	(482,075)	(539,379)
Closing Balance in Bank's Books	40,363	14,252

26.2 The Fund has been established in January 1965, for the payment of pension to the widows of former employees and retired employees of the Bank who have become 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 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.



26.3 The transfer of the W&OP balance to fixed deposits, during the year, reflected 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.

[27] Share Capital

27.1 Movement of Share Capital

	BANK		GROUP	
	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000
Authorised				
20,000,000 Ordinary Shares of Rs 50/- each	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>
Issued & Fully Paid				
999,960 Ordinary Shares of Rs 50/- each	<u>49,998</u>	<u>49,998</u>	<u>49,998</u>	<u>49,998</u>

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

27.2 Principal Shareholders of the Bank are as follows:

	2007 %	2006 %
Government of Sri Lanka	<u>92.27</u>	<u>92.27</u>
Co-operative Societies	<u>7.73</u>	<u>7.73</u>
	<u>100.00</u>	<u>100.00</u>

[28] Capital Pending Allotment

28.1 Movement of Funds Relating to Capital Pending Allotment

	2007 Rs '000	2006 Rs '000
Opening Balance	<u>4,152,000</u>	<u>3,152,000</u>
Funds Received during the year	<u>1,500,000</u>	<u>1,000,000</u>
Closing Balance as at end of the year	<u>5,652,000</u>	<u>4,152,000</u>

28.2 Out of the Rs 8,738 Mn contributed by the Government of Sri Lanka on 15th April 1993 Rs 1,152 Mn and 1st, 2nd & 3rd Tranche capital Rs 4,500 Mn received from Government was set aside for the purpose of introducing additional Share Capital 113,040,000 shares of Rs 50/- each to the Bank. Shares to this value are pending allotment until the authorised Share Capital of the Bank is increased.

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

28.4 In keeping with the terms of the Agreement signed between the Ministry of Finance of the Government of Sri Lanka, the Asian Development Bank and People's Bank on the 17th December 2004, the 1st Tranche of Capital Infusion by the Government of Sri Lanka 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 as per the agreement by the Government of Sri Lanka.



Notes to the Financial Statements

[29] Reserves

29.1 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	2007 Total Rs '000	2006 Total Rs '000
Bank									
Balance at beginning of year	49,998	5,941,584	5,663	246,451	1,000	1,000	(176,233)	6,069,463	814,541
Revaluation Surplus	-	-	-	-	-	-	-	-	3,196,177
Profit for the year	-	-	-	-	-	-	2,373,883	2,373,883	3,157,079
Transfer to Special Risk Reserve	-	-	-	49,315	-	-	(49,315)	-	-
Dividend Paid to GOSL (Note 29.8)	-	-	-	-	-	-	(219,690)	(219,690)	(498,334)
Special Levy to Treasury (Note 29.9)	-	-	-	-	-	-	(700,000)	(700,000)	(600,000)
Balance as at end of the year	49,998	5,941,584	5,663	295,766	1,000	1,000	1,228,645	7,523,656	6,069,463
Notes	(29.2)	(29.3)	(29.4)	(29.5)	(29.6)	(29.7)			
Group									
Balance at beginning of year	49,998	5,941,583	5,663	246,451	1,000	1,000	1,549,450	7,795,145	1,892,690
Revaluation Surplus	-	-	-	-	-	-	-	-	3,196,177
Profit for the year	-	-	-	-	-	-	3,505,746	3,505,746	3,804,611
Transfer to Special Risk Reserve	-	-	-	49,315	-	-	(49,315)	-	-
Adjustment - Reverse of Deferred Tax	-	-	-	-	-	-	-	-	451,477
Dividend Paid to GOSL (Note 29.8)	-	-	-	-	-	-	(219,690)	(219,690)	(498,334)
Special Levy to Treasury (Note 29.9)	-	-	-	-	-	-	(700,000)	(700,000)	(600,000)
Balance as at end of the year	49,998	5,941,583	5,663	295,766	1,000	1,000	4,086,192	10,381,202	8,246,622

29.2 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.

29.3 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.

29.4 Capital Reserve

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

29.5 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.

29.6 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.



29.7 Building Reserve

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

29.8 Dividend Paid to GOSL

According to the Agreement between the Government of Sri Lanka and the People's Bank 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. 20 of these Financial Statements.

29.9 Special Levy to Treasury

This Levy is a payment made to the Consolidated Fund of the Government of Sri Lanka determined by the Minister of Finance in terms of Section 9 (2) of the Finance Act 38 of 1971. The amount payable in 2007 has been determined at Rs 700 Mn.

[30] Minority Interest

	BANK		GROUP	
	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000
Balance at beginning of year	-	-	133	135
Share of Net Profit/(Loss) for the year	-	-	50	10
Dividend Payments during the year	-	-	(13)	(12)
Balance at end of year	-	-	170	133

[31] 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.

31.1 These commitments are quantified below:

	BANK		GROUP	
	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000
Commitments				
Non-Disbursed Loans	108,945	263,690	108,945	263,690
Non-Disbursed Overdrafts	6,908,852	4,459,369	6,908,852	4,459,369
	7,017,797	4,723,059	7,017,797	4,723,059
Contingent Liabilities				
Acceptances	13,347,944	6,583,487	13,347,944	6,583,487
Documentary Credit	35,220,422	15,421,364	35,220,422	15,421,364
Guarantees	15,791,378	10,507,097	15,791,378	10,507,097
	64,359,744	32,511,948	64,359,744	32,511,948
Forward Exchange Contracts	2,844,133	2,215,078	2,844,133	2,215,078
Total Commitments and Contingencies	74,221,674	39,450,085	74,221,674	39,450,085



Notes to the Financial Statements

31.2 Capital Commitments

31.2.1 Core Banking Project

The Core Banking Project will involve a capital commitment of US\$ 10 Mn commencing from 2003. Management has decided to capitalised Rs 731.6 Mn (US\$ 6.7 Mn) up to 2007.

31.2.2 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	
	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000
Approved and Contracted for	186,766	1,466,097	186,766	1,466,097
Approved but not Contracted for	170,621	-	170,621	-
	357,387	1,466,097	357,387	1,466,097

31.3 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 7.72 Bn.

A customs inquiry is currently pending against the Bank, a final determination on which is envisaged not to have a material impact on the financial position and the operations of the Bank.

31.4 Foreign Currency Exposure

The Bank's net Foreign Currency exposure as at 31st December 2007 amounted to US\$ 1,337,211 Value as at 31st December 2006 was US\$ 4,481,957.



[32] Bank - Maturity Profile of Assets & Liabilities (Rs '000) As at 31.12.2007

	Up to 3 M	3-12 M	1-3 Years	3-5 Years	Over 5 Years	Provisions	Total
Interest Earning Assets							
Short-Term Funds	20,062,153	-	-	-	-	-	20,062,153
Treasury Bills	4,013,448	761,943	-	-	-	(32,258)	4,743,133
Treasury Bonds	516,452	14,091,691	13,121,691	8,747,794	3,990,191	(41,954)	40,425,866
Bills of Exchange	15,787,901	-	-	-	-	(909,563)	14,878,338
Loans & Advances	22,946,058	93,279,330	35,469,893	23,646,595	55,992,046	(12,124,681)	219,209,241
GOSL Bonds	-	-	-	-	7,323,000	-	7,323,000
Leases	483,917	1,451,750	1,390,233	926,822	-	(47,197)	4,205,525
Total Interest Earning Assets	63,809,928	109,584,714	49,981,818	33,321,212	67,305,237	(13,155,653)	310,847,256
Non-Interest Earning Assets							
Cash	8,646,798	-	-	-	-	-	8,646,798
Balance with Central Bank	23,606,123	-	-	-	-	-	23,606,123
Dealing Securities	302,370	-	-	-	-	-	302,370
Unquoted Bond/Shares	10,997,033	500,000	-	-	625,000	(21,937)	12,100,096
Subsidiaries	-	-	-	-	819,950	-	819,950
Associates	-	-	-	-	155,500	-	155,500
Other Assets	5,720,752	4,933,751	3,296,272	1,644,584	-	(154,250)	15,441,109
Property, Plant & Equipment	-	-	-	-	8,403,476	-	8,403,476
Prepaid Leases	-	-	-	-	245,245	-	245,245
Intangible Assets	-	-	-	-	346,707	-	346,707
Total Non-Interest Earning Assets	49,273,076	5,433,751	3,296,272	1,644,584	10,595,878	(176,187)	70,067,374
Total Assets	113,083,004	115,018,465	53,278,090	34,965,796	77,901,115	(13,331,840)	380,914,630
Liabilities							
Deposits	124,118,171	98,982,093	40,689,027	27,126,018	10,040,900	-	300,956,209
Amount Due to Banks	300,071	-	-	-	-	-	300,071
Borrowings - Money Markets	14,927,507	-	-	-	-	-	14,927,507
Borrowings - REPO Agreements	17,210,061	13,890,418	-	-	-	-	31,100,480
Borrowings - Refinance/Others	36,938	156,983	586,808	391,205	1,862,851	-	3,034,784
Retirement Benefit W&OP	40,363	-	-	-	-	-	40,363
Total Interest Bearing Liabilities	156,633,111	113,029,493	41,275,835	27,517,223	11,903,751	-	350,359,414
Total Non-Interest Bearing Liabilities	7,795,106	6,062,860	2,605,473	866,123	-	-	17,329,561
Shareholders' Fund	-	-	-	-	13,225,655	-	13,225,655
Total Liabilities	164,428,217	119,092,353	43,874,204	28,383,346	25,129,406	-	380,914,630
Net Liquidity Gap	(51,345,212)	(4,073,888)	9,403,886	6,582,450	52,771,709	(13,331,840)	



Notes to the Financial Statements

[33] Financial Reporting by Segments

	Banking		Leasing		Travels		Consolidated	
	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000
Interest	42,103,416	30,973,231	-	-	-	-	42,103,416	30,973,231
Exchange	648,988	486,915	-	-	-	-	648,988	486,915
Leasing	791,548	328,465	3,790,058	3,064,721	-	-	4,581,606	3,393,186
Share Trading/Dividend	42,194	26,225	-	-	-	-	42,194	26,225
Commissions and Fees	2,866,414	2,197,631	-	-	14,996	8,689	2,881,410	2,206,320
Other	1,220,783	849,527	653,182	346,413	654	203	1,874,619	1,196,143
Total Revenue from								
External Customers	47,673,343	34,861,994	4,443,240	3,411,134	15,650	8,892	52,132,233	38,282,020
Inter-Segment Revenue	310,705	268,978	180,453	79,684	3,207	1,930	494,365	350,592
Total Revenue	47,984,048	35,130,972	4,623,693	3,490,818	18,857	10,822	52,626,598	38,632,612
Segment Result	5,002,361	4,078,979	1,366,093	1,045,346	5,894	1,729	6,242,860	4,984,816
Income from Associates	-	-	-	-	-	-	17,198	22,529
Income Tax Expenses	(2,628,478)	(921,900)	(120,982)	(277,216)	(923)	(684)	(2,754,262)	(1,202,724)
Minority Interest	-	-	-	-	-	-	(50)	(10)
Net Profit for the year	2,373,883	3,157,079	1,245,111	768,130	4,971	1,045	3,505,746	3,804,611
Segment Assets	380,759,130	338,399,421	19,294,002	16,292,861	25,836	24,230	396,603,576	352,546,258
Investment in Associates	155,500	155,500	-	-	-	-	245,846	232,527
Total Assets	380,914,630	338,554,921	19,294,002	16,292,861	25,836	24,230	396,849,422	352,778,785
Segment Liabilities	367,688,976	328,283,460	15,723,743	13,737,462	8,776	10,891	380,766,052	340,781,509
Total Liabilities	380,914,630	338,554,921	19,294,002	16,292,861	25,836	24,230	396,849,422	352,778,785

(a) Geographical Segmentation

As at 31st December	BANK	
	2007 Rs '000	2006 Rs '000
Assets		
Domestic Banking Unit	358,675,571	330,993,257
Foreign Currency Banking Unit	34,304,759	10,133,112
Gross Income		
Domestic Banking Unit	46,600,652	34,757,566
Foreign Currency Banking Unit	1,843,263	645,766
Profit before Tax		
Domestic Banking Unit	4,616,544	3,819,712
Foreign Currency Banking Unit	385,817	259,267
Profit after Tax		
Domestic Banking Unit	1,988,066	2,948,060
Foreign Currency Banking Unit	385,817	209,019



[34] Related Party Disclosures

34.1 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.

34.1.1 Compensation of Key Management Personnel of the Bank

	2007 Rs '000	2006 Rs '000
Short-Term Employee Benefits	1,999	2,013

34.1.2. 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	
	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000
Credit Cards	1,219	937	108	51

34.2 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	
	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000
People's Leasing Co. Ltd.				
Loans & Advances	2,265,219	1,040,900	179,217	127,740
Deposits	367,681	120,670	493	-
People's Travels (Pvt) Ltd.				
Loans & Advances	1,464	-	-	-
Off-Balance Sheet Accommodations	6,250	5,750	76	219
Deposits	5,027	6,961	695	570

34.3 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	
	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000
People's Merchant Bank Ltd.				
Loans & Advances	203,306	74,435	22,470	10,401



Notes to the Financial Statements

34.4 Transactions with GOSL and SOEs

34.4.1. GOSL and SOE Loans and Advances

	2007					2006				
	Overdrafts	Loans and Advances	Balance Bills	Total	Income	Overdrafts	Loans and Advances	Balance Bills	Total	Income
Sri Lanka Government	11,694,461	1,644,023	487,056	13,825,540	2,033,927	10,046,261	7,007,124	498,363	17,551,749	2,582,104
Local Government Bodies	1,152,357	-	11,226	1,163,583	84,159	606,497	-	2,223	608,719	44,027
Provincial Councils	-	33,614	-	33,614	152	-	15,000	-	15,000	68
Government Corporations	3,314,527	10,802,396	9,877,384	23,994,306	5,040,598	3,774,923	18,535,278	73,959	22,384,160	4,702,347
Total	16,161,345	12,480,033	10,375,666	39,017,043	7,158,836	14,427,681	25,557,403	574,545	40,559,628	7,328,546

34.4.2. GOSL and SOE Deposits

	2007				2006					
	Demand	Savings	Time	Total	Expenses	Demand	Savings	Time	Total	Expenses
Sri Lanka Government	8,772,028	390,371	1,364,887	10,527,286	261,387	12,305,563	212,113	2,053,006	14,570,681	237,069
Local Government Bodies	965,688	25,101	629,732	1,620,522	143,044	952,024	19,202	1,292,079	2,263,305	129,841
Provincial Councils	2,137,862	-	228	2,138,090	741	1,187,396	-	951	1,188,347	598
Government Corporations	3,769,324	4,779,954	8,344,521	16,893,799	386,884	5,207,907	2,734,811	652,098	8,594,816	146,845
Total	15,644,901	5,195,426	10,339,369	31,179,696	792,056	19,652,890	2,966,126	3,998,134	26,617,149	514,354

[35] Going Concern

The Funds employed by the Bank as at 31st December 2007, amounted to Rs 13.2 Bn. The Central Bank of Sri Lanka Capital Funds requirement of Rs 13.7 Bn against which an amount of Rs 9.5 Bn is compared with (Tier I & II). Accordingly, the Government of Sri Lanka, as the owner of the Bank, has guaranteed the continuity of the underlying business of the Bank by issuing a 'Letter of Support'. This letter guarantees the commitment of the Ministry of Finance & Planning to provide financial support to the extent of the amount required to meet Capital Adequacy requirement stipulated by Central Bank of Sri Lanka as at 31st December 2007, if called upon to do so, in the event of any necessity.

The value of shortfall in capital funds estimated at Rs 4.2 Bn and is set out in the Capital Adequacy computation, which is reflected as an integral part of these Financial Statements.

The Board has reviewed the Bank's financial performance as at date and is confident that based on the initiatives and other key actions taken to implement the Business Development Strategies set out in the Development Plan of 2004 to 2008, that the Bank can achieve full Capital Adequacy through internally generated operations in the medium-term.

The Bank has complied with all other regulatory requirements of the Central Bank and the 'Going Concern' concept in relation to the Bank is reassured.

[36] 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.



[37] Comparative Information

The presentation and classification of following items in these Financial Statements are amended to ensure comparability with the current year:

37.1 As reported previously

	2006	
	BANK Rs '000	GROUP Rs '000
Property, Plant & Equipment	9,120,828	9,458,702
Reserves	(6,254,411)	(7,980,093)
Current Presentation		
Property, Plant & Equipment	8,359,476	8,676,102
Prepaid Leases	266,095	266,095
Intangible Assets	310,309	331,557
Reserves	(6,069,463)	(7,795,145)

In line with the revised Accounting Standards, Property, Plant & Equipment was reclassified as Property, Plant & Equipment, Prepaid Leases & Intangible Assets.

37.2 As reported previously

	2006	
	BANK Rs '000	GROUP Rs '000
Interest Receivable	7,507,158	7,507,158
Other Assets	5,036,067	5,319,811
Investment Securities	-	6,606,841
Loans and Advances	-	197,774,237
Current Presentation		
Other Assets	12,543,225	12,712,109
Investment Securities	-	6,656,851
Loans and Advances	-	197,839,088

For better presentation Interest Receivable, Other Assets, Investment Securities and Loans and Advances were reclassified as shown above.

37.3 As reported previously

	2006	
	BANK Rs '000	GROUP Rs '000
Accrued Interest	7,792,634	7,792,634
Other Liabilities	5,976,492	8,508,511
Current Presentation		
Other Liabilities	13,769,126	16,301,145

For better presentation Accrued Interest and Other Liabilities were reclassified as Other Liabilities.

