

## CHAIRMAN'S MESSAGE



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

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

## **ECONOMIC IMPACTS, GLOBAL AND LOCAL**

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

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

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

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

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

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

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



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

### THE FINANCIAL SERVICES SECTOR

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

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

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

### FINANCIAL OVERVIEW

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

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

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



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

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

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

### IN SYNOPSIS

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

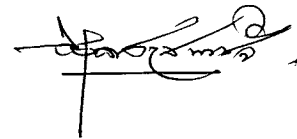
credible future citizens of Sri Lanka. We commend not only academics, but also achievements in extracurricular activities, which we feel is a prerequisite for the development of holistic future citizens.

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

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

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

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



**W. Karunajeewa**  
*Chairman*

25th March 2009





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

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

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